

# WatersEdge Ministry Services

Financial Statements and  
Independent Auditor's Report

**DECEMBER 31, 2023**



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110 N. Elgin Avenue, Suite 400 / Tulsa, OK 74120

P 918.878.9060 / F 918.584.2931

[forvis.com](http://forvis.com)

## Independent Auditor's Report

Board of Directors  
Baptist Foundation of Oklahoma  
d/b/a WatersEdge Ministry Services  
Oklahoma City, Oklahoma

### **Opinion**

We have audited the consolidated financial statements of The Baptist Foundation of Oklahoma d/b/a WatersEdge Ministry Services (WatersEdge), which comprise the consolidated statement of financial position as of December 31, 2023 and the related consolidated statements of activities and cash flows for the year then ended and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of WatersEdge as of December 31, 2023 and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are required to be independent of WatersEdge and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Emphasis of Matter**

As discussed in Note A to the financial statements, in 2023, WatersEdge has adopted Accounting Standards Update 2016-13, *Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Our opinion is not modified with respect to this matter.

### **Responsibilities of Management for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about WatersEdge's ability to continue as a going concern within one year after the date that these consolidated financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report

that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 WatersEdge's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about WatersEdge's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Report on Summarized Comparative Information***

We have previously audited the December 31, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 20, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

**FORVIS, LLP**

**Tulsa, Oklahoma  
April 19, 2024**

# WatersEdge Ministry Services

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,

ASSETS	2023	2022
Cash and cash equivalents	\$ 32,526,323	\$ 13,074,735
Certificates of deposit	1,206,845	-
Prepaid expenses and other	893,020	522,514
Church building loans receivable, net	178,791,635	154,404,428
Accrued interest receivable	537,168	409,887
Investments		
Pooled investments	409,799,826	418,544,667
Other investments	48,658,892	82,046,257
Total investments	458,458,718	500,590,924
Beneficial interest in trust managed by others	866,725	763,652
Property and equipment, net	494,101	505,795
<b>TOTAL ASSETS</b>	<b>\$ 673,774,535</b>	<b>\$ 670,271,935</b>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 796,221	\$ 723,983
Accrued postretirement benefits	315,621	385,527
Current debt obligations	-	2,553,244
Notes payable	109,984,645	97,701,139
Accrued interest payable	1,321,418	876,596
Allowance for credit loss on unfunded commitments	436,186	-
Liabilities to beneficial owners		
Liability to income beneficiaries under split-interest agreements	5,152,773	5,380,858
Assets held for others	358,702,971	351,176,148
Refundable advances	132,907,613	150,523,014
Total liabilities to beneficial owners	496,763,357	507,080,020
<b>TOTAL LIABILITIES</b>	<b>609,617,448</b>	<b>609,320,509</b>
Net assets		
Without donor restrictions		
Undesignated	7,983,577	6,025,925
Board designated	3,485,250	5,062,152
Funds advised by donors	27,713,408	19,178,874
Total without donor restrictions	39,182,235	30,266,951
With donor restrictions	24,974,852	30,684,475
<b>TOTAL NET ASSETS</b>	<b>64,157,087</b>	<b>60,951,426</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 673,774,535</b>	<b>\$ 670,271,935</b>

The accompanying notes are an integral part of these statements.

# WatersEdge Ministry Services

## CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended December 31, 2023

(with summarized comparative financial information for the year ended December 31, 2022)

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Net interest income				
Loans interest income, net	\$ 5,435,911	\$ 2,878,068	\$ 8,313,979	\$ 6,885,266
Notes payable interest expense	(6,041,693)	-	(6,041,693)	(3,909,802)
Total net interest income	(605,782)	2,878,068	2,272,286	2,975,464
Provision (credit) for credit losses on loans	(43,498)	-	(43,498)	(172,971)
Provision (credit) for credit losses on unfunded commitments	169,455	-	169,455	-
Revenues, gains and other support				
Fees for asset management and trust administration	3,953,904	-	3,953,904	3,864,458
Investment return, net	2,505,182	(4,729,995)	(2,224,813)	8,108,312
Change in value of beneficial interest in trust managed by others	-	120,005	120,005	(126,858)
Other revenues and support				
Cooperative program allocation	28,949	-	28,949	24,767
Contributions to funds advised by donors	11,500,332	-	11,500,332	7,372,569
Other Contributions	-	63,690	63,690	218,801
Other	2,635,927	(49,177)	2,586,750	1,095,863
Reclassification of net assets				
Appropriations from endowments	3,992,214	(3,992,214)	-	-
Total revenues, gains and other support	24,616,508	(8,587,691)	16,028,817	20,557,912
Expenses and distributions				
Program services				
Estate planning, trust, investment and lending services	7,358,074	-	7,358,074	6,980,067
Distributions to students, elderly and charitable causes	519,208	-	519,208	529,401
Distributions from funds advised by donors	4,544,345	-	4,544,345	4,404,738
Management and general	2,298,612	-	2,298,612	2,053,453
Total expenses and distributions	14,720,239	-	14,720,239	13,967,659
Pension related changes other than net periodic pension costs	88,485	-	88,485	(69,958)
CHANGE IN NET ASSETS	9,253,015	(5,709,623)	3,543,392	9,668,730
Net assets at beginning of year, as previously reported	30,266,951	30,684,475	60,951,426	51,282,696
Cumulative change for adoption of ASC 326	(337,731)	-	(337,731)	-
Net assets at beginning of year, as adjusted	29,929,220	30,684,475	60,613,695	51,282,696
Net assets at end of year	\$ 39,182,235	\$ 24,974,852	\$ 64,157,087	\$ 60,951,426

The accompanying notes are an integral part of these statements.

# WatersEdge Ministry Services

## CONSOLIDATED STATEMENTS OF CASH FLOWS

December 31,

	2023	2022
Cash flows from operating activities		
Cash received as fees for asset management and trust administration	\$ 3,953,904	\$ 3,864,458
Interest received on church building loans receivable, net	8,186,698	6,833,081
Interest paid on notes payable	(5,596,871)	(3,920,897)
Interest, dividends and other investment income received	2,127,499	3,153,691
Cash received from donors and under Cooperative Program	11,529,281	6,742,337
Cash paid to employees, suppliers and to benefit recipients	(14,628,972)	(13,768,582)
Cash paid for interest	(117,920)	(86,579)
Cash received from other sources	2,586,750	1,168,596
Cash flows related to assets held for beneficial owners		
Cash received from or on behalf of beneficial owners	50,295,613	54,449,426
Earnings on assets held for beneficial owners	15,592,171	17,276,124
Distributions to or on behalf of beneficial owners	(91,510,146)	(55,841,990)
	(25,622,362)	15,883,560
Net cash provided by operating activities	(17,581,993)	19,869,665
Cash flows from investing activities		
Purchases of certificates of deposit	(1,206,845)	(13,175)
Sales of certificates of deposit	-	1,631,452
Purchases of US Treasury Bills	-	(2,988,200)
Sales of US Treasury Bills	-	2,992,080
Purchases of pooled investments	(116,507,713)	(137,075,128)
Sales of pooled investments	159,049,414	104,160,496
Collections on notes receivable	5,543	5,245
Advances on church building loans receivable	(40,387,855)	(34,997,392)
Collections on church building loans receivable	15,816,246	17,010,948
Proceeds from sale of participation agreements	651,991	1,548,140
Payments to participation agreement owners	(597,526)	(3,965,569)
Purchases of other investments	(5,662,739)	(4,259,011)
Sales of other investments	16,201,059	8,623,804
Purchases of property and equipment	(165,646)	(187,165)
Sales of property and equipment	43,700	83,500
Net cash used in investing activities	27,239,629	(47,429,975)
Cash flows from financing activities		
Proceeds from sale of notes payable	44,426,060	40,677,605
Withdrawal of maturing notes payable	(32,142,554)	(25,185,919)
Proceeds from long term debt	-	130,609
Payments on long term debt	(2,553,244)	(86,175)
Proceeds from contributions restricted for investment in endowments	63,690	218,800
Net cash provided by financing activities	9,793,952	15,754,920
NET INCREASE IN CASH AND CASH EQUIVALENTS	19,451,588	(11,805,390)
Cash and cash equivalents at beginning of year	13,074,735	24,880,125
Cash and cash equivalents at end of year	\$ 32,526,323	\$ 13,074,735

Non-cash activities:

Liabilities to beneficial owners include net realized and unrealized gains (losses) of \$11,447,539 and \$(6,569,971) for 2023 and 2022, non-cash receipts of other investments of \$3,800,264 and \$1,986,014 for 2023 and 2022, and non-cash disposals of other investments of \$18,277 and \$695 for 2023 and 2022. Net realized and unrealized (losses) gains on investments benefiting WatersEdge were \$(4,232,312) and \$4,827,763 for 2023 and 2022. In 2023, WatersEdge received real estate collateral from a borrower in lieu of foreclosure on church building loans receivable totaling \$115,824. In 2022, WatersEdge received \$655,000 in non-cash real estate as a contribution into a fund advised by a donor.

# WatersEdge Ministry Services

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## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

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December 31, 2023

### NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF ACCOUNTING POLICIES

The Baptist Foundation of Oklahoma, dba WatersEdge Ministry Services (WatersEdge) is a private, nonprofit religious association chartered by the State of Oklahoma on October 31, 1946 for perpetual existence without capital stock. Its creation was approved by the Baptist General Convention of the State of Oklahoma, dba Oklahoma Baptists (Convention) to administer funds and property received by gift, devise, and bequest or otherwise in order to assist and promulgate the furtherance of the Convention and to promote Baptist doctrines, evangelism, Christian education and both home and foreign mission work. WatersEdge qualifies as a 501(c)(3) public charity.

On May 1, 2018, WatersEdge formed a Church Extension Fund by completing an Offering Circular (Circular). The Circular is prepared in compliance with the North American Securities Administration Associations, Inc. (NASAA) Statement of Policy for offerings of securities (notes payable) and submitted to state securities departments for authorization to sell notes within each respective state. Through the Circular issued on June 1, 2023, WatersEdge offered notes payable in the aggregate principal amount of \$275,000,000. As of December 31, 2023, WatersEdge had notes payable in nineteen states. WatersEdge uses the proceeds from the sale of these notes payable to make church building loans to finance capital improvement projects.

WatersEdge formed 25:21, LLC (LLC) on November 15, 2016 with the purpose of allowing internally managed pools to participate as a direct investor in local investing opportunities. WatersEdge is the sole member of the LLC. At December 31, 2023, the LLC had committed capital to one real estate company. The LLC is an Oklahoma limited liability company and will continue perpetually until terminated pursuant to statute or any provision of the operating agreement.

WatersEdge, in the capacity of trustee, holds, administers, and invests assets for the Convention and institutions affiliated with the Convention, as well as for its own account. Trusts may have other charitable or non-charitable beneficiaries. Interests of WatersEdge, Convention or affiliates of the Convention may be total or may represent only income or remainder interests. WatersEdge also holds assets for investment in a custodial capacity for the Convention and its affiliates. In addition, WatersEdge administers trusts where affiliated organizations serve as trustee.

Activities of WatersEdge include estate stewardship and gift planning for the Convention and its affiliates. Staff members work with Southern Baptist churches and associations both within and outside the State of Oklahoma to encourage financial support for local, state, and national institutions through lifetime and testamentary planning.

WatersEdge receives financial support primarily from fees charged for the administration and investment of assets. In addition, annual appropriations are received from the Convention through its Cooperative Program.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows.

1. Consolidation

The accompanying financial statements have been prepared on the accrual basis and include the activities and net assets of 25:21 LLC, its wholly owned subsidiary. All significant intercompany balances and transactions have been eliminated.

2. Recent Adoption of Accounting Pronouncements

On January 1, 2023, WatersEdge adopted ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (CECL). The ASU changed the way entities recognize impairment of financial assets by requiring immediate recognition of estimated credit losses expected to occur over their remaining life. The CECL model requires entities to present certain financial assets carried at amortized cost, such as loans, at the net amount expected to be collected. The measurement of expected credit losses is based on information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. This differs significantly from the "incurred loss" model required under previous accounting principles generally accepted in the United States of America (GAAP), which delayed recognition until it was probable a loss had been incurred.

WatersEdge adopted ASC 326 using a modified retrospective method for all financial instruments measured at amortized cost and off-balance-sheet credit exposures. Reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP.

The following table describes the impact of ASC 326 on the adoption date:

	<u>ASC 326</u>	<u>Pre ASC 326</u>	<u>Impact of ASC 326 Adoption</u>
Assets			
Loans (allowance for credit losses)	\$(1,216,565)	\$(1,145,565)	\$(71,000)
Liabilities			
Allowance for credit loss on unfunded commitments	266,731	-	266,731
Net Assets			
Net assets without donor restrictions	29,929,220	30,266,951	(337,731)

# WatersEdge Ministry Services

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## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

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December 31, 2023

### 3. Recognition of Donor Restrictions

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions. Net assets without donor restrictions are currently available for operating purposes at the discretion of the WatersEdge Board for use for its associated programs, for general expenditure, and for investment in property and equipment.

Net assets with donor restrictions include assets related to gifts with explicit donor-imposed restrictions that have not been met as to the specified purpose or expiration of the specified periods of time. Restricted assets reported herein combine permanent and temporary restrictions.

Net assets with donor restrictions include donor restrictions requiring the net asset be held in perpetuity while permitting an annual appropriation. These net assets held in perpetuity are referred to as endowments. The endowments consist of the original contribution amount as well as the net increases and decreases over the original contribution amount. These endowments either benefit WatersEdge directly or do not benefit WatersEdge. Net assets benefitting WatersEdge are subject to appropriation for general needs and expenditures. Net assets not benefitting WatersEdge are subject to expenditure for a specific purpose for which WatersEdge holds discretion on the distribution.

The liability to income beneficiaries for future payments is determined by applying an annual discount rate of 5% (which equals the estimated long-term return on investments) to estimated payments under the agreements.

### 4. Cash and Cash Equivalents

WatersEdge maintains its cash and cash equivalents in bank deposit accounts, money market funds and short-term certificates of deposit, some of which may not be federally insured. Some bank deposit balances are transferred daily into interest-bearing accounts secured by short-term, high-quality fixed income securities issued by banks, corporations, and the U.S. Government. WatersEdge has not experienced any losses in cash equivalents and believes it is not exposed to significant credit risk on cash equivalents. Management considers highly liquid debt instruments readily convertible into cash to be cash equivalents other than cash and cash equivalents held as part of its investment portfolio which are not considered to be cash equivalents.

### 5. Certificates of Deposit

Certificates of deposit include term deposits invested into the Certificate of Deposit Account Registry Service (CDARS) which provides full FDIC insurance and time certificates invested in the church extension fund of Christian Financial Resources which are not FDIC insured. At December 31, 2023, \$1,206,845 were not federally insured. Interest is paid on these certificates at the end of each quarter. Management believes that adjustments, if any, to fair value would be nominal and, as such, the carrying value approximates fair value.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

6. Church Building Loans Receivable, net

Loans are carried at the total principal balance net of an Allowance for Credit Losses (ACL) and any unamortized deferred fees or costs. The Board of Directors (Board) approves the methodology used to establish interest rates so that the rates reflect market conditions. The adjustable interest rate on each church building loan is adjusted either on a one, three, five, seven, or ten-year basis, dependent on terms selected by the borrower at the time of loan origination. Church building loans mature at various dates through November 2049 and bear interest at rates ranging from 3.45% to 8.25%.

Loans are presented net of participations, ACL on loans and any unamortized deferred fees or costs. Accrued interest receivable on loans totaled \$537,168 on December 31, 2023 and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using a straight-line method over the contractual life of the loan.

Although many loans are made to churches and ministries within the state of Oklahoma, loans are also made to churches and ministries in other states. In some cases, cooperating state foundations or other Baptist entities will purchase a portion of the loans originated in their state or in other states through a participation agreement with WatersEdge. The participation agreements allow the sale of the cooperating foundation's share of the loans to a third-party organization. As such, the participated share of the loans is recorded as a reduction of church building loans receivable. These agreements, because they are all similar in nature, are aggregated on these financial statements and reported within loans receivable, net.

The approach for estimating expected life-time credit losses for loans includes use of the Weighted Average Remaining Maturity (WARM) method to estimate credit losses by portfolio segment. This historical loss forecast covers the weighted average remaining life of each portfolio segment. An initial forecast period of one year for all portfolio segments and off-balance-sheet credit exposures is also included. This reflects management's expectation of losses based on forward-looking economic scenarios over that time. A qualitative loss factor is applied for all portfolio segments and off-balance-sheet credit exposures. This reflects management's expectation of losses based on qualitative factors specific to WatersEdge.

The adequacy of the ACL is determined by management and the Board using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. A reversion methodology is applied beyond the reasonable and supportable forecasts. Qualitative adjustments are then considered for differences in current loan-specific risk characteristics, such as underlying collateral values, experience of staff involved in credit decisions, and loan policy changes, as well as changes in unemployment and inflation rates, or other relevant factors that may include, but are not limited to, results of internal loan reviews and identification and review of problem loans. However, ultimate losses may differ from these estimates.

The ACL is evaluated on a regular basis by management and changes to the ACL are recorded through a provision for credit losses charged to expense (or reversal). Credit losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

The ACL on loans represents estimated risk of loss within the WatersEdge loan portfolio as of the reporting date. To appropriately measure expected credit losses, management disaggregates the loan portfolio into pools of similar risk characteristics based on the collateral type underlying the loan. The loan portfolio is segmented into the following pools:

- Church building loans - collateralized by a church building
- Church camp loans - collateralized by a church camp
- Unsecured loans
- Other loans that do not fit into the above categories

WatersEdge utilizes the WARM method by applying a historical loss factor over the weighted average remaining life of each portfolio segment to calculate the expected credit losses by pool. At December 31, 2023, the weighted average remaining maturity of the loan pools ranged from 0.14 years to 15.63 years.

To determine its reasonable and supportable forecast, management may leverage macroeconomic forecasts obtained from reputable sources, which may include, but are not limited to, the Organization for Economic Cooperation and Development and the U.S. Bureau of Labor Statistics. WatersEdge uses an initial forecast period of one year. The primary macroeconomic drivers used within the model include forecasts of 3.70% to 4.12% federal unemployment and 2.71% to 3.12% inflation which is measured in terms of the Consumer Price Index (CPI).

Loans are individually evaluated for estimated credit losses and are not included in the collective evaluation when the loans are on nonaccrual and are classified as substandard or doubtful. Factors considered by management in the determination to classify loans as such include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls are not generally classified as substandard or doubtful. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Loans are placed on nonaccrual status based on the judgment of management and the Ministry Services Committee, considering factors such as number of days past due and collateral position, unless their collateral position or other conditions warrant continued accrual status. The policy of WatersEdge is to reverse previously accrued but uncollected interest on loans placed on nonaccrual status. Interest on nonaccrual loans is recognized only as it is received and only after the principal balance is satisfied. Earned but unrecorded interest on nonaccrual loans subsequently refinanced is deferred and recognized over the remaining life of the loan. Individual reserves are established when appropriate for such loans based on the fair value of the collateral at the reporting date. WatersEdge had one loan on nonaccrual status and for which an individual reserve was established at December 31, 2023 and 2022.

Prior to adoption of ASC 326, the allowance consisted of allocated and general components. The allocated component related to loans that were classified as impaired. For those loans classified as impaired, an allowance was established when the collateral value of the impaired loan was lower than the carrying value of that loan. The general component covered non-classified loans and was based on historical charge-off experience and other qualitative factors.

# WatersEdge Ministry Services

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## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

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December 31, 2023

### NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

A loan was considered impaired when, based on information and events available at that time, it was probable that WatersEdge would be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in the determination of impairment included payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experienced insignificant payment delays and payment shortfalls generally were not classified as impaired. Management determined the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment was measured on a loan-by-loan basis by the estimated value of the collateral.

#### *Off-Balance Sheet Credit Exposures*

In the ordinary course of business, WatersEdge enters into commitments to extend credit. Typically, these commitments arise from construction loans that have closed but have not yet fully funded. These financial instruments are recorded as loans receivable when they are funded. The difference between the contractual amount of the loan and the funded balance during the construction period is considered a commitment and is not recorded on the balance sheet.

WatersEdge estimates expected credit losses over the contractual period in which WatersEdge is exposed to credit risk via a contractual obligation to extend credit. Off-balance sheet credit risk on these unfunded commitments is recorded through an ACL on unfunded commitments which is adjusted through the provision for credit losses charged to expense (or reversal). To appropriately measure expected credit losses, management disaggregates the unfunded loans into pools identical to those determined for the loan portfolio. An estimated funding rate is then applied to the unfunded loan commitments using the historical experience of WatersEdge to estimate the expected funded amount for each pool as of the reporting date. Once the expected funded amount for each pool is determined, the loss rate, which is the calculated expected loan loss as a percent of the amortized cost basis for each loan pool, is applied to calculate the ACL on unfunded commitments as of the reporting date. This allowance is presented as a liability on the balance sheet.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

#### 7. Investments

##### *Pooled Investments*

WatersEdge pools the assets under its ownership, administration, or control into various equity, fixed income, and alternative investment pools.

Pro-rata ownership in the pools is determined under a system in which units of ownership are recorded to represent each member's share of the total market value of assets. Investment interest, dividends, gains, losses and appreciation or depreciation in market value are allocated based on each pool member's percentage of ownership represented by these units. The cost of securities sold is determined on a specific identification basis.

Pooled investments are carried at fair market value or at cost if no fair market value can be established. Fair market value for pooled investments, excluding alternative investments, is provided by brokers.

Developed market and emerging market equities consist primarily of cash equivalents and marketable equity securities. Fixed income assets consist primarily of cash equivalents and corporate and governmental debt securities. Alternative investments consist primarily of cash equivalents, futures contracts, and other investment vehicles including structured settlements, distressed debt, venture capital, private equity, real estate, real assets, and hedge funds. Alternative investments are primarily carried at the net asset value (NAV) of the fund as provided by the administrator or general partner. Management evaluates the values provided based on several factors, including obtaining an understanding of the fund's underlying investments, strategy, positions and valuation methodologies, obtaining audited financial statements, obtaining verification of transactions at or near year end, and comparing information provided by the fund administrator or general partner to other available information such as sector data and indices. Because alternative investments are not readily marketable, their NAV is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such a difference could be material. Realized and unrealized gains and losses for WatersEdge investments are reflected in the statements of activities.

##### *Other Investments*

Other investments stated at fair market value consist primarily of corporate stocks, mutual funds, bonds, oil and gas income producing properties, and a limited partnership. The corporate stocks, mutual funds, and bonds are stated at fair market value provided by brokers. Oil and gas income producing properties are stated at fair market value as calculated by WatersEdge at five times the annual income from that property. The limited partnership is stated at fair market value as determined by WatersEdge after examining current purchases and sales of the fund as provided by the audit of the fund in addition to observing partnership agreements and current offering documents.

Certain other investments, including notes, investment real estate, other debt instruments redeemable at face value and annuity contracts, are carried at contributed or acquisition value as these assets do not have readily determinable market values. WatersEdge evaluates cost basis investments for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. When required, impairment losses are recognized based upon the estimated fair value of the investment.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

#### *Investment Income*

Investment income is reflected in the statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

#### 8. Beneficial Interest in Trust Managed by Others

WatersEdge is the beneficiary of an irrevocable trust held and administered by Citizens Bank & Trust. Under the terms of the perpetual trust, WatersEdge has the irrevocable right to receive a portion of the income earned on the trust assets. The fair value was recognized as an asset and as a contribution with donor restrictions at the date the trust was established. Fair value estimates are based on information received from the trustees. The assets primarily consist of cash and cash equivalents, fixed income securities and mutual funds. These assets are not subject to the control or discretion of WatersEdge.

Gains and losses, which are not distributed by the trusts, are reflected as change in value of beneficial interest in the statements of activities.

#### 9. Remainder Interests in Assets Managed by Others

Remainder interests in assets managed by others are carried at the present value of expected future cash flows with realized and unrealized gains and losses reflected in the statements of activities.

#### 10. Donor Advised Funds

Donor advised funds are reported within Net Assets without donor restrictions as WatersEdge has variance powers, or legal control, over the assets in each account. Each account has an advisor, or advisors, that retain advisory privileges with respect to the investment of the assets and distribution of the funds. WatersEdge does not intend to use these assets for general expenditures. Instead, WatersEdge desires to honor these requests if the advisement meets legal guidelines and does not conflict with the mission of WatersEdge.

#### 11. Property and Equipment

Major expenditures for property and equipment are capitalized at cost while donated property and equipment are capitalized at fair market value at the date of the gift. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. The estimated useful lives predominately range from three to ten years for property and equipment other than buildings, which are depreciated for 40 years. No provision is made for depreciation on properties carried as other investments.

WatersEdge evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. When required, impairment losses are recognized based upon the estimated fair value of the asset.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF ACCOUNTING POLICIES – CONTINUED

#### 12. Leases

WatersEdge determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of right-of-use (ROU) assets and lease liabilities on the accompanying consolidated statements of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. WatersEdge determines lease classification as operating or finance at the lease commencement date and combines lease and non-lease components in calculating the ROU assets and lease liabilities for its office buildings.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. WatersEdge has made a policy election to use a risk-free rate for the initial and subsequent measurement of all lease liabilities. The risk-free rate is determined using a period comparable with the lease term. The lease term may include options to extend or terminate the lease that WatersEdge is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

WatersEdge has elected not to record leases with an initial term of 12 months or less on the accompanying consolidated statements of financial position. Lease expense on such leases is recognized on a straight-line basis over the lease term.

#### 13. Notes Payable

WatersEdge sells demand and term notes under an Offering Circular. Notes payable are carried at the total principal balance. Interest on notes payable is accrued based upon the principal amount outstanding. Interest on demand notes is paid monthly. Interest on term notes is paid either quarterly or at maturity, depending upon when the note originated. The Board approves the methodology used to establish interest rates so that the rates reflect market conditions. Notes payable mature at various dates through October 2028 and bear interest at rates ranging from 1.75% to 5.95%.

#### 14. Deferred Loan Fees

Direct loan costs are offset against loan fees received and only the net amount is deferred and amortized over the life of the loan. The straight line method is used to calculate the monthly loan amortization, which approximates the effective interest method. When a loan pays off early, the remaining amount of unamortized origination fees will be credited to interest income on the day the loan is paid off.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF ACCOUNTING POLICIES – CONTINUED

#### 15. Liabilities to Beneficial Owners

WatersEdge has recorded liabilities for assets held as trustee, intermediary, custodian, or agent for beneficial owners of income or remainder interests. Generally, the liability of WatersEdge is limited to assets held within a specific trust or account. WatersEdge, however, may be responsible for the payments to annuitants under certain gift annuity contracts out of its own assets.

#### 16. Appropriations to Preserve Principal

According to the terms of certain trust provisions, a portion of income may be added to corpus to preserve the value of the trust corpus according to donor stipulation.

#### 17. Contributions

Contributions are provided to WatersEdge either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

<b>Nature of the Gift</b>	<b>Value Recognized</b>
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value

WatersEdge has not received, nor is expected to receive, conditional gifts that depend on WatersEdge overcoming a donor-imposed barrier to be entitled to the funds. If this were to occur, the gift would not be recognized until it becomes unconditional. Conditional contributions having donor stipulations which are satisfied in the period the gift is received would be recorded as revenue and net assets without donor restrictions.

Likewise, WatersEdge has not received, nor is expected to receive long-lived assets from donors. If this were to occur, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service (absent explicit donor stipulations for the period of time that must be held).

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Gifts and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

#### 18. Recognition of Revenue

##### *Asset management and trust administration fees*

Asset management and trust administration fees are collectively recognized over the period that assets are managed in an administered trust. Revenue is reported at the amount of consideration which WatersEdge expects to be entitled in exchange for providing the services. WatersEdge determines the transaction price based on standard fees approved by the board on an annual basis.

##### *Ministry accounting fee income*

Ministry accounting revenue is recognized as WatersEdge satisfies performance obligations under its service contracts. Revenue is reported at the transaction price which WatersEdge expects to be entitled in exchange for providing services. WatersEdge determines the transaction price based on service contracts or based on a standard rate per hour for special projects and services beyond the scope of signed contracts. Ministry accounting revenue is recognized over the period that services are provided.

#### 19. Endowment

The endowment of WatersEdge consists of individual funds established to provide financial support, in perpetuity, to the ministry of WatersEdge. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The endowment also includes funds without donor restrictions that have been designated by the Board to function as an endowment.

##### *Interpretation of Relevant Law*

The Board has determined that the Uniform Prudent Management of Institutional Funds Act (UPMIFA) applies to WatersEdge endowment funds. UPMIFA provides guidance and authority to charitable organizations concerning the management and investment of funds held by those organizations, and UPMIFA imposed additional duties on those who manage and invest charitable funds. These duties provide additional protections for charities and protect the interests of donors who want to see their contributions used wisely.

WatersEdge classifies as net assets with donor restrictions the original value of the gifts donated to the donor restricted endowment and the original value of the subsequent gifts to the donor restricted endowment. Investment income from the donor restricted endowment is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by WatersEdge in a manner consistent with the donor stipulated purpose with the standard of the prudence prescribed by UPMIFA.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

#### *Investment Policy Statement - Return objectives and risk parameters*

WatersEdge has adopted an investment policy for endowment assets designed to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the future purchasing power of the endowment assets. The fundamental investment objectives for the investments are to ensure safety and preservation of the principal, meet liquidity needs, and apply diversification appropriate for the investment pools to achieve optimal net investment returns subject to risk tolerance, investment pool objectives and policy constraints.

#### *Investment Policy Statement - Strategies employed for achieving objectives*

To satisfy its long-term rate-of-return objectives, WatersEdge seeks investment returns through both capital appreciation (realized and unrealized) and current yield (interest and dividends). WatersEdge targets a diversified asset allocation that places a greater emphasis on equity-based and alternative investments to achieve its long-term return objectives within prudent risk constraints.

#### *Spending Policy Statement*

In making expenditures from endowment funds, WatersEdge first complies with any restriction or requirements in the gift instrument as to purpose and amount. Except as otherwise provided by the gift instrument, the Board considers all relevant considerations including but not limited to the long and short-term needs of WatersEdge in carrying out its purpose, expected total return on investments, and general economic conditions.

The spending or distribution policy as determined under a method adopted by the Board of Directors provides for the establishment of an "annual dividend". The calculation method for the annual dividend considers the prior year's dividend, adjusted for inflation using the Consumer Price Index within a specified range established by the Board.

#### *Underwater Endowment Funds*

WatersEdge considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. WatersEdge complies with UPMIFA and has interpreted UPMIFA to permit spending from underwater funds in accordance with prudent measures required under the law.

#### 20. Fair Value of Financial Instruments

All financial instruments for which it is practicable to estimate fair value are carried as such in the accompanying financial statements.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF ACCOUNTING POLICIES – CONTINUED

#### 21. Tax Status

WatersEdge is a not for profit corporation and is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code except for amounts relating to unrelated business income. WatersEdge is an integrated auxiliary of a church; therefore, it is not required to file Form 990.

WatersEdge is subject to provisions of the Tax Cuts and Jobs Act, enacted on December 22, 2017, specifically, updated rules for calculating unrelated business taxable income.

WatersEdge had net operating loss carryforwards of approximately \$981,000 which do not expire but are limited to 80% usage and by siloed unrelated business investments. The generation of the net operating loss carryforward is a result of unrelated business losses from various partnership investments. WatersEdge paid estimated tax payments in 2023 and 2022, at both the federal and state levels, based on reasonable estimates determined using current guidance and payments were expensed as paid. As such, WatersEdge has recorded no tax assets or liabilities at December 31, 2023 or 2022. Additionally, there were no material deferred income taxes at December 31, 2023 or 2022 due to valuation allowances associated with deferred income tax assets.

WatersEdge believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. However, the statute remains open for all years for state returns not filed.

The wholly owned subsidiary of WatersEdge, 25:21 LLC, is an Oklahoma limited liability company and, therefore, is treated as a disregarded entity for income tax purposes. As a disregarded entity, it is exempt from federal and state income taxes except for amounts relating to unrelated business income, of which there was none for 2023 or 2022.

#### 22. Functional Allocation of Expenses

The costs of providing various services, programs and supporting activities have been summarized on a functional basis in the consolidated statement of activities. Note N presents expenses by function and natural classification. Expenses directly attributable to a specific functional area of WatersEdge are reported as expenses of those functional areas while indirect costs that benefit multiple functional areas have been allocated among the various functional areas based on individual cost drivers for each natural classification.

As WatersEdge does not actively solicit contributions for their own benefit, no amounts have been allocated to fundraising activities.

# WatersEdge Ministry Services

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## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

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December 31, 2023

### NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF ACCOUNTING POLICIES – CONTINUED

#### 23. Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual amounts could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the fair value of investments.

#### 24. Summarized Prior Year Information

The financial statements include certain prior year summarized comparative totals. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the consolidated financial statements of WatersEdge for the year ended December 31, 2022, from which the summarized totals were derived.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE B – CHURCH BUILDING LOANS RECEIVABLE, NET

WatersEdge provides loans primarily to churches for church building projects, but also provides loans for other ministry purposes. The lending policy of WatersEdge requires church building loans be collateralized by sufficient assets to provide a margin of safety between the loan balance and the value of the underlying collateral securing the loan. When borrowers default on loans, WatersEdge can pursue normal legal actions to foreclose upon or repossess the collateral securing the loan.

The following summarizes loans at December 31:

	2023	2022
Church building	\$ 178,801,925	\$ 154,200,897
Church camp	5,314,044	5,465,371
Unsecured	238,768	105,041
Other	178,354	231,380
Total Loans	184,533,091	160,002,689
Participations	(4,372,800)	(4,318,335)
Loans, net of participations	180,160,291	155,684,354
Deferred loan fees	(195,589)	(134,361)
Less allowance for credit losses on loans	(1,173,067)	(1,145,565)
Loans, net	\$ 178,791,635	\$ 154,404,428

For purposes of determining the ACL on loans, WatersEdge disaggregates its loans into portfolio segments. Each portfolio segment possesses unique risk characteristics that are considered when determining the appropriate level of allowance. As of December 31, 2023, loan portfolio segments included the following:

**Church building loans:** Loans in this segment are made to churches primarily for the construction, purchase or renovation of a church building. These loans are secured by church buildings. Repayment is expected from charitable receipts of the church and/or proceeds from capital building campaigns.

**Church camp loans:** Loans in this segment are made to ministries primarily for the construction, purchase or renovation of a church camp. These loans are secured by camp properties. Repayment is expected from cash flows generated by the operations of the camp.

**Unsecured loans:** Loans in this segment are made to ministries for smaller items, generally repairs or purchase of furnishings or equipment. These loans are not secured by collateral. Repayment is expected from charitable receipts of the church or ministry.

**Other loans:** Loans in this segment do not fit into the other segments that have been established. At December 31, 2023, there is one loan in this segment and it is secured by a custodial account held by WatersEdge.

The interest rate on accruing loans adjusts on a one, three, five, seven or ten-year basis, dependent on terms selected by the borrower at the time of loan origination.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE B – CHURCH BUILDING LOANS RECEIVABLE, NET – CONTINUED

The following table presents the activity in the ACL for loans and the ACL for unfunded commitments by portfolio segment for the year ended December 31:

	2023				
	Church Building	Church Camp	Unsecured	Other	Total
Allowance for credit losses on loans:					
Beginning balance, prior to adoption of ASC 326	\$ 1,105,345	\$ 37,865	\$ 735	\$ 1,620	\$ 1,145,565
Impact of adopting ASC 326	58,367	12,171	867	(405)	71,000
Provision (credit) for credit losses	(17,022)	(27,809)	1,794	(461)	(43,498)
Loans charged off	-	-	-	-	-
Recoveries of amounts previously charged-off	-	-	-	-	-
Balance at end of year	<u>\$ 1,146,690</u>	<u>\$ 22,227</u>	<u>\$ 3,396</u>	<u>\$ 754</u>	<u>\$ 1,173,067</u>
Allowance for off-balance sheet credit risk for unfunded commitments:					
Beginning balance, prior to adoption of ASC 326	\$ -	\$ -	\$ -	\$ -	\$ -
Impact of adopting ASC 326	266,731	-	-	-	266,731
Provision for unfunded commitments	169,455	-	-	-	169,455
Balance at end of year	<u>\$ 436,186</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 436,186</u>

The following is a summary of the changes in the ACL on loans at December 31:

	2022
Allowance for loan losses:	
Summary of changes -	
Balance at beginning of year	\$ 1,318,536
Loans charged off	-
Provision for doubtful loans	(172,971)
Recoveries of amounts previously charged-off	-
Balance at end of year	<u>\$ 1,145,565</u>
Ending Balances -	
Individually evaluated for impairment	\$ 58,582
Collectively evaluated for impairment	1,086,983
	<u>\$ 1,145,565</u>
Loans:	
Ending Balances -	
Individually evaluated for impairment	\$ 446,082
Collectively evaluated for impairment	159,556,607
	<u>\$ 160,002,689</u>

# WatersEdge Ministry Services

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## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

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December 31, 2023

### NOTE B – CHURCH BUILDING LOANS RECEIVABLE, NET – CONTINUED

#### *Credit Quality Indicators*

To assess the credit quality of loans, WatersEdge categorizes each portfolio segment into classes by credit risk characteristic based on relevant information about the ability of the borrowers to service their debts. The information used to classify the loans includes current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. This analysis is performed on a quarterly basis. WatersEdge uses the following definitions for risk classifications:

Pass - Loans that represent reasonable and satisfactory credit risk which require normal attention and supervision. There are no known potential weaknesses and capacity to repay is not questioned.

Special Mention - Loans that have potential weaknesses that deserve management's close attention. These potential weaknesses may result in deterioration of the repayment prospects for these loans at some future date.

Substandard - Performing - Loans that are performing but are considered problems. Loans in this category would include, but not be limited to, borrowers with a weakened financial condition, poor performance history, past dues and/or loans restructured to reduce payments. In general, these loans have no identifiable loss potential, however, the possibility of a loss developing is heightened.

Substandard - Nonperforming - Loans that have one or more well-defined weaknesses that jeopardize collection of the debt and are inadequately protected by the current collateral pledged, if any. They are characterized by the distinct possibility that WatersEdge will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans that have all the weaknesses inherent in those classified as substandard, with the added characteristics that the weaknesses make collection or full recovery, based on currently existing facts, conditions and values, highly questionable and improbable.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE B – CHURCH BUILDING LOANS RECEIVABLE, NET – CONTINUED

The following presents a summary of loans by risk category and portfolio segment at December 31:

	2023				
	Church Building	Church Camp	Unsecured	Other	Total
Risk rating					
Pass	\$ 176,387,428	\$ 5,314,044	\$ 238,768	\$ 178,354	\$ 182,118,594
Special mention	1,986,415	-	-	-	1,986,415
Substandard performing	-	-	-	-	-
Substandard nonperforming	428,082	-	-	-	428,082
Doubtful	-	-	-	-	-
Total church building	\$ 178,801,925	\$ 5,314,044	\$ 238,768	\$ 178,354	\$ 184,533,091

The following presents a summary of loans by risk category at December 31:

	2022
Pass	\$ 159,556,607
Special mention	-
Substandard-performing	-
Substandard-nonperforming	446,082
Doubtful	-
	\$ 160,002,689

#### *Nonaccruing Loans*

A loan is placed on nonaccrual status when, in the opinion of management, the future collectability of interest or principal, or both, is in serious doubt. Nonaccrual loans negatively impact net interest margin. WatersEdge had one church building loan on nonaccrual status at December 31, 2023 and 2022. This nonaccrual loan had an unpaid principal balance of \$428,082 and \$446,082 at December 31, 2023 and 2022, respectively. Had the nonaccrual loan performed in accordance with its most recently modified contractual terms, WatersEdge would have recognized additional income of approximately \$13,000 for 2023 and \$14,000 for 2022.

#### *Collateral-Dependent Loans*

WatersEdge considers a loan to be collateral-dependent when the borrower is experiencing financial difficulty and repayment is substantially expected through the sale of the collateral. The nonaccrual loan is a collateral-dependent loan, secured by a church building property. A Broker's Price Opinion was obtained in 2022 which is the basis for the determination of the fair value of the underlying collateral in 2023. The related ACL on collateral-dependent loans was \$40,582 at December 31, 2023.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE B – CHURCH BUILDING LOANS RECEIVABLE, NET – CONTINUED

#### *Impaired Loans*

WatersEdge had one impaired loan with an unpaid principal balance of \$446,082 at December 31, 2022. The related allowance for loan losses was \$58,582 at December 31, 2022. Loans were considered impaired when, based on information and events, it was probable that WatersEdge would be unable to collect the full amount of scheduled principal and interest payments in accordance with the original contractual terms of the loan agreement. No interest income was recognized on impaired loans subsequent to their classification as impaired in 2022.

#### *Modifications*

From time to time, WatersEdge will adjust contractual terms on a loan for a borrower experiencing financial difficulties. The adjustments are considered modifications if the terms of such loans were changed to reduce interest to a below market interest rate, to extend interest-only payments beyond six months, or a combination of these changes.

The nonaccrual loan resulted from WatersEdge modifying the terms of two church building loans from the same church in 2012. The loan was further modified in 2013 and then again in 2016. No other outstanding loans receivable have been modified. Had the terms of the original loans not been modified, interest income of approximately \$17,000 and \$19,000 would have been recorded in 2023 and 2022, respectively. WatersEdge has not written off any principal or previously accrued interest because of any loan modifications described above.

During 2023 and 2022, no new loan modifications occurred to borrowers experiencing financial difficulties.

#### *Past Due Loans*

Past due status for all loan classes is based on the actual number of days since the last payment was due according to the contractual terms of the loans.

The following presents an aging analysis of the outstanding loans at December 31:

	Past Due Loans			Current Loans	Total Loans	Accruing Loans Over 90 Days
	30–90 Days	Over 90 Days	Total			
2023:						
Church building	\$ 1,162,255	\$ -	\$ 1,162,255	\$ 177,639,670	\$ 178,801,925	\$ -
Church camp	-	-	-	5,314,044	5,314,044	-
Unsecured	-	-	-	238,768	238,768	-
Other	-	-	-	178,354	178,354	-
	<u>\$ 1,162,255</u>	<u>\$ -</u>	<u>\$ 1,162,255</u>	<u>\$ 183,370,836</u>	<u>\$ 184,533,091</u>	<u>\$ -</u>

	Past Due Loans			Current Loans	Total Loans	Accruing Loans Over 90 Days
	30–90 Days	Over 90 Days	Total			
2022:						
	\$ 58,922	\$ -	\$ 58,922	\$ 159,943,767	\$ 160,002,689	\$ -

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE C - POOLED INVESTMENTS

Investments of the various funds under management of WatersEdge are primarily held in pooled investments. Pooled investments consist of developed market equities, emerging market equities, fixed income, and alternative investments.

Trust and custodial accounts participate in the respective pools based upon investment models. These models represent ownership percentages designed for various types of trusts and accounts based on the respective needs for current income or capital appreciation. Entry or withdrawal from the pools is based upon the market value of a pool unit. Market value of a pool unit is determined by dividing the total assets by total units outstanding. The following is a summary of assets held in pooled investments at market value at December 31:

	2023	2022
Developed market equities		
Cash and money market accounts	652,668	849,087
Marketable equity securities	101,354,485	132,419,864
	<u>102,007,153</u>	<u>133,268,951</u>
Emerging market equities		
Cash and money market accounts	135,932	318,948
Marketable equity securities	32,914,706	32,869,842
	<u>33,050,638</u>	<u>33,188,790</u>
Fixed income		
Cash and money market accounts	440,762	1,484,936
Foreign debt securities	5,806,862	6,670,889
Corporate debt securities	34,518,830	32,768,899
U.S. Government securities	12,066,217	10,716,549
Short Term Investments	1,137,810	1,361,146
Accrued interest income	453,305	416,549
	<u>54,423,786</u>	<u>53,418,968</u>
Alternative investments		
Cash and money market accounts	1,885,180	173,130
Futures contracts (mark-to-market)	1,391,602	-
U.S. Government securities (collateral on futures contracts)	6,545,750	-
Distressed equity	29,810,037	29,935,112
Venture capital	31,455,466	31,542,491
Private equity	66,077,643	57,944,857
Real estate	36,212,663	37,936,640
Real assets	7,243,316	8,754,939
Emerging markets hedge fund	-	22,309
Absolute return hedge fund	300,250	346,358
Direct lending	39,396,342	32,012,122
	<u>220,318,249</u>	<u>198,667,958</u>
Total pooled investments	<u>\$ 409,799,826</u>	<u>\$ 418,544,667</u>

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE C - POOLED INVESTMENTS - CONTINUED

#### *Alternative Investments*

WatersEdge uses the NAV to determine the fair value for all alternative investments which do not have a readily determinable fair value and prepare their financial statements consistent with the measurement principles of an investment company or have attributes of an investment company. The following table lists investments in other investment companies (through limited partnerships) by major category at December 31:

Investment Category	Fair Value (Determined Using NAV)		Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Period
	2023	2022	2023		
Distressed equity (a)	29,810,037	29,935,112	9,013,522	N/A	N/A
Venture capital (b)	30,194,287	30,367,044	9,359,852	N/A	N/A
Private equity (c)	64,762,679	56,783,593	30,300,808	N/A	N/A
Real estate (d)	21,872,413	23,824,077	9,016,494	N/A	N/A
Real assets (e)	7,243,316	8,754,939	9,953,012	N/A	N/A
Emerging markets hedge fund (f)	-	22,309	-	N/A	N/A
Absolute return hedge fund (g)	300,250	346,358	-	N/A	N/A
Direct lending (h)	39,396,342	32,012,122	41,827,448	N/A	N/A
	<u>\$ 193,579,324</u>	<u>\$ 182,045,554</u>	<u>\$ 109,471,136</u>		

- (a) This category includes investments in limited partnerships that invest in multiple manager investment programs that seek to invest globally in top-tier distressed and turnaround managers in both private and public markets. The partnerships return capital to investors as underlying investments are liquidated. Redemption by the investor is not permitted.
- (b) This category includes investments in limited partnerships that invest in venture capital. The investment objective is to attain small capitalization equity-like returns. The partnerships return capital to investors as underlying investments are liquidated. Redemption by the investor is not permitted.
- (c) This category includes investments in limited partnerships that invest in private equity partnerships using multiple strategies either by direct investment or by purchase on a secondary market. The investment objective will be to attain equity-like returns over the life of the partnership. The partnerships return capital to investors as underlying investments are liquidated. Redemption by the investor is not permitted.
- (d) This category includes investments in limited partnerships that invest with developers in real estate. The partnerships return capital to investors as underlying investments are liquidated. Redemption by the investor is not permitted.
- (e) This category includes investments in limited partnerships that invest in real assets funds with strategies including oil and gas production, power and energy infrastructure, and oil and gas private equity. The partnerships seek to earn returns that protect the portfolio against inflation. The partnerships return capital to investors as underlying investments are liquidated. Redemption by the investor is not permitted.
- (f) This category included an investment in a limited partnership which attempted to achieve returns comparable to public markets over a full economic cycle with less volatility by investing both long and short in public companies in emerging markets. All assets were redeemed in 2023.
- (g) This category includes investments in limited partnerships that invest in hedge funds using multiple managers and multiple strategies. The goal of each investment is the preservation of capital while seeking to achieve superior, consistent, absolute returns with a risk level comparable to the major bond indices. For both investments, no redemptions are currently allowed as the funds are in various stages of winding down. The remaining capital will be returned as the funds liquidate holdings and resolve contingent liabilities.
- (h) This category includes investments in limited partnerships that provide comprehensive financing solutions. Redemption by the investor is not permitted.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE C - POOLED INVESTMENTS - CONTINUED

#### *Futures Contracts*

Included in the alternative investments are exchange traded equity index futures contracts. These contracts are a type of derivative instrument and are traded on the Chicago Mercantile Exchange (Exchange). Because the instruments are purchased on the Exchange, there is minimal credit risk associated with these contracts. Exchange traded futures contracts can be terminated at any point through maturity, and are redeemable in cash, for the current settlement price with no early termination restrictions or penalties.

Buying futures contracts increases the exposure to the underlying instrument. The notional cost represents the value of the market exposure at the time of purchase. The notional fair value is the value of the exposure at December 31. The futures contracts mark-to-market is the unrealized gain/(loss) on the open contracts. These open contracts had a notional value as follows at December 31, 2023:

	Open Contracts	Maturity Date	Notional Cost	Notional Fair Value	Futures Contracts (Mark-to-Market)
S&P 500 E-mini futures contracts	143	3/15/2024	\$ 33,071,398	\$ 34,463,000	\$ 1,391,602

No assets or liabilities are recorded at the time of purchase. However, upon entering into futures contracts, WatersEdge was required to deposit, with its broker, cash in accordance with the initial margin requirements. At December 31, 2023 the broker required margin of \$1,856,140 and WatersEdge had \$9,822,034 deposited. Gains and losses are realized when the contracts expire or are closed. Futures contracts are marked-to-market daily, by the receipt or transfer of cash, based on settlement prices established by the Exchange and an appropriate unrealized gain or loss for the change in value is recorded.

WatersEdge had an unrealized mark-to-market gains of \$1,391,602 on open futures contracts at December 31, 2023. The gain or loss attributable to WatersEdge is included in the Statements of Activities.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE D - OTHER INVESTMENTS

The following summarizes other investments at December 31:

	2023	2022
At market		
Corporate stocks and mutual funds	\$ 5,050,719	\$ 6,104,276
Mineral interests	33,200,925	59,819,654
Limited partnerships	9,612,765	12,092,604
At contributed value or cost		
Notes receivable held in trust accounts	145,022	150,565
Real estate	500,996	3,730,691
Life insurance, annuity contracts, and other	148,465	148,467
Total	\$ 48,658,892	\$ 82,046,257

The Limited Partnerships are primarily an investment in a single fund. WatersEdge owned \$4,744,622 and \$11,195,051 of the fund at December 31, 2023 and 2022, respectively. Accounts managed by WatersEdge for clients owned \$4,868,093 and \$897,503 of the fund at December 31, 2023 and 2022, respectively. WatersEdge uses the NAV to determine the fair value for this limited partnership as it does not have a readily determinable fair value but does prepare their financial statements consistent with the measurement principles of an investment company. There were no unfunded commitments at December 31, 2023 and 2022. The general partner allows redemptions from the fund quarterly with 60 days written notice if cumulative requests from all limited partners does not exceed 1.25%.

The Limited Partnerships also include a single investment managed by WatersEdge for a client in the amount of \$50 at December 31, 2023 and 2022.

In addition to church building loans receivable WatersEdge also has several notes receivable held in trust accounts. WatersEdge does not carry an allowance for loan losses for these notes receivable. WatersEdge also does not record accrued interest on these loans, instead recognizing interest income when collected.

The notes receivable held in trust accounts all have fixed rates. The following is a summary of fixed-rate loans by contractual maturity at December 31:

	2023	2022
Due in 1 year or less	\$ 7,869	\$ 5,483
Due after 1 year through 5 years	35,085	24,547
Due after 5 years	102,068	120,535
	\$ 145,022	\$ 150,565

Notes receivable held in trust accounts include trusts created to provide student loans. These loans were made in accordance with the terms of the trust document. Also, WatersEdge manages a revocable trust which has provided a loan at the direct instruction of the trustor of the revocable trust.

The various notes receivable are all current. Since none of these loans are past due, all are considered performing. Likewise, none are considered impaired and all are classified as "Pass".

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE E - FAIR VALUE MEASUREMENT OF ASSETS AND LIABILITIES

#### *Fair Value Measurements*

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In determining fair value, WatersEdge uses various valuation approaches. ASC 820 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of WatersEdge. Unobservable inputs reflect the assumption of WatersEdge about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed.

Accordingly, the degree of judgment exercised by WatersEdge in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined by the lowest level input that is significant to the fair value measurement.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE E - FAIR VALUE MEASUREMENT OF ASSETS AND LIABILITIES - CONTINUED

#### *Fair Value Measurements – Recurring Measurements*

The following table presents the recurring fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the ASC 820 fair value hierarchy in which the fair value measurements fall at December 31:

	2023			
	Fair Value	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Pooled Investments</b>				
<b>Developed market equities</b>				
Cash and money market accounts	\$ 652,668	\$ 652,668	\$ -	\$ -
Basic materials	3,482,991	3,482,991	-	-
Consumer discretionary	12,571,521	12,571,521	-	-
Consumer staples	7,963,763	7,963,763	-	-
Energy	7,434,084	7,434,084	-	-
Financials	22,345,317	22,345,317	-	-
Health care	7,973,974	7,973,974	-	-
Industrials	10,160,292	10,160,292	-	-
Information technology	19,019,846	19,019,846	-	-
Telecommunications	7,246,479	7,246,479	-	-
Real Estate	68,789	68,789	-	-
Utilities	3,087,429	3,087,429	-	-
<b>Total developed market equities</b>	<b>102,007,153</b>	<b>102,007,153</b>	<b>-</b>	<b>-</b>
<b>Emerging market equities</b>				
Cash and money market accounts	135,932	135,932	-	-
Basic materials	1,947,629	1,947,629	-	-
Consumer discretionary	2,985,834	2,985,834	-	-
Consumer staples	2,286,169	2,286,169	-	-
Energy	1,760,651	1,760,651	-	-
Financials	7,721,590	7,721,590	-	-
Health care	1,049,992	1,049,992	-	-
Industrials	1,854,890	1,854,890	-	-
Information technology	8,296,690	8,296,690	-	-
Telecommunications	4,082,369	4,082,369	-	-
Utilities	928,892	928,892	-	-
<b>Total emerging market equities</b>	<b>33,050,638</b>	<b>33,050,638</b>	<b>-</b>	<b>-</b>
<b>Fixed income</b>				
Cash and money market accounts	440,762	440,762	-	-
Foreign debt securities	5,806,862	-	5,806,862	-
Corporate debt securities	34,518,830	-	34,518,830	-
Short Term Investments	1,137,810	-	1,137,810	-
U.S. Government securities	12,066,217	12,066,217	-	-
Accrued interest income	453,305	453,305	-	-
<b>Total fixed income</b>	<b>54,423,786</b>	<b>12,960,284</b>	<b>41,463,502</b>	<b>-</b>

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE E - FAIR VALUE MEASUREMENT OF ASSETS AND LIABILITIES - CONTINUED

#### *Fair Value Measurements – Recurring Measurements – Continued*

	2023 - Continued			
	Fair Value	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Alternative investments				
Cash and money market accounts	\$ 1,885,180	\$ 1,885,180	\$ -	\$ -
Futures contracts (mark-to-market)	1,391,602	1,391,602	-	-
U.S. Government securities	6,545,750	-	6,545,750	-
Alternative investments	16,916,393	-	-	16,916,393
Alternative investments (measured at NAV)	193,579,324			
Total alternative investments	<u>220,318,249</u>	<u>3,276,782</u>	<u>6,545,750</u>	<u>16,916,393</u>
Total pooled investments	<u>409,799,826</u>	<u>151,294,857</u>	<u>48,009,252</u>	<u>16,916,393</u>
Other investments				
Corporate stocks and mutual funds	5,050,719	5,050,719	-	-
Mineral interests	33,200,925	-	-	33,200,925
Limited partnerships (measured at NAV)	9,612,765			
Total other investments	<u>47,864,409</u>	<u>5,050,719</u>	<u>-</u>	<u>33,200,925</u>
Beneficial interest in trust managed by others	866,725	-	-	866,725
Total asset instruments at fair value	<u>\$ 458,530,960</u>	<u>\$ 156,345,576</u>	<u>\$ 48,009,252</u>	<u>\$ 50,984,043</u>
Liabilities to beneficial owners				
Assets held for others	\$ 358,702,971	\$ -	\$ -	\$ 358,702,971
Refundable advances	132,907,613	-	-	132,907,613
Total liability instruments at fair value	<u>\$ 491,610,584</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 491,610,584</u>

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Beginning Balance	Reclassification to/(from) Level 3	Additional Investments	Distributions	Investment Return	Ending Balance
Asset instruments at fair value						
Alternative investments	\$ 16,449,274	\$ -	\$ 2,540,765	\$ (835,803)	\$ (1,237,843)	\$ 16,916,393
Mineral interests	59,819,654	-	-	-	(26,618,729)	33,200,925
Beneficial interest in trust managed by others	\$ 763,652	-	-	(16,961)	120,034	866,725
	<u>\$ 77,032,580</u>	<u>\$ -</u>	<u>\$ 2,540,765</u>	<u>\$ (852,764)</u>	<u>\$ (27,736,538)</u>	<u>\$ 50,984,043</u>
Liability instruments at fair value						
Assets held for others	\$ 351,176,148	\$ -	\$ 7,501,532	\$ (25,857,791)	\$ 25,883,082	\$ 358,702,971
Refundable advances	150,523,014	-	46,594,345	(65,670,632)	1,460,886	132,907,613
	<u>\$ 501,699,162</u>	<u>\$ -</u>	<u>\$ 54,095,877</u>	<u>\$ (91,528,423)</u>	<u>\$ 27,343,968</u>	<u>\$ 491,610,584</u>

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE E - FAIR VALUE MEASUREMENT OF ASSETS AND LIABILITIES - CONTINUED

#### *Fair Value Measurements – Recurring Measurements – Continued*

	2022			
	Fair Value	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Pooled Investments</b>				
<b>Developed market equities</b>				
Cash and money market accounts	\$ 849,087	\$ 849,087	\$ -	\$ -
Basic materials	4,948,334	4,948,334	-	-
Consumer discretionary	16,046,443	16,046,443	-	-
Consumer staples	12,284,445	12,284,445	-	-
Energy	9,771,482	9,771,482	-	-
Financials	27,282,552	27,282,552	-	-
Health care	12,601,812	12,601,812	-	-
Industrials	14,414,205	14,414,205	-	-
Information technology	20,553,570	20,553,570	-	-
Telecommunications	9,409,279	9,409,279	-	-
Real Estate	120,196	120,196	-	-
Utilities	4,987,546	4,987,546	-	-
<b>Total developed market equities</b>	<b>133,268,951</b>	<b>133,268,951</b>	<b>-</b>	<b>-</b>
<b>Emerging market equities</b>				
Cash and money market accounts	318,948	318,948	-	-
Basic materials	2,606,039	2,606,039	-	-
Consumer discretionary	2,890,829	2,890,829	-	-
Consumer staples	2,138,349	2,138,349	-	-
Energy	2,117,622	2,117,622	-	-
Financials	7,798,163	7,798,163	-	-
Health care	592,223	592,223	-	-
Industrials	2,089,014	2,089,014	-	-
Information technology	7,345,909	7,345,909	-	-
Telecommunications	4,282,669	4,282,669	-	-
Utilities	1,009,025	1,009,025	-	-
<b>Total emerging market equities</b>	<b>33,188,790</b>	<b>33,188,790</b>	<b>-</b>	<b>-</b>
<b>Fixed income</b>				
Cash and money market accounts	1,484,936	1,484,936	-	-
Foreign debt securities	6,670,889	-	6,670,889	-
Corporate debt securities	32,768,899	-	32,768,899	-
Short Term Investments	1,361,146	-	1,361,146	-
U.S. Government securities	10,716,549	10,716,549	-	-
Accrued interest income	416,549	416,549	-	-
<b>Total fixed income</b>	<b>53,418,968</b>	<b>12,618,034</b>	<b>40,800,934</b>	<b>-</b>

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE E - FAIR VALUE MEASUREMENT OF ASSETS AND LIABILITIES - CONTINUED

#### *Fair Value Measurements – Recurring Measurements – Continued*

	2022 - Continued			
	Fair Value	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Alternative investments				
Cash and money market accounts	\$ 173,130	\$ 173,130	\$ -	\$ -
Alternative investments	16,449,274	-	-	16,449,274
Alternative investments (measured at NAV)	182,045,554			
Total alternative investments	<u>198,667,958</u>	<u>173,130</u>	<u>-</u>	<u>16,449,274</u>
Total pooled investments	<u>418,544,667</u>	<u>179,248,905</u>	<u>40,800,934</u>	<u>16,449,274</u>
Other investments				
Corporate stocks and mutual funds	6,104,276	6,104,276	-	-
Mineral interests	59,819,654	-	-	59,819,654
Limited partnerships (measured at NAV)	12,092,604			
Total other investments	<u>78,016,534</u>	<u>6,104,276</u>	<u>-</u>	<u>59,819,654</u>
Beneficial interest in trust managed by others	763,652	-	-	763,652
Total asset instruments at fair value	<u>\$ 497,324,853</u>	<u>\$ 185,353,181</u>	<u>\$ 40,800,934</u>	<u>\$ 77,032,580</u>
Liabilities to beneficial owners				
Assets held for others	\$ 351,176,148	\$ -	\$ -	351,176,148
Refundable advances	150,523,014	-	-	150,523,014
Total liability instruments at fair value	<u>\$ 501,699,162</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 501,699,162</u>

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Beginning Balance	Reclassification to/(from) Level 3	Additional Investments	Distributions	Investment Return	Ending Balance
Asset instruments at fair value						
Alternative investments	\$ 12,507,640	\$ -	\$ 3,554,579	\$ (490,280)	\$ 877,335	\$ 16,449,274
Mineral interests	32,678,328	-	3,169	(695)	27,138,852	59,819,654
Beneficial interest in trust managed by others	907,363	-	-	(16,853)	(126,858)	763,652
	<u>\$ 46,093,331</u>	<u>\$ -</u>	<u>\$ 3,557,748</u>	<u>\$ (507,828)</u>	<u>\$ 27,889,329</u>	<u>\$ 77,032,580</u>
Liability instruments at fair value						
Assets held for others	\$ 358,688,903	\$ -	\$ 9,410,463	\$ (20,395,239)	\$ 3,472,021	\$ 351,176,148
Refundable advances	131,496,384	-	47,024,977	(35,447,446)	7,449,099	150,523,014
	<u>\$ 490,185,287</u>	<u>\$ -</u>	<u>\$ 56,435,440</u>	<u>\$ (55,842,685)</u>	<u>\$ 10,921,120</u>	<u>\$ 501,699,162</u>

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE E - FAIR VALUE MEASUREMENT OF ASSETS AND LIABILITIES - CONTINUED

#### *Fair Value Measurements – Recurring Measurements – Continued*

A description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy, is set forth below. There have been no significant changes in the valuation techniques during the year ended December 31, 2023. For assets classified within Level 3 of the fair values hierarchy, the process used to develop the reported fair value is described below.

#### Pooled Investments

Developed Market and Emerging Market Equities - Securities classified as developed market or emerging market equities are reported at fair value using Level 1 inputs found on active markets.

Fixed Income - Fixed income securities are reported at fair value. U.S. Government securities are valued using Level 1 inputs. Other fixed income securities including foreign debt securities and corporate debt securities are valued using prices from an independent pricing service utilizing Level 2 inputs. The fair value measurements include observable data that may include dealer quotes, market spreads, cash flows, U.S. Treasury yield curve, live trading levels, trade execution data, credit information and the bond's terms and conditions among other things.

Alternative investments - Margin cash held for futures contracts are reported at fair value using Level 1 inputs found on active markets.

For most alternative investment funds, management determines the fair value based on net asset value per share as permitted by ASU 2009-12. In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position. Additional disclosure on limited partnerships measured at fair value using the net asset value per share is provided in Note C.

For a few alternative investment funds, management determines the fair value based on examining financials statements and other reports provided by the fund manager. This valuation method is a Level 3 input.

Cash and Cash Equivalents - Cash held in each pooled investment classification is measured using Level 1 inputs. Money market accounts held in each pooled investment classification is measured using Level 1 inputs.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE E - FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS - CONTINUED

#### *Fair Value Measurements – Recurring Measurements – Continued*

Other Investments – At Market - Other investments consist of corporate stocks and mutual funds valued using Level 1 inputs by an independent pricing service, and mineral interests. Observable inputs are not available for mineral interests. For mineral interests, management determines the fair value based on an income approach using recent past income produced by the income property. This valuation method is a Level 3 input.

For limited partnerships, management determines the fair value based on net asset value per share as permitted by ASU 2009-12. In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position. Additional disclosure on limited partnerships measured at fair value using the net asset value per share is provided in Note D.

Beneficial Interest in Trust Managed by Others – These assets represent a portion of an irrevocable trust held and administered by a trustee for the benefit of WatersEdge. The assets primarily consist of cash and cash equivalents, fixed income securities and mutual funds. Management determines the fair value estimates based on account statements provided by the trustee. This valuation method is a Level 3 input.

Assets Held for Others and Refundable Advances - These liabilities represent the beneficiary's interest in the assets held by WatersEdge. The liabilities are measured using Level 3 inputs that are equal to the fair value of the related assets held by WatersEdge.

#### *Fair Value Measurements – Nonrecurring Measurements*

Nonrecurring fair value measurements consisted of collateral-dependent impaired loans, net of allowance for loan losses, with a Level 3 fair value measurement of \$0 and \$387,500 at December 31, 2023 and 2022, respectively. The estimated fair value of collateral-dependent impaired loans is based on the appraised or estimated fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy. WatersEdge considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by management. Appraisals are reviewed for accuracy and consistency by management. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by management by comparison to historical results.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE F - INVESTMENT RETURN

The following is a summary of the investment return by investment category at December 31:

	2023		
	Investment Return on Net Assets Without Donor Restrictions	Investment Return on Net Assets With Donor Restrictions	Investment Return on Liabilities to Beneficial Owners
Interest, dividends and other investment earnings	\$ 1,138,232	\$ 1,109,272	\$ 15,896,429
Net realized and unrealized gains (losses) on investments	1,366,950	(5,719,262)	11,447,539
	\$ 2,505,182	\$ (4,609,990)	\$ 27,343,968
	2022		
	Investment Return on Net Assets Without Donor Restrictions	Investment Return on Net Assets With Donor Restrictions	Investment Return on Liabilities to Beneficial Owners
Interest, dividends and other investment earnings	\$ 893,920	\$ 2,259,771	\$ 17,491,091
Net realized and unrealized gains (losses) on investments	(1,923,845)	6,751,608	(6,569,971)
	\$ (1,029,925)	\$ 9,011,379	\$ 10,921,120

### NOTE G - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2023	2022
Office furniture	\$ 358,326	\$ 352,619
Office equipment	65,093	\$ 65,093
Computer equipment	328,458	\$ 328,458
Computer software	365,965	\$ 430,968
Automobiles	410,930	\$ 402,640
Leasehold improvements	322,049	\$ 322,049
	1,850,821	\$ 1,901,827
Accumulated depreciation	(1,356,720)	\$ (1,396,032)
	\$ 494,101	\$ 505,795

Depreciation expense was \$138,621 and \$179,846 at December 31, 2023 and 2022, respectively.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE H - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

WatersEdge maintains a plan to provide health, life, and termination benefits to retirees. Estimated costs are recognized over the employee's active service period. The plan, as originally adopted, provided health and life insurance premium coverage for all employees and spouses after ten years of service upon normal retirement. Subsequently, the plan was amended to increase the service period to 15 years and to limit coverage by excluding spouses. In 2005, the plan was further amended to eliminate all postretirement health care and life insurance benefits for current employees and life insurance benefits for most of the retirees. The plan is unfunded.

WatersEdge accounts for its postretirement benefit obligations under ASC 715 and ASC 958, which require the funded status of its defined benefit pension and other postretirement plans be fully recognized in the statement of financial position and requires that plan assets and obligations be measured at the year-end statement of financial position date.

The following relates to the postretirement plan of WatersEdge, which has measurement dates of December 31:

	2023	2022
Accumulated postretirement benefit obligations		
For retirees	\$ 85,753	\$ 183,634
For active employees fully eligible	-	-
For active employees not fully eligible	229,868	201,893
Funded status	315,621	385,527
Unrecognized net (loss) or gain	(10,274)	23,437
Accrued postretirement benefit cost	\$ 305,347	\$ 408,964

The change in accrued postretirement benefit cost at December 31, is as follows:

	2023	2022
Accrued postretirement benefit cost at beginning of year	\$ 385,527	\$ 464,561
Net postretirement benefit cost	36,078	31,815
Benefits paid	(116,258)	(87,412)
Accrued postretirement benefit cost at end of year	305,347	408,964
Net loss or (gain) and prior service benefit	10,274	(23,437)
Funded status	\$ 315,621	\$ 385,527

The activity from unrecognized gains (losses) and changes in prior service benefit of \$(8,480) and \$27,008 for 2023 and 2022, respectively, has been recognized in the 2023 and 2022 Statements of Activities apart from expenses. There is no prior service cost for the plan that will be amortized from changes in unrestricted net assets into net periodic benefit cost over the next fiscal year.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE H - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

The following assumptions were used in accounting for the plan at December 31:

	2023	2022
Weighted-average assumption used to determine benefit obligations at December 31,		
Discount rate	4.81%	5.04%
Life Expectancy of Active Participants	14.8 years	16.3 years
Assumed health care cost trend rates at December 31,		
Health care cost trend rate assumed for next year (medical/Rx)	4.40% / 6.60%	4.30% / 7.50%
Rate to which the cost trend rate is assumed to decline, the ultimate trend rate (medical/Rx)	4.40% / 4.87%	4.30% / 4.87%
Year that the rate reaches the ultimate trend rate	2031	2030

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2024	\$	17,187
2025		15,373
2026		13,523
2027		147,542
2028		55,418
2029-2033		100,999

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE I – CURRENT AND LONG-TERM DEBT OBLIGATIONS

WatersEdge maintains a line of credit in the amount of \$15,000,000, with an additional \$5,000,000 accordion feature. The debt bears interest at a variable rate, which was 6.83% at December 31, 2023, and has a maturity of September 26, 2024. The outstanding principal balance of the line of credit was \$2,553,244 at December 31, 2022, but repaid during 2023 and there is no outstanding balance as of December 31, 2023. Regular payments of accrued interest are due monthly, with all outstanding principal plus all nonpaid accrued interest due upon maturity. WatersEdge has pledged an investment account that is held in custody at Bank of Oklahoma as collateral on this note with a fair value of approximately \$90,130,000 and \$123,895,000 at December 31, 2023 and 2022, respectively.

WatersEdge obtained a line of credit secured by selected promissory notes in the amount of \$3,000,000 in 2023. The line of credit includes an accordion feature through which WatersEdge can request to increase the amount of proceeds available to \$10,000,000. The debt bears interest at a variable rate, currently at 7.2%, and has a maturity of June 29, 2024. WatersEdge has made no draws on the line of credit and there is no outstanding balance as of December 31, 2023.

WatersEdge is subject to various loan covenants and was following all covenants at December 31, 2023.

### NOTE J - NOTES PAYABLE

Through the Circular, which was renewed on June 1, 2023, WatersEdge offered notes payable in the aggregate principal amount of \$275,000,000. The Circular was prepared in compliance with the North American Securities Administrators Association, Inc. (NASAA) Statement of Policy for offerings of securities. The following are presently offered Notes:

Demand Notes - Demand notes accrue interest at a rate that is adjusted monthly. Additions of principal and partial withdrawals are permitted at any time without any penalty. Interest is paid on the last day of each month.

Term Notes – Term notes accrue interest at a rate that remains fixed throughout its term. Available terms range from one month to five years. Interest is paid quarterly or at maturity, depending upon contractual terms.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE J – NOTES PAYABLE - CONTINUED

A summary of notes payable is as follows:

	2023	2022
Demand notes	\$ 27,830,181	\$ 31,665,959
Term notes	82,154,464	66,035,180
	\$ 109,984,645	\$ 97,701,139

Scheduled maturities of term notes payable, at December 31, 2023:

2024	74,012,706
2025	4,957,710
2026	514,070
2027	1,190,856
2028	1,479,122
	\$ 82,154,464

Per NASAA Statement of Policy, the Church Extension Fund must maintain cash, cash equivalents, readily marketable securities, and available lines of credit less accounts payable of at least 8% of the principal balance of its outstanding notes payable. The following presents total liquid assets as a percentage of outstanding notes payable for the years ending December 31:

	2023	2022
Cash and cash equivalents	\$ 11,018,032	\$ 7,554,834
Certificates of deposit	1,206,845	-
Readily marketable securities	598,031	569,089
Immediately available funds from line of credit (limited to 2% of outstanding notes payable)	2,199,693	1,954,023
Accounts payable to affiliate	(27,401)	(81,929)
Total liquid assets	\$ 14,995,200	\$ 9,996,017
Outstanding notes payable	\$ 109,984,645	\$ 97,701,139
Total liquid assets as a percentage of outstanding notes payable	13.6%	10.2%

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE K - LIABILITY TO BENEFICIAL OWNERS

WatersEdge was formed to administer funds and receive property on behalf of its principal affiliates, Baptist churches and associations, and various other Baptist organizations. In its capacity as trustee, administrator, custodian or agent, WatersEdge holds assets for these organizations. In addition, WatersEdge acts as trustee under revocable and irrevocable agreements in which donors have retained interest in income, principal, or both.

The following summarizes categories of arrangements under which WatersEdge has liabilities to these beneficial owners.

	2023	2022
Liabilities to income beneficiaries under split-interest agreements		
Gift annuity contracts	\$ 2,813,143	\$ 2,857,116
Irrevocable trust agreements	2,339,630	2,523,742
	\$ 5,152,773	\$ 5,380,858
Assets held for others		
Assets held as trustee under permanent endowments	\$ 252,848,361	\$ 246,801,870
Assets held under agreements with affiliated entities to administer endowments or other trust funds	101,386,531	95,896,167
Remainder interests under gift annuity contracts, and irrevocable trust agreements	4,468,079	8,478,111
	\$ 358,702,971	\$ 351,176,148
Refundable Advances		
Assets held under custodial arrangements with affiliated entities	\$ 129,641,424	\$ 147,668,445
Conditional transfers from donors	3,266,189	2,854,569
	\$ 132,907,613	\$ 150,523,014

#### Liabilities to Income Beneficiaries under Split-Interest Agreements

Obligations to make future payments to income beneficiaries of split-interest agreements are discounted at 5% which equals the estimated long-term return on investments. Those payments which are for life are estimated using 1999 IRS unisex tables.

Gift Annuity Contracts - These agreements have been entered between WatersEdge and a donor under which WatersEdge has agreed to pay a specified amount, at least annually, to a non-charitable income beneficiary. Typically, income payments are for life. The liability to income beneficiaries represents a general liability of WatersEdge. This liability is equal to the present value of estimated future payments.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE K - LIABILITY TO BENEFICIAL OWNERS – CONTINUED

Irrevocable Trust Agreements - The balances represent the present value of estimated future payments to non-charitable beneficiaries under irrevocable trusts. This includes amounts estimated to be payable to beneficiaries of charitable remainder annuity trusts, charitable remainder unitrusts and other trusts whose remainder beneficiaries may be partially non-charitable.

#### Assets Held for Others

Assets Held as Trustee under Permanent Endowments - WatersEdge acts as trustee for numerous permanent charitable endowment trusts. These trusts generally benefit the Convention and its affiliates or other Southern Baptist affiliated institutions. Earnings from these funds are disbursed based upon the spending policy of WatersEdge. While WatersEdge will administer these assets in perpetuity, the rights to enjoyment of benefits are vested in the income beneficiaries.

Assets Held under Agreements with Affiliated Entities to Administer Endowments or Other Trust Funds - WatersEdge holds, invests, and administers assets under trust agreements that name the Convention or its affiliates as trustee. These trusts are administered in a manner identical to those trusts in which WatersEdge is named trustee.

Remainder Interests under Gift Annuity Contracts, and Irrevocable Trust Agreements - These balances represent the remainder interest in assets subject to payments to income beneficiaries as discussed above. Where agreements ultimately benefit WatersEdge, remainder interests are included under net assets with donor restrictions.

#### Refundable Advances

Assets Held under Custodial Arrangements with Affiliated Entities - WatersEdge holds and invests assets for the Convention and its affiliates in a custodial capacity. The balances represent the WatersEdge liability to return balances to these affiliates. These funds are generally invested in the investment pools in ratios selected by the owner.

Conditional Transfers from Donors - WatersEdge receives assets as trustee under agreements that are revocable or provide that trust corpus may be invaded for the benefit of the grantor or a non-charitable beneficiary. Because these assets may be withdrawn by revocation or through consumption by non-charitable beneficiaries, they are considered to be conditional transfers. To the extent WatersEdge is an ultimate beneficiary under these agreements, a contribution will be recognized when all conditions are met, which is typically when the trust becomes irrevocable and the rights of non-charitable beneficiaries to corpus lapse.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE L - BOARD DESIGNATIONS FOR NET ASSETS WITHOUT DONOR RESTRICTIONS

The Board of WatersEdge, through specific action, created self-imposed designations on unrestricted net assets to protect against certain risks and provide funds for opportunities and expansion. The Board has earmarked net assets without donor restrictions for the following purposes at December 31, 2023 and 2022, respectively as follows:

	2023	2022
Funds functioning as endowment	\$ 605,137	\$ 580,130
Annuity reserve	330,388	344,216
Opportunity reserve	1,038	945,876
Operating reserve	2,545,838	3,189,206
Endowment matching funds	2,849	2,724
	<u>\$ 3,485,250</u>	<u>\$ 5,062,152</u>

The Board has designated funds to function as endowment to provide, on an ongoing basis, a supplemental revenue source to fund operating expenses. These funds are subjected to investment and spending policies for endowments as more fully described in Note A and M. Annually funds are appropriated from this designated account to meet cash needs for general expenditure within one year.

WatersEdge does not pool investments for gift annuities because each gift annuity contract has a different remainder beneficiary. Instead, assets for each gift annuity contract are invested and accounted for in separately managed accounts. Upon termination of each contract, WatersEdge allocates all residual funds to the remainder beneficiary as prescribed in the contract. In the event assets in one of these separately managed accounts depletes during the lifespan of the gift annuity contract, WatersEdge continues paying the obligation from its unrestricted net assets. The Board has designated funds for the satisfaction of this potential obligation.

The opportunity reserve provides funds for potential investments that expand the ability of WatersEdge to provide services.

The operating reserve provides funds to ensure the financial stability of WatersEdge during times of economic stress. The Board has a desire to maintain financial assets in reserve to meet 180 days of normal operating expenses. While Board designated, these funds are intended to be made available for general expenditure, if necessary.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE M - ENDOWMENTS

The endowments of WatersEdge consist of individual funds established to provide financial support to the ministries served by WatersEdge in perpetuity. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The endowment funds also include funds without donor restrictions that have been designated by the Board to function as an endowment. Endowment net asset composition by type of fund is as follows:

	2023	2022
Board designated endowment funds	\$ 605,137	\$ 580,130
Donor restricted endowment funds:		
Beneficial interest in trusts managed by others	866,725	763,652
Subject to expenditure for a specified purpose:		
Student scholarships and other charitable causes	15,378,019	20,191,327
Subject to appropriation (original gift amount of \$5,749,819 and \$5,698,918 as of 2023 and 2022, respectively) which once appropriated is available for general needs and expenses of WatersEdge	8,730,108	9,729,496

Changes in endowment net assets for the years ending December 31, are described below:

	2023				
	Without Donor Restrictions	Beneficial Interest in Trusts Managed by Others	With Donor Restrictions - for a Specified Purpose	With Donor Restrictions - Subject to Appropriation	Total With Donor Restrictions
Endowment assets at beginning of year	\$ 580,130	\$ 763,652	\$ 20,191,327	\$ 9,729,496	\$ 30,684,475
Contributions	-	-	13,690	50,000	63,690
Investment return	59,063	120,034	(4,148,167)	(581,857)	(4,609,990)
Other	(557)	-	(37,039)	2,865,930	2,828,891
Appropriations	(33,499)	(16,961)	(641,792)	(3,333,461)	(3,992,214)
Endowment assets at end of year	\$ 605,137	\$ 866,725	\$ 15,378,019	\$ 8,730,108	\$ 24,974,852
	2022				
	Without Donor Restrictions	Beneficial Interest in Trusts Managed by Others	With Donor Restrictions - for a Specified Purpose	With Donor Restrictions - Subject to Appropriation	Total With Donor Restrictions
Endowment assets at beginning of year	\$ 639,640	\$ 907,363	\$ 13,583,533	\$ 8,097,293	\$ 22,588,189
Contributions	-	-	202,816	15,984	218,800
Investment return	(26,587)	(126,859)	7,028,129	2,110,109	9,011,379
Other	(989)	-	(84,199)	2,829,865	2,745,666
Appropriations	(31,934)	(16,852)	(538,952)	(3,323,755)	(3,879,559)
Endowment assets at end of year	\$ 580,130	\$ 763,652	\$ 20,191,327	\$ 9,729,496	\$ 30,684,475

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires WatersEdge to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occur after the investment of new contributions for donor restricted endowment funds. WatersEdge had no underwater endowment funds at December 31, 2023 and 2022.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE N – EXPENSES BY BOTH FUNCTION AND NATURE

The cost of providing the various programs, activities, and general support of WatersEdge have been summarized on a functional basis. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Allocated expenses include depreciation and occupancy, and salaries and benefits. Depreciation and occupancy are both allocated based on square footage, and salaries and benefits are allocated based on estimates of time and effort.

As WatersEdge does not actively solicit contributions for their own benefit, no amounts have been allocated to fundraising activities.

	2023		
	Total	Program services	Management and general
Notes payable interest expense	\$ 3,384,022	\$ 3,384,022	\$ -
Denominational note payable interest expense	2,657,671	2,657,671	-
Total interest expense	<u>6,041,693</u>	<u>6,041,693</u>	<u>-</u>
Salaries and benefits	6,184,792	4,932,810	1,251,982
Business	1,536,431	922,632	613,799
Professional services	1,078,670	829,014	249,656
Marketing and communications	490,156	365,945	124,211
Depreciation	138,622	88,718	49,904
Interest expense	117,920	117,920	-
Miscellaneous	110,095	101,035	9,060
Total operating expenses	<u>9,656,686</u>	<u>7,358,074</u>	<u>2,298,612</u>
Distributions to students, elderly, and charitable causes	519,208	519,208	-
Distributions from funds advised by donors	4,544,345	4,544,345	-
Total interest expense, operating expenses, and distributions	<u>\$ 20,761,932</u>	<u>\$ 18,463,320</u>	<u>\$ 2,298,612</u>
	2022		
	Total	Program services	Management and general
Notes payable interest expense	\$ 1,614,555	\$ 1,614,555	\$ -
Denominational note payable interest expense	2,295,247	2,295,247	-
Total interest expense	<u>3,909,802</u>	<u>3,909,802</u>	<u>-</u>
Salaries and benefits	5,473,820	4,301,469	1,172,351
Business	1,412,825	893,099	519,726
Professional services	1,051,665	834,625	217,040
Marketing and communications	540,076	513,202	26,874
Depreciation	179,846	111,504	68,342
Interest expense	86,579	86,579	-
Miscellaneous	288,709	239,589	49,120
Total operating expenses	<u>9,033,520</u>	<u>6,980,067</u>	<u>2,053,453</u>
Distributions to students, elderly, and charitable causes	529,401	529,401	-
Distributions from funds advised by donors	4,404,738	4,404,738	-
Total interest expense, operating expenses, and distributions	<u>\$ 17,877,461</u>	<u>\$ 15,824,008</u>	<u>\$ 2,053,453</u>

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE O – LIQUIDITY AND AVAILABILITY OF RESOURCES

The following tables reflect the financial assets of WatersEdge at December 31, reduced by amounts not available for general use within one year either because of donor-imposed restrictions, illiquidity, or Board designation for a specific use. For purposes of liquidity analysis, financial assets can be obtained by excluding prepaid assets, real estate, and property and equipment from total assets on the statement of position.

WatersEdge maintains reasonable liquidity to meet the anticipated needs of the maturing notes payable by meeting the minimum NASAA liquidity requirements.

In addition, the management of the liquidity requires financial assets to be structured with availability as general expenditures, liabilities, and other obligations come due. To accomplish this, WatersEdge divides liquidity management into distinct segments as shown below.

	2023				Total
	Church Extension Fund	Other Foundation Net Assets		Assets Administered as Trustee, Custodian or Agent	
		Assets Without Donor Restrictions	Assets With Donor Restrictions		
Total financial assets	\$ 192,274,735	\$ 32,360,938	\$ 21,678,316	\$ 426,246,450	\$ 672,560,439
Amount unavailable for general expenditure in the next 12 months due to contractually imposed restrictions:					
Church Building Loans, net	178,791,635	-	-	-	178,791,635
Financial assets contractually available to meet donor imposed restrictions and general expenditures within one year	13,483,100	32,360,938	21,678,316	426,246,450	493,768,804
Amount unavailable for general expenditure in the next 12 months due to donor imposed restrictions:					
Assets administered as trustee, custodian, or agent	-	-	-	426,246,450	426,246,450
Endowments (\$24,974,852 less funds appropriated for current use of \$264,371)	3,296,536	-	21,413,945	-	24,710,481
Financial assets available to meet cash needs for general expenditures within one year	10,186,564	32,360,938	264,371	-	42,811,873
Amount unavailable while advised by donors		27,713,408			27,713,408
Amount unavailable to management without Board approval:					
Operating reserve	-	2,545,838	-	-	2,545,838
Fund functioning as endowment	-	605,137	-	-	605,137
Other Board designations	-	334,275	-	-	334,275
Financial assets available to meet cash needs for general expenditures within one year after Board designations	\$ 10,186,564	\$ 1,162,280	\$ 264,371	\$ -	\$ 11,613,215

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE O – LIQUIDITY AND AVAILABILITY OF RESOURCES – CONTINUED

	2022				Total
	Church Extension Fund	Other Foundation Net Assets		Assets Administered as Trustee, Custodian or Agent	
		Assets Without Donor Restrictions	Assets With Donor Restrictions		
Total financial assets	\$ 162,941,247	\$ 24,392,905	\$ 27,387,939	\$ 450,947,497	\$ 665,669,588
Amount unavailable for general expenditure in the next 12 months due to contractually imposed restrictions:					
Church Building Loans, net	154,404,428	-	-	-	154,404,428
Current and long-term debt obligations beyond that used to acquire non-financial assets	-	145,178	-	-	145,178
Financial assets contractually available to meet donor imposed restrictions and general expenditures within one year	8,536,819	24,247,727	27,387,939	450,947,497	511,119,982
Amount unavailable for general expenditure in the next 12 months due to donor imposed restrictions:					
Assets administered as trustee, custodian, or agent	-	-	-	450,947,497	450,947,497
Deposits held for others	-	-	-	-	-
Endowments (\$30,684,475 less funds appropriated for current use of \$196,648)	3,296,536	-	27,191,291	-	30,487,827
Financial assets available to meet cash needs for general expenditures within one year	5,240,283	24,247,727	196,648	-	29,684,658
Amount unavailable while advised by donors		19,178,874			19,178,874
Amount unavailable to management without Board approval:					
Operating reserve	-	3,189,206	-	-	3,189,206
Fund functioning as endowment	-	580,130	-	-	580,130
Other Board designations	-	1,292,816	-	-	1,292,816
Financial assets available to meet cash needs for general expenditures within one year after Board designations	\$ 5,240,283	\$ 6,701	\$ 196,648	\$ -	\$ 5,443,632

WatersEdge manages investments for both itself under donor-imposed restrictions and for other beneficial owners. Investment of these assets follow policies approved by the Board as well as prescribe to asset allocations approved by the Investment Committee of the Board. These asset allocations consider the liquidity needs of the portfolio, including but not limited to, investment managers calling uncommitted funds, annual endowment spending, and potential client redemption requests. The investment and spending policies are explained in further detail in Note A, while the investment allocation, and redemption restrictions are shown in Note C.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE O – LIQUIDITY AND AVAILABILITY OF RESOURCES – CONTINUED

To help manage unanticipated liquidity needs, WatersEdge has committed to a line of credit of \$15,000,000, with an additional \$5,000,000 accordion feature if needed, which it could draw upon, as discussed in Note I. This line could allow the funding of committed capital without requiring the sale of equities and bonds at deflated prices in a depressed economic environment. This line could also help fund strategic support to the Convention and institutions affiliated with the Convention as requested or fund operations in a crisis.

WatersEdge has also committed to a line of credit of \$3,000,000, with an accordion feature which expands the line to a possible \$10,000,000, which it could draw upon. As discussed in Note I, this line of credit remains unused. This line of credit could allow the funding of loan advances or the redemption of notes payable in the event cash flow from loan payments or the sale of notes payable were temporarily insufficient.

Financial assets available to meet cash needs for general expenditures within one year, after board designations, were \$11,613,215 and \$5,443,632 at December 31, 2023 and 2022. Assets of \$11,613,215 at December 31, 2023 can cover 413 days of general expenditures based on a 2024 operating budgeted expenditures of \$10,260,000. These assets are comprised of cash and cash equivalents, short term receivables, and pooled investments. In addition to covering general expenditures, these financial assets are available to meet the anticipated needs of the notes payable as demonstrated in Note J by meeting the NASAA liquidity requirements.

Additionally, WatersEdge has Board designated funds that, while not intended to be spent on purposes other than those identified, could be made available, if necessary. Collectively, these designated funds were \$3,485,250 at December 31, 2023 and can cover an additional 124 days of general expenditures. As a matter of practicality, it is possible the total of Board designated funds which could be made available would be reduced since the Board designated funds invest in internally managed common funds which each may contain investments with lock-up provisions.

Cash and cash equivalents are currently available. Operating receivables have varying degrees of availability, but generally convert to cash within 30 days. Pooled investments can be liquidated at the end of each month once WatersEdge completes the monthly valuation of its common funds. The appropriated endowment distribution is received at the end of each quarter.

WatersEdge owes \$27,830,181 in principal to holders of demand notes and \$74,012,706 in term notes that are scheduled to mature during 2024. See Note J for the scheduled maturities of all notes. Demand notes may be redeemed in whole or in part, at the option of the registered holder; however, WatersEdge reserves the right to require two business days' notice. Similarly, term notes may be redeemed at the option of the registered holder, with the consent of WatersEdge, subject to the availability of funds; however, WatersEdge reserves the right to require two business days' written notice. These redemptions are subject to early redemption penalties if redeemed prior to maturity.

In addition to funding note redemptions, WatersEdge must also fund its outstanding loan commitments of approximately \$83,054,000 as of December 31, 2023, the majority of which are expected to require funding during 2024 and 2025. Historically, WatersEdge has been able to meet the loan funding requirements through a combination of existing cash and investments on hand and cash generated from loan repayments and the sale of notes payable.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE P – RELATED PARTIES

Most of the funds administered by WatersEdge are for the benefit of the Convention, its principal affiliates, Baptist churches and associations and various other Baptist organizations.

WatersEdge administers the following funds for the Convention and its affiliates in either a trustee or custodial capacity. Liabilities to affiliated entities were as follows at December 31, 2023 and 2022, respectively: the Convention, approximately \$55,477,000 and \$55,058,000, Oklahoma Baptist University, approximately \$190,211,000 and \$202,035,000, Oklahoma Baptist Homes for Children, Inc., approximately \$100,361,000 and \$101,220,000, and Baptist Village Communities of Oklahoma, Inc., approximately \$49,726,000 and \$46,897,000. For this purpose, affiliates are those organizations whose directors or trustees are elected by the participating churches of the Convention at its annual meeting.

WatersEdge receives appropriations from the Cooperative Program of the Convention. The appropriations received in 2023 and 2022 were \$28,949 and \$24,767, respectively. As discussed in Note Q, WatersEdge has leased office facilities from the Convention, Oklahoma Baptist University, and Metro Baptist Network.

WatersEdge makes loans to churches, associations and agencies affiliated with the Convention and to churches, associations and agencies that possess like beliefs and commitments to the Convention to finance the purchase of land and buildings, the construction and renovation of facilities, or for other purposes approved by the Board consistent with the mission and ministry of WatersEdge. With few exceptions, these loans are secured by first mortgages on the property and buildings constructed. The lives of these loans are typically established on an amortization of no longer than 25 years. Interest rate parameters are set by the Board with consideration given to the current rates available from commercial sources. The balance of church building loans outstanding was \$184,533,091 and \$160,002,689 at December 31, 2023 and 2022, respectively. An allowance of \$1,173,067 and \$1,145,565 for expected credit losses on loans was recorded at December 31, 2023 and 2022, respectively. The balance for participations made to other Baptist foundations was \$4,372,800 and \$4,318,335 at December 31, 2023 and 2022, respectively.

In 2020, WatersEdge purchased a church camp facility. In conjunction with the purchase, WatersEdge executed a lease agreement with the Convention for two lots in Falls Creek Baptist Conference Center where the facility is located. WatersEdge subsequently arranged, through a property management agreement, for the Convention, to maintain the facility and secure tenants. On October 3, 2023, WatersEdge sold the church camp facility to the Convention for \$2,587,129. By executing the sales agreement, the lease and the property management agreement were terminated. In addition, all existing preferential use rights to occupy the church camp facility were transferred to the Convention.

As of December 31, 2023, the CEF's Directors, Officers, and employees, their immediate family members, and businesses with which they are affiliated owned Notes in the aggregate totaling \$1,915,629, which represents 1.7% of total Notes. All of these Notes were issued on the same terms as were available other Investors.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE Q - LEASES

WatersEdge conducts operations in Oklahoma City and Shawnee.

In Oklahoma City, WatersEdge has two lease agreements for facilities:

- An agreement with the Convention is for a short-term lease of one year ending in December 2024.
- An agreement with Metro Baptist Network was added in 2023 and is for a short-term lease of one year ending in May 2024.

In Shawnee, WatersEdge has one lease agreement for a facility:

- An agreement with Oklahoma Baptist University for a term of 3 years which expires in September 2024 but is cancelable by either party with ninety days written notice. The cancellation provision causes the lease to be considered short-term.

Total short-term lease cost included in operating expenses for the year ended December 31, 2023 and 2022 was \$221,482 and \$218,399, respectively.

WatersEdge lease agreements do not contain any material residual value guarantees or material restrictive covenants.

As leases expire in 2024, they will not be renewed as WatersEdge will be consolidating operations to Oklahoma City into an acquired office building. The maximum lease payments in 2024, if no cancellation provisions are exercised, are approximately \$212,000. Future lease payments will be expensed over straight-line basis.

### NOTE R - PENSION PLAN

All full-time employees and part-time employees of WatersEdge who regularly work at least 20 hours per week are eligible to participate in a 403(b) defined contribution pension plan administered by the Guidestone Financial Resources of the Southern Baptist Convention. Under the plan, WatersEdge contributes an amount equal to 10% of participating employees' salaries. In addition, WatersEdge matches employee contributions up to a maximum of an additional 5%. The amount of the match an employee is eligible for is determined by the number of years of employment. Employee contributions are voluntary. Total pension expense was \$499,400 and \$432,685 at December 31, 2023 and 2022, respectively. WatersEdge policy is to fund pension cost as it is incurred.

# WatersEdge Ministry Services

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## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

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December 31, 2023

### NOTE 5 – COMMITMENTS, CONTINGENCIES, AND CREDIT RISK

WatersEdge had outstanding church building loan receivable commitments totaling approximately \$83,054,000 and \$43,682,000 at December 31, 2023 and 2022, respectively.

WatersEdge had unfunded commitments to purchase units of alternative investments measured at NAV totaling approximately \$109,471,000 and \$89,221,000 at December 31, 2023 and 2022, respectively and unfunded commitments to purchase units of alternative investments measured by methods other than NAV of approximately \$804,000 and \$3,288,000 at December 31, 2023 and 2022, respectively.

WatersEdge has extended a line of credit to the Convention in the amount of \$1,000,000. The line of credit was unused during 2023 and 2022.

From time to time, WatersEdge may be involved in legal matters arising in the normal course of activities. In the opinion of management, the ultimate liability, if any, with respect to these matters will not have a materially adverse effect on the financial position or activities of WatersEdge.

WatersEdge holds a variety of investments, the underlying securities of which are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the value of investment securities would occur in the near term and that such change could materially affect the amounts reported in the financial statements.

# WatersEdge Ministry Services

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2023

### NOTE T – SIGNIFICANT ESTIMATES AND CONCENTRATIONS

GAAP requires disclosure of certain significant estimates and current vulnerabilities due to certain concentrations which include borrowers and investors with balances greater than 5% of total loans and total notes payable, respectively. In addition, borrower and investor concentrations (greater than 10% of total loans and notes payable) in certain states are included. Estimates related to the ACL are reflected in Note B. Current vulnerabilities due to certain concentrations of credit risk are discussed in Note S.

*Loan Concentrations:*

At December 31, 2023, one borrower had a concentration of 5.7% of total loans. At December 31, 2022 there were no borrower concentrations. At December 31, 2023 and 2022, borrowers were concentrated (greater than 10% of the total church building loans) in the following states:

	Count	Amount	
2023:			
Oklahoma	121	\$ 62,182,141	34%
Colorado	13	23,928,862	13%
Missouri	21	20,532,508	11%
Ohio	23	18,755,240	10%
2022:			
Oklahoma	121	\$ 48,033,822	30%
Missouri	20	19,373,578	12%
Colorado	13	19,165,829	12%
Ohio	17	17,205,870	11%

*Notes Payable Concentrations:*

WatersEdge had two investors with an aggregate concentration of 12.3% and 17.6% at December 31, 2023 and 2022, respectively. At December 31, 2023 and 2022, investors were concentrated in the following states:

	Count	Amount	
2023:			
Oklahoma	657	\$ 70,276,101	64%
2022:			
Oklahoma	535	\$ 55,450,095	57%
Colorado	91	14,290,544	15%

# WatersEdge Ministry Services

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## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

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December 31, 2023

### NOTE U – SUBSEQUENT EVENTS

On March 14, 2024, WatersEdge created a wholly owned subsidiary, WatersEdge Bricktown Holdings, LLC, for the purpose of acquiring an office building in a bargain sale transaction. This purchase took place on April 2, 2024. The land, building, and included fixtures were appraised at \$17,700,000. WatersEdge acquired the property for \$10,500,000 cash (gross of closing costs) and recorded a contribution of \$7,200,000. WatersEdge will occupy approximately 25% of the office building, will lease approximately 50% of the office building to affiliated entities, and will lease approximately 25% one non-affiliated entity.

This relocation of operations to an office building owned by WatersEdge will result in no short-term leases being renewed after expiration in 2024.



WatersEdge

3800 N May Avenue  
Oklahoma City, OK 73112  
405-949-9500  
Toll Free: 800-949-9988  
Fax: 405-948-7862  
[www.WatersEdgeServices.org](http://www.WatersEdgeServices.org)