Northern Kentucky University

A Component Unit of the Commonwealth of Kentucky
Independent Auditor’s Reports and Financial Statements
June 30, 2016 and 2015

BKD LLP
CPAs & Advisors

Table of Contents

BKD LLP
CPAs & Advisors
312 Walnut Street, Suite 3000 // Cincinnati, OH 45202-4025
513.621.8300 // fax 513.621.8345 // bkd.com

Independent Auditor's Report

Board of Regents
Northern Kentucky University
Highland Heights, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Northern Kentucky University (University), collectively a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Northern Kentucky University Foundation, Inc., a discretely presented component unit included in the financial statements of the University's reporting entity, were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The accompanying schedule of expenditures of federal awards required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2016, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

BKD, LLP

Cincinnati, Ohio
September 29, 2016

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Management's Discussion and Analysis
Years Ended June 30, 2016 and 2015

Northern Kentucky University's (the University) Management's Discussion and Analysis of its financial condition provides an overview of the financial performance of the University and its affiliated corporations for the years ended June 30, 2016 and 2015, with selected comparative information for the years ended June 30, 2014. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and notes.

As a public comprehensive university located in a major metropolitan area, the University delivers innovative, student-centered education and engages in impactful scholarly and creative endeavors, all of which empower our graduates to have fulfilling careers and meaningful lives, while contributing to the economic, civic, and social vitality of the region.

Financial Highlights

For the year ended June 30, 2015, the University adopted Governmental Accounting Standards Board (GASB) Statement Nos. 68 and 71 which required governmental employers participating in a cost-sharing defined benefit pension plan to recognize their long-term obligation for pension benefits as a liability for the first time. As a participating employer in the Kentucky Employees Retirement System (KERS), the University reported a net pension liability of $247.1 million as of June 30, 2016. The cumulative effect of the adoption of GASB 68 and GASB 71 in 2015 resulted in a decrease in the University's unrestricted net position at July 1, 2014 of $210.4 million. In addition, as required under GASB 68, the University reported an additional $9.3 million and $4.5 million in pension expense for fiscal years 2016 and 2015, respectively, as compared to the previous reporting requirements. The combined impact of pension reporting changes resulted in a cumulative reduction of $224.2 million in the University's unrestricted net position as of June 30, 2016. Excluding the impact of the pension reporting changes, the University's unrestricted net position would have decreased by $2.6 million for the year ended June 30, 2016. This planned decline in unrestricted net position resulted from the expenditure of student fee reserves that were committed to the construction of the campus recreation center expansion.

The University's operating and nonoperating revenues totaled $216.3 million for the year ended June 30, 2016, a decrease of $5.1 million compared to 2015. Operating revenues declined by $5.1 million for the year while nonoperating revenues remained unchanged for the year. Net tuition and fees decreased by $3.7 million as a result of a $4 million, or 11.8 percent, increase in scholarship allowances. The University's state appropriations remained unchanged at $48.5 million for the year ended June 30, 2016. Operating and nonoperating expenses increased by $6.0 million, or 2.6 percent, to a total of $236.3 million for the year ended June 30, 2016, primarily due to an increase in pension expenses.

Construction has begun on the University's new transformative Health Innovations Center, which is scheduled to open in summer 2018. Last year, the University received an $8 million gift commitment from St. Elizabeth Healthcare to help pay for the design and construction of a virtual care facility within the Center that will help students simulate medical procedures and facilitate transdisciplinary research at the University. The Center will increase the University's capacity to meet the growing demand for graduates in the health professions and management expects enrollment and the associated tuition revenues related to these programs to be positively impacted.

The University's state-funded endowments totaled $11.8 million as of June 30, 2016. These funds, along with the private endowed gifts donated to benefit the University, are managed by Northern Kentucky University Foundation, Inc. (Foundation). The endowment funds managed by the Foundation, including the University's endowment funds, totaled $89.6 million at June 30, 2016. For the five-year period ended June 30, 2016, the endowment funds managed by the Foundation have grown from $69.9 million to $89.6 million as a result of excellent investment returns and the receipt of several major endowment gifts. The growth in endowment funds has provided a significant increase in the funds available to support the University's mission.

Using the Financial Statements

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

The University is a component unit of the Commonwealth of Kentucky. The financial statements of the University include the University and its blended component unit, the Northern Kentucky University Research Foundation, Inc. (Research Foundation). Financial statements for the University's discretely presented component unit, Northern Kentucky University Foundation, Inc., have also been included in accordance with GASB pronouncements. Financial statements presented for the Foundation consist of the consolidated statement of financial position and the consolidated statement of activities. These statements are prepared in accordance with Financial Accounting Standards Board (FASB) pronouncements.

Statement of Net Position

The statement of net position reflects the financial position of the University as of June 30, 2016, with comparative information as of June 30, 2015, and includes all assets, deferred outflows and inflows of resources, liabilities and net position. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. Net position, consisting of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources, is one indicator of the current financial condition of the University. Assets, liabilities, deferred inflows and outflows of resources are generally measured using current values. A major exception is capital assets, which are stated at historical cost less accumulated depreciation.

A summary of the University's net financial position at June 30, 2016, 2015 and 2014 follows:

Condensed Statements of Net Position (in thousands)

	2016	2015	2014
ASSETS			
Current assets	$ 108,931	$ 111,918	$ 108,879
Capital assets, net	346,038	335,618	315,411
Noncurrent assets	30,595	38,559	71,455
Total assets	485,564	486,095	495,745
DEFERRED OUTFLOWS OF RESOURCES	28,160	13,446	1,079
LIABILITIES			
Current liabilities	38,806	37,279	36,520
Noncurrent liabilities	379,968	363,964	148,688
Total liabilities	418,774	401,243	185,208
DEFERRED INFLOWS OF RESOURCES	4,636	5,515	1,522
NET POSITION			
Net investment in capital assets	222,068	211,004	212,906
Restricted			
Nonexpendable	7,616	7,616	7,616
Expendable	5,726	7,374	5,631
Unrestricted	(145,096)	(133,211)	83,941
Total net position	$ 90,314	$ 92,783	$ 310,094

Assets

The University's assets decreased by $0.5 million, or 0.1 percent, for the year ended June 30, 2016 and now total $485.6 million. Current assets declined by $3.0 million for the year ended June 30, 2016 primarily due to a decrease in cash and cash equivalents reserves that were committed to the construction of the campus recreation center expansion, which opened in fiscal year 2016. Noncurrent cash and cash equivalents declined by $5.0 million resulting from the expenditure of bond proceeds for the construction of the campus recreation center expansion.

Net capital assets increased by $10.4 million for the year ended June 30, 2016 and $20.2 million the prior year, resulting in a combined increase of $30.6 million, or 9.7 percent, since June 30, 2014. This increase is the net result of a $71.0 million increase in capitalized construction project costs, land improvements, equipment and other capital assets, less $40.4 million in depreciation. Net capital assets totaled $346.0 million, or 71.4 percent of total assets as of June 30, 2016.

Deferred Outflows of Resources

Deferred outflows of resources totaled $28.2 million and $13.4 million as of June 30, 2016 and 2015, respectively. Deferred outflows of resources related to the University's defined benefit pension plan totaled $25.4 million and $12.5 million as of June 30, 2016 and 2015, respectively. The deferred outflows of resources that represent the unamortized difference between the reacquisition price and the net carrying amount of refunded debt totaled $2.8 million and $0.9 million at June 30, 2016 and 2015, respectively.

Liabilities

At June 30, 2016, the University's liabilities totaled $418.8 million compared to the previous year's $401.2 million. This increase in liabilities is attributable to a $22.7 million increase in the University's net pension liability related to its participation in the Kentucky Employees Retirement System (KERS). The University's net pension liability grew from $224.4 million as of June 30, 2015 to $247.1 million as of June 30, 2016.

Noncurrent liabilities, excluding the pension liability, declined by $6.7 million for the year as a result of a decrease in outstanding bonds, notes and capital leases. Bonds, notes and capital leases payable, net of discounts and premiums, totaled $126.7 million and $132.2 million at June 30, 2016 and 2015, respectively.

Deferred Inflows of Resources

The University's deferred inflows of resources totaled $4.6 million and $5.5 million as of June 30, 2016 and 2015, respectively. Deferred inflows of resources related to the University's defined benefit pension plan totaled $2.6 million and $3.0 million as of June 30, 2016 and 2015, respectively. Deferred inflows of resources related to service concession agreements between the University and a food service provider totaled $2.0 million at June 30, 2016, a decline of $0.5 million from the prior year.

Net Position

Net position represents the difference between the University's total of assets and deferred outflows of resources and the total of liabilities and deferred inflows of resources. The University's net position totaled $90.3 million and $92.8 million at June 30, 2016 and 2015, respectively. The cumulative effect of the adoption of GASB 68 and GASB 71 resulted in a decrease in the University's unrestricted net position at July 1, 2014 of $210.4 million. In addition, as required under GASB 68, the University reported an additional $9.3 million in pension expense for fiscal year 2016 and an additional $4.5 million in 2015 as compared to the previous reporting requirements. The combined impact of pension reporting changes resulted in a cumulative reduction of $224.2 million in the University's unrestricted net position as of June 30, 2016. Excluding the impact of the pension reporting changes, the University's unrestricted net position would have decreased by $2.6 million for the year ended June 30, 2016. This planned decline in unrestricted net position resulted from the expenditure of student fee reserves that were committed to the construction of the campus recreation center expansion.

Net invested in capital assets totaled $222.1 million and $211.0 million at June 30, 2016 and 2015, respectively. This $11.1 million increase is primarily attributable to the expenditure of state capital appropriations for the construction of the Health Innovations Center. Endowment investment losses and spending contributed to a $1.6 million decline in restricted expendable net position.

Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. GASB requires state appropriations and nonexchange grants and contracts to be classified as nonoperating revenues. Accordingly, the University will generate an operating loss prior to the addition of nonoperating revenues.

This statement is prepared on the accrual basis of accounting whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

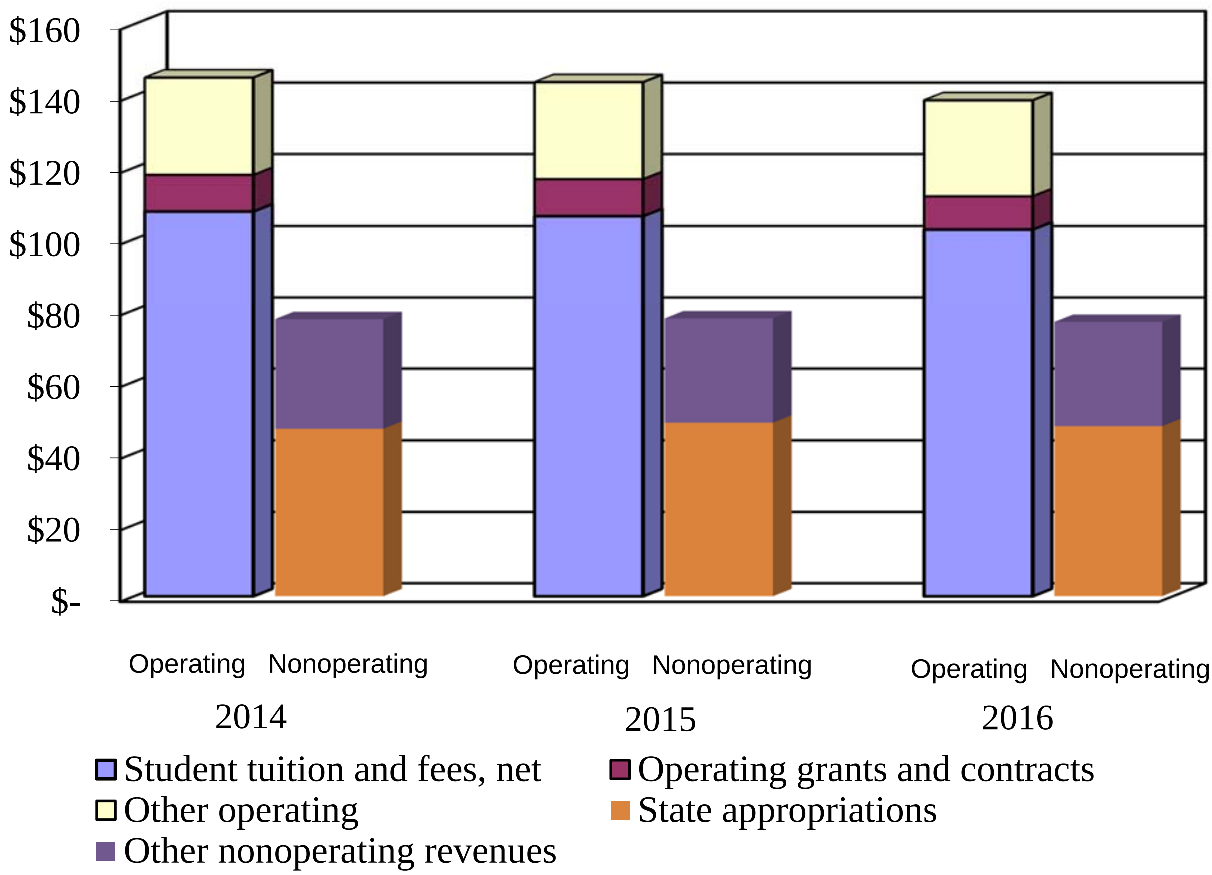
The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. A summarized comparison of the University's revenues, expenses and changes in net position for years ended June 30, 2016, June 30, 2015 and June 30, 2014 follows:

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

	2016	2015	2014
OPERATING REVENUES			
Student tuition and fees, net	$ 102,670	$ 106,415	$ 107,716
Grants and contracts	9,334	10,373	10,253
Sales and services of educational departments	4,380	4,529	5,470
Auxiliary enterprises	15,222	15,312	14,177
Other operating revenues	7,083	7,124	7,423
Total operating revenues	138,689	143,753	145,039
OPERATING EXPENSES			
Educational and general	203,064	198,909	194,678
Depreciation	17,387	16,375	16,475
Auxiliary enterprises (including depreciation)	11,155	11,113	8,734
Other expenses	41	33	101
Total operating expenses	231,647	226,430	219,988
Net loss from operations	(92,958)	(82,677)	(74,949)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	48,538	48,538	46,835
Gifts, grants and contracts	29,085	28,488	28,179
Investment income (loss)	(4)	594	2,406
Interest on capital asset-related debt	(4,179)	(3,800)	(3,381)
Other nonoperating revenues (expenses)	(453)	(97)	(607)
Net nonoperating revenues	72,987	73,723	73,432
Income (loss) before other revenues, expenses, gains or losses	(19,971)	(8,954)	(1,517)
Capital appropriations	17,013	1,968	-
Capital grants and gifts	489	111	281
Total other revenues	17,502	2,079	281
Increase (decrease) in net position	(2,469)	(6,875)	(1,236)
Net position-beginning of year, as previously reported	92,783	310,094	311,330
Cumulative effect of change in accounting principle	-	(210,436)	-
Net position-beginning of year, as restated	92,783	99,658	311,330
Net position-end of year	$ 90,314	$ 92,783	$ 310,094

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 2014, 2015 and 2016. Significant recurring sources of revenues, including state appropriations and nonexchange grants and contracts, are considered nonoperating revenues as defined by GASB. These revenues support operating expenses; therefore, they are included in the graph of revenues by source (presented in millions).



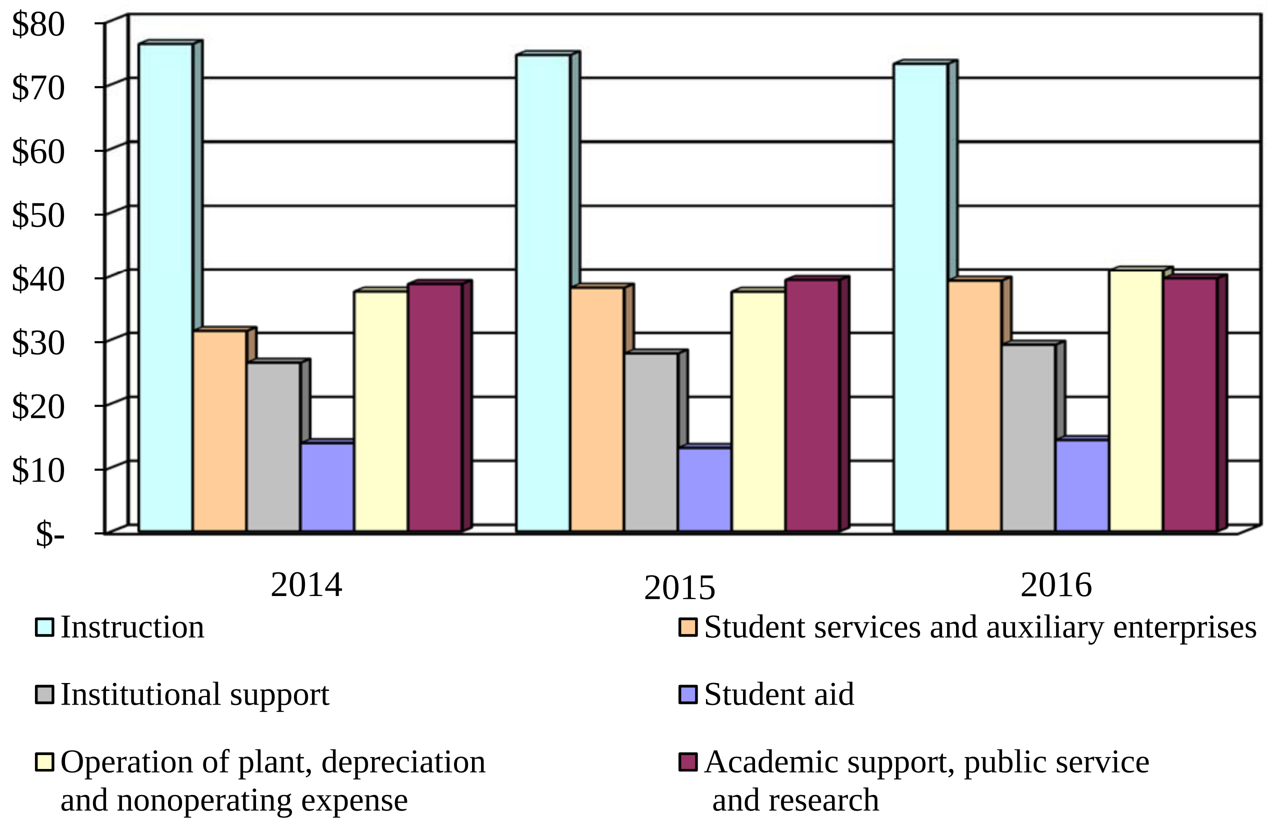
The University's operating and nonoperating revenues totaled $216.3 million for the year ended June 30, 2016, a decrease of $5.1 million compared to 2015. Operating revenues totaled $138.7 million, or 64.1 percent of revenues, while nonoperating revenues totaled $77.6 million, or 35.9 percent of revenues, for the year. The most significant sources of revenue for the University are net student tuition and fees (47.5 percent) and state appropriations (22.4 percent).

Operating revenues declined by $5.1 million for the year. Net tuition and fees decreased by $3.7 million as a result of a $4 million, or 11.8 percent, increase in scholarship allowances. Operating grants and contracts declined by $1.0 million primarily due to a decrease in state grants and contract revenue for the year. In addition, sales and services of educational departments, auxiliary enterprises and other operating revenues declined slightly for the year. Operating revenues have decreased by $6.4 million since 2014 primarily due to a $5.0 million decline in net tuition which was driven by a $5.9 million increase in scholarship allowances since 2014.

Nonoperating revenues remained unchanged at $77.6 million for the year. The University's state appropriations remained unchanged at $48.5 million for the year ended June 30, 2016. The University's state nonoperating grant revenues increased by $1.2 million for the year due to a $1.2 million increase in state financial aid program revenues, including increases in need-based aid ($1.0 million) and merit scholarships ($0.2 million). The University's federal nonoperating grant revenues decreased by $0.6 million for the year due to a $0.6 million decrease in federal financial aid program revenues. A decline in endowment investment earnings resulted in a $0.6 million decrease in investment income for the year.

Operating and Nonoperating Expenses

The following chart illustrates the University's expenses by function (both operating and nonoperating) for fiscal years 2014, 2015 and 2016 (presented in millions).



Operating and nonoperating expenses increased by $6.0 million, or 2.6 percent, to a total of $236.3 million for the year ended June 30, 2016. The adoption of GASB 68 and GASB 71 had a significant impact on the University's expenses reported for the years ended June 30, 2016 and 2015 as compared to fiscal year 2014, which does not reflect the impact of GASB 68 and 71. For fiscal years 2016 and 2015 the University recognized pension expenses, as required under GASB 68 and 71, of $21.5 million and $17.0 million, respectively. This $4.5 million increase in pension expenses, combined with a $1.2 million increase in depreciation expense, contributed to a $5.2 million increase in operating expenses for the year ended June 30, 2016.

Instruction expenses decreased by $1.4 million, or 1.8 percent, for the year ended June 30, 2016 primarily due to the closure of an educational services unit and a reduction in staff salaries and benefits. Student services increased by $1.1 million resulting from expenses related to the opening of the new campus recreation center expansion and an increase in pension expenses. These expenses were partially offset by a reduction in intercollegiate athletic league fees. Institutional support expenses increased by $1.4 million primarily due to an increase in pension expenses. Increases in personnel expenses, including pension expenses, contributed to a $1.6 million increase in operation and maintenance of plant. Student aid expenses increased by $1.2 million as a result of an increase in institutionally and state funded financial aid programs. Interest expense increased by $0.4 million for the year due to an increase in interest expense related to bonds issued for the campus recreation center expansion.

Statement of Cash Flows

Another important factor to consider when evaluating financial viability is the University's ability to meet financial obligations as they become due. The statement of cash flows presents information related to cash inflows and outflows, summarized by operating, noncapital financing, capital and related financing, and investing activities. A comparative summary of the University's statements of cash flows for the years ended June 30, 2016, 2015 and 2014 follows:

Condensed Statements of Cash Flows (in thousands)

	2016	2015	2014
Net cash provided (used) by:			
Operating activities	$ (62,675)	$ (57,237)	$ (52,042)
Noncapital financing activities	76,673	77,106	68,876
Capital and related financing activities	(28,418)	(50,345)	22,877
Investing activities	2,892	(1,227)	2,812
Net increase (decrease) in cash and cash equivalents	(11,528)	(31,703)	42,523
Cash and cash equivalents, beginning of year	121,677	153,380	110,857
Cash and cash equivalents, end of year	$ 110,149	$ 121,677	$ 153,380

The University's cash and cash equivalents decreased by $11.5 million in 2016 and $31.7 million in 2015. Major sources of funds generated by operating activities in 2016 included student tuition and fees ($101.9 million), grants and contracts ($9.3 million) and auxiliary enterprises ($14.7 million). The largest cash payments for operating activities were made to employees ($144.9 million) and to vendors and contractors ($54.4 million). Net cash used by operating activities increased by $5.4 million for the year primarily due to declines in cash provided by tuition and fees, grants and contracts and auxiliary enterprises. Cash provided by net tuition and fees declined by $3.0 million for the year while cash provided by grants and contracts fell by $1.3 million.

Net cash provided by noncapital financing activities decreased by $0.4 million for the year ended June 30, 2016. Cash used by capital and related financing activities totaled $28.4 million for 2016. Purchases of capital assets totaling $33.9 million were primarily funded by state capital appropriations for the health innovations center and bonds issued in 2014 to finance an expansion of the campus recreation center and a student housing project.

Capital Asset and Debt Administration

<u>Capital Assets</u>

As of June 30, 2016, capital assets, net of accumulated depreciation, totaled $346.0 million, or 71.4 percent of total assets. Net capital assets increased by $10.4 million and $20.2 million for the years ended June 30, 2016 and 2015, respectively. Additions to capital assets, net of disposals, during the year ended June 30, 2016 totaled $31.2 million, including the expansion and renovation of the University's campus recreation center. Depreciation expenses totaled $20.8 million for the year ended June 30, 2016. Additions to capital assets, net of disposals, during the year ended June 30, 2015 totaled $39.8 million, including the renovation of student housing and dining facilities and the expansion and renovation of the University's campus recreation center. Depreciation expenses totaled $19.6 million for the year ended June 30, 2015.

The Kentucky General Assembly approved a $97.0 million capital appropriation to the University in its 2014-16 biennial budget to fund the construction of a state-of-the-art Health Innovations Center and to renovate Founders Hall. At June 30, 2016, the construction is underway and the project is expected to be completed in summer 2018.

<u>Debt</u>

The following is a summary of the University's outstanding capital debt summarized by trust indenture and type as of June 30, 2016, 2015 and 2014 (in thousands):

	2016	2015	2014
General Receipts Bonds, net of discounts and premiums	$ 124,636	$ 128,795	$ 134,923
Housing and Dining System Revenue Bonds	965	1,140	1,310
Notes payable and municipal lease obligations	1,134	2,283	5,110
	$ 126,735	$ 132,218	$ 141,343

The University issued bonds in May 2016 to refund $26.7 million of the outstanding General Receipts Bonds 2007 Series A. The refunding reduced the University's total debt service payments over the remaining term of the bonds by $2.8 million resulting in a present value savings of $2.5 million. The University also made principal payments of $7.4 million on bonds, notes and municipal lease obligations for the year. For the year ended June 30, 2015, the University did not issue any new debt and retired $9.1 million of bonds, notes and municipal lease obligations resulting in a $9.1 million reduction in outstanding debt for the year.

A strong debt rating is an important indicator of the University's financial health. The current bond ratings assigned by Moody's Investors Service (A1-stable) to the University's General Receipts bonds reflect the University's solid financial position.

ECONOMIC FACTORS IMPACTING FUTURE PERIODS

The University's 2013-18 Strategic Plan, *Fuel the Flame*, established an objective to "develop an all-funds approach and ensure budget processes align resources with strategic goals." During fiscal year 2014-15, the University engaged in a process to develop a new budget model. The decision was made to transition to a decentralized, incentive-based approach to budgeting. The new budget approach will provide incentives that empower colleges to engage in entrepreneurial activities and focus on enrollment growth and retention with the goal of increasing tuition and alternative revenue sources. The new model is expected to be in full operation for fiscal year 2018.

In accordance with HB 303, a performance funding working group was established for the purpose of developing a funding model for the allocation of state General Fund appropriations for institutional operations. The funding model should incorporate elements of campus performance, mission, and enrollment, as well as any other components as determined through the process. The model should include metrics that align with the goals of the Postsecondary Education Improvement Act of 1997 with appropriate differentiation that reflects the missions of the Commonwealth's research universities, comprehensive regional universities, and community and technical colleges. The working group should complete its work and provide to the Governor and the Interim Joint Committee on Education a report setting forth its recommendations no later than December 1, 2016.

An executive order issued in April 2016 resulted in a $1.0 million, or 2.0 percent, reduction in the University's fiscal year 2016 state appropriations. The Kentucky Attorney General filed suit in April to overturn the budget reduction. In September 2016, the Supreme Court of Kentucky overturned the budget reduction. As a result, the University recognized the full $48.5 million appropriation that had been appropriated by the General Assembly, including the $1.0 million budget reduction that was restored.

The 2016-18 biennial budget passed by the General Assembly reflected an across-the-board cut of 4.5 percent per year, or 9 percent total cut for the biennium, for all public universities. The General Assembly also appropriated an additional $5.1 million to the University in fiscal year 2018 to help address the funding disparity between the University and the other comprehensive public universities. As a result, although the University's 2017 appropriation was reduced to $46.4 million, the University's 2018 appropriation will increase to $48.9 million as a result of the additional funds appropriated for 2018. In addition to the funds appropriated directly to the universities, the University will have an opportunity to receive additional appropriations based on the performance funding model that is currently being developed. The General Assembly set aside 5.0 percent of the total general fund appropriations for eight of the nine public postsecondary education institutions to distribute to the universities in 2018 based on their respective performance. If the University reaches its performance goals the University would receive an additional $2.6 million in 2018.

The University's Board of Regents approved a 3.0 percent increase in undergraduate resident tuition rates for fiscal year 2017. This increase was approved by the Council on Postsecondary Education.

The University's state-funded endowments totaled $11.8 million as of June 30, 2016. These funds, along with the private endowed gifts donated to benefit the University, are managed by the Northern Kentucky University Foundation. The endowment funds managed by the Foundation, including the University's endowment funds, totaled $89.6 million at June 30, 2016. For the five-year period ended June 30, 2016, the endowment funds managed by the Foundation have grown from $69.9 million to $89.6 million as a result of excellent investment returns and the receipt of several major endowment gifts. The growth in endowment funds has provided a significant increase in the funds available to support the University's mission.

Construction has begun on the University's new transformative Health Innovations Center, which is scheduled to open in summer 2018. Last year, the University received an $8 million gift commitment from St. Elizabeth Healthcare to help pay for the design and construction of a virtual care facility within the Center that will help students simulate medical procedures and facilitate transdisciplinary research at the University. The Center will increase the University's capacity to meet the growing demand for graduates in the health professions and management expects enrollment and the associated tuition revenues related to these programs to be positively impacted.

For the year ended June 30, 2015, the University adopted GASB 68 and 71, which requires governmental employers participating in a cost-sharing defined benefit pension plan to recognize their long-term obligation for pension benefits as a liability for the first time. As a participating employer in the Kentucky Employees Retirement System (KERS), the University reported a net pension liability of $247.1 million as of June 30, 2016. The cumulative effect of the adoption of GASB 68 and GASB 71 in 2015 resulted in a decrease in the University's unrestricted net position at July 1, 2014 of $210.4 million. In addition, as required under GASB 68, the University reported an additional $9.3 million in pension expense for fiscal year 2016 and an additional $4.5 million in 2015 as compared to the previous reporting requirements. The combined impact of pension reporting changes resulted in a cumulative reduction of $224.2 million in the University's unrestricted net position as of June 30, 2016 as compared to the previous reporting requirements. The University's required contribution rate for fiscal years 2017 and 2018 is 48.6 percent of covered payroll for all of its employees that participate in KERS. The Commonwealth and the University continue to face budget challenges, including funding the state pension systems.

In summary, while the impact of the new pension reporting requirements on the University's unrestricted net position is significant, the University continues to show solid operating performance as measured by cash flows. The University is in the process of implementing new and enhanced strategies around enrollment and financial aid. These strategies are designed to increase enrollment, support students from diverse backgrounds, increase student retention rates, maintain academic quality, and increase net tuition revenue. Management is also continuing its efforts to diversify revenue sources, contain costs and redirect resources to core mission priorities. The new budget model and associated budget approach will further enhance these efforts. The continued growth in funds provided through endowments, gifts, and other sources of revenues will be essential as the University strives to meet the needs of our students.

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Statements of Net Position
As of June 30, 2016 and 2015
(in thousands)

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	$ 92,868	$ 99,352
Notes, loans and accounts receivable, net	13,389	9,973
Other current assets	2,674	2,593
Total current assets	108,931	111,918
Noncurrent Assets		
Cash and cash equivalents	17,281	22,325
Investments	11,795	14,692
Notes, loans and accounts receivable, net	1,369	1,421
Capital assets, net	346,038	335,618
Other noncurrent assets	150	121
Total noncurrent assets	376,633	374,177
Total assets	485,564	486,095
DEFERRED OUTFLOWS OF RESOURCES	28,160	13,446
LIABILITIES		
Current Liabilities		
Accounts payable, accrued liabilities and deposits	23,995	23,509
Unearned revenue	6,537	5,998
Long-term liabilities-current portion	8,274	7,772
Total current liabilities	38,806	37,279
Noncurrent Liabilities		
Deposits	11,763	11,812
Unearned revenue	144	283
Long-term liabilities	120,980	127,491
Net pension liability	247,081	224,378
Total noncurrent liabilities	379,968	363,964
Total liabilities	418,774	401,243
DEFERRED INFLOWS OF RESOURCES	4,636	5,515
NET POSITION		
Net investment in capital assets	222,068	211,004
Restricted		
Nonexpendable	7,616	7,616
Expendable	5,726	7,374
Unrestricted	(145,096)	(133,211)
Total net position	$ 90,314	$ 92,783

Northern Kentucky University Foundation, Inc.
Consolidated Statements of Financial Position
As of June 30, 2016 and 2015
(in thousands)

	2016	2015
ASSETS		
Cash and cash equivalents	$ 9,313	$ 4,929
Loans and accounts receivable, net	90	228
Accrued interest receivable	-	9
Contributions receivable, net	8,391	2,347
Prepaid expenses and deferred charges	40	57
Investments	91,225	99,334
Land and land improvements	548	548
Accumulated depreciation	(208)	(208)
Total assets	109,399	107,244
LIABILITIES AND NET ASSETS		
Accounts payable	188	361
Annuities payable	140	148
Deferred income	27	26
Funds held in trust for Northern Kentucky University	11,795	12,692
Total liabilities	12,150	13,227
NET ASSETS		
Unrestricted		
For current operations	953	892
Amounts functioning as endowment funds	2,158	2,244
Invested in land and land improvements	340	340
Total unrestricted	3,451	3,476
Temporarily restricted		
Unexpended funds received for restricted purposes	9,535	7,867
Contributions receivable	7,355	2,042
Loan funds	216	173
Endowment funds	32,638	37,760
Total temporarily restricted	49,744	47,842
Permanently restricted		
Contributions receivable	1,036	305
Endowment funds	43,018	42,394
Total permanently restricted	44,054	42,699
Total net assets	97,249	94,017
Total liabilities and net assets	$ 109,399	$ 107,244

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2016 and 2015
(in thousands)

	2016	2015
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of $38,235 in 2016 and $34,194 in 2015)	$ 102,670	$ 106,415
Federal grants and contracts	3,394	3,566
State and local grants and contracts	3,199	3,890
Nongovernmental grants and contracts	2,741	2,917
Sales and services of educational departments	4,380	4,529
Auxiliary enterprises		
Housing and food service (net of scholarship allowances of $1,669 in 2016 and $1,117 in 2015)	11,494	11,327
Other auxiliaries	3,728	3,985
Other operating revenues	7,083	7,124
Total operating revenues	138,689	143,753
OPERATING EXPENSES		
Educational and general		
Instruction	73,211	74,586
Research	1,574	1,671
Public service	13,848	13,473
Libraries	6,006	6,011
Academic support	18,148	18,165
Student services	28,019	26,955
Institutional support	29,175	27,808
Operation and maintenance of plant	18,820	17,212
Depreciation	17,387	16,375
Student aid	14,263	13,028
Auxiliary enterprises		
Housing and food service	6,376	6,568
Other auxiliaries	1,389	1,316
Auxiliary depreciation	3,390	3,229
Other expenses	41	33
Total operating expenses	231,647	226,430
Net income (loss) from operations	(92,958)	(82,677)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	48,538	48,538
Federal grants and contracts	18,955	19,514
State and local grants and contracts	10,119	8,963
Private gifts and grants	11	11
Investment income (loss)	(4)	594
Interest on capital asset-related debt	(4,179)	(3,800)
Other nonoperating revenues (expenses)	(453)	(97)
Net nonoperating revenues	72,987	73,723
Income (loss) before other revenues, expenses, gains or losses	(19,971)	(8,954)
Capital appropriations	17,013	1,968
Capital grants and gifts	489	111
Total other revenues	17,502	2,079
Increase (decrease) in net position	(2,469)	(6,875)
NET POSITION		
Net position-beginning of year, as previously reported	92,783	310,094
Cumulative effect of change in accounting principle	-	(210,436)
Net position-beginning of year, as restated	92,783	99,658
Net position-end of year	$ 90,314	$ 92,783

Northern Kentucky University Foundation, Inc.
Consolidated Statement of Activities
For the Year Ended June 30, 2016
(in thousands)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
REVENUES, GAINS AND OTHER SUPPORT				
Gifts and bequests	$ 3	$ 10,298	$ 1,375	$ 11,676
Rental income	126	-	-	126
Investment return	(42)	(2,393)	-	(2,435)
Other revenue	106	281	-	387
Total revenues and gains	193	8,186	1,375	9,754
Net assets released from restrictions	6,135	(6,135)	-	-
Total revenues, gains and other support	6,328	2,051	1,375	9,754
EXPENSES AND LOSSES				
Program Expenses				
Instruction	1,011	-	-	1,011
Research	24	-	-	24
Public service	475	-	-	475
Libraries	11	-	-	11
Academic support	598	-	-	598
Student services	514	-	-	514
Institutional support	821	-	-	821
University facilities and equipment acquisition	167	-	-	167
Student financial aid	2,011	-	-	2,011
Other program expenses and losses	-	149	20	169
Total program expenses	5,632	149	20	5,801
Support Expenses				
Management and general	591	-	-	591
Fund raising support	129	-	-	129
Rental property	1	-	-	1
Total support expenses	721	-	-	721
Total expenses and losses	6,353	149	20	6,522
Increase (decrease) in net assets	(25)	1,902	1,355	3,232
Net assets-beginning of year	3,476	47,842	42,699	94,017
Net assets-end of year	$ 3,451	$ 49,744	$ 44,054	$ 97,249

Northern Kentucky University Foundation, Inc.
Consolidated Statement of Activities
For the Year Ended June 30, 2015
(in thousands)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
REVENUES, GAINS AND OTHER SUPPORT				
Gifts and bequests	$ 8	$ 3,374	$ 1,361	$ 4,743
Rental income	119	-	-	119
Investment return	61	1,450	-	1,511
Other revenue	62	286	-	348
Total revenues and gains	250	5,110	1,361	6,721
Net assets released from restrictions	6,897	(6,897)	-	-
Reclassifications of net assets	-	(28)	28	-
Total revenues, gains and other support	7,147	(1,815)	1,389	6,721
EXPENSES AND LOSSES				
Program Expenses				
Instruction	1,089	-	-	1,089
Research	35	-	-	35
Public service	601	-	-	601
Libraries	28	-	-	28
Academic support	606	-	-	606
Student services	321	-	-	321
Institutional support	781	-	-	781
University facilities and equipment acquisition	44	-	-	44
Student financial aid	2,889	-	-	2,889
Other program expenses and losses	-	135	-	135
Total program expenses	6,394	135	-	6,529
Support Expenses				
Management and general	631	-	-	631
Fund raising support	92	-	-	92
Total support expenses	723	-	-	723
Total expenses and losses	7,117	135	-	7,252
Increase (decrease) in net assets	30	(1,950)	1,389	(531)
Net assets-beginning of year	3,446	49,792	41,310	94,548
Net assets-end of year	$ 3,476	$ 47,842	$ 42,699	$ 94,017

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015
(in thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 101,857	$ 104,896
Grants and contracts	9,259	10,592
Payments to suppliers	(54,407)	(53,856)
Payments for salaries and benefits	(144,867)	(146,307)
Loans issued to students	(682)	(403)
Collection of loans to students	383	521
Auxiliary enterprise receipts:		
Housing operations	11,380	11,110
Other auxiliaries	3,279	4,273
Sales and service of educational departments	4,336	4,590
Other receipts (payments)	6,787	7,347
Net cash provided (used) by operating activities	(62,675)	(57,237)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	47,567	48,538
Gifts and grants for other than capital purposes	29,125	28,574
Agency and loan program receipts	85,473	88,223
Agency and loan program disbursements	(85,489)	(88,132)
Other nonoperating receipts (payments)	(3)	(97)
Net cash provided (used) by noncapital financing activities	76,673	77,106
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt and leases	28,507	-
Capital appropriations	14,450	1,670
Capital grants, gifts, and advances received	498	101
Purchases of capital assets	(33,935)	(39,810)
Proceeds from sale of capital assets	2,600	-
Principal paid on capital debt and leases	(7,404)	(8,326)
Bond refund escrow payment	(28,189)	-
Interest paid on capital debt and leases	(4,633)	(3,980)
Bond issuance costs	(312)	-
Net cash provided (used) by capital and related financing activities	(28,418)	(50,345)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	2,452	179
Purchase of investments	(161)	(2,000)
Interest on investments	601	594
Net cash provided (used) by investing activities	2,892	(1,227)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,528)	(31,703)
Cash and cash equivalents-beginning of year	121,677	153,380
Cash and cash equivalents-end of year	$ 110,149	$ 121,677

	2016	2015
RECONCILIATION OF NET INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Net income (loss) from operations	$ (92,958)	$ (82,677)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation expense	20,777	19,604
Deferred inflows of resources	(879)	3,373
Deferred outflows of resources	(12,984)	(5,019)
Changes in assets and liabilities:		
Receivables, net	144	700
Other assets	(108)	(500)
Accounts payable	755	1,318
Unearned revenue	400	(366)
Long-term liabilities	(525)	(175)
Net pension liability	22,703	6,505
Net cash provided (used) by operating activities	$ (62,675)	$ (57,237)

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 (Commonwealth) and is included in the general-purpose financial statements of the Commonwealth. The financial statements of the University include the operations of the Northern Kentucky University Research Foundation (Research Foundation) which is a legally separate, tax-exempt organization supporting the University. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, the Research Foundation is reported as a blended component unit of the University and condensed financial information is provided in Note 12.

The Northern Kentucky University Foundation, Inc. (the Foundation) is a legally separate, tax-exempt organization supporting the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation's Board of Directors is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

The accompanying financial statements do not include the financial position or operating results of the Chase College Foundation, Inc. This foundation is a separately incorporated not-for-profit entity organized for the purpose of promoting the educational mission of the University's Salmon P. Chase College of Law. Although this entity benefits the University's Salmon P. Chase College of Law, it is governed by an independent Board of Directors and is not controlled by the University.

b. Basis of Presentation

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

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

- **Restricted:**

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

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

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

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

c. Accrual Basis

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

d. Cash and Cash Equivalents

Cash and cash equivalents include all readily available sources of cash such as petty cash, demand deposits, certificates of deposit and temporary investments in marketable debt securities with original maturities less than three months. Funds held by the Commonwealth are also considered cash equivalents.

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

f. 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. The University capitalizes interest costs as a component of construction in progress based on the interest cost of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

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

g. Compensated absences
University policies permit employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Sick leave benefits are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

h. Investments
Investments in equity and debt securities are carried at fair value. Fair value is determined using quoted market prices. Investments in nonnegotiable certificates of deposit are carried at cost. Investment income consists of interest and dividend income, realized gains and losses and the net change for the year in the fair value of investments carried at fair value.

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

j. Deposits
The University held noncurrent agency deposits of $11,763,000 and $11,812,000 as of June 30, 2016 and 2015, respectively for a wetland restoration fund pursuant to a memorandum of agreement with a federal agency. For the year ended June 30, 2016 additions to deposits were $1,502,000 while reductions were $1,551,000 resulting in a decrease of $49,000 over the previous year. For the year ended June 30, 2015 additions to deposits were $4,737,000 while reductions were $4,622,000 resulting in an increase of $115,000 over the previous year.

k. Deferred Outflows and Inflows of Resources
A deferred outflow of resources is a loss in net position by the University that is applicable to a future reporting period. Deferred outflows of resources are reported in the statement of net position, but are not recognized in the financial statements as expense until in the related period. Deferred outflows of resources consist of $2,720,000 and $990,000 of losses on bond refundings for the years ended June 30, 2016 and 2015, respectively. The remaining balance of deferred outflows of resources for the years ending June 30, 2016 and 2015 consist of the KERS pension related unamortized balances.

A deferred inflow of resources is a gain in net position by the University that is applicable to a future reporting period. Deferred inflows of resources are reported in the statement of net position but are not recognized in the financial statements as revenue until in the related period. The agreement between the University and the University's food service provider resulted in a deferred inflow of resources of $2,034,000 and $2,505,000 at June 30, 2016 and 2015, respectively. The deferred inflows of resources related to this agreement are recognized evenly over the life of the contract. The remaining deferred inflows of resources for the years ending June 30, 2016 and 2015 consist of the KERS pension related unamortized balances.

See Note 8 for details of pension related deferred outflows of resources and deferred inflows of resources.

l. Scholarship Allowances

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

m. Income Taxes

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

n. 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.

o. Operating Activities

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

p. 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, liabilities and deferred inflows and outflows of resources 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.

q. 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.

See Note 13 for further details of related party transactions between the University and Foundation. Complete financial statements for the Foundation can be obtained from the Northern Kentucky University Foundation, Inc. at Lucas Administrative Center Room 221, Nunn Drive, Highland Heights, KY 41099.

r. Reclassifications

Certain items have been reclassified for the year ended June 30, 2015, in order to conform to classifications used for the year ended June 30, 2016. These reclassifications had no effect on total net position and the change in net position.

s. Change in Accounting Principle

During fiscal year 2015, the University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits.

Governmental employers participating in a cost-sharing plan are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan. Refer to Note 8 for the following required note disclosures:

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

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

The adoption of GASB Statements No. 68 and 71 resulted in a decrease in net position at July 1, 2014 of $210,436,000. This change is in accordance with generally accepted accounting principles.

t. Recent Accounting Pronouncements

In June 2015, the GASB approved Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The objective of this Statement is to establish new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2017. The University is currently evaluating the effects of this statement on its financial statements.

Note 2 – Cash, Cash Equivalents and Investments

At June 30, 2016, petty cash funds totaled $27,000 and the carrying amount of the deposits was $110,122,000 with a corresponding total bank balance of $125,374,000. Of the bank balance, $31,564,000 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 $93,810,000 was held and invested by the Commonwealth. 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.

Custodial credit risk: Custodial credit risk for deposits is the risk that in the event of a bank failure, a government's deposits or collateral securities may not be returned to it. The University currently uses commercial banks and the Commonwealth as its depositories. Deposits with commercial banks are substantially covered by federal depository insurance or collateral held by the bank in the University's name. At the Commonwealth, the University's accounts are pooled with other agencies of the Commonwealth. These Commonwealth-pooled deposits are substantially covered by federal depository insurance or by collateral held by the Commonwealth in the Commonwealth's name. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

The following schedule reports the fair values of the University's investments at June 30, 2016 and 2015 (in thousands):

	2016	2015
Certificates of deposit	$ -	$ 2,000
Restricted assets held by the Foundation	11,795	12,692
Total Investments	$ 11,795	$ 14,692

The University's investments held by the Foundation are comprised of Regional University Excellence Trust Fund endowments and are invested in an investment pool managed by the Foundation. The investment in the pooled endowment is derived based on the per unit calculation and is deemed to be level 3. See Note 13 (c) for the required GASB fair value disclosures for the University's investments that are included in the Foundation's investment pool.

University assets in the Foundation investment pool at June 30, 2016 and 2015 are invested as follows:

	2016	2015
Type of Investment:		
Fixed income funds	14%	15%
Equity funds and common stock	59%	60%
Alternative investments	27%	25%
Total Investments	100%	100%

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

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

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

Foreign Currency Risk: This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The University had no investments denominated in foreign currency at June 30, 2016 or 2015, respectively.

Note 3 – Notes, Loans and Accounts Receivable

Notes, loans and accounts receivable as of June 30, 2016 and 2015 are as follows (in thousands):

	2016		
	Gross Receivable	**Allowance**	**Net Receivable**
Student loans	$ 2,269	$ (662)	$ 1,607
Student accounts receivable	10,981	(4,555)	6,426
Reimbursement receivable grants and contracts	1,210	-	1,210
State appropriations receivable	3,832	-	3,832
Other	2,832	(1,149)	1,683
Total	$ 21,124	$ (6,366)	$ 14,758
Current portion			$ 13,389
Noncurrent portion			1,369
Total			$ 14,758

	2015		
	Gross Receivable	**Allowance**	**Net Receivable**
Student loans	$ 2,342	$ (663)	$ 1,679
Student accounts receivable	10,955	(4,638)	6,317
Reimbursement receivable grants and contracts	1,242	-	1,242
State appropriations receivable	298	-	298
Other	2,848	(990)	1,858
Total	$ 17,685	$ (6,291)	$ 11,394
Current portion			$ 9,973
Noncurrent portion			1,421
Total			$ 11,394

Note 4 – Capital Assets, net

Capital assets for the years ended June 30, 2016 and 2015 are summarized as follows (in thousands):

	7/1/2015 Beginning Balance	Additions	Reductions	6/30/2016 Ending Balance
Cost:				
Indefinite life intangible assets	$ 4,622	$ -	$ 416	$ 4,206
Land	9,445	45	58	9,432
Land improvements	36,027	1,119	169	36,977
Buildings	405,492	51,519	8,961	448,050
Equipment	68,090	2,334	475	69,949
Library books	19,607	268	1,856	18,019
Construction in process	38,296	-	21,288	17,008
	581,579	55,285	33,223	603,641
Accumulated Depreciation:				
Land improvements	7,472	982	117	8,337
Buildings	169,202	13,975	6,817	176,360
Equipment	52,966	5,121	345	57,742
Library books	16,321	699	1,856	15,164
	245,961	20,777	9,135	257,603
Capital assets, net	$ 335,618	$ 34,508	$ 24,088	$ 346,038

	7/1/2014 Beginning Balance	Additions	Reductions	6/30/2015 Ending Balance
Cost:				
Indefinite life intangible assets	$ 4,622	$ -	$ -	$ 4,622
Land	9,347	98	-	9,445
Land improvements	34,744	1,286	3	36,027
Buildings	395,713	12,544	2,765	405,492
Equipment	67,072	1,287	269	68,090
Library books	19,673	458	524	19,607
Construction in process	14,021	24,275	-	38,296
	545,192	39,948	3,561	581,579
Accumulated Depreciation:				
Land improvements	6,513	961	2	7,472
Buildings	159,019	12,829	2,646	169,202
Equipment	48,132	5,086	252	52,966
Library books	16,117	728	524	16,321
	229,781	19,604	3,424	245,961
Capital assets, net	$ 315,411	$ 20,344	$ 137	$ 335,618

The estimated cost to complete construction under contract at June 30, 2016 was approximately $63,532,000.

As of June 30, 2016 and 2015, the net book value of land, buildings and equipment acquired through capital leases included in the above schedules totaled $2,730,000 and $2,909,000 respectively, including buildings of $2,722,000 and $2,859,000, respectively.

Note 5 – Accounts Payable, Accrued Liabilities and Deposits

Accounts payable, accrued liabilities and deposits as of June 30, 2016 and 2015 are as follows (in thousands):

	2016	2015
Payable to vendors and contractors	$ 12,246	$ 11,761
Accrued expenses, primarily payroll and vacation leave	6,538	6,992
Employee withholdings and deposits payable to third parties	3,241	3,271
Self-insured health liability	1,301	1,099
Deposits	669	386
Total	$ 23,995	$ 23,509

Note 6 – Unearned Revenue

Unearned revenue as of June 30, 2016 and 2015 are as follows (in thousands):

	2016	2015
Unearned summer school revenue	$ 5,277	$ 4,502
Unearned grants and contracts revenue	497	629
Unearned auxiliary revenue	518	589
Other	389	561
Total	$ 6,681	$ 6,281
Current	$ 6,537	$ 5,998
Noncurrent	144	283
Total	$ 6,681	$ 6,281

Note 7 – Long-term Liabilities

The changes in long-term liabilities for the years ended June 30, 2016 and 2015 are summarized as follows (in thousands):

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion	Noncurrent Portion
Housing and Dining Revenue Bonds	$ 1,140	$ -	$ 175	$ 965	$ 180	$ 785
General Receipts Bonds (net of discounts and premiums)	128,795	28,507	32,666	124,636	6,838	117,798
Total bonds	129,935	28,507	32,841	125,601	7,018	118,583
Municipal lease obligations	2,217	-	1,128	1,089	1,089	-
Notes payable	66	-	21	45	22	23
Total notes and municipal leases	2,283	-	1,149	1,134	1,111	23
Deferred compensation	382	15	84	313	83	230
Federal portion of loan programs	1,954	-	364	1,590	-	1,590
KERS-sick leave	709	253	346	616	62	554
Total other liabilities	3,045	268	794	2,519	145	2,374
Total long-term liabilities	$ 135,263	$ 28,775	$ 34,784	$ 129,254	$ 8,274	$ 120,980

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Current Portion	Noncurrent Portion
Housing and Dining Revenue Bonds	$ 1,310	$ -	$ 170	$ 1,140	$ 175	$ 965
General Receipts Bonds (net of discounts and premiums)	134,923	-	6,128	128,795	6,293	122,502
Total bonds	136,233	-	6,298	129,935	6,468	123,467
Municipal lease obligations	4,402	-	2,185	2,217	1,128	1,089
Notes payable	708	-	642	66	21	45
Total notes and municipal leases	5,110	-	2,827	2,283	1,149	1,134
Deferred compensation	456	9	83	382	84	298
Federal portion of loan programs	2,004	-	50	1,954	-	1,954
KERS-sick leave	695	14	-	709	71	638
Total other liabilities	3,155	23	133	3,045	155	2,890
Total long-term liabilities	$ 144,498	$ 23	$ 9,258	$ 135,263	$ 7,772	$ 127,491

a. Bonds

The gross revenues of the Housing and Dining system operations are pledged for the retirement of the Housing and Dining System Revenue Bonds. The $210,000 reserve requirement for the Housing and Dining issue has been fully funded as of June 30, 2016. The $348,000 required housing repair and replacement fund was fully funded as of June 30, 2016.

The outstanding obligation as of June 30, 2016 and 2015 for the Northern Kentucky University General Receipts Bonds are reported net of discounts totaling $326,000 and $782,000 and premiums of $7,227,000 and $4,782,000, respectively. General Receipts Bonds are collateralized by the operating and nonoperating income of the University excluding income which as a condition of the receipt is not available for payment of debt service charges.

On May 17, 2016, Northern Kentucky University General Receipts Bonds were issued in the amount of $25,765,000 and a net interest cost of 2.32 percent. The proceeds partially refunded the General Receipts Bonds, 2007 Series A maturing on or after September 1, 2019. The refunding reduced the University's total debt service payments over the term by $2,847,000, representing an economic gain of $2,516,000. Economic gain is determined by calculating the difference between the present value of the debt service payments on the old and new debt. As of June 30, 2016, a deposit of $28,214,000 is being held in escrow by the trustee to fund the debt service on the refunded portion of the 2007 Series A until the bonds are called for redemption on September 1, 2017.

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

	2016	2015
Housing and Dining System Revenue bonds payable		
Series B, dated November 1, 1980, with an interest rate of 3.00%. Final principal payment date November 1, 2020.	$ 965	$ 1,140
Total Housing and Dining System Revenue bonds payable	965	1,140
General Receipts bonds payable		
Series A 2007, dated May 23, 2007, with interest rates from 4.00% to 4.30%. Final principal payment date September 1, 2027.	6,905	35,775
Series A 2008, dated June 18, 2008, with interest rates from 3.00% to 4.38%. Final principal payment date September 1, 2028.	17,545	18,000
Series A 2010, dated June 29, 2010, with interest rates from 2.00% to 3.50%. Final principal payment date September 1, 2020.	1,785	2,195
Series B 2010, dated October 21, 2010, with interest rates from 2.00% to 3.75%. Final principal payment date September 1, 2027.	9,720	10,385
Series A 2011, dated August 4, 2011, with interest rates from 2.00% to 4.00%. Final principal payment date September 1, 2030.	8,060	8,480
Series A 2013, dated February 26, 2013, with an interest rate of 2.00%. Final principal payment date September 1, 2022.	3,600	4,075
Series A 2014, dated January 7, 2014, with interest rates from 2.00% to 5.00%. Final principal payment date September 1, 2033.	44,355	45,885
Series A 2016, dated May 17, 2016, with interest rates from 2.00% to 5.00%. Final principal payment date September 1, 2027.	25,765	-
Total General Receipts bonds payable	117,735	124,795
Plus: Net discounts and premiums	6,901	4,000
Total bonds payable	$ 125,601	$ 129,935

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

Fiscal Year	Principal	Interest	Total
2017	$ 6,582	$ 4,546	$ 11,128
2018	6,713	4,530	11,243
2019	7,430	4,274	11,704
2020	7,425	3,988	11,413
2021	7,720	3,690	11,410
2022-2026	40,650	13,563	54,213
2027-2031	31,945	5,195	37,140
2032-2036	10,280	748	11,028
Subtotal	118,745	40,534	159,279
Plus: Net discounts and premiums	6,901	-	6,901
Total	$ 125,646	$ 40,534	$ 166,180

b. Municipal Leases

Municipal lease obligations as of June 30 are as follows (in thousands):

	2016	2015
Municipal leases payable		
Equipment lease, dated December 3, 2012, with an interest rate of 1.41%. Final payment date of December 3, 2016.	$ 57	$ 170
Facility improvement lease, dated June 26, 2012, with an interest rate of 1.58%. Final payment date of June 26, 2017.	1,032	2,047
Total municipal leases payable	$ 1,089	$ 2,217

The future minimum municipal lease payments for 2017 are $1,098, consisting of principal of $1,089 and interest of $9.

Note 8 – Pension Plans and Accrued Compensated Absences

Employees of the University are covered by one of the following 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 $45,809,000 and $46,043,000 for the years ended June 30, 2016 and 2015, respectively. The University's contribution totaled $4,581,000 and $4,604,000 for the years ended June 30, 2016 and 2015, respectively.

b. Defined Benefit Plan

Plan Description - All regular employees not participating in the above plan are required to participate in either the Nonhazardous or Hazardous cost-sharing multiple employer defined benefit pension plan, both of which are under the Kentucky Employees Retirement System (KERS), that is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). The defined benefit plans provide for retirement, disability, death benefits and health insurance. Participants have a fully vested interest after the completion of 60 months of service, 12 of which are current service. KERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601-6124 or by calling (502) 696-8800.

Benefits Provided –

	Tier 1 Participation Prior to 9/1/2008	Tier 2 Participation 9/1/2008 through 12/31/2013	Tier 3 Participation on or after 1/1/2014
		Nonhazardous	
Benefit Formula:	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
Final Compensation:	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump-sum compensation payments (before and at retirement).	5 complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
Benefit Factor:	1.97%, or 2.0% for those retiring with service for all months between 1/1998 and 1/1999.	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
Cost of Living Adjustment (COLA):	No COLA unless authorized by the Legislature. If authoized, the COLA is limited to 1.5%. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit:	Any age with 27 years of service. Age 65 with 48 months of service. Money purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No money purchase calculations.	
Reduced Retirement Benefit:	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit

	Tier 1 Participation Prior to 9/1/2008	Tier 2 Participation 9/1/2008 through 12/31/2013	Tier 3 Participation on or after 1/1/2014
	Hazardous		
Benefit Formula:	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
Final Compensation:	Highest 3 fiscal years (must contain at least 24 months). Includes lump-sum compensation payments (before and at retirement).	3 highest salaries; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
Benefit Factor:	2.49%	10 years or less = 1.30%. Greater than 10 years, but no more than 20 years = 1.50%. Greater than 20 years, but no more than 25 years = 2.25%. Greater than 25 years = 2.50%.	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
Cost of Living Adjustment (COLA):	No COLA unless authorized by the Legislature. If authoized, the COLA is limited to 1.5%. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit:	Any age with 20 years of service. Age 55 with 60 months of service.	Any age with 25 years of service. Age 60 with 60 months of service.	Any age with 25 years of service. Age 60 with 60 months of service.
Reduced Retirement Benefit:	Age 50 with 15 years of service.	Age 50 with 15 years of service.	No reduced retirement benefit

Contributions- Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565 contribution requirements of the active employees and the participating organizations are established and may be amended by the KRS Board. For the fiscal years ended June 30, 2016 and 2015, University employees were required to contribute 5 percent of their annual covered salary for retirement benefits. Employees with a participation date after 9/1/2008 were required to contribute an additional 1 percent of their covered salary for retiree healthcare benefits. The University was contractually required to contribute 30.84 percent and 7.93 percent of covered payroll to the nonhazardous KERS pension and insurance plans, respectively. The University also was contractually required to contribute 16.37 percent and 9.97 percent of covered payroll to the hazardous KERS pension and insurance plans, respectively. Actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The University's total required contributions to the KERS nonhazardous pension plan for the years ending June 30, 2016 and 2015, were $12,069,000 and $12,320,000, respectively. The required contributions to the KERS hazardous pension plan for the years ending June 30, 2016 and 2015, were $127,000 and $136,000, respectively.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions - At June 30, 2016 and 2015, respectively, the University reported a liability of $245,556,000 and $223,319,000, for its proportionate share of the nonhazardous net pension liability reflecting a net increase of $22,237,000 for the year ended June 30, 2016. The University's hazardous pension liability was $1,525,000 and $1,059,000 for the years ended June 30, 2016 and 2015, respectively, reflecting a net increase of $466,000 for the year ended June 30, 2016. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015 and 2014 (measurement date), the University's proportion was 2.448 percent and 2.489 percent for nonhazardous and .4445 percent and .4145 percent for hazardous, respectively.

For the years ended June 30, 2016 and 2015, the University recognized nonhazardous pension expense of $21,294,000 and $16,878,000; and hazardous pension expense of $213,000 and $74,000, respectively.

At June 30, 2016 the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Nonhazardous		
Differences between expected and actual experience	$ 525	$ -
Change of assumptions	11,771	-
Net difference between projected and actual earnings on investments	699	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	2,602
Contributions subsequent to the measurement date	12,069	-
Hazardous		
Differences between expected and actual experience	19	-
Change of assumptions	161	-
Net difference between projected and actual earnings on investments	9	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	60	-
Contributions subsequent to the measurement date	127	-
Total	$ 25,440	$ 2,602

At June 30, 2015 the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Nonhazardous		
Net difference between projected and actual earnings on investments	$ -	$ 2,870
Contributions subsequent to the measurement date	12,320	-
Hazardous		
Net difference between projected and actual earnings on investments	-	140
Contributions subsequent to the measurement date	136	-
Total	$ 12,456	$ 3,010

At June 30, 2016 and 2015, the University reported $12,196,000 and $12,456,000, respectively, as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2016, related to pensions will be recognized in pension expense as follows (in thousands):

Year Ending June 30	
2017	$ 4,405
2018	4,405
2019	1,098
2020	734
	$ 10,642

Actuarial assumptions - The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement for nonhazardous and hazardous pensions.

Inflation	3.25%
Salary Increases	4.0%, average, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

The Mortality Table used for active members is RP-200 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (setback four years for males) is used for the period after disability retirement. There is some margin in the current mortality table for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and many not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	2%	-0.25%
Total	100%	

Discount rate – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117.

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate - The University's proportionate share of the net pension liability has been calculated using a discount rate of 7.5%. The following presents the University's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate (in thousands):

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Nonhazardous			
Proportionate share of the Collective Net Pension Liability	$ 276,598	$ 245,556	$ 219,296
Hazardous			
Proportionate share of the Collective Net Pension Liability	$ 1,964	$ 1,525	$ 1,160

Payable to the pension plan - The University reported payables of $1,628,000 and $1,603,000 for the outstanding amount of employer contributions to the pension plan required for the years ended June 30, 2016 and 2015, respectively.

Effective July 1, 2010 KRS 61.546 states "the value of any accumulated sick leave that is added to the member's service credit in the Kentucky Employees Retirement System on or after July 1, 2010, shall be paid to the retirement system by the last participating Kentucky Employees Retirement System employer based upon a formula adapted by the Board." The KERS sick leave liability as of June 30, 2016 and 2015 was $616,000 and $709,000, respectively.

c. 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, 2016 and 2015, the University had recognized an accrued vacation liability of $2,871,000 and $3,143,000, 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, 2016 and 2015 (in thousands):

	2016	2015
Salaries and wages	$ 103,961	$ 104,683
Employee benefits	51,844	47,611
Utilities	5,507	5,431
Supplies and other services	34,696	35,663
Depreciation	20,777	19,604
Student scholarships and financial aid	14,862	13,438
Total	$ 231,647	$ 226,430

Note 10 – Risk Management

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

The Fund covers losses to property from fire, wind, earthquake, flood and most other causes of loss between $500 and $500,000 per occurrence. Losses in excess of $500,000 are insured by commercial carriers up to $500 million per occurrence with buildings insured at replacement cost and contents on an actual cash value basis. As a state agency, the University is vested with Sovereign Immunity and is subject to the provisions of the Board of Claims Act, under which the University's liability for certain negligence claims is limited to $200,000 for any one person or $350,000 for all persons damaged by a single act of negligence. Claims against educators' errors and omissions and wrongful acts are insured through a reciprocal risk retention group. There have been no significant reductions in insurance coverage from 2015 to 2016. Settlements have not exceeded insurance coverage during the past three years.

The University began self-insuring employee health insurance as of January 1, 2014. Accrued expenses are based on the estimated costs of health care claims based on claims filed subsequent to year end and an additional amount for incurred but not yet reported claims based on prior experience. The University purchases both specific and aggregate stop loss coverage on medical and prescription drug claims. The stop loss insurance limits its exposure for claims to $250,000 per individual and 125 percent of projected aggregate claims.

The health self-insurance liability as of June 30, 2016 and 2015 are detailed below (in thousands):

	2016	2015
Liability, beginning of year	$ 1,099	$ 1,162
Claims and changes in estimates	12,886	12,515
Claims paid	(12,684)	(12,578)
Liability, end of year	$ 1,301	$ 1,099

The University also self-insures certain other employee benefits, including worker's compensation claims to the extent not covered by insurance. The University has recorded an estimate for asserted claims at June 30, 2016.

Note 11 – Contingencies

The University is a party to various litigation and other claims in the ordinary course of business. University officials are of the opinion, based upon the advice of legal counsel, that the ultimate resolution of these matters will not have a material effect on the financial position of the University.

Note 12 –Blended Entity Condensed Financial Information

Condensed financial information for the Research Foundation is provided below for the years ended June 30, 2016 and 2015 (in thousands):

Condensed Statements of Net Position

	2016	2015
ASSETS		
Current assets	$ 2,303	$ 2,045
Noncurrent assets	11,719	11,766
Total assets	14,022	13,811
LIABILITIES		
Current liabilities	629	576
Due to the University - current	653	547
Noncurrent liabilities	11,721	11,774
Total liabilities	13,003	12,897
NET POSITION		
Restricted expendable	3	5
Unrestricted	1,016	909
Total net position	$ 1,019	$ 914

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

	2016	2015
OPERATING REVENUES		
Grants and contracts	$ 4,368	$ 5,410
Recoveries of facilities and administrative costs	451	556
Other operating revenues	-	2
Total operating revenues	4,819	5,968
OPERATING EXPENSES		
Operating expenses	4,464	5,465
Operating income	355	503
NONOPERATING REVENUES (EXPENSES)		
Non-capital transfers (to)/from the University	(274)	(618)
Gifts and grants revenues (expenses)	24	(47)
Net nonoperating revenues (expenses)	(250)	(665)
Income (loss) before other revenues, expenses, gains or losses	105	(162)
Capital transfers (to) the University	(195)	(5)
Capital grants and gifts	195	1
Total other revenues (expenses)	-	(4)
Increase (decrease) in net position	105	(166)
NET POSITION		
Net position-beginning of year	914	1,080
Net position-end of year	$ 1,019	$ 914

Condensed Statements of Cash Flows

	2016	2015
Net cash provided (used) by operating activities	$ 355	$ 411
Net cash provided (used) by noncapital financing activities	(197)	(511)
Net cash provided (used) by capital and related financing activities	-	(4)
Net cash provided (used) by investing activities	2,000	(2,000)
Net increase (decrease) in cash and cash equivalents	2,158	(2,104)
Cash and cash equivalents-beginning of year	10,893	12,997
Cash and cash equivalents-end of year	$ 13,051	$ 10,893

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

Selected disclosures from the Foundation are included as follows:

a. Summary of Significant Accounting Policies

1. Scope of Statements

The consolidated financial statements of the Northern Kentucky Foundation, Inc. include the operations of the Foundation and several single member limited liability companies. All material intercompany transactions and balances have been eliminated for the year ended June 30, 2016 and 2015.

2. Basis of Presentation

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

These statements are presented on the accrual basis of accounting, and have been prepared to focus on the Foundation as a whole and to present transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of 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. Restricted contributions and net investment returns earned are reported as temporarily restricted support and reclassified as unrestricted when any donor-imposed restrictions are satisfied. Expirations of temporary restrictions on net assets are met when a donor stipulated time restriction ends or purpose restriction is accomplished and reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restriction.

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

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

- As increases in permanently restricted net assets – if the terms of the gift require that they be added to the principal of a permanent endowment fund.

- As increases in temporarily restricted net assets – if the terms of the gift impose restrictions on the use of the income.

- As increases in unrestricted net assets – in all other cases.

3. Cash and Cash Equivalents

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

At various times throughout the year, the Foundation has cash in certain financial institutions in excess of insured limits. Additionally, at June 30, 2016 and 2015, $696,000 and $277,000, respectively, was collateralized with securities held by the financial institution's trust department or agent, but not in the Foundation's name. At June 30, 2016 and 2015, balances of $7,618,000 and $3,621,000, respectively, were neither insured nor collateralized.

4. Loans and Accounts Receivable

Loans receivable consists primarily of loans made to students under privately funded loan programs. The advances are evidenced by signed promissory notes, bearing interest at varying stated interest rates, with varying due dates. Loans, accounts and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for a probable uncollectible allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts at June 30, 2016 and 2015 was approximately $127,000 and $124,000, respectively.

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

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

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

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

6. Land and Land Improvements
At June 30, 2016 and 2015, land and land improvements (in thousands) consisted of:

	2016	2015
Type of Asset:		
Land	$ 178	$ 178
Land held for future use by the University	162	162
Land improvements	208	208
Total land and land improvements	$ 548	$ 548

Assets acquired for Foundation use with a useful life greater than one year and a value of $5,000 or more are capitalized. Annual depreciation for land improvements is calculated on a straight-line basis, beginning in the month of acquisition based on a useful life of 30 years. At June 30, 2016 and 2015 all land improvements were fully depreciated.

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

7. Transfers Between Fair Value Hierarchy Levels
Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date.

b. Unconditional and Conditional Promises to Give

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

At June 30, 2016 and 2015, the Foundation recognized contributions based on the following unconditional promises to give (in thousands):

	2016	2015
Purpose:		
Endowment giving	$ 1,094	$ 317
Capital purposes	6,025	155
Operating programs	1,679	2,045
Gross unconditional promises	8,798	2,517
Less: Discount and allowance for uncollectible accounts	(407)	(170)
Net unconditional promises to give	$ 8,391	$ 2,347
Amounts due in:		
Less than one year	$ 3,097	$ 1,069
One to five years	5,601	1,248
More than five years	100	200
Total	$ 8,798	$ 2,517

The discount rates used to calculate the present value of contributions receivable at June 30, 2016 and 2015 vary from 1.2 percent to 2.2 percent depending on when the promise was made.

Conditional promises to give are not included as support until such time as the conditions are substantially met. At June 30, 2016 and 2015, the Foundation had received conditional promises to give of approximately $1.1 million, consisting of the face value of life insurance policies, net of accumulated cash surrender value.

Approximately 69 percent of all contributions were received from one donor in fiscal year 2016. In addition, 69 percent of total pledges receivable were due from one donor at June 30, 2016.

c. Fair Value Measurements

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

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

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

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

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

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

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

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

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 investments include short term money market funds, cash surrender value, 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, low volatility, fixed income and a remainder interest in real property subject to a life estate.

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

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

There have been no changes in the methodologies used at June 30, 2016.

Level 3 Valuation Process

Fair value determinations for Level 3 measurements of securities are the responsibility of the Comptroller's office. The Comptroller's office contracts with a pricing specialist to generate fair value estimates on a monthly or quarterly basis. The Comptroller's office challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

The following assets were measured at fair value on a recurring basis as of June 30, 2016 and 2015 (in thousands):

	2016	2015
Type of Investment:		
Short-term money market funds	$ 7	$ 7
Cash surrender value	381	370
Fixed income funds:		
Core	1,554	1,489
Core plus	4,184	5,163
Global	1,852	2,153
Treasury inflation protected securities	1,572	1,503
Equity funds:		
Large/mid cap - broad	19,697	14,280
Large/mid cap - growth	-	4,655
Large/mid cap - value	5,580	10,298
Small cap - growth	1,312	1,411
Small cap - value	1,556	1,675
International - core	6,251	8,492
International - core	2,964	-
International small cap - value	2,198	2,423
Emerging markets - value	3,553	4,026
Emerging markets - small cap	3,476	3,684
Real estate investment trust	15	12
Exchange traded funds	39	32
Quoted Prices in Active Market for Identical Assets (Level 1)	$ 56,191	$ 61,673
Hedge funds:		
Public natural resources-master limited partnerships	$ 3,059	2,605
Fixed income high yield	1,611	2,133
Low-volatility diversifying strategies	-	2,749
Remainder interest in real property and other	535	348
Significant Other Observable Inputs (Level 2)	$ 5,205	$ 7,835
Private equity:		
Buyout	$ 1,699	$ 1,749
Diversified	2,015	1,987
Venture capital	972	868
Secondary	2,079	1,966
Private debt:		
Distressed	1,776	1,453
Mezzanine	192	360
Natural resources:		
Diversified	3,965	3,819
Energy	3,836	2,972
Commodities	1,790	751
Private real estate:		
Value added	1,375	1,754
Low-volatility:		
Diversifiying strategies	10,037	9,143
Significant Unobservable Inputs (Level 3)	$ 29,736	$ 26,822

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

	Private Equity/Debt	Natural Resources	Private Real Estate	Low-Volatility
Investments:				
Beginning balance, July 1, 2014	$ 7,038	$ 7,160	$ 1,980	$ 10,100
Additional investments	2,603	1,711	255	4,000
Capital distributions	(1,775)	(916)	(646)	(5,330)
Fees	(78)	(86)	(18)	(61)
Realized gains (losses)	187	309	259	-
Unrealized gains (losses)	408	(636)	(76)	434
Beginning balance, June 30, 2015	$ 8,383	$ 7,542	$ 1,754	$ 9,143
Additional investments	1,615	2,844	26	1,800
Capital distributions	(1,670)	(496)	(514)	(20)
Dividends	59	46	29	-
Fees	(102)	(158)	(26)	(72)
Realized gains (losses)	210	44	189	(232)
Unrealized gains (losses)	238	(231)	(83)	(582)
Ending balance, June 30, 2016	$ 8,733	$ 9,591	$ 1,375	$ 10,037

d. Investments

The market value (in thousands) of the Foundation's investments as of June 30, 2016 and 2015 are categorized by type below:

	2016	2015
Type of Investment:		
Short-term money market funds	$ 7	$ 7
Cash and cash surrender value	474	522
Certificates of deposit	-	2,852
Fixed income funds:		
Core	1,554	1,489
Core plus	4,184	5,163
Global	1,852	2,153
High yield	1,611	2,133
Treasury inflation protected securities	1,572	1,503
Equity funds:		
Large/mid cap - broad	19,697	14,280
Large/mid cap - growth	-	4,655
Large/mid cap - value	5,580	10,298
Small cap - growth	1,312	1,411
Small cap - value	1,556	1,675
International - core	6,251	8,492
International - value	2,964	-
International small cap - value	2,198	2,423
Emerging markets - value	3,553	4,026
Emerging markets - small cap	3,476	3,684
Real estate investment trust	15	12
Exchange traded funds	39	32
Hedge funds:		
Public natural resources-master limited partnerships	3,059	2,605
Remainder interest in real property and other	535	348

Private equity:		
Buyout	1,699	1,749
Diversified	2,015	1,987
Venture capital	972	868
Secondary	2,079	1,966
Private debt:		
Distressed	1,776	1,453
Mezzanine	192	360
Natural resources:		
Diversified	3,965	3,819
Energy	3,836	2,972
Commodities	1,790	751
Private real estate:		
Value added	1,375	1,754
Low-volatility:		
Diversifiying strategies	10,037	11,892
Total investments	$ 91,225	$ 99,334

Investment return (in thousands) for the years ended June 30, 2016 and 2015 consist of:

	2016	2015
Interest and dividend income (net of investment fees: 2016 - $470, 2015 - $451)	$ 1,427	$ 1,074
Net realized gains	2,968	1,434
Net unrealized gains (losses)	(6,830)	(997)
Total investment return	$ (2,435)	$ 1,511

The Foundation records the cost of managing its endowment portfolio as a decrease in investment income within the appropriate net asset class in the consolidated 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, 2016 and 2015 was $11,795,000 and $12,692,000, respectively. See Note 13g for further explanation of the trust funds.

At June 30, 2016 and 2015, the Foundation had committed $35.9 and $34.4 million, respectively, of its endowment investment resources to alternative investments, of which $8.2 and $10.4 million, respectively, had not yet been called by the investment managers. Alternative investments for which commitments have been made consist of private equity/debt, natural resources, private real estate and low-volatility.

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

e. Endowments

The Foundation's endowment consists of 293 individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments (quasi-endowments). Net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The board, at their discretion, can at any time permit spending from the principal of any quasi-endowed fund, provided the expenditure complies with any donor-imposed restrictions related to the fund.

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

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

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

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

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

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

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

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

Endowment net asset composition by type of endowment (in thousands) as of June 30, 2016 is as follows:

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total Net Endowment Assets**
Donor restricted endowment funds	$ -	$ 26,575	$ 43,018	$ 69,593
Quasi-endowment funds	2,158	6,063	-	8,221
Total endowment funds	$ 2,158	$ 32,638	$ 43,018	$ 77,814

Changes in endowment net assets (in thousands) as of June 30, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 2,244	$ 37,760	$ 42,394	$ 82,398
Contributions collected	-	28	624	652
Investment income	38	1,345	-	1,383
Net investment gain (loss)	(106)	(3,787)	-	(3,893)
Amounts appropriated for expenditure	(18)	(2,708)	-	(2,726)
Endowment net assets, end of year	$ 2,158	$ 32,638	$ 43,018	$ 77,814

Endowment net asset composition by type of endowment (in thousands) as of June 30, 2015 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor restricted endowment funds	$ -	$ 31,795	$ 42,394	$ 74,189
Quasi-endowment funds	2,244	5,965	-	8,209
Total endowment funds	$ 2,244	$ 37,760	$ 42,394	$ 82,398

Changes in endowment net assets (in thousands) as of June 30, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 2,212	$ 38,905	$ 41,105	$ 82,222
Contributions collected	-	20	1,261	1,281
Investment income	30	1,081	-	1,111
Net investment gain	10	371	-	381
Amounts appropriated for expenditure	(8)	(2,617)	-	(2,625)
Transfers	-	-	28	28
Endowment net assets, end of year	$ 2,244	$ 37,760	$ 42,394	$ 82,398

Funds with Deficiencies. From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or KUPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were approximately $33,000 at June 30, 2016. The deficiencies resulted from unfavorable market conditions that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. There were no such deficiencies at June 30, 2015.

f. 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.

g. 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 the 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.

h. Subsequent Events

Events occurring after June 30, 2016 have been evaluated for possible adjustment to the financial statements or disclosure through September 29, 2016, the date on which the consolidated financial statements were available to be issued.

i. Related Party Transactions

During the year ended June 30, 2016 and 2015, the Foundation made payments on behalf of the University of $434,000 and $496,000, respectively, for salaries, benefits, and other administrative costs for University staff that directly support the Foundation's operations. These payments are made by agreement between the Foundation and University. As of June 30, 2016 and 2015, there were no amounts owed to the University for such costs.

In support of University programs for the year ended June 30, 2016 and 2015, the Foundation made payments on behalf of the University of $3,908,000 and $5,045,000, respectively. In addition, the Foundation transferred to the University $1,893,000 in 2016 and $1,622,000 in 2015 for restricted purposes.

Required Supplementary Information

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Schedule of Proportionate Share of the Collective Net Pension Liability
Kentucky Employees' Retirement System
(in thousands)

	June 30, 2016	June 30, 2015
Nonhazardous		
University's proportionate share of the net pension liability	2.447755%	2.489115%
University's proportionate share of the collective net pension liability	$ 245,556	$ 223,319
University's covered-employee payroll	$ 37,799	$ 39,266
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	649.64%	568.74%
Pension plan fiduciary net position as a % of the total pension liability	18.83%	22.32%
Hazardous		
University's proportionate share of the net pension liability	0.444514%	0.414511%
University's proportionate share of the collective net pension liability	$ 1,525	$ 1,059
University's covered-employee payroll	$ 563	$ 535
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	270.82%	197.84%
Pension plan fiduciary net position as a % of the total pension liability	61.70%	68.74%

*The amounts presented for the fiscal year were determined as of June 30 of the previous fiscal year (measurement date).

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Schedule of University Contributions
Kentucky Employees' Retirement System
(in thousands)

	June 30, 2016	June 30, 2015
Nonhazardous		
Contractually required contribution	$ 12,069	$ 12,320
University's contributions in relation to the contractually required contribution	12,069	12,320
Contribution deficiency	$ -	$ -
Covered-employee payroll	$ 39,131	$ 39,948
Contributions as a percentage of covered-employee payroll	30.84%	30.84%
Hazardous		
Contractually required contribution	$ 127	$ 136
University's contributions in relation to the contractually required contribution	127	136
Contribution deficiency	$ -	$ -
Covered-employee payroll	$ 776	$ 831
Contributions as a percentage of covered-employee payroll	16.37%	16.37%

*The amounts presented for the fiscal year were determined as of June 30.

Supplementary Information

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
US Department of Education				
Direct Programs -				
Student Financial Aid Cluster				
Federal Supplemental Educational Opportunity Grant Program	84.007	-	$ -	$ 277,033
Federal Work Study	84.033	-	-	429,136
Federal Perkins Loan Program	84.038	-	-	2,172,151
Federal Pell Grant Program	84.063	-	-	16,741,529
Teacher Education Assistance for College and Higher Education Grants	84.379	-	-	23,204
Federal Student Direct Loans	84.268	-	-	78,391,929
Nursing Faculty Loan Program	93.264	-	-	90,188
Total Financial Aid Cluster			-	98,125,170
TRIO Cluster				
Student Support Services	84.042A	-	-	303,392
Educational Talent Search	84.044A	-	-	370,617
Upward Bound	84.047A	-	-	302,946
Total TRIO Cluster			-	976,955
Americorps National Service Trust	84.UNKNOWN	-	-	53,763
Pass-Through Programs -				
Kentucky Education Professional Standards Board				
CTE KTIP 2016	84.048	PO2 183 1600000944 1	-	1,481
Kentucky Department of Education				
Special Education Cluster (IDEA)				
Enacting Effective Response to Intervention FY2016	84.027A	PON254016000001051	-	120,000
Kentucky Traineeship in Special Education 2015	84.027A	PON2 540 1400002754 1	-	59,766
Kentucky Traineeship in Special Education 2016	84.027A	PON2 540 1500001983 1	-	620,203
Total Special Education Cluster (IDEA)			-	799,969
Math Science Partnership				
MaRTI Math/Science Partnership 2014-15	84.366B	PON2 540 1500000516 1	-	5,679
Kentucky Numeracy Project Intensive Year 2	84.366B	PON2 540 1500000511 1	-	33,233
MSP - KNPI-Math/Science Patnership Year 3	84.366B	PON2 540 160000524 1	-	40,641
Supporting Strategies for Building Numeracy in Grades K-3	84.366B	2016-048	-	12,703
KY Non-public School Commision	84.367A	PON2540 1600000968 1	-	4,263
KY Non-public School Commision	84.367A	PON2 5401500000627 1	-	37,122
Catholic Diocese of Kentucky	84.367A	PON2 5401500000628 1	-	25,849
Catholic Diocese of Kentucky	84.367A	PON2 54016000009711	-	22,214
			-	181,704
Kentucky Council on Postsecondary Education				
FLIP: Year 2 Using Video Podcasts for Mathematics Instruction and Intervention	84.367B	PO2 415 1400003501 1	324	1,277
CPE IEQ Year 13 FLIP EKY year 1	84.367B	PO2 241515000028171	-	108,437
CPE IEQ Year 14 FLIP EKY year 2	84.367B	PO 241516000033261	-	3,639
IEQ Year 2 Collaborative for Inquiry Based Instruction	84.367B	PO2 415 1400003502 1	-	8,636
			324	121,989
University of Kentucky Research Foundation				
The Supported Higher Education Project of Kentucky (SHEP)	84.407A	3048107720-11-165	-	18,715
Endicott College				
Family Friendly Campus Toolkit: Making College Real for Two	84.116Z	N/A	-	4,000
Berea College				
Berea Kentucky College Coaches 2015 #2 Jackson	84.215N	N/A	-	2,544
Berea Kentucky College Coaches 2015 #1	84.334A	N/A	-	4,695
			-	7,239
National Writing Project Corporation				
National Writing Project SEED 2015-2016	84.367D	04-KY 10-SEED2015	-	4,740
Total U.S. Department of Education			$ 324	$ 100,295,725

Northern Kentucky University

A Component Unit of the Commonwealth of Kentucky

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Research and Development Cluster				
Direct Programs -				
National Aeronautics and Space Administration				
Approaching the Cosmic Ray Knee	43.001	-	$ -	$ 38,314
Helix: The High Energy Light Isotope Experiment	43.001	-	-	14,182
Analysis of 2012 CREST LDB Flight Data at NKU	43.001	-	-	1,957
			-	54,453
US National Endowment for the Humanities				
The Augmented Palimpsest: Engaging Students Through AR Encou	45.169	-	7,966	18,305
US National Science Foundation				
RUI: Photophysics of Small Molecule & Polymetric Fullerene-T	47.049	-	-	32,650
TIM Consortium:A Dispersed REU Site in Theoretically Interes	47.049	-	23,437	53,018
RUI: Search for Verifiable Complex Diffusion Mechanisms	47.049	-	-	35,813
MRI: Acquisition of a Tabletop Scanning Electron Microscope	47.049	-	-	195,000
REU: Longterm Perspective on Marine Biodiversity and Conserv	47.075	-	91	71,090
Collaborative Research: TECHNO: TECHnology-centered Mathemat	47.076	-	20,040	35,709
Project SOAR #2: 2012-2017 Scholarships, Opportunities, Achi	47.076	-	-	155,498
FORCE: Focus on Occcupations, Recruiting, Community, and En	47.076	-	4,200	191,613
IRES:RUI International Research Experience for Students	47.079	-	-	48,950
ARRA - PRIME: Preparing Regional Increase in Mathematics Edu	47.082	-	-	26,041
			47,768	845,382
US Environmental Protection Agency				
EPA Fellowship Agreement - Stryffeler 15-17	66.513	-	-	13,500
US National Institute of Health				
NIH AREA Curran - Genetic Susceptibility to PCB-induced Moto	93.113	-	-	38,583
NIH AREA Supplement for NIH R15 Grant	93.113	-	-	2,964
NIH AREA Marczin-Acute effects of alcohol and energy drinks	93.273	-	25,695	62,656
NIH AREA BARDGETT Long-term effects early life antipsychotic	93.279	-	-	27,261
NIH AREA Haik - Nanotechnology: Advancing Toxicity Testing	93.853	-	-	9,041
NIH AREA Strome R15 Investigation of Candidate Modifier Loci	93.859	-	-	68,813
NIH AREA PAULA Hydroquinone deriviatives as novel calcium AT	93.859	-	-	34,424
			25,695	243,742
Pass-Through Programs -				
Eastern Kentucky University				
DIGITIZATION TCN Collaborative Research: The key to the Cabi	47.074	452944-15-219	-	6,709
University of Kentucky Research Foundation				
EPSCoR: Exploring the roll of target rapamycin (TOR) in geno	47.079	3048111570-15-149	-	8,152
EPSCoR: Powering the Kentucky Bioeconomy for a Sustainable F	47.079	3048111570-15-023	-	11,010
EPSCoR - Morris Advancing Bio-Inspired Membrane Technologies	47.083	3200000271-16-073	-	5,997
			-	25,159
University of Louisville Research Foundation				
KBRIN Shifley IDeA	93.859	ULRF13-1493A-04	-	38,929
KBRIN Strome Post Doc	93.859	ULRF13-1493A-04	-	38,956
KBRIN CURRAN BRIDGE	93.859	ULRF13-1493A-04	-	52,464
KBRIN Carmen/Onorato IDEA	93.859	ULRF13-1493A-04	-	35,575
KBRIN Strome Post Doc Fellow	93.859	ULRF 13-1493B-04	-	5,521
KBRIN Shifley IDEA YR 2	93.859	ULRF 13-1493B-04	-	10,917
KBRIN Gemene IDeA	93.859	ULRF13-1493A-04	-	40,936
KBRIN Morris IDeA	93.859	ULRF13-1493A-04	-	33,974
KBRIN GUY Startup Funds	93.859	ULRF13-1493A-04	-	31,764
KBRIN Guy IDEA Year 1	93.859	ULRF 13-1493B-04	-	6,951
KBRIN Morris 2016 IDeA Year 2	93.859	ULRF 13-1493B-04	-	24,245
KBRIN Yates IDeA	93.859	ULRF13-1493A-04	-	40,537
KBRIN Marczinski Bridge/Post Doc Award 2015-2016	93.859	ULRF13-1493A-04	-	35,821
KBRIN Bardgett BRIDGE	93.859	ULRF13-1493A-04	-	55,517
KBRIN Lead Faculty Award	93.859	ULRF13-1493A-04	-	18,967
KBRIN Bardgett Post Doc Fellow	93.859	ULRF 13-1493B-04	-	5,684
KBRIN Yates IDEA year 2 Contribution of NMDA NR2B Subunits t	93.859	ULRF 13-1493B-04	-	11,945
KBRIN Peveler IDeA	93.859	ULRF13-1493A-04	-	18,387
			-	507,090
Total Research and Development			$ 81,429	$ 1,714,340

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Other Programs				
Child Nutrition Cluster				
U.S. Department of Agriculture				
Pass- Through Programs -				
Upward Bound Summer Food Service Program	10.555	N/A	$ -	$ 2,572
Total Child Nutrition Cluster			-	2,572
Hope VI Cluster				
U.S. Department of Housing and Urban Development				
Pass-Through Programs -				
Housing Authority of Covington				
HAC/NACU Partnership 2015-2017 HUD Hope VI Revitalization G	14.866	KY36URD002II09	-	5,000
Total Hope VI Cluster			-	5,000
TANF Cluster				
U.S. Department of Health and Human Services				
Pass-Through Programs -				
KY Cabinet for Health & Family Services				
LEAP - KTAP Postsecondary Education Program FY 2016	93.558	PO2 736 1400004124 1	-	122,028
Total TANF Cluster			-	122,028
U.S. Department of Commerce				
Pass-Through Programs -				
Western Kentucky University Research Foundation				
Advantage Kentucky Alliance Year 3	11.611	511630-15-001	-	71,734
Advantage Kentucky Alliance Year 4	11.611	511604-16-001	-	61,804
Total U.S. Department of Commerce			-	133,538
U.S. Department of Interior				
Direct Programs -				
Bureau of Indian Education	15.114	-	-	2,256
Total U.S. Department of Interior			-	2,256
U.S. Department of Justice				
Direct Programs -				
Norse Violence Prevention Project	16.525	-	-	100,397
Total U.S. Department of Justice			-	100,397
U.S. National Aeronautics and Space Administration				
Direct Programs -				
Increasing the Number of STEM Educators	43.008	-	103,522	185,481
Total U.S. National Aeronautics and Space Administration			103,522	185,481
National Endowment for the Humanities				
Pass-Through Programs -				
Institute of Museum and Library Services				
Bridging the Gap II	45.313	RE-03-11-0044-11	-	(1,354)
Kentucky Humanities Council				
Bookfest: A Celebration of Reading and Writing	45.129	2016-003	-	1,322
Total National Endowment for Humanities			-	(32)
Small Business Administration				
Pass-Through Programs -				
University of Kentucky Research Foundation				
Federal Small Business Development Center 2014-2015	59.037	3048112328-15-219	-	13,961
Federal Small Business Development Center 15-16	59.037	3200000358-16-172	-	76,060
Total Small Business Administration			-	90,021

Northern Kentucky University

A Component Unit of the Commonwealth of Kentucky

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services				
Direct Programs -				
Behavioral Health Workforce Education and Training for Profe	93.243	-	-	35,290
SBIRT Health Professions Student Training Project	93.243	-	-	232,668
Behavioral Health Workforce Education and Training for Profe	93.243	-	-	388,307
Pass-Through Programs -				
Center for Clinical and Translational Scient				
Prostate Cancer education and testing event at Madison Avenu	93.350	N/A	-	95
Eastern Kentucky University				
University Training Consortium 2015-2016	93.658	453042-16-105	-	46,662
Public Child Welfare Certification Program 2015-2016	93.658	453045-16-104	-	11,072
Total U.S. Department of Health and Human Services				714,094
Corporation for National and Community Service				
Direct Programs -				
Americorps VISTA 2015	94.013	-	-	46,421
Pass-Through Programs -				
Federal Kentucky College Coaches 2015	94.006	PO27301400006252	-	118,156
Federal Kentucky College Coaches 2016	94.006	PO 730 1400006252 2	-	168,507
Total Corporation for National and Community Service			-	333,084
Total Other Programs			103,522	1,688,439
Total Expenditures of Federal Awards			$ 185,275	$ 103,698,504

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Northern Kentucky University under programs of the federal government for the year ended June 30, 2016. The accompanying notes are an integral part of this Schedule. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets or cash flows of the University.

2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in *OMB A21, Cost Principles for Educational Institutions* or the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards for Federal Awards,* wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The University has a federally negotiated indirect cost rate of 32.5%.

3. The federal loan programs listed subsequently are administered directly by the University, and balances and transactions relating to these programs are included in the University's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2016, consists of:

CFDA Number	Program Name	Outstanding Balance at June 30, 2016
84.038	Federal Perkins Loan Program	$ 2,172,151.00
93.264	Nursing Faculty Loan Program	90,188.00

BKD LLP
CPAs & Advisors

312 Walnut Street, Suite 3000 // Cincinnati, OH 45202-4025
513.621.8300 // fax 513.621.8345 // bkd.com

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Regents
Northern Kentucky University
Highland Heights, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of Northern Kentucky University (University) and its discretely presented component unit, collectively a component unit of the Commonwealth of Kentucky, which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated September 29, 2016. The financial statements of Northern Kentucky University Foundation, Inc., a discretely presented component unit included in the financial statements of the University's reporting entity, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the University's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the University's management in a separate letter dated September 29, 2016.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Cincinnati, Ohio
September 29, 2016

BKD LLP
CPAs & Advisors

312 Walnut Street, Suite 3000 // Cincinnati, OH 45202-4025
513.621.8300 // fax 513.621.8345 // bkd.com

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Regents
Northern Kentucky University
Highland Heights, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the compliance of Northern Kentucky University (University) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Cincinnati, Ohio
September 29, 2016

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)?	☐Yes	☒ None reported
Material weakness(es)?	☐Yes	☒ No

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No

Federal Awards

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:

Significant deficiency(ies)?	☐ Yes	☒None reported
Material weakness(es)?	☐ Yes	☒ No

5. The opinion expressed in the independent auditor's report on compliance for major federal awards was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)? ☐ Yes ☒ No

7. The University's major programs were:

Cluster/Program	**CFDA Number**
Student Financial Aid Cluster	84.007, 84.033, 84.038, 84.063, 84.379, 84.268, 93.264
Research and Development Cluster	Various
TRIO Cluster	84.042A, 84.044A, 84.047A

8. The threshold used to distinguish between Type A and Type B programs was $750,000.

9. The University qualified as a low-risk auditee? ☒ Yes ☐ No

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding

No matters are reportable.

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding

No matters are reportable.

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2016

Reference Number	Summary of Finding	Status

No matters are reportable.