

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky

Annual Financial Report

June 30, 2022



2021-2022 FINANCIAL REPORT

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October 6, 2022

Northern Kentucky University Board of Regents
Highland Heights, KY 41099

Dear Members of the Board:

I am pleased to share the University's 2021-22 Annual Financial Report. The firm of FORVIS, LLP, has audited the attached statements and accompanying footnotes.

The University continued to be affected by the impact of the pandemic in 2022. The University was able to offset some of the operating revenues that were lost and also provide emergency aid to students that were most impacted by the pandemic through federal relief dollars granted to the University. The pandemic significantly impacted our predicted enrollment for the fall of 2021 resulting in an overall decrease in total enrollment of 1.3% however our accelerated online offerings grew dramatically. Graduate-level headcount represented 28.8% of our total enrollment.

After the University's decision to leave the KERS nonhazardous pension plan in 2021 the positive impact of the cessation can be seen on the 2022 financial statements. As a result of the cessation, the University reduced pension and OPEB related liabilities resulting in an increase in net position of \$218.6 million. The cessation has allowed the University to reduce annual pension contributions and reduce liabilities related to employee pensions.

The University is continuing its efforts to diversify revenue sources, contain costs, and redirect resources to core mission priorities. The continued growth in funds provided through endowments, gifts, and other sources of revenues will be essential as the University strives to meet the needs of our students. We are continuing to invest in activities that support the three pillars of student success — increased access, higher levels of completion, and advancing opportunities for career and community engagement for all students.

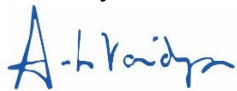
Over the past year, the campus community has taken additional steps toward being a more student-ready, regionally engaged university in alignment with the Success by Design strategic framework. Just a few weeks ago, NKU and its partners at Brighton Center and the City of Highland Heights cut the ribbon on Opportunity House, which is home to 16 affordable apartments for foster care alumni and other vulnerable young adults ages 18-to-24 who are pursuing a college degree or professional certificate at NKU or Gateway Community and Technical College. Removing the financial and social barriers to high-quality higher education is at the core of NKU's values of meeting students where they are, increasing access to education and year-to-year retention. The key to that retention is providing the necessary academic resources early in a student's college career, considering the adjustments students must make from high school to college. That is why NKU was proud to open the First-Year Student Success Hub in the spring, which is a one-stop shop for students working on their first 30 credit hours to receive academic advising with a coordinated-care approach. We also expanded the Young Scholars Academy, which allows high school students to take college courses while still in high school, from one school district to nine school districts throughout northern Kentucky.

The University continues to be recognized locally and globally for its efforts in the field of innovation and entrepreneurship. In July, NKU was named one of the most innovative universities in the world by World's Universities with Real Impact (WURI). The study ranked NKU No. 78 in the Global Top 100 Most Innovative Universities, putting the University as the 28th-highest university in the United States, higher than any university from the Greater Cincinnati region or the Commonwealth of Kentucky. In the category of entrepreneurial spirit, NKU ranks No. 17 globally, which is sixth in the United States. This is a direct result of the incredible work done by the University to instill an innovative mindset throughout campus, from entrepreneurship to health innovation. Also of note is that NKU is in the top tier of colleges and universities in the United States when it comes to economic mobility and the return on investment for low-income students and Pell Grant recipients, according to a new report by the public policy think tank, Third Way.

The Institute for Health Innovation continues to make strides in increasing healthcare access in our community. Late last year, the IHI received a grant from the United States Department of Agriculture to expand telemedicine and telehealth resources in rural, underserved northern Kentucky counties. The NKU Center for Integrative Natural Science and Mathematics (CINSAM) continues to do excellent work in preparing K-12 students in our community for a future in the areas of science, technology, engineering and mathematics (STEM), thanks to two grants received in the past year. The Martha Holden Jennings Foundation's generous gift allows CINSAM to expand its STEM2U after-school program, while a gift from the Duke Energy Foundation aids the effort to reacclimate teachers to STEM curriculum post-COVID pandemic.

Of course, more remains and NKU will continue to serve the ambitions of learners and the region, creating real and impactful success. I look forward to another successful year.

Sincerely,



Ashish K. Vaidya, Ph.D.
President

Independent Auditor's Report

Board of Regents
Northern Kentucky University
Highland Heights, Kentucky

Opinions

We have audited the financial statements of the business-type activities, the discretely presented component unit, and the fiduciary activities of Northern Kentucky University (University), collectively a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit, and the fiduciary activities of the University, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the University adopted Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension, and other postemployment benefit information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the letter from the president and listing of members of the Board of Regents and University's Administration but does not include the financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

FORVIS,LLP

Cincinnati, Ohio
October 6, 2022

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Management's Discussion and Analysis
Year Ended June 30, 2022

Northern Kentucky University's (the University) Management's Discussion and Analysis of its financial condition provides an overview of the financial performance of the University and its affiliated corporations for the year ended June 30, 2022 with selected comparative information for the year ended June 30, 2021. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and notes.

As a public comprehensive university located in a major metropolitan area, the University delivers innovative, student-centered education and engages in impactful scholarly and creative endeavors, all of which empower our graduates to have fulfilling careers and meaningful lives, while contributing to the economic, civic, and social vitality of the region.

Financial Highlights

The University's assets increased by \$8.6 million, or 1.6 percent, for the year ended June 30, 2022 and now total \$562.9 million. Liabilities decreased by \$419.0 million, or 53.6 percent, for the year ended June 30, 2022 primarily as a result of the University's exit from the Kentucky Employers Retirement System (KERS) nonhazardous plan resulting in the reduction of net pension and OPEB liabilities of \$403.9 million. Bonds, notes and leases payable, net of discounts and premiums, totaled \$325.4 million and \$341.5 million at June 30, 2022 and 2021, respectively. The University's net position totaled \$189.0 million and \$(5.8) million at June 30, 2022 and 2021, respectively. Net position increased \$194.8 million primarily due to the cessation from KERS nonhazardous.

The University's operating and nonoperating revenues totaled \$265.8 million for the year ended June 30, 2022, an increase of \$10.9 million compared to 2021. Operating revenues increased by \$6.2 million for the year ended June 30, 2022, driven primarily by an increase in housing and dining revenue. Tuition and fee revenues net of scholarship allowances were down \$1.9 million for the year. The University continued to be affected by the impact of the pandemic in 2022. The University was able to offset some of the operating revenues that were lost due to the pandemic through a federal grant funded by the American Rescue Plan Act of 2021 (the "ARP"). For the year ended June 30, 2022, the University recovered lost tuition and fees of \$5.7 million and lost auxiliary enterprises revenue totaling \$2.5 million through the ARP grant. The University also used an additional \$3.0 million for educational supplies, student reengagement expenses, technology and other expenses. In addition, the University disbursed \$11.9 million in student emergency grants in fiscal year 2022 funded by a separate ARP grant.

The University's state-funded endowments totaled \$14.4 million as of June 30, 2022, a decrease of \$1.5 million compared to 2021. These funds, along with the private endowed gifts donated to benefit the University, are managed by Northern Kentucky University Foundation, Inc. (Foundation) and totaled \$119.8 million at June 30, 2022. The endowment funds provide annual endowment spending allocations available to support the University's mission. For fiscal years 2022 and 2021, the endowment spending allocations, including support for endowed faculty positions and student scholarships, totaled \$4.8 million and \$4.4 million, respectively.

Using the Financial Statements

The University's financial report includes five financial statements: the statement of net position; the statement of revenues, expenses and changes in net position, the statement of cash flows, the statement of fiduciary net position and statement of changes in fiduciary net position. These financial statements and accompanying footnotes are prepared in accordance with GASB principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a comprehensive, entity-wide basis to focus on the University as a whole. The University adopted GASB Statement No. 84, *Fiduciary Activities*, for the year ended June 30, 2021, which requires the University to report fiduciary activities in the fiduciary fund financial statements of the basic financial statements. The fiduciary activity is excluded from the condensed financial statements discussed below. In 2022, the University adopted GASB Statement No. 87, *Leases*. Under this statement, a lessee is required to recognize an intangible right-to-use asset and corresponding lease liability. Lessors are required to recognize a lease receivable and a corresponding deferred inflow of resources. Although the adoption of this statement did not result in a change in net position as of July 1, 2021, certain balances within the management's discussion and analysis have been restated on a proforma basis to reflect the adoption of this statement.

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. (Research Foundation). Financial statements for the University's discretely presented component unit, Northern Kentucky University Foundation, Inc. (Foundation), have also been included in accordance with GASB pronouncements. Financial statements presented for the Foundation consist of the consolidated statement of financial position and the consolidated statement of activities prepared in accordance with Financial Accounting Standards Board (FASB) pronouncements.

Statement of Net Position

The statement of net position reflects the financial position of the University as of June 30, 2022, with comparative information as of June 30, 2021, and includes all assets, deferred outflows and inflows of resources, liabilities and net position. 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. Net position, consisting of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources, is one indicator of the current financial condition of the University. Assets, liabilities, deferred inflows and outflows of resources are generally measured using current values. A major exception is capital assets, which are stated at historical cost, less accumulated depreciation.

A summarized comparison of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2022 and 2021 follows:

Condensed Statements of Net Position (in thousands)

	2022	Restated 2021
ASSETS		
Current assets	\$ 130,851	\$ 134,753
Capital assets, net	365,610	370,714
Noncurrent assets	66,486	48,847
Total assets	<u>562,947</u>	<u>554,314</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>2,476</u>	<u>242,632</u>
LIABILITIES		
Current liabilities	50,674	48,865
Noncurrent liabilities	312,000	732,778
Total liabilities	<u>362,674</u>	<u>781,643</u>
DEFERRED INFLOWS OF RESOURCES	<u>13,714</u>	<u>21,106</u>
NET POSITION		
Net investment in capital assets	244,731	252,560
Restricted		
Nonexpendable	7,616	7,616
Expendable	9,548	9,558
Unrestricted	(72,860)	(275,537)
Total net position	<u>\$ 189,035</u>	<u>\$ (5,803)</u>

Assets

The University's assets increased by \$8.6 million, or 1.6 percent, for the year ended June 30, 2022, and now total \$562.9 million. Current assets decreased by \$3.9 million for the year ended June 30, 2022. The KERS cessation included the prepayment of future pension service credits for Tier 1 and Tier 2 employees in the amount of \$26.7 million. The unamortized balance of prepaid pension service credits at June 30, 2022 of \$22.5 million was partially offset by a \$5.1 million decrease in net capital assets and a \$1.5 million decrease in investments. As a result, noncurrent assets increased by \$17.6 million for the year ended June 30, 2022.

Deferred Outflows of Resources

Deferred outflows of resources totaled \$2.5 million and \$242.6 million as of June 30, 2022 and 2021, respectively. Deferred outflows of resources related to the University's defined benefit pension and OPEB plans decreased from \$240.4 million as of June 30, 2021, to \$0.7 million as of June 30, 2022, as a result of the University's withdrawal from the KERS non-hazardous plan. The deferred outflows of resources that represent the unamortized difference between the reacquisition price and the net carrying amount of refunded debt totaled \$1.8 million and \$2.2 million as of June 30, 2022 and 2021, respectively.

Liabilities

The University's liabilities decreased by \$419.0 million, or 53.6 percent, for the year ended June 30, 2022, primarily as a result of the University's exit from the KERS nonhazardous plan. Current liabilities increased \$1.8 million due largely to an increase in accounts payable and accrued liabilities as compared to 2021. Noncurrent liabilities decreased by \$420.8 million for the year as a result of a reduction of \$403.9 million in the University's net pension and OPEB liabilities, a \$15.4 million decrease in long-term debt and a \$1.3 million reduction in other long-term liabilities.

Deferred Inflows of Resources

The University's deferred inflows of resources totaled \$13.7 million and \$21.1 million as of June 30, 2022 and 2021, respectively. Deferred inflows of resources related to the University's defined benefit pension plan totaled \$0.7 million and \$8.3 million as of June 30, 2022 and 2021, respectively. The reduction of \$7.5 million is a result of the University's exit from the KERS nonhazardous plan.

During fiscal year 2022, the University adopted GASB Statement No. 87, *Leases*. As a result, the University was required to recognize certain lease assets and liabilities for leases that previously were classified as operating leases and recognize as inflows of resources based on the payment provisions of the contract. Lease inflows totaled \$10.8 million and \$11.9 million as of June 30, 2022 and 2021, respectively.

Net Position

Net position represents the difference between the University's total of assets and deferred outflows of resources and the total of liabilities and deferred inflows of resources. The University's net position totaled \$189.0 million and \$(5.8) million as of June 30, 2022 and 2021, respectively. The University's exit from the KERS nonhazardous plan resulted in a positive impact of \$218.6 million on net position. The University's unrestricted net position totaled \$(72.9) million and \$(275.5) million as of June 30, 2022 and 2021, respectively. Excluding the positive impact of the pension cessation, the University's unrestricted net position decreased by \$16.0 million for the year ended June 30, 2022.

Net invested in capital assets totaled \$244.7 million and \$252.6 million at June 30, 2022 and 2021, respectively. At June 30, 2022, the University's restricted nonexpendable net position remained unchanged at \$7.6 million. The nonexpendable funds consist of endowments funded through the Commonwealth's Regional University Excellence Trust Fund. Restricted expendable net position decreased by \$.01 million.

Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position 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.

This statement is prepared on 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.

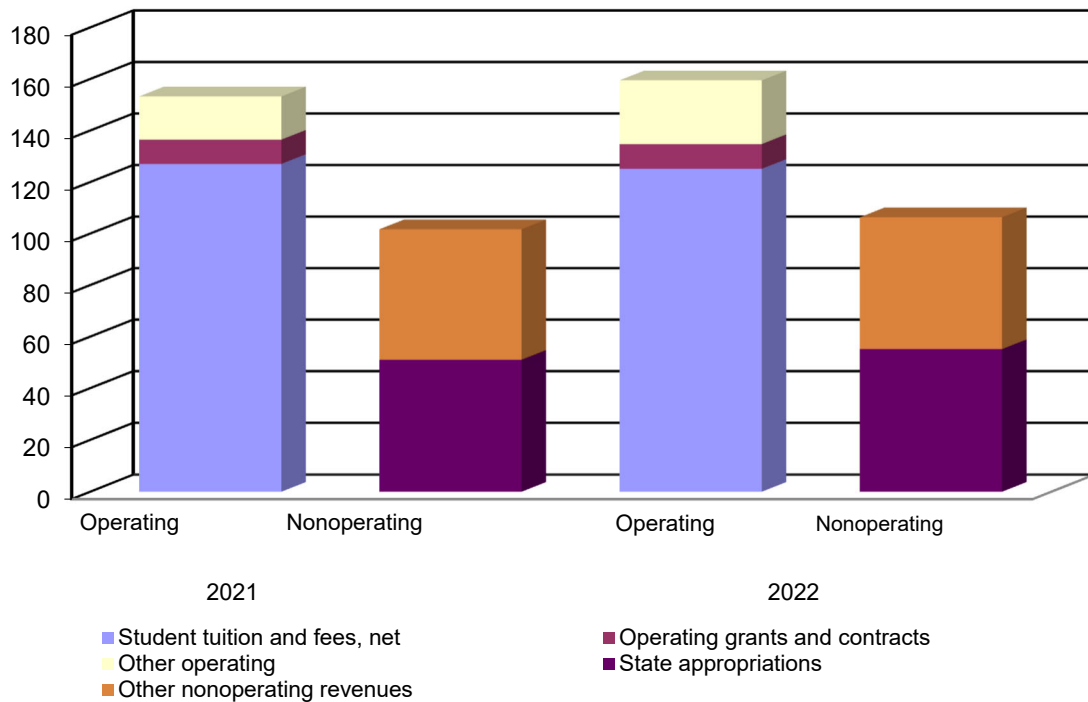
The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. A summarized comparison of the University's revenues, expenses and changes in net position for years ended June 30, 2022 and 2021 follows:

Condensed Statements of Revenues, Expenses and Changes in Net Position (in thousands)

	2022	2021
OPERATING REVENUES		
Student tuition and fees, net	\$ 125,129	\$ 127,035
Grants and contracts	9,619	9,428
Sales and services of educational departments	4,147	3,036
Auxiliary enterprises	11,130	6,909
Other operating revenues	9,464	6,841
Total operating revenues	<u>159,489</u>	<u>153,249</u>
OPERATING EXPENSES		
Educational and general	250,245	242,517
Depreciation and amortization expense	16,294	16,513
Auxiliary enterprises (incl. depreciation and amortization)	11,995	10,147
Other expenses	27	30
Total operating expenses	<u>278,561</u>	<u>269,207</u>
Net loss from operations	<u>(119,072)</u>	<u>(115,958)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	55,150	51,040
Gifts, grants and contracts	48,702	46,696
Investment income	2,471	3,941
Interest on capital asset-related debt	(9,599)	(5,531)
Other nonoperating expenses	<u>(2,035)</u>	<u>(1,837)</u>
Net nonoperating revenues	<u>94,689</u>	<u>94,309</u>
Loss before other revenues, expenses, gains or losses	<u>(24,383)</u>	<u>(21,649)</u>
Capital grants and gifts	<u>654</u>	<u>442</u>
Total other revenues	<u>654</u>	<u>442</u>
Special item - KERS-NH cessation	<u>218,567</u>	<u>-</u>
Increase (decrease) in net position	<u>194,838</u>	<u>(21,207)</u>
Net position-beginning of year	<u>(5,803)</u>	<u>15,404</u>
Net position-end of year	<u>\$ 189,035</u>	<u>\$ (5,803)</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 2021 and 2022. 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 (presented in millions).



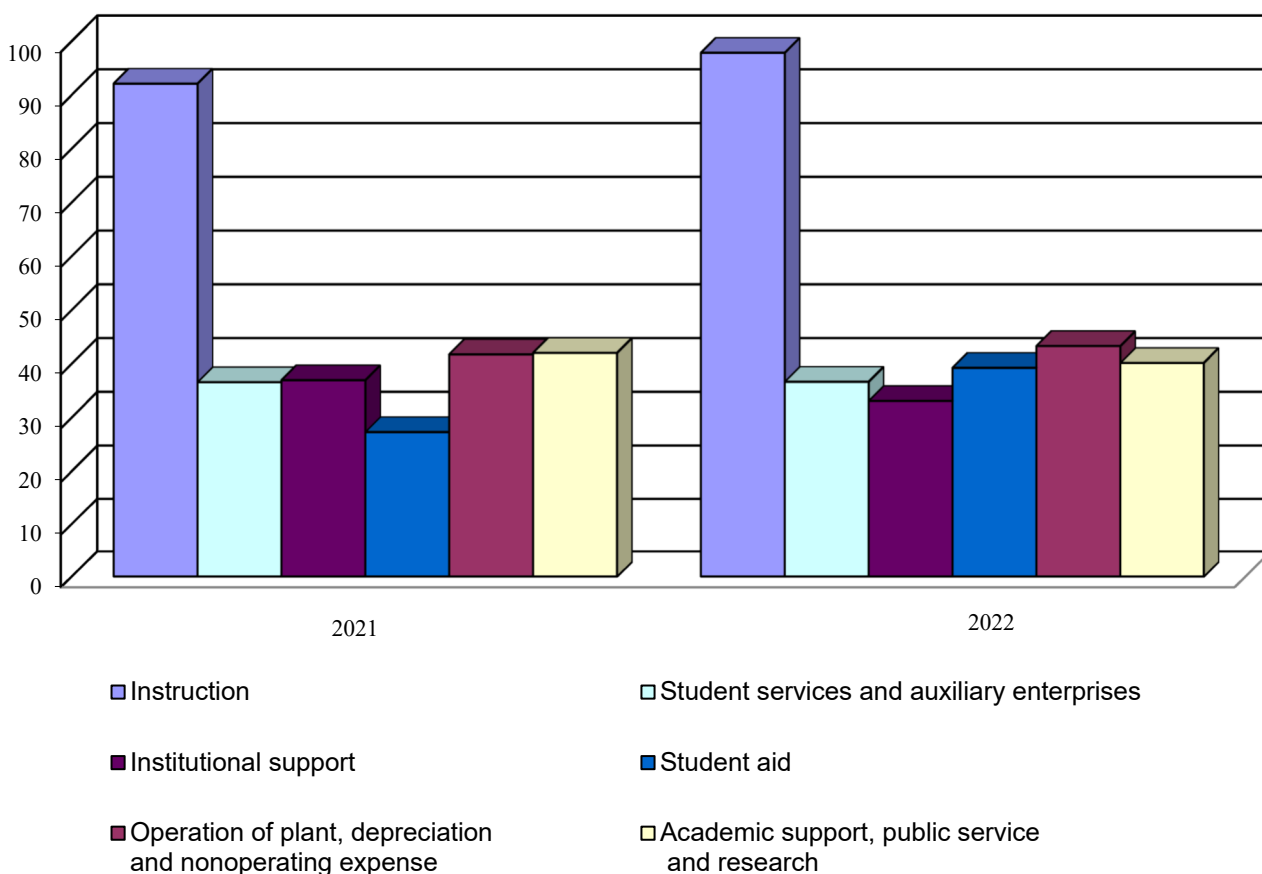
The University's operating and nonoperating revenues totaled \$265.8 million for the year ended June 30, 2022, an increase of \$10.9 million compared to 2021. Operating revenues totaled \$159.5 million, or 60.0 percent of revenues, while nonoperating revenues totaled \$106.3 million, or 40.0 percent of revenues, for the year. The most significant sources of revenue for the University are net student tuition and fees (47.1 percent) and state appropriations (20.7 percent).

Operating revenues increased by \$6.2 million for the year ended June 30, 2022, driven primarily by an increase in housing and food service revenue. Tuition revenues net of scholarship allowances were down \$1.9 million for the year. Auxiliary revenues increased by \$4.2 million compared to 2021. As the pandemic continued through 2022, the University offset some of the operating revenue losses through a federal grant funded by the American Rescue Plan Act of 2021 (the "ARP"). For the year ended June 30, 2022, the University recovered lost tuition and fees of \$5.7 million and auxiliary enterprises lost revenue totaling \$2.5 million through the ARP grant.

Nonoperating federal grant revenue increased \$4.3 million for the year ended June 30, 2022 primarily due to \$23.3 million in ARP nonoperating grant revenue recognized in fiscal year 2022. Through the federal ARP grant, the University received \$11.9 million to fund emergency aid grants to students and an additional \$11.4 million to fund institutional expenses and lost revenues directly related to the pandemic. State appropriations increased \$4.1 million compared to fiscal year 2021 contributing to the \$4.6 million increase in nonoperating revenue for the year.

Operating and Nonoperating Expenses

The following chart illustrates the University's expenses by function (both operating and nonoperating) for fiscal years 2021 and 2022 (presented in millions).



Operating and nonoperating expenses increased by \$13.6 million, or 4.9 percent, to a total of \$290.2 million for the year ended June 30, 2022. Instruction expenses increased by \$5.7 million due primarily to a \$2.4 million increase in salaries and benefits and a \$1.2 million increase in contracted services associated with the University's accelerated online courses. Institutional support expenses decreased by \$3.8 million, primarily due to a decrease of \$6.3 million in salaries and benefit expenses offset by an increase in institutional support operating expenses.

Tuition and fee scholarship allowances and housing scholarship allowances decreased by \$1.8 million and student aid expenses increased by \$12.0 million resulting in an overall increase in student aid of \$10.2 million. The increase in student aid expenses was driven by a \$5.4 million increase in emergency student aid grants funded by the ARP compared to those funded by the federal CARES Act and CRRSAA in 2021. Student grants funded by the CARES Act and CRRSAA totaled \$6.5 million in fiscal year 2021 compared to ARP funded awards of \$11.9 million in fiscal year 2022. Additionally, institutionally funded scholarships increased by \$5.5 million for the year.

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 financing, capital and related financing, and investing activities. A comparative summary of the University's statements of cash flows for the years ended June 30, 2022 and 2021 follows:

Condensed Statements of Cash Flows (in thousands)

	<u>2022</u>	<u>2021</u>
Net cash provided (used) by:		
Operating activities	\$ (94,946)	\$ (81,633)
Noncapital financing activities	115,200	95,701
Capital and related financing activities	(31,272)	(33,415)
Investing activities	<u>3,940</u>	<u>750</u>
Net decrease in cash and cash equivalents	(7,078)	(18,597)
Cash and cash equivalents, beginning of year	<u>137,180</u>	<u>155,777</u>
Cash and cash equivalents, end of year	<u>\$130,102</u>	<u>\$137,180</u>

The University's cash and cash equivalents decreased by \$7.1 million in 2022. Major sources of funds generated by operating activities in 2022 included student tuition and fees (\$122.8 million), grants and contracts (\$10.2 million) and auxiliary enterprises (\$11.6 million). The largest cash payments for operating activities were for salaries and benefits (\$149.8 million), vendor payments (\$62.6 million) and student financial aid (\$39.7 million). Net cash used by operating activities increased by \$13.3 million for the year primarily due to increases in payments for student financial aid (\$12.4 million) and payments to suppliers (\$8.6 million), which were partially offset by a \$0.9 million decrease in payments for salaries and benefits. A decrease in receipts from tuition and fees (\$2.6 million) also contributed to the increase in net cash used by operating activities for the year.

Net cash provided by noncapital financing activities increased by \$19.5 million for the year ended June 30, 2022 resulting primarily from a refund from KERS of \$21.9 million due to an initial overpayment associated with the University's exit from the KERS nonhazardous plan. The \$31.3 million use of net cash used by capital financing activities was driven by the \$18.7 million in purchases of capital assets funded primarily with bond proceeds issued in 2020 and related to finance student housing renovations and the construction of a new student residence hall. The University's principal and interest payments on capital debt totaled \$14.0 million and \$13.1 million for fiscal years 2022 and 2021, respectively.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2022, capital assets, net of accumulated depreciation, totaled \$365.6 million, or 64.9 percent of total assets. Capital assets as of June 30, 2022 and 2021, and significant changes in capital assets during the year ended June 30, 2022 are as follows (in thousands):

	Balance 6/30/2021	Net Additions (Deletions)	Balance 6/30/2022
Land	\$ 9,375	\$ -	\$ 9,375
Land Improvements	42,728	736	43,464
Buildings	538,411	27,499	565,910
Equipment	80,843	(6,417)	74,426
Library Books	9,445	401	9,846
Construction in Process	21,769	(19,646)	2,123
Accumulated Depreciation	(331,857)	(7,677)	(339,534)
	<u>\$ 370,714</u>	<u>\$ (5,104)</u>	<u>\$ 365,610</u>

Net capital assets decreased by \$5.1 million for the year ended June 30, 2022. This decrease is the net result of a \$2.6 million increase in capitalized construction project costs, land improvements, equipment and other capital assets, less \$7.7 million in depreciation.

Debt

The following is a summary of the University's outstanding capital debt summarized by trust indenture and type as of June 30, 2022 and 2021 (in thousands):

	2022	2021
General Receipts Bonds, tax exempt, net of discounts and premiums	\$ 121,669	\$ 131,349
General Receipts Bonds, taxable	199,790	205,450
Lease liabilities	897	1,274
Other financing arrangements	3,019	3,387
	<u>\$ 325,375</u>	<u>\$ 341,460</u>

Debt decreased by \$16.1 million for the year ended June 30, 2022 resulting from principal payments of \$21.6 million on bonds, notes, leases and other financing obligations, a \$.5 million growth in net discounts and premiums and the issuance of \$5 million of General Receipts 2021 Series B refunding bonds. On October 21, 2021, \$5 million in General Receipts Refunding Bonds were issued to refund outstanding 2011 Series A bonds resulting in a net present value savings of \$0.7 million.

ECONOMIC FACTORS IMPACTING FUTURE PERIODS

The following are known facts and circumstances that may impact the future financial viability of the University:

- NKU's fall 2021 total enrollment of 15,995 was a decrease of 1.3% from the prior year and was the first drop in total enrollment since fall 2017. However, during that five-year span, undergraduate enrollments had decreased 1,584 students (12.6%), with new undergraduate student enrollments decreasing by -553 (26.9%) during that same period. Supplementing significant drops in the total enrollment was the significant growth of graduate headcount. In fall 2021, 4,600 students enrolled at the graduate-level accounting for 28.8% of total enrollment. Growth in graduate enrollment can be attributed to the spike in accelerated online offerings topping 3,731 students. It should be noted that COVID significantly impacted our predicted enrollment for fall 2021 and also caused our retention rate to stall in the fall of 2021 (However, an upward trajectory in retention rate resumed for fall 2022.)
- National Higher Education enrollment in public 4-year institutions continues to decline, especially amongst undergraduate programs. For example, according to the National Student Clearinghouse Research Center, undergraduate enrollments in Spring 2022 declined 3.9% from the prior Spring for undergraduate programs at public 4-years institutions.
- The Kentucky Council on Postsecondary Education (CPE) established a 3% tuition cap for the 2-year period covering 2021-2023. NKU proposed, and CPE subsequently approved, raising tuition 1% for 2021-2022 and 2% for the 2022-2023 years. We expect future tuition caps to be similarly modest as CPE works to keep access to postsecondary education within reach for all Kentuckians.
- The 2022-2024 biennium budget approved by the Kentucky General Assembly contained generous support for postsecondary education as a whole. \$683.5M in asset preservation (facilities) funding was authorized with \$47,794,000 allocated to NKU (\$23,397,000 each year). The allocation requires a 15% institutional match (\$7M), which NKU plans to fund from recurring deferred maintenance and institutional bond savings. In addition, NKU was allocated \$84,900,000 in 2023-2024 to expand the Herrmann Science Center for research labs. Performance Funding for the 2022-2023 year increased \$8,460,800 to a new high of \$11,363,500 to support general operations. Due to NKU's strong commitment to student success we exceeded sector averages in 8 of 11 categories. To maintain and enhance this level of funding NKU needs to continue efforts with student success and progression such as those associated with our Success by Design strategic framework.
- The University's exit from the Kentucky Employees Retirement System (KERS) non-hazardous plan permitted by the *Pension Cessation Act* was effective June 30, 2021. After final actuarial calculations were received and payments finalized in fiscal year 2022, no future obligations will be required from the University to KERS for the non-hazardous plan. Without this exit, there was considerable likelihood for a significant potential increase in the University's future obligations to KERS. Exit from the Pension System adds a level of predictability with regards to employer retirement contributions into the future. This future certainty of a significant expenditure item will aid the University in managing our expenses in a prudent fashion going forward.
- Management continues efforts to diversify revenue sources, contain costs, and redirect resources to core mission priorities. Recent activities have resulted in investment in more market competitive staff salaries and in admissions/recruitment and marketing resources.

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Statement of Net Position
As of June 30, 2022
(in thousands)

ASSETS

Current Assets	
Cash and cash equivalents	\$ 111,260
Notes, loans and accounts receivable, net	14,005
Leases receivable	922
Other current assets	4,664
Total current assets	<u>130,851</u>
Noncurrent Assets	
Cash and cash equivalents	18,842
Investments	14,420
Notes, loans and accounts receivable, net	1,145
Leases receivable	9,968
Right to use lease asset, net	872
Pension prepaid future service	20,865
OPEB asset	41
Capital assets, net	365,610
Other noncurrent assets	333
Total noncurrent assets	<u>432,096</u>
Total assets	<u>562,947</u>

DEFERRED OUTFLOWS OF RESOURCES

Bond refunding loss	1,826
Pension and OPEB	650
Total deferred outflows of resources	<u>2,476</u>

LIABILITIES

Current Liabilities	
Accounts payable and accrued liabilities	23,523
Unearned revenue	11,121
Lease liabilities - current portion	221
Long-term debt - current portion	15,429
Other long-term liabilities - current portion	380
Total current liabilities	<u>50,674</u>
Noncurrent Liabilities	
Deposits	40
Lease liabilities	676
Long-term debt	309,049
Other long-term liabilities	634
Net pension liability	1,601
Total noncurrent liabilities	<u>312,000</u>
Total liabilities	<u>362,674</u>

DEFERRED INFLOWS OF RESOURCES

Service agreements	2,176
Lease inflows	10,823
Pension and OPEB	715
Total deferred inflows of resources	<u>13,714</u>

NET POSITION

Net investment in capital assets	244,731
Restricted	
Nonexpendable	7,616
Expendable	9,548
Unrestricted	(72,860)
Total net position	<u>\$ 189,035</u>

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statement of Financial Position
As of June 30, 2022
(in thousands)

ASSETS

Cash and cash equivalents	\$ 12,861
Loans and accounts receivable, net	630
Contributions receivable, net	6,970
Prepaid expenses and deferred charges	210
Investments	124,858
Land and land improvements, net	323
Total assets	<u>\$ 145,852</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 324
Agency funds	11
Deferred income	939
Funds held in trust for Northern Kentucky University	14,420
Total liabilities	<u>15,694</u>

NET ASSETS

Without Donor Restrictions	
For current operations	3,039
Amounts functioning as endowment funds	3,147
Invested in land and land improvements	323
Total without donor restrictions	<u>6,509</u>
With Donor Restrictions	
Unexpended funds received for restricted purposes	13,370
Contributions receivable	6,970
Loan funds	1,119
Endowment funds	102,190
Total with donor restrictions	<u>123,649</u>
Total net assets	<u>130,158</u>
Total liabilities and net assets	<u>\$ 145,852</u>

See accompanying notes to the financial statements

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2022
(in thousands)

OPERATING REVENUES

Student tuition and fees (net of scholarship allowances of \$39,456)	\$ 125,129
Federal grants and contracts	3,068
State and local grants and contracts	3,424
Nongovernmental grants and contracts	3,127
Sales and services of educational departments	4,147
Auxiliary enterprises	
Housing and food service (net of scholarship allowances of \$879)	7,983
Other auxiliaries	3,147
Other operating revenues	9,464
Total operating revenues	<u>159,489</u>

OPERATING EXPENSES

Educational and general	
Instruction	97,833
Research	2,978
Public service	10,807
Libraries	5,529
Academic support	20,819
Student services	24,807
Institutional support	33,074
Operation and maintenance of plant	15,167
Depreciation and amortization	16,294
Student aid	39,231
Auxiliary enterprises	
Housing and food service	6,490
Other auxiliaries	954
Auxiliary depreciation and amortization	4,551
Other expenses	27
Total operating expenses	<u>278,561</u>
Net loss from operations	<u>(119,072)</u>

NONOPERATING REVENUES (EXPENSES)

State appropriations	55,150
Federal grants and contracts	36,311
State and local grants and contracts	12,292
Private gifts and grants	99
Investment income (loss)	2,471
Interest on capital asset and lease asset - related debt	(9,599)
Other nonoperating expenses	(2,035)
Net nonoperating revenues	<u>94,689</u>
Loss before other revenues, expenses, gains or losses	<u>(24,383)</u>
Capital grants and gifts	654
Total other revenues	<u>654</u>
Special item - KERS-NH cessation	218,567
Increase in net position	<u>194,838</u>

NET POSITION-BEGINNING OF YEAR	(5,803)
NET POSITION-END OF YEAR	<u><u>\$ 189,035</u></u>

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statement of Activities
For the Year Ended June 30, 2022
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS AND OTHER SUPPORT			
Gifts and bequests	\$ -	\$ 7,151	\$ 7,151
State grants	-	22	22
Rental income	145	-	145
Investment return	(207)	(5,996)	(6,203)
Other revenue	126	1,066	1,192
Total revenues and gains	64	2,243	2,307
Net assets released from restrictions	7,613	(7,613)	-
Total revenues, gains and other support	7,677	(5,370)	2,307
EXPENSES AND LOSSES			
Program expenses			
Instruction	731	-	731
Research	75	-	75
Public service	243	-	243
Libraries	11	-	11
Academic support	939	-	939
Student services	988	-	988
Institutional support	990	-	990
University facilities and equipment acquisition	167	-	167
Student financial aid	3,020	-	3,020
Other program expenses and losses	-	(90)	(90)
Total program expenses	7,164	(90)	7,074
Support expenses			
Management and general	445	-	445
Fund raising support	208	-	208
Total support expenses	653	-	653
Total expenses and losses	7,817	(90)	7,727
Increase (decrease) in net assets	(140)	(5,280)	(5,420)
Net assets-beginning of year	6,649	128,929	135,578
Net assets-end of year	\$ 6,509	\$ 123,649	\$ 130,158

See accompanying notes to the financial statements

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Statement of Cash Flows
For the Year Ended June 30, 2022
(in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 122,757
Grants and contracts	10,193
Payments to suppliers	(62,647)
Payments for salaries and benefits	(149,833)
Payments for student financial aid	(39,713)
Loans issued to students	(116)
Collection of loans to students	91
Auxiliary enterprise receipts:	
Housing operations	8,675
Other auxiliaries	2,952
Sales and service of educational departments	4,197
Other receipts (payments)	8,498
Net cash used by operating activities	<u>(94,946)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	55,150
Gifts and grants for other than capital purposes	48,500
Agency and loan program receipts	96,476
Agency and loan program disbursements	(96,347)
KERS cessation refund	21,916
Principal paid on noncapital debt	(5,660)
Interest paid on noncapital debt	(4,835)
Net cash provided by noncapital financing activities	<u>115,200</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from capital debt	5,483
Capital grants, gifts, and advances received	611
Proceeds from sale of capital assets	2
Purchases of capital assets	(18,710)
Principal paid on capital debt	(9,273)
Bond refund escrow payment	(5,330)
Interest paid on capital debt	(4,704)
Principal payments received on leases receivable	850
Interest payments received on leases receivable	117
Principal paid on leases payable	(217)
Interest paid on leases payable	(2)
Bond issuance costs	(99)
Net cash used by capital and related financing activities	<u>(31,272)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	3,400
Purchase of investments	(711)
Interest on investments	1,251
Net cash provided by investing activities	<u>3,940</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (7,078)

Cash and cash equivalents-beginning of year	137,180
Cash and cash equivalents-end of year	<u>\$ 130,102</u>

See accompanying notes to the financial statements

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Statement of Cash Flows
For the Year Ended June 30, 2022
(in thousands)

**RECONCILIATION OF NET OPERATING LOSS TO
NET CASH USED BY OPERATING ACTIVITIES:**

Net loss from operations	\$ (119,072)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation and amortization expense	20,845
Deferred inflows of resources	669
Deferred outflows of resources	161
Reduction of prepaid pension and OPEB	4,198
Gain on write-off of sick time accrual	(1,257)
Changes in assets and liabilities:	
Receivables, net	(1,097)
Other assets	30
Accounts payable, accrued liabilities and deposits	2,650
Unearned revenue	557
Pension and OPEB	(2,483)
Long-term liabilities	(147)
Net cash used by operating activities	<u><u>\$ (94,946)</u></u>

SUPPLEMENTAL CASH FLOWS INFORMATION

Gifts of capital assets and trade-in credits	\$ 116
Capital asset acquisitions in accounts payable	1,769
Unrealized gains and losses on investments	(4,915)
Deferred outflow converted to prepaid from KERS cessation	26,717
Derecognition of pension/OPEB liability and related deferred outflows and deferred inflows from KERS cessation	204,848

See accompanying notes to the financial statements

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Statement of Fiduciary Net Position
Custodial Funds
As of June 30, 2022
(in thousands)

ASSETS

Cash and cash equivalents	\$ 15,484
Total assets	<u>15,484</u>

LIABILITIES

Accounts payable and other liabilities	<u>45</u>
Total liabilities	<u>45</u>

NET POSITION

Restricted for:	
Individuals, organizations and other governments	<u>15,439</u>
Total net position	<u><u>\$ 15,439</u></u>

See accompanying notes to the financial statements

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Statement of Changes in Fiduciary Net Position
Custodial Funds
For the Year Ended June 30, 2022
(in thousands)

ADDITIONS

In-lieu fees	\$ 4,674
Investment income	<u>33</u>
Total additions	<u>4,707</u>

DEDUCTIONS

Contract expense	1,187
Administrative fees	<u>280</u>
Total deductions	<u>1,467</u>
Net increase in fiduciary net position	3,240
Net position - beginning of year	<u>12,199</u>
Net position - end of year	<u><u>\$ 15,439</u></u>

See accompanying notes to the financial statements

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Notes to the Financial Statements
For the Year Ended June 30, 2022

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 (Commonwealth) and is included in the general-purpose financial statements of the Commonwealth. The financial statements of the University include the operations of the Northern Kentucky University Research Foundation (Research Foundation), which is a legally separate, tax-exempt organization supporting the University. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, the Research Foundation is reported as a blended component unit of the University and condensed financial information is provided in Note 14.

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 financial statements.

The accompanying 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 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 GASB. 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 position categories:

- **Net investment in capital assets:** Capital and lease assets, net of accumulated depreciation and amortization and outstanding principal balances of debt and lease liabilities attributable to the acquisition, construction or improvement of those assets.
- **Restricted:**
 - Nonexpendable* – Net position subject to externally imposed stipulations that they be maintained permanently by the University.
 - Expendable* – Net position 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. Expendable net position consists primarily of accumulated endowment earnings.
- **Unrestricted:** Net position whose use by the University is not subject to externally imposed stipulations. Unrestricted net position 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, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position 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. Cash and Cash Equivalents

Cash and cash equivalents include 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. Funds held by the Commonwealth of Kentucky are also considered cash equivalents.

e. 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.

f. Capital and Lease 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.

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made before or at the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service.

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. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

The University evaluates capital and lease assets for impairment whenever events or circumstances indicate significant, unexpected decline in the service utility of a capital and lease asset has occurred. If a capital or lease asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, an impairment loss would be recorded. No impairment losses were recognized during the year ended June 30, 2022.

g. Compensated absences

University policies permit employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Sick leave benefits are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized except for employees currently eligible to retire from the Kentucky Employers Retirement System (KERS). A liability is accrued equal to the estimated amount to be paid to the Kentucky Public Pensions Authority (KPPA) for sick leave converted to time worked at retirement. Compensated absence liabilities are computed using the regular pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

h. Investments

Investments are carried at fair value. Fair value is determined using quoted market prices. Investment income consists of interest and dividend income, realized gains and losses and the net change for the year in the fair value of investments carried at fair value.

i. Unearned Revenue

Unearned revenue includes amounts received for tuition and other student fees prior to the end of the fiscal year but related to the subsequent accounting period. Unearned revenue also includes amounts received from grants and contracts sponsors that have not yet been earned. Unearned revenue is recognized as services are rendered.

j. Cost-Sharing Defined Benefit Pension Plan

The University participates in a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Public Pensions Authority, (KPPA). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

k. Cost-Sharing Defined Benefit Other Postemployment Benefit Plan

The University participates in a cost-sharing multiple-employer defined benefit other postemployment benefit plan, also administered by KPPA, (the OPEB Plan). For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Plan and additions to/deduction from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

l. Deferred Outflows and Inflows of Resources

A deferred outflow of resources is a loss in net position by the University that is applicable to a future reporting period. Deferred outflows of resources are reported in the statement of net position, but are not recognized in the financial statements as expense until in the related period. Deferred outflows of resources include \$1,826,000 of losses on bond refunding for the year ended June 30, 2022. The remaining balance of deferred outflows for the year ended June 30, 2022 consists of the KERS pension and OPEB related unamortized balances.

A deferred inflow of resources is a gain in net position by the University that is applicable to a future reporting period. Deferred inflows of resources are reported in the statement of net position but are not recognized in the financial statements as revenue until in the related period. The agreement between the University and the University's food service providers resulted in a deferred inflow of resources of \$2,176,000 at June 30, 2022. The deferred inflows of resources related to this agreement are recognized evenly over the life of the contract. Lease agreements between the University and third-party entities for rental space resulted in a deferred inflow of resources of \$10,823,000 at June 30, 2022. The remaining deferred inflows of resources for the year ended June 30, 2022 consist of the KERS pension and OPEB related unamortized balances.

See Note 4 for details regarding deferred inflows of resources related to the University's lessor agreements.

See Notes 8 and 9 for details of pension and OPEB related deferred outflows of resources and deferred inflows of resources.

m. Scholarship Allowances

Student tuition and fee revenues and other student related revenues are reported net of scholarship allowances in the statement of revenues, expenses and changes in net position. 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.

n. Income Taxes

The University is an agency and instrumentality of the Commonwealth, 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 Research Foundation 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).

o. Restricted Asset Spending Policy

The University's policy states 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.

p. Operating Activities

The University defines operating activities, as reported on the statement of revenues, expenses and changes in net position, 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.

q. COVID-19 Relief Funding

Congress passed the *American Rescue Plan Act of 2021* (ARP) in early March 2021. The University was awarded an ARP grant for emergency student aid of \$11.9 million and an ARP grant for \$11.4 million to fund institutional expenses and lost revenues directly related to the pandemic. As of June 30, 2022, the University had expended all of the \$11.9 million in emergency student aid and \$11.2 million of institutional funds received through the ARP grant.

The grants discussed above are recognized in the nonoperating federal grants and contracts caption on the statement of revenues, expenses, and changes in net position.

r. 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, liabilities and deferred inflows and outflows of resources 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.

s. Component Unit Disclosure

The accompanying 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.

Complete financial statements for the Foundation can be obtained from the Northern Kentucky University Foundation, Inc. at Lucas Administrative Center Room 820, Nunn Drive, Highland Heights, KY 41099.

t. Related Party Transactions

During the year ended June 30, 2022, the Foundation made payments on behalf of the University of \$303,000 for salaries, benefits, and other administrative costs for University staff that directly support the Foundation's operations. These payments are made by agreement between the Foundation and University. As of June 30, 2022, there were no payables to the University for such costs.

In support of University programs, the Foundation incurred program expenses of \$7,074,000 for 2022, which consisted of payments on behalf of the University of \$4,921,000 for 2022; and amounts transferred to the University for restricted purposes of \$2,153,000, for 2022.

u. Change in Accounting Principle

During 2022, the University adopted GASB Statement No. 87, *Leases*. The statement establishes a single approach for lease accounting based on the principle that all leases are a means for financing the use of an underlying asset. The new guidance applies to all leases with terms greater than 12 months, including any options to extend. Under this statement, a lessee is required to recognize an intangible right-to-use asset and corresponding lease liability. Lessors are required to record a lease receivable and a corresponding deferred inflow of resources. Adoption of this statement did not result in a change in net position as of July 1, 2021. As of July 1, 2021, the lease assets and liabilities were \$1,274,000 due to the implementation of GASB 87. In addition, leases receivable were \$11,882,000 as of July 1, 2021 with an offsetting deferred inflows of resources for the same amount.

v. Special Item – KERS Cessation

Effective July 1, 2021, the University ceased participation in the KERS nonhazardous pension plan. The cessation cost was paid via the 2021 Taxable Series A bonds issued in April 2021. As a result of the cessation, the University removed the nonhazardous outflows, inflows and liabilities from the Statement of Net Position. The nonhazardous sick leave liability, reported under the long-term liabilities captions, was also removed. The net effect of removing these items from the Statement of Net Position resulted in reporting an increase of \$218,567,000 as a special item on the Statement of Revenues, Expenses and Changes in Net Position. The following table provides a schedule of amounts comprising this special item:

Amounts Derecognized:

KERS-NH pension/OPEB liability	\$ 403,221
KERS-NH Deferred Inflows - pension/OPEB	8,069
KERS-NH Deferred Outflows - pension/OPEB	(35,634)
KERS-NH sick time liabilities and other	1,234
Total Amounts Derecognized	<u>376,890</u>

Payments to KERS:

FY21 cessation payment for KERS-NH pension/OPEB	204,000
FY22 refund true-up received from KERS based on final actuarial calculation	(18,960)
Total net payments for cessation of KERS-NH pension/OPEB	<u>185,040</u>
Cessation payment for NH pension/OPEB allocated to future service (see Note 8)	26,717
Total cessation payments for NH pension/OPEB allocated to prior service	<u>158,323</u>

Total Amounts Derecognized	376,890
Total cessation payments for NH pension/OPEB allocated to prior service	<u>158,323</u>
Gain recognized during year ended June 30, 2022	<u>\$ 218,567</u>

w. Recent Accounting Pronouncements

In May 2020, the GASB approved Statement No. 96, *Subscription-based Information Technology Arrangements*. The statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA results in an intangible asset and corresponding subscription liability. The statement also provides the capitalization criteria for outlays other than subscription payments including implementation costs of a SBITA. The provisions of this statement are effective for reporting periods beginning after June 15, 2022. The University is currently evaluating the effects of this statement on its financial statements.

Note 2 – Cash, Cash Equivalents and Investments

At June 30, 2022, petty cash funds totaled \$56,000 and the carrying amount of the deposits was \$130,046,000 with a corresponding total bank balance of \$132,941,000. Of the bank balance, \$80,624,000 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 \$52,317,000 was held and invested by the Commonwealth. 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.

Custodial credit risk: Custodial credit risk for deposits is the risk that in the event of a bank failure, a government's deposits or collateral securities may not be returned to it. The University currently uses commercial banks and the Commonwealth as its depositories. Deposits with commercial banks are substantially covered by federal depository insurance or collateral held by the bank in the University's name. At the Commonwealth, the University's accounts are pooled with other agencies of the Commonwealth. These Commonwealth-pooled deposits are substantially covered by federal depository insurance or by collateral held by the Commonwealth in the Commonwealth's name. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

The fair value of the University's investments at June 30, 2022 was \$14,420,000. These investments represent the University's Regional University Excellence Trust Fund endowments, which are invested in an investment pool managed by the Foundation. See Note 15 (c) for the required GASB fair value disclosures for the University's investments that are included in the Foundation's investment pool. University assets in the Foundation's investment pool at June 30, 2022 are invested as follows:

Type of Investment:	
Fixed income funds	14%
Domestic equity funds	31%
International equity funds	12%
Emerging markets	5%
Private equity	18%
Natural resources	9%
Other	11%
Total Investments	100%

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 interest-bearing direct obligations of the U.S. government or obligations fully guaranteed by the U.S. government.

Foreign Currency Risk: This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The University had no investments denominated in foreign currency at June 30, 2022.

Note 3 – Notes, Loans and Accounts Receivable

Notes, loans and accounts receivable as of June 30, 2022 are as follows (in thousands):

	Gross Receivable	Allowance	Net Receivable
Student loans	\$ 1,074	\$ (414)	\$ 660
Student accounts receivable	15,265	(4,800)	10,465
Reimbursement receivable grants and contracts	1,807	-	1,807
NKU Foundation receivable	196	-	196
Other	2,921	(899)	2,022
Total	<u>\$ 21,263</u>	<u>\$ (6,113)</u>	<u>\$ 15,150</u>
Current portion			\$ 14,005
Noncurrent portion			1,145
Total			<u>\$ 15,150</u>

Note 4 – Lease Receivable

The University leases a portion of its property to various third parties, the terms of which expire 2024-2060. Payments increase based upon the terms of the agreement. The leases without rate increases specified were measured based upon the Consumer Price Index at lease commencement.

Revenue recognized under lease contracts during the year ended June 30, 2022 was \$1,214,000, which includes both lease revenue and interest.

Note 5 – Capital and Lease Assets, net

Capital assets for the year ended June 30, 2022, are summarized as follows (in thousands):

	7/1/2021 Beginning Balance	Additions	Reductions	6/30/2022 Ending Balance
Cost:				
Land	\$ 9,375	\$ -	\$ -	\$ 9,375
Land improvements	42,728	1,309	573	43,464
Buildings	538,411	32,453	4,954	565,910
Equipment	80,843	2,690	9,107	74,426
Library books	9,445	581	180	9,846
Construction in process	21,769	-	19,646	2,123
	<u>702,571</u>	<u>37,033</u>	<u>34,460</u>	<u>705,144</u>
Accumulated Depreciation:				
Land improvements	13,175	1,149	298	14,026
Buildings	240,931	16,266	3,328	253,869
Equipment	70,049	2,611	8,960	63,700
Library books	7,702	417	180	7,939
	<u>331,857</u>	<u>20,443</u>	<u>12,766</u>	<u>339,534</u>
Capital assets, net	<u>\$ 370,714</u>	<u>\$ 16,590</u>	<u>\$ 21,694</u>	<u>\$ 365,610</u>

The estimated cost to complete construction under contract at June 30, 2022 was approximately \$3,361,000.

Leased assets - In addition to the capital assets above, the University started the fiscal year on July 1, 2021 with leased equipment assets of \$1,274,000. Lease amortization expense and accumulated amortization of \$402,000 was recognized during the year ended June 30, 2022, for a final net leased equipment asset balance of \$872,000.

Note 6 – Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2022 are as follows (in thousands):

Payable to vendors and contractors	\$ 9,375
Accrued expenses, primarily payroll and vacation leave	8,938
Employee withholdings and deposits payable to third parties	3,488
Self-insured health liability	1,722
Total	<u>\$ 23,523</u>

Note 7 – Long-Term Liabilities

The changes in long-term liabilities for the year ended June 30, 2022 are summarized as follows (in thousands):

	Balance July 1, 2021	Additions	Reductions	Balance June 30, 2022	Current Portion	Noncurrent Portion
General Receipts Bonds Taxable	\$ 205,450	\$ -	\$ 5,660	\$ 199,790	\$ 4,915	\$ 194,875
General Receipts Bonds Tax Exempt (net of premiums)	131,349	5,483	15,163	121,669	10,195	111,474
Total bonds	336,799	5,483	20,823	321,459	15,110	306,349
Lease liability	1,274	-	377	897	221	676
Other financing arrangements	3,387	-	368	3,019	319	2,700
Total debt	341,460	5,483	21,568	325,375	15,650	309,725
Deferred compensation	38	-	38	-	-	-
Federal portion of loan programs	709	65	176	598	-	598
Unearned revenue	10,679	10,644	10,192	11,131	11,121	10
KERS-sick leave	1,298	6	1,275	29	3	26
Total other long-term liabilities	12,724	10,715	11,681	11,758	11,124	634
Deposits	255	535	373	417	377	40
Net pension and OPEB liability	405,542	-	403,941	1,601	-	1,601
Total long-term liabilities	<u>\$ 759,981</u>	<u>\$ 16,733</u>	<u>\$ 437,563</u>	<u>\$ 339,151</u>	<u>\$ 27,151</u>	<u>\$ 312,000</u>

a. Bonds

The outstanding obligation as of June 30, 2022 for the Northern Kentucky University General Receipts Bonds are reported net of premiums totaling \$7,579,000. 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.

On October 21, 2021, Northern Kentucky University General Receipts Refunding Bonds were issued in the amount of \$5,025,000 and a net interest cost of 1.23 percent. The proceeds refunded the General Receipts Bonds, 2011 Series A maturing on or after September 1, 2030. The refunding reduced the University's total debt service payments over the term by \$686,000, representing an economic gain of \$654,000. Economic gain is determined by calculating the difference between the present value of the debt service payments on the old and new debt.

The total bonds payable as of June 30, 2022 are as follows (in thousands):

General Receipts Taxable bonds payable

Series A 2021 (taxable), dated April 20, 2021, with interest rates from 0.36% to 3.43%. Final principal payment date September 1, 2050. \$ 199,790

Total General Receipts Taxable bonds payable 199,790

General Receipts Tax Exempt bonds payable

Series A 2013, dated February 26, 2013, with an interest rate of 2.00%. Final principal payment date September 1, 2022. 545

Series A 2014, dated January 7, 2014, with interest rates from 2.00% to 5.00%. Final principal payment date September 1, 2033. 33,630

Series A 2016, dated May 17, 2016, with interest rates from 2.00% to 5.00%. Final principal payment date September 1, 2027. 18,110

Series B 2016, dated August 25, 2016, with interest rates from 2.00% to 4.00%. Final principal payment date September 1, 2028. 11,860

Series A 2019, dated November 12, 2019, with interest rates from 3.00% to 5.00%. Final principal payment date September 1, 2044. 36,910

Series A 2020, dated November 4, 2020, with an interest rate of 3.00%. Final principal payment date September 1, 2027. 5,020

Series B 2020, dated November 4, 2020, with interest rates from 2.00% to 3.00%. Final principal payment date September 1, 2027. 2,990

Series B 2021, dated October 21, 2021, with interest rates from 2.00% to 3.50%. Final principal payment date September 1, 2030. 5,025

Total General Receipts Tax Exempt bonds payable 114,090

Plus: Net premiums 7,579

Total bonds payable \$ 321,459

Principal maturities and interest on bonds 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>
2023	\$ 14,220	\$ 9,755	\$ 23,975
2024	14,090	9,334	23,424
2025	15,000	8,881	23,881
2026	15,480	8,396	23,876
2027	15,985	7,906	23,891
2028 - 2032	60,095	33,399	93,494
2033 - 2037	46,025	25,083	71,108
2038 - 2042	45,245	18,512	63,757
2043 - 2047	48,520	10,716	59,236
2048 - 2052	39,220	2,746	41,966
Subtotal	313,880	134,728	448,608
Plus: Net premiums	7,579	-	7,579
Total	<u>\$ 321,459</u>	<u>\$ 134,728</u>	<u>\$ 456,187</u>

b. Leases

The University leases equipment, the terms of which expire in various years through 2029. The leases were measured based upon the University's incremental borrowing rate at lease commencement.

During the year ended June 30, 2022, the University recognized \$402,000 in lease amortization expense.

The following is a schedule by year of payments under the leases as of June 30, 2022 (in thousands):

<u>Fiscal Year</u>	<u>Total to be paid</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 229	\$ 221	\$ 8
2024	152	146	6
2025	150	146	4
2026	147	144	3
2027	147	146	1
2028 - 2029	95	94	1
Total	<u>\$ 920</u>	<u>\$ 897</u>	<u>\$ 23</u>

Note 8 – Pension Plans and Accrued Compensated Absences

Employees of the University were covered by one of the following plans for the year ended June 30, 2022.

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 other staff that were first employed on or after January 1, 2014. 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. The University contributed 10 percent of base salary of participating employees for the year ended June 30, 2022. 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 \$71,177,000 for the year ended June 30, 2022. The University's contribution totaled \$7,118,000 for the year ended June 30, 2022.

b. Defined Benefit Plan

Plan Description - All regular employees not participating in the above plan were required to participate in either the Nonhazardous or Hazardous cost-sharing multiple employer defined benefit pension plan, both of which are under the Kentucky Employees Retirement System (KERS), that is administered by the Board of Trustees of the Kentucky Public Pensions Authority (KPPA). The defined benefit plans provide for retirement, disability and death benefits. 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 Public Pensions Authority, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601-6124 or by calling (502) 696-8800.

Cessation – On April 20, 2021, the Northern Kentucky University 2021 Taxable Series A bonds were issued for the University's cessation from the KERS nonhazardous pension plan, under the provisions established by House Bill 1 passed during the 2019 Special Session. Effective June 30, 2021, the University ceased participation in the nonhazardous plan, resulting in the conversion of all Tier 3 employees to the University's defined contribution plan on July 1, 2021. All new hires hired after the effective date will also participate in the defined contribution plan. Under this provision, Tier 1 and Tier 2 employees will continue to participate in the nonhazardous system with the University funding the actuarial liability calculated for these employees.

The final calculation for the cost of cessation included both payment of the University's share of the unfunded liability, as well as the estimated future service expense for Tier 1 and Tier 2 employees of \$26,717,000. Management determined this estimate based upon anticipated years of service at retirement age, anticipated compensation over the service period, and current KERS contribution rates. The estimated future service expense is reported as a prepaid asset on the statement of net position and will be recognized over the anticipated service period or upon termination of employment if sooner. For the year ended June 30, 2022, the University recognized \$1,951,000 in expense for the amortization of the future service, in addition to \$2,247,000 in future service expense write-off.

Kentucky Employees' Retirement System
Governance KRS 61.510 through KRS 61.705
Cost Sharing Multiple Employer Defined Benefit

	Tier 1 Participation Prior to 9/1/2008	Tier 2 Participation 9/1/2008 through 12/31/2013	Tier 3 Participation on or after 1/1/2014
Hazardous			
Benefit Formula:	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
Final Compensation:	Highest 3 fiscal years (must contain at least 24 months). Includes lump-sum compensation payments (before and at retirement).	3 highest salaries; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
Benefit Factor:	2.49%	10 years or less = 1.30%. Greater than 10 years, but no more than 20 years = 1.50%. Greater than 20 years, but no more than 25 years = 2.25%. Greater than 25 years = 2.50%.	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
Cost of Living Adjustment (COLA):	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit:	Any age with 20 years of service. Age 55 with 60 months of service.	Any age with 25 years of service. Age 60 with 5 years of service.	Any age with 25 years of service. Age 60 with 5 years of service.
Reduced Retirement Benefit:	Age 50 with 15 years of service.	Age 50 with 15 years of service.	No reduced retirement benefit

Contributions - Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the KPPA Board. For the fiscal year ended June 30, 2022, University employees were required to contribute 5 percent of their annual covered salary for retirement benefits. The University's required contribution percentage rate per covered payroll for the year ended June 30, 2022 is 33.43 percent.

The required contribution is actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The University's total required contribution to the KERS hazardous pension plan for the year ended June 30, 2022 was \$240,000.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions - At June 30, 2022, the University's hazardous pension liability was \$1,601,000. The net pension liability was measured as of June 30, 2021 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2022, the University's proportion was .359 percent for hazardous.

For the year ended June 30, 2022, the University recognized hazardous pension expense of \$127,000.

At June 30, 2022, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Hazardous		
Differences between expected and actual experience	\$ 71	\$ -
Change of assumptions	-	-
Net difference between projected and actual earnings on investments	-	301
Changes in proportion and differences between employer contributions and proportionate share of contributions	6	73
Contributions subsequent to the measurement date	240	-
Total	<u>\$ 317</u>	<u>\$ 374</u>

At June 30, 2022, the University reported \$240,000 as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2022, related to pensions will be recognized in pension expense as follows (in thousands):

Year Ending June 30	
2023	\$ (71)
2024	(65)
2025	(68)
2026	(93)
	<u>\$ (297)</u>

Pension Actuarial assumptions – The total pension liability was determined by an actuarial valuation as of June 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement for hazardous pensions.

	Hazardous
Inflation	2.30%
Salary Increases	3.55% to 20.05%, varies by service
Investment Rate of Return	6.25%, net of pension plan investment expense, including inflation

The mortality table used for active members was the Pub-2010 Public Safety Mortality table for the Hazardous Plans, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for non-disabled retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The most recent actuarial experience study was for the period July 1, 2013 through June 30, 2018. The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

Asset Class	Hazardous	
	Long-Term Expected Real Rate of Return	Target Allocation
US equity	5.70%	21.75%
Non US equity	6.35%	21.75%
Private equity	9.70%	10.00%
Specialty credit/high yield	2.80%	15.00%
Core bonds	0.00%	10.00%
Cash	-0.60%	1.50%
Real estate	5.40%	10.00%
Opportunistic	N/A	0.00%
Real return	4.55%	10.00%
Expected real return	5.00%	100.00%
Long-term inflation assumption	2.30%	
Expected nominal return for portfolio	7.30%	

Pension Discount rate – The discount rate used to measure the total pension liability was 6.25 percent for the hazardous plan.

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate - The University's proportionate share of the net pension liability has been calculated using a discount rate of 6.25 percent for hazardous. The following presents the University's proportionate share of the net pension liability calculated using a discount rate 1 percent higher and 1 percent lower than the current rate (in thousands):

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Hazardous			
Proportionate share of the Collective			
Net Pension Liability	\$ 2,192	\$ 1,601	\$ 1,121

Payable to the pension plan - The University reported payables of \$28,000 for the outstanding amount of employer contributions to the pension plan required for the year ended June 30, 2022.

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 KERS on or after July 1, 2010, shall be paid to the retirement system by the last participating KERS employer based upon a formula adapted by the Board.” The KERS sick leave liability as of June 30, 2022 was \$29,000.

c. 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, 2022, the University had recognized an accrued vacation liability of \$3,848,000.

Note 9— Other Post-Employment Benefits

a. Defined Benefit Plan

Plan Description - The University contributes to the KPPA Insurance Fund, a cost-sharing multiple employer defined benefit other post-employment plan (the OPEB plan), which was established to provide hospital and medical insurance for eligible members receiving benefits from KERS. The OPEB plan pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The OPEB plan is administered by the Board of Trustees of the KPPA. Benefit provisions are contained in the plan document and were established and can be amended by action of the Commonwealth of Kentucky Legislature. KERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Public Pensions Authority, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601-6124 or by calling (502) 696-8800.

Cessation - Effective June 30, 2021, the University ceased participation in the nonhazardous plan, resulting in the conversion of all nonhazardous Tier 3 employees to the University's defined contribution plan on July 1, 2021. All new hires hired after the effective date will also participate in the defined contribution plan. Under this provision, Tier 1 and Tier 2 employees will continue to participate in the nonhazardous system with the University funding the actuarial liability calculated for these employees. There was no change for hazardous employees.

Benefits Provided –

	Tier 1 Participation Prior to 7/1/2003	Tier 2 Participation 7/1/2003 through 8/31/2008	Tier 3 Participation on or after 9/1/2008
	Hazardous		
OPEB eligibility:	Recipient of a retirement allowance	Recipient of a retirement allowance, with at least 120 months of service at retirement	Recipient of a retirement allowance, with at least 180 months of service at retirement
OPEB benefit:	Allowance for medical insurance coverage based on years and type of service. Less than 4 years = 0%. At least 4 years, but less than 10 = 25%. At least 10 years, but less than 15 = 50%. At least 15 years, but less than 20 = 75%. 20 or more years = 100%.	Monthly contribution of \$15 for each year of earned service. Adjusted 1.5% annually.	

Contributions - Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565, contribution requirements of the participating organizations are established and may be amended by the KPPA Board. Employees with a participation date after 9/1/2008 were required to contribute 1 percent of their covered salary for retiree healthcare benefits. The University's required contribution percentage rates per covered payroll for the year ended June 30, 2022 was 0.00 percent.

The required contributions to the KERS hazardous OPEB plan for the year ended June 30, 2022 was \$0.

OPEB assets, OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB - The University's hazardous OPEB asset was \$41,000 for the year ended June 30, 2022. The total OPEB asset and net OPEB asset were based on an actuarial valuation date of June 30, 2021. The total OPEB asset used to calculate the net was rolled forward from the valuation date to the plan's fiscal year ended June 30, 2021 using generally accepted actuarial principles. The University's proportion of the net OPEB asset was based on the University's actual contributions to the OPEB plan relative to the contributions of all participating employers for the measurement period. At June 30, 2022, the University's proportion was 0.359 percent for hazardous.

For the year ended June 30, 2022, the University recognized hazardous OPEB expense of \$43,000.

At June 30, 2022, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Hazardous		
Differences between expected and actual experience	\$ 56	\$ 118
Change of assumptions	268	1
Net difference between projected and actual earnings on investments	-	211
Changes in proportion and differences between employer contributions and proportionate share of contributions	1	11
Contributions subsequent to the measurement date	8	-
Total	<u>\$ 333</u>	<u>\$ 341</u>

The implicit subsidy was \$8,000 for hazardous for the year ended June 30, 2022.

At June 30, 2022, the University reported \$8,000 as deferred outflows of resources related to OPEB resulting from University contributions subsequent to the measurement date that will be recognized as a reduction of the net OPEB liability in the following year. This amount includes the implicit subsidy amount of \$8,000. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2022, related to OPEB will be recognized in OPEB expense as follows (in thousands):

Year Ending June 30	
2023	\$ 33
2024	7
2025	(8)
2026	(48)
Thereafter	-
	<u>\$ (16)</u>

Actuarial assumptions - The total OPEB asset and liability was determined by an actuarial valuation as of June 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement for hazardous OPEB.

	Hazardous
Inflation	2.30%
Salary increases	3.55% to 20.05%, varies by service
Payroll growth rate	0.00%
Health care cost trend rates	
Pre-65	Initial trend starting at 6.30% at January 1, 2023 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 6.30% in 2023 and then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Investment Rate of Return	6.25%
Mortality	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a based year of 2019.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Kentucky Retirement Systems		
OPEB Asset Allocations		
Long Term		
Asset Class	Expected Real Rate of Return	Target Allocation
US equity	5.70%	21.75%
Non-US equity	6.35%	21.75%
Private equity	9.70%	10.00%
Specialty credit/high yield	2.80%	15.00%
Core bonds	0.00%	10.00%
Cash	-0.60%	1.50%
Real estate	5.40%	10.00%
Opportunistic	N/A	0.00%
Real return	4.55%	10.00%
Expected real return	5.00%	100.00%
Long-term inflation assumption	2.30%	
Expected nominal return for portfolio	7.30%	

The table above is applicable to the hazardous plan.

Discount rate - The discount rate used to measure the total OPEB asset and liability was 5.01% for the hazardous plan. The discount rate determination used an expected rate of return of 6.25%, a municipal bond rate of 1.92%, as reported in Fidelity Index's "20 -Year Municipal GO AA Index" as of June 30, 2021. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the University's proportionate share of the net OPEB asset to changes in the discount rate - The University's proportionate share of the net OPEB asset has been calculated using a discount rate of 5.01% for hazardous. The following presents the University's share of the net OPEB asset calculated using a discount rate 1% higher and 1% lower than the current rate (in thousands):

	1% Decrease (4.01%)	Current Discount Rate (5.01%)	1% Increase (6.01%)
Hazardous			
Proportionate share of the Collective Net OPEB Liability (Asset)	\$ 296	\$ (41)	\$ (312)

Sensitivity of the University's proportionate share of the net OPEB asset to changes in the health care cost trend rates - The University's proportionate share of the net OPEB asset has been calculated using an initial pre-65 health care trend rate of 6.30%, gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The post-65 health care trend rate starts at 6.30% in 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

	1% Decrease	Current Health Care Cost Trend Rates	1% Increase
Hazardous			
Proportionate share of the Collective Net OPEB Liability (Asset)	\$ (284)	\$ (41)	\$ 255

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued plan annual report.

Payable to the OPEB plan - The University reported payables of \$0 for the outstanding amount of employer contributions to the OPEB plan required for the year ended June 30, 2022.

Note 10 – Operating Expenses By Natural Classification

The University's operating expenses by natural classification are as follows for the year ended June 30, 2022 (in thousands):

Salaries and wages	\$ 114,115
Employee benefits	37,734
Utilities	5,436
Supplies and other services	60,588
Depreciation and amortization	20,845
Student scholarships and financial aid	39,843
Total	<u>\$ 278,561</u>

Note 11 – 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 Kentucky Claims Commission, 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 most other causes of loss between \$5,000 and \$1 million per occurrence. Losses in excess of \$1 million are insured by commercial carriers up to \$1.5 billion per occurrence with buildings insured at replacement cost and contents 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 \$250,000 for any one person or \$400,000 for all persons damaged by a single act of negligence. Claims against educators' errors and omissions and wrongful acts are insured through a reciprocal risk retention group. There have been no significant reductions in insurance coverage from 2021 to 2022. Settlements have not exceeded insurance coverage during the past three years.

The University began self-insuring employee health insurance as of January 1, 2014. Accrued expenses are based on the estimated costs of health care claims based on claims filed subsequent to year end and an additional amount for incurred but not yet reported claims based on prior experience. The University purchases both specific and aggregate stop loss coverage on medical and prescription drug claims. The stop loss insurance limits its exposure for claims to \$300,000 per individual and 85 percent of projected aggregate claims.

The health self-insurance liability as of June 30, 2022 is detailed below (in thousands):

Liability, beginning of year	\$ 1,609
Claims and changes in estimates	16,308
Claims paid	<u>(16,195)</u>
Liability, end of year	<u>\$ 1,722</u>

The University also self-insures certain other employee benefits, including worker's compensation claims to the extent not covered by insurance. The University has recorded an estimate for asserted claims at June 30, 2022.

Note 12 – Contingencies

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.

As a result of the spread of SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the University. Potential effects include but are not limited to declines in the fair value of investments, realizability of receivables, and declines in revenues. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Note 13 – Restricted Net Position

At June 30, 2022, restricted expendable net position was available for the following purposes:

Appreciation on permanent endowments	\$ 6,804
Capital projects and debt service	2,149
Funds restricted for noncapital purposes	<u>595</u>
Restricted Net Position, end of year	<u>\$ 9,548</u>

Note 14 – Blended Entity Condensed Financial Information

Condensed financial information for Northern Kentucky University Research Foundation (NKURF) is provided below for the year ended June 30, 2022 (in thousands):

NKURF Condensed Statement of Net Position**ASSETS**

Current assets	\$ 1,688
Total assets	<u>1,688</u>

LIABILITIES

Current liabilities	<u>343</u>
Total liabilities	<u>343</u>

NET POSITION

Restricted expendable	45
Unrestricted	<u>1,300</u>
Total net position	<u>\$ 1,345</u>

NKURF Condensed Statement of Revenues, Expenses, and Changes in Net Position**OPERATING REVENUES**

Grants and contracts	\$ 2,237
Recoveries of facilities and administrative costs	<u>360</u>
Total operating revenues	<u>2,597</u>

OPERATING EXPENSES

Operating expenses	<u>2,273</u>
Operating income	<u>324</u>

NONOPERATING REVENUES (EXPENSES)

Nonexchange grants and gifts	27
Noncapital transfers (to)/from the University	(115)
Gifts and grants	<u>8</u>
Net nonoperating revenues (expenses)	<u>(80)</u>
Increase in net position	<u>244</u>

NET POSITION

Net position-beginning of year	<u>1,101</u>
Net position-end of year	<u>\$ 1,345</u>

NKURF Condensed Statement of Cash Flow

Net cash provided by operating activities	\$ 235
Net cash used by noncapital financing activities	11
Net increase in cash and cash equivalents	246
Cash and cash equivalents-beginning of year	1,046
Cash and cash equivalents-end of year	<u>\$ 1,292</u>

Note 15 – Northern Kentucky University Foundation, Inc. Notes to Financial Statements

Selected disclosures from the Foundation are included as follows:

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 several single member limited liability companies. All material intercompany transactions and balances have been eliminated for the year ended June 30, 2022.

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 consolidated 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 balances and transactions into two classes of net assets – with donor restrictions and without donor restrictions.

Net assets and changes therein are classified as follows:

- ***With donor restrictions*** - Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.
- ***Without donor restrictions*** - Net assets not subject to donor-imposed stipulations. And are available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Restricted contributions and net investment returns earned are reported as with donor restrictions and reclassified as without donor restricted when any donor-imposed restrictions are satisfied. Expirations of with donor restrictions on net assets are met when a donor stipulated time restriction ends or purpose restriction is accomplished and reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restriction.

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

The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Foundation overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

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

- As increases in net assets with donor restrictions – if the terms of the gift require that they be added to the principal of a permanent endowment fund or if the terms of the gift impose restrictions on the use of the income.
- As increases in net assets without donor restrictions – in all other cases.

3. Cash and Cash Equivalents

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

At various times throughout the year, the Foundation has cash in certain financial institutions in excess of insured limits. Additionally, at June 30, 2022, \$1,172,000, was insured by federal depository insurance or collateralized with securities held by the financial institution's trust department or agent, but not in the Foundation's name. At June 30, 2022, a balance of \$11,646,000, was 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 a probable uncollectible allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts as of June 30, 2022, was approximately \$44,000.

5. Investments

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

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

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

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

6. Land and Land Improvements

At June 30, 2022, land and land improvements (in thousands) consisted of:

Type of Asset:	
Land	\$ 178
Land held for future use by the University	145
Land improvements	208
Gross land and land improvements	531
Less: accumulated depreciation	(208)
Total land and land improvements	\$ 323

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

7. Long-Lived Asset Impairment

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the year ended June 30, 2022.

8. Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date.

b. 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 and amortization of the discount is included in gifts and bequests revenue.

At June 30, 2022, the Foundation recognized contributions based on the following unconditional promises to give (in thousands):

Purpose:	
Endowment giving	\$ 1,134
Capital purposes	140
Operating programs	<u>6,414</u>
Gross unconditional promises	7,688
Less: Discount and allowance for uncollectible accounts	<u>(718)</u>
Net unconditional promises to give	<u>\$ 6,970</u>
 Amounts due in:	
Less than one year	\$ 2,449
One to five years	3,739
More than five years	<u>1,500</u>
Total	<u>\$ 7,688</u>

The discount rates used to calculate the present value of contributions receivable at June 30, 2022 vary from 0.6% to 3.6%, depending on when the promise was made.

Conditional promises to give are not included as support until such time as the conditions are substantially met. The Foundation had received conditional promises to give of approximately \$5.4 million at June 30, 2022, consisting of the face value of life insurance policies, net of accumulated cash surrender value, as well as conditional promises of \$4.6 million at June 30, 2022 consisting of promises from three donors.

Approximately 36% of total pledges receivable were due from one donor at June 30, 2022.

c. Fair Value Measurements

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

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

Level 2 – Observable inputs other than Level 1 prices, such as:

- Quoted prices for similar assets or liabilities;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Other inputs that are observable for the asset or liability;
- Other inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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

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

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

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

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

Level 3 investments include those in which there is no active market. The Foundation holds no Level 3 investments at June 30, 2022.

The following assets were measured at fair value on a recurring basis as of June 30, 2022 (in thousands):

		Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV*
	Total				
Type of Investment:					
Short-term money market funds	\$ 15	\$ 15	\$ -	\$ -	\$ -
Cash surrender value	472	472	-	-	-
Fixed income funds:					
Core	10,415	10,415	-	-	-
Core plus	2,624	2,624	-	-	-
Treasury inflation protected securities	4,000	4,000			
Equity funds:					
Large/Mid-cap - Broad	25,930	25,930	-	-	-
Large/Mid-cap - Growth	1,983	1,983	-	-	-
Large/Mid-cap - Value	5,782	5,782	-	-	-
Small Cap - Growth	1,696	1,696	-	-	-
Small Cap - Value	2,683	2,683			
International - Core	8,625	8,625	-	-	-
International - Value	2,967	2,967	-	-	-
International Small Cap - Value	2,885	2,885	-	-	-
Emerging Markets - Value	3,324	3,324	-	-	-
Emerging Markets - Growth	3,172	3,172	-	-	-
Real estate Investment Trust	40	40	-	-	-
Exchange Traded Funds	279	279	-	-	-
Remainder interest in real property and other	1,190	-	1,190	-	-
Public natural resources-master limited partnerships	2,469	-	-	-	2,469
Private equity	23,307	-	-	-	23,307
Private debt	5,786	-	-	-	5,786
Natural resources	8,772	-	-	-	8,772
Private real estate	4,607	-	-	-	4,607
Total	\$ 123,023	\$ 76,892	\$ 1,190	\$ -	\$ 44,941

*Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position

d. Investments

The market value (in thousands) of the Foundation's investments as of June 30, 2022 are categorized by type below:

Type of Investment:	
Short-term money market funds	\$ 15
Cash and cash surrender value	2,307
Fixed income funds:	
Core	10,415
Core plus	2,624
Treasury inflation protected securities	4,000
Equity Funds:	
Large/mid cap - broad	25,930
Large/mid cap - growth	1,983
Large/mid cap - value	5,782
Small cap - growth	1,696
Small cap - value	2,683
International - core	8,625
International - value	2,967
International small cap - value	2,885
Emerging markets - value	3,324
Emerging markets - growth	3,172
Real estate investment trust	40
Exchange traded funds	279
Public natural resources - master	
Limited partnerships	2,469
Remainder interest in real property and other	1,190
Private equity:	
Buyout	5,497
Diversified	284
Growth	5,057
Venture capital	10,123
Secondary	2,346
Private debt:	
Distressed	5,777
Mezzanine	9
Natural resources:	
Diversified	2,310
Energy	3,519
Commodities	2,943
Private real estate:	
Opportunistic	4,270
Value added	337
Total investments	<u><u>\$ 124,858</u></u>

Investment return (in thousands) for the year ended June 30, 2022 consists of:

Interest and dividend income	
(net of investment fees: 2022 - \$1,009)	\$ 4,603
Net realized gains	24,770
Net unrealized gains (losses)	<u>(35,576)</u>
Total investment return	<u>\$ (6,203)</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 consolidated statement of activities. Some of the Foundation's investment managers report investment transactions net of fees.

The investments of the Foundation are commingled with certain investments which the Foundation holds in trust for the University. The market value of funds held in trust for the University at June 30, 2022 was approximately \$14,420,000. (See Note I)

At June 30, 2022, the Foundation had committed approximately \$78,000,000, of its endowment investment resources to alternative investments, of which approximately \$25,500,000, had not yet been called by the investment managers. Alternative investments for which commitments have been made consist of private equity/debt, natural resources, private real estate and low-volatility.

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

e. Endowments

The Foundation's endowment consists of 384 individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments (quasi-endowments). Net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The board, at their discretion, can at any time permit spending from the principal of any quasi-endowed fund, provided the expenditure complies with any donor-imposed restrictions related to the fund.

Kentucky enacted the Kentucky Uniform Prudent Management of Institutional Funds Act (KUPMIFA), the provisions of which apply to endowment funds existing on or established after enactment, with an effective date of July 15, 2010.

An interpretation of KUPMIFA provisions by the Foundation Board of Directors requires that the historical dollar amount of a donor-restricted endowment fund be preserved. As a result of this requirement, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. In the absence of donor restrictions, the net appreciation on a donor-restricted endowment fund is spendable. The net appreciation of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation.

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

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

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

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

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

Spending Policy and How the Objectives Relate to Spending Policy. The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds, for grant making and administration. The current spending policy is to distribute an amount at least equal to 3-5% of a moving sixteen quarter average of the fair value of the endowment funds. Accordingly, over the long term, the Foundation expects its current spending policy to allow the Foundation to meet its objective to maintain the historical dollar amount of endowment assets as well as to provide additional real growth through investment return.

Endowment net asset composition by type of endowment (in thousands) as of June 30, 2022 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Donor restricted endowment funds	\$ -	\$ 97,398	\$ 97,398
Quasi-endowment funds	3,147	4,792	7,939
Total endowment funds	<u>\$ 3,147</u>	<u>\$ 102,190</u>	<u>\$ 105,337</u>

Changes in endowment net assets (in thousands) for the year ended June 30, 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ 3,367	\$ 110,714	\$ 114,081
Contributions collected and other additions	-	1,454	1,454
Investment income	137	4,468	4,605
Net investment loss	(331)	(10,638)	(10,969)
Amounts appropriated for expenditure	<u>(26)</u>	<u>(3,808)</u>	<u>(3,834)</u>
Endowment net assets, end of year	<u>\$ 3,147</u>	<u>\$ 102,190</u>	<u>\$ 105,337</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 KUPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature were approximately \$21,000 at June 30, 2022. These deficiencies resulted from unfavorable market conditions that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

f. Contingent Liabilities

Legal counsel for the Foundation have advised that they know of no pending or threatened litigation, claims or assessments involving the Foundation that could have a material adverse financial effect on the Foundation.

g. Regional University Excellence Trust Fund

The Foundation holds certain funds, consisting of endowment matching funds received by the 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 the 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.

h. Subsequent Events

Events occurring after June 30, 2022 have been evaluated for possible adjustment to the consolidated financial statements or disclosure through October 6, 2022, the date on which the consolidated financial statements were available to be issued.

i. Related Party Transactions

During the year ended June 30, 2022, the Foundation made payments on behalf of the University of \$303,000, for salaries, benefits, and other administrative costs for University staff that directly support the Foundation's operations. These payments are made by agreement between the Foundation and University. Approximately \$0 was owed to the University for such costs.

In support of University Programs, the Foundation incurred program expenses of \$7,074,000 for 2022, which consisted of payments on behalf of the University of \$4,921,000 and amounts transferred to the University for restricted purposes of \$2,153,000.

j. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2022, comprise the following (in thousands):

Cash and equivalents	\$ 6,045
Accounts receivable	51
Contributions receivable	1,877
Less allowance for uncollectible pledges	(11)
	<u>\$ 7,962</u>

The Foundation receives significant contributions restricted by donors and considers contributions restricted for programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. For the year ended June 30, 2022, restricted contributions of \$1,866,000 were included in financial assets available to meet cash needs for general expenditures within one year.

The Foundation's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The quasi-endowment for the year ended June 30, 2022, of \$7,100,000 is subject to an annual spending rate as described in Note 15e. Although the Foundation does not intend to spend from this quasi-endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

The Foundation manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Foundation's Finance and Audit Committee reviews the liquidity policy annually and the summarized financial reports at its regular meetings.

k. Schedule of Functional Expenses

The Foundation accounts for expenses in both natural classification categories and functional area categories. The summaries of these for the year ended June 30, 2022 are as follows (in thousands):

Schedule of Functional Expenses For the Year Ended 6/30/22 (in thousands)

	Subgranted to NKU-Payroll	Subgranted to NKU-Other	Contracted Services	Operating	Scholarships & Awards	Total
Instruction	\$ 442	\$ 93	\$ 43	\$ 153	\$ -	\$ 731
Research	70	-	-	5	-	75
Public service	13	-	84	146	-	243
Libraries	-	-	1	10	-	11
Academic support	453	-	52	434	-	939
Student services	367	13	52	556	-	988
Institutional support	576	-	38	376	-	990
University facilities and equipment acquisition	-	125	2	40	-	167
Student financial aid	-	-	-	-	3,020	3,020
Other program expenses and losses	-	-	-	(90)	-	(90)
Total program expenses	\$ 1,921	\$ 231	\$ 272	\$ 1,630	\$ 3,020	\$ 7,074
Management and general	303	-	48	94	-	445
Fund raising support	-	-	4	204	-	208
Total support expenses	\$ 303	\$ -	\$ 52	\$ 298	\$ -	\$ 653
Total expenses and losses	\$ 2,224	\$ 231	\$ 324	\$ 1,928	\$ 3,020	\$ 7,727

I. Future Changes in Accounting Principles

Accounting for Leases

FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line bases over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for the Foundation for the year ending June 30, 2023.

Required Supplementary Information

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Schedule of Proportionate Share of the Collective Net Pension Liability
Kentucky Employees' Retirement System
(in thousands)

	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Nonhazardous								
University's proportionate share of the net pension liability	0.00%	2.413982%	2.335187%	2.304209%	2.345490%	2.403742%	2.447755%	2.489115%
University's proportionate share of the collective net pension liability	\$ -	\$ 341,932	\$ 329,798	\$ 313,460	\$ 314,022	\$ 274,014	\$ 245,556	\$ 223,319
University's covered-employee payroll	\$ -	\$ 35,634	\$ 34,697	\$ 34,793	\$ 37,584	\$ 39,206	\$ 37,799	\$ 39,266
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.00%	959.56%	950.50%	900.94%	835.52%	698.91%	649.64%	568.73%
Pension plan fiduciary net position as a % of the total pension liability	0.00%	14.01%	13.66%	12.84%	13.30%	14.80%	18.83%	22.30%
Hazardous								
University's proportionate share of the net pension liability	0.359247%	0.384598%	0.373520%	0.386465%	0.370876%	0.040113%	0.444514%	0.414511%
University's proportionate share of the collective net pension liability	\$ 1,601	\$ 2,157	\$ 2,041	\$ 1,952	\$ 1,844	\$ 1,571	\$ 1,524	\$ 1,059
University's covered-employee payroll	\$ 621	\$ 661	\$ 600	\$ 591	\$ 662	\$ 637	\$ 563	\$ 535
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	258.00%	326.28%	340.16%	330.29%	278.50%	246.58%	270.64%	197.80%
Pension plan fiduciary net position as a % of the total pension liability	66.03%	55.18%	55.49%	56.10%	54.80%	57.41%	61.70%	68.70%

*The amounts presented for the fiscal year were determined as of June 30 of the previous fiscal year (measurement date).

** This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Schedule of University Pension Contributions
Kentucky Employees' Retirement System
(in thousands)

	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Nonhazardous								
Contractually required contribution	\$ -	\$ 13,855	\$ 14,310	\$ 14,162	\$ 14,596	\$ 14,738	\$ 12,069	\$ 12,320
University's contributions in relation to the contractually required contribution	-	13,855	14,310	14,162	14,596	14,738	12,069	12,320
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ -	\$ 33,743	\$ 34,848	\$ 34,491	\$ 35,498	\$ 36,626	\$ 39,131	\$ 39,948
Contributions as a percentage of covered-employee payroll	0.00%	41.06%	41.06%	41.06%	41.06%	40.24%	30.84%	30.84%
Hazardous								
Contractually required contribution	\$ 240	\$ 233	\$ 287	\$ 256	\$ 180	\$ 170	\$ 127	\$ 136
University's contributions in relation to the contractually required contribution	240	233	287	256	180	170	127	136
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 717	\$ 646	\$ 835	\$ 744	\$ 838	\$ 806	\$ 776	\$ 831
Contributions as a percentage of covered-employee payroll	33.43%	36.00%	34.39%	34.39%	21.44%	21.08%	16.37%	16.37%

Notes to the Schedule:

Changes in assumptions - In fiscal year 2018, the KERS nonhazardous investment rate and discount rate both decreased from 6.75% to 5.25%. The KERS hazardous investment rate and discount rate both decreased from 7.50% to 6.25%. For the nonhazardous plan, the estimated salary increases decreased from 4.00% to 3.05% in fiscal year 2019. As of fiscal year 2020, salary increase assumptions vary from 3.30% to 15.30% based on service. For the hazardous plan, the estimated salary increases decreased from 4.00% to 3.05% in fiscal year 2019. As of fiscal year 2020, the salary increase assumptions vary from 3.55% to 20.05% based on service. In fiscal year 2018, the KERS plan inflation rate decreased from 3.25% to 2.30% for both the nonhazardous and hazardous plans.

This schedule does not include the cessation payment of \$169,320,000.

* The amounts presented for the fiscal year were determined as of June 30, of the previous fiscal year (measurement date).

** This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Schedule of Proportionate Share of the Net OPEB Liability
Kentucky Employees' Retirement System
(in thousands)

	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Nonhazardous					
University's proportionate share of the net OPEB liability (asset)	0.00%	2.413982%	2.335187%	2.302178%	2.345490%
University's proportionate share of the net net OPEB liability (asset)	\$ -	\$ 61,289	\$ 51,909	\$ 54,583	\$ 59,481
University's covered-employee payroll	\$ -	\$ 35,786	\$ 35,400	\$ 36,234	\$ 37,366
University's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	0.00%	171.27%	146.64%	150.64%	159.18%
Plan fiduciary net position as a % of the total OPEB liability	0.00%	29.47%	30.92%	27.32%	24.40%
Hazardous					
University's proportionate share of the net OPEB liability (asset)	0.359216%	0.384513%	0.372729%	0.386561%	0.370876%
University's proportionate share of the net net OPEB liability (asset)	\$ (41)	\$ 164	\$ (100)	\$ (128)	\$ 22
University's covered-employee payroll	\$ 620	\$ 701	\$ 564	\$ 736	\$ 635
University's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	-6.67%	23.47%	-17.73%	-17.43%	3.46%
Plan fiduciary net position as a % of the total OPEB liability	101.85%	92.42%	105.29%	106.83%	98.80%

*The amounts presented for the fiscal year were determined as of June 30, of the previous fiscal year (measurement date).

** This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Northern Kentucky University
A Component Unit of the Commonwealth of Kentucky
Schedule of University OPEB Contributions
Kentucky Employees' Retirement System
(in thousands)

	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Non-hazardous					
Contractually required contribution	\$ -	\$ 2,838	\$ 2,931	\$ 2,901	\$ 2,989
University's contributions in relation to the contractually required contribution	-	2,838	2,931	2,901	2,989
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll		\$ 33,743	\$ 34,848	\$ 34,491	\$ 35,548
Contributions as a percentage of covered-employee payroll		8.41%	8.41%	8.41%	8.41%
Hazardous					
Contractually required contribution	\$ -	\$ -	\$ 21	\$ 18	\$ 19
University's contributions in relation to the contractually required contribution	-	-	21	18	19
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 717	\$ 656	\$ 835	\$ 744	\$ 838
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	2.46%	2.46%	2.26%

Notes to the Schedule:

Changes in assumptions - In fiscal year 2018, the KERS nonhazardous and hazardous investment rate decreased from 7.50% to 6.25%.

The nonhazardous discount rate decreased from 6.90% to 5.83%, and the hazardous discount rate decreased from 7.20% to 5.87%.

The estimated salary increases decreased from 4.00% to 3.05% for both the nonhazardous and hazardous plans. The KERS plan inflation rate decreased from 3.25% to 2.30% for both the nonhazardous and hazardous plans. In fiscal year 2019, the KERS nonhazardous discount rate increased from 5.83% to 5.86%; the KERS hazardous discount rate increased from 5.87% to 5.88%. As of fiscal year 2020, salary increase assumptions vary from 3.30% to 15.30%, based on service, for the nonhazardous plan.

Salary increase assumptions vary from 3.55% to 20.05%, based on service, for the hazardous plan. Also, in fiscal year 2020, the nonhazardous discount rate decreased from 5.86% to 5.73%, while the hazardous discount rate decreased from 5.88% to 5.66%.

In fiscal year 2020, the pre-65 healthcare trend rate assumptions were revised from an initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend of 4.05% over 12 years to an initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years. The post-65 assumptions changed from an initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years to an initial trend starting at 2.90% at January 1, 2022, and gradually increasing to 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years. The discount rate changed from 5.73% for KERS nonhazardous and 5.66% for KERS hazardous to 5.43% for KERS nonhazardous and 5.28% for KERS hazardous.

In fiscal year 2022, the pre-65 healthcare trend rate assumptions were revised to 6.30% at January 1, 2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The post-65 healthcare trend rate assumptions were revised to 6.30% at January 1, 2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.

* The amounts presented for the fiscal year were determined as of June 30, of the previous fiscal year (measurement date).

** This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.