

WATERFIRE PROVIDENCE

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Financial Statements

December 31, 2016

Mullen Scorpio Cerilli

**Certified Public Accountants
Business Consultants**

Mullen Scorpio Cerilli

WATERFIRE PROVIDENCE

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Mullen Scorpio Cerilli

**Certified Public Accountants
Business Consultants**

67 Cedar Street, Suite 106
Providence, Rhode Island 02903
401-751-3860
401-751-3987 Fax
www.mullenscorpiorcerilli.com

To the Board of Trustees of
Waterfire Providence

Independent Auditor's Report

We have audited the accompanying financial statements of Waterfire Providence (a Rhode Island nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of revenue, expenses and other changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Mullen Scorpio Cerilli

Waterfire Providence

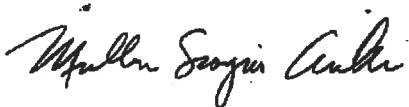
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Waterfire Providence as of December 31, 2016, 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.

Report on Summarized Comparative Information

We have previously audited Waterfire's 2015 financial statements and in our report dated June 22, 2016 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.



June 19, 2017
Providence, Rhode Island

WATERFIRE PROVIDENCE
Statement of Financial Position
December 31, 2016
(With Comparative Totals at December 31, 2015)

	<u>2016</u>	<u>2015</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 561,048	\$ 667,580
Accounts receivable (Note 2)	134,804	429,347
Pledges receivable (Note 3)	205,623	224,401
Inventory	18,620	12,726
Prepaid expenses	69,480	55,449
Total current assets	<u>989,575</u>	<u>1,389,503</u>
Net property and equipment (Note 4)	<u>486,464</u>	<u>503,576</u>
Noncurrent assets:		
Pledges receivable, long term (Note 3)	225,361	424,873
Construction in progress (Note 5)	37,128	1,139,308
Notes receivable (Note 6)	5,454,394	-
Investment in related organizations (Note 7)	48,430	-
Due from related organization (Note 18)	453,242	-
Total assets	<u>\$ 7,694,594</u>	<u>\$ 3,457,260</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 43,615	\$ 547,619
Accrued payroll and taxes	55,205	46,538
Advance funds received (Note 8)	100,850	21,350
Accrued vacation	125,123	103,010
Notes payable (Note 9)	-	88,794
Line of credit (Note 15)	52,903	-
Total current liabilities	<u>377,696</u>	<u>807,311</u>
Noncurrent liabilities:		
Notes payable (Note 9)	1,474,741	-
Total liabilities	<u>1,852,437</u>	<u>-</u>
Net assets:		
Unrestricted net assets:		
Available for operations	(135,968)	71,158
Invested in property, equipment and construction in progress	5,755,925	1,642,884
	<u>5,619,957</u>	<u>1,714,042</u>
Temporarily restricted net assets (Note 10)	<u>222,200</u>	<u>935,907</u>
Total net assets	<u>5,842,157</u>	<u>2,649,949</u>
Total liabilities and net assets	<u>\$ 7,694,594</u>	<u>\$ 3,457,260</u>

See accompanying notes to the financial statements.

WATERFIRE PROVIDENCE

Statement of Revenue, Expenses and Other Changes in Net Assets

For the Year Ended December 31, 2016

(With Comparative Totals for the Year Ended December 31, 2015)

	2016			2015
	Unrestricted	Temporarily Restricted	Total	
Support and operating revenue:				
Government grants and contracts	\$ 452,018	\$ -	\$ 452,018	\$ 458,100
Contributions and other grants	232,744	-	232,744	236,632
Sponsorship income	781,008	-	781,008	1,058,433
Interest and dividend income	685	-	685	1,110
Fundraising income	286,257	-	286,257	247,804
Vending income	99,827	-	99,827	86,126
Merchandise sales	74,388	-	74,388	71,723
Special project income	146,302	-	146,302	76,119
In-kind income (Note 12)	590,867	-	590,867	526,402
Developer Fee	150,000	-	150,000	
Other income	786	-	786	13,484
Total support and operating revenue	2,814,882	-	\$ 2,814,882	2,775,933
Reclassification - net assets released from restrictions by satisfaction of purpose restrictions	-	-	-	-
Total support, operating revenue and reclassifications	2,814,882	-	2,814,882	2,775,933
Expenses:				
Program services	2,324,298	-	2,324,298	2,265,409
Management and general	328,906	-	328,906	273,859
Fundraising and development	392,066	-	392,066	376,771
Total operating expenses	3,045,270	-	3,045,270	2,916,039
Change in net assets from support and operations	(230,388)	-	(230,388)	(140,106)
Other changes:				
Nonoperating capital campaign:				
Contributions	-	478,620	478,620	929,872
Grants	-	2,973,066	2,973,066	789,633
Finance related expenses	-	(29,090)	(29,090)	-
Reclassification	(11,850)	11,850	-	-
Release from restrictions (Note 11)	4,148,153	(4,148,153)	-	-
Total other changes	4,136,303	(713,707)	3,422,596	1,719,505
Changes in net assets	3,905,915	(713,707)	3,192,208	1,579,399
Net assets, beginning of year	1,714,042	935,907	2,649,949	1,070,550
Net assets, end of year	\$ 5,619,957	\$ 222,200	\$ 5,842,157	\$ 2,649,949

See accompanying notes to the financial statements.

WATERFIRE PROVIDENCE
Statement of Functional Expenses
For the Year Ended December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

	2016			2015	
	Program Expense	Management and General	Fundraising and Development	Total Expenses	Total Expenses
Salaries and related expenses:					
Salaries	\$ 766,326	\$ 188,790	\$ 208,099	\$ 1,163,215	\$ 1,018,667
Fringe Benefits	25,293	6,231	6,869	38,393	42,861
Payroll Taxes	65,298	16,087	17,732	99,117	88,867
	<u>856,917</u>	<u>211,108</u>	<u>232,700</u>	<u>1,300,725</u>	<u>1,150,395</u>
Administrative and other expenses:					
Occupancy	75,820	9,000	9,000	93,820	93,481
Boat expenses	14,477	-	-	14,477	21,551
Firewood	39,000	-	-	39,000	54,463
Artist fees and design	40,000	-	-	40,000	35,000
Consultants	-	6,440	37,000	43,440	74,487
Outside labor	-	-	-	-	12,283
Sales related expenses	33,713	-	-	33,713	33,454
Music expenses	13,683	-	-	13,683	7,731
Publicity	2,040	-	-	2,040	1,360
Volunteer expenses	22,773	-	-	22,773	21,084
Catering expenses	53,570	-	-	53,570	56,062
Video, demo, prototype	1,869	-	-	1,869	4,260
Sponsor recognition	43,799	-	-	43,799	53,776
Special projects	19,802	-	-	19,802	20,430
Development expenses	-	-	37,688	37,688	31,881
Fundraising expenses	-	-	48,285	48,285	74,919
Event expenses	178,254	-	-	178,254	261,661
Ballroom expenses	-	-	-	-	-
Printing and binding	9,990	-	-	9,990	9,959
Insurance	124,168	8,186	5,236	137,590	113,525
Office expenses	9,365	18,729	9,365	37,459	32,833
Meetings and seminars	-	111	-	111	326
Food vendors	3,011	-	-	3,011	3,497
Telephone	8,649	17,298	8,649	34,596	29,093
Network project expense	79,773	-	-	79,773	-
Payroll fees	1,890	466	513	2,869	2,494
License and location fees	-	-	-	-	-
Accounting and bookkeeping	-	53,512	-	53,512	41,861
Local travel	-	-	-	-	-
Public safety	51,848	-	-	51,848	58,615
Board expenses	-	569	-	569	-
Brazier society expenses	13,908	-	-	13,908	15,309
Bad debt expense	-	-	3,630	3,630	34,172
Interest expense	-	3,469	-	3,469	-
Miscellaneous expense	-	18	-	18	13
In-kind	590,867	-	-	590,867	526,402
Total administrative and other	<u>1,432,269</u>	<u>117,798</u>	<u>159,366</u>	<u>1,709,433</u>	<u>1,725,982</u>
Depreciation	35,112	-	-	35,112	39,662
Total expenses	<u>\$ 2,324,298</u>	<u>\$ 328,906</u>	<u>\$ 392,066</u>	<u>\$ 3,045,270</u>	<u>\$ 2,916,039</u>

See accompanying notes to the financial statements.

WATERFIRE PROVIDENCE

Statement of Cash Flows

For the Year Ended December 31, 2016

(With Comparative Totals for the Year Ended December 31, 2015)

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 3,192,208	\$ 1,579,399
Adjustments to reconcile total changes in net assets to net cash provided (used) by operating activities:		
Depreciation	35,112	39,662
Bad debt expense	(7,859)	34,172
Changes in current assets and liabilities:		
Accounts receivable	294,542	(323,756)
Pledges receivable	225,477	(683,446)
Inventory	(5,894)	(3,879)
Prepaid expenses	(14,031)	31,054
Accounts payable and accrued expenses	(504,004)	510,926
Accrued payroll and taxes	8,667	8,443
Advance funds received	79,500	(125,100)
Accrued vacation	22,113	8,512
	<u>3,325,831</u>	<u>1,075,987</u>
Net cash provided (used) by operating activities		
Cash flows from investing activities:		
Acquisition of property and equipment	(28,000)	(46,530)
Building project improvements	(1,911,475)	(1,139,308)
Disbursement for investment in related organizations	(48,430)	-
Deposit returned	10,000	-
Due from related organizations	37,128	-
	<u>(1,940,777)</u>	<u>(1,185,838)</u>
Net cash provided (used) by investing activities		
Cash flows from financing activities:		
Proceeds from Line of credit	102,903	-
Payment on line of credit	(50,000)	-
Proceeds from notes payable	1,474,742	88,794
Proceeds from Bridge Loan	2,523,957	-
Disbursement of funds to bank	(5,454,394)	-
Proceeds from related organization	2,523,957	-
Payment of loan payable	(2,523,957)	-
Proceeds from loan	100,000	-
Payment of loan payable	(188,794)	-
	<u>(1,491,586)</u>	<u>88,794</u>
Net cash provided by financing activities		
Net increase (decrease) in cash and cash equivalents	(106,532)	(21,057)
Cash and cash equivalents, beginning of year	<u>667,580</u>	<u>688,637</u>
Cash and cash equivalents, end of year	<u>\$ 561,048</u>	<u>\$ 667,580</u>
Interest paid	\$ 14,953	\$ -
Taxes paid	\$ -	\$ -

See accompanying notes to the financial statements.

WATERFIRE PROVIDENCE

Notes to Financial Statements

December 31, 2016

(With Comparative Totals for the Year Ended December 31, 2015)

Note 1 - Summary of Significant Accounting Policies

Nature of Operations

WaterFire Providence® (the Corporation) is an independent, not-for-profit corporation located in Providence, RI, organized in 1988 under the laws of the State of Rhode Island. The Organization founded in 1988 was the "Visual Artists of RI, Inc." (VARI) and was established to support visual arts and artists in Rhode Island and projects by Rhode Island artists in and outside of Rhode Island.

The first WaterFire art installation was created by Barnaby Evans in 1994 and continued as an individual artist's project in 1996 and thereafter. As part of their arts mission, VARI supported Evans and served as a fiscal agent for some of Evans' funding support for WaterFire from 1996 to 1999.

In June of 1999, the VARI board agreed to transition out of governance and elect in new board members who were to focus VARI's efforts on the support and governance of WaterFire as an on-going Rhode Island culture and arts organization. The name of VARI was changed to WaterFire Providence in 1999. The nonprofit continues to be supportive of its founding mission of supporting visual arts projects in Rhode Island and of supporting Rhode Island artists to do projects both within and outside the state.

Its mission is to inspire Providence and its visitors by revitalizing the urban experience, fostering community engagement and creatively transforming the city by presenting WaterFire for all to enjoy. The Corporation fosters, promotes and sustains the creation, exhibition and performance of works of art by visual and performing artists of the State of Rhode Island.

The majority of revenue for the Corporation consists of sponsorship, government grants and contributions.

Basis of Financial Reporting

The accompanying financial statements of the Corporation have been prepared on the accrual basis of accounting.

The net assets of the Corporation are classified as follows:

- Unrestricted net assets consist of unrestricted amounts that are available for use in accomplishing the mission of the Corporation.
- Temporarily restricted net assets consist of those amounts, which are donor restricted for a specific purpose. When a donor restriction expires, either by the passage of a stipulated time restriction or by the accomplishment of a specific purpose restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Note 1 continued on the next page.

Note 1 - Summary of Significant Accounting Policies (continued)

Basis of Financial Reporting

- Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity. Investment income may be either an unrestricted or temporarily restricted recourse when earned, determined according to the gift instrument and relevant State law. The Corporation did not have any permanently restricted net assets at December 31, 2016 and 2015.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances in savings and checking accounts and money market funds.

Accounts and Pledges Receivable

The Corporation uses the reserve method to record bad debt. Under this method, an allowance for doubtful pledges is maintained by an estimate of the amount of uncollectible pledges and receivables.

Revenue Recognition

The Corporation recognizes contributions received and unconditional promises to give at their fair values and they are reported as an increase in net assets. The Corporation reports gifts of cash and other assets as restricted support if they are received with donor restrictions that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Inventory

Inventory is stated at the lower of cost or market, determined by the first-in, first-out (FIFO) method, or market. Inventory consists of a variety of WaterFire Providence® logo items and related items available for sale.

Property and equipment

The Corporation capitalizes at cost all acquisitions of land, building, furniture and program equipment in excess of \$2,500 and office related items in excess of \$1,000. These assets are depreciated using the straight-line method of depreciation over estimated useful lives between three to thirty-nine years.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated assets for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Corporation reports expirations of donor restrictions when the asset is placed in service, at which time the Corporation reclassifies temporarily restricted net assets to unrestricted net assets.

Note 1 continued on the next page.

Note 1 - Summary of Significant Accounting Policies (continued)

Investments

Investments included in noncurrent assets represent ownership in WP QALICB, LLC and WP Member, LLC, which are related companies. These investments are accounted for using the equity method.

Contributions

Unconditional promises to give are recognized as revenues in the period the promise is received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Contributed Services

Contributed services are reflected in the accompanying statements at their estimated fair values at the date of receipt to the extent that they create or enhance non-financial assets or require specialized skills which if not provided by donation, would have to be purchased by the Corporation.

In-Kind Donations

The Corporation receives in-kind donations of telecommunications, city services, equipment, and repairs and other goods. These donations are recorded as revenue and expense at the time of donation. The donations are valued at the prevailing market rate.

Functional Allocation of Expenses

The costs of providing the various programs and other activities that have been summarized on a functional basis in the statement of activities. Accordingly, management has allocated certain costs among various programs and supporting services benefited. Personal and other costs have been allocated based upon time devoted to various programs and functions.

Advertising Costs

Advertising costs are expensed as incurred. All advertising is included as publicity in In-Kind. See Note 12.

Income Taxes

The Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Corporation evaluates its uncertain tax positions using guidance for contingencies as contained in US generally accepted accounting principles. The Corporation was not aware of any uncertain tax positions that were not provided for in the accompanying financial statements.

Note 1 continued on the next page.

Note 1 - Summary of Significant Accounting Policies (continued)

Income Taxes

The Corporation annually files Internal Revenue Service Form 990 – *Return of Organization Exempt from Income Tax*, reporting various information that the IRS uses to monitor the activities of tax-exempt entities. These tax returns are subject to review by the taxing authorities and the Corporation's income tax returns for 2013, 2014 and 2015 are subject to examination by the IRS and state authorities, generally for three years after they were filed. The Corporation currently has no tax examinations in progress.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Prior Year Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Reclassification

Amounts for the December 31, 2015 financial statements have been reclassified to conform to the current year's presentation.

Note 2 - Accounts Receivable

The Corporation's accounts receivable at December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Grants and donations receivable	\$ 103,390	\$ 59,560
Contract funds receivable	31,414	369,787
Total accounts receivable	<u>\$ 134,804</u>	<u>\$ 429,347</u>

Note 3 - Pledges Receivable

In 2015, the Corporation began a capital campaign to fund the renovation of the building at 475 Valley Street, Providence, RI.

Pledges receivable for unconditional promises to give are recorded at full value. These pledges have not been adjusted to the present value of their estimated future cash flows because it was considered immaterial. The allowance for doubtful pledges was \$22,683 and \$34,172 for the years ended December 31, 2016 and 2015.

Included in pledges receivable are the following promises to give:

	2016	2015
Pledges receivable	\$ 453,667	\$ 683,446
Less: allowance for doubtful pledges	(22,683)	(34,172)
Net pledges receivable	<u>\$ 430,984</u>	<u>\$ 649,274</u>
	2016	2015
Pledges receivable:		
Amounts due:		
Current:		
Less than one year	\$ 205,623	\$ 224,401
Noncurrent:		
Two years	143,745	181,081
Three years	79,906	153,055
Four years	1,710	89,215
Five and more	-	1,522
Total noncurrent	<u>225,361</u>	<u>424,873</u>
Total	<u>\$ 430,984</u>	<u>\$ 649,274</u>

Note 4 - Property and Equipment

The Corporation's property and equipment at December 31, 2016 and 2015 consisted of the following:

	2016	2015
Building	\$ 166,322	\$ 166,322
Land	262,905	262,905
Equipment and furniture	573,160	555,160
Vehicles	51,479	51,479
Total property and equipment	1,053,866	1,035,866
Accumulated depreciation	(567,402)	(532,290)
Net property and equipment	<u>\$ 486,464</u>	<u>\$ 503,576</u>

Depreciation expense was \$35,112 and \$39,662 for the years ended December 31, 2016 and 2015.

Note 5 - Construction in Progress*Building at 475 Valley Street, Providence, Rhode Island*

During the year, the Corporation incurred expenditures that relate to the construction of the new building. These expenditures have been recorded as Construction in Progress.

	<u>2016</u>	<u>2015</u>
Building improvements	\$ 37,128	\$ 1,139,308
Total construction in progress	<u>\$ 37,128</u>	<u>\$ 1,139,308</u>

Note 6 - Notes Receivable

	<u>2016</u>	<u>2015</u>
Due from BOA Investment Fund V LLC, interest rate fixed at 1%, payment of interest only shall be due and payable quarterly commencing on January 10, 2017. Payment of principal shall begin on January 10, 2025. The unpaid balance and accrued interest thereon, shall all be due and payable in full no later than October 1, 2049.	\$ 3,555,610	\$ -
Due from BOA WaterFire Investment Fund LLC, interest rate fixed at 2.769%, payment of interest only shall be due and payable quarterly commencing on January 10, 2017. Payment of principal shall begin on January 10, 2031. The unpaid balance and accrued interest thereon, shall be due and payable in full no later than October 1, 2049.	<u>1,898,784</u>	<u>-</u>
Total	<u>\$ 5,454,394</u>	<u>\$ -</u>

Note 7 - Investments in Related Organizations

Investments in related Organizations is the investment in WP QALICB, LLC and WP Member, LLC, which was determined based on the equity method of accounting and is equal to WaterFire Providence's ownership interest in the net book value of these entities.

WP QALICB, LLC is a limited liability company formed to own and refurbish the Organization's leased building on Valley Street in Providence, Rhode Island. The ownership is as follows in WP QALICB, LLC: WaterFire Providence (1%), WP Member, LLC (4%) and WP Management Corporation (95%).

(See Note 18 – Related Organizations).

Note 7 continued on the next page.

Note 7 - Investments in Related Organizations (continued)

The Investment at December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
WP Member, LLC	\$ 43,666	\$ -
WP QALICB, LLC	<u>4,764</u>	<u>-</u>
Total	<u>\$ 48,430</u>	<u>\$ -</u>

Note 8 - Advance Funds Received

The advanced funds received at December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Sponsorship	\$ 86,350	\$ -
Brazier Society	14,500	11,000
General support	<u>-</u>	<u>10,350</u>
Total advanced funds received	<u>\$ 100,850</u>	<u>\$ 21,350</u>

Note 9 - Note Payable

	<u>2016</u>	<u>2015</u>
Note payable – current		
Loan payable to the Local Initiatives Support Corporation, (LISC), no interest loan, due on the earlier to occur of (i) the close of project financing, (ii) or December 31, 2016.	\$ -	\$ 88,794
Notes payable – long term		
Loan payable to Local Initiative Support Corporation (LISC), payments to start when the Nonprofit Finance Fund, Inc. note has been repaid in full. Repayment to be made from receipts of capital campaign proceeds. If no sooner repayment of the entire balance is due and payable on November 1, 2021.	450,000	

Note 9 - Note Payable (continued)

	<u>2016</u>	<u>2015</u>
Loan payable to Nonprofit Finance Fund, interest rate fixed at 6%, payment of interest only shall begin on December 1, 2016 and paid quarterly. Principal payments are due within five business days following the receipt of proceeds of the Capital Campaign Pledges. The annual payments shall be made in accordance with the Minimum Mandatory Prepayments of \$105,000 in 2016, \$200,000 in 2017, \$175,000 in 2018 and \$125,000 in 2019. The entire principal balance and unpaid interest shall be due payable in full on November 1, 2020.	<u>1,024,741</u>	<u>-</u>
Total note	<u>\$ 1,474,741</u>	<u>\$ 88,794</u>

Note 10 - Temporarily Restricted Net Assets

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

	<u>2016</u>	<u>2015</u>
Property acquisition and renovation	\$ 195,300	\$ 920,857
Waterfire Venice	15,050	15,050
Fund in Need	<u>11,850</u>	<u>-</u>
Total temporarily restricted net assets	<u>\$ 222,200</u>	<u>\$ 935,907</u>

Note 11 - Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors. The amounts released during the year ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Operating:		
NEA grant	\$ -	\$ 12,500
Non operation:		
Building expenditures	4,148,153	1,123,777

Note 12 - In-Kind Income

The Corporation's in-kind at December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Publicity	\$ 365,044	\$ 335,187
City of Providence services	94,065	103,260
Professional services	20,000	25,000
Printing	5,000	5,000
Boat slips	6,000	-
Telephone	5,000	5,000
Event – food/refreshments	62,500	18,550
Event – productions and lighting	11,875	15,000
Tents and heaters	9,333	10,000
Hotel accommodations	2,500	2,500
Flowers	5,000	-
Vehicle maintenance	1,000	3,050
Other	3,550	3,855
	<u> </u>	<u> </u>
Total	<u>\$ 590,867</u>	<u>\$ 526,402</u>

Note 13 - Commitments - Operating Lease Agreements

During 2012, the Corporation leased a photo copier under an operating lease agreement that expired in March 2017 and was not renewed. Monthly lease payments totaled \$168.

Future minimum lease payments due under the terms of the lease are as follows:

	<u>2016</u>	<u>2015</u>
Year ending December 31:		
2016	\$ -	\$ 2,016
2017	504	504
	<u> </u>	<u> </u>
Total	<u>\$ 504</u>	<u>\$ 2,520</u>

Note 14 - Lease

The Organization has a lease agreement with WP Master Tenant, LLC (a related organization) (See Note 18 – Related Organization). The lease begins April 30, 2017 and expires on December 31, 2031. For the years ended December 31, 2016 and 2015, there was no rent payments. There are no amounts payable at December 31, 2016 and 2015.

Future minimum lease payments are estimated to be for the year ended December 31:

2017	\$ 126,666
2018	238,000
2019	295,000
2020	318,000
2021	334,000
2022 and beyond	<u>3,589,584</u>
Total	<u>\$ 4,901,250</u>

Note 15 - Line of Credit**Community Reinvestment**

The line of credit has a maximum borrowing limit of \$250,000 with interest payable at prime plus 1%. The term is one year and can be renewed each year. The line expires on October 1, 2017. At December 31, 2016 and 2015, respectively, the balance outstanding was \$52,903 and \$0.

Note 16 - Operating Non-Owned Equipment and Intellectual Property

WaterFire, the artwork, is a pre-existing artwork created by Barnaby Evans prior to the establishment of the corporation and is owned by him as a copyrighted and trademarked work of art. Certain equipment and intellectual property used in creating WaterFire are properties, trademarks, copyrighted artwork and/or patents owned by Barnaby Evans, its creator. These items include the use of the name and logo of “WaterFire”, the art installation itself, some of the brazier and event equipment, boats, the equipment design, various t-shirt designs, photographs, music programs and drawings. The Corporation uses this equipment and the associated intellectual property with the permission of the owner under a limited annual license agreement.

Note 17 - Related Party Transactions

The Corporation uses a variety of equipment to produce WaterFire owned by the executive/artistic director. There is no compensation made for the use of equipment. This equipment includes 60 braziers, 114 buoys, 2 boats, 4 outboard motors, computers, heavy tools, hand tools, audio equipment, video equipment, camera equipment, tripods, a musical instrument (antique Balinese Gong), sculptures, 4 air conditioners, speakers, motor vehicles, office equipment, office furniture and music recordings. The Corporation is responsible for the maintenance and insurance of this equipment.

Note 17 continued on the next page.

Note 17 - Related Party Transactions

The Corporation rents office space on Regent Avenue, which is reflected in the functional expenses itemization as occupancy. The office space is rented from the executive/artistic director and there is no lease agreement. Periodically the organization seeks independent appraisal to assure that the rent paid to the executive/artistic director is appropriate for current market conditions. The most recent appraisal was completed by an independent appraiser on July 23, 2004. Waterfire rents 3,710 square feet of the space exclusively for Waterfire. In 2016 and 2015, Waterfire paid a total of \$27,000 in each year for rent for this space. The appraiser found that the market rent for this space should be between \$37,100 and \$40,810 annually. In addition, this office space is provided fully furnished which is not reflected in the appraisal.

In May 2017, the Organization moved to new space on Valley Street in Providence, Rhode Island owned by WP QALICB, LLC (see Note 18 - Related Organization).

During 2016 and 2015, the Corporation paid the executive/artistic director \$40,000 and \$35,000, respectively, in each year for its annual license agreement. The Corporation also pays the Executive/Artistic Director for royalties on merchandise sold. The amount expensed for 2016 and 2015 was \$2,879 and \$2,027, respectively.

At December 31, 2016 and 2015, the amount payable to the Executive/Artistic Director was \$7,879 and \$2,027, respectively.

Note 18 - Related Organization

In 2016, the Organization established new entities as to participate in the New Markets Tax Credit and Historic Tax Credit programs for the building on Valley Street in Providence, Rhode Island.

The Organization became a member of a new Rhode Island Limited Liability Company named WP QALICB, LLC. This entity was established to own and refurbish the Organization's leased building on Valley Street in Providence.

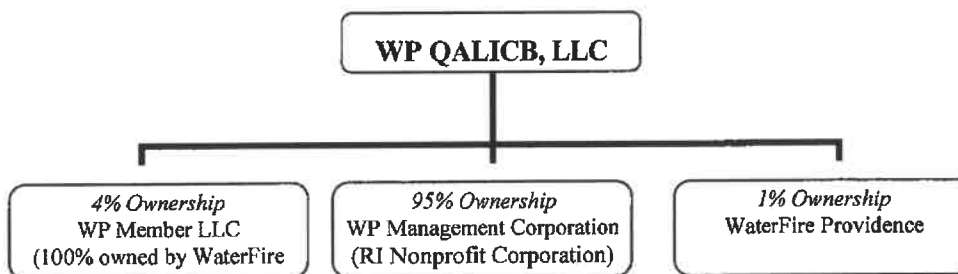
In connection with the rehabilitation and management of the property, the following new entities were formed:

- WP Management Corporation, a Rhode Island nonprofit corporation that will be subject to tax
- WP Member, LLC, a Rhode Island Limited Liability Company, which is 100% owned by WaterFire Providence
- WP Master Tenant, LLC, a Rhode Island Limited Liability Company with WP Management Corporation as the Sole Member
- WP Support Corporation, a Rhode Island nonprofit corporation

Note 18 continued on the next page.

Note 18 - Related Organization (continued)

The ownership of the WP QALICB, LLC is as follows:



In November 2016, WaterFire Providence entered into a lease agreement with WP Master Tenant, LLC (See Note 14 - Lease).

Amount due from related organization at December 31, 2016 are as follows:

WP QALICB, LLC	\$ 672
WP Management Corporation	<u>452,570</u>
Total	<u>\$ 453,242</u>

Note 19 - Contributed Services

During the year, volunteers donated their services to the Corporation for the WaterFire events, which were free and open to the public. These events would not have been possible without the help of all the many volunteers manning the boats, chopping the wood, maintaining the fires and sales/information tables and working on fundraising. In 2016 and 2015, volunteers donated approximately 10,407 hours and 15,882 hours of their time during these WaterFire event days.

In addition, volunteers throughout the year donated more hours on days other than these WaterFire event days. These donated services have not been valued in the financial statements.

WaterFire Providence also benefited by receiving additional numerous professional and commercial services free of charge for the WaterFire events. Without these generous efforts, WaterFire could not illuminate Providence's night. These donated services have not been valued in the financial statements.

Note 20 - Concentration of Credit Risk

Financial instruments, which potentially subject the Corporation to concentrations of credit risk, are cash and cash equivalents and accounts receivable.

The Corporation's cash is maintained at federally insured banks. At various times throughout the year, the Corporation had cash balances in excess of federally insured limits. At December 31, 2016 and 2015, the uninsured cash balance was approximately \$186,187 and \$95,017.

The Corporation's management believes that there is no risk of loss related to the accounts receivable balance at December 31, 2016 and 2015.

Note 21 - Retirement Plan

The Corporation has a 403(b) tax deferred annuity plan for its employees. The Corporation does not match the employee contributions to this plan.

Note 22 - Subsequent Events

Subsequent events have been evaluated through June 19, 2017, which is the date the financial statements were available for issuance.

