

**CONSOLIDATED FINANCIAL STATEMENTS**

**JOSHUA M. FREEMAN FOUNDATION AND  
FREEMAN ARTS PAVILION, INC.**

**FOR THE YEARS ENDED  
DECEMBER 31, 2018 AND 2017**

**JOSHUA M. FREEMAN FOUNDATION AND FREEMAN ARTS PAVILION, INC.**

**CONTENTS**

	<b>PAGE NO.</b>
Independent Auditor's Report	2 - 3
Consolidated Statements of Financial Position, as of December 31, 2018 and 2017	4
Consolidated Statements of Activities and Changes in Net Assets, for the Years Ended December 31, 2018 and 2017	5 - 6
Consolidated Statement of Functional Expenses, for the Year Ended December 31, 2018	7
Consolidated Statement of Functional Expenses, for the Year Ended December 31, 2017	8
Consolidated Statements of Cash Flows, for the Years Ended December 31, 2018 and 2017	9
Notes to Consolidated Financial Statements	10 - 18
<b>SUPPLEMENTAL INFORMATION</b>	
SCHEDULE 1 - Consolidating Schedule of Financial Position, as of December 31, 2018	19

# GELMAN, ROSENBERG

## & FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Joshua M. Freeman Foundation and Freeman Arts Pavilion, Inc.  
Selbyville, Delaware

We have audited the accompanying consolidated financial statements of Joshua M. Freeman Foundation and Freeman Arts Pavilion, Inc. (collectively, "the Organization"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

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

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

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

#### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2018 and 2017, and the consolidated changes in its net assets and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

4550 MONTGOMERY AVENUE • SUITE 650 NORTH • BETHESDA, MARYLAND 20814  
(301) 951-9090 • FAX (301) 951-3570 • WWW.GRFCPA.COM

MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF HORWATH INTERNATIONAL  
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

### Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidating Schedule of Financial Position on page 19 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Freedman".

August 8, 2019

**JOSHUA M. FREEMAN FOUNDATION AND FREEMAN ARTS PAVILION, INC.**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2018 AND 2017**

**ASSETS**

	<u>2018</u>	<u>2017</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,537,650	\$ 969,499
Investments, net of noncurrent portion	1,096,812	1,657,250
Accrued interest	4,017	4,578
Accounts receivable	1,644	-
Grants and contributions receivable	94,140	90,800
Pledges receivable, net of noncurrent portion	47,600	-
Prepaid expenses and other assets	<u>6,120</u>	<u>11,755</u>
Total current assets	<u>5,787,983</u>	<u>2,733,882</u>
<b>PROPERTY AND EQUIPMENT</b>		
Furniture and equipment	1,631,086	1,540,683
Signage	98,564	98,564
Vehicles	<u>9,946</u>	<u>9,946</u>
	1,739,596	1,649,193
Less: Accumulated depreciation and amortization	<u>(762,311)</u>	<u>(539,532)</u>
Net property and equipment	<u>977,285</u>	<u>1,109,661</u>
<b>NONCURRENT AND OTHER ASSETS</b>		
Restricted cash	137,993	151,000
Investments, net of current portion	594,987	853,100
Pledges receivable, net of current portion	106,343	-
Construction in progress	<u>1,104,051</u>	<u>731,252</u>
Total noncurrent and other assets	<u>1,943,374</u>	<u>1,735,352</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 8,708,642</u></b>	<b><u>\$ 5,578,895</u></b>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 76,582	\$ 142,500
Deferred income	<u>1,802</u>	<u>1,890</u>
Total current liabilities	<u>78,384</u>	<u>144,390</u>
<b>NET ASSETS</b>		
Without donor restrictions	2,099,111	2,113,212
With donor restrictions	<u>6,531,147</u>	<u>3,321,293</u>
Total net assets	<u>8,630,258</u>	<u>5,434,505</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 8,708,642</u></b>	<b><u>\$ 5,578,895</u></b>

See accompanying notes to consolidated financial statements.

**JOSHUA M. FREEMAN FOUNDATION AND FREEMAN ARTS PAVILION, INC.**

**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Operating revenue, net of cost of goods sold of \$135,759 in 2018 and \$92,877 in 2017	\$ 3,040,638	\$ -	\$ 3,040,638
Fundraising and sponsorships, net of cost of auction items of \$53,425 in 2018 and \$55,256 in 2017	1,572,364	-	1,572,364
Grants - Government, corporate, foundations and other	146,600	3,359,293	3,505,893
Interest and investment loss	(134,837)	76,051	(58,786)
Reclassification of net assets released from donor restrictions	(5,305,750)	5,305,750	-
Net assets released from donor restrictions	<u>5,531,240</u>	<u>(5,531,240)</u>	<u>-</u>
Total support and revenue	<u>4,850,255</u>	<u>3,209,854</u>	<u>8,060,109</u>
<b>EXPENSES</b>			
Program Services	4,188,789	-	4,188,789
Management and General	204,159	-	204,159
Fundraising	<u>471,408</u>	<u>-</u>	<u>471,408</u>
Total expenses	<u>4,864,356</u>	<u>-</u>	<u>4,864,356</u>
Changes in net assets	(14,101)	3,209,854	3,195,753
Net assets at beginning of year, as restated	<u>2,113,212</u>	<u>3,321,293</u>	<u>5,434,505</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 2,099,111</u></b>	<b><u>\$ 6,531,147</u></b>	<b><u>\$ 8,630,258</u></b>

<b>2017</b>		
<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
\$ 2,096,314	\$ -	\$ 2,096,314
1,397,816	-	1,397,816
41,150	1,028,350	1,069,500
(36,367)	15,967	(20,400)
(869,363)	869,363	-
<u>1,746,176</u>	<u>(1,746,176)</u>	<u>-</u>
<u>4,375,726</u>	<u>167,504</u>	<u>4,543,230</u>
3,035,519	-	3,035,519
205,103	-	205,103
<u>453,970</u>	<u>-</u>	<u>453,970</u>
<u>3,694,592</u>	<u>-</u>	<u>3,694,592</u>
681,134	167,504	848,638
<u>1,432,078</u>	<u>3,153,789</u>	<u>4,585,867</u>
<b><u>\$ 2,113,212</u></b>	<b><u>\$ 3,321,293</u></b>	<b><u>\$ 5,434,505</u></b>

**JOSHUA M. FREEMAN FOUNDATION AND FREEMAN ARTS PAVILION, INC.**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Productions	\$ 2,797,228	\$ -	\$ -	\$ 2,797,228
Personnel	701,493	154,103	174,912	1,030,508
Events and activities	-	-	268,510	268,510
Design and print	38,331	-	11,465	49,796
Promotional costs	112,266	-	248	112,514
Professional fees	36,630	-	16,002	52,632
Insurance	85,085	869	2,616	88,570
Training and travel	36,737	7,886	5,644	50,267
Postage and delivery	1,493	272	4,286	6,051
Facility expenses	280,582	1,379	1,930	283,891
Bank, credit card and ticket processing fees	6,196	978	24,112	31,286
Accounting and audit	-	30,554	-	30,554
Depreciation and amortization	209,262	2,384	11,133	222,779
Telecommunications	11,571	1,814	2,056	15,441
Office expense	7,674	3,920	1,919	13,513
	<hr/>	<hr/>	<hr/>	<hr/>
Subtotal	4,324,548	204,159	524,833	5,053,540
Less: Cost of sales	(135,759)	-	-	(135,759)
Less: Cost of auction items	-	-	(53,425)	(53,425)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL</b>	<b><u>\$ 4,188,789</u></b>	<b><u>\$ 204,159</u></b>	<b><u>\$ 471,408</u></b>	<b><u>\$ 4,864,356</u></b>



**JOSHUA M. FREEMAN FOUNDATION AND FREEMAN ARTS PAVILION, INC.**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total Expenses</b>
Productions	\$ 1,752,907	\$ -	\$ -	\$ 1,752,907
Personnel	670,623	146,393	166,699	983,715
Events and activities	-	-	223,299	223,299
Design and print	38,565	-	12,922	51,487
Promotional costs	114,029	-	350	114,379
Professional fees	39,613	11,208	55,372	106,193
Insurance	75,857	861	3,895	80,613
Training and travel	36,206	4,108	4,301	44,615
Postage and delivery	1,571	303	4,045	5,919
Facility expenses	209,347	1,382	1,566	212,295
Bank, credit card and ticket processing fees	3,142	989	21,538	25,669
Accounting and audit	-	30,618	-	30,618
Depreciation and amortization	169,767	2,383	11,751	183,901
Telecommunications	10,773	1,755	1,989	14,517
Office expense	5,996	5,103	1,499	12,598
	<hr/>	<hr/>	<hr/>	<hr/>
Subtotal	3,128,396	205,103	509,226	3,842,725
Less: Cost of sales	(92,877)	-	-	(92,877)
Less: Cost of auction items	-	-	(55,256)	(55,256)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL</b>	<b><u>\$ 3,035,519</u></b>	<b><u>\$ 205,103</u></b>	<b><u>\$ 453,970</u></b>	<b><u>\$ 3,694,592</u></b>

**JOSHUA M. FREEMAN FOUNDATION AND FREEMAN ARTS PAVILION, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 3,195,753	\$ 848,638
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	222,779	183,901
Stock donations	-	(32,244)
Realized and unrealized loss on investments	92,551	46,293
Decrease (increase) in:		
Accrued interest	561	(1,346)
Accounts receivable	(1,644)	55,948
Grants and contributions receivable	(3,340)	30,350
Pledges receivable	(153,943)	-
Prepaid expenses and other assets	5,635	(8,349)
Decrease in:		
Accounts payable and accrued liabilities	(65,919)	(94,127)
Deferred income	<u>(88)</u>	<u>(51,513)</u>
Net cash provided by operating activities	<u>3,292,345</u>	<u>977,551</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of certificates of deposit	(427,000)	(994,917)
Redemption of certificates of deposit	1,153,000	1,220,000
Purchase of furniture and equipment	(71,859)	(752,982)
Payments for construction in progress	<u>(391,342)</u>	<u>(559,039)</u>
Net cash provided (used) by investing activities	<u>262,799</u>	<u>(1,086,938)</u>
Net increase (decrease) in cash and cash equivalents	3,555,144	(109,387)
Cash and cash equivalents at beginning of year	<u>1,120,499</u>	<u>1,229,886</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR, INCLUDING RESTRICTED CASH OF \$137,993 AND \$151,000 ON DECEMBER 31, 2018 AND 2017, RESPECTIVELY</b>	<b><u>\$ 4,675,643</u></b>	<b><u>\$ 1,120,499</u></b>

**JOSHUA M. FREEMAN FOUNDATION AND FREEMAN ARTS PAVILION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**

Organization

Joshua M. Freeman Foundation (JMFF) is a not-for-profit organization, incorporated in the State of Delaware in 2007. Its mission is to partner to present memorable performances and provide inspired arts education for all. Its current principal activity is presenting a variety of performances at The Freeman Stage, a seasonal, open air performance space at Bayside in Sussex County, Delaware, as well as other indoor performing arts venues throughout the county.

Joshua M. Freeman Foundation established a not-for-profit supporting organization named Friends of the Coastal Arts Pavilion at Freeman Park, Inc. (FOCAP). During 2019, FOCAP'S Board of Directors voted to change its name to Freeman Arts Pavilion, Inc. The primary activity of the supporting organization is the construction, maintenance and ownership of a new larger performing arts venue near the location of the existing facility. The new venue will directly further the mission of Joshua M. Freeman Foundation, expand programming and accommodate larger audiences. Work continues in the design development phase of the project as well as the quiet phase of the fundraising campaign.

The Board of Directors of Joshua M. Freeman Foundation also serves as the Board of Directors of Freeman Arts Pavilion, Inc.

Basis of presentation

The accompanying consolidated financial statements reflect the activity of Joshua M. Freeman Foundation and Freeman Arts Pavilion, Inc. (collectively, "Organization"). The financial statements have been consolidated as Joshua M. Freeman Foundation controls Freeman Arts Pavilion, Inc. All intercompany transactions have been eliminated in consolidation.

The accompanying consolidated financial statements are presented on the accrual basis of accounting, and in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14 *Presentation of Financial Statements for Not-for-Profit Entities*. The ASU was adopted for the year ended December 31, 2018 and applied retrospectively.

Cash and cash equivalents

The Organization considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to the limit of \$250,000. At times during the year, the Organization maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments

Investments are recorded at their readily determinable fair value. Unrealized and realized gains and losses are included in investment income net of investment expenses provided by external investment advisors in the Consolidated Statements of Activities and Changes in Net Assets.

**JOSHUA M. FREEMAN FOUNDATION AND FREEMAN ARTS PAVILION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION  
(Continued)**

Property and equipment

Property and equipment acquisitions in excess of \$5,000 are capitalized and are stated at cost basis. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to ten years.

The cost of maintenance and repairs is recorded as expenses are incurred.

Construction in progress

The Organization records acquisitions of certain long-term assets (including construction costs) as Construction in progress in the Other Assets section in the accompanying Consolidated Statements of Financial Position. At the time such assets are placed in service, they will be transferred into Property and Equipment and will be depreciated over their estimated useful lives.

Income taxes

Joshua M. Freeman Foundation has been recognized as an exempt organization under Section 501 (c)(3) of the Internal Revenue Code effective as of March 7, 2007 and is further classified as a public charity under Section 170(b)(1)(A)(vi). Friends of the Coastal Arts Pavilion at Freeman Park, Inc. (referred to in this report as "Freeman Arts Pavilion, Inc.") has been recognized as an exempt organization under Section 501 (c)(3) of the Internal Revenue Code and is further classified as a public charity under 509(a)(3).

Neither organization is a private foundation.

Uncertain tax positions

For the years ended December 31, 2018 and 2017, the Organization has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the consolidated financial statements.

Net asset classification

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions are recorded as net assets without donor restrictions.
- **Net Assets With Donor Restrictions** - Contributions restricted by donors (or certain grantors) are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

**JOSHUA M. FREEMAN FOUNDATION AND FREEMAN ARTS PAVILION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION  
(Continued)**

Net asset classification (continued)

- **Net Assets With Donor Restrictions (continued)** - All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. As a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statements of Activities and Changes in Net Assets as net assets released from donor restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service.

Revenue recognition

Operating revenue is recorded on an accrual basis and consists of ticket and concession sales from programs that are primarily offered at The Freeman Stage. Fundraising and sponsorship revenue includes charitable contributions and other support and is recognized in the year it is received from the donor.

Contributions and grants received without donor restrictions and with donor restrictions are recorded as revenue in the year notification is received from the donor. Contributions and grants with donor restrictions are recognized as without donor restrictions only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying consolidated financial statements.

Use of estimates

The preparation of the consolidated 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 at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Consolidated Statements of Activities and Changes in Net Assets.

Expenses directly attributed to a specific functional area of the Organization are reported as expenses of those functional areas which include the following:

- Program Services - costs related to the production of performances and arts education
- Fundraising - costs related to all fundraising efforts and activities
- Management and General - costs not directly applicable to program services or fundraising

At year end, certain management and general expenses are allocated to program services and fundraising based on the allocation of the staff's hours worked as recorded on bi-weekly timesheets throughout the year.

**JOSHUA M. FREEMAN FOUNDATION AND FREEMAN ARTS PAVILION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION  
(Continued)**

Functional allocation of expenses (continued)

These specific management and general expenses are allocated since they have been identified as providing support to both the program services and the fundraising departments and include office expenses such as utilities and supplies.

Fair value measurement

The Organization adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. The Organization accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

Reclassification

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation. The reclassifications are primarily due to the adoption of Accounting Standards Update 2016-14, as discussed earlier, which requires two classifications of net assets from the previously presented three classes. Net assets previously classified as of December 31, 2017 as unrestricted net assets in the amount of \$2,113,212 are now classified as without donor restrictions. Net assets previously classified as temporarily restricted net assets in the amount of \$3,321,293 are now classified as net assets with donor restrictions.

New accounting pronouncements (not yet adopted)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The effective date is years beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The Organization has not yet decided on a transition method. The ASU is effective for fiscal years beginning after December 15, 2018.

**JOSHUA M. FREEMAN FOUNDATION AND FREEMAN ARTS PAVILION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION  
(Continued)**

New accounting pronouncements (not yet adopted) (continued)

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the consolidated statement of financial position and disclosing key information about leasing arrangements. The ASU is effective for private entities for years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

The Organization plans to adopt the new ASUs at the respective required implementation dates.

**2. INVESTMENTS**

Investments consisted of the following at December 31, 2018 and 2017:

	<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Stock	\$ 229,042	\$ 419,564	\$ 229,042	\$ 505,228
Certificates of deposit - current	681,708	677,248	1,153,000	1,152,022
Certificates of deposit - noncurrent	<u>602,000</u>	<u>594,987</u>	<u>858,917</u>	<u>853,100</u>
<b>TOTAL INVESTMENTS</b>	<b><u>\$ 1,512,750</u></b>	<b><u>\$ 1,691,799</u></b>	<b><u>\$ 2,240,959</u></b>	<b><u>\$ 2,510,350</u></b>

Included in interest and investment loss, net of fees, are the following during the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 33,765	\$ 25,893
Realized and unrealized loss on investments	<u>(92,551)</u>	<u>(46,293)</u>
<b>TOTAL INTEREST AND INVESTMENT LOSS</b>	<b><u>\$ (58,786)</u></b>	<b><u>\$ (20,400)</u></b>

**3. PLEDGES RECEIVABLE**

The Organization has received written promises to give for the new facility of which \$160,600 remained outstanding as of December 31, 2018. Pledges due in more than one year have been recorded at the present value of the estimated cash flows, using a discount rate of 3.63%.

Pledges are due as follows at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Less than one year	\$ 47,600	\$ -
One to five years	<u>113,000</u>	<u>-</u>
Total pledges receivable	160,600	-
Less: Allowance to discount balance to present value	<u>(6,657)</u>	<u>-</u>
<b>NET PLEDGES RECEIVABLE</b>	<b><u>\$ 153,943</u></b>	<b><u>\$ -</u></b>

**JOSHUA M. FREEMAN FOUNDATION AND FREEMAN ARTS PAVILION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**4. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consisted of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Facility Planning and Development	\$ 6,295,064	\$ 3,099,070
Program Services	<u>236,083</u>	<u>222,223</u>
<b>TOTAL NET ASSETS WITH DONOR RESTRICTIONS</b>	<b><u>\$ 6,531,147</u></b>	<b><u>\$ 3,321,293</u></b>

**5. NET ASSETS RELEASED FROM DONOR RESTRICTIONS**

The following net assets with donor restrictions were released from donor restrictions during the years ended December 31, 2018 and 2017 by incurring expenses which satisfied the restricted purposes specified by the donors:

	<u>2018</u>	<u>2017</u>
Facility Planning and Development	\$ 5,309,650	\$ 1,512,262
Program Services	<u>221,590</u>	<u>233,914</u>
<b>TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS</b>	<b><u>\$ 5,531,240</u></b>	<b><u>\$ 1,746,176</u></b>

**6. AVAILABILITY OF FINANCIAL ASSETS (LIQUIDITY)**

Financial assets available for use within one year of the consolidated statement of financial position for general expenditures comprise the following as of December 31, 2018 :

	<b>Joshua M. Freeman Foundation</b>	<b>Freeman Arts Pavilion, Inc.</b>	<b>Total</b>
Cash and cash equivalents	\$ 890,977	\$ 3,646,673	\$ 4,537,650
Investments, net of noncurrent portion	419,564	677,248	1,096,812
Accrued interest	-	4,017	4,017
Accounts receivable	1,644	-	1,644
Grants and contributions receivable	94,140	-	94,140
Pledges receivable, net of noncurrent portion	47,600	-	47,600
Due from JMFF	<u>(57,000)</u>	<u>57,000</u>	<u>-</u>
Total financial assets available within one year	1,396,925	4,384,938	5,781,863
Less: Amounts unavailable for general expenditures within one year due to donor restrictions	<u>(201,178)</u>	<u>(5,087,925)</u>	<u>(5,289,103)</u>
<b>FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR</b>	<b><u>\$ 1,195,747</u></b>	<b><u>\$ (702,987)</u></b>	<b><u>\$ 492,760</u></b>



**JOSHUA M. FREEMAN FOUNDATION AND FREEMAN ARTS PAVILION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**6. AVAILABILITY OF FINANCIAL ASSETS (LIQUIDITY) (Continued)**

The Organization has a policy to structure its financial assets to be available and liquid as its obligations become due. As of December 31, 2018, JMFF has financial assets equal to approximately three months of operating expenses. The donor restricted contributions for the Freeman Arts Pavilion, Inc. are available to fund the design and construction of the new venue, and are being invested to create liquidity as the capital expenditures are incurred.

**7. RETIREMENT PLAN**

The Organization provides retirement benefits to its employees through a defined contribution plan covering all full-time employees after six months of employment. Contributions to the plan during the years ended December 31, 2018 and 2017 totaled \$20,667 and \$17,907, respectively.

**8. RELATED PARTY ACTIVITIES**

Michelle Freeman, Chairman of the Board of the Organizations, as well as majority owner and Chairman of Carl M. Freeman Associates, Inc. (CMFA), a for-profit corporation controlled by the Freeman family, contributed \$55,224 and \$61,805 to the Organization during 2018 and 2017, respectively.

Included in these contributions were in-kind donations of \$24,494 and \$30,602 during 2018 and 2017, respectively, for items used for the Organization's fundraising events, as discussed further in Note 9.

In both 2018 and 2017, CMFA provided to the Organization, at no cost, a golf course for a fundraising event valued at \$7,500 each year. In addition, CMFA has a program to match its employee charitable donations up to \$1,000 per employee per year. As part of this program, CMFA donated \$130 to the Organization during the years ended December 31, 2018 and 2017, respectively.

The Organization receives annual support from the Carl M. Freeman Foundation, Inc. (CMFF), a 501(c)(3) private foundation. Two-thirds of the CMFF Trustees also serve as Directors of the Organization. During the years ended December 31, 2018 and 2017, the Organization received grants of \$125,000 and \$653,000 respectively.

All of the Organization's employees are deemed to be co-employed by either the Organization and TriNet (a Professional Employer Organization) or CMFF and TriNet. The Organization shares in the cost with CMFF of those employees that provide services to both the Organization and CMFF. In addition, certain CMFA employees provide support services to the Organization. All personnel services are purchased by the Organization at cost.

During the years ended December 31, 2018 and 2017, the Organization incurred the following:

	<u>2018</u>	<u>2017</u>
Shared Personnel Services - CMFA	\$ 6,459	\$ 11,506
Shared Personnel Services - CMFF	\$ 466,801	\$ 488,118

**JOSHUA M. FREEMAN FOUNDATION AND FREEMAN ARTS PAVILION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**8. RELATED PARTY ACTIVITIES (Continued)**

Amounts due to CMFA and CMFF as of December 31, 2018 and 2017 are as follows and are included in accounts payable and accrued liabilities on the Consolidated Statements of Financial Position:

	<u>2018</u>	<u>2017</u>
Due to CMFA: Shared Personnel Services	\$ -	\$ 1,271
Due to CMFA: Miscellaneous Expenses	\$ -	\$ 7,558

**9. IN-KIND CONTRIBUTIONS**

The Organization receives donations of auction items for its fundraising events as well as in-kind donations of advertising space and other goods and services. The values of such items are recorded as contributions at their actual sales price or retail value, respectively. Further, as discussed in Note 8, the Organization recorded a contribution from CMFA for use of its golf course at the estimated market value for use of this facility.

The total value of these in-kind contributions has been recognized as income and expense in the accompanying consolidated financial statements during the years ended December 31, 2018 and 2017, totaling \$180,628 and \$186,639, respectively.

**10. FAIR VALUE MEASUREMENT**

In accordance with FASB ASC 820, *Fair Value Measurement*, the Organization has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Consolidated Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

**Level 1.** These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Organization has the ability to access.

**Level 2.** These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

**Level 3.** These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used or transfers between levels as of December 31, 2018 and 2017.

- *Common Stocks/Equities* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *Certificates of Deposit* - Generally valued at original cost plus accrued interest, which approximates fair value.

**JOSHUA M. FREEMAN FOUNDATION AND FREEMAN ARTS PAVILION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**10. FAIR VALUE MEASUREMENT (Continued)**

The table below summarizes, by level within the fair value hierarchy, the Organization's investments as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Asset Class:</b>				
Investments - Stocks	\$ 419,564	\$ -	\$ -	\$ 419,564
Investments - Certificates of Deposit	<u>-</u>	<u>1,272,235</u>	<u>-</u>	<u>1,272,235</u>
<b>TOTAL</b>	<b><u>\$ 419,564</u></b>	<b><u>\$ 1,272,235</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,691,799</u></b>

The table below summarizes, by level within the fair value hierarchy, the Organization's investments as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Asset Class:</b>				
Investments - Stocks	\$ 505,228	\$ -	\$ -	\$ 505,228
Investments - Certificates of Deposit	<u>-</u>	<u>2,005,122</u>	<u>-</u>	<u>2,005,122</u>
<b>TOTAL</b>	<b><u>\$ 505,228</u></b>	<b><u>\$ 2,005,122</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,510,350</u></b>

**11. COMMITMENTS**

In August 2009, the Organization entered into a lease agreement with CMFF for use of certain land, buildings and improvements in Sussex County, DE owned by CMFF. The Organization uses this real property for its programming at The Freeman Stage. Under this agreement, all rent has been waived; however, the Organization is obligated to pay for all operating and necessary maintenance expenses. The agreement, originally scheduled to expire in August 2012, has been extended on the same terms through December 2019.

In May 2011, the Organization entered into a lease agreement with a subsidiary of CMFA (Sussex Sports Amenities, L.L.C.) for use of land adjacent to the property leased from CMFF as described above. Under this agreement, all rent has been waived; however, the Organization is obligated to pay for all operating and necessary maintenance expenses, excluding real estate taxes which are paid by Sussex Sports Amenities, L.L.C. The agreement expired in September 2017 and was extended to September 2020.

In May 2014, the Organization entered into lease agreements with another subsidiary of CMFA (CMF Bayside L.L.C.) for use of land located on Lake View Drive, adjacent to The Freeman Stage and land located behind the former post office. Under these agreements, all rent has been waived; however, the Organization is obligated to pay all operating and necessary maintenance expenses, excluding real estate taxes, which are paid by CMF Bayside L.L.C. The agreements expired in September 2017 and were extended to September 2020.

**12. SUBSEQUENT EVENTS**

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through August 8, 2019, the date the consolidated financial statements were issued.

**SUPPLEMENTAL INFORMATION**

## JOSHUA M. FREEMAN FOUNDATION AND FREEMAN ARTS PAVILION, INC.

**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2018**

<b>ASSETS</b>				
	<b>JMFF</b>	<b>Freeman Arts Pavilion</b>	<b>Eliminations</b>	<b>Total</b>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 890,977	\$ 3,646,673	\$ -	\$ 4,537,650
Investments, net of noncurrent portion	419,564	677,248	-	1,096,812
Accrued interest	-	4,017	-	4,017
Accounts receivable	1,644	-	-	1,644
Grants and contributions receivable	94,140	-	-	94,140
Pledges receivable, net of noncurrent portion	47,600	-	-	47,600
Due from JMFF	-	57,000	(57,000)	-
Prepaid expenses and other assets	6,120	-	-	6,120
Total current assets	<u>1,460,045</u>	<u>4,384,938</u>	<u>(57,000)</u>	<u>5,787,983</u>
<b>PROPERTY AND EQUIPMENT</b>				
Furniture and equipment	1,631,086	-	-	1,631,086
Signage	98,564	-	-	98,564
Vehicles	9,946	-	-	9,946
	<u>1,739,596</u>	<u>-</u>	<u>-</u>	<u>1,739,596</u>
Less: Accumulated depreciation and amortization	(762,311)	-	-	(762,311)
Net property and equipment	<u>977,285</u>	<u>-</u>	<u>-</u>	<u>977,285</u>
<b>NONCURRENT AND OTHER ASSETS</b>				
Restricted cash	137,993	-	-	137,993
Investments, net of current portion	-	594,987	-	594,987
Pledges receivable, net of current portion	106,343	-	-	106,343
Due from JMFF, net of current portion	-	106,343	(106,343)	-
Construction in progress	-	1,104,051	-	1,104,051
Total noncurrent assets and other assets	<u>244,336</u>	<u>1,805,381</u>	<u>(106,343)</u>	<u>1,943,374</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 2,681,666</b></u>	<u><b>\$ 6,190,319</b></u>	<u><b>\$ (163,343)</b></u>	<u><b>\$ 8,708,642</b></u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 74,871	\$ 1,711	\$ -	\$ 76,582
Due to Freeman Arts Pavilion, Inc.	57,000	-	(57,000)	-
Deferred income	1,802	-	-	1,802
Total current liabilities	<u>133,673</u>	<u>1,711</u>	<u>(57,000)</u>	<u>78,384</u>
<b>NONCURRENT LIABILITIES</b>				
Due to Freeman Arts Pavilion, Inc.	<u>106,343</u>	<u>-</u>	<u>(106,343)</u>	<u>-</u>
<b>NET ASSETS</b>				
Without donor restrictions	2,102,479	(3,368)	-	2,099,111
With donor restrictions	339,171	6,191,976	-	6,531,147
Total net assets	<u>2,441,650</u>	<u>6,188,608</u>	<u>-</u>	<u>8,630,258</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 2,681,666</b></u>	<u><b>\$ 6,190,319</b></u>	<u><b>\$ (163,343)</b></u>	<u><b>\$ 8,708,642</b></u>