Consolidated Financial Statements

The Bowling Green State University Foundation, Inc.
and Subsidiary
Years Ended June 30, 2012 and 2011
With Report of Independent Auditors

Dave Yost • Auditor of State

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, 2011 through June 30, 2012. 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

January 15, 2013

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The Bowling Green State University Foundation, Inc. and Subsidiary

Consolidated Financial Statements

Years Ended June 30, 2012 and 2011

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Report of Independent Auditors

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

We have audited the accompanying consolidated statements of financial position of The Bowling Green State University Foundation, Inc. and Subsidiary (collectively, the Foundation) as of June 30, 2012 and 2011, 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 at June 30, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2012, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Ernst & Young LLP

October 12, 2012

The Bowling Green State University Foundation, Inc. and Subsidiary

Consolidated Statements of Financial Position

	June 30 2012	June 30 2011
Assets		
Current assets:		
Cash	**$ 822,589**	$ 643,839
Contributions receivable, net of allowance for uncollectible contributions *(Note 2)*	**5,537,103**	5,332,400
Total current assets	**6,359,692**	5,976,239
Investments (Notes 1 and 3):		
Corporate bond funds	**41,391,355**	40,706,163
Mutual funds	**42,429,171**	37,783,186
Alternative investments	**18,255,665**	15,932,789
Corporate stocks	**6,683,402**	11,260,442
Money market funds	**1,500,734**	2,139,498
U.S. government and agency obligations	**–**	187,679
Total investments	**110,260,327**	108,009,757
Prepaid and other assets	**289,105**	328,447
Long-term contributions receivable, net of allowance for uncollectible contributions *(Note 2)*	**5,274,697**	6,509,614
Cash value of life insurance *(Note 4)*	**1,484,704**	1,464,523
Total assets	**$ 123,668,525**	$ 122,288,580
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 331,354**	$ 198,009
Total current liabilities	**331,354**	198,009
Annuities payable *(Note 1)*	**1,769,014**	1,403,862
Total liabilities	**2,100,368**	1,601,871
Net assets *(Notes 1, 6, 7, and 8)*:		
Unrestricted	**1,721,052**	1,322,657
Temporarily restricted	**42,529,153**	44,941,460
Permanently restricted	**77,317,952**	74,422,592
Total net assets	**121,568,157**	120,686,709
Total liabilities and net assets	**$ 123,668,525**	$ 122,288,580

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 Statement of Activities

Year Ended June 30, 2011

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

See accompanying notes.

The Bowling Green State University Foundation, Inc. and Subsidiary

Consolidated Statements of Cash Flows

	Year Ended June 30 2012	Year Ended June 30 2011
Operating activities		
Change in net assets	**$ 881,448**	$ 16,121,914
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized losses (gains)	**1,446,257**	(12,860,497)
Contributions of securities	**(652,295)**	(184,626)
Provision for uncollectible contributions	**(13,400)**	(25,635)
Changes in operating assets and liabilities:		
Contributions receivable	**1,043,614**	1,498,272
Interest receivable	**–**	3,472
Prepaid and other assets	**39,342**	(157,290)
Accounts and annuities payable	**498,497**	35,802
Total adjustments	**2,362,015**	(11,690,502)
Net cash provided by operating activities	**3,243,463**	4,431,412
Investing activities		
Sales of investments	**19,467,030**	25,388,183
Purchases of investments	**(22,511,562)**	(29,427,425)
Net change in cash surrender value of life insurance	**(20,181)**	(36,107)
Net cash used in investing activities	**(3,064,713)**	(4,075,349)
Increase in cash	**178,750**	356,063
Cash at beginning of year	**643,839**	287,776
Cash at end of year	**$ 822,589**	$ 643,839

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 financial statements of the Foundation are presented below.

Basis of Accounting

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

Use of Estimates

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

Investments

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

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

1. Organization and Significant Accounting Policies (continued)

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

Net Asset Classifications

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

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

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

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

Promises to Give

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

1. Organization and Significant Accounting Policies (continued)

Restricted and Unrestricted Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted and reported in the 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 2012 and 2011 valued approximately at $1,225,000 and $6,270,000, 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 financial statements. The Corporation is incorporated as a limited liability corporation.

The Foundation completed an analysis of its tax positions, in accordance with ASC 740 Income Taxes, and determined that no amounts were required to be recognized in the financial statements at June 30, 2012 or 2011.

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.

1. Organization and Significant Accounting Policies (continued)

Fair Value Measurements

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

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

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

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

See Note 3 for further discussion of fair value measurements.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to be comparative to the 2012 presentation.

Subsequent Events

The Foundation evaluated the effect of subsequent events through October 12, 2012, 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 2.8% as of June 30, 2012 and 2011, respectively. Write-offs of uncollectible pledges for the years ended June 30, 2012 and 2011, amounted to approximately $238,100 and $237,900 respectively, and are recorded net of contributions and gifts.

Contributions receivable at June 30 are due as follows:

	2012	2011
Within one year	**$ 5,644,123**	$ 5,458,323
One to five years	**4,718,961**	6,397,398
More than five years	**824,522**	800,706
	11,187,606	12,656,427
Less allowance	**(192,894)**	(212,996)
Present value discount	**(182,912)**	(601,417)
Total	**$ 10,811,800**	$ 11,842,014

The Foundation has conditional promises to give of approximately $76,812,000 and $75,027,000 for estates or planned gifts as of June 30, 2012 and 2011, respectively, which are not shown in the accompanying financial statements until the condition has been fulfilled.

Expenses related to occupancy of facilities, certain salaries and fringe benefits of financial, accounting, and development personnel are paid by the University on behalf of the Foundation and are not shown in the accompanying financial statements. The Foundation approximates the value of these items at $2,825,000 in 2012 and $1,971,000 in 2011.

3. Investments

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

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

3. Investments (continued)

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.

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

	2012	2011
Corporate bond funds	**$ 41,391,355**	$ 40,706,163
Mutual funds	**42,429,171**	37,783,186
Corporate stocks	**6,683,402**	11,260,442
Money market funds	**1,500,734**	2,139,498
U.S. government and agency obligations	–	187,679
Alternative investments:		
Private investment	**3,263,136**	1,800,379
Fund of funds	**12,288,665**	12,129,795
Real estate funds	**2,703,864**	2,002,615
Subtotal alternative investments	**18,255,665**	15,932,789
Total	**$ 110,260,327**	$ 108,009,757

3. Investments (continued)

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

	2012	2011
Beginning of year	**$ 7,505,956**	$ (3,748,446)
End of year	**3,703,715**	7,505,956
Net unrealized (losses) gains for the year	**$ (3,802,241)**	$ 11,254,402

Realized gains from sales of investment securities amounted to $2,355,984 in 2012 and $1,606,095 in 2011.

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, 2012 and 2011:

	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**

	Level 1	Level 2	Level 3	June 30, 2011
Assets				
Cash and money market funds	$ 2,139,498	$ –	$ –	$ 2,139,498
Domestic corporate stocks	11,260,442	–	–	11,260,442
Mutual funds:				
Domestic funds	15,710,847	–	–	15,710,847
International funds	22,072,339	–	–	22,072,339
U.S. government and agency obligations	–	187,679	–	187,679
Corporate bond funds	40,706,163	–	–	40,706,163
Total assets	$ 91,889,289	$ 187,679	$ –	$ 92,076,968

3. Investments (continued)

The amount of total losses for the period attributable to the unrealized losses for financial instruments within alternative investments held for the years ended June 30, 2012 and 2011, is $770,000 and $268,000, respectively. The Foundation had outstanding commitments to invest in various alternative investments at June 30, 2012 and 2011, amounting to approximately $4,700,000 and $4,200,000, respectively.

Assets held in charitable remainder trust principally consist of corporate stocks and corporate bonds and debentures. Unrealized gains (losses) amounted to approximately $(50,000) and $329,000 at June 30, 2012 and 2011, respectively, and realized losses of approximately $49,000 and $20,000 were recognized for the years ended June 30, 2012 and 2011, respectively.

Certain investment securities are held by independent custodial and management agents. Custodial and management fees paid approximated $154,000 and $145,000 in 2012 and 2011, 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 $8,578,000 at June 30, 2012 and $8,154,000 at June 30, 2011. Premiums on these policies are generally paid by the insured individuals. The cash surrender value of such policies approximated $1,485,000 at June 30, 2012, and $1,465,000 at June 30, 2011, 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:

	2012	2011
General support of colleges and departments	**$ 21,121,342**	$ 21,368,572
Student aid	**13,970,080**	15,045,930
Property and equipment	**3,052,038**	3,839,840
Endowed chairs and professorships	**2,478,817**	2,824,990
Research	**945,041**	986,765
Fellowship	**456,970**	489,143
Faculty and staff	**504,865**	386,220
Total temporarily restricted net assets	**$ 42,529,153**	$ 44,941,460

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

	2012	2011
Property and equipment	**$ 1,958,916**	$ 6,687,408
General support of colleges and departments	**4,350,750**	4,177,323
Student aid	**2,621,051**	2,209,192
Endowed chairs and professorships	**278,688**	175,672
Research	**51,698**	89,674
Faculty and staff	**114,418**	79,520
Fellowship	**74,597**	73,890
Total net assets released from restrictions	**$ 9,450,118**	$ 13,492,679

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:

	2012	2011
Student aid	**$ 44,528,072**	$ 43,235,992
General support of colleges and departments	**18,773,657**	17,585,788
Endowed chairs and professorships	**8,989,735**	8,869,097
Property and equipment	**1,943,590**	1,818,317
Faculty and staff	**1,762,224**	1,592,974
Research	**1,131,340**	1,131,090
Fellowship	**189,334**	189,334
Total permanently restricted net assets	**$ 77,317,952**	$ 74,422,592

7. Transfers of Net Assets

During 2012 and 2011, certain funds that originally had been reported as temporarily restricted became fully endowed funds once the fund's balance exceeded $25,000. As a result, approximately $620,000 and $111,000 of net assets have been reclassified as of June 30, 2012 and 2011, respectively, to reflect such balances as permanently restricted net assets.

8. Endowment Balances

The Foundation's endowment consists of approximately 903 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 2012 and 2011.

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 1.3% for the years ended June 30, 2012 and 2011. 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 $1,247,000 in 2012 and $1,148,000 in 2011 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, 2010	$ 71,727,690
Contributions	2,570,052
Other cash receipts	14,140
Other changes:	
Transfers:	
Temporary accounts to permanent	110,710
Total transfers	110,710
June 30, 2011	**74,422,592**
Contributions	**2,226,104**
Other cash receipts	**49,584**
Other changes:	
Transfers:	
Temporary accounts to permanent	**619,671**
Total transfers	**619,671**
June 30, 2012	**$ 77,317,952**

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, 2012 and 2011. In accordance with Accounting Standards Codification 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 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*

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

We have audited the consolidated financial statements of The Bowling Green State University Foundation, Inc. and Subsidiary (collectively, the Foundation) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 12, 2012. 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

Management of the Foundation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

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

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

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Compliance and Other Matters

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

This report is intended solely for the information and use of management, Board of Directors, and others within the Foundation and is not intended to be, and should not be, used by anyone other than these specified parties.

Ernst & Young LLP

October 12, 2012

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
JANUARY 29, 2013