

THE ROYAL OAK FOUNDATION, INC.

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2016 AND 2015

THE ROYAL OAK FOUNDATION, INC.

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LUTZ AND CARR

CERTIFIED PUBLIC ACCOUNTANTS, LLP

551 FIFTH AVENUE - SUITE 400, NEW YORK, NY 10176

212-697-2299 FAX: 212-949-1768

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Royal Oak Foundation, Inc.

We have audited the accompanying financial statements of The Royal Oak Foundation, Inc. (a not-for-profit corporation), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Royal Oak Foundation, Inc. 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.

Lotz + Carr, LLP

New York, New York
July 14, 2017

THE ROYAL OAK FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	2016	2015
Assets		
Cash and cash equivalents (Notes 1b and 3)	\$ 739,192	\$ 508,865
Investments (Notes 1c, 1d and 4)	5,547,695	5,052,053
Accounts receivable (Note 1e)	23,312	11,659
Unconditional promises to give (Notes 1f, 5a and 5b)		
Unrestricted	555,528	61,600
Temporarily restricted	238,255	284,624
Interest in charitable remainder trusts (Notes 1c, 1g and 6)	233,386	543,711
Prepaid expenses and other assets	39,816	25,633
Cash surrender value of life insurance (Note 7)	37,123	35,788
Security deposit	20,276	20,276
Property and equipment, at cost (net of accumulated depreciation) (Notes 1h and 8)	60,734	122,309
Contributed works of art (Note 9)	54,000	54,000
Total Assets	\$7,549,317	\$6,720,518
Liabilities and Net Assets		
Liabilities		
Accounts payable and other current liabilities	\$ 77,406	\$ 32,061
Grants payable (Note 1i)	41,489	-
Deferred revenue (Note 1j)	37,715	10,000
Deferred rent (Note 1k)	23,606	22,877
Total Liabilities	180,216	64,938
Commitments (Notes 11 and 12)		
Net Assets (Note 2)		
Unrestricted		
Operating	748,108	1,141,804
Board designated	5,402,670	4,365,115
Total Unrestricted	6,150,778	5,506,919
Temporarily restricted	1,109,465	1,039,803
Permanently restricted (Notes 2c and 10)	108,858	108,858
Total Net Assets	7,369,101	6,655,580
Total Liabilities and Net Assets	\$7,549,317	\$6,720,518

See notes to financial statements.

THE ROYAL OAK FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in Net Assets								
Revenues, Gains and Support								
Contributions (Note 1f)	\$ 453,728	\$ 83,976	\$ -	\$ 537,704	\$ 872,933	\$ 364,330	\$ -	\$1,237,263
Membership dues	808,655	-	-	808,655	793,195	-	-	793,195
Fundraising benefit	159,158	-	-	159,158	232,469	-	-	232,469
Less: Direct expenses	(32,940)	-	-	(32,940)	(70,586)	-	-	(70,586)
Educational programs	233,719	-	-	233,719	289,702	-	-	289,702
Royalty income	24,186	-	-	24,186	38,155	-	-	38,155
Less: Royalty expenses	(400)	-	-	(400)	(225)	-	-	(225)
Net investment income (Note 4)	1,080	-	-	1,080	1,040	-	-	1,040
Increase in cash surrender value of life insurance (Note 7)	1,335	-	-	1,335	1,203	-	-	1,203
Other income	6,092	-	-	6,092	19,656	-	-	19,656
	<u>1,654,613</u>	<u>83,976</u>	<u>-</u>	<u>1,738,589</u>	<u>2,177,542</u>	<u>364,330</u>	<u>-</u>	<u>2,541,872</u>
Net assets released from restrictions (Note 2b)	87,220	(87,220)	-	-	90,130	(90,130)	-	-
Appropriation to operations and grants (Note 2a)	215,113	-	-	215,113	145,000	-	-	145,000
	<u>1,956,946</u>	<u>(3,244)</u>	<u>-</u>	<u>1,953,702</u>	<u>2,412,672</u>	<u>274,200</u>	<u>-</u>	<u>2,686,872</u>
Total Revenues, Gains and Support								
Expenses								
Program Services								
Grants and scholarships	475,051	-	-	475,051	644,092	-	-	644,092
Membership	385,700	-	-	385,700	480,854	-	-	480,854
Programs	537,190	-	-	537,190	634,831	-	-	634,831
Total Program Services	<u>1,397,941</u>	<u>-</u>	<u>-</u>	<u>1,397,941</u>	<u>1,759,777</u>	<u>-</u>	<u>-</u>	<u>1,759,777</u>
Supporting Services								
Management and general	280,027	-	-	280,027	229,457	-	-	229,457
Fundraising	350,834	-	-	350,834	391,427	-	-	391,427
Total Supporting Services	<u>630,861</u>	<u>-</u>	<u>-</u>	<u>630,861</u>	<u>620,884</u>	<u>-</u>	<u>-</u>	<u>620,884</u>
	<u>2,028,802</u>	<u>-</u>	<u>-</u>	<u>2,028,802</u>	<u>2,380,661</u>	<u>-</u>	<u>-</u>	<u>2,380,661</u>
Total Expenses								
Increase (Decrease) in Net Assets Before Other Revenues and Expenses	<u>(71,856)</u>	<u>(3,244)</u>	<u>-</u>	<u>(75,100)</u>	<u>32,011</u>	<u>274,200</u>	<u>-</u>	<u>306,211</u>
Other Revenues and Expenses								
Change in value of interest in charitable remainder trusts (Note 6)	245,203	-	-	245,203	(6,132)	-	-	(6,132)
Contributions - non-operating (Note 1f)	399,352	-	-	399,352	-	-	-	-
Contributions - permanently restricted (Note 1f)	-	-	-	-	-	-	62,758	62,758
Appropriation to operations and grants (Note 2a)	(215,113)	-	-	(215,113)	(145,000)	-	-	(145,000)
Net investment income (Note 4)	286,273	72,906	-	359,179	34,248	2,054	-	36,302
	<u>715,715</u>	<u>72,906</u>	<u>-</u>	<u>788,621</u>	<u>(116,884)</u>	<u>2,054</u>	<u>62,758</u>	<u>(52,072)</u>
Total Other Revenue and Expenses								
Increase (decrease) in net assets	643,859	69,662	-	713,521	(84,873)	276,254	62,758	254,139
Net assets, beginning of year	5,506,919	1,039,803	108,858	6,655,580	5,591,792	763,549	46,100	6,401,441
	<u>\$ 6,150,778</u>	<u>\$ 1,109,465</u>	<u>\$ 108,858</u>	<u>\$7,369,101</u>	<u>\$ 5,506,919</u>	<u>\$ 1,039,803</u>	<u>\$ 108,858</u>	<u>\$6,655,580</u>
Net Assets, End of Year								

See notes to financial statements.

THE ROYAL OAK FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Increase in net assets	\$ 713,521	\$254,139
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation	62,158	195,608
Loss on disposal of property and equipment	-	67
Net realized and unrealized (gain) loss on investments	(252,185)	77,560
Deferred rent	729	22,877
Change in value of interest in charitable remainder trusts	310,325	40,195
Change in cash surrender value of life insurance	(1,335)	(1,203)
(Increase) decrease in:		
Accounts receivable	(11,653)	2,071
Unconditional promises to give	(447,559)	(246,665)
Prepaid expenses and other assets	(14,183)	10,405
Security deposit	-	8,832
Increase (decrease) in:		
Accounts payable and other current liabilities	45,345	(2,536)
Grants payable	41,489	(626,000)
Deferred revenue	27,715	(1,500)
Net Cash Provided (Used) By Operating Activities	<u>474,367</u>	<u>(266,150)</u>
Cash Flows From Investing Activities		
Purchase of investments	(847,266)	(1,552,511)
Proceeds from sale of investments	603,809	1,551,598
Purchase of property and equipment	(583)	(95,391)
Net Cash Used By Investing Activities	<u>(244,040)</u>	<u>(96,304)</u>
Net increase (decrease) in cash and cash equivalents	230,327	(362,454)
Cash and cash equivalents, beginning of year	<u>508,865</u>	<u>871,319</u>
Cash and Cash Equivalents, End of Year	<u>\$ 739,192</u>	<u>\$ 508,865</u>

See notes to financial statements.

THE ROYAL OAK FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2016 AND 2015****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

The Royal Oak Foundation, Inc. (the "Foundation") is incorporated under New York State Law as a not-for-profit organization. The Foundation works closely with the National Trust of England, Wales and Northern Ireland (the "National Trust"). The Foundation raises funds for the conservation of areas of natural beauty and the preservation of historic properties, including houses and gardens in Britain and elsewhere, and sponsors educational programs which address issues in conservation and preservation.

b - Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid debt instruments, purchased with a maturity of three months or less, other than those held as investments, to be cash equivalents.

c - Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair values.

A three-level valuation hierarchy is used for fair value measurements. These valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 Quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations the significant inputs of which are observable.

Level 3 Instruments the significant inputs of which are unobservable.

The Foundation's investments in equities, mutual funds, money market funds and cash are classified within Level 1 of the fair value hierarchy. Fair value is determined using quoted market values.

Investments are classified within Level 3 of the fair value hierarchy because they trade infrequently (or not at all) and therefore have little or no readily available pricing. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available. The interest in charitable remainder trusts is classified within Level 3 of the fair value hierarchy.

THE ROYAL OAK FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

c - Fair Value Measurements (continued)

The values assigned to these investments and any unrealized gains or losses reported are based on available information and do not necessarily represent amounts that might be realized if a ready market existed and such differences could be material. The ultimate realization of such amounts depends on future events and circumstances and therefore, valuation estimates may differ from the value realized upon disposition of individual positions.

d - Investments

The Foundation reflects investments at fair value in the statement of financial position. Interest, dividends and gains and losses on investments are reflected in the statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Gains and other investment income that are limited to specific uses by donor-imposed restrictions are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which they are generated. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

e - Accounts Receivable

The Foundation does not anticipate any losses on accounts receivable as of December 31, 2016.

f - Unconditional Promises to Give and Contributions

Contributions are recognized when the donor makes a promise to give to the Foundation, that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Foundation uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

g - Interest in Charitable Remainder Trusts

The Foundation accepts gifts subject to split-interest agreements. These gifts are generally in the form of charitable remainder unitrusts and charitable remainder annuity trusts. At the time of receipt, a gift is recorded based upon the fair value of the assets donated less the present value of any applicable liabilities for projected distributions to third parties. The discount rate used to value the beneficiary liability is fixed at the gift date. Charitable remainder unitrusts are revalued annually and the beneficiary payments are adjusted accordingly.

THE ROYAL OAK FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2016 AND 2015****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****g - Interest in Charitable Remainder Trusts**

As of December 31, 2016, the Foundation is the beneficiary of one externally managed charitable remainder trust. This trust is recorded at the present value of the estimated future cash receipts from the assets of the trust.

h - Property and Equipment

Property and equipment acquired are recorded at cost and are depreciated using the straight-line method over the estimated useful life of the related asset.

i - Grants Payable

Grants are recognized as liabilities when awarded.

j - Deferred Revenue

Deferred revenue consists of program revenue that is deferred until the activities take place.

k - Deferred Rent

The Foundation records rent expense associated with its office lease on a straight line basis over the life of the lease. The difference between the straight line amount and the amount actually paid during the year is recorded as a liability and an expense in the accompanying financial statements.

l - Financial Statement Presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

m - Tax Status

The Royal Oak Foundation, Inc. is a not-for-profit corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

n - Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

o - Prior Year Information

Certain amounts have been reclassified for comparative purposes.

p - Subsequent Events

The Foundation has evaluated subsequent events through July 14, 2017, the date that the financial statements are considered available to be issued.

THE ROYAL OAK FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 2 - Net Assets

- a - The board designated net assets consists of all monies or assets contributed to the Foundation which have been designated by the Board for future activities. The board designated net assets at December 31 consist of the following:

	<u>2016</u>	<u>2015</u>
Furniture Appeal	\$ -	\$ 113,100
Legacy Fund	4,374,675	4,190,415
Brose	555,528	-
Chartwell	338,012	-
Other board-restricted	<u>134,455</u>	<u>61,600</u>
	<u>\$5,402,670</u>	<u>\$4,365,115</u>

In December 2013, the Board of Directors established the Royal Oak Legacy Fund to support the Foundation's work with the National Trust. The assets of the fund are held in a designated investment account. A conservative annual draw policy of 3% to 5% is currently in effect. The annual draws from the fund to operations and grants were \$102,013 and \$145,000 in 2016 and 2015, respectively.

In addition, an appropriation was made in 2016 from Furniture Appeal to operations.

- b - Temporarily restricted net assets at December 31 are available for future programs and periods as follows:

	<u>2016</u>	<u>2015</u>
Ervin Fund	\$ 615,258	\$ 573,230
Seeley Fellowship Fund	170,432	150,000
Lecture Series	145,696	216,330
Damaris Horan Prize	107,912	100,243
Fleming	7,895	-
Educational Outreach Programs	14,569	-
Various sponsored projects	<u>47,703</u>	<u>-</u>
	<u>\$1,109,465</u>	<u>\$1,039,803</u>

The principal received for the Ervin Fund, Damaris Horan Prize, and Seeley Fellowship Fund have been invested and temporarily restricted net assets includes investment income earned.

THE ROYAL OAK FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 2 - Net Assets (continued)

b - (continued)

Temporarily restricted net assets have been released from restriction as follows:

	<u>2016</u>	<u>2015</u>
Seeley Fellowship Fund	\$10,220	\$ -
Lecture Series	77,000	77,000
Damaris Horan Prize	-	8,130
Educational Outreach Programs	-	5,000
	<u>\$87,220</u>	<u>\$90,130</u>

c - Permanently restricted net assets consist of donations to the Ronald Lee Fleming Lecture Fund which is restricted for educational lectures in accordance with the terms of a conditional challenge grant (Note 5b). The endowment funds as of December 31, 2016 and 2015 consisted solely of cash donations received. Pledges dependent on the occurrence of future events were not recognized. The draw policy relating to the fund is to be determined annually as outlined in the fund pledge agreement (Note 10).

Note 3 - Concentration of Credit Risk

The Foundation maintains cash accounts in a number of financial institutions. Certain balances are insured by the Federal Deposit Insurance Corporation.

Note 4 - Investments

Investments are all classified within Level 1 of the fair value hierarchy consist of the following at December 31:

	<u>2016</u>		<u>2015</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Mutual Funds				
500 Index - Equity	\$1,707,122	\$1,357,016	\$1,520,513	\$1,315,603
Extended Market Index - Equity	576,331	480,686	657,787	626,759
Mid Cap Grade Index - Equity	269,284	255,933	251,211	253,388
Short Term Investment Grade - Fixed	1,807,166	1,824,114	1,756,746	1,785,391
International - Equity	1,056,312	1,157,958	865,796	956,257
Equities	<u>131,480</u>	<u>131,518</u>	<u>-</u>	<u>-</u>
	<u>\$5,547,695</u>	<u>\$5,207,225</u>	<u>\$5,052,053</u>	<u>\$4,937,398</u>

THE ROYAL OAK FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 4 - Investments (continued)

Net investment income for the years ended December 31, 2016 and 2015 is summarized as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$108,074	\$114,902
Net realized gains	26,370	49,217
Net unrealized gains (losses)	<u>225,815</u>	<u>(126,777)</u>
Total	<u>\$360,259</u>	<u>\$ 37,342</u>

Net investment income has been allocated as follows:

	<u>2016</u>	<u>2015</u>
Unrestricted operations	\$103,093	\$ 1,040
Unrestricted other	184,260	34,248
Temporarily restricted	<u>72,906</u>	<u>2,054</u>
	<u>\$360,259</u>	<u>\$37,342</u>

Note 5 - Promises to Givea - Unconditional Promises

Unconditional promises to give at December 31 are due as follows:

	<u>2016</u>			<u>2015</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
Due within one year	\$555,528	\$122,500	\$678,028	\$206,894
Due in one to five years	<u>-</u>	<u>122,500</u>	<u>122,500</u>	<u>150,000</u>
	555,528	245,000	800,528	356,894
Less: Discount to present value	<u>-</u>	<u>(6,745)</u>	<u>(6,745)</u>	<u>(10,670)</u>
Total, 2016	<u>\$555,528</u>	<u>\$238,255</u>	<u>\$793,783</u>	
Total, 2015	<u>\$ 61,600</u>	<u>\$284,624</u>		<u>\$346,224</u>

THE ROYAL OAK FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 5 - Promises to Give (continued)

a - Unconditional Promises (continued)

Uncollectible promises are expected to be insignificant. Unconditional promises to give due after one year are discounted to net present value using a discount rate of 3%.

b - Conditional Promise to Give

The Foundation received a conditional pledge toward establishing a permanently restricted endowment fund designated to support the Ronald Lee Fleming Lecture Fund. The pledge required matching contributions on a two-to-one basis. The donor will contribute a maximum of \$500,000 toward the Lecture Fund if an additional \$1,000,000 is raised. As of December 31, 2016, the Foundation raised \$108,858 in cash and \$700,000 in conditional pledges toward the challenge match. The match will be received from the estate of the donor and has not been included in the accompanying financial statements. Due to the nature of the challenge and the matching pledges, they have not been recorded in the accompanying financial statements.

Note 6 - Interest in Charitable Remainder Trusts

Charitable remainder trusts were recorded naming the Foundation as the recipient of remainder assets after the death of the respective donors and/or their beneficiaries ("the life tenants"). Each donor put certain assets in trust from which the trustee remits annuity payments to the life tenants, until such time that the life tenants are deceased. Upon the death of the life tenants, all principal and income of the trusts designated for the Foundation will be distributed to the Foundation. The trusts are held in various investment accounts administered by independent third parties. As of December 31, 2016 and 2015, the present value of net assets held for charitable remainder trusts, less the present value of expected annuity payments, amounted to \$233,386 and \$543,711, respectively.

The following summarizes changes in fair values of the Foundation's Level 3 asset, interest in charitable remainder trusts, for the year ended December 31:

	<u>Fair Value</u>	
	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$543,711	\$583,906
Cash received	-	(34,063)
Change in present value	<u>(310,325)</u>	<u>(6,132)</u>
Balance, End of Year	<u>\$233,386</u>	<u>\$543,711</u>

THE ROYAL OAK FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 7 - Cash Surrender Value of Life Insurance

The Foundation received a contribution from a donor in which the Foundation is the beneficiary of a whole life insurance policy. The face value of the policy is \$75,000 and the premiums are being paid by the donor. The cash surrender value as of December 31, 2016 and 2015 was \$37,123 and \$35,788, respectively.

Note 8 - Property and Equipment

Property and equipment consist of the following at December 31:

	<u>Life</u>	<u>2016</u>	<u>2015</u>
Furniture and fixtures	10 years	\$ 85,300	\$ 85,300
Equipment	5 years	53,796	53,627
Software development	3 years	<u>261,206</u>	<u>261,206</u>
		400,302	400,133
Less: Accumulated depreciation		<u>(339,568)</u>	<u>(277,824)</u>
		<u>\$ 60,734</u>	<u>\$122,309</u>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$62,158 and \$195,608, respectively.

Note 9 - Contributed Works of Art

The Foundation received contributions of art work which are being displayed in properties the Foundation supports. The Foundation valued these pieces of art at their fair value on the dates they were received.

THE ROYAL OAK FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 10 - Endowment Funds

Consistent with New York Prudent Management of Institutional Funds Act (“NYPMIFA”), the Foundation 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 any 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 Foundation in a manner consistent with the standard of prudence prescribed by NYPMIFA.

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

- (i) the duration and preservation of the endowment fund;
- (ii) the purposes of the Foundation and the endowment fund;
- (iii) general economic conditions;
- (iv) the possible effect of inflation or deflation;
- (v) the expected return from income and the appreciation of investments;
- (vi) other resources of the Foundation
- (vii) where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the Foundation; and
- (viii) the investment policy of the Foundation

The composition of the Foundation’s invested endowment funds by type of fund and net asset classification is summarized as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted funds, 2016	<u>\$ 7,895</u>	<u>\$108,858</u>	<u>\$116,753</u>
Donor-restricted funds, 2015	<u>\$ -</u>	<u>\$108,858</u>	<u>\$108,858</u>

THE ROYAL OAK FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 10 - Endowment Funds (continued)

Changes in endowment funds are summarized as follows for the years ended December 31:

	2016		
	Temporarily Restricted	Permanently Restricted	Total
Endowment funds, beginning of year	\$ -	\$108,858	\$108,858
Interest and dividends	2,278	-	2,278
Net unrealized gains	<u>5,617</u>	<u>-</u>	<u>5,617</u>
Net Investment Income	<u>7,895</u>	<u>-</u>	<u>7,895</u>
Endowment Funds, End of Year	<u>\$ 7,895</u>	<u>\$108,858</u>	<u>\$116,753</u>
		2015	
		Permanently Restricted	
Endowment funds, beginning of year		\$ 46,100	
Contributions		<u>62,758</u>	
Endowment Funds, End of Year		<u>\$108,858</u>	

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity as well as undistributed accumulated earnings from those assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that, over time, will provide a balanced rate of return. Actual returns in any given year may vary.

Note 11 - Commitments

a - The Foundation rents office space pursuant to operating leases that expire March 31, 2020. The leases provide for future minimum rental payments as follows:

<u>Year Ending December 31,</u>	
2017	\$128,128
2018	131,971
2019	135,931
Thereafter to March 31, 2020	34,232

THE ROYAL OAK FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2016 AND 2015****Note 11 - Commitments (continued)**

a - (continued)

Total rent expense, including other operating expenses, for the years ended December 31, 2016 and 2015 was \$152,305 and \$157,808, respectively.

b - The Foundation has a line of credit in the amount of \$25,000, borrowings of which bear interest at the bank's prime rate plus 5.25%. There is no expiration date on the line of credit. There were no borrowings during the years ended December 31, 2016 and 2015 and no outstanding balances.

Note 12 - Retirement Plan

The Foundation has a defined contribution 403(b) plan (the "Plan") for eligible employees. The Plan provides for employee and employer contributions, subject to IRS limitations. The Foundation will match the contributions of eligible employees up to 4% of their annual salary. The retirement plan cost for 2016 and 2015 was \$9,753 and \$10,611, respectively.

Note 13 - Functional Allocation of Expenses

The cost of providing the various program and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

SUPPLEMENTARY INFORMATION



LUTZ AND CARR

CERTIFIED PUBLIC ACCOUNTANTS, LLP

551 FIFTH AVENUE - SUITE 400, NEW YORK, NY 10176

212-697-2299 FAX: 212-949-1768

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

To the Board of Directors of
The Royal Oak Foundation, Inc.

We have audited the financial statements of The Royal Oak Foundation, Inc. as of and for the years ended December 31, 2016 and 2015, and our report thereon dated July 14, 2017, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses for the year ended December 31, 2016 with comparative totals for 2015 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Lutz + Carr, LLP

New York, New York
July 14, 2017

THE ROYAL OAK FOUNDATION, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016 WITH COMPARATIVE TOTALS FOR 2015

	Program Services				Supporting Services			2016	2015 *
	Grants and Scholarships	Membership	Programs	Total	Management and General	Fundraising	Total	Total Expenses	Total Expenses
Salaries	\$ 7,415	\$ 177,965	\$176,111	\$ 361,491	\$ 66,738	\$ 189,706	\$256,444	\$ 617,935	\$ 613,162
Payroll taxes and benefits	1,490	35,753	35,381	72,624	13,408	38,112	51,520	124,144	136,025
Grants and scholarships	425,190	-	-	425,190	-	-	-	425,190	596,280
Mission related marketing	37,918	15,938	-	53,856	-	19,733	19,733	73,589	84,045
Member services	-	83,165	-	83,165	-	-	-	83,165	99,698
Lectures and tours	-	-	253,577	253,577	-	-	-	253,577	277,832
Telephone and internet	111	2,656	2,628	5,395	996	2,831	3,827	9,222	11,592
Insurance	-	-	-	-	13,691	-	13,691	13,691	12,612
Equipment expenses	-	-	-	-	21,284	-	21,284	21,284	17,035
Occupancy	1,656	39,735	39,321	80,712	29,237	42,356	71,593	152,305	157,808
Professional fees	-	-	-	-	119,916	-	119,916	119,916	29,192
Office supplies	133	3,186	3,153	6,472	1,195	3,397	4,592	11,064	12,038
Travel and meetings	-	-	-	-	3,326	660	3,986	3,986	14,798
Merchant service fees	309	7,418	7,341	15,068	2,782	7,908	10,690	25,758	23,430
Other expenses	83	1,982	1,963	4,028	742	2,114	2,856	6,884	67,755
Indirect gala fundraising benefit expenses	-	-	-	-	-	24,934	24,934	24,934	31,751
Total expenses before depreciation	474,305	367,798	519,475	1,361,578	273,315	331,751	605,066	1,966,644	2,185,053
Depreciation	746	17,902	17,715	36,363	6,712	19,083	25,795	62,158	195,608
Total Expenses, 2016	<u>\$ 475,051</u>	<u>\$ 385,700</u>	<u>\$537,190</u>	<u>\$1,397,941</u>	<u>\$ 280,027</u>	<u>\$ 350,834</u>	<u>\$630,861</u>	<u>\$2,028,802</u>	
Total Expenses, 2015	<u>\$ 644,092</u>	<u>\$ 480,854</u>	<u>\$634,831</u>	<u>\$1,759,777</u>	<u>\$ 229,457</u>	<u>\$ 391,427</u>	<u>\$620,884</u>		<u>\$2,380,661</u>

* Certain 2015 amounts have been reclassified for comparative purposes.

See independent auditors' report on supplementary information.