

Consolidated Financial Statements

EMERALD YOUTH FOUNDATION

Years Ended December 31, 2016 and 2015

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INDEPENDENT ACCOUNTANTS' AUDIT REPORT

Board of Trustees
Emerald Youth Foundation
Knoxville, Tennessee

We have audited the accompanying consolidated financial statements of Emerald Youth Foundation and subsidiary, which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities, 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 the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the 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 audit 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 auditors' 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 auditors consider internal control relevant to the 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 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 financial position of Emerald Youth Foundation and subsidiary as of December 31, 2016 and 2015, and the 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.

Mitchell Emert + Hill

June 22, 2017

EMERALD YOUTH FOUNDATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 367,184	\$ 150,305
Current portion of pledges receivable	1,370,535	345,497
Accounts receivable	50,689	27,662
Deposits	0	1,000
Notes receivable	150,000	0
Prepaid expenses	31,944	22,585
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	1,970,352	547,049
LONG-TERM PLEDGES RECEIVABLE,		
net of current portion and present value discount	2,445,086	202,145
CAPITAL ASSETS		
Land	208,000	208,000
Buildings and improvements	6,747,600	6,616,440
Furniture and equipment	394,432	387,649
Vehicles	447,271	439,271
Construction in process	20,337	20,337
	<hr/>	<hr/>
	7,817,640	7,671,697
Accumulated depreciation	(1,561,556)	(945,649)
	<hr/>	<hr/>
	6,256,084	6,726,049
Land held for future use	17,556	17,556
	<hr/>	<hr/>
	6,273,640	6,743,605
	<hr/>	<hr/>
	\$ 10,689,078	\$ 7,492,799
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See the accompanying notes to the financial statements.

EMERALD YOUTH FOUNDATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(continued)

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 12,057	\$ 27,440
Salaries payable	1,784	924
Other payables	4,503	0
Current portion of long-term debt	<u>63,327</u>	<u>133,383</u>
TOTAL CURRENT LIABILITIES	81,671	161,747
LONG-TERM DEBT, net of current portion	86,645	149,859
NET ASSETS		
Temporarily restricted	8,184,235	5,269,438
Unrestricted	<u>2,336,527</u>	<u>1,911,755</u>
	<u>10,520,762</u>	<u>7,181,193</u>
	<u>\$ 10,689,078</u>	<u>\$ 7,492,799</u>

EMERALD YOUTH FOUNDATION

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>UNRESTRICTED NET ASSETS</u>		
SUPPORT AND REVENUE		
Contributions and grants	\$ 906,635	\$ 656,542
Special events, net of direct expenses	103,507	108,917
Program service fees	145,776	131,277
Service bureau fees	110,160	104,160
Facility rental	39,840	29,113
In-kind contributions	216,327	148,936
Miscellaneous	11,694	5,862
Emerald amateur soccer:		
Contributions	25,000	50,050
Sponsorships	26,000	60,500
Ticket sales	3,086	4,821
Miscellaneous	1,752	1,489
	<u>1,589,777</u>	<u>1,301,666</u>
Net assets released from restrictions	<u>2,755,780</u>	<u>2,516,961</u>
	4,345,557	3,818,627
EXPENSES		
Program services	2,606,584	2,354,596
Emerald amateur soccer	73,650	98,087
Management and general	612,065	698,018
Fundraising	628,436	485,401
	<u>3,920,736</u>	<u>3,636,102</u>
CHANGE IN UNRESTRICTED NET ASSETS	424,821	182,525

See the accompanying notes to the financial statements.

EMERALD YOUTH FOUNDATION

CONSOLIDATED STATEMENTS OF ACTIVITIES

(continued)

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>TEMPORARILY RESTRICTED NET ASSETS</u>		
SUPPORT AND REVENUE		
Contributions and grants	5,542,342	1,914,076
Donated use of buildings	128,185	5,052,440
Net assets released from restrictions	<u>(2,755,780)</u>	<u>(2,516,961)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>2,914,747</u>	<u>4,449,555</u>
CHANGE IN NET ASSETS	3,339,568	4,632,080
NET ASSETS AT THE BEGINNING OF THE YEAR	<u>7,181,193</u>	<u>2,549,113</u>
NET ASSETS AT THE END OF THE YEAR	<u><u>\$ 10,520,762</u></u>	<u><u>\$ 7,181,193</u></u>

EMERALD YOUTH FOUNDATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2016

	Program Services	Emerald Amateur Soccer	Management and General	Fundraising	Totals
Salaries	\$ 1,031,455	\$ 9,834	\$ 360,442	\$ 265,614	\$ 1,667,345
Payroll taxes	77,135	746	26,127	20,404	124,412
Fringe benefits	131,344	321	40,280	27,826	199,771
Special events:					
Breakfast	0	0	0	62,656	62,656
Professional services	110,663	20,841	35,395	111,793	278,692
Promotion and development	0	920	760	5,580	7,260
Rent	133,081	1,176	1,305	11,350	146,912
Maintenance and repair	59,067	0	4,489	1,755	65,311
Utilities	62,209	0	18,590	3,856	84,655
Food	54,446	6,101	8,304	29,317	98,168
Recreation	18,271	9	0	0	18,280
Supplies	115,929	14,868	14,058	13,985	158,840
Other programs	24,458	131	3,805	309	28,703
Postage	329	18	2,904	3,192	6,443
Telephone	11,599	31	3,702	1,573	16,905
Office	24,167	5,561	1,521	5,395	36,644
Outside printing	19,594	0	4,224	41,530	65,348
Permits and registration fees	48,363	5,351	3,305	4,036	61,055
Interest	6,535	0	12,677	0	19,212
Insurance	28,525	0	19,894	4,483	52,902
Technology	28,867	0	7,277	10,581	46,725
Training	3,346	65	10,261	0	13,672
Transportation	33,013	7,676	4,231	0	44,920
Depreciation	584,187	0	28,517	3,203	615,907
	<u>\$ 2,606,584</u>	<u>\$ 73,650</u>	<u>\$ 612,065</u>	<u>\$ 628,436</u>	<u>\$ 3,920,736</u>

See the accompanying notes to the financial statements.

EMERALD YOUTH FOUNDATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2015

	Program Services	Emerald Amateur Soccer	Management and General	Fundraising	Totals
Salaries	\$ 1,038,548	\$ 14,700	\$ 312,412	\$ 192,213	\$ 1,557,873
Payroll taxes	77,663	1,002	23,356	14,468	116,489
Fringe benefits	137,532	2,579	43,473	27,017	210,601
Special events:					
Breakfast	0	0	0	53,206	53,206
Professional services	56,618	23,701	153,765	72,451	306,535
Promotion and development	4,747	9,207	2,467	38,159	54,580
Rent	90,804	3,469	784	6,536	101,593
Maintenance and repair	39,589	0	10,675	17	50,281
Utilities	50,779	470	17,908	1,083	70,240
Food	47,296	6,340	7,112	31,361	92,109
Lodging	26,800	3,828	1,729	0	32,357
Recreation	48,331	6,175	0	0	54,506
Supplies	143,977	15,072	15,444	13,624	188,117
Other programs	38,695	781	14,358	1,835	55,669
Postage	0	4	2,069	2,154	4,227
Telephone	11,135	0	8,460	9	19,604
Office	17,239	1,175	6,998	1,183	26,595
Outside printing	1,878	0	170	13,217	15,265
Permits and registration fees	19,006	5,165	2,077	25	26,273
Interest	9,030	0	11,765	0	20,795
Insurance	26,606	191	12,808	4,623	44,228
Technology	12,421	0	17,581	8,807	38,809
Training	3,588	329	9,767	0	13,684
Transportation	37,217	3,790	3,488	1,003	45,498
Depreciation	415,096	110	19,353	2,410	436,969
	<u>\$ 2,354,596</u>	<u>\$ 98,087</u>	<u>\$ 698,018</u>	<u>\$ 485,401</u>	<u>\$ 3,636,102</u>

See the accompanying notes to the financial statements.

EMERALD YOUTH FOUNDATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH PROVIDED(USED) BY OPERATING ACTIVITIES		
Change in net assets	\$ 3,339,568	\$ 4,632,080
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	615,907	436,969
Donated assets	(128,185)	(5,052,440)
(Increase)decrease in:		
Pledges receivable	(3,267,978)	115,887
Accounts receivable	(23,027)	30,844
Deposits	1,000	(1,000)
Prepaid expenses	(9,359)	411
Increase(decrease) in:		
Accounts payable	(15,383)	(24,029)
Salaries and other payables	5,363	(17,062)
Accrued expenses	0	(18,443)
	<u>(2,821,662)</u>	<u>(4,528,863)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	517,906	103,217
CASH PROVIDED(USED) BY INVESTING ACTIVITIES		
Purchase of property and equipment	(17,758)	(88,055)
Issuance of notes receivable	<u>(150,000)</u>	<u>0</u>
NET CASH (USED) BY INVESTING ACTIVITIES	(167,758)	(88,055)
CASH PROVIDED(USED) BY FINANCING ACTIVITIES		
Principal payments on long-term debt	<u>(133,270)</u>	<u>(207,045)</u>
NET INCREASE(DECREASE) IN CASH	216,878	(191,883)
CASH AT THE BEGINNING OF THE YEAR	<u>150,305</u>	<u>342,181</u>
CASH AT THE END OF THE YEAR	<u>\$ 367,184</u>	<u>\$ 150,305</u>

See the accompanying notes to the financial statements.

EMERALD YOUTH FOUNDATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(continued)

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
SUPPLEMENTAL DISCLOSURE:		
Interest paid	\$ 19,213	\$ 20,795

EMERALD YOUTH FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE A - DESCRIPTION OF ORGANIZATION

Emerald Youth Foundation (the Foundation) is a 25-year-old, faith-based non-profit ministry serving children and their families in the heart of Knoxville, Tennessee. It was incorporated in 1991 to serve children and youth in Knoxville's urban neighborhoods and today provides outreach to more than 2,000 children, young adults, and families in economically disadvantaged communities each year. The Foundation endeavors to produce Godly, young adult leaders for Knoxville by helping individuals develop skills needed for college, career, and life; reduce risky behaviors and develop healthy habits; be better connected with friends, family, and other adults living inside and outside their neighborhoods; and become involved in a faith community as well as provide service to others. This is achieved through direct service to young people and their families through a variety of initiatives including the following:

- JustLead - A community-based ministry model which provides afterschool/summer programs, tutoring, support in transitioning from high school into post-secondary training, discipleship opportunities and mentoring experiences.
- Emerald Youth Sports – In partnership with the Fellowship of Christian Athletes, this program mobilizes athletes to become leaders through caring Christian ministry and pre-game devotionals, along with high quality clinics and team sports such as basketball, volleyball, baseball, soccer, swimming, and performance training. Additionally, as part of our youth club system, the Foundation operates the Knoxville Force, an amateur soccer club for young adults with a purpose of developing young men and women as future leaders for city youth sports and other urban development programming.

In addition to the areas above, the Foundation also engages directly with other strategic partners on community initiatives which accelerate outcomes for children in the city. One such example is the launch of a separate nonprofit, Emerald Charter Schools, the first public charter school in Knoxville.

The Foundation, formed by Emerald Avenue United Methodist Church, functions under a governing structure that includes a Board of Trustees, a Board of Advisors, as well as a committee structure. Financial support for the Foundation comes from individuals, businesses, foundations, churches, grants (including United Way of Greater Knoxville), civic organizations and government entities primarily in the Knoxville area. Additionally, the Foundation is funded by a federal AmeriCorps grant that began in 1998 and is utilized to supplement the nonreligious components of the Foundation.

EMERALD YOUTH FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

December 31, 2016 and 2015

After 25 years our mission remains the same: To raise up a large number of urban youth to love Jesus Christ and become effective leaders who help renew their communities.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statement Presentation

The consolidated financial statements include the accounts of Emerald Youth Foundation and its wholly owned subsidiary, Emerald Force, LLC. Intercompany transactions and balances have been eliminated in the consolidated financial statements.

Use of Estimates

The preparation of 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 amounts reported in the consolidated financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions they may undertake in the future, actual results could differ from those estimates. Estimates are used when accounting for fair value of pledges, allowances for uncollectible receivables, depreciation, allocation of expenses, and contingencies, among others.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and interest-bearing deposits. For purposes of the consolidated statements of cash flows, the Foundation considers cash on deposit with financial institutions and all cash investments with original maturities of three months or less to be cash and cash equivalents.

Pledges Receivable

Unconditional pledges receivable that are expected to be collected within one year are recorded at their net realizable value. Unconditional pledges receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the pledge is received. Amortization of the discount is included in contributions. Conditional promises to give are not recorded as support until such time as the conditions are substantially met.

EMERALD YOUTH FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

December 31, 2016 and 2015

Property and Equipment

Property and equipment are recorded at cost or estimated cost if actual cost is not available. Donated property and equipment are recorded at the estimated fair value at the date of receipt. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to forty years. Depreciation expense for the years ended December 31, 2016 and 2015 was \$615,907 and \$436,969, respectively. The Foundation generally capitalizes all expenditures for property and equipment in excess of \$1,000. Costs of maintenance and repair are expensed as incurred.

Support and Revenue

Contributions are recorded as support when cash or other assets are received. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Gifts of cash and other assets that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support, depending on the nature of the restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Contributions of property and equipment and other long-lived assets with explicit restrictions that specify how the assets are to be used, including cash contributed to acquire such assets, are recorded as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the expiration of donor restrictions is reported when the donated or acquired assets are placed in service.

Functional Expense Allocation

The costs to provide various programs and other activities are summarized on a functional basis in the consolidated statements of activities. Accordingly, certain expenses have been allocated among the program and supporting services benefited. Expenses directly related to a specific function are charged to that function. Indirect expenses are allocated among the program and supporting services benefited.

EMERALD YOUTH FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

December 31, 2016 and 2015

Income Taxes

The Foundation is exempt from federal income taxes under section 501(c)(3) of the U.S. Internal Revenue Code, except on unrelated business income. The Foundation had unrelated business income of \$(17,813) for the year ended December 31, 2016 and \$17,773 for the year ended December 31, 2015. The Foundation's income tax filings are open and subject to examination by the Internal Revenue Service generally for three years after they are filed. However, the Foundation is not currently under audit nor has the Foundation been contacted by this jurisdiction. The Foundation believes it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements.

NOTE C - PLEDGES RECEIVABLE

Pledges receivable are recorded at the present value of estimated future cash flows using a discount rate of 3.50%. Unconditional pledges receivable at December 31, 2015 and 2014 were as follows:

	<u>2016</u>	<u>2015</u>
Amounts due in:		
Less than one year	\$ 1,400,505	\$ 351,097
Allowance for uncollectible pledges	<u>(29,970)</u>	<u>(5,600)</u>
	1,370,535	345,497
One to five years	2,576,537	219,168
Present value discount	<u>(131,451)</u>	<u>(17,023)</u>
	<u>2,445,086</u>	<u>202,145</u>
Net pledges receivable	<u>\$ 3,815,620</u>	<u>\$ 547,642</u>

EMERALD YOUTH FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

December 31, 2016 and 2015

NOTE D - DEBT

Long-term debt at December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Capital lease due in annual installments of \$7,000, secured by copiers	\$ 7,000	\$ 14,000
Line of credit payable to a bank, interest rate of prime plus a half (4%, at December 31, 2016 and 2015), interest payments due monthly and principal due in total at February 12, 2016, unsecured	0	72,261
Note payable to a bank, interest rate of 4%, due in monthly installments of \$4,747 including interest through April 17, 2021, secured by Deed of Trust.	<u>142,972</u>	<u>196,981</u>
	149,972	283,242
Less current maturities	<u>(63,327)</u>	<u>(133,383)</u>
	<u>\$ 86,645</u>	<u>\$ 149,859</u>

Future maturities of long-term debt as of December 31, 2016 are as follows:

Year Ending <u>December 31,</u>	
2017	\$ 63,327
2018	58,622
2019	<u>28,023</u>
	<u>\$ 149,972</u>

The Foundation has two unsecured lines of credit at a local bank in the amounts of \$400,000 and \$300,000 with variable interest rates. Neither line of credit had an outstanding balance as of December 31, 2016. The \$400,000 line of credit had an outstanding balance of \$72,261 and the \$300,000 line of credit had no outstanding balance as of December 31, 2015.

EMERALD YOUTH FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

December 31, 2016 and 2015

NOTE E - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes:

	<u>2016</u>	<u>2015</u>
Pledges receivable restricted for future periods	\$ 3,815,621	\$ 547,642
Donated use of buildings	4,330,006	4,715,611
Other programs and ministries	<u>38,608</u>	<u>6,185</u>
	<u>\$ 8,184,235</u>	<u>\$ 5,269,438</u>

NOTE F - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

	<u>2016</u>	<u>2015</u>
Time restrictions	\$ 1,717,661	\$ 1,457,663
Donated use of buildings	513,790	336,829
Academics	308,500	175,000
Christian Community Development	0	121,890
Just Lead	47,264	174,819
Soccer programs	30,000	83,689
Sports	50,000	88,000
Other programs and ministries	<u>88,565</u>	<u>79,071</u>
	<u>\$ 2,755,780</u>	<u>\$ 2,516,961</u>

EMERALD YOUTH FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

December 31, 2016 and 2015

NOTE G - PENSION PLAN

The Foundation participates in a 403(b) retirement plan. Employees are eligible to participate after one year of service. The Foundation contributes 3.5% of an employee's compensation to the plan, which is 100% vested immediately. Eligible employees are permitted to make salary-reduction contributions to the plan on a pre-tax basis subject to prescribed limits. Employee discretionary contributions may also be made on an after-tax basis subject to limitations. Employees may elect to allocate their accounts among various investment options. The Foundation has the right to terminate the plan at any time by giving written notice to the plan administrator. The Foundation contributed \$42,451 for the year ended December 31, 2016 and \$37,054 for the year ended December 31, 2015.

NOTE H - DONATED GOODS, SERVICES AND USE OF FACILITIES

Donated goods and services are recorded in the consolidated financial statements at the fair value of the goods and services received. Donated goods and services for the years ended December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Donated services	\$ 48,141	\$ 29,211
Use of facilities	162,665	105,638
Donated use of buildings	128,185	5,052,440
Various administrative and program supplies	<u>5,521</u>	<u>14,087</u>
	<u>\$ 344,512</u>	<u>\$ 5,201,376</u>

NOTE I - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist primarily of pledges receivable. Approximately 42% of unconditional promises to give at December 31, 2016 are due from three contributors or related contributors (approximately 17% from six contributors at December 31, 2015).

EMERALD YOUTH FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

December 31, 2016 and 2015

NOTE J - ENDOWMENT FUND

An endowment fund has been established at the East Tennessee Foundation for the benefit of the Foundation. Under the terms of the fund agreement, the East Tennessee Foundation has variance power and is the legal owner of the endowment fund. Accordingly, the endowment fund is not included in the accompanying consolidated financial statements. The Foundation is the beneficiary of the endowment fund and can receive distributions of income in accordance with the Foundation's spending policies.

NOTE K - RELATED PARTY TRANSACTIONS

The Foundation has a service agreement with Emerald Charter Schools to provide administrative assistance. Two of the Foundation's board members are also on the board of Emerald Charter Schools, which has a total of seven board members. The Foundation made no advances during the year ended December 31, 2016 or 2015 and had a receivable of \$110 at December 31, 2016 (\$2,868 at December 31, 2015). The Foundation also has a promissory note with Emerald Charter Schools in the amount of \$150,000 with an interest rate of 3% per year due no later than December 31, 2017. Advances on the note may only be made at the request of the school president and the note is callable at any time as long as ten days notice is provided.

NOTE L – LEASE

In April 2015 the Foundation entered into a lease agreement with a local charitable foundation, for the use of a sports complex. The consideration to be paid for the lease is \$1.00 per year and the initial term of the lease is 10 years. This lease requires that Emerald Youth Foundation adhere to its Christian principles. In September 2016 the Foundation entered into a lease agreement with a local municipality, for the use of a recreation center. The consideration to be paid for the lease is \$1.00 per year and the initial term of the lease is 5 years.

Accounting principles generally accepted in the United States of America require that the receipt of a commitment for the free use of facilities be recorded as a temporarily restricted contribution and an asset, calculated at the net present value of the future rental value over the term of the lease, not to exceed the total fair value of the asset being used. The resulting asset is amortized over the term of the lease, with the related amortization being reported as net assets released from restrictions and depreciation expense in the consolidated statement of activities.

EMERALD YOUTH FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

December 31, 2016 and 2015

The future rental value of the leases in the amounts of \$5,052,440 and \$128,185 are included in property and equipment in the accompanying consolidated financial statements. Accumulated amortization on the property and equipment totaling \$842,073 and \$8,546, respectively, is included in accumulated depreciation in the accompanying consolidated financial statements.

NOTE M - SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through June 22, 2017, the date the consolidated financial statements were available to be issued. Subsequent to the year ended December 31, 2016, the Foundation advanced an additional \$150,000 on the promissory note to Emerald Charter Schools.