



CONSOLIDATED FINANCIAL STATEMENTS

The Bowling Green State University Foundation, Inc.  
and Subsidiary  
Years Ended June 30, 2011 and 2010  
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**





# Dave Yost • Auditor of State

Board of Trustees  
The Bowling Green State University Foundation, Inc. and Subsidiary  
Mileti Alumni Center  
Bowling Green, Ohio 43403-0053

We have reviewed the *Report of Independent Auditors* of The Bowling Green State University Foundation, Inc. and Subsidiary, Wood County, prepared by Ernst & Young LLP, for the audit period July 1, 2010 through June 30, 2011. 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. and Subsidiary is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

December 2, 2011

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The Bowling Green State University Foundation, Inc. and Subsidiary

Consolidated Financial Statements

Years Ended June 30, 2011 and 2010

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## Report of Independent Auditors

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

We have audited the accompanying consolidated statements of financial position of The Bowling Green State University Foundation, Inc. and Subsidiary (collectively, the Foundation) as of June 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years 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 audits.

We conducted our audits 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. We were not engaged to perform an audit of the Foundation's internal control over financial reporting. Our audits included consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal controls over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Bowling Green State University Foundation, Inc. and Subsidiary as of June 30, 2011 and 2010, and the changes in their net assets and their cash flows for the years 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 October 14, 2011, 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 to 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 audits.

*Ernst + Young LLP*

October 14, 2011



The Bowling Green State University Foundation, Inc. and Subsidiary

Consolidated Statements of Financial Position

	June 30	
	2011	2010
<b>Assets</b>		
Current assets:		
Cash	\$ 643,839	\$ 287,776
Contributions receivable, net of allowance for uncollectible contributions ( <i>Note 2</i> )	5,332,400	4,818,198
Interest receivable	–	3,472
Total current assets	<u>5,976,239</u>	<u>5,109,446</u>
Investments ( <i>Notes 1 and 3</i> ):		
Corporate bond funds	40,706,163	36,355,457
Mutual funds	37,783,186	33,143,881
Alternative investments	15,932,789	13,706,854
Corporate stocks	11,260,442	4,577,921
Money market funds	2,139,498	2,970,021
U.S. government and agency obligations	187,679	171,258
Total investments	<u>108,009,757</u>	<u>90,925,392</u>
Prepaid and other assets	328,447	171,157
Long-term contributions receivable, net of allowance for uncollectible contributions ( <i>Note 2</i> )	6,509,614	8,496,453
Cash value of life insurance ( <i>Note 4</i> )	1,464,523	1,428,416
Total assets	<u>\$ 122,288,580</u>	<u>\$ 106,130,864</u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 198,009	\$ 215,495
Total current liabilities	<u>198,009</u>	<u>215,495</u>
Annuities payable	1,403,862	1,350,574
Total liabilities	<u>1,601,871</u>	<u>1,566,069</u>
Net (deficit) assets ( <i>Notes 1, 6, 7, 8, and 9</i> ):		
Unrestricted	1,322,657	(757,011)
Temporarily restricted	44,941,460	33,594,116
Permanently restricted	74,422,592	71,727,690
Total net assets	<u>120,686,709</u>	<u>104,564,795</u>
Total liabilities and net assets	<u>\$ 122,288,580</u>	<u>\$ 106,130,864</u>

See accompanying notes.  
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The Bowling Green State University Foundation, Inc. and Subsidiary

Consolidated Statement of Activities

Year Ended June 30, 2011

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Support, revenue, and gains</b>				
Contributions and gifts (net)	\$ 570,397	\$ 11,768,598	\$ 2,570,052	\$ 14,909,047
Interest and dividends	412,900	1,756,788	–	2,169,688
Net realized gains	1,495,039	11,365,458	–	12,860,497
Other revenue	1,291,485	59,889	14,140	1,365,514
Transfers (Note 7)	–	(110,710)	110,710	–
Net assets released from restriction (Note 6)	13,492,679	(13,492,679)	–	–
Total support, revenue, and gains	<u>17,262,500</u>	<u>11,347,344</u>	<u>2,694,902</u>	<u>31,304,746</u>
<b>Expenses</b>				
Program services	13,455,110	–	–	13,455,110
Fund-raising	1,000,636	–	–	1,000,636
Operating	727,086	–	–	727,086
Total expenses	<u>15,182,832</u>	<u>–</u>	<u>–</u>	<u>15,182,832</u>
Change in net assets	2,079,668	11,347,344	2,694,902	16,121,914
Net (deficit) assets at beginning of year	(757,011)	33,594,116	71,727,690	104,564,795
Net assets at end of year (Note 8)	<u>\$ 1,322,657</u>	<u>\$ 44,941,460</u>	<u>\$ 74,422,592</u>	<u>\$ 120,686,709</u>

See accompanying notes.

The Bowling Green State University Foundation, Inc. and Subsidiary

Consolidated Statement of Activities

Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support, revenue, and gains</b>				
Contributions and gifts (net)	\$ 553,033	\$ 7,080,420	\$ 2,593,497	\$ 10,226,950
Interest and dividends	267,187	2,072,215	–	2,339,402
Net realized gains	5,261,259	3,217,878	–	8,479,137
Other revenue	1,172,498	219,869	51,376	1,443,743
Transfers (Note 7)	–	(450,318)	450,318	–
Net assets released from restriction (Note 6)	13,228,193	(13,228,193)	–	–
Total support, revenue, and gains	20,482,170	(1,088,129)	3,095,191	22,489,232
<b>Expenses</b>				
Program services	13,457,902	–	–	13,457,902
Fund-raising	1,017,862	–	–	1,017,862
Operating	582,285	–	–	582,285
Total expenses	15,058,049	–	–	15,058,049
Change in net assets	5,424,121	(1,088,129)	3,095,191	7,431,183
Net (deficit) assets at beginning of year	(6,181,132)	34,682,245	68,632,499	97,133,612
Net (deficit) assets at end of year (Note 8)	<u>\$ (757,011)</u>	<u>\$ 33,594,116</u>	<u>\$ 71,727,690</u>	<u>\$ 104,564,795</u>

See accompanying notes.

The Bowling Green State University Foundation, Inc. and Subsidiary

Consolidated Statements of Cash Flows

	<b>Year Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
<b>Operating activities</b>		
Change in net assets	\$ 16,121,914	\$ 7,431,183
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized gains	(12,860,497)	(8,479,137)
Contributions of securities	(184,626)	(428,556)
Provision for uncollectible contributions	(25,635)	(42,858)
Changes in operating assets and liabilities:		
Contributions receivable	1,498,272	1,955,280
Interest receivable	3,472	26,368
Prepaid and other assets	(157,290)	(166,957)
Accounts and annuities payable	35,802	(103,167)
Total adjustments	<u>(11,690,502)</u>	<u>(7,239,027)</u>
Net cash provided by operating activities	4,431,412	192,156
<b>Investing activities</b>		
Sales of investments	25,388,183	94,586,626
Purchases of investments	(29,427,425)	(95,365,645)
Net change in cash surrender value of life insurance	(36,107)	(54,561)
Net cash used in investing activities	<u>(4,075,349)</u>	<u>(833,580)</u>
Increase (decrease) in cash	356,063	(641,424)
Cash at beginning of year	287,776	929,200
Cash at end of year	<u>\$ 643,839</u>	<u>\$ 287,776</u>

*See accompanying notes.*

# The Bowling Green State University Foundation, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

Years Ended June 30, 2011 and 2010

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

The consolidated financial statements include accounts of The Bowling Green State University Foundation, Inc. (the Foundation) and The Bowling Green State University Foundation LLC (the Corporation). Significant intercompany accounts and transactions have been eliminated.

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

In July 2004, 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.

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

#### **Basis of Accounting**

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**

Investments are recorded at fair value (see Note 3).

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 endowment funds 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 endowment investment pool is allocated to the participating endowment fund based upon the current year's average balance of each endowment fund.

# The Bowling Green State University Foundation, Inc. and Subsidiary

## Notes to Consolidated Financial Statements (continued)

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

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 fair 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.

#### **Net Asset Classifications**

Resources of the Foundation are maintained in accounts that 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 is classified as temporarily restricted net assets.
- 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.

#### **Promises to Give**

Unconditional promises to give are recognized as revenues on a discounted basis in the period made. Conditional promises to give are recognized when the conditions on which they depend are substantially met and the promises become unconditional.

# The Bowling Green State University Foundation, Inc. and Subsidiary

## Notes to Consolidated Financial Statements (continued)

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

#### **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 from restriction.

#### **In-Kind Gifts**

In-kind gifts, when received, are reflected as contributions in the accompanying consolidated financial statements at the estimated fair value at the date of receipt. Fair value measurement is determined based on various assumptions, judgments, and factors specific to the gift. In management's opinion, the values determined approximate fair value. The Foundation received in-kind gifts in 2011 and 2010 valued approximately at \$6,270,000 and \$1,109,000, respectively.

#### **Income Taxes**

The Foundation is incorporated under the laws of the State of Ohio as a non-profit 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 Corporation is incorporated as a limited liability corporation.

#### **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.

# The Bowling Green State University Foundation, Inc. and Subsidiary

## Notes to Consolidated Financial Statements (continued)

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

#### **Fair Value Measurements**

The Foundation measures certain financial assets and liabilities at fair value on a recurring basis. Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. The Foundation's assessment of the significance of a particular input to fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The following three-tier fair value hierarchy prioritizes the inputs used in measuring fair value:

Level 1 – Observable inputs such as quoted prices in active markets

Level 2 – Inputs, other than quoted prices in active markets, that are observable either directly or indirectly

Level 3 – Unobservable inputs for which there is little or no market data that requires the Foundation to develop assumptions

See Note 3 for further discussion of fair value measurements.

#### **Reclassifications**

Certain reclassifications have been made to the 2010 financial statements to be comparative to the 2011 presentation.

#### **Subsequent Events**

The Foundation evaluated the effect of subsequent events through October 14, 2011, representing the date on which the consolidated financial statements were available to be issued. No recognized subsequent events were identified for recognition or disclosure in the consolidated statements of financial position or the accompanying notes to the consolidated financial statements.



The Bowling Green State University Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements (continued)

**2. Contributions Receivable and Contributed Services**

Contributors to the Foundation have made written unconditional promises to give, on which management has set up an allowance for uncollectible pledges. Contributions receivable reflect net present value using the Internal Revenue Code Section 7520 discount rate of 2.80% and 3.20% as of June 30, 2011 and 2010, respectively. Write-offs of uncollectible pledges for the years ended June 30, 2011 and 2010, amounted to approximately \$238,000 and \$957,000 respectively, and are recorded net of contributions and gifts.

Contributions receivable at June 30 are due as follows:

	<u>2011</u>	<u>2010</u>
Within one year	\$ 5,458,323	\$ 4,942,765
One to five years	6,397,398	8,225,777
More than five years	800,706	1,295,072
	<u>12,656,427</u>	14,463,614
Less allowance	(212,996)	(238,630)
Present value discount	(601,417)	(910,333)
Total	<u>\$ 11,842,014</u>	<u>\$ 13,314,651</u>

The Foundation has conditional promises to give of approximately \$75,027,000 and \$62,395,000 for estates or planned gifts as of June 30, 2011 and 2010, respectively, which are not shown in the accompanying financial statements until the condition has been fulfilled.

Expenses related to occupancy of facilities, certain salaries and fringe benefits of financial, accounting, and development 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 \$1,971,000 in 2011 and \$1,957,000 in 2010.

# The Bowling Green State University Foundation, Inc. and Subsidiary

## Notes to Consolidated Financial Statements (continued)

### **3. Investments**

The Foundation records investments in cash equivalents, corporate stocks, equity securities, corporate bond funds, and mutual funds at their current fair values based on quoted market prices in active markets for identical assets, which is consistent with Level 1 in the hierarchy.

The Foundation records its investments in government bonds at their current fair values based on quoted market prices in markets that are not active for all significant inputs, which is consistent with Level 2 in the hierarchy. Some mutual funds not actively traded in open markets are also included in this category.

The Foundation holds investments in various limited partnerships, real estate investment trusts, arbitration funds, and other private investments, which are reported using the equity method of accounting. The Foundation also has investments reported at net asset value, which represents fair value as reported by the general partner or fund manager. Investments without readily determinable quoted market prices in active markets are valued based on estimates by partnership manager, fund managers, and various valuation committees and include original costs, restrictions affecting marketability, operating results, financial condition of the issuers, and the price of the most recent financing transactions. In management's opinion, the stated values approximate fair value as determined by the respective managers. Due to the inherent uncertainty of valuation, the estimated fair values of the limited partnerships, real estate funds, private investment, and fund of funds may differ significantly from values that would have been used had a readily available market value for the investments existed, and the differences could be material. Some of the investments held by the Foundation have time limitations on liquidation. These vary from six months to the term of the limited partnership, trust, or fund. During this period, the Foundation, unless certain events occur, will be unable to liquidate these investments. The Foundation is subject to unrelated business income tax related to its investments in various partnerships.

The Bowling Green State University Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements (continued)

**3. Investments (continued)**

Following is a summary of fair value of investments at June 30:

	<u>2011</u>	<u>2010</u>
Corporate bond funds	\$ 40,706,163	\$ 36,355,457
Mutual funds	37,783,186	33,143,881
Corporate stocks	11,260,442	4,577,921
Money market funds	2,139,498	2,970,021
U.S. government and agency obligations	187,679	171,258
Alternative investments:		
Private investment	8,470,082	7,234,043
Fund of funds	5,460,092	5,323,662
Real estate funds	2,002,615	1,149,149
Subtotal alternative investments	<u>15,932,789</u>	<u>13,706,854</u>
Total	<u>\$ 108,009,757</u>	<u>\$ 90,925,392</u>

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

	<u>2011</u>	<u>2010</u>
Beginning of year	\$ (3,748,446)	\$ (14,394,754)
End of year	7,505,956	(3,748,446)
Net unrealized gains for the year	<u>\$ 11,254,402</u>	<u>\$ 10,646,308</u>

Realized gains (losses) from sales of investment securities amounted to \$1,606,095 in 2011 and (\$2,167,171) in 2010.

The Bowling Green State University Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements (continued)

**3. Investments (continued)**

The Foundation measures certain financial assets at fair value on a recurring basis. The fair value of these financial assets was determined using the following inputs at June 30, 2011 and 2010:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>June 30, 2011</b>
<b>Assets</b>				
Cash and money market funds	\$ 2,139,498	\$ —	\$ —	\$ 2,139,498
Domestic corporate stocks	11,260,442	—	—	11,260,442
Mutual funds:				
Domestic funds	15,710,847	—	—	15,710,847
International funds	22,072,339	—	—	22,072,339
U.S. government and agency obligations	—	187,679	—	187,679
Corporate bond funds	40,706,163	—	—	40,706,163
Total assets	<u>\$ 91,889,289</u>	<u>\$ 187,679</u>	<u>\$ —</u>	<u>\$ 92,076,968</u>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>June 30, 2010</b>
<b>Assets</b>				
Cash and money market funds	\$ 2,970,021	\$ —	\$ —	\$ 2,970,021
Domestic corporate stocks	4,577,921	—	—	4,577,921
Mutual funds:				
Domestic funds	12,009,810	5,440,617	—	17,450,427
International funds	15,693,454	—	—	15,693,454
U.S. government and agency obligations	—	171,258	—	171,258
Corporate bond funds	36,355,457	—	—	36,355,457
Total assets	<u>\$ 71,606,663</u>	<u>\$ 5,611,875</u>	<u>\$ —</u>	<u>\$ 77,218,538</u>

During the period ended June 30, 2011, the Foundation sold its investment in its domestic mutual funds classified as Level 2 at June 30, 2010. The funds were transferred to another mutual fund classified as Level 1 at June 30, 2011.

# The Bowling Green State University Foundation, Inc. and Subsidiary

## Notes to Consolidated Financial Statements (continued)

### **3. Investments (continued)**

The amount of total losses for the period attributable to the unrealized losses for financial instruments within alternative investments held for the years ended June 30, 2011 and 2010, is \$268,000 and \$135,000, respectively. The Foundation had outstanding commitments to invest in various alternative investments at June 30, 2011 and 2010, amounting to approximately \$4,200,000 and \$5,900,000, respectively.

Assets held in charitable remainder trust principally consist of corporate stocks and corporate bonds and debentures. Unrealized gains amounted to approximately \$329,000 and \$197,000 at June 30, 2011 and 2010, respectively, and realized losses of approximately \$20,000 and \$39,000 were recognized for the years ended June 30, 2011 and 2010, respectively.

Certain investment securities are held by independent custodial and management agents. Custodial and management fees paid approximated \$145,000 and \$185,000 in 2011 and 2010, respectively, and are reported as reductions to interest and dividends in the accompanying statements of activities.

### **4. Life Insurance Policies**

The Foundation is owner and beneficiary of certain life insurance policies that have a total face value of approximately \$8,154,000 at June 30, 2011 and \$8,245,000 at June 30, 2010. Premiums on these policies are generally paid by the insured individuals. The cash surrender value of such policies approximated \$1,465,000 at June 30, 2011, and \$1,428,000 at June 30, 2010, and is recorded in the accompanying statements of financial position.

### **5. Other Revenue**

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

The Bowling Green State University Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements (continued)

**6. Restricted Net Assets**

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

	<b>2011</b>	<b>2010</b>
General support of colleges and departments	<b>\$ 21,368,572</b>	\$ 20,863,147
Student aid	<b>15,045,930</b>	7,747,918
Property and equipment	<b>3,839,840</b>	2,480,609
Endowed chairs and professorships	<b>2,824,990</b>	1,287,326
Research	<b>986,765</b>	701,726
Fellowship	<b>489,143</b>	131,997
Faculty and staff	<b>386,220</b>	381,393
Total temporarily restricted net assets	<b><u>\$ 44,941,460</u></b>	<u>\$ 33,594,116</u>

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

	<b>2011</b>	<b>2010</b>
Property and equipment	<b>\$ 6,687,408</b>	\$ 6,460,009
General support of colleges and departments	<b>4,177,323</b>	4,582,403
Student aid	<b>2,209,192</b>	1,813,335
Endowed chairs and professorships	<b>175,672</b>	29,000
Research	<b>89,674</b>	78,049
Faculty and staff	<b>79,520</b>	96,004
Fellowship	<b>73,890</b>	169,393
Total net assets released from restrictions	<b><u>\$ 13,492,679</u></b>	<u>\$ 13,228,193</u>

The Bowling Green State University Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements (continued)

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

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

	<u>2011</u>	<u>2010</u>
Student aid	\$ 43,235,992	\$ 42,036,581
General support of colleges and departments	17,585,788	16,063,136
Endowed chairs and professorships	8,869,097	8,919,460
Property and equipment	1,818,317	1,805,648
Faculty and staff	1,592,974	1,582,991
Research	1,131,090	1,130,540
Fellowship	189,334	189,334
Total permanently restricted net assets	<u>\$ 74,422,592</u>	<u>\$ 71,727,690</u>

**7. Transfers of Net Assets**

During 2011 and 2010, certain funds that originally had been reported as temporarily restricted became fully endowed funds once the fund's balance exceeded \$25,000. As a result, approximately \$111,000 and \$450,000 of net assets have been reclassified as of June 30, 2011 and 2010, respectively, to reflect such balances as permanently restricted net assets.

**8. Unrestricted Balances**

The unrestricted net assets (deficit) consist of the following as of June 30, 2010:

Operating	\$ 1,788,727
Transfer of endowment deficiencies ( <i>Note 9</i> )	(2,052,961)
Unrealized investment losses	(492,777)
Total unrestricted net assets (deficit)	<u>\$ (757,011)</u>

On June 30, 2011, the Foundation had unrestricted net assets.

# The Bowling Green State University Foundation, Inc. and Subsidiary

## Notes to Consolidated Financial Statements (continued)

### **9. Endowment Balances**

The Foundation's endowment consists of approximately 875 individual funds established for a variety of purposes. The endowment includes donor-restricted endowment funds. Net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Governing board restrictions are reported in unrestricted net assets.

The governing board of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently net restricted assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation



# The Bowling Green State University Foundation, Inc. and Subsidiary

## Notes to Consolidated Financial Statements (continued)

### **9. Endowment Balances (continued)**

The Foundation has its investment and spending policies for endowment assets such that it attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specific period(s). Under this policy, as approved by the governing board, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs over the long term. Actual returns in any given year may vary.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based and alternative investments to achieve its long-term objective within prudent risk constraints.

The Foundation records the annual income of the endowment as temporarily restricted and appropriated for expenditure upon meeting donor stipulations. In establishing this policy, the Foundation considered the long-term expected return on its endowment. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment returns.

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 3.0% to 7.0% of the three-year rolling average market value of endowed fund balances, with the Board of Directors approving 3.0% for 2011 and 2010.

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 1.3% and 1.2% for the years ended June 30, 2011 and 2010, respectively. 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. The administrative fee amounted to approximately \$1,148,000 in 2011 and \$1,020,000 in 2010 and is included in unrestricted other revenue.

The Bowling Green State University Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements (continued)

**9. Endowment Balances (continued)**

The following table shows the changes in permanently restricted assets:

	<b>Permanently Restricted</b>
July 1, 2009	\$ 68,632,499
Contributions	2,593,497
Other cash receipts	51,375
Other changes:	
Transfers:	
Temporary accounts to permanent	450,319
Total transfers	<u>450,319</u>
June 30, 2010	71,727,690
Contributions	2,570,052
Other cash receipts	14,140
Other changes:	
Transfers:	
Temporary accounts to permanent	110,710
Total transfers	<u>110,710</u>
June 30, 2011	<u><u>\$ 74,422,592</u></u>

From time to time, the fair value of assets associated with individual donor-restricted funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. These deficiencies resulted from unfavorable market fluctuations that occurred during the year. There were approximately \$2,000,000 of such deficiencies as of June 30, 2010. In accordance with Accounting Standards Codification 958-205, *Not-for-Profit Entities – Presentation of Financial Statements* (formerly FSP FAS 117-1), these deficiencies are reflected in unrestricted net assets rather than in temporarily restricted net assets by reclassing these deficiencies from temporarily restricted net assets to unrestricted net assets and are reported as realized and unrealized losses in the accompanying statements of activities. As the financial markets recover and the value of such funds exceeds historical costs, such amounts will be reclassified from unrestricted funds and continue to be recorded as temporarily restricted net assets. Approximately \$3,600,000 of such funds were reclassified from unrestricted funds to temporarily restricted net assets as of June 30, 2010.

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

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

We have audited the financial statements of The Bowling Green State University Foundation, Inc. and Subsidiary (collectively, the Foundation) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 14, 2011. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's consolidated 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 and use of management, Board of Directors, and others within the Foundation and is not intended to be, and should not be, used by anyone other than these specified parties.

*Ernst + Young LLP*

October 14, 2011

Ernst & Young LLP

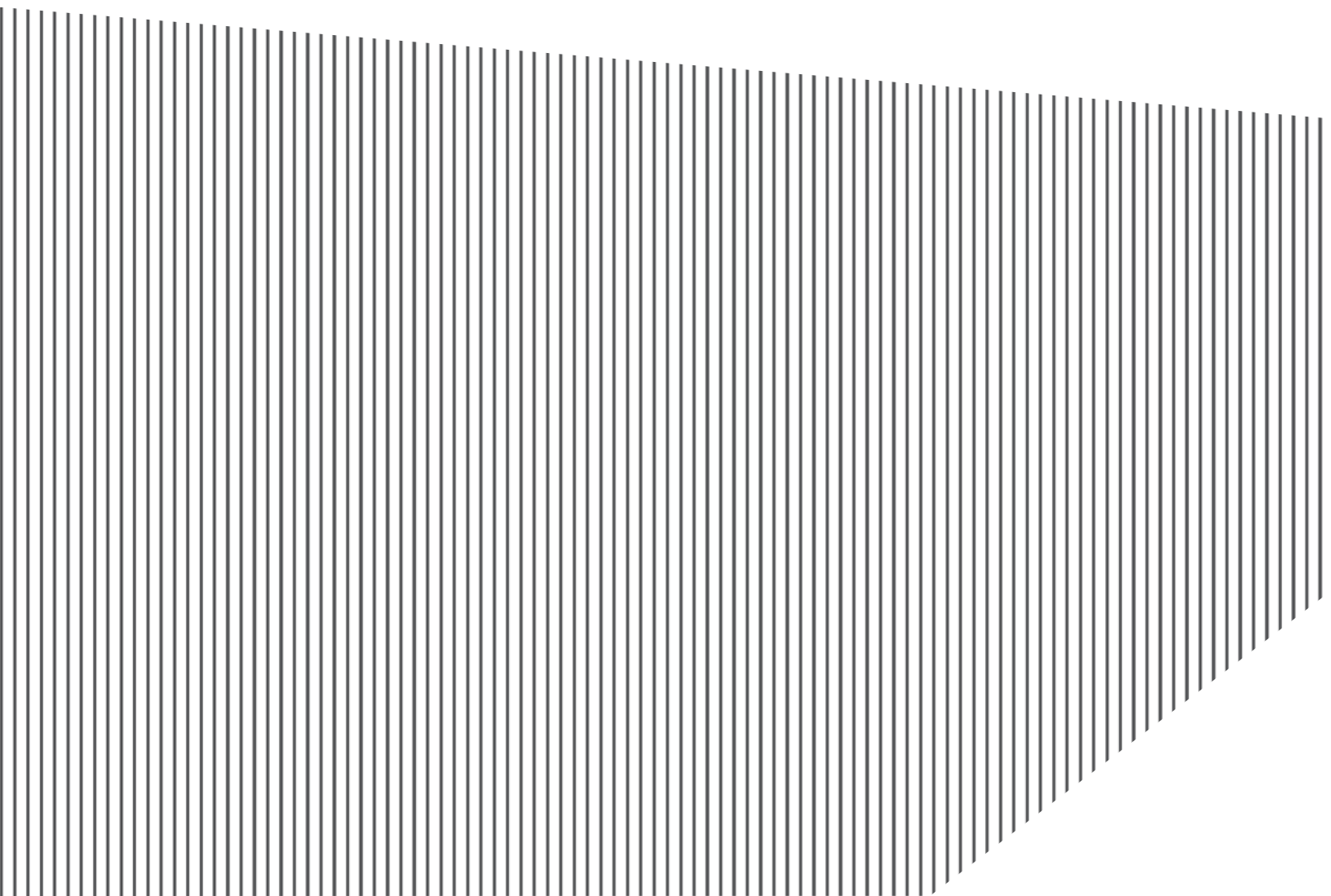
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# Dave Yost • Auditor of State

**THE BOWLING GREEN STATE UNIVERSITY FOUNDATION INC AND SUBSIDIARY  
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  
DECEMBER 15, 2011**