

**THE ROYAL OAK FOUNDATION, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2018 AND 2017**



**LUTZ AND CARR**  
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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, 2018 and 2017, and the related statements of activities, functional expenses 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, 2018 and 2017, 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 6, 2019

**THE ROYAL OAK FOUNDATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Cash and cash equivalents (Notes 1b and 4)	\$ 318,408	\$ 366,505
Investments (Notes 1c, 1d and 5)	6,988,669	7,959,536
Accounts receivable (Note 1e)	42,923	47,693
Unconditional promises to give (Notes 1f and 6a)		
Without donor restrictions	4,700	175,000
With donor restrictions	15,000	85,000
Interest in charitable remainder trusts (Notes 1c, 1g and 7)	198,464	229,766
Prepaid expenses and other assets	57,877	45,061
Cash surrender value of life insurance (Note 8)	39,818	38,473
Security deposit	20,276	20,276
Property and equipment, at cost (net of accumulated depreciation) (Notes 1h and 9)	82,383	60,553
Contributed works of art (Note 10)	-	48,000
	<u>                    </u>	<u>                    </u>
<b>Total Assets</b>	<b><u><u>\$7,768,518</u></u></b>	<b><u><u>\$9,075,863</u></u></b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and other current liabilities	\$ 106,918	\$ 107,338
Grants payable (Note 1i)	29,580	57,014
Deferred revenue (Note 1j)	22,193	19,330
Deferred rent (Note 1k)	13,756	20,603
	<u>                    </u>	<u>                    </u>
Total Liabilities	<u>172,447</u>	<u>204,285</u>
Commitments (Notes 12 and 13)		
Net Assets (Note 3)		
Without Donor Restrictions		
Operating	743,282	895,406
Board designated	5,719,720	6,671,556
Total Without Donor Restrictions	<u>6,463,002</u>	<u>7,566,962</u>
With Donor Restrictions		
Subject to time and purpose restriction	1,024,211	1,195,758
Perpetual in nature	108,858	108,858
Total With Donor Restrictions	<u>1,133,069</u>	<u>1,304,616</u>
	<u>                    </u>	<u>                    </u>
Total Net Assets	<u>7,596,071</u>	<u>8,871,578</u>
	<u>                    </u>	<u>                    </u>
<b>Total Liabilities and Net Assets</b>	<b><u><u>\$7,768,518</u></u></b>	<b><u><u>\$9,075,863</u></u></b>

See notes to financial statements.

## THE ROYAL OAK FOUNDATION, INC.

## STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018				2017			
	Without Donor Restrictions	With Donor Restrictions Time and Purpose	Perpetual in Nature	Total	Without Donor Restrictions	With Donor Restrictions Time and Purpose	Perpetual in Nature	Total
<b>Changes in Net Assets</b>								
Revenues, Gains and Support								
Contributions (Note 1f)	\$ 754,602	\$ 43,730	\$ -	\$ 798,332	\$ 603,483	\$ 50,736	\$ -	\$ 654,219
Membership dues	854,092	-	-	854,092	853,593	-	-	853,593
Fundraising benefit	137,723	-	-	137,723	138,160	-	-	138,160
Less: Direct expenses	(62,484)	-	-	(62,484)	(33,275)	-	-	(33,275)
Educational programs	367,730	-	-	367,730	248,765	-	-	248,765
Royalty income	17,343	-	-	17,343	23,961	-	-	23,961
Net investment income (loss) (Note 5)	125	-	-	125	(1,303)	-	-	(1,303)
Increase in cash surrender value of life insurance (Note 8)	1,345	-	-	1,345	1,350	-	-	1,350
Other income	5,442	-	-	5,442	14,921	-	-	14,921
	<u>2,075,918</u>	<u>43,730</u>	<u>-</u>	<u>2,119,648</u>	<u>1,849,655</u>	<u>50,736</u>	<u>-</u>	<u>1,900,391</u>
Net assets released from restrictions (Note 3b)	141,789	(141,789)	-	-	134,746	(134,746)	-	-
Appropriation from board designated net assets to operations and grants (Note 3a)	1,344,208	-	-	1,344,208	140,559	-	-	140,559
	<u>3,561,915</u>	<u>(98,059)</u>	<u>-</u>	<u>3,463,856</u>	<u>2,124,960</u>	<u>(84,010)</u>	<u>-</u>	<u>2,040,950</u>
<b>Expenses</b>								
Program Services								
Grants and scholarships	1,873,078	-	-	1,873,078	379,331	-	-	379,331
Membership	448,626	-	-	448,626	398,808	-	-	398,808
Educational programs	650,059	-	-	650,059	602,329	-	-	602,329
Total Program Services	<u>2,971,763</u>	<u>-</u>	<u>-</u>	<u>2,971,763</u>	<u>1,380,468</u>	<u>-</u>	<u>-</u>	<u>1,380,468</u>
Supporting Services								
Management and general	257,899	-	-	257,899	296,049	-	-	296,049
Fundraising	453,075	-	-	453,075	297,525	-	-	297,525
Total Supporting Services	<u>710,974</u>	<u>-</u>	<u>-</u>	<u>710,974</u>	<u>593,574</u>	<u>-</u>	<u>-</u>	<u>593,574</u>
	<u>3,682,737</u>	<u>-</u>	<u>-</u>	<u>3,682,737</u>	<u>1,974,042</u>	<u>-</u>	<u>-</u>	<u>1,974,042</u>
Increase (Decrease) in Net Assets Before Other Revenues and Expenses	<u>(120,822)</u>	<u>(98,059)</u>	<u>-</u>	<u>(218,881)</u>	<u>150,918</u>	<u>(84,010)</u>	<u>-</u>	<u>66,908</u>
<b>Other Revenues and Expenses</b>								
Change in value of interest in charitable remainder trusts (Note 7)	(31,302)	-	-	(31,302)	(3,620)	-	-	(3,620)
Contributions - non-operating (Note 1f)	764,036	-	-	764,036	553,149	-	-	553,149
Appropriation from board designated net assets to operations and grants (Note 3a)	(1,344,208)	-	-	(1,344,208)	(140,559)	-	-	(140,559)
Net investment income (loss) (Note 5)	<u>(371,664)</u>	<u>(73,488)</u>	<u>-</u>	<u>(445,152)</u>	<u>856,296</u>	<u>170,303</u>	<u>-</u>	<u>1,026,599</u>
	<u>(983,138)</u>	<u>(73,488)</u>	<u>-</u>	<u>(1,056,626)</u>	<u>1,265,266</u>	<u>170,303</u>	<u>-</u>	<u>1,435,569</u>
Increase (decrease) in net assets	<u>(1,103,960)</u>	<u>(171,547)</u>	<u>-</u>	<u>(1,275,507)</u>	<u>1,416,184</u>	<u>86,293</u>	<u>-</u>	<u>1,502,477</u>
Net assets, beginning of year	<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>
<b>Net Assets, End of Year</b>	<u>\$ 6,463,002</u>	<u>\$1,024,211</u>	<u>\$108,858</u>	<u>\$7,596,071</u>	<u>\$ 7,566,962</u>	<u>\$1,195,758</u>	<u>\$108,858</u>	<u>\$8,871,578</u>

See notes to financial statements.

## THE ROYAL OAK FOUNDATION, INC.

## STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Program Services				Supporting Services			Total Expenses
	Grants and Scholarships	Membership	Educational Programs	Total	Management and General	Fundraising	Total	
Salaries	\$ -	\$ 196,919	\$ 185,605	\$ 382,524	\$ 74,764	\$ 266,893	\$341,657	\$ 724,181
Payroll taxes and benefits	-	42,116	39,696	81,812	15,989	57,081	73,070	154,882
Grants and scholarships	1,866,106	50,825	-	1,916,931	-	-	-	1,916,931
Mission related marketing	6,972	21,511	-	28,483	-	21,410	21,410	49,893
Member services	-	84,174	-	84,174	-	-	-	84,174
Lectures and tours	-	-	374,728	374,728	-	-	-	374,728
Telephone and internet	-	2,807	2,646	5,453	1,066	3,805	4,871	10,324
Insurance	-	-	-	-	12,747	-	12,747	12,747
Equipment expenses	-	-	-	-	64,834	4,788	69,622	69,622
Occupancy	-	25,907	24,418	50,325	21,785	35,113	56,898	107,223
Professional fees	-	-	-	-	52,789	11,798	64,587	64,587
Office supplies	-	3,000	2,827	5,827	1,139	4,065	5,204	11,031
Travel and meetings	-	-	-	-	4,675	9,063	13,738	13,738
Merchant service fees	-	7,625	7,187	14,812	2,895	10,333	13,228	28,040
Other expenses	-	2,364	2,228	4,592	897	3,204	4,101	8,693
Indirect gala fundraising benefit expenses	-	-	-	-	-	10,101	10,101	10,101
Total expenses before depreciation	1,873,078	437,248	639,335	2,949,661	253,580	437,654	691,234	3,640,895
Depreciation	-	11,378	10,724	22,102	4,319	15,421	19,740	41,842
Total Expenses	<u>\$ 1,873,078</u>	<u>\$ 448,626</u>	<u>\$ 650,059</u>	<u>\$2,971,763</u>	<u>\$ 257,899</u>	<u>\$ 453,075</u>	<u>\$710,974</u>	<u>\$3,682,737</u>

**THE ROYAL OAK FOUNDATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2017**

	<b>Program Services</b>				<b>Supporting Services</b>			<b>Total Expenses</b>
	<b>Grants and Scholarships</b>	<b>Membership</b>	<b>Educational Programs</b>	<b>Total</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>	
Salaries	\$ -	\$ 191,229	\$ 185,659	\$ 376,888	\$ 71,064	\$ 162,176	\$233,240	\$ 610,128
Payroll taxes and benefits	-	37,979	36,873	74,852	14,113	32,209	46,322	121,174
Grants and scholarships	379,331	-	-	379,331	-	-	-	379,331
Mission related marketing	-	18,692	-	18,692	-	22,161	22,161	40,853
Member services	-	87,027	-	87,027	-	-	-	87,027
Lectures and tours	-	-	317,778	317,778	-	-	-	317,778
Telephone and internet	-	2,682	2,604	5,286	996	2,274	3,270	8,556
Insurance	-	-	-	-	13,075	-	13,075	13,075
Equipment expenses	-	-	-	-	22,718	-	22,718	22,718
Occupancy	-	39,291	38,147	77,438	28,659	33,322	61,981	139,419
Professional fees	-	-	-	-	133,502	-	133,502	133,502
Office supplies	-	2,821	2,738	5,559	1,048	2,392	3,440	8,999
Travel and meetings	-	-	-	-	3,781	10,208	13,989	13,989
Merchant service fees	-	7,799	7,571	15,370	2,898	6,614	9,512	24,882
Other expenses	-	2,600	2,524	5,124	966	2,205	3,171	8,295
Indirect gala fundraising benefit expenses	-	-	-	-	-	16,596	16,596	16,596
Total expenses before depreciation	379,331	390,120	593,894	1,363,345	292,820	290,157	582,977	1,946,322
Depreciation	-	8,688	8,435	17,123	3,229	7,368	10,597	27,720
Total Expenses	<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>

See notes to financial statements.

## THE ROYAL OAK FOUNDATION, INC.

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>Cash Flows From Operating Activities</b>		
Increase (decrease) in net assets	\$(1,275,507)	\$1,502,477
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	41,842	27,720
Net realized and unrealized (gain) loss on investments	606,799	(852,927)
Donated artwork	48,000	6,000
Deferred rent	(6,847)	(3,003)
Change in value of interest in charitable remainder trusts	31,302	3,620
Change in cash surrender value of life insurance	(1,345)	(1,350)
(Increase) decrease in:		
Accounts receivable	4,770	(24,381)
Unconditional promises to give	240,300	533,783
Prepaid expenses and other assets	(12,816)	(5,245)
Increase (decrease) in:		
Accounts payable and other current liabilities	(420)	29,932
Grants payable	(27,434)	15,525
Deferred revenue	2,863	(18,385)
Net Cash Provided (Used) By Operating Activities	<u>(348,493)</u>	<u>1,213,766</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of investments	(4,991,886)	(3,720,143)
Proceeds from sale of investments	5,355,954	2,161,229
Purchase of property and equipment	(63,672)	(27,539)
Net Cash Provided (Used) By Investing Activities	<u>300,396</u>	<u>(1,586,453)</u>
Net decrease in cash and cash equivalents	(48,097)	(372,687)
Cash and cash equivalents, beginning of year	<u>366,505</u>	<u>739,192</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 318,408</u>	<u>\$ 366,505</u>

See notes to financial statements.



**THE ROYAL OAK FOUNDATION, INC.****NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2018 AND 2017****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, 2018 AND 2017****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 net assets without donor restrictions unless their use is 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 net assets without donor restrictions if the restrictions expire in the fiscal year in which they are generated. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

**e - Accounts Receivable**

The Foundation does not anticipate any losses on accounts receivable as of December 31, 2018.

**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 net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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, 2018 AND 2017****Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

- g - Interest in Charitable Remainder Trusts (continued)  
As of December 31, 2018, 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 financial statements of the Foundation have been prepared in accordance with U.S. generally accepted accounting principles, which require the Foundation to report information regarding its financial position and activities according to the following net asset classifications:
- Net Assets Without Donor Restrictions  
Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of the Foundation's management and Board of Directors.
- Net Assets With Donor Restrictions  
Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions may be temporary in nature; those restrictions will be met by actions of the Foundation or the passage of time. Other donor restrictions may be perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

**THE ROYAL OAK FOUNDATION, INC.****NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2018 AND 2017****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****m - Functional Allocation of Expenses**

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Expenses are applied directly to programs, where applicable, or allocated on a reasonable and consistent basis. A substantial portion of the Foundation's expenses are directly related to program activities, which are made up of the grants, membership and educational programs. The expenses that are allocated include salaries and employee benefits, which are allocated on the basis of an estimate of time and effort, and depreciation, occupancy and office expenses, which are allocated on a square footage basis.

**n - 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.

**o - 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.

**p - Recent Accounting Pronouncements**

In 2018, the Foundation adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the former reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions"; (b) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources; (c) requiring that all nonprofits present an analysis of expenses by function and nature and disclose the methods used to allocate costs; and (d) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. As permitted under the ASU in the year of adoption, the Foundation opted to not disclose liquidity and availability information for 2017.

**THE ROYAL OAK FOUNDATION, INC.****NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2018 AND 2017****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****p - Recent Accounting Pronouncements (continued)**

In February 2016, the FASB issued ASU 2016-02, "*Leases (Topic 842)*". The core principles of ASU 2016-02 change the way organizations will account for their leases by recognizing lease assets and related liabilities on the statement of financial position for all leases with terms longer than twelve months and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019. The Foundation is currently evaluating the impact of ASU 2016-02 on its financial statements.

**q - Subsequent Events**

The Foundation has evaluated subsequent events through May 6, 2019, the date that the financial statements are considered available to be issued.

**Note 2 - Information Regarding Liquidity and Availability**

The Foundation prepares an annual budget in the third quarter for approval by the board before year-end. The budget is divided between operating and non-operating expenditures. Non-operating expenditures pertain to grant making activities while operating expenditures relate to income from membership, educational programs, general development and the associated expenses thereof within the fiscal year.

It is the Foundation's intent to have a balanced operating budget each year. In years in which the expenses exceed income, the balance is made up by income from the investment account. However, it is the board policy that investment income is generally not used for operating expense but reserved for grant making activities. In addition, unusual income in the form of bequests is invested and used for future grants.

Membership revenue is received throughout the year and funds general and administrative costs. Program and development income occur seasonally and are linked to the respective expense. Accounts payable and receivable are regularly monitored and paid/received timely.

**THE ROYAL OAK FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2018 AND 2017**

**Note 2 - Information Regarding Liquidity and Availability (continued)**

The Foundation maintains checking, savings and investment accounts. Investment accounts are approximately \$6M and are invested solely in mutual funds that are readily converted to cash. Checking and savings accounts are maintained between \$200K and \$250K. Excess balances over \$250K are invested in the investment accounts such that sufficient cash flow is not an issue.

The Foundation's financial assets as of December 31, 2018, and those available within one year to meet cash needs for general expenditures are summarized as follows:

Financial Assets at Year End:	
Cash and cash equivalents	\$ 318,408
Investments and cash equivalents	6,988,669
Accounts receivables	42,923
Unconditional promises to give	<u>19,700</u>
Total Financial Assets	7,369,700
Less: Amounts not Available to be Used within One Year:	
Net assets without donor restrictions - board designated	(5,719,720)
Plus: Net assets with board designation expected to be used within one year	297,773
Net assets with donor restrictions subject to expenditure for specific purposes or passage of time	(1,024,211)
Plus: Net assets with restrictions to be met in less than a year	98,731
Net assets with donor restrictions for endowment, subject to spending policy and appropriation	<u>(108,858)</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$ 913,415</u>

In addition to these financial assets available for use within one year, the Board maintains funds designated for specific uses of approximately \$5,700,000 (excluding a projected appropriation for 2019 of \$297,773). These amounts could be made available to meet cash needs for general expenditure at the discretion of the Board. The Foundation also maintains a line of credit of \$25,000, as more fully described in Note 12b, that could be used for general expenditure.

**THE ROYAL OAK FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2018 AND 2017**

**Note 3 - Net Assets**

a - Net Assets Without Donor Restrictions - Board Designated

Board designated net assets consist 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>2018</u>	<u>2017</u>
Legacy Fund	\$4,703,744	\$5,761,499
Chartwell	-	880,531
Stowe House	248,748	-
Other board-restricted	<u>767,228</u>	<u>29,526</u>
	<u>\$5,719,720</u>	<u>\$6,671,556</u>

Net assets without donor restrictions - board designated have been released as follows:

	<u>2018</u>	<u>2017</u>
Legacy Fund	\$ 433,047	\$140,559
Chartwell	880,531	-
Stowe House	10,000	-
Other board-restricted	<u>20,630</u>	<u>-</u>
	<u>\$1,344,208</u>	<u>\$140,559</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 Chartwell funds were designated by the Board to secure key artifacts in Chartwell, Winston Churchill's family home, including Churchill's paintings and an internationally significant guest book, as well as to re-open important rooms to the public, including family bedrooms.

The Board also designated net assets to restore the gardens and parkland of Stowe House, in Buckinghamshire, England.

Other net assets have been designated by the Board toward the preservation and restoration of National Trust properties in England.

**THE ROYAL OAK FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2018 AND 2017**

**Note 3 - Net Assets (continued)**

b - Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31 are available for future programs and periods as follows:

	<u>2018</u>	<u>2017</u>
Operating		
Ervin Fund	\$ 672,715	\$ 718,105
Seeley Fellowship Fund	173,362	197,597
Lecture Series	-	75,000
Damaris Horan Prize	110,867	121,959
Fleming	18,536	27,096
Educational Outreach Programs	5,000	10,000
Various Sponsored Projects	<u>43,731</u>	<u>46,001</u>
	1,024,211	1,195,758
Perpetual in Nature		
Endowment	<u>108,858</u>	<u>108,858</u>
	<u>\$1,133,069</u>	<u>\$1,304,616</u>

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

Net assets with donor restrictions have been released from restriction as follows:

	<u>2018</u>	<u>2017</u>
Seeley Fellowship Fund	\$ 12,789	\$ 2,042
Lecture Series	75,000	75,000
Damaris Horan Prize	3,000	5,000
Educational Outreach Programs	5,000	5,000
Various sponsored projects	<u>46,000</u>	<u>47,704</u>
	<u>\$141,789</u>	<u>\$134,746</u>

- c - Net assets of a perpetual nature 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 6b). The funds as of December 31, 2018 and 2017 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 11).



**THE ROYAL OAK FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2018 AND 2017**

**Note 4 - 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 5 - Investments**

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

	<u>2018</u>		<u>2017</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Cash equivalents	\$ 243,921	\$ 243,921	\$ -	\$ -
Mutual Funds				
500 Index - Equity	1,712,860	1,340,726	2,401,581	1,699,992
Extended Market Index - Equity	696,411	617,754	793,183	606,780
Mid Cap Grade Index - Equity	563,726	552,285	394,826	318,425
Short Term Investment Grade - Fixed	2,164,921	2,213,996	2,683,602	2,703,942
International - Equity	1,606,830	1,843,954	1,586,489	1,382,701
Donated equities	-	-	99,855	99,855
	<u>\$6,988,669</u>	<u>\$6,812,636</u>	<u>\$7,959,536</u>	<u>\$6,811,695</u>

Net investment income (loss) for the years ended December 31, 2018 and 2017 is summarized as follows:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 161,772	\$ 172,369
Net realized gains	365,009	45,556
Net unrealized gains (loss)	<u>(971,808)</u>	<u>807,371</u>
Total	<u>\$(445,027)</u>	<u>\$1,025,296</u>

Net investment income (loss) has been allocated as follows:

	<u>2018</u>	<u>2017</u>
Without Donor Restrictions		
Operations	\$ 125	\$ (1,303)
Other	(371,664)	856,296
With Donor Restrictions	<u>(73,488)</u>	<u>170,303</u>
	<u>\$(445,027)</u>	<u>\$1,025,296</u>

**THE ROYAL OAK FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2018 AND 2017**

**Note 6 - Promises to Give**

a - Unconditional Promises

Unconditional promises to give at December 31 are due within one year. 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 an endowment fund, perpetual in nature, 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, 2018, 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 7 - 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, 2018 and 2017, the present value of net assets held for charitable remainder trusts, less the present value of expected annuity payments, amounted to \$198,464 and \$229,766, respectively.

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

	<u>Fair Value</u>	
	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$229,766	\$233,386
Change in present value	<u>(31,302)</u>	<u>(3,620)</u>
Balance, End of Year	<u>\$198,464</u>	<u>\$229,766</u>

**THE ROYAL OAK FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2018 AND 2017**

**Note 8 - 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, 2018 and 2017 was \$39,818 and \$38,473, respectively.

**Note 9 - Property and Equipment**

Property and equipment consist of the following at December 31:

	<u>Life</u>	<u>2018</u>	<u>2017</u>
Furniture and fixtures	10 years	\$ 85,300	\$ 85,300
Equipment	5 years	41,301	62,585
Software development	3 years	<u>316,408</u>	<u>279,956</u>
		443,009	427,841
Less: Accumulated depreciation		<u>(360,626)</u>	<u>(367,288)</u>
		<u>\$ 82,383</u>	<u>\$ 60,553</u>

Depreciation expense for the years ended December 31, 2018 and 2017 was \$41,842 and \$27,720, respectively.

**Note 10 - 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 Foundation donated the remaining pieces of art in 2018.

**THE ROYAL OAK FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2018 AND 2017**

**Note 11 - Endowment Funds**

Consistent with New York Prudent Management of Institutional Funds Act (“NYPMIFA”), the Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to the donor restricted endowment, (b) the original value of subsequent gifts to the donor restricted endowment and (c) accumulations to the donor restricted 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 endowment with donor restrictions that is not perpetual in nature is classified as endowment subject to spending policy and appropriation 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

Invested endowment funds at December 31 consist of the following:

	<b>Investment Income Above Original Gift Amount</b>	<b>Investment in Perpetuity</b>	<b>Total</b>
Donor-restricted funds, 2018	<u>\$18,536</u>	<u>\$108,858</u>	<u>\$127,394</u>
Donor-restricted funds, 2017	<u>\$27,096</u>	<u>\$108,858</u>	<u>\$135,954</u>

## THE ROYAL OAK FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

**Note 11 - Endowment Funds (continued)**

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

	<b>2018</b>		
	<b>Investment Income Above Original Gift Amount</b>	<b>Investment in Perpetuity</b>	<b>Total</b>
Endowment funds, beginning of year	<u>\$27,096</u>	<u>\$108,858</u>	<u>\$135,954</u>
Interest and dividends	2,801	-	2,801
Realized gain	610		610
Net unrealized loss	<u>(11,971)</u>	<u>-</u>	<u>(11,971)</u>
Net Investment Income	<u>(8,560)</u>	<u>-</u>	<u>(8,560)</u>
Endowment Funds, End of Year	<u>\$18,536</u>	<u>\$108,858</u>	<u>\$127,394</u>
	<b>2017</b>		
	<b>Investment Income Above Original Gift Amount</b>	<b>Investment in Perpetuity</b>	<b>Total</b>
Endowment funds, beginning of year	<u>\$ 7,895</u>	<u>\$108,858</u>	<u>\$116,753</u>
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>

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.

**THE ROYAL OAK FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2018 AND 2017**

**Note 12 - 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:

Year Ending December 31, 2019	\$135,931
Thereafter to March 31, 2020	34,232

Total rent expense, including other operating expenses, for the years ended December 31, 2018 and 2017 was \$107,223 and \$139,419, 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, 2018 and 2017 and no outstanding balances.

**Note 13 - 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 2018 and 2017 was \$14,706 and \$10,666, respectively.