

**COMBINED FINANCIAL STATEMENTS**

**JOSHUA M. FREEMAN FOUNDATION AND  
FRIENDS OF THE COASTAL ARTS PAVILION AT  
FREEMAN PARK, INC.**

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

**JOSHUA M. FREEMAN FOUNDATION AND  
FRIENDS OF THE COASTAL ARTS PAVILION AT FREEMAN PARK, INC.**

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# GELMAN, ROSENBERG

## & FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



### INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying combined financial statements of Joshua M. Freeman Foundation and Friends of the Coastal Arts Pavilion at Freeman Park, Inc. (collectively, JMFF), which comprise the combined statements of financial position as of December 31, 2016 and 2015, and the related combined statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the combined financial statements.

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

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of JMFF as of December 31, 2016 and 2015, and the combined changes in its net assets and its combined cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

October 27, 2017

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

**JOSHUA M. FREEMAN FOUNDATION AND  
FRIENDS OF THE COASTAL ARTS PAVILION AT FREEMAN PARK, INC.**

**COMBINED STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2016 AND 2015**

<b>ASSETS</b>		<u>2016</u>	<u>2015</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$	1,229,886	\$ 994,516
Investments, net of noncurrent portion		1,731,706	1,372,680
Accrued interest		3,232	4,867
Accounts receivable		55,948	195
Grants and contributions receivable		121,150	117,100
Prepaid expenses and other assets		<u>3,406</u>	<u>9,390</u>
Total current assets		<u>3,145,328</u>	<u>2,498,748</u>
<b>PROPERTY AND EQUIPMENT</b>			
Furniture and equipment		551,095	275,698
Signage		99,834	99,834
Vehicles		<u>9,946</u>	<u>9,946</u>
		660,875	385,478
Less: Accumulated depreciation and amortization		<u>(355,631)</u>	<u>(245,064)</u>
Net property and equipment		<u>305,244</u>	<u>140,414</u>
<b>NONCURRENT ASSETS</b>			
Investments, net of current portion		1,017,776	1,870,824
Construction in progress		<u>407,549</u>	<u>-</u>
Total noncurrent assets		<u>1,425,325</u>	<u>1,870,824</u>
<b>TOTAL ASSETS</b>		<b><u>\$ 4,875,897</u></b>	<b><u>\$ 4,509,986</u></b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities	\$	236,627	\$ 68,215
Deferred income		<u>53,403</u>	<u>22,747</u>
Total current liabilities		<u>290,030</u>	<u>90,962</u>
<b>NET ASSETS</b>			
Unrestricted		1,432,078	1,295,622
Temporarily restricted		<u>3,153,789</u>	<u>3,123,402</u>
Total net assets		<u>4,585,867</u>	<u>4,419,024</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b><u>\$ 4,875,897</u></b>	<b><u>\$ 4,509,986</u></b>

See accompanying notes to combined financial statements.

**JOSHUA M. FREEMAN FOUNDATION AND  
FRIENDS OF THE COASTAL ARTS PAVILION AT FREEMAN PARK, INC.**

**COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<b>2016</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>SUPPORT AND REVENUE</b>			
Operating revenue, net of cost of goods sold of \$81,986 in 2016 and \$74,739 in 2015	\$ 1,936,196	\$ -	\$ 1,936,196
Fundraising and sponsorships, net of cost of auction items of \$75,063 in 2016 and \$75,041 in 2015	1,338,589	-	1,338,589
Grants - Government, corporate foundations, other	22,500	223,400	245,900
Interest and investment income	86,580	34,478	121,058
Net assets released from donor restrictions	227,491	(227,491)	-
Total support and revenue	3,611,356	30,387	3,641,743
<b>EXPENSES</b>			
Program Services	2,797,485	-	2,797,485
Management and General	132,381	-	132,381
Fundraising	545,034	-	545,034
Total expenses	3,474,900	-	3,474,900
Changes in net assets	136,456	30,387	166,843
Net assets at beginning of year	1,295,622	3,123,402	4,419,024
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 1,432,078</b>	<b>\$ 3,153,789</b>	<b>\$ 4,585,867</b>

<b>2015</b>		
<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
\$ 1,573,554	\$ -	\$ 1,573,554
1,058,811	-	1,058,811
16,500	299,000	315,500
105,228	5,523	110,751
<u>301,058</u>	<u>(301,058)</u>	<u>-</u>
<u>3,055,151</u>	<u>3,465</u>	<u>3,058,616</u>
2,365,804	-	2,365,804
126,235	-	126,235
<u>452,065</u>	<u>-</u>	<u>452,065</u>
<u>2,944,104</u>	<u>-</u>	<u>2,944,104</u>
111,047	3,465	114,512
<u>1,184,575</u>	<u>3,119,937</u>	<u>4,304,512</u>
<b><u>\$ 1,295,622</u></b>	<b><u>\$ 3,123,402</u></b>	<b><u>\$ 4,419,024</u></b>

**JOSHUA M. FREEMAN FOUNDATION AND  
FRIENDS OF THE COASTAL ARTS PAVILION AT FREEMAN PARK, INC.**

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total Expenses</b>
Productions	\$ 1,736,389	\$ -	\$ -	\$ 1,736,389
Personnel	532,695	89,876	196,092	818,663
Events and activities	-	-	220,890	220,890
Design and print	37,557	-	13,197	50,754
Promotional costs	120,614	-	28	120,642
Professional fees	9,208	3,803	66,762	79,773
Insurance	61,164	890	3,602	65,656
Training and travel	31,047	5,695	5,289	42,031
Postage and delivery	1,708	876	4,277	6,861
Facility expenses	108,922	911	2,685	112,518
Bank, credit card and ticket processing fees	37,711	702	21,520	59,933
Accounting and audit	-	22,511	-	22,511
Depreciation and amortization	102,253	2,862	5,452	110,567
Telecommunications	11,593	1,280	2,794	15,667
Office expense	6,624	2,975	2,446	12,045
<b>TOTAL</b>	<b><u>\$ 2,797,485</u></b>	<b><u>\$ 132,381</u></b>	<b><u>\$ 545,034</u></b>	<b><u>\$ 3,474,900</u></b>

**JOSHUA M. FREEMAN FOUNDATION AND  
FRIENDS OF THE COASTAL ARTS PAVILION AT FREEMAN PARK, INC.**

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total Expenses</b>
Productions	\$ 1,531,590	\$ -	\$ -	\$ 1,531,590
Personnel	406,376	80,538	88,596	575,510
Events and activities	-	-	185,724	185,724
Design and print	36,162	-	9,777	45,939
Promotional costs	105,000	-	2,328	107,328
Professional fees	14,043	7,465	137,455	158,963
Insurance	40,787	890	455	42,132
Training and travel	26,775	10,859	1,904	39,538
Postage and delivery	1,953	567	2,398	4,918
Facility expenses	84,054	610	776	85,440
Bank, credit card and ticket processing fees	32,410	572	15,625	48,607
Accounting and audit	-	20,081	-	20,081
Depreciation and amortization	74,550	875	5,091	80,516
Telecommunications	8,143	975	1,072	10,190
Office expense	3,961	2,803	864	7,628
<b>TOTAL</b>	<b><u>\$ 2,365,804</u></b>	<b><u>\$ 126,235</u></b>	<b><u>\$ 452,065</u></b>	<b><u>\$ 2,944,104</u></b>



**JOSHUA M. FREEMAN FOUNDATION AND  
FRIENDS OF THE COASTAL ARTS PAVILION AT FREEMAN PARK, INC.**

**COMBINED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 166,843	\$ 114,512
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	110,567	80,516
Stock donations	(59,466)	(33,107)
Unrealized gain on investments	(96,512)	(92,070)
(Increase) decrease in:		
Accrued interest	1,635	(4,867)
Accounts receivable	(55,753)	-
Grants and contributions receivable	(4,050)	(20,330)
Prepaid expenses and other assets	5,984	(5,598)
Increase (decrease) in:		
Accounts payable and accrued liabilities	168,412	19,908
Deferred income	<u>30,656</u>	<u>(3,723)</u>
Net cash provided by operating activities	<u>268,316</u>	<u>55,241</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(355,000)	(3,112,000)
Redemption of certificates of deposit	1,005,000	225,000
Purchase of furniture and equipment	(275,397)	(68,341)
Payments for construction in progress	<u>(407,549)</u>	<u>-</u>
Net cash used by investing activities	<u>(32,946)</u>	<u>(2,955,341)</u>
Net increase (decrease) in cash and cash equivalents	235,370	(2,900,100)
Cash and cash equivalents at beginning of year	<u>994,516</u>	<u>3,894,616</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 1,229,886</u></b>	<b><u>\$ 994,516</u></b>

**JOSHUA M. FREEMAN FOUNDATION AND  
FRIENDS OF THE COASTAL ARTS PAVILION AT FREEMAN PARK, INC.**

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

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

Organization

Joshua M. Freeman Foundation 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 at Bayside", an outdoor facility in Sussex County, Delaware, as well as other indoor performing arts venues throughout the county.

In December 2015, Joshua M. Freeman Foundation submitted an Application to the IRS to establish a not-for-profit supporting organization named "Friends of the Coastal Arts Pavilion at Freeman Park, Inc." The primary activity of the supporting organization will be the construction, maintenance and ownership of a new larger performing arts venue near the location of the existing facility. The new facility will directly further the mission of Joshua M. Freeman Foundation and expand programming and accommodate larger audiences. IRS approval of the not-for-profit status of the supporting organization was received on February 16, 2016. Preliminary design work for the new facility began in 2016.

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

Basis of presentation

The accompanying combined financial statements reflect the activity of Joshua M. Freeman Foundation and Friends of Coastal Arts Pavilion at Freeman Park, Inc. (collectively, JMFF). The financial statements have been combined because the organizations are under common control. All intercompany transactions have been eliminated in combination.

The accompanying combined financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958-810, *Not-for-Profit Entities, Consolidation*. The combined financial statements are available at JMFF's headquarters.

Cash and cash equivalents

JMFF 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, JMFF 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 fair value. Unrealized and realized gains and losses are included in investment income in the Combined Statements of Activities and Changes in Net Assets.

Property and equipment

Property and equipment acquisitions in excess of \$2,500 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 five years. The cost of maintenance and repairs is recorded as expenses are incurred.

**JOSHUA M. FREEMAN FOUNDATION AND  
FRIENDS OF THE COASTAL ARTS PAVILION AT FREEMAN PARK, INC.**

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

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

Property and equipment (continued)

JMFF records the cost of constructing long-term assets in construction in progress on the Combined Statements of Financial Position.

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 Pavilion at Freeman Park, Inc. has been recognized as an exempt organization under Section 501 (c)(3) of the Internal Revenue Code effective as of February 16, 2016 and is further classified as a public charity under 509(a)(3).

Neither organization is a private foundation. Accordingly, no provision for income taxes as been made in the accompanying combined financial statements.

Uncertain tax positions

For the years ended December 31, 2016 and 2015, JMFF and its supporting organization has documented their 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 combined financial statements.

Net asset classification

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of JMFF and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of JMFF and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Combined Statements of Activities and Changes in Net Assets as net assets released from restrictions.

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 at Bayside. Fundraising and sponsorship revenue includes charitable contributions and other support; such revenue is recognized in the year it is received from the donor.

Contributions and grants revenue

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor.

**JOSHUA M. FREEMAN FOUNDATION AND  
FRIENDS OF THE COASTAL ARTS PAVILION AT FREEMAN PARK, INC.**

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

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

Contributions and grants revenue (continued)

Temporarily restricted contributions and grants are recognized as unrestricted support 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 temporarily restricted net assets in the accompanying combined financial statements.

Use of estimates

The preparation of the combined 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 combined 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 Combined Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassification

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

Fair value measurement

JMFF 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. JMFF accounts for a portion of its financial instruments at fair value or considers fair value in their measurement.

**2. INVESTMENTS**

Investments consisted of the following at December 31, 2016 and 2015:

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Stock	\$ 196,798	\$ 511,455	\$ 137,332	\$ 368,254
Certificates of deposit - current	1,220,000	1,220,250	1,005,000	1,004,424
Certificates of deposit - noncurrent	<u>1,017,000</u>	<u>1,017,777</u>	<u>1,882,000</u>	<u>1,870,826</u>
<b>TOTAL INVESTMENTS</b>	<b><u>\$ 2,433,798</u></b>	<b><u>\$ 2,749,482</u></b>	<b><u>\$ 3,024,332</u></b>	<b><u>\$ 3,243,504</u></b>

**JOSHUA M. FREEMAN FOUNDATION AND  
FRIENDS OF THE COASTAL ARTS PAVILION AT FREEMAN PARK, INC.**

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**2. INVESTMENTS (Continued)**

Included in interest and investment income are the following at December 31, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Interest and dividends	\$ 24,546	\$ 18,681
Unrealized gain on investments	96,512	92,070
<b>TOTAL INTEREST AND INVESTMENT INCOME</b>	<b>\$ 121,058</b>	<b>\$ 110,751</b>

**3. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following at December 31, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Delaware Division of the Arts - Operating Grants	\$ 179,000	\$ 186,800
Delaware Division of the Arts - Education Resource Grants	11,000	12,200
Sussex County Council - Transportation Grant	10,000	12,546
USDA - Facility Planning and Development Grant	9,387	15,000
State of Delaware - Facility Planning and Development Grant	-	6,332
Sysco Eastern Maryland	18,400	-
Capital Campaign	1,000	-
Carl M. Freeman Foundation - Facility Planning and Development Grant	2,925,002	2,890,524
<b>TOTAL TEMPORARILY RESTRICTED NET ASSETS</b>	<b>\$ 3,153,789</b>	<b>\$ 3,123,402</b>

**4. NET ASSETS RELEASED FROM RESTRICTIONS**

The following temporarily restricted net assets were released from donor restrictions during the years ended December 31, 2016 and 2015 by incurring expenses which satisfied the restricted purposes specified by the donors:

	<b>2016</b>	<b>2015</b>
Delaware Division of the Arts - Operating Grants	\$ 186,800	\$ 170,500
Delaware Division of the Arts - Education Resource Grants	12,200	14,750
Delaware Division of the Arts - Arts Stabilization	-	12,500
Sussex County Council - Transportation Grant	12,546	7,454
Mid Atlantic Arts Foundation	-	8,000
M&T Charitable Foundation	4,000	-
USDA - Facility Planning and Development Grant	5,613	-
State of Delaware - Facility Planning and Development Grant	6,332	87,854
<b>TOTAL NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b>\$ 227,491</b>	<b>\$ 301,058</b>

**JOSHUA M. FREEMAN FOUNDATION AND  
FRIENDS OF THE COASTAL ARTS PAVILION AT FREEMAN PARK, INC.**

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**5. RELATED PARTY ACTIVITIES**

Michelle Freeman, Chairman of the Board of JMFF, as well as majority owner and Chairman of Carl M. Freeman Associates, Inc. (CMFA), a for-profit corporation controlled by the Freeman family, contributed \$45,612 and \$46,030 to JMFF during 2016 and 2015, respectively.

Included in these contributions were in-kind donations of \$22,319 and \$23,795 during 2016 and 2015, respectively, for items used for JMFF's fundraising events, as discussed further in Note 6.

In both 2016 and 2015, CMFA provided to JMFF, 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 and \$135 to JMFF during the years ended December 31, 2016 and 2015, respectively.

JMFF receives annual support from the Carl M. Freeman Foundation, Inc. (CMFF), a 501(c)(3) private foundation whose Trustees also serve as Directors of JMFF. Michelle Freeman controls CMFF and is the principle sponsor of CMFF. During the years ended the years ended December 31, 2016 and 2015, JMFF received \$3,700 and \$4,000 respectively from CMFF.

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

During the years ended December 31, 2016 and 2015, JMFF incurred the following:

	<b>2016</b>	<b>2015</b>
Shared Personnel Services - CMFA	\$ 11,372	\$ 10,976
Shared Personnel Services - CMFF	\$ 467,776	\$ 376,168

Amounts due to CMFA and CMFF as of December 31, 2016 and 2015 are as follows and are included in accounts payable and accrued liabilities on the Combined Statements of Financial Position:

	<b>2016</b>	<b>2015</b>
Due to CMFA: Shared Personnel Services	\$ 619	\$ 562
Due to CMFA: Miscellaneous Expenses	\$ -	\$ 2
Due to CMFF: Miscellaneous Expenses	\$ -	\$ 49

**6. IN-KIND CONTRIBUTIONS**

JMFF 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 5, JMFF 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 combined financial statements during the years ended December 31, 2016 and 2015, totaling \$193,697 and \$199,877, respectively.

**JOSHUA M. FREEMAN FOUNDATION AND  
FRIENDS OF THE COASTAL ARTS PAVILION AT FREEMAN PARK, INC.**

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**7. FAIR VALUE MEASUREMENT**

In accordance with FASB ASC 820, *Fair Value Measurement*, JMFF 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 Combined 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 JMFF 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 at December 31, 2016 and 2015.

- *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.

The table below summarizes, by level within the fair value hierarchy, JMFF's investments as of December 31, 2016:

	<b>2016</b>			
<b>Asset Class:</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investments - Stocks	\$ 511,455	\$ -	\$ -	\$ 511,455
Investments - Certificates of Deposit	-	<u>2,238,027</u>	-	<u>2,238,027</u>
<b>TOTAL</b>	<b><u>\$ 511,455</u></b>	<b><u>\$ 2,238,027</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,749,482</u></b>

The table below summarizes, by level within the fair value hierarchy, JMFF's investments as of December 31, 2015:

	<b>2015</b>			
<b>Asset Class:</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investments - Stocks	\$ 368,254	\$ -	\$ -	\$ 368,254
Investments - Certificates of Deposit	-	<u>2,875,250</u>	-	<u>2,875,250</u>
<b>TOTAL</b>	<b><u>\$ 368,254</u></b>	<b><u>\$ 2,875,250</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 3,243,504</u></b>

**JOSHUA M. FREEMAN FOUNDATION AND  
FRIENDS OF THE COASTAL ARTS PAVILION AT FREEMAN PARK, INC.**

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**8. COMMITMENTS**

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

In May 2011, JMFF 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, JMFF 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, JMFF 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 at Bayside and land located behind the post office. Under these agreements, all rent has been waived; however, JMFF 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.

**9. SUBSEQUENT EVENTS**

In preparing these combined financial statements, JMFF has evaluated events and transactions for potential recognition or disclosure through October 27, 2017, the date the combined financial statements were issued.