

BREAD FOR THE CITY, INC. AND BREAD INC.
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018
(With Comparative Totals for June 30, 2017)

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INDEPENDENT AUDITOR'S REPORT

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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 "Bread or the Organization"), which comprise the consolidated statement of financial position as of June 30, 2018, 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 as of June 30, 2018, 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.

Other Matters

Report on Summarized Comparative Information

We have previously audited Bread's 2017 financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated, January 17, 2019. In our opinion, the summarized comparative information presented herein, as of and for the year ended June 30, 2017 is consistent in all material respects, with the audited consolidated financial statements from which it was 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.

Bert Smith & Co.

Washington, D.C.

March 25, 2019

BREAD FOR THE CITY, INC. AND BREAD INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018
(With Comparative Totals for June 30, 2017)

| | 2018 | 2017 |
|---------------------------------------|--------------------------|--------------------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 4,628,468 | \$ 3,162,060 |
| Cash – Restricted | 140,736 | 129,536 |
| Receivables, net | 4,247,930 | 3,982,239 |
| Investments | 5,716 | - |
| Other Assets | 166,083 | 231,081 |
| Goodwill | - | 105,784 |
| Building, Property and Equipment, net | 11,589,419 | 11,201,337 |
| Funds Held for Others | 2,869,928 | 2,780,315 |
| Total Assets | <u>\$ 23,648,280</u> | <u>\$ 21,592,352</u> |
| LIABILITIES AND NET ASSETS | | |
| <i>Liabilities</i> | | |
| Accounts Payable and Accrued Expenses | \$ 1,405,967 | \$ 1,134,760 |
| Notes and Loan Payable | 2,699,154 | 2,699,154 |
| Funds Held for Others | 2,882,569 | 2,793,480 |
| Total Liabilities | <u>6,987,690</u> | <u>6,627,394</u> |
| <i>Net Assets</i> | | |
| Unrestricted | 13,071,356 | 13,787,486 |
| Temporarily Restricted | 3,448,498 | 1,047,936 |
| Permanently Restricted | 140,736 | 129,536 |
| Total Net Assets | <u>16,660,590</u> | <u>14,964,958</u> |
| Total Liabilities and Net Assets | <u>\$ 23,648,280</u> | <u>\$ 21,592,352</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, 2018
(With Comparative Totals for June 30, 2017)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2018 | 2017 |
|---|----------------------|-----------------------------------|-----------------------------------|---------------------|---------------------|
| Revenue | | | | | |
| Contributions, Grants and Contracts | \$ 6,392,533 | \$ 5,319,254 | \$ 11,200 | \$11,722,987 | \$10,707,807 |
| Medical Fee for Service | 1,015,833 | - | - | 1,015,833 | 1,159,666 |
| Other Income | 71,183 | - | - | 70,183 | 127,367 |
| <i>Net Assets Released from Restrictions:</i> | <u>2,918,692</u> | <u>(2,918,692)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Revenue | <u>10,397,241</u> | <u>2,400,562</u> | <u>11,200</u> | <u>12,809,003</u> | <u>11,994,840</u> |
| Expenses | | | | | |
| <i>Program Services:</i> | | | | | |
| Social Services | 2,146,833 | - | - | 2,146,833 | 2,622,538 |
| Medical Services | 3,104,908 | - | - | 3,104,908 | 2,701,414 |
| Food Program | 1,892,974 | - | - | 1,892,974 | 2,172,036 |
| Legal Services | 1,745,665 | - | - | 1,745,665 | 1,690,512 |
| Advocacy and Community Development | 400,994 | - | - | 400,994 | 546,044 |
| Clothing Program | 39,025 | - | - | 39,025 | 68,324 |
| Total Program Services | <u>9,330,399</u> | <u>-</u> | <u>-</u> | <u>9,330,399</u> | <u>9,800,868</u> |
| <i>Supporting Services:</i> | | | | | |
| Fundraising | 1,260,182 | - | - | 1,260,182 | 1,290,602 |
| Administration | 417,006 | - | - | 417,006 | 588,276 |
| Total Supporting Services | <u>1,677,188</u> | <u>-</u> | <u>-</u> | <u>1,677,188</u> | <u>1,878,878</u> |
| Total Expenses | <u>11,007,587</u> | | | <u>11,007,587</u> | <u>11,679,746</u> |
| In-Kind Revenue and Expenses | | | | | |
| In-Kind Contributions | 3,053,862 | - | - | 3,053,862 | 2,291,478 |
| In-Kind Expenses | <u>(3,053,862)</u> | <u>-</u> | <u>-</u> | <u>(3,053,862)</u> | <u>(2,291,478)</u> |
| Total In-Kind Revenue and Expenses | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (Deficit) of Revenue Over Operating Expenses | (610,346) | 2,400,562 | 11,200 | 1,801,416 | 315,094 |
| Non-Operating Gains (Losses) | | | | | |
| Realized Loss on NMTC | <u>(105,784)</u> | <u>-</u> | <u>-</u> | <u>(105,784)</u> | <u>-</u> |
| Total Non-Operating Gains (Losses) | <u>(105,784)</u> | <u>-</u> | <u>-</u> | <u>(105,784)</u> | <u>-</u> |
| Total Change in Net Assets | (716,130) | 2,400,562 | 11,200 | 1,695,632 | 315,094 |
| Net Assets, Beginning of Year | <u>13,787,486</u> | <u>1,047,936</u> | <u>129,536</u> | <u>14,964,958</u> | <u>14,649,864</u> |
| Net Assets, End of Year | <u>\$ 13,071,356</u> | <u>\$ 3,448,498</u> | <u>\$ 140,736</u> | <u>\$16,660,590</u> | <u>\$14,964,958</u> |

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
YEAR ENDED JUNE 30, 2018
(With Comparative Totals for 2017)

| | Program Services | | | | | | | Supporting Services | | | Totals | |
|----------------------------------|------------------|------------------|--------------|----------------|------------------------------------|------------------|------------------------|---------------------|----------------|---------------------------|--------------|---------------|
| | Social Services | Medical Services | Food Program | Legal Services | Advocacy and Community Development | Clothing Program | Total Program Services | Fundraising | Administration | Total Supporting Services | 2018 | 2017 |
| Personnel and Benefits | \$1,820,437 | \$ 2,299,601 | \$ 863,814 | \$1,491,883 | \$ 335,557 | \$ 30,651 | \$ 6,841,943 | \$ 390,222 | \$ 243,108 | \$ 633,330 | \$ 7,475,273 | \$ 8,168,893 |
| Food | - | - | 784,913 | - | - | - | 784,913 | - | - | - | 784,913 | 962,290 |
| Occupancy | 160,393 | 265,773 | 130,734 | 139,720 | 31,071 | 2,795 | 730,486 | 188,171 | 115,205 | 303,376 | 1,033,862 | 883,548 |
| Depreciation and Amortization | 73,207 | 111,495 | 36,204 | 58,777 | 12,509 | 1,140 | 293,332 | 20,874 | 43,463 | 64,337 | 357,669 | 374,854 |
| Donor Appeals and Special Events | 5,521 | 5,520 | 6,918 | 5,521 | 2,760 | 1,380 | 27,620 | 233,619 | - | 233,619 | 261,239 | 434,069 |
| Other | 52,671 | 75,871 | 17,602 | 30,820 | 8,087 | 238 | 185,289 | 144,176 | 1,309 | 145,485 | 330,774 | 402,791 |
| Consulting | 34,604 | 139,491 | 52,789 | 18,944 | 11,010 | 2,821 | 259,659 | 283,120 | 13,921 | 297,041 | 556,700 | 223,110 |
| Medical | - | 207,157 | - | - | - | - | 207,157 | - | - | - | 207,157 | 209,284 |
| Interest Expense | - | - | - | - | - | - | - | - | - | - | - | 20,907 |
| Subtotal | 2,146,833 | 3,104,908 | 1,892,974 | 1,745,665 | 400,994 | 39,025 | 9,330,399 | 1,260,182 | 417,006 | 1,677,188 | 11,007,587 | 11,679,746 |
| In-Kind Expense | - | 43,268 | 712,460 | 2,227,932 | - | 41,639 | 3,025,299 | - | 28,563 | 28,563 | 3,053,862 | 2,291,478 |
| Total Expenses | \$2,146,833 | \$3,148,176 | \$2,605,434 | \$3,973,597 | \$ 400,994 | \$ 80,664 | \$12,355,698 | \$ 1,260,182 | \$ 445,569 | \$ 1,705,751 | \$14,061,449 | \$ 13,971,224 |

See accompanying notes to the consolidated financial statements.

BREAD FOR THE CITY, INC. AND BREAD INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
(With Comparative Totals for June 30, 2017)

| | 2018 | 2017 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in Net Assets | \$ 1,695,632 | \$ 315,094 |
| <i>Adjustments to Reconcile Changes in Net Assets</i> <i>to Net Cash Provided by (Used in) Operating Activities:</i> | | |
| Depreciation and Amortization | 357,669 | 374,854 |
| Realized Loss on New Market Tax Credit Program (NMTC) | 105,784 | - |
| Interest Compounded on Notes Receivable | - | (99,470) |
| Eliminated Interest Accrued on NMTC Loan | - | 67,598 |
| Change in Allowance for Doubtful Accounts | (86,006) | 25,547 |
| <i>Changes in Assets and Liabilities:</i> | | |
| (Increase) Decrease in Receivables | (179,685) | (1,671,506) |
| (Increase) Decrease in Donated Investments | (5,716) | 15,493 |
| (Increase) Decrease in Other Assets and Funds Held for Others | (24,615) | (202,218) |
| (Decrease) Increase in Accounts Payable and Accrued Expenses | 271,207 | (121,572) |
| Increase (Decrease) in Other Liabilities and Funds Held for Others | 89,089 | 381,893 |
| Net Cash Provided by (Used in) Operating Activities | <u>2,223,359</u> | <u>(914,287)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of Bread Investment Fund Interest | - | (5,661) |
| Purchase of Fixed Assets | (745,751) | (3,196,736) |
| Net Cash Used in Investing Activities | <u>(745,751)</u> | <u>(3,202,397)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Borrowings on Notes Payable | - | 2,700,000 |
| Repayment on Notes Payable | - | (846) |
| Net Cash Provided by Financing Activities | <u>-</u> | <u>2,699,154</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 1,477,608 | (1,417,530) |
| Cash and Cash Equivalents – Beginning of Year | 3,291,596 | 4,709,126 |
| Cash and Cash Equivalents – End of Year | <u>\$ 4,769,204</u> | <u>\$ 3,291,596</u> |
| Supplemental Data | | |
| Interest Paid During the Year | <u>\$ 87,648</u> | <u>\$ 57,122</u> |
| Noncash Transaction – Goodwill | <u>\$ -</u> | <u>\$ 100,123</u> |
| <i>Reconciliation of Cash and Cash Equivalents:</i> | | |
| Cash and Cash Equivalents | \$ 4,628,468 | \$ 3,162,060 |
| Cash – Restricted | 140,736 | 129,536 |
| Total Cash and Cash Equivalents | <u>\$ 4,769,204</u> | <u>\$ 3,291,596</u> |

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, 2018

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- ***Organization***

Bread for the City, Inc. (BFC) is a nonprofit organization that provides residents of Washington, D.C. 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, 2018, through Bread's Northwest Center, a 21,000 square foot facility located at 1525 7th Street NW, BFC's food program provided a five-day supply of groceries to 7,802 unique households, representing 35,433 times people were fed, while the medical, dental, vision and behavioral health clinics had 12,836 patient visits. Social workers and case managers conducted 4,726 total client visits related to housing assistance, accessing public benefits and managing finances. BFC's legal services program performed 634 intakes in legal matters, closing 165 cases for full representation in matters of housing, family and public benefit law.

For the year ended June 30, 2018, through Bread's Southeast Center, a 9,500 square foot facility located at 1640 Good Hope Road, SE, BFC's food program provided a five-day supply of groceries to 9,715 unique households, representing 42,388 times people were fed. Social workers and case managers conducted 2,894 total client visits related to housing assistance, women's wellness, employment training, diaper program and accessing public benefits. BFC's legal services program performed 381 intakes in legal matters, closing 92 cases for full representation in matters of housing, family and public benefit law. The clothing room distributed clothes to over 7,960 people.

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.

Bread Investment Fund (BI Fund) is a financial-component of Bread Inc. The BI Fund has a self-balancing set of accounts which specifically reflect the transactions related to the assumption of the interest by Bread Inc. related to certain BFC notes payable and BI notes receivable. See Note 9 – Notes Payable and Receivable for further discussion.

- ***Principles of Consolidation***

The consolidated financial statements present the consolidated financial position, changes in net assets, functional expenses and cash flows of BFC and Bread Inc. (collectively known as "Bread or the Organization"). 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 have been eliminated in consolidation.

- ***Basis of Accounting***

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

- ***Basis of Presentation***

Bread consolidated financial statements follow accounting standards of not-for-profit entities in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Not-for-Profit Entities – Presentation*. Under those standards, Bread is required to report information regarding its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Bread 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.

... *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that will be met in the future, either by Bread'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 Bread.

- ***Cash and Cash Equivalents***

Bread classifies all highly liquid investments with original maturities of three months or less to be cash and cash equivalents. Cash and cash equivalents include demand deposits and money market funds. Restricted cash and cash equivalents include cash related to the endowment fund. Cash and cash equivalents are maintained at various financial institutions. Total deposits maintained at these institutions, at times, exceed the amount insured by federal agencies, although through June 30, 2018, no loss of funds had been experienced.

- ***Investments***

Investments are reported at fair market value in the statement of financial position. Investment income includes interest and dividend income, realized and unrealized gains and losses, and are recognized as revenue and reported in the statement of activities and changes in net assets as increases or decreases in unrestricted net assets, unless their use is temporarily restricted by the donor. As of June 30, 2018, investments stated at fair value consisted of contributed stock totaling \$5,716.

- ***Funds Held for Others***

Bread acts as a representative payee for clients designated to receive benefits from the Social Security Administration. Bread 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 Bread. Accounts receivable are primarily from managed care organizations and the D.C. government. Bread uses the allowance method to reserve for uncollectible accounts. As of June 30, 2018, pledges and grants receivable were \$3,883,337 (gross of the allowance) and accounts receivable were \$372,864. The allowance of \$8,271 for the year ended June 30, 2018, is based upon prior years' 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. Bread 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.

- ***Impairment of Long-Lived Assets***

Bread reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would recognize when the estimated future cash flows from the use of the asset are less than the carrying amount of the asset. During fiscal year 2018, there was an impairment loss of the Goodwill totaling \$105,784 as a result of the cancellation or close-out of the loss between Bread Inc. and Bread for the City relating to the Bread Investment Fund, LLC, further discussion in Note 9 – Notes Payable and Receivable.

- ***Revenue Recognition***

Bread 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 Bread are valued at a cost consistent with amounts paid for similar products by Bread 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.

In addition, volunteers, including the members of the Board of Directors, have made significant contributions of time to Bread's policy-making, program and support functions. These contributed services do not meet the above criteria for recognition of contributed services and, accordingly, are not included in the accompanying consolidated financial statements.

- ***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.

- ***Use of Estimates***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of contingent assets and liabilities and disclosures at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

- ***Comparative Financial Data***

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. The 2017 fiscal year amounts are not intended to present all information necessary for fair presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Bread's consolidated financial statements for the year ended June 30, 2017, from which the summarized information was derived.

- ***Reclassifications***

Certain accounts and amounts reported in the 2017 consolidated financial statements have been reclassified to conform to the 2018 consolidated financial statement presentation. The reclassification had no effect on the change in the net assets for 2017.

- ***New Accounting Pronouncements***

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The standard makes targeted changes to presentation and disclosure requirements for not-for-profit entities. Under the new guidance, these changes include qualitative and quantitative requirements with regard to net asset classifications (e.g. combining temporarily restricted and permanently restricted into a single category called "net assets with donor restriction), investment return, expenses, liquidity (e.g. the extent to which those assets can be converted to cash within one year) and availability of resources (e.g. highlight restrictions on the use of resources), and cash flow presentation. This new standard is effective for fiscal years beginning after December 15, 2017 (FY 2019 for Bread). Bread is evaluating the impact that this standard will have on the financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This standard implements a single comprehensive framework to use in accounting for revenue arising from contracts with customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. The guidance, as amended by ASU-2015-14, *Revenue from Contracts with Customers (Topic 606)* and ASU-2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients* are effective for Bread. The standard is effective for fiscal years beginning after December 15, 2018 (FY 2020 for Bread). Bread is evaluating the impact this will have on the financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The objective of the update is to provide guidance on eight cash flow classifications issues. The amendments in the update are effective for nonprofit entities for fiscal years beginning after December 15, 2018 (FY 2020 for Bread). Bread is evaluating the impact this will have on the financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. Based on this guidance, lessees are required to recognize the following for all leases with terms longer than 12 months: (a) lease liabilities measured on a discounted basis; and (b) lease assets, which represent the lessee's right to use, or control the use of, a specified asset for the lease term. The new guidance requires a modified retrospective transition approach for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. This new standard is effective for fiscal years beginning after December 15, 2019 (FY 2021 for Bread). Bread is evaluating the impact that this standard will have on the financial statements.

NOTE 2 CASH - RESTRICTED

As of June 30, 2018, restricted cash is composed of the following:

| | |
|----------------|-------------------|
| Endowment Fund | <u>\$ 140,736</u> |
|----------------|-------------------|

NOTE 3 RECEIVABLES

Receivables as of June 30, 2018, are as follows:

| | |
|---------------------------------------|---------------------------|
| | 2018 |
| Within One Year | <u>\$2,784,491</u> |
| One to Five Years | <u>1,471,710</u> |
| Gross Receivables | <u>4,256,201</u> |
| Less: Allowance for Doubtful Accounts | <u>(8,271)</u> |
| Receivables, net | <u><u>\$4,247,930</u></u> |

Bread did not calculate a discount on receivables of more than one year due to the immateriality.

NOTE 4 BUILDING, PROPERTY AND EQUIPMENT

Bread held the following fixed assets as of June 30, 2018:

| | |
|---|-----------------------------|
| | 2018 |
| Land | <u>\$ 3,372,166</u> |
| Building and Improvements | <u>10,199,626</u> |
| Furniture and Equipment | <u>2,179,377</u> |
| Vehicles | <u>247,572</u> |
| Total Property and Equipment | <u>15,998,741</u> |
| Less: Accumulated Depreciation and Amortization | <u>(4,409,322)</u> |
| Property and Equipment, net | <u><u>\$ 11,589,419</u></u> |

During the year ended June 30, 2018, Bread recorded depreciation and amortization of \$357,669.

NOTE 5 TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2018, the temporarily restricted net assets of the Organization are available for the following programs or purposes:

| | 2018 |
|---|---------------------|
| General Support of the Organization for Use in Future Years | \$ 1,436,542 |
| Legal Services | 1,078,276 |
| Medical Services | 864,810 |
| Food Program | 68,870 |
| Total Temporarily Restricted Net Assets | <u>\$ 3,448,498</u> |

NOTE 6 PERMANENTLY RESTRICTED NET ASSETS

The Organization has an endowment fund that consists of permanently restricted contributions. As of June 30, 2018, total endowment fund net assets were \$140,736 and are included as restricted cash in the accompanying consolidated statement of financial position. Any income earned on permanently restricted funds is used for general operations.

NOTE 7 ENDOWMENT

The Organization has donor-restricted endowment funds which are maintained in accordance with explicit donor stipulations. The board of directors of the Organization has interpreted the District of Columbia law regarding Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies the original value of gifts donated to the permanent endowment as permanently restricted net assets.

In accordance with UPMIFA, the Organization considers the purpose of the endowment fund in making a determination to appropriate or accumulate donor-restricted endowment funds.

Bread has adopted investment policies for the endowment assets that attempt to provide a predictable stream of funding for the program supported by the endowment while seeking to maintain the purchasing power of the endowment assets.

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2018:

| | |
|---|-------------------|
| Endowment Net Assets, Beginning of the Year | \$ 129,536 |
| Contributions | 11,200 |
| Endowment Net Assets, End of the Year | <u>\$ 140,736</u> |

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor specified as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets

NOTE 8 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, 2018, the Organization has approximately \$7.6 million composed of savings and money market accounts that exceeded the maximum limit insured by the FDIC.

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, 2018, with automatic one-year extensions. 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.

NOTE 9 NOTES PAYABLE AND RECEIVABLE

In October 2009, Bread 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 COE (master COE), pursuant to Section 45D of the Internal Revenue Code (the IRC). City First then made a loan to BFC for \$6,272,000 (loan payable), which was used to finance the expansion.

The loan receivable 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 was to begin to make three annual principal payments of \$1,996,229, beginning with the seventh payment, which was amended to the due date of December 10, 2016. However, due to the transfer of interest to Bread Inc., as noted below, no payment was required. The loan matures on October 7, 2018 when Bread Inc. will receive the final principal payment and any unpaid accrued interest. Since the inception of the loan Bread Inc. has capitalized interest (net of payments) of \$1,415,584 as of June 30, 2018 and this amount is included in the notes receivable balance in the accompanying consolidating statement of financial position.

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, which was included in Goodwill of \$105,784 in fiscal year 2017, reflected in the statement of financial position. In conjunction with this, City First transferred its interest to the Fund, which comprises primarily the loan payable. As such, the Bread Inc. - Bread Investment Fund (BI 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.

Effective July 1, 2017, the loans between Bread Inc., Bread Investment Fund, LLC (BI Fund) and Bread for the City were cancelled. In addition, the BI Fund was dissolved on this date. Consequently, all related receivable, payable, other assets and goodwill balances were adjusted in the financial statements. Also, this cancellation resulted in a net realized gain of \$6,333,937 for Bread for the City and a realized loss of \$6,439,721 for Bread Inc. The overall impact resulted in a net realized loss of \$105,784 in the consolidated financial statements.

NOTE 10 LOAN PAYABLE

In January 2017, BFC obtained a \$2,700,000 loan from Wells Fargo, with an interest rate of 3.5%. The principal balance plus accrued interest and other applicable fees are payable in full on January 6, 2019. The agreement calls for monthly payments of accrued interest beginning February 6, 2017. The loan is collateralized by BFC Southeast land, buildings and improvements, with a book value of approximately \$4,504,000. Interest and fees incurred on the loan during fiscal year 2017 totaling \$95,520 was capitalized as a part of fixed assets. At June 30, 2018, BFC owed \$2,699,154 on this loan. The total payment is due in fiscal year 2019 and approximates the amount recorded in the financial statements.

The loan agreement also has various financial and negative covenants, including certain reporting requirements. As of June 30, 2018, Bread was not in compliance with one covenant: the submission of the audited financial statements within 120 days of year-end.

NOTE 11 IN-KIND CONTRIBUTIONS

Bread receives various in-kind services and donated goods. For the year ended June 30, 2018, in-kind contributions revenue consisted of the following:

| | 2018 |
|-------------------------------|---------------------|
| Legal | \$ 2,227,932 |
| Medical Services and Supplies | 43,268 |
| Food | 712,460 |
| Clothing | 41,639 |
| Other | 28,563 |
| Total In-Kind Contributions | <u>\$ 3,053,862</u> |

NOTE 12 RETIREMENT PLAN

All employees who work more than 30 hours per week are eligible to participate in Bread'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, 2018, Bread made a discretionary contribution to the Plan of \$152,147, of which \$138,765 is included in accounts payable and accrued expenses as of June 30, 2018.

NOTE 13 INCOME TAXES

Bread qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and is classified as a publicly supported organization under Section 509(a)(1) of the IRC. Accordingly, no provision for income taxes is required for the year ended June 30, 2018, as Bread had no net unrelated business income.

Financial Accounting Standards Board (FASB), Accounting Standards Codification 740, *Income Taxes* (ASC 740). ASC 740 requires that a tax position be recognized or derecognized based on a "more-likely-than-not" threshold. This applies to position as taken or expected to be taken in a tax return. As of June 30, 2018, management has assessed its various tax positions and it believes there are no liabilities for uncertain tax positions. It is Bread's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense.

As of June 30, 2018, the statute of limitations for tax years ended June 30, 2015, through June 30, 2017, remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which Bread files tax returns.

NOTE 14 SUBSEQUENT EVENTS

In preparing the consolidated financial statements, Bread has evaluated events and transactions for potential recognition or disclosure through March 25, 2019, the date the consolidated financial statements were available to be issued. Except for the discharge of the intercompany notes and waiver of the loan covenants as noted in Note 8, there were no other subsequent events that require recognition or disclosure in the consolidated financial statements.

SUPPLEMENTAL INFORMATION

BREAD FOR THE CITY, INC. AND BREAD INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

| | BFC | Bread Inc. | BI Fund | Eliminations | 2018 |
|---------------------------------------|---------------------|-------------------|----------------|---------------------|----------------------|
| ASSETS | | | | | |
| Cash and Cash Equivalents | \$ 4,187,075 | \$ 441,393 | \$ - | \$ - | \$ 4,628,468 |
| Cash – Restricted | 90,736 | 50,000 | - | - | 140,736 |
| Receivables, net | 4,247,930 | - | - | - | 4,247,930 |
| Investments | 3,060 | 2,656 | - | - | 5,716 |
| Other Assets | 166,083 | - | - | - | 166,083 |
| Intercompany Assets (Due To) | - | 295,814 | - | (295,814) | - |
| Building, Property and Equipment, net | 11,589,419 | - | - | - | 11,589,419 |
| Funds Held for Others | 2,841,633 | 28,295 | - | - | 2,869,928 |
| Total Assets | <u>\$23,125,936</u> | <u>\$ 818,158</u> | <u>\$ -</u> | <u>\$ (295,814)</u> | <u>\$ 23,648,280</u> |
| LIABILITIES AND NET ASSETS | | | | | |
| Liabilities | | | | | |
| Accounts Payable and Accrued Expenses | \$ 1,405,967 | \$ - | \$ - | \$ - | \$ 1,405,967 |
| Intercompany Liabilities (Due From) | 295,814 | - | - | (295,814) | - |
| Notes and Loan Payable | 2,699,154 | - | - | - | 2,699,154 |
| Funds Held for Others | 2,854,274 | 28,295 | - | - | 2,882,569 |
| Total Liabilities | <u>7,255,209</u> | <u>28,295</u> | <u>-</u> | <u>(295,814)</u> | <u>6,987,690</u> |
| Net Assets | | | | | |
| Unrestricted | 12,441,187 | 630,169 | - | - | 13,071,356 |
| Temporarily Restricted | 3,338,804 | 109,694 | - | - | 3,448,498 |
| Permanently Restricted | 90,736 | 50,000 | - | - | 140,736 |
| Total Net Assets | <u>15,870,727</u> | <u>789,863</u> | <u>-</u> | <u>-</u> | <u>16,660,590</u> |
| Total Liabilities and Net Assets | <u>\$23,125,936</u> | <u>\$ 818,158</u> | <u>\$ -</u> | <u>\$ (295,814)</u> | <u>\$ 23,648,280</u> |

BREAD FOR THE CITY, INC. AND BREAD INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

| | BFC | | | | Bread Inc. | | | | | CONSOLIDATED | | | |
|---|----------------------|------------------------|------------------------|----------------------|--------------------|------------------------|------------------------|--------------------|-----------------|----------------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Eliminations | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Revenue | | | | | | | | | | | | | |
| Contributions, Grants and Contracts | \$ 6,467,152 | \$ 5,319,254 | \$ 11,200 | \$ 11,797,606 | \$ 10,861 | \$ - | \$ - | \$ 10,861 | \$ (85,480) | \$ 6,392,533 | \$ 5,319,254 | \$ 11,200 | \$ 11,722,987 |
| Medical Fee for Service | 1,015,833 | - | - | 1,015,833 | - | - | - | - | - | 1,015,833 | - | - | 1,015,833 |
| Interest, Dividend and Other Income | 70,061 | - | - | 70,061 | 122 | - | - | 122 | - | 70,183 | - | - | 70,183 |
| <i>Net Assets Released form Restrictions:</i> | <u>2,864,157</u> | <u>(2,864,157)</u> | <u>-</u> | <u>-</u> | <u>54,535</u> | <u>(54,535)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,918,692</u> | <u>(2,918,692)</u> | <u>-</u> | <u>-</u> |
| Total Revenue | <u>10,417,203</u> | <u>2,455,097</u> | <u>11,200</u> | <u>12,883,500</u> | <u>65,518</u> | <u>(54,535)</u> | <u>-</u> | <u>10,983</u> | <u>(85,480)</u> | <u>10,397,241</u> | <u>2,400,562</u> | <u>11,200</u> | <u>12,809,003</u> |
| Expenses | | | | | | | | | | | | | |
| <i>Program Services:</i> | | | | | | | | | | | | | |
| Social Services | 2,146,833 | - | - | 2,146,833 | - | - | - | - | - | 2,146,833 | - | - | 2,146,833 |
| Medical Services | 3,104,908 | - | - | 3,104,908 | - | - | - | - | - | 3,104,908 | - | - | 3,104,908 |
| Food Program | 1,892,974 | - | - | 1,892,974 | - | - | - | - | - | 1,892,974 | - | - | 1,892,974 |
| Legal Services | 1,745,665 | - | - | 1,745,665 | - | - | - | - | - | 1,745,665 | - | - | 1,745,665 |
| Advocacy and Community Development | 400,994 | - | - | 400,994 | - | - | - | - | - | 400,994 | - | - | 400,994 |
| Clothing Program | 39,025 | - | - | 39,025 | - | - | - | - | - | 39,025 | - | - | 39,025 |
| Other Grant Expenses | - | - | - | - | 75,240 | - | - | 75,240 | (75,240) | - | - | - | - |
| Total Program Services | <u>9,330,399</u> | <u>-</u> | <u>-</u> | <u>9,330,399</u> | <u>75,240</u> | <u>-</u> | <u>-</u> | <u>75,240</u> | <u>(75,240)</u> | <u>9,330,399</u> | <u>-</u> | <u>-</u> | <u>9,330,399</u> |
| <i>Supporting Services:</i> | | | | | | | | | | | | | |
| Fundraising | 1,263,587 | - | - | 1,263,587 | 6,835 | - | - | 6,835 | (10,240) | 1,260,182 | - | - | 1,260,182 |
| Administration | 395,758 | - | - | 395,758 | 21,248 | - | - | 21,248 | - | 417,006 | - | - | 417,006 |
| Total Supporting Services | <u>1,659,345</u> | <u>-</u> | <u>-</u> | <u>1,659,345</u> | <u>28,083</u> | <u>-</u> | <u>-</u> | <u>28,083</u> | <u>(10,240)</u> | <u>1,667,188</u> | <u>-</u> | <u>-</u> | <u>1,667,188</u> |
| Total Expenses | <u>10,989,744</u> | <u>-</u> | <u>-</u> | <u>10,989,744</u> | <u>103,323</u> | <u>-</u> | <u>-</u> | <u>103,323</u> | <u>(85,480)</u> | <u>11,007,587</u> | <u>-</u> | <u>-</u> | <u>11,007,587</u> |
| In-Kind Revenue and Expenses | | | | | | | | | | | | | |
| In-Kind Contributions | 3,053,512 | - | - | 3,053,512 | 350 | - | - | 350 | - | 3,053,862 | - | - | 3,053,862 |
| In-Kind Expenses | <u>(3,053,512)</u> | <u>-</u> | <u>-</u> | <u>(3,053,512)</u> | <u>(350)</u> | <u>-</u> | <u>-</u> | <u>(350)</u> | <u>-</u> | <u>(3,053,862)</u> | <u>-</u> | <u>-</u> | <u>(3,053,862)</u> |
| Total In-Kind Revenue and Expenses | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (Deficit) of Revenue Over Operating Expenses | (572,541) | 2,455,097 | 11,200 | 1,893,756 | (37,805) | (54,535) | - | (92,340) | - | (610,346) | 2,400,562 | 11,200 | 1,801,416 |
| Non-Operating Gains (Losses) | | | | | | | | | | | | | |
| Realized Gain (Loss) on NMTC | 6,333,937 | - | - | 6,333,937 | (6,439,721) | - | - | (6,439,721) | - | (105,784) | - | - | (105,784) |
| Total Non-Operating Gains (Losses) | <u>6,333,937</u> | <u>-</u> | <u>-</u> | <u>6,333,937</u> | <u>(6,439,721)</u> | <u>-</u> | <u>-</u> | <u>(6,439,721)</u> | <u>-</u> | <u>(105,784)</u> | <u>-</u> | <u>-</u> | <u>(105,784)</u> |
| Increase (Decrease) in Net Assets | 5,761,396 | 2,455,097 | 11,200 | 8,227,693 | (6,477,526) | (54,535) | - | (6,532,061) | - | (716,130) | 2,400,562 | 11,200 | 1,695,632 |
| Net Assets, Beginning of Year | <u>6,679,791</u> | <u>883,707</u> | <u>79,536</u> | <u>7,643,034</u> | <u>7,107,695</u> | <u>164,229</u> | <u>50,000</u> | <u>7,321,924</u> | <u>-</u> | <u>13,787,486</u> | <u>1,047,936</u> | <u>129,536</u> | <u>14,964,958</u> |
| Net Assets, End of Year | <u>\$ 12,441,187</u> | <u>\$ 3,338,804</u> | <u>\$ 90,736</u> | <u>\$ 15,870,127</u> | <u>\$ 630,169</u> | <u>\$ 109,694</u> | <u>\$ 50,000</u> | <u>\$ 789,863</u> | <u>\$ -</u> | <u>\$ 13,071,356</u> | <u>\$ 3,448,498</u> | <u>\$ 140,736</u> | <u>\$ 16,660,590</u> |