

**THE BROOKLYN COLLEGE
FOUNDATION, INC.**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

JUNE 30, 2014

THE BROOKLYN COLLEGE FOUNDATION, INC.

TABLE OF CONTENTS

Independent Auditor's Report

Exhibit

A - Balance Sheet

**B - Statement of Activities and Changes
in Net Assets**

C - Statement of Functional Expenses

D - Statement of Cash Flows

Notes to Financial Statements



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of The Brooklyn College Foundation, Inc., which comprise the balance sheet as of June 30, 2014, 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, 2014, 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, 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 18, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Loeb & Troper LLP

October 1, 2014

THE BROOKLYN COLLEGE FOUNDATION, INC.

BALANCE SHEET

JUNE 30, 2014

(With Summarized Financial Information for June 30, 2013)

ASSETS	2014	2013
Current assets		
Cash and cash equivalents	\$ 1,779,411	\$ 3,373,686
Investments (includes \$1,014,476 in 2014 and \$1,013,735 in 2013 held for split-interest agreements) (Notes 2 and 3)	46,621,963	41,521,882
Contributions receivable (net of allowance of \$1,050,000 in 2014 and \$400,000 in 2013) (Note 4)	1,838,299	2,435,200
Prepaid expenses and other assets	20,598	142,770
Total current assets	50,260,271	47,473,538
Noncurrent assets		
Investments (Notes 2 and 3)	26,997,089	27,043,715
Contributions receivable (Note 4)	454,011	1,243,020
Beneficial interest in remainder trusts (Note 3)	1,112,478	1,015,451
Beneficial interest in life insurance	152,342	143,903
Artwork and collections	3,300,820	3,222,820
Total noncurrent assets	32,016,740	32,668,909
Total assets	\$ 82,277,011	\$ 80,142,447
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,015,427	\$ 1,361,354
Annuity obligations	90,000	83,000
Total current liabilities	2,105,427	1,444,354
Noncurrent liabilities		
Annuity obligations	439,239	410,177
Total liabilities	2,544,666	1,854,531
Net assets (Exhibit B)		
Unrestricted		
Operating	443,986	919,503
Board-designated	1,599,731	1,824,007
Artwork and collections	3,300,820	3,222,820
Total unrestricted net assets	5,344,537	5,966,330
Temporarily restricted (Note 5)	47,180,868	45,277,875
Permanently restricted (Note 5)	27,206,940	27,043,711
Total net assets	79,732,345	78,287,916
Total liabilities and net assets	\$ 82,277,011	\$ 80,142,447

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, 2014

(With Summarized Financial Information for the Year Ended June 30, 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2014	2013
Revenues, gains, losses and other support					
Contributions, grants, legacies and bequests	\$ 975,461	\$ 2,155,046	\$ 285,784	\$ 3,416,291	\$ 3,330,590
Investment income (loss) (Note 2)	981,068	6,694,625	(7,609)	7,668,084	4,896,674
Change in value of split-interest agreements	(42,305)		3,116	(39,189)	(31,095)
Change in value of beneficial interest in remainder trust		97,027		97,027	48,869
Change in value of beneficial interest in life insurance		8,439		8,439	(5,870)
Bad debt loss		(650,000)		(650,000)	(63,110)
Special events	\$ 325,333				
Less direct costs of special events	(82,393)				
Donated materials	242,940			242,940	160,275
Donated services (Note 7)	78,000			78,000	92,295
Donated occupancy (Note 7)	659,989			659,989	694,237
Rental income (loss) (net of rental expense of \$27,663)	94,553			94,553	67,538
Miscellaneous income	(8,663)			(8,663)	53,642
Miscellaneous income	342	26,681		27,023	36,398
Net assets released from restrictions (Note 5)	6,546,887	(6,546,887)			
Total revenues, gains, losses and other support	9,528,272	1,784,931	281,291	11,594,494	9,280,443
Expenses (Exhibit C)					
Program service - college and student support	7,312,114			7,312,114	7,809,883
Supporting services					
Management and general	1,425,258			1,425,258	1,241,174
Fund raising	1,412,693			1,412,693	1,481,916
Total supporting services	2,837,951			2,837,951	2,723,090
Total expenses	10,150,065			10,150,065	10,532,973
Change in net assets before other changes	(621,793)	1,784,931	281,291	1,444,429	(1,252,530)
Reclassification (Note 5)		118,062	(118,062)		
Transfer of assets					(6,078,434)
Change in net assets (Exhibit D)	(621,793)	1,902,993	163,229	1,444,429	(7,330,964)
Net assets - beginning of year	5,966,330	45,277,875	27,043,711	78,287,916	85,618,880
Net assets - end of year (Exhibit A)	\$ 5,344,537	\$ 47,180,868	\$ 27,206,940	\$ 79,732,345	\$ 78,287,916

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, 2014
 (With Summarized Financial Information
 for the Year Ended June 30, 2013)

	Program Service - College and Student Support	Management and General	Fund Raising	Direct Costs of Special Events	Total
	2014	2014	2014	2014	2013
Salaries and benefits	\$ 1,609,969	\$ 1,052,513	\$ 948,063	\$	\$ 2,000,576
Scholarships and awards	2,372,373				1,416,035
College support	2,700,000				2,193,663
Capital project	57,659	270	28,371		3,600,000
Conferences and travel	74,612	4,693	5,337		98,660
Meetings	317,553	17,049	347		81,835
Supplies	5,683				232,079
Advertising	35,451	544	147,277		24,028
Printing and publications	144	14,621	54,985		205,521
Postage	10,526				67,416
Maintenance and repairs	128,144	11,320	52,832		70,353
Miscellaneous		151,600	175,481		120,801
Consulting and professional fees		33,744			289,500
Insurance				\$ 82,393	35,425
Entertainment					67,622
Office and computer expenses		44,351			29,084
Investment fees		52,447			33,748
Occupancy		94,553			67,538
Rental expenses	27,663				57,358
Total expenses	7,339,777	1,477,705	1,412,693	82,393	10,312,568
Less expenses deducted directly from revenues on the statement of activities					
Investment fees					(52,447)
Rental expense	(27,663)	(52,447)			(27,663)
Direct cost of special events				(82,393)	(82,393)
Total expenses reported by function on the statement of activities and changes in net assets (Exhibit B)	\$ 7,312,114	\$ 1,425,258	\$ 1,412,693	\$ -	\$ 10,150,065
					\$ 10,532,973

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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 1,444,429	\$ (7,330,964)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Contributions restricted for long-term investment	(285,784)	(207,356)
Contributions restricted for annuity agreements	(47,445)	(31,115)
Realized gain on sale of investments	(635,038)	(4,310,915)
Unrealized loss (gain) on investments	(6,159,750)	493,163
Change in value of split-interest agreements	39,189	31,095
Change in value of beneficial interest in remainder trust	(97,027)	(48,869)
Donated stock	(582,656)	(573,413)
Transfer of investment in real estate		5,865,034
Transfer of artworks and collections		213,400
Donated artworks and collections	(78,000)	
Decrease (increase) in assets		
Contributions receivable	1,385,910	3,233,391
Beneficial interest in life insurance	(8,439)	5,870
Prepaid expenses and other assets	122,172	(88,795)
Increase in liabilities		
Accounts payable and accrued expenses	654,073	150,312
Net cash used by operating activities	<u>(4,248,366)</u>	<u>(2,599,162)</u>
Cash flows from investing activities		
Purchase of investments	(20,263,654)	(44,289,630)
Proceeds from sales of investments	22,587,643	45,429,910
Net cash provided by investing activities	<u>2,323,989</u>	<u>1,140,280</u>
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowment	285,784	239,689
Proceeds from contributions restricted for annuity obligations	125,000	78,275
Payments to annuitants	(80,682)	(51,110)
Net cash provided by financing activities	<u>330,102</u>	<u>266,854</u>
Net change in cash and cash equivalents	(1,594,275)	(1,192,028)
Cash and cash equivalents - beginning of year	<u>3,373,686</u>	<u>4,565,714</u>
Cash and cash equivalents - end of year	<u>\$ 1,779,411</u>	<u>\$ 3,373,686</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, 2014

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, 2014****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.

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THE BROOKLYN COLLEGE FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014****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 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.

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THE BROOKLYN COLLEGE FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014****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, 2013, 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, 2014****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, 2013 as compared to those used at June 30, 2014.

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.

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, 2011 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent Events

Subsequent events have been evaluated through October 1, 2014, 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, 2014

NOTE 2 - INVESTMENTS

The following table sets forth by level and type, as of June 30, 2014, the investments within the fair value hierarchy:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Money market	\$ 33,484		\$ 33,484
Mutual funds - equities	21,297,931		21,297,931
Mutual funds - balanced	984,885		984,885
Mutual funds - fixed income	28,531,068		28,531,068
Hedge funds		\$ 11,764,218	11,764,218
Limited liability company		3,862,574	3,862,574
Limited partnerships		<u>7,144,892</u>	<u>7,144,892</u>
	<u>\$ 50,847,368</u>	<u>\$ 22,771,684</u>	<u>\$ 73,619,052</u>

Investment income for the year ended June 30, 2014 consists of the following:

Interest and dividends	\$ 925,743
Realized gain on sale of investments	635,038
Unrealized gain on investments	6,159,750
Less investment management fees	<u>(52,447)</u>
	<u>\$ 7,668,084</u>

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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, 2014:

	<u>Hedge Funds</u>	<u>Limited Liability Company</u>	<u>Limited Partnerships</u>	<u>Total</u>
Balance, beginning of year	\$ 11,178,228	\$ 3,572,065	\$ 2,028,471	\$ 16,778,764
Redemptions	(5,464,409)		(20,952)	(5,485,361)
Purchases	5,040,210		4,852,080	9,892,290
Management fees		(28,742)		(28,742)
Dividends		108,882		108,882
Unrealized gains/losses*	907,064	(320,672)	285,293	871,685
Realized gain	<u>103,125</u>	<u>531,041</u>	<u> </u>	<u>634,166</u>
End of year	<u>\$ 11,764,218</u>	<u>\$ 3,862,574</u>	<u>\$ 7,144,892</u>	<u>\$ 22,771,684</u>
 * The amount of total gains or losses for the period attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	 <u>\$ 907,064</u>	 <u>\$ (320,672)</u>	 <u>\$ 285,293</u>	 <u>\$ 871,685</u>

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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	\$ 1,974,011	None	Quarterly	45 days
B. Hedge Fund	3,334,775	None	Quarterly	95 days
C. Hedge Fund	1,214,835	None	Annually	90 days
D. Hedge Fund	2,588,856	None	3 years	90 days
E. Hedge Fund	2,651,741	None	Quarterly	60 days
F. Hedge Fund	2,589,907	None	Annual	45 days
G. Hedge Fund	2,398,026	None	2 years	90 days
H. Limited Liability Company	3,862,574	None	Monthly	10 days
I. Limited Partnership	2,127,659	None	Monthly	30 days
J. Limited Partnership	<u>29,300</u>	None	N/A	N/A
	<u>\$ 22,771,684</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 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.

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THE BROOKLYN COLLEGE FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014****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. Hedge Fund

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

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THE BROOKLYN COLLEGE FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014****NOTE 2 - INVESTMENTS (continued)****G. Hedge Fund**

This fund is a direct, multi-strategy hedge fund, focused on bottom-up, opportunistic, value-oriented investing across equity, credit and real estate on a global basis. This fund'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 fund'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 fund employs minimal leverage.

H. 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%.

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

This 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, 2014

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 \$1,014,476 at June 30, 2014. 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, 2014, the balance was \$1,112,478.

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:

2015	\$ 2,888,299
2016	383,500
2017	86,000
2018	<u>5,000</u>
	3,362,799
Less allowance for doubtful accounts	(1,050,000)
Less discount to present value	<u>(20,489)</u>
	<u>\$ 2,292,310</u>

Two pledges at gross totaling approximately \$1,450,000 before discounting represent a significant portion of the total outstanding contributions balance at June 30, 2014.

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THE BROOKLYN COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 5 - NET ASSETS

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

Scholarships and awards	\$ 1,183,840
College support	<u>5,363,047</u>
	<u>\$ 6,546,887</u>

Temporarily restricted net assets at June 30, 2014 are available for the following purposes:

Scholarships and awards	\$ 12,589,098
College support	<u>34,591,770</u>
	<u>\$ 47,180,868</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.

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THE BROOKLYN COLLEGE FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014****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, 2014

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 \$27,307,639 in 2014. The income is expendable for the following purposes:

Scholarships and awards	\$ 14,543,059
College support	<u>12,663,881</u>
	<u>\$ 27,206,940</u>

Changes in Endowment Net Assets for the Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year		\$ 2,540,883	\$ 27,043,711	\$ 29,584,594
Investment income (loss)		1,067,826	(7,609)	1,060,217
Change in value split- interest agreements			3,116	3,116
Contributions		67,843	285,784	353,627
Reclassification			(118,062)	(118,062)
Appropriation of endowment net assets for expenditure	\$ 423,641	(423,641)		
Expenses	<u>(423,641)</u>			<u>(423,641)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 3,252,911</u>	<u>\$ 27,206,940</u>	<u>\$ 30,459,851</u>

During 2014, 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, 2014, the expense was \$74,628.

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THE BROOKLYN COLLEGE FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014****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 \$94,553 and \$659,989, respectively, for the year ended June 30, 2014, and are included in the accompanying statement of activities and changes in net assets as both income and expense.

During 2014, 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, 2014, the Foundation has a remaining commitment to fund the building of the Brooklyn College Performing Arts Center for \$1.6 million.