RUTGERS UNIVERSITY FOUNDATION

(A Component Unit of Rutgers, The State University of New Jersey)

Financial Statements and
Management's Discussion and Analysis

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

RUTGERS UNIVERSITY FOUNDATION
(A Component Unit of Rutgers, The State University of New Jersey)

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KPMG LLP
New Jersey Headquarters
51 John F. Kennedy Parkway
Short Hills, NJ 07078-2702

Independent Auditors' Report

The Board of Overseers
Rutgers University Foundation:

Report on the Financial Statements

We have audited the accompanying financial statements of Rutgers University Foundation (the Foundation), a component unit of Rutgers, The State University of New Jersey, as of and for the years ended June 30, 2019 and 2018, 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 audits 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, 2019 and 2018, 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.

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 Standard Boards 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

Short Hills, New Jersey
November 1, 2019

Introduction

This section of the financial report represents management's discussion and analysis of the Rutgers University Foundation's (the Foundation) financial performance for the years ended June 30, 2019, 2018 and 2017 and should be read in conjunction with the financial statements and notes that follow. The data presented is for fiscal year 2019 and 2018 with comparative information for fiscal year 2017.

The Foundation was formed in 1973 to aid Rutgers, The State University of New Jersey (the University) to obtain private funds and other resources to meet the needs and achieve the goals of the University for which adequate funds may not be available from other sources. To fulfill this mission, the Foundation solicits and receives gifts and pledges from private sources including individuals, corporations, and foundations.

During 2019, 2018 and 2017, the Foundation recognized contributions totaling $97.9 million, $131.2 million and $127.6 million respectively, in the form of gifts and grants.

With the exception of the Foundation's annual giving offices, the Foundation consolidated their central offices in September 2018 into a new office location at 335 George Street in New Brunswick, New Jersey – a University property. Prior to that time, the Foundation's central offices occupied a combination of University buildings and leased space on the New Brunswick campus. The new office location is now considered the primary offices of the Rutgers University Foundation. In January of 2020, the annual giving offices are scheduled to move into 335 George Street and complete the consolidation of all central offices.

The Foundation continues their preparation for the next capital fundraising campaign. As a determination has not been made as to when the campaign will be announced publicly, the silent phase of the campaign is scheduled to begin on July 1, 2019.

Financial Statements

The Foundation's basic financial statements include three financial statements: Statement of Net Position, Statement of Revenue, Expenses, and Changes in Net Position and the Statement 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 inflows of resources, revenues, expenses, and cash flows on an entity-wide basis.

Statement of Net Position

The Statement of Net Position provides the financial position of the Foundation as of the end of the fiscal year. The assets and liabilities are categorized as current and noncurrent. Deferred inflows of resources represent timing differences related to the recognition of revenue from split-interest agreements in which the Foundation has a remainder interest. The net position, and its change during the current year, is an indicator of the financial condition of the Foundation and whether it has improved or worsened during the year. Net position consists of three major categories. The first category, nonexpendable, consists of program support, scholarships, and fellowships that have been set aside and invested as required by the provider of the resources. These funds are invested in perpetuity with the earnings on those investments to be used as specified by the donor at the time the resources are received. The next category, expendable, consists of the restricted net position that is available for expenditure for the purpose that was specified by the donor at the time the resources were received. These expenditures support specific programs such as scholarships and fellowships, instructional department uses, research and capital projects. The final category is unrestricted net position. Unrestricted net position is available to the Foundation for any purpose and is governed by the Foundation's Board of Overseers.

A condensed summary of the Foundation's assets, liabilities, deferred inflows of resources and net position is as follows:

	2019	2018	2017
Current assets	$ 86,836,834	82,705,877	75,063,729
Noncurrent assets	44,325,697	57,763,850	49,367,127
Total assets	131,162,531	140,469,727	124,430,856
Current liabilities	8,364,572	5,436,242	3,484,938
Noncurrent liabilities	7,571,232	7,929,570	6,549,151
Total liabilities	15,935,804	13,365,812	10,034,089
Deferred inflows of resources	3,744,734	3,881,519	5,349,456
Restricted – nonexpendable	1,661,183	6,438,562	4,532,001
Restricted – expendable	102,317,142	110,258,984	98,181,239
Unrestricted	7,503,668	6,524,850	6,334,071
Total net position	$ 111,481,993	123,222,396	109,047,311

A review of the Foundation's assets at June 30, 2019 reflects a decrease in total assets of $9.3 million (-6.6%) in 2019 versus 2018. This decrease is primarily due to a $9.2 million decrease in both current and noncurrent net contributions receivables that included a $3.2 million decrease in outstanding pledge balances for athletic construction projects. University departments that had reductions in net contributions receivables included the following: $2.6 million for the Graduate School of Applied and Professional Psychology, $1.5 million for the Center for State Health Policy and $1.5 million for the School of Nursing. The remaining decrease in net contributions receivables was associated with a $0.4 million reduction in pledge balances for a summer health professions education program. The remaining decrease in total assets between 2019 and 2018 is attributed to the realization of $0.1 million in beneficial interest assets that were related to outside-held annuities that severed in 2019.

A review of the Foundation's assets at June 30, 2018 reflects an increase in total assets of $16.0 million (12.9%) in 2018 versus 2017. This increase is primarily due to a $15.8 million increase in both current and noncurrent net contributions receivables, which was driven by an increase in outstanding pledge balances for a future athletic academic success facility. The lead donor to this facility was responsible for $15.0 million of the total contributions receivables increase. Also contributing to the increase in total assets was a $1.4 million increase in accounts receivables, of which $1.2 million was related to a receivable from the University for shared development staff expenses. The remaining increase in accounts receivables was a $0.2 million increase in gift assessment fees due from the University for new gifts received at the end of 2018. Offsetting the two increases to total assets was a $1.2 million decrease in restricted long term investments. Long term

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investments associated with the gift annuity funds held by the Foundation declined by $0.9 million. Also, there was a $0.2 million decline in the Foundation's gift custody accounts as two federal bonds matured. The remaining decline in restricted long term investments is primarily due to a reduction in a gifted hedge fund that is in liquidation mode.

Total liabilities reflect a $2.6 million (19.2%) increase in 2019 versus 2018. Most of this increase was due to a $2.2 million payables increase to the University for spending through the University's purchasing system. The remaining $0.4 million increase in liabilities relates to deferred revenue increases, which included a $0.2 million in gift assessment fees that have been committed for payment by the University on a large gift that the donor declined to pay assessment fees and a $0.2 million increase in credit card affinity program income that is expected to be realized at the conclusion of the contract period.

Total liabilities reflect a $3.3 million (33.2%) increase in 2018 versus 2017. This increase was related to a $1.7 million increase in the payables due on trusts and annuities held outside of the Foundation. The remaining increase of $1.6 million was associated with an increase of accounts payable. The increase in accounts payables was due to a $2.4 million payable to the University in reimbursements for spending through the University purchasing system. Offsetting the large payable were declines of $0.8 million in payables to transfer gifts to the University and the gift annuity pool.

Total deferred inflows of resources reflect a $0.1 million (-3.5%) decrease in 2019 versus 2018, which was associated with a decrease of $0.3 million in market values of irrevocable split interest agreements that were offset by a $0.2 million reduction in the liabilities for beneficial interest payable.

Total deferred inflows of resources reflect a $1.5 million (-27.4%) decrease in 2018 versus 2017, which was associated with a decline in unearned revenue on irrevocable split interest agreements.

In 2019, net position decreased $11.7 million (-9.5%), versus 2018. A significant portion of this decrease was associated with a $7.5 million decrease in expendable net position for capital purposes. This capital-related decrease was comprised of a $6.4 million decrease in net pledges for construction efforts, a $0.7 million decrease in cash on hand for capital purposes and a $0.4 million liquidation of a donated hedge fund intended for a building fund. Another $4.1 million of the decrease in net position was due to a decrease in net nonendowed pledges designated for research efforts. Lastly, a $0.1 million decrease in net position for healthcare related services comprised the remainder of the change in net position.

In 2018, net position increased $14.2 million (13.0%), versus 2017. A significant portion of this increase was associated with a $12.2 million increase in expendable net position for research purposes, of which $11.1 million related to an increase in nonendowed pledges for medical research efforts and $1.1 million related to an increase in two new initiatives at Rutgers University Newark – one for a scholars program and the other a prison inmate education program. Another $1.3 million of the increase in net position was due to an increase in cash pending transfer to the University for nonexpendable endowments associated with program support initiatives. The remaining increase in net position is associated with a $0.7 million increase in cash pending transfer to the University for student support endowments in the form of scholarships and fellowships.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the year. The statement is classified into operating and nonoperating activities. Revenues received and expenses incurred as a result of the Foundation's mission to solicit and receive gifts to fulfill the goals of the University for which adequate funds may not be available from other sources are considered operating activities. Gifts received, and transferred to the University, for capital, noncapital, endowment, and nongovernmental grants and associated assessment fees are reported as operating revenues as are the revenues and receipts from special events conducted by the Foundation to engage alumni and donors. Only endowment gifts that are retained by the Foundation are recorded as additions to permanent endowments in the other revenues line item. Operating expenses consist primarily of the distributions of gifts received by the Foundation for the benefit of the University along with other operating expenditures such as salaries, benefits, and services. Nonoperating revenues and expenses are those incurred for which goods and services are not directly provided.

A condensed summary of the Foundation's revenues, expenses, and changes in net position is as follows:

		2019	2018	2017
Operating revenues	$	102,280,690	135,819,200	127,726,526
Operating expenses		(141,632,941)	(148,244,274)	(144,344,552)
Operating loss		(39,352,251)	(12,425,074)	(16,618,026)
Net nonoperating revenues		27,518,847	26,600,159	27,420,574
Change to additions to permanent endowments		93,001	—	—
Increase in net position		(11,740,403)	14,175,085	10,802,548
Net position – beginning of the year		123,222,396	109,047,311	98,244,763
Net position – end of the year	$	111,481,993	123,222,396	109,047,311

Operating revenues decreased by $33.5 million (-24.7%) in 2019. The decrease in revenues was primarily due to a reduction in significant gifts received at the Foundation in 2019. Significant gifts included a $15 million gift to support an academic success building for athletics, a $10 million endowment in support of a prominent art collection, a $5.6 million grant payment to support agricultural youth training in Greece, a $2.8 million endowed chair for the Graduate School of Education and a $0.1 million endowment received in 2018 to support a legacy fund at the Center for American Women and Politics.

Operating revenues increased by $8.1 million (6.3%) in 2018. The Foundation had an increase in nongovernmental grants, which included a $5.6 million grant payment to support agricultural youth training in Greece. In addition, there was an increase of $3.5 million in gifts to support an adult autism center. Offsetting the increase in gifts and grants was a $1.0 million decrease in gift assessment fee income, of which $0.5 million was associated with reduced fees on gifts received for construction efforts at the University. In addition, there was another $0.5 million reduction in fees associated with cash payments supporting a child health institute and a theater fund at the School of Arts.

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Operating expenses decreased by $6.6 million (-4.5%) in 2019 primarily due to a net $9.4 million decrease in the distribution of gifts to the University. Distributions for endowments and noncapital purposes were a combined $24.7 million lower in 2019, while distributions for capital and nongovernmental grant purposes increased by a combined $15.3 million. Other operating expenditure increases that offset the distributions decrease included a $0.9 million increase in salary expenses due to merit increases, new hires to support campaign management, a new corporate engagement center and the expansion of staff to support fundraising for the Cancer Institute of New Jersey. Also, increases in health benefit premiums contributed to a $0.3 million increase in total employee benefit expenses. Strategic plan initiatives that included preparation for the next capital campaign and the implementation of a new human capital management system caused a $0.8 million increase. The other increases in operating expenses included $0.4 million in expenditures to move the Foundation offices to a central University building, $0.2 million in software-related expenditures mostly to support a new analytics team and $0.2 million in fundraising expenses (travel, meals and gifts) related to donor meetings.

Operating expenses increased by $3.9 million (2.7%) in 2018 partially due to a $2.4 million increase in the distribution of gifts to the University. Distributions for endowments and noncapital purposes were a combined $5.1 million higher in 2018, while distributions for capital and nongovernmental grant purposes were lower by a combined $2.7 million. Salary expenses accounted for another $1.4 million of the increase in operating expenses as the filing of vacant positions, department reorganizations that increased headcount, and annual merit increases all contributed to the increase from 2017. The remaining increase of $0.1 million was the net increase of $0.5 million for benefit expenses caused by the increase in salary expenses, which was offset by a $0.3 million reduction in special event expenses, as two significant fundraising events held in 2017 were not conducted in 2018, and a $0.1 million reduction in legal expenses incurred to finalize gifts to the University.

Net nonoperating revenues increased by $0.9 million (3.5%) in 2019, mostly due to the consolidation of most of the Foundation's central office locations to a single University building. These moves resulted in a $0.7 million increase in noncash support from the University as the Foundation increased their occupancy space on University property. The remaining increase in net nonoperating revenues can be attributed to a $0.2 million increase in interest and dividend income, with a majority of the increase being related to the dividend income earned on the Foundation's restricted money market mutual fund.

Net nonoperating revenues decreased by $0.8 million (-3.0%) in 2018, mostly due to a reductions in interest and dividend income ($0.4 million) and realized and unrealized gains ($0.5 million) associated with the trust and annuity funds held by the Foundation. New reporting standards, implemented in 2018, for irrevocable split interest reflects this income or expense as unearned revenues. Offsetting these two decreases was a $0.1 million increase in support from the University where $0.7 million in increased revenues associated with the endowment administrative fee were offset by a $0.6 million reduction in general support from the University.

Additions to permanent endowments are associated with an endowment gift received in 2019 that had stipulations requiring that the funds be invested by the Foundation, as opposed to investment in the University's endowment pool.

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Overall Financial Position

The Foundation derives a significant amount of its funding for operating activities from two primary sources. The first is the University, where the Foundation’s financial position is dependent on the University’s continued commitment to pursuing funds from private sources. Due to the continued success of the Foundation’s fundraising efforts during 2019 and 2018, management is confident that this commitment remains strong. The other primary source is the annual revenue from the gift assessment fee. The Foundation does maintain a board designated endowment and an unrestricted gift fund as reserves in the event that the primary two sources of funding are not received as planned. Management is confident that these sources of funding will provide an adequate level of funding for the Foundation in future years.

RUTGERS UNIVERSITY FOUNDATION

(A Component Unit of Rutgers, The State University of New Jersey)

Statements of Net Position

June 30, 2019 and 2018

	2019	2018
Assets:		
Current assets:		
Cash and cash equivalents	$ 1,914,235	2,640,374
Restricted cash and cash equivalents	14,430,686	15,788,142
Short-term investments	27,922	—
Restricted short-term investments	17,474,671	16,382,438
Accounts receivable	7,042,692	5,585,304
Restricted contributions receivable, net	45,158,419	41,523,513
Prepaid expenses	788,209	786,106
Total current assets	86,836,834	82,705,877
Noncurrent assets:		
Long-term investments	2,278,760	2,095,465
Restricted long-term investments	5,279,374	5,964,686
Restricted contributions receivable, net	36,004,739	48,821,762
Cash surrender value of whole life insurance policies	762,824	744,906
Beneficial interest assets	—	137,031
Total noncurrent assets	44,325,697	57,763,850
Total assets	131,162,531	140,469,727
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	6,638,478	4,327,701
Unearned revenue	800,853	392,986
Beneficial interest payable – current portion	925,241	715,555
Total current liabilities	8,364,572	5,436,242
Noncurrent liabilities:		
Other liabilities	544,044	524,471
Beneficial interest payable – noncurrent portion	7,027,188	7,405,099
Total noncurrent liabilities	7,571,232	7,929,570
Total liabilities	15,935,804	13,365,812
Deferred inflows of resources:		
Irrevocable split interest agreements	3,744,734	3,881,519
Total deferred inflows of resources	3,744,734	3,881,519
Net position:		
Restricted for:		
Nonexpendable:		
Instructional	62,916	1,498,101
Scholarships and fellowships	945,094	2,723,812
Libraries	182,232	583,580
Other	470,941	1,633,069
Total nonexpendable	1,661,183	6,438,562
Expendable:		
Instructional	3,549,893	3,387,308
Research	34,786,476	35,887,901
Healthcare and professional services	507,324	601,592
Scholarships and fellowships	10,370,589	8,101,556
Libraries	45,048	37,532
Loans	10	55
Capital projects	38,453,801	45,901,243
Other	14,604,001	16,341,797
Total expendable	102,317,142	110,258,984
Unrestricted	7,503,668	6,524,850
Total net position	$ 111,481,993	123,222,396

See accompanying notes to financial statements.

RUTGERS UNIVERSITY FOUNDATION

(A Component Unit of Rutgers, The State University of New Jersey)

Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2019 and 2018

	2019	2018
Operating revenue:		
Nongovernmental grants	$ 21,675,044	36,485,908
Noncapital gifts	44,673,473	42,947,185
Capital gifts and grants	15,032,827	22,382,066
Endowment gifts	16,489,114	29,391,194
Special events	654,577	704,006
Assessment fee income	3,755,655	3,908,841
Total operating revenues	102,280,690	135,819,200
Operating expenses:		
Salaries	16,295,703	15,384,419
Benefits	6,309,991	6,001,697
Supplies	573,681	679,845
Other services	11,026,845	9,376,540
Operating expenses, before distributions	34,206,220	31,442,501
Distributions to Rutgers, The State University of New Jersey:		
Capital projects	18,259,449	14,694,270
Endowments	21,588,131	31,965,868
Grants	21,737,433	36,064,408
Other	45,841,708	34,077,227
Total distributions to Rutgers, The State University of New Jersey	107,426,721	116,801,773
Total operating expenses	141,632,941	148,244,274
Operating loss	(39,352,251)	(12,425,074)
Nonoperating revenues, net:		
Administrative fees and support from Rutgers, The State University of New Jersey	24,621,481	24,458,586
Noncash support from Rutgers, The State University of New Jersey	2,715,128	2,008,148
Interest and dividend income, net	252,173	79,960
Net (decrease) increase in fair value of investments	(88,368)	39,160
Other income	18,433	14,305
Net nonoperating revenues	27,518,847	26,600,159
(Loss) income before other revenues	(11,833,404)	14,175,085
Additions to permanent endowments (nonexpendable)	93,001	—
(Decrease) increase in net position	(11,740,403)	14,175,085
Net position as of beginning of year	123,222,396	109,047,311
Net position as of end of year	$ 111,481,993	123,222,396

See accompanying notes to financial statements.

RUTGERS UNIVERSITY FOUNDATION

(A Component Unit of Rutgers, The State University of New Jersey)

Statements of Cash Flows

Years ended June 30, 2019 and 2018

		2019	2018
Cash flows from operating activities:			
Private gifts for endowment purposes	$	16,489,114	29,391,194
Nongovernmental grants		10,172,764	23,764,558
Gift receipts for other than capital purposes		49,132,313	25,005,304
Capital gifts and grants received		15,019,227	21,921,288
Assessment fees		3,092,310	3,767,502
Payments to Rutgers, The State University of New Jersey		(89,764,599)	(100,743,776)
Payments to annuitants		(896,929)	(961,960)
Payments to suppliers		(8,734,506)	(8,385,487)
Payments to employees		(16,161,199)	(15,256,028)
Payments for benefits		(4,727,624)	(4,366,602)
Net cash used by operating activities		(26,379,129)	(25,864,007)
Cash flows from noncapital financing activities:			
Administrative fees and support from Rutgers, The State University of New Jersey		24,621,481	24,458,586
Other income		18,433	14,305
Net cash provided by noncapital financing activities		24,639,914	24,472,891
Cash flows from investing activities:			
Proceeds from sales and maturities of investments		15,545,090	12,838,274
Interest on investments		291,818	139,431
Purchases of investments		(16,181,288)	(22,229,155)
Net cash used by investing activities		(344,380)	(9,251,450)
Net decrease in cash and cash equivalents		(2,083,595)	(10,642,566)
Cash and cash equivalents as of beginning of year		18,428,516	29,071,082
Cash and cash equivalents as of end of year	$	16,344,921	18,428,516
Reconciliation of operating loss to net cash used by operating activities:			
Operating loss	$	(39,352,251)	(12,425,074)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Fair rental value of space occupied		1,137,722	452,836
University-paid payroll taxes and benefits		1,577,405	1,555,312
Provision for uncollectible contributions receivable		(126,703)	1,306,661
Changes in assets, liabilities, and deferred inflows of resources:			
Contributions receivable		9,308,820	(17,130,093)
Assets other than cash, investments and contributions receivable		(1,357,329)	(1,487,434)
Total liabilities		2,569,992	1,595,641
Changes in deferred inflows of resources		(136,785)	268,144
Net cash used by operating activities	$	(26,379,129)	(25,864,007)

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

Organization

Rutgers University Foundation (the Foundation) was formed in 1973 by a resolution of Rutgers, The State University of New Jersey's (the University) Board of Governors. The Foundation was formed to aid the University in obtaining private funds and other resources including operating, programmatic, and capital gifts to meet the needs and achieve the goals of the University for which adequate funds may not be available from other sources.

The property and business of the Foundation are managed by a Board of Overseers whose officers consist of a President, a Secretary, a Treasurer, an Associate Treasurer and a Chair of the Board of Overseers, one or more Vice Chairs, and such other officers as deemed necessary. The total number of members that may serve on the Board of Overseers may not exceed 46 members as of the June 2019 annual meeting. The regular term of an elected member of the Board of Overseers is three years. The elected member may serve a maximum of three terms, before a required break in service of at least one year. The term of an ex officio member is for as long as they hold such offices eligible for membership. Ex officio members of the Board of Overseers include the President of the University, the Executive Vice President for Finance and Administration of the University, the Chair of the Rutgers University Alumni Association, the Chair of the Board of Governors of the University, the Chair of the Board of Trustees of the University and the President of the Foundation. The terms of the board members are staggered so approximately one-third expire each year. New, or reelected, members are appointed via board resolution annually at the fiscal year-end meeting.

The Foundation's business includes activities associated with a limited liability corporation, RUF NYC LLC, which is considered a blended component unit and whose financial activity is included in the Foundation statements presented. Additional information regarding this entity may be found in note 12.

The Foundation is considered a component unit of the University for financial reporting purposes. The Foundation's financial statements are discretely presented in the University's financial statements.

Summary of Significant Accounting Policies

(a) Basis of Presentation

Governmental Accounting Standards Board (GASB) statements require that resources be classified for accounting and reporting purposes into the following net position categories:

- *Restricted:*

  Nonexpendable – Net position subject to externally imposed stipulations that must be maintained permanently by the Foundation or the University and are not considered expendable by the Foundation or the University.

  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 as approved by the Board of Overseers. The Foundation first applies restricted resources before unrestricted resources when an expense is incurred.

(b) Basis of Accounting

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

(c) Revenue Recognition

Contributions, including pledges other than endowment and noncash gifts, are recognized as revenues when all eligibility requirements for recognition are met, which generally is the period the amount is donated to the Foundation. Additions to permanent endowments are recognized upon receipt. Investment and other income is recognized in the period earned. Revenue from split-interest agreements, in which the Foundation has a remainder interest, is deferred until termination of the agreement and recognized in the period in which such termination occurred.

(d) Classification of Operations

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 certain grants and contributions. Nonoperating revenues include activities such as administrative fees and support from the University, noncash support from the University, and investment and dividend income. Other revenues include activities such as royalties for affinity programs for alumni engagement and additions to permanent endowments, which reflect endowments received by the Foundation to be held in perpetuity.

(e) Cash and Cash Equivalents

The Foundation classifies as cash equivalents, funds that are in short-term, highly liquid investments with an original maturity of three months or less and are readily convertible to known amounts of cash.

The Foundation primarily maintains its cash in interest-bearing checking accounts from which the funds are available upon demand.

(f) Investments

Investments in marketable securities are reflected at fair value. Purchases and sales of investments are accounted for on the trade date basis. Interest and dividend income is recorded on an accrual basis.

Donated investments are recorded at fair value at the date of donation. Donated securities are sold as soon as possible upon receipt (within 1-2 days) to prevent significant variances between the donated market value and proceeds.

(g) Office Furnishings

Costs of office furnishings and equipment are consistently charged to expenses because the Foundation does not deem such amounts to be sufficiently material to warrant capitalization and depreciation.

(h) Beneficial Interest 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 payable are recorded at the present value of the expected future cash payments to the annuitants using the mortality table to estimate life expectancy and the original Internal Revenue Service (IRS) discount rate of each gift which ranges from 1.2% to 10.2%.

(i) 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. As of June 30, 2019 and 2018, the fair value of such funds approximated $25.3 million and $16.0 million, respectively.

(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 reporting period. Actual results could differ from those estimates. The significant estimates include the allowance for doubtful accounts and contributions receivable.

(k) Tax Status

The Foundation has been classified by the IRS as an organization described under Section 501(c)(3) of the Internal Revenue Code and therefore is exempt from Federal income taxes under Section 501(a) of the Code.

(2) Cash, Cash Equivalents, and Investments

The Foundation's cash and cash equivalents consist of the following:

		2019	2018
Money market account	$	809,305	850,379
Cash and deposits		15,535,616	17,578,137
	$	16,344,921	18,428,516

The Board of Overseers, through its Investment Committee, has authority over the investment of Foundation funds. Professional investment managers are engaged by the Foundation to buy, sell, invest, and reinvest portions of the assets in accordance with the investment policies and objectives established by the Investment Committee.

The primary financial objective of the Foundation's investment management of assets for the General Endowment Fund is to earn the highest yield possible without unnecessary risk to principal. To achieve the goals of safety, liquidity, and return, the assets in the General Endowment Fund are invested in laddered high quality short-term fixed income securities and/or an institutional money market fund. The objective for the Planned Giving Portfolio is to maximize long-term total return through a combination of income and capital appreciation in a prudent manner. To achieve the goals of growth and income, the assets within the Planned Giving Portfolio are divided into an equity portion (equities including convertibles and cash devoted to equities) and a fixed income portion (bonds, notes, nonconvertible preferred stock, and cash devoted to fixed income). In addition, the Planned Giving Portfolio is subject to state mandated investment restrictions for annuities issued in the states of Florida and California.

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;
- 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; and
- 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 securities – The fair value of U.S. Treasury securities is the market value using quoted market prices.
- Municipal bonds – The fair value of municipal bonds is the market value using quoted market prices.

- Corporate bonds – The fair value of corporate bonds is the market value using quoted market prices (Level 1) and sensitivity analysis of the relationship between bond and equity values for corporate bonds with observable inputs (Level 2) and unobservable inputs (Level 3).
- Mortgage-backed securities – The fair value of mortgage-backed securities is the market value using quoted market prices.
- Preferred Stock – The fair value of preferred stock is the market value using quoted market prices (Level 1) and sensitivity analysis of the relationship between bond and equity values for preferred stock with observable inputs (Level 2) and unobservable inputs (Level 3).
- Fixed income mutual funds – The fair value of fixed income mutual funds is the market value based on quoted market prices.
- Equity securities – The fair value of equity securities is the market value based on quoted market prices.
- International equity securities – The fair value of international equity securities is the market value based on quoted market prices.
- Real estate – The fair value of real estate is the value based on current listed real estate market values for the specific property or like property.
- Money market mutual funds – The fair value of money market mutual funds is the market value based on quoted market prices.
- Privately held securities – The fair value of privately held securities is the value based upon the initial recognition of the asset when donated to the Foundation. There are no observable markets for the assets.
- Alternative investments – The fair value of alternative investments uses 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 valuation provided by external investment managers. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore differ from the value that would have been used had a ready market for such investments existed.

The Foundation's investments at June 30, 2019 are summarized in the following table by their fair value hierarchy:

	Investments by fair value level			
	Total	**Level 1**	**Level 2**	**Level 3**
Investments measured at fair value:				
U.S. Treasury securities	$ 170,634	170,634	—	—
Municipal bonds	3,762	3,762	—	—
Corporate bonds	121,751	101,316	8,832	11,603
Mortgage-backed securities	688	688	—	—
Preferred stock	14,642	—	14,642	—
Fixed income mutual funds	7,246,657	7,246,657	—	—
Equity securities	6,222,267	6,222,267	—	—
International equity securities	793,937	793,937	—	—
Money market mutual funds	10,238,989	10,238,989	—	—
Real estate	187,400	—	187,400	—
Privately held securities	60,000	—	—	60,000
Total investments	$ 25,060,727	24,778,250	210,874	71,603

The Foundation's investments at June 30, 2018 are summarized in the following table by their fair value hierarchy:

	Investments by fair value level			
	Total	**Level 1**	**Level 2**	**Level 3**
Investments measured at fair value:				
U.S. Treasury securities	$ 116,291	116,291	—	—
Municipal bonds	3,852	3,852	—	—
Mortgage-backed securities	1,050	1,050	—	—
Preferred stock	242,437	176,697	52,615	13,125
Fixed income mutual funds	17,349,133	17,349,133	—	—
Equity securities	5,158,362	5,158,362	—	—
International equity securities	888,951	888,951	—	—
Real estate	233,000	—	233,000	—
Privately held securities	60,000	—	—	60,000
Subtotal	24,053,076	$ 23,694,336	285,615	73,125
Investments measured at net asset value or its equivalent:				
Alternative investments	389,513			
Subtotal	389,513			
Total investments	$ 24,442,589			

Custodial Credit Risk – The Foundation's deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are: uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Foundation's name. The deposit risk is that, in the event of the failure of a depository financial institution, the Foundation will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Foundation's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Foundation and are held by either: the counterparty or the counterparty's trust department or agent, but not in the Foundation's name. The investment risk is that, in the event of the failure of the counterparty to a transaction, the Foundation will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

The 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 pledging financial institutions, or by its trust department or agent, but not in the Foundation's name. As of June 30, 2019 and 2018, the amount on deposit with the banks was $15,635,955 and $17,653,676, respectively. As of June 30, 2019 and 2018, the Foundation had insured deposits up to the Federal Deposit Insurance Corporation (FDIC) coverage limits totaling $281,989 and $272,252, respectively. Cash and cash equivalents in excess of those balances are uncollateralized.

As of June 30, 2019 and 2018, the Foundation's investments were either insured, registered, or held by the Foundation's agent in the Foundation's name, except for money market and mutual funds, which are not subject to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Concentration of Credit Risk – This is the risk associated with the amount of investments the Foundation has with any one issuer that exceed 5% or more of its total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

The Foundation limits the concentration of credit risk by placing a limit on the amount the investment managers may invest in any one issuer. No initial purchase of an equity or fixed income security in any one issuer should exceed 5% of the portion of the Foundation's assets under management by each investment manager. In addition, no single equity security should be greater than 10% of the market value of the Foundation's assets under management. As of June 30, 2019, there are no investments in any one issuer greater than 5% of total investments.

Credit Risk – GASB Statement No. 40 requires that disclosure be made as to the credit rating of all fixed income securities except obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government. The Foundation's investment policy states that individual bonds shall be rated investment grade by at least two recognized or authorized rating agencies (Moody's and Standard & Poor's). The average credit quality of the fixed income securities must be maintained at a Class "BBB/Baa" or higher as rated by both standard services (Moody's and Standard & Poor's). Up to 10% of the investment manager's portfolio may be invested in securities rated "BBB/Baa" or lower as rated by both standard services

(Moody's and Standard & Poor's). The dollar-weighted average rating of the fixed income portfolio for each manager of marketable bonds shall be "A/A" or better.

As of June 30, 2019, the Foundation's investment quality ratings as rated by Standard & Poor's were as follows:

Investment type	Quality rating		Amount
U.S. Treasury and securities	AA+	$	170,634
Municipal bonds	AAA		3,762
Corporate bonds	BBB		11,603
Corporate bonds	BBB-		51,963
Corporate bonds	BB+		33,862
Corporate bonds	BB		12,827
Corporate bonds	Not rated		11,496
Mortgage-backed securities	AA+		688
Preferred stock	BBB+		1,000
Preferred stock	BBB-		13,642
Money market mutual funds	AAA		10,238,989
Fixed income mutual funds	Not rated		7,246,657
		$	17,797,123

As of June 30, 2018, the Foundation's investment quality ratings as rated by Standard & Poor's were as follows:

Investment type	Quality rating		Amount
U.S. Treasury and securities	AA+	$	116,291
Municipal bonds	AAA		3,852
Mortgage-backed securities	AA+		1,050
Preferred stock	A-		1,000
Preferred stock	BBB-		95,935
Preferred stock	BB+		82,839
Preferred stock	BB		38,800
Preferred stock	Not rated		23,863
Fixed income mutual funds	Not rated		17,349,133
		$	17,712,763

Interest Rate Risk – This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation does not have a provision in the investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. While the general provisions of the investment strategy should be implemented with a long-term prospective, all holdings must be sufficiently liquid so as to allow liquidation of the entire portfolio on one month's notice. In addition, annuity pooled investments in the planned giving portion of the portfolio are governed by the New Jersey Prudent Investor Act. The required reserves for this pool are reviewed utilizing actuarial assumptions of the charitable gift annuity assets. The following table summarizes the maturities as of June 30, 2019 and 2018:

	2019				
		Investment maturities (in years)			
Investment type	**Fair value**	**Less than 1**	**1–5**	**6–10**	**More than 10**
U.S. Treasury securities	$ 170,634	16,102	154,532	—	—
Municipal bonds	3,762	—	—	3,762	—
Corporate bonds	121,751	63,665	49,254	8,832	—
Mortgage-backed securities	688	—	—	688	—
Preferred stock	14,642	1,000	—	—	13,642
Money market mutual funds	10,238,989	10,238,989	—	—	—
Fixed income mutual funds	7,246,657	—	4,997,050	2,249,607	—
	$ 17,797,123	10,319,756	5,200,836	2,262,889	13,642

	2018				
		Investment maturities (in years)			
Investment type	**Fair value**	**Less than 1**	**1–5**	**6–10**	**More than 10**
U.S. Treasury securities	$ 116,291	24,050	86,454	5,787	—
Municipal bonds	3,852	—	—	3,852	—
Mortgage-backed securities	1,050	4	—	1,046	—
Preferred stock	242,437	140,157	37,226	12,439	52,615
Fixed income mutual funds	17,349,133	10,042,126	2,825,834	4,481,173	—
	$ 17,712,763	10,206,337	2,949,514	4,504,297	52,615

(3) Retirement Plan

The Foundation has a contributory retirement plan (the Plan) covering substantially all full-time employees under arrangements with Teachers Insurance and Annuity Association (TIAA) and College Retirement Equities Fund (CREF) which provides for the purchase of annuities and other retirement options for employees.

Under the Plan, staff and administrators can elect to contribute 5% of their annual salary in order to qualify for the employer match as of the Plan entry date. New employees with an existing retirement account at a nonprofit organization are vested immediately, those not meeting that requirement are held in delayed vesting status during the initial year of employment. The Foundation's contribution to the Plan is equal to 8% of annual salary and, accordingly, the cost of the Plan for the years ended June 30, 2019 and 2018 was

$1,110,086 and $1,049,107, respectively. Such cost is included in the Foundation's operating expenses in the accompanying Statements of Revenues, Expenses, and Changes in Net Position.

(4) Administrative Fees and Support from Rutgers, The State University of New Jersey

The Foundation's operations, including certain payroll taxes and benefits, the fair rental value of space occupied, and office furnishings used by the Foundation are supported extensively by the University for operating purposes. Funding sources for the years ended June 30, 2019 and 2018 were as follows:

		2019	2018
Administrative fees and support:			
Endowment administrative fee	$	10,422,617	9,879,360
University support		14,198,864	14,579,226
		24,621,481	24,458,586
Noncash support:			
Fair rental value of space occupied		1,137,722	452,836
University-paid payroll taxes and benefits		1,577,406	1,555,312
		2,715,128	2,008,148
Total	$	27,336,609	26,466,734

(5) Assessment Fee Income

The Foundation charges an assessment fee on all new gifts and nongovernmental grants in order to further advancement efforts on behalf of Rutgers, the State University of New Jersey. For the years ended June 30, 2019 and 2018, assessment fees totaling $3,755,655 and $3,908,841, respectively, were recorded.

(6) Compensated Absences

The Foundation accounts for compensated absences as directed by GASB Statement No. 16, *Accounting for Compensated Absences*. A liability for compensated absences (unused vacation and sick leave) attributable to services already rendered and not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits. Foundation employees earn vacation and sick time in varying amounts under personnel policies and negotiated agreements. In the event of resignation, retirement, or termination, an employee is reimbursed for unused vacation time. Retiring employees are reimbursed for sick time upon retirement at the rate of one half of the monetary value of his or her unused sick time, up to a maximum of $15,000. As of June 30, 2019 and 2018, a liability existed for compensated absences of $1,560,510 and $1,431,806, and are included in accounts payable and accrued expenses of $1,016,466 and $907,335, and other liabilities of $544,044 and $524,471, respectively.

(7) Restricted Contributions Receivable

The anticipated receipt of contributions receivable as of June 30, 2019 and 2018 is as follows:

	2019	2018
Year ending June 30:		
Within one year	$ 49,942,130	45,925,757
Two to five years	38,176,399	51,501,592
	88,118,529	97,427,349
Less allowance for uncollectible contributions receivable	(6,955,371)	(7,082,074)
	$ 81,163,158	90,345,275

Contributions receivable related to permanent endowments and term endowments do not meet the eligibility requirements for recognition of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, until received. This contribution receivable, which totaled $122,912,686 and $88,046,779, respectively, as of June 30, 2019 and 2018, has not been included in the accompanying financial statements.

(8) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of June 30, 2019 and 2018:

	2019	2018
Vendors	$ 5,480,992	3,284,308
Compensated absences	1,016,466	907,335
Other accrued expenses	141,020	136,058
	$ 6,638,478	4,327,701

(9) Noncurrent Liabilities

The following table summarizes the changes in noncurrent liabilities during the years ended June 30, 2019 and 2018:

	June 30, 2018	Additions	Reductions	June 30, 2019	Current portion
Other liabilities (compensated absences)	$ 1,431,806	221,421	(92,717)	1,560,510	1,016,466
Beneficial interest payable	8,120,654	473,108	(641,333)	7,952,429	925,241
	$ 9,552,460	694,529	(734,050)	9,512,939	1,941,707

(Continued)

		June 30, 2017	Additions	Reductions	June 30, 2018	Current portion
Other liabilities (comp. absences)	$	1,303,415	248,283	(119,892)	1,431,806	907,335
Beneficial interest payable		6,670,858	2,159,073	(709,277)	8,120,654	715,555
	$	7,974,273	2,407,356	(829,169)	9,552,460	1,622,890

(10) Commitments

The Foundation leases certain space used in general operations. Rental expenses were $362,697 and $832,208 for the years ended June 30, 2019 and 2018, respectively. The leases are noncancelable and have been classified as operating leases which are expected to expire through December 31, 2022. Minimum annual rental commitments approximate the following:

		Amount
Fiscal year:		
2020	$	261,972
2021		211,972
2022		97,861
Total	$	571,805

(11) University Receipts on Foundation Pledges

The Foundation records pledges receivable, and the associated gift income, for nonendowment related gifts and private grants based upon written commitments from these entities. From individual donors, the written support is primarily in the form of a fund agreement signed by both the donor(s) and the Foundation. Private grants obtained from private corporations and foundations are recorded upon confirmation of the grant award to the University via correspondence from the private organization. Payments on these pledges are not all received at the Foundation, as some payments are made directly to the University. Any payments made directly to the University are captured in the Foundation’s Statements of Revenues, Expenses and Changes in Net Position as gift revenue as well as distributions to the University. The total of these payments to the University as of June 30, 2019 and 2018 were $17,662,122 and $16,807,997, respectively.

(12) Blended Component Unit – RUF NYC LLC Organization

On October 4, 2017, the Foundation established a new limited liability company, RUF NYC LLC. The organization was created to provide a license to the University, for the benefit of the Rutgers Business School, to occupy space in New York City for the purpose of hosting potential donors and individuals in the fashion industry and develop and enhance a fashion business program at the University. As the RUF NYC LLC operates under the authority of a sole Foundation officer as a registered agent of the newly formed organization and who has operational responsibility of the entity, RUF NYC LLC is considered a blended component unit and assets, liabilities, and operating activities of RUF NYC LLC are included in the basic financial statements of the Foundation.

RUF NYC LLC's condensed Statements of Net Position and Revenue, Expenses, and Changes in Net Position as of and for the years ended June 30, 2019 and 2018 are as follows:

		2019	2018
Current assets:			
Cash and cash equivalents	$	24,769	15,369
Accounts receivable – current		3	1,080
Prepaid expenses		6,632	6,441
Total assets	$	31,404	22,890
Current liabilities:			
Accounts payable and accrued liabilities	$	—	254
Deferred revenue		31,404	22,636
Total liabilities	$	31,404	22,890

		2019	2018
Operating revenues:			
Special events	$	79,732	54,364
Total operating revenues	$	79,732	54,364
Operating expenses:			
Supplies	$	3,096	362
Other services (occupancy costs)		76,694	54,002
Total operating expenses	$	79,790	54,364
Nonoperating income:			
Interest income	$	58	—
Total nonoperating income	$	58	—