

**THE BOWLING GREEN STATE UNIVERSITY  
FOUNDATION, INC. AND SUBSIDIARY**

Bowling Green, Ohio

**CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2016 and 2015





# Dave Yost • Auditor of State

Board of Trustees  
Bowling Green State University Foundation, Inc. and Subsidiary  
1851 North Research Drive  
Bowling Green, Ohio 43403

We have reviewed the *Independent Auditor's Report* of the Bowling Green State University Foundation, Inc. and Subsidiary, Wood County, prepared by Crowe Horwath LLP, for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

November 4, 2016

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THE BOWLING GREEN STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY  
Bowling Green, Ohio

CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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## INDEPENDENT AUDITOR'S REPORT

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 Bowling Green State University Foundation and Subsidiary (the 'Foundation'), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from 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 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 consolidated financial statements are free from 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.

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(Continued)

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2016 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 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.

*Crowe Horwath LLP*

Crowe Horwath LLP

Columbus, Ohio  
September 30, 2016

THE BOWLING GREEN STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,170,091	\$ 2,216,151
Contributions receivable, net of allowance for uncollectible contributions of \$4,934,017 in 2016 and \$4,064,590 in 2015	<u>3,079,345</u>	<u>1,604,750</u>
Total current assets	4,249,436	3,820,901
Investments		
Fixed income funds	39,018,569	38,598,002
Mutual funds	73,311,173	69,321,737
Alternative investments	27,450,462	27,134,193
Corporate stocks	265,024	1,786,077
Money market funds	<u>2,934,747</u>	<u>4,847,218</u>
Total investments	142,979,975	141,687,227
Prepaid and other assets		
Long-term contributions receivable, net of allowance for uncollectible contributions of \$414,300 in 2016 and \$278,908 in 2015	7,759,362	4,757,757
Beneficial interest in trust held by others	250,724	150,883
Cash value of life insurance	<u>1,597,924</u>	<u>1,530,786</u>
Total assets	<u>\$ 157,395,229</u>	<u>\$ 152,092,959</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 132,631	\$ 445,398
Total current liabilities	<u>132,631</u>	<u>445,398</u>
Annuities payable	<u>2,952,821</u>	<u>3,518,933</u>
Total liabilities	3,085,452	3,964,331
Net assets		
Unrestricted	5,688,780	6,226,604
Temporarily restricted	57,894,897	56,517,604
Permanently restricted	<u>90,726,100</u>	<u>85,384,420</u>
Total net assets	<u>154,309,777</u>	<u>148,128,628</u>
Total liabilities and net assets	<u>\$ 157,395,229</u>	<u>\$ 152,092,959</u>

See accompanying notes to consolidated financial statements.



THE BOWLING GREEN STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF ACTIVITIES  
Year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Support, revenue, and gains</b>				
Contributions and gifts	\$ 615,510	\$ 15,542,538	\$ 4,781,890	\$ 20,939,938
Provision for uncollectible contributions	-	(834,000)	(170,819)	(1,004,819)
University support	3,529,174	-	-	3,529,174
Interest and dividends	456,221	1,800,613	-	2,256,834
Net realized and unrealized gains (losses)	(250,559)	(989,124)	-	(1,239,683)
Other revenue	19,774	1,242,216	-	1,261,990
Transfers	-	(641,561)	641,561	-
Net assets released from restriction	<u>14,438,492</u>	<u>(14,438,492)</u>	-	-
Total support, revenue, and gains	<u>18,808,612</u>	<u>1,682,190</u>	<u>5,252,632</u>	<u>25,743,434</u>
<b>Expenses</b>				
Program services	12,925,756	-	-	12,925,756
Fund-raising	3,586,641	-	-	3,586,641
Operating	<u>2,832,548</u>	-	-	<u>2,832,548</u>
Total expenses	<u>19,344,945</u>	-	-	<u>19,344,945</u>
Change in net assets from operations	(536,333)	1,682,190	5,252,632	6,398,489
Change in split interest agreements	<u>(1,491)</u>	<u>(304,897)</u>	<u>89,048</u>	<u>(217,340)</u>
Change in net assets	(537,824)	1,377,293	5,341,680	6,181,149
Net assets at beginning of year	<u>6,226,604</u>	<u>56,517,604</u>	<u>85,384,420</u>	<u>148,128,628</u>
Net assets at end of year	<u>\$ 5,688,780</u>	<u>\$ 57,894,897</u>	<u>\$ 90,726,100</u>	<u>\$ 154,309,777</u>

See accompanying notes to consolidated financial statements.

THE BOWLING GREEN STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF ACTIVITIES  
Year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Support, revenue, and gains</b>				
Contributions and gifts	\$ 545,944	\$ 13,325,470	\$ 2,437,156	\$ 16,308,570
Provision for uncollectible contributions	5,186	(1,374,473)	(6,234)	(1,375,521)
University support	3,459,975	-	-	3,459,975
Interest and dividends	476,088	1,983,232	-	2,459,320
Net realized and unrealized gains (losses)	(451,855)	(1,318,113)	-	(1,769,968)
Other revenue	6,819	1,250,163	-	1,256,982
Transfers	-	(1,156,875)	1,156,875	-
Net assets released from restriction	<u>11,489,863</u>	<u>(11,489,863)</u>	-	-
Total support, revenue, and gains	<u>15,532,020</u>	<u>1,219,541</u>	<u>3,587,797</u>	<u>20,339,358</u>
<b>Expenses</b>				
Program services	10,956,167	-	-	10,956,167
Fund-raising	3,497,007	-	-	3,497,007
Operating	<u>2,319,142</u>	-	-	<u>2,319,142</u>
Total expenses	<u>16,772,316</u>	-	-	<u>16,772,316</u>
Change in net assets from operations	(1,240,296)	1,219,541	3,587,797	3,567,042
Change in split interest agreements	-	(377,638)	103,064	(274,574)
Change in net assets	(1,240,296)	841,903	3,690,861	3,292,468
Net assets at beginning of year	<u>7,466,900</u>	<u>55,675,701</u>	<u>81,693,559</u>	<u>144,836,160</u>
Net assets at end of year	<u>\$ 6,226,604</u>	<u>\$ 56,517,604</u>	<u>\$ 85,384,420</u>	<u>\$ 148,128,628</u>

See accompanying notes to consolidated financial statements.

THE BOWLING GREEN STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 6,181,149	\$ 3,292,468
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gains) losses	1,239,683	1,769,968
Proceeds from contributions restricted for long-term purposes	(4,781,890)	(2,437,156)
Provision for uncollectible contributions	1,004,819	1,375,521
Changes in operating assets and liabilities:		
Contributions receivable	(5,481,019)	(2,041,541)
Change in beneficial interest in trusts held by others	(99,841)	35,769
Prepaid and other assets	(412,403)	(6,300)
Accounts and annuities payable	<u>(533,272)</u>	<u>1,102,359</u>
Net cash from operating activities	<u>(2,882,774)</u>	<u>3,091,088</u>
<b>Cash flows from investing activities</b>		
Sales of investments	12,785,156	42,634,261
Purchases of investments	(15,317,587)	(46,159,064)
Net change in cash surrender value of life insurance	<u>(67,138)</u>	<u>(34,005)</u>
Net cash from investing activities	<u>(2,599,569)</u>	<u>(3,558,808)</u>
<b>Cash flows from financing activities</b>		
Proceeds from contributions restricted for long term purposes	4,781,890	2,437,156
Payments to annuitants	<u>(345,607)</u>	<u>(394,641)</u>
Net cash from financing activities	<u>4,436,283</u>	<u>2,042,515</u>
Change in cash	(1,046,060)	1,574,795
Cash at beginning of year	<u>2,216,151</u>	<u>641,356</u>
Cash at end of year	<u>\$ 1,170,091</u>	<u>\$ 2,216,151</u>
<b>Supplemental disclosures of cash flow information</b>		
In-kind gifts	\$ 983,668	\$ 1,318,164

See accompanying notes to consolidated financial statements.

THE BOWLING GREEN STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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**NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation: 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.

Cash and Cash Equivalents: The Foundation considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Deposits in banks are insured by an agency of the federal government up to the amount on deposit at June 30, 2016 and 2015.

Investments: Investments are recorded at fair value. 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 receives a proportionate share of the total earnings pool. 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.

Split Interest Agreements: The Foundation is trustee and beneficiary of numerous irrevocable charitable trusts and gift annuities. Such assets are included in investment securities and are recorded at fair value. These assets have been donated to the Foundation for investment, in return for payments to the donor(s) or their designees. Annuity obligations are recorded at the net present value each year and are based on an actuarial calculation that considers the life expectancy of the annuitant and the expected rate of return to be earned on the annuitant's gift. Upon the satisfaction of the terms of each trust or annuity, the Foundation receives the balance of the invested assets. These assets are then added to the endowment per the donor's direction.

The Foundation is also named as beneficiary of several irrevocable trusts for which third parties are the trustees. The Foundation's interest in the future income stream of perpetual trusts is recognized based on the present fair value of the trust assets. The Foundation's interest in such trusts is based on the estimated value of the assets to be received from each trust.

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**NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

Expiration of Donor-Imposed Restrictions: The expiration of a donor-imposed restriction on a contribution or on endowment income is recognized in the period in which the restriction expires and at that time the related resources are reclassified to unrestricted net assets. A restriction expires when either the stipulated time has elapsed or when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors or by the change of restrictions specified by the donors. When an expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the Foundation's policy to apply restricted resources first, then unrestricted resources as needed.

Promises to Give: Unconditional promises to give are recognized as revenues on a discounted basis in the period made. Conditional promises to give are recognized when the conditions on which they depend are substantially met and the promises become unconditional. The Foundation uses the allowance method to estimate uncollectible unconditional promises to give. The allowance is based upon prior experience and management's analysis of promises to give.

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. In addition, based upon the Foundation's gift policies, certain installment gifts are held in the temporarily restricted category until a certain dollar amount is reached and then the balance is transferred to permanently restricted in accordance with the donor's intent. Net assets of approximately \$642,000 and \$1,618,000 have been reclassified during the years ended June 30, 2016 and 2015, respectively, to reflect such balances as permanently restricted net assets.

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 2016 and 2015 valued approximately at \$984,000 and \$1,318,000, respectively.

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(Continued)

THE BOWLING GREEN STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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**NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

Accounting principles generally accepted in the United States of America prescribe recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Tax benefits will be recognized only if a tax position is more-likely-than-not sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit that is greater than 50% likely being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit will be recorded. 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, 2016 and 2015.

The Foundation would recognize interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. The Foundation has no amounts accrued for interest or penalties for the year ended June 30, 2016 and 2015. The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

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.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported changes in net assets or total net assets.

Subsequent Events: The Foundation evaluated the effect of subsequent events through September 30, 2016, representing the date on which the consolidated financial statements were available to be issued. Management has determined no subsequent events have occurred requiring disclosure in these financial statements, other than the item discussed in Note 8.

**NOTE 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 discount rates ranging from 1.2% to 2.2%. Write-offs of uncollectible pledges for the years ended June 30, 2016 and 2015, amounted to approximately \$120,000 and \$673,000, respectively.

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(Continued)

THE BOWLING GREEN STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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**NOTE 2 - CONTRIBUTIONS RECEIVABLE AND CONTRIBUTED SERVICES (Continued)**

Contributions receivable at June 30 are due as follows:

	<u>2016</u>	<u>2015</u>
Within one year	\$ 8,053,551	\$ 5,707,232
One to five years	7,735,171	4,596,664
More than five years	<u>862,000</u>	<u>981,493</u>
	16,650,722	11,285,389
Less allowance	(5,348,317)	(4,343,498)
Present value discount	<u>(463,698)</u>	<u>(579,384)</u>
 Total	 <u>\$ 10,838,707</u>	 <u>\$ 6,362,507</u>

Contributions receivable from related parties totaled approximately \$556,000 and \$743,000 at June 30, 2016 and 2015, respectively. Related party contribution revenue recognized for the years ended June 30, 2016 and 2015 totaled approximately \$165,000 and \$265,000, respectively.

The Foundation has conditional promises from donors of approximately \$57,485,000 and \$56,391,000 for estates or planned gifts as of June 30, 2016 and 2015, respectively, which are not shown in the accompanying consolidated financial statements until the condition has been fulfilled.

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 recorded in the consolidated statement of activities as University Support.

**NOTE 3 - INVESTMENTS**

Investments at fair value at June 30 are as follows:

	<u>2016</u>	<u>2015</u>
Fixed income funds	\$ 39,018,569	\$ 38,598,002
Mutual funds	73,311,173	69,321,737
Corporate stocks	265,024	1,786,077
Money market funds	2,934,747	4,847,218
Alternative investments:		
Hedge funds	21,101,040	21,715,158
Private investment funds	3,962,624	3,108,450
Real estate funds and other	<u>2,386,798</u>	<u>2,310,585</u>
Total alternative investments	<u>27,450,462</u>	<u>27,134,193</u>
 Total	 <u>\$ 142,979,975</u>	 <u>\$ 141,687,227</u>

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(Continued)

THE BOWLING GREEN STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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**NOTE 3 - INVESTMENTS** (Continued)

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

	<u>2016</u>	<u>2015</u>
Beginning of year	\$ 17,532,282	\$ 23,259,772
End of year	<u>14,955,568</u>	<u>17,532,282</u>
Net unrealized gains (losses) for the year	<u>\$ (2,576,714)</u>	<u>\$ (5,727,490)</u>

Realized gains from sales of investment securities amounted to \$1,337,031 in 2016 and \$3,957,522 in 2015.

**NOTE 4 - DISCLOSURES ABOUT FAIR VALUE OF ASSETS**

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

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy.

Investments: Investments of the Foundation include cash equivalents, corporate stocks, equity securities, fixed income funds, mutual funds and various alternative investment strategies. 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.

Alternative investment strategies include hedge funds, private investments, fund of funds, and real estate funds. None of these investments have an active market.

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**NOTE 4 - DISCLOSURES ABOUT FAIR VALUE OF ASSETS** (Continued)

The fair values of the Foundation's hedge funds have been estimated using the net asset value per share of the investment, or its equivalent. Due to current market conditions as well as the limited trading activity of these securities, the market value of the securities is highly sensitive to assumption changes and market volatility (Level 3 inputs). Redemption restrictions are greater than three months. Commitments outstanding on these funds are \$404,250 and \$509,000 at June 30, 2016 and 2015, respectively. The investment objectives of the various hedge funds are long-term appreciation of principal and hedging current market fluctuations for current income.

For the private investment and funds of funds investments, the Foundation has estimated fair value using the net asset value per share of the investment, or its equivalent. Due to current market conditions as well as the limited trading activity of these securities, the market value of the securities is highly sensitive to assumption changes and market volatility (Level 3 inputs). At June 30, 2016 and 2015, these investments consist mainly of limited partnerships, with a smaller percentage of investments in closely held companies. There are no redemption options on the majority of the funds. The partnerships are scheduled to terminate in 2017-2026. Commitments outstanding on these funds are approximately \$7,730,000 and \$3,071,000 at June 30, 2016 and 2015, respectively. The investment objectives of these funds are to obtain long term growth capital and they offer investors an opportunity to access the private equity market through a much smaller commitment than would be feasible investing directly in funds.

For other investments for which there is no active market, including real estate, Foundation management has estimated fair value using the net asset value per share of the investment, or its equivalent. The market value of the securities is highly sensitive to assumption changes and market volatility (Level 3 inputs). Other than real estate owned directly by the Foundation, there are no redemption options on these funds. Outstanding commitments are \$99,000 at June 30, 2016 and 2015. The investment objectives of the funds are overall long term capital growth.

Due to the inherent uncertainty of valuation of Level 3 investments, the estimated fair values 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 will be unable to liquidate these investments, unless certain events occur.

Split interest agreements: The Foundation's investments under charitable remainder trusts and charitable gift annuities are classified as Level 1. The Foundation records investments in cash equivalents, corporate stocks, 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.

Beneficial interest in trust held by others: The Foundation's beneficial interest in irrevocable split interest agreements held or controlled by a third party are classified as Level 3 as the fair values are based on significant unobservable inputs. The fair values are estimated using the income approach and are measured at the present value of the future distributions the Foundation expects to receive over the term of the agreements.

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(Continued)

THE BOWLING GREEN STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2016 and 2015

**NOTE 4 - DISCLOSURES ABOUT FAIR VALUE OF ASSETS** (Continued)

The fair value of these financial assets was determined using the following inputs at June 30, 2016 and 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>June 30, 2016</u>
<b>Investments</b>				
Cash equivalents and money market funds	\$ 2,829,103	\$ -	\$ -	\$ 2,829,103
Domestic corporate stocks	90,102	-	-	90,102
<b>Mutual funds</b>				
Domestic funds	49,122,336	-	-	49,122,336
International funds	22,247,543	-	-	22,247,543
Fixed income funds	36,197,986	-	-	36,197,986
<b>Alternative investments</b>				
Hedge funds	-	-	21,101,040	21,101,040
Private investment	-	-	3,962,624	3,962,624
Real estate funds and other	-	-	2,386,798	2,386,798
<b>Split interest agreements</b>				
Cash equivalents and money market funds	105,645	-	-	105,645
Domestic corporate stocks	174,922	-	-	174,922
Mutual funds	1,941,294	-	-	1,941,294
Fixed income funds	2,820,582	-	-	2,820,582
Beneficial interest in trust held by others	-	-	250,724	250,724
<b>Total assets</b>	<b><u>\$ 115,529,513</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 27,701,186</u></b>	<b><u>\$ 143,230,699</u></b>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>June 30, 2015</u>
<b>Investments</b>				
Cash equivalents and money market funds	\$ 4,578,662	\$ -	\$ -	\$ 4,578,662
Domestic corporate stocks	77,315	-	-	77,315
<b>Mutual funds</b>				
Domestic funds	46,550,845	-	-	46,550,845
International funds	21,837,821	-	-	21,837,821
Fixed income funds	36,232,249	-	-	36,232,249
<b>Alternative investments</b>				
Hedge funds	-	-	21,715,158	21,715,158
Private investment	-	-	3,108,450	3,108,450
Real estate funds and other	-	-	2,310,585	2,310,585
<b>Split interest agreements</b>				
Cash equivalents and money market funds	268,554	-	-	268,554
Domestic corporate stocks	1,708,762	-	-	1,708,762
<b>Mutual funds</b>				
Domestic funds	933,072	-	-	933,072
Fixed income funds	2,365,754	-	-	2,365,754
Beneficial interest in trust held by others	-	-	150,883	150,883
<b>Total assets</b>	<b><u>\$ 114,553,034</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 27,285,076</u></b>	<b><u>\$ 141,838,110</u></b>

(Continued)

THE BOWLING GREEN STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2016 and 2015

**NOTE 4 - DISCLOSURES ABOUT FAIR VALUE OF ASSETS** (Continued)

The following is reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheet using significant observable (Level 3) inputs:

	Hedge Funds	Private Investments	Real Estate and Other Funds	Funds Held In Trust by Others	Total
Beginning balance, July 1, 2015	\$ 21,715,158	\$ 3,108,450	\$ 2,310,585	\$ 150,883	\$ 27,285,076
Contributions	-	-	-	-	-
Total gains or losses (realized/ unrealized) included in earnings	(407,146)	(47,839)	87,343	-	(367,642)
Change in split interest agreements	-	-	-	99,841	99,841
Purchases	22,500	1,224,932	-	-	1,247,433
Sales	<u>(229,472)</u>	<u>(322,919)</u>	<u>(11,130)</u>	<u>-</u>	<u>(563,522)</u>
Ending balance, June 30, 2016	<u>\$ 21,101,040</u>	<u>\$ 3,962,624</u>	<u>\$ 2,386,798</u>	<u>\$ 250,724</u>	<u>\$ 27,701,186</u>
	Hedge Funds	Private Investments	Real Estate and Other Funds	Funds Held In Trust by Others	Total
Beginning balance, July 1, 2014	\$ 14,304,170	\$ 7,418,858	\$ 2,883,422	\$ 186,652	\$ 24,793,102
Contributions	-	-	-	-	-
Total gains or losses (realized/ unrealized) included in earnings	831,740	175,613	(91,242)	-	916,111
Change in split interest agreements	-	-	-	(35,769)	(35,769)
Purchases	6,706,250	657,389	25,000	-	7,388,639
Sales	<u>(127,002)</u>	<u>(5,143,410)</u>	<u>(506,595)</u>	<u>-</u>	<u>(5,777,007)</u>
Ending balance, June 30, 2015	<u>\$ 21,715,158</u>	<u>\$ 3,108,450</u>	<u>\$ 2,310,585</u>	<u>\$ 150,883</u>	<u>\$ 27,285,076</u>

Unrealized (losses)/gains generated from Level 3 investments still held at June 30, 2016 and 2015, and reported in the Foundation's statement of activities were (\$725,457) and \$144,028, respectively.

Certain investment securities are held by independent custodial and management agents. Custodial and management fees paid approximately \$115,000 and \$80,000 in 2016 and 2015, respectively, and are reported as reductions to interest and dividends in the accompanying consolidated statements of activities.

Other Financial Instruments: The Foundation's other financial instruments include cash and cash equivalents, contributions receivable, cash surrender value of life insurance, accounts payable, and annuities payable.

For cash and cash equivalents and accounts payable, the carrying amounts approximate fair value because of the short maturity of these items. The carrying amount of contributions receivable, cash surrender value of life insurance, and annuities payable are a reasonable estimate of the corresponding fair value.

(Continued)

THE BOWLING GREEN STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 June 30, 2016 and 2015

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**NOTE 5 - LIFE INSURANCE POLICIES**

The Foundation is owner and beneficiary of certain life insurance policies that have a total face value of approximately \$10,519,000 at June 30, 2016 and \$10,344,000 at June 30, 2015. Premiums on these policies are generally paid by the insured individuals. The cash surrender value of such policies approximated \$1,598,000 and \$1,531,000 at June 30, 2016 and 2015, respectively.

**NOTE 6 - RESTRICTED NET ASSETS**

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

	<u>2016</u>	<u>2015</u>
Scholarships	\$ 26,339,481	\$ 26,108,760
General and operational support	19,679,625	18,336,341
Capital and equipment	6,030,704	5,958,040
Professorships	2,210,089	2,379,659
Centers and institutes	1,471,693	1,481,878
Chair	1,236,327	1,331,881
Research	671,756	628,231
Faculty and staff	183,774	221,520
Fellowships	<u>71,448</u>	<u>71,294</u>
Total temporarily restricted net assets	<u>\$ 57,894,897</u>	<u>\$ 56,517,604</u>

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

	<u>2016</u>	<u>2015</u>
General and operational support	\$ 8,362,849	\$ 7,085,867
Scholarships	3,573,240	2,948,826
Capital and equipment	1,979,544	849,835
Centers and institutes	203,773	298,466
Professorships	195,328	162,231
Chair	79,431	96,756
Faculty and staff	42,000	13,271
Research	2,327	18,611
Fellowships	<u>-</u>	<u>16,000</u>
Total net assets released from restrictions	<u>\$ 14,438,492</u>	<u>\$ 11,489,863</u>

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(Continued)

THE BOWLING GREEN STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 June 30, 2016 and 2015

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**NOTE 6 - RESTRICTED NET ASSETS (Continued)**

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

	<u>2016</u>	<u>2015</u>
Scholarships	\$ 57,793,035	\$ 53,330,251
General and operational support	17,896,401	17,531,059
Professorships	8,664,560	8,454,957
Capital and equipment	1,984,830	1,880,104
Centers and institutes	1,397,179	1,258,754
Chair	1,480,629	1,480,629
Faculty and staff	1,011,316	1,010,666
Research	468,941	408,791
Fellowships	<u>29,209</u>	<u>29,209</u>
 Total permanently restricted net assets	 <u>\$ 90,726,100</u>	 <u>\$ 85,384,420</u>

**NOTE 7 - ENDOWMENT BALANCES**

The Foundation's endowment consists of approximately 1,026 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 Directors 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

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(Continued)

THE BOWLING GREEN STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 June 30, 2016 and 2015

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**NOTE 7 - 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 2016 and 2015.

The Foundation Board of Directors approved charging an administrative fee of 1.3% for the years ended June 30, 2016 and 2015 on all endowed funds, and certain non-endowed funds, unless prohibited by the guidelines of the fund. The fee is based on the prior two-year average market value balance for endowed funds.

The composition of net assets by type of endowment fund at June 30, 2016 and 2015 was:

<u>2016</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Donor-restricted endowment funds	\$ -	\$ 29,485,939	\$ 90,726,100	\$ 120,212,039
Board-designated endowment funds	<u>1,232,331</u>	<u>-</u>	<u>-</u>	<u>1,232,331</u>
Total endowment funds	<u>\$ 1,232,331</u>	<u>\$ 29,485,939</u>	<u>\$ 90,726,100</u>	<u>\$ 121,444,370</u>
<u>2015</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Donor-restricted endowment funds	\$ -	\$ 32,463,599	\$ 85,384,420	\$ 117,848,019
Board-designated endowment funds	<u>1,230,063</u>	<u>-</u>	<u>-</u>	<u>1,230,063</u>
Total endowment funds	<u>\$ 1,230,063</u>	<u>\$ 32,463,599</u>	<u>\$ 85,384,420</u>	<u>\$ 119,078,082</u>

(Continued)

THE BOWLING GREEN STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2016 and 2015

**NOTE 7 - ENDOWMENT BALANCES** (Continued)

Changes in endowment net assets for the years ended June 30, 2016 and 2015 were:

<u>2016</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Endowment net assets, beginning of year	\$ 1,230,063	\$ 32,463,599	\$ 85,384,420	\$ 119,078,082
Investment return				
Investment income	5,039	393,296	-	398,335
Net gains/(losses)	<u>(2,801)</u>	<u>(1,122,620)</u>	<u>-</u>	<u>(1,125,421)</u>
Total investment return	<u>2,238</u>	<u>(729,324)</u>	<u>-</u>	<u>(727,086)</u>
Contributions and additions	30	657,619	4,611,071	5,268,720
Transfers	-	(641,561)	641,561	-
Change in split interest agreement	-	-	89,048	89,048
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(2,264,394)</u>	<u>-</u>	<u>(2,264,394)</u>
Endowment net assets, end of year	<u>\$ 1,232,331</u>	<u>\$ 29,485,939</u>	<u>\$ 90,726,100</u>	<u>\$ 121,444,370</u>
 <u>2015</u>	 <u>Unrestricted</u>	 <u>Temporarily Restricted</u>	 <u>Permanently Restricted</u>	 <u>Totals</u>
Endowment net assets, beginning of year	\$ 1,223,456	\$ 36,588,636	\$ 81,693,559	\$ 119,505,651
Investment return				
Investment income	5,677	616,148	-	621,825
Net gains/(losses)	<u>(19,030)</u>	<u>(1,850,362)</u>	<u>-</u>	<u>(1,869,392)</u>
Total investment return	<u>(13,353)</u>	<u>(1,234,214)</u>	<u>-</u>	<u>(1,247,567)</u>
Contributions and additions	50,230	212,758	2,430,922	2,693,910
Transfers	-	(1,156,875)	1,156,875	-
Change in split interest agreement	-	-	103,064	103,064
Appropriation of endowment assets for expenditure	<u>(30,270)</u>	<u>(1,946,706)</u>	<u>-</u>	<u>(1,976,976)</u>
Endowment net assets, end of year	<u>\$ 1,230,063</u>	<u>\$ 32,463,599</u>	<u>\$ 85,384,420</u>	<u>\$ 119,078,082</u>

From time to time, the fair value of assets associated with individual donor-restricted funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are in excess of related temporarily restricted amounts are reported in unrestricted net assets. There were no funds with deficiencies as of June 30, 2016 and 2015.

**INDEPENDENT AUDITOR'S 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**

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

We have audited, in accordance with the 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, the consolidated financial statements of the Bowling Green State University Foundation, Inc. and Subsidiary (Foundation), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the 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 a 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.

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.

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(Continued)



## **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely 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 effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Crowe Horwath LLP*

Crowe Horwath LLP

Columbus, Ohio  
September 30, 2016

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# Dave Yost • Auditor of State

**BOWLING GREEN STATE UNIVERSITY FOUNDATION**

**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 17, 2016**