NKU
NORTHERN KENTUCKY UNIVERSITY

2010-2011 Financial Report

2010-2011 Financial Report

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Current as of June 30, 2011

Northern Kentucky University and Affiliate
A Component Unit of the Commonwealth of Kentucky
Annual Financial Report
2010-2011

Table of Contents

September 16, 2011

Northern Kentucky University Board of Regents
Highland Heights, KY 41099

Dear Members of the Board:

It is my pleasure to transmit the university's 2010-11 Annual Financial Report. In the midst of the current prolonged economic recession NKU has maintained a strong financial position while continuing to make significant progress. This has been accomplished through the strategic reallocation of cost savings realized from operational efficiencies and a growth in revenue. Total net assets increased by $43.5 million, or 15.8 percent, for fiscal year 2010-11 resulting from income before other revenues, expenses, gains or losses of $9.3 million and capital appropriations, grants and gifts of $34.2 million. NKU is well positioned to achieve its strategic priorities in partnership with the Commonwealth, the Council on Postsecondary Education and the region.

Fourteen years ago, Kentucky embarked on the most ambitious postsecondary education reform movement in the nation. Why? Because state leaders recognized that, in order for Kentucky to thrive in the new knowledge-based economy, higher education must have the strength to lead.

NKU embraced that bold dream and began one of the most dynamic periods in our history. In 1997, we were a young, open-admission university that served both a community college and four-year university mission. Well, we are young no more! We are a mature, modern, metropolitan university, recognized both locally and nationally for our contributions to our students and the larger public whom we serve.

For the third straight year, *Forbes* magazine lists us among the nation's best colleges and our students continue to perform with distinction in national competitions, most recently winning the International Odyssey of the Mind competition held at the University of Maryland. Still, we remain a "people's university" offering access and opportunity to those who might otherwise be denied.

The state of the university is strong and our future is bright in spite of the uncertainty that continues to surround us. We've demonstrated our capacity to adapt and focus and innovate in response to the changing forces that are shaping our future.

The strength of the university can be found throughout our campus.

It can be found in the clarity of our mission. Fourteen years ago, we established a vision for our university, a set of core values that would guide our work and six strategic priorities. We were emphatic that strong undergraduate education would stand at our core, surrounded by high-quality graduate programs that would respond to regional needs.

We made a commitment to selective areas of research excellence, along with world-class public engagement that addresses society's most significant challenges consistent with our mission. While times have changed, these commitments have not—and will not as we go forward. In short, we know who we are and we're committed to excellence in what we do.

Our strength can be found in our faculty who come from some of the finest universities in the nation and who possess not only a deep understanding of their disciplines but also a steadfast commitment to our students and to excellence across the full breadth of our mission.

Our strength can be found in our students. In 1997, we were virtually an open-admission university. As recently as five years ago, we received about 3,000 undergraduate applications for 2,000 spaces. This fall, we received more than 7,000 applications for 2,200 spaces.

The university's brand value has never been stronger. But there's more to the story.

This is the strongest entering class in our history and represents a new era in our student academic preparedness. Our message to high school students is this: If you want to attend NKU, you must demonstrate that you're prepared.

The diversity of our entering class was again stronger and we saw a record number of international students, more than 450 compared to 349 last year. This past year, we also had a record 318 of our domestic students study abroad. In this age, when global understanding has never been more important, university campuses should reflect a window on the world. NKU is meeting that standard.

Our strength can be found in the quality and breadth of our curriculum. Over the last ten years, the number of undergraduate degree programs has grown from 52 to 70 and the number of master's degree programs has grown from 10 to 49. In addition NKU has added two professional doctoral programs. All of these programs were added in response to regional demand.

Also reflecting our curricular strength was the creation of a new general education program, which is aligned with best practice nationally and introduces a new level of curricular coherence and integration. Yet another important curricular development is every academic program has in place a course scheduling plan that allows students to graduate in four years.

NKU's strength can be found in our strong commitment to student success. Over the past two years, we have seen a nearly seven-percent increase in our six-year graduation rate. Rarely does a campus make this degree of progress in such a short time. And we expect these numbers to continue to increase in the coming years.

NKU's strength can be found in our public engagement. Universities throughout the nation look to NKU for leadership in how universities can better support economic development, enhanced P-12 education, improved healthcare delivery, regional planning and a host of other public priorities.

Our strength can be found in our collegial governance process. Difficult financial times can lead to stress fractures in a campus governance process. As we've grappled with the impact of the current recession, our Faculty Senate, Staff Congress, and Student

Government Association have offered valuable counsel and insight. They have joined the administration in charting a path through this period of uncertainty.

Our strength can be found in the continuing expansion, renovation, and beautification of our campus. This fall we opened Griffin Hall, the stunning new home for the College of Informatics and our first LEED-certified “green” building. This facility will not only support the work of our informatics faculty and students but will offer a window on the future of technology-enhanced teaching and learning on university campuses far beyond our own.

In addition to the new home for Informatics, the Haile/US Bank College of Business has moved into what used to be AS&T, giving the college an enhanced and more visible identity. Mathematics has moved to the former BEP building, and a host of other moves have also taken place. In total, more than 500 offices have been moved this summer, and we’ve replaced our classroom furniture and renovated several classrooms and lecture halls. We’ve also continued the beautification of campus by renovating the West Quad and walkways throughout the plaza area and beyond, as well as through landscaping various areas throughout the University grounds.

NKU’s strength can be found in our public support. During the past decade, we’ve received over $31 million in federal support that has directly supported advancing our mission. The state, led by the governor and General Assembly, also has supported NKU, and has done its best to protect higher education from the funding cuts that have befallen other states.

As for private support, we continue to show strength in our major gifts, annual giving, and alumni giving, all of which continue to increase even in these difficult financial times. Through excellent NKU Foundation leadership, our endowment has grown from 12 million in 1997 to nearly $70 million in 2011.

Finally, and most importantly, a defining strength of our campus can be found in our people—faculty, staff and administrators who share a vision for the university and are willing to do all that’s necessary to achieve it, no matter the challenges.

Over my 14 years as president, I’ve seen this leadership and commitment at every level, never more so than in the past couple of years. In response to significant budget reductions, we had two choices: We could hunker down and wait for the state or some other ‘white knight’ to rescue us; or we could come together and take control of our own future. We chose the latter and it’s made all the difference.

NKU is a strong, resilient and adaptive university because we’ve chosen to be strong, resilient and adaptive. We’ve chosen to focus our mission, make tough decisions about priorities, and take control of our future. The result is that, despite challenging times, we are stronger both academically and financially than at any time. And our momentum has been sustained!

Turning to the future, our major effort this year will be to begin a new and enhanced academic advising system that reflects our steadfast commitment to student success. Included in this initiative will be the renovation of the University Center to be a Center for Student Success, which will house many of our academic and student support services.

This year we will move forward with the reclassification of our intercollegiate athletic program to NCAA Division I. Much more than athletics, this move is about branding and positioning the university with universities who are more like who we are today and who we want to become tomorrow. NKU is Division I in every respect based on the size of our enrollments, the quality and breadth of our academic programs, the strength of our faculty and staff, and our performance across the full breadth of our teaching, research, and outreach mission.

We will focus this year on two capital projects important to our future. The construction of a new Health Innovations Center to house all of our health related programs is our first priority. Proposed by our students, we’ll also begin designing a new student-funded campus recreation facility. This new facility will improve our quality of life and better position NKU to recruit and retain high-performing students, faculty and staff. Finally, the times require that we spend this year further focusing and integrating our campus priorities as well as attending to both strategy and execution.

We’ll have one additional priority this year—the selection of a new president. The timing for me to step down and this transition to take place could not be better. The university is strong and well positioned for the times in which we live. It’s also the case that at this point in our lives, Rachel and I would like to achieve a better balance and a bit more freedom in our lives. I plan to remain at NKU as a professor of educational leadership and will continue my involvement at the national, state, and local levels in issues that I care deeply about. Northern Kentucky is our home and Rachel and I will continue to be actively involved in the community.

It’s been a great honor to represent both our university and our community. I’ve had 14 years working with what the Association of Governing Boards describes as one of the strongest governing boards in the country. I’ve had the privilege of working side by side with some of the most talented and committed administrators, faculty and staff I’ve ever known. And Rachel and I have had the opportunity to work with an enormous array of talented and committed leaders from throughout this region and beyond on initiatives that make a difference in the lives of others.

We should celebrate that Northern Kentucky University has come of age as a fully mature, modern, metropolitan university. We are poised for the future, whatever it may involve. In a thousand different ways, our work speaks on behalf of the most important and noble virtues that anyone could ever embrace. And together we’ve worked to make the university a foundation on which our students and our community can translate dreams into reality. Is there any more important work we could be doing? I don’t think so.

I want to thank the Board of Regents and the entire university community for the opportunity to travel together in this important work.

Sincerely,

James C. Votruba
President

DEAN||DORTON||ALLEN||FORD

Independent Auditors' Report

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 year ended June 30, 2011, 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 audit. The financial statements for the University as of and for the year ended June 30, 2010, were audited by other auditors whose report dated September 30, 2010, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, 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, 2011, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Letter from the President on pages 1 and 2 is not a required part of the basic financial statements. We did not audit the information presented in the letter and express no opinion on it. The Management's Discussion and Analysis on pages 4 through 11 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.

Dean Dorton Allen Ford, PLLC

September 30, 2011
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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, 2011, with selected comparative information for the years ended June 30, 2010 and 2009. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and notes.

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 has made great strides towards achieving the goals identified in its 2007-2012 strategic plan, *The Talent Imperative*. The University continues to focus its limited resources on the most critical areas of the strategic plan that will be the most beneficial to the region and the Commonwealth. The region's economic growth depends heavily on the University's capacity to support that growth in a variety of ways.

Financial Highlights

The University's financial position remained strong at June 30, 2011. Total net assets increased by $43.5 million, or 15.8 percent, at June 30, 2011 compared to June 30, 2010 resulting from income before other revenues, expenses, gains or losses of $9.3 million and capital appropriations, grants and gifts of $34.2 million. The current bond ratings assigned by Moody's Investors Service (A1) and Standard and Poor's (A) to the University's bonds reflect the University's solid financial position.

The University's assets increased by $37.9 million for the year ended June 30, 2011 and by $19.3 million for the year ended June 30, 2010, for a combined increase in assets of $57.2 million since June 30, 2009. This increase was driven primarily by a $38.8 million growth in net capital assets from June 30, 2009 to June 30, 2011, with increases of $23.8 million in 2011 and $15.0 million in 2010. The addition of Griffin Hall, a new soccer complex and two radio stations will increase the University's capacity to serve its students and the community. Griffin Hall, the College of Informatics new home, is a unique state-of-the-art facility where a new generation of professionals will build the region's information economy. The soccer complex serves the needs of the University's intercollegiate athletic program, students and the community.

The University's operating and nonoperating revenues totaled $218.1 million for the year ended June 30, 2011, an increase of $12.5 million over 2010. Operating revenues increased by $5.6 million for the year as a result of a $5.0 million growth in net tuition revenue. Operating revenues totaled $130.9 million, or 60.0 percent of revenues, while nonoperating revenues reached $87.2 million, or 40.0 percent of revenues, for the year. The most significant sources of revenue for the University are net student tuition and fees (44.7 percent) and state appropriations (24.9 percent). Nonoperating revenues increased by $6.9 million for the year primarily due to a $5.5 million increase in nonoperating gifts, grants and contracts.

Net assets invested in capital assets, net of related debt, totaled $239.8 million, or 75.3 percent, of total net assets. Restricted and unrestricted net assets represented 5.3 percent and 19.4 percent of total net assets, respectively. Positive operating results in education and general activities and auxiliary operations contributed to a $15.0 million increase in unrestricted net assets for the year. In addition, budget reserves that were established in anticipation of a potential reduction in state appropriations were not expended during the year resulting in an increase in unrestricted net assets.

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 and accompanying footnotes 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.

The University is a component unit of the Commonwealth of Kentucky. The financial statements of the University include the University and its blended component unit, the Northern Kentucky University Research Foundation, Inc. Financial statements for the University's discretely presented 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)

	2011	2010	2009
ASSETS			
Current assets	$ 82,595	$ 75,766	$ 75,414
Capital assets, net	334,866	311,091	296,056
Noncurrent assets	31,951	24,648	20,751
Total assets	449,412	411,505	392,221
LIABILITIES			
Current liabilities	34,583	31,790	32,000
Noncurrent liabilities	96,390	104,815	111,477
Total liabilities	130,973	136,605	143,477
NET ASSETS			
Invested in capital assets, net of related debt	239,790	210,895	188,085
Restricted			
Nonexpendable	7,616	7,616	7,616
Expendable	9,117	9,478	11,062
Unrestricted	61,916	46,911	41,981
Total net assets	$ 318,439	$ 274,900	$ 248,744

The statement of net assets at June 30, 2011 reflects the University's strong financial position.

Assets

The University's assets increased by $37.9 million, or 9.2 percent, for the year ended June 30, 2011 and now total $449.4 million. A $6.8 million increase in current assets for the year ended June 30, 2011 combined with a $.4 million increase for the year ended June 30, 2010, resulted in a combined increase of $7.2 million, or 9.5 percent, since June 30, 2009. Noncurrent assets, excluding net capital assets, grew by $11.2 million since 2009 primarily due to an increase in unexpended cash balances related to capital construction projects and a growth in endowment investments achieved through excellent endowment investment returns.

Net capital assets increased by $23.8 million for the year ended June 30, 2011 and $15.0 million for the year ended June 30, 2010, resulting in a combined increase of $38.8 million, or 13.1 percent, since June 30, 2009. This increase is related to the acquisition of new administrative systems and two radio stations, and the construction of several new facilities, including a new soccer complex and the recently completed Griffin Hall. These projects were funded primarily through capital grants and gifts and through capital appropriations from the Commonwealth. As a result of the significant investment in its campus facilities in recent years, net capital assets have grown to $334.9 million, or 74.5 percent of total assets as of June 30, 2011.

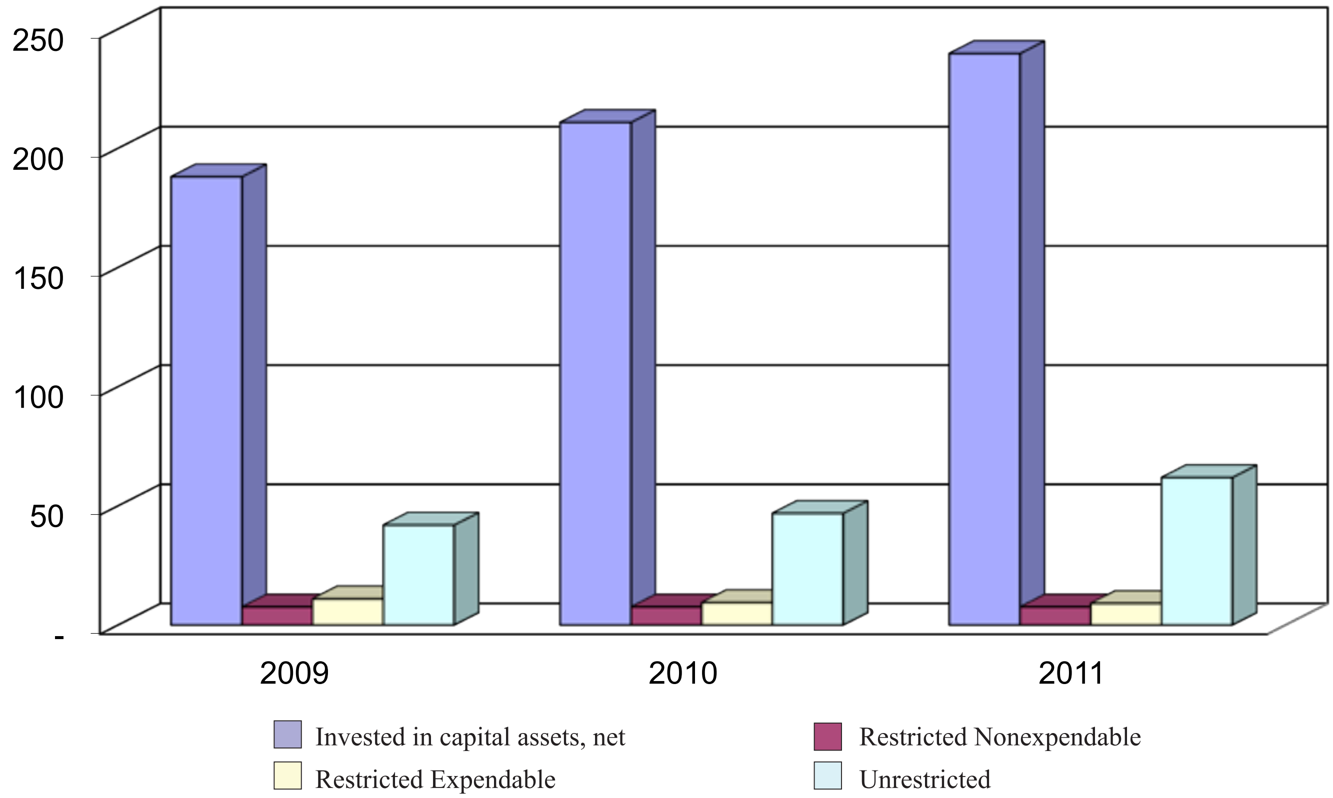
Liabilities

At June 30, 2011, the University's liabilities totaled $131.0 million compared to the previous year's $136.6 million. This $5.6 million decrease in liabilities resulted primarily from an $8.3 million decrease in the University's outstanding bonds, notes and capital leases which was partially offset by a $3.1 million increase in accounts payable and accrued liabilities. Bonds, notes and capital leases payable, net of discounts, premiums and deferred losses on bond refundings, represented $92.9 million, or 70.9 percent, of total liabilities at June 30, 2011.

The University's total liabilities decreased by $12.5 million, or 8.7 percent, from June 30, 2009 to June 30, 2011. Current liabilities grew by $2.6 million, or 8.1 percent, while noncurrent liabilities decreased by $15.1 million primarily due to a $14.1 million decrease in net outstanding bonds, notes and capital leases since June 30, 2009.

Net Assets

The following chart illustrates the University's net assets for fiscal years 2009, 2010 and 2011 (amounts are presented in millions).



Net assets at June 30, 2011 totaled $318.4 million. Net assets invested in capital assets, net of related debt, totaled $239.8 million, or 75.3 percent, of total net assets. Restricted and unrestricted net assets represented 5.3 percent and 19.4 percent of total net assets, respectively. Total net assets increased by $43.5 million, or 15.8 percent, for the year. Net assets invested in capital assets, net of related debt, increased $28.9 million for the year primarily as a result of the completion of Griffin Hall. Positive operating results in education and general activities and auxiliary operations contributed to a $15.0 million increase in unrestricted net assets for the year. In addition, budget reserves that were established in anticipation of a potential reduction in state appropriations were not expended during the year resulting in an increase in unrestricted net assets.

The University's net assets increased by $69.7 million, or 28.0 percent, from June 30, 2009 to June 30, 2011. Net assets invested in capital assets, net of related debt increased $51.7 million due to the addition of several new facilities, including Griffin Hall and a soccer complex, and the acquisition of administrative systems. Restricted expendable net assets decreased by $1.9 million while unrestricted net assets increased by $19.9 million from June 30, 2009 to June 30, 2011.

Statement of Revenues, Expenses and Changes in Net Assets

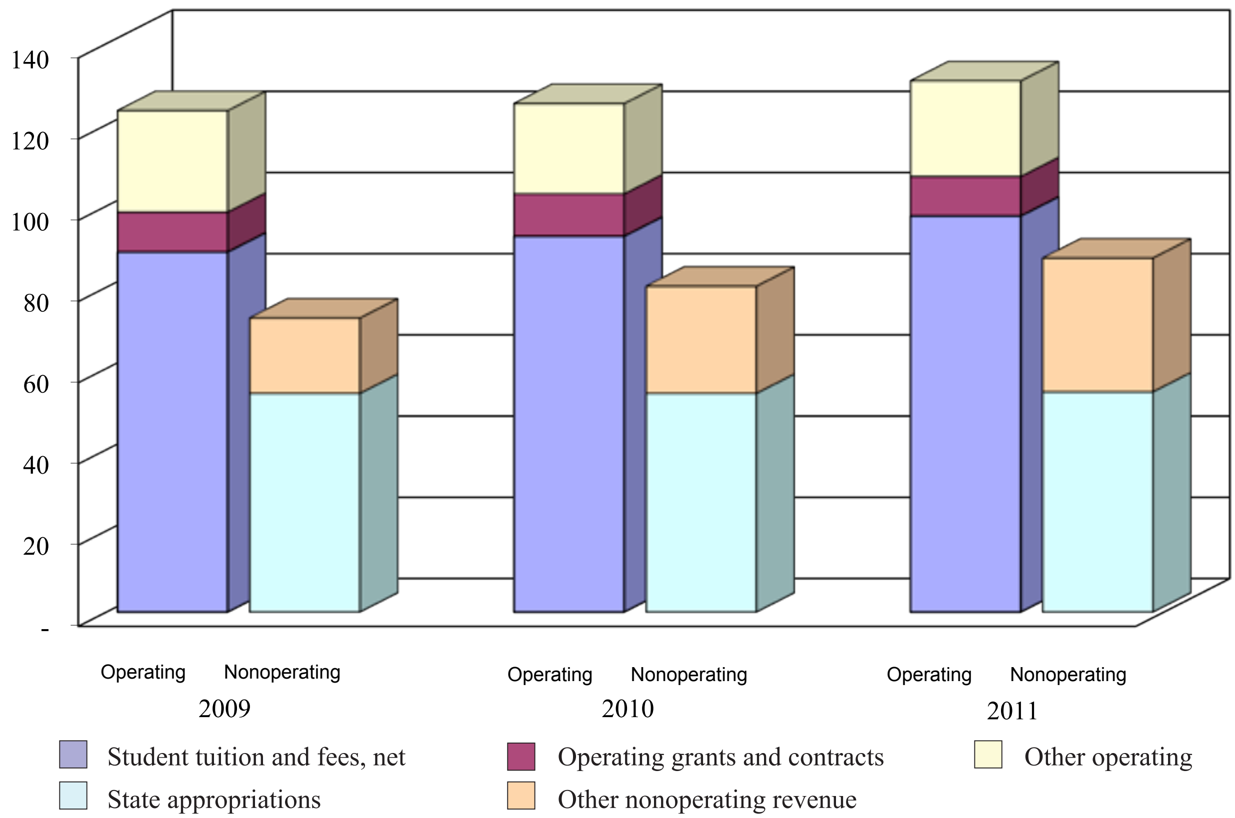
The statement of revenues, expenses and changes in net assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. GASB requires state appropriations and nonexchange grants and contracts to be classified as nonoperating revenues.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

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

	2011	2010	2009
OPERATING REVENUES			
Student tuition and fees, net	$ 97,564	$ 92,597	$ 88,704
Grants and contracts	9,714	10,416	9,813
Sales and services of educational departments	4,137	3,938	5,917
Auxiliary enterprises	13,005	12,389	11,378
Other operating revenues	6,445	5,923	7,711
Total operating revenues	130,865	125,263	123,523
OPERATING EXPENSES			
Educational and general	177,809	167,398	166,813
Depreciation	16,280	14,869	15,111
Auxiliary enterprises (including depreciation)	10,808	8,084	8,503
Other expenditures	43	101	174
Total operating expenses	204,940	190,452	190,601
Net loss from operations	(74,075)	(65,189)	(67,078)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	54,258	53,885	53,876
Gifts, grants and contracts	30,205	24,708	18,820
Investment income	2,017	1,683	(361)
Interest on capital asset-related debt	(3,837)	(4,466)	(4,890)
Other nonoperating revenues (expenses)	742	(92)	105
Net nonoperating revenues	83,385	75,718	67,550
Income (loss) before other revenues, expenses, gains or losses	9,310	10,529	472
Capital appropriations	24,494	7,458	3,548
Capital grants and gifts	9,735	8,169	3,382
Total other revenues	34,229	15,627	6,930
Increase in net assets	43,539	26,156	7,402
Net assets-beginning of year	274,900	248,744	241,342
Net assets-end of year	$ 318,439	$ 274,900	$ 248,744

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 2009, 2010 and 2011. 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).



The University's operating and nonoperating revenues totaled $218.1 million for the year ended June 30, 2011, an increase of $12.5 million over 2010. Operating revenues totaled $130.9 million, or 60.0 percent of revenues, while nonoperating revenues reached $87.2 million, or 40.0 percent of revenues, for the year. The most significant sources of revenue for the University are net student tuition and fees (44.7 percent) and state appropriations (24.9 percent).

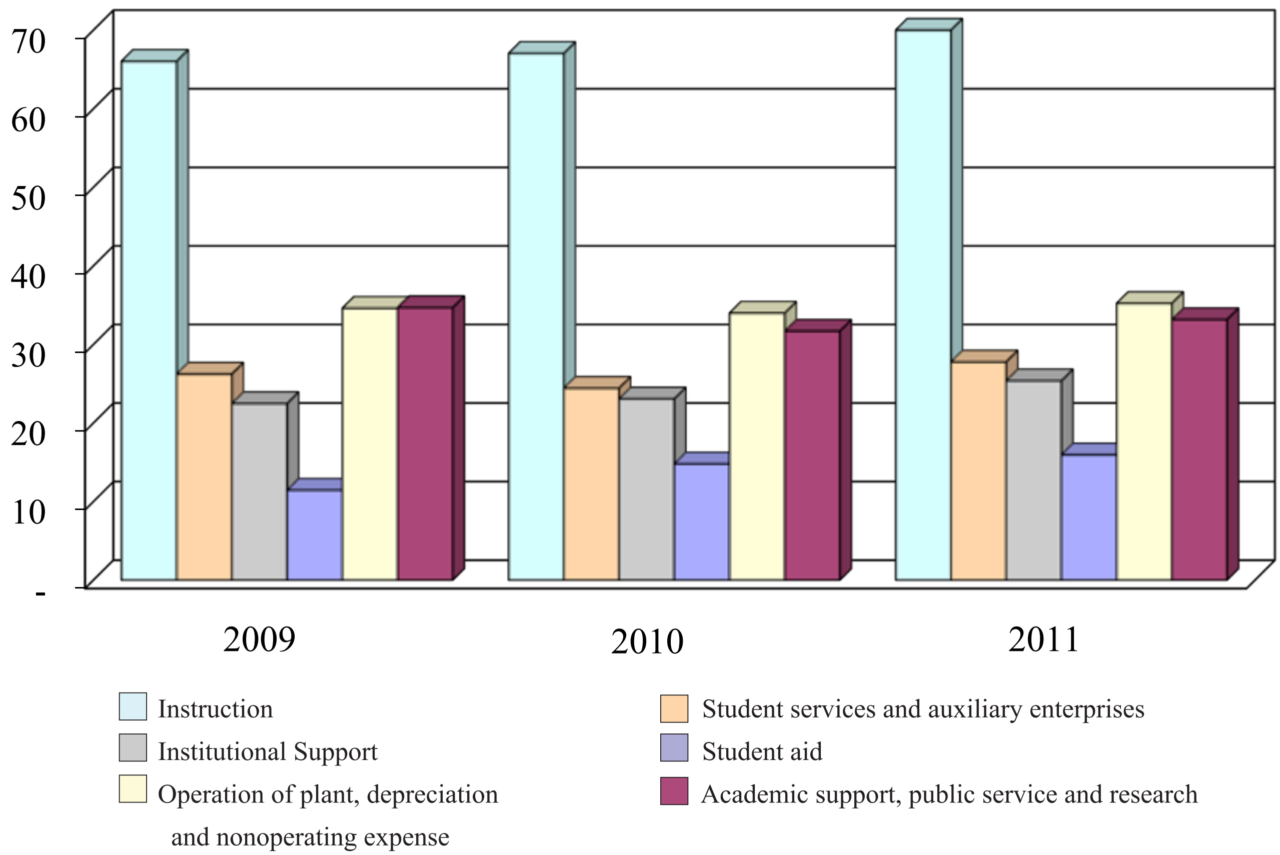
Operating revenues increased by $5.6 million for the year with increases in net tuition revenues ($5.0 million), auxiliary enterprises ($.6 million), sales and services of educational activities ($.2 million) and other operating revenues ($.5 million). These increases were partially offset by a decrease in operating grants and contracts ($.7 million)

Nonoperating revenues increased by $6.9 million for the year. The University's nonexchange grant revenues increased by $5.5 million for the year resulting from a growth in revenues related to federal financial aid programs, including a $4.0 million increase in the Pell program. Excellent performance by the University's endowment investments resulted in a $.3 million increase in investment income for the year. The University's total appropriation from the state increased by $.4 million for the year. A $1.0 million increase in the University's combined general and debt service state appropriations was partially offset by a $.6 million decline in the amount of federal stimulus funds that the state allocated to the University in 2011 ($3.0 million) as compared to 2010 ($3.6 million).

The University's nonoperating revenues have increased by $14.8 million since June 30, 2009 primarily due to a growth in nonexchange grants related to federal financial aid programs. A $7.3 million, or 5.9 percent, increase in operating revenues was fueled by an $8.9 million growth in net tuition since 2009. The growth in net tuition resulted from an average tuition rate increase of 4.4 percent for fiscal year 2011 and 3.9 percent for fiscal year 2010, 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 2009, 2010 and 2011 (amounts are presented in millions).



Operating and nonoperating expenses increased by $13.8 million, or 7.1 percent, to a total of $208.8 million for the year ended June 30, 2011. As depicted in the chart above, the majority of the University's funds are expended directly for the primary mission of the University – instruction $71.3 million (34.2 percent), and academic support, libraries, public service and research $33.2 million (15.9 percent).

Instruction expenses increased by $4.2 million, or 6.3%, for the year due primarily to an increase in salary and benefit expenses and expenses related to the acquisition of non-capital equipment for Griffin Hall, the new home of the College of Informatics. A $2.3 million increase in institutional support expenses resulted primarily from a significant increase in the staff benefit expenses in this function, particularly expenses related to the Kentucky Employee Retirement System. The opening of several new facilities in recent years contributed to a $1.4 million increase in education and general depreciation expense and a $.5 million increase in the operation and maintenance of plant expenses associated with the new facilities. An increase in student housing maintenance and repair expenses contributed to a $2.7 million increase in auxiliary enterprises expenses for the year.

Student financial aid expenses increased by $1.2 million for fiscal year 2011 and $3.3 million for 2010, as a result of significant growth in federal financial aid programs, including the Pell and GI Bill programs. The University took advantage of the low market interest rates by refunding several bond issues in fiscal years 2010 and 2011. The resulting savings contributed to a $1.1 million decline in interest expenses since 2009.

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.

Condensed Statements of Cash Flows (in thousands)

	2011	2010	2009
Net cash provided (used) by:			
Operating activities	$ (52,238)	$ (48,766)	$ (57,484)
Noncapital financing activities	85,477	77,294	70,063
Capital and related financing activities	(19,610)	(26,710)	(38,570)
Investing activities	2,325	(2,363)	1,693
Net increase (decrease) in cash	15,954	(545)	(24,298)
Cash and cash equivalents, beginning of year	71,212	71,757	96,055
Cash and cash equivalents, end year	$ 87,166	$ 71,212	$ 71,757

The University's cash and cash equivalents increased $16.0 million in 2011 as compared to a decrease of $.5 million in 2010. The net cash provided by operating and noncapital financing activities totaled $33.2 million for 2011, an increase of $4.7 million from 2010. Cash used by capital and related financing activities totaled $19.6 million for 2011 and $26.7 million in 2010. Purchases of capital assets totaled $42.7 million for fiscal year 2011 and were primarily funded by capital appropriations and capital grants and gifts.

Major sources of funds included in operating activities are student tuition and fees ($97.3 million), grants and contracts ($10.4 million) and auxiliary enterprises ($12.7 million). The largest cash payments for operating activities were made to employees ($128.6 million) and to vendors and contractors ($54.1 million). Payments to suppliers increased by $5.1 million, or 10.5 percent, and payments for salaries and benefits increased by $5.1 million, or 4.1 percent, for the year.

The University's cash receipts from operating activities increased by $7.6 million, or 6.1 percent, from 2009 to 2011 while cash disbursements for operating activities decreased by $2.3 million, or 1.3 percent, for the period.

Capital Asset and Debt Administration

Capital Assets

Capital assets, net of accumulated depreciation, increased by $23.8 million for the year ended June 30, 2011. Additions to capital assets, net of disposals, during the year totaled $42.8 million, including property acquisitions, administrative software systems, radio stations and Griffin Hall. Depreciation expenses totaled $19.0 million for the year. As a result of the University's significant investment in its campus facilities in recent years, net capital assets have grown to $334.9 million, or 74.5 percent of total assets as of June 30, 2011.

The University's net capital assets grew by $38.8 million from June 30, 2009 to June 30, 2011, with increases of $23.8 million in 2011 and $15.0 million in 2010. The addition of the Griffin Hall, soccer complex and two radio stations will increase the University's capacity to serve its students and the community. Griffin Hall, the College of Informatics new home, is a unique state-of-the-art facility where a new generation of professionals will build the region's information economy. The soccer complex serves the needs of the University's intercollegiate athletic program, students and the community.

At June 30, 2011, the University had several major land improvement renovation projects in progress, including the reconstruction of several plaza areas and pathways and the renovation and refurnishing of numerous smart classrooms.

Debt

The following is a summary of the University's outstanding debt summarized by revenue pledge as of June 30, 2011, 2010 and 2009 (in thousands):

	2011	2010	2009
General Receipts Bonds, net of discounts, premium and loss on refunding	$ 77,609	$ 70,236	$ 65,329
Consolidated Educational Buildings Revenue Bonds, net of discounts	9,568	12,701	17,769
Housing and Dining System Revenue Bonds	1,790	1,940	2,205
Capital Lease - Residential Suites	980	12,446	17,001
Notes Payable and municipal lease obligations	3,002	3,949	4,708
	$ 92,949	$ 101,272	$ 107,012

For the years ended June 30, 2011 and 2010, the University's outstanding debt decreased by $8.3 million and $5.7 million, respectively, for a combined decrease of $14.0 million since 2009. During fiscal year 2011 the University issued approximately $12.3 million in General Receipts Bonds to refund an outstanding capital lease obligation related to student residential housing facilities. The refunding resulted in an economic gain of $.6 million.

A strong debt rating is an important indicator of the University's financial health. The University's current bond ratings assigned by Moody's Investors Service (A1) and Standard and Poor's (A) to the University's General Receipts and Consolidated Educational Building Revenue bonds reflect the University's solid financial position.

FACTORS IMPACTING FUTURE PERIODS

Through proactive management the University continued to make progress despite the lingering effects of the prolonged economic recession that has negatively impacted the funding the University receives from the Commonwealth. The University's recurring general state appropriations for fiscal years 2011 and 2010 were $2.7 million and $3.6 million, respectively, less than the University's fiscal year 2009 recurring general appropriation. In an effort to offset the impact of this reduction in recurring appropriations, the Commonwealth allocated $2.9 million and $3.6 million of non-recurring federal stimulus funds to the University in fiscal years, 2011 and 2010, respectively. Rather than relying solely on the non-recurring federal stimulus funds to supplant the loss of recurring appropriations, the University embarked on an aggressive cost cutting initiative which yielded significant savings. Although the Commonwealth still faces financial challenges, the growth in state revenues for fiscal year 2011 reflects some improvement in the Commonwealth's economy. The University's 2012 general appropriation, approved by the General Assembly contingent upon the realization of targeted reductions in state spending, grew by $.5 million compared to the University's fiscal year 2011 recurring general appropriation.

The University has made great strides towards achieving the goals identified in its 2007-2012 strategic plan, *The Talent Imperative.* The University continues to focus its limited resources on the most critical areas of the strategic plan that will be the most beneficial to the region and the Commonwealth. The University has made great strides in supporting the Kentucky Council on Postsecondary Education's (CPE) efforts to raise the level of postsecondary attainment and impact throughout the Commonwealth. In response to regional demand, the University has increased the number of master's degree programs it offers from ten programs in 2001 to forty-nine master's and two professional doctoral programs in 2011. Combined with strong growth in undergraduate enrollment, the growth in graduate level programs has not only met the demands of the region, but also has fueled a significant growth in the University's total enrollment and net tuition revenue. Continued enrollment growth in fiscal years 2010 and 2011, combined with tuition rate increases, resulted in an $8.9 million growth in net tuition revenue since 2009. The University has made significant progress in reaching other strategic goals as well, particularly critical goals such as degree production where the University achieved the largest increase in degree production of any state university.

Management believes the University is well positioned to achieve its strategic priorities in partnership with the Commonwealth, CPE and the region. While adequate state funding is critical to the University's future success, management is continuing its efforts to diversify revenue sources, contain costs and redirect resources to core mission priorities. Resource allocations are driven by planning, budgeting and assessment processes that are strongly aligned at all levels of the institution. The University has made great strides in its effort to develop the capacity to fully support the region. The region's economic growth depends heavily on the University's capacity to support that growth in a variety of ways.

Northern Kentucky University and Affiliate
A Component Unit of the Commonwealth of Kentucky
Consolidated Statements of Net Assets
June 30, 2011 and 2010
(in thousands)

	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 70,218	$ 61,676
Notes, loans and accounts receivable, net	10,310	12,237
Other current assets	2,067	1,853
Total current assets	82,595	75,766
Noncurrent Assets		
Cash and cash equivalents	16,948	9,536
Investments	13,028	13,175
Notes, loans and accounts receivable, net	1,837	1,884
Capital assets, net	334,866	311,091
Other noncurrent assets	138	53
Total noncurrent assets	366,817	335,739
Total assets	449,412	411,505
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	20,036	16,893
Deferred revenue	6,548	6,696
Long-term liabilities-current portion	7,999	8,201
Total current liabilities	34,583	31,790
Noncurrent Liabilities		
Deposits	5,274	5,714
Deferred revenue	2,755	3,068
Long-term liabilities	88,361	96,033
Total noncurrent liabilities	96,390	104,815
Total liabilities	130,973	136,605
NET ASSETS		
Invested in capital assets, net of related debt	239,790	210,895
Restricted		
Nonexpendable	7,616	7,616
Expendable	9,117	9,478
Unrestricted	61,916	46,911
Total net assets	$ 318,439	$ 274,900

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statements of Financial Position
As of June 30, 2011 and 2010
(in thousands)

	2011	2010
ASSETS		
Cash and cash equivalents	$ 4,452	$ 10,743
Loans, interest and accounts receivable (less allowance of $112 in 2011 and $111 in 2010)	259	151
Accrued interest receivable	12	-
Contributions receivable (less allowance of $26 in 2011 and $53 in 2010)	9,975	18,014
Prepaid expenses and deferred charges	52	58
Investments	73,537	54,929
Land, buildings and equipment	538	2,890
Accumulated depreciation	(196)	(189)
Total assets	88,629	86,596
LIABILITIES AND NET ASSETS		
Accounts payable	287	269
Accrued interest	124	151
Annuities payable	255	9
Deferred income	26	25
Funds held in trust for Northern Kentucky University	10,529	8,925
Notes payable	3,085	5,878
Total liabilities	14,306	15,257
NET ASSETS		
Unrestricted		
For current operations	622	467
Contributions receivable	1	1
Amounts functioning as endowment funds	1,775	1,355
Invested in property, plant and equipment	342	593
Total unrestricted	2,740	2,416
Temporarily restricted		
Unexpended funds received for restricted purposes	3,912	4,558
Contributions receivable	4,462	9,634
Loan funds	140	141
Endowment funds	23,786	15,656
Total temporarily restricted	32,300	29,989
Permanently restricted		
Contributions receivable	5,512	8,379
Endowment funds	33,771	30,555
Total permanently restricted	39,283	38,934
Total net assets	74,323	71,339
Total liabilities and net assets	$ 88,629	$ 86,596

See accompanying notes to the financial statements

Northern Kentucky University and Affiliate
A Component Unit of the Commonwealth of Kentucky
Consolidated Statements of Revenues, Expenses and Changes in Net Assets
For the years ended June 30, 2011 and 2010

(in thousands)

	2011	2010
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of $26,269 in 2011 and $21,506 in 2010)	$ 97,564	$ 92,597
Federal grants and contracts	3,526	4,085
State and local grants and contracts	3,974	3,618
Nongovernmental grants and contracts	2,214	2,713
Sales and services of educational departments	4,137	3,938
Auxiliary enterprises		
Housing operations (net of scholarship allowances of $459 in 2011 and $438 in 2010)	8,190	7,748
Other auxiliaries	4,815	4,641
Other operating revenues	6,445	5,923
Total operating revenues	130,865	125,263
OPERATING EXPENSES		
Educational and general		
Instruction	71,287	67,039
Research	1,850	1,706
Public service	11,066	10,461
Libraries	4,419	4,150
Academic support	15,837	15,380
Student services	16,924	16,244
Institutional support	25,371	23,067
Operation and maintenance of plant	15,105	14,559
Depreciation	16,280	14,869
Student aid	15,950	14,792
Auxiliary enterprises		
Housing operations	6,737	3,838
Other auxiliaries	1,399	1,461
Auxiliary depreciation	2,672	2,785
Other expenses	43	101
Total operating expenses	204,940	190,452
Net loss from operations	(74,075)	(65,189)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	51,270	50,281
State appropriations-federal stimulus	2,988	3,604
Federal grants and contracts	21,970	16,855
State and local grants and contracts	8,170	7,799
Private gifts and grants	65	54
Investment income (loss)	2,017	1,683
Interest on capital asset-related debt	(3,837)	(4,466)
Other nonoperating revenues (expenses)	742	(92)
Net nonoperating revenues	83,385	75,718
Income before other revenues, expenses, gains or losses	9,310	10,529
Capital appropriations	24,494	7,458
Capital grants and gifts	9,735	8,169
Total other revenues	34,229	15,627
Increase (decrease) in net assets	43,539	26,156
NET ASSETS		
Net assets-beginning of year	274,900	248,744
Net assets-end of year	$ 318,439	$ 274,900

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statement of Activities
For the year ended June 30, 2011
(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	$ 10	$ 2,707	$ 349	$ 3,066
Rental income	116	-	-	116
Investment income	50	1,252	-	1,302
Net gains on investments	393	8,273	-	8,666
Other revenue	24	562	-	586
Loss on sale of land	(158)	-	-	(158)
Total Revenues and Gains	435	12,794	349	13,578
Net Assets Released from Restrictions	10,379	(10,379)	-	-
Total Revenues and Gains and Other Support	10,814	2,415	349	13,578
Program Expenses				
Instruction	403	-	-	403
Research	12	-	-	12
Public service	1,159	-	-	1,159
Libraries	20	-	-	20
Academic support	331	-	-	331
Student services	234	-	-	234
Institutional support	373	-	-	373
University facilities and equipment acquisition	6,344	-	-	6,344
Student financial aid	1,076	-	-	1,076
Total Program Expenses	9,952	-	-	9,952
Support Expenses				
Management and general	533	-	-	533
Fundraising support	71	-	-	71
Rental property	38	-	-	38
Total Support Expenses	642	-	-	642
Total Expenses	10,594	-	-	10,594
Net transfers in (out)	104	(104)	-	-
Increase (Decrease) in Net Assets	324	2,311	349	2,984
Net Assets - Beginning of Year	2,416	29,989	38,934	71,339
Net Assets - End of Year	$ 2,740	$ 32,300	$ 39,283	$ 74,323

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statement of Activities
For the year ended June 30, 2010
(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	$ 7	$ 3,640	$ 771	$ 4,418
Rental income	107	-	-	107
Investment income	33	733	-	766
Net gains on investments	659	3,768	-	4,427
Other revenue	27	654	-	681
Total Revenues and Gains	833	8,795	771	10,399
Net Assets Released from Restrictions	4,664	(4,664)	-	-
Total Revenues and Gains and Other Support	5,497	4,131	771	10,399
Program Expenses				
Instruction	391	-	-	391
Public service	1,220	-	-	1,220
Libraries	23	-	-	23
Academic support	354	-	-	354
Student services	322	-	-	322
Institutional support	447	-	-	447
University facilities and equipment acquisition	955	-	-	955
Student financial aid	728	-	-	728
Total Program Expenses	4,440	-	-	4,440
Support Expenses				
Management and general	342	-	-	342
Fundraising support	68	-	-	68
Rental property	112	-	-	112
Total Support Expenses	522	-	-	522
Total Expenses	4,962	-	-	4,962
Net transfers in (out)	15	(15)	-	-
Increase (Decrease) in Net Assets	550	4,116	771	5,437
Net Assets - Beginning of Year	1,866	25,873	38,163	65,902
Net Assets - End of Year	$ 2,416	$ 29,989	$ 38,934	$ 71,339

See accompanying notes to the financial statements

Northern Kentucky University and Affiliate
A Component Unit of the Commonwealth of Kentucky
Consolidated Statements of Cash Flows
For the years ended June 30, 2011 and 2010
(in thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 97,304	$ 91,641
Grants and contracts	10,407	9,616
Payments to suppliers	(54,103)	(48,967)
Payments for salaries and benefits	(128,648)	(123,549)
Loans issued to students	(484)	(153)
Collection of loans to students	458	419
Auxiliary enterprise receipts:		
Housing operations	8,002	7,586
Other auxiliaries	4,723	4,443
Sales and service of educational departments	4,131	3,834
Other receipts (payments)	5,972	6,364
Net cash used by operating activities	(52,238)	(48,766)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	54,258	53,885
Gifts and grants for other than capital purposes	30,722	24,728
Agency and loan program receipts	88,809	80,276
Agency and loan program disbursements	(89,054)	(81,278)
Other nonoperating receipts (payments)	742	(317)
Net cash provided by noncapital financing activities	85,477	77,294
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt and leases	12,265	7,864
Capital appropriations	27,143	8,291
Capital grants, gifts, and advances received	8,147	8,169
Purchases of capital assets	(42,727)	(32,689)
Principal paid on capital debt and leases	(19,603)	(13,757)
Interest paid on capital debt and leases	(4,835)	(4,588)
Net cash used by capital financing activities	(19,610)	(26,710)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,750	554
Purchase of investments	-	(4,250)
Interest on investments	575	1,333
Net cash provided (used) by investing activities	2,325	(2,363)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,954	(545)
Cash and cash equivalents-beginning of year	71,212	71,757
Cash and cash equivalents-end of year	$ 87,166	$ 71,212
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES:		
Net loss from operations	(74,075)	(65,189)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	18,952	17,654
Changes in assets and liabilities:		
Receivables, net	132	(1,261)
Other assets	(207)	(40)
Accounts payable	2,967	539
Deferred revenue	(461)	(458)
Long-term liabilities	454	(11)
Net cash used by operating activities	$ (52,238)	$ (48,766)

See accompanying notes to the financial statements

Note 1 – Organization and Summary of Significant Accounting Policies

a. Reporting Entity

Northern Kentucky University (the University) is a component unit of the Commonwealth of Kentucky and is included in the general-purpose financial statements of the Commonwealth. The consolidated financial statements of the University include the operations of the Northern Kentucky University Research Foundation; an affiliated non-profit corporation. The Northern Kentucky University Foundation, Inc. (the Foundation) is a legally separate, tax-exempt organization supporting the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation's Board of Directors is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's consolidated financial statements. The accompanying consolidated financial statements do not include the financial position or operation results 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 an independent Board 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). Pursuant to GASB Statement No. 20, the University has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, unless the FASB pronouncement conflicts with or contradicts a GASB pronouncement. The University has elected not to apply FASB pronouncements issued after the applicable date.

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. Notes, Loans and Accounts Receivable
This classification consists of tuition and fee charges to students, charges for auxiliary enterprise services provided to students, faculty and staff, loans to students and amounts due from sponsors for reimbursement of expenses made pursuant to contracts and grants. Accounts receivable are recorded net of estimated uncollectible amounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

e. 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 or intangible assets with an indefinite life. Indefinite life intangible assets are reviewed annually for impairment. If the fair value of the asset is less than the carrying amount, an impairment loss is recognized for the difference.

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

g. Investments
Investments are stated at fair value.

h. 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.

i. Scholarship Allowances
Student tuition and fee revenues and other student related revenues are reported net of scholarship allowances in the consolidated statements 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.

j. Income Taxes
The University is an agency and instrumentality of the Commonwealth of Kentucky, pursuant to Kentucky Revised Statutes sections 164.290 through 164.475. Accordingly, the University is generally exempt from federal income taxes as an organization described in Section 115 of the Internal Revenue Code of 1986, as amended. The University's affiliated non-profit organization has received a determination from the Internal Revenue Service granting exemption from federal income taxation pursuant to the provisions of Internal Revenue Code section 501(c)(3).

k. 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.

l. Operating Activities
The University defines operating activities, as reported on the consolidated statements of revenues, expenses and changes in net assets, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for services and goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenues relied upon for operations, such as state appropriations, gifts and investment income, are recorded as nonoperating revenues, in accordance with GASB 35. In accordance with GASB Statement No. 24, Accounting and Financial Reporting for Certain Grants and Other Financial Assistance and related GASB implementation guidance, Pell Grants, College Access Program (CAP) Grants and Kentucky Educational Excellence Scholarship (KEES) are considered nonexchange transactions and are recorded as nonoperating revenues in the accompanying financial statements.

m. 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.

n. Component Unit Disclosure
The accompanying consolidated 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, 2011, and 2010, the Foundation made payments on behalf of the University of $2,583,000 and $2,055,000, respectively. In addition, the Foundation transferred to the University $7,369,000 in 2011 and $2,385,000 in 2010 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.

o. Reclassifications
Certain items have been reclassified for the year ended June 30, 2010, in order to conform to classifications used for the year ended June 30, 2011. These reclassifications had no effect on total net assets and the change in net assets.

p. Recent Accounting Pronouncements
In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of resources, and Net Position.* The objective of this statement is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. The University is currently evaluating the effects of this statement on its financial statements.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The objective of this statement is to improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. It eliminates the need for financial statement preparers to determine which accounting principles apply to state and local governments. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. The University does not expect this statement to have a significant impact on its financial statements.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34.* The objective of this statement is to improve financial reporting for a governmental financial reporting entity. This statement modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2012. The University is currently evaluating the effects of this statement 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, 2011, petty cash funds totaled $28,000 and the carrying amount of the deposits was $87,138,000 with a corresponding total bank balance of $92,160,000. Of the bank balance, $15,766,000 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 $76,394,000 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 of the University's investments at June 30, 2011 and 2010 (in thousands):

	2011	2010
Certificates of deposit	$ 2,499	$ 4,250
Restricted assets held by the Foundation	10,529	8,925
Total Investments	$ 13,028	$ 13,175

University investments held by the Northern Kentucky University Foundation, Inc. are comprised of Regional University Excellence Trust Fund endowments. Assets held by the Foundation are invested in an investment pool managed by the Foundation.

University assets in the Foundation investment pool at June 30, 2011 and 2010 are invested as follows:

	2011	2010
Type of Investment:		
Fixed income funds	18%	21%
Equity funds and common stock	53%	52%
Hedge funds	12%	15%
Alternative investments	12%	11%
Other	5%	1%
Total Investments	100%	100%

Occasionally, the fair value of assets associated with endowments fall below the level that is required for the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature were $18,000 and $40,000 as of June 30, 2011 and 2010 respectively.

See note 13 for further details of the Foundation's investment pool.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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.

Credit Risk: Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The University's investment policy requires investments to be in compliance with state statue. University investments that are managed by the Foundation are governed by the Foundation's investment policy. This policy contains several provisions which are intended to limit credit risk, including a requirement that fixed income portfolios maintain a weighted average credit rating of at least AA (Standard and Poor's) and have no more than 10 percent of the portfolio in below investment grade bonds.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single user. The University debt service reserves are invested by the bond trustees in accordance with the governing bond resolutions. There are no specific limits on the maximum amount of investment securities held in bond debt service reserve funds that may be invested in one issuer. However, such investments are limited to bonds or interest bearing notes of the U.S. government.

Note 3 – Notes, Loans and Accounts Receivable

Notes, loans and accounts receivable as of June 30, 2011 and 2010 are as follows (in thousands):

	2011		
	Gross Receivable	Allowance	Net Receivable
Student loans	$ 2,215	$ (507)	$ 1,708
Student account receivables	8,242	(3,569)	4,673
Reimbursement receivable grants and contracts	1,821	-	1,821
State capital appropriation account receivables	1,588	-	1,588
Other	2,906	(549)	2,357
Total	$ 16,772	$ (4,625)	$ 12,147
Current portion			10,310
Noncurrent portion			1,837
Total			$ 12,147

	2010		
	Gross Receivable	Allowance	Net Receivable
Student loans	$ 2,599	$ (455)	$ 2,144
Student account receivables	7,620	(3,148)	4,472
Reimbursement receivable grants and contracts	2,375	-	2,375
State capital appropriation account receivables	2,669	-	2,669
Other	2,786	(325)	2,461
Total	$ 18,049	$ (3,928)	$ 14,121
Current portion			12,237
Noncurrent portion			1,884
Total			$ 14,121

Note 4 – Capital Assets, net

Capital assets for the years ended June 30, 2011 and 2010 are summarized as follows (in thousands):

	July 1, 2010	Additions	Reductions	June 30, 2011
Cost:				
Indefinite life intangible assets	$ -	$ 4,622	$ -	$ 4,622
Land	6,717	2,550	348	8,919
Land improvements	21,756	4,680	20	26,416
Buildings	343,669	39,004	796	381,877
Equipment	58,620	2,549	414	60,755
Library books	33,182	1,943	97	35,028
Construction in process	14,270	-	11,813	2,457
	478,214	55,348	13,488	520,074
Accumulated Depreciation				
Land improvements	3,484	631	1	4,114
Buildings	111,587	11,289	378	122,498
Equipment	27,954	5,480	390	33,044
Library books	24,098	1,552	98	25,552
	167,123	18,952	867	185,208
Capital assets, net	$ 311,091	$ 36,396	$ 12,621	$ 334,866

	July 1, 2009	Additions	Reductions	June 30, 2010
Cost:				
Land	$ 5,880	$ 837	$ -	$ 6,717
Land Improvements	16,371	5,417	32	21,756
Buildings	336,691	8,411	1,433	343,669
Equipment	51,079	7,944	403	58,620
Library books	31,764	1,815	397	33,182
Construction in process	5,663	8,607	-	14,270
	447,448	33,031	2,265	478,214
Accumulated Depreciation				
Land Improvements	2,740	772	28	3,484
Buildings	102,201	10,617	1,231	111,587
Equipment	23,446	4,775	267	27,954
Library books	23,005	1,490	397	24,098
	151,392	17,654	1,923	167,123
Capital assets, net	$ 296,056	$ 15,377	$ 342	$ 311,091

As of June 30, 2011 and 2010, the net book value of land, buildings and equipment acquired through capital leases included in the above schedules totaled $13,406,000 and $14,299,000 respectively, including buildings of $12,761,000 and $13,428,000.

Note 5 – Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2011 and 2010 are as follows (in thousands):

	2011	2010
Payable to vendors and contractors	$ 11,534	$ 9,310
Accrued expenses, primarily payroll and vacation leave	5,909	5,262
Employee withholdings and deposits payable to third parties	2,593	2,321
	$ 20,036	$ 16,893

Note 6 – Deferred Revenue

Deferred revenue as of June 30, 2011 and 2010 are as follows (in thousands):

	2011	2010
Unearned summer school revenues	$ 4,069	$ 4,290
Unearned grants and contracts revenue	1,017	709
Unearned auxiliary revenue	3,373	3,758
Other	844	1,007
Total	$ 9,303	$ 9,764
Current	6,548	6,696
Noncurrent	2,755	3,068
Total	$ 9,303	$ 9,764

Note 7 – Long-term Liabilities

The changes in long-term liabilities for the years ended June 30, 2011 and 2010 are summarized as follows (in thousands):

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion	Noncurrent Portion
Consolidated Educational Buildings Revenue Bonds (net of discount)	$ 12,701	$ -	$ 3,133	$ 9,568	$ 2,540	$ 7,028
Housing and Dining Revenue Bonds	1,940	-	150	1,790	155	1,635
General Receipts Bonds (net of discounts, premiums, and deferred losses on refunding)	70,236	11,153	3,780	77,609	3,854	73,755
Total bonds	84,877	11,153	7,063	88,967	6,549	82,418
Municipal lease obligations	3,784	-	928	2,856	846	2,010
Capital leases	12,446	-	11,466	980	480	500
Notes payable	165	-	19	146	19	127
Total notes and capital leases	16,395	-	12,413	3,982	1,345	2,637
Deferred compensation	673	11	45	639	45	594
Federal portion of loan programs	2,289	1	118	2,172	-	2,172
KERS-sick leave	-	600	-	600	60	540
Total other liabilities	2,962	612	163	3,411	105	3,306
Total long-term liabilities	$ 104,234	$ 11,765	$ 19,639	$ 96,360	$ 7,999	$ 88,361

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion	Noncurrent Portion
Consolidated Educational Buildings Revenue Bonds (net of discount)	$ 17,769	$ -	$ 5,068	$ 12,701	$ 3,133	$ 9,568
Housing and Dining Revenue Bonds	2,205	-	265	1,940	150	1,790
General Receipts Bonds (net of discounts, premiums, and deferred losses on refunding)	65,329	6,733	1,826	70,236	3,486	66,750
Total bonds	85,303	6,733	7,159	84,877	6,769	78,108
Municipal lease obligations	4,525	1,079	1,820	3,784	928	2,856
Capital leases	17,001	-	4,555	12,446	441	12,005
Notes payable	183	-	18	165	18	147
Total notes and capital leases	21,709	1,079	6,393	16,395	1,387	15,008
Deferred compensation	683	35	45	673	45	628
Federal portion of loan programs	2,333	-	44	2,289	-	2,289
Aritrage rebate liability	113	-	113	-	-	-
Total other liabilities	3,129	35	202	2,962	45	2,917
Total long-term liabilities	$ 110,141	$ 7,847	$ 13,754	$ 104,234	$ 8,201	$ 96,033

The outstanding Consolidated Educational Buildings Revenue Bonds (CEBRB) consist of CEBRB Series A, B, K and L with interest rates ranging from 3.25 percent to 5.90 percent and various maturity dates through May 1, 2023. These outstanding bonds are reported net of discounts totaling $122,000. 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 $3,123,000 reserve requirement for all CEBRB issues has been fully funded as of June 30, 2011.

The outstanding Housing and Dining System Series B Revenue Bond (Housing and Dining) has an interest rate of 3.0 percent and a maturity date of 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 Bond. The $210,000 reserve requirement for the Housing and Dining issue has been fully funded as of June 30, 2011. The $348,000 required housing repair and replacement fund was fully funded as of June 30, 2011.

The outstanding obligation as of June 30, 2011 for the Northern Kentucky University General Receipts Bonds is $77,609,000. The outstanding balance is net of discounts totaling $1,038,000, premiums of $124,000 and a $1,237,000 deferred loss on bond refundings. The interest rate yields range from 2.0 - 4.38 percent through September 2028. The net interest cost is 2.54 - 4.36 percent. General Receipts Bonds are collateralized by the operating and nonoperating income of the University excluding income which as a condition of the receipt is not available for payment of debt service charges.

The outstanding municipal lease obligations as of June 30, 2011 consist of master lease obligations issued through a local bank totaling $96,000, with an interest rate of 4.65 percent, a lease obligation through IBM of $388,000, with an interest rate of 1.46 percent and a lease obligation of $2,372,000, with an interest rate of 3.76 percent, for an energy management project. The energy management lease will be paid with guaranteed energy savings.

On October 21, 2010 Northern Kentucky University General Receipts Bonds were issued in the amount of $12,265,000 at a net interest cost of 3.28 percent. The proceeds partially refunded the underlying Certificates of Participation (COPS) associated with 2002 Student Housing Facilities Lease. As of June 30, 2011 a deposit of $11,747,000 is being held in escrow by the trustee to fund the debt service on the refunded portion of the 2002 COPS until the COPS are called for redemption on December 1, 2012. The associated capital lease liability related to the defeased COPS is not included in the financial statements. The refunding will reduce the University's total debt service payments over the next 17 years by $866,000 representing an economic gain of $560,000. Economic gain is determined by calculating the difference between the present value of the debt service payments on the old and new debt.

The outstanding student housing facility lease related to the non refunded portion of the 2002 COPS is $980,000 as of June 30, 2011. The lease has an imputed interest rate of 4.88 percent.

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
2012	8,050	3,588	11,638
2013	5,201	3,319	8,520
2014	4,364	3,131	7,495
2015	4,702	2,980	7,682
2016	4,851	2,819	7,670
2017-2021	25,459	11,444	36,903
2022-2026	27,670	6,104	33,774
2027-2031	14,925	776	15,701
Subtotal	95,222	34,161	129,383
Less: Net discounts and premiums	(1,036)		(1,036)
Loss on refundings	(1,237)		(1,237)
Total	$ 92,949	$ 34,161	$ 127,110

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 ninety days of service, to all regular full-time members of the faculty, administrative officers and others who have educational related duties. The TIAA CREF retirement plan is a defined contribution, money purchase retirement plan. The employees contribute 5 percent of their base salary to the plan, and the University contributes 10 percent. All payments are vested immediately and the contracts with the providers are owned by the individual employees. The employee is entitled to various payment options upon retirement. Benefit payments at retirement depend on the total contributions with interest deposited into the employee's account. Retirement benefits can begin upon retirement or termination of employment with the University. Covered payroll totaled $43,170,000 and $42,500,000 for the years ended June 30, 2011 and 2010, respectively. Expenditures for the University's portion amounted to $4,317,000 and $4,250,000 for the years ended June 30, 2011 and 2010, 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) 696-8800.

Funding Policy - Benefit and contribution rates are established by state statute. For the fiscal year ended June 30, 2011, University employees were required to contribute 5 percent of their annual covered salary and the University was required to contribute 16.98 percent of covered payroll for non-hazardous pay and 26.12 percent for hazardous pay. The University's contributions to KERS for the years ending June 30, 2011, 2010 and 2009 were $6,608,000, $4,334,000, and $3,567,000, respectively, equal to the required contributions for each year.

Effective July 1, 2010 KRS 61.546 states "the value of any accumulated sick leave that is added to the member's service credit in the Kentucky Employees Retirement System on or after July 1, 2010, shall be paid to the retirement system by the last participating Kentucky Employees Retirement System employer based upon a formula adapted by the Board." The KERS sick leave liability as of June 30, 2011 is $600,000.

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, 2011 and 2010, were $2,646,000 and $2,126,000, 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. Eligible employees are paid their accumulated vacation upon termination, subject to certain limitations. At June 30, 2011 and 2010, the University had recognized an accrued vacation liability of $3,233,000 and $2,913,000, respectively.

Note 9 – Operating Expenses By Natural Classification

The University's operating expenses by natural classification are as follows for the years ended June 30, 2011 and 2010 (in thousands):

	2011	2010
Salaries and wages	$ 100,444	$ 96,660
Employee benefits	30,479	26,368
Utilities	5,697	5,639
Supplies and other services	33,144	29,044
Depreciation	18,952	17,654
Student scholarships and financial aid	16,224	15,087
Total	$ 204,940	$ 190,452

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 2010 to 2011. 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, 2011. 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, 2011 was approximately $7,359,000. Such construction is principally financed by capital appropriations from the Commonwealth of Kentucky and private gifts.

Note 12 – Subsequent Event

On July 21, 2011, Northern Kentucky University General Receipts 2011 Series A Bonds were issued in the amount of $9,290,000 at a net interest cost of 3.63 percent. The majority of the proceeds reimbursed the University for property purchased under the Board approved land acquisition plan and for two radio stations acquired in June 2011.

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

a. Summary of Significant Accounting Policies

1. Scope of Statements
The consolidated financial statements of the Northern Kentucky Foundation, Inc. include the operations of the Foundation and its subsidiary corporation, NKU Foundation Properties, Inc. All material intercompany transactions and balances have been eliminated.

2. Basis of Presentation
The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) which require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of the significant accounting policies consistently followed by the Foundation in preparation of its financial statements.

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. Included in the Foundation's deposits at June 30, 2011 and 2010, are short term government obligation shares of $322,000 and $1,371,000, respectively. Additionally, $1,653,000 and $3,061,000, respectively, was collateralized with securities held by the financial institution's trust department or agent, but not in the Foundation's name. Balances of $713,000 and $5,561,000, respectively, were neither insured nor collateralized.

4. Loans and Accounts Receivable

Loans receivable consists primarily of loans made to students under privately funded loan programs. The advances are evidenced by signed promissory notes, bearing interest at varying stated interest rates, with varying due dates. Loans, accounts and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts at June 30, 2011 and 2010 was $112,000 and $111,000, respectively. Changes in the valuation allowance have not been material to the financial statements.

5. Investments

In accordance with pronouncements of the Financial Accounting Standards Board, investments in equity securities with readily determinable fair value and all debt securities are reported at their 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. 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.

6. Fixed Assets and Depreciation

At June 30, 2011 and 2010, land and land improvements consisted of:

	2011	2010
Type of Asset:		
Land	$ 330	$ 2,682
Land improvements	208	208
Total Fixed Assets	$ 538	$ 2,890

Assets acquired for Foundation use with a useful life greater than one year and a value of $5,000 or more are capitalized. Annual depreciation for land improvements is calculated on a straight-line basis, beginning in the month of acquisition based on a useful life of 30 years. Depreciation expense for the years ended June 30, 2011 and 2010 was $7,000 and is reported as support expenses under rental property in the statement of activities.

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

7. 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.

b. Notes Payable

At June 30, 2010, the Foundation had a $2.1 million open-end mortgage note payable collateralized by a first mortgage on certain land and land improvements owned by the Foundation. During the year ended June 30, 2011, the property securing the mortgage was sold to the University and the mortgage and related interest was paid in full.

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, with equal annual payments of $857,000 including principal and interest at a rate of 4.31 percent due from August 1, 2009 through August 1, 2014. Accrued interest and principal (in thousands) to be paid over the term of the loan are as follows:

Year Ended	Principal
2012	722
2013	754
2014	787
2015	822
	$ 3,085

Costs of $33,700 associated with obtaining the loan are being amortized over the 73-month term of the note.

c. Unconditional and Conditional Promises to Give

Unconditional promises to give that are 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, 2011 and 2010, the Foundation recognized contributions based on the following unconditional promises to give (in thousands):

	2011	2010
Purpose:		
Endowment giving	$ 5,745	$ 8,609
Capital purposes	3,809	9,358
Operating programs	1,167	1,321
Gross unconditional promises	10,721	19,288
Less: Discount and allowance for uncollectable accounts	(746)	(1,274)
Net unconditional promises to give	$ 9,975	$ 18,014
Amounts due in:		
Less than one year	$ 4,388	$ 8,710
One to five years	6,333	10,578
Total	$ 10,721	$ 19,288

The discount rates used to calculate the present value of contributions receivable at June 30, 2011 and 2010 vary from 2.8 percent to 5.6 percent depending on when the promise was made.

The Foundation has pledged $3.236 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, 2011 and 2010, the Foundation had received conditional promises to give of approximately $1.2 million, consisting of the face value of life insurance policies, net of accumulated cash surrender value.

d. Investments

The market values (in thousands) of the Foundation's investments as of June 30, 2011 and 2010 are categorized by type below:

	2011	2010
Type of Investment:		
Short-term money market funds	$ 7	$ 12
Cash and cash surrender value	418	411
Certificates of deposit	3,000	-
Fixed income funds:		
Core plus	10,617	9,753
Global	2,782	1,511
Equity funds:		
Large/Mid Cap - broad	10,944	7,173
Large/Mid Cap - growth	6,462	5,194
Large/Mid Cap - value	6,209	5,193
Small Cap - growth	1,512	1,053
Small Cap - value	1,625	1,160
International - core	6,871	5,325
International small cap - value	383	281
Emerging markets - value	4,774	2,934
Quoted prices in active market for identical assets (level 1)	55,604	40,000
Hedge funds:		
Directional	4,478	4,310
Directional fund of funds	4,595	4,222
Remainder interest in real property and other	389	382
Significant other observable inputs (level 2)	9,462	8,914
Private equity:		
Buyout	1,747	1,322
Distressed	917	826
Diversified	582	305
Mezzanine	344	-
Venture capital	492	342
Natural resources:		
Diversified	1,019	593
Energy	1,762	1,278
Private real estate:		
Secondary	651	551
Value added	957	798
Significant unobservable inputs (level 3)	8,471	6,015
Total investments	$ 73,537	$ 54,929

Investment income and gains (in thousands) for the years ended June 30, 2011 and 2010 consist of:

	2011	2010
Interest	$ 64	$ 83
Dividends	1,342	804
Fees	(104)	(121)
Total Investment Income	**$ 1,302**	**$ 766**
Realized gains (losses)	258	1,211
Unrealized gains (losses)	8,408	3,216
Total Investment Income	**$ 8,666**	**$ 4,427**

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, 2011 and 2010 were $10,529,000 and $8,925,000 respectively. See note 13h for further explanation of the trust funds.

At June 30, 2011 and 2010, the Foundation had committed $19.2 and $15.3 million, respectively, of its endowment investment resources to alternative investments, of which $10.3 and $7.4 million, respectively, had not yet been called by the investment managers. Alternative investments for which commitments have been made consist of private equity, natural resources and private real estate.

Alternative investments of the Foundation have limited marketability and the related investment agreements generally contain restrictive redemption provisions to the extent that the underlying investments should be considered illiquid for the duration of the investment through normal maturity. Early redemption of such investments would likely result in recovery of significantly less than the original investment amount. Foundation management believes the investment portfolio contains sufficient liquidity among other asset classes to make early redemption of alternative investments unlikely for reasons of meeting current spending needs.

e. Fair Value Measurements

Accounting Pronouncements establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under generally accepted accounting principles are described as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Observable inputs other than Level 1 prices, such as:

- Quoted prices for similar assets or liabilities;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Other inputs that are observable for the asset or liability;
- Other inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy.

Level 1 investments include short term money market funds, cash and cash surrender value, certificates of deposit, fixed income funds and equity funds.

Level 2 investments are based on quoted prices of securities or other property with similar characteristics and include hedge funds of funds and a remainder interest in real property subject to a life estate.

In certain cases where level 1 or 2 inputs are not available, investments are classified within Level 3 of the hierarchy and include investments in private equity, natural resources and private real estate.

There have been no changes in the methodologies used at June 30, 2011.

The following assets were measured at fair value as of June 30, 2011 (in thousands):

	2011	2010
Level 1		
Investments	$ 55,604	$ 40,000
Level 2		
Investments	$ 9,462	$ 8,914
Level 3		
Investments	$ 8,471	$ 6,015

The table below presents information about the changes in the fair value of assets based on significant unobservable inputs (Level 3):

	Private Equity	Natural Resources	Private Real Estate
Investments:			
Beginning balance, June 30, 2009	**$ 1,898**	**$ 966**	**$ 1,548**
Additional investment	662	800	87
Capital distributions	(30)	(42)	(23)
Fees	-	(6)	-
Interest income	6	7	-
Realized losses	(102)	(58)	(8)
Unrealized gains (losses)	361	204	(255)
Balance, June 30, 2010	**2,795**	**1,871**	**1,349**
Additional investment	1,125	631	83
Capital distributions	(349)	(169)	-
Fees	-	(13)	-
Realized gains (losses)	19	122	(13)
Unrealized gains	492	339	189
Ending balance, June 30,2011	**$ 4,082**	**2,781**	**1,608**

f. Endowments

The Foundation's endowment consists of approximately 220 individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments (quasi-endowments). As required by generally accepted accounting principles, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The board, at their discretion, can at any time permit spending from the principal of any quasi-endowed fund, provided the expenditure complies with any donor-imposed restrictions related to the fund.

Kentucky enacted the Kentucky Uniform Prudent Management of Institutional Funds Act (KUPMIFA), the provisions of which apply to endowment funds existing on or established after enactment, with an effective date of July 15, 2010. Prior to the effective date of KUPMIFA, the Foundation followed the Kentucky Uniform Management of Institutional Funds Act (KUMIFA), which required the historical dollar amount of a donor-restricted endowment fund to be preserved.

An interpretation of KUPMIFA provisions by the Foundation Board of Directors requires that the historical dollar amount of a donor-restricted endowment fund be preserved. As a result of this requirement, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment. In the absence of donor restrictions, the net appreciation on a donor-restricted endowment fund is spendable. The net appreciation of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation.

Under KUPMIFA, Foundation endowment spending policy allows for prudent spending of future endowment earnings for accounts without accumulated earnings based upon consideration of the following factors, if applicable:

Duration and preservation of the endowment fund
Purpose of the institution and the endowment fund
General economic conditions
Possible effect of inflation or deflation
Expected total return on investments
Other resources of the institution
Investment policy

The approved annual endowment spending rate is reduced by a proportion of 5 percent for each 1 percent the affected endowment is below the value of original and subsequent gifts to the permanent endowment (i.e. principal).

Return Objectives and Risk Parameters. The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to return a rate equal to the Consumer Price Index plus 5 percent, net of investment fees. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that includes fixed income investments as well as publicly traded equity-based investments and various alternative investment strategies to achieve its long-term return objectives within prudent risk parameters.

Spending Policy and How the Objectives Relate to Spending Policy. The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds, for grant making and administration. The current spending policy is to distribute an amount at least equal to 3-5 percent of a moving sixteen quarter average of the fair value of the endowment funds. Accordingly, over the long term, the Foundation expects its current spending policy to allow its endowment assets to grow at an average rate of 3 percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through investment return.

Endowment net asset composition by type of endowment (in thousands) as of June 30, 2011 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor restricted endowment funds	$ -	$ 19,309	$ 33,771	$ 53,080
Quasi-endowment funds	1,775	4,477	-	6,252
Total endowment funds	$ 1,775	$ 23,786	$ 33,771	$ 59,332

Changes in endowment net assets (in thousands) as of June 30, 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 1,355	$ 15,656	$ 30,555	$ 47,566
Contributions collected	-	40	3,216	3,256
Investment income	31	1,252	-	1,283
Net investment gain	209	8,455	-	8,664
Investment class action settlements	-	7	-	7
Amounts appropriated for expenditure	(3)	(1,441)	-	(1,444)
Loss recovery transferred to unrestricted	183	(183)	-	-
Endowment net assets, end of year	$ 1,775	$ 23,786	$ 33,771	$ 59,332

Endowment net asset composition by type of endowment (in thousands) as of June 30, 2010 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor restricted endowment funds	$ -	$ 11,817	$ 30,555	$ 42,372
Quasi-endowment funds	1,355	3,839	-	5,194
Total endowment funds	$ 1,355	$ 15,656	$ 30,555	$ 47,566

Changes in endowment net assets (in thousands) as of June 30, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 814	$ 12,700	$ 27,723	$ 41,237
Contributions collected	-	16	2,832	2,848
Investment income	25	734	-	759
Net investment gain (loss)	136	4,290	-	4,426
Amounts appropriated for expenditure	(144)	(1,560)	-	(1,704)
Loss recovery transferred to unrestricted	524	(524)	-	-
Endowment net assets, end of year	$ 1,355	$ 15,656	$ 30,555	$ 47,566

Funds with Deficiencies. From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or KUMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies at June 30, 2011. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $183,000 of June 30, 2010. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

g. 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.

h. 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.

i. Subsequent Events

The date to which events occurring after June 30, 2011 have been evaluated for possible adjustment to the financial statements or disclosure is September 9, 2011, which is the date the financial statements were available to be issued.

NKU NORTHERN KENTUCKY UNIVERSITY

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