



PROJECT BREAD - THE WALK FOR HUNGER, INC. AND AFFILIATE

**COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

PROJECT BREAD - THE WALK FOR HUNGER, INC. AND AFFILIATE

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September 30, 2017 and 2016

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Independent Auditor's Report

To the Board of Directors of
Project Bread - The Walk for Hunger, Inc. and Affiliate:

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Project Bread - The Walk for Hunger, Inc. (a Massachusetts corporation, not for profit) and Affiliate (a Massachusetts limited liability company) (collectively, Project Bread) which comprise the combined statement of financial position as of September 30, 2017, and the related combined statements of activities and changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

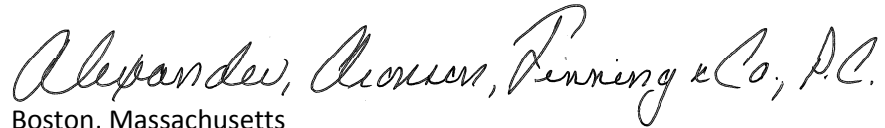
In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Project Bread - The Walk for Hunger, Inc. and Affiliate as of September 30, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters - Predecessor Auditor

The combined financial statements of Project Bread - The Walk for Hunger, Inc. and Affiliate as of September 30, 2016, were audited by other auditors whose report dated February 13, 2017, expressed an unmodified opinion on those statements.

Emphasis of a Matter

During fiscal year 2017, Project Bread - The Walk for Hunger, Inc. and Affiliate adopted Accounting Standards Update No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which modifies the classification of debt issuance costs on the combined statement of financial position. Our opinion is not modified with respect to this matter.


Boston, Massachusetts
December 19, 2017

PROJECT BREAD - THE WALK FOR HUNGER, INC. AND AFFILIATE

Combined Statements of Financial Position
September 30, 2017 and 2016

Assets	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Assets						
Current Assets:						
Cash	\$ 1,782,901	\$ 100,000	\$ 1,882,901	\$ 2,068,187	\$ 101,479	\$ 2,169,666
Accounts receivable	186,678	-	186,678	169,677	-	169,677
Prepaid expenses and other	65,829	-	65,829	105,971	-	105,971
Total current assets	2,035,408	100,000	2,135,408	2,343,835	101,479	2,445,314
Restricted Cash	150,419	-	150,419	150,341	-	150,341
Property and Equipment, net	2,088,832	-	2,088,832	2,220,507	-	2,220,507
Intangible Assets, net	17,884	-	17,884	40,018	-	40,018
Total assets	<u>\$ 4,292,543</u>	<u>\$ 100,000</u>	<u>\$ 4,392,543</u>	<u>\$ 4,754,701</u>	<u>\$ 101,479</u>	<u>\$ 4,856,180</u>
Liabilities and Net Assets						
Current Liabilities:						
Current portion of mortgage note payable	\$ 35,087	\$ -	\$ 35,087	\$ 33,633	\$ -	\$ 33,633
Accounts payable and accrued expenses	239,801	-	239,801	256,732	-	256,732
Total current liabilities	274,888	-	274,888	290,365	-	290,365
Mortgage Note Payable, net	1,252,658	-	1,252,658	1,285,055	-	1,285,055
Total liabilities	<u>1,527,546</u>	<u>-</u>	<u>1,527,546</u>	<u>1,575,420</u>	<u>-</u>	<u>1,575,420</u>
Net Assets:						
Unrestricted:						
Board designated reserve	1,946,026	-	1,946,026	2,237,444	-	2,237,444
Property, equipment and intangible assets	818,971	-	818,971	941,837	-	941,837
Total unrestricted	2,764,997	-	2,764,997	3,179,281	-	3,179,281
Temporarily restricted	-	100,000	100,000	-	101,479	101,479
Total net assets	<u>2,764,997</u>	<u>100,000</u>	<u>2,864,997</u>	<u>3,179,281</u>	<u>101,479</u>	<u>3,280,760</u>
Total liabilities and net assets	<u>\$ 4,292,543</u>	<u>\$ 100,000</u>	<u>\$ 4,392,543</u>	<u>\$ 4,754,701</u>	<u>\$ 101,479</u>	<u>\$ 4,856,180</u>

The accompanying notes are an integral part of these combined statements.

PROJECT BREAD - THE WALK FOR HUNGER, INC. AND AFFILIATE

Combined Statements of Activities and Changes in Net Assets
For the Years Ended September 30, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and Support:						
Contributions	\$ 4,126,631	\$ -	\$ 4,126,631	\$ 4,814,922	\$ -	\$ 4,814,922
Government grants	785,037	-	785,037	925,900	-	925,900
In-kind donations	431,057	-	431,057	448,183	-	448,183
Foundation grants	398,000	-	398,000	362,000	285,501	647,501
Rental income	6,000	-	6,000	1,000	-	1,000
Interest and other income	3,692	-	3,692	151	-	151
Net assets released from restrictions	101,479	(101,479)	-	206,748	(206,748)	-
Total operating revenue and support	<u>5,851,896</u>	<u>(101,479)</u>	<u>5,750,417</u>	<u>6,758,904</u>	<u>78,753</u>	<u>6,837,657</u>
Expenses:						
Program expenses:						
Community Hunger Relief Programs	1,550,593	-	1,550,593	1,524,539	-	1,524,539
Healthy Food for Kids	1,105,538	-	1,105,538	1,506,266	-	1,506,266
Hunger Education and Community Empowerment	1,889,110	-	1,889,110	1,842,183	-	1,842,183
Advocacy	145,518	-	145,518	185,079	-	185,079
Total program expenses	<u>4,690,759</u>	<u>-</u>	<u>4,690,759</u>	<u>5,058,067</u>	<u>-</u>	<u>5,058,067</u>
Supporting services:						
General and administrative	466,610	-	466,610	424,690	-	424,690
Fundraising and development	1,108,811	-	1,108,811	1,178,718	-	1,178,718
Total supporting services	<u>1,575,421</u>	<u>-</u>	<u>1,575,421</u>	<u>1,603,408</u>	<u>-</u>	<u>1,603,408</u>
Total expenses	<u>6,266,180</u>	<u>-</u>	<u>6,266,180</u>	<u>6,661,475</u>	<u>-</u>	<u>6,661,475</u>
Changes in net assets from operations	(414,284)	(101,479)	(515,763)	97,429	78,753	176,182
Non-Operating Revenue:						
Capital contributions	-	100,000	100,000	-	-	-
Changes in net assets from continuing operations	<u>(414,284)</u>	<u>(1,479)</u>	<u>(415,763)</u>	<u>97,429</u>	<u>78,753</u>	<u>176,182</u>
Discontinued Operations:						
Grants and contributions - Mass Farm to School	-	-	-	16,152	-	16,152
Other revenue	-	-	-	419	-	419
Net assets released from restrictions	-	-	-	-	(8,175)	(8,175)
Expenses - Mass Farm to School	-	-	-	(26,009)	-	(26,009)
Changes in net assets from discontinued operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,438)</u>	<u>(8,175)</u>	<u>(17,613)</u>
Changes in net assets	(414,284)	(1,479)	(415,763)	87,991	70,578	158,569
Transfer of net assets of discontinued operations	-	-	-	(45,653)	-	(45,653)
Net Assets:						
Beginning of year	<u>3,179,281</u>	<u>101,479</u>	<u>3,280,760</u>	<u>3,136,943</u>	<u>30,901</u>	<u>3,167,844</u>
End of year	<u>\$ 2,764,997</u>	<u>\$ 100,000</u>	<u>\$ 2,864,997</u>	<u>\$ 3,179,281</u>	<u>\$ 101,479</u>	<u>\$ 3,280,760</u>

The accompanying notes are an integral part of these combined statements.

PROJECT BREAD - THE WALK FOR HUNGER, INC. AND AFFILIATE

Combined Statements of Cash Flows
For the Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ (415,763)	\$ 158,569
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	168,131	166,693
Interest - amortization	1,692	1,692
Capital contributions	(100,000)	-
Changes in operating assets and liabilities:		
Accounts receivable	(17,001)	(24,418)
Accounts receivable - discontinued operations	-	58,162
Prepaid expenses and other	40,142	(34,805)
Accounts payable and accrued expenses	(16,931)	(22,608)
Accounts payable and accrued expenses - discontinued operations	-	(18,996)
	<u>(339,730)</u>	<u>284,289</u>
Net cash provided by (used in) operating activities		
Cash Flows from Investing Activities:		
Purchase of property and equipment	(14,322)	(62,147)
Transfer of cash of discontinued operations	-	(45,653)
	<u>(14,322)</u>	<u>(107,800)</u>
Net cash used in investing activities		
Cash Flows from Financing Activities:		
Principal payments on mortgage note payable	(32,635)	(30,958)
Proceeds from capital contributions	100,000	-
	<u>67,365</u>	<u>(30,958)</u>
Net cash provided by (used in) financing activities		
Net Change in Cash	(286,687)	145,531
Cash:		
Beginning of year	<u>2,320,007</u>	<u>2,174,476</u>
End of year	<u>\$ 2,033,320</u>	<u>\$ 2,320,007</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 62,374</u>	<u>\$ 64,050</u>

PROJECT BREAD - THE WALK FOR HUNGER, INC. AND AFFILIATE

Combined Statement of Functional Expenses

For the Year Ended September 30, 2017

(With Summarized Comparative Totals for the Year Ended September 30, 2016)

	2017					2016				
	Programs				Total Programs	Supporting Services			Total Expenses	
Community Hunger Relief Programs	Healthy Food for Kids	Hunger Education and Community Empowerment	Advocacy	General and Adminis- trative		Fundraising and Development	Total Supporting Services	Total Expenses		
Personnel and Related:										
Salaries	\$ 388,854	\$ 648,549	\$ 402,819	\$ 40,933	\$ 1,481,155	\$ 222,471	\$ 419,771	\$ 642,242	\$ 2,123,397	\$ 2,181,432
Payroll taxes and fringe benefits	91,149	149,104	95,788	14,260	350,301	31,755	94,309	126,064	476,365	509,527
Total personnel and related	480,003	797,653	498,607	55,193	1,831,456	254,226	514,080	768,306	2,599,762	2,690,959
Grants	853,035	-	-	-	853,035	-	-	-	853,035	1,000,495
Other:										
Professional fees	42,195	77,517	336,072	68,084	523,868	77,293	62,176	139,469	663,337	802,641
Advertising	23,161	9,432	456,031	-	488,624	65,482	20,152	85,634	574,258	471,614
Printing and postage	6,924	26,634	86,894	1,591	122,043	849	204,436	205,285	327,328	375,089
Materials and supplies	-	15,454	167,165	250	182,869	2,644	59,017	61,661	244,530	314,909
Facilities	24,547	40,500	99,899	4,331	169,277	9,407	28,395	37,802	207,079	200,406
Communications	48,911	12,655	41,163	1,197	103,926	3,094	99,127	102,221	206,147	196,567
Office	4,513	5,420	89,200	648	99,781	15,301	55,741	71,042	170,823	182,073
Depreciation and amortization	33,482	55,340	33,105	5,766	127,693	6,465	33,973	40,438	168,131	166,693
Travel and transportation	4,180	13,088	49,966	2,927	70,161	20,163	2,088	22,251	92,412	82,211
Computer and office equipment	16,601	26,928	16,203	2,845	62,577	3,955	16,832	20,787	83,364	83,462
Interest	12,257	20,336	12,165	2,157	46,915	3,019	12,440	15,459	62,374	64,050
Conferences and meetings	784	4,581	2,640	529	8,534	3,020	354	3,374	11,908	28,614
Interest - amortization	-	-	-	-	-	1,692	-	1,692	1,692	1,692
Total other	217,555	307,885	1,390,503	90,325	2,006,268	212,384	594,731	807,115	2,813,383	2,970,021
Total expenses	\$ 1,550,593	\$ 1,105,538	\$ 1,889,110	\$ 145,518	\$ 4,690,759	\$ 466,610	\$ 1,108,811	\$ 1,575,421	\$ 6,266,180	\$ 6,661,475

The accompanying notes are an integral part of these combined statements.

PROJECT BREAD - THE WALK FOR HUNGER, INC. AND AFFILIATE

Combined Statement of Functional Expenses
For the Year Ended September 30, 2016

	Programs				Total Programs	Supporting Services			Total Expenses
	Community Hunger Relief Programs	Healthy Food for Kids	Hunger Education and Community Empowerment	Advocacy		General and Administrative	Fundraising and Development	Total Supporting Services	
Personnel and Related:									
Salaries	\$ 413,742	\$ 777,470	\$ 362,773	\$ 74,449	\$ 1,628,434	\$ 90,165	\$ 462,833	\$ 552,998	\$ 2,181,432
Payroll taxes and fringe benefits	97,384	180,211	86,218	17,972	381,785	23,642	104,100	127,742	509,527
Total personnel and related	511,126	957,681	448,991	92,421	2,010,219	113,807	566,933	680,740	2,690,959
Grants	844,500	155,995	-	-	1,000,495	-	-	-	1,000,495
Other:									
Professional fees	43,337	88,865	362,434	69,245	563,881	97,892	140,868	238,760	802,641
Advertising	2,518	27,008	418,966	24	448,516	794	22,304	23,098	471,614
Printing and postage	7,612	36,415	149,271	108	193,406	1,252	180,431	181,683	375,089
Materials and supplies	179	21,666	229,275	6	251,126	3,159	60,624	63,783	314,909
Facilities	24,388	45,813	90,747	4,885	165,833	7,401	27,172	34,573	200,406
Communications	24,849	21,525	40,405	2,386	89,165	5,533	101,869	107,402	196,567
Office	2,948	6,200	3,370	561	13,079	161,149	7,845	168,994	182,073
Depreciation and amortization	31,694	59,420	28,621	6,238	125,973	6,683	34,037	40,720	166,693
Travel and transportation	3,045	23,455	39,635	2,444	68,579	9,375	4,257	13,632	82,211
Computer and office equipment	15,629	29,429	13,712	3,062	61,832	4,518	17,112	21,630	83,462
Interest	12,063	22,621	10,848	2,372	47,904	3,194	12,952	16,146	64,050
Conferences and meetings	651	10,173	5,908	1,327	18,059	8,241	2,314	10,555	28,614
Interest - amortization	-	-	-	-	-	1,692	-	1,692	1,692
Total other	168,913	392,590	1,393,192	92,658	2,047,353	310,883	611,785	922,668	2,970,021
Total expenses	<u>\$ 1,524,539</u>	<u>\$ 1,506,266</u>	<u>\$ 1,842,183</u>	<u>\$ 185,079</u>	<u>\$ 5,058,067</u>	<u>\$ 424,690</u>	<u>\$ 1,178,718</u>	<u>\$ 1,603,408</u>	<u>\$ 6,661,475</u>

PROJECT BREAD - THE WALK FOR HUNGER, INC. AND AFFILIATE

Notes to Combined Financial Statements
September 30, 2017 and 2016

1. OPERATIONS AND NONPROFIT STATUS

Operations

Project Bread - The Walk for Hunger, Inc. (the Agency) was organized in Boston, Massachusetts as a not-for-profit corporation in 1986. The Agency's mission is to alleviate, prevent and end hunger in Massachusetts. Through its campaigns and allocations, the Agency raises funds to support approximately 300 emergency feeding programs, which provide direct assistance to the hungry. The Agency also engages in information and referral, public policy, technical assistance, and educational and outreach programs to help the hungry. The Agency's support and revenue are derived principally from an annual hunger awareness event, The Walk for Hunger, government contracts and individual donor contributions, as well as contributions from corporations and foundations.

During June 2013, the Agency formed Massachusetts Farm to School Project, LLC (MFTS) (a Massachusetts limited liability corporation). The Agency was the sole member of MFTS, which was established to facilitate sustainable purchasing relationships between local institutions and local farms, promote local food and agriculture education for students, and support state, regional and national networking of farm to school practitioners. The MFTS program was previously operated by Mass. F.B. Agricultural Preservation Corp. and was assumed by the Agency in June 2013. During fiscal year 2015, the Agency agreed to discontinue operations of MFTS and transfer its assets, liabilities, and operations to another organization (see Note 12).

Nonprofit Status

The Agency is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Agency is also exempt from state income taxes. Donors may deduct contributions made to the Agency within IRC requirements.

2. SIGNIFICANT ACCOUNTING POLICIES

The Agency prepares its combined financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Principles of Combination

The Agency and MFTS (collectively, Project Bread) are related by common management and control. All intercompany balances and transactions have been eliminated in the combined financial statements. During fiscal year 2016, MFTS's net assets were transferred from MFTS to an unrelated party (see Note 12).

Accounting Principle Adoption

During fiscal year 2017, Project Bread adopted the FASB's Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs be presented on the combined statement of financial position as a direct reduction from the carrying balance of the related mortgage note payable. Previously, Project Bread reflected unamortized debt issuance costs as intangible assets in the accompanying fiscal year 2016 combined statement of financial position, and has retroactively reclassified 2016 amounts in accordance with this ASU. The reclassification reduced total assets and mortgage note payable at September 30, 2016, by \$13,580.

PROJECT BREAD - THE WALK FOR HUNGER, INC. AND AFFILIATE

Notes to Combined Financial Statements
September 30, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Principle Adoption (Continued)

In addition, amortization of debt issuance costs is required to be presented as interest expense in the accompanying combined financial statements. Accordingly, amortization expense totaling \$1,692 for the year ended September 30, 2016, has been reclassified to interest - amortization.

The adoption of this ASU did not impact Project Bread's combined net assets, changes in net assets, or cash flows for the years ended September 30, 2017 and 2016.

Estimates

The preparation of the combined financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

Project Bread considers all highly liquid investments (including restricted cash) originated with a maturity of three months or less to be cash for the purposes of the combined statements of cash flows.

Restricted Cash

Restricted cash represents amounts to be maintained on reserve until Project Bread has demonstrated three consecutive years of compliance with the covenants related to the mortgage note payable (see Note 6).

Accounts Receivable and Allowance for Uncollectible Accounts

Accounts receivable are recorded at the invoiced amount and do not bear interest. An allowance for uncollectible receivables is recorded based on management's analysis of specific accounts and collection history. As of September 30, 2017 and 2016, there was no allowance for uncollectible accounts.

Property and Equipment and Depreciation

Property and equipment with a value of \$2,500 or more and a useful life of greater than one year are recorded at cost, if purchased, or at fair value at the time of donation. Renewals and betterments are capitalized, while repairs and maintenance are expensed as they are incurred (see Note 4). Depreciation is computed using the straight-line method over the following estimated useful lives:

Condominium building and improvements	20 - 40 years
Computer and office equipment	3 - 5 years
Website	5 years
Furniture and fixtures	3 - 10 years

PROJECT BREAD - THE WALK FOR HUNGER, INC. AND AFFILIATE

Notes to Combined Financial Statements
September 30, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets and Amortization

Costs incurred in connection with the rebranding of Project Bread were capitalized and are being amortized over a five-year useful life using the straight-line method (see Note 5).

Unamortized Debt Issuance Costs

Unamortized debt issuance costs are amortized over the period the related obligation is outstanding using the straight-line method, which approximates the effective interest method.

Net Assets

Unrestricted Net Assets are those net resources that bear no external restrictions and are generally available for use by Project Bread. Project Bread has grouped its unrestricted net assets into the following categories:

Board designated reserve - represents a reserve established by the Board of Directors which may be used to fund grants to community-based organizations or for other Project Bread expenses, particularly in the event of a catastrophic fundraising shortfall due to rain storms or other causes on the date of The Walk for Hunger. This reserve is also used for Project Bread's short-term cash flow management.

Property, equipment and intangible assets - reflect the net book value of Project Bread's property, equipment and intangible assets, net of related debt.

Temporarily Restricted Net Assets includes contributions and grants which are designated by donors for specific purposes or for a period of time. These contributions are recorded as temporarily restricted net assets until they are expended for their designated purposes or the related time restriction lapses. The temporarily restricted balance at September 30, 2017, is restricted for capital purposes. The temporarily restricted balance at September 30, 2016, was purpose restricted.

Revenue Recognition

Contributions and foundation grants are recorded as revenue upon receipt or when unconditionally pledged. Project Bread reports grants and contributions of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the assets. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are transferred to unrestricted net assets. Donor restricted grants and contributions received and satisfied in the same period are included in unrestricted net assets.

Government grants are recorded as revenue when the services are performed and the costs are incurred. Interest and all other income are recorded when earned.

In-kind Donations

Volunteers and other organizations contribute substantial amounts of goods and services to Project Bread in support of the annual Walk for Hunger. These goods and services are reflected in the accompanying combined financial statements based upon the estimated value assigned to them by the donating volunteers, agencies, or by management and are included in advertising and materials and supplies in the accompanying combined statements of functional expenses.

PROJECT BREAD - THE WALK FOR HUNGER, INC. AND AFFILIATE

Notes to Combined Financial Statements
September 30, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-kind Donations (Continued)

The value of these goods and services is as follows for the years ended September 30:

	<u>2017</u>	<u>2016</u>
Advertising - Walk for Hunger	\$ 342,550	\$ 314,110
Supplies and materials - Walk for Hunger	84,427	76,379
Services - Walk for Hunger	2,450	57,694
Supplies	<u>1,630</u>	<u>-</u>
	<u>\$ 431,057</u>	<u>\$ 448,183</u>

A substantial number of individual volunteers have donated significant amounts of time to Project Bread's program services and to its fundraising campaigns. No amounts have been recognized in the accompanying combined financial statements since these services performed by Project Bread volunteers do not fall into the criteria established by U.S. GAAP.

Expense Allocation

Expenses related directly to a function are distributed to that function, while other expenses are allocated based upon management's estimate of the percentage attributable to each function.

Advertising

Project Bread expenses advertising costs as they are incurred.

Grant Expense

Grants are recorded when awarded by Project Bread and all conditions of the grant are met by the grantee. Grants are generally paid in the year awarded.

Project Bread awarded the following grants for the years ended September 30:

	<u>2017</u>	<u>2016</u>
Annual grants	\$ 830,535	\$ 894,250
Summer grants	20,000	58,995
Other grants	2,500	11,250
Partnership grants	<u>-</u>	<u>36,000</u>
	<u>\$ 853,035</u>	<u>\$ 1,000,495</u>

Combined Statements of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating revenue and support and expenses in the accompanying combined statements of activities and changes in net assets. Non-operating revenue includes capital contributions.

PROJECT BREAD - THE WALK FOR HUNGER, INC. AND AFFILIATE

Notes to Combined Financial Statements
September 30, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

Project Bread follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that Project Bread would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

Project Bread uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of Project Bread. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. All of Project Bread's qualifying assets and liabilities are valued using Level 1 inputs.

Income Taxes

Project Bread accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the combined financial statements regarding a tax position taken or expected to be taken in a tax return. Project Bread has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the combined financial statements at September 30, 2017 and 2016. Project Bread's information returns are subject to examination by the Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through December 19, 2017, which is the date the combined financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the accompanying combined financial statements.

3. RELATED PARTY TRANSACTIONS

During fiscal year 2017, the spouse of a member of the Board of Directors is on the Board of Directors of a nonprofit organization to which Project Bread granted \$3,000.

PROJECT BREAD - THE WALK FOR HUNGER, INC. AND AFFILIATE

Notes to Combined Financial Statements
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4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of September 30:

	<u>2017</u>	<u>2016</u>
Land	\$ 100,000	\$ 100,000
Condominium building and improvements	3,171,062	3,171,062
Computer and office equipment	418,068	418,068
Website	281,111	266,789
Furniture and fixtures	<u>36,551</u>	<u>36,551</u>
	4,006,792	3,992,470
Less - accumulated depreciation	<u>1,917,960</u>	<u>1,771,963</u>
	<u>\$ 2,088,832</u>	<u>\$ 2,220,507</u>

Depreciation expense was \$145,997 and \$144,554 for the years ended September 30, 2017 and 2016, respectively.

5. INTANGIBLE ASSETS

Intangible assets consist of the following as of September 30:

	<u>2017</u>	<u>2016</u>
Rebranding costs	\$ 110,670	\$ 110,670
Less - accumulated amortization	<u>92,786</u>	<u>70,652</u>
	<u>\$ 17,884</u>	<u>\$ 40,018</u>

Amortization expense was \$22,134 and \$22,139 for the years ended September 30, 2017 and 2016, respectively.

6. MORTGAGE NOTE PAYABLE

Project Bread has a mortgage note payable with a bank. The note is payable in monthly principal and interest installments of \$7,917, based on a twenty-five year amortization schedule, with all outstanding principal and accrued and unpaid interest due in June 2024, the note's maturity. The balloon payment at maturity is approximately \$1,020,000. The interest rate is fixed at 4.67%. The note is secured by a first mortgage on the land and condominium building and all permanent fixtures. There was \$1,299,633 and \$1,332,268 outstanding as of September 30, 2017 and 2016, respectively. The mortgage contains various covenants. Project Bread was not in compliance with these covenants as of September 30, 2017, and obtained a waiver from the bank. Project Bread was in compliance with these covenants as of September 30, 2016. Interest expense was \$62,374 and \$64,050 for the years ended September 30, 2017 and 2016, respectively.

Future minimum note payments under the new agreement described above are as follows:

2018	\$ 35,087
2019	\$ 36,764
2020	\$ 38,518
2021	\$ 40,356
2022	\$ 42,282
Thereafter	\$ 1,106,626

PROJECT BREAD - THE WALK FOR HUNGER, INC. AND AFFILIATE

Notes to Combined Financial Statements
September 30, 2017 and 2016

6. MORTGAGE NOTE PAYABLE (Continued)

Debt issuance costs related to this mortgage note payable totaling \$16,974 are shown net of accumulated interest - amortization of \$5,086 and \$3,394 as of September 30, 2017 and 2016, respectively. Net debt issuance costs are reported on the combined statements of financial position as a direct reduction of the face amount of the related mortgage note payable (see page 7). Amortization of debt issuance costs for the next five years is \$1,692.

7. LINE OF CREDIT

Project Bread maintains a line of credit agreement with a bank. The agreement allows for borrowings of up to \$100,000. Borrowings are payable on demand, bear interest at the bank's base lending rate (4.25% and 3.25% at September 30, 2017 and 2016, respectively) plus 1.00%, and are secured by a second mortgage on Project Bread's condominium. There was no outstanding balance under this line of credit at September 30, 2017 and 2016. This line of credit is renewable annually in June.

8. LEASE AGREEMENTS

Project Bread leases office equipment under an operating lease agreement that expires in July 2019. Payments for this lease totals approximately \$663 per quarter. Project Bread had leased a motor vehicle under an operating lease that called for a total monthly payment of \$344. Project Bread terminated this agreement during fiscal year 2017 and paid an additional fee of \$10,353. Rent expense under these lease agreements was approximately \$17,298 and \$8,839 for the years ended September 30, 2017 and 2016, respectively, and is included in travel and transportation and computer and office equipment in the accompanying combined statements of functional expenses.

Future minimum lease payments under these lease agreements are as follows:

2018	\$ 2,651
2019	\$ 2,651

9. EMPLOYMENT BENEFIT PLANS

Project Bread has a retirement plan under IRC Section 403(b) for all employees. Employees may make voluntary salary contributions into this plan within IRC guidelines. Upon annual approval by the Board of Directors, Project Bread matches one dollar for each dollar contributed by a participant, up to a maximum of \$2,500. Project Bread contributed \$21,988 and \$19,667 to this plan for the years ended September 30, 2017 and 2016, respectively. These amounts are included in payroll taxes and fringe benefits in the accompanying combined statements of functional expenses.

10. MANAGEMENT AGREEMENTS

Project Bread pays a monthly fee of approximately \$5,400 to a condominium association, which is included in facilities in the accompanying combined statements of functional expenses. The fee covers common area maintenance of Project Bread's building unit. A percentage of this fee paid is allocated to a management company for maintenance of the building unit.

PROJECT BREAD - THE WALK FOR HUNGER, INC. AND AFFILIATE

Notes to Combined Financial Statements
September 30, 2017 and 2016

11. CONCENTRATIONS

Credit Risk

Project Bread maintains its cash balances in a Massachusetts bank and is insured within the limits of the Federal Deposit Insurance Corporation (FDIC). At certain times during the year, cash balances exceeded the insured amounts. Project Bread has not experienced any losses in such accounts. Project Bread's management believes Project Bread is not exposed to any significant credit risk on its cash.

Funding

Project Bread receives a significant portion of its funding from the Commonwealth of Massachusetts under cost reimbursement contracts. Payments to Project Bread are subject to audit by the appropriate government agency. In the opinion of management, the results of such audits, if any, will not have a material effect on the combined financial position of Project Bread as of September 30, 2017 and 2016, or on its combined changes in net assets for the years then ended.

Approximately 12% and 13% of Project Bread's operating support and revenue was derived from contracts with the Commonwealth of Massachusetts for the years ended September 30, 2017 and 2016, respectively.

Approximately 91% and 99% of accounts receivable are due from the Commonwealth of Massachusetts at September 30, 2017 and 2016, respectively.

12. DISCONTINUED OPERATIONS

During fiscal year 2015, as part of a strategic planning process related specifically to MFTS, the Agency made a decision to discontinue operating MFTS's programs. During November 2015, the Agency entered into an asset transfer agreement with another Massachusetts nonprofit organization. Under the agreement, the assets, liabilities, and operations of MFTS were transferred to the other organization effective November 1, 2015. At the date of the transfer, MFTS recorded contribution expense of approximately \$45,000, which reflected a net carrying value of MFTS's assets and liabilities. In accordance with ASC Topic, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, MFTS's revenue and expenses are presented as discontinued operations in the accompanying combined statement of activities and changes in net assets for the year ended September 30, 2016. During the year ended September 30, 2016, \$45,653 of net assets were transferred out of MFTS to the unrelated party.

13. RECLASSIFICATION

Certain amounts in the fiscal year 2016 combined financial statements have been reclassified to conform with the fiscal year 2017 presentation.