

**THE FORMAN S. ACTON EDUCATIONAL
FOUNDATION, INC.**

FINANCIAL STATEMENTS - MODIFIED CASH BASIS

December 31, 2016

THE FORMAN S. ACTON EDUCATIONAL FOUNDATION, INC.

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Trustees of
The Forman S. Acton Educational Foundation, Inc.

We have reviewed the accompanying financial statements of The Forman S. Acton Educational Foundation, Inc., (the "Foundation"), which comprise the statements of assets, liabilities and net assets - modified cash basis as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and change in net assets - modified cash basis for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review engagements in accordance with *Statements on Standards for Accounting and Review Services* promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with the modified cash basis of accounting. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the modified cash basis of accounting.

Basis of Accounting

We draw attention to Note B of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our conclusion is not modified with respect to this matter.

Mercadien, P.C.
Certified Public Accountants

June 26, 2017

THE FORMAN S. ACTON EDUCATIONAL FOUNDATION, INC.

STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash- operating	\$ 127,648	\$ 397,314
Cash- portfolio	3,254,961	1,127,212
Investments	<u>29,104,350</u>	<u>23,512,813</u>
Total Assets	<u>\$ 32,486,959</u>	<u>\$ 25,037,339</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Administrative services payable	\$ -	\$ 23,381
Other liabilities	<u>5,092</u>	<u>1,708</u>
Total Liabilities	5,092	25,089
Net Assets		
Unrestricted	<u>32,481,867</u>	<u>25,012,250</u>
Total Liabilities and Net Assets	<u>\$ 32,486,959</u>	<u>\$ 25,037,339</u>

THE FORMAN S. ACTON EDUCATIONAL FOUNDATION, INC.

STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS- MODIFIED CASH BASIS

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenues		
Contributions from Estate of Forman S. Acton - cash	\$ 5,064,470	\$ 2,175,000
Contributions from Estate of Forman S. Acton - donated securities (at cost basis)	1,528,845	23,356,874
Investment income	2,279,122	472,330
Other income	<u>-</u>	<u>208</u>
Total revenues	<u>8,872,437</u>	<u>26,004,412</u>
Expenses		
Educational grants	254,424	389,720
Scholarships	346,010	55,827
Payroll expenses	461,035	489,910
Investment fees	150,798	11,135
Excise tax	-	70,000
Legal fees	20,300	34,935
Management and contract services	73,954	32,363
Travel and conferences	23,162	22,287
Accounting fees	20,726	17,800
Operations	<u>52,411</u>	<u>17,050</u>
Total expenses	<u>1,402,820</u>	<u>1,141,027</u>
Change in net assets	7,469,617	24,863,385
Net assets, beginning of year	<u>25,012,250</u>	<u>148,865</u>
Net assets, end of year	<u>\$ 32,481,867</u>	<u>\$ 25,012,250</u>

THE FORMAN S. ACTON EDUCATIONAL FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

A. NATURE OF ORGANIZATION

The Forman S. Acton Educational Foundation, Inc. (the "Foundation") was organized under the laws of the State of New Jersey on October 3, 2014. The Foundation is a grant making private foundation whose mission is to provide educational opportunities for Salem City, New Jersey's youth through financial assistance and motivational support that removes barriers and creates pathways for them to advance their education, achieve career success and become global leaders. The Foundation has been funded by distributions from the Estate of Forman S. Acton which are now complete.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Foundation have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("U.S. GAAP"). The modified cash basis differs from U.S. GAAP primarily because the effects of any outstanding transactions unpaid or uncollected at the date of the financial statements are not included in the financial statements, except for administrative services payable and credit card payable which are recorded. This basis is also the basis of accounting that is used for tax reporting purposes.

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets:

- Unrestricted net assets - net assets not subject to donor-imposed stipulations, and therefore are expendable for operating purposes.
- Temporarily restricted net assets - net assets subject to donor-imposed stipulations that will be met by actions of the Foundation and/or by the passage of time.
- Permanently restricted net assets - net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or donor-specified purposes.

The Foundation has no temporarily or permanently restricted net assets.

Cash

Cash includes highly liquid debt instruments with original maturities of ninety days or less.

Investments

Investments, including donated securities are recorded at fair value in the statement of assets, liabilities and net assets - modified cash basis. The Foundation reports interest, dividends, unrealized and realized gains and losses in the statement of revenues, expenses and change in net assets - modified cash basis.

Income Taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law. Income generated by activities that would be considered unrelated to the Foundation's mission would be subject to tax, which, if incurred, would be recognized as a current expense. No such tax has been recognized as of December 31, 2016.

THE FORMAN S. ACTON EDUCATIONAL FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

The Foundation is classified as a private foundation under the Internal Revenue Code Section 501. It is subject to a 2% federal excise tax on net investment income which is the aggregate of all dividends, interest, and net realized capital gain income reduced for expenses incurred to generate that income.

The Foundation uses the modified cash basis of accounting for tax purposes. Taxes are payable when dividends, interest, and other investment income are received in cash and when gains are realized by selling the investments. Realized losses can be used to offset any gains realized in the same year; the excess of realized losses over realized gains cannot be carried back or carried forward to offset gains in prior or future tax years. In addition, during the years ended December 31, 2016 and 2015, respectively, the Estate of Forman S. Acton generated investment income, including dividends, capital gains and losses, and investment expenses which are reportable by the Foundation for tax reporting purposes (as the sole beneficiary to the estate) and subject to the net investment excise tax. The Foundation does not record prepaid taxes or taxes payable for financial statement reporting purposes, however the estimated tax liability for excise tax for the years ended December 31, 2016 and 2015 was \$47,013 and \$7,579, respectively. As of December 31, 2016 the Foundation had tax payable of \$18,130. At December 31, 2015 prepaid taxes totalled \$28,885.

Subsequent Events

Management has evaluated events for potential recognition and disclosure that occurred after December 31, 2016, through June 26, 2017, the date the financial statements were available to be issued. No items were determined by management to require disclosure.

C. INVESTMENTS

Investments recorded at fair value at December 31, 2016 and 2015 are as follows:

	December 31, 2016		
	Cost	Fair Value	Unrealized (Depreciation) Appreciation
Fixed income bonds	\$ 8,763,437	\$ 8,517,027	\$ (246,410)
Equity securities	20,173,277	20,587,323	414,046
	<u>\$ 28,936,714</u>	<u>\$ 29,104,350</u>	<u>\$ 167,636</u>

	December 31, 2015		
	Cost	Fair Value	Unrealized Appreciation
Fixed income bonds	\$ 1,171,966	\$ 1,209,937	\$ 37,971
Equity securities	21,572,639	22,302,876	730,237
	<u>\$ 22,744,605</u>	<u>\$ 23,512,813</u>	<u>\$ 768,208</u>

THE FORMAN S. ACTON EDUCATIONAL FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

C. INVESTMENTS (CONTINUED)

The following schedule summarizes the investment return in the statements of revenues, expenses and change in net assets - modified cash basis during the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 694,027	\$ 72,156
Realized gain/(loss)	2,259,312	(368,034)
Unrealized (loss)/gain	(674,217)	768,208
Total investment return	<u>\$ 2,279,122</u>	<u>\$ 472,330</u>

D. NET ASSETS

Unrestricted

There are no donor restrictions on the Foundation's net assets other than to support the mission of the Foundation, the purpose for which it was formed. Accordingly, all net assets are considered unrestricted and available for the general use of the Foundation. The Foundation's trustees may, from time to time, choose to designate unrestricted net assets for certain purposes.

E. ENDOWMENT

The Foundation was created with funding representing the residuary estate of Forman S. Acton. The Trustees will invest the net assets of the Foundation as an endowment. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The endowment funds of the Foundation are unrestricted.

Endowment Description

The Board of Trustees has adopted endowment policies in accordance with the Uniform Prudent Management of Institutional Funds Act ("UPMIFA" or the "Act") and has interpreted the Act as allowing the Foundation the powers to manage and invest the funds in good faith and with the care an ordinarily prudent person, in a like position, would exercise under similar circumstances.

Interpretation of Relevant Law

The Board of Trustees of the Foundation has interpreted the UPMIFA as requiring the preservation of the fair value of the original bequest from the estate.

The funds are unrestricted with disciplined long-term investment objectives and strategies that will accommodate relevant, reasonable, or probable events. The following objectives have been established in order to maintain the long-term financial viability of the Foundation's mission:

1. Maintain the purchasing power of the Foundation's assets.
2. Produce returns in excess of inflation sufficient to support the spending policy.
3. Limit risk to those levels necessary to achieve the investment goals.
4. To minimize principal fluctuations throughout an investment cycle (three to five years).
5. Control administration and management costs.

THE FORMAN S. ACTON EDUCATIONAL FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

E. ENDOWMENT (CONTINUED)

Endowment Spending Policy

Generally the Board will approve a spending policy limiting annual expenditures for grants and operating expenses to 5% plus those administrative costs allocated to investment management and fees, based on the average monthly fund market value of the preceding twelve months. In no event shall this spending amount be less than the amount required to avoid application of the excise tax on failure to distribute income imposed by Section 4942 of the Internal Revenue Code. Furthermore, in recognition of the UPMIFA, spending shall comply with the evolving "prudent spending" guidelines of UPMIFA.

Endowment Investment Policies

The Foundation's investment policies seek to establish an appropriate investment strategy for managing all Foundation assets, including an investment time horizon, risk tolerance ranges, and asset allocation. The goal of this strategy is to provide sufficient diversification and overall return over the long-term time horizon of the Fund. Funds will be invested in a well-diversified asset mix, which includes primarily equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total investment portfolio; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

F. ADMINISTRATIVE SERVICES AGREEMENT

The Foundation is managed by the president who was formerly the president of the board of a separate unrelated organization, Syntiro Inc. ("Syntiro"), which is a not-for-profit corporation of the State of Maine (and a 501(c)(3) exempt organization for federal tax purposes) located in Readfield, Maine. On February 8, 2016, the president resigned from the board of Syntiro. During 2015 and through the date of the president's resignation, Syntiro provided administrative and support services as well as the use of office facilities and equipment for the Foundation. The Foundation paid a management fee for this service. In addition, the management and staff of the Foundation were employed by Syntiro; accordingly, the Foundation remitted payments to Syntiro on a cost reimbursement basis for management and staff costs based on their time committed to the Foundation's operations. During the years ended December 31, 2016 and 2015, the Foundation made payments of \$28,500 and \$512,212, respectively, to Syntiro related to contract services. In addition, \$23,381 was recorded as administrative services payable as of December 31, 2015. There were no amounts recorded as administrative services payable as of December 31, 2016. Effective January 1, 2016, staff of the Foundation are no longer employees of Syntiro.

G. CONCENTRATIONS OF CREDIT RISK

The Foundation maintains cash and investments balances which may, at times, exceed federally insured limits. Management believes that it is not subject to any significant credit risk on its cash or investment accounts.