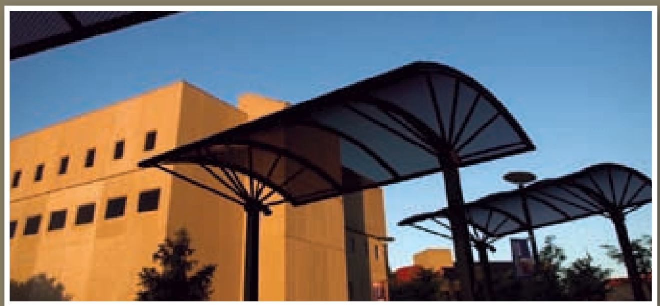
NORTHERN KENTUCKY UNIVERSITY

2008-2009 FINANCIAL REPORT



2008-2009 FINANCIAL REPORT

Current as of June 30, 2009

Northern Kentucky University and Affiliate
Annual Financial Report
2008-2009

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September 15, 2009

Northern Kentucky University Board of Regents
Highland Heights, KY 41099

Dear Members of the Board:

It is my pleasure to transmit the university's 2008-09 Annual Financial Report. The statements and accompanying footnotes have been audited by the firm of Crowe Horwath LLP. NKU ends the fiscal year and begins the new academic year in a strong financial position ready to face the current challenging economic times. Over the past two years, state appropriations have been reduced by nearly 10 percent, yet NKU continues to be one of the fastest growing universities in Kentucky and remains the most underfunded in the commonwealth while serving the state's most dynamic region.

Despite all of this, NKU has recurring reserves of nearly $5 million, has received almost $10 million in grants and contracts, and expects to obtain $3.6 million in nonrecurring federal stimulus money. Private support is at an all-time high providing NKU with $26 million including a $15.5 million gift to the College of Business by the Haile/U.S. Bank Foundation and a $6 million gift from the Griffin family for the College of Informatics. In spite of all that the university confronted this past year, we saw the university again achieve significant progress in areas important to both our students and the public.

Let us focus on a few highlights of the past year and the continued challenges of the new academic year:

As we begin this academic year, we find the university's reputation for excellence continuing to grow. Recently, *Forbes* magazine announced its list of best colleges for 2009. For the first time in its history, NKU was on that list based on criteria that included student evaluations of professors and courses, student success after graduation, average salaries of graduates, and the number of faculty and students who have won nationally competitive awards.

This reputation for excellence is translating into another banner year for enrollments and graduation rates. We expect the university to again welcome the largest, most academically talented and most diverse freshman class in our history while still needing to limit enrollment. The number of first-year students scoring 25 or higher on the ACT has increased 33 percent over last year. The number of students in the freshman class admitted with regular admission status is 8.6 percent above last year. This year we'll admit 225 new freshman honors students compared to 180 last year. The number of new African-American students is up a remarkable 20 percent, which translates into 184 students this year compared to 153 last year, which was also a record increase. Total African-American student enrollment is up 8 percent, and Hispanic student enrollment is up more than 10 percent. We expect to be flat or slightly above last year's graduate enrollments, and we'll again see an increase in Chase enrollments.

Graduation rates are impressive this past year, with the university graduating more than 1,800 students, an increase of nearly 8 percent over the previous year and 13 percent over the last two years. These increases are the largest of any Kentucky university. At the graduate level, we produced nearly 500 degree recipients last year, an increase of 5.4 percent over the previous year and 24.3 percent over the past two years. These graduate degrees are in direct response to strong regional demand. Overall, NKU's reputation for excellence resulted in numerous record increases in enrollment and graduation rates.

The university continues to take important steps to promote, maintain and enhance the quality of our academic programs. The SACS accreditation process affirmed the university's efforts in many major categories of its academic and nonacademic functions. The university also created a new College of Health Professions in response to the growing importance of the healthcare industry for our region and the commonwealth. NKU's College of Informatics, created four years ago as the first in the nation, broke ground for its new home this summer. This construction project, costing more than $40 million, will include an additional $12 million in state-of-the-art academic equipment, making it the finest facility of its kind in the nation. Despite the hiring freezes on many campuses, this year we welcomed 51 outstanding new full-time faculty members with more to come.

Our students continue to tell us that what makes the university special are small classes and faculty and staff who care about them. Despite the temptation to significantly enlarge class sizes in order to generate revenue, the average class size across campus has remained roughly 24 students. NKU faculty members continue to distinguish themselves across the full breadth of our mission, and their work continues to be recognized throughout the region, state and nation. One recent example is illustrative. Last week, biology professor Hazel Barton's research lab was listed as one of the top 10 courses in the United States by *Popular Science*. The article describes Dr. Barton's lab as one of the 10 most fun college courses and the most likely to land students their dream job!

Like our faculty, our students continue to distinguish themselves in a broad range of achievements. The Chase College of Law provides a shining example. Last year our law students achieved two Moot Court National Championships, two Best Brief Awards in moot court, two Best Advocate Awards in moot court, the State Mock Trial Championship and runner-up prizes, and the list goes on. Academic and institutional excellence extends to other dimensions as well. Last year, each of our intercollegiate athletics teams made the NCAA tournament, and the overall GPA for our student-athletes was just over a 3.0. Overall, academic quality at NKU is impressive and continues to be recognized throughout various community levels.

Great strides were made this year in advancing the quality of our campus experience. We opened the new Student Union, The Bank of Kentucky Center, the Welcome Center and Callahan Hall, and we broke ground for our new College of Informatics building and the new soccer complex. Our recently updated campus master plan contains a commitment to environmental sustainability that, today, can be found throughout our campus. We intend to have all new facilities LEED certified, which is another dimension of our commitment to excellence.

In addition, the PRISM enhancements and implementation of SAP's CM (campus management) module went live for student accounts, billing and financial aid. Excellence certainly expresses itself in the condition of our campus. Each year, it seems that our campus is more beautiful and cared for than the year before with this year being no exception. Whether it is new buildings, maintenance of our current buildings and grounds, contributing to sustainability or implementing new administrative software, all efforts are done to contribute to an environment in which learning can take place.

A defining quality of NKU is our work on behalf of regional progress. Our engagement in the community continues to grow and receive national, state and local recognition. At NKU, we've committed ourselves to working across the region and state on behalf of P-12 education enhancement. This past year, CINSAM engaged nearly 10,000 students and several hundred teachers in math and science enrichment programs. Our Haile Digital Planetarium provided P-12 enrichment to more than 4,300 students. Its capacity will be further enhanced this year by what we believe will be a $200,000 Congressional appropriation from Senator Jim Bunning. Recently, we received a highly competitive $900,000 Robert Noyce Teacher Scholarship Grant to prepare secondary math teachers to work in high-need schools.

This fall we will welcome our first students in the SOAR program. Supported by a $600,000 grant from the National Science Foundation, we have funding for scholarships for underrepresented, financially needy and academically talented students in the STEM disciplines, partnerships among biology, chemistry and mathematics. Our P-12 commitment reaches across the campus. Theater and dance reaches out to more than 26,000 students annually. Biology and chemistry reach more than 6,000 students. Our new Doctor of Education is preparing the next generation of regional education leaders by anchoring their studies in local educational practice. Early childhood faculty members are working to improve early-childhood centers. We are a full partner in the Strive educational initiative, which focuses on strengthening educational attainment in our urban districts.

In addition, we are working with all of the region's P-12 districts to promote college readiness through early testing and remediation before enrolling in college. At the state level, our Kentucky Center for Mathematics is leading an ambitious multi-campus statewide effort to improve math performance throughout Kentucky's 120 counties. Steely Library has recently received a nearly $1 million grant to strengthen the quality of library staff and services in Kentucky's most economically challenged counties by working with Bluegrass Community College and the Kentucky Department for Libraries and Archives to provide a bachelor's completer program for students with an associate degree in information science.

Beyond promoting P-12 educational excellence, we are a full partner in advancing regional economic competitiveness. The Haile/U.S. Bank College of Business has launched the Center for Economic Analysis and Development, which is providing essential analytic and interpretative support for regional economic planning and progress measurement. LaunchPad is helping to profile existing regional industries and their needs. The Infrastructure Management Institute is assisting companies to be more competitive through the creative application of digital information systems and technology.

In recent years, NKU has played an important public intellectual role through the Scripps Howard Center for Civic Engagement. The center has held public forums on such topics as health reform, media literacy, creating the innovative city, and a spirited evening focused on creationism and evolution. The Bank of Kentucky Center has added numerous events to bring cultural experiences and awareness in music, performance, sports and other areas. NKU has truly taken a significant leadership role in the national, state, regional and local communities in advancing higher education's public engagement mission.

All of this is to underscore that NKU is a major force for progress, not only in the lives of our students, but also in the life of our region and commonwealth. This university has become what it is today because it's composed of highly motivated people who believe that what this campus represents is worth living for and striving for. It's this shared belief that binds us together as a community.

Our challenge, in these days of uncertainty, is to keep our motivation strong and focused and determined, no matter what we may confront. Our companion challenge, of course, is to help guide our students to develop within themselves the motivation to pursue ideas that they believe are worth living for and striving for. At our very best, this is what we do – and no other institution does it better.

Thanks to all who have made this happen!

Sincerely,

James C. Votruba
President

Crowe Horwath.
Crowe Horwath LLP
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated financial statements of the business-type activities and discretely presented component unit of Northern Kentucky University (the "University") as of and for the years ended June 30, 2009 and 2008, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Northern Kentucky University Foundation, Inc, (the "Foundation"), a component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Northern Kentucky University as of June 30, 2009 and 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 5 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
September 28, 2009

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, 2009, with selected comparative information for the years ended June 30, 2008 and 2007. 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's comprehensive business plan that was completed in 2008, defines the financial and capital resources necessary to achieve the Council on Postsecondary Education's ambitious plan which calls for the University's undergraduate enrollment to increase to over 22,000 by the year 2020. The University continues to focus its limited resources on the most critical areas of the business 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, 2009. Total net assets increased by $7.4 million, or 3.1 percent at June 30, 2009 compared to June 30, 2008 resulting from income before other revenues, expenses, gains or losses of $0.5 million and capital grants and gifts of $6.9 million. The University's Moody's A2 debt rating remained stable for the year indicating that the University's overall financial position remains strong despite recent declines in state operating appropriations.

The University's assets increased by $22.0 million, or 5.9 percent, from June 30, 2007 to June 30, 2009 and now total $393.6 million. This increase is attributable to growth in net capital assets related to several new facilities that were completed during the year, including a new student union, housing facility, parking garage and The Bank of Kentucky Center. These facilities have enhanced not only the quality of campus life for students but also the University's ability to recruit and retain the best and brightest students. These facilities have also provided additional opportunities to support community outreach events.

At June 30, 2009, the University's liabilities totaled $144.9 million compared to the previous year's $164.4 million. This $19.5 million decrease in liabilities consisted of an $8.4 million decrease in current liabilities and an $11.1 million decrease in noncurrent liabilities.

The University's operating and nonoperating revenues increased by $9.0 million for the year ended June 30, 2009, led by a $7.0 million increase in net tuition and fees. Increases in revenues from sales and services of educational departments ($1.6 million), other operating revenues ($3.2 million) and auxiliary enterprises ($1.5 million) were also realized. Investment earnings declined by $4.9 million resulting from losses on the University's endowment investments and from a significant decline in interest rates. The University's total state appropriations, including debt service appropriations, increased slightly for the year.

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)

	2009	2008	2007
ASSETS			
Current assets	$ 79,538	$ 85,940	$ 75,585
Capital assets, net	296,056	285,041	205,186
Noncurrent assets	18,004	34,722	90,806
Total assets	393,598	405,703	371,577
LIABILITIES			
Current liabilities	31,831	40,211	43,762
Noncurrent liabilities	113,023	124,150	104,559
Total liabilities	144,854	164,361	148,321
NET ASSETS			
Invested in capital assets, net of related debt	188,085	172,961	137,857
Restricted			
Nonexpendable	7,616	7,616	7,616
Expendable	11,062	17,768	40,171
Unrestricted	41,981	42,997	37,612
Total net assets	$ 248,744	$ 241,342	$ 223,256

A review of the University's statement of net assets at June 30, 2009 reveals that the University continues to build upon its strong financial foundation.

Assets

The University's assets increased by $22.0 million, or 5.9 percent, from June 30, 2007 to June 30, 2009 and now total $393.6 million. This increase is attributable to growth in net capital assets related to capital construction projects. A $6.4 million decrease in current assets for the year ended June 30, 2009 combined with a $10.4 million increase for the year ended June 30, 2008, resulted in a combined increase of $4.0 million, or 5.2 percent, since June 30, 2007. This increase is attributable to increases in student receivables and accounts receivables related to state construction projects.

Net capital assets increased by $11.0 million for the year ended June 30, 2009 and $79.9 million for the year ended June 30, 2008, resulting in a combined increase of $90.9 million, or 44.3 percent, since June 30, 2007. This increase is related to the acquisition of new administrative systems and the construction of several new facilities, including a new student union, housing facility, parking garage and The Bank of Kentucky Center. The University funded these projects primarily through the issuance of general receipts bonds and a $54 million capital appropriation from the Commonwealth received in fiscal year 2007 for The Bank of Kentucky Center. As a result of the significant investment in its campus facilities in recent years, net capital assets have grown to $296.1 million, or 75.2 percent of total assets as of June 30, 2009.

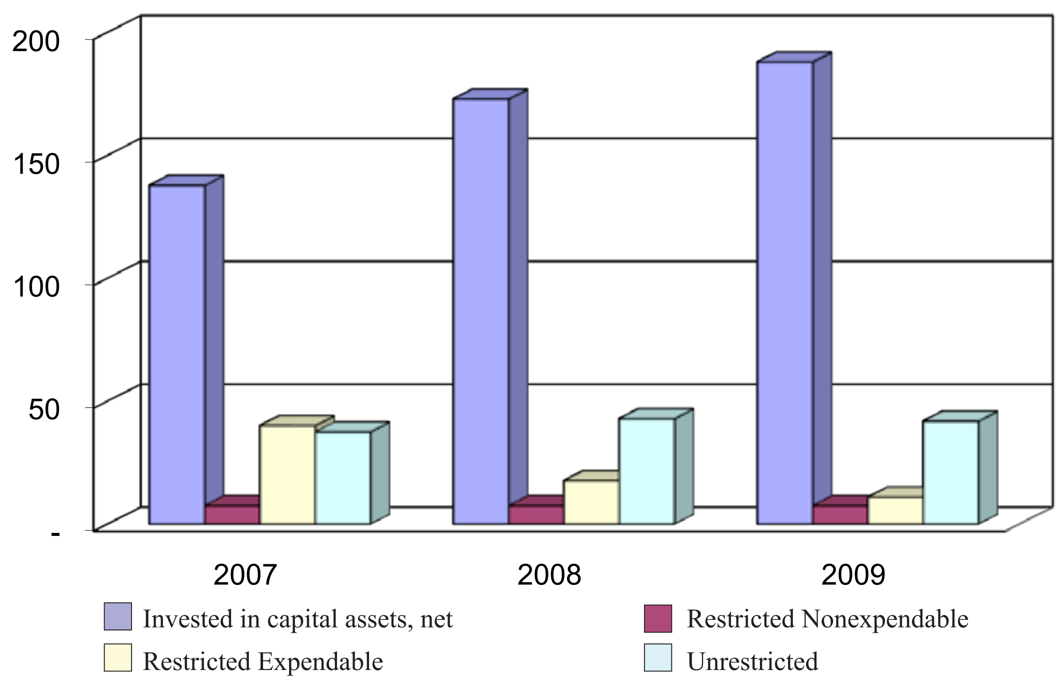
Liabilities

At June 30, 2009, the University's liabilities totaled $144.9 million compared to the previous year's $164.4 million. This $19.5 million decrease in liabilities consisted of an $8.4 million decrease in current liabilities and an $11.1 million decrease in noncurrent liabilities. The University did not issue any long-term debt during fiscal year 2009 and made principal payments of $8.4 million resulting in a decline of $8.4 million in the long-term liabilities for the year. The decline in current liabilities was primarily related to a decrease in accounts payable associated with construction projects. Bonds, notes and capital leases payable represented $108.2 million, or 74.7 percent, of total liabilities at June 30, 2009.

The University's total liabilities decreased by $3.5 million, or 2.3 percent, from June 30, 2007 to June 30, 2009. Current liabilities declined by $11.9 million during this period as a result of a decrease in accounts payable associated with construction projects. Noncurrent liabilities increased by $8.4 million primarily due to the issuance of bonds to finance the construction of a student housing facility.

Net Assets

The following chart illustrates the University's net assets for fiscal years 2007, 2008 and 2009 (amounts are presented in millions).



Net assets at June 30, 2009 totaled $248.7 million, or 63.2 percent, of total assets. Net assets invested in capital assets, net of related debt, totaled $188.1 million, or 75.6 percent, of total net assets. Restricted and unrestricted net assets represented 7.5 percent and 16.9 percent of total net assets, respectively. Total net assets increased by $7.4 million, or 3.1 percent at June 30, 2009 compared to June 30, 2008. Net assets invested in capital assets, net of related debt, increased $15.1 million primarily as a result of the University's investment in administrative software systems and the completion of The Bank of Kentucky Center and the new student union. The expenditure of restricted funds related to these projects, combined with losses on endowment investments, resulted in a $6.7 million decline in restricted expendable net assets for the year. The University's unrestricted net assets decreased by $1.0 million for the year primarily due to the expenditure of reserves related to construction projects, including the acquisition of equipment and furniture for the student union.

The University's net assets increased by $25.5 million, or 11.4 percent, from June 30, 2007 to June 30, 2009. Net assets invested in capital assets, net of related debt increased $50.2 million. Restricted expendable net assets decreased by $29.1 million while unrestricted net assets increased by $4.4 million from June 30, 2007 to June 30, 2009.

Statement of Revenues, Expenses and Changes in Net Assets

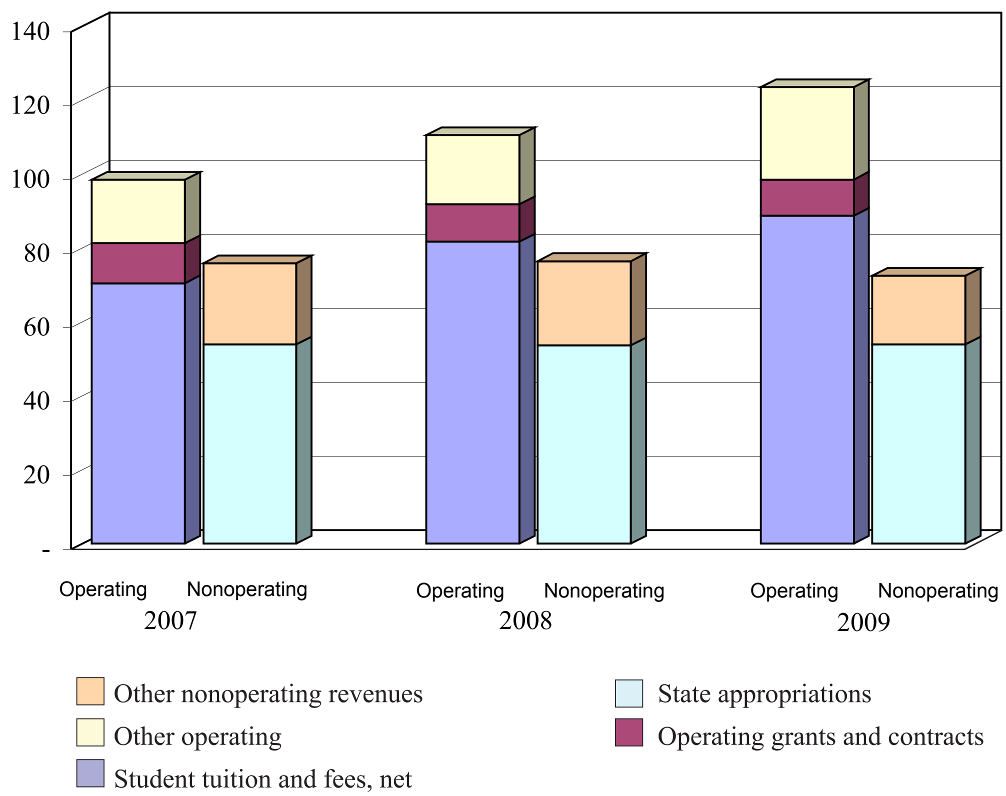
The statement of revenues, expenses and changes in net assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. GASB requires state appropriations and nonexchange grants and contracts to be classified as nonoperating revenues.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

	2009	2008	2007
OPERATING REVENUES			
Student tuition and fees, net	$ 88,704	$ 81,679	$ 70,447
Grants and Contracts	9,813	10,115	10,881
Sales and services of educational departments	5,917	4,357	3,216
Auxiliary enterprises	11,378	9,843	6,591
Other operating revenues	7,711	4,504	7,291
Total operating revenues	123,523	110,498	98,426
OPERATING EXPENSES			
Educational and general	166,813	155,665	140,033
Depreciation	15,929	9,459	8,251
Auxiliary enterprises (including depreciation)	7,685	4,607	4,301
Other expenditures	174	107	106
Total operating expenses	190,601	169,838	152,691
Net loss from operations	(67,078)	(59,340)	(54,265)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	53,876	53,677	53,876
Gifts, grants and contracts	18,820	18,250	15,994
Investment income	(361)	4,499	6,004
Interest on capital asset--related debt	(4,890)	(3,388)	(2,803)
Other nonoperating revenues (expenses)	105	(36)	(297)
Net nonoperating revenues	67,550	73,002	72,774
Income (loss) before other revneues, expenses, gains or losses	472	13,662	18,509
Capital appropriations	3,548	-	54,000
Capital grants and gifts	3,382	4,424	1,067
Total other revenues	6,930	4,424	55,067
Increase in net assets	7,402	18,086	73,576
Net assets-beginning of year	241,342	223,256	149,680
Net assets-end of year	$ 248,744	$ 241,342	$ 223,256

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 2007, 2008 and 2009. Significant recurring sources of revenues, including state appropriations and nonexchange grants and contracts, are considered nonoperating revenues as defined by GASB. These revenues support operating expenses; therefore, they are included in the graph of revenues by source (amounts are presented in millions).



Operating and nonoperating revenues totaled approximately $196.0 million for the year ended June 30, 2009. Operating revenues totaled $123.5 million, or 63.0 percent of revenues, while nonoperating revenues reached $72.5 million, or 37.0 percent of revenues, for the year. The most significant sources of revenue for the University are net student tuition and fees (45.3 percent), and state appropriations (27.5 percent).

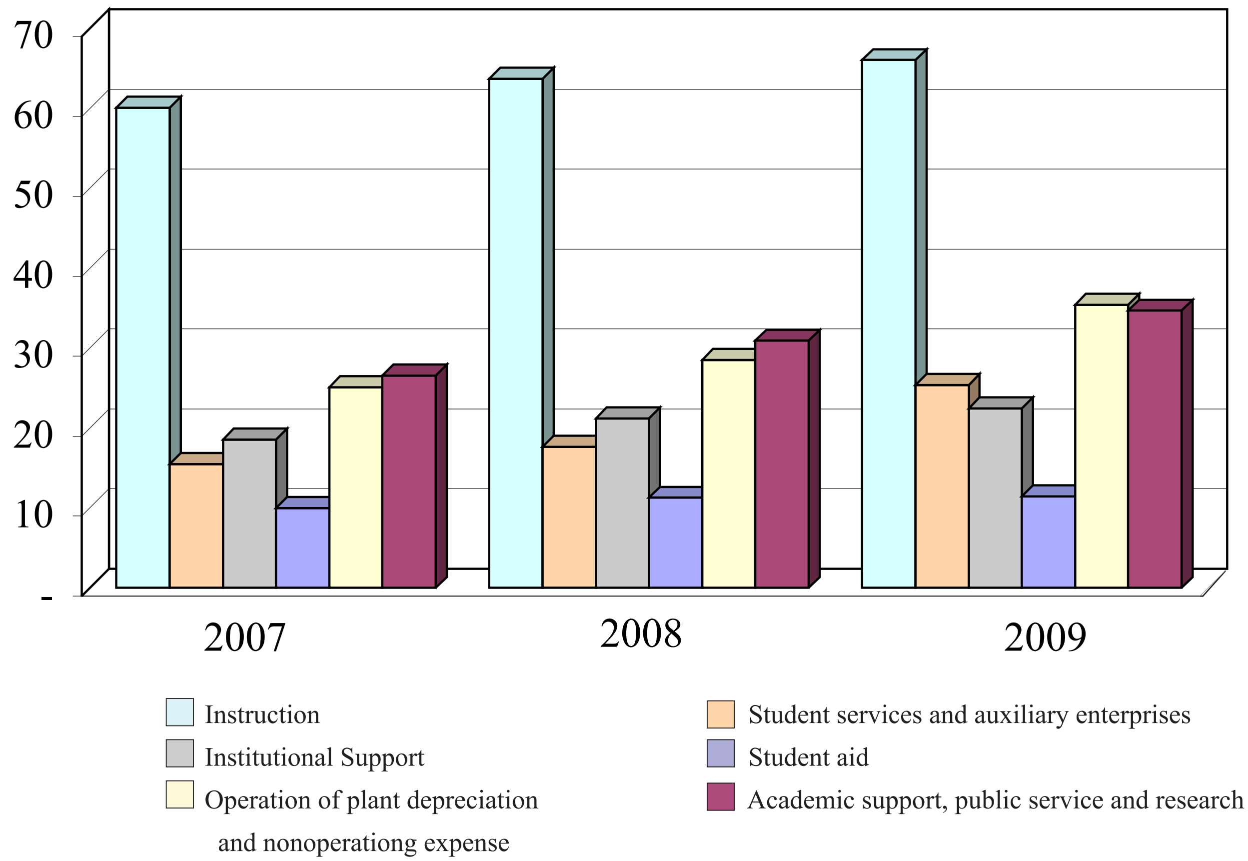
The University's operating and nonoperating revenues increased by $9.0 million for the year ended June 30, 2009, led by a $7.0 million increase in net tuition and fees. Increases in revenues from sales and services of educational departments ($1.6 million), other operating revenues ($3.2 million) and auxiliary enterprises ($1.5 million) were also realized. The University's operating grants and contracts revenues declined by $0.3 million for the year.

Nonoperating revenues decreased by $4.0 million for the year. The University's nonexchange grant revenues increased by $0.6 million for the year resulting from a growth in revenues related to federal and state funded financial aid programs. Investment earnings declined by $4.9 million resulting from losses on the University's endowment investments and from a significant decline in interest rates. The University's total state appropriations, including debt service appropriations, increased slightly for the year.

The University's nonoperating revenues have decreased by $3.4 million since June 30, 2007 primarily due to a decline in investment income. A $25.1 million, or 25.5 percent, increase in operating revenues was fueled by a growth in net tuition of $7.0 million in fiscal year 2009 and $11.2 million in fiscal year 2008. The growth in net tuition resulted from an average tuition rate increase of 8.5 percent for fiscal year 2009 and 8.7 percent for fiscal year 2008, 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 2007, 2008 and 2009 (amounts are presented in millions).



As depicted in the chart above, the majority of the University's operating funds are expended directly for the primary mission of the University – instruction $66.0 million (33.8 percent), and academic support, libraries, public service and research $34.7 million (17.7 percent). Operating and nonoperating expenses increased by $22.2 million, or 12.8 percent, to a total of $195.5 million for the year ended June 30, 2009.

A significant part of this increase resulted from a $6.1 million, or 6.5 percent, growth in instruction, research, public service, libraries and academic support expenses. This increase is attributable to the University's continued enrollment growth and outreach activities, including activities related to The Bank of Kentucky Center and the Center for Applied Ecology.

Operating and equipping the new student union contributed to a $4.7 million increase in student services expenses for the year. An increase in intercollegiate athletic expenses also contributed to this growth. Expenses related to furnishing and operating a new housing facility and an increase in depreciation related to new housing and dining facilities resulted in a $3.1 million growth in auxiliary enterprises expenses for the year.

Operation of maintenance of plant expenses decreased by $1.0 million, or 6.5 percent, for the year, due to a reduction in repair and renovation projects and lower utility expenses. Depreciation expenses totaled $15.9 million for the year, representing a $6.5 million increase over the prior year. The majority of this increase is related to depreciation expense on new buildings and equipment and new administrative software and hardware.

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)

	2009	2008	2007
Net cash provided (used) by:			
Operating activities	$ (57,484)	$ (38,919)	$ (41,770)
Noncapital financing activities	70,063	79,573	68,563
Capital and related financing activities	(38,570)	(90,185)	47,079
Investing activities	1,693	4,360	5,182
Net increase (decrease) in cash	(24,298)	(45,171)	79,054
Cash and cash equivalents, beginning of year	96,055	141,226	62,172
Cash and cash equivalents, end year	$ 71,757	$ 96,055	$ 141,226

The University's cash and cash equivalents decreased $24.3 million in 2009 as compared to a decrease of $45.2 million in 2008. Total cash used by capital and related financing activities totaled $38.6 million for 2009 and $90.2 million in 2008 resulting from the expenditure of bond proceeds and capital appropriations issued or received in 2008 and 2007. Purchases of capital assets totaled $29.0 million for the year as compared to $90.5 million for the prior year.

Major sources of funds included in operating activities are student tuition and fees ($88.7 million), grants and contracts ($10.6 million) and auxiliary enterprises ($10.5 million). The largest cash payments for operating activities were made to employees ($119.2 million) and to vendors and contractors ($61.4 million). A portion of the $23.8 million increase in payments to vendors and contractors for the year was related to the acquisition of equipment and furnishings for the new student union and housing facilities and The Bank of Kentucky Center.

The University's cash receipts from operating activities increased by $26.8 million, or 27.8 percent, from 2007 to 2009 while cash disbursements for operating activities increased by $42.5 million, or 30.7 percent for the period.

Capital Asset and Debt Administration

Capital Assets

Capital assets, net of accumulated depreciation, increased by $11.0 million for the year ended June 30, 2009. Additions to capital assets during the year totaled $29.0 million, including additions related to the new student union, housing facility, parking garage, administrative software systems and The Bank of Kentucky Center. Depreciation expenses and net capital asset disposals totaled $18.0 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 $296.1 million, or 75.2 percent of total assets as of June 30, 2009.

The University's net capital assets grew by $90.9 million from June 30, 2007 to June 30, 2009, with increases of $11.0 million in 2009 and $79.9 million in 2008. This growth reflects the University's effort to increase its capacity to serve its students and the community, including much needed parking and student housing facilities necessary to accommodate continued enrollment growth.

At June 30, 2009, the University had several major capital construction projects underway, including a new soccer stadium and Griffin Hall, a new state of the art facility that will house the University's College of Informatics.

Debt

The following is a summary of the University's outstanding debt summarized by revenue pledged as of June 30, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
General Receipts Bonds	$ 66,495	$ 68,125	$ 48,660
Consolidated Educational Buildings Revenue Bonds	17,980	21,010	23,900
Housing and Dining System Revenue Bonds	2,205	2,455	2,695
Capital Lease - Residential Village/Suites	17,001	18,657	20,229
Notes Payable and municipal lease obligations	4,525	6,322	23,122
	$ 108,206	$ 116,569	$ 118,606

For the years ended June 30, 2009 and 2008, the University's outstanding debt decreased by $8.4 million and $2.0 million, respectively. The University did not issue long-term debt during fiscal year 2009.

A strong debt rating is an important indicator of the University's success in this area. The University's current bond ratings assigned by Moody's Investors Service (A2) and Standard and 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

Although the University's total state appropriations, including debt service appropriations, remained level for the three year period ended June 30, 2009, the University's state operating appropriations have declined during this period. In addition, as a result of the current negative economic conditions, the University is anticipating an additional $2.9 million recurring cut in its fiscal year 2010 enacted state operating appropriation. The University has established a budget reserve that will allow the University to cover this cut on a short term basis without disrupting its core functions. Fortunately, in fiscal year 2010, the negative impact of the recurring cut in state appropriations on the University's total revenues may be offset by approximately $3.6 million in State Fiscal Stabilization Funds that the University anticipates it will receive from the Commonwealth under the American Recovery and Reinvestment Act.

The University's resource allocations are guided by the University's comprehensive business plan that defines the financial and capital resources necessary to achieve the Council on Postsecondary Education's ambitious 2020 Public Agenda and support the Northern Kentucky Vision 2015 goals. Although the University has made incremental progress on the business plan by reducing costs and reallocating funds, continuing cuts in state operating appropriations have hampered progress on achieving the business plan goals. The University continues to focus its limited resources on the most critical areas of the business 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.

While improved state funding is critical to the University's future success, management is continuing its efforts to diversify revenue sources and contain costs. The University's business plan incorporates strategies to diversify and strengthen its tuition base and increase grant and contract revenues, private gifts and other revenues that will be necessary to accomplish the full breadth of the University's mission. The University's enrollment continues to increase not only in size but in quality. The University expects tuition revenue to increase by over $10 million for fiscal year 2010.

The University's campus has been transformed with the addition of The Bank of Kentucky Center and a new student union. These new facilities have enhanced both the quality of campus life and the University's ability to provide additional opportunities to support community outreach events. The University's recruitment efforts were enhanced this year with the addition of new student housing that increased the total number of resident students to over 1,800. The University's business plan calls for the University to increase its on campus student housing to over 4,000 beds by the year 2020.

Despite the current economic environment and related budget uncertainty, the University's strategic planning and budgeting processes have enabled it to continue to make progress in meeting the targets established by the Council on Postsecondary

Education for enrollment, degree production, community engagement, college affordability and other key indicators that will measure the University's contribution to the Council's Public Agenda and 2020 plan. The University has reallocated existing resources realized through cost reductions and committed scarce new resources in an effort to meet or exceed these targets. The University has made significant progress in reaching these goals, particularly critical goals such as degree production. University's executive management believes the University is in good financial condition and, in full partnership with the Council, the Commonwealth and the community, will continue to build the capacity to meet goals established by the Council's Public Agenda and 2020 plan and the ambitious goals established by the region's Vision 2015 plan.

Northern Kentucky University and Affiliate
Consolidated Statements of Net Assets
June 30, 2009 and 2008
(in thousands)

	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents	$ 65,603	$ 75,393
Notes, loans and accounts receivable, net	12,044	8,837
Other current assets	1,891	1,710
Total current assets	79,538	85,940
Noncurrent Assets		
Cash and cash equivalents	6,154	20,662
Investments	8,461	10,039
Notes, loans and accounts receivable, net	2,107	2,093
Capital assets, net	296,056	285,041
Other noncurrent assets	1,282	1,928
Total noncurrent assets	314,060	319,763
Total assets	393,598	405,703
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	16,835	25,224
Deferred revenue	6,346	6,429
Long-term liabilities-current portion	8,650	8,558
Total current liabilities	31,831	40,211
Noncurrent Liabilities		
Deposits	6,543	9,345
Deferred revenue	3,795	3,611
Long-term liabilities	102,685	111,194
Total noncurrent liabilities	113,023	124,150
Total liabilities	144,854	164,361
NET ASSETS		
Invested in capital assets, net of related debt	188,085	172,961
Restricted		
Nonexpendable	7,616	7,616
Expendable	11,062	17,768
Unrestricted	41,981	42,997
Total net assets	$ 248,744	$ 241,342

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Statements of Financial Position
As of June 30, 2009 and 2008
(in thousands)

	2009	2008
ASSETS		
Cash and cash equivalents	$ 7,708	$ 7,396
Loans, interest and accounts receivable (less allowance of $116,475 in 2009 and $109,929 in 2008)	146	219
Contributions receivable (less allowance of $75,406 in 2009 and $37,838 in 2008)	22,234	10,241
Prepaid expenses and deferred charges	38	64
Investments	48,012	50,338
Land, buildings and equipment	2,890	2,891
Accumulated depreciation	(182)	(176)
Total Assets	80,846	70,973
LIABILITIES AND NET ASSETS		
Accounts payable	216	540
Accrued interest	194	-
Agency fund	-	-
Annuities payable	48	88
Deferred income	25	25
Funds held in trust for Northern Kentucky University	7,936	9,485
Notes payable	6,525	6,525
Total Liabilities	14,944	16,663
NET ASSETS		
Unrestricted		
For current operations	443	358
For designated purpose	-	527
Contributions receivable	2	46
Amounts functioning as endowment funds	814	1,954
Invested in property, plant and equipment	607	615
Total Unrestricted	1,866	3,500
Temporarily restricted		
Unexpended funds received for restricted purposes	1,245	886
Contributions receivable	11,793	6,578
Loan funds	135	142
Endowment funds	12,700	18,169
Total temporarily restricted	25,873	25,775
Permanently restricted		
Contributions receivable	10,440	3,618
Endowment funds	27,723	21,417
Total permanently restricted	38,163	25,035
Total Net Assets	65,902	54,310
Total Liabilities and Net Assets	$ 80,846	$ 70,973

See accompanying notes to the financial statements

Northern Kentucky University and Affiliate
Consolidated Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2009 and 2008
(in thousands)

	2009	2008
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of $17,937 in 2009) and $15,411 in 2008)	$ 88,704	$ 81,679
Federal grants and contracts	3,313	3,045
State and local grants and contracts	3,516	4,585
Nongovernmental grants and contracts	2,984	2,485
Sales and services of educational departments	5,917	4,357
Auxiliary enterprises		
Housing operations (net of scholarship allowances of $471 in 2009) and $467 in 2008)	7,022	5,613
Other auxiliaries	4,356	4,230
Other operating revenues	7,711	4,504
Total operating revenues	123,523	110,498
OPERATING EXPENSES		
Educational and general		
Instruction	66,038	63,683
Research	1,376	1,445
Public service	14,351	10,137
Libraries	4,241	4,325
Academic support	14,717	15,015
Student services	17,552	12,949
Institutional support	22,481	21,207
Operation and maintenance of plant	14,609	15,620
Depreciation	15,929	9,459
Student aid	11,448	11,284
Auxiliary enterprises		
Housing operations	4,542	2,516
Other auxiliaries	1,091	876
Auxiliary depreciation	2,052	1,215
Other expenses	174	107
Total operating expenses	190,601	169,838
Net loss from operations	(67,078)	(59,340)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	53,876	53,677
Federal grants and contracts	10,961	9,225
State and local grants and contracts	7,800	8,985
Private gifts and grants	59	40
Investment income (loss)	(361)	4,499
Interest on capital asset-related debt	(4,890)	(3,388)
Other nonoperating revenues (expenses)	105	(36)
Net nonoperating revenues	67,550	73,002
Income before other revenues, expenses, gains or losses	472	13,662
Capital appropriations	3,548	-
Capital grants and gifts	3,382	4,424
Total other revenues	6,930	4,424
Increase (decrease) in net assets	7,402	18,086
NET ASSETS		
Net assets-beginning of year	241,342	223,256
Net assets-end of year	$ 248,744	$ 241,342

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Statement of Activities
For the year ended June 30, 2009
(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	$ 9	$ 9,210	$ 13,116	$ 22,335
Rental income	107	-	-	107
Investment income	86	760	-	846
Net gains (losses) on investments	(921)	(5,729)	-	(6,650)
Other revenue	23	805	-	828
Total Revenues and Gains	(696)	5,046	13,116	17,466
Net Assets Released from Restrictions	5,341	(5,341)	-	-
Total Revenues and Gains and Other Support	4,645	(295)	13,116	17,466
Program Expenses				
Instruction	358	-	-	358
Research	-	-	-	-
Public service	1,335	-	-	1,335
Libraries	33	-	-	33
Academic support	402	-	-	402
Student services	244	-	-	244
Institutional support	535	-	-	535
University facilities and equipment acquisition	929	-	-	929
Student financial aid	1,225	-	-	1,225
Total Program Expenses	5,061	-	-	5,061
Support Expenses				
Management and general	403	-	-	403
Fundraising support	69	-	-	69
Rental property	341	-	-	341
Total Support Expenses	813	-	-	813
Total Expenses	5,874	-	-	5,874
Net transfers in (out)	(405)	393	12	-
Increase (Decrease) in Net Assets	(1,634)	98	13,128	11,592
Net Assets - Beginning of Year	3,500	25,775	25,035	54,310
Net Assets - End of Year	$ 1,866	$ 25,873	$ 38,163	$ 65,902

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Statement of Activities
For the year ended June 30, 2008
(in thousands)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
CHANGES IN NET ASSETS:				
Revenues and Gains				
Gifts, grants and bequests	$ 538	$ 3,812	$ 2,133	$ 6,483
Rental income	107	3	-	110
Investment income	304	758	-	1,062
Net gains (losses) on investments	(390)	(3,536)	-	(3,926)
Other revenue	9	705	-	714
Total Revenues and Gains	568	1,742	2,133	4,443
Net Assets Released from Restrictions	7,699	(7,699)	-	-
Total Revenues and Gains and Other Support	8,267	(5,957)	2,133	4,443
Program Expenses				
Instruction	454	-	-	454
Research	4	-	-	4
Public service	774	-	-	774
Libraries	27	-	-	27
Academic support	256	-	-	256
Student services	225	-	-	225
Institutional support	639	-	-	639
University facilities and equipment acquisition	4,408	-	-	4,408
Student financial aid	1,008	-	-	1,008
Total Program Expenses	7,795	-	-	7,795
Support Expenses				
Management and general	207	-	-	207
Fundraising support	93	-	-	93
Rental property	179	-	-	179
Total Support Expenses	479	-	-	479
Total Expenses	8,274	-	-	8,274
Net transfers in (out)	(166)	166	-	-
Increase (Decrease) in Net Assets	(173)	(5,791)	2,133	(3,831)
Net Assets - Beginning of Year	3,673	31,566	22,902	58,141
Net Assets - End of Year	$ 3,500	$ 25,775	$ 25,035	$ 54,310

See accompanying notes to the financial statements

Northern Kentucky University and Affiliate
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2009 and 2008
(in thousands)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 88,695	$ 80,435
Grants and contracts	10,551	11,374
Payments to suppliers	(61,378)	(37,536)
Payments for salaries and benefits	(119,231)	(112,548)
Loans issued to students	(301)	(550)
Collection of loans to students	326	338
Auxiliary enterprise receipts:		
Housing operations	7,020	5,722
Other auxiliaries	3,527	1,829
Sales and service of educational departments	6,009	4,101
Other receipts (payments)	7,298	7,916
Net cash used by operating activities	(57,484)	(38,919)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	53,876	53,677
Gifts and grants for other than capital purposes	18,348	18,250
Agency and loan program receipts	70,893	70,801
Agency and loan program disbursements	(73,243)	(63,214)
Other nonoperating receipts (payments)	189	59
Net cash provided by noncapital financing activities	70,063	79,573
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from capital debt and leases	-	19,095
Capital appropriations	66	-
Capital grants, gifts, and advances received	3,404	5,399
Purchases of capital assets	(28,997)	(90,529)
Principal paid on capital debt and leases	(8,418)	(21,367)
Interest paid on capital debt and leases	(4,625)	(2,783)
Net cash provided (used) by capital financing activities	(38,570)	(90,185)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	27	225
Interest on investments	1,666	4,135
Net cash provided by investing activities	1,693	4,360
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(24,298)	(45,171)
Cash and cash equivalents-beginning of year	96,055	141,226
Cash and cash equivalents-end of year	71,757	96,055
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES:		
Net loss from operations	(67,078)	(59,340)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	17,981	10,674
Changes in assets and liabilities:		
Receivables, net	220	59
Other assets	370	8
Accounts payable	(8,428)	9,320
Deferred revenue	102	205
Long-term liabilities	(651)	155
Net cash used by operating activities	$ (57,484)	$ (38,919)

See accompanying notes to the financial statements

Note 1 – Organization and Summary of Significant Accounting Policies

a. Reporting Entity

Northern Kentucky University (the University) is a component unit of the Commonwealth of Kentucky and is included in the general-purpose financial statements of the Commonwealth. The consolidated financial statements of the University include the operations of the Northern Kentucky University Research Foundation; an affiliated non-profit corporation. The Northern Kentucky University Foundation, Inc. (the Foundation) is a legally separate, tax-exempt organization supporting the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation's Board of Directors is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The accompanying financial statements do not include the financial position and result of operation of the Chase College Foundation, Inc. This foundation is a separately incorporated not-for-profit entity organized for the purpose of promoting the educational mission of the University's Salmon P. Chase College of Law. Although this entity benefits the University's Salmon P. Chase College of Law, it is governed by 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).

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

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

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

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

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

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

c. Accrual Basis

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

d. Capital Assets

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

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

During the current year a review of useful lives of several technology asset classes was conducted. As a result of the review, the useful lives of some asset classes were reduced resulting in an increase in current year depreciation expense of $2,405,000.

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

f. Investments
Investments are stated at fair value.

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

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

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

j. Operating Activities
The University defines operating activities, as reported on the statement of revenues, expenses and changes in net assets, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for services and goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenues relied upon for operations, such as state appropriations, gifts and investment income, are recorded as nonoperating revenues, in accordance with GASB 35. In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance* and recent updates in GASB's Implementation Guide, 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.

k. Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

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

During the years ended June 30, 2009, and 2008, the Foundation made payments on behalf of the University of $2,612,000 and $2,269,000, respectively. In addition, the Foundation transferred to the University $2,449,000 in 2009 and $5,526,000 in 2008 for restricted purposes. Complete financial statements for the Foundation can be obtained from the Northern Kentucky University Foundation, Inc. at the Lucas Administrative Center Room 221, Nunn Drive, Highland Heights, KY 41099.

m. Reclassifications
Certain items have been reclassified for the year ended June 30, 2008, in order to conform to classifications used for the year ended June 30, 2009. These reclassifications had no effect on total net assets and the change in net assets.

n. Recent Accounting Pronouncements

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

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments, including public colleges and universities. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. The provisions of this statement are effective for financial statements for fiscal periods beginning after June 15, 2009. The University has not yet concluded its evaluation on the impact that the adoption of this statement will have on its financial statements.

Note 2 – Cash, Cash Equivalents and Investments

Cash and cash equivalents includes all readily available sources of cash such as petty cash, demand deposits, certificates of deposit and temporary investments in marketable debt securities with original maturities less than three months. At June 30, 2009, petty cash funds totaled $26,000 and the carrying amount of the deposits was $71,731,000 with a corresponding total bank balance of $74,279,000. Of the bank balance, $15,818,000 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 $58,461,000 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, 2009 and 2008:

	2009	**2008**
U.S. Treasury Securities	$ 554,000	$ 572,000
Restricted assets held by the Foundation	7,907,000	9,467,000
Total Investments	$ 8,461,000	$ 10,039,000

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, 2009 and 2008 are invested as follows:

	2009	**2008**
Type of Investment:		
Fixed income funds	18%	21%
Equity funds and common stock	56%	58%
Hedge funds	13%	14%
Alternative investments	9%	7%
Other	4%	0%
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 $101,000 and $37,000 as of June 30, 2009 and 2008 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. At June 30, 2009, all investments with maturities from one to five years are compliant with the bond resolution requirements.

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 statute. 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, 2009 and 2008 are as follows (in thousands):

	2009		
	Gross Receivable	Allowance	Net Receivable
Student loans	$ 2,974	$ (429)	$ 2,545
Student account receivables	5,041	(2,332)	2,709
Reimbursement receivable grants and contracts	2,319	-	2,319
State capital appropriation account receivables	3,481	-	3,481
Other	3,247	(150)	3,097
Total	$ 17,062	$ (2,911)	$ 14,151
Current portion			12,044
Noncurrent portion			2,107
Total			$ 14,151

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

Note 4 – Capital Assets, net

Capital assets for the years ended June 30, 2009 and 2008 are summarized as follows (in thousands):

	July 1, 2008	Additions	Reductions	June 30, 2009
Cost:				
Land	$ 5,768	$ 112	$ -	$ 5,880
Land improvements	15,218	1,153	-	16,371
Buildings	318,916	18,222	447	336,691
Equipment	36,124	15,014	59	51,079
Library books	30,080	1,816	132	31,764
Construction in process	12,977	-	7,314	5,663
	419,083	36,317	7,952	447,448
Accumulated Depreciation				
Land improvements	2,325	415	-	2,740
Buildings	92,225	10,423	447	102,201
Equipment	17,765	5,732	51	23,446
Library books	21,727	1,411	133	23,005
	134,042	17,981	631	151,392
Capital assets, net	$ 285,041	$ 18,336	$ 7,321	$ 296,056

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

As of June 30, 2009 and 2008, the net book value of land, buildings and equipment acquired through capital leases included in the above schedules totaled $20,135,000 and $23,813,000 respectively, including buildings of $19,978,000 and $20,981,000.

Note 5 – Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2009 and 2008 are as follows (in thousands):

	2009	2008
Payable to vendors and contractors	$ 8,857	$ 18,416
Accrued expenses, primarily payroll and vacation leave	5,447	4,544
Employee withholdings and deposits payable to third parties	2,531	2,264
Total	$ 16,835	$ 25,224

Note 6 – Deferred Revenue

Deferred revenue as of June 30, 2009 and 2008 are as follows (in thousands):

	2009	2008
Unearned summer school revenues	$ 3,901	$ 3,573
Unearned grants and contracts revenue	1,257	1,341
Unearned auxiliary revenue	4,243	4,306
Other	740	820
Total	$ 10,141	$ 10,040
Current	6,346	6,429
Noncurrent	3,795	3,611
Total	$ 10,141	$ 10,040

Note 7 – Long-term Liabilities

The changes in long-term liabilities for the years ended June 30, 2009 and 2008 are summarized as follows (in thousands):

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion	Noncurrent Portion
Consolidated Educational Buildings Revenue Bonds	$ 21,010	$ -	$ 3,030	$ 17,980	$ 3,180	$ 14,800
Housing and Dining Revenue Bonds	2,455	-	250	$ 2,205	265	1,940
General Receipts Bonds	68,125	-	1,630	$ 66,495	1,890	64,605
Municipal lease obligations	6,322	-	1,797	$ 4,525	1,545	2,980
Capital leases	18,657	-	1,656	$ 17,001	1,725	15,276
Total bonds, notes and capital leases	116,569	-	8,363	108,206	8,605	99,601
Deferred compensation	710	-	27	683	45	638
Federal portion of loan programs	2,360	18	45	2,333	-	2,333
Arbitrage rebate liability	113	-	-	113	-	113
Total other liabilities	3,183	18	72	3,129	45	3,084
Total long-term liabilities	$ 119,752	$ 18	$ 8,435	$ 111,335	$ 8,650	$ 102,685

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

The outstanding Consolidated Educational Buildings Revenue Bonds (CEBRB) consist of CEBRB Series A, B, J, K and L with interest rates ranging from 3.50 percent to 5.97 percent and various maturity dates through May 1, 2023. Student tuition and fees and proceeds from a United States Department of Education annual interest grant are pledged as security for the University's outstanding CEBRB. The reserve requirements for all CEBRB issues have been fully funded as of June 30, 2009.

The outstanding Housing and Dining System Revenue Bonds (Housing and Dining) consist of Housing and Dining Series B and C with interest rates ranging from 3.0 percent to 7.8 percent and various maturity dates through November 1, 2020. The gross revenues of the Housing and Dining system operations are pledged for the retirement of the Housing and Dining System Revenue Bonds. The reserve requirements for all Housing and Dining issues had been fully funded as of June 30, 2009. The outstanding municipal lease obligations as of June 30, 2009 consist of master lease obligations issued through a local bank totaling $1,365,000, with interest rates ranging from 2.59 percent to 4.65 percent, and a lease obligation of $3,160,000, with an interest rate of 3.76 percent, for an energy management project. The energy management lease will be paid with guaranteed energy savings.

The outstanding capital leases as of June 30, 2009 consist of two student housing facility leases of $4,135,000 and $12,866,000 entered into on April 22, 1998 and August 1, 2002, respectively. These leases have imputed interest rates of 4.58 and 4.88 percent, respectively. The 1998 facilities lease is renewable for biennial terms until final termination on December 1, 2011 or as provided in the lease. The 2002 lease is renewable for biennial terms until final termination on December 1, 2027 or as provided in the lease. Title to both housing facilities will transfer to the University upon termination of the facilities leases. The future minimum lease payments are to be paid from revenues of the leased facilities.

The outstanding obligation as of June 30, 2009 for the Northern Kentucky University General Receipts Bonds, 2007 Series A is $47,030,000. The interest rate yields range from 3.65 - 4.64 percent through September 2027. The net interest cost is 4.36 percent. The bond proceeds were used for construction of the new student union facility and an additional parking garage. The outstanding obligation as of June 30, 2009 for the Northern Kentucky University General Receipts Bonds, 2008 Series A is $19,465,000. The interest rate yields range from 2.25 - 4.54 percent through September 2028. The net interest cost is 4.30 percent. The bond proceeds were used for renovation, installation, and equipping Callahan Hall, a student residence hall. 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.

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
2010	$ 8,605	$ 4,479	$ 13,084
2011	7,767	4,127	11,894
2012	7,339	3,780	11,119
2013	4,855	3,492	8,347
2014	4,027	3,297	7,324
2015-2019	22,745	13,863	36,608
2020-2024	26,100	8,720	34,820
2025-2029	26,768	2,634	29,402
Total	$ 108,206	$ 44,392	$ 152,598

Note 8 – Pension Plans and Accrued Compensated Absences

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

a. Defined Contribution Plan

A Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA CREF) sponsored plan, adopted by the Board of Regents in July 1970, is available upon completion of one year's service, to all regular full-time members of the faculty, administrative officers and others who have educational related duties. The TIAA CREF retirement plan is a defined contribution, money purchase retirement plan. The employees contribute 5 percent of their base salary to the plan, and the University contributes 10 percent. All payments are vested immediately and the contracts with the providers are owned by the individual employees. The employee is entitled to various payment options upon retirement. Benefit payments at retirement depend on the total contributions with interest deposited into the employee's account. Retirement benefits can begin upon retirement or termination of employment with the University. Covered payroll totaled $42,540,000 and $39,550,000 for the years ended June 30, 2009 and 2008, respectively. Expenditures for the University's portion amounted to $4,254,000 and $3,955,000 for the years ended June 30, 2009 and 2008, respectively.

b. Defined Benefit Plan

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

Funding Policy - Benefit and contribution rates are established by state statute. For the fiscal year ended June 30, 2009, University employees were required to contribute 5 percent of their annual covered salary and the University was required to contribute 8.5 percent of covered payroll for non-hazardous pay and 24.25 percent for hazardous pay. The University's contributions to KERS for the years ending June 30, 2009, 2008 and 2007 were $3,567,000, $2,877,000, and $2,359,000, respectively, equal to the required contributions for each year.

c. Deferred Compensation Plans

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

All compensation deferred under Section 457, all property and rights purchased with that compensation and all income attributable to that compensation, property or rights belong solely to the Commonwealth and the University until paid to the employee or beneficiary, subject only to the claims of the Commonwealth's and University's general creditors. Participants' rights under the plan are equal to those of general creditors of the Commonwealth and the University in an amount equal to the fair market value of the deferred account for each participant. The market value of the University's share of the Section 457 plan assets, as of June 30, 2009 and 2008, were $1,801,000 and $2,145,000, respectively. All compensation deferred under Section 401(k) and resultant assets belong to the plan participants.

d. Compensated Absences

University employees begin to accumulate annual vacation allowance from the initial date of employment; however, no vacation is granted until three months of continuous employment have been completed. The maximum accumulation of vacation leave is limited to the number of days that can be accumulated in twelve months, based upon length of service and employment classification. Employees are paid their accumulated vacation upon termination, subject to certain limitations. At June 30, 2009 and 2008, the University had recognized an accrued vacation liability of $3,082,000 and $2,594,000, 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, 2009 and 2008 (in thousands):

	2009	2008
Salaries and wages	$ 95,731	$ 90,637
Employee benefits	24,882	23,174
Utilities	5,966	5,089
Supplies and other services	34,304	29,311
Depreciation	17,981	10,674
Student scholarships and financial aid	11,737	10,953
Total	$ 190,601	$ 169,838

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 2008 to 2009. 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, 2009. 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, 2009 was approximately $9,800,000. Such construction is principally financed by capital appropriations from the Commonwealth of Kentucky and a capital grant from a local governmental agency.

Note 12 – Segment Information

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

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

Condensed Statements of Net Assets at June 30, 2009 and 2008 (in thousands)

	2009	2008
Assets:		
Current assets	$ 794	$ 899
Noncurrent assets		
Capital assets, net	1,534	1,585
Other	363	369
Total assets	2,691	2,853
Liabilities:		
Current liabilities	302	370
Noncurrent liabilities	1,940	2,205
Total liabilities	2,242	2,575
Net assets (deficit):		
Invested in capital, net of related debt	(670)	(870)
Restricted	745	745
Unrestricted	374	403
Total net assets (deficit)	$ 449	$ 278

Condensed Statements of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2009 and 2008 (in thousands)

	2009	2008
Operating revenues		
Room rental	$ 977	$ 1,014
Board revenue	24	20
Other	18	13
Total operating revenues	1,019	1,047
Operating expenses	390	434
Depreciation	148	146
Total operating expenses	538	580
Operating income	481	467
Nonoperating revenues	10	63
Nonoperating expenses	(76)	(88)
Excess of revenues over expenses	415	442
Transfers (to) from other University units	(244)	(228)
Increase (decrease) in net assets	171	214
Net assets (deficit), beginning of year	278	64
Net assets (deficit), end of year	$ 449	$ 278

Condensed Statements of Cash Flows for the years ended June 30, 2009 and 2008 (in thousands)

	2009	2008
Net cash flows provided by operating activities	$ 409	$ 643
Net cash flows provided by investing activities	12	62
Net cash flows used by capital and related financing activities	(573)	(551)
Net increase in cash and cash equivalents	(152)	154
Cash and cash equivalents, beginning of year	1,272	1,118
Cash and cash equivalents, end of year	$ 1,120	$ 1,272

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

a. Summary of Significant Accounting Policies

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

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

Net assets and changes therein are classified as follows:

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

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

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

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

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

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

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

3. Cash and Cash Equivalents

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

At various times throughout the year, the Foundation may have cash in certain financial institutions in excess of insured limits. At June 30, 2009 and 2008, the carrying amount of the Foundation's cash and cash equivalents was $7,708,000 and $7,396,000, respectively. Included in the Foundation's deposits at June 30, 2009 and 2008, are short-term government obligation shares of $1,369,000 and $1,351,000, respectively. Of the remaining balance, $500,000 was insured by federal depository insurance and the remaining was collateralized with securities held by the financial institution's trust department or agent, but not in the Foundation's name.

4. 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, 2009 and 2008 was $116,745 and $109,929, respectively. Changes in the valuation allowance have not been material to the financial statements.

5. Investments

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

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

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

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

6. Fixed Assets and Depreciation

At June 30, 2009 and 2008, fixed assets consisted of:

	2009	2008
Type of Asset:		
Land	$ 2,682	$ 2,682
Land improvements	208	208
Museum and art collection	-	1
Total Fixed Assets	$ 2,890	$ 2,891

The cost of expenditures for land, buildings, improvements, equipment, art and museum collections and the fair market value of donated capital assets in excess of $5,000 are capitalized. Annual depreciation is computed on a straight-line basis, beginning in the month of acquisition, at rates based on useful lives of 25 to 40 years for buildings and improvements and 3 to 5 years for furnishings and equipment. Assets acquired for the museum and art collection are not depreciated. Depreciation expense for the years ended June 30, 2009 and 2008 was $7,000 and $7,000, respectively, and is reported as support expenses under rental property in the statement of activities.

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

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.

8. Use of Estimates in the Preparation of Financial Statements

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

9. Reclassifications

Certain items have been reclassified for the year ended June 30, 2008, in order to conform to classifications used for the year ended June 30, 2009. These reclassifications had no effect on total net assets and the change in net assets.

b. Notes Payable

The Foundation has a $2.1 million open-end mortgage note payable collateralized by a first mortgage on certain land and land improvements owned by the Foundation. The note principal is due on or before June 30, 2012. Monthly payments of interest at the lender's floating prime rate (4.0 percent at June 30, 2009) were current at June 30, 2009.

On June 30, 2008, the Foundation borrowed $4.425 million on a promissory note collateralized by certain pledges receivable restricted by the donor to partially fund construction of The Bank of Kentucky Center, a multi-purpose athletic and special event facility. Equal annual payments of principal and interest at a rate of 4.3 percent are due beginning August 1, 2009 through August 1, 2014. Accrued interest and principal (in thousands) to be paid over the term of the loan are as follows:

Year Ended	Principal	Interest	Total
2010	$ 647	$ 168	$ 815
2011	692	137	829
2012	723	106	829
2013	754	73	827
2014	787	39	826
2015	822	3	825
Totals	$ 4,425	$ 526	$ 4,951

Costs of $33,700 associated with obtaining the loan are being amortized over the 73-month term of the note. The $4.391 million net proceeds of the loan were immediately subgranted to Northern Kentucky University to be applied toward construction costs of The Bank of Kentucky Center. An additional $857,000 was subgranted to Northern Kentucky University during 2009. The subgrants are reported in the statement of activities as a program expense under University facilities and equipment.

c. Unconditional and Conditional Promises to Give

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

At June 30, 2009 and 2008, the Foundation recognized contributions based on the following unconditional promises to give (in thousands):

	2009	2008
Purpose:		
Endowment giving	$ 11,339	$ 4,147
Capital purposes	11,304	6,189
Operating programs	1,763	728
Gross unconditional promises	24,406	11,064
Less: Discount and allowance		
for uncollectable accounts	(2,172)	(823)
Net unconditional promises to give	$ 22,234	$ 10,241
Amounts due in:		
Less than one year	$ 5,721	$ 5,066
One to five years	17,821	4,265
More than five years	864	1,733
Total	$ 24,406	$ 11,064

The discount rates used to calculate the present value of contributions receivable at June 30, 2009 and 2008 are 2.8 percent and 3.8 percent, respectively.

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

Conditional promises to give are not included as support until such time as the conditions are substantially met. At June 30, 2009, the Foundation had received conditional promises to give of approximately $1,400,000, consisting of the face value of life insurance policies, net of accumulated cash surrender value.

d. Investments

The market values (in thousands) of the Foundation's investments as of June 30, 2009 and 2008 are categorized by type below:

	2009	2008
Type of Investment:		
Short-term money market funds	$ 19	$ 25
Fixed income funds	8,118	10,751
Equity funds and common stock	26,356	28,906
Hedge funds	6,149	6,792
Alternative investments	4,413	3,372
Other	2,957	492
Total Investments	$ 48,012	$ 50,338

Investment income and gains (in thousands) for the years ended June 30, 2009 and 2008 consist of:

	2009	2008
Interest	$ 178	$ 389
Dividends	822	782
Fees	(154)	(109)
Total Investment Income	**$ 846**	**$ 1,062**
Realized Gains	(2,801)	2,224
Unrealized Gains (Losses)	(3,849)	(6,150)
Total Investment Income	**$ (6,650)**	**$ (3,926)**

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, 2009 and 2008 were $7,936,000 and $9,485,000 respectively.

At June 30, 2009, the Foundation had committed $15.2 million of its endowment investment resources to alternative investments, of which $9.6 million had not yet been called by the investment managers. Alternative investments for which commitments have been made consist of private equity, venture capital, real estate and real assets.

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 and liabilities measured at fair value:

Investments

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 natural resources, real assets, private equity, venture capital and real estate. There have been no changes in the methodologies used at June 30, 2009.

The following assets were measured at fair value as of June 30, 2009 (in thousands):

	Quoted Price In Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments	$ 37,068	$ 6,531	$ 4,413

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

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

	Investments
Beginning balance	$ 3,372
Purchases, sales and settlements (net)	1,792
Gains (losses) for the year included in changes in net assets as revenue	(646)
Transfers in (out) of Level 3	(105)
Ending balance	$ 4,413

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. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Funds functioning as endowments include both unrestricted net assets and temporarily restricted net assets that have been designated by the Board of Directors for long-term investment.

The Foundation follows the Uniform Management of Institutional Funds Act of 1972 (UMIFA) and its own governing documents. UMIFA requires the historical dollar amount of a donor-restricted endowment fund to 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, and (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 under UMIFA. 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.

Endowment Investment and Spending Policies. 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 8-10 percent, net of investment fees. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places an emphasis on U.S. Treasury securities and equity-based investments to achieve its long-term return objectives within prudent risk parameters.

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 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, 2009 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor restricted endowment funds	$ (706)	$ 8,205	$ 27,723	$ 35,222
Board designated endowment funds	1,520	4,495	-	6,015
Total endowment funds	$ 814	$ 12,700	$ 27,723	$ 41,237

Changes in endowment net assets (in thousands) as of June 30, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 1,954	$ 18,169	$ 21,417	$ 41,540
Contributions	-	519	16,746	17,265
Contributions receivable	-	-	(10,440)	(10,440)
Investment income	37	794	-	831
Net investment loss	(393)	(6,227)	-	(6,620)
Amounts appropriated for expenditure	(269)	(1,070)	-	(1,339)
Excess loss transferred to unrestricted	(515)	515	-	-
Endowment net assets, end of year	$ 814	$ 12,700	$ 27,723	$ 41,237

Endowment net asset composition by type of endowment (in thousands) as of June 30, 2008 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor restricted endowment funds	$ (191)	$ 12,839	$ 21,417	$ 34,065
Board designated endowment funds	2,145	5,330	-	7,475
Total endowment funds	$ 1,954	$ 18,169	$ 21,417	$ 41,540

Changes in endowment net assets (in thousands) as of June 30, 2008 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 2,376	$ 20,500	$ 22,902	$ 45,778
Contributions	-	1,741	2,133	3,874
Contributions receivable	-	(474)	(3,618)	(4,092)
Investment income	43	752	-	795
Net investment loss	(214)	(3,710)	-	(3,924)
Amounts appropriated for expenditure	(60)	(831)	-	(891)
Excess loss transferred to unrestricted	(191)	191	-	-
Endowment net assets, end of year	$ 1,954	$ 18,169	$ 21,417	$ 41,540

In August, 2008, the Financial Accounting Standards Board issued FASB Staff Position entitled, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP FSA 117-1). This pronouncement provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). This pronouncement also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

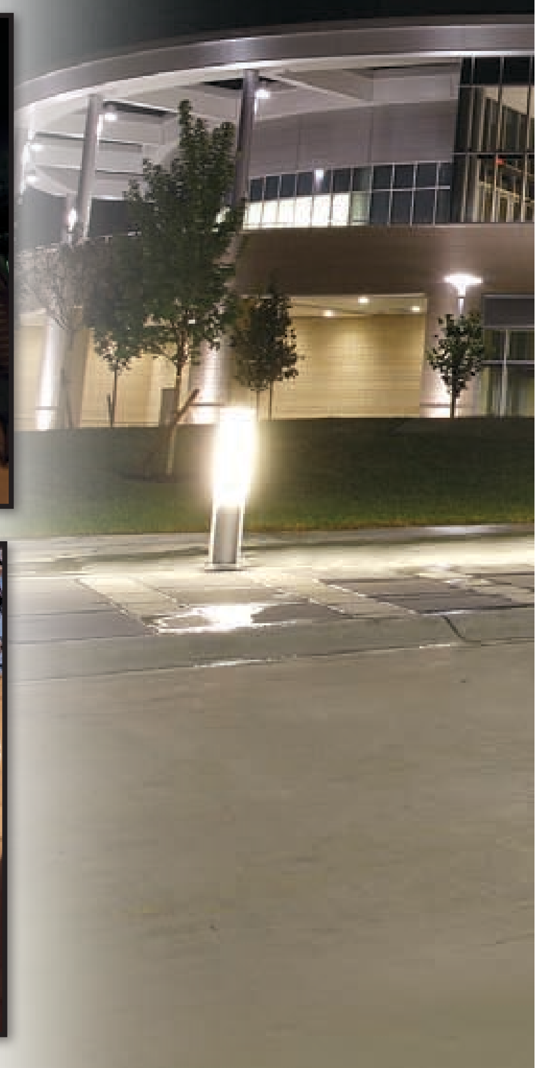
The State of Kentucky has not yet enacted UPMIFA, the provisions of which apply to endowment funds existing on or established after enactment. The Foundation has adopted FSP FSA 117-1 for the year ending June 30, 2009. The Board of Directors has not determined the effect of UPMIFA on the Foundation's endowment funds and net asset classification.

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 UMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $706,000 and $191,000 as of June 30, 2009 and 2008. 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, 2009, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is September 8, 2009, which is the date on which the financial statements were available to be issued.



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