Emerge Community Development

Minneapolis, Minnesota

Consolidated Financial Statements
Auditor's Report
For the Years Ended
December 31, 2015 and 2014

CERTIFIED PUBLIC ACCOUNTANTS

CONTENTS

Carpenter Evert & Associates

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Independent Auditor's Report

Board of Directors
Emerge Community Development
Minneapolis, Minnesota

We have audited the accompanying consolidated financial statements of Emerge Community Development, which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and changes in net assets, functional expense, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Emerge Community Development as of December 31, 2015 and 2014, 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.

Carpenter Evert and Associates, Ltd.

Certified Public Accountants

Minneapolis, Minnesota
June 30, 2016

EXHIBIT A

EMERGE COMMUNITY DEVELOPMENT
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:								
Grants and Contributions	$ 575,326	$ 834,074	$ -	$ 1,409,400	$ 203,192	$ 578,703	$ -	$ 781,895
Capital Campaign Contributions	-	-	-	-	-	36,754	-	36,754
Government Grants and Contracts	3,048,384	-	-	3,048,384	2,990,562	-	-	2,990,562
United Way	572,786	-	-	572,786	527,048	15,000	-	542,048
Program Fees	215,184	-	-	215,184	229,117	-	-	229,117
Production and Sales Revenue	1,725,893	-	-	1,725,893	413,118	-	-	413,118
Investment and Other Income	65,921	-	-	65,921	14,548	-	-	14,548
Net Assets Released from Restrictions:								
Satisfaction of Program Restrictions	630,344	(630,344)	-	-	500,725	(500,725)	-	-
Satisfaction of Capital Restrictions	3,700,720	(3,700,720)	-	-	218,632	(218,632)	-	-
Total Support and Revenue	10,534,558	(3,496,990)	-	7,037,568	5,096,942	(88,900)	-	5,008,042
Expense:								
Program Services:								
Workforce	2,761,846	-	-	2,761,846	2,523,330	-	-	2,523,330
Social Enterprises	2,313,438	-	-	2,313,438	858,937	-	-	858,937
Villages	927,062	-	-	927,062	745,105	-	-	745,105
Total Program Services	6,002,346	-	-	6,002,346	4,127,372	-	-	4,127,372
Support Services:								
Management and General	804,629	-	-	804,629	568,006	-	-	568,006
Fundraising	278,741	-	-	278,741	265,511	-	-	265,511
Total Support Services	1,083,370	-	-	1,083,370	833,517	-	-	833,517
Total Expense	7,085,716	-	-	7,085,716	4,960,889	-	-	4,960,889
Change in Net Assets from Operations	3,448,842	(3,496,990)	-	(48,148)	136,053	(88,900)	-	47,153
Other Changes in Net Assets:								
Net Asset Transfer from Merger	2,074,227	97,353	57,000	2,228,580	-	-	-	-
Change in Net Assets	5,523,069	(3,399,637)	57,000	2,180,432	136,053	(88,900)	-	47,153
Net Assets - Beginning of Year	2,500,501	4,290,909	-	6,791,410	2,364,448	4,379,809	-	6,744,257
Net Assets - End of Year	$ 8,023,570	$ 891,272	$ 57,000	$ 8,971,842	$ 2,500,501	$ 4,290,909	$ -	$ 6,791,410

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

EXHIBIT B

EMERGE COMMUNITY DEVELOPMENT
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED DECEMBER 31, 2015 WITH COMPARATIVE TOTALS FOR 2014

	2015								2014
	Program Services				Support Services				
	Workforce	Social Enterprises	Villages	Total Program Support	Management & General	Fund-raising	Total Support Services	Total All Services	Total All Services
Salary and Wages	$ 1,343,843	$ 1,049,440	$ 511,788	$ 2,905,071	$ 237,882	$ 164,684	$ 402,566	$ 3,307,637	$ 2,407,656
Benefits	175,544	32,423	67,066	275,033	30,085	22,050	52,135	327,168	261,117
Payroll Taxes	117,566	150,833	43,421	311,820	18,865	14,458	33,323	345,143	241,847
Total Personnel Expense	1,636,953	1,232,696	622,275	3,491,924	286,832	201,192	488,024	3,979,948	2,910,620
Participant	616,612	5,010	215,823	837,445	-	-	-	837,445	812,363
Professional Fees	133,967	154,316	30,922	319,205	431,501	14,498	445,999	765,204	566,696
Occupancy	203,312	210,602	30,570	444,484	23,075	19,869	42,944	487,428	299,956
Cost of Sales	-	482,643	-	482,643	-	-	-	482,643	-
Office Expense	65,999	11,287	(175)	77,111	19,174	19,646	38,820	115,931	91,695
Other Expense	1,271	72,236	1,570	75,077	14,228	1,486	15,714	90,791	54,292
Transportation	14,282	51,358	8,231	73,871	3,775	555	4,330	78,201	86,341
Staff and Volunteer	26,191	8,541	6,456	41,188	17,464	15,348	32,812	74,000	47,880
Telecommunication	19,765	6,679	4,157	30,601	4,964	2,606	7,570	38,171	36,476
Depreciation	43,494	78,070	7,233	128,797	3,616	3,541	7,157	135,954	54,570
Total Expense	$ 2,761,846	$ 2,313,438	$ 927,062	$ 6,002,346	$ 804,629	$ 278,741	$ 1,083,370	$ 7,085,716	$ 4,960,889

The accompanying Notes to Consolidated Financial Statements
are an integral part of this statement.

EXHIBIT C

EMERGE COMMUNITY DEVELOPMENT
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED DECEMBER 31, 2014

	2014							
	Program Services				Support Services			
	Workforce	Social Enterprises	Villages	Total Program Support	Management & General	Fund-raising	Total Support Services	Total All Services
Salary and Wages	$ 1,298,357	$ 544,570	$ 241,470	$ 2,084,397	$ 172,119	$ 151,140	$ 323,259	$ 2,407,656
Benefits	160,192	28,632	30,733	219,557	22,558	19,002	41,560	261,117
Payroll Taxes	107,301	87,723	20,079	215,103	13,494	13,250	26,744	241,847
Total Personnel Expense	1,565,850	660,925	292,282	2,519,057	208,171	183,392	391,563	2,910,620
Participant	429,742	19,930	362,691	812,363	-	-	-	812,363
Professional Fees	140,674	61,144	27,046	228,864	292,796	45,036	337,832	566,696
Occupancy	176,423	63,024	34,797	274,244	18,375	7,337	25,712	299,956
Office Expense	38,547	24,117	3,171	65,835	12,218	13,642	25,860	91,695
Other Expense	13,476	15,997	2,833	32,306	12,974	9,012	21,986	54,292
Transportation	75,084	2,560	6,152	83,796	1,842	703	2,545	86,341
Staff and Volunteer	18,618	4,260	5,555	28,433	17,010	2,437	19,447	47,880
Telecommunication	23,774	3,089	4,514	31,377	3,045	2,054	5,099	36,476
Depreciation	41,142	3,891	6,064	51,097	1,575	1,898	3,473	54,570
Total Expense	$ 2,523,330	$ 858,937	$ 745,105	$ 4,127,372	$ 568,006	$ 265,511	$ 833,517	$ 4,960,889

The accompanying Notes to Consolidated Financial Statements
are an integral part of this statement.

EXHIBIT D

EMERGE COMMUNITY DEVELOPMENT
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 1,263,205	$ 1,108,081
Grants Receivable	565,872	1,510,618
Accounts Receivable (Net of Allowance for Doubtful Accounts of $8,643 in 2015 and $-0- in 2014)	604,755	556,922
Inventory	92,308	-
Prepaid Expense	344,007	154,064
Total Current Assets	2,870,147	3,329,685
Other Assets	207,798	93,600
Property and Equipment - Net	8,029,065	5,056,783
TOTAL ASSETS	$ 11,107,010	$ 8,480,068
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	$ 203,421	$ 138,445
Accrued Expenses	410,154	223,727
Notes Payable - Current	471,207	511,047
Deferred Income	15,651	-
Total Current Liabilities	1,100,433	873,219
Long-term Liabilities:		
Notes Payable	1,034,735	815,439
Total Liabilities	2,135,168	1,688,658
Net Assets:		
Unrestricted:		
Operations	402,981	344,721
Property and Equipment	7,620,589	2,155,780
Total Unrestricted	8,023,570	2,500,501
Temporarily Restricted	891,272	4,290,909
Permanently Restricted	57,000	-
Total Net Assets	8,971,842	6,791,410
TOTAL LIABILITIES AND NET ASSETS	$ 11,107,010	$ 8,480,068

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

EMERGE COMMUNITY DEVELOPMENT
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows from Operating Activities:		
Change in Net Assets	$ 2,180,432	$ 47,153
Total Adjustments	(961,983)	(97,162)
Net Cash Provided (Used) by Operating Activities	1,218,449	(50,009)
Cash Flows from Investing Activities:		
Purchase of Property and Equipment	(49,398)	(33,149)
Use of Cash Restricted for Capital Campaign	(1,193,383)	(3,342,566)
Net Cash (Used) by Investing Activities	(1,242,781)	(3,375,715)
Cash Flows from Financing Activities:		
Proceeds from Contributions Restricted for Capital Campaign	-	1,946,762
Proceeds from Notes Payable	777,563	1,326,486
Payments on Notes Payable	(598,107)	-
Net Cash Provided by Financing Activities	179,456	3,273,248
Net Increase (Decrease) in Cash and Cash Equivalents	155,124	(152,476)
Cash and Cash Equivalents - Beginning of Year	1,108,081	1,260,557
Cash and Cash Equivalents - End of Year	$ 1,263,205	$ 1,108,081

Supplemental Disclosure of Cash Flow Information

	2015	2014
Cash Paid for:		
Interest	$ 48,859	$ 8,274

The accompanying Notes to Consolidated Financial Statements
are an integral part of these statements.

EMERGE COMMUNITY DEVELOPMENT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

1. Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements of Emerge Community Development (Emerge) include the accounts of Emerge Ventures, LLC. and Momentum Enterprises, Inc. (Momentum). Emerge is the sole member of Emerge Ventures, LLC. Momentum was merged into Emerge on August 1, 2015 so five months of activity is included in the consolidation. All significant inter-company transactions have been eliminated.

Organizational Purpose

The mission of Emerge is *to partner with people as they redefine themselves and create economic opportunities in our communities*. Key organizational goals include eliminating chronic homelessness via innovative transitional and supportive housing initiatives; promoting self-sufficiency through a myriad of employment and training programs and services; and by creating jobs and wealth through social enterprise and community development activities.

Emerge serves individuals and families through broad range of programs/enterprises that fall under three integrated units:

Workforce: Training, career counseling, job placement, career laddering, and ongoing support to help participants develop their wage-earning and wealth-building potential, and increase access to professional development.

Social Enterprises: Four distinct operations in retail, staffing, recycling and light manufacturing that provide employment for hard-to-employ adults and at-risk youth while, at the same time, provide high quality services to business and government agencies throughout the Twin Cities.

Villages: Transitional and permanent, supportive housing projects provide a holistic model of human services to support success in ending homelessness by creating safe housing and supportive family-based services.

1. Summary of Significant Accounting Policies (continued)

Fund Accounting

In order to observe the limitation and restrictions placed on resources available to Emerge, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure whereby resources are classified for accounting and reporting purposes into net asset groupings established according to their nature and restrictions. A description of the groupings is as follows:

Unrestricted Net Assets – Net assets which are neither permanently nor temporarily restricted by donor-imposed stipulations. These net assets include both board designated and undesignated amounts. Land, buildings and equipment are reported as unrestricted net assets.

Temporarily Restricted Net Assets – The part of net assets of Emerge resulting from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions pursuant to those stipulations.

Cash and Cash Equivalents

For purposes of the statement of cash flows, Emerge considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable and Doubtful Accounts

Emerge extends credit to its customers on terms it establishes for individual customers. Receivables are recorded at amounts billed and are generally due when billed. Amounts outstanding for more than 30 days are considered delinquent. Accounts receivable are generally uncollateralized and Emerge does not charge interest on accounts receivable balances. Emerge reviews accounts receivable balances on a periodic basis and writes off delinquent receivables when they are considered uncollectible. Emerge provides an allowance for doubtful accounts based on historical experience and management's evaluation of outstanding accounts receivable at the end of each year. Accounts are stated net of the allowance for doubtful accounts of $8,643 and $-0- at December 31, 2015 and 2014, respectively.

1. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property, equipment and leasehold improvements in excess of $2,500 are recorded at cost if purchased, or an estimated market value if donated. Depreciation is provided using the straight-line method over an estimated useful life as follows:

Building	30 years
Building and Leasehold Improvements	10 – 40 years
Furniture, Fixtures and Other Equipment	2 – 10 years
Vehicles	2 – 5 years

Contributions

Contributions are recorded when received and recognized as support in the period received. If donor-imposed restrictions accompany the contribution, the amount is recorded as temporarily or permanently restricted until the donor-imposed restrictions expire or are fulfilled. Temporarily restricted net assets are reclassified to unrestricted in the period donor-imposed restrictions expire or are fulfilled, and are reported in the Statements of Activities under the Support and Revenue Category – Net Assets Released from Restrictions except when the receipt and expiration occur in the same period in which case the contribution is shown as unrestricted.

Promises-To-Give (Grants Receivable)

Unconditional promises-to-give are recognized in the period the promises are made. Conditional promises-to-give are recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional.

Government Grants and Contracts

Government grants and contract funds are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are made. Funds received but not yet earned are shown as refundable advances. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, Emerge will record such disallowance at the time the final assessment is made.

Functional Allocation of Expense

Expenses for providing various programs have been summarized on a functional basis. Certain costs have been allocated among programs and supporting services based on best estimates of management.

1. Summary of Significant Accounting Policies (continued)

Income Tax

Emerge has a tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and has adopted *Accounting for Uncertainty in Income Taxes*, ASC 740-10. Emerge's policy is to evaluate uncertain tax positions, at least annually, for the potential for income tax exposure from unrelated business income or from loss of nonprofit status. Emerge continues to operate consistent with its original exemption application and each year takes the necessary actions to maintain its exempt status. It has been classified as an organization that is not a private foundation under the Internal Revenue Code and charitable contributions by donors are tax deductible. In compliance with its exempt status, Emerge annually files a Return of Organization Exempt From Income Tax (Form 990). The returns for the years ending December 31, 2012 and later remain subject to examination by the Internal Revenue Service.

Risks and Uncertainties

Management uses estimates and assumptions in preparing consolidated financial statements. Those estimates and assumptions can affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

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 reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Emerge has evaluated the effect that subsequent events would have on the consolidated financial statements through June 30, 2016, which is the date consolidated financial statements were available to be issued.

Advertising

Advertising costs are expensed as incurred. Advertising expense was $1,708 and $4,219 for the years ended December 31, 2015 and 2014, respectively.

2. Financial Instruments

Significant Concentrations of Credit Risk

Emerge provides services within the Twin Cities area. The amounts due for services provided are from individuals, or their third-party payors, substantially all of whom are local residents. In addition, grants receivable are from local residents, governments or institutions.

Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

At December 31, 2015 and 2014, Emerge held funds at a local financial institution in excess of federally insured limits

3. Property and Equipment

Emerge owned the following as of:	December 31,	
	2015	2014
Land	$ 467,846	$ 242,846
Buildings	2,107,435	532,435
Building Improvements	5,918,217	384,212
Furniture, Fixtures and Other Equipment	1,168,644	197,502
Vehicles	250,362	64,467
Construction in Progress	-	4,077,740
	9,912,504	5,499,202
Less Accumulated Depreciation	1,883,439	442,419
	$ 8,029,065	$ 5,056,783

Depreciation expense of $135,954 and $54,570 was recorded for the years ended December 31, 2015 and 2014, respectively.

4. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of amounts for the following purposes as of:

	December 31,	
	2015	2014
Emerge Workforce	$ 299,011	$ 426,959
Social Enterprises	217,750	-
Other	175,629	31,232
Emerge Villages	141,684	131,998
Scholarship Fund	57,198	-
Capital Campaign	-	3,700,720
	$ 891,272	$ 4,290,909

5. Other Assets

Other Assets were comprised of the following as of:

	December 31, 2015	December 31, 2014
Beneficial interest in The Minneapolis Foundation	$ 114,198	$ -
PPLPUC Limited Liability Partnership – Reserve Balance	93,600	93,600
	$ 207,798	$ 93,600

Emerge has establish a fund with The Minneapolis Foundation. The Minneapolis Foundation retains variance power over the fund, and has the right to exercise such power if the mission of Emerge becomes inconsistent with the purpose of the fund. However, because the fund was established by Momentum (prior to merger) and funded by Momentum with the clear understanding that Momentum is to be the beneficiary of the fund. Emerge reports the beneficial interest in the fund as an asset at its estimated fair value.

Emerge has contributed $93,600 to a reserve balance of PPLPUC Limited Liability Partnership. The partnership manages the Camden Apartments facility and Emerge manages a supportive housing program at the facility. Although Emerge is not currently a partner in the partnership, the process is underway to have one partner transfer their 50% ownership in the partnership to Emerge. The funds are expected to be returned to Emerge before 2036.

6. Grants Receivable

The outstanding balance of grants receivable at December 31, 2015, is expected to be collected over the following fiscal year:

Due in the Year Ending December 31,	
2016	$ 565,872

7. Leased Facilities

Emerge leases office space at various locations. Rental commitments under the noncancelable leases for space in effect at December 31, 2015, total $116,480.

The future annual rental commitments are as follows:

Due in the Year Ending December 31,	
2016	$ 114,780
2017	1,700
Total	$ 116,480

Rental expense was $294,407 and $197,888 for the years ended December 31, 2015 and 2014, respectively.

8. Notes Payable

The breakdown of notes payable was as follows as of:

	December 31, 2015	December 31, 2014
4% note payable due to the City of Minneapolis. Monthly interest only payments of $1,667 through November 1, 2019 and principal and interest payments made thereafter of $3,698 through November 1, 2034.	$ 478,432	$ 424,048
3% note payable due to Hennepin County. Payments of $3,862 that include principal and interest are due monthly beginning October 1, 2015. Final payment of unpaid principal and interest is due December 31, 2019.	391,391	400,000
6% line-of-credit with Local Initiative Support Corporation with a limit of $990,000. Unpaid principal and interest is due in 2016.	386,119	502,438
Interest free note due to Project for Pride and Living, Inc. Payments of $50,000 per year are due through 2020.	250,000	-
	1,505,942	1,326,486
Less Portion Due Within One (1) Year	471,207	511,047
Long-term Portion	$ 1,034,735	$ 815,439

Principal payments required are as follows:

Due in the Year Ending December 31,	
2016	$ 471,207
2017	86,154
2018	87,254
2019	334,999
2020	75,798
2021 and Beyond	450,530
Total	$ 1,505,942

9. Collaborative Agreements

In January 2009, Emerge became a member of MACC CommonWealth, Inc. (also a nonprofit), an organization formed to deliver a shared solution for meeting the key administrative functions of finance, human resources, information technology, medical billing, facilities and client data management. Emerge recorded expenses of $477,848 and $378,889 for these services in the years ended December 31, 2015 and 2014, respectively.

10. Fair Value

In accordance with FASB ASC 820, "fair value" is defined as the price that an organization would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. Various inputs are used in determining the value of investments. ASC 820 established a three-tier hierarchy of inputs to establish a classification of fair value measurements for disclosure purposes. The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

Level 1 – Quoted prices in active markets for identical investments.
Level 2 – Other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
Level 3 – Significant unobservable inputs.

The following is a summary of the inputs used to determine the fair value of the investments at December 31:

	2015			
	Level 1	Level 2	Level 3	Total
Other Assets	$ -	$ -	$ 207,798	$ 207,798

	2014			
	Level 1	Level 2	Level 3	Total
Other Assets	$ -	$ -	$ 93,600	$ 93,600

The following information reconciles the beginning and ending balances of fair value measurement using significant unobservable inputs (Level 3). The fair value of the beneficial interest is provided by Minneapolis Foundation based on its valuation of the underlying investments and Emerge's interest in the fund. The fund holds various investments including fixed income, equity, and alternative investments. The alternative investments are stated at the fair value estimates of the investment managers in the absence of readily determinable values. A summary of change in valuations in the years ended December 31:

	2015	2014
Beginning Balance	$ 93,600	$ 93,600
Net Asset Transfer	125,069	-
Change in Beneficial Interest Valuation	(10,871)	-
Ending Balance	$ 207,798	$ 93,600

11. Endowment Funds

Description

Endowment funds consist of a donor restricted endowment held at The Minneapolis Foundation (the Thomas M. Dale-Dain Bosworth Scholarship Fund).

Interpretation of Relevant Law

The Board of Directors has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 Organization classifies as permanently restricted net assets (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 direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization 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 Organization 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 Organization
7. The investment policies of the Organization

Return Objectives and Risk Parameters

Emerge is subject to the investment policy of The Minneapolis Foundation. As defined by the Foundation, the underlying investment objectives of this policy are:

1. Preserve capital
2. Manage the portfolio's risk/return relationship in order to maintain the real purchasing power over time with a goal of outperforming a benchmark of the inflation rate plus the Foundation's payout ratio, currently 5.5%

11. Endowment Funds (continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Emerge relies on the Foundation's total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation and places a principal emphasis on domestic and foreign fixed-income and equity-based securities to achieve its long-term return objectives.

Spending Policy and Relationship of the Investment Objectives to the Spending Policy

Emerge's spending policy mirrors that of The Minneapolis Foundation. The Foundation has a policy of appropriating for distribution each year 5.5% of its endowment fund's average fair value over the prior 12 quarters, less administrative fees. In addition, the Foundation reserves the right to make larger distributions out of investment earnings at the request of Emerge. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at a rate that is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Changes in Endowment Net Assets

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
December 31, 2014	$ -	$ -	$ -	$ -
Net Asset Transfer	-	68,069	57,000	125,069
Change in Fair Value of Beneficial Interest in Funds Held by Others	-	(10,871)	-	(10,871)
Appropriation of Endowment Assets for Expenditure	-	-	-	-
December 31, 2015	$ -	$ 57,198	$ 57,000	$ 114,198

12. Pension Plan

Emerge has a defined contribution plan that covers those employees who meet eligibility requirements. Employer contributions of $90,387 and $57,743 were made in the years ended December 31, 2015 and 2014, respectively.

13. Cash Flow Operating Adjustments

Adjustments to reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities were as follows as of:

	December 31,	
	2015	2014
Depreciation	$ 135,954	$ 54,570
Property and Equipment from Merger	(1,865,455)	-
Other Assets	(114,198)	-
Contributions Restricted for Capital Campaign	-	(36,754)
Increases (Decreases) in Current Liabilities:		
Accounts Payable	64,976	86,541
Accrued Expenses	186,427	26,818
Deferred Income	15,651	(4,274)
Decreases (Increases) in Current Assets:		
Grants Receivable	944,746	(172,264)
Accounts Receivable	(47,833)	1,473
Prepaid Expense	(189,943)	(53,272)
Total Adjustments	$ (961,983)	$ (97,162)