



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

**Consolidated Financial Statements and
Supplemental Consolidating Information**

*For the Year Ended June 30, 2016
(With Summarized Financial Information for the Year Ended June 30, 2015)*



**and
Report Thereon**



BREAD FOR THE CITY, INC. AND BREAD INC.

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For the Year Ended June 30, 2016

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Bread for the City, Inc. and Bread Inc. (collectively referred to as the Organization), which comprise the consolidated statement of financial position as of June 30, 2016, 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 the Organization as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Continued

Other Matters

Correction

As discussed in Note 14 to the consolidated financial statements, the amounts reported in the consolidated and consolidating statements of activities for 2016 in-kind contributions and expenses were transposed and have been restated to correct this error. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Organization's 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 19, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, 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 are presented for purposes of additional analysis rather than to present the financial position and changes 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 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

November 10, 2016, except for Note 14, as to which the date is December 5, 2016

BREAD FOR THE CITY, INC. AND BREAD INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2016

(With Summarized Financial Information as of June 30, 2015)

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 2,226,245	\$ 3,127,919
Cash – board designated	2,323,700	2,323,700
Cash – restricted	159,181	173,731
Receivables, net	2,336,280	1,454,241
Investments	15,493	-
Note receivable	6,340,251	6,125,443
Other assets	411,874	317,284
Building, property and equipment, net	8,379,455	8,353,389
Funds held for others	<u>2,397,304</u>	<u>2,662,958</u>
TOTAL ASSETS	<u><u>\$ 24,589,783</u></u>	<u><u>\$ 24,538,665</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,256,332	\$ 1,046,937
Notes payable	6,272,000	6,278,694
Funds held for others	<u>2,411,587</u>	<u>2,673,575</u>
TOTAL LIABILITIES	<u>9,939,919</u>	<u>9,999,206</u>
Net Assets		
Unrestricted	13,079,509	13,504,123
Temporarily restricted	1,446,077	928,442
Permanently restricted	<u>124,278</u>	<u>106,894</u>
TOTAL NET ASSETS	<u>14,649,864</u>	<u>14,539,459</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 24,589,783</u></u>	<u><u>\$ 24,538,665</u></u>

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, 2016
(With Summarized Financial Information for the Year Ended June 30, 2015)

	2016				2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
REVENUE					
Contributions, grants and contracts	\$ 4,368,508	\$ 5,064,397	\$ 17,384	\$ 9,450,289	\$ 8,416,773
Medical fee for service	1,125,492	-	-	1,125,492	1,049,080
Interest, dividend and other income	324,269	-	-	324,269	292,788
Net assets released from restrictions:					
Satisfaction of program and time restrictions	4,546,762	(4,546,762)	-	-	-
TOTAL REVENUE	10,365,031	517,635	17,384	10,900,050	9,758,641
EXPENSES					
Program Services:					
Social services	2,579,172	-	-	2,579,172	2,318,325
Medical services	2,372,345	-	-	2,372,345	2,312,942
Food program	1,946,016	-	-	1,946,016	1,667,665
Legal services	1,650,235	-	-	1,650,235	1,498,330
Advocacy and community development	451,992	-	-	451,992	261,967
Clothing program	116,384	-	-	116,384	98,288
Total Program Services	9,116,144	-	-	9,116,144	8,157,517
Supporting Services:					
Fundraising	1,156,149	-	-	1,156,149	970,401
Administration	517,352	-	-	517,352	272,670
Total Supporting Services	1,673,501	-	-	1,673,501	1,243,071
TOTAL EXPENSES	10,789,645	-	-	10,789,645	9,400,588
IN-KIND REVENUE AND EXPENSES					
In-kind contributions	3,407,285	-	-	3,407,285	3,449,453
In-kind expenses	(3,407,285)	-	-	(3,407,285)	(3,449,453)
TOTAL IN-KIND REVENUE AND EXPENSES	-	-	-	-	-
TOTAL CHANGE IN NET ASSETS	(424,614)	517,635	17,384	110,405	358,053
NET ASSETS, BEGINNING OF YEAR	13,504,123	928,442	106,894	14,539,459	14,181,406
NET ASSETS, END OF YEAR	\$ 13,079,509	\$ 1,446,077	\$ 124,278	\$ 14,649,864	\$ 14,539,459

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, 2016
(With Summarized Financial Information for the Year Ended June 30, 2015)

	Program Services						Supporting Services		2016 Total	2015 Total	
	Social Services	Medical Services	Food Program	Legal Services	Advocacy and Community Development	Clothing Program	Total Program Services	Fundraising			Administration
Personnel and benefits	\$ 2,158,567	\$ 1,807,886	\$ 910,722	\$ 1,403,918	\$ 342,340	\$ 95,721	\$ 6,719,154	\$ 630,508	\$ 272,975	\$ 7,622,637	\$ 6,506,139
Food	-	-	782,403	-	-	-	782,403	-	-	782,403	693,438
Occupancy	176,266	160,595	141,466	116,321	51,249	9,584	655,481	56,074	123,388	834,943	742,753
Depreciation and amortization	73,453	103,220	37,780	56,008	26,894	7,537	304,892	36,033	43,075	384,000	356,259
Donor appeals and special events	-	-	134	-	10,236	-	10,370	296,658	-	307,028	299,451
Other	60,295	52,447	28,244	38,161	14,620	2,266	196,033	84,694	62,384	343,111	305,522
Consulting	94,062	40,774	38,123	25,549	4,057	602	203,167	47,753	7,716	258,636	259,443
Medical	-	194,041	50	-	-	-	194,091	-	-	194,091	174,755
Interest expense	16,529	13,382	7,094	10,278	2,596	674	50,553	4,429	7,814	62,796	62,828
Subtotal	2,579,172	2,372,345	1,946,016	1,650,235	451,992	116,384	9,116,144	1,156,149	517,352	10,789,645	9,400,588
In-kind expense	53	199,811	406,925	2,687,448	-	74,193	3,368,430	883	37,972	3,407,285	3,449,453
TOTAL EXPENSES	\$ 2,579,225	\$ 2,572,156	\$ 2,352,941	\$ 4,337,683	\$ 451,992	\$ 190,577	\$ 12,484,574	\$ 1,157,032	\$ 555,324	\$ 14,196,930	\$ 12,850,041

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, 2016
(With Summarized Financial Information for the Year Ended June 30, 2015)
Increase (Decrease) in Cash and Cash Equivalents

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 110,405	\$ 358,053
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	384,000	356,259
Interest compounded on note receivable	(283,062)	(261,618)
Change in allowance for doubtful accounts	15,605	27,368
Changes in assets and liabilities:		
Receivables	(897,644)	(318,379)
Accounts payable and accrued expenses	209,395	97,282
Other assets and liabilities	(106,417)	(1,099)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(567,718)	257,866
CASH FLOWS FROM INVESTING ACTIVITIES		
Principal received on note receivable	68,254	66,004
Purchase of property and equipment	(410,066)	(313,632)
NET CASH USED IN INVESTING ACTIVITIES	(341,812)	(247,628)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on notes payable	-	8,000
Repayment on notes payable	(6,694)	(1,306)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(6,694)	6,694
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(916,224)	16,932
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,625,350	5,608,418
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 4,709,126	\$ 5,625,350
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 62,796	\$ 62,828
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 2,226,245	\$ 3,127,919
Cash – board designated	2,323,700	2,323,700
Cash – restricted	159,181	173,731
TOTAL CASH AND CASH EQUIVALENTS	\$ 4,709,126	\$ 5,625,350

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

BREAD FOR THE CITY, INC. AND BREAD INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

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, 2016, 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 8,098 unique households, representing 37,387 times people were fed, while the medical and dental clinics had 17,679 patient visits. Social workers and case managers conducted 13,037 total client visits related to housing assistance, accessing public benefits and managing finances. BFC's legal services program performed 799 intakes in legal matters, closing 208 cases for full representation in matters of housing, family and public benefit law.

For the year ended June 30, 2016, 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 8,793 unique households, representing 38,305 times people were fed. Social workers and case managers conducted 9,328 total client visits related to housing assistance, women's wellness, employment training and accessing public benefits. BFC's legal services program performed 492 intakes in legal matters, closing 143 cases for full representation in matters of housing, family and public benefit law.

These activities are funded primarily through private grants and contributions and government grants, 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, INC. AND BREAD INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

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 are primarily from managed care organizations and the DC government. The Organization uses the allowance method to reserve for uncollectible accounts. As of June 30, 2016, pledges and grants receivable were \$1,589,864 (net of an allowance) and accounts receivable were \$746,416. The allowance of \$68,730 for the year ended June 30, 2016, 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 forty 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.

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. The reserve approximates three months of operating expenses and costs associated with the Organization's strategic plan initiatives. As of June 30, 2016, \$2,323,700 was designated for operations. 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.

Continued

BREAD FOR THE CITY, INC. AND BREAD INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

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

Classification of Net Assets (continued)

- *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. Conditional promises to give are not included as support until the conditions are substantially met.

Medical reimbursements are recorded based on a claim-submitted basis.

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.

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.

BREAD FOR THE CITY, INC. AND BREAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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

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 – Restricted

As of June 30, 2016, restricted cash is composed of the following:

Endowment fund	\$ 124,278
Loan servicing reserve	<u>34,903</u>
Total	<u>\$ 159,181</u>

3. Receivables

Receivables, as of June 30, 2016, are due as follows:

Within one year	\$ 2,330,010
One to five years	<u>75,000</u>
Gross Receivables	2,405,010
Less: Allowance for Doubtful Accounts	<u>(68,730)</u>
Receivables, Net	<u>\$ 2,336,280</u>

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

As of June 30, 2016, the Organization has received a grant of approximately \$658,000 that is considered conditional as the funder has not approved the future payments in the grant award. Therefore, this award has not been recognized as receivables or revenue in the accompanying consolidated financial statements.

BREAD FOR THE CITY, INC. AND BREAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

4. Building, Property and Equipment and Accumulated Depreciation and Amortization

The Organization held the following fixed assets as of June 30, 2016:

Land	\$ 568,857
Building and improvements	9,206,457
Furniture and equipment	2,031,753
Vehicles	<u>247,572</u>
Total Property and Equipment	12,054,639
Less: Accumulated Depreciation and Amortization	<u>(3,675,184)</u>
Property and Equipment, Net	<u>\$ 8,379,455</u>

During the year ended June 30, 2016, the Organization recorded depreciation and amortization of \$384,000.

5. Temporarily Restricted Net Assets

As of June 30, 2016, the temporarily restricted net assets of the Organization are available for the following programs or purposes:

General support of the Organization for use in future years	\$ 795,833
Social services	337,842
Medical services	256,820
Food program	<u>55,582</u>
Total Temporarily Restricted Net Assets	<u>\$ 1,446,077</u>

6. Permanently Restricted Net Assets

The Organization has an endowment fund that consists of permanently restricted contributions. As of June 30, 2016, total endowment fund net assets were \$124,278 and are included in restricted cash 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 Credit Risk

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 30, 2016, the Organization had approximately \$7.1 million composed of savings and money market accounts that exceeded the maximum limit insured by the FDIC.

BREAD FOR THE CITY, INC. AND BREAD INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

7. Commitments and Risks (continued)

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, 2016, with automatic one-year extensions, unless the Organization terminates the agreement for cause. This agreement was automatically renewed through June 30, 2017 during fiscal year 2016. 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

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 (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 (the IRC). 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, 2018 when Bread Inc. will receive the final principal payment and any unpaid accrued interest. Within one year, Bread Inc. will receive a principal payment of \$1,996,229. Since the inception of the loan Bread Inc. has capitalized interest (net of payments) of \$ 1,322,332 as of June 30, 2016 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. The principal and interest payment owed during the year ending June 30, 2107 is \$2,062,283. Loan A has a balance of \$5,998,688 as of June 30, 2016, and has a maturity date of October 10, 2018 and loan B has a balance of \$273,312 as

BREAD FOR THE CITY, INC. AND BREAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

8. Notes Payable and Receivable (continued)

of June 30, 2016, and has a maturity date of October 10, 2039. As collateral, BFC has pledged the Northwest land, Northwest building and improvements and servicing fee accounts having a combined book value of \$5,174,196 as of June 30, 2016. As of June 30, 2016, BFC had unpaid accrued interest of \$45,661 related to this note and had paid interest totalling \$62,795 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 \$34,903 as of June 30, 2016, and is included in the restricted cash and cash equivalents in the accompanying consolidated statement of financial position.

The loan agreement also has various financial and negative covenants, including certain reporting requirements. As of June 30, 2016, the Organization was in compliance with all of the covenants.

On November 3, 2016, Bread Inc. completed the unwind of the NMTC program. USBCDC, through a put option it exercised, sold its interest in the Fund to Bread Inc. for the exercise price of \$1,000. In conjunction with this, City First transferred its assets to the Fund. As such, the Fund is both the lender to Bread for the City and the borrower from Bread Inc., effectively making Bread Inc. the lender to Bread for the City. It is anticipated that the loans will be discharged during the year ending June 30, 2017.

9. In-Kind Contributions

The Organization receives various in-kind services and donated goods. For the year ended June 30, 2016, in-kind contributions revenue consisted of the following:

Professional legal services	\$ 2,687,448
Donated food	406,925
Professional medical services & supplies	199,811
Clothing	74,193
Other	<u>38,908</u>
Total In-Kind Contributions	<u>\$ 3,407,285</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 IRC. The Plan offers various mutual funds as investment options. The Plan also allows for a discretionary employer match. During the year ended June 30, 2016, the Organization made a discretionary contribution to the Plan of \$143,694, of which \$141,512 is included in accounts payable and accrued expenses as of June 30, 2016.

Continued

BREAD FOR THE CITY, INC. AND BREAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

11. Income Taxes

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the IRC and is classified as a publicly supported organization under Section 509(a)(1) of the IRC. No provision for income taxes is required for the year ended June 30, 2016, as the Organization had no net unrelated business income. The Organization performed an evaluation of uncertain tax positions for the year ended June 30, 2016, 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, 2016, the statute of limitations for tax years ended June 30, 2013, through June 30, 2015, 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.

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, 2015, from which the summarized information was derived.

13. Reclassifications

Certain fiscal year 2015 amounts have been reclassified to conform to the fiscal year 2016 financial statement presentation.

14. Other Matter

The 2016 financial statements were reissued to correct an error in the presentation of the in-kind contributions and expenses where the balances were transposed on the consolidating statement of activities and consolidated statement of activities. There was no impact on total revenue and expenses reported or the change in net assets.

15. Subsequent Events

In preparing the consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 10, 2016, the date the consolidated financial statements were available to be issued. Except for the winding down of NMTC program as noted in Note 8, there were no other subsequent events that require recognition 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, 2016

	<u>BFC</u>	<u>Bread Inc.</u>	<u>Eliminating Entries</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 926,865	\$ 1,299,380	\$ -	\$ 2,226,245
Cash – board designated	966,744	1,356,956	-	2,323,700
Cash – restricted	98,897	60,284	-	159,181
Receivables, net	2,336,280	-	-	2,336,280
Investments	-	15,493	-	15,493
Note receivable	-	6,340,251	-	6,340,251
Other assets	411,874	-	-	411,874
Due from Bread Inc.	806,828	-	(806,828)	-
Building, property and equipment, net	8,379,455	-	-	8,379,455
Funds held for others	2,369,009	28,295	-	2,397,304
	<u>\$ 16,295,952</u>	<u>\$ 9,100,659</u>	<u>\$ (806,828)</u>	<u>\$ 24,589,783</u>
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable and accrued expenses	\$ 1,256,332	\$ -	\$ -	\$ 1,256,332
Due to BFC	-	806,828	(806,828)	-
Notes payable	6,272,000	-	-	6,272,000
Funds held for others	2,383,292	28,295	-	2,411,587
	<u>9,911,624</u>	<u>835,123</u>	<u>(806,828)</u>	<u>9,939,919</u>
Net Assets				
Unrestricted	5,107,916	7,971,593	-	13,079,509
Temporarily restricted	1,202,134	243,943	-	1,446,077
Permanently restricted	74,278	50,000	-	124,278
	<u>6,384,328</u>	<u>8,265,536</u>	<u>-</u>	<u>14,649,864</u>
TOTAL NET ASSETS	<u>6,384,328</u>	<u>8,265,536</u>	<u>-</u>	<u>14,649,864</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 16,295,952</u>	<u>\$ 9,100,659</u>	<u>\$ (806,828)</u>	<u>\$ 24,589,783</u>

BREAD FOR THE CITY, INC. AND BREAD INC.

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

	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, grants and contracts	\$ 4,368,508	\$ 5,064,397	\$ 17,384	\$ 9,450,289	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,368,508	\$ 5,064,397	\$ 17,384	\$ 9,450,289
Medical fee for service	1,125,492	-	-	1,125,492	-	-	-	-	-	1,125,492	-	-	1,125,492
Interest, dividend and other income	27,982	-	-	27,982	296,287	-	-	295,847	-	324,269	-	-	324,269
Net assets released from restrictions:													
Satisfaction of program and time restrictions	3,862,263	(3,862,263)	-	-	684,499	(684,499)	-	-	-	4,546,762	(4,546,762)	-	-
TOTAL REVENUE	9,384,245	1,202,134	17,384	10,603,763	980,786	(684,499)	-	295,847	-	10,365,031	517,635	17,384	10,900,050
EXPENSES													
Program Services:													
Social services	2,579,172	-	-	2,579,172	-	-	-	-	-	2,579,172	-	-	2,579,172
Medical services	2,372,345	-	-	2,372,345	-	-	-	-	-	2,372,345	-	-	2,372,345
Food program	1,946,016	-	-	1,946,016	-	-	-	-	-	1,946,016	-	-	1,946,016
Legal services	1,650,235	-	-	1,650,235	-	-	-	-	-	1,650,235	-	-	1,650,235
Advocacy and community development	451,992	-	-	451,992	-	-	-	-	-	451,992	-	-	451,992
Clothing program	116,384	-	-	116,384	-	-	-	-	-	116,384	-	-	116,384
Total Program Services	9,116,144	-	-	9,116,144	-	-	-	-	-	9,116,144	-	-	9,116,144
Supporting Services:													
Fundraising	1,107,653	-	-	1,107,653	48,496	-	-	48,496	-	1,156,149	-	-	1,156,149
Administration	498,734	-	-	498,734	18,618	-	-	18,618	-	517,352	-	-	517,352
Total Supporting Services	1,606,387	-	-	1,606,387	67,114	-	-	67,114	-	1,673,501	-	-	1,673,501
TOTAL EXPENSES	10,722,531	-	-	10,722,531	67,114	-	-	67,114	-	10,789,645	-	-	10,789,645
IN-KIND REVENUE AND EXPENSES													
In-kind contributions	3,407,285	-	-	3,407,285	-	-	-	-	-	3,407,285	-	-	3,407,285
In-kind expenses	(3,407,285)	-	-	(3,407,285)	-	-	-	-	-	(3,407,285)	-	-	(3,407,285)
TOTAL IN-KIND REVENUE AND EXPENSES	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL CHANGE IN NET ASSETS	(1,338,286)	1,202,134	17,384	(118,768)	913,672	(684,499)	-	229,173	-	(424,614)	517,635	17,384	110,405
NET ASSETS, BEGINNING OF YEAR	6,446,202	-	56,894	6,503,096	7,057,921	928,442	50,000	8,036,363	-	13,504,123	928,442	106,894	14,539,459
NET ASSETS, END OF YEAR	\$ 5,107,916	\$ 1,202,134	\$ 74,278	\$ 6,384,328	\$ 7,971,593	\$ 243,943	\$ 50,000	\$ 8,265,536	\$ -	\$ 13,079,509	\$ 1,446,077	\$ 124,278	\$ 14,649,864