NORTHERN KENTUCKY UNIVERSITY FOUNDATION

October 15, 2009

Dear Members of the Board and NKU Foundation Friends:

It is my pleasure to transmit the NKU Foundation's 2009 Consolidated Annual Financial Report. The following statements have been audited by the firm of Von Lehman & Company. You will find a copy of their Independent Auditors' Report on page 4 of this report.

This year's consolidated financial statement includes both the NKU Foundation and its subsidiary corporation, NKU Foundation Properties, Inc. The properties corporation was named as a holder of a remainder interest of real property accepted during the fiscal year ending 2009, and as such is included in the NKU Foundation financial statements. The donor has directed that the remainder interest will provide future support for the College of Informatics.

This has been a year of both triumphs and challenges for the Foundation. Despite the current economic environment the Foundation placed $6 million of new money into the endowment pool during the 2009 fiscal year, no doubt a testament to the loyalty and support of donors throughout the Northern Kentucky/ Greater Cincinnati region. The Foundation, like many institutions with invested funds, was not immune to the financial crisis and market downturn that peaked during the second and third quarters of 2008-2009. The Investment Committee together with the full Foundation Board, Foundation staff, and the Foundation's investment advisors Fund Evaluation Group strategized to evaluate options to minimize risk during these volatile market conditions. While annualized returns over the one year period were down 14.7%, fourth quarter showed significant increases with positive returns of 13.8%.

Total assets stood at $80 million, including endowment funds valued at $48 million. The overall investment valuation decreased from the prior year's end of $50.3 million. Even with market losses totaling $6 million, the Foundation filled University requests for support in the amount of $5 million, with $1.2 million going directly to students through scholarship aid. Contributions to the Foundation are reported at a remarkable level of $22 million for the fiscal year 2009, with special appreciation to The Carol Ann and Ralph V. Haile, Jr./US Bank Foundation for their $15 million gift. It is through these commitments that the Foundation can continue to contribute to the University and the region.

In addition to a consolidated report, this year's report notes a couple of other changes. The financial statements show a decrease in unrestricted gifts from $538k in 2008 to $9k in 2009. This change occurred, not from a decrease in donor giving, but from a reclassification of funds held in the Campus Priority Fund from an unrestricted classification to a restricted classification. Finally, to accommodate new reporting requirements, this year's financial statements include an expanded notes section.

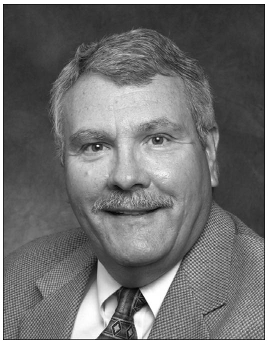
As you read through the financial statements, I hope the information proves to be valuable and informative. As committed board members and friends of the Foundation, I know you have a vested interest in the overall state of the NKU Foundation and the University. You have only to look around campus to find evidence of continued growth and the impact of private support towards that growth. Two recent changes are evident in an almost complete soccer stadium that combined with the Bank of Kentucky Center, bring NKU's athletic programs to a new level, and the beginning construction of a state of the art College of Informatics building, made possible in part by a large donation from Griffin Industries, will provide our students and faculty with a technological environment beyond imagination. I thank you for your continued contributions and support of the Foundation and the University.

Sincerely,

C. Andrew Neagle

C. Andrew Neagle
President

EXECUTIVE COMMITTEE/OFFICERS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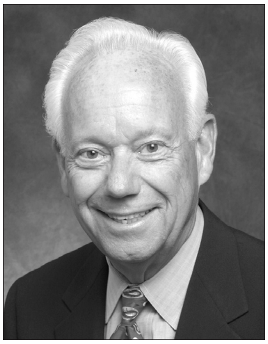
Judith H. Gibbons
VICE PRESIDENT


J. David Bender
SECRETARY/TREASURER


Kenneth F. Harper


Nancy B. Kremer


Anna Dale Pyles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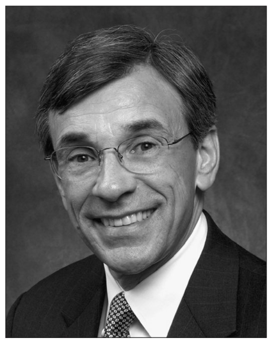
William C. Vermillion


James C. Votruba


Karen Zerhusen Kruer, J.D.
EXECUTIVE DIRECTOR

NORTHERN KENTUCKY UNIVERSITY FOUNDATION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statement of financial position of Northern Kentucky University Foundation, Inc. (a nonprofit organization) as of June 30, 2009 and 2008, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northern Kentucky University Foundation, Inc. as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
September 8, 2009

4755 Lake Forest Drive √ Suite 100 √ Cincinnati, OH √ 45242-3836 √ 513-891-5911 √ 513-891-5969 *fax*

CPAs & Advisors

250 Grandview Drive √ Suite 300 √ Fort Mitchell, KY √ 41017-5610 √ 859-331-3300 √ 859-331-4358 *fax*

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

As of June 30, 2009 and 2008

(in thousands)

	2009	2008
ASSETS		
Cash and cash equivalents	$ 7,708	$ 7,396
Loans, interest and accounts receivable		
(less allowance of $116,475 in 2009 and $109,929 in 2008)	146	219
Contributions receivable (less allowance of $75,406 in 2009 and $37,838 in 2008)	22,234	10,241
Prepaid expenses and deferred charges	38	64
Investments	48,012	50,338
Land, buildings and equipment	2,890	2,891
Accumulated depreciation	(182)	(176)
TOTAL ASSETS	**$ 80,846**	**$ 70,973**
LIABILITIES AND NET ASSETS		
Accounts payable	$ 216	$ 540
Accrued Interest	194	
Agency fund		
Annuities payable	48	88
Deferred income	25	25
Funds held in trust for Northern Kentucky University	7,936	9,485
Notes payable	6,525	6,525
TOTAL LIABILITIES	**14,944**	**16,663**
NET ASSETS		
Unrestricted		
For current operations	443	358
For designated purpose		527
Contributions receivable	2	46
Amounts functioning as endowment funds	814	1,954
Invested in property, plant and equipment	607	615
Total Unrestricted	1,866	3,500
Temporarily restricted		
Unexpended funds received for restricted purposes	1,245	886
Contributions receivable	11,793	6,578
Loan funds	135	142
Endowment funds	12,700	18,169
Total temporarily restricted	25,873	25,775
Permanently restricted		
Contributions receivable	10,440	3,618
Endowment funds	27,723	21,417
Total permanently restricted	38,163	25,035
TOTAL NET ASSETS	**65,902**	**54,310**
TOTAL LIABILITIES AND NET ASSETS	**$ 80,846**	**$ 70,973**

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statement of Activities

For the year ended June 30, 2009

(in thousands)

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

See accompanying notes to the financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statement of Activities

For the year ended June 30, 2008

(in thousands)

	2008			
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
CHANGES IN NET ASSETS:				
Revenues and Gains				
Gifts, grants and bequests	$ 538	$ 3,812	$ 2,133	$ 6,483
Rental income	107	3		110
Investment income	304	758		1,062
Net gains (losses) on investments	(390)	(3,536)		(3,926)
Other revenue	9	705		714
Total Revenues and Gains	**568**	**1,742**	**2,133**	**4,443**
Net Assets Released from Restrictions	7,699	(7,699)		
Total Revenues and Gains and Other Support	**8,267**	**(5,957)**	**2,133**	**4,443**
EXPENSES				
Program Expenses				
Instruction	454			454
Research	4			4
Public service	774			774
Libraries	27			27
Academic support	256			256
Student services	225			225
Institutional support	639			639
University facilities and equipment	4,408			4,408
Student financial aid	1,008			1,008
Total Program Expenses	**7,795**			**7,795**
Support Expenses				
Management and general	207			207
Fundraising support	93			93
Rental property	179			179
Total Support Expenses	**479**			**479**
TOTAL EXPENSES	**8,274**			**8,274**
Net transfers in (out)	(166)	166		
INCREASE (DECREASE) IN NET ASSETS	**(173)**	**(5,791)**	**2,133**	**(3,831)**
NET ASSETS - BEGINNING OF YEAR	3,673	31,566	22,902	58,141
NET ASSETS - END OF YEAR	**$ 3,500**	**$ 25,775**	**$ 25,035**	**$ 54,310**

See accompanying notes to the financial statements

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

For the years ended June 30, 2009 and 2008

(in thousands)

	2009	2008
Cash flows from operating activities:		
Interest and dividends received	$ 47	$ 285
Contributions received	3,638	4,549
Other receipts	1,016	903
Payments to vendors for goods and services	(1,637)	(1,476)
Subgrants to the University	(2,650)	(5,341)
Disbursements to students for financial aid	(1,225)	(1,008)
Interest paid	(70)	(119)
Net cash provided by (used for) operating activities	**(881)**	**(2,207)**
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	2,328	3,468
Purchases of investments	(7,373)	(4,772)
Life insurance premiums paid	(14)	(8)
Net cash provided by (used for) investing activities	**(5,059)**	**(1,311)**
Cash flows from financing activities:		
Endowment and other capital gifts	6,294	717
Increase in deposits in custody	–	18
Reduction of deposits in custody	–	(5,640)
Proceeds from new indebtedness	–	4,425
Payments to annuitants	(42)	(42)
Net cash provided by (used for) financing activities	**6,252**	**(523)**
Net increase (decrease) in cash and cash equivalents	312	(4,042)
Cash and cash equivalents at beginning of year	7,396	11,438
Cash and cash equivalents at end of year	**$ 7,708**	**$ 7,396**
Reconciliation of change in net assets to net cash provided by (used for) operating activities:		
Change in net assets	**$ 11,592**	**$ (3,832)**
Adjustment to reconcile change in net assets to net cash provided by (used for) operating activities		
Depreciation	7	7
Bad debt expense adjustment	7	(2)
Provision for uncollectible pledges	113	51
Decrease in accounts receivable	75	62
Decrease (Increase) in interest receivable	(2)	1
Increase in contributions receivable	(11,993)	(1,177)
Increase (decrease) in prepaid expenses	(24)	38
Increase (decrease) in accounts payable	(324)	260
Increase in accrued interest payable	194	–
Life insurance premiums paid	14	8
Increase in cash surrender value of life insurance	12	11
Payments to annuitants	42	42
Contributions restricted for long-term investment	(6,294)	(717)
Interest and dividends restricted for reinvestment	(951)	(886)
Net losses (gains) on investments	6,651	(3,927)
Net cash provided by (used for) operating activities	**$ (881)**	**$ (2,207)**

See accompanying notes to the financial statements.

NOTE A – HISTORY AND PURPOSE

NKU Foundation, Inc.

Northern Kentucky State College Research and Development Foundation was incorporated November 23, 1970, as a domestic non-profit corporation under Kentucky Revised Statutes. The articles of incorporation state that the purpose of the Foundation shall be to provide general and specific services and material things necessary or desirable for the growth and development of Northern Kentucky State College, or its successor institution, and encompasses prospective students, students, alumni, faculty, and staff, as well as research and civic services and cooperative educational programs. Any and all things and acts in and incidental to the conduct of such activities deemed useful, necessary, proper and lawful, are also declared purposes.

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

Kentucky Revised Statutes define affiliation status for corporations supporting public education institutions. Northern Kentucky University Foundation, Inc. is an unaffiliated corporation as defined by the statutes.

The Internal Revenue Service has determined, under Section 501(c)(3) of the code, that the Foundation is a tax-exempt organization and has determined that it is not a private foundation within Section 509(a) of the code. Contributions, bequests, legacies, devices, transfers and gifts made to the Foundation are deductible by donors, as provided in Section 170 of the code.

NKU Foundation Properties, Inc.

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

Scope of Statements

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

These statements are presented on the accrual basis of accounting, and have been prepared to focus on the Foundation as a whole and to present transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of fund balances and transactions into three classes of net assets - permanently restricted, temporarily restricted and unrestricted net assets.

Net assets and changes therein are classified as follows:

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use the returns on the related investments over time for general or specific purposes.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or the passage of time. Temporarily restricted net assets are generally established in support of colleges or departments of the University, often for specific purposes such as faculty support, scholarships and fellowships, library acquisitions, equipment or building projects and other specific purposes.

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

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

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

- As increases in permanently restricted net assets – if the terms of the gift require that they be added to the principal of a permanent endowment fund

- As increases in temporarily restricted net assets – if the terms of the gift impose restrictions on the use of the income

- As increases in unrestricted net assets – in all other cases

Cash and Cash Equivalents

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

At various times throughout the year, the Foundation may have cash in certain financial institutions in excess of insured limits. At June 30, 2009 and 2008, the carrying amount of the Foundation's cash and cash equivalents was $7,708,000 and $7,396,000, respectively. Included in the Foundation's deposits at June 30, 2009 and 2008, are short term government obligation shares of $1,369,000 and $1,351,000, respectively. Of the remaining balances, $500,000 was insured by federal depository insurance and the remaining was collateralized with securities held by the financial institution's trust department or agent, but not in the Foundation's name.

Loans and Accounts Receivable

Loans receivable consists primarily of loans made to students under privately funded loan programs. The advances are evidenced by signed promissory notes, bearing interest at varying stated interest rates, with varying due dates. Loans, accounts and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts at June 30, 2009 and 2008 was $116,745 and $109,929, respectively. Changes in the valuation allowance have not been material to the financial statements.

Investments

The Foundation's investments are recorded in the financial statements at fair value. The estimated fair value of investments is based on quoted market prices, except for alternative investments for which quoted market prices are not available. The alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the investment managers. The estimated fair value of certain alternative investments, such as private equity interests, is based on valuations provided by the external investment managers adjusted for cash receipts, cash disbursements and distributions through June 30. The Foundation believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material.

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

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

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

Fixed Assets and Depreciation

At June 30, 2009 and 2008, fixed assets consisted of:

	2009	2008
Type of asset:		
Land	$ 2,682	$ 2,682
Land improvements	208	208
Museum and art collection	1	
Total Fixed Assets	**$ 2,890**	**$ 2,891**

The cost of expenditures for land, buildings, improvements, equipment, art and museum collections and the fair market value of donated capital assets in excess of $5,000 are capitalized. Annual depreciation is computed on a straight-line basis, beginning in the month of acquisition, at rates based on useful lives of 25 to 40 years for buildings and improvements and 3 to 5 years for furnishings and equipment. Assets acquired for the museum and art collection are not depreciated. Depreciation expense for the years ended June 30, 2009 and 2008 was $7,000 and $7,000, respectively, and is reported as support expenses under rental property in the statement of activities.

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

Net assets Released from Restrictions

Reclassification of net assets is based upon the satisfaction of the purpose for which the net assets were restricted or the completion of a time stipulation. Restricted contributions and net investment returns earned are reported as temporarily restricted support and reclassified as unrestricted when any donor-imposed restrictions are satisfied.

Use of Estimates in the Preparation of Financial Statements

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

Other Significant Accounting Policies

Certain items have been reclassified for the year ended June 30, 2008, in order to conform to classifications used for the year ended June 30, 2009.

NOTE C – NOTES PAYABLE

The Foundation has a $2.1 million open-end mortgage note payable collateralized by a first mortgage on certain land and land improvements owned by the Foundation. The note principal is due on or before June 30, 2012. Monthly payments of interest at the lender's floating prime rate (4.0% at June 30, 2009) were current at June 30, 2009.

On June 30, 2008, the Foundation borrowed $4.425 million on a promissory note collateralized by certain pledges receivable restricted by the donor to partially fund construction of The Bank of Kentucky Center, a multi-purpose athletic and special event facility. Equal annual payments of principal and interest at a rate of 4.31% are due beginning August 1, 2009 through August 1, 2014. Accrued interest and principal (in thousands) to be paid over the term of the loan is as follows:

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

Costs of $33,700 associated with obtaining the loan are being amortized over the 73 month term of the note. The $4.391 million net proceeds of the loan were immediately subgranted to Northern Kentucky University to be applied toward construction costs of The Bank of Kentucky Center. An additional $857 thousand was subgranted to Northern Kentucky University during 2009. The subgrants are reported in the statement of activities as a program expense under University facilities and equipment.

NOTE D – PROPERTY LEASES

The following is a schedule by years of the future rentals receivable (in thousands) on property leases as of June 30, 2009:

Year ending June 30	
2010	107
2011	116
2012	118
2013	119
2014	119
2015-2019	640
2020-2024	707
2025-2029	783
2030-2034	866
2035-2039	959
2040-2044	343
2044-2047	83
Total future rentals	**$ 4,960**

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

- Property lease covering approximately 23 acres of Foundation land. The lease is for 48 years ending on July 31, 2040, with four additional lease option terms of ten years each. All lease payments were current as of June 30, 2009. As a condition of the lease, the Foundation has executed fee title mortgages to institutional lenders which subordinates its title in the real estate leased as security for construction financing of permanent improvements thereon. Any improvements constructed on the leased property of the Foundation shall become the property of the Foundation only upon termination of the lease or termination of the last such renewal term as may be exercised.

- Property lease and easements covering approximately .2 (two tenths) acre of Foundation land. The initial lease term is 5 years, beginning January 1, 1997, with nine additional 5-year automatic renewals at the option of the lessee. All lease payments were current as of June 30, 2009.

NOTE E – UNCONDITIONAL AND CONDITIONAL PROMISES TO GIVE

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Amounts expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts are computed using a risk free interest rate as of fiscal year-end. Amortization of the discount is included in contribution revenue.

At June 30, 2009 and 2008, the Foundation recognized contributions based on the following unconditional promises to give (in thousands):

	2009	2008
Purpose:		
Endowment giving	$ 11,339	$ 4,147
Capital purposes	11,304	6,189
Operating programs	1,763	728
Gross unconditional promises	**24,406**	**11,064**
Less: Discount and allowance for uncollectible accounts	(2,172)	(823)
Net unconditional promises to give	**$ 22,234**	**$ 10,241**

Amounts due in:

Less than one year	5,721	5,066
One to five years	17,821	4,265
More than five years	864	1,733
Total	**$ 24,406**	**$ 11,064**

The discount rates used to calculate the present value of contributions receivable at June 30, 2009 and 2008 are 2.8% and 3.8%, respectively.

The Foundation has pledged $5.145 million of unconditional promises to give as collateral against a promissory note.

Conditional promises to give are not included as support until such time as the conditions are substantially met. At June 30, 2009, the Foundation had received conditional promises to give of approximately $1,400,000, consisting of the face value of life insurance policies, net of accumulated cash surrender value.

NOTE F - INVESTMENTS

The market values (in thousands) of the Foundation's investments as of June 30, 2009 and 2008 are categorized by type below:

	2009	2008
Type of investment:		
Short-term money market funds	$ 19	$ 25
Fixed income funds	8,118	10,751
Equity funds and common stock	26,35	28,906
Hedge funds	6,149	6,792
Alternative investments	4,413	3,372
Other	2,957	492
Total Investments	**$ 48,012**	**$ 50,338**

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

	2009	2008
Interest	$ 178	$ 389
Dividends	822	782
Fees	(154)	(109)
Total Investment Income	**$ 846**	**$ 1,062**
Realized Loss	$ (2,801)	$ 2,224
Unrealized Gains (Losses)	(3,849)	(6,150)
Total Investment Gains (Losses)	**$ (6,650)**	**$ (3,926)**

The Foundation records the cost of managing its endowment portfolio as a decrease in investment income within the appropriate net asset class in the Statement of Activities. Some of the Foundation's investment managers report investment transactions net of fees. The fees noted above are only those fees separately stated by the managers.

The investments of the Foundation are commingled with certain investments which the Foundation holds in trust for Northern Kentucky University. The market value of funds held in trust for the university at June 30, 2009 and 2008 were $7,936,000 and $9,485,000 respectively.

At June 30, 2009, the Foundation had committed $ 15.2 million of its endowment investment resources to alternative investments, of which $9.6 million had not yet been called by the investment managers. Alternative investments for which commitments have been made consist of private equity, venture capital, real estate and real assets.

NOTE G – FAIR VALUE MEASUREMENTS

Accounting Pronouncements establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under generally accepted accounting principles are described as follows:

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

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

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

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

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

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

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

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 investments include short term money market funds, cash and cash surrender value, certificates of deposit, fixed income funds and equity funds. Level 2 investments are based on quoted prices of securities or other property with similar characteristics and include hedge funds of funds and a remainder interest in real property subject to a life estate. In certain cases where level 1 or 2 inputs are not available, investments are classified within Level 3 of the hierarchy and include investments in natural resources, real assets, private equity, venture capital and real estate.

Contributions Receivable

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

There have been no changes in the methodologies used at June 30, 2009.

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

	Quoted Price In Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments	$ 37,068	$ 6,531	$ 4,413
Contributions Receivable	$ –	$ –	$ 22,234

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair values for the contributions receivable is determined by calculating the present value of the future payments expected to be received using a 2.8% discount rate.

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

	Investments	**Contributions Receivable**
Beginning balance	$ 3,372	$ 10,241
Purchases, sales and settlements (net)	1,792	
Gains (losses) for the year included in changes in net assets as revenue	(646)	
New promises received		22,450
Collections		(8,170)
Discounts and allowances		(2,172)
Contributions revenue write offs		(115)
Transfers in (out) of Level 3	(105)	-
Ending balance	**$ 4,413**	**$ 22,234**

NOTE H - ENDOWMENTS

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

The Foundation follows the Uniform Management of Institutional Funds Act of 1972 (UMIFA) and its own governing documents. UMIFA requires the historical dollar amount of a donor-restricted endowment fund to be preserved. As a result of this requirement, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment. In the absence of donor restrictions, the net appreciation on a donor-restricted endowment fund is spendable under UMIFA. 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.

Endowment Investment and Spending Policies. 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 8-10%, net of investment fees. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places an emphasis on U.S. Treasury securities and equity-based investments to achieve its long-term return objectives within prudent risk parameters.

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor restricted endowment funds	$ –	$ 8,20	$ 27,723	$ 35,928
Board designated endowment funds	814	4,495		5,309
Total endowment funds	$ 814	$ 12,700	$ 27,723	$ 41,237

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment Net Assets, Beginning of Year	$ 1,954	$ 18,169	$ 21,417	$ 41,540
Contributions	–	519	16,746	17,265
Contributions Receivable		–	(10,440)	(10,440)
Investment Income	37	794	–	831
Net Investment Loss	(393)	(6,227)	–	(6,620)
Amounts Appropriated for Expenditure	(269)	(1,070)	–	(1,339)
Excess Loss Transferred to Unrestricted	(515)	515	–	–
Endowment Net Assets, End of Year	$ 814	$ 12,700	$ 27,723	$ 41,237

Endowment net asset composition by type of endowment (in thousands) as June 30, 2008 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor restricted endowment funds	$	$ 12,839	$ 21,417	$ 34,256
Board designated endowment funds	1,954	5,330		7,284
Total endowment funds	$ 1,954	$ 18,169	$ 21,417	$ 41,540

Changes in endowment net assets (in thousands) as of June 30, 2008 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment Net Assets, Beginning of Year	$ 2,376	$ 20,500	$ 22,902	$ 45,778
Contributions	–	1,741	2,133	3,874
Contributions receivable		(474)	(3,618)	(4,092)
Investment Income	43	752	–	795
Net Investment Loss	(214)	(3,710)	–	(3,924)
Amounts Appropriated for Expenditure	(60)	(831)	–	(891)
Excess Loss Transferred to Unrestricted	(191)	191	–	–
Endowment Net Assets, End of Year	$ 1,954	$ 18,169	$ 21,417	$ 41,540

In August, 2008, the Financial Accounting Standards Board issued FASB Staff Position entitled, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds.* This pronouncement provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). This pronouncement also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of Kentucky has not yet enacted UPMIFA, the provisions of which apply to endowment funds existing on or established after enactment. The Foundation has adopted FSP FSA 117-1 for the year ending June 30, 2009. The Board of Directors has not determined the effect of UPMIFA on the Foundation's endowment funds and net asset classification.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $706 thousand and $191 thousand as of June 30, 2009 and 2008. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

NOTE I - CONTINGENT LIABILITIES

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

NOTE J – REGIONAL UNIVERSITY EXCELLENCE TRUST FUND

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

The Foundation reports these funds and accumulated earnings as assets held in trust for Northern Kentucky University. Investment earnings, gains and losses and expenditures from these funds are reported as changes in the balance held in trust rather than as revenue and expenses of the Foundation.

NOTE K – SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2009, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is September 8, 2009 , which is the date on which the financial statements were available to be issued.

NOTE L – SPLIT INTEREST AGREEMENT

During the year ended June 30, 2009, the foundation accepted a gift of a remainder interest in real property subject to a life estate retained by the two donors. The carrying value of the gift consists of the actuarial net present value of the property through the end of the life estate, reduced for the net present value of donor liabilities assumed by the foundation over the estimated period of the life estate, calculated using an effective rate of 2.4% applied to the actuarial life expectancies of the two donors, as follows (in thousands):

Fair market value of the real property at the date of the gift	$ 900
Less: Actuarial discount for the duration of the life estate	(356)
Net present value of the remainder interest in real property	544
Less: Net present value of donor liabilities assumed	(167)
Carrying value of the remainder interest in real property	$ 377

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