

FINANCIAL STATEMENTS

JOSHUA M. FREEMAN FOUNDATION

**FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013**

JOSHUA M. FREEMAN FOUNDATION

CONTENTS

	PAGE NO.
Independent Auditor's Report	2
Statements of Financial Position, as of December 31, 2014 and 2013	3
Statements of Activities and Changes in Net Assets, for the Years Ended December 31, 2014 and 2013	4 - 5
Statement of Functional Expenses, for the Year Ended December 31, 2014	6
Statement of Functional Expenses, for the Year Ended December 31, 2013	7
Statements of Cash Flows, for the Years Ended December 31, 2014 and 2013	8
Notes to Financial Statements	9 - 14

GELMAN, ROSENBERG

& FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Joshua M. Freeman Foundation
Selbyville, Delaware

We have audited the accompanying financial statements of the Joshua M. Freeman Foundation (JMFF), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of JMFF as of December 31, 2014 and 2013, 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.

September 23, 2015

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JOSHUA M. FREEMAN FOUNDATION
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2014 AND 2013

ASSETS

	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,894,618	\$ 2,283,080
Investments	231,327	168,688
Grants receivable	94,170	130,080
Prepaid expenses and other assets	6,587	19,337
Total current assets	4,226,702	2,601,185
FURNITURE AND EQUIPMENT		
Furniture and equipment	207,357	101,960
Signage	99,834	99,834
Vehicles	9,946	9,946
	317,137	211,740
Less: Accumulated depreciation and amortization	(164,548)	(109,338)
Net furniture and equipment	152,589	102,402
TOTAL ASSETS	\$ 4,379,291	\$ 2,703,587

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 48,309	\$ 51,988
Refundable advances	26,470	7,813
Total current liabilities	74,779	59,801
NET ASSETS		
Unrestricted	1,184,575	1,064,766
Temporarily restricted	3,119,937	1,579,020
Total net assets	4,304,512	2,643,786
TOTAL LIABILITIES AND NET ASSETS	\$ 4,379,291	\$ 2,703,587

JOSHUA M. FREEMAN FOUNDATION

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014		
	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Operating revenue, net of cost of goods sold of \$58,214 in 2014 and \$46,278 in 2013	\$ 972,526	\$ -	\$ 972,526
Fundraising and sponsorships, net of cost of auction items of \$77,973 in 2014 and \$51,745 in 2013	862,111	-	862,111
Grants - Government, corporate foundations, other	31,300	215,750	247,050
Legacy grant - Carl M. Freeman Foundation, Inc.	300,000	1,500,000	1,800,000
Interest and investment income	33,726	-	33,726
Net assets released from donor restrictions	174,833	(174,833)	-
Total support and revenue	2,374,496	1,540,917	3,915,413
EXPENSES			
Program Services	1,832,019	-	1,832,019
Management and General	132,105	-	132,105
Fundraising	290,563	-	290,563
Total expenses	2,254,687	-	2,254,687
Changes in net assets	119,809	1,540,917	1,660,726
Net assets at beginning of year	1,064,766	1,579,020	2,643,786
NET ASSETS AT END OF YEAR	\$ 1,184,575	\$ 3,119,937	\$ 4,304,512

2013		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 859,058	\$ -	\$ 859,058
683,323	-	683,323
114,107	209,683	323,790
215,000	1,385,000	1,600,000
65,393	-	65,393
<u>68,645</u>	<u>(68,645)</u>	<u>-</u>
<u>2,005,526</u>	<u>1,526,038</u>	<u>3,531,564</u>
1,764,537	-	1,764,537
92,867	-	92,867
<u>270,172</u>	<u>-</u>	<u>270,172</u>
<u>2,127,576</u>	<u>-</u>	<u>2,127,576</u>
(122,050)	1,526,038	1,403,988
<u>1,186,816</u>	<u>52,982</u>	<u>1,239,798</u>
<u>\$ 1,064,766</u>	<u>\$ 1,579,020</u>	<u>\$ 2,643,786</u>

See accompanying notes to financial statements.

JOSHUA M. FREEMAN FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Productions	\$ 1,098,783	\$ -	\$ -	\$ 1,098,783
Personnel	346,097	75,338	93,112	514,547
Events and activities	-	-	140,099	140,099
Design and print	46,516	325	7,529	54,370
Promotional costs	88,916	780	15,755	105,451
Professional fees	12,722	12,175	5,100	29,997
Insurance	22,286	11,050	455	33,791
Travel and related expenses	20,120	4,041	2,521	26,682
Postage and delivery	2,697	1,697	2,349	6,743
Facility expenses	82,186	528	979	83,693
Bank, credit card and ticket processing fees	19,053	269	11,349	30,671
Accounting and audit	-	17,759	-	17,759
Depreciation and amortization	54,791	1,906	3,158	59,855
Telecommunications	5,760	1,028	3,938	10,726
Other	32,092	5,209	4,219	41,520
TOTAL	<u>\$ 1,832,019</u>	<u>\$ 132,105</u>	<u>\$ 290,563</u>	<u>\$ 2,254,687</u>

JOSHUA M. FREEMAN FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Productions	\$ 1,105,137	\$ -	\$ -	\$ 1,105,137
Personnel	302,851	42,813	82,197	427,861
Events and activities	-	-	133,917	133,917
Design and print	46,542	-	10,279	56,821
Promotional costs	101,419	-	12,903	114,322
Professional fees	5,724	6,230	9,243	21,197
Insurance	20,324	10,272	455	31,051
Travel and related expenses	17,057	8,128	1,712	26,897
Postage and delivery	3,074	776	2,790	6,640
Public relations	850	-	-	850
Facility expenses	55,563	696	1,199	57,458
Bank, credit card and ticket processing fees	28,205	310	7,075	35,590
Accounting and audit	-	15,635	-	15,635
Depreciation and amortization	41,015	1,477	2,584	45,076
Telecommunications	5,584	585	3,547	9,716
Other	31,192	5,945	2,271	39,408
TOTAL	<u>\$ 1,764,537</u>	<u>\$ 92,867</u>	<u>\$ 270,172</u>	<u>\$ 2,127,576</u>

JOSHUA M. FREEMAN FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 1,660,726	\$ 1,403,988
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	59,855	45,076
Stock donations	(32,575)	(31,640)
Unrealized gain on investments	(30,064)	(63,498)
Loss on disposal of furniture and equipment	1,493	434
(Increase) decrease in:		
Grants receivable	35,910	(108,220)
Prepaid expenses and other assets	12,750	3,264
Increase (decrease) in:		
Accounts payable and accrued liabilities	(3,679)	15,324
Refundable advances	<u>18,657</u>	<u>3,978</u>
Net cash provided by operating activities	<u>1,723,073</u>	<u>1,268,706</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture and equipment	<u>(111,535)</u>	<u>(21,610)</u>
Net cash used by investing activities	<u>(111,535)</u>	<u>(21,610)</u>
Net increase in cash and cash equivalents	1,611,538	1,247,096
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,283,080</u>	<u>1,035,984</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,894,618</u>	<u>\$ 2,283,080</u>

JOSHUA M. FREEMAN FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization

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

Basis of presentation

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

Cash and cash equivalents

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

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

Investments

Investments are recorded at their fair value. Unrealized and realized gains and losses are included in investment income in the Statements of Activities and Changes in Net Assets.

Furniture and equipment

Furniture and equipment acquisitions in excess of \$2,500 are capitalized and are stated at cost basis. Furniture and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. The cost of maintenance and repairs is recorded as expenses are incurred.

Income taxes

JMFF has been recognized as an exempt organization under Section 501(c)(3) of the Internal Revenue Code, effective as of March 7, 2007. Accordingly, no provision for income taxes has been made in the accompanying financial statements. JMFF is further classified as a public charity under Section 170(b)(1)(A)(vi), and is not a private foundation.

Uncertain tax positions

For the years ended December 31, 2014 and 2013, JMFF 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 financial statements.

The Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

Net asset classification

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

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of JMFF and include both internally designated and undesignated resources.

JOSHUA M. FREEMAN FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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

Net asset classification (continued)

- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of JMFF and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.

Revenue recognition

Operating revenue is recorded on an accrual basis and consists of ticket and concession sales from programs that are primarily offered at The Freeman Stage at Bayside. Fundraising and sponsorship revenue includes charitable contributions and other support; such revenue is recognized in the year it is received from the donor. Grant revenue is recognized in the year in which the grant is awarded and is further segregated into Unrestricted or Temporarily Restricted, as applicable. As of December 31, 2014 and 2013, there were \$3,119,937 and \$1,579,020, respectively, in temporarily restricted net assets.

Contributions

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such funds in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Use of estimates

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

Risks and uncertainties

JMFF receives various investment securities as payment for donations. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Fair value measurement

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

JOSHUA M. FREEMAN FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

2. INVESTMENTS

Investments consisted of the following at December 31, 2014 and 2013:

	<u>2014</u>		<u>2013</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Equities	\$ <u>104,225</u>	\$ <u>231,327</u>	\$ <u>71,650</u>	\$ <u>168,688</u>

Included in interest and investment income are the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 3,662	\$ 1,895
Unrealized gain on investments	<u>30,064</u>	<u>63,498</u>
TOTAL INTEREST AND INVESTMENT INCOME	\$ <u>33,726</u>	\$ <u>65,393</u>

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
State of Delaware - Program and Facility Planning Study	\$ 19,187	\$ 43,337
Delaware Division of the Arts - Operating Grants	170,500	141,070
Delaware Division of the Arts - Education Resource Grants	14,750	3,700
Delaware Division of the Arts - Arts Stabilization	12,500	-
Sussex County Council - Transportation Grant	10,000	5,913
Mid Atlantic Arts Foundation	8,000	-
Carl M. Freeman Foundation - Facility Planning and Development Grants	<u>2,885,000</u>	<u>1,385,000</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$ <u>3,119,937</u>	\$ <u>1,579,020</u>

4. NET ASSETS RELEASED FROM RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions during the years ended December 31, 2014 and 2013 by incurring expenses which satisfied the restricted purposes specified by the donors:

	<u>2014</u>	<u>2013</u>
State of Delaware - Program and Facility Planning Study	\$ 24,150	\$ 24,925
Delaware Division of the Arts - Operating Grants	141,070	43,720
Delaware Division of the Arts - Education Resource Grants	3,700	-
Delaware Division of the Arts - Arts Stabilization	<u>5,913</u>	<u>-</u>
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	\$ <u>174,833</u>	\$ <u>68,645</u>

JOSHUA M. FREEMAN FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

5. CONCENTRATION OF REVENUE

JMFF receives a significant portion of its annual support from the Carl M. Freeman Foundation, Inc. (CMFF), a 501(c)(3) private foundation whose Trustees also serve as Directors of JMFF. During the years ended December 31, 2014 and 2013, JMFF received \$1,800,000 and \$1,600,000, respectively, from CMFF, representing 46% and 45% of its annual support and revenue in 2014 and 2013, respectively; of the \$1,800,000 and \$1,600,000 support received, \$1,500,000 and \$1,385,000, respectively, is restricted for facility planning and development.

6. RELATED PARTY ACTIVITIES

Michelle Freeman, Chairman of the Board of JMFF, as well as majority owner and Chairman of Carl M. Freeman Associates, Inc. (CMFA), a for-profit corporation controlled by the Freeman family, contributed \$47,433 and \$29,921 to JMFF during 2014 and 2013, respectively. Included in these contributions were in-kind donations of \$18,200 and \$17,836 during 2014 and 2013, respectively, for items used for JMFF's fundraising events, as discussed further in Note 7.

In both 2014 and 2013, CMFA provided to JMFF, at no cost, a golf course for a fundraising event valued at \$7,500 each year, as well as office facilities valued at \$0 and \$1,861 in 2014 and 2013, respectively. In addition, CMFA has a program to match its employee charitable donations up to \$1,000 per employee per year. As part of this program, CMFA donated \$130 and \$905 to JMFF during the years ended December 31, 2014 and 2013, respectively.

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

During the years ended December 31, 2014 and 2013, JMFF incurred the following:

	<u>2014</u>	<u>2013</u>
Shared Personnel Services - CMFA	\$ 16,652	\$ 31,322
Shared Personnel Services - CMFF	\$ 344,624	\$ 321,942

Amounts due to CMFA and CMFF as of December 31, 2014 and 2013 are as follows and are included in accounts payable and accrued liabilities on the Statements of Financial Position:

	<u>2014</u>	<u>2013</u>
Due to CMFA: Shared Personnel Services	\$ 730	\$ 937
Due to CMFF: Shared Personnel Services	\$ -	\$ 10,104
Due to CMFA: Miscellaneous Expenses	\$ 120	\$ 144
Due to CMFF: Miscellaneous Expenses	\$ -	\$ 2,893

7. IN-KIND CONTRIBUTIONS

JMFF receives donations of auction items for its fundraising events as well as in-kind donations of advertising space and other goods and services. The values of such items are recorded as contributions at their actual sales price or retail value, respectively. Further, as discussed in Note 6, JMFF recorded a contribution from CMFA for use of its golf course at the estimated market value for use of this facility, and for donated office space based on the cost per square foot of space used exclusively by JMFF. The total value of these in-kind contributions has been recognized as income and expense in the accompanying financial statements during the years ended December 31, 2014 and 2013, totaling \$184,517 and \$120,193, respectively.

JOSHUA M. FREEMAN FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

8. FAIR VALUE MEASUREMENT

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

Investments recorded in the Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

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

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

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

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2014 and 2013.

- *Common stocks/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, JMFF's investments as of December 31, 2014:

	2014			
Asset Class:	Level 1	Level 2	Level 3	Total
Investments - Eagle Bank Stock	\$ 227,115	\$ -	\$ -	\$ 227,115
Investments - Equities	4,212	-	-	4,212
TOTAL	\$ 231,327	\$ -	\$ -	\$ 231,327

The table below summarizes, by level within the fair value hierarchy, JMFF's investments as of December 31, 2013:

	2013			
Asset Class:	Level 1	Level 2	Level 3	Total
Investments - Eagle Bank Stock	\$ 167,362	\$ -	\$ -	\$ 167,362
Investments - Equities	1,326	-	-	1,326
TOTAL	\$ 168,688	\$ -	\$ -	\$ 168,688

JOSHUA M. FREEMAN FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

9. COMMITMENTS

In August 2009, JMFF entered into a lease agreement with CMFF for use of certain land, buildings and improvements in Sussex County, DE owned by CMFF. JMFF uses this real property for its programming at the Freeman Stage at Bayside. Under this agreement, all rent has been waived; however, JMFF is obligated to pay for all operating and necessary maintenance expenses, excluding real estate taxes, which are paid by CMFF. The agreement, originally scheduled to expire in August 2012, has been extended on the same terms through December 2015.

In May 2011, JMFF entered into a lease agreement with a subsidiary of CMFA (the "Subsidiary") for use of land adjacent to the property leased from CMFF as described above. Under this agreement, all rent has been waived; however, JMFF is obligated to pay for all operating and necessary maintenance expenses, excluding real estate taxes which are paid by the Subsidiary. The agreement expired in May 2014 and was extended to September 2017.

In May 2014, JMFF entered into a two-year lease agreement with CMFA (CMF Bayside) for use of land located on Lake View Drive, adjacent to The Freeman Stage at Bayside and land located behind the post office. Under this agreement, all rent has been waived; however, JMFF is obligated to pay all operating and necessary maintenance expenses, excluding real estate taxes which are paid by the Subsidiary. The lease is scheduled to expire in September 2017.

10. SUBSEQUENT EVENTS

In preparing these financial statements, JMFF has evaluated events and transactions for potential recognition or disclosure through September 23, 2015, the date the financial statements were issued.