

FINANCIAL STATEMENTS

The Bowling Green State University Foundation, Inc.

Year ended June 30, 2004

With Report of Independent Auditors





**Auditor of State  
Betty Montgomery**

Board of Directors  
The Bowling Green State University Foundation, Inc.  
Mileti Alumni Center  
Bowling Green, Ohio 43403

We have reviewed the Independent Auditor's Report of The Bowling Green State University Foundation, Inc., Wood County, prepared by Ernst & Young LLP, for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Bowling Green State University Foundation, Inc. is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

November 8, 2004

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The Bowling Green State University Foundation, Inc.

Financial Statements

Year ended June 30, 2004

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## Report of Independent Auditors

The Board of Directors  
The Bowling Green State University Foundation, Inc.

We have audited the accompanying statement of financial position of The Bowling Green State University Foundation, Inc. as of June 30, 2004, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Bowling Green State University Foundation, Inc. as of June 30, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2004 on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



September 27, 2004

The Bowling Green State University Foundation, Inc.

Statement of Financial Position

June 30, 2004

**Assets**

Current assets:

Cash	\$ 942,591
Contributions receivable, net of allowance for uncollectible contributions ( <i>Note 2</i> )	5,748,577
Interest receivable	<u>192,223</u>
Total current assets	6,883,391

Investments (*Notes 1 and 3*):

Corporate stocks	44,659,801
U.S. government and agency obligations	9,689,100
Corporate bonds, debentures, and other	<u>12,468,640</u>
Total investments	66,817,541

Other assets	4,200
Contributions receivable, net of allowance for uncollectible contributions ( <i>Note 2</i> )	9,179,912
Cash value of life insurance ( <i>Note 4</i> )	<u>406,000</u>
Total assets	<u><u>\$ 83,291,044</u></u>

**Liabilities and net assets**

Current liabilities:

Accounts payable	\$ <u>303,752</u>
Total current liabilities	303,752

Annuities payable	<u>884,498</u>
Total liabilities	1,188,250

Net assets (*Notes 1, 6 and 7*):

Unrestricted	1,226,985
Temporarily restricted	30,809,587
Permanently restricted	<u>50,066,222</u>
Total net assets	<u>82,102,794</u>
Total liabilities and net assets	<u><u>\$ 83,291,044</u></u>

*See accompanying notes to financial statements.*

The Bowling Green State University Foundation, Inc.

Statement of Activities

Year ended June 30, 2004

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Support, revenue, and gains</b>				
Contributions and gifts	\$ 923,279	\$13,198,030	\$ 8,554,954	\$22,676,263
Interest and dividends	281,996	933,467	-	1,215,463
Net realized and unrealized gains	752,219	5,401,976	-	6,154,195
Other revenue	620,143	2,523,145	174,600	3,317,888
Transfers (Note 7)		459,647	(459,647)	-
Net assets released from restriction	7,944,393	(7,944,393)	-	-
Total support, revenue, and gains	<u>10,522,030</u>	<u>14,571,872</u>	<u>8,269,907</u>	<u>33,363,809</u>
<b>Expenses</b>				
Program services	8,685,966	-	-	8,685,966
Fund raising	811,096	-	-	811,096
Operating	618,505	-	-	618,505
Total expenses	<u>10,115,567</u>	<u>-</u>	<u>-</u>	<u>10,115,567</u>
Change in net assets	406,463	14,571,872	8,269,907	23,248,242
Net assets at the beginning of the year	820,522	16,237,715	41,796,315	58,854,552
Net assets at the end of the year	<u>\$1,226,985</u>	<u>\$30,809,587</u>	<u>\$50,066,222</u>	<u>\$82,102,794</u>

*See accompanying notes to financial statements.*



Bowling Green State University Foundation, Inc.

Statements of Cash Flows

Year ended June 30, 2004

**Operating activities**

Change in net assets	\$ 23,248,242
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net realized and unrealized gains	(6,154,195)
Contributions of securities	(19,759)
Provision for uncollectible contributions, net of actuarial adjustment on annuity obligations	352,931
Changes in operating assets and liabilities:	
Contributions and accounts receivable	(13,077,096)
Interest receivable	(12,978)
Accounts payable and accrued liabilities	139,341
Total adjustments	<u>(18,771,756)</u>
Net cash provided by operating activities	4,476,486

**Investing activities**

Net change in investments	(4,738,247)
Net change in cash surrender value of life insurance	103,273
Net cash used in investing activities	<u>(4,634,974)</u>

Decrease in cash	(158,488)
Cash at beginning of year	1,101,079
Cash at end of year	<u>\$ 942,591</u>

*See accompanying notes to financial statements.*

# The Bowling Green State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2004

### **1. Organization and Significant Accounting Policies**

The Bowling Green State University Foundation, Inc. (the Foundation) is a non-profit Ohio corporation, which assists in the development and advancement of Bowling Green State University (the University). All program expenses are for the benefit of the University.

Significant accounting policies followed in preparing the financial statements of the Foundation are presented below.

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

#### **Use of Estimates**

The preparation of financial statements 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, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

#### **Investments**

Investment securities are stated at fair value, based on quoted market value of the individual securities. Purchases and sales of investment securities are recorded on the trade date. Realized gains or losses from sale of securities are determined using the cost basis of the securities sold. Interest and dividend income is reported when earned.

Permanently restricted net assets participate in an investment pool in which each fund has a specific unit value interest. All investment income, including realized and unrealized gains and losses, derived from investments in the pool is allocated to the participating net assets based upon the current year's average balance of each fund.

# The Bowling Green State University Foundation

## Notes to Financial Statements (continued)

### 1. Organization and Significant Accounting Policies (continued)

#### Investments

The Foundation is named as a beneficiary of several irrevocable trusts. All of the assets of the trusts are held by third-parties who manage the assets and distribute the income as defined in each trust. Such assets are included in investment securities. The Foundation's interest in the future income stream of perpetual trusts is recognized based on the present market value of the trust assets. Under a split-interest trust, the donor is paid specified distributions for a future period of time and upon termination of the trust, the Foundation receives all or a portion of the trust. The Foundation's interest in such trusts is based on the estimated value of the assets to be received from each trust.

#### Fund Accounting and Net Asset Classifications

Resources of the Foundation are classified into net asset categories based on the limitations and restrictions placed on the contributions and gifts received. The net assets of the Foundation are classified into the following types for financial reporting purposes:

- Permanently restricted net assets represent contributions received whereby the donors have stipulated that the corpus is to be maintained permanently, but permit the Foundation to use or expend part or all of the income for either specified or unspecified purposes. The unexpended income from these donated assets are classified as temporarily restricted funds.
- Temporarily restricted net assets contain donor-imposed restrictions that permit the Foundation to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Foundation.
- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired. The governing board has the right to approve the use of these funds.

#### Administrative Fees and Spending Policy

The Foundation has adopted a spending policy with respect to amounts available for distribution on all endowed funds. The spending policy provides for a range of 3% to 7%, with the Board of Directors approving 3% for 2004.

# The Bowling Green State University Foundation

## Notes to Financial Statements (continued)

### **1. Organization and Significant Accounting Policies (continued)**

The Foundation has adopted a policy of charging an administrative fee on all endowed funds, unless prohibited by the guidelines of the fund. The Board of Directors approved an administrative fee of 0.9% for the years ended June 30, 2004. The Board of Directors also approved the charging of such fee on certain non-endowed funds. The fee is based on the prior two-year average market value balance for endowed funds and certain non-endowed funds. In 2003, the fees for endowed funds was based on the prior three-year average market value balance. The administrative fee amounted to \$432,466 in 2004 and is included in unrestricted other revenue.

#### **Promises to Give**

Unconditional promises to give are recognized as revenues in the period received and as assets, decreased of liabilities or expenses depending on the form of the benefits received. Conditional promises to gives are recognized when the conditions on which they depend are substantially met and the promises become unconditional.

#### **Restricted and Unrestricted Contributions**

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted and reported in the statements of activities as net assets released.

#### **Income Taxes**

The Foundation is incorporated under the laws of the State of Ohio as a nonprofit corporation and is exempt from federal, state and local income taxes. The Internal Revenue Service has determined that the Foundation is a tax-exempt organization as defined under Section 501(c)(3) of the Internal Revenue Code.

# The Bowling Green State University Foundation

## Notes to Financial Statements (continued)

### 1. Organization and Significant Accounting Policies (continued)

#### Annuities Payable

The Foundation receives life annuity donations. Fixed payments from these funds are to be remitted to the donor from the donor's specified date of commencement until death, at which time any remaining balance will revert to the Foundation. The Foundation reports as a contribution the difference between the funds received and the present value of all expected annuity payments to be made to the donor. A portion of the payments to the donors is charged to the annuities payable account each year.

### 2. Contributions Receivable and Contributed Services

As of June 30, 2004, contributors to the Foundation have made written unconditional promises to give, on which management has set up an allowance for uncollectible pledges. Contributions due greater than one year reflect a discount to net present value. Write-offs of uncollectible pledges for the years ended June 30, 2004 amounted to approximately \$293,000.

Contributions receivable at June 30 are due as follows:

	<u>2004</u>
Within one year	\$ 5,748,577
One to five years	10,162,810
More than five years	<u>352,580</u>
	16,263,967
Less allowance	(218,278)
Present value discount	<u>(1,117,200)</u>
Total	<u><u>\$ 14,928,489</u></u>

Contributions and gifts received include \$628 in 2004 and \$605,634 in 2003 from the BGSU Alumni Association.

Expenses related to occupancy of facilities, and salaries and fringe benefits of financial and accounting personnel are paid by the University on behalf of the Foundation and are not shown in the accompanying financial statements. The Foundation approximates the value of these items at \$345,000 in 2004. In addition, the University paid approximately \$224,000 in 2004 of fees and expenses relating to the current comprehensive campaign of the Foundation.

# The Bowling Green State University Foundation

## Notes to Financial Statements (continued)

### 3. Investments

Following is a summary of investments at June 30, 2004.

	<u>Fair Value</u>	<u>Cost</u>
Corporate stocks	\$44,659,801	\$40,225,363
U.S. government and agency obligations	9,689,100	9,923,096
Corporate bonds, debentures and other	12,468,640	12,637,062
Total	<u>\$66,817,541</u>	<u>\$62,785,521</u>

Net unrealized gains (losses) on investments at June 30 2004 were as follows:

Beginning of year	\$ (176,396)
End of year	<u>4,032,020</u>
Net unrealized gains (losses) for the year	<u>\$ 4,208,416</u>

Realized gains from sales of investment securities amounted to \$1,945,779 in 2004.

Certain investment securities are held by independent custodial and management agents. Custodial and management fees paid approximated \$274,000 in 2004 and are reported as reductions to interest and dividends in the accompanying statement of activities.

### 4. Life Insurance Policies

The Foundation is owner and beneficiary of certain life insurance policies which have a total face value of approximately \$3,916,000 at June 30, 2004. Premiums on these policies are generally paid by the insured individuals. The cash surrender value of such policies approximated \$406,000 at June 30, 2004 and is recorded in the accompanying statement of financial position.

### 5. Other Revenue

Unrestricted other revenue includes the administrative fee income charged to various funds. The administrative fee expense charged to the funds, as described in Note 1, is reported as a reduction of other cash receipts based on the classification of the funds. Also included in other revenue are monies received from various activities sponsored by University departments and organizations. The net proceeds from these activities are recorded in the appropriate funds.

# The Bowling Green State University Foundation

## Notes to Financial Statements (continued)

### 6. Restricted Net Assets

Temporarily restricted net assets at June 30, 2004 are available for the following purposes:

Student aid	\$ 15,629,566
General support of colleges and departments	10,324,658
Property and equipment	2,553,154
Endowed chairs and professorships	1,078,241
Research	597,557
Faculty and staff	204,391
Fellowship	422,020
Total temporarily restricted net assets	<u>\$ 30,809,587</u>

The following represents a summary of the net assets released from restrictions during the years ended June 30, 2004:

Student aid	\$ 1,951,562
General support of colleges and departments	5,420,523
Property and equipment	74,826
Various other programs	497,482
Total net assets released from restrictions	<u>\$ 7,944,393</u>

Permanently restricted net assets at June 30, 2004 are restricted to investments in perpetuity, the income from which is expendable to support the following purposes:

Student aid	\$ 29,414,798
General support of colleges and departments	8,923,684
Property and equipment	3,709,561
Endowed chairs and professorships	5,668,083
Research	1,448,964
Faculty and staff	687,465
Fellowship	213,667
Total permanently restricted net assets	<u>\$ 50,066,222</u>

# The Bowling Green State University Foundation

## Notes to Financial Statements (continued)

### **6. Restricted Net Assets (continued)**

Because of the decline in the market value of the Foundation's investment securities during 2001 to 2003, the value of certain permanently restricted funds has been reduced below the original corpus of the funds. Such deficiencies amounted to approximately \$199,000 at June 30, 2004. The deficiencies in 2004 were covered by board designated temporarily restricted funds.

### **7. Transfers of Net Assets**

During 2004, certain funds which originally had been reported as temporarily restricted became fully endowed funds once the fund's balance exceeded \$25,000. As a result \$234,196 of net assets have been reclassified as of June 30, 2004 to reflect such balances as permanently restricted net assets. In addition, \$693,843 of net assets have been reclassified as of June 30, 2004 from permanently restricted to temporarily restricted.

### **8. Subsequent Events**

In July, 2004, Bowling Green State University Foundation LLC (the Corporation) was formed as a wholly owned subsidiary of the Foundation. The Corporation was organized to acquire, hold title to and collect income from real property to the benefit of the Foundation and the University. As of the date of this report, the Corporation acquired the Foundation House as a value of approximately \$1,100,000.



## Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors  
The Bowling Green State University Foundation, Inc.

We have audited the financial statements of The Bowling Green State University Foundation, Inc. (the Foundation) as of and for the year ended June 30, 2004, and have issued our report thereon dated September 27, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

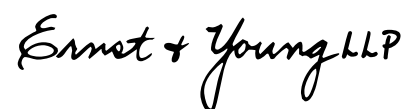
### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the board of directors, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



September 27, 2004





**Auditor of State  
Betty Montgomery**

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**BOWLING GREENE STATE UNIVERSITY FOUNDATION, INC.**

**WOOD COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 23, 2004**