

**THE BROOKLYN COLLEGE
FOUNDATION, INC.**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

JUNE 30, 2009

THE BROOKLYN COLLEGE FOUNDATION, INC.

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Independent Auditor's Report

Board of Trustees The Brooklyn College Foundation, Inc.

We have audited the accompanying balance sheet of The Brooklyn College Foundation, Inc. as of June 30, 2009, and the related statements of activities and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2008 financial statements and, in our report dated August 4, 2008, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Brooklyn College Foundation, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



August 3, 2009

THE BROOKLYN COLLEGE FOUNDATION, INC.

BALANCE SHEET

JUNE 30, 2009

(With Summarized Financial Information for June 30, 2008)

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents	\$ 1,323,338	\$ 2,818,567
Investments (includes \$966,981 in 2009 and \$1,114,580 in 2008 held for split-interest agreements) (Notes 2 and 3)	49,976,977	58,545,900
Interest receivable	1,515	8,626
Contributions receivable (net of allowance of \$400,000 in 2009 and 2008) (Note 4)	12,563,216	13,913,363
Beneficial interest in remainder trusts (Note 3)	734,780	885,744
Beneficial interest in life insurance	114,720	97,765
Prepaid expenses and other receivables	17,389	23,748
Artwork	<u>3,205,320</u>	<u>3,205,320</u>
Total assets	<u>\$ 67,937,255</u>	<u>\$ 79,499,033</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 112,238	\$ 177,357
Annuity obligations (Note 3)	<u>652,652</u>	<u>711,224</u>
Total liabilities	<u>764,890</u>	<u>888,581</u>
Net assets (deficit) (Exhibit B)		
Unrestricted		
Operating	2,956,842	3,447,663
Endowments - deficit funding (Note 6)	(8,129,189)	
Board-designated endowment		1,108,509
Artwork	<u>3,205,320</u>	<u>3,205,320</u>
Total unrestricted net assets (deficit)	<u>(1,967,027)</u>	<u>7,761,492</u>
Temporarily restricted (Note 6)	28,750,231	28,105,408
Permanently restricted (Note 6)	<u>40,389,161</u>	<u>42,743,552</u>
Total net assets	<u>67,172,365</u>	<u>78,610,452</u>
Total liabilities and net assets	<u>\$ 67,937,255</u>	<u>\$ 79,499,033</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF ACTIVITIES AND CHANGES
IN NET ASSETS

YEAR ENDED JUNE 30, 2009

(With Summarized Financial Information for the
Year Ended June 30, 2008)

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total	
	General	Board Designated	Total			2009	2008
Revenues, gains, losses and other support							
Contributions, grants, legacies and bequests	\$ 746,524		\$ 746,524	\$ 3,161,777	\$ 687,129	\$ 4,595,430	\$ 8,237,575
Investment income (loss) (Note 2)	845,532	\$ (9,237,698)	(8,392,166)	427,482	(128,680)	(8,093,364)	(2,571,969)
Change in value of split-interest agreements	(21,020)		(21,020)	2,260	12,188	(6,572)	43,491
Change in value of beneficial interest in remainder trust				(150,964)		(150,964)	(29,761)
Special events	\$ 151,048						
Less direct costs of special events	(19,599)		122,829	8,620		131,449	274,502
Donated artwork							2,971,500
Donated services (Note 9)	514,850		514,850			514,850	462,145
Donated occupancy (Note 9)	82,475		82,475			82,475	82,475
Miscellaneous income				10,361		10,361	
Net assets released from restrictions (Note 6)	5,082,117		5,082,117	(5,082,117)			
Total revenues, gains, losses and other support	7,373,307	(9,237,698)	(1,864,391)	(1,622,581)	570,637	(2,916,335)	9,469,958
Expenses (Note 7)							
Program service - scholarships and awards							
Scholarships and awards	5,632,193		5,632,193			5,632,193	3,765,514
Capital project						96,946	222,726
Travel	96,946		96,946			83,332	91,170
Meetings	83,332		83,332			386,172	437,833
Supplies	386,172		386,172			52,036	50,416
Printing and publications	52,036		52,036			793	5,286
Postage	793		793			8,468	2,958
Maintenance and repairs	8,468		8,468			58,880	38,494
Miscellaneous	58,880		58,880				
Total program service - scholarships and awards	6,318,820		6,318,820			6,318,820	5,314,397
Supporting services							
Management and general							
Office salaries	395,266		395,266			395,266	369,801
Payroll taxes and benefits	109,127		109,127			109,127	110,882
Consulting and professional fees	162,004		162,004			162,004	135,641
Insurance	35,786		35,786			55,650	88,838
Office and computer expenses	55,650		55,650			195	1,078
Conferences and travel	195		195			82,475	82,475
Occupancy (Note 9)	82,475		82,475				
Total management and general	840,503		840,503			840,503	824,657

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STATEMENT OF ACTIVITIES AND CHANGES
IN NET ASSETSYEAR ENDED JUNE 30, 2009
(With Summarized Financial Information for the
Year Ended June 30, 2008)

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total	
	General	Board Designated	Total			2009	2008
Expenses (continued)							
Supporting services (continued)							
Fund raising							
Salaries	\$ 772,488		\$ 772,488			\$ 772,488	\$ 725,298
Payroll taxes and benefits	195,664		195,664			195,664	167,146
Consulting and professional fees	41,910		41,910			41,910	65,350
Other fund raising	352,367		352,367			352,367	384,191
Total fund raising	1,362,429		1,362,429			1,362,429	1,341,985
Total supporting services	2,202,932		2,202,932			2,202,932	2,166,642
Total expenses	8,521,752		8,521,752			8,521,752	7,481,039
Changes in net assets before other changes	(1,148,445)	\$ (9,237,698)	(10,386,143)	\$ (1,622,581)	\$ 570,637	(11,438,087)	1,988,919
Reclassifications (Note 6)	(7,471,565)	8,129,189	657,624	2,267,404	(2,925,028)		
Change in net assets (Exhibit C)	(8,620,010)	(1,108,509)	(9,728,519)	644,823	(2,354,391)	(11,438,087)	1,988,919
Net assets - beginning of year	6,652,983	1,108,509	7,761,492	28,105,408	42,743,552	78,610,452	76,621,533
Net assets (deficit) - end of year (Exhibit A)	\$ (1,967,027)	\$ -	\$ (1,967,027)	\$ 28,750,231	\$ 40,389,161	\$ 67,172,365	\$ 78,610,452

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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ (11,438,087)	\$ 1,988,919
Adjustments to reconcile change in net assets to net cash used by operating activities		
Contributions restricted for long-term investment	(687,129)	(4,739,030)
Contributions restricted for annuity agreements		(116,766)
Realized loss (gain) on sale of investments	1,659,764	(2,707,727)
Unrealized loss on investments	7,431,475	6,593,453
Change in value of split-interest agreements	6,572	(43,491)
Change in value of beneficial interest in remainder trust	150,964	29,761
Donated artwork		(2,971,500)
Donated stock	(75,117)	(154,297)
Decrease (increase) in assets		
Interest receivable	7,111	4,759
Contributions receivable	740,654	679,569
Beneficial interest in life insurance	(16,955)	(97,765)
Prepaid expenses and other receivables	6,359	1,732
Decrease in liabilities		
Accounts payable and accrued expenses	(65,119)	(18,774)
Net cash used by operating activities	<u>(2,279,508)</u>	<u>(1,551,157)</u>
Cash flows from investing activities		
Purchase of investments	(16,723,410)	(15,188,112)
Proceeds from sales of investments	16,276,211	12,800,638
Net cash used by investing activities	<u>(447,199)</u>	<u>(2,387,474)</u>
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowment	1,296,622	4,441,667
Proceeds from contributions restricted for annuity obligations		260,355
Payments to annuitants	(65,144)	(72,492)
Net cash provided by financing activities	<u>1,231,478</u>	<u>4,629,530</u>
Net increase (decrease) in cash and cash equivalents	(1,495,229)	690,899
Cash and cash equivalents - beginning of year	<u>2,818,567</u>	<u>2,127,668</u>
Cash and cash equivalents - end of year	<u>\$ 1,323,338</u>	<u>\$ 2,818,567</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, 2009

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 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.

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.

Revenue Recognition

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

Investment income is recognized when earned.

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THE BROOKLYN COLLEGE FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2009****NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*****Significant Accounting Policies (continued)*****Net Assets**

Unrestricted net assets represent funds available for any purpose in performing objectives of the Foundation. Board-designated funds represent unrestricted funds which may, from time to time, be designated by Board action for specific purposes. The board-designated fund included the appreciation/depreciation of the investments held by the permanently restricted fund that have not been restricted by the donor. Endowments - deficit funding include amounts funded by unrestricted net assets for market losses in the endowment funds.

Temporarily restricted net assets are those whose use by the Foundation has been limited 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.

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-free 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.

Contributions

Unconditional contributions 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 as net assets released from restrictions.

Allowance for Doubtful Accounts and Bad Debts 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 and a review of payments subsequent to year-end.

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THE BROOKLYN COLLEGE FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2009****NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Significant Accounting Policies (continued)****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 carried at fair value.

Artwork

Donated artwork is recorded at appraised value at the time of donation.

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, 2008, from which the summarized information was derived.

Reclassifications

During 2008, certain net assets were reclassified between net asset classes in accordance with donor agreements.

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 value of life insurance.

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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

Significant Accounting Policies (continued)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.

Fair Value Measurements

Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements* (FASB Statement No. 157), 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 under FASB Statement No. 157 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, 2009

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, 2009.

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

U.S. Government obligations, domestic and international equity - Valued at the closing price reported on the active market on which the individual securities are traded.

Fixed income funds - Valued at the net asset value (NAV) of shares held at year end.

Partnerships and hedge funds - There are no observable inputs and certain of the underlying investments are not publicly traded and there is no secondary market for such funds. The partnership is valued at the NAV of shares held at year end by the managers of the underlying funds.

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.

Fair Value Measurements on a Nonrecurring Basis

As permitted by FSP 157-2, the fair value measurement disclosure was deferred for any (a) long-lived assets and finite-lived intangible assets in the determination of impairment under SFAS No. 142 or SFAS No. 144, (b) asset retirement obligations initially measured at fair value under SFAS No. 143, *Accounting for Asset Retirement Obligations*, and (c) nonfinancial liabilities for exit or disposal activities initially measured at fair value under SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*.

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (continued)Significant Accounting Policies (continued)Fair Value Measurements on a Nonrecurring Basis (continued)

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of SFAS No. 115* (SFAS No. 159), permits but does not require measurement of financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. As the Foundation did not elect to fair value any of the financial instruments under the provisions of SFAS No. 159, the adoption of this statement effective July 1, 2008 did not have an impact on the financial statements.

FASB Interpretation No. 48 - Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 (FIN 48)

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 was effective for fiscal years beginning after December 15, 2006. On November 7, 2007, the FASB voted to defer FIN 48 for one year until fiscal years beginning after December 15, 2007. On October 15, 2008, the FASB voted to continue the deferral of FIN 48 for non-public companies and not-for-profits for an additional year until fiscal years beginning after December 15, 2008. On July 8, 2009, the FASB decided that FIN 48 will be effective for periods ending after September 15, 2009.

As FIN 48 has not yet been adopted, the Foundation is continuing to use FASB Statement No. 5, *Accounting for Contingencies* (FAS 5) to evaluate uncertain tax positions. The Foundation is currently evaluating the impact on the financial statements of adopting FIN 48.

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 2 - INVESTMENTS

The fair values of investments on a cumulative basis are as follows:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Money market	\$ 16,908,473	\$ -	\$ -	\$ 16,908,473
U.S. Government obligations	89,026	-	-	89,026
Domestic equity	10,136,050	-	-	10,136,050
International equity	4,953,230	-	-	4,953,230
Fixed income funds	12,483,012	-	-	12,483,012
Partnerships and hedge funds	-	-	5,407,186	5,407,186
	<u>\$ 44,569,791</u>	<u>\$ -</u>	<u>\$ 5,407,186</u>	<u>\$ 49,976,977</u>

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, 2009:

	Partnerships	Hedge Funds	Total
Balance, beginning of year	\$ 7,803,598	\$ 1,104,092	\$ 8,907,690
Redemptions	(2,216,392)	-	(2,216,392)
Investment loss	(1,064,609)	(219,503)	(1,284,112)
Balance, end of year	<u>\$ 4,522,597</u>	<u>\$ 884,589</u>	<u>\$ 5,407,186</u>

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 2 - INVESTMENTS (continued)

Level 3 Gains and Losses (continued)

Investment income for the year ended June 30, 2009 consists of the following:

Interest and dividends	\$ 1,049,952
Realized loss on sale of investments	(1,659,764)
Unrealized loss on investments	(7,431,475)
Less investment management fees	<u>(52,077)</u>
	<u>\$ (8,093,364)</u>

NOTE 3 - SPLIT-INTEREST AGREEMENTS

The Foundation manages two custodial trusts known as the Blum Fund and Schwartzman Fund, of which the Foundation is the trustee and remainderman.

The Foundation also administers a Charitable Gift Annuity Program, which is regulated by the State of New York Insurance Department and managed by the Foundation. The Foundation is the remainderman of the annuities.

The total fair market value of the assets held for split-interest agreements is \$966,981 at June 30, 2009. The discount rates used to determine the present value of the split-interest agreements range between 4.4% and 8%.

Additionally, the Foundation is the remainderman of charitable remainder trusts for which it is not the trustee.

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable have been discounted over the payment period using 5% - 6% discount rates at the time of the contribution. Contributions receivable are due as follows:

2010	\$ 8,911,160
2011	3,398,588
2012	361,052
2013	595,000
2014	<u>25,000</u>
	13,290,800
Less allowance for doubtful accounts	(400,000)
Less discount to present value	<u>(327,584)</u>
	<u>\$ 12,563,216</u>

Four pledges totaling approximately \$10,770,000 represent a significant portion of the total outstanding contributions balance at June 30, 2009.

NOTE 5 - CONCENTRATIONS

Financial instruments which potentially subject the Foundation to a concentration of credit risk are cash accounts with a major financial institution in excess of FDIC insurance limits. Management believes that credit risk related to these accounts is minimal.

NOTE 6 - NET ASSETS

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

Scholarships, awards, capital projects and programmatic support	\$ <u>5,082,117</u>
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Temporarily restricted net assets at June 30, 2009 are available for the following purposes:

Scholarships, awards, capital projects and programmatic support	\$ <u>28,750,231</u>
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THE BROOKLYN COLLEGE FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2009****NOTE 6 - NET ASSETS (continued)****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 interpreted the Uniform Management of Institutional Funds Act (UMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. 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 standard of prudence prescribed by UMIFA.

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 spend 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 assets). 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, 2009

NOTE 6 - NET ASSETS (continued)

Funds with Deficiencies

During 2009, the Foundation incurred losses in the portfolio that were recorded in unrestricted net assets for underwater endowment funds. The deficiencies are shown in the unrestricted net assets class.

Endowment Net Asset Composition by Type of Fund as of June 30, 2009

Investments to be held in perpetuity totaled \$40,389,161 in 2009. The income is expendable for the following purposes:

Programmatic support	\$ 18,822,187
Scholarships	16,797,794
Professorships	3,619,680
Internships	<u>1,149,500</u>
	\$ <u>40,389,161</u>

Changes in Endowment Net Assets for the Year Ended June 30, 2009

	<u>Unrestricted</u>	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year		\$ 1,108,509	\$ 2,273,735	\$ 42,743,552	\$ 46,125,796
Interest and dividends			282,652		282,652
Unrealized and realized loss		(9,237,698)		(128,680)	(9,366,378)
Change in the value of beneficial interest in remainder trusts				12,188	12,188
Contributions			203,211	687,129	890,340
Reclassification	\$ (8,129,189)	<u>8,129,189</u>	<u>1,022,150</u>	<u>(2,925,028)</u>	<u>(1,902,878)</u>
Endowment net assets, end of year	\$ <u>(8,129,189)</u>	\$ <u>-</u>	\$ <u>3,781,748</u>	\$ <u>40,389,161</u>	\$ <u>36,041,720</u>

During 2009, certain net assets were reclassified from permanently restricted to temporarily restricted net assets in accordance with donor agreements.

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 7 - EXPENSES

Total expenses per Exhibit B	\$ 8,521,752
Investment management fees	52,077
Direct cost of special events	<u>19,599</u>
 Total expenses	 \$ <u>8,593,428</u>

Direct costs of special events consist of the following:

Food, facility and entertainment	\$ <u>19,599</u>
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NOTE 8 - PENSION

The Brooklyn College Foundation has a 403(b) pension plan for its employees. For the year ended June 30, 2009, the expense was \$49,229.

NOTE 9 - DONATED SERVICES AND OCCUPANCY

The Foundation receives donated space for its offices from Brooklyn College. Additionally, the President, Vice President for Finance and Administration, Vice President for Institutional Advancement, Assistant Vice President for Finance, Budget and Planning/Comptroller, the Director of Finance and Planning of Brooklyn College and Development Associate provide professional services to the Foundation. The personnel services totaled \$514,850 and the office space totaled \$82,475 for the year ended June 30, 2009.