

# BREAKTHROUGH URBAN MINISTRIES, INC.

Consolidated Financial Statements  
With Independent Auditors' Report

June 30, 2016 and 2015

# BREAKTHROUGH URBAN MINISTRIES, INC.

## Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8
Supplementary Data	
Independent Auditors' Report on Supplementary Data	20
Consolidating Statements of Financial Position	21
Consolidating Statements of Activities	22

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Breakthrough Urban Ministries, Inc.  
Chicago, Illinois

We have audited the accompanying consolidated financial statements of Breakthrough Urban Ministries, Inc., which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated 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 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.

Board of Directors  
Breakthrough Urban Ministries, Inc.  
Chicago, Illinois

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Breakthrough Urban Ministries, Inc. as of June 30, 2016 and 2015, and the changes in its consolidated net assets, functional expenses and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Capin Crouse LLP*

Wheaton, Illinois  
December 6, 2016

# BREAKTHROUGH URBAN MINISTRIES, INC.

## Consolidated Statements of Financial Position

	June 30,	
	<u>2016</u>	<u>2015</u>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 556,727	\$ 1,262,781
Cash held in escrow	-	40,215
Accounts receivable	331,492	175,560
Prepaid expenses and other assets	29,666	-
Contributions receivable–net	1,161,822	1,296,424
Assets held for capital projects–net	381,788	570,655
Note receivable	10,945,600	10,945,600
Property and equipment–net	<u>21,963,257</u>	<u>22,366,132</u>
Total Assets	<u>\$ 35,370,352</u>	<u>\$ 36,657,367</u>
<b>LIABILITIES AND NET ASSETS:</b>		
Liabilities:		
Accounts payable	\$ 68,427	\$ 88,196
Accrued expenses	204,990	338,723
Deferred grant revenue	3,490,042	2,072,189
Long term debt	<u>19,351,525</u>	<u>20,804,302</u>
Total liabilities	<u>23,114,984</u>	<u>23,303,410</u>
Net assets:		
Unrestricted	10,762,003	11,637,146
Temporarily restricted	1,478,365	1,701,811
Permanently restricted	<u>15,000</u>	<u>15,000</u>
Total net assets	<u>12,255,368</u>	<u>13,353,957</u>
Total Liabilities and Net Assets	<u>\$ 35,370,352</u>	<u>\$ 36,657,367</u>

See notes to consolidated financial statements

# BREAKTHROUGH URBAN MINISTRIES, INC.

## Consolidated Statements of Activities

	Year Ended June 30,	
	2016	2015
OPERATING ACTIVITIES:		
Change in Unrestricted Net Assets:		
Revenues, support and other income:		
Contributions	\$ 2,719,432	\$ 2,677,191
Government grants	943,007	901,581
Fees	161,453	61,721
Gifts in kind	1,071,655	1,039,586
Rental and other income	356,503	151,498
Net assets released from restrictions:		
Satisfaction of time restrictions	656,516	642,445
Total revenue, support and other income	<u>5,908,566</u>	<u>5,474,022</u>
Expenses:		
Salaries	2,541,269	2,128,713
Fringe benefits and related taxes	781,201	560,538
Assistance to individuals	1,290,015	942,187
Fees for services	199,098	263,934
Interest expense	345,716	165,418
Advertising and promotion	227,689	133,543
Other	986,072	739,840
Total Expenses	<u>6,371,060</u>	<u>4,934,173</u>
Change in Unrestricted Net Assets from Operating Activities	<u>(462,494)</u>	<u>539,849</u>

(continued)

See notes to consolidated financial statements

# BREAKTHROUGH URBAN MINISTRIES, INC.

## Consolidated Statements of Activities

(continued)

	Year Ended June 30,	
	2016	2015
NON-OPERATING ACTIVITIES:		
Change in Unrestricted Net Assets:		
Revenues, support and reclassifications:		
Fees	20,297	9,873
Net assets released from restrictions:		
Satisfaction of building fund restrictions	299,411	605,885
	319,708	615,758
Expenses:		
Depreciation	696,833	445,884
Salaries	24,295	34,514
Other	11,229	9,022
Total Expenses	732,357	489,420
Change in Unrestricted Net Assets from Non-Operating Activities	(412,649)	126,338
Total Change in Unrestricted Net Assets	(875,143)	666,187
Change in Temporarily Restricted Net Assets:		
Revenues, support and reclassifications:		
Contributions	509,862	1,751,745
Capital campaign contributions	152,013	509,581
Write off of doubtful contributions receivable	-	(93,995)
Gifts in kind	70,606	70,622
Net assets released from restrictions:		
Satisfaction of time restrictions	(656,516)	(642,445)
Satisfaction of building fund restrictions	(299,411)	(605,885)
Total Change in Temporarily Restricted Net Assets	(223,446)	989,623
Change in Net Assets from Non-Operating Activities	(636,095)	1,115,961
Change in Net Assets	(1,098,589)	1,655,810
Net Assets, Beginning of Year	13,353,957	11,698,147
Net Assets, End of Year	\$ 12,255,368	\$ 13,353,957

See notes to consolidated financial statements

## BREAKTHROUGH URBAN MINISTRIES, INC.

### Consolidated Statements of Functional Expenses

	Year Ended June 30,							
	2016				2015			
	Program Services	Management and General	Fund-raising	Total	Program Services	Management and General	Fund-raising	Total
<b>SALARIES AND RELATED EXPENSES:</b>								
Salaries	\$ 2,180,511	\$ 103,581	\$ 281,472	\$ 2,565,564	\$ 1,774,949	\$ 136,762	\$ 251,516	\$ 2,163,227
Fringe benefits and related taxes	676,869	32,714	71,618	781,201	461,341	37,799	61,398	560,538
<b>Total salaries and related expenses</b>	<b>2,857,380</b>	<b>136,295</b>	<b>353,090</b>	<b>3,346,765</b>	<b>2,236,290</b>	<b>174,561</b>	<b>312,914</b>	<b>2,723,765</b>
<b>OTHER EXPENSES:</b>								
Assistance to individuals	1,286,194	2,994	827	1,290,015	937,074	4,321	792	942,187
Fees for services	148,256	41,011	9,831	199,098	168,508	71,114	24,312	263,934
Advertising and promotion	37,948	138	189,603	227,689	40,740	765	92,038	133,543
Office expenses	63,862	10,888	8,120	82,870	70,975	14,244	12,331	97,550
Information technology	53,503	10,058	4,584	68,145	9,865	307	239	10,411
Occupancy	445,614	17,905	16,265	479,784	266,353	9,324	8,935	284,612
Conferences and meetings	11,901	1,596	533	14,030	6,742	4,853	1,655	13,250
Interest	289,363	56,353	-	345,716	126,360	39,058	-	165,418
Depreciation	657,847	20,995	17,991	696,833	409,268	18,308	18,308	445,884
Insurance	46,440	8,122	5,197	59,759	48,148	9,672	5,450	63,270
Supplies and materials	154,113	3,679	2,620	160,412	153,955	3,062	1,666	158,683
Repairs and maintenance	18,644	1,690	1,158	21,492	37,862	1,728	889	40,479
Bank fees	-	21,229	-	21,229	-	16,821	-	16,821
Subscriptions and dues	68,737	3,807	13,903	86,447	44,214	8,155	10,037	62,406
Operating other expenses	-	1,933	1,200	3,133	-	710	670	1,380
<b>Total other expenses</b>	<b>3,282,422</b>	<b>202,398</b>	<b>271,832</b>	<b>3,756,652</b>	<b>2,320,064</b>	<b>202,442</b>	<b>177,322</b>	<b>2,699,828</b>
<b>Total Expenses</b>	<b>\$ 6,139,802</b>	<b>\$ 338,693</b>	<b>\$ 624,922</b>	<b>\$ 7,103,417</b>	<b>\$ 4,556,354</b>	<b>\$ 377,003</b>	<b>\$ 490,236</b>	<b>\$ 5,423,593</b>

See notes to consolidated financial statements



# BREAKTHROUGH URBAN MINISTRIES, INC.

## Consolidated Statements of Cash Flows

	Year Ended June 30,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ (1,098,589)	\$ 1,655,810
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for capital projects	(152,013)	(509,581)
Change in discount on contributions receivable	-	36,460
Depreciation	696,833	445,884
Donated property and equipment	(58,552)	(70,622)
Change in:		
Accounts receivable	(155,932)	44,757
Prepaid expenses and other assets	(29,666)	42,389
Contributions receivable	135,943	(1,053,337)
Accounts payable	(19,769)	76,615
Accrued expenses	(133,733)	(23,599)
Deferred grant revenue	1,417,853	1,562
Net Cash Provided by Operating Activities	602,375	646,338
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Change in cash and cash equivalents held for capital projects	192,352	9,011,539
Purchase of property and equipment	(235,406)	(9,039,415)
Net Cash Used in Investing Activities	(43,054)	(27,876)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from contributions restricted for capital projects and collections on contributions receivable held for capital projects	147,187	709,116
Payments on long term debt	(1,452,777)	(967,579)
Net Cash Used in Financing Activities	(1,305,590)	(258,463)
Net Change in Cash, Cash Equivalents and Cash Held in Escrow	(746,269)	359,999
Cash, Cash Equivalents and Cash Held in Escrow, Beginning of Year	1,302,996	942,997
Cash, Cash Equivalents and Cash Held in Escrow, End of Year	\$ 556,727	\$ 1,302,996
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITY:</b>		
Cash paid for interest (\$0 and \$207,347 capitalized in 2016 and 2015, respectively)	\$ 358,725	\$ 436,096

See notes to consolidated financial statements

# BREAKTHROUGH URBAN MINISTRIES, INC.

## Notes to Consolidated Financial Statements

June 30, 2016 and 2015

1. NATURE OF ORGANIZATION:

Breakthrough Urban Ministries, Inc. (Breakthrough) is a not-for-profit Illinois Corporation exempt from income taxes under section 501(c)(3) of the United States Internal Revenue Code. Breakthrough is not considered to be a private foundation and the primary source of revenue is from private donations. Breakthrough was formed in 1992 to meet the physical, emotional, mental, social and spiritual needs of people in the urban setting. Breakthrough seeks to demonstrate the compassion of Christ by partnering with those affected by poverty to build connections, develop skills and open doors of opportunity. Breakthrough envisions vibrant, healthy communities in which all people recognize their value as children of God through Christ and are growing toward their full potential.

In Chicago's East Garfield Park, where disinvestment has left the neighborhood devoid of opportunity and full of broken dreams, Breakthrough Urban Ministries is restoring the broken networks of youth and families and empowering adults in the community to achieve self-sufficiency and break the cycle of poverty. The following are the services provided:

*Homeless Intervention (Homeless Adults)*

Homeless Intervention includes: (1) a daytime drop-in center for homeless adults, (2) a robust transitional housing program, and (3) permanent supportive housing. The goal of this service area is to move guests from crisis to stability and on to contributing to a healthy west side of Chicago. These three core areas are enhanced by critical wraparound services, including workforce development, legal aid, and on-site behavioral and medical health care programs. Each year, Breakthrough serves in excess of 1,400 homeless individuals.

*Youth Development (Youth)*

The Breakthrough Youth Network (BYN) is Breakthrough's youth development and academic enrichment program area serving over 500 youth annually. Each year, the BYN runs four core programs: (1) Breakthrough Beginners (early childhood education for ages 3-5), (2) the Nettie Bailey Student Achievement Program (afterschool and summer academic enrichment), (3) the Art and Science Academy (interactive and engaging STEAM opportunities) and (4) the Breakthrough Sports and Fitness Academy (year-round sports offerings for hundreds of youth). The vision of the BYN is to partner with youth and families so that East Garfield Park becomes a place where success becomes the norm and families prosper.

*Hunger Relief (Community Residents)*

Breakthrough provides the Fresh Market, a client-choice food pantry, to over 2,000 East Garfield Park families each year. In addition to providing fresh produce and packaged food, the Fresh Market is an entry point for community residents wishing to access other services, such as financial literacy, nutrition workshops, and health screenings. Food for the Fresh Market is provided in partnership with the Greater Chicago Food Depository.

# BREAKTHROUGH URBAN MINISTRIES, INC.

## Notes to Consolidated Financial Statements

June 30, 2016 and 2015

1. NATURE OF ORGANIZATION, continued:

*Breakthrough Enterprises*

In July 2014, Breakthrough formed Breakthrough Enterprises, Inc. (Enterprises), a wholly owned for-profit corporation, as a response to the need to provide employment opportunities for Breakthrough's program participants. The mission of Enterprises was to operate a financially sustainable, replicable, for-profit fulfillment services enterprise in the East Garfield Park neighborhood, which provides dignifying employment opportunities for the community. In September 2015, the Enterprises Board decided to discontinue the fulfillment services business. Enterprises remains committed to its vision to establish a sustainable business that helps create an economically thriving community while transforming lives and providing economic and personal growth opportunities within the East Garfield Park community. Other business models will be evaluated to replace the fulfillment services enterprise.

2. SIGNIFICANT ACCOUNTING POLICIES:

**BASIS OF CONSOLIDATION**

The consolidated financial statements include the financial statements of Breakthrough, Breakthrough Holdings, Inc. NFP (Holdings) and Enterprises. Holdings, a 501(c)(2) not-for-profit affiliated corporation of which Breakthrough is the sole member, is a title-holding organization. Enterprises is a wholly-owned for-profit subsidiary of Breakthrough. Intercompany transactions and balances have been eliminated for consolidated financial statement purposes.

**BASIS OF ACCOUNTING**

The consolidated financial statements have been prepared on the accrual basis of accounting. 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 and disclosures. Actual amounts could differ from these estimates. The significant accounting policies followed are described below.

**INTERMEDIATE MEASURE OF OPERATIONS**

Breakthrough presents its consolidated statements of activities using an intermediate measure of operations. Operating activities include support and revenue and expenses related to carrying out the organization's mission of demonstrating the compassion of Christ by partnering with those affected by poverty to build connections, develop skills and open doors of opportunity. Operating activities exclude: 1) contributions (including contributions receivable) received for capital campaign; 2) general contributions receivable; 3) amortization of the discount and write off of contributions receivable; 4) gains and losses on disposal of property and equipment; 5) expenditure of capital campaign funds; and 6) depreciation expense.

# BREAKTHROUGH URBAN MINISTRIES, INC.

## Notes to Consolidated Financial Statements

June 30, 2016 and 2015

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### CASH AND CASH EQUIVALENTS

Cash and cash equivalents consists of bank deposits in federally insured accounts, bank collateralized accounts and money market funds in brokerage accounts. These accounts may, from time to time, exceed federally insured limits; however, Breakthrough has not experienced any loss on these accounts and does not believe it is exposed to any significant risk.

#### CASH HELD IN ESCROW

An arrangement with the City of Chicago related to certain landscaping projects to be performed require compensating balances. Cash was held at a bank in Breakthrough's name and was used for the execution of these landscaping projects. The remaining amount was refunded by the City of Chicago in 2016 upon the completion of these projects.

#### CONTRIBUTIONS RECEIVABLE

The promises to give are reflected at the present value of estimated future cash flows using discount rates determined when the pledge was originally made. In addition, the promises to give are reflected net of an allowance for uncollectible pledges based on management's estimates using current and prior donor history. Due to the unknown factors which may affect individual donors' future cash flows, it is reasonably possible that the estimated future cash flows of contributions receivable could increase or decrease by a material amount in the near term.

#### PROPERTY AND EQUIPMENT—NET

Expenditures exceeding \$5,000 for property, equipment and items that substantially increase the useful lives of existing assets are capitalized at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from three to thirty-nine years.

#### CLASSES OF NET ASSETS

The consolidated financial statements report amounts separately by classes of net assets according to the presence or absence of donor-imposed stipulations. The net asset classes are as follows:

*Unrestricted net assets* are those currently available for ministry purposes under the direction of the Board of Directors, those designated by the Board for a specific use and those invested in property and equipment.

*Temporarily restricted net assets* are those contributed with donor stipulations for specific operating purposes or programs, those with time restrictions or those not currently available for use until commitments regarding their use have been fulfilled. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

# BREAKTHROUGH URBAN MINISTRIES, INC.

## Notes to Consolidated Financial Statements

June 30, 2016 and 2015

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### SUPPORT, REVENUES AND EXPENSES

Support is recognized when contributions are made, which may be when cash is received, unconditional promises to give are made or ownership of other assets is transferred. Revenue is recognized when earned. Expenses are recorded when costs are incurred. Breakthrough reports gifts of materials, facilities and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations regarding how long those long-lived assets must be maintained, Breakthrough reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Breakthrough holds certain fund-raising events throughout the year at which donors receive complimentary lodging and/or meals. The cost of providing these benefits for the years ended June 30, 2016 and 2015, was \$104,312 and \$108,754, respectively. These costs have been netted against contributions.

#### GOVERNMENT GRANTS

Support funded by grants is recognized as Breakthrough performs the contracted services under grant agreements. Grant revenue is deferred and recognized as earned as the eligible expenses are incurred. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be reported.

#### GIFTS IN KIND

*Donated Material, Stock and Equipment* – Donations of material, stock and equipment are recorded as support at their estimated fair value as of the date of donation.

*Donated Services* – Breakthrough recognizes donated services that create or enhance non-financial assets or that require specialized skills and are provided by individuals possessing those skills. Breakthrough would typically need to purchase these specialized services if the services were not donated. In addition, other individuals contribute significant time and services to Breakthrough to support accomplishment of its goals, and Breakthrough would not be as effective without these contributions. However, it is Breakthrough's policy not to record contributions from these other individuals because their services do not meet the criteria of skilled services required to be recorded.

# BREAKTHROUGH URBAN MINISTRIES, INC.

## Notes to Consolidated Financial Statements

June 30, 2016 and 2015

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

GIFTS IN KIND, continued:

Total gifts in kind are as follows:

	June 30,	
	2016	2015
Material, stock and land:		
Food	\$ 863,729	\$ 600,071
Stock	207,926	391,783
Services:		
Professional/legal services	70,606	118,354
	<u>\$ 1,142,261</u>	<u>\$ 1,110,208</u>

### FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various program services and supporting activities have been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the program services and supporting activities benefited based on estimated time of personnel, square footage and usage of services and supplies.

### UNCERTAIN TAX POSITIONS

The financial statement effects of a tax position taken or expected to be taken are recognized in the consolidated financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the consolidated statements of activities. As of June 30, 2016 and 2015, Breakthrough had no uncertain tax positions that qualify for recognition or disclosure in the consolidated financial statements. Breakthrough files information tax returns and is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes Breakthrough is no longer subject to examinations for years prior to 2011.

### RECLASSIFICATIONS

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation.

# BREAKTHROUGH URBAN MINISTRIES, INC.

## Notes to Consolidated Financial Statements

June 30, 2016 and 2015

3. CONTRIBUTIONS RECEIVABLE:

Contributions receivable consists of unrestricted donor pledges for the support of various ministry programs. The pledges are due to be collected according to the schedule below and are reported as contributions receivable and temporarily restricted net assets (due to the time restriction) in the consolidated statements of financial position and are recognized as temporarily restricted contributions in the consolidated statements of activities.

	June 30,	
	2016	2015
Amounts due in:		
Less than one year	\$ 507,769	\$ 496,960
One to five years	704,386	851,138
	1,212,155	1,348,098
Less unamortized discount	(36,690)	(38,031)
Less allowance for uncollectible pledges	(13,643)	(13,643)
	\$ 1,161,822	\$ 1,296,424

4. PROPERTY AND EQUIPMENT—NET:

Property and equipment consists of:

	June 30,	
	2016	2015
Land	\$ 388,320	\$ 388,320
Building	21,990,225	21,959,898
Building and leasehold improvements	1,878,762	1,727,568
Vehicles	211,300	211,300
Furniture and equipment	446,070	336,298
	24,914,677	24,623,384
Accumulated depreciation	(2,953,677)	(2,257,252)
Construction in progress	2,257	-
	\$ 21,963,257	\$ 22,366,132

5. ASSETS HELD FOR CAPITAL PROJECTS:

Assets held for capital projects consist of both contributions receivable and cash and cash equivalents donor restricted to the capital campaign and other capital projects. It also includes proceeds from long term debt designated for capital projects. During 2008, Breakthrough began the Dream Big capital campaign for the purpose of purchasing and renovating the Breakthrough Women's Center and to the future construction of the FamilyPlex. The FamilyPlex is a holistic, integrated solution to a variety of inter-connected and long lasting urban problems. Promises to give are due to be collected according to the schedule below and are reported as contributions receivable as a component of assets held for capital projects and temporarily restricted net assets (due to both time and purpose restrictions) in the consolidated statements of financial position and recognized as temporarily restricted contributions in the consolidated statements of activities.

# BREAKTHROUGH URBAN MINISTRIES, INC.

## Notes to Consolidated Financial Statements

June 30, 2016 and 2015

5. ASSETS HELD FOR CAPITAL PROJECTS, continued:

Assets held for capital projects consist of the following:

	June 30,	
	2016	2015
Cash and cash equivalents - donor restricted	\$ 86,291	\$ 178,620
Cash and cash equivalents - proceeds from long term debt	65,245	165,268
Contributions receivable	230,252	226,767
	<u>\$ 381,788</u>	<u>\$ 570,655</u>

Contributions receivable are expected to be collected as follows:

	June 30,	
	2016	2015
Amounts due in:		
Less than one year	\$ 233,104	\$ 258,278
One to five years	30,000	-
	<u>263,104</u>	<u>258,278</u>
Less unamortized discount	(1,341)	-
Less allowance for uncollectible pledges	(31,511)	(31,511)
	<u>\$ 230,252</u>	<u>\$ 226,767</u>

6. DEFERRED GRANT REVENUE:

During 2008, Breakthrough received a grant of \$175,000 from the Federal Home Loan Bank of Chicago. The grant carries with it certain conditions that, if not met, will result in a repayment requirement. Although Breakthrough anticipates compliance with the grant terms, the conditional nature of the grant requires that it be treated as deferred revenue until such point that it becomes unconditional at the end of the 15 year term (2023). The agreement has a 15 year term and is non-interest bearing. Because similar programs do not bear interest, it is not necessary to impute interest on this agreement.

In September 2008, Breakthrough entered into a Redevelopment Agreement (RDA) with the City of Chicago (City) for the renovation of the building to be used as the Breakthrough Ministry Center. This RDA was negotiated over the course of fiscal year 2008. The RDA obligated the City to reimburse Breakthrough up to \$1,153,961 from tax-increment financing (TIF) dollars for eligible expenses that qualified as TIF-funded improvements related to the renovation of the building. These funds were used to pay down Breakthrough's construction line of credit in March 2009. The TIF agreement has a 15 year term and is non-interest bearing. Because similar programs do not bear interest, it is not necessary to impute interest on this agreement. Similar to the other government grant revenue, the conditional nature of the loan requires that it be treated as deferred revenue until such point that it becomes unconditional at the end of the 15 year term (2023).



# BREAKTHROUGH URBAN MINISTRIES, INC.

## Notes to Consolidated Financial Statements

June 30, 2016 and 2015

6. DEFERRED GRANT REVENUE, continued:

In November 2013, Breakthrough entered into a RDA with the City for the construction of Breakthrough's FamilyPlex Center and renovation of Breakthrough's Women's Center. The RDA obligated the City to reimburse Breakthrough up to \$3,500,000 from TIF dollars for eligible expenses that qualified as TIF-funded improvements related to the construction of the buildings. As of June 30, 2016, \$1,400,000 of this amount remained to be collected. The TIF agreement has a 10 year term. Included as part of this agreement is a \$2,800,000 City of Chicago Tax Increment Allocation Revenue Note (City Note) which helps offset the cost of financing the FamilyPlex project. The City Note bears an annual interest rate equal to the interest rate per annum charged by PNC Bank on the TIF Bridge Loan Promissory Note (4.12% at June 30, 2016). Pursuant to the agreement, the City Note began accruing interest on September 1, 2015 (the date the Certificate of Expenditure was issued). As of June 30, 2016, interest revenue earned from the City Note totaled \$47,363, and is included in rental and other income on the consolidated statements of activities. Similar to the other government grant revenue, the conditional nature of the loan requires that it be treated as deferred revenue until such point that it becomes unconditional at the end of the 10 year term (2023).

7. NEW MARKET TAX CREDIT TRANSACTIONS:

In November 2013, Breakthrough entered into a financial arrangement to help fund the cost of the FamilyPlex project through the use of the New Market Tax Credit (NMTC) program. Under this arrangement, Holdings received two loans totaling \$12,740,000 from CDF Suballocatee XX, LLC and two loans totaling \$3,000,000 from PNC CDE 30, LP. See Note 8 for terms of loan agreements.

In conjunction with this financing arrangement, Breakthrough provided a loan of \$10,945,600 to Breakthrough Investment Fund, LLC (an unaffiliated investment structure). The loan is evidenced by a promissory note from Breakthrough Investment Fund, LLC, carrying an interest rate of 1% per annum, with annual interest payments beginning on December 10, 2013. Monthly principal and interest payments of \$703,343 begin on December 10, 2021, until the maturity date of December 1, 2037. This loan is secured by the membership interests of Breakthrough Investment Fund, LLC, in the two lenders of Holdings mentioned in the first paragraph of this note. Interest earned as of June 30, 2016 and 2015, was \$109,376 and \$109,456, respectively.

In December 2020, the bank that owns the investment structure may sell its membership interest in the investment structure to Breakthrough for a put price of \$1,000. If the bank does not exercise its put right, Breakthrough may call the bank's membership interest in the investment structure for a call price equal to the fair value of the membership interest. Exercise of the put or the call will provide Breakthrough with ownership of the investment structure.

At June 30, 2016 and 2015, Breakthrough had \$65,245 and \$165,268, respectively, in cash designated for the construction of the new FamilyPlex Center and debt service of notes payable.

# BREAKTHROUGH URBAN MINISTRIES, INC.

## Notes to Consolidated Financial Statements

June 30, 2016 and 2015

8. LONG TERM DEBT:

Long term debt consists of:

	June 30,	
	2016	2015
Breakthrough:		
Mortgage payable with monthly principal and interest payments of \$7,492 at a fixed rate of 4.50%. Unpaid principal and interest is due in February 2019. The mortgage is secured by real property in Chicago, Illinois.	\$ 865,185	\$ 914,302
Note payable with quarterly interest payments until January 1, 2016, followed by quarterly principal payments of \$1,830 plus accrued interest. Unpaid principal and interest is due April 2021. Interest rate is fixed at 5.71%, and is secured by the assets of Breakthrough, excluding the mortgage payable security interest noted above.	346,340	350,000
Note payable with quarterly interest payments until January 1, 2015, followed by quarterly interest payments and principal payments of \$1,400,000, \$700,000 and \$700,000 on September 1, 2015, 2016 and 2017, respectively. The interest rate is adjustable (4.12% at June 30, 2016), based on the London Interbank Offered Rate (LIBOR) plus 350 basis points. This note is secured by the assets of Breakthrough (excluding the mortgage payable security interest noted above) and a \$2,800,000 promissory note from the City of Chicago for future TIF reimbursements.	1,400,000	2,800,000
Three unsecured promissory notes (two paid in full during 2015) with quarterly interest payments. Unpaid principal and interest is due July 2018. Interest rate is fixed at 5%.	1,000,000	1,000,000

# BREAKTHROUGH URBAN MINISTRIES, INC.

## Notes to Consolidated Financial Statements

June 30, 2016 and 2015

8. LONG TERM DEBT, continued:

	June 30,	
	2016	2015
Holdings:		
Note payable with annual interest payments until December 1, 2020, followed by annual principal and interest payments of \$430,093. Unpaid principal and interest is due December 2043. Interest rate is fixed at 0.906%, and is secured by the assets of Breakthrough, excluding the mortgage payable security interest noted above. This is part of the NMTC program described in Note 7.	8,893,300	8,893,300
Note payable with annual interest payments until December 1, 2020, followed by annual principal and interest payments of \$186,032. Unpaid principal and interest is due December 2043. Interest rate is fixed at 0.906%, and is secured by the assets of Breakthrough, excluding the mortgage payable security interest noted above. This is part of the NMTC program described in Note 7.	3,846,700	3,846,700
Note payable with annual interest payments until December 1, 2020, followed by annual principal and interest payments of \$99,252. Unpaid principal and interest is due December 2043. Interest rate is fixed at 0.906%, and is secured by the assets of Breakthrough, excluding the mortgage payable security interest noted above. This is part of the NMTC program described in Note 7.	2,052,300	2,052,300
Note payable with annual interest payments until December 1, 2020, followed by annual principal and interest payments of \$45,832. Unpaid principal and interest is due December 2043. Interest rate is fixed at 0.906%, and is secured by the assets of Breakthrough, excluding the mortgage payable security interest noted above. This is part of the NMTC program described in Note 7.	947,700	947,700
	<u>\$ 19,351,525</u>	<u>\$ 20,804,302</u>

# BREAKTHROUGH URBAN MINISTRIES, INC.

## Notes to Consolidated Financial Statements

June 30, 2016 and 2015

8. LONG TERM DEBT, continued:

Breakthrough incurred \$345,716 and \$165,418 in interest expense during the years ended June 30, 2016 and 2015, respectively.

As of June 30, 2016, Breakthrough is in compliance, or has received a waiver, with all debt covenants.

Long term debt matures as follows:

2017	\$	759,477
2018		761,872
2019		1,765,796
2020		7,320
2021		317,060
Thereafter		15,740,000
	\$	19,351,525

9. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following programs:

	June 30,	
	2016	2015
Assets held for capital projects-net	\$ 316,543	\$ 405,387
General contributions receivable (no purpose restrictions)	1,161,822	1,296,424
	\$ 1,478,365	\$ 1,701,811

10. LEASE COMMITMENTS:

Breakthrough has equipment leases with various expiration dates through May 2018. Rent expense for these leases, included in the consolidated statements of activities, was \$26,568 and \$20,412 for the years ended June 30, 2016 and 2015, respectively.

The future minimum rental payments required under operating leases are as follows:

<u>Year ending June 30,</u>	
2017	\$ 26,568
2018	11,740
	\$ 38,308

# **BREAKTHROUGH URBAN MINISTRIES, INC.**

## **Notes to Consolidated Financial Statements**

June 30, 2016 and 2015

11. RELATED PARTY TRANSACTIONS:

For the years ended June 30, 2016 and 2015, Breakthrough received \$500 and \$236,000, respectively, in contributions from an organization whose vice president is also a board member of Enterprises.

Breakthrough provided assistance in the form of loans receivable to a hydroponics food organization whose founder is also the treasurer of Enterprises. Total loans receivable at June 30, 2016 and 2015, were \$112,700 and \$49,500, respectively, and are included in accounts receivable on the consolidated statements of financial position.

12. RETIREMENT PLAN:

Breakthrough has a 401(k) plan for the benefit of substantially all employees. The plan provides for a discretionary matching contribution and a discretionary employee contribution under a deferred compensation arrangement. During the years ended June 30, 2016 and 2015, Breakthrough contributed \$26,628 and \$14,702, respectively, to the plan.

13. SUBSEQUENT EVENTS:

Subsequent to year end, Breakthrough entered into a line of credit agreement with a private foundation, allowing for maximum borrowings of \$200,000, of which \$200,000 was outstanding as of the date of this report. Interest on the line of credit accrues at a rate of 2.0%. The full principal balance plus unpaid accrued interest is due on December 31, 2016.

Subsequent events have been evaluated through the report date, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.

## **SUPPLEMENTARY DATA**

**INDEPENDENT AUDITORS' REPORT  
ON SUPPLEMENTARY DATA**

Board of Directors  
Breakthrough Urban Ministries, Inc.  
Chicago, Illinois

We have audited the consolidated financial statements of Breakthrough Urban Ministries, Inc. as of and for the years ended June 30, 2016 and 2015, and our report thereon dated December 6, 2016, which expressed an unmodified opinion on those financial statements, appears on page 1. 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 on pages 21 and 22 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual organizations, and it is 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 consolidating 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 combined financial statements as a whole.

*Capin Crouse LLP*

Wheaton, Illinois  
December 6, 2016

## BREAKTHROUGH URBAN MINISTRIES, INC.

### Consolidating Statements of Financial Position

	June 30,									
	2016					2015				
	Breakthrough Urban Ministries, Inc.	Breakthrough Holdings, Inc. NFP	Breakthrough Enterprises, Inc.	Eliminations	Combined Totals	Breakthrough Urban Ministries, Inc.	Breakthrough Holdings, Inc. NFP	Breakthrough Enterprises, Inc.	Eliminations	Combined Totals
<b>ASSETS:</b>										
Cash and cash equivalents	\$ 537,723	\$ -	\$ 19,004	\$ -	\$ 556,727	\$ 1,228,551	\$ -	\$ 34,230	\$ -	\$ 1,262,781
Cash held in escrow	-	-	-	-	-	40,215	-	-	-	40,215
Equity in Breakthrough Enterprises	70,942	-	-	(70,942)	-	90,000	-	-	(90,000)	-
Accounts receivable	331,492	105,000	-	(105,000)	331,492	175,560	96,250	-	(96,250)	175,560
Prepaid expenses and other assets	29,666	-	-	-	29,666	-	-	-	-	-
Contributions receivable–net	1,161,822	-	-	-	1,161,822	1,296,424	-	-	-	1,296,424
Assets held for capital projects–net	360,332	21,456	-	-	381,788	545,000	25,655	-	-	570,655
Note receivable	10,945,600	-	-	-	10,945,600	10,945,600	-	-	-	10,945,600
Property and equipment–net	6,094,160	15,869,097	-	-	21,963,257	6,053,897	16,290,128	22,107	-	22,366,132
<b>Total Assets</b>	<b>\$ 19,531,737</b>	<b>\$ 15,995,553</b>	<b>\$ 19,004</b>	<b>\$ (175,942)</b>	<b>\$ 35,370,352</b>	<b>\$ 20,375,247</b>	<b>\$ 16,412,033</b>	<b>\$ 56,337</b>	<b>\$ (186,250)</b>	<b>\$ 36,657,367</b>
<b>LIABILITIES:</b>										
Accounts payable	\$ 68,427	\$ -	\$ -	\$ -	\$ 68,427	\$ 88,196	\$ -	\$ -	\$ -	\$ 88,196
Accrued expenses	199,721	110,269	-	(105,000)	204,990	337,202	97,771	-	(96,250)	338,723
Deferred grant revenue	3,490,042	-	-	-	3,490,042	2,072,189	-	-	-	2,072,189
Long term debt	3,611,525	15,740,000	-	-	19,351,525	5,064,302	15,740,000	-	-	20,804,302
<b>Total Liabilities</b>	<b>7,369,715</b>	<b>15,850,269</b>	<b>-</b>	<b>(105,000)</b>	<b>23,114,984</b>	<b>7,561,889</b>	<b>15,837,771</b>	<b>-</b>	<b>(96,250)</b>	<b>23,303,410</b>
<b>NET ASSETS:</b>										
Unrestricted	10,668,657	145,284	19,004	(70,942)	10,762,003	11,096,547	574,262	56,337	(90,000)	11,637,146
Temporarily restricted	1,478,365	-	-	-	1,478,365	1,701,811	-	-	-	1,701,811
Permanently restricted	15,000	-	-	-	15,000	15,000	-	-	-	15,000
	<u>12,162,022</u>	<u>145,284</u>	<u>19,004</u>	<u>(70,942)</u>	<u>12,255,368</u>	<u>12,813,358</u>	<u>574,262</u>	<u>56,337</u>	<u>(90,000)</u>	<u>13,353,957</u>
<b>Total Liabilities and Net Assets</b>	<b>\$ 19,531,737</b>	<b>\$ 15,995,553</b>	<b>\$ 19,004</b>	<b>\$ (175,942)</b>	<b>\$ 35,370,352</b>	<b>\$ 20,375,247</b>	<b>\$ 16,412,033</b>	<b>\$ 56,337</b>	<b>\$ (186,250)</b>	<b>\$ 36,657,367</b>

See notes to consolidated financial statements



## BREAKTHROUGH URBAN MINISTRIES, INC.

### Consolidating Statements of Activities

	Year Ended June 30,									
	2016					2015				
	Breakthrough Urban Ministries, Inc.	Breakthrough Holdings, Inc. NFP	Breakthrough Enterprises, Inc.	Eliminations	Combined Totals	Breakthrough Urban Ministries, Inc.	Breakthrough Holdings, Inc. NFP	Breakthrough Enterprises, Inc.	Eliminations	Combined Totals
<b>SUPPORT AND REVENUE:</b>										
Contributions	\$ 3,381,307	\$ -	\$ -	\$ -	\$ 3,381,307	\$ 4,938,517	\$ -	\$ 90,000	\$ (90,000)	\$ 4,938,517
Government grants	943,007	-	-	-	943,007	901,581	-	-	-	901,581
Fees	161,453	-	20,297	-	181,750	61,721	-	9,873	-	71,594
Gifts in kind	1,142,261	-	-	-	1,142,261	1,110,208	-	-	-	1,110,208
Rental and other income	356,481	174,293	-	(174,271)	356,503	149,787	97,961	-	(96,250)	151,498
Loss on disposal of property and equipment	-	-	(19,058)	19,058	-	-	-	-	-	-
Write off of doubtful contributions receivable	-	-	-	-	-	(93,995)	-	-	-	(93,995)
	<u>5,984,509</u>	<u>174,293</u>	<u>1,239</u>	<u>(155,213)</u>	<u>6,004,828</u>	<u>7,067,819</u>	<u>97,961</u>	<u>99,873</u>	<u>(186,250)</u>	<u>7,079,403</u>
<b>EXPENSES:</b>										
Program services	5,706,747	586,551	20,775	(174,271)	6,139,802	4,354,492	289,939	8,173	(96,250)	4,556,354
Supporting activities:										
Management and general	304,176	16,720	17,797	-	338,693	334,716	7,999	34,288	-	377,003
Fund-raising	624,922	-	-	-	624,922	489,161	-	1,075	-	490,236
	<u>6,635,845</u>	<u>603,271</u>	<u>38,572</u>	<u>(174,271)</u>	<u>7,103,417</u>	<u>5,178,369</u>	<u>297,938</u>	<u>43,536</u>	<u>(96,250)</u>	<u>5,423,593</u>
Change in Net Assets	(651,336)	(428,978)	(37,333)	19,058	(1,098,589)	1,889,450	(199,977)	56,337	(90,000)	1,655,810
Net Assets, Beginning of Year	<u>12,813,358</u>	<u>574,262</u>	<u>56,337</u>	<u>(90,000)</u>	<u>13,353,957</u>	<u>10,923,908</u>	<u>774,239</u>	<u>-</u>	<u>-</u>	<u>11,698,147</u>
Net Assets, End of Year	<u>\$ 12,162,022</u>	<u>\$ 145,284</u>	<u>\$ 19,004</u>	<u>\$ (70,942)</u>	<u>\$ 12,255,368</u>	<u>\$ 12,813,358</u>	<u>\$ 574,262</u>	<u>\$ 56,337</u>	<u>\$ (90,000)</u>	<u>\$ 13,353,957</u>

See notes to consolidated financial statements