

BOWLING GREEN STATE UNIVERSITY

Financial Statements

June 30, 2003 and 2002

(With Independent Auditors' Report Thereon)



**Auditor of State
Betty Montgomery**

Board of Trustees
Bowling Green State University
907 Administrative Building
Bowling Green, Ohio 43403

We have reviewed the Independent Auditor's Report of the Bowling Green State University, Wood County, prepared by KPMG LLP, for the audit period July 1, 2002 to June 30, 2003. 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 is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 22, 2004

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BOWLING GREEN STATE UNIVERSITY

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Suite 1200
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Independent Auditors' Report

The Board of Trustees
Bowling Green State University:

We have audited the accompanying basic financial statements of Bowling Green State University (the University), a component unit of the State of Ohio, as of and for the years ended June 30, 2003 and 2002, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits provide 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 Bowling Green State University as of June 30, 2003 and 2002, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in note 1, during the year ended June 30, 2002, the University adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities – An Amendment of GASB Statement No. 34*; GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 30, 2003 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 1 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

September 30, 2003

BOWLING GREEN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements and Financial Analysis

This section of the Bowling Green State University ("University") annual financial report presents management's discussion and analysis of the financial performance of the University during the fiscal year ended June 30, 2003. This discussion provides an overview of the University's financial activities and should be read in conjunction with the accompanying financial statements and footnotes.

The annual report consists of the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows, prepared in accordance with Governmental Accounting Standards Board ("GASB") principles. Effective with the fiscal year ended June 30, 2002, the University adopted Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities* as amended by GASB Statements No. 37 and implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These financial statements differ significantly, in both the form and the accounting principles utilized, from prior financial statements. The financial statements presented in prior years focused on the accountability of fund groups, while these statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole.

The Statement of Net Assets includes all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) is one indicator of the improvement or erosion of the University's financial health when considered with non-financial facts such as enrollment levels and the condition of facilities.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A public University's dependency on State aid and gifts typically result in operating deficits because the financial reporting model classifies State appropriations and gifts as nonoperating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital financing and related investing activities, and helps measure the ability of the institution to meet financial obligations as they mature.

Noteworthy Financial Activity

The University's financial position, changed and grew in most areas during the fiscal year ended June 30, 2003 as compared to the previous year as evidenced by:

- The University's total assets increased over the prior year by \$18.5 million, of which \$5.2 million is attributed to an increase in current assets. Restricted investments increased by \$16.3 million, mainly from unspent bond proceeds. Capital assets decreased by \$2.9 million, mainly due to increased depreciation exceeding the assets capitalized.
- Total liabilities increased by \$15.3 million due primarily to the \$12.0 million increase in bonded debt and \$2.1 and \$2.2 million increases in accounts payable and deferred revenue respectively.
- The University's net assets increased to \$300.3 million an increase of \$3.2 million compared to the prior years increase of \$37.7 million. Contributing to this decrease from the prior year was a \$15.0 million decline in State projects capitalized for the year, a decrease of \$5.4 million in nonoperating revenue, and an increase of \$14.0 million in operating loss. Three major factors contributing to the increase in the net operating loss were significant increases in student financial aid and depreciation, and a decrease in net income for auxiliary enterprises. Of the total net assets, \$211.4 million is invested in either capital assets or is restricted. The remaining \$88.9 million is unrestricted, an increase of \$5.4 million from the prior year.
- Operating revenues increased by \$21.1 million compared to the prior year with \$13.1 million directly related to increased student tuition and fees and \$5.0 million related to auxiliary enterprises.
- The University's operating expenses increased by \$35.1 million, \$27.5 million in educational and general expenses and \$6.6 in auxiliary enterprise expenses. Increases in the educational and general expenses included \$4.5 million for depreciation, \$2.8 million for telecommunications, \$9.3 million for instruction and research, and \$5.2 and \$5.9 million for student services and institutional support respectively.
- Nonoperating revenue changed, primarily due to an investment income decrease of \$3.4 million, and a decrease in other nonoperating revenue of \$5.9 million, primarily due to one-time revenue received from the Foundation for the construction of the Bowen-Thompson Student Union last year. The 2003 financial statements also reflect a reallocation of unfunded worker's compensation liabilities to the State of Ohio of \$2.7 million, which reduces the liability to \$0 at June 30, 2003. State appropriations decreased by \$.6 million for the year.

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. Assets and liabilities are generally measured using current values. One exception is capital assets, which are stated at historical cost less an allowance for depreciation.

A summary of the University's assets, liabilities and net assets at June 30, 2003 and 2002 follows:

	<u>2003</u> (in thousands)	<u>2002</u> (in thousands)
ASSETS		
Current assets	\$136,486	\$131,320
Noncurrent assets:		
Capital Assets	282,615	285,509
Other	<u>27,226</u>	<u>11,006</u>
Total Noncurrent Assets	<u>309,841</u>	<u>296,515</u>
Total assets	<u>\$446,327</u>	<u>\$427,835</u>
LIABILITIES		
Current liabilities	\$44,019	\$40,305
Noncurrent liabilities	<u>102,011</u>	<u>90,405</u>
Total liabilities	<u>\$146,030</u>	<u>\$130,710</u>
NET ASSETS		
Invested in capital assets net of related debt	\$208,529	\$204,691
Restricted, expendable	2,889	8,958
Unrestricted	<u>88,879</u>	<u>83,476</u>
Total net assets	<u>\$300,297</u>	<u>\$297,125</u>

At June 30, 2003, total University assets were \$446.3 million, compared to \$427.8 million in fiscal 2002. The University's largest asset is its investment in physical plant of \$282.6 million at June 30, 2003 compared to \$285.5 million in fiscal 2002.

In fiscal 2003, the University's current assets of \$136.5 million were sufficient to cover current liabilities of \$44.0 million (current ratio of 3.1:1). In fiscal 2002, current assets of \$131.3 million were sufficient to cover current liabilities of \$40.3 million (current ratio of 3.3:1). Cash increased by \$.3 million in 2003 compared to a decrease of \$1.3 million in 2002 due to bond proceeds spend down. Investments increased by \$19.7 million in 2003 due to the bond proceeds from the May sale of bonds for utility upgrades and residence hall renovations. In 2002 investments declined \$5.1 million due to the spend down of the 2000 bond issue.

University liabilities total \$146.0 million at June 30, 2003 compared to \$130.7 million in fiscal 2002. Long-term debt of \$102.0 million increased \$11.6 million from \$90.4 million in 2002 and is comprised primarily of bonds payable, \$84.0 million and \$72.2 million respectively.

Total net assets increased by \$3.2 million to \$300.3 million in 2003, and \$34.7 million to \$297.1 million in 2002, due in part to increases of \$3.8 million and \$26.9 million in investment in capital assets, net of related debt respectively. Unrestricted net assets total \$88.9 million in 2003, while \$2.9 million was restricted or designated for loans, capital projects and debt service. In 2002 unrestricted net assets totaled \$83.5 million and restricted \$8.9 million. The change in unrestricted between the years, \$6.1 million, was due entirely to reduced funds for capital projects.

During 2003 the University issued \$27.2 million of debt that was used to refund the 1991 and 1992 bond issues and provide resources for basic renovations, infrastructure improvements and networking capacity in residence halls and to enhance utility savings and energy conservation through improvements to utilities and infrastructure in various campus buildings. In 2002 capital assets increased \$26.9 million, net of related debt, primarily due to the completion and capitalization of the Bowen-Thompson Student Union and several smaller State funded renovation projects.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the operating results of the University, as well as the nonoperating revenues and expenses. Operating revenues primarily include net student tuition and fees, grants and contracts, and auxiliary activities. Given a public university's dependency on revenues such as state appropriations and investment income which are prescribed by GASB as nonoperating revenues, operating expenses will typically exceed operating revenues resulting in an operating loss. To determine the increase or decrease in Net Assets, net nonoperating revenue or expense needs to be included.

A summary of the University's revenues, expenses and changes in net assets for the years ended June 30, 2003 and 2002 follows:

	<u>2003</u> (in thousands)	<u>2002</u> (in thousands)
Operating Revenues:		
Student Tuition and Fees	\$115,824	\$102,731
Auxiliary Enterprises	60,288	55,240
Grants and Contracts	14,252	13,474
Sales and Service	7,538	7,154
Other Operating Revenues	<u>2,816</u>	<u>956</u>
Total Operating Revenues	\$200,718	\$179,555
Operating Expenses:		
Educational and General	\$237,664	\$210,110
Auxiliary Enterprises	59,316	52,725
Other Expenditures	<u>6,942</u>	<u>5,942</u>
Total Operating Expenses	<u>\$303,922</u>	<u>\$268,777</u>
Operating loss	(\$103,204)	(\$89,222)
Nonoperating revenues:		
State Appropriations	\$84,627	\$85,183
Other Nonoperating Revenues and Expenses	<u>15,094</u>	<u>19,889</u>
Total Nonoperating Revenue	\$99,721	\$105,072
Income before other revenues, expenses, gains or losses	(\$3,483)	\$15,850
Capital appropriations and gifts	<u>6,655</u>	<u>21,816</u>
Total increase in net assets	\$3,172	\$37,666
Net assets at beginning of year, as originally reported	\$297,125	\$443,946
Cumulative effect of change in accounting principle	<u>- 0 -</u>	<u>(184,487)</u>
Net assets at the beginning of the year as adjusted	<u>\$297,125</u>	<u>\$259,459</u>
Net assets, end of year	<u>\$300,297</u>	<u>\$297,125</u>

The most significant sources of operating revenues for the University are tuition and fees \$115.8 million for 2003 compared to \$102.7 million in 2002, an increase of 12.8% attributable to the 14.4% tuition increase for continuing students and 18.7% increase for new students (net of a \$7.0 million increase in scholarship allowances) effective for Fall Semester 2003. In 2002 net tuition and fees were \$7.1 million (7.4%) greater than the prior year due to an 8.1% tuition increase. Auxiliary enterprise revenue was \$60.3 for 2003 compared to \$55.2 million in 2002, due largely to the increase in sales due to a full years operations for units located in the Bowen-Thompson Student Union (Bookstore - \$1.5 million, Union rentals - \$.6 million) and the 6.7% (\$1.2 million) increase in Residence Hall rates. For 2002 auxiliary revenue and expense was consistent with the prior year and a 5.7% overall room and board rate increase. Grants and contracts revenue increased to \$14.3 million for 2003 from \$13.5 million for 2002, and \$11.4 million in 2001, and the sales and services of educational departments was \$7.5 million in 2003 compared to \$7.2 million in 2002 and \$7.6 million in 2001.

Operating expenses, including auxiliary enterprises of \$59.3 million compared to \$52.7 million last year and depreciation of \$17.0 million compared to \$12.5 million, totaled \$303.9 million compared to \$268.8 million for fiscal 2003 and 2002 respectively an increase of \$35.1 million (13%). In 2002 operating expenses increased only \$.8 million from 2001. Units contributing to the increase in auxiliary expenses in 2003 were the Bookstore \$1.3 million, Student Union \$1.2 million, Residence Halls \$1.1 million and Dining Services \$.3 million. Educational and General operating expenses increased due to a change in how Telecommunications activity was recognized, operating cost for the infrastructure project completed in 2002, and a substantial increase in the allocated computer costs. In 2002 auxiliary enterprises and educational and general operating expenses were comparable to the prior year.

State appropriations, the most significant nonoperating revenue, totaled \$84.6 million in the current year down \$.6 million from 2002's \$85.2 million which was up \$1.7 million from 2001. Investment income was lowered by \$3.4 million, \$6.5 to \$3.1 million, due to lower interest rates and a shortening of the maturities in the portfolio in anticipation of moving money to outside managers. Investment income for 2002 was down \$3.0 million from the prior year due to lower interest rates. Other non-operating revenues declined \$5.9 million in 2003 and increased \$5.7 million in 2002 due entirely to the \$6.0 million transfer from the Foundation for the Bowen-Thompson Student Union which was recognized in 2002. Capital appropriations declined \$15.2 million from \$21.8 million to \$6.6 million from fiscal 2002 to 2003. This decline was attributable to lower capital contributions reflecting fewer State funded projects finished and capitalized. Capital appropriations increased \$8.3 million from 2001 to 2002 due to the capitalization of a greater number of State funded projects.

There were no changes in accounting principles to be recognized in the current year.

Bowling Green State University
Statements of Net Assets

ASSETS	<u>June 30</u>	
Current Assets	<u>2003</u>	<u>2002</u>
Cash (Note 2)	\$ 2,057,410	\$ 1,737,396
Short-term investments (Note 2)	120,489,307	117,029,327
Accrued interest receivable	585,507	1,429,775
Accounts receivable, net (Note 3)	7,817,379	7,065,962
Inventories	3,930,387	2,383,954
Notes receivable (Note 4)	1,437,832	1,426,520
Other assets	168,357	246,908
Total current assets	136,486,179	131,319,842
Noncurrent Assets		
Restricted investments (Note 2)	20,608,434	4,342,991
Notes receivable (Note 4)	6,617,317	6,664,066
Capital assets, net (Note 5)	282,615,243	285,508,649
Total noncurrent assets	309,840,994	296,515,706
Total Assets	446,327,173	427,835,548
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses (Note 6)	16,742,001	14,670,992
Deferred revenue	13,990,889	11,756,110
Deposits	1,061,704	1,957,376
Current portion of long-term debt and other obligations (Note 7)	12,224,628	11,920,400
Total current liabilities	44,019,222	40,304,878
Noncurrent Liabilities		
Long-term debt and other obligations (Note 7)	102,010,962	90,405,364
Total Liabilities	146,030,184	130,710,242
NET ASSETS		
Invested in capital assets, net of related debt	208,528,721	204,691,406
Restricted for expendable:		
Loans	857,908	750,912
Capital projects	1,623,182	7,798,802
Debt service	408,400	408,400
Unrestricted	88,878,778	83,475,786
Total net assets	\$ 300,296,989	\$ 297,125,306

See accompanying notes to financial statements

Bowling Green State University
Statements of Revenues, Expenses, and Changes in Net Assets
 Years Ended June 30

REVENUES

Operating Revenues

	<u>2003</u>	<u>2002</u>
Student tuition and fees (net of scholarship allowances of \$ 36,013,181 for 2003 and \$ 29,052,583 for 2002)	\$ 115,823,325	102,731,084
Federal grants and contracts	7,836,074	6,814,631
State grants and contracts	1,590,273	1,732,574
Local grants and contracts	40,270	37,402
Nongovernmental grants and contracts	4,786,001	4,889,777
Sales and services of educational departments	7,538,041	7,154,089
Auxiliary enterprises (net of scholarship allowances of \$ 1,413,949 for 2003 and \$ 1,443,703 for 2002)	60,287,545	55,239,918
Other operating revenues	<u>2,816,225</u>	<u>955,710</u>
Total operating revenues	<u>200,717,754</u>	<u>179,555,185</u>

EXPENSES

Operating Expenses

Educational and General		
Instruction	98,631,531	90,337,316
Research	5,471,769	4,471,859
Public services	9,380,596	9,019,547
Academic support	25,051,482	24,408,987
Student services	24,079,404	18,824,314
Institutional support	27,263,109	21,337,150
Operations and maintenance of plant	17,164,305	16,052,139
Depreciation	17,034,474	12,517,849
Student aid	13,587,180	13,140,496
Auxiliary enterprises	59,316,411	52,724,868
Other expenditures	<u>6,941,757</u>	<u>5,942,359</u>
Total operating expenditures	<u>303,922,018</u>	<u>268,776,884</u>
Operating loss	<u>(103,204,264)</u>	<u>(89,221,699)</u>

NONOPERATING REVENUES (EXPENSES)

State appropriations	84,627,593	85,182,505
Nonexchange grants and contracts	13,416,637	11,733,486
Investment income, net	3,127,701	6,543,969
Interest on capital asset-related debt expenditure	(4,296,021)	(4,504,222)
Allocation from State of Ohio	2,680,448	-
Other nonoperating revenues	<u>164,310</u>	<u>6,115,784</u>
Net nonoperating revenues	<u>99,720,668</u>	<u>105,071,522</u>
Income before other revenues, expenses, gains, or losses	(3,483,596)	15,849,823
Capital appropriations	6,655,279	21,802,412
Capital grants and gifts	-	14,304
Total other revenues	<u>6,655,279</u>	<u>21,816,716</u>
Increase in net assets	<u>3,171,683</u>	<u>37,666,539</u>

NET ASSETS

Net assets at the beginning of year, as originally reported	297,125,306	443,945,835
Cumulative effect of change in accounting principle	-	(184,487,068)
Net assets at the beginning of year as adjusted	<u>297,125,306</u>	<u>259,458,767</u>
Net assets at the end of year	<u>\$ 300,296,989</u>	<u>297,125,306</u>

See accompanying notes to financial statements

Bowling Green State University
Statements of Cash Flows
Years Ended June 30

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 116,850,922	\$ 103,764,589
Research grants and contracts	14,273,225	12,401,954
Payments to vendors for supplies and services	(90,326,834)	(74,086,145)
Payments to employees and benefits	(182,069,509)	(170,260,340)
Payments for scholarships and fellowships	(13,393,711)	(14,910,055)
Student loans granted, net of repayments	70,594	(11,669)
Auxiliary enterprises	59,630,445	55,467,348
Sales and services of educational departments	7,538,041	7,154,089
Other receipts	2,779,055	796,034
Net cash used by operating activities	(84,647,772)	(79,684,195)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	84,627,593	85,182,505
Direct Lending Receipts	64,745,669	59,542,151
Direct Lending Disbursements	(64,745,669)	(59,542,151)
Grants received for other than capital purposes	13,416,637	11,733,486
Net cash provided by noncapital financing activities	98,044,230	96,915,991
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from capital debt	29,559,510	-
Capital appropriations	6,655,279	21,802,412
Capital grants received	164,310	6,130,088
Purchases of capital assets	(14,141,068)	(49,168,223)
Principal paid on long-term debt	(15,265,000)	(4,160,000)
Interest paid on long-term debt	(4,296,021)	(4,504,222)
Net cash provided (used) by capital financing activities	2,677,010	(29,899,945)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	481,592,809	370,481,645
Interest on investments	3,971,969	6,273,032
Purchase of investments	(501,318,232)	(365,416,559)
Net cash (used) provided by investing activities	(15,753,454)	11,338,118
Net increase (decrease) in cash	320,014	(1,330,031)
Cash--beginning of year	1,737,396	3,067,427
Cash--end of year	\$ 2,057,410	\$ 1,737,396
Reconciliation of net operating revenues (expenses) to net cash used by operating activities:		
Operating loss	\$ (103,204,264)	\$ (89,221,699)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	17,034,474	12,517,849
Amortization of bond premium	(115,721)	(115,721)
Workers' compensation allocation		(303,125)
Changes in assets and liabilities:		
Accounts receivable, net	(751,417)	(1,487,638)
Inventories	(1,546,433)	(274,517)
Other assets	78,551	(43,955)
Accounts payable and accrued liabilities	2,071,009	7,797
Deferred revenue	2,234,779	1,171,232
Deposits held for others	(895,672)	242,768
Retirement Incentive	(982,679)	(2,299,334)
Compensated absences	1,362,124	116,126
Loans to students	67,477	6,022
Net cash used by operating activities	\$ (84,647,772)	\$ (79,684,195)

See accompanying notes to financial statements

BOWLING GREEN STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 and 2002

1. ORGANIZATION, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Bowling Green State University is an instrumentality of the State of Ohio that serves the state, national, and international communities by providing its students with opportunities in learning, leadership, and research by providing expert faculty, premier facilities and modern resources.

Reporting Entity: Bowling Green State University (the "University"), founded in 1910, is a component unit of the State of Ohio as established by the General Assembly of the State of Ohio under Chapter 3341 of the Revised Code of the State of Ohio. The University offers degrees at the undergraduate, masters, and doctoral levels.

The accompanying financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, in that the financial statements include those activities and functions over which the University is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (1) the State's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the State.

Accounts of the Bowling Green State University Foundation, Inc. are not included in the financial statements as it is a legally separate entity. (see Note 11, Related Organization)

Financial Statement Presentation: In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This was followed in November 1999 by GASB Statement No. 35 *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statement Nos. 37 and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Bowling Green State University implemented these Statements as of and for the year ended June 30, 2002. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets, cash flows, and replaces the fund-group perspective previously required. The most significant accounting change made in order to comply with the new requirements is the adoption of depreciation on capital assets.

Basis of Accounting: For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant interfund transactions have been eliminated.

BOWLING GREEN STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 and 2002

The University follows all applicable GASB pronouncements. In addition, the University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected not to apply FASB pronouncements issued after the applicable date.

Investments: All investments are stated at fair value in accordance with GASB Statement No. 31 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Investments in publicly traded securities are stated at fair value as established by major securities markets. Nonpublicly traded investments are valued based on independent appraisals and estimates considering market prices of similar investments. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenue, Expenses, and Changes in Net Assets.

Accounts Receivable: Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts.

Inventories: Inventories are stated at the lower of average cost or market (net realizable value).

Short-term Investments: Short-term investments include highly liquid and short duration assets. These assets can be withdrawn on demand.

Restricted Investments: Assets that have been set aside for restricted purposes.

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a cost of \$3,500 or more, and an estimated useful life of greater than one year. Renovations to buildings that exceed 5% of the cumulative building cost are capitalized. Infrastructure and improvements other than to buildings are capitalized if the cost exceeds \$100,000. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, 20 to 30 years for infrastructure and improvements, and 5 to 12 years for equipment. Library materials are capitalized and written off over 10 years.

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Deferred Revenue: Deferred revenue includes amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year, but related to the subsequent accounting period. Summer term revenue and expenditures are recorded net in the accompanying financial statements. The effect of not allocating the summer term between fiscal years does not have a significant impact on the financial statement presentation. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Compensated Absences: University employees earn vacation and sick leave benefits based, in part, on length of service. Vacation pay is fully vested when earned. Upon separation from service, employees are paid accumulated vacation and sick pay based upon the nature of separation (death, retirement, or termination). Certain limitations have been placed on the hours of vacation and sick leave that employees may accumulate and carry over for payment at termination, retirement, or death. Unused hours exceeding their limitations are forfeited. The liability and expense incurred are recorded at year-end as long-term liabilities in the Statement of Net Assets, and as a component of operating expense in the Statement of Revenues, Expenses, and Changes in Net Assets.

Noncurrent Liabilities: Noncurrent liabilities include (1) principal amounts of revenue and general receipts bonds and notes payable with contractual maturities greater than one year and (2) estimated amounts for accrued compensated absences that will not be paid within the next fiscal year and (3) federal student loan deposits.

Net Assets: The University's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of Invested in capital assets, net of related debt.

Restricted net assets – expendable: Restricted expendable net assets include resources which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general obligations of the University, and may be used at the discretion of the Board of Trustees to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

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

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Income Tax: The University, as an instrumentality of the State of Ohio, is excluded from Federal income taxes under Section 115 of the Internal Revenue Code, as amended. Certain activities of the University may be subject to taxation as unrelated business income.

Classification of Revenues: The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: *Operating* revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, and (3) most Federal, state and local grants and contracts.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No 34, such as State appropriations and investment income.

Scholarship Discounts and Allowances: Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Auxiliary Enterprises: Auxiliary activities mainly represent revenues generated from Residence Halls and Dining Services, Intercollegiate Athletics, Bookstore, and various other activities that provide services to the student body, faculty, staff and general public.

Eliminations: In preparing the financial statements, the University eliminates inter-fund assets and liabilities that would otherwise be reflected twice in the Statement of Net Assets. Similarly, revenues and expenses related to internal activities are also eliminated from the Statement of Revenues, Expenses and Changes in Net Assets. Student tuition and residence fees are presented net of scholarships and fellowships applied to student accounts where the University has discretion over such expenses, while stipends and other payments made directly to students are presented as scholarships and fellowships expenses.

Reclassifications: Certain amounts have been reclassified in the 2002 comparative information to conform to the current year classifications.

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Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Change in Accounting Principle: As a result of the adoption of GASB Statement No. 34 in 2002, the University was also required to make certain changes in accounting principles, specifically adoption of depreciation on capital assets of \$173,320,322, recording federal student loan deposits of \$8,183,173, and workers' compensation allocation of \$2,983,573. Net assets at July 1, 2001 were reduced by \$184,487,068 for the cumulative effect of these changes on years prior to fiscal year 2002.

2. CASH AND INVESTMENTS

Monies held in the University treasury are pooled for the purpose of investment management. Authorized investment instruments consist of (1) bonds, notes or other obligations guaranteed by the United States; (2) bonds, notes or other obligations issued by any federal agency; (3) certificates of deposit; (4) repurchase agreements under the terms of which agreement the University purchases and the seller agrees unconditionally to repurchase any of the securities listed in (1) or (2); (5) bonds and other obligations of State of Ohio or its political subdivisions; (6) the Ohio State Treasurer's investment pool and (7) commercial paper and banker's acceptances.

Deposits

Amounts available for deposit are as follows:

	<u>2003</u>	<u>2002</u>
Cash and Cash Equivalents: (Carrying amounts)	\$1,978,635	\$1,583,563
Reconciling items (net) to arrive at bank balances of deposits	<u>140,219</u>	<u>1,523,106</u>
Total available for deposit and investment (Bank balances of deposits)	<u>\$2,118,854</u>	<u>\$3,106,669</u>

The carrying amount shown above does not include \$78,775 in 2003 and \$153,833 in 2002 held in cash funds.

Any public depository, at the time it receives a University deposit or investment in a certificate of deposit, is required to pledge to the investing authority as collateral eligible securities of aggregate market value that, when added to the portion of the deposit insured by the

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Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, equals or exceeds the amount of University funds deposited. Of the bank balance, \$228,457 in 2003 and \$258,790 in 2002 was covered by federal depository insurance, and \$1,890,397 in 2003 and \$2,847,879 in 2002 was covered by the pledge described above.

A public depository may at its option pledge a single pool of eligible securities to secure the repayment of all public monies held by the depository. The current market value of the pool of securities so pledged together with the amount covered by federal insurance must be at least equal to 110% of all public monies on deposit with the depository.

Investments

Investments of the University are summarized below. The investments that are represented by specific identifiable investment securities are classified as to custodial credit risk by the three categories described below:

- Category 1 Investments that are insured or registered, or securities held by the University or its agent in the University's name.
- Category 2 Investments that are uninsured and unregistered, with securities held by the counter-party's trust department or agent in the University's name.
- Category 3 Investments that are uninsured and unregistered, with securities held by the counter-party or by its trust department or agent but not in the University's name.

The University's investments at June 30, 2003 and 2002, all of which are classified as Category 1 based on the above criteria, are as follows:

<u>Description</u>	<u>2003</u>		<u>2002</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Federal Governmental Securities	\$69,763,232	\$70,019,850	\$83,440,462	\$84,607,785
Money Market Funds	45,762,638	45,762,638	7,929,130	7,929,130
Corporate Bonds	8,243,290	8,163,235	24,296,520	23,260,553
Other	<u>12,043</u>	<u>12,043</u>	<u>16,933</u>	<u>16,933</u>
	123,781,203	123,957,766	115,683,045	115,814,401
Investment in State Treasurer's Asset Reserve (STAR Ohio)	<u>17,139,975</u>	<u>17,139,975</u>	<u>5,557,917</u>	<u>5,557,917</u>
Totals	<u>\$140,921,178</u>	<u>\$141,097,741</u>	<u>\$121,240,962</u>	<u>\$121,372,318</u>

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The fair value of investments, other than investments in STAR Ohio, is based on market values provided by the broker or dealer holding the University's investments.

The University's investment in STAR Ohio is not categorized because it is not evidenced by securities that exist in physical or book entry form. Investments in STAR Ohio are backed by the securities purchased by STAR Ohio. Historically, over 90% of investments purchased by STAR Ohio are U.S. Government Obligations and all securities purchased are held in a third party custodial arrangement on behalf of STAR Ohio. This investment is similar in concept to a money market fund and therefore maintains a constant net asset value in which cost approximates market.

Off-Balance Sheet Risk - The University's investment strategy incorporates certain financial instruments which involve, to varying degrees, elements of market risk and credit risk in excess of amount recorded in the financial statements. Market risk is the potential for changes in the value of financial instruments due to market changes, including interest and foreign exchange rate movements and rate fluctuations embodied in forward, futures, commodity or security prices. Market risk is directly impacted by the volatility and liquidity of the markets in which the related underlying assets are traded. Credit risk is the possibility that a loss may occur due to the failure of the counterparty to perform according to the terms of the contract. The University's risk of loss in the event of counterparty default is typically limited to the amounts recognized in the Statement of Net Assets and is not represented by the contract or notional amounts of the instruments.

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3. ACCOUNTS RECEIVABLE

The composition of accounts receivable is summarized as follows:

	<u>2003</u>	<u>2002</u>
Student receivables for fees, room and board	\$4,675,676	\$4,036,364
Research and sponsored programs	3,173,758	2,515,067
Other	<u>317,945</u>	<u>514,531</u>
	8,167,379	7,065,962
Less allowance for doubtful accounts	<u>350,000</u>	<u>-</u>
TOTALS	<u>\$7,817,379</u>	<u>\$7,065,962</u>

4. NOTES RECEIVABLE

Principal repayment and interest rate terms of federal and university loans vary considerably. Federal loan programs are funded principally with federal contributions to the University under the Perkins and Nursing Loan programs. All amounts recorded are believed collectible. Any uncollectible amounts will not have a significant impact on the financial statements.

The University distributed \$64,745,000 for student loans in 2003 and \$59,117,000 in 2002 through the U.S. Department of Education federal direct lending program. These distributions and related funding sources are not included as expenses and revenues or as cash disbursements and cash receipts in the accompanying financial statements.

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5. CAPITAL ASSETS

Capital Asset activity for the year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital Assets				
Land	\$ 3,172,767	\$ 442,300	\$ -	\$ 3,615,067
Construction in progress	51,395,024	6,546,102	48,316,202	9,624,924
Non-depreciable assets	54,567,791	6,988,402	48,316,202	13,239,991
Buildings	317,112,980	21,134,234	-	338,247,214
Infrastructure	25,235,207	25,763,506	-	50,998,713
Equipment	38,882,897	5,923,410	2,258,352	42,547,955
Library materials	25,891,167	2,647,718	2,153,788	26,385,097
Depreciable assets	407,122,251	55,468,868	4,412,140	458,178,979
Total Capital Assets	461,690,042	62,457,270	52,728,342	471,418,970
Less accumulated depreciation				
Buildings	129,353,893	8,498,983	-	137,852,876
Infrastructure	14,505,703	1,932,306	-	16,438,009
Equipment	19,997,521	4,229,442	2,258,352	21,968,611
Library materials	12,324,276	2,373,743	2,153,788	12,544,231
Total Accumulated Depreciation	176,181,393	17,034,474	4,412,140	188,803,727
Capital Assets, Net	\$ 285,508,649	\$ 45,422,796	\$ 48,316,202	\$ 282,615,243

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Capital Asset activity for the year ended June 30, 2002 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital Assets				
Land	\$ 2,824,267	\$ 348,500	\$ -	\$ 3,172,767
Construction in progress	55,386,303	38,212,383	42,203,662	51,395,024
Non-depreciable assets	58,210,570	38,560,883	42,203,662	54,567,791
Buildings	282,623,207	34,489,773	-	317,112,980
Infrastructure	22,987,721	2,247,486	-	25,235,207
Equipment	33,136,423	13,219,246	7,472,772	38,882,897
Library materials	25,220,676	2,854,497	2,184,006	25,891,167
Depreciable assets	363,968,027	52,811,002	9,656,778	407,122,251
Total Capital Assets	422,178,597	91,371,885	51,860,440	461,690,042
Less accumulated depreciation				
Buildings	122,455,599	6,898,294	-	129,353,893
Infrastructure	13,952,794	552,909	-	14,505,703
Equipment	24,707,243	2,763,050	7,472,772	19,997,521
Library materials	12,204,686	2,303,596	2,184,006	12,324,276
Total Accumulated Depreciation	173,320,322	12,517,849	9,656,778	176,181,393
Capital Assets, Net	\$ 248,858,275	\$ 78,854,036	\$ 42,203,662	\$ 285,508,649

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6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The composition of accounts payable and accrued expenses is summarized as follows:

	<u>2003</u>	<u>2002</u>
Accounts payable	\$7,628,162	\$6,277,321
Accrued expenses	<u>9,113,839</u>	<u>8,393,671</u>
TOTALS	<u>\$16,742,001</u>	<u>\$14,670,992</u>

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7. LONG-TERM DEBT AND OTHER OBLIGATIONS

Long-term debt and other obligations for June 30, 2003 are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due In One Year
Bonds & notes payable:					
Notes payable	\$445,000	\$ -	\$35,000	\$410,000	\$35,000
Dormitory system bonds	32,340,000	17,600,000	8,805,000	41,135,000	3,395,000
Other bonds	46,470,000	9,625,000	6,425,000	49,670,000	3,375,000
Bond premium	1,562,243	2,334,510	115,721	3,781,032	261,628
Total bonds & notes payable	80,817,243	29,559,510	15,380,721	94,996,032	7,066,628
Other liabilities:					
Retirement incentives	982,679	-	982,679	-	-
Vacation pay	5,962,923	5,874,948	4,493,824	7,344,047	4,863,000
Workers' compensation allocation	2,680,448	-	2,680,448	-	-
Sick leave	3,672,000	285,875	304,875	3,653,000	295,000
Federal student loan deposits	8,210,471	32,040	-	8,242,511	-
Total other liabilities	21,508,521	6,192,863	8,461,826	19,239,558	5,158,000
Total long-term liabilities	\$102,325,764	\$35,752,373	\$23,842,547	\$114,235,590	\$12,224,628

The 2003 financial statements reflect a reallocation of unfunded workers' compensation liabilities to the State of Ohio of \$2,680,448, which reduces the liability to \$0 at June 30, 2003.

The maturity dates, interest rates and outstanding principal of bonds payable at June 30, 2003, are as follows:

Bonds	Maturity Dates	Interest Rate	Balance
<u>Revenue:</u>			
Dormitory System	2004	3.0%	\$ 265,000
Student Facilities	2004 - 2007	4.0% - 4.5%	1,405,000
<u>General Receipts:</u>			
Dormitory System	2004 - 2019	3.125% - 5.75%	40,870,000
Other	2004 - 2019	3.125% - 5.75%	<u>48,265,000</u>
			<u>\$ 90,805,000</u>

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Long-term debt and other obligations for June 30, 2002 are summarized as follows:

Bonds & notes payable:	Beginning			Ending	Due In
	Balance	Additions	Reductions	Balance	One Year
Notes payable	\$480,000	\$ -	\$35,000	\$445,000	\$35,000
Dormitory system bonds	35,390,000	-	3,050,000	32,340,000	2,965,000
Other bonds	47,545,000	-	1,075,000	46,470,000	3,085,000
Bond premium	1,677,964	-	115,721	1,562,243	115,721
Total bonds & notes payable	85,092,964	-	4,275,721	80,817,243	6,200,721
Other liabilities:					
Retirement incentives	3,282,013	-	2,299,334	982,679	982,679
Vacation pay	5,749,095	213,828	-	5,962,923	4,159,000
Workers' compensation allocation	2,983,573		303,125	2,680,448	300,000
Sick leave	3,797,000	126,566	251,566	3,672,000	278,000
Federal student loan deposits	8,183,173	27,298	-	8,210,471	-
Total other liabilities	23,994,854	367,692	2,854,025	21,508,521	5,719,679
Total long-term liabilities	\$109,087,818	\$367,692	\$7,129,746	\$102,325,764	\$11,920,400

The maturity dates, interest rates and outstanding principal of bonds payable at June 30, 2002, are as follows:

<u>Bonds</u>	<u>Maturity Dates</u>	<u>Interest Rate</u>	<u>Balance</u>
<u>Revenue:</u>			
Dormitory System	2003 - 2004	3.0% - 4.75%	\$ 520,000
Student Facilities	2003 - 2007	4.0% - 5.0%	1,725,000
<u>General Receipts:</u>			
Dormitory System	2003 - 2016	3.75% - 6.35%	31,820,000
Other	2003 - 2016	4.75% - 6.7%	44,745,000
			<u>\$ 78,810,000</u>

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The scheduled maturities of the bonds for the five fiscal years subsequent to June 30, 2003, and subsequent periods thereafter are as follows:

	<u>Revenue</u>		<u>General Receipts</u>			<u>Total</u>
	<u>Dormitory System</u>	<u>Student Facilities</u>	<u>Dormitory System</u>	<u>Other</u>	<u>Interest</u>	
2004	\$265,000	\$335,000	\$3,130,000	\$3,040,000	\$4,809,602	\$11,579,602
2005	-	345,000	3,390,000	3,260,000	4,390,986	11,385,986
2006	-	360,000	3,790,000	3,575,000	4,054,725	11,779,725
2007	-	365,000	3,980,000	3,755,000	3,668,431	11,768,431
2008	-	-	4,185,000	2,985,000	3,263,855	10,433,855
2009 - 2013	-	-	13,095,000	17,210,000	11,408,686	41,713,686
2014 - 2019	-	-	9,300,000	14,440,000	3,423,001	27,163,001
Totals	\$265,000	\$ 1,405,000	\$ 40,870,000	\$ 48,265,000	\$ 35,019,283	\$ 125,824,283

The notes payable do not require annual principal payments and are due September 5, 2006.

In May, 2003, the University issued \$27,225,000 General Receipts Bonds for residence hall improvements, utility and infrastructure improvements, and to refund a portion of the University's outstanding Series 1991 and Series 1992 General Receipts Bonds maturing after June 1, 2003. Interest rates range from 3.125% to 5.25%.

In November 2000, the University issued \$54,660,000 General Receipts Bonds for dormitory renovations, Bowen Thompson Student Union renovation, Recreation Center air conditioning and the campus infrastructure project. Interest rates range from 4.75% to 5.75%.

In 1985, the University entered into three debt escrow agreements to set-aside with trustees investments sufficient to meet, at the time of creation of the escrow agreements, all future principal and interest payments of the indebtedness arising from the Dormitory System Revenue Bond issues. The agreements, which are revocable by the University, allow the University to utilize the interest income of the investments for any lawful purpose of the University. Investments were purchased and subsequently deposited with the trustees, fully funding the outstanding principal for the Dormitory System Revenue Bond issues, plus interest on such bonds over their lives. At June 30, 2003, the fair value of these investments amounted to approximately \$1,674,000.

In accordance with the trust agreements relating to the bond issues not included in the aforementioned debt escrow agreements, reserves must be maintained equal to specific future debt service requirements on the outstanding bonds. At June 30, 2003 such reserves amounted to approximately \$1,198,000 which exceeded the requirements on that date. Unspent bond proceeds of \$17,735,760 as of June 30, 2003 are classified as Restricted Investments.

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8. OPERATING LEASES

The University leases certain properties and equipment under non-cancelable operating leases which expire at various dates through 2004. Rent expenses were \$651,019 for the year ended June 30, 2003 and \$513,512 for 2002. Future minimum rental payments under non-cancelable operating leases as of June 30, 2003 are:

2004	\$501,076
2005	\$183,155
2006	\$78,022

9. PENSION OBLIGATIONS

Substantially all employees of the University are covered by one of two pension plans administered and controlled by the State of Ohio, both of which are statewide cost-sharing multiple-employer defined benefit public retirement systems. The State Teachers Retirement System (STRS) provides benefits to all certified employees. Non-certified employees are covered under the Public Employees Retirement System (OPERS). Students working less than 1,500 hours per calendar year for the University have an option to exempt themselves from membership.

STRS and OPERS provide retirement, disability and death benefits with annual cost of living adjustments to plan members and beneficiaries. Authority to establish or amend benefits is established by Ohio Revised Code sections 3307 and 145 for STRS and OPERS, respectively.

Both STRS and OPERS issue stand-alone financial reports. A copy of the STRS report may be obtained by writing to 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090. A copy of the report may be obtained by writing to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085.

The employees participating in the STRS and PERS contribute 9.3% and 8.5%, respectively of their annual compensation and the University contributes 14% and 13.31%, respectively of the same base. The Ohio Revised Code grants authority to the respective Boards of STRS and to establish and amend employee and employer contribution rates. The University's contributions to STRS for the years ending June 30, 2003, 2002 and 2001, were \$7,154,000, \$6,807,000, and \$6,611,000, respectively. The University's contribution to OPERS for the years ending June 30, 2003, 2002 and 2001 were \$7,915,000, \$7,750,000, and \$6,161,000, respectively. Contributions by the University to STRS and OPERS include amounts for other postemployment benefits (see Note 10). The University's contributions to both plans were equal to the required contributions for each year.

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Ohio Amended Substitute House Bill 586 (Ohio Revised Code 3305.2) became effective March 31, 1998, authorizing an alternative retirement system for qualified academic and administrative university employees of public institutions of higher education, who are currently covered by the State Teachers Retirement System or Public Employees Retirement System. Bowling Green State University Board of Trustees adopted such a plan effective January 25, 2000. This plan is a defined contribution plan under IRS Section 401 (a).

Eligible employees (those who are full-time and salaried) have 90 days under STRS and 120 days under OPERS from their date of hire to make an irrevocable election to participate in the alternate retirement plan. Under this plan, employees who would have otherwise been required to be in STRS or OPERS and who elect to participate in the alternate retirement program must contribute the employee's share of retirement contributions (9.3% STRS or 8.5% OPERS) to one of eight private providers approved by the State Department of Insurance. The legislation mandates that the employer must contribute 3.50% to STRS (no contribution is required for OPERS). The University has chosen to make as an employer contribution an amount that is currently equal to what would have been the employer's share of the appropriate retirement system, less the aforementioned 3.50%, to the private provider selected by the employee. The University plan provides these employees with immediate plan vesting.

During 1989, the Board of Trustees of the University approved the adoption of the State Teachers Retirement System Early Retirement Incentive Plans. In March 1998, the Board of Trustees of the University voted to discontinue these plans effective July 1, 1998. These plans allowed groups of University employees who met certain eligibility requirements, to annually elect early retirements and the University to purchase a specified number of years of service credit in the applicable plan for the retiring employee. These liabilities will be paid in annual installments, with interest, on June 30 of each year.

A summary of the University's plan is as follows:

University Cost	\$39,534,000
Interest Rate	7.75%
Years of Service Credit Purchased	up to 5 years
Installments due through	2003
Principal paid through June 30, 2003	\$39,909,000
Interest paid through June 30, 2003	\$7,981,000

10. OTHER POSTEMPLOYMENT BENEFITS

STRS

STRS provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and reimbursement of monthly

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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2003 and 2002

Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code, the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium. The Ohio Revised Code grants authority to STRS to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, which is currently 14% of covered payroll.

The Board currently allocates employer contributions equal to 1.0% of covered payroll to a health care reserve fund from which payments for health care benefits are paid. For the year ended June 30, 2003, the approximate amount of the University's total contribution to STRS that was allocated to the health care reserve fund was \$510,000. The balance in the STRS health care reserve fund was \$3.01 billion at June 30, 2002, the date of the most recent information available from STRS.

For the year ended June 30, 2002, the net health care costs paid by STRS were \$354,697,000. There were 105,300 eligible benefit recipients.

OPERS

OPERS provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2003 employer contribution rate for state employers was 13.31% of covered payroll; 5.0% was the portion that was used to fund health care for the year. During 1998, the OPERS board adopted a new calculation method for determining employer contributions applied to OPEB. Effective January 1, 2000, employer contributions equal to 4.3% of member covered payroll are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage. For the year ended June 30, 2003, the approximate amount of the University's total contribution to OPERS that was used to fund other postemployment benefits was \$2,948,000.

The number of benefit recipients eligible for OPEB was 139,665 at December 31, 2002. OPERS' net assets available for other postemployment benefits, as of December 31, 2002, was \$8.89 billion. OPEB expenditures were \$776,007,000 during 2002.

11. RELATED ORGANIZATION

The University is the sole beneficiary of the Bowling Green State University Foundation, Inc., a separate not-for-profit entity organized for the purpose of promoting educational and research activities. As of June 30, 2003, audited assets totaling approximately \$57,030,000, most

BOWLING GREEN STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2003 and 2002

of which have been restricted by donors for specific purposes, are held by the Foundation and are not recorded in the accompanying financial statements. Approximately \$4,675,000 was transferred to the University in support of institutional programs from the Foundation in fiscal 2003. These amounts are included in the accompanying financial statements.

12. RISK MANAGEMENT

During the normal course of operations, the University has become a defendant in various legal and administrative actions. In accordance with FASB Statement No. 5, liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. However, in the opinion of legal counsel and University management, the disposition of all pending litigation will not have a material adverse effect on the financial condition of the University.

The University self-insures its health care program up to a specific limit of \$200,000 per individual event. Specific stop loss coverage is provided by Medical Mutual of Ohio.

The University is a member of the Inter-university Council Insurance Consortium retention pool for property loss risks between \$100,000 and \$900,000 after which property insurance is carried. The University is responsible for property loss up to \$100,000 per occurrence.

Changes in the balances of claims liabilities for the years indicated for the health coverage are as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Unpaid claims - July 1	\$1,291,000	\$1,300,000	\$900,000
Incurred claims	12,803,465	11,307,619	11,506,260
Claim payments	<u>12,794,465</u>	<u>11,316,619</u>	<u>11,106,260</u>
Unpaid claims - June 30	<u>\$1,300,000</u>	<u>\$1,291,000</u>	<u>\$1,300,000</u>

This liability is the University's best estimate based on past experience and current claims outstanding. Actual claims experience may differ from the estimate.

The University participates in a plan that pays workers' compensation benefits to beneficiaries who have been injured on the job with any of certain state agencies and state universities. The Ohio Bureau of Workers' Compensation calculates the estimated amount of cash needed in the subsequent fiscal year to pay the claims for these workers and sets rates to collect this estimated amount from these participating state agencies and universities in that subsequent one-year period. As these already-injured workers' claims will be paid out over a period of time, the Bureau also actuarially calculates estimated amounts that will be paid in future periods. The University's pro-rata share of this estimated liability for such future payments has been calculated by the State of Ohio Office of Management and Budget on the basis of the

BOWLING GREEN STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2003 and 2002

University's share of actual cash payments paid to the Bureau in the preceding fiscal year divided by such payments made by all participating entities. In previous years, this liability was recorded in the State's General Long-Term Obligations Account Group. As a result of implementing GASB 34 in fiscal year 2002, the University accrued its share of the liability.

The cumulative pro-rata share of the University's liability of \$2,983,573 is reported as an adjustment to beginning net assets as of July 1, 2001. The current year's reduction of \$2,680,448 is recorded in the Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2003.

13. CONTINGENCIES

In the normal course of its activities, the University is a party in various legal and administrative actions. Although some actions have been brought for large amounts, the University has not experienced significant losses or costs. After taking into consideration legal counsel's evaluation of pending action and information relative to potential future claims based on past events, the University's management is of the opinion that the outcome thereof will not have a material effect on the University's financial position.

Grants and contracts - The University receives grants and contracts from certain federal, state, and local agencies to fund research and other activities. Revenues from government grants and contracts are recognized when all eligibility requirements have been met. The University records indirect costs related to such grants and contracts at predetermined rates that are negotiated with the University's federal cognizant agency. Both direct and indirect costs charged to the grants or contracts are subject to audit and approval by the granting agencies. University management believes any adjustments of costs resulting from such examination by the granting agency would be insignificant.



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**Independent Auditors' Report on Compliance and on
Internal Control Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance
with *Government Auditing Standards***

The Board of Trustees
Bowling Green State University:

We have audited the financial statements of Bowling Green State University (the University), a component unit of the State of Ohio, as of and for the year ended June 30, 2003 and have issued our report thereon dated September 30, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University'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 assurance 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 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 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.

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

KPMG LLP

September 30, 2003

BOWLING GREEN STATE UNIVERSITY

OMB Circular A-133 Single Audit Report

Year Ended June 30, 2003

(With Independent Auditors' Reports Thereon)

BOWLING GREEN STATE UNIVERSITY

OMB Circular A-133 Single Audit Report

Year ended June 30, 2003

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BOWLING GREEN STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ending June 30, 2003

<u>Program/Federal Agency</u>	<u>CFDA number</u>	<u>Grant number</u>	<u>Project period</u>	<u>Expenditures</u>
Research and Development Cluster:				
U.S. Department of Commerce:				
Eval EDA Technical Assist Program	11.303	99-06-07477	08/20/01-06/30/03	\$ 45,930
Digital TV Conversion	11.550	39-02-N02146	10/01/02-09/30/04	227,914
Univ Ctr Tch Asst	11.303	06-66-04741	10/01/99-09/30/03	92,988
2001 Community Service Grant	11.550	50-10-7450-53000	10/01/00-09/30/02	63,676
2002 Community Service Grant	11.550	50-10-7450-53000	10/01/01-09/30/03	684,268
2002 Interconnection Grant	11.550	—	10/01/01-09/30/02	9,369
2000 Community Service Grant	11.550	50-10-7450-53000	10/01/99-09/30/01	3,632
2003 Interconnection Grant	11.550	—	10/01/02-09/30/03	16,434
Total U.S. Department of Commerce				<u>1,144,211</u>
U.S. Department of Defense:				
Action of Antipromoters	12.420	DAMD17-01-1-0484	05/01/01-05/31/04	12,608
Breast Cancer/Angiotensin II	12.420	DAMD17-01-1-0485	05/01/01-05/31/03	26,710
Curtis-Tits-Phan Theorems	12.901	MDA904-01-1-0023	11/28/00-11/28/02	23,104
Singular Kernel Non-Parametric	12.901	MDA904-02-1-0091	03/12/02-03/12/04	19,531
Finite Groups	12.901	MDA904-02-1-0079	03/06/02-03/06/04	11,909
Total U.S. Department of Defense				<u>93,862</u>
NASA:				
White Dwarf Distances	43.001	G0-08310.01-97A	09/01/99-08/31/03	120
NASA Mars EVA Prototype	43.001	NCC3-981	07/08/02-07/07/03	4,794
Electric Motor Simulation	43.002	NAS3-99202	09/24/99-00/00/00	779
Pathogen Rdtm Lettuce/Radishes	43.002	NAG9-1186	01/10/00-11/30/01	1
Hybrid Diesel Vhcl	43.002	NAG3-2790	06/15/02-09/14/03	650,346
Drosophila Melanogaster	43.002	NAG2-1427	08/01/00-07/31/03	120,392
Ohio Aerospace Institute Ohio View	43.002	R-300-100175-40022	05/01/02-09/30/03	59,304
Total NASA				<u>835,736</u>
National Science Foundation:				
Mathematical physical sciences program	47.049	DM R-9803006	09/01/98-08/31/99	5,204
Mathematical physical sciences program	47.049	AST-9988259	05/01/00-04/30/04	35,547
Mathematical physical sciences program	47.049	AST-9988247	07/01/00-06/30/04	5,197
Mathematical physical sciences program	47.049	DMS-0774259	08/15/00-07/31/03	27,500
Mathematical physical sciences program	47.049	DMR-0091689	01/01/01-12/31/03	13,607
Mathematical physical sciences program	47.049	CHE-0097779-002	05/01/01-04/30/04	60,523
Mathematical physical sciences program	47.049	CHE-0134782	03/01/02-02/29/04	72,428
Geosciences program	47.050	OCE-9911592	05/15/00-04/30/03	28,309
Geosciences program	47.050	EAR-0087607	01/01/01-12/31/03	20,573
Geosciences program	47.050	OCE-0095404	05/15/01-04/30/04	61,147
Computer and information science engineering	47.070	ANI-0124684	01/01/02-12/31/03	130,000
Biological sciences program	47.074	IBN-9874608	03/01/99-02/28/03	11,148
Biological sciences program	47.074	OCE-9902658	07/15/99-06/30/03	9,338
Biological sciences program	47.074	INT-9908522	03/01/00-08/31/03	3,297
Biological sciences program	47.074	IBN-0075891	08/15/00-07/31/03	104,203
Biological sciences program	47.074	IBN-0091189	08/01/01-07/31/04	91,421
Biological sciences program	47.074	MCB-0118992	09/15/01-08/31/03	47,797
Biological sciences program	47.074	IBN-0131320	07/01/02-06/30/04	93,926
Social behavioral and economic sciences program	47.075	INT-0238615	04/01/03-02/29/04	4,938
Social behavioral and economic sciences program	47.075	SES-0100112	12/01/00-11/30/02	301
Social behavioral and economic sciences program	47.075	GA10143-113816	06/01/01-04/30/04	52,548
Education and human resources program	47.076	DUE-0088703	01/01/01-12/31/02	34,974
Education and human resources program	47.076	DGE-0196128	10/01/00-12/31/02	18,969
Education and human resources program	47.076	DGE-0231853	01/01/03-12/31/03	19,478
Education and human resources program	47.076	DUE-0126785	03/01/02-03/31/04	35,198
Education and human resources program	47.076	DUE-0088511	05/01/01-04/30/04	5,170
Polar programs	47.078	OPP-0003702	08/01/00-07/31/03	36,520
Polar programs	47.078	OPP-0095089	04/01/01-03/31/04	10,157
Total National Science Foundation				<u>1,039,418</u>
U.S. Environmental Protection Agency:				
Lupinus Perennis/Oak Savannah				
Septic System Education	66.501	R-826596-01-01	01/01/99-12/31/02	47,196
Total U.S. Environmental Protection Agency				<u>47,196</u>
U.S. Department of Education:				
Emerging Needs Program	84.117	738,452	06/01/02-05/31/03	166,623
A Model of Excellence	84.117	ED-98-CO-0086	09/30/98-00/00/00	60,711
TQSI Evaluation	84.117	—	07/25/01-07/24/02	6,577
Total U.S. Department of Education				<u>233,911</u>

BOWLING GREEN STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ending June 30, 2003

<u>Program/Federal Agency</u>	<u>CFDA number</u>	<u>Grant number</u>	<u>Project period</u>	<u>Expenditures</u>
U.S. Department of Health and Human Services:				
Research relating to deafness	93.173	5-R01-DC03577-4	07/01/98-06/30/03	\$ 539,099
Research relating to deafness	93.173	5-R03-DC04960-02	05/01/01-04/30/04	55,372
Mental health research	93.242	1-R01-MH66046001	02/05/02-12/31/03	85,561
Mental health research	93.242	1-R03MH06713601A1	01/01/03-12/31/03	3,923
Mental health research	93.242	1R01-MH60517-01A2	07/15/01-06/30/03	30,681
Drug abuse research	93.278	7-F31-DA1414502	12/01/01-11/30/03	23,390
Mental health national research	93.282	5-F31MH1271102	05/01/01-04/30/03	22,486
Biomedical technology	93.371	5-R21-RR1265402	08/01/99-07/31/02	27,845
Academic research enhancement program	93.390	1-R15-GM57636-02	05/01/98-03/31/05	39,053
Academic research enhancement program	93.390	2R15GM5435702	07/01/98-06/30/05	46,753
Academic research enhancement program	93.390	1-R15-HL60241-01	09/08/98-08/31/02	18,493
Academic research enhancement program	93.390	1-R15-GM60258-01	05/01/00-04/30/03	14,985
Cancer treatment research	93.395	5-R01CA9102702	05/15/01-04/30/04	258,884
Cancer treatment research	93.395	1-R15CA9185601A1	06/01/02-05/30/05	35,529
Cancer treatment research	93.395	1-R15CA8370701A2	06/01/02-05/31/05	23,234
Cancer treatment research	93.395	5-P01-CA48735-12	07/16/90-04/30/03	26,853
Cancer treatment research	93.395	CA55791-07	09/03/92-01/31/03	40,197
Cell biology and bio physics research program	93.821	2-R15-GM/5589802	06/01/97-06/30/03	46,379
Clinical research related to neurological disorders	93.853	2-R01NS3519105A2	09/01/01-08/31/03	193,243
Clinical research related to neurological disorders	93.853	5-R01NS044373202	06/01/02-05/31/04	127,135
Biological chemistry research	93.859	5-R01-GM61171-03	04/01/00-04/30/04	163,441
Population research program	93.864	1K01HD042478-01A1	07/01/03-06/30/04	1,053
Population research program	93.864	5-R01HD3622303	09/01/99-08/31/03	384,944
Population research program	93.864	5-R03-HD3983502	06/01/01-05/31/04	75,257
Population research program	93.864	1-R21HD4283101	07/01/02-09/30/03	50,536
Population research program	93.864	HD-39075-1	9/01/99-08/31/03	37,704
Development of Aggression	93.865	F001367	09/30/98-06/15/03	50,234
Aging research program	93.866	1-R03-AG-19846-01	09/30/01-09/29/03	42,430
Aging research program	93.866	1-R01AG2056001A1	02/15/03-01/31/04	22,195
Geriatric Education Center	93.969	5-D31-HP-70113-03	09/01/97-06/30/03	39,354
Total U.S. Department of Health and Human Services				<u>2,526,243</u>
Total Research and Development Cluster				<u>5,920,577</u>
Student Financial Aid Cluster:				
U.S. Department of Education:				
Federal Supplementary Education Opportunity Grant	84.007	P007A013240	07/01/01-06/30/02	210
Federal Supplementary Education Opportunity Grant	84.007	P007A023240	07/01/02-06/30/03	684,854
Federal Work Study	84.033	P033A013240	07/01/01-06/30/02	1,067
Federal Work Study	84.033	P033A023240	07/01/02-06/30/03	1,006,841
Federal Work Study	84.033	P033A013240	07/01/01-06/30/02	112
Federal Work Study	84.033	P033A023240	07/01/02-06/30/03	47,783
Federal Perkins Loan	84.038	P038A023240	07/01/02-06/30/03	1,553,707
Pell Grant	84.063	P063P011291	07/01/01-06/30/02	(8,635)
Pell Grant	84.063	P063P020332	07/01/02-06/30/03	9,152,221
Federal Direct Loans	84.268	—	07/01/02-06/30/03	64,745,669
Total U.S. Department of Education				<u>77,183,829</u>
U.S. Department of Health and Human Services:				
Nursing Student Loan	93.364	N/A	07/01/97-06/30/99	144,000
Total Student Financial Aid Cluster				<u>77,327,829</u>
Other programs:				
U.S. Department of Agriculture:				
University of Chicago (USDA-ERS):				
02-03 USDA Food Asst Rsch	10.001	43-3AEM-2-80038	07/01/02-12/31/03	18,402
Child support/well-being	10.001	R01-HD19375	08/15/02-12/31/02	9,690
Total U.S. Department of Agriculture				<u>28,092</u>
National Security Agency:				
Ohio Department of Development:				
GCAC Grant	12.002	MBDD 03-014	01/01/00-12/31/03	51,049
U.S. Department of Housing and Urban Development:				
National Research Council	14.506	—	09/01/01-12/01/02	34,418
U.S. Department of Justice:				
Impct/Vlnt Vctm	16.560	2002-WG-BX0005	07/01/02-06/30/03	34,809
Univ Hiring Program	16.710	98-UM-WX-2198	05/01/98-07/31/01	71,166
Violent Crimes	16.560	2000-WA-VX-0004	10/01/00-09/30/04	156,997
Total U.S. Department of Justice				<u>262,972</u>

BOWLING GREEN STATE UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ending June 30, 2003

<u>Program/Federal Agency</u>	<u>CFDA number</u>	<u>Grant number</u>	<u>Project period</u>	<u>Expenditures</u>
U.S. Department of State:				
Education for Democracy	19.202	S-ECAPE-02-GR-137 (DH)	07/11/02-12/31/03	\$ 123,298
U.S./Ukraine Project	19.202	S-ECAAS-02-GR-198 (PS)	04/18/03-06/30/04	23,959
Total U.S. Department of State				<u>147,257</u>
National Endowment for the Humanities	45.162	ED-22071-01	09/01/01-12/31/03	4,181
National Science Foundation:				
Cornerstone Experience	47.073	—	05/01/01-04/30/03	57,468
Small Business Development Center	59.005	—	10/01/02-9/30/03	60,671
U.S. Environmental Protection Agency:				
Lake Erie Study	66.500	GL-97590101	06/01/02-05/31/04	6,552
U.S. Department of Education:				
Direct:				
Art/Highlnd Mada	84.019	P019A030004	05/15/03-12/15/04	7,518
Student Support Services	84.042	P042A011199	09/01/01-8/31/03	563,216
Talent Search	84.044	P044A980164-01A	10/01/98-8/31/02	100,896
Educ Talent Search	84.044	P044A020787	09/01/02-8/31/03	262,485
Upward Bound	84.047	P047A990332-02A	09/01/99-8/31/03	345,199
Project Dare	84.129	H129R80003-02	08/01/98-07/31/03	57,152
Business Int'l Project	84.153	P153A80072-99	09/01/98-08/31/01	(6,953)
Business International/Programs	84.153	P153A000089-1	09/01/00-08/31/02	41,496
Project FOCUS	84.325	H325A990084-01	07/01/99-06/30/03	47,555
Partnership Grant	84.336	P336B000004-02	10/01/00-09/30/03	816,605
Project PICT II	84.342	P342A000105-02	06/01/00-05/31/04	425,487
Bryan Evaluation Project	84.323	—	10/01/99-06/30/03	19,015
Gear-Up	84.042	—	09/15/00-09/14/02	456,051
Teaching American History	84.215	S215X020249	10/01/02-09/30/05	70,193
Subtotal direct				<u>3,205,915</u>
Passed through the State of Ohio:				
State Program Improvement Grants	84.323	062893-ST-S1-02	02/01/00-01/31/04	50,780
Vocational education	84.048	ODE-OEC-GS-SI-00-03	07/07/90-04/30/03	54,951
Vocational education	84.048	N/A	01/01/00-06/30/02	15,353
Vocational education	84.048	SV-S6-2000	09/24/99-09/30/01	1
Vocational education	84.048	N/A	07/03/93-00/00/00	10,000
Vocational education	84.048	200-410 41E5	05/17/01-06/30/03	43,065
Vocational education	84.048	N/A	11/17/98-06/30/02	7,668
Vocational education	84.048	VE27-VE28	07/01/99-06/30/03	98,457
Total pass-through from State of Ohio				<u>280,275</u>
Total U.S. Department of Education				<u>3,486,190</u>
U.S. Department of Health and Human Services:				
Project EXCITE	93.113	1-R25ES1070502	09/15/00-08/31/03	272,081
HIV Eval Project	93.145	87-40012-DX-02	01/01/01-12/31/03	177,365
AIDS/Collgte Ed	93.145	87-4-001-2-CF-03	07/01/91-06/30/03	33,545
Abstinence	93.995	5-APHPA0008324	09/15/99-09/15/03	240,676
Exercise/Health – Elderly	93.361	7-R01-NR04929-04	09/30/02-08/31/03	1,273
Total U.S. Department of Health and Human Services				<u>724,940</u>
U.S. Corporation for National and Community Services:				
Literacy Outreach Project	94.005	00LHENC034	09/01/02-04/30/03	2,949
Total U.S. Corporation for National and Community Services				<u>2,949</u>
Total				<u>\$ 88,115,145</u>

See accompanying notes to schedule of expenditures of federal awards.

BOWLING GREEN STATE UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

(1) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Bowling Green State University (University) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

(2) Loan Advances

The following schedule represents loans' outstanding balances for the Perkins and Nursing Student Loan programs at June 30, 2003:

	<u>CFDA number</u>		<u>Outstanding balance</u>
Perkins Loan Program	84.038	\$	7,603,311
Nursing Student Loans	93.364		428,450



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**Independent Auditors' Report on Compliance and on Internal
Control Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

The Board of Trustees
Bowling Green State University:

We have audited the financial statements of Bowling Green State University (the University), a component unit of the State of Ohio, as of and for the year ended June 30, 2003 and have issued our report thereon dated September 30, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University'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 assurance 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 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 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.

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

KPMG LLP

September 30, 2003



KPMG LLP

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150 West Jefferson
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**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133
and Schedule of Expenditures of Federal Awards**

The Board of Trustees
Bowling Green State University:

Compliance

We have audited the compliance of Bowling Green State University (the University) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2003. The University's major federal programs are identified in the Summary of Auditors' Results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 03-01, 03-02 and 03-03.

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the University as of and for the year ended June 30, 2003 and have issued our report thereon dated September 30, 2003. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by OMB Circular A-133, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

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

KPMG LLP

September 30, 2003

BOWLING GREEN STATE UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

(1) Summary of Auditors' Results

- | | |
|---|---------------------|
| (a) <i>Type of report issued on the financial statements:</i> | Unqualified Opinion |
| (b) <i>Reportable conditions in internal control were disclosed by the audit of the financial statements:</i> | None Reported |
| <i>Material weaknesses:</i> | No |
| (c) <i>Noncompliance which is material to the financial statements:</i> | No |
| (d) <i>Reportable conditions in internal control over major programs:</i> | None Reported |
| <i>Material weaknesses:</i> | No |
| (e) <i>Type of report issued on compliance for major program:</i> | Unqualified Opinion |
| (f) <i>Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133:</i> | Yes |
| (g) <i>Major program CFDA #'s 84.007, 84.033, 84.038, 84.063, 84.268, and 93.364: Student Financial Aid Cluster</i> | |
| (h) <i>Dollar threshold used to distinguish between Type A and Type B programs:</i> | \$667,327 |
| (i) <i>Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133:</i> | Yes |

(2) Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards:

None

BOWLING GREEN STATE UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 03-01

Student Financial Aid Cluster – CFDA #'s 84.007, 84.063, 84.268, and 93.364

Special Test and Provisions – Title IV returns

Requirement: Returned Title IV funds are required to be deposited to the SFA accounts or returned to the appropriate FEEL lender within 30 days after the date the institution determines that the student withdrew.

Finding: Out of 30 items tested, we noted one item where return of Title IV funds was not made within 30 days after the institution determined that the student had withdrawn.

Questioned Costs: None

Systemic or Isolated: Isolated

Effect of Finding: The University could potentially lose federal funding due to noncompliance.

Recommendation: We recommend that the University take steps to address the matter noted above.

Finding 03-02

Student Financial Aid Cluster – CFDA #'s 84.007, 84.063, 84.268, 93.364

Financial Reporting

Requirement: The University must report student payment data within 30 calendar days after the school makes payment or becomes aware of the need to make an adjustment to the previously reported student data or expected student payment data.

Finding: The University did not report student payment data within the required 30 days. We understand that this finding was a result of delays by the U.S. Department of Education in implementing its new Common Origination and Disbursement (COD) System.

Questioned Costs: None

System or Isolated: This is a systematic problem.

Effect of Finding: The University could potentially lose federal funding due to non-compliance.

Recommendation: We recommend that the University work with the Department of Education to address this matter.

Finding 03-03

Student Financial Aid Cluster – CFDA #'s 84.007, 84.038, 84.063, 84.268, 93.364.

Special Tests and Provisions – Borrower Data Transmission and reconciliation

BOWLING GREEN STATE UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Requirement: The University is required to reconcile Direct Loan School Accounts Statement (DLSAS) data files to the University's records each month.

Finding: The University did not reconcile DLSAS data files to its records until October 31, 2002. After that, although the University attempted to reconcile, there were significant reconciling differences. We understand that this finding was a result of delays by the U.S. Department of Education in implementing its new Common Origination and Disbursement (COD) System.

Questioned Costs: None

System or Isolated: This is a systematic problem.

Effect of Finding: The University could potentially lose federal funding due to non-compliance.

Recommendation: We recommend that the University work with the Department of Education to address this matter.



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BOWLING GREEN STATE UNIVERSITY

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
FEBRUARY 5, 2004**