

**LANCASTER COUNTY
COUNCIL OF CHURCHES**

**YEARS ENDED
DECEMBER 31, 2016 AND 2015**



Independent Auditors' Report

Board of Directors
Lancaster County Council of Churches
Lancaster, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of Lancaster County Council of Churches (a nonprofit organization) (the Council), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lancaster County Council of Churches as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Brown Schultz Steindler & Fritz

Camp Hill, Pennsylvania
April 21, 2017

LANCASTER COUNTY COUNCIL OF CHURCHES

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

ASSETS

	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 271,405	\$ 172,520
Designated cash and cash equivalents	42,497	175,474
Accounts receivable	9,250	22,562
Prepaid expenses		1,623
Inventory	146,709	190,247
Promises to give:		
Program	71,049	107,615
Partners in Transformation Campaign, current portion, net	<u>40,413</u>	<u>182,394</u>
Total current assets	<u>581,323</u>	<u>852,435</u>
Long-term assets, promises to give,		
Partners in Transformation Campaign, net	<u>75,857</u>	<u>151,811</u>
Property and equipment:		
Land	129,600	129,600
Building and improvements	1,958,979	1,870,538
Equipment	64,834	64,834
Vehicles	<u>70,161</u>	<u>70,161</u>
Total property and equipment	2,223,574	2,135,133
Less accumulated depreciation	<u>146,320</u>	<u>71,956</u>
Net property and equipment	<u>2,077,254</u>	<u>2,063,177</u>
Other assets:		
Beneficial interest in assets held by		
Lancaster County Community Foundation	10,727	10,742
Board designated investments	<u>174,572</u>	<u>172,814</u>
Total other assets	<u>185,299</u>	<u>183,556</u>
Total assets	<u>\$ 2,919,733</u>	<u>\$ 3,250,979</u>

See notes to financial statements.

LIABILITIES AND NET ASSETS

	<u>2016</u>	<u>2015</u>
Current liabilities:		
Revolving line of credit capital campaign		\$ 113,206
Current portion of mortgage note payable	\$ 27,447	17,781
Accounts payable	1,074	19,432
Payroll tax liabilities	1,302	1,108
Accrued payroll and compensated absences	13,226	28,474
Deferred grant revenue	32,000	48,000
	<u>75,049</u>	<u>228,001</u>
Long-term liabilities, mortgage note payable, net of current portion and debt issuance costs	<u>232,082</u>	<u>450,109</u>
Total liabilities	<u>307,131</u>	<u>678,110</u>
Net assets:		
Unrestricted net assets:		
Board designated	175,299	173,556
Other unrestricted	<u>1,933,925</u>	<u>1,820,609</u>
Total unrestricted net assets	2,109,224	1,994,165
Temporarily restricted net assets, donor designated	492,651	567,962
Permanently restricted net assets	<u>10,727</u>	<u>10,742</u>
Total net assets	<u>2,612,602</u>	<u>2,572,869</u>
Total liabilities and net assets	<u><u>\$ 2,919,733</u></u>	<u><u>\$ 3,250,979</u></u>

LANCASTER COUNTY COUNCIL OF CHURCHES

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and gains:								
Church support	\$ 181,958			\$ 181,958	\$ 194,431			\$ 194,431
Public support	517,506			517,506	633,660	\$ 28,884		662,544
Partners in Transformation Campaign, Donor support and Promises to Give	99,915			99,915	555,548			555,548
Special events	76,664			76,664	47,018			47,018
Donated vehicles	22,723			22,723	58,497			58,497
Vehicle sales	37,693			37,693	28,139			28,139
Investment income	1,465		\$ 89	1,554	2,817		\$ 106	2,923
Realized and unrealized gain (loss) on investments	9,664		326	9,990	(4,688)		(332)	(5,020)
In-kind revenue	3,759,908			3,759,908	3,028,063			3,028,063
Investment property rent	1,066			1,066				
Gain (loss) on sale of equipment	(5,092)			(5,092)	1,001			1,001
Net assets released from restrictions	75,741	\$ (75,311)	(430)	-	167,492	(167,068)	(424)	-
Total revenue and gains	4,779,211	(75,311)	(15)	4,703,885	4,711,978	(138,184)	(650)	4,573,144

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LANCASTER COUNTY COUNCIL OF CHURCHES

STATEMENTS OF ACTIVITIES (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Expenses and losses:								
Wages	\$ 359,208			\$ 359,208	\$ 366,330			\$ 366,330
Payroll taxes	28,652			28,652	29,325			29,325
Benefits	68,500			68,500	100,704			100,704
Service ministry programs	116,821			116,821	132,335			132,335
Depreciation	74,364			74,364	63,547			63,547
Interest expense	2,650			2,650	2,897			2,897
Property	34,270			34,270	52,169			52,169
Insurance	27,150			27,150	32,354			32,354
Office	28,385			28,385	30,488			30,488
Computer	10,983			10,983	12,222			12,222
Professional fees	34,662			34,662	26,481			26,481
Special events	29,437			29,437	14,834			14,834
Miscellaneous					1,286			1,286
Uncollectible promises to give	(3,733)			(3,733)	14,429			14,429
Partners in Transformation Campaign	19,358			19,358	20,393			20,393
Cost of vehicles sold	46,445			46,445	66,124			66,124
New building, operating	7,276			7,276	77,069			77,069
In-kind expenses	3,779,724			3,779,724	2,892,399			2,892,399
Total expenses and losses	4,664,152			4,664,152	3,935,386			3,935,386
Change in net assets	115,059	\$ (75,311)	\$ (15)	39,733	776,592	\$ (138,184)	\$ (650)	637,758
Net assets:								
Beginning of year	1,994,165	567,962	10,742	2,572,869	1,217,573	706,146	11,392	1,935,111
End of year	\$ 2,109,224	\$ 492,651	\$ 10,727	\$ 2,612,602	\$ 1,994,165	\$ 567,962	\$ 10,742	\$ 2,572,869

See notes to financial statements.

LANCASTER COUNTY COUNCIL OF CHURCHES

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	<u>\$ 39,733</u>	<u>\$ 637,758</u>
Adjustments:		
Depreciation	74,364	63,547
(Gain) loss on sale of equipment	5,092	(1,001)
Amortization of mortgage financing costs (interest expense)	2,650	2,897
Realized and unrealized (gain) loss on investments	(9,990)	5,020
Allowance for bad debts	(3,733)	14,429
Contributions of property and equipment in-kind		(42,300)
(Increase) decrease in:		
Grants receivable		937
Accounts receivable	13,312	5,603
Prepaid expenses	1,623	7,407
Inventory	43,538	(102,642)
Promises to give	258,234	300,753
Increase (decrease) in:		
Accounts payable	(18,358)	(234,033)
Payroll tax liabilities	194	(4,556)
Deferred grant revenue		(32,211)
Retainage payable	(16,000)	(46,172)
Accrued compensated absences and other liabilities	<u>(15,248)</u>	<u>6,698</u>
Total adjustments	<u>335,678</u>	<u>(55,624)</u>
Net cash provided by operating activities	<u>375,411</u>	<u>582,134</u>
Cash flows from investing activities:		
Purchase of property and equipment	(123,441)	(652,417)
Proceeds from sale of equipment	29,908	15,000
Purchases of investments	(5,763)	(7,216)
Proceeds from sales of investments	<u>14,010</u>	<u>13,653</u>
Net cash used in investing activities	<u>(85,286)</u>	<u>(630,980)</u>

(continued)

LANCASTER COUNTY COUNCIL OF CHURCHES

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from financing activities:		
Proceeds from notes payable		\$ 247,269
Repayments on notes payable	<u>\$ (324,217)</u>	<u>(483,515)</u>
Cash used in financing activities	<u>(324,217)</u>	<u>(236,246)</u>
Decrease in cash and cash equivalents	(34,092)	(285,092)
Cash and cash equivalents:		
Beginning of year	<u>347,994</u>	<u>633,086</u>
End of year	<u><u>\$ 313,902</u></u>	<u><u>\$ 347,994</u></u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest:		
Capitalized		\$ 11,446
Included in the Partners in Transformation Campaign	\$ 19,358	20,393
Noncash investing activity, contributions of property and equipment in-kind		42,300

See notes to financial statements.

LANCASTER COUNTY COUNCIL OF CHURCHES

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

1. Description of the Organization:

The mission of the Lancaster County Council of Churches (the Council) is to unite communities of faith as ecumenical partners. Putting our faith into action, we work together for justice, peace, healing and reconciliation for the whole community by ministering to human needs and addressing community and societal issues. In short, the Council works to rebuild lives.

Community Meals:

Lancaster County Council of Churches collaborates with over 45 congregations who host Community Meals. Free and hot meals are served three times a day, Monday through Sunday, to anyone looking for a meal and companionship. Last year, the Community Meals program served over 62,000 meals.

Food Bank:

The Food Hub provides fresh, healthy food to over 100 families on a daily basis. In the past year, the Council worked with over 30,000 clients. In collaboration with Central Pennsylvania Food Bank, we are able to purchase food at a fraction of the retail price. \$1.00 can purchase six meals or eight glasses of milk. \$10 can purchase 50 pounds of groceries. By providing greater access to healthier and free food and drink (through Feeding America sources, farmers markets, commercial donors and bulk products), the Council can better serve its clients.

Clothing Bank / PA Workwear:

With the help of volunteers who sort the clothing and help clients make their selections, the clothing ministry distributes clean, quality clothing to clients. Together with the Department of Public Welfare and Career Link, the Clothing Bank also supports the PA Workwear Program, which makes business attire available when job opportunities come.

Hygiene Bank:

The hygiene bank provides individuals and families with a range of personal and household hygiene items such as paper towels, toiletries, laundry and dish detergents and more.

LANCASTER COUNTY COUNCIL OF CHURCHES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

1. Description of the Organization (continued):

Wheels to Work:

The Wheels to Work program sells safe, reliable cars well below retail prices. The donors then receive the maximum tax deduction. Reliable transportation is not only convenient, but also necessary when it comes to getting a job, making certain families get to where they need to be and having mobility choices.

Winter Shelter and Emergency Aid for Rent, Utilities and Life-Sustaining Medication:

For the seventh year, Lancaster County Council of Churches, in partnership with YWCA Lancaster, provides an emergency cold weather shelter for women and children. The shelter can provide a warm, safe and dry place to stay overnight during the winter season for as many as 46 women and children. Through connections with Community Homeless Assessment and Referral Team, guests are able to work on long-term housing solutions. Additionally, small amounts of funds are provided when emergencies arise such as rent, a utility bill or a necessary prescription.

2. Summary of significant accounting policies:

Method of accounting:

The Council uses the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenue and gains are recognized in the period earned, and expenses and losses are recognized when incurred.

Financial statement presentation:

The Council reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets – Those not restricted by donors or the donor-imposed restrictions have expired.

Temporarily restricted net assets – Resulting from donor-imposed restrictions that permit the Council to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Council.

Permanently restricted net assets – Resulting from donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the Council to expend all of the income derived from the donated assets for specified purposes.

LANCASTER COUNTY COUNCIL OF CHURCHES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

2. Summary of significant accounting policies (continued):

Cash and cash equivalents:

For the purpose of the statements of cash flows, the Council considers all highly liquid investments with original maturities of three months or less to be cash equivalents unless held for investing purposes. Cash and cash equivalents consist of demand deposits, savings accounts and cash on hand.

BB&T Bank requires the Council's primary deposit relationship to be with it during the life of the notes payable.

Accounts receivable:

Accounts receivable are uncollateralized and stated at the amount management expects to collect. The Council records an allowance for doubtful accounts based on management's assessment of the collectability of specific balances and the aging of accounts receivable. The Council writes off uncollectible receivables when management determines the receivable will not be collected.

Inventory:

Inventory consists of food, clothing, hygiene, bikes and vehicles. The vehicles are for Wheels to Work Inventory, which have been donated to the Council or purchased by the Council, along with direct costs for repairs and paperwork needed to prepare those vehicles for sale. Purchased inventory is stated at the lower of cost or market. Donated inventory is stated at fair value of the donated goods at the date of donation based upon estimated value of gifts received. Industry guides that consider the condition of the vehicle are used in determining fair value of donated vehicles.

Promises to Give:

Unconditional promises to give are recognized as assets and as revenues in the period received and are uncollateralized. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

It is the Council's policy to record an allowance for uncollectible promises to give based on management's assessment of the collectability of such balances. It is also the Council's policy to recognize a present value discount on promises to give which are receivable more than one year after the financial statement date.

LANCASTER COUNTY COUNCIL OF CHURCHES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

2. Summary of significant accounting policies (continued):

Property and equipment:

Property and equipment with useful lives of more than one year and a composite cost of over \$1,000 are carried at cost (fair value if contributed) less accumulated depreciation computed using the straight-line method over their estimated useful lives.

Depreciation and amortization are calculated using the following estimated useful lives:

Company vehicles – autos and trucks 3-7 years
Buildings – 39 years

Expenditures for additions, improvements and betterments that extend the useful lives of existing assets, if material, are generally capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Cash designated to purchase property and equipment has been restricted by donors and is not available for operating purposes.

Investments:

Investments are valued at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Board designated investments are intended to function as an endowment and are overseen by the Endowment Committee of the Board.

Compensated absences:

The Council records an accrued liability for compensated absences. Accrued compensated absences consist of sick and vacation days that employees are permitted to carry over into the next year.

LANCASTER COUNTY COUNCIL OF CHURCHES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

2. Summary of significant accounting policies (continued):

Contributions:

Gifts of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated 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 statements of activities as net assets released from restrictions.

If the temporarily restricted net asset becomes unrestricted within the same period as the contribution, the contributions are reported in the financial statements as unrestricted support.

Gifts of equipment are presented 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, the Council reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service (as the assets are used in the Council's activities).

The Council accounts for grant and contract revenue in the statements of activities according to the extent that expenses are incurred for the purpose specified by the grantor during the period. The terms of each individual grant are followed. Funds received in advance are accounted for as deferred revenue in the statements of financial position.

Donated equipment and materials are recorded at their fair value on the date received. For donated goods, the Council uses industry guides and other market values that consider the condition and utility of the donation in the valuation. Donated services represent the fair value of professional services provided to the Council by local agencies and businesses.

No amounts have been recorded in the financial statements for non-professional contributed services because they do not meet the criteria established under generally accepted accounting principles. However, Board members and other volunteers have donated significant amounts of their time to the Council. In addition, a local organization contributes space to the Council for the Emergency Winter Shelter Program.

LANCASTER COUNTY COUNCIL OF CHURCHES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

2. Summary of significant accounting policies (continued):

Deferred financing costs:

Loan fees incurred in connection with obtaining the mortgage are being amortized by the straight-line method (which approximates the effective interest method) over the term of the loan.

Tax status:

The Council is recognized as a tax-exempt organization under Internal Revenue Code Section 501(c)(3) and, therefore, is not generally subject to federal income taxes.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could vary from those estimates.

Subsequent events:

Management has evaluated subsequent events through April 21, 2017, the date the financial statements were available to be issued.

Reclassifications:

Certain reclassifications have been made to 2015 financial statement amounts in order to conform to the 2016 presentation.

LANCASTER COUNTY COUNCIL OF CHURCHES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

3. Designated cash and cash equivalents:

Designated cash and cash equivalents consists of the following as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Designated cash and cash equivalents:		
Donor designated	\$ 42,497	\$ 176,546
Program designated, Central PA food bank		<u>(1,072)</u>
Total designated cash and cash equivalents	<u>\$ 42,497</u>	<u>\$ 175,474</u>

Donor designated cash at December 31, 2016 and 2015 consists of funds raised through the Partners in Transformation Campaign (the Campaign). The Campaign was to raise funds to purchase and renovate a new facility for the Council's operations. The Council also expanded its programs to implement a community food and resource hub to facilitate the distribution of more fresh, nutritious foods, especially produce, throughout Lancaster County, Pennsylvania. The building was purchased in December 2013 with contributions from the Campaign and a commercial loan. The renovations began in 2014 and were placed in service during 2015.

Gifts of cash, property or securities converted to cash, and promises to give raised through the Campaign are restricted to the payment of costs associated with the purchase and renovation of the Council's new facility, implementation of the new food hub program or campaign costs. The restrictions are considered to expire when payments are made.

Funds raised through the Campaign are not available to the general operating fund. However, interest earned on the temporary investment of these funds may be used for unrestricted purposes at the discretion of the Council.

LANCASTER COUNTY COUNCIL OF CHURCHES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

3. Designated cash and cash equivalents (continued):

The Council has funds available for use on account at Central Pennsylvania Food Bank. Funds are from various sources, including grants, private donations and amounts deposited by the Council. Funds are available to spend on food purchases and may be subject to grant periods or conditions on type of purchases allowable, based on sources of funding. Funds on account are generally available immediately and usually need to be spent within six months. Restrictions are considered to expire as funds are spent. The balance at December 31, 2015 is due to the Council's overspending of its allotted amount for the year.

4. Accounts receivable:

Accounts receivable consists of the following as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Pennsylvania Department of Human Services (PA Workwear)		\$ 22,222
Emergency Shelter and Food Program (EFSP Phase 33 Local Board)	\$ 9,250	
Churches, businesses and other		<u>340</u>
	<u>\$ 9,250</u>	<u>\$ 22,562</u>

LANCASTER COUNTY COUNCIL OF CHURCHES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

5. Wheels to Work – car program:

The Council is a licensed car dealership. Purchased and donated cars are made available for purchase by eligible clients in order to provide reliable transportation to their place of employment.

The following activity took place during the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Inventory:		
Beginning balance	\$ 32,827	\$ 23,704
Add vehicle:		
Donations	22,723	58,497
Purchases		4,575
Repairs		12,175
Less cost of vehicles sold	<u>46,445</u>	<u>66,124</u>
Ending balance	<u>\$ 9,105</u>	<u>\$ 32,827</u>
Sales:		
Sales of vehicles	\$ 37,693	\$ 28,139
Less cost of vehicles sold	<u>46,445</u>	<u>66,124</u>
Net loss on vehicle sales	<u>\$ (8,752)</u>	<u>\$ (37,985)</u>

6. Program promises to give:

Program promises to give are all current and consist of pledges from member churches, reported net of any allowance (if any) determined necessary by management.

LANCASTER COUNTY COUNCIL OF CHURCHES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

7. Partners in Transformation Campaign promises to give:

Partners in Transformation Campaign (the Campaign) promises to give consists of pledges from individuals, businesses, foundations or churches that have been designated for the Campaign. Management has reported promises to give from the Campaign net of an allowance for uncollectible promises to give. Promises to give are reported net of a 2.91% discount to present value.

Partners in Transformation Campaign promises to give were as follows for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Partners in Transformation Campaign:		
Receivable in less than one year, net	\$ 40,413	\$ 182,394
Receivable in one to five years, net	<u>75,857</u>	<u>151,811</u>
Total Partners in Transformation Campaign	<u>\$ 116,270</u>	<u>\$ 334,205</u>

The allowance and discount on promises to give totaled \$10,152 for the year ended December 31, 2016 and \$13,885 for the year ended December 31, 2015.

8. Temporarily restricted net assets:

Temporarily restricted net assets as of December 31, 2016 and 2015 are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Purpose restrictions:		
Food bank		\$ 28,884
Partners in Transformation Campaign	<u>\$ 492,651</u>	<u>539,078</u>
	<u>\$ 492,651</u>	<u>\$ 567,962</u>

Releases from temporarily restricted net assets were from the food bank program and from the Partners in Transformation Campaign in 2016 and 2015.

LANCASTER COUNTY COUNCIL OF CHURCHES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

9. Beneficial interest in assets held by a community foundation:

In November 2010, the Council established an agency fund endowment with Lancaster County Community Foundation (the Foundation) for \$10,000. The Council is the beneficiary of these funds. Under the terms of the agreement, the Council has the irrevocable right to receive a portion of the income earned on the agency fund endowment assets. The fair value of the Council's interest in the endowment is recognized as an asset on the statements of financial position. The original amount contributed to the Foundation by the Council, including amounts reinvested by the Foundation into the fund, is recorded as a permanently restricted net asset.

At the time of the initial contribution to the Foundation, the Foundation matched the Council's contribution and established an organizational designated fund for \$10,000. Since these funds were not contributed by the Council, and the Council has no beneficial interest in them, they are not recorded on the Council's statements of financial position. In addition, the designated fund is not subject to the control or direction by the Council, but rather is subject to the control and direction of the Foundation's governing Board.

The activity of the agency fund endowment for the years ended December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 10,742	\$ 11,392
Investment income	234	259
Realized and unrealized gains (losses)	326	(332)
Grants distributed from agency fund	(430)	(424)
Fees and expenses	<u>(145)</u>	<u>(153)</u>
Ending balance	<u>\$ 10,727</u>	<u>\$ 10,742</u>

LANCASTER COUNTY COUNCIL OF CHURCHES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

10. Beneficial interest in assets held by a community foundation (continued):

The amounts, which are not included within the Council's financial statements, which have been designated for the Council, are as follows:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 10,762	\$ 11,417
Investment income	234	259
Realized and unrealized losses	329	(332)
Contributions	285	
Grants distributed from designated fund	(431)	(424)
Fees and expenses	<u>(145)</u>	<u>(158)</u>
Ending balance	<u>\$ 11,034</u>	<u>\$ 10,762</u>

11. Concentrations:

The Council maintains accounts with local banks. Bank deposits with a financial institution may at times exceed the amount insured by the Federal Deposit Insurance Corporation.

Three donors represent approximately 50% of the total promises to give receivable at December 31, 2016.

12. Deferred grant revenue:

Deferred revenue consists of the following as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Lancaster County Community Foundation Ah-Ha Grant	<u>\$ 32,000</u>	<u>\$ 48,000</u>

LANCASTER COUNTY COUNCIL OF CHURCHES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

13. Notes payable and adoption of new accounting guidance:

Adoption of New Accounting Guidance:

In April 2015, the Financial Accounting Standards Board (FASB) issued guidance related to simplifying the presentation of deferred financing costs. The guidance requires that the carrying amount of the debt liability be presented net of deferred financing costs, consistent with the presentation of debt discounts. The recognition and measurement guidance for deferred financing costs are not affected by the update. The Company adopted this guidance as of and for the year ended December 31, 2016. The 2015 amount of debt issuance costs of \$7,481 have been reclassified for consistency, resulting in a reduction of total assets and liabilities by \$7,481. This change did not affect net assets.

Notes payable:

The Council's debt consists of the following as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
BB&T Bank revolving line of credit, maturing November 2017. Variable interest rate (3.75% at December 31, 2016). Secured by improvements to real estate.		\$ 113,206
BB&T Bank mortgage note, payable in 59 monthly installments of \$3,232, including interest at 4.5%, plus a balloon payment due on December 13, 2018. Secured by the land and building of the Council.	\$ 264,360	475,371
	264,360	588,577
Less deferred financing costs, net	<u>(4,831)</u>	<u>(7,481)</u>
	259,529	581,096
Less current portion	<u>(27,447)</u>	<u>(130,987)</u>
	<u>\$ 232,082</u>	<u>\$ 450,109</u>

LANCASTER COUNTY COUNCIL OF CHURCHES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

13. Notes payable and adoption of new accounting guidance (continued):

Future minimum annual principal payments due on the notes payable are as follows:

2017	\$ 27,447
2018	<u>236,913</u>
	<u>\$ 264,360</u>

A prepayment penalty applies if the notes are refinanced through another institution.

In 2015, the Council established a line of credit with Orrstown Bank for \$100,000 at a variable rate of prime (3.75% at December 31, 2016) plus 1% and is subject to a 4.25% floor. It is secured by the Council's business assets. No advances were taken on the line during 2016 or 2015.

14. In-kind contributions:

In-kind contributions for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Donated food	\$ 2,858,131	\$ 2,132,123
Donated clothing	851,222	771,168
Professional services, supplies, materials and equipment		8,220
Donated hygiene items	50,555	81,552
Donated real estate	<u></u>	<u>35,000</u>
	<u>\$ 3,759,908</u>	<u>\$ 3,028,063</u>

In 2015, the Council determined that Feeding America's average wholesale value per pound closely approximates fair value as reported in their audited financial statements.

LANCASTER COUNTY COUNCIL OF CHURCHES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

15. Retirement plan:

The Council sponsors a 403(b) Retirement Plan for its eligible employees in accordance with Internal Revenue Service regulations. Employer contributions were equal to 8% of participants' eligible salaries and wages during 2015. Employee contributions are permitted. Effective January 1, 2016, the Council changed employer contributions from 8% of participants' eligible salaries to a tiered structure based on employee contributions. For every 1% the employee contributes, the Council will contribute an additional 0.5% up to a maximum of 4.5%.

Contributions made to the plan on behalf of participants for the years ended December 31, 2016 and 2015 were \$13,355 and \$14,716, respectively.

16. Operating leases:

The Council had operating leases that terminated May 31, 2015 for the conjoined properties at 342 and 344 North Marshall Street and 599 Lehigh Street. Monthly payments were approximately \$4,500. The total rent expense for these leases was \$22,993 in 2015.

17. Functional allocation of expenses:

Functional expenses are charged directly to program services, management and general or fundraising based on specific identification and percentage allocation, as applicable.

The allocation of total expenses for the years ended December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Program services	\$ 4,359,128	\$ 3,661,101
Management and general	139,875	86,499
Fundraising	<u>165,149</u>	<u>187,786</u>
	<u>\$ 4,664,152</u>	<u>\$ 3,935,386</u>

LANCASTER COUNTY COUNCIL OF CHURCHES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

18. Obligations under guarantees:

The Council provided collateral against small, low interest loans for clients purchasing a vehicle through the Wheels to Work program. The Council was liable to the loan program administrator for any clients defaulting on their loans. There was a loss of \$818 during 2015. The Council has no collateralized loans as of December 31, 2015. The program was terminated in 2016.

19. Fair value measurements:

Financial Accounting Standards Board Accounting Standards Codification Topic 820 relating to fair value measurements and disclosures establishes a framework for measuring fair value and establishes a three-level hierarchy for fair value measurements to clarify the valuation of an asset as follows:

- Level 1 – Quoted prices in active markets for identical investment
- Level 2 – Other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – Significant unobservable inputs (including the Council's own assumptions in determining the fair value of investments)

Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset. Observable inputs reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset developed based on the best information available in the circumstances.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Investments for which market prices are readily available (exchange traded funds) are valued by reference to quoted market prices. Beneficial interest in assets held by the Foundation are valued based on the fair value of the assets held by the Lancaster Community Foundation as reported by the Foundation.

LANCASTER COUNTY COUNCIL OF CHURCHES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

19. Fair value measurements (continued):

The following table sets forth by level, within the fair value hierarchy, the Council's assets that are measured at fair value on a recurring basis as of December 31, 2016 and 2015:

	2016			2015		
	Level 1	Level 2	Total fair value	Level 1	Level 2	Total fair value
Cash equivalents held for investment purposes	\$ 9,470		\$ 9,470	\$ 9,540		\$ 9,540
Exchange traded funds	165,102		165,102	163,274		163,274
Beneficial interest in assets held by Lancaster County Community Foundation		\$ 10,727	10,727		\$ 10,742	10,742
	<u>\$ 174,572</u>	<u>\$ 10,727</u>	<u>\$ 185,299</u>	<u>\$ 172,814</u>	<u>\$ 10,742</u>	<u>\$ 183,556</u>

Investments are overseen by the Endowment Committee of the Board.

20. Board designated endowment:

The following summarizes the activity for the Board designated endowment:

	2016	2015
Endowment net assets, beginning of year	\$ 173,556	\$ 185,013
Investment return	10,523	(2,255)
Amounts appropriated for expenditure	<u>(8,780)</u>	<u>(9,202)</u>
Endowment net assets, end of year	<u>\$ 175,299</u>	<u>\$ 173,556</u>

LANCASTER COUNTY COUNCIL OF CHURCHES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

20. Board designated endowment (continued):

The Council has adopted investment and spending policies, approved by the Board, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term. To satisfy its long-term rate-of-return objectives, the Council relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Council targets a diversified asset allocation.

On an annual basis, the Council may spend from the principal of the endowment to fund a new ministry or multiple new ministries. The Committee shall review these requests and grant such funds as the Committee, in its sole discretion, deems advisable. In any given calendar year, any such distribution from principal shall not exceed ten percent (10%) of the principal balance as of December 31 of the preceding year.

During 2016 and 2015, the Board authorized withdrawals of \$8,780 and \$9,202 for operations, respectively.