



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

**COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014**

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

Contents

September 30, 2015 and 2014

	<u>Pages</u>
Independent Auditor's Report	1
Combined Financial Statements:	
Combined Statements of Financial Position	2
Combined Statements of Activities and Changes in Net Assets	3
Combined Statements of Cash Flows	4
Combined Statements of Functional Expenses	5 - 6
Notes to Combined Financial Statements	7 - 14



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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 statements of financial position as of September 30, 2015 and 2014, and the related combined statements of activities and changes in net assets, cash flows and functional expenses for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Alexander, Brown, Pinning & Co., P.C.

Boston, Massachusetts
February 12, 2016

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

Combined Statements of Financial Position
September 30, 2015 and 2014

Assets	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Current Assets:						
Cash	\$ 2,118,892	\$ 22,726	\$ 2,141,618	\$ 1,821,100	\$ 88,498	\$ 1,909,598
Cash - discontinued operations	24,683	8,175	32,858	64,992	-	64,992
Grants, contracts and other receivables	145,259	-	145,259	206,566	-	206,566
Accounts receivable - discontinued operations	58,162	-	58,162	32,901	-	32,901
Prepaid expenses and other	71,166	-	71,166	100,670	-	100,670
Total current assets	2,418,162	30,901	2,449,063	2,226,229	88,498	2,314,727
Property and Equipment, net	2,302,914	-	2,302,914	2,449,619	-	2,449,619
Intangible Assets, net	77,429	-	77,429	101,260	-	101,260
Total assets	<u>\$ 4,798,505</u>	<u>\$ 30,901</u>	<u>\$ 4,829,406</u>	<u>\$ 4,777,108</u>	<u>\$ 88,498</u>	<u>\$ 4,865,606</u>
Liabilities and Net Assets						
Current Liabilities:						
Current portion of mortgage note payable	\$ 32,087	\$ -	\$ 32,087	\$ 30,626	\$ -	\$ 30,626
Accounts payable and accrued expenses	250,940	-	250,940	396,543	-	396,543
Accounts payable and accrued expenses - discontinued operations	18,996	-	18,996	5,065	-	5,065
Deferred revenue	28,400	-	28,400	-	-	-
Total current liabilities	330,423	-	330,423	432,234	-	432,234
Mortgage Note Payable, net of current portion	1,331,139	-	1,331,139	1,361,938	-	1,361,938
Total liabilities	<u>1,661,562</u>	<u>-</u>	<u>1,661,562</u>	<u>1,794,172</u>	<u>-</u>	<u>1,794,172</u>
Net Assets:						
Unrestricted:						
Board designated reserve	2,119,826	-	2,119,826	1,824,621	-	1,824,621
Property, equipment and intangible assets	1,017,117	-	1,017,117	1,158,315	-	1,158,315
Total unrestricted	3,136,943	-	3,136,943	2,982,936	-	2,982,936
Temporarily restricted	-	30,901	30,901	-	88,498	88,498
Total net assets	<u>3,136,943</u>	<u>30,901</u>	<u>3,167,844</u>	<u>2,982,936</u>	<u>88,498</u>	<u>3,071,434</u>
Total liabilities and net assets	<u>\$ 4,798,505</u>	<u>\$ 30,901</u>	<u>\$ 4,829,406</u>	<u>\$ 4,777,108</u>	<u>\$ 88,498</u>	<u>\$ 4,865,606</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, 2015 and 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and Support:						
Contributions	\$ 5,109,966	\$ -	\$ 5,109,966	\$ 5,403,829	\$ -	\$ 5,403,829
Government grants	660,418	-	660,418	665,245	-	665,245
Foundation grants	584,224	22,726	606,950	460,584	12,468	473,052
In-kind donations	230,498	-	230,498	215,463	-	215,463
Interest income	161	-	161	171	-	171
Net assets released from restrictions	88,498	(88,498)	-	350,381	(350,381)	-
Total revenue and support	6,673,765	(65,772)	6,607,993	7,095,673	(337,913)	6,757,760
Expenses:						
Program expenses:						
Community Hunger Relief Programs	1,555,536	-	1,555,536	2,304,018	-	2,304,018
Healthy Food for Kids	1,226,832	-	1,226,832	1,485,878	-	1,485,878
Hunger Education and Community Empowerment	1,905,378	-	1,905,378	2,124,998	-	2,124,998
Advocacy	169,734	-	169,734	108,088	-	108,088
Total program expenses	4,857,480	-	4,857,480	6,022,982	-	6,022,982
Supporting services:						
General and administrative	591,230	-	591,230	409,094	-	409,094
Fundraising and development	1,031,604	-	1,031,604	1,050,907	-	1,050,907
Total supporting services	1,622,834	-	1,622,834	1,460,001	-	1,460,001
Total expenses	6,480,314	-	6,480,314	7,482,983	-	7,482,983
Changes in net assets from continuing operations	193,451	(65,772)	127,679	(387,310)	(337,913)	(725,223)
Discontinued Operations:						
Grants and contributions - Mass Farm to School	229,885	8,175	238,060	393,763	-	393,763
Service fees - Mass Farm to School	67,818	-	67,818	27,651	-	27,651
Expenses - Mass Farm to School	(337,147)	-	(337,147)	(472,378)	-	(472,378)
Changes in net assets from discontinued operations	(39,444)	8,175	(31,269)	(50,964)	-	(50,964)
Changes in net assets	154,007	(57,597)	96,410	(438,274)	(337,913)	(776,187)
Net Assets:						
Beginning of year	2,982,936	88,498	3,071,434	3,421,210	426,411	3,847,621
End of year	\$ 3,136,943	\$ 30,901	\$ 3,167,844	\$ 2,982,936	\$ 88,498	\$ 3,071,434

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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 96,410	\$ (776,187)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	170,536	167,701
Changes in operating assets and liabilities:		
Grants, contracts and other receivables	61,307	(38,429)
Accounts receivable - discontinued operations	(25,261)	162,767
Pledge receivable	-	250,000
Prepaid expenses and other	29,504	23,763
Accounts payable and accrued expenses	(145,603)	(68,680)
Accounts payable and accrued expenses - discontinued operations	13,931	18,996
Deferred revenue	28,400	-
	<u>229,224</u>	<u>(260,069)</u>
Net cash provided by (used in) operating activities		
Cash Flows from Investing Activities:		
Cash paid for intangible assets	-	(54,094)
Purchase of property and equipment	-	(209,168)
	<u>-</u>	<u>(263,262)</u>
Net cash used in investing activities		
Cash Flows from Financing Activities:		
Proceeds from mortgage note payable	-	1,400,000
Principal payments on mortgage note payable	(29,338)	(1,419,781)
	<u>(29,338)</u>	<u>(19,781)</u>
Net cash used in financing activities		
Net Change in Cash and Cash - Discontinued Operations	199,886	(543,112)
Cash and Cash - Discontinued Operations:		
Beginning of year	1,974,590	2,517,702
End of year	<u>\$ 2,174,476</u>	<u>\$ 1,974,590</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 65,670</u>	<u>\$ 65,792</u>

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, 2015

(With Summarized Comparative Totals for the Year Ended September 30, 2014)

	2015									2014
	Programs					Supporting Services				
	Community Hunger Relief Programs	Healthy Food for Kids	Hunger Education and Community Empowerment	Advocacy	Total Programs	General and Adminis- trative	Fundraising and Development	Total Supporting Services	Total Expenses	Total Expenses
Personnel and Related:										
Salaries	\$ 426,783	\$ 590,356	\$ 452,312	\$ 71,136	\$ 1,540,587	\$ 173,165	\$ 413,625	\$ 586,790	\$ 2,127,377	\$ 2,179,470
Payroll taxes and fringe benefits	104,618	140,896	106,589	16,604	368,707	73,869	108,239	182,108	550,815	534,323
Total personnel and related	531,401	731,252	558,901	87,740	1,909,294	247,034	521,864	768,898	2,678,192	2,713,793
Grants	808,860	134,591	-	-	943,451	-	-	-	943,451	1,698,422
Other:										
Professional fees	69,541	91,787	397,671	56,386	615,385	120,518	73,786	194,304	809,689	858,075
Printing and postage	13,066	44,176	199,433	381	257,056	3,002	238,573	241,575	498,631	583,982
Advertising	588	26,529	245,658	48	272,823	-	7,171	7,171	279,994	354,746
Materials and supplies	2,816	23,831	229,542	1,396	257,585	2,997	2,772	5,769	263,354	325,462
Facilities	28,268	38,735	86,667	4,679	158,349	16,504	27,467	43,971	202,320	167,262
Office	1,560	5,509	5,286	468	12,823	163,053	-	163,053	175,876	198,197
Depreciation and amortization	37,977	50,745	37,590	6,081	132,393	3,268	34,875	38,143	170,536	167,701
Communications	25,856	14,172	56,387	2,160	98,575	6,591	59,579	66,170	164,745	128,640
Computer and office equipment	18,858	26,202	17,588	3,077	65,725	9,522	31,689	41,211	106,936	109,094
Travel and transportation	2,975	14,304	50,680	3,403	71,362	9,917	3,596	13,513	84,875	80,844
Interest	13,231	17,944	13,369	2,160	46,704	6,663	12,303	18,966	65,670	65,792
Conferences and meetings	539	7,055	6,606	1,755	15,955	2,161	17,929	20,090	36,045	30,973
Total other	215,275	360,989	1,346,477	81,994	2,004,735	344,196	509,740	853,936	2,858,671	3,070,768
Total expenses	\$ 1,555,536	\$ 1,226,832	\$ 1,905,378	\$ 169,734	\$ 4,857,480	\$ 591,230	\$ 1,031,604	\$ 1,622,834	\$ 6,480,314	\$ 7,482,983

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, 2014

	Programs					Supporting Services			
	Community Hunger Relief Programs	Healthy Food for Kids	Hunger Education and Community Empowerment	Advocacy	Total Programs	General and Adminis- Trative	Fundraising and Development	Total Supporting Services	Total Expenses
Personnel and Related:									
Salaries	\$ 476,325	\$ 654,818	\$ 557,980	\$ 42,284	\$ 1,731,407	\$ 111,561	\$ 336,502	\$ 448,063	\$ 2,179,470
Payroll taxes and fringe benefits	116,636	157,262	134,146	10,061	418,105	31,403	84,815	116,218	534,323
Total personnel and related	592,961	812,080	692,126	52,345	2,149,512	142,964	421,317	564,281	2,713,793
Grants	1,458,200	240,222	-	-	1,698,422	-	-	-	1,698,422
Other:									
Professional fees	102,505	127,153	418,075	39,283	687,016	84,355	86,704	171,059	858,075
Printing and postage	8,836	50,618	209,783	306	269,543	23,488	290,951	314,439	583,982
Advertising	548	40,223	252,376	25	293,172	-	61,574	61,574	354,746
Materials and supplies	2,860	23,421	284,779	2,893	313,953	3,365	8,144	11,509	325,462
Facilities	26,268	36,056	75,311	2,308	139,943	7,951	19,368	27,319	167,262
Office	2,691	21,386	12,425	287	36,789	110,920	50,488	161,408	198,197
Depreciation and amortization	36,813	50,535	42,818	3,285	133,451	8,446	25,804	34,250	167,701
Communications	28,135	16,194	39,456	1,915	85,700	3,638	39,302	42,940	128,640
Computer and office equipment	23,292	31,937	25,661	2,107	82,997	5,671	20,426	26,097	109,094
Travel and transportation	4,562	10,800	47,953	1,276	64,591	11,942	4,311	16,253	80,844
Interest	14,256	19,689	16,979	1,272	52,196	3,327	10,269	13,596	65,792
Conferences and meetings	2,091	5,564	7,256	786	15,697	3,027	12,249	15,276	30,973
Total other	252,857	433,576	1,432,872	55,743	2,175,048	266,130	629,590	895,720	3,070,768
Total expenses	<u>\$ 2,304,018</u>	<u>\$ 1,485,878</u>	<u>\$ 2,124,998</u>	<u>\$ 108,088</u>	<u>\$ 6,022,982</u>	<u>\$ 409,094</u>	<u>\$ 1,050,907</u>	<u>\$ 1,460,001</u>	<u>\$ 7,482,983</u>

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

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

Notes to Combined Financial Statements
September 30, 2015 and 2014

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND NONPROFIT STATUS

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 is 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 14).

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.

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.

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.

Expense Allocation

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

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

Notes to Combined Financial Statements
September 30, 2015 and 2014

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

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.

Contributions and foundation grants are recorded as revenue upon receipt or when unconditionally pledged. Government grants and service fees are recorded as revenue when the services are performed and the costs are incurred. Interest and all other income is recorded when earned.

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

Intangible Assets and Amortization

Intangible assets consist of mortgage acquisition costs and rebranding costs which have been capitalized and amortized on the straight-line basis over the following periods:

Mortgage acquisition costs	10 years
Rebranding costs	5 years

Advertising

Project Bread expenses advertising costs as they are incurred.

Allowance for Uncollectible Accounts

An allowance for uncollectible receivables is recorded based on management's analysis of specific accounts and collection history. As of September 30, 2015 and 2014, there was no allowance for uncollectible accounts.

Deferred Revenue

Deferred revenue consists of sponsorships for special events received in advance of the event.

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

Notes to Combined Financial Statements
September 30, 2015 and 2014

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

	<u>2015</u>	<u>2014</u>
Advertising - Walk for Hunger	\$ 157,250	\$ 153,250
Supplies and materials - Walk for Hunger	69,404	56,746
Services - Walk for Hunger	3,235	5,118
Supplies	<u>609</u>	<u>349</u>
	<u>\$ 230,498</u>	<u>\$ 215,463</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.

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.

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

Notes to Combined Financial Statements
September 30, 2015 and 2014

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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, 2015 and 2014. Project Bread's information returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

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>2015</u>	<u>2014</u>
Annual grants	\$ 808,860	\$ 1,452,200
Summer grants	100,000	112,700
Partnership grants	34,591	127,522
Other grants	<u>-</u>	<u>6,000</u>
	<u>\$ 943,451</u>	<u>\$ 1,698,422</u>

Subsequent Events

Subsequent events have been evaluated through February 12, 2016, which is the date the combined financial statements were available to be issued. Except as disclosed in Note 14, there were no events that met the criteria for recognition or disclosure in the accompanying combined financial statements.

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

Notes to Combined Financial Statements
September 30, 2015 and 2014

2. NET ASSETS

Unrestricted 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

Project Bread receives 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. Temporarily restricted balances at September 30, 2015 and 2014, are purpose restricted.

3. 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, 2015 and 2014, or on its combined changes in net assets for the years then ended.

At September 30, 2015 and 2014, 75% and 71%, respectively, of Project Bread's grants, contracts and other receivables are due from the Commonwealth of Massachusetts.

4. PROPERTY AND EQUIPMENT

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

	<u>2015</u>	<u>2014</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	204,643	204,643
Furniture and fixtures	<u>36,551</u>	<u>36,551</u>
	3,930,324	3,930,324
Less - accumulated depreciation	<u>1,627,410</u>	<u>1,480,705</u>
	<u>\$ 2,302,914</u>	<u>\$ 2,449,619</u>

Depreciation expense was \$146,705 and \$141,868 for the years ended September 30, 2015 and 2014, respectively.

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

Notes to Combined Financial Statements
September 30, 2015 and 2014

5. INTANGIBLE ASSETS

Costs incurred in connection with procuring a long-term mortgage note payable (see Note 6) (consisting primarily of in-kind legal fees) are deferred and amortized over the length of the mortgage note payable using the straight-line method.

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.

Intangible assets consist of the following as of September 30:

	<u>2015</u>	<u>2014</u>
Mortgage acquisition costs	\$ 16,974	\$ 16,974
Rebranding costs	<u>110,670</u>	<u>110,670</u>
	127,644	127,644
Less - accumulated amortization	<u>50,215</u>	<u>26,384</u>
	<u>\$ 77,429</u>	<u>\$ 101,260</u>

Amortization expense was \$23,831 and \$25,833 for the years ended September 30, 2015 and 2014, respectively.

6. MORTGAGE NOTE PAYABLE

Project Bread had a mortgage note payable from a bank to finance the acquisition of land and a condominium. The note was payable in monthly principal and interest installments of \$10,786, based on a twenty-five year amortization schedule, with a balloon payment of approximately \$1,350,000 due in July 2014. The interest rate was fixed at 5.25%. The note was secured by a first mortgage on the land and condominium building and all permanent fixtures. The mortgage contained various covenants. Project Bread was in compliance with these covenants as of September 30, 2014.

Project Bread refinanced the above mortgage note payable during fiscal year 2014 and entered into a new mortgage note payable with another 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. The mortgage contains various covenants. Project Bread was in compliance with these covenants as of September 30, 2015.

Interest expense was \$65,670 and \$65,792 for the years ended September 30, 2015 and 2014, respectively.

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

2016	\$ 32,087
2017	\$ 33,618
2018	\$ 35,222
2019	\$ 36,902
2020	\$ 38,663
Thereafter	\$ 1,186,734

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

Notes to Combined Financial Statements
September 30, 2015 and 2014

7. LEASE AGREEMENTS

Project Bread leases a motor vehicle and office equipment under operating lease agreements that expire in August 2016 and September 2016. Payments for these leases total \$344 per month and \$1,179 per quarter. Rent expense under these lease agreements was approximately \$8,200 for the years ended September 30, 2015 and 2014, and is included in travel and transportation and computer and office equipment in the accompanying combined statements of functional expenses. Remaining future minimum lease payments under these agreements are \$8,152 for fiscal year 2016 and \$1,179 for fiscal year 2017.

8. 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 \$41,554 and \$43,453 to this plan for the years ended September 30, 2015 and 2014, respectively. These amounts are included in payroll taxes and fringe benefits in the accompanying combined statements of functional expenses.

9. RELATED PARTY TRANSACTIONS

Project Bread has entered into the following related party transactions for the years ended September 30, 2015 and 2014:

- A member of Project Bread's Board of Directors is employed by a benefits administration and services company, which is the provider of Project Bread's employee health insurance. Project Bread paid \$337,001 and \$338,640 for employee health insurance during fiscal years 2015 and 2014, respectively.
- A member of Project Bread's Board of Directors is the Executive Director of a nonprofit organization to which Project Bread granted \$10,000 during fiscal year 2014.
- Project Bread has deposit accounts and a general banking relationship with a bank of which a member of the Board of Directors is an officer.

10. MANAGEMENT AGREEMENTS

Project Bread pays a monthly fee of approximately \$5,400 to a condominium association, which is included in facilities on 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 had an agreement with a management agent (the Agent) to carry on the fiscal responsibilities of Project Bread. Project Bread compensated the Agent with a management fee of approximately \$290,000 during fiscal year September 30, 2014, payable in twelve equal monthly installments, in addition to monthly charges for services as defined in the management agreement. This management fee is included in professional fees on the accompanying combined statements of functional expenses. This agreement stipulated that it would continue until either Project Bread or the Agent terminated the agreement with a thirty-day written notice. Project Bread terminated this contract in accordance with these terms effective September 30, 2014.

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

Notes to Combined Financial Statements
September 30, 2015 and 2014

11. CONCENTRATIONS

Project Bread maintains its cash balances in three banks in Massachusetts, which are 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 these accounts. Project Bread's management believes Project Bread is not exposed to any significant credit risk on its cash.

12. 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 (3.25% at September 30, 2015 and 2014) 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, 2015 and 2014. This line of credit is renewable annually in June.

13. CONDITIONAL GRANT

During fiscal year 2014, Project Bread received a \$100,000 grant from a foundation, payable in four equal annual installments. Project Bread received the first two \$25,000 installments during fiscal years 2015 and 2014. The foundation's payment of the third and fourth installments is conditional upon Project Bread submitting specified reports as defined in the grant agreement; accordingly, the remaining \$50,000 has not been reflected in the accompanying combined financial statements.

14. 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 \$53,000, which reflected the net carrying value of MFTS's assets and liabilities. As of September 30, 2015, MFTS held assets of \$91,020 consisting of cash (\$32,858) and accounts receivable (\$58,162), and had liabilities of \$18,996 consisting of accounts payable and accrued expenses, which are included in the accompanying combined statement of financial position. 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 statements of activities and changes in net assets for the years ended September 30, 2015 and 2014.

15. FISCAL AGENT

During fiscal year 2015, the Agency served as a fiscal agent for the Urban Farming Institute of Boston (UFI). In accordance with the agreement with UFI, the Agency provided bookkeeping and other services for UFI. During fiscal year 2015, the Agency collected and paid out approximately \$119,000 of grants and expenditures on behalf of UFI. The Agency and UFI terminated this arrangement during fiscal year 2015 and as of September 30, 2015, the Agency does not have custody or control over any UFI funds.

16. RECLASSIFICATION

Certain amounts in the fiscal year 2014 combined financial statements have been reclassified to conform with the fiscal year 2015 presentation.