

**CONSOLIDATED FINANCIAL STATEMENTS**

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

**FOR THE YEARS ENDED  
DECEMBER 31, 2022 AND 2021**

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

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**CPAs & ADVISORS**

## **INDEPENDENT AUDITOR'S REPORT**

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

### **Opinion**

We have audited the accompanying consolidated financial statements of the Joshua M. Freeman Foundation and Freeman Arts Pavilion, Inc. (the Organization), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, 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.

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, 2022 and 2021, and the consolidated changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

### **Supplementary Information**

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 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.



May 17, 2023

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2022 AND 2021**

**ASSETS**

	<u>2022</u>	<u>2021</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 7,297,820	\$ 7,461,802
Investments	8,611,644	5,222,115
Accrued interest	46,773	19,614
Due from related parties	31,545	24,522
Grants and contributions receivable	163,978	296,398
Pledges receivable	3,771,366	428,666
Prepaid expenses and other assets	<u>35,477</u>	<u>5,499</u>
Total current assets	<u>19,958,603</u>	<u>13,458,616</u>
<b>FIXED ASSETS</b>		
Land	1,257,500	1,257,500
Land improvements	74,255	-
Furniture and equipment	1,264,186	1,164,700
Signage	98,564	98,564
Vehicles	<u>9,946</u>	<u>9,946</u>
	2,704,451	2,530,710
Less: Accumulated depreciation and amortization	<u>(879,794)</u>	<u>(846,989)</u>
Net fixed assets	<u>1,824,657</u>	<u>1,683,721</u>
<b>LONG-TERM AND OTHER ASSETS</b>		
Restricted cash	356,633	124,200
Right-of-use asset	150,046	197,175
Pledges receivable, net of current portion and present value discount	6,458,195	216,894
Construction in progress	<u>3,117,075</u>	<u>2,633,676</u>
Total long-term and other assets	<u>10,081,949</u>	<u>3,171,945</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 31,865,209</u></b>	<b><u>\$ 18,314,282</u></b>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 185,043	\$ 121,684
Refundable advances	515,000	-
Lease liability	<u>45,533</u>	<u>40,517</u>
Total current liabilities	745,576	162,201
<b>LONG-TERM LIABILITIES</b>		
Refundable advances	-	515,000
Lease liability, net of current portion	<u>119,075</u>	<u>164,608</u>
Total long-term liabilities	<u>119,075</u>	<u>679,608</u>
Total liabilities	<u>864,651</u>	<u>841,809</u>
<b>NET ASSETS</b>		
Without donor restrictions	21,115,085	6,705,255
With donor restrictions	<u>9,885,473</u>	<u>10,767,218</u>
Total net assets	<u>31,000,558</u>	<u>17,472,473</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 31,865,209</u></b>	<b><u>\$ 18,314,282</u></b>

See accompanying notes to consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2022**

	<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 \$303,220	\$ 7,014,957	\$ -	\$ 7,014,957
Fundraising and sponsorships, net of cost of auction items of \$20,476	2,018,039	-	2,018,039
Grants and pledges - Government, corporate, foundations and other	13,502,006	398,813	13,900,819
Interest and investment loss, net	(351,023)	(610,832)	(961,855)
Net assets released from donor restrictions	<u>669,726</u>	<u>(669,726)</u>	<u>-</u>
Total support and revenue	<u>22,853,705</u>	<u>(881,745)</u>	<u>21,971,960</u>
<b>EXPENSES</b>			
Program Services	7,633,838	-	7,633,838
Management and General	365,943	-	365,943
Fundraising	<u>444,094</u>	<u>-</u>	<u>444,094</u>
Total expenses	<u>8,443,875</u>	<u>-</u>	<u>8,443,875</u>
Changes in net assets	14,409,830	(881,745)	13,528,085
Net assets at beginning of year	<u>6,705,255</u>	<u>10,767,218</u>	<u>17,472,473</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 21,115,085</u></b>	<b><u>\$ 9,885,473</u></b>	<b><u>\$ 31,000,558</u></b>

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

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<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 \$221,107	\$ 6,194,231	\$ -	\$ 6,194,231
Fundraising and sponsorships, net of cost of auction items of \$24,483	1,652,307	-	1,652,307
Grants and pledges - Government, corporate, foundations and other	2,340,292	700,892	3,041,184
Interest and investment gain, net	2,479	15,887	18,366
Net assets released from donor restrictions	<u>1,637,935</u>	<u>(1,637,935)</u>	<u>-</u>
Total support and revenue	<u>11,827,244</u>	<u>(921,156)</u>	<u>10,906,088</u>
<b>EXPENSES</b>			
Program Services	7,122,340	-	7,122,340
Management and General	299,645	-	299,645
Fundraising	<u>378,006</u>	<u>-</u>	<u>378,006</u>
Total expenses	<u>7,799,991</u>	<u>-</u>	<u>7,799,991</u>
Changes in net assets	4,027,253	(921,156)	3,106,097
Net assets at beginning of year	<u>2,678,002</u>	<u>11,688,374</u>	<u>14,366,376</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 6,705,255</u></b>	<b><u>\$ 10,767,218</u></b>	<b><u>\$ 17,472,473</u></b>

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

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2022**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total Expenses</b>
Productions	\$ 3,614,388	\$ -	\$ 10,135	\$ 3,624,523
Personnel	1,476,647	234,228	253,633	1,964,508
Events and activities	-	-	39,643	39,643
Design and print	13,008	200	8,319	21,527
Promotional costs	263,472	62	6,081	269,615
Professional fees	119,404	11,933	15,468	146,805
Insurance	230,842	1,138	777	232,757
Training and travel	41,736	13,599	2,717	58,052
Postage and delivery	713	829	2,519	4,061
Facility expenses	685,233	2,019	3	687,255
Bank, credit card and ticket processing fees	203,768	21,370	51,575	276,713
Accounting and audit	-	50,032	-	50,032
Depreciation and amortization	93,212	-	3,110	96,322
Telecommunications	5,906	945	1,024	7,875
Loss on obsolescence of capital assets	26,751	-	-	26,751
Office expense	15,682	2,199	2,751	20,632
Licenses, memberships and dues	67,569	16,876	14,841	99,286
Equipment rentals and computers	1,078,727	10,513	51,974	1,141,214
Subtotal	7,937,058	365,943	464,570	8,767,571
Less: Cost of sales	(303,220)	-	-	(303,220)
Less: Cost of auction items	-	-	(20,476)	(20,476)
<b>TOTAL</b>	<b><u>\$ 7,633,838</u></b>	<b><u>\$ 365,943</u></b>	<b><u>\$ 444,094</u></b>	<b><u>\$ 8,443,875</u></b>



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

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total Expenses</b>
Productions	\$ 3,888,670	\$ -	\$ -	\$ 3,888,670
Personnel	820,604	190,754	205,151	1,216,509
Events and activities	-	-	152,877	152,877
Design and print	23,863	-	11,739	35,602
Promotional costs	110,961	-	-	110,961
Professional fees	91,060	9,466	1,426	101,952
Insurance	223,879	1,086	762	225,727
Training and travel	17,922	7,431	3,328	28,681
Postage and delivery	313	449	1,365	2,127
Facility expenses	642,909	24,381	300	667,590
Bank, credit card and ticket processing fees	171,312	5,661	20,366	197,339
Accounting and audit	-	33,190	-	33,190
Depreciation and amortization	144,502	-	2,581	147,083
Telecommunications	8,433	1,215	1,314	10,962
Loss on obsolescence of capital assets	89,710	-	-	89,710
Loss on disposal of construction in progress costs	1,104,051	-	-	1,104,051
Office expense	5,258	26,012	1,280	32,550
Subtotal	7,343,447	299,645	402,489	8,045,581
Less: Cost of sales	(221,107)	-	-	(221,107)
Less: Cost of auction items	-	-	(24,483)	(24,483)
<b>TOTAL</b>	<b>\$ 7,122,340</b>	<b>\$ 299,645</b>	<b>\$ 378,006</b>	<b>\$ 7,799,991</b>

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 13,528,085	\$ 3,106,097
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	96,322	147,083
Realized and unrealized loss on investments	1,144,535	63,085
Loss on obsolescence of capital assets	26,751	89,710
Loss on disposal of construction in progress costs	-	1,104,051
Receipt of donated capital assets	-	(15,000)
Change in adjustment of operating lease	6,612	7,951
Change in discount on noncurrent pledges receivable	470,891	(3,742)
(Increase) decrease in:		
Accrued interest	(27,159)	(18,756)
Due from related parties	(7,023)	(15,933)
Grants and contributions receivable	132,420	(179,851)
Pledges receivable	(10,054,892)	442,500
Prepaid expenses and other assets	(29,978)	11,905
Increase (decrease) in:		
Accounts payable and accrued liabilities	63,359	3,988
Deferred revenue	-	(400)
Refundable advances	-	400,000
Net cash provided by operating activities	<u>5,349,923</u>	<u>5,142,688</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(4,560,774)	(5,285,199)
Proceeds from sales of investments	26,710	2,441,647
Purchase of furniture and equipment	(264,009)	(35,393)
Payments for construction in progress	<u>(483,399)</u>	<u>(1,760,836)</u>
Net cash used by investing activities	<u>(5,281,472)</u>	<u>(4,639,781)</u>
Net increase in cash and cash equivalents	68,451	502,907
Cash and cash equivalents at beginning of year	<u>7,586,002</u>	<u>7,083,095</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR, INCLUDING RESTRICTED CASH OF \$356,633 AND \$124,200 ON DECEMBER 31, 2022 AND 2021, RESPECTIVELY</b>	<u><u>\$ 7,654,453</u></u>	<u><u>\$ 7,586,002</u></u>
<b>SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS:</b>		
Right-of-Use Asset	\$ <u>          -</u>	\$ <u>243,125</u>
Operating Lease Liability for Right-of-Use Asset	\$ <u>          -</u>	\$ <u>243,125</u>

See accompanying notes to consolidated financial statements.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

### 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.

Joshua M. Freeman Foundation established a not-for-profit supporting organization named "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 the 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 allowed expanded seating in 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) based on the fundraising initiatives for the capital campaign. This will allow seasonal programming at the venue to occur without interruption. Current plans provide that, 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.

#### Basis of presentation

The accompanying consolidated financial statements reflect the activity of Joshua M. Freeman Foundation and the Freeman Arts Pavilion, Inc. (the Organization). The financial statements have been consolidated as Joshua M. Freeman Foundation exercised significant influence over (and 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. 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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

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

New accounting pronouncement adopted

During the year ended December 31, 2022, the Organization adopted ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which improves generally accepted accounting principles in the United States (U.S. GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in this ASU address certain stakeholders' concerns about the lack of transparency relating to the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in a NFP's programs and other activities. The ASU was adopted retrospectively and did not change the recognition and measurement requirements for those contributed nonfinancial assets.

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 (loss) gain, net of investment expenses paid to 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 collectable. 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.

Construction in progress

The Organization records acquisitions of certain long-term assets (including construction costs) as Construction in progress in the "Long-term and 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 fixed assets (and released from donor restrictions), and will be depreciated over the estimated useful lives of the assets.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

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

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, 2022 and 2021, 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, corporations, the United States Government and the Delaware State Government. Contributions and grants are recognized in the appropriate category of net assets in the period received.

The Organization performs an analysis of the individual contributions and grants 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 under ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*.

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 received by the Organization that are unconditional contributions 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.

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); these transactions are nonreciprocal and classified as conditional, and are recognized as contributions when the revenue becomes unconditional. During the year ended December 31, 2021, the Organization received assistance (under conditional awards) from the US Government totaling \$2,299,535. There was no such assistance during 2022.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**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, 2022 and 2021, total refundable advances aggregated \$515,000.

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 since 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.

New accounting pronouncement not yet adopted

Accounting Standard Update (ASU) 2016-13, *Financial Instruments – Credit Losses* (Topic 326), replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The ASU is effective for the Organization for the year ending December 31, 2023. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach.

The Organization plans to adopt the new ASU at the required implementation date and management is currently in the process of evaluating the adoption method and the impact of the new standard on its accompanying consolidated financial statements.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**2. INVESTMENTS**

Investments consisted of the following at December 31, 2022 and 2021:

	<u>2022</u>		<u>2021</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Fixed Income (Corporate and Government Bonds/Securities	\$ 9,246,183	\$ 8,157,674	\$ 5,285,199	\$ 5,222,115
Equities	<u>488,641</u>	<u>453,970</u>	<u>-</u>	<u>-</u>
<b>TOTAL INVESTMENTS</b>	<b><u>\$ 9,734,824</u></b>	<b><u>\$ 8,611,644</u></b>	<b><u>\$ 5,285,199</u></b>	<b><u>\$ 5,222,115</u></b>

During the years ended December 31, 2022 and 2021, interest and investment (loss) gain included the following:

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 182,855	\$ 81,801
Investment fees	(175)	(350)
Realized and unrealized losses on investments	<u>(1,144,535)</u>	<u>(63,085)</u>
<b>NET INTEREST AND INVESTMENT (LOSS) GAIN</b>	<b><u>\$ (961,855)</u></b>	<b><u>\$ 18,366</u></b>

**3. PLEDGES RECEIVABLE**

The Organization has received written promises to give of which \$10,704,892 and \$650,000 remained outstanding as of December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021, pledges due in more than one year have been recorded at the present value of the estimated cash flows, using a discount rate of 4.73% and 1.10%, respectively. Pledges are due as follows at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Less than one year	\$ 3,771,366	\$ 428,666
One to five years	<u>6,933,526</u>	<u>221,334</u>
Total pledges receivable	10,704,892	650,000
Less: Allowance to discount balance to present value	<u>(475,331)</u>	<u>(4,440)</u>
<b>NET PLEDGES RECEIVABLE</b>	<b><u>\$ 10,229,561</u></b>	<b><u>\$ 645,560</u></b>

**4. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consisted of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Facility Planning and Development	\$ 9,358,890	\$ 10,352,918
Program Services	<u>526,583</u>	<u>414,300</u>
<b>TOTAL NET ASSETS WITH DONOR RESTRICTIONS</b>	<b><u>\$ 9,885,473</u></b>	<b><u>\$ 10,767,218</u></b>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**4. NET ASSETS WITH DONOR RESTRICTIONS (Continued)**

During the year ended December 31, 2021, JMFF awarded the Freeman Arts Pavilion grants totaling \$1,338,000 (for facility planning and development). As the financial statements are presented on a consolidated basis, this award activity has been eliminated in consolidation.

There were no awards provided by JMFF to the Freeman Arts Pavilion during the year ended December 31, 2022.

**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, 2022 and 2021 by incurring expenses which satisfied the restricted purposes specified by the donors:

	<u>2022</u>	<u>2021</u>
Facility Planning and Development	\$ 190,836	\$ 1,370,053
Program Services	<u>478,890</u>	<u>267,882</u>
<b>TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS</b>	<b><u>\$ 669,726</u></b>	<b><u>\$ 1,637,935</u></b>

**6. 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, 2022:

	<u>Joshua M. Freeman Foundation</u>	<u>Freeman Arts Pavilion, Inc.</u>	<u>Total</u>
Cash and cash equivalents	\$ 2,035,559	\$ 5,262,261	\$ 7,297,820
Investments	4,012,719	4,598,925	8,611,644
Accrued interest	26,648	20,125	46,773
Due from related parties	31,545	-	31,545
Grants and contributions receivable	163,978	-	163,978
Pledges receivable	<u>271,366</u>	<u>3,500,000</u>	<u>3,771,366</u>
Total financial assets available within one year	6,541,815	13,381,311	19,923,126
Less: Amounts unavailable for general expenditures within one year due to donor restrictions	<u>(801,929)</u>	<u>(9,083,544)</u>	<u>(9,885,473)</u>
<b>FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR</b>	<b><u>\$ 5,739,886</u></b>	<b><u>\$ 4,297,767</u></b>	<b><u>\$10,037,653</u></b>



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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

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

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, 2021:

	<u>Joshua M. Freeman Foundation</u>	<u>Freeman Arts Pavilion, Inc.</u>	<u>Total</u>
Cash and cash equivalents	\$ 5,306,753	\$ 2,155,048	\$ 7,461,801
Investments	-	5,222,115	5,222,115
Accrued interest	-	19,614	19,614
Due from related parties	24,522	-	24,522
Grants and contributions receivable	296,398	-	296,398
Pledges receivable	428,666	-	428,666
 Total financial assets available within one year	 6,056,339	 7,396,777	 13,453,116
Less: Amounts unavailable for general expenditures within one year due to donor restrictions	<u>(393,188)</u>	<u>(8,977,201)</u>	<u>(9,370,389)</u>
 <b>FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR (FINANCIAL DEFICIT)</b>	 <b><u>\$ 5,663,151</u></b>	 <b><u>\$ (1,580,424)</u></b>	 <b><u>\$ 4,082,727</u></b>

The Organization has a policy to structure its financial assets to be available and liquid as its obligations become due.

As of December 31, 2022 and 2021, JMFF has financial assets equal to approximately four and seven 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.

**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, 2022 and 2021 totaled \$29,462 and \$23,894, respectively.

**8. RELATED PARTY ACTIVITIES**

Michelle Freeman, Chair of the Boards of the Organization, along with a business owned by her relatives, contributed \$19,886 and \$13,474 to the Organization during 2022 and 2021, respectively. Included in these contributions were in-kind donations.

Ms. Freeman is majority owner and Chair of Carl M. Freeman Associates, Inc. (CMFA), a for-profit corporation controlled by the Freeman family. CMFA and its affiliated entities contributed \$24,034 and \$32,487 to the Organization during 2022 and 2021, respectively. This included, at no cost, a golf course for a fundraising event valued at \$7,500 each year and a CMFA program to match its employee charitable donations up to \$1,000 per employee per year. As part of this program, CMFA donated \$85 and \$135 to the Organization during 2022 and 2021, respectively.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

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

Ms. Freeman is also Chair of the Board of Carl M. Freeman Foundation (CMFF), a 501(c)(3) private foundation whose principal sponsor is the Freeman family. Ms. Freeman and another CMFF Trustee serve as Directors of the Organization. CMFF contributed \$27,998 and \$42,995 to the Organization during 2022 and 2021, respectively. Included in these contributions were in-kind donations and cash contributions. The cash contributions totaled \$5,000 each year. As further discussed in Note 11, CMFF leases office space and other real estate to the Organization.

In 2020, CMFF made an additional commitment of \$13,000,000 to expand and enhance the capacity of the Joshua M. Freeman Foundation's operations in a new arts pavilion. \$3,000,000 of this commitment was paid in December 2020 and recognized as revenue in that year. \$10,000,000 of this commitment remained conditional upon fundraising and construction milestones as of December 31, 2021. The conditions were fully met in 2022 at which time the balance of the commitment was recognized by the Organization as revenue. Payments on this remaining commitment are anticipated to be \$3.5 million in 2023; \$3.0M in 2024; and \$3.5M in 2025.

Since its inception, the Organization has received contribution payments of \$11,223,424 from CMFF. Of that amount, \$5,338,424 was for operations and \$5,885,000 was for the facility capital improvements.

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 for which JMFF is reimbursed.

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, 2022 and 2021, the Organization incurred the following expenses:

	<u>2022</u>	<u>2021</u>
<b>Shared Personnel Services - CMFA</b>	<b><u>\$ 6,102</u></b>	<b><u>\$ 8,534</u></b>

**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. During 2021, the Organization received a donation of a box office and a walk-in cooler (from CMFF) valued at \$10,000 and \$5,000, respectively. 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 for the years ended December 31, 2022 and 2021, totaling \$110,240 and \$149,809, respectively. The box office and walk-in cooler received in 2021 were capitalized and are being depreciated over the useful life. In-kind contributions are recorded in "Fundraising and Sponsorships" in the revenue section, and as "Facility expenses" in the Consolidated Statement of Functional Expenses.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**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, 2022 and 2021.

- *Fixed Income* - Fair value is based upon current yields available on comparable securities of issuers with similar ratings, the security's terms and conditions, and interest rate and credit risk.
- *Equities* - Valued at the closing price reported on the active market in which the individual securities are traded.

The table below summarizes, by level within the fair value hierarchy, the Organization's investments as of December 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Asset Class:</b>				
Investments - Fixed Income	\$8,157,674	\$ -	\$ -	\$ 8,157,674
Investments - Equities	<u>453,970</u>	<u>-</u>	<u>-</u>	<u>453,970</u>
<b>TOTAL</b>	<b><u>\$8,611,644</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 8,611,644</u></b>

The table below summarizes, by level within the fair value hierarchy, the Organization's investments as of December 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Asset Class:</b>				
Investments - Fixed Income	<b><u>\$5,222,115</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 5,222,115</u></b>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**11. 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 2021. This was replaced with an annual lease signed on January 1, 2022 at the same terms as the original lease that was terminated in 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.

ASU 2019-01, *Leases* (Topic 842), changed the accounting treatment for operating leases by requiring recognition of a lease asset and lease liability at the present value of the lease payments in the Consolidated Statements of Financial Position and disclosure of key information about leasing arrangements. The Organization elected to early implement the ASU and elected the practical expedient package to not reassess at adoption (i) expired or existing contracts for whether they are or contain a lease, (ii) the lease classification of any existing leases or (iii) initial indirect costs for existing leases. The Organization also elected the practical expedient that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and are applying this expedient to all relevant asset classes. The Organization adopted the package of practical expedients to not perform any lease reclassification, did not reevaluate embedded leases and did not reassess initial direct costs. As a result, the Organization recorded a right-of-use asset in the amount of \$243,125 as of January 1, 2021; additionally as of January 1, 2021 the Organization recorded a corresponding operating lease liability in the amount of \$243,125 by calculating the present value using the discount rate of 3%.

Future minimum lease payments are as follows:

**Year Ending December 31,**

2023	\$ 49,750
2024	58,561
2025	<u>64,088</u>
	<b><u>\$ 172,399</u></b>

In connection with the aforementioned accounting treatment, rent (lease) expense for the years ended December 31, 2022 and 2021 totaled \$52,613.

As of December 31, 2022, the aggregate balance of the lease asset and liability totaled \$150,046 and \$164,608, respectively. As of December 31, 2021 the aggregate balance of the lease asset and liability totaled \$197,175 and \$205,125, respectively.

**12. SUBSEQUENT EVENTS**

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 17, 2023, 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, 2022**

	<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	\$ 2,035,559	\$ 5,262,261	\$ -	\$ 7,297,820
Investments	4,012,719	4,598,925	-	8,611,644
Accrued interest	26,648	20,125	-	46,773
Due from related parties	31,545	-	-	31,545
Grants and contributions receivable	163,978	-	-	163,978
Pledges receivable	271,366	3,500,000	-	3,771,366
Due from JMFF	-	678,437	(678,437)	-
Prepaid expenses and other assets	35,477	-	-	35,477
Total current assets	<u>6,577,292</u>	<u>14,059,748</u>	<u>(678,437)</u>	<u>19,958,603</u>
<b>FIXED ASSETS</b>				
Land	-	1,257,500	-	1,257,500
Land improvements	38,560	35,695	-	74,255
Furniture and equipment	1,260,981	3,205	-	1,264,186
Signage	98,564	-	-	98,564
Vehicles	9,946	-	-	9,946
	1,408,051	1,296,400	-	2,704,451
Less: Accumulated depreciation and amortization	(879,794)	-	-	(879,794)
Net fixed assets	<u>528,257</u>	<u>1,296,400</u>	<u>-</u>	<u>1,824,657</u>
<b>LONG-TERM AND OTHER ASSETS</b>				
Restricted cash	356,633	-	-	356,633
Right-of-use asset	150,046	-	-	150,046
Pledges receivable, net of current portion	402,693	6,055,502	-	6,458,195
Construction in progress	-	3,117,075	-	3,117,075
Total long-term and other assets	<u>909,372</u>	<u>9,172,577</u>	<u>-</u>	<u>10,081,949</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 8,014,921</u></b>	<b><u>\$ 24,528,725</u></b>	<b><u>\$ (678,437)</u></b>	<b><u>\$ 31,865,209</u></b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 179,195	\$ 5,848	\$ -	\$ 185,043
Refundable advances	515,000	-	-	515,000
Due to Freeman Arts Pavilion	678,437	-	(678,437)	-
Lease liability	45,533	-	-	45,533
Total current liabilities	<u>1,418,165</u>	<u>5,848</u>	<u>(678,437)</u>	<u>745,576</u>
<b>NONCURRENT LIABILITIES</b>				
Lease liability, net of current portion	119,075	-	-	119,075
Total noncurrent liabilities	<u>119,075</u>	<u>-</u>	<u>-</u>	<u>119,075</u>
Total liabilities	<u>1,537,240</u>	<u>5,848</u>	<u>(678,437)</u>	<u>864,651</u>
<b>NET ASSETS</b>				
Without donor restrictions	5,675,752	15,439,333	-	21,115,085
With donor restrictions	801,929	9,083,544	-	9,885,473
Total net assets	<u>6,477,681</u>	<u>24,522,877</u>	<u>-</u>	<u>31,000,558</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 8,014,921</u></b>	<b><u>\$ 24,528,725</u></b>	<b><u>\$ (678,437)</u></b>	<b><u>\$ 31,865,209</u></b>