



THE COLLEGE OF NEW JERSEY FOUNDATION, INC.
(A Component Unit of The College of New Jersey)

Basic Financial Statements and
Management's Discussion and Analysis

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

The Board of Directors
The College of New Jersey Foundation, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of The College of New Jersey Foundation, Inc. (the Foundation), a component unit of The College of New Jersey, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Independent Auditors' Report

Emphasis of Matter

Adoption of New Accounting Pronouncements

As discussed in note 2 to the financial statements, as of July 1, 2014, the Foundation adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* (GASB 72). Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

October 27, 2016

Management's Discussion and Analysis

JUNE 30, 2016 AND 2015

Overview of Financial Statements and Financial Analysis

The following management's discussion and analysis (MD&A) provides an overview of The College of New Jersey Foundation, Inc.'s (the Foundation) financial performance during the fiscal years ended June 30, 2016 and 2015, based on currently known facts and conditions; and is designed to assist readers in understanding the accompanying financial statements. The MD&A, financial statements and notes are the responsibility of the Foundation's management. Since the MD&A is designed to focus on current activities, resulting changes in financial position, and currently known facts, it should be read in conjunction with the Foundation's financial statements and the related footnote disclosures.

Using the Financial Statements

The Foundation's financial report includes three financial statements, the statement of net position, the statement of revenues, expenses and changes in net position, and the statement of cash flows. These financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB). The financial statements presented focus on the financial position of the Foundation, the changes in financial position, and cash flows of the Foundation as a whole.

Fiscal Years 2016 and 2015 Investments Highlights

The Foundation's investment portfolios produced mixed results for the fiscal year ended June 30, 2016 due to the market volatility. The endowment pool posted a negative rate of return of 0.07% net of investment manager fees, a decline in performance from the previous year's performance of 3.10%. Meanwhile, the gift annuity pool produced a positive return of 1.87% after earning 3.57% in the previous year. The fiscal year 2016 returns were in line with benchmarks.

The Foundation's investment portfolios produced positive results for the fiscal year ended June 30, 2015. The endowment pool posted a positive rate of return of 3.10% net of investment manager fees, a decline in performance from the previous year's performance of 13.72%. Meanwhile, the gift annuity pool produced a return of 3.57% after earning 16.88% percent in the previous year. The fiscal year 2015 returns were in line with benchmarks.

As of June 30, 2016, total investments held by the Foundation were over \$33.4 million, up from \$32.2 million at the previous year end. This increase is attributable to cash from gifts received being transferred to the investment portfolio.

The Foundation's investment committee provides governance oversight to both the endowment and non-endowment pools. The non-endowment pool includes assets given by donors in the form of trusts and gift annuities. These assets are invested and managed separately from the endowment pool in accordance with the donors' instructions.

Fundraising Highlights for Fiscal Year 2016

During fiscal year 2015, the Foundation moved from the quiet phase of its first-ever comprehensive fundraising campaign to the public phase. The Campaign for The College of New Jersey (TCNJ): Innovate •Inspire •Engage—with a goal of raising \$40 million by June 30, 2017—aims to build the endowment in support of student financial aid, faculty support, programmatic initiatives, and capital improvement. As of June 30, 2016, the Campaign raised \$36 million in gifts and pledges towards the \$40 million goal.

Management's Discussion and Analysis

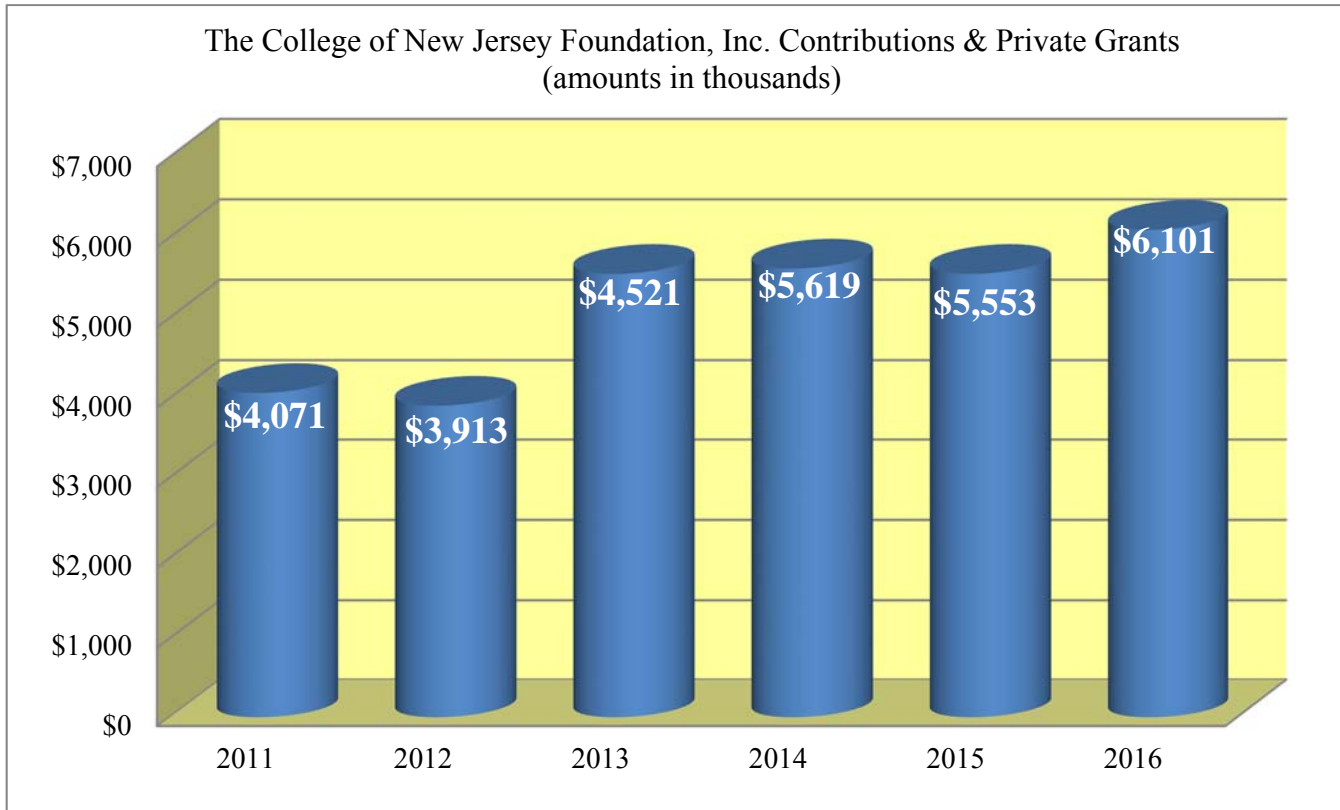
JUNE 30, 2016 AND 2015

Against a fiscal year 2016 goal of \$9.5 million, the Foundation raised \$10.0 million in gifts and pledges. Not all gifts and pledges have met the eligibility requirements for recognition criteria of GASB Statement No. 33 and have not been recorded in the financial statements.

Total cash received by the Foundation and recognized as revenue in the statement of revenues, expenses and changes in net position in fiscal year 2016 was \$6.1 million compared to fiscal year 2015 cash received of \$5.6 million. Of the total raised in fiscal year 2016, approximately \$848 thousand was added to the permanent endowment. A few highlights from the contributions received this past year include:

- A \$500 thousand charitable gift annuity.
- An endowed gift of \$233 thousand to support entrepreneurial scholarships within the School of Business.
- An endowed gift of \$166 thousand for engineering scholarships.
- A \$218 thousand unrestricted gift for scholarships.

Alumni and friends continue to show their support for The College of New Jersey through generous gifts and advocacy. Their financial contribution provides student scholarships, learning opportunities, program enhancements, and more. The graph below illustrates fundraising results that are recognized under GASB 33 over the past six years:



Statement of Net Position

The statement of net position presents the financial position of the Foundation as of the end of the fiscal year. The purpose of the statement of net position is to present to the readers of the financial statements a fiscal snapshot of the Foundation. Assets that the Foundation owns are primarily measured at fair value. Assets are categorized as either current or noncurrent. Liabilities are what the Foundation owes to others and are also categorized as either current or noncurrent.

The Foundation's net position is divided into three major categories: restricted nonexpendable, restricted expendable and unrestricted. Restricted nonexpendable net position represents the endowed gifts which donors required to be invested in perpetuity. Restricted expendable are available to the Foundation but must be used for purposes as determined by donors and/or external entities. Finally, unrestricted net position includes amounts without external constraint as to use that are internally designated or committed to support specific academic and research programs and unrestricted funds functioning as endowments.

Management's Discussion and Analysis

JUNE 30, 2016 AND 2015

The following table shows a condensed statement of net position as of June 30, 2016, 2015, and 2014:

Condensed Statement of Net Position			
	2016	2015	2014
Assets:			
Current assets	\$ 3,771,234	4,005,469	2,836,554
Noncurrent assets	30,964,713	30,612,816	30,338,884
Total assets	34,735,947	34,618,285	33,175,438
Liabilities:			
Current liabilities	1,136,109	1,719,896	1,687,107
Noncurrent liabilities	2,756,530	2,569,733	2,103,821
Total liabilities	3,892,639	4,289,629	3,790,928
Net position:			
Restricted – nonexpendable	12,040,365	10,945,542	10,113,448
Restricted – expendable	15,763,868	16,004,602	16,349,722
Unrestricted	3,039,075	3,378,512	2,921,340
Total net position	\$ 30,843,308	30,328,656	29,384,510

Cash and Investment Pools

The Foundation utilizes a pooled investment concept whereby contributions are included in various investment pools, except for investments of certain gifts that are otherwise restricted by donors. As of June 30, 2016, cash and investments held by the Foundation was \$34.7 million, up from \$33.6 million at the previous year end.

These assets are allocated among various investment pools as shown below:

Cash and Investment Pools				
Pool	Type of Funds	2016	2015	2014
Cash and cash equivalents	Working capital to support operating activities	\$ 1,272,622	1,326,763	1,320,741
Endowment pool	Contributions to establish endowment funds	27,254,591	26,184,060	25,279,912
Gift annuities and trusts	Gifts managed independently of endowment pool	6,176,795	6,054,428	6,286,591
	Total	\$ 34,704,008	33,565,251	32,887,244

Management's Discussion and Analysis

JUNE 30, 2016 AND 2015

The Foundation's working capital is primarily held in the operating bank account with excess funds invested with the New Jersey State Cash Management Fund to support operating activities. The balance fluctuates during the course of the year based on the Foundation's cash flow cycle of receipts and disbursements.

The endowment pool invests endowed gifts from donors and is managed with a philosophy of diversifying the investments across asset classes and investment managers to maximize long-term performance, reduce volatility, and control risks. The endowment assets are invested with the confidence that economic cycles will rise and fall but that a diversified portfolio will provide the long-term growth necessary to preserve the value of the endowments over the long term.

Cash and Cash Equivalents

During fiscal year 2016, the Foundation's cash and cash equivalents decreased by \$54 thousand primarily due to cash receipts from fundraising and private grants totaling \$7.1 million, offset by funding for donor-directed scholarships, fundraising and program services expenses of \$1.4 million, transfers of restricted funds and scholarship support to the College of \$4.2 million, and \$371 thousand in payments to annuitants.

During fiscal year 2015, the Foundation's cash and cash equivalents increased by \$6 thousand and has remained relatively flat from the previous year. This is due to cash receipts from the fundraising campaign and private grants of \$4.7 million and net investment income of \$179 thousand, funding for scholarships and other operating expenses of \$1.2 million, transfers of restricted funds, and scholarship support to the College of \$3.3 million, and \$369 thousand in payments to annuitants.

Investment Portfolio

In managing the endowment portfolio, one of the most important strategies is to determine the appropriate allocation of investments among the various asset classes. The investment committee has taken numerous actions in the portfolio over the years in an attempt to diversify the investments across asset classes, to temper market volatility, and to control risks. The Foundation retained an independent investment advisor to assist the investment committee in developing its asset allocation strategy.

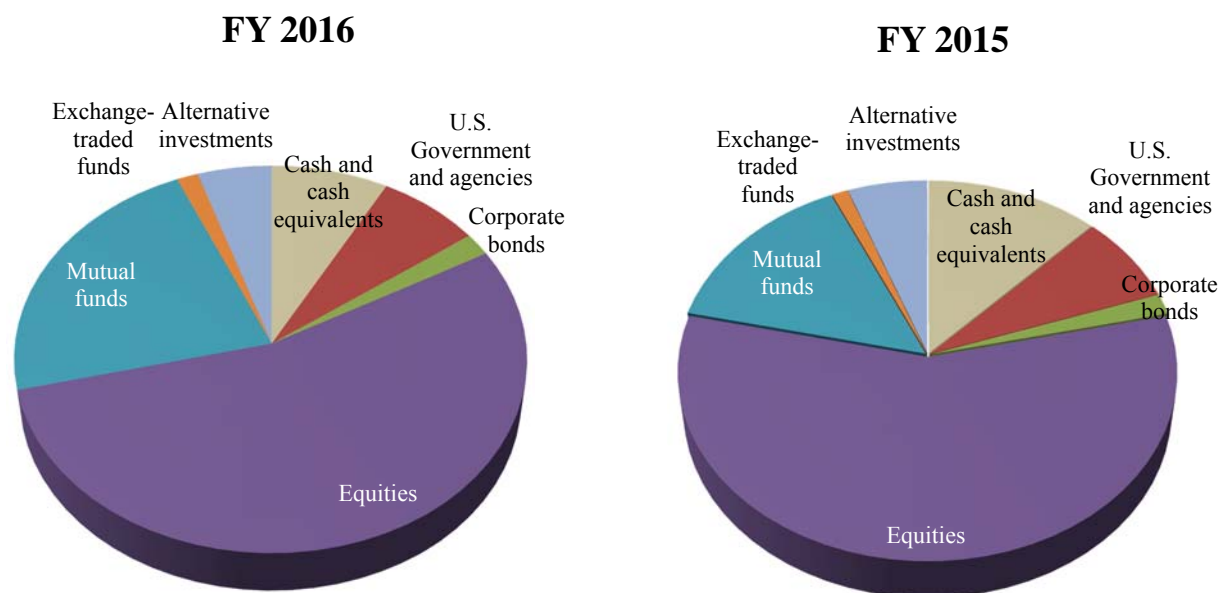
In fiscal year 2016, investments increased by approximately \$1.2 million. The increase was attributed to net transfers of \$1.6 million from cash to the investment portfolio offset by \$977 thousand in unrealized investment losses and \$210 thousand in investment manager fees. In addition, there was \$371 thousand in disbursements of contractual payments to gift annuitants. For fiscal year 2016, the endowment pool had a negative rate of return of 0.07% while the gift annuity pool earned 1.87% compared to the investment advisor benchmark style index returns of negative 0.41% and positive 2.60%, respectively.

In fiscal year 2015, investments increased by approximately \$672 thousand. The increase was attributed to net transfers of \$193 thousand in cash to investment managers, along with investment income totaling \$804 thousand coupled with \$281 thousand in investment gains. This was offset by \$237 thousand in investment manager fees. In addition, there was \$369 thousand in disbursements of contractual payments to gift annuitants. For fiscal year 2015, the endowment pool had a positive rate of return of 3.10% while the gift annuity pool earned 3.57% compared to the investment advisor benchmark style index positive returns of 3.23% and 3.46%, respectively.

Management's Discussion and Analysis

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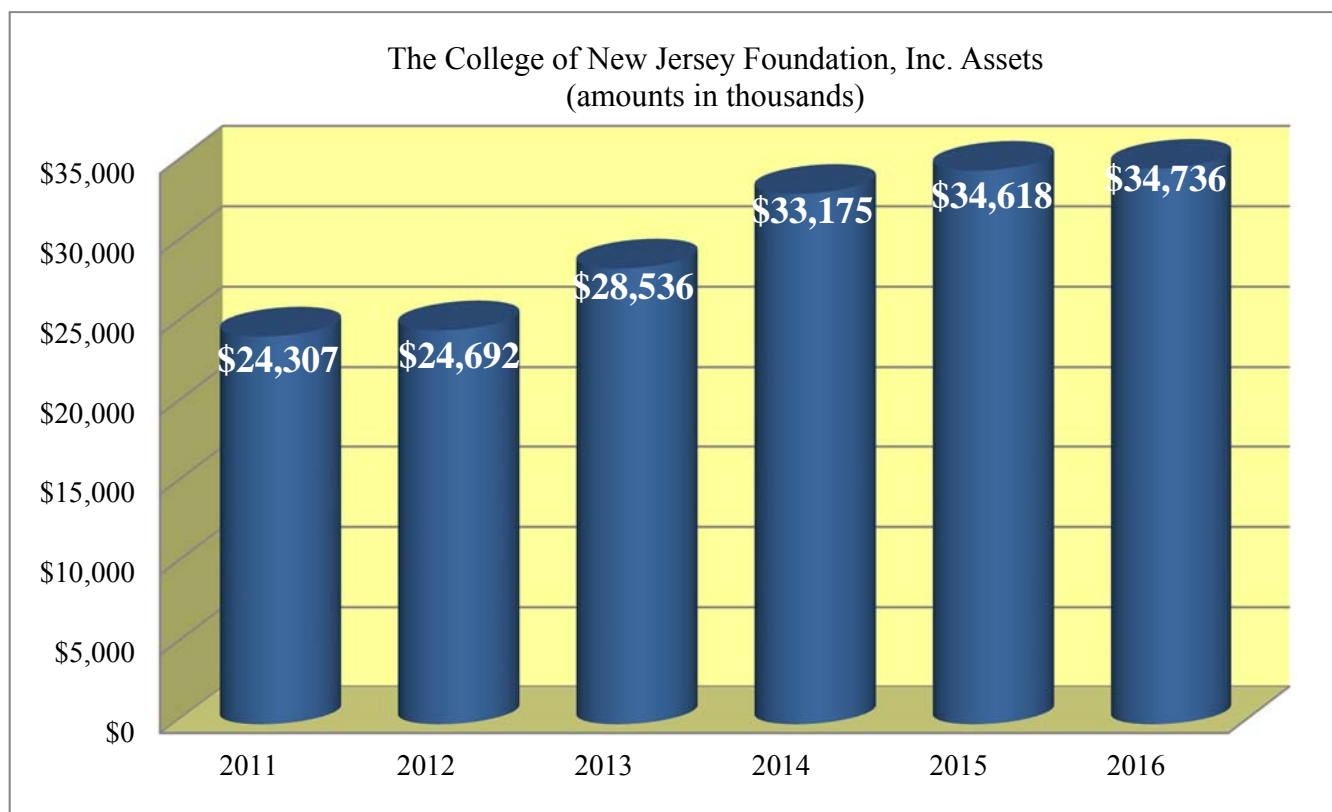
As of June 30, 2016, investments held by the Foundation exceeded \$33.4 million, up from \$32.2 million from the previous fiscal year. The portfolio was allocated among various asset classes as shown below:



<u>Asset Allocation</u>	<u>2016</u>	<u>Percentage</u>	<u>2015</u>	<u>Percentage</u>
Cash and cash equivalents	\$ 2,659,621	8.0%	\$ 3,926,682	12.2%
U.S. Government and agencies	2,353,729	7.0%	2,414,228	7.5%
Corporate bonds	634,598	1.9%	567,232	1.8%
Equity securities	18,150,092	54.3%	18,421,794	57.1%
Mutual funds	7,465,037	22.3%	4,740,941	14.7%
Exchange-traded funds	484,837	1.5%	361,560	1.1%
Alternative investments	1,683,472	5.0%	1,806,051	5.6%
Total Investments	\$ 33,431,386	100.0%	\$ 32,238,488	100.0%

Growth of the Foundation's Assets

The chart below illustrates the growth of the Foundation's assets over the past six years, which resulted from annual fundraising campaigns coupled with investment appreciation. As of June 30, 2016 and 2015, the Foundation's assets, which consist primarily of cash and investments, totaled \$34.7 million and \$34.6 million, respectively.



Liabilities

In fiscal year 2016, total liabilities decreased by \$397 thousand primarily due to the decrease in scholarship support due to The College of New Jersey offset by an increase in accruals and annuities payable at year end. In fiscal year 2015, total liabilities increased by \$499 thousand primarily due to the increase in annuities payable due to the adjustment of the actuarial present value of the gift annuities.

Working Capital

Working capital is a key metric used to measure the Foundation's liquidity for operation. The excess of current assets over current liabilities reflects the continuing ability of the Foundation to satisfy its short-term obligations as they come due. As of June 30, 2016 and 2015, the current liabilities were \$1.1 million and \$1.7 respectively. The Foundation's current assets of \$3.8 million and \$4.0 million as of June 30, 2016 and 2015, respectively, were indicators that the Foundation had adequate liquidity to satisfy its current obligations.

Net Position

The change in net position is one indicator of whether the overall financial condition of the Foundation has improved or worsened during the fiscal year. During fiscal years 2016 and 2015, net position increased by \$515 thousand or 1.7% and \$944 thousand or 3.2%, respectively. In both fiscal years 2016 and 2015, the change was directly related to the performance of successful fundraising campaigns.

Management's Discussion and Analysis

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Nonexpendable Net Position

During fiscal years 2016 and 2015, nonexpendable net position increased by \$1.1 million or 10.0% and \$832 thousand or 8.2%, respectively. These increases were largely due to endowed gifts received during those years that were designated by donors to be invested in perpetuity.

Expendable Net Position

During fiscal year 2016, this net position category had a decrease of \$240 thousand or 1.5% primarily due to spending from gifts that were designated as expendable. In fiscal year 2015, expendable net position decreased by \$345 thousand or 2.1% primarily due to an increase in annuities payable and scholarship support transfers to the College, partially offset by the receipt of gifts that were designated as expendable.

Unrestricted Net Position

In fiscal year 2016, unrestricted net position had a decrease of \$339 thousand or 10.0% due to increases in unrestricted expenses to support the fundraising campaign and program services as well as transfers of private grants to the College. In fiscal year 2015, unrestricted net position had an increase of \$457 thousand or 15.6% due to a decrease in transfers to the College from unrestricted funds compared to fiscal year 2014. This increase was offset by a decrease in unrestricted contributions compared to fiscal year 2014 coupled with an increase in unrestricted expenses and a decrease in investment income.

Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position presents the revenues earned and the expenses incurred by the Foundation during the fiscal year. Activities are reported as either operating or nonoperating. Generally speaking, operating revenues are received from expendable contributions and operating expenses are incurred in the normal operations of the Foundation.

The following table shows a condensed statement of revenues, expenses and changes in net position for the years ended June 30, 2016, 2015, and 2014:

Condensed Statement of Revenues, Expenses and Changes in Net Position			
	2016	2015	2014
Operating revenues	\$ 5,252,254	4,720,728	4,021,330
Operating expenses	4,966,949	4,621,724	4,978,758
Operating income (loss)	285,305	99,004	(957,428)
Nonoperating (expenses) revenues, net	(619,048)	13,048	3,514,680
Additions to permanent endowments	848,395	832,094	1,597,715
Increase in net position	514,652	944,146	4,154,967
Net position, beginning of year	30,328,656	29,384,510	25,229,543
Net position, end of year	\$ 30,843,308	30,328,656	29,384,510

Management's Discussion and Analysis

JUNE 30, 2016 AND 2015

Operating Revenues

The Foundation's main source of revenue is contributions and private grants. Unrestricted and expendable contributions and private grants are reported as operating revenues. In fiscal year 2016, \$3.1 million in gifts were designated by donors as expendable and \$2.2 million in private grants, totaling \$5.3 million. In fiscal year 2015, \$3.4 million in gifts were designated by donors as expendable, in addition to \$1.3 million in private grants, totaling \$4.7 million.

Operating Expenses

Operating expenses include donor-directed scholarships and awards, fundraising events and program services expenses and restricted private grants distributed to The College of New Jersey. In fiscal year 2016, operating expenses increased \$345 thousand or 7.5% primarily due to an increase in scholarship and awards of \$177 thousand coupled with an increase in program services, fundraising events, and private grant transfers to the College. In fiscal year 2015, operating expenses decreased \$357 thousand or 7.2% primarily due to a decrease in transfers to the College of \$671 thousand offset by an increase in program services, fundraising events, and scholarships and awards expenses, which is primarily due to the comprehensive campaign for the current year.

Nonoperating and Other Revenues, Net

In fiscal year 2016, nonoperating expenses, net totaled \$619 thousand. This amount was comprised of realized and unrealized investment loss, net of investment manager fees, totaling \$31 thousand which was coupled with the actuarial adjustment to the annuities payable liability of \$588 thousand. Other revenues included additions to permanent endowments of \$848 thousand that represent gifts to be held in perpetuity.

In fiscal year 2015, nonoperating revenues, net totaled \$13 thousand. This amount was comprised of investment income and appreciation, net of investment manager fees, totaling \$850 thousand which was offset by the actuarial adjustment to the annuities payable liability of \$837 thousand. Other revenues included additions to permanent endowments of \$832 thousand that represent gifts to be held in perpetuity.

STATEMENTS OF NET POSITION

June 30, 2016 and 2015

Assets	2016	2015
Current assets:		
Cash and cash equivalents (note 3)	\$ 1,272,622	1,326,763
Investments (note 4)	2,469,568	1,629,756
Contribution receivables	19,228	1,048,919
Prepaid expenses	9,792	—
Miscellaneous receivables	24	31
Total current assets	3,771,234	4,005,469
Noncurrent assets:		
Restricted investments (note 4)	30,961,818	30,608,732
Other assets	2,895	4,084
Total noncurrent assets	30,964,713	30,612,816
Total assets	34,735,947	34,618,285
Liabilities		
Current liabilities:		
Accounts payable	138,170	25,594
Due to The College of New Jersey	596,883	1,323,245
Annuities payable (note 7)	401,056	371,057
Total current liabilities	1,136,109	1,719,896
Noncurrent liabilities:		
Annuities payable (note 7)	2,756,530	2,569,733
Total noncurrent liabilities	2,756,530	2,569,733
Total liabilities	3,892,639	4,289,629
Net Position		
Restricted:		
Nonexpendable:		
Scholarships	9,156,157	7,828,703
Other programs	2,884,208	3,116,839
Expendable:		
Scholarships	10,963,472	12,886,789
Research	80,649	71,890
Other	4,719,747	3,045,923
Unrestricted	3,039,075	3,378,512
Total net position	\$ 30,843,308	30,328,656

See accompanying notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years ended June 30, 2016 and 2015

	2016	2015
Operating revenues:		
Contributions	\$ 3,053,510	3,360,973
Private grants & other	2,198,744	1,359,755
Total operating revenues	5,252,254	4,720,728
Operating expenses:		
Scholarships and awards	723,467	546,291
Fundraising events	338,120	271,313
Program services	415,772	407,024
Restricted funds contributed to:		
The College of New Jersey (note 5)	3,489,590	3,397,096
Total operating expenses	4,966,949	4,621,724
Operating income	285,305	99,004
Nonoperating revenues (expenses):		
Investment (loss) income	(31,053)	850,547
Adjustment to actuarial liability for annuities payable	(587,995)	(837,499)
Nonoperating (expenses) revenues	(619,048)	13,048
(Loss) income before other revenues	(333,743)	112,052
Additions to permanent endowments	848,395	832,094
Increase in net position	514,652	944,146
Net position as of beginning of year	30,328,656	29,384,510
Net position as of end of year	\$ 30,843,308	30,328,656

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

Years ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Contributions and private grants	\$ 6,277,301	3,918,814
Scholarships and awards	(722,630)	(544,132)
Fundraising events	(322,420)	(277,944)
Program services	(326,582)	(379,234)
Restricted funds contributed to:		
The College of New Jersey	(4,201,200)	(3,257,937)
Net cash provided by (used by) operating activities	704,469	(540,433)
Cash flows from noncapital financing activities:		
Additions to permanent endowments	848,395	832,094
Payments to annuitants	(371,199)	(368,799)
Net cash provided by noncapital financing activities	477,196	463,295
Cash flows from investing activities:		
Interest income	1,480	2,669
Investment manager fees	(209,678)	(237,342)
Purchases of investments	(3,237,602)	(338,765)
Withdrawals from investment accounts	1,629,117	50,457
Proceeds from sales of securities	580,877	606,141
Net cash (used by) provided by investing activities	(1,235,806)	83,160
Net (decrease) increase in cash and cash equivalents	(54,141)	6,022
Cash and cash equivalents as of beginning of year	1,326,763	1,320,741
Cash and cash equivalents as of end of year	\$ 1,272,622	1,326,763
Reconciliation of operating income to net cash provided by (used by) operating activities:		
Operating income	\$ 285,305	99,004
Payment of expenses directly from investment distributions	1,754	—
Stock gift contributions	10,108	95,403
Adjustments to reconcile operating income to net cash provided by (used by) operating activities:		
Changes in assets and liabilities:		
Contribution and miscellaneous receivables	1,029,691	(775,395)
Other assets	(8,603)	10,554
Accounts payable	112,576	12,764
Due to The College of New Jersey	(726,362)	17,237
Net cash provided by (used by) operating activities	\$ 704,469	(540,433)
Noncash transactions:		
Change in fair value of investments	\$ (976,788)	(1,155,309)

See accompanying notes to financial statements.

Notes to the Financial Statements

(1) Organization

The College of New Jersey Foundation, Inc. (the Foundation) is a not-for-profit organization exempt from income tax under Internal Revenue Service Code 501(c)(3). The Foundation's objective is to obtain private funding to enhance the educational goals of The College of New Jersey (the College). The Foundation's assets are used exclusively for the benefit, support and promotion of the College and its educational activities. The Foundation is considered a component unit of the College and is discretely presented in the College's financial statements.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accounting policies of the Foundation conform to U.S. generally accepted accounting principles.

Net position is classified into the following categories:

- **Restricted:**

Nonexpendable: Net position subject to externally imposed stipulations that must be maintained permanently by the Foundation.

Expendable: Net position whose use is subjected to externally imposed stipulations that can be fulfilled by actions of the Foundation pursuant to the stipulations or that expire by the passage of time.

- **Unrestricted:**

Net position that is not subject to externally imposed stipulations and may be designated for specific purposes by action of the board of directors.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Foundation's policy is to first apply the expense towards restricted resources and then towards unrestricted resources.

(b) Measurement Focus and Basis of Accounting

The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting using the economic resources measurement focus.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of investments with the New Jersey State Cash Management Fund and Wells Fargo Bank. The New Jersey State Cash Management Fund is a large-scale investment program with amounts contributed by other state entities. These investments consist primarily of U.S. Treasury issues, commercial paper and certificates of deposit. Cash and cash equivalents consist

Notes to the Financial Statements

of cash on hand and all highly liquid investments purchased with an original maturity of three months or less, except for those managed as a component of the Foundation's investment portfolio.

(d) *Investments*

Investments are reflected at fair value, which is based on quoted market prices. Alternative investments are valued using current estimates of fair value obtained from the investment manager in the absence of readily determinable public market values. The estimated fair value of these investments is based on the most recent valuations provided by external investment managers. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material. Purchases and sales of investments are accounted for on the trade-date basis. Investment income is recorded on an accrual basis.

(e) *Contributions*

Contributions, including pledges other than endowments, are recognized when all eligibility requirements for recognition are met, which generally is the period the amount is donated to the Foundation. Pledges related to permanent endowments and term endowments do not meet the eligibility requirements for recognition criteria of GASB Statement No. 33 until cash is received. Pledges related to permanent endowments and term endowments for which cash has not been received were \$10,248,583 and \$9,515,261 as of June 30, 2016 and 2015, respectively, and have not been included in the accompanying statements of net position. Contribution receivables included in the accompanying statements of net position represent contributions from donors where all eligibility requirements have been met.

(f) *Classification of Operations*

The Foundation's policy for defining operating activities as reported on the statements of revenues, expenses and changes in net position are those that serve the Foundation's principal purpose. Operating activities generally result from contributions received, payments made for scholarships and awards, expenses associated with fundraising events, and distributions to the College. Nonoperating revenues include activities such as investment income. Nonoperating expenses include the actuarial adjustment to annuities payable.

(g) *Donor Restricted Endowments*

The Foundation manages, invests and administers the donor restricted endowment funds in accordance with the Uniform Prudent Management of Institutional Funds Act. Endowment investments are subject to the restriction of gift instruments requiring that the principal be invested in perpetuity and the income be utilized in accordance with the terms of each specific gift. It is the Foundation's policy to account for endowment appreciation in accordance with donor specification. Appreciation on donor restricted endowments is included in restricted expendable net position in the accompanying financial statements. The Board of Directors of the Foundation authorizes an amount of appropriation and expenditure of the funds each fiscal year in accordance with donor specifications and the Act.

(h) *Annuities Payable*

Annuities payable are created when assets are contributed to the Foundation on condition that the Foundation obligate itself to pay stipulated amounts periodically to designated annuitants. Annuities

Notes to the Financial Statements

payable are recorded at the present value of the expected future cash payments to the annuitants. Changes in the life expectancy of the donor or annuitant, amortization of the discount and other changes in the estimates of future payments are reported as an adjustment to actuarial liability for annuities payable in the accompanying statements of revenues, expenses and changes in net position.

(i) *New Accounting Standards Adopted*

In fiscal year 2016, the Foundation adopted GASB Statement No. 72, *Fair Value Measurements and Application* (GASB 72). The statement addresses accounting and financial reporting issues related to fair value measurements of assets and liabilities. GASB 72 identifies various approaches to measuring fair value and levels of inputs based on the objectivity of the data used to measure fair value. It provides additional fair value application guidance and requires enhanced disclosures about fair value measurements. The impact on the financial statements was note disclosure only.

The Foundation adopted GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. The statement addresses accounting and financial reporting for certain external investment pools and pool participants and establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The State of New Jersey Cash Management Fund measures investments at fair value. The Foundation records its investment in the State of New Jersey Cash Management Fund in cash equivalents in the accompanying financial statements. There was no change in the measurement of the Foundation's cash equivalents in the pool, which was at fair value as of June 30, 2016 and 2015.

(j) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

(k) *Reclassification of Prior Year Presentation*

Certain prior year amounts in the financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on the reported results of operations.

(3) *Cash and Cash Equivalents*

The carrying amount of cash as of June 30, 2016 and 2015 was \$899,507 and \$954,554, respectively, while the amount on deposit with a bank was \$912,375 and \$963,231, respectively.

Custodial credit risk associated with the Foundation's cash and cash equivalents includes uncollateralized deposits, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Foundation's name. The Foundation's bank deposits as of June 30, 2016 and 2015 were insured by Federal Depository Insurance up to \$250,000. Bank balances as of June 30, 2016 and 2015 of \$662,375 and \$713,231, respectively, were uninsured and uncollateralized.

The Foundation participates in the State of New Jersey Cash Management Fund wherein amounts also contributed by other state entities are combined into a large scale investment program. The carrying amount and fair value as of June 30, 2016 and 2015 was \$373,115 and \$372,209, respectively.

Notes to the Financial Statements

The operations of the State of New Jersey Cash Management Fund are governed by statutes of the State of New Jersey and the provisions of the State Investment Council Regulations for the purpose of determining authorized investments. The fair value of the State of New Jersey Cash Management Fund is based on the quoted market price on an inactive market as of the measurement date. The Cash Management Fund is classified as level 2 within the fair value hierarchy. The Cash Management Fund is unrated with an average portfolio maturity of less than one year.

(4) Investments

The Foundation has an investment policy which establishes guidelines for permissible investments. The primary investment objective is to preserve and increase the value of endowment funds and maximize the long-term total rate of return on all invested assets while assuming a level of risk consistent with prudent investment practices for such funds. The Foundation may invest in obligations of the U.S. Government, certificates of deposit, money market funds, equities and stock funds, bonds and bond funds, and alternative investments. Investments consist of the following as of June 30, 2016 and 2015:

Investments		
	2016	2015
Cash and cash equivalents	\$ 2,659,621	3,926,682
U.S. Treasury bills and notes and Government agencies	2,353,729	2,414,228
Corporate bonds	634,598	567,232
Equity securities	18,150,092	18,421,794
Mutual funds	7,465,037	4,740,941
Exchange-traded funds	484,837	361,560
Alternative investments:		
Private equity	547,471	497,173
Hedge fund	308,064	350,948
Managed futures	215,628	209,043
Common trust funds	612,309	748,887
	<u>\$ 33,431,386</u>	<u>32,238,488</u>

The Foundation's investments are subject to various risks. Among these risks are credit risk and interest rate risk. Each one of these risks is discussed in more detail below.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investors Service, Inc. (Moody's).

Within the Foundation's investment policy guidelines, the policy gives investment money managers and investment funds full responsibility for security selection, diversification, turnover and allocation of holdings among selected securities and industry groups.

Notes to the Financial Statements

The following are guidelines to be followed by the investment advisors in the selection of investment money managers:

- Domestic equities may be selected from the New York, American and Regional Stock Exchanges, or the NASDAQ markets. The cost of an individual security in the portfolio at purchase may not exceed 5% of the total market value of that portfolio. Individual securities held in a portfolio must not exceed 5% of the portfolio on a cost basis. Mutual funds and investment money managers are not to be included in this limitation.
- Only international managers experienced in trade on foreign exchanges shall handle investments in international equities.
- Managers may use a mutual fund as a means of participating in international equities, with prior approval of the Investment Committee.
- Managers may invest in commercial paper, bankers' acceptances, repurchase agreements, Treasury Bills, certificates of deposit, and money market funds to provide income, liquidity for expense payments, and preservation of the portfolio's principal value. All such assets must represent maturities of one year or less at the time of purchase.
- Commercial paper must be rated A-1 or P-1 by Standard & Poor's and Moody's, respectively.
- Bankers' acceptances and certificates of deposit should only be purchased from larger, well-capitalized domestic and foreign banks with a minimum of an A rating from one of the major rating agencies. Uninvested cash reserves should be kept to minimum levels. In any instance where the total funds on deposit with a financial institution exceeds the insurance coverage provided by the FDIC or FSLIC, collateral security or its equivalent shall be required.
- Fixed income investments will include U.S. Treasury and Federal agency debt obligations, corporate bonds, mortgages, asset backed securities and preferred stocks. By design, the managers should focus on fixed income securities of the highest quality, thereby reducing investment risk. With the exception of Federal Government issues, no single issue should exceed 4% and no industry group should exceed 10% of the aggregate fixed income portfolio without the Investment Committee's prior approval. The average credit quality of the fixed income or convertible portfolio should be rated investment grade or better. The average maturity of the fixed income portfolio may not exceed 12 years and the average duration of the fixed income portfolio should not exceed 10 years.

Notes to the Financial Statements

As of June 30, 2016, the Foundation's fixed income investments, which consist of U.S. Treasury bills and notes, U.S. Government agencies, and corporate bonds, were rated as follows:

Fixed Income Investments Ratings 2016				
Rating	Total	U.S. Treasury bills and notes	U.S. Government agencies	Corporate bonds
Aaa	\$ 2,441,502	1,410,585	943,144	87,773
Aa2	16,205	—	—	16,205
Aa3	8,033	—	—	8,033
A1	47,525	—	—	47,525
A2	75,288	—	—	75,288
A3	148,677	—	—	148,677
Baa1	168,764	—	—	168,764
Baa2	64,172	—	—	64,172
Baa3	18,161	—	—	18,161
Total	\$ 2,988,327	1,410,585	943,144	634,598

As of June 30, 2015, the Foundation's fixed income investments, which consist of U.S. Treasury bills and notes, U.S. Government agencies, and corporate bonds, were rated as follows:

Fixed Income Investments Ratings 2015				
Rating	Total	U.S. Treasury bills and notes	U.S. Government agencies	Corporate bonds
Aaa	\$ 2,479,593	1,504,901	909,327	65,365
Aa1	30,080	—	—	30,080
Aa2	20,040	—	—	20,040
Aa3	22,843	—	—	22,843
A1	35,208	—	—	35,208
A2	85,575	—	—	85,575
A3	119,226	—	—	119,226
Baa1	102,870	—	—	102,870
Baa2	50,791	—	—	50,791
Baa3	24,474	—	—	24,474
Ba1	10,760	—	—	10,760
Total	\$ 2,981,460	1,504,901	909,327	567,232

Notes to the Financial Statements

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. The Foundation's investment policy provides limitations in the maturities of various types of investments. As of June 30, 2016, the Foundation's fixed income investments, which consist of U.S. Treasury bills and notes, U.S. Government agencies, and corporate bonds, had maturity dates as follows:

Fixed Income Investments Maturity 2016				
Maturing in years	Total	U.S. Treasury bills and notes	U.S. Government agencies	Corporate bonds
Less than 1	\$ 99,558	50,105	—	49,453
1 – 5	1,085,696	715,171	88,520	282,005
6 – 10	601,739	417,594	11,264	172,881
Greater than 10	1,201,334	227,715	843,360	130,259
Total	\$ 2,988,327	1,410,585	943,144	634,598

As of June 30, 2015, the Foundation's fixed income investments, which consist of U.S. Treasury bills and notes, U.S. Government agencies, and corporate bonds, had maturity dates as follows:

Fixed Income Investments Maturity 2015				
Maturing in years	Total	U.S. Treasury bills and notes	U.S. Government agencies	Corporate bonds
Less than 1	\$ 146,775	97,302	49,473	—
1 – 5	895,562	550,698	88,257	256,607
6 – 10	923,078	687,268	11,651	224,159
Greater than 10	1,016,045	169,633	759,946	86,466
Total	\$ 2,981,460	1,504,901	909,327	567,232

Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the financial statement measurement date. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1 – unadjusted quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date

Notes to the Financial Statements

- Level 2 – quoted prices other than those included within Level 1 and other inputs that are observable for an asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for an asset or liability

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3. When the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level that is significant to the entire measurement.

While the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following is a description of the valuation methodologies used for instruments measured at fair value:

- U.S. Treasury bills and notes – The fair value of U.S. Treasury bills and notes are based on prices quoted in active markets for those securities.
- U.S. Government agencies – The fair value of government agencies are based on a multi-dimensional relational model. Standard inputs to the pricing model for the Level 2 debt securities include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data.
- Corporate bonds – The fair value of corporate bonds are based on a multi-dimensional relational model. Standard inputs to the pricing methods for the Level 2 debt securities include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data.
- Equity securities – The fair value of equity securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker-dealers. These investments are classified as Level 1. Equity securities classified in Level 2 of the fair value hierarchy are valued at quoted market prices in the over-the-counter (inactive) market. The price used as the fair value may be from a market transaction or a bid or ask price in the market that did not result in a transaction.
- Mutual funds – The fair value of mutual funds is the market value based on quoted market prices, when available, or market prices provided by recognized broker-dealers.
- Exchange-traded funds – The fair value of exchange-traded funds are based on the quoted market price on an active market as of the measurement date.
- Alternative investments – Alternative investments are valued using current estimates of fair value obtained from the investment manager in the absence of readily determinable public market values. The estimated fair value of these investments is based on the most recent valuations provided by external investment managers. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.
- Cash and cash equivalent – These investments are measured at amortized cost and have been excluded from fair value leveling.

Notes to the Financial Statements

The Foundation's investments at June 30, 2016 are summarized in the following table by their fair value hierarchy:

Investments Measured at Fair Value 2016				
Investment	Total	Fair value measurements using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>Investments by fair value level</i>				
U.S. Treasury bills and notes	\$ 1,410,585	1,410,585	—	—
U.S. Government agencies	943,144	—	943,144	—
Corporate bonds	634,598	—	634,598	—
Equity securities	18,150,092	18,141,064	9,028	—
Mutual funds	7,465,037	7,465,037	—	—
Exchange-traded funds	484,837	484,837	—	—
Total investments by fair value level	29,088,293	27,501,523	1,586,770	—
<i>Investments measured at net asset value (NAV)</i>				
Private equity	547,471			
Hedge fund	308,064			
Managed futures	215,628			
Common trust funds	612,309			
Total investments measured at NAV	1,683,472			
Total investments measured at fair value	\$ 30,771,765			

Notes to the Financial Statements

The Foundation's investments at June 30, 2015 are summarized in the following table by their fair value hierarchy:

Investments Measured at Fair Value 2015				
Investment	Total	Fair value measurements using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>Investments by fair value level</i>				
U.S. Treasury bills and notes	\$ 1,504,901	1,504,901	—	—
U.S. Government agencies	909,327	—	909,327	—
Corporate bonds	567,232	—	567,232	—
Equity securities	18,421,794	18,421,738	56	—
Mutual funds	4,740,941	4,740,941	—	—
Exchange-traded funds	361,560	361,560	—	—
Total investments by fair value level	26,505,755	25,029,140	1,476,615	—
<i>Investments measured at net asset value (NAV)</i>				
Private equity	497,173			
Hedge fund	350,948			
Managed futures	209,043			
Common trust funds	748,887			
Total investments measured at NAV	1,806,051			
Total investments measured at fair value	\$ 28,311,806			

Notes to the Financial Statements

The fair value as of June 30, 2016 and 2015 and redemption terms for investments measured at the net asset value (NAV) per share (or its equivalent) is presented in the following table.

Investments Measured at NAV					
Investment	Fair value		Redemption restriction	Redemption frequency (if currently eligible)	Redemption notice period
	2016	2015			
Private equity	\$ 547,471	497,173	Quarterly redemption limit	Quarterly	65 days
Hedge fund	308,064	350,948	Quarterly redemption limit	Quarterly	67 days
Managed futures	215,628	209,043	None	Semi-monthly	8 days
Common trust funds	612,309	748,887	Cannot be redeemed	N/A	N/A
Total investments measured at NAV	\$ <u>1,683,472</u>	<u>1,806,051</u>			

As of June 30, 2016 and 2015, the Foundation had no unfunded commitments for investments measured at NAV.

The investment strategy, valuation method and redemption terms for the investments measured as NAV are discussed below.

Private equity: This type is an investment in one multi-strategy private equity fund that invests in direct, secondary and primary private equity investments across a range of geographic markets, investment types and vintage years. The objective of the fund is to generate returns by systematically overweighting the vehicles, segments and opportunities it believes offer the best relative value at a point in time. Redemptions may be requested quarterly by tender offer with 65 days' notice. The fund's board of managers has the sole discretion to repurchase units from a tender offer due to the illiquid nature of the fund. The fund limits the redemptions each quarter to no more than 5% of the fund's net asset value. The fair value of the investment in this type has been determined using the NAV per share (or its equivalent) of the investment.

Hedge fund: This type is an investment in one multi-manager fund of funds that invests in investment funds managed by third-party investment managers that employ a variety of alternative investment strategies including directional equity, directional macro, event driven and relative value. Redemptions may be requested quarterly by tender offer with 67 calendar days' notice. The fund's board of directors has the sole discretion to repurchase units with a tender offer. The fund limits the redemptions each quarter to 5-25% of the fund's net asset value. The fair value of the investment in this type has been determined using the NAV per share (or its equivalent) of the investment.

Managed futures: This type is an investment in one fund that engages in systematic speculative trading of futures and forward contracts on a wide range of commodities including agriculture, currencies, energy, interest rates, metals and stock indices. The fund employs both short-term trading and long-term trend-following strategies using multiple time frames. Redemptions may be requested semi-monthly with 8

Notes to the Financial Statements

business days' notice. There are no restrictions or limits on redemptions. The fair value of the investment in this type has been determined using the NAV per share (or its equivalent) of the investment.

Common trust funds: This type consists of investments in ten common trust funds that invest in a variety of debt and equity strategies including small- and mid-cap growth and value, emerging markets, international equities, dividend income, high quality equities and aggregate bonds. These funds are held within an irrevocable trust of which the Foundation is a beneficiary. The investments in these common trust funds cannot be redeemed. The Foundation is currently receiving income earned on the investments. Distributions from the liquidation of the underlying assets are unknown at this time. The fair value of the investment in this type has been determined using the NAV per share (or its equivalent) of the investment.

(5) Transactions with Affiliates

The Foundation approved disbursements to the College for support of restricted private grants, departments, and donated capital assets of \$3,489,590 and \$3,397,096 during fiscal years 2016 and 2015, respectively. The College provides certain administrative functions on behalf of the Foundation. The costs were not charged to the Foundation in fiscal years 2016 and 2015. Due to The College of New Jersey included in the statements of net position for the years ended 2016 and 2015 were \$596,883 and \$1,323,245, respectively. The following table shows the contributions to the College for fiscal years 2016 and 2015:

Transactions with Affiliates		
	2016	2015
Restricted funds – Private grants	\$ 1,993,209	1,237,784
Institutional scholarship support	856,947	1,050,000
Restricted funds – Departmental transfers	624,682	987,390
Gifts in kind	14,752	121,922
Total	\$ 3,489,590	3,397,096

(6) Funds Held in Trust

Funds held in trust by others and not in the possession of, nor under the control of, the Foundation are not included in the Foundation's cash and cash equivalents and investments. In fiscal year 2015, the Foundation was named the beneficiary of a trust whose investments fair value approximated \$6,180,000 and \$6,587,000 as of June 30, 2016 and 2015, respectively.

Notes to the Financial Statements

(7) Noncurrent Liabilities

For the years ended June 30, 2016 and 2015, noncurrent liabilities activity was as follows:

Noncurrent Liabilities Activity					
2016	Beginning balance	Additions	Reductions	Ending balance	Current portion
Noncurrent liabilities:					
Annuities payable	\$ 2,940,790	587,995	371,199	3,157,586	401,056
Total noncurrent liabilities	\$ 2,940,790	587,995	371,199	3,157,586	401,056
2015	Beginning balance	Additions	Reductions	Ending balance	Current portion
Noncurrent liabilities:					
Annuities payable	\$ 2,472,090	837,499	368,799	2,940,790	371,057
Total noncurrent liabilities	\$ 2,472,090	837,499	368,799	2,940,790	371,057

(8) Risk Management

The Foundation is exposed to various risks of loss. The Foundation maintains a policy with Directors and Officers Liability and Entity Liability Coverage and an Employment Practices Liability Coverage. The combined maximum aggregate limit of liability for all claims under this policy is \$3,000,000.

The insurance policy is renewed on an annual basis. There has been no decrease in insurance coverage during the current year. There have been no settlements in excess of insurance coverage in the past three years.