

**THE ROYAL OAK FOUNDATION, INC.**

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2017 AND 2016**

THE ROYAL OAK FOUNDATION, INC.

TABLE OF CONTENTS

	<b>Page</b>
Independent Auditors' Report .....	1-2
Financial Statements	
Statements of Financial Position .....	3
Statements of Activities .....	4
Statements of Cash Flows .....	5
Notes to Financial Statements .....	6-16
Supplementary Information	
Independent Auditors' Report on Supplementary Information .....	18
Schedule of Functional Expenses .....	19



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## **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, 2017 and 2016, 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, 2017 and 2016, 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  
May 7, 2018

**THE ROYAL OAK FOUNDATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Cash and cash equivalents (Notes 1b and 3)	\$ 366,505	\$ 739,192
Investments (Notes 1c, 1d and 4)	7,959,536	5,547,695
Accounts receivable (Note 1e)	47,693	23,312
Unconditional promises to give (Notes 1f and 5)		
Unrestricted	175,000	555,528
Temporarily restricted	85,000	238,255
Interest in charitable remainder trusts (Notes 1c, 1g and 6)	229,766	233,386
Prepaid expenses and other assets	45,061	39,816
Cash surrender value of life insurance (Note 7)	38,473	37,123
Security deposit	20,276	20,276
Property and equipment, at cost (net of accumulated depreciation) (Notes 1h and 8)	60,553	60,734
Contributed works of art (Note 9)	48,000	54,000
	<u>          </u>	<u>          </u>
<b>Total Assets</b>	<u><u>\$9,075,863</u></u>	<u><u>\$7,549,317</u></u>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and other current liabilities	\$ 107,338	\$ 77,406
Grants payable (Note 1i)	57,014	41,489
Deferred revenue (Note 1j)	19,330	37,715
Deferred rent (Note 1k)	20,603	23,606
Total Liabilities	<u>204,285</u>	<u>180,216</u>
Commitments (Notes 11 and 12)		
Net Assets (Note 2)		
Unrestricted		
Operating	895,406	748,108
Board designated	6,671,556	5,402,670
Total Unrestricted	<u>7,566,962</u>	<u>6,150,778</u>
Temporarily restricted	1,195,758	1,109,465
Permanently restricted (Notes 2c and 10)	108,858	108,858
Total Net Assets	<u>8,871,578</u>	<u>7,369,101</u>
	<u>          </u>	<u>          </u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$9,075,863</u></u>	<u><u>\$7,549,317</u></u>

See notes to financial statements.

## THE ROYAL OAK FOUNDATION, INC.

## STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Changes in Net Assets</b>								
Revenues, Gains and Support								
Contributions (Note 1f)	\$ 603,483	\$ 50,736	\$ -	\$ 654,219	\$ 453,728	\$ 83,976	\$ -	\$ 537,704
Membership dues	853,593	-	-	853,593	808,655	-	-	808,655
Fundraising benefit	138,160	-	-	138,160	159,158	-	-	159,158
Less: Direct expenses	(33,275)	-	-	(33,275)	(32,940)	-	-	(32,940)
Educational programs	248,765	-	-	248,765	233,719	-	-	233,719
Royalty income	23,961	-	-	23,961	24,186	-	-	24,186
Less: Royalty expenses	-	-	-	-	(400)	-	-	(400)
Net investment income (loss) (Note 4)	(1,303)	-	-	(1,303)	1,080	-	-	1,080
Increase in cash surrender value of life insurance (Note 7)	1,350	-	-	1,350	1,335	-	-	1,335
Other income	14,921	-	-	14,921	6,092	-	-	6,092
	<u>1,849,655</u>	<u>50,736</u>	<u>-</u>	<u>1,900,391</u>	<u>1,654,613</u>	<u>83,976</u>	<u>-</u>	<u>1,738,589</u>
Net assets released from restrictions (Note 2b)	134,746	(134,746)	-	-	87,220	(87,220)	-	-
Appropriation to operations and grants (Note 2a)	140,559	-	-	140,559	215,113	-	-	215,113
	<u>2,124,960</u>	<u>(84,010)</u>	<u>-</u>	<u>2,040,950</u>	<u>1,956,946</u>	<u>(3,244)</u>	<u>-</u>	<u>1,953,702</u>
Total Revenues, Gains and Support								
Expenses								
Program Services								
Grants and scholarships	379,331	-	-	379,331	475,051	-	-	475,051
Membership	398,808	-	-	398,808	385,700	-	-	385,700
Programs	602,329	-	-	602,329	537,190	-	-	537,190
Total Program Services	<u>1,380,468</u>	<u>-</u>	<u>-</u>	<u>1,380,468</u>	<u>1,397,941</u>	<u>-</u>	<u>-</u>	<u>1,397,941</u>
Supporting Services								
Management and general	296,049	-	-	296,049	280,027	-	-	280,027
Fundraising	297,525	-	-	297,525	350,834	-	-	350,834
Total Supporting Services	<u>593,574</u>	<u>-</u>	<u>-</u>	<u>593,574</u>	<u>630,861</u>	<u>-</u>	<u>-</u>	<u>630,861</u>
Total Expenses	<u>1,974,042</u>	<u>-</u>	<u>-</u>	<u>1,974,042</u>	<u>2,028,802</u>	<u>-</u>	<u>-</u>	<u>2,028,802</u>
Increase (Decrease) in Net Assets Before Other Revenues and Expenses	<u>150,918</u>	<u>(84,010)</u>	<u>-</u>	<u>66,908</u>	<u>(71,856)</u>	<u>(3,244)</u>	<u>-</u>	<u>(75,100)</u>
Other Revenues and Expenses								
Change in value of interest in charitable remainder trusts (Note 6)	(3,620)	-	-	(3,620)	245,203	-	-	245,203
Contributions - non-operating (Note 1f)	553,149	-	-	553,149	399,352	-	-	399,352
Appropriation to operations and grants (Note 2a)	(140,559)	-	-	(140,559)	(215,113)	-	-	(215,113)
Net investment income (Note 4)	856,296	170,303	-	1,026,599	286,273	72,906	-	359,179
Total Other Revenue and Expenses	<u>1,265,266</u>	<u>170,303</u>	<u>-</u>	<u>1,435,569</u>	<u>715,715</u>	<u>72,906</u>	<u>-</u>	<u>788,621</u>
Increase in net assets	1,416,184	86,293	-	1,502,477	643,859	69,662	-	713,521
Net assets, beginning of year	<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>
<b>Net Assets, End of Year</b>	<u>\$ 7,566,962</u>	<u>\$ 1,195,758</u>	<u>\$ 108,858</u>	<u>\$8,871,578</u>	<u>\$ 6,150,778</u>	<u>\$ 1,109,465</u>	<u>\$ 108,858</u>	<u>\$7,369,101</u>

See notes to financial statements.

## THE ROYAL OAK FOUNDATION, INC.

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>Cash Flows From Operating Activities</b>		
Increase in net assets	\$1,502,477	\$713,521
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	27,720	62,158
Net realized and unrealized gain on investments	(852,927)	(252,185)
Donated artwork	6,000	-
Deferred rent	(3,003)	729
Change in value of interest in charitable remainder trusts	3,620	310,325
Change in cash surrender value of life insurance	(1,350)	(1,335)
(Increase) decrease in:		
Accounts receivable	(24,381)	(11,653)
Unconditional promises to give	533,783	(447,559)
Prepaid expenses and other assets	(5,245)	(14,183)
Increase (decrease) in:		
Accounts payable and other current liabilities	29,932	45,345
Grants payable	15,525	41,489
Deferred revenue	(18,385)	27,715
Net Cash Provided By Operating Activities	<u>1,213,766</u>	<u>474,367</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of investments	(3,720,143)	(847,266)
Proceeds from sale of investments	2,161,229	603,809
Purchase of property and equipment	(27,539)	(583)
Net Cash Used By Investing Activities	<u>(1,586,453)</u>	<u>(244,040)</u>
Net increase (decrease) in cash and cash equivalents	(372,687)	230,327
Cash and cash equivalents, beginning of year	<u>739,192</u>	<u>508,865</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 366,505</u>	<u>\$739,192</u>

See notes to financial statements.

**THE ROYAL OAK FOUNDATION, INC.****NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017 AND 2016****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.

The interest in charitable remainder trust is classified within Level 3 of the fair value hierarchy because it has little or no readily available pricing. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available.



THE ROYAL OAK FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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

c - Fair Value Measurements (continued)

The values assigned to the Foundation's interest in charitable remainder trusts, 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. 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, 2017.

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 under which specified distributions are made to a designated beneficiary or beneficiaries over the trust's term. Upon termination of the trust, the Foundation receives their interest in the assets remaining in the trust. At the time of receipt, a gift is recorded based upon the fair value of the assets donated less the present value of projected distributions to beneficiaries. The discount rate used to value the beneficiary liability is fixed at the gift date. Charitable remainder unitrusts are revalued annually.

**THE ROYAL OAK FOUNDATION, INC.****NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017 AND 2016****Note 1 - Organization and Summary of Significant Accounting Policies (continued)**g - Interest in Charitable Remainder Trusts (continued)

As of December 31, 2017, the Foundation is the beneficiary of one externally managed charitable remainder 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 May 7, 2018, the date that the financial statements are considered available to be issued.

**THE ROYAL OAK FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2017 AND 2016**

**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:

	<b>2017</b>	<b>2016</b>
Legacy Fund	\$5,415,441	\$4,374,675
Brose	346,058	555,528
Chartwell	880,531	338,012
Other board-restricted	29,526	134,455
	<b><u>\$6,671,556</u></b>	<b><u>\$5,402,670</u></b>

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 \$140,559 and \$102,013 in 2017 and 2016, 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:

	<b>2017</b>	<b>2016</b>
Ervin Fund	\$ 718,105	\$ 615,258
Seeley Fellowship Fund	197,597	170,432
Lecture Series	75,000	145,696
Damaris Horan Prize	121,959	107,912
Fleming	27,096	7,895
Educational Outreach Programs	10,000	14,569
Various sponsored projects	46,001	47,703
	<b><u>\$1,195,758</u></b>	<b><u>\$1,109,465</u></b>

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, 2017 AND 2016**

**Note 2 - Net Assets (continued)**

b - (continued)

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

	<u>2017</u>	<u>2016</u>
Seeley Fellowship Fund	\$ 2,042	\$10,220
Lecture Series	75,000	77,000
Damaris Horan Prize	5,000	-
Educational Outreach Programs	5,000	-
Various sponsored projects	<u>47,704</u>	<u>-</u>
	<u>\$134,746</u>	<u>\$87,220</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 permanently restricted endowment funds as of December 31, 2017 and 2016 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 and consist of the following at December 31:

	<u>2017</u>		<u>2016</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Mutual Funds				
500 Index - Equity	\$2,401,581	\$1,699,992	\$1,707,122	\$1,357,016
Extended Market Index - Equity	793,183	606,780	576,331	480,686
Mid Cap Grade Index - Equity	394,826	318,425	269,284	255,933
Short Term Investment Grade - Fixed	2,683,602	2,703,942	1,807,166	1,824,114
International - Equity	1,586,489	1,382,701	1,056,312	1,157,958
Donated equities	<u>99,855</u>	<u>99,855</u>	<u>131,480</u>	<u>131,518</u>
	<u>\$7,959,536</u>	<u>\$6,811,695</u>	<u>\$5,547,695</u>	<u>\$5,207,225</u>

**THE ROYAL OAK FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2017 AND 2016**

**Note 4 - Investments (continued)**

Net investment income for the years ended December 31, 2017 and 2016 is summarized as follows:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 172,369	\$108,074
Net realized gains	45,556	26,370
Net unrealized gains	<u>807,371</u>	<u>225,815</u>
Total	<u>\$1,025,296</u>	<u>\$360,259</u>

Net investment income has been allocated as follows:

	<u>2017</u>	<u>2016</u>
Unrestricted operations	\$ (1,303)	\$ 1,080
Unrestricted other	856,296	286,273
Temporarily restricted	<u>170,303</u>	<u>72,906</u>
	<u>\$1,025,296</u>	<u>\$360,259</u>

**Note 5 - Promises to Give**

a - Unconditional Promises

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

	<u>2017</u>			<u>2016</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
Due within one year	\$175,000	\$ 85,000	\$260,000	\$678,028
Due in one to five years	<u>-</u>	<u>-</u>	<u>-</u>	<u>122,500</u>
	175,000	85,000	260,000	800,528
Less: Discount to present value	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,745)</u>
Total, 2017	<u>\$175,000</u>	<u>\$ 85,000</u>	<u>\$260,000</u>	
Total, 2016	<u>\$555,528</u>	<u>\$238,255</u>		<u>\$793,783</u>

**THE ROYAL OAK FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2017 AND 2016**

**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, 2017, 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. 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, 2017 and 2016, the present value of net assets held for charitable remainder trusts, less the present value of expected annuity payments, amounted to \$229,766 and \$233,386, 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>2017</u>	<u>2016</u>
Balance, beginning of year	\$233,386	\$543,711
Cash and securities received or due	-	(555,528)
Change in present value	<u>(3,620)</u>	<u>245,203</u>
Balance, End of Year	<u>\$229,766</u>	<u>\$233,386</u>

**THE ROYAL OAK FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2017 AND 2016**

**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, 2017 and 2016 was \$38,473 and \$37,123, respectively.

**Note 8 - Property and Equipment**

Property and equipment consist of the following at December 31:

	<u>Life</u>	<u>2017</u>	<u>2016</u>
Furniture and fixtures	10 years	\$ 85,300	\$ 85,300
Equipment	5 years	62,585	53,796
Software development	3 years	<u>279,956</u>	<u>261,206</u>
		427,841	400,302
Less: Accumulated depreciation		<u>(367,288)</u>	<u>(339,568)</u>
		<u>\$ 60,553</u>	<u>\$ 60,734</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$27,720 and \$62,158, 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, 2017 AND 2016**

**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, 2017	<u>\$ 27,096</u>	<u>\$108,858</u>	<u>\$135,954</u>
Donor-restricted funds, 2016	<u>\$ 7,895</u>	<u>\$108,858</u>	<u>\$116,753</u>



**THE ROYAL OAK FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2017 AND 2016**

**Note 10 - Endowment Funds (continued)**

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

	<u>2017</u>		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds, beginning of year	\$ 7,895	\$108,858	\$116,753
Interest and dividends	2,981	-	2,981
Net unrealized gains	<u>16,220</u>	<u>-</u>	<u>16,220</u>
Net Investment Income	<u>19,201</u>	<u>-</u>	<u>19,201</u>
Endowment Funds, End of Year	<u>\$27,096</u>	<u>\$108,858</u>	<u>\$135,954</u>
	<u>2016</u>		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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>

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 an operating lease that expires March 31, 2020. The lease provides for future minimum rental payments as follows:

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

**THE ROYAL OAK FOUNDATION, INC.****NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017 AND 2016****Note 11 - Commitments (continued)**

a - (continued)

Total rent expense, including other operating expenses, for the years ended December 31, 2017 and 2016 was \$139,419 and \$152,305, 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, 2017 and 2016 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 2017 and 2016 was \$10,666 and \$9,753, 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**



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**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, 2017 and 2016, and our report thereon dated May 7, 2018, 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, 2017 with comparative totals for 2016 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  
May 7, 2018

## THE ROYAL OAK FOUNDATION, INC.

## SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017 WITH COMPARATIVE TOTALS FOR 2016

	Program Services				Supporting Services			2017	2016
	Grants and Scholarships	Membership	Programs	Total	Management and General	Fundraising	Total	Total Expenses	Total Expenses
Salaries	\$ -	\$ 191,229	\$185,659	\$ 376,888	\$ 71,064	\$ 162,176	\$233,240	\$ 610,128	\$ 617,935
Payroll taxes and benefits	-	37,979	36,873	74,852	14,113	32,209	46,322	121,174	124,144
Grants and scholarships	379,331	-	-	379,331	-	-	-	379,331	425,190
Mission related marketing	-	18,692	-	18,692	-	22,161	22,161	40,853	73,589
Member services	-	87,027	-	87,027	-	-	-	87,027	83,165
Lectures and tours	-	-	317,778	317,778	-	-	-	317,778	253,577
Telephone and internet	-	2,682	2,604	5,286	996	2,274	3,270	8,556	9,222
Insurance	-	-	-	-	13,075	-	13,075	13,075	13,691
Equipment expenses	-	-	-	-	22,718	-	22,718	22,718	21,284
Occupancy	-	39,291	38,147	77,438	28,659	33,322	61,981	139,419	152,305
Professional fees	-	-	-	-	133,502	-	133,502	133,502	119,916
Office supplies	-	2,821	2,738	5,559	1,048	2,392	3,440	8,999	11,064
Travel and meetings	-	-	-	-	3,781	10,208	13,989	13,989	3,986
Merchant service fees	-	7,799	7,571	15,370	2,898	6,614	9,512	24,882	25,758
Other expenses	-	2,600	2,524	5,124	966	2,205	3,171	8,295	6,884
Indirect gala fundraising benefit expenses	-	-	-	-	-	16,596	16,596	16,596	24,934
Total expenses before depreciation	379,331	390,120	593,894	1,363,345	292,820	290,157	582,977	1,946,322	1,966,644
Depreciation	-	8,688	8,435	17,123	3,229	7,368	10,597	27,720	62,158
Total Expenses, 2017	<u>\$ 379,331</u>	<u>\$ 398,808</u>	<u>\$602,329</u>	<u>\$1,380,468</u>	<u>\$ 296,049</u>	<u>\$ 297,525</u>	<u>\$593,574</u>	<u>\$1,974,042</u>	
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>

See independent auditors' report on supplementary information.