

**Montclair State University
Foundation, Inc.**

Financial Statements

June 30, 2014 and 2013

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, 2014, and the related statements of activities 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; these include 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 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.

Other Matters

The financial statements for the year ended June 30, 2013, were audited by another auditor who expressed an unmodified opinion on those statements in their opinion dated August 28, 2013.

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, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

O'Connor Davies, LLP

August 27, 2014

Montclair State University Foundation, Inc.

Statements of Financial Position

	June 30,	
	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 7,832,363	\$ 7,105,405
Unconditional promises to give, net	1,714,651	1,207,715
Donated property and equipment	3,564	17,950
Prepaid expenses and other current assets	104,320	37,059
Other current receivables	<u>13,976</u>	<u>132,990</u>
Total Current Assets	<u>9,668,874</u>	<u>8,501,119</u>
Other Assets		
Unconditional promises to give, net long-term	1,350,426	2,382,786
Investments, at fair value	60,094,526	53,486,808
Internal use software	44,000	10,000
Donated artwork, property and equipment	1,427,200	1,427,200
Beneficial interests in trust	526,076	346,766
Beneficial interest in split-interest agreements	149,523	198,499
Cash surrender value of life insurance	<u>72,580</u>	<u>69,880</u>
Total Other Assets	<u>63,664,331</u>	<u>57,921,939</u>
	<u>\$ 73,333,205</u>	<u>\$ 66,423,058</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	<u>\$ 1,879,907</u>	<u>\$ 2,544,080</u>
Net Assets		
Unrestricted	6,210,786	161,769
Temporarily restricted	27,454,929	27,256,939
Permanently restricted	<u>37,787,583</u>	<u>36,460,270</u>
Total Net Assets	<u>71,453,298</u>	<u>63,878,978</u>
	<u>\$ 73,333,205</u>	<u>\$ 66,423,058</u>

See notes to financial statements

Montclair State University Foundation, Inc.

Statement of Activities
For the Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT				
Contributions, net	\$ 58,678	\$ 4,494,485	\$ 298,956	\$ 4,852,119
Other support	48,678	689,025	580,296	1,317,999
Annual fund and phonathon	208,735	61,324	1,550	271,609
In-kind contributions	140,541	-	-	140,541
Non-cash contributions	-	256,625	-	256,625
Change in value of split-interest agreements, cash surrender value of life insurance and beneficial interest in trusts	-	(40,676)	33,261	(7,415)
Net investment return	5,060,746	1,962,109	-	7,022,855
Net assets released from restrictions	5,127,915	(5,127,915)	-	-
Total Revenues, Gains and Other Support	<u>10,645,293</u>	<u>2,294,977</u>	<u>914,063</u>	<u>13,854,333</u>
EXPENSES				
Program Services				
Program funds	2,652,417	-	-	2,652,417
Scholarship funds	426,171	-	-	426,171
Capital funds	90,869	-	-	90,869
Quasi-endowment funds	902,646	-	-	902,646
Endowment funds, spendable	1,055,812	-	-	1,055,812
Direct support of MSU	125,000	-	-	125,000
MSU projects	48,082	-	-	48,082
Management and General				
Investment fees	174,872	-	-	174,872
Salaries	326,262	-	-	326,262
Salaries, in-kind contribution	98,061	-	-	98,061
Rent, in-kind contribution	42,480	-	-	42,480
Accounting services	45,000	-	-	45,000
Office expenses	101,992	-	-	101,992
Professional fees	41,460	-	-	41,460
Planned giving and donor cultivation	74,007	-	-	74,007
Bonding and insurance fees	10,192	-	-	10,192
Bank fees and service charges	12,455	-	-	12,455
Campaign consultant	28,645	-	-	28,645
Amortization	20,000	-	-	20,000
Miscellaneous	3,590	-	-	3,590
Total Expenses	<u>6,280,013</u>	<u>-</u>	<u>-</u>	<u>6,280,013</u>
Change in Net Assets	4,365,280	2,294,977	914,063	7,574,320
Reclassifications	1,683,737	(2,096,987)	413,250	-
NET ASSETS				
Beginning	<u>161,769</u>	<u>27,256,939</u>	<u>36,460,270</u>	<u>63,878,978</u>
Ending	<u>\$ 6,210,786</u>	<u>\$ 27,454,929</u>	<u>\$ 37,787,583</u>	<u>\$ 71,453,298</u>

See notes to financial statements

Montclair State University Foundation, Inc.

Statement of Activities
For the Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT				
Contributions, net	\$ 25,012	\$ 2,886,047	\$ 1,160,947	\$ 4,072,006
Other support	10,834	2,940,301	538,799	3,489,934
Annual fund and phonathon	248,524	101,170	12,288	361,982
In-kind contributions	226,918	-	-	226,918
Change in value of split-interest agreements and cash surrender value of life insurance	-	39,060	-	39,060
Net investment return	2,197,437	1,719,894	-	3,917,331
Net assets released from restrictions	6,204,523	(6,204,523)	-	-
Total Revenues, Gains and Other Support	<u>8,913,248</u>	<u>1,481,949</u>	<u>1,712,034</u>	<u>12,107,231</u>
EXPENSES				
Program Services				
Program funds	3,096,666	-	-	3,096,666
Scholarship funds	435,459	-	-	435,459
Capital funds	55,000	-	-	55,000
Quasi-endowment funds	1,201,185	-	-	1,201,185
Endowment funds, spendable	1,416,213	-	-	1,416,213
Direct support of MSU	125,000	-	-	125,000
Alumni magazine	50,000	-	-	50,000
MSU projects	140,555	-	-	140,555
Transfers of non-cash donations to MSU	17,950	-	-	17,950
Management and General				
Investment fees	160,542	-	-	160,542
Salaries	216,169	-	-	216,169
Salaries, in-kind contribution	172,048	-	-	172,048
Rent, in-kind contribution	54,870	-	-	54,870
Accounting services	45,000	-	-	45,000
Bad debt expense	29,173	-	-	29,173
Office expenses	29,747	-	-	29,747
Professional fees	47,940	-	-	47,940
Planned giving and donor cultivation	49,542	-	-	49,542
Bonding and insurance fees	2,691	-	-	2,691
Bank fees and service charges	8,950	-	-	8,950
Miscellaneous	432	-	-	432
Total Expenses	<u>7,355,132</u>	<u>-</u>	<u>-</u>	<u>7,355,132</u>
Change in Net Assets	1,558,116	1,481,949	1,712,034	4,752,099
Reclassifications	(213,755)	442,739	(228,984)	-
NET ASSETS				
Beginning	<u>(1,182,592)</u>	<u>25,332,251</u>	<u>34,977,220</u>	<u>59,126,879</u>
Ending	<u>\$ 161,769</u>	<u>\$ 27,256,939</u>	<u>\$ 36,460,270</u>	<u>\$ 63,878,978</u>

See notes to financial statements

Montclair State University Foundation, Inc.

Statements of Cash Flows

	For the Years Ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 7,574,320	\$ 4,752,099
Adjustments to reconcile change in net assets to net cash from operating activities		
Noncash items		
Permanently restricted contributions held as endowments	(914,063)	(1,712,034)
Discount on promises to give	5,197	(23,823)
Depreciation and amortization	20,000	-
Reinvested investment income	(12,324)	(212,547)
Net realized gain on investments	(237,403)	(2,229,417)
Net unrealized gain on investments	(5,208,604)	(773,469)
Beneficial interests in trusts, spilt interest agreements and cash surrender value of life insurance	10,115	(35,363)
Cash surrender value of life insurance	(2,700)	(3,697)
Donated artwork, property and equipment	(242,239)	(2,238,194)
Donated stock	(87,516)	(60,787)
Transfers of property and equipment to University	256,625	1,133,304
Change in operating assets and liabilities		
Unconditional promises to give	520,227	62,428
Other current receivables	119,014	(42,677)
Prepaid expenses and other current assets	(67,261)	(37,059)
Beneficial interests in trusts	(140,449)	(346,766)
Accounts payable and accrued expenses	(664,173)	48,535
Net Cash from Operating Activities	928,766	(1,719,467)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of long-term investments	(22,822,893)	(39,352,295)
Proceeds from sale of long-term investments	21,761,022	34,290,765
Purchase of internal use software	(54,000)	(10,000)
Net Cash from Investing Activities	(1,115,871)	(5,071,530)
CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently restricted contributions held as endowments	914,063	1,712,034
Net Change in Cash and Cash Equivalents	726,958	(5,078,963)
CASH AND CASH EQUIVALENTS		
Beginning of year	7,105,405	12,184,368
End of year	\$ 7,832,363	\$ 7,105,405
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Noncash investing and financing activities		
Gifts of artwork	\$ 136,000	\$ 2,050,100
Gifts of property and equipment	120,625	206,206
Gifts of stock	87,516	60,787
Transfers of property and equipment to University	(256,625)	(1,133,304)

See notes to financial statements

Montclair State University Foundation, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

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 Principles

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 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 Foundations’ 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, 2014 and 2013

2. Significant Accounting Principles *(continued)*

Basis of Presentation

The Foundation 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 statement 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.
- **Quasi-endowments** – The Foundation maintains quasi-endowed funds which have been established by its Board 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 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 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, 2014 and 2013

2. Significant Accounting Principles *(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 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 statement of activities as a part of investment income. Interest and dividends from investments are recorded as investment income 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.

Montclair State University Foundation, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

2. Significant Accounting Principles *(continued)*

Investments (continued)

- **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.

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 and one commodity investment have been valued at the closing price reported in an active market in which the investments are traded. The one fixed income and commodity investments have been estimated based on net asset value pricing.
- **Investment in Hedge Funds:** The Foundation invests in various hedge funds as a component of its investment policy statement and related allocation strategy. These investments include equity and debt driven hedge funds which are diversified across numerous sector allocations with the largest consisting of distressed credit and long-short equities. For equity hedges, management of the hedge funds has the ability to shift investments from value to growth strategies, 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. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the Foundation’s interest therein and their classification within Level 2 has been based on the Foundation’s ability to redeem its interest in the near term.

Montclair State University Foundation, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

2. Significant Accounting Principles *(continued)*

Fair Value of Financial Instruments (continued)

- **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.
- **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 statement 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 statement 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 statement of activities of the Foundation.

Internal Use Software

Effective for the year ended June 30, 2013, the Foundation capitalized software purchased from third party vendors for its use in Foundation fundraising initiatives. The software will be amortized over an estimated useful life of three years. Amortization expense totaled approximately \$20,000 for the year ended June 30, 2014.

Montclair State University Foundation, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

2. Significant Accounting Principles *(continued)*

Revenue Recognition

The revenue recognition policies of the Foundation are as follows:

- **Cash contributions:** Cash 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, unless amounts received in a current reporting period are for an event which will occur subsequent to year end in which case such receipts are recognized as deferred revenues.
- **Non-cash donations:** The Foundation receives non-cash donations in the form of 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 occupies space owned by 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.

Prior to December 1, 2013, the cost for salary and related fringe benefits for certain employees of the Foundation were paid for by the University and a corresponding "in-kind contribution" was recognized since the University had not sought reimbursement for such costs. The costs for these employees amounted to \$98,061 for the period of July 1, 2013 to December 1, 2013 and \$172,048 for the year ended June 30, 2013. Effective December 1, 2013, the Foundation has assumed the costs for substantially all of these employees.

Fundraising Expenses

The Foundation's fundraising activities include direct mail campaigns and special events. Fundraising expenses totaled \$212,848 and \$98,147 for the years ending June 30, 2014 and 2013.

Montclair State University Foundation, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

2. Significant Accounting Principles *(continued)*

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. Accordingly, 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 2011.

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.
- **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. Investments in fixed income and equity mutual funds are carried at fair value. 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.

Montclair State University Foundation, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

2. Significant Accounting Principles *(continued)*

Risk Concentrations (continued)

Alternative Investments consist of non-traditional, not readily marketable investments, some of which consist of hedge funds. 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, 2013, the Foundation had one individual investment that represented approximately 15% of total investments. At June 30, 2014 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 August 27, 2014.

Montclair State University Foundation, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

2. Significant Accounting Principles (continued)

Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. Reclassifications to net assets were made to align certain funds with the terms of gift agreements, fund purpose or both. The reclassifications are summarized as follows at June 30:

	<u>2014</u>	<u>2013</u>
Unrestricted:		
Unrestricted	\$ 388,917	\$ (213,755)
Unrestricted Quasi-Endowments	<u>1,294,820</u>	<u>-</u>
	<u>1,683,737</u>	<u>(213,755)</u>
Temporarily Restricted:		
Program	(403,030)	(117,886)
Grant	-	1,141
Scholarship	(380,175)	(83,356)
Capital	(273,710)	318,676
Temporarily Restricted Quasi-Endowments	(1,033,947)	356,315
Endowments-spendable	<u>(6,125)</u>	<u>(32,151)</u>
	<u>(2,096,987)</u>	<u>442,739</u>
Permanently Restricted:		
Endowments	<u>413,250</u>	<u>(228,984)</u>
Impact to total net assets	<u>\$ -</u>	<u>\$ -</u>

3. Unconditional Promises to Give

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

	<u>2014</u>	<u>2013</u>
Unrestricted	\$ 143,386	\$ 251,978
Restricted for scholarships and endowments	1,651,584	2,123,068
Restricted for programs	<u>1,418,094</u>	<u>1,395,757</u>
	3,213,064	3,770,803
Less unamortized discount	(22,494)	(30,302)
Less allowance for doubtful accounts	<u>(125,493)</u>	<u>(150,000)</u>
Unconditional promises to give, net	<u>\$ 3,065,077</u>	<u>\$ 3,590,501</u>

Montclair State University Foundation, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

3. Unconditional Promises to Give (continued)

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

	<u>2014</u>	<u>2013</u>
Unrestricted	\$ 203,568	\$ 254,838
Temporarily restricted	1,704,933	1,231,838
Permanently restricted	<u>1,156,576</u>	<u>2,103,825</u>
	<u>\$3,065,077</u>	<u>\$3,590,501</u>

Promises to give will be received, depending on the timing of the donor's pledge commitment, from within one year to five years. Pledges to be received after June 30, 2014 and 2013 have been discounted to their net present value using a discount rate of 0.88% and 0.66%, respectively, for the anticipated collection period.

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

	<u>2014</u>	<u>2013</u>
Less than one year	\$ 1,714,651	\$ 1,207,715
One to five years	<u>1,498,413</u>	<u>2,563,088</u>
	3,213,064	3,770,803
Less unamortized discount	(22,494)	(30,302)
Less allowance for doubtful accounts	<u>(125,493)</u>	<u>(150,000)</u>
Unconditional promises to give, net	<u>\$ 3,065,077</u>	<u>\$ 3,590,501</u>

Montclair State University Foundation, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

4. Investments

Investments consist of the following at June 30:

	2014		
	Cost	Fair Value	Unrealized Gain
Fixed income securities	\$ 18,788,230	\$ 18,864,180	\$ 75,950
Equity mutual funds	23,117,062	27,254,241	4,137,179
Alternative strategies			
Commodities	2,400,668	2,574,134	173,466
Public REITS	3,227,062	3,351,041	123,979
Hedge funds	7,486,517	8,050,930	564,413
Total Investments	<u>\$ 55,019,539</u>	<u>\$ 60,094,526</u>	<u>\$ 5,074,987</u>
	2013		
	Cost	Fair Value	Unrealized Gain (Loss)
Fixed income securities	\$ 20,805,112	\$ 20,401,408	\$ (403,704)
Equity mutual funds	21,978,062	22,236,997	258,935
Alternative strategies			
Commodities	2,821,476	2,531,168	(290,308)
Public REITS	3,510,974	3,516,193	5,219
Hedge funds	4,500,000	4,801,042	301,042
Total Investments	<u>\$ 53,615,624</u>	<u>\$ 53,486,808</u>	<u>\$ (128,816)</u>

The components of investment return are as follows at June 30:

	2014		
	Unrestricted	Temporarily Restricted	Total
Dividends and interest	\$ 1,136,294	\$ 440,554	\$ 1,576,848
Gain on sale of securities	171,075	66,328	237,403
Unrealized gain on securities	3,753,377	1,455,227	5,208,604
Net Investment Return	<u>\$ 5,060,746</u>	<u>\$ 1,962,109</u>	<u>\$ 7,022,855</u>

Montclair State University Foundation, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

4. Investments (continued)

	2013		
	Unrestricted	Temporarily Restricted	Total
Dividends and interest	\$ 512,962	\$ 401,483	\$ 914,445
Gain on sale of securities	1,250,596	978,821	2,229,417
Unrealized gain on securities	433,879	339,590	773,469
Net Investment Return	<u>\$ 2,197,437</u>	<u>\$ 1,719,894</u>	<u>\$ 3,917,331</u>

During the quarter ended June 30, 2014 the Foundation divested its interest in one alternative strategy position with a value of approximately \$475,000. Pursuant to the fund's investment terms the liquidation of this position, which has been classified as a hedge investment at June 30, 2014, will be realized within 90 days of the period in which the underlying fund was notified of the Foundation's intent to redeem. As a result, realization of redemption proceeds will occur prior to September 30, 2014.

At June 30, 2014, the Foundation's investments in fixed income securities and equity mutual funds consisted of 70% in domestic positions and 30% in international positions. Of the total investments in international positions, 57% were in developed markets and 43% were in emerging markets. At June 30, 2013, the Foundation's investments in fixed income securities and equity mutual funds consisted 73% in domestic positions and 27% in international positions. Of the total investments in international positions, 69% were in developed markets and 31% were in emerging markets.

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.

No contribution revenue was recognized under such split-interest agreements for the years ended June 30, 2014 and 2013. Net increases (decreases) in the beneficial interests of split-interest agreements totaled \$(51,053) and \$35,364 for the years ended June 30, 2014 and 2013, respectively. 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, 2014 and 2013

6. Beneficial Interests in Trusts

As of June 30, 2014 the Foundation has recorded its beneficial interests in four trusts including three perpetual trusts. Interests in the three perpetual trusts have been recorded as permanent endowments based on the intent for the trusts to operate in perpetuity. The fourth trust manages assets in which the Foundation is named as one of eight beneficiaries who receive an annual distribution of \$5,000 with the remaining assets held in the trust distributed equally upon the Trusts liquidation on June 15, 2017.

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 three Trusts and as a result the trustee does not have variance power to redirect the interests in the Trusts to another entity.

As of June 30, 2014 total assets within these Trusts consisted of \$325,000 in equity positions (of which \$162,000 had been invested in U.S. Domestic Equity Mutual Funds and \$163,000 had been invested in International Mutual Funds), \$92,000 had been invested in fixed income positions (all of which had been invested in U.S. Fixed Income), \$76,000 had been invested in alternative strategies and \$33,000 remained in cash and cash equivalents.

7. Fair Value Measurements

The fair value of investments and cash equivalents at June 30, and their fair value level hierarchy are as follows:

	2014			Total
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
Fixed income securities	\$ 16,708,341	\$ 2,155,839	\$ -	\$ 18,864,180
Equity mutual funds	27,254,241	-	-	27,254,241
Alternative strategies				
Commodities	1,921,827	652,307	-	2,574,134
Public REITS	3,351,041	-	-	3,351,041
Hedge funds	1,374,210	6,045,824	630,896	8,050,930
Split-interest agreements	-	-	149,523	149,523
Beneficial interests in trusts	-	-	526,076	526,076
Cash surrender value of life insurance	-	72,580	-	72,580
	<u>\$ 50,609,660</u>	<u>\$ 8,926,550</u>	<u>\$ 1,306,495</u>	<u>\$ 60,842,705</u>

Montclair State University Foundation, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

7. Fair Value Measurements (continued)

	2013			Total
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
Fixed income securities	\$ 18,347,364	\$ 2,054,044	\$ -	\$ 20,401,408
Equity mutual funds	22,236,997	-	-	22,236,997
Alternative strategies				
Commodities	1,642,735	888,433	-	2,531,168
Public REITS	3,516,193	-	-	3,516,193
Hedge funds	-	4,801,042	-	4,801,042
Split-interest agreements	-	-	198,499	198,499
Beneficial interests in trusts	-	-	346,766	346,766
Cash surrender value of life insurance	-	69,880	-	69,880
	<u>\$ 45,743,289</u>	<u>\$ 7,813,399</u>	<u>\$ 545,265</u>	<u>\$ 54,101,953</u>

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

	2014	2013
Beginning balance	\$ 545,265	\$ 163,136
Interests in trusts received	140,449	346,766
Purchases	625,000	-
Change in value of split-interest agreements and beneficial interest in trusts	(10,115)	35,363
Total unrealized gains	<u>5,896</u>	<u>-</u>
Ending balance	<u>\$ 1,306,495</u>	<u>\$ 545,265</u>

Montclair State University Foundation, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

7. Fair Value Measurements (continued)

The following table below summarizes liquidity arrangements for investments valued at NAV using the practical expedient at June 30, 2014:

	See Note	Fair Value	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Fixed income funds		\$ 2,155,839	Quarterly	40 days
Commodities				
Real assets		652,307	Monthly	5 days
Alternative strategies				
Hedge funds		471,196	Monthly	35 days
Hedge funds		527,928	Monthly	35 days
Hedge funds		1,079,578	Quarterly via tender offer, with a 5-25% cap on re-purchases	N/A
Hedge funds		652,797	Quarterly	95 days
Hedge funds		3,314,325	Quarterly, subject to quarterly/annual withdrawal amount limitations	100 days
Hedge funds		630,896	Not currently eligible, 1 year lock up expiring 3/27/15	95 days
Total hedge funds	A	6,676,720		
Beneficial interests in trusts		526,076	No liquidity	N/A
Cash surrender value of life insurance		72,580	No liquidity	N/A
Spilt interest agreements		149,523	No liquidity	N/A
Total liquidity		\$ 10,233,045		

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, 2014. Liquidity terms vary by fund, with some offering flexible terms. Some funds also allow investors to redeem prior to the end of their normal term upon payment of a redemption penalty.

Montclair State University Foundation, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

8. Net Assets

Net assets consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Unrestricted		
Undesignated general operating	\$ 4,872,946	\$ 161,769
Board designated	<u>1,337,840</u>	<u>-</u>
	<u>6,210,786</u>	<u>161,769</u>
Temporarily Restricted		
Program funds	5,140,786	3,893,836
Scholarship funds	1,360,902	1,534,245
Capital funds	1,505,818	1,877,816
Quasi-endowment funds	16,025,828	16,881,744
Endowments, spendable	<u>3,421,595</u>	<u>3,069,298</u>
	<u>27,454,929</u>	<u>27,256,939</u>
Permanently Restricted		
Endowment funds	<u>37,787,583</u>	<u>36,460,270</u>
Total Net Assets	<u>\$ 71,453,298</u>	<u>\$ 63,878,978</u>

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

9. Endowments

The Endowment of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institution Funds Act, and Enhanced Disclosures for All Endowment Funds Topic of the FASB ASC provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations subject to the Uniform Prudent Management of Institution Funds Act (UPMIFA), passed by the State of New Jersey in June 2009. The topic also requires additional disclosures about endowments for both donor-restricted funds and board-designated funds.

The Foundation's endowment fund consists of approximately 205 and 190 individual funds for the years ending June 30, 2014 and 2013, respectively. These funds were established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Foundation's Board of Trustees to function as endowments (referred to as quasi-endowments). These quasi-endowment funds 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. However, the principal and income of these funds may be utilized at the discretion of the Board of Trustees aside from any donor-imposed restrictions. Net assets associated with endowment funds, including

Montclair State University Foundation, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

9. Endowments (continued)

funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

Management and the Board of Trustees of the Foundation has interpreted the New Jersey State UPMIFA as requiring the preservation of the fair value of original donor-restricted endowment funds as of the date of the gift, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment; (b) the original value of the subsequent gifts to the permanent endowment; (c) the accumulations to the permanent endowment made in accordance with the directions of the applicable donor gift instrument, at the time the accumulation is added to the fund; and (d) the discounted value of future permanently restricted endowment contributions, net of allowance for uncollectible unconditional promises to give. The remaining portion of the donor-restricted endowment fund is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment contributions: the purpose, duration, and preservation of the endowment fund; general economic conditions and the possible effect of inflation or deflation; the expected total return from income and the appreciation of investments; other available financial resources; and the investment policy of the Foundation.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets at June 30, 2013	\$ (3,851,755)	\$ 3,069,298	\$ 36,460,270	\$ 35,677,813
Investment returns:				
Dividends and interest	421,888	311,290	-	733,178
Gain on sale of securities	63,518	46,866	-	110,384
Unrealized gain on securities	1,392,541	1,027,486	-	2,420,027
Total Investment Return	<u>1,877,947</u>	<u>1,385,642</u>	<u>-</u>	<u>3,263,589</u>
Contributions and pledge collections	-	28,592	914,063	942,655
Appropriation of endowment assets for expenditures	1,055,812	(1,055,812)	-	-
Release restrictions	(1,055,812)	-	-	(1,055,812)
Transfers between temporarily and permanently restricted net assets	-	(6,125)	6,125	-
Transfers to other net assets	-	-	407,125	407,125
Endowment Net Assets at June 30, 2014	<u>\$ (1,973,808)</u>	<u>\$ 3,421,595</u>	<u>\$ 37,787,583</u>	<u>\$ 39,235,370</u>

Montclair State University Foundation, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

9. Endowments (continued)

The reconciliation to net assets is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Reconciliation to net assets:				
Donor restricted funds	\$ (1,973,808)	\$ 3,421,595	\$ 37,787,583	\$ 39,235,370
Board designated funds	-	16,025,828	-	16,025,828
Other temporarily restricted gifts	-	8,007,506	-	8,007,506
	<u>\$ (1,973,808)</u>	<u>\$ 27,454,929</u>	<u>\$ 37,787,583</u>	<u>\$ 63,268,704</u>

Designations of other unrestricted funds cover deficiencies of perpetual endowments. This is required under accounting principles generally accepted in the United States of America when funds when funds fall below the level which donors or UPMIFA require the Foundation to retain as fund of perpetual duration. These deficiencies are required to be covered by the unrestricted net assets of the Foundation.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets at June 30, 2012	\$ (4,353,715)	\$ 3,314,835	\$ 34,977,220	\$ 33,938,340
Investment returns:				
Dividends and interest	117,175	278,284	-	395,459
Loss on sale of securities	285,674	678,459	-	964,133
Unrealized loss on securities	99,111	235,382	-	334,493
Total Investment Return	<u>501,960</u>	<u>1,192,125</u>	<u>-</u>	<u>1,694,085</u>
Contributions and pledge collections	-	10,702	1,712,034	1,722,736
Appropriation of endowment assets for expenditures	1,416,213	(1,416,213)	-	-
Release restrictions	(1,416,213)	-	-	(1,416,213)
Transfers between temporarily and permanently restricted net assets	-	(32,151)	32,151	-
Transfers to other net assets	-	-	(261,135)	(261,135)
Endowment Net Assets at June 30, 2013	<u>\$ (3,851,755)</u>	<u>\$ 3,069,298</u>	<u>\$ 36,460,270</u>	<u>\$ 35,677,813</u>

Montclair State University Foundation, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

9. Endowments *(continued)*

The reconciliation to net assets is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Reconciliation to net assets:				
Donor restricted funds	\$ (3,851,755)	\$ 3,069,298	\$ 36,460,270	\$ 35,677,813
Board designated funds	-	16,881,744	-	16,881,744
Other temporarily restricted gifts	-	7,305,897	-	7,305,897
	<u>\$ (3,851,755)</u>	<u>\$ 27,256,939</u>	<u>\$ 36,460,270</u>	<u>\$ 59,865,454</u>

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for permanently restricted cash contributions 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 the 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.

Spending Rate Policy

The Foundation maintains an investment pool for a portion of its long-term investments. The pool is managed to achieve the maximum prudent long-term return. The Foundation's Board of Trustees has authorized a spending rate designed to fulfill the following objectives:

- Preserve the value of the investment pool in real terms (after inflation); and
- Provide a predictable flow of funds to support operations.

For the years ended June 30, 2014 and 2013, the spending rate permitted the use of total returns (dividend and interest income and appreciation) at a rate of 4.25% and 4.0%, respectively. This rate is approved by the Board of Trustees and reviewed annually.

Montclair State University Foundation, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

9. Endowments (*continued*)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are required to be covered by the unrestricted assets of the Foundation. Accordingly, the unrestricted fund includes deficiencies of approximately \$1,974,000 and \$3,852,000 as of June 30, 2014 and 2013, respectively. These deficiencies resulted from unfavorable market returns in years prior to fiscal 2014 and 2013.

10. Major Contributions

For the year ended June 30, 2014 one major contributor comprised approximately 16% of total contributions. Pledge balances outstanding from this donor and from three other pledges amounted to approximately 69% of total pledges outstanding at June 30, 2014.

For the year ended June 30, 2013, donations from two major donors comprised approximately 39% of total contributions. Pledge balances outstanding from these donors and from one other pledge amounted to approximately 60% of total pledges outstanding at June 30, 2013.

11. Non-cash Contributions

For June 30, 2014 total non-cash contributions amounted to approximately \$257,000. These contributions were in the form of artwork and equipment for the benefit of the University and have been transferred to the University as of June 30, 2014.

For the year ended June 30, 2013 the Foundation received approximately \$2,247,000 in non-cash contributions in the form of artwork and equipment. Of this total amount, in April 2013, the Foundation received a contribution of artwork amounting to approximately \$2,012,000 from one donor. This donation was in the form of two distinct groups of works. One group was recorded at a fair value of approximately \$584,000 and was transferred to the University. The second group was recorded at a fair value of approximately \$1,428,000 is to be held by the Foundation and will be strategically sold with proceeds used in the maintenance of both groups of work. Under an additional gift agreement proceeds from the sale of real property owned by the same donor's family amounting to approximately \$114,000 (net of related expenses of sale incurred) were donated to the Foundation, with these proceeds earmarked for the maintenance of the collective artwork and to assist in eventual sales. With the exception of the aforementioned second group of artwork donations, the remaining non-cash contributions were transferred to the University as of June 30, 2013.

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