Emerge Community Development

Minneapolis, Minnesota

Consolidated Financial Statements
Auditor's Report
For the Years Ended
December 31, 2016 and 2015

CEA
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, 2016 and 2015, 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Carpenter Evert and Associates, Ltd.

Certified Public Accountants

Minneapolis, Minnesota
May 31, 2017

EXHIBIT A

EMERGE COMMUNITY DEVELOPMENT
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:								
Grants and Contributions	$ 917,120	$ 1,513,968	$ -	$ 2,431,088	$ 575,326	$ 834,074	$ -	$ 1,409,400
Government Grants and Contracts	3,389,813	-	-	3,389,813	3,048,384	-	-	3,048,384
United Way	699,169	-	-	699,169	572,786	-	-	572,786
Program Fees	222,008	-	-	222,008	215,184	-	-	215,184
Production and Sales Revenue	2,437,400	-	-	2,437,400	1,725,893	-	-	1,725,893
Investment and Other Income	22,802	-	-	22,802	65,921	-	-	65,921
Net Assets Released from Restrictions:								
Satisfaction of Program Restrictions	868,324	(868,324)	-	-	630,344	(630,344)	-	-
Satisfaction of Capital Restrictions	-	-	-	-	3,700,720	(3,700,720)	-	-
Total Support and Revenue	8,556,636	645,644	-	9,202,280	10,534,558	(3,496,990)	-	7,037,568
Expense:								
Program Services:								
Workforce	3,361,291	-	-	3,361,291	2,761,846	-	-	2,761,846
Social Enterprises	3,678,437	-	-	3,678,437	2,313,438	-	-	2,313,438
Villages	657,463	-	-	657,463	927,062	-	-	927,062
Total Program Services	7,697,191	-	-	7,697,191	6,002,346	-	-	6,002,346
Support Services:								
Management and General	909,597	-	-	909,597	804,629	-	-	804,629
Fundraising	295,369	-	-	295,369	278,741	-	-	278,741
Total Support Services	1,204,966	-	-	1,204,966	1,083,370	-	-	1,083,370
Total Expense	8,902,157	-	-	8,902,157	7,085,716	-	-	7,085,716
Change in Net Assets from Operations	(345,521)	645,644	-	300,123	3,448,842	(3,496,990)	-	(48,148)
Other Changes in Net Assets:								
Net Asset Transfer from Merger	-	-	-	-	2,074,227	97,353	57,000	2,228,580
Change in Net Assets	(345,521)	645,644	-	300,123	5,523,069	(3,399,637)	57,000	2,180,432
Net Assets - Beginning of Year	8,023,570	891,272	57,000	8,971,842	2,500,501	4,290,909	-	6,791,410
Net Assets - End of Year	$ 7,678,049	$ 1,536,916	$ 57,000	$ 9,271,965	$ 8,023,570	$ 891,272	$ 57,000	$ 8,971,842

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, 2016 WITH COMPARATIVE TOTALS FOR 2015

	2016								2015
	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	$ 1,602,264	$ 802,111	$ 221,113	$ 2,625,488	$ 183,353	$ 160,663	$ 344,016	$ 2,969,504	$ 2,547,640
Benefits	240,949	106,745	29,838	377,532	29,166	23,990	53,156	430,688	327,168
Payroll Taxes	135,411	54,139	16,790	206,340	19,248	13,447	32,695	239,035	345,143
Total Personnel Expense	1,978,624	962,995	267,741	3,209,360	231,767	198,100	429,867	3,639,227	3,219,951
Cost of Sales	-	1,760,060	-	1,760,060	-	-	-	1,760,060	1,242,640
Professional Fees	297,685	272,661	19,773	590,119	549,880	29,682	579,562	1,169,681	765,204
Participant	494,590	41,872	270,824	807,286	-	-	-	807,286	837,445
Occupancy	299,409	231,121	45,967	576,497	35,267	25,996	61,263	637,760	487,428
Other Expense	10,178	176,154	1,294	187,626	11,958	3,186	15,144	202,770	90,791
Office Expense	20,115	29,678	4,365	54,158	32,452	16,111	48,563	102,721	115,931
Transportation	11,066	61,270	7,787	80,123	1,663	251	1,914	82,037	78,201
Telecommunication	16,600	37,421	4,887	58,908	3,703	1,657	5,360	64,268	38,171
Staff and Volunteer	22,341	5,881	3,582	31,804	26,876	2,476	29,352	61,156	74,000
Depreciation	210,683	99,324	31,243	341,250	16,031	17,910	33,941	375,191	135,954
Total Expense	$ 3,361,291	$ 3,678,437	$ 657,463	$ 7,697,191	$ 909,597	$ 295,369	$ 1,204,966	$ 8,902,157	$ 7,085,716

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, 2015

	2015							
	Program Services				Support Services			
	Workforce	Social Enterprises	Villages	Total Program Support	Management & General	Fund-raising	Total Support Services	Total All Services
Salary and Wages	$ 1,343,843	$ 289,443	$ 511,788	$ 2,145,074	$ 237,882	$ 164,684	$ 402,566	$ 2,547,640
Benefits	175,544	32,423	67,066	275,033	30,085	22,050	52,135	327,168
Payroll Taxes	117,566	150,833	43,421	311,820	18,865	14,458	33,323	345,143
Total Personnel Expense	1,636,953	472,699	622,275	2,731,927	286,832	201,192	488,024	3,219,951
Cost of Sales	-	1,242,640	-	1,242,640	-	-	-	1,242,640
Professional Fees	133,967	154,316	30,922	319,205	431,501	14,498	445,999	765,204
Participant	616,612	5,010	215,823	837,445	-	-	-	837,445
Occupancy	203,312	210,602	30,570	444,484	23,075	19,869	42,944	487,428
Other Expense	1,271	72,236	1,570	75,077	14,228	1,486	15,714	90,791
Office Expense	65,999	11,287	(175)	77,111	19,174	19,646	38,820	115,931
Transportation	14,282	51,358	8,231	73,871	3,775	555	4,330	78,201
Telecommunication	19,765	6,679	4,157	30,601	4,964	2,606	7,570	38,171
Staff and Volunteer	26,191	8,541	6,456	41,188	17,464	15,348	32,812	74,000
Depreciation	43,494	78,070	7,233	128,797	3,616	3,541	7,157	135,954
Total Expense	$ 2,761,846	$ 2,313,438	$ 927,062	$ 6,002,346	$ 804,629	$ 278,741	$ 1,083,370	$ 7,085,716

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, 2016 AND 2015

	2016	2015
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 824,886	$ 1,263,205
Grants Receivable	288,836	565,872
Accounts Receivable (Net of Allowance for Doubtful Accounts of $7,092 in 2016 and $8,643 in 2015)	1,249,660	604,755
Inventory	113,787	92,308
Prepaid Expense	296,061	344,007
Total Current Assets	2,773,230	2,870,147
Other Assets	207,798	207,798
Property and Equipment - Net	7,864,620	8,029,065
TOTAL ASSETS	$ 10,845,648	$ 11,107,010
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	$ 167,410	$ 203,421
Accrued Expenses	319,922	410,154
Notes Payable - Current	86,154	471,207
Deferred Income	30,014	15,651
Total Current Liabilities	603,500	1,100,433
Long-term Liabilities:		
Notes Payable	970,183	1,034,735
Total Liabilities	1,573,683	2,135,168
Net Assets:		
Unrestricted:		
Operations	669,766	402,981
Property and Equipment	7,008,283	7,620,589
Total Unrestricted	7,678,049	8,023,570
Temporarily Restricted	1,536,916	891,272
Permanently Restricted	57,000	57,000
Total Net Assets	9,271,965	8,971,842
TOTAL LIABILITIES AND NET ASSETS	$ 10,845,648	$ 11,107,010

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, 2016 AND 2015

	2016	2015
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows from Operating Activities:		
Change in Net Assets	$ 300,123	$ 2,180,432
Total Adjustments	(77,591)	(961,983)
Net Cash Provided by Operating Activities	222,532	1,218,449
Cash Flows from Investing Activities:		
Purchase of Property and Equipment	(211,246)	(49,398)
Use of Cash Restricted for Capital Campaign	-	(1,193,383)
Net Cash (Used) by Investing Activities	(211,246)	(1,242,781)
Cash Flows from Financing Activities:		
Proceeds from Notes Payable	21,569	777,563
Payments on Notes Payable	(471,174)	(598,107)
Net Cash Provided (Used) by Financing Activities	(449,605)	179,456
Net Increase (Decrease) in Cash and Cash Equivalents	(438,319)	155,124
Cash and Cash Equivalents - Beginning of Year	1,263,205	1,108,081
Cash and Cash Equivalents - End of Year	$ 824,886	$ 1,263,205

Supplemental Disclosure of Cash Flow Information

	2016	2015
Cash Paid for:		
Interest	$ 41,737	$ 48,859

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

EMERGE COMMUNITY DEVELOPMENT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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.

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.

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.

1. Summary of Significant Accounting Policies (continued)

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 $7,092 and $8,643 at December 31, 2016 and 2015, respectively.

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.

1. Summary of Significant Accounting Policies (continued)

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.

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, 2013 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.

1. Summary of Significant Accounting Policies (continued)

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.

Reclassifications

Certain amounts in prior year financial statements have been reclassified to conform with the presentation in the current year financial statements.

Subsequent Events

In February 2017, Emerge purchased the tangible and intangible business assets of a metal manufacturing business for $150,000.

Emerge has evaluated the effect that subsequent events would have on the consolidated financial statements through May 31, 2017, which is the date consolidated financial statements were available to be issued.

Advertising

Advertising costs are expensed as incurred. Advertising expense was $7,606 and $1,708 for the years ended December 31, 2016 and 2015, 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, 2016 and 2015, 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,	
	2016	2015
Land	$ 467,846	$ 467,846
Buildings	2,107,435	2,107,435
Building Improvements	5,948,940	5,918,217
Furniture, Fixtures and Other Equipment	1,322,540	1,168,644
Vehicles	242,171	250,362
	10,088,932	9,912,504
Less Accumulated Depreciation	2,224,312	1,883,439
	$ 7,864,620	$ 8,029,065

Depreciation expense of $375,191 and $135,954 was recorded for the years ended December 31, 2016 and 2015, respectively.

4. Temporarily Restricted Net Assets

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

	December 31,	
	2016	2015
Future Operations	$ 621,342	$ -
Cedar Riverside Opportunity Center Capital Fund	511,000	-
Emerge Villages	139,538	141,684
Emerge Workforce	135,588	299,011
Social Enterprises	122,948	217,750
Facilities	6,500	-
Other	-	175,629
Scholarship Fund	-	57,198
	$ 1,536,916	$ 891,272

5. Other Assets

Other Assets were comprised of the following as of:

	December 31,	
	2016	2015
Beneficial interest in The Minneapolis Foundation	$ 114,198	$ 114,198
PPLPUC Limited Liability Partnership – Reserve Balance	93,600	93,600
	$ 207,798	$ 207,798

5. Other Assets (continued)

Emerge maintains a fund with The Minneapolis Foundation. 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. The funds are expected to be returned to Emerge before 2036.

6. Grants Receivable

The outstanding balance of grants receivable at December 31, 2016, is expected to be collected over the following fiscal year:

Due in the Year Ending December 31,	
2017	$ 288,836

7. Leased Facilities and Equipment

Emerge leases office space and equipment at various locations. Rental commitments under the noncancelable leases in effect at December 31, 2016, total $237,659.

The future annual rental commitments are as follows:

Due in the Year Ending December 31,	
2017	$ 76,210
2018	81,494
2019	71,002
2020	8,053
2021	900
Total	$ 237,659

Rental expense was $377,930 and $294,407 for the years ended December 31, 2016 and 2015, respectively.

Emerge has given notice that it will vacate one office location that is on a month to month lease by the end of June 2017 and relocate the operations to two locations it owns. The rental expense associated with this location was $129,712 in 2016.

8. Notes Payable

The breakdown of notes payable was as follows as of:

	December 31, 2016	December 31, 2015
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.	$ 500,000	$ 478,432
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.	356,337	391,391
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
Interest free note due to Project for Pride and Living, Inc. Payments of $50,000 per year are due through 2020.	200,000	250,000
	1,056,337	1,505,942
Less Portion Due Within One (1) Year	86,154	471,207
Long-term Portion	$ 970,183	$ 1,034,735

Principal payments required are as follows:

Due in the Year Ending December 31,	
2017	$ 86,154
2018	87,254
2019	335,032
2020	75,798
2021	26,849
2022 and Beyond	445,250
Total	$ 1,056,337

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 $578,849 and $477,848 for these services in the years ended December 31, 2016 and 2015, 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:

	2016			
	Level 1	Level 2	Level 3	Total
Other Assets	$ -	$ -	$ 207,798	$ 207,798

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

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:

	2016	2015
Beginning Balance	$ 207,798	$ 93,600
Net Asset Transfer	-	125,069
Change in Beneficial Interest Valuation	-	(10,871)
Ending Balance	$ 207,798	$ 207,798

11. Pension Plan

Emerge has a defined contribution plan that covers those employees who meet eligibility requirements. Employer contributions of $120,582 and $90,387 were made in the years ended December 31, 2016 and 2015, respectively.

12. 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, Emerge 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 Emerge in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Emerge 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 Emerge 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 Emerge
7. The investment policies of Emerge

Return Objectives

Emerge is subject to the investment policy of The Minneapolis Foundation. The fund’s objective is long term growth.

EMERGE COMMUNITY DEVELOPMENT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

12. Endowment Funds (continued)

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
Change in Fair Value of Beneficial Interest in Funds Held by Others	-	-	-	-
Appropriation of Endowment Assets for Expenditure	-	-	-	-
December 31, 2016	$ -	$ 57,198	$ 57,000	$ 114,198

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, 2016	December 31, 2015
Depreciation	$ 375,191	$ 135,954
Property and Equipment from Merger	-	(1,865,455)
Other Assets	-	(114,198)
Loss on Disposal of Property and Equipment	500	-
Increases (Decreases) in Current Liabilities:		
Accounts Payable	(36,011)	64,976
Accrued Expenses	(90,232)	186,427
Deferred Income	14,363	15,651
Decreases (Increases) in Current Assets:		
Grants Receivable	277,036	944,746
Accounts Receivable	(644,905)	(47,833)
Inventory	(21,479)	(92,308)
Prepaid Expense	47,946	(189,943)
Total Adjustments	$ (77,591)	$ (961,983)