# Northern Kentucky University
# A Component Unit of the Commonwealth of Kentucky

## Annual Financial Report

June 30, 2020

# 2019-2020
# FINANCIAL REPORT

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October 2, 2020

Northern Kentucky University Board of Regents
Highland Heights, KY 41099

Dear Members of the Board:

I am pleased to share the University's 2019-20 Annual Financial Report. The firm of BKD, LLP, has audited the attached statements and accompanying footnotes.

Like many universities in the nation, the University was negatively impacted by the pandemic this year. Fortunately, the University was able to offset some of the operating revenues that were lost due to the pandemic through a federal grant funded by the Higher Education Emergency Relief Fund (HEERF). Despite the adverse impact of the pandemic and the continued negative impact from the pension and other post-employment benefits (OPEB) reporting changes, the University continues to show solid operating performance as measured by cash flows. Excluding the impact of the pension and OPEB reporting changes, the University's unrestricted net position increased by a combined $12.9 million for the years ended June 30, 2020, and 2019. At June 30, 2020, the University's unrestricted net position, excluding the pension and OPEB reporting changes, was $102.9 million.

The University's accelerated online programs, particularly the graduate health professions programs, continued to show the dramatic growth in enrollment that the University was experiencing prior to the pandemic. The growth in the accelerated online programs was primarily responsible for an $11.7 million and $11.0 million increase in cash generated from tuition and fees for the year ended June 30, 2020, and 2019, respectively. Management is continuing its efforts to diversify revenue sources, contain costs, and redirect resources to core mission priorities. We are investing in new campus facilities, such as a new student residence hall, and investing in activities that support the three pillars of student success — increased access, higher levels of completion, and advancing opportunities for career and community engagement for all students.

Despite the impact of the worldwide pandemic on NKU, the campus community persevered and continued to move forward in its first year implementing the Success By Design strategic framework. After discussion and input from various constituents, we developed the First Five Initiatives which defined key focus areas for the campus. Campus-wide implementation teams were selected and generated projects to better support students. NKU set aside $2 million for the framework — 1.5 million in a one-time Strategic Investment and Innovation Fund for projects under the First Five and $500,000 for the Innovation Challenge in January when teams from across campus "unleashed" their ideas to support our learners. Innovation Challenge winners worked through the summer and many ideas were implemented this fall, including NKU's brand new E-sports team and the All Rise scholarship program in the Chase College of Law designed to remove obstacles and pave a path to the legal profession for underserved individuals.

Additionally, we launched two crucial programs addressing the access pillar. The River City Promise program builds upon the Gateway2NKU dual admission program by eliminating financial barriers for students from Bellevue, Dayton, Holmes, Lloyd, Ludlow and Newport high schools, and the Young Scholars Academy gives high-achieving high-school students an early start by giving them a full-time collegiate experience and the opportunity to complete a baccalaureate degree at NKU with only two additional years of study. But what I am most proud of this year has been our steady and thoughtful response to COVID-19. From the moment we began the pivot to online instruction and remote operations in March, we kept our focus on supporting students, faculty, staff and the region. After months away from campus, we adopted a plan called Moving Forward that was consistent with our strategic framework and allowed us to resume on campus operations and some face-to-face and hybrid instruction for Fall 2020. The plan included Healthy@NKU, a partnership with St. Elizabeth Healthcare, Gravity Diagnostics, and the Northern Kentucky Health Department that allowed for testing for individuals with symptoms and contract-tracing for those who test positive. Moving Forward included guidance and consideration for faculty and staff to conduct university operations within the context of the pandemic.

As always, there is more work to be done and challenges to be faced. Yet, it is the character and resolve of the NKU community that inspires optimism as I look forward to another successful year.

Sincerely,

A. K. Vaidya

Ashish K. Vaidya, Ph.D.
President

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# 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, 2020 and 2019, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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, 2020 and 2019, 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, pension and other post-employment benefits 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The letter from the president and the listing of the members of the Board of Regents and the University's administration are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

BKD, LLP

Cincinnati, Ohio
October 2, 2020

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, 2020 and 2019, with selected comparative information for the year ended June 30, 2018. 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

The University's assets increased by $23.2 million, or 4.3 percent, for the year ended June 30, 2020 and now total $563.2 million. Current and noncurrent cash and cash equivalents increased by $39.2 million for the year primarily due to cash generated from operations, including state appropriations and noncapital gifts and grants, and the issuance of bonds to fund the construction of a new residence hall and housing and parking facility renovations. At June 30, 2020, $32.3 million of the bond proceeds from the 2019 Series A General Receipts bonds issued in November 2019 to fund capital construction projects were on deposit. The University's liabilities grew by $50.1 million for the year as a result of a $13.8 million growth in the University's net pension and other post-employment benefits (OPEB) liabilities and a $31.1 million increase in long-term debt which resulted from the issuance of the General Receipts bonds. The University's net position totaled $15.4 million and $48.1 million at June 30, 2020 and 2019, respectively. For the years ended June 30, 2020 and 2019, the University recognized noncash expenses of $0.4 million and $1.3 million, respectively, in accordance with the OPEB reporting changes under GASB 75 and noncash expenses of $18.9 million and $22.4 million, respectively, in accordance with the pension reporting changes under GASB 68 and GASB 71 resulting in noncash expenses totaling $43.0 million for the two year period. Excluding the impact of the pension and OPEB reporting changes, the University's unrestricted net position would have increased by $1.6 million and $11.3 million for the years ended June 30, 2020 and 2019, respectively.

The University's operating and nonoperating revenues totaled $239.6 million for the year ended June 30, 2020, an increase of $7.5 million compared to 2019. Operating revenues increased by $7.5 million for the year ended June 30, 2020, including a $12.5 million increase in net tuition resulting from the combined impact of an increase in tuition and fee rate increases and a significant increase in the University's online graduate program enrollment. The pandemic that occurred in the later part of fiscal year 2020, had a significant impact on the University's operating revenues. Revenues generated by the University's arena, Center for Environmental Restoration, campus recreation center, auxiliary operations and other campus activities were negatively impacted by the pandemic resulting in declines in sales and services of educational departments revenues, and other education and general revenues. The pandemic resulted in the closure of the University's housing, food service and parking auxiliary operations during the spring and summer semesters resulting in the issuance of over $2.5 million in student refunds related to the spring semester and the loss of summer semester revenues. Overall auxiliary enterprises revenues declined by $3.3 million for the year. The pandemic also contributed to a $1.7 million decline in investment earnings on the University's endowment and non-endowment investments.

Fortunately, the University was able to offset some of the operating revenues that were lost due to the pandemic through a federal grant funded by the Higher Education Emergency Relief Fund (HEERF). The University's grant award totaled $8.0 million, of which 50 percent of the funds must be used to provide direct emergency aid to students and 50 percent provides funds to recover foregone revenue and cover costs associated with changes in the delivering instruction due to the coronavirus. For the year ended June 30, 2020, the University disbursed $1.5 million of the HEERF grant to students and recognized $1.5 million in institutional HEERF grant revenues, which contributed to a $2.3 million increase in federal nonoperating grants. Operating and nonoperating expenses increased by $16.2 million, or 6.3 percent, to a total of $272.6 million for the year ended June 30, 2020 due to a $13.1 million increase in instruction expenses and a $3.6 million increase in student financial aid expenses.

The University's state-funded endowments totaled $12.5 million as of June 30, 2020. These funds, along with the private endowed gifts donated to benefit the University, are managed by Northern Kentucky University Foundation, Inc. (Foundation) and totaled $100.5 million at June 30, 2020. For the five-year period that ended June 30, 2020, the endowment funds managed by the Foundation have grown from $95.1 million to $100.5 million. The growth in the endowment funds have resulted in significant increases in the annual endowment spending allocations available to support the University's mission. For fiscal years 2020 and 2019, the endowment spending allocations, including support for endowed faculty positions and student scholarships, totaled $4.5 million and $4.3 million, respectively.

**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 for Northern Kentucky University Foundation, Inc. (NKUF) 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, 2020, with comparative information as of June 30, 2019, 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 summarized comparison of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2020, 2019 and 2018 follows:

***Condensed Statements of Net Position (in thousands)***

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets | $ 135,029 | $ 125,202 | $ 118,758 |
| Capital assets, net | 366,619 | 381,014 | 388,690 |
| Noncurrent assets | 61,519 | 33,797 | 32,269 |
| Total assets | 563,167 | 540,013 | 539,717 |
| **DEFERRED OUTFLOWS OF RESOURCES** | 40,010 | 43,545 | 70,980 |
| **LIABILITIES** | | | |
| Current liabilities | 43,658 | 38,375 | 39,765 |
| Noncurrent liabilities | 528,281 | 483,483 | 493,918 |
| Total liabilities | 571,939 | 521,858 | 533,683 |
| **DEFERRED INFLOWS OF RESOURCES** | 15,834 | 13,622 | 12,104 |
| **NET POSITION** | | | |
| Net investment in capital assets | 261,818 | 278,002 | 280,404 |
| Restricted | | | |
| Nonexpendable | 7,616 | 7,616 | 7,616 |
| Expendable | 4,255 | 2,981 | 5,076 |
| Unrestricted | (258,285) | (240,521) | (228,186) |
| Total net position | $ 15,404 | $ 48,078 | $ 64,910 |

## Assets

The University's assets increased by $23.2 million, or 4.3 percent, for the year ended June 30, 2020 and now total $563.2 million. Current assets increased by $9.8 million for the year ended June 30, 2020. Noncurrent assets increased by $13.3 million for the year ended June 30, 2020 due to a $29.3 million increase in noncurrent cash and cash equivalents, including $32.3 million in unspent bond proceeds from the 2019 Series A General Receipts bonds issued in November 2019 to fund capital construction projects. This increase was partially offset by a $14.4 million decrease in net capital assets and a $1.3 million decrease in investments.

Net capital assets decreased by $14.4 million for the year ended June 30, 2020 and decreased by $7.7 million the prior year, resulting in a combined decrease of $22.1 million, or 5.7 percent, since June 30, 2018. This two-year decrease is the net result of an $20.5 million increase in capitalized construction project costs, land improvements, equipment and other capital assets, less $42.6 million in depreciation. Net capital assets totaled $366.6 million, or 65.1 percent of total assets as of June 30, 2020.

## Deferred Outflows of Resources

Deferred outflows of resources totaled $40.0 million and $43.5 million as of June 30, 2020 and 2019, respectively. Deferred outflows of resources related to the University's defined benefit pension and OPEB plans, totaled $37.5 million and $40.6 million as of June 30, 2020 and 2019, respectively. The deferred outflows of resources that represent the unamortized difference between the reacquisition price and the net carrying amount of refunded debt totaled $2.5 million and $2.9 million at June 30, 2020 and 2019, respectively.

## Liabilities

The University's liabilities increased by $50.1 million, or 9.6 percent, for the year ended June 30, 2020. The $5.3 million increase in current liabilities resulted from a $2.0 million growth in accounts payable and accrued liabilities and a $3.7 million increase in unearned revenue that was driven by a $1.5 million growth in unearned summer tuition and fee revenues and a $2.5 million increase in unearned grant revenue. Noncurrent liabilities grew by $44.8 million for the year as a result of a $13.8 million growth in the University's net pension and OPEB liabilities and a $31.1 million increase in long-term debt, which resulted from the issuance of General Receipts Bonds in the amount of $37.9 million on November 12, 2019. Bonds, notes and capital leases payable, net of discounts and premiums, totaled $139.9 million and $108.4 million at June 30, 2020 and 2019, respectively.

At June 30, 2020, the University's proportionate share of the nonhazardous and hazardous net pension and OPEB liabilities totaled $383.6 million, which represents a $8.3 million increase since June 30, 2018. For the years ended June 30, 2020 and 2019, the University's net liability related to the post employment health insurance coverage decreased by $2.6 million and $5.0 million, respectively, resulting in a net liability of $51.8 million at June 30, 2020. The University's net pension liability increased by $16.4 million in 2020 and decreased by $0.5 million in 2019 resulting in a combined increase of $15.9 million since June 30, 2018. The net pension liability totaled $331.8 million at June 30, 2020.

## Deferred Inflows of Resources

The University's deferred inflows of resources totaled $15.8 million and $13.6 million as of June 30, 2020 and 2019, respectively. Deferred inflows of resources related to the University's defined benefit pension plan totaled $15.0 million and $12.6 million as of June 30, 2020 and 2019, respectively.

## 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 $15.4 million and $48.1 million at June 30, 2020 and 2019, respectively. For the years ended June 30, 2020 and 2019, the University recognized noncash expenses of $0.4 million and $1.3 million, respectively, in accordance with the OPEB reporting changes under GASB 75 and noncash expenses of $18.9 million and $22.4 million, respectively, in accordance with the pension reporting changes under GASB 68 and GASB 71 resulting in noncash expenses totaling $43.0 million for the two year period. Excluding the impact of the pension and OPEB reporting changes, the University's unrestricted net position would have increased by $1.6 million and $11.3 million for the years ended June 30, 2020 and 2019, respectively.

Net invested in capital assets totaled $261.8 million and $278.0 million at June 30, 2020 and 2019, respectively. The $18.6 million decrease in net invested in capital assets since June 30, 2018 resulted primarily from depreciation expenses totaling $42.6 million which were partially offset by $20.5 million in capitalized assets during the two year period. At June 30, 2020, the University's restricted nonexpendable net position remained unchanged at $7.6 million. The nonexpendable funds consist of endowments funded through the Commonwealth's Regional University Excellence Trust Fund.

## 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.

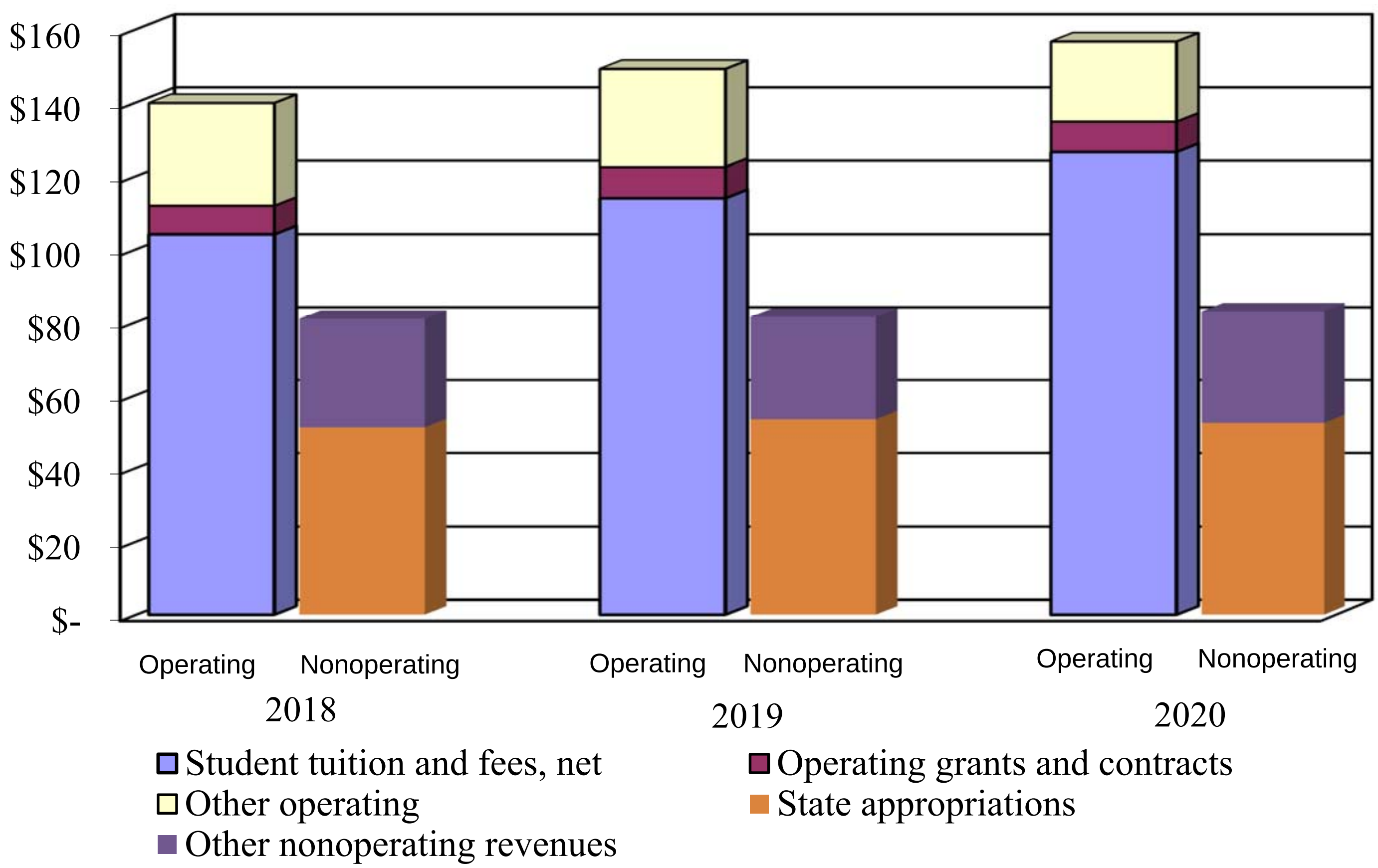
The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. A summarized comparison of the University's revenues, expenses and changes in net position for years ended June 30, 2020, 2019 and 2018 follows:

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

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| **OPERATING REVENUES** | | | |
| Student tuition and fees, net | $ 126,477 | $ 113,949 | $ 104,079 |
| Grants and contracts | 8,286 | 8,484 | 7,818 |
| Sales and services of educational departments | 3,543 | 4,286 | 4,745 |
| Auxiliary enterprises | 11,410 | 14,746 | 14,951 |
| Other operating revenues | 6,907 | 7,674 | 8,206 |
| Total operating revenues | 156,623 | 149,139 | 139,799 |
| **OPERATING EXPENSES** | | | |
| Educational and general | 240,161 | 221,189 | 227,073 |
| Depreciation | 16,995 | 18,231 | 16,521 |
| Auxiliary enterprises (including depreciation) | 10,992 | 11,660 | 12,097 |
| Other expenses | 122 | 70 | 279 |
| Total operating expenses | 268,270 | 251,150 | 255,970 |
| Net loss from operations | (111,647) | (102,011) | (116,171) |
| **NONOPERATING REVENUES (EXPENSES)** | | | |
| State appropriations | 52,300 | 53,315 | 51,105 |
| Gifts, grants and contracts | 29,109 | 26,436 | 27,313 |
| Investment income (loss) | 1,513 | 3,210 | 2,500 |
| Interest on capital asset-related debt | (4,353) | (3,787) | (4,063) |
| Other nonoperating revenues (expenses) | 43 | (1,529) | 1,432 |
| Net nonoperating revenues | 78,612 | 77,645 | 78,287 |
| Income (loss) before other revenues, expenses, gains or losses | (33,035) | (24,366) | (37,884) |
| Capital appropriations | - | - | 41,155 |
| Capital grants and gifts | 361 | 7,534 | 3,189 |
| Total other revenues | 361 | 7,534 | 44,344 |
| Increase (decrease) in net position | (32,674) | (16,832) | 6,460 |
| Net position-beginning of year, as previously reported | 48,078 | 64,910 | 105,514 |
| Cumulative effect of change in accounting principle | - | - | (47,064) |
| Net position-beginning of year, as restated | 48,078 | 64,910 | 58,450 |
| Net position-end of year | $ 15,404 | $ 48,078 | $ 64,910 |

**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 2018, 2019 and 2020. 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).



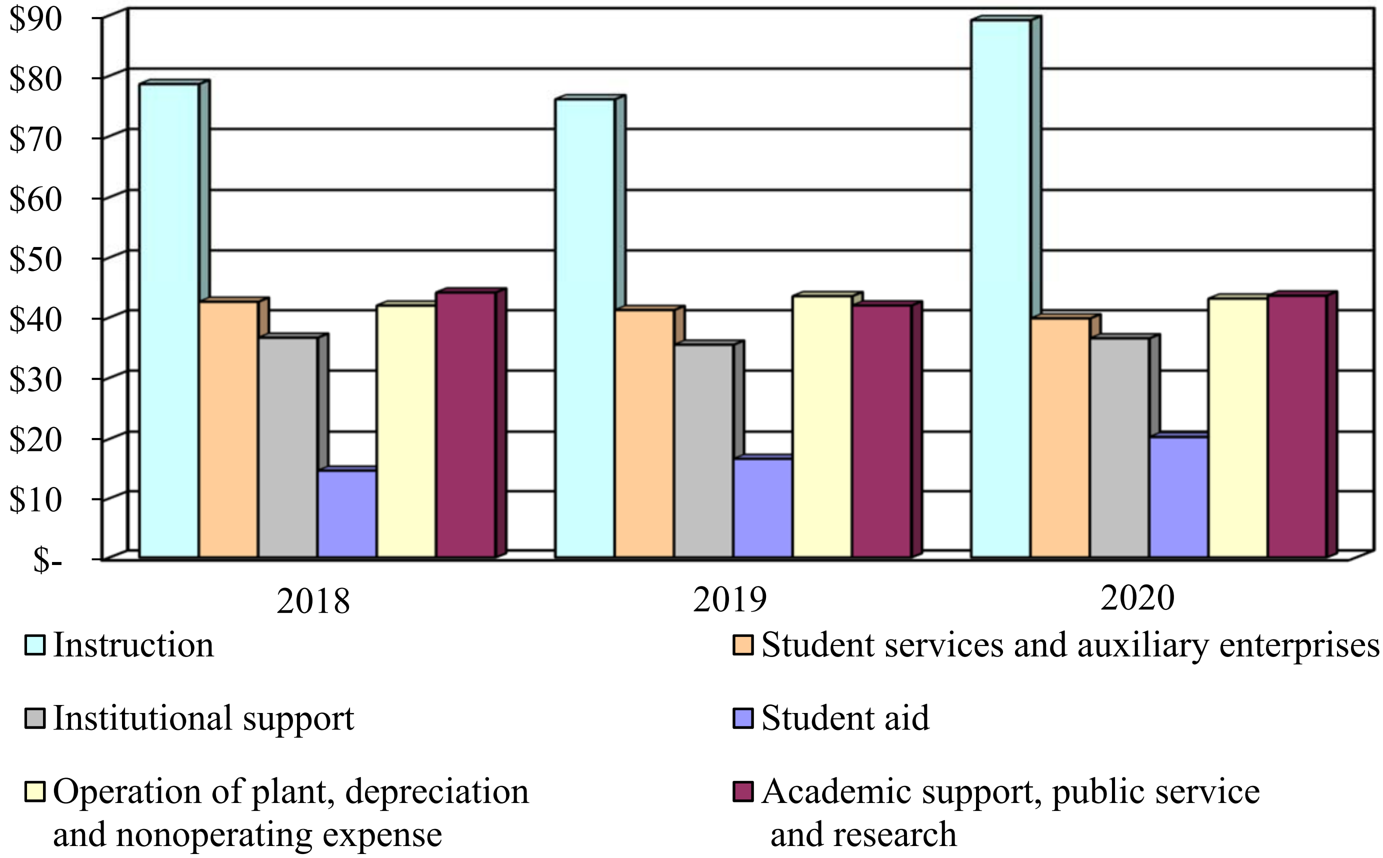

The University's operating and nonoperating revenues totaled $239.6 million for the year ended June 30, 2020, an increase of $7.5 million compared to 2019. Operating revenues totaled $156.6 million, or 65.5 percent of revenues, while nonoperating revenues totaled $83.0 million, or 34.5 percent of revenues, for the year. The most significant sources of revenue for the University are net student tuition and fees (52.8 percent) and state appropriations (21.8 percent).

Operating revenues increased by $7.5 million for the year ended June 30, 2020, including a $12.5 million increase in net tuition resulting from the combined impact of an increase in graduate enrollment and tuition and fee rate increases. Nongovernmental grants and contracts decreased by $0.3 million due to a decrease in operating grants received from the Northern Kentucky University Foundation. Revenues generated by the Center for Environmental Restoration and campus recreation center were negatively impacted by the pandemic resulting in revenue declines of $0.5 million and $0.2 million, respectively, which contributed to a $0.7 million decline in sales and services of educational departments revenues. The pandemic caused the cancellation of events at the University's arena, a reduction in student service fees and a decline in student orientation fees resulting in a $0.8 million decrease in other operating revenue. The pandemic resulted in the closure of the University's housing, food service and parking auxiliary operations during the spring and summer semesters resulting in the issuance of over $2.5 million in student refunds related to the spring semester and the loss of summer semester revenues. Overall auxiliary enterprises revenues declined by $3.3 million for the year.

Fortunately, the University was able to offset some of the operating revenues that were lost due to the pandemic through a federal grant funded by the Higher Education Emergency Relief Fund (HEERF). The University's grant award totaled $8.0 million, of which 50 percent of the funds must be used to provide direct emergency aid to students and 50 percent provides funds to recover foregone revenue and cover costs associated with changes in the delivering instruction due to the coronavirus. For the year ended June 30, 2020, the University disbursed $1.5 million of the HEERF grant to students and recognized $1.5 million in institutional HEERF grant revenues, which contributed to a $2.3 million increase in federal nonoperating grants. The pandemic also contributed to a $1.7 million decline in investment earnings on the University's endowment and non-endowment investments. State appropriations decreased by $1.0 million in fiscal year 2020 and increased by $2.2 million in 2019, resulting in a combined $1.2 million increase the two year period. Total nonoperating revenues remained unchanged at $83.0 million for the year ended June 30, 2020.

**Operating and Nonoperating Expenses**

The following chart illustrates the University's expenses by function (both operating and nonoperating) for fiscal years 2018, 2019 and 2020 (presented in millions).




Operating and nonoperating expenses increased by $16.2 million, or 6.3 percent, to a total of $272.6 million for the year ended June 30, 2020. Instruction expenses increased by $13.1 million primarily due to a $5.1 million increase in faculty salaries and a $7.1 million increase in contract expenses related to the University's accelerated online courses. Public service expenses decreased for the year by $0.7 million for the year resulting, in part, from a $0.4 million decrease in the Center for Environmental Restoration expenses and a $0.3 million decrease in student travel expenses related primarily to the cancellation of study abroad trips due to the pandemic. Libraries expenses increased by $0.2 million due, in part, to the University's investment in technology upgrades for the Steely Library. Academic support expenses grew by $1.8 million primarily due to a $1.3 million increase in salaries and wages. A $0.8 million decrease in student services expenses resulted primarily from a $0.7 million decrease in pension and OPEB expenses and a reduction in renovation project expenses. Institutional support expenses grew by $1.1 million due to a $1.2 million increase in operating expenses and a $0.5 million increase in salary and wages which were partially offset by a $0.7 decrease in pension and OPEB related expenses. Operation and maintenance of plant increased by $0.3 million due to a $1.3 million increase in project expenses, including an energy savings project and a master plan update project, which was partially offset by a $1.0 million decline in salary and benefits, including a $0.8 million decrease in pension and OPEB expenses, and a $0.4 decline in general institutional utility expenses. Education and general depreciation expense declined by $1.2 million for the year due to a $1.3 million reduction in depreciation expenses related to the University's enterprise resource planning (ERP) student system, which was fully depreciated as of June 30, 2019.

Tuition and fee scholarship allowances and housing scholarship allowances increased by $0.3 million and student aid expenses increased by $3.6 million primarily due to an increase in institutionally funded scholarships, including a $2.0 million increase in scholarships related to the University's online programs, which have grown significantly and an increase in scholarships for non-resident students. State funded financial aid program expenses increased by $0.3 million while federal financial aid program expenses decreased by $0.7 million for the year, including a $0.7 million decline in Pell grant expenses. The $1.5 million in emergency student aid disbursed through the HEERF program also contributed to the increase in financial aid expenses for the year.

For the years ended June 30, 2020, 2019 and 2018, cash and noncash pension and OPEB expenses totaled $36.9 million, $41.0 million and $49.3 million, respectively. This $12.4 million decrease in pension and OPEB expenses combined with a $25.0 million net increase in nonpension and OPEB related expenses, resulted in a $12.6 million combined increase in operating and nonoperating expenses for fiscal years 2020 and 2019.

## 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, 2020, 2019 and 2018 follows:

***Condensed Statements of Cash Flows (in thousands)***

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Net cash provided (used) by: | | | |
| Operating activities | $ (69,674) | $ (54,687) | $ (64,233) |
| Noncapital financing activities | 83,287 | 79,410 | 77,724 |
| Capital and related financing activities | 22,689 | (15,044) | (5,038) |
| Investing activities | 2,856 | 2,744 | 1,894 |
| Net increase (decrease) in cash and cash equivalents | 39,158 | 12,423 | 10,347 |
| Cash and cash equivalents, beginning of year | 128,065 | 115,642 | 105,295 |
| Cash and cash equivalents, end of year | $ 167,223 | $ 128,065 | $ 115,642 |

The University's cash and cash equivalents increased by $39.2 million in 2020. Major sources of funds generated by operating activities in 2019 included student tuition and fees ($125.4 million), grants and contracts ($8.5 million) and auxiliary enterprises ($11.5 million). The largest cash payments for operating activities were for salaries and benefits ($155.3 million), vendor payments ($49.8 million) and student financial aid ($20.8 million). Net cash used by operating activities increased by $15.0 million for the year primarily due to increases in payments for salaries and benefits ($10.8 million), payments for student financial aid ($3.1 million) and payments to suppliers ($8.4 million). A $7.1 million increase in payments for contracted services related to the University's accelerated online programs contributed to the increase in payments to suppliers. The $22.3 million increase in operating activities payments was partially offset by a $7.3 million net increase in cash receipts from operating activities, resulting from an increase in tuition and fees receipts ($11.7 million) driven by enrollment increases in the accelerated online programs, and an increase in grants and contacts ($0.6 million) receipts. These increases were partially offset by decreases in auxiliary enterprise receipts ($3.1 million), sales and services of educational departments receipts ($1.3 million) and other operating receipts ($0.7 million).

Net cash provided by noncapital financing activities increased by $3.9 million for the year ended June 30, 2020 resulting primarily from an increase of $4.6 million in receipts from federal and state grants, which was partially offset by a $1.0 million decline in state appropriations. The $22.7 million of cash provided by capital and related financing activities for the year was driven by the receipt of $39.9 million in bond proceeds from the issuance of the General Receipts 2019 Series A bonds in November 2019. Purchases of capital assets totaling $8.0 million were funded by bond proceeds, capital grants and gifts, and institutional funds. The University's principal and interest payments totaled $12.1 million and $12.0 million for fiscal years 2020 and 2019, respectively.

## Capital Asset and Debt Administration

### Capital Assets

As of June 30, 2020, capital assets, net of accumulated depreciation, totaled $366.6 million, or 65.1 percent of total assets. Capital assets as of June 30, 2020, 2019 and 2018, and significant changes in capital assets during the years ended June 30, 2019 and 2020 are as follows (in thousands):

| | Balance June 30, 2018 | Net Additions (Deletions) | Balance June 30, 2019 | Net Additions (Deletions) | Balance June 30, 2020 |
|---|---|---|---|---|---|
| Land | $ 9,629 | $ - | $ 9,629 | $ (232) | $ 9,397 |
| Land Improvements | 42,082 | 608 | 42,690 | 11 | 42,701 |
| Buildings | 531,166 | 7,365 | 538,531 | (2,513) | 536,018 |
| Equipment | 77,662 | 623 | 78,285 | 1,463 | 79,748 |
| Library Books | 15,001 | (1,449) | 13,552 | (3,959) | 9,593 |
| Construction in Process | 4,096 | 1,215 | 5,311 | (1,546) | 3,765 |
| Accumulated Depreciation | (290,946) | (16,038) | (306,984) | (7,619) | (314,603) |
| | $ 388,690 | $ (7,676) | $ 381,014 | $ (14,395) | $ 366,619 |

Net capital assets decreased by $14.4 million for the year ended June 30, 2020 and decreased by $7.7 million the prior year, resulting in a combined decrease of $22.1 million, or 5.7 percent, since June 30, 2018. This two-year decrease is the net result of an $20.5 million increase in capitalized construction project costs, land improvements, equipment and other capital assets, less $42.6 million in depreciation. At June 30, 2020, the University had several major projects underway, including a new student residence hall.

### Debt

The following is a summary of the University's outstanding capital debt summarized by trust indenture and type as of June 30, 2020, 2019 and 2018 (in thousands):

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| General Receipts Bonds, net of discounts and premiums | $ 135,916 | $ 103,899 | $ 111,891 |
| Housing and Dining System Revenue Bonds | 205 | 405 | 600 |
| Notes payable and municipal lease obligations | 3,744 | 4,090 | 275 |
| | $ 139,865 | $ 108,394 | $ 112,766 |

Debt increased by $31.5 million for the year ended June 30, 2020 resulting from principal payments of $7.8 million on bonds, notes and capital lease obligations, a $1.4 million growth in net discounts and premiums and the issuance of $37.9 million of General Receipts 2019 Series A bonds. On November 12, 2019, the University issued General Receipts 2019 Series A bonds with a par amount of $37.9 million and a net interest cost of 2.92 percent to fund the construction of a new student residence hall and the renovation of existing housing and parking facilities.

The University's current bond ratings assigned by Moody's Investors Service (A1 stable) and Standard and Poors (A negative) to the University's General Receipts bonds reflect the University's solid financial position despite the continued funding challenges related to the KERS pension and OPEB plans.

## ECONOMIC FACTORS IMPACTING FUTURE PERIODS

The University continues to move forward in its first year implementing our Success By Design strategic framework focused on advancing student success aligned with the needs of the region. Progress in year one includes creating the First Five Initiatives for implementation. These initiatives will help achieve the goals of increasing access, achieving higher levels of completion and advance opportunities for career and community engagement. The University's vision continues to be a student-ready and regionally engaged university that empowers diverse learners for economic and social mobility.

The enacted budget for 2020-21 (House Bill 352) appropriated $15.0 million for the Postsecondary Education Performance Fund. These funds are being distributed among institutions according to provisions of Kentucky Revised Statute 164.092, which established the performance funding model that allocates funding based on student success, course completion and operational support. For fiscal year 2021, the University was allocated $1.0 million from the Performance Fund based on its performance metrics which exceeded the sector average in five of the eleven sectors. The University's state appropriations, including the performance funding allotment, for fiscal year 2021 total $52.2 million.

In recognition of the disruption and financial uncertainties caused by the COVID-19 pandemic, the University's management decided to freeze undergraduate tuition rates for fiscal year 2021 at the 2020 levels, with the exception of a few increases and decreases in specific program rates driven by market and other factors. Management also decided to waive certain fees, such as additional fees normally assessed on online classes. Finally, management developed a contingency budget plan to prepare for the potential impacts of the pandemic on the fiscal year 2021 budget.

Many of the national enrollment forecasts issued in spring 2020 were projecting sharp declines in fall 2020 enrollment due to the impact of the pandemic. The University is bucking the national trend and on target for a third consecutive year of enrollment growth, with nearly 15,700 students enrolled on the first day of fall classes. This continued growth in enrollment is being fueled by the continued increase in enrollment in the University's accelerated online programs, particularly graduate online programs, and an increase in undergraduate retention rates.

During the 2019 Special Session, the Kentucky General Assembly passed House Bill 1, which provides several options for quasi-governmental employers, including state universities, participating in the KERS. Under HB1, employers may elect to cease participation in the defined benefit plan for nonhazardous employees. The employers who cease participation are required to offer the impacted employees an alternative defined contribution retirement program. During the 2020 regular session, the General Assembly passed House Bill 352, which froze the University's combined pension and OPEB contributions rates for fiscal year 2021 at 49.5 percent.

Under Senate Bill 249, which was passed in the 2020 regular session, the University has until January 1, 2021 to choose one of the following options:

- Remain in the KERS defined benefit plan with no changes and be subject to future contribution rate increases;
- Exit KERS, but elect to keep all Tier 1 and Tier 2 employees in the system. Tier 3 employees and all new employees would participate in the University's defined contribution plan. The University's liability for the Tier 1 and 2 employees would include the unfunded liability as of the cessation date and the estimated normal cost for future service;
- Exit KERS, freeze all KERS pension accounts and move all Tier 1, 2, and 3 employees to a University defined contribution plan. All new employees would participate in the University's defined contribution plan. The University's liability for the Tier 1 and 2 employees would include the unfunded liability as of the cessation date.

If the University elects to exit the system, Senate Bill 249 provides the University the option of paying a lump sum payment on the cessation date or paying annual installment payments, including interest, to KERS until the liability is retired.

Unfortunately, as the Commonwealth and the University continue to face significant budget challenges related to funding the state pension systems, the revenue outlook for the Commonwealth of Kentucky has changed dramatically due to the pandemic according to the 2020 annual edition of Commonwealth of Kentucky Quarterly Economic & Revenue Report. The reports indicate fiscal year 2020 receipts contained a fourth quarter decline, which would have been more profound without the significant federal relief to individuals and business. From March through July 2020, Kentucky received over $14 billion in payments from the federal government to individuals and businesses. The vast majority of those payment programs have expired. Fortunately, the strong growth in receipts for the first nine months of the fiscal year were enough to offset the fourth quarter decline, resulting in a 1.5 percent growth for the year and a $177.5 million general fund surplus. The state deposited $162.5 million of this surplus into the state's Budget Reserve Trust Fund, known as the "rainy day fund", raising the total balance in the fund to $465.7 million as of June 30, 2020. Given the uncertainty of economic forecasts with the continued impacts of pandemic, the report shows a general fund revenue shortfall for fiscal year 2020-21 ranging from $242 to $504 million. Given the uncertainty of economic forecasts and with no current plans to provide additional federal relief funding, the state has asked all state entities, including universities, to draft budget contingency plans in the event that a state budget reduction may be necessary to balance the fiscal year 2021 state budget.

Management is 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. Phase one of the development was completed in the spring with the opening of the St. Elizabeth Medical Office building. The building is occupied by St. Elizabeth Healthcare and OrthoCincy. Phase two of the development is expected to include a hotel, approximately 30,000 to 40,000 square feet of retail tenants and restaurants, up to 150 market-rate apartments, parking and potentially, office space. The development will energize the entrance to the University, providing for more amenities for students and better integration with the community. The ground leases for the phases one and two of the development will provide a revenue stream to the University for many years into the future.

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 strategies that drive success by design across the three pillars of access, completion and career and community engagement are as relevant as ever. These strategies are designed to increase enrollment, support students from diverse backgrounds, increase student retention rates, maintain academic quality, deepen regional engagement and increase net tuition revenue. 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 launched a multi-year fundraising campaign in the spring of 2019 with a public goal of $75 million.

**Northern Kentucky University**
**A Component Unit of the Commonwealth of Kentucky**
**Statements of Net Position**
**As of June 30, 2020 and 2019**
*(in thousands)*

| | 2020 | 2019 |
|---|---|---|
| **ASSETS** | | |
| Current Assets | | |
| Cash and cash equivalents | $ 120,086 | $ 110,229 |
| Notes, loans and accounts receivable, net | 11,672 | 11,728 |
| Other current assets | 3,271 | 3,245 |
| Total current assets | 135,029 | 125,202 |
| Noncurrent Assets | | |
| Cash and cash equivalents | 47,137 | 17,836 |
| Investments | 12,697 | 14,040 |
| Notes, loans and accounts receivable, net | 1,399 | 1,670 |
| Capital assets, net | 366,619 | 381,014 |
| Other noncurrent assets | 286 | 251 |
| Total noncurrent assets | 428,138 | 414,811 |
| Total assets | 563,167 | 540,013 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Bond refunding loss | 2,550 | 2,910 |
| Pension and OPEB | 37,460 | 40,635 |
| Total deferred outflows of resources | 40,010 | 43,545 |
| **LIABILITIES** | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | 21,382 | 19,417 |
| Unearned revenue | 12,873 | 9,183 |
| Long-term debt-current portion | 8,795 | 8,416 |
| Other long-term liabilities-current portion | 608 | 1,359 |
| Total current liabilities | 43,658 | 38,375 |
| Noncurrent Liabilities | | |
| Deposits | 11,559 | 11,285 |
| Long-term debt | 131,070 | 99,978 |
| Other long-term liabilities | 2,004 | 2,354 |
| Net pension and OPEB liability | 383,648 | 369,866 |
| Total noncurrent liabilities | 528,281 | 483,483 |
| Total liabilities | 571,939 | 521,858 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Service agreements | 803 | 978 |
| Pension and OPEB | 15,031 | 12,644 |
| Total deferred inflows of resources | 15,834 | 13,622 |
| **NET POSITION** | | |
| Net investment in capital assets | 261,818 | 278,002 |
| Restricted | | |
| Nonexpendable | 7,616 | 7,616 |
| Expendable | 4,255 | 2,981 |
| Unrestricted | (258,285) | (240,521) |
| Total net position | $ 15,404 | $ 48,078 |

*See accompanying notes to the financial statements*

**Northern Kentucky University Foundation, Inc.**
**Consolidated Statements of Financial Position**
**As of June 30, 2020 and 2019**
*(in thousands)*

| | 2020 | 2019 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 9,007 | $ 9,355 |
| Loans and accounts receivable, net | 452 | 191 |
| Contributions receivable, net | 6,545 | 3,012 |
| Prepaid expenses and deferred charges | 130 | 42 |
| Investments | 106,234 | 108,503 |
| Land and land improvements | 563 | 548 |
| Accumulated depreciation | (208) | (208) |
| Total assets | $ 122,723 | $ 121,443 |
| **LIABILITIES AND NET ASSETS** | | |
| Accounts payable | $ 395 | $ 405 |
| Deferred revenue | 674 | 163 |
| Notes payable | 2,000 | - |
| Funds held in trust for Northern Kentucky University | 12,487 | 13,446 |
| Total liabilities | 15,556 | 14,014 |
| **NET ASSETS** | | |
| Without donor restrictions | | |
| For current operations | 1,751 | 1,596 |
| Amounts functioning as endowment funds | 2,571 | 2,687 |
| Invested in land and land improvements | 355 | 340 |
| Total without donor restrictions | 4,677 | 4,623 |
| With donor restrictions | | |
| Unexpended funds received for restricted purposes | 10,098 | 9,468 |
| Contributions receivable | 6,545 | 3,012 |
| Loan funds | 408 | 214 |
| Endowment funds | 85,439 | 90,112 |
| Total with donor restrictions | 102,490 | 102,806 |
| Total net assets | 107,167 | 107,429 |
| Total liabilities and net assets | $ 122,723 | $ 121,443 |

*See accompanying notes to the 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, 2020 and 2019**
*(in thousands)*

| | 2020 | 2019 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Student tuition and fees (net of scholarship allowances of | | |
| $44,690 in 2020 and $44,007 in 2019) | 126,477 | $ 113,949 |
| Federal grants and contracts | 2,411 | 2,396 |
| State and local grants and contracts | 2,961 | 2,905 |
| Nongovernmental grants and contracts | 2,914 | 3,183 |
| Sales and services of educational departments | 3,543 | 4,286 |
| Auxiliary enterprises | | |
| Housing and food service (net of scholarship allowances of | | |
| $1,008 in 2020 and $1,381 in 2019) | 8,462 | 10,931 |
| Other auxiliaries | 2,948 | 3,815 |
| Other operating revenues | 6,907 | 7,674 |
| Total operating revenues | 156,623 | 149,139 |
| **OPERATING EXPENSES** | | |
| Educational and general | | |
| Instruction | 89,201 | 76,092 |
| Research | 2,339 | 2,003 |
| Public service | 11,061 | 11,735 |
| Libraries | 5,560 | 5,410 |
| Academic support | 24,646 | 22,822 |
| Student services | 28,722 | 29,486 |
| Institutional support | 36,536 | 35,471 |
| Operation and maintenance of plant | 21,800 | 21,504 |
| Depreciation | 16,995 | 18,231 |
| Student aid | 20,296 | 16,666 |
| Auxiliary enterprises | | |
| Housing and food service | 6,018 | 6,620 |
| Other auxiliaries | 1,271 | 1,378 |
| Auxiliary depreciation | 3,703 | 3,662 |
| Other expenses | 122 | 70 |
| Total operating expenses | 268,270 | 251,150 |
| Net income (loss) from operations | (111,647) | (102,011) |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| State appropriations | 52,300 | 53,315 |
| Federal grants and contracts | 17,526 | 15,202 |
| State and local grants and contracts | 11,524 | 11,197 |
| Private gifts and grants | 59 | 37 |
| Investment income (loss) | 1,513 | 3,210 |
| Interest on capital asset-related debt | (4,353) | (3,787) |
| Other nonoperating revenues (expenses) | 43 | (1,529) |
| Net nonoperating revenues | 78,612 | 77,645 |
| Income (loss) before other revenues, expenses, gains or | (33,035) | (24,366) |
| Capital grants and gifts | 361 | 7,534 |
| Total other revenues | 361 | 7,534 |
| Increase (decrease) in net position | (32,674) | (16,832) |
| **NET POSITION-BEGINNING OF YEAR** | 48,078 | 64,910 |
| **NET POSITION-END OF YEAR** | $ 15,404 | $ 48,078 |

*See accompanying notes to the financial statements*

**Northern Kentucky University Foundation, Inc.**
**Consolidated Statements of Activities**
**For the Year Ended June 30, 2020**
*(in thousands)*

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **REVENUES, GAINS AND OTHER SUPPORT** | | | |
| Gifts and bequests | $ 1 | $ 8,887 | $ 8,888 |
| State grants | - | 539 | 539 |
| Rental income | 131 | - | 131 |
| Investment return | 18 | (2,957) | (2,939) |
| Other revenue | 122 | 563 | 685 |
| Total revenues and gains | 272 | 7,032 | 7,304 |
| Net assets released from restrictions | 7,338 | (7,338) | - |
| Total revenues, gains and other support | 7,610 | (306) | 7,304 |
| | | | |
| **EXPENSES AND LOSSES** | | | |
| Program expenses | | | |
| Instruction | 765 | - | 765 |
| Research | 66 | - | 66 |
| Public service | 735 | - | 735 |
| Libraries | 10 | - | 10 |
| Academic support | 1,038 | - | 1,038 |
| Student services | 592 | - | 592 |
| Institutional support | 932 | - | 932 |
| University facilities and equipment acquisition | 150 | - | 150 |
| Student financial aid | 2,557 | - | 2,557 |
| Other program expenses and losses | - | 10 | 10 |
| Total program expenses | 6,845 | 10 | 6,855 |
| Support expenses | | | |
| Management and general | 503 | - | 503 |
| Fund raising support | 204 | - | 204 |
| Rental property | 4 | - | 4 |
| Total support expenses | 711 | - | 711 |
| Total expenses and losses | 7,556 | 10 | 7,566 |
| Increase (decrease) in net assets | 54 | (316) | (262) |
| Net assets-beginning of year | 4,623 | 102,806 | 107,429 |
| Net assets-end of year | $ 4,677 | $ 102,490 | $ 107,167 |

*See accompanying notes to the financial statements*

**Northern Kentucky University Foundation, Inc.**
**Consolidated Statements of Activities**
**For the Year Ended June 30, 2019**
*(in thousands)*

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **REVENUES, GAINS AND OTHER SUPPORT** | | | |
| Gifts and bequests | $ - | $ 5,014 | $ 5,014 |
| State grants | - | 669 | 669 |
| Rental income | 131 | - | 131 |
| Investment return | 295 | 3,566 | 3,861 |
| Other revenue | 117 | 421 | 538 |
| Total revenues and gains | 543 | 9,670 | 10,213 |
| Net assets released from restrictions | 12,675 | (12,675) | - |
| Total revenues, gains and other support | 13,218 | (3,005) | 10,213 |
| | | | |
| **EXPENSES AND LOSSES** | | | |
| Program expenses | | | |
| Instruction | 957 | - | 957 |
| Research | 60 | - | 60 |
| Public service | 882 | - | 882 |
| Libraries | 23 | - | 23 |
| Academic support | 904 | - | 904 |
| Student services | 931 | - | 931 |
| Institutional support | 1,141 | - | 1,141 |
| University facilities and equipment acquisition | 5,296 | - | 5,296 |
| Student financial aid | 1,925 | - | 1,925 |
| Other program expenses and losses | - | 122 | 122 |
| Total program expenses | 12,119 | 122 | 12,241 |
| Support expenses | | | |
| Management and general | 476 | - | 476 |
| Fund raising support | 281 | - | 281 |
| Rental property | 17 | - | 17 |
| Total support expenses | 774 | - | 774 |
| Total expenses and losses | 12,893 | 122 | 13,015 |
| Increase (decrease) in net assets | 325 | (3,127) | (2,802) |
| Net assets-beginning of year | 4,298 | 105,933 | 110,231 |
| Net assets-end of year | $ 4,623 | $ 102,806 | $ 107,429 |

*See accompanying notes to the financial statements*

**Northern Kentucky University**
**A Component Unit of the Commonwealth of Kentucky**
**Statements of Cash Flows**
**For the Years Ended June 30, 2020 and 2019**
*(in thousands)*

| | 2020 | 2019 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Tuition and fees | $ 125,433 | $ 113,684 |
| Grants and contracts | 8,510 | 7,945 |
| Payments to suppliers | (49,769) | (41,340) |
| Payments for salaries and benefits | (155,317) | (144,545) |
| Payments for student financial aid | (20,770) | (17,680) |
| Loans issued to students | (55) | (86) |
| Collection of loans to students | 169 | 221 |
| Auxiliary enterprise receipts: | | |
| Housing operations | 8,484 | 10,763 |
| Other auxiliaries | 3,028 | 3,815 |
| Sales and service of educational departments | 3,615 | 4,874 |
| Other receipts (payments) | 6,998 | 7,662 |
| Net cash used by operating activities | (69,674) | (54,687) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| State appropriations | 52,300 | 53,315 |
| Gifts and grants for other than capital purposes | 31,111 | 26,550 |
| Agency and loan program receipts | 105,419 | 92,036 |
| Agency and loan program disbursements | (105,543) | (92,436) |
| Other nonoperating receipts (payments) | - | (55) |
| Net cash provided by noncapital financing activities | 83,287 | 79,410 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Proceeds from capital debt and leases | 39,936 | 4,088 |
| Capital appropriations | - | 4,447 |
| Capital grants, gifts, and advances received | 476 | 9,829 |
| Proceeds from sale of capital assets | 2,963 | - |
| Purchases of capital assets | (7,959) | (21,434) |
| Principal paid on capital debt and leases | (7,751) | (7,803) |
| Interest paid on capital debt and leases | (4,358) | (4,171) |
| Bond issuance costs | (618) | - |
| Net cash provided (used) by capital and related financing activities | 22,689 | (15,044) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sales and maturities of investments | 826 | 147 |
| Purchase of investments | (267) | (594) |
| Interest on investments | 2,297 | 3,191 |
| Net cash provided (used) by investing activities | 2,856 | 2,744 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 39,158 | 12,423 |
| Cash and cash equivalents-beginning of year | 128,065 | 115,642 |
| Cash and cash equivalents-end of year | $ 167,223 | $ 128,065 |

*See accompanying notes to the financial statements*

**Northern Kentucky University**
**A Component Unit of the Commonwealth of Kentucky**
**Statements of Cash Flows**
For the Years Ended June 30, 2020 and 2019
*(in thousands)*

| | 2020 | 2019 |
|---|---|---|
| **RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:** | | |
| Net loss from operations | $ (111,647) | $ (102,011) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | |
| Depreciation expense | 20,698 | 21,893 |
| Deferred inflows of resources | 2,212 | 1,518 |
| Deferred outflows of resources | 3,175 | 27,068 |
| Changes in assets and liabilities: | | |
| Receivables, net | 511 | (1,664) |
| Other assets | (62) | (642) |
| Accounts payable, accrued liabilities and deposits | 1,139 | 61 |
| Unearned revenue | 1,456 | 3,758 |
| Pension and OPEB | 13,782 | (5,503) |
| Long-term liabilities | (938) | 835 |
| Net cash used by operating activities | $ (69,674) | $ (54,687) |
| | | |
| **SUPPLEMENTAL CASH FLOWS INFORMATION** | | |
| Gifts of capital assets | $ 41 | $ 397 |
| Capital asset acquisitions in accounts payable | 3,048 | 2,220 |
| Unrealized gains and losses on investments | 1,018 | 109 |

*See accompanying notes to the financial statements*

## Note 1 – Organization and Summary of Significant Accounting Policies

### a. Reporting Entity
Northern Kentucky University (the University) is a component unit of the Commonwealth of Kentucky (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 13.

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. 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.

The University evaluates capital and lease assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital and lease asset has occurred. If a capital or lease asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, an impairment loss would be recorded. No impairment losses were recognized during the years ended June 30, 2020 or 2019.

**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 except for employees currently eligible to retire from the Kentucky Employers Retirement System (KERS). A liability is accrued equal to the estimated amount to be paid to KERS for sick leave converted to time worked at retirement. 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. 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 other student 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. Unearned revenue is recognized as services are rendered.

**j. Deposits**
Noncurrent deposits consist primarily of deposits held in a wetland restoration fund pursuant to a memorandum of agreement with a federal agency.

**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. Cost-Sharing Defined Benefit Other Postemployment Benefit Plan

The University participates in a cost-sharing multiple-employer defined benefit other postemployment benefit plan, KRS, (the OPEB Plan). For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Plan and additions to/deduction from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### m. 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 the related period. Deferred outflows of resources include $2,550,000 and $2,910,000 of losses on bond refunding for the years ended June 30, 2020 and 2019, respectively. The remaining balance of deferred outflows for years ended June 30, 2020 and 2019 consist of the KERS pension and OPEB 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 the related period. The agreement between the University and the University's food service providers resulted in a deferred inflow of resources of $803,000 and $978,000 at June 30, 2020 and 2019, 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, 2020 and 2019 consist of the KERS pension and OPEB related unamortized balances.

See Notes 7 and 8 for details of pension and OPEB related deferred outflows of resources and deferred inflows of resources.

### n. 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.

### o. 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).

### p. 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.

### q. 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.

**r. CARES Act**

The *Coronavirus Aid, Relief, and Economic Security* (CARES) Act was signed into law by President Trump on March 27, 2020. The CARES Act included direct payments to institutions of higher education through the Higher Education Emergency Relief Fund (HEERF). The University's grant award totaled $8.0 million, of which 50 percent of the funds must be used to provide direct emergency aid to students and 50 percent provides funds to recover foregone revenue and cover costs associated with changes in delivering instruction due to the coronavirus. For the year ended June 30, 2020, the University distributed and recognized $1.5 million of the HEERF grant to students; and, therefore, recognized $1.5 million in the institutional HEERF grant funds. An additional $2.2 million in institutional expenses have been incurred and recorded as deferred revenue until such time as an equal amount of student funds are expended.

**s. 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.

**t. 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.

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.

**u. Related Party Transactions**

During the years ended June 30, 2020 and 2019, the Foundation made payments on behalf of the University of $331,000 and $327,000, 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. Approximately $0 and $4,000 as of June 30, 2020 and June 30, 2019 respectively, was owed to the University for such costs.

In support of University programs, the Foundation incurred program expenses of $6,855,000 and $12,175,000 for 2020 and 2019, respectively, which consisted of payments on behalf of the University of $4,858,000 and $4,570,000, for 2020 and 2019, respectively; and amounts transferred to the University for restricted purposes of $1,997,000 and $7,605,000 for 2020 and 2019, respectively.

During the year ended June 30, 2020, Northern Kentucky University sold 20.24 acres of land to the Foundation for approximately $2,968,000 and recognized a gain on the transaction of approximately $2,736,000.

**v. Change in Accounting Principle**

During fiscal year 2020, the University adopted GASB Statement No. 89 *Accounting for Interest Cost Incurred before the end of a Construction Period*. The Statement requires interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred rather than included in the historical cost of a capital asset.

**w. Recent Accounting Pronouncements**

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, effective for the University's fiscal year ending June 30, 2021. This statement establishes criteria to identify and report fiduciary activities in the University's financial statements. In general, if the University controls the activities and the beneficiaries of fiduciary funds, then the activity should be included in the Fiduciary section of the financial statements. Business-type activities are required to include custodial funds as assets with an offset to a liability in their statement of net position, and report additions and deductions in the statement of cash flows. This statement also establishes requirements for reporting fiduciary activities of component units. A fiduciary fund component unit, should be reported in the primary government's fiduciary funds. 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. In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, that postponed the effective date of this pronouncement. The provisions of this statement are now effective for reporting periods beginning after June 15, 2021. The University is currently evaluating the effects of this statement on its financial statements.

In May 2020, the GASB approved Statement No. 96, *Subscription-based Information Technology Arrangements.* The statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA results in an intangible asset and corresponding subscription liability. The statement also provides the capitalization criteria for outlays other than subscription payments including implementation costs of a SBITA. The provisions of this statement are effective for reporting periods beginning after June 15, 2022. The University is currently evaluating the effects of this statement on its financial statements.

**x. Reclassifications and Revisions**

Certain items have been reclassified in the Statement of Cash Flows for the year ended June 30, 2019 in order to conform to classifications used for the year ended June 30, 2020. One such reclassification to the Statement of Cash Flows for the year ended June 30, 2019 was made to correct an immaterial error. This correction increased payments to suppliers and decreased purchases of capital assets by approximately $836,000 respectively. Additionally, the Statement of Cash Flows for the year ended June 30, 2019 incorrectly reported $2,653,000 in capital assets acquired through debt as Supplemental Cash Flows Information. Accordingly, this information has been revised in the Statement of Cash Flows for the year ended June 30, 2020. These reclassifications and revisions had no effect on total net position or the change in net position.

## Note 2 – Cash, Cash Equivalents and Investments

At June 30, 2020, petty cash funds totaled $57,000 and the carrying amount of the deposits was $167,166,000 with a corresponding total bank balance of $170,694,000. Of the bank balance, $37,350,000 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 $133,344,000 was held and invested by the Commonwealth. These deposits were covered by federal depository insurance or by collateral held by the Commonwealth in the Commonwealth's name.

**Investments**

The investments which the University may purchase are limited by the Commonwealth's law and the University's bond resolutions to the following (1) securities or obligations which are fully guaranteed by the U.S. Government or agencies of the U.S. Government as to principal and interest; (2) certificates of deposit or time deposits of banks, trust companies or national banking associations which are insured by the Federal Deposit Insurance Corporation; and (3) mutual funds investing solely in U.S. securities.

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

The following schedule reports the fair values of the University's investments at June 30, 2020 and 2019 (in thousands):

| | 2020 | 2019 |
|---|---|---|
| Treasury bills | $ 210 | $ 594 |
| Restricted assets held by the Foundation | 12,487 | 13,446 |
| Total investments | $ 12,697 | $ 14,040 |

University investments held by the Foundation 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's investment pool at June 30, 2020 and 2019 are invested as follows:

| | 2020 | 2019 |
|---|---|---|
| **Type of Investment:** | | |
| Fixed income funds | 21% | 15% |
| Domestic equity funds | 34% | 35% |
| International equity funds | 13% | 14% |
| Emerging markets | 8% | 9% |
| Private equity | 6% | 6% |
| Natural resources | 10% | 13% |
| Other | 8% | 8% |
| **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 interest-bearing direct obligations of the U.S. government or obligations fully guaranteed by 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, 2020 or June 30, 2019.

## Note 3 – Notes, Loans and Accounts Receivable

Notes, loans and accounts receivable as of June 30, 2020 and 2019 are as follows (in thousands):

| | 2020 | | |
|---|---|---|---|
| | Gross Receivable | Allowance | Net Receivable |
| Student loans | $ 1,051 | $ (378) | $ 673 |
| Student accounts receivable | 13,350 | (4,959) | 8,391 |
| Reimbursement receivable grants and contracts | 1,588 | - | 1,588 |
| NKU Foundation receivable | 234 | - | 234 |
| Other | 2,912 | (727) | 2,185 |
| Total | $ 19,135 | $ (6,064) | $ 13,071 |
| | | | |
| Current portion | | | $ 11,672 |
| Noncurrent portion | | | 1,399 |
| Total | | | $ 13,071 |

| | 2019 | | |
|---|---|---|---|
| | Gross Receivable | Allowance | Net Receivable |
| Student loans | $ 1,317 | $ (486) | $ 831 |
| Student accounts receivable | 13,012 | (4,439) | 8,573 |
| Reimbursement receivable grants and contracts | 1,244 | - | 1,244 |
| NKU Foundation receivable | 245 | - | 245 |
| Other | 3,388 | (883) | 2,505 |
| Total | $ 19,206 | $ (5,808) | $ 13,398 |
| | | | |
| Current portion | | | $ 11,728 |
| Noncurrent portion | | | 1,670 |
| Total | | | $ 13,398 |

**Note 4 – Capital Assets, net**

Capital assets for the years ended June 30, 2020 and 2019 are summarized as follows (in thousands):

| | 7/1/2019 Beginning Balance | Additions | Reductions | 6/30/2020 Ending Balance |
|---|---|---|---|---|
| Cost: | | | | |
| Land | $ 9,629 | $ - | $ 232 | $ 9,397 |
| Land improvements | 42,690 | 85 | 74 | 42,701 |
| Buildings | 538,531 | 7,644 | 10,157 | 536,018 |
| Equipment | 78,285 | 2,221 | 758 | 79,748 |
| Library books | 13,552 | 331 | 4,290 | 9,593 |
| Construction in process | 5,311 | - | 1,546 | 3,765 |
| | 687,998 | 10,281 | 17,057 | 681,222 |
| Accumulated Depreciation: | | | | |
| Land improvements | 10,946 | 1,171 | 44 | 12,073 |
| Buildings | 218,778 | 16,108 | 8,035 | 226,851 |
| Equipment | 65,653 | 2,980 | 710 | 67,923 |
| Library books | 11,607 | 439 | 4,290 | 7,756 |
| | 306,984 | 20,698 | 13,079 | 314,603 |
| Capital assets, net | $ 381,014 | $ (10,417) | $ 3,978 | $ 366,619 |

| | 7/1/2018 Beginning Balance | Additions | Reductions | 6/30/2019 Ending Balance |
|---|---|---|---|---|
| Cost: | | | | |
| Land | $ 9,629 | $ - | $ - | $ 9,629 |
| Land improvements | 42,082 | 1,542 | 934 | 42,690 |
| Buildings | 531,166 | 10,073 | 2,708 | 538,531 |
| Equipment | 77,662 | 2,770 | 2,147 | 78,285 |
| Library books | 15,001 | 208 | 1,657 | 13,552 |
| Construction in process | 4,096 | 1,215 | - | 5,311 |
| | 679,636 | 15,808 | 7,446 | 687,998 |
| Accumulated Depreciation: | | | | |
| Land improvements | 10,045 | 1,183 | 282 | 10,946 |
| Buildings | 204,513 | 16,100 | 1,835 | 218,778 |
| Equipment | 63,627 | 4,108 | 2,082 | 65,653 |
| Library books | 12,761 | 502 | 1,656 | 11,607 |
| | 290,946 | 21,893 | 5,855 | 306,984 |
| Capital assets, net | $ 388,690 | $ (6,085) | $ 1,591 | $ 381,014 |

The estimated cost to complete construction under contract at June 30, 2020 was approximately $23,158,000.

As of June 30, 2020 and 2019, the net book value of equipment acquired through capital leases included in the above schedules totaled $3,084,000 and $2,653,000, respectively.

**Note 5 – Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities as of June 30, 2020 and 2019 are as follows (in thousands):

| | 2020 | 2019 |
|---|---|---|
| Payable to vendors and contractors | $ 10,127 | $ 8,820 |
| Accrued expenses, primarily payroll and vacation leave | 6,643 | 5,986 |
| Employee withholdings and deposits payable to third parties | 3,468 | 3,258 |
| Self-insured health liability | 1,144 | 1,353 |
| Total | $ 21,382 | $ 19,417 |

## Note 6 – Long-Term Liabilities

The changes in long-term liabilities for the years ended June 30, 2020 and 2019 are summarized as follows (in thousands):

| | Balance July 1, 2019 | Additions | Reductions | Balance June 30, 2020 | Current Portion | Noncurrent Portion |
|---|---|---|---|---|---|---|
| Housing and Dining Revenue Bonds | $ 405 | $ - | $ 200 | $ 205 | $ 205 | $ - |
| General Receipts Bonds (net of premiums) | 103,899 | 39,936 | 7,919 | 135,916 | 8,233 | 127,683 |
| Total bonds | 104,304 | 39,936 | 8,119 | 136,121 | 8,438 | 127,683 |
| Notes and leases payable | 4,090 | - | 346 | 3,744 | 357 | 3,387 |
| Total debt | 108,394 | 39,936 | 8,465 | 139,865 | 8,795 | 131,070 |
| Deferred compensation | 112 | - | 35 | 77 | 39 | 38 |
| Federal portion of loan programs | 1,083 | 3 | 331 | 755 | - | 755 |
| Unearned revenue | 9,558 | 12,894 | 9,308 | 13,144 | 12,873 | 271 |
| KERS-sick leave | 720 | 446 | 122 | 1,044 | 104 | 940 |
| Other | 350 | - | 175 | 175 | 175 | - |
| Total other long-term liabilities | 11,823 | 13,343 | 9,971 | 15,195 | 13,191 | 2,004 |
| Deposits | 12,358 | 2,031 | 2,540 | 11,849 | 290 | 11,559 |
| Net pension and OPEB liability | 369,866 | 16,456 | 2,674 | 383,648 | - | 383,648 |
| Total long-term liabilities | $ 502,441 | $ 71,766 | $ 23,650 | $ 550,557 | $ 22,276 | $ 528,281 |

| | Balance July 1, 2018 | Additions | Reductions | Balance June 30, 2019 | Current Portion | Noncurrent Portion |
|---|---|---|---|---|---|---|
| Housing and Dining Revenue Bonds | $ 600 | $ - | $ 195 | $ 405 | $ 200 | $ 205 |
| General Receipts Bonds (net of discounts and premiums) | 111,891 | - | 7,992 | 103,899 | 7,870 | 96,029 |
| Total bonds | 112,491 | - | 8,187 | 104,304 | 8,070 | 96,234 |
| Notes and leases payable | 275 | 4,088 | 273 | 4,090 | 346 | 3,744 |
| Total debt | 112,766 | 4,088 | 8,460 | 108,394 | 8,416 | 99,978 |
| Deferred compensation | 145 | - | 33 | 112 | 39 | 73 |
| Federal portion of loan programs | 1,071 | 14 | 2 | 1,083 | - | 1,083 |
| Unearned revenue | 5,473 | 9,558 | 5,473 | 9,558 | 9,183 | 375 |
| KERS-sick leave | 763 | 144 | 187 | 720 | 72 | 648 |
| Other | 525 | - | 175 | 350 | 175 | 175 |
| Total other long-term liabilities | 7,977 | 9,716 | 5,870 | 11,823 | 9,469 | 2,354 |
| Deposits | 12,062 | 2,644 | 2,348 | 12,358 | 1,073 | 11,285 |
| Net pension and OPEB liability | 375,369 | 108 | 5,611 | 369,866 | - | 369,866 |
| Total long-term liabilities | $ 508,174 | $ 16,556 | $ 22,289 | $ 502,441 | $ 18,958 | $ 483,483 |

### 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 $208,000 reserve requirement for the Housing and Dining issue was fully funded as of June 30, 2020. The $348,000 required housing repair and replacement fund was fully funded as of June 30, 2020.

The outstanding obligation as of June 30, 2020 and 2019 for the Northern Kentucky University General Receipts Bonds are reported net of premiums totaling $8,206,000 and $6,854,000, 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 November 12, 2019, Northern Kentucky University General Receipts Bonds were issued in the amount of $37,870,000 and a net interest cost of 2.92 percent. The majority of the proceeds are being used to renovate existing housing facilities and construct a new student residence hall. A portion of the proceeds were used to renovate parking facilities. The interest expense during construction is being funded with bond proceeds.

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

| | 2020 | 2019 |
|---|---|---|
| **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. | $ 205 | $ 405 |
| **Total Housing and Dining System Revenue bonds payable** | 205 | 405 |
| **General Receipts bonds payable** | | |
| Series A 2010, dated June 29, 2010, with interest rates from 2.00% to 3.50%. Final principal payment date September 1, 2020. | 250 | 490 |
| Series B 2010, dated October 21, 2010, with interest rates from 2.00% to 3.75%. Final principal payment date September 1, 2027. | 6,900 | 7,635 |
| Series A 2011, dated August 4, 2011, with interest rates from 2.00% to 4.00%. Final principal payment date September 1, 2030. | 6,290 | 6,750 |
| Series A 2013, dated February 26, 2013, with an interest rate of 2.00%. Final principal payment date September 1, 2022. | 1,605 | 2,120 |
| Series A 2014, dated January 7, 2014, with interest rates from 2.00% to 5.00%. Final principal payment date September 1, 2033. | 37,560 | 39,385 |
| Series A 2016, dated May 17, 2016, with interest rates from 2.00% to 5.00%. Final principal payment date September 1, 2027. | 23,230 | 25,640 |
| Series A 2016, dated August 25, 2016, with interest rates from 2.00% to 4.00%. Final principal payment date September 1, 2028. | 14,005 | 15,025 |
| Series A 2019, dated November 12, 2019, with interest rates from 3.00% to 5.00%. Final principal payment date September 1, 2044. | 37,870 | - |
| **Total General Receipts bonds payable** | 127,710 | 97,045 |
| Plus: Net premiums | 8,206 | 6,854 |
| **Total bonds payable** | $ 136,121 | $ 104,304 |

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

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2021 | $ 7,690 | $ 4,878 | $ 12,568 |
| 2022 | 8,490 | 4,556 | 13,046 |
| 2023 | 8,900 | 4,196 | 13,096 |
| 2024 | 8,735 | 3,809 | 12,544 |
| 2025 | 9,600 | 3,399 | 12,999 |
| 2026 - 2030 | 43,140 | 11,162 | 54,302 |
| 2031 - 2035 | 21,840 | 4,855 | 26,695 |
| 2036 - 2040 | 9,030 | 2,267 | 11,297 |
| 2041 - 2045 | 10,490 | 805 | 11,295 |
| Subtotal | 127,915 | 39,927 | 167,842 |
| Plus: Net premiums | 8,206 | - | 8,206 |
| Total | $ 136,121 | $ 39,927 | $ 176,048 |

**b. Leases**

In January 2019, the University entered into a capital lease obligation, in the amount of $4,088,000, with an interest rate of 2.81 percent, for an energy management project. The lease will be paid with guaranteed energy savings.

In May 2018, the University entered into a capital lease obligation through a third-party financial institution, in the amount of $275,000, with an interest rate of 4.43 percent. This obligation was used to fund computer equipment.

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

| | 2020 | 2019 |
|---|---|---|
| **Capital lease payables** | | |
| Capital equipment lease, dated May 1, 2018, with an interest rate of 4.43%. Final principal payment date May 1, 2022. | $ 112 | $ 165 |
| Energy management lease, dated January 24, 2019, with an interest rate of 2.81%. Final principal payment date November 24, 2030. | 3,632 | 3,925 |
| **Total capital lease payable** | $ 3,744 | $ 4,090 |

Future minimum lease payments for the next five years and in subsequent five-year periods are as follows (in thousands):

| Fiscal Year | Present Value of Future Minimum Lease Payments | Interest Portion | Total |
|---|---|---|---|
| 2021 | $ 357 | $ 105 | $ 462 |
| 2022 | 368 | 94 | 462 |
| 2023 | 319 | 83 | 402 |
| 2024 | 328 | 74 | 402 |
| 2025 | 338 | 64 | 402 |
| 2026 - 2030 | 1,836 | 173 | 2,009 |
| 2031 - 2035 | 198 | 3 | 201 |
| Total | $ 3,744 | $ 596 | $ 4,340 |

## Note 7 – 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 $52,067,000 and $47,022,000 for the years ended June 30, 2020 and 2019, respectively. The University’s contribution totaled $5,207,000 and $4,702,000 for the years ended June 30, 2020 and 2019, 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 and death benefits. 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.

*Pension Benefits Provided –*

**Kentucky Employees' Retirement System**
**Governance KRS 61.510 through KRS 61.705**
**Cost Sharing Multiple Employer Defined Benefit**

| | **Tier 1**<br>Participation Prior to<br>9/1/2008 | **Tier 2**<br>Participation<br>9/1/2008 through 12/31/2013 | **Tier 3**<br>Participation on or after<br>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:** | Any age with 25 years of service. Age 55 with 5 years of service. | Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military). | No reduced retirement benefit. |

| | Tier 1<br>Participation Prior to<br>9/1/2008 | Tier 2<br>Participation<br>9/1/2008 through 12/31/2013 | Tier 3<br>Participation on or after<br>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. | Any age with 25 years of service. Age 60 with 5 years of service. | Any age with 25 years of service. Age 60 with 5 years of service. |
| **Reduced Retirement Benefit:** | Age 50 with 15 years of service. | Age 50 with 15 years of service. | No reduced retirement benefit |

*Contributions*- Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the KRS Board. For the fiscal years ended June 30, 2020 and 2019, University employees were required to contribute 5 percent of their annual covered salary for retirement benefits. The University's required contribution percentage rates per covered payroll for the years ended June 30, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Nonhazardous pension plan | 41.06% | 41.06% |
| Hazardous pension plan | 34.39% | 34.39% |

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 contribution to the KERS nonhazardous pension plan for the years ended June 30, 2020 and 2019 were $14,310,000 and $14,162,000, respectively. The required contribution to the KERS hazardous pension plan for the years ended June 30, 2020 and 2019 were $287,000 and $256,000, respectively.

*Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions* - At June 30, 2020 and 2019, the University reported a liability of $329,798,000 and $313,460,000, for its proportionate share of the nonhazardous net pension liability. The University's hazardous pension liability was $2,041,000 and $1,952,000 for the years ended June 30, 2020 and 2019, respectively. The net pension liability was measured as of June 30, 2019 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, 2020 and 2019, the University's proportion was 2.335 and 2.304 percent for nonhazardous and 0.374 and 0.386 percent for hazardous, respectively.

For the years ended June 30, 2020 and 2019, the University recognized nonhazardous pension expense of $33,067,000 and $36,422,000; and hazardous pension expense of $477,000 and $356,000, respectively.

At June 30, 2020, 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 | $ 1,950 | $ - |
| Change of assumptions | 10,042 | - |
| Net difference between projected and actual earnings on investments | - | 672 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | 3,922 |
| Contributions subsequent to the measurement date | 14,310 | - |
| **Hazardous** | | |
| Differences between expected and actual experience | 39 | - |
| Change of assumptions | 143 | - |
| Net difference between projected and actual earnings on investments | - | 35 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 24 | 45 |
| Contributions subsequent to the measurement date | 287 | - |
| Total | $ 26,795 | $ 4,674 |

At June 30, 2019, 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 | $ 2,233 | $ 877 |
| Change of assumptions | 13,999 | - |
| Net difference between projected and actual earnings on investments | 299 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | 5,689 |
| Contributions subsequent to the measurement date | 14,162 | - |
| **Hazardous** | | |
| Differences between expected and actual experience | 100 | - |
| Change of assumptions | 177 | - |
| Net difference between projected and actual earnings on investments | (24) | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 45 | 40 |
| Contributions subsequent to the measurement date | 256 | - |
| Total | $ 31,247 | $ 6,606 |

At June 30, 2020, the University reported $14,597,000 as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2020, related to pensions will be recognized in pension expense as follows (in thousands):

| Year Ending June 30 | |
|---|---|
| 2021 | $ 5,291 |
| 2022 | 2,472 |
| 2023 | (223) |
| 2024 | (16) |
| | $ 7,524 |

*Pension Actuarial assumptions* – The total pension liability was determined by an actuarial valuation as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement for nonhazardous and hazardous pensions.

| | Nonhazardous | Hazardous |
|---|---|---|
| Inflation | 2.30% | 2.30% |
| Salary Increases | 3.30% to 15.30%, varies by service | 3.55% to 20.05%, varies by service |
| Investment Rate of Return | 5.25%, net of pension plan investment expense, including inflation | 6.25%, net of pension plan investment expense, including inflation |

The mortality table used for active members was a Pub-2010 General Mortality table for the Non-Hazardous System and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality assumptions for non-disabled retirees is based on a system-specific mortality table based on mortality experience from 2013 – 2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled retirees was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The most recent actuarial experience study was for the period July 1, 2013 through June 30, 2018. The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

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

| Asset Class | Long Term Expected Real Rate of Return | Nonhazardous Target Allocation | Hazardous Target Allocation |
|---|---|---|---|
| US equity | 4.30% | 15.75% | 18.75% |
| Non US equity | 4.80% | 15.75% | 18.75% |
| Private equity | 6.65% | 7.00% | 10.00% |
| Specialty Credit/High Yield | 2.60% | 15.00% | 15.00% |
| Core Bonds | 1.35% | 20.50% | 13.50% |
| Cash | 0.20% | 3.00% | 1.00% |
| Real Estate | 4.85% | 5.00% | 5.00% |
| Opportunistic | 2.97% | 3.00% | 3.00% |
| Real Return | 4.10% | 15.00% | 15.00% |
| Total | | 100.00% | 100.00% |

*Pension Discount rate* – The discount rate used to measure the total pension liability was 5.25 percent for the nonhazardous plan, and 6.25 percent for the hazardous plan. 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 24 year (closed) amortization period of the unfunded actuarial accrued liability. As the assets are deemed sufficient to pay future benefits, the discount rate determination does not use a municipal bond rate.

*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 5.25 percent for the nonhazardous and 6.25 percent for hazardous. The following presents the University's proportionate share of the net pension liability calculated using a discount rate 1 percent higher and 1 percent lower than the current rate (in thousands):

| | 1% Decrease (4.25%) | Current Discount Rate (5.25%) | 1% Increase (6.25%) |
|---|---|---|---|
| **Nonhazardous** | | | |
| Proportionate share of the Collective Net Pension Liability | $ 378,070 | $ 329,798 | $ 289,906 |

| | 1% Decrease (5.25%) | Current Discount Rate (6.25%) | 1% Increase (7.25%) |
|---|---|---|---|
| **Hazardous** | | | |
| Proportionate share of the Collective Net Pension Liability | $ 2,631 | $ 2,041 | $ 1,555 |

*Payable to the pension plan* - The University reported payables of $1,266,000 and $1,331,000 for the outstanding amount of employer contributions to the pension plan required for the years ended June 30, 2020 and 2019, 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 KERS on or after July 1, 2010, shall be paid to the retirement system by the last participating KERS employer based upon a formula adapted by the Board.” The KERS sick leave liability as of June 30, 2020 and 2019 was $1,044,000 and $720,000, 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, 2020 and 2019, the University had recognized an accrued vacation liability of $3,580,000 and $3,111,000, respectively.

## Note 8 – Other Post-Employment Benefits

**a. Defined Benefit Plan**

*Plan Description* – The University contributes to the KRS Insurance Fund, a cost sharing multiple employer defined benefit other post-employment plan (the OPEB plan), which was established to provide hospital and medical insurance for eligible members receiving benefits from KERS. The OPEB plan pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The OPEB plan is administered by the Board of Trustees of the KRS. Benefit provisions are contained in the plan document and were established and can be amended by action of the Commonwealth of Kentucky Legislature. 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<br>Participation Prior to<br>7/1/2003 | Tier 2<br>Participation<br>7/1/2003 through 8/31/2008 | Tier 3<br>Participation on or after<br>9/1/2008 |
|---|---|---|---|
| | | **Nonhazardous** | |
| **OPEB eligibility:** | Recipient of a retirement allowance | Recipient of a retirement allowance, with at least 120 months of service at retirement | Recipient of a retirement allowance, with at least 180 months of service at retirement |
| **OPEB benefit:** | Allowance for medical insurance coverage based on years and type of service. Less than 4 years = 0%. At least 4 years, but less than 10 = 25%. At least 10 years, but less than 15 = 50%. At least 15 years, but less than 20 = 75%. 20 or more years = 100%. | Monthly contribution of $10 for each year of earned service. Adjusted 1.5% annually. | |

| | Tier 1<br>Participation Prior to<br>7/1/2003 | Tier 2<br>Participation<br>7/1/2003 through 8/31/2008 | Tier 3<br>Participation on or after<br>9/1/2008 |
|---|---|---|---|
| | | **Hazardous** | |
| **OPEB eligibility:** | Recipient of a retirement allowance | Recipient of a retirement allowance, with at least 120 months of service at retirement | Recipient of a retirement allowance, with at least 180 months of service at retirement |
| **OPEB benefit:** | Allowance for medical insurance coverage based on years and type of service. Less than 4 years = 0%. At least 4 years, but less than 10 = 25%. At least 10 years, but less than 15 = 50%. At least 15 years, but less than 20 = 75%. 20 or more years = 100%. | Monthly contribution of $15 for each year of earned service. Adjusted 1.5% annually. | |

*Contributions*- Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565, contribution requirements of the participating organizations are established and may be amended by the KRS Board. Employees with a participation date after 9/1/2008 were required to contribute 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, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Nonhazardous OPEB plan | 8.41% | 8.41% |
| Hazardous OPEB plan | 2.46% | 2.46% |

The required contributions to the KERS nonhazardous OPEB plan for the years ended June 30, 2020 and 2019 were $2,931,000 and $2,901,000, respectively. The required contributions to the KERS hazardous OPEB plan for the years ended June 30, 2020 and 2019 were $21,000 and $18,000, respectively.

*OPEB assets and liabilities, OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB* – At June 30, 2020 and 2019, respectively, the University reported a liability of $51,909,000 and $54,583,000 for its proportionate share of the nonhazardous net OPEB liability. The University's OPEB asset was $100,000 and $128,000 for the years ended June 30, 2020 and 2019, respectively. The total OPEB liability and net OPEB liability were based on an actuarial valuation date of June 30, 2018. The total OPEB liability used to calculate the net was rolled forward from the valuation date to the plan's fiscal year ending June 30, 2019 using generally accepted actuarial principles. The University's proportion of the net OPEB liability was based on the University's actual contributions to the OPEB plan relative to the contributions of all participating employers for the measurement period. At June 30, 2020 and 2019, respectively, the University's proportion was 2.335 and 2.302 percent for nonhazardous and 0.373 and 0.387 percent for hazardous.

For the years ended June 30, 2020 and 2019, respectively, the University recognized nonhazardous OPEB expense of $3,319,000 and $4,182,000 and hazardous OPEB expense of $31,000 and $46,000.

At June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| **Nonhazardous** | | |
| Differences between expected and actual experience | $ - | $ 8,280 |
| Change of assumptions | 6,807 | 156 |
| Net difference between projected and actual earnings on investments | - | 340 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | 1,332 |
| Contributions subsequent to the measurement date | 3,557 | - |
| **Hazardous** | | |
| Differences between expected and actual experience | - | 179 |
| Change of assumptions | 274 | 1 |
| Net difference between projected and actual earnings on investments | | 58 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 1 | 11 |
| Contributions subsequent to the measurement date | 26 | - |
| Total | $ 10,665 | $ 10,357 |

At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| **Nonhazardous** | | |
| Differences between expected and actual experience | $ - | $ 3,564 |
| Change of assumptions | 5,738 | 206 |
| Net difference between projected and actual earnings on investments | - | 800 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | 1,246 |
| Contributions subsequent to the measurement date | 3,395 | - |
| **Hazardous** | | |
| Differences between expected and actual experience | - | 104 |
| Change of assumptions | 235 | 2 |
| Net difference between projected and actual earnings on investments | - | 102 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | 14 |
| Contributions subsequent to the measurement date | 20 | - |
| Total | $ 9,388 | $ 6,038 |

The OPEB contribution amounts include the implicit subsidy of $626,000 and $495,000 for nonhazardous for the years ended June 30, 2020 and 2019, respectively. The implicit subsidy was $5,000 and $1,000 for hazardous for the years ended June 30, 2020 and 2019, respectively.

At June 30, 2020, the University reported $3,583,000 as deferred outflows of resources related to OPEB resulting from University contributions subsequent to the measurement date that will be recognized as a reduction of the net OPEB liability in the following year. This amount includes the implicit subsidy of $631,000. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2020, related to OPEB will be recognized in OPEB expense as follows (in thousands):

| Year Ending June 30 | |
|---|---|
| 2021 | $ (388) |
| 2022 | (388) |
| 2023 | (1,894) |
| 2024 | (599) |
| 2025 | (6) |
| | $ (3,275) |

*Actuarial assumptions* - The total OPEB asset and liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement for nonhazardous and hazardous OPEB.

| | Nonhazardous | Hazardous |
|---|---|---|
| Inflation | 2.30% | 2.30% |
| Salary increases | 3.30% to 15.30%, varies by service | 3.55% to 20.05%, varies by service |
| Payroll growth rate | 0.00% | 0.00% |
| Health care cost trend rates | | |
| Pre-65 | Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. | |
| Post-65 | Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. | |
| Investment Rate of Return | 6.25% | 6.25% |
| Mortality | | |
| Pre-retirement | PUB-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010 | PUB-2010 Public Safety Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010 |
| Post-retirement (non-disabled) | System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019 | |
| Post-retirement (disabled) | PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010 | |

The mortality table used for active members was a Pub-2010 General Mortality table for the Non-Hazardous System and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality assumptions for non-disabled retirees is based on a system-specific mortality table based on mortality experience from 2013 – 2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled retirees was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The long-term expected rate of return on OPEB Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB Plan investment expense and inflation) are developed for each major asset class. These ranges are 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 by adding expected inflation.

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

**OPEB Asset Allocations**

| Asset Class | Long Term Expected Real Rate of Return | Target Allocation |
|---|---|---|
| US Equity | 4.30% | 18.75% |
| Non-US Equity | 4.80% | 18.75% |
| Private Equity | 6.65% | 10.00% |
| Specialty Credit/High Yield | 2.60% | 15.00% |
| Core Bonds | 1.35% | 13.50% |
| Cash | 0.20% | 1.00% |
| Real Estate | 4.85% | 5.00% |
| Opportunistic | 2.97% | 3.00% |
| Real return | 4.10% | 15.00% |
| Total | | 100.00% |

The table above is applicable to both the nonhazardous and hazardous plans.

*Discount rate* - The discount rate used to measure the total OPEB asset and liability was 5.73% for the nonhazardous plan, and 5.66% for the hazardous plan. 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 24 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, a municipal rate of 3.13%, as reported in Fidelity Index's "20 -Year Municipal GO AA Index" as of June 28, 2019. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

*Sensitivity of the University's proportionate share of the net OPEB asset and liability to changes in the discount rate* - The University's proportionate share of the net OPEB asset and liability has been calculated using a discount rate of 5.73% for the nonhazardous and 5.66% for hazardous. The following presents the University's share of the net OPEB liability calculated using a discount rate 1% higher and 1% lower than the current rate (in thousands):

| | 1% Decrease (4.73%) | Current Discount Rate (5.73%) | 1% Increase (6.73%) |
|---|---|---|---|
| **Non-hazardous** | | | |
| Proportionate share of the Collective Net OPEB Liability | $ 61,808 | $ 51,909 | $ 43,759 |

| | 1% Decrease (4.66%) | Current Discount Rate (5.66%) | 1% Increase (6.66%) |
|---|---|---|---|
| **Hazardous** | | | |
| Proportionate share of the Collective Net OPEB Liability (Asset) | $ 168 | $ (100) | $ (317) |

*Sensitivity of the University's proportionate share of the net OPEB asset and liability to changes in the health care cost trend rates* - The University's proportionate share of the net OPEB asset and liability has been calculated using an initial pre-65 health care trend rate of 7.00%, gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The post-65 health care trend rate starts at 5.00%, gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

| | 1% Decrease | Current Health Care Cost Trend Rates | 1% Increase |
|---|---|---|---|
| **Non-hazardous** | | | |
| Proportionate share of the Collective Net OPEB Liability | $ 44,100 | $ 51,909 | $ 61,355 |

| | 1% Decrease | Current Health Care Cost Trend Rates | 1% Increase |
|---|---|---|---|
| **Hazardous** | | | |
| Proportionate share of the Collective Net OPEB Liability (Asset) | $ (291) | $ (100) | $ 132 |

*OPEB plan fiduciary net position* – Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued plan annual report.

*Payable to the OPEB plan* - The University reported payables of $255,000 and $269,000 for the outstanding amount of employer contributions to the OPEB plan required for the years ended June 30, 2020 and 2019, respectively.

## Note 9 – Operating Expenses By Natural Classification

The University’s operating expenses by natural classification are as follows for the years ended June 30, 2020 and 2019 (in thousands):

| | 2020 | 2019 |
|---|---|---|
| Salaries and wages | $ 108,177 | $ 99,830 |
| Employee benefits-pension and OPEB | 37,411 | 41,157 |
| Employee benefits-other | 31,498 | 28,779 |
| Utilities | 4,843 | 5,499 |
| Supplies and other services | 44,904 | 36,827 |
| Depreciation | 20,698 | 21,893 |
| Student scholarships and financial aid | 20,739 | 17,165 |
| Total | $ 268,270 | $ 251,150 |

## 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 Kentucky Claims Commission, 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 2019 to 2020. 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, 2020 and 2019 is detailed below (in thousands):

| | 2020 | 2019 |
|---|---|---|
| Liability, beginning of year | $ 1,353 | $ 1,383 |
| Claims and changes in estimates | 15,927 | 15,824 |
| Claims paid | (16,136) | (15,854) |
| Liability, end of year | $ 1,144 | $ 1,353 |

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, 2020.

**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.

As a result of the spread of SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the University. Potential effects include but are not limited to declines in the fair value of investments, realizability of receivables, and declines in revenues. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

**Note 12 –Restricted Net Position**

At June 30, 2020 and 2019, restricted expendable net position was available for the following purposes:

| | 2020 | 2019 |
|---|---|---|
| Appreciation on permanent endowments | $ 4,871 | $ 5,830 |
| Advance funded capital projects | (102) | (4,875) |
| Capital projects and debt service | 1,247 | 1,801 |
| Funds restricted for noncapital purposes | 437 | 225 |
| Advance funded CARES relief | (2,198) | - |
| Restricted Net Position, end of year | $ 4,255 | $ 2,981 |

**Note 13 –Blended Entity Condensed Financial Information**

Condensed financial information for Northern Kentucky University Research Foundation (NKURF) is provided below for the years ended June 30, 2020 and 2019 (in thousands):

**NKURF Condensed Statements of Net Position**

| | 2020 | 2019 |
|---|---|---|
| **ASSETS** | | |
| Current assets | $ 1,606 | $ 1,247 |
| Noncurrent assets | 11,363 | 11,228 |
| Total assets | 12,969 | 12,475 |
| **LIABILITIES** | | |
| Current liabilities | 503 | 256 |
| Noncurrent liabilities | 11,520 | 11,250 |
| Due to the University | - | 104 |
| Total liabilities | 12,023 | 11,610 |
| **NET POSITION** | | |
| Restricted expendable | 11 | 9 |
| Unrestricted | 935 | 856 |
| Total net position | $ 946 | $ 865 |

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

| | 2020 | 2019 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Grants and contracts | $ 2,089 | $ 1,884 |
| Recoveries of facilities and administrative costs | 221 | 179 |
| Total operating revenues | 2,310 | 2,063 |
| **OPERATING EXPENSES** | | |
| Operating expenses | 2,122 | 1,897 |
| Operating income (loss) | 188 | 166 |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| Noncapital transfers (to)/from the University | (135) | (116) |
| Gifts and grants | 28 | 10 |
| Net nonoperating revenues (expenses) | (107) | (106) |
| Increase (decrease) in net position | 81 | 60 |
| **NET POSITION** | | |
| Net position-beginning of year | 865 | 805 |
| Net position-end of year | $ 946 | $ 865 |

**NKURF Condensed Statements of Cash Flows**

| | 2020 | 2019 |
|---|---|---|
| Net cash provided (used) by operating activities | $ 310 | $ 134 |
| Net cash provided (used) by noncapital financing activities | (216) | (531) |
| Net increase (decrease) in cash and cash equivalents | 94 | (397) |
| Cash and cash equivalents-beginning of year | 12,277 | 12,674 |
| Cash and cash equivalents-end of year | $ 12,371 | $ 12,277 |

**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 for the year ended June 30, 2020.

**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 two classes of net assets – with donor restrictions and without donor restrictions.

Net assets and changes therein are classified as follows:

- ***With donor restrictions*** - Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.
- ***Without donor restrictions*** - Net assets not subject to donor-imposed stipulations are available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board designated endowment.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Restricted contributions and net investment returns earned are reported as with donor restrictions and reclassified as without donor restricted when any donor-imposed restrictions are satisfied. Expirations of donor restrictions on net assets are met when a donor stipulated time restriction ends or purpose restriction is accomplished and reclassified to net assets without donor restrictions 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 met. Contributions receivable are discounted at an appropriate rate commensurate with the risks involved using the level-yield method. 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.

The value recorded for each contribution is recognized as follows:

| **Nature of the Gift** | **Value Recognized** |
|---|---|
| *Conditional gifts, with or without restriction* | |
| Gifts that depend on the Foundation overcoming a donor-imposed barrier to be entitled to the funds | Not recognized until the gift becomes unconditional, *i.e.* the donor-imposed barrier is met |
| *Unconditional gifts, with or without restriction* | |
| Received at date of gift – cash and other assets | Fair value |
| Received at date of gift – property, equipment and long-lived assets | Estimated fair value |
| Expected to be collected within one year | Net realizable value |
| Collected in future years | Initially reported at fair value determined using the discounted present value of estimated future cash flows technique |

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

- As increases in net assets with donor restrictions – if the terms of the gift require that they be added to the principal of a permanent endowment fund or if the terms of the gift impose restrictions on the use of the income.
- As increases in net assets without donor restrictions – in all other cases.

**Change in Accounting Principle**

*Revenue Recognition*

As of July 1, 2019, the Foundation adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), (ASU 2014-09) using a modified retrospective method of adoption to all contracts with customers not completed at July 1, 2019.

The core guidance in ASU 2014-09 is to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the Foundation expects to be entitled in exchange for those goods or services.

The amount to which the Foundation expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing goods or services.

The adoption has no impact on overall change in net assets or net cash used for operating activities.

*Contributions Received and Contributions Made*

As of July 1, 2019, the Foundation adopted the FASB ASU 2018-08*, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, (ASU 2018-08) using a modified prospective method of adoption to all agreements that were not completed as of July 1, 2019.

The intent of ASU 2018-08 is to assist an organization in evaluating whether transactions are considered nonreciprocal transactions and should be accounted for as contributions, or if the transactions are considered reciprocal and should be accounted for as exchange transactions. Additionally, the revised guidance helps entities evaluate whether a contribution is conditional or unconditional.

The adoption has no impact on overall change in net assets or net cash used for operating activities.

**3. Cash and Cash Equivalents**

Cash and cash equivalents include 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, 2020 and 2019, $2,353,000 and $2,123,000, respectively, was insured by federal depository insurance or collateralized with securities held by the financial institution's trust department or agent, but not in the Foundation's name. At June 30, 2020 and 2019, balances of $6,654,000 and $7,232,000, 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, 2020 and 2019 was approximately $39,000 and $39,000, 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, 2020 and 2019, land and land improvements (in thousands) consisted of:

| | 2020 | 2019 |
|---|---|---|
| **Type of Asset:** | | |
| Land | $ 178 | $ 178 |
| Land held for sale | 32 | 17 |
| Land held for future use by the University | 145 | 145 |
| Land improvements | 208 | 208 |
| **Total land and land improvements** | $ 563 | $ 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, 2020 and 2019, all land improvements were fully depreciated.

**7. Long-Lived Asset Impairment**

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2020 and 2019.

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

**8. 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, 2020 and 2019, the Foundation recognized contributions based on the following unconditional promises to give (in thousands):

| | 2020 | 2019 |
|---|---|---|
| **Purpose:** | | |
| Endowment giving | $ 2,648 | $ 572 |
| Capital purposes | 300 | - |
| Operating programs | 3,818 | 2,699 |
| **Gross unconditional promises** | 6,766 | 3,271 |
| Less: Discount and allowance for uncollectible accounts | (221) | (259) |
| **Net unconditional promises to give** | $ 6,545 | $ 3,012 |
| | | |
| **Amounts due in:** | | |
| Less than one year | $ 2,391 | $ 1,204 |
| One to five years | 4,050 | 2,067 |
| More than five years | 325 | - |
| **Total** | $ 6,766 | $ 3,271 |

The discount rates used to calculate the present value of contributions receivable at June 30, 2020 and 2019 vary from 0.6 percent to 3.4 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 $2.7 million at June 30, 2020 and $3.1 million at June 30, 2019, consisting of the face value of life insurance policies, net of accumulated cash surrender value, as well as a conditional promises of $1.8 million at June 30, 2020 and $2 million at June 30, 2019 being from a single donor.

Approximately 15 percent of total pledges receivable were due from one donor at June 30, 2020. Approximately 25 percent of total pledges receivable were due from one donor at June 30, 2019.

**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, 2020 or 2019.

The following assets were measured at fair value on a recurring basis as of June 30, 2020 (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, 2020** | | | | | |
| **Type of Investment:** | | | | | |
| Short-term money market funds | $ 10 | $ 10 | $ - | $ - | $ - |
| Cash surrender value | 463 | 463 | - | - | - |
| Fixed income funds: | | | | | |
| Core | 4,772 | 4,772 | - | - | - |
| Core plus | 6,148 | 6,148 | - | - | - |
| Global | 478 | 478 | - | - | - |
| Treasury inflation protected | 1,798 | 1,798 | | | |
| Securities | 5,123 | 5,123 | - | - | - |
| Equity funds: | | | | | |
| Large/mid-cap - broad | 24,191 | 24,191 | - | - | - |
| Large/mid-cap - value | 6,741 | 6,741 | - | - | - |
| Small cap - growth | 1,746 | 1,746 | - | - | - |
| Small cap - value | 1,549 | 1,549 | | | |
| International - core | 6,907 | 6,907 | - | - | - |
| International - value | 3,327 | 3,327 | - | - | - |
| International small cap - value | 2,323 | 2,323 | - | - | - |
| Emerging markets - value | 4,042 | 4,042 | - | - | - |
| Emerging markets - small cap | 3,924 | 3,924 | - | - | - |
| Real estate investment trust | 40 | 40 | - | - | - |
| Exchange traded funds | 116 | 116 | - | - | - |
| Remainder interest in real property and other | 3,653 | - | 3,653 | - | - |
| Public natural resources-master limited partnerships | 1,913 | - | - | - | 1,913 |
| Private equity | 8,233 | - | - | - | 8,233 |
| Private debt | 2,667 | - | - | - | 2,667 |
| Natural resources | 7,629 | - | - | - | 7,629 |
| Private real estate | 2,675 | - | - | - | 2,675 |
| Low-volatility | 5,632 | - | - | - | 5,632 |
| **Total** | **$ 106,100** | **$ 73,698** | **$ 3,653** | **$ -** | **$ 28,749** |

*Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

The following assets were measured at fair value on a recurring basis as of June 30, 2019 (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, 2019** | | | | | |
| **Type of Investment:** | | | | | |
| Short-term money market funds | $ 9 | $ 9 | $ - | $ - | $ - |
| Cash surrender value | 445 | 445 | - | - | - |
| Fixed income funds: | | | | | |
| Core | 3,617 | 3,617 | - | - | - |
| Core plus | 6,553 | 6,553 | - | - | - |
| Global | 1,834 | 1,834 | - | - | - |
| Treasury inflation protected Securities | 1,664 | 1,664 | - | - | - |
| Equity funds: | | | | | |
| Large/mid-cap - broad | 25,734 | 25,734 | - | - | - |
| Large/mid-cap - value | 7,497 | 7,497 | - | - | - |
| Small cap - growth | 1,697 | 1,697 | - | - | - |
| Small cap - value | 1,944 | 1,944 | | | |
| International - core | 7,875 | 7,875 | - | - | - |
| International - value | 3,768 | 3,768 | - | - | - |
| International small cap - value | 2,640 | 2,640 | - | - | - |
| Emerging markets - value | 4,886 | 4,886 | - | - | - |
| Emerging markets - small cap | 4,325 | 4,325 | - | - | - |
| Real estate investment trust | 23 | 23 | - | - | - |
| Exchange traded funds | 101 | 101 | - | - | - |
| Remainder interest in real property and other | 685 | - | 685 | - | - |
| Public natural resources-master limited partnerships | 2,946 | - | - | - | 2,946 |
| Private equity | 7,725 | - | - | - | 7,725 |
| Private debt | 2,443 | - | - | - | 2,443 |
| Natural resources | 10,035 | - | - | - | 10,035 |
| Private real estate | 2,083 | - | - | - | 2,083 |
| Low-volatility | 6,707 | - | - | - | 6,707 |
| **Total** | **$ 107,236** | **$ 74,612** | **$ 685** | **$ -** | **$ 31,939** |

*Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

The market values (in thousands) of the Foundation's investments as of June 30, 2020 and 2019 are categorized by type below:

| | 2020 | 2019 |
|---|---|---|
| Type of Investment: | | |
| Short-term money market funds | $ 10 | $ 9 |
| Cash and cash surrender value | 597 | 1,712 |
| Fixed income funds: | | |
| Core | 4,772 | 3,617 |
| Core plus | 6,148 | 6,553 |
| Global | 478 | 1,834 |
| Treasury inflation protected securities | 1,798 | 1,664 |
| Intermediate | 5,123 | - |
| Equity funds: | | |
| Large/mid cap - broad | 24,191 | 25,734 |
| Large/mid cap - value | 6,741 | 7,497 |
| Small cap - growth | 1,746 | 1,697 |
| Small cap - value | 1,549 | 1,944 |
| International - core | 6,907 | 7,875 |
| International - value | 3,327 | 3,768 |
| International small cap - value | 2,323 | 2,640 |
| Emerging markets - value | 4,042 | 4,886 |
| Emerging markets - small cap | 3,924 | 4,325 |
| Real estate investment trust | 40 | 23 |
| Exchange traded funds | 116 | 101 |
| Public natural resources -master | | |
| Limited partnerships | 1,913 | 2,946 |
| Remainder interest in real property and other | 3,653 | 685 |
| Private equity: | | |
| Buyout | 1,868 | 1,761 |
| Diversified | 912 | 1,586 |
| Growth | 1,470 | 503 |
| Venture capital | 1,869 | 1,728 |
| Secondary | 2,114 | 2,147 |
| Private debt: | | |
| Distressed | 2,659 | 2,432 |
| Mezzanine | 8 | 11 |
| Natural resources: | | |
| Diversified | 2,115 | 3,096 |
| Energy | 3,013 | 4,490 |
| Commodities | 2,501 | 2,449 |
| Private real estate: | | |
| Opportunistic | 2,236 | 1,472 |
| Value added | 439 | 611 |
| Low-volatility: | | |
| Diversifiying strategies | 5,632 | 6,707 |
| Total investments | $ 106,234 | $ 108,503 |

Investment return (in thousands) for the years ended June 30, 2020 and 2019 consists of:

| | 2020 | 2019 |
|---|---|---|
| Interest and dividend income | | |
| (net of investment fees: 2020 - $573, 2019 - $516) | $ 2,395 | $ 2,420 |
| Net realized gains | 1,628 | 431 |
| Net unrealized gains (losses) | (6,962) | 1,010 |
| Total investment return | $ (2,939) | $ 3,861 |

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 investments of the Foundation are commingled with certain investments which the Foundation holds in trust for University. The market value of funds held in trust for the University at June 30, 2020 and 2019 was approximately $12,487,000 and $13,446,000, respectively. See Note 14g. for further explanation of the trust funds.

At June 30, 2020 and 2019, the Foundation had committed approximately $57,700,000 and $47,200,000, respectively, of its endowment investment resources to alternative investments, of which $17,800,000 and $9,900,000, 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 355 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, 2020 is as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total Net Endowment Assets |
|---|---|---|---|
| Donor restricted endowment funds | $ - | $ 79,291 | $ 79,291 |
| Quasi-endowment funds | 2,571 | 6,148 | 8,719 |
| Total endowment funds | $ 2,571 | $ 85,439 | $ 88,010 |

Changes in endowment net assets (in thousands) as of June 30, 2020 are as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total Net Endowment Assets |
|---|---|---|---|
| Endowment net assets, beginning of year | $ 2,687 | $ 90,112 | $ 92,799 |
| Contributions collected and other additions | - | 2,243 | 2,243 |
| Investment income | 67 | 2,220 | 2,287 |
| Net investment gain (loss) | (160) | (5,309) | (5,469) |
| Amounts appropriated for expenditure | (23) | (3,831) | (3,854) |
| Reclassify to held in perpetuity | - | 4 | 4 |
| Endowment net assets, end of year | $ 2,571 | $ 85,439 | $ 88,010 |

Endowment net asset composition by type of endowment (in thousands) as of June 30, 2019 is as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total Net Endowment Assets |
|---|---|---|---|
| Donor restricted endowment funds | $ - | $ 83,991 | $ 83,991 |
| Quasi-endowment funds | 2,687 | 6,121 | 8,808 |
| Total endowment funds | $ 2,687 | $ 90,112 | $ 92,799 |

Changes in endowment net assets (in thousands) as of June 30, 2019 are as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total Net Endowment Assets |
|---|---|---|---|
| Endowment net assets, beginning of year | $ 2,614 | $ 89,227 | $ 91,841 |
| Contributions collected and other additions | - | 1,215 | 1,215 |
| Investment income | 64 | 2,161 | 2,225 |
| Net investment gain (loss) | 31 | 1,128 | 1,159 |
| Amounts appropriated for expenditure | (22) | (3,642) | (3,664) |
| Reclassify to held in perpetuity | - | 23 | 23 |
| Endowment net assets, end of year | $ 2,687 | $ 90,112 | $ 92,799 |

*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 were approximately $84,000 at June 30, 2020. These deficiencies resulted from unfavorable market conditions that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. There were no such deficiencies at June 30, 2019.

**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 the 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, 2020 have been evaluated for possible adjustment to the consolidated financial statements or disclosure through September 8, 2020, the date on which the consolidated financial statements were available to be issued.

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Foundation. Potential effects include but are not limited to declines in the fair value of investments, realizability of pledge receivables, and declines in contributions and gifts. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

### i. Related Party Transactions

During the year ended June 30, 2020 and 2019, the Foundation made payments on behalf of the University of $331,000 and $327,000, 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. Approximately $0 and $4,000 as of June 30, 2020 and 2019 was owed to the University for such costs.

In support of University programs, the Foundation incurred program expenses of $6,885,000 and $12,175,000 for 2020 and 2019, respectively, which consisted of payments on behalf of the University of $4,858,000 and $4,570,000, for 2020 and 2019, respectively; and amounts transferred to the University for restricted purposes of $1,997,000 and $7,605,000 for 2020 and 2019, respectively.

During the year ended June 30, 2020, the Foundation purchased 20.24 acres of land from the University to be held as an investment, as it is the intent of management to sell the property, for approximately $2,968,000.

### j. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2020 and 2019, comprise the following (in thousands):

| | 2020 | 2019 |
|---|---|---|
| Cash and equivalents | $ 3,243 | $ 4,227 |
| Accounts receivable | - | 48 |
| Contributions receivable | 1,232 | 876 |
| Less allowance for uncollectible pledges | (11) | (8) |
| | $ 4,464 | $ 5,143 |

The Foundation receives significant contributions restricted by donors and considers contributions restricted for programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. For the years ended June 30, 2020 and 2019, restricted contributions of $1,221,000 and $868,000, respectively, were included in financial assets available to meet cash needs for general expenditures within one year.

The Foundation's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The board-designated endowments of $7,439,000 are subject to an annual spending rate of 4.75 percent as described in Note 14e. Although the Foundation does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

The Foundation manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Foundation's Finance and Audit Committee reviews the liquidity policy annually and the summarized financial reports at its regular meetings.

**k. Schedule of Functional Expenses**

The Foundation accounts for expenses in both natural classification categories and functional area categories. The summaries of these for the years ended June 30, 2020 and 2019 are as follows (in thousands):

**Schedule of Functional Expenses**
**For the Year Ended 6/30/20**
**(in thousands)**

| | Subgranted to NKU-Payroll | Subgranted to NKU-Other | Contracted Services | Operating | Scholarships & Awards | Total |
|---|---|---|---|---|---|---|
| Instruction | $ 467 | $ 104 | $ 34 | $ 160 | $ - | $ 765 |
| Research | 61 | - | - | 5 | - | 66 |
| Public service | 36 | 20 | 3 | 676 | - | 735 |
| Libraries | - | - | - | 10 | - | 10 |
| Academic support | 578 | - | 37 | 423 | - | 1,038 |
| Student services | 139 | 44 | 25 | 384 | - | 592 |
| Institutional support | 428 | - | 98 | 406 | - | 932 |
| University facilities and equipment acquisition | - | 120 | - | 30 | - | 150 |
| Student financial aid | - | - | - | - | 2,557 | 2,557 |
| Other program expenses and losses | - | - | - | 10 | - | 10 |
| Total program expenses | $ 1,709 | $ 288 | $ 197 | $ 2,104 | $ 2,557 | $ 6,855 |
| Management and general | 331 | - | 102 | 70 | - | 503 |
| Fund raising support | - | - | - | 204 | - | 204 |
| Rental property | - | - | | 4 | - | 4 |
| Total support expenses | $ 331 | $ - | $ 102 | $ 278 | | $ 711 |
| Total expenses and losses | $ 2,040 | $ 288 | $ 299 | $ 2,382 | $ 2,557 | $ 7,566 |

**Schedule of Functional Expenses**
**For the Year Ended 6/30/19**
**(in thousands)**

| | Subgranted to NKU-Payroll | Subgranted to NKU-Other | Contracted Services | Operating | Scholarships & Awards | Total |
|---|---|---|---|---|---|---|
| Instruction | $ 655 | $ 3 | $ 37 | $ 262 | $ - | $ 957 |
| Research | 47 | - | 1 | 12 | - | 60 |
| Public service | 40 | - | 8 | 834 | - | 882 |
| Libraries | - | - | - | 23 | - | 23 |
| Academic support | 477 | - | 69 | 358 | - | 904 |
| Student services | 438 | 101 | 20 | 372 | - | 931 |
| Institutional support | 668 | - | 81 | 392 | - | 1,141 |
| University facilities and equipment acquisition | - | 5,177 | - | 119 | - | 5,296 |
| Student financial aid | - | - | - | - | 1,925 | 1,925 |
| Other program expenses and losses | - | - | - | 122 | - | 122 |
| Total program expenses | $ 2,325 | $ 5,281 | $ 216 | $ 2,494 | $ 1,925 | $ 12,241 |
| Management and general | 327 | - | 92 | 57 | - | 476 |
| Fund raising support | - | - | - | 281 | - | 281 |
| Rental property | - | - | 12 | 5 | - | 17 |
| Total support expenses | $ 327 | $ - | $ 104 | $ 343 | | $ 774 |
| Total expenses and losses | $ 2,652 | $ 5,281 | $ 320 | $ 2,837 | $ 1,925 | $ 13,015 |

### l. Long-Term Debt

During the year ended June 30, 2020, the Foundation borrowed $2 million on a promissory note collateralized by maintaining an amount equal to the loan in a savings account within the lending institution. The loan was obtained to purchase 20.24 acres of land from the University to be held as an investment. Accrued interest is payable monthly commencing on July 31, 2020 and continuing each month with one final payment of all remaining interest and principal due on June 30, 2022. The interest rate is variable equal to the one month LIBOR (London Interbank Offer Rate) rate plus 1.0 percent adjusted on a monthly basis with a fixed minimum rate of 1.75 percent.

### m. Future Changes in Accounting Principles

***Accounting for Leases***

FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for the Foundation for the year ending June 30, 2023.

# 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, 2020 | June 30, 2019 | June 30, 2018 | June 30, 2017 | June 30, 2016 | June 30, 2015 |
|---|---|---|---|---|---|---|
| **Nonhazardous** | | | | | | |
| University's proportionate share of the net pension liability | 2.335187% | 2.304209% | 2.345490% | 2.403742% | 2.447755% | 2.489115% |
| University's proportionate share of the collective net pension liability | $ 329,798 | $ 313,460 | $ 314,022 | $ 274,014 | $ 245,556 | $ 223,319 |
| University's covered-employee payroll | $ 34,697 | $ 34,793 | $ 37,584 | $ 39,206 | $ 37,799 | $ 39,266 |
| University's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 950.50% | 900.94% | 835.52% | 698.91% | 649.64% | 568.73% |
| Pension plan fiduciary net position as a % of the total pension liability | 13.66% | 12.84% | 13.30% | 14.80% | 18.83% | 22.30% |
| **Hazardous** | | | | | | |
| University's proportionate share of the net pension liability | 0.373520% | 0.386465% | 0.370876% | 0.040113% | 0.444514% | 0.414511% |
| University's proportionate share of the collective net pension liability | $ 2,041 | $ 1,952 | $ 1,844 | $ 1,571 | $ 1,524 | $ 1,059 |
| University's covered-employee payroll | $ 600 | $ 591 | $ 662 | $ 637 | $ 563 | $ 535 |
| University's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 340.16% | 330.29% | 278.50% | 246.58% | 270.64% | 197.80% |
| Pension plan fiduciary net position as a % of the total pension liability | 55.49% | 56.10% | 54.80% | 57.41% | 61.70% | 68.70% |

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

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years which information is available.

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

| | June 30, 2020 | June 30, 2019 | June 30, 2018 | June 30, 2017 | June 30, 2016 | June 30, 2015 |
|---|---|---|---|---|---|---|
| **Nonhazardous** | | | | | | |
| Contractually required contribution | $ 14,310 | $ 14,162 | $ 14,596 | $ 14,738 | $ 12,069 | $ 12,320 |
| University's contributions in relation to the contractually required contribution | 14,310 | 14,162 | 14,596 | 14,738 | 12,069 | 12,320 |
| Contribution deficiency | $ - | $ - | $ - | $ - | $ - | $ - |
| Covered-employee payroll | $ 34,848 | $ 34,491 | $ 35,498 | $ 36,626 | $ 39,131 | $ 39,948 |
| Contributions as a percentage of covered-employee payroll | 41.06% | 41.06% | 41.06% | 40.24% | 30.84% | 30.84% |
| **Hazardous** | | | | | | |
| Contractually required contribution | $ 287 | $ 256 | $ 180 | $ 170 | $ 127 | $ 136 |
| University's contributions in relation to the contractually required contribution | 287 | 256 | 180 | 170 | 127 | 136 |
| Contribution deficiency | $ - | $ - | $ - | $ - | $ - | $ - |
| Covered-employee payroll | $ 835 | $ 744 | $ 838 | $ 806 | $ 776 | $ 831 |
| Contributions as a percentage of covered-employee payroll | 34.39% | 34.39% | 21.44% | 21.08% | 16.37% | 16.37% |

Notes to the Schedule:

*Changes in assumptions* - In fiscal year 2018, the KERS nonhazardous investment rate and discount rate both decreased from 6.75% to 5.25%. The KERS hazardous investment rate and discount rate both decreased from 7.50% to 6.25%. For the nonhazardous plan, the estimated salary increases decreased from 4.00% to 3.05% in fiscal year 2019. As of fiscal year 2020, salary increase assumptions vary from 3.30% to 15.30% based on service. For the hazardous plan, the estimated salary increases decreased from 4.00% to 3.05% in fiscal year 2019. As of fiscal year 2020, the salary increase assumptions vary from 3.55% to 20.05% based on service. In fiscal year 2018, the KERS plan inflation rate decreased from 3.25% to 2.30% for both the nonhazardous and hazardous plans.

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

** This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

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

| | June 30, 2020 | June 30, 2019 | June 30, 2018 |
|---|---|---|---|
| **Non-hazardous** | | | |
| University's proportionate share of the net OPEB liability (asset) | 2.335187% | 2.302178% | 2.345490% |
| University's proportionate share of the net net OPEB liability (asset) | $ 51,909 | $ 54,583 | $ 59,481 |
| University's covered-employee payroll | $ 35,400 | $ 36,234 | $ 37,366 |
| University's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll | 146.64% | 150.64% | 159.18% |
| Plan fiduciary net position as a % of the total OPEB liability | 30.92% | 27.32% | 24.40% |
| **Hazardous** | | | |
| University's proportionate share of the net OPEB liability (asset) | 0.372729% | 0.386561% | 0.370876% |
| University's proportionate share of the net net OPEB liability (asset) | $ (100) | $ (128) | $ 22 |
| University's covered-employee payroll | $ 564 | $ 736 | $ 635 |
| University's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll | -17.73% | -17.43% | 3.46% |
| Plan fiduciary net position as a % of the total OPEB liability | 105.29% | 106.83% | 98.80% |

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

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years which information is available.

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

| | June 30, 2020 | June 30, 2019 | June 30, 2018 |
|---|---|---|---|
| **Non-hazardous** | | | |
| Contractually required contribution | $ 2,931 | $ 2,901 | $ 2,989 |
| University's contributions in relation to the contractually required contribution | 2,931 | 2,901 | 2,989 |
| Contribution deficiency (excess) | $ - | $ - | $ - |
| Covered-employee payroll | $ 34,848 | $ 34,491 | $ 35,548 |
| Contributions as a percentage of covered-employee payroll | 8.41% | 8.41% | 8.41% |
| **Hazardous** | | | |
| Contractually required contribution | $ 21 | $ 18 | $ 19 |
| University's contributions in relation to the contractually required contribution | 21 | 18 | 19 |
| Contribution deficiency (excess) | $ - | $ - | $ - |
| Covered-employee payroll | $ 835 | $ 744 | $ 838 |
| Contributions as a percentage of covered-employee payroll | 2.46% | 2.46% | 2.26% |

Notes to the Schedule:

*Changes in assumptions* - In fiscal year 2018, the KERS nonhazardous and hazardous investment rate decreased from 7.50% to 6.25%. The nonhazardous discount rate decreased from 6.90% to 5.83%, and the hazardous discount rate decreased from 7.20% to 5.87%. The estimated salary increases decreased from 4.00% to 3.05% for both the nonhazardous and hazardous plans. The KERS plan inflation rate decreased from 3.25% to 2.30% for both the nonhazardous and hazardous plans. In fiscal year 2019, the KERS nonhazardous discount rate increased from 5.83% to 5.86%; the KERS hazardous discount rate increased from 5.87% to 5.88% As of fiscal year 2020, salary increase assumptions vary from 3.30% to 15.30%, based on service, for the nonhazardous plan. Salary increase assumptions vary from 3.55% to 20.05%, based on service, for the hazardous plan. Also, in fiscal year 2020, the nonhazardous discount rate decreased from 5.86% to 5.73%, while the hazardous discount rate decreased from 5.88% to 5.66%.

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

* This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

* Employer contributions do not include the expected implicit subsidy.