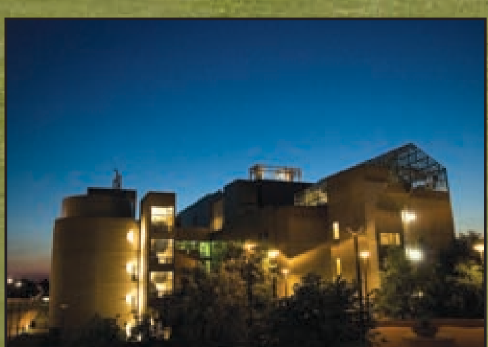
2011-2012 FINANCIAL REPORT

Northern Kentucky University



2011-2012
FINANCIAL REPORT

Northern Kentucky University and Affiliate
A Component Unit of the Commonwealth of Kentucky
Annual Financial Report
2011-2012

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September 21, 2012

Northern Kentucky University Board of Regents
Highland Heights, KY 41099

Dear Members of the Board:

I write to transmit the university's 2011-12 Annual Financial Report. The firm of Dean Dorton Allen Ford, PLLC has audited the following statements and accompanying footnotes. NKU ends the fiscal year and begins the new academic year in a strong financial position.

The University's financial performance for fiscal year 2011-12 was strong. Positive operating results combined with continued cost containment efforts contributed to a $13 million growth in unrestricted net assets for the year. Net capital assets have grown by $170 million since 2006 with the addition of Griffin Hall, The Bank of Kentucky Center, the James C. and Rachel M. Votruba Student Union, a soccer complex, parking facilities, and numerous campus beautification projects. These facilities and capital improvements have truly transformed the campus and significantly enhanced the University's capacity to serve its students and the community.

As a result of sound fiscal management and generous philanthropic support, our faculty, staff and students produced many achievements this past year. For the fourth consecutive year, *Forbes* magazine selected NKU for its Best Colleges list. This achievement belongs to the entire university community.

This year's freshman class is the most academically qualified class in our university's history. This achievement is the result of a deliberate enrollment strategy to recruit outstanding students.

Beyond academic excellence, we also are proud of the university's commitment to rigorous, professional-level research and creative activity. Last year, more than 575 students collaborated with faculty on research or creative projects.

Our university is poised for even greater success over the next few years. But we cannot be complacent. To the contrary, we know that there are substantial challenges ahead for NKU and higher education. For example, we cannot anticipate an increase in state funding. At the same time, students and their parents are facing their own financial challenges, and elected officials and the public at large expect more measurable outcomes in higher education.

As we prepare to meet these challenges, we must foster an institutional culture that is innovative, creative, responsive, and nimble. We must also encourage and reward excellence in everything we do. And most importantly, our paramount institutional goal must be student success.

To succeed, we must be determined and dedicated. And we must invest our resources wisely.

I am optimistic that we will succeed, because this institution has a history of success — and because of the quality and character of the people this university attracts and retains.

I am very grateful for the confidence that you have placed in me as NKU's fifth president, and I look forward to our work together on behalf of this great university.

Sincerely,

Geoffrey S. Mearns
President

cpas consultants business advisors

DEAN||DORTON||ALLEN||FORD

Independent Auditors' Report

Members of the Board of Regents and
Mr. Geoffrey S. Mearns, President
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, 2012 and 2011, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Northern Kentucky University as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis on pages 5 through 12 to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Dean Dorton Allen Ford, PLLC

October 2, 2012
Lexington, Kentucky

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, 2012, with selected comparative information for the years ended June 30, 2011 and 2010. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and notes.

The University's vision is to be nationally recognized as the premier comprehensive, metropolitan university that prepares students for life and work in a global society and provides leadership to advance the intellectual, social, economic, cultural, and civic vitality of its region and of the Commonwealth. The University is vital to the economic and social progress of this region and the Commonwealth. The University has made significant progress in achieving the objectives identified in the University's *Points of Focus: 2012-14 Integrated Strategic Plan* which was developed to guide the institution during the Presidential leadership transition period. This transitional plan integrates the existing priorities of the University's strategic enrollment management plan, the Quality Enhancement Plan, the diversity plan, the technology plan, the Foundations of Excellence report, and the institutional objectives established by the statewide public agenda.

Financial Highlights

The University's assets increased by $20.9 million for the year ended June 30, 2012 and $37.9 million for the year ended June 30, 2011 for a combined increase of $58.8 million, or 14.3 percent, since June 30, 2010. Net capital assets have increased by $15.9 million, or 5.1 percent, since June 30, 2010. The majority of this growth was attributable to the construction of Griffin Hall, the state-of-the-art home of the College of Informatics. The acquisition of two radio stations and land, and the renovation of several campus buildings and the central plaza area also contributed to the increase in net capital assets since June 30, 2010. These projects were funded primarily through capital appropriations from the Commonwealth, capital grants and gifts, and bond proceeds.

Operating revenues increased by $9.0 million in 2012 primarily due to a $7.6 million increase in net tuition. Nonoperating revenues declined by $9.7 million for the year. The University's total appropriation from the state decreased by $4.5 million. A $2.1 million decrease in debt service appropriation was partially offset by a $.6 million growth in general appropriation. The University received federal stimulus funds through the state in fiscal years 2011 ($3.0 million) and 2010 ($3.6 million). The stimulus program was eliminated in 2012 resulting in a decline of $3.0 million in state appropriations for the year. The University's federal nonoperating grant revenues decreased by $2.0 million for the year due to a decline in federal financial aid program revenues.

The University's net assets increased by $46.4 million, or 16.9 percent, from June 30, 2010 to June 30, 2012. Net assets invested in capital assets, net of related debt grew by $19.3 million due to the addition of several new facilities, including Griffin Hall. Restricted expendable net assets decreased by $.8 million while unrestricted net assets increased by $27.9 million from June 30, 2010 to June 30, 2012. Positive operating results in education and general activities and auxiliary operations contributed to the growth in unrestricted net assets. In addition, unexpended budget reserves and an increase in reserves related to future construction projects, including a student campus recreation center, contributed to the increase in unrestricted net assets.

Using the Financial Statements

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

The University is a component unit of the Commonwealth of Kentucky. The financial statements of the University include the University and its blended component unit, the Northern Kentucky University Research Foundation, Inc. (Research Foundation). 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)

	2012	2011	2010
ASSETS			
Current assets	$ 99,330	$ 82,550	$ 75,766
Capital assets, net	326,938	334,866	311,091
Noncurrent assets	44,077	31,996	24,648
Total assets	470,345	449,412	411,505
LIABILITIES			
Current liabilities	31,754	34,583	31,790
Noncurrent liabilities	117,298	96,390	104,815
Total liabilities	149,052	130,973	136,605
NET ASSETS			
Invested in capital assets, net of related debt	230,200	239,790	210,895
Restricted			
Nonexpendable	7,616	7,616	7,616
Expendable	8,661	9,117	9,478
Unrestricted	74,816	61,916	46,911
Total net assets	$ 321,293	$ 318,439	$ 274,900

The statement of net assets at June 30, 2012 reflects the University's strong financial position.

Assets

The University's assets increased by $20.9 million, or 4.7 percent, for the year ended June 30, 2012 and now total $470.3 million. A $16.8 million increase in current assets for the year ended June 30, 2012 combined with a $6.8 million increase for the year ended June 30, 2011, resulted in a combined increase of $23.6 million, or 31.1 percent, since June 30, 2010. Noncurrent assets, excluding net capital assets, grew by $19.4 million since 2010 primarily due to a $12.3 increase in agency deposits held in a stream and wetland restoration fund by the Research Foundation pursuant to a memorandum of agreement with a federal agency. An increase in expendable restricted endowment funds and an increase in unexpended cash balances related to construction projects also contributed to the increase in noncurrent assets since 2010.

Net capital assets decreased by $7.9 million for the year ended June 30, 2012 and increased by $23.8 million for the year ended June 30, 2011, resulting in a combined increase of $15.9 million, or 5.1 percent, since June 30, 2010. The majority of this growth was attributable to the construction of Griffin Hall, the state-of-the-art home of the College of Informatics. The acquisition of two radio stations and land, and the renovation of several campus buildings and the central plaza area also contributed to the increase in net capital assets since June 30, 2010. These projects were funded primarily through capital appropriations from the Commonwealth, capital grants and gifts, and bond proceeds. As a result of the significant investment in its campus facilities in recent years, net capital assets have grown to $326.9 million, or 69.5 percent of total assets as of June 30, 2012.

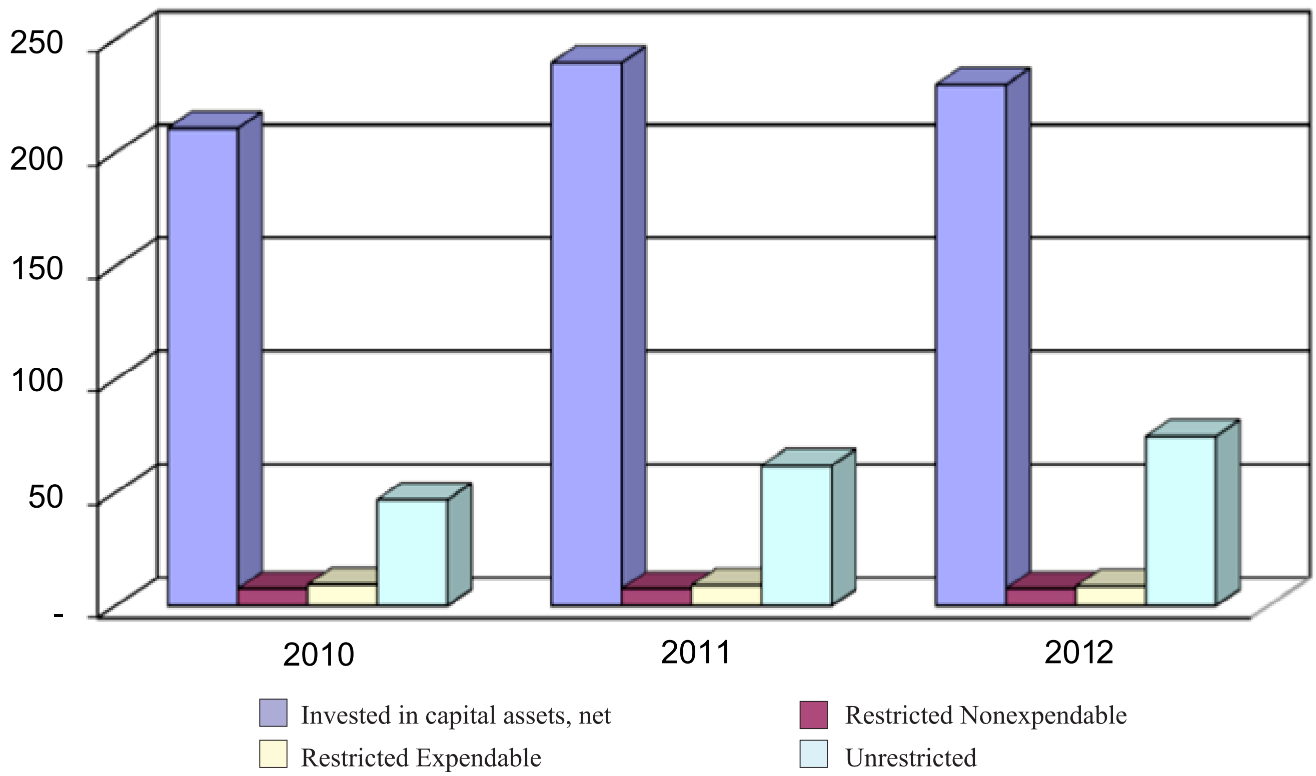
Liabilities

At June 30, 2012, the University's liabilities totaled $149.1 million compared to the previous year's $131.0 million. This $18.1 million increase in liabilities resulted from a $12.7 million increase in agency deposits held by the Research Foundation, a $6.5 million increase in outstanding bonds, notes and capital leases and a $1.1 million net decrease in accounts payable, accrued liabilities and other liabilities. Bonds, notes and capital leases payable, net of discounts, premiums and deferred losses on bond refunding's, represented $99.5 million, or 66.7 percent, of total liabilities at June 30, 2012.

The University's total liabilities increased by $12.4 million, or 9.1 percent, from June 30, 2010 to June 30, 2012. Current liabilities declined slightly while noncurrent liabilities increased by $12.5 million primarily due to a $12.3 million increase in agency deposits held by the Research Foundation.

Net Assets

The following chart illustrates the University's net assets for fiscal years 2010, 2011 and 2012 (amounts are presented in millions).



Net assets at June 30, 2012 totaled $321.3 million. Net assets invested in capital assets, net of related debt, totaled $230.2 million, or 71.6 percent, of total net assets. Restricted and unrestricted net assets represented 5.1 percent and 23.3 percent of total net assets, respectively. Total net assets increased by $2.9 million, or .9 percent, for the year. Net assets invested in capital assets, net of related debt, decreased $9.6 million for the year resulting from depreciation expenses in excess of increases in new capital assets, net of debt. Positive operating results in education and general activities and auxiliary operations contributed to a $12.9 million increase in unrestricted net assets for the year. In addition, unspent institutional funds committed to capital renewal and replacement projects underway at June 30 contributed to the increase in unrestricted net assets at year end.

The University's net assets increased by $46.4 million, or 16.9 percent, from June 30, 2010 to June 30, 2012. Net assets invested in capital assets, net of related debt grew by $19.3 million due to the addition of several new facilities, including Griffin Hall. Restricted expendable net assets decreased by $.8 million while unrestricted net assets increased by $27.9 million from June 30, 2010 to June 30, 2012.

Statement of Revenues, Expenses and Changes in Net Assets

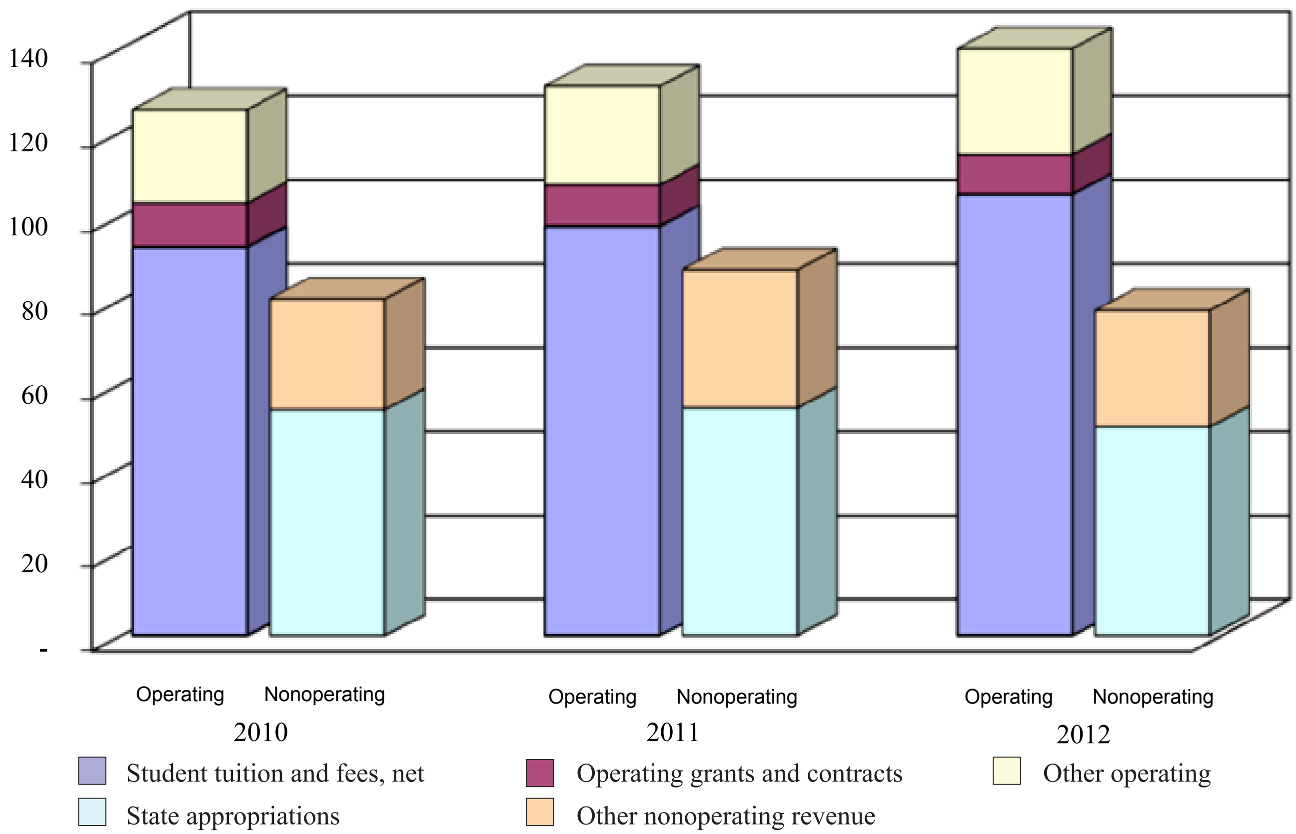
The statement of revenues, expenses and changes in net assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. GASB requires state appropriations and nonexchange grants and contracts to be classified as nonoperating revenues.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

	2012	2011	2010
OPERATING REVENUES			
Student tuition and fees, net	$ 105,171	$ 97,564	$ 92,597
Grants and contracts	9,497	9,789	10,496
Sales and services of educational departments	4,662	4,403	4,246
Auxiliary enterprises	13,035	12,739	12,081
Other operating revenues	7,528	6,445	5,923
Total operating revenues	139,893	130,940	125,343
OPERATING EXPENSES			
Educational and general	188,176	178,443	168,005
Depreciation	17,963	16,280	14,869
Auxiliary enterprises (including depreciation)	8,231	10,249	7,557
Other expenditures	64	43	101
Total operating expenses	214,434	205,015	190,532
Net loss from operations	(74,541)	(74,075)	(65,189)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	49,744	54,258	53,885
Gifts, grants and contracts	27,567	30,205	24,708
Investment income	226	2,017	1,683
Interest on capital asset-related debt	(3,988)	(3,837)	(4,466)
Other nonoperating revenues (expenses)	(16)	742	(92)
Net nonoperating revenues	73,533	83,385	75,718
Income (loss) before other revenues, expenses, gains or losses	(1,008)	9,310	10,529
Capital appropriations	-	24,494	7,458
Capital grants and gifts	3,862	9,735	8,169
Total other revenues	3,862	34,229	15,627
Increase in net assets	2,854	43,539	26,156
Net assets-beginning of year	318,439	274,900	248,744
Net assets-end of year	$ 321,293	$ 318,439	$ 274,900

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 2010, 2011 and 2012. Significant recurring sources of revenues, including state appropriations and nonexchange grants and contracts, are considered nonoperating revenues as defined by GASB. These revenues support operating expenses; therefore, they are included in the graph of revenues by source (amounts are presented in millions).



The University's operating and nonoperating revenues totaled $217.4 million for the year ended June 30, 2012, a decrease of $.7 million compared to 2011. Operating revenues totaled $139.9 million, or 64.3 percent of revenues, while nonoperating revenues declined to $77.5 million, or 35.7 percent of revenues, for the year. The most significant sources of revenue for the University are net student tuition and fees (48.4 percent) and state appropriations (22.9 percent).

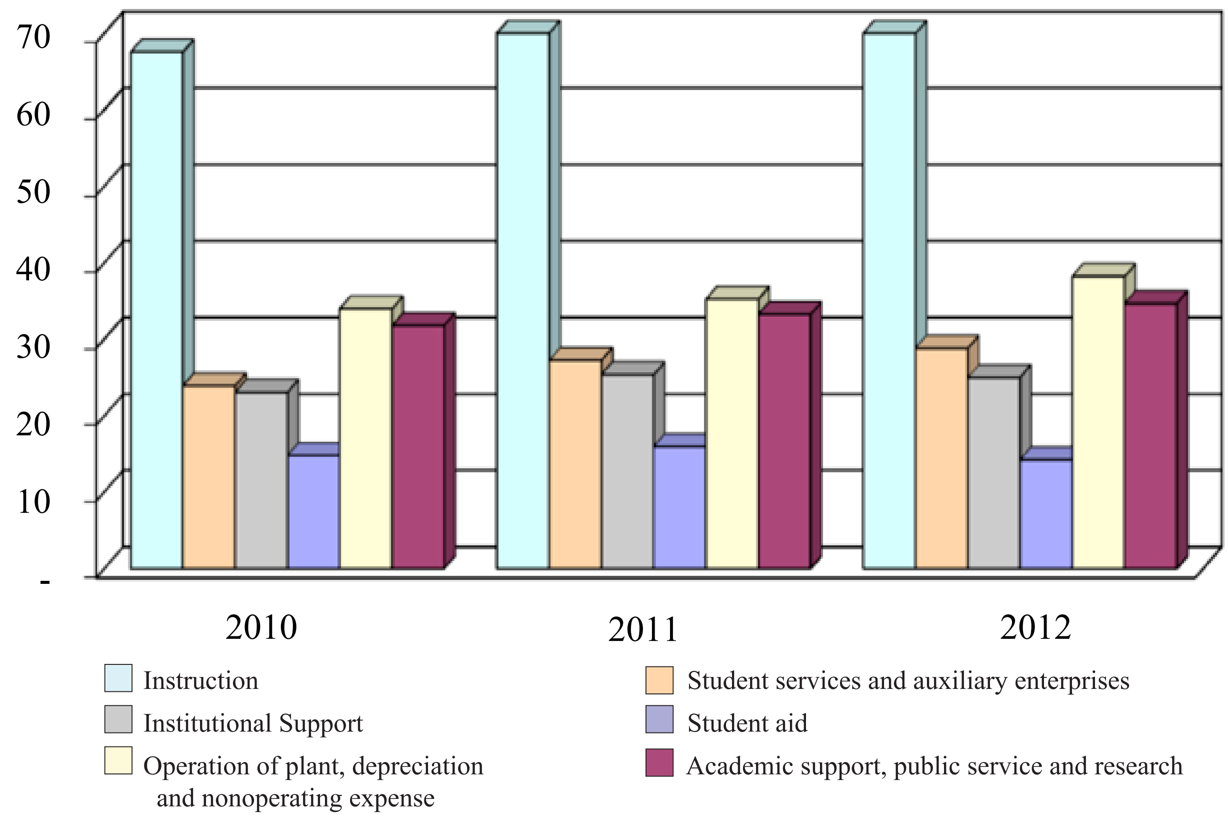
Operating revenues increased by $9.0 million for the year with increases in net tuition revenues ($7.6 million), auxiliary enterprises ($.3 million), sales and services of educational activities ($.3 million) and other operating revenues ($1.1 million). These increases were partially offset by a decrease in operating grants and contracts ($.3 million) revenue.

Nonoperating revenues declined by $9.7 million for the year. The University's total appropriation from the state decreased by $4.5 million. A $2.1 million decrease in debt service appropriation was partially offset by a $.6 million growth in general appropriation. The University received federal stimulus funds through the state in fiscal years 2011 ($3.0 million) and 2010 ($3.6 million). The stimulus program was eliminated in 2012 resulting in a decline of $3.0 million in state appropriations for the year. The University's federal nonoperating grant revenues decreased by $2.0 million for the year due to a decline in federal financial aid program revenues, including a $0.9 million decrease in the Pell program and a $1.2 million combined decrease resulting from the elimination of the federal SMART and academic competitiveness grant programs. Lower endowment investment earnings resulted in a $1.8 million decrease in investment income for the year.

A $14.6 million, or 11.6 percent, increase in operating revenues was fueled by a $12.6 million growth in net tuition since 2010. The growth in net tuition resulted from an average tuition rate increase of 4.6 percent for fiscal year 2012 and 4.4 percent for fiscal year 2011, combined with enrollment increases. The University's nonoperating revenues have declined by $2.7 million since June 30, 2010 primarily due to a decline in state appropriations, including federal stimulus funds.

Operating and Nonoperating Expenses

The following chart illustrates the University's expenses by function (both operating and nonoperating) for fiscal years 2010, 2011 and 2012 (amounts are presented in millions).



Operating and nonoperating expenses increased by $9.6 million, or 4.6 percent, to a total of $218.4 million for the year ended June 30, 2012. As depicted in the chart above, the majority of the University's funds are expended directly for the primary mission of the University – instruction $77.5 million (35.6 percent), and academic support, libraries, public service and research $34.7 million (15.9 percent).

Instruction expenses increased by $5.7 million, or 7.9%, for the year due primarily to an increase in salary and benefit expenses and instructional information technology expenses, including equipment and staffing for Griffin Hall. Increased expenses in the Applied Ecology Center and several other centers contributed to a $1.0 million increase in public service expenses. A significant investment in student advising services and academic support technology resulted in a $.6 million increase in academic support. Recurring and nonrecurring expenses related to the intercollegiate athletic program contributed to a $3.6 million increase in student services expenses for the year. Institutional support expenses declined in part due to a reduction in nonrecurring consulting expenses. The opening of several new facilities in recent years contributed to a $1.7 million increase in education and general depreciation expense and a $1.1 million increase in the operation and maintenance of plant expenses associated with the new facilities. Student financial aid expenses decreased by $1.7 million for fiscal year 2012 due to a decline in federal aid program expenses, including the Pell, SMART and academic competitiveness grant programs. A $2.4 million reduction in nonrecurring student housing maintenance and repair expenses contributed to a $2.0 million net decrease in auxiliary enterprises expenses for the year.

Instruction, research, public service and academic support expenses grew by $12.9 million, or 12.9%, since 2010 while institutional support, operation and maintenance of plant and interest expense on capital asset-related debt only increased by $3.1 million, or 7.4%, since 2010. The significant increase in primary mission expenses was achieved by investing new resources and reallocating savings from cost containment efforts. The modest increase in institutional support and operation and maintenance of plant expenses reflects the University's effort to contain costs.

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)

	2012	2011	2010
Net cash provided (used) by:			
Operating activities	$ (55,372)	$ (52,238)	$ (48,766)
Noncapital financing activities	89,895	85,477	77,294
Capital and related financing activities	(5,371)	(19,610)	(26,710)
Investing activities	1,113	2,325	(2,363)
Net increase (decrease) in cash	30,265	15,954	(545)
Cash and cash equivalents, beginning of year	87,166	71,212	71,757
Cash and cash equivalents, end year	$ 117,431	$ 87,166	$ 71,212

The University's cash and cash equivalents increased $30.3 million and $16.0 million in 2012 and 2011, respectively. The net cash provided by operating and noncapital financing activities totaled $34.5 million for 2012, an increase of $1.3 million from 2011. A $12.3 million increase in cash deposits held by Research Foundation on behalf of a federal agency and a decline in cash provided by state appropriations and federal financial aid programs resulted in a net increase of $4.4 million in net cash provided by noncapital financing activities. Cash used by capital and related financing activities totaled $5.4 million for 2012 and $19.6 million in 2011. Purchases of capital assets totaled $12.8 million in 2012 and $42.7 million in 2011 were primarily funded by capital appropriations and capital grants and gifts.

Major sources of funds included in operating activities are student tuition and fees ($104.0 million), grants and contracts ($10.0 million) and auxiliary enterprises ($12.8 million). The largest cash payments for operating activities were made to employees ($136.0 million) and to vendors and contractors ($58.4 million). Payments to suppliers increased by $4.2 million, or 7.9 percent, and payments for salaries and benefits increased by $7.3 million, or 5.7 percent, for the year.

The University's cash receipts from operating activities increased by $15.5 million, or 12.5 percent, from 2010 to 2012 while cash disbursements for operating activities increased by $22.1 million, or 12.8 percent, for the period.

Capital Asset and Debt Administration

Capital Assets

Capital assets, net of accumulated depreciation, decreased by $7.9 million for the year ended June 30, 2012. Additions to capital assets, net of disposals, during the year totaled $12.9 million, including administrative software systems, radio stations, technology related equipment, and Griffin Hall. Depreciation expenses totaled $20.8 million for the year. As of June 30, 2012, net capital assets totaled $326.9 million, or 69.5 percent of total assets.

The University's net capital assets grew by $15.8 million from June 30, 2010 to June 30, 2012 as a result of significant investments in new facilities, campus improvements and technology infrastructure and equipment. The addition of new facilities in the last few years, including Griffin Hall, The Bank of Kentucky Center, the James C. and Rachel M. Votruba Student Union, a soccer complex, parking facilities and numerous campus beautification projects, have significantly enhanced the University's capacity to serve its students and the community.

At June 30, 2012, the University had several major projects in progress, including the design of a new student campus recreation facility and recreation fields and the construction of a support services facility. In addition, numerous facility renovations were underway, including food service facility upgrades, roof repair and replacements, and instructional space upgrades.

Debt

The following is a summary of the University's outstanding debt summarized by revenue pledge as of June 30, 2012, 2011 and 2010 (in thousands):

	2012	2011	2010
General Receipts Bonds, net of discounts, premium and loss on refunding	$ 83,155	$ 77,609	$ 70,236
Consolidated Educational Buildings Revenue Bonds, net of discounts	7,028	9,568	12,701
Housing and Dining System Revenue Bonds	1,635	1,790	1,940
Capital Lease - Residential Suites	500	980	12,446
Notes Payable and municipal lease obligations	7,137	3,002	3,949
	$ 99,455	$ 92,949	$ 101,272

The University issued bonds and capital leases totaling $14.4 million in 2012 to finance the acquisition of land and radio stations and the renovation of a student services facility. The issuance of debt was partially offset by principal payments totaling $7.9 million resulting in a $6.5 million net increase in outstanding debt for the year. This increase was offset by an $8.3 decrease in debt in fiscal year 2011, yielding a $1.8 million net decrease in outstanding debt since June 30, 2010.

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

FACTORS IMPACTING FUTURE PERIODS

The Commonwealth of Kentucky's economy improved during fiscal year 2011-12 with a 3.8 percent increase in general fund revenues. This growth exceeded the official estimates for the year. Although the economy continues to show signs of improvement, the Commonwealth still faces budget challenges, including budgetary pressures related to the Medicaid program and the state pension systems. Beginning in fiscal year 2014-15, GASB Statement No. 68 requires governmental employers participating in a cost-sharing defined benefit pension plan to recognize their long-term obligation for pension benefits as a liability for the first time. As a participating employer in the Kentucky Employees Retirement System (KERS), the University will be required to report a net pension liability, pension expense and pension-related assets and liabilities based on its proportionate share of the collective amounts for all governmental entities in the KERS plan. The University has absorbed significant increases in employee annual contributions to KERS in recent years. Management expects the University's annual contributions will continue to grow as the state develops a plan to address the KERS unfunded liability.

The University's Board of Regents approved a 5 percent increase in undergraduate resident tuition rates for fiscal year 2013. This increase, combined with changes in enrollment, is expected to generate additional tuition revenues of approximately $4.2 million as compared to the 2011-12 original budget.

The 2012-14 biennial budget passed by the General Assembly reflects a $48.6 million general state appropriation for the University for fiscal years 2012-13 and 2013-14. This represents a $2.2 million reduction from the actual general state appropriation received by the University in 2011-12.

Although the Commonwealth and the University will continue to face economic uncertainties and other challenges, management believes the University is well positioned to achieve its strategic priorities in partnership with the Commonwealth, CPE and the region. The University is continuing its efforts to diversify revenue sources, contain costs and redirect resources to core mission priorities. The University has made great strides in its effort to develop the capacity to fully support the region. The region's economic growth depends heavily on the University's capacity to support that growth in a variety of ways.

Northern Kentucky University and Affiliate
A Component Unit of the Commonwealth of Kentucky
Consolidated Statements of Net Assets
June 30, 2012 and 2011
(in thousands)

	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents	$ 87,932	$ 70,173
Notes, loans and accounts receivable, net	9,094	10,310
Other current assets	2,304	2,067
Total current assets	99,330	82,550
Noncurrent Assets		
Cash and cash equivalents	29,499	16,993
Investments	12,209	13,028
Notes, loans and accounts receivable, net	2,102	1,837
Capital assets, net	326,938	334,866
Other noncurrent assets	267	138
Total noncurrent assets	371,015	366,862
Total assets	470,345	449,412
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	19,475	20,036
Deferred revenue	6,169	6,548
Long-term liabilities-current portion	6,110	7,999
Total current liabilities	31,754	34,583
Noncurrent Liabilities		
Deposits	18,291	5,274
Deferred revenue	2,358	2,755
Long-term liabilities	96,649	88,361
Total noncurrent liabilities	117,298	96,390
Total liabilities	149,052	130,973
NET ASSETS		
Invested in capital assets, net of related debt	230,200	239,790
Restricted		
Nonexpendable	7,616	7,616
Expendable	8,661	9,117
Unrestricted	74,816	61,916
Total net assets	$ 321,293	$ 318,439

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statements of Financial Position
As of June 30, 2012 and 2011
(in thousands)

	2012	2011
ASSETS		
Cash and cash equivalents	$ 9,128	$ 4,452
Loans, interest and accounts receivable (less allowance of $115 in 2012 and $112 in 2011)	116	259
Accrued interest receivable	33	12
Contributions receivable (less allowance of $61 in 2012 and $26 in 2011)	4,489	9,975
Prepaid expenses and deferred charges	36	52
Investments	73,563	73,537
Land and land improvements	548	538
Accumulated depreciation	(203)	(196)
Total assets	87,710	88,629
LIABILITIES AND NET ASSETS		
Accounts payable	258	287
Accrued interest payable	95	124
Annuities payable	242	255
Deferred income	26	26
Funds held in trust for Northern Kentucky University	10,209	10,529
Notes payable	2,363	3,085
Total liabilities	13,193	14,306
NET ASSETS		
Unrestricted		
For current operations	562	622
Contributions receivable	1	1
Amounts functioning as endowment funds	1,755	1,775
Invested in property, plant and equipment	345	342
Total unrestricted	2,663	2,740
Temporarily restricted		
Unexpended funds received for restricted purposes	4,922	3,912
Contributions receivable	4,175	4,462
Loan funds	138	140
Endowment funds	22,139	23,786
Total temporarily restricted	31,374	32,300
Permanently restricted		
Contributions receivable	313	5,512
Endowment funds	40,167	33,771
Total permanently restricted	40,480	39,283
Total net assets	74,517	74,323
Total liabilities and net assets	$ 87,710	$ 88,629

See accompanying notes to the financial statements

Northern Kentucky University and Affiliate
A Component Unit of the Commonwealth of Kentucky
Consolidated Statements of Revenues, Expenses and Changes in Net Assets
For the years ended June 30, 2012 and 2011
(in thousands)

	2012	2011
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of $26,741 in 2012 and $26,269 in 2011)	$ 105,171	$ 97,564
Federal grants and contracts	3,528	3,601
State and local grants and contracts	3,560	3,974
Nongovernmental grants and contracts	2,409	2,214
Sales and services of educational departments	4,662	4,403
Auxiliary enterprises		
Housing operations (net of scholarship allowances of $576 in 2012 and $459 in 2011)	8,574	8,190
Other auxiliaries	4,461	4,549
Other operating revenues	7,528	6,445
Total operating revenues	139,893	130,940
OPERATING EXPENSES		
Educational and general		
Instruction	77,538	71,846
Research	1,660	1,850
Public service	12,130	11,141
Libraries	4,475	4,419
Academic support	16,404	15,837
Student services	20,517	16,924
Institutional support	24,972	25,371
Operation and maintenance of plant	16,240	15,105
Depreciation	17,963	16,280
Student aid	14,240	15,950
Auxiliary enterprises		
Housing operations	4,309	6,724
Other auxiliaries	1,118	853
Auxiliary depreciation	2,804	2,672
Other expenses	64	43
Total operating expenses	214,434	205,015
Net loss from operations	(74,541)	(74,075)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	49,744	51,270
State appropriations-federal stimulus	-	2,988
Federal grants and contracts	19,936	21,970
State and local grants and contracts	7,599	8,170
Private gifts and grants	32	65
Investment income (loss)	226	2,017
Interest on capital asset-related debt	(3,988)	(3,837)
Other nonoperating revenues (expenses)	(16)	742
Net nonoperating revenues	73,533	83,385
Income before other revenues, expenses, gains or losses	(1,008)	9,310
Capital appropriations	-	24,494
Capital grants and gifts	3,862	9,735
Total other revenues	3,862	34,229
Increase (decrease) in net assets	2,854	43,539
NET ASSETS		
Net assets - beginning of year	318,439	274,900
Net assets - end of year	$ 321,293	$ 318,439

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statement of Activities
For the year ended June 30, 2012
(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	$ 21	$ 3,665	$ 1,098	$ 4,784
Rental income	118	-	-	118
Investment income	57	1,042	-	1,099
Net loss on investments	(40)	(1,246)	-	(1,286)
Other revenue	35	377	-	412
Total revenues and gains	191	3,838	1,098	5,127
Net assets released from restrictions	4,484	(4,484)	-	-
Total revenues and gains and other support	4,675	(646)	1,098	5,127
Program Expenses				
Instruction	590	-	-	590
Research	15	-	-	15
Public service	881	-	-	881
Libraries	31	-	-	31
Academic support	519	-	-	519
Student services	341	-	-	341
Institutional support	398	-	-	398
University facilities and equipment acquisition	446	-	-	446
Student financial aid	1,132	-	-	1,132
Total program expenses	4,353	-	-	4,353
Support Expenses				
Management and general	474	-	-	474
Fundraising support	98	-	-	98
Rental property	8	-	-	8
Total support expenses	580	-	-	580
Total expenses	4,933	-	-	4,933
Net transfers in (out)	181	(280)	99	-
Increase (decrease) in net assets	(77)	(926)	999	194
Net assets - beginning of year	2,740	32,300	39,283	74,323
Net assets - end of year	$ 2,663	$ 31,374	$ 40,282	$ 74,517

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statement of Activities
For the year ended June 30, 2011
(in thousands)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
CHANGES IN NET ASSETS:				
Revenues and Gains				
Gifts, grants and bequests	$ 10	$ 2,707	$ 349	$ 3,066
Rental income	116	-	-	116
Investment income	50	1,252	-	1,302
Net gains (losses) on investments	393	8,273	-	8,666
Other revenue	24	562	-	586
Loss on sale of land	(158)	-	-	(158)
Total revenues and gains	435	12,794	349	13,578
Net assets released from restrictions	10,379	(10,379)	-	-
Total revenues and gains and other support	10,814	2,415	349	13,578
Program Expenses				
Instruction	403	-	-	403
Research	12	-	-	12
Public service	1,159	-	-	1,159
Libraries	20	-	-	20
Academic support	331	-	-	331
Student services	234	-	-	234
Institutional support	373	-	-	373
University facilities and equipment acquisition	6,344	-	-	6,344
Student financial aid	1,076	-	-	1,076
Total program expenses	9,952	-	-	9,952
Support Expenses				
Management and general	533	-	-	533
Fundraising support	71	-	-	71
Rental property	38	-	-	38
Total support expenses	642	-	-	642
Total expenses	10,594	-	-	10,594
Net transfers in (out)	104	(104)	-	-
Increase (decrease) in net assets	324	2,311	349	2,984
Net assets - beginning of year	2,416	29,989	38,934	71,339
Net assets - end of year	$ 2,740	$ 32,300	$ 39,283	$ 74,323

See accompanying notes to the financial statements

Northern Kentucky University and Affiliate
A Component Unit of the Commonwealth of Kentucky
Consolidated Statements of Cash Flows
For the years ended June 30, 2012 and 2011
(in thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 103,957	$ 97,304
Grants and contracts	9,953	10,332
Payments to suppliers	(58,352)	(54,028)
Payments for salaries and benefits	(135,966)	(128,648)
Loans issued to students	(458)	(484)
Collection of loans to students	472	458
Auxiliary enterprise receipts:		
Housing operations	8,569	8,002
Other auxiliaries	4,198	4,457
Sales and service of educational departments	4,799	4,397
Other receipts (payments)	7,456	5,972
Net cash used by operating activities	(55,372)	(52,238)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	49,744	54,258
Gifts and grants for other than capital purposes	27,279	30,722
Agency and loan program receipts	106,723	88,809
Agency and loan program disbursements	(93,835)	(89,054)
Other nonoperating receipts (payments)	(16)	742
Net cash provided by noncapital financing activities	89,895	85,477
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt and leases	14,290	12,265
Capital appropriations	-	27,143
Capital grants, gifts, and advances received	5,030	8,147
Purchases of capital assets	(12,840)	(42,727)
Principal paid on capital debt and leases	(8,045)	(19,603)
Interest paid on capital debt and leases	(3,806)	(4,835)
Net cash used by capital financing activities	(5,371)	(19,610)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	2,500	1,750
Purchase of investments	(2,000)	-
Interest on investments	613	575
Net cash provided (used) by investing activities	1,113	2,325
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	30,265	15,954
Cash and cash equivalents - beginning of year	87,166	71,212
Cash and cash equivalents - end of year	$ 117,431	$ 87,166
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES:		
Net loss from operations	(74,541)	(74,075)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	20,767	18,952
Changes in assets and liabilities:		
Receivables, net	(117)	132
Other assets	(248)	(207)
Accounts payable	(489)	2,967
Deferred revenue	(784)	(461)
Long-term liabilities	40	454
Net cash used by operating activities	$ (55,372)	$ (52,238)

See accompanying notes to the financial statements

Note 1 – Organization and Summary of Significant Accounting Policies

a. Reporting Entity

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

b. Basis of Presentation

The accompanying consolidated financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the University has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, unless the FASB pronouncement conflicts with or contradicts a GASB pronouncement. The University has elected not to apply FASB pronouncements issued after the applicable date.

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

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

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

  Expendable – Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. These net assets principally represent amounts for specified capital construction projects.
- **Unrestricted:** Net assets whose use by the University is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties.

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

c. Accrual Basis

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

d. Notes, Loans and Accounts Receivable

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

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

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective assets, generally 40 years for land improvements, 10 – 40 years for buildings and fixed equipment, 10 years for library books and 3 – 10 years for equipment. The University capitalizes, but does not depreciate, works of art and historical treasures that are held for exhibition, education, research and public service or intangible assets with an indefinite life. Indefinite life intangible assets are reviewed annually for impairment. If the fair value of the asset is less than the carrying amount, an impairment loss is recognized for the difference.

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

g. Investments
Investments are stated at fair value.

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

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

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

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

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

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

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

During the years ended June 30, 2012, and 2011, the Foundation made payments on behalf of the University of $2,562,000 and $2,583,000, respectively. In addition, the Foundation transferred to the University $1,791,000 in 2012 and $7,369,000 in 2011 for restricted purposes. Complete financial statements for the Foundation can be obtained from the Northern Kentucky University Foundation, Inc. at Founder's Hall Room 120, Nunn Drive, Highland Heights, KY 41099.

o. Reclassifications
Certain items have been reclassified for the year ended June 30, 2011, in order to conform to classifications used for the year ended June 30, 2012. These reclassifications had no effect on total net assets and the change in net assets.

p. Recent Accounting Pronouncements
In June 2012, the GASB approved Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits.

Governmental employers participating in a cost-sharing plan will also be required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan. All governments participating in the defined benefit pension plan would also have the following in their note disclosures:

- Descriptions of the plan and benefits provided
- Significant assumptions employed in the measurement of the net pension liability
- Descriptions of benefit changes and changes in assumptions
- Assumptions related to the discount rate and impact on the total pension liability of a 1 percentage point increase and decrease in the discount rate
- Net pension assets and liabilities

The provisions of this Statement are effective for fiscal years beginning after June 15, 2014. The University is currently evaluating the effects of this statement on its financial statements.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. The University is currently evaluating the effects of this statement on its financial statements.

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

Note 2 – Cash, Cash Equivalents and Investments

Cash and cash equivalents include all readily available sources of cash such as petty cash, demand deposits, certificates of deposit and temporary investments in marketable debt securities. At June 30, 2012, petty cash funds totaled $35,000 and the carrying amount of the deposits was $117,396,000 with a corresponding total bank balance of $120,683,000. Of the bank balance, $30,734,000 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 $89,949,000 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, 2012 and 2011 (in thousands):

	2012	2011
Certificates of deposit	$ 2,000	$ 2,499
Restricted assets held by the Foundation	10,209	10,529
Total Investments	$ 12,209	$ 13,028

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, 2012 and 2011 are invested as follows:

	2012	2011
Type of Investment:		
Fixed income funds	18%	18%
Equity funds and common stock	51%	53%
Hedge funds	12%	12%
Alternative investments	15%	12%
Other	4%	5%
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 $19,000 and $18,000 as of June 30, 2012 and 2011 respectively.

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

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As stated in the University's investment policy, the bond resolution governs the investment of bond reserves. The bond resolution limits the investment maturities by the lesser of the remaining life of the bond issue or ten years. Certificates of deposit can have a maturity of not more than two years from the date of issue.

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

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

Note 3 – Notes, Loans and Accounts Receivable

Notes, loans and accounts receivable as of June 30, 2012 and 2011 are as follows (in thousands):

	2012		
	Gross Receivable	Allowance	Net Receivable
Student loans	$ 1,751	$ (556)	$ 1,195
Student account receivables	9,095	(4,001)	5,094
Reimbursement receivable grants and contracts	1,545	-	1,545
Other	4,199	(837)	3,362
Total	$ 16,590	$ (5,394)	$ 11,196
Current portion			9,094
Noncurrent portion			2,102
Total			$ 11,196

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

Note 4 – Capital Assets, net

Capital assets for the years ended June 30, 2012 and 2011 are summarized as follows (in thousands):

	July 1, 2011	**Additions**	**Reductions**	**June 30, 2012**
Cost:				
Indefinite life intangible assets	$ 4,622	$ -	$ -	$ 4,622
Land	8,919	126	-	9,045
Land improvements	26,416	2,043	-	28,459
Buildings	381,877	3,901	391	385,387
Equipment	60,755	4,901	305	65,351
Library books	35,028	1,990	331	36,687
Construction in process	2,457	-	39	2,418
	520,074	12,961	1,066	531,969
Accumulated Depreciation:				
Land improvements	4,114	756	-	4,870
Buildings	122,498	12,436	343	134,591
Equipment	33,044	5,974	270	38,748
Library books	25,552	1,601	331	26,822
	185,208	20,767	944	205,031
Capital assets, net	$ 334,866	$ (7,806)	$ 122	$ 326,938

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

As of June 30, 2012 and 2011, the net book value of land, buildings and equipment acquired through capital leases included in the above schedules totaled $12,423,000 and $13,406,000 respectively, including buildings of $12,240,000 and $12,761,000.

Note 5 – Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2012 and 2011 are as follows (in thousands):

	2012	2011
Payable to vendors and contractors	$ 10,425	$ 11,534
Accrued expenses, primarily payroll and vacation leave	6,391	5,909
Employee withholdings and deposits payable to third parties	2,659	2,593
	$ 19,475	$ 20,036

Note 6 – Deferred Revenue

Deferred revenue as of June 30, 2012 and 2011 are as follows (in thousands):

	2012	2011
Unearned summer school revenues	$ 3,846	$ 4,069
Unearned grants and contracts revenue	954	1,017
Unearned auxiliary revenue	2,949	3,373
Other	778	844
Total	$ 8,527	$ 9,303
Current	6,169	6,548
Noncurrent	2,358	2,755
Total	$ 8,527	$ 9,303

Note 7 – Long-term Liabilities

The changes in long-term liabilities for the years ended June 30, 2012 and 2011 are summarized as follows (in thousands):

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion	Noncurrent Portion
Consolidated Educational Buildings Revenue Bonds (net of discount)	$ 9,568	$ -	$ 2,540	$ 7,028	$ 1,406	$ 5,622
Housing and Dining Revenue Bonds	1,790	-	155	1,635	160	1,475
General Receipts Bonds (net of discounts, premiums, and deferred losses on refunding)	77,609	9,400	3,854	83,155	2,501	80,654
Total bonds	88,967	9,400	6,549	91,818	4,067	87,751
Municipal lease obligations	2,856	5,000	846	7,010	1,445	5,565
Capital leases	980	-	480	500	500	-
Notes payable	146	-	19	127	20	107
Total notes and capital leases	3,982	5,000	1,345	7,637	1,965	5,672
Deferred compensation	639	-	97	542	11	531
Federal portion of loan programs	2,172	-	85	2,087	-	2,087
KERS-sick leave	600	81	6	675	67	608
Total other liabilities	3,411	81	188	3,304	78	3,226
Total long-term liabilities	$ 96,360	$ 14,481	$ 8,082	$ 102,759	$ 6,110	$ 96,649

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

a. Bonds

The outstanding Consolidated Educational Buildings Revenue Bonds (CEBRB) are reported net of discounts totaling $97,000. Student tuition and fees and proceeds from a United States Department of Education annual interest grant are pledged as security for the University's outstanding CEBRB. The $1,704,000 reserve requirement for all CEBRB issues has been fully funded as of June 30, 2012.

The gross revenues of the Housing and Dining system operations are pledged for the retirement of the Housing and Dining System Revenue Bond. The $210,000 reserve requirement for the Housing and Dining issue has been fully funded as of June 30, 2012. The $348,000 required housing repair and replacement fund was fully funded as of June 30, 2012.

The outstanding obligation as of June 30, 2012 for the Northern Kentucky University General Receipts Bonds are reported net of discounts totaling $974,000, premiums of $213,000 and a $1,149,000 deferred loss on bond refundings. 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.

On October 21, 2010 Northern Kentucky University General Receipts Bonds were issued in the amount of $12,265,000 at a net interest cost of 3.28 percent. The proceeds partially refunded the underlying Certificates of Participation (COPS) associated with 2002 Student Housing Facilities Lease. As of June 30, 2012 a deposit of $11,263,000 is being held in escrow by the trustee to fund the debt service on the refunded portion of the 2002 COPS until the COPS are called for redemption on December 1, 2012. The associated capital lease liability related to the defeased COPS is not included in the financial statements. The refunding reduced the University's total debt service payments over the term by $866,000 representing an economic gain of $560,000. Economic gain is determined by calculating the difference between the present value of the debt service payments on the old and new debt.

On August 4, 2011, Northern Kentucky University General Receipts Bonds were issued in the amount of $9,290,000 at a net interest cost of 3.64 percent. The proceeds were used to (i) finance the acquisition of two radio licenses and equipment (ii) acquire property in accordance with the land acquisition plan approved by the Board of Regents.

The total bonds payable as of June 30 were as follows (in thousands):

	2012	2011
Consolidated Educational Building Revenue bonds payable		
Series A, dated May 1,1972, with an interest rate of 4.00%. Final principal payment date May 1, 2012.	$ -	$ 465
Series B, dated November 1, 1973, with interest rates from 4.00% to 5.90%. Final principal payment date May 1, 2013.	955	1,715
Series K, dated May 1, 1999, with an interest rates of 4.6%. Final principal payment date May 1, 2012.	-	895
Series L, dated January 1, 2004, with interest rates from 3.25% to 4.25%. Final principal payment date May 1, 2023.	6,170	6,615
Total Consolidated Educational Building Revenue bonds payable	7,125	9,690
Housing and Dining System Revenue bonds payable		
Series B, dated November 1, 1980, with an interest rate of 3.00%. Final principal payment date November 1, 2020.	1,635	1,790
Total Housing and Dining System Revenue bonds payable	1,635	1,790
General Receipts bonds payable		
Series A 2007, dated May 23, 2007, with interest rates from 4.00% to 4.30%. Final principal payment date September 1, 2027.	41,735	43,570
Series A 2008, dated June 18, 2008, with interest rates from 3.00% to 4.38%. Final principal payment date September 1, 2028.	18,865	19,070
Series A 2010, dated June 29, 2010, with interest rates from 2.00% to 3.50%. Final principal payment date September 1, 2020.	3,375	5,200
Series B 2010, dated October 21, 2010, with interest rates from 2.00% to 3.75%. Final principal payment date September 1, 2027.	11,800	11,920
Series A 2011, dated August 4, 2011, with interest rates from 2.00% to 4.00%. Final principal payment date September 1, 2030.	9,290	-
Total General Receipts bonds payable	85,065	79,760
Less: Net discounts, premiums and losses on refundings	(2,007)	(2,273)
Total bonds payable	$ 91,818	$ 88,967

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

Fiscal Year	Principal	Interest	Total
2013	$ 4,225	$ 3,547	$ 7,772
2014	4,305	3,384	7,689
2015	4,645	3,241	7,886
2016	4,787	3,091	7,878
2017	4,932	2,929	7,861
2018-2022	28,413	11,687	40,100
2023-2027	31,375	5,727	37,102
2028-2032	11,270	491	11,761
Subtotal	93,952	34,097	128,049
Less: Net discounts and premiums	(858)	-	(858)
Loss on refundings	(1,149)	-	(1,149)
Total	$ 91,945	$ 34,097	$ 126,042

b. Capital and Municipal Leases

On June 26, 2012, the University entered into a new municipal lease obligation through a local bank, in the amount of $5,000,000, with an interest rate of 1.58 percent. The proceeds from this obligation will be used to fund the Student Success Center renovation project. The escrow balance as of June 30, 2012 was $4,751,000.

The outstanding student housing facility lease related to the non-refunded portion of the 2002 COPS is $500,000 as of June 30, 2012. The lease has an imputed interest rate of 4.88 percent.

Capital and municipal lease obligations as of June 30 were as follows (in thousands):

	2012	2011
Municipal leases payable		
Energy Management lease, dated October 22, 2004, with an interest rate of 3.76%. Final payment date September 22, 2016.	$ 1,956	$ 2,372
Equipment leases, dating from June 30, 2006 - October 1, 2009, with interest rates ranging from 1.46% - 4.65%. Final payment date June 30, 2014.	20	417
Facility improvement leases, dating from June 30, 2006 - June 26, 2012, with interest rates ranging from 1.58% - 4.65%. Final payment dates from July 22, 2013 to June 26, 2017.	5,034	67
Total Municipal leases payable	7,010	2,856
Capital leases payable		
University Suites lease, dated August 1, 2002, with interest rates from 3.88% to 4.00%. Final payment date December 1, 2012.	500	980
Total Capital leases payable	500	980
Total leases payable	$ 7,510	$ 3,836

Capital and municipal future minimum lease payments by year as of June 30 are as follows (in thousands):

Fiscal Year	Present Value of Future Minimum Lease Payments	Interest Portion	Total
2013	$ 1,945	$ 150	$ 2,095
2014	1,443	106	1,549
2015	1,466	73	1,539
2016	1,500	40	1,540
2017	1,156	10	1,166
Total	$ 7,510	$ 379	$ 7,889

Note 8 – Pension Plans and Accrued Compensated Absences

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

a. Defined Contribution Plan

A Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA CREF) sponsored plan, adopted by the Board of Regents in July 1970, is available upon completion of ninety days of service, to all regular full-time members of the faculty, administrative officers and others who have educational related duties. The TIAA CREF retirement plan is a defined contribution, money purchase retirement plan. The employees contribute 5 percent of their base salary to the plan, and the University contributes 10 percent. All payments are vested immediately and the contracts with the providers are owned by the individual employees. The employee is entitled to various payment options upon retirement. Benefit payments at retirement depend on the total contributions with interest deposited into the employee's account. Retirement benefits can begin upon retirement or termination of employment with the University. Covered payroll totaled $43,790,000 and $43,170,000 for the years ended June 30, 2012 and 2011, respectively. Expenditures for the University's portion amounted to $4,379,000 and $4,317,000 for the years ended June 30, 2012 and 2011, 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 based upon their months of service multiplied by the average of 5 full fiscal years of salary (highest 5 or last 5 based on date of participation) upon attainment of KERS specified age (or age and service combinations). Participants have a fully vested interest after the completion of 60 months of service, 12 of which are current service. KERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601-6124 or by calling (502) 696-8800.

Funding Policy - Benefit and contribution rates are established by state statute. For the fiscal year ended June 30, 2012, University employees were required to contribute 5 percent of their annual covered salary for retirement benefits and 1percent of their covered salary for retiree healthcare benefits if their KERS participation date was on or after 9/01/2008. The University was required to contribute 19.825 percent of covered payroll for non-hazardous pay and 28.98 percent for hazardous pay. The University's contributions to KERS for the years ending June 30, 2012, 2011 and 2010 were $8,189,000, $6,608,000, and $4,334,000, respectively, equal to the required contributions for each year.

Effective July 1, 2010 KRS 61.546 states "the value of any accumulated sick leave that is added to the member's service credit in the Kentucky Employees Retirement System on or after July 1, 2010, shall be paid to the retirement system by the last participating Kentucky Employees Retirement System employer based upon a formula adapted by the Board." The KERS sick leave liability as of June 30, 2012 and 2011 was $675,000 and $600,000.

c. Deferred Compensation Plans

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

All compensation deferred under Section 457, all property and rights purchased with that compensation and all income attributable to that compensation, property or rights belong solely to the Commonwealth and the University until paid to the employee or beneficiary, subject only to the claims of the Commonwealth's and University's general creditors. Participants' rights under the plan are equal to those of general creditors of the Commonwealth and the University in an amount equal to the fair market value of the deferred account for each participant. The market value of the University's share of the Section 457 plan assets, as of June 30, 2012 and 2011, was $2,850,000 and $2,646,000, respectively. All compensation deferred under Section 401(k) and resultant assets belong to the plan participants.

d. Compensated Absences

University employees begin to accumulate annual vacation allowance from the initial date of employment; however, no vacation is granted until three months of continuous employment have been completed. The maximum accumulation of vacation leave is limited to the number of days that can be accumulated in twelve months, based upon length of service and employment classification. Eligible employees are paid their accumulated vacation upon termination, subject to certain limitations. At June 30, 2012 and 2011, the University had recognized an accrued vacation liability of $3,144,000 and $3,233,000, 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, 2012 and 2011 (in thousands):

	2012	2011
Salaries and wages	$ 103,985	$ 100,444
Employee benefits	32,571	30,479
Utilities	5,574	5,697
Supplies and other services	36,998	33,219
Depreciation	20,767	18,952
Student scholarships and financial aid	14,539	16,224
Total	$ 214,434	$ 205,015

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 most other causes of loss between $500 and $500,000 per occurrence. Losses in excess of $500,000 are insured by commercial carriers up to $500 million per occurrence with buildings insured at replacement cost and contents 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 or $350,000 for all persons damaged by a single act of negligence. Claims against educators' errors and omissions and wrongful acts are insured through a reciprocal risk retention group. There have been no significant reductions in insurance coverage from 2011 to 2012. Settlements have not exceeded insurance coverage during the past three years.

The University also self-insures certain employee benefits, including health insurance, worker's compensation and unemployment claims to the extent not covered by insurance. The University has recorded an estimate for asserted claims at June 30, 2012.

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, 2012 was approximately $1,238,000.

Note 12 – Northern Kentucky University Foundation, Inc. Notes to Financial Statements

a. Summary of Significant Accounting Policies

1. Scope of Statements

The consolidated financial statements of the Northern Kentucky Foundation, Inc. include the operations of the Foundation and its subsidiary corporation, NKU Foundation Properties, Inc. and several single member limited liability companies. All material intercompany transactions and balances have been eliminated.

2. Basis of Presentation

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

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

Net assets and changes therein are classified as follows:

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

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

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

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

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions receivable 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 has cash in certain financial institutions in excess of insured limits. Included in the Foundation's deposits at June 30, 2012 and 2011, are short term government obligation shares of $323,000 and $322,000, respectively. Additionally, at June 30, 2012 and 2011, $3,224,000 and $1,653,000, respectively, was collateralized with securities held by the financial institution's trust department or agent, but not in the Foundation's name. At June 30, 2012 and 2011, balances of $3,069,000 and $713,000, respectively, were neither insured nor collateralized.

4. Loans and Accounts Receivable

Loans receivable consists primarily of loans made to students under privately funded loan programs. The advances are evidenced by signed promissory notes, bearing interest at varying stated interest rates, with varying due dates. Loans, accounts and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for a 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, 2012 and 2011 was $115,000 and $112,000, respectively.

5. Investments

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

The Foundation invests its endowment investment portfolio and allocates the related earnings for expenditure in accordance with the total return concept. A distribution of endowment return that is independent of the cash yield and appreciation (depreciation) 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. Land and Land Improvements

At June 30, 2012 and 2011, land and land improvements consisted of:

	2012	2011
Type of Asset:		
Land	$ 340	$ 330
Land improvements	208	208
Total Fixed Assets	$ 548	$ 538

Assets acquired for Foundation use with a useful life greater than one year and a value of $5,000 or more are capitalized. Annual depreciation for land improvements is calculated on a straight-line basis, beginning in the month of acquisition based on a useful life of 30 years. Depreciation expense for the years ended June 30, 2012 and 2011 was $7,000 and is reported as support expenses under rental property in the statement of activities.

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

7. Net assets Released from Restrictions

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

b. Notes Payable

The Foundation borrowed $4.425 million on a promissory note collateralized by certain pledges receivable restricted by the donor to partially fund construction of The Bank of Kentucky Center, a multi-purpose athletic and special event facility, with equal annual payments of $857,000 including principal and interest at a rate of 4.31 percent due from August 1, 2009 through August 1, 2014. Loan principal (in thousands) to be paid over the term of the loan are as follows:

Year Ended	Principal
June 30, 2013	754
June 30, 2014	787
June 30, 2015	822
	$ 2,363

Costs of $33,700 associated with obtaining the loan are being amortized over the 73-month term of the note. Amortization expense for the years ended June 30, 2012 and 2011 was $5,540 and is reported as management and general expense in the financial statements.

c. Unconditional and Conditional Promises to Give

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

At June 30, 2012 and 2011, the Foundation recognized contributions based on the following unconditional promises to give (in thousands):

	2012	2011
Purpose:		
Endowment giving	$ 327	$ 5,745
Capital purposes	3,139	3,809
Operating programs	1,394	1,167
Gross unconditional promises	4,860	10,721
Less: Discount and allowance for uncollectable accounts	(371)	(746)
Net unconditional promises to give	$ 4,489	$ 9,975
Amounts due in:		
Less than one year	$ 2,052	$ 4,388
One to five years	2,805	6,333
More than five years	3	-
Total	$ 4,860	$ 10,721

The discount rates used to calculate the present value of contributions receivable at June 30, 2012 and 2011 vary from 1.2 percent to 5.6 percent depending on when the promise was made.

The Foundation has pledged $2.571 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, 2012 and 2011, the Foundation had received conditional promises to give of approximately $1.2 million, consisting of the face value of life insurance policies, net of accumulated cash surrender value.

d. Investments

The market values (in thousands) of the Foundation's investments as of June 30, 2012 and 2011 are categorized by type below:

	2012	2011
Type of Investment:		
Short-term money market funds	$ 3	$ 7
Cash and cash surrender value	441	418
Certificates of deposit	1,950	3,000
Fixed income funds:		
Core plus	10,106	10,617
Global	2,758	2,782
Equity funds:		
Large/Mid Cap - broad	11,483	10,944
Large/Mid Cap - growth	6,742	6,462
Large/Mid Cap - value	6,084	6,209
Small Cap - growth	1,476	1,512
Small Cap - value	1,550	1,625
International - core	5,983	6,871
International small cap - value	316	383
Emerging markets - value	3,756	4,774
Quoted prices in active market for identical assets (level 1)	52,648	55,604
Hedge funds:		
Directional	4,533	4,478
Directional fund of funds	4,600	4,595
Remainder interest in real property and other	389	389
Significant other observable inputs (level 2)	9,522	9,462
Private equity:		
Buyout	1,992	1,747
Distressed	926	917
Diversified	1,149	582
Mezzanine	562	344
Venture capital	637	492
Natural resources:		
Diversified	1,929	1,019
Energy	2,289	1,762
Private real estate:		
Secondary	611	651
Value added	1,298	957
Significant unobservable inputs (level 3)	11,393	8,471
Total investments	$ 73,563	$ 73,537

Investment income and gains (in thousands) for the years ended June 30, 2012 and 2011 consist of:

	2012	2011
Interest	$ 33	$ 64
Dividends	1,205	1,342
Fees	(139)	(104)
Total Investment Income	**$ 1,099**	**$ 1,302**
Realized gains (losses)	274	258
Unrealized gains (losses)	(1,560)	8,408
Total Investment Income	**$ (1,286)**	**$ 8,666**

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, 2012 and 2011 were $10,209,000 and $10,529,000 respectively. See note 13h for further explanation of the trust funds.

At June 30, 2012 and 2011, the Foundation had committed $22.4 and $19.2 million, respectively, of its endowment investment resources to alternative investments, of which $10.0 and $10.3 million, respectively, had not yet been called by the investment managers. Alternative investments for which commitments have been made consist of private equity, natural resources and private real estate.

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

e. Fair Value Measurements

The three levels of the fair value hierarchy under generally accepted accounting principles are described as follows:

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

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

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

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

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

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

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

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 investments include short term money market funds, cash and cash surrender value, certificates of deposit, fixed income funds and equity funds.

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

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

There have been no changes in the methodologies used at June 30, 2012.

The following assets were measured at fair value as of June 30, 2012 and 2011 (in thousands):

	2012	2011
Level 1		
Investments	$ 52,648	$ 55,604
Level 2		
Investments	$ 9,522	$ 9,462
Level 3		
Investments	$ 11,393	$ 8,471

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

	Private Equity	Natural Resources	Private Real Estate
Investments:			
Beginning balance, June 30, 2010	**$ 2,795**	**$ 1,871**	**$ 1,349**
Additional investment	1,125	631	83
Capital distributions	(349)	(169)	-
Fees	-	(13)	-
Realized gains (losses)	19	122	(13)
Unrealized gains (losses)	492	339	189
Balance, June 30, 2011	**4,082**	**2,781**	**1,608**
Additional investment	1,609	1,289	442
Capital distributions	(691)	(196)	(234)
Fees	(40)	(44)	(7)
Realized gains (losses)	34	37	(12)
Unrealized gains	272	351	112
Ending balance, June 30,2012	**$ 5,266**	**$ 4,218**	**$ 1,909**

f. Endowments

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

Kentucky enacted the Kentucky Uniform Prudent Management of Institutional Funds Act (KUPMIFA), the provisions of which apply to endowment funds existing on or established after enactment, with an effective date of July 15, 2010.

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

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

Duration and preservation of the endowment fund
Purpose of the institution and the endowment fund
General economic conditions

Possible effect of inflation or deflation
Expected total return on investments
Other resources of the institution
Investment policy

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

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

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

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

Endowment net asset composition by type of endowment (in thousands) as of June 30, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor restricted endowment funds	$ -	$ 16,119	$ 40,167	$ 56,286
Quasi-endowment funds	1,755	6,020	-	7,775
Total endowment funds	$ 1,755	$ 22,139	$ 40,167	$ 64,061

Changes in endowment net assets (in thousands) as of June 30, 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 1,775	$ 23,786	$ 33,771	$ 59,332
Contributions collected	-	9	6,297	6,306
Investment income	24	1,040	-	1,064
Net investment loss	(30)	(1,249)	-	(1,279)
Amounts appropriated for expenditure	(6)	(1,356)	-	(1,362)
Investment loss transferred to unrestricted	(8)	8	-	-
Transfer to permanently restricted	-	(99)	99	-
Endowment net assets, end of year	$ 1,755	$ 22,139	$ 40,167	$ 64,061

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

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

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

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

Funds with Deficiencies. From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or KUPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were $8,000 of June 30, 2012. These deficiencies resulted from unfavorable market conditions 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, 2012 have been evaluated for possible adjustment to the financial statements or disclosure is September 10, 2012, which is the date the financial statements were available to be issued.

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