# THE BROOKLYN COLLEGE FOUNDATION, INC.

## FINANCIAL STATEMENTS AND AUDITOR'S REPORT

## JUNE 30, 2017

**THE BROOKLYN COLLEGE FOUNDATION, INC.**

**TABLE OF CONTENTS**

LOEB & TROPER LLP

## 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, 2017, 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.


655 Third Avenue, 12th Floor, New York, NY 10017
(212) 867-4000 / Fax (212) 867-9810 / *www.loebandtroper.com*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Brooklyn College Foundation, Inc. as of June 30, 2017, and the changes in its net assets and its 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, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 9, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Loeb & Troper LLP

September 11, 2017

EXHIBIT A

## THE BROOKLYN COLLEGE FOUNDATION, INC.

## BALANCE SHEET

## JUNE 30, 2017
## (With Summarized Financial Information for June 30, 2016)

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 617,208 | $ 1,138,686 |
| Investments (includes $1,192,268 in 2017 and $1,211,490 in 2016 held for split-interest agreements) (Notes 2 and 3) | 53,704,075 | 48,775,890 |
| Contributions receivable (net of allowance of $1,050,000 in 2017 and 2016) (Note 4) | 1,866,826 | 1,563,775 |
| Prepaid expenses | 20,491 | 19,096 |
| Total current assets | 56,208,600 | 51,497,447 |
| Noncurrent assets | | |
| Investments (Notes 2 and 3) | 30,715,035 | 30,179,892 |
| Contributions receivable (Note 4) | 2,857,794 | 3,516,864 |
| Beneficial interest in remainder trusts (Note 3) | 1,097,176 | 1,055,248 |
| Beneficial interest in life insurance | 188,912 | 196,841 |
| Total noncurrent assets | 34,858,917 | 34,948,845 |
| Total assets | $ 91,067,517 | $ 86,446,292 |

-continued-

**THE BROOKLYN COLLEGE FOUNDATION, INC.**

**BALANCE SHEET**

**JUNE 30, 2017**
**(With Summarized Financial Information for June 30, 2016)**

| | 2017 | 2016 |
|---|---|---|
| **LIABILITIES AND NET ASSETS** | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | $ 2,269,557 | $ 2,225,805 |
| Annuity obligations (Note 3) | 100,000 | 98,000 |
| Total current liabilities | 2,369,557 | 2,323,805 |
| Noncurrent liabilities | | |
| Annuity obligations (Note 3) | 528,244 | 552,068 |
| Total liabilities | 2,897,801 | 2,875,873 |
| Net assets (Exhibit B) | | |
| Unrestricted | | |
| Operating | 238,582 | 526,919 |
| Board-designated | 673,846 | 891,133 |
| Total unrestricted net assets | 912,428 | 1,418,052 |
| Temporarily restricted (Note 5) | 56,127,594 | 51,712,518 |
| Permanently restricted (Note 5) | 31,129,694 | 30,439,849 |
| Total net assets | 88,169,716 | 83,570,419 |
| Total liabilities and net assets | $ 91,067,517 | $ 86,446,292 |

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, 2017**
**(With Summarized Financial Information for the Year Ended June 30, 2016)**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total 2017 | Total 2016 |
|---|---|---|---|---|---|
| Revenues, gains, losses and other support | | | | | |
| Contributions, grants, legacies and bequests | $ 885,687 | $ 2,083,192 | $ 515,118 | $ 3,483,997 | $ 9,529,613 |
| Investment income (loss) - net (Note 2) | 1,093,746 | 7,258,020 | 142,159 | 8,493,925 | (1,653,803) |
| Change in value of split-interest agreements | (33,404) | 510 | 8,362 | (24,532) | (22,354) |
| Change in value of beneficial interest in remainder trust | | 41,928 | | 41,928 | (19,427) |
| Change in value of beneficial interest in life insurance | | (7,929) | | (7,929) | 5,569 |
| Special events (net of direct expenses of $146,132 in 2016) | | | | | 557,607 |
| Donated materials and other support | 96,526 | | | 96,526 | 97,069 |
| Donated services (Note 7) | 871,177 | | | 871,177 | 828,078 |
| Donated occupancy (Note 7) | 89,150 | | | 89,150 | 83,747 |
| Miscellaneous income | 20,000 | 4,637 | | 24,637 | 30,614 |
| Net assets released from restrictions (Note 5) | 4,937,626 | (4,937,626) | | | |
| Total revenues, gains, losses and other support | 7,960,508 | 4,442,732 | 665,639 | 13,068,879 | 9,436,713 |
| Expenses (Exhibit C) | | | | | |
| Program service - college and student support | 5,382,429 | | | 5,382,429 | 5,232,949 |
| Supporting services | | | | | |
| Management and general | 1,613,867 | | | 1,613,867 | 1,598,751 |
| Fund-raising | 1,443,286 | | | 1,443,286 | 1,576,717 |
| Total supporting services | 3,057,153 | | | 3,057,153 | 3,175,468 |
| Total expenses | 8,439,582 | | | 8,439,582 | 8,408,417 |
| Change in net assets before other changes | (479,074) | 4,442,732 | 665,639 | 4,629,297 | 1,028,296 |
| Reclassification (Note 5) | 3,450 | (27,656) | 24,206 | | |
| Transfer of artwork and collections (Note 10) | (30,000) | | | (30,000) | (40,500) |
| Change in net assets (Exhibit D) | (505,624) | 4,415,076 | 689,845 | 4,599,297 | 987,796 |
| Net assets - beginning of year | 1,418,052 | 51,712,518 | 30,439,849 | 83,570,419 | 82,582,623 |
| Net assets - end of year (Exhibit A) | $ 912,428 | $ 56,127,594 | $ 31,129,694 | $ 88,169,716 | $ 83,570,419 |

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, 2017**
**(With Summarized Financial Information for the Year Ended June 30, 2016)**

| | Program Service - College and Student Support | Management and General | Fund-Raising | Total 2017 | Total 2016 |
|---|---|---|---|---|---|
| Salaries and benefits (includes donated services of $668,672 in management and general and $202,505 in fundraising expenses in 2017) | | $ 1,228,084 | $ 913,832 | $ 2,141,916 | $ 2,151,368 |
| Scholarships and awards | $ 2,222,590 | | | 2,222,590 | 1,930,796 |
| College support | 2,587,151 | | | 2,587,151 | 2,582,854 |
| Conferences and travel | 93,829 | | 8,355 | 102,184 | 188,468 |
| Meetings | 139,168 | | 3,669 | 142,837 | 147,714 |
| Supplies | 258,243 | 9,211 | | 267,454 | 189,856 |
| Advertising | 4,022 | | | 4,022 | 83,409 |
| Printing and publications | 40,483 | | 137,927 | 178,410 | 153,753 |
| Postage | 80 | 2,163 | 76,084 | 78,327 | 64,670 |
| Maintenance and repairs | 8,584 | | | 8,584 | 52,939 |
| Miscellaneous | 27,679 | 18,072 | 66,262 | 112,013 | 243,347 |
| Consulting and professional fees | 600 | 253,418 | 159,725 | 413,743 | 466,113 |
| Insurance | | 37,599 | | 37,599 | 37,029 |
| Entertainment | | | | | 146,132 |
| Office and computer expenses | | 45,602 | 8,000 | 53,602 | 32,354 |
| Investment fees | | 63,048 | | 63,048 | 55,659 |
| Occupancy | | 19,718 | 69,432 | 89,150 | 83,747 |
| Total expenses | 5,382,429 | 1,676,915 | 1,443,286 | 8,502,630 | 8,610,208 |
| Less expenses deducted directly from revenues on the statement of activities and changes in net assets | | | | | |
| Investment fees | | (63,048) | | (63,048) | (55,659) |
| Direct cost of special events | | | | | (146,132) |
| Total expenses reported by function on the statement of activities and changes in net assets (Exhibit B) | $ 5,382,429 | $ 1,613,867 | $ 1,443,286 | $ 8,439,582 | $ 8,408,417 |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**EXHIBIT D**

**THE BROOKLYN COLLEGE FOUNDATION, INC.**

**STATEMENT OF CASH FLOWS**

**YEARS ENDED JUNE 30, 2017 AND 2016**

| | 2017 | 2016 |
|---|---|---|
| Cash flows from operating activities | | |
| Change in net assets (Exhibit B) | $ 4,599,297 | $ 987,796 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities | | |
| Contributions restricted for long-term investment | (515,118) | (1,457,405) |
| Contributions restricted for annuity agreements | (28,221) | (109,677) |
| Realized gain on sale of investments | (664,183) | (1,644,485) |
| Unrealized loss (gain) on investments | (6,871,778) | 4,076,671 |
| Change in value of split-interest agreements | 24,532 | 22,354 |
| Change in value of beneficial interest in remainder trust | (41,928) | 19,427 |
| Transfer of artwork and collections | 30,000 | 40,500 |
| Donated artwork and collections | (30,000) | (40,500) |
| Decrease (increase) in assets | | |
| Contributions receivable | 203,519 | 4,050,982 |
| Beneficial interest in life insurance | 7,929 | (36,109) |
| Prepaid expenses | (1,395) | (224) |
| Increase in liabilities | | |
| Accounts payable and accrued expenses | 43,752 | 96,809 |
| Net cash provided (used) by operating activities | (3,243,594) | 6,006,139 |
| Cash flows from investing activities | | |
| Purchase of investments | (75,919,851) | (26,463,200) |
| Proceeds from sales of investments | 77,992,484 | 16,421,435 |
| Net cash provided (used) by investing activities | 2,072,633 | (10,041,765) |
| Cash flows from financing activities | | |
| Proceeds from contributions restricted for investment in endowment | 667,618 | 2,407,405 |
| Proceeds from contributions restricted for annuity obligations | 72,000 | 265,000 |
| Payments to annuitants | (90,135) | (76,034) |
| Net cash provided by financing activities | 649,483 | 2,596,371 |
| Net change in cash and cash equivalents | (521,478) | (1,439,255) |
| Cash and cash equivalents - beginning of year | 1,138,686 | 2,577,941 |
| Cash and cash equivalents - end of year | $ 617,208 | $ 1,138,686 |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## 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.

**Donated Securities**

The Foundation follows ASU 2012-05 Classification of the Sale Proceeds of Donated Financial Assets as it pertains to the statement of cash flows. Under this ASU, cash flows from the sale of donated securities are classified as cash flows from investing activities.

-continued-

## NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Significant Accounting Policies* (continued)**

**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.

**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.

-continued-

**THE BROOKLYN COLLEGE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

## 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.

-continued-

## 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 and functional expense. 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, 2016, from which the summarized information was derived. Certain expenses as reported for the year ended June 30, 2016 have been reclassified to conform to the 2017 presentation.

### 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.

-continued-

THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

## NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Significant Accounting Policies*** ***(continued)***

**Fair Value Measurements (continued)**

***Change in Accounting Principle - Fair Value Measurements*** **-** In 2017, the Foundation adopted ASU 2015-07 - Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that calculate net asset value per share or its equivalent. This ASU applies to investments in certain entities for which fair value is measured using the net asset value per share (or its equivalent) as a practical expedient. These investments are not categorized in the fair value hierarchy but are included in the disclosure to reconcile investments to the balance sheet. This change does not impact the change in net assets or net assets.

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, 2017 as compared to those used at June 30, 2016.

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

***Mutual funds*** **-** 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 NAV is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held less any liability. The practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than reported at NAV.

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, 2014 and subsequent remain subject to examination by applicable taxing authorities.

-continued-

**THE BROOKLYN COLLEGE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

## NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Significant Accounting Policies* (continued)**

**Subsequent Events**

Subsequent events have been evaluated through September 11, 2017, which is the date the financial statements were available to be issued.

## NOTE 2 - INVESTMENTS

The following table sets forth by level and type, as of June 30, 2017, the investments within the fair value hierarchy:

| | Level 1 | Total |
|---|---|---|
| Investments reported on the fair value hierarchy | | |
| Mutual funds - domestic equities | $ 16,489,956 | $ 16,489,956 |
| Mutual funds - fixed income | 30,555,895 | 30,555,895 |
| Mutual funds - international equity | 9,865,873 | 9,865,873 |
| Common stock | | |
| Large core | 185,539 | 185,539 |
| Large growth | 244,086 | 244,086 |
| Large value | 50,996 | 50,996 |
| Mid core | 156,681 | 156,681 |
| Mid growth | 206,111 | 206,111 |
| Mid value | 143,487 | 143,487 |
| Small value | 35,417 | 35,417 |
| Small core | 50,830 | 50,830 |
| US large cap stock | 25 | 25 |
| Total investments reported on the fair value hierarchy | $ 57,984,896 | 57,984,896 |
| Investments at NAV | | |
| Hedge funds | | 14,899,904 |
| Limited liability company | | 6,122,141 |
| Limited partnerships | | 5,313,399 |
| Total investments at NAV | | 26,335,444 |
| Cash equivalents | | 98,770 |
| Total investments | | $ 84,419,110 |

-continued-

**THE BROOKLYN COLLEGE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 2 - INVESTMENTS (continued)**

Investment income for the year ended June 30, 2017 consists of the following:

| | |
|---|---|
| Interest and dividends | $ 1,021,012 |
| Realized gain on sale of investments | 664,183 |
| Unrealized gain on investments | 6,871,778 |
| Less investment fees | (63,048) |
| | $ 8,493,925 |

The investments have redemption requirements as follows:

| Fund Name | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|
| A. Hedge Fund | $ 2,160,308 | None | Quarterly | 45 days |
| B. Hedge Fund | 2,958,776 | None | Quarterly | 60 days |
| C. Hedge Fund | 1,937,178 | None | 3 years | 90 days |
| D. Hedge Fund | 2,956,426 | None | Quarterly | 60 days |
| E. Hedge Fund | 2,213,695 | None | Quarterly | 45 days |
| F. Hedge Fund | 2,673,521 | None | Quarterly | 60 days |
| G. Limited Liability Company | 6,122,141 | None | Monthly | 10 days |
| H. Limited Partnership | 3,145,890 | None | Annually | 45 days |
| I. Limited Partnership | 2,167,509 | None | 2 years | 90 days |
| | $ 26,335,444 | | | |

**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.

-continued-

**NOTE 2 - INVESTMENTS (continued)**

**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.

**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 20-35% 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.

-continued-

**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 a 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.

-continued-

## NOTE 2 - INVESTMENTS (continued)

### I. Limited Partnership

This limited partnership invests in a 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 $1,192,268 at June 30, 2017. 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, 2017 to fund its charitable gift annuity liability and is in compliance with Code of Maryland Regulations 31.09.07.03. As of June 30, 2017, the annuity obligations were $628,244.

Additionally, the Foundation is the remainderman of charitable remainder trusts for which it is not the trustee. As of June 30, 2017, the balance was $1,097,176.

-continued-

**THE BROOKLYN COLLEGE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

## 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:

| | |
|---|---|
| 2018 and prior | $ 2,916,826 |
| 2019 | 974,400 |
| 2020 | 842,000 |
| 2021 | 572,000 |
| 2022 | 250,000 |
| Thereafter | 500,000 |
| | 6,055,226 |
| Less allowance for doubtful accounts | (1,050,000) |
| Less discount to present value | (280,606) |
| | $ 4,724,620 |

Four pledges at gross totaling approximately $4,066,000 before discounting represent a significant portion of the total outstanding contributions receivable balance at June 30, 2017.

## NOTE 5 - NET ASSETS

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

| | |
|---|---|
| Scholarships and awards | $ 1,905,302 |
| College support | 3,032,324 |
| | $ 4,937,626 |

Temporarily restricted net assets at June 30, 2017, including appreciation from permanently restricted funds that is temporarily restricted as to use, are available for the following purposes:

| | |
|---|---|
| Scholarships and awards | $ 15,970,771 |
| College support | 40,156,823 |
| | $ 56,127,594 |

-continued-

## NOTE 5 - NET ASSETS (continued)

***General***

The Foundation's endowment consists of 259 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.

-continued-

## NOTE 5 - NET ASSETS (continued)

### ***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 approximates the long-term inflation rate of 3% plus the endowment's required annual spending rate of 4% 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.

### ***Funds with Deficiencies***

The Foundation does not have any funds with deficiencies.

### ***Endowment Net Asset Composition by Type of Fund as of June 30, 2017***

Investments to be held in perpetuity totaled $31,129,694 as of June 30, 2017. The income is expendable for the following purposes:

| | |
|---|---|
| Scholarships and awards | $ 15,885,201 |
| College support | 15,244,493 |
| | $ 31,129,694 |

**THE BROOKLYN COLLEGE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

## NOTE 5 - NET ASSETS (continued)

***Changes in Endowment Net Assets for the Year Ended June 30, 2017***

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | | $ 4,330,079 | $ 30,439,849 | $ 34,769,928 |
| Investment income | | 1,280,893 | 142,159 | 1,423,052 |
| Change in value split-interest agreements | | | 8,362 | 8,362 |
| Contributions | | 85,000 | 515,118 | 600,118 |
| Reclassification | | | 24,206 | 24,206 |
| Appropriation of endowment net assets for expenditure | $ 913,989 | (913,989) | | |
| Expenses | (913,989) | | | (913,989) |
| Endowment net assets, end of year | $ - | $ 4,781,983 | $ 31,129,694 | $ 35,911,677 |

During 2017, certain net assets were reclassified from temporarily restricted to unrestricted and permanently 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, 2017, the expense was $52,732.

## NOTE 7 - RELATED-PARTY TRANSACTIONS

The Foundation utilizes certain facilities and professional services provided by the College. The estimated fair value of occupancy costs and salaries and benefits amounted to $89,150 and $871,177, respectively, for the year ended June 30, 2017, and are included in the accompanying statement of activities and changes in net assets as both income and expense.

During 2017, there were no other related-party transactions.

-continued-

## 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 Citi Bank.

## NOTE 9 - COMMITMENTS

As of June 30, 2017, 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, 2017, 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 2017, the Foundation received and then transferred artwork and collections that had been donated to the Foundation for the benefit of the College to Brooklyn College in the amount of $30,000.