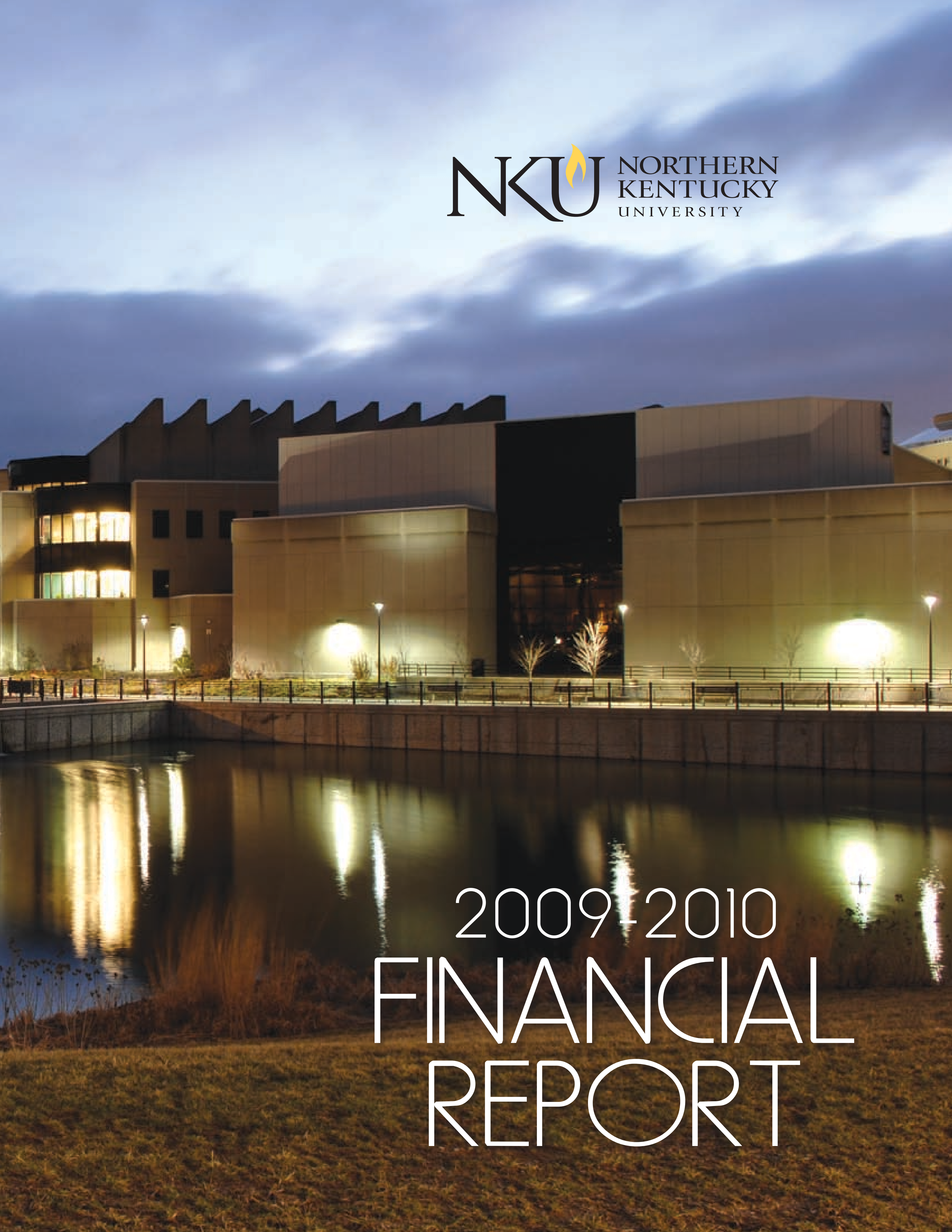
NKU NORTHERN KENTUCKY UNIVERSITY



2009-2010 FINANCIAL REPORT

2009-2010 FINANCIAL REPORT

BOARD OF REGENTS

Nancy A. Barone
Chair

Terry L. Mann
Vice Chair

Denise H. McClelland
Secretary

Eric M. Brose

Chuck H. Brown

Martin C. Butler

Joyce E. Griffin

Charles E. Hawkins

K. Keith Kaseke

Dennis Repenning

Brenda L. Wilson

NORTHERN KENTUCKY UNIVERSITY ADMINISTRATION

James C. Votruba
President

Zebulun Davenport
Vice President for Student Affairs

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

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

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

Gerard A. St. Amand
Vice President for University Advancement

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

Gail W. Wells
Vice President for Academic Affairs and Provost

Joseph E. Wind
Vice President for Government and Community Relations

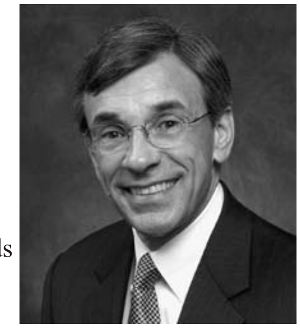
Russell A. Kerdolff
Comptroller

Current as of June 30, 2010

Northern Kentucky University and Affiliate
Annual Financial Report
2009-2010

Table of Contents

September 17, 2010



Northern Kentucky University Board of Regents
Highland Heights, KY 41099

Dear Members of the Board:

It is my pleasure to transmit the university's 2009-10 Annual Financial Report. The firm of Crowe Horwath LLP has audited the following statements and accompanying footnotes. NKU ends the fiscal year and begins the new academic year in a strong financial position. Even though NKU serves one of the most dynamic regions in the Commonwealth, we remain the most underfunded public university in the Commonwealth.

NKU is one of the fastest growing universities in Kentucky and has achieved the largest increase in degree production of any of the Kentucky public universities. Our university progress has been achieved by reallocating resources and directing scarce new resources to mission-critical areas. Our strategic planning and budgeting process will enable the University to continue to provide excellent service to our students, the community and the Commonwealth.

American higher education has entered a new era; one that offers great opportunity for those willing to adapt and significant risk for those who persist as though nothing has changed. Several characteristics of this new era are worth noting because of their impact on our work: This new era involves fewer resources to serve more students; greater diversity; greater accountability; greater use of technology to support every aspect of our work; and a public expectation that we will be full partners in advancing the public agenda.

The good news is that NKU is well positioned for this new era. In fact, we have been "ahead of the game" in responding to the forces that will shape our future. Two years ago, when many other universities were avoiding difficult financial decisions by backfilling with stimulus funding, NKU chose to make the difficult decisions, assuming that things were not going to improve in the near term. The result is that, today, we find ourselves able to chart our future in a thoughtful and deliberate manner rather than in crisis mode.

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

Despite a new era of budget restraints, NKU's academic reputation has never been stronger. Recently, Forbes Magazine again listed the university as one of America's best colleges, and we've become the first choice for some of the region's most academically talented students.

Fall enrollment was again very strong: Based on preliminary enrollment estimates released by CPE increased by about 2.6 percent this year to nearly 15,800 students, the second largest increase in the Commonwealth. We've kept first-time freshman enrollments flat while we expect to see a significant increase in continuing student enrollments, which is a good early sign that our retention efforts are succeeding.

Transfer student enrollment is projected to be up 11 percent and graduate enrollment is up 8 percent while law is projected to be flat. Last fall, our average ACT score for incoming students was 21.3 (only Murray State University was significantly higher at 22.5 among the comprehensive universities).

Students of color continue to increase. This fall we saw a 25 percent increase in African-American students and a 53 percent increase in Hispanic students. We anticipate that international student enrollment increased by 20 percent, representing more than 60 countries.

At a time when our national leaders are calling for increases in degree production, NKU's record is impressive: Last year, the university graduated more than 2,500 students, an increase of nearly 12 percent over the previous year. Over the past ten years, NKU has increased degree production by 71 percent, nearly twice the percentage increase of the other Kentucky public universities combined.

On-line enrollment increased by 26.7 percent last year and we expect a further increase over the next two years as we invest nearly $1 million in the development of new on-line programs. On-line education is quickly evolving from a cottage industry to a fully integrated element of our teaching-learning process and this bodes well for our future.

In spite of budget reductions last year, we invested in three new graduate programs in response to regional demand — the Doctorate of Nursing Practice (DNP), the Masters of Social Work (MSW), and the Master of Science in Acute Care Nursing. This next spring, we'll graduate our first doctoral students in educational leadership.

This past year, the university took significant steps to further improve the quality of our undergraduate experience and strengthen the capacity of our students to understand and navigate our academic environment. Chief among these accomplishments was the creation of our new general education curriculum, Foundations of Knowledge. Our new general education program is easier to understand and navigate while continuing to provide students with the intellectual breadth that is so essential for a strong liberal arts education.

Toward advancing public progress, Professor Kirsten Fleming and her colleagues have made the Kentucky Center for Mathematics one of the most outstanding examples of public engagement anywhere in the nation. Funded by the state and working in 110 of Kentucky's 120 counties, the KCM is achieving significant and measurable improvements in elementary math scores — which are so critical to a student's subsequent school achievement. Their work is drawing attention in Frankfort and throughout the U.S.

At the same time, we are working with area school districts to enhance college readiness by testing students at the end of their junior year and designing remediation programs for those who need them prior to transitioning to work or college. We continue to support Strive, one of the most ambitious urban school-reform initiatives in the nation, and we are playing a key leadership role in the work of Vision 2015 and the Northern Kentucky Education Council.

Public engagement has become a defining quality of our university and, in this spirit, we are honored to have our public engagement work and the leadership of Vice President and Provost Gail Wells recognized by the American Association of State Colleges and Universities.

While we have lost a significant amount of our state budget in recent years, our support from other sources continues to increase. Recently, we received nearly $3 million in congressionally directed appropriations, primarily for the College of Informatics. New academic grant awards were up nearly 22 percent to 131 awards. This reflects the cutting-edge research and scholarship in which our faculty members are engaged. And, even in the midst of a serious and prolonged recession, our private gift commitments were on goal.

The transformation of the University's campus continued in 2010 with the addition of a new soccer complex and the construction of Griffin Hall. This state-of-the-art facility will house the University's College of Informatics and will transform not only the look of the campus, but will also transform the educational process through the use of cutting-edge technology, including a two-story digitorium. Griffin Hall, which will open in fall 2011, will be our first LEED-certified facility and reflects our commitment to both energy efficiency and environmental sustainability.

The new Highland Heights-funded soccer complex, which includes a soccer stadium, is complete. Both men's and women's teams are competing there this fall along with campus recreation. Speaking of athletics, our intercollegiate athletics program once again won the GLVC All-Sports Trophy and the Commissioner's Cup.

In summary, the state of the university is strong and we are well positioned for these challenging and uncertain times. Now let's turn to where our focus needs to be during the coming year.

First, we will work to further focus our core mission in a way that we don't attempt to be all things to all people. At the very heart of our mission are our students and their education.

Second, we'll analyze both the quality and efficiency of key administrative structures and processes. We need to do all that we can to ensure that our human and financial resources are focused as much as possible on our core mission to educate students.

Third, we'll focus on ways to enhance student credit-hour productivity without compromising academic quality. Working with our deans and chairs, we'll develop SCH targets on a per-faculty FTE basis. This conversation is going on across American higher education but it takes on particular significance for NKU because of our dependence on tuition as the major source of our revenue. The reality is that, if we are going to continue our investment in the university, we need to expand our SCH productivity.

We'll also analyze our current pricing structure to determine what options we have for increasing revenue without impacting either affordability or access. Until quite recently, NKU was very aggressive with both tuition and need-based financial aid. The result was unprecedented progress in both the quality and number of our academic programs as well as our support for students.

In this new era, our capacity to invest in our university will occur in two ways. First, it will depend on new revenue from tuition and other revenue sources. Second, it will occur through internal reallocation to those priorities most important to our future. This means that we'll have to ask ourselves this fundamental question: Is everything in which we now invest more important than the areas in which we need to invest?

Earlier this year, the Board of Regents and I discussed the forces that are shaping our future and where our focus should be. Their thoughts and mine can be summarized as follows:

- Focus our mission with a special emphasis on our students and the quality of their academic experience;
- Improve retention and graduation rates;
- Focus our resources on those programs and services that are most central to supporting academic excellence and student success; and
- Concentrate our public engagement in areas where we can have a significant and measurable impact.

If we do these things, we will be well positioned for the future and we'll have the capacity to invest in our campus, even when state support is declining.

The new era will require us to challenge convention, raise difficult questions and think anew about how we go about our work. It will also require us to maintain both an open and collegial environment and a steadfast commitment to our vision, our core values and what we have determined as a campus to be our most important priorities.

Attitude matters, sometimes more than resources. We are an institution of builders. I see it in every corner of our campus. We spend more time focused on building our future than on preserving our past. We will continue to build on behalf of the students and the public whom we were created to serve.

Thanks to all who have made this happen!

Sincerely,

James C. Votruba
President

Crowe Horwath.

Crowe Horwath LLP
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated financial statements of the business-type activities and discretely presented component unit of Northern Kentucky University (the "University") as of and for the years ended June 30, 2010 and 2009, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Northern Kentucky University Foundation, Inc, (the "Foundation"), a component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Northern Kentucky University as of June 30, 2010 and 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
September 30, 2010

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, 2010, with selected comparative information for the years ended June 30, 2009 and 2008. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and notes.

The University's vision is to be nationally recognized as the premier comprehensive, metropolitan university that prepares students for life and work in a global society and provides leadership to advance the intellectual, social, economic, cultural, and civic vitality of its region and of the Commonwealth. The University is vital to the economic and social progress of this region and the Commonwealth. The University's comprehensive business plan that was completed in 2008, defines the financial and capital resources necessary to achieve the Council on Postsecondary Education's ambitious plan which calls for the University's undergraduate enrollment to increase to over 22,000 by the year 2020. The University continues to focus its limited resources on the most critical areas of the business plan that will be the most beneficial to the region and the Commonwealth. The region's economic growth depends heavily on the University's capacity to support that growth in a variety of ways.

Financial Highlights

The University's financial position remained strong at June 30, 2010. Total net assets increased by $26.2 million, or 10.5 percent at June 30, 2010 compared to June 30, 2009 resulting from income before other revenues, expenses, gains or losses of $10.6 million and capital grants and gifts of $15.6 million. The University's Moody's debt rating was elevated to A1 during the year indicating that the University's overall financial position remains very strong despite recent declines in state operating appropriations.

The University's assets increased by $7.1 million, or 1.8 percent, from June 30, 2008 to June 30, 2010 and now total $412.8 million. This increase is attributable to growth in net capital assets related to the acquisition of new administrative systems and the construction of several new facilities, including a new soccer complex and Griffin Hall, a new state-of-the-art facility that will house the University's College of Informatics. This facility will transform not only the look of the campus, but will also transform the educational process through the use of cutting edge technology, including a two-story digitorium. The new soccer complex will serve the needs of the University's intercollegiate athletic program, students and the community.

The University's operating and nonoperating revenues totaled $205.5 million for the year ended June 30, 2010, an increase of $9.7 million over 2009. Operating revenues increased by $1.7 million for the year with increases in net tuition revenues ($3.9 million), auxiliary enterprises ($1.0 million) and operating grants and contracts ($.6 million). These increases were offset by decreases in sales and services of educational activities ($2.0 million) and other operating revenues ($1.8 million). Nonoperating revenues increased by $7.9 million for the year. The University's nonexchange grant revenues increased by $5.9 million for the year resulting from a growth in revenues related to federal and state funded financial aid programs and improved performance of the University's endowment investments. The University's combined general and debt service state appropriations decreased by $3.6 million for 2010. This decrease was offset by $3.6 million in non-recurring federal stimulus funds that were allocated to the University by the Commonwealth.

Using the Financial Statements

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

The University is a component unit of the Commonwealth of Kentucky. The financial statements of the University include the University and its blended component unit, the Northern Kentucky University Research Foundation, Inc. Financial statements for the University's discretely presented component unit, Northern Kentucky University Foundation, Inc., have also been included in accordance with the requirements of GASB Statement No. 39. Financial statements presented for the Foundation consist of the statement of financial position and the statement of activities. These statements are prepared in accordance with Financial Accounting Standards Board (FASB) pronouncements.

Statement of Net Assets

The statement of net assets includes all assets and liabilities. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

Condensed Statements of Net Assets (in thousands)

	2010	2009	2008
ASSETS			
Current assets	$ 82,243	$ 79,538	$ 85,940
Capital assets, net	311,091	296,056	285,041
Noncurrent assets	19,474	18,004	34,722
Total assets	412,808	393,598	405,703
LIABILITIES			
Current liabilities	31,618	31,831	40,211
Noncurrent liabilities	106,290	113,023	124,150
Total liabilities	137,908	144,854	164,361
NET ASSETS			
Invested in capital assets, net of related debt	210,895	188,085	172,961
Restricted			
Nonexpendable	7,616	7,616	7,616
Expendable	9,478	11,062	17,768
Unrestricted	46,911	41,981	42,997
Total net assets	$ 274,900	$ 248,744	$ 241,342

A review of the University's statement of net assets at June 30, 2010 reveals that the University is in good financial condition.

Assets

The University's assets increased by $7.1 million, or 1.8 percent, from June 30, 2008 to June 30, 2010 and now total $412.8 million. A $2.7 million increase in current assets for the year ended June 30, 2010 combined with a $6.4 million decrease for the year ended June 30, 2009, resulted in a combined decrease of $3.7 million, or 4.3 percent, since June 30, 2008. The $10.8 million growth in noncurrent assets since June 30, 2008 resulted from a $26.0 million growth in net capital assets that were funded primarily with capital appropriations, grants and gifts. This increase in noncurrent assets was partially offset by a $14.4 million decline in noncurrent cash and cash equivalents and investments.

Net capital assets increased by $15.0 million for the year ended June 30, 2010 and $11.0 million for the year ended June 30, 2009, resulting in a combined increase of $26.0 million, or 9.1 percent, since June 30, 2008. This increase is related to the acquisition of new administrative systems and the construction of several new facilities, including a new soccer complex and Griffin Hall that will house the College of Informatics. These projects were funded primarily through capital grants and gifts and through capital appropriations from the Commonwealth. As a result of the significant investment in its campus facilities in recent years, net capital assets have grown to $311.1 million, or 75.4 percent of total assets as of June 30, 2010.

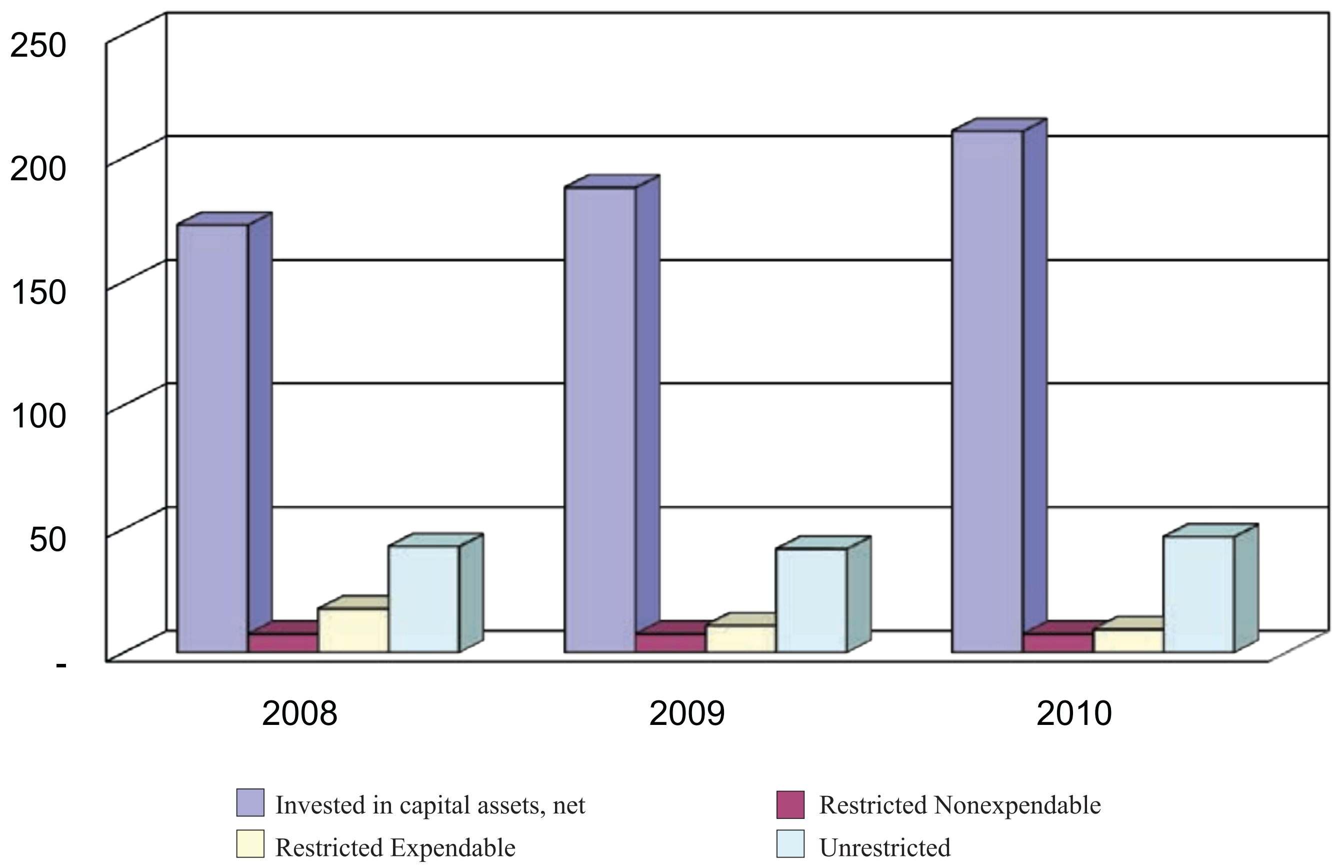
Liabilities

At June 30, 2010, the University's liabilities totaled $137.9 million compared to the previous year's $144.9 million. This $6.9 million decrease in liabilities resulted primarily from a $5.8 million decrease in the University's outstanding bonds, notes and capital leases. Bonds, notes and capital leases payable represented $102.6 million, or 74.4 percent, of total liabilities at June 30, 2010.

The University's total liabilities decreased by $26.5 million, or 16.1 percent, from June 30, 2008 to June 30, 2010. Current liabilities declined by $8.6 million during this period as a result of a decrease in accounts payable associated with construction projects. Noncurrent liabilities decreased by $17.9 million primarily due to a $14.0 million decrease in outstanding bonds, notes and capital leases since June 30, 2008.

Net Assets

The following chart illustrates the University's net assets for fiscal years 2008, 2009 and 2010 (amounts are presented in millions).



Net assets at June 30, 2010 totaled $274.9 million, or 66.6 percent, of total assets. Net assets invested in capital assets, net of related debt, totaled $210.9 million, or 75.6 percent, of total net assets. Restricted and unrestricted net assets represented 6.2 percent and 17.1 percent of total net assets, respectively. Total net assets increased by $26.2 million, or 10.5 percent at June 30, 2010 compared to June 30, 2009. Net assets invested in capital assets, net of related debt, increased $22.8 million primarily as a result of the University's investment in administrative software systems and the construction of a new soccer complex and Griffin Hall. The expenditure of restricted funds related to construction projects resulted in a $1.6 million decline in restricted expendable net assets for the year. The University's unrestricted net assets grew by $4.9 million for the year primarily due to a growth in auxiliary enterprise net assets and an increase in designated budgetary reserves.

The University's net assets increased by $33.6 million, or 13.9 percent, from June 30, 2008 to June 30, 2010. Net assets invested in capital assets, net of related debt increased $37.9 million due to the addition of several new facilities. Restricted expendable net assets decreased by $8.3 million while unrestricted net assets increased by $3.9 million from June 30, 2008 to June 30, 2010.

Statement of Revenues, Expenses and Changes in Net Assets

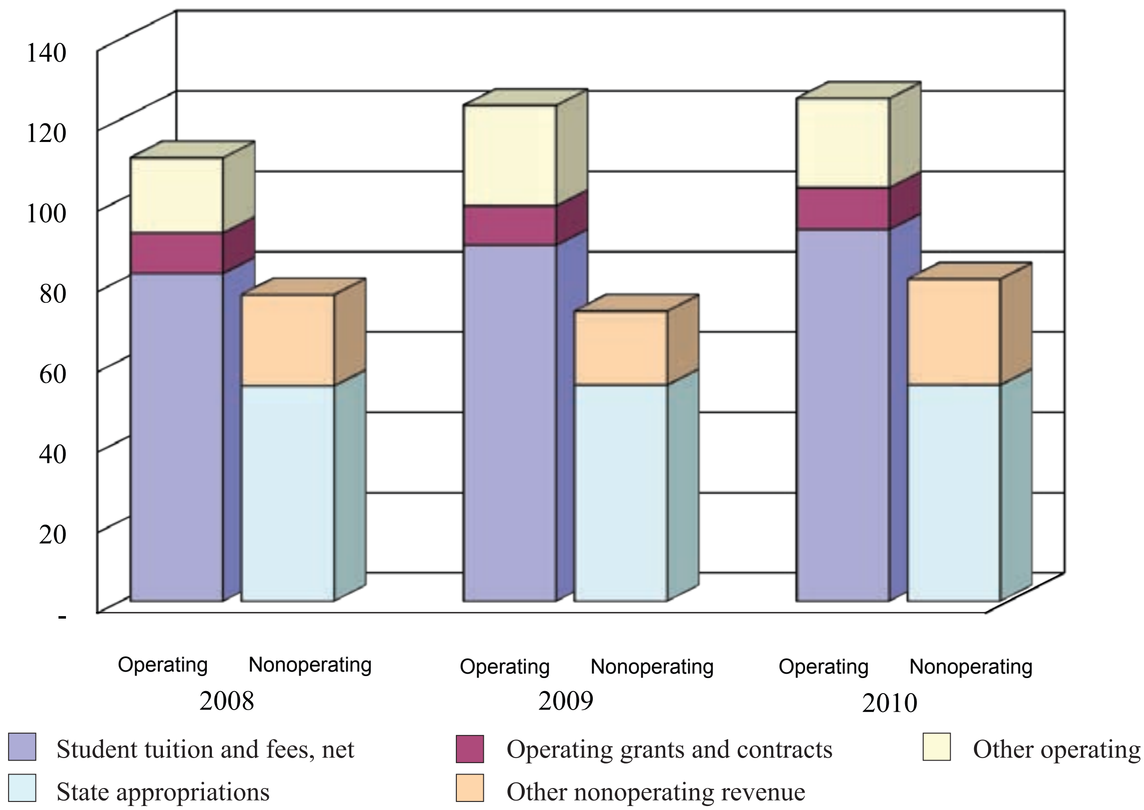
The statement of revenues, expenses and changes in net assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. GASB requires state appropriations and nonexchange grants and contracts to be classified as nonoperating revenues. Accordingly, the University will generate an operating loss prior to the addition of nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

	2010	2009	2008
OPERATING REVENUES			
Student tuition and fees, net	$ 92,597	$ 88,704	$ 81,679
Grants and contracts	10,416	9,813	10,115
Sales and services of educational departments	3,938	5,917	4,357
Auxiliary enterprises	12,389	11,378	9,843
Other operating revenues	5,923	7,711	4,504
Total operating revenues	125,263	123,523	110,498
OPERATING EXPENSES			
Educational and general	167,398	166,813	155,665
Depreciation	14,869	15,111	9,062
Auxiliary enterprises (including depreciation)	8,084	8,503	5,004
Other expenses	101	174	107
Total operating expenses	190,452	190,601	169,838
Net loss from operations	(65,189)	(67,078)	(59,340)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	53,885	53,876	53,677
Gifts, grants and contracts	24,708	18,820	18,250
Investment income	1,683	(361)	4,499
Interest on capital asset--related debt	(4,466)	(4,890)	(3,388)
Other nonoperating revenues (expenses)	(92)	105	(36)
Net nonoperating revenues	75,718	67,550	73,002
Income (loss) before other revneues, expenses, gains or losses	10,529	472	13,662
Capital appropriations	7,458	3,548	-
Capital grants and gifts	8,169	3,382	4,424
Total other revenues	15,627	6,930	4,424
Increase in net assets	26,156	7,402	18,086
Net assets-beginning of year	248,744	241,342	223,256
Net assets-end of year	$ 274,900	$ 248,744	$ 241,342

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 2008, 2009 and 2010. Significant recurring sources of revenues, including state appropriations and nonexchange grants and contracts, are considered nonoperating revenues as defined by GASB. These revenues support operating expenses; therefore, they are included in the graph of revenues by source (amounts are presented in millions).



The University's operating and nonoperating revenues totaled $205.5 million for the year ended June 30, 2010, an increase of $9.7 million over 2009. Operating revenues totaled $125.2 million, or 60.9 percent of revenues, while nonoperating revenues reached $80.3 million, or 39.1 percent of revenues, for the year. The most significant sources of revenue for the University are net student tuition and fees (45.1 percent), state appropriations (26.2 percent).

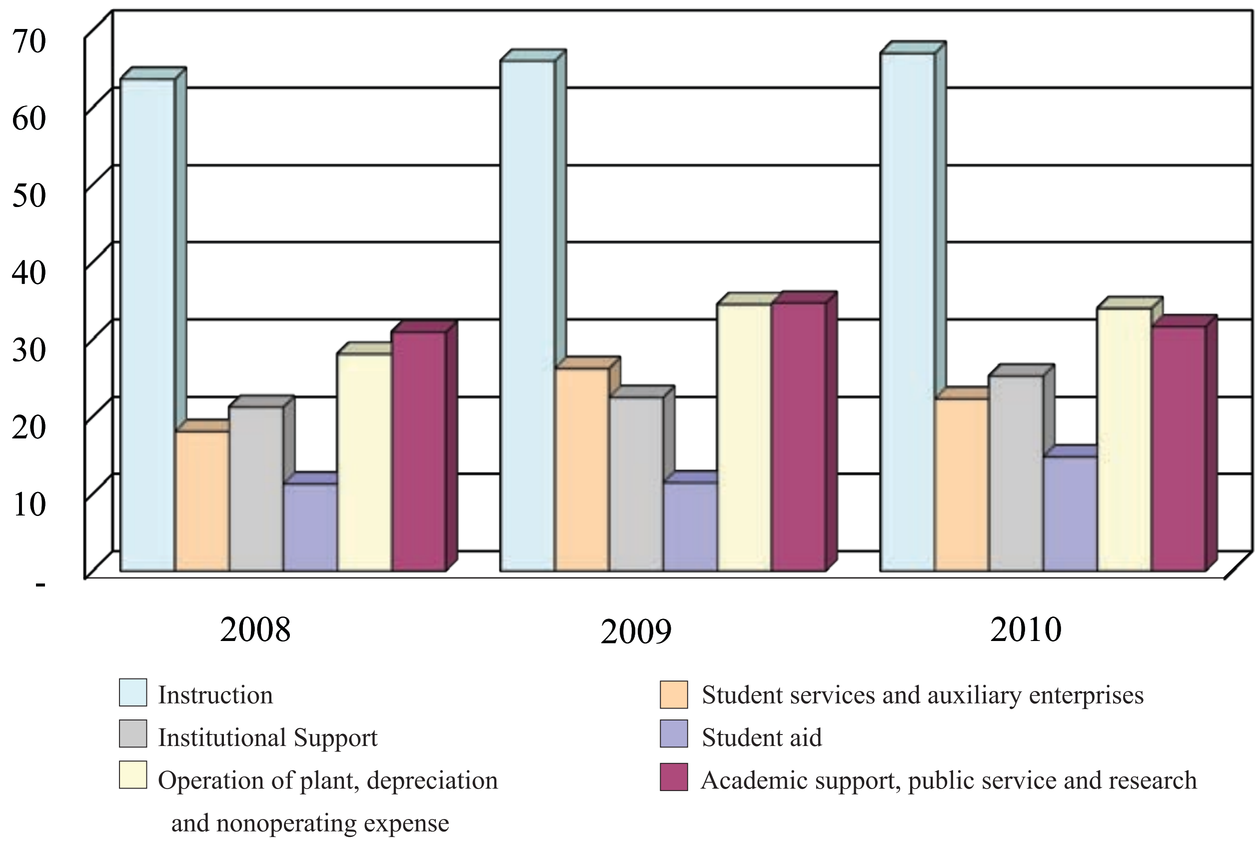
Operating revenues increased by $1.7 million for the year with increases in net tuition revenues ($3.9 million), auxiliary enterprises ($1.0 million) and operating grants and contracts ($.6 million). These increases were offset by decreases in sales and services of educational activities ($2.0 million) and other operating revenues ($1.8 million).

Nonoperating revenues increased by $7.9 million for the year. The University's nonexchange grant revenues increased by $5.9 million for the year resulting from a growth in revenues related to federal and state funded financial aid programs. Investment earnings increased by $2.0 million as the University's endowment investments recovered from the losses that were experienced in 2009. The University's combined general and debt service state appropriations decreased by $3.6 million for the year. This decrease was offset by $3.6 million in federal stimulus funds that the state allocated to the University.

The University's nonoperating revenues have increased by $3.9 million since June 30, 2008 primarily due to a growth in nonoperating grants related to federal and state financial aid programs. A $14.8 million, or 13.4 percent, increase in operating revenues was fueled by a combined $10.9 million growth in net tuition since 2008. The growth in net tuition resulted from an average tuition rate increase of 3.9 percent for fiscal year 2010 and 8.5 percent for fiscal year 2009, combined with enrollment increases each year.

Operating and Nonoperating Expenses

The following chart illustrates the University's expenses by function (both operating and nonoperating) for fiscal years 2008, 2009 and 2010 (amounts are presented in millions).



Operating and nonoperating expenses decreased by $.4 million, or .2 percent, to a total of $195.0 million for the year ended June 30, 2010. As depicted in the chart above, the majority of the University's funds are expended directly for the primary mission of the University – instruction $67.0 million (34.4 percent), and academic support, libraries, public service and research $31.7 million (16.2 percent).

The $3.5 million decline in student services and other expenses this year is attributable to a decrease in nonrecurring expenses that had been incurred in 2009 related to the intercollegiate athletics program and the opening of the Student Union facility. Student services and other expenses actually have increased by 8.9 percent since 2008. Instructional expenses increased by $1.0 million in 2010 while public service and research expenses declined by $3.5 million primarily due to a decrease in contract expenses related to the University's Center for Applied Ecology.

Student financial aid expenses increased by $3.3 million for the year as a result of a significant increase in federal financial aid expenses, including the Pell and new GI Bill programs. Institutional support expenses increased by $2.7 million for the year due to an increase in recurring and nonrecurring expenses related to new administrative systems and other information technology projects.

Operation of maintenance of plant expenses decreased by a combined $1.1 million since 2008 due to a reduction in minor projects expenses. The University's aggressive energy management program contributed to a 5.5 percent decline in utility expenses for 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 and capital, financing and investing activities.

Condensed Statements of Cash Flows (in thousands)

	2010	2009	2008
Net cash provided (used) by:			
Operating activities	$ (48,766)	$ (57,484)	$ (38,919)
Noncapital financing activities	77,294	70,063	79,573
Capital and related financing activities	(26,710)	(38,570)	(90,185)
Investing activities	(2,363)	1,693	4,360
Net increase (decrease) in cash	(545)	(24,298)	(45,171)
Cash and cash equivalents, beginning of year	71,757	96,055	141,226
Cash and cash equivalents, end year	$ 71,212	$ 71,757	$ 96,055

The University's cash and cash equivalents decreased $.5 million in 2010 as compared to a decrease of $24.3 million in 2009. The net cash provided by operating and noncapital financing activities totaled $28.5 million for 2010, an increase of $15.9 million from 2009. Cash used by capital and related financing activities totaled $26.7 million for 2010 and $38.6 million in 2009. Purchases of capital assets totaled $32.7 million for fiscal year 2010 and were primarily funded by capital appropriations and capital grants and gifts.

Major sources of funds included in operating activities are student tuition and fees ($91.6 million), grants and contracts ($9.6 million) and auxiliary enterprises ($12.0 million). The largest cash payments for operating activities were made to employees ($123.5 million) and to vendors and contractors ($49.0 million). Payments to suppliers decreased by $12.4 million for 2010 as compared to 2009. During 2009 the University had a significant amount of payments to vendors and contractors related to the acquisition of noncapitalized equipment and furnishings for the new Student Union, housing facilities and The Bank of Kentucky Center.

The University's cash receipts from operating activities increased by $12.2 million, or 10.9 percent, from 2008 to 2010 while cash disbursements for operating activities increased by $22.0 million, or 14.6 percent for the period.

Capital Asset and Debt Administration

<u>Capital Assets</u>

Capital assets, net of accumulated depreciation, increased by $15.0 million for the year ended June 30, 2010. Additions to capital assets during the year totaled $33.0 million, including a new soccer complex, property acquisitions, administrative software systems and construction in progress related to Griffin Hall, a new state-of-the-art facility that will house the University's College of Informatics. Depreciation expenses and net capital asset disposals totaled $18.0 million for the year. As a result of the University's significant investment in its campus facilities in recent years, net capital assets have grown to $311.1 million, or 75.2 percent of total assets as of June 30, 2010.

The University's net capital assets grew by $26.1 million from June 30, 2008 to June 30, 2010, with increases of $15.0 million in 2010 and $11.0 million in 2009. This growth reflects the University's effort to increase its capacity to serve its students and the community, including much needed parking and a soccer complex that will serve the needs of the University's intercollegiate athletic program, students and the community.

At June 30, 2010, the University had several major capital construction projects in progress, including the new soccer complex and Griffin Hall.

Debt

The following is a summary of the University's outstanding debt summarized by revenue pledge as of June 30, 2010, 2009 and 2008 (in thousands):

	2010	2009	2008
General Receipts Bonds	$ 71,390	$ 66,495	$ 68,125
Consolidated Educational Buildings Revenue Bonds	12,850	17,980	21,010
Housing and Dining System Revenue Bonds	1,940	2,205	2,455
Capital Lease - Residential Village/Suites	12,446	17,001	18,657
Notes Payable and municipal lease obligations	3,949	4,708	6,322
	$ 102,575	$ 108,389	$ 116,569

For the years ended June 30, 2010 and 2009, the University's outstanding debt decreased by $5.8 million and $8.2 million, respectively, for a combined decrease of $14.0 million since 2008. During fiscal year 2010 the University issued approximately $6.8 million in General Receipts Bonds to refund outstanding debt and fund the exterior renovation of a student residential housing facility. The refunding resulted in an economic gain of $.2 million.

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

FACTORS IMPACTING FUTURE PERIODS

As a result of the prolonged economic recession, the University's general state appropriation declined by $2.2 million and $3.6 million in fiscal years 2009 and 2010, respectively. The $3.6 million recurring appropriation cut in 2010 was offset by a $3.6 million nonrecurring allocation of State Fiscal Stabilization Funds from the Commonwealth under the American Recovery and Reinvestment Act. The University's 2011 general appropriation budget approved by the legislature declined by an additional $.1 million. In anticipation of possible additional reduction in general appropriations for 2011 the University has established a budget reserve that will allow the University to cover another budget cut on a short term basis without disrupting its core functions.

The University's resource allocations are guided by the University's five-year strategic agenda and its long-term comprehensive business plan that defines the financial and capital resources necessary to achieve the Council on Postsecondary Education's ambitious 2020 Public Agenda and support the Northern Kentucky Vision 2015 goals. Although the University has made incremental progress on the business plan by reducing costs and reallocating funds, continuing cuts in state operating appropriations have hampered progress on achieving the business plan goals. The University continues to focus its limited resources on the most critical areas of the business plan that will be the most beneficial to the region and the Commonwealth. The region's economic growth depends heavily on the University's capacity to support that growth in a variety of ways.

While improved state funding is critical to the University's future success, management is continuing its efforts to diversify revenue sources and contain costs. The University's business plan incorporates strategies to strengthen its tuition base and increase grant and contract revenues, private gifts and other revenues that will be necessary to accomplish the full breadth of the University's mission. The University's tuition rates must be approved by the Council on Postsecondary Education (CPE). Each year CPE establishes tuition rate increase ceilings based upon economic conditions and other factors, including affordability and access to higher education in the Commonwealth. CPE approved a 5 percent increase for undergraduate resident tuition rates for 2011. The University expects tuition revenue to increase by over $7.1 million for fiscal year 2011 as a result of tuition rate increases and continued growth in enrollment.

Despite the current economic environment and related budget uncertainty, the University's strategic planning and budgeting processes have enabled it to continue to make progress. Resource allocations are driven by planning, budgeting and assessment processes that are strongly aligned at all levels of the institution. The University has reallocated a significant amount of resources realized through cost reductions and committed scarce new resources to achieve its strategic goals. The University has made significant progress in reaching these goals, particularly critical goals such as degree production where the University achieved the largest increase in degree production of any state university. University's executive management believes the University is in excellent financial condition and, in full partnership with CPE, the Commonwealth and the community, will continue to provide excellent service to students, the community and the Commonwealth.

Northern Kentucky University and Affiliate
Consolidated Statements of Net Assets
June 30, 2010 and 2009
(in thousands)

	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents	$ 68,061	$ 65,603
Notes, loans and accounts receivable, net	12,237	12,044
Other current assets	1,945	1,891
Total current assets	82,243	79,538
Noncurrent Assets		
Cash and cash equivalents	3,151	6,154
Investments	13,175	8,461
Notes, loans and accounts receivable, net	1,884	2,107
Capital assets, net	311,091	296,056
Other noncurrent assets	1,264	1,282
Total noncurrent assets	330,565	314,060
Total assets	412,808	393,598
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	16,893	16,835
Deferred revenue	6,432	6,328
Long-term liabilities-current portion	8,293	8,668
Total current liabilities	31,618	31,831
Noncurrent Liabilities		
Deposits	5,978	6,543
Deferred revenue	3,068	3,630
Long-term liabilities	97,244	102,850
Total noncurrent liabilities	106,290	113,023
Total liabilities	137,908	144,854
NET ASSETS		
Invested in capital assets, net of related debt	210,895	188,085
Restricted		
Nonexpendable	7,616	7,616
Expendable	9,478	11,062
Unrestricted	46,911	41,981
Total net assets	$ 274,900	$ 248,744

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statements of Financial Position
As of June 30, 2010 and 2009
(in thousands)

	2010	2009
ASSETS		
Cash and cash equivalents	$ 10,743	$ 7,708
Loans, interest and accounts receivable (less allowance of $111,242 in 2010 and $116,475 in 2009)	151	146
Contributions receivable (less allowance of $53,195 in 2010 and $75,406 in 2009)	18,014	22,234
Prepaid expenses and deferred charges	58	38
Investments	54,929	48,012
Land, buildings and equipment	2,890	2,890
Accumulated depreciation	(189)	(182)
Total assets	86,596	80,846
LIABILITIES AND NET ASSETS		
Accounts payable	269	216
Accrued interest	151	194
Annuities payable	9	48
Deferred income	25	25
Funds held in trust for Northern Kentucky University	8,925	7,936
Notes payable	5,878	6,525
Total liabilities	15,257	14,944
NET ASSETS		
Unrestricted		
For current operations	467	443
Contributions receivable	1	2
Amounts functioning as endowment funds	1,355	814
Invested in property, plant and equipment	593	607
Total unrestricted	2,416	1,866
Temporarily restricted		
Unexpended funds received for restricted purposes	4,558	1,245
Contributions receivable	9,634	11,793
Loan funds	141	135
Endowment funds	15,656	12,700
Total temporarily restricted	29,989	25,873
Permanently restricted		
Contributions receivable	8,379	10,440
Endowment funds	30,555	27,723
Total permanently restricted	38,934	38,163
Total net assets	71,339	65,902
Total liabilities and net assets	$ 86,596	$ 80,846

See accompanying notes to the financial statements

Northern Kentucky University and Affiliate

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

For the years ended June 30, 2010 and 2009

(in thousands)

	2010	2009
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of $21,506 in 2010) and $17,937 in 2009)	$ 92,597	$ 88,704
Federal grants and contracts	4,085	3,313
State and local grants and contracts	3,618	3,516
Nongovernmental grants and contracts	2,713	2,984
Sales and services of educational departments	3,938	5,917
Auxiliary enterprises		
Housing operations (net of scholarship allowances of $438 in 2010) and $471 in 2009)	7,748	7,022
Other auxiliaries	4,641	4,356
Other operating revenues	5,923	7,711
Total operating revenues	125,263	123,523
OPERATING EXPENSES		
Educational and general		
Instruction	67,039	66,038
Research	1,706	1,376
Public service	10,461	14,351
Libraries	4,150	4,241
Academic support	15,342	14,717
Student services	14,121	17,552
Institutional support	25,228	22,481
Operation and maintenance of plant	14,559	14,609
Depreciation	14,869	15,111
Student aid	14,792	11,448
Auxiliary enterprises		
Housing operations	3,838	4,542
Other auxiliaries	1,461	1,091
Auxiliary depreciation	2,785	2,870
Other expenses	101	174
Total operating expenses	190,452	190,601
Net loss from operations	(65,189)	(67,078)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	50,281	53,876
State appropriations-federal stimulus	3,604	-
Federal grants and contracts	16,855	10,961
State and local grants and contracts	7,799	7,800
Private gifts and grants	54	59
Investment income (loss)	1,683	(361)
Interest on capital asset--related debt	(4,466)	(4,890)
Other nonoperating revenues (expenses)	(92)	105
Net nonoperating revenues	75,718	67,550
Income before other revenues, expenses, gains or losses	10,529	472
Capital appropriations	7,458	3,548
Capital grants and gifts	8,169	3,382
Total other revenues	15,627	6,930
Increase (decrease) in net assets	26,156	7,402
NET ASSETS		
Net assets-beginning of year	248,744	241,342
Net assets-end of year	$ 274,900	$ 248,744

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statement of Activities
For the year ended June 30, 2010
(in thousands)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
CHANGES IN NET ASSETS:				
Revenues and Gains				
Gifts, grants and bequests	$ 7	$ 3,640	$ 771	$ 4,418
Rental income	107	-	-	107
Investment income	33	733	-	766
Net gains (losses) on investments	659	3,768	-	4,427
Other revenue	27	654	-	681
Total Revenues and Gains	833	8,795	771	10,399
Net Assets Released from Restrictions	4,664	(4,664)	-	-
Total Revenues and Gains and Other Support	5,497	4,131	771	10,399
Program Expenses				
Instruction	391	-	-	391
Public service	1,220	-	-	1,220
Libraries	23	-	-	23
Academic support	354	-	-	354
Student services	322	-	-	322
Institutional support	447	-	-	447
University facilities and equipment acquisition	955	-	-	955
Student financial aid	728	-	-	728
Total Program Expenses	4,440	-	-	4,440
Support Expenses				
Management and general	342	-	-	342
Fundraising support	68	-	-	68
Rental property	112	-	-	112
Total Support Expenses	522	-	-	522
Total Expenses	4,962	-	-	4,962
Net transfers in (out)	15	(15)	-	-
Increase (Decrease) in Net Assets	550	4,116	771	5,437
Net Assets - Beginning of Year	1,866	25,873	38,163	65,902
Net Assets - End of Year	$ 2,416	$ 29,989	$ 38,934	$ 71,339

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statement of Activities
For the year ended June 30, 2009

(in thousands)

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

See accompanying notes to the financial statements

Northern Kentucky University and Affiliate
Consolidated Statements of Cash Flows
For the years ended June 30, 2010 and 2009
(in thousands)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 91,641	$ 88,695
Grants and contracts	9,616	10,551
Payments to suppliers	(48,967)	(61,378)
Payments for salaries and benefits	(123,549)	(119,231)
Loans issued to students	(153)	(301)
Collection of loans to students	419	326
Auxiliary enterprise receipts:		
Housing operations	7,586	7,020
Other auxiliaries	4,443	3,527
Sales and service of educational departments	3,834	6,009
Other receipts (payments)	6,364	7,298
Net cash used by operating activities	(48,766)	(57,484)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	53,885	53,876
Gifts and grants for other than capital purposes	24,728	18,348
Agency and loan program receipts	80,276	70,893
Agency and loan program disbursements	(81,278)	(73,243)
Other nonoperating receipts (payments)	(317)	189
Net cash provided by noncapital financing activities	77,294	70,063
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from capital debt and leases	7,864	-
Capital appropriations	8,291	66
Capital grants, gifts, and advances received	8,169	3,404
Purchases of capital assets	(32,689)	(28,997)
Principal paid on capital debt and leases	(13,757)	(8,418)
Interest paid on capital debt and leases	(4,588)	(4,625)
Net cash used by capital financing activities	(26,710)	(38,570)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	554	27
Purchase of investments	(4,250)	-
Interest on investments	1,333	1,666
Net cash provided (used) by investing activities	(2,363)	1,693
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(545)	(24,298)
Cash and cash equivalents-beginning of year	71,757	96,055
Cash and cash equivalents-end of year	71,212	71,757
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES:		
Net loss from operations	(65,189)	(67,078)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	17,654	17,981
Changes in assets and liabilities:		
Receivables, net	(1,261)	220
Other assets	(40)	370
Accounts payable	539	(8,428)
Deferred revenue	(458)	102
Long-term liabilities	(11)	(651)
Net cash used by operating activities	$ (48,766)	$ (57,484)

See accompanying notes to the financial statements

Note 1 – Organization and Summary of Significant Accounting Policies

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

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

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

- **Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted:**
  Nonexpendable – Net assets subject to externally imposed stipulations that they be maintained permanently by the University.
  Expendable – Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. These net assets principally represent amounts for specified capital construction projects.
- **Unrestricted:** Net assets whose use by the University is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties.

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

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

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

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

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

f. Investments
Investments are stated at fair value.

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

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

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

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

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

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

During the years ended June 30, 2010, and 2009, the Foundation made payments on behalf of the University of $2,055,000 and $2,612,000, respectively. In addition, the Foundation transferred to the University $2,385,000 in 2010 and $2,449,000 in 2009 for restricted purposes. Complete financial statements for the Foundation can be obtained from the Northern Kentucky University Foundation, Inc. at the Lucas Administrative Center Room 221, Nunn Drive, Highland Heights, KY 41099.

m. Reclassifications
Certain items have been reclassified for the year ended June 30, 2009, in order to conform to classifications used for the year ended June 30, 2010. These reclassifications had no effect on total net assets and the change in net assets.

n. Recent Accounting Pronouncements
In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires

that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. The statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. The provisions of this statement are effective for financial statements for fiscal periods beginning after June 15, 2009. The adoption of the statement did not have a material impact on the financial statements.

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

Note 2 – Cash, Cash Equivalents and Investments

Cash and cash equivalents includes all readily available sources of cash such as petty cash, demand deposits, certificates of deposit and temporary investments in marketable debt securities with original maturities less than three months. At June 30, 2010, petty cash funds totaled $27,000 and the carrying amount of the deposits was $71,185,000 with a corresponding total bank balance of $81,627,000. Of the bank balance, $23,878,000 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 $57,748,000 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, 2010 and 2009:

	2010	2009
U.S. Treasury Securities	$ -	$ 554,000
Certificates of deposit	4,250,000	-
Restricted assets held by the Foundation	8,925,000	7,907,000
Total Investments	$ 13,175,000	$ 8,461,000

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

University assets in the Foundation investment pool at June 30, 2010 and 2009 are invested as follows:

	2010	2009
Type of Investment:		
Fixed income funds	21%	18%
Equity funds and common stock	52%	56%
Hedge funds	15%	13%
Alternative investments	11%	9%
Other	1%	4%
Total Investments	100%	100%

Occasionally, the fair value of assets associated with endowments fall below the level that is required for the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature were $40,000 and $101,000 as of June 30, 2010 and 2009 respectively.

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

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

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

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

Note 3 – Notes, Loans and Accounts Receivable

Notes, loans and accounts receivable as of June 30, 2010 and 2009 are as follows (in thousands):

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

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

Note 4 – Capital Assets, net

Capital assets for the years ended June 30, 2010 and 2009 are summarized as follows (in thousands):

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

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

As of June 30, 2010 and 2009, the net book value of land, buildings and equipment acquired through capital leases included in the above schedules totaled $14,299,000 and $20,135,000 respectively, including buildings of $13,248,000 and $19,978,000.

Note 5 – Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2010 and 2009 are as follows (in thousands):

	2010	2009
Payable to vendors and contractors	$ 9,310	$ 8,857
Accrued expenses, primarily payroll and vacation leave	5,262	5,447
Employee withholdings and deposits payable to third parties	2,321	2,531
	$ 16,893	$ 16,835

Note 6 – Deferred Revenue

Deferred revenue as of June 30, 2010 and 2009 are as follows (in thousands):

	2010	2009
Unearned summer school revenues	$ 4,290	$ 3,901
Unearned grants and contracts revenue	709	1,257
Unearned auxiliary revenue	3,494	4,078
Other	1,007	722
Total	$ 9,500	$ 9,958
Current	6,432	6,328
Noncurrent	3,068	3,630
Total	$ 9,500	$ 9,958

Note 7 – Long-term Liabilities

The changes in long-term liabilities for the years ended June 30, 2010 and 2009 are summarized as follows (in thousands):

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion	Noncurrent Portion
Consolidated Educational Buildings Revenue Bonds	$ 17,980	$ -	$ 5,130	$ 12,850	$ 3,160	$ 9,690
Housing and Dining Revenue Bonds	2,205	-	265	1,940	150	1,790
General Receipts Bonds	66,495	6,785	1,890	71,390	3,550	67,840
Municipal lease obligations	4,525	1,079	1,820	3,784	928	2,856
Capital leases	17,001	-	4,555	12,446	441	12,005
Notes Payable	183	-	18	165	19	146
Total bonds, notes and capital leases	108,389	7,864	13,678	102,575	8,248	94,327
Deferred compensation	683	35	45	673	45	628
Federal portion of loan programs	2,333	-	44	2,289	-	2,289
Arbitrage rebate liability	113	-	113	-	-	-
Total other liabilities	3,129	35	202	2,962	45	2,917
Total long-term liabilities	$ 111,518	$ 7,899	$ 13,880	$ 105,537	$ 8,293	$ 97,244

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion	Noncurrent Portion
Consolidated Educational Buildings Revenue Bonds	$ 21,010	$ -	$ 3,030	$ 17,980	$ 3,180	$ 14,800
Housing and Dining Revenue Bonds	2,455	-	250	2,205	265	1,940
General Receipts Bonds	68,125	-	1,630	66,495	1,890	64,605
Municipal lease obligations	6,322	-	1,797	4,525	1,545	2,980
Capital leases	18,657	-	1,656	17,001	1,725	15,276
Notes Payable	-	200	17	183	18	165
Total bonds, notes and capital leases	116,569	200	8,380	108,389	8,623	99,766
Deferred compensation	710	-	27	683	45	638
Federal portion of loan programs	2,360	18	45	2,333	-	2,333
Arbitrage rebate liability	113	-	-	113	-	113
Total other liabilities	3,183	18	72	3,129	45	3,084
Total long-term liabilities	$ 119,752	$ 218	$ 8,452	$ 111,518	$ 8,668	$ 102,850

The outstanding Consolidated Educational Buildings Revenue Bonds (CEBRB) consist of CEBRB Series A, B, K and L with interest rates ranging from 3.50 percent to 6.10 percent and various maturity dates through May 1, 2023. Student tuition and fees and proceeds from a United States Department of Education annual interest grant are pledged as security for the University's outstanding CEBRB. The reserve requirements for all CEBRB issues have been fully funded as of June 30, 2010.

The outstanding Housing and Dining System Revenue Bond (Housing and Dining) consists of Housing and Dining Series B with an interest rate of 3.0 percent with a maturity date of November 1, 2020. The gross revenues of the Housing and Dining system operations are pledged for the retirement of the Housing and Dining System Revenue Bond. The reserve requirement for the Housing and Dining issue has been fully funded as of June 30, 2010.

The outstanding municipal lease obligations as of June 30, 2010 consist of master lease obligations issued through a local bank totaling $1,011,000, with interest rates ranging from 2.59 percent to 4.65 percent, and a lease obligation of $2,773,000, with an interest rate of 3.76 percent, for an energy management project. The energy management lease will be paid with guaranteed energy savings.

The outstanding obligation as of June 30, 2010 for the Northern Kentucky University General Receipts Bonds is $71,390,000. The interest rate yields range from 0.50 - 4.64 percent through September 2028. The net interest cost is 2.54 - 4.36 percent. General Receipts Bonds are collateralized by the operating and nonoperating income of the University excluding income which as a condition of the receipt is not available for payment of debt service charges.

The outstanding capital lease as of June 30, 2010 is a student housing facility lease of $12,446,000 entered into August 1, 2002. The lease has an imputed interest rate of 4.88 percent. The lease is renewable for biennial terms until final termination on December 1, 2027. Title to the housing facilities will transfer to the University upon termination of the facilities lease. The future minimum lease payments are to be paid from revenues of the leased facilities.

On June 29, 2010 Northern Kentucky University General Receipts 2010 Series A Bonds were issued in the amount of $6,785,000 at a net interest cost of 2.54 percent. The proceeds refunded CEBRB Series J and the 1998 Student Housing Facilities Lease in addition to providing partial funding for the exterior renovation of several student residential housing and cafeteria facilities. The refunding of CEBRB Series J will reduce the University's total debt service payments over the next nine years by $264,000, representing an economic gain of $182,000. In addition, the refunding of the 1998 Certificates of Participation will reduce debt service payments over the next 2 years by $78,000 with an economic gain of $60,000. Economic gain is determined by calculating the difference between the present value of the debt service payments on the old and new debt.

At June 30, 2010, a deposit of $4,827,000 is being held by the trustees to defease bonds with a par value of $4,780,000 on the July 19, 2010 call date. The liability for these defeased bonds is not included in the financial statements.

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

Fiscal Year	Principal	Interest	Total
2011	8,248	4,034	12,282
2012	7,915	3,771	11,686
2013	5,065	3,501	8,566
2014	4,237	3,306	7,543
2015	4,588	3,142	7,730
2016-2020	24,424	12,980	37,404
2021-2025	27,088	7,580	34,668
2026-2030	21,010	1,590	22,600
Total	$ 102,575	$ 39,904	$ 142,479

Note 8 – Pension Plans and Accrued Compensated Absences

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

a. Defined Contribution Plan

A Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA CREF) sponsored plan, adopted by the Board of Regents in July 1970, is available upon completion of ninety days of service, to all regular full-time members of the faculty, administrative officers and others who have educational related duties. The TIAA CREF retirement plan is a defined contribution, money purchase retirement plan. The employees contribute 5 percent of their base salary to the plan, and the University contributes 10 percent. All payments are vested immediately and the contracts with the providers are owned by the individual employees. The employee is entitled to various payment options upon retirement. Benefit payments at retirement depend on the total contributions with interest deposited into the employee's account. Retirement benefits can begin upon retirement or termination of employment with the University. Covered payroll totaled $42,500,000 and $42,540,000 for the years ended June 30, 2010 and 2009, respectively. Expenditures for the University's portion amounted to $4,250,000 and $4,254,000 for the years ended June 30, 2010 and 2009, respectively.

b. Defined Benefit Plan

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

Funding Policy - Benefit and contribution rates are established by state statute. For the fiscal year ended June 30, 2010, University employees were required to contribute 5 percent of their annual covered salary and the University was required to contribute 11.61 percent of covered payroll for non-hazardous pay and 24.69 percent for hazardous pay. The University's contributions to KERS for the years ending June 30, 2010, 2009 and 2008 were $4,334,000, $3,567,000, and $2,877,000, respectively, equal to the required contributions for each year.

c. Deferred Compensation Plans

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

All compensation deferred under Section 457, all property and rights purchased with that compensation and all income attributable to that compensation, property or rights belong solely to the Commonwealth and the University until paid to the employee or beneficiary, subject only to the claims of the Commonwealth's and University's general creditors. Participants' rights under the plan are equal to those of general creditors of the Commonwealth and the University in an amount equal to the fair market value of the deferred account for each participant. The market value of the University's share of the Section 457 plan assets, as of June 30, 2010 and 2009, were $2,126,000 and $1,801,000, 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, 2010 and 2009, the University had recognized an accrued vacation liability of $2,913,000 and $3,082,000, 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, 2010 and 2009 (in thousands):

	2010	2009
Salaries and wages	$ 96,660	$ 95,731
Employee benefits	26,368	24,882
Utilities	5,639	5,966
Supplies and other services	29,044	34,304
Depreciation	17,654	17,981
Student scholarships and financial aid	15,087	11,737
Total	$ 190,452	$ 190,601

Note 10 – Risk Management

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by (1) the State Fire and Tornado Insurance Fund (the Fund), (2) Sovereign Immunity and the State Board of Claims or (3) in the case of risks not covered by the Fund and Sovereign Immunity, commercial insurance, participation in insurance risk retention groups or self-insurance.

The Fund covers losses to property from fire, wind, earthquake, flood and other named perils between $500 and $500,000 per occurrence. Losses in excess of $500,000 are insured by commercial carriers up to $500 million per occurrence principally on an actual cash value basis. As a state agency, the University is vested with Sovereign Immunity and is subject to the provisions of the Board of Claims Act, under which the University's liability for certain negligence claims is limited to $200,000 for any one person and $350,000 for multiple claims resulting from a single act of negligence. Claims against educators' errors and omissions and wrongful acts are insured through a risk retention group or commercial insurance. There have been no significant reductions in insurance coverage from 2009 to 2010. Settlements have not exceeded insurance coverage during the past three years. The University self-insures worker's compensation, and has recorded an estimate for asserted claims at June 30, 2010. Current liabilities related to self-insurance are included in Note 5, above.

Note 11 – Contingencies and Commitments

The University is a party to various litigation and other claims in the ordinary course of business. University officials are of the opinion, based upon the advice of legal counsel, that the ultimate resolution of these matters will not have a material effect on the financial position of the University. The estimated cost to complete construction under contract at June 30, 2010 was approximately $23,490,000. Such construction is principally financed by capital appropriations from the Commonwealth of Kentucky.

Note 12 – Segment Information

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

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

Condensed Statements of Net Assets for the years ended June 30, 2010 and 2009 (in thousands)

	2010	2009
Assets:		
Current assets	$ 913	$ 794
Noncurrent assets		
Capital assets, net	1,436	1,534
Other	217	363
Total assets	2,566	2,691
Liabilities:		
Current liabilities	266	302
Noncurrent liabilities	1,790	1,940
Total liabilities	2,056	2,242
Net assets:		
Invested in capital, net of related debt	(504)	(670)
Restricted	603	745
Unrestricted	411	374
Total net assets	$ 510	$ 449

Condensed Statements of Revenues, Expenses and Changes in Net Assets
for the years ended June 30, 2010 and 2009 (in thousands)

	2010	2009
Operating revenues		
Room rental	$ 1,110	$ 977
Board revenue	23	24
Other	17	18
Total operating revenues	1,150	1,019
Operating expenses	671	390
Depreciation	143	148
Total operating expenses	814	538
Operating income	336	481
Nonoperating revenues	5	10
Nonoperating expenses	(63)	(76)
Excess of revenues over expenses	278	415
Transfers (to) from other University units	(217)	(244)
Increase in net assets	61	171
Net assets, beginning of year	449	278
Net assets, end of year	$ 510	$ 449

Condensed Statements of Cash Flows for the years ended June 30, 2010 and 2009 (in thousands)

	2010	2009
Net cash flows provided by operating activities	$ 518	$ 409
Net cash flows provided by investing activities	5	12
Net cash flows used by capital and related financing activities	(547)	(573)
Net increase in cash and cash equivalents	(24)	(152)
Cash and cash equivalents, beginning of year	1,120	1,272
Cash and cash equivalents, end of year	$ 1,096	$ 1,120

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

a. Summary of Significant Accounting Policies

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

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

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

Net assets and changes therein are classified as follows:

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

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

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

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

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

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

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

3. Cash and Cash Equivalents

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

At various times throughout the year, the Foundation may have cash in certain financial institutions in excess of insured limits. At June 30, 2010 and 2009, the carrying amount of the Foundation's cash and cash equivalents was $10,743,000 and $7,708,000, respectively. Included in the Foundation's deposits at June 30, 2010 and 2009, are short term government obligation shares of $1,371,000 and $1,369,000, respectively. Of the remaining balance, $500,000 was insured by federal depository insurance and the remaining was collateralized with securities held by the financial institution's trust department or agent, but not in the Foundation's name.

4. Loans and Accounts Receivable

Loans receivable consists primarily of loans made to students under privately funded loan programs. The advances are evidenced by signed promissory notes, bearing interest at varying stated interest rates, with varying due dates. Loans, accounts and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts at June 30, 2010 and 2009 was $111,242 and $116,475, respectively. Changes in the valuation allowance have not been material to the financial statements.

5. Investments

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

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

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

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

6. Fixed Assets and Depreciation

At June 30, 2010 and 2009, fixed assets consisted of:

	2010	2009
Type of Asset:		
Land	$ 2,682	$ 2,682
Land improvements	208	208
Total Fixed Assets	$ 2,890	$ 2,890

The cost of expenditures for land, buildings, improvements, equipment, art and museum collections and the fair market value of donated capital assets in excess of $5,000 are capitalized. Annual depreciation is computed on a straight-line basis, beginning in the month of acquisition, at rates based on useful lives of 25 to 40 years for buildings and improvements and 3 to 5 years for furnishings and equipment. Assets acquired for the museum and art collection are not depreciated. Depreciation expense for the years ended June 30, 2010 and 2009 was $7,000 and $7,000, respectively, and is reported as support expenses under rental property in the statement of activities.

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

7. Net assets Released from Restrictions

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

8. Use of Estimates in the Preparation of Financial Statements

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

9. Reclassifications

Certain items have been reclassified for the year ended June 30, 2009, in order to conform to classifications used for the year ended June 30, 2010. These reclassifications had no effect on total net assets and the change in net assets.

b. Notes Payable

The Foundation has a $2.1 million open-end mortgage note payable collateralized by a first mortgage on certain land and land improvements owned by the Foundation. The note principal is due on or before June 30, 2012. Monthly payments of interest at the lender's floating prime rate (4.0 percent at June 30, 2010) were current at June 30, 2010 and 2009.

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

Year Ended	Principal	Interest	Total
2011	692	137	829
2012	723	106	829
2013	754	73	827
2014	787	39	826
2015	822	3	825
	$ 3,778	$ 358	$ 4,136

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

c. Unconditional and Conditional Promises to Give

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

At June 30, 2010 and 2009, the Foundation recognized contributions based on the following unconditional promises to give (in thousands):

	2010	2009
Purpose:		
Endowment giving	$ 8,609	$ 11,339
Capital purposes	9,358	11,304
Operating programs	1,321	1,763
Gross unconditional promises	19,288	24,406
Less: Discount and allowance for uncollectable accounts	(1,274)	(2,172)
Net unconditional promises to give	$ 18,014	$ 22,234
Amounts due in:		
Less than one year	$ 8,710	$ 5,721
One to five years	10,578	17,821
More than five years	-	864
Total	$ 19,288	$ 24,406

The discount rates used to calculate the present value of contributions receivable at June 30, 2010 and 2009 vary from 2.8 percent to 5.6 percent depending on when the promise was made.

The Foundation has pledged $4.285 million of unconditional promises to give as collateral against a promissory note.

Conditional promises to give are not included as support until such time as the conditions are substantially met. At June 30, 2010, the Foundation had received conditional promises to give of approximately $1,400,000, consisting of the face value of life insurance policies, net of accumulated cash surrender value.

d. Investments

The market values (in thousands) of the Foundation's investments as of June 30, 2010 and 2009 are categorized by type below:

	2010	2009
Type of Investment:		
Short-term money market funds	$ 11	$ 19
Fixed income funds	11,264	8,118
Equity funds and common stock	28,313	26,356
Hedge funds	8,531	6,149
Alternative investments	6,015	4,413
Other	795	2,957
Total Investments	$ 54,929	$ 48,012

Investment income and gains (in thousands) for the years ended June 30, 2010 and 2009 consist of:

	2010	2009
Interest	$ 83	$ 178
Dividends	804	822
Fees	(121)	(154)
Total Investment Income	**$ 766**	**$ 846**
Realized gains (losses)	1,211	(2,801)
Unrealized gains (losses)	3,216	(3,849)
Total Investment Income	**$ 4,427**	**$ (6,650)**

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, 2010 and 2009 were $8,925,000 and $7,936,000 respectively. See note 13h for further explanation of the trust funds.

At June 30, 2010 and 2009, the Foundation had committed $15.3 and $15.2 million, respectively, of its endowment investment resources to alternative investments, of which $7.4 and $9.6 million, respectively, had not yet been called by the investment managers. Alternative investments for which commitments have been made consist of private equity, venture capital, real estate and real assets.

e. Fair Value Measurements

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

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

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

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

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

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

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

Listed below are the descriptions of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2010.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 investments include short term money market funds, cash and cash surrender value, certificates of deposit, fixed income funds and equity funds. Level 2 investments are based on quoted prices of securities or other property with similar characteristics and include hedge funds of funds and a remainder interest in real property subject to a life estate. In certain cases where level 1 or 2 inputs are not available, investments are classified within Level 3 of the hierarchy and include investments in natural resources, real assets, private equity, venture capital and real estate.

Conditional Receivable

Unconditional promises to give are recorded at fair value. For unconditional promises to give where payment is expected to be received in one year or less, net realizable value is used to estimate fair value. Unconditional promises to give that are expected to be received in more than one year; fair value is estimated as the present value of expected future payments. When estimating the fair value of unconditional promises to give, management considers historical trends of collection, the type of donor, general economic conditions and market interest rate assumptions.

The following assets were measured at fair value as of June 30, 2010 (in thousands):

	2010	2009
Level 1		
Investments	$ 40,000	$ 37,068
Level 2		
Investments	$ 8,914	$ 6,531
Level 3		
Investments	$ 6,015	$ 4,413
Contributions receivable	$ 18,014	$ 22,234

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair values for the contributions receivable is determined by calculating the present value of the future payments expected to be received using a discount rate varying from 2.8 - 5.6 percent, depending on when the promise was made.

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

Investments		**2010**		**2009**
Beginning balance	$	4,413	$	3,372
Purchases, sales and settlements (net)		1,448		1,792
Gains (losses) for the year included in changes in net assets as revenue		154		(646)
Transfers out of Level 3		-		(105)
Ending balance	$	6,015	$	4,413

Contributions Receivable		**2010**		**2009**
Beginning balance	$	22,234	$	10,241
New promises received		1,219		22,450
Collections		(6,274)		(8,170)
Discounts and allowances		898		(2,172)
Contribution revenue write offs		(63)		(115)
Ending balance	$	18,014	$	22,234

f. Endowments

The Foundation's endowment consists of approximately 220 individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Funds functioning as endowments include both unrestricted net assets and temporarily restricted net assets that have been designated by the Board of Directors for long-term investment.

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. The Foundation has adopted FSP FSA 117-1 for the years ending after July1, 2008.

For years ended prior to the effective date of KUPMIFA, the Foundation follows the Kentucky Uniform Management of Institutional Funds Act (KUMIFA) and its own governing documents. KUMIFA requires the historical dollar amount of a donor-restricted endowment fund to be preserved. As a result of this requirement, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment. In the absence of donor restrictions, the net appreciation on a donor-restricted endowment fund is spendable under KUMIFA. 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. The Board of Directors has not determined the effect of KUPMIFA on the Foundation's endowment funds and net asset classification.

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 8-10%, 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 places an emphasis on U.S. Treasury securities and equity-based investments 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% of a moving sixteen quarter average of the fair value of the endowment funds. Accordingly, over the long term, the Foundation expects its current spending policy to allow its endowment assets to grow at an average rate of 3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through investment return.

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

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

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

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

Endowment net asset composition by type of endowment (in thousands) as of June 30, 2009 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor restricted endowment funds	$ -	$ 8,205	$ 27,723	$ 35,928
Board designated endowment funds	814	4,495	-	5,309
Total endowment funds	$ 814	$ 12,700	$ 27,723	$ 41,237

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 1,954	$ 18,169	$ 21,417	$ 41,540
Contributions collected	-	519	6,306	6,825
Investment income	37	794	-	831
Net investment gain (loss)	(393)	(6,227)	-	(6,620)
Amounts appropriated for expenditure	(269)	(1,070)	-	(1,339)
Excess gain (loss) transferred to unrestricted	(515)	515	-	-
Endowment net assets, end of year	$ 814	$ 12,700	$ 27,723	$ 41,237

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 UMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $183 thousand and $706 thousand as of June 30, 2010 and 2009. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

g. Contingent Liabilities

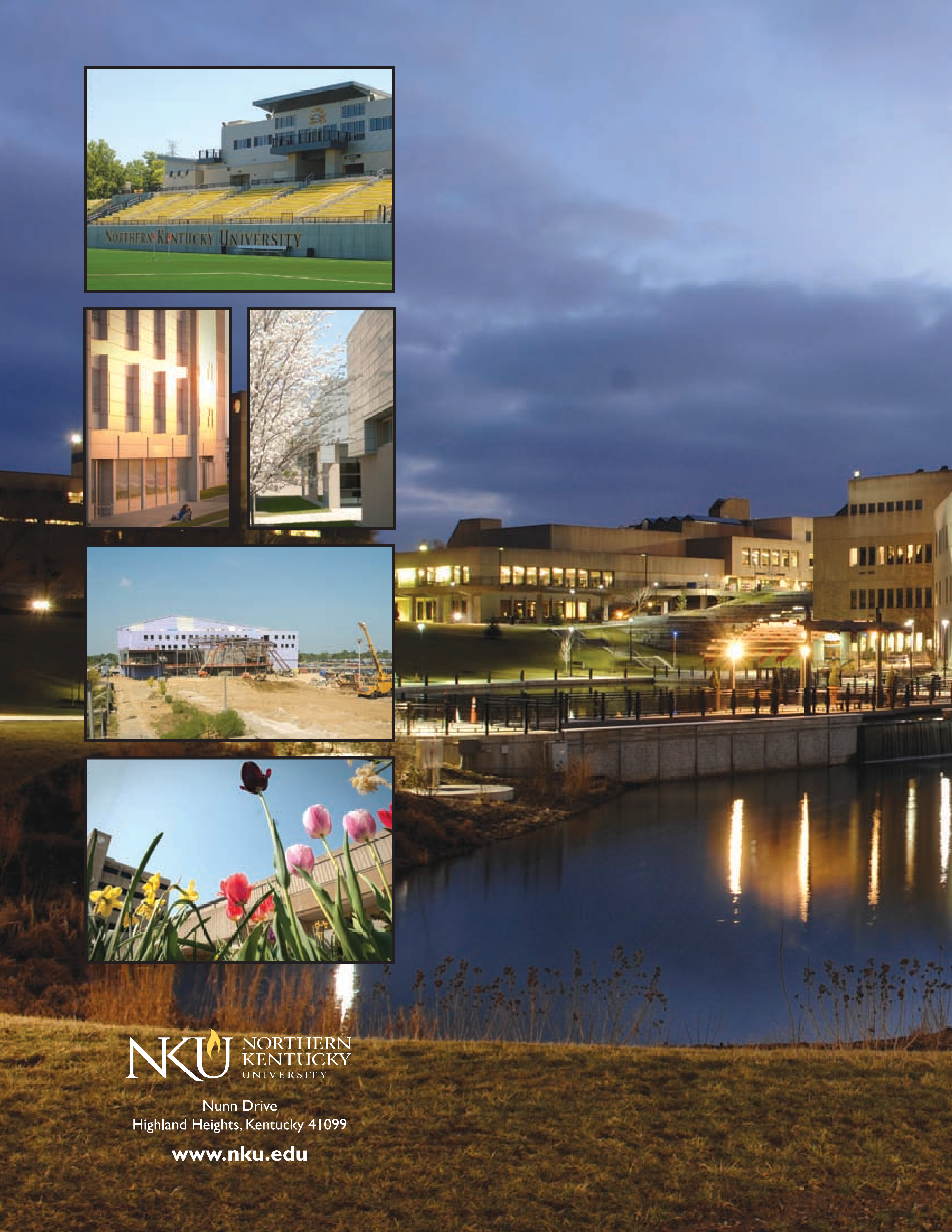
Legal counsel for the Foundation have advised that they know of no pending or threatened litigation, claims or assessments involving the Foundation that could have a material adverse financial effect on the Foundation.

h. Regional University Excellence Trust Fund

The Foundation holds certain funds, consisting of endowment matching funds received by Northern Kentucky University from the Commonwealth of Kentucky's Regional University Excellence Trust Fund, which were subsequently transferred to the Foundation for management and investment. The Foundation reports these funds and accumulated earnings as assets held in trust for Northern Kentucky University. Investment earnings, gains and losses and expenditures from these funds are reported as changes in the balance held in trust rather than as revenue and expenses of the Foundation.

i. Subsequent Events

The date to which events occurring after June 30, 2010, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is September 2, 2010, which is the date on which the financial statements were available to be issued.



NORTHERN KENTUCKY UNIVERSITY

Nunn Drive
Highland Heights, Kentucky 41099

www.nku.edu