

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

Consolidated Financial Report

June 30, 2018



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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, 2018 and 2017, 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, 2018, 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 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 2, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Simon Lever LLC
Simon Lever LLC
Lititz, PA

October 25, 2018

CONSOLIDATED FINANCIAL STATEMENTS

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
	<u>\$</u>	<u>\$</u>
ASSETS		
Cash and cash equivalents	3,816,123	3,650,856
Receivables	62,102	342,162
Inventory	319,436	308,522
Prepaid expenses	201,578	229,227
Investments	7,911,002	6,282,595
Mortgage receivable	0	144,924
Property and equipment, net of accumulated depreciation of \$5,965,768 - 2018; \$5,274,908 - 2017	6,551,218	6,854,048
Property held for sale	0	140,000
Beneficial interest in split-interest agreements	203,856	192,837
Investments - permanently restricted	542,919	542,919
Beneficial interest in assets held by others in perpetual trust	<u>4,314,955</u>	<u>4,261,459</u>
<u>TOTAL ASSETS</u>	<u>23,923,189</u>	<u>22,949,549</u>

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
	<u>\$</u>	<u>\$</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	38,905	68,719
Accrued payroll and employee benefits	248,648	245,367
Accrued expenses	71,115	79,394
Annuity obligations	31,343	88,630
Obligations under capital lease	<u>2,540</u>	<u>3,228</u>
TOTAL LIABILITIES	<u>392,551</u>	<u>485,338</u>
NET ASSETS		
Unrestricted		
Designated by board	6,192,204	4,316,521
Allocated to property and equipment	6,551,218	6,854,048
Undesignated	<u>4,852,183</u>	<u>6,025,550</u>
Total Unrestricted	17,595,605	17,196,119
Temporarily restricted	1,077,159	463,714
Permanently restricted	<u>4,857,874</u>	<u>4,804,378</u>
TOTAL NET ASSETS	<u>23,530,638</u>	<u>22,464,211</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>23,923,189</u>	<u>22,949,549</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, 2018 and 2017

	Unrestricted	Temporarily	Permanently	Comparative Totals	
	\$	Restricted	Restricted	2018	2017
	\$	\$	\$	\$	\$
REVENUES AND OTHER SUPPORT					
Contributions	6,619,043	655,974	0	7,275,017	6,632,092
Contributions - non-cash	1,610,427	0	0	1,610,427	2,307,168
Investment income, net of investment fees	248,876	0	0	248,876	130,920
Income from beneficial interests	216,281	0	0	216,281	213,489
Program fees	81,209	0	0	81,209	83,828
Other income	29,581	0	0	29,581	22,713
Net assets released from restrictions	53,548	(53,548)	0	0	0
Total Revenues and Other Support	<u>8,858,965</u>	<u>602,426</u>	<u>0</u>	<u>9,461,391</u>	<u>9,390,210</u>
EXPENSES					
Program					
Water Street Mission	5,726,335	0	0	5,726,335	6,300,479
Water Street Health Services	996,211	0	0	996,211	1,009,334
Management and general	633,276	0	0	633,276	612,509
Fundraising and development	1,455,107	0	0	1,455,107	1,405,257
Total Expenses	<u>8,810,929</u>	<u>0</u>	<u>0</u>	<u>8,810,929</u>	<u>9,327,579</u>
Change in Net Assets from Activities	<u>48,036</u>	<u>602,426</u>	<u>0</u>	<u>650,462</u>	<u>62,631</u>
OTHER CHANGES					
Net realized and unrealized gains on investments	273,365	0	0	273,365	489,467
Gain on sale of property held for sale	23,576	0	0	23,576	0
Gain on disposal of capital assets	0	0	0	0	5,815
Adjustment to beneficial interest in split-interest agreements	0	11,019	0	11,019	683,513
Adjustment to beneficial interest in assets held by others in perpetual trust	0	0	53,496	53,496	47,146
Adjustment to annuity obligations	54,509	0	0	54,509	(9,282)
Total Other Changes	<u>351,450</u>	<u>11,019</u>	<u>53,496</u>	<u>415,965</u>	<u>1,216,659</u>
CHANGES IN NET ASSETS	<u>399,486</u>	<u>613,445</u>	<u>53,496</u>	<u>1,066,427</u>	<u>1,279,290</u>
Net Assets at Beginning of Year	<u>17,196,119</u>	<u>463,714</u>	<u>4,804,378</u>	<u>22,464,211</u>	<u>21,184,921</u>
<u>Net Assets at End of Year</u>	<u>17,595,605</u>	<u>1,077,159</u>	<u>4,857,874</u>	<u>23,530,638</u>	<u>22,464,211</u>

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

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2018 and 2017

	Program Services		Support Activities			Comparative Totals	
	WSM Program Services	Water Street Health Services	Management and General	Fundraising and Development	Total	2018	2017
	\$	\$	\$	\$	\$	\$	\$
Salaries and wages	2,404,739	435,669	308,531	481,616	790,147	3,630,555	3,506,854
Donated services	0	210,062	0	0	0	210,062	132,772
Employee health and retirement benefits	477,415	88,999	71,482	96,289	167,771	734,185	709,725
Payroll taxes and unemployment claims	208,821	32,522	23,236	35,431	58,667	300,010	272,542
Donated clothing	87,320	0	0	0	0	87,320	195,628
Donated food and supplies	1,212,534	0	0	0	0	1,212,534	1,798,168
Donated medical supplies	0	85,233	0	0	0	85,233	188,155
Food and supplies purchased	90,161	8,050	6,607	4,086	10,693	108,904	122,954
Occupancy	155,603	12,842	4,899	2,162	7,061	175,506	199,415
Security	11,137	384	1,100	100	1,200	12,721	12,235
Building repairs and maintenance	71,487	593	3,925	0	3,925	76,005	61,630
Equipment repairs, small equipment, and IT equipment	35,923	9,324	13,784	7,530	21,314	66,561	63,160
Vehicle fuel, repairs and maintenance	13,924	0	1,583	102	1,685	15,609	17,658
Promotional expenses	2,206	1,031	1,340	705,269	706,609	709,846	739,921
Insurance	121,400	13,362	25,981	11,020	37,001	171,763	181,523
Telephone	49,073	9,096	13,075	5,636	18,711	76,880	76,576
Professional fees	6,875	0	48,122	7,418	55,540	62,415	51,829
Scholarships	44,093	0	0	0	0	44,093	41,738
Interest expense	0	0	300	0	300	300	366
Property taxes	0	0	3,257	0	3,257	3,257	2,673
Conferences, seminars and travel	15,159	7,068	18,066	11,654	29,720	51,947	40,657
Licenses and fees	8,650	5,949	52,303	73,844	126,147	140,746	104,475
Other expenses	114,938	18,015	7,207	3,457	10,664	143,617	134,274
Total Expenses Before Depreciation and Amortization	5,131,458	938,199	604,798	1,445,614	2,050,412	8,120,069	8,654,928
Depreciation and amortization	594,877	58,012	28,478	9,493	37,971	690,860	672,651
<u>Total Functional Expenses</u>	<u>5,726,335</u>	<u>996,211</u>	<u>633,276</u>	<u>1,455,107</u>	<u>2,088,383</u>	<u>8,810,929</u>	<u>9,327,579</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
	<u>\$</u>	<u>\$</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	1,066,427	1,279,290
Adjustments to reconcile changes in net assets to change in net cash from operating activities:		
Depreciation and amortization	690,860	672,651
Donated property and equipment	(2,673)	(70,196)
Donated property held for sale	0	(140,000)
Donated investments	(64,142)	(60,962)
Gain on sale of property held for sale	(23,576)	0
Change in value of annuity obligations	(54,509)	9,282
Realized gain on investments	(16,234)	(45,286)
Unrealized gain on investments	(257,131)	(444,180)
Gain on disposal of capital assets	0	(5,815)
Change in assets and liabilities:		
Receivables	280,060	20,622
Inventory	(10,914)	76,631
Prepaid expenses	27,649	(29,054)
Beneficial interest in split-interest agreements	(11,019)	1,259,642
Beneficial interest in assets held by others in perpetual trust	(53,496)	(135,524)
Accounts payable	(29,814)	4,748
Accrued payroll and employee benefits	3,281	21,842
Accrued expenses	(8,279)	27,728
 Net Cash Provided by Operating Activities	 <u>1,536,490</u>	 <u>2,441,419</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(2,309,977)	(541,633)
Proceeds from sale of investments	1,019,077	671,687
Proceeds from mortgage receivable	144,924	3,293
Purchase of property and equipment	(385,357)	(562,809)
Proceeds from sale of property held for sale	177,275	0
Purchases for property held for sale	(13,699)	0
Proceeds from disposal of property and equipment	0	5,815
 Net Cash Used in Investing Activities	 <u>(1,367,757)</u>	 <u>(423,647)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of annuity obligations	(2,778)	(12,478)
Payment of capital lease obligation	(688)	(621)
 Net Cash Used in Financing Activities	 <u>(3,466)</u>	 <u>(13,099)</u>
 Net Change in Cash and Cash Equivalents	 165,267	 2,004,673
Cash and Cash Equivalents:		
Beginning	<u>3,650,856</u>	<u>1,646,183</u>
<u>Ending</u>	<u><u>3,816,123</u></u>	<u><u>3,650,856</u></u>

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, 2017 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, 2018 deposits in excess of the FDIC limits totaled \$3,436,632.

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, certificates of deposit, fixed income and equity mutual funds, and marketable equity and fixed income securities. Certificates of deposit are stated at cost plus accrued interest and other 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, 2018 and 2017 totaled \$210,062 and \$132,772, 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, 2018 and 2017, Water Street recognized \$385,965 and \$528,213, respectively, as contributions from bequests. Bequests receivable as of June 30, 2018 and 2017 were \$4,667 and \$207,621, 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, 2018 and 2017 is comprised of the following:

	<u>2018</u>	<u>2017</u>
	<u>\$</u>	<u>\$</u>
Food	162,897	134,213
General supplies	13,199	14,890
Medical supplies and medications	105,653	125,158
Dental supplies	37,687	34,261
<u>Total</u>	<u>319,436</u>	<u>308,522</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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
	<u>\$</u>	<u>\$</u>
Cash and cash equivalents	134,093	205,996
Certificates of deposit		
Current	252,188	0
Long Term	253,026	0
Bonds		
Short Term	1,707,119	1,774,915
Intermediate Term	838,040	1,040,468
Long Term	558,694	244,816
Equities		
Large Cap	3,297,533	2,277,964
Mid Cap	989,260	711,864
Small Cap	423,968	569,491
<u>Total</u>	<u>8,453,921</u>	<u>6,825,514</u>

Investment income and gains for cash and cash equivalents and investments are comprised of the following for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
	<u>\$</u>	<u>\$</u>
Interest, dividend, and capital gain distribution income	289,324	167,591
Less: Investment fees	<u>(40,448)</u>	<u>(36,671)</u>
<u>Investment income, net of investment fees</u>	<u>248,876</u>	<u>130,920</u>
Other Changes:		
Realized gain of investments	16,234	45,286
Unrealized gain of investments	<u>257,131</u>	<u>444,181</u>
<u>Net realized and unrealized gain of investments</u>	<u>273,365</u>	<u>489,467</u>

Note 4 – Mortgage Receivable

Water Street had a mortgage receivable relating to the sale and financing of a property. The mortgage was 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, 2018 and 2017 was \$0 and \$144,924, respectively. The mortgage receivable was collected in full during the year ended June 30, 2018.

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, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
	<u>\$</u>	<u>\$</u>
Computer equipment and software	458,204	414,695
Vehicles	278,468	243,525
Furniture and office equipment	290,742	290,742
Machinery and equipment	1,444,997	1,386,802
Buildings and building improvements	9,717,975	9,466,592
Land and land improvements	326,600	326,600
Total	12,516,986	12,128,956
Less: Accumulated depreciation	<u>(5,965,768)</u>	<u>(5,274,908)</u>
<u>Property and Equipment, Net of</u> <u>Accumulated Depreciation</u>	<u>6,551,218</u>	<u>6,854,048</u>

Depreciation and amortization expense charged to current operations for the years ended June 30, 2018 and 2017 totaled \$690,860 and \$672,651, 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. This property was sold during the year ended June 30, 2018 resulting in a gain of \$23,576.

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
	<u>\$</u>	<u>\$</u>
Distributions received	1,115	1,115
Adjustment for change in value	11,019	683,513
<u>Total income in beneficial interest in split-interest agreements</u>	<u>12,134</u>	<u>684,628</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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
	<u>\$</u>	<u>\$</u>
Distributions received	215,166	212,374
Adjustment for change in value	53,496	47,146
<u>Total income from beneficial interest in assets held by others in perpetual trust</u>	<u>268,662</u>	<u>259,520</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, 2018, Water Street's maximum future required annual payments to annuitants under existing agreements was \$4,352.

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 \$2,540 and \$3,228 at June 30, 2018 and 2017, respectively.

A schedule of the future minimum lease payments for the year ended June 30, 2018 is as follows:

	\$
Lease payments	2,962
Less amount representing interest	(422)
<u>Present Value of Minimum Lease Payments</u>	<u>2,540</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, 2018 and 2017, and the accumulated amortization thereon is \$1,540 and \$770 at June 30, 2018 and 2017, 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, 2018 and 2017, the amount designated by the Board totaled \$6,192,204 and \$4,316,521, respectively.

Note 12 – Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 and 2017 are available for the following purposes:

	2018	2017
	\$	\$
Emergency Shelter Renovation	451,718	0
Educational Improvement Grants	262,951	108,117
Beneficial interest in split-interest agreements	203,856	192,837
Wolf Educational Endowment	60,797	53,011
Transitional Housing	56,201	56,201
Step Up Program Project	26,176	0
Teen Haven Summer Camp	15,460	0
6000 Building Bathroom Renovation	0	50,000
Outreach Ministry Floor Updates	0	2,548
Annual Dinner	0	1,000
<u>Total</u>	<u>1,077,159</u>	<u>463,714</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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
	<u>\$</u>	<u>\$</u>
Endowment funds:		
Operating	275,832	275,832
Educational	267,087	267,087
Perpetual trust	4,314,955	4,261,459
<u>Total</u>	<u>4,857,874</u>	<u>4,804,378</u>

Note 14 – Supplemental Disclosure of Cash Flow Information

Cash paid for interest for the years ended June 30, 2018 and 2017 was \$300 and \$366, respectively.

Noncash investing and financing activities for the years ended June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
	<u>\$</u>	<u>\$</u>
Gifts of property held for sale	0	140,000
Gifts of property and equipment received	2,673	70,196

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, 2018 and 2017 was \$84,689 and \$96,050, 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.

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

Notes To Consolidated Financial Statements

Note 16 – Contingencies – Continued

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, 2018 and 2017, 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.

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Notes To Consolidated Financial Statements

Note 17 – Endowment Funds – Continued

The components of endowment net assets at June 30, 2018 are as follows:

	Original Gift Value	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	\$	\$	\$	\$	\$
Operating	275,832	69,799	0	275,832	345,631
Restricted for Education	267,087	0	60,797	267,087	327,884
<u>Total</u>	<u>542,919</u>	<u>69,799</u>	<u>60,797</u>	<u>542,919</u>	<u>673,515</u>

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

	Unrestricted General Operating	Temporarily Restricted Education	Permanently Restricted General Operating	Permanently Restricted Education	Total
	\$	\$	\$	\$	\$
Endowment net assets - July 1, 2017	54,173	53,011	275,832	267,087	650,103
Investment return:					
Investment income, net of investment fees	11,296	10,957	0	0	22,253
Net realized and unrealized gain	13,226	12,829	0	0	26,055
Total Investment Return	24,522	23,786	0	0	48,308
Amounts appropriated to current operations	(8,896)	(8,629)	0	0	(17,525)
Prior year appropriated amounts spent	0	(7,371)	0	0	(7,371)
<u>Endowment net assets - June 30, 2018</u>	<u>69,799</u>	<u>60,797</u>	<u>275,832</u>	<u>267,087</u>	<u>673,515</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, 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 closing of 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>

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.

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

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:

- Cash and cash equivalents: Valued at cost which is equivalent to fair value
- Certificates of deposit: Valued at cost plus accrued interest which is equivalent to fair value
- 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 3% cash and cash equivalents, 32% fixed income, 53% equity, 11% 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.

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

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, 2018</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Assets:				
Cash and cash equivalents	134,093	0	0	134,093
Certificates of deposit				
Current	252,188			252,188
Long Term	253,026			253,026
Bonds				
Short Term	1,707,119	0	0	1,707,119
Intermediate Term	838,040	0	0	838,040
Long Term	558,694			558,694
Equities				
Large Cap	3,297,533	0	0	3,297,533
Mid Cap	989,260	0	0	989,260
Small Cap	423,968	0	0	423,968
Beneficial interest in split-interest agreements	0	0	203,856	203,856
Beneficial interest in assets held by others in perpetual trust	0	0	4,314,955	4,314,955
<u>Total Assets at Fair Value</u>	<u>8,453,921</u>	<u>0</u>	<u>4,518,811</u>	<u>12,972,732</u>
	Level 1	Level 2	Level 3	Total
<u>June 30, 2018</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Liabilities:				
Annuity obligations	0	0	31,343	31,343
<u>Total Liabilities at Fair Value</u>	<u>0</u>	<u>0</u>	<u>31,343</u>	<u>31,343</u>
	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>

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

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>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<u>June 30, 2017</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>

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

	<u>2018</u>	<u>2017</u>
	<u>\$</u>	<u>\$</u>
Beneficial interest in split-interest agreements		
Fair value at July 1	192,837	1,452,479
Current year contributions	0	53,444
Proceeds from split-interest agreements	(1,115)	(1,997,714)
Adjustment due to change in value of split-interest agreements	12,134	684,628
<u>Fair value at June 30</u>	<u>203,856</u>	<u>192,837</u>
Beneficial interest in assets held by others in perpetual trust		
Fair value at July 1	4,261,459	4,125,935
Current year contributions	0	88,398
Investment income	112,808	93,056
Total realized and unrealized gains	198,155	208,740
Distributions received	(215,166)	(212,394)
Investment fees	(39,907)	(40,543)
Other trust expenses	(2,394)	(1,733)
<u>Fair value at June 30</u>	<u>4,314,955</u>	<u>4,261,459</u>
<u>Unrealized gains at June 30</u>	<u>544,435</u>	<u>457,484</u>
Annuity Obligations		
Fair value at July 1	88,630	91,826
Disbursement	(2,778)	(12,478)
Adjustment due to change in value of annuity obligation	(54,509)	9,282
<u>Fair value at June 30</u>	<u>31,343</u>	<u>88,630</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 date of the independent auditor’s report, which represents the date the accompanying consolidated financial statements were available to be issued.