

SUMMIT AREA PUBLIC FOUNDATION
(A NEW JERSEY NOT-FOR-PROFIT CORPORATION)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

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NOKE AND HEARD, L.L.P.

Certified Public Accountants

469 MORRIS AVENUE
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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Summit Area Public Foundation

We have audited the accompanying financial statements of Summit Area Public Foundation (a nonprofit organization), which comprise the statement of assets, liabilities, and net assets - modified cash basis as of December 31, 2016, and the related statement of support, revenue, and expenses and cash flows - modified cash basis for the year 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 the modified cash basis of accounting as described in Note 1; 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from 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 auditor's 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 auditor considers 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 assets, liabilities, and net assets of Summit Area Public Foundation as of December 31, 2016, and its support, revenue, and expenses for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on 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 opinion is not modified with respect to this matter.

Note at 11, LLP

May 26, 2017

SUMMIT AREA PUBLIC FOUNDATION
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STATEMENT OF SUPPORT, REVENUE AND EXPENSES
(MODIFIED CASH BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2016

UNRESTRICTED NET ASSETS

Revenue, gains, and other support

Contributions	\$ 84,307
Investment return	<u>760,861</u>
	845,168
Net assets released from restrictions	<u>574,208</u>
Total revenues, gains, and other support	<u>1,419,376</u>

Expenses

Grants	713,513
General and administrative	26,667
Investment management fees	<u>69,237</u>
Total expenses	<u>809,417</u>

Increase in unrestricted net assets 609,959

TEMPORARILY RESTRICTED NET ASSETS

Contributions	291,167
Investment return	472,458
Net assets released from restrictions	<u>(574,208)</u>

Increase in temporarily restricted net assets 189,417

PERMANENTLY RESTRICTED NET ASSETS

Increase in net assets 799,376

Net assets, beginning of year 15,404,457

Net assets, end of year \$16,203,833

The accompanying notes are an integral part of the financial statements.

SUMMIT AREA PUBLIC FOUNDATION
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STATEMENT OF CASH FLOWS
(MODIFIED CASH BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2016

Cash flows from operating activities

Increase in net assets	\$ 799,376
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Noncash contributions	(71,704)
Net unrealized gains on investments	<u>(661,476)</u>
Net cash provided in operating activities	<u>66,196</u>

Cash flows from investing activities

Purchases of investments	(3,849,745)
Proceeds from sale of investments	<u>4,170,157</u>
Net cash provided by investing activities	<u>320,412</u>

Cash flows from financing activities

<u>Net increase in cash and cash equivalents</u>	386,608
<u>Cash and cash equivalents, beginning of year</u>	<u>556,064</u>
<u>Cash and cash equivalents, end of year</u>	<u>\$ 942,672</u>

Supplemental information:

Interest paid	\$ -
Gifts of property	\$ -
Gifts of investments	\$ 71,704

The accompanying notes are an integral part of the financial statements.

SUMMIT AREA PUBLIC FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations

The Summit Area Public Foundation (the Foundation) is a New Jersey nonprofit corporation located in Summit, New Jersey. Its purpose is to encourage and promote well-being of mankind and to serve the public educational, charitable or benevolent needs of the inhabitants of Summit, New Jersey and vicinity through the use of its net income. It seeks and invests funds prudently to ensure long-term growth, which supports the philanthropic activities. The mission is fulfilled by focusing on the following:

Grants

The Foundation uses competitive grants and wishes of donors to meet the needs of the community.

(b) Basis of Accounting

The financial statements of the Summit Area Public Foundation are prepared on the modified cash basis, where net assets, revenues and expenses are classified as unrestricted, temporarily restricted or permanently restricted, based on the existence or absence of donor-imposed restrictions.

(c) Public Support and Revenue

The majority of contributions and pledges are received from a broad base of Summit, New Jersey area contributors. Donors may specify the purpose for which their gifts are to be used. The Board of Trustees then selects the agencies or programs which fit these purposes.

(d) Marketable Securities

Securities are valued at market value. A common investment pool is maintained for all funds. Income, gains and losses are allocated based on a percentage of ownership of each fund.

(e) Cash and Cash Equivalents

We consider all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to permanent endowment, or other long-term purposes are excluded from this definition.

SUMMIT AREA PUBLIC FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Contributions

The Foundation reports gifts of cash and other assets as restricted contributions when they are received with donor stipulations that limit the use of the donated assets. When the intent of the donor is that the assets remain in perpetuity and the Foundation does not have the right to invade the original principal, the assets are reported as permanently restricted. When a donor restriction expires (such as when a stipulated time restriction ends), temporarily restricted net assets are released to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Net assets are primarily released from donor restrictions when time restrictions are satisfied.

(g) Grants

Grants are recorded as expenses when paid.

(h) Estimates

The preparation of financial statements in conformity with the modified cash basis requires management to make estimates and assumptions that affect the reported amounts of assets at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates and those differences could be material.

(i) Financial Instruments and Credit Risk

We manage deposit concentration risk by placing cash and money market accounts with financial institutions believed by us to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments. To date, we have not experienced losses in any of these accounts. Investments are made by diversified investment managers whose performance is monitored by management. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management believes that the investment policies and guidelines are prudent for the long-term welfare of the organizations.

SUMMIT AREA PUBLIC FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Endowment Investment and Spending Policies

The Foundation follows the Uniform Management of Institutional Funds Act of 1972 (UMIFA) and its own governing documents. UMIFA requires the historical dollar amount of a donor-restricted endowment fund to be preserved. In the absence of donor restrictions, the net appreciation on a donor-restricted endowment fund is spendable under UMIFA. The Foundation's donors have not placed restrictions on the use of the investment income or net appreciation resulting from the donor-restricted endowment funds.

The Board of Trustees, on the advice of legal counsel, has determined that the majority of the Foundation's contributions are subject to the terms of its governing documents. Certain contributions are received subject to other gift instruments, or are subject to specific agreements with the Foundation. Under the terms of the Foundation's governing documents, the Board of Trustees has the ability to distribute so much of the original principal of any trust or separate gift, devise, bequest, or fund as the Board in its sole discretion shall determine. As a result of the ability to distribute the original principal, all contributions not classified as temporarily restricted or permanently restricted are classified as unrestricted net assets for financial statement purposes.

The Foundation has adopted investment and spending policies, approved by the Board of Trustees, 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 those endowment assets over the long-term. The Foundation's spending and investment policies work together to achieve this objective. This investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to return 7.5%. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places an emphasis on U.S. Treasury securities and equity-based investments to achieve its long-term return objectives within prudent risk parameters.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Endowment Investment and Spending Policies (Continued)

The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds for grant making and administration. The current spending policy is to distribute an amount between 4% and 5% of a moving four-year average of the fair value of the endowment funds. Accordingly, over the long term, the Foundation expects its current spending policy to allow its endowment assets to grow at an average rate of 3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through investment return.

(k) Subsequent Events

We have evaluated subsequent events through May 26, 2017, the date the consolidated financial statements were available to be issued.

NOTE 2 - INVESTMENTS

Investments in marketable securities are carried at fair value based on quoted prices in active markets and consist of the following at December 31, 2016.

Investments	\$15,261,161	
	<u>AMORTIZED</u>	<u>FAIR</u>
	<u>COST</u>	<u>VALUE</u>
U.S. Treasury Securities	\$ 1,072,486	\$ 1,032,071
Equity Securities	8,544,720	11,598,920
Corporate Debt Securities	<u>2,702,146</u>	<u>2,630,170</u>
	\$12,319,352	\$15,261,161

Investment return consists of the following:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY</u> <u>RESTRICTED</u>
Investment income	\$ 121,734	\$ 284,999
Net realized gain on sales of investments	49,027	116,083
Net unrealized (loss) on investments	<u>590,100</u>	<u>71,376</u>
	\$ 760,861	\$ 472,458

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 3 - DONATED SERVICES

Volunteers donate their time to the Foundation's programs. No value was recorded for these services because no objective basis is available to measure the value of such services.

NOTE 4 - COMMITMENTS AND CONTINGENCIES

Some grants and bequests require the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of the funds to grantors. Although that is a possibility, the Board deems the contingency remote, since by accepting the gifts and their terms, it has accommodated the objectives of the Foundation to the provisions of the gift.

NOTE 5 - THOMAS A. AND DONNA D. GANNER RESTRICTED FUND

In 1993 the Thomas A. and Donna D. Ganner Restricted Fund was established with a bequest from Mrs. Ganner. This fund restricts the use, as the Foundation shall determine, for the benefit of United States citizen children not over 15 years of age who require specialized medical treatment and/or special education in order to provide assistance to these children whose opportunity for a meaningful life may be handicapped by physical or mental deficiencies.

NOTE 6 - INCOME TAXES

The Foundation is a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code. Additionally, it is a nonprivate foundation within the meaning of Section 509(a)(1) of the Internal Revenue Code. Accordingly, no provision for Federal or state taxes was required.

NOTE 7 - RELATED PARTY

Barbara Bunting served as Treasurer of the Foundation in the year of 2016. David Bunting, husband of Barbara Bunting, is a partner in the firm Brave Asset Management, Inc., one of two of the investment managers of Summit Area Public Foundation. However, Barbara Bunting does not participate in any investment management decisions. The fees charged by Brave Asset Managements, Inc. to Summit Area Public Foundation follow industry standard. In addition, both investment managers are overseen by a finance committee of which Barbara Bunting is not a member. This relationship does not affect the ability of Barbara Bunting to serve on the Board of Trustees of Summit Area Public Foundation.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 8 - NET ASSETS

Included in unrestricted net assets are \$5,110,017 of donor-advised funds as of December 31, 2016. Although grant recommendations are accepted from the donors or other advisors of these funds, the Foundation has variance power; that is, the ultimate discretion of the use of these funds lies with the Board of Trustees. Thus, such funds represent unrestricted net assets to the Foundation.

Temporarily restricted net assets of \$11,093,816 at December 31, 2016 represents funds available for future grants.

Permanently restricted net assets represent donor-restricted donations. The restrictions are for the donated assets to remain in perpetuity, and the Foundation would not have the right to invade the original principal.

NOTE 9 - FAIR VALUE MEASUREMENTS

The Foundation invests in equity securities, U.S. government obligations, and corporate debt securities. Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions (all Level 1 measurements).

Fair value measurements for investments reported at fair value on a recurring basis were determined based on:

	Quoted Prices in Active Markets for Identical <u>Assets (Level 1)</u>
U.S. Treasury Securities	\$ 1,032,071
Equity Securities	11,598,920
Corporate Debt Securities	<u>2,630,170</u>
Total investments	<u>\$15,261,161</u>

The Foundation follows the Financial Accounting Standards Board (FASB) guidance on Fair Value Measurements, which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. LEVEL 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. LEVEL 2 inputs relate to assets with other than quoted prices in active markets, which may include quoted prices for similar assets or liabilities, or other inputs, which can be corroborated by observable market data. LEVEL 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.