

REPORTS PURSUANT TO THE OMB CIRCULAR A-133

Bowling Green State University

Year ended June 30, 2004

With Reports of Independent Auditors



**Auditor of State
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of Bowling Green State University, Wood County, prepared by Ernst & Young LLP, for the audit period July 1, 2003 through June 30, 2004. 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. Bowling Green State University is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

November 16, 2004

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Bowling Green State University

Financial Statements
and Supplemental Information

Years ended June 30, 2004 and 2003

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Report of Independent Auditors

The Board of Trustees
Bowling Green State University

We have audited the accompanying statement of net assets of Bowling Green State University (the University), a component unit of the State of Ohio, and its discretely presented component unit as of June 30, 2004 and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of Bowling Green State University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Bowling Green State University for the year ended June 30, 2003, were audited by other auditors whose reported dated September 30, 2003, expressed an unqualified opinion on those statements prior to restatement.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2004 financial statements referred to above present fairly, in all material respects, the financial position of the University and its discretely presented component unit as of June 30, 2004 and the changes in its net assets, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

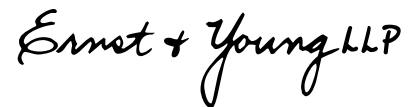
We also audited the adjustments described in Note 1 that were applied to restate the 2003 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

Management's discussion and analysis on pages 2 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As discussed in Note 1 to the financial statements, in fiscal 2004 the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which required the discrete presentation of The Bowling Green State University Foundation, Inc. financial statements as a component unit of the University.

In accordance with Government Auditing Standards, we have also issued our report dated October 1, 2004 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



October 1, 2004

BOWLING GREEN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements and Financial Analysis

This section of the Bowling Green State University ("University") annual financial report presents management's discussion and analysis of the financial performance of the University during the fiscal years ended June 30, 2004, 2003 and 2002. This discussion provides an overview of the University's financial activities and should be read in conjunction with the accompanying financial statements and footnotes.

The annual report consists of the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows, prepared in accordance with Governmental Accounting Standards Board ("GASB") principles. Effective with the fiscal year ended June 30, 2002, the University adopted Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities* as amended by GASB Statements No. 37 and implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

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

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

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

Noteworthy Financial Activity

The University's financial position changed and grew in most areas during the fiscal year ended June 30, 2004 as compared to the previous year as evidenced by:

- The University's total assets increased over the prior year by \$8.2 million, of which \$6.1 million is attributed to an increase in current assets. Capital assets increased by \$5.3 million, due in part to the capitalization of the Firelands Cedar Point Center.
- Total liabilities decreased by \$9.9 million due primarily to the \$7.3 million decrease in long-term debt and a \$4.3 decrease in accounts payable.
- The University's net assets increased to \$328.3 million, an increase of \$18.2 million compared to the prior year's restated increase of \$10.0 million. Contributing to this increase was a \$5.0 million increase in nonoperating revenue, and a decrease of \$7.7 million in operating loss. Of the total net assets, \$229.9 million is invested in either capital assets or is restricted. The remaining \$98.4 million is unrestricted, an increase of \$6.2 million from the prior year.
- Operating revenues increased by \$10.9 million compared to the prior year with \$8.0 million directly related to increased student tuition and fees and \$2.5 million related to auxiliary enterprises.
- The University's operating expenses increased by \$3.2 million, \$2.3 million in educational and general expenses and \$.6 in auxiliary enterprise expenses. Changes in the educational and general expenses included an increase of \$3.7 million for instruction and research, and an aggregate decrease of \$1.4 million for the other educational and general expenditure categories.
- Nonoperating revenue changed, primarily due to the \$6.3 million increase in investment income. Other changes included a decrease in capital appropriation of \$4.9 million. State appropriations increased by \$.7 million for the year.

Statement of Net Assets

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

A summary of the University's assets, liabilities and net assets at June 30, 2004, 2003 and 2002 follows (in thousands):

	<u>2004</u>	<u>2003</u> (Restated)	<u>2002</u> (Restated)
ASSETS			
Current assets	\$142,622	\$136,486	\$131,320
Noncurrent assets:			
Capital assets	294,352	289,095	285,509
Other	<u>24,043</u>	<u>27,226</u>	<u>11,006</u>
Total noncurrent assets	<u>318,395</u>	<u>316,321</u>	<u>296,515</u>
Total assets	461,017	452,807	427,835
LIABILITIES			
Current liabilities	\$38,080	\$40,666	\$40,305
Noncurrent liabilities	<u>94,652</u>	<u>102,011</u>	<u>90,405</u>
Total liabilities	132,733	142,677	130,710
NET ASSETS			
Invested in capital assets net of related debt	222,186	215,009	\$204,691
Restricted, expendable	7,669	2,889	8,958
Unrestricted	<u>98,429</u>	<u>92,232</u>	<u>83,476</u>
Total net assets	<u>\$328,284</u>	<u>\$310,130</u>	<u>\$297,125</u>

At June 30, 2004, total University assets were \$461.0 million, compared to \$452.8 million in fiscal 2003. The University's largest asset is its investment in capital assets of \$294.4 million at June 30, 2004 compared to \$289.1 million in fiscal 2003.

In fiscal 2004, the University's current assets of \$142.6 million were sufficient to cover current liabilities of \$38.1 million (current ratio of 3.7:1). Cash increased by \$1.0 million in 2004 compared to an increase of \$.3 million in 2003 due to normal operations. Investments increased by \$3.0 million in 2004 due to the \$6.6 million appreciation of investments offset by the spend down of \$3.6 million in bond proceeds from the May 2003 bond issue and totaled \$144.1 million, 31% of the total assets. Capital assets (net of depreciation) of \$294.4 million represent 64% of the University's total assets.

University liabilities totaled \$132.7 million at June 30, 2004, 29% of assets and \$9.9 million less than the prior year. Long-term debt decreased \$7.4 million to \$94.6 million in 2004. Accounts payable and accrued expenses at \$12.4 million were \$4.4 million less than the 2003 balance.

Total net assets increased \$18.2 million to \$328.3 million in 2004, due in part to an increase of \$5.2 million investment in capital assets, and a decrease \$7.3 million of long-term debt and other obligations. Unrestricted net assets total \$98.4 million in 2004, while \$7.7 million was restricted or designated for loans, capital projects and debt service.

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

As discussed in Note 1 to the financial statements, net assets were restated for the recognition of summer school net revenue, which resulted in an increase in net tuition revenue of \$1.6 million for fiscal 2003 and \$2.8 million, recorded in fiscal 2002, for prior years.

2003 Versus 2002

- In fiscal 2003, current assets of \$136.5 million were sufficient to cover current liabilities of \$40.6 million (current ratio of 3.4:1).
- Cash increased by \$.3 million to \$2.1 million in 2003.
- Investments increased by \$19.2 million in 2003 due to unspent bond proceeds of \$20.6 million from bonds issued in May 2003.
- Liabilities at \$142.7 million were \$12.0 million greater than the prior year and were 32% of total assets.
- Total net assets increased \$13.0 million to \$310.1 million, due in part to the \$10.3 million increase in capital assets and \$8.8 million increase in unrestricted assets.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the operating results of the University, as well as the nonoperating revenues and expenses. Operating revenues primarily include net student tuition and fees, grants and contracts, and revenue

from auxiliary activities. Given a public university's dependency on revenues such as state appropriations and investment income which are prescribed by GASB as nonoperating revenues, operating expenses will typically exceed operating revenues resulting in an operating loss. To determine the increase or decrease in Net Assets, net nonoperating revenue or expense and other changes need to be included.

A summary of the University's revenues, expenses and changes in net assets for the years ended June 30, 2004, 2003 and 2002 follows (in thousands):

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenues:		(Restated)	(Restated)
Student tuition and fees	\$124,714	\$116,673	\$102,731
Auxiliary enterprises	62,750	60,288	55,240
Grants and contracts	14,366	14,252	13,474
Sales and service	7,525	7,538	7,154
Other operating revenues	<u>3,125</u>	<u>2,816</u>	<u>956</u>
Total operating revenues	212,480	201,567	179,555
Operating Expenses:			
Educational and general	240,249	237,936	210,110
Auxiliary enterprises	59,920	59,316	52,725
Other expenditures	<u>767</u>	<u>462</u>	<u>5,942</u>
Total operating expenses	<u>300,936</u>	<u>297,714</u>	<u>268,777</u>
Operating loss	(88,456)	(96,147)	(89,222)
Nonoperating revenues:			
State appropriations	85,366	84,627	85,183
Other nonoperating revenues and expenses	<u>19,309</u>	<u>15,094</u>	<u>19,889</u>
Total nonoperating revenue	104,675	99,721	105,072
Income before other revenues, expenses, gains or losses	16,219	3,574	15,850
Capital appropriations and gifts	<u>1,935</u>	<u>6,655</u>	<u>21,816</u>
Total increase in net assets	18,154	10,229	37,666
Net assets at beginning of year, as originally reported	310,130	299,901	443,946
Cumulative effect of change in accounting principle	<u>- 0 -</u>	<u>- 0 -</u>	<u>(181,711)</u>
Net assets at the beginning of the year as restated	<u>310,130</u>	<u>299,901</u>	<u>262,235</u>
Net assets, end of year	<u>\$328,284</u>	<u>\$310,130</u>	<u>\$299,901</u>

The most significant sources of operating revenues for the University are tuition and fees of \$124.7 million (net of scholarships which increased \$7.5 million) for 2004, an increase of \$8.0 million or 6.9% over 2003 which is attributable to a composite 9% increase in tuition and fees effective for Fall Semester 2003. Auxiliary enterprise revenue was \$62.7 for 2004 an increase of \$2.5 million (4.1%) from the prior year. The increase in sales was due in part to revenue increases of Bookstore for \$.8 million, Residence Halls for \$1.2 million, and Dining Halls for \$.6 million, the latter two increases reflecting average fee increases of 4.2% and 12.6% (for the least expensive meal plan) respectively. Grants and contracts revenue increased \$.1 million to \$14.4 million for 2004. Sales and services of educational departments was flat at \$7.5 million.

Total operating expenditures at \$300.9 million increased \$3.2 million or 1.1% in 2004. Educational and General expenses increased \$2.3 million with instructional expense and depreciation expense increasing \$3.3 and \$.6 million, respectively, while public service, student services, and student aid each decreased \$.9 million. Auxiliary enterprises at \$59.9 million and other expenditures at \$.7 million increase \$.6 million and \$.3 million respectively over last year. The operating loss for 2004 of \$88.5 million was \$7.7 million less than 2003.

State appropriations, the most significant nonoperating revenue, totaled \$85.4 million in the current year up \$.8 million from 2003's \$84.6 million. Net investment income was up by \$6.3 million, \$3.1 to 9.4 million, due to appreciation of investments. Other nonoperating revenues declined \$2.0 million due primarily to the elimination of the allocation from the State of Ohio. Capital appropriations declined \$5.0 million from fiscal 2003 to 2004. This decline was attributable to lower capital contributions reflecting fewer State funded projects capitalized during the year.

A change in the recognition of summer school revenue occurred in the current year as previously discussed.

2003 versus 2002

- The operating revenue increase is due to tuition and fees (net of scholarships) which increased \$13.9 million or 13.6% from 2002 to 2003.
- Auxiliary enterprise revenue of \$60.3 million was an increase of \$5.1 million.
- Operating expenditures of \$297.7 million were \$28.9 million greater than the prior year.
- Capital appropriations were down \$15.1 million due to lower State capital allocations and private gifts capitalized.

Bowling Green State University
Statements of Net Assets
June 30

	Bowling Green State University	Bowling Green State University Foundation, Inc.	
	<u>2004</u>	<u>2003</u> <i>Restated</i>	<u>2004</u>
ASSETS			
Current Assets			
Cash (Note 2)	\$ 3,088,932	\$ 2,057,410	\$ 942,591
Investments (Note 2)	127,085,312	120,489,307	
Accrued interest receivable	492,932	585,507	192,223
Accounts receivable, net (Note 3)	6,456,990	7,817,379	5,748,577
Inventories	4,195,199	3,930,387	
Notes receivable (Note 4)	1,132,756	1,437,832	
Other assets	170,455	168,357	
Total current assets	142,622,576	136,486,179	6,883,391
Noncurrent Assets			
Accounts receivable, net			9,179,912
Restricted investments (Note 2)	17,022,523	20,608,434	66,821,741
Cash surrender value of life insurance and annuities			406,000
Notes receivable (Note 4)	7,020,090	6,617,317	
Capital assets, net (Note 5)	294,352,388	289,095,148	
Total noncurrent assets	318,395,001	316,320,899	76,407,653
Total assets	461,017,577	452,807,078	83,291,044
LIABILITIES			
Current Liabilities			
Accounts payable and accrued expenses (Note 6)	12,391,053	16,742,001	303,752
Deferred revenue	12,012,695	10,637,812	
Deposits	850,989	1,061,704	
Current portion of long-term debt and other obligations (Note 7)	12,825,628	12,224,628	
Total current liabilities	38,080,365	40,666,145	303,752
Noncurrent Liabilities			
Long-term debt and other obligations (Note 7)	94,652,803	102,010,962	884,498
Total liabilities	132,733,168	142,677,107	1,188,250
NET ASSETS			
Invested in capital assets, net of related debt	222,186,587	215,008,626	
Restricted for expendable:			
Loans	870,071	857,908	
Capital projects	6,402,557	1,623,182	
Debt service	396,400	408,400	
Unrestricted	98,428,794	92,231,855	1,226,985
Temporarily restricted			30,809,587
Permanently restricted			50,066,222
Total net assets	\$ 328,284,409	\$ 310,129,971	\$ 82,102,794

See accompanying notes to financial statements

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

	Bowling Green State University		Bowling Green State University Foundation, Inc.
	<u>2004</u>	<u>2003</u>	<u>2004</u>
		<i>Restated</i>	
REVENUES			
Operating Revenues			
Student tuition and fees (net of scholarship allowances of \$ 43,514,255 for 2004 and \$ 36,013,181 for 2003)	\$ 124,714,148	\$ 116,672,268	\$
Federal grants and contracts	7,572,240	7,836,074	
State grants and contracts	1,117,261	1,590,273	
Local grants and contracts	107,303	40,270	
Nongovernmental grants and contracts	5,568,884	4,786,001	
Contributions and gifts			14,121,309
Sales and services of educational departments	7,525,490	7,538,041	
Auxiliary enterprises (net of scholarship allowances of \$ 1,672,408 for 2004 and \$ 1,413,949 for 2003)	62,749,844	60,287,545	
Other operating revenues	3,124,705	2,816,225	3,317,888
Total operating revenues	212,479,875	201,566,697	17,439,197
EXPENSES			
Operating Expenses			
Educational and General			
Instruction	102,288,719	98,903,335	
Research	5,835,246	5,471,769	
Public services	8,448,063	9,380,596	
Academic support	25,433,781	25,051,482	8,685,966
Student services	23,122,622	24,079,404	
Institutional support	26,847,540	27,263,109	618,505
Support of college fundraising			811,096
Operations and maintenance of plant	17,902,359	17,164,305	
Depreciation	17,714,698	17,034,474	
Student aid	12,655,541	13,587,180	
Auxiliary enterprises	59,920,083	59,316,411	
Other expenses	766,674	461,852	
Total operating expenses	300,935,326	297,713,917	10,115,567
Operating (loss) income	(88,455,451)	(96,147,220)	7,323,630
NONOPERATING REVENUES (EXPENSES)			
State appropriations	85,365,715	84,627,593	
Nonexchange grants and contracts	14,273,357	13,416,637	
Investment income, net	9,446,609	3,127,701	7,369,658
Additions to permanent endowments			8,554,954
Interest on capital asset-related debt	(4,497,111)	(4,296,021)	
Allocation from State of Ohio		2,680,448	
Other nonoperating revenues	86,453	164,310	
Net nonoperating revenues	104,675,023	99,720,668	15,924,612
Income before other changes	16,219,572	3,573,448	23,248,242
OTHER CHANGES			
Capital appropriations	1,695,989	6,655,279	
Capital grants and gifts	238,877		
Total other changes	1,934,866	6,655,279	
Increase in net assets	18,154,438	10,228,727	23,248,242
NET ASSETS			
Net assets at the beginning of year, as restated (Note 1)	310,129,971	299,901,244	58,854,552
Net assets at the end of year	\$ 328,284,409	\$ 310,129,971	\$ 82,102,794

See accompanying notes to financial statements

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

	<u>2004</u>	<u>2003</u> <i>Restated</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 125,383,610	\$ 117,122,726
Research grants and contracts	14,864,286	14,273,225
Payments to vendors for supplies and services	(82,526,422)	(83,846,929)
Payments to employees and benefits	(192,381,033)	(182,341,313)
Payments for scholarships and fellowships	(12,604,558)	(13,393,711)
Student loans granted, net of repayments	(67,279)	70,594
Auxiliary enterprises	64,061,018	59,630,445
Sales and services of educational departments	7,525,490	7,538,041
Other receipts	<u>2,860,979</u>	<u>2,779,055</u>
Net cash used in operating activities	<u>(72,883,909)</u>	<u>(78,167,867)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	85,365,715	84,627,593
Direct Lending Receipts	68,820,438	64,745,669
Direct Lending Disbursements	(68,820,438)	(64,745,669)
Grants received for other than capital purposes	<u>14,273,357</u>	<u>13,416,637</u>
Net cash provided by noncapital financing activities	<u>99,639,072</u>	<u>98,044,230</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from capital debt	-	29,559,510
Capital appropriations	1,695,989	6,655,279
Capital grants received	325,330	164,310
Purchases of capital assets	(22,971,939)	(20,620,973)
Principal paid on long-term debt	(6,805,000)	(15,265,000)
Interest paid on long-term debt	<u>(4,497,111)</u>	<u>(4,296,021)</u>
Net cash used in capital financing activities	<u>(32,252,731)</u>	<u>(3,802,895)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	238,845,140	481,592,809
Interest on investments	9,539,184	3,971,969
Purchase of investments	<u>(241,855,234)</u>	<u>(501,318,232)</u>
Net cash provided by (used in) investing activities	<u>6,529,090</u>	<u>(15,753,454)</u>
Net increase in cash	1,031,522	320,014
Cash--beginning of year	<u>2,057,410</u>	<u>1,737,396</u>
Cash--end of year	<u>\$ 3,088,932</u>	<u>\$ 2,057,410</u>
Reconciliation of net operating revenues (expenses) to net cash used by operating activities:		
Operating loss	\$ (88,455,451)	\$ (96,147,220)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	17,714,698	17,034,474
Amortization of bond premium	(261,628)	(115,721)
Changes in assets and liabilities:		
Accounts receivable, net	1,360,389	(751,417)
Inventories	(264,812)	(1,546,433)
Other assets	(2,098)	78,551
Accounts payable and accrued liabilities	(4,350,947)	2,071,009
Deferred revenue	1,374,883	1,657,640
Deposits held for others	(210,715)	(895,672)
Retirement Incentive	-	(982,679)
Compensated absences	273,392	1,362,124
Loans to students	<u>(61,620)</u>	<u>67,477</u>
Net cash used by operating activities	<u>\$ (72,883,909)</u>	<u>\$ (78,167,867)</u>

See accompanying notes to financial statements

BOWLING GREEN STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2004 and 2003

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

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

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

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

Financial Statement Presentation: The accompanying financial statements consist of the University and Bowling Green State University Foundation, Inc. (the "Foundation"). In 2004, the University retroactively implemented GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units", which requires the University to reflect the Foundation as a discretely presented component unit in the financial statements based on the significance of its relationship with the University.

The Foundation is a legally separate, tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The thirty-six member board of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing and amount of receipts from the Foundation, the majority of resources or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

During the year ended June 30, 2004, the Foundation distributed \$4,726,324 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Assistant Vice President for Advancement Services/Controller at Mileti Alumni Center, Bowling Green, Ohio 43403.

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

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

The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

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

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

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

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

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

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

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

Deferred Revenue: Deferred revenue includes amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year, but related to the subsequent accounting period. Summer term revenue and expenditures are recorded net in the accompanying financial statements and are allocated to the appropriate accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Reclassifications: Certain amounts have been reclassified in the 2003 comparative information to conform to the current year classifications.

Restatements:

The following restatements were made to the University's financial statements:

	<u>Increase in Net Assets</u> <u>For year ending June 30, 2003</u>	<u>Net Assets</u> <u>As of June 30, 2002</u>
As previously reported	\$3,171,683	\$297,125,306
Tuition revenue, net of related expenses	577,139	2,775,938
Capital expenditures	<u>6,479,905</u>	<u>-</u>
As restated	<u>\$10,228,727</u>	<u>\$299,901,244</u>

GASB Statement No. 35, "Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities" requires that summer tuition and corresponding expenses relating to various sessions falling in the current fiscal year be recognized as tuition revenue with the portion of sessions falling in the next fiscal year recorded as deferred revenue and prepaid expenses in the Statement of Net Assets and recognized in the following year. The University previously recorded all summer tuition in the following fiscal year. The net assets as of June 30, 2002 were restated to prorate summer tuition, resulting in an increase in net assets of \$2,775,938 and restated net assets of \$299,901,244. The effect on summer tuition for 2003 was an increase in income of \$577,139.

BOWLING GREEN STATE UNIVERSITY
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JUNE 30, 2004 and 2003

In 2003, the University expensed \$6,479,905 of capitalizable items related to various construction projects. The change in net assets was restated to reflect the capitalization of those items. The impact of the restatements for 2003 is a restated increase in net assets of \$10,228,727 and ending net assets of \$310,129,971.

2. CASH AND INVESTMENTS

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

Deposits

Amounts available for deposit are as follows:

	<u>2004</u>	<u>2003</u>
Cash and Cash Equivalents: (Carrying amounts)	\$2,921,821	\$1,978,635
Reconciling items (net) to arrive at bank balances of deposits	<u>4,249,557</u>	<u>140,219</u>
Total available for deposit and investment (Bank balances of deposits)	<u>\$7,171,378</u>	<u>\$2,118,854</u>

The carrying amount shown above does not include \$167,111 in 2004 and \$78,775 in 2003 held in cash funds.

Any public depository, at the time it receives a University deposit or investment in a certificate of deposit, is required to pledge to the investing authority as collateral eligible securities of aggregate market value that, when added to the portion of the deposit insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, equals or exceeds the amount of University funds deposited. Of the bank balance \$267,518 in 2004 and \$228,457 in 2003 was covered by federal depository insurance, and \$6,903,860 in 2004 and \$1,890,397 in 2003 was covered by the pledge described above.

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

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Investments

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

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

The University's investments at June 30, 2004 and 2003, all of which are classified as Category 1 based on the above criteria, are as follows:

<u>Description</u>	<u>2004</u>		<u>2003</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Federal Governmental Securities	\$63,093,296	\$61,863,882	\$69,763,232	\$70,019,850
Money Market Funds	8,894,107	8,894,107	45,762,638	45,762,638
Corporate Bonds	9,489,148	9,043,491	8,243,290	8,163,235
Equities	55,535,102	62,721,095	-	-
Other	1,180	1,180	12,043	12,043
	<u>137,012,833</u>	<u>142,523,755</u>	<u>123,781,203</u>	<u>123,957,766</u>
Investment in State Treasurer's Asset Reserve (STAR Ohio)	<u>1,584,080</u>	<u>1,584,080</u>	<u>17,139,975</u>	<u>17,139,975</u>
Totals	<u>\$138,596,913</u>	<u>\$144,107,835</u>	<u>\$140,921,178</u>	<u>\$141,097,741</u>

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

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

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

3. ACCOUNTS RECEIVABLE

The composition of accounts receivable is summarized as follows:

	<u>2004</u>	<u>2003</u>
Student receivables for fees, room and board	\$4,136,734	\$4,675,676
Research and sponsored programs	2,697,634	3,173,758
Other	<u>272,622</u>	<u>317,945</u>
	7,106,990	8,167,379
Less allowance for doubtful accounts	<u>650,000</u>	<u>350,000</u>
TOTALS	<u>\$6,456,990</u>	<u>\$7,817,379</u>

4. NOTES RECEIVABLE

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

The University distributed \$68,820,438 for student loans in 2004 and \$64,745,669 in 2003 through the U.S. Department of Education federal direct lending program. These distributions and related funding sources are not included as expenses and revenues or as cash disbursements and cash receipts in the accompanying financial statements.

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5. CAPITAL ASSETS

Capital Asset activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital Assets				
Land	\$ 3,615,067	\$ 1,048,617	\$ -	\$ 4,663,684
Construction in progress	16,104,829	10,942,435	10,804,977	16,242,287
Non-depreciable assets	19,719,896	11,991,052	10,804,977	20,905,971
Buildings	338,247,214	14,673,299	-	352,920,513
Infrastructure	50,998,713	545,547	-	51,544,260
Equipment	42,547,955	3,749,912	1,331,520	44,966,347
Library materials	26,385,097	2,817,106	2,200,768	27,001,435
Depreciable assets	458,178,979	21,785,864	3,532,288	476,432,555
Total Capital Assets	477,898,875	33,776,916	14,337,265	497,338,526
Less accumulated depreciation				
Buildings	137,852,876	8,858,632	-	146,711,508
Infrastructure	16,438,009	1,968,891	-	18,406,900
Equipment	21,968,611	4,453,263	1,331,520	25,090,354
Library materials	12,544,231	2,433,912	2,200,767	12,777,376
Total Accumulated Depreciation	188,803,727	17,714,698	3,532,288	202,986,137
Capital Assets, Net	<u>\$ 289,095,148</u>	<u>\$ 16,062,218</u>	<u>\$ 10,804,978</u>	<u>\$ 294,352,388</u>

BOWLING GREEN STATE UNIVERSITY
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6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	<u>2004</u>	<u>2003</u>
Accounts payable	\$2,471,746	\$7,628,162
Payroll and withholdings	8,519,307	7,813,839
Health claims	<u>1,400,000</u>	<u>1,300,000</u>
TOTALS	<u>\$12,391,053</u>	<u>\$16,742,001</u>

7. LONG-TERM DEBT AND OTHER OBLIGATIONS

Long-term debt and other obligations for June 30, 2004 are summarized as follows:

	Beginning			Ending	Due In
	Balance	Additions	Reductions	Balance	One Year
Bonds & notes payable:					
Notes payable	\$ 410,000	\$ -	\$ 35,000	\$ 375,000	\$ 35,000
Dormitory system bonds	41,135,000	-	3,395,000	37,740,000	3,390,000
Other bonds	49,670,000	-	3,375,000	46,295,000	3,605,000
Bond premium	3,781,032	-	261,628	3,519,404	261,628
Total bonds & notes payable	<u>94,996,032</u>	<u>-</u>	<u>7,066,628</u>	<u>87,929,404</u>	<u>7,291,628</u>
Other liabilities:					
Vacation pay	7,344,047	5,192,790	4,797,398	7,739,439	5,249,000
Sick leave	3,653,000	133,782	255,782	3,531,000	285,000
Federal student loan deposits	8,242,511	36,077	-	8,278,588	-
Total other liabilities	<u>19,239,558</u>	<u>5,362,649</u>	<u>5,053,180</u>	<u>19,549,027</u>	<u>5,534,000</u>
Total long-term liabilities	<u>\$ 114,235,590</u>	<u>\$ 5,362,649</u>	<u>\$ 12,119,808</u>	<u>\$ 107,478,431</u>	<u>\$ 12,825,628</u>

The scheduled maturities of the bonds for the five fiscal years subsequent to June 30, 2004, and subsequent periods thereafter are as follows:

	<u>Revenue</u>	<u>General Receipts</u>			
	<u>Student</u>	<u>Dormitory</u>		<u>Interest</u>	<u>Total</u>
	<u>Facilities</u>	<u>System</u>	<u>Other</u>		
Interest rate	4.0%-4.5%	3.125%-5.75%	3.125%-5.75%		
2005	\$ 345,000	\$ 3,390,000	\$ 3,260,000	\$ 4,390,986	\$ 11,385,986
2006	360,000	3,790,000	3,575,000	4,054,725	11,779,725
2007	365,000	3,980,000	3,755,000	3,668,431	11,768,431
2008	-	4,185,000	2,985,000	3,263,855	10,433,855
2009	-	3,000,000	3,100,000	2,900,596	9,000,596
2010 - 2014	-	12,075,000	18,150,000	9,829,966	40,054,966
2015 - 2019	-	7,320,000	10,400,000	2,101,125	19,821,125
Totals	<u>\$ 1,070,000</u>	<u>\$ 37,740,000</u>	<u>\$ 45,225,000</u>	<u>\$ 30,209,684</u>	<u>\$ 114,244,684</u>

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

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

In November 2000, the University issued \$54,660,000 General Receipts Bonds for dormitory renovations, Bowen Thompson Student Union renovation, Recreation Center air conditioning and the campus infrastructure project. Interest rates range from 4.75% to 5.75%. In 1985, the University entered into three debt escrow agreements to set-aside with trustees investments sufficient to meet, at the time of creation of the escrow agreements, all future principal and interest payments of the indebtedness arising from the Dormitory System Revenue Bond issues. The agreements, which are revocable by the University, allow the University to utilize the interest income of the investments for any lawful purpose of the University. Investments were purchased and subsequently deposited with the trustees, fully funding the outstanding principal for the Dormitory System Revenue Bond issues, plus interest on such bonds over their lives. At June 30, 2004, the fair value of these investments amounted to approximately \$265,000.

In accordance with the trust agreements relating to the bond issues not included in the aforementioned debt escrow agreements, reserves must be maintained equal to specific future debt service requirements on the outstanding bonds. At June 30, 2004 such reserves amounted to approximately \$809,000 which exceeded the requirements on that date. Unspent bond proceeds of \$15,948,358 as of June 30, 2004 are classified as Restricted Investments.

8. OPERATING LEASES

The University leases certain properties and equipment under non-cancelable operating leases which expire at various dates through 2004. Rent expenses were \$543,409 for the year ended June 30, 2004 and \$651,019 for 2003. Future minimum rental payments under non-cancelable operating leases as of June 30, 2004 are:

2005	\$873,198
2006	\$492,403
2007	\$238,532
2008	\$225,381
2009	\$221,381
2010-2012	\$385,671

9. PENSION OBLIGATIONS

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

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

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Both STRS and OPERS issue stand-alone financial reports. A copy of the STRS report may be obtained by writing to 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090. A copy of the report may be obtained by writing to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

The employees participating in the STRS and OPERS contribute 9.3% and 8.5%, respectively of their annual compensation and the University contributes 14% and 13.31%, respectively of the same base. The Ohio Revised Code grants authority to the respective Boards of STRS and to establish and amend employee and employer contribution rates. The University's contributions to STRS for the years ending June 30, 2004, 2003 and 2002, were \$7,297,000, \$7,154,000, and \$6,807,000, respectively. The University's contribution to OPERS for the years ending June 30, 2004, 2003 and 2002 were \$7,803,000, \$7,915,000, \$7,750,000, respectively. Contributions by the University to STRS and OPERS include amounts for other postemployment benefits (see Note 10). The University's contributions to both plans were equal to the required contributions for each year.

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

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

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

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

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

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10. OTHER POSTEMPLOYMENT BENEFITS

STRS

STRS provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code, the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium. The Ohio Revised Code grants authority to STRS to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, which is currently 14% of covered payroll. The Board currently allocates employer contributions equal to 1.0% of covered payroll to a health care reserve fund from which payments for health care benefits are paid. For the year ended June 30, 2004, the approximate amount of the University's total contribution to STRS that was allocated to the health care reserve fund was \$517,000. The balance in the STRS health care reserve fund was \$2.8 billion at June 30, 2003, the date of the most recent information available from STRS.

For the year ended June 30, 2003, the net health care costs paid by STRS were \$352,301,000. There were 108,294 eligible benefit recipients.

OPERS

OPERS provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2003 employer contribution rate for state employers was 13.31% of covered payroll; 5.0% was the portion that was used to fund health care for the year. During 1998, the OPERS board adopted a new calculation method for determining employer contributions applied to OPEB. Effective January 1, 2000, employer contributions equal to 4.3% of member covered payroll are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage. For the year ended June 30, 2004, the approximate amount of the University's total contribution to OPERS that was used to fund other postemployment benefits was \$2,940,949.

The number of benefit recipients eligible for OPEB was 143,643 at December 31, 2003. OPERS' net assets available for other postemployment benefits, as of December 31, 2003, was \$10.81 billion. OPEB expenditures were \$907,769,000 during 2003.

BOWLING GREEN STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2004 and 2003

11. RISK MANAGEMENT

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

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

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Unpaid claims - July 1	\$1,300,000	\$1,291,000	\$1,300,000
Incurred claims	13,422,022	12,803,465	11,307,619
Claim payments	<u>13,322,022</u>	<u>12,794,465</u>	<u>11,316,619</u>
Unpaid claims - June 30	<u>\$1,400,000</u>	<u>\$1,300,000</u>	<u>\$1,291,000</u>

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

The University participates in a State pool of agencies and universities that pays workers' compensation premiums into the State Insurance Fund on a pay-as-you-go basis (the Plan), which pays workers' compensation benefits to beneficiaries who have been injured on the job. Losses from asserted and unasserted claims for the participating state agencies and universities in the Plan are accrued by the Ohio Bureau of Worker's Compensation (the Bureau) based on estimates that incorporate the past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. Participants in the Plan annually fund the worker's compensation liability based on rates set by the Bureau to collect the cash needed in subsequent fiscal years to pay the worker's compensation claims of participating State agencies and universities.

In 2003, the State reversed a decision to have colleges and universities share in the portion of the State Worker's Compensation liability. The University recorded the change in worker's compensation liability of \$2,680,448.

12. CONTINGENCIES

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

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

Bowling Green State University
Schedule of Expenditures of Federal Awards
Year ending June 30, 2004

Program/Federal Agency	CFDA Number	Grant Number	Project Period	Expenditures
Research and Development Cluster:				
U.S. Department of Defense:				
Action of Antipromotors	12.420	DAMD17-01-1-0484	05/01/01-05/31/04	\$ (833)
Breast Cancer/Angiotensin II Luminescent	12.420	DAMD17-01-1-0485	05/01/01-05/31/03	(515)
	12.420	DAAD19-03-2-0032	08/22/03-07/01/05	34,297
				<u>32,949</u>
Phan's/Curtis	12.901	H98280-04-1-0031	01/29/04-01/28/05	2,038
Singular Kernel NonParametric	12.901	MDA904-02-1-0091	03/12/02-03/12/04	20,250
Finite Groups	12.901	MDA904-02-1-0079	03/06/02-03/06/04	14,138
				<u>36,426</u>
Total U.S. Department of Commerce				69,375
U.S. Department of Justice:				
Impct/VInt Vctm	16.560	2002-WG-BX0005	07/01/02-06/30/03	191
U.S. Department of Housing and Urban Development:				
National Research Council	14.506	-	09/01/01-12/01/02	5,859
Office Of Naval Research:				
Energy Cure	12.300	N00014-04-1-0406	05/01/04-04/30/05	20,913
National Endowment for the Humanities	45.162	ED-22071-01	09/01/01-12/31/03	120
Great Lakes Fishery Comm:				
Round Goby/Smallmouth Bass	15.630	-	01/01/2004 - 12/31/04	5,929
U.S. Department of Agriculture:				
02-03 USDA Food Asst Research	10.001	43-3AEM-2-80038	07/01/02-12/31/03	21,598
Greenhouse Nurseries	10.001	745812	10/01/03-09/30/04	4,102
Total U.S. Department of Agriculture				<u>25,700</u>
U.S Department of Commerce:				
Foreign-Born Pop/US	11.003	38800-BGS	07/03/03-09/31/07	39,855
Eval EDA Tech Assist Program	11.303	99-06-07477	08/20/01-06/30/03	22,972
Total U.S. Department of Commerce				<u>62,827</u>
U.S. Environmental Protection Agency:				
Lake Erie Study	66.500	GL-97590101	06/01/02-05/31/04	6,670
NASA:				
NASA Mars EVA Phototype	43.001	NCC3-981	07/08/02-07/07/03	3,111
Mars Eva Prototype	43.001	NCC3-1093	8/18/03-10/17/04	8,176
Global Clusters/Halo Stars	43.001	36969.573	06/27/03-09/30/04	1,823
Ohioview	43.001	R-300-100175-40022	05/01/02-09/30/03	60,240
Landstat 7 TM Data	43.001	-	05/01/01-09/30/02	241
				<u>73,591</u>
Drosophila Melanogaster	43.002	NAG2-1427	08/01/00-07/31/03	107,111
Hybrid Diesel Vehicle	43.002	NAG3-2790	06/15/02-09/14/03	414,500
				<u>521,611</u>
Total NASA				595,202

Bowling Green State University
Schedule of Expenditures of Federal Awards
Year ending June 30, 2004

Program/Federal Agency	CFDA Number	Grant Number	Project Period	Expenditures
National Science Foundation:				
Sensors-Signal	47.041	ECS-0330267	09/15/03-08/31/06	20,970
NW OH Partnership	47.049	HER-0227899	10/01/02-09/30/05	31,327
RR LYRAE Variables	47.049	AST-9988259	05/01/00-04/30/04	35,310
Galaxy's Disk/Halo Populations	47.049	AST-9988247	07/01/00-06/30/04	105,356
Flow Problems in Porous Media	47.049	DMS-0774259	08/15/00-07/31/03	28,929
Polymerizatn Visable Lasers	47.049	DMR-0091689	01/01/01-12/31/03	75,425
REU-Chemistry	47.049	CHE-0097779-002	05/01/01-04/30/04	33,807
Luminescent Inorganic Compound	47.049	CHE-0134782	03/01/02-02/29/04	91,591
Polymers	47.049	DMR-0306117	08/15/03-07/31/04	43,787
Maldi-Tof Mass	47.049	CHE-0234796	03/01/03-02/28/06	124,406
Metallendrimer	47.049	CHE-0303320	07/01/03-06/30/04	43,166
				613,104
Cornerstone Experience	47.073	-	05/01/01-04/30/03	23,489
Hippocampal Rep-Space Birds	47.074	IBN-0075891	08/15/00-07/31/03	63,639
Sensory Environments	47.074	IBN-0091189	08/01/01-07/31/04	84,556
Genetic Analysis/nifM	47.074	MCB-0118992	09/15/01-08/31/03	87,110
Chemical Orientation/Crayfish	47.074	IBN-0131320	07/01/02-06/30/04	98,428
Sleep-Nocturnal	47.074	IBN0333032	08/01/03-07/31/04	5,452
Algal	47.074	DEB-0315979	08/01/03-07/31/06	95,896
Cytoplasmic	47.074	MCB0615983	09/01/03-08/31/04	63,069
				498,148
FeCYLE-US/New Zealand	47.075	INT-0238615	04/01/03-02/29/04	2,909
Covenant Marriage/Divorce	47.075	GA10143-113816	06/01/01-04/30/04	32,757
				35,666
NSF-PFSMETE	47.076	DGE-0196128	10/01/00-12/3/02	(411)
Grad Math/Science'	47.076	DGE-0231853	01/01/03-12/31/03	242,744
Field Mapping	47.076	DUE-0126785	03/01/02-03/31/04	3,402
Handheld Personal Computers	47.076	DUE-0088511	05/01/01-04/30/04	17,596
				263,330
Antarctic Rift Margin	47.078	OPP-0003702	08/01/00-07/31/03	(785)
NE Kola & Kanin Pennsla, Russia	47.078	OPP-0095089	04/01/01-03/31/04	38,642
				37,857
Deformation/Quartz Rich-Rocks	47.050	EAR-0087607	01/01/01-12/31/03	60,475
Surface Waters/Pacific Ocean	47.050	OCE-0095404	05/15/01-04/30/04	61,651
Lake Superior	47.050	OCE-0352274	04/01/04-03/31/07	161
Cyanbacterial	47.050	OCE-0327738	09/07/03-08/31/06	51,104
				173,391
Total National Science Foundation				1,665,956
U.S. Department of Education:				
A Model of Excellence	84.117B	ED-98-CO-0086	09/30/98-00/00/00	2,033
Art/HighInd Mada	84.019A	P019A030004	05/15/03-12/15/04	23,267
Bryan Evaluation Project	84.323	-	10/1/99-06/30/03	21,891
Total U.S. Department of Education				47,191

Bowling Green State University
Schedule of Expenditures of Federal Awards
Year ending June 30, 2004

Program/Federal Agency	CFDA Number	Grant Number	Project Period	Expenditures
U.S. Department Of Health and Human Services:				
Models of Phonatian	93.173	5-R01-DC03577-4	07/01/98-06/30/03	509,974
Fluid Structure	93.173	511-1394-01	07/30/03-06/30/04	42,182
Linguapalatal/During Speech	93.173	5-R03-DC04960-02	05/01/01-04/30/04	73,158
				625,314
Sentence Processing	93.242	1-R01-MH60517-01A2	07/15/01-06/30/03	31,452
Navigational System	93.242	1-R01-MH66046001	02/05/02-12/31/03	108,497
Striatum	93.242	1-R03MH06713601A1	01/01/03-12/31/03	16,855
				156,804
Ventral Pallidum Reward	93.278	7-F31-DA1414502	12/01/01-11/30/03	38,499
Exercise/Health--Elderly	93.361	7-R01-NR04929-04	09/30/02-08/31/03	9,003
Roswell Park Cancer Institute	93.395	CA55791-07	09/03/92-01/31/03	2,572
Photothermal Sensitization	93.395	5-R01CA9102702	05/15/01-04/30/04	203,290
Eneidyne Antibiotics	93.395	1-R15CA9185601A1	06/01/02-05/30/05	47,401
Esophageal Cancers	93.395	1-R15CA8370701A2	06/01/02-05/31/05	61,368
Photodynamic Therapy	93.395	5-P01-CA48735-12	07/16/90-04/30/03	25
				314,657
Stable RNA 3-Way Junctions	93.821	2-R15-GM/5589802	06/01/97-06/30/03	74,248
Rat Head Direction Signal	93.853	2-R01NS3519105A2	09/01/01-08/31/03	149,176
Spatial Mem	93.853	5-R01NS044373202	06/01/02-05/31/04	194,142
				343,318
Coiled-Coil Metalloproteins	93.859	5-R01-GM61171-03	04/01/00-04/30/04	121,748
Child Devel Cohabiting Unions	93.864	1K01HD042478-01A1	07/01/03-06/30/04	78,509
Dating Relationships	93.864	5-R01HD3622303	09/01/99-08/31/03	145,296
Naturalization/Immigrant Asst	93.864	HD-39075-1	9/01/99-08/31/03	54,514
Race/Ethnicity: Cohabitation	93.864	5-R03-HD3983502	06/01/01-05/31/04	20,925
NICHD Pop Ctr	93.864	1-R21HD4283101	07/01/02-09/30/03	142,928
				442,172
Development of Aggression	93.865	F001367	09/30/98-06/15/03	25,660
Family Stctr	93.865	#R-03-HD042566-02A1	05/01/04-04/30/05	41,253
Youthful	93.865	#1-R01-HD044206-02	09/01/03-06/30/05	168,292
				209,545
Heterogeneous Life Course	93.866	1-R03-AG-19846-01	09/30/01-09/29/03	16,477
Aging/Attn	93.866	1-R01AG2056001A1	02/15/03-01/31/04	155,633
				172,110
NIFH Interactions	93.390	1-R15-GM57636-02	05/01/98-03/31/05	19,455
Eukaryotic Trans	93.390	2R15GM5435702	07/01/98-06/30/05	33,651
Rat Angiotensin II Receptors	93.390	1-R15-HL60241-01	09/08/98-08/31/02	27,718
Synthetic Bzip Proteins	93.390	1-R15-GM60258-01	05/01/00-04/30/03	2,639
Menkes	93.390	#7-R03-HD041852-03	08/01/02-06/30/04	34,020
Total U.S Department of Health and Human Services				117,483
Total Research and Development Cluster				2,650,561
				5,156,493

Bowling Green State University
Schedule of Expenditures of Federal Awards
Year ending June 30, 2004

Program/Federal Agency	CFDA Number	Grant Number	Project Period	Expenditures
Student Financial Aid Cluster:				
U.S. Department of Education:				
Federal Supplementary Education Opportunity Grant	84.007	P007A003240	07/01/00-06/30/01	1,047
Federal Supplementary Education Opportunity Grant	84.007	P007A013240	07/01/01-06/30/02	5,608
Federal Supplementary Education Opportunity Grant	84.007	P007A023240	07/01/02-06/30/03	10,479
Federal Supplementary Education Opportunity Grant	84.007	P007A033240	07/01/03-06/30/04	<u>669,766</u>
				686,899
Federal Work Study	84.033	-	07/01/03-06/30/04	45,224
Federal Work Study	84.033	P033A023240	07/01/02-06/30/03	(88)
Federal Work Study	84.033	P033A033240	07/01/03-06/30/04	<u>836,594</u>
				881,730
Federal Perkins Loan	84.038	P038A033240	07/01/03-06/30/04	1,678,547
Pell Grant	84.063	P063P020332	07/01/02-06/03/03	5,926
Pell Grant	84.063	P063P030332	07/01/03-06/30/04	<u>9,998,736</u>
				10,004,662
Federal Direct Loans	84.268	-	07/01/03-06/30/04	<u>72,633,772</u>
Total U.S. Department of Education				85,885,610
U.S. Department of Health and Human Services:				
Nursing Student Loan	93.364	N/A	07/01/03-06/30/04	87,348
Total Student Financial Aid Cluster				<u>85,972,958</u>
Other Programs:				
National Security Agency:				
Ohio Department of Development:				
GCAC Grant	12.002	MBDD 03-014	01/01/00-12/31/03	50,832
U.S. Department of Justice:				
Violent Crimes	16.560	2000-WA-VX-0004	10/01/00-09/30/04	163,654
U.S. Department of State:				
US/Ukraine Project	19.202	S-ECAAS-02-GR-198	04/18/03-06/30/04	62,975
Education for Democracy	19.202	S-ECAPE-02-GR-137	07/11/02-12/31/03	<u>14,116</u>
Total U.S. Department of State				77,092
Small Business Development Center	59.005	-	10/01/02 - 09/30/03	14,035
National Science Foundation:				
NSF LSAMP SEED	47.049	HRD-03315260	11/01/03-10/31/04	4,000
Environ Sci--21st Century	47.076	-	05/01/03-04/30/06	<u>16,926</u>
Total National Science Foundation				20,926
U.S. Department of Education:				
Direct:				
CIVITAS	84.017	-	03/01/03-02/29/04	197,244
Gear-Up	84.042	-	09/15/00-09/14/02	971,775
Student Support Services	84.042	P042A011199	09/01/01-08/31/03	<u>507,364</u>
				1,479,139
Talent Search	84.044	P044A980164-01A	10/01/98-08/31/02	551

Bowling Green State University
Schedule of Expenditures of Federal Awards
Year ending June 30, 2004

Program/Federal Agency	CFDA Number	Grant Number	Project Period	Expenditures
Educ Talent Srch	84.044	P044A020787	09/01/02-08/31/03	352,536
				<u>353,087</u>
U.S. Department of Education (continued):				
Upward Bound	84.047	P047A990332-02A	09/01/99-08/31/03	66,055
Upward Bound	84.047	P047A030206	09/01/03-08/31/04	218,015
				<u>284,071</u>
Project Dare	84.129	H129R80003-02	08/01/98-07/31/03	3,432
Business International/Programs	84.153	P153A000089-1	09/01/00-08/31/02	(305)
Project Aster II	84.168	02-06	03/21/03-5/31/04	35,107
SUCCESS IV	84.168	02-05	03/21/03-6/30/04	30,297
Improving Learning-Math/Science	84.168	02-07	03/21/03-6/30/04	46,169
				<u>111,573</u>
Teaching American History	84.215	S215X020249	10/01/02-09/30/05	159,187
CIVITAS	84.304	Q304A030004	10/01/03-09/30/04	40,252
Project FOCUS	84.325	H325A990084-01	07/01/99-06/30/03	6,397
Partnership Grant	84.336	P336B000004-02	10/01/00-09/30/03	625,665
Project PICT II	84.342	P342A000105-02	06/01/00-05/31/04	132,808
Close the Gaps	84.350	S350A020128	04/01/04-03/31/05	345,995
Subtotal direct				<u>3,738,545</u>
Passed through the State of Ohio:				
Governor's Summer Institute	84.048	ODE-OEC-GS-SI-00-03	07/01/90-04/30/03	4,723
Project 419 1993-94	84.048	N/A	07/03/93-00/00/00	4,306
Project FEED 2001	84.048	N/A	11/17/98-06/30/02	1,737
State Leadership	84.048	VE27-VE28	07/01/99-06/30/03	84,274
Govenor's Summer Inst. '03	84.048	N/A	07/08/03-09/30/03	63,301
				<u>158,341</u>
State Improvement Grant Subs	84.323	062893-ST-S1-02	02/01/00-01/31/04	1,268
Total pass-through from State of Ohio				<u>159,609</u>
Total U.S. Department of Education				3,898,154
U.S. Department of Health and Human Services:				
Project EXCITE	93.113	1-R25ES1070502	09/15/00-08/31/03	350,133
HIV Eval Project	93.145	87-4-001-2-DX-02	01/01/01-12/31/03	130,947
AIDS/Collgte Ed	93.145	87-4-001-2-CF-03	07/01/91-06/30/03	36,640
				<u>167,587</u>
Geriatric Education Center	93.969	5-D31-HP-70113-03	09/01/97-06/30/03	40,162
Abstinence	93.995	5-APHPA0008324	09/15/99-09/15/03	254,490
U.S. Department of Health and Human Services				<u>812,373</u>
U.S. Corporation for National and Community Services:				
Literacy Outreach Project	94.005	00LHENC034	09/01/02-04/30/03	2,371

Bowling Green State University
Schedule of Expenditures of Federal Awards
Year ending June 30, 2004

Program/Federal Agency	CFDA Number	Grant Number	Project Period	Expenditures
U.S. Department of Commerce:				
Univ Ctr Tch Asst	11.303	06-66-04741	10/01/99-09/30/03	64,885
2002 Community Service Grant	11.550	50-10-7450-53000	10/01/01-09/30/03	47,219
2003 Community Service Grant	11.550	-	10/01/02-09/30/04	760,347
DigitalTV Conver	11.550	39-02-N02146	10/01/02-09/30/04	103,126
				<u>910,691</u>
Total U.S. Department of Commerce				<u>975,577</u>
Total Federal Expenditures				<u>\$ 97,144,465</u>

See accompanying notes to schedule of federal expenditures.

Bowling Green State University

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2004

1. Basis of Presentation

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

2. Loans Outstanding

The University had the following loan balances outstanding for the Perkins and Nursing Student Loan programs at June 30, 2004 and 2003 respectively:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>2004 Outstanding Balance</u>	<u>2003 Outstanding Balance</u>
Perkins Loan Program	84.038	\$ 7,715,260	\$ 7,603,311
Nursing Student Loans	93.364	431,781	428,450

3. Federal Direct Loans (CFDA No. 84.268)

The University acts as the intermediary for students obtaining Federal Direct Student Loans (CFDA No. 84.268) from lending institutions. The lending institution is responsible for billings and collections of the loans. The University assists the lending institutions by processing the applications and forwarding checks from the lending institutions to the students. Loans advanced to students during fiscal year ended June 30, 2004 totaled \$68,820,438

Bowling Green State University

Notes to the Schedule of Expenditures of Federal Awards (continued)

4. Subrecipients

Of the federal expenditures presented in the schedule of expenditures of federal awards, the University provided federal awards to subrecipients as follows:

Sub-Grantee	Federal CFDA Number	Amount Provided
Purdue University	93.173	\$ 281,944
Cleveland State University	84.350	148,869
Toledo Public Schools	84.042	105,645
Case Western University	93.395	69,111
The University of Toledo	93.173	34,143
Miami University	11.303	33,504
University of Tennessee	47.050	29,368
Ohio University	11.303	22,396
University of Cincinnati	84.336	16,285
Metriks	84.336	16,000
Padova	93.395	11,906
The University of Toledo	43.002	9,983
The University of Toledo	84.042	7,226
American School Health Association	93.995	6,150
Medical College of Ohio	93.113	5,525
NORC	93.864	4,466

5. Indirect Costs

The University recovers indirect costs by means of predetermined fixed indirect cost rates. The predetermined fixed rates are a result of negotiated agreements with the U.S. Department of Health and Human Services. The fixed rate effective for the period July 1, 2000 to June 30, 2004 for on-campus research is 36.2% of modified total direct costs, and the off-campus rate is 16.3% of modified total direct costs.

Report of Independent Auditor 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*

The Board of Trustees
Bowling Green State University

We have audited the financial statements of Bowling Green State University (the University) as of and for the year ended June 30, 2004, and have issued our report thereon dated October 1, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

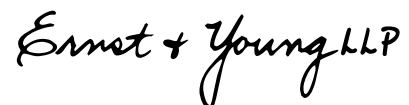
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University'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*.

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



October 1, 2004

Report of Independent Auditor on Compliance and on Internal Control Over Compliance in Accordance With OMB Circular A-133

The Board of Trustees
Bowling Green State University

Compliance

We have audited the compliance of Bowling Green State University (the University) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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

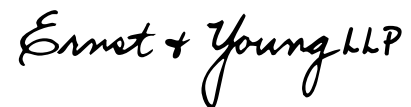
In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 04-1.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



October 1, 2004

Bowling Green State University

Summary Schedule of Prior Audit Findings

Year ended June 30, 2004

Item 03-01

Student Financial Aid Cluster – CFDA #'s 84.007, 84.063, 84.268, and 93.364
Special Test and Provisions – Title IV Returns

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

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

Corrective Action: In consultation with the Office of Bursar, duplicate analysis of the ZNOT report are now done on a weekly basis by members from both the Student Financial Aid and Bursar Offices to ensure timely processing of records. This process was established in min-Fall Semester 2003.

Item 03-02

Student Financial Aid Cluster – CFDA #'s 84.007, 84.063, 84.268, and 93.364
Special Test and Provisions – Borrower Data Transmission and Reconciliation

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

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

Corrective Action: This issue has been resolved and was a function of the University being a first-year Common Origination and Disbursement (COD) school for the U.S. Department of Education. To its own admission, the U.S. Department of Education knew these delays would occur as the new system intricacies were worked out with COD. There have been no further delays in processing.

Bowling Green State University

Summary Schedule of Prior Audit Findings

Year ended June 30, 2004

Item 03-03

*Student Financial Aid Cluster – CFDA #'s 84.007, 84.063, 84.268, and 93.364
Special Test and Provisions – Borrower Data Transmission and Reconciliation*

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

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

Corrective Action: This issue has been resolved and was a function of the University being a first-year Common Origination and Disbursement (COD) school for the U.S. Department of Education. To its own admission, the U.S. Department of Education knew these delays would occur as the new system intricacies were worked out with COD. There have been no further delays in processing.

Bowling Green State University

Schedule of Findings and Questioned Costs

June 30, 2004

Part I - Summary of Auditor's Results

Financial Statement Section

- (i) Type of auditor's report issued: Unqualified
- (ii) Internal control over financial reporting:
 - Material weakness(es) identified? yes X no
 - Reportable condition(s) identified not considered to be material weaknesses? yes X none reported
- (iii) Noncompliance material to financial statements noted? yes X no

Federal Awards Section

- (viii) Dollar threshold used to determine Type A programs: \$2,914,334
- (ix) Auditee qualified as low-risk auditee? yes X no
- (v) Type of auditor's report on compliance for major programs? Unqualified
- (iv) Internal control over compliance:
 - Material weakness(es) identified? yes X no
 - Were reportable condition(s) identified not considered to be material weakness(es)? yes X none reported
- (vi) Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (Section .510(a))? X yes no

Bowling Green State University

Schedule of Findings and Questioned Costs (continued)

Part I - Summary of Auditor's Results (continued)

(vii) Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.063, 84.038, 84.007 84.033, 84.268	Student Financial Aid Cluster
Various	Research and Development Cluster

Bowling Green State University

Schedule of Findings and Questioned Costs (continued)

Part II - Schedule of Financial Statement Findings

None

Part III - Schedule of Federal Award Findings and Questioned Costs

Item 04-1

Research and Development Cluster, Technology Transfer Grant -CFDA 43.002

Criteria Requirements – To comply with financial and reporting requirements, Bowling Green State University is required to file reports within specified deadlines.

Condition – The Quarterly Federal Cash Transactions Reports (SF 272) for the periods from 10/1/2003 to 12/31/2003, from 1/1/2004 to 3/30/2004, and from 4/1/2004 to 6/30/2004, all of which were required to be filed 15 working days following the end of each quarter of the federal fiscal year, were not filed within the specified deadlines.

Questioned Cost – Not applicable

Context and effect – Failure to file required reports can result in non-compliance with grant terms and the assessment of either a nonfinancial or financial penalty.

Cause – Failure of Bowling Green State University personnel to acknowledge or enforce compliance with filing deadlines for reports.

Recommendation – We recommend that Bowling Green State University personnel note the established filing deadlines and ensure that the responsible parties have met those deadlines.

Management's response – Management will establish filing deadlines to ensure that responsible staff meets those deadlines. Management has made the assignment of reporting responsibilities and will monitor to ensure compliance.

Independent Auditor's Report on Applying Agreed-Upon Procedures

Dr. Sidney A. Ribeau, President
Bowling Green State University

We have performed the procedures enumerated below, which were agreed to by Bowling Green State University (the University) and the National Collegiate Athletic Association (NCAA), solely to assist you with respect to complying with NCAA bylaws for the year ended June 30, 2004. The University's management is responsible for the accompanying Schedule of Revenues and Expenditures. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

I. Schedule of Revenues and Expenditures and Internal Controls

- a. We obtained the Schedule of Revenues and Expenditures (the Schedule) for the Department of Intercollegiate Athletics (the Department) for the year ended June 30, 2004 as prepared by management (Schedule 1). We clerically tested the amounts on the Statement and agreed the amounts on the Schedule to management's detailed worksheets and to the appropriate general ledger accounts. We found no exceptions as a result of these procedures.
- b. We performed a comparison of the operating revenues and expenditures per the Schedule for fiscal years 2004 and 2003. We obtained management's explanation for variations greater 10% of each revenue and expenditure line item in the aggregate. We found no exceptions as a result of these procedures.
- c. We performed a comparison of actual operating revenues and expenditures per the Schedule to the budgeted amounts obtained from management. We obtained management's explanation for variations greater than 10% of each operating revenue and operating expense line item in the aggregate. We found no exceptions as a result of these procedures.
- d. We compared classifications of revenues and expenditures to NCAA guidelines. We found no exceptions as a result of these procedures.

- e. We reviewed the extent of documentation of accounting systems and procedures. We also made certain inquiries of management regarding control consciousness, competence of personnel and protection of records and equipment. We found that the internal audit department has performed its own audit procedure related to intercollegiate athletics.
- f. We compared contributions, received directly by the Department in excess of 10% of total contributions, to the accounting records of Bowling Green State University. We identified four contributions, \$200,000, \$225,000, \$172,883.58 and \$161,880.36 from Bowling Green State University Foundation (the Foundation), that exceeded 10% of all contributions for the year ended June 30, 2004. We found such information to be in agreement. We also noted that the gift documentation indicated that the contributions intended for the general use of the Department and was received directly by the Foundation and then distributed to the University.

II. Booster Organizations

- a. We obtained the list of booster organizations and the related financial activities for the year ended June 30, 2004 (Schedule 2) from the Foundation.
- b. We agreed beginning cash balances to the prior year schedule and ending balances to the Foundation's accounting records. The amounts included in Schedule 2 are not included in Schedule 1 unless contributed directly to the University by the outside organization. We found no exceptions as a result of these procedures.
- c. We received the audited financial statements of the Foundation, which administers the booster organizations, for the year ended June 30, 2004, which reflected an unqualified opinion.
- d. We reconciled the booster organizations expenditures on behalf of the intercollegiate athletics program to the revenues recorded on the athletic departments accounting records.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items, including Schedule 1 and Schedule 2. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Bowling Green State University and the National Collegiate Athletic Association and is not intended to be and should not be used by anyone other than these specified parties.



October 1, 2004

Bowling Green State University

Intercollegiate Athletics Department
Schedule of Revenues and Expenditures

Year ended June 30, 2004

	<u>Men's Football</u>	<u>Men's Basketball</u>	<u>Men's Hockey</u>	<u>Other Sports</u>	<u>Non-Program Specific</u>	<u>Total</u>
Operating Revenues:						
Ticket Sales	\$ 577,788	\$ 199,420	\$ 122,875	\$ 13,297	\$ 37	\$ 913,417
TV Broadcasting Rights	16,948	18,021	3,438	-	-	38,407
Concessions	21,529	5,752	6,209	11,230	-	44,720
Student Activity Fees	-	-	-	-	8,034,119	8,034,119
Game Guarantees	625,000	40,000	12,000	-	-	677,000
Programs	10,925	1,418	982	531	-	13,856
Advertising	14,255	6,141	3,900	-	-	24,296
Parking	36,103	387	11,820	-	-	48,310
Gifts	-	-	-	-	445,906	445,906
Sports Schools & Camps	-	-	-	-	624,070	624,070
Miscellaneous	11,084	1,500	-	-	1,804,138	1,816,722
Total Operating Revenues	<u>1,313,632</u>	<u>272,639</u>	<u>161,224</u>	<u>25,058</u>	<u>10,908,270</u>	<u>12,680,823</u>
Operating Expenses:						
Coach's Salaries	603,316	262,929	178,500	862,635	-	1,907,380
Other Salaries	63,153	7,216	-	116	1,686,241	1,756,726
Staff Benefits	162,549	72,549	56,656	241,120	386,413	919,287
Films	4,501	1,226	-	60	-	5,787
Team	84,086	43,915	72,277	345,883	-	546,161
Recruiting	74,102	35,439	34,585	69,391	-	213,517
Financial Aid	1,435,279	216,571	366,070	2,156,665	153,439	4,328,024
Equipment	79,385	9,979	57,903	96,552	109,766	353,585
Miscellaneous	240,180	90,647	50,113	147,395	2,008,411	2,536,746
Total Operating Expenses	<u>2,746,551</u>	<u>740,471</u>	<u>816,104</u>	<u>3,919,817</u>	<u>4,344,270</u>	<u>12,567,213</u>
Operating Revenues (under) over Expenditures	<u>\$ (1,432,919)</u>	<u>\$ (467,832)</u>	<u>\$ (654,880)</u>	<u>\$ (3,894,759)</u>	<u>\$ 6,564,000</u>	<u>\$ 113,610</u>

Bowling Green State University
Schedule of Intercollegiate Athletics Program Support by Booster Organization

Year ended June 30, 2004

Booster Organization	Beginning fund		Receipts	Disbursements on behalf of program	Ending fund balance
	balance	Adjustments			
Alumni/Athletics Endowment	\$ 64,034	\$ (610)	\$ 8,087	\$ (2,145)	69,366
Don Cunningham Memorial	31,745	1,171	4,256	(466)	36,706
Intercollegiate Athletics Dept.	27,947	-	489,978	(399,698)	118,227
Perry Stadium Enhancement	6,090	-	16	-	6,106
Grants-in-Aid for Women Athletes	14	-	-	-	14
Gregory I. Brooks Soccer Scholarship	19,993	787	3,292	(648)	23,424
Athletic Fitness & Weight Room	1,312	-	1,001	(1,703)	610
Men's Basketball Int'l. Travel	1,871	-	5	(17)	1,859
Carl C. Bachman Scholarship	48,841	334	6,274	(1,636)	53,813
Athletics Special Events	51,919	-	443,575	(431,387)	64,107
Men's Basketball	4,447	-	153,110	(157,495)	62
Football	9,637	-	117,069	(106,561)	20,145
Ice Hockey	26,653	-	37,121	(45,617)	18,157
Women's Basketball	9,468	-	29,663	(23,303)	15,828
Women's Golf	14,030	-	15,568	(15,740)	13,858
Gymnastics	859	-	18,719	(17,561)	2,017
Women's Tennis	4,357	-	5,302	(6,407)	3,252
Women's Track	13,173	-	6,757	(13,049)	6,881
Volleyball	585	-	2,443	(1,676)	1,352
Softball	749	-	11,974	(9,499)	3,224
Mel Brodt Track & Cross Country Scholarship	27,979	-	5,171	(318)	32,832
Women's Soccer	20,829	-	26,550	(30,665)	16,714
Baseball	9,063	-	52,880	(62,162)	(219)
Men's Golf	677	-	13,686	(12,395)	1,968
Men's Soccer	5,709	-	41,272	(49,861)	(2,880)
Swimming	(572)	-	24,405	(19,115)	4,718
Men's Tennis	482	-	-	(3)	479
Men's Track	(40)	-	-	-	(40)
Men's Cross Country	660	-	1,016	(373)	1,303
Women's Cross Country	29	-	2,292	(97)	2,224
Glenn Sharp Scholarship	46,271	-	24,094	(1,455)	68,910
BGSU Cheerleading	996	-	3	(9)	990
Bob & Karen Sebo Scholarship	199,712	-	19,461	(3,111)	216,062
Coaches Excellence	267,458	-	32,392	(22,575)	277,275
Mickey & Patricia Cochrane Scholarship	37,815	-	4,807	(1,393)	41,229
Samuel M. Cooper Athletic Scholarship	915	-	25,919	-	26,834
Athletic Golf Fund	75,390	-	46,680	(21,275)	100,795
Falcon Club	159,552	-	466,305	(589,463)	36,394
Falcon Club-Operating	(47)	-	12,424	(12,376)	1
Falcon Club Athletic Scholarship	64,627	-	52,576	-	117,203
Dewey & Ellen Fuller Scholarship	48,015	-	6,127	(1,597)	52,545
Harms Cross Country Scholarship	37,420	-	4,637	(1,315)	40,742
Mark A. Brecklen Athletics/Football	7,960	-	57	-	8,017
Barb Veselich Award	1,491	-	509	-	2,000
Hockey Renovation Fund	20,416	-	31,761	(32,291)	19,886
Hodge Family Soccer Scholarship	12,109	-	1,620	-	13,729
Joyce S. Hof Scholarship	30,424	-	6,396	(1,922)	34,898
William J. Lloyd Athletic Award	58,572	-	7,677	-	66,249
John & Diane McNutt Scholarship	10,582	-	1,469	-	12,051
Lanny L. Miles Memorial Scholarship	67,869	-	11,327	(2,247)	76,949
Leslie Ann Dawley Memorial Fund	2,218	-	103	(1,381)	940
Annual Student Athlete Acad Awards Banquet	51,586	-	36,335	(600)	87,321
Medical Mutual of Ohio CHAMPS Endowment	20,032	-	22,677	-	42,709
Verlin Lee Science Educators Schol in ICA	25,386	-	3,531	-	28,917

Bowling Green State University
Schedule of Intercollegiate Athletics Program Support by Booster Organization (continued)

Year ended June 30, 2004

Booster Organization	Beginning fund balance	Adjustments	Receipts	Disbursements on behalf of program	Ending fund balance
University Athletic Scholarship	681,599	-	89,564	(15,782)	755,381
Doyt & Loretta Perry Scholarship	183,732	-	23,711	(3,500)	203,943
Doyt & Loretta Perry Documentary	(23)	-	-	-	(23)
Bernard A. Frick Endow. For Athletic Training	4,003	-	10	-	4,013
Earl E. Rupright Basketball Scholarship	20,747	-	2,647	(308)	23,086
Helen & Willard Schaller Scholarship	16,189	-	2,066	(537)	17,718
Soccer Stadium	(7)	-	-	-	(7)
Stadium Club	48,180	-	42,064	(92,095)	(1,851)
Stadium Scoreboard Fund	40	-	-	-	40
Stadium Suites	127,247	-	101,393	(221,777)	6,863
John Weinert Scholarship	14,788	-	1,887	(492)	16,183
Cara Whelan Wilson Scholarship	1,999	-	5	(18)	1,986
Ryan Bernthisel Fund	2,570	-	-	(2,570)	-
Larry & Sharon Barnett Scholarship	41,578	-	5,306	(1,379)	45,505
Varsity BG Club	33,829	-	13,698	(17,225)	30,302
Vivian Endowed Hockey Scholarship	97,808	-	12,650	-	110,458
Stadium Lights Project	601	-	3	(5)	599
	<u>\$ 2,924,189</u>	<u>\$ 1,682</u>	<u>\$ 2,635,373</u>	<u>\$ (2,458,295)</u>	<u>\$ 3,102,949</u>



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**BOWLING GREEN STATE UNIVERSITY
WOOD COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 7, 2004**