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FOR THE YEAR ENDED JUNE 30, 2008**

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October 13, 2008

Dear Members of the Board:

It is my pleasure to transmit herewith the Foundation's 2008 Annual Financial Report. The statements included have been audited by the firm of Von Lehman & Company. You will find their Independent Auditors' Report on page 4.

This year marks the 40th anniversary of the University with plenty to celebrate. For the first time in 10 years commencement was brought back to campus, the NKU Women's Basketball team won the National Championship, and NKU was annexed into the city of Highland Heights. The year will continue with the acceptance of a \$15 million gift earmarked for the College of Business. Even in admittedly difficult economic times, growth and support of the University remains strong. The Foundation is able to achieve this level of support through the generosity of the community. For a public university to achieve a margin of excellence, private support has never been more important. The Foundation spent \$7.8 million this past year in direct support of program expenses.

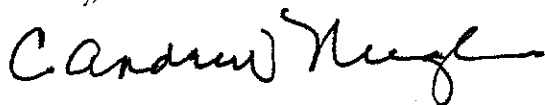
Some of the changes reflected in this year's report are marked by the \$5 million Stream Corridor Fund transfer from the NKU Foundation to the NKU Research Foundation. The Foundation additionally, increased its liabilities with a \$4.4 million note payable for The Bank of Kentucky Center. This note is collateralized by a commitment from The Bank of Kentucky.

The Foundation's endowment investment pool ended the year at \$50.3 million, this number represents a decrease over last year's \$53.2 million figure. This decrease stemmed from a negative overall return of 6.9% and an overall loss of \$3.9 million. Fluctuating market conditions and poor economic growth continue to impact returns throughout the market, with financial stocks being hit hardest. A restructuring of the investment portfolio continues to spread risk and prevent significant overall losses throughout the year. The restructuring and a continuous monitoring by the Foundation's Investment Committee, its investment advisor, and money managers allowed for a broader diversification into alternative asset classes. Our three-year annualized return is 7.4%

Many capital projects continue throughout campus. The Bank of Kentucky Center construction is complete and its grand opening featured a concert by Carrie Underwood. The Bank of Kentucky Center continues to draw national attractions and provides a draw for the greater community to campus. This summer also celebrated the opening of the Student Union, a state-of-the-art center that offers food, community and a true campus center for NKU students. The Foundation continues to move forward with the US 27 property development with demolition of the Hermann House and Thriftway buildings almost completed. Development plans continue and the Foundation looks forward to a finalized development agreement and ground breaking in the coming months.

The Foundation's support of the University's goal to become a preeminent, learner-centered, metropolitan university recognized for its contributions to the intellectual, social, economic, cultural, and civic vitality of its region and of the Commonwealth has never been stronger. The Foundation continues to examine the structure and composition of its board. We had another outstanding year in the area of participation. Our nine committees met on a regular basis. The members of our Board are truly making a difference in the lives of the students on campus. We are proud of our long-standing record of supporting the mission of the University and remain positioned to continue its support in the upcoming year.

Sincerely,



C. Andrew Neagle  
President

# EXECUTIVE COMMITTEE/OFFICERS



**C. Andrew Neagle**  
PRESIDENT



**Judith H. Gibbons**  
VICE PRESIDENT



**J. David Bender**  
SECRETARY/TREASURER



**Kenneth F. Harper**



**Nancy B. Kremer**



**Anna Dale Pyles**



**Gerard A. St. Amand**



**William C. Vermillion**



**James C. Votruba**



**Karen Zerhusen Kruer, J.D.**  
EXECUTIVE DIRECTOR



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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Northern Kentucky University  
Foundation, Inc.

We have audited the accompanying statement of financial position of Northern Kentucky University Foundation, Inc. (a nonprofit organization) as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern Kentucky University Foundation, Inc. as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*VonLehman & Company Inc.*

Fort Mitchell, Kentucky  
October 2, 2008

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# Northern Kentucky University Foundation, Inc.

## Statement of Financial Position

As of June 30, 2008 and 2007  
(in thousands)

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 7,396	\$ 11,438
Loans, interest and accounts receivable (less allowance of \$109,929 in 2008 and \$111,818 in 2007)	219	282
Contributions receivable (less allowance of \$37,838 in 2008 and \$76,447 in 2007)	10,241	9,065
Prepaid expenses and deferred charges	64	25
Investments	50,338	53,200
Land, buildings and equipment	2,891	2,891
Accumulated depreciation	(176)	(169)
<b>TOTAL ASSETS</b>	<u>\$ 70,973</u>	<u>\$ 76,732</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	\$ 540	\$ 372
Agency fund		5,532
Annuities payable	88	127
Deferred income	25	25
Funds held in trust for Northern Kentucky University	9,485	10,435
Notes payable	6,525	2,100
<b>TOTAL LIABILITIES</b>	<u>16,663</u>	<u>18,591</u>
<b>NET ASSETS</b>		
Unrestricted		
For current operations	358	450
For designated purpose	527	190
Contributions receivable	46	35
Amounts functioning as endowment funds	2,145	2,376
Invested in property, plant and equipment	615	622
<b>Total Unrestricted</b>	<u>3,691</u>	<u>3,673</u>
Temporarily restricted		
Unexpended funds received for restricted purposes	886	4,997
Contributions receivable	6,578	6,828
Loan funds	142	140
Endowment funds	17,978	19,601
<b>Total temporarily restricted</b>	<u>25,584</u>	<u>31,566</u>
Permanently restricted		
Contributions receivable	3,618	2,201
Endowment funds	21,417	20,701
<b>Total permanently restricted</b>	<u>25,035</u>	<u>22,902</u>
<b>TOTAL NET ASSETS</b>	<u>54,310</u>	<u>58,141</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <u>\$ 70,973</u>	 <u>\$ 76,732</u>

See accompanying notes to the financial statements

# Northern Kentucky University Foundation, Inc.

## Statement of Activities

For the year ended June 30, 2008

(in thousands)

	2008			Total
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	
<b>CHANGES IN NET ASSETS:</b>				
<b>Revenues and Gains</b>				
Gifts, grants and bequests	\$ 523	\$ 3,812	\$ 2,133	\$ 6,468
Rental income	107	3		110
Investment income	304	758		1,062
Net gains (losses) on investments	(199)	(3,727)		(3,926)
Other revenue	9	705		714
<b>Total Revenues and Gains</b>	<b>744</b>	<b>1,551</b>	<b>2,133</b>	<b>4,428</b>
Net Assets Released from Restrictions	7,699	(7,699)		
<b>Total Revenues and Gains and Other Support</b>	<b>8,443</b>	<b>(6,148)</b>	<b>2,133</b>	<b>4,428</b>
<b>EXPENSES</b>				
<b>Program Expenses</b>				
Instruction	454			454
Research	4			4
Public service	774			774
Libraries	27			27
Academic support	256			256
Student services	225			225
Institutional support	639			639
University facilities and equipment	4,408			4,408
Student financial aid	1,008			1,008
<b>Total Program Expenses</b>	<b>7,795</b>			<b>7,795</b>
<b>Support Expenses</b>				
Management and general	192			192
Fundraising support	93			93
Rental property	179			179
<b>Total Support Expenses</b>	<b>464</b>			<b>464</b>
<b>TOTAL EXPENSES</b>	<b>8,259</b>			<b>8,259</b>
Net transfers in (out)	(166)	166		
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>18</b>	<b>(5,982)</b>	<b>2,133</b>	<b>(3,831)</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>3,673</b>	<b>31,566</b>	<b>22,902</b>	<b>58,141</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 3,691</b>	<b>\$ 25,584</b>	<b>\$ 25,035</b>	<b>\$ 54,310</b>

See accompanying notes to the financial statements

# Northern Kentucky University Foundation, Inc.

## Statement of Activities

For the year ended June 30, 2007

(in thousands)

	2007			Total
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	
<b>CHANGES IN NET ASSETS:</b>				
<b>Revenues and Gains</b>				
Gifts, grants and bequests	\$ 311	\$ 4,955	\$ 2,125	\$ 7,391
Rental income	107			107
Investment income	213	488		701
Net gains (losses) on investments	347	5,478		5,825
Other revenue	90	595		685
<b>Total Revenues and Gains</b>	<b>1,068</b>	<b>11,516</b>	<b>2,125</b>	<b>14,709</b>
<b>Net Assets Released from Restrictions</b>	<b>3,471</b>	<b>(3,471)</b>		
<b>Total Revenues and Gains and Other Support</b>	<b>4,539</b>	<b>8,045</b>	<b>2,125</b>	<b>14,709</b>
<b>EXPENSES</b>				
<b>Program Expenses</b>				
Instruction	577			577
Research	3			3
Public service	838			838
Libraries	7			7
Academic support	232			232
Student services	302			302
Institutional support	471			471
University facilities and equipment	95			95
Student financial aid	968			968
<b>Total Program Expenses</b>	<b>3,493</b>			<b>3,493</b>
<b>Support Expenses</b>				
Management and general	194			194
Fundraising support	94			94
Rental property	209			209
<b>Total Support Expenses</b>	<b>497</b>			<b>497</b>
<b>TOTAL EXPENSES</b>	<b>3,990</b>			<b>3,990</b>
Net transfers in (out)	(18)	(3)	21	
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>531</b>	<b>8,042</b>	<b>2,146</b>	<b>10,719</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>3,142</b>	<b>23,524</b>	<b>20,756</b>	<b>47,422</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 3,673</b>	<b>\$ 31,566</b>	<b>\$ 22,902</b>	<b>\$ 58,141</b>

See accompanying notes to the financial statements



# Northern Kentucky University Foundation, Inc.

## Statement of Cash Flows

For the years ended June 30, 2008 and 2007  
(in thousands)

	2008	2007
<b>Cash flows from operating activities:</b>		
Interest and dividends received	\$ 285	\$ 101
Contributions received	4,549	4,369
Other receipts	903	792
Payments to vendors for goods and services	(1,476)	(1,477)
Subgrants to the University	(5,341)	(1,198)
Disbursements to students for financial aid	(1,008)	(968)
Interest paid	(119)	(158)
<b>Net cash provided by (used for) operating activities</b>	<b>(2,207)</b>	<b>1,461</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sales and maturities of investments	3,468	8,872
Purchases of investments	(4,772)	(11,555)
Life insurance premiums paid	(8)	(10)
<b>Net cash provided by (used for) investing activities</b>	<b>(1,311)</b>	<b>(2,693)</b>
<b>Cash flows from financing activities:</b>		
Endowment and other capital gifts	717	2,372
Increase in deposits in custody	18	-
Reduction of deposits in custody	(5,640)	(66)
Proceeds from new indebtedness	4,425	-
Payments to annuitants	(42)	(42)
<b>Net cash provided by (used for) financing activities</b>	<b>(523)</b>	<b>2,264</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(4,042)</b>	<b>1,032</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>11,438</b>	<b>10,406</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 7,396</b>	<b>\$ 11,438</b>
<b>Reconciliation of change in net assets to net cash provided by (used for) operating activities:</b>		
<b>Change in net assets</b>	<b>\$ (3,832)</b>	<b>\$ 10,719</b>
Adjustment to reconcile change in net assets to net cash provided by (used for) operating activities		
Depreciation	7	7
Bad debt expense adjustment	(2)	14
Provision for uncollectible pledges	51	4
Decrease (Increase) in accounts receivable	62	(180)
Decrease (Increase) in interest receivable	1	2
Decrease (Increase) in contributions receivable	(1,177)	(605)
Increase (decrease) in prepaid expenses	38	(54)
Increase (decrease) in accounts payable	260	274
Life insurance premiums paid	8	10
Increase (decrease) in cash surrender value of life insurance	11	27
Payments to annuitants	42	42
Contributions restricted for long-term investment	(717)	(2,372)
Interest and dividends restricted for reinvestment	(886)	(602)
Net losses (gains) on investments	3,927	(5,825)
<b>Net cash provided by (used for) operating activities</b>	<b>\$ (2,207)</b>	<b>\$ 1,461</b>

See accompanying notes to the financial statements.

### NOTE A – HISTORY AND PURPOSE

#### NKU Foundation, Inc.

Northern Kentucky State College Research and Development Foundation was incorporated November 23, 1970, as a domestic non-profit corporation under Kentucky Revised Statutes. The articles of incorporation state that the purpose of the Foundation shall be to provide general and specific services and material things necessary or desirable for the growth and development of Northern Kentucky State College, or its successor institution, 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.

The name of the Corporation was changed to Northern Kentucky State College Foundation, Inc. by amendment to the articles on February 26, 1974, and the name was further changed to Northern Kentucky University Foundation, Inc. by amendment to the articles May 10, 1977.

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, under Section 501(c)(3) of the code, that the Foundation is a tax-exempt organization 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.

### NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

In accordance with pronouncements of the Financial Accounting Standards Board, investments in equity securities with readily determinable fair value and all debt securities are reported at their fair value.

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 to be received after one year are discounted at an appropriate rate commensurate with the risks involved. Amortization of 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 may have cash in certain financial institutions in excess of insured limits. At June 30, 2008 and 2007, the carrying amount of the Foundation's cash and cash equivalents was \$7,396,000 and \$11,437,000, respectively, and the bank balance was \$7,342,000 and \$11,399,000, respectively. Included in the Foundation's deposits at June 30, 2008 and 2007, are short term government obligation shares of \$1,351,000 and \$291,000, respectively. Of the remaining balance, \$100,000 was insured by federal depository insurance and the remaining was collateralized with securities held by the financial institution's trust department or agent, but not in the Foundation's name.

### **Investments**

The Foundation's investments are recorded in the financial statements at fair value. The estimated fair value of investments is based on quoted market prices, except for alternative 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 through June 30. 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 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 endowment are managed in a pool, unless special considerations or donor stipulations require that they be held separately.

The Foundation has adopted an endowment spending policy designed to stabilize annual spending levels and to preserve the value of the endowment portfolio. The spending policy attempts to achieve these objectives by using a spending rate which has ranged from 3% to 5% in recent years, combined with a smoothing rule which adjusts spending gradually to changes in the endowment market value. The actual rate of spending will vary depending on the rate of growth or decline in market value of the endowment investment portfolio.

The market values (in thousands) of the Foundation's investments as of June 30, 2008 and 2007 are categorized below:

	<u>2008</u>	<u>2007</u>
<b>Type of investment:</b>		
Short-term money market funds	\$ 25	\$ 136
Fixed income funds	10,751	7,623
Corporate note		1,000
Equity funds and common stock	28,906	37,525
Hedge funds	6,792	5,062
Alternative investments	3,372	1,594
Other	492	260
<b>Total Investments</b>	<u>\$ 50,338</u>	<u>\$ 53,200</u>

Investment income and gains (in thousands) for the years ended June 30, 2008 and 2007 consist of:

	<u>2008</u>	<u>2007</u>
Interest	\$ 389	\$ 260
Dividends	782	506
Fees	(109)	(65)
<b>Total Investment Income</b>	<u>\$ 1,062</u>	<u>\$ 701</u>
Realized Gains	\$ 2,224	\$ 2,402
Unrealized Gains (Losses)	(6,150)	3,423
<b>Total Investment Gains (Losses)</b>	<u>\$ (3,926)</u>	<u>\$ 5,825</u>

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, 2008 and 2007 were \$9,485,000 and \$10,435,000 respectively.

At June 30, 2008, the Foundation had committed \$ 10.210 million of its endowment investment resources to alternative investments, of which \$6.393 million had not yet been called by the investment managers. Alternative investments for which commitments have been made consist of private equity, venture capital, real estate and real assets.

At June 30, 2008, the current market value of certain endowment accounts was less than the amount required to be maintained as principal for those endowments. The amount by which the required balances of those endowments exceeded current market value is \$228,000.

### Fixed Assets and Depreciation

At June 30, 2008 and 2007, fixed assets consisted of:

	2008	2007
<b>Type of asset:</b>		
Land	\$ 2,682	\$ 2,682
Land improvements	208	208
Museum and art collection	1	1
<b>Total Fixed Assets</b>	<b>\$ 2,891</b>	<b>\$ 2,891</b>

The cost of expenditures for land, buildings, improvements, equipment, art and museum collections and the fair market value of donated capital assets in excess of \$5,000 are capitalized. Annual depreciation is computed on a straight-line basis, beginning in the month of acquisition, at rates based on useful lives of 25 to 40 years for buildings and improvements and 3 to 5 years for furnishings and equipment. Assets acquired for the museum and art collection are not depreciated. Depreciation expense for the years ended June 30, 2008 and 2007 was \$7,000 and \$7,000, respectively, and is reported as support expenses under rental property in the statement of activities.

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

The Foundation acquired certain property during fiscal year 2000 for future development. The property was subject to existing lease agreements at the time it was acquired. The property initially functioned as rental property and subsequently as a storage facility for the university following termination of the lease agreements.

Due to impending development of the property, which will involve demolition of the building and parking lot, a decision was made during fiscal year 2007 to vacate the building and reclassify the net book value of the building and parking lot as land. As a result of this decision, \$875,000 of building cost and \$300,000 of land improvements along with \$330,000 of accumulated depreciation were reclassified.

### 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.

### Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income, revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Other Significant Accounting Policies

Certain items have been reclassified for the year ended June 30, 2007, in order to conform to classifications used for the year ended June 30, 2008.

## NOTE C – NOTES PAYABLE

The Foundation has a \$2.1 million open-end mortgage note payable collateralized by a first mortgage on certain land and buildings owned by the Foundation. The note principal is due on or before December 31, 2008. Monthly payments of interest at the lender's floating prime rate less 1.25% (3.75% at June 30, 2008) were current at June 30, 2008.

On June 30, 2008, 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. Equal annual payments of principal and interest at a rate of 4.31% are due beginning August 1, 2009 through August 1, 2014. Accrued interest and principal (in thousands) to be paid over the term of the loan is as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
June 30, 2009		\$ 194
June 30, 2010	\$ 647	168
June 30, 2011	692	137
June 30, 2012	723	106
June 30, 2013	754	73
June 30, 2014	787	39
June 30, 2015	822	3
	<u>\$ 4,425</u>	<u>\$ 720</u>

Costs of \$33,700 associated with obtaining the loan are being amortized over the 73 month term of the note. The \$4.391 million net proceeds of the loan were immediately subgranted to Northern Kentucky University to be applied toward construction costs of The Bank of Kentucky Center. The subgrant is reported in the statement of activities as a program expense under University facilities and equipment.

## NOTE D – PROPERTY LEASES

The following is a schedule by years of the future rentals receivable (in thousands) on property leases as of June 30, 2008:

<u>Year ending June 30</u>	
2009	107
2010	107
2011	116
2012	118
2013	119
2014-2018	627
2019-2023	694
2024-2028	767
2029-2033	849
2034-2038	940
2039-2043	507
2044-2047	116
<b>Total future rentals</b>	<u><b>\$ 5,067</b></u>

The above schedule is for two separate leases, as follows:

- Property 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, 2008. 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.

- Property lease and easements covering approximately .2 (two tenths) acre of Foundation land. The initial lease term is 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, 2008.

## NOTE E – UNCONDITIONAL AND CONDITIONAL PROMISES TO GIVE

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Amounts 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 contribution revenue.

At June 30, 2008 and 2007, the Foundation recognized contributions based on the following unconditional promises to give (in thousands):

	<u>2008</u>	<u>2007</u>
<b>Purpose:</b>		
Endowment giving	\$ 4,147	\$ 3,304
Capital purposes	6,189	6,282
Operating programs	728	750
<b>Gross unconditional promises</b>	<u>11,064</u>	<u>10,336</u>
Less: Discount and allowance for uncollectible accounts	( 823)	(1,272)
<b>Net unconditional promises to give</b>	<u>\$ 10,241</u>	<u>\$ 9,064</u>
 <b>Amounts due in:</b>		
Less than one year	5,066	3,632
One to five years	4,265	4,889
More than five years	1,733	1,815
<b>Total</b>	<u>\$ 11,064</u>	<u>\$ 10,336</u>

The discount rates used to calculate the present value of contributions receivable at June 30, 2008 and 2007 are 3.8% and 5.6%, respectively.

The Foundation has pledged \$5.145 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, 2008, the Foundation had received conditional promises to give of approximately \$1,400,000, consisting of the face value of life insurance policies, net of accumulated cash surrender value.

## NOTE 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.

**NOTE G – REGIONAL UNIVERSITY EXCELLENCE TRUST FUND**

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

The Foundation reports these funds and accumulated earnings as assets held in trust for 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.