Consolidated Financial Statements

The Bowling Green State University Foundation, Inc.
and Subsidiary
Years Ended June 30, 2013 and 2012
With Report of Independent Auditors

Ernst & Young LLP

Ernst & Young

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

We have reviewed the *Report of Independent Auditors* of The Bowling Green State University Foundation, Inc. and Subsidiary, Wood County, prepared by Ernst & Young LLP, for the audit period July 1, 2012 through June 30, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost
Auditor of State

November 1, 2013

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Consolidated Financial Statements

Years Ended June 30, 2013 and 2012

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Bowling Green State University Foundation, Inc. and Subsidiary (collectively, the Foundation), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated 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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated October 11, 2013, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Ernst + Young LLP

October 11, 2013

The Bowling Green State University Foundation, Inc. and Subsidiary

Consolidated Statements of Financial Position

	June 30	
	2013	**2012**
Assets		
Current assets:		
Cash	**$ 656,907**	$ 822,589
Contributions receivable, net of allowance for uncollectible contributions *(Note 2)*	**4,517,408**	5,537,103
Total current assets	**5,174,315**	6,359,692
Investments *(Notes 1 and 3)*:		
Corporate bond funds	**40,202,457**	41,391,355
Mutual funds	**48,414,407**	42,429,171
Alternative investments	**23,091,502**	18,255,665
Corporate stocks	**7,525,186**	6,683,402
Money market funds	**1,338,094**	1,500,734
Total investments	**120,571,646**	110,260,327
Prepaid and other assets	**214,104**	289,105
Long-term contributions receivable, net of allowance for uncollectible contributions *(Note 2)*	**4,011,739**	5,274,697
Cash value of life insurance *(Note 4)*	**1,400,328**	1,484,704
Total assets	**$ 131,372,132**	$ 123,668,525
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 354,864**	$ 331,354
Total current liabilities	**354,864**	331,354
Annuities payable *(Note 1)*	**1,677,591**	1,769,014
Total liabilities	**2,032,455**	2,100,368
Net assets *(Notes 1, 6, 7, and 8)*:		
Unrestricted	**3,543,745**	1,721,052
Temporarily restricted	**47,035,461**	42,529,153
Permanently restricted	**78,760,471**	77,317,952
Total net assets	**129,339,677**	121,568,157
Total liabilities and net assets	**$ 131,372,132**	$ 123,668,525

See accompanying notes.

The Bowling Green State University Foundation, Inc. and Subsidiary

Consolidated Statement of Activities

Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenue, and gains				
Contributions and gifts (net) *(Note 2)*	**$ 401,604**	**$ 5,409,935**	**$ 758,985**	**$ 6,570,524**
Interest and dividends	**442,567**	**2,168,531**	**–**	**2,611,098**
Net realized and unrealized gains (losses) *(Note 3)*	**1,351,543**	**6,409,284**	**–**	**7,760,827**
Other revenue *(Note 8)*	**1,450,215**	**(497,377)**	**96,518**	**1,049,356**
Transfers *(Note 7)*	**–**	**(587,016)**	**587,016**	**–**
Net assets released from restriction *(Note 6)*	**8,397,049**	**(8,397,049)**	**–**	**–**
Total support, revenue, and gains	**12,042,978**	**4,506,308**	**1,442,519**	**17,991,805**
Expenses				
Program services	**8,556,259**	**–**	**–**	**8,556,259**
Fund-raising	**925,525**	**–**	**–**	**925,525**
Operating	**738,501**	**–**	**–**	**738,501**
Total expenses	**10,220,285**	**–**	**–**	**10,220,285**
Change in net assets	**1,822,693**	**4,506,308**	**1,442,519**	**7,771,520**
Net assets at beginning of year	**1,721,052**	**42,529,153**	**77,317,952**	**121,568,157**
Net assets at end of year *(Note 8)*	**$ 3,543,745**	**$ 47,035,461**	**$ 78,760,471**	**$129,339,677**

See accompanying notes.

The Bowling Green State University Foundation, Inc. and Subsidiary

Consolidated Statement of Activities

Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenue, and gains				
Contributions and gifts (net) *(Note 2)*	$ 504,183	$ 7,614,567	$ 2,226,104	$ 10,344,854
Interest and dividends	429,933	1,927,627	–	2,357,560
Net realized and unrealized gains (losses) *(Note 3)*	383,598	(1,829,855)	–	(1,446,257)
Other revenue *(Note 8)*	1,385,662	(54,857)	49,585	1,380,390
Transfers *(Note 7)*	–	(619,671)	619,671	–
Net assets released from restriction *(Note 6)*	9,450,118	(9,450,118)	–	–
Total support, revenue, and gains	12,153,494	(2,412,307)	2,895,360	12,636,547
Expenses				
Program services	9,728,682	–	–	9,728,682
Fund-raising	1,181,802	–	–	1,181,802
Operating	844,615	–	–	844,615
Total expenses	11,755,099	–	–	11,755,099
Change in net assets	398,395	(2,412,307)	2,895,360	881,448
Net assets at beginning of year	1,322,657	44,941,460	74,422,592	120,686,709
Net assets at end of year *(Note 8)*	$ 1,721,052	$ 42,529,153	$ 77,317,952	$121,568,157

See accompanying notes.

The Bowling Green State University Foundation, Inc. and Subsidiary

Consolidated Statements of Cash Flows

	Year Ended June 30 2013	2012
Operating activities		
Change in net assets	**$ 7,771,520**	$ 881,448
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gains) losses	**(7,760,827)**	1,446,257
Contributions of securities	**(444,495)**	(652,295)
Provision for uncollectible contributions	**23,227**	(13,400)
Changes in operating assets and liabilities:		
Contributions receivable	**2,259,426**	1,043,614
Prepaid and other assets	**75,000**	39,342
Accounts and annuities payable	**(67,913)**	498,497
Total adjustments	**(5,915,582)**	2,362,015
Net cash provided by operating activities	**1,855,938**	3,243,463
Investing activities		
Sales of investments	**14,809,390**	19,467,030
Purchases of investments	**(16,915,386)**	(22,511,562)
Net change in cash surrender value of life insurance	**84,376**	(20,181)
Net cash used in investing activities	**(2,021,620)**	(3,064,713)
(Decrease) increase in cash	**(165,682)**	178,750
Cash at beginning of year	**822,589**	643,839
Cash at end of year	**$ 656,907**	$ 822,589

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

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

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

Basis of Accounting

The consolidated 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 consolidated 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.

1. Organization and Significant Accounting Policies (continued)

Investments

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

Realized gains or losses from sale of securities are determined using the cost basis of the securities sold. Interest and dividend income is reported when earned. Permanently restricted endowment funds participate in an investment pool in which each fund has a specific unit value interest. All investment income, including realized and unrealized gains and losses, derived from investments in the endowment investment pool is allocated to the participating endowment fund based upon the current year's average balance of each endowment fund.

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

Net Asset Classifications

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

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

1. Organization and Significant Accounting Policies (continued)

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

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

Promises to Give

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

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 consolidated statements of activities as net assets released from restriction.

In-Kind Gifts

In-kind gifts, when received, are reflected as contributions in the accompanying consolidated financial statements at the estimated fair value at the date of receipt. Fair value measurement is determined based on various assumptions, judgments, and factors specific to the gift. In management's opinion, the values determined approximate fair value. The Foundation received in-kind gifts in 2013 and 2012 valued approximately at $761,000 and $1,225,000, respectively.

Income Taxes

The Foundation has been recognized by the Internal Revenue Service as an organization exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code. The Foundation is a public charity by reason of being described in Internal Revenue Code Section 170(b)(1)(A)(iv). The Foundation is exempt from federal income taxes except to the extent of income derived from unrelated business activities. Unrelated business income is not material to the consolidated financial statements. The Corporation is incorporated as a limited liability corporation.

1. Organization and Significant Accounting Policies (continued)

The Foundation completed an analysis of its tax positions, in accordance with Accounting Standards Codification (ASC) 740, *Income Taxes*, and determined that no amounts were required to be recognized in the consolidated financial statements at June 30, 2013 or 2012.

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.

Fair Value Measurements

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

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

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

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

See Note 3 for further discussion of fair value measurements.

1. Organization and Significant Accounting Policies (continued)

Subsequent Events

The Foundation evaluated the effect of subsequent events through October 11, 2013, representing the date on which the consolidated financial statements were available to be issued. No recognized subsequent events were identified for recognition or disclosure in the consolidated statements of financial position or the accompanying notes to the consolidated financial statements.

2. Contributions Receivable and Contributed Services

Contributors to the Foundation have made written unconditional promises to give, on which management has set up an allowance for uncollectible pledges. Contributions receivable reflect net present value using the Internal Revenue Code Section 7520 discount rate of 1.2% and 1.2% as of June 30, 2013 and 2012, respectively. Write-offs of uncollectible pledges for the years ended June 30, 2013 and 2012, amounted to approximately $906,400 and $238,100, respectively, and are recorded net of contributions and gifts.

Contributions receivable at June 30 are due as follows:

	2013	2012
Within one year	**$ 4,638,694**	$ 5,644,123
One to five years	**3,485,903**	4,718,961
More than five years	**770,452**	824,522
	8,895,049	11,187,606
Less allowance	**(216,122)**	(192,894)
Present value discount	**(149,780)**	(182,912)
Total	**$ 8,529,147**	$ 10,811,800

The Foundation has conditional promises to give of approximately $73,224,000 and $76,812,000 for estates or planned gifts as of June 30, 2013 and 2012, respectively, which are not shown in the accompanying consolidated financial statements until the condition has been fulfilled.

2. Contributions Receivable and Contributed Services (continued)

Expenses related to occupancy of facilities and to certain salaries and fringe benefits of financial, accounting, and development personnel are paid by the University on behalf of the Foundation and are not shown in the accompanying consolidated financial statements. The Foundation approximates the value of these items at $2,815,000 in 2013 and $2,825,000 in 2012.

3. Investments

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

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

3. Investments (continued)

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

	2013	2012
Corporate bond funds	**$ 40,202,457**	$ 41,391,355
Mutual funds	**48,414,407**	42,429,171
Corporate stocks	**7,525,186**	6,683,402
Money market funds	**1,338,094**	1,500,734
Alternative investments:		
Private investment	**7,390,032**	3,263,136
Fund of funds	**12,361,159**	12,288,665
Real estate funds	**3,340,311**	2,703,864
Subtotal alternative investments	**23,091,502**	18,255,665
Total	**$ 120,571,646**	$ 110,260,327

Net unrealized gains (losses) on investments were as follows for the years ended June 30:

	2013	2012
Beginning of year	**$ 3,703,715**	$ 7,505,956
End of year	**10,440,390**	3,703,715
Net unrealized gains (losses) for the year	**$ 6,736,675**	$ (3,802,241)

Realized gains from sales of investment securities amounted to $1,024,152 in 2013 and $2,355,984 in 2012.

3. Investments (continued)

The Foundation measures certain financial assets at fair value on a recurring basis. The fair value of these financial assets was determined using the following inputs at June 30, 2013 and 2012:

	Level 1	Level 2	Level 3	June 30, 2013
Assets				
Cash and money market funds	**$ 1,338,094**	**$ –**	**$ –**	**$ 1,338,094**
Domestic corporate stocks	**7,525,186**	**–**	**–**	**7,525,186**
Mutual funds:				
Domestic funds	**24,213,935**	**–**	**–**	**24,213,935**
International funds	**24,200,472**	**–**	**–**	**24,200,472**
Corporate bond funds	**40,202,457**	**–**	**–**	**40,202,457**
Total assets	**$ 97,480,144**	**$ –**	**$ –**	**$ 97,480,144**

	Level 1	Level 2	Level 3	June 30, 2012
Assets				
Cash and money market funds	$ 1,500,734	$ –	$ –	$ 1,500,734
Domestic corporate stocks	6,683,402	–	–	6,683,402
Mutual funds:				
Domestic funds	20,828,680	–	–	20,828,680
International funds	21,600,491	–	–	21,600,491
Corporate bond funds	41,391,355	–	–	41,391,355
Total assets	$ 92,004,662	$ –	$ –	$ 92,004,662

The amount of total losses for the period attributable to the unrealized gains (losses) for financial instruments within alternative investments held for the years ended June 30, 2013 and 2012, is $1,623,413 and $(770,000), respectively. The Foundation had outstanding commitments to invest in various alternative investments at June 30, 2013 and 2012, amounting to approximately $5,700,000 and $4,700,000, respectively.

Assets held in charitable remainder trust principally consist of corporate stocks and corporate bonds and debentures. Unrealized gains (losses) amounted to approximately $109,000 and $(50,000) at June 30, 2013 and 2012, respectively, and realized losses of approximately $0 and $(49,000) were recognized for the years ended June 30, 2013 and 2012, respectively.

3. Investments (continued)

Certain investment securities are held by independent custodial and management agents. Custodial and management fees paid approximated $121,000 and $154,000 in 2013 and 2012, respectively, and are reported as reductions to interest and dividends in the accompanying consolidated statements of activities.

4. Life Insurance Policies

The Foundation is owner and beneficiary of certain life insurance policies that have a total face value of approximately $8,493,000 at June 30, 2013, and $8,578,000 at June 30, 2012. Premiums on these policies are generally paid by the insured individuals. The cash surrender value of such policies approximated $1,400,000 at June 30, 2013, and $1,485,000 at June 30, 2012, and is recorded in the accompanying consolidated statements of financial position.

5. Other Revenue

Unrestricted other revenue includes the administrative fee income charged to various restricted funds. The administrative fee expense charged to the funds is reported as a reduction of other revenue based on the classification of the funds. Also included in other revenue are 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:

	2013	2012
General support of colleges and departments	**$ 21,520,590**	$ 21,121,342
Student aid	**17,218,091**	13,970,080
Property and equipment	**3,084,258**	3,052,038
Endowed chairs and professorships	**3,184,387**	2,478,817
Research	**1,061,941**	945,041
Fellowship	**483,255**	456,970
Faculty and staff	**482,939**	504,865
Total temporarily restricted net assets	**$ 47,035,461**	$ 42,529,153

6. Restricted Net Assets (continued)

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

	2013	2012
Property and equipment	**$ 1,235,388**	$ 1,958,916
General support of colleges and departments	**4,649,670**	4,350,750
Student aid	**2,101,178**	2,621,051
Endowed chairs and professorships	**199,002**	278,688
Research	**95,003**	51,698
Faculty and staff	**65,913**	114,418
Fellowship	**50,895**	74,597
Total net assets released from restrictions	**$ 8,397,049**	$ 9,450,118

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

	2013	2012
Student aid	**$ 45,986,929**	$ 44,528,072
General support of colleges and departments	**18,365,038**	18,773,657
Endowed chairs and professorships	**9,104,292**	8,989,735
Property and equipment	**1,876,075**	1,943,590
Faculty and staff	**2,100,758**	1,762,224
Research	**1,138,045**	1,131,340
Fellowship	**189,334**	189,334
Total permanently restricted net assets	**$ 78,760,471**	$ 77,317,952

7. Transfers of Net Assets

During 2013 and 2012, certain funds that originally had been reported as temporarily restricted became fully endowed funds once the fund’s balance exceeded $25,000. As a result, net assets of approximately $587,000 and $620,000 have been reclassified as of June 30, 2013 and 2012, respectively, to reflect such balances as permanently restricted net assets.

8. Endowment Balances

The Foundation's endowment consists of approximately 943 individual funds established for a variety of purposes. The endowment includes donor-restricted endowment funds. Net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Governing board restrictions are reported in unrestricted net assets.

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

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

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

8. Endowment Balances (continued)

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

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

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

The Foundation has adopted a spending policy with respect to amounts available for distribution on all endowed funds. The spending policy provides for a range of 3.0% to 7.0% of the three-year rolling average market value of endowed fund balances, with the Board of Directors approving 3% for 2013 and 2012.

The Foundation has adopted a policy of charging an administrative fee on all endowed funds, unless prohibited by the guidelines of the fund. The Board of Directors approved an administrative fee of 1.3% for the years ended June 30, 2013 and 2012. The Board of Directors also approved the charging of such fee on certain non-endowed funds. The fee is based on the prior two-year average market value balance for endowed funds and certain non-endowed funds. The administrative fee amounted to approximately $1,313,000 in 2013 and $1,247,000 in 2012 and is included in unrestricted other revenue.

8. Endowment Balances (continued)

The following table shows the changes in permanently restricted assets:

	Permanently Restricted
July 1, 2011	$ 74,422,592
Contributions	2,226,104
Other cash receipts	49,585
Other changes:	
Transfers:	
Temporary accounts to permanent	619,671
Total transfers	619,671
June 30, 2012	77,317,952
Contributions	**758,985**
Other cash receipts	**96,518**
Other changes:	
Transfers:	
Temporary accounts to permanent	**587,016**
Total transfers	**587,016**
June 30, 2013	**$ 78,760,471**

From time to time, the fair value of assets associated with individual donor-restricted funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. These deficiencies resulted from unfavorable market fluctuations that occurred during the year. There were no such deficiencies as of June 30, 2013 and 2012. In accordance with ASC 958-205, *Not-for-Profit Entities – Presentation of Financial Statements* (formerly FSP FAS 117-1), deficiencies are reflected in unrestricted net assets rather than in temporarily restricted net assets by reclassing these deficiencies from temporarily restricted net assets to unrestricted net assets and are reported as realized and unrealized losses in the accompanying consolidated statements of activities. As the financial markets recover and the value of such funds exceeds historical costs, such amounts will be reclassed from unrestricted funds and continue to be recorded as temporarily restricted net assets.

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

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

We have audited, 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, the consolidated financial statements of The Bowling Green State University Foundation, Inc. and Subsidiary (collectively, the Foundation), which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 11, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

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

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

October 11, 2013

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Dave Yost · Auditor of State

BOWLING GREEN STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY

WOOD COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 14, 2013