



**BREAD FOR THE CITY, INC.
AND BREAD INC.**

**Consolidated Financial Statements and
Supplemental Consolidating Information**

For the Year Ended June 30, 2014

(With Summarized Financial Information for the Year Ended June 30, 2013)



**and
Report Thereon**



BREAD FOR THE CITY, INC. AND BREAD INC.

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For the Year Ended June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Bread for the City, Inc. and Bread Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Bread for the City, Inc. and Bread Inc. (collectively known as the Organization), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 the entity'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bread for the City, Inc. and Bread Inc. as of June 30, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited Bread for the City, Inc. and Bread Inc.'s 2013 consolidated financial statements, and our report dated October 3, 2013, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and activities as of and for the year ended June 30, 2014, are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and change in net assets of the individual entities, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Raffa, P.C.

Raffa, P.C.

Washington, DC
September 22, 2014

BREAD FOR THE CITY, INC. AND BREAD INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2014
(With Summarized Financial Information as of June 30, 2013)

	2014	2013
ASSETS		
Cash and cash equivalents	\$ 3,203,902	\$ 1,046,429
Cash – board designated	2,248,900	4,572,000
Cash – restricted	155,616	187,365
Receivables, net	1,163,230	1,424,583
Note receivable	5,929,829	5,734,340
Other assets	309,272	331,731
Building, property and equipment, net	8,396,016	8,625,830
Funds held for others	2,487,879	2,487,824
TOTAL ASSETS	\$ 23,894,644	\$ 24,410,102
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 949,655	\$ 918,857
Notes payable	6,272,000	6,272,000
Funds held for others	2,491,583	2,498,374
TOTAL LIABILITIES	9,713,238	9,689,231
Net Assets		
Unrestricted	13,422,284	13,753,424
Temporarily restricted	702,228	910,553
Permanently restricted	56,894	56,894
TOTAL NET ASSETS	14,181,406	14,720,871
TOTAL LIABILITIES AND NET ASSETS	\$ 23,894,644	\$ 24,410,102

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

BREAD FOR THE CITY, INC. AND BREAD INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014

(With Summarized Financial Information for the Year Ended June 30, 2013)

	2014			2013 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES				
Contributions and grants	\$ 4,173,996	\$ 2,800,578	\$ -	\$ 6,974,574
Medical fee for service	674,597	-	-	674,597
Interest, dividend, rental and other income	313,992	-	-	313,992
Net assets released from restrictions:				
Satisfaction of program and time restrictions	3,008,903	(3,008,903)	-	-
TOTAL REVENUE	8,171,488	(208,325)	-	7,963,163
EXPENSES				
Program Services:				
Social services	1,998,199	-	-	1,998,199
Medical services	2,218,790	-	-	2,218,790
Legal services	1,460,359	-	-	1,460,359
Food program	1,359,724	-	-	1,359,724
Advocacy and community development	266,475	-	-	266,475
Clothing program	65,284	-	-	65,284
Total Program Services	7,368,831	-	-	7,368,831
Supporting Services:				
Fundraising	805,597	-	-	805,597
Administration	328,200	-	-	328,200
Total Supporting Services	1,133,797	-	-	1,133,797
TOTAL EXPENSES	8,502,628	-	-	8,502,628
IN-KIND REVENUE AND EXPENSES				
In-kind contributions	2,106,056	-	-	2,106,056
In-kind expenses	(2,106,056)	-	-	(2,106,056)
TOTAL IN-KIND REVENUE AND EXPENSES	-	-	-	-
TOTAL CHANGE IN NET ASSETS	(331,140)	(208,325)	-	(539,465)
NET ASSETS, BEGINNING OF YEAR	13,753,424	910,553	56,894	14,720,871
NET ASSETS, END OF YEAR	\$ 13,422,284	\$ 702,228	\$ 56,894	\$ 14,181,406

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

BREAD FOR THE CITY, INC. AND BREAD INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2014
(With Summarized Financial Information for the Year Ended June 30, 2013)

	Program Services						Supporting Services		2014 Total	2013 Total	
	Social Services	Medical Services	Legal Services	Food Program	Advocacy and Community Development	Clothing Program	Total Program Services	Fundraising			Administration
Personnel and benefits	\$ 1,649,130	\$ 1,628,011	\$ 1,203,277	\$ 607,095	\$ 222,485	\$ 54,342	\$ 5,364,340	\$ 384,997	\$ 150,663	\$ 5,900,000	\$ 5,483,818
Medical	-	190,702	-	-	-	-	190,702	-	-	190,702	189,433
Food	-	-	-	554,195	-	-	554,195	-	-	554,195	441,172
Consulting	57,391	46,891	21,512	30,200	1,478	496	157,968	5,614	1,622	165,204	295,996
Occupancy	139,781	128,947	109,207	116,068	22,607	5,157	521,767	33,774	63,174	618,715	666,134
Donor Appeals and Special Events	-	-	-	-	-	-	-	284,696	-	284,696	279,911
Depreciation and amortization	82,862	111,037	62,309	30,887	12,088	3,006	302,189	17,776	45,847	365,812	366,437
Other	52,980	97,770	51,638	15,659	6,342	1,631	226,020	75,476	59,088	360,584	313,795
Interest expense	16,055	15,431	12,417	5,620	1,475	652	51,650	3,264	7,806	62,720	63,765
Subtotal	1,998,199	2,218,789	1,460,360	1,359,724	266,475	65,284	7,368,831	805,597	328,200	8,502,628	8,100,461
In-kind expense	300	314,617	1,254,228	408,650	-	47,342	2,025,137	340	80,579	2,106,056	1,451,386
TOTAL EXPENSES	\$ 1,998,499	\$ 2,533,406	\$ 2,714,588	\$ 1,768,374	\$ 266,475	\$ 112,626	\$ 9,393,968	\$ 805,937	\$ 408,779	\$ 10,608,684	\$ 9,551,847

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

BREAD FOR THE CITY, INC. AND BREAD INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2014
(With Summarized Financial Information for the Year Ended June 30, 2013)
Increase (Decrease) in Cash and Cash Equivalents

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (539,465)	\$ (155,954)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	365,812	366,437
Interest compounded on note receivable	(259,317)	(251,449)
Change in allowance for doubtful accounts	21,078	24,113
Changes in assets and liabilities:		
Receivables	240,275	(486,575)
Accounts payable and accrued expenses	30,798	132,717
Other assets and liabilities	15,613	(43,945)
	<u>(125,206)</u>	<u>(414,656)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Principal received on note receivable	63,828	61,725
Purchase of property and equipment	(135,998)	(140,098)
	<u>(72,170)</u>	<u>(78,373)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(197,376)</u>	<u>(493,029)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5,805,794</u>	<u>6,298,823</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 5,608,418</u>	<u>\$ 5,805,794</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 62,720</u>	<u>\$ 62,720</u>
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 3,203,902	\$ 1,046,429
Cash – board designated	2,248,900	4,572,000
Cash – restricted	155,616	187,365
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 5,608,418</u>	<u>\$ 5,805,794</u>

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

BREAD FOR THE CITY AND BREAD INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

1. Organization and Summary of Significant Accounting Policies

Organization

Bread for the City, Inc. (BFC) is a nonprofit organization that provides residents of Washington, DC with comprehensive services, including food, clothing, medical and dental care, and legal and social services. These services reach more than 31,000 low-income residents each year from two service centers in the Shaw (Northwest) and Anacostia (Southeast) neighborhoods of Washington.

For the year ended June 30, 2014, through the Organization's Northwest Center, a 21,000 square foot facility located at 1525 7th Street NW, BFC's food program provided a three-day supply of groceries to over 7,387 unique households, representing more than 11,068 unique people fed, while the medical and dental clinics treated over 3,364 unique patients through 13,260 visits. Social workers and case managers conducted more than 7,650 total client visits related to housing assistance, accessing public benefits and managing finances. BFC's legal services program assisted more than 2,223 people in legal matters, opening over 374 cases for full representation in matters of housing, family, and public benefit law.

For the year ended June 30, 2014, through the Organization's Southeast Center, a 9,500 square foot facility located at 1640 Good Hope Road, SE, BFC's food program provided a three-day supply of groceries to over 7,220 unique households, representing more than 13,847 unique people fed. The clothing room distributed over 46,000 articles of casual and professional clothing to more than 4,286 individuals, while social workers and case managers conducted more than 6,023 total client visits related to housing assistance, employment training and accessing public benefits. BFC's legal services program assisted more than 2,060 people in legal matters, opening over 325 cases for full representation in matters of housing, family, and public benefit law.

These activities are funded primarily through private grants and contributions, along with partial public insurance reimbursements for the medical and dental clinics.

Bread Inc. is a 501(c)(3) nonprofit organization created to raise funds for the support and benefit of, and to carry out the purposes of, BFC which may include funds for capital expenditures, other financial purposes, and to manage and invest such funds for the benefit of BFC. These activities are funded primarily through grants and contributions.

Principles of Consolidation

The consolidated financial statements of BFC and Bread Inc. (collectively known as the Organization) have been prepared on the accrual basis of accounting. BFC and Bread Inc. have been consolidated due to the presence of common control and economic interest, as required under accounting principles generally accepted in the United States of America (GAAP). All significant intra-entity balances and transactions between BFC and Bread Inc. have been eliminated in consolidation.

BREAD FOR THE CITY AND BREAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

1. Organization and Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Organization classifies all highly liquid investments with original maturities of less than 90 days as cash equivalents. Cash and cash equivalents include demand deposits and money market funds. Restricted cash and cash equivalents include a loan reserve established for payment of the servicing fee in compliance with the notes payable agreement and cash related to the endowment fund.

Funds Held for Others

The Organization acts as a representative payee for clients designated to receive benefits from the Social Security Administration. The Organization assists the clients with budgeting and maintains records of related expenditures. The benefits are disbursed to pay for current needs, including housing, food and medical expenses. Amounts held for clients are reported as funds held for others in the accompanying consolidated statement of financial position.

Receivables

Receivables consist of pledges and grants receivable, and accounts receivable. Pledges and grants receivable consist of unconditional promises to give to the Organization. Accounts receivable is primarily from managed care organizations and the DC government. The Organization uses the allowance method to reserve for uncollectible accounts. As of June 30, 2014, pledges and grants receivable was \$890,498 (net of an allowance) and accounts receivable was \$272,732. The allowance of \$25,757 for the year ended June 30, 2014, is based upon prior year's experience and management's analysis of subsequent collections.

Building, Property and Equipment

Building, property and equipment are recorded at cost and are being depreciated on a straight-line basis over their estimated useful lives of three to 40 years. Expenditures for major repairs and improvements are capitalized. Donated property is recorded at fair value at the date of donation. Expenditures for minor repairs and maintenance costs are expensed when incurred. The Organization capitalizes all fixed assets greater than \$1,000. Upon the retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss, if any, is included in revenue or expenses in the accompanying consolidated statement of activities.

BREAD FOR THE CITY AND BREAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended June 30, 2014

1. Organization and Summary of Significant Accounting Policies (continued)

Classification of Net Assets

The Organization classifies net assets based on the existence or absence of donor-imposed restrictions as follows:

- *Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations. The Board has designated the use of certain amounts of cash to serve as a reserve for operations and initiatives associated with the Organization's strategic plan. The reserve approximates three months of operating expenses and costs associated with the Organization's strategic plan initiatives. As of June 30, 2014, \$1,652,900 was designated for operations and \$596,000 for the strategic plan. These board restricted funds are included in cash and cash equivalents and shown as Board designated cash in the accompanying consolidated statement of financial position.
- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that will be met in the future, either by the Organization's actions (undertaking project activities) and/or by the passage of time.
- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that the net assets be maintained permanently by the Organization.

Revenue Recognition

The Organization recognizes all unconditional contributed support in the period in which the commitment is made. Unconditional contributed support is reported as unrestricted or temporarily restricted, depending on the existence of donor stipulations that limit the use of the support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Unconditional contributed support that is expected to be collected within one year is recorded at its net realizable value. Unconditional contributed support that is expected to be collected after one year is recorded at the present value of its estimated future cash flows discounted back to present value using the appropriate discount rates. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributed support to which the discount relates.

Donated Services and Materials

Food products, clothing and pharmaceuticals donated to the Organization are valued at a cost consistent with amounts paid for similar products by the Organization or at their estimated fair value. Donated food products, clothing and pharmaceuticals are reported as both revenue and expenses in the accompanying consolidated financial statements.

Services donated by medical, legal and other professionals are valued at their estimated fair value based on the type of professional services provided. These services are recognized both as revenue and expenses if the services received create or enhance long-lived assets or require specialized skills; are provided by individuals possessing those skills; and would typically need to be purchased, if not donated.

BREAD FOR THE CITY AND BREAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

1. Organization and Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of the various programs and other activities are summarized on a functional basis in the accompanying consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services based upon various methods deemed to justify the benefits received by those programs and supporting services.

Estimates

Management uses estimates and assumptions in preparing these consolidated financial statements in accordance with GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

2. Cash and Cash Equivalents – Restricted

As of June 30, 2014, restricted cash and cash equivalents were composed of the following:

Loan servicing reserve	\$ 98,722
Endowment fund	<u>56,894</u>
Total	<u>\$ 155,616</u>

3. Receivables

Receivables, as of June 30, 2014, are due as follows:

Within one year	\$ 1,133,987
One to five years	<u>55,000</u>
Gross Receivables	1,188,987
Less: Allowance for Doubtful Accounts	<u>(25,757)</u>
Receivables, Net	<u>\$ 1,163,230</u>

The Organization did not calculate a discount on receivables due in more than one year due to immateriality.

BREAD FOR THE CITY AND BREAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

4. Property and Equipment and Accumulated Depreciation and Amortization

The Organization held the following fixed assets as of June 30, 2014:

Land	\$ 568,857
Building and improvements	8,908,997
Furniture and equipment	1,737,643
Vehicles	<u>191,389</u>
Total Property and Equipment	11,406,886
Less: Accumulated Depreciation and Amortization	<u>(3,010,870)</u>
Property and Equipment, Net	<u>\$ 8,396,016</u>

During the year ended June 30, 2014, the Organization recorded depreciation and amortization of \$365,812.

5. Temporarily Restricted Net Assets

As of June 30, 2014, the temporarily restricted net assets of the Organization are available for the following programs or purposes:

Legal services	\$ 216,516
Medical services	174,823
General support of the Organization for use in future years	235,000
Food program	38,237
Social services	<u>37,652</u>
Total Temporarily Restricted Net Assets	<u>\$ 702,228</u>

6. Permanently Restricted Net Assets

The Organization has an endowment fund that consists of permanently restricted contributions. As of June 30, 2014, total endowment fund net assets were \$56,894 and are included in restricted cash and cash equivalents in the accompanying consolidated statement of financial position. Any income earned on permanently restricted funds is used for general operations.

7. Commitments and Risks

Concentration of Risks

The Organization maintains its cash and cash equivalents with certain commercial financial institutions, which aggregate balance, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 per depositor per institution. As of June

BREAD FOR THE CITY AND BREAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

7. Commitments and Risks (continued)

Concentration of Risks (continued)

30, 2014, the Organization had approximately \$8,443,000, composed of savings and money market accounts that exceeded the maximum limit insured by the FDIC by approximately \$7,938,000.

Equipment and Storage

The Organization is obligated as a lessee under several noncancelable operating leases for its equipment and storage space. The leases expire at various times through 2019. The future minimum lease obligations under these agreements are as follows:

<u>For the Year Ending</u> <u>June 30,</u>	
2015	\$ 13,005
2016	12,737
2017	8,626
2018	5,865
2019	<u>3,047</u>
Total	<u>\$ 43,280</u>

For the year ended June 30, 2014, the total rent expense under all of the operating leases was \$30,979 and is classified under occupancy expense in the accompanying consolidated statement of functional expenses.

Employment Agreement

The Organization has an employment agreement with its Chief Executive Officer. Under the terms of the agreement, the Organization is to pay to the Chief Executive Officer, or on his behalf, certain amounts for compensation, benefits and allowances through June 30, 2014, with automatic one-year extensions, unless the Organization terminates the agreement for cause. This agreement was automatically renewed through June 30, 2015 during fiscal year 2014. If the Organization terminates the agreement for a reason other than cause, the Chief Executive Officer is entitled to a lump-sum cash separation payment equal to six months of his annual base salary.

8. Notes Payable and Receivable – New Market Tax Credit

In October 2009, the Organization financed the expansion of its Northwest location through the New Market Tax Credit (NMTC) program. U.S. Bancorp Community Development Corporation (USBCDC), a Missouri limited liability company, contributed \$1,822,080 in equity to Bread Investment Fund, LLC (the Fund), an unaffiliated Missouri limited liability company. In conjunction with this equity investment, Bread Inc. made a loan of \$5,017,920 to the Fund. In turn, the Fund made a \$6,400,000 Qualifying Equity Investment in City First Capital XV, LLC

BREAD FOR THE CITY AND BREAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

8. Notes Payable and Receivable – New Market Tax Credit (continued)

(City First), a Delaware limited liability company and community development entity. In return, City First allocated \$2,496,000 in New Market Tax Credits (the Credits) to the Fund. The Credits were allocated to City First from City First New Markets Fund II, a Delaware limited liability company and CDE (master CDE), pursuant to Section 45D of the Internal Revenue Code. City First then made a loan to BFC for \$6,272,000, which was used to finance the expansion.

The loan held by Bread Inc. is payable over nine years and compounds annually at an interest rate of 4.5594%. The Fund will pay Bread Inc. annual payments at a rate of 1.1503% of the outstanding balance for the first six annual payments on October 15 of each year. The Fund begins to make three annual principal payments of \$1,996,229, beginning with the seventh payment, which is due October 7, 2016. The loan matures on October 7, 2019. Within one year, Bread Inc. will receive a principal payment of \$66,004. Since the inception of the loan Bread Inc. has capitalized interest (net of payments) of \$911,909 as of June 30, 2014 and this amount is included in the notes receivable balance in the accompanying consolidated statement of financial position.

BFC's loan consists of two tranches, Loan A and Loan B, both of which have an interest rate of 1.00% simple interest. Loan A is payable annually over nine years on October 10 of each year. Interest-only payments are due for the first six payments. Beginning with the seventh payment, which is due October 10, 2016, through the ninth payment, BFC will make three annual principal and interest payments. Loan A has a balance of \$5,998,688 as of June 30, 2014, and has a maturity date of October 10, 2018 and loan B has a balance of \$273,312 as of June 30, 2014, and has a maturity date of October 10, 2039. As collateral, BFC has pledged the land, building and servicing fee accounts having a combined book value of \$7,166,704 as of June 30, 2014. As of June 30, 2014, BFC had unpaid accrued interest of \$45,646 related to this note and paid interest totalling \$62,720 related to this note.

BFC is also required to pay City First annual service fees of \$32,000 for seven years on October 10 of each year. BFC was required to set aside \$224,000 of the loan proceeds to pay these fees. The balance of this loan servicing reserve, including interest earned on the reserve, was \$98,722 as of June 30, 2014, and is included in the restricted cash and cash equivalents in the accompanying consolidated statement of financial position.

After the seven-year NMTC period expires, it is anticipated that USBCDC will exercise its put option to sell its ownership interest in the Fund to Bread Inc. or Bread Inc. will exercise its call option to buy USBCDC's ownership interest for a predetermined amount, and the Fund will be liquidated and its assets distributed to Bread Inc. In conjunction with this event, City First will be liquidated and its assets distributed to the Fund. Immediately after the exit transactions are completed, Bread Inc. will be the holder of BFC's note payable and, as such, the loan will be eliminated in the consolidated financial statements. It is anticipated that the loan will be discharged.

The loan agreement also has various financial and negative covenants, including certain reporting requirements. As of June 30, 2014, the Organization was in compliance with all of the covenants.

Continued

BREAD FOR THE CITY AND BREAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

9. In-Kind Contributions

The Organization receives various in-kind services and donated goods. For the year ended June 30, 2014, in-kind contributions revenue consisted of the following:

Professional legal services	\$ 1,254,228
Donated food	408,650
Professional medical services	231,380
Donated medical supplies	83,237
Other	81,219
Clothing	<u>47,342</u>
Total	<u>\$ 2,106,056</u>

10. Retirement Plan

All employees who work more than 30 hours per week are eligible to participate in the Organization's retirement plan (the Plan), which is qualified under Section 403(b) of the Internal Revenue Code. The Plan offers various mutual funds as investment options. The Plan also allows for a discretionary employer match. During the year ended June 30, 2014, the Organization made a discretionary contribution to the Plan of \$74,048 covering the fiscal year ended June 30, 2013. As of June 30, 2014 the Organization accrued \$92,429 covering the discretionary contribution for the fiscal year ended June 30, 2014.

11. Income Taxes

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is classified as a publicly supported organization under Section 509(a)(1) of the Internal Revenue Code. No provision for income taxes is required for the year ended June 30, 2014, as the Organization had no net unrelated business income. The Organization performed an evaluation of uncertain tax positions for the year ended June 30, 2014, and determined that there were no matters that would require recognition in the consolidated financial statements or that may have any effect on its tax-exempt status.

As of June 30, 2014, the statute of limitations for tax years ended June 30, 2011 through June 30, 2013 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Organization files tax returns. It is the Organization's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense.

BREAD FOR THE CITY AND BREAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

12. Prior Year Summarized Financial Information

The accompanying consolidated 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 the Organization's consolidated financial statements for the year ended June 30, 2013, from which the summarized information was derived.

13. Change in Accounting Policy

In fiscal year 2014, the Organization changed its method of presenting interest and dividend income, rental expense, other income and interest expense. These categories were previously classified as non-core activities in the 2013 audited consolidated financial statements. The 2013 presentation of these categories on the accompanying consolidated statement of activities have been restated based on applying this revised methodology, which had no impact on the total consolidated revenue and total consolidated expenses.

14. Subsequent Events

In preparing the consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 22, 2014, the date the consolidated financial statements were available to be issued. There were no subsequent events that require recognition of, or disclosure in, the consolidated financial statements.

SUPPLEMENTAL CONSOLIDATING INFORMATION

BREAD FOR THE CITY, INC. AND BREAD INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2014

	<u>BFC</u>	<u>Bread Inc.</u>	<u>Eliminating Entries</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 334,996	\$ 2,868,906	\$ -	\$ 3,203,902
Cash – board designated	235,140	2,013,760	-	2,248,900
Cash – restricted	155,616	-	-	155,616
Receivables, net	4,782,617	1,756,624	(5,376,011)	1,163,230
Note receivable	-	5,929,829	-	5,929,829
Other assets	268,371	40,901	-	309,272
Due from Bread Inc.	192,170	-	(192,170)	-
Building, property and equipment, net	8,396,016	-	-	8,396,016
Funds held for others	2,487,879	-	-	2,487,879
	<u>2,487,879</u>	<u>-</u>	<u>-</u>	<u>2,487,879</u>
TOTAL ASSETS	<u><u>\$ 16,852,805</u></u>	<u><u>\$ 12,610,020</u></u>	<u><u>\$ (5,568,181)</u></u>	<u><u>\$ 23,894,644</u></u>
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable and accrued expenses	\$ 1,595,133	\$ 4,730,533	\$ (5,376,011)	\$ 949,655
Due to BFC	-	192,170	(192,170)	-
Notes payable	6,272,000	-	-	6,272,000
Funds held for others	2,491,583	-	-	2,491,583
	<u>2,491,583</u>	<u>-</u>	<u>-</u>	<u>2,491,583</u>
TOTAL LIABILITIES	<u>10,358,716</u>	<u>4,922,703</u>	<u>(5,568,181)</u>	<u>9,713,238</u>
Net Assets				
Unrestricted	6,399,543	7,022,741	-	13,422,284
Temporarily restricted	37,652	664,576	-	702,228
Permanently restricted	56,894	-	-	56,894
	<u>56,894</u>	<u>-</u>	<u>-</u>	<u>56,894</u>
TOTAL NET ASSETS	<u>6,494,089</u>	<u>7,687,317</u>	<u>-</u>	<u>14,181,406</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 16,852,805</u></u>	<u><u>\$ 12,610,020</u></u>	<u><u>\$ (5,568,181)</u></u>	<u><u>\$ 23,894,644</u></u>

BREAD FOR THE CITY, INC. AND BREAD INC.

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014

	BFC				Bread Inc.				Eliminations	Consolidated			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue:													
Contributions and grants	\$ 7,737,619	\$ -	\$ -	\$ 7,737,619	\$ 4,952,388	\$ 2,800,578	\$ -	\$ 7,752,966	\$ (8,516,011)	\$ 4,173,996	\$ 2,800,578	\$ -	\$ 6,974,574
Medical fee for service	674,597	-	-	674,597	-	-	-	-	-	674,597	-	-	674,597
Interest, dividend, rental and other income	15,145	-	-	15,145	298,847	-	-	298,847	-	313,992	-	-	313,992
Net assets released from restrictions:													
Satisfaction of program and time restrictions	124,848	(124,848)	-	-	2,884,055	(2,884,055)	-	-	-	3,008,903	(3,008,903)	-	-
TOTAL REVENUE	8,552,209	(124,848)	-	8,427,361	8,135,290	(83,477)	-	8,051,813	(8,516,011)	8,171,488	(208,325)	-	7,963,163
EXPENSES													
Program Services:													
Social services	1,998,199	-	-	1,998,199	-	-	-	-	-	1,998,199	-	-	1,998,199
Medical services	2,218,790	-	-	2,218,790	-	-	-	-	-	2,218,790	-	-	2,218,790
Legal services	1,460,359	-	-	1,460,359	-	-	-	-	-	1,460,359	-	-	1,460,359
Food program	1,359,724	-	-	1,359,724	-	-	-	-	-	1,359,724	-	-	1,359,724
Advocacy and community development	266,475	-	-	266,475	-	-	-	-	-	266,475	-	-	266,475
Clothing program	65,284	-	-	65,284	-	-	-	-	-	65,284	-	-	65,284
Grants to BFC	-	-	-	-	7,679,000	-	-	7,679,000	(7,679,000)	-	-	-	-
Total Program Services	7,368,831	-	-	7,368,831	7,679,000	-	-	7,679,000	(7,679,000)	7,368,831	-	-	7,368,831
Supporting Services:													
Fundraising	837,011	-	-	837,011	805,597	-	-	805,597	(837,011)	805,597	-	-	805,597
Administration	198,337	-	-	198,337	129,863	-	-	129,863	-	328,200	-	-	328,200
Total Supporting Services	1,035,348	-	-	1,035,348	935,460	-	-	935,460	(837,011)	1,133,797	-	-	1,133,797
TOTAL EXPENSES	8,404,179	-	-	8,404,179	8,614,460	-	-	8,614,460	(8,516,011)	8,502,628	-	-	8,502,628
IN-KIND REVENUE AND EXPENSES													
In-kind contributions	2,057,022	-	-	2,057,022	49,034	-	-	49,034	-	2,106,056	-	-	2,106,056
In-kind expenses	(2,057,022)	-	-	(2,057,022)	(49,034)	-	-	(49,034)	-	(2,106,056)	-	-	(2,106,056)
TOTAL IN-KIND REVENUE AND EXPENSES	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL CHANGE IN NET ASSETS	148,030	(124,848)	-	23,182	(479,170)	(83,477)	-	(562,647)	-	(331,140)	(208,325)	-	(539,465)
NET ASSETS, BEGINNING OF YEAR	6,251,513	162,500	56,894	6,470,907	7,501,911	748,053	-	8,249,964	-	13,753,424	910,553	56,894	14,720,871
NET ASSETS, END OF YEAR	\$ 6,399,543	\$ 37,652	\$ 56,894	\$ 6,494,089	\$ 7,022,741	\$ 664,576	\$ -	\$ 7,687,317	\$ -	\$ 13,422,284	\$ 702,228	\$ 56,894	\$ 14,181,406