

ADVENTIST DEVELOPMENT AND RELIEF AGENCY INTERNATIONAL

Report of Independent Auditors on
Financial Statements
For the Years Ended December 31, 2018 and 2017



Report of Independent Auditors

To the Board of Directors of Adventist Development and Relief Agency International

We have audited the accompanying financial statements of Adventist Development and Relief Agency International ("ADRA"), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and of functional expenses for the year ended December 31, 2018 and of cash flows for the years ended December 31, 2018 and 2017.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to ADRA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ADRA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Adventist Development and Relief Agency International as of December 31, 2018 and 2017, and the changes in its net assets for the year ended December 31, 2018 and its cash flows for the years ended December 31, 2018 and 2017 in accordance with accounting principles generally accepted in the United States of America.



Emphasis of Matter

As discussed in Note 1 to the financial statements, ADRA changed the manner in which it presents and reports certain aspects of its financial statements as a not-for-profit entity in 2018. Our opinion is not modified with respect to this matter.

Other Matter

We previously audited the statement of financial position as of December 31, 2017, and the related statements of activities, of functional expenses and of cash flows for the year then ended (the statements of activities and of functional expenses are not presented herein), and in our report dated June 7, 2018, we expressed an unmodified opinion on those financial statements. In our opinion, the information set forth in the accompanying summarized financial information for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PricewaterhouseCoopers up

McLean, Virginia
June 11, 2019

ADVENTIST DEVELOPMENT AND RELIEF AGENCY INTERNATIONAL
STATEMENTS OF FINANCIAL POSITION
as of December 31, 2018 and December 31, 2017

ASSETS		
	2018	2017
Cash and cash equivalents	\$ 5,433,356	\$ 9,819,143
Investments	43,147,904	45,172,443
Net amount due from affiliates	2,381,886	1,989,235
Loans to affiliates	59,212	48,586
Amount due from government agency, net of allowance	835,681	993,841
Other receivables	917,157	846,571
Contributions receivable, net of allowances	682,349	252,779
Inventories	221,604	956,893
Prepaid expenses	200,803	261,049
Furniture and equipment, net of accumulated depreciation	684,137	474,520
Agency funds	1,288,402	1,479,209
Contributions receivable - long-term, net of allowances	1,246,750	1,343,482
Loans to affiliates - long term	458,888	508,600
 Total assets	 \$ 57,558,129	 \$ 64,146,351
LIABILITIES		
Accounts payable	\$ 782,208	\$ 1,029,160
Accrued expenses	4,234,354	3,855,731
Amount due to affiliates	1,164,314	1,192,592
Amount due to government agency	2,615	213,832
Amount due to other	2,150,951	1,572,018
Agency funds	1,288,402	1,479,209
 Total liabilities	 9,622,844	 9,342,542
NET ASSETS		
Without donor restrictions		
Undesignated	23,317,716	31,731,748
Designated by the Board <i>(Note 18)</i>	5,423,628	4,430,195
Total net assets without donor restrictions	28,741,344	36,161,943
With donor restrictions		
Restricted to purpose	17,621,481	17,083,105
Restricted to time	1,572,460	1,558,761
Total net assets with donor restrictions	19,193,941	18,641,866
 Total net assets	 47,935,285	 54,803,809
 Total liabilities and net assets	 \$ 57,558,129	 \$ 64,146,351

The accompanying notes are an integral part of these financial statements.

ADVENTIST DEVELOPMENT AND RELIEF AGENCY INTERNATIONAL
STATEMENTS OF ACTIVITIES
for the year ended December 31, 2018
(with summarized financial information for the year ended December 31, 2017)

	2018		2017	
	Without donor restrictions	With donor restrictions	Total	Total
Support and revenue:				
U.S. Government support:				
Commodities - distributed	\$ 492,324	\$ -	\$ 492,324	\$ 1,183,976
Ocean and inland freight	149,765	-	149,765	357,145
Grants - direct	32,062,761	-	32,062,761	18,028,899
Grants - subrecipient	3,309,826	-	3,309,826	3,397,770
Public support:				
Seventh-day Adventist Church	5,980,331	-	5,980,331	5,373,284
Contributions	10,506,522	5,439,329	15,945,851	18,414,563
Donated materials	4,028	4,227,867	4,231,895	6,751,747
Grants - other	3,110,372	-	3,110,372	2,865,665
Freight and handling fees reimbursement	3,096	-	3,096	6,453
Investment, net	919,674	(187,703)	731,971	756,772
Other revenue	201,653	1,338	202,991	104,132
Net assets released from restrictions:				
Satisfaction of program restrictions	8,928,756	(8,928,756)	-	-
Total support and revenue	\$ 65,669,108	\$ 552,075	\$ 66,221,183	\$ 57,240,406

The accompanying notes are an integral part of these financial statements.

ADVENTIST DEVELOPMENT AND RELIEF AGENCY INTERNATIONAL
STATEMENTS OF ACTIVITIES (CONT.)
for the year ended December 31, 2018
(with summarized financial information for the year ended December 31, 2017)

	2018		2017	
	Without donor restrictions	With donor restrictions	Total	Total
Expenses:				
Programs	\$ 58,604,974	\$ -	\$ 58,604,974	\$ 48,676,484
Fundraising	2,448,893	-	2,448,893	1,456,938
Public relations	1,674,209	-	1,674,209	1,345,304
Management and general	7,450,791	-	7,450,791	9,090,196
Total expenses	70,178,867	-	70,178,867	60,568,922
Net Increase (decrease) from operations	(4,509,759)	552,075	(3,957,684)	(3,328,516)
Nonoperating activity:				
Realized/unrealized gain/(loss) on investment	(2,910,840)	-	(2,910,840)	4,252,093
Change in net assets	(7,420,599)	552,075	(6,868,524)	923,577
Net assets, at beginning of year	36,161,943	18,641,866	54,803,809	53,880,232
Net assets, at end of year	\$ 28,741,344	\$ 19,193,941	\$ 47,935,285	\$ 54,803,809

The accompanying notes are an integral part of these financial statements.

ADVENTIST DEVELOPMENT AND RELIEF AGENCY INTERNATIONAL
STATEMENTS OF FUNCTIONAL EXPENSES
for the year ended December 31, 2018
(with summarized financial information for the year ended December 31, 2017)

	2018					2017
	Humanitarian Programs	Fundraising	Public Relations	Management and General	Total	Total
Overseas program costs:						
U.S. Government grants:						
Federal assistance:						
Commodities - distributed	\$ 1,173,105	\$ -	\$ -	\$ -	\$ 1,173,105	\$ 1,768,047
Ocean and inland freight	149,764	-	-	-	149,764	357,145
Grants - direct	23,998,251	-	-	-	23,998,251	13,887,178
Grants - subrecipient	2,324,960	-	-	-	2,324,960	2,499,209
ADRA funding	871,740	-	-	-	871,740	720,884
Donated materials	4,286,218	-	-	-	4,286,218	9,345,447
Development and relief projects and disaster assistance	12,198,233	-	-	-	12,198,233	11,811,855
Grants - other	3,081,896	-	-	-	3,081,896	1,781,677
Freight and handling fees	3,096	-	-	-	3,096	6,453
General and administrative costs:						
Personnel and related costs	7,321,355	584,030	830,630	4,447,410	13,183,425	11,314,453
Travel	887,692	61,792	154,419	428,981	1,532,884	1,199,695
Rent	554,464	54,276	80,791	668,095	1,357,626	827,841
Depreciation	51,203	2,279	4,212	36,701	94,395	89,243
Maintenance and repairs	97,608	-	-	77,241	174,849	198,352
Management and administration	425,259	11,672	91,668	336,522	865,121	929,027
Materials and supplies	164,092	50,689	2,505	129,851	347,137	459,458
Postage and telecommunications	101,757	22,488	9,805	80,524	214,574	250,346
Professional services	880,457	227,329	205,875	696,735	2,010,396	1,565,459
Public education/awareness	8,467	-	-	6,701	15,168	14,720
Publication and printing	6,790	1,434,338	83,799	5,373	1,530,300	699,685
Transportation, handling and warehousing	18,567	-	-	14,693	33,260	121,102
Other	-	-	210,505	521,964	732,469	721,646
Total expenses	<u>\$ 58,604,974</u>	<u>\$ 2,448,893</u>	<u>\$ 1,674,209</u>	<u>\$ 7,450,791</u>	<u>\$ 70,178,867</u>	<u>\$ 60,568,922</u>

The accompanying notes are an integral part of these financial statements.

ADVENTIST DEVELOPMENT AND RELIEF AGENCY INTERNATIONAL
STATEMENTS OF CASH FLOWS

for the years ended December 31, 2018 and December 31, 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (6,868,524)	\$ 923,577
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	\$ 94,395	\$ 89,243
(Gain) loss on sale of fixed assets	(200)	(417)
Dividends reinvested	(890,869)	(581,838)
Realized/Unrealized (gain) loss on securities	2,909,439	(4,251,750)
Receipt of contributed securities	(190,551)	(28,983)
Sale of contributed securities	196,520	39,793
Bad debt expense	(1,520)	(218,475)
(Increase) decrease in net amounts due from affiliates	(392,651)	(282,888)
(Increase) decrease in amounts due from government agency	158,160	285,443
(Increase) decrease in other receivables	(69,066)	(668,840)
(Increase) decrease in contributions receivable	(429,570)	406,435
(Increase) decrease in inventories	735,289	3,163,304
(Increase) decrease in prepaid expenses	60,246	(37,528)
(Increase) decrease in agency funds - asset	190,807	(1,170,734)
(Increase) decrease in contributions receivable - long term	96,732	6,884
Increase (decrease) in accounts payable	(246,952)	667,996
Increase (decrease) in accrued expenses	378,623	1,003,298
Increase (decrease) in amounts due to affiliates	(28,278)	(254,695)
Increase (decrease) in amounts due to government agency	(211,217)	(142,242)
Increase (decrease) in amounts due to other	578,933	27,816
Increase (decrease) in agency funds - liability	(190,807)	1,170,734
Total adjustments	2,747,463	(777,444)
Net cash (used in) provided by operating activities:	\$ (4,121,061)	\$ 146,133
Cash flows from investing activities:		
Purchase of securities	\$ -	\$ (1,401)
New loans to affiliates	-	(508,600)
Payments from affiliates	39,086	-
Loans to other	-	(48,586)
Purchases of furniture and equipment	(304,012)	(344,229)
Proceeds from sale of fixed assets	200	417
Net cash used in investing activities:	\$ (264,726)	\$ (902,399)
Net decrease in cash and cash equivalents	(4,385,787)	(756,266)
Cash and cash equivalents at beginning of year	9,819,143	10,575,409
Cash and cash equivalents at end of year	\$ 5,433,356	\$ 9,819,143
Supplemental disclosure of cash flow information		
Non cash investing activities:		
Donated Securities	\$ 190,551	\$ 28,983
Reinvested dividends and interest	\$ 890,869	\$ 581,838

The accompanying notes are an integral part of these financial statements.

ADVENTIST DEVELOPMENT AND RELIEF AGENCY INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS

for the years ended December 31, 2018 and December 31, 2017

1. Organization and Purpose

The Adventist Development and Relief Agency International (ADRA) is a not-for-profit corporation organized under the District of Columbia law. ADRA was established by the Seventh-day Adventist Church for the purpose of providing aid to charitable, educational and developmental endeavors throughout the world, without regard to race, gender, political or religious affiliation. ADRA maintains an active relationship with the General Conference of Seventh-day Adventist, which is the headquarters for the Seventh-day Adventist Church. Activity with the General Conference and its other church related entities are classified as affiliates and disclosed in Note 8.

2. Summary of Significant Accounting Policies

Basis of Accounting

ADRA's financial statements have been prepared on the accrual basis of accounting in accordance with the generally accepted accounting principles (GAAP) in the United States of America.

The accompanying financial statements do not include the revenue, expenses, assets, liabilities, and net assets of ADRA's affiliate implementing partners. ADRA's implementing partners include some subrecipient non-government organizations and ADRA affiliate implementing partners operating outside of the United States. This subset of ADRA's implementing partners, referred to herein as affiliate implementing partners although related to the Seventh-day Adventist Church, are not under the control of ADRA and therefore are not consolidated.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with ADRA's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The amounts ADRA will ultimately realize could differ from the estimates in the near term. Significant estimates include assessing the fair value of investments, contributions receivables, gifts-in-kind, inventory related to commodities.

Reclassifications

Certain prior year financial information has been reclassified to conform to the current year presentation.

ADVENTIST DEVELOPMENT AND RELIEF AGENCY INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS

for the years ended December 31, 2018 and December 31, 2017

Cash and Cash Equivalents

Cash and cash equivalents include checking account balances in various banks and money market funds invested in the General Conference (GC) Money Fund with original maturities of ninety days or less. Cash equivalents held in the GC Money fund are classified as level 2 under the Financial Accounting Standards Board Financial Accounting Standards Codification Topic 820 Fair Value Measurement (ASC 820) fair value hierarchy.

Fair Value of Financial Instruments

The value of all financial instruments on the Statement of Financial Position is approximated at fair value, including in-kind donations of stock.

ASC 820 requires additional disclosure about the sources of information used to determine the fair values of assets and liabilities, and expands disclosure about fair value measurements. ASC 820 also establishes a hierarchy of valuation methodologies based on the extent to which asset valuations are observable in the marketplace. The following describes the hierarchy of methodologies used to measure fair value:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active;
- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

Investments

The fair values of the investments in the General Conference Corporation of the Seventh-day Adventist Church (General Conference) unitized funds are based on the unit value of each fund and the number of units owned. Unit values are calculated each month by the Investment Office of the General Conference, based on portfolio values provided by the funds' custodian, the net asset value of other assets and the total number of units held by the participants. The General Conference is the trustee of the unitized funds. The fair value of investment in the GC Unitized funds is assessed on a recurring basis and the inputs utilized in determining fair value are summarized in the additional disclosure presented in Note 7.

Split-interest Agreements

Contributions receivable representing split-interest agreements where ADRA is a beneficiary of a charitable gift annuity or trust held by a third party are initially recorded at fair value and re-measured annually based on valuations provided by the third-party administrator which factor in net present value of future cash flows. Split interest agreements are classified as level 3, as presented in Note 6.

ADVENTIST DEVELOPMENT AND RELIEF AGENCY INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS

for the years ended December 31, 2018 and December 31, 2017

Inventories

Purchased inventory, which includes pre-positioned inventory, is carried at original cost by applying the specific identification method except for premiums inventory which is valued using the weighted average cost method. Other donated materials are valued at estimated fair value at the date of receipt through reference to available fair values for similar items. Valuation of donated food commodities from the U.S. Government for distribution is provided by the Commodity Credit Corporation (CCC).

Furniture and Equipment

Furniture and equipment are capitalized at cost and depreciated on a straight-line basis over the estimated useful lives of the respective assets, which range from three to ten years. Grant related fixed asset procurements are expensed in the year of acquisition. The donor, at its discretion, determines whether furniture and equipment procured using grant funds are to be returned or retained by ADRA for use in similar programs upon grant conclusion.

Agency Funds

Agency Funds are held to facilitate unconsolidated affiliate office transactions. Amounts are held in ADRA bank accounts and reported as Agency Funds on the Statement of Financial Position.

Public Support

Donations with and without donor restrictions are recognized as support when received.

All contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor for either purpose or time. The net assets without donor restrictions are used to account for resources over which ADRA's Board of Directors has discretionary control for use within the limitations imposed by its charter and bylaws.

A donor restriction expires when a stipulated time restriction ends or when a purpose restriction is accomplished. Upon expiration, net assets with donor restrictions are reclassified to net assets without donor restriction and are reported in the Statement of Activities as net assets released from restrictions. Contributions with donor restrictions received in the same year in which the restrictions are met are recorded as an increase to support at the time of receipt and as net assets released from restrictions.

ADRA reports gifts of long-lived assets as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the donated assets must be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, ADRA reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Other grants are recognized as revenue without donor restrictions when received, and the related project costs are recorded as expenses when incurred. Generally, grant expenses are incurred when grant funds are disbursed to implementing partners and adjusted for unexpended amount at the period end.

ADVENTIST DEVELOPMENT AND RELIEF AGENCY INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS

for the years ended December 31, 2018 and December 31, 2017

Government Support and Related Project Costs

Government grants are recognized as revenue without donor restrictions when received, and the related project costs are recorded as expenses when incurred. Generally, grant expenses are incurred when grant funds are disbursed to implementing partners and adjusted for unexpended amounts at the period end.

Indirect cost recovery from such grants and agreements is recorded as support when the related direct costs are incurred.

Ocean freight for distributed commodities are recognized as revenue without donor restrictions when received and deemed expended when the commodities are on board. Inland freight for distributed commodities are recognized as support without donor restrictions and expensed when incurred.

Commodities to be distributed that were donated by the U.S. Government are recorded as U.S. Government support without donor restrictions when received and expensed at amounts representing the fair value of commodities as determined by CCC when the commodities arrive at the destination port. For distributed commodities at sea on December 31, revenue is recognized, and the commodities are recorded as inventory.

Other grants are recognized as revenue without donor restrictions when received, and the related project costs are recorded as expenses when incurred. Generally, grant expenses are incurred when grant funds are disbursed to implementing partners and adjusted for unexpended amounts at the period end.

Donated Materials

ADRA receives donations of food commodities, educational material, medical equipment and supplies, clothing, and other commodities for use in relief and development programs.

ADRA accounts for donated materials in accordance with generally accepted accounting principles and also applies the industry standards developed by an interagency taskforce appointed by the Association of Evangelical Relief and Development Organization (AERDO), the Interagency Gifts In Kind Standards. ADRA only records the value of gifts-in-kind for which ADRA was either the original recipient of the gift, was involved in partnership with another end-user agency organization for distribution internationally, or if gifts-in-kind are used in ADRA programs.

ADRA retains final discretion over their ultimate disposition. Contributions of donated materials are recognized as support without donor restrictions when received, expensed when disbursed to programs, and are recorded at their estimated fair value.

Functional Expenses

ADRA allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are charged directly according to their natural expenditure classification. Rent and Depreciation have a two-step allocation method.

ADVENTIST DEVELOPMENT AND RELIEF AGENCY INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS

for the years ended December 31, 2018 and December 31, 2017

The expenses that are allocated include the following:

Expense	Method of Allocation
Overseas Programs	Direct
Personnel and Related Costs	Time and Effort
Travel	Time and Effort
Rent	Square Footage/Functional Time and Effort
Depreciation	Cost Center/Functional Time and Effort
Maintenance and repairs	Direct Functional
Management and administration	Direct Functional
Materials and supplies	Direct Functional
Postage and telecommunications	Direct Functional
Professional services	Direct Functional
Public education/awareness	Direct Functional
Publication and printing	Direct Functional
Transportation, handling and warehousing	Direct Functional
Other	Direct Functional
Salary and Travel Allocation	Time and Effort

Income Taxes

ADRA is a not-for-profit corporation whose revenue is derived from contributions and other fundraising activities and is exempt from federal and state income taxes in accordance with Section 501(c)(3) of the Internal Revenue Code.

Advertising

Expenses for advertising to promote ADRA's image is recognized in the period incurred and recorded in the Statement of Functional Expenses under Public Relations.

Recently Adopted Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities (Topic 958)*. The update addresses the complexity and understandability of net assets classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. ADRA adopted ASU 2016-14 in fiscal year 2018. The primary changes affecting ADRA include: renaming the two classes of net assets presented to "without donor restrictions" and "with donor restrictions", liquidity disclosures Note 5 and an enhanced disclosure in the description on the allocation methods used for functional expense.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*

ADVENTIST DEVELOPMENT AND RELIEF AGENCY INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS

for the years ended December 31, 2018 and December 31, 2017

(“ASU 2018-13”). ADRA’s early adoption of ASU 2018-13 in fiscal year 2018 allowed removal of the level 3 fair value measurements reconciliation Note 6.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic ASC 606). The standard is comprehensive, industry-neutral and intended to increase financial statement comparability across companies and industries. Under this standard revenue will be recognized as performance obligations are satisfied. Additionally, the standard requires enhanced disclosure of revenue arrangements. This standard will be effective for ADRA January 1, 2019. Management is currently evaluating the impact of ASU 2014-09 on ADRA’s financial statements that may include changes to information technology systems, processes, contractual terms and internal controls because of the new standard and its disclosure requirements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic ASC 958). This standard clarifies how to account for grants and contracts and what makes a contribution conditional. The outcome of this guidance is to provide symmetry in recognition of contributions regardless of the type of donor. This standard will be effective for ADRA January 1, 2019. Management is currently evaluating the impact of ASU 2018-08 on ADRA’s financial statements and classifications of grants and contracts. This will include review and evaluation of all grant agreements, and may include changes to timing of revenue recognition, information technology systems, contractual terms, and internal controls because of the new standard and its disclosure requirements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic ASC 842). This standard amends the existing accounting principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. Leases for a term greater than one year will now be classified as financing leases and required to be capitalized and disclosed in the statement of Financial Position, with a right-of-use asset and a lease liability. Only short-term leases will remain as operating leases and expensed as incurred. This standard is required to be adopted retrospective for comparative financial statements. This standard will be effective for ADRA January 1, 2020. Management is currently evaluating the impact of ASU 2016-02 on ADRA’s financial statements that will include changes in processes, and internal controls because of the new standard.

Subsequent Events

Subsequent events have been evaluated through June 11, 2019, which is the date the financial statements were available to be issued.

3. U.S. Government Grants

ADRA receives various grants from agencies of the U.S. Government for the purpose of furthering its development and relief efforts in various countries throughout the world. These grants are principally received from the U.S. Agency for International Development (USAID) and typically

ADVENTIST DEVELOPMENT AND RELIEF AGENCY INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS

for the years ended December 31, 2018 and December 31, 2017

have performance periods of multiple years. As a significant portion of the revenue for ADRA is derived from one source, USAID, there exists concentration risk for ADRA. During 2018 and 2017 respectively, ADRA received 52% and 34% of its total revenue from USAID directly, and 5% and 6% from sub-awards revenue whose source of funding is USAID. The grants are administered by ADRA, which generally disburses funds or renders commodities received, to affiliate implementing partners, which are under the direction of the local division of the Seventh-day Adventist Church. The implementing partners are responsible to ADRA for fulfillment of the grant requirements and for reporting and control of related expenditures.

4. Concentration of Credit Risk

Cash and cash equivalents include demand deposits which are maintained at various financial institutions in the United States. Significant portions of the cash are held with the General Conference unitized investment funds and in a money market fund as detailed in Note 6 and 7, respectively. The total deposits at times exceed FDIC insurance limits. As of December 31, 2018, and 2017, deposits of \$4,780,850 and \$9,735,603, respectively, were in excess of FDIC insurance. ADRA has not experienced a loss due to concentration of credit risk and does not expect such a loss to occur.

5. Liquidity and Availability of Resources

The table below represents financial assets available for general expenditures within one year at December 31, 2018:

	<u>2018</u>
Financial assets at year end:	
Cash and cash equivalents	\$ 5,433,356
Investments	43,147,904
Net amount due from affiliates	2,381,886
Loan to affiliates	59,212
Net amounts due from government agencies	835,681
Other receivables	917,157
Contribution receivables	<u>682,137</u>
Total financial assets	\$ 53,457,333
Less Board designations not available to be used within one year	<u>2,000,000</u>
Financial assets available to meet general expenditures within one year	<u>\$ 51,457,333</u>

ADVENTIST DEVELOPMENT AND RELIEF AGENCY INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS

for the years ended December 31, 2018 and December 31, 2017

ADRA has assets available for limited use with donor restrictions of \$17,621,481 as of December 31, 2018. These assets that fulfill the designated purpose are available and have been included in the available financial assets for general expenditures within one year.

A portion of the ADRA Board designations are for activates that general expense would be incurred for and available in the current year. As of December 31, 2018, \$3,423,628 are included in the assets available for general expenditure. Board designations focused on implementation of a new strategic framework, capacity building and support for the Sunplus accounting program are included as available funds.

ADRA invests cash in excess of its immediate requirements in the GC Money Fund that is classified as a cash equivalent in the statement of Financial Position. These funds are also available for cash flow management. ADRA holds investments in the General Conference Unitized Funds. These investments are available to supplement liquidity need to maintain smooth operations.

6. Fair Value

ADRA has adopted FASB guidance on fair value measurements and disclosures. This standard establishes a framework for measuring fair value, establishes a fair value hierarchy described in Note 2, and expands disclosure requirements for fair value measurements. As defined in the guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). Items subject to fair value measurements include the General Conference Money Fund - a cash equivalent, Investments - includes various unitized funds for which the General Conference is trustee and donated stock, and split-interest agreements held by a third party.

For the General Conference Money Fund and investments, the valuations are calculated by the investment manager based on the number of units owned in each fund. Valuation techniques take into account each fund's underlying assets and include traditional valuation methods such as cost and market approaches. Investment funds that are valued and redeemable at Net Asset Value, require no adjustments to the valuation provided by the General Conference and have no redemption restrictions, are classified as level 2. Donated stock that are publicly traded are classified as level 1.

Split-interest agreements held by a third party are valued at the present value of future cash flows. Charitable gift annuities valuations are performed by the third-party administrator who factors in net present value of future cash flows expected to be received over the term of the agreement. ADRA relies on the valuations presented by the third party that are independently audited. Change in value of split-interest are recorded annually, with the exception of maturities that are recorded when they occur. ADRA monitors that new gifts reflect its percentage of the remainder, and distributions occur in accordance with the activity voted by the Trust Service Committee of the General Conference, of which ADRA has representation. Since the valuation requires judgment and estimates, ADRA's interests in these agreements are included in level 3.

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The methods described above may product fair value calculations that may not be indicative of net realizable or reflective of future fair values. Furthermore, while ADRA believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table presents the financial instruments carried at fair value as of December 31, 2018 and 2017, by level within the fair value hierarchy, as defined in Note 2.

	2018			Total
	Level 1	Level 2	Level 3	
General Conference Money Fund ¹	\$ -	\$ 1,840,360	\$ -	\$ 1,840,360
Investments (<i>see note 7</i>)	-	43,146,503	1,401	43,147,904
Split-interest ²	-	-	1,003,250	1,003,250
Total assets measured at fair value	<u>\$ -</u>	<u>\$ 44,986,863</u>	<u>\$ 1,004,651</u>	<u>\$ 45,991,514</u>

	2017			Total
	Level 1	Level 2	Level 3	
General Conference Money Fund ¹	\$ -	\$ 6,423,645	\$ -	\$ 6,423,645
Investments (<i>see note 7</i>)	4,488	45,166,554	1,401	45,172,443
Split-interest ²	-	-	1,178,386	1,178,386
Total assets measured at fair value	<u>\$ 4,488</u>	<u>\$ 51,590,199</u>	<u>\$ 1,179,787</u>	<u>\$ 52,774,474</u>

¹ General Conference Money Fund is included in cash and cash equivalents in the Statement of Financial Position, and further described in Note 8.

² Split-interest are a part of contributions receivable, and contributions receivable-long term in the Statement of Financial Position.

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7. Investments

Investments as of December 31, 2018 and 2017, which consist of units held in various unitized funds for which the General Conference is the trustee, are summarized below. The fair value measurement of the unitized funds is based on their net asset values which is a level 2 input as per Note 2.

	2018			2017		
	Cost	Fair Value	Accumulated Unrealized Appreciation (Decline)	Cost	Fair Value	Accumulated Unrealized Appreciation (Decline)
Unitized GC Large Cap/U.S Equity Fund	\$ 8,075,171	\$ 11,319,243	\$ 3,244,072	\$ 7,809,222	\$11,813,521	\$ 4,004,299
Unitized GC International fund	9,826,260	\$ 6,373,469	(3,452,791)	9,676,704	7,014,915	(2,661,789)
Unitized GC Small Cap/US Equity Fund	2,395,274	\$ 2,628,991	233,717	2,329,820	2,860,155	530,335
Unitized GC Emerging Markets Fund	2,805,500	\$ 1,907,414	(898,086)	2,780,228	2,298,682	(481,546)
Unitized GC Income Fund	9,652,741	\$ 9,765,946	113,205	9,415,685	9,771,833	356,148
Unitized GC Bond Fund	4,676,003	\$ 4,564,256	(111,747)	4,574,176	4,542,461	(31,715)
Unitized Capital Preservation Fund	2,366,649	\$ 2,313,731	(52,918)	2,320,974	2,324,460	3,486
Unitized Global Opportunities Fund	4,300,000	\$ 4,273,454	(26,546)	4,300,000	4,540,527	240,527
Donated Stock & Other Securities	1,401	\$ 1,401	-	5,889	5,889	-
	\$ 44,098,998	\$ 43,147,904	\$ (951,094)	\$43,212,698	\$45,172,443	\$ 1,959,745

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8. Transactions With Affiliated Entities:

Amounts due from (to) affiliates at December 31, 2018 and 2017 consist of the following:

	2018	2017
Net amounts due from affiliates:		
ADRA – Bangladesh	\$ 24,760	\$ -
ADRA – Canada	11,656	3,127
ADRA – Ghana	3,280	54,248
ADRA – India	23,427	1,615
ADRA – Kenya	-	6,505
ADRA – Malawi	-	4,998
ADRA – MENA	2,991	-
ADRA – Sudan	1,219	5,780
ADRA – Syria	22,463	-
ADRA – Venezuela	2,384	-
ADRA – Yemen	633,979	664,330
ADRA – Zimbabwe	10,733	-
General Conference	164,065	324,850
North American Division	423,843	420,746
Other Affiliated Organizations	1,057,086	503,036
	\$ 2,381,886	\$ 1,989,235
Amounts due to affiliates:		
ADRA – Africa Regional Office	\$ 62,468	\$ 155,915
ADRA – Asia	34,469	106,417
ADRA – India	-	2,554
ADRA – Kenya	3,032	-
ADRA – Madagascar	28,676	229
ADRA – Mozambique	13,589	-
ADRA – Somalia	7,214	1,623
ADRA – Zimbabwe	-	16,100
Other Affiliated Organizations	1,014,866	909,754
	\$ 1,164,314	\$ 1,192,592

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Amounts due from the General Conference, include direct and indirect public support collected by the General Conference for ADRA. The amount due from the General Conference is net of amounts due to the General Conference for services provided by the General Conference to ADRA, such as utilities, facility operation, and general services. Total amounts billed to ADRA for these services were \$794,769 and \$521,992, resulting in a net receivable of \$164,065 and \$324,850 for the years ended December 31, 2018 and 2017, respectively.

ADRA has its principal office in the facility owned by the General Conference. The rental value of that facility has been recognized as an in-kind donation in the Statement of Activities and is included in the Seventh-day Adventist Church public support. The amount was \$562,856 and \$305,849 for the years ended December 31, 2018 and 2017, respectively.

Investment income earned on the General Conference Money Fund for the years ended December 31, 2018 and 2017 was \$81,828 and \$74,635 respectively, which is included in investment and other revenue, net in the Statement of Activities. These earnings were generated from the General Conference Money Fund ending balances as of December 31, 2018 and 2017 totaling \$1,840,360 and \$6,423,645, respectively, and which are reflected in the Statement of Financial Position as part of cash and cash equivalents.

Investment income earned on unitized funds for which the General Conference is trustee for the years ended December 31, 2018 and 2017 was \$890,869 and \$581,838 respectively, which is included in Investment and other revenue in the Statement of Activities. These earnings relate to investments held as of December 31, 2018 and 2017 totaling \$43,146,504 and \$45,166,554 respectively. See Note 7 for additional disclosures.

Contributions from the Seventh-day Adventist Church are reflected in the Statement of Activities for the years ended December 31, 2018 and 2017 as follows:

	<u>2018</u>	<u>2017</u>
Disaster and famine relief offering	\$ 2,086,326	\$ 2,169,719
Institutional Support	57,659	31,807
Tithe	224,381	224,381
Non tithe	794,769	521,992
Rent	562,856	305,849
Appropriations for field offices	<u>2,254,340</u>	<u>2,119,536</u>
	<u>\$ 5,980,331</u>	<u>\$ 5,373,284</u>

As of December 31, 2018, and 2017, ADRA passed through \$27,835,114 and \$18,321,331, respectively, of U.S. government grants to affiliate implementing partners as sub recipients of their federal awards.

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for the years ended December 31, 2018 and December 31, 2017

9. Amounts Due from Government Agency

Amounts due from government agency at December 31, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Amount due from government agency	\$ 973,659	\$ 1,132,316
Less allowance for uncollectible receivables	<u>(137,978)</u>	<u>(138,475)</u>
	<u>\$ 835,681</u>	<u>\$ 993,841</u>

10. Contributions Receivable

Contributions receivable consist of estates, installment pledges, and irrevocable split-interest agreements including charitable gift annuities and trusts in which ADRA has either lead or remainder interest. These amounts are recorded at the present value of future cash flows, which is based on the actuarial calculations using fair market value of the assets, IRS life expectancy tables and industry standards for discount rates.

	<u>2018</u>	<u>2017</u>
<u>Less than one year</u>		
Estates and installments	\$ 674,849	\$ 237,779
Split-interest agreements	7,500	15,000
Contributions receivable – short term	\$ <u>682,349</u>	\$ <u>252,779</u>
<u>One to five years</u>		
Estates and installments	\$ 234,871	\$ 180,096
Split-interest agreements	995,750	1,163,386
<u>More than five years</u>		
Estates and installments	16,129	-
Contributions receivable – long term, net	\$ <u>1,246,750</u>	\$ <u>1,343,482</u>
	<u>\$ 1,929,099</u>	<u>\$ 1,596,261</u>

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Contributions receivable are presented net of present value discounts and allowances for uncollectible pledges.

Present value discounts	\$	50,156	\$	47,209
Allowance for uncollectible pledged contributions	\$	(621,443)	\$	(527,836)

In 2018, ADRA received a multiyear conditional pledge to be paid out over five years for a school feeding program and sponsorship of a youth mission program. As of December 31, 2018 the outstanding pledge was \$2,600,000.

11. Inventories

Inventories at December 31, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Purchased	\$ 144,965	\$ 144,970
Donated	<u>76,639</u>	<u>811,923</u>
	<u>\$ 221,604</u>	<u>\$ 956,893</u>

12. Furniture and Equipment

Furniture and equipment at December 31, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Furniture and equipment	\$ 812,345	\$ 867,380
Less accumulated depreciation	(690,577)	(682,577)
Assets under construction	<u>562,369</u>	<u>289,717</u>
	<u>\$ 684,137</u>	<u>\$ 474,520</u>

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13. Net Assets with Donor Restrictions

Net assets with donor restrictions as of December 31, 2018 and 2017 are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Africa	\$ 240,279	\$ 555,475
Asia	246,365	153,672
Central America	215,879	267,808
Europe	48,640	58,982
North America	849,284	711,032
South America	16,214	18,496
South Pacific	90,787	95,548
Children	1,500,740	1,675,620
Economic development	28,602	17,876
Education	86,036	147,119
Emergency - disaster	2,256,934	3,223,669
Food	8,200,659	7,565,683
Health	2,796,821	1,955,501
Matching Grant	-	14,299
Restricted as to time	1,572,460	1,558,761
Term endowment	95,515	94,178
Other	948,726	528,147
	<u>\$ 19,193,941</u>	<u>\$ 18,641,866</u>

Net assets released from donor restrictions during the years ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Satisfaction of purpose restrictions	\$ 8,914,067	\$ 13,948,967
Expiration of time restrictions	14,689	47,314
	<u>\$ 8,928,756</u>	<u>\$ 13,996,281</u>

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14. Retirement Plan

Eligible ADRA employees are covered by the Seventh-day Adventist Retirement Plan of the North America Division. The Retirement Plan is a multi-employer, defined benefit retirement plan for employees of the General Conference and its affiliates. The Retirement Plan provides for assistance of eligible employees, their spouses, and dependent children, and the eligible spouses and children of deceased participants. Benefits of the Retirement Plan include retirement allowance for the employee and the qualifying spouse, health care assistance, and death benefits.

The Retirement Plan was active through 1999, and continues to be funded by contributions of the participating entities. The contributions are calculated as a percentage of audited remuneration data for the fiscal year ending two years prior to the billing period. ADRA's exposure is their share of the unfunded actuarial liability. Financial information of the Retirement Plan's underlying assets, contributions, and actuarial liability are unavailable for disclosure. The Retirement Plan is exempt from IRS filings.

For the years ending December 31, 2018 and 2017 retirement expense of the Retirement Plan contributions consist of the following:

	<u>2018</u>	<u>2017</u>
Retirement	\$ 505,140	\$ 422,615
Health Care	<u>243,864</u>	<u>204,037</u>
	<u>\$ 749,004</u>	<u>\$ 626,652</u>

ADRA also participates in a multi-employer defined contribution retirement plan. The basic employer contribution rate is 5% of eligible wages. In addition, ADRA matched employee's contribution up to an additional 3% from January 1, 2018 to June 30, 2018. Beginning July 1, 2018, ADRA matches employee's contribution up to an additional 4%. Contributions to the defined contribution plan were \$563,659 and \$436,190, for 2018 and 2017, respectively.

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15. Commitments and Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. These audits may result in a liability payable to the grantor. The amount of expenditures, if any, which may be potentially disallowed, cannot be determined at this time, although ADRA expects such amount to be immaterial.

In connection with its ongoing relationship with USAID and the regulatory provision for its Negotiated Indirect Cost Rate Agreement (NICRA), ADRA has been involved in a process to finalize provisional rates, settle any resulting adjustments as needed and close those grants affected. ADRA has finalized rates through 2017 and has been given new provisional rates for the years 2018 and onward until amended. ADRA is currently reviewing the closing process for the years finalized, and is analyzing the subsequent year in which only preliminary rates exist. While additional revenue or expense may result, ADRA does not believe the net amount will be material based on the current analysis.

ADRA had an arrangement with the General Conference to guarantee home loans for ADRA employees held by the General Conference under denominational policy. Collateral for loans already established are held by the General Conference in the form of recorded first and second liens against the properties. The total amount of these loans as of December 31, 2018 and 2017 was \$3,159,720 and \$3,462,926 respectively. When a foreclosure arises, ADRA's exposure is limited to the difference between the outstanding loan balance and the value of the collateral as defined in the loan agreement.

16. Grant Compliance

Government grants and contracts are considered to be exchange transactions, the majority of which are cost-reimbursable grants. Revenue, including approved indirect cost recovery, is recognized when allowable costs have been incurred. ADRA's costs incurred under its government awards are subject to audit by government agencies. Management believes that disallowance of costs, if any, would not have a material impact on the accompanying financial statements

17. Gifts in Kind

For the years ended December 31, 2018 and 2017, gifts in kind were received from other non-profit organizations of \$4,231,895 and \$6,751,747, respectively. For the years ended December 31, 2018 and 2017, gifts in kind were distributed to affiliate implementing partners of \$4,286,218 and \$9,345,447, respectively.

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18. ADRA Board Designated Funds

During 2018 the ADRA Board of Directors (the Board) designated Net assets without donor restrictions of \$500,000 to replenish the Sunplus accounting program fund, and \$3,150,000 for 2019-2021 to support Advocacy from 2019 to 2021. As of December 2018, \$473,617 has been met.

During 2017 the ADRA Board of Directors (the Board) designated \$3,000,000 to initiate implementation of a new strategic framework. As of December 2018, \$1,995,237 has been met.

During 2015 and 2016 the ADRA Board of Directors (the Board) designated \$2,000,000 for capacity building focused on strategically repositioning the ADRA network to compete for funding opportunities. As of December 2018, \$757,517 has been met.

The Board designated amounts are included in the Net assets without donor restrictions in the statement of financial position.