

Water Street Ministries d/b/a Water Street Mission and Affiliate

Consolidated Financial Report

June 30, 2017



BUSINESS ADVISORS & CPAs

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Water Street Ministries d/b/a
Water Street Mission and Affiliate
Lancaster, Pennsylvania

We have audited the accompanying consolidated financial statements of Water Street Ministries d/b/a Water Street Mission (a nonprofit organization) and Affiliate, 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 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 d/b/a Water Street Mission and Affiliate as of June 30, 2017, 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 d/b/a Water Street Mission and Affiliate's 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 4, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Simon Lever LLP
Lititz, PA

November 2, 2017

CONSOLIDATED FINANCIAL STATEMENTS

Water Street Ministries d/b/a Water Street Mission and Affiliate

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
	<u>\$</u>	<u>\$</u>
ASSETS		
Cash and cash equivalents	3,650,856	1,646,183
Receivables	342,162	362,784
Inventory	308,522	385,153
Prepaid expenses	229,227	200,173
Investments	6,282,595	5,862,241
Mortgage receivable	144,924	148,217
Property and equipment, net of accumulated depreciation of \$5,274,908 - 2017; \$5,050,787 - 2016	6,854,048	6,893,694
Property held for sale	140,000	0
Beneficial interest in split-interest agreements	192,837	1,452,479
Investments - permanently restricted	542,919	542,899
Beneficial interest in assets held by others in perpetual trust	<u>4,261,459</u>	<u>4,125,935</u>
<u>TOTAL ASSETS</u>	<u>22,949,549</u>	<u>21,619,758</u>

See Notes to Financial Statements

Water Street Ministries d/b/a Water Street Mission and Affiliate

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
	<u>\$</u>	<u>\$</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	68,719	63,971
Accrued payroll and employee benefits	245,367	223,525
Accrued expenses	79,394	51,666
Annuity obligations	88,630	91,826
Obligations under capital lease	3,228	3,849
TOTAL LIABILITIES	<u>485,338</u>	<u>434,837</u>
NET ASSETS		
Unrestricted		
Designated by board	4,316,521	3,987,175
Allocated to property and equipment	6,854,048	6,893,694
Undesignated	6,025,550	4,011,385
Total Unrestricted	<u>17,196,119</u>	<u>14,892,254</u>
Temporarily restricted	463,714	1,623,833
Permanently restricted	4,804,378	4,668,834
TOTAL NET ASSETS	<u>22,464,211</u>	<u>21,184,921</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>22,949,549</u>	<u>21,619,758</u>

See Notes to Financial Statements

Water Street Ministries d/b/a Water Street Mission and Affiliate

CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2017 and 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Comparative Totals
	\$	\$	\$	2017 \$
REVENUES AND OTHER SUPPORT				
Contributions	6,377,277	166,417	88,398	6,632,092
Contributions - non-cash	2,307,168	0	0	2,307,168
Investment income, net of investment fees	130,920	0	0	130,920
Income from beneficial interests	213,489	0	0	213,489
Program fees	83,828	0	0	83,828
Other income	22,713	0	0	22,713
Net assets released from restrictions	2,010,049	(2,010,049)	0	0
Total Revenues and Other Support	11,145,444	(1,843,632)	88,398	9,390,210
EXPENSES				
Program				
Water Street Mission	6,300,479	0	0	6,300,479
Water Street Health Services	1,009,334	0	0	1,009,334
Management and general	612,509	0	0	612,509
Fundraising and development	1,405,257	0	0	1,405,257
Total Expenses	9,327,579	0	0	9,327,579
Change in Net Assets from Activities	1,817,865	(1,843,632)	88,398	62,631
OTHER CHANGES				
Net realized and unrealized gains (losses) on investments	489,467	0	0	489,467
Gain (loss) on disposal of capital assets	5,815	0	0	5,815
Adjustment to beneficial interest in split-interest agreements	0	683,513	0	683,513
Adjustment to beneficial interest in assets held by others in perpetual trust	0	0	47,146	47,146
Adjustment to annuity obligations	(9,282)	0	0	(9,282)
Total Other Changes	486,000	683,513	47,146	1,216,659
CHANGES IN NET ASSETS	2,303,865	(1,160,119)	135,544	1,279,290
Net Assets at Beginning of Year	14,892,254	1,623,833	4,668,834	21,184,921
Net Assets at End of Year	17,196,119	463,714	4,804,378	22,464,211
				10,924,559

See Notes to Financial Statements

Water Street Ministries d/b/a Water Street Mission and Affiliate

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2017 and 2016

	Program Services		Support Activities		Comparative Totals	
	WSM Program Services \$	Water Street Health Services \$	Management and General \$	Fundraising and Development \$	2017 \$	2016 \$
Salaries and wages	2,331,251	435,388	304,572	435,643	3,506,854	3,230,222
Donated services	0	132,772	0	0	132,772	124,812
Employee health and retirement benefits	469,693	88,816	67,317	83,899	709,725	675,681
Payroll taxes and unemployment claims	188,725	32,434	21,007	30,376	272,542	241,426
Donated clothing	195,628	0	0	0	195,628	135,744
Donated food and supplies	1,798,168	0	0	0	1,798,168	2,098,238
Donated medical supplies	0	188,155	0	0	188,155	336,796
Food and supplies purchased	100,848	8,835	10,045	3,226	122,954	113,738
Occupancy	177,513	14,109	5,419	2,374	199,415	212,165
Security	9,822	282	2,010	121	12,235	11,512
Building repairs and maintenance	50,381	2,691	7,452	1,106	61,630	51,309
Equipment repairs, small equipment, and IT equipment	36,229	3,988	8,900	14,043	63,160	100,180
Vehicle fuel, repairs and maintenance	14,399	0	3,219	40	17,658	20,608
Promotional expenses	1,951	453	1,974	735,543	739,921	847,819
Insurance	132,574	13,497	25,650	9,802	181,523	204,960
Telephone	47,278	10,581	13,219	5,498	76,576	86,890
Professional fees	150	0	42,203	9,476	51,829	123,335
Scholarships	41,738	0	0	0	41,738	37,217
Interest expense	0	0	366	0	366	1,156
Property taxes	0	0	2,673	0	2,673	2,631
Conferences, seminars and travel	13,577	5,975	9,416	11,689	40,657	52,417
Licenses and fees	10,009	5,595	40,848	48,023	104,475	151,328
Other expenses	95,255	15,761	18,200	5,058	134,274	103,142
Total Expenses Before Depreciation and Amortization	5,715,189	959,332	584,490	1,395,917	8,654,928	8,963,326
Depreciation and amortization	585,290	50,002	28,019	9,340	672,651	553,571
<u>Total Functional Expenses</u>	<u>6,300,479</u>	<u>1,009,334</u>	<u>612,509</u>	<u>1,405,257</u>	<u>9,327,579</u>	<u>9,516,897</u>

Water Street Ministries d/b/a Water Street Mission and Affiliate

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2017 and 2016

	2017	2016
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	1,279,290	1,099,545
Adjustments to reconcile changes in net assets to change in net cash from operating activities:		
Depreciation and amortization	672,651	553,571
Donated inventory	0	98,861
Donated property and equipment	(70,196)	(401,638)
Donated property held for sale	(140,000)	0
Donated investments	(60,962)	(52,166)
Change in value of annuity obligations	9,282	(5,781)
Realized gain on investments	(45,286)	(155,140)
Unrealized (gain) loss of investments	(444,180)	242,190
(Gain) loss on disposal of capital assets	(5,815)	3,253
Change in assets and liabilities:		
Receivables	20,622	(192,799)
Inventory	76,631	(1,876)
Prepaid expenses	(29,054)	22,045
Beneficial interest in split-interest agreements	1,259,642	(1,235,196)
Beneficial interest in assets held by others in perpetual trust	(135,524)	217,977
Accounts payable	4,748	4,192
Accrued payroll and employee benefits	21,842	(223,404)
Accrued expenses	27,728	(2,021)
Net Cash Provided by (Used in) Operating Activities	2,441,419	(28,387)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(541,633)	(2,869,865)
Proceeds from sale of investments	671,687	2,958,683
Proceeds from mortgage receivable	3,293	3,164
Purchase of property and equipment	(562,809)	(867,115)
Proceeds from disposal of property and equipment	5,815	13,150
Net Cash Used in Investing Activities	(423,647)	(761,983)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of annuity obligations	(12,478)	(15,127)
Payment of capital lease obligation	(621)	(43,748)
Net Cash Used in Financing Activities	(13,099)	(58,875)
Net Change in Cash and Cash Equivalents	2,004,673	(849,245)
Cash and Cash Equivalents:		
Beginning	1,646,183	2,495,428
Ending	3,650,856	1,646,183

See Notes to Financial Statements

Water Street Ministries d/b/a Water Street Mission and Affiliate

Notes To Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies

Nature of Organization – Water Street Ministries d/b/a Water Street Mission and Affiliate, hereafter referred to as “Water Street,” are nonprofit organizations 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-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 d/b/a Water Street Mission 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 Mission and Water Street Health Services have been eliminated.

Comparative Financial Statement Presentation - The summarized comparative information for the year ended June 30, 2016 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.

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 Water Street’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, 2017 deposits in excess of the FDIC limits totaled \$3,094,445.

Water Street Ministries d/b/a Water Street Mission and Affiliate

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 d/b/a Water Street Mission and Affiliate

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, 2017 and 2016 totaled \$132,772 and \$124,812, respectively.

Water Street Ministries d/b/a Water Street Mission and Affiliate

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, 2017 and 2016, Water Street recognized \$528,213 and \$457,854, respectively, as contributions from bequests. Bequests receivable as of June 30, 2017 and 2016 were \$207,621 and \$352,514, 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, 2017 and 2016 is comprised of the following:

	<u>2017</u>	<u>2016</u>
	\$	\$
Food	134,213	206,550
General supplies	14,890	15,920
Medical supplies and medications	125,158	128,422
Dental supplies	34,261	34,261
<u>Total</u>	<u>308,522</u>	<u>385,153</u>

Water Street Ministries d/b/a Water Street Mission and Affiliate

Notes To Consolidated Financial Statements

Note 3 – Investments

Investments are stated at market value. Following is a summary of investments held at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	<u>\$</u>	<u>\$</u>
Cash and cash equivalents	205,996	227,657
Bonds		
Short Term	1,774,915	1,859,238
Intermediate Term	1,040,468	1,159,739
Long Term	244,816	151,683
Equities		
Large Cap	2,277,964	2,074,708
Mid Cap	711,864	571,297
Small Cap	569,491	360,819
<u>Total</u>	<u>6,825,514</u>	<u>6,405,141</u>

Investment income and gains (losses) for cash and cash equivalents and investments are comprised of the following for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	<u>\$</u>	<u>\$</u>
Interest, dividend, and capital gain distribution income	167,591	183,432
Less: Investment fees	(36,671)	(39,055)
<u>Investment income, net of investment fees</u>	<u>130,920</u>	<u>144,377</u>
Other Changes:		
Realized gain of investments	45,286	155,140
Unrealized gain (loss) of investments	444,181	(242,190)
<u>Net realized and unrealized gain (loss) of investments</u>	<u>489,467</u>	<u>(87,050)</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, 2017 and 2016 was \$144,924 and \$148,217, respectively. The mortgage receivable was collected in full subsequent to June 30, 2017.

Water Street Ministries d/b/a Water Street Mission and Affiliate

Notes To Consolidated Financial Statements

Note 5 – Property and Equipment

A summary of property and equipment at June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
	<u>\$</u>	<u>\$</u>
Computer equipment and software	414,695	441,234
Vehicles	243,525	178,474
Furniture and office equipment	290,742	251,666
Machinery and equipment	1,386,802	1,340,875
Buildings and building improvements	9,466,592	9,424,187
Land and land improvements	326,600	308,045
Total	12,128,956	11,944,481
Less: Accumulated depreciation	<u>(5,274,908)</u>	<u>(5,050,787)</u>
<u>Property and Equipment, Net of Accumulated Depreciation</u>	<u>6,854,048</u>	<u>6,893,694</u>

Depreciation and amortization expense charged to current operations for the years ended June 30, 2017 and 2016 totaled \$672,651 and \$553,571, respectively.

Note 6 – Property Held for Sale

During the year ended June 30, 2017, Water Street received a donated residential property classified as held for sale. As of June 30, 2017, the property had a carrying value of \$140,000.

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.

Water Street Ministries d/b/a Water Street Mission and Affiliate

Notes To Consolidated Financial Statements

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

The following schedule summarizes the income from beneficial interests in split-interest agreements at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	\$	\$
Distributions received	1,115	1,115
Adjustment for change in value	683,513	(13,394)
<u>Total income (loss) in beneficial interest in split-interest agreements</u>	<u>684,628</u>	<u>(12,279)</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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	\$	\$
Distributions received	212,374	238,899
Adjustment for change in value	47,146	(210,201)
<u>Total income from beneficial interest in assets held by others in perpetual trust</u>	<u>259,520</u>	<u>28,698</u>

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, 2017, Water Street's maximum future required annual payments to annuitants under existing agreements was \$12,478.

Water Street Ministries d/b/a Water Street Mission and Affiliate

Notes To Consolidated Financial Statements

Note 10 – Obligations Under Capital Lease

Water Street is the lessee of a copier under a capital lease obligation with Toshiba Financial Services. The Organization is subject to monthly payments of \$82, bearing interest at 10.27%. Final payments are due August 2021. The remaining balance is \$3,228 and \$3,849 at June 30, 2017 and 2016, respectively.

A schedule of the future minimum lease payments for the year ended June 30, 2017 is as follows:

	\$
Lease payments	3,950
Less amount representing interest	(722)
<u>Present Value of Minimum Lease Payments</u>	<u>3,228</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 \$3,849 for the years ended June 30, 2017 and 2016, and the accumulated amortization thereon is \$770 and \$0 at June 30, 2017 and 2016, respectively.

Note 11 – Net Assets – Unrestricted – Designated by Board

The Board of Water Street Mission has designated a portion of unrestricted net assets for funding capital improvements and a reserve for general operations. At June 30, 2017 and 2016, the amount designated by the Board totaled \$4,316,521 and \$3,987,175, respectively.

Note 12 – Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2017 and 2016 are available for the following purposes:

	2017	2016
	\$	\$
Beneficial interest in split-interest agreements	192,837	1,452,479
Educational Improvement Grants	108,117	71,500
Transitional Housing	56,201	56,201
Wolf Educational Endowment	53,011	32,653
6000 Building Bathroom Renovation	50,000	0
Outreach Ministry Floor Updates	2,548	0
Annual Dinner	1,000	0
Westfield Insurance Grant	0	11,000
<u>Total</u>	<u>463,714</u>	<u>1,623,833</u>

Water Street Ministries d/b/a Water Street Mission and Affiliate

Notes To Consolidated Financial Statements

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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	\$	\$
Endowment funds:		
Operating	275,832	275,812
Educational	267,087	267,087
Perpetual trust	4,261,459	4,125,935
<u>Total</u>	<u>4,804,378</u>	<u>4,668,834</u>

Note 14 – Supplemental Disclosure of Cash Flow Information

Cash paid for interest for the years ended June 30, 2017 and 2016 was \$366 and \$1,156, respectively.

Noncash investing and financing activities for the years ended June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
	\$	\$
Gifts of property held for sale	140,000	0
Gifts of property and equipment received	70,196	401,638
Assets acquired under capital lease	0	3,849

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, 2017 and 2016 was \$96,050 and \$88,233, respectively.

Water Street Ministries d/b/a Water Street Mission and Affiliate

Notes To Consolidated Financial Statements

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.

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 of loss. For the years ended June 30, 2017 and 2016, Water Street's spending policy allowed for annual distributions of 4% of the average of the trailing calendar quarter end balances for the previous three calendar years.

Water Street Ministries d/b/a Water Street Mission and Affiliate

Notes To Consolidated Financial Statements

Note 17 – Endowment Funds – Continued

The components of endowment net assets at June 30, 2017 are as follows:

	Original Gift Value \$	Unrestricted \$	Temporarily Restricted \$	Permanently Restricted \$	Total \$
Operating	275,832	54,173	0	275,832	330,005
Restricted for Education	267,087	0	53,011	267,087	320,098
<u>Total</u>	<u>542,919</u>	<u>54,173</u>	<u>53,011</u>	<u>542,919</u>	<u>650,103</u>

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	Unrestricted General Operating \$	Temporarily Restricted Education \$	Permanently Restricted General Operating \$	Permanently Restricted Education \$	Total \$
Endowment net assets - July 1, 2016	29,284	32,652	275,812	267,087	604,835
Transfer from closed beneficial interest trust	0	0	20	0	20
Investment return:					
Investment income, net of investment fees	5,832	5,729	0	0	11,561
Net realized and unrealized gain	31,176	30,630	0	0	61,806
Total Investment Return	37,008	36,359	0	0	73,367
Amounts appropriated to current operations	(12,119)	(11,906)	0	0	(24,025)
Prior year appropriated amounts spent	0	(4,094)	0	0	(4,094)
<u>Endowment net assets - June 30, 2017</u>	<u>54,173</u>	<u>53,011</u>	<u>275,832</u>	<u>267,087</u>	<u>650,103</u>

Water Street Ministries d/b/a Water Street Mission and Affiliate

Notes To Consolidated Financial Statements

Note 17 – Endowment Funds – Continued

The components of endowment net assets at June 30, 2016 are as follows:

	Original Gift Value	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	\$	\$	\$	\$	\$
Operating	275,812	29,284	0	275,812	305,096
Restricted for Education	267,087	0	32,652	267,087	299,739
<u>Total</u>	<u>542,899</u>	<u>29,284</u>	<u>32,652</u>	<u>542,899</u>	<u>604,835</u>

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	Unrestricted General Operating	Temporarily Restricted Education	Permanently Restricted General Operating	Permanently Restricted Education	Total
	\$	\$	\$	\$	\$
Endowment net assets - July 1, 2015	39,843	35,245	268,036	267,087	610,211
Transfer from closing of beneficial interest trust	0	0	7,776	0	7,776
Investment return:					
Investment income, net of investment fees	7,125	6,997	0	0	14,122
Net realized and unrealized loss	(6,030)	(5,922)	0	0	(11,952)
Total Investment Return	1,095	1,075	0	0	2,170
Amounts appropriated to current operations	(11,654)	(11,444)	0	0	(23,098)
Appropriated amounts unspent	0	7,776	0	0	7,776
<u>Endowment net assets - June 30, 2016</u>	<u>29,284</u>	<u>32,652</u>	<u>275,812</u>	<u>267,087</u>	<u>604,835</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.

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Notes To Consolidated Financial Statements

Note 18 – Fair Value of Financial Instruments – Continued

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.

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, 34% fixed income, 49% equity, 14% alternatives and 1% 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.

Water Street Ministries d/b/a Water Street Mission and Affiliate

Notes To Consolidated Financial Statements

Note 18 – Fair Value of Financial Instruments – Continued

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

	Level 1	Level 2	Level 3	Total
<u>June 30, 2017</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Assets:				
Cash and cash equivalents	205,996	0	0	205,996
Bonds				
Short Term	1,774,915	0	0	1,774,915
Intermediate Term	1,040,468	0	0	1,040,468
Long Term	244,816			244,816
Equities				
Large Cap	2,277,964	0	0	2,277,964
Mid Cap	711,864	0	0	711,864
Small Cap	569,491	0	0	569,491
Beneficial interest in split-interest agreements	0	0	192,837	192,837
Beneficial interest in assets held by others in perpetual trust	0	0	4,261,459	4,261,459
<u>Total Assets at Fair Value</u>	<u>6,825,514</u>	<u>0</u>	<u>4,454,296</u>	<u>11,279,810</u>

	Level 1	Level 2	Level 3	Total
<u>June 30, 2017</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Liabilities:				
Annuity obligations	0	0	88,630	88,630
<u>Total Liabilities at Fair Value</u>	<u>0</u>	<u>0</u>	<u>88,630</u>	<u>88,630</u>

	Level 1	Level 2	Level 3	Total
<u>June 30, 2016</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Assets:				
Cash and cash equivalents	227,657	0	0	227,657
Bonds				
Short Term	1,859,238	0	0	1,859,238
Intermediate Term	1,159,739	0	0	1,159,739
Long Term	151,683			151,683
Equities				
Large Cap	2,074,708	0	0	2,074,708
Mid Cap	571,297	0	0	571,297
Small Cap	360,819	0	0	360,819
Beneficial interest in split-interest agreements	0	0	1,452,479	1,452,479
Beneficial interest in assets held by others in perpetual trust	0	0	4,125,935	4,125,935
<u>Total Assets at Fair Value</u>	<u>6,405,141</u>	<u>0</u>	<u>5,578,414</u>	<u>11,983,555</u>

Water Street Ministries d/b/a Water Street Mission and Affiliate

Notes To Consolidated Financial Statements

Note 18 – Fair Value of Financial Instruments – Continued

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<u>June 30, 2016</u>				
Liabilities:				
Annuity obligations	0	0	91,826	91,826
<u>Total Liabilities at Fair Value</u>	<u>0</u>	<u>0</u>	<u>91,826</u>	<u>91,826</u>

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

	2017	2016
	\$	\$
Beneficial interest in split-interest agreements		
Fair value at July 1	1,452,479	217,283
Current year contributions	53,444	1,248,590
Proceeds from split-interest agreements	(1,997,714)	(1,115)
Adjustment due to change in value of split-interest agreements	684,628	(12,279)
<u>Fair value at June 30</u>	<u>192,837</u>	<u>1,452,479</u>
Beneficial interest in assets held by others in perpetual trust		
Fair value at July 1	4,125,935	4,343,912
Current year contributions	88,398	0
Investment income	93,056	93,000
Total realized and unrealized gains/(losses)	208,740	(22,340)
Distributions received	(212,394)	(246,676)
Investment fees	(40,543)	(40,669)
Other trust expenses	(1,733)	(1,292)
<u>Fair value at June 30</u>	<u>4,261,459</u>	<u>4,125,935</u>
<u>Unrealized gains at June 30</u>	<u>457,484</u>	<u>428,406</u>
Annuity Obligations		
Fair value at July 1	91,826	112,734
Disbursement	(12,478)	(15,127)
Adjustment due to change in value of annuity obligation	9,282	(5,781)
<u>Fair value at June 30</u>	<u>88,630</u>	<u>91,826</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.

Water Street Ministries d/b/a Water Street Mission and Affiliate

Notes To Consolidated Financial Statements

Note 19 – New Accounting Standards

Issued

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, "Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities." The amendments in this update include, but are not limited to, requirements for qualitative and quantitative assessments of net asset classes, investment returns, natural and functional expenses, liquidity and the availability of resources, and presentation of operating cash flows. This accounting standard is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. The Organization is evaluating the impact the adoption of ASU 2016-14 will have on its financial statements.

Note 20 – Subsequent Events

Subsequent events have been evaluated through November 2, 2017 which represents the date the accompanying consolidated financial statements were available to be issued.

Subsequent to June 30, 2017, the property held for sale was sold for \$195,000 resulting in a gain of \$22,578.