

**BREAD FOR THE CITY, INC. AND BREAD INC.
CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT ON FEDERAL AWARDS
IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

YEAR ENDED JUNE 30, 2019
(With Comparative Totals for June 30, 2018)



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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 "the Organization"), which comprise the consolidated statement of financial position as of June 30, 2019, 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 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, 2019, 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 the Organization's 2018 financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated, March 25, 2019. In our opinion, the summarized comparative information presented herein, as of and for the year ended June 30, 2018 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards on page 25, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2020 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Beit Smith & Co.

Washington, D.C.
May 18, 2020

BREAD FOR THE CITY, INC. AND BREAD INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019
(With Comparative Totals for June 30, 2018)

	2019	2018
ASSETS		
<i>Current Assets</i>		
Cash and Cash Equivalents	\$ 4,333,976	\$ 4,628,468
Pledges, Contracts and Grants Receivables, net	1,363,812	2,658,702
Patient Services Receivable, net	677,029	31,590
Other Receivables	59,371	85,928
Other Assets	192,502	166,954
Funds Held for Others	2,993,768	2,869,928
Total Current Assets	9,620,458	10,441,570
<i>Noncurrent Assets</i>		
Pledges, Contracts and Grants Receivables, net of current portion	4,386,131	1,471,710
Restricted Cash	151,072	140,736
Assets Restricted as to Use	16,725,113	-
Note Receivable	16,026,851	-
Deposits	4,845	4,845
Building, Property and Equipment, net	15,924,698	11,589,419
Total Noncurrent Assets	53,218,710	13,206,710
Total Assets	\$ 62,839,168	\$ 23,648,280
LIABILITIES AND NET ASSETS		
<i>Current Liabilities</i>		
Accounts Payable and Accrued Expenses	\$ 1,849,739	\$ 1,405,967
Retainage Payable	276,560	-
Funds Held for Others	2,960,891	2,882,569
Notes and Loan Payable, current portion	-	2,699,154
Total Current Liabilities	5,087,190	6,987,690
<i>Long-term Liabilities</i>		
Notes and Loan Payable, net of current portion and debt issuance costs	35,161,136	-
Total Liabilities	40,248,326	6,987,690
<i>Net Assets</i>		
Without Donor Restrictions	16,052,719	13,071,356
With Donor Restrictions	6,538,123	3,589,234
Total Net Assets	22,590,842	16,660,590
Total Liabilities and Net Assets	\$ 62,839,168	\$ 23,648,280

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, 2019
(With Comparative Totals for June 30, 2018)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019</u>	<u>2018</u>
Revenue				
Contributions, Contracts and Grants	\$ 6,549,045	\$ 7,930,177	\$14,479,222	\$11,722,987
Net Patient Service Revenue	2,375,143	-	2,375,143	1,015,833
Other Income	372,278	-	372,278	70,183
<i>Net Assets Released from Restrictions:</i>	4,981,288	(4,981,288)	-	-
Total Revenue	<u>14,277,754</u>	<u>2,948,889</u>	<u>17,226,643</u>	<u>12,809,003</u>
Expenses				
<i>Program Services:</i>				
Social Services	2,302,340	-	2,302,340	2,146,833
Medical Services	2,952,008	-	2,952,008	3,104,908
Food Program	1,760,319	-	1,760,319	1,892,974
Legal Services	2,114,040	-	2,114,040	1,745,665
Advocacy and Community Development	415,002	-	415,002	400,994
Clothing Program	92,055	-	92,055	39,025
Total Program Services	<u>9,635,764</u>	<u>-</u>	<u>9,635,764</u>	<u>9,330,399</u>
<i>Supporting Services:</i>				
Fundraising	1,262,055	-	1,262,055	1,260,182
Administration	398,572	-	398,572	417,006
Total Supporting Services	<u>1,660,627</u>	<u>-</u>	<u>1,660,627</u>	<u>1,677,188</u>
Total Expenses	<u>11,296,391</u>	<u>-</u>	<u>11,296,391</u>	<u>11,007,587</u>
In-Kind Revenue and Expenses				
In-Kind Contributions	3,669,148	-	3,669,148	3,053,862
In-Kind Expenses	(3,669,148)	-	(3,669,148)	(3,053,862)
Total In-Kind Revenue and Expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenue Over Operating Expenses	2,981,363	2,948,889	5,930,252	1,801,416
Non-Operating Gains (Losses)				
Realized Loss on NMTC	<u>-</u>	<u>-</u>	<u>-</u>	<u>(105,784)</u>
Total Non-Operating Gains (Losses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(105,784)</u>
Total Change in Net Assets	2,981,363	2,948,889	5,930,252	1,695,632
Net Assets, Beginning of Year	<u>13,071,356</u>	<u>3,589,234</u>	<u>16,660,590</u>	<u>14,964,958</u>
Net Assets, End of Year	<u>\$ 16,052,719</u>	<u>\$ 6,538,123</u>	<u>\$22,590,842</u>	<u>\$16,660,590</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, 2019
(With Comparative Totals for 2018)

	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	2019	2018
Personnel and Benefits	\$1,924,795	\$ 2,169,619	\$ 831,990	\$1,810,371	\$ 330,133	\$ 67,459	\$ 7,134,367	\$ 491,666	\$ 204,658	\$ 696,324	\$ 7,830,691	\$ 7,475,273
Food	-	-	654,737	-	-	-	654,737	-	477	477	655,214	784,913
Occupancy	155,195	253,333	136,482	153,329	35,321	6,101	739,761	98,755	90,131	188,886	928,647	1,033,862
Depreciation and Amortization	68,101	83,441	30,161	65,564	12,098	2,654	262,019	16,974	61,516	78,490	340,509	357,669
Donor Appeals and Special Events	22,737	22,662	23,915	14,863	10,505	7,887	102,569	391,402	2,775	394,177	496,746	261,239
Other	84,970	50,670	27,586	33,664	7,149	554	204,593	91,369	35,552	126,921	331,514	330,774
Consulting	46,542	174,408	55,448	36,249	19,796	7,400	339,843	171,889	3,463	175,352	515,195	556,700
Medical	-	197,875	-	-	-	-	197,875	-	-	-	197,875	207,157
Subtotal	2,302,340	2,952,008	1,760,319	2,114,040	415,002	92,055	9,635,764	1,262,055	398,572	1,660,627	11,296,391	11,007,587
In-Kind Expense	-	24,894	702,060	2,784,905	-	146,000	3,657,859	-	11,289	11,289	3,669,148	3,053,862
Total Expenses	\$2,302,340	\$ 2,976,902	\$2,462,379	\$4,898,945	\$ 415,002	\$238,055	\$13,293,623	\$ 1,262,055	\$ 409,861	\$ 1,671,916	\$ 14,965,539	\$ 14,061,449

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, 2019
(With Comparative Totals for June 30, 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 5,930,252	\$ 1,695,632
<i>Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by (Used in) Operating Activities:</i>		
Depreciation and Amortization	340,509	357,669
Realized Loss on New Market Tax Credit Program (NMTC)	-	105,784
Pledge Receivable Discount	44,897	-
Pledges, Contracts and Grants Allowance for Bad Debt	24,116	(86,006)
<i>Changes in Assets and Liabilities:</i>		
(Increase) Decrease in Pledges, Contracts and Grants Receivables	(1,688,544)	(729,846)
(Increase) Decrease in Patient Services Receivables	(645,439)	622,679
Decrease (Increase) in Other Receivables	26,557	(72,518)
(Increase) Decrease in Other Assets and Funds Held for Others	(149,388)	(30,331)
Increase (Decrease) in Accounts Payable and Accrued Expenses	(79,764)	271,207
Increase (Decrease) in Other Liabilities and Funds Held for Others	78,322	89,089
Net Cash Provided by Operating Activities	3,881,518	2,223,359
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts of Assets Limited as to Use	(20,430,508)	-
Disbursements of Assets Limited as to Use	3,705,395	-
Issuance of Note Receivable	(16,026,851)	-
Acquisition of building, property and equipment	(3,875,692)	(745,751)
Net Cash Used in Investing Activities	(36,627,656)	(745,751)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on Notes Payable	38,320,350	-
Payments of Debt Issuance Costs	(401,310)	-
Repayment on Notes Payable	(5,457,058)	-
Net Cash Provided by Financing Activities	32,461,982	-
Net (Decrease) Increase in Cash and Cash Equivalents	(284,156)	1,477,608
Cash and Cash Equivalents – Beginning of Year	4,769,204	3,291,596
Cash and Cash Equivalents – End of Year	\$ 4,485,048	\$ 4,769,204
Supplemental Data		
Interest Paid During the Year	\$ 604,391	\$ 87,648
Noncash investing activity during the year for building, property and equipment acquired through payable accounts and accrued expenses	\$ 800,096	\$ -
<i>Reconciliation of Cash and Cash Equivalents:</i>		
Cash and Cash Equivalents	\$ 4,333,976	\$ 4,628,468
Restricted Cash	151,072	140,736
Total Cash and Cash Equivalents	\$ 4,485,048	\$ 4,769,204

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, 2019

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 residents living on low-incomes each year from two service centers in the Shaw (Northwest) and Anacostia (Southeast) neighborhoods of Washington.

Bread Inc. (Bread) 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.

BFC and Bread are collectively referred to as (“ the Organization”).

For the year ended June 30, 2019, through the Organization’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 unique households. The medical, dental, vision and behavioral health clinics had numerous patient visits. Social workers and case managers conducted client visits related to housing assistance, accessing public benefits and managing finances. BFC’s legal services program performed intakes in legal matters.

For the year ended June 30, 2019, through the Organization’s Southeast Center, a 9,000 square foot facility located at 1640 Good Hope Road, SE, BFC’s food program provided a five-day supply of groceries to unique households, as well. Social workers and case managers conducted client visits related to housing assistance, women’s wellness, employment training, diaper program and accessing public benefits. BFC’s legal services program performed intakes in legal matters. The clothing room distributed clothes to eligible persons.

These activities are funded primarily through private grants, contributions and government grants, along with Medicare, Medicaid and other insurance reimbursements for the medical and dental clinics.

- ***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 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 inter-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***

The Organization’s 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*.

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

... *Net Assets Without Donor Restrictions* – unrestricted resources available to support operations that can be utilized at the discretion of the Board of Directors and management.

... *Net Assets With Donor Restrictions* – net assets that are subject to donor-imposed stipulations that may or will be met by the occurrence of a specific event or the passage of time. Some net assets with donor restrictions include a stipulation that the assets provided be maintained in perpetuity, due to donor-imposed restrictions. Any income earned on related investments are permitted to be used for general purposes.

- ***Cash and Cash Equivalents***

The Organization 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. 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, 2019, no loss of funds had been experienced.

- ***Assets Limited as to Use***

Represents cash that is restricted by the Organization’s new market tax credit financing to be used for the development and construction of the South East Campus.

- ***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.

- ***Pledges, Contracts and Grants Receivables***

Pledges, contracts and grants receivable consist of conditional and unconditional promises to give to the Organization. The Organization uses the allowance method to reserve for uncollectible accounts. As of June 30, 2019, pledges, contracts and grants receivable were \$5,749,943.

- ***Note Receivable***

In November 2018, the Organization provided a promissory note to Bread for the City Investment Fund, LLC (the Fund), a non-related entity, totaling \$16,026,851, in conjunction with the creation of the NMTC, as part of the Organization’s new market tax credit financing for the QLICI notes (See Note 8).

- ***Patient Services Receivables***

Patient services receivables are primarily from third-payers and the D.C. government. The Organization uses an allowance method based on their experience. The Organization carries the receivable at a net realizable amount for contractual adjustments and discounts.

- ***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.

- **Contributions, Contracts and Grants Revenue**

The Organization recognizes all unconditional contributed support in the period in which the commitment is made. 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. Conditional support is not included as support until the conditions are substantially met.

Contributions with donor stipulations are reported as net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

- **Net Patient Services Revenue**

Medical reimbursements are recorded based on a claim-submitted basis. Net Patient services revenue is recognized at an estimated net realizable amount from third-party payers, including retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known. The Organization only recognizes patient service revenue in the amounts that it expects to collect.

- **Charity Care**

The Organization provides care to patients who lack financial resources and are deemed to be medically indigent based on criteria established under the Organization's charity care policy. Because the Organization does not pursue collection of amounts determined to qualify as charity care, the amounts are not reported as revenue.

- **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.

In addition, volunteers, including the members of the Board of Directors, have made significant contributions of time to its 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. Expenses which can be identified with a specific program and support service are directly allocated according to the natural expenditure classification. Indirect expenses are allocated based on time and effort.

- **Debt Issuance Costs**

The Organization capitalizes certain expenses associated with obtaining new debt. Amortization is calculated using straight-line method over seven years, which is not materially different from using effective interest method over the term of the note payable. Deferred issuance costs are included as a component of long-term debt in the accompanying consolidated statements of financial position. Amortization of deferred issuances costs is included as a component of capitalized interest expense in the accompanying consolidated statements of financial position.

- ***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 2018 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 the Organization's consolidated financial statements for the year ended June 30, 2018, from which the summarized information was derived.

- ***Reclassifications***

Certain accounts and amounts reported in the 2018 consolidated financial statements have been reclassified to conform to the 2019 consolidated financial statement presentation. The reclassification had no effect on the change in the net assets for 2018.

- ***Income Taxes***

BFC and Bread are nonprofit corporations under Section 501(c)(3) of the Internal Revenue Service and is generally exempt from federal, state and local income taxes. As of June 30, 2019, management has assessed its various tax positions and had no unrecognized tax positions or uncertain tax positions requiring accrual. Therefore, no provision for income taxes has been provided in the consolidated financial statements. The Organization has filed all applicable tax returns Form 990s, which are subject to examination by the Internal Revenue Service, generally three years after they are filed.

- ***Adoption of Accounting Pronouncement***

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard amends the current reporting model for nonprofit organizations and enhances their required disclosures. Some of the major changes that impact the Organization's financial statements include requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions"; requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources; and modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements.

Implementation of ASU No. 2016-4 did not require restatement of any opening balances related to the prior period presented. The Organization's net assets previously reported as temporarily restricted and permanently restricted are now reported as net assets with donor restrictions. Similarly, the Organization's net assets previously reported as unrestricted are now reported as net assets without donor restrictions.

- ***New Accounting Pronouncements***

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 the Organization. The standard is effective for fiscal years beginning after December 15, 2018 (FY 2020 for the Organization). The Organization is evaluating the impact this will have on the financial statements.

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

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 the Organization). The Organization is evaluating the impact this will have on the financial statements.

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, 2020 (FY 2022 for the Organization). The Organization is evaluating the impact that this standard will have on the financial statements.

NOTE 2 RESTRICTED CASH

As of June 30, 2019, restricted cash is composed of the following:

Endowment	<u>\$ 151,072</u>
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NOTE 3 PLEDGES, CONTRACTS AND GRANTS RECEIVABLES

Pledges, contracts and grants receivables as of June 30, 2019, are as follows:

Within One Year	\$ 1,396,199
One to Five Years	<u>4,431,028</u>
Gross Receivables	5,827,227
Less: Discount on Receivables	(44,897)
Allowance for Doubtful Accounts	<u>(32,387)</u>
Receivables, net	<u>\$ 5,749,943</u>

NOTE 4 BUILDING, PROPERTY AND EQUIPMENT

The Organization held the following fixed assets as of June 30, 2019:

Land	\$ 3,372,166
Building and Improvements	9,427,625
Furniture and Equipment	2,376,659
Vehicles	247,572
Construction in Progress	<u>5,250,507</u>
Total Property and Equipment	20,674,529
Less: Accumulated Depreciation	<u>(4,749,831)</u>
Property and Equipment, net	<u>\$ 15,924,698</u>

During the year ended June 30, 2019, the Organization recorded depreciation of \$340,509.

NOTE 5 DONOR RESTRICTED NET ASSETS

As of June 30, 2019, the donor restricted net assets of the Organization are available for the following programs or purposes:

<u>Program Release</u>	
Capital Campaign	\$ 5,073,358
Medical Services	227,471
Endowment	151,072
Food Program	9,307
Other	16,915
<u>Time Release</u>	
Legal	1,060,000
Total Donor Restricted Net Assets	<u>\$ 6,538,123</u>

NOTE 6 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 donor 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.

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 net assets without donor restrictions. Any income earned on the endowment funds is used for general operations.

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2019:

Endowment Net Assets, Beginning of the Year	\$ 140,736
Contributions	10,336
Endowment Net Assets, End of the Year	<u>\$ 151,072</u>

NOTE 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, 2019, the Organization has approximately \$22.9 million that exceeded the maximum limit insured by the FDIC. However, the Organization has not experienced any losses in such accounts.

The Organization grants credit without collateral to patients, most of who are area residents. The mix of net patient accounts receivable from patient services and third-party payers approximates:

Medicaid	96%
Medicare	2%
Other	2%
Total	<u>100%</u>

Economic Concentration

Approximately 84% of the Organization's support and revenue for the year ended June 30, 2019 was derived from contributions, contracts and grants. The Organization has no reason to believe that relationships with contributors and grantors will discontinue in the foreseeable future. However, as a result of the COVID-19 outbreak in the United States, economic uncertainties have arisen which may negatively impact these relationships in future periods.

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, 2019, 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 8 NOTES PAYABLE AND RECEIVABLE

Promissory and Other Notes

On November 20, 2018, Bread for the City, Inc. (BFC) received a bridge loan from City First Bank of D.C., N.A. in the amount of \$5,000,000. The loan is to fund the expansion of the Southeast facility of BFC. Interest at 4.34% is due on a monthly basis, with principal payments allowed to be made at any time during the loan period. The loan is secured by leasehold interest in the property. The loan matures November 20, 2023. As of June 30, 2019 the balance of the loan totaled \$2,242,096. During fiscal year 2019, interest expense related to the loan and capitalized in fixed assets in the statement of financial position totaled \$93,537.

On November 20, 2018, Bread for the City, Inc. (BFC) received a permanent loan from City First Bank of D.C., N.A. in the amount of \$6,000,000. The loan is to fund the expansion of the Southeast facility of BFC. Interest at 4.75% is due on a monthly basis. The loan is secured by leasehold interest in the property. The loan matures and is due in full on November 20, 2025. During fiscal year 2019, interest expense related to the loan and capitalized in fixed assets in the statement of financial position totaled \$179,392.

On January 3, 2019, Bread for the City, Inc. (BFC) received a loan from the D.C. Department of Housing and Community Development in the amount of \$3,600,000. The loan is to fund the construction, acquisition, or preconstruction costs of the Southeast facility of BFC. The note is secured by leasehold interest in the property and pledge of the borrower's rights in the leverage loan. The term of the loan is ten years from the date that construction is completed and does not accrue any interest. Loan repayment is not required and beginning the first year after construction is completed or upon notification of a certificate of occupancy a portion of the will be forgiven. Each year, upon the anniversary of the receipt of the certificate of occupancy, 1/10th of the loan amount will be forgiven until 100% of the loan is forgiven.

New Market Financing

In November 2018, Bread Inc. entered into a debt transaction to obtain funding for the expansion of the BFC Southeast facility through the New Markets Tax Credit (NMTC) Program. The NMTC Program allows taxpayers to claim federal tax credits for making Qualified Equity Investments (QEI) in a designated Community Development Entity (CDE). The tax credits are claimed over a seven-year period and equal 39% of the QLICs. The NMTC obtained various notes totaling \$23,720,350 from two lenders through City First Bank of D.C. The notes are secured by all of the assets of the NMTC. The CDE must use substantially all the proceeds to make Qualified Low-Income Community Investments (QLICs).

City First Capital 54, LLC (CF) established four promissory notes which total \$9,170,350: a) the first note payable (CF A-1), has an original principal balance of \$2,377,392 and bears interest at 2.308% per annum. The note matures on November 20, 2025 and requires quarterly interest only payments through maturity.; b) the second note payable (CF A-2), has an original principal balance of \$2,546,524 and bears interest at 2.308% per annum. The note matures on December 31, 2052 and requires quarterly interest only payments through maturity.; c) the third note payable (CF A-3), has an original principal balance of \$1,426,435 and bears interest at 2.308% per annum. The note matures on December 31, 2052 and requires quarterly interest only payments through maturity.; and d) the third note payable (CF A-4), has an original principal balance of \$2,819,999 and bears interest at 2.308% per annum. The note matures on December 31, 2052 and requires quarterly interest only payments through maturity. During fiscal year 2019, interest expense related to these loans and capitalized in fixed assets in the statement of financial position totaled \$129,931.

Community Urban Revitalization XII LLC also established four promissory notes which total \$14,550,000: a) the first note payable (A-1), has an original principal balance of \$3,622,608 and bears interest at 2.308% per annum. The note matures on November 20, 2025 and requires quarterly interest only payments through maturity.; b) the second note payable (A-2), has an original principal balance of \$3,880,327 and bears interest at 2.308% per annum. The note matures on December 31, 2052 and requires quarterly interest only payments through maturity.; c) the third note payable (A-3), has an original principal balance of \$2,173,565 and bears interest at 2.308% per annum. The note matures on December 31, 2052 and requires quarterly interest only payments through maturity.; and d) the third note payable (A-4), has an original principal balance of \$4,873,500 and bears interest at 2.308% per annum. The note matures on December 31, 2052 and requires quarterly interest only payments through maturity. During fiscal year 2019, interest expense related to these loans and capitalized in fixed assets in the statement of financial position totaled \$206,152.

Note Receivable

A loan receivable is held by Bread for the City Investment Fund, LLC (the Fund), a non-related entity, for \$16,026,851 in conjunction with the creation of the NMTC, as part of the Organization's new market tax credit financing for the QLICI notes. The loan receivable held by the Fund is payable in interest only and compounds annually at an interest rate of 2.80%. The loan receivable balance is due November 30, 2026. Interest income incurred and paid by the Fund during fiscal year ended June 30, 2019 totaled \$275,484.

The note agreements also have various financial and negative covenants, including certain reporting requirements. As of June 30, 2019, the Organization was not in compliance with the financial reporting requirements.

Receivables and long-term liabilities on the consolidated statement of financial position as of June 30, 2019 are as follows:

Notes Receivable:

New Markets Loan Fund	\$ 16,026,851
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Notes Payable:

Bridge Loan	\$ 2,242,096
Permanent Loan	6,000,000
DHCD Loan	3,600,000
QLICI Loan A	9,170,350
QLICI Loan B	14,550,000
	35,562,446
Less: Debt Issuance Costs	(401,310)
	\$ 35,161,136

Minimum annual payments are as follows:

Year	Debt Principals	Less: Debt		Total
		Issuance	Costs	
2020	\$ -	\$ 62,542	\$ (62,542)	
2021	-	62,542	(62,542)	
2022	-	62,542	(62,542)	
2023	-	62,542	(62,542)	
2024	2,242,096	62,542	2,179,554	
Thereafter	33,320,350	88,600	33,231,750	
Total	\$ 35,562,446	\$ 338,768	\$ 35,223,678	

There were no current principal debt payments due as of June 30, 2019.

NOTE 9 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 was payable in full on January 6, 2019. The agreement called for monthly payments of accrued interest beginning February 6, 2017. The loan, which was closed out during fiscal year 2019 was collateralized by BFC Southeast land, buildings and improvements. Interest and fees incurred during FY2019 on the loan totaling \$48,285 was capitalized as a part of fixed assets.

NOTE 10 NET PATIENT SERVICE REVENUE

The Organization has agreements with third-party payers which provide reimbursement at prospectively determined rates based on clinical diagnostic and other factors. A summary of the basis for reimbursement with major third-party payers is as follows:

- ... Medicaid: The Organization is paid for patient services rendered at its medical and dental clinics to Medicaid program beneficiaries under contractual agreements with third-party Medicaid managed care organizations. The Organization is also paid supplement wraparound reimbursement under the program by the Government of the District of Columbia on a per encounter basis according to a cost-based reimbursement system.
- ... Medicare: The Organization is paid for patient services rendered to Medicare beneficiaries under contractual agreements with third-party Medicare Advantage plans. For the year ended June 30, 2019,
- ... Other: The Organization is paid for patient services rendered to beneficiaries with certain commercial insurance carriers and preferred provider organizations. The basis for payment includes prospectively determined rates per unit of service and discounts from established charges.

Approximately 95% of net patient service fees for the year ended June 30, 2019 is from participation in the Medicaid and Medicare programs.

The Organization's patient service fees approximated 14% of total support and revenues for the year ended June 30, 2019.

NOTE 11 IN-KIND CONTRIBUTIONS

The Organization receives various in-kind services and donated goods. For the year ended June 30, 2019, in-kind contributions revenue consisted of the following:

Legal	\$ 2,784,905
Medical Services and Supplies	24,894
Food	702,060
Clothing	146,000
Other	11,289
Total In-Kind Contributions	<u>\$ 3,669,148</u>

NOTE 12 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, 2019, The Organization made a discretionary contribution to the Plan of \$161,567, of which \$148,891 is included in accounts payable and accrued expenses as of June 30, 2019.

NOTE 13 LIQUIDITY AND FUNDS AVAILABILITY

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments.

Financial assets available for general expenditures, such as operating expenses and scheduled principal payments, within one year of the financial position date consisted of the following: (use exact name and delete other items – one total)

Total financial assets at year-end as of June 30, 2019:	
Cash and cash equivalents	\$ 4,333,976
Pledges, Grants and Contracts Receivable	1,363,812
Patient Accounts Receivable, net	677,029
Other Receivables	59,371
Other Current Assets	<u>192,502</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>6,626,690</u>
Less amounts unavailable for general expenditures within one year:	
Pledges, Grants and Contracts Receivable with purpose restrictions	(336,242)
Prepaid Assets	(187,013)
Other Receivables with restrictions	<u>(29,758)</u>
Total amounts not available to be used within one year	<u>(553,013)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,073,677</u>

Financial assets are considered unavailable when not liquid or convertible to cash within one year and contractual or donor-imposed restrictions limiting their use.

NOTE 14 CONTINGENCIES

Medicare and Medicaid

The Organization receives reimbursement from the Medicare and Medicaid programs. The laws and regulations governing the programs are complex and subject to interpretation. Both programs are subject to audits by federal and state governments. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term. The Organization, however, believes that it is in compliance with all applicable laws and regulations.

Medical Malpractice Claims

The U.S. Department of Health and Human Services has deemed the Organization, and its practicing physicians covered under the Federal Tort Claims Act (FTCA) for damage for personal injury, including death, resulting from the performance of medical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap.

Other

The financial records supporting transactions related to the Organization's agreements with the local and federal governments are subject to audit by other auditors representing the governments. The Organization believes that adjustments, if any, as a result of such audits will not have a material effect on its financial position. As such, no other provision for reimbursement has been made in the accompanying financial statements

Litigation

Management asserts that there are no known material claims, suits, or complaints filed or pending against the Organization. In the opinion of management, all other matters which are asserted or unasserted are without merit and would not have a significant effect upon the financial position or results of the operations of the Organization, if they were disposed of unfavorably.

NOTE 15 SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 18, 2020, which is the date the financial statements were available to be issued. As a result of the COVID-19 outbreak in the United States, economic uncertainties have arisen which may negatively impact our operating results in the upcoming year. At this point in time, the related duration and financial impact cannot be reasonably estimated.

There were no other subsequent events that require recognition or disclosure in the consolidated financial statements.

**SUPPLEMENTAL CONSOLIDATING
SCHEDULES**

BREAD FOR THE CITY, INC. AND BREAD INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

	<u>BFC</u>	<u>Bread</u>	<u>Eliminations</u>	<u>2019</u>
ASSETS				
<i>Current Assets</i>				
Cash and Cash Equivalents	\$ 3,823,554	\$ 510,422	\$ -	\$ 4,333,976
Pledges, Contracts and Grants Receivables, net	1,363,812	-	-	1,363,812
Patient Services Receivable, net	677,029	-	-	677,029
Other Receivables	59,371	-	-	59,371
Other Assets	192,502	-	-	192,502
Intercompany Assets (Due to)	-	2,963,077	(2,963,077)	-
Funds Held for Others	2,974,157	19,611	-	2,993,768
Total Current Assets	<u>9,090,425</u>	<u>3,493,110</u>	<u>(2,963,077)</u>	<u>9,620,458</u>
<i>Noncurrent Assets</i>				
Pledges, Contracts and Grants Receivable, net of current portion	4,386,131	-	-	4,386,131
Restricted Cash	101,072	50,000	-	151,072
Assets Restricted as to Use	-	16,725,113	-	16,725,113
Notes Receivable	16,026,851	-	-	16,026,851
Deposits	4,845	-	-	4,845
Building, Property and Equipment, net	7,716,350	8,208,348	-	15,924,698
Total Noncurrent Assets	<u>28,235,249</u>	<u>24,963,461</u>	<u>-</u>	<u>53,218,710</u>
Total Assets	<u>\$37,325,674</u>	<u>\$28,476,571</u>	<u>\$ (2,963,077)</u>	<u>\$ 62,839,168</u>
LIABILITIES AND NET ASSETS				
<i>Current Liabilities</i>				
Accounts Payable and Accrued Expenses	\$ 1,849,739	\$ -	\$ -	\$ 1,849,739
Retainage Payable	-	276,560	-	276,560
Funds Held for Others	2,932,596	28,295	-	2,960,891
Intercompany Liabilities (Due From)	2,963,077	-	(2,963,077)	-
Notes and Loan Payable, current portion	-	(62,542)	-	(62,542)
Total Current Liabilities	<u>7,745,412</u>	<u>242,313</u>	<u>(2,963,077)</u>	<u>5,024,648</u>
<i>Long-term Liabilities</i>				
Notes and Loan Payable, net of current portion	11,842,096	23,381,582	-	35,223,678
Total Liabilities	<u>19,587,508</u>	<u>23,623,895</u>	<u>(2,963,077)</u>	<u>40,248,326</u>
<i>Net Assets</i>				
Without Donor Restrictions	11,337,153	4,715,566	-	16,052,719
With Donor Restrictions	6,401,013	137,110	-	6,538,123
Total Net Assets	<u>17,738,166</u>	<u>4,852,676</u>	<u>-</u>	<u>22,590,842</u>
Total Liabilities and Net Assets	<u>\$37,325,674</u>	<u>\$28,476,571</u>	<u>\$ (2,963,077)</u>	<u>\$ 62,839,168</u>

BREAD FOR THE CITY, INC. AND BREAD INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

	BFC			Bread			Eliminations	CONSOLIDATED		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total		Without Donor Restrictions	With Donor Restrictions	Total
Revenue										
Contributions, Contracts and Grants	\$ 6,549,845	\$ 7,930,177	\$ 14,480,022	\$ 4,103,700	\$ -	\$ 4,103,700	\$ (4,104,500)	\$ 6,549,045	\$ 7,930,177	\$ 14,479,222
Patient Service Fees, net	2,375,143	-	2,375,143	-	-	-	-	2,375,143	-	2,375,143
Interest, Dividend and Other Income	372,105	-	372,105	173	-	173	-	372,278	-	372,278
<i>Net Assets Released from Restrictions:</i>	4,958,704	(4,958,704)	-	22,584	(22,584)	-	-	4,981,288	(4,981,288)	-
Total Revenue	14,255,797	2,971,473	17,227,270	4,126,457	(22,584)	4,103,873	(4,104,500)	14,277,754	2,948,889	17,226,643
Expenses										
<i>Program Services:</i>										
Social Services	2,302,340	-	2,302,340	-	-	-	-	2,302,340	-	2,302,340
Medical Services	2,952,008	-	2,952,008	-	-	-	-	2,952,008	-	2,952,008
Food Program	1,760,319	-	1,760,319	-	-	-	-	1,760,319	-	1,760,319
Legal Services	2,114,040	-	2,114,040	-	-	-	-	2,114,040	-	2,114,040
Advocacy and Community Development	415,002	-	415,002	-	-	-	-	415,002	-	415,002
Clothing Program	92,055	-	92,055	-	-	-	-	92,055	-	92,055
Other Expansion Expenses	4,104,500	-	4,104,500	-	-	-	(4,104,500)	-	-	-
Total Program Services	13,740,264	-	13,740,264	-	-	-	(4,104,500)	9,635,764	-	9,635,764
<i>Supporting Services:</i>										
Fundraising	1,254,489	-	1,254,489	7,566	-	7,566	-	1,262,055	-	1,262,055
Administration	365,078	-	365,078	33,494	-	33,494	-	398,572	-	398,572
Total Supporting Services	1,619,567	-	1,619,567	41,060	-	41,060	-	1,660,627	-	1,660,627
Total Expenses	15,359,831	-	15,359,831	41,060	-	41,060	(4,104,500)	11,296,391	-	11,296,391
In-Kind Revenue and Expenses										
In-Kind Contributions	3,669,148	-	3,669,148	-	-	-	-	3,669,148	-	3,669,148
In-Kind Expenses	(3,669,148)	-	(3,669,148)	-	-	-	-	(3,669,148)	-	(3,669,148)
Total In-Kind Revenue and Expenses	-	-	-	-	-	-	-	-	-	-
Excess (Deficit) of Revenue Over Operating Expenses	(1,104,034)	2,971,473	1,867,439	4,085,397	(22,584)	4,062,813	-	2,981,363	2,948,889	5,930,252
Non-Operating Gains (Losses)										
Realized Gain (Loss) on NMTC	-	-	-	-	-	-	-	-	-	-
Total Non-Operating Gains (Losses)	-	-	-	-	-	-	-	-	-	-
Increase (Decrease) in Net Assets	(1,104,034)	2,971,473	1,867,439	4,085,397	(22,584)	4,062,813	-	2,981,363	2,948,889	5,930,252
Net Assets, Beginning of Year	12,441,187	3,429,540	15,870,727	630,169	159,694	789,863	-	13,071,356	3,589,234	16,660,590
Net Assets, End of Year	\$ 11,337,153	\$ 6,401,013	\$ 17,738,166	\$ 4,715,566	\$ 137,110	\$ 4,852,676	\$ -	\$ 16,052,719	\$ 6,538,123	\$ 22,590,842

UNIFORM GUIDANCE



**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

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The Board of Directors
Bread for the City, Inc. and Bread Inc.
Washington, D.C.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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, 2019, 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 and have issued our report thereon dated May 18, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control described in the accompanying schedule of findings and questioned costs as 2019-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Organization Response to Finding

The Organization's response to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Beet Smith & Co.

May 18, 2020
Washington, D.C.



**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE
AS REQUIRED BY THE UNIFORM GUIDANCE**

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Suite 2700
Baltimore, MD 21202

The Board of Directors
Bread for the City, Inc. and Bread Inc.
Washington, D.C.

Report on Compliance for Each Major Federal Program

We have audited the Bread for the City, Inc. and Bread Inc. (collectively referred to as “the Organization”) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization’s major federal programs for the year ended June 30, 2019. The Organization’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about BFC’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization’s compliance.

Opinion on Each Major Federal Program

In our opinion, The Organization complied, in all material respects with, the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Other Matters

We revised the Schedule of Findings and Questioned Costs and performed audit testing on the major federal program for the U.S. Department of Health and Human Services, CFDA Number 93.224 of the accompanying Schedule of Expenditures of Federal Awards for the year ended June 30, 2019. The work was completed on September 28, 2020 which resulted in the dual-dating of our audit report.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Beet Smith & Co.

May 18, 2020, except for testing of additional program described in "Other Matters" above which was completed on September 28, 2020
Washington, D.C.

BREAD FOR THE CITY, INC. AND BREAD INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
<i>Indirect Program: Pass-through Program From:</i>			
D.C. Department of Housing and Community Development – Community Development Block Grant	14.218	2018-25	\$ 3,600,000
Total CDBG Entitlement Grants Cluster			<u>3,600,000</u>
Total U.S. Department of Housing and Community Development			<u>3,600,000</u>
<u>U.S. Department of Health and Human Services</u>			
<i>Direct Program:</i>			
Health Resources and Services Administration – Health Center Program	93.224	N/A	845,423
Total Health Center Program Cluster			<u>845,423</u>
<i>Indirect Program: Pass-through Program From:</i>			
Unity Health Center – Family Planning Services	93.217	-	65,911
Total U.S. Department of Health and Human Services			<u>911,334</u>
<u>Federal Emergency Management Agency (Homeland Security)</u>			
<i>Indirect Program: Pass-through Program From:</i>			
D.C. EFSP Local Board – Emergency Food and Shelter Program	97.024	-	24,415
Total Federal Emergency Management Agency (Homeland Security)			<u>24,415</u>
Total Expenditures of Federal Awards			<u><u>\$ 4,535,749</u></u>

The accompanying notes are an integral part of this Schedule.

BREAD FOR THE CITY, INC. AND BREAD INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the Bread for the City, Inc. and Bread Inc. (collectively referred to as “the Organization”), under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 INDIRECT COST RATE

The Organization has elected not to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

NOTE 4 LOAN AND LOAN GUARANTEES

The Organization received one federal loan during the fiscal year. As of June 30, 2019, the outstanding balance on the loan totaled \$3,600,000.

NOTE 5 RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal awards expenditures are reported on the Statement of Functional Expenses as program services. In certain programs, the expenditures reported in the basic financial statements may differ from the expenditures reported in the Schedule of Expenditures of Federal Awards due to program expenditures exceeding grant or contract budget limitations which are not included as federal awards.

BREAD FOR THE CITY, INC. AND BREAD INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes
- Significant deficiency(ies) identified? No
- Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)? No

Identification of Major Federal Programs:

- 14.218 CDBG Entitlement Grants Cluster
- 93.224 Health Center Program Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low risk auditee: No

BREAD FOR THE CITY, INC. AND BREAD INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

Section II: Financial Statement Findings

2019-001

Inadequate Financial Management Controls and Reporting

The Organization management is responsible for ensuring that its accounting records are complete and accurate. The ability to provide reliable financial statements, as well as promoting operational efficiency while encouraging adherence to management procedures, on an annual and interim basis, along with other financial reports needed by management in making business decisions is paramount to the Organization's operations.

It is possible to mitigate most risks by the establishment of an appropriate system of internal controls. Internal controls help safeguard an organization's assets, prevent irregularity and fraud, provide reliable financial statements, as well as promote operational efficiency while encouraging adherence to management policies and procedures.

The Organization continues to have internal control weaknesses related to its review process over account balances with discrepancies, reconciliations not performed timely, and inadequate oversight of personnel and temporary staff. During FY 2019, we noted that a comprehensive process of analyzing account relationships and identifying discrepancies for various transactions and accounts was not performed. We noted incorrect postings of transactions for assets, liabilities, expenses and revenues and numerous journal entries being posted to correct the misstatements. Account relationship analysis provide an effective tool to help ensure the integrity of the balances by capturing erroneous or incorrect transactions prior to being posted in the general ledger. Consequently, the failure to implement effective processes and procedures could increase the risks of misrepresentation, violations of regulations, and misappropriation of funds.

Recommendation:

To help validate the completeness and accuracy of its accounting records, the Organization's management should perform periodic reviews to identify abnormal account balances and account relationship discrepancies to help ensure accuracy and completeness; update its Accounting Policies and Procedures document to strengthen controls over the journal entry review and approval process to ensure that all journal entries are complete, accurate, properly supported and approved prior to posting in the general ledger and to include more specific timelines and details associated with these analyses. In addition, it should ensure that appropriate staff is assigned to complete appropriate analyses and reconciliations.

Views of Responsible Officials:

Going forward the CFO will develop a month end close process with the Finance Team. The month end close process will include reconciliations of all the Balance Sheet accounts, supporting documents and related schedules. CFO will review and sign off on the reconciliations. The Accounting policies and procedures manual will be updated to address specific controls in some areas, timelines and deliverables. BFC previous CFO left in December 2019 and the Finance Team did not get much directions on tasks and expectations until a consultant was hired in February. As a result, analyses and reconciliations were delayed.

BREAD FOR THE CITY, INC. AND BREAD INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

Section IV: Current Year Corrective Action Plan

Audit Ref#	
	Financial Statement Findings
2019-001	<p><i>Inadequate Financial Management Controls and Reporting</i></p> <p><i>Name of Contact Person:</i> Fatou Toure, CFO</p> <p><i>Corrective Action:</i> Going forward the CFO will develop a month end close process with the Finance Team. The month end close process will include reconciliations of all the Balance Sheet accounts, supporting documents and related schedules. CFO will review and sign off on the reconciliations. The Accounting policies and procedures manual will be updated to address specific controls in some areas, timelines and deliverables.</p> <p><i>Proposed Completion Date:</i> New CFO will begin to implement in August 2020.</p>

Contact Person: Fatou Toure
Telephone Number: 202- 386-7601