

Financial Statements

EMERALD YOUTH FOUNDATION

Years Ended December 31, 2022 and 2021

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INDEPENDENT ACCOUNTANTS' AUDIT REPORT

Board of Trustees
Emerald Youth Foundation
Knoxville, Tennessee

Opinion

We have audited the accompanying financial statements of Emerald Youth Foundation, which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Emerald Youth Foundation as of December 31, 2022 and 2021, 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.

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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Emerald Youth Foundation 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatements, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 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 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 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 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 Emerald Youth Foundation'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Emerald Youth Foundation'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.

Mitchell Emert + Hill

August 4, 2023

EMERALD YOUTH FOUNDATION
STATEMENTS OF FINANCIAL POSITION

December 31, 2022 and 2021

	2022	2021
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 1,752,242	\$ 9,065,627
Current portion of pledges receivable	1,042,838	2,926,029
Accounts receivable	38,731	35,268
Prepaid expenses	73,380	84,814
TOTAL CURRENT ASSETS	2,907,191	12,111,738
INVESTMENTS	9,094,017	4,100,000
LONG-TERM PLEDGES RECEIVABLE, net of current portion and present value discount	729,823	630,821
PROPERTY AND EQUIPMENT		
Land	211,100	211,100
Land improvements	169,880	169,880
Buildings	2,492,445	2,492,445
Donated use of facilities	10,203,077	10,203,077
Leasehold improvements	158,926	158,926
Furniture and equipment	287,935	433,249
Vehicles	941,649	898,849
Construction in process	0	59,810
	14,465,012	14,627,336
Accumulated depreciation	(6,252,369)	(5,334,388)
	8,212,643	9,292,948
	\$ 20,943,673	\$ 26,135,507

See the accompanying notes to the financial statements.

	<u>2022</u>	<u>2021</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 14,754	\$ 16,343
Other payables	<u>48,035</u>	<u>28,807</u>
TOTAL CURRENT LIABILITIES	62,789	45,150
NET ASSETS		
Net assets with donor restrictions	7,386,138	11,037,943
Net assets without donor restrictions:		
Designated	5,576,093	0
Unrestricted	<u>7,918,653</u>	<u>15,052,414</u>
	<u>20,880,884</u>	<u>26,090,357</u>
	<u>\$ 20,943,673</u>	<u>\$ 26,135,507</u>

EMERALD YOUTH FOUNDATION

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>NET ASSETS WITHOUT DONOR RESTRICTIONS</u>		
SUPPORT AND REVENUE		
Contributions and grants	\$ 1,790,195	\$ 710,034
Special events, net of direct expenses	22,367	53,476
Program service fees	259,158	238,290
Service bureau fees	165,480	161,160
Facility rental	68,362	46,168
Donated investments	0	1,800,000
In-kind contributions	318,189	318,066
Paycheck Protection Program	0	921,350
Loss on disposal of property and equipment	0	(518)
Investment income	53,184	0
Tournament income	103,720	81,947
Interest income	6,048	20,845
Miscellaneous	30,030	26,603
	<u>2,816,731</u>	<u>4,377,422</u>
Net assets released from restrictions	<u>7,141,799</u>	<u>8,812,736</u>
	9,958,530	13,190,158
EXPENSES		
Program services	8,578,900	6,864,580
Management and general	1,322,219	1,396,417
Fundraising	1,255,782	1,039,888
	<u>11,156,901</u>	<u>9,300,884</u>
OTHER CHANGES IN NET ASSETS		
Unrealized (loss) on investments	<u>(359,298)</u>	<u>0</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(1,557,668)	3,889,274

See the accompanying notes to the financial statements.

EMERALD YOUTH FOUNDATION

STATEMENTS OF ACTIVITIES

(continued)

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>NET ASSETS WITH DONOR RESTRICTIONS</u>		
SUPPORT AND REVENUE		
Contributions and grants	3,489,994	6,205,506
Net assets released from restrictions	<u>(7,141,799)</u>	<u>(8,812,736)</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(3,651,805)</u>	<u>(2,607,230)</u>
CHANGE IN NET ASSETS	(5,209,473)	1,282,044
NET ASSETS AT THE BEGINNING OF THE YEAR	<u>26,090,357</u>	<u>24,808,313</u>
NET ASSETS AT THE END OF THE YEAR	<u>\$ 20,880,884</u>	<u>\$ 26,090,357</u>

EMERALD YOUTH FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2022

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Totals</u>
Salaries	\$ 3,777,733	\$ 818,322	\$ 588,520	\$ 5,184,575
Payroll taxes	279,665	59,564	42,257	381,486
Fringe benefits	547,011	112,672	90,255	749,938
Breakfast fundraiser	0	0	55,118	55,118
Professional services	102,121	94,413	205,854	402,388
Promotion and development	15,556	855	3,959	20,370
Rent	262,495	3,521	22,663	288,679
Maintenance and repair	121,587	6,732	4,484	132,803
Utilities	150,329	8,261	7,752	166,342
Food	132,597	14,583	59,232	206,412
Recreation	57,735	0	0	57,735
Supplies	437,367	21,022	40,357	498,746
Other programs	36,635	1,611	2,651	40,897
Postage	0	1,475	4,022	5,497
Telephone	16,382	11,486	6,225	34,093
Office	12,086	0	0	12,086
Dues and subscriptions	103,662	5,892	44,095	153,649
Outside printing	43,484	3,369	27,270	74,123
Permits and registration fees	50,642	7,630	25,391	83,663
Insurance	116,271	21,270	5,864	143,405
Technology	58,505	50,814	10,008	119,327
Training	16,119	1,053	0	17,172
Transportation	12,797	194	57	13,048
Donation of ballfield improvements	1,206,912	0	0	1,206,912
Investment fiduciary fees	0	19,504	0	19,504
Depreciation	1,021,209	57,977	9,747	1,088,933
	<u>\$ 8,578,900</u>	<u>\$ 1,322,219</u>	<u>\$ 1,255,782</u>	<u>\$ 11,156,901</u>

See the accompanying notes to the financial statements.

EMERALD YOUTH FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2021

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Totals</u>
Salaries	\$ 3,422,368	\$ 843,464	\$ 511,420	\$ 4,777,252
Payroll taxes	253,127	60,154	36,694	349,975
Fringe benefits	492,536	107,539	75,490	675,565
Breakfast fundraiser	0	0	11,144	11,144
Professional services	138,456	170,811	142,007	451,274
Promotion and development	7,792	1,251	30,944	39,987
Rent	278,115	834	21,547	300,496
Maintenance and repair	91,622	2,091	1,196	94,909
Utilities	125,078	6,458	4,541	136,077
Food	138,623	8,441	33,562	180,626
Recreation	38,305	0	0	38,305
Supplies	406,718	25,511	45,410	477,639
Other programs	43,563	1,202	5,607	50,372
Postage	0	2,898	3,477	6,375
Telephone	14,390	12,604	5,836	32,830
Office	2,805	240	0	3,045
Dues and subscriptions	98,471	7,681	19,927	126,079
Outside printing	44,411	5,918	41,884	92,213
Permits and registration fees	47,682	7,163	27,183	82,028
Insurance	103,535	13,048	3,599	120,182
Technology	76,851	35,967	18,187	131,005
Training	3,012	6,090	0	9,102
Transportation	25,351	51	232	25,634
Depreciation	1,011,769	76,999	0	1,088,768
	<u>\$ 6,864,580</u>	<u>\$ 1,396,417</u>	<u>\$ 1,039,888</u>	<u>\$ 9,300,884</u>

See the accompanying notes to the financial statements.

EMERALD YOUTH FOUNDATION

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH PROVIDED(USED) BY OPERATING ACTIVITIES		
Change in net assets	\$ (5,209,473)	\$ 1,282,044
Adjustments to reconcile change in net assets to net cash (used)provided by operating activities:		
Depreciation	1,088,933	1,088,768
Donated investments	0	(1,800,000)
Donated use of facilities	(25,637)	(25,637)
Donation of ballfield improvements	1,206,912	0
Unrealized loss on investments	351,947	0
Loss on disposal of capital assets	0	2,908
(Increase)decrease in:		
Pledges receivable	1,784,189	3,037,520
Interest receivable	0	12,356
Accounts receivable	(3,463)	552,945
Prepaid expenses	11,434	1,639
Increase(decrease) in:		
Accounts payable	(1,590)	1,019
Other payables	19,228	(33,127)
	<u>4,431,953</u>	<u>2,838,391</u>
NET CASH (USED)PROVIDED BY OPERATING ACTIVITIES	(777,520)	4,120,435
CASH PROVIDED(USED) BY INVESTING ACTIVITIES		
Payments received on notes receivable	0	300,000
(Increase) in investments	(5,345,964)	0
Purchase of property and equipment	(1,189,901)	(244,053)
	<u>(6,535,865)</u>	<u>55,947</u>
NET CASH (USED)PROVIDED BY INVESTING ACTIVITIES	(6,535,865)	55,947

See the accompanying notes to the financial statements.

EMERALD YOUTH FOUNDATION

STATEMENTS OF CASH FLOWS

(continued)

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
NET (DECREASE)INCREASE IN CASH	(7,313,385)	4,176,382
CASH AT THE BEGINNING OF THE YEAR	<u>9,065,627</u>	<u>4,889,245</u>
CASH AT THE END OF THE YEAR	<u><u>\$ 1,752,242</u></u>	<u><u>\$ 9,065,627</u></u>

EMERALD YOUTH FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE A - DESCRIPTION OF ORGANIZATION

Emerald Youth Foundation (the Foundation) is a 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 well over 3,000 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 – In partnership with local churches and others, JustLead is 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.
- Calling and Career Ministry – This outreach to high school students and young adults provides support services as they transition to post-secondary experiences. Through supportive relationships with staff and volunteer mentors and tutors, young people explore their individual calling and receive guidance as they navigate the decisions that come throughout high school and early adulthood.

In addition to the areas above, the Foundation also utilizes a partnership model which 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 is also piloting several new family initiatives aimed at engaging parents and guardians in their child's development. Another example of this is the partnerships the Foundation has forged for facility space for programming in neighborhoods across the City of Knoxville, Tennessee. The Sansom Sports Complex, E.V. Davidson Pool, New Hope Recreation Center, Mechanicsville Calling and Career Center, and the Haslam-Sansom Ministry Complex at Lonsdale are all examples of facilities owned by other entities but utilized and operated by the Foundation to engage young people in urban Knoxville.

EMERALD YOUTH FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2022 and 2021

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.

After nearly three decades, the mission of Emerald Youth Foundation 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 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 financial statements.

Use of Estimates

The preparation of 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 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 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.

EMERALD YOUTH FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2022 and 2021

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.

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, 2022 and 2021 was \$1,088,933 and \$1,088,768, respectively. The Foundation generally capitalizes all expenditures for property and equipment in excess of \$7,500. Costs of maintenance and repair are expensed as incurred.

Support and Revenue

Contributions are recorded as support when cash or other assets are received. Sales revenue is recognized when cash or other assets are received. Service bureau fees are billed monthly and are recognized as revenue when assessed. Donated assets are recorded at fair value when 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 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, 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.

EMERALD YOUTH FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2022 and 2021

Functional Expense Allocation

The costs to provide various programs and other activities are summarized on a functional basis in the statements of activities. Accordingly, certain expenses have been allocated among the program and supporting services benefited. Costs directly related to a specific function are charged to that function. Salaries and benefits are allocated based on an analysis of time spent on program services and other activities. Occupancy costs are allocated based on the use of the space.

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'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 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, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Amounts due in:		
Less than one year	\$ 1,096,003	\$ 2,979,194
Allowance for uncollectible pledges	<u>(53,165)</u>	<u>(53,165)</u>
	1,042,838	2,926,029
One to five years	755,367	652,200
Present value discount	<u>(25,544)</u>	<u>(21,379)</u>
	<u>729,823</u>	<u>630,821</u>
Net pledges receivable	<u>\$ 1,772,661</u>	<u>\$ 3,556,850</u>

EMERALD YOUTH FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2022 and 2021

NOTE D - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Foundation had the following financial assets available at December 31:

	<u>2022</u>	<u>2021</u>
Cash	\$ 1,725,242	\$ 9,065,627
Pledges receivable	1,042,838	2,926,029
Accounts receivable	38,731	35,268
Investments	<u>9,094,017</u>	<u>4,100,000</u>
	<u>\$ 11,900,828</u>	<u>\$ 16,126,924</u>
Financial assets at December 31	\$ 11,900,828	\$ 16,126,924
Less pledges receivable and net assets unavailable for general expenditures within one year, due to restrictions from donors for time or purpose restrictions	(1,075,778)	(1,997,482)
Less investments unavailable for general expenditures within one year	<u>(4,100,000)</u>	<u>(4,100,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,725,050</u>	<u>\$ 10,029,442</u>

As part of their liquidity management, the Foundation structures its financial assets to be available as its general expenditures, liabilities and other obligations come due.

As discussed in Note E, the Foundation maintains lines of credits in the amounts of \$400,000 and \$300,000, of which the full amounts were available at December 31, 2022 and 2021.

EMERALD YOUTH FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2022 and 2021

NOTE E - DEBT

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 and a maturity date of February 23, 2023. No line of credit had an outstanding balance as of December 31, 2022 or 2021.

NOTE F - INVESTMENTS

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

	<u>2022</u>	<u>2021</u>
Debt securities	\$ 4,100,000	\$ 4,100,000
Cash and cash equivalents	582,076	0
Equities	2,736,017	0
Fixed income	1,949,952	0
Real estate assets	<u>308,048</u>	<u>0</u>
	<u>\$ 9,676,093</u>	<u>\$ 4,100,000</u>

Realized and unrealized gains and losses are determined on the basis of specific identification. Investment income for the year ended December 31, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 111,454	\$ 0
Realized (loss)	<u>(58,270)</u>	<u>0</u>
	53,184	0
Unrealized loss	<u>(359,298)</u>	<u>0</u>
	<u>\$ (306,114)</u>	<u>\$ 0</u>

EMERALD YOUTH FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2022 and 2021

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under Financial Accounting Standards Board's Accounting Standards Codification 820, *Fair Value Measurement*, are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in active markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

EMERALD YOUTH FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2022 and 2021

The following tables present the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2022 and 2021:

<u>Description</u>	<u>12/31/22</u>	<u>Fair Value at Reporting Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Debt securities	\$ 4,100,000	\$ 0	\$ 0	\$ 4,100,000
Cash and cash equivalents	582,076	582,076	0	0
Equities	2,736,017	2,736,017	0	0
Fixed income	1,949,952	1,949,952	0	0
Real estate assets	<u>308,048</u>	<u>0</u>	<u>308,048</u>	<u>0</u>
Totals	<u>\$ 9,676,093</u>	<u>\$ 5,268,045</u>	<u>\$ 308,048</u>	<u>\$ 4,100,000</u>

<u>Description</u>	<u>12/31/21</u>	<u>Fair Value at Reporting Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Debt securities	\$ 4,100,000	\$ 0	\$ 0	\$ 4,100,000

There were no changes in Level 3 values during the year ended December 31, 2022.

EMERALD YOUTH FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2022 and 2021

NOTE G - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were available for the following purposes:

	<u>2022</u>	<u>2021</u>
Pledges receivable restricted for future periods	\$ 1,772,661	\$ 3,556,850
Donated use of facilities	5,267,521	6,114,432
Ballfield renovations	0	990,190
Other programs and ministries	<u>345,956</u>	<u>376,471</u>
	<u>\$ 7,386,138</u>	<u>\$ 11,037,943</u>

NOTE H - NET ASSETS RELEASED FROM RESTRICTIONS

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

	<u>2022</u>	<u>2021</u>
Time restrictions	\$ 4,398,818	\$ 7,119,378
Donated use of buildings	872,547	872,548
Academics	220,361	290,834
JustLead	17,500	22,500
Soccer programs	150	5,880
Sports	190,580	61,869
Ballfield renovations	1,138,980	59,810
Other programs and ministries	<u>302,863</u>	<u>379,918</u>
	<u>\$ 7,141,799</u>	<u>\$ 8,812,736</u>

EMERALD YOUTH FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2022 and 2021

NOTE I - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist primarily of cash and cash equivalents, investments and accounts receivable. Cash and cash equivalents are maintained in demand deposit accounts, which, at times, may exceed federally insurance limits. By their nature, all such financial instruments involve risk, including the credit risk of nonperformance by counterparties. Exposure to credit risk is managed through credit approvals, investment management and monitoring procedures. The Foundation had no major concentrations of credit risk except for uninsured bank deposits.

NOTE J - 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 \$131,293 for the year ended December 31, 2022 and \$121,092 for the year ended December 31, 2021.

NOTE K - DONATED GOODS, SERVICES AND USE OF FACILITIES

Donated goods, services and use of facilities are recorded in the financial statements at the fair value of the goods, services and use of facilities received. These goods, services and use of facilities were used in various program and fundraising activities. Donated goods, services and use of facilities for the years ended December 31, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Donated services	\$ 7,140	\$ 7,851
Use of facilities	258,788	264,413
Various administrative and program supplies	<u>52,262</u>	<u>45,803</u>
	<u>\$ 318,189</u>	<u>\$ 318,066</u>

EMERALD YOUTH FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2022 and 2021

Additionally, a substantial number of unpaid volunteers have donated significant amounts of their time to assist in all of the Foundation's programs. However, no amounts have been reflected in the accompanying financial statements for donated services because their services do not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

NOTE L - 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.

During the year ended December 31, 2022, Emerald Charter Schools paid \$160,320 to the Foundation for administrative assistance. Additionally, one of Emerald Charter School's board members is on the board of the Foundation and the Foundation owns two bonds which are payable by Emerald Charter Schools.

NOTE M – DONATED USE OF FACILITIES

The Foundation entered into a lease agreement with a local charitable foundation for the use of a sports complex in April 2015, a lease agreement with a local municipality for the use of a recreation center in September 2021, and a lease agreement with a local charitable foundation for the use of a ministry complex in August 2020. The consideration to be paid for the leases is \$1.00 per year and the initial terms of the leases are 10 years, 1 year and 15 years, respectively.

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 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 statements of activities.

EMERALD YOUTH FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2022 and 2021

The future rental value of the leases and the corresponding accumulated amortization are included in the accompanying statements of financial position for the years ended December 31, 2022 and 2021 as follows:

	<u>2022</u>	<u>2021</u>
Sansom Sports Complex	\$ 5,052,440	\$ 5,052,440
New Hope Recreation Center	25,637	25,637
Haslam-Sansom Ministry Complex	<u>5,125,000</u>	<u>5,125,000</u>
	10,203,077	10,203,077
Accumulated amortization	<u>(4,935,556)</u>	<u>(4,088,645)</u>
	<u>\$ 5,267,521</u>	<u>\$ 6,114,432</u>

NOTE N - ENDOWMENTS

Emerald Youth Foundation endowments consist of two funds established for growth and stability and the career and calling center. The endowments include funds designated by the Board of Trustees. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the directions of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the endowment fund that is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA.

EMERALD YOUTH FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2022 and 2021

In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund,
- (2) The purposes of the Foundation and the donor-restricted endowment fund,
- (3) General economic conditions,
- (4) The possible effect of inflation and deflation,
- (5) The expected total return from income and the appreciation of investments,
- (6) Other resources of the Foundation,
- (7) The investment policies of the Foundation.

Investment Return Objective, Risk Parameters and Strategies

The Foundation has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions, while growing the funds if possible. Therefore, the Foundation expects its endowment assets, over time, to produce a positive average rate of return annually. Actual returns in any given year may vary. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

EMERALD YOUTH FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2022 and 2021

Spending Policy

The Foundation has a policy of appropriating for distribution varying amounts each year in conjunction with their budget. The full amount approved is not required to be distributed. Also, the Board of Trustees may request additional extraordinary distributions. The Board of Trustees reserves the right to temporarily deviate from this distribution policy if doing so is in the best interest of the endowment's long-term purpose. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, and the possible effects of inflation. The Foundation expects the current spending policy to allow its endowment funds to grow at a positive nominal average rate annually, which is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

Endowment assets held by the Foundation are included in investments on the statements of financial position. There were no endowments held by the Foundation at December 31, 2021.

Changes in endowment assets held by the Foundation for the years ended December 31, 2022 were as follows:

Balances at December 31, 2021	\$	0
Contributions		6,500,000
Investment income		47,544
Unrealized (loss)		(351,947)
Fees		(19,504)
Distributions		<u>(600,000)</u>
Balances at December 31, 2022	\$	<u>5,576,093</u>

The endowment funds listed above are considered board-designated endowments.

EMERALD YOUTH FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2022 and 2021

Endowment net assets held by the Foundation are presented in the financial statements as follows:

Cash	\$ 582,076
Investments	<u>4,994,017</u>
	<u>\$ 5,576,093</u>

In addition to the board designated endowment funds listed above, one endowment fund has been established at East Tennessee Foundation and two endowment funds at the Holston Conference Foundation for the benefit of the Foundation. Under the terms of the fund agreements, East Tennessee Foundation and Holston Conference Foundation have variance power and are the legal owners of the endowment funds. Accordingly, the endowment funds are not included in the accompanying financial statements. The Foundation is the beneficiary of the endowment funds and can receive distributions of income in accordance with the Foundation's spending policies.

NOTE O - SUBSEQUENT EVENTS

During the year ended December 31, 2023, the Foundation began The Time is Now fundraising campaign. As of July 14, 2023 a total of \$5.4 million in multi-year pledges have been received as a result of this campaign.

The Foundation has evaluated subsequent events through August 4, 2023, the date the financial statements were available to be issued, and determined that no other subsequent events have occurred that require adjustment to or disclosure in the financial statements.