

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

FINANCIAL STATEMENTS - MODIFIED CASH BASIS

December 31, 2017

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, 2017 and 2016, 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 primarily includes 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

November 12, 2018

THE FORMAN S. ACTON EDUCATIONAL FOUNDATION, INC.

STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents - operating	\$ 58,622	\$ 127,648
Cash and cash equivalents - portfolio	1,356,674	3,254,961
Investments	<u>34,055,487</u>	<u>29,104,350</u>
Total Assets	<u>\$ 35,470,783</u>	<u>\$ 32,486,959</u>
LIABILITIES AND NET ASSETS		
Liabilities	\$ 6,501	\$ 5,092
Net Assets		
Unrestricted	<u>35,464,282</u>	<u>32,481,867</u>
Total Liabilities and Net Assets	<u>\$ 35,470,783</u>	<u>\$ 32,486,959</u>

THE FORMAN S. ACTON EDUCATIONAL FOUNDATION, INC.

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

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenues		
Contributions from Estate of Forman S. Acton - cash	\$ 74,231	\$ 5,064,470
Contributions from Estate of Forman S. Acton - donated securities (at cost basis)	-	1,528,845
Investment income	4,639,549	2,279,122
Other income	<u>14</u>	<u>-</u>
Total revenues	<u>4,713,794</u>	<u>8,872,437</u>
Expenses		
Educational grants	329,178	147,924
Scholarships	448,790	346,010
Payroll	461,215	461,035
Investment fees	202,410	150,798
Excise tax	65,159	-
Legal fees	20,065	20,300
Management and contract services	71,285	73,954
Travel and conferences	29,928	23,162
Accounting fees	28,242	20,726
Operations	<u>75,107</u>	<u>158,911</u>
Total expenses	<u>1,731,379</u>	<u>1,402,820</u>
Change in net assets	2,982,415	7,469,617
Net assets, beginning of year	<u>32,481,867</u>	<u>25,012,250</u>
Net assets, end of year	<u>\$ 35,464,282</u>	<u>\$ 32,481,867</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 credit card payable, which is 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 and Cash Equivalents

The Foundation considers cash equivalents to be all highly liquid debt instruments with an initial maturity of ninety days or less. Cash and cash equivalents consist mainly of cash and money market funds.

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 statements of revenues, expenses and change in net assets - modified cash basis as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

THE FORMAN S. ACTON EDUCATIONAL FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2017 and 2016.

Management evaluates tax positions taken by the Foundation and recognizes a tax liability if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

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 year ended December 31, 2016, 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, 2017, and 2016 was \$15,306 and \$47,013, respectively. As of December 31, 2017, the Foundation had taxes recoverable of \$31,724 and at December 31, 2016, tax payable of \$18,130.

Subsequent Events

Management has evaluated subsequent events for potential recognition and disclosure through November 12, 2018, the date the financial statements were available to be issued. No items were determined by management to require disclosure other than those described in Note F.

C. INVESTMENTS

Investments recorded at fair value at December 31, 2017 and 2016, are as follows:

	<u>December 31, 2017</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized (Depreciation) Appreciation</u>
Fixed income bonds	\$ 10,174,119	\$ 10,055,965	\$ (118,154)
Equity securities	<u>19,994,160</u>	<u>23,999,522</u>	<u>4,005,362</u>
	<u>\$ 30,168,279</u>	<u>\$ 34,055,487</u>	<u>\$ 3,887,208</u>

THE FORMAN S. ACTON EDUCATIONAL FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

C. INVESTMENTS (CONTINUED)

	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>

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, 2017 and 2016:

	2017	2016
Interest and dividend income	\$ 792,734	\$ 694,027
Realized gain	209,361	2,259,312
Unrealized gain/(loss)	3,637,454	(674,217)
Total investment return	<u>\$ 4,639,549</u>	<u>\$ 2,279,122</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:

THE FORMAN S. ACTON EDUCATIONAL FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

E. ENDOWMENT (CONTINUED)

Interpretation of Relevant Law (Continued)

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.

Endowment Spending Policy

Generally, the Board will approve a spending policy limiting annual expenditures for grants, scholarships 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. OPERATING LEASE COMMITMENT

In February 2018, the Foundation signed an agreement to lease an office facility in Salem, NJ. Under the terms of the lease, rent payments will commence on March 1, 2018, for a period of two (2) years ending on February 29, 2020, with the option to renew the lease for a period of an additional five (5) years.

Future minimum lease payments due under this lease are as follows:

Years Ending December 31,	
2018	\$ 6,290
2019	12,480
2020	<u>2,080</u>
Total	<u>\$ 20,850</u>

THE FORMAN S. ACTON EDUCATIONAL FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

G. 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, and through this date 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. Effective January 1, 2016, staff of the Foundation were no longer employees of Syntiro. There were no payments made by the Foundation or amounts recorded as administrative services payable as of December 31, 2017. During the year ended December 31, 2016, the Foundation made payments of \$28,500 to Syntiro related to contract services. There were no amounts recorded as administrative services payable as of December 31, 2016.

H. 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.