

**THE BROOKLYN COLLEGE
FOUNDATION, INC.**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

JUNE 30, 2015

THE BROOKLYN COLLEGE FOUNDATION, INC.

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**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, 2015, 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, 2015, 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, 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 1, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Loeb & Troper LLP

September 2, 2015

THE BROOKLYN COLLEGE FOUNDATION, INC.

BALANCE SHEET

JUNE 30, 2015

(With Summarized Financial Information for June 30, 2014)

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,577,941	\$ 1,779,411
Investments (includes \$1,005,410 in 2015 and \$1,014,476 in 2014 held for split-interest agreements) (Notes 2 and 3)	43,529,406	46,621,963
Contributions receivable (net of allowance of \$1,050,000 in 2015 and 2014) (Note 4)	6,955,943	1,838,299
Prepaid expenses and other assets	<u>18,872</u>	<u>20,598</u>
Total current assets	<u>53,082,162</u>	<u>50,260,271</u>
Noncurrent assets		
Investments (Notes 2 and 3)	27,816,797	26,997,089
Contributions receivable (Note 4)	3,125,678	454,011
Beneficial interest in remainder trusts (Note 3)	1,074,675	1,112,478
Beneficial interest in life insurance	160,732	152,342
Artwork and collections	<u> </u>	<u>3,300,820</u>
Total noncurrent assets	<u>32,177,882</u>	<u>32,016,740</u>
Total assets	<u>\$ 85,260,044</u>	<u>\$ 82,277,011</u>

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THE BROOKLYN COLLEGE FOUNDATION, INC.

BALANCE SHEET

JUNE 30, 2015

(With Summarized Financial Information for June 30, 2014)

	<u>2015</u>	<u>2014</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,128,996	\$ 2,015,427
Annuity obligations	<u>83,000</u>	<u>90,000</u>
Total current liabilities	2,211,996	2,105,427
Noncurrent liabilities		
Annuity obligations	<u>465,425</u>	<u>439,239</u>
Total liabilities	<u>2,677,421</u>	<u>2,544,666</u>
Net assets (Exhibit B)		
Unrestricted		
Operating	356,701	443,986
Board-designated	1,190,233	1,599,731
Artwork and collections	<u> </u>	<u>3,300,820</u>
Total unrestricted net assets	1,546,934	5,344,537
Temporarily restricted (Note 5)	52,006,063	47,180,868
Permanently restricted (Note 5)	<u>29,029,626</u>	<u>27,206,940</u>
Total net assets	<u>82,582,623</u>	<u>79,732,345</u>
Total liabilities and net assets	<u>\$ 85,260,044</u>	<u>\$ 82,277,011</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, 2015

(With Summarized Financial Information for the Year Ended June 30, 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2015	2014
Revenues, gains, losses and other support					
Contributions, grants, legacies and bequests	\$ 1,121,842	\$ 11,813,550	\$ 1,895,904	\$ 14,831,296	\$ 3,416,291
Investment income (loss) - net (Note 2)	751,894	1,161,901	(14,998)	1,898,797	7,668,084
Change in value of split-interest agreements	(52,919)		2,976	(49,943)	(39,189)
Change in value of beneficial interest in remainder trust		(37,803)		(37,803)	97,027
Change in value of beneficial interest in life insurance		8,390		8,390	8,439
Bad debt loss		(8,249)		(8,249)	(650,000)
Special events	\$ 307,234				
Less direct costs of special events	(77,849)	229,385		229,385	242,940
Donated materials and other support (Note 7)		98,294		98,294	78,000
Donated services (Note 7)		765,507		765,507	659,989
Donated occupancy (Note 7)		97,254		97,254	94,553
Rental loss					(8,663)
Miscellaneous income		205	33,344	33,549	27,023
Net assets released from restrictions (Note 5)		8,207,134	(8,207,134)		
Total revenues, gains, losses and other support	11,218,596	4,763,999	1,883,882	17,866,477	11,594,494
Expenses (Exhibit C)					
Program service - college and student support	8,813,602			8,813,602	7,312,114
Supporting services					
Management and general	1,538,459			1,538,459	1,425,258
Fund raising	1,342,318			1,342,318	1,412,693
Total supporting services	2,880,777			2,880,777	2,837,951
Total expenses	11,694,379			11,694,379	10,150,065
Change in net assets before other changes	(475,783)	4,763,999	1,883,882	6,172,098	1,444,429
Reclassification (Note 5)		61,196	(61,196)		
Transfer of artwork and collections (Note 10)	(3,321,820)			(3,321,820)	
Change in net assets (Exhibit D)	(3,797,603)	4,825,195	1,822,686	2,850,278	1,444,429
Net assets - beginning of year	5,344,537	47,180,868	27,206,940	79,732,345	78,287,916
Net assets - end of year (Exhibit A)	\$ 1,546,934	\$ 52,006,063	\$ 29,029,626	\$ 82,582,623	\$ 79,732,345

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, 2015
(With Summarized Financial Information
for the Year Ended June 30, 2014)

	Program Service - College and Student Support	Management and General	Fund Raising	Direct Costs of Special Events	Total	
					2015	2014
Salaries and benefits		\$ 1,074,555	\$ 896,622		\$ 1,971,177	\$ 2,000,576
Scholarships and awards	\$ 1,799,965				1,799,965	1,609,969
College support	2,592,509				2,592,509	2,372,373
Capital project	3,900,000				3,900,000	2,700,000
Conferences and travel	87,773		17,205		104,978	86,300
Meetings	113,825	52	1,061		114,938	84,642
Supplies	224,005	32,098	23		256,126	334,949
Advertising	14,081				14,081	5,683
Printing and publications	27,873	576	123,529		151,978	183,272
Postage	1,571	13,216	42,346		57,133	69,750
Maintenance and repairs	6,500				6,500	10,526
Miscellaneous	45,500	16,965	83,215		145,680	192,296
Consulting and professional fees		206,922	177,339		384,261	327,081
Insurance		36,245			36,245	33,744
Entertainment				\$ 77,849	77,849	82,393
Office and computer expenses		60,576	978		61,554	44,351
Investment fees		53,303			53,303	52,447
Occupancy		97,254			97,254	94,553
Rental expenses						27,663
Total expenses	8,813,602	1,591,762	1,342,318	77,849	11,825,531	10,312,568
Less expenses deducted directly from revenues on the statement of activities						
Investment fees		(53,303)			(53,303)	(52,447)
Rental expense						(27,663)
Direct cost of special events				(77,849)	(77,849)	(82,393)
Total expenses reported by function on the statement of activities and changes in net assets (Exhibit B)	\$ 8,813,602	\$ 1,538,459	\$ 1,342,318	\$ -	\$ 11,694,379	\$ 10,150,065

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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 2,850,278	\$ 1,444,429
Adjustments to reconcile change in net assets to net cash used by operating activities		
Contributions restricted for long-term investment	(1,895,904)	(285,784)
Contributions restricted for annuity agreements	(21,951)	(47,445)
Realized gain on sale of investments	(2,766,188)	(635,038)
Unrealized loss (gain) on investments	1,632,655	(6,159,750)
Change in value of split-interest agreements	49,943	39,189
Change in value of beneficial interest in remainder trust	37,803	(97,027)
Donated stock	(1,350,268)	(582,656)
Transfer of artwork and collections	3,321,820	
Donated artwork and collections	(21,000)	(78,000)
Decrease (increase) in assets		
Contributions receivable	(6,789,311)	1,385,910
Beneficial interest in life insurance	(8,390)	(8,439)
Prepaid expenses and other assets	1,726	122,172
Increase in liabilities		
Accounts payable and accrued expenses	113,569	654,073
Net cash used by operating activities	<u>(4,845,218)</u>	<u>(4,248,366)</u>
Cash flows from investing activities		
Purchase of investments	(24,891,910)	(20,263,654)
Proceeds from sales of investments	29,648,560	22,587,643
Net cash provided by investing activities	<u>4,756,650</u>	<u>2,323,989</u>
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowment	895,904	285,784
Proceeds from contributions restricted for annuity obligations	60,000	125,000
Payments to annuitants	(68,806)	(80,682)
Net cash provided by financing activities	<u>887,098</u>	<u>330,102</u>
Net change in cash and cash equivalents	798,530	(1,594,275)
Cash and cash equivalents - beginning of year	<u>1,779,411</u>	<u>3,373,686</u>
Cash and cash equivalents - end of year	<u>\$ 2,577,941</u>	<u>\$ 1,779,411</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, 2015

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, 2015****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.

Artwork and Collections

Donated artwork and historical collections are recorded at appraised value at the time of donation.

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, 2015****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, 2015****NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Significant Accounting Policies (continued)****Rental Income**

Rental income is recorded on a monthly basis equal to amounts charged to the tenant based upon signed leases.

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, 2014, from which the summarized information was derived.

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, 2015****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, 2015 as compared to those used at June 30, 2014.

Cash equivalents - 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 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, 2012 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent Events

Subsequent events have been evaluated through September 2, 2015, 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, 2015

NOTE 2 - INVESTMENTS

The following table sets forth by level and type, as of June 30, 2015, the investments within the fair value hierarchy:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 17,868		\$ 17,868
Mutual funds - money market	172,861		172,861
Mutual funds - equities	20,625,247		20,625,247
Mutual funds - fixed income	26,508,490		26,508,490
Hedge funds		\$ 11,747,831	\$ 11,747,831
Limited liability company		4,644,237	4,644,237
Limited partnerships		<u>7,629,669</u>	<u>7,629,669</u>
	<u>\$ 47,324,466</u>	<u>\$ 24,021,737</u>	<u>\$ 71,346,203</u>

Investment income for the year ended June 30, 2015 consists of the following:

Interest and dividends	\$ 818,567
Realized gain on sale of investments	2,766,188
Unrealized loss on investments	(1,632,655)
Less investment fees	<u>(53,303)</u>
	<u>\$ 1,898,797</u>

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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, 2015:

	<u>Hedge Funds</u>	<u>Limited Liability Company</u>	<u>Limited Partnerships</u>	<u>Total</u>
Balance, beginning of year	\$ 11,764,218	\$ 3,862,574	\$ 7,144,892	\$ 22,771,684
Redemptions	(3,336,900)		(9,375)	(3,346,275)
Purchases	2,800,000			2,800,000
Investment fees		(32,912)		(32,912)
Dividends		72,159		72,159
Unrealized gains*	518,388	322,608	494,152	1,335,148
Realized gain	<u>2,125</u>	<u>419,808</u>	<u> </u>	<u>421,933</u>
End of year	<u>\$ 11,747,831</u>	<u>\$ 4,644,237</u>	<u>\$ 7,629,669</u>	<u>\$ 24,021,737</u>
* The amount of total gains for the period attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	<u>\$ 518,388</u>	<u>\$ 322,608</u>	<u>\$ 494,152</u>	<u>\$ 1,335,148</u>

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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	\$ 2,052,277	None	Quarterly	45 days
B. Hedge Fund	2,880,450	None	Quarterly	60 days
C. Hedge Fund	1,167,453	None	Annually	90 days
D. Hedge Fund	2,994,246	None	3 years	90 days
E. Hedge Fund	2,653,405	None	Quarterly	60 days
F. Limited Liability Company	4,644,237	None	Monthly	10 days
G. Limited Partnership	2,914,611	None	Annually	45 days
H. Limited Partnership	2,409,651	None	2 years	90 days
I. Limited Partnership	2,285,482	None	Monthly	30 days
J. Limited Partnership	<u>19,925</u>	None	N/A	N/A
	<u>\$ 24,021,737</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, 2015****NOTE 2 - INVESTMENTS (continued)****C. Hedge Fund**

This fund has a global, value-oriented approach to investing with a focus on managers that utilize bottom-up fundamental analysis. The firm prides itself on the depth and quality of its research process, which includes due diligence on companies held by underlying managers. This fund has extensive experience in non-U.S. investing, and their funds have material allocations to developed and emerging countries outside the U.S. This fund is a relatively concentrated, long-biased long/short equity portfolio that provides substantial exposure to emerging markets. It targets high absolute returns over a multi-year period.

D. 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.

E. 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.

F. 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%.

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THE BROOKLYN COLLEGE FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2015****NOTE 2 - INVESTMENTS (continued)****G. 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.

H. 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.

I. Limited Partnership

This limited partnership was designed as an alternative to long-only equity investing in a vehicle that is more liquid than a traditional fund of hedge funds. The limited partnership considers this strategy a superior way to obtain exposure to equity markets given the asymmetric return profile made possible by allocating to managers with both long and short positions. The majority of the fund's capital is allocated to custom separate accounts that the limited partnership structured with their high-conviction managers. This offers benefits such as tailored investment guidelines and improved liquidity and fees. The limited partnership seeks equity-like returns with approximately half the volatility associated with global equity indices.

J. Limited Partnership

The interest of the Foundation in the limited partnership is in liquidation. The balance represents cash that is being paid out.

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THE BROOKLYN COLLEGE FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2015****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 \$1,005,410 at June 30, 2015. 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, 2015 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, 2015, the balance was \$1,074,675.

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:

2016	\$ 8,005,943
2017	873,000
2018	647,000
2019	585,000
2020	550,000
Thereafter	<u>850,000</u>
	11,510,943
Less allowance for doubtful accounts	(1,050,000)
Less discount to present value	<u>(379,322)</u>
	<u>\$ 10,081,621</u>

Six pledges at gross totaling approximately \$8,740,000 before discounting represent a significant portion of the total outstanding contributions balance at June 30, 2015.

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 5 - NET ASSETS

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

Scholarships and awards	\$ 1,446,542
College support	<u>6,760,592</u>
	<u>\$ 8,207,134</u>

Temporarily restricted net assets at June 30, 2015, including appreciation from permanently restricted funds that is temporarily restricted as to use, are available for the following purposes:

Scholarships and awards	\$ 13,166,345
College support	<u>38,839,718</u>
	<u>\$ 52,006,063</u>

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.

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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 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.

Funds with Deficiencies

The Foundation does not have any funds with deficiencies.

Endowment Net Asset Composition by Type of Fund as of June 30, 2015

Investments to be held in perpetuity totaled \$29,029,626 in 2015. The income is expendable for the following purposes:

Scholarships and awards	\$ 15,180,273
College support	<u>13,849,353</u>
	<u>\$ 29,029,626</u>

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 5 - NET ASSETS (continued)

Changes in Endowment Net Assets for the Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year		\$ 3,252,911	\$ 27,206,940	\$ 30,459,851
Investment income (loss)		1,129,396	(14,998)	1,114,398
Change in value split- interest agreements			2,976	2,976
Contributions		108,571	1,895,904	2,004,475
Reclassification			(61,196)	(61,196)
Appropriation of endowment net assets for expenditure	\$ 639,757	(639,757)		
Expenses	<u>(639,757)</u>	<u> </u>	<u> </u>	<u>(639,757)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 3,851,121</u>	<u>\$29,029,626</u>	<u>\$ 32,880,747</u>

During 2015, 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 has a 401(k) pension plan for its employees. For the year ended June 30, 2015, the expense was \$59,944.

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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 \$97,254 and \$765,507, respectively, for the year ended June 30, 2015, and are included in the accompanying statement of activities and changes in net assets as both income and expense. Included in donated materials and other support of \$98,294 of which \$62,414 of other support was provided by the College.

During 2015, 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, 2015, the Foundation has a remaining commitment to fund the building of the Brooklyn College Performing Arts Center for \$1.6 million.

During 2015, the Foundation entered into an agreement with an unrelated limited liability company ("the company") to reimburse for the construction costs of a Cinema Academy building at Steiner Studios up to a maximum amount of \$10.6 million. The agreement includes initial funding of \$5,900,000 and potential additional progress payments of \$4,700,000. The Foundation will retain 4% of the funds until the commencement date under the lease occurs and 1% until one year after the later of the date that all Punchlist Items are completed to Tenant's reasonable satisfaction and the date all Public Assembly Permits are delivered to the tenant. Additionally, the Foundation is required to pay for operating and electricity expenses in the amount of \$53,000. As of June 30, 2015, the amounts paid towards the commitment are as follows:

Brooklyn College Foundation	\$ 3,605,000
Mayor's Office of Media and Entertainment	4,700,000
Brooklyn College	<u>2,000,000</u>
Total paid to date	<u>\$ 10,305,000</u>

The balance due for retainage as part of this commitment at June 30, 2015 was \$295,000. These amounts are included in accounts payable and accrued expenses.

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THE BROOKLYN COLLEGE FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2015****NOTE 10 - TRANSFER OF ARTWORK AND COLLECTIONS**

During 2015, the Foundation transferred artwork and collections that has been donated to the Foundation for the benefit of the college to Brooklyn College in the amount of \$3,321,820 at historical cost.