

**THE BROOKLYN COLLEGE  
FOUNDATION, INC.**

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT**

**JUNE 30, 2016**

**THE BROOKLYN COLLEGE FOUNDATION, INC.**

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## **Independent Auditor's Report**

**Board of Trustees  
The Brooklyn College Foundation, Inc.**

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of The Brooklyn College Foundation, Inc., which comprise the balance sheet as of June 30, 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows 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 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.

### ***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 financial position The Brooklyn College Foundation, Inc. as of June 30, 2016, and the changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited The Brooklyn College Foundation, Inc.'s June 30, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 2, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Loeb & Troper LLP*

September 9, 2016

## THE BROOKLYN COLLEGE FOUNDATION, INC.

## BALANCE SHEET

JUNE 30, 2016

(With Summarized Financial Information for June 30, 2015)

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,138,686	\$ 2,577,941
Investments (includes \$1,211,490 in 2016 and \$1,005,410 in 2015 held for split-interest agreements) (Notes 2 and 3)	48,775,890	43,529,406
Contributions receivable (net of allowance of \$1,050,000 in 2016 and 2015) (Note 4)	1,563,775	6,955,943
Prepaid expenses and other assets	<u>19,096</u>	<u>18,872</u>
Total current assets	<u>51,497,447</u>	<u>53,082,162</u>
Noncurrent assets		
Investments (Notes 2 and 3)	30,179,892	27,816,797
Contributions receivable (Note 4)	3,516,864	3,125,678
Beneficial interest in remainder trusts (Note 3)	1,055,248	1,074,675
Beneficial interest in life insurance	<u>196,841</u>	<u>160,732</u>
Total noncurrent assets	<u>34,948,845</u>	<u>32,177,882</u>
Total assets	<u>\$ 86,446,292</u>	<u>\$ 85,260,044</u>

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## THE BROOKLYN COLLEGE FOUNDATION, INC.

## BALANCE SHEET

JUNE 30, 2016

(With Summarized Financial Information for June 30, 2015)

	<u>2016</u>	<u>2015</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,225,805	\$ 2,128,996
Annuity obligations	<u>98,000</u>	<u>83,000</u>
Total current liabilities	2,323,805	2,211,996
Noncurrent liabilities		
Annuity obligations	<u>552,068</u>	<u>465,425</u>
Total liabilities	<u>2,875,873</u>	<u>2,677,421</u>
Net assets (Exhibit B)		
Unrestricted		
Operating	526,919	356,701
Board-designated	<u>891,133</u>	<u>1,190,233</u>
Total unrestricted net assets	1,418,052	1,546,934
Temporarily restricted (Note 5)	51,712,518	52,006,063
Permanently restricted (Note 5)	<u>30,439,849</u>	<u>29,029,626</u>
Total net assets	<u>83,570,419</u>	<u>82,582,623</u>
Total liabilities and net assets	<u>\$ 86,446,292</u>	<u>\$ 85,260,044</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

THE BROOKLYN COLLEGE FOUNDATION, INC.

EXHIBIT B

STATEMENT OF ACTIVITIES AND CHANGES  
IN NET ASSETS

YEAR ENDED JUNE 30, 2016

(With Summarized Financial Information for the Year Ended June 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2016	2015
Revenues, gains, losses and other support					
Contributions, grants, legacies and bequests	\$ 751,646	\$ 7,320,562	\$ 1,457,405	\$ 9,529,613	\$ 14,823,047
Investment income (loss) - net (Note 2)	1,329,185	(2,901,378)	(81,610)	(1,653,803)	1,898,797
Change in value of split-interest agreements	(18,531)	(952)	(2,871)	(22,354)	(49,943)
Change in value of beneficial interest in remainder trust		(19,427)		(19,427)	(37,803)
Change in value of beneficial interest in life insurance		5,569		5,569	8,390
Special events	\$ 703,739				
Less direct costs of special events	(146,132)				
Donated materials and other support	452,357	105,250		557,607	229,385
Donated services (Note 7)	97,069			97,069	98,294
Donated occupancy (Note 7)	828,078			828,078	765,507
Miscellaneous income	83,747			83,747	97,254
Net assets released from restrictions (Note 5)		30,614		30,614	33,549
	4,805,409	(4,805,409)			
Total revenues, gains, losses and other support	8,328,960	(265,171)	1,372,924	9,436,713	17,866,477
Expenses (Exhibit C)					
Program service - college and student support	5,232,949			5,232,949	8,813,602
Supporting services					
Management and general	1,663,975			1,663,975	1,538,459
Fund-raising	1,511,493			1,511,493	1,342,318
Total supporting services	3,175,468			3,175,468	2,880,777
Total expenses	8,408,417			8,408,417	11,694,379
Change in net assets before other changes	(79,457)	(265,171)	1,372,924	1,028,296	6,172,098
Reclassification (Note 5)	(8,925)	(28,374)	37,299		
Transfer of artwork and collections (Note 10)	(40,500)			(40,500)	(3,321,820)
Change in net assets (Exhibit D)	(128,882)	(293,545)	1,410,223	987,796	2,850,278
Net assets - beginning of year	1,546,934	52,006,063	29,029,626	82,582,623	79,732,345
Net assets - end of year (Exhibit A)	\$ 1,418,052	\$ 51,712,518	\$ 30,439,849	\$ 83,570,419	\$ 82,582,623

See independent auditor's report.

The accompanying notes are an integral part of these statements.

THE BROOKLYN COLLEGE FOUNDATION, INC.

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016  
(With Summarized Financial Information  
for the Year Ended June 30, 2015)

	Program Service - College and Student Support	Management and General	Fund- Raising	Direct Costs of Special Events	Total	
					2016	2015
Salaries and benefits (includes donated services of \$625,492 in management and general and \$202,586 in fundraising expenses in 2016)		\$ 1,176,536	\$ 974,832		\$ 2,151,368	\$ 1,971,177
Scholarships and awards	\$ 1,930,796				1,930,796	1,799,965
College support	2,582,854				2,582,854	2,592,509
Capital project						3,900,000
Conferences and travel	177,105		11,363		188,468	104,978
Meetings	131,727		15,987		147,714	114,938
Supplies	170,352	11,139	8,365		189,856	256,126
Advertising	83,409				83,409	14,081
Printing and publications	44,686	648	108,419		153,753	151,978
Postage	1,115	3,524	60,031		64,670	57,133
Maintenance and repairs	52,939				52,939	6,500
Miscellaneous	57,966	88,853	96,528		243,347	145,680
Consulting and professional fees		230,941	235,172		466,113	384,261
Insurance		37,029			37,029	36,245
Entertainment				\$ 146,132	146,132	77,849
Office and computer expenses		31,558	796		32,354	61,554
Investment fees		55,659			55,659	53,303
Occupancy		83,747			83,747	97,254
Total expenses	5,232,949	1,719,634	1,511,493	146,132	8,610,208	11,825,531
Less expenses deducted directly from revenues on the statement of activities						
Investment fees		(55,659)			(55,659)	(53,303)
Direct cost of special events				(146,132)	(146,132)	(77,849)
Total expenses reported by function on the statement of activities and changes in net assets (Exhibit B)	\$ 5,232,949	\$ 1,663,975	\$ 1,511,493	\$ -	\$ 8,408,417	\$ 11,694,379

See independent auditor's report.

The accompanying notes are an integral part of these statements.



## THE BROOKLYN COLLEGE FOUNDATION, INC.

## STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 987,796	\$ 2,850,278
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Contributions restricted for long-term investment	(1,457,405)	(1,895,904)
Contributions restricted for annuity agreements	(109,677)	(21,951)
Realized gain on sale of investments	(1,644,485)	(2,766,188)
Unrealized loss on investments	4,076,671	1,632,655
Change in value of split-interest agreements	22,354	49,943
Change in value of beneficial interest in remainder trust	19,427	37,803
Donated stock	(4,095,468)	(1,350,268)
Transfer of artwork and collections	40,500	3,321,820
Donated artwork and collections	(40,500)	(21,000)
Decrease (increase) in assets		
Contributions receivable	4,050,982	(6,789,311)
Beneficial interest in life insurance	(36,109)	(8,390)
Prepaid expenses and other assets	(224)	1,726
Increase in liabilities		
Accounts payable and accrued expenses	96,809	113,569
Net cash provided (used) by operating activities	<u>1,910,671</u>	<u>(4,845,218)</u>
Cash flows from investing activities		
Purchase of investments	(26,463,200)	(24,891,910)
Proceeds from sales of investments	20,516,903	29,648,560
Net cash provided (used) by investing activities	<u>(5,946,297)</u>	<u>4,756,650</u>
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowment	2,407,405	895,904
Proceeds from contributions restricted for annuity obligations	265,000	60,000
Payments to annuitants	(76,034)	(68,806)
Net cash provided by financing activities	<u>2,596,371</u>	<u>887,098</u>
Net change in cash and cash equivalents	(1,439,255)	798,530
Cash and cash equivalents - beginning of year	<u>2,577,941</u>	<u>1,779,411</u>
Cash and cash equivalents - end of year	<u>\$ 1,138,686</u>	<u>\$ 2,577,941</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**THE BROOKLYN COLLEGE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Organization**

The Brooklyn College Foundation, Inc. (the Foundation), located in Brooklyn, New York is incorporated under the laws of the State of New York as a nonprofit corporation to assist Brooklyn College (the College) by developing an ongoing and increasing base of support from alumni and friends of the College. The Foundation is supported primarily by contributions and investment income.

The Board of Trustees of the Foundation manages all funds held in trust by the Foundation in accordance with its act of incorporation. The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income taxes; however, it pays unrelated business income tax on the income from certain limited partnerships. The Internal Revenue Service has classified the Foundation as an organization that is not a private foundation.

**Significant Accounting Policies**

**Basis of Presentation**

The financial statements are prepared on the accrual basis of accounting.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents include investments in highly liquid debt instruments with original maturities, when acquired, of three months or less.

**Investments**

Investments are recorded at fair value. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in the financial statements.

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**THE BROOKLYN COLLEGE FOUNDATION, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2016****NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Significant Accounting Policies (continued)****Contributions Receivable**

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Interest is not charged or recorded on outstanding receivables.

**Allowance for Doubtful Accounts and Bad Debt Expense**

Contributions receivable are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the contributions receivable by management. Factors used to determine whether an allowance should be recorded include the age of the receivable, a review of payments subsequent to year end, historical information and other factors.

**Beneficial Interest in Remainder Trusts**

The beneficial interest in remainder trusts is recorded at its present value based on actuarial valuation.

**Beneficial Interest in Life Insurance**

The beneficial interest in life insurance is recorded based on the cash surrender value of a life insurance policy.

**Revenue Recognition**

All revenues are considered to be available for unrestricted use unless specifically restricted by donors.

Investment income is recognized when earned. Investment fees have been netted against investment income (loss) in the statement of activities and changes in net assets.

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**THE BROOKLYN COLLEGE FOUNDATION, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2016****NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Significant Accounting Policies (continued)****Contributions**

Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

**Donated Services and Occupancy**

Donated services are recognized as contributions if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. Donated occupancy is recognized based on the fair value of the rental. The time expended by members of the Board of Trustees and other volunteers is not recognized as contributions in the financial statements.

**Functional Allocation of Expenses**

The costs of providing services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Net Assets**

Unrestricted net assets include funds having no restriction as to use or purpose by donors. Board-designated funds represent unrestricted funds which may, from time to time, be designated by Board action for scholarships.

Temporarily restricted net assets are those whose use by the Foundation has been restricted by donors to a specific time period or purpose.

Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

**Advertising**

It is the policy of the Foundation to expense advertising costs as incurred.

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**THE BROOKLYN COLLEGE FOUNDATION, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2016****NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Significant Accounting Policies (continued)****Summarized Financial Information**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2015, from which the summarized information was derived. On the statement of activities, \$8,249 of bad debt loss was reclassified to contributions.

**Fair Value Measurements**

*Fair Value Measurements* establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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**THE BROOKLYN COLLEGE FOUNDATION, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2016****NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Significant Accounting Policies (continued)****Fair Value Measurements (continued)**

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016 as compared to those used at June 30, 2015.

*Common stock* - Valued at the closing price reported on the active market on which the individual securities are traded.

*Mutual funds and exchange traded fund* - Valued at the net asset value (NAV) of shares held by the Foundation at the end of the year.

*Hedge funds, limited liability company and limited partnerships* - Valued at the NAV of shares held at year end as determined by the investment managers.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**Uncertainty in Income Taxes**

The Foundation has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2013 and subsequent remain subject to examination by applicable taxing authorities.

**Subsequent Events**

Subsequent events have been evaluated through September 9, 2016, which is the date the financial statements were available to be issued.

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**THE BROOKLYN COLLEGE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**NOTE 2 - INVESTMENTS**

The following table sets forth by level and type, as of June 30, 2016, the investments within the fair value hierarchy:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Investments reported on the fair value hierarchy			
Mutual funds - equities	\$ 17,009,261		\$ 17,009,261
Mutual funds - fixed income	33,271,840		33,271,840
Common stock			
Large core	142,425		142,425
Large growth	161,125		161,125
Mid core	141,140		141,140
Mid growth	117,667		117,667
Mid value	31,937		31,937
Exchange traded fund	2,886,752		2,886,752
Hedge funds		\$ 14,788,534	14,788,534
Limited liability company		5,059,951	5,059,951
Limited partnerships		<u>4,865,008</u>	<u>4,865,008</u>
Total investments reported on the fair value hierarchy	<u>\$ 53,762,147</u>	<u>\$ 24,713,493</u>	\$ 78,475,640
Cash equivalents			<u>480,142</u>
Total investments			<u>\$ 78,955,782</u>

Investment income for the year ended June 30, 2016 consists of the following:

Interest and dividends	\$ 834,042
Realized gain on sale of investments	1,644,485
Unrealized loss on investments	(4,076,671)
Less investment fees	<u>(55,659)</u>
	<u>\$ (1,653,803)</u>

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**THE BROOKLYN COLLEGE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**NOTE 2 - INVESTMENTS (continued)**

**Level 3 Gains and Losses**

The table below sets forth a summary of changes in the fair value of the Level 3 assets for the year ended June 30, 2016:

	<u>Hedge Funds</u>	<u>Limited Liability Company</u>	<u>Limited Partnerships</u>	<u>Total</u>
Balance, beginning of year	\$ 11,747,831	\$ 4,644,237	\$ 7,629,669	\$ 24,021,737
Redemptions	(1,132,303)		(2,208,547)	(3,340,850)
Purchases	4,645,000	500,000		5,145,000
Investment fees		(37,261)		(37,261)
Dividends		90,373		90,373
Unrealized losses*	(347,692)	(327,061)	(556,114)	(1,230,867)
Realized gain (loss)	<u>(124,302)</u>	<u>189,663</u>	<u>                    </u>	<u>65,361</u>
End of year	<u>\$ 14,788,534</u>	<u>\$ 5,059,951</u>	<u>\$ 4,865,008</u>	<u>\$ 24,713,493</u>
* The amount of total losses for the period attributable to the change in unrealized losses relating to assets still held at the reporting date.	<u>\$ (347,692)</u>	<u>\$ (327,061)</u>	<u>\$ (459,254)</u>	<u>\$ (1,134,007)</u>

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**THE BROOKLYN COLLEGE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**NOTE 2 - INVESTMENTS (continued)**

The investments have redemption requirements as follows:

<u>Fund Name</u>	<u>Fair Value*</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
A. Hedge Fund	\$ 1,924,234	None	Quarterly	45 days
B. Hedge Fund	2,820,491	None	Quarterly	60 days
C. Hedge Fund	2,817,198	None	3 years	90 days
D. Hedge Fund	2,725,827	None	Quarterly	60 days
E. Hedge Fund	1,969,206	None	Quarterly	45 days
F. Hedge Fund	2,531,578	None	Quarterly	60 days
G. Limited Liability Company	5,059,951	None	Monthly	10 days
H. Limited Partnership	2,811,453	None	Annually	45 days
I. Limited Partnership	<u>2,053,555</u>	None	2 years	90 days
	<u>\$ 24,713,493</u>			

**A. Hedge Fund**

This hedge fund is a portfolio of ten hedge funds managed by senior investment professionals. In contrast to traditional funds of hedge funds, there are no allocations to funds managed by external firms and thus no extra layer of fees. The fund is entirely focused on fundamental long/short equity strategies and includes diversification across sectors and geographies. This fund is a long-biased strategy that seeks to capture approximately 75% of the upside in positive equity markets with only half of the downside in market selloffs.

**B. Hedge Fund**

This hedge fund is a direct, multi-strategy hedge fund. The fund seeks to preserve capital and generate consistent, attractive risk-adjusted returns with low correlation to broader markets through active, fundamental investing in a relative value construct. The fund's investment philosophy is designed to identify and capitalize on asymmetric risk-reward opportunities across multiple asset classes. The fund employs strategies including equity relative value, credit relative value, event-driven strategies including merger arbitrage, long/short equity and volatility trading.

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**THE BROOKLYN COLLEGE FOUNDATION, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2016****NOTE 2 - INVESTMENTS (continued)****C. Hedge Fund**

This fund is a direct, multi-strategy hedge fund. This fund's main priority is preservation of capital with a strong emphasis on portfolio diversification and risk management. This fund invests opportunistically across a variety of sub-strategies including merger (or risk) arbitrage, long/short equity, corporate and structured credit, convertible and derivative arbitrage and private investments. This fund invests on a global basis with positions in the U.S., Europe and Asia. This fund will invest where it sees opportunities; thus, there is no predetermined commitment to any given investment discipline or geography.

**D. Hedge Fund**

This fund is a direct, multi-strategy hedge fund. This fund seeks to achieve consistent positive absolute returns that have a low correlation to equity markets through bottom-up, fundamental research. Risk management and preservation of capital are key priorities in the management of this fund. This fund employs an event-driven focus on investing, but also allocates capital to sub-strategies within the fund, including distressed investments, merger (or risk) arbitrage, long-short equity, convertible arbitrage and volatility arbitrage.

**E. Hedge Fund**

This fund is a fundamental value/growth oriented equity across domestic and developed international markets and a sector specialist strategy excluding coverage of healthcare and financials. The fund employs a "sector before company approach" of fundamental security selection focusing more on industry headwinds/tailwinds while deploying a private equity style research process, working backwards to identify a differentiated view on company earnings deeper and longer sighted than competitors. The fund is a "lower to the ground" strategy with a net exposure that tends to hover in the 20-30% range, leading to lower market volatility and correlation over time. The strategy features moderate concentration, where top 10 ideas typically represent under 60% of the portfolio.

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**THE BROOKLYN COLLEGE FOUNDATION, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2016****NOTE 2 - INVESTMENTS (continued)****F. Hedge Fund**

This fund uses a multi-portfolio manager structure and centralized risk infrastructure to invest capital across strategies within a largely related value, market neutral investment framework. The fund is designed to produce consistently high risk-adjusted returns with limited sensitivity to traditional equity and fixed income markets. Strategies in the portfolio include Merger Arbitrage, Fundamental Market Neutral L/S Equity, Fundamental Conservative L/S Equity, High Yield Credit L/S, Investment Grade Credit L/S, Opportunistic, and Convertible Arbitrage. The fund's portfolio managers abide by strict risk and position size limits within their respective strategy sleeves, and the CIO and Capital Allocation committee add another layer of risk oversight at the fund level. The resulting portfolio is highly diversified, generally holding in excess of 2,000 positions. Key to this fund's process is its focus on risk management, market liquidity, and its ability to allocate capital across strategies to areas with the best perceived risk adjusted return opportunities.

**G. Limited Liability Company**

For the limited liability company, the investment manager employs a value-oriented investment strategy using strict valuation and fundamental analysis. They target stocks that are selling at a deep discount to their historical price/earnings ratios on a project earnings basis, and have above-average historical growth rates and balance sheet strength. Portfolios contain 35 to 50 issues, fairly equally weighted. Representation of a single issue within a portfolio usually does not exceed 5%; representation of a particular industry does not exceed 25%.

**H. Limited Partnership**

This limited partnership invests in multi-strategy hedge fund. This partnership seeks superior risk-adjusted return through a process of fundamental analysis that emphasizes capital preservation. This partnership's core investment strategies include merger arbitrage (focused mainly on corporate takeovers), credit investments, which generally include investments in companies experiencing financial distress or whose credit is viewed by the market as marginal but improving and real estate investments, predominantly outside the U.S., in securities such as mortgages or other real estate-related assets.

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**THE BROOKLYN COLLEGE FOUNDATION, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2016****NOTE 2 - INVESTMENTS (continued)****I. Limited Partnership**

This limited partnership invests in multi-strategy hedge fund, focused on bottom-up, opportunistic, value-oriented investing across equity, credit and real estate on a global basis. This partnership's portfolio managers focus on only a handful of new investments each year, thus this fund is a concentrated investment, with 20-30 investments typically representing 80% of portfolio value. This partnership's positions are principally held for 1-3 years on average. While not a primary focus, the fund will seek out value enhancement through activism and working with corporate management teams to unlock hidden value. Lastly, this partnership employs minimal leverage.

**NOTE 3 - CHARITABLE GIFT ANNUITIES AND REMAINDER TRUSTS**

The Foundation administers a Charitable Gift Annuity Program, which is regulated by New York Department of Financial Services and managed by the Foundation and is also registered in various states. The Foundation is the remainderman of the annuities. The total fair market value of the assets held for the charitable gift annuities is \$1,211,490 at June 30, 2016. The discount rates used to determine the present value of the split-interest agreements range between 1% and 6%. The Foundation has adequate reserves as of June 30, 2016 to fund its charitable gift annuity liability and is in compliance with Code of Maryland Regulations 31.09.07.03.

Additionally, the Foundation is the remainderman of charitable remainder trusts for which it is not the trustee. As of June 30, 2016, the balance was \$1,055,248.

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**THE BROOKLYN COLLEGE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**NOTE 4 - CONTRIBUTIONS RECEIVABLE**

Contributions receivable have been discounted over the payment period using 3.75% - 6% discount rates at the time of the contribution. Contributions receivable are due as follows:

2017	\$ 2,613,775
2018	953,000
2019	866,000
2020	781,000
2021	571,000
Thereafter	<u>750,000</u>
	6,534,775
Less allowance for doubtful accounts	(1,050,000)
Less discount to present value	<u>(404,136)</u>
	<u>\$ 5,080,639</u>

Five pledges at gross totaling approximately \$5,041,000 before discounting represent a significant portion of the total outstanding contributions balance at June 30, 2016.

**NOTE 5 - NET ASSETS**

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of:

Scholarships and awards	\$ 1,631,696
College support	<u>3,173,713</u>
	<u>\$ 4,805,409</u>

Temporarily restricted net assets at June 30, 2016, including appreciation from permanently restricted funds that is temporarily restricted as to use, are available for the following purposes:

Scholarships and awards	\$ 15,790,070
College support	<u>35,922,448</u>
	<u>\$ 51,712,518</u>

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**THE BROOKLYN COLLEGE FOUNDATION, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2016****NOTE 5 - NET ASSETS (continued)****General**

The Foundation's endowment consists of 258 donor restricted endowment funds for the purposes indicated below.

**Endowment**

The Foundation's endowment funds are established to provide (i) scholarships, fellowships, prizes and other assistance to students of Brooklyn College; (ii) awards, prizes, and subventions to Brooklyn College faculty and staff or other persons for outstanding achievements or services to Brooklyn College; (iii) funds for the library, academic departments, and for the administration of Brooklyn College; (iv) support for the establishment, maintenance, building, improvement, operation and support of recreational rooms, places, and buildings of Brooklyn College; and (v) support for the functioning and operation of the curricular and extra-curricular activities of Brooklyn College and its related and associated agencies.

**Interpretation of Relevant Law**

The Board of Trustees of the Foundation has adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the "historic dollar value" standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. The Foundation is now governed by the NYPMIFA spending policy, which establishes a maximum prudent spending limit of 7% of the average of its previous five years' balance. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standards of prudence prescribed by NYPMIFA.

**Return Objectives, Strategies Employed and Spending Policy**

The primary investment objective of the endowment is to attain an average nominal total return of 8% over a full market cycle. This nominal rate of return equates to the long-term inflation rate of 3% plus the endowment's required annual spending rate of 5% of earnings. In order to achieve this rate of return, some investment risk must be taken in the management of the endowment. The most effective way to establish appropriate risk levels for the endowment is through net asset allocation (i.e., cash, fixed income, credit investments, long-only equities, alternative assets/hedge funds, private equity, and real estate). A strategic long-term asset allocation has been adopted for the endowment. Over time, the endowment's allocation to specific asset classes should remain within the percentage ranges that are part of the long-term strategic asset allocation. The overall asset allocation strategy shall be to construct a diversified investment portfolio that should enhance long-term total return while avoiding undue risk or concentration in any single asset class.

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**THE BROOKLYN COLLEGE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**NOTE 5 - NET ASSETS (continued)**

**Funds with Deficiencies**

The Foundation does not have any funds with deficiencies.

**Endowment Net Asset Composition by Type of Fund as of June 30, 2016**

Investments to be held in perpetuity totaled \$30,439,849 in 2016. The income is expendable for the following purposes:

Scholarships and awards	\$ 15,525,497
College support	<u>14,914,352</u>
	<u>\$ 30,439,849</u>

**Changes in Endowment Net Assets for the Year Ended June 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year		\$ 3,851,121	\$ 29,029,626	\$ 32,880,747
Investment income (loss)		1,233,636	(81,610)	1,152,026
Change in value split- interest agreements			(2,871)	(2,871)
Contributions		190,010	1,457,405	1,647,415
Reclassification			37,299	37,299
Appropriation of endowment net assets for expenditure	\$ 944,688	(944,688)		
Expenses	<u>(944,688)</u>	<u>                    </u>	<u>                    </u>	<u>(944,688)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 4,330,079</u>	<u>\$ 30,439,849</u>	<u>\$ 34,769,928</u>

During 2016, certain net assets were reclassified from permanently restricted to temporarily restricted net assets in accordance with donor agreements.

**NOTE 6 - PENSION**

The Brooklyn College Foundation, Inc., has a 401(k) pension plan for its employees. For the year ended June 30, 2016, the expense was \$60,057.

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**THE BROOKLYN COLLEGE FOUNDATION, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2016****NOTE 7 - RELATED-PARTY TRANSACTIONS**

The Foundation utilizes certain facilities and professional services provided by the College. The estimated fair values of occupancy costs and salaries and benefits amounted to \$83,747 and \$828,078, respectively, for the year ended June 30, 2016, and are included in the accompanying statement of activities and changes in net assets as both income and expense.

During 2016, there were no other related-party transactions.

**NOTE 8 - CONCENTRATIONS**

Financial instruments which potentially subject the Foundation to a concentration of credit risk are cash accounts with a financial institution in excess of FDIC insurance limits. The Foundation has separately insured the balances over the FDIC limits with JPMorgan Chase.

**NOTE 9 - COMMITMENTS**

As of June 30, 2016, the Foundation has a remaining commitment to fund the building of the Brooklyn College Performing Arts Center for \$1.6 million.

In addition, as of June 30, 2016, the Foundation had a commitment of \$295,000 to fund the remaining construction retainage related to a Cinema Academy building at Steiner Studios.

**NOTE 10 - TRANSFER OF ARTWORK AND COLLECTIONS**

During 2016, the Foundation received and then transferred artwork and collections that has been donated to the Foundation for the benefit of the college to Brooklyn College in the amount of \$40,500.