



ROWAN UNIVERSITY FOUNDATION
(A Component Unit of Rowan University)

Basic Financial Statements and
Management's Discussion and Analysis

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

ROWAN UNIVERSITY FOUNDATION
(A Component Unit of Rowan University)

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KPMG LLP
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Independent Auditors' Report

The Board of Directors
Rowan University Foundation:

We have audited the accompanying financial statements of Rowan University Foundation (the Foundation), a component unit of Rowan University, 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 respective financial position of Rowan University Foundation, as of June 30, 2016 and 2015, and the respective changes in its financial position and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

Adoption of New Accounting Pronouncements

As discussed in note 1(k) to the basic financial statements, as of July 1, 2014, the Foundation adopted Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application* and Governmental Accounting Standards Board Statement No. 80, *Blending Requirements for Certain Component Units*. 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 8 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

November 16, 2016

ROWAN UNIVERSITY FOUNDATION
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Management's Discussion and Analysis (Unaudited)
June 30, 2016 and 2015

Introduction

This section of Rowan University Foundation's (the Foundation) financial statements presents our discussion and analysis of the Foundation's financial performance during the fiscal years that ended on June 30, 2016 and 2015, and comparative amounts for the year ended June 30, 2014. Since this discussion and analysis is designed to focus on current activities, it should be read in conjunction with the Foundation's basic financial statements, which follow this section.

Basic Financial Statements

The Foundation's basic financial statements include three financial statements: Statements of Net Position; Statements of Revenues, Expenses, and Changes in Net Position; and Statements of Cash Flows, which have been prepared in accordance with Governmental Accounting Standards Board (GASB) principles. These statements present the Foundation's operations and focus on its assets, liabilities, deferred outflows and inflows of resources, revenues, expenses, and cash flows on an entity-wide basis. The basic financial statements also include notes to the financial statements.

On August 14, 2014, the Foundation, as sole member, formed the Rowan Innovation Venture Fund (the Fund) as a legally separate limited liability corporation. The primary purpose of the corporation is to establish, develop, own, manage, operate and administer a seed and early stage venture capital fund to support and leverage the innovation talents and ideas of the members of the Rowan University (the University) community and to accelerate the impact of the University on the economic development of Southern New Jersey.

In 2016, the Foundation adopted GASB Statement No. 80, *Blending Requirements for Certain Component Units* (GASB 80). The statement amends the blending requirements for financial statement presentation of component units of all state and local governments to include an additional criterion that requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The Foundation has elected to early adopt GASB 80 and, as such, the Fund, which was previously discretely presented in a separate column, has been blended into the Foundation's financial statements.

Statements of Net Position

The Statements of Net Position present the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the Foundation as of the end of the fiscal year. The Statements of Net Position are point of time financial statements. The purpose of the Statements of Net Position is to present to the readers of the financial statements a fiscal snapshot of Rowan University Foundation. The Statements of Net Position present end-of-the-year data concerning assets (current and noncurrent), deferred outflows of resources, liabilities (current and noncurrent), deferred inflows of resources, and net position.

Net position is one indicator of the current financial condition of the Foundation while the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year.

From the data presented, readers of the Statements of Net Position are able to determine the assets available to continue the operations of the Foundation. They are also able to determine how much the Foundation owes vendors, investors, and lending institutions. Finally, the Statements of Net Position provide a picture of the net position (assets plus deferred outflows of resources minus liabilities minus deferred inflows of resources) and their availability for expenditure by the Foundation.

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June 30, 2016 and 2015

Net position of the Foundation is divided into three major categories. The first category is restricted net position, which is divided into two categories, nonexpendable and expendable. The corpus of restricted nonexpendable net position is only available for investment purposes. Restricted expendable net position is available for expenditure by the Foundation but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position. Unrestricted net position is available to the Foundation for any lawful purpose of the Foundation.

A summary of the Foundation's assets, liabilities, and net position as of June 30, 2016, 2015 and 2014 follows:

	<u>2016</u>	<u>2015*</u>	<u>2014</u>
		(In thousands)	
Current assets	\$ 8,889	10,660	10,109
Noncurrent assets	181,177	180,730	181,206
Total assets	<u>\$ 190,066</u>	<u>191,390</u>	<u>191,315</u>
Current liabilities	\$ 2,372	1,597	462
Noncurrent liabilities	1,683	1,586	1,545
Total liabilities	<u>\$ 4,055</u>	<u>3,183</u>	<u>2,007</u>
Net position:			
Restricted nonexpendable	\$ 126,454	116,772	113,143
Restricted expendable for:			
Inductotherm Scholarships	199	103	177
Other scholarships	9,277	8,750	7,318
College of Business	—	—	4,153
Other	7,652	10,933	10,631
Unrestricted	<u>42,429</u>	<u>51,649</u>	<u>53,886</u>
Total net position	<u>\$ 186,011</u>	<u>188,207</u>	<u>189,308</u>

* 2015 amounts were restated to reflect the balances and transactions of the Fund to reflect the implementation of GASB 80. The Fund did not exist in 2014.

Current assets consist of cash and cash equivalents, prepaid assets, and the current portion of contributions receivable. Noncurrent assets consist of investments and noncurrent contributions receivable. Current liabilities consist of accounts payable and accrued expenses, amounts due to Rowan University, unearned revenue and the current portion of annuities payable; noncurrent liabilities consist of deposits held in custody for Rowan University Alumni Association as well as the noncurrent portion of annuities payable.

Fiscal Year 2016 Compared to Fiscal Year 2015

The decrease in total assets of \$1,323,279 is primarily attributed to a decrease in contributions receivable of \$1,162,860 mainly due to the receipt of the Inductotherm Scholarship funding of \$963,234.

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The increase in total liabilities of \$872,234 is mainly attributed to an increase in the amount due to Rowan University of \$528,561 related to the \$1,491,795 of funding received from the Robert Wood Johnson Foundation that has not yet been paid to Rowan University, which was offset by the \$963,234 payment made to Rowan for the Inductotherm Scholarships. In addition, unearned revenue increased \$145,590 due to additional cash received from the Robert Wood Foundation grant, however not yet earned, and accounts payable and accrued expenses increased \$94,183 due to timing of payments to vendors.

The total net position decreased \$2,195,513. Nonexpendable net position increased \$9,681,972. Expendable restricted net position decreased \$2,657,616. Unrestricted net position decreased \$9,219,869 during the period.

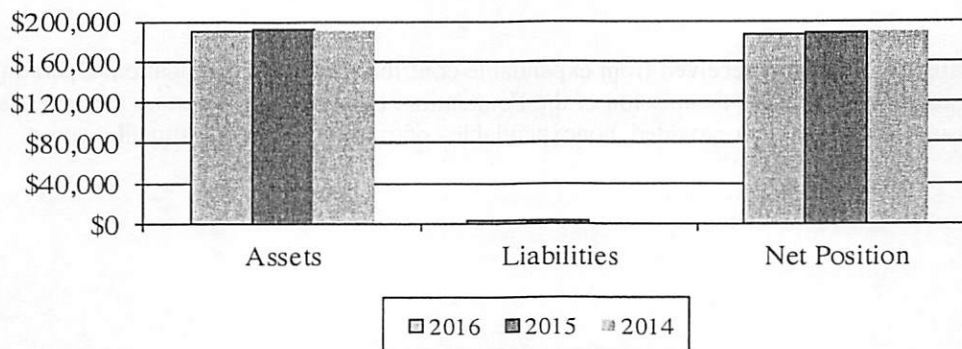
Fiscal Year 2015 Compared to Fiscal Year 2014

The increase in total assets of \$74,301 is primarily attributed an increase in cash and cash equivalents of \$719,597, an increase in investments of \$3,235,306, an increase in other contributions receivable of \$272,603 offset by a decrease in contributions receivable due to the redesignation of the William G. Rohrer fund for Excellence in Business to a permanent endowment fund in the amount of \$4,153,205.

The increase in total liabilities of \$1,175,568 is attributed to an increase of \$963,234 in due to Rowan University, an increase of \$171,592 in unearned revenue, an increase of \$48,871 in deposits held in custody for Rowan University Alumni Association and an increase of \$1,447 in accounts payable and accrued expenses, offset by a decrease of \$9,576 in annuities payable.

The total net position decreased \$1,101,267. Nonexpendable net position increased \$3,629,026. Expendable restricted net position decreased \$2,493,853. Unrestricted net position decreased \$2,236,440 during the period.

Summary of Statement of Net Position For the Years Ended June 30 (In thousands)

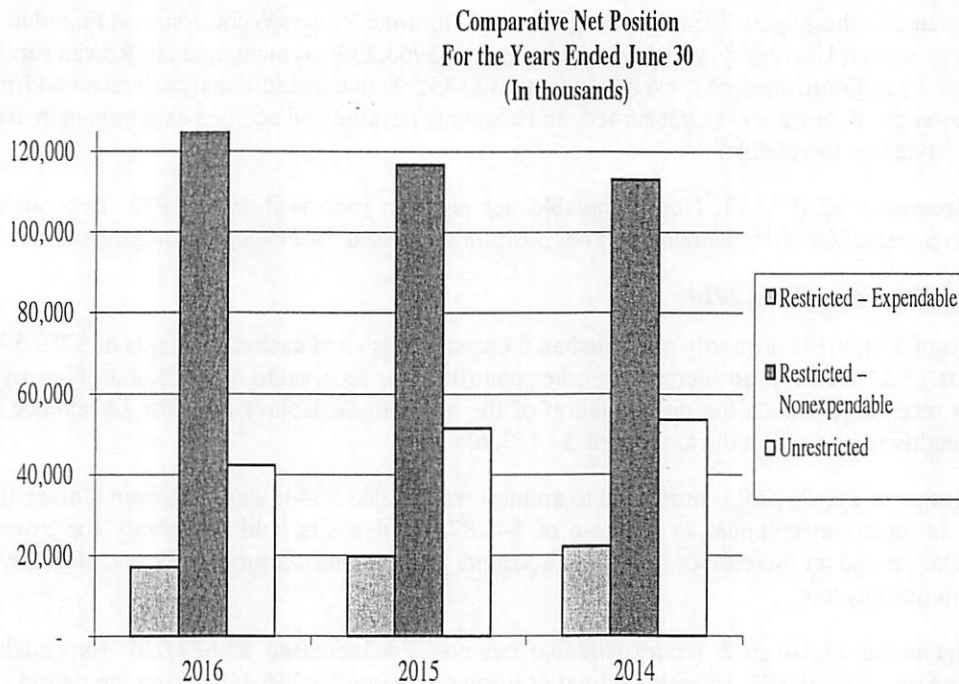


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Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015



Statements of Revenues, Expenses, and Changes in Net Position

Changes in total net position as presented on the Statements of Net Position are based on the activity presented in the Statements of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues received by the Foundation, both operating and nonoperating, and the expenses paid by the Foundation, operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the Foundation.

Generally speaking, operating revenues are received from expendable contributions to the Foundation. Operating expenses are those expenses paid to carry out the mission of the Foundation. Nonoperating revenues are revenues received for which goods and services are not provided, nonexpendable contributions, and investment income.

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The Statements of Revenues, Expenses, and Changes in Net Position present the Foundation's results of operations. A summary of the Foundation's revenues, expenses, and changes in net position for the years ended June 30, 2016, 2015 and 2014 follows:

	<u>2016</u>	<u>2015*</u>	<u>2014</u>
		(In thousands)	
Operating revenues:			
Contributions	\$ 6,687	3,916	5,857
Fund raising events	112	93	123
Total operating revenues	<u>6,799</u>	<u>4,009</u>	<u>5,980</u>
Operating expenses:			
Materials and supplies	46	13	16
Professional and other services	677	379	405
Other	21	27	28
Grants and scholarships	14,362	10,174	10,051
Total operating expenses	<u>15,106</u>	<u>10,593</u>	<u>10,500</u>
Operating loss	<u>(8,307)</u>	<u>(6,584)</u>	<u>(4,520)</u>
Nonoperating revenues (expenses):			
Investment income	(3,305)	6,304	27,400
Investment expenses	(210)	(212)	(159)
Adjustment to actuarial liability for annuities payable	(56)	(11)	8
Pledge redesignated by donor	<u>—</u>	<u>(4,153)</u>	<u>—</u>
Net nonoperating (expenses) revenues	<u>(3,571)</u>	<u>1,928</u>	<u>27,249</u>
(Loss) income before other revenues	(11,878)	(4,656)	22,729
Additions to permanent endowments	<u>9,682</u>	<u>3,555</u>	<u>2,126</u>
(Decrease) increase in net position	<u>(2,196)</u>	<u>(1,101)</u>	<u>24,855</u>
Net position as of beginning of year	<u>188,207</u>	<u>189,308</u>	<u>164,453</u>
Net position as of end of year	\$ <u>186,011</u>	<u>188,207</u>	<u>189,308</u>

* 2015 amounts were restated to reflect the balances and transactions of the Fund to reflect the implementation of GASB 80. The Fund did not exist in 2014.

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Fiscal Year 2016 Compared to Fiscal Year 2015

Operating revenues increased \$2,789,954 due primarily to an increase in operating contributions of \$2,771,131. Operating expenses increased \$4,512,668. Within operating expenses grants and scholarships increased \$4,187,317 due to the funding of additional scholarships to Rowan University.

Net nonoperating revenues decreased \$5,498,488. This decrease is largely attributed to a decrease in investment income of \$9,609,519 due primarily to the market fluctuation, offset by a non-recurring reduction of revenues of \$4,153,205 recognized in fiscal year 2015 due to the redesignation of contribution revenue related to the William G. Rohrer Fund for Excellence in Business to an endowment fund by the donor.

Permanent endowment contributions for 2016 were \$9,681,972. This is a \$6,126,956 increase from the year ended June 30, 2015. The Foundation received the following contributions during 2016: \$4,000,000 for the Henry M. Rowan College of Engineering Endowment; \$1,000,000 for to the Henry M. Rowan College of Engineering Endowment for Engineering Scholarships; \$1,000,000 for the Inspira Health Network Endowment; and \$1,000,000 for the Camden Medical School at Rowan University Loan Assistance Program.

Fiscal Year 2015 Compared to Fiscal Year 2014

Operating revenues decreased \$1,971,156 due primarily to a decrease in operating contributions of \$1,941,261. Operating expenses increased \$93,724. Within operating expenses materials and supplies decreased \$2,947, professional and other services decreased \$25,893, other expenses decreased \$1,082, and grants and scholarships increased \$123,646.

Net nonoperating (expenses) revenues decreased \$25,320,482. This increase is largely attributed to a decrease in investment income of \$21,095,466. Investment expenses increased \$52,656 and the adjustment to actuarial liability for annuities payable increased \$19,155. Further, contribution revenue related to the William G. Rohrer Fund for Excellence in Business decreased \$4,153,205 due to the redesignation to an endowment fund by the donor.

Permanent endowment contributions for 2015 were \$3,555,016. This is a \$1,428,611 increase from the year ended June 30, 2014.

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Statements of Net Position

June 30, 2016 and 2015

Assets	2016	2015
Current assets:		
Cash and cash equivalents (note 2)	\$ 6,130,786	7,183,726
Restricted cash and cash equivalents (note 2)	2,446,776	2,359,501
Prepaid assets	3,600	—
Contributions receivable, net (note 3)	83,361	1,905
Restricted contributions receivable, net (note 3)	224,854	1,114,664
Total current assets	<u>8,889,377</u>	<u>10,659,796</u>
Noncurrent assets:		
Investments, at fair value (note 2)	38,027,195	46,968,851
Restricted investments, at fair value (note 2)	15,705,939	15,644,609
Restricted nonexpendable investments, at fair value (note 2)	126,454,072	116,772,100
Contributions receivable, net (note 3)	18,149	7,092
Restricted contributions receivable, net (note 3)	971,831	1,337,394
Total noncurrent assets	<u>181,177,186</u>	<u>180,730,046</u>
Total assets	<u>190,066,563</u>	<u>191,389,842</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	179,671	85,488
Due to Rowan University	1,491,795	963,234
Unearned revenue	676,659	531,069
Annuities payable	23,880	17,450
Total current liabilities	<u>2,372,005</u>	<u>1,597,241</u>
Noncurrent liabilities (note 5):		
Deposits held in custody for Rowan University Alumni Association	1,533,237	1,463,683
Annuities payable	149,931	122,015
Total noncurrent liabilities	<u>1,683,168</u>	<u>1,585,698</u>
Total liabilities	<u>4,055,173</u>	<u>3,182,939</u>
Net Position		
Restricted:		
Nonexpendable (note 6)	126,454,072	116,772,100
Expendable:		
Inductotherm scholarships	199,034	102,656
Other scholarships	9,277,434	8,750,207
Other	7,651,550	10,932,771
Unrestricted	42,429,300	51,649,169
Total net position	<u>\$ 186,011,390</u>	<u>188,206,903</u>

See accompanying notes to basic financial statements.

ROWAN UNIVERSITY FOUNDATION
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Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Contributions (note 3)	\$ 6,686,654	3,915,523
Fundraising events	<u>111,937</u>	<u>93,114</u>
Total operating revenues	<u>6,798,591</u>	<u>4,008,637</u>
Operating expenses:		
Materials and supplies	45,930	13,368
Professional and other services	676,907	378,791
Other	21,285	26,612
Grants and scholarships:		
Grants to Rowan University (note 4)	11,888,095	8,110,814
Student scholarships	2,413,046	2,015,009
Other grants	<u>60,569</u>	<u>48,570</u>
Total operating expenses	<u>15,105,832</u>	<u>10,593,164</u>
Operating loss	<u>(8,307,241)</u>	<u>(6,584,527)</u>
Nonoperating revenues (expenses):		
Investment (loss) income, net of investment expenses	(3,514,396)	6,092,921
Adjustment to actuarial liability for annuities payable	(55,848)	(11,472)
Pledge redesignated by donor	<u>—</u>	<u>(4,153,205)</u>
Net nonoperating (expenses) revenues	<u>(3,570,244)</u>	<u>1,928,244</u>
Loss before other revenues	(11,877,485)	(4,656,283)
Additions to permanent endowments	<u>9,681,972</u>	<u>3,555,016</u>
Decrease in net position	(2,195,513)	(1,101,267)
Net position as of beginning of year	<u>188,206,903</u>	<u>189,308,170</u>
Net position as of end of year	<u>\$ 186,011,390</u>	<u>188,206,903</u>

See accompanying notes to basic financial statements.

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Statements of Cash Flows

Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Payments to suppliers	\$ (653,539)	(417,324)
Payments for grants and scholarships	(12,813,623)	(9,211,159)
Contributions	6,975,578	3,814,512
Receipts from Rowan University Alumni Association	121,025	39,599
Fundraising events	111,937	93,114
Net cash used by operating activities	<u>(6,258,622)</u>	<u>(5,681,258)</u>
Cash flows from noncapital financing activities:		
Contributions to permanent endowments	9,681,972	3,555,016
Payments to annuitants	(21,502)	(21,048)
Net cash provided by noncapital financing activities	<u>9,660,470</u>	<u>3,533,968</u>
Cash flows from investing activities:		
Investment income	2,579,011	2,033,184
Purchases of investments	(13,997,652)	(14,544,758)
Sales of investments	7,051,128	15,378,461
Net cash (used by) provided by investing activities	<u>(4,367,513)</u>	<u>2,866,887</u>
Net (decrease) increase in cash and cash equivalents	(965,665)	719,597
Cash and cash equivalents as of beginning of the year	9,543,227	8,823,630
Cash and cash equivalents as of end of the year	<u>\$ 8,577,562</u>	<u>9,543,227</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (8,307,241)	(6,584,527)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Noncash transactions:		
Unrealized loss/(gain) on deposits held in custody	51,471	(9,272)
Changes in assets and liabilities:		
Prepaid assets	(3,600)	—
Contributions receivable	1,162,860	(272,603)
Accounts payable and accrued expenses	94,183	1,447
Due to Rowan University	528,561	963,234
Unearned revenue	145,590	171,592
Deposits held in custody for Rowan University Alumni Association	69,554	48,871
Net cash used by operating activities	<u>\$ (6,258,622)</u>	<u>(5,681,258)</u>
Noncash transactions:		
Grants to Rowan University:		
Supplies	\$ 29,480	—
Equipment	20,000	10,000
Land	955,046	—
Musical instrument	15,000	—
Adjustment to actuarial liability for annuities payable	(55,848)	(11,472)
Pledge redesignated by donor	—	(4,153,205)
(Decrease)/increase in fair value of investments	(6,093,407)	4,059,737

See accompanying notes to basic financial statements.

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Notes to Basic Financial Statements

June 30, 2016 and 2015

(1) Organization and Summary of Significant Accounting Policies

Organization

Rowan University Foundation (the Foundation) was created to assist the board of trustees and the President of Rowan University (the University) in their efforts to achieve and advance the mission of the University. The Foundation's board of directors is appointed by the board of trustees of the University. The primary purpose of the Foundation is to raise money and obtain gifts-in-kind and to channel those monies and gifts to the University in meeting its educational mission. Although the University does not control the timing or amount of receipts from the Foundation, the resources the Foundation holds are invested and used exclusively for the benefit, support, and promotion of the University and its students for educational activities. The Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The Foundation is an organization described under Section 501(c)(3) of the Internal Revenue Code and therefore exempt from Federal income taxes under Section 501(a) of the Code.

On August 14, 2014, the Rowan Innovation Venture Fund (the Fund) was formed as a legally separate, single member limited liability corporation whose sole member is the Foundation. The Fund is managed by or under the direction of the Fund's Board of Managers as appointed by the Foundation. Further, the Foundation is able to impose its will on the Fund by influencing its activities and is legally entitled to or can otherwise access the Fund's resources. Because the Foundation is financially accountable for the Fund, the Fund is considered a component unit of the Foundation. The primary purpose of the Fund is establishing, developing, owning, managing, operating and administering a seed and early stage venture capital fund to support and leverage the innovation talents and ideas of the members of the Rowan University community and to accelerate the impact of the University on the economic development of Southern New Jersey. As the Fund is organized as a not-for-profit corporation for which the Foundation is the sole member, its activities are blended into the totals of the Foundation. See Note 1(k) for further information. The Fund is treated as a disregarded entity by the Foundation under Treasury Regulations Sections 301.7701-1 through 301.7701-3 as it is a limited liability corporation with a single owner. Accordingly, the Fund is recognized as a tax-exempt entity as described in Section 501(c)(3).

Summary of Significant Accounting Policies

(a) Basis of Presentation

The accounting policies of the Foundation conform to U.S. generally accepted accounting principles. The Foundation reports are based on all applicable Governmental Accounting Standards Board (GASB) pronouncements.

The Foundation classifies net position into the following:

- **Restricted:**

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

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Expendable – Net position whose use by the Foundation is subject 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. Unrestricted net position may be designated for specific purposes by action of management or 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 apply the expense towards restricted resources and then towards unrestricted resources.

(b) *Measurement Focus and Basis of Accounting*

The accompanying financial statements have been prepared on the accrual basis of accounting utilizing the economic resources measurement focus. The Foundation reports as a business-type activity, as defined by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

(c) *Revenue Recognition*

Contributions, including pledges other than endowment, are recognized when all eligibility requirements for recognition are met, which generally is the period the amount is donated to the Foundation. Additions to permanent endowment are recognized upon receipt. Investment and other income is recognized in the period earned. Unconditional promises to give which are to be received in future years are reflected at the estimated present value by discounting the contribution.

(d) *Classification of Revenue*

The Foundation's policy for defining operating activities in the statements of revenues, expenses, and changes in net position are those that serve the Foundation's principal purpose and generally result from contributions to the Foundation and grants made to the University. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, investment income and adjustments of annuities payable. Other revenues include activities such as additions to permanent endowments.

(e) *Cash and Cash Equivalents*

The Foundation classifies as cash equivalents, funds which are in short-term, highly liquid investments and are readily convertible to known amounts of cash.

The Foundation invests portions of its cash with three custodians, two banks and the State of New Jersey Cash Management Fund. All three are interest-bearing accounts from which the funds are available upon demand.

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(f) Investments

Investments are stated at fair value. Purchases and sales of investments are accounted for on the trade date basis. Investment income is recorded on an accrual basis. Realized and unrealized gains and losses are reported in investment income.

(g) Annuities Payable

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

(h) Deposits Held in Custody for Rowan University Alumni Association

Cash, cash equivalents, and investments are held by the Foundation for the Rowan University Alumni Association (the Association) and are classified as deposits held in custody for the Association in the accompanying statements of net position. These funds are combined with the Foundation's assets in order to create a larger scale investment program.

(i) 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(j) Risks and Uncertainties

The Foundation maintains a diverse investment portfolio, as detailed in note 2. Alternative investments include interests in real estate, limited partnerships and other domestic and international investment funds. These instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence on key individuals and nondisclosure of portfolio composition. The Foundation reviews the performance and risks associated with these investments on at least a monthly basis. In addition, the Foundation utilizes the services of an investment consultant who continually monitors the individual investment fund performance, any changes in management at the investment fund or any other significant matters affecting the fund and advises the Foundation of any such changes.

As the Foundation is dependent on investment return to fund a significant portion of the operations of the Foundation, a significant decrease in investment return may have a material impact on the financial position, changes in net position, and cash flows of the Foundation.

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(k) New Accounting Pronouncements Adopted

In 2016, the Foundation adopted GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is 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 measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. See Note (2) for the disclosures.

Further, the Foundation adopted GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* (GASB 79). 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. Therefore, there was no change in the measurement of the Foundation's investments in the pool, which was at fair value as of June 30, 2016 and 2015. See note 2 for further information.

The Foundation also adopted GASB Statement No. 80, *Blending Requirements for Certain Component Units* (GASB 80). The statement amends the blending requirements for financial statement presentation of component units of all state and local governments to include an additional criterion that requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The Foundation has elected to early adopt GASB 80 and, as such, the Rowan Innovation Venture Fund, which was previously discretely presented in a separate column, has been blended into the Foundation's financial statements. The following amounts were restated for the year ended June 30, 2015:

	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Statement of net position as of June 30, 2015:			
Cash and cash equivalents	\$ 7,170,113	13,613	7,183,726
Investment in Rowan Innovation Venture Fund	13,613	(13,613)	—
Statement of revenues, expenses, and changes in net position for the year ended June 30, 2015:			
Professional and other services	\$ 342,404	36,387	378,791
Loss on investment in Rowan Innovation Venture Fund	36,387	(36,387)	—

The adoption of GASB 80 did not impact net position at June 30, 2015 as the Foundation has previously recorded its investment in the Fund as an equity interest.

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(2) Cash, Cash Equivalents, Restricted Nonexpendable Investments and Investments

As of June 30, 2016 and 2015, the Foundation's cash, cash equivalents and investments are reported on the statements of net position as follows:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 6,130,786	7,183,726
Restricted cash and cash equivalents	2,446,776	2,359,501
	<u>\$ 8,577,562</u>	<u>9,543,227</u>
Investments	\$ 38,027,195	46,968,851
Restricted investments	15,705,939	15,644,609
Restricted nonexpendable investments	126,454,072	116,772,100
	<u>\$ 180,187,206</u>	<u>179,385,560</u>

Cash, cash equivalents, restricted nonexpendable investments and investments consist of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents:		
Cash	\$ 7,033,835	4,867,411
State of New Jersey Cash Management Fund	163,375	162,978
Money market funds	1,380,352	4,512,838
	<u>8,577,562</u>	<u>9,543,227</u>
Investments:		
Bond mutual funds (domestic)	\$ 14,547,659	14,513,617
Common stock mutual funds (domestic)	68,985,432	69,281,832
Common stock mutual funds (international)	35,871,251	38,320,370
Venture capital investments	386,200	—
Alternative investments	60,396,664	57,269,741
	<u>\$ 180,187,206</u>	<u>179,385,560</u>

For the years ended June 30, 2016 and 2015, the (decrease) increase in fair value on investments was (\$6,093,407) and \$4,059,737, respectively and the net realized gain (loss) on investments for June 30, 2016 and 2015 was \$2,079,843 and (\$43,011), respectively. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year and the current year.

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The Foundation has an investment policy, which establishes guidelines for permissible investments. The Foundation may invest in domestic equity securities, international equity securities, fixed income securities, real estate investments and venture capital investments. The Foundation's cash and cash equivalents and investments are subject to various risks. Among these risks are custodial credit risk, credit risk and interest rate risk. Each one of these risks is discussed below.

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to it. Cash and money market accounts were held at a depository and bank balances amounted to \$9,209,762 and \$9,626,245, as of June 30, 2016 and 2015 respectively. Of these amounts, \$250,000 was FDIC insured, leaving uninsured and uncollateralized balances of \$8,959,762 and \$9,376,245.

The Foundation participates in the State of New Jersey Cash Management Fund (NJCMF) wherein amounts also contributed by other State entities are combined in a large-scale investment program. The Foundation deposits in the NJCMF were \$163,375 and \$162,978 as of June 30, 2016 and 2015 respectively. These amounts are collateralized in accordance with New Jersey Statutes 52:18-16-1, but not in the Foundation's name.

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 Standard and Poors (S&P) and Moody's. The Foundation's investment policy requires fixed income securities to replicate the Barclays Capital Aggregate characteristics with regard to maturity, structure, duration, credit quality, sector distribution, etc. As of June 30, 2016 and 2015, the bond mutual funds (domestic) were unrated.

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 does not specifically address limitations in the maturities of investments.

The Foundation's investments' average effective duration for June 30, 2016 and 2015 are as follows:

2016		
Investment Type	Fair Value	Average Effective Duration
Bond mutual funds (domestic)	\$ 5,650,896	5.43 years
Bond mutual funds (domestic)	5,643,497	4.67 years
Bond mutual funds (domestic)	3,172,187	0.19 years
Bond mutual funds (domestic)	81,079	7.71 years
Total	\$ 14,547,659	

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2015		
Investment Type	Fair Value	Average Effective Duration
Bond mutual funds (domestic)	\$ 5,451,321	5.51 years
Bond mutual funds (domestic)	5,687,156	4.70 years
Bond mutual funds (domestic)	3,313,236	0.13 years
Bond mutual funds (domestic)	61,904	7.81 years
Total	<u>\$ 14,513,617</u>	

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 or published prices for identical assets or liabilities in active markets that a government can access at the measurement date.
- 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 – pricing inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity or the investment.

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.

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

- Bond and common stock mutual funds – The fair value of bond and common stock mutual funds are based on quotations obtained from national securities exchanges or the published price as of the measurement date.
- State of New Jersey Cash Management Fund – 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.
- Venture capital investments – The fair value of the venture capital investments is based off of the initial cost of investments as these investments were entered into during fiscal year 2016 and cost was determined to approximate fair value.

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- Alternative investments (including absolute return, private equity and realty investments) – The fair value is based off of the net asset value (NAV), which is provided by the investment managers and reviewed by the management for reasonableness.

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

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents:				
State of New Jersey				
Cash Management Fund	\$ 163,375	—	163,375	—
Subtotal	<u>163,375</u>	<u>—</u>	<u>163,375</u>	<u>—</u>
Investments measured at fair value:				
Common stock mutual funds (domestic)	68,985,432	68,985,432	—	—
Common stock mutual funds (international)	35,871,251	35,871,251	—	—
Bond mutual funds (domestic)	14,547,659	14,547,659	—	—
Venture capital investments	<u>386,200</u>	<u>—</u>	<u>—</u>	<u>386,200</u>
Subtotal	<u>119,790,542</u>	<u>119,404,342</u>	<u>—</u>	<u>386,200</u>
Investments measured at net asset value:				
Absolute return	38,187,359			
Private equity	17,928,718			
Realty investments	<u>4,280,587</u>			
Subtotal	<u>60,396,664</u>			
Total cash equivalents and investments	<u>\$ 180,350,581</u>			

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

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents:				
State of New Jersey				
Cash Management Fund	\$ 162,978	—	162,978	—
Subtotal	162,978	—	162,978	—
Investments measured at fair value:				
Common stock mutual funds (domestic)	69,281,832	69,281,832	—	—
Common stock mutual funds (international)	38,320,370	38,320,370	—	—
Bond mutual funds (domestic)	14,513,617	14,513,617	—	—
Subtotal	122,115,819	122,115,819	—	—
Investments measured at net asset value:				
Absolute return	31,846,346			
Private equity	20,702,085			
Realty investments	4,721,310			
Subtotal	57,269,741			
Total cash equivalents and investments	\$ 179,548,538			

Investments Measured at NAV

The following table represents the unfunded commitments and redemption terms by investment type as of June 30, 2016:

	<u>Fair Value</u>	<u>Unfunded commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Absolute return ^(a)	\$ 38,187,359	2,000,000	Quarterly	65-100 days
Private equity ^(b)	17,928,718	11,847,685	Illiquid	Not applicable
Realty investments ^(c)	4,280,587	1,666,818	Illiquid	Not applicable
	\$ 60,396,664			

- (a) Absolute return includes 5 hedge funds that seek to achieve capital appreciations through various strategies, including long/short equity, long/short credit, relative value and other market neutral strategies. For two investments, valued at \$3 million and \$5 million, gates have been imposed, whereas redemptions are only distributed in installments of 25% and 8.33%, respectively. For another investment, valued at \$19.2 million, redemptions are restricted due to lockup provisions through December 31, 2016, whereas the remaining 50% of the investment, which has not been released from

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restriction as of June 30, 2016, will be released from restriction equally at the end of each quarter end. The remaining investments are redeemable as disclosed above.

- (b) Private equity includes 11 funds that seek to invest in non-publicly traded investments that will eventually be sold at a return in excess of public markets. This strategy is implemented through illiquid vehicles and cannot be redeemed. The remaining life of these funds is 1 to 11 years with possible extensions for nine funds. Capital is distributed to investors as the funds' investments are liquidated over that time period.
- (c) Realty investments includes 5 funds that seek to purchase real estate that can be improved and later sold to provide a return that is in excess of public real estate markets. This strategy is implemented through illiquid vehicles and cannot be redeemed. The remaining life of these funds is 2 to 6 years with possible extensions for three funds. Capital is distributed to investors as the funds' investments are liquidated over that time period.

(3) Contributions Receivable

Contributions receivable as of June 30, 2016 and 2015 are expected to be collected as follows:

	<u>2016</u>	<u>2015</u>
Year ending June 30:		
Less than one year	\$ 308,215	1,116,569
One to five years	800,867	1,059,435
More than five years	<u>500,450</u>	<u>550,000</u>
	1,609,532	2,726,004
Less present value discount at 5%	<u>(311,337)</u>	<u>(264,949)</u>
	<u>\$ 1,298,195</u>	<u>2,461,055</u>

In 2005, the Foundation received a major gift in the form of an unconditional promise to give from the William G. Rohrer Charitable Foundation, the purpose of which is to provide financial support to the University's College of Business in the amount of \$10,000,000 payable in installments of \$500,000 per year for twenty years. In recognition of this unconditional promise to give, the College of Business was named the William G. Rohrer College of Business. In December 2014, the donor made an amendment to the original donation agreement to:

- a) Beginning with the December 2014 pledge payment, direct the remaining 11 pledge payments of \$500,000 each to establish and build a permanent endowment to support the William G. Rohrer College of Business.
- b) Authorize the balance of previous pledge payments be added to the newly established endowment.

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Due to this redesignation by the donor, both restricted contributions receivable and contribution revenue related to the original pledge decreased by \$4,153,205. Pledges related to permanent endowments do not meet the eligibility requirements for recognition criteria of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, until cash is received.

(4) Donor Restricted Endowment

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.

Each January, the Foundation's board of directors approves an unrestricted annual appropriation from the Rowan Endowment to the University based upon the current spending policy. Currently, the spending policy is four and one half percent of a twelve quarter rolling market value. The Foundation also contributes other restricted funds to the University. For the years ended June 30, 2016 and 2015, such contributions were \$11,888,095 and \$8,110,814, respectively.

The fair value of the Foundation's endowment assets as of June 30, 2016 and 2015 were \$173,209,103 and \$173,823,429, respectively. This value represents accumulated appreciation in the amount of \$46,755,031 and \$57,051,329, respectively. This appreciation is reflected in the unrestricted and restricted expendable net position balances in the amounts of \$35,771,694 and \$10,983,337, respectively in 2016 and \$44,910,946 and \$12,140,383, respectively in 2015.

(5) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended June 30, 2016 and 2015 was as follows:

		2016			Current portion
		Beginning balance	Additions	Reductions	
Deposits held in custody for Rowan University Alumni Association	\$	1,463,683	69,554	—	—
Annuities payable		139,465	55,848	21,502	23,880
	\$	<u>1,603,148</u>	<u>125,402</u>	<u>21,502</u>	<u>23,880</u>

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	2015				
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Deposits held in custody for Rowan University Alumni Association	\$ 1,414,812	48,871	—	1,463,683	—
Annuities payable	149,041	11,472	21,048	139,465	17,450
	<u>\$ 1,563,853</u>	<u>60,343</u>	<u>21,048</u>	<u>1,603,148</u>	<u>17,450</u>

(6) Restricted Nonexpendable Net Position

Restricted nonexpendable net position as of June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Henry and Betty Rowan for general operations	\$ 97,000,118	97,000,118
William G. Rohrer Professorial Chair in the College of Business	1,000,000	1,000,000
Lawrence & Rita Salva Medical School	1,000,000	1,000,000
King Family Professorial Chair	1,000,000	1,000,000
Thomas N. Bantivoglio Honors Program for scholarships	1,243,082	1,193,082
Rohrer Scholars for scholarships	1,080,932	1,080,932
John B. Campbell Professorial Chair	1,176,282	1,176,282
Keith and Shirley Campbell Endowment to support library operations	1,641,896	1,641,896
Rohrer College of Business	2,072,330	1,513,580
Henry M. Rowan College of Engineering Endowment	5,000,000	1,000,000
CMSRU Student Loan Assistance Program	1,000,000	—
Henry M. Rowan Endowment for Engineering Scholarship	1,000,000	—
Inspira Health Network Endowed Fund	1,000,000	—
Other endowment funds	11,239,432	9,166,210
	<u>\$ 126,454,072</u>	<u>116,772,100</u>

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(7) Condensed combining information

The table below displays the combined totals of the Foundation and the Fund:

Condensed Statement of Net Position

	2016			2015		
	Foundation	Fund	Total	Foundation	Fund	Total
Assets:						
Current assets	\$ 8,854,166	35,211	8,889,377	10,646,183	13,613	10,659,796
Investments	179,801,006	386,200	180,187,206	179,385,560	—	179,385,560
Other assets	989,980	—	989,980	1,344,486	—	1,344,486
Total assets	\$ 189,645,152	421,411	190,066,563	191,376,229	13,613	191,389,842
Liabilities:						
Current liabilities	\$ 2,372,005	—	2,372,005	1,597,241	—	1,597,241
Noncurrent liabilities	1,683,168	—	1,683,168	1,585,698	—	1,585,698
Total liabilities	\$ 4,055,173	—	4,055,173	3,182,939	—	3,182,939
Net position:						
Unrestricted	42,007,889	421,411	42,429,300	51,635,556	13,613	51,649,169
Restricted	143,582,090	—	143,582,090	136,557,734	—	136,557,734
Total net position	\$ 185,589,979	421,411	186,011,390	188,193,290	13,613	188,206,903

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Condensed Statements of Revenue, Expenses and Changes in Net Position

	2016			2015		
	Foundation	Fund	Total	Foundation	Fund	Total
Operating revenues	\$ 6,798,591	—	6,798,591	4,008,637	—	4,008,637
Operating expenses	15,040,430	65,402	15,105,832	10,556,777	36,387	10,593,164
Operating loss	(8,241,839)	(65,402)	(8,307,241)	(6,548,140)	(36,387)	(6,584,527)
Nonoperating revenues (expenses):						
Investment (loss) income	(3,304,997)	—	(3,304,997)	6,304,522	—	6,304,522
Pledge redesignated by donor	—	—	—	(4,153,205)	—	(4,153,205)
Other nonoperating revenues (expenses)	(265,247)	—	(265,247)	(223,073)	—	(223,073)
Net nonoperating (expenses) revenues	(3,570,244)	—	(3,570,244)	1,928,244	—	1,928,244
Loss before other revenues	(11,812,083)	(65,402)	(11,877,485)	(4,619,896)	(36,387)	(4,656,283)
Additions to permanent endowments	9,681,972	—	9,681,972	3,555,016	—	3,555,016
(Loss) income before transfers	(2,130,111)	(65,402)	(2,195,513)	(1,064,880)	(36,387)	(1,101,267)
Transfer to Rowan Innovation Venture Fund	(473,200)	473,200	—	(50,000)	50,000	—
(Decrease) increase in net position	(2,603,311)	407,798	(2,195,513)	(1,114,880)	13,613	(1,101,267)
Net position as of beginning of the year	188,193,290	13,613	188,206,903	189,308,170	—	189,308,170
Net position as of end of the year	\$ 185,589,979	421,411	186,011,390	188,193,290	13,613	188,206,903

Condensed Statements of Cash Flows

	2016			2015		
	Foundation	Fund	Total	Foundation	Fund	Total
Cash flows from operating activities	\$ (6,666,420)	407,798	(6,258,622)	(5,694,871)	13,613	(5,681,258)
Cash flows from noncapital financing activities	9,660,470	—	9,660,470	3,533,968	—	3,533,968
Cash flows from investing activities	(3,981,313)	(386,200)	(4,367,513)	2,866,887	—	2,866,887
(Decrease) increase in cash and cash equivalents	(987,263)	21,598	(965,665)	705,984	13,613	719,597
Cash and cash equivalents - beginning of year	9,529,614	13,613	9,543,227	8,823,630	—	8,823,630
Cash and cash equivalents - end of year	\$ 8,542,351	35,211	8,577,562	9,529,614	13,613	9,543,227