

BREAD FOR THE CITY, INC. AND BREAD INC.
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017
(With Comparative Totals for June 30, 2016)

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Bread for the City, Inc. and Bread Inc. (collectively referred to as Bread), which comprise the consolidated statement of financial position as of June 30, 2017, 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, 2017, 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

The prior year's summarized comparative information has been derived from Bread's fiscal year 2016 consolidated financial statements. Those statements were audited by other auditors whose report dated November 10, 2016, expressed an unmodified opinion on those consolidated statements.

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.



Washington, D.C.
January 17, 2018

BREAD FOR THE CITY, INC. AND BREAD INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017
(With Comparative Totals for June 30, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and Cash Equivalents	\$ 3,162,060	\$ 2,226,245
Cash – Board Designated	-	2,323,700
Cash – Restricted	129,536	159,181
Receivables, net	3,982,239	2,336,280
Investments	-	15,493
Note Receivable	-	6,340,251
Other Assets	231,081	411,874
Goodwill	105,784	-
Building, Property and Equipment, net	11,201,337	8,379,455
Funds Held for Others	2,780,315	2,397,304
Total Assets	<u><u>\$ 21,592,352</u></u>	<u><u>\$ 24,589,783</u></u>
LIABILITIES AND NET ASSETS		
<i>Liabilities</i>		
Accounts Payable and Accrued Expenses	\$ 1,134,760	\$ 1,256,332
Notes and Loan Payable	2,699,154	6,272,000
Funds Held for Others	2,793,480	2,411,587
Total Liabilities	<u>6,627,394</u>	<u>9,939,919</u>
<i>Net Assets</i>		
Unrestricted	13,787,486	13,079,509
Temporarily Restricted	1,047,936	1,446,077
Permanently Restricted	129,536	124,278
Total Net Assets	<u>14,964,958</u>	<u>14,649,864</u>
Total Liabilities and Net Assets	<u><u>\$ 21,592,352</u></u>	<u><u>\$ 24,589,783</u></u>

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

BREAD FOR THE CITY, INC. AND BREAD INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
(With Comparative Totals for June 30, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017	2016
Revenue					
Contributions, Grants and Contracts	\$ 5,762,286	\$ 4,940,263	\$ 5,258	\$10,707,807	\$ 9,450,289
Medical Fee for Service	1,159,666	-	-	1,159,666	1,125,492
Interest, Dividend and Other Income	127,367	-	-	127,367	324,269
<i>Net Assets Released from Restrictions:</i>					
Satisfaction of Program and Time Restrictions	5,338,404	(5,338,404)	-	-	-
Total Revenue	<u>12,387,723</u>	<u>(398,141)</u>	<u>5,258</u>	<u>11,994,840</u>	<u>10,900,050</u>
Expenses					
<i>Program Services:</i>					
Social Services	2,622,538	-	-	2,622,538	2,579,172
Medical Services	2,701,414	-	-	2,701,414	2,372,345
Food Program	2,172,036	-	-	2,172,036	1,946,016
Legal Services	1,690,512	-	-	1,690,512	1,650,235
Advocacy and Community Development	546,044	-	-	546,044	451,992
Clothing Program	68,324	-	-	68,324	116,384
Total Program Services	<u>9,800,868</u>	<u>-</u>	<u>-</u>	<u>9,800,868</u>	<u>9,116,144</u>
<i>Supporting Services:</i>					
Fundraising	1,290,602	-	-	1,290,602	1,156,149
Administration	588,276	-	-	588,276	517,352
Total Supporting Services	<u>1,878,878</u>	<u>-</u>	<u>-</u>	<u>1,878,878</u>	<u>1,673,501</u>
Total Expenses	<u>11,679,746</u>			<u>11,679,746</u>	<u>10,789,645</u>
In-Kind Revenue and Expenses					
In-Kind Contributions	2,291,478	-	-	2,291,478	3,407,285
In-Kind Expenses	<u>(2,291,478)</u>	<u>-</u>	<u>-</u>	<u>(2,291,478)</u>	<u>(3,407,285)</u>
Total In-Kind Revenue and Expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Change in Net Assets	707,977	(398,141)	5,258	315,094	110,405
Net Assets, Beginning of Year	<u>13,079,509</u>	<u>1,446,077</u>	<u>124,278</u>	<u>14,649,864</u>	<u>14,539,459</u>
Net Assets, End 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>

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, 2017
(With Comparative Totals for 2016)

	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	2017	2016
Personnel and Benefits	\$2,187,312	\$2,060,591	\$ 944,693	\$1,458,788	\$ 436,562	\$ 60,184	\$ 7,148,130	\$ 669,551	\$ 351,212	\$ 1,020,763	\$ 8,168,893	\$ 7,624,308
Food	-	-	962,290	-	-	-	962,290	-	-	-	962,290	782,403
Occupancy	190,747	172,359	137,729	127,456	48,694	4,415	681,400	72,274	129,874	202,148	883,548	833,236
Depreciation and Amortization	83,965	110,895	34,438	54,447	16,442	2,358	302,545	24,732	47,577	72,309	374,854	384,000
Donor Appeals and Special Events	-	-	-	-	4,000	-	4,000	416,456	13,613	430,069	434,069	351,429
Other	69,517	103,285	39,941	32,390	8,997	753	254,883	104,779	43,129	147,908	402,791	343,113
Consulting	85,800	40,361	50,572	14,100	30,356	465	221,654	1,456	-	1,456	223,110	214,269
Medical	-	209,284	-	-	-	-	209,284	-	-	-	209,284	194,091
Interest Expense	5,197	4,639	2,373	3,331	993	149	16,682	1,354	2,871	4,225	20,907	62,796
Subtotal	2,622,538	2,701,414	2,172,036	1,690,512	546,044	68,324	9,800,868	1,290,602	588,276	1,878,878	11,679,746	10,789,645
In-Kind Expense	-	46,078	1,254,056	893,109	-	68,756	2,261,999	-	29,479	29,479	2,291,478	3,407,285
Total Expenses	\$2,622,538	\$2,747,492	\$3,426,092	\$2,583,621	\$ 546,044	\$137,080	\$12,062,867	\$ 1,290,602	\$ 617,755	\$ 1,908,357	\$ 13,971,224	\$ 14,196,930

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, 2017
(With Comparative Totals for June 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 315,094	\$ 110,405
<i>Adjustments to Reconcile Changes in Net Assets</i> <i>to Net Cash Provided by (Used in) Operating Activities:</i>		
Depreciation and Amortization	374,854	384,000
Interest Compounded on Notes Receivable	(99,470)	(283,062)
Eliminated Interest Accrued on NMTC Loan	67,598	-
Bad Debt Expense	25,547	15,605
<i>Changes in Assets and Liabilities:</i>		
(Increase) Decrease in Receivables	(1,671,506)	(897,644)
(Increase) Decrease in Donated Investments	15,493	(15,493)
(Increase) Decrease in Other Assets	(202,218)	171,064
(Decrease) Increase in Accounts Payable and Accrued Expenses	(121,572)	209,395
Increase (Decrease) in Other Liabilities	381,893	(261,988)
Net Cash Used in Operating Activities	<u>(914,287)</u>	<u>(567,718)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Principal Received on Notes Receivable	-	68,254
Acquisition of Bread Investment Fund Interest	(5,661)	-
Purchase of Fixed Assets	(3,196,736)	(410,066)
Net Cash Used in Investing Activities	<u>(3,202,397)</u>	<u>(341,812)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on Notes Payable	2,700,000	-
Repayment on Notes Payable	(846)	(6,694)
Net Cash Provided by (Used in) Financing Activities	<u>2,699,154</u>	<u>(6,694)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,417,530)	(916,224)
Cash and Cash Equivalents – Beginning of Year	4,709,126	5,625,350
Cash and Cash Equivalents – End of Year	<u>\$ 3,291,596</u>	<u>\$ 4,709,126</u>
Supplemental Data		
Cash Paid for Interest	<u>\$ 57,122</u>	<u>\$ 62,796</u>
Noncash Transaction – Goodwill	<u>\$ 100,123</u>	<u>\$ -</u>
<i>Reconciliation of Cash and Cash Equivalents:</i>		
Cash and Cash Equivalents	\$ 3,162,060	\$ 2,226,245
Cash – Board Designated	-	2,323,700
Cash – Restricted	129,536	159,181
Total Cash and Cash Equivalents	<u>\$ 3,291,596</u>	<u>\$ 4,709,126</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, 2017

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, 2017, 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 7,901 unique households, representing 38,652 times people were fed, while the medical, dental, vision and behavioral health clinics had 14,569 patient visits. Social workers and case managers conducted 938 total client visits related to housing assistance, accessing public benefits and managing finances. BFC's legal services program performed 688 intakes in legal matters, closing 203 cases for full representation in matters of housing, family and public benefit law.

For the year ended June 30, 2017, 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 10,951 unique households, representing 48,829 times people were fed. Social workers and case managers conducted 8,883 total client visits related to housing assistance, women's wellness, employment training and accessing public benefits. BFC's legal services program performed 466 intakes in legal matters, closing 122 cases for full representation in matters of housing, family and public benefit law.

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

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

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 8 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). 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 a loan reserve established for payment of the servicing fee in compliance with the notes payable agreement and 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, 2017, no loss of funds had been experienced.

- ***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, 2017, pledges and grants receivable were \$3,153,491 (gross of the allowance) and accounts receivable were \$923,025. The allowance of \$94,277 for the year ended June 30, 2017, 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. To date, there have been no such losses.

- ***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 2016 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, 2016, from which the summarized information was derived.

- **Reclassifications**

Certain accounts and amounts reported in the 2016 consolidated financial statements have been reclassified to conform to the 2017 consolidated financial statement presentation. The reclassification had no effect on the change in the net assets for 2016.

- **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 (2019 for Bread), with early application permitted. 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, 2017 for mainly public entities. All other entities should apply guidance to annual reporting periods beginning after December 15, 2018. Early adoption is not permitted. Bread is evaluating the impact this will have on the financial statements beginning in fiscal year 2020.

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 public entities for fiscal years beginning after December 15, 2017, and for all other entities (including nonprofits), for fiscal years beginning after December 15, 2018. Early adoption is permitted. These amendments in this Update should be applied retrospectively. Bread is evaluating the impact this will have on the financial statements beginning in fiscal year 2020.

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

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

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 (fiscal year 2021 for Bread), with early application permitted. Bread is evaluating the impact that this standard will have on the financial statements.

NOTE 2 CASH - RESTRICTED

As of June 30, 2017, restricted cash is composed of the following:

Endowment Fund	<u>\$ 129,536</u>
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NOTE 3 RECEIVABLES

Receivables, as of June 30, 2017, are due as follows:

	2017
Within One Year	<u>\$3,192,236</u>
Two to Four Years	<u>884,280</u>
Gross Receivables	<u>4,076,516</u>
Less: Allowance for Doubtful Accounts	<u>(94,277)</u>
Receivables, net	<u><u>\$3,982,239</u></u>

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

NOTE 4 BUILDING, PROPERTY AND EQUIPMENT

Bread held the following fixed assets as of June 30, 2017:

	2017
Land	<u>\$ 3,372,166</u>
Building and Improvements	<u>9,490,114</u>
Furniture and Equipment	<u>2,141,530</u>
Vehicles	<u>247,572</u>
Total Property and Equipment	<u>15,251,382</u>
Less: Accumulated Depreciation and Amortization	<u>(4,050,045)</u>
Property and Equipment, net	<u><u>\$ 11,201,337</u></u>

During the year ended June 30, 2017, Bread recorded depreciation and amortization of \$374,854.

NOTE 5 TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2017, the temporarily restricted net assets of the Organization are available for the following programs or purposes:

	<u>2017</u>
General Support of the Organization for Use in Future Years	\$ 150
Social Services	119,286
Medical Services	857,204
Food Program	71,296
Total Temporarily Restricted Net Assets	<u>\$ 1,047,936</u>

NOTE 6 PERMANENTLY RESTRICTED NET ASSETS

The Organization has an endowment fund that consists of permanently restricted contributions. As of June 30, 2017, total endowment fund net assets were \$129,536 and are included in restricted cash in the accompanying consolidated statement of financial position. Any income earned on permanently restricted funds is used for general operations.

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, 2017, the Organization has approximately \$6.1 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, 2017, with automatic one-year extensions, unless the Organization terminates the agreement for cause. This agreement was automatically renewed through June 30, 2018 during fiscal year 2017. 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

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, 2017 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 is included in Goodwill of \$105,784 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. The loans and related interest have been eliminated or discharged during fiscal year 2017 consolidation.

BFC's loan payable consists of two parts, Loan A and Loan B, both of which have an interest rate of 1.00% simple interest. Loan A is payable annually over nine years on October 10 of each year. Interest-only payments are due for the first six payments. Beginning with the seventh payment, which was amended to allow for a due date of December 10, 2016, through the ninth payment, BFC would have made three annual principal and interest payments. The principal and interest payment owed during the year ending June 30, 2017 is \$2,062,283. However, as a result of the aforementioned unwind, Bread determined the intercompany payment to be unnecessary. Loan A has a balance of \$5,998,688 as of June 30, 2017, and has a maturity date of October 10, 2018 and loan B has a balance of \$273,312 as of June 30, 2017, and has a maturity date of October 10, 2039. It is expected that Bread will discharge both intercompany notes in 2018. As collateral, BFC has pledged the Northwest land, Northwest building and improvements and servicing fee accounts having a combined book value of \$4,874,736 as of June 30, 2017. During fiscal year ended June 30, 2017, BFC accrued interest totaling \$67,598 related to this note.

The loan agreement also has various financial and negative covenants, including certain reporting requirements. As of June 30, 2017, Bread was not compliance with compliance with two covenants: the submission of the financial statements within 150 days of year end and liquidity - cash balance at year-end of \$3.5m. The bank provided a waiver related to the liquidity covenant for 2017.

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 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, which a book value of approximately \$3,889,000. Interest and fees incurred on the loan during fiscal year 2017 totaling \$44,088 was capitalized as a part of fixed assets. At June 30, 2017, 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.

NOTE 10 IN-KIND CONTRIBUTIONS

Bread receives various in-kind services and donated goods. For the year ended June 30, 2017, in-kind contributions revenue consisted of the following:

	<u>2017</u>
Legal	\$ 893,109
Medical Services and Supplies	46,078
Food	1,254,056
Clothing	68,756
Other	29,479
Total In-Kind Contributions	<u>\$ 2,291,478</u>

NOTE 11 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, 2017, Bread made a discretionary contribution to the Plan of \$141,512, of which \$131,275 is included in accounts payable and accrued expenses as of June 30, 2017.

NOTE 12 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, 2017, 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, 2017, 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, 2017, the statute of limitations for tax years ended June 30, 2014, through June 30, 2016, remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which Bread files tax returns.

NOTE 13 SUBSEQUENT EVENTS

In preparing the consolidated financial statements, Bread has evaluated events and transactions for potential recognition or disclosure through January 17, 2018, 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, 2017

	BFC	Bread Inc.	BI Fund	Eliminations	2017
ASSETS					
Cash and Cash Equivalents	\$ 2,743,315	\$ 418,745	\$ -	\$ -	\$ 3,162,060
Cash – Restricted	64,194	65,342	-	-	129,536
Receivables, net	3,982,239	-	-	-	3,982,239
Notes Receivable	-	6,439,721	6,272,000	(12,711,721)	-
Other Assets	231,081	-	67,598	(67,598)	231,081
Intercompany Assets (Due from)	-	398,116	-	(398,116)	-
Goodwill	-	-	105,784	-	105,784
Building, Property and Equipment, net	11,201,337	-	-	-	11,201,337
Funds Held for Others	2,752,020	28,295	-	-	2,780,315
Total Assets	<u>\$20,974,186</u>	<u>\$7,350,219</u>	<u>\$6,445,382</u>	<u>\$(13,177,435)</u>	<u>\$21,592,352</u>
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts Payable and Accrued Expenses	\$ 1,202,358	\$ -	\$ -	\$ (67,598)	\$1,134,760
Intercompany Liabilities (Due to)	392,455	-	5,661	(398,116)	-
Notes and Loan Payable	8,971,154	-	6,439,721	(12,711,721)	2,699,154
Funds Held for Others	2,765,185	28,295	-	-	2,793,480
Total Liabilities	<u>13,331,152</u>	<u>28,295</u>	<u>6,445,382</u>	<u>(13,177,435)</u>	<u>6,627,394</u>
Net Assets					
Unrestricted	6,679,791	7,107,695	-	-	13,787,486
Temporarily Restricted	883,707	164,229	-	-	1,047,936
Permanently Restricted	79,536	50,000	-	-	129,536
Total Net Assets	<u>7,643,034</u>	<u>7,321,924</u>	<u>-</u>	<u>-</u>	<u>14,964,958</u>
Total Liabilities and Net Assets	<u>\$20,974,186</u>	<u>\$7,350,219</u>	<u>\$6,445,382</u>	<u>\$(13,177,435)</u>	<u>\$21,592,352</u>

BREAD FOR THE CITY, INC. AND BREAD INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	BFC				Bread Inc.					CONSOLIDATE			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Eliminations	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue													
Contributions, Grants and Contracts	\$ 6,769,286	\$ 4,940,263	\$ 5,258	\$ 11,714,807	\$ -	\$ -	\$ -	\$ -	\$ (1,007,000)	\$ 5,762,286	\$ 4,940,263	\$ 5,258	\$ 10,707,807
Medical Fee for Service	1,159,666	-	-	1,159,666	-	-	-	-	-	1,159,666	-	-	1,159,666
Interest, Dividend and Other Income	22,957	-	-	22,957	104,410	-	-	104,410	-	127,367	-	-	127,367
<i>Net Assets Released form Restrictions:</i>													
Satisfaction of Program and Time Restrictions	5,258,690	(5,258,690)	-	-	79,714	(79,714)	-	-	-	5,338,404	(5,338,404)	-	-
Total Revenue	13,210,599	(318,427)	5,258	12,897,430	184,124	(79,714)	-	104,410	(1,007,000)	12,387,723	(398,141)	5,258	11,994,840
Expenses													
<i>Program Services:</i>													
Social Services	2,622,538	-	-	2,622,538	-	-	-	-	-	2,622,538	-	-	2,622,538
Medical Services	2,701,414	-	-	2,701,414	-	-	-	-	-	2,701,414	-	-	2,701,414
Food Program	2,172,036	-	-	2,172,036	-	-	-	-	-	2,172,036	-	-	2,172,036
Legal Services	1,690,512	-	-	1,690,512	-	-	-	-	-	1,690,512	-	-	1,690,512
Advocacy and Community Development	546,044	-	-	546,044	-	-	-	-	-	546,044	-	-	546,044
Clothing Program	68,324	-	-	68,324	-	-	-	-	-	68,324	-	-	68,324
Other Grant Expenses	-	-	-	-	1,007,000	-	-	1,007,000	(1,007,000)	-	-	-	-
Total Program Services	9,800,868	-	-	9,800,868	1,007,000	-	-	1,007,000	(1,007,000)	9,800,868	-	-	9,800,868
<i>Supporting Services:</i>													
Fundraising	1,276,728	-	-	1,276,728	13,874	-	-	13,874	-	1,290,602	-	-	1,290,602
Administration	561,128	-	-	561,128	27,148	-	-	27,148	-	588,276	-	-	588,276
Total Supporting Services	1,837,856	-	-	1,837,856	41,022	-	-	41,022	-	1,878,878	-	-	1,878,878
Total Expenses	11,638,724	-	-	11,638,724	1,048,022	-	-	1,048,022	(1,007,000)	11,679,746	-	-	11,679,746
In-Kind Revenue and Expenses													
In-Kind Contributions	2,279,292	-	-	2,279,292	12,186	-	-	12,186	-	2,291,478	-	-	2,291,478
In-Kind Expenses	(2,279,292)	-	-	(2,279,292)	(12,186)	-	-	(12,186)	-	(2,291,478)	-	-	(2,291,478)
Total In-Kind Revenue and Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-
Increase (Decrease) in Net Assets	1,571,875	(318,427)	5,258	1,258,705	(863,898)	(79,714)	-	(943,612)	-	707,977	(398,141)	5,258	315,094
Net Assets, Beginning of Year	5,107,916	1,202,134	74,278	6,384,328	7,971,593	243,943	50,000	8,265,536	-	13,079,509	1,446,077	124,278	14,649,864
Net Assets, End 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>