

BREAKTHROUGH URBAN MINISTRIES, INC.

Consolidated Financial Statements
With Independent Auditors' Report

June 30, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016, 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 4, 2017

BREAKTHROUGH URBAN MINISTRIES, INC.

Consolidated Statements of Financial Position

	June 30,	
	2017	2016
ASSETS:		
Cash and cash equivalents	\$ 481,829	\$ 556,727
Accounts receivable	335,338	331,492
Prepaid expenses and other assets	25,698	29,666
Contributions receivable–net	865,207	1,161,822
Assets held for capital projects–net	189,237	381,788
Note receivable	10,945,600	10,945,600
Property and equipment–net	21,421,974	21,963,257
Total Assets	\$ 34,264,883	\$ 35,370,352
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	\$ 71,363	\$ 68,427
Accrued expenses	239,083	204,990
Deferred grant revenue	4,830,358	3,490,042
Long term debt	17,892,690	19,351,525
Total liabilities	23,033,494	23,114,984
Net assets:		
Unrestricted	10,164,352	10,762,003
Temporarily restricted	1,052,037	1,478,365
Permanently restricted	15,000	15,000
Total net assets	11,231,389	12,255,368
Total Liabilities and Net Assets	\$ 34,264,883	\$ 35,370,352

See notes to consolidated financial statements

BREAKTHROUGH URBAN MINISTRIES, INC.

Consolidated Statements of Activities

	Year Ended June 30,	
	2017	2016
OPERATING ACTIVITIES:		
Change in Unrestricted Net Assets:		
Revenues, support and other income:		
Contributions	\$ 2,893,129	\$ 2,719,432
Government grants	1,293,340	943,007
Fees	153,744	161,453
Gifts in kind	1,178,922	1,071,655
Rental and other income	398,248	356,503
Net assets released from restrictions:		
Satisfaction of time restrictions	593,690	656,516
Total revenue, support and other income	<u>6,511,073</u>	<u>5,908,566</u>
Expenses:		
Salaries	2,597,746	2,541,269
Fringe benefits and related taxes	895,692	781,201
Assistance to individuals	1,602,467	1,290,015
Fees for services	211,371	199,098
Interest expense	282,408	345,716
Advertising and promotion	147,748	227,689
Other	913,957	986,072
Total Expenses	<u>6,651,389</u>	<u>6,371,060</u>
Change in Unrestricted Net Assets from Operating Activities	<u>(140,316)</u>	<u>(462,494)</u>

(continued)

See notes to consolidated financial statements

BREAKTHROUGH URBAN MINISTRIES, INC.

Consolidated Statements of Activities

(continued)

	Year Ended June 30,	
	2017	2016
NON-OPERATING ACTIVITIES:		
Change in Unrestricted Net Assets:		
Revenues, support and reclassifications:		
Fees	-	20,297
Net assets released from restrictions:		
Satisfaction of building fund restrictions	243,190	299,411
	243,190	319,708
Expenses:		
Depreciation	700,041	696,833
Salaries	-	24,295
Other	484	11,229
Total Expenses	700,525	732,357
Change in Unrestricted Net Assets from Non-Operating Activities	(457,335)	(412,649)
Total Change in Unrestricted Net Assets	(597,651)	(875,143)
Change in Temporarily Restricted Net Assets:		
Revenues, support and reclassifications:		
Contributions	285,938	509,862
Capital campaign contributions	113,477	152,013
Gifts in kind	11,137	70,606
Net assets released from restrictions:		
Satisfaction of time restrictions	(593,690)	(656,516)
Satisfaction of building fund restrictions	(243,190)	(299,411)
Total Change in Temporarily Restricted Net Assets	(426,328)	(223,446)
Change in Net Assets from Non-Operating Activities	(883,663)	(636,095)
Change in Net Assets	(1,023,979)	(1,098,589)
Net Assets, Beginning of Year	12,255,368	13,353,957
Net Assets, End of Year	\$ 11,231,389	\$ 12,255,368

See notes to consolidated financial statements

BREAKTHROUGH URBAN MINISTRIES, INC.

Consolidated Statements of Functional Expenses

	Year Ended June 30,							
	2017				2016			
	Program Services	Management and General	Fund-raising	Total	Program Services	Management and General	Fund-raising	Total
SALARIES AND RELATED EXPENSES:								
Salaries	\$ 2,264,292	\$ 78,143	\$ 255,311	2,597,746	\$ 2,180,511	\$ 103,581	\$ 281,472	\$ 2,565,564
Fringe benefits and related taxes	791,906	29,845	73,941	895,692	676,869	32,714	71,618	781,201
Total salaries and related expenses	3,056,198	107,988	329,252	3,493,438	2,857,380	136,295	353,090	3,346,765
OTHER EXPENSES:								
Assistance to individuals	1,598,849	2,571	1,047	1,602,467	1,286,194	2,994	827	1,290,015
Fees for services	130,242	35,483	45,646	211,371	148,256	41,011	9,831	199,098
Advertising and promotion	35,611	6,372	105,765	147,748	37,948	138	189,603	227,689
Office expenses	67,115	10,989	7,726	85,830	63,862	10,888	8,120	82,870
Information technology	21,569	12,984	7,187	41,740	53,503	10,058	4,584	68,145
Occupancy	422,787	20,453	15,403	458,643	445,614	17,905	16,265	479,784
Conferences and meetings	5,835	586	1,093	7,514	11,901	1,596	533	14,030
Interest	189,443	92,965	-	282,408	289,363	56,353	-	345,716
Depreciation	660,745	21,129	18,167	700,041	657,847	20,995	17,991	696,833
Insurance	50,332	7,065	4,938	62,335	46,440	8,122	5,197	59,759
Supplies and materials	124,977	2,926	462	128,365	154,113	3,679	2,620	160,412
Repairs and maintenance	31,649	1,131	1,033	33,813	18,644	1,690	1,158	21,492
Bank fees	3,821	19,061	-	22,882	-	21,229	-	21,229
Subscriptions and dues	36,742	6,200	16,583	59,525	68,737	3,807	13,903	86,447
Operating other expenses	2,094	10,821	879	13,794	-	1,933	1,200	3,133
Total other expenses	3,381,811	250,736	225,929	3,858,476	3,282,422	202,398	271,832	3,756,652
Total Expenses	\$ 6,438,009	\$ 358,724	\$ 555,181	\$ 7,351,914	\$ 6,139,802	\$ 338,693	\$ 624,922	\$ 7,103,417

See notes to consolidated financial statements

BREAKTHROUGH URBAN MINISTRIES, INC.

Consolidated Statements of Cash Flows

	Year Ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (1,023,979)	\$ (1,098,589)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for capital projects	(113,477)	(152,013)
Change in allowance for doubtful contributions receivable	12,753	-
Change in discount on contributions receivable	(24,393)	-
Depreciation	700,041	696,833
Donated property and equipment	-	(58,552)
Change in:		
Accounts receivable	(3,846)	(155,932)
Prepaid expenses and other assets	3,968	(29,666)
Contributions receivable	285,685	135,943
Accounts payable	2,936	(19,769)
Accrued expenses	34,093	(133,733)
Net Cash Provided by Operating Activities	(126,219)	(815,478)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in cash and cash equivalents held for capital projects	78,951	192,352
Purchase of property and equipment	(158,758)	(235,406)
Net Cash Used in Investing Activities	(79,807)	(43,054)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for capital projects and collections on contributions receivable held for capital projects	249,647	147,187
Proceeds from deferred grant revenue	1,340,316	1,417,853
Payments on long term debt	(1,458,835)	(1,452,777)
Net Cash Used in Financing Activities	131,128	112,263
Net Change in Cash and Cash Equivalents	(74,898)	(746,269)
Cash and Cash Equivalents, Beginning of Year	556,727	1,302,996
Cash and Cash Equivalents, End of Year	\$ 481,829	\$ 556,727
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITY:		
Cash paid for interest (none capitalized)	\$ 293,339	\$ 358,725

See notes to consolidated financial statements

BREAKTHROUGH URBAN MINISTRIES, INC.

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

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, 2017 and 2016

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, 2017 and 2016

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.

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, 2017 and 2016

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, 2017 and 2016, was \$105,517 and \$104,312, 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, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

GIFTS IN KIND, continued:

Total gifts in kind are as follows:

	June 30,	
	2017	2016
Material, stock and land:		
Food	\$ 1,094,435	\$ 863,729
Stock	84,486	207,926
Services:		
Professional/legal services	11,138	70,606
	<u>\$ 1,190,059</u>	<u>\$ 1,142,261</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.

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,	
	2017	2016
Amounts due in:		
Less than one year	\$ 572,084	\$ 507,769
One to five years	354,386	704,386
	926,470	1,212,155
Less unamortized discount	(12,845)	(36,690)
Less allowance for uncollectible pledges	(48,418)	(13,643)
	<u>\$ 865,207</u>	<u>\$ 1,161,822</u>

BREAKTHROUGH URBAN MINISTRIES, INC.

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

4. PROPERTY AND EQUIPMENT—NET:

Property and equipment consists of:

	June 30,	
	2017	2016
Land	\$ 388,320	\$ 388,320
Building	22,067,877	21,990,225
Building and leasehold improvements	1,887,518	1,878,762
Vehicles	211,300	211,300
Furniture and equipment	502,019	446,070
	<u>25,057,034</u>	<u>24,914,677</u>
Accumulated depreciation	(3,661,264)	(2,953,677)
Construction in progress	26,204	2,257
	<u>\$ 21,421,974</u>	<u>\$ 21,963,257</u>

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, 2017 and 2016

5. ASSETS HELD FOR CAPITAL PROJECTS, continued:

Assets held for capital projects consist of the following:

	June 30,	
	2017	2016
Cash and cash equivalents - donor restricted	\$ 7,340	\$ 86,291
Cash and cash equivalents - proceeds from long term debt	2,407	65,245
Contributions receivable	179,490	230,252
	<u>\$ 189,237</u>	<u>\$ 381,788</u>

Contributions receivable are expected to be collected as follows:

	June 30,	
	2017	2016
Amounts due in:		
Less than one year	\$ 169,771	\$ 233,104
One to five years	20,000	30,000
	<u>189,771</u>	<u>263,104</u>
Less unamortized discount	(793)	(1,341)
Less allowance for uncollectible pledges	(9,488)	(31,511)
	<u>\$ 179,490</u>	<u>\$ 230,252</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, 2017 and 2016

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. During the year ending June 30, 2017, the remaining \$1,400,000 of this amount was collected and was used to pay off the TIF Bridge Loan Promissory Note. The TIF agreement has a 10 year term. Included as part of this agreement was a \$2,800,000 City of Chicago Tax Increment Allocation Revenue Note (City Note) which helped offset the cost of financing the FamilyPlex project. The City Note bore 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) and ended upon Breakthrough receiving the final TIF payment in March 2017. As of June 30, 2017 and 2016, interest revenue earned from the City Note totaled \$23,796 and \$47,363, respectively, 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, 2017 and 2016, was \$109,456 and \$109,376, 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, 2017 and 2016, Breakthrough had \$2,407 and \$65,245, 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, 2017 and 2016

8. LONG TERM DEBT:

Long term debt consists of:

	June 30,	
	2017	2016
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.	\$ 813,670	\$ 865,185
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.	339,020	346,340
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 was adjustable (4.12% at June 30, 2016), based on the London Interbank Offered Rate (LIBOR) plus 350 basis points. This note was 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. The note was paid off during the year ended June 30, 2017.	-	1,400,000
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, 2017 and 2016

8. LONG TERM DEBT, continued:

	June 30,	
	2017	2016
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
	\$ 17,892,690	\$ 19,351,525

BREAKTHROUGH URBAN MINISTRIES, INC.

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

8. LONG TERM DEBT, continued:

Breakthrough incurred \$282,408 and \$345,716 in interest expense during the years ended June 30, 2017 and 2016, respectively.

As of June 30, 2017, Breakthrough is in compliance, or has received a waiver, with all debt covenants.

Long term debt matures as follows:

2018	\$	61,872
2019		1,766,438
2020		7,320
2021		317,060
2022		618,604
Thereafter		<u>15,121,396</u>
	\$	<u><u>17,892,690</u></u>

9. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following programs:

	June 30,	
	2017	2016
Assets held for capital projects-net	\$ 186,830	\$ 316,543
General contributions receivable (no purpose restrictions)	<u>865,207</u>	<u>1,161,822</u>
	<u>\$ 1,052,037</u>	<u>\$ 1,478,365</u>

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 \$28,568 for the years ended June 30, 2017 and 2016, respectively. The future minimum rental payment required under these leases is \$11,170 for the year ending June 30, 2018.

BREAKTHROUGH URBAN MINISTRIES, INC.

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

11. RELATED PARTY TRANSACTIONS:

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, 2017 and 2016, were \$115,696 and \$112,700, 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, 2017 and 2016, Breakthrough contributed \$32,157 and \$26,628, 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, 2017.

Subsequent events have been evaluated through December 4, 2017, 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, 2017 and 2016, and our report thereon dated December 4, 2017, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. 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 consolidated financial statements as a whole.

Capin Crouse LLP

Wheaton, Illinois
December 4, 2017

BREAKTHROUGH URBAN MINISTRIES, INC.

Consolidating Statements of Financial Position

	June 30,									
	2017					2016				
	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
ASSETS:										
Cash and cash equivalents	\$ 463,309	\$ -	\$ 18,520	\$ -	\$ 481,829	\$ 537,723	\$ -	\$ 19,004	\$ -	\$ 556,727
Equity in Breakthrough Enterprises	70,942	-	-	(70,942)	-	70,942	-	-	(70,942)	-
Accounts receivable	335,338	105,000	-	(105,000)	335,338	331,492	105,000	-	(105,000)	331,492
Prepaid expenses and other assets	25,698	-	-	-	25,698	29,666	-	-	-	29,666
Contributions receivable-net	865,207	-	-	-	865,207	1,161,822	-	-	-	1,161,822
Assets held for capital projects-net	189,237	-	-	-	189,237	360,332	21,456	-	-	381,788
Note receivable	10,945,600	-	-	-	10,945,600	10,945,600	-	-	-	10,945,600
Property and equipment-net	5,952,303	15,469,671	-	-	21,421,974	6,094,160	15,869,097	-	-	21,963,257
Total Assets	\$ 18,847,634	\$ 15,574,671	\$ 18,520	\$ (175,942)	\$ 34,264,883	\$ 19,531,737	\$ 15,995,553	\$ 19,004	\$ (175,942)	\$ 35,370,352
LIABILITIES:										
Accounts payable	\$ 71,363	\$ -	\$ -	\$ -	\$ 71,363	\$ 68,427	\$ -	\$ -	\$ -	\$ 68,427
Accrued expenses	246,314	97,769	-	(105,000)	239,083	199,721	110,269	-	(105,000)	204,990
Deferred grant revenue	4,830,358	-	-	-	4,830,358	3,490,042	-	-	-	3,490,042
Long term debt	2,152,690	15,740,000	-	-	17,892,690	3,611,525	15,740,000	-	-	19,351,525
Total Liabilities	7,300,725	15,837,769	-	(105,000)	23,033,494	7,369,715	15,850,269	-	(105,000)	23,114,984
NET ASSETS:										
Unrestricted	10,479,872	(263,098)	18,520	(70,942)	10,164,352	10,668,657	145,284	19,004	(70,942)	10,762,003
Temporarily restricted	1,052,037	-	-	-	1,052,037	1,478,365	-	-	-	1,478,365
Permanently restricted	15,000	-	-	-	15,000	15,000	-	-	-	15,000
	<u>11,546,909</u>	<u>(263,098)</u>	<u>18,520</u>	<u>(70,942)</u>	<u>11,231,389</u>	<u>12,162,022</u>	<u>145,284</u>	<u>19,004</u>	<u>(70,942)</u>	<u>12,255,368</u>
Total Liabilities and Net Assets	\$ 18,847,634	\$ 15,574,671	\$ 18,520	\$ (175,942)	\$ 34,264,883	\$ 19,531,737	\$ 15,995,553	\$ 19,004	\$ (175,942)	\$ 35,370,352

See notes to consolidated financial statements

BREAKTHROUGH URBAN MINISTRIES, INC.

Consolidating Statements of Activities

	Year Ended June 30,									
	2017					2016				
	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
SUPPORT AND REVENUE:										
Contributions	\$ 3,309,940	\$ -	\$ -	\$ (17,396)	\$ 3,292,544	\$ 3,381,307	\$ -	\$ -	\$ -	\$ 3,381,307
Government grants	1,293,340	-	-	-	1,293,340	943,007	-	-	-	943,007
Fees	153,744	-	-	-	153,744	161,453	-	20,297	-	181,750
Gifts in kind	1,190,059	-	-	-	1,190,059	1,142,261	-	-	-	1,142,261
Rental and other income	398,243	185,005	-	(185,000)	398,248	356,481	174,293	-	(174,271)	356,503
Loss on disposal of property and equipment	-	-	-	-	-	-	-	(19,058)	19,058	-
	<u>6,345,326</u>	<u>185,005</u>	<u>-</u>	<u>(202,396)</u>	<u>6,327,935</u>	<u>5,984,509</u>	<u>174,293</u>	<u>1,239</u>	<u>(155,213)</u>	<u>6,004,828</u>
EXPENSES:										
Program services	6,059,417	563,108	484	(185,000)	6,438,009	5,706,747	586,551	20,775	(174,271)	6,139,802
Supporting activities:										
Management and general	345,841	30,279	-	(17,396)	358,724	304,176	16,720	17,797	-	338,693
Fund-raising	555,181	-	-	-	555,181	624,922	-	-	-	624,922
	<u>6,960,439</u>	<u>593,387</u>	<u>484</u>	<u>(202,396)</u>	<u>7,351,914</u>	<u>6,635,845</u>	<u>603,271</u>	<u>38,572</u>	<u>(174,271)</u>	<u>7,103,417</u>
Change in Net Assets	(615,113)	(408,382)	(484)	-	(1,023,979)	(651,336)	(428,978)	(37,333)	19,058	(1,098,589)
Net Assets, Beginning of Year	12,162,022	145,284	19,004	(70,942)	12,255,368	12,813,358	574,262	56,337	(90,000)	13,353,957
Net Assets, End of Year	<u>\$ 11,546,909</u>	<u>\$ (263,098)</u>	<u>\$ 18,520</u>	<u>\$ (70,942)</u>	<u>\$ 11,231,389</u>	<u>\$ 12,162,022</u>	<u>\$ 145,284</u>	<u>\$ 19,004</u>	<u>\$ (70,942)</u>	<u>\$ 12,255,368</u>

See notes to consolidated financial statements