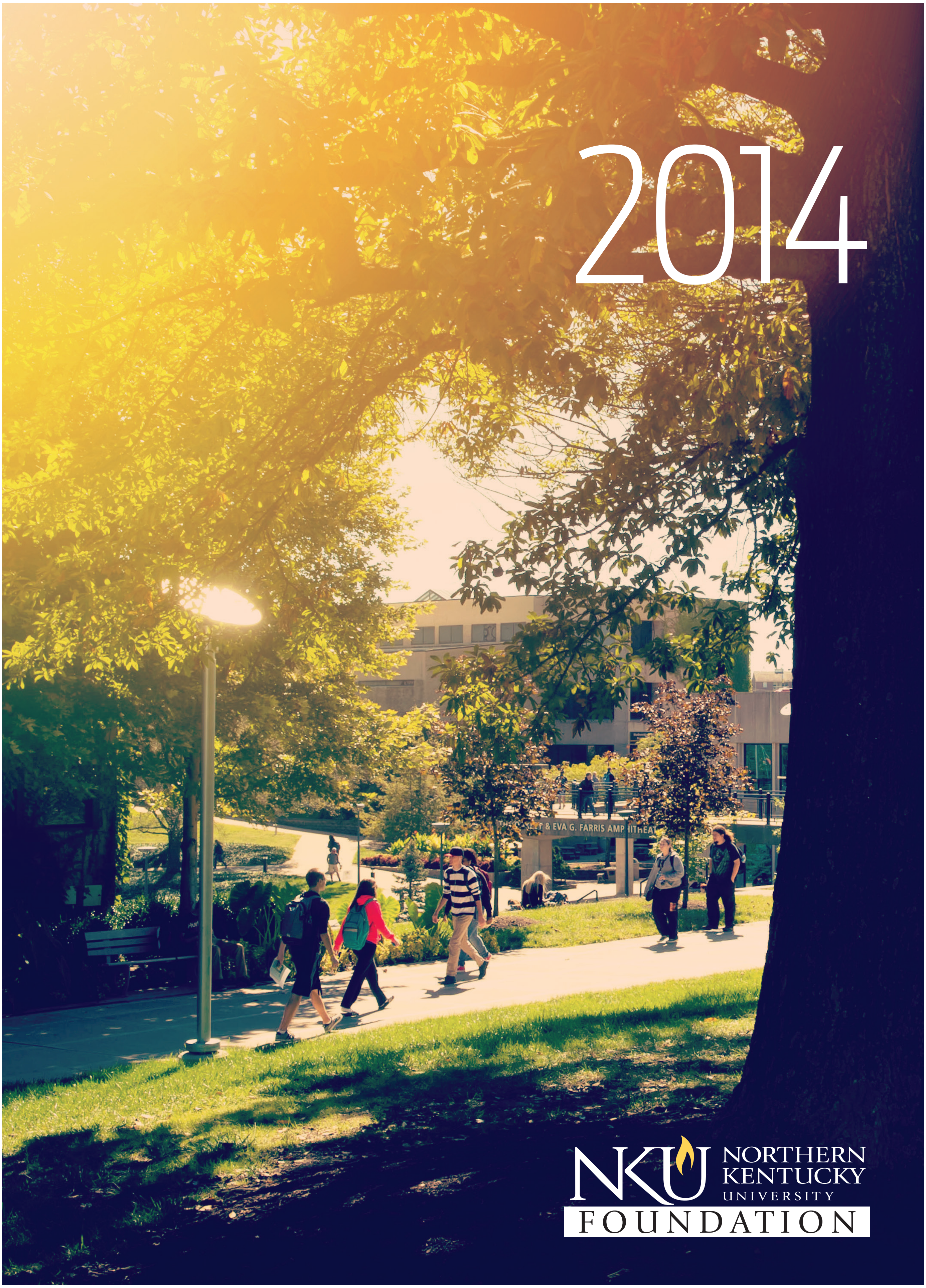
CONSOLIDATED FINANCIAL STATEMENTS

2014



NKU NORTHERN KENTUCKY UNIVERSITY

FOUNDATION

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FOR THE YEAR ENDED JUNE 30, 2014

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NORTHERN KENTUCKY UNIVERSITY FOUNDATION

November 20, 2014

Dear NKU Foundation Board Members and Friends:

The Northern Kentucky University Foundation, Inc. had a landmark year in 2014. Our total assets topped $108.9 million, and the endowment investment pool reached $94.9 million as of June 30, 2014. The one-year return on our endowment investments was 17.5 percent.

I invite you to read the following 2014 Consolidated Financial Statements to learn more about the Foundation's performance this year. Our statements were audited by Dean Dorton Allen Ford, PLLC, whose report appears on page 4.

The Foundation endowment investment pool continues to grow due to strong governance by our Investment Committee and our Board Members. We use a disciplined investment approach, diversifying for the long term, and selecting professional managers that continue to perform well and allow us to balance current spending with future needs.

Another key to our growth was adding new donors to the investment pool. This year, Foundation Board Members actively engaged in the fundraising process, helping to identify, attract and steward new donors as well as represent the Foundation at university-related functions.

As we work with the University to meet its needs and support student success, your participation in Foundation initiatives has never been more important. NKU is preparing for its 50th anniversary in 2018 and introduced a strategic plan, "Fuel the Flame," in January to guide its growth over the next five years. To align our mission, vision, goals and objectives with the University's, the Foundation will create a new strategic plan. I encourage everyone to partake in this six month process, which begins TODAY. We will present the new strategic plan at our May, 2015 Semi-Annual Board of Directors meeting.

I am proud of the work we have done this year and thank each one of you for your contribution to our success. As we enter 2015 with a host of new Foundation goals and initiatives, I am confident we will have another record-breaking year. Go Norse!

Best regards,

J. David Bender

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

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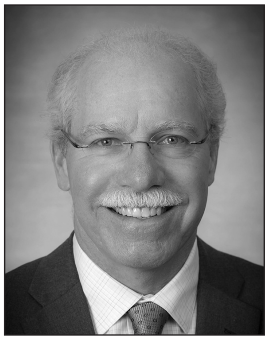
J. David Bender
PRESIDENT

William C. Vermillion
VICE PRESIDENT

Barry G. Kienzle
TREASURER

Kara C. Williams
SECRETARY



Richard A. Boehne

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Nathan G. Smith

NKU NORTHERN KENTUCKY UNIVERSITY FOUNDATION

Karen Zerhusen Kruer
EXECUTIVE DIRECTOR

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DEANDORTON
DEAN DORTON ALLEN FORD, PLLC

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, 2014 and 2013, 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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, 2014 and 2013, 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 11, 2014
Lexington, Kentucky

106 W. Vine Street, Suite 600 ▪ Lexington, KY 40507 ▪ 859-255-2341 **phone** ▪ 859-255-0125 **fax**
500 W. Jefferson Street, Suite 1400 ▪ Louisville, KY 40202 ▪ 502-589-6050 **phone** ▪ 502-581-9016 **fax** deandorton.com

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

As of June 30, 2014 and 2013

(in thousands)

	2014	2013
ASSETS		
Cash and cash equivalents	$ 6,258	$ 7,480
Loans and accounts receivable, net	119	149
Accrued interest receivable	3	21
Contributions receivable, net	2,824	4,642
Prepaid expenses and deferred charges	50	42
Investments	99,038	84,005
Land and land improvements	548	548
Accumulated depreciation	(208)	(208)
TOTAL ASSETS	**$ 108,632**	**$ 96,679**
LIABILITIES AND NET ASSETS		
Accounts payable	$ 177	$ 250
Accrued interest payable	32	64
Annuities payable	156	191
Deferred income	26	26
Funds held in trust for Northern Kentucky University	12,871	11,277
Notes payable	822	1,609
TOTAL LIABILITIES	**14,084**	**13,417**
NET ASSETS		
Unrestricted		
For current operations	893	694
Contributions receivable	1	3
Amounts functioning as endowment funds	2,212	1,939
Invested in land and land improvements	340	340
Total unrestricted	3,446	2,976
Temporarily restricted		
Unexpended funds received for restricted purposes	8,115	6,005
Contributions receivable	2,618	4,409
Loan funds	154	136
Endowment funds	38,905	28,911
Total temporarily restricted	49,792	39,461
Permanently restricted		
Contributions receivable	205	230
Endowment funds	41,105	40,595
Total permanently restricted	41,310	40,825
TOTAL NET ASSETS	**94,548**	**83,262**
TOTAL LIABILITIES AND NET ASSETS	**$ 108,632**	**$ 96,679**

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statement of Activities

For the year ended June 30, 2014

(in thousands)

	2014			
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
REVENUES AND GAINS				
Gifts and bequests	$ 2	$ 2,526	$ 483	$ 3,011
Rental income	119			119
Investment income	41	1,093		1,134
Net gain on investments	256	10,948		11,204
Other revenue	223	320		543
Total revenues and gains	**641**	**14,887**	**483**	**16,011**
Net assets released from restrictions	4,217	(4,217)		
Total revenues and gains and other support	**4,858**	**10,670**	**483**	**16,011**
EXPENSES				
Program expenses				
Instruction	750			750
Research	25			25
Public service	582			582
Libraries	14			14
Academic support	423			423
Student services	210			210
Institutional support	520			520
University facilities & equipment acquisition	219			219
Student financial aid	1,326			1,326
Total program expenses	**4,069**			**4,069**
Support expenses				
Management and general	533			533
Fund raising support	123			123
Total support expenses	**656**			**656**
TOTAL EXPENSES	**4,725**			**4,725**
Net transfers in or (out)	337	(339)	2	
INCREASE IN NET ASSETS	**470**	**10,331**	**485**	**11,286**
NET ASSETS - BEGINNING OF YEAR	2,976	39,461	40,825	83,262
NET ASSETS - END OF YEAR	**$ 3,446**	**$ 49,792**	**$ 41,310**	**$ 94,548**

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 Cash Flows
For the years ended June 30, 2014 and 2013
(in thousands)

	2014	2013
Cash flows from operating activities:		
Interest and dividends received	$ 1,152	$ 1,571
Contributions received	4,316	4,233
Other receipts	687	579
Payments to vendors for goods and services	(1,681)	(1,686)
Subgrants to the University	(1,809)	(2,033)
Disbursements to students for financial aid	(1,326)	(1,323)
Interest paid	(71)	(104)
Net cash provided by operating activities	**1,268**	**1,237**
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	14,600	3,049
Purchases of investments	(16,771)	(5,464)
Net cash used for investing activities	**(2,171)**	**(2,415)**
Cash flows from financing activities:		
Endowment and other capital gifts	508	324
Reduction of notes payable	(787)	(754)
Payments to annuitants	(40)	(40)
Net cash used for financing activities	**(319)**	**(470)**
Net change in cash and cash equivalents	(1,222)	(1,648)
Cash and cash equivalents at beginning of year	7,480	9,128
Cash and cash equivalents at end of year	**$ 6,258**	**$ 7,480**
Noncash financing and investing activities:		
Investment earnings attributable to funds held in trust for NKU	$ 1,594	$ 1,068
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	**$ 11,286**	**$ 8,745**
Adjustment to reconcile change in net assets to net cash provided by operating activities		
Depreciation	-	5
Bad debt expense adjustment	5	1
Provision for uncollectible pledges	2	(33)
Adjustment of annuities payable	5	(11)
Adjustment of life estate remainder interest	(48)	80
Decrease (increase) in accounts receivable	25	(34)
Decrease in interest receivable	18	12
Decrease (increase) in contributions receivable	1,816	(120)
Increase in prepaid expenses and deferred charges	(8)	(6)
Decrease in accounts payable	(73)	(8)
Decrease in accrued interest payable	(32)	(31)
Increase in cash surrender value of life insurance	(16)	(34)
Contributions restricted for long-term investment	(508)	(324)
Net gains on investments	(11,204)	(7,005)
Net cash provided by operating activities	**$ 1,268**	**$ 1,237**

See accompanying notes to the financial statements

Notes to Consolidated Financial Statements

For the Year Ended June 30, 2014

NOTE A – HISTORY AND PURPOSE

Northern Kentucky University Foundation, Inc.

Northern Kentucky University Foundation, Inc. (the Foundation) 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 (the 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.

Scope of Statements

The consolidated financial statements of Northern Kentucky University Foundation, Inc. include the operations of the Foundation and its seven single member limited liability companies that hold title to real estate and other assets formerly held by the Foundation. 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, were short term government obligation shares of $323,000. Additionally, at June 30, 2014 and 2013, $877,000 and $2,546,000, 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, 2014 and 2013, balances of $3,112,000 and $2,095,000, 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, 2014 and 2013 was approximately $121,000 and $116,000, 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 endowments 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, 2014 and 2013, land and land improvements (in thousands) consisted of:

	2014	2013
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. At June 30, 2014 and 2013 all land improvements were fully depreciated. Depreciation expense for the year ended June 30, 2013 was approximately $5,000 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 2010 through 2013) 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, 2015	$822

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, 2014 and 2013 was $5,540 and is reported as management and general expense in the financial statements.

NOTE D – PROPERTY LEASES

At June 30, 2014, 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, 2014 and 2013. 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, 2014 and 2013.

The following is a schedule by years of the future rentals receivable (in thousands) on property leases as of June 30, 2014:

Year ending June 30	
2015	119
2016	128
2017	122
2018	115
2019	115
2020 and thereafter	3,055
Total future rentals	**$ 3,654**

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, 2014 and 2013, the Foundation recognized contributions based on the following unconditional promises to give (in thousands):

	2014	2013
Purpose:		
Endowment giving	$ 212	$ 236
Capital purposes	1,092	2,072
Operating programs	1,668	2,583
Gross unconditional promises	**2,972**	**4,891**
Less: Discount and allowance for uncollectible accounts	(148)	(249)
Net unconditional promises to give	**$ 2,824**	**$ 4,642**
Amounts due in:		
Less than one year	$ 1,696	$ 2,584
One to five years	975	1,904
More than five years	301	403
Total	**$ 2,972**	**$ 4,891**

The discount rates used to calculate the present value of contributions receivable at June 30, 2014 and 2013 vary from 1.2% to 5.25%, depending on when the promise was made.

The Foundation has pledged approximately $857,000 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, 2014 and 2013, the Foundation had received conditional promises to give of approximately $1.1 million and $1.2 million, respectively, 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.

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

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

There have been no changes in the methodologies used at June 30, 2014.

The following assets were measured at fair value as of June 30, 2014 and 2013 (in thousands):

	2014	2013
Level 1:		
Investments	$ 68,165	$ 59,714
Level 2:		
Investments	$ 3,586	$ 5,185
Level 3:		
Investments	$ 27,287	$ 19,106

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

	Private Equity/Debt	Natural Resources	Private Real Estate	Low-Volatility
Investments:				
Beginning Balance, June 30, 2012	**$ 5,266**	**$ 4,218**	**$ 1,909**	**$ 4,647**
Additional investments	1,397	1,719	348	-
Capital distributions	(1,100)	(649)	(93)	(18)
Fees	-	(35)	(19)	-
Realized gains	272	257	97	-
Unrealized gains	251	104	87	448
Balance, June 30, 2013	**6,086**	**5,614**	**2,329**	**5,077**
Additional investments	1,375	1,667	99	5,600
Capital distributions	(1,738)	(613)	(610)	(26)
Fees	-	(62)	(11)	(10)
Realized gains	544	115	50	15
Unrealized gains	771	439	123	453
Balance, June 30, 2014	**$ 7,038**	**$ 7,160**	**$ 1,980**	**$ 11,109**

NOTE G – INVESTMENTS

The market values (in thousands) of the Foundation's investments as of June 30, 2014 and 2013 are categorized by type below:

	2014	2013
Type of investment:		
Short-term money market funds	$ 5	$ 2
Cash and cash surrender value	1,796	399
Certificates of deposit	2,850	700
Fixed income funds:		
Core Plus	7,259	7,004
Global	3,199	2,978
High Yield	2,111	1,991
Equity funds:		
Large/Mid Cap -- Broad	14,063	14,966
Large/Mid Cap – Growth	4,969	3,919
Large/Mid Cap – Value	9,904	7,975
Small Cap – Growth	1,251	1,903
Small Cap – Value	1,651	2,054
International – Core	8,425	6,909
International Small Cap – Value	2,505	1,845
Emerging Markets – Value	4,428	3,834
Emerging Markets – Small Cap	3,749	3,235
Quoted Prices in Active Market for Identical Assets (Level 1)	**68,165**	**59,714**
Hedge funds:		
Directional	336	4,861
Public Natural Resources-MLP	2,872	-
Remainder interest in real property and other	378	324
Significant Other Observable Inputs (Level 2)	**3,586**	**5,185**
Private equity:		
Buyout	2,070	1,992
Diversified	1,845	1,346
Venture Capital	671	619
Secondary	1,332	582
Private Debt:		
Distressed	693	769
Mezzanine	427	778
Natural resources:		
Diversified	4,034	3,255
Energy	3,126	2,359
Private real estate:		
Secondary	-	633
Value Added	1,980	1,696
Low-Volatility		
Absolute Return	5,308	5,049
Diversified	2,795	28
Diversifying Strategies	3,006	-
Significant Unobservable Inputs (Level 3)	**27,287**	**19,106**
Total Investments	**$ 99,038**	**$ 84,005**

Investment income and gains/(losses) (in thousands) for the years ended June 30, 2014 and 2013 consist of:

	2014	2013
Interest	$ 16	$ 24
Dividends	1,320	1,678
Fees	(202)	(143)
Total Investment Income	**$ 1,134**	**$ 1,559**
Realized Gains	$ 2,939	$ 2,968
Unrealized Gains	8,265	4,037
Total Investment Gains	**$ 11,204**	**$ 7,005**

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, 2014 and 2013 was approximately $12,871,000 and $11,277,000, respectively. (See Note J)

At June 30, 2014 and 2013, the Foundation had committed approximately $26.4 and $24.4 million, respectively, of its endowment investment resources to alternative investments, of which approximately $7.3 and $8.6 million, respectively, had not yet been called by the investment managers. Alternative investments for which commitments have been made consist of private equity/debt, natural resources, private real estate and low-volatility.

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

NOTE H – ENDOWMENTS

The Foundation's endowment consists of approximately 263 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, 2014 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor restricted endowment funds	$ -	$ 32,791	$ 41,105	$ 73,896
Quasi-endowment funds	2,212	6,114	-	8,326
Total endowment funds	**$ 2,212**	**$ 38,905**	**$ 41,105**	**$ 82,222**

Changes in endowment net assets (in thousands) for the year ended June 30, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment Net Assets, Beginning of Year	**$ 1,939**	**$ 28,911**	**$ 40,595**	**$ 71,445**
Contributions Collected	-	16	508	524
Investment Income	25	1,086	-	1,111
Net Investment Gain	255	10,921	-	11,176
Amounts Appropriated for Expenditure	(7)	(2,029)	-	(2,036)
Transfer to Permanently Restricted	-	-	2	2
Endowment Net Assets, End of Year	**$ 2,212**	**$ 38,905**	**$ 41,105**	**$ 82,222**

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**

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, 2014 and 2013.

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, 2014 have been evaluated for possible adjustment to the financial statements or disclosure through September 11, 2014, 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	(105)
Net present value of the remainder interest in real property	580
Less: Net present value of donor liabilities assumed	(244)
Carrying value of the remainder interest in real property	**$ 336**

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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Northern Kentucky University Foundation, Inc.
Lucas Administrative Center 221
Highland Heights, KY 41099
859.572.5126
foundation.nku.edu