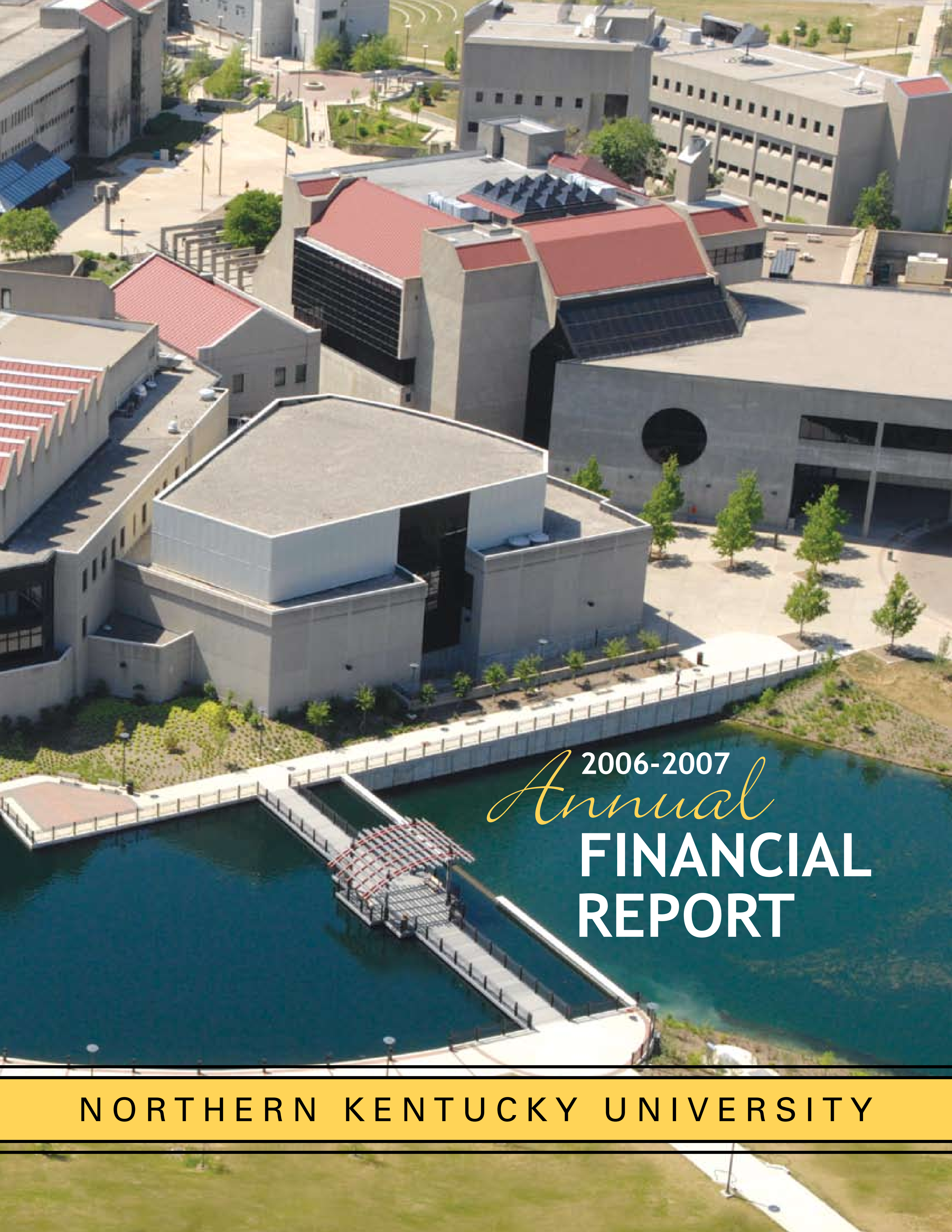

2006-2007 Annual FINANCIAL REPORT

NORTHERN KENTUCKY UNIVERSITY

2006-2007 Annual FINANCIAL REPORT

Current as of June 30, 2007

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NORTHERN KENTUCKY UNIVERSITY

Northern Kentucky University and Affiliate
Annual Financial Report
2006-2007

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September 30, 2007

Northern Kentucky University Board of Regents
Highland Heights, KY 41099

Dear Members of the Board:

It is my pleasure to present the University's 2006-07 Annual Financial Report. The statements included have been audited by the firm of Crowe, Chizek and Company LLC. The University is in excellent financial condition and continues to strengthen its financial position by increasing and diversifying the resources available to accomplish its mission. We raised nearly $8 million in private funds, half a million dollars of which was contributed by NKU's own faculty and staff. These dollars along with public grants and contracts funds allow us to invest in faculty and programmatic expansion as well as infrastructure and salaries. As NKU will experience its 40th anniversary next year, and the University's future looks bright as it continues to invest its resources strategically to increase its capacity to serve students, the region and the Commonwealth.

We not only welcomed a record number of students this fall but also saw an increase in the academic quality of the admissions. In fall 2007, we registered almost 14,900 students, which is a total enrollment increase of 1.5% over last year. Undergraduate enrollment increased by 1.0%, graduate enrollment increased by nearly 6.6%, and Chase enrollment is again strong with an almost 3.8% increase. Since the implementation of the new admission standards, in fall 2005, we see freshman applications up 22%, Kentucky applicants up 21%, African-American applicants up 42% and Hispanic applicants up 40%. Our entering class is the best prepared in our history. This year, enrollments will include double the number of valedictorians in our Honors Program, double the number of students receiving the Governor's Scholars Scholarship and a 16% increase in the number of scholarship recipients scoring above 26 on the ACT exam. NKU is becoming the first choice for an increasing number of the region's most academically talented students.

Academic innovation is becoming a hallmark of the campus as we develop new programs that respond to regional demands. A few of our most recent examples include the new undergraduate program in entrepreneurship, the International Business Honors Program, a new major in media informatics, and new and expanded graduate programs in health informatics and executive leadership and organizational change as well as expansion of our Early Childhood Program. This past year, a number of academic programs received national recognition. The Fifth Third Bank Entrepreneurship Institute was ranked among the top 25 nationally. This year, The Princeton Review ranked our MBA program among the best business programs in the country.

The Chase College of Law continues to demonstrate strong first-time bar passage rates as well as success in national moot court and mock trial competitions. Our acceptance rates for graduate and professional programs continue to be impressive. Academic quality and experience have certainly been enhanced and promoted! NKU is not only expanding the number of academic programs, but also how, where and when those programs are offered to meet the growing community and regional demand. This fall we expect more than 400 enrollments in our Grant County Center. Our Internet courses and programs fill up as fast as we can offer them. Concentrated courses within and between semesters augment the traditional semester format. In our efforts to expand student global awareness, a record 231 NKU students enrolled in study abroad programs. In addition, more than 400 students were involved in faculty-supervised undergraduate research, scholarly productivity and creative activity.

Along with continuing to focus our attention on academic innovations, we will also put a great deal of emphasis on the SACS reaffirmation process. This offers us an opportunity to look carefully at other elements related to academic quality. One of the most important decisions that we'll make this fall will be the selection of a Quality Enhancement Program on which we'll focus our efforts over the next five years.

NKU has taken a significant leadership role in the national, state, regional and local communities in advancing higher education's public engagement mission. Last spring, we established a new scholarship program for Holmes and Newport high school students that provides full tuition support for any student who is Pell-eligible and meets our admissions requirements. The result this fall is a near doubling of talented students from these two high schools providing access to qualified students who might not have had an opportunity to attend NKU.

Strive, another regional effort involving the University of Cincinnati and NKU, among a host of other partners, promotes school success in our urban core and increases college attendance out of Holmes and Newport high schools and Cincinnati Public Schools. At the state level, our new Kentucky Math Center is shouldering statewide leadership on behalf of improved math education in schools throughout Kentucky. One of our major engagement priorities has been to invest in advancing and supporting P-12 education. We'll ask the Council on Postsecondary Education to approve the creation of a new education doctorate focused on educational leadership at the P-12 and postsecondary level. CINSAM continues to be a national model for offering enrichment programs for P-12 math and science faculty and students. Our Theatre and Dance Department provides a terrific example of how faculty and students reach beyond the boundaries of the campus to engage young people in both rural and urban settings. And our Colleges of Informatics and Business are doing cutting-edge work to support regional economic competitiveness.

In the areas of public engagement and economic development, the University is supporting some of the most complex and ambitious regional and statewide goals I have ever encountered. The University collaborated with community leaders to develop Vision 2015, a 10-year strategic plan for the region. NKU is providing support to Vision 2015 in six areas that are key to the region's future: growing the economy, improving schools, revitalizing our urban core, promoting livable communities, achieving more effective governance, and promoting a culture of regional stewardship. NKU will need to more than double its degree output if Vision 2015 is to meet its goal of 50,000 new high-wage jobs by 2015, as well as the challenging enrollment goals established by the Council on Postsecondary Education's 2020 plan. The Council has established a target enrollment for NKU of 22,500 undergraduate students by 2020. To achieve CPE 2020 and the Vision 2015 goals, we are going to need a major infusion of resources. NKU is developing a business plan that will provide an assessment of our current capacity and resource base, estimate the source and level of resources necessary to support Vision 2015 and CPE 2020 goals, and explain the benefits that will accrue to both the region and the state, if this capacity is developed.

In the area of campus facilities and environment, our progress has been breathtaking. Construction of the 10,000-seat Bank of Kentucky (BOK) Center is on schedule. Next spring, we come back to campus for commencement! It's anticipated that the BOK Center will host upwards of 130 events a year, bringing thousands of people to our campus. The new Student Union is also on schedule with its official opening next summer. This facility will quickly become the University's "town square" with its food court, meeting rooms, lounges, and recreation space. Construction has begun on a 700-space parking garage and planning is underway for the new College of Informatics building. The new Carol Ann and Ralph V. Haile Jr./US Bank Foundation Digital Planetarium is now complete. Nunn and University drives are now reopened and the traffic circle is complete. The University has also struck a partnership with TANK to allow anyone with an NKU ID to use the buses free. The greening of our campus continues with the addition of more trees, shrubs, and flowers. Another important development related to campus facilities and environment is our commitment to environmental sustainability. Campus recycling will be greatly enhanced and we are committed to building environmentally sustainable structures with the University achieving substantial energy savings. All of these initiatives will transform our campus and ensure an excellent campus experience for our students.

During last year's Vision, Values and Voices strategic planning update, faculty and staff indicated that their morale is high, and they believe the future of the University is bright. Students expressed great satisfaction with their education. When asked to describe the University's greatest strengths, their response was immediate and unequivocal: "small classes and faculty and staff who know our names, are available to us and care about us." With a student/faculty ratio of 14:1, an average class size of around 23 — and tuition less than $6,000 per academic year — NKU does indeed provide a private school education at a public school price. Collegial governance is an important quality of American higher education, and it is alive and well on our campus. Our Faculty Senate, Staff Congress, and Student Government Association have each demonstrated leadership on key institutional issues and a willingness to work with the administration to accomplish important objectives. Overall, NKU leadership and management remains a great asset to the University, community, region and beyond, as we work together and are committed to achieve ambitious ends.

Sincerely,

James C. Votruba
President

Crowe

Crowe Chizek and Company LLC
Member Horwath International

9600 Brownsboro Road, Suite 400
Post Office Box 22649
Louisville, Kentucky 40252-0649
Tel 502.326.3996
Fax 502.420.4400
www.crowechizek.com

REPORT OF INDEPENDENT AUDITORS

Board of Regents
Northern Kentucky University
And
Secretary of Finance and
Administration Cabinet of the
Commonwealth of Kentucky

We have audited the accompanying consolidated financial statements of the business-type activities and discretely presented component unit of Northern Kentucky University (the "University") as of and for the years ended June 30, 2007 and 2006, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Northern Kentucky University Foundation, Inc, (the "Foundation"), a component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Northern Kentucky University as of June 30, 2007 and 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 5 through 13 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 of 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.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Louisville, Kentucky
December 3, 2007

Northern Kentucky University and Affiliate
Management's Discussion and Analysis

Northern Kentucky University's (the University) Management Discussion and Analysis of its financial condition provides an overview of the financial performance of the University for the year ended June 30, 2007, with selected comparative information for the years ended June 30, 2006 and 2005. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and notes.

Financial Highlights

The University's financial position remained strong at June 30, 2007. The University's total net assets increased by $73.6 million, or 49.2 percent. This increase resulted from income before other revenues, expenses, gains or losses of $18.5 million and capital appropriations and gifts of $55.1 million, including a $54.0 million state capital appropriation for the University's new Bank of Kentucky Center. A strong debt rating is an important indicator of the University's financial strength. The University's current bond ratings assigned by Moody's Investors Service (A2) and Standard and Poors (A) to the University's General Receipts and Consolidated Educational Building Revenue bonds reflect the University's solid financial position.

A $48.0 million increase in net capital assets and a $63.0 million increase in noncurrent cash and cash equivalents related to construction projects contributed to a $132.7 million increase in total assets for the year ended June 30, 2007. Combined with a $18.2 million increase for the year ended June 30, 2006, total assets have increased by $150.9 million, or 68.4 percent, since June 30, 2005. This increase is related to the construction or acquisition of several new facilities and land improvements, including a student housing facility, student union, parking garage, lake development/amphitheater and The Bank of Kentucky Center. At June 30, 2007, new student union facility and The Bank of Kentucky Center and parking garage were still under construction. In addition, several major projects were in the design phase, including a new Center for Informatics which will house the University's new College of Informatics programs. The University continues to work with the Council on Postsecondary Education to address the University's need for additional educational facilities.

The University's operating revenues increased by $8.8 million for the year ended June 30, 2007, led by a $4.9 million increase in net tuition and fees. Noteworthy increases in revenues from grants and contracts ($1.9 million) and other operating revenues ($1.6 million) were also realized and demonstrate the University's continued effort to diversify revenue sources. The University's state appropriations increased by $2.5 million, or 5.0 percent, for year ended June 30, 2007.

The University welcomed its most academically prepared class in the University's history for the fall 2006. Enrollment has continued to grow even though the University raised its admissions standards for the fall 2005. This enrollment increase combined with an average tuition rate increase of 8.4 percent resulted in a $4.9 million increase in net tuition for fiscal year 2007. The University strives to keep tuition rates as low as possible, balancing affordability and quality. The University's undergraduate tuition rate increase for fiscal year 2008 was 9.3 percent as a result, in large part, to recent increases in state appropriations. Although tuition rates have increased, the University still provides an excellent educational value to its students.

Using the Financial Statements

The University's financial report includes three financial statements: the statement of net assets; the statement of revenues, expenses and changes in net assets and the statement of cash flows. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole.

Financial statements for the University's component unit, Northern Kentucky University Foundation, Inc., have also been included in accordance with the requirements of GASB Statement No. 39. Financial statements presented for the Foundation consist of the Statement of Financial Position and the Statement of Activities. These statements are prepared in accordance with Financial Accounting Standards Board (FASB) pronouncements.

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.

Condensed Statements of Net Assets (in thousands)

	2007	2006	2005
ASSETS			
Current assets	$ 75,585	$ 55,331	$ 42,003
Capital assets, net	205,186	157,235	152,710
Noncurrent assets	90,806	26,340	25,958
Total assets	371,577	238,906	220,671
LIABILITIES			
Current liabilities	43,762	31,162	23,242
Noncurrent liabilities	104,559	58,064	66,300
Total liabilities	148,321	89,226	89,542
NET ASSETS			
Invested in capital assets, net of related debt	137,857	82,835	81,851
Restricted			
Nonexpendable	7,616	7,616	7,616
Expendable	40,171	23,605	16,784
Unrestricted	37,612	35,624	24,878
Total net assets	$ 223,256	$ 149,680	$ 131,129

A review of the University's statement of net assets at June 30, 2007 shows that the University continues to build upon its strong financial foundation.

Assets

The University's assets increased by $150.9 million, or 68.4 percent, from June 30, 2005 to June 30, 2007 and now total $371.6 million. The majority of this increase is attributable to a growth in net capital assets and noncurrent cash and cash equivalents related to capital construction projects. Current assets increased by $20.3 million for the year ended June 30, 2007 and $13.3 million for the year ended June 30, 2006, resulting in a combined increase of $33.6 million, or 80.0 percent, since June 30, 2005. This increase is attributable to an increase in cash and cash equivalents related to operating and construction reserves and an increase in notes and accounts receivable balances associated with increases in tuition rates and enrollment and grant activity.

During the year ended June 30, 2007 the University received capital appropriations from the Commonwealth and issued general receipts bonds to fund several major construction projects. Unspent capital appropriations and bond proceeds resulted in a $63.0 million increase in noncurrent cash and cash equivalents for the year ended June 30, 2007. Net capital assets increased by $48.0 million for the year ended June 30, 2007 and $4.5 million for the year ended June 30, 2006, resulting in a combined increase of $52.5 million, or 34.4 percent, since June 30, 2005. This increase is related to the construction of several new facilities and land improvements, including a student union, parking garage, lake development/amphitheater and The Bank of Kentucky Center. As a result of the University's significant investment in its campus facilities in recent years, net capital assets have grown to $205.2 million, or 55.2 percent of total assets as of June 30, 2007.

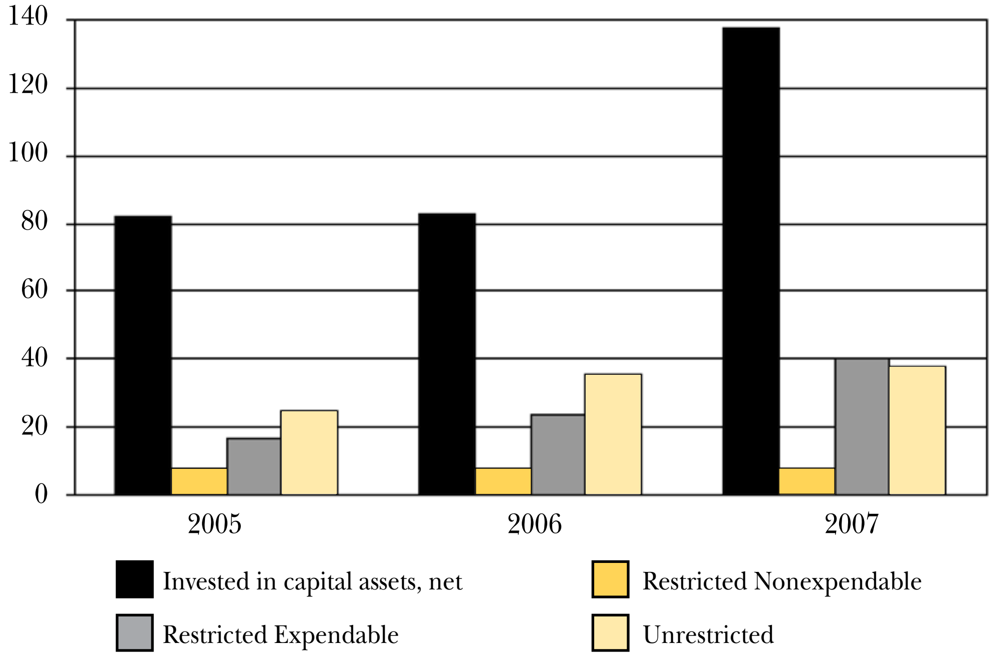
Liabilities

At June 30, 2007, the University's liabilities totaled $148.3 million compared to the previous year's $89.2 million. This increase in liabilities is attributable to an increase in long-term liabilities. Debt outstanding increased by $49.9 million for the year. This increase is the net result of the issuance of $58.6 million in bonds, notes and capital lease obligations to finance the new student union and parking garage construction and new enterprise software and equipment less principal payments of $8.7 million. Bonds, notes and capital leases payable for educational buildings, student housing and dining facilities, software and equipment represented $118.6 million, or 80.0 percent, of total liabilities at June 30, 2007. The outstanding debt at June 30, 2007 included $14.8 million in short-term notes that were retired in July 2007 with general receipts bond proceeds issued in June 2007. The notes and the bond proceeds issued to retire the notes are included in current assets and current liabilities.

The University's total liabilities increased by $58.8 million, or 65.6 percent, from June 30, 2005 to June 30, 2007. This increase resulted from an increase in current liabilities of $20.5 million, or 88.3 percent, and an increase in noncurrent liabilities, including bonds, notes and capital leases payable, of $38.3 million, or 57.7 percent. From a liquidity perspective, current assets cover current liabilities 1.7 times, an indicator of good liquidity. This year's coverage rate was slightly below the 1.8 coverage rates as of June 30, 2006 and June 30, 2005.

Net Assets

The following chart illustrates the University's net assets for fiscal years 2005, 2006 and 2007 (amounts are presented in millions).



Net assets at June 30, 2007 totaled $223.3 million, or 60.1 percent, of total assets. Net assets invested in capital assets, net of related debt, totaled $137.9 million, or 61.7 percent, of total net assets. Restricted and unrestricted net assets represented 21.4 percent and 16.9 percent of total net assets, respectively. Total net assets increased by $73.6 million, or 49.2 percent at June 30, 2007 compared to June 30, 2006. Net assets invested in capital assets, net of related debt, increased $55.0 million as a result of the addition of a new housing facility and a net increase of $34.8 million in construction in progress. The University's unrestricted net assets increased by $2.0 million for the year. A large portion of the $54 million capital appropriation received by the University was not expended as of June 30, 2007, resulting in an increase in restricted expendable net assets of $16.6 million, or 70.3 percent, at year end.

The University's net assets increased by $92.1 million, or 70.3 percent, from June 30, 2005 to June 30, 2007. Net assets invested in capital assets, net of related debt increased $56.0 million. Restricted expendable net assets increased by $23.4 million while unrestricted net assets increased by $12.7 million from June 30, 2005 to June 30, 2007.

Statement of Revenues, Expenses and Changes in Net Assets

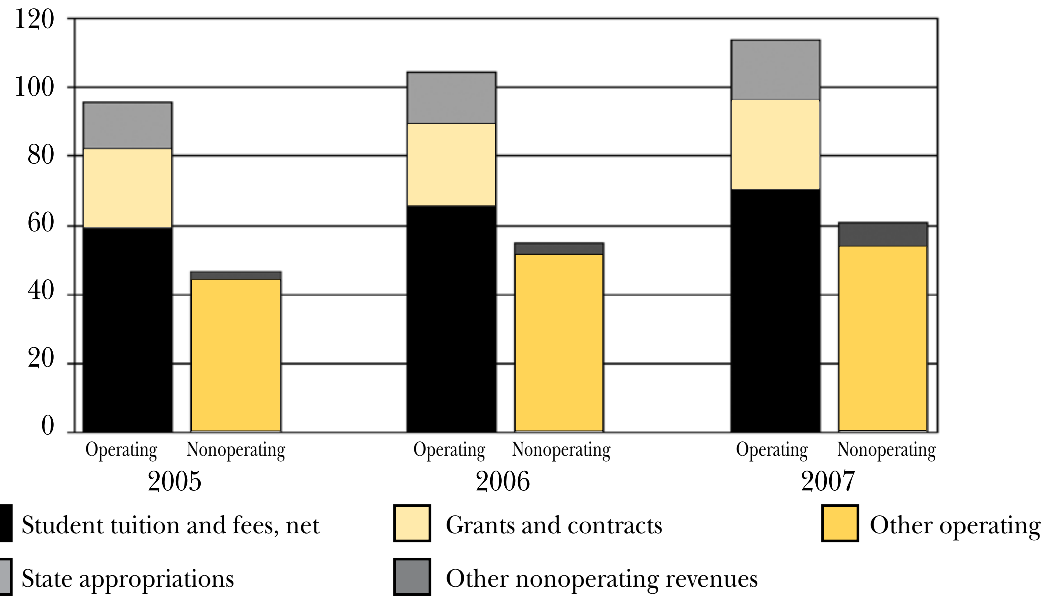
The statement of revenues, expenses and changes in net assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. GASB requires state appropriations to be classified as nonoperating revenues. Accordingly, the University will generate an operating loss prior to the addition of nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Statements of Revenues, Expenses and Changes in Net Assets (in thousands)

	2007	2006	2005
OPERATING REVENUES			
Student tuition and fees, net	$ 70,447	$ 65,530	$ 59,424
Grants and contracts	25,909	23,960	22,776
Sales and services of educational departments	3,216	3,224	2,947
Auxiliary enterprises	6,591	6,295	6,093
Other operating revenues	7,291	5,674	4,685
Total operating revenues	113,454	104,683	95,925
OPERATING EXPENSES			
Educational and general	140,033	128,121	117,370
Depreciation	8,251	7,504	7,115
Auxiliary enterprises (including depreciation)	4,301	4,005	3,749
Other expenditures	106	188	223
Total operating expenses	152,691	139,818	128,457
Net loss from operations	(39,237)	(35,135)	(32,532)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	53,876	51,334	44,069
Gifts and grants	966	-	-
Investment income	6,004	3,585	2,071
Interest on capital asset–related debt	(2,803)	(3,022)	(3,126)
Other nonoperating revenues (expenses)	(297)	150	270
Net nonoperating revenues	57,746	52,047	43,284
Income (loss) before other revenues, expenses, gains or losses	18,509	16,912	10,752
Capital appropriations	54,000	102	98
State endowment match	-	-	577
Capital grants and gifts	1,067	1,537	2,263
Total other revenues	55,067	1,639	2,938
Increase in net assets	73,576	18,551	13,690
Net assets-beginning of year	149,680	131,129	117,439
Net assets-end of year	$ 223,256	$ 149,680	$ 131,129

Operating and Nonoperating Revenues

The following chart illustrates the University's revenues by source (both operating and nonoperating), which were used to fund its operating activities for fiscal years 2005, 2006 and 2007. Significant recurring sources of revenues, including state appropriations, are considered nonoperating revenues as defined by GASB. These revenues support operating expenses; therefore, they are included in the graph of revenues by source (amounts are presented in millions).



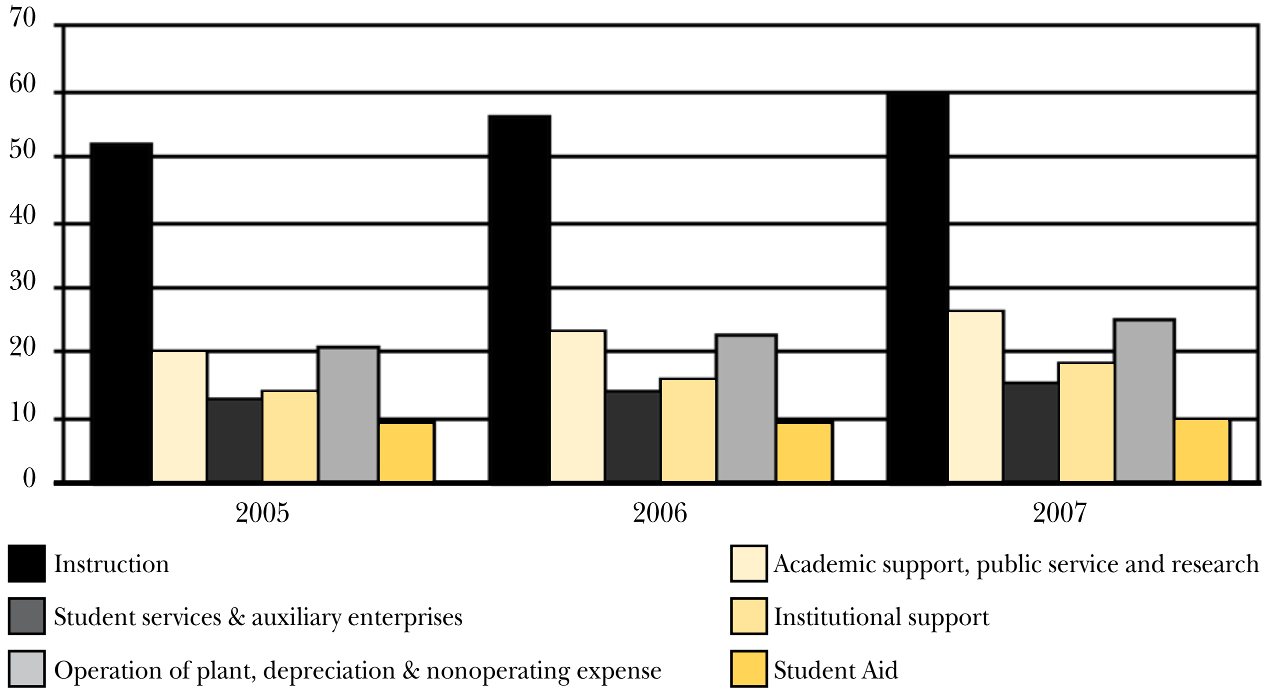
Operating and nonoperating revenues totaled approximately $174.3 million for the year ended June 30, 2007. Operating revenues totaled $113.5 million, or 65.1 percent of revenues, while nonoperating revenues reached $60.8 million, or 34.9 percent of revenues, for the year. The most significant sources of revenue for the University are net student tuition and fees (40.4 percent), state appropriations (30.9 percent), and grants and contracts (14.9 percent).

The University's operating revenues increased by $8.8 million for the year ended June 30, 2007, led by a $4.9 million increase in net tuition and fees. Noteworthy increases in revenues from grants and contracts ($1.9 million) and other operating revenues ($1.6 million) were also realized and demonstrate the University's continued effort to diversify revenue sources.

The University's state appropriations increased by $2.5 million, or 5.0 percent, for year ended June 30, 2007. This increase, combined with a $3.2 million increase in investment income and other nonoperating revenues, resulted in a $5.7 million increase in nonoperating revenues for the year. While the University's nonoperating revenues, including state appropriations, have increased by $14.4 million since June 30, 2005, the University's operating revenues have increased by $17.5 million. The majority of the growth in operating revenues was fueled by an increase in net tuition of $4.9 million in fiscal year 2007 and $6.1 million in fiscal year 2006. The growth in net tuition resulted from an average tuition rate increase of 8.4 percent for fiscal year 2007 and 11.3 percent for fiscal year 2006, combined with enrollment increases each year.

Operating and Nonoperating Expenses

The following chart illustrates the University's expenses by function (both operating and nonoperating) for fiscal years 2005, 2006 and 2007 (amounts are presented in millions).



As depicted in the chart above, the majority of the University's operating funds are expended directly for the primary mission of the University – instruction $60.1 million (39.3 percent), and academic support, public service and research $26.6 million (17.1 percent). Operating and nonoperating expenses increased by $13.0 million, or 9.1 percent, to a total of $155.8 million for the year ended June 30, 2007.

The majority of this increase is due to a $6.7 million, or 8.4 percent, growth in instructional, research, public service and academic support expenses. This increase is attributable to the University's continued enrollment growth and the addition of new faculty positions necessary to support new academic programs created to meet the demand of the region. The University is committed to providing support for regional economic expansion by preparing well-educated graduates in fields that align with the employment needs in the region, as well as provide education and training to support economic competitiveness. The establishment of the College of

Informatics represents an example of the University's commitment to align with the employment needs of the region, in the fields of health informatics, information security and other related areas. The University's resource allocations are clearly aligned with the University's strategic priorities and its commitment to academic excellence and community outreach.

The University continues to invest in student financial aid programs, student retention initiatives and student support services reflects the University's commitment to supporting student access and the opportunity to succeed. For the year ended June 30, 2007, student financial aid expenses increased by $0.6 million, or 6.4 percent, while tuition scholarship allowances increased by $0.2 million, or 1.7 percent.

Increased expenses related to the implementation of new information systems contributed to the $2.4 million, or 15.0 percent, increase in institutional support expenses for the year. Operation of maintenance of plant expenses increased by $1.3 million, or 10.8 percent, for the year. Depreciation expenses totaled $9.3 million for the year, representing a 7.6 percent increase over the prior year.

Statement of Cash Flows

Another important factor to consider when evaluating financial viability is the University's ability to meet financial obligations as they become due. The statement of cash flows presents information related to cash inflows and outflows, summarized by operating, noncapital and capital, financing and investing activities.

Statements of Cash Flows (in thousands)

	2007	2006	2005
Net cash provided (used) by:			
Operating activities	$ (26,742)	$ (25,446)	$ (24,821)
Noncapital financing activities	53,535	51,895	44,374
Capital and related financing activities	47,079	(16,371)	(16,773)
Investing activities	5,182	3,490	1,987
Net increase (decrease) in cash	79,054	13,568	4,767
Cash and cash equivalents, beginning of year	62,172	48,604	43,837
Cash and cash equivalents, end year	$ 141,226	$ 62,172	$ 48,604

The University's cash and cash equivalents increased $79.1 million in 2007 as compared to an increase of $13.6 million in 2006. Cash provided by operating and noncapital financing activities increased by a combined $0.3 million for 2007 and $6.9 million for 2006. Total cash provided from noncapital financing activities increased by $1.6 million for 2007 due to an increase in the University's state appropriations for the year.

Major sources of funds included in operating activities are student tuition and fees ($71.8 million) and grants and contracts ($23.4 million). The largest cash payments for operating activities were made to employees ($103.5 million) and to vendors and contractors ($34.1 million).

The University's cash receipts from operating activities increased by $16.1 million, or 16.9 percent, from 2005 to 2007. Conversely, cash disbursements for operating activities increased by only $18.0 million, or 15.0 percent, from 2005 to 2007, resulting in a net $1.9 million decrease in net cash provided by operating activities.

Capital and related financing activities include proceeds from capital debt and leases of $57.7 million and capital appropriations and capital grants, gifts and advances of $58.1 million. Purchases of capital assets totaled $57.3 million for the year.

Capital Asset and Debt Administration

Capital Assets

Capital assets, net of accumulated depreciation, increased by $48.0 million for the year ended June 30, 2007. Depreciation expenses and net capital asset disposals totaled $9.3 million for the year. Additions to capital assets during the year totaled $57.3 million, including a new student union, housing facility, parking garage, administrative software systems, and The Bank of Kentucky Center. These assets were funded primarily with debt proceeds, a $54.0 million capital appropriation and private gifts. As a result of the University's significant investment in its campus facilities in recent years, net capital assets have grown to $205.2 million, or 55.2 percent of total assets as of June 30, 2007.

The University's net capital assets grew by $52.5 million from June 30, 2005 to June 30, 2007, with increases of $48.0 million in 2007 and $4.5 million in 2006. This growth reflects the University's effort to increase its capacity to serve its students and the community, including much needed parking and student housing facilities necessary to accommodate continued enrollment growth.

At June 30, 2007, the University had several major capital construction projects underway, including a student union facility, The Bank of Kentucky Center and a parking garage. In addition, several major projects were in the design phase, including a new College of Informatics building and a new student housing facility.

Debt

The following is a summary of the University's outstanding debt summarized by revenue pledge as of June 30, 2007, 2006 and 2005 (in thousands):

	2007	2006	2005
General Receipts Bonds	$ 48,660	$ -	$ -
Consolidated Educational Buildings Revenue Bonds	23,900	28,975	33,790
Housing and Dining System Revenue Bonds	2,695	2,930	3,150
Capital lease – Residential Village/Suites	20,229	21,733	23,176
Notes payable and municipal lease obligations	23,122	15,079	10,591
	$ 118,606	$ 68,717	$ 70,707

For the year ended June 30, 2007, the University's outstanding debt increased by $49.9 million. This increase resulted from the issuance of General Receipt bonds for the construction of a new student union and parking garage. At June 30, 2007, the University's trustee held $14.8 million in General Receipt bond proceeds, issued in June 2007, for the purpose of retiring the $14.8 million in notes payable that were issued to provide short term financing for the Student Union. The short term notes were retired in July 2007.

For the year ended June 30, 2006, the University's outstanding debt had decreased by $2.0 million for the year. This decrease is the net result of the issuance of $6.4 million in notes and capital lease obligations to finance the new student union construction and new enterprise software and equipment less principal payments of $8.4 million.

A strong debt rating is an important indicator of the University's success in this area. The University's current bond ratings assigned by Moody's Investors Service (A2) and Standard and Poors (A) to the University's General Receipts and Consolidated Educational Building Revenue bonds reflect the University's solid financial position.

FACTORS IMPACTING FUTURE PERIODS

The University's vision is to be nationally recognized as the premier comprehensive, metropolitan university that prepares students for life and work in a global society and provides leadership to advance the intellectual, social, economic, cultural, and civic vitality of its region and of the Commonwealth. The University is vital to the economic and social progress of this region and the Commonwealth. The University is unique among Kentucky's comprehensive universities in that it serves a major metropolitan region of nearly 400,000 people that generates about 17 percent of the Commonwealth's total economic output. The University is also unique in that, over the past decade, it has become nationally acclaimed for its regional stewardship. The University's strategic agenda is designed to help our region and the Commonwealth achieve the aspirations defined by the Northern Kentucky region's Vision 2015 process and the Council on Postsecondary Education's 2020 plan.

The University is currently developing a comprehensive business plan that will define the financial and capital resources necessary to achieve the Council on Postsecondary Education's ambitious plan which calls for the University's undergraduate enrollment to increase to over 22,000 by the year 2020. The business plan also will be shaped by the key role the University will play in achieving the Vision 2015 goals. Kentucky's economic future will depend on the continued economic growth of northern Kentucky. The region's continued economic growth will, in turn, depend heavily on the University's capacity to support that growth in a variety of ways. Although the University's operating appropriations increased by $10.8 million over the last two years, and is scheduled to receive another $5.2 million for the year ended June 30, 2008, the University is going to need a major infusion of operating and capital resources to meet the Council on Postsecondary Education's enrollment goal for the University. NKU will need to more than double its degree output if Vision 2015 is to meet its goal of 50,000 new high-wage jobs by 2015 and the challenging enrollment goals established by the Council on Postsecondary Education in their 2020 plan. Additional funding for the University is an investment in the future of both the region and the Commonwealth. The University's business plan will demonstrate that the return on the Commonwealth's investment in the University will far exceed the appropriations that will be necessary to achieve the Commonwealth's and the Council on Postsecondary Education's ambitious plans for the University.

While improved state funding is critical to the University's future success, management must continue its efforts to diversify revenue sources and contain costs. The University's business plan incorporates strategies to increase grant and contract revenues, private gifts and other revenues that will be necessary to accomplish the full breadth of the University's mission. The University is not only expanding the number of academic programs, but also *how, where,* and *when* those programs are offered to meet the growing community and regional demand. By responding to the demand in this manner, the University's tuition base is further diversified and strengthened. The University's enrollment continues to increase not only in size but in quality. A record number of students were welcomed for fall 2007. The incoming class is the most academically prepared class in University history, including double the number of valedictorians in the Honors Program, double the number of students receiving the Governor's Scholars Scholarship and a 16 percent increase in the number of scholarship recipients scoring above 26 on the ACT exam. The University is becoming the first choice for an increasing number of the region's most academically talented students.

The University's campus is undergoing a transformation with the construction of the 10,000-seat Bank of Kentucky Center, a Student Union and a new parking garage. In addition, the new College of Informatics building is currently in design and additional student housing is being developed on campus. These new facilities will enhance the college experience of our students and contribute to the University's recruitment and retention efforts. In addition, these facilities will provide additional opportunities to support community outreach events.

The University is making good progress in its effort to meet or exceed targets established by the Council on Postsecondary Education for enrollment, degree production, community engagement, college affordability and other key indicators that will measure the University's contribution to the Council's 2005-2010 Public Agenda; five questions, one mission: better lives for Kentucky's people. The University's executive management believes the University is in excellent financial condition and, in full partnership with the Council, the Commonwealth and the community, will continue to build the capacity to meet goals established by the Council's Public Agenda and 2020 plan and the ambitious goals established by the region's Vision 2015 plan.

Northern Kentucky University and Affiliate
Consolidated Statements of Net Assets
June 30, 2007 and 2006

(in thousands)

	2007	2006
ASSETS		
Current Assets		
Cash and cash equivalents	$ 65,091	$ 48,999
Notes, loans and accounts receivable, net	8,780	5,056
Other current assets	1,714	1,276
Total current assets	75,585	55,331
Noncurrent Assets		
Cash and cash equivalents	76,135	13,173
Investments	11,149	10,304
Notes, loans and accounts receivable, net	1,903	2,222
Capital assets, net	205,186	157,235
Other noncurrent assets	1,619	641
Total noncurrent assets	295,992	183,575
Total assets	371,577	238,906
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	15,805	11,195
Deferred revenue	6,594	5,458
Long-term liabilities-current portion	21,363	14,509
Total current liabilities	43,762	31,162
Noncurrent Liabilities		
Deposits	1,143	784
Deferred revenue	3,240	124
Long-term liabilities	100,176	57,156
Total noncurrent liabilities	104,559	58,064
Total liabilities	148,321	89,226
NET ASSETS		
Invested in capital assets, net of related debt	137,857	82,835
Restricted		
Nonexpendable	7,616	7,616
Expendable	40,171	23,605
Unrestricted	37,612	35,624
Total net assets	$ 223,256	$ 149,680

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Statements of Financial Position
For the Years Ended June 30, 2007 and 2006
(in thousands)

	2007	2006
ASSETS		
Cash and cash equivalents	$ 11,438	$ 10,406
Loans and accounts receivable, net	282	104
Contributions receivable, net	9,065	8,459
Prepaid expenses and deferred charges	25	80
Investments	53,200	42,549
Land, buildings and equipment	2,891	3,224
Accumulated depreciation	(169)	(494)
Total Assets	76,732	64,328
LIABILITIES AND NET ASSETS		
Accounts payable	372	98
Agency fund	5,532	5,597
Annuities payable	127	167
Deferred income	25	25
Funds held in trust for Northern Kentucky University	10,435	8,919
Notes payable	2,100	2,100
Total Liabilities	18,591	16,906
NET ASSETS		
Unrestricted		
For current operations	640	504
Contributions receivable	35	39
Amounts functioning as endowment funds	2,376	1,969
Invested in property, plant and equipment	622	630
Total Unrestricted	3,673	3,142
Temporarily restricted		
Unexpended funds received for restricted purposes	4,997	3,932
Contributions receivable	6,828	5,973
Loan funds	140	153
Endowment funds	19,601	13,466
Total temporarily restricted	31,566	23,524
Permanently restricted		
Contributions receivable	2,201	2,447
Endowment funds	20,701	18,309
Total permanently restricted	22,902	20,756
Total net Assets	58,141	47,422
Total Liabilities and Net Assets	$ 76,732	$ 64,328

See accompanying notes to the financial statements

Northern Kentucky University and Affiliate
Consolidated Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended June 30, 2007 and 2006

(in thousands)

	2007	2006
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of $14,163 in 2007 and $13,928 in 2006)	$ 70,447	$ 65,530
Federal grants and contracts	10,627	10,647
State and local grants and contracts	12,646	11,043
Nongovernmental grants and contracts	2,636	2,270
Sales and services of educational departments	3,216	3,224
Auxiliary enterprises		
Residence Halls (net of scholarship allowances of $95 in 2007 and $93 in 2006)	923	831
Residential Village (net of scholarship allowances of $301 in 2007 and $289 in 2006)	4,580	4,106
Other auxiliaries	1,088	1,358
Other operating revenues	7,291	5,674
Total operating revenues	113,454	104,683
OPERATING EXPENSES		
Educational and general		
Instruction	60,062	56,515
Research	1,482	1,325
Public service	7,479	5,818
Libraries	4,181	3,740
Academic support	13,415	12,518
Student services	11,082	10,240
Institutional support	18,571	16,145
Operation and maintenance of plant	13,761	12,421
Depreciation	8,251	7,504
Student aid	10,000	9,399
Auxiliary enterprises		
Residence Halls	691	535
Residential Village	1,689	1,740
Other auxiliaries	860	579
Auxiliary depreciation	1,061	1,151
Other expenses	106	188
Total operating expenses	152,691	139,818
Net loss from operations	(39,237)	(35,135)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	53,876	51,334
Gifts and grants	966	-
Investment income	6,004	3,585
Interest on capital asset–related debt	(2,803)	(3,022)
Other nonoperating revenues (expenses)	(297)	150
Net nonoperating revenues	57,746	52,047
Income before other revenues, expenses, gains or losses	18,509	16,912
Capital appropriations	54,000	102
Capital grants and gifts	1,067	1,537
Total other revenues	55,067	1,639
Increase (decrease) in net assets	73,576	18,551
NET ASSETS		
Net assets-beginning of year	149,680	131,129
Net assets-end of year	$ 223,256	$ 149,680

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Statement of Activities

For the Year Ended June 30, 2007

(in thousands)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
CHANGES IN NET ASSETS:				
Revenues and Gains				
Gifts, grants and bequests	$ 311	$ 4,955	$ 2,125	$ 7,391
Rental income	107	-	-	107
Investment income	213	488	-	701
Net gains (losses) on investments	347	5,478	-	5,825
Other revenue	90	595	-	685
Total Revenues and Gains	1,068	11,516	2,125	14,709
Net Assets Released from Restrictions	3,471	(3,471)	-	-
Total Revenues and Gains and Other Support	4,539	8,045	2,125	14,709
Program Expenses				
Instruction	577	-	-	577
Research	3	-	-	3
Public service	838	-	-	838
Libraries	7	-	-	7
Academic support	232	-	-	232
Student services	302	-	-	302
Institutional support	471	-	-	471
Operation and maintenance of plant	95	-	-	95
Student financial aid	968	-	-	968
Total Program Expenses	3,493	-	-	3,493
Support Expenses				
Management and general	194	-	-	194
Fundraising support	94	-	-	94
Rental property	209	-	-	209
Total Support Expenses	497	-	-	497
Total Expenses	3,990	-	-	3,990
Net transfers in (out)	(18)	(3)	21	-
Increase (Decrease) in Net Assets	531	8,042	2,146	10,719
Net Assets – Beginning of Year	3,142	23,524	20,756	47,422
Net Assets – End of Year	$ 3,673	$ 31,566	$ 22,902	$ 58,141

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Statement of Activities
For the Year Ended June 30, 2006
(in thousands)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
CHANGES IN NET ASSETS:				
Revenues and Gains				
Gifts, grants and bequests	$ 245	$ 2,351	$ 561	$ 3,157
Rental income	106	-	-	106
Investment income	154	515	-	669
Net gains (losses) on investments	163	2,463	-	2,626
Other revenue	75	798	-	873
Total Revenues and Gains	743	6,127	561	7,431
Net Assets Released from Restrictions	4,431	(4,431)	-	-
Total Revenues and Gains and Other Support	5,174	1,696	561	7,431
Program Expenses				
Instruction	507	-	-	507
Research	5	-	-	5
Public service	741	-	-	741
Libraries	103	-	-	103
Academic support	200	-	-	200
Student services	302	-	-	302
Institutional support	520	-	-	520
Operation and maintenance of plant	1,363	-	-	1,363
Student financial aid	844	-	-	844
Total Program Expenses	4,585	-	-	4,585
Support Expenses				
Management and general	135	-	-	135
Fundraising support	66	-	-	66
Rental property	231	-	-	231
Total Support Expenses	432	-	-	432
Total Expenses	5,017	-	-	5,017
Net transfers in (out)	39	(201)	162	-
Increase (Decrease) in Net Assets	196	1,495	723	2,414
Net Assets - Beginning of Year	2,946	22,029	20,033	45,008
Net Assets - End of Year	$ 3,142	$ 23,524	$ 20,756	$ 47,422

See accompanying notes to the financial statements

Northern Kentucky University and Affiliate
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2007 and 2006
(in thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 71,792	$ 65,904
Grants and contracts	23,359	24,970
Payments to suppliers	(34,066)	(37,791)
Payments for salaries and benefits	(103,488)	(93,990)
Loans issued to students	(828)	(653)
Collection of loans to students	885	685
Auxiliary enterprise receipts:		
Residence Halls	919	846
Residential Village	4,436	4,192
Other auxiliaries	1,021	1,228
Sales and service of educational departments	3,193	3,336
Other receipts (payments)	6,035	5,827
Net cash used by operating activities	(26,742)	(25,446)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	53,876	51,334
Gifts and grants for other than capital purposes	24	-
Agency and loan program receipts	55,852	51,159
Agency and loan program disbursements	(55,794)	(51,136)
Other nonoperating receipts (payments)	(423)	538
Net cash provided by noncapital financing activities	53,535	51,895
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from capital debt and leases	57,728	6,357
Capital appropriations	54,000	96
Capital grants and gifts received	4,087	1,513
Purchases of capital assets	(57,262)	(12,854)
Principal paid on capital debt and leases	(8,708)	(8,491)
Interest paid on capital debt and leases	(2,766)	(2,992)
Net cash provided (used) by capital financing activities	47,079	(16,371)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	625	520
Purchases of investments and investment pool shares	(1,470)	(516)
Investments income	6,027	3,486
Net cash provided by investing activities	5,182	3,490
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	79,054	13,568
Cash and cash equivalents-beginning of year	62,172	48,604
Cash and cash equivalents-end of year	$ 141,226	$ 62,172
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES:		
Net loss from operations	$ (39,237)	$ (35,135)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	9,312	8,655
Changes in assets and liabilities:		
Receivables, net	(2,393)	(449)
Other assets	(580)	67
Accounts payable	4,792	634
Deferred revenue	1,136	1,043
Long-term liabilities	228	(261)
Net cash used by operating activities	$ (26,742)	$ (25,446)

See accompanying notes to the financial statements

Note 1 – Organization and Summary of Significant Accounting Policies

a. Reporting Entity

Northern Kentucky University (the University) is a component unit of the Commonwealth of Kentucky and is included in the general-purpose financial statements of the Commonwealth. The consolidated financial statements of the University include the operations of the Northern Kentucky University Research Foundation; an affiliated non-profit corporation. The Northern Kentucky University Foundation, Inc. (the Foundation) is a legally separate, tax-exempt organization supporting 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 Foundation's Board of Directors is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, 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. The accompanying financial statements do not include the financial position and result of operation of the Chase College Foundation, Inc. This foundation is a separately incorporated not-for-profit entity organized for the purpose of promoting the educational mission of the University's Salmon P. Chase College of Law. Although this entity benefits the University's Salmon P. Chase College of Law, it is governed by independent Boards of Directors and is not controlled by the University.

b. Basis of Presentation

The accompanying consolidated financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

In accordance with GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* (GASB 35) and subsequent standards issued by GASB, the University has elected to report as an entity engaged in business-type activities (BTA). BTAs are those activities that are financed in whole or part by fees charged to external parties for goods and services. GASB 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net assets categories:

- **Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- **Restricted:**

  Nonexpendable – Net assets subject to externally imposed stipulations that they be maintained permanently by the University.

  Expendable – Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. These net assets principally represent amounts for specified capital construction projects.

- **Unrestricted:** Net assets whose use by the University is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties.

The financial statement presentation required by GASB is intended to provide a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

c. Accrual Basis

The financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

d. Capital Assets

Capital assets are stated at cost at date of acquisition or, in the case of gifts, at fair market value at date of gift. Equipment with a unit cost of $5,000 or more and having an estimated useful life of greater than one year is capitalized. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective assets, generally 40 years for land improvements, 10 – 40 years for buildings and fixed equipment, 10 years for library books and 3 – 10 years for equipment. The University capitalizes, but does not depreciate, works of art and historical treasures that are held for exhibition, education, research and public service.

e. Inventories
Inventories are stated at cost (first in, first out or average cost).

f. Investments
Investments are stated at fair value.

g. Deferred Revenue
Deferred revenue includes amounts received for tuition and fees prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenue also includes amounts received from grants and contracts sponsors and state deferred maintenance funds that have not yet been earned.

h. Scholarship Allowances
Student tuition and fee revenues and other student related revenues are reported net of scholarship allowances in the statement of revenues, expenses and changes in net assets. Scholarship allowances are the differences between the stated charge for services provided by the University, and the amounts that are paid by the students or third parties making payments on a student's behalf. 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 allowance.

i. Restricted Asset Spending Policy
The University's policy is that restrictions on assets cannot be fulfilled by the expenditure of unrestricted funds for similar purposes. The determination on whether restricted or unrestricted funds are expended for a particular purpose is made on a case-by-case basis. Restricted funds remain restricted until spent for the intended purpose.

j. Operating Activities
The University defines operating activities, as reported on the statement of revenues, expenses and changes in net assets, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for services and goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenues relied upon for operations, such as state appropriations, gifts and investment income, are recorded as nonoperating revenues, in accordance with GASB 35.

k. 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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

l. Component Unit Disclosure
The accompanying financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Financial Accounting Standards Board. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features.

During the years ended June 30, 2007, and 2006, the Foundation made payments on behalf of the University of $2,120,000 and $2,052,000, respectively. In addition, the Foundation transferred to the University $1,373,000 in 2007 and $2,533,000 in 2006 for restricted purposes. Complete financial statements for the Foundation can be obtained from the Northern Kentucky University Foundation, Inc. at the Lucas Administrative Center Room 221, Nunn Drive, Highland Heights, KY 41099.

m. Reclassifications
Certain items have been reclassified for the year ended June 30, 2006, in order to conform to classifications used for the year ended June 30, 2007.

n. Recent Accounting Pronouncements

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This statement establishes standards for the measurement, recognition, and display of other postemployment benefit expenses/expenditures and related liabilities (assets), not disclosures, and, if applicable, required supplementary information in the financial reports of employers subject to governmental accounting standards. The provisions of this statement are effective for financial statements for fiscal periods beginning after December 15, 2006. NKU does not anticipate that this statement will have a material effect on its financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.* Governmental entities sometimes exchange an interest in their expected future cash flows from collecting specific receivables or specific revenues for immediate cash payments. This statement establishes criteria that the entity will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The statement also includes guidance to be used for recognizing other assets and liabilities arising from the sale of specific receivables or future revenues, including residual interests and recourse provisions. The provisions of this statement are effective for financial statements for fiscal periods beginning after December 15, 2006. NKU does not anticipate that this statement will have a material effect on its financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* This statement addresses accounting and reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current operations and future remediation activities that are required upon retirement of an asset. The provisions of this statement are effective for financial statements for fiscal periods beginning after December 15, 2007. NKU anticipates that this statement will have no impact on its financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures* – an amendment of GASB Statements No. 25 and No. 27. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information by pension plans and by employers that provide pension benefits. The provisions of this statement are effective for financial statements for fiscal periods beginning after June 15, 2007. NKU does not anticipate that this statement will have a material effect on its financial statements.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. The statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. The provisions of this statement are effective for financial statements for fiscal periods beginning after June 15, 2009. NKU has not yet evaluated the impact that the adoption of this statement will have on its financial statements.

Note 2 – Cash, Cash Equivalents and Investments

Cash and cash equivalents includes all readily available sources of cash such as petty cash, demand deposits, certificates of deposit and temporary investments in marketable debt securities with original maturities less than three months. At June 30, 2007, petty cash funds totaled $18,000 and the carrying amount of the deposits was $141,208,000 with a corresponding total bank balance of $150,442,000. Of the bank balance, $30,608,000 was covered by federal depository insurance, or collateralized with securities held by the pledging bank, or bank's agents, in the University's name and $119,834,000 was held and invested by the Commonwealth of Kentucky. These deposits were covered by federal depository insurance or by collateral held by the Commonwealth in the Commonwealth's name.

Investments

The investments which the University may purchase are limited by the Commonwealth's law and the University's bond resolutions to the following (1) securities or obligations which are fully guaranteed by the U.S. Government or agencies of the U.S. Government as to principal and interest; (2) certificates of deposit or time deposits of banks, trust companies or national banking associations which are insured by the Federal Deposit Insurance Corporation; and (3) mutual funds investing solely in U.S. securities.

The following schedule reports the fair values and maturities (using the segmented time distribution method) for the University's investments at June 30, 2007:

Investment Type	Fair Value	Investment Maturities: Less than One Year	Investment Maturities: One to Five Years
U.S. Treasury Securities	$ 787,000	$ 125,000	$ 662,000
Total	$ 787,000	$ 125,000	$ 662,000
Investments Not Sensitive to Interest Rate Risk:			
Foundation Endowment Pool	$ 10,362,000		
Total Investments	$ 11,149,000		

See note 13.a.4 for composition of the Foundation investment pool.

The following schedule reports the fair values and maturities (using the segmented time distribution method) for the University's investments at June 30, 2006:

Investment Type	Fair Value	Investment Maturities: Less than One Year	Investment Maturities: One to Five Years
U.S. Treasury Securities	$ 1,417,000	$ 626,000	$ 791,000
Total	$ 1,417,000	$ 626,000	$ 791,000
Investments Not Sensitive to Interest Rate Risk:			
Foundation Endowment Pool	$ 8,887,000		
Total Investments	$ 10,304,000		

See note 13.a.4 for composition of the Foundation investment pool.

Interest Rate Risk: The University's investment strategy is designed to match the life of the asset with the date the liability occurs. As stated in the University's investment policy, the bond resolution governs the investment of bond reserves. The bond resolution limits the investment maturities by the lesser of the remaining life of the bond issue or ten years. Certificates of deposit can have a maturity of not more than two years from the date of issue. At June 30, 2007, all investments with maturities from one to five years are compliant with the bond resolution requirements.

Note 3 – Notes, Loans and Accounts Receivable

Notes, loans and accounts receivable as of June 30, 2007 and 2006 are as follows (in thousands):

	2007 Gross Receivable	2007 Allowance	2007 Net Receivable
Student loans	$ 2,884	$ (525)	$ 2,359
Student account receivables	4,170	(1,904)	2,266
Reimbursement Receivable Grants and contracts	3,471	-	3,471
Other	2,622	(35)	2,587
Total	$ 13,147	$ (2,464)	$ 10,683
Current portion			8,780
Noncurrent portion			1,903
Total			$ 10,683

	2006 Gross Receivable	Allowance	Net Receivable
Student loans	$ 2,814	$ (399)	$ 2,415
Student account receivables	3,395	(1,236)	2,159
Reimbursement Receivable Grants and contracts	1,719	-	1,719
Other	985	-	985
Total	$ 8,913	$ (1,635)	$ 7,278
Current portion			5,056
Noncurrent portion			2,222
Total			$ 7, 278

Note 4 – Capital Assets, net

Capital assets for the years ended June 30, 2007 and 2006 are summarized as follows (in thousands):

	July 1, 2006	Additions	Reductions	June 30, 2007
Cost:				
Land	$ 4,427	$ 740	$ -	$ 5,167
Land Improvements	8,772	1,605	-	10,377
Buildings	198,673	10,889	113	209,449
Equipment	21,567	7,616	168	29,015
Library books	26,917	1,682	185	28,414
Construction in process	11,517	34,806	-	46,323
	271,873	57,338	466	328,745
Accumulated Depreciation				
Land Improvements	1,806	247	-	2,053
Buildings	81,357	5,202	43	86,516
Equipment	11,999	2,614	163	14,450
Library books	19,476	1,249	185	20,540
	114,638	9,312	391	123,559
Capital assets, net	$ 157,235	$ 48,026	$ 75	$ 205,186

	July 1, 2005	Additions	Reductions	June 30, 2006
Cost:				
Land	$ 4,325	$ 102	$ -	$ 4,427
Land Improvements	6,746	2,227	201	8,772
Buildings	195,732	2,978	37	198,673
Equipment	20,283	1,438	154	21,567
Library books	25,709	1,549	341	26,917
Construction in process	6,490	5,027	-	11,517
	259,285	13,321	733	271,873
Accumulated Depreciation				
Land Improvements	1,699	193	86	1,806
Buildings	76,098	5,274	15	81,357
Equipment	10,140	2,009	150	11,999
Library books	18,638	1,179	341	19,476
	106,575	8,655	592	114,638
Capital assets, net	$ 152,710	$ 4,666	$ 141	$ 157,235

As of June 30, 2007 and 2006, the net book value of land, buildings and equipment acquired through capital leases included in the above schedules totaled $24,084,000 and $24,190,000 respectively, including buildings of $19,211,000 and $20,057,000.

Note 5 – Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2007 and 2006 are as follows (in thousands):

	2007	2006
Payable to vendors and contractors	$ 10,295	$ 6,199
Accrued expenses, primarily payroll and vacation leave	3,598	3,105
Employee withholdings and deposits payable to third parties	1,912	1,891
	$ 15,805	$ 11,195

Note 6 – Deferred Revenue

Deferred revenue as of June 30, 2007 and 2006 is as follows (in thousands):

	2007	2006
Unearned summer school revenues	$ 4,606	$ 3,066
Unearned grants and contracts revenue	1,010	1,533
Unearned auxiliary revenue	3,678	753
Other	540	230
Total	$ 9,834	$ 5,582
Current	6,594	5,458
Noncurrent	3,240	124
Total	$ 9,834	$ 5,582

Note 7 – Long-term Liabilities

The changes in long-term liabilities for the years ended June 30, 2007 and 2006 are summarized as follows (in thousands):

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion	Noncurrent Portion
Consolidated Educational Buildings Revenue Bonds	$ 28,975	$ -	$ 5,075	$ 23,900	$ 2,890	$ 21,010
Housing and Dining Revenue Bonds	2,930	-	235	2,695	240	2,455
ALCo Note	6,000	8,750	-	14,750	14,750	-
General Receipts Bonds	-	48,660	-	48,660	-	48,660
Municipal capital lease obligations	9,079	1,201	1,908	8,372	1,910	6,462
Capital leases	21,733	-	1,504	20,229	1,572	18,657
Total bonds, notes and capital leases	68,717	58,611	8,722	118,606	21,362	97,244
Faculty retirement and deferred compensation	444	1,137	1,025	555	1	554
Federal portion of Perkins loans	2,391	-	126	2,265	-	2,265
Arbitrage rebate liability	113	-	-	113	-	113
Total other liabilities	2,948	1,137	1,151	2,933	1	2,932
Total long-term liabilities	$ 71,665	$ 59,748	$ 9,873	$ 121,539	$ 21,363	$ 100,176

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006 2006	Current Portion	Noncurrent Portion
Consolidated Educational Buildings Revenue Bonds	$ 33,790	$ -	$ 4,815	$ 28,975	$ 5,075	$ 23,900
Housing and Dining Revenue Bonds	3,150	-	220	2,930	235	2,695
ALCo Note	-	6,000	-	6,000	6,000	-
CVU note payable	122	-	122	-	-	-
Municipal capital lease obligations	10,469	357	1,747	9,079	1,670	7,409
Capital leases	23,176	-	1,443	21,733	1,504	20,229
Total bonds, notes and capital leases	70,707	6,357	8,347	68,717	14,484	54,233
Faculty retirement and deferred compensation	705	72	333	444	25	419
Federal portion of Perkins loans	2,397	-	6	2,391	-	2,391
Arbitrage rebate liability	113	-	-	113	-	113
Total other liabilities	3,215	72	339	2,948	25	2,923
Total long-term liabilities	$ 73,922	$ 6,429	$ 8,686	$ 71,665	$ 14,509	$ 57,156

The outstanding Consolidated Educational Buildings Revenue Bonds (CEBRB) consist of CEBRB Series A, B, J, K and L with interest rates ranging from 3.50 percent to 5.97 percent and various maturity dates through May 1, 2023. Student tuition and fees and proceeds from a United States Department of Education annual interest grant are pledged as security for the University's outstanding CEBRB. The reserve requirements for all CEBRB issues have been fully funded as of June 30, 2007.

The outstanding Housing and Dining System Revenue Bonds (Housing and Dining) consist of Housing and Dining Series B and C with interest rates ranging from 3.0 percent to 7.8 percent and various maturity dates through November 1, 2020. The gross revenues of the Housing and Dining system operations are pledged for the retirement of the Housing and Dining System Revenue Bonds. The reserve requirements for all Housing and Dining issues had been fully funded as of June 30, 2007.

The outstanding municipal lease obligations as of June 30, 2007 consist of master lease obligations issued through a local bank totaling $4,328,000, with interest rates ranging from 2.59 percent to 4.65 percent, and a lease obligation of $4,044,000, with an interest rate of 3.76 percent, for an energy management project. The energy management lease will be paid with guaranteed energy savings.

The outstanding capital leases as of June 30, 2007 consist of two student housing facility leases of $6,580,000 and $13,649,000 entered into on April 22, 1998 and August 1, 2002, respectively. For accounting purposes, these leases represent capital leases with imputed interest rates of 4.58 and 4.88 percent, respectively. The 1998 facilities lease is renewable for biennial terms until final termination on December 1, 2011 or as provided in the lease. The 2002 lease is renewable for biennial terms until final termination on December 1, 2027 or as provided in the lease. Title to both housing facilities will transfer to the University upon termination of the facilities leases. The future minimum lease payments are to be paid from revenues of the leased facilities.

In March 2006, the University entered into a Kentucky Asset/Liability Commission Project Note ("ALCo") in the amount of $6,000,000 in order to fund the initial construction costs for a new student union building. This note is a floating rate interim funding vehicle available for up to 3.5 years until issuance of new bonds has occurred. Interest only payments are due each month equal to the BMA Index plus .45 percent not to exceed an annual rate of 9 percent. During fiscal year 2007 an additional $8,750,000 in ALCo notes were issued to fund the new student union project prior to the issuance of the Series A-General Receipts Bonds. At June 30, 2007, the University's trustee held $14,750,000 in General Receipt bond proceeds, issued in June 2007, for the purpose of retiring the $14,750,000 in ALCo notes that were issued to provide short term financing for the student union. The short term notes were retired in July 2007.

On May 23, 2007, the University sold $48,660,000 of Northern Kentucky University General Receipts Bonds, 2007 Series A, with interest rate yields ranging from 3.65 - 4.64 percent through September 2027. The net interest cost was 4.36 percent. The bond proceeds will be used for construction of the new student union facility and an additional parking garage.

Principal maturities and interest on bonds, notes and capital leases for the next five years and in subsequent five-year periods are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2008	$ 21,363	$ 3,841	$ 25,204
2009	8,377	4,058	12,435
2010	8,425	3,697	12,122
2011	7,583	3,350	10,933
2012	7,150	3,008	10,158
2013-2017	20,441	11,911	32,352
2018-2022	20,239	7,764	28,003
2023-2028	25,028	3,397	28,425
Total	$ 118,606	$ 41,026	$ 159,632

** Interest on variable rate debt is estimated based on rates in effect at June 30, 2007.*

Note 8 – Pension Plans and Accrued Compensated Absences

Employees of the University are covered by one of two pension plans:

a. Defined Contribution Plan

A Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA CREF) sponsored plan, adopted by the Board of Regents in July 1970, is available upon completion of one year's service, to all regular full time members of the faculty, administrative officers and others who have educational related duties. The TIAA CREF retirement plan is a defined contribution, money purchase retirement plan. The employees contribute 5 percent of their base salary to the plan, and the University contributes 10 percent. All payments are vested immediately and the contracts with the providers are owned by the individual employees. The employee is entitled to various payment options upon retirement. Benefit payments at retirement depend on the total contributions with interest deposited into the employee's account. Retirement benefits can begin upon retirement or termination of employment with the University. Covered payroll totaled $36,950,000 and $34,572,000 for the years ended June 30, 2007 and 2006, respectively. Expenditures for the University's portion amounted to $3,695,000 and $3,457,000 for the years ended June 30, 2007 and 2006, respectively.

b. Defined Benefit Plan

Plan Description - All regular employees not participating in the above plan are required to participate in the Kentucky Employees Retirement System (KERS), a cost sharing - multiple employer public employee retirement system. KERS is a defined benefit plan providing for retirement, disability, death benefits and health insurance. Each employee covered by KERS is entitled to a monthly benefit equal to 1.97 percent, except as otherwise provided by KERS, of the member's average final monthly compensation multiplied by the number of credited years of service upon attainment of age 65. The average final compensation is calculated using the five highest paid fiscal years. Participants have a fully vested interest after the completion of 60 months of service, 12 of which are current service. KERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601-6124 or by calling (502) 564-4646.

Funding Policy - Benefit and contribution rates are established by state statute. For the fiscal year ended June 30, 2007, University employees were required to contribute 5 percent of their annual covered salary and the University was required to contribute 7.75 percent of covered payroll for non-hazardous pay and 22 percent for hazardous pay. The University's contributions to KERS for the years ending June 30, 2007, 2006 and 2005 were $2,359,000, $1,685,000, and $1,503,000, respectively, equal to the required contributions for each year.

c. Deferred Compensation Plans

The University, through participation in the Commonwealth of Kentucky plan, offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Sections 457 and 401(k). The plans, available to all Commonwealth employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All compensation deferred under Section 457, all property and rights purchased with that compensation and all income attributable to that compensation, property or rights belong solely to the Commonwealth and the University until paid to the employee or beneficiary, subject only to the claims of the Commonwealth's and University's general creditors. Participants' rights under the plan are equal to those of general creditors of the Commonwealth and the University in an amount equal to the fair market value of the deferred account for each participant. The market value of the University's share of the Section 457 plan assets, as of June 30, 2007 and 2006, were $2,141,000 and $1,744,000, respectively. All compensation deferred under Section 401(k) and resultant assets belong to the plan participants.

d. Retirement Incentive Program

A faculty retirement incentive program was adopted in September 1994, by the Board of Regents. Each early retiree receives salary and benefits for three years. The salary for each participant for the first year is equal to 50 percent of their academic year salary upon retirement, and 25 percent for the second and the third year. At June 30, 2007 and 2006, the University had recognized an accrued liability of $0 and $24,000. As of June 30, 2007 there were no eligible participants in the faculty retirement incentive program. An "eligible employee" shall mean a full-time, tenured faculty member with a minimum 15 years of tenure or tenure-track collegiate service. Each year the University, in its sole discretion, determines who is allowed to participate under this plan and the contribution, if any, to the program with respect to such year. The University shall have no obligation to reserve or otherwise set aside funds for the program.

e. Compensated Absences

University employees begin to accumulate annual vacation allowance from the initial date of employment; however, no vacation is granted until three months of continuous employment have been completed. The maximum accumulation of vacation leave is limited to the number of days that can be accumulated in twelve months, based upon length of service and employment classification. Employees are paid their accumulated vacation upon termination, subject to certain limitations. At June 30, 2007 and 2006, the University had recognized an accrued vacation liability of $2,332,000 and $2,068,000, respectively.

Note 9 – Operating Expenses By Natural Classification

The University's operating expenses by natural classification were as follows for the years ended June 30, 2007 and 2006 (in thousands):

	2007	2006
Salaries and wages	$ 83,521	$ 76,672
Employee benefits	20,320	17,363
Utilities	4,327	4,497
Supplies and other services	25,336	22,734
Depreciation	9,311	8,655
Student scholarships and financial aid	9,876	9,897
	$ 152,691	$ 139,818

Note 10 – Risk Management

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by (1) the State Fire and Tornado Insurance Fund (the Fund), (2) Sovereign Immunity and the State Board of Claims or (3) in the case of risks not covered by the Fund and Sovereign Immunity, commercial insurance, participation in insurance risk retention groups or self-insurance.

The Fund covers losses to property from fire, wind, earthquake, flood and other named perils between $500 and $500,000 per occurrence. Losses in excess of $500,000 are insured by commercial carriers up to $500 million per occurrence principally on an actual cash value basis. As a state agency, the University is vested with Sovereign Immunity and is subject to the provisions of the Board of Claims Act, under which the University's liability for certain negligence claims is limited to $200,000 for any one person and $350,000 for multiple claims resulting from a single act of negligence. Claims against educators' errors and omissions and wrongful acts are insured through a risk retention group or commercial insurance. There have been no significant reductions in insurance coverage from 2006 to 2007. Settlements have not exceeded insurance coverage during the past three years. The University self-insures worker's compensation, and has recorded an estimate for asserted claims at June 30, 2007. Current liabilities related to self-insurance are included in Note 5, above.

Note 11 – Contingencies and Commitments

The University is a party to various litigation and other claims in the ordinary course of business. University officials are of the opinion, based upon the advice of legal counsel, that the ultimate resolution of these matters will not have a material effect on the financial position of the University. The estimated cost to complete construction under contract at June 30, 2007 was approximately $62,210,000. Such construction is principally financed by appropriations from the Commonwealth of Kentucky and proceeds from bonds.

Note 12 – Segment Information

A segment is an identifiable activity reported as a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specifically identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses and assets and liabilities, that are required by an external party to be accounted for separately. The University has one segment that meets the reporting requirements of GASB: the Northern Kentucky University Housing and Dining System (Housing and Dining System).

The Housing and Dining System is an organizational unit of the University that manages the University's student dormitory housing units. The gross revenues from the dormitory housing units are pledged for retirement of the Consolidated Housing and Dining System Revenue Bonds.

Condensed Statements of Net Assets at June 30, 2007 and 2006 (in thousands)

	2007	2006
Assets:		
Current assets	$ 775	$ 709
Noncurrent assets	363	358
Capital assets, net	1,731	1,733
Total assets	2,869	2,800
Liabilities:		
Current liabilities	350	343
Noncurrent liabilities	2,455	2,695
Total liabilities	2,805	3,038
Net assets (deficit):		
Invested in capital, net of related debt	(964)	(1,197)
Restricted	723	696
Unrestricted	305	263
Total net assets (deficit)	$ 64	$ (238)

Condensed Statements of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2007 and 2006 (in thousands)

	2007	2006
Operating revenues		
Room rental	$ 976	$ 886
Board revenue	20	53
Other	20	18
Total operating revenues	1016	957
Operating expenses	524	543
Depreciation	170	174
Total operating expenses	694	717
Operating income	322	240
Nonoperating revenues	56	42
Nonoperating expenses	(100)	(112)
Excess of revenues over expenses	278	170
Transfers (to) from other University units	24	-
Increase (decrease) in net assets	302	170
Net assets (deficit), beginning of year	(238)	(408)
Net assets (deficit), end of year	$ 64	$ (238)

Condensed Statements of Cash Flows for the years ended June 30, 2007 and 2006 (in thousands)

	2007	2006
Net cash flows provided by operating activities	$ 313	$ 394
Net cash flows provided by investing activities	56	42
Net cash flows used by capital and related financing activities	(313)	(305)
Net increase in cash and cash equivalents	56	131
Cash and cash equivalents, beginning of year	1,062	931
Cash and cash equivalents, end of year	$ 1,118	$ 1,062

Note 13 – Northern Kentucky University Foundation, Inc. Notes to Financial Statements

a. Summary of Significant Accounting Policies

1. Scope of Statements

Northern Kentucky University Foundation, Inc. (the Foundation) is a legally separate, tax-exempt organization supporting Northern Kentucky University. The Foundation acts primarily as a fund-raising organization to supplement the resources of the Northern Kentucky University.

2. Basis of Presentation

These statements are presented on the accrual basis of accounting, and have been prepared to focus on the Foundation as a whole and to present transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of fund balances and transactions into three classes of net assets - permanently restricted, temporarily restricted and unrestricted net assets.

Net assets and changes therein are classified as follows:

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use the returns on the related investments over time for general or specific purposes.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or the passage of time. Temporarily restricted net assets are generally established in support of colleges or departments of the University, often for specific purposes such as faculty support, scholarships and fellowships, library acquisitions, equipment or building projects and other specific purposes.

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment of such factors as prior collection history, type of contribution and nature of the fund-raising activity.

Income and realized net gains on long-term investments are reported as follows:

- As increases in permanently restricted net assets – if the terms of the gift require that they be added to the principal of a permanent endowment fund.
- As increases in temporarily restricted net assets – if the terms of the gift impose restrictions on the use of the income.
- As increases in unrestricted net assets – in all other cases.

3. Cash and Cash Equivalents

Cash and cash equivalents includes all readily available sources of cash such as petty cash, demand deposits and temporary investments in marketable securities with maturities of less than three months. Cash and cash equivalents representing investments purchased with endowment net assets are reported as investments.

4. Investments

The Foundation's investments are recorded in the financial statements at fair value. The estimated fair value of investments is based on quoted market prices, except for alternative investments for which quoted market prices are not available. The alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the investment managers.

The estimated fair value of certain alternative investments, such as private equity interests, is based on valuations provided by the external investment managers adjusted for cash receipts, cash disbursements and distributions through June 30, 2007. The Foundation believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material.

The Foundation invests its endowment investment portfolio and allocates the related earnings for expenditure in accordance with the total return concept. A distribution of endowment return that is independent of the cash yield and appreciation of investments earned during the year is provided for program support.

The Foundation has significant exposure to a number of risks including interest rate, market and credit risks for both marketable and non-marketable securities. Due to the level of risk exposure, it is possible that near-term valuation changes for investment securities may occur to an extent that could materially affect the amounts reported in the Foundation's financial statements.

All true endowment investments and long-term net assets functioning as endowment are managed in a pool, unless special considerations or donor stipulations require that they be held separately.

The Foundation has adopted an endowment spending policy designed to stabilize annual spending levels and to preserve the value of the endowment portfolio. The spending policy attempts to achieve these objectives by using a spending rate which has ranged from 3 to 5 percent in recent years, combined with a smoothing rule which adjusts spending gradually to changes in the endowment market value. The actual rate of spending will vary depending on the rate of growth or decline in market value of the endowment investment portfolio.

The market values of the Foundation's investments as of June 30, 2007 and 2006 (in thousands) are categorized below:

	2007	2006
Type of investments:		
Short-term money market funds	$ 136	$ 69
Fixed income funds	7,623	6,380
Corporate note	1,000	-
Equity funds and common stock	37,525	30,556
Municipal bonds	-	187
Hedge funds	5,062	4,493
Alternative investments	1,594	631
Other	260	233
Total Investments	**$ 53,200**	**$ 42,549**

The investments of the Foundation are commingled with certain investments which the Foundation holds in trust for Northern Kentucky University. The market value of funds held in trust for the University at June 30, 2007 and 2006 were $10.435 million and $8.919 million respectively.

At June 30, 2007, the Foundation had committed $6.21 million of its endowment investment resources to alternative investments, of which $4.384 million had not yet been called by the investment managers. Alternative investments for which commitments have been made consist of private equity, venture capital, real estate and real assets.

The Foundation records the cost of managing its endowment portfolio as a decrease in investment income within the appropriate net asset class in the Statement of Activities. Some of the Foundation's investment managers report investment transactions net of fees. For the years ended June 30, 2007 and 2006, separately stated investment managers' fees were $65,000 and $67,000 respectively.

At June 30, 2007, the current market value of certain endowment accounts was less than the amount required to be maintained as principal for those endowments. The amount by which the required balances of those endowments exceeded current market value is $25,000.

5. Fixed Assets and Depreciation

The cost of expenditures for land, buildings, improvements, equipment, art and museum collections and the fair market value of donated capital assets in excess of $5,000 are capitalized. Annual depreciation is computed on a straight-line basis, beginning in the month of acquisition, at rates based on useful lives of 25 to 40 years for buildings and improvements and 3 to 5 years for furnishings and equipment. Depreciation expense for each of the years ended June 30, 2007 and 2006 was $7,000 and $59,000, respectively, and is reported as support expenses under rental property in the Statement of Activities.

Equipment purchased or assets constructed through the Foundation for use by Northern Kentucky University are recorded by the Foundation as a program expense.

The Foundation acquired certain property during fiscal year 2000 for future development. The property was subject to existing lease agreements at the time it was acquired. The property initially functioned as rental property and subsequently as a storage facility for the university following termination of the lease agreements.

Due to impending development of the property, which will involve demolition of the building and parking lot, a decision was made during fiscal year 2007 to vacate the building and reclassify the net book value of the building and parking lot as land. As a result of this decision, $875,000 of building cost and $300,000 of land improvements along with $330,000 of accumulated depreciation were reclassified.

6. Net assets Released from Restrictions

Reclassification of net assets is based upon the satisfaction of the purpose for which the net assets were restricted or the completion of a time stipulation. Restricted contributions and net investment returns earned are reported as temporarily restricted support and reclassified as unrestricted when any donor-imposed restrictions are satisfied.

7. Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income, revenues and expenses during the reporting period. Actual results could differ from those estimates.

8. Other Significant Accounting Policies

Certain items may have been reclassified for the year ended June 30, 2006, in order to conform to classifications used for the year ended June 30, 2007.

b. Notes Payable

The Foundation has a $2.1 million open-end mortgage note payable collateralized by a first mortgage on certain land and buildings owned by the Foundation. The note principal is due on or before December 31, 2007. Monthly payments of interest at the lender's floating prime rate (7.0 percent at June 30, 2007) were current at June 30, 2007

c. Unconditional and Conditional Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Amounts expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts are computed using a risk free interest rate as of fiscal year-end. Amortization of the discount is included in contribution revenue.

At June 30, 2007 and 2006, the Foundation recognized contributions based on the following unconditional promises to give (in thousands):

	2007	2006
Purpose:		
Endowment giving	$ 3,304	$ 2,548
Capital purposes	6,282	6,340
Operating programs	751	868
Gross unconditional promises	**10,337**	**9,756**
Less: Discount and allowance for uncollectible accounts	(1,272)	(1297)
Net unconditional promises to give	**$ 9,065**	**$ 8,459**
Amounts due in:		
Less than one year	$ 3,633	$ 3,221
One to five years	4,889	4,808
More than five years	1,815	1,727
Total	$ 10,337	$ 9,756

The discount rate used to calculate the present value of contributions receivable at June 30, 2007 and 2006 was 5.6 percent and 5.25 percent respectively.

Conditional promises to give are not included as support until such time as the conditions are substantially met. At June 30, 2007, the Foundation had received conditional promises to give of approximately $1,600,000, consisting of the face value of life insurance policies, net of accumulated cash surrender value.

d. Regional University Excellence Trust Fund

The Foundation holds certain funds, consisting of endowment matching funds received by Northern Kentucky University from the Commonwealth of Kentucky's Regional University Excellence Trust Fund, which were subsequently transferred to the Foundation for management and investment. The Foundation reports these funds and accumulated earnings as assets held in trust for Northern Kentucky University. Investment earnings, gains and losses and expenditures from these funds are reported as changes in the balance held in trust rather than as revenue and expenses of the Foundation.

e. Contingent Liabilities

Legal counsel for the Foundation have advised that they know of no pending or threatened litigation, claims or assessments involving the Foundation that could have a material adverse financial effect on the Foundation.

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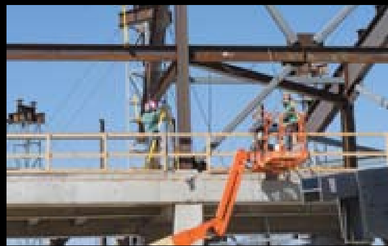

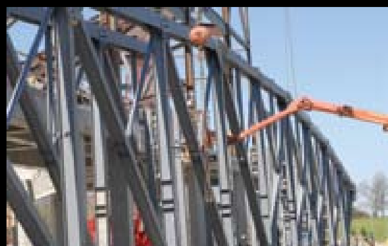

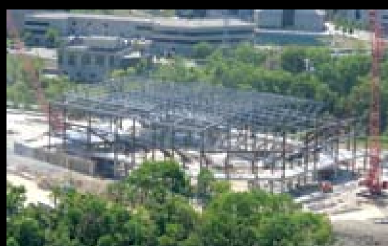

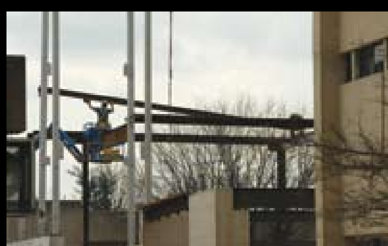

NORTHERN KENTUCKY UNIVERSITY

Nunn Drive
Highland Heights, Kentucky 41099
www.nku.edu