NORTHERN KENTUCKY UNIVERSITY FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended June 30, 2019

NKU NORTHERN KENTUCKY UNIVERSITY FOUNDATION

November 21, 2019

Dear NKU Foundation Board Members and Friends:

As I conclude my first year as the Foundation's Board President, I want to express my pride and gratitude for the great work being done by our members to advance student success through their dedication and commitment to Northern Kentucky University. With your support, the landscape of NKU continues to be enhanced further, faster.

Foundation members should be especially proud of their part in *Further, Faster: The Campaign for NKU*. At the time of the campaign's launch in May 2019, more than $47.5 million had been raised from more than 12,000 donors in less than five years!

This year, we also saw the unveiling of the university's new strategic framework: *Success by Design*. With input from both internal and external supporters, including the Foundation, the framework introduces three pillars of student success – access, completion and career and community engagement. This framework is guiding our own future, as the Foundation examines and creates plans to meet the students', university's and region's needs.

The following pages show our Consolidated Financial Statements for the years ending June 30, 2019, and June 30, 2018. They have been audited by BKD, LLP, whose report appears on page four. At the 2019 fiscal year end, the Foundation's total assets were $121 million, and the endowment pool consisted of 333 individual donor-restricted funds. With a concerted effort, we continue to work on increasing those numbers through both traditional and innovative resource development, partnering with the community to reach our goals. This year, we partnered with Northern Kentucky Tri-ED on our first state grant for the Regional Innovation for Startups Entrepreneurs program (RISE). This is an opportunity for NKU and the Foundation to play an important role in supporting entrepreneurial activity in our region.

Thank you, again, for another excellent year of hard work and dedication. I look forward to working with you to implement important initiatives that will advance the university and continue to make the Foundation a regional leader for excellence in fundraising, stewardship and advocacy.

Best,

Jason O. Jackman
President
Northern Kentucky University Foundation, Inc.

NORTHERN KENTUCKY UNIVERSITY
FOUNDATION

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BKD
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Independent Auditor's Report

Board of Directors
Northern Kentucky University Foundation, Inc.
Highland Heights, Kentucky

We have audited the accompanying consolidated financial statements of Northern Kentucky University Foundation, Inc., which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northern Kentucky University Foundation, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note B to the consolidated financial statements, in 2019, Northern Kentucky University Foundation, Inc. adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The board of directors listing, letter from the president, and executive committee/officers listing are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Cincinnati. Ohio
September 16, 2019

Northern Kentucky University Foundation, Inc.

Consolidated Statements of Financial Position

As of June 30, 2019 and 2018

(in thousands)

	2019	2018
ASSETS		
Cash and cash equivalents	$ 9,355	$ 13,796
Loans and accounts receivable, net	191	97
Contributions receivable, net	3,012	4,449
Prepaid expenses and deferred charges	42	38
Investments	108,503	108,297
Land and land improvements	548	548
Accumulated depreciation	(208)	(208)
TOTAL ASSETS	**$ 121,443**	**$ 127,017**
LIABILITIES AND NET ASSETS		
Accounts payable	$ 405	$ 3,140
Deferred income	163	215
Funds held in trust for Northern Kentucky University	13,446	13,431
TOTAL LIABILITIES	**14,014**	**16,786**
NET ASSETS		
Without Donor Restrictions		
For current operations	1,596	1,344
Amounts functioning as endowment funds	2,687	2,614
Invested in land and land improvements	340	340
Total without donor restrictions	4,623	4,298
With Donor Restrictions		
Unexpended funds received for restricted purposes	9,468	12,038
Contributions receivable	3,012	4,449
Loan funds	214	219
Endowment funds	90,112	89,227
Total with donor restrictions	102,806	105,933
TOTAL NET ASSETS	**107,429**	**110,231**
TOTAL LIABILITIES AND NET ASSETS	**$ 121,443**	**$ 127,017**

See accompanying notes to the consolidated financial statements

Northern Kentucky University Foundation, Inc.

Consolidated Statement of Activities

For the year ended June 30, 2019 (in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS AND OTHER SUPPORT			
Gifts and bequests	$ -	$ 5,014	$ 5,014
State grants		669	669
Rental income	131		131
Investment return	295	3,566	3,861
Other revenue	117	421	538
Total revenues and gains	**543**	**9,670**	**10,213**
Net assets released from restrictions	**12,675**	**(12,675)**	
Total revenues, gains and other support	**13,218**	**(3,005)**	**10,213**
EXPENSES AND LOSSES			
Program expenses			
Instruction	957		957
Research	60		60
Public service	882		882
Libraries	23		23
Academic support	904		904
Student services	931		931
Institutional support	1,141		1,141
University facilities and equipment acquisition	5,296		5,296
Student financial aid	1,925		1,925
Other program expenses and losses		122	122
Total program expenses	**12,119**	**122**	**12,241**
Support expenses			
Management and general	476		476
Fund raising support	281		281
Rental property	17		17
Total support expenses	**774**	**-**	**774**
TOTAL EXPENSES AND LOSSES	**12,893**	**122**	**13,015**
INCREASE (DECREASE) IN NET ASSETS	**325**	**(3,127)**	**(2,802)**
NET ASSETS - BEGINNING OF YEAR	4,298	105,933	110,231
NET ASSETS - END OF YEAR	**$ 4,623**	**$ 102,806**	**$ 107,429**

See accompanying notes to the consolidated financial statements

Northern Kentucky University Foundation, Inc.

Consolidated Statement of Activities
For the year ended June 30, 2018
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS AND OTHER SUPPORT			
Gifts and bequests	$ 2	$ 5,098	$ 5,100
Rental income	131		131
Investment return	346	6,663	7,009
Other revenue	115	308	423
Total revenues and gains	**594**	**12,069**	**12,663**
Net assets released from restrictions	**9,352**	**(9,352)**	
Total revenues, gains and other support	**9,946**	**2,717**	**12,663**
EXPENSES AND LOSSES			
Program expenses			
Instruction	693		693
Research	38		38
Public service	175		175
Libraries	40		40
Academic support	725		725
Student services	524		524
Institutional support	1,002		1,002
University facilities and equipment acquisition	3,187		3,187
Student financial aid	2,469		2,469
Other program expenses and losses		32	32
Total program expenses	**8,853**	**32**	**8,885**
Support expenses			
Management and general	428		428
Fund raising support	179		179
Rental property	-		-
Total support expenses	**607**	**-**	**607**
TOTAL EXPENSES AND LOSSES	**9,460**	**32**	**9,492**
INCREASE (DECREASE) IN NET ASSETS	**486**	**2,685**	**3,171**
NET ASSETS - BEGINNING OF YEAR	3,812	103,248	107,060
NET ASSETS - END OF YEAR	**$ 4,298**	**$ 105,933**	**$ 110,231**

See accompanying notes to the consolidated financial statements

Northern Kentucky University Foundation, Inc.

Consolidated Statements of Cash Flows

For the years ended June 30, 2019 and 2018

(in thousands)

	2019	2018
Cash flows from operating activities:		
Interest and dividends received	$ 2,420	$ 1,928
Contributions received	2,901	3,435
Other receipts	1,060	566
Payments to vendors for goods and services	(2,809)	(1,937)
Subgrants to the University	(10,774)	(2,526)
Disbursements to students for financial aid	(1,925)	(2,469)
Net cash provided by (used for) operating activities	**(9,127)**	**(1,003)**
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	14,354	7,968
Purchases of investments	(13,087)	(8,370)
Net cash provided by (used for) investing activities	**1,267**	**(402)**
Cash flows from financing activities:		
Endowment and other capital gifts	3,419	3,411
Net cash provided by (used for) financing activities	**3,419**	**3,411**
Net change in cash and cash equivalents	(4,441)	2,006
Cash and cash equivalents at beginning of year	13,796	11,790
Cash and cash equivalents at end of year	**$ 9,355**	**$ 13,796**
Reconciliation of change in net assets to net cash provided by (used for) operating activities:		
Change in net assets	**$ (2,802)**	**$ 3,171**
Bad debt expense adjustment	3	(5)
Provision for uncollectible pledges	(81)	2
Adjustment of annuities payable	-	(2)
Adjustment of life estate remainder interest	(48)	(47)
Contributions restricted for long-term investment	(3,419)	(3,411)
Net losses (gains) on investments	(1,441)	(5,081)
Changes in assets and liabilities:		
Accounts receivable	(97)	12
Contributions receivable	1,518	1,752
Prepaid expenses and deferred charges	(4)	(7)
Accounts payable	(2,735)	2,581
Deferred revenue	(4)	54
Cash surrender value of life insurance	(17)	(22)
Net cash provided by (used for) operating activities	**$ (9,127)**	**$ (1,003)**

See accompanying notes to the consolidated financial statements

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

NOTE A – HISTORY AND PURPOSE

Northern Kentucky University Foundation, Inc.

Northern Kentucky University Foundation, Inc. (the Foundation) was incorporated November 23, 1970, as a Kentucky non-stock, not-for-profit corporation. The purpose of the Foundation, as stated by the articles of incorporation, is to provide general and specific services and material things necessary or desirable for the growth and development of Northern Kentucky University (the University), 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.

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

The Internal Revenue Service has determined that the Foundation is a tax-exempt organization under Section 501(c)(3) of the code 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.

Scope of Statements

The consolidated financial statements of the Foundation include the operations of the Foundation as well as the following single member limited liability companies: NKUF Properties 1, LLC, NKUF Properties 2, LLC, NKUF Properties 3, LLC, NKUF Properties 4, LLC, NKUF Properties 5, LLC, NKUF Properties 6, LLC, and NKUF Properties 7, LLC. These entities hold title to real estate and other assets formerly held by the Foundation. All material intercompany transactions and balances have been eliminated.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

Change in Accounting Principle

In 2019, the Foundation, adopted ASU 2016-14, Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities. A summary of the changes is as follows:

Statement of Financial Position

- The statement of financial position distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.

- Underwater donor-restricted endowment funds are shown within the donor-restricted net asset class. This is a change from the previously required classification as unrestricted net assets.

Statement of Activities

- Expenses are reported by both nature and function in one location.

- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the Statement of Financial Position.

- Amounts and purposes of Governing Board designations and appropriations as of the end of the period are disclosed.

This change had no impact on previously reported total change in net assets.

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, 2019 and 2018, $2,123,000 and $3,305,000, respectively, was collateralized or insured with securities held by the financial institution's trust department or agent, but not in the Foundation's name. At June 30, 2019 and 2018, balances of $7,232,000 and $10,491,000, respectively, were neither insured nor collateralized.

Loans and Accounts Receivable

Loans receivable consists primarily of loans made to students under privately funded loan programs. The advances are evidenced by signed promissory notes, bearing interest at varying stated interest rates, with varying due dates. Loans, accounts and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for a probable uncollectible allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts as of June 30, 2019 and 2018 was approximately $39,000 and $120,000, respectively.

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.

Land and Land Improvements

At June 30, 2019 and 2018, land and land improvements (in thousands) consisted of:

	2019	2018
Type of asset:		
Land	$ 178	$ 178
Land held for sale	17	-
Land held for future use by the University	145	162
Land improvements	208	208
Total land and land improvements	**$ 548**	**$ 548**

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. At June 30, 2019 and 2018 all land improvements were fully depreciated.

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

At June 30, 2019 a parcel of land with a cost basis of approximately $17,000 previously held for future use by the University was reclassified as land held for sale.

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.

NOTE C – PROPERTY LEASES

At June 30, 2019, the Foundation owned properties subject to lease agreements with unrelated parties, as follows:

One property is subject to a 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. 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.

A second property is subject to a property lease and easements covering approximately .2 (two tenths) acre of Foundation land. The initial lease term was 5 years, beginning January 1, 1997, with nine additional 5-year automatic renewals at the option of the lessee.

Rental income was $131,000 and $131,000 for the years ended June 30, 2019 and 2018, respectively.
The following is a schedule by years of the future rentals receivable (in thousands) on property leases as of June 30, 2019:

Year ending June 30	
2020	131
2021	142
2022	135
2023	126
2024	126
2025 and thereafter	2,436
Total future rentals	**$ 3,096**

NOTE D – 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, 2019 and 2018, the Foundation recognized contributions based on the following unconditional promises to give (in thousands):

	2019	**2018**
Purpose:		
Endowment giving	$ 572	$ 827
Capital purposes	-	2,050
Operating programs	2,699	1,794
Gross unconditional promises	**3,271**	**4,671**
Less: Discount and allowance for uncollectible accounts	(259)	(222)
Net unconditional promises to give	**$ 3,012**	**$ 4,449**
Amounts due in:		
Less than one year	1,204	3,125
One to five years	2,067	1,516
More than five years	-	30
Total	**$ 3,271**	**$ 4,671**

The discount rates used to calculate the present value of contributions receivable at June 30, 2019 and 2018 vary from 1.2% to 3.4%, 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 $3.1 million at June 30, 2019 and $3.1 million at June 30, 2018, consisting of the face value of life insurance policies, net of accumulated cash surrender value, as well as conditional promises of $2.1 million being from a single donor in 2019 and 2018.

Approximately 25% of total pledges receivable were due from one donor at June 30, 2019. Approximately 44% of total pledges receivable were due from one donor at June 30, 2018.

NOTE E – 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, 2019 or 2018.

The Foundation adopted Accounting Standards Update 2015-07 which eliminates the requirement that investments valued using the net asset value expedient be categorized as Level 2 or 3. These investments are now shown in a separate column on the table below. This treatment was applied retrospectively.

The following assets were measured at fair value on a recurring basis as of June 30, 2019 (in thousands):

		Fair Value Measurements Using			
	Total	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
June 30, 2019					
Type of Investment:					
Short-term money market funds	$ 9	$ 9	$ -	$ -	$ -
Cash surrender value	445	445	-	-	-
Fixed income funds:					
Core	3,617	3,617	-	-	-
Core Plus	6,553	6,553	-	-	-
Global	1,834	1,834	-	-	-
Treasury Inflation Protected Securities	1,664	1,664	-	-	-
Equity funds:					
Large/Mid-Cap - Broad	25,734	25,734	-	-	-
Large/Mid-Cap - Value	7,497	7,497	-	-	-
Small Cap - Growth	1,697	1,697	-	-	-
Small Cap - Value	1,944	1,944	-	-	-
International - Core	7,875	7,875	-	-	-
International - Value	3,768	3,768	-	-	-
International Small Cap - Value	2,640	2,640	-	-	-
Emerging Markets - Value	4,886	4,886	-	-	-
Emerging Markets - Small Cap	4,325	4,325	-	-	-
Real Estate Investment Trust	23	23	-	-	-
Exchange Traded Funds	101	101	-	-	-
Remainder interest in real property and other	685	-	685	-	-
Public Natural Resources-Master Limited Partnerships	2,946	-	-	-	2,946
Private equity	7,725	-	-	-	7,725
Private debt	2,443	-	-	-	2,443
Natural resources	10,035	-	-	-	10,035
Private real estate	2,083	-	-	-	2,083
Low-Volatility	6,707	-	-	-	6,707
Total	**$ 107,236**	**$ 74,612**	**$ 685**	**$ -**	**$ 31,939**

The following assets were measured at fair value on a recurring basis as of June 30, 2018 (in thousands):

		Fair Value Measurements Using			
	Total	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
June 30, 2018					
Type of Investment:					
Short-term money market funds	$ 8	$ 8	$ -	$ -	$ -
Cash surrender value	429	429	-	-	-
Fixed income funds:					
Core	1,611	1,611	-	-	-
Core Plus	4,422	4,422	-	-	-
Global	1,737	1,737	-	-	-
Treasury Inflation Protected Securities	1,589	1,589	-	-	-
Equity funds:					
Large/Mid-Cap - Broad	23,443	23,443	-	-	-
Large/Mid-Cap - Value	7,056	7,056	-	-	-
Small Cap - Growth	1,563	1,563	-	-	-
Small Cap - Value	2,181	2,181	-	-	-
International - Core	7,727	7,727	-	-	-
International - Value	3,608	3,608	-	-	-
International Small Cap - Value	2,984	2,984	-	-	-
Emerging Markets - Value	4,793	4,793	-	-	-
Emerging Markets - Small Cap	4,382	4,382	-	-	-
Real Estate Investment Trust	18	18	-	-	-
Exchange Traded Funds	106	106	-	-	-
Remainder interest in real property and other	685	-	685	-	-
Public Natural Resources-Master Limited Partnerships	3,103	-	-	-	3,103
Fixed Income High Yield	1,794	-	-	-	1,794
Private equity	7,127	-	-	-	7,127
Private debt	3,012	-	-	-	3,012
Natural resources	11,217	-	-	-	11,217
Private real estate	2,072	-	-	-	2,072
Low-Volatility	10,283	-	-	-	10,283
Total	**$ 106,950**	**$ 67,657**	**$ 685**	**$ -**	**$ 38,608**

NOTE F – INVESTMENTS

The market values (in thousands) of the Foundation's investments as of June 30, 2019 and 2018 are categorized by type below:

	2019	2018
Type of Investment:		
Short-term money market funds	$ 9	$ 8
Cash and cash surrender value	1,712	1,776
Fixed income funds:		
Core	3,617	1,611
Core Plus	6,553	4,422
Global	1,834	1,737
High Yield	-	1,794
Treasury Inflation Protected Securities	1,664	1,589
Equity funds:		
Large/Mid Cap - Broad	25,734	23,443
Large/Mid Cap - Value	7,497	7,056
Small Cap - Growth	1,697	1,563
Small Cap - Value	1,944	2,181
International - Core	7,875	7,727
International - Value	3,768	3,608
International Small Cap - Value	2,640	2,984
Emerging Markets - Value	4,886	4,793
Emerging Markets - Small Cap	4,325	4,382
Real Estate Investment Trust	23	18
Exchange Traded Funds	101	106
Public Natural Resources - Master Limited Partnerships	2,946	3,103
Remainder interest in real property and other	685	685
Private equity:		
Buyout	1,761	1,480
Diversified	1,586	1,844
Growth	503	-
Venture Capital	1,728	1,352
Secondary	2,147	2,451
Private debt:		
Distressed	2,432	2,937
Mezzanine	11	75
Natural Resources:		
Diversified	3,096	3,849
Energy	4,490	5,142
Commodities	2,449	2,226
Private real estate:		
Opportunistic	1,472	1,023
Value Added	611	1,049
Low-Volatility:		
Diversifying Strategies	6,707	10,283
Total Investments	**$ 108,503**	**$ 108,297**

Investment return (in thousands) for the years ended June 30, 2019 and 2018 consists of:

	2019	2018
Interest and dividend income	$ 2,420	$ 1,928
(net of investment fees: 2019 - $516, 2018 - $652)		
Net realized gains (losses)	431	1,544
Net unrealized gains (losses)	1,010	3,537
	$ 3,861	**$ 7,009**

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, 2019 and 2018 was approximately $13,446,000 and $13,431,000 respectively. (See Note I)

At June 30, 2019 and 2018, the Foundation had committed approximately $47,200,000 and $44,100,000, respectively, of its endowment investment resources to alternative investments, of which approximately $9,900,000 and $9,500,000, respectively, 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.

NOTE G – ENDOWMENTS

The Foundation's endowment consists of 333 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 net assets held in perpetuity (a) the original value of gifts donated to the perpetual endowment, and (b) the original value of subsequent gifts to the perpetual 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 net assets with donor restrictions 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 perpetual 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, 2019 is as follows:

	Without Donor Restrictions	**With Donor Restrictions**	**Total Net Endowment Assets**
Donor restricted endowment funds	$ -	$ 83,991	$ 83,991
Quasi-endowment funds	2,687	6,121	8,808
Total endowment funds	**$ 2,687**	**$ 90,112**	**$ 92,799**

Changes in endowment net assets (in thousands) for the year ended June 30, 2019 are as follows:

	Without Donor Restrictions	**With Donor Restrictions**	**Total Net Endowment Assets**
Endowment net assets, beginning of year	$ 2,614	$ 89,227	$ 91,841
Contributions collected and other additions	-	1,215	1,215
Investment income	64	2,161	2,225
Net investment gain (loss)	31	1,128	1,159
Amounts appropriated for expenditure	(22)	(3,642)	(3,664)
Reclassify to held in perpetuity		23	23
Endowment net assets, end of year	**$ 2,687**	**$ 90,112**	**$ 92,799**

Endowment net asset composition by type of endowment (in thousands) as of June 30, 2018 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Donor restricted endowment funds	$ -	$ 83,139	$ 83,139
Quasi-endowment funds	2,614	6,088	8,702
Total endowment funds	**$ 2,614**	**$ 89,227**	**$ 91,841**

Changes in endowment net assets (in thousands) for the year ended June 30, 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 2,449	$ 84,802	$ 87,251
Contributions collected	-	1,185	1,185
Investment income	50	1,726	1,776
Net investment gain (loss)	136	4,682	4,818
Amounts appropriated for expenditure	(21)	(3,261)	(3,282)
Reclassify to held in perpetuity	-	93	93
Endowment net assets, end of year	**$ 2,614**	**$ 89,227**	**$ 91,841**

*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. There were no such deficiencies at June 30, 2019 and June 30, 2018.

NOTE H – 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 I – 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. (See Note F)

NOTE J – SUBSEQUENT EVENTS

Events occurring after June 30, 2019 have been evaluated for possible adjustment to the consolidated financial statements or disclosure through September 5, 2019, the date on which the consolidated financial statements were available to be issued.

NOTE K – RELATED PARTY TRANSACTIONS

During the years ended June 30, 2019 and 2018, the Foundation made payments on behalf of the University of $327,000 and $320,000, respectively, 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 $4,000 as of and $5,000 as of June 30, 2019 and 2018, respectively, was owed to the University for such costs.

In support of University Programs, the Foundation incurred program expenses of $12,175,000 and $8,885,000 for 2019 and 2018, respectively, which consisted of payments on behalf of the University of $4,570,000 and $4,128,000, for 2019 and 2018, respectively; and amounts transferred to the University for restricted purposes of $7,605,000 and $4,757,000 for 2019 and 2018, respectively.

NOTE L – 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, 2019 and 2018, comprise the following (in thousands):

	2019	2018
Cash and equivalents	$ 4,227	$ 3,957
Accounts receivable	48	-
Contributions receivable	876	649
Less allowance for uncollectible pledges	(8)	(13)
	$ 5,143	$ 4,593

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 years ended June 30, 2019 and 2018, restricted contributions of $868,000 and $636,000, respectively, 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 board-designated endowment of $7,970,000 is subject to an annual spending rate of 4.75 percent as described in Note G. Although the Foundation does not intend to spend from this board-designated 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.

NOTE M – 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, 2019 and June 30, 2018 are as follows (in thousands):

Schedule of Functional Expenses
For the Year Ended 6/30/19
(in thousands)

	Subgranted to NKU- Payroll	Subgranted to NKU- Other	Contracted Services	Operating	Scholarships & Awards	Total
Instruction	$ 655	$ 3	$ 37	$ 262	$ -	$ 957
Research	47	-	1	12	-	60
Public service	40	-	8	834	-	882
Libraries	-	-	-	23	-	23
Academic support	477	-	69	358	-	904
Student services	438	101	20	372	-	931
Institutional support	668	-	81	392	-	1,141
University facilities and equipment acquisition	-	5,177	-	119	-	5,296
Student financial aid	-	-	-	-	1,925	1,925
Other program expenses and losses	-	-	-	122	-	122
Total program expenses	**$ 2,325**	**$ 5,281**	**$ 216**	**$ 2,494**	**$ 1,925**	**$ 12,241**
Management and general	327	-	92	57	-	476
Fund raising support	-	-	-	281	-	281
Rental property	-	-	12	5	-	17
Total support expenses	**$ 327**	**$ -**	**$ 104**	**$ 343**		**$ 774**
Total expenses and losses	**$ 2,652**	**$ 5,281**	**$ 320**	**$ 2,837**	**$ 1,925**	**$ 13,015**

Schedule of Functional Expenses
For the Year Ended 6/30/18
(in thousands)

	Subgranted to NKU- Payroll	Subgranted to NKU- Other	Contracted Services	Operating	Scholarships & Awards	Total
Instruction	$ 347	$ -	$ 91	$ 255	$ -	$ 693
Research	33	-	-	5	-	38
Public service	30	-	59	86	-	175
Libraries	-	-	-	40	-	40
Academic support	290	25	114	296	-	725
Student services	216	25	-	283	-	524
Institutional support	606	-	43	353	-	1,002
University facilities and equipment acquisition	-	2,984	13	190	-	3,187
Student financial aid	-	-	-	-	2,469	2,469
Other program expenses and losses	-	-	-	32	-	32
Total program expenses	**$ 1,522**	**$ 3,034**	**$ 320**	**$ 1,540**	**$ 2,469**	**$ 8,885**
Management and general	320	-	61	47	-	428
Fund raising support	-	-	-	179	-	179
Total support expenses	**$ 320**	**$ -**	**$ 61**	**$ 226**	**$ -**	**$ 607**
Total expenses and losses	**$ 1,842**	**$ 3,034**	**$ 381**	**$ 1,766**	**$ 2,469**	**$ 9,492**

NOTE N – FUTURE CHANGES IN ACCOUNTING PRINCIPLES

Revenue Recognition

The Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2018, and any interim periods within annual reporting periods that begin after December 15, 2019. The Foundation is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

Contributions Received and Contributions Made

On June 21, 2018, FASB issued ASU 2018-08. This standard clarifies existing guidance on determining whether a transaction with a resource provider, e.g., the receipt of funds under a government grant or contract, is a contribution or an exchange transaction. The guidance requires all organizations to evaluate whether the resource provider is receiving commensurate value in a transfer of assets transaction, and whether contributions are conditional or unconditional.

If commensurate value is received by the resource provider, the transaction would be accounted for as an exchange transaction by applying Topic 606, *Revenue from Contracts with Customers*, or other topics. The standard clarifies that a resource provider is not synonymous with the general public. Indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider. If commensurate value is not received by the resource provider, i.e., the transaction is nonexchange, the recipient organization would record the transaction as a contribution under Topic 958 and determine whether the contribution is conditional or unconditional.

FASB expects that the new standard could result in more grants and contracts being accounted for as contributions (often conditional contributions) than under current generally accepted accounting principles. Because of this, it believes the clarifying guidance about whether a contribution is conditional or unconditional, which affects the timing of revenue recognition, is important. Both the recipient and resource provider would equally apply the guidance.

The new standard will be effective for the Foundation for reporting periods beginning on or after December 15, 2018. The Foundation is evaluating the impact the standard will have on the consolidated financial statements.

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 annual periods beginning after December 15, 2019, and any interim periods within annual reporting periods that begin after December 15, 2020. The FASB is currently considered a proposed one year delay for this standard update. The Foundation is evaluating the impact the standard will have on the consolidated financial statements.


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