

**NORTHERN KENTUCKY UNIVERSITY  
AND AFFILIATE**

**A Component Unit of the Commonwealth of Kentucky**

**Report on Audit of Institution of Higher Education  
in Accordance with OMB Circular A-133**

*June 30, 2011*

**Northern Kentucky University and Affiliate  
A Component Unit of the Commonwealth of Kentucky  
Annual Financial Report  
2010-2011**

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DEAN || DORTON || ALLEN || FORD<sup>PLLC</sup>

## Independent Auditors' Report

Members of the Board of Regents and  
 Dr. James C. Votruba, President  
 Northern Kentucky University  
 Highland Heights, Kentucky

Secretary of Finance and  
 Administration Cabinet of the  
 Commonwealth of Kentucky

We have audited the accompanying consolidated statement of net assets of Northern Kentucky University (the "University") and its discretely presented component unit as of June 30, 2011 and the related consolidated statement of revenues, expenses, and changes in net assets, and consolidated statement of cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements for the University as of and for the year ended June 30, 2010, were audited by other auditors whose report dated September 30, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit as of June 30, 2011, and the respective changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2011, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the University. The supplemental information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 30, 2011  
Lexington, Kentucky

A handwritten signature in dark ink, reading "Dean Gordon Allen Ford, PLLC". The signature is written in a cursive, flowing style.



## **Northern Kentucky University and Affiliate Management's Discussion and Analysis**

Northern Kentucky University's (the University) Management Discussion and Analysis of its financial condition provides an overview of the financial performance of the University for the year ended June 30, 2011, with selected comparative information for the years ended June 30, 2010 and 2009. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and notes.

The University's vision is to be nationally recognized as the premier comprehensive, metropolitan university that prepares students for life and work in a global society and provides leadership to advance the intellectual, social, economic, cultural, and civic vitality of its region and of the Commonwealth. The University is vital to the economic and social progress of this region and the Commonwealth. The University has made great strides towards achieving the goals identified in its 2007-2012 strategic plan, *The Talent Imperative*. The University continues to focus its limited resources on the most critical areas of the strategic plan that will be the most beneficial to the region and the Commonwealth. The region's economic growth depends heavily on the University's capacity to support that growth in a variety of ways.

### **Financial Highlights**

The University's financial position remained strong at June 30, 2011. Total net assets increased by \$43.5 million, or 15.8 percent, at June 30, 2011 compared to June 30, 2010 resulting from income before other revenues, expenses, gains or losses of \$9.3 million and capital appropriations, grants and gifts of \$34.2 million. The current bond ratings assigned by Moody's Investors Service (A1) and Standard and Poor's (A) to the University's bonds reflect the University's solid financial position.

The University's assets increased by \$37.9 million for the year ended June 30, 2011 and by \$19.3 million for the year ended June 30, 2010, for a combined increase in assets of \$57.2 million since June 30, 2009. This increase was driven primarily by a \$38.8 million growth in net capital assets from June 30, 2009 to June 30, 2011, with increases of \$23.8 million in 2011 and \$15.0 million in 2010. The addition of Griffin Hall, a new soccer complex and two radio stations will increase the University's capacity to serve its students and the community. Griffin Hall, the College of Informatics new home, is a unique state-of-the-art facility where a new generation of professionals will build the region's information economy. The soccer complex serves the needs of the University's intercollegiate athletic program, students and the community.

The University's operating and nonoperating revenues totaled \$218.1 million for the year ended June 30, 2011, an increase of \$12.5 million over 2010. Operating revenues increased by \$5.6 million for the year as a result of a \$5.0 million growth in net tuition revenue. Operating revenues totaled \$130.9 million, or 60.0 percent of revenues, while nonoperating revenues reached \$87.2 million, or 40.0 percent of revenues, for the year. The most significant sources of revenue for the University are net student tuition and fees (44.7 percent) and state appropriations (24.9 percent). Nonoperating revenues increased by \$6.9 million for the year primarily due to a \$5.5 million increase in nonoperating gifts, grants and contracts.

Net assets invested in capital assets, net of related debt, totaled \$239.8 million, or 75.3 percent, of total net assets. Restricted and unrestricted net assets represented 5.3 percent and 19.4 percent of total net assets, respectively. Positive operating results in education and general activities and auxiliary operations contributed to a \$15.0 million increase in unrestricted net assets for the year. In addition, budget reserves that were established in anticipation of a potential reduction in state appropriations were not expended during the year resulting in an increase in unrestricted net assets.

### **Using the Financial Statements**

The University's financial report includes three financial statements: the statement of net assets; the statement of revenues, expenses and changes in net assets and the statement of cash flows. These financial statements and accompanying footnotes are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole.

The University is a component unit of the Commonwealth of Kentucky. The financial statements of the University include the University and its blended component unit, the Northern Kentucky University Research Foundation, Inc. Financial statements for the University's discretely presented component unit, Northern Kentucky University Foundation, Inc., have also been included in accordance with the requirements of GASB Statement No. 39. Financial statements presented for the Foundation consist of the statement of financial position and the statement of activities. These statements are prepared in accordance with Financial Accounting Standards Board (FASB) pronouncements.



## Statement of Net Assets

The statement of net assets includes all assets and liabilities. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

### *Condensed Statements of Net Assets (in thousands)*

|   | <u>2011</u>       | <u>2010</u>       | <u>2009</u>       |
|---|-------------------|-------------------|-------------------|
| <b>ASSETS</b>                                   |                   |                   |                   |
| Current assets                                  | \$ 82,595         | \$ 75,766         | \$ 75,414         |
| Capital assets, net                             | 334,866           | 311,091           | 296,056           |
| Noncurrent assets                               | <u>31,951</u>     | <u>24,648</u>     | <u>20,751</u>     |
| Total assets                                    | <u>449,412</u>    | <u>411,505</u>    | <u>392,221</u>    |
| <b>LIABILITIES</b>                              |                   |                   |                   |
| Current liabilities                             | 34,583            | 31,790            | 32,000            |
| Noncurrent liabilities                          | <u>96,390</u>     | <u>104,815</u>    | <u>111,477</u>    |
| Total liabilities                               | <u>130,973</u>    | <u>136,605</u>    | <u>143,477</u>    |
| <b>NET ASSETS</b>                               |                   |                   |                   |
| Invested in capital assets, net of related debt | 239,790           | 210,895           | 188,085           |
| Restricted                                      |                   |                   |                   |
| Nonexpendable                                   | 7,616             | 7,616             | 7,616             |
| Expendable                                      | 9,117             | 9,478             | 11,062            |
| Unrestricted                                    | <u>61,916</u>     | <u>46,911</u>     | <u>41,981</u>     |
| Total net assets                                | <u>\$ 318,439</u> | <u>\$ 274,900</u> | <u>\$ 248,744</u> |

The statement of net assets at June 30, 2011 reflects the University's strong financial position.

### Assets

The University's assets increased by \$37.9 million, or 9.2 percent, for the year ended June 30, 2011 and now total \$449.4 million. A \$6.8 million increase in current assets for the year ended June 30, 2011 combined with a \$.4 million increase for the year ended June 30, 2010, resulted in a combined increase of \$7.2 million, or 9.5 percent, since June 30, 2009.

Noncurrent assets, excluding net capital assets, grew by \$11.2 million since 2009 primarily due to an increase in unexpended cash balances related to capital construction projects and a growth in endowment investments achieved through excellent endowment investment returns.

Net capital assets increased by \$23.8 million for the year ended June 30, 2011 and \$15.0 million for the year ended June 30, 2010, resulting in a combined increase of \$38.8 million, or 13.1 percent, since June 30, 2009. This increase is related to the acquisition of new administrative systems and two radio stations, and the construction of several new facilities, including a new soccer complex and the recently completed Griffin Hall. These projects were funded primarily through capital grants and gifts and through capital appropriations from the Commonwealth. As a result of the significant investment in its campus facilities in recent years, net capital assets have grown to \$334.9 million, or 74.5 percent of total assets as of June 30, 2011.

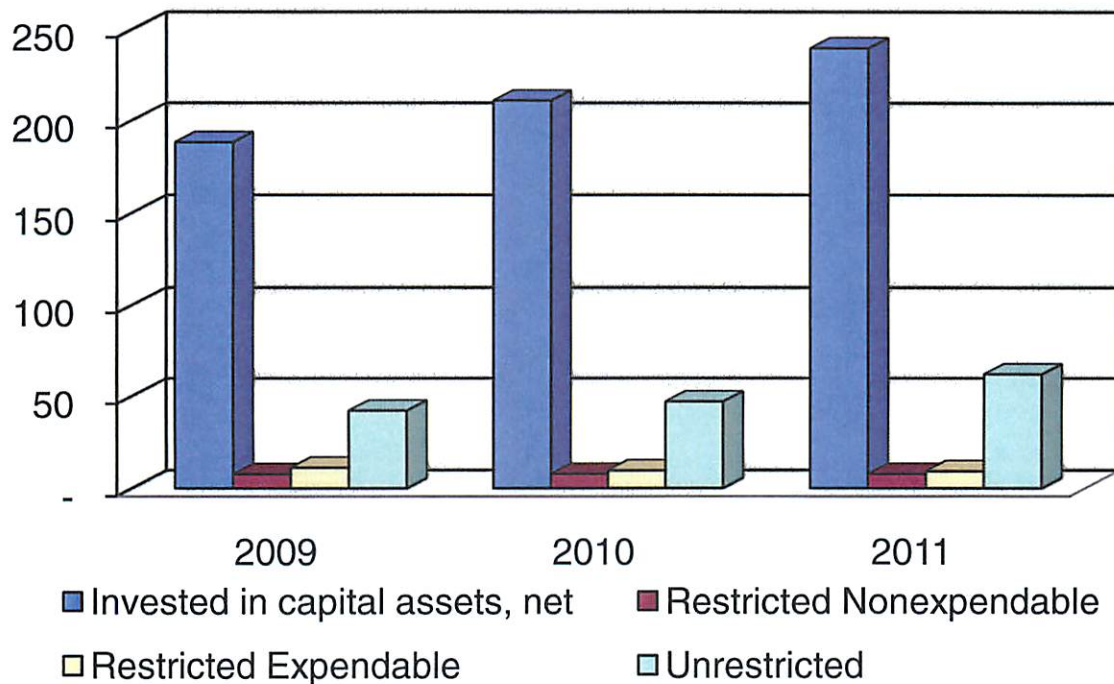
### Liabilities

At June 30, 2011, the University's liabilities totaled \$131.0 million compared to the previous year's \$136.6 million. This \$5.6 million decrease in liabilities resulted primarily from an \$8.3 million decrease in the University's outstanding bonds, notes and capital leases which was partially offset by a \$3.1 million increase in accounts payable and accrued liabilities. Bonds, notes and capital leases payable, net of discounts, premiums and deferred losses on bond refundings, represented \$92.9 million, or 70.9 percent, of total liabilities at June 30, 2011.

The University's total liabilities decreased by \$12.5 million, or 8.7 percent, from June 30, 2009 to June 30, 2011. Current liabilities grew by \$2.6 million, or 8.1 percent, while noncurrent liabilities decreased by \$15.1 million primarily due to a \$14.1 million decrease in net outstanding bonds, notes and capital leases since June 30, 2009.

## Net Assets

The following chart illustrates the University's net assets for fiscal years 2009, 2010 and 2011 (amounts are presented in millions).



Net assets at June 30, 2011 totaled \$318.4 million. Net assets invested in capital assets, net of related debt, totaled \$239.8 million, or 75.3 percent, of total net assets. Restricted and unrestricted net assets represented 5.3 percent and 19.4 percent of total net assets, respectively. Total net assets increased by \$43.5 million, or 15.8 percent, for the year. Net assets invested in capital assets, net of related debt, increased \$28.9 million for the year primarily as a result of the completion of Griffin Hall. Positive operating results in education and general activities and auxiliary operations contributed to a \$15.0 million increase in unrestricted net assets for the year. In addition, budget reserves that were established in anticipation of a potential reduction in state appropriations were not expended during the year resulting in an increase in unrestricted net assets.

The University's net assets increased by \$69.7 million, or 28.0 percent, from June 30, 2009 to June 30, 2011. Net assets invested in capital assets, net of related debt increased \$51.7 million due to the addition of several new facilities, including Griffin Hall and a soccer complex, and the acquisition of administrative systems. Restricted expendable net assets decreased by \$1.9 million while unrestricted net assets increased by \$19.9 million from June 30, 2009 to June 30, 2011.



## Statement of Revenues, Expenses and Changes in Net Assets

The statement of revenues, expenses and changes in net assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. GASB requires state appropriations and nonexchange grants and contracts to be classified as nonoperating revenues. Accordingly, the University will generate an operating loss prior to the addition of nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

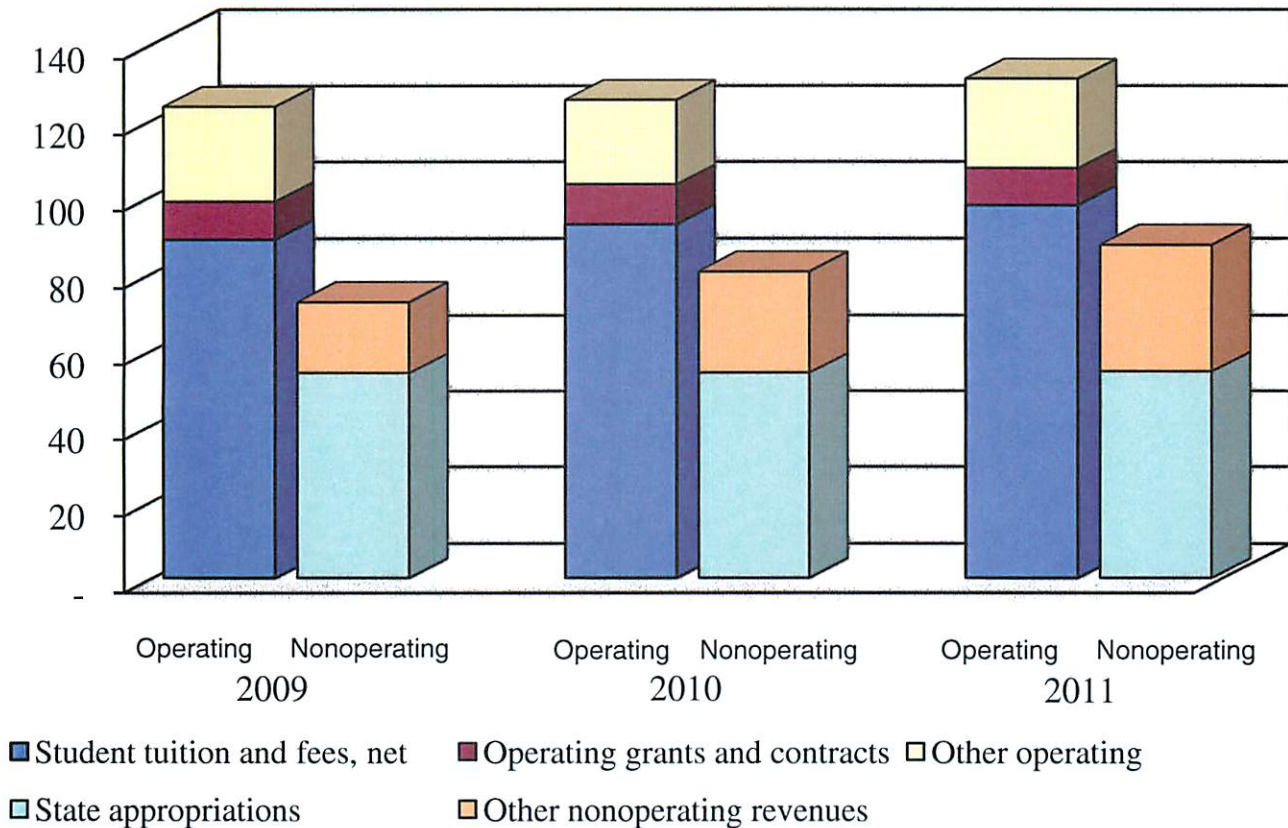
### *Condensed Statements of Revenues, Expenses and Changes in Net Assets (in thousands)*

|  | <u>2011</u>       | <u>2010</u>       | <u>2009</u>       |
|--|-------------------|-------------------|-------------------|
| <b>OPERATING REVENUES</b>                                      |                   |                   |                   |
| Student tuition and fees, net                                  | \$ 97,564         | \$ 92,597         | \$ 88,704         |
| Grants and contracts   | 9,714             | 10,416            | 9,813             |
| Sales and services of educational departments                  | 4,137             | 3,938             | 5,917             |
| Auxiliary enterprises  | 13,005            | 12,389            | 11,378            |
| Other operating revenues                                       | <u>6,445</u>      | <u>5,923</u>      | <u>7,711</u>      |
| Total operating revenues                                       | 130,865           | 125,263           | 123,523           |
| <b>OPERATING EXPENSES</b>                                      |                   |                   |                   |
| Educational and general  | 177,809           | 167,398           | 166,813           |
| Depreciation   | 16,280            | 14,869            | 15,111            |
| Auxiliary enterprises (including depreciation)                 | 10,808            | 8,084             | 8,503             |
| Other expenses   | <u>43</u>         | <u>101</u>        | <u>174</u>        |
| Total operating expenses                                       | <u>204,940</u>    | <u>190,452</u>    | <u>190,601</u>    |
| Net loss from operations                                       | (74,075)          | (65,189)          | (67,078)          |
| <b>NONOPERATING REVENUES (EXPENSES)</b>                        |                   |                   |                   |
| State appropriations   | 54,258            | 53,885            | 53,876            |
| Gifts, grants and contracts                                    | 30,205            | 24,708            | 18,820            |
| Investment income  | 2,017             | 1,683             | (361)             |
| Interest on capital asset--related debt                        | (3,837)           | (4,466)           | (4,890)           |
| Other nonoperating revenues (expenses)                         | <u>742</u>        | <u>(92)</u>       | <u>105</u>        |
| Net nonoperating revenues                                      | 83,385            | 75,718            | 67,550            |
| Income (loss) before other revenues, expenses, gains or losses | <u>9,310</u>      | <u>10,529</u>     | <u>472</u>        |
| Capital appropriations   | 24,494            | 7,458             | 3,548             |
| Capital grants and gifts                                       | <u>9,735</u>      | <u>8,169</u>      | <u>3,382</u>      |
| Total other revenues   | 34,229            | 15,627            | 6,930             |
| Increase in net assets   | 43,539            | 26,156            | 7,402             |
| Net assets--beginning of year                                  | <u>274,900</u>    | <u>248,744</u>    | <u>241,342</u>    |
| Net assets--end of year  | <u>\$ 318,439</u> | <u>\$ 274,900</u> | <u>\$ 248,744</u> |



## Operating and Nonoperating Revenues

The following chart illustrates the University's revenues by source (both operating and nonoperating), which were used to fund its operating activities for fiscal years 2009, 2010 and 2011. Significant recurring sources of revenues, including state appropriations and nonexchange grants and contracts, are considered nonoperating revenues as defined by GASB. These revenues support operating expenses; therefore, they are included in the graph of revenues by source (amounts are presented in millions).



The University's operating and nonoperating revenues totaled \$218.1 million for the year ended June 30, 2011, an increase of \$12.5 million over 2010. Operating revenues totaled \$130.9 million, or 60.0 percent of revenues, while nonoperating revenues reached \$87.2 million, or 40.0 percent of revenues, for the year. The most significant sources of revenue for the University are net student tuition and fees (44.7 percent) and state appropriations (24.9 percent).

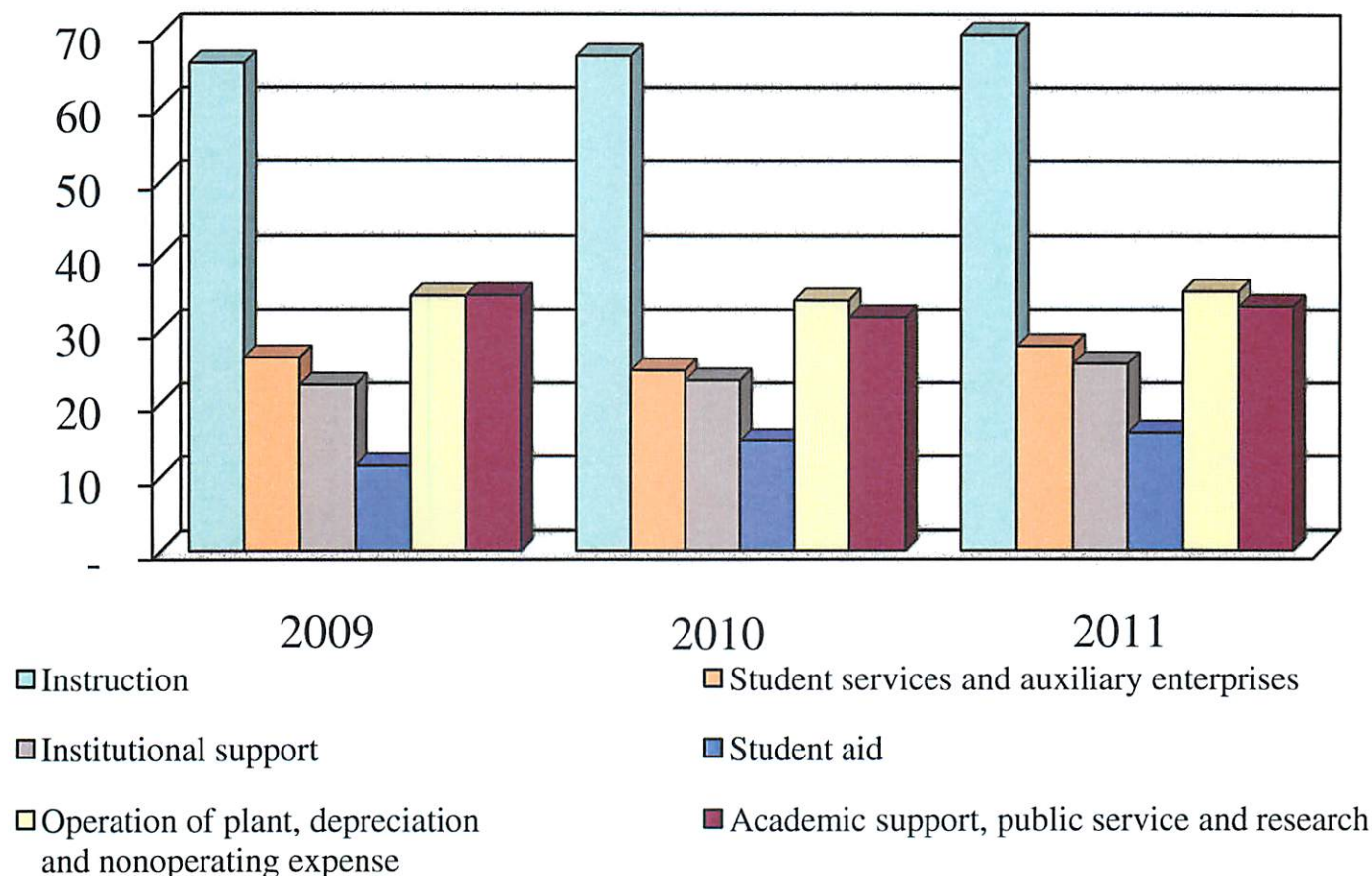
Operating revenues increased by \$5.6 million for the year with increases in net tuition revenues (\$5.0 million), auxiliary enterprises (\$.6 million), sales and services of educational activities (\$.2 million) and other operating revenues (\$.5 million). These increases were partially offset by a decrease in operating grants and contracts (\$.7 million).

Nonoperating revenues increased by \$6.9 million for the year. The University's nonexchange grant revenues increased by \$5.5 million for the year resulting from a growth in revenues related to federal financial aid programs, including a \$4.0 million increase in the Pell program. Excellent performance by the University's endowment investments resulted in a \$.3 million increase in investment income for the year. The University's total appropriation from the state increased by \$.4 million for the year. A \$1.0 million increase in the University's combined general and debt service state appropriations was partially offset by a \$.6 million decline in the amount of federal stimulus funds that the state allocated to the University in 2011 (\$3.0 million) as compared to 2010 (\$3.6 million).

The University's nonoperating revenues have increased by \$14.8 million since June 30, 2009 primarily due to a growth in nonexchange grants related to federal financial aid programs. A \$7.3 million, or 5.9 percent, increase in operating revenues was fueled by an \$8.9 million growth in net tuition since 2009. The growth in net tuition resulted from an average tuition rate increase of 4.4 percent for fiscal year 2011 and 3.9 percent for fiscal year 2010, combined with enrollment increases each year.

## Operating and Nonoperating Expenses

The following chart illustrates the University's expenses by function (both operating and nonoperating) for fiscal years 2009, 2010 and 2011 (amounts are presented in millions).



Operating and nonoperating expenses increased by \$13.8 million, or 7.1 percent, to a total of \$208.8 million for the year ended June 30, 2011. As depicted in the chart above, the majority of the University's funds are expended directly for the primary mission of the University – instruction \$71.3 million (34.2 percent), and academic support, libraries, public service and research \$33.2 million (15.9 percent).

Instruction expenses increased by \$4.2 million, or 6.3%, for the year due primarily to an increase in salary and benefit expenses and expenses related to the acquisition of non-capital equipment for Griffin Hall, the new home of the College of Informatics. A \$2.3 million increase in institutional support expenses resulted primarily from a significant increase in the staff benefit expenses in this function, particularly expenses related to the Kentucky Employee Retirement System. The opening of several new facilities in recent years contributed to a \$1.4 million increase in education and general depreciation expense and a \$.5 million increase in the operation and maintenance of plant expenses associated with the new facilities. An increase in student housing maintenance and repair expenses contributed to a \$2.7 million increase in auxiliary enterprises expenses for the year.

Student financial aid expenses increased by \$1.2 million for fiscal year 2011 and \$3.3 million for 2010, as a result of significant growth in federal financial aid programs, including the Pell and GI Bill programs. The University took advantage of the low market interest rates by refunding several bond issues in fiscal years 2010 and 2011. The resulting savings contributed to a \$1.1 million decline in interest expenses since 2009.



## Statement of Cash Flows

Another important factor to consider when evaluating financial viability is the University's ability to meet financial obligations as they become due. The statement of cash flows presents information related to cash inflows and outflows, summarized by operating, noncapital and capital, financing and investing activities.

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

|  | 2011             | 2010             | 2009             |
|--|------------------|------------------|------------------|
| Net cash provided (used) by:                 |                  |                  |                  |
| Operating activities                         | \$ (52,238)      | \$ (48,766)      | \$ (57,484)      |
| Noncapital financing activities              | 85,477           | 77,294           | 70,063           |
| Capital and related financing activities     | (19,610)         | (26,710)         | (38,570)         |
| Investing activities                         | 2,325            | (2,363)          | 1,693            |
| Net increase (decrease) in cash              | 15,954           | (545)            | (24,298)         |
| Cash and cash equivalents, beginning of year | 71,212           | 71,757           | 96,055           |
| Cash and cash equivalents, end year          | <u>\$ 87,166</u> | <u>\$ 71,212</u> | <u>\$ 71,757</u> |

The University's cash and cash equivalents increased \$16.0 million in 2011 as compared to a decrease of \$.5 million in 2010. The net cash provided by operating and noncapital financing activities totaled \$33.2 million for 2011, an increase of \$4.7 million from 2010. Cash used by capital and related financing activities totaled \$19.6 million for 2011 and \$26.7 million in 2010. Purchases of capital assets totaled \$42.7 million for fiscal year 2011 and were primarily funded by capital appropriations and capital grants and gifts.

Major sources of funds included in operating activities are student tuition and fees (\$97.3 million), grants and contracts (\$10.4 million) and auxiliary enterprises (\$12.7 million). The largest cash payments for operating activities were made to employees (\$128.6 million) and to vendors and contractors (\$54.1 million). Payments to suppliers increased by \$5.1 million, or 10.5 percent, and payments for salaries and benefits increased by \$5.1 million, or 4.1 percent, for the year.

The University's cash receipts from operating activities increased by \$7.6 million, or 6.1 percent, from 2009 to 2011 while cash disbursements for operating activities decreased by \$2.3 million, or 1.3 percent, for the period.

## Capital Asset and Debt Administration

### Capital Assets

Capital assets, net of accumulated depreciation, increased by \$23.8 million for the year ended June 30, 2011. Additions to capital assets, net of disposals, during the year totaled \$42.8 million, including property acquisitions, administrative software systems, radio stations and Griffin Hall. Depreciation expenses totaled \$19.0 million for the year. As a result of the University's significant investment in its campus facilities in recent years, net capital assets have grown to \$334.9 million, or 74.5 percent of total assets as of June 30, 2011.

The University's net capital assets grew by \$38.8 million from June 30, 2009 to June 30, 2011, with increases of \$23.8 million in 2011 and \$15.0 million in 2010. The addition of the Griffin Hall, soccer complex and two radio stations will increase the University's capacity to serve its students and the community. Griffin Hall, the College of Informatics new home, is a unique state-of-the-art facility where a new generation of professionals will build the region's information economy. The soccer complex serves the needs of the University's intercollegiate athletic program, students and the community.

At June 30, 2011, the University had several major land improvement renovation projects in progress, including the reconstruction of several plaza areas and pathways and the renovation and refurbishing of numerous smart classrooms.



## **Debt**

The following is a summary of the University's outstanding debt summarized by revenue pledge as of June 30, 2011, 2010 and 2009 (in thousands):

|   | <b>2011</b>      | <b>2010</b>       | <b>2009</b>       |
|---|------------------|-------------------|-------------------|
| General Receipts Bonds, net of discounts, premium and loss on refunding | \$ 77,609        | \$ 70,236         | \$ 65,329         |
| Consolidated Educational Buildings Revenue Bonds, net of discounts      | 9,568            | 12,701            | 17,769            |
| Housing and Dining System Revenue Bonds                                 | 1,790            | 1,940             | 2,205             |
| Capital Lease - Residential Suites                                      | 980              | 12,446            | 17,001            |
| Notes Payable and municipal lease obligations                           | 3,002            | 3,949             | 4,708             |
|   | <u>\$ 92,949</u> | <u>\$ 101,272</u> | <u>\$ 107,012</u> |

For the years ended June 30, 2011 and 2010, the University's outstanding debt decreased by \$8.3 million and \$5.7 million, respectively, for a combined decrease of \$14.0 million since 2009. During fiscal year 2011 the University issued approximately \$12.3 million in General Receipts Bonds to refund an outstanding capital lease obligation related to student residential housing facilities. The refunding resulted in an economic gain of \$.6 million.

A strong debt rating is an important indicator of the University's financial health. The University's current bond ratings assigned by Moody's Investors Service (A1) and Standard and Poor's (A) to the University's General Receipts and Consolidated Educational Building Revenue bonds reflect the University's solid financial position.

## **FACTORS IMPACTING FUTURE PERIODS**

Through proactive management the University continued to make progress despite the lingering effects of the prolonged economic recession that has negatively impacted the funding the University receives from the Commonwealth. The University's recurring general state appropriations for fiscal years 2011 and 2010 were \$2.7 million and \$3.6 million, respectively, less than the University's fiscal year 2009 recurring general appropriation. In an effort to offset the impact of this reduction in recurring appropriations, the Commonwealth allocated \$2.9 million and \$3.6 million of non-recurring federal stimulus funds to the University in fiscal years, 2011 and 2010, respectively. Rather than relying solely on the non-recurring federal stimulus funds to supplant the loss of recurring appropriations, the University embarked on an aggressive cost cutting initiative which yielded significant savings. Although the Commonwealth still faces financial challenges, the growth in state revenues for fiscal year 2011 reflects some improvement in the Commonwealth's economy. The University's 2012 general appropriation, approved by the General Assembly contingent upon the realization of targeted reductions in state spending, grew by \$.5 million compared to the University's fiscal year 2011 recurring general appropriation.

The University has made great strides towards achieving the goals identified in its 2007-2012 strategic plan, *The Talent Imperative*. The University continues to focus its limited resources on the most critical areas of the strategic plan that will be the most beneficial to the region and the Commonwealth. The University has made great strides in supporting the Kentucky Council on Postsecondary Education's (CPE) efforts to raise the level of postsecondary attainment and impact throughout the Commonwealth. In response to regional demand, the University has increased the number of master's degree programs it offers from ten programs in 2001 to forty-nine master's and two professional doctoral programs in 2011. Combined with strong growth in undergraduate enrollment, the growth in graduate level programs has not only met the demands of the region, but also has fueled a significant growth in the University's total enrollment and net tuition revenue. Continued enrollment growth in fiscal years 2010 and 2011, combined with tuition rate increases, resulted in an \$8.9 million growth in net tuition revenue since 2009. The University has made significant progress in reaching other strategic goals as well, particularly critical goals such as degree production where the University achieved the largest increase in degree production of any state university.

Management believes the University is well positioned to achieve its strategic priorities in partnership with the Commonwealth, CPE and the region. While adequate state funding is critical to the University's future success, management is continuing its efforts to diversify revenue sources, contain costs and redirect resources to core mission priorities. Resource allocations are driven by planning, budgeting and assessment processes that are strongly aligned at all levels of the institution. The University has made great strides in its effort to develop the capacity to fully support the region. The region's economic growth depends heavily on the University's capacity to support that growth in a variety of ways.



**Northern Kentucky University and Affiliate**  
**A Component Unit of the Commonwealth of Kentucky**  
**Consolidated Statements of Net Assets**  
June 30, 2011 and 2010  
*(in thousands)*

|   | <u>2011</u>       | <u>2010</u>       |
|---|-------------------|-------------------|
| <b>ASSETS</b>                                   |                   |                   |
| Current Assets                                  |                   |                   |
| Cash and cash equivalents                       | \$ 70,218         | \$ 61,676         |
| Notes, loans and accounts receivable, net       | 10,310            | 12,237            |
| Other current assets                            | 2,067             | 1,853             |
| Total current assets                            | <u>82,595</u>     | <u>75,766</u>     |
| Noncurrent Assets                               |                   |                   |
| Cash and cash equivalents                       | 16,948            | 9,536             |
| Investments                                     | 13,028            | 13,175            |
| Notes, loans and accounts receivable, net       | 1,837             | 1,884             |
| Capital assets, net                             | 334,866           | 311,091           |
| Other noncurrent assets                         | 138               | 53                |
| Total noncurrent assets                         | <u>366,817</u>    | <u>335,739</u>    |
| Total assets                                    | <u>449,412</u>    | <u>411,505</u>    |
| <b>LIABILITIES</b>                              |                   |                   |
| Current Liabilities                             |                   |                   |
| Accounts payable and accrued liabilities        | 20,036            | 16,893            |
| Deferred revenue                                | 6,548             | 6,696             |
| Long-term liabilities-current portion           | 7,999             | 8,201             |
| Total current liabilities                       | <u>34,583</u>     | <u>31,790</u>     |
| Noncurrent Liabilities                          |                   |                   |
| Deposits  | 5,274             | 5,714             |
| Deferred revenue                                | 2,755             | 3,068             |
| Long-term liabilities                           | 88,361            | 96,033            |
| Total noncurrent liabilities                    | <u>96,390</u>     | <u>104,815</u>    |
| Total liabilities                               | <u>130,973</u>    | <u>136,605</u>    |
| <b>NET ASSETS</b>                               |                   |                   |
| Invested in capital assets, net of related debt | 239,790           | 210,895           |
| Restricted                                      |                   |                   |
| Nonexpendable                                   | 7,616             | 7,616             |
| Expendable                                      | 9,117             | 9,478             |
| Unrestricted                                    | 61,916            | 46,911            |
| Total net assets                                | <u>\$ 318,439</u> | <u>\$ 274,900</u> |

**Northern Kentucky University Foundation, Inc.**  
**Consolidated Statements of Financial Position**  
As of June 30, 2011 and 2010  
(in thousands)

|   | <u>2011</u>      | <u>2010</u>      |
|---|------------------|------------------|
| <b>ASSETS</b>   |                  |                  |
| Cash and cash equivalents   | \$ 4,452         | \$ 10,743        |
| Loans, interest and accounts receivable (less allowance of \$112 in 2011 and \$111 in 2010) | 259              | 151              |
| Accrued interest receivable   | 12               | -                |
| Contributions receivable (less allowance of \$26 in 2011 and \$53 in 2010)                  | 9,975            | 18,014           |
| Prepaid expenses and deferred charges   | 52               | 58               |
| Investments   | 73,537           | 54,929           |
| Land, buildings and equipment   | 538              | 2,890            |
| Accumulated depreciation  | (196)            | (189)            |
| Total assets  | <u>88,629</u>    | <u>86,596</u>    |
| <b>LIABILITIES AND NET ASSETS</b>   |                  |                  |
| Accounts payable  | 287              | 269              |
| Accrued interest  | 124              | 151              |
| Annuities payable   | 255              | 9                |
| Deferred income   | 26               | 25               |
| Funds held in trust for Northern Kentucky University  | 10,529           | 8,925            |
| Notes payable   | 3,085            | 5,878            |
| Total liabilities   | <u>14,306</u>    | <u>15,257</u>    |
| <b>NET ASSETS</b>   |                  |                  |
| Unrestricted  |                  |                  |
| For current operations  | 622              | 467              |
| Contributions receivable  | 1                | 1                |
| Amounts functioning as endowment funds  | 1,775            | 1,355            |
| Invested in property, plant and equipment   | 342              | 593              |
| Total unrestricted  | <u>2,740</u>     | <u>2,416</u>     |
| Temporarily restricted  |                  |                  |
| Unexpended funds received for restricted purposes   | 3,912            | 4,558            |
| Contributions receivable  | 4,462            | 9,634            |
| Loan funds  | 140              | 141              |
| Endowment funds   | 23,786           | 15,656           |
| Total temporarily restricted  | <u>32,300</u>    | <u>29,989</u>    |
| Permanently restricted  |                  |                  |
| Contributions receivable  | 5,512            | 8,379            |
| Endowment funds   | 33,771           | 30,555           |
| Total permanently restricted  | <u>39,283</u>    | <u>38,934</u>    |
| Total net assets  | <u>74,323</u>    | <u>71,339</u>    |
| Total liabilities and net assets  | <u>\$ 88,629</u> | <u>\$ 86,596</u> |

See accompanying notes to the financial statements.

Northern Kentucky University and Affiliate  
A Component Unit of the Commonwealth of Kentucky  
**Consolidated Statements of Revenues, Expenses and Changes in Net Assets**  
For the Years Ended June 30, 2011 and 2010  
(in thousands)

|   | <u>2011</u>       | <u>2010</u>       |
|---|-------------------|-------------------|
| <b>OPERATING REVENUES</b>   |                   |                   |
| Student tuition and fees (net of scholarship allowances of \$26,269 in 2011 and \$21,506 in 2010) | \$ 97,564         | \$ 92,597         |
| Federal grants and contracts  | 3,526             | 4,085             |
| State and local grants and contracts  | 3,974             | 3,618             |
| Nongovernmental grants and contracts  | 2,214             | 2,713             |
| Sales and services of educational departments   | 4,137             | 3,938             |
| Auxiliary enterprises   |                   |                   |
| Housing operations (net of scholarship allowances of \$459 in 2011 and \$438 in 2010)             | 8,190             | 7,748             |
| Other auxiliaries   | 4,815             | 4,641             |
| Other operating revenues  | 6,445             | 5,923             |
| Total operating revenues  | <u>130,865</u>    | <u>125,263</u>    |
| <b>OPERATING EXPENSES</b>   |                   |                   |
| Educational and general   |                   |                   |
| Instruction   | 71,287            | 67,039            |
| Research  | 1,850             | 1,706             |
| Public service  | 11,066            | 10,461            |
| Libraries   | 4,419             | 4,150             |
| Academic support  | 15,837            | 15,380            |
| Student services  | 16,924            | 16,244            |
| Institutional support   | 25,371            | 23,067            |
| Operation and maintenance of plant  | 15,105            | 14,559            |
| Depreciation  | 16,280            | 14,869            |
| Student aid   | 15,950            | 14,792            |
| Auxiliary enterprises   |                   |                   |
| Housing operations  | 6,737             | 3,838             |
| Other auxiliaries   | 1,399             | 1,461             |
| Auxiliary depreciation  | 2,672             | 2,785             |
| Other expenses  | 43                | 101               |
| Total operating expenses  | <u>204,940</u>    | <u>190,452</u>    |
| Net loss from operations  | <u>(74,075)</u>   | <u>(65,189)</u>   |
| <b>NONOPERATING REVENUES (EXPENSES)</b>   |                   |                   |
| State appropriations  | 51,270            | 50,281            |
| State appropriations-federal stimulus   | 2,988             | 3,604             |
| Federal grants and contracts  | 21,970            | 16,855            |
| State and local grants and contracts  | 8,170             | 7,799             |
| Private gifts and grants  | 65                | 54                |
| Investment income (loss)  | 2,017             | 1,683             |
| Interest on capital asset--related debt   | (3,837)           | (4,466)           |
| Other nonoperating revenues (expenses)  | 742               | (92)              |
| Net nonoperating revenues   | <u>83,385</u>     | <u>75,718</u>     |
| Income before other revenues, expenses, gains or losses   | <u>9,310</u>      | <u>10,529</u>     |
| Capital appropriations  | 24,494            | 7,458             |
| Capital grants and gifts  | 9,735             | 8,169             |
| Total other revenues  | <u>34,229</u>     | <u>15,627</u>     |
| Increase (decrease) in net assets   | 43,539            | 26,156            |
| <b>NET ASSETS</b>   |                   |                   |
| Net assets-beginning of year  | 274,900           | 248,744           |
| Net assets-end of year  | <u>\$ 318,439</u> | <u>\$ 274,900</u> |

See accompanying notes to the financial statements.

**Northern Kentucky University Foundation, Inc.**  
**Consolidated Statement of Activities**  
For the year ended June 30, 2011  
(in thousands)

|   | <u>Unrestricted<br/>Net Assets</u> | <u>Temporarily<br/>Restricted<br/>Net Assets</u> | <u>Permanently<br/>Restricted<br/>Net Assets</u> | <u>Total</u>     |
|---|------------------------------------|--|--|------------------|
| <b>CHANGES IN NET ASSETS:</b>                   |                                    |  |  |                  |
| <b>Revenues and Gains</b>                       |                                    |  |  |                  |
| Gifts, grants and bequests                      | \$ 10                              | \$ 2,707   | \$ 349   | \$ 3,066         |
| Rental income                                   | 116                                | -  | -  | 116              |
| Investment income                               | 50                                 | 1,252  | -  | 1,302            |
| Net gains on investments                        | 393                                | 8,273  | -  | 8,666            |
| Other revenue                                   | (134)                              | 562  | -  | 428              |
| Total Revenues and Gains                        | 435                                | 12,794   | 349  | 13,578           |
| Net Assets Released from Restrictions           | 10,379                             | (10,379)   | -  | -                |
| Total Revenues and Gains and Other Support      | 10,814                             | 2,415  | 349  | 13,578           |
| <b>Program Expenses</b>                         |                                    |  |  |                  |
| Instruction                                     | 403                                | -  | -  | 403              |
| Research  | 12                                 | -  | -  | 12               |
| Public service                                  | 1,159                              | -  | -  | 1,159            |
| Libraries                                       | 20                                 | -  | -  | 20               |
| Academic support                                | 331                                | -  | -  | 331              |
| Student services                                | 234                                | -  | -  | 234              |
| Institutional support                           | 373                                | -  | -  | 373              |
| University facilities and equipment acquisition | 6,344                              | -  | -  | 6,344            |
| Student financial aid                           | 1,076                              | -  | -  | 1,076            |
| Total Program Expenses                          | 9,952                              | -  | -  | 9,952            |
| <b>Support Expenses</b>                         |                                    |  |  |                  |
| Management and general                          | 533                                | -  | -  | 533              |
| Fundraising support                             | 71                                 | -  | -  | 71               |
| Rental property                                 | 38                                 | -  | -  | 38               |
| Total Support Expenses                          | 642                                | -  | -  | 642              |
| Total Expenses                                  | 10,594                             | -  | -  | 10,594           |
| Net transfers in (out)                          | 104                                | (104)  | -  | -                |
| Increase (Decrease) in Net Assets               | 324                                | 2,311  | 349  | 2,984            |
| Net Assets - Beginning of Year                  | 2,416                              | 29,989   | 38,934   | 71,339           |
| Net Assets - End of Year                        | <u>\$ 2,740</u>                    | <u>\$ 32,300</u>                                 | <u>\$ 39,283</u>                                 | <u>\$ 74,323</u> |

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)

|   | <u>Unrestricted<br/>Net Assets</u> | <u>Temporarily<br/>Restricted<br/>Net Assets</u> | <u>Permanently<br/>Restricted<br/>Net Assets</u> | <u>Total</u>     |
|---|------------------------------------|--|--|------------------|
| <b>CHANGES IN NET ASSETS:</b>                   |                                    |  |  |                  |
| <b>Revenues and Gains</b>                       |                                    |  |  |                  |
| Gifts, grants 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           |
| <b>Program Expenses</b>                         |                                    |  |  |                  |
| 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            |
| <b>Support Expenses</b>                         |                                    |  |  |                  |
| 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                        | <u>\$ 2,416</u>                    | <u>\$ 29,989</u>                                 | <u>\$ 38,934</u>                                 | <u>\$ 71,339</u> |

See accompanying notes to the financial statements.

Northern Kentucky University and Affiliate  
A Component Unit of the Commonwealth of Kentucky  
Consolidated Statements of Cash Flows  
For the Years Ended June 30, 2011 and 2010  
(in thousands)

|  | 2011               | 2010               |
|--|--------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                    |                    |
| Tuition and fees   | \$ 97,304          | \$ 91,641          |
| Grants and contracts   | 10,407             | 9,616              |
| Payments to suppliers  | (54,103)           | (48,967)           |
| Payments for salaries and benefits   | (128,648)          | (123,549)          |
| Loans issued to students   | (484)              | (153)              |
| Collection of loans to students  | 458                | 419                |
| Auxiliary enterprise receipts:   |                    |                    |
| Housing operations   | 8,002              | 7,586              |
| Other auxiliaries  | 4,723              | 4,443              |
| Sales and service of educational departments   | 4,131              | 3,834              |
| Other receipts (payments)  | 5,972              | 6,364              |
| Net cash used by operating activities  | <u>(52,238)</u>    | <u>(48,766)</u>    |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>   |                    |                    |
| State appropriations   | 54,258             | 53,885             |
| Gifts and grants for other than capital purposes   | 30,722             | 24,728             |
| Agency and loan program receipts   | 88,809             | 80,276             |
| Agency and loan program disbursements  | (89,054)           | (81,278)           |
| Other nonoperating receipts (payments)   | 742                | (317)              |
| Net cash provided by noncapital financing activities   | <u>85,477</u>      | <u>77,294</u>      |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>  |                    |                    |
| Proceeds from capital debt and leases  | 12,265             | 7,864              |
| Capital appropriations   | 27,143             | 8,291              |
| Capital grants, gifts, and advances received   | 8,147              | 8,169              |
| Purchases of capital assets  | (42,727)           | (32,689)           |
| Principal paid on capital debt and leases  | (19,603)           | (13,757)           |
| Interest paid on capital debt and leases   | (4,835)            | (4,588)            |
| Net cash used by capital financing activities  | <u>(19,610)</u>    | <u>(26,710)</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                    |                    |
| Proceeds from sales and maturities of investments  | 1,750              | 554                |
| Purchase of investments  | -                  | (4,250)            |
| Interest on investments  | 575                | 1,333              |
| Net cash provided (used) by investing activities   | <u>2,325</u>       | <u>(2,363)</u>     |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>  | <u>15,954</u>      | <u>(545)</u>       |
| Cash and cash equivalents-beginning of year  | 71,212             | 71,757             |
| Cash and cash equivalents-end of year  | <u>\$ 87,166</u>   | <u>\$ 71,212</u>   |
| <b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO<br/>NET CASH USED BY OPERATING ACTIVITIES:</b> |                    |                    |
| Net loss from operations   | (74,075)           | (65,189)           |
| Adjustments to reconcile operating income (loss) to net cash<br>provided (used) by operating activities: |                    |                    |
| Depreciation expense   | 18,952             | 17,654             |
| Changes in assets and liabilities:   |                    |                    |
| Receivables, net   | 132                | (1,261)            |
| Other assets   | (207)              | (40)               |
| Accounts payable   | 2,967              | 539                |
| Deferred revenue   | (461)              | (458)              |
| Long-term liabilities  | 454                | (11)               |
| Net cash used by operating activities  | <u>\$ (52,238)</u> | <u>\$ (48,766)</u> |

See accompanying notes to the financial statements.



**Northern Kentucky University and Affiliate**  
**A Component Unit of the Commonwealth of Kentucky**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended June 30, 2011 and 2010**

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

**a. Reporting Entity**

Northern Kentucky University (the University) is a component unit of the Commonwealth of Kentucky and is included in the general-purpose financial statements of the Commonwealth. The consolidated financial statements of the University include the operations of the Northern Kentucky University Research Foundation; an affiliated non-profit corporation. The Northern Kentucky University Foundation, Inc. (the Foundation) is a legally separate, tax-exempt organization supporting the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation's Board of Directors is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's consolidated financial statements. The accompanying consolidated financial statements do not include the financial position or operating results of the Chase College Foundation, Inc. This foundation is a separately incorporated not-for-profit entity organized for the purpose of promoting the educational mission of the University's Salmon P. Chase College of Law. Although this entity benefits the University's Salmon P. Chase College of Law, it is governed by an independent Board of Directors and is not controlled by the University.

**b. Basis of Presentation**

The accompanying consolidated financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the University has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, unless the FASB pronouncement conflicts with or contradicts a GASB pronouncement. The University has elected not to apply FASB pronouncements issued after the applicable date.

In accordance with GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* (GASB 35) and subsequent standards issued by GASB, the University has elected to report as an entity engaged in business-type activities (BTA). BTAs are those activities that are financed in whole or part by fees charged to external parties for goods and services. GASB 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net assets categories:

- **Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted:**
  - Nonexpendable* – Net assets subject to externally imposed stipulations that they be maintained permanently by the University.
  - Expendable* – Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. These net assets principally represent amounts for specified capital construction projects.
- **Unrestricted:** Net assets whose use by the University is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties.

The financial statement presentation required by GASB is intended to provide a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

**c. Accrual Basis**

The financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

**d. Notes, Loans and Accounts Receivable**

This classification consists of tuition and fee charges to students, charges for auxiliary enterprise services provided to students, faculty and staff, loans to students and amounts due from sponsors for reimbursement of expenses made pursuant to contracts and grants. Accounts receivable are recorded net of estimated uncollectible amounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.



**e. Capital Assets**

Capital assets are stated at cost at date of acquisition or, in the case of gifts, at fair market value at date of gift. Equipment with a unit cost of \$5,000 or more and having an estimated useful life of greater than one year is capitalized. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective assets, generally 40 years for land improvements, 10 – 40 years for buildings and fixed equipment, 10 years for library books and 3 – 10 years for equipment. The University capitalizes, but does not depreciate, works of art and historical treasures that are held for exhibition, education, research and public service or intangible assets with an indefinite life. Indefinite life intangible assets are reviewed annually for impairment. If the fair value of the asset is less than the carrying amount, an impairment loss is recognized for the difference.

**f. Inventories**

Inventories are stated at cost (first-in, first-out or average cost).

**g. Investments**

Investments are stated at fair value.

**h. Deferred Revenue**

Deferred revenue includes amounts received for tuition and fees prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenue also includes amounts received from grants and contracts sponsors and state deferred maintenance funds that have not yet been earned.

**i. Scholarship Allowances**

Student tuition and fee revenues and other student related revenues are reported net of scholarship allowances in the consolidated statements of revenues, expenses and changes in net assets. Scholarship allowances are the differences between the stated charge for services provided by the University, and the amounts that are paid by the students or third parties making payments on a student's behalf. To the extent that revenues from such programs are used to satisfy tuition and fees, and other student charges, the University has recorded a scholarship allowance.

**j. Income Taxes**

The University is an agency and instrumentality of the Commonwealth of Kentucky, pursuant to Kentucky Revised Statutes sections 164.290 through 164.475. Accordingly, the University is generally exempt from federal income taxes as an organization described in Section 115 of the Internal Revenue Code of 1986, as amended. The University's affiliated non-profit organization has received a determination from the Internal Revenue Service granting exemption from federal income taxation pursuant to the provisions of Internal Revenue Code section 501(c)(3).

**k. Restricted Asset Spending Policy**

The University's policy is that restrictions on assets cannot be fulfilled by the expenditure of unrestricted funds for similar purposes. The determination on whether restricted or unrestricted funds are expended for a particular purpose is made on a case-by-case basis. Restricted funds remain restricted until spent for the intended purpose.

**l. Operating Activities**

The University defines operating activities, as reported on the consolidated statements of revenues, expenses and changes in net assets, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for services and goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenues relied upon for operations, such as state appropriations, gifts and investment income, are recorded as nonoperating revenues, in accordance with GASB 35. In accordance with GASB Statement No. 24, Accounting and Financial Reporting for Certain Grants and Other Financial Assistance and related GASB implementation guidance, Pell Grants, College Access Program (CAP) Grants and Kentucky Educational Excellence Scholarship (KEES) are considered nonexchange transactions and are recorded as nonoperating revenues in the accompanying financial statements.

**m. Use of Estimates**

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



**n. Component Unit Disclosure**

The accompanying consolidated financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Financial Accounting Standards Board. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features.

During the years ended June 30, 2011, and 2010, the Foundation made payments on behalf of the University of \$2,583,000 and \$2,055,000, respectively. In addition, the Foundation transferred to the University \$7,369,000 in 2011 and \$2,385,000 in 2010 for restricted purposes. Complete financial statements for the Foundation can be obtained from the Northern Kentucky University Foundation, Inc. at the Lucas Administrative Center Room 221, Nunn Drive, Highland Heights, KY 41099.

**o. Reclassifications**

Certain items have been reclassified for the year ended June 30, 2010, in order to conform to classifications used for the year ended June 30, 2011. These reclassifications had no effect on total net assets and the change in net assets.

**p. Recent Accounting Pronouncements**

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of resources, and Net Position*. The objective of this statement is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. The University is currently evaluating the effects of this statement on its financial statements.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. It eliminates the need for financial statement preparers to determine which accounting principles apply to state and local governments. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. The University does not expect this statement to have a significant impact on its financial statements.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this statement is to improve financial reporting for a governmental financial reporting entity. This statement modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2012. The University is currently evaluating the effects of this statement on its financial statements.

**Note 2 – Cash, Cash Equivalents and Investments**

Cash and cash equivalents includes all readily available sources of cash such as petty cash, demand deposits, certificates of deposit and temporary investments in marketable debt securities with original maturities less than three months. At June 30, 2011, petty cash funds totaled \$28,000 and the carrying amount of the deposits was \$87,138,000 with a corresponding total bank balance of \$92,160,000. Of the bank balance, \$15,766,000 was covered by federal depository insurance, or collateralized with securities held by the pledging bank, or bank's agents, in the University's name and \$76,394,000 was held and invested by the Commonwealth of Kentucky. These deposits were covered by federal depository insurance or by collateral held by the Commonwealth in the Commonwealth's name.

**Investments**

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

The following schedule reports the fair values of the University's investments at June 30, 2011 and 2010 (in thousands):

|  | 2011             | 2010             |
|--|------------------|------------------|
| Certificates of deposit                  | \$ 2,499         | \$ 4,250         |
| Restricted assets held by the Foundation | 10,529           | 8,925            |
| Total Investments                        | <u>\$ 13,028</u> | <u>\$ 13,175</u> |

University investments held by the Northern Kentucky University Foundation, Inc. are comprised of Regional University Excellence Trust Fund endowments. Assets held by the Foundation are invested in an investment pool managed by the Foundation.



University assets in the Foundation investment pool at June 30, 2011 and 2010 are invested as follows:

|                               | 2011        | 2010        |
|-------------------------------|-------------|-------------|
| <b>Type of Investment:</b>    |             |             |
| Fixed income funds            | 18%         | 21%         |
| Equity funds and common stock | 53%         | 52%         |
| Hedge funds                   | 12%         | 15%         |
| Alternative investments       | 12%         | 11%         |
| Other                         | 5%          | 1%          |
| <b>Total Investments</b>      | <b>100%</b> | <b>100%</b> |

Occasionally, the fair value of assets associated with endowments fall below the level that is required for the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature were \$18,000 and \$40,000 as of June 30, 2011 and 2010 respectively.

See note 13 for further details of the Foundation's investment pool.

*Interest Rate Risk:* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As stated in the University's investment policy, the bond resolution governs the investment of bond reserves. The bond resolution limits the investment maturities by the lesser of the remaining life of the bond issue or ten years. Certificates of deposit can have a maturity of not more than two years from the date of issue.

*Credit Risk:* Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The University's investment policy requires investments to be in compliance with state statute. University investments that are managed by the Foundation are governed by the Foundation's investment policy. This policy contains several provisions which are intended to limit credit risk, including a requirement that fixed income portfolios maintain a weighted average credit rating of at least AA (Standard and Poor's) and have no more than 10 percent of the portfolio in below investment grade bonds.

*Concentration of Credit Risk:* Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single user. The University debt service reserves are invested by the bond trustees in accordance with the governing bond resolutions. There are no specific limits on the maximum amount of investment securities held in bond debt service reserve funds that may be invested in one issuer. However, such investments are limited to bonds or interest bearing notes of the U.S. government.

### Note 3 – Notes, Loans and Accounts Receivable

Notes, loans and accounts receivable as of June 30, 2011 and 2010 are as follows (in thousands):

|   | 2011                |                   |                   |
|---|---------------------|-------------------|-------------------|
|   | Gross<br>Receivable | Allowance         | Net<br>Receivable |
| Student loans                                   | \$ 2,215            | \$ (507)          | \$ 1,708          |
| Student account receivables                     | 8,242               | (3,569)           | 4,673             |
| Reimbursement receivable grants and contracts   | 1,821               | -                 | 1,821             |
| State capital appropriation account receivables | 1,588               | -                 | 1,588             |
| Other   | 2,906               | (549)             | 2,357             |
| Total   | <u>\$ 16,772</u>    | <u>\$ (4,625)</u> | <u>\$ 12,147</u>  |
| Current portion                                 |                     |                   | 10,310            |
| Noncurrent portion                              |                     |                   | 1,837             |
| Total   |                     |                   | <u>\$ 12,147</u>  |
|   | 2010                |                   |                   |
|   | Gross<br>Receivable | Allowance         | Net<br>Receivable |
| Student loans                                   | \$ 2,599            | \$ (455)          | \$ 2,144          |
| Student account receivables                     | 7,620               | (3,148)           | 4,472             |
| Reimbursement receivable grants and contracts   | 2,375               | -                 | 2,375             |
| State capital appropriation account receivables | 2,669               | -                 | 2,669             |
| Other   | 2,786               | (325)             | 2,461             |
| Total   | <u>\$ 18,049</u>    | <u>\$ (3,928)</u> | <u>\$ 14,121</u>  |
| Current portion                                 |                     |                   | 12,237            |
| Noncurrent portion                              |                     |                   | 1,884             |
| Total   |                     |                   | <u>\$ 14,121</u>  |



**Note 4 – Capital Assets, net**

Capital assets for the years ended June 30, 2011 and 2010 are summarized as follows (in thousands):

|                                   | <b>July 1,<br/>2010</b> | <b>Additions</b> | <b>Reductions</b> | <b>June 30,<br/>2011</b> |
|-----------------------------------|-------------------------|------------------|-------------------|--------------------------|
| Cost:                             |                         |                  |                   |                          |
| Indefinite life intangible assets | \$ -                    | \$ 4,622         | \$ -              | \$ 4,622                 |
| Land                              | 6,717                   | 2,550            | 348               | 8,919                    |
| Land improvements                 | 21,756                  | 4,680            | 20                | 26,416                   |
| Buildings                         | 343,669                 | 39,004           | 796               | 381,877                  |
| Equipment                         | 58,620                  | 2,549            | 414               | 60,755                   |
| Library books                     | 33,182                  | 1,943            | 97                | 35,028                   |
| Construction in process           | 14,270                  | -                | 11,813            | 2,457                    |
|                                   | <u>478,214</u>          | <u>55,348</u>    | <u>13,488</u>     | <u>520,074</u>           |
| Accumulated Depreciation          |                         |                  |                   |                          |
| Land improvements                 | 3,484                   | 631              | 1                 | 4,114                    |
| Buildings                         | 111,587                 | 11,289           | 378               | 122,498                  |
| Equipment                         | 27,954                  | 5,480            | 390               | 33,044                   |
| Library books                     | 24,098                  | 1,552            | 98                | 25,552                   |
|                                   | <u>167,123</u>          | <u>18,952</u>    | <u>867</u>        | <u>185,208</u>           |
| Capital assets, net               | <u>\$ 311,091</u>       | <u>\$ 36,396</u> | <u>\$ 12,621</u>  | <u>\$ 334,866</u>        |

|                          | <b>July 1,<br/>2009</b> | <b>Additions</b> | <b>Reductions</b> | <b>June 30,<br/>2010</b> |
|--------------------------|-------------------------|------------------|-------------------|--------------------------|
| Cost:                    |                         |                  |                   |                          |
| Land                     | \$ 5,880                | \$ 837           | \$ -              | \$ 6,717                 |
| Land improvements        | 16,371                  | 5,417            | 32                | 21,756                   |
| Buildings                | 336,691                 | 8,411            | 1,433             | 343,669                  |
| Equipment                | 51,079                  | 7,944            | 403               | 58,620                   |
| Library books            | 31,764                  | 1,815            | 397               | 33,182                   |
| Construction in process  | 5,663                   | 8,607            | -                 | 14,270                   |
|                          | <u>447,448</u>          | <u>33,031</u>    | <u>2,265</u>      | <u>478,214</u>           |
| Accumulated Depreciation |                         |                  |                   |                          |
| Land improvements        | 2,740                   | 772              | 28                | 3,484                    |
| Buildings                | 102,201                 | 10,617           | 1,231             | 111,587                  |
| Equipment                | 23,446                  | 4,775            | 267               | 27,954                   |
| Library books            | 23,005                  | 1,490            | 397               | 24,098                   |
|                          | <u>151,392</u>          | <u>17,654</u>    | <u>1,923</u>      | <u>167,123</u>           |
| Capital assets, net      | <u>\$ 296,056</u>       | <u>\$ 15,377</u> | <u>\$ 342</u>     | <u>\$ 311,091</u>        |

As of June 30, 2011 and 2010, the net book value of land, buildings and equipment acquired through capital leases included in the above schedules totaled \$13,406,000 and \$14,299,000 respectively, including buildings of \$12,761,000 and \$13,428,000.

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

Accounts payable and accrued liabilities as of June 30, 2011 and 2010 are as follows (in thousands):

|   | <b>2011</b>      | <b>2010</b>      |
|---|------------------|------------------|
| Payable to vendors and contractors                          | \$ 11,534        | \$ 9,310         |
| Accrued expenses, primarily payroll and vacation leave      | 5,909            | 5,262            |
| Employee withholdings and deposits payable to third parties | 2,593            | 2,321            |
|   | <u>\$ 20,036</u> | <u>\$ 16,893</u> |

## Note 6 – Deferred Revenue

Deferred revenue as of June 30, 2011 and 2010 are as follows (in thousands):

|                                       | 2011            | 2010            |
|---------------------------------------|-----------------|-----------------|
| Unearned summer school revenues       | \$ 4,069        | \$ 4,290        |
| Unearned grants and contracts revenue | 1,017           | 709             |
| Unearned auxiliary revenue            | 3,373           | 3,758           |
| Other                                 | 844             | 1,007           |
| Total                                 | <u>\$ 9,303</u> | <u>\$ 9,764</u> |
| Current                               | 6,548           | 6,696           |
| Noncurrent                            | 2,755           | 3,068           |
| Total                                 | <u>\$ 9,303</u> | <u>\$ 9,764</u> |

## Note 7 – Long-term Liabilities

The changes in long-term liabilities for the years ended June 30, 2011 and 2010 are summarized as follows (in thousands):

|   | Balance<br>July 1,<br>2010 | Additions        | Reductions       | Balance<br>June 30,<br>2011 | Current<br>Portion | Noncurrent<br>Portion |
|---|----------------------------|------------------|------------------|-----------------------------|--------------------|-----------------------|
| Consolidated Educational Buildings Revenue Bonds (net of discount)                    | \$ 12,701                  | \$ -             | \$ 3,133         | \$ 9,568                    | \$ 2,540           | \$ 7,028              |
| Housing and Dining Revenue Bonds  | 1,940                      | -                | 150              | 1,790                       | 155                | 1,635                 |
| General Receipts Bonds (net of discounts, premiums, and deferred losses on refunding) | 70,236                     | 11,153           | 3,780            | 77,609                      | 3,854              | 73,755                |
| Total bonds   | 84,877                     | 11,153           | 7,063            | 88,967                      | 6,549              | 82,418                |
| Municipal lease obligations   | 3,784                      | -                | 928              | 2,856                       | 846                | 2,010                 |
| Capital leases  | 12,446                     | -                | 11,466           | 980                         | 480                | 500                   |
| Notes payable   | 165                        | -                | 19               | 146                         | 19                 | 127                   |
| Total notes and capital leases  | 16,395                     | -                | 12,413           | 3,982                       | 1,345              | 2,637                 |
| Deferred compensation   | 673                        | 11               | 45               | 639                         | 45                 | 594                   |
| Federal portion of loan programs  | 2,289                      | 1                | 118              | 2,172                       | -                  | 2,172                 |
| KERS-sick leave   | -                          | 600              | -                | 600                         | 60                 | 540                   |
| Total other liabilities   | 2,962                      | 612              | 163              | 3,411                       | 105                | 3,306                 |
| Total long-term liabilities   | <u>\$ 104,234</u>          | <u>\$ 11,765</u> | <u>\$ 19,639</u> | <u>\$ 96,360</u>            | <u>\$ 7,999</u>    | <u>\$ 88,361</u>      |

|   | Balance<br>July 1,<br>2009 | Additions       | Reductions       | Balance<br>June 30,<br>2010 | Current<br>Portion | Noncurrent<br>Portion |
|---|----------------------------|-----------------|------------------|-----------------------------|--------------------|-----------------------|
| Consolidated Educational Buildings Revenue Bonds (net of discount)                    | \$ 17,769                  | \$ -            | \$ 5,068         | \$ 12,701                   | \$ 3,133           | \$ 9,568              |
| Housing and Dining Revenue Bonds  | 2,205                      | -               | 265              | 1,940                       | 150                | 1,790                 |
| General Receipts Bonds (net of discounts, premiums, and deferred losses on refunding) | 65,329                     | 6,733           | 1,826            | 70,236                      | 3,486              | 66,750                |
| Total bonds   | 85,303                     | 6,733           | 7,159            | 84,877                      | 6,769              | 78,108                |
| Municipal lease obligations   | 4,525                      | 1,079           | 1,820            | 3,784                       | 928                | 2,856                 |
| Capital leases  | 17,001                     | -               | 4,555            | 12,446                      | 441                | 12,005                |
| Notes payable   | 183                        | -               | 18               | 165                         | 18                 | 147                   |
| Total notes and capital leases  | 21,709                     | 1,079           | 6,393            | 16,395                      | 1,387              | 15,008                |
| Deferred compensation   | 683                        | 35              | 45               | 673                         | 45                 | 628                   |
| Federal portion of loan programs  | 2,333                      | -               | 44               | 2,289                       | -                  | 2,289                 |
| Arbitrage rebate liability  | 113                        | -               | 113              | -                           | -                  | -                     |
| Total other liabilities   | 3,129                      | 35              | 202              | 2,962                       | 45                 | 2,917                 |
| Total long-term liabilities   | <u>\$ 110,141</u>          | <u>\$ 7,847</u> | <u>\$ 13,754</u> | <u>\$ 104,234</u>           | <u>\$ 8,201</u>    | <u>\$ 96,033</u>      |

The outstanding Consolidated Educational Buildings Revenue Bonds (CEBRB) consist of CEHRB Series A, B, K and L with interest rates ranging from 3.25 percent to 5.90 percent and various maturity dates through May 1, 2023. These outstanding bonds are reported net of discounts totaling \$122,000. Student tuition and fees and proceeds from a United States Department of Education annual interest grant are pledged as security for the University's outstanding CEHRB. The \$3,123,000 reserve requirement for all CEHRB issues has been fully funded as of June 30, 2011.



The outstanding Housing and Dining System Series B Revenue Bond (Housing and Dining) has an interest rate of 3.0 percent and a maturity date of November 1, 2020. The gross revenues of the Housing and Dining system operations are pledged for the retirement of the Housing and Dining System Revenue Bond. The \$210,000 reserve requirement for the Housing and Dining issue has been fully funded as of June 30, 2011. The \$348,000 required housing repair and replacement fund was fully funded as of June 30, 2011.

The outstanding obligation as of June 30, 2011 for the Northern Kentucky University General Receipts Bonds is \$77,609,000. The outstanding balance is net of discounts totaling \$1,038,000, premiums of \$124,000 and a \$1,237,000 deferred loss on bond refundings. The interest rate yields range from 2.0 - 4.38 percent through September 2028. The net interest cost is 2.54 - 4.36 percent. General Receipts Bonds are collateralized by the operating and nonoperating income of the University excluding income which as a condition of the receipt is not available for payment of debt service charges.

The outstanding municipal lease obligations as of June 30, 2011 consist of master lease obligations issued through a local bank totaling \$96,000, with an interest rate of 4.65 percent, a lease obligation through IBM of \$388,000, with an interest rate of 1.46 percent and a lease obligation of \$2,372,000, with an interest rate of 3.76 percent, for an energy management project. The energy management lease will be paid with guaranteed energy savings.

On October 21, 2010 Northern Kentucky University General Receipts Bonds were issued in the amount of \$12,265,000 at a net interest cost of 3.28 percent. The proceeds partially refunded the underlying Certificates of Participation (COPS) associated with 2002 Student Housing Facilities Lease. As of June 30, 2011 a deposit of \$11,747,000 is being held in escrow by the trustee to fund the debt service on the refunded portion of the 2002 COPS until the COPS are called for redemption on December 1, 2012. The associated capital lease liability related to the defeased COPS is not included in the financial statements. The refunding will reduce the University's total debt service payments over the next 17 years by \$866,000 representing an economic gain of \$560,000. Economic gain is determined by calculating the difference between the present value of the debt service payments on the old and new debt.

The outstanding student housing facility lease related to the non refunded portion of the 2002 COPS is \$980,000 as of June 30, 2011. The lease has an imputed interest rate of 4.88 percent.

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

| <u>Fiscal Year</u>               | <u>Principal</u> | <u>Interest</u>  | <u>Total</u>      |
|----------------------------------|------------------|------------------|-------------------|
| 2012                             | 8,050            | 3,588            | 11,638            |
| 2013                             | 5,201            | 3,319            | 8,520             |
| 2014                             | 4,364            | 3,131            | 7,495             |
| 2015                             | 4,702            | 2,980            | 7,682             |
| 2016                             | 4,851            | 2,819            | 7,670             |
| 2017-2021                        | 25,459           | 11,444           | 36,903            |
| 2022-2026                        | 27,670           | 6,104            | 33,774            |
| 2027-2031                        | 14,925           | 776              | 15,701            |
| Subtotal                         | 95,222           | 34,161           | 129,383           |
| Less: Net discounts and premiums | (1,036)          |                  | (1,036)           |
| Loss on refundings               | (1,237)          |                  | (1,237)           |
| Total                            | <u>\$ 92,949</u> | <u>\$ 34,161</u> | <u>\$ 127,110</u> |

#### **Note 8 – Pension Plans and Accrued Compensated Absences**

Employees of the University are covered by one of two pension plans:

##### **a. Defined Contribution Plan**

A Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA CREF) sponsored plan, adopted by the Board of Regents in July 1970, is available upon completion of ninety days of service, to all regular full-time members of the faculty, administrative officers and others who have educational related duties. The TIAA CREF retirement plan is a defined contribution, money purchase retirement plan. The employees contribute 5 percent of their base salary to the plan, and the University contributes 10 percent. All payments are vested immediately and the contracts with the providers are owned by the individual employees. The employee is entitled to various payment options upon retirement. Benefit payments at retirement depend on the total contributions with interest deposited into the employee's account. Retirement benefits can begin upon retirement or termination of employment with the University. Covered payroll totaled \$43,170,000 and \$42,500,000 for the years ended June 30, 2011 and 2010, respectively. Expenditures for the University's portion amounted to \$4,317,000 and \$4,250,000 for the years ended June 30, 2011 and 2010, respectively.

##### **b. Defined Benefit Plan**

*Plan Description* - All regular employees not participating in the above plan are required to participate in the Kentucky Employees Retirement System (KERS), a cost sharing - multiple employer public employee retirement system. KERS is a defined benefit plan providing for retirement, disability, death benefits and health insurance. Each employee covered by KERS is entitled to a monthly benefit equal to 1.97 percent, except as otherwise provided by KERS, of the member's average final monthly compensation



multiplied by the number of credited years of service upon attainment of age 65. The average final compensation is calculated using the five highest paid fiscal years. Participants have a fully vested interest after the completion of 60 months of service, 12 of which are current service. KERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601-6124 or by calling (502) 696-8800.

**Funding Policy** - Benefit and contribution rates are established by state statute. For the fiscal year ended June 30, 2011, University employees were required to contribute 5 percent of their annual covered salary and the University was required to contribute 16.98 percent of covered payroll for non-hazardous pay and 26.12 percent for hazardous pay. The University's contributions to KERS for the years ending June 30, 2011, 2010 and 2009 were \$6,608,000, \$4,334,000, and \$3,567,000, respectively, equal to the required contributions for each year.

Effective July 1, 2010 KRS 61.546 states "the value of any accumulated sick leave that is added to the member's service credit in the Kentucky Employees Retirement System on or after July 1, 2010, shall be paid to the retirement system by the last participating Kentucky Employees Retirement System employer based upon a formula adapted by the Board." The KERS sick leave liability as of June 30, 2011 is \$600,000.

#### **c. Deferred Compensation Plans**

The University, through participation in the Commonwealth of Kentucky plan, offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Sections 457 and 401(k). The plans, available to all Commonwealth employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All compensation deferred under Section 457, all property and rights purchased with that compensation and all income attributable to that compensation, property or rights belong solely to the Commonwealth and the University until paid to the employee or beneficiary, subject only to the claims of the Commonwealth's and University's general creditors. Participants' rights under the plan are equal to those of general creditors of the Commonwealth and the University in an amount equal to the fair market value of the deferred account for each participant. The market value of the University's share of the Section 457 plan assets, as of June 30, 2011 and 2010, were \$2,646,000 and \$2,126,000, respectively. All compensation deferred under Section 401(k) and resultant assets belong to the plan participants.

#### **d. Compensated Absences**

University employees begin to accumulate annual vacation allowance from the initial date of employment; however, no vacation is granted until three months of continuous employment have been completed. The maximum accumulation of vacation leave is limited to the number of days that can be accumulated in twelve months, based upon length of service and employment classification. Eligible employees are paid their accumulated vacation upon termination, subject to certain limitations. At June 30, 2011 and 2010, the University had recognized an accrued vacation liability of \$3,233,000 and \$2,913,000, respectively.

### **Note 9 – Operating Expenses By Natural Classification**

The University's operating expenses by natural classification are as follows for the years ended June 30, 2011 and 2010 (in thousands):

|  | <u>2011</u>       | <u>2010</u>       |
|--|-------------------|-------------------|
| Salaries and wages                     | \$ 100,444        | \$ 96,660         |
| Employee benefits                      | 30,479            | 26,368            |
| Utilities                              | 5,697             | 5,639             |
| Supplies and other services            | 33,144            | 29,044            |
| Depreciation                           | 18,952            | 17,654            |
| Student scholarships and financial aid | 16,224            | 15,087            |
| Total                                  | <u>\$ 204,940</u> | <u>\$ 190,452</u> |

### **Note 10 – Risk Management**

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by (1) the State Fire and Tornado Insurance Fund (the Fund), (2) Sovereign Immunity and the State Board of Claims or (3) in the case of risks not covered by the Fund and Sovereign Immunity, commercial insurance, participation in insurance risk retention groups or self-insurance.

The Fund covers losses to property from fire, wind, earthquake, flood and other named perils between \$500 and \$500,000 per occurrence. Losses in excess of \$500,000 are insured by commercial carriers up to \$500 million per occurrence principally on an actual cash value basis. As a state agency, the University is vested with Sovereign Immunity and is subject to the provisions of the Board of Claims Act, under which the University's liability for certain negligence claims is limited to \$200,000 for any one person and \$350,000 for multiple claims resulting from a single act of negligence. Claims against educators' errors and omissions and wrongful acts are insured through a risk retention group or commercial insurance. There have been no significant reductions in insurance coverage from 2010 to 2011. Settlements have not exceeded insurance coverage during the past three years. The



University self-insures worker's compensation, and has recorded an estimate for asserted claims at June 30, 2011. Current liabilities related to self-insurance are included in Note 5, above.

#### **Note 11 – Contingencies and Commitments**

The University is a party to various litigation and other claims in the ordinary course of business. University officials are of the opinion, based upon the advice of legal counsel, that the ultimate resolution of these matters will not have a material effect on the financial position of the University. The estimated cost to complete construction under contract at June 30, 2011 was approximately \$7,359,000. Such construction is principally financed by capital appropriations from the Commonwealth of Kentucky and private gifts.

#### **Note 12 – Subsequent Event**

On July 21, 2011, Northern Kentucky University General Receipts 2011 Series A Bonds were issued in the amount of \$9,290,000 at a net interest cost of 3.63 percent. The majority of the proceeds reimbursed the University for property purchased under the Board approved land acquisition plan and for two radio stations acquired in June 2011.

#### **Note 13 – Northern Kentucky University Foundation, Inc. Notes to Financial Statements**

##### **a. Summary of Significant Accounting Policies**

###### **1. Scope of Statements**

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

###### **2. Basis of Presentation**

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

### 3. 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. Included in the Foundation's deposits at June 30, 2011 and 2010, are short term government obligation shares of \$322,000 and \$1,371,000, respectively. Additionally, \$1,653,000 and \$3,061,000, respectively, was collateralized with securities held by the financial institution's trust department or agent, but not in the Foundation's name. Balances of \$713,000 and \$5,561,000, respectively, were neither insured nor collateralized.

### 4. Loans and Accounts Receivable

Loans receivable consists primarily of loans made to students under privately funded loan programs. The advances are evidenced by signed promissory notes, bearing interest at varying stated interest rates, with varying due dates. Loans, accounts and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for 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, 2011 and 2010 was \$112,000 and \$111,000, respectively. Changes in the valuation allowance have not been material to the financial statements.

### 5. Investments

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.

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.

### 6. Fixed Assets and Depreciation

At June 30, 2011 and 2010, land and land improvements consisted of:

|                           | 2011          | 2010            |
|---------------------------|---------------|-----------------|
| Type of Asset:            |               |                 |
| Land                      | \$ 330        | \$ 2,682        |
| Land improvements         | 208           | 208             |
| <b>Total Fixed Assets</b> | <b>\$ 538</b> | <b>\$ 2,890</b> |



Assets acquired for Foundation use with a useful life greater than one year and a value of \$5,000 or more are capitalized. Annual depreciation for land improvements is calculated on a straight-line basis, beginning in the month of acquisition based on a useful life of 30 years. Depreciation expense for the years ended June 30, 2011 and 2010 was \$7,000 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.

## 7. 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.

### b. Notes Payable

At June 30, 2010, the Foundation had a \$2.1 million open-end mortgage note payable collateralized by a first mortgage on certain land and land improvements owned by the Foundation. During the year ended June 30, 2011, the property securing the mortgage was sold to the University and the mortgage and related interest was paid in full.

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 percent due from August 1, 2009 through August 1, 2014. Accrued interest and principal (in thousands) to be paid over the term of the loan are as follows:

| <u>Year Ended</u> | <u>Principal</u> |
|-------------------|------------------|
| 2012              | 722              |
| 2013              | 754              |
| 2014              | 787              |
| 2015              | 822              |
|                   | <u>\$ 3,085</u>  |

Costs of \$33,700 associated with obtaining the loan are being amortized over the 73-month term of the note.

### c. 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 contribution revenue.

At June 30, 2011 and 2010, the Foundation recognized contributions based on the following unconditional promises to give (in thousands):

|   | <u>2011</u>      | <u>2010</u>      |
|---|------------------|------------------|
| <b>Purpose:</b>   |                  |                  |
| Endowment giving  | \$ 5,745         | \$ 8,609         |
| Capital purposes  | 3,809            | 9,358            |
| Operating programs                                      | 1,167            | 1,321            |
| <b>Gross unconditional promises</b>                     | <u>10,721</u>    | <u>19,288</u>    |
| Less: Discount and allowance for uncollectable accounts | (746)            | (1,274)          |
| <b>Net unconditional promises to give</b>               | <u>\$ 9,975</u>  | <u>\$ 18,014</u> |
| <b>Amounts due in:</b>                                  |                  |                  |
| Less than one year                                      | \$ 4,388         | \$ 8,710         |
| One to five years                                       | 6,333            | 10,578           |
| <b>Total</b>  | <u>\$ 10,721</u> | <u>\$ 19,288</u> |

The discount rates used to calculate the present value of contributions receivable at June 30, 2011 and 2010 vary from 2.8 percent to 5.6 percent depending on when the promise was made.

The Foundation has pledged \$3.236 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, 2011 and 2010, the Foundation had received conditional promises to give of approximately \$1.2 million, consisting of the face value of life insurance policies, net of accumulated cash surrender value.

#### d. Investments

The market values (in thousands) of the Foundation's investments as of June 30, 2011 and 2010 are categorized by type below:

|  | <u>2011</u>      | <u>2010</u>      |
|--|------------------|------------------|
| Type of Investment:  |                  |                  |
| Short-term money market funds                                    | \$ 7             | \$ 12            |
| Cash and cash surrender value                                    | 418              | 411              |
| Certificates of deposit  | 3,000            | -                |
| Fixed income funds:  |                  |                  |
| Core plus  | 10,617           | 9,753            |
| Global   | 2,782            | 1,511            |
| Equity funds:  |                  |                  |
| Large/Mid Cap - broad  | 10,944           | 7,173            |
| Large/Mid Cap - growth   | 6,462            | 5,194            |
| Large/Mid Cap - value  | 6,209            | 5,193            |
| Small Cap - growth   | 1,512            | 1,053            |
| Small Cap - value  | 1,625            | 1,160            |
| International - core   | 6,871            | 5,325            |
| International small cap - value                                  | 383              | 281              |
| Emerging markets - value   | 4,774            | 2,934            |
| Quoted prices in active market<br>for identical assets (level 1) | <u>55,604</u>    | <u>40,000</u>    |
| Hedge funds:   |                  |                  |
| Directional  | 4,478            | 4,310            |
| Directional fund of funds  | 4,595            | 4,222            |
| Remainder interest in real<br>property and other                 | <u>389</u>       | <u>382</u>       |
| Significant other observable<br>inputs (level 2)                 | <u>9,462</u>     | <u>8,914</u>     |
| Private equity:  |                  |                  |
| Buyout   | 1,747            | 1,322            |
| Distressed   | 917              | 826              |
| Diversified  | 582              | 305              |
| Mezzanine  | 344              | -                |
| Venture capital  | 492              | 342              |
| Natural resources:   |                  |                  |
| Diversified  | 1,019            | 593              |
| Energy   | 1,762            | 1,278            |
| Private real estate:   |                  |                  |
| Secondary  | 651              | 551              |
| Value added  | <u>957</u>       | <u>798</u>       |
| Significant unobservable<br>inputs (level 3)                     | <u>8,471</u>     | <u>6,015</u>     |
| Total investments  | <u>\$ 73,537</u> | <u>\$ 54,929</u> |

Investment income and gains (in thousands) for the years ended June 30, 2011 and 2010 consist of:

|                                | <u>2011</u>            | <u>2010</u>            |
|--------------------------------|------------------------|------------------------|
| Interest                       | \$ 64                  | \$ 83                  |
| Dividends                      | 1,342                  | 804                    |
| Fees                           | (104)                  | (121)                  |
| <b>Total Investment Income</b> | <u><b>\$ 1,302</b></u> | <u><b>\$ 766</b></u>   |
| Realized gains (losses)        | 258                    | 1,211                  |
| Unrealized gains (losses)      | 8,408                  | 3,216                  |
| <b>Total Investment Income</b> | <u><b>\$ 8,666</b></u> | <u><b>\$ 4,427</b></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, 2011 and 2010 were \$10,529,000 and \$8,925,000 respectively. See note 13h for further explanation of the trust funds.

At June 30, 2011 and 2010, the Foundation had committed \$19.2 and \$15.3 million, respectively, of its endowment investment resources to alternative investments, of which \$10.3 and \$7.4 million, respectively, had not yet been called by the investment managers. Alternative investments for which commitments have been made consist of private equity, natural resources and private real estate.

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

#### **e. 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 measured at fair value:

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy.

Level 1 investments include short term money market funds, cash and cash surrender value, certificates of deposit, fixed income funds and equity funds.

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

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

There have been no changes in the methodologies used at June 30, 2011.

The following assets were measured at fair value as of June 30, 2011 (in thousands):

|                | <u>2011</u> | <u>2010</u> |
|----------------|-------------|-------------|
| <b>Level 1</b> |             |             |
| Investments    | \$ 55,604   | \$ 40,000   |
| <b>Level 2</b> |             |             |
| Investments    | \$ 9,462    | \$ 8,914    |
| <b>Level 3</b> |             |             |
| Investments    | \$ 8,471    | \$ 6,015    |

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

|   | <u>Private<br/>Equity</u> | <u>Natural<br/>Resources</u> | <u>Private<br/>Real Estate</u> |
|---|---------------------------|------------------------------|--------------------------------|
| <b>Investments:</b>                     |                           |                              |                                |
| <b>Beginning balance, June 30, 2009</b> | <b>\$ 1,898</b>           | <b>\$ 966</b>                | <b>\$ 1,548</b>                |
| Additional investment                   | 662                       | 800                          | 87                             |
| Capital distributions                   | (30)                      | (42)                         | (23)                           |
| Fees                                    | -                         | (6)                          | -                              |
| Interest income                         | 6                         | 7                            | -                              |
| Realized losses                         | (102)                     | (58)                         | (8)                            |
| Unrealized gains (losses)               | 361                       | 204                          | (255)                          |
| <b>Balance, June 30, 2010</b>           | <b>2,795</b>              | <b>1,871</b>                 | <b>1,349</b>                   |
| Additional investment                   | 1,125                     | 631                          | 83                             |
| Capital distributions                   | (349)                     | (169)                        | -                              |
| Fees                                    | -                         | (13)                         | -                              |
| Realized gains (losses)                 | 19                        | 122                          | (13)                           |
| Unrealized gains                        | 492                       | 339                          | 189                            |
| <b>Ending balance, June 30, 2011</b>    | <b>\$ 4,082</b>           | <b>2,781</b>                 | <b>1,608</b>                   |

#### f. 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 (quasi-endowments). As required by generally accepted accounting principles, 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. Prior to the effective date of KUPMIFA, the Foundation followed the Kentucky Management of Institutional Funds Act (KUMIFA), which required the historical dollar amount of a donor-restricted endowment fund to be preserved.

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, (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, Foundation endowment spending policy allows for prudent spending of future endowment earnings for accounts without accumulated earnings based upon consideration of the following factors, if applicable:

- Duration and preservation of the endowment fund
- Purpose of the institution and the endowment fund
- General economic conditions
- Possible effect of inflation or deflation
- Expected total return on investments
- Other resources of the institution
- Investment policy



The approved annual endowment spending rate is reduced by a proportion of 5 percent for each 1 percent the affected endowment is below the value of original and subsequent gifts to the permanent endowment (i.e. principal).

*Return Objectives and Risk Parameters.* The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to return a rate equal to the Consumer Price Index plus 5 percent, net of investment fees. Actual returns in any given year may vary from this amount.

*Strategies Employed for Achieving Objectives.* To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that includes fixed income investments as well as publicly traded equity-based investments and various alternative investment strategies to achieve its long-term return objectives within prudent risk parameters.

*Spending Policy and How the Objectives Relate to Spending Policy.* The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds, for grant making and administration. The current spending policy is to distribute an amount at least equal to 3-5 percent of a moving sixteen quarter average of the fair value of the endowment funds. Accordingly, over the long term, the Foundation expects its current spending policy to allow its endowment assets to grow at an average rate of 3 percent 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 of June 30, 2011 is as follows:

|                                  | Unrestricted    | Temporarily Restricted | Permanently Restricted | Total Net Endowment Assets |
|----------------------------------|-----------------|------------------------|------------------------|----------------------------|
| Donor restricted endowment funds | \$ -            | \$ 19,309              | \$ 33,771              | \$ 53,080                  |
| Quasi-endowment funds            | 1,775           | 4,477                  | -                      | 6,252                      |
| Total endowment funds            | <u>\$ 1,775</u> | <u>\$ 23,786</u>       | <u>\$ 33,771</u>       | <u>\$ 59,332</u>           |

Changes in endowment net assets (in thousands) as of June 30, 2011 are as follows:

|   | Unrestricted    | Temporarily Restricted | Permanently Restricted | Total Net Endowment Assets |
|---|-----------------|------------------------|------------------------|----------------------------|
| Endowment net assets, beginning of year   | \$ 1,355        | \$ 15,656              | \$ 30,555              | \$ 47,566                  |
| Contributions collected                   | -               | 40                     | 3,216                  | 3,256                      |
| Investment income                         | 31              | 1,252                  | -                      | 1,283                      |
| Net investment gain                       | 209             | 8,462                  | -                      | 8,671                      |
| Amounts appropriated for expenditure      | (3)             | (1,441)                | -                      | (1,444)                    |
| Loss recovery transferred to unrestricted | 183             | (183)                  | -                      | -                          |
| Endowment net assets, end of year         | <u>\$ 1,775</u> | <u>\$ 23,786</u>       | <u>\$ 33,771</u>       | <u>\$ 59,332</u>           |

Endowment net asset composition by type of endowment (in thousands) as of 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                  |
| Quasi-endowment funds            | 1,355           | 3,839                  | -                      | 5,194                      |
| Total endowment funds            | <u>\$ 1,355</u> | <u>\$ 15,656</u>       | <u>\$ 30,555</u>       | <u>\$ 47,566</u>           |

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

|   | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total Net<br/>Endowment<br/>Assets</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---|
| 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 | <u>524</u>          | <u>(524)</u>                      | <u>-</u>                          | <u>-</u>                                  |
| Endowment net assets, end of year         | <u>\$ 1,355</u>     | <u>\$ 15,656</u>                  | <u>\$ 30,555</u>                  | <u>\$ 47,566</u>                          |

*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. There were no such deficiencies at June 30, 2011. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$183,000 of June 30, 2010. 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.

**g. 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.

**h. 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.

**i. Subsequent Events**

The date to which events occurring after June 30, 2011 have been evaluated for possible adjustment to the financial statements or disclosure is September 9, 2011, which is the date the financial statements were available to be issued.



**Northern Kentucky University and Affiliate**  
A Component Unit of the Commonwealth of Kentucky

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

| Federal Grant/Program Title                                | Federal<br>CFDA | Pass-Through Entity Identifying<br>Number | Federal<br>Expenditures |
|--|-----------------|---|-------------------------|
| <b>U. S. DEPARTMENT OF EDUCATION</b>                       |                 |   |                         |
| <b>Direct Programs -</b>                                   |                 |   |                         |
| <b>Student Financial Aid Cluster</b>                       |                 |   |                         |
| Federal Supplemental Educational Opportunity Grant Program | 84.007          |   | \$ 339,617              |
| Federal Work Study Program                                 | 84.033          |   | 425,931                 |
| Federal Pell Grant Program                                 | 84.063          |   | 18,740,363              |
| Academic Competitiveness Grant                             | 84.375          |   | 769,674                 |
| National Science and Mathematic Access to Retain Talent    | 84.376          |   | 381,469                 |
| Teach Grant  | 84.379          |   | 22,000                  |
| Federal Direct Loan Program                                | 84.268          |   | 87,829,964              |
| Total Student Financial Aid Cluster                        |                 |   | 108,509,018             |
| <b>TRIO Cluster</b>  |                 |   |                         |
| Student Support Services                                   | 84.042A         |   | 357,048                 |
| Educational Talent Search                                  | 84.044A         |   | 362,931                 |
| Upward Bound   | 84.047A         |   | 353,252                 |
| Total TRIO Cluster   |                 |   | 1,073,231               |
| CEBRB Series A   | 84.142          |   | 90,832                  |
| CEBRB Series B   | 84.142          |   | 163,314                 |
| Earmark - Health Informatics Equipment                     | 84.116Z         |   | 193,714                 |
| Earmark - Data/Media Infrastructure Equipment              | 84.116Z         |   | 1,235,746               |
|  |                 |   | 1,683,606               |
| <b>Pass-Through Programs -</b>                             |                 |   |                         |
| <b>Kentucky Office of the Governor</b>                     |                 |   |                         |
| ARRA State Fiscal Stabilization Funds (SFSF)               | 84.394          |   | 2,987,900               |
| <b>Kentucky Office of Career &amp; Technical Education</b> |                 |   |                         |
| Perkins  | 84.048          | PO2 531 1000006169 1                      | 70,302                  |
| Perkins Educator Professional Development                  | 84.048          | PON2 531 1100000005 1                     | 2,659                   |
| Field Based New Teacher Preparation                        | 84.048          | PON 531 1100000023 1                      | 14,163                  |
|  |                 |   | 87,124                  |
| <b>Kentucky Education Professional Standards Board</b>     |                 |   |                         |
| CTE KTIP 2011  | 84.048          | PO2 183 1100001990 1                      | 2,872                   |
| <b>Kentucky Department of Education</b>                    |                 |   |                         |
| KY Traineeship in Special Education                        | 84.027A         | PO2 540 0900024717 1                      | 375,823                 |
| KY Traineeship in Special Education                        | 84.027A         | PON2 540 1000004022 1                     | 625,458                 |
| Transition to Teaching                                     | 84.350B         | PO2 540 0800016971 1                      | 144,989                 |
| Reading First Coach  | 84.357A         | PO2 540 0900023729 1                      | 14,812                  |
| Northern Kentucky Math Specialist                          | 84.366B         | PO2 540 10000001203 1                     | 114,589                 |
| Northern Kentucky Math Specialist Yr2                      | 84.366B         | PON2 540 1100000842 1                     | 57,433                  |
| Kentucky Non-Public School Commission                      | 84.367A         | PON2 540 1100000364 2                     | 60,403                  |
| Catholic Diocese of Kentucky                               | 84.367A         | PON2 540 1000003528 2                     | 39,620                  |
|  |                 |   | 1,433,127               |
| <b>Newport Independent Schools</b>                         |                 |   |                         |
| Alcohol Abuse Reduction                                    | 84.184A         | Q184A080266                               | 41,873                  |
| <b>KY Adult Ed. Council on Postsecondary Education</b>     |                 |   |                         |
| Increasing Math Achievement Among Adult Students           | 84.002          | PO2 415 1100000253 1                      | 193,456                 |

**Northern Kentucky University and Affiliate**  
A Component Unit of the Commonwealth of Kentucky

Schedule of Expenditures of Federal Awards, continued

Year ended June 30, 2011

| Federal Grant/Program Title                      | Federal<br>CFDA | Pass-Through Entity Identifying<br>Number | Federal<br>Expenditures |
|--|-----------------|---|-------------------------|
| Kentucky Council on Postsecondary Education      |                 |   |                         |
| Kentucky College Coaches                         | 84.3345         | PO2 415 1100002138                        | 16,495                  |
| Certifying World Language Teachers in KY         | 84.367B         | PO2 415 1000003146 1                      | 81,781                  |
| Certifying World Language Teachers in KY         | 84.367B         | PO2 415 1100002592                        | 42,166                  |
|  |                 |   | <u>140,442</u>          |
| University of Kentucky Research Foundation       |                 |   |                         |
| Literacy+Numeracy= Exponential Learning          | 84.367          | UKRF3049023893-10-434                     | 17,579                  |
| The Supported Higher Education                   |                 |   |                         |
| Project of Kentucky                              | 84.407A         | UKRF 3048107720-11-165                    | 19,186                  |
|  |                 |   | <u>36,765</u>           |
| National Writing Project Corporation             |                 |   |                         |
| National Writing Project                         | 84.928A         | 04-KY10#4,#5,#6,#7                        | 28,920                  |
|  |                 |   | <u>28,920</u>           |
| <b>TOTAL U. S. DEPARTMENT OF EDUCATION</b>       |                 |   | <b>116,218,334</b>      |
| <b>RESEARCH AND DEVELOPMENT CLUSTER</b>          |                 |   |                         |
| <b>Direct Programs -</b>                         |                 |   |                         |
| US National Aeronautics and Space Administration |                 |   |                         |
| Approaching the Cosmic Ray Knee                  | 43.001          |   | 30,687                  |
| US National Science Foundation                   |                 |   |                         |
| REU Site in Mathematics                          | 47.049          |   | 43,594                  |
| Acquisition of Geophysical Instrumentation       | 47.050          |   | 55,883                  |
| CAREER: Metabolic & Mutualistic Activities       | 47.074          |   | 113,342                 |
| ARRA - RUI: New Supramolecular Moieties          | 47.082          |   | 35,236                  |
| ARRA - MRI-Acquisition Gas Chromatograph         | 47.082          |   | 47,130                  |
|  |                 |   | <u>295,185</u>          |
| US National Institute of Health                  |                 |   |                         |
| NIH AREA - Improving Memory                      | 93.242          |   | 27,250                  |
| NIH AREA-Effects of Antipsychotic Treatment      | 93.242          |   | 14,292                  |
| Acute Effects of Alcohol on Behavioral Control   | 93.273          |   | 72,497                  |
| Effect of Soy Isoflavone on Cholesterol          | 93.390          |   | 34,874                  |
| ARRA - Hydroquinone Derivatives                  | 93.701          |   | 84,965                  |
| NIH AREA Behavioral & Neuroanatomical            |                 |   |                         |
| Characterization                                 | 93.853          |   | 60,309                  |
| NIH AREA Nanotechnology                          | 93.853          |   | 55,551                  |
| NIH AREA Microbial Metabolic Mutualism           | 93.859          |   | 68,040                  |
|  |                 |   | <u>417,778</u>          |
| US Fish and Wildlife Service                     |                 |   |                         |
| Development of Decontamination Strategy          | 15.650          |   | 97,038                  |
| Natural History of Geomyces in Caves             | 15.657          |   | 29,286                  |
|  |                 |   | <u>126,324</u>          |
| <b>Pass-Through Programs -</b>                   |                 |   |                         |
| KY Cabinet for Health & Family Services          |                 |   |                         |
| Assessment of KY Health Information              |                 |   |                         |
| Technology - ARRA                                | 93.719          | PO2 721 1100004568                        | 2,773                   |
| Assessment of KY Health Information              |                 |   |                         |
| Technology                                       | 93.793          | PO2 746 1000005778 1                      | 97,423                  |
|  |                 |   | <u>100,196</u>          |
| University of Kentucky Research Foundation       |                 |   |                         |
| Improving Water Quality                          | 15.805          | UKRF3046989200-10-73                      | 2,400                   |
| Bush Honeysuckle Induced Aquatic Hypoxia         | 15.805          | UKRF 304698200-10-374                     | 3,500                   |
|  |                 |   | <u>5,900</u>            |
| University of Louisville Research Foundation     |                 |   |                         |
| KBRIN 2010                                       | 93.389          | OGMB090109A1                              | 379,270                 |
| KBRIN 2011                                       | 93.389          | OGMB090109B1-NKU                          | 69,929                  |
|  |                 |   | <u>449,199</u>          |
| Morehead State University                        |                 |   |                         |
| KBRIN 2010                                       | 93.389          | 2009-10-121                               | 44,882                  |
| KBRIN 2011                                       | 93.389          | OGMB090109B1-MSU-NKU                      | 18,233                  |
|  |                 |   | <u>63,115</u>           |



**Northern Kentucky University and Affiliate**  
A Component Unit of the Commonwealth of Kentucky

Schedule of Expenditures of Federal Awards, continued

Year ended June 30, 2011

| Federal Grant/Program Title                                | Federal<br>CFDA | Pass-Through Entity Identifying<br>Number | Federal<br>Expenditures |
|--|-----------------|---|-------------------------|
| Pennsylvania State University                              |                 |   |                         |
| Collaborative Research: Environments                       | 47.050          | 4206-NKURF-NSF-7909                       | 21,746                  |
| CREAM 3: Cosmic Ray  | 43.001          | 3589-NKURF-NASA-C16G                      | 34,486                  |
| CREST: Cosmic Ray  | 43.001          | 3588-NKURF-NASA-C42G                      | 24,873                  |
|  |                 |   | 81,105                  |
| Western Kentucky University Research Foundation            |                 |   |                         |
| KY Space Grant Consortium                                  | 43.UNK          | WKURF 596854-10-005                       | 2,465                   |
| Wright State University                                    |                 |   |                         |
| Coupled C/N/ and S Cycling in Coastal Plains               | 47.074          | DEB-1021039                               | 9,632                   |
|  |                 |   | 9,632                   |
| <b>TOTAL RESEARCH AND DEVELOPMENT CLUSTER</b>              |                 |   | 1,581,586               |
| <b>U. S. DEPARTMENT OF AGRICULTURE</b>                     |                 |   |                         |
| <b>Pass-Through Programs -</b>                             |                 |   |                         |
| Kentucky Division of Forestry                              |                 |   |                         |
| Urban Forestry Internships                                 | 10.664          | 09-DG-11083121-001                        | 5,338                   |
|  |                 |   | 5,338                   |
| <b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>                |                 |   | 5,338                   |
| <b>U. S. DEPARTMENT OF TRANSPORTATION</b>                  |                 |   |                         |
| <b>Direct Programs -</b>                                   |                 |   |                         |
| Transportation and Logistics                               | 20.514          |   | 222,832                 |
| <b>Pass-Through Programs -</b>                             |                 |   |                         |
| Kentucky Transportation Cabinet                            |                 |   |                         |
| Click it or Ticket Enforcement                             | 20.602          | K2-11-57                                  | 1,000                   |
|  |                 |   | 1,000                   |
| <b>TOTAL U.S. DEPARTMENT OF TRANSPORTATION</b>             |                 |   | 223,832                 |
| <b>INTERNAL REVENUE SERVICE</b>                            |                 |   |                         |
| <b>Direct Programs -</b>                                   |                 |   |                         |
| Low-Income Tax Clinic 2010                                 | 21.008          |   | 28,270                  |
| Low-Income Tax Clinic 2011                                 | 21.008          |   | 17,883                  |
|  |                 |   | 46,153                  |
| <b>TOTAL INTERNAL REVENUE SERVICE</b>                      |                 |   | 46,153                  |
| <b>NATIONAL AERONAUTICS AND SPACE ADMINISTRATION</b>       |                 |   |                         |
| <b>Direct Programs -</b>                                   |                 |   |                         |
| Sky Dome: Strengthening Science Achievement                | 43.UNK          |   | 188,274                 |
| NASA-Taking Astronomy to the Schools                       | 43.001          |   | 142,287                 |
|  |                 |   | 330,561                 |
| <b>Pass-Through Programs -</b>                             |                 |   |                         |
| National Space Grant Foundation                            |                 |   |                         |
| Energy Education   | 43.UNK          | 2009-AESP03                               | 26,478                  |
|  |                 |   | 26,478                  |
| <b>TOTAL NATIONAL AERONAUTICS AND SPACE ADMINISTRATION</b> |                 |   | 357,039                 |
| <b>NATIONAL ENDOWMENT FOR THE ARTS</b>                     |                 |   |                         |
| <b>Direct Programs -</b>                                   |                 |   |                         |
| African Art Institute                                      | 45.024          |   | 18,340                  |
|  |                 |   | 18,340                  |
| <b>TOTAL NATIONAL ENDOWMENT FOR THE ARTS</b>               |                 |   | 18,340                  |
| <b>NATIONAL ENDOWMENT FOR THE HUMANITIES</b>               |                 |   |                         |
| <b>Pass-Through Programs -</b>                             |                 |   |                         |
| Institute of Museum and Library Services                   |                 |   |                         |
| Bridging the Gap   | 45.313          | RE-03-09-0042-09                          | 409,043                 |
|  |                 |   | 409,043                 |
| <b>TOTAL NATIONAL ENDOWMENT FOR HUMANITIES</b>             |                 |   | 409,043                 |

**Northern Kentucky University and Affiliate**  
A Component Unit of the Commonwealth of Kentucky

Schedule of Expenditures of Federal Awards, continued

Year ended June 30, 2011

| Federal Grant/Program Title                                   | Federal<br>CFDA | Pass-Through Entity Identifying<br>Number | Federal<br>Expenditures |
|---|-----------------|---|-------------------------|
| <b>NATIONAL SCIENCE FOUNDATION</b>                            |                 |   |                         |
| <b>Direct Programs -</b>                                      |                 |   |                         |
| CPATH 1: Informatics  | 47.070          |   | 93,609                  |
| Project SOAR  | 47.076          |   | 141,797                 |
| FORCE: Focus on Occupations                                   | 47.076          |   | 131,212                 |
| ARRA-PRIME  | 47.082          |   | 111,616                 |
|   |                 |   | <hr/>                   |
| <b>TOTAL NATIONAL SCIENCE FOUNDATION</b>                      |                 |   | 478,234                 |
| <b>SMALL BUSINESS ADMINISTRATION</b>                          |                 |   |                         |
| <b>Pass-Through Programs -</b>                                |                 |   |                         |
| University of Kentucky Research Foundation                    |                 |   |                         |
| Small Business Development                                    | 59.037          | UKRF 3048106648-10-192                    | 18,391                  |
| Small Business Development                                    | 59.037          | UKRF 3048107699-11-223                    | 55,442                  |
|   |                 |   | <hr/>                   |
| <b>TOTAL SMALL BUSINESS ADMINISTRATION</b>                    |                 |   | 73,833                  |
| <b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>           |                 |   |                         |
| <b>Direct Programs-</b>                                       |                 |   |                         |
| Advanced Nursing Education Program                            | 93.247          |   | 197,453                 |
| Advanced Education Nursing Traineeship                        | 93.358          |   | 51,185                  |
| ARRA - Providing Nursing Education                            | 93.411          |   | 288,049                 |
|   |                 |   | <hr/>                   |
|   |                 |   | 536,687                 |
| <b>Pass Through Programs-</b>                                 |                 |   |                         |
| Eastern Kentucky University                                   |                 |   |                         |
| University Training Consortium                                | 93.658          | 452129-11-173                             | 93,552                  |
| New Hope Center   |                 |   |                         |
| Community-Based Abstinence Program                            | 93.010          | NHC2010-A1                                | 21,228                  |
| KY Cabinet for Health & Family Services                       |                 |   |                         |
| K-TAP   | 93.558          | PO2 736 1000003629 1                      | 119,688                 |
|   |                 |   | <hr/>                   |
|   |                 |   | 234,468                 |
|   |                 |   | <hr/>                   |
| <b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>     |                 |   | 771,155                 |
| <b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>                   |                 |   |                         |
| <b>Pass-Through Programs -</b>                                |                 |   |                         |
| Kentucky Office of Homeland Security                          |                 |   |                         |
| NKU Police Protective Equipment                               | 97.067          | PO2 094 1100002490 1                      | 5,392                   |
|   |                 |   | <hr/>                   |
| <b>TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY</b>             |                 |   | 5,392                   |
| <b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>       |                 |   |                         |
| <b>Pass-Through Programs -</b>                                |                 |   |                         |
| Housing Authority of Covington                                |                 |   |                         |
| HAC/NACU Partnership  | 14.870          | HUD/ROSS                                  | 3,500                   |
|   |                 |   | <hr/>                   |
| <b>TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b> |                 |   | 3,500                   |
| <b>U. S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</b>   |                 |   |                         |
| <b>Direct Programs -</b>                                      |                 |   |                         |
| AmeriCorps VISTA 2010   | 94.013          |   | 6,190                   |
| AmeriCorps VISTA 2011   | 94.013          |   | 4,208                   |
|   |                 |   | <hr/>                   |
|   |                 |   | 10,398                  |
| <b>Pass-Through Programs -</b>                                |                 |   |                         |
| Kentucky Cabinet for Health & Family Services                 |                 |   |                         |
| Kentucky Service Corps  | 94.006          | PON2 730 1100000390 1                     | 40,042                  |
| Kentucky College Coaches                                      | 94.006          | PON2 730 1100000395                       | 599,731                 |
| Ohio Campus Compact   |                 |   |                         |
| OH CC Pay It Forward  | 94.005          | Contract                                  | 32,913                  |
|   |                 |   | <hr/>                   |
|   |                 |   | 672,686                 |
|   |                 |   | <hr/>                   |
| <b>TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</b>   |                 |   | 683,084                 |



Northern Kentucky University and Affiliate  
A Component Unit of the Commonwealth of Kentucky

Schedule of Expenditures of Federal Awards, continued

Year ended June 30, 2011

| <u>Federal Grant/Program Title</u>         | <u>Federal<br/>CFDA</u> | <u>Pass-Through Entity Identifying<br/>Number</u> | <u>Federal<br/>Expenditures</u>    |
|--|-------------------------|---|------------------------------------|
| U. S. DEPARTMENT OF STATE                  |                         |   |                                    |
| Pass-Through Programs -                    |                         |   |                                    |
| International Research and Exchanges Board |                         |   |                                    |
| International Leaders in Education Program | 43.UNK                  | FY10-ILEP-NKU-01                                  | <u>151,304</u>                     |
| TOTAL U. S. DEPARTMENT OF STATE            |                         |   | <u>151,304</u>                     |
| <br>TOTAL EXPENDITURES OF FEDERAL AWARDS   |                         |   | <br><u>\$          121,026,167</u> |

# NORTHERN KENTUCKY UNIVERSITY AND AFFILIATE

A Component Unit of the Commonwealth of Kentucky

## Notes to Schedule of Expenditures of Federal Awards

### 1. Basis of Accounting

This schedule includes the federal awards activity of Northern Kentucky University and its affiliated corporation, the Northern Kentucky University Research Foundation, Inc. and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Catalog of Federal Domestic Assistance (CFDA) numbers are presented for those programs for which such numbers were available. All programs are presented by federal department.

### 2. Federal Student Loan Program

Northern Kentucky University disbursed funds under the Federal Direct Loan Programs (including Stafford Loans, Supplemental Loans for Students, and Parents' Loans for Undergraduate Students) during the year.

Northern Kentucky University administers the Federal Perkins Loan Program (CFDA Number 84.038). The outstanding loan balance at June 30, 2011 was \$2,646,384.

### 3. Subrecipients

Of the federal expenditures presented in the schedule, the University provided federal awards to the following subrecipients:

| <u>Grant</u>                              | <u>Subrecipient</u>                          | <u>Amount</u> |
|---|--|---------------|
| NASA – Taking Astronomy to the Schools    | University of Louisville Research Foundation | \$128,922     |
| Bridging the Gap                          | Bluegrass Community & Technical College      | 105,250       |
| REU Site in Mathematics                   | University of Cincinnati                     | 15,220        |
| Transition to Teaching                    | Kentucky Education Association               | 93,834        |
| Development of a Decontamination Strategy | University of Georgia Research Foundation    | 39,362        |



DEAN || DORTON || ALLEN || FORD<sub>PLLC</sub>**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Board of Regents  
Northern Kentucky University

We have audited the financial statements of Northern Kentucky University and Affiliate (the University) as of and for the year ended June 30, 2011 and have issued our report thereon dated September 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of

financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Regents, audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

September 30, 2011  
Lexington, Kentucky

Deane Gordon Allen Ford, PLLC



DEAN || DORTON || ALLEN || FORD<sup>PLLC</sup>

## Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Regents  
Northern Kentucky University

### Compliance

We have audited Northern Kentucky University and Affiliate (the "University") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements referred to above is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program identified in the accompanying schedule of findings and questioned costs occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the compliance requirements referred to above that are applicable to each of its major federal programs identified in the accompanying schedule of findings and questioned costs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 11-01.

### Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with

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OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We noted certain other matters that we have reported to management in a separate letter dated September 30, 2011.

This report is intended solely for the information and use of the Board of Regents, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink, reading "Dean Norton Allen Ford, PUC". The signature is written in a cursive, flowing style.

September 30, 2011  
Lexington, Kentucky



**NORTHERN KENTUCKY UNIVERSITY AND AFFILIATE**  
A Component Unit of the Commonwealth of Kentucky

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

**Section I – Summary of Auditors’ Results (under Section .505(d)(1) of OMB Circular A-133):**

**Financial Statements:**

- a. The type of report issued on the financial statements: **Unqualified Opinion**
- b. Internal control over financial reporting:  
Material weaknesses: **No**  
Significant deficiencies identified that are not considered to be material weaknesses: **No**
- c. Non-compliance which is material to the financial statements: **No**

**Federal Award:**

- d. Internal control over major programs:  
Material weaknesses: **No**  
Significant deficiencies identified that are not considered to be material weaknesses: **No**
- e. The type of report issued on compliance for major programs: **Unqualified Opinion**
- f. Any audit findings which are required to be reported under Section .510(a) of OMB Circular A-133: **Yes**
- g. Major programs:  
Total Student Financial Aid (consisting of):
  - Federal Supplemental Educational Opportunity Grant Program, CFDA 84.007
  - Federal Work Study Program, CFDA 84.033
  - Federal Perkins Loan Program, CFDA 84.038
  - Federal Pell Grant Program, CFDA 84.063
  - Academic Competitiveness Grant 08-09, CFDA 84.375
  - National Science and Mathematics Access to Retain Talent Grant, CFDA 84.376
  - Teacher Education Assistance for College and Higher Education Grant, CFDA 84.379
  - Federal Direct Loan Program, CFDA 84.268
  - ARRA – State Fiscal Stabilization Funds, CFDA 84.394
- h. Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- i. Auditee qualified as a low-risk auditee: **Yes**

**NORTHERN KENTUCKY UNIVERSITY AND AFFILIATE**  
A Component Unit of the Commonwealth of Kentucky

Schedule of Findings and Questioned Costs, continued

Year Ended June 30, 2011

**Section II – Financial Statement Findings (under Section .505(d)(2) of OMB Circular A-133):**

Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:  
**None**

**Section III – Federal Award Findings and Questioned Costs (under Section .505(d)(3) of OMB Circular A-133):**

Findings and Questioned Costs relating to Federal Awards: **11-01**

**Finding 11-01:**

**Federal Program:** U.S. Department of Education  
Federal Direct Loan Program, CFDA 84.268

**Condition:**

During our testing of student status changes, we noted four students for which the National Student Loan Data System (NSLDS) was not notified of the student status change timely. Specifically, the graduation date for all four students was December 18, 2010, and the students were not reported as graduated to NSLDS until February 21, 2011.

**Criteria:**

Colleges must comply with the provisions of §685.309(b).

**Cause:**

The University's Registrar Office submitted the final fall graduation roster file to the National Student Clearinghouse (the Clearinghouse) initially on January 24, 2011. Due to a data error, the file was re-submitted to the Clearinghouse on February 10, 2011. The Clearinghouse reported the status changes to the NSLDS on February 21, 2011, which is 65 days past the graduation date.

**Effect:**

Student status changes were not reported within the required timeframe under federal regulations. The provisions of §685.309(b) were not followed and thus some students were not reported in loan repayment status in a timely manner.



# **NORTHERN KENTUCKY UNIVERSITY AND AFFILIATE**

A Component Unit of the Commonwealth of Kentucky

Schedule of Findings and Questioned Costs, continued

Year Ended June 30, 2011

## **Finding 11-01, continued:**

### **Recommendation:**

We recommend that the University communicate with the Registrar's office regarding the submission of roster files to ensure they have been reported in a timely manner and implement a procedure to ensure roster files are submitted to the Clearinghouse in order to allow adequate time for status changes to be submitted to the NSLDS.

### **Management Response:**

Northern Kentucky University will meet the administrative capability requirements outlined by the U.S. Department of Education when reporting student enrollment data. The Registrar's Office reports monthly to the National Clearinghouse which provides data to National Student Loan Data System (NSLDS) of changes in student's enrollment status to less than half-time, graduated, or withdrawn.

The University made a good faith effort when submitting a final fall graduation roster to the National Clearinghouse on January 24, 2011 which was within the required U.S. Department of Education reporting window. However, an error was experienced in the file submission process. The University took immediate action, worked toward a resolution and successfully resubmitted a file on February 10, 2011 which resulted in the submission being 5 days beyond the required reporting window. This was an isolated incident as historical data demonstrates that the University has met this federal reporting requirement.

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Summary of Prior Year Audit Findings

Year Ended June 30, 2011

**Finding 10-01:**

**Federal Program:** U.S. Department of Education  
Perkins Loan Program (CFDA No. 84.038)  
Federal Family Education Loan Program (CFDA No. 84.032)  
Federal Direct Loan Program (CFDA No. 84268)

**Condition:**

The University did not send out notifications to students receiving loan funds in the current year.

**Criteria:**

On November 1, 2007, the Department published regulations (34 CFR 668.165(a)(6)(i)) that condition the loan cancellation provisions on whether a school obtains affirmative (active) confirmation from a student that he or she wants a loan. Affirmative confirmation is a process under which a school obtains written confirmation of the types and amounts of FSA program loans that a student wants for an award year before the school credits the student's account with those loan funds.

According to 34 CFR 668.165(a), "a borrower must be given the opportunity to cancel the loan at or close to the time the funds are actually disbursed and the debt incurred. Therefore, the school must notify a student or parent in writing or electronically whenever the school credits the student's account with Stafford, PLUS or Perkins Loan program funds. The notification must include the anticipated date and amount of disbursement, the right of the student or parent borrower to cancel all or a portion of the loan, and the procedures and the time by which the student or parent borrower must notify the school that he or she wishes to cancel the loan or a portion of the loan." This notification of crediting a student's account with loan funds must be sent no earlier than 30 days before and no later than 30 days after crediting the student's account if the school obtains active confirmation or no earlier than 30 days before and no later than 7 days after crediting the student's account if the school does not obtain active confirmation.

**Cause:**

The University converted to a new system in the current year for processing and managing student financial aid. During the year, the proper system requirements pertaining to these notifications were not in place within the new system.

**Effect:**

The University is not in compliance with the federal regulations concerning required notification which could affect future authorized funding.



**NORTHERN KENTUCKY UNIVERSITY AND AFFILIATE**  
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Summary of Prior Year Audit Findings, continued

Year Ended June 30, 2011

**Finding 10-01, Continued:**

**Recommendation:**

We recommend that the University review its current procedures and make the necessary changes to comply with the school's required notifications under 34 CFR 668.165(a) and ensure that these notices are sent in accordance with the regulations.

**Management Response:**

The University had been in compliance with 34 CFR 668.165(a) prior to the implementation of a new financial aid system and a new student accounting system in fiscal year 2010. The loan disbursement notification process was identified as a high priority item for the financial aid/student accounting systems implementation. Due to unanticipated delays, the required system enhancements were not in place initially, however, the required system processes were subsequently implemented.

**Current Year Status:**

No further violations related to this finding noted in the current year.

**Finding 10-02:**

**Federal Program:** U.S. Department of Education

Pell Grant Program (CFDA No. 84.063)

Supplemental Education Opportunity Grant Program (CFDA No. 84.007)

Federal Perkins Loan Program (CFDA No. 84.038)

Federal Family Education Loan Program (CFDA No. 84.032)

Federal Direct Loan Program (CFDA No. 84.268)

Academic Competitiveness Grant (CFDA No. 84.375)

National Science and Mathematics Access to Retain Talent Grant (CFDA No. 84.376)

Teach Grant (CFDA No. 84.379)

**Condition:**

During our testing of 60 students, we noted five instances where Title IV fund created credit balances on the students' accounts and the amounts were not refunded to the students within 14 days per the regulations.

**Criteria:**

Per 34 CFR 668.164(e), if Title IV disbursements to a student's account creates a credit balance, the institution must pay the credit balance directly to the student or parent as soon as possible, but no later than 14 days after

**NORTHERN KENTUCKY UNIVERSITY AND AFFILIATE**  
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Summary of Prior Year Audit Findings, continued

Year Ended June 30, 2011

**Finding 10-02, Continued:**

the date the balance occurred on the student's account, if the balance occurred after the first day of class, or the first day of classes, if the credit balance occurred on or before the first day of class.

**Cause:**

The University converted to a new system in the current year for processing and managing student financial aid. The cause of this finding appears to be an inability to identify those students with credit balances during the conversion to the new system.

**Effect:**

The University is not in compliance with the federal regulations concerning credit balances.

**Recommendation:**

We recommend that the University review its current procedures and make the necessary changes to comply with the regulations pertaining to credit balances.

**Management Response:**

During the initial go-live period for the new Student Accounting and Financial Aid systems, the refund review process took significantly longer than anticipated. Management reviewed the refund processes and determined that additional resources would be needed on a recurring basis. To address this resource need, a new student financial analyst position was created to oversee the refund process and to ensure that the University is complying with all FSA regulations governing student refunds.

**Current Year Status:**

No further violations related to this finding noted in the current year.

**Finding 10-03:**

**Federal Program:** U.S. Department of Education  
Federal Perkins Loan Program (CFDA No. 84.038)



**NORTHERN KENTUCKY UNIVERSITY AND AFFILIATE**  
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Summary of Prior Year Audit Findings, continued

Year Ended June 30, 2011

**Finding 10-03, Continued:**

**Condition:**

During the current year, upon review of the Fiscal Operations Report and Application to Participate for the 2009-2010 year, we noted that the Perkins cohort default rate was 23.38%.

**Criteria:**

According to 34 CFR 668.16(m)(1), a school is not administratively capable when the cohort default rate for the Perkins loans made to students for attendance at the institution exceeds 15%.

**Cause:**

While the University increased its efforts to manage and collect outstanding loans from student in the hopes of reducing the default rate, the continuation of declining economic conditions left the rate essentially unchanged.

**Effect:**

In addition to affecting a school's administrative capability and limiting the school's participation in the Federal Student Aid programs, a high default rate may make a school ineligible to participate in the Federal Pell Grant or Perkins program or cause the Department to limit, suspend, or terminate a school's participation in the Federal Student Aid Programs.

**Recommendation:**

The University should continue to make efforts toward collecting outstanding loan balances and working with students in an attempt to reduce the default rate during these economic times.

**Management Response:**

In accordance with last year's corrective action plan, the Director of Bursar Operations met personally with representative(s) from ECSI, General Revenue Corp. (collection agency) and Williams & Fudge (collection agency) to discuss how we could work collaboratively to reduce the existing cohort rate. The University also enhanced its internal collection efforts by sending students additional billings and past due notices. In addition, the University began placing these accounts with the agencies at 120 days overdue, rather than the previous 150 days. We continue monthly monitoring, reporting and reviewing of the cohort rate. We believe the continued high default rate is directly correlated to the continued poor economic conditions rather than the University's administrative capability.

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Summary of Prior Year Audit Findings, continued

Year Ended June 30, 2011

**Finding 10-03, Continued:**

**Current Year Status:**

No further violations related to this finding noted in the current year.

**Finding 10-04:**

**Federal Program:** U.S. Department of Education

Pell Grant Program (CFDA No. 84.063)

Supplemental Education Opportunity Grant Program (CFDA No. 84.007)

Federal Perkins Loan Program (CFDA No. 84.038)

Federal Family Education Loan Program (CFDA No. 84.032)

Federal Direct Loan Program (CFDA No. 84.268)

Academic Competitiveness Grant (CFDA No. 84.375)

National Science and Mathematics Access to Retain Talent Grant (CFDA No. 84.376)

Teach Grant (CFDA No. 84.379)

**Condition:**

During our testing of 60 students who withdrew from the University, we noted the following:

- The University did not include Sundays in the determination of the length of breaks resulting in an incorrect number of days in the period for both fall and spring semesters.
- The number of days attended by one student erroneously excluded six days for spring break instead of eight days.
- The University did not return funds within 45 days for three students.

**Criteria:**

The regulations concerning student financial aid and Return to Title IV calculations state that for students who withdraw from the University and receive some type of Title IV funds, the institution must prepare a determination of any funds to be returned to the federal agency. The regulations go on to state that a school must return the amount of Title IV funds for which it is responsible no later than 45 days after the date the University becomes aware of the student's separation.

**Cause:**

The cause of this finding appears to be the loss of the University's compliance officer early in the fiscal year along with the implementation of a new software system.



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Summary of Prior Year Audit Findings, continued

Year Ended June 30, 2011

**Finding 10-04, Continued:**

**Effect:**

The University did not comply with the federal regulations concerning return of funds in all instances.

**Recommendation:**

We recommend that the University review its current procedures and make the necessary changes to comply with the regulations pertaining to return of funds.

**Management Response:**

Northern Kentucky University will meet the requirements outlined by the U.S. Department of Education for treatment of Federal Aid funds when a student ceases to be enrolled prior to the end of a period of enrollment. The following corrective action will be taken by NKU to ensure compliance:

- The University will include Sundays in the determination of the length of breaks when appropriate
- The University will return funds within 45 days
- The University will review and update its Return of Funds procedures to ensure compliance.

**Current Year Status:**

No further violations related to this finding noted in the current year.

**Finding 10-05:**

**Federal Program:** U.S. Department of Education  
Federal Family Education Loan Program (CFDA No. 84.032)

**Condition:**

During our review of exit counseling, 60 student accounts were reviewed. Our review noted that 17 of the 60 were not notified of the exit counseling requirements within 30 days of withdrawal, graduation or dropping below half-time status.

**NORTHERN KENTUCKY UNIVERSITY AND AFFILIATE**  
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Summary of Prior Year Audit Findings, continued

Year Ended June 30, 2011

**Finding 10-05, Continued:**

**Criteria:**

According to 34 CFR 685.304(b), students must receive exit counseling prior to leaving the University, if known, and/or the required materials mailed to the last known address within 30 days the University becomes aware that a student is no longer attending the institution.

**Cause:**

The University converted to a new system in the current year for processing and managing student financial aid. The cause of this finding appears to be an inability to identify all students who required exit counseling during the conversion to the new system.

**Effect:**

The University is not in compliance with the federal regulations concerning exit counseling.

**Recommendation:**

We recommend that the University review its current procedures pertaining to exit counseling and make the necessary changes to ensure the appropriate materials are provided or sent to the borrowers in accordance with the federal regulations.

**Management Response:**

The Office of Student Financial Assistance along with IT had challenges in the in the 2009-10 year with the implementation of SIGMA and on the reliance of data from SAP to identify students in order to meet the exit counseling requirements. However, we have made this a priority and have moved forward with getting information to exited students in a timely manner.

**Current Year Status:**

No further violations related to this finding noted in the current year.