Consolidated Financial Statements

The Bowling Green State University Foundation, Inc. and Subsidiary
Years Ended June 30, 2006 and 2005
With Report of Independent Auditors

Mary Taylor, CPA
Auditor of State

January 12, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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Auditor of State
Betty Montgomery

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

We have reviewed the *Report of Independent Auditors* of the Bowling Green State University Foundation, Inc., Wood County, prepared by Ernst & Young LLP, for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 14, 2006

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The Bowling Green State University Foundation, Inc. and Subsidiary

Consolidated Financial Statements

Years Ended June 30, 2006 and 2005

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Report of Independent Auditors

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

We have audited the accompanying consolidated statements of financial position of The Bowling Green State University Foundation, Inc. and subsidiary (the Foundation) as of June 30, 2006 and 2005, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Foundation's internal control over financial reporting. Our audits included consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal controls over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Bowling Green State University Foundation, Inc. and subsidiary as of June 30, 2006 and 2005, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2006, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Ernst & Young LLP

August 25, 2006

The Bowling Green State University Foundation, Inc. and Subsidiary

Consolidated Statements of Financial Position

	June 30 2006	June 30 2005
Assets		
Current assets:		
Cash	**$ 515,583**	$ 858,185
Contributions receivable, net of allowance for uncollectible contributions *(Note 2)*	**1,656,902**	9,162,503
Interest receivable	**219,552**	195,445
Total current assets	**2,392,037**	10,216,133
Investments *(Notes 1 and 3):*		
Corporate stocks	**56,061,576**	50,088,518
U.S. government and agency obligations	**12,230,075**	10,535,450
Corporate bonds, debentures, and other	**16,411,457**	14,207,596
Total investments	**84,703,108**	74,831,564
Other assets	**4,200**	4,200
Contributions receivable, net of allowance for uncollectible contributions *(Note 2)*	**12,575,872**	8,981,889
Cash value of life insurance *(Note 4)*	**666,491**	668,200
Total assets	**$ 100,341,708**	$ 94,701,986
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 298,165**	$ 730,000
Total current liabilities	**298,165**	730,000
Annuities payable	**1,042,331**	1,048,980
Total liabilities	**1,340,496**	1,778,980
Net assets *(Notes 1, 6, and 7):*		
Unrestricted	**2,145,832**	2,355,512
Temporarily restricted	**37,760,472**	36,016,694
Permanently restricted	**59,094,908**	54,550,800
Total net assets	**99,001,212**	92,923,006
Total liabilities and net assets	**$ 100,341,708**	$ 94,701,986

See accompanying notes.

The Bowling Green State University Foundation, Inc. and Subsidiary

Consolidated Statements of Activities

Year Ended June 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenue, and gains				
Contributions and gifts	$ 712,145	$ 6,474,009	$ 3,692,179	$ 10,878,333
Interest and dividends	348,826	1,630,050	–	1,978,876
Net realized and unrealized gains	823,138	2,500,752	–	3,323,890
Other revenue	668,091	914,088	49,821	1,632,000
Transfers *(Note 7)*	–	(802,108)	802,108	–
Net assets released from restriction	8,973,013	(8,973,013)	–	–
Total support, revenue, and gains	11,525,213	1,743,778	4,544,108	17,813,099
Expenses				
Program services	10,330,653	–	–	10,330,653
Fund raising	885,425	–	–	885,425
Operating	518,815	–	–	518,815
Total expenses	11,734,893	–	–	11,734,893
Change in net assets	(209,680)	1,743,778	4,544,108	6,078,206
Net assets at the beginning of the year	2,355,512	36,016,694	54,550,800	92,923,006
Net assets at the end of the year	$ 2,145,832	$ 37,760,472	$ 59,094,908	$ 99,001,212

See accompanying notes.

The Bowling Green State University Foundation, Inc. and Subsidiary

Consolidated Statements of Activities

Year Ended June 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenue, and gains				
Contributions and gifts	$ 1,028,502	$ 8,741,553	$ 6,201,112	$ 15,971,167
Interest and dividends	210,820	1,313,685	–	1,524,505
Net realized and unrealized gains	1,066,038	2,792,072	–	3,858,110
Other revenue	731,818	931,824	125,311	1,788,953
Transfers *(Note 7)*	–	1,841,845	(1,841,845)	–
Net assets released from restriction	10,413,872	(10,413,872)	–	–
Total support, revenue, and gains	13,451,050	5,207,107	4,484,578	23,142,735
Expenses				
Program services	11,003,374	–	–	11,003,374
Fund raising	842,825	–	–	842,825
Operating	476,324	–	–	476,324
Total expenses	12,322,523	–	–	12,322,523
Change in net assets	1,128,527	5,207,107	4,484,578	10,820,212
Net assets at the beginning of the year	1,226,985	30,809,587	50,066,222	82,102,794
Net assets at the end of the year	$ 2,355,512	$ 36,016,694	$ 54,550,800	$ 92,923,006

See accompanying notes.

The Bowling Green State University Foundation, Inc. and Subsidiary

Consolidated Statements of Cash Flows

	June 30	
	2006	**2005**
Operating activities		
Change in net assets	**$ 6,078,206**	$ 10,820,212
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized gains	**(3,323,890)**	(3,858,110)
Contributions of securities	**(5,372,379)**	(1,086,588)
Provision for uncollectible contributions, net of actuarial adjustment on annuity obligations	**(131,031)**	710,113
Changes in operating assets and liabilities:		
Contributions and accounts receivable	**4,036,000**	(3,761,534)
Interest receivable	**(24,107)**	(3,222)
Accounts payable and accrued liabilities	**(431,835)**	426,248
Total adjustments	**(5,247,242)**	(7,573,093)
Net cash provided by operating activities	**830,964**	3,247,119
Investing activities		
Sales of investments	**52,993,684**	57,190,361
Purchases of investments	**(54,168,959)**	(54,121,036)
Net change in cash surrender value of life insurance	**1,709**	(262,200)
Net cash used in investing activities	**(1,173,566)**	2,807,125
Decrease in cash	**(342,602)**	(84,406)
Cash at beginning of year	**858,185**	942,591
Cash at end of year	**$ 515,583**	$ 858,185

See accompanying notes.

1. Organization and Significant Accounting Policies

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

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

In July 2004, the Corporation was formed as a wholly owned subsidiary of the Foundation. The Corporation was organized to acquire, hold title to, and collect income from real property to the benefit of the Foundation and the University.

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

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

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain amounts in the 2005 financial statements have been reclassified to conform to 2006 presentation.

1. Organization and Significant Accounting Policies (continued)

Investments

Investment securities are stated at fair value, based on quoted market value of the individual securities. Purchases and sales of investment securities are recorded on the trade date. Realized gains or losses from sale of securities are determined using the cost basis of the securities sold. Interest and dividend income is reported when earned. Permanently restricted net assets participate in an investment pool in which each fund has a specific unit value interest. All investment income, including realized and unrealized gains and losses, derived from investments in the pool is allocated to the participating net assets based upon the current year's average balance of each fund.

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

Fund Accounting and Net Asset Classifications

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

- Permanently restricted net assets represent contributions received whereby the donors have stipulated that the corpus is to be maintained permanently, but permit the Foundation to use or expend part or all of the income for either specified or unspecified purposes. The unexpended income from these donated assets are classified as temporarily restricted funds.

- Temporarily restricted net assets contain donor-imposed restrictions that permit the Foundation to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Foundation.

- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired. The governing board has the right to approve the use of these funds.

1. Organization and Significant Accounting Policies (continued)

Administrative Fees and Spending Policy

The Foundation has adopted a spending policy with respect to amounts available for distribution on all endowed funds. The spending policy provides for a range of 3% to 7% of the three-year rolling average market value of endowed fund balances, with the Board of Directors approving 4% for 2006 and 2005.

The Foundation has adopted a policy of charging an administrative fee on all endowed funds, unless prohibited by the guidelines of the fund. The Board of Directors approved an administrative fee of 0.9% for the years ended June 30, 2006 and 2005. The Board of Directors also approved the charging of such fee on certain nonendowed funds. The fee is based on the prior two-year average market value balance for endowed funds and certain nonendowed funds. The administrative fee amounted to approximately $608,000 in 2006 and $544,000 in 2005 and is included in unrestricted other revenue.

Promises to Give

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

Restricted and Unrestricted Contributions

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

Income Taxes

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

1. Organization and Significant Accounting Policies (continued)

Annuities Payable

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

2. Contributions Receivable and Contributed Services

Contributors to the Foundation have made written unconditional promises to give, on which management has set up an allowance for uncollectible pledges. Contributions due greater than one year reflect net present value using a discount rate of 6.00% and 4.75% as of June 30, 2006 and 2005, respectively. Write-offs of uncollectible pledges for the years ended June 30, 2006 and 2005, amounted to approximately $391,000 and $680,000, respectively.

Contributions receivable at June 30 are due as follows:

	2006	2005
Within one year	**$ 1,656,902**	$ 9,162,503
One to five years	**14,243,037**	10,226,027
More than five years	**2,372,261**	2,437,451
	18,272,200	21,825,981
Less allowance	**(639,525)**	(763,909)
Present value discount	**(3,399,901)**	(2,917,680)
Total	**$ 14,232,774**	$ 18,144,392

Contributions and gifts received include approximately $7,300 in 2006 and $504,000 in 2005 from the BGSU Alumni Association.

2. Contributions Receivable and Contributed Services (continued)

Expenses related to occupancy of facilities, and salaries and fringe benefits of financial and accounting personnel are paid by the University on behalf of the Foundation and are not shown in the accompanying financial statements. The Foundation approximates the value of these items at $392,000 in 2006 and $367,000 in 2005. In addition, the University paid approximately $134,000 in 2006 and $252,000 in 2005 of operating expenses relating to the current comprehensive campaign of the Foundation.

3. Investments

Following is a summary of investments at June 30:

	2006		2005	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Corporate stocks	**$ 56,061,576**	**$ 47,074,245**	$ 50,088,518	$ 45,288,242
U.S. government and agency obligations	**12,230,075**	**12,631,960**	10,535,450	10,437,052
Corporate bonds, debentures and other	**16,411,457**	**19,128,207**	14,207,596	14,138,840
Total	**$ 84,703,108**	**$ 78,834,412**	$ 74,831,564	$ 69,864,134

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

	2006	**2005**
Beginning of year	**$ 4,967,430**	$ 4,032,020
End of year	**5,868,697**	4,967,430
Net unrealized gains for the year	**$ 901,267**	$ 935,410

Realized gains from sales of investment securities amounted to approximately $2,423,000 in 2006 and $2,923,000 in 2005.

3. Investments (continued)

Certain investment securities are held by independent custodial and management agents. Custodial and management fees paid approximated $268,000 and $265,000 in 2006 and 2005, respectively, and are reported as reductions to interest and dividends in the accompanying statement of activities.

4. Life Insurance Policies

The Foundation is owner and beneficiary of certain life insurance policies which have a total face value of approximately $3,613,000 at June 30, 2006, and $3,844,000 at June 30, 2005. Premiums on these policies are generally paid by the insured individuals. The cash surrender value of such policies approximated $666,000 at June 30, 2006, and $668,000 at June 30, 2005, and is recorded in the accompanying statement of financial position.

5. Other Revenue

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

6. Restricted Net Assets

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

	2006	**2005**
General support of colleges and departments	**$ 18,612,099**	$ 12,278,847
Student aid	**10,630,392**	15,984,806
Property and equipment	**5,505,302**	5,385,797
Endowed chairs and professorships	**1,659,029**	1,087,037
Research	**670,765**	566,065
Fellowship	**386,863**	442,503
Faculty and staff	**296,022**	271,639
Total temporarily restricted net assets	**$ 37,760,472**	$ 36,016,694

6. Restricted Net Assets (continued)

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

	2006	2005
General support of colleges and departments	**$ 3,360,782**	$ 5,314,100
Student aid	**2,698,649**	1,978,420
Property and equipment	**2,542,556**	2,798,098
Endowed chairs and professorships	**170,819**	35,000
Research	**105,306**	143,191
Faculty and staff	**68,710**	38,466
Fellowship	**26,191**	106,597
Various other programs	**–**	–
Total net assets released from restrictions	**$ 8,973,013**	$ 10,413,872

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

	2006	2005
Student aid	**$ 33,846,502**	$ 32,600,904
General support of colleges and departments	**13,899,852**	9,489,705
Endowed chairs and professorships	**6,570,519**	8,240,810
Property and equipment	**1,815,789**	1,285,026
Research	**1,503,230**	1,478,398
Faculty and staff	**1,245,349**	1,242,290
Fellowship	**213,667**	213,667
Total permanently restricted net assets	**$ 59,094,908**	$ 54,550,800

Because of the decline in the market value of the Foundation's investment securities during fiscal years 2001 to 2003, the value of certain permanently restricted funds has been reduced below the original corpus of the funds. Such deficiencies at June 30, 2006 and 2005, were immaterial.

7. Transfers of Net Assets

During 2006 and 2005, certain funds which originally had been reported as temporarily restricted became fully endowed funds once the fund's balance exceeded $25,000. As a result, $802,000 and $230,000 of net assets have been reclassified as of June 30, 2006 and 2005, respectively, to reflect such balances as permanently restricted net assets. In 2006 and 2005, $0 and $2,072,000, respectively, was reclassified from permanently restricted net assets to temporarily restricted net assets as a result of changes in donor designations.

8. Bowling Green State University Foundation LLC

In July 2004, the Corporation acquired the University House at a value of approximately $750,000 and a second adjoining parcel of land for $350,000. In 2005 the Board of Directors of the Corporation voted to gift the House to the University. The title to the house was transferred to the University in June 2006 and the transaction is reflected as an expense in the consolidated statement of activities.

ERNST & YOUNG

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

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

We have audited the financial statements of The Bowling Green State University Foundation, Inc. as of and for the year ended June 30, 2006, and have issued our report thereon dated August 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Bowling Green State University Foundation, Inc.'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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of The Bowling Green State University Foundation Inc. in a separate letter dated August 25, 2006

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

Ernst + Young LLP

August 25, 2006

BOWLING GREEN STATE UNIVERSITY FOUNDATION, INC.

WOOD COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 18, 2007

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