

**Montclair State University
Foundation, Inc.**

Financial Statements

June 30, 2016 and 2015

Independent Auditors' Report

**To the Board of Trustees
Montclair State University Foundation, Inc.
Montclair, New Jersey**

We have audited the accompanying financial statements of Montclair State University Foundation, Inc. (a not-for-profit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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.

To the Board of Trustees
Montclair State University Foundation, Inc.
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montclair State University Foundation, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PKF O'Connor Davies, LLP

October 10, 2016

Montclair State University Foundation, Inc.

Statements of Financial Position

	June 30,	
	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 7,513,133	\$ 7,141,761
Unconditional promises to give	1,360,394	1,857,487
Donated artwork, property and equipment	131,325	38,950
Prepaid expenses and other current assets	126,142	158,604
Other current receivables	112	14,318
Total Current Assets	<u>9,131,106</u>	<u>9,211,120</u>
Other Assets		
Unconditional promises to give, net long-term	4,950,996	4,865,432
Investments, at fair value	59,480,458	60,994,272
Internal use software	110,312	63,652
Donated artwork	1,445,150	1,427,200
Beneficial interests in trusts	367,554	420,360
Beneficial interest in split-interest agreements	116,105	137,746
Cash surrender value of life insurance	79,561	75,855
Total Other Assets	<u>66,550,136</u>	<u>67,984,517</u>
	<u>\$ 75,681,242</u>	<u>\$ 77,195,637</u>
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	<u>\$ 2,590,529</u>	<u>\$ 2,564,378</u>
Net Assets		
Unrestricted	(770,430)	3,496,512
Temporarily restricted	34,479,880	32,705,357
Permanently restricted	39,381,263	38,429,390
Total Net Assets	<u>73,090,713</u>	<u>74,631,259</u>
	<u>\$ 75,681,242</u>	<u>\$ 77,195,637</u>

See notes to financial statements

Montclair State University Foundation, Inc.

Statement of Activities
For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions, net	\$ 96,342	\$ 4,632,759	\$ 875,145	\$ 5,604,246
Other support	1,782	675,089	-	676,871
Annual fund and phonathon	245,028	173,551	5,240	423,819
In-kind contributions	1,533,452	-	-	1,533,452
Non-cash contributions	-	451,395	-	451,395
Change in value of split-interest agreements, cash surrender value of life insurance and beneficial interest in trusts	-	(44,044)	(26,697)	(70,741)
Net investment return	(3,300,649)	1,974,550	-	(1,326,099)
Net assets released from restrictions	5,974,982	(5,974,982)	-	-
Total Revenues, Gains and Other Support	<u>4,550,937</u>	<u>1,888,318</u>	<u>853,688</u>	<u>7,292,943</u>
EXPENSES				
Program Services				
Program funds	3,288,027	-	-	3,288,027
Other program funds	134,353	-	-	134,353
Scholarship funds	515,250	-	-	515,250
Capital funds	36,811	-	-	36,811
Quasi-endowment funds	853,704	-	-	853,704
Endowment funds, spendable	1,281,190	-	-	1,281,190
Institutional support	478,111	-	-	478,111
Management and General				
Salaries	413,671	-	-	413,671
Salaries, in-kind contribution	1,490,972	-	-	1,490,972
Rent, in-kind contribution	42,480	-	-	42,480
Accounting services	45,000	-	-	45,000
Bad debt expense	20,590	-	-	20,590
Office expenses	108,209	-	-	108,209
Professional fees	48,663	-	-	48,663
Bonding and insurance fees	23,148	-	-	23,148
Bank fees and service charges	21,914	-	-	21,914
Depreciation and amortization	20,000	-	-	20,000
Miscellaneous	11,396	-	-	11,396
Total Expenses	<u>8,833,489</u>	<u>-</u>	<u>-</u>	<u>8,833,489</u>
Change in Net Assets	(4,282,552)	1,888,318	853,688	(1,540,546)
Reclassifications	15,610	(113,795)	98,185	-
NET ASSETS				
Beginning	<u>3,496,512</u>	<u>32,705,357</u>	<u>38,429,390</u>	<u>74,631,259</u>
Ending	<u>\$ (770,430)</u>	<u>\$ 34,479,880</u>	<u>\$ 39,381,263</u>	<u>\$ 73,090,713</u>

Montclair State University Foundation, Inc.

Statement of Activities
For the Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions, net	\$ 66,302	\$ 7,720,380	\$ 352,605	\$ 8,139,287
Other support	838	672,087	6,586	679,511
Annual fund and phonathon	268,714	145,635	5,600	419,949
In-kind contributions	1,270,155	-	-	1,270,155
Non-cash contributions	-	147,035	-	147,035
Change in value of split-interest agreements, cash surrender value of life insurance and beneficial interest in trusts	-	24,971	(14,053)	10,918
Net investment return	(1,665,517)	2,146,398	-	480,881
Net assets released from restrictions	5,314,359	(5,314,359)	-	-
Total Revenues, Gains and Other Support	<u>5,254,851</u>	<u>5,542,147</u>	<u>350,738</u>	<u>11,147,736</u>
EXPENSES				
Program Services				
Program funds	2,821,314	-	-	2,821,314
Other program funds	99,389	-	-	99,389
Scholarship funds	497,413	-	-	497,413
Capital funds	41,038	-	-	41,038
Quasi-endowment funds	618,936	-	-	618,936
Endowment funds, spendable	1,335,659	-	-	1,335,659
Institutional support	551,370	-	-	551,370
Management and General				
Salaries	410,604	-	-	410,604
Salaries, in-kind contribution	1,227,675	-	-	1,227,675
Rent, in-kind contribution	42,480	-	-	42,480
Accounting services	47,000	-	-	47,000
Bad debt expense	16,122	-	-	16,122
Office expenses	133,519	-	-	133,519
Professional fees	61,288	-	-	61,288
Bonding and insurance fees	20,379	-	-	20,379
Bank fees and service charges	18,914	-	-	18,914
Depreciation and amortization	20,000	-	-	20,000
Miscellaneous	6,675	-	-	6,675
Total Expenses	<u>7,969,775</u>	<u>-</u>	<u>-</u>	<u>7,969,775</u>
Change in Net Assets	(2,714,924)	5,542,147	350,738	3,177,961
Reclassifications	650	(291,719)	291,069	-
NET ASSETS				
Beginning	<u>6,210,786</u>	<u>27,454,929</u>	<u>37,787,583</u>	<u>71,453,298</u>
Ending	<u>\$ 3,496,512</u>	<u>\$ 32,705,357</u>	<u>\$ 38,429,390</u>	<u>\$ 74,631,259</u>

Montclair State University Foundation, Inc.

Statements of Cash Flows

	For the Year Ended June 30,	
	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,540,546)	\$ 3,177,961
Adjustments to reconcile change in net assets to net cash from operating activities		
Noncash items		
Permanently restricted contributions held as endowments	(880,385)	(364,791)
Discount on promises to give	37,137	(594,270)
Depreciation and amortization	20,000	20,000
Allowance for doubtful accounts	20,590	16,122
Net realized loss (gain) on investments	162,437	(248,954)
Net unrealized loss on investments	3,042,462	1,474,591
Beneficial interests in trusts and spilt interest agreements	74,447	(7,643)
Cash surrender value of life insurance	(3,706)	(3,275)
Donated artwork, property and equipment	(451,395)	(147,035)
Donated stock	(516,036)	(200,882)
Transfers of property and equipment to University	451,395	147,035
Change in operating assets and liabilities		
Unconditional promises to give	353,802	(3,079,694)
Other current receivables	14,206	(342)
Donated artwork, property and equipment	(17,950)	-
Prepaid expenses and other current assets	32,462	(54,284)
Beneficial interests in trusts	-	125,136
Accounts payable and accrued expenses	(66,224)	649,085
Net Cash from Operating Activities	<u>732,696</u>	<u>908,760</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of long-term investments	(4,228,649)	(8,923,608)
Proceeds from sale of long-term investments	3,053,600	6,999,107
Purchase of internal use software	(66,660)	(39,652)
Net Cash from Investing Activities	<u>(1,241,709)</u>	<u>(1,964,153)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently restricted contributions held as endowments	<u>880,385</u>	<u>364,791</u>
Net Change in Cash and Cash Equivalents	371,372	(690,602)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>7,141,761</u>	<u>7,832,363</u>
End of year	<u>\$ 7,513,133</u>	<u>\$ 7,141,761</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Noncash investing and financing activities		
Gifts of artwork	\$ 397,000	\$ 119,200
Gifts of property, equipment and other non-cash items	54,395	27,835
Gifts of stock	516,036	200,882
Transfers of property, equipment and artwork to MSU	(451,395)	(147,035)

See notes to financial statements

Montclair State University Foundation, Inc.

Notes to Financial Statements June 30, 2016 and 2015

1. **Nature of Organization**

The Montclair State University Foundation, Inc. (the "Foundation") is a non-profit 501(c)(3) corporation organized under the provisions of Title 15A of the New Jersey Nonprofit Corporation Act. The Foundation was established primarily for the purposes of encouraging and supporting the development of Montclair State University (the "University") through fundraising activities which include, but are not limited to, extending the educational and cultural influence of the University, adding to its cultural programs and facilities, and improving the opportunity for advanced study and research by the faculty and the student body. The Foundation's Board of Trustees oversees the use of funds raised by the Foundation.

2. **Significant Accounting Policies**

Basis of Accounting

The Foundation's financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), whereby revenues are recognized when earned and expenses are recorded when incurred.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

Estimates which are significant to the Foundation include:

- **Scholarship expense:** The University awards scholarships which are funded by the Foundation to students based on each student's anticipated enrollment status at the time of the award. Scholarship expense is recorded at the time the award is made. If a student's enrollment status changes, the amount of that individual's scholarship will be reduced accordingly and will be reflected as a scholarship modification, which is a decrease to scholarship expense.
- **Other estimates:** The Foundation relies on estimates in recording allowances and discounts applied towards unconditional promises to give, in the valuation of investments, the valuation of non-cash assets it retains and in the net present valuation techniques applied to split-interest agreements.

Management periodically evaluates all of the estimates used in the preparation of the Foundation's financial statements for continued reasonableness. Appropriate adjustments, if any, to the estimates are made prospectively based on such periodic evaluations.

Montclair State University Foundation, Inc.

Notes to Financial Statements
June 30, 2016 and 2015

2. Significant Accounting Policies *(continued)*

Net Asset Presentation

The Foundation's financial statements conform to U.S. GAAP presentation requirements for Not-For-Profit Organizations. Such guidance requires the Foundation to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, information is required to segregate program service expenses from management and general expenses. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

- **Unrestricted net assets** - Net assets that are not subject to donor-imposed restrictions.
- **Temporarily restricted net assets** – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation or through the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.
- **Permanently restricted net assets** – Net assets subject to donor-imposed stipulations that are to be maintained in perpetuity by the Foundation thereby creating an endowment. Generally, these donors permit the Foundation to use part of the income earned on any related investments for general or specific purposes. In addition, in certain instances the donor requires that any unused earnings be rolled into the principal balance of the endowment.

The Foundation maintains quasi-endowed funds which have been established by its Board of Trustees to be retained and invested for specified purposes. Certain quasi-endowments have been classified as a component of unrestricted net assets since they were created by designation of the Foundation's Board of Trustees from unrestricted donations. Other quasi-endowments have been classified as temporarily restricted net assets since they were created by designation of the Foundation's Board of Trustees from temporarily restricted resources and the restrictions have not yet been met. These restrictions may include, but not be limited to, the receipt of a gift in an amount which is in excess of the Foundation's current needs.

Montclair State University Foundation, Inc.

Notes to Financial Statements
June 30, 2016 and 2015

2. Significant Accounting Policies *(continued)*

Cash and Cash Equivalents

The Foundation considers all money market funds and highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

The Foundation maintains its cash primarily in interest bearing accounts including a money market and a checking account with one financial institution. The Foundation also maintains cash equivalents through its investment portfolio with another financial institution.

Unconditional Promises to Give

Contributions are recognized when a donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. Unconditional promises to give are recorded at net present value, reduced for any uncollectible amounts. Management determines the allowance for doubtful promises based on a variety of considerations including the historical experience applied to an aging of promises, current facts and circumstances concerning collectability, and other factors.

Investments

The following applies to the Foundation's investments which are managed pursuant to a Board of Trustees approved Investment Policy Statement:

- **Valuation:** Investments are carried at fair value. The fair value of alternative investments has been estimated using the Net Asset Value ("NAV") as reported by the management of the respective alternative investment fund.
- **Investment Income:** Unrealized gains and losses are reported in the statements of activities as a part of investment return. Interest and dividends from investments are recorded as investment return when earned. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of income.
- **Investment Income Allocations:** The Foundation maintains investment accounts for its endowments, including quasi-endowments, under the pooled unitization method. Realized and unrealized gains and losses from securities in the investment accounts are allocated quarterly to the individual endowment funds based on the relationship of the market value of each endowment fund to the total market value of the investment accounts, as adjusted for additions to or deductions from those accounts.

Montclair State University Foundation, Inc.

Notes to Financial Statements
June 30, 2016 and 2015

2. Significant Accounting Policies *(continued)*

Fair Value of Financial Instruments

The Foundation follows U.S. GAAP guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

The following is a description of the valuation methodologies used for assets measured at fair value by the Foundation.

- **Investments in Equity Mutual Funds, Fixed Income Securities, Commodities and Public REITS:** All investments except for one fixed income investment have been valued at the closing price reported in an active market in which the investments are traded. The one fixed income investment has been estimated based on NAV as a *“Practical Expedient”*.
- **Investment in Hedge Funds:** The Foundation invests in various hedge funds as a component of its investment policy statement and related asset allocation strategy. For equity hedges, management of the hedge funds has the ability to shift investments based on overarching strategy, including from small to large capitalization stocks, and from a net long position to a net short position. Investments in two hedge positions are priced based on the active market for which the investments are traded. The remaining hedge funds have been estimated based on the capital account balance for each underlying investment, using the profit/loss for each investment, fund expenses (including incentive fees) and capital activity (including investor subscriptions and redemptions) during a reporting period to determine value. U.S. GAAP guidance provides for the use of NAV as a *“Practical Expedient”* for estimating fair value of alternative investments.
- **Investment in Private Equity Real Estate:** The Foundation maintains an investment in one private equity real estate position. Valuation is based on NAV as a *“Practical Expedient”*.
- **Beneficial Interest in Trusts:** Valued based on the underlying assets held in the trusts, which consists of cash equivalents, equity mutual funds, fixed income securities and alternative strategy positions values at closing prices reported in an active market in which the investments are traded or NAV; as applicable.

Montclair State University Foundation, Inc.

Notes to Financial Statements June 30, 2016 and 2015

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

- **Split-interest Arrangements and Cash Surrender Value of Life Insurance:**
An unobservable input based on the present value of the expected income from the assets calculated based on life expectancy tables.

The value by input level of the Foundation's investments are included in Note 7 to the financial statements.

Split-Interest Agreements

The Foundation's split-interest agreements with donors consist of irrevocable charitable remainder trusts for which the Foundation is the beneficiary. Contribution revenue is recognized at the date a trust has been established with an initial valuation based on the expected present value of the Foundation's interest in a trust's assets. Present value computations consider, among other factors, appropriate interest rates and estimated donor mortality which are assessed annually for reasonableness. Subsequent to initial valuation, changes are recognized separately in the statements of activities of the Foundation.

Beneficial Interests in Trusts

The Foundation recognizes beneficial interests in trusts as contribution income upon receipt based on the fair value of the underlying trust assets. Subsequent to initial contribution recognition, changes in fair value of the underlying trust assets are recognized separately in the statements of activities of the Foundation.

Cash Surrender Value of Life Insurance

The Foundation recognizes contribution revenue from donations received in the form of life insurance policies in which the Foundation is the owner and beneficiary. These policies are recorded at their cash surrender value and subsequent changes in value are reported separately in the statements of activities of the Foundation.

Internal Use Software

The Foundation has capitalized software purchased from third party vendors for its use in Foundation fundraising and fund management initiatives. Capitalized software is amortized over an estimated useful life of three years from the date of purchase and/or implementation. Amortization expense totaled \$20,000 for each of the years ended June 30, 2016 and 2015. Accumulated amortization amounted to \$60,000 and \$40,000 at June 30, 2016 and 2015, respectively.

Montclair State University Foundation, Inc.

Notes to Financial Statements
June 30, 2016 and 2015

2. Significant Accounting Policies *(continued)*

Revenue Recognition

The revenue recognition policies of the Foundation are as follows:

- **Contributions:** Contributions are recorded as permanently restricted, temporarily restricted, or unrestricted revenue, depending on the existence or nature of any donor restrictions.
- **Event revenue:** Event revenue is recognized when the event occurs. Amounts received in a current reporting period for an event which will occur subsequent to year end are recognized as deferred revenues.
- **Non-cash donations:** The Foundation receives non-cash donations in the form of artwork, property and equipment from various donors. These donations are generally transferred to the University in accordance with the terms of a gift agreement. In instances where the Foundation retains an interest in the donated asset, the Foundation evaluates the carrying value for impairment based on facts and circumstances including fair market appraisals and future sale of the assets, or its components, at amounts equal to or greater than their recorded value.

Donated Services and Use of Facilities

The Foundation recognizes contribution and expense for services donated to the Foundation based on the fair value of the services provided. Services include development costs in connection with fundraising for the benefit of the Foundation, an allocated percentage of management salaries for the oversight of the Foundation's operations, and rent for operating facilities. The following summarizes these services:

- **Rent:** The Foundation occupies space owned by the University to conduct its operations. Rent expense has been recognized based on the square footage occupied and an agreed upon cost per square foot by and among the Foundation and the University which is reviewed annually for reasonableness.
- **Salaries:** For the years ended June 30, 2016 and 2015, a portion of the cost for salary and related fringe benefits for one University employee, who devoted time towards the management of the Foundation was recognized as an "in-kind contribution" since the University had not sought reimbursement for such costs. The expense for management salary and related fringe benefits amounted to \$31,360 and \$27,392 for the years ended June 30, 2016 and 2015.

Montclair State University Foundation, Inc.

Notes to Financial Statements June 30, 2016 and 2015

2. Significant Accounting Policies (continued)

Donated Services and Use of Facilities (continued)

The Foundation has recognized in-kind contribution revenue and a corresponding expense amounting to approximately \$1,460,000 and \$1,200,000 for the years ended June 30, 2016 and 2015, for compensation associated with Development personnel who are paid directly by the University and for which associated costs are not subject to reimbursement by the Foundation. The recording of Development personnel costs has been made based on the respective individuals' roles in fundraising for which the Foundation is the direct beneficiary.

Fundraising Expenses

The Foundation's fundraising activities include direct mail campaigns and special events. Fundraising expenses totaled \$198,610 and \$215,866 for the years ended June 30, 2016 and 2015 and are included as part of program services.

Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Due to its not-for-profit status, certain costs have been allocated among programs and supporting services benefited.

Income Taxes

The Foundation is a not-for-profit organization incorporated under the applicable laws of the State of New Jersey and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provisions for income taxes have been provided in the Foundation's financial statements.

The Foundation recognizes the effect of income tax positions only when they are more likely than not to be sustained. Management has determined that the Foundation had no uncertain tax positions that would require financial statement recognition or disclosure. The Foundation is no longer subject to income tax examinations by the applicable taxing jurisdictions for periods prior to the year 2013.

Risk Concentrations

The following summarizes the Foundation's material risk concentrations:

- **Cash:** The Foundation maintains its cash balances in bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and as a result believes it is not exposed to any significant related financial risk.

Montclair State University Foundation, Inc.

Notes to Financial Statements

June 30, 2016 and 2015

2. Significant Accounting Policies *(continued)*

Risk Concentrations (continued)

- **Investments:** The Foundation maintains an investment portfolio which consists of fixed income securities, equity mutual funds and alternative strategies asset classes which are managed through an independent investment advisor which also serves as custodian. Because of the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material.

Alternative investments consist of non-traditional, not readily marketable investments, including hedge funds and one investment in a private equity real estate fund. The underlying investments of such funds, whether invested in stock or other securities, are generally not currently traded in a public market and typically are subject to restrictions on resale. Values determined by investment managers and general partners of underlying securities that are thinly traded or not traded in an active market may be based on historical cost, appraisals, a review of the investees' financial results, financial condition and prospects, together with comparisons to similar companies for which quoted market prices are available or other estimates that require varying degrees of judgment.

At June 30, 2016 and 2015 the Foundation had no individual investments which were in excess of 10% of total investments.

- **Unconditional promises to give:** The Foundation periodically reviews its unconditional promises to give and establishes an allowance for uncollectible amounts to manage its credit risk. Management uses historical analysis combined with specific information on individual amounts outstanding to determine a reasonable allowance. Management believes that the credit risk beyond its established allowance is limited.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 10, 2016.

Reclassifications

For the years ended June 30, 2016 and 2015, reclassifications were primarily made for funds which have been re-purposed as permanent endowments pursuant to changes made to previous gift agreements as designated by respective donors and as a result of the return to principal of unspent investment earnings pursuant to the terms of existing donor agreements.

Montclair State University Foundation, Inc.

Notes to Financial Statements June 30, 2016 and 2015

3. Unconditional Promises to Give

Unconditional promises to give, net, consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Unrestricted	\$ 29,203	\$ 15,939
Restricted for scholarships and endowments	1,021,865	790,588
Restricted for programs	<u>6,024,223</u>	<u>6,643,156</u>
	7,075,291	7,449,683
Less unamortized discount	(653,901)	(616,764)
Less allowance for doubtful accounts	<u>(110,000)</u>	<u>(110,000)</u>
Unconditional promises to give, net	<u><u>\$ 6,311,390</u></u>	<u><u>\$ 6,722,919</u></u>

Net unconditional promises to give at June 30, consist of the following:

	<u>2016</u>	<u>2015</u>
Unrestricted	\$ 16,925	\$ 9,615
Temporarily restricted	6,095,702	6,059,471
Permanently restricted	<u>198,763</u>	<u>653,833</u>
	<u><u>\$ 6,311,390</u></u>	<u><u>\$ 6,722,919</u></u>

Promises to give will be received, depending on the timing of the donor's pledge commitment, from within one year to five years. Significant contributions due in more than one year are reflected at the present value of estimated future cash flows using discount rates ranging from 1.17% to 1.76% and 1.93% to 2.21% for the years ended June 30, 2016 and 2015. The discount is amortized and included in support over the life of the pledge.

Promises to give are due to be collected in the following periods:

	<u>2016</u>	<u>2015</u>
Less than one year	\$ 1,360,394	\$ 1,857,487
One to five years	<u>5,714,897</u>	<u>5,592,196</u>
	7,075,291	7,449,683
Less unamortized discount	(653,901)	(616,764)
Less allowance for doubtful accounts	<u>(110,000)</u>	<u>(110,000)</u>
Unconditional promises to give, net	<u><u>\$ 6,311,390</u></u>	<u><u>\$ 6,722,919</u></u>

Montclair State University Foundation, Inc.

Notes to Financial Statements June 30, 2016 and 2015

4. Investments

Investments consist of the following at June 30:

	2016		
	Cost	Fair Value	Unrealized Gain (Loss)
Equity securities	\$ 26,885,548	\$ 28,052,899	\$ 1,167,351
Fixed income securities	19,458,450	19,001,960	(456,490)
Commodities	1,130,372	844,694	(285,678)
Public REITS	3,142,736	3,414,997	272,261
Hedge funds	7,592,354	7,414,009	(178,345)
Private equity real estate	713,067	751,899	38,832
Total Investments	<u>\$ 58,922,527</u>	<u>\$ 59,480,458</u>	<u>\$ 557,931</u>

	2015		
	Cost	Fair Value	Unrealized Gain (Loss)
Equity securities	\$ 24,636,277	\$ 28,141,708	\$ 3,505,431
Fixed income securities	19,654,093	19,206,453	(447,640)
Commodities	1,716,256	1,532,158	(184,098)
Public REITS	2,642,736	2,658,862	16,126
Hedge funds	8,436,517	9,147,091	710,574
Private equity real estate	308,000	308,000	-
Total Investments	<u>\$ 57,393,879</u>	<u>\$ 60,994,272</u>	<u>\$ 3,600,393</u>

The components of investment return are as follows for the years ended June 30:

	2016		
	Unrestricted	Temporarily Restricted	Total
Dividends and interest, net of investment fees of \$181,413	\$ (203,098)	\$ 2,081,898	\$ 1,878,800
Gain (loss) on sale of securities	1,710	(164,147)	(162,437)
Unrealized gain (loss) on securities	32,023	(3,074,485)	(3,042,462)
Underwater losses absorbed by unrestricted funds	(3,131,283)	3,131,283	-
Net Investment Return	<u>\$ (3,300,648)</u>	<u>\$ 1,974,549</u>	<u>\$ (1,326,099)</u>

Montclair State University Foundation, Inc.

Notes to Financial Statements June 30, 2016 and 2015

4. Investments (continued)

	2015		
	Unrestricted	Temporarily Restricted	Total
Dividends and interest, net of investment fees of \$185,571	\$ (97,208)	\$ 1,803,726	\$ 1,706,518
Gain on sale of securities	11,626	237,328	248,954
Unrealized loss on securities	(68,865)	(1,405,726)	(1,474,591)
Underwater losses absorbed by unrestricted funds	(1,511,070)	1,511,070	-
Net Investment Return	<u>\$ (1,665,517)</u>	<u>\$ 2,146,398</u>	<u>\$ 480,881</u>

At June 30, 2016, the Foundation's investments in fixed income securities and equity mutual funds consisted of 75% in domestic positions and 25% in international positions. Of the total investments in international positions, 58% were in developed markets and 42% were in emerging markets. At June 30, 2015, the Foundation's investments in fixed income securities and equity mutual funds consisted of 72% in domestic positions and 28% in international positions. Of the total investments in international positions, 60% were in developed markets and 40% were in emerging markets.

In July 2016 the Foundation committed to invest approximately \$3.8 million in two private equity funds, each carrying \$1.8 million capital commitment with actual funding amounts varying based on expected distributions.

5. Split-Interest Agreements

The Foundation has been named the beneficiary of three charitable remainder trusts and a charitable remainder annuity trust which are managed by third parties. Under the terms of the charitable remainder trusts, the third party trustees pay specified distributions to the donors during the agreement's term. At the time of the donors' death, the trust will terminate, and the remaining trust assets are to be distributed to the Foundation for unrestricted purposes.

According to the terms of the charitable remainder annuity trust, the donor's spouse is the first beneficiary of annual payments during their lifetime. The Foundation is the beneficiary of the remaining trust assets after they are both deceased.

Pursuant to the terms of the donation governing one trust, the assets are to be restricted for use in a scholarship fund.

The Foundation did not receive interests in any new trusts for the year ended June 30, 2016. Contribution revenue was recognized under one split-interest agreement for the year ended June 30, 2015 in the amount of \$10,000. Net increases (decreases) in the beneficial interests of split-interest agreements totaled (\$21,641) and \$(21,777) for the years ended June 30, 2016 and 2015. The recorded beneficial interests are based on the present value of the future cash flows to the Foundation.

Montclair State University Foundation, Inc.

Notes to Financial Statements June 30, 2016 and 2015

6. Beneficial Interests in Trusts

As of June 30, 2016 and 2015, the Foundation has recorded its beneficial interests in two trusts, one of which operates as a perpetual trust. Interest in the perpetual trust has been recorded as permanent endowments based on the intent for the trust to operate in perpetuity. The second trust manages assets in which the Foundation is named as one of eight beneficiaries who receive an annual distribution of \$5,000 during its term with the remaining assets distributed equally upon the trusts liquidation on June 15, 2017.

The assets held in these trusts consist of investment portfolios which are in the custody of an independent trustee who has the authority to manage investment decisions. The Foundation retains the sole interest in the trusts and as a result the trustee does not have variance power to redirect the interests in the trusts to another entity.

During the year ended June 30, 2015, the assets of two other trusts with a total value of approximately \$125,000 were liquidated and the Foundation was appointed as trustee. Liquidated assets were reinvested in the Foundation's investment portfolio.

As of June 30, 2016, total assets in two remaining trusts consisted of approximately \$225,000 in equity positions (of which \$125,000 was invested in U.S. domestic equity mutual funds and \$100,000 was invested in international equity mutual funds), \$82,000 was invested in U.S. fixed income positions, \$39,000 was invested in alternative strategies and \$21,000 was held in cash and cash equivalents.

As of June 30, 2015, total assets in two remaining trusts were comprised of approximately \$254,000 in equity positions (of which \$137,000 was invested in U.S. domestic equity mutual funds and \$117,000 was invested in international equity mutual funds), \$62,000 was invested in U.S. fixed income positions, \$55,000 was invested in alternative strategies and \$49,000 was held in cash and cash equivalents.

Montclair State University Foundation, Inc.

Notes to Financial Statements

June 30, 2016 and 2015

7. Fair Value Measurements

The fair value of investments at June 30, and their fair value level hierarchy are as follows for those investments subject to categorization within the hierarchy:

Description	2016			Total
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
Investments:				
Equity Securities: (a)				
Equity securities - U.S. large cap growth	\$ 12,146,297	\$ -	\$ -	\$ 12,146,297
Equity securities - U.S. large cap value	1,159,310	-	-	1,159,310
Equity securities - U.S. mid cap	4,702,193	-	-	4,702,193
Equity securities - U.S. small cap	1,799,012	-	-	1,799,012
Equity securities - emerging markets	3,175,502	-	-	3,175,502
Equity securities - developed markets	5,070,585	-	-	5,070,585
Total Equity Securities	28,052,899	-	-	28,052,899
Fixed Income Securities:				
Fixed income - U.S short-term (a)	6,971,976	-	-	6,971,976
Fixed income - U.S intermediate-term (a)	3,877,513	-	-	3,877,513
Fixed income - U.S. high yield (a)	2,784,521	-	-	2,784,521
Fixed income - emerging markets (a)	1,686,423	-	-	1,686,423
Fixed income - developed (a)	1,752,507	-	-	1,752,507
Fixed income measured at net asset value (b)	-	-	-	1,929,020
Total Fixed Income Securities	17,072,940	-	-	19,001,960
Commodities:				
Commodities measured at fair value (a)	844,694	-	-	844,694
Public REITS (a)	3,414,997	-	-	3,414,997
Hedge Funds:				
Event driven (a)	780,822	-	-	780,822
Equity long/short (a)	1,824,301	-	-	1,824,301
Event driven measured at net asset value (b)	-	-	-	1,369,407
Relative value measured at net asset value (b)	-	-	-	2,840,132
Macro measured at net asset value (b)	-	-	-	599,347
Total Hedge Funds	2,605,123	-	-	7,414,009
Other Investments:				
Private equity real estate (b)	-	-	-	751,899
Total Investments	\$ 51,990,653	\$ -	\$ -	\$ 59,480,458

Montclair State University Foundation, Inc.

Notes to Financial Statements June 30, 2016 and 2015

7. Fair Value Measurements *(continued)*

Description	2016			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Other:				
Beneficial interests in trusts	\$ -	\$ -	\$ 367,554	\$ 367,554
Spilt-interest agreements	-	-	116,105	116,105
Cash surrender value of life insurance	-	79,561	-	79,561
Total Other	\$ -	\$ 79,561	\$ 483,659	\$ 563,220

Description	2015			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Investments:				
Equity Securities: (a)				
Equity securities - U.S. large cap growth	\$ 10,755,283	\$ -	\$ -	\$ 10,755,283
Equity securities - U.S. large cap value	1,314,200	-	-	1,314,200
Equity securities - U.S. mid cap	4,525,315	-	-	4,525,315
Equity securities - U.S. small cap	1,966,401	-	-	1,966,401
Equity securities - emerging markets	3,482,437	-	-	3,482,437
Equity securities - developed markets	6,098,072	-	-	6,098,072
Total Equity Securities	28,141,708	-	-	28,141,708
Fixed Income Securities:				
Fixed income - U.S short-term (a)	6,934,743	-	-	6,934,743
Fixed income - U.S intermediate-term (a)	3,839,210	-	-	3,839,210
Fixed income - U.S. high yield (a)	2,897,169	-	-	2,897,169
Fixed income - emerging markets (a)	1,739,427	-	-	1,739,427
Fixed income - developed (a)	1,765,936	-	-	1,765,936
Fixed income measured at net asset value (b)	-	-	-	2,029,968
Total Fixed Income Securities	17,176,485	-	-	19,206,453
Commodities:				
Commodities measured at fair value (a)	1,532,158	-	-	1,532,158
Public REITS (a)	2,658,862	-	-	2,658,862

Montclair State University Foundation, Inc.

Notes to Financial Statements June 30, 2016 and 2015

7. Fair Value Measurements *(continued)*

Description	2015			Total
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
Hedge Funds:				
Event driven (a)	\$ 918,279	\$ -	\$ -	\$ 918,279
Equity long/short (a)	1,919,600	-	-	1,919,600
Event driven measured at net asset value (b)	-	-	-	1,653,416
Relative value measured at net asset value (b)	-	-	-	4,092,614
Macro measured at net asset value (b)	-	-	-	563,182
Total Hedge Funds	<u>2,837,879</u>	<u>-</u>	<u>-</u>	<u>9,147,091</u>
Other Investments:				
Private equity real estate (b)	-	-	-	308,000
Total Investments	<u>\$ 52,347,092</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,994,272</u>
Other:				
Beneficial interests in trusts	\$ -	\$ -	\$ 420,360	\$ 420,360
Spilt-interest agreements	-	-	137,746	137,746
Cash surrender value of life insurance	-	75,855	-	75,855
Total Other	<u>\$ -</u>	<u>\$ 75,855</u>	<u>\$ 558,106</u>	<u>\$ 633,961</u>

(a) On the basis of its analysis of the nature, characteristics and risks of the investments, the Foundation has determined that presentation by sub-asset class is appropriate.

(b) In accordance with current accounting standards, certain investments that are measured at fair value using the net asset value per share (or its equivalent) "*Practical Expedient*" have not been classified in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

The following is a reconciliation of the beginning and ending balances for Level 3 investments during the years ended June 30:

	2016	2015
Beginning balance	\$ 558,106	\$ 675,599
Interests in trusts and split-interest agreements received	-	10,000
Liquidation of assets in trusts	-	(125,136)
Change in value of split-interest agreements and beneficial interest in trusts	<u>(74,447)</u>	<u>(2,357)</u>
Ending balance	<u>\$ 483,659</u>	<u>\$ 558,106</u>

Montclair State University Foundation, Inc.

Notes to Financial Statements June 30, 2016 and 2015

7. Fair Value Measurements *(continued)*

The following table below summarizes liquidity arrangements for investments valued at NAV using the “*Practical Expedient*” and beneficial interests in trusts, spilt-interest agreements and cash surrender value of life insurance investments at June 30, 2016:

	See Note	Fair Value	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Fixed income funds		\$ 1,929,020	Quarterly	40 days
Hedge Funds				
Macro (1)		599,347	Monthly	35 days
Event driven (2)		888,863	Quarterly via tender offer, with a 5-25% cap on re-purchases	N/A
Event driven (3)		480,544	Quarterly	95 days
Relative value (4)		2,327,999	Quarterly, subject to quarterly/annual withdrawal amount limitations	100 days
Relative value (5)		512,133	Quarterly, subject to quarterly/annual withdrawal amount limitations	95 days
Total Hedge Funds	A	4,808,886		
Private Equity Real Estate	B	751,899	Not currently eligible, 10 year lock-up expiring in 2025	N/A
Beneficial interests in trusts		367,554	No liquidity	N/A
Spilt-interest agreements		116,105	No liquidity	N/A
Cash surrender value of life insurance		79,561	No liquidity	N/A
Total liquidity		\$ 8,053,025		

Note A - Hedge funds employ a variety of investment strategies with varying net/gross exposure levels. The fair values of the investments in this category are those reported by the fund administrators at June 30, 2016. Liquidity terms vary by fund, with certain funds offering flexible terms. Certain funds may also allow investors to redeem prior to the end of their normal term upon payment of a redemption penalty. The hedge fund investment strategies for the Foundation are summarized as follows:

- Event driven hedges which maintain positions in companies currently or prospectively involved in a wide variety of corporate transactions, including mergers, restructurings, financial distress, tender offers, shareholder buy-backs, debt exchanges, security issuance, and other capital structure adjustments.

Montclair State University Foundation, Inc.

Notes to Financial Statements June 30, 2016 and 2015

7. Fair Value Measurements *(continued)*

- Macro hedges which base holdings primarily on overall economic and political views in various countries.
- Relative value hedges predicated on the realization of a valuation discrepancy in the relationship by and among multiple securities.

At June 30, 2016, the largest allocations in the underlying assets of the Foundation's hedge fund investments consisted of approximately 17% in structured credit, 14% in fixed income, 11% in distressed debt, and 17% in directional equities; primarily from investments based in the United States and Europe. Hedge funds are further summarized as follows:

- (1) Investments are substantially in a Master Futures Fund which is directed towards long-term capital appreciation through compound growth, with the largest allocation of underlying investments consisting of 15% in equity indices, 24% in currencies, 12% in rates, 16% in energies, 11% in precious metals and 10% in bonds.
- (2) Investments are made under a philosophy of stable risk, return and correlation characteristics over the long-term. The largest allocations of investments consisted of 23% in event driven equity, 26% in event driven multi-strategy, and 15% in prepay sensitive MBS.
- (3) The investment philosophy is one of value and event focus, specializing in securities that can benefit from extraordinary change. The strategy is primarily opportunistic event-driven investing and is generally comprised of arbitrage, special situations, and distressed vehicles. Investments consisted of 55% special situations and 26% distressed and 19% arbitrage. The primary geographic concentrations consisted of 65% in the United States and 21% in Europe.
- (4) The strategy focuses on capital protection and risk management. Investments consisted of 29% long/short equity, 25% event-driven/distressed credit, 16% asset-backed securities, and 15% equity/special situations and 15% global macro. The primary geographic concentrations consisted of 64% in the United States, 17% in Europe and 12% in Asia.
- (5) The strategy provides access to institutional quality income-oriented investment managers with established track records in asset-backed, opportunistic and distressed credit, mortgage-backed securities, and special situation investment strategies. The largest allocation of underlying investments consisted of 72% structured credit/asset-backed, and 17% fixed income relative value. The primary geographic concentrations consisted of 73% in the United States and 20% in Europe.

Effective in July 2016, the Foundation redeemed all of its interests invested in hedge funds with an effective date of September 30, 2016, with proceeds estimated to be received 45 days thereafter.

Montclair State University Foundation, Inc.

Notes to Financial Statements June 30, 2016 and 2015

7. Fair Value Measurements *(continued)*

Note B – During the year ended June 30, 2015, the Foundation committed towards an investment in one private equity real estate fund, which operates with an opportunistic strategy. The Foundation is expected to commit a total of \$2,000,000 in capital ratably over a three year period, net of distributions. As of June 30, 2016, the total capital commitment amounted to approximately \$700,000, net of distributions received, with an additional \$126,000 committed in July 2016.

8. Donated Artwork, Property and Equipment

Donated artwork, property and equipment consist of artwork resulting from a gift from one donor. The artwork received by the Foundation had been valued at approximately \$2,012,000 of which approximately \$584,000 was transferred to the University and approximately \$1,428,000 has been held by the Foundation and is available for sale pursuant to the terms of a gift agreement. The Foundation has developed plans to strategically sell the artwork it is holding with proceeds used in the maintenance of the entire donation.

9. Net Assets

Net assets consist of the following at June 30:

	2016	2015
Unrestricted		
Undesignated general operating	\$ (2,989,245)	\$ 1,223,771
Board designated	2,218,815	2,272,741
	<u>(770,430)</u>	<u>3,496,512</u>
Temporarily Restricted		
Program funds	9,648,174	10,176,599
Scholarship funds	1,819,846	1,415,979
Capital funds	1,770,407	1,484,586
Quasi-endowment funds	17,712,627	16,107,284
Endowments, spendable	3,528,826	3,520,909
	<u>34,479,880</u>	<u>32,705,357</u>
Permanently Restricted		
Endowment funds	<u>39,381,263</u>	<u>38,429,390</u>
Total Net Assets	<u>\$ 73,090,713</u>	<u>\$ 74,631,259</u>

Reclassifications between net assets are made to comply with donor-imposed restrictions and for transferring funds based on the changes in classifications.

Montclair State University Foundation, Inc.

Notes to Financial Statements June 30, 2016 and 2015

10. Endowments

The Foundation currently manages various donor restricted and board designated endowment funds which support Montclair State University. Donor restricted (permanently restricted) funds are managed based on the explicit directions of the donor. Board designated endowments are used to report resources that the Board of Trustees, rather than the donor, has determined are to be retained and managed similar to an endowment.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) as enacted in New Jersey does not establish a level below which an endowment fund may not fall. Instead, UPMIFA requires that endowment fund investment and spending policies be designed with the aim of preserving that amount of each endowment fund which is prudent for the uses, benefits, purposes and duration for which each endowment fund was established. For accounting purposes only and without any implication for the Foundation's legal obligations for administering its endowment funds, the Foundation has classified as permanently restricted net assets the following: (a) the original value of gifts donated to its endowment funds, (b) the original value of subsequent gifts to such endowment funds, and (c) accumulations to such endowment funds 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 a 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 Foundation through the Board of Trustees, which is inclusive of the amount withdrawn from its endowment funds pursuant to the Foundation's spending policy. The Board has determined that, absent donor stipulations to the contrary, the provisions of State law do not impose either a permanent or temporary restriction on the income or capital appreciation derived from the original gift and/or additional gifts.

Unless otherwise specified by the donor, the Board of Trustees utilized a spending rate of 4.25% and 4.5% for the years ended June 30, 2016 and 2015 to determine distributions from the endowment. In most cases, a required minimum balance for each endowment must be achieved before a distribution can be made.

Montclair State University Foundation, Inc.

Notes to Financial Statements June 30, 2016 and 2015

10. Endowments (continued)

The following is a reconciliation of the activity in the Endowment funds:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets at June 30, 2015	\$ (3,453,754)	\$ 3,520,909	\$ 38,429,390	\$ 38,496,545
Dividends and interest	(21,683)	1,474,086	-	1,452,403
Gain (loss) on sale of securities	1,710	(116,224)	-	(114,514)
Unrealized gain (loss) on securities	32,021	(2,176,886)	-	(2,144,865)
Funded by other unrestricted sources	-	2,217,102	-	2,217,102
Contributions and pledge collections	-	(15,476)	853,688	838,212
Appropriation of endowment assets for expenditures	1,281,190	(1,281,190)	-	-
Release restrictions	(1,281,190)	-	-	(1,281,190)
Underwater losses absorbed by unrestricted funds	(3,131,283)	-	-	(3,131,283)
Transfers between temporarily and permanently restricted net assets	-	(93,680)	93,680	-
Transfers to other net assets	-	186	4,505	4,691
Endowment Net Assets at June 30, 2016	<u>\$ (6,572,989)</u>	<u>\$ 3,528,827</u>	<u>\$ 39,381,263</u>	<u>\$ 36,337,101</u>
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Reconciliation to net assets:				
Donor restricted funds	\$ (6,572,989)	\$ 3,528,827	\$ 39,381,263	\$ 36,337,101
Board designated funds	-	17,712,627	-	17,712,627
Other temporarily restricted gifts	-	13,238,426	-	13,238,426
	<u>\$ (6,572,989)</u>	<u>\$ 34,479,880</u>	<u>\$ 39,381,263</u>	<u>\$ 67,288,154</u>

Montclair State University Foundation, Inc.

Notes to Financial Statements June 30, 2016 and 2015

10. Endowments (continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets at June 30, 2014	\$ (1,973,808)	\$ 3,421,595	\$ 37,787,583	\$ 39,235,370
Dividends and interest	88,363	1,289,362	-	1,377,725
Gain on sale of securities	11,626	169,649	-	181,275
Unrealized loss on securities	(68,865)	(1,004,858)	-	(1,073,723)
Funded by other unrestricted sources	-	1,080,162	-	1,080,162
Contributions and pledge collections	-	19,105	350,738	369,843
Appropriation of endowment assets for expenditures	1,335,658	(1,335,658)	-	-
Release restrictions	(1,335,658)	-	-	(1,335,658)
Underwater losses absorbed by unrestricted funds	(1,511,070)	-	-	(1,511,070)
Transfers between temporarily and permanently restricted net assets	-	(34,000)	34,000	-
Transfers to other net assets	-	(84,448)	257,069	172,621
Endowment Net Assets at June 30, 2015	<u>\$ (3,453,754)</u>	<u>\$ 3,520,909</u>	<u>\$ 38,429,390</u>	<u>\$ 38,496,545</u>
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Reconciliation to net assets:				
Donor restricted funds	\$ (3,453,754)	\$ 3,520,909	\$ 38,429,390	\$ 38,496,545
Board designated funds	-	16,107,284	-	16,107,284
Other temporarily restricted gifts	-	13,077,164	-	13,077,164
	<u>\$ (3,453,754)</u>	<u>\$ 32,705,357</u>	<u>\$ 38,429,390</u>	<u>\$ 67,680,993</u>

Certain of the Foundation's donor restricted endowments may experience losses due to market fluctuations. U.S. GAAP requires excess losses be absorbed by the temporarily restricted or unrestricted net assets of the Foundation and that future gains be allocated to unrestricted net asset categories until such losses have been restored. At June 30, 2016 and 2015, the unrestricted fund includes deficiencies of approximately \$5,292,000 and \$3,250,000.

Montclair State University Foundation, Inc.

Notes to Financial Statements June 30, 2016 and 2015

10. Endowments *(continued)*

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies that attempt to provide a predictable stream of funding to programs, while seeking to maintain the purchasing power of the endowment funds. The Foundation's primary investment objectives are to (i) invest its endowment principal to achieve growth of both principal value and income over time sufficient to preserve and/or increase the real (inflation adjusted) purchasing power of the assets and (ii) to provide a stable source of perpetual financial support.

Strategies Employed for Achieving Objectives

The Foundation's investment policy is approved by its investment committee which was established by the Foundation's Board of Trustees. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

11. Major Contributions

For the year ended June 30, 2016 donations from one donor comprised approximately 15% of total contributions. One pledge balance outstanding from another donor amounted to approximately 69% of total unconditional promises to give at June 30, 2016.

For the year ended June 30, 2015, two donors comprised approximately 69% of total contributions. Pledge balances outstanding from these donors amounted to approximately 80% of total unconditional promises to give at June 30, 2015.

12. Non-cash Contributions

Total non-cash contributions, excluding services, amounted to approximately \$451,000 and \$147,000 for the years ended June 30, 2016 and 2015. These contributions were in the form of artwork and equipment for the benefit of the University and as a result have been transferred to the University.

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