Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Annual Financial Report
June 30, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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 as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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 October 5, 2017, 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
October 5, 2017

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Management's Discussion and Analysis
Years Ended June 30, 2017 and 2016

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, 2017 and 2016, with selected comparative information for the year ended June 30, 2015. 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 $275.6 million as of June 30, 2017. The combined impact of pension reporting changes resulted in a cumulative reduction of $239.6 million in the University's unrestricted net position as of June 30, 2017. Excluding the impact of the pension reporting changes, the University's unrestricted net position would have decreased by $0.3 million for the year ended June 30, 2017.

The University's operating and nonoperating revenues totaled $217.7 million for the year ended June 30, 2017, an increase of $1.5 million compared to 2016. Operating revenues grew by $2.3 million for the year ended June 30, 2017, including a $0.6 million increase in net tuition and fees. Excellent investment returns on the University's endowment funds and an increase in short term interest rates resulted in a $2.3 million increase in investment income for the year. Nonoperating revenues declined by $0.8 million for the year ended June 30, 2017 as a result of a $2.2 million reduction in the University's general state appropriations. Operating and nonoperating expenses increased by $4.0 million, or 1.7 percent, to a total of $240.1 million for the year ended June 30, 2017, primarily due to an increase in pension expenses.

Construction of the University's new transformative Health Innovations Center is on schedule for a spring 2018 opening. In addition to the $97 million capital appropriation the University received from the state through the 2014-16 biennial budget, the University also 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 $13.0 million as of June 30, 2017. 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 $100.2 million at June 30, 2017. For the five-year period ended June 30, 2017, the endowment funds managed by the Foundation have grown from $74.3 million to $100.2 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, 2017, with comparative information as of June 30, 2016, 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, 2017, 2016 and 2015 follows:

Condensed Statements of Net Position (in thousands)

	2017	2016	2015
ASSETS			
Current assets	$ 109,159	$ 109,253	$ 111,884
Capital assets, net	369,470	346,038	335,618
Noncurrent assets	30,653	30,273	38,593
Total assets	509,282	485,564	486,095
DEFERRED OUTFLOWS OF RESOURCES	44,078	28,160	13,446
LIABILITIES			
Current liabilities	38,920	38,806	37,279
Noncurrent liabilities	402,881	379,968	363,964
Total liabilities	441,801	418,774	401,243
DEFERRED INFLOWS OF RESOURCES	6,045	4,636	5,515
NET POSITION			
Net investment in capital assets	253,064	222,068	211,004
Restricted			
Nonexpendable	7,616	7,616	7,616
Expendable	5,491	5,726	7,374
Unrestricted	(160,657)	(145,096)	(133,211)
Total net position	$ 105,514	$ 90,314	$ 92,783

Assets

The University's assets increased by $23.7 million, or 4.9 percent, for the year ended June 30, 2017 and now total $509.3 million. Current assets declined by $0.1 million for the year ended June 30, 2017 primarily due to a decrease in cash reserves that were committed to construction projects and the acquisition of property. Noncurrent assets increased by $23.8 million for the year ended June 30, 2017 primarily due to a $23.4 million increase in net capital assets. A $1.2 million increase in investments resulting from excellent investment returns on the University's endowment funds also contributed to the increase in noncurrent assets for the year.

Net capital assets increased by $23.4 million for the year ended June 30, 2017 and $10.4 million the prior year, resulting in a combined increase of $33.9 million, or 10.1 percent, since June 30, 2015. This increase is the net result of a $75.0 million increase in capitalized construction project costs, land improvements, equipment and other capital assets, less $41.1 million in depreciation. Net capital assets totaled $369.5 million, or 72.5 percent of total assets as of June 30, 2017.

Deferred Outflows of Resources

Deferred outflows of resources totaled $44.1 million and $28.2 million as of June 30, 2017 and 2016, respectively. Deferred outflows of resources related to the University's defined benefit pension plan totaled $40.4 million and $25.4 million as of June 30, 2017 and 2016, respectively. The deferred outflows of resources that represent the unamortized difference between the reacquisition price and the net carrying amount of refunded debt totaled $3.7 million and $2.8 million at June 30, 2017 and 2016, respectively.

Liabilities

At June 30, 2017, the University's liabilities totaled $441.8 million compared to the previous year's $418.8 million. This increase in liabilities is attributable to a $28.5 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 $247.1 million as of June 30, 2016 to $275.6 million as of June 30, 2017.

Noncurrent liabilities, excluding the pension liability, declined by $5.6 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 $119.9 million and $126.7 million at June 30, 2017 and 2016, respectively.

Deferred Inflows of Resources

The University's deferred inflows of resources totaled $6.0 million and $4.6 million as of June 30, 2017 and 2016, respectively. Deferred inflows of resources related to the University's defined benefit pension plan totaled $4.5 million and $2.6 million as of June 30, 2017 and 2016, respectively. Deferred inflows of resources related to service concession agreements between the University and a food service provider totaled $1.5 million at June 30, 2017, 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 $105.5 million and $90.3 million at June 30, 2017 and 2016, 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. The University also recognized noncash expenses totaling $29.2 in fiscal years 2017, 2016 and 2015 in accordance with the pension reporting changes resulting in a cumulative reduction of $239.6 million in the University's unrestricted net position as of June 30, 2017. Excluding the impact of the pension reporting changes, the University's unrestricted net position would have decreased by $0.3 million for the year ended June 30, 2017.

Net invested in capital assets totaled $253.1 million and $222.1 million at June 30, 2017 and 2016, respectively. This $31.0 million increase is primarily attributable to the $36.9 million of state capital appropriations the University received in fiscal year 2017 for the construction of the Health Innovations Center.

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.

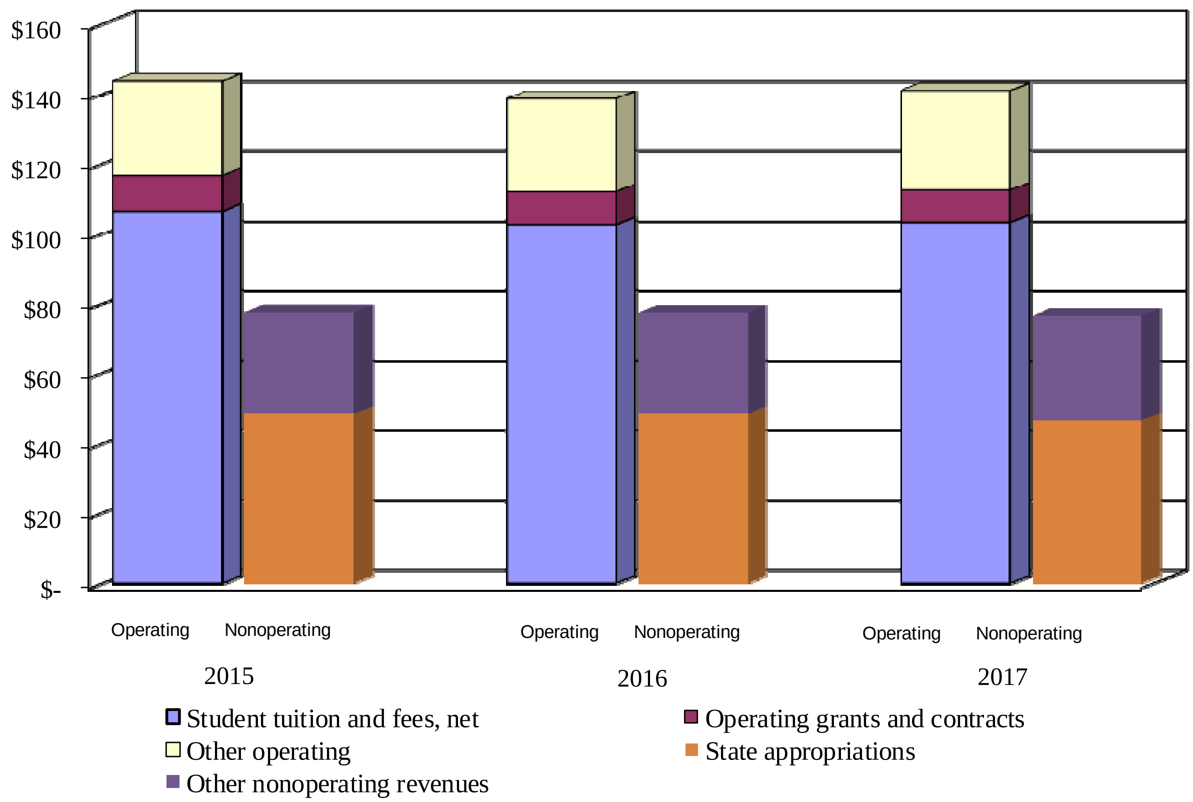
The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. A summarized comparison of the University's revenues, expenses and changes in net position for years ended June 30, 2017, June 30, 2016 and June 30, 2015 follows:

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

	2017	2016	2015
OPERATING REVENUES			
Student tuition and fees, net	$ 103,311	$ 102,670	$ 106,415
Grants and contracts	9,197	9,334	10,373
Sales and services of educational departments	4,969	4,380	4,529
Auxiliary enterprises	15,697	15,222	15,312
Other operating revenues	7,865	7,084	7,124
Total operating revenues	141,039	138,690	143,753
OPERATING EXPENSES			
Educational and general	206,146	203,103	198,968
Depreciation	16,892	17,387	16,375
Auxiliary enterprises (including depreciation)	12,188	11,011	10,994
Other expenses	62	41	33
Total operating expenses	235,288	231,542	226,370
Net loss from operations	(94,249)	(92,852)	(82,617)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	46,353	48,538	48,538
Gifts, grants and contracts	28,159	29,085	28,488
Investment income (loss)	2,188	(110)	534
Interest on capital asset-related debt	(4,345)	(4,179)	(3,800)
Other nonoperating revenues (expenses)	(498)	(453)	(97)
Net nonoperating revenues	71,857	72,881	73,663
Income (loss) before other revenues, expenses, gains or losses	(22,392)	(19,971)	(8,954)
Capital appropriations	36,864	17,013	1,968
Capital grants and gifts	728	489	111
Total other revenues	37,592	17,502	2,079
Increase (decrease) in net position	15,200	(2,469)	(6,875)
Net position-beginning of year, as previously reported	90,314	92,783	310,094
Cumulative effect of change in accounting principle	-	-	(210,436)
Net position-beginning of year, as restated	90,314	92,783	99,658
Net position-end of year	$ 105,514	$ 90,314	$ 92,783

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 2015, 2016 and 2017. 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).



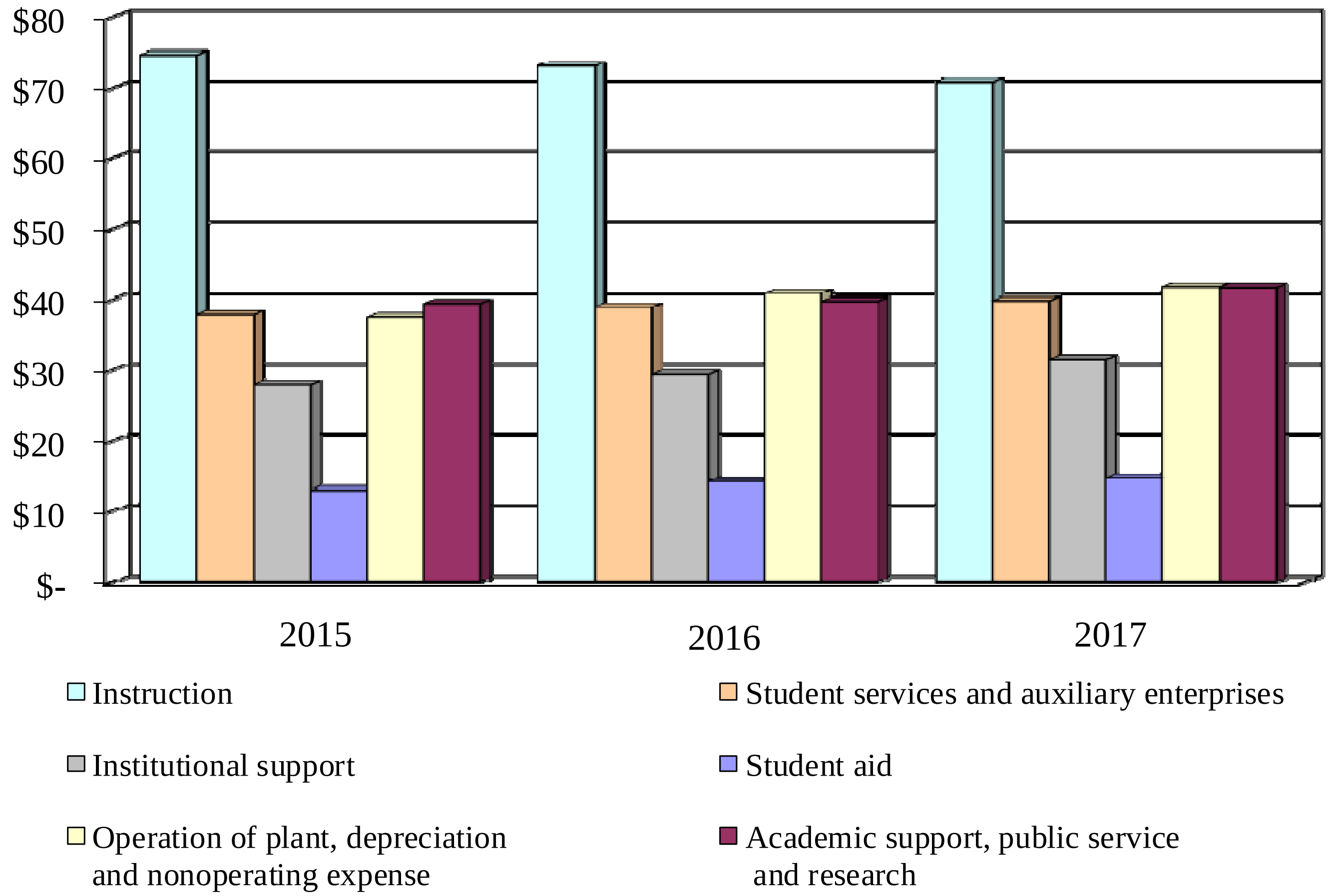
The University's operating and nonoperating revenues totaled $217.7 million for the year ended June 30, 2017, an increase of $1.5 million compared to 2016. Operating revenues totaled $141.0 million, or 64.7 percent of revenues, while nonoperating revenues totaled $76.7 million, or 35.3 percent of revenues, for the year. The most significant sources of revenue for the University are net student tuition and fees (47.4 percent) and state appropriations (21.3 percent).

Operating revenues grew by $2.3 million for the year ended June 30, 2017, including a $0.6 million increase in net tuition and fees. Operating grants and contracts declined slightly for the year. A $0.9 million increase in contracts revenue earned by the Center for Environmental Restoration contributed to a $0.6 million increase in sales and services of educational departments revenues for the year. Auxiliary enterprises revenues increased by $0.5 million due to an increase in parking services revenues. Other operating revenues increased by $0.8 million for the year. Operating revenues have decreased by $2.7 million since 2015 primarily due to a $3.1 million decline in net tuition which was driven by a $4.9 million increase in scholarship allowances since 2015.

Nonoperating revenues declined by $0.8 million for the year ended June 30, 2017. The University's state appropriations declined by $2.2 million for the year ended June 30, 2017 due to a state budget reduction. State nonoperating grant revenues increased by $0.2 million for the year due to an increase in state financial aid program revenues related to merit scholarships. Federal nonoperating grant revenues decreased by $1.3 million for the year due to a $1.2 million decrease in federal financial aid program revenues, including a $1.1 million decline in federal Pell grant revenues. Excellent investment returns on the University's endowment funds and an increase in short term interest rates resulted in a $2.3 million increase 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 2015, 2016 and 2017 (presented in millions).



Operating and nonoperating expenses increased by $4.0 million, or 1.7 percent, to a total of $240.1 million for the year ended June 30, 2017. The adoption of GASB 68 and GASB 71 in fiscal year 2015 had a significant impact on the University's expenses reported for the years ended June 30, 2017, 2016 and 2015. For fiscal years 2017, 2016 and 2015 the University recognized pension expenses, as required under GASB 68 and 71, of $30.3 million, $21.5 million and $17.0 million, respectively. The $8.8 million increase in pension expenses in fiscal year 2017, resulted in a $3.7 million increase in operating expenses for the year. The $4.5 million increase in pension expense for the ended June 30, 2016, combined with a $1.2 million increase in depreciation expense, contributed to a $5.2 million increase in operating expenses for the year.

Instruction expenses decreased by $2.3 million, or 3.2 percent, for the year ended June 30, 2017 primarily due to the closure of an educational services unit and a reduction in faculty salaries commensurate with the small decline in the University's fiscal year 2017 enrollment. Institutional support expenses increased by $2.2 million due to a $2.2 million increase in pension expenses. A $1.6 million increase in pension expenses, contributed to a $1.2 million increase in operation and maintenance of plant. Academic support expenses increased by $1.6 million primarily due to a $1.3 million increase in pension expenses. Student aid expenses increased by $0.5 million for the year ended June 30, 2017. Institutionally funded scholarships increased by $1.5 million for the year. A $1.2 million decrease in federal financial aid program awards, including a $1.1 million decline in federal Pell grant awards, was partially offset by a $0.3 million increase in state financial aid.

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, 2017, 2016 and 2015 follows:

Condensed Statements of Cash Flows (in thousands)

	2017	2016	2015
Net cash provided (used) by:			
Operating activities	$ (58,977)	$ (62,569)	$ (57,177)
Noncapital financing activities	75,943	76,673	77,107
Capital and related financing activities	(22,835)	(28,418)	(50,345)
Investing activities	1,015	2,786	(1,288)
Net increase (decrease) in cash and cash equivalents	(4,854)	(11,528)	(31,703)
Cash and cash equivalents, beginning of year	110,149	121,677	153,380
Cash and cash equivalents, end of year	$ 105,295	$ 110,149	$ 121,677

The University's cash and cash equivalents decreased by $4.9 million in 2017 and $11.5 million in 2016. Major sources of funds generated by operating activities in 2017 included student tuition and fees ($99.5 million), grants and contracts ($8.7 million) and auxiliary enterprises ($15.2 million). The largest cash payments for operating activities were made to employees ($144.0 million) and to vendors and contractors ($51.2 million). Net cash used by operating activities decreased by $3.6 million for the year primarily due to increases in cash provided by auxiliary enterprises, sales and services of educational activities, and other receipts combined with a $3.1 million decrease in payments to suppliers.

Net cash provided by noncapital financing activities decreased by $0.7 million for the year ended June 30, 2017. Cash used by capital and related financing activities totaled $22.8 million for 2017. Purchases of capital assets totaling $44.1 million were funded by $32.8 million in state capital appropriations received for the Health Innovations Center project, as well as capital gifts and institutional funds. The University's principal and interest payments totaled $12.2 million for the year.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2017, capital assets, net of accumulated depreciation, totaled $369.5 million, or 72.5 percent of total assets. Net capital assets increased by $23.4 million and $10.4 million for the years ended June 30, 2017 and 2016, respectively. Additions to capital assets, net of disposals, during the year ended June 30, 2017 totaled $43.8 million, including the construction of the new Health Innovations Center. Depreciation expenses totaled $20.4 million for the year ended June 30, 2017. 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.

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. In addition to the capital appropriation, the University also 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. At June 30, 2017, the construction project was on schedule for a spring 2018 opening.

Debt

The following is a summary of the University's outstanding capital debt summarized by trust indenture and type as of June 30, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
General Receipts Bonds, net of discounts and premiums	$ 119,107	$ 124,636	$ 128,795
Housing and Dining System Revenue Bonds	785	965	1,140
Notes payable and municipal lease obligations	23	1,134	2,283
	$ 119,915	$ 126,735	$ 132,218

The University issued bonds in August 2017 to refund $15.6 million of the outstanding General Receipts Bonds 2008 Series A. The refunding reduced the University's total debt service payments over the remaining term of the bonds by $1.8 million, resulting in a present value savings of $1.6 million. The University also made principal payments of $7.7 million on bonds, notes and municipal lease obligations for the year. For the year ended June 30, 2016, 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's outstanding debt declined by $12.3 million from June 30, 2015 to June 30, 2017.

The University's 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 provides 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 will be in full operation for fiscal year 2018.

In accordance with the enacted 2016-18 Budget of the Commonwealth (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 postsecondary operations that incorporated elements of campus performance, mission, and enrollment. A report containing the working group's findings and recommendations formed the basis for Senate Bill 153 (the Postsecondary Education Performance Funding Bill), which passed the House and Senate with no changes and was signed into law by the Governor on March 21, 2017. The performance funding model is focused on student success, course completion and operational support. 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.

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. The combined impact of the across-the-board cut and the additional equity funding resulted in a net increase in the University's direct appropriation to $48.9 million for fiscal year 2018. The University also received an additional $2.7 million in appropriations in fiscal year 2018 that were distributed to the postsecondary institutions based on the performance goals and metrics incorporated into the new performance based funding model, resulting in a total appropriation of $51.6 million for 2018.

The University's Board of Regents approved a 4.0 percent increase in undergraduate resident tuition rates for fiscal year 2018. This increase was within the tuition and fee ceiling approved for the University by the Council on Postsecondary Education.

The University's state-funded endowments totaled $13.0 million as of June 30, 2017. 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 $100.2 million at June 30, 2017. For the five-year period ended June 30, 2017, the endowment funds managed by the Foundation have grown from $74.3 million to $100.2 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 on the University's new transformative Health Innovations Center is on schedule for a spring 2018 opening. 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 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 $275.6 million as of June 30, 2017. The combined impact of pension reporting changes resulted in a cumulative reduction of $239.6 million in the University's unrestricted net position as of June 30, 2017. The University's required contribution rate for fiscal year 2018 is 49.5 percent of covered payroll for all of its employees that participate in the nonhazardous KERS. The Commonwealth and the University continue to face budget challenges, including funding the state pension systems.

Management is also continuing its efforts to diversify revenue sources, contain costs and redirect resources to core mission priorities. The University is working with a partner to develop property at the University's main entrance. The mixed-use development is expected to include office and retail space, restaurants and a hotel and will generate revenue for the University through ground leases. The University recently discontinued several operations that were being subsidized by the University, including several radio stations, and redirected the resources to core mission priorities. In addition to the net proceeds realized from the sale of the radio stations, the University will realize recurring cash savings of approximately $0.9 million per year from the closure of the radio stations. The University has entered into a partnership that will significantly increase the University's online program offerings. The new online programs are expected to launch in the Spring 2018 semester.

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, including enhanced online programs, 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. 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. The University expects to launch a new fund raising campaign in the near future.

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Statements of Net Position
As of June 30, 2017 and 2016
(in thousands)

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	$ 88,870	$ 93,190
Notes, loans and accounts receivable, net	17,838	13,389
Other current assets	2,451	2,674
Total current assets	109,159	109,253
Noncurrent Assets		
Cash and cash equivalents	16,425	16,959
Investments	12,968	11,795
Notes, loans and accounts receivable, net	1,081	1,369
Capital assets, net	369,470	346,038
Other noncurrent assets	179	150
Total noncurrent assets	400,123	376,311
Total assets	509,282	485,564
DEFERRED OUTFLOWS OF RESOURCES	44,078	28,160
LIABILITIES		
Current Liabilities		
Accounts payable, accrued liabilities and deposits	25,697	23,995
Unearned revenue	5,649	6,537
Long-term liabilities-current portion	7,574	8,274
Total current liabilities	38,920	38,806
Noncurrent Liabilities		
Deposits	12,434	11,763
Unearned revenue	63	144
Long-term liabilities	114,799	120,980
Net pension liability	275,585	247,081
Total noncurrent liabilities	402,881	379,968
Total liabilities	441,801	418,774
DEFERRED INFLOWS OF RESOURCES	6,045	4,636
NET POSITION		
Net investment in capital assets	253,064	222,068
Restricted		
Nonexpendable	7,616	7,616
Expendable	5,491	5,726
Unrestricted	(160,657)	(145,096)
Total net position	$ 105,514	$ 90,314

Northern Kentucky University Foundation, Inc.
Consolidated Statements of Financial Position
As of June 30, 2017 and 2016
(in thousands)

	2017	2016
ASSETS		
Cash and cash equivalents	$ 11,790	$ 9,313
Loans and accounts receivable, net	103	90
Contributions receivable, net	6,203	8,391
Prepaid expenses and deferred charges	31	40
Investments	102,330	91,225
Land and land improvements	548	548
Accumulated depreciation	(208)	(208)
Total assets	$ 120,797	$ 109,399
LIABILITIES AND NET ASSETS		
Accounts payable	$ 559	$ 188
Annuities payable	2	140
Deferred income	208	27
Funds held in trust for Northern Kentucky University	12,968	11,795
Total liabilities	13,737	12,150
NET ASSETS		
Unrestricted		
For current operations	1,023	953
Amounts functioning as endowment funds	2,449	2,158
Invested in land and land improvements	340	340
Total unrestricted	3,812	3,451
Temporarily restricted		
Unexpended funds received for restricted purposes	12,027	9,535
Contributions receivable	5,229	7,355
Loan funds	216	216
Endowment funds	40,579	32,638
Total temporarily restricted	58,051	49,744
Permanently restricted		
Contributions receivable	974	1,036
Endowment funds	44,223	43,018
Total permanently restricted	45,197	44,054
Total net assets	107,060	97,249
Total liabilities and net assets	$ 120,797	$ 109,399

See accompanying notes to the consolidated financial statements

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, 2017 and 2016
(in thousands)

	2017	2016
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of $39,133, in 2017 and $38,235 in 2016)	$ 103,311	$ 102,670
Federal grants and contracts	3,302	3,394
State and local grants and contracts	3,128	3,199
Nongovernmental grants and contracts	2,767	2,741
Sales and services of educational departments	4,969	4,380
Auxiliary enterprises		
Housing and food service (net of scholarship allowances of $1,647 in 2017 and $1,669 in 2016)	11,293	11,494
Other auxiliaries	4,404	3,728
Other operating revenues	7,865	7,084
Total operating revenues	141,039	138,690
OPERATING EXPENSES		
Educational and general		
Instruction	70,746	73,068
Research	1,393	1,574
Public service	14,210	13,809
Libraries	6,102	6,006
Academic support	19,907	18,339
Student services	27,560	27,893
Institutional support	31,540	29,372
Operation and maintenance of plant	19,994	18,821
Depreciation	16,892	17,387
Student aid	14,694	14,221
Auxiliary enterprises		
Housing and food service	7,084	6,370
Other auxiliaries	1,631	1,251
Auxiliary depreciation	3,473	3,390
Other expenses	62	41
Total operating expenses	235,288	231,542
Net income (loss) from operations	(94,249)	(92,852)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	46,353	48,538
Federal grants and contracts	17,692	18,955
State and local grants and contracts	10,273	10,119
Private gifts and grants	194	11
Investment income (loss)	2,188	(110)
Interest on capital asset-related debt	(4,345)	(4,179)
Other nonoperating revenues (expenses)	(498)	(453)
Net nonoperating revenues	71,857	72,881
Income (loss) before other revenues, expenses, gains or losses	(22,392)	(19,971)
Capital appropriations	36,864	17,013
Capital grants and gifts	728	489
Total other revenues	37,592	17,502
Increase (decrease) in net position	15,200	(2,469)
NET POSITION		
Net position - beginning of year	90,314	92,783
Net position - end of year	$ 105,514	$ 90,314

Northern Kentucky University Foundation, Inc.

Consolidated Statements of Activities

For the Year Ended June 30, 2017

(in thousands)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
REVENUES, GAINS AND OTHER SUPPORT				
Gifts and bequests	$ 3	$ 4,075	$ 929	$ 5,007
Rental income	130	-	-	130
Investment return	382	10,879	-	11,261
Other revenue	112	288	-	400
Total revenues and gains	627	15,242	929	16,798
Net assets released from restrictions	6,277	(6,277)	-	-
Reclassifications of net assets	-	(258)	258	-
Total revenues, gains and other support	6,904	8,707	1,187	16,798
EXPENSES AND LOSSES				
Program expenses				
Instruction	725	-	-	725
Research	13	-	-	13
Public service	513	-	-	513
Libraries	36	-	-	36
Academic support	398	-	-	398
Student services	621	-	-	621
Institutional support	884	-	-	884
University facilities and equipment acquisition	752	-	-	752
Student financial aid	2,027	-	-	2,027
Other program expenses and losses	-	400	44	444
Total program expenses	5,969	400	44	6,413
Support expenses				
Management and general	381	-	-	381
Fund raising support	190	-	-	190
Rental property	3	-	-	3
Total support expenses	574	-	-	574
Total Expenses and losses	6,543	400	44	6,987
Increase (decrease) in net assets	361	8,307	1,143	9,811
Net assets - beginning of year	3,451	49,744	44,054	97,249
Net assets - end of year	$ 3,812	$ 58,051	$ 45,197	$ 107,060

Northern Kentucky University Foundation, Inc.

Consolidated Statements 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
A Component Unit of the Commonwealth of Kentucky
Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016
(in thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 99,454	$ 101,480
Grants and contracts	8,655	9,259
Payments to suppliers	(51,195)	(54,307)
Payments for salaries and benefits	(144,000)	(144,484)
Loans issued to students	(526)	(682)
Collection of loans to students	349	383
Auxiliary enterprise receipts:		
Housing operations	10,723	11,380
Other auxiliaries	4,451	3,279
Sales and service of educational departments	5,141	4,336
Other receipts (payments)	7,971	6,787
Net cash used by operating activities	(58,977)	(62,569)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	47,324	47,567
Gifts and grants for other than capital purposes	28,140	29,125
Agency and loan program receipts	84,272	85,473
Agency and loan program disbursements	(83,791)	(85,489)
Other nonoperating receipts (payments)	(2)	(3)
Net cash provided by noncapital financing activities	75,943	76,673
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt and leases	16,826	28,507
Capital appropriations	32,784	14,450
Capital grants, gifts, and advances received	672	498
Proceeds from sale of capital assets	-	2,600
Purchases of capital assets	(44,136)	(33,935)
Principal paid on capital debt and leases	(7,671)	(7,404)
Bond refund escrow payment	(16,663)	(28,189)
Interest paid on capital debt and leases	(4,490)	(4,633)
Bond issuance costs	(157)	(312)
Net cash used by capital and related financing activities	(22,835)	(28,418)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	331	2,452
Purchase of investments	-	(161)
Interest on investments	684	495
Net cash provided by investing activities	1,015	2,786
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,854)	(11,528)
Cash and cash equivalents - beginning of year	110,149	121,677
Cash and cash equivalents - end of year	$ 105,295	$ 110,149
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Net loss from operations	$ (94,249)	$ (92,852)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	20,365	20,777
Deferred inflows of resources	1,409	(879)
Deferred outflows of resources	(14,993)	(12,984)
Changes in assets and liabilities:		
Receivables, net	(968)	144
Other assets	192	(108)
Accounts payable, accrued liabilities and deposits	1,792	755
Unearned revenue	(969)	400
Pension	28,504	22,703
Long-term liabilities	(60)	(525)
Net cash used by operating activities	$ (58,977)	$ (62,569)

See accompanying notes to the financial statements

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Notes to the Financial Statements
For the Years Ended June 30, 2017 and 2016

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 of Kentucky 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 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 deposits of $12,434,000 and $11,763,000 as of June 30, 2017 and 2016, respectively, including deposits held in a wetland restoration fund pursuant to a memorandum of agreement with a federal agency. For the year ended June 30, 2017, additions to deposits were $3,063,000 while reductions were $2,392,000 resulting in an increase of $671,000 over the previous year.

k. Cost-Sharing Defined Benefit Pension Plan
The University participates in a cost-sharing multiple-employer defined benefit pension plan Kentucky Retirement Systems, (KRS). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

l. 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 include $3,645,000 and $2,720,000 of losses on bond refundings for the years ended June 30, 2017 and 2016, respectively. The remaining balance of deferred outflows for years ended June 30, 2017 and 2016 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 $1,562,000 and $2,034,000 at June 30, 2017 and 2016, 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 ended June 30, 2017 and 2016 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.

m. Scholarship Allowances

Student tuition and fee revenues and other student related revenues are reported net of scholarship allowances in the statement of revenues, expenses and changes in net 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.

n. 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).

o. Restricted Asset Spending Policy

The University's policy states 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.

p. Operating Activities

The University defines operating activities, as reported on the statement 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.

q. 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.

r. 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 14 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 820, Nunn Drive, Highland Heights, KY 41099.

s. Reclassifications

Certain items have been reclassified for the year ended June 30, 2016, in order to conform to classifications used for the year ended June 30, 2017. These reclassifications had no effect on total net position and the change in net position.

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 other postemployment benefits (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.

In June 2017, the GASB approved Statement No. 87, *Leases*. The objective of this Statement is to improve the accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this statement are effective for reporting periods beginning after December 15, 2019. The University is currently evaluating the effects of this statement on its financial statements.

Note 2 – Cash, Cash Equivalents and Investments

At June 30, 2017, petty cash funds totaled $25,000 and the carrying amount of the deposits was $105,270,000 with a corresponding total bank balance of $114,140,000. Of the bank balance, $25,691,000 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 $88,449,000 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 fair value of the University's investments at June 30, 2017 and 2016, was $12,968,000 and $11,795,000, respectively. These investments represent the University's Regional University Excellence Trust Fund endowments which are invested in an investment pool managed by the Foundation. See Note 14 (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, 2017 and 2016 are invested as follows:

	2017	2016
Type of Investment:		
Fixed income funds	14%	14%
Equity funds and common stock	59%	59%
Alternative investments	27%	27%
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, 2017.

Note 3 – Notes, Loans and Accounts Receivable

Notes, loans and accounts receivable as of June 30, 2017 and 2016 are as follows (in thousands):

	2017		
	Gross Receivable	Allowance	Net Receivable
Student loans	$ 1,905	$ (652)	$ 1,253
Student accounts receivable	11,724	(4,186)	7,538
Reimbursement receivable grants and contracts	1,400	-	1,400
State appropriations receivable	6,941	-	6,941
Other	2,917	(1,130)	1,787
Total	$ 24,887	$ (5,968)	$ 18,919
Current portion			$ 17,838
Noncurrent portion			1,081
Total			$ 18,919

	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

Note 4 – Capital Assets, net

Capital assets for the years ended June 30, 2017 and 2016 are summarized as follows (in thousands):

	7/1/2016 Beginning Balance	Additions	Reductions	6/30/2017 Ending Balance
Cost:				
Indefinite life intangible assets	$ 4,206	$ -	$ -	$ 4,206
Land	9,432	187	12	9,607
Land improvements	36,977	1,344	357	37,964
Buildings	448,050	5,555	1,439	452,166
Equipment	69,949	1,198	1,387	69,760
Library books	18,019	329	1,560	16,788
Construction in process	17,008	36,756	-	53,764
	603,641	45,369	4,755	644,255
Accumulated Depreciation:				
Land improvements	8,337	1,001	146	9,192
Buildings	176,360	14,619	441	190,538
Equipment	57,742	4,103	1,036	60,809
Library books	15,164	642	1,560	14,246
	257,603	20,365	3,183	274,785
Capital assets, net	$ 346,038	$ 25,004	$ 1,572	$ 369,470

	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

The estimated cost to complete construction under contract at June 30, 2017 was approximately $34,464,000.

As of June 30, 2016, the net book value of land, buildings and equipment acquired through capital leases included in the above schedules totaled $2,730,000, including buildings of $2,722,000. As of June 30, 2017, there were no outstanding capital leases.

Note 5 – Accounts Payable, Accrued Liabilities and Deposits

Accounts payable, accrued liabilities and deposits as of June 30, 2017 and 2016 are as follows (in thousands):

	2017	2016
Payable to vendors and contractors	$ 14,424	$ 12,246
Accrued expenses, primarily payroll and vacation leave	6,274	6,538
Employee withholdings and deposits payable to third parties	3,219	3,241
Self-insured health liability	1,415	1,301
Deposits	365	669
Total	$ 25,697	$ 23,995

Note 6 – Unearned Revenue

Unearned revenue as of June 30, 2017 and 2016 are as follows (in thousands):

	2017	2016
Unearned summer school revenue	$ 4,441	$ 5,277
Unearned grants and contracts revenue	394	497
Unearned auxiliary revenue	489	518
Other	388	389
Total	$ 5,712	$ 6,681
Current	$ 5,649	$ 6,537
Noncurrent	63	144
Total	$ 5,712	$ 6,681

Note 7 – Long-term Liabilities

The changes in long-term liabilities for the years ended June 30, 2017 and 2016 are summarized as follows (in thousands):

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion	Noncurrent Portion
Housing and Dining Revenue Bonds	$ 965	$ -	$ 180	$ 785	$ 185	$ 600
General Receipts Bonds (net of discounts and premiums)	124,636	16,827	22,356	119,107	7,216	111,891
Total bonds	125,601	16,827	22,536	119,892	7,401	112,491
Municipal lease obligations	1,089	-	1,089	-	-	-
Notes payable	45	-	22	23	23	-
Total notes and municipal leases	1,134	-	1,111	23	23	-
Deferred compensation	313	-	87	226	83	143
Federal portion of loan programs	1,590	-	32	1,558	-	1,558
KERS-sick leave	616	182	124	674	67	607
Total other liabilities	2,519	182	243	2,458	150	2,308
Total long-term liabilities	$ 129,254	$ 17,009	$ 23,890	$ 122,373	$ 7,574	$ 114,799

	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

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 was fully funded as of June 30, 2017. The $348,000 required housing repair and replacement fund was fully funded as of June 30, 2017.

The outstanding obligation as of June 30, 2017 and 2016 for the Northern Kentucky University General Receipts Bonds are reported net of discounts totaling $65,000 and $326,000 and premiums of $8,187,000 and $7,227,000, 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 at 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, 2017, a deposit of $27,211,000 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.

On August 25, 2016, Northern Kentucky University General Receipts Bonds were issued in the amount of $15,225,000 at a net interest cost of 2.02 percent. The proceeds partially refunded the General Receipts Bonds, 2008 Series A maturing on or after September 1, 2019. The refunding reduced the University's total debt service payments over the term by $1,818,000, representing an economic gain of $1,600,000. 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, 2017, a balance of $16,256,000 is being held in escrow by the trustee to fund the debt service on the refunded portion of the 2008 Series A until the bonds are called for redemption on September 1, 2018.

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

	2017	2016
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.	$ 785	$ 965
Total Housing and Dining System Revenue bonds payable	785	965
General Receipts bonds payable		
Series A 2007, dated May 23, 2007, with an interest rate of 4.00%. Final principal payment date September 1, 2018.	4,695	6,905
Series A 2008, dated June 18, 2008, with interest rates from 3.00% to 4.38%. Final principal payment date September 1, 2018.	1,480	17,545
Series A 2010, dated June 29, 2010, with interest rates from 2.00% to 3.50%. Final principal payment date September 1, 2020.	1,370	1,785
Series B 2010, dated October 21, 2010, with interest rates from 2.00% to 3.75%. Final principal payment date September 1, 2027.	9,045	9,720
Series A 2011, dated August 4, 2011, with interest rates from 2.00% to 4.00%. Final principal payment date September 1, 2030.	7,635	8,060
Series A 2013, dated February 26, 2013, with an interest rate of 2.00%. Final principal payment date September 1, 2022.	3,115	3,600
Series A 2014, dated January 7, 2014, with interest rates from 2.00% to 5.00%. Final principal payment date September 1, 2033.	42,780	44,355
Series A 2016, dated May 17, 2016, with interest rates from 2.00% to 5.00%. Final principal payment date September 1, 2027.	25,640	25,765
Series B 2016, dated August 25, 2016, with interest rates from 2.00% to 4.00%. Final principal payment date September 1, 2028.	15,225	-
Total General Receipts bonds payable	110,985	117,735
Plus: Net discounts and premiums	8,122	6,901
Total bonds payable	$ 119,892	$ 125,601

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
2018	$ 6,813	$ 4,383	$ 11,196
2019	7,530	4,123	11,653
2020	7,405	3,842	11,247
2021	7,690	3,555	11,245
2022	7,530	3,258	10,788
2023-2027	42,110	11,241	53,351
2028-2032	25,700	3,867	29,567
2033-2034	7,015	337	7,352
Subtotal	111,793	34,606	146,399
Plus: Net discounts and premiums	8,122	-	8,122
Total	$ 119,915	$ 34,606	$ 154,521

b. Municipal Leases

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

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

As of June 30, 2017 the University has no outstanding municipal leases.

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 $45,527,000 and $45,809,000 for the years ended June 30, 2017 and 2016, respectively. The University's contribution totaled $4,553,000 and $4,581,000 for the years ended June 30, 2017 and 2016, 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 with specific criteria. 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:	Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 65 or has less than 27 years of service, whichever is smaller.	Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 65 or does not meet the rule of 87 (age plus service) and is younger than 57, whichever is smaller.	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 with specific criteria. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit:	Any age with 20 years of service. Age 55 with 60 months of service. Money Purchase for age 55 with less than 60 months based on contributions and interest.	Any age with 25 years of service. Age 60 with 5 years of service. No Money Purchase calculations.	Any age with 25 years of service. Age 60 with 5 years of service. No Money Purchase calculations.
Reduced Retirement Benefit:	Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 55 or has less than 20 years of service, whichever is smaller.	Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 60 or has less than 25 years service, whichever is smaller.	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, 2017 and 2016, 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's required contribution percentage rates per covered payroll for the years ended June 30, 2017 and 2016 are as follows:

	2017	2016
Nonhazardous		
Pension plan	40.24%	30.84%
Insurance plan	8.35%	7.93%
Hazardous		
Pension plan	21.08%	16.37%
Insurance plan	2.74%	9.97%

The required contribution is 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, 2017 and 2016, were $14,738,000 and $12,069,000, respectively. The required contributions to the KERS hazardous pension plan for the years ending June 30, 2017 and 2016, were $170,000 and $127,000, respectively.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions - At June 30, 2017 and 2016, respectively, the University reported a liability of $274,014,000 and $245,556,000, for its proportionate share of the nonhazardous net pension liability reflecting a net increase of $28,458,000 for the year ended June 30, 2017. The University's hazardous pension liability was $1,571,000 and $1,525,000 for the years ending June 30, 2017 and 2016, respectively, reflecting a net increase of $46,000 for the year ended June 30, 2017. The net pension liability was measured as of June 30, 2016 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, 2017 and 2016, the University's proportion was 2.404 percent and 2.448 percent for nonhazardous and .401 percent and .445 percent for hazardous, respectively.

For the years ended June 30, 2017 and 2016, the University recognized nonhazardous pension expense of $30,071,000 and $21,294,000; and hazardous pension expense of $230,000 and $213,000, respectively.

At June 30, 2017 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	$ 286	$ -
Change of assumptions	20,756	-
Net difference between projected and actual earnings on investments	4,207	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	4,401
Contributions subsequent to the measurement date	14,738	-
Hazardous		
Differences between expected and actual experience	10	-
Change of assumptions	82	-
Net difference between projected and actual earnings on investments	150	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	34	82
Contributions subsequent to the measurement date	170	-
Total	$ 40,433	$ 4,483

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, 2017 and 2016, the University reported $14,908,000 and $12,196,000, 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 years ended June 30, 2017 and 2016, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2017, related to pensions will be recognized in pension expense as follows (in thousands):

Year Ending June 30	
2018	$ 9,081
2019	5,789
2020	4,716
2021	728
2022	728
	$ 21,042

Actuarial assumptions - The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement for nonhazardous and hazardous pensions.

	Nonhazardous	Hazardous
Inflation	3.25%	3.25%
Salary Increases	4.0%, average, including inflation	4.0%, average, including inflation
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation	7.5%, net of pension plan investment expense, including inflation

The Mortality Table used for active members in RP-2000 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 the Systems. The most recent analysis is dated December 5, 2015. Several factors are considered in evaluating the long-term rate of return assumption including 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 may 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:

Nonhazardous

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Combined Equity	50%	5.30%
Intermediate Duration Fixed Income	11%	1.00%
Custom KRS Fixed Income	11%	3.33%
Core Real Estate	5%	4.25%
Diversified Hedge Funds	10%	4.00%
Private Equity	2%	8.00%
Diversified Inflation Strategies	8%	3.15%
Cash Equivalent	3%	-0.25%
Total	100%	

Hazardous

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 6.75% for the Nonhazardous System, and 7.50% for the Hazardous System. 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 27 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. 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 6.75% for the nonhazardous and 7.5% for hazardous. 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 (5.75%)		Current Discount Rate (6.75%)		1% Increase (7.75%)	
Nonhazardous						
Proportionate share of the Collective Net Pension Liability	$	308,696	$	274,014	$	244,867

	1% Decrease (6.5%)		Current Discount Rate (7.5%)		1% Increase (8.5%)	
Hazardous						
Proportionate share of the Collective Net Pension Liability	$	1,974	$	1,571	$	1,233

Payable to the pension plan - The University reported payables of $2,224,000 and $1,628,000 for the outstanding amount of employer contributions to the pension plan required for the years ended June 30, 2017 and 2016, 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, 2017 and 2016 was $674,000 and $616,000, 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, 2017 and 2016, the University had recognized an accrued vacation liability of $3,140,000 and $2,871,000, respectively.

Note 9 – Operating Expenses By Natural Classification

The University's operating expenses by natural classification are as follows for the year ended June 30, 2017 and 2016 (in thousands):

	2017		2016	
Salaries and wages	$	99,913	$	103,961
Employee benefits		61,414		51,845
Utilities		5,347		5,507
Supplies and other services		32,973		34,632
Depreciation		20,365		20,777
Student scholarships and financial aid		15,276		14,820
Total	$	235,288	$	231,542

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 $5,000 and $1 million per occurrence. Losses in excess of $1 million are insured by commercial carriers up to $1.5 billion 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 $250,000 for any one person or $400,000 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 2016 to 2017. 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, 2017 and 2016 are detailed below (in thousands):

	2017	2016
Liability, beginning of year	$ 1,301	$ 1,099
Claims and changes in estimates	13,950	12,886
Claims paid	(13,836)	(12,684)
Liability, end of year	$ 1,415	$ 1,301

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, 2017.

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 Northern Kentucky University Research Foundation (NKURF) is provided below for the year ended June 30, 2017 and 2016 (in thousands):

Condensed Statements of Net Position

	2017	2016
ASSETS		
Current assets	$ 1,536	$ 2,301
Noncurrent assets	12,392	11,721
Total assets	13,928	14,022
LIABILITIES		
Current liabilities	323	629
Due to the University - current	363	653
Noncurrent liabilities	12,392	11,721
Total liabilities	13,078	13,003
NET POSITION		
Restricted expendable	13	3
Unrestricted	837	1,016
Total net position	$ 850	$ 1,019

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

	2017	2016
OPERATING REVENUES		
Grants and contracts	$ 3,836	$ 4,368
Recoveries of facilities and administrative costs	467	451
Other operating revenues	1	-
Total operating revenues	4,304	4,819
OPERATING EXPENSES		
Operating expenses	3,974	4,464
Operating income	330	355
NONOPERATING REVENUES (EXPENSES)		
Non-capital transfers (to)/from the University	(567)	(274)
Gifts and grants revenues (expenses)	36	24
Net nonoperating revenues (expenses)	(531)	(250)
Income (loss) before other revenues, expenses, gains or losses	(201)	105
Capital transfers (to)/from the University	50	(195)
Capital grants and gifts	(18)	195
Total other revenues (expenses)	32	-
Increase (decrease) in net position	(169)	105
NET POSITION		
Net position - beginning of year	1,019	914
Net position - end of year	$ 850	$ 1,019

Condensed Statements of Cash Flows

	2017	2016
Net cash provided (used) by operating activities	$ 601	$ 355
Net cash provided (used) by noncapital financing activities	(365)	(197)
Net cash provided (used) by capital and related financing activities	32	-
Net cash provided (used) by investing activities	-	2,000
Net increase (decrease) in cash and cash equivalents	268	2,158
Cash and cash equivalents - beginning of year	13,051	10,893
Cash and cash equivalents - end of year	$ 13,319	$ 13,051

Note 13 – Subsequent Events

In August and September of 2017, the University sold three radio stations, WNKU, WNKE and WNKN, receiving cash proceeds of $6,697,500. The financial impact of the discontinued operations will be reflected in the June 30, 2018 financial statements.

Note 14 – 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.

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, 2017 and 2016, $1,416,000 and $696,000, 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, 2017 and 2016, balances of $9,372,000 and $7,618,000, 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, 2017 and 2016 was approximately $125,000 and $127,000, 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, 2017 and 2016, land and land improvements (in thousands) consisted of:

	2017	2016
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, 2017 and 2016 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 and amortization of the discount is included in gifts and bequests revenue.

At June 30, 2017 and 2016, the Foundation recognized contributions based on the following unconditional promises to give (in thousands):

	2017	2016
Purpose:		
Endowment giving	$ 1,053	$ 1,094
Capital purposes	4,080	6,025
Operating programs	1,398	1,679
Gross unconditional promises	6,531	8,798
Less: Discount and allowance for uncollectible accounts	(328)	(407)
Net unconditional promises to give	$ 6,203	$ 8,391
Amounts due in:		
Less than one year	$ 3,178	$ 3,097
One to five years	3,333	5,601
More than five years	20	100
Total	$ 6,531	$ 8,798

The discount rates used to calculate the present value of contributions receivable at June 30, 2017 and 2016 vary from 1.2 percent to 2.8 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. The Foundation had received conditional promises to give of approximately $1 million at June 30, 2017 and $1.1 million at June 30, 2016, consisting of the face value of life insurance policies, net of accumulated cash surrender value.

Approximately 61 percent of total pledges receivable were due from one donor at June 30, 2017. Approximately 69 percent of all contributions were received 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 a remainder interest in real property subject to a life estate.

Level 3 investments include those in which there is no active market. The Foundation holds no Level 3 investments at June 30, 2017 or 2016.

The Foundation adopted Accounting Standards Update 2015-07 which eliminates the requirement that investments valued using the net asset value expedient be categorized as Level 2 or 3. These investment are now shown in a separate column on the table below. This treatment was applied retroactively.

The following assets were measured at fair value on a recurring basis as of June 30, 2017 (in thousands):

		Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV
June 30, 2017					
Type of Investment:					
Short-term money market funds	$ 8	$ 8	$ -	$ -	$ -
Cash surrender value	406	406	-	-	-
Fixed income funds:					
Core	1,605	1,605	-	-	-
Core plus	4,382	4,382	-	-	-
Global	1,771	1,771	-	-	-
Treasury inflation protected securities	1,560	1,560	-	-	-
Equity funds:					
Large/mid-cap - broad	21,589	21,589	-	-	-
Large/mid-cap - value	6,541	6,541	-	-	-
Small cap - growth	1,267	1,267	-	-	-
International - core	7,066	7,066	-	-	-
International - value	5,326	5,326	-	-	-
International small cap - value	2,831	2,831	-	-	-
Emerging markets - value	4,533	4,533	-	-	-
Emerging markets - small cap	4,154	4,154	-	-	-
Real estate investment trust	16	16	-	-	-
Exchange traded funds	73	73	-	-	-
Remainder interest in real property and other	685	-	685	-	-
Public natural resources-master limited partnerships	3,117	-	-	-	3,117
Fixed income high yield	1,725	-	-	-	1,725
Private equity	6,738	-	-	-	6,738
Private debt	2,672	-	-	-	2,672
Natural resources	11,228	-	-	-	11,228
Private real estate	1,833	-	-	-	1,833
Low-volatility	11,080	-	-	-	11,080
Total	$ 102,206	$ 63,128	$ 685	$ -	$ 38,393

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

		Fair Value Measurements Using			
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Investments Measured at NAV**
June 30, 2016					
Type of Investment:					
Short-term money market funds	$ 7	$ 7	$ -	$ -	$ -
Cash surrender value	381	381	-	-	-
Fixed income funds:					
Core	1,554	1,554	-	-	-
Core plus	4,184	4,184	-	-	-
Global	1,852	1,852	-	-	-
Treasury inflation protected securities	1,572	1,572	-	-	-
Equity funds:					
Large/mid-cap - broad	19,697	19,697	-	-	-
Large/mid-cap - value	5,580	5,580	-	-	-
Small cap - growth	1,312	1,312	-	-	-
Small cap - value	1,556	1,556	-	-	-
International - core	6,251	6,251	-	-	-
International - value	2,964	2,964	-	-	-
International small cap - value	2,198	2,198	-	-	-
Emerging markets - value	3,553	3,553	-	-	-
Emerging markets - small cap	3,476	3,476	-	-	-
Real estate investment trust	15	15	-	-	-
Exchange traded funds	39	39	-	-	-
Remainder interest in real property and other	535	-	535	-	-
Public natural resources-master limited partnerships	3,059	-	-	-	3,059
Fixed income high yield	1,611	-	-	-	1,611
Private equity	6,765	-	-	-	6,765
Private debt	1,968	-	-	-	1,968
Natural resources	9,591	-	-	-	9,591
Private real estate	1,375	-	-	-	1,375
Low-volatility	10,037	-	-	-	10,037
Total	$ 91,132	$ 56,191	$ 535	$ -	$ 34,406

d. Investments

The market value (in thousands) of the Foundation's investments as of June 30, 2017 and 2016 are categorized by type below:

	2017	2016
Type of Investment:		
Short-term money market funds	$ 8	$ 7
Cash and cash surrender value	530	474
Fixed income funds:		
Core	1,605	1,554
Core plus	4,382	4,184
Global	1,771	1,852
High yield	1,725	1,611
Treasury inflation protected securities	1,560	1,572
Equity funds:		
Large/mid cap - broad	21,589	19,697
Large/mid cap - value	6,541	5,580
Small cap - growth	1,267	1,312
Small cap - value	-	1,556
International - core	7,066	6,251
International - value	5,326	2,964
International small cap - value	2,831	2,198
Emerging markets - value	4,533	3,553
Emerging markets - small cap	4,154	3,476
Real estate investment trust	16	15
Exchange traded funds	73	39
Public natural resources - master limited partnerships	3,117	3,059
Remainder interest in real property and other	685	535
Private equity:		
Buyout	1,425	1,699
Diversified	1,683	2,015
Venture capital	1,115	972
Secondary	2,515	2,079
Private debt:		
Distressed	2,477	1,776
Mezzanine	195	192
Natural resources:		
Diversified	4,137	3,965
Energy	5,135	3,836
Commodities	1,956	1,790
Private real estate:		
Opportunistic	708	-
Value added	1,125	1,375
Low-volatility:		
Diversifiying strategies	11,080	10,037
Total investments	$ 102,330	$ 91,225

Investment return (in thousands) for the years ended June 30, 2017 and 2016 consist of:

	2017	2016
Interest and dividend income		
(net of investment fees: 2017 - $593, 2016 - $470)	$ 1,135	$ 1,427
Net realized gains	2,006	2,968
Net unrealized gains (losses)	8,120	(6,830)
Total investment return	$ 11,261	$ (2,435)

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, 2017 and 2016 was $12,968,000 and $11,795,000, respectively. See Note 14g. for further explanation of the trust funds.

At June 30, 2017 and 2016, the Foundation had committed $39.1 and $35.9 million, respectively, of its endowment investment resources to alternative investments, of which $7.5 and $8.2 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 307 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, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor restricted endowment funds	$ -	$ 34,531	$ 44,223	$ 78,754
Quasi-endowment funds	2,449	6,048	-	8,497
Total endowment funds	$ 2,449	$ 40,579	$ 44,223	$ 87,251

Changes in endowment net assets (in thousands) as of June 30, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 2,158	$ 32,638	$ 43,018	$ 77,814
Contributions collected	-	13	947	960
Investment income	31	1,067	-	1,098
Net investment gain (loss)	280	9,699	-	9,979
Amounts appropriated for expenditure	(20)	(2,838)	-	(2,858)
Reclassify to permanently restricted	-	-	258	258
Endowment net assets, end of year	$ 2,449	$ 40,579	$ 44,223	$ 87,251

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

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, 2017.

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, 2017 have been evaluated for possible adjustment to the consolidated financial statements or disclosure through October 2, 2017, the date on which the consolidated financial statements were available to be issued.

i. Related Party Transactions

During the years ended June 30, 2017 and 2016, the Foundation made payments on behalf of the University of $396,000 and $434,000, 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, 2017, approximately $40,000 was owed to the University for such costs. As of June 30, 2016, there were no amounts owed to the University for such costs.

In support of University programs for the year ended June 30, 2017 and 2016, the Foundation made payments on behalf of the University of $3,710,000 and $3,908,000, respectively. In addition, the Foundation transferred to the University $2,703,000 in 2017 and $1,893,000 in 2016 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, 2017	June 30, 2016	June 30, 2015
Nonhazardous			
University's proportionate share of the net pension liability	2.403742%	2.447755%	2.489115%
University's proportionate share of the collective net pension liability	$ 274,014	$ 245,556	$ 223,319
University's covered-employee payroll	$ 39,206	$ 37,799	$ 39,266
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	698.91%	649.64%	568.74%
Pension plan fiduciary net position as a % of the total pension liability	14.80%	18.83%	22.32%
Hazardous			
University's proportionate share of the net pension liability	0.401133%	0.444514%	0.414511%
University's proportionate share of the collective net pension liability	$ 1,571	$ 1,524	$ 1,059
University's covered-employee payroll	$ 637	$ 563	$ 535
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	246.58%	270.64%	197.84%
Pension plan fiduciary net position as a % of the total pension liability	57.41%	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, 2017	June 30, 2016	June 30, 2015
Nonhazardous			
Contractually required contribution	$ 14,738	$ 12,069	$ 12,320
University's contributions in relation to the contractually required contribution	14,738	12,069	12,320
Contribution deficiency	$ -	$ -	$ -
Covered-employee payroll	$ 36,626	$ 39,131	$ 39,948
Contributions as a percentage of covered-employee payroll	40.24%	30.84%	30.84%
Hazardous			
Contractually required contribution	$ 170	$ 127	$ 136
University's contributions in relation to the contractually required contribution	170	127	136
Contribution deficiency	$ -	$ -	$ -
Covered-employee payroll	$ 806	$ 776	$ 831
Contributions as a percentage of covered-employee payroll	21.08%	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, 2017

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 Assistance Cluster				
Federal Supplemental Educational Opportunity Grant Program	84.007	-	$ -	$ 287,329
Federal Work Study Program	84.033	-	-	426,070
Federal Perkins Loan Program	84.038	-	-	2,237,304
Federal Pell Grant Program	84.063	-	-	15,616,875
Teacher Education Assistance for College and Higher Education Grants	84.379	-	-	12,500
Federal Student Direct Loans	84.268	-	-	75,151,902
Nursing Faculty Loan Program	93.264	-	-	90,188
Total Student Financial Assistance Cluster			-	93,822,168
TRIO Cluster				
Student Support Services	84.042A	-	-	322,195
Educational Talent Search	84.044A	-	-	295,231
Upward Bound	84.047A	-	-	371,057
Total TRIO Cluster			-	988,483
Americorps National Service Trust	84.UNKNOWN	-	-	56,417
Pass-Through Programs -				
Kentucky Education Professional Standards Board				
CTE KTIP 2016	84.048	PO2 183 1600000494 1	-	1,045
Kentucky Department of Education				
Special Education Cluster (IDEA)				
Kentucky Traineeship in Special Education 2016	84.027A	PON2 540 1500001983 1	-	119,797
Kentucky Traineeship in Special Education 2017	84.027A	PON2 540 16000027011	-	621,910
Total Special Education Cluster (IDEA)			-	741,707
Math Science Partnership				
MSP - KNPI-Math/Science Patnership Year 3	84.366B	PON2 540 160000524 1	-	38,829
KY Non-public School Commission	84.367A	PON2540 1600000968 1	-	2,143
Catholic Diocese of Kentucky	84.367A	PON2 54016000009711	-	20,924
			-	61,896
Kentucky Council on Postsecondary Education				
CPE IEQ Year 13 FLIP EKY year 1	84.367B	PO2 241515000028171	-	15,358
CPE IEQ Year 14 FLIP EKY year 2	84.367B	PO 241516000033261	1,080	86,875
NKY-FAME CEP IEQ	84.367B	PO2 415 5170000439 2	-	30,593
			1,080	132,826
Endicott College				
Family Friendly Campus Toolkit: Making College Real for Two	84.116Z	ENDICOTT	-	2,000
National Writing Project Corporation				
National Writing Project SEED 2015-2016	84.367D	04-KY 10-SEED2015	-	2,970
Total U.S. Department of Education			$ 1,080	$ 95,809,512

Northern Kentucky University

A Component Unit of the Commonwealth of Kentucky

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

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	-	$ -	$ 39,304
Helix: The High Energy Light Isotope Experiment	43.001	-	-	15,681
ISS-CREAM	43.001	-	-	14,395
			-	69,380
US National Endowment for the Humanities				
The Augmented Palimpsest: Engaging Students Through AR Encou	45.169	-	-	11,263
US National Science Foundation				
RUI: Photophysics of Small Molecule & Polymetric Fullerene-T	47.049	-	-	10,880
TIM Consortium:A Dispersed REU Site in Theoretically Interes	47.049	-	40,529	102,576
RUI: Search for Verifiable Complex Diffusion Mechanisms	47.049	-	-	21,125
MRI: Acquisition of a Tabletop Scanning Electron Microscope	47.049	-	-	(21,695)
Stellar Companions by Stellar Parameters 2017-19	47.049	-	-	708
REU: Longterm Perspective on Marine Biodiversity and Conserv	47.075	-	-	6,875
Collaborative Research: TECHNO: TECHnology-centered Mathemat	47.076	-	39,513	50,464
Project SOAR #2: 2012-2017 Scholarships, Opportunities, Achi	47.076	-	-	79,776
FORCE: Focus on Occcupations, Recruiting, Community, and En	47.076	-	-	43,702
IRES:RUI International Research Experience for Students	47.079	-	-	71,363
Epscor - Morris Advancing Bio-Inspired Membrane Technologies	47.083	-	-	12,793
MRI: Acquisition of field portable x-ray floursecence technology	47.074	-	-	3,182
NKU FSML-Planning Grant: a 5 Year Plan	47.074	-	-	11,067
			80,042	392,816
US Environmental Protection Agency				
EPA Fellowship Agreement - Stryffeler 15-17	66.513	-	-	6,450
US National Institute of Health				
NIH AREA Curran - Genetic Susceptibility to PCB-induced Moto	93.113	-	-	69,609
NIH AREA Supplement for NIH R15 Grant	93.113	-	-	6,544
NIH AREA Marczin-Acute effects of alcohol and energy drinks	93.273	-	28,326	116,031
NIH AREA BARDGETT Long-term effects early life antipsychotic	93.279	-	-	106,704
NIH AREA Strome R15 Investigation of Candidate Modifier Loci	93.859	-	-	100,108
			28,326	398,996
Pass-Through Programs -				
Eastern Kentucky University				
DIGITIZATION TCN Collaborative Research: The key to the Cabi	47.074	452944-15-219	-	2,624
Juniata College RCN-UBE: Yeast Orphan Gene Project	47.074	JUNIATA	-	3,994
			-	6,618
University of Louisville Research Foundation				
KBRIN Strome Post Doc Fellow	93.859	ULRF 13-1493B-04	-	27,604
KBRIN Shifley IDEA YR 2	93.859	ULRF 13-1493B-04	-	41,871
KBRIN Strome Post Doc Fellow	93.859	ULRF 13-1493C-05	-	4,583
KBRIN Shifley IDEA #3	93.859	ULRF 13-1493C-05	-	21,415
KBRIN Guy IDEA Year 1	93.859	ULRF 13-1493B-04	-	39,435
KBRIN Morris 2016 IDeA Year 2	93.859	ULRF 13-1493B-04	-	7,659
KBRIN Guy IDEA #2	93.859	ULRF 13-1493C-05	-	23,123
KBRIN Marczinski Post Doc Fellow	93.859	ULRF 13-1493B-04	-	4,279
KBRIN Bardgett Post Doc Fellow	93.859	ULRF 13-1493B-04	-	27,219
KBRIN Lead 2016-2017	93.859	ULRF 13-1493B-04	-	39,174
KBRIN Yates IDEA year 2	93.859	ULRF 13-1493B-04	-	37,668
KBRIN Bardgett Post Doc Fellow Award	93.859	ULRF 13-1493C-05	-	7,084
KBRIN Lead 2017-2018	93.859	ULRF 13-1493C-05	-	506
KBRIN Yates IDEA #3	93.859	ULRF 13-1493C-05	-	14,171
			-	295,791
Total Research and Development Cluster			$ 108,368	$ 1,181,314

Northern Kentucky University

A Component Unit of the Commonwealth of Kentucky

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

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 -				
Kentucky Department of Education				
Upward Bound Summer Food Service Program	10.555	12146	$ -	$ 3,719
Total Child Nutrition Cluster			-	3,719
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 2017	93.558	PO2 736 1600004584 1	-	119,413
Total TANF Cluster			-	119,413
U.S. Department of Commerce				
Pass-Through Programs -				
Western Kentucky University Research Foundation				
Advantage Kentucky Alliance Year 4	11.611	511604-16-001	-	67,016
Advantage Kentucky Alliance Year 5	11.611	511605-17-001	-	81,883
Total U.S. Department of Commerce			-	148,899
U.S. Department of Interior				
Direct Programs -				
Bureau of Indian Education	15.114	-	-	1,715
Total U.S. Department of Interior			-	1,715
U.S. Department of Justice				
Direct Programs -				
Norse Violence Prevention Project	16.525	-	-	63,933
Total U.S. Department of Justice			-	63,933
U.S. National Aeronautics and Space Administration				
Direct Programs -				
Increasing the Number of STEM Educators	43.008	-	35,200	44,872
Pass-Through Programs -				
University of Louisville Research Foundation				
LSST Science Preparation	43.008	ULRF16-1248-02	-	2,285
Total U.S. National Aeronautics and Space Administration			35,200	47,157
Small Business Administration				
Pass-Through Programs -				
University of Kentucky Research Foundation				
Federal Small Business Development Center 15-16	59.037	3200000358-16-172	-	29,940
Federal Small Business Development Center 16-17	59.037	3200001037-17-161	-	82,582
Total Small Business Administration			-	112,522
U.S. Environmental Protection Agency				
Pass-Through Programs -				
Kentucky Association for Environmental Education				
Addressing Climate Literacy in Kentucky at the Local Level	66.951	2015 KAEE EPA	-	2,785
Total U.S. Environmental Protection Agency			-	2,785

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

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	-	-	32,496
SBIRT Health Professions Student Training Project	93.243	-	-	273,312
Behavioral Health Workforce Education and Training for Profe	93.243	-	-	432,687
Pass-Through Programs -				
Eastern Kentucky University				
University Training Consortium 2017	93.658	453226-17-113	-	46,980
Public Child Welfare Certification Program 2017	93.658	453229-17-112	-	11,903
Total U.S. Department of Health and Human Services				797,378
Corporation for National and Community Service				
Direct Programs -				
Americorps VISTA 2015	94.013	-	-	1,577
Americorps VISTA 2016	94.013	-	-	27,961
Pass-Through Programs -				
KY Cabinet for Health & Family Services				
Kentucky Service Corps 2017	94.006	PON2 730 170000002001	-	9,082
Federal Kentucky College Coaches 2016	94.006	PO 730 1400006252 2	-	38,161
Federal Kentucky College Coaches 2017	94.006	PON2 730 1700000014	-	325,822
Total Corporation for National and Community Service			-	402,603
Total Other Programs			35,200	1,705,124
Total Expenditures of Federal Awards			$ 144,648	$ 98,695,950

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, 2017. 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, 2017, consists of:

CFDA Number	Program Name	Outstanding Balance at June 30, 2017
84.038	Federal Perkins Loan Program	$ 1,856,632
93.264	Nursing Faculty Loan Program	$ 70,498

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, 2017, 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 October 5, 2017. 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 *Governmental 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 of the financial statements, 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 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 October 5, 2017.

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
October 5, 2017

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 Northern Kentucky University's (University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2017. The University's major federal program is 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 federal statutes, regulations, contracts and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the University's major federal program 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 the major federal program. However, our audit does not provide a legal determination of the University's compliance.

Basis for Qualified Opinion on Student Financial Assistance Cluster

As described in the accompanying schedule of findings and questioned costs, the University did not comply with requirements regarding the Student Financial Assistance Cluster as described in finding number 2017-001 for Special Tests and Provisions - Return of Title IV funds. Compliance with such requirements is necessary, in our opinion, for the University to comply with requirements applicable to that program.

Qualified Opinion on the Student Financial Assistance Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 Student Financial Assistance Cluster for the year ended June 30, 2017.

Other Matters

The University's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and/or corrective action plan. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the 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 or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a material weakness.

The University's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and/or corrective action plan. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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
October 5, 2017

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

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
   Student Financial Assistance Cluster – Qualified

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 Assistance Cluster	84.007, 84.033, 84.038, 84.063, 84.379, 84.268, 93.264

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

2017-001 U.S Department of Education – Student Financial Assistance Cluster
CFDA No. 84.007, Federal Supplemental Educational Opportunity Grant Program
CFDA No. 84.033, Federal Work Study Program
CFDA No. 84.038, Federal Perkins Loan Program
CFDA No. 84.379, Teacher Educational Assistance for College and Higher Education Grants
CFDA No. 93.264, Nursing Faculty Loan Program
CFDA No. 84.268, Federal Direct Student Loan Program
CFDA No. 84.063, Federal Pell Grant Program
Program Year 2016-2017

Criteria or specific requirement – Special Tests and Provisions – Return of Title IV Funding (34 CFR 668.22)

Condition –Upon a student's withdrawal from the program, the University is required to determine whether student financial aid should be refunded to the Department of Education.

Questioned Costs – There were no questioned costs as a result of this finding.

Reference Number	Finding

Context – From a sample of 26 return of Title IV funds tested (population of 441 students with return of title IV funds), the calculation of funds returned was not correct for fourteen students. From the same sample, four students had funds that were not timely returned. Our sampling method was not, and was not intended to be, statistically valid.

Effect – Amounts of Title IV funds to be returned to the Department of Education were incorrectly calculated, resulting in excess funds returned, and funds not returned timely.

Cause – One cause for the return of title IV funds error was an error in uploading the academic calendar with the correct number of break days to the student financial aid system; thus causing the number of days a student attended during the period to be incorrect in the fourteen calculations. In addition, the University utilized an incorrect notification date when completing the form for the four students, causing the funds to not be returned timely.

Identification as a repeat finding – No.

Recommendation – We recommend management fully review the academic calendar and the calculated break days before it is uploaded into the financial aid system. We would also recommend further training of new individuals to decrease the lag time between official withdrawal notification and the return of funds.

Views of responsible officials and planned corrective action plan – Northern Kentucky University will meet the requirements outlined by the U.S. Department of Education for treatment of Federal Aid funds (R2T4) when a student ceases to be enrolled prior to the end of a period of enrollment. The following corrective action will be taken by NKU to ensure compliance:

- The University will include the next day after the last day of classes before a scheduled break as the first day of break, which would count weekend days if necessary.
- The University will count the last day of a scheduled break the day before the next class is held, which would count weekend days if necessary.
- The University will return funds within 45 days.
- The University will review its Return of Funds procedures to ensure compliance.

Northern Kentucky University

A Component Unit of the Commonwealth of Kentucky

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2017

Reference Number	Summary of Finding	Status
	No matters are reportable.	