NORTHERN KENTUCKY UNIVERSITY FOUNDATION

November 17, 2010

Dear Members of the Board and NKU Foundation Friends:

This year marks the 40th anniversary of the incorporation of the NKU Foundation, Inc. It is my pleasure to present the NKU Foundation's 2010 Consolidated Annual Financial Report. The following statements have been audited by the firm of Von Lehman & Company. You will find a copy of their Independent Auditors' Report on page 4 of this report.

In addition to the celebration of the Foundation's 40th anniversary, we celebrate the commitment of our community, our donors and our board of directors. Despite the financial crisis and market downturn in 2008-2009, we saw a $6 million increase in total assets and a June 30, 2010 total assets valuation that stood at $86 million, including an endowment value of $54.9 million. In April 2010 the Foundation was highlighted in the Cincinnati Business Courier for its positive investment strategies that mitigated overall losses to the Foundation's investment portfolio during the market downturn that spanned most of the 2009 fiscal year. The investment valuation showed an increase of $6.9 million over the prior fiscal year, with $2.8 million from new endowed gifts. Overall contributions to the Foundation were stated at $4.4 million for the fiscal year.

As state revenue shortfalls increase and the fixed costs of the University expand, state appropriations for higher education continue to be cut. These funding issues will greatly impact the University's ability to address educational services and programming for students as well as respond to the needs of business and the community. The campus has certainly benefited from the addition of The Bank of Kentucky Center, the Student Union, and the new Soccer Complex, but additional challenges for the University arise from increased operational costs and limited appropriations for maintenance and operations of the new facilities.

The need for private support has never been more critical. The Foundation will need to step forward in providing additional dollars to help bridge gaps between state funding shortfalls and the ever increasing needs of the University. I urge you as Foundation board members to take up the charge on behalf of the University community, and through your involvement, assist in providing the continuation of a high-quality education environment at NKU.

Despite economic challenges, admission applications to the University are at an all time high. As committed friends of the Foundation and the University, I commend you for your efforts and encourage you to stay engaged in campus events and seek opportunities to be engaged with faculty, staff and students.

As you read through the financial statements, I hope you find the information valuable and informative.

Best regards,

Judith H Gibbons

Judy Gibbons

EXECUTIVE COMMITTEE/OFFICERS

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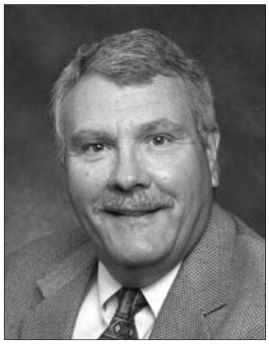

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Karen Zerhusen Kruer, J.D.
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NKU NORTHERN KENTUCKY UNIVERSITY
FOUNDATION

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VonLehman
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statement of financial position of Northern Kentucky University Foundation, Inc. (a nonprofit organization) as of June 30, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated 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 consolidated 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 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, 2010 and 2009, 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
September 2, 2010

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

As of June 30, 2010 and 2009

(in thousands)

	2010	2009
ASSETS		
Cash and cash equivalents	$ 10,743	$ 7,708
Loans, interest and accounts receivable (less allowance of $111,242 in 2010 and $116,475 in 2009)	151	146
Contributions receivable (less allowance of $53,195 in 2010 and $75,406 in 2009)	18,014	22,234
Prepaid expenses and deferred charges	58	38
Investments	54,929	48,012
Land, buildings and equipment	2,890	2,890
Accumulated depreciation	(189)	(182)
TOTAL ASSETS	**$ 86,596**	**$ 80,846**
LIABILITIES AND NET ASSETS		
Accounts payable	$ 269	$ 216
Accrued interest	151	194
Annuities payable	9	48
Deferred income	25	25
Funds held in trust for Northern Kentucky University	8,925	7,936
Notes payable	5,878	6,525
TOTAL LIABILITIES	**15,257**	**14,944**
NET ASSETS		
Unrestricted		
For current operations	467	443
Contributions receivable	1	2
Amounts functioning as endowment funds	1,355	814
Invested in property, plant and equipment	593	607
Total Unrestricted	2,416	1,866
Temporarily restricted		
Unexpended funds received for restricted purposes	4,558	1,245
Contributions receivable	9,634	11,793
Loan funds	141	135
Endowment funds	15,656	12,700
Total temporarily restricted	29,989	25,873
Permanently restricted		
Contributions receivable	8,379	10,440
Endowment funds	30,555	27,723
Total permanently restricted	38,934	38,163
TOTAL NET ASSETS	**71,339**	**65,902**
TOTAL LIABILITIES AND NET ASSETS	**$ 86,596**	**$ 80,846**

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statement of Activities

For the year ended June 30, 2010

(in thousands)

	2010			
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
CHANGES IN NET ASSETS:				
Revenues and Gains				
Gifts and bequests	$ 7	$ 3,640	$ 771	$ 4,418
Rental income	107			107
Investment income	33	733		766
Net gains on investments	659	3,768		4,427
Other revenue	27	654		681
Total Revenues and Gains	**833**	**8,795**	**771**	**10,399**
Net Assets Released from Restrictions	4,664	(4,664)		
Total Revenues and Gains and Other Support	**5,497**	**4,131**	**771**	**10,399**
EXPENSES				
Program Expenses				
Instruction	391			391
Public service	1,220			1,220
Libraries	23			23
Academic support	354			354
Student services	322			322
Institutional support	447			447
University facilities and equipment acquisition	955			955
Student financial aid	728			728
Total Program Expenses	**4,440**			**4,440**
Support Expenses				
Management and general	342			342
Fundraising support	68			68
Rental property	112			112
Total Support Expenses	**522**			**522**
TOTAL EXPENSES	**4,962**			**4,962**
Net transfers in (out)	15	(15)		
INCREASE (DECREASE) IN NET ASSETS	**550**	**4,116**	**771**	**5,437**
NET ASSETS - BEGINNING OF YEAR	1,866	25,873	38,163	65,902
NET ASSETS - END OF YEAR	**$ 2,416**	**$ 29,989**	**$ 38,934**	**$ 71,339**

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statement of Activities

For the year ended June 30, 2009

(in thousands)

	2009			
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
CHANGES IN NET ASSETS:				
Revenues and Gains				
Gifts and bequests	$ 9	$ 9,210	$ 13,116	$ 22,335
Rental income	107			107
Investment income	86	760		846
Net losses on investments	(921)	(5,729)		(6,650)
Other revenue	23	805		828
Total Revenues and Gains	**(696)**	**5,046**	**13,116**	**17,466**
Net Assets Released from Restrictions	5,341	(5,341)		
Total Revenues and Gains and Other Support	**4,645**	**(295)**	**13,116**	**17,466**
EXPENSES				
Program Expenses				
Instruction	358			358
Public service	1,335			1,335
Libraries	33			33
Academic support	402			402
Student services	244			244
Institutional support	535			535
University facilities and equipment acquisition	929			929
Student financial aid	1,225			1,225
Total Program Expenses	**5,061**			**5,061**
Support Expenses				
Management and general	403			403
Fundraising support	69			69
Rental property	341			341
Total Support Expenses	**813**			**813**
TOTAL EXPENSES	**5,874**			**5,874**
Net transfers in (out)	(405)	393	12	
INCREASE (DECREASE) IN NET ASSETS	**(1,634)**	**98**	**13,128**	**11,592**
NET ASSETS - BEGINNING OF YEAR	3,500	25,775	25,035	54,310
NET ASSETS - END OF YEAR	**$ 1,866**	**$ 25,873**	**$ 38,163**	**$ 65,902**

See accompanying notes to the financial statements

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

For the years ended June 30, 2010 and 2009

(in thousands)

	2010	2009
Cash flows from operating activities:		
Interest and dividends received	$ 10	$ 47
Contributions received	5,766	3,638
Other receipts	794	1,016
Payments to vendors for goods and services	(1,722)	(1,637)
Subgrants to the University	(2,342)	(2,650)
Disbursements to students for financial aid	(728)	(1,225)
Interest paid	(102)	(70)
Net cash provided by (used for) operating activities	**1,676**	**(881)**
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	15,048	2,328
Purchases of investments	(15,825)	(7,373)
Life insurance premiums paid	(8)	(14)
Net cash used for investing activities	**(785)**	**(5,059)**
Cash flows from financing activities:		
Endowment and other capital gifts	2,833	6,294
Reduction of notes payable	(647)	–
Payments to annuitants	(42)	(42)
Net cash provided by financing activities	**2,144**	**6,252**
Net increase in cash and cash equivalents	3,035	312
Cash and cash equivalents at beginning of year	7,708	7,396
Cash and cash equivalents at end of year	**$ 10,743**	**$ 7,708**
Reconciliation of change in net assets to net cash provided by (used for) operating activities:		
Change in net assets	**$ 5,437**	**$ 11,592**
Adjustment to reconcile change in net assets to net cash provided by (used for) operating activities		
Depreciation	7	7
Bad debt expense adjustment	(5)	7
Provision for uncollectible pledges	63	113
Decrease (increase) in accounts receivable	(7)	75
Decrease (increase) in interest receivable	2	(2)
Decrease (increase) in contributions receivable	4,220	(11,993)
Increase (decrease) in prepaid expense	18	(24)
Increase (decrease) in accounts payable	53	(324)
Increase (decrease) in accrued interest payable	(43)	194
Life insurance premiums paid	8	14
Increase in cash surrender value of life insurance	19	12
Payments to annuitants	42	42
Contributions restricted for long-term investment	(2,833)	(6,294)
Interest and dividends restricted for reinvestment	(878)	(951)
Net (gains) losses on investments	(4,427)	6,651
Net cash provided by (used for) operating activities	**$ 1,676**	**$ (881)**

See accompanying notes to the financial statements.

Notes to Consolidated Financial Statements

For the year ended June 30, 2010

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.

NKU Foundation Properties, Inc.

NKU Foundation Properties, Inc. was incorporated on October 12, 2001 as a Kentucky non-stock, not-for-profit corporation. The purpose of NKU Foundation Properties, Inc. as stated by the articles of incorporation, is to provide general and specific services and material things necessary or desirable to hold title to property, collect income from the property and turn over such income, net of expenses, to Northern Kentucky University Foundation, Inc. The Internal Revenue Service has determined that NKU Foundation Properties, Inc. is a tax-exempt organization under Section 501(c)(2) of the code.

Scope of Statements

The consolidated financial statements of the Northern Kentucky Foundation, Inc. include the operations of the Foundation and its subsidiary corporation, NKU Foundation Properties, Inc. All material intercompany transactions and balances have been eliminated.

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, 2010 and 2009, the carrying amount of the Foundation's cash and cash equivalents was $10,743,000 and $7,708,000, respectively. Included in the Foundation's deposits at June 30, 2010 and 2009, are short term government obligation shares of $1,371,000 and $1,369,000, respectively. Of the remainder, $750,000 was insured by federal depository insurance and $3,061,000 and $2,682,000, respectively, was collateralized with securities held by the financial institution's trust department or agent, but not in the Foundation's name. The remaining $5,561,000 and $2,907,000, respectively, was 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 at June 30, 2010 and 2009 was $111,242 and $116,745, respectively. Changes in the valuation allowance have not been material to the financial statements.

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. 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.

Fixed Assets and Depreciation

At June 30, 2010 and 2009, fixed assets (in thousands) consisted of:

	2010	2009
Type of asset:		
Land	$ 2,682	$ 2,682
Land improvements	208	208
Total Fixed Assets	**$ 2,890**	**$ 2,890**

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, 2010 and 2009 was $7,000 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.

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, 2009, in order to conform to classifications used for the year ended June 30, 2010.

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 land improvements owned by the Foundation. The note principal is due on or before June 30, 2012. Monthly payments of interest at the lender's floating prime rate, subject to a floor of 4.0%, (4.0% at June 30, 2010 and 2009) were current at June 30, 2010 and 2009.

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 principal and interest at a rate of 4.31% due from August 1, 2009 through August 1, 2014. Accrued interest and principal (in thousands) to be paid over the remaining term of the loan is as follows:

Year Ended	Principal	Interest
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
	$ 3,778	**$ 358**

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. An additional $857 thousand was subgranted to Northern Kentucky University during 2009. The subgrants are 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, 2010:

Year ending June 30	
2011	116
2012	118
2013	119
2014	119
2015	119
2016-2020	652
2021-2025	722
2026-2030	798
2031-2035	883
2036-2040	978
2041-2045	180
2046-2047	50
Total future rentals	**$ 4,854**

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, 2010 and 2009. 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 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, 2010 and 2009.

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, 2010 and 2009, the Foundation recognized contributions based on the following unconditional promises to give (in thousands):

	2010	2009
Purpose:		
Endowment giving	$ 8,609	$ 11,339
Capital purposes	9,358	11,304
Operating programs	1,321	1,763
Gross unconditional promises	**19,288**	**24,406**
Less: Discount and allowance for uncollectible accounts	(1,274)	(2,172)
Net unconditional promises to give	**$ 18,014**	**$ 22,234**

Amounts due in:		
Less than one year	8,710	5,721
One to five years	10,578	17,821
More than five years	–	864
Total	**$ 19,288**	**$ 24,406**

The discount rates used to calculate the present value of contributions receivable at June 30, 2010 and 2009 vary from 2.8% to 5.6%, depending on when the promise was made.

The Foundation has pledged $4.285 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, 2010 and 2009, 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 - INVESTMENTS

The market values (in thousands) of the Foundation's investments as of June 30, 2010 and 2009 are categorized by type below:

	2010	**2009**
Type of investment:		
Short-term money market funds	$ 11	$ 19
Fixed income funds	11,264	8,118
Equity funds and common stock	28,313	26,356
Hedge funds	8,531	6,149
Alternative investments	6,015	4,413
Other	795	2,957
Total Investments	**$ 54,929**	**$ 48,012**

Investment income and gains (in thousands) for the years ended June 30, 2009 and 2008 consist of:

	2010	**2009**
Interest	$ 83	$ 178
Dividends	804	822
Fees	(121)	(154)
Total Investment Income	**$ 766**	**$ 846**
Realized Loss (Losses)	$ 1,211	$ (2,801)
Unrealized Gains (Losses)	3,216	(3,849)
Total Investment Gains (Losses)	**$ 4,427**	**$ (6,650)**

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, 2010 and 2009 was $8,925,000 and $7,936,000 respectively. *(See Note J)*

At June 30, 2010 and 2009, the Foundation had committed $ 15.3 and $15.2 million, respectively, of its endowment investment resources to alternative investments, of which $7.4 and $9.6 million, respectively, 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.

NOTE G – FAIR VALUE MEASUREMENTS

Accounting Pronouncements establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 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 and liabilities measured at fair value:

Investments

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 natural resources, real assets, private equity, venture capital and real estate.

Contributions Receivable

Unconditional promises to give are recorded at fair value. For unconditional promises to give where payment is expected to be received in one year or less, net realizable value is used to estimate fair value. For unconditional promises to give that are expected to be received in more than one year, fair value is estimated as the present value of expected future payments. When estimating the fair value of unconditional promises to give, management considers historical trends of collection, the type of donor, general economic conditions and market interest rate assumptions.

There have been no changes in the methodologies used at June 30, 2010.

The following assets were measured at fair value as of June 30, 2010 and 2009 (in thousands):

	2010	2009
Level 1:		
Investments	$ 40,000	$ 37,068
Level 2:		
Investments	$ 8,914	$ 6,531
Level 3:		
Investments	$ 6,015	$ 4,413
Contributions Receivable	$ 18,014	$ 22,234

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair values for contributions receivable is determined by calculating the present value of the future payments expected to be received using a discount rate varying from 2.8% to 5.6%, depending on when the promise was made.

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

	2010	2009
Investments:		
Beginning balance	$ 4,413	$ 3,372
Purchases, sales and settlements (net)	1,448	1,792
Gains (losses) for the year included in changes in net assets as revenue	154	(646)
Transfers out of Level 3		(105)
Ending balance	**$ 6,015**	**$ 4,413**

	2010	2009
Contributions Receivable:		
Beginning balance	$ 22,234	$ 10,241
New promises received	1,219	22,450
Collections	(6,274)	(8,170)
Discounts and allowances	898	(2,172)
Contributions revenue write offs	(63)	(115)
Ending balance	**$ 18,014**	**$ 22,234**

NOTE H - ENDOWMENTS

The Foundation's endowment consists of approximately 220 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. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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. The Foundation has adopted FSP FSA 117-1 for the years ending June 30, 2009 or later.

For years ended prior to the effective date of KUPMIFA, the Foundation follows the Kentucky Uniform Management of Institutional Funds Act (KUMIFA) and its own governing documents. KUMIFA requires the historical dollar amount of a donor-restricted endowment fund to 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 under KUMIFA. 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. The Board of Directors has not determined the effect of KUPMIFA on the Foundation's endowment funds and net asset classification.

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 CPI+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 places an emphasis on U.S. Treasury securities and equity-based investments 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 its endowment assets to grow at an average rate of 3% annually. This is consistent with the Foundation's objective to maintain the purchasing power 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 June 30, 2010 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor restricted endowment funds	$ –	$ 11,817	$ 30,555	$ 42,372
Board designated endowment funds	1,355	3,839	–	5,194
Total endowment funds	$ 1,355	$ 15,656	$ 30,555	$ 47,566

Changes in endowment net assets (in thousands) as of June 30, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment Net Assets, Beginning of Year	$ 814	$ 12,700	$ 27,723	$ 41,237
Contributions Collected	–	16	2,832	2,848
Investment Income	25	734	–	759
Net Investment Gain	136	4,290	–	4,426
Amounts Appropriated for Expenditure	(144)	(1,560)	–	(1,704)
Loss Recovery Transferred to Unrestricted	524	(524)	–	–
Endowment Net Assets, End of Year	$ 1,355	$ 15,656	$ 30,555	$ 47,566

Endowment net asset composition by type of endowment (in thousands) as of June 30, 2009 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor restricted endowment funds	$ –	$ 8,205	$ 27,723	$ 35,928
Board designated endowment funds	814	4,495		5,309
Total endowment funds	$ 814	$ 12,700	$ 27,723	$ 41,237

Changes in endowment net assets (in thousands) as of June 30, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment Net Assets, Beginning of Year	$ 1,954	$ 18,169	$ 21,417	$ 41,540
Contributions Collected	–	519	6,306	6,825
Investment Income	37	794	–	831
Net Investment Loss	(393)	(6,227)	–	(6,620)
Amounts Appropriated for Expenditure	(269)	(1,070)	–	(1,339)
Excess Loss Transferred to Unrestricted	(515)	515	–	–
Endowment Net Assets, End of Year	$ 814	$ 12,700	$ 27,723	$ 41,237

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 UMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $183 thousand and $706 thousand as of June 30, 2010 and 2009. These deficiencies resulted from unfavorable market fluctuations 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 F)*

NOTE K – SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2010, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is September 2, 2010 , which is 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	$ 900
Less: Actuarial discount for the duration of the life estate	(356)
Net present value of the remainder interest in real property	544
Less: Net present value of donor liabilities assumed	(167)
Carrying value of the remainder interest in real property	$ 377

NKU Foundation Properties, Inc., a subsidiary of Northern Kentucky University Foundation, Inc. is the holder of the remainder interest in the property during the period of the life estate.

NOTE M – UNCERTAIN TAX POSITIONS

The accounting pronouncement related to accounting for uncertainty in income taxes clarifies the accounting in an entity's financial statements for uncertain tax positions. It prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The pronouncement also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This pronouncement is effective for NKU Foundation, Inc. (the Foundation) and NKU Foundation Properties, Inc. (Properties) for the year ended June 30, 2010.

The Foundation adopted the provisions of this accounting pronouncement as of July 1, 2009. Based on evaluation of the Foundation's tax positions, management believes all positions taken would be upheld under examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for the year ended June 30, 2010. The Foundation recognized no interest or penalties in the statement of activities for the year ended June 30, 2010. If the situation arose in which the Foundation would have interest to recognize, it would recognize this as interest expense and penalties would be recognized in other expenses. The Foundation does not expect the balance of unrecognized tax benefits to change by a material amount in the next twelve months.

The Foundation and Properties file an information return (Form 990) in the U.S. federal jurisdiction. As of June 30, 2010 no authorities have commenced tax examinations.