NORTHERN KENTUCKY UNIVERSITY

2013-2014 FINANCIAL REPORT

2013-2014 FINANCIAL REPORT

Current as of June 30, 2014

Northern Kentucky University and Affiliate
A Component Unit of the Commonwealth of Kentucky
Annual Financial Report
2013-2014

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September 19, 2014

Northern Kentucky University Board of Regents
Highland Heights, KY 41099

Dear Members of the Board:

I am pleased to share the University's 2013-14 Annual Financial Report. The firm of Dean Dorton Allen Ford, PLLC, has audited the following statements and accompanying footnotes. The University ends the fiscal year and begins the new academic year in a strong financial position.

The University's financial performance for the year resulted in a $3.3 million increase in the University's unrestricted net position. Excellent investment returns for the year contributed to a significant growth in the University's endowment funds that are managed by the NKU Foundation. For the five-year period ending June 30, 2014, the endowment funds managed by the Foundation have grown from $49 million to $95 million. The continued growth in funds provided through endowments, gifts, and other sources of revenues will be essential as the University strives to meet the needs of our students, despite declining state funding.

As a result of sound fiscal management and generous philanthropic support, our faculty, staff and students produced many achievements this past year.

We continue to see an increase in the number of students who are applying for admission to NKU. We continue to welcome very well qualified freshmen. The average ACT score of the 2014 freshman class exceeded 23, just as it did last year. In 2005, the year we implemented admissions standards, the average ACT score of the incoming class was 20.7.

We are also producing more graduates. This past year, NKU graduated nearly 3,000 students, including the largest undergraduate class in the University's history.

We are investing in our facilities to support our students. In Fall 2013, we opened the renovated Student Success Center. This year, we opened a new residence hall and renovated a dining hall. Next Fall, we will open the renovated and expanded campus recreation center. And, in 2017, we will open our $97 million health innovations center, which will transform healthcare in this region.

There is tremendous excitement and enthusiasm on campus today. Through campus enhancements, academic programs, and many other initiatives furthering the cause of student success, we are building the foundation for the next era of transformation at NKU.

NKU's future is filled with many opportunities and with great potential. I am optimistic that we will succeed, because something special is happening at NKU.

Sincerely,

G. Mearns

Geoffrey S. Mearns
President

DEANDORTON
DEAN DORTON ALLEN FORD, PLLC

Report of Independent Auditors

Members of the Board of Regents and
Mr. Geoffrey S. Mearns, President
Northern Kentucky University
Highland Heights, Kentucky

Secretary of Finance and
Administration Cabinet of the
Commonwealth of Kentucky

Report on the Financial Statements

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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in

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the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 the discretely presented component unit of Northern Kentucky University as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1q to the financial statements, the 2013 financial statements have been restated due to the adoption of new accounting guidance related to accounting for debt issuance costs and to correct a misstatement. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5–13 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 audits 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 1, 2014
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, 2014, with selected comparative information for the years ended June 30, 2013 and 2012. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and notes.

As a public comprehensive university located in a major metropolitan area, Northern Kentucky University delivers innovative, learner-centered education and engages in impactful, scholarly and creative activities, all of which empower students for fulfilling careers and meaningful lives, while contributing to the social and economic vitality of the region. The University is vital to the economic and social progress of this region and the Commonwealth.

Financial Highlights

The University's financial position remains relatively strong at June 30, 2014. The University's total net position decreased by $1.2 million, or 0.4 percent, for the year. An increase in nonrecurring reserves and positive auxiliary enterprise operating results contributed to a $3.3 million increase in unrestricted net position. Restricted expendable net position increased by $0.8 million for the year. These increases were offset by a $5.3 million decrease in net invested in capital assets net position.

The University's operating revenues increased by $0.2 million for the year with a combined increase of $2.0 million in auxiliary enterprises, sales and services of educational activities, operating grants and contracts and other operating revenues. This increase was partially offset by a $1.8 million decrease in net tuition and fees revenues. Net nonoperating revenues increased by $1.8 million for the year primarily due to a $1.2 million increase in federal and state financial aid programs and a $0.9 million increase in investment income which was driven by excellent endowment returns for the year. Operating expenses declined by $1.2 million for the year.

The University's state-funded endowments totaled $12.9 million and $11.3 million as of June 30, 2014 and 2013, respectively. These funds, along with the private endowed gifts donated to benefit the University, are managed by Northern Kentucky University Foundation, Inc. (Foundation). The endowment funds managed by the Foundation, including the University's endowment funds, totaled $95.1 million and $82.7 million at June 30, 2014 and 2013, respectively. For the five-year period ended June 30, 2014, the endowment funds managed by the Foundation have grown from $49.2 million to $95.1 million as a result of excellent investment returns and the receipt of several major endowment gifts.

Using the Financial Statements

The University's financial report includes three financial statements: the statements of net position; the statements of revenues, expenses and changes in net position and the statements 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 GASB pronouncements. Financial statements presented for the Foundation consist of the statements of financial position and the statements of activities. These statements are prepared in accordance with Financial Accounting Standards Board (FASB) pronouncements.

Statement of Net Position

The statement of net position reflects the financial position of the University as of June 30, 2014, with comparative information as of June 30, 2013, and includes all assets, deferred outflows and inflows of resources, liabilities and net position. 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. Net position, consisting of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources, is one indicator of the current financial condition of the University. Assets and liabilities are generally measured using current values. A major exception is capital assets, which are stated at historical cost less accumulated depreciation.

A summary of the University's net financial position at June 30, 2014, 2013 and 2012 follows:

Condensed Statements of Net Position (in thousands)

	2014	2013	2012
ASSETS			
Current assets	$ 108,879	$ 95,629	$ 98,168
Capital assets, net	315,411	313,257	321,434
Noncurrent assets	71,455	42,927	44,958
Total assets	495,745	451,813	464,560
DEFERRED OUTFLOWS OF RESOURCES	1,079	1,167	1,149
LIABILITIES			
Current liabilities	36,205	30,025	31,569
Noncurrent liabilities	149,003	109,840	116,583
Total liabilities	185,208	139,865	148,152
DEFERRED INFLOWS OF RESOURCES	1,522	1,785	2,049
NET POSITION			
Invested in capital assets, net of related debt	212,906	218,241	224,696
Restricted			
Nonexpendable	7,616	7,616	7,616
Expendable	5,631	4,865	8,380
Unrestricted	83,941	80,608	74,816
Total net position	$ 310,094	$ 311,330	$ 315,508

The statement of net position at June 30, 2014 reflects the University's relatively strong financial position.

Assets

The University's assets increased by $43.9 million, or 9.7 percent, for the year ended June 30, 2014 and now total $495.7 million. A $13.2 million increase in current assets for the year ended June 30, 2014 combined with a $2.5 million decrease for the year ended June 30, 2013, resulted in a combined increase of $10.7 million, or 10.9 percent, since June 30, 2012. Noncurrent assets, excluding net capital assets, grew by $26.5 million since 2012 as a result of an increase in unspent bond proceeds related to several major building projects that are currently under construction. This increase was partially offset by a decline in the deposits held in a stream and wetland restoration fund by the Research Foundation pursuant to a memorandum of agreement with a federal agency.

Net capital assets grew by $2.2 million for the year ended June 30, 2014 and decreased by $8.2 million the prior year, resulting in a combined decrease of $6.0 million, or 1.9 percent, since June 30, 2012. This decline is the net result of a $33.2 million increase in capitalized construction project costs, land improvements, equipment and other capital assets, less $39.2 million in depreciation. Net capital assets totaled $315.4 million, or 63.6 percent of total assets as of June 30, 2014.

Deferred Outflows of Resources

Deferred outflows of resources totaled $1.1 million and $1.2 million as of June 30, 2014 and 2013, respectively. The deferred outflows, which resulted from a loss on a bond refunding, are being amortized over the life of the bond issue.

Liabilities

At June 30, 2014, the University's liabilities totaled $185.2 million compared to the previous year's $139.9 million. This $45.3 million increase in liabilities resulted primarily from a $46.7 million increase in current and noncurrent long-term liabilities, including a $46.8 million increase in outstanding bonds, notes and capital leases that resulted from the issuance of bonds for the health center expansion and student housing projects. Bonds, notes and capital leases payable, net of discounts and premiums, represented $141.3 million, or 76.3 percent, of total liabilities at June 30, 2014.

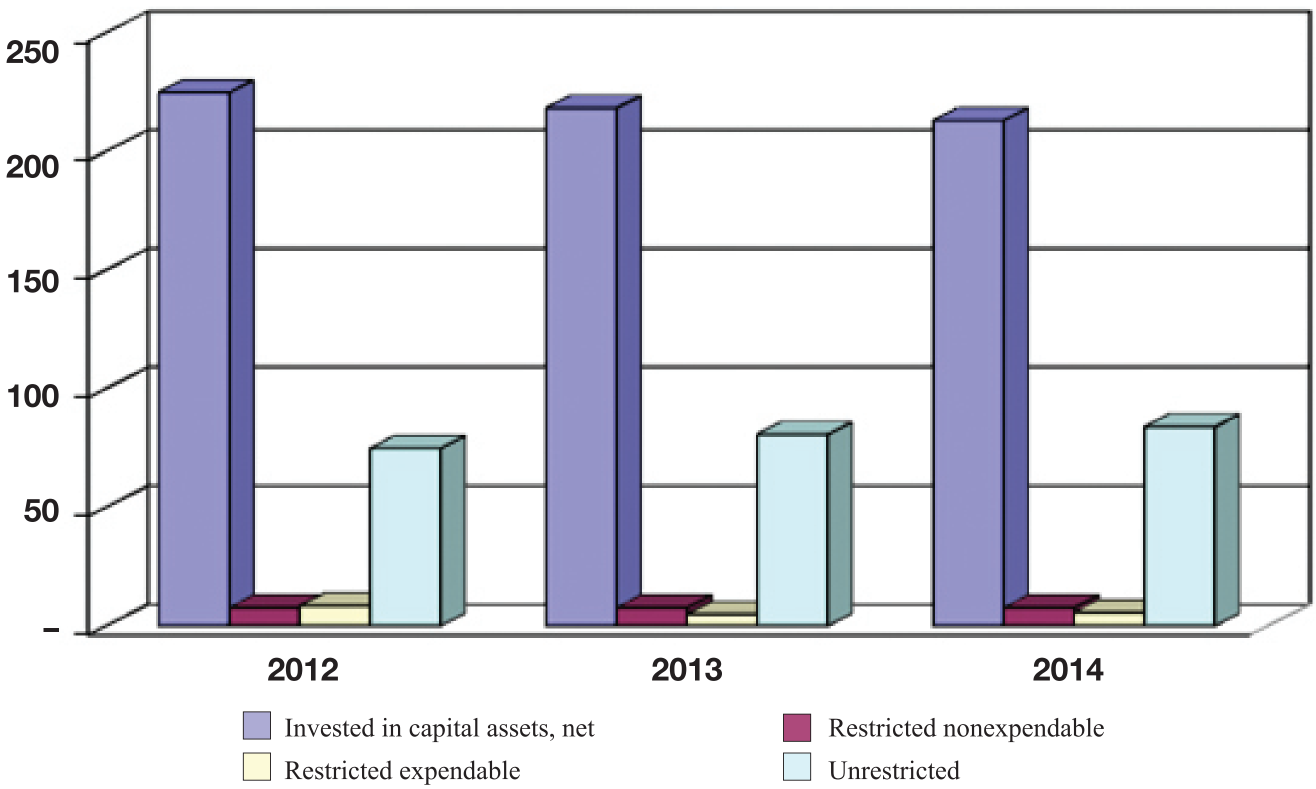
The University's total liabilities increased by $37.1 million, or 25.0 percent, from June 30, 2012 to June 30, 2014. Current liabilities increased by $4.7 million. Noncurrent liabilities increased by $32.4 million, due to a $40.7 million increase in bonds, notes and capital leases payable and a $6.1 million decrease in agency deposits held by the Research Foundation.

Deferred Inflows of Resources

Deferred inflows of resources totaled $1.5 million and $1.8 million as of June 30, 2014 and 2013, respectively. The deferred inflows, which resulted from a service concession agreement between the University and a food service provider, are being amortized over the life of the service agreement.

Net Position

The following chart illustrates the University's net position for fiscal years 2012, 2013 and 2014 (presented in millions).



Net position represents the difference between the University's total of assets and deferred outflows of resources and the total of liabilities and deferred inflows of resources. The University's net position totaled $310.1 million and $311.3 million at June 30, 2014 and 2013, respectively. Net invested in capital assets totaled $212.9 million, or 68.7 percent, of total net position. The University's restricted and unrestricted net position represented 4.3 percent and 27.1 percent of total net position, respectively. Total net position decreased by $1.2 million, or 0.4 percent, for the year. Net invested in capital assets decreased $5.3 million for the year resulting from depreciation expenses in excess of increases in new capital assets, net of debt. Restricted expendable resources increased by $0.8 million. Positive operating results contributed to a $3.3 million increase in unrestricted net position for the year.

The University's total net position decreased by $5.4 million, or 1.7 percent, from June 30, 2012 to June 30, 2014. Depreciation expenses for the two year period exceeded additions to capital assets, net of related debt, resulting in an $11.8 million decrease in invested in capital assets, net of related debt. The University's restricted expendable net position decreased by $2.7 million while its unrestricted net position increased by $9.1 million from June 30, 2012 to June 30, 2014.

Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position 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.

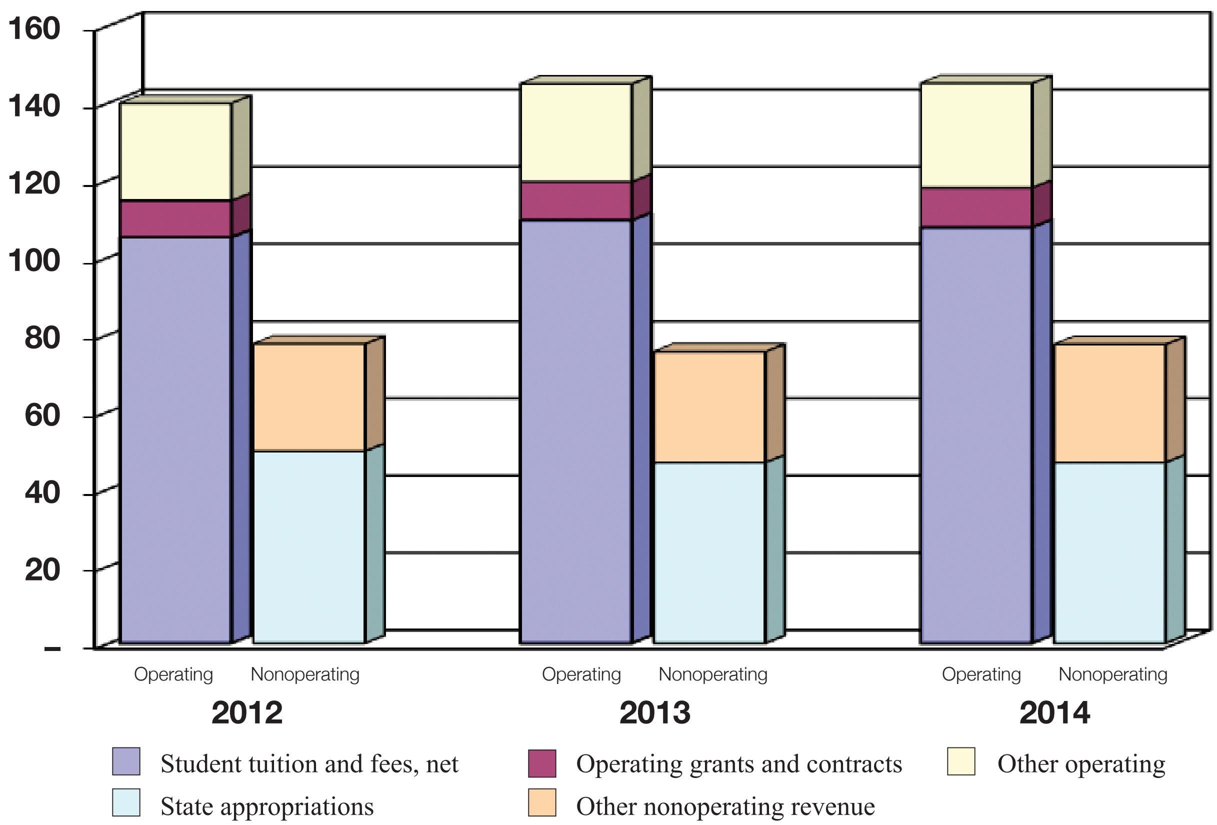
This statement is prepared on the accrual basis of accounting whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. A summarized comparison of the University's revenues, expenses and changes in net position for years ended June 30, 2014, June 30, 2013, and June 30, 2012 follows:

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

	2014	2013	2012
OPERATING REVENUES			
Student tuition and fees, net	$ 107,716	$ 109,562	$ 105,171
Grants and contracts	10,253	9,968	9,497
Sales and services of educational departments	5,470	4,751	4,407
Auxiliary enterprises	14,177	13,415	13,035
Other operating revenues	7,423	7,173	7,783
Total operating revenues	145,039	144,869	139,893
OPERATING EXPENSES			
Educational and general	194,678	195,013	189,508
Depreciation	16,475	17,116	17,179
Auxiliary enterprises (including depreciation)	8,734	9,022	8,231
Other expenses	101	44	64
Total operating expenses	219,988	221,195	214,982
Net loss from operations	(74,949)	(76,326)	(75,089)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	46,835	46,835	49,744
Gifts, grants and contracts	28,179	27,150	27,567
Investment income	2,406	1,542	226
Interest on capital asset-related debt	(3,381)	(3,749)	(4,106)
Other nonoperating revenues (expenses)	(607)	(108)	(16)
Net nonoperating revenues	73,432	71,670	73,415
Income (loss) before other revenues, expenses, gains or losses	(1,517)	(4,656)	(1,674)
Capital appropriations	-	(80)	-
Capital grants and gifts	281	558	3,862
Total other revenues	281	478	3,862
Increase (decrease) in net position	(1,236)	(4,178)	2,188
Net position-beginning of year	311,330	315,508	313,320
Net position-end of year	$ 310,094	$ 311,330	$ 315,508

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 2012, 2013 and 2014. 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 (presented in millions).



The University's operating and nonoperating revenues totaled $222.5 million for the year ended June 30, 2014, an increase of $2.1 million compared to 2013. Operating revenues totaled $145.0 million, or 65.2 percent of revenues, while nonoperating revenues grew to $77.5 million, or 34.8 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 (21.0 percent).

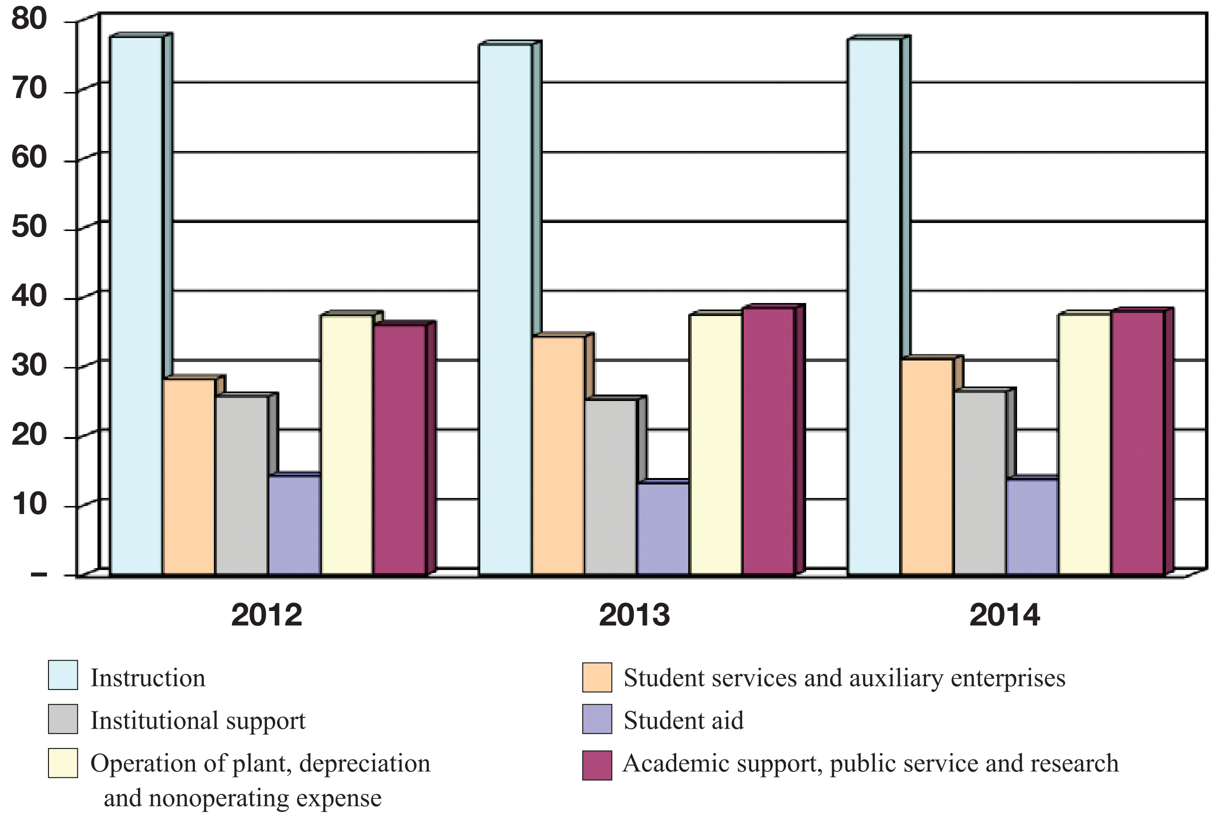
Operating revenues increased by $0.2 million for the year with increases in auxiliary enterprises ($0.8 million), sales and services of educational activities ($0.7 million), operating grants and contracts ($0.3 million) and other operating revenues ($0.2 million). These increases were partially offset by a decrease in net tuition and fees revenues ($1.8 million).

Nonoperating revenues grew by $1.9 million for the year. The University's state appropriations were unchanged at $46.8 million for fiscal years 2014 and 2013. The University's state nonoperating grant revenues increased by $0.9 million for the year due to a $0.9 million increase in state financial aid program revenues, including increases in need-based aid ($0.5 million) and merit scholarships ($0.2 million). The University's federal nonoperating grant revenues increased by $0.2 million for the year due to a $0.3 million increase in federal financial aid program revenues. Increased endowment investment earnings resulted in a $0.9 million increase in investment income for the year.

A $5.1 million, or 3.6 percent, increase in operating revenues since 2012 was driven by increases in net tuition ($2.5 million), auxiliary enterprises ($1.1 million) and sales and services of educational activities ($1.1 million). The growth in net tuition resulted from average tuition rate increases of 2.3 percent and 4.6 percent for fiscal years 2014 and 2013, respectively. The University's nonoperating revenues declined by $0.1 million since June 30, 2012 as a result of a $2.9 million decline in state appropriations and an offsetting increase in investment income ($2.2 million) and nonoperating grant revenues ($0.6 million), including a $0.9 million increase in state financial aid programs.

Operating and Nonoperating Expenses

The following chart illustrates the University's expenses by function (both operating and nonoperating) for fiscal years 2012, 2013 and 2014 (presented in millions).



Operating and nonoperating expenses decreased by $1.1 million, or 0.5 percent, to a total of $224.0 million for the year ended June 30, 2014. As depicted in the chart above, the majority of the University's funds are expended directly for the primary mission of the University – instruction $77.2 million (34.5 percent), and academic support, libraries, public service and research $38.0 million (17.0 percent).

Instruction expenses increased by $0.8 million, or 1.0%, for the year ended June 30, 2014 primarily due to an increase in faculty and staff salaries and benefits. Increases in public service expenses funded by grants such as the GEAR UP Kentucky grant and by revenue supplemented operations, such as the Center for Environmental Restoration and the Center for Economic Analysis and Development, contributed to a $0.9 million growth in public service expenses. A reduction in administrative expenses related to the Chase College of Law contributed to the $1.3 million decline in academic support expenses for the year. Student services expenses declined by $3.0 million primarily due to a decline in the nonrecurring, noncapital expenses incurred in 2013 related to the Student Success Center construction project. Student aid expenses increased by $0.6 million for 2014 due, in part, to an increase in state financial aid program expenses and an increase in institutional scholarship expenses. Auxiliary enterprises expenses declined by $0.3 million as a result of a decline in maintenance expenses related to a parking services project.

Instruction, research, public service, academic support and student services expenses grew by $4.1 million, or 3.0%, since 2012 while institutional support, operation and maintenance of plant and interest expense on capital asset-related debt increased by only $0.9 million, or 1.9%, since 2012. 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 continued effort to contain costs. Energy management initiatives have resulted in no increase in total utility costs since 2010 even though new facilities, such as Griffin Hall, have opened since 2010.

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 financing, capital and related financing, and investing activities.

Condensed Statements of Cash Flows (in thousands)

	2014	2013	2012
Net cash provided (used) by:			
Operating activities	$ (52,042)	$ (60,090)	$ (56,704)
Noncapital financing activities	68,876	73,642	89,895
Capital and related financing activities	22,877	(20,600)	(4,038)
Investing activities	2,812	474	1,112
Net increase (decrease) in cash	42,523	(6,574)	30,265
Cash and cash equivalents, beginning of year	110,857	117,431	87,166
Cash and cash equivalents, end of year	$ 153,380	$ 110,857	$ 117,431

The University's cash and cash equivalents increased $42.5 million in 2014 and decreased $6.6 million in 2013. Major sources of funds generated by operating activities in 2014 included student tuition and fees ($106.0 million), grants and contracts ($10.2 million) and auxiliary enterprises ($14.0 million). The largest cash payments for operating activities were made to employees ($143.9 million) and to vendors and contractors ($50.8 million). Net cash provided by operating activities increased by $8.0 million for the year primarily due to a $9.0 million decrease in payments to suppliers and an increase in auxiliary enterprise and sales and services of educational departments receipts ($2.1 million). These cash increases were partially offset by $2.3 million decline in tuition and fees receipts and a $1.7 million increase in payments for salary and benefits.

A net decrease in agency deposits held by the Research Foundation on behalf of a federal agency resulted in a net decrease of $4.8 million in net cash provided by noncapital financing activities. Cash provided by capital and related financing activities totaled $22.9 million for 2014. Purchases of capital assets totaling $21.4 million were primarily funded by $52.0 million in bond proceeds issued in 2014 to finance an expansion of the campus recreation/health center and a student housing project.

The University's cash receipts from operating activities increased by $3.6 million, or 2.6 percent, from 2012 to 2014 while cash disbursements for operating activities decreased by $1.0 million, or 0.5 percent, for the period.

Capital Asset and Debt Administration

<u>Capital Assets</u>

Capital assets, net of accumulated depreciation, increased by $2.2 million for the year ended June 30, 2014. Additions to capital assets, net of disposals, during the year totaled $21.4 million, including a renovation of the University's north plaza, a new intramural field, and construction in progress related to the renovation of a student dining facility, a student housing facility and the expansion of the University's campus recreation/health center. Depreciation expenses totaled $19.3 million for the year. As of June 30, 2014, net capital assets totaled $315.4 million, or 63.7 percent of total assets.

The University's net capital assets decreased by $6.0 million from June 30, 2012 to June 30, 2014. This decline is the net result of a $33.2 million increase in capitalized construction project costs, land improvements, equipment and other capital assets, less $39.2 million in depreciation. In recent years, the University's main campus has undergone a dramatic transformation 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.

The expansion and transformation of the main campus continues. At June 30, 2014, the University had several major projects in progress, including the expansion and renovation of a student campus recreation/health facility, the renovation of a new student housing facility, and the design of a new health innovations center. All of these projects will significantly enhance the University's capacity to serve its students and the community.

Debt

The following is a summary of the University's outstanding debt summarized by revenue pledge as of June 30, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
General Receipts Bonds, net of discounts and premiums	$ 134,923	$ 86,890	$ 84,304
Consolidated Educational Buildings Revenue Bonds, net of discounts	-	-	7,028
Housing and Dining System Revenue Bonds	1,310	1,475	1,635
Capital lease - Residential Suites	-	-	500
Notes payable and municipal lease obligations	5,110	6,218	7,137
	$ 141,343	$ 94,583	$ 100,604

The University issued General Receipts Bonds in 2014 to finance the expansion and renovation of a campus recreation/health center and the acquisition and renovation of a new student housing facility. This bond issue generated $52 million in bond proceeds for the two projects and contributed to the $46.8 million, or 49.4 percent, net increase in outstanding debt for the year ended June 30, 2014. The debt service for the 2014 General Receipts Bonds will be funded by student fees.

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-stable) and Standard and Poor's (A) to the University's General Receipts bonds reflect the University's solid financial position.

ECONOMIC FACTORS IMPACTING FUTURE PERIODS

During fiscal year 2013-14 the University campus community engaged in a comprehensive strategic planning process. Faculty, staff, students, community members and the Board of Regents all made significant contributions to the development of the University's 2013-18 Strategic Plan, *Fuel the Flame*. This plan will guide the University for the next five years toward the 50th anniversary of the founding of the University in 2018.

The University's Board of Regents approved a 4.7 percent increase in undergraduate resident tuition rates for fiscal year 2015. In addition to this modest increase in tuition, student fees that will support the debt service and operating expenses related to the renovation and expansion of the A. D. Albright Health Center are scheduled to increase by $4 per credit hour in fiscal year 2015. The University issued $52.2 million in General Receipts Bonds to finance this project and the acquisition and renovation of a student housing facility that will be supported by student fees.

The Commonwealth of Kentucky approved a $97.0 million appropriation in the 2014-16 biennium to the University to fund the construction of a new state-of-the-art health innovations center. The center will support an integrated portfolio of programs to prepare healthcare professionals and to provide solutions to the population health and wellness challenges of the region and the Commonwealth.

Although the economy continues to show signs of improvement, the Commonwealth and the University still face budget challenges, including federal program funding reductions, and budgetary pressures related to the Medicaid program and the state pension systems. The 2014-16 biennial budget passed by the General Assembly reflects a $48.6 million general state appropriation for the University for fiscal year 2014-15.

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 Commonwealth continues to implement reforms to address the large KERS unfunded liability by restructuring future employee benefits to ensure a sustainable pension system. As part of these reforms, the University will be required to fund the required actuarial contribution of 38.77% in 2014-15 for all of its employees that participate in KERS.

The University's state-funded endowments totaled $12.9 million and $11.3 million as of June 30, 2014 and 2013, respectively. These funds, along with the private endowed gifts donated to benefit the University, are managed by Northern Kentucky University Foundation, Inc. (Foundation). The endowment funds managed by the Foundation, including the University's endowment funds, totaled $95.1 million and $82.7 million at June 30, 2014 and 2013, respectively. For the five-year period ended June 30, 2014, the endowment funds managed by the Foundation have grown from $49.2 million to $95.1 million as a result of excellent investment returns and the receipt of several major endowment gifts. The continued growth in funds provided through endowments, gifts, and other sources of revenues will be essential as the University strives to meet the needs of our students, despite declining state and federal funding.

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, the Council on Postsecondary Education 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 Position
June 30, 2014 and 2013
(in thousands)

	2014	As restated 2013
ASSETS		
Current Assets		
Cash and cash equivalents	$ 96,442	$ 82,910
Notes, loans and accounts receivable, net	10,307	10,386
Other current assets	2,130	2,333
Total current assets	108,879	95,629
Noncurrent Assets		
Cash and cash equivalents	56,938	27,947
Investments	12,871	13,277
Notes, loans and accounts receivable, net	1,561	1,660
Capital assets, net	315,411	313,257
Other noncurrent assets	85	43
Total noncurrent assets	386,866	356,184
Total assets	495,745	451,813
DEFERRED OUTFLOWS OF RESOURCES		
Loss on refunding	1,079	1,167
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	21,980	17,310
Unearned revenue	6,073	6,742
Long-term liabilities-current portion	8,152	5,973
Total current liabilities	36,205	30,025
Noncurrent Liabilities		
Deposits	12,083	17,549
Unearned revenue	574	471
Long-term liabilities	136,346	91,820
Total noncurrent liabilities	149,003	109,840
Total liabilities	185,208	139,865
DEFERRED INFLOWS OF RESOURCES		
Service concession arrangement revenue applicable to future years	1,522	1,785
NET POSITION		
Invested in capital assets, net of related debt	212,906	218,241
Restricted		
Nonexpendable	7,616	7,616
Expendable	5,631	4,865
Unrestricted	83,941	80,608
Total net position, as restated	$ 310,094	$ 311,330

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statements of Financial Position
June 30, 2014 and 2013
(in thousands)

	2014	2013
ASSETS		
Cash and cash equivalents	$ 6,258	$ 7,480
Loans, interest and accounts receivable, net	119	149
Accrued interest receivable	3	21
Contributions receivable, net	2,824	4,642
Prepaid expenses and deferred charges	50	42
Investments	99,038	84,005
Land and land improvements	548	548
Accumulated depreciation	(208)	(208)
Total assets	108,632	96,679
LIABILITIES AND NET ASSETS		
Accounts payable	177	250
Accrued interest payable	32	64
Annuities payable	156	191
Deferred income	26	26
Funds held in trust for Northern Kentucky University	12,871	11,277
Notes payable	822	1,609
Total liabilities	14,084	13,417
NET ASSETS		
Unrestricted		
For current operations	893	694
Contributions receivable	1	3
Amounts functioning as endowment funds	2,212	1,939
Invested in land and land improvements	340	340
Total unrestricted	3,446	2,976
Temporarily restricted		
Unexpended funds received for restricted purposes	8,115	6,005
Contributions receivable	2,618	4,409
Loan funds	154	136
Endowment funds	38,905	28,911
Total temporarily restricted	49,792	39,461
Permanently restricted		
Contributions receivable	205	230
Endowment funds	41,105	40,595
Total permanently restricted	41,310	40,825
Total net assets	94,548	83,262
Total liabilities and net assets	$ 108,632	$ 96,679

See accompanying notes to the financial statements

Northern Kentucky University and Affiliate
A Component Unit of the Commonwealth of Kentucky
Consolidated Statements of Revenue, Expenses and Changes in Net Position
For the Years Ended June 30, 2014 and 2013
(in thousands)

	2014	As restated 2013
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of $32,359 in 2014 and $28,137 in 2013)	$ 107,716	$ 109,562
Federal grants and contracts	2,949	3,281
State and local grants and contracts	4,846	4,251
Nongovernmental grants and contracts	2,458	2,436
Sales and services of educational departments	5,470	4,751
Auxiliary enterprises		
Housing and food service (net of scholarship allowances of $953 in 2014 and $740 in 2013)	10,000	9,344
Other auxiliaries	4,177	4,071
Other operating revenues	7,423	7,173
Total operating revenues	145,039	144,869
OPERATING EXPENSES		
Educational and general		
Instruction	77,202	76,420
Research	1,531	1,453
Public service	13,917	13,076
Libraries	6,052	6,141
Academic support	16,487	17,758
Student services	22,267	25,256
Institutional support	26,407	25,210
Operation and maintenance of plant	17,038	16,504
Depreciation	16,475	17,116
Student aid	13,777	13,195
Auxiliary enterprises		
Housing and food service	4,572	4,405
Other auxiliaries	1,345	1,789
Auxiliary depreciation	2,817	2,828
Other expenses	101	44
Total operating expenses	219,988	221,195
Net loss from operations	(74,949)	(76,326)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	46,835	46,835
Federal grants and contracts	19,645	19,423
State and local grants and contracts	8,532	7,663
Private gifts and grants	2	64
Investment income (loss)	2,406	1,542
Interest on capital asset-related debt	(3,381)	(3,749)
Other nonoperating revenues (expenses)	(607)	(108)
Net nonoperating revenues	73,432	71,670
Income before other revenues, expenses, gains or losses	(1,517)	(4,656)
Capital appropriations	-	(80)
Capital grants and gifts	281	558
Total other revenues	281	478
Increase (decrease) in net position	(1,236)	(4,178)
NET POSITION		
Net position-beginning of year, as restated	311,330	315,508
Net position-end of year, as restated	$ 310,094	$ 311,330

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statements of Activities
For the Year Ended June 30, 2014
(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	$ 2	$ 2,526	$ 483	$ 3,011
Rental income	119	-	-	119
Investment income	41	1,093	-	1,134
Net gain on investments	256	10,948	-	11,204
Other revenue	223	320	-	543
Total revenues and gains	641	14,887	483	16,011
Net assets released from restrictions	4,217	(4,217)	-	-
Total revenues and gains and other support	4,858	10,670	483	16,011
Program Expenses				
Instruction	750	-	-	750
Research	25	-	-	25
Public service	582	-	-	582
Libraries	14	-	-	14
Academic support	423	-	-	423
Student services	210	-	-	210
Institutional support	520	-	-	520
University facilities and equipment acquisition	219	-	-	219
Student financial aid	1,326	-	-	1,326
Total program expenses	4,069	-	-	4,069
Support Expenses				
Management and general	533	-	-	533
Fundraising support	123	-	-	123
Total support expenses	656	-	-	656
Total expenses	4,725	-	-	4,725
Net transfers in (out)	337	(339)	2	-
Increase (decrease) in net assets	470	10,331	485	11,286
Net assets-beginning of year	2,976	39,461	40,825	83,262
Net assets-end of year	$ 3,446	$ 49,792	$ 41,310	$ 94,548

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statements of Activities
For the Years Ended June 30, 2013
(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	$ 12	$ 4,378	$ 331	$ 4,721
Rental income	119	-	-	119
Investment income	57	1,502	-	1,559
Net gains (losses) on investments	155	6,850	-	7,005
Other revenue	206	286	2	494
Total revenues and gains	549	13,016	333	13,898
Net assets released from restrictions	4,642	(4,642)	-	-
Total revenues and gains and other support	5,191	8,374	333	13,898
Program Expenses				
Instruction	619	-	-	619
Research	21	-	-	21
Public service	700	-	-	700
Libraries	15	-	-	15
Academic support	541	-	-	541
Student services	528	-	-	528
Institutional support	566	-	-	566
University facilities and equipment acquisition	210	-	-	210
Student financial aid	1,323	-	-	1,323
Total program expenses	4,523	-	-	4,523
Support Expenses				
Management and general	509	-	-	509
Fundraising support	114	-	-	114
Rental property	7	-	-	7
Total support expenses	630	-	-	630
Total expenses	5,153	-	-	5,153
Net transfers in (out)	275	(287)	12	-
Increase (decrease) in net assets	313	8,087	345	8,745
Net assets-beginning of year	2,663	31,374	40,480	74,517
Net assets-end of year	$ 2,976	$ 39,461	$ 40,825	$ 83,262

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 Year Ended June 30, 2014 and 2013
(in thousands)

	2014	As restated 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 106,045	$ 108,344
Grants and contracts	10,154	9,454
Payments to suppliers	(50,787)	(59,824)
Payments for salaries and benefits	(143,949)	(142,282)
Loans issued to students	(343)	(350)
Collection of loans to students	439	409
Auxiliary enterprise receipts:		
Housing operations	9,917	9,021
Other auxiliaries	4,078	3,787
Sales and service of educational departments	5,487	4,581
Other receipts (payments)	6,917	6,770
Net cash used by operating activities	(52,042)	(60,090)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	46,835	46,835
Gifts and grants for other than capital purposes	28,097	27,430
Agency and loan program receipts	89,782	93,572
Agency and loan program disbursements	(95,231)	(94,087)
Other nonoperating receipts (payments)	(607)	(108)
Net cash provided by noncapital financing activities	68,876	73,642
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt and leases	52,827	5,811
Capital appropriations	-	(80)
Capital grants, gifts, and advances received	276	984
Purchases of capital assets	(21,446)	(11,768)
Principal paid on capital debt and leases	(6,038)	(11,879)
Interest paid on capital debt and leases	(2,742)	(3,668)
Net cash provided (used) by capital and related financing activities	22,877	(20,600)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	2,351	294
Interest on investments	461	180
Net cash provided (used) by investing activities	2,812	474
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	42,523	(6,574)
Cash and cash equivalents-beginning of year	110,857	117,431
Cash and cash equivalents-end of year	$ 153,380	$ 110,857
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES:		
Net loss from operations	$ (74,949)	$ (76,326)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	19,292	19,944
Changes in assets and liabilities:		
Receivables, net	336	(1,535)
Other assets	163	(87)
Deferred outflows of resources	89	18
Accounts payable	3,788	(2,327)
Unearned revenue	(562)	739
Long-term liabilities	65	(252)
Deferred inflows of resources	(264)	(264)
Net cash used by operating activities	$ (52,042)	$ (60,090)

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. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, condensed financial information for the Northern Kentucky University Research Foundation is provided in note 12.

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 GASB. During the year ended June 30, 2013, the University adopted GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November30, 1989, FASB and AICPA Pronouncements, which supersedes GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* thereby eliminating the election provided in paragraph 7 of that statement for business-type activities to apply post-November 30, 1989, FASB statements and interpretations that do not conflict with or contradict GASB pronouncements. GASB No. 62 has been applied retrospectively and had no impact on the University's net position, changes in net position or financial reporting disclosures.

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 position 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 position subject to externally imposed stipulations that they be maintained permanently by the University.

  Expendable – Net position 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. Expendable net position consists primarily of amounts for specified capital construction projects.
- **Unrestricted:** Net position whose use by the University is not subject to externally imposed stipulations. Unrestricted net position 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 position, revenues, expenses, changes in net position 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 (firstin, firstout or average cost).

g. Investments
Investments are stated at fair value.

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

i. Deposits
The University held noncurrent agency deposits of $12,083,000 and $17,549,000 as of June 30, 2014 and 2013, respectively, the majority of which is a wetland restoration fund pursuant to a memorandum of agreement with a federal agency.

j. 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 position. 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.

k. 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).

l. 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.

m. Operating Activities
The University defines operating activities, as reported on the consolidated statements of revenues, expenses and changes in net position, 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.

n. 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.

o. 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, 2014, and 2013, the Foundation made payments on behalf of the University of $2,260,000 and $2,490,000, respectively. In addition, the Foundation transferred to the University $1,809,000 in 2014 and $2,033,000 in 2013 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.

p. Reclassifications
Certain items have been reclassified for the year ended June 30, 2013, in order to conform to classifications used for the year ended June 30, 2014. These reclassifications had no effect on total net position and the change in net position.

q. Restatements
For fiscal year 2014, the University made several prior period adjustments due to the adoption of GASB Statement No. 65, as described in "New Accounting Pronouncements" below, which require the restatement of the June 30, 2013 net position for bond issuance costs previously being amortized. The result is a decrease in net position at July 1, 2013 of $311,000. This change is in accordance with generally accepted accounting principles.

In addition, the University discovered in 2014 that certain costs previously reported in property and equipment under the library category had been improperly capitalized. The result of removing these costs is a decrease in net position at June 30, 2013 of $5,857,000.

Net position, June 30, 2013, as previously reported	$ 317,498,000
Expense of previously unamortized bond issuance costs	(311,000)
Library book adjustment	(5,857,000)
Net position, June 30, 2013, as restated	$ 311,330,000

r. 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 November 2013, the GASB approved Statement No. 71, *Pension transition for contributions made subsequent to the measurement date – an amendment of GASB Statement No. 68*. The objective of the Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

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. This Statement required certain previously reported assets and liabilities to be reclassified to deferred outflows and deferred inflows. Net position was adjusted for bond issuance costs previously being amortized.

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 with original maturities less than three months. At June 30, 2014, petty cash funds totaled $24,815 and the carrying amount of the deposits was $153,355,000 with a corresponding total bank balance of $166,052,000. Of the bank balance, $27,692,000 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 $138,360,000 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, 2014 and 2013 (in thousands):

	2014	2013
Certificates of deposit	$ -	$ 2,000
Restricted assets held by the Foundation	12,871	11,277
Total Investments	$ 12,871	$ 13,277

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, 2014 and 2013 are invested as follows:

	2014	2013
Type of Investment:		
Fixed income funds	13%	14%
Equity funds and common stock	51%	55%
Hedge funds	0%	12%
Alternative investments	28%	17%
Other	8%	2%
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 are $0 and $5,000 as of June 30, 2014 and 2013 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 statute. University investments that are managed by the Foundation are governed by the Foundation's investment policy. This policy contains several provisions which are intended to limit credit risk, including a requirement that fixed income portfolios maintain a weighted average credit rating of at least AA (Standard and Poor's) and have no more than 10 percent of the portfolio in below investment grade bonds.

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

Note 3 – Notes, Loans and Accounts Receivable

Notes, loans and accounts receivable as of June 30, 2014 and 2013 are as follows (in thousands):

	2014		
	Gross Receivable	Allowance	Net Receivable
Student loans	$ 2,488	$ (642)	$ 1,846
Student account receivables	10,427	(4,357)	6,070
Reimbursement receivable grants and contracts	1,480	-	1,480
Other	3,315	(843)	2,472
Total	$ 17,710	$ (5,842)	$ 11,868
Current portion			10,307
Noncurrent portion			1,561
Total			$ 11,868

	2013		
	Gross Receivable	Allowance	Net Receivable
Student loans	$ 2,552	$ (596)	$ 1,956
Student account receivables	10,411	(4,187)	6,224
Reimbursement receivable grants and contracts	1,432	-	1,432
Other	3,341	(907)	2,434
Total	$ 17,736	$ (5,690)	$ 12,046
Current portion			10,386
Noncurrent portion			1,660
Total			$ 12,046

Note 4 – Capital Assets, net

Capital assets for the years ended June 30, 2014 and 2013 are summarized as follows (in thousands):

	As restated 7/1/13 Beginning Balance	**Additions**	**Reductions**	**6/30/14 Ending Balance**
Cost:				
Indefinite life intangible assets	$ 4,622	$ -	$ -	$ 4,622
Land	9,277	70	-	9,347
Land improvements	29,520	5,224	-	34,744
Buildings	392,480	3,643	410	395,713
Equipment	66,747	1,488	1,163	67,072
Library books	19,263	430	20	19,673
Construction in process	3,252	10,769	-	14,021
	525,161	21,624	1,593	545,192
Accumulated Depreciation:				
Land improvements	5,638	875	-	6,513
Buildings	146,816	12,461	258	159,019
Equipment	44,076	5,193	1,137	48,132
Library books	15,374	763	20	16,117
	211,904	19,292	1,415	229,781
Capital assets, net	$ 313,257	$ 2,332	$ 178	$ 315,411

	As restated 7/1/12 Beginning Balance	Restated Additions	Reductions	As restated 6/30/13 Ending Balance
Cost:				
Indefinite life intangible assets	$ 4,622	$ -	$ -	$ 4,622
Land	9,045	232	-	9,277
Land improvements	28,459	1,061	-	29,520
Buildings	385,387	7,580	487	392,480
Equipment	65,351	1,869	473	66,747
Library books	19,154	325	216	19,263
Construction in process	2,418	834	-	3,252
	514,436	11,901	1,176	525,161
Accumulated Depreciation:				
Land improvements	4,870	768	-	5,638
Buildings	134,591	12,633	408	146,816
Equipment	38,748	5,746	418	44,076
Library books	14,794	797	217	15,374
	193,003	19,944	1,043	211,904
Capital assets, net	$ 321,433	$ (8,043)	$ 133	$ 313,257

The estimated cost to complete construction under contract at June 30, 2014 was approximately $18,538,000.

As of June 30, 2014 and 2013, the net book value of land, buildings and equipment acquired through capital leases included in the above schedules totaled $4,776,000 and $14,252,000 respectively, including buildings of $4,578,000 and $13,904,000, respectively.

Note 5 – Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2014 and 2013 are as follows (in thousands):

	2014	2013
Payable to vendors and contractors	$ 10,261	$ 8,007
Accrued expenses, primarily payroll and vacation leave	7,354	6,307
Employee withholdings and deposits payable to third parties	3,203	2,996
Self-insured health liability	1,162	-
Total	$ 21,980	$ 17,310

Note 6 – Unearned Revenue

Unearned revenue as of June 30, 2014 and 2013 are as follows (in thousands):

	2014	2013
Unearned summer school revenue	$ 4,681	$ 5,144
Unearned grants and contracts revenue	548	743
Unearned auxiliary revenue	996	828
Other	422	498
Total	$ 6,647	$ 7,213
Current	6,073	6,742
Noncurrent	574	471
Total	$ 6,647	$ 7,213

Note 7 – Long-term Liabilities

The changes in long-term liabilities for the years ended June 30, 2014 and 2013 are summarized as follows (in thousands):

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion	Noncurrent Portion
Housing and Dining Revenue Bonds	$ 1,475	$ -	$ 165	$ 1,310	$ 170	$ 1,140
General Receipts Bonds (net of discounts and premiums)	86,890	52,177	4,144	134,923	6,128	128,795
Total bonds	88,365	52,177	4,309	136,233	6,298	129,935
Municipal lease obligations	5,955	-	1,553	4,402	1,577	2,825
Notes payable	263	650	205	708	124	584
Total notes and capital leases	6,218	650	1,758	5,110	1,701	3,409
Deferred compensation	522	17	83	456	83	373
Federal portion of loan programs	2,018	59	73	2,004	-	2,004
KERS-sick leave	670	25	-	695	70	625
Total other liabilities	3,210	101	156	3,155	153	3,002
Total long-term liabilities	$ 97,793	$ 52,928	$ 6,223	$ 144,498	$ 8,152	$ 136,346

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion	Noncurrent Portion
Consolidated Educational Buildings Revenue Bonds (net of discounts)	$ 7,028	$ -	$ 7,028	$ -	$ -	$ -
Housing and Dining Revenue Bonds	1,635	-	160	1,475	165	1,310
General Receipts Bonds (net of discounts and premiums)	84,304	5,166	2,580	86,890	4,062	82,828
Total bonds	92,967	5,166	9,768	88,365	4,227	84,138
Municipal lease obligations	7,010	445	1,500	5,955	1,553	4,402
Capital leases	500	-	500	-	-	-
Notes payable	127	200	64	263	42	221
Total notes and capital leases	7,637	645	2,064	6,218	1,595	4,623
Deferred compensation	542	-	20	522	84	438
Federal portion of loan programs	2,087	-	69	2,018	-	2,018
KERS-sick leave	675	3	8	670	67	603
Total other liabilities	3,304	3	97	3,210	151	3,059
Total long-term liabilities	$ 103,908	$ 5,814	$ 11,929	$ 97,793	$ 5,973	$ 91,820

a. Bonds

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, 2014. The $348,000 required housing repair and replacement fund was fully funded as of June 30, 2014.

The outstanding obligation as of June 30, 2014 for the Northern Kentucky University General Receipts Bonds are reported net of discounts totaling $846,000 and premiums of $5,059,000. 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 February 26, 2013, Northern Kentucky University General Receipts Bonds were issued in the amount of $4,995,000 at a net interest cost of 1.40 percent. The proceeds refunded the Consolidated Educational Buildings Revenue Bonds Series L maturities on or after May 1, 2014. The refunding reduced the University's total debt service payments over the term by $980,000, representing on economic gain of $832,000. Economic gain is determined by calculating the difference between the present value of the debt service payments on the old and new debt.

On January 7, 2014, Northern Kentucky University General Receipts Bonds were issued in the amount of $47,375,000 at a net interest cost of 3.96%. The proceeds were used to (i) finance the renovation and expansion of the Albright Health Center and (ii) the acquisition and renovation of a new residence hall.

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

	2014	2013
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, 2021.	$ 1,310	$ 1,475
Total Housing and Dining System Revenue bonds payable	1,310	1,475
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.	37,835	39,825
Series A 2008, dated June 18, 2008, with interest rates from 3.00% to 4.38%. Final principal payment date September 1, 2028.	18,440	18,655
Series A 2010, dated June 29, 2010, with interest rates from 2.00% to 3.50%. Final principal payment date September 1, 2020.	2,595	2,990
Series B 2010, dated October 21, 2010, with interest rates from 2.00% to 3.75%. Final principal payment date September 1, 2027.	11,035	11,675
Series A 2011, dated August 4, 2011, with interest rates from 2.00% to 4.00%. Final principal payment date September 1, 2030.	8,890	9,290
Series A 2013, dated February 26, 2013, with an interest rate of 2.00%. Final principal payment date September 1, 2022.	4,540	4,995
Series A 2014, dated January 7, 2014, with interest rates from 2.00% to 5.00%. Final principal payment date September 1, 2033.	47,375	-
Total General Receipts bonds payable	130,710	87,430
Plus: Net discounts and premiums	4,213	(540)
Total bonds payable	$ 136,233	$ 88,365

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
2015	$ 6,209	$ 5,296	$ 11,505
2016	6,380	5,115	11,495
2017	6,561	4,919	11,480
2018	6,816	4,702	11,518
2019	7,534	4,443	11,977
2020-2024	38,958	17,631	56,589
2025-2029	42,555	8,636	51,191
2030-2034	17,715	2,071	19,786
Subtotal	132,728	52,813	185,541
Plus: Net discounts and premiums	4,213	-	4,213
Total	$ 136,941	$ 52,813	$ 189,754

b. Capital and Municipal Leases

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

	2014	2013
Municipal leases payable		
Energy Management lease, dated October 22, 2004, with an interest rate of 3.76%. Final payment date September 22, 2016.	$ 1,074	$ 1,523
Equipment leases, dating from June 30, 2006 - October 1, 2009, with interest rates ranging from 1.46-4.65%. Final payment dates from June 30, 2014 to December 3, 2016.	281	401
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.	3,047	4,031
Total Municipal leases payable	$ 4,402	$ 5,955

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
2015	$ 1,577	$ 77	$ 1,654
2016	1,612	41	1,653
2017	1,213	10	1,223
Total	$ 4,402	$ 128	$ 4,530

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 fulltime members of the faculty, administrative officers and others who have educational related duties. The TIAA CREF retirement plan is a defined contribution, money purchase retirement plan. The employees contribute 5 percent of their base salary to the plan, and the University contributes 10 percent. All payments are vested immediately and the contracts with the providers are owned by the individual employees. The employee is entitled to various payment options upon retirement. Benefit payments at retirement depend on the total contributions with interest deposited into the employee's account. Retirement benefits can begin upon retirement or termination of employment with the University. Covered payroll totaled $45,961,000 and $44,190,000 for the years ended June 30, 2014 and 2013, respectively. Expenditures for the University's portion amounted to $4,596,000 and $4,419,000 for the years ended June 30, 2014 and 2013, 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, 2014, University employees were required to contribute 5 percent of their annual covered salary for retirement benefits. Employees with a participation date after 9/1/2008 are required to contribute an additional 1 percent of their covered salary for retiree healthcare benefits. The University was required to contribute 26.79 percent of covered payroll for non-hazardous pay and 32.21 percent for hazardous pay. The University's contributions to KERS for the years ending June 30, 2014 and 2013 were $11,589,000 and $10,322,000, 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, 2014 and 2013 was $695,000 and $670,000, respectively.

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, 2014 and 2013 was $3,369,000 and $3,042,000, 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, 2014 and 2013, the University had recognized an accrued vacation liability of $3,283,000 and $3,188,000, 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, 2014 and 2013 (in thousands):

	2014	As restated 2013
Salaries and wages	$ 108,163	$ 108,494
Employee benefits	38,549	36,318
Utilities	5,571	5,581
Supplies and other services	34,243	37,325
Depreciation	19,292	19,944
Student scholarships and financial aid	14,170	13,533
Total	$ 219,988	$ 221,195

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 2013 to 2014. Settlements have not exceeded insurance coverage during the past three years.

The University began self-insuring employee health insurance as of January 1, 2014. Accrued expenses are based on the estimated costs of health care claims based on claims filed subsequent to year end and an additional amount for incurred but not yet reported claims based on prior experience. The University purchases both specific and aggregate stop loss coverage on medical and prescription drug claims. The stop loss insurance limits its exposure for claims to $225,000 per individual and 125 percent of projected aggregate claims.

The health self-insurance liability as of June 30, 2014 is detailed below:

	2014
Liability, beginning of year	$ -
Claims and changes in estimates	5,717
Claims paid	(4,555)
Liability, end of year	$ 1,162

The University also self-insures certain other employee benefits, including 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, 2014.

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.

Note 12 –Blended Entity Condensed Financial Information

Condensed financial information for Northern Kentucky University Research Foundation (NKURF) is provided below for the years ended June 30, 2014 and 2013 (in thousands):

NKURF Condensed Statement of Net Position

	2014	2013
ASSETS		
Current assets	$ 2,414	$ 3,008
Noncurrent assets	11,730	17,282
Total assets	14,144	20,290
LIABILITIES		
Current liabilities	897	971
Noncurrent liabilities	11,730	17,282
Due to the University	437	460
Total liabilities	13,064	18,713
NET POSITION		
Restricted expendable	111	81
Unrestricted	969	1,496
Total net position	$ 1,080	$ 1,577

NKURF Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2014	2013
OPERATING REVENUES		
Grants and contracts	$ 6,235	$ 5,836
Recoveries of facilities and administrative costs	487	414
Other operating revenues	1	8
Total operating revenues	6,723	6,258
OPERATING EXPENSES		
Operating expenses	6,270	5,984
Operating income (loss)	453	274
NONOPERATING REVENUES (EXPENSES)		
Non-capital transfers (to)/from the University	(991)	(385)
Gifts and grants	50	61
Net nonoperating revenues (expenses)	(941)	(324)
Income (loss) before other revenues, expenses, gains or losses	(488)	(50)
Capital transfers (to)/from the University	(116)	-
Capital grants and gifts	107	4
Total other revenues	(9)	4
Increase (decrease) in net position	(497)	(46)
NET POSITION		
Net position-beginning of year	1,577	1,623
Net position-end of year	$ 1,080	$ 1,577

NKURF Condensed Statement of Cash Flows

	2014	2013
Net cash provided (used) by operating activities	$ 567	$ (603)
Net cash provided (used) by noncapital financing activities	(6,496)	(277)
Net cash provided by (used in) capital and related financing activities	(13)	324
Net cash provided by (used in) investing activities	2,000	-
Net increase (decrease) in cash and cash equivalents	(3,942)	(556)
Cash and cash equivalents-beginning of year	16,939	17,495
Cash and cash equivalents-end of year	$ 12,997	$ 16,939

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

a. Summary of Significant Accounting Policies

1. Scope of Statements

The consolidated financial statements of the Northern Kentucky Foundation, Inc. include the operations of the Foundation and several single member limited liability companies. All material intercompany transactions and balances have been eliminated for the years ended June 30, 2014 and 2013.

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 the 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, 2013, are short term government obligation shares of $323,000. Additionally, at June 30, 2014 and 2013, $877,000 and $2,546,000, 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, 2014 and 2013, balances of $3,112,000 and $2,095,000, 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, 2014 and 2013 was approximately $121,000 and $116,000, respectively.

5. Investments
Investments in equity securities with readily determinable fair values 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 endowments 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, 2014 and 2013, land and land improvements (in thousands) consisted of:

	2014	2013
Type of Asset:		
Land	$ 340	$ 340
Land improvements	208	208
Total land and land improvements	$ 548	$ 548

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. At June 30, 2013 all land improvements were fully depreciated. Depreciation expense for the year ended June 30, 2013 was approximately $5,000, and was 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. The remainder of the loan principal, $822,000, is to be paid by August 1, 2014.

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, 2014 and 2013 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 gifts and bequests revenue.

At June 30, 2014 and 2013, the Foundation recognized contributions based on the following unconditional promises to give (in thousands):

		2014		2013
Purpose:				
Endowment giving	$	212	$	236
Capital purposes		1,092		2,072
Operating programs		1,668		2,583
Gross unconditional promises		2,972		4,891
Less: Discount and allowance for uncollectable accounts		(148)		(249)
Net unconditional promises to give	$	2,824	$	4,642
Amounts due in:				
Less than one year	$	1,696	$	2,584
One to five years		975		1,904
More than five years		301		403
Total	$	2,972	$	4,891

The discount rates used to calculate the present value of contributions receivable at June 30, 2014 and 2013 vary from 1.2 percent to 5.25 percent depending on when the promise was made.

The Foundation has pledged approximately $857,000 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, 2014 and 2013, the Foundation had received conditional promises to give of approximately $1.1 million and $1.2 million, respectively, consisting of the face value of life insurance policies, net of accumulated cash surrender value.

d. 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.

Level 3 investments include those in which there is no active market, such as private equity, private debt, natural resources, private real estate and low volatility alternative investments. For such investments, the fair values are based on valuations determined by the investment managers using Net Asset Values (NAV) as of their most recent statements, adjusted for cash receipts and cash disbursements through June 30.

Level 3 investments also include those for which the determination of fair value requires significant management judgment or estimation. Pursuant to GAAP, management has considered redemption restrictions to assess classification of fair value inputs. Accordingly, the Foundation has classified alternative investments that are redeemable in greater than 90 days or that are considered an illiquid asset, as Level 3 investments.

There have been no changes in the methodologies used at June 30, 2014.

The following assets were measured at fair value as of June 30, 2014 and 2013 (in thousands):

	2014	2013
Level 1		
Investments	$ 68,165	$ 59,714
Level 2		
Investments	$ 3,586	$ 5,185
Level 3		
Investments	$ 27,287	$ 19,106

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

	Private Equity/Debt	Natural Resources	Private Real Estate	Low-Volatility
Investments:				
Beginning balance, June 30, 2012	**$ 5,266**	**$ 4,218**	**$ 1,909**	**$ 4,647**
Additional investments	1,397	1,719	348	-
Capital distributions	(1,100)	(649)	(93)	(18)
Fees	-	(35)	(19)	-
Realized gains	272	257	97	-
Unrealized gains	251	104	87	448
Balance, June 30, 2013	**6,086**	**5,614**	**2,329**	**5,077**
Additional investments	1,375	1,667	99	5,600
Capital distributions	(1,738)	(613)	(610)	(26)
Fees	-	(62)	(11)	(10)
Realized gains	544	115	50	15
Unrealized gains	771	439	123	453
Ending balance, June 30, 2014	**$ 7,038**	**$ 7,160**	**$ 1,980**	**$ 11,109**

e. Investments

The market values (in thousands) of the Foundation's investments as of June 30, 2014 and 2013 are categorized by type below:

	2014	2013
Type of Investment:		
Short-term money market funds	$ 5	$ 2
Cash and cash surrender value	1,796	399
Certificates of deposit	2,850	700
Fixed income funds:		
Core plus	7,259	7,004
Global	3,199	2,978
High yield	2,111	1,991
Equity funds:		
Large/Mid Cap - broad	14,063	14,966
Large/Mid Cap - growth	4,969	3,919
Large/Mid Cap - value	9,904	7,975
Small Cap - growth	1,251	1,903
Small Cap - value	1,651	2,054
International - core	8,425	6,909
International small cap - value	2,505	1,845
Emerging markets - value	4,428	3,834
Emerging markets - small cap	3,749	3,235
Quoted prices in active market for identical assets (level 1)	68,165	59,714
Hedge funds:		
Directional	336	4,861
Public natural resources-MLP	2,872	-
Remainder interest in real property and other	378	324
Significant other observable inputs (level 2)	3,586	5,185
Private equity:		
Buyout	2,070	1,992
Diversified	1,845	1,346
Venture capital	671	619
Secondary	1,332	582
Private debt:		
Distressed	693	769
Mezzanine	427	778
Natural resources:		
Diversified	4,034	3,255
Energy	3,126	2,359
Private real estate:		
Secondary	-	633
Value added	1,980	1,696
Low-volatility:		
Absolute return	5,308	5,049
Diversified	2,795	28
Diversifiying strategies	3,006	-
Significant unobservable inputs (level 3)	27,287	19,106
Total investments	$ 99,038	$ 84,005

Investment income and gains/ (losses) (in thousands) for the years ended June 30, 2014 and 2013 consist of:

	2014	2013
Interest	$ 16	$ 24
Dividends	1,320	1,678
Fees	(202)	(143)
Total Investment Income	**$ 1,134**	**$ 1,559**
Realized gains	2,939	2,968
Unrealized gains	8,265	4,037
Total Investment Income	**$ 11,204**	**$ 7,005**

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, 2014 and 2013 were approximately $12,871,000 and $11,277,000 respectively. See note 13h for further explanation of the trust funds.

At June 30, 2014 and 2013, the Foundation had committed $26.4 and $24.4 million, respectively, of its endowment investment resources to alternative investments, of which $7.3 and $8.6 million, respectively, had not yet been called by the investment managers. Alternative investments for which commitments have been made consist of private equity/debt, natural resources, private real estate and low-volatility.

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.

f. Endowments

The Foundation's endowment consists of approximately 263 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, and (b) the original value of subsequent gifts to the permanent endowment. In the absence of donor restrictions, the net appreciation on a donor-restricted endowment fund is spendable. 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, the 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 the Foundation to meet its objective to maintain historical dollar amount 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, 2014 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor restricted endowment funds	$ -	$ 32,791	$ 41,105	$ 73,896
Quasi-endowment funds	2,212	6,114	-	8,326
Total endowment funds	$ 2,212	$ 38,905	$ 41,105	$ 82,222

Changes in endowment net assets (in thousands) as of June 30, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 1,939	$ 28,911	$ 40,595	$ 71,445
Contributions collected	-	16	508	524
Investment income	25	1,086	-	1,111
Net investment gain	255	10,921	-	11,176
Amounts appropriated for expenditure	(7)	(2,029)	-	(2,036)
Transfer to permanently restricted	-	-	2	2
Endowment net assets, end of year	$ 2,212	$ 38,905	$ 41,105	$ 82,222

Endowment net asset composition by type of endowment (in thousands) as of June 30, 2013 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor restricted endowment funds	$ -	$ 22,829	$ 40,595	$ 63,424
Quasi-endowment funds	1,939	6,082	-	8,021
Total endowment funds	$ 1,939	$ 28,911	$ 40,595	$ 71,445

Changes in endowment net assets (in thousands) as of June 30, 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 1,755	$ 22,139	$ 40,167	$ 64,061
Contributions collected	-	22	416	438
Investment income	34	1,501	-	1,535
Net investment loss	153	6,822	-	6,975
Amounts appropriated for expenditure	(11)	(1,565)	-	(1,576)
Investment loss transferred to unrestricted	8	(8)	-	-
Transfer to permanently restricted	-	-	12	12
Endowment net assets, end of year	$ 1,939	$ 28,911	$ 40,595	$ 71,445

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. There were no such deficiencies at June 30, 2014.

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

Events occurring after June 30, 2014 have been evaluated for possible adjustment to the financial statements or disclosures is September 11, 2014, the date on which the financial statements were available to be issued.

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