

Water Street Ministries

Consolidated Financial Report

June 30, 2015



CERTIFIED PUBLIC ACCOUNTANTS
AND BUSINESS ADVISORS

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BUSINESS ADVISORS AND
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Water Street Ministries
Lancaster, Pennsylvania

We have audited the accompanying consolidated financial statements of Water Street Ministries and affiliate (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, 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 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 the consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Water Street Ministries and affiliate as of June 30, 2015, and the changes in their net assets and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Water Street Ministries and affiliate's 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 1, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.


Simon Lever LLP
Lancaster, PA

September 21, 2015

CONSOLIDATED FINANCIAL STATEMENTS

Water Street Ministries

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
	<u>\$</u>	<u>\$</u>
ASSETS		
Cash and cash equivalents	2,495,428	3,046,207
Receivables	169,985	191,828
Inventory	482,138	382,910
Prepaid expenses	222,218	235,592
Investments	5,993,719	5,705,876
Mortgage receivable	151,381	154,421
Assets held for transfer	0	436,892
Property and equipment, net of accumulated depreciation of \$4,834,462 - 2015; \$4,665,710 - 2014	6,191,066	6,086,166
Beneficial interest in split-interest agreements	217,283	214,867
Investments - permanently restricted	535,123	535,123
Beneficial interest in assets held by others in perpetual trust	<u>4,343,912</u>	<u>4,599,301</u>
<u>TOTAL ASSETS</u>	<u>20,802,253</u>	<u>21,589,183</u>

See Notes to Financial Statements

Water Street Ministries

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
	<u>\$</u>	<u>\$</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	59,779	274,871
Accrued payroll and employee benefits	446,929	749,533
Accrued expenses	53,687	39,028
Annuity obligations	112,734	146,782
Obligations under capital lease	43,748	85,435
Promise to give	0	271,892
	<u>716,877</u>	<u>1,567,541</u>
TOTAL LIABILITIES	<u>716,877</u>	<u>1,567,541</u>
NET ASSETS		
Unrestricted		
Designated by board	3,000,000	3,000,000
Allocated to property and equipment	6,191,066	6,086,166
Undesignated	5,663,578	5,387,712
Total Unrestricted	<u>14,854,644</u>	<u>14,473,878</u>
Temporarily restricted	351,697	413,340
Permanently restricted	<u>4,879,035</u>	<u>5,134,424</u>
TOTAL NET ASSETS	<u>20,085,376</u>	<u>20,021,642</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u><u>20,802,253</u></u>	<u><u>21,589,183</u></u>

See Notes to Financial Statements

CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2015 and 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Comparative Totals	
	\$	\$	\$	2015 \$	2014 \$
REVENUES AND OTHER SUPPORT					
Contributions	6,185,408	44,760		6,230,168	5,700,055
Contributions - non-cash	1,886,334			1,886,334	2,081,066
Investment income, net of investment fees	240,423	12,154		252,577	100,327
Income from beneficial interests	229,828			229,828	207,645
Program fees	125,041			125,041	265,151
Other income	43,197			43,197	68,717
Net assets released from restrictions	124,534	(124,534)		0	0
Total Revenues and Other Support	8,834,765	(67,620)	0	8,767,145	8,422,961
EXPENSES					
Program					
Water Street Ministries	4,832,596			4,832,596	4,673,176
Water Street Health Services	1,188,218			1,188,218	1,338,265
Management and general	739,205			739,205	1,170,559
Fundraising and development	1,560,264			1,560,264	1,439,865
Total Expenses	8,320,283	0	0	8,320,283	8,621,865
Change in Net Assets from Activities	514,482	(67,620)	0	446,862	(198,904)
OTHER CHANGES					
Net realized and unrealized gains on investments	39,046	3,561		42,607	508,984
Loss on disposal of capital assets				0	(14,476)
Adjustment to beneficial interest in split-interest agreements		2,416		2,416	18,744
Adjustment to beneficial interest in assets held by others in perpetual trust			(255,389)	(255,389)	280,074
Adjustment to annuity obligations	14,020			14,020	(17,174)
Total Other Changes	53,066	5,977	(255,389)	(196,346)	776,152
CHANGES IN NET ASSETS FROM CONTINUING OPERATIONS	567,548	(61,643)	(255,389)	250,516	577,248
LOSS FROM DISCONTINUED OPERATIONS					
Grace Plateau				0	(43,312)
Gain on sale of Grace Plateau				0	223,935
Gain on sale of Teen Haven	219,122			219,122	0
Teen Haven, including promise to give of \$271,892 in 2014	(405,904)			(405,904)	(516,609)
Total Loss From Discontinued Operations	(186,782)	0	0	(186,782)	(335,986)
CHANGE IN NET ASSETS	380,766	(61,643)	(255,389)	63,734	241,262
Net Assets at Beginning of Year	14,473,878	413,340	5,134,424	20,021,642	19,780,380
Net Assets at End of Year	14,854,644	351,697	4,879,035	20,085,376	20,021,642

Water Street Ministries

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2015 and 2014

	Program Services		Support Activities			Comparative Totals	
	WSM Program Services	Water Street Health Services	Management and General	Fundraising and Development	Total	2015	2014
	\$	\$	\$	\$	\$	\$	\$
Salaries and wages	1,763,405	394,687	346,629	409,652	756,281	2,914,373	3,095,875
Donated services	0	197,329	0	0	0	197,329	344,656
Employee health and retirement benefits	367,329	78,810	74,055	86,996	161,051	607,190	610,273
Payroll taxes and unemployment claims	138,780	31,062	27,280	32,240	59,520	229,362	220,222
Gifts and grants to clients	19,250	0	0	0	0	19,250	205,720
Donated clothing	129,069	0	0	0	0	129,069	193,369
Donated food and supplies	1,118,286	0	0	0	0	1,118,286	1,107,358
Donated medical supplies	0	346,401	0	0	0	346,401	374,578
Food and supplies purchased	81,585	5,795	21,035	1,140	22,175	109,555	115,765
Occupancy	190,201	11,591	6,561	4,208	10,769	212,561	232,377
Security	143,712	168	248	130	378	144,258	47,853
Building repairs and maintenance	74,982	1,634	16,856	1,311	18,167	94,783	52,907
Equipment repairs, small equipment, and IT equipment	58,972	6,920	38,755	9,237	47,992	113,884	119,082
Vehicle fuel, repairs and maintenance	16,247	0	8,575	0	8,575	24,822	32,216
Promotional expenses	771	457	1,232	917,711	918,943	920,171	750,578
Insurance	111,509	16,639	23,913	12,464	36,377	164,525	154,946
Telephone	51,924	10,796	25,470	5,148	30,618	93,338	96,728
Professional fees	6,745	7,150	35,766	2,500	38,266	52,161	96,812
Scholarships	61,880	0	0	0	0	61,880	72,389
Interest expense	0	0	3,216	0	3,216	3,216	5,176
Property taxes	0	0	2,568	0	2,568	2,568	2,500
Conferences, seminars and travel	16,850	8,311	16,957	16,602	33,559	58,720	61,444
Licenses and fees	15,025	6,683	48,529	53,110	101,639	123,347	112,034
Other expenses	60,240	12,337	22,132	1,339	23,471	96,048	103,480
Total Expenses Before Depreciation and Amortization	4,426,762	1,136,770	719,777	1,553,788	2,273,565	7,837,097	8,208,338
Depreciation and amortization	405,834	51,448	19,428	6,476	25,904	483,186	413,527
Total Functional Expenses	4,832,596	1,188,218	739,205	1,560,264	2,299,469	8,320,283	8,621,865

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2015 and 2014

	2015	2014
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	63,734	241,262
Adjustments to reconcile changes in net assets to change in net cash from operating activities:		
Depreciation and amortization	483,186	468,606
Donated inventory	(95,249)	(61,685)
Donated property and equipment	(35,164)	0
Grant of property and equipment	0	580
Change in value of annuity obligations	(14,020)	17,174
Realized (gain) loss on investments	4,654	(99,495)
Unrealized gain of investments	(47,261)	(409,489)
Gain on sale of Teen Haven and Grace Plateau	(219,122)	(223,935)
Loss on disposal of capital assets	0	14,476
Change in assets and liabilities:		
Receivables	21,843	181,127
Inventory	(3,979)	(636)
Prepaid expenses	13,374	45,943
Beneficial interest in split-interest agreements	(2,416)	(18,744)
Beneficial interest in assets held by others in perpetual trust	255,389	(280,074)
Accounts payable	(215,092)	172,442
Accrued payroll and employee benefits	(302,604)	593,925
Accrued expenses	14,659	809
Promise to give	0	271,892
	<u>(78,068)</u>	<u>914,178</u>
Net Cash Provided by (Used in) Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(980,013)	(633,686)
Proceeds from sale of investments	734,777	538,760
Proceeds from mortgage receivable	3,040	2,922
Purchase of property and equipment	(552,922)	(620,345)
Proceeds from disposal of property and equipment	0	5,000
Proceeds from disposal of Teen Haven and Grace Plateau	384,122	1,913,935
	<u>(410,996)</u>	<u>1,206,586</u>
Net Cash Provided by (Used in) Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of annuity obligations	(20,028)	(22,839)
Payment of capital lease obligation	(41,687)	(39,726)
	<u>(61,715)</u>	<u>(62,565)</u>
Net Cash Used in Financing Activities		
Net Change in Cash and Cash Equivalents	(550,779)	2,058,199
Cash and Cash Equivalents:		
Beginning	<u>3,046,207</u>	<u>988,008</u>
Ending	<u>2,495,428</u>	<u>3,046,207</u>

See Notes to Financial Statements

Water Street Ministries

Notes To Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies

Nature of Organization –Water Street Ministries, hereafter referred to as “Water Street,” is a nonprofit organization located in Lancaster, Pennsylvania. The purpose of Water Street is to advance the kingdom of God through the gospel of Jesus Christ and to do missionary, relief and rescue work of all kinds. Programs include providing food, shelter, clothing and furniture, medical and dental services, youth education, recovery and religious guidance to the poor and homeless men, women and children in south-east and south-central Pennsylvania.

Contributions from individuals, corporations and foundations in the form of cash, food, medications, medical supplies and services represent a significant portion of support to Water Street. Unpaid volunteers provide a significant amount of their time to perform services for Water Street programs, administration and fundraising activities.

Principles of Consolidation – The accompanying consolidated financial statements include the activities of Water Street Ministries and its affiliate, Water Street Health Services. Water Street Health Services, a non-profit organization, provides health services free of charge to the individuals of Lancaster County who fall within specific guidelines. Inter-entity activities between Water Street Ministries and Water Street Health Services have been eliminated.

Comparative Financial Statement Presentation - The summarized comparative information for the year ended June 30, 2014 is not intended to be a complete presentation in accordance with accounting principles generally accepted in the United States of America and is presented for comparative purposes only.

Income Taxes - Water Street is exempt from federal income taxes under Sec. 501(c)(3) of the Internal Revenue Code and; therefore, no provision for income taxes is included in the accompanying consolidated financial statements.

Water Street believes its exempt status will be sustained under audit and believes it does not have any significant uncertain tax positions. No required annual returns for organizations exempt from income tax are currently under examination by taxing jurisdictions. With few exceptions, Water Street is no longer subject to examinations by relevant tax authorities for years prior to fiscal 2012.

Accounting Estimates – The preparation of consolidated financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash and Cash Equivalents – Highly liquid investments with an original maturity of three months or less are considered to be cash equivalents with the exception of amounts held as long-term investments in the Organization’s investment portfolio.

Concentration of Credit Risk – During the year, Water Street’s deposit balances with financial institutions exceeded the FDIC insured limit. Management believes that credit risk related to these excess balances is minimal. As of June 30, 2015 deposits in excess of the FDIC limits totaled \$1,852,726.

Water Street Ministries

Notes To Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies - Continued

Inventory – Inventories consist of food, medications, medical and dental supplies, and general supplies held for future consumption. Inventories are stated at wholesale value and cost is determined on the first-in, first-out (FIFO) method. Inventory consists of both donated and purchased items.

Donations of clothing are received and inventoried for distribution to the local community. Although these items are of value, such values are not readily ascertainable. Therefore, inventories of clothing donated to Water Street's Outreach Ministries are not reported on the accompanying consolidated balance sheets.

Investments – Investments consist of money market funds, fixed income and equity mutual funds, and marketable equity and fixed income securities. These investments are stated at market value on the accompanying statements of consolidated financial position. Investment income includes interest, dividends, and capital gain distributions, reduced by investment fees, and is included as unrestricted income from activities on the accompanying consolidated statements of activities unless restricted by donor or law and the restriction was not met during the current year. Realized and unrealized gains and losses on investments are excluded from changes in net assets from activities, but are included as other unrestricted changes in net assets in the accompanying consolidated statement of activities unless restricted by donor or law and the restriction was not met during the current year.

Investments are exposed to various risks such as significant world events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of consolidated financial position.

Property and Equipment – Property and equipment is stated at cost, except donated capital assets, which are stated at fair market value at the date of donation. Major improvements and betterments of existing building and fixtures are capitalized, while maintenance and repairs that do not improve or extend the life of the respective assets are expensed currently. Property and equipment with a useful life greater than one year is capitalized. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets as follows:

	<u>Years</u>
Computer equipment and software	3 - 5
Vehicles	5
Furniture and office equipment	10
Machinery and equipment	5 - 20
Buildings and building improvements	10 - 40

When properties are retired or otherwise disposed of, the asset and accumulated depreciation accounts are adjusted accordingly. Any resulting gain or loss arising from its disposal is excluded from income from activities, but is included as other changes in net assets.

Water Street Ministries

Notes To Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies – Continued

Net Assets – Net assets of Water Street and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of Water Street and/or passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that must be maintained permanently by Water Street.

Contributions – Water Street reports gifts of cash, unconditional promises to give, and other assets as unrestricted support. Contributions received with donor restrictions that limit the use of the donated assets, and whose restrictions are satisfied during the period, are reported as unrestricted support in the accompanying consolidated statements of activities. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions, including but not limited to beneficial interests in assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statements of activities as net assets released from restrictions.

Unconditional promises to give are recognized when Water Street is notified of the promise to give. Management recognizes an allowance for uncollectible amounts based on prior experience and analysis of specific promises made.

Water Street reports gifts of property 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 about how long those long-lived assets must be maintained, Water Street reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. These contributions are recorded at their estimated values on the date of receipt.

Donated Assets and Services – Donated assets are reflected as contributions in the accompanying consolidated financial statements at their estimated market values on the date of receipt except for donations of clothing that are valued when distributed to the community. Water Street is the recipient of significant quantities of donated food, medications and medical and general supplies.

Contributed services are reflected in the consolidated financial statements at the fair value of the services received. Contributed services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by contribution. Contributed services for the years ended June 30, 2015 and 2014 totaled \$197,329 and \$344,656, respectively.

Water Street Ministries

Notes To Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies – Continued

Long-Lived Assets – Long-Lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be realizable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset and long lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

Bequests – Bequests are gifts made through a will at the donor's death. These gifts may be unrestricted or restricted for specific purposes. Bequests are recorded at the time such proceeds are measurable. During the years ended June 30, 2015 and 2014, Water Street recognized \$547,434 and \$309,308, respectively, as contributions from bequests. Bequests receivable as of June 30, 2015 and 2014 were \$157,345 and \$164,213, respectively.

Allocation of Expenses - The cost of providing various programs and supporting activities of Water Street have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among program and supporting services based on management estimates.

Promotional and Advertising Costs – Promotional and advertising costs are charged to expense when incurred. These amounts are presented as promotional expense on the Consolidated Statements of Functional Expenses.

Note 2 – Inventory

Inventory at June 30, 2015 and 2014 is comprised of the following:

	<u>2015</u>	<u>2014</u>
	\$	\$
Food	187,001	117,296
General supplies	14,044	10,065
Medical supplies and medications	243,025	218,117
Dental supplies	38,068	37,432
<u>Total</u>	<u>482,138</u>	<u>382,910</u>

Water Street Ministries

Notes To Consolidated Financial Statements

Note 3 – Investments

Investments are stated at market value. Following is a summary of investments held at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
	<u>\$</u>	<u>\$</u>
Cash and cash equivalents	495,692	684,364
Bonds		
Short Term	1,220,844	1,215,732
Intermediate Term	1,255,381	1,125,599
Equities		
Large Cap	2,905,664	2,632,528
Mid Cap	366,227	264,858
Small Cap	285,034	317,918
<u>Total</u>	<u>6,528,842</u>	<u>6,240,999</u>

Investment income and gains (losses) for cash and cash equivalents and investments are comprised of the following for the years ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
	<u>\$</u>	<u>\$</u>
Interest, dividend, and capital gain distribution income	295,536	141,226
Less: investment fees	(42,959)	(40,899)
Investment income, net of investment fees	<u>252,577</u>	<u>100,327</u>
Other Changes:		
Realized gain (loss) of investments	(4,654)	99,495
Unrealized gain of investments	47,261	409,489
<u>Net realized and unrealized gain of investments</u>	<u>42,607</u>	<u>508,984</u>

Note 4 – Mortgage Receivable

Water Street has a mortgage receivable relating to the sale and financing of a property. The mortgage is payable in monthly installments of \$763, including interest at 4.0%, beginning July 2012, with a balloon payment due in 2017, secured by first lien on property. The mortgage receivable as of June 30, 2015 and 2014 was \$151,381 and \$154,421, respectively.

Water Street Ministries

Notes To Consolidated Financial Statements

Note 5 – Assets Held for Transfer

At June 30, 2014, Water Street classified the Teen Haven net property and equipment, outside of Lancaster County, as assets held for transfer with a carrying value of \$436,892 in the consolidated statements of financial position. Assets included in this classification included land, buildings and equipment previously used in the Teen Haven program, outside of Lancaster County. Water Street had agreed to transfer many of these assets to certain other non-profit organizations at no cost, while assets with a net book value of \$165,000 are being held for sale. Accordingly, a promise to give equal to the carrying value of all Teen Haven assets, outside of Lancaster County, less the amount held for sale, was recorded in the prior year on the consolidated statements of financial position. These assets were donated during the year ended June 30, 2015. In 2015, the Teen Haven property and equipment previously held for sale was sold and the \$219,122 gain from the sale was included in discontinued operations in the current year consolidated statement of activities.

In June 2012, Water Street's Board of Directors approved closing the Grace Plateau facility. In 2014, the Grace Plateau property that was previously held for transfer was sold and the \$223,935 gain from the sale of Grace Plateau was included in discontinued operations in the prior year consolidated statement of activities.

Note 6 – Property and Equipment

A summary of property and equipment at June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
	\$	\$
Computer equipment and software	456,921	546,239
Vehicles	205,152	205,152
Furniture and office equipment	254,280	228,792
Machinery and equipment	853,041	733,411
Buildings and building improvements	8,948,089	8,716,946
Land and land improvements	308,045	305,545
Development costs	0	15,791
Total	11,025,528	10,751,876
Less: Accumulated depreciation	<u>(4,834,462)</u>	<u>(4,665,710)</u>
<u>Property and Equipment, Net of</u> <u>Accumulated Depreciation</u>	<u>6,191,066</u>	<u>6,086,166</u>

Depreciation and amortization expense charged to current operations for the years ended June 30, 2015 and 2014 totaled \$483,186 and \$413,527, respectively.

Water Street Ministries

Notes To Consolidated Financial Statements

Note 7 – Beneficial Interest in Split-Interest Agreements – Temporarily Restricted Net Assets

Water Street is a named remainder beneficiary of several split-interest agreements. Under these agreements, Water Street has a beneficial interest in a portion of the underlying assets, which are controlled by a trustee or a third-party fiscal agent. The underlying assets are principally marketable securities. During the life of an agreement, distributions are made to income beneficiaries of the agreement. At the end of an agreement's life, the remaining assets are distributed to Water Street, and any other remainder beneficiaries. The present value of Water Street's beneficial interest in these agreements was recorded as temporarily restricted contributions when Water Street was notified of the agreement's existence and as a component of temporarily restricted net assets in the accompanying consolidated statement of financial position. Subsequent changes in the fair value of the underlying assets are recorded in the accompanying consolidated statement of activities as an adjustment to beneficial interest in split-interest agreements. Management's estimated value of these agreements is based on the year-end fair market value of the agreement's assets multiplied by Water Street's beneficial interest and discounted for the agreement's estimated life.

The following schedule summarizes the income from beneficial interests in split-interest agreements at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
	\$	\$
Distributions received	1,115	1,115
Adjustment for change in value	2,416	18,744
<u>Total income in beneficial interest in split-interest agreements</u>	<u>3,531</u>	<u>19,859</u>

Note 8 – Beneficial Interest in Assets Held by Others in Perpetual Trust – Permanently Restricted Net Assets

Water Street is the beneficiary of several trusts where the corpus of the trusts is required to be invested in perpetuity and income is to be distributed to Water Street at least annually. Management's estimated value of the beneficial interest in assets held by others in perpetual trust is based on the fair market value of the trusts' assets. Water Street has no rights to the trusts' assets, only to a percentage of income of the trusts. Accordingly, they are reported as a component of permanently restricted net assets in the accompanying consolidated statement of financial position.

The following schedule summarizes the income from beneficial interests in assets held by others in perpetual trust as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
	\$	\$
Distributions received	228,713	206,529
Adjustment for change in value	(255,389)	280,074
<u>Total income (loss) from beneficial interest in assets held by others in perpetual trust</u>	<u>(26,676)</u>	<u>486,603</u>

Water Street Ministries

Notes To Consolidated Financial Statements

Note 9 – Annuity Obligations

Water Street has entered into charitable gift annuity agreements with individuals to provide quarterly payments during the remainder of the individual's life in return for a charitable gift to Water Street. A portion of the amount received represents an obligation by Water Street to make the quarterly payments and the remainder represents a contribution. The obligation to make payments terminates only upon the donor's death.

Changes in the liability include annuity payments, annuity terminations and additional annuities issued and are recorded in the accompanying consolidated statements of activities as a change in value of annuity obligations. Water Street uses a 7% discount rate and the IRS life expectancy tables to value annuity obligations. As of June 30, 2015, Water Street's maximum future required annual payments to annuitants under existing agreements was \$17,219.

Note 10 – Obligations Under Capital Lease

	<u>2015</u>	<u>2014</u>
	<u>\$</u>	<u>\$</u>
Capital lease obligation payable, Toshiba America Solutions, Inc., bearing interest at 7.4%; monthly payments of \$372, final payment due June 2016	4,295	8,285
Capital lease obligation payable, PNC Equipment Finance, LLC, bearing interest at 4.56%; monthly payments of \$3,369, final payment due June 2016	<u>39,453</u>	<u>77,150</u>
Total	<u><u>43,748</u></u>	<u><u>85,435</u></u>

A schedule of the future minimum lease payments for the year ended June 30, 2016 is as follows:

Lease payments	44,903
Less amount representing interest	<u>(1,155)</u>
<u>Present Value of Minimum Lease Payments</u>	<u><u>43,748</u></u>

Amortization of assets held under capital leases is included in depreciation and amortization expense. The gross amount of assets held under capital leases is \$86,341 for both the years ended June 30, 2015 and 2014, respectively, and the accumulated amortization thereon is \$43,264 and \$25,997 at June 30, 2015 and 2014, respectively. In 2013, support and licensing fees related to computer equipment acquired under capital lease totaled \$46,225 and was recorded as a prepaid expense. These costs will be amortized over the term of the lease. The remaining balance of prepaid expenses was \$15,409 and \$30,817 as of June 30, 2015 and 2014, respectively.

Water Street Ministries

Notes To Consolidated Financial Statements

Note 11 – Net Assets – Unrestricted – Designated by Board

The Board of Water Street Ministries has designated a portion of unrestricted net assets for funding capital improvements and a reserve for general operations. At June 30, 2015 and 2014, the amount designated by the Board totaled \$3,000,000.

Subsequent to year end, Water Street implemented a new investment policy that specifies certain investments as designated for operations or for other reserves. These investments will be included in unrestricted net assets designated by the board in the future.

Note 12 – Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2015 and 2014 are available for the following purposes:

	<u>2015</u>	<u>2014</u>
	\$	\$
Beneficial interest in split-interest agreements	217,283	214,867
Transitional Housing	56,201	91,201
Educational Improvement Grants	23,500	38,100
Wolf Educational Endowment	35,245	30,713
Capstone Scholarships	6,333	0
LCCF - Capacity Building	3,375	0
PNC Charitable Trust Grant Committee	5,000	0
Eppihimer Grant LCCF	4,760	0
WSHS - Creative Solutions Grant	0	21,840
WSM - Lancaster Youth Grant	0	6,582
WSHS - LCCT - Capacity Building Grant	0	5,277
WSM - Staff Training Grant	0	4,760
<u>Total</u>	<u>351,697</u>	<u>413,340</u>

Note 13 – Permanently Restricted Net Assets

Permanently restricted net assets consist of endowment funds and beneficial interest in assets held by others in perpetual trust. Only the income generated from these amounts are expendable for Water Street's operations.

The following schedule summarizes permanently restricted net assets at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
	\$	\$
Endowment funds:		
Operating	268,036	268,036
Educational	267,087	267,087
Beneficial interest in assets held by others in perpetual trust	4,343,912	4,599,301
<u>Total</u>	<u>4,879,035</u>	<u>5,134,424</u>

Water Street Ministries

Notes To Consolidated Financial Statements

Note 14 – Supplemental Disclosure of Cash Flow Information

Cash paid for interest for the years ended June 30, 2015 and 2014 was \$3,216 and \$5,176, respectively.

Noncash operating activities for the years ended June 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
	<u>\$</u>	<u>\$</u>
Gifts of investments received classified as operating	26,712	19,355
Grants of property and equipment distributed	271,892	580

Noncash investing and financing activities for the years ended June 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
	<u>\$</u>	<u>\$</u>
Gifts of equipment received	35,614	0

Note 15 – Retirement Plan

Water Street maintains a defined contribution retirement plan in compliance with Section 403(b) of the Internal Revenue Code for all employees meeting certain eligibility requirements. Water Street contributes a specified dollar amount for each eligible employee. The plan allows voluntary employee contributions. Water Street matches contributions up to a certain percent of compensation. Retirement plan expense for the years ended June 30, 2015 and 2014 was \$77,751 and \$78,463, respectively.

Note 16 – Contingencies

Water Street was a recipient of a \$500,000 subsidy to create low income housing through the Affordable Housing Program of the Federal Home Loan Bank of Pittsburgh. Water Street has agreed to be bound by the Affordable Housing Program's regulations, guidelines and requirements until July 27, 2022.

If Water Street does not continue to meet the subsidy's requirements, such as a sale of the project prior to the end of the retention period, the full amount of the subsidy may be required to be repaid.

Water Street Ministries

Notes To Consolidated Financial Statements

Note 17 – Endowment Funds

Water Street's endowment funds consist of donor-restricted permanent funds. Water Street's endowment funds have been pooled with Water Street's other marketable investments. See Note 1 for a description of the types of investments utilized for endowment funds.

Water Street's investments are invested in accordance with investment policies set out by a finance committee that has been appointed by the Board. Water Street's management is responsible for the day-to-day management of the portfolio including identifying, selecting and monitoring the external investment manager in order to implement the strategic asset allocation set forth by the finance committee. Water Street's investment portfolio may include marketable securities that it intends to hold for an indefinite period of time.

The Commonwealth of Pennsylvania has not adopted the Uniform Management of Institutional Funds Act (UMIFA) or the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Rather, the Pennsylvania Uniform Principal and Income Act (Pennsylvania Act) governs the investment use and management of Water Street's endowment funds.

The Pennsylvania Act does not require the preservation of the fair value of a donor's original gift as of the gift date of a donor-restricted endowment fund, absent explicit donor stipulations to the contrary. However, based on its interpretation of the Pennsylvania Act and relevant accounting literature, Water Street classifies as permanently restricted net assets for reporting purposes: (i) the original value of gifts donated to the permanent endowment; (ii) the original value of subsequent gifts to the permanent endowment; and (iii) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Water Street.

Water Street has elected to follow an investment policy seeking a total return for the investment held, whether the return is derived from appreciation of capital, earnings and distributions with respect to capital, or both. This policy is designed to take advantage of investment opportunities that provide a reasonable and dependable stream of income and continued growth of the funds, while not subjecting the principal of the endowment funds to undue risk or loss. Water Street's spending policy allows for annual disbursements from the account of 3.0% of the fair market value for the preceding year ended June 30.

The components of endowment net assets at June 30, 2015 are as follows:

	<u>Original Gift Value</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Operating	268,036	39,843	0	268,036	307,879
Restricted for Education	267,087	0	35,245	267,087	302,332
<u>Total</u>	<u>535,123</u>	<u>39,843</u>	<u>35,245</u>	<u>535,123</u>	<u>610,211</u>

Water Street Ministries

Notes To Consolidated Financial Statements

Note 17 – Endowment Funds – Continued

Changes in endowment net assets for the year ended June 30, 2015 are as follows:

	Unrestricted	Temporarily	Permanently Restricted		Total
	General	Restricted	General	Education	
	Operating	Education	Operating	Education	
	\$	\$	\$	\$	\$
Endowment net assets - July 1, 2014	32,990	30,713	268,036	267,087	598,826
Investment return:					
Investment income, net of investment fees	12,285	12,154	0	0	24,439
Net realized and unrealized gain	3,599	3,561	0	0	7,160
Total Investment Return	15,884	15,715	0	0	31,599
Amounts appropriated to current operations	(9,031)	(11,183)	0	0	(20,214)
<u>Endowment net assets - June 30, 2015</u>	<u>39,843</u>	<u>35,245</u>	<u>268,036</u>	<u>267,087</u>	<u>610,211</u>

The component of the endowment net assets at June 30, 2014 are as follows:

	Original Gift Value	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	\$	\$	\$	\$	\$
Operating	268,036	32,990		268,036	301,026
Restricted for Education	267,087		30,713	267,087	297,800
<u>Total</u>	<u>535,123</u>	<u>32,990</u>	<u>30,713</u>	<u>535,123</u>	<u>598,826</u>

Water Street Ministries

Notes To Consolidated Financial Statements

Note 17 – Endowment Funds – Continued

Changes in endowment net assets for the year ended June 30, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
	General	Education	General		
	Operating		Operating	Education	
	\$	\$	\$	\$	\$
Endowment net assets - July 1, 2013	12,542	14,605	268,036	267,087	562,270
Investment return:					
Investment income, net of investment fees	4,828	4,700	0	0	9,528
Net realized and unrealized gain	24,037	23,408	0	0	47,445
Total Investment Return	28,865	28,108	0	0	56,973
Amounts appropriated to current operations	(8,417)	(12,000)	0	0	(20,417)
<u>Endowment net assets - June 30, 2014</u>	<u>32,990</u>	<u>30,713</u>	<u>268,036</u>	<u>267,087</u>	<u>598,826</u>

Note 18 – Fair Value of Financial Instruments

Financial Instruments – The fair value of a financial instrument represents the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Fair value estimates are made at a specific point in time, based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. The assumptions used have a significant effect on the estimated amounts reported.

Inputs and assumptions used in the valuation techniques described above are prioritized into a three tier hierarchy as follows:

- Level 1 Observable inputs, such as quoted market prices in active markets for the identical asset or liability, that are accessible at the measurement date.
- Level 2 Inputs, other than quoted market prices included in Level 1, that are observable either directly or indirectly for the asset or liability.
- Level 3 Unobservable inputs that reflect the entity's own assumptions about the exit price of the asset or liability. Unobservable inputs may be used if there is little or no market data for the asset or liability at the measurement date.

Water Street Ministries

Notes To Consolidated Financial Statements

Note 18 – Fair Value of Financial Instruments - Continued

The following methods and assumptions were used by Water Street in estimating its fair value for financial instruments:

- Investments: The fair value of investments are based on quoted market prices for those or similar investments.
- Beneficial interests in split-interest agreements: The fair value is based on quoted market prices for those or similar investments covered by the agreement multiplied by Water Street's beneficial interest discounted using IRS life expectancy tables and applying a discount rate of 7%. Management feels this approach reasonably estimates the fair value of its split-interest agreements.
- Beneficial interests in assets held by others in perpetual trust: This fair value is based on quoted market prices for those or similar investments held in trust multiplied by Water Street's beneficial interest. Management feels this approach reasonably estimates the fair value of its beneficial interest. Water Street's investments are composed approximately of 2% cash and cash equivalents, 36% fixed income, 44% equity, 15% alternatives and 3% real property.
- Annuity obligations: This fair value is based on the payment required for each annuity agreement, the annuitant's remaining life expectancy per IRS life expectancy tables and a discount rate of 7%. Management feels this approach reasonably estimates the fair value of its annuity agreements.

The preceding valuation methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Water Street believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents Water Street's fair value hierarchy for the instruments measured at fair value on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2015</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Assets:				
Cash and cash equivalents	495,692	0	0	495,692
Bonds				
Short Term	1,220,844	0	0	1,220,844
Intermediate Term	1,255,381	0	0	1,255,381
Equities				
Large Cap	2,905,664	0	0	2,905,664
Mid Cap	366,227	0	0	366,227
Small Cap	285,034	0	0	285,034
Beneficial interest in split-interest agreements	0	0	217,283	217,283
Beneficial interest in assets held by others in perpetual trust	0	0	4,343,912	4,343,912
<u>Total Assets at Fair Value</u>	<u>6,528,842</u>	<u>0</u>	<u>4,561,195</u>	<u>11,090,037</u>

Water Street Ministries

Notes To Consolidated Financial Statements

Note 18 – Fair Value of Financial Instruments - Continued

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2015</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Liabilities:				
Annuity obligations	0	0	112,734	112,734
<u>Total Liabilities at Fair Value</u>	<u>0</u>	<u>0</u>	<u>112,734</u>	<u>112,734</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2014</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Assets:				
Cash and cash equivalents	684,364	0	0	684,364
Bonds				
Short Term	1,215,732	0	0	1,215,732
Intermediate Term	1,125,599	0	0	1,125,599
Equities				
Large Cap	2,632,528	0	0	2,632,528
Mid Cap	264,858	0	0	264,858
Small Cap	317,918	0	0	317,918
Beneficial interest in split-interest agreements	0	0	214,867	214,867
Beneficial interest in assets held by others in perpetual trust	0	0	4,599,301	4,599,301
<u>Total Assets at Fair Value</u>	<u>6,240,999</u>	<u>0</u>	<u>4,814,168</u>	<u>11,055,167</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2014</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Liabilities:				
Annuity obligations	0	0	146,782	146,782
<u>Total Liabilities at Fair Value</u>	<u>0</u>	<u>0</u>	<u>146,782</u>	<u>146,782</u>

Financial instruments measured at fair value on a recurring basis using significant unobservable inputs:

	<u>2015</u>	<u>2014</u>
	<u>\$</u>	<u>\$</u>
Beneficial interest in split-interest agreements		
Fair value at July 1	214,867	196,123
Proceeds from split-interest agreements	(1,115)	(1,115)
Adjustment due to change in value of split-interest agreements	3,531	19,859
Fair value at June 30	<u>217,283</u>	<u>214,867</u>

Water Street Ministries

Notes To Consolidated Financial Statements

Note 18 – Fair Value of Financial Instruments – Continued

	<u>2015</u>	<u>2014</u>
	<u>\$</u>	<u>\$</u>
Beneficial interest in assets held by others in perpetual trust		
Fair value at July 1	4,599,301	4,319,227
Investment income	107,448	114,228
Total realized and unrealized gains	(88,991)	416,762
Distributions received	(228,713)	(206,529)
Investment fees	(39,207)	(37,937)
Other trust expenses	(5,926)	(6,450)
	<u>4,343,912</u>	<u>4,599,301</u>
	<u>498,789</u>	<u>760,717</u>
Unrealized gains at June 30		
Annuity Obligations		
Fair value at July 1	146,782	152,447
Disbursement	(20,028)	(22,839)
Adjustment due to change in value of annuity obligation	(14,020)	17,174
	<u>112,734</u>	<u>146,782</u>

Adjustments due to changes in the value of split-interest agreements in beneficial interest in assets held by others in perpetual trust are reported in the statement of activities as a component of other changes.

Note 19 – New Accounting Standards

Pronouncements Issued by the Financial Accounting Standards Board (FASB) with future effective dates are either not applicable or are not expected to be significant to the Organization's consolidated financial statement.

Note 20 – Subsequent Events

Subsequent events have been evaluated through September 21, 2015 which represents the date the accompanying consolidated financial statements were available to be issued.