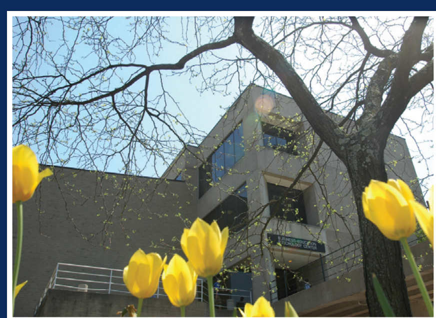
NORTHERN KENTUCKY UNIVERSITY

2007-2008 FINANCIAL REPORT



2007-2008 FINANCIAL REPORT

BOARD OF REGENTS

Martin C. Butler
Chair

Nancy A. Barone Kremer
Vice Chair

Denise H. McClelland
Secretary

C. Alyse Bender
Student Regent

Steven M. Weiss
Faculty Regent

Peggy A. DeJaco
Staff Regent

Charles H. Brown

Frank K. Downing

Joyce E. Griffin

Anna Dale Pyles

Robert W. Zapp

NORTHERN KENTUCKY UNIVERSITY ADMINISTRATION

James C. Votruba
President

Zebulun Davenport
Vice President for Student Affairs

Kimberly A. Luse
Executive Assistant to the President for Special Projects/
Secretary to the Board of Regents

Sue Hodges Moore
Vice President for Planning, Policy, and Budget

Kenneth H. Ramey
Vice President for Administration and Finance/Treasurer

Gerard A. St. Amand
Vice President for University Advancement

Sara L. Sidebottom
Vice President for Legal Affairs and General Counsel

Gail W. Wells
Vice President for Academic Affairs and Provost

Joseph E. Wind
Vice President for Government and Community Relations

Russell A. Kerdolff
Comptroller

Current as of June 30, 2008

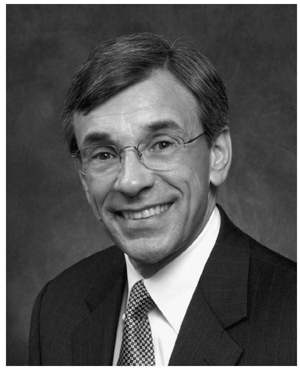
Northern Kentucky University and Affiliate
Annual Financial Report
2007-2008

T A B L E O F C O N T E N T S

Table of Contents

September 17, 2008

Northern Kentucky University Board of Regents
Highland Heights, KY 41099



Dear Members of the Board:

It is my pleasure to release the university's 2007-08 Annual Financial Report. This report has been audited by the firm of Crowe Horwath LLP.

NKU ends the fiscal year and begins the new academic year in a strong financial position despite a number of financial pressures including mandated budget reductions in state appropriations for FY 2008 and 2009, costs of the continued development and implementation of SAP, bringing three major new facilities online, SACS reaffirmation of accreditation process, and the pressure to expand academic programs and services to meet the growing demands of both our students and our region.

To meet the state-mandated budget reductions, every unit of NKU went through a budget review process that resulted in 30 positions and five administrative units being eliminated. We made internal reallocations to make key strategic investments in the campus. In addition, our students paid a price with yet another tuition increase.

While state appropriations waned, private donor support was significant with NKU receiving $6.5 million in contributions. We also saw the percentage of alumni giving in the top quartile of our benchmark institutions. Major funding for NKU at the federal level is also promising, with possible support for high-priority campus programs and a $2 million earmark for equipment in our new College of Informatics facility.

In summary, NKU has made significant progress related to key strategic priorities in spite of budget reductions and pressures. We've protected our budget reserves, reallocated $3 million to high-priority areas, invested in programs and people, and positioned ourselves to move to a whole new level in support of our students, the region and the commonwealth.

Successes and challenges

We've also had a lot of successes with student enrollment, faculty recruitment and retention, and the entire college experience over the past year. And we feel confident that we are well-positioned to meet the challenges of the coming year.

Students

For example, enrollment is at its highest level in the history of the university. For fall 2008, we registered almost 15,200 students, an increase of almost 2 percent over last year. Undergraduate enrollments increased by more than 2 percent, with juniors and seniors making the largest jumps. Graduate enrollment decreased slightly by three tenths of a percent, and Chase enrollment is again strong with an almost 5 percent increase.

The number of students scoring 27 or above on the ACT exam is up by 12 percent, possibly the strongest entering class we've ever had. Despite our tough admission standards, the number of freshmen admitted without any academic deficiencies is up 7 percent. The number of African American and Hispanic new freshmen is up 27 percent. In addition, transfer students increased 5 percent. In short, enrollments at nearly all levels are strong, and we have the largest, most diverse and most academically talented entering class in the university's history.

Another significant development in our student profile is the number of students living on campus. With the addition of the 460-bed Callahan residential hall, we've increased our residential capacity to nearly 1,800 students. In spite of this significant increase in residential capacity, occupancy is still at 100 percent with students on a waiting list for space.

Faculty

We continue to take important steps to enhance the quality of our academic programs. This past year, we once again had outstanding success in faculty recruitment, and we were able to increase the number of full-time tenured and tenure-track faculty members as well as add new faculty in several high-demand programs.

Our faculty continue to involve undergraduate students while doing research and scholarly activity. Our faculty members have won numerous awards this past year, including biology professor Hazel Barton, who won the National Science Foundation's most prestigious award, and chemistry professor Vernon Hicks, who received the Outstanding Chemist of the Year Award.

The campus experience

The quality of our whole campus experience just keeps getting better. Intercollegiate athletics made great contributions to NKU history and visibility when Coach Nancy Winstel and her women's basketball team won their second national championship in the past eight years. In addition, the Norse had 11 of 13 sports participate in NCAA postseason competition. NKU again won the GLVC Commissioner's Cup. And our athletes had an overall grade-point average of 3.06!

In addition, more students are studying abroad than ever before, and our new International Education Center will provide opportunities for everyone on campus to get an international perspective. The Division of Student Affairs reorganized itself so its programs and services can make the greatest impact on student achievement, and we've recruited new leaders to focus on student retention and campus engagement.

NKU's physical campus has greatly affected the university experience this past year. Our two newest buildings, the Student Union and The Bank of Kentucky Center, have literally changed the landscape of campus and will affect how everyone in the region looks at NKU. Both buildings will enhance not only the quality of campus life but also our ability to recruit and retain the best and brightest students. Thousands of people will attend events in our new arena, and they'll take their positive view of our university back to their communities to create greater NKU visibility throughout the tri-state and beyond. Topping it all off, commencement is finally back on campus!

New buildings, greener spaces

Plans are underway for the new state-of-the-art College of Informatics facilities with groundbreaking scheduled for spring 2009. This will be the first new academic building in six years, and it will be constructed to meet the needs of the college for today and the future. The new campus Welcome Center is almost complete, and the new parking garage, along with new surface parking, adds approximately 1,200 additional spaces as we begin the new academic year.

The former Hermann Center has been demolished and the former Thriftway property will be demolished soon to make room for a new NKU Foundation-led campus development that will include hotel, retail and office space. We want this new area to contribute to the quality of campus life by giving our students and faculty convenient access to knowledge-intensive companies for research, internships and other cooperative projects.

NKU's new campus master plan is due in the fall of 2008. This plan offers a vision for our campus that's breathtaking. New green space, bike and pedestrian paths, and academic and residential clusters will all combine to assure that as we grow larger, we preserve our current sense of intimacy.

Our new partnership with Highland Heights helps assure a bright future for both our campus and our local community. This agreement includes land and financial support to construct a new state-of-the-art soccer complex across from what is now the Highland Heights City Hall. Construction will begin in fall 2008.

In addition, NKU continues to receive high marks for its efforts to support environmental sustainability through both new construction and programs to conserve and recycle. Recently, NKU was recognized by the National Wildlife Foundation for its sustainability efforts, the only Kentucky university to be so recognized.

Public engagement

A defining quality of NKU is its work on behalf of regional progress. This past year, we became much more focused on those areas of public engagement where we believe we can add significant value in partnership with our community. Our work related to P-12 enhancement, economic competitiveness, nonprofit management and health informatics is having a significant and measurable impact on these areas in ways that support and enhance our core mission as a university.

For example, CINSAM has become a national model for P-12 math and science enrichment. Another program, the Kentucky Math Center, is having demonstrable success working with teachers throughout Kentucky to introduce best practices related to mathematics education. Our new Center for Educator Excellence will provide both pre-professional and continuing professional education for teachers throughout the northern Kentucky region in response to Vision 2015.

We are involved in STRIVE, a regional effort involving the University of Cincinnati and NKU among a host of other partners. Our involvement reflects our commitment to expanding college access for students in our urban core, and we are already working with area school districts to test high school juniors for college readiness and pinpoint where there may be deficiencies.

In addition, NKU continues to focus on how it can support regional economic competitiveness. For example, Launchpad is a new program designed to use faculty and students to assess employer needs. Also, the Infrastructure Management Institute is assisting companies to address challenges related to information technology.

These initiatives, along with many others, allow NKU faculty and students to contribute to economic growth. They also provide students with the opportunity to work on real-world challenges. In addition, this past spring, 22 university presidents gathered here to learn how they can further advance public engagement on their own campuses. Nationally and locally, NKU has truly taken a significant leadership role in advancing higher education's public engagement mission.

Planning for the future, remaining strong

There are many other signs that the state of the university is strong. NKU was able to compete nationally and locally in recruiting outstanding faculty and staff. In spite of mandatory budget reductions, we were still able to enhance our salary and benefits position in what is a highly competitive market environment. At a time when several Kentucky universities approved no salary increases, NKU funded a 2 percent salary increase plus an additional 1 percent to offset the cost of the new Highland Heights payroll tax beginning July 1, 2008. In addition, NKU expanded its benefits package for faculty and staff to include benefits to extended families.

We've also developed a business plan, a unit planning process and a dashboard of key indicators that we'll use in the future to monitor our campus progress. Our key indicators include a close monitoring of average class size, student/faculty ratios, and percentage of tenure and tenure-track faculty so we can guard against compromising qualities that we believe set us apart.

This past year reflects much progress in advancing our capacity to serve our students, our region and the commonwealth. To all who contributed to our progress – faculty, staff, students and community leaders – I extend special thanks!

Sincerely,

James C. Votruba
President

Crowe Horwath

Crowe Horwath LLP
Member Horwath International

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, 2008 and 2007, 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, 2008 and 2007, 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 12 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 Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 20, 2008

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, 2008, with selected comparative information for the years ended June 30, 2007 and 2006. 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, 2008. The University's total net assets increased by $18.1 million, or 8.1 percent at June 30, 2008 compared to June 30, 2007. This increase resulted from income before other revenues, expenses, gains or losses of $13.7 million and capital grants and gifts of $4.4 million. 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.

The University's campus has been transformed with the addition of The Bank of Kentucky Center and a new Student Union. Both buildings will enhance not only the quality of campus life but also the University's ability to recruit and retain the best and brightest students. The completion of these facilities resulted in an increase in net assets invested in capital assets, net of related debt, of $35.1 million for the year. Net capital assets increased by $79.9 million for the year ended June 30, 2008 and $47.9 million for the year ended June 30, 2007, resulting in a combined increase of $127.8 million, or 81.3 percent, since June 30, 2006. This increase is related to the acquisition of new administrative systems and the construction of several new facilities, including a new student union, housing facility, parking garage and The Bank of Kentucky Center. The University funded these projects primarily through the issuance of general receipts bonds and a $54 million capital appropriation from the Commonwealth received in fiscal year 2007 for The Bank of Kentucky Center. As a result of the significant investment in its campus facilities in recent years, net capital assets have grown to $285.0 million, or 70.3 percent of total assets as of June 30, 2008.

The University's operating revenues increased by $12.7 million for the year ended June 30, 2008, led by a $11.2 million increase in net tuition and fees. Noteworthy increases in revenues from sales and services of educational departments ($1.1 million) and auxiliary enterprises ($0.7 million) were also realized and demonstrate the University's continued effort to diversify revenue sources. The University's total state appropriations decreased by $0.2 million for year ended June 30, 2008.

During the fiscal year the University completed a comprehensive business plan that defines 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 represents a comprehensive, all-funds approach to meeting the postsecondary education needs of the University's students, the Northern Kentucky region and the Commonwealth of Kentucky.

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 Governmental 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)

	2008	2007	2006
ASSETS			
Current assets	$ 86,601	$ 75,585	$ 55,331
Capital assets, net	285,041	205,186	157,235
Noncurrent assets	34,061	90,806	26,340
Total assets	405,703	371,577	238,906
LIABILITIES			
Current liabilities	40,211	43,762	31,162
Noncurrent liabilities	124,150	104,559	58,064
Total liabilities	164,361	148,321	89,226
NET ASSETS			
Invested in capital assets, net of related debt	172,961	137,857	82,835
Restricted			
Nonexpendable	7,616	7,616	7,616
Expendable	17,768	40,171	23,605
Unrestricted	42,997	37,612	35,624
Total net assets	$ 241,342	$ 223,256	$ 149,680

A review of the University's statement of net assets at June 30, 2008 shows that the University continues to build upon its strong financial foundation.

Assets

The University's assets increased by $166.8 million, or 69.8 percent, from June 30, 2006 to June 30, 2008 and now total $405.7 million. The majority of this increase is attributable to a growth in net capital assets related to capital construction projects. Current assets increased by $11.0 million for the year ended June 30, 2008 and $20.3 million for the year ended June 30, 2007, resulting in a combined increase of $31.3 million, or 56.5 percent, since June 30, 2006. This increase is attributable to an increase in cash and cash equivalents related to operating and construction reserves and an increase in accounts receivable balances associated with increases in tuition rates, enrollment and grant activity.

Net capital assets increased by $79.9 million for the year ended June 30, 2008 and $47.9 million for the year ended June 30, 2007, resulting in a combined increase of $127.8 million, or 81.3 percent, since June 30, 2006. This increase is related to the acquisition of new administrative systems and the construction of several new facilities, including a new student union, housing facility, parking garage and The Bank of Kentucky Center. The University funded these projects primarily through the issuance of general receipts bonds and a $54 million capital appropriation from the Commonwealth received in fiscal year 2007 for The Bank of Kentucky Center. As a result of the significant investment in its campus facilities in recent years, net capital assets have grown to $285.0 million, or 70.3 percent of total assets as of June 30, 2008.

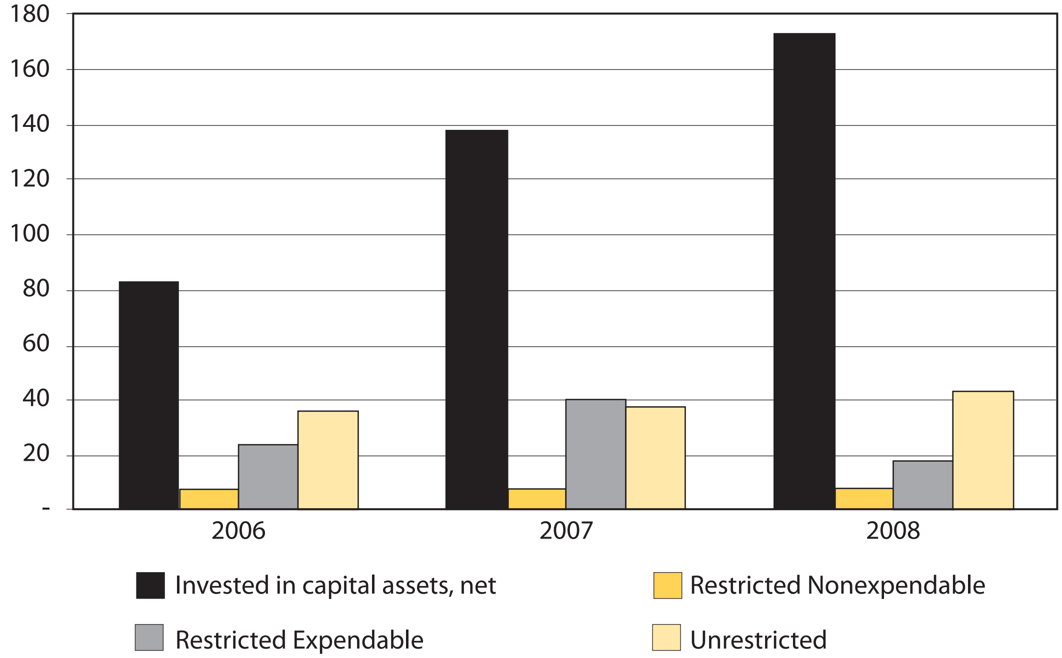
Liabilities

At June 30, 2008, the University's liabilities totaled $164.4 million compared to the previous year's $148.3 million. This $16.1 million increase in liabilities resulted from a $19.6 million increase in noncurrent liabilities and a $3.5 million decrease in current liabilities. The noncurrent liabilities increased primarily due to a $10.8 million growth in the noncurrent portion of the University's outstanding long-term debt which resulted from the issuance of $19.5 million in general receipt bonds to finance the acquisition and renovation of a student housing facility. Bonds, notes and capital leases payable for educational buildings, student housing and dining facilities, software and equipment represented $116.6 million, or 70.9 percent, of total liabilities at June 30, 2008.

The University's total liabilities increased by $75.1 million, or 84.2 percent, from June 30, 2006 to June 30, 2008. This increase resulted from an increase in current liabilities of $9.0 million, or 29.0 percent, and an increase in noncurrent liabilities, including bonds, notes and capital leases payable, of $66.1 million, or 113.8 percent.

Net Assets

The following chart illustrates the University's net assets for fiscal years 2006, 2007 and 2008 (amounts are presented in millions).



Net assets at June 30, 2008 totaled $241.3 million, or 59.5 percent, of total assets. Net assets invested in capital assets, net of related debt, totaled $173.0 million, or 71.7 percent, of total net assets. Restricted and unrestricted net assets represented 10.5 percent and 17.8 percent of total net assets, respectively. Total net assets increased by $18.1 million, or 8.1 percent at June 30, 2008 compared to June 30, 2007. Net assets invested in capital assets, net of related debt, increased $35.1 million primarily as a result of the completion of The Bank of Kentucky Center. The majority of the $54 million capital appropriation received by the University during fiscal year 2007 for this facility was expended during 2008 resulting in an increase in net assets invested in capital assets, net of related debt and a corresponding increase in restricted expendable net assets which declined by $22.4 million for the year. The University's unrestricted net assets increased by $5.4 million for the year primarily due to the delay in expenditures related to construction projects and increases in operating reserves related to the student union and auxiliary operations.

The University's net assets increased by $91.7 million, or 61.2 percent, from June 30, 2006 to June 30, 2008. Net assets invested in capital assets, net of related debt increased $90.1 million. Restricted expendable net assets decreased by $5.8 million while unrestricted net assets increased by $7.4 million from June 30, 2006 to June 30, 2008.

Statement of Revenues, Expenses and Changes in Net Assets

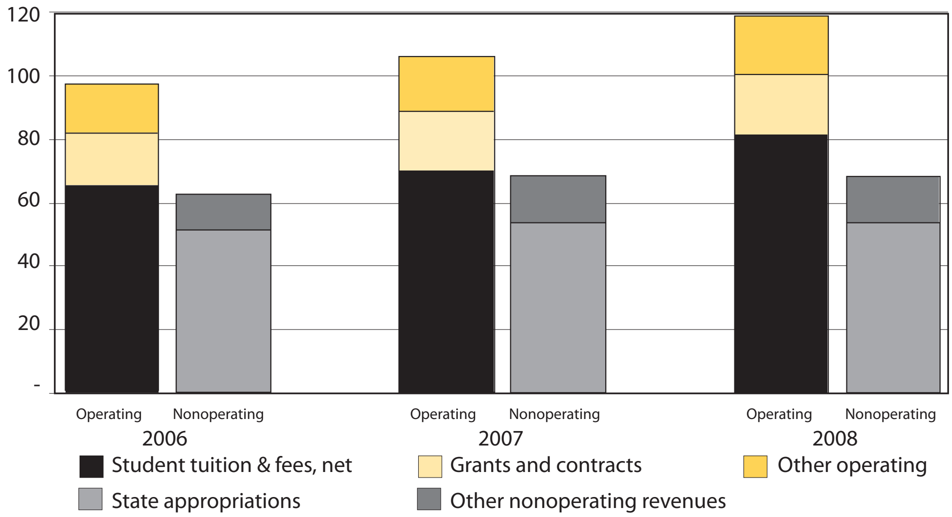
The statement of revenues, expenses and changes in net assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. GASB requires state appropriations and nonexchange grants and contracts to be classified as nonoperating revenues. 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)

	2008	2007	2006
OPERATING REVENUES			
Student tuition and fees, net	$ 81,679	$ 70,447	$ 65,530
Grants and contracts	18,457	18,559	16,571
Sales and services of educational departments	4,357	3,216	3,224
Auxiliary enterprises	7,331	6,591	6,295
Other operating revenues	7,016	7,291	5,674
Total operating revenues	118,840	106,104	97,294
OPERATING EXPENSES			
Educational and general	155,788	140,033	128,121
Depreciation	9,459	8,251	7,504
Auxiliary enterprises (including depreciation)	4,484	4,301	4,005
Other expenditures	107	106	188
Total operating expenses	169,838	152,691	139,818
Net loss from operations	(50,998)	(46,587)	(42,524)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	53,677	53,876	51,334
Gifts and grants	9,908	8,316	7,389
Investment income	4,499	6,004	3,585
Interest on capital asset–related debt	(3,388)	(2,803)	(3,022)
Other nonoperating revenues (expenses)	(36)	(297)	150
Net nonoperating revenues	64,660	65,096	59,436
Income (loss) before other revenues, expenses, gains or losses	13,662	18,509	16,912
Capital appropriations	-	54,000	102
Capital grants and gifts	4,424	1,067	1,537
Total other revenues	4,424	55,067	1,639
Increase in net assets	18,086	73,576	18,551
Net assets-beginning of year	223,256	149,680	131,129
Net assets-end of year	$ 241,342	$223,256	$149,680

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 2006, 2007 and 2008. Significant recurring sources of revenues, including state appropriations and nonexchange grants and contracts 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 $186.9 million for the year ended June 30, 2008. Operating revenues totaled $118.8 million, or 63.6 percent of revenues, while nonoperating revenues reached $68.1 million, or 36.4 percent of revenues, for the year. The most significant sources of revenue for the University are net student tuition and fees (43.7 percent) and state appropriations (28.7 percent).

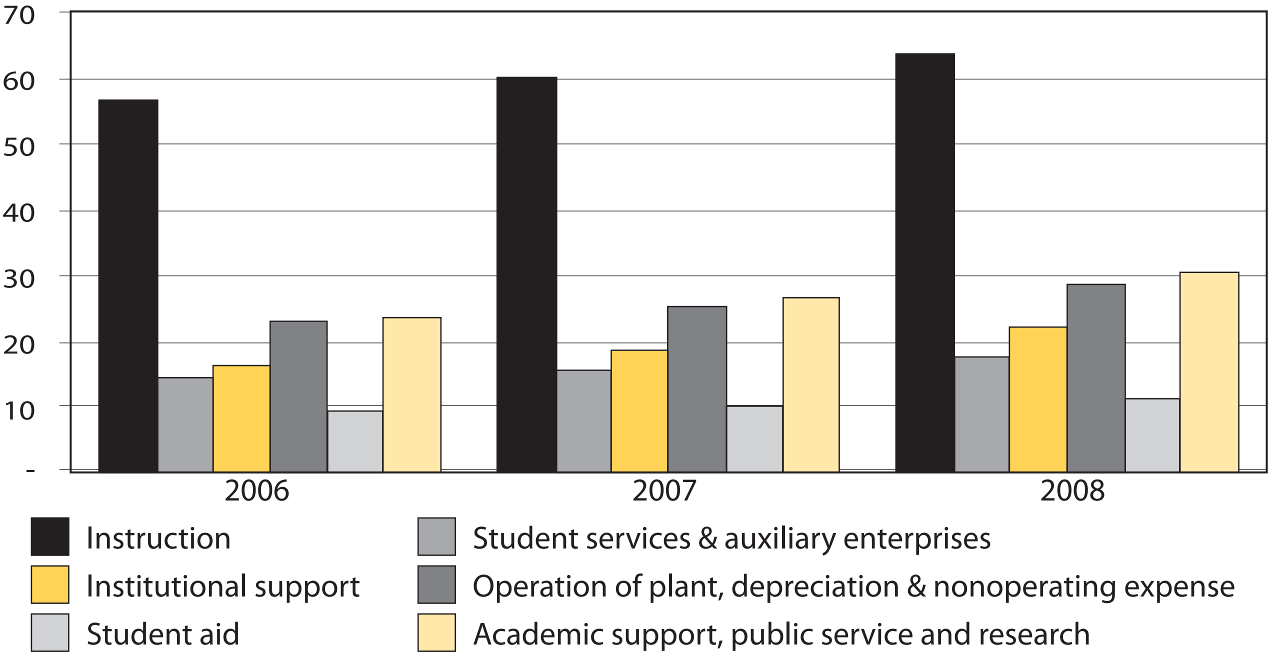
The University's operating revenues increased by $12.7 million for the year ended June 30, 2008, led by a $11.2 million increase in net tuition and fees. Noteworthy increases in revenues from sales and services of educational departments ($1.1 million) and auxiliary enterprises ($0.7 million) were also realized and demonstrate the University's continued effort to diversify revenue sources.

Nonoperating revenues declined slightly for the year. The University's nonexchange grant revenues increased by $1.6 million for the year, largely due to a $1.1 million increase in federal Pell grants for our students. This increase was offset by a $0.2 million decline in the University's state appropriations and a $1.5 million decrease in investment income, resulting in a $0.1 million decline in nonoperating revenues for the year.

The University's nonoperating revenues, including state appropriations, have increased by $5.6 million since June 30, 2006, while the University's operating revenues have increased by $21.5 million. The majority of the growth in operating revenues was fueled by an increase in net tuition of $11.2 million in fiscal year 2008 and $4.9 million in fiscal year 2007. The growth in net tuition resulted from an average tuition rate increase of 8.7 percent for fiscal year 2008 and 8.4 percent for fiscal year 2007, 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 2006, 2007 and 2008 (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 $63.7 million (36.8 percent), and academic support, libraries, public service and research $30.3 million (17.5 percent). Operating and nonoperating expenses increased by $17.5 million, or 11.2 percent, to a total of $173.3 million for the year ended June 30, 2008.

A significant part of this increase resulted from a $7.4 million, or 8.5 percent, growth in instructional, research, public service, libraries 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's resource allocations are clearly aligned with the University's strategic priorities and its commitment to academic excellence and community outreach.

The University's continued investment in student financial aid programs, enrollment management and student retention and engagement initiatives reflects the University's commitment to supporting student access and the opportunity to succeed. For the year ended June 30, 2008, student financial aid expenses increased by $1.3 million, or 12.8 percent, while tuition scholarship allowances increased by $1.2 million, or 8.8 percent. Student services increased by $1.9 million, or 16.7 percent of operating and nonoperating expenses, for the year.

Increased expenses related to the implementation of new information systems contributed to the $3.4 million, or 18.3 percent, increase in institutional support expenses for the year. Operation of maintenance of plant expenses increased by $1.9 million, or 13.5 percent, for the year. Depreciation expenses, excluding auxiliary depreciation, totaled $9.5 million for the year, representing a 14.6 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)

	2008	2007	2006
Net cash provided (used) by:			
Operating activities	$ (30,577)	$ (34,092)	$ (32,835)
Noncapital financing activities	71,231	60,885	59,284
Capital and related financing activities	(90,185)	47,079	(16,371)
Investing activities	4,360	5,182	3,490
Net increase (decrease) in cash	(45,171)	79,054	13,568
Cash and cash equivalents, beginning of year	141,226	62,172	48,604
Cash and cash equivalents, end year	$ 96,055	$141,226	$ 62,172

The University's cash and cash equivalents decreased $45.2 million in 2008 as compared to an increase of $79.1 million in 2007. Cash provided by operating and noncapital financing activities increased by a combined $13.9 million for 2008 and $0.3 million for 2007. Total cash used by capital and related financing activities totaled $90.2 million for 2008 resulting from the expenditure of bond proceeds issued and capital appropriations received in 2007. Purchases of capital assets totaled $90.5 million for the year as compared to $57.3 the prior year.

Major sources of funds included in operating activities are student tuition and fees ($80.4 million) and grants and contracts ($19.7 million). The largest cash payments for operating activities were made to employees ($112.5 million) and to vendors and contractors ($37.5 million).

The University's cash receipts from operating activities increased by $20.5 million, or 20.5 percent, from 2006 to 2008. Conversely, cash disbursements for operating activities increased by only $18.2 million, or 13.7 percent, from 2006 to 2008, resulting in a net $2.3 million increase in net cash provided by operating activities.

Capital Asset and Debt Administration

Capital Assets

Capital assets, net of accumulated depreciation, increased by $79.9 million for the year ended June 30, 2008. Depreciation expenses and net capital asset disposals totaled $10.7 million for the year. Additions to capital assets during the year totaled $90.6 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 $285.0 million, or 70.3 percent of total assets as of June 30, 2008.

The University's net capital assets grew by $127.8 million from June 30, 2006 to June 30, 2008, with increases of $79.9 million in 2008 and $47.9 million in 2007. 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, 2008, the University had several major capital construction projects nearing completion, 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.

Debt

The following is a summary of the University's outstanding debt summarized by revenue pledge as of June 30, 2008, 2007 and 2006 (in thousands):

	2008	2007	2006
General Receipts Bonds	$ 68,125	$ 48,660	$ -
Consolidated Educational Buildings Revenue Bonds	21,010	23,900	28,975
Housing and Dining System Revenue Bonds	2,455	2,695	2,930
Capital lease – Residential Village/Suites	18,657	20,229	21,733
Notes payable and municipal lease obligations	6,322	23,122	15,079
	$ 116,569	$ 118,606	$ 68,717

For the year ended June 30, 2008, the University's outstanding debt decreased by $2.0 million. This decrease is the net result of the issuance of $19.5 million in General Receipts bonds to finance the acquisition and renovation of a student housing facility less principal payments of $6.7 million and the retirement of $14.8 million in notes payable as described below.

For the year ended June 30, 2007, the University's outstanding debt had increased by $49.9 million for the year. 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.

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. 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.

During the fiscal year the University completed a comprehensive business plan that defines 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 was shaped by the Vision 2015 regional goals for Northern Kentucky and the Tri-County Economic Development Corporation (Tri-ED) Policom analysis. 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.

The business plan represents a comprehensive, all-funds approach to meeting the postsecondary education needs of the University's students, the Northern Kentucky region and the Commonwealth of Kentucky. With regional and state support, the University's successful implementation of this plan will serve as a catalyst for meeting the Council on Postsecondary Education's ambitious "Double the Numbers" enrollment targets as well as significantly enhancing Kentucky's employment and associated revenue growth. 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. The University's business plan demonstrates 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.

The University's state funding improved with a combined $10.8 million increase in operating appropriations for fiscal years 2006 and 2007. Unfortunately, as a result of negative economic conditions and other budget pressures the Commonwealth reduced the University's 2008 operating appropriation by 3 percent, or $1.65 million, as part of a statewide nonrecurring budget cut. In addition, the Commonwealth reduced the University's fiscal year 2009 recurring operating appropriation by 6 percent, or $3.3 million. The budget cuts were absorbed primarily through a reallocation process that required every division of the University to answer the question "Is what we are funding now more important than other things we should be funding?" In response to the continued economic uncertainty and budget pressures the Commonwealth faces, the University is maintaining a budget reserve that will allow the University to respond to further state budget cuts without disrupting its core functions, at least in the short term.

While improved state funding is critical to the University's future success, management is continuing its efforts to diversify revenue sources and contain costs. The University's business plan incorporates strategies to diversify and strengthen its tuition base and 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's enrollment continues to increase not only in size but in quality. A record number of students were welcomed for fall 2008. The incoming class is the most academically prepared class in University history, including a 12 percent increase in the number of scholarship recipients scoring 27 or above 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 has been transformed with the addition of the 10,000-seat Bank of Kentucky Center and a new Student Union. Both buildings will enhance not only the quality of campus life but also the University's ability to recruit and retain the best and brightest students. These facilities will provide additional opportunities to support community outreach events. The University's recruitment efforts also were enhanced this year with the addition of new student housing that increased the total number of resident students to over 1,800. The University's business plan calls for the University to increase its on campus student housing to over 4,000 beds by the year 2020.

The University is making 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. The University's strategic planning process has enabled it to continue to make progress in all areas of its mission despite the current economic environment and related budget uncertainty.

Northern Kentucky University and Affiliate
Consolidated Statements of Net Assets
June 30, 2008 and 2007
(in thousands)

	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents	$ 76,054	$ 65,091
Notes, loans and accounts receivable, net	8,837	8,780
Other current assets	1,710	1,714
Total current assets	86,601	75,585
Noncurrent Assets		
Cash and cash equivalents	20,001	76,135
Investments	10,039	11,149
Notes, loans and accounts receivable, net	2,093	1,903
Capital assets, net	285,041	205,186
Other noncurrent assets	1,928	1,619
Total noncurrent assets	319,102	295,992
Total assets	405,703	371,577
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	25,224	15,805
Deferred revenue	6,429	6,594
Long-term liabilities-current portion	8,558	21,363
Total current liabilities	40,211	43,762
Noncurrent Liabilities		
Deposits	9,345	1,143
Deferred revenue	3,611	3,240
Long-term liabilities	111,194	100,176
Total noncurrent liabilities	124,150	104,559
Total liabilities	164,361	148,321
NET ASSETS		
Invested in capital assets, net of related debt	172,961	137,857
Restricted		
Nonexpendable	7,616	7,616
Expendable	17,768	40,171
Unrestricted	42,997	37,612
Total net assets	$ 241,342	$223,256

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Statements of Financial Position
As of June 30, 2008 and 2007
(in thousands)

	2008	2007
ASSETS		
Cash and cash equivalents	$ 7,396	$ 11,438
Loans, interest and accounts receivable, net	219	282
Contributions receivable, net	10,241	9,065
Prepaid expenses and deferred charges	64	25
Investments	50,338	53,200
Land, buildings and equipment	2,891	2,891
Accumulated depreciation	(176)	(169)
Total Assets	70,973	76,732
LIABILITIES AND NET ASSETS		
Accounts payable	540	372
Agency fund	-	5,532
Annuities payable	88	127
Deferred income	25	25
Funds held in trust for Northern Kentucky University	9,485	10,435
Notes payable	6,525	2,100
Total Liabilities	16,663	18,591
NET ASSETS		
Unrestricted		
For current operations	358	450
For designated purpose	527	190
Contributions receivable	46	35
Amounts functioning as endowment funds	2,145	2,376
Invested in property, plant and equipment	615	622
Total unrestricted	3,691	3,673
Temporarily restricted		
Unexpended funds received for restricted purposes	886	4,997
Contributions receivable	6,578	6,828
Loan funds	142	140
Endowment funds	17,978	19,601
Total temporarily restricted	25,584	31,566
Permanently restricted		
Contributions receivable	3,618	2,201
Endowment funds	21,417	20,701
Total permanently restricted	25,035	22,902
Total Net Assets	54,310	58,141
Total Liabilities and Net Assets	$ 70,973	$ 76,732

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, 2008 and 2007
(in thousands)

	2008	2007
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of $15,411 in 2008 and $14,163 in 2007)	$ 81,679	$ 70,447
Federal grants and contracts	3,832	3,277
State and local grants and contracts	12,105	12,646
Nongovernmental grants and contracts	2,520	2,636
Sales and services of educational departments	4,357	3,216
Auxiliary enterprises		
Residence Halls (net of scholarship allowances of $117 in 2008 and $95 in 2007)	929	923
Residential Village (net of scholarship allowances of $350 in 2008 and $301 in 2007)	4,684	4,580
Other auxiliaries	1,718	1,088
Other operating revenues	7,016	7,291
Total operating revenues	118,840	106,104
OPERATING EXPENSES		
Educational and general		
Instruction	63,683	60,062
Research	1,445	1,482
Public service	9,504	7,479
Libraries	4,325	4,181
Academic support	15,015	13,415
Student services	12,949	11,082
Institutional support	21,963	18,571
Operation and maintenance of plant	15,620	13,761
Depreciation	9,459	8,251
Student aid	11,284	10,000
Auxiliary enterprises		
Residence Halls	675	691
Residential Village	1,841	1,689
Other auxiliaries	753	860
Auxiliary depreciation	1,215	1,061
Other expenses	107	106
Total operating expenses	169,838	152,691
Net loss from operations	(50,998)	(46,587)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	53,677	53,876
Gifts and grants	9,908	8,316
Investment income	4,499	6,004
Interest on capital asset-related debt	(3,388)	(2,803)
Other nonoperating revenues (expenses)	(36)	(297)
Net nonoperating revenues	64,660	65,096
Income before other revenues, expenses, gains or losses	13,662	18,509
Capital appropriations	-	54,000
Capital grants and gifts	4,424	1,067
Total other revenues	4,424	55,067
Increase (decrease) in net assets	18,086	73,576
NET ASSETS		
Net assets-beginning of year	223,256	149,680
Net assets-end of year	$241,342	$223,256

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Statement of Activities
For the Year Ended June 30, 2008
(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	$ 523	$ 3,812	$ 2,133	$ 6,468
Rental income	107	3	-	110
Investment income	304	758	-	1,062
Net gains (losses) on investments	(199)	(3,727)	-	(3,926)
Other revenue	9	705	-	714
Total Revenues and Gains	744	1,551	2,133	4,428
Net Assets Released from Restrictions	7,699	(7,699)	-	-
Total Revenues and Gains and Other Support	8,443	(6,148)	2,133	4,428
Program Expenses				
Instruction	454	-	-	454
Research	4	-	-	4
Public service	774	-	-	774
Libraries	27	-	-	27
Academic support	256	-	-	256
Student services	225	-	-	225
Institutional support	639	-	-	639
University facilities and equipment	4,408	-	-	4,408
Student financial aid	1,008	-	-	1,008
Total Program Expenses	7,795	-	-	7,795
Support Expenses				
Management and general	192	-	-	192
Fundraising support	93	-	-	93
Rental property	179	-	-	179
Total Support Expenses	464	-	-	464
Total Expenses	8,259	-	-	8,259
Net transfers in (out)	(166)	166	-	-
Increase (Decrease) in Net Assets	18	(5,982)	2,133	(3,831)
Net Assets - Beginning of Year	3,673	31,566	22,902	58,141
Net Assets - End of Year	$ 3,691	$ 25,584	$ 25,035	$ 54,310

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
University facilities and equipment	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 and Affiliate
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2008 and 2007
(in thousands)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 80,435	$ 71,792
Grants and contracts	19,716	16,009
Payments to suppliers	(37,536)	(34,066)
Payments for salaries and benefits	(112,548)	(103,488)
Loans issued to students	(550)	(828)
Collection of loans to students	338	885
Auxiliary enterprise receipts:		
Residence Halls	948	919
Residential Village	4,774	4,436
Other auxiliaries	1,829	1,021
Sales and service of educational departments	4,101	3,193
Other receipts (payments)	7,916	6,035
Net cash used by operating activities	(30,577)	(34,092)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	53,677	53,876
Gifts and grants for other than capital purposes	9,908	7,374
Agency and loan program receipts	70,801	55,852
Agency and loan program disbursements	(63,214)	(55,794)
Other nonoperating receipts (payments)	59	(423)
Net cash provided by noncapital financing activities	71,231	60,885
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from capital debt and leases	19,095	57,728
Capital appropriations	-	54,000
Capital grants, gifts, and advances received	5,399	4,087
Purchases of capital assets	(90,529)	(57,262)
Principal paid on capital debt and leases	(21,367)	(8,708)
Interest paid on capital debt and leases	(2,783)	(2,766)
Net cash provided (used) by capital financing activities	(90,185)	47,079
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	225	625
Purchases of investments and investment pool shares	-	(1,470)
Interest on investments	4,135	6,027
Net cash provided by investing activities	4,360	5,182
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(45,171)**	**79,054**
Cash and cash equivalents-beginning of year	141,226	62,172
Cash and cash equivalents-end of year	$ 96,055	$ 141,226
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES:		
Net loss from operations	$ (50,998)	$ (46,587)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	10,674	9,312
Changes in assets and liabilities:		
Receivables, net	59	(2,393)
Other assets	8	(580)
Accounts payable	9,320	4,792
Deferred revenue	205	1,136
Long-term liabilities	155	228
Net cash used by operating activities	$ (30,577)	$ (34,092)

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, Inc. (the 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 (firstin, firstout 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, nonexchange grants and contracts, 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, 2008, and 2007, the Foundation made payments on behalf of the University of $2,269,000 and $2,120,000, respectively. In addition, the Foundation transferred to the University $5,526,000 in 2008 and $1,373,000 in 2007 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, 2007, in order to conform to classifications used for the year ended June 30, 2008.

n. Recent Accounting Pronouncements

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. The University anticipates that this statement will have no impact 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. The University has not yet evaluated the impact that the adoption of this statement will have on its financial statements.

In November 2007, the GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments.* This statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. The statement requires endowments to report land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The provisions of this statement are effective for financial statements for fiscal periods beginning after June 15, 2008. The University anticipates that this statement will have no impact on its financial statements.

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments, including public colleges and universities. Derivative instruments are often complex financial arrangements used by governments to manage specific risks of to make investments. The provisions of this statement are effective for financial statements for fiscal periods beginning after June 15, 2009. The University 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, 2008, petty cash funds totaled $18,000 and the carrying amount of the deposits was $96,037,000 with a corresponding total bank balance of $96,938,000. Of the bank balance, $20,640,000 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 $76,298,000 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, 2008:

		Investment Maturities	
Investment Type	**Fair Value**	**Less than One Year**	**One to Five Years**
U.S. Treasury Securities	$ 572,000	$ -	$ 572,000
Total	$ 572,000	$ -	$ 572,000
Foundation Endowment Pool	$ 9,467,000		
Total Investments	$ 10,039,000		

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, 2007:

		Investment Maturities	
Investment Type	**Fair Value**	**Less than One Year**	**One to Five Years**
U.S. Treasury Securities	$ 787,000	$ 125,000	$ 662,000
Total	$ 787,000	$ 125,000	$ 662,000
Foundation Endowment Pool	$ 10,362,000		
Total Investments	$ 11,149,000		

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, 2008, 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, 2008 and 2007 are as follows (in thousands):

	2008		
	Gross Receivable	**Allowance**	**Net Receivable**
Student loans	$ 2,992	$ (422)	$ 2,570
Student account receivables	4,516	(2,078)	2,438
Reimbursement receivable grants and contracts	2,465	-	2,465
Other	3,506	(49)	3,457
Total	$ 13,479	$ (2,549)	$ 10,930
Current portion			8,837
Noncurrent portion			2,093
Total			$ 10,930

	2007		
	Gross Receivable	**Allowance**	**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

Note 4 – Capital Assets, net

Capital assets for the years ended June 30, 2008 and 2007 are summarized as follows (in thousands):

	July 1, 2007	Additions	Reductions	June 30, 2008
Cost:				
Land	$ 5,167	$ 601	$ -	$ 5,768
Land improvements	10,377	4,862	21	15,218
Buildings	209,449	109,504	37	318,916
Equipment	29,015	7,132	23	36,124
Library books	28,414	1,806	140	30,080
Construction in process	46,323	-	33,346	12,977
	328,745	123,905	33,567	419,083
Accumulated Depreciation				
Land improvements	2,053	282	10	2,325
Buildings	86,516	5,727	18	92,225
Equipment	14,450	3,338	23	17,765
Library books	20,540	1,327	140	21,727
	123,559	10,674	191	134,042
Capital assets, net	$205,186	$ 113,231	$ 33,376	$285,041

	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

As of June 30, 2008 and 2007, the net book value of land, buildings and equipment acquired through capital leases included in the above schedules totaled $23,813,000 and $24,084,000 respectively, including buildings of $20,981,000 and $19,211,000.

Note 5 – Accounts Payable, Accrued Liabilities and Deposits

Accounts payable and accrued liabilities as of June 30, 2008 and 2007 are as follows (in thousands):

	2008	2007
Payable to vendors and contractors	$ 18,416	$ 10,295
Accrued expenses, primarily payroll and vacation leave	4,544	3,598
Employee withholdings and deposits payable to third parties	2,264	1,912
	$ 25,224	$ 15,805

Deposits held at June 30, 2008 and 2007 are $9,345 and $1,143, respectively, including agency deposits held by the Research Foundation at June 30, 2008 and 2007 of $7,788 and $0, respectively.

Note 6 – Deferred Revenue

Deferred revenue as of June 30, 2008 and 2007 is as follows (in thousands):

	2008	2007
Unearned summer school revenues	$ 3,573	$ 4,606
Unearned grants and contracts revenue	1,341	1,010
Unearned auxiliary revenue	4,306	3,678
Other	820	540
Total	$ 10,040	$ 9,834
Current	6,429	6,594
Noncurrent	3,611	3,240
Total	$ 10,040	$ 9,834

Note 7 – Long-term Liabilities

The changes in long-term liabilities for the years ended June 30, 2008 and 2007 are summarized as follows (in thousands):

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion	Noncurrent Portion
Consolidated Educational Buildings Revenue Bonds	$ 23,900	$ -	$ 2,890	$ 21,010	$ 3,030	$ 17,980
Housing and Dining System Revenue Bonds	2,695	-	240	2,455	250	2,205
ALCo Note	14,750	-	14,750	-	-	-
General Receipts Bonds	48,660	19,465	-	68,125	1,825	66,300
Municipal capital lease obligations	8,372	-	2,050	6,322	1,797	4,525
Capital leases	20,229	-	1,572	18,657	1,656	17,001
Total bonds, notes and capital leases	118,606	19,465	21,502	116,569	8,558	108,011
Faculty retirement and deferred compensation	555	184	29	710	-	710
Federal portion of Perkins loans	2,265	95	-	2,360	-	2,360
Arbitrage rebate liability	113	-	-	113	-	113
Total other liabilities	2,933	279	29	3,183	-	3,183
Total long-term liabilities	$121,539	$ 19,744	$ 21,531	$119,752	$ 8,558	$111,194

	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 System 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	1,026	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	1,152	2,933	1	2,932
Total long-term liabilities	$ 71,665	$ 59,748	$ 9,874	$121,539	$ 21,363	$100,176

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, 2008.

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, 2008.

The outstanding municipal lease obligations as of June 30, 2008 consist of master lease obligations issued through a local bank totaling $2,790,000, with interest rates ranging from 2.59 percent to 4.65 percent, and a lease obligation of $3,532,000, 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, 2008 consist of two student housing facility leases of $5,390,000 and $13,267,000 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.

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 Kentucky Asset/Liability Commission Project Note ("ALCo") notes that were issued to provide short term financing for the student union. The short term notes were retired in July 2007.

The outstanding obligation as of June 30, 2008 for the Northern Kentucky University General Receipts Bonds, 2007 Series A is $48,660,000. The interest rate yields range from 3.65 - 4.64 percent through September 2027. The net interest cost is 4.36 percent. The bond proceeds were used for construction of the new student union facility and an additional parking garage.

On June 18, 2008, the University sold $19,465,000 of Northern Kentucky University General Receipts Bonds, 2008 Series A, with interest rate yields ranging from 2.25 - 4.54 percent through September 2028. The net interest cost is 4.30 percent. The bond proceeds will be used for renovation, installation, and equipping Callahan Hall, a student residence hall.

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
2009	8,558	4,608	13,166
2010	8,610	4,479	13,089
2011	7,772	4,127	11,899
2012	7,344	3,780	11,124
2013	4,855	3,492	8,347
2014-2018	17,573	12,158	29,731
2019-2023	25,714	10,920	36,634
2024-2028	36,143	5,436	41,579
Total	$ 116,569	$ 49,000	$ 165,569

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 fulltime 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 $39,550,000 and $36,950,000 for the years ended June 30, 2008 and 2007, respectively. Expenditures for the University's portion amounted to $3,955,000 and $3,695,000 for the years ended June 30, 2008 and 2007, 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, 2008, University employees were required to contribute 5 percent of their annual covered salary and the University was required to contribute 8.5 percent of covered payroll for non-hazardous pay and 24.25 percent for hazardous pay. The University's contributions to KERS for the years ending June 30, 2008, 2007 and 2006 were $2,877,000, $2,359,000, and $1,685,000, 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, 2008 and 2007, were $2,145,000 and $2,141,000, respectively. All compensation deferred under Section 401(k) and resultant assets belong to the plan participants.

d. 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, 2008 and 2007, the University had recognized an accrued vacation liability of $2,594,000 and $2,332,000, 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, 2008 and 2007 (in thousands):

	2008	**2007**
Salaries and wages	$ 90,637	$ 83,521
Employee benefits	23,174	20,320
Utilities	5,089	4,327
Supplies and other services	29,311	25,335
Depreciation	10,674	9,312
Student scholarships and financial aid	10,953	9,876
Total	$ 169,838	$ 152,691

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 2007 to 2008. 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, 2008. 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, 2008 was $14,382,000. 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, 2008 and 2007 (in thousands)

	2008	2007
Assets:		
Current assets	$ 899	$ 775
Noncurrent assets	-	363
Capital assets, net	1,585	1,731
Other	369	-
Total assets	2,853	2,869
Liabilities:		
Current liabilities	370	350
Noncurrent liabilities	2,205	2,455
Total liabilities	2,575	2,805
Net assets (deficit):		
Invested in capital, net of related debt	(870)	(964)
Restricted	745	723
Unrestricted	403	305
Total net assets (deficit)	$ 278	$ 64

Condensed Statements of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2008 and 2007 (in thousands)

	2008	2007
Operating revenues		
Room rental	$ 1,014	$ 976
Board revenue	20	20
Other	13	20
Total operating revenues	1047	1016
Operating expenses	434	524
Depreciation	146	170
Total operating expenses	580	694
Operating income	467	322
Nonoperating revenues	63	56
Nonoperating expenses	(88)	(100)
Excess of revenues over expenses	442	278
Transfers (to) from other University units	(228)	24
Increase (decrease) in net assets	214	302
Net assets (deficit), beginning of year	64	(238)
Net assets (deficit), end of year	$ 278	$ 64

Condensed Statements of Cash Flows for the years ended June 30, 2008 and 2007 (in thousands)

	2008	2007
Net cash flows provided by operating activities	$ 643	$ 313
Net cash flows provided by investing activities	62	56
Net cash flows used by capital and related financing activities	(551)	(313)
Net increase in cash and cash equivalents	154	56
Cash and cash equivalents, beginning of year	1,118	1,062
Cash and cash equivalents, end of year	$ 1,272	$ 1,118

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.

At various times throughout the year, the Foundation may have cash in certain financial institutions in excess of insured limits. At June 30, 2008 and 2007, the carrying amount of the Foundation's cash and cash equivalents was $7,396,000 and $11,438,000, respectively, and the bank balance was $7,342,000 and $11,399,000, respectively. Included in the Foundation's deposits at June 30, 2008 and 2007, are short term government obligation shares of $1,351,000 and $291,000, respectively. Of the remaining balance, $100,000 was insured by federal depository insurance and the remaining was collateralized with securities held by the financial institution's trust department or agent, but not in the Foundation's name.

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. 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 percent 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 (in thousands) of the Foundation's investments as of June 30, 2008 and 2007 are categorized below:

	2008	2007
Type of Investment:		
Short-term money market funds	$ 25	$ 136
Fixed income funds	10,751	7,623
Corporate note	-	1,000
Equity funds and common stock	28,906	37,525
Hedge funds	6,792	5,062
Alternative investments	3,372	1,594
Other	492	260
Total Investments	**$ 50,338**	**$ 53,200**

Investment income and gains (in thousands) for the years ended June 30, 2008 and 2007 consist of:

	2008	2007
Interest	$ 389	$ 260
Dividends	782	506
Fees	(109)	(65)
Total Investment Income	**$ 1,062**	**$ 701**
Realized Gains	$ 2,224	$ 2,402
Unrealized Gaines (Losses)	(6,150)	3,423
Total Investment Gains (Losses)	**$ (3,926)**	**$ 5,825**

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. The fees noted above are only those fees separately stated by the managers.

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, 2008 and 2007 were $9,485,000 and $10,435,000 respectively.

At June 30, 2008, the Foundation had committed $ 10.210 million of its endowment investment resources to alternative investments, of which $6.393 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.

At June 30, 2008, 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 $228,000.

5. Fixed Assets and Depreciation

At June 30, 2008 and 2007, fixed assets consisted of:

	2008	2007
Type of Asset:		
Land	$ 2,682	$ 2,682
Land improvements	208	208
Museum and art collection	1	1
Total Fixed Assets	**$ 2,891**	**$ 2,891**

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. Assets acquired for the museum and art collection are not depreciated. Depreciation expense for the years ended June 30, 2008 and 2007 was $7,000 and $7,000, 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

a. Reclassifications

Certain items have been reclassified for the year ended June 30, 2007, in order to conform to classifications used for the year ended June 30, 2008.

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, 2008. Monthly payments of interest at the lender's floating prime rate less 1.25 percent (3.75 percent at June 30, 2008) were current at June 30, 2008.

On June 30, 2008, the Foundation borrowed $4.425 million on a promissory note collateralized by certain pledges receivable restricted by the donor to partially fund construction of The Bank of Kentucky Center, a multi-purpose athletic and special event facility. Equal annual payments of principal and interest at a rate of 4.31 percent are due beginning August 1, 2009 through August 1, 2014. Accrued interest and principal (in thousands) to be paid over the term of the loan is as follows:

Fiscal Year	Principal	Interest	Total
2009	$ -	$ 194	$ 194
2010	647	168	815
2011	692	137	829
2012	723	106	829
2013	754	73	827
2014-2018	1,609	42	1,651
Total	$ 4,425	$ 720	$ 5,145

Costs of $33,700 associated with obtaining the loan are being amortized over the 73 month term of the note. The $4.391 million net proceeds of the loan were immediately subgranted to Northern Kentucky University to be applied toward construction costs of The Bank of Kentucky Center. The subgrant is reported in the statement of activities as a program expense under University facilities and equipment.

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, 2008 and 2007, the Foundation recognized contributions based on the following unconditional promises to give (in thousands):

	2008	2007
Purpose:		
Endowment giving	$ 4,147	$ 3,304
Capital purposes	6,189	6,282
Operating programs	728	751
Gross unconditional promises	**11,064**	**10,337**
Less: Discount and allowance for uncollectable accounts	(823)	(1,272)
Net unconditional promises to give	**$ 10,241**	**$ 9,065**
Amounts due in:		
Less than one year	$ 5,066	$ 3,633
One to five years	4,265	4,889
More than five years	1,733	1,815
Total	$ 11,064	$ 10,337

The discount rates used to calculate the present value of contributions receivable at June 30, 2008 and 2007 are 3.8 percent and 5.6 percent, respectively.

The Foundation has pledged $5.145 million of unconditional promises to give as collateral against a promissory note.

Conditional promises to give are not included as support until such time as the conditions are substantially met. At June 30, 2008, the Foundation had received conditional promises to give of approximately $1,400,000, 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.

This publication was prepared by Northern Kentucky University and printed with state funds (KRS 57.375). Northern Kentucky University does not discriminate on the basis of race, color, national origin, sex, disability, age, religion, marital status, sexual orientation or veteran status in training activities or employment. Educational programs or activities are set forth in accordance with Title IX, Title VI, Title VII, ADA and Section 504. For more information, please contact the Office of Legal Affairs & General Counsel, Lucas Administrative Center 824, Nunn Drive, Highland Heights, KY 41099, (859) 572-5588, which has been designated to coordinate the school's efforts to comply with the aforementioned regulations. 12611

NORTHERN KENTUCKY UNIVERSITY

Nunn Drive
Highland Heights, Kentucky 41099

www.nku.edu