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**PANERA BREAD FOUNDATION, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 25, 2012 AND DECEMBER 27, 2011**

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# Panera Bread Foundation, Inc.

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December 25, 2012 and December 27, 2011

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## Independent Auditor's Report

Board of Directors  
Panera Bread Foundation, Inc.  
St. Louis, Missouri

We have audited the accompanying financial statements of Panera Bread Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of December 25, 2012 and December 27, 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the 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 Foundation'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Panera Bread Foundation, Inc. as of December 25, 2012 and December 27, 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Brown Smith Wallace, L.L.C.*

St. Louis, Missouri  
July 3, 2013

MEMBER AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND AN INDEPENDENT FIRM  
ASSOCIATED WITH THE NORTH AMERICAN REGION OF MOORE STEPHENS INTERNATIONAL LIMITED  
KNOWN INTERNATIONALLY AS MOORE STEPHENS BROWN SMITH WALLACE, LLC

# Panera Bread Foundation, Inc.

## Statements of Financial Position

December 25, 2012 and December 27, 2011

	<u>December 25, 2012</u>	<u>December 27, 2011</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,291,081	\$ 3,634,118
Contributions receivable	118,971	383,454
Inventories	43,779	34,083
Prepaid expenses and other current assets	87,552	30,411
Total current assets	<u>3,541,383</u>	<u>4,082,066</u>
Long-term assets:		
Property and equipment, net	<u>1,423,598</u>	<u>1,136,797</u>
<b>Total Assets</b>	<u><b>\$ 4,964,981</b></u>	<u><b>\$ 5,218,863</b></u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 31,901	\$ 22,131
Pledges payable	457,309	845,386
Accrued expenses	503,647	316,426
Related party payable	648,123	1,199,109
Total current liabilities	<u>1,640,980</u>	<u>2,383,052</u>
<b>Net Assets</b>		
Unrestricted net assets	3,205,030	2,452,357
Temporarily restricted net assets	118,971	383,454
Total net assets	<u>3,324,001</u>	<u>2,835,811</u>
<b>Total Liabilities and Net Assets</b>	<u><b>\$ 4,964,981</b></u>	<u><b>\$ 5,218,863</b></u>

The accompanying notes are an integral part of the financial statements.

# Panera Bread Foundation, Inc.

## Statements of Activities

For the Fiscal Years Ended December 25, 2012 and December 27, 2011

	2012		
	Unrestricted	Temporarily Restricted	Total
<b>Support:</b>			
Public support	\$ 4,677,810	\$ 118,971	\$ 4,796,781
Related party contributions	3,331,470	-	3,331,470
Net assets released from restrictions	383,454	(383,454)	-
Total support	8,392,734	(264,483)	8,128,251
<b>Expenses:</b>			
Program services	7,134,442	-	7,134,442
General and administrative	505,619	-	505,619
Total expenses	7,640,061	-	7,640,061
<b>Increase (Decrease) in Net Assets</b>	752,673	(264,483)	488,190
<b>Net Assets Beginning of Fiscal Year</b>	2,452,357	383,454	2,835,811
<b>Net Assets End of Fiscal Year</b>	\$ 3,205,030	\$ 118,971	\$ 3,324,001

	2011		
	Unrestricted	Temporarily Restricted	Total
<b>Support:</b>			
Public support	\$ 3,500,507	\$ 383,454	\$ 3,883,961
Related party contributions	3,662,899	-	3,662,899
Net assets released from restrictions	898,910	(898,910)	-
Total support	8,062,316	(515,456)	7,546,860
<b>Expenses:</b>			
Program services	6,396,872	-	6,396,872
General and administrative	433,518	-	433,518
Total expenses	6,830,390	-	6,830,390
<b>Increase (Decrease) in Net Assets</b>	1,231,926	(515,456)	716,470
<b>Net Assets Beginning of Fiscal Year</b>	1,220,431	898,910	2,119,341
<b>Net Assets End of Fiscal Year</b>	\$ 2,452,357	\$ 383,454	\$ 2,835,811

The accompanying notes are an integral part of the financial statements

# Panera Bread Foundation, Inc.

## Statements of Functional Expenses

For the Fiscal Years Ended December 25, 2012 and December 27, 2011

	2012			
	Community Assistance	Panera Cares Program	Management and General	Total
General community support	\$ 1,229,045	\$ -	\$ -	\$ 1,229,045
Cost of food and paper products	-	2,638,973	-	2,638,973
Labor	-	1,826,294	-	1,826,294
Occupancy	-	625,277	-	625,277
Other operating expenses	-	396,958	-	396,958
Travel	-	-	75,799	75,799
Donated administrative services	-	-	18,075	18,075
Utilities	-	-	411,745	411,745
Advertising	-	128,520	-	128,520
Depreciation	-	7,903	-	7,903
	-	281,472	-	281,472
<b>Total Expenses</b>	<b>\$ 1,229,045</b>	<b>\$ 5,905,397</b>	<b>\$ 505,619</b>	<b>\$ 7,640,061</b>

	2011			
	Community Assistance	Panera Cares Program	Management and General	Total
General community support	\$ 1,837,256	\$ -	\$ -	\$ 1,837,256
Cost of food and paper products	-	2,100,562	-	2,100,562
Labor	-	1,394,065	-	1,394,065
Occupancy	-	417,949	-	417,949
Other operating expenses	-	304,895	-	304,895
Travel	-	-	25,729	25,729
Donated administrative services	-	-	11,290	11,290
Utilities	-	-	396,499	396,499
Advertising	-	106,161	-	106,161
Depreciation	-	10,449	-	10,449
	-	225,535	-	225,535
<b>Total Expenses</b>	<b>\$ 1,837,256</b>	<b>\$ 4,559,616</b>	<b>\$ 433,518</b>	<b>\$ 6,830,390</b>

The accompanying notes are an integral part of the financial statements.

# Panera Bread Foundation, Inc.

## Statements of Cash Flows

For the Fiscal Years Ended December 25, 2012 and December 27, 2011

	December 25, 2012	December 27, 2011
<b>Cash Flows From Operating Activities:</b>		
Increase in net assets	\$ 488,190	\$ 716,470
Adjustments to reconcile Increase in net assets to net cash provided by operating activities:		
Depreciation	281,472	225,535
Contributions of property and equipment	(507,090)	(678,892)
Changes in operating assets and liabilities:		
Contributions receivable	264,483	(186,112)
Pledge receivable	-	701,568
Inventories	(9,696)	(11,702)
Prepaid expense and other current assets	(57,141)	(30,411)
Accounts payable	9,770	20,756
Pledges payable	(388,077)	765,783
Accrued expenses	187,221	296,219
Related party payable	(550,986)	801,892
Net cash (used in) provided by operating activities	(281,854)	2,621,106
<b>Cash Flows From Investing Activities:</b>		
Additions to property and equipment	(61,183)	(86,826)
Net cash used in investing activities	(61,183)	(86,826)
<b>Net (Decrease) Increase in Cash</b>	(343,037)	2,534,280
<b>Cash at Beginning of Fiscal Year</b>	3,634,118	1,099,838
<b>Cash at End of Fiscal Year</b>	\$ 3,291,081	\$ 3,634,118

The accompanying notes are an integral part of the financial statements.

# Panera Bread Foundation, Inc.

## Notes to the Financial Statements

December 25, 2012 and December 27, 2011

### 1. Nature of Operations

Panera Bread Foundation, Inc. (the "Foundation") is a Missouri non-profit corporation. The Foundation was incorporated in 2002 for charitable and education purposes. The Internal Revenue Service has issued a ruling stating that the Foundation is a Section 501(c)(3) charitable organization and qualifies as a public charity under Section 509(a)(1) of the Internal Revenue Code.

The Foundation's primary program activity over the past 10 years has been to provide community support to numerous other charitable organizations throughout the United States. This currently includes the Operation Dough-Nation Community Breadbox cash collection boxes, and participation in community events.

In the fiscal year ended December 28, 2010, the Foundation began a program that is a donation-based non-profit community cafe concept ("Panera Cares"). Panera Cares bakery-cafes exist to make a difference by offering the Panera Bread experience with dignity to all – those who can afford it, those who need a hand up, and everyone in between. The first Panera Cares bakery-cafe opened on May 16, 2010 under the name Saint Louis Bread Co. Cares. As of December 25, 2012, there were four operating locations in Illinois, Michigan, Missouri, and Oregon.

### 2. Summary of Significant Accounting Policies

#### Basis of Accounting and Presentation

The financial statements have been prepared on the accrual basis of accounting. Additionally, the financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 958-205-05, *Presentation of Financial Statements*, which requires the Foundation to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. Temporarily restricted net assets include timing restrictions from contributions and pledge receivables that will be released subsequent to year end.

#### Reclassifications and Other

Certain fiscal 2011 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used in fiscal 2012. The fiscal 2011 Statement of Activities was adjusted to consider \$384,444 of incremental contributed services. This adjustment had no impact on net assets.

#### Fiscal Year

The Foundation's fiscal year ends on the last Tuesday in December. Each of the Foundation's fiscal years ended December 25, 2012 and December 27, 2011 had 52 weeks.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimate

# **Panera Bread Foundation, Inc.**

Notes to the Financial Statements  
December 25, 2012 and December 27, 2011

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## **2. Summary of Significant Accounting Policies (Continued)**

### **Revenue Recognition and Receivables**

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted, depending on the existence or nature of any donor restrictions and timing of cash received. The Foundation reports donations of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When the satisfaction of a restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Contributions revenue consists of donations. These donations include amounts collected in Operation Dough-Nation Community Breadbox cash collection boxes at company-owned Panera Bread Company ("Panera") bakery-cafes throughout the United States, matching funds from Panera, LLC, amounts received at the Panera Cares bakery-cafes, monetary amounts and assets contributed to the Foundation by Panera, LLC and others, and specialized skills donated by Panera, LLC employees.

Contributions receivable consists primarily of amounts due to the Foundation from amounts collected in Operation Dough-Nation Community Breadbox cash collection boxes, monetary amounts due to the Foundation from Panera, LLC, and amounts from credit card companies as a result of customer donations at Panera Cares bakery-cafes. The Foundation maintains reserves for potential uncollectible accounts, when relevant. An allowance for doubtful accounts was not considered necessary at either December 25, 2012 or December 27, 2011, respectively.

Unconditional pledges receivable are recognized as revenue in the year they are received. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met.

### **Cash and Cash Equivalents**

The Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Foundation's cash and cash equivalents are on deposit with a major domestic financial institution. At times, bank balances of the Foundation's operating cash deposits exceed Federal Deposit Insurance Corporation insurable limits.

### **Inventories**

Inventories, which consist of the food products at the Panera Cares bakery-cafe locations, are valued at the lower of cost or market, determined under the first-in, first-out method.

### **Property and Equipment, net**

Property and equipment are carried at cost, or if donated, at fair value on the date of receipt, less accumulated depreciation. Leasehold improvements and leased property are depreciated using the straight-line method over the shorter of their estimated useful lives or the related reasonably assured lease term. Depreciation for machinery and equipment is recorded using the straight-line method over the estimated useful lives of the assets. The average estimated depreciable lives are 15 years for leasehold improvements and three to ten years for machinery and equipment.

# **Panera Bread Foundation, Inc.**

## **Notes to the Financial Statements**

**December 25, 2012 and December 27, 2011**

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### **2. Summary of Significant Accounting Policies (Continued)**

#### **Asset Retirement Obligations**

The Foundation recognizes the future cost to comply with lease obligations at the end of a lease as it relates to tangible long-lived assets in accordance with the accounting standard for asset retirement and environmental obligations ("ARO") in the Foundation's financial statements. A liability for the fair value of an ARO along with a corresponding increase to the carrying value of the related long-lived asset is recorded at the time a lease agreement is executed. The Foundation amortizes the amount added to property and equipment, net and recognizes accretion expense in connection with the discounted liability over the reasonably assured lease term. The estimated liability is based on Panera's historical experience in closing bakery-cafes and the related external cost associated with these activities. Revisions to the liability could occur due to changes in estimated retirement costs or changes in lease terms. As of December 25, 2012 and December 27, 2011, the net ARO asset included in property and equipment, net was \$27,711 and \$19,277, respectively, and the net ARO liability included in accrued expenses was \$41,037 and \$20,393, respectively. ARO accretion expense was \$1,582 and \$1,116 for the fiscal years ended December 25, 2012 and December 27, 2011, respectively.

#### **Impairment of Long-Lived Assets**

The Foundation evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance of an asset may not be recoverable. The Foundation compares anticipated undiscounted cash flows from the related long-lived assets of a bakery-cafe with their respective carrying values to determine if the long-lived assets are recoverable. If the sum of the anticipated undiscounted cash flows for the long-lived assets is less than their carrying value, an impairment loss is recognized for the difference between the anticipated discounted cash flows that approximate fair value and the carrying value of the long-lived assets. In performing this analysis, management estimates cash flows based upon, among other things, certain assumptions about expected future operating performance, such as revenue growth rates, operating margins, risk-adjusted discount rates, and future economic and market conditions. Estimates of cash flow may differ from actual cash flow due to, among other things, economic conditions, changes to the Foundation's business model, or changes in operating performance. The long-term financial forecasts that management utilizes represent the best estimate that management has at this time and management believes that the underlying assumptions are reasonable.

No impairment loss was recognized during the fiscal years ended December 25, 2012 and December 27, 2011, respectively.

#### **Income Taxes**

The Foundation is exempt from federal income taxes on its related, exempt activities under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is reflected in the accompanying Statements of Activities.

In accordance with generally accepted accounting principles, the Foundation uses a loss contingency approach for evaluating uncertain tax positions. Management routinely evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings.

# Panera Bread Foundation, Inc.

## Notes to the Financial Statements

December 25, 2012 and December 27, 2011

### 2. Summary of Significant Accounting Policies (Continued)

The Foundation has addressed the provisions of FASB ASC 740, *Accounting for Income Taxes*. In that regard, the Foundation has evaluated its tax positions, expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings and believes that no provision for income taxes is necessary, at this time, to cover any uncertain tax positions. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Foundation's management believes it is no longer subject to income tax examinations for fiscal years prior to 2010.

#### Fair Value

The carrying amount of contributions receivable, inventories, prepaid expenses and other current assets, accounts payable, pledges payable, accrued expenses and related party payable approximate fair value due to the short period to maturity.

#### Functional Allocation of Expenses

Costs have been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated between program services and general and administrative expenses.

#### Donated Goods and Services

The Foundation records donated goods and services in accordance with FASB ASC 958-605-25, *Accounting for Contributions Received*. Donated goods are recorded at fair value when received. Donated services are recognized when the service either creates or enhances a non-financial asset or requires specialized skills that would typically need to be purchased if the service was not donated. The Foundation receives services that are performed by employees of Panera, LLC. The value of this contributed time is reflected in these financial statements because the criteria for recognition under FASB ASC 958-605-25 have been met.

### 3. Inventories

Inventories consisted of the following:

	December 25, 2012	December 27, 2011
Food - raw materials	\$ 36,081	\$ 29,956
Paper goods	7,698	4,127
Total	<u>\$ 43,779</u>	<u>\$ 34,083</u>

**Panera Bread Foundation, Inc.**  
**Notes to the Financial Statements**  
**December 25, 2012 and December 27, 2011**

**4. Property and Equipment, net**

Major classes of property and equipment consisted of the following:

	<u>December 25, 2012</u>	<u>December 27, 2011</u>
Leasehold improvements	\$ 1,143,212	\$ 849,217
Machinery and equipment	452,268	274,275
Furniture and fixtures	197,282	123,671
Smallwares	97,857	79,337
Signage	38,917	37,188
	<u>1,929,536</u>	<u>1,363,688</u>
Less: accumulated depreciation	(505,938)	(226,891)
<b>Property and equipment, net</b>	<u><b>\$ 1,423,598</b></u>	<u><b>\$ 1,136,797</b></u>

The Foundation recorded depreciation expense related to these assets of \$281,472 and \$225,535 for the fiscal years ended December 25, 2012 and December 27, 2011, respectively.

**5. Accrued Expenses**

Accrued expenses consisted of the following:

	<u>December 25, 2012</u>	<u>December 27, 2011</u>
Donation payable	\$ 252,000	\$ 171,836
Other Panera Cares program operating expenses	90,406	46,537
Occupancy	81,696	47,887
Food and paper products	67,455	39,389
Utilities	12,090	10,777
<b>Total</b>	<u><b>\$ 503,647</b></u>	<u><b>\$ 316,426</b></u>

**6. Leases**

The Foundation has four operating leases pertaining to its Panera Cares bakery-cafes located in Dearborn, MI, Clayton, MO, Portland, OR, and Chicago, IL. These leases have terms expiring on various dates from January 31, 2013 to September 30, 2027. At December 25, 2012, aggregate future minimum payments were as follows:

2013	\$ 661,352
2014	655,946
2015	493,820
2016	451,442
2017	468,150
Thereafter	3,144,884

# Panera Bread Foundation, Inc.

## Notes to the Financial Statements

December 25, 2012 and December 27, 2011

### 6. Leases (Continued)

The Foundation incurred rental expense of \$625,277 and \$417,949 for the fiscal years ended December 25, 2012 and December 27, 2011, respectively.

### 7. Related Party Transactions

The Foundation receives contributions from Panera, LLC in the form of assets, which includes contributed property and equipment and donated bread, monetary support, donated administrative services, and matching contributions as part of the Operation Dough-Nation program. The donated administrative services meet the criteria for recognition under FASB ASC 958-605-25, *Accounting for Contributions Received*, and are recorded in the accompanying Statements of Activities as related party contributions. Total contributions from Panera, LLC for the fiscal years ended December 25, 2012 and December 27, 2011 consisted of the following:

	2012	2011
Assets	\$ 1,914,620	\$ 1,171,258
Monetary support	900,000	2,000,000
Donated administrative services	411,745	396,499
Operation Dough-Nation matching contributions	105,105	95,142
Total	<u>\$ 3,331,470</u>	<u>\$ 3,662,899</u>

Included in contributions receivable at December 25, 2012 and December 27, 2011 were \$94,716 and \$374,204, respectively, for certain contributions from Panera, LLC due to the Foundation.

In addition to the contributions received from Panera, LLC, the Foundation reimburses Panera, LLC for amounts paid by Panera, LLC on behalf of the Foundation including amounts related to payroll, accounts payable and other operating costs essential to the Foundation's operations. The total due to Panera, LLC for amounts paid on behalf of the Foundation at December 25, 2012 and December 27, 2011 were \$648,123 and \$1,199,109, respectively, and these amounts comprised the related party payable.

### 8. Supplemental Cash Flow Information

There was no cash paid for interest or taxes during either of the fiscal years ended December 25, 2012 or December 27, 2011. The Foundation had no non-cash financing activities requiring disclosure for the fiscal years ended December 25, 2012 or December 27, 2011, respectively.

### 9. Subsequent Events

The Foundation has evaluated all other events and transactions occurring after December 25, 2012 through July 3, 2013, the date the Foundation's financial statements were available to be issued. The Foundation acquired a bakery-cafe from Panera, LLC in fiscal 2013 for a purchase price of

## Panera Bread Foundation, Inc.

Notes to the Financial Statements

December 25, 2012 and December 27, 2011

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### 9. Subsequent Events (Continued)

\$803,170. This bakery-cafe is located in Boston, MA and opened as a Panera Cares bakery-cafe on January 23, 2013. This location represents the fifth Panera Cares bakery-cafe operated by the Foundation. With the exception of the acquisition of the bakery-cafe, no events or transactions require recognition in the financial statements or accompanying notes of the Foundation per the definitions and requirements of FASB ASC 855-10, *Subsequent Events*.