NORTHERN KENTUCKY UNIVERSITY FOUNDATION

November 21, 2013

Dear Members of the Board and NKU Foundation Friends:

It is my pleasure to present the Northern Kentucky University Foundation, Inc. 2013 Consolidated Financial Statements. The following statements have been audited by the firm of Dean, Dorton, Allen, Ford, LLC. You will find a copy of their Independent Auditor's Report on page 4 of this report. The financial statements provide much information about the Foundation, which I hope you find valuable and useful.

The Foundation's fiscal year ended on June 30, 2013 with total liabilities and net assets of $96.7 million, which included an investments valuation of $84 million. As stewards of the charitable resources entrusted to it in support of Northern Kentucky University, the Foundation takes a disciplined approach, believing in diversification for the long term, and selecting professional managers who are achieving investment results consistent with the objective of balancing current spending with future needs. The endowment's investment performance was 13.6% for the year ending 6/30/13.

Through firsthand experience, I understand the importance of the Foundation's role in growing these charitable resources. As a "double alum" and past Alumni Council President, I know the value of a Northern Kentucky University education as the underpinning of a meaningful life and a fulfilling career. As past President of the Norse Athletics Club and Co-Chair of the Go Gold Campaign supporting the University's transition to Division I Athletics, I see faculty, staff, alumni, students, businesses, and the community all contributing to scholarships and academic support for student athlete success, improving athletics facilities, and bettering the entire region. As a member of the search committees selecting the University's new President and new Vice President of University Advancement, I know that the Foundation's partnership with the University is critical to achieving its ambitious goals.

Come see for yourself! I encourage you to participate in the wide variety of campus activities, exhibits, presentations, and events. We would be happy to host you for an exciting athletic competition, an inspiring musical performance, or an enjoyable evening of theater. Go Norse!

Best regards,

J. David Bender

J. David Bender, Esq. '76, '79
President
Northern Kentucky University Foundation, Inc.

EXECUTIVE COMMITTEE/OFFICERS

J. David Bender
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Judith H. Gibbons
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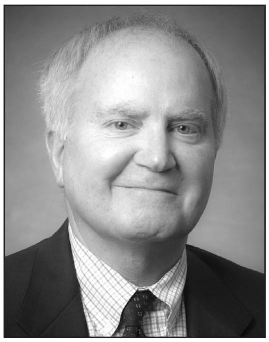

Dennis Repenning

Gerard A. St. Amand

Kara Williams

Karen Zerhusen Kruer, J.D.
EXECUTIVE DIRECTOR

NKU NORTHERN KENTUCKY UNIVERSITY
FOUNDATION

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DEAN | DORTON | ALLEN | FORD

Report of Independent Auditors

Board of Directors
Northern Kentucky University Foundation, Inc.
Highland Heights, Kentucky

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Northern Kentucky University Foundation, Inc. (the Foundation) which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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 an opinion 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 of 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 opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northern Kentucky University Foundation, Inc. as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dean Dorton Allen Ford, PLLC

September 10, 2013
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Northern Kentucky University Foundation, Inc.
Consolidated Statement of Financial Position

As of June 30, 2013 and 2012

(in thousands)

	2013	2012
ASSETS		
Cash and cash equivalents	$ 7,480	$ 9,128
Loans and accounts receivable, net	149	116
Accrued interest receivable	21	33
Contributions receivable, net	4,642	4,489
Prepaid expenses and deferred charges	42	36
Investments	84,005	73,563
Land and land improvements	548	548
Accumulated depreciation	(208)	(203)
TOTAL ASSETS	**$ 96,679**	**$ 87,710**
LIABILITIES AND NET ASSETS		
Accounts payable	$ 250	$ 258
Accrued interest payable	64	95
Annuities payable	191	242
Deferred income	26	26
Funds held in trust for Northern Kentucky University	11,277	10,209
Notes payable	1,609	2,363
TOTAL LIABILITIES	**13,417**	**13,193**
NET ASSETS		
Unrestricted		
For current operations	694	562
Contributions receivable	3	1
Amounts functioning as endowment funds	1,939	1,755
Invested in land and land improvements	340	345
Total unrestricted	2,976	2,663
Temporarily restricted		
Unexpended funds received for restricted purposes	6,005	4,922
Contributions receivable	4,409	4,175
Loan funds	136	138
Endowment funds	28,911	22,139
Total temporarily restricted	39,461	31,374
Permanently restricted		
Contributions receivable	230	313
Endowment funds	40,595	40,167
Total permanently restricted	40,825	40,480
TOTAL NET ASSETS	**83,262**	**74,517**
TOTAL LIABILITIES AND NET ASSETS	**$ 96,679**	**$ 87,710**

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statement of Activities

For the year ended June 30, 2013

(in thousands)

	2013			
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
REVENUES AND GAINS				
Gifts and bequests	$ 12	$ 4,378	$ 331	$ 4,721
Rental Income	119			119
Investment Income	57	1,502		1,559
Net gain on investments	155	6,850		7,005
Other revenue	206	286	2	494
Total revenues and gains	**549**	**13,016**	**333**	**13,898**
Net assets released from restrictions	4,642	(4,642)		
Total revenues and gains and other support	**5,191**	**8,374**	**333**	**13,898**
EXPENSES				
Program expenses				
Instruction	619			619
Research	21			21
Public service	700			700
Libraries	15			15
Academic support	541			541
Student services	528			528
Institutional support	566			566
University facilities and equipment acquisition	210			210
Student financial aid	1,323			1,323
Total program expenses	**4,523**			**4,523**
Support expenses				
Management and general	509			509
Fund raising support	114			114
Rental property	7			7
Total support expenses	**630**			**630**
TOTAL EXPENSES	**5,153**			**5,153**
Net transfers in or (out)	275	(287)	12	
INCREASE IN NET ASSETS	**313**	**8,087**	**345**	**8,745**
NET ASSETS - BEGINNING OF YEAR	2,663	31,374	40,480	74,517
NET ASSETS - END OF YEAR	**$ 2,976**	**$ 39,461**	**$ 40,825**	**$ 83,262**

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statement of Activities

For the year ended June 30, 2012

(in thousands)

	2012			
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
CHANGES IN NET ASSETS:				
Revenues and gains (losses)				
Gifts and bequests	$ 21	$ 3,665	$ 1,098	$ 4,784
Rental Income	118			118
Investment Income	57	1,042		1,099
Net loss on investments	(40)	(1,246)		(1,286)
Other revenue	35	377		412
Total revenues and gains (losses)	**191**	**3,838**	**1,098**	**5,127**
Net assets released from restrictions	4,484	(4,484)		
Total revenues and gains (losses) and other support	**4,675**	**(646)**	**1,098**	**5,127**
EXPENSES				
Program expenses				
Instruction	590			590
Research	15			15
Public service	881			881
Libraries	31			31
Academic support	519			519
Student services	341			341
Institutional support	398			398
University facilities and equipment acquisition	446			446
Student financial aid	1,132			1,132
Total program expenses	**4,353**			**4,353**
Support expenses				
Management and general	474			474
Fund raising support	98			98
Rental property	8			8
Total support expenses	**580**			**580**
TOTAL EXPENSES	**4,933**			**4,933**
Net transfers in or (out)	181	(280)	99	
INCREASE (DECREASE) IN NET ASSETS	**(77)**	**(926)**	**1,197**	**194**
NET ASSETS - BEGINNING OF YEAR	2,740	32,300	39,283	74,323
NET ASSETS - END OF YEAR	**$ 2,663**	**$ 31,374**	**$ 40,480**	**$ 74,517**

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statement of Cash Flows

For the years ended June 30, 2013 and 2012

(in thousands)

	2013	2012
Cash flows from operating activities:		
Interest and dividends received	$ 1,571	$ 1,218
Contributions received	4,233	3,903
Other receipts	579	530
Payments to vendors for goods and services	(1,686)	(1,816)
Subgrants to the University	(2,033)	(1,810)
Disbursements to students for financial aid	(1,323)	(1,132)
Interest paid	(104)	(135)
Net cash provided by operating activities	**1,237**	**758**
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	3,049	4,770
Purchases of investments	(5,464)	(6,387)
Net cash used for investing activities	**(2,415)**	**(1,617)**
Cash flows from financing activities:		
Endowment and other capital gifts	324	6,297
Reduction of notes payable	(754)	(722)
Payments to annuitants	(40)	(40)
Net cash provided by (used for) financing activities	**(470)**	**5,535**
Net change in cash and cash equivalents	(1,648)	4,676
Cash and cash equivalents at beginning of year	9,128	4,452
Cash and cash equivalents at end of year	**$ 7,480**	**$ 9,128**
Noncash financing and investing activities:		
Investment earnings (loss) attributable to funds held in trust for NKU	$ 1,068	$ (320)
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	**$ 8,745**	**$ 194**
Adjustment to reconcile change in net assets to net cash provided by operating activities		
Depreciation	5	7
Bad debt expense adjustment	1	3
Donated land and land improvements	-	(10)
Provision for uncollectible pledges	(33)	71
Adjustment of annuities payable	(11)	27
Adjustment of life estate remainder interest	80	-
Decrease (increase) in accounts receivable	(34)	140
Decrease (increase) in interest receivable	12	(21)
Decrease (increase) in contributions receivable	(120)	5,415
Decrease (increase) in prepaid expenses and deferred charges	(6)	16
Increase (decrease) in accounts payable	(8)	(29)
Increase (decrease) in accrued interest payable	(31)	(29)
Increase in cash surrender value of life insurance	(34)	(15)
Contributions restricted for long-term investment	(324)	(6,297)
Net (gains) losses on investments	(7,005)	1,286
Net cash provided by operating activities	**$ 1,237**	**$ 758**

See accompanying notes to the financial statements

NOTE A – HISTORY AND PURPOSE

Northern Kentucky University Foundation, Inc.

Northern Kentucky University Foundation, Inc. was incorporated November 23, 1970, as a Kentucky non-stock, not-for-profit corporation. The purpose of the foundation, as stated by the articles of incorporation, is to provide general and specific services and material things necessary or desirable for the growth and development of Northern Kentucky University (University), and encompasses prospective students, students, alumni, faculty, and staff, as well as research and civic services and cooperative educational programs. Any and all things and acts in and incidental to the conduct of such activities deemed useful, necessary, proper and lawful, are also declared purposes.

Kentucky Revised Statutes define affiliation status for corporations supporting public education institutions. Northern Kentucky University Foundation, Inc. is an unaffiliated corporation as defined by the statutes.

The Internal Revenue Service has determined that the Foundation is a tax-exempt organization under Section 501(c)(3) of the code and has determined that it is not a private foundation within Section 509(a) of the code. Contributions, bequests, legacies, devices, transfers and gifts made to the Foundation are deductible by donors, as provided in Section 170 of the code.

NKU Foundation Properties, Inc.

NKU Foundation Properties, Inc., a subsidiary of the Foundation which was incorporated on October 12, 2001 as a Kentucky non-stock, not-for-profit corporation, was dissolved effective December 31, 2011 and its net assets were transferred to NKUF Properties 6, LLC.

Formation of limited liability companies

Effective December 29, 2011, Northern Kentucky University Foundation, Inc. (Foundation), as the sole member of each company, made the required written declarations to establish the following single member limited liability companies:

NKUF Properties 1, LLC	NKUF Properties 2, LLC	NKUF Properties 3, LLC
NKUF Properties 4, LLC	NKUF Properties 5, LLC	NKUF Properties 6, LLC
NKUF Properties 7, LLC		

The purpose of each of the companies, as stated in Article III of the declaration for each, is to (i) hold title to real estate; and (ii) engage in any lawful act, activity, or business not contrary to and for which a limited liability company may be formed under the laws of the Commonwealth of Kentucky.

Subsequent to the formation of the companies, all land and land improvements held by the Foundation, as well as the remainder rights in a life estate held by NKU Foundation Properties, Inc. (Note L) and certain related assets, were transferred to the various single member limited liability companies.

For financial and tax reporting purposes, the activities, financial data and other information of the limited liability companies are included with the Foundation's information on the Foundation's Form 990 and financial statements.

Scope of Statements

The consolidated financial statements of Northern Kentucky University Foundation, Inc. for 2012 include the operations of the Foundation and its subsidiary corporation, NKU Foundation Properties, Inc. as well as the single member limited liability companies described above. All material intercompany transactions and balances have been eliminated.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

Net assets and changes therein are classified as follows:

> *Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use the returns on the related investments over time for general or specific purposes.
>
> *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or the passage of time. Temporarily restricted net assets are generally established in support of colleges or departments of the University, often for specific purposes such as faculty support, scholarships and fellowships, library acquisitions, equipment or building projects and other specific purposes.
>
> *Unrestricted net assets* - Net assets not subject to donor-imposed stipulations.

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

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

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

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

Cash and Cash Equivalents

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

At various times throughout the year, the Foundation has cash in certain financial institutions in excess of insured limits. Included in the Foundation's deposits at June 30, 2013 and 2012, are short term government obligation shares of $323,000. Additionally, at June 30, 2013 and 2012, $2,546,000 and $3,224,000, respectively, was collateralized with securities held by the financial institution's trust department or agent, but not in the Foundation's name. At June 30, 2013 and 2012, balances of $2,095,000 and $3,069,000, respectively, were neither insured nor collateralized.

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 as of June 30, 2013 and 2012 was approximately $116,000 and $115,000, respectively.

Investments

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

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

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

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

Land and Land Improvements

At June 30, 2013 and 2012, land and land improvements (in thousands) consisted of:

	2013	2012
Type of asset:		
Land	$ 340	$ 340
Land improvements	208	208
Total land and land improvements	**$ 548**	**$ 548**

Assets acquired for Foundation use with a useful life greater than one year and a value of $5,000 or more are capitalized. Annual depreciation for land improvements is calculated on a straight-line basis, beginning in the month of acquisition based on a useful life of 30 years. Depreciation expense for the years ended June 30, 2013 and 2012 was approximately $5,000 and $7,000, respectively, and is reported as support expenses under rental property in the statement of activities.

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

Net assets Released from Restrictions

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

Uncertain Tax Positions

The Foundation has evaluated tax positions taken on all income tax returns that remain open to examination by the respective taxing authorities (those returns filed for the years 2009 through 2012) and does not believe there are any uncertain positions on those returns that require recognition or disclosure in the financial statements.

NOTE C – NOTES PAYABLE

The Foundation borrowed $4.425 million on a promissory note collateralized by certain pledges receivable restricted by the donor to partially fund construction of The Bank of Kentucky Center, a multi-purpose athletic and special event facility, with equal annual payments of $857,000 including principal and interest at a rate of 4.31% due from August 1, 2009 through August 1, 2014. Loan principal (in thousands) to be paid over the remaining term of the loan is as follows:

Year Ended	Principal
June 30, 2014	787
June 30, 2015	822
	$ 1,609

Costs of $33,700 associated with obtaining the loan are being amortized over the 73 month term of the note. Amortization expense for the years ended June 30, 2013 and 2012 was $5,540 and is reported as management and general expense in the financial statements.

NOTE D – PROPERTY LEASES

At June 30, 2013, the Foundation owned properties subject to lease agreements with unrelated parties, as follows:

One property is subject to a lease covering approximately 23 acres of Foundation land. The lease is for 48 years ending on July 31, 2040, with four additional lease option terms of ten years each. All lease payments were current as of June 30, 2013 and 2012. As a condition of the lease, the Foundation has executed fee title mortgages to institutional lenders which subordinates its title in the real estate leased as security for construction financing of permanent improvements thereon. Any improvements constructed on the leased property of the Foundation shall become the property of the Foundation only upon termination of the lease or termination of the last such renewal term as may be exercised.

A second property is subject to a property lease and easements covering approximately .2 (two tenths) acre of Foundation land. The initial lease term was 5 years, beginning January 1, 1997, with nine additional 5-year automatic renewals at the option of the lessee. All lease payments were current as of June 30, 2013 and 2012.

The following is a schedule by years of the future rentals receivable (in thousands) on property leases as of June 30, 2013

Year ending June 30	
2014	119
2015	119
2016	128
2017	122
2018	115
2019 and thereafter	3,170
Total future rentals	**$ 3,773**

NOTE E – UNCONDITIONAL AND CONDITIONAL PROMISES TO GIVE

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

At June 30, 2013 and 2012, the Foundation recognized contributions based on the following unconditional promises to give (in thousands):

	2013	2012
Purpose:		
Endowment giving	$ 236	$ 327
Capital purposes	2,072	3,139
Operating programs	2,583	1,394
Gross unconditional promises	**4,891**	**4,860**
Less: Discount and allowance for uncollectible accounts	(249)	(371)
Net unconditional promises to give	**$ 4,642**	**$ 4,489**
Amounts due in:		
Less than one year	$ 2,584	$ 2,052
One to five years	1,904	2,805
More than five years	403	3
Total	**$ 4,891**	**$ 4,860**

The discount rates used to calculate the present value of contributions receivable at June 30, 2013 and 2012 vary from 1.2% to 5.6%, depending on when the promise was made.

The Foundation has pledged $1.714 million of unconditional promises to give as collateral against a promissory note.

Conditional promises to give are not included as support until such time as the conditions are substantially met. At June 30, 2013 and 2012, the Foundation had received conditional promises to give of approximately $1.2 million consisting of the face value of life insurance policies, net of accumulated cash surrender value.

NOTE F – FAIR VALUE MEASUREMENTS

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

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

Level 2 – Observable inputs other than Level 1 prices, such as:
- Quoted prices for similar assets or liabilities;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Other inputs that are observable for the asset or liability;
- Other inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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

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

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

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 investments include short term money market funds, cash and cash surrender value, certificates of deposit, fixed income funds and equity funds.

Level 2 investments are based on quoted prices of securities or other property with similar characteristics and include hedge funds of funds and a remainder interest in real property subject to a life estate.

In certain cases where level 1 or 2 inputs are not available, investments are classified within Level 3 of the hierarchy and include investments in private equity, natural resources and private real estate.

There have been no changes in the methodologies used at June 30, 2013.

The following assets were measured at fair value as of June 30, 2013 and 2012 (in thousands):

	2013	**2012**
Level 1: Investments	$ 59,742	$ 52,648
Level 2: Investments	$ 10,234	$ 9,522
Level 3: Investments	$ 14,029	$ 11,393

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

	Private Equity	**Natural Resources**	**Private Real Estate**
Investments:			
Beginning balance, June 30, 2011	**$ 4,082**	**$ 2,781**	**$ 1,608**
Additional investment	1,609	1,289	442
Capital distributions	(691)	(196)	(234)
Fees	(40)	(44)	(7)
Realized gains (losses)	34	37	(12)
Unrealized gains	272	351	112
Balance, June 30, 2012	**5,266**	**4,218**	**1,909**
Additional investment	1,397	1,719	348
Capital distributions	(1,100)	(649)	(93)
Fees	-	(35)	(19)
Realized gains	272	257	97
Unrealized gains	251	104	87
Ending balance, June 30, 2013	**$ 6,086**	**$ 5,614**	**$ 2,329**

NOTE G – INVESTMENTS

The market values (in thousands) of the Foundation's investments as of June 30, 2013 and 2012 are categorized by type below:

	2013	2012
Type of investment:		
Short-term money market funds	$ 2	$ 3
Cash and cash surrender value	427	441
Certificates of deposit	700	1,950
Fixed income funds:		
Core Plus	7,004	10,106
Global	2,978	2,758
High Yield	1,991	-
Equity funds:		
Large/Mid Cap -- Broad	14,966	11,483
Large/Mid Cap – Growth	3.919	6,742
Large/Mid Cap – Value	7,975	6,084
Small Cap – Growth	1,903	1,476
Small Cap – Value	2,054	1,550
International – Core	6,909	5,983
International Small Cap – Value	1,845	316
Emerging Markets – Value	3,834	3,756
Emerging Markets – Small Cap	3,235	-
Quoted Prices in Active Market for Identical Assets (Level 1)	**59,742**	**52,648**
Hedge funds:		
Directional	4,861	4,533
Directional Fund of Funds	5,049	4,600
Remainder interest in real property and other	324	389
Significant Other Observable Inputs (Level 2)	**10,234**	**9,522**
Private equity:		
Buyout	1,992	1,992
Distressed	769	926
Diversified	1,346	1,149
Mezzanine	778	562
Venture Capital	619	637
Secondary	582	-
Natural resources:		
Diversified	3,255	1,929
Energy	2,359	2,289
Private real estate:		
Secondary	633	611
Value Added	1,696	1,298
Significant Unobservable Inputs (Level 3)	**14,029**	**11,393**
Total Investments	**$ 84,005**	**$ 73,563**

Investment income and gains/(losses) (in thousands) for the years ended June 30, 2013 and 2012 consist of:

	2013	2012
Interest	$ 24	$ 33
Dividends	1,678	1,205
Fees	(143)	(139)
Total Investment Income	**$ 1,559**	**$ 1,099**
Realized Gains (Losses)	$ 2,968	$ 274
Unrealized Gains (Losses)	4,037	(1,560)
Total Investment Gains (Losses)	**$ 7,005**	**$ (1,286)**

The Foundation records the cost of managing its endowment portfolio as a decrease in investment income within the appropriate net asset class in the Statement of Activities. Some of the Foundation's investment managers report investment transactions net of fees. The fees noted above are only those fees separately stated by the managers.

The investments of the Foundation are commingled with certain investments which the Foundation holds in trust for Northern Kentucky University. The market value of funds held in trust for the University at June 30, 2013 and 2012 was approximately $11,277,000 and $10,209,000, respectively. (See Note J)

At June 30, 2013 and 2012, the Foundation had committed approximately $24.4 and $22.4 million, respectively, of its endowment investment resources to alternative investments, of which approximately $8.6 and $10.0 million, respectively, had not yet been called by the investment managers. Alternative investments for which commitments have been made consist of private equity, natural resources and private real estate.

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.

NOTE H – ENDOWMENTS

The Foundation's endowment consists of approximately 252 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% for each 1% 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 +5%, 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% 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, 2013 is as follows:

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

Changes in endowment net assets (in thousands) for the year ended June 30, 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment Net Assets, Beginning of Year	**$ 1,755**	**$ 22,139**	**$ 40,167**	**$ 64,061**
Contributions Collected	-	22	416	438
Investment Income	34	1,501	-	1,535
Net Investment Gain	153	6,822	-	6,975
Amounts Appropriated for Expenditure	(11)	(1,565)	-	(1,576)
Investment Loss Recovery Transferred to Unrestricted	8	(8)	-	-
Transfer to Permanently Restricted	-	-	12	12
Endowment Net Assets, End of Year	**$ 1,939**	**$ 28,911**	**$ 40,595**	**$ 71,445**

Endowment net asset composition by type of endowment (in thousands) as of June 30, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor restricted endowment funds	$ -	$ 16,119	$ 40,167	$ 56,286
Quasi-endowment funds	1,755	6,020	-	7,775
Total endowment funds	**$ 1,755**	**$ 22,139**	**$ 40,167**	**$ 64,061**

Changes in endowment net assets (in thousands) for the year ended June 30, 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment Net Assets, Beginning of Year	**$ 1,775**	**$ 23,786**	**$ 33,771**	**$ 59,332**
Contributions Collected	-	9	6,297	6,306
Investment Income	24	1,040	-	1,064
Net Investment Loss	(30)	(1,249)	-	(1,279)
Amounts Appropriated for Expenditure	(6)	(1,356)	-	(1,362)
Investment Loss Transferred to Unrestricted	(8)	8	-	-
Transfer to Permanently Restricted	-	(99)	99	-
Endowment Net Assets, End of Year	**$ 1,755**	**$ 22,139**	**$ 40,167**	**$ 64,061**

Funds with Deficiencies. From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or KUPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies at June 30, 2013. Deficiencies of this nature that are reported in unrestricted net assets were approximately $8,000 at June 30, 2012. 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.

NOTE I - 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.

NOTE J – REGIONAL UNIVERSITY EXCELLENCE TRUST FUND

The Foundation holds certain funds, consisting of endowment matching funds received by Northern Kentucky University from the Commonwealth of Kentucky’s Regional University Excellence Trust Fund, which were subsequently transferred to the Foundation for management and investment.

The Foundation reports these funds and accumulated earnings as assets held in trust for Northern Kentucky University. Investment earnings, gains and losses and expenditures from these funds are reported as changes in the balance held in trust rather than as revenue and expenses of the Foundation. (See Note G)

NOTE K – SUBSEQUENT EVENTS

Events occurring after June 30, 2013 have been evaluated for possible adjustment to the financial statements or disclosure through September 10, 2013, the date on which the financial statements were available to be issued.

NOTE L – SPLIT INTEREST AGREEMENT

The Foundation accepted a gift of a remainder interest in real property subject to a life estate retained by the two donors. The carrying value of the gift consists of the actuarial net present value of the property through the end of the life estate, reduced for the net present value of donor liabilities assumed by the Foundation over the estimated period of the life estate, calculated using an effective rate of 2.4% applied to the actuarial life expectancies of the two donors, as follows (in thousands):

Fair market value of the real property	**$ 685**
Less: Actuarial discount for the duration of the life estate	(221)
Net present value of the remainder interest in real property	464
Less: Net present value of donor liabilities assumed	(176)
Carrying value of the remainder interest in real property	**$ 288**

NKUF Properties 6, LLC, of which Northern Kentucky University Foundation, Inc. is the sole member, is the holder of the remainder interest in the property during the period of the life estate.

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