

CONSOLIDATED FINANCIAL STATEMENTS

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

**FOR THE YEARS ENDED
DECEMBER 31, 2020 AND 2019**

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

CONTENTS

	PAGE NO.
Independent Auditor's Report	2 - 3
Consolidated Statements of Financial Position, as of December 31, 2020 and 2019	4
Consolidated Statements of Activities and Changes in Net Assets, for the Years Ended December 31, 2020 and 2019	5 - 6
Consolidated Statement of Functional Expenses, for the Year Ended December 31, 2020	7
Consolidated Statement of Functional Expenses, for the Year Ended December 31, 2019	8
Consolidated Statements of Cash Flows, for the Years Ended December 31, 2020 and 2019	9
Notes to Consolidated Financial Statements	10 - 19
SUPPLEMENTAL INFORMATION	
SCHEDULE 1 - Consolidating Schedule of Financial Position, as of December 31, 2020	20



CPAs & ADVISORS

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, 2020 and 2019, 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, 2020 and 2019, and the consolidated changes in its net assets, functional expenses and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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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 20 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".

April 22, 2021

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2020 AND 2019**

ASSETS

	<u>2020</u>	<u>2019</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,934,963	\$ 3,887,961
Investments, net of noncurrent portion	2,441,647	802,530
Accrued interest	858	1,980
Due from related parties	8,589	-
Grants and contributions receivable	116,547	106,745
Pledges receivable, net of noncurrent portion	519,500	356,500
Prepaid expenses and other assets	<u>17,404</u>	<u>5,303</u>
Total current assets	<u>10,039,508</u>	<u>5,161,019</u>
FIXED ASSETS		
Land	1,257,500	-
Furniture and equipment	1,648,893	1,646,393
Signage	98,564	98,564
Vehicles	<u>9,946</u>	<u>9,946</u>
	3,014,903	1,754,903
Less: Accumulated depreciation and amortization	<u>(1,144,782)</u>	<u>(963,541)</u>
Net fixed assets	<u>1,870,121</u>	<u>791,362</u>
NONCURRENT AND OTHER ASSETS		
Restricted cash	148,132	141,973
Investments, net of current portion	-	2,653,315
Pledges receivable, net of current portion	564,818	826,090
Construction in progress	<u>1,976,891</u>	<u>1,277,261</u>
Total noncurrent and other assets	<u>2,689,841</u>	<u>4,898,639</u>
TOTAL ASSETS	<u>\$ 14,599,470</u>	<u>\$ 10,851,020</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 117,694	\$ 84,953
Deferred income	400	928
Refundable advances	<u>115,000</u>	<u>15,000</u>
Total liabilities	<u>233,094</u>	<u>100,881</u>
NET ASSETS		
Without donor restrictions	2,678,002	2,223,258
With donor restrictions	<u>11,688,374</u>	<u>8,526,881</u>
Total net assets	<u>14,366,376</u>	<u>10,750,139</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,599,470</u>	<u>\$ 10,851,020</u>

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, 2020 AND 2019**

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Operating revenue, net of cost of goods sold of \$20,506 in 2020 and \$149,137 in 2019	\$ 334,697	\$ -	\$ 334,697
Fundraising and sponsorships, net of cost of auction items of \$5,210 in 2020 and \$69,286 in 2019	1,297,737	-	1,297,737
Grants and pledges - Government, corporate, foundations and other	57,460	3,342,478	3,399,938
Contribution of land	370,000	-	370,000
Interest and investment (loss) gain, net	(65,090)	57,864	(7,226)
Net assets released from donor restrictions	<u>238,849</u>	<u>(238,849)</u>	<u>-</u>
Total support and revenue	<u>2,233,653</u>	<u>3,161,493</u>	<u>5,395,146</u>
EXPENSES			
Program Services	1,339,076	-	1,339,076
Management and General	198,713	-	198,713
Fundraising	<u>421,607</u>	<u>-</u>	<u>421,607</u>
Total expenses	<u>1,959,396</u>	<u>-</u>	<u>1,959,396</u>
Changes in net assets before other items	<u>274,257</u>	<u>3,161,493</u>	<u>3,435,750</u>
OTHER ITEMS			
Extinguishment of debt	180,487	-	180,487
Net assets transfer	<u>-</u>	<u>-</u>	<u>-</u>
Total other items	<u>180,487</u>	<u>-</u>	<u>180,487</u>
Changes in net assets after other items	454,744	3,161,493	3,616,237
Net assets at beginning of year	<u>2,223,258</u>	<u>8,526,881</u>	<u>10,750,139</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,678,002</u>	<u>\$ 11,688,374</u>	<u>\$ 14,366,376</u>

2019		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 3,328,400	\$ -	\$ 3,328,400
1,626,683	-	1,626,683
31,500	1,826,264	1,857,764
-	-	-
10,662	111,775	122,437
<u>242,305</u>	<u>(242,305)</u>	<u>-</u>
<u>5,239,550</u>	<u>1,695,734</u>	<u>6,935,284</u>
4,034,153	-	4,034,153
249,639	-	249,639
<u>531,611</u>	<u>-</u>	<u>531,611</u>
<u>4,815,403</u>	<u>-</u>	<u>4,815,403</u>
<u>424,147</u>	<u>1,695,734</u>	<u>2,119,881</u>
-	-	-
<u>(300,000)</u>	<u>300,000</u>	<u>-</u>
<u>(300,000)</u>	<u>300,000</u>	<u>-</u>
124,147	1,995,734	2,119,881
<u>2,099,111</u>	<u>6,531,147</u>	<u>8,630,258</u>
<u>\$ 2,223,258</u>	<u>\$ 8,526,881</u>	<u>\$ 10,750,139</u>

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

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Program Services	Management and General	Fundraising	Total Expenses
Productions	\$ 281,396	\$ -	\$ -	\$ 281,396
Personnel	644,387	148,705	198,273	991,365
Events and activities	-	-	130,075	130,075
Design and print	4,976	-	6,638	11,614
Promotional costs	5,732	-	-	5,732
Professional fees	58,878	1,925	54,556	115,359
Insurance	34,085	1,036	739	35,860
Training and travel	6,043	3,638	2,504	12,185
Postage and delivery	1,030	250	1,670	2,950
Facility expenses	124,160	4,742	6,435	135,337
Bank, credit card and ticket processing fees	3,420	1,284	20,812	25,516
Accounting and audit	-	29,627	-	29,627
Depreciation and amortization	179,307	-	1,934	181,241
Telecommunications	9,938	1,040	1,412	12,390
Office expense	6,230	6,466	1,769	14,465
Subtotal	1,359,582	198,713	426,817	1,985,112
Less: Cost of sales	(20,506)	-	-	(20,506)
Less: Cost of auction items	-	-	(5,210)	(5,210)
TOTAL	<u>\$ 1,339,076</u>	<u>\$ 198,713</u>	<u>\$ 421,607</u>	<u>\$ 1,959,396</u>

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

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Program Services	Management and General	Fundraising	Total Expenses
Productions	\$ 2,609,006	\$ -	\$ -	\$ 2,609,006
Personnel	743,693	154,648	164,533	1,062,874
Events and activities	-	-	297,029	297,029
Design and print	31,963	-	15,862	47,825
Promotional costs	95,179	-	125	95,304
Professional fees	69,671	15,536	77,389	162,596
Insurance	93,023	1,026	6,525	100,574
Training and travel	24,789	10,463	4,524	39,776
Postage and delivery	2,175	290	3,843	6,308
Facility expenses	289,198	19,323	1,805	310,326
Bank, credit card and ticket processing fees	7,792	1,502	23,469	32,763
Accounting and audit	-	35,914	-	35,914
Depreciation and amortization	199,156	400	2,473	202,029
Telecommunications	10,451	1,394	1,580	13,425
Office expense	7,194	9,143	1,740	18,077
Subtotal	4,183,290	249,639	600,897	5,033,826
Less: Cost of sales	(149,137)	-	-	(149,137)
Less: Cost of auction items	-	-	(69,286)	(69,286)
TOTAL	<u>\$ 4,034,153</u>	<u>\$ 249,639</u>	<u>\$ 531,611</u>	<u>\$ 4,815,403</u>

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 3,616,237	\$ 2,119,881
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	181,241	202,029
Realized and unrealized loss (gain) on investments	87,522	(41,369)
Loss on disposal of furniture and equipment	-	3,324
Extinguishment of debt	(180,487)	-
Donated land	(370,000)	-
Change in discount on noncurrent pledges receivable	(37,228)	38,753
Decrease (increase) in:		
Accrued interest	1,122	2,037
Due from related parties	(8,589)	1,644
Grants and contributions receivable	(9,802)	(12,605)
Pledges receivable	135,500	(1,067,400)
Prepaid expenses and other assets	(12,101)	817
Increase (decrease) in:		
Accounts payable and accrued liabilities	32,741	8,372
Deferred income	(528)	(874)
Refundable advances	<u>100,000</u>	<u>15,000</u>
Net cash provided by operating activities	<u>3,535,628</u>	<u>1,269,609</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	-	(2,502,677)
Sales of investments and redemption of certificates of deposit	926,676	780,000
Purchase of land	(887,500)	-
Purchase of furniture and equipment	(2,500)	(19,431)
Payments for construction in progress	<u>(699,630)</u>	<u>(173,210)</u>
Net cash used by investing activities	<u>(662,954)</u>	<u>(1,915,318)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan payable	<u>180,487</u>	<u>-</u>
Net cash provided by financing activities	<u>180,487</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	3,053,161	(645,709)
Cash and cash equivalents at beginning of year	<u>4,029,934</u>	<u>4,675,643</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR, INCLUDING RESTRICTED CASH OF \$148,132 AND \$141,973 ON DECEMBER 31, 2020 AND 2019, RESPECTIVELY	<u>\$ 7,083,095</u>	<u>\$ 4,029,934</u>

See accompanying notes to consolidated financial statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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 purpose is creating opportunities that elevate the human spirit. Its current principal activity is presenting a variety of performances at the Freeman Arts Pavilion, a seasonal, open air performance space at Bayside in Sussex County, Delaware. Additionally, the Arts Access Initiative program partners with schools in the area to build a relevant, impactful arts education program that will provide a layered approach to the schools' current curriculum by presenting opportunities for students to experience diverse arts.

As a result of the impact of COVID-19 on performing arts organizations, the programs offered both at the Freeman Arts Pavilion and in the schools were significantly reduced. The original plan for 2020 was for 70 events at the Freeman Arts Pavilion and 112 events in the schools. Actual events that took place in 2020 were 49 events at the Freeman Arts Pavilion and 25 events in the schools. The reduced season enabled JMFF to continue to advance its mission and continue to present arts in the region with stringent public safety measures to protect patrons, performers, staff, and volunteers utilizing the concept of "seating pods".

Joshua M. Freeman Foundation established a not-for-profit supporting organization named the 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.

The Board of Directors of JMFF also serves as the Board of Directors of the Freeman Arts Pavilion, Inc., who elected to implement a multi-phase plan for the new venue which will allow expanded seating in 2021. The newly purchased parcel of land adjacent to the prior stage area was purchased in December 2020 with construction of the first phase of the venue expected to be completed prior to the summer of 2021. Construction for additional phases is expected to occur gradually over the coming four to six years with work being completed off-season (October through May). This will allow seasonal programming at the venue to occur without interruption. When complete, the new facility will accommodate approximately 4,000 patrons, with 1,100 under roof, and feature state-of-art sound, lighting and video capabilities, an expanded concession and dining area, additional restrooms, artists' dressing rooms, and production space.

The Freeman Arts Pavilion, Inc. received final site plan approval from Sussex County Planning and Zoning on November 12, 2020 for both the Interim Phase 1 site plan allowing for 550 pods and capacity of 2,200 patrons while public health restrictions are in effect, and the final plan approval with capacity of over 4,000 patrons.

Basis of presentation

The accompanying consolidated financial statements reflect the activity of Joshua M. Freeman Foundation and the 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 of Not-for-Profit Entities*. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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

Basis of presentation (continued)

Descriptions of the two net asset categories are as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board designated and are also reported as net assets without donor restrictions.
- **Net Assets With Donor Restrictions** - Contributions restricted by donors 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. All other donor-restricted contributions are reported as increases in "net assets with donor restrictions", depending on the nature of the restrictions. When a restriction expires or is fulfilled, 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 without donor restrictions when the assets are placed in service.

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 gain (loss) net of investment expenses provided by external investment advisors in the Consolidated Statements of Activities and Changes in Net Assets.

Receivables

Accounts, grants and contributions and pledges receivable are recorded at their net realizable value, which approximates fair value. Receivables that are expected to be collected in future years are recorded at fair value, measured as the present value of their future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in grants and pledges revenue. Conditional promises to give are not included as support until the conditions are substantially met. All receivables are considered by management to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Fixed assets

Fixed asset acquisitions in excess of \$5,000 are capitalized and are stated at cost. Furniture 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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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

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 released from donor restrictions), and will be depreciated over the estimated useful lives of the assets.

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). The 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). JMFF is not a private foundation.

Uncertain tax positions

For the years ended December 31, 2020 and 2019, 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.

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 Arts Pavilion. Fundraising and sponsorship revenue includes charitable contributions and other support and is recognized in the year it is received from the donor.

A significant portion of the Organization's revenue is received through awards from individuals, foundations and corporations. Contributions and grants are recognized in the appropriate category of net assets in the period received. The Organization performs an analysis of the individual award to determine if the revenue streams follow the contribution rules or if they should be recorded as an exchange transaction depending upon whether the transactions are deemed reciprocal or nonreciprocal.

For awards qualifying under the contribution rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Awards qualifying as contributions that are unconditional that have 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.

Awards qualifying as conditional contributions contain a right of return or right of release from obligation provision and a defined barrier (or barriers), and the entity has limited discretion over how funds transferred should be spent. Accordingly, revenue is recognized when the condition or conditions are satisfied (when the related barrier has been overcome; generally, when qualifying expenditures are incurred); these transactions are nonreciprocal and classified as conditional, and are recognized as contributions when the revenue becomes unconditional.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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

Revenue recognition (continued)

Funds received in advance of the incurrence of qualifying expenditures are recorded as refundable advances. As of December 31, 2020 and 2019, total refundable advances aggregated \$115,000 and \$15,000, respectively.

The Organization received an award notification of \$400,000 of assistance under conditional awards as of December 31, 2020 which have not been recognized in the accompanying consolidated financial statements. During the year ended December 31, 2019, there were no conditional commitments received that had not been recognized 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 related development 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 staff hours worked as recorded in bi-weekly timesheets throughout the year. These specific management and general expenses are allocated as they have been identified as providing support to both program services and the fundraising functions, 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.

Economic uncertainties

On March 11, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen which may negatively impact the Organization's operations. The overall potential impact is unknown at this time.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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

New accounting pronouncement not yet adopted

The FASB issued ASU 2019-01, *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 Statements of Financial Position and disclosing key information about leasing arrangements. During 2020, the FASB issued ASU 2020-05 and delayed the implementation date by one year. The ASU is effective for non public entities beginning after December 15, 2021. Early adoption is still permitted. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach or applied at the beginning of the period of adoption recognizing a cumulative-effect adjustment.

2. INVESTMENTS

Investments consisted of the following at December 31, 2020 and 2019:

	<u>2020</u>		<u>2019</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Common stock/equities	\$ -	\$ -	\$ 229,716	\$ 426,450
Certificates of deposit - current	2,427,000	2,441,647	375,000	376,080
Certificates of deposit - noncurrent	<u>-</u>	<u>-</u>	<u>2,627,000</u>	<u>2,653,315</u>
TOTAL INVESTMENTS	<u>\$ 2,427,000</u>	<u>\$ 2,441,647</u>	<u>\$ 3,231,716</u>	<u>\$ 3,455,845</u>

Included in interest and investment (loss) gain, net of fees, are the following during the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 80,471	\$ 81,418
Investment fees	(175)	(350)
Realized and unrealized (loss) gain on investments	<u>(87,522)</u>	<u>41,369</u>
TOTAL INTEREST AND INVESTMENT (LOSS) GAIN	<u>\$ (7,226)</u>	<u>\$ 122,437</u>

3. PLEDGES RECEIVABLE

The Organization has received written promises to give of which \$1,092,500 and \$1,228,000 remained outstanding as of December 31, 2020 and December 31, 2019, respectively. As of December 31, 2020 and 2019, pledges due in more than one year have been recorded at the present value of the estimated cash flows, using a discount rate of 1.10% and 2.59%, respectively. Pledges are due as follows at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Less than one year	\$ 519,500	\$ 356,500
One to five years	<u>573,000</u>	<u>871,500</u>
Total pledges receivable	1,092,500	1,228,000
Less: Allowance to discount balance to present value	<u>(8,182)</u>	<u>(45,410)</u>
NET PLEDGES RECEIVABLE	<u>\$ 1,084,318</u>	<u>\$ 1,182,590</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

4. PAYCHECK PROTECTION PROGRAM

In April 2020, JMFF received loan proceeds totaling \$180,487 under the Paycheck Protection Program (PPP) through the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The promissory note calls for monthly principal and interest payments amortized over the term of the promissory note with a deferral of payments for the first six months. During the year ended December 31, 2020, JMFF used the proceeds for purposes consistent with PPP, and applied for forgiveness after completing the 24-week period. In December 2020, JMFF received full forgiveness of the loan and has recorded revenue from extinguishment of debt in the accompanying Consolidated Statements of Activities and Changes in Net Assets.

5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Facility Planning and Development	\$ 11,427,992	\$ 8,288,113
Program Services	<u>260,382</u>	<u>238,768</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 11,688,374</u>	<u>\$ 8,526,881</u>

During the year ended December 31, 2019, JMFF awarded the Freeman Arts Pavilion a \$300,000 grant for facility planning and development. As the financial statements are presented on a consolidated basis, this award activity has been eliminated in consolidation.

At December 31, 2019, the funds are being reclassified from net assets without donor restrictions to net assets with donor restrictions. These assets will be released when the arts facility is placed in service.

There were no awards provided by JMFF to the Freeman Arts Pavilion during the year ended December 31, 2020.

6. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

The following net assets with donor restrictions were released from donor restrictions during the years ended December 31, 2020 and 2019 by incurring expenses which satisfied the restricted purposes specified by the donors:

	<u>2020</u>	<u>2019</u>
Facility Planning and Development	\$ 5,211	\$ 7,395
Program Services	<u>233,638</u>	<u>234,910</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 238,849</u>	<u>\$ 242,305</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

7. AVAILABILITY OF FINANCIAL ASSETS (LIQUIDITY)

Financial assets available for use within one year of the Consolidated Statements of Financial Position for general expenditures comprise the following as of December 31, 2020:

	Joshua M. Freeman Foundation	Freeman Arts Pavilion, Inc.	Total
Cash and cash equivalents	\$ 1,997,715	\$ 4,937,248	\$ 6,934,963
Investments, net of noncurrent portion	-	2,441,647	2,441,647
Accrued interest	-	858	858
Due from related parties	8,589	-	8,589
Grants and contributions receivable	116,547	-	116,547
Pledges receivable, net of noncurrent portion	519,500	-	519,500
Due from JMFF	<u>-</u>	<u>1,098,538</u>	<u>1,098,538</u>
Total financial assets available within one year	2,642,351	8,478,291	11,120,642
Less: Amounts unavailable for general expenditures within one year due to donor restrictions	<u>(215,334)</u>	<u>(8,783,199)</u>	<u>(8,998,533)</u>
FINANCIAL (DEFICIT) ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 2,427,017</u>	<u>\$ (304,908)</u>	<u>\$ 2,122,109</u>

Financial assets available for use within one year of the Consolidated Statements of Financial Position for general expenditures comprise the following as of December 31, 2019:

	Joshua M. Freeman Foundation	Freeman Arts Pavilion, Inc.	Total
Cash and cash equivalents	\$ 1,197,884	\$ 2,690,077	\$ 3,887,961
Investments, net of noncurrent portion	426,450	376,080	802,530
Accrued interest	-	1,980	1,980
Grants and contributions receivable	106,745	-	106,745
Pledges receivable, net of noncurrent portion	356,500	-	356,500
Due from JMFF	<u>-</u>	<u>1,186,810</u>	<u>1,186,810</u>
Total financial assets available within one year	2,087,579	4,254,947	6,342,526
Less: Amounts unavailable for general expenditures within one year due to donor restrictions	<u>(199,883)</u>	<u>(4,254,449)</u>	<u>(4,454,332)</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 1,887,696</u>	<u>\$ 498</u>	<u>\$ 1,888,194</u>

The Organization has a policy to structure its financial assets to be available and liquid as its obligations become due. As of December 31, 2020 and 2019, JMFF has financial assets equal to approximately thirteen and four months, respectively, 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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

8. 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, 2020 and 2019 totaled \$20,931 and \$23,091, respectively.

9. RELATED PARTY ACTIVITIES

Michelle Freeman, Chairman of the Boards of the Organization, as well as majority owner and Chairman of Carl M. Freeman Associates, Inc. (CMFA), a for-profit corporation controlled by the Freeman family, contributed \$93,008 and \$85,529 to the Organization during 2020 and 2019, respectively. Included in these contributions were in-kind donations of \$74,773 and \$49,530 during 2020 and 2019, respectively, for items used for the Organization's fundraising events, as discussed further in Note 10. In addition, during 2020, CMFA donated a parcel of land to the Organization, with an appraised value of \$220,000.

In both 2020 and 2019, 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, 2020 and 2019, respectively.

Since its inception, the Organization received contributions in the amount of \$11,190,426 from the Carl M. Freeman Foundation, Inc. (CMFF), a 501(c)(3) private foundation whose principal sponsor is the Freeman family. Of that amount, \$5,305,426 was for operations and \$5,885,000 was for the facility capital improvements to expand and enhance the capacity of the Joshua M. Freeman Foundation's operations in a new arts pavilion. In 2020, CMFF made an additional commitment of \$10,000,000 for the capital project which is conditional upon fundraising and construction milestones. This commitment has not yet been recognized as revenue. Two of the three CMFF Trustees also serve as Directors of the Organization. During the year ended December 31, 2020, the Organization received cash contributions totaling \$3,005,000, as well as contributions of land totaling \$150,000 (appraised value) from CMFF. During the year ended December 31 2019, there were no contributions received by the Organization from CMFF.

All of the Organization's employees are deemed to be co-employed by JMFF and TriNet (a Professional Employer Organization). Certain JMFF employees also provide services to 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, 2020 and 2019, the Organization incurred the following expenses:

	<u>2020</u>	<u>2019</u>
Shared Personnel Services - CMFA	\$ <u>8,045</u>	\$ <u>7,592</u>

10. 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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

10. IN-KIND CONTRIBUTIONS (Continued)

Further, as discussed in Note 9, the Organization recorded a contribution from CMFA for use of its golf course and office space at the estimated market value for use of these facilities.

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, 2020 and 2019, totaling \$116,978 and \$205,616, respectively.

11. 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, 2020 and 2019.

- *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, the Organization's investments as of December 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Class:				
Investments - Certificates of Deposit	\$ <u>-</u>	\$ <u>2,441,647</u>	\$ <u>-</u>	\$ <u>2,441,647</u>

The table below summarizes, by level within the fair value hierarchy, the Organization's investments as of December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Class:				
Investments - Stocks	\$ 426,450	\$ -	\$ -	\$ 426,450
Investments - Certificates of Deposit	<u>-</u>	<u>3,029,395</u>	<u>-</u>	<u>3,029,395</u>
TOTAL	\$ <u>426,450</u>	\$ <u>3,029,395</u>	\$ <u>-</u>	\$ <u>3,455,845</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

12. COMMITMENTS

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 Arts Pavilion. Under this agreement, all rent has been waived; however, the Organization is obligated to pay for all operating and necessary maintenance expenses. This lease was terminated in December 2020. This was replaced with an annual lease signed on January 1, 2021 at the same terms as the original lease that was terminated in 2020.

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. The agreement expired in September 2020 and was extended to March 2021 and was subsequently cancelled in December 2020 due to the purchase of the land by the Organization.

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 Arts Pavilion and land located behind the former post office. The agreements expired in September 2020 and were extended to March 2021.

In January 2021, the Organization entered into a five-year lease agreement with CMFF for rental of office space. Base annual rent is \$66,990 per year with annual increases of 3%. The lease also includes abated rent of 33.33% in years one through three and 20% in years four and five.

Future minimum lease payments are as follows:

Year Ended December 31,

2021	\$	44,662
2022		46,002
2023		49,750
2024		58,561
2025		<u>64,088</u>
	\$	<u>263,063</u>

13. SUBSEQUENT EVENTS

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 22, 2021, the date the consolidated financial statements were issued.

In January 2021, the Organization adopted a new brand consistent with the vision and commitment to the future as a premier arts organization and rebranded The Freeman Stage as the Freeman Arts Pavilion. This brand is concurrent with the new physical venue, which will be ready for the summer 2021 season.

The 2021 season is planned and will be monitored based on public health guidelines as well as final decisions on national touring artists being able to tour during the summer of 2021. The presenting season is anticipated to begin late June and extend to late September 2021.

The Organization is eligible and intends to apply for the SBA Shuttered Venue Operators Grant which was established by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act signed into law on December 27, 2020.

SUPPLEMENTAL INFORMATION

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

**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
AS OF DECEMBER 31, 2020**

ASSETS				
	JMFF	Freeman Arts Pavilion	Eliminations	Total
CURRENT ASSETS				
Cash and cash equivalents	\$ 1,997,715	\$ 4,937,248	\$ -	\$ 6,934,963
Investments, net of noncurrent portion	-	2,441,647	-	2,441,647
Accrued interest	-	858	-	858
Due from related parties	8,589	-	-	8,589
Grants and contributions receivable	116,547	-	-	116,547
Pledges receivable, net of noncurrent portion	519,500	-	-	519,500
Due from JMFF	-	1,098,538	(1,098,538)	-
Prepaid expenses and other assets	17,404	-	-	17,404
Total current assets	<u>2,659,755</u>	<u>8,478,291</u>	<u>(1,098,538)</u>	<u>10,039,508</u>
FIXED ASSETS				
Land	-	1,257,500	-	1,257,500
Furniture and equipment	1,648,893	-	-	1,648,893
Signage	98,564	-	-	98,564
Vehicles	9,946	-	-	9,946
	<u>1,757,403</u>	<u>1,257,500</u>	<u>-</u>	<u>3,014,903</u>
Less: Accumulated depreciation and amortization	(1,144,782)	-	-	(1,144,782)
Net fixed assets	<u>612,621</u>	<u>1,257,500</u>	<u>-</u>	<u>1,870,121</u>
NONCURRENT AND OTHER ASSETS				
Restricted cash	148,132	-	-	148,132
Pledges receivable, net of current portion	564,818	-	-	564,818
Construction in progress	-	1,976,891	-	1,976,891
Total noncurrent assets and other assets	<u>712,950</u>	<u>1,976,891</u>	<u>-</u>	<u>2,689,841</u>
TOTAL ASSETS	<u>\$ 3,985,326</u>	<u>\$ 11,712,682</u>	<u>\$ (1,098,538)</u>	<u>\$ 14,599,470</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 101,378	\$ 16,316	\$ -	\$ 117,694
Due to Freeman Arts Pavilion	1,098,538	-	(1,098,538)	-
Deferred income	400	-	-	400
Refundable advances	115,000	-	-	115,000
Total liabilities	<u>1,315,316</u>	<u>16,316</u>	<u>(1,098,538)</u>	<u>233,094</u>
NET ASSETS				
Without donor restrictions	2,306,544	371,458	-	2,678,002
With donor restrictions	363,466	11,324,908	-	11,688,374
Total net assets	<u>2,670,010</u>	<u>11,696,366</u>	<u>-</u>	<u>14,366,376</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,985,326</u>	<u>\$ 11,712,682</u>	<u>\$ (1,098,538)</u>	<u>\$ 14,599,470</u>