

**THE BROOKLYN COLLEGE
FOUNDATION, INC.**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

JUNE 30, 2013

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, 2013, 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, 2013, 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, 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 27, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Loeb & Troper LLP

September 18, 2013

THE BROOKLYN COLLEGE FOUNDATION, INC.

BALANCE SHEET

JUNE 30, 2013

(With Summarized Financial Information for June 30, 2012)

ASSETS	<u>2013</u>	<u>2012</u>
Current assets		
Cash and cash equivalents	\$ 3,373,686	\$ 4,565,714
Investments (includes \$1,013,735 in 2013 and \$1,001,278 in 2012 held for split-interest agreements) (Notes 2 and 3)	41,521,882	38,435,792
Contributions receivable (net of allowance of \$400,000 in 2013 and 2012) (Note 4)	2,435,200	4,900,490
Prepaid expenses and other assets	142,770	53,975
Investment in real estate (Note 10)		5,865,034
Total current assets	<u>47,473,538</u>	<u>53,821,005</u>
Noncurrent assets		
Investments (Notes 2 and 3)	27,043,715	26,878,920
Contributions receivable (Note 4)	1,243,020	2,043,454
Beneficial interest in remainder trusts (Note 3)	1,015,451	966,582
Beneficial interest in life insurance	143,903	149,773
Artwork and collections	3,222,820	3,436,220
Total noncurrent assets	<u>32,668,909</u>	<u>33,474,949</u>
Total assets	<u>\$ 80,142,447</u>	<u>\$ 87,295,954</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,361,354	\$ 1,211,042
Annuity obligations	83,000	80,000
Total current liabilities	<u>1,444,354</u>	<u>1,291,042</u>
Noncurrent liabilities		
Annuity obligations	410,177	386,032
Total liabilities	<u>1,854,531</u>	<u>1,677,074</u>
Net assets (Exhibit B)		
Unrestricted		
Operating	919,503	2,015,607
Board-designated	1,824,007	1,622,102
Artwork and collections	3,222,820	3,436,220
Investment in real estate		5,865,034
Total unrestricted net assets	<u>5,966,330</u>	<u>12,938,963</u>
Temporarily restricted (Note 5)	45,277,875	45,800,997
Permanently restricted (Note 5)	27,043,711	26,878,920
Total net assets	<u>78,287,916</u>	<u>85,618,880</u>
Total liabilities and net assets	<u>\$ 80,142,447</u>	<u>\$ 87,295,954</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, 2013

(With Summarized Financial Information for the Year Ended June 30, 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2013	2012
Revenues, gains, losses and other support					
Contributions, grants, legacies and bequests	\$ 826,745	\$ 2,296,489	\$ 207,356	\$ 3,330,590	\$ 8,423,096
Investment income (Note 2)	652,204	4,258,959	(14,489)	4,896,674	719,904
Change in value of split-interest agreements	(36,252)	1,900	3,257	(31,095)	(33,063)
Change in value of beneficial interest in remainder trust		48,869		48,869	29,007
Change in value of beneficial interest in life insurance		(5,870)		(5,870)	6,239
Bad debt loss		(31,777)	(31,333)	(63,110)	(549,496)
Special events	\$ 227,897				
Less direct costs of special events	(67,622)				
Donated materials	157,425	2,850		160,275	407,202
Donated services (Note 7)		92,295		92,295	
Donated occupancy (Note 7)	694,237			694,237	621,062
Rental income (Net of rental expense of \$57,358)	67,538			67,538	67,538
Miscellaneous income	53,642			53,642	
Net assets released from restrictions (Note 5)	20,626	15,772		36,398	25,674
	7,202,609	(7,202,609)			
Total revenues, gains, losses and other support	9,638,774	(523,122)	164,791	9,280,443	9,717,163
Expenses (Exhibit C)					
Program service - college and student support	7,809,883			7,809,883	9,738,448
Supporting services					
Management and general	1,241,174			1,241,174	1,152,298
Fund raising	1,481,916			1,481,916	1,637,427
Total supporting services	2,723,090			2,723,090	2,789,725
Total expenses	10,532,973			10,532,973	12,528,173
Changes in net assets before other changes	(894,199)	(523,122)	164,791	(1,252,530)	(2,811,010)
Transfer of assets (Note 10)	(6,078,434)			(6,078,434)	
Change in net assets (Exhibit D)	(6,972,633)	(523,122)	164,791	(7,330,964)	(2,811,010)
Net assets - beginning of year	12,938,963	45,800,997	26,878,920	85,618,880	88,429,890
Net assets - end of year (Exhibit A)	\$ 5,966,330	\$ 45,277,875	\$ 27,043,711	\$ 78,287,916	\$ 85,618,880

See independent auditor's report.

The accompanying notes are an integral part of these statements.

THE BROOKLYN COLLEGE FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2013
 (With Summarized Financial Information
 for the Year Ended June 30, 2012)

	Program Service - College and Student Support	Management and General	Fund Raising	Direct Costs of Special Events	Total
					2013
					2012
	\$	\$ 940,016	\$ 1,061,019	\$	\$ 2,001,035
Salaries and benefits	1,416,035				1,954,102
Scholarships and awards	2,193,663				1,296,926
College support	3,600,000				1,954,874
Capital project	80,500	195	17,965		5,500,000
Conferences and travel	75,632		6,203		86,661
Meetings	218,160	10,735	3,184		106,092
Supplies	24,028				250,618
Advertising	45,978	6,026	153,517		1,922
Printing and publications	3,821	14,398	49,197		205,521
Postage	70,353				67,416
Maintenance and repairs	70,463	16,353	33,985		70,353
Miscellaneous	11,250	127,963	150,287		120,801
Consulting and professional fees		35,425			289,500
Insurance					35,425
Entertainment				67,622	67,622
Office and computer expenses		22,525	6,559		69,684
Investment fees		33,748			29,084
Occupancy		67,538			33,748
Rental expenses	57,358				67,538
					57,358
Total expenses	7,867,241	1,274,922	1,481,916	67,622	10,691,701
Less expenses deducted directly from revenues on the statement of activities					
Investment fees		(33,748)			(33,748)
Rental expense	(57,358)				(57,358)
Direct cost of special events				(67,622)	(67,622)
Total expenses reported by function on the statement of activities and changes in net assets (Exhibit B)	\$ 7,809,883	\$ 1,241,174	\$ 1,481,916	\$ -	\$ 10,532,973
					\$ 12,528,173

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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ (7,330,964)	\$ (2,811,010)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Contributions restricted for long-term investment	(207,356)	(3,164,626)
Contributions restricted for annuity agreements	(31,115)	(12,851)
Realized gain on sale of investments	(4,310,915)	(191,370)
Unrealized loss on investments	493,163	487,818
Change in value of split-interest agreements	31,095	33,063
Change in value of beneficial interest in remainder trust	(48,869)	(29,007)
Donated stock	(573,413)	(624,314)
Transfer of investment in real estate	5,865,034	
Transfer of artworks and collections	213,400	
Decrease (increase) in assets		
Contributions receivable	3,233,391	5,661,043
Beneficial interest in life insurance	5,870	(6,239)
Prepaid expenses and other assets	(88,795)	(28,133)
Increase in liabilities		
Accounts payable and accrued expenses	150,312	945,006
Net cash provided (used) by operating activities	<u>(2,599,162)</u>	<u>259,380</u>
Cash flows from investing activities		
Purchase of investments	(44,289,630)	(11,329,703)
Proceeds from sales of investments	45,429,910	9,049,602
Net cash provided (used) by investing activities	<u>1,140,280</u>	<u>(2,280,101)</u>
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowment	239,689	3,669,626
Proceeds from contributions restricted for annuity obligations	78,275	35,000
Payments to annuitants	(51,110)	(49,459)
Net cash provided by financing activities	<u>266,854</u>	<u>3,655,167</u>
Net change in cash and cash equivalents	(1,192,028)	1,634,446
Cash and cash equivalents - beginning of year	<u>4,565,714</u>	<u>2,931,268</u>
Cash and cash equivalents - end of year	<u>\$ 3,373,686</u>	<u>\$ 4,565,714</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, 2013

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.

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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.

Investment in Real Estate

Investment in real estate represents property that was transferred to Brooklyn College for use in its programs. The investment in real estate is valued based on the purchase price of the real estate.

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.

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (continued)Significant Accounting Policies (continued)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.

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.

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (continued)Significant Accounting Policies (continued)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 specific purposes.

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.

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, 2012, from which the summarized information was derived. On the statement of functional expenses, 2012 amounts for college support has been segregated from scholarships and awards to conform to the current year's presentation.

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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

Significant Accounting Policies (continued)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.

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, 2013 as compared to those used at June 30, 2012.

Money market - 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.

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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

Significant Accounting Policies (continued)Fair Value Measurements (continued)

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, 2010 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent Events

Subsequent events have been evaluated through September 18, 2013, 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, 2013, the investments within the fair value hierarchy:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Money market	\$ 20,622		\$ 20,622
Mutual funds - domestic equities	11,840,391		11,840,391
Mutual funds - international equities	4,402,933		4,402,933
Mutual funds - fixed income	30,276,960		30,276,960
Mutual funds - diversified inflation strategies	903,927		903,927
Mutual funds - tactical asset allocation	4,342,000		4,342,000
Hedge funds		\$ 11,178,228	11,178,228
Limited liability company		3,572,065	3,572,065
Limited partnerships		2,028,471	2,028,471
	<u>\$ 51,786,833</u>	<u>\$ 16,778,764</u>	<u>\$ 68,565,597</u>

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 2 - INVESTMENTS (continued)

Investment income for the year ended June 30, 2013 consists of the following:

Interest and dividends	\$ 1,112,670
Realized gain on sale of investments	4,310,915
Unrealized loss on investments	(493,163)
Less investment management fees	<u>(33,748)</u>
	<u>\$ 4,896,674</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, 2013:

	<u>Hedge Funds</u>	<u>Limited Liability Company</u>	<u>Limited Partnerships</u>	<u>Total</u>
Balance, beginning of year	\$ 1,000,000	\$ 3,746,993	\$ 1,805,900	\$ 6,552,893
Redemptions	(3,303,177)	(1,064,708)	(8,588)	(4,376,473)
Purchases	12,603,177			12,603,177
Management fees			(22,532)	(22,532)
Dividends		60,833		60,833
Unrealized gains	375,051	663,704	253,691	1,292,446
Realized gain	<u>503,177</u>	<u>165,243</u>	<u> </u>	<u>668,420</u>
End of year	<u>\$ 11,178,228</u>	<u>\$ 3,572,065</u>	<u>\$ 2,028,471</u>	<u>\$ 16,778,764</u>

In 2013, the opening balance of limited partnerships has been reduced by the balance of hedge fund.

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 2 - INVESTMENTS (continued)

The investments have redemption requirements as follows:

<u>Fund Name</u>	<u>Fair Value*</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
A. Hedge Fund	\$ 1,692,841	None	Quarterly	45 days
B. Hedge Fund	5,361,284	None	Quarterly	95 days
C. Hedge Fund	3,024,310	None	Quarterly	95 days
D. Hedge Fund	1,099,793	None	Annually	90 days
E. Limited Liability Company	3,572,065	None	Monthly	10 days
F. Limited Partnership	1,975,162	None	Monthly	30 days
G. Limited Partnership	<u>53,309</u>	None	N/A	N/A
	<u>\$ 16,778,764</u>			

A. Hedge Fund

The Hedge Fund is a portfolio of ten hedge funds managed by senior Wellington 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. The Archipelago 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 diversified multi-strategy hedge fund of funds that seeks to provide strong risk-adjusted returns. Each manager acts as a generalist, allowing them to seek the best investment opportunities objectively and make logical, well-informed decisions in a consensus-driven manner. The Investment Committee undertakes a “blank sheet” review each year in which members construct their individual “ideal portfolios” for the coming year. Members then meet to discuss and eventually arrive at new forward-looking target allocations. All of the firm’s investment decisions are made by the nine-person Investment Committee.

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 2 - INVESTMENTS (continued)

C. Hedge Fund

This hedge fund is a diversified multi-strategy hedge fund of funds that targets returns of LIBOR +3-6% and volatility of less than 5% over a market cycle. This hedge fund focuses heavily on risk management during the portfolio construction process, which contributes to its lower overall volatility profile. Managers are researched across a number of areas including organizational structure, investment process, portfolio construction, and risk management. Investment-related decisions are made at the Investment Committee level and require a super majority vote of the six members.

D. 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. Berens 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.

E. 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%.

F. 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.

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 2 - INVESTMENTS (continued)

G. Limited Partnership

This limited partnership is in liquidation. The balance represents cash that is being paid out.

NOTE 3 - CHARITABLE GIFT ANNUITIES AND REMAINDER TRUSTS

The Foundation 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 the charitable gift annuities is \$1,013,735 at June 30, 2013. The discount rates used to determine the present value of the split-interest agreements range between 1% and 6%.

Additionally, the Foundation is the remainderman of charitable remainder trusts for which it is not the trustee. As of June 30, 2013, the balance was \$1,015,451.

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:

2014	\$ 2,835,200
2015	883,200
2016	353,500
2017	<u>81,000</u>
	4,152,900
Less allowance for doubtful accounts	(400,000)
Less discount to present value	<u>(74,680)</u>
	<u>\$ 3,678,220</u>

Four pledges at gross totaling approximately \$2,920,176 before discounting represent a significant portion of the total outstanding contributions balance at June 30, 2013.

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 4 - CONTRIBUTIONS RECEIVABLE (continued)

Four pledges at gross totaling approximately \$2,920,176 before discounting represent a significant portion of the total outstanding contributions balance at June 30, 2013.

NOTE 5 - NET ASSETS

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

Scholarships and awards	\$ 1,057,940
College support	<u>6,144,669</u>
	\$ <u>7,202,609</u>

Temporarily restricted net assets at June 30, 2013 are available for the following purposes:

Scholarships and awards	\$ 6,880,921
College support	<u>38,396,954</u>
	\$ <u>45,277,875</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.

THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 5 - NET ASSETS (continued)

Interpretation of Relevant Law

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

Return Objectives, Strategies Employed and Spending Policy

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

Funds with Deficiencies

The Foundation does not have any funds with deficiencies.

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 5 - NET ASSETS (continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2013

Investments to be held in perpetuity totaled \$27,043,711 in 2013. The income is expendable for the following purposes:

Scholarships and awards	\$ 13,834,129
College support	<u>13,209,582</u>
	<u>\$ 27,043,711</u>

Changes in Endowment Net Assets for the Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year		\$ 2,112,644	\$ 26,878,920	\$ 28,991,564
Investment income		1,036,281	(14,489)	1,021,792
Change in value split- interest agreements			3,257	3,257
Contributions		159,571	207,356	366,927
Bad debt loss			(31,333)	(31,333)
Appropriation of endowment net assets for expenditure	767,613	(767,613)		
Expenses	<u>(767,613)</u>	<u> </u>	<u> </u>	<u>(767,613)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,540,883</u>	<u>\$ 27,043,711</u>	<u>\$ 29,584,594</u>

NOTE 6 - PENSION

The Brooklyn College Foundation has a 401(k) pension plan for its employees. For the year ended June 30, 2013, the expense was \$75,450.

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THE BROOKLYN COLLEGE FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2013****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 \$67,538 and \$694,237, respectively, for the year ended June 30, 2013, and are included in the accompanying statement of activities and changes in net assets as both income and expense.

During 2013, 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, 2013, the Foundation has a remaining commitment to fund the building of the Brooklyn College Performing Arts Center for \$2.7 million.

NOTE 10 - TRANSFER OF ASSETS

In July 2012, the Foundation transferred title to the investment in real estate to Dormitory Authority of the State of New York in order to aggregate the real property for the benefit of the City University of New York. The transfer was in the amount of \$5,865,034.

In March 2013, the Foundation donated an art collection to the College in the amount of \$213,400.

NOTE 11 - CONTINGENCIES

The New York State Department of Labor is in the process of conducting an investigation regarding classification of workers between employees and contractors. An estimate of any potential liability cannot be made at this time.