



Financial Statements

for

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

Year Ended June 30, 2023  
with Report of Independent Auditors

**Northern Kentucky University**  
**A Component Unit of the Commonwealth of Kentucky**  
**Annual Financial Report**  
**June 30, 2023**

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October 4, 2023

Northern Kentucky University Board of Regents  
Highland Heights, KY 41099

Dear Members of the Board:

I am pleased to share the University's 2022-2023 Annual Financial Report. The firm of Dean Dorton has audited the attached statements and accompanying footnotes.

As the higher-education industry emerges from the global pandemic, regional public universities such as NKU remain challenged in attracting new students and also in managing expenses during a period of inflation. Challenging demographics and debates about the overall value of a higher education in our society are additional national headwinds impacting NKU. Additionally, continued focus on student affordability and increased competition from employment have led to a continued decline in full-time undergraduate campus accessing students. However, NKU continues to adapt programs and modalities as witnessed through our continued growth in online undergraduate and graduate programs. The flexibility of these programs, witnessed by many high school and undergraduate students during the pandemic, continue to prove to be an asset in attracting adult and non-traditional aged undergraduate students.

In order to improve the financial health of NKU, management has developed a comprehensive strategy and worked closely with the Board and university constituencies to implement this strategy. This includes efforts to expand enrollments where feasible, grow online programs to meet student demand, decrease costs on a per-credit-hour basis, decrease institutional discounting, reallocate resources to core missions and growth-oriented programs, and to reduce our structural deficit. Significant groundwork has occurred throughout this year to reduce structural deficits and reposition ourselves toward balance in our recurring revenues and expenditures in fiscal year 2025. We continue to make new investments in innovative programs and renovated campus facilities with the help of support from the Commonwealth of Kentucky.

While focusing on budget over the past year as part of our reimagining, the campus community has continued to focus on our student-ready and regionally engaged mission. In fact, we have enjoyed staggering recent successes with our retention and graduation rates over a five-year period. In that time, our retention rate has increased 8.9 percentage points and we recorded an institutional retention record during fall 2022. We are currently tracking to set another retention record this fall. Also, within those impressive numbers, the equity gap for underrepresented minority (URM) students has closed from 5.5 percentage points to 3.3. Our persistence rate continues to increase year-over-year, and our graduation rate has increased 7.9 percentage points since 2018. Just last academic year, we conferred more than 3,800 degrees. Because more than 80 percent of our alumni live and work in our region, we continue to make an immeasurable impact in this community.

NKU's student-ready work is being recognized on a national level as well. Within the past few weeks, *The Wall Street Journal* included our university among the top 40 universities nationwide for exceptional value. NKU is the ONLY public university in the Commonwealth and the region to make the top 100 on the list. Considering the constant headlines we see about the rising cost of higher education and economic uncertainty, we should be proud of this achievement and the work we do to give our learners the best return on their investment.

Of course, we have more work to do, and I am certain NKU will continue to position itself to serve the ambitions of learners and the region under the guidance of our seventh president, Cady Short Thompson, Ph.D. These are certainly challenging times for this institution, but we should be excited for a great future ahead. I look forward to another successful year.

Sincerely,

Bonita J. Brown, J.D.  
Interim President

## **Report of Independent Auditors**

To the Board of Regents  
Northern Kentucky University  
Highland Heights, Kentucky

### **Report on the Audit of the Financial Statements**

#### ***Opinions***

We have audited the financial statements of the business-type activities, the discretely presented component unit, and the fiduciary activities of Northern Kentucky University (the University), collectively a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit, and the fiduciary activities of the University as of June 30, 2023, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

#### ***Basis for Opinions***

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

#### ***Other Matter***

The financial statements of the University, as of and for the year ended June 30, 2022, were audited by other auditors, whose report, dated October 6, 2022, expressed an unmodified opinion on those statements.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Responsibilities of Management for the Financial Statements, continued***

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

***Auditor's Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

**Required Supplementary Information**

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

**Other Information**

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

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2023 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Louisville, Kentucky  
October 4, 2023

**Northern Kentucky University**  
**A Component Unit of the Commonwealth of Kentucky**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2023**

Northern Kentucky University's (the University) Management's Discussion and Analysis of its financial condition provides an overview of the financial performance of the University and its affiliated corporations for the year ended June 30, 2023 with selected comparative information for the year ended June 30, 2022. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and notes.

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

### **Financial Highlights**

The University's assets decreased by \$42.8 million, or 7.5 percent, for the year ended June 30, 2023 and now total \$524.3 million. The decrease is primarily due to a \$32 million reduction of cash and cash equivalents. Liabilities decreased by \$18 million, or 4.9 percent, for the year ended June 30, 2023. Long-term debt, net of discounts and premiums, totaled \$309 million and \$324.5 million at June 30, 2023 and 2022, respectively. The University's net position totaled \$165.5 million and \$189 million at June 30, 2023 and 2022, respectively, a decrease of \$23.5 million.

The University's operating and nonoperating revenues totaled \$252.9 million for the year ended June 30, 2023, a decrease of \$12.9 million compared to 2022. Operating revenues decreased by \$2.1 million for the year ended June 30, 2023. Tuition and fee revenues net of scholarship allowances were down \$5 million for the year while grant revenues increased by \$2.5 million. Other operating revenue categories combined for an increase of \$ .4 million. Net nonoperating revenues decreased by \$8.6 million for the year ended June 30, 2023. Increases of \$8.5 million in state appropriations, \$3.3 million in investment income, and \$2.4 million in other nonoperating revenues and expenses were offset by a \$22.8 million decrease in nonoperating grants and contracts primarily due to the expiration of pandemic related grants.

The University's state-funded endowments totaled \$14.9 million as of June 30, 2023 an increase of \$.5 million compared to 2022. These funds, along with the private endowed gifts donated to benefit the University, are managed by Northern Kentucky University Foundation, Inc. (Foundation) and totaled \$126.3 million at June 30, 2023. The endowment funds provide annual endowment spending allocations available to support the University's mission. For fiscal years 2023 and 2022, the endowment spending allocations, including support for endowed faculty positions and student scholarships, totaled \$5.2 million and \$4.8 million, respectively.

### **Using the Financial Statements**

The University's financial report includes five financial statements: the statement of net position; the statement of revenues, expenses and changes in net position, the statement of cash flows, the statement of fiduciary net position and statement of changes in fiduciary net position. These financial statements and accompanying footnotes are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a comprehensive, entity-wide basis to focus on the University as a whole. The fiduciary activity is excluded from the condensed financial statements discussed below. In 2022 the University adopted GASB Statement No. 87, *Leases*. Under this statement, a lessee is required to recognize an intangible right-to-use asset and corresponding lease liability. Lessors are required to recognize a lease receivable and a corresponding deferred inflow of resources. The adoption of this statement did not result in a change in net position as of July 1, 2021. In 2023 the University adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITA). The statement establishes a single approach for IT subscription accounting based on the principle that IT subscriptions are a means for financing the use of an underlying asset. Under this statement, the University is required to recognize an intangible right-to-use asset and corresponding subscription liability. Adoption of this statement did not result in a change in net position as of July 1, 2022.



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

## Statement of Net Position

The statement of net position reflects the financial position of the University as of June 30, 2023, and includes all assets, deferred outflows and inflows of resources, liabilities and net position. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. Net position, consisting of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources, is one indicator of the current financial condition of the University. Assets, liabilities, deferred inflows and outflows of resources are generally measured using current values. A major exception is capital assets, which are stated at historical cost, less accumulated depreciation.

A summarized comparison of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2023 and 2022 follows (the 2022 information was restated for the adoption of GASB No. 96 related to SBITAs):

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

	<b>2023</b>	<b>Restated 2022</b>
<b>ASSETS</b>		
Current assets	\$ 112,180	\$ 130,851
Capital assets, net	355,484	365,610
Noncurrent assets	56,595	70,552
Total assets	<u>524,259</u>	<u>567,013</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>2,205</u>	<u>2,476</u>
<b>TOTAL ASSETS and DEFERRED OUTFLOWS</b>	<u>\$ 526,464</u>	<u>\$ 569,489</u>
<b>LIABILITIES</b>		
Current liabilities	\$ 46,528	\$ 51,648
Noncurrent liabilities	302,153	315,092
Total liabilities	<u>348,681</u>	<u>366,740</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>12,266</u>	<u>13,714</u>
<b>NET POSITION</b>		
Net investment in capital assets	243,380	244,731
Restricted		
Nonexpendable	7,616	7,616
Expendable	11,432	9,548
Unrestricted	(96,911)	(72,860)
Total net position	<u>165,517</u>	<u>189,035</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS and NET POSITION</b>	<u>\$ 526,464</u>	<u>\$ 569,489</u>

## **Assets**

The University's assets decreased by \$42.8 million, or 7.5 percent, for the year ended June 30, 2023 and now total \$524.3 million. Current assets decreased by \$18.7 million while noncurrent assets decreased by \$24.1 million for the year ended June 30, 2023. The decrease is primarily a result of a \$32 million reduction in cash and cash equivalents for the year ended June 30, 2023. In addition, prepaid future pension service credits decreased by \$3.5 million and net capital assets decreased \$10.1 million. The reductions were offset partially with increases in net right-to-use assets of \$2.7 million.

## **Deferred Outflows of Resources**

Deferred outflows of resources totaled \$2.2 million and \$2.5 million as of June 30, 2023 and 2022, respectively. The deferred outflows of resources that represent the unamortized difference between the reacquisition price and the net carrying amount of refunded debt totaled \$1.5 million and \$1.8 million at June 30, 2023 and 2022, respectively.

## **Liabilities**

The University's liabilities decreased by \$18 million, or 4.9 percent, for the year ended June 30, 2023 primarily as a result of the reduction of long-term debt. Current liabilities decreased \$5.1 million due largely to a decrease in accounts payable, accrued liabilities and unearned revenue compared to 2022. Noncurrent liabilities decreased by \$12.9 million for the year as a result of a reduction of \$15.3 million decrease in long-term debt and a \$2.4 million increase in other long-term liabilities.

## **Deferred Inflows of Resources**

The University's deferred inflows of resources totaled \$12.3 million and \$13.7 million as of June 30, 2023 and 2022, respectively. During fiscal year 2022, the University adopted GASB Statement No. 87, *Leases*. As a result, the University was required to recognize certain lease assets and liabilities for leases that previously were classified as operating leases and recognize as inflows of resources based on the payment provisions of the contract. Lease inflows totaled \$9.8 million and \$10.8 million as of June 30, 2023 and 2022, respectively.

## **Net Position**

Net position represents the difference between the University's total of assets and deferred outflows of resources and the total of liabilities and deferred inflows of resources. The University's net position totaled \$165.5 million and \$189 million at June 30, 2023 and 2022, respectively. The University's unrestricted net position totaled \$(96.9) million and \$(72.9) million as of June 30, 2023 and June 30, 2022, respectively. The University's unrestricted net position decreased by \$23 million for the year ended June 30, 2023.

Net invested in capital assets totaled \$243.4 million and \$244.7 million at June 30, 2023 and 2022, respectively. At June 30, 2023, the University's restricted nonexpendable net position remained unchanged at \$7.6 million. The nonexpendable funds consist of endowments funded through the Commonwealth's Regional University Excellence Trust Fund. Restricted expendable net position increased by \$1.9 million.

## **Statement of Revenues, Expenses and Changes in Net Position**

The statement of revenues, expenses and changes in net position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. GASB requires state appropriations and nonexchange grants and contracts to be classified as nonoperating revenues. Accordingly, the University will generate an operating loss prior to the addition of nonoperating revenues.

This statement is prepared on the accrual basis of accounting whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

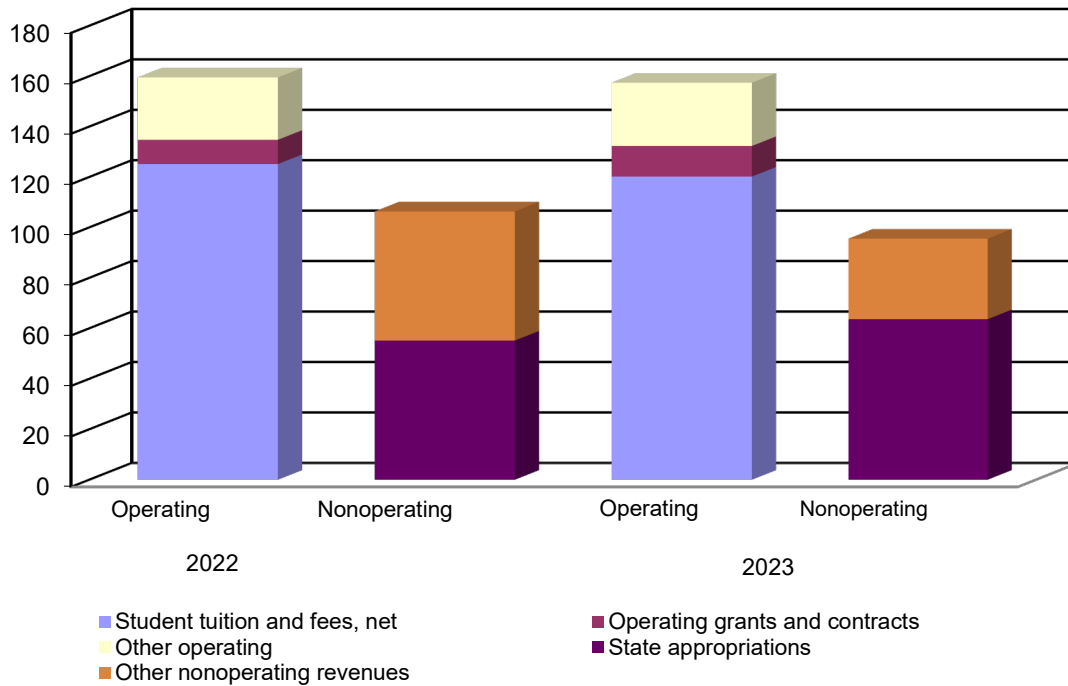
The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. A summarized comparison of the University's revenues, expenses and changes in net position for years ended June 30, 2023 and 2022 follows:

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

	<u>2023</u>	<u>2022</u>
<b>OPERATING REVENUES</b>		
Student tuition and fees, net	\$ 120,148	\$ 125,129
Grants and contracts	12,142	9,619
Sales and services of educational departments	4,238	4,147
Auxiliary enterprises	11,923	11,130
Other operating revenues	8,940	9,464
Total operating revenues	<u>157,391</u>	<u>159,489</u>
<b>OPERATING EXPENSES</b>		
Educational and general	239,973	250,245
Depreciation and amortization expense	17,904	16,294
Auxiliary enterprises (incl. depreciation and amortization)	11,598	11,995
Other expenses	82	27
Total operating expenses	<u>269,557</u>	<u>278,561</u>
Net loss from operations	<u>(112,166)</u>	<u>(119,072)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	63,611	55,150
Gifts, grants and contracts	25,952	48,702
Investment income	5,777	2,471
Interest on capital asset-related debt	(9,456)	(9,599)
Other nonoperating revenues (expenses)	185	(2,035)
Net nonoperating revenues	<u>86,069</u>	<u>94,689</u>
Loss before other revenues, expenses, gains or losses	<u>(26,097)</u>	<u>(24,383)</u>
Capital appropriations	2,298	-
Capital grants and gifts	281	654
Total other revenues	<u>2,579</u>	<u>654</u>
Special item - KERS-NH	<u>-</u>	<u>218,567</u>
Change in net position	<u>(23,518)</u>	<u>194,838</u>
Net position-beginning of year	<u>189,035</u>	<u>(5,803)</u>
Net position-end of year	<u>\$ 165,517</u>	<u>\$ 189,035</u>

## Operating and Nonoperating Revenues

The following chart illustrates the University's revenues by source (both operating and nonoperating), which were used to fund its operating activities for fiscal years 2022 and 2023. Significant recurring sources of revenues, including state appropriations and nonexchange grants and contracts, are considered nonoperating revenues as defined by GASB. These revenues support operating expenses; therefore, they are included in the graph of revenues by source (presented in millions).



The University's operating and nonoperating revenues totaled \$252.9 million for the year ended June 30, 2023, a decrease of \$12.9 million compared to 2022. Operating revenues totaled \$157.4 million, or 62.2 percent of revenues, while nonoperating revenues totaled \$95.5 million, or 37.8 percent of revenues, for the year. The most significant sources of revenue for the University are net student tuition and fees (47.5 percent) and state appropriations (25.2 percent).

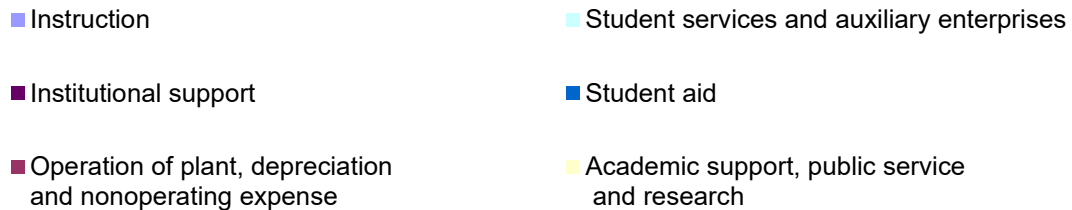
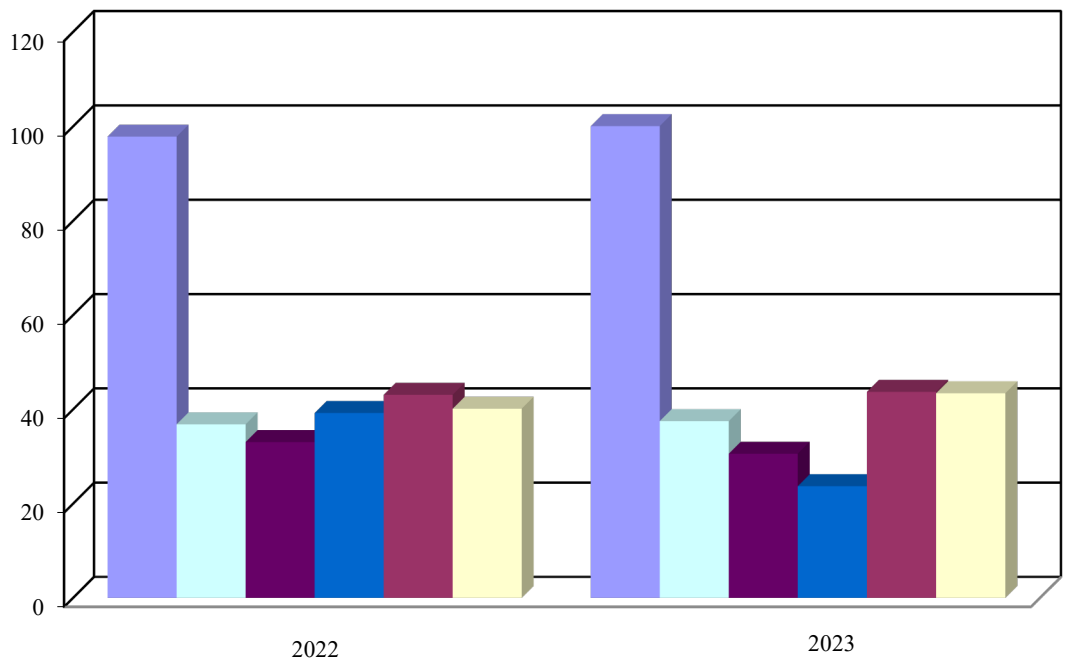
Operating revenues decreased by \$2.1 million compared to 2022. Tuition revenues net of scholarship allowances decreased \$5 million for the year but were offset by increases in several other operating categories. Operating grants and contracts increased \$2.5 million, and other operating categories combined for an increase of \$.4 million compared to 2022.

Nonoperating revenues decreased by \$10.8 million compared to 2022. Primarily due to the expiration of pandemic related grants, nonoperating federal grant revenue decreased \$23.6 million for the year ended June 30, 2023. State appropriations totaled \$63.6 million, an \$8.5 million increase compared to 2022. In addition, an increase in investment income and other nonoperating revenues of \$4.3 million provided a partial offset to the large decrease in federal awards.

In the 2022-2024 budget of the Commonwealth of Kentucky, the Kentucky General Assembly authorized \$683.5 million for a Postsecondary Education Asset Preservation Pool to provide funding for individual asset preservation, renovation, and maintenance projects at Kentucky public postsecondary institutions. The University received \$2.3 million of asset preservation appropriations for the year ended June 30, 2023.

## Operating and Nonoperating Expenses

The following chart illustrates the University's expenses by function (both operating and nonoperating) for fiscal years 2022 and 2023 (presented in millions).



Operating and nonoperating expenses decreased by \$11.2 million, or 3.9 percent, to a total of \$279 million for the year ended June 30, 2023. Instruction expenses increased by \$2.2 million due primarily to a \$4.3 million increase in salaries and benefits expenses offset by a decrease in instructional operating expenses. Institutional support expenses decreased by \$2.5 million, primarily due to a decrease in institutional support operating expenses.

Tuition and fee scholarship allowances and housing scholarship allowances increased by \$5.9 million and student aid expenses decreased by \$15.5 million resulting in an overall decrease in student aid of \$9.6 million. The decrease in student aid expenses was driven by the elimination of pandemic related grant funded aid. American Rescue Plan funded awards totaled \$11.9 million in fiscal year 2022. In comparison, \$0 were awarded in 2023.

## Statement of Cash Flows

Another important factor to consider when evaluating financial viability is the University's ability to meet financial obligations as they become due. The statement of cash flows presents information related to cash inflows and outflows, summarized by operating, noncapital financing, capital and related financing, and investing activities. A comparative summary of the University's statements of cash flows for the years ended June 30, 2023 and 2022 follows:

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

	<u>2023</u>	<u>2022</u>
Net cash provided by (used in):		
Operating activities	\$ (92,674)	\$ (94,946)
Noncapital financing activities	78,870	115,200
Capital and related financing activities	(23,301)	(31,272)
Investing activities	<u>5,069</u>	<u>3,940</u>
Net decrease in cash and cash equivalents	(32,036)	(7,078)
Cash and cash equivalents, beginning of year	<u>130,102</u>	<u>137,180</u>
Cash and cash equivalents, end of year	<u>\$ 98,066</u>	<u>\$ 130,102</u>

The University's cash and cash equivalents decreased by \$32 million in 2023. Major sources of funds generated by operating activities in 2023 included student tuition and fees (\$117.2 million), grants and contracts (\$12.6 million) and auxiliary enterprises (\$11.6 million). The largest cash payments for operating activities were for salaries and benefits (\$158 million), vendor payments (\$64.1 million) and student financial aid (\$24.2 million). Net cash used by operating activities decreased by \$2.3 million for the year primarily due to a decrease in payments for student financial aid (\$15.5 million) and an increase in funds generated by grants and contracts (\$2.4 million) which were partially offset by a \$12.6 million increase in payments for salaries and benefits and a decrease in receipts from tuition and fees (\$5.5 million).

Net cash provided by noncapital financing activities decreased by \$36.3 million for the year ended June 30, 2023. In 2022 a refund from KERS of \$21.9 million was received due to an initial overpayment associated with the University's exit from the KERS nonhazardous plan. In addition, funds generated in 2023 by gifts and grants in this category decreased by \$22.8 million while a state appropriation increase provided a partial offset (\$8.5 million). Net cash used by capital financing activities totaled \$23.3 million and \$31.3 million for the years ended June 30, 2023 and 2022 respectively. The \$8 million decrease in net cash used by capital financing activities was driven by a reduction of \$7.7 million in purchases of capital assets compared to 2022. Net cash provided by investing activities increased \$1.1 million over the prior year.

## Capital Asset and Debt Administration

### Capital Assets

As of June 30, 2023, capital assets, net of accumulated depreciation, totaled \$355.5 million, or 67.8 percent of total assets. Capital assets as of June 30, 2023 are as follows (in thousands):

	Balance 6/30/2022	Net Additions (Deletions)	Balance 6/30/2023
Land	\$ 9,375	-	\$ 9,375
Land Improvements	43,464	294	43,758
Buildings	565,910	649	566,559
Equipment	74,426	(3,875)	70,551
Library Books	9,846	300	10,146
Construction in Process	2,123	2,651	4,774
Accumulated Depreciation	<u>(339,534)</u>	<u>(10,145)</u>	<u>(349,679)</u>
	<u>\$ 365,610</u>	<u>\$ (10,126)</u>	<u>\$ 355,484</u>

Net capital assets decreased by \$10.1 million for the year ended June 30, 2023. This decrease is the net result of an \$11.7 million increase in capitalized construction project costs, land improvements, equipment and other capital assets, less \$20.4 million in depreciation, and a net reduction of \$1.4 million in asset disposals.

### **Debt**

The following is a summary of the University's outstanding capital debt summarized by trust indenture and type as of June 30, 2023 and 2022 (in thousands):

	<u>2023</u>	<u>2022</u>
General Receipts Bonds, tax exempt, net of discounts and premiums	\$ 111,474	\$ 121,669
General Receipts Bonds, taxable	194,875	199,790
Lease liabilities	1,004	897
SBITA liabilities	6,650	4,066
Other financing arrangements	2,700	3,019
	<u>\$ 316,703</u>	<u>\$ 329,441</u>

Debt decreased by \$12.7 million for the year ended June 30, 2023 resulting from principal payments of \$ 14.5 million on bonds, notes, leases and other financing obligations, a reduction in premiums of \$.9 million and a net increase in lease and subscription IT agreement liabilities of \$2.7 million.

### **ECONOMIC FACTORS IMPACTING FUTURE PERIODS**

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

- The University's fall 2022 total enrollment of 15,827 was a decrease of 1.0% from the prior year and was the second year of total enrollment decline since 2017. Since 2017, undergraduate enrollments decreased 1,632 students (13.0%). Supplementing significant drops in the total enrollment was the significant growth of graduate headcount. In fall 2022, 4,523 students enrolled at the graduate-level accounting for 28.6% of total enrollment. Growth in graduate enrollment can be attributed to the spike in accelerated online offerings topping 3,715 students. It should be noted that COVID continued to significantly impact our predicted enrollment for fall 2022, however our retention rate has started to rebound (77.5% in 2022 compared to 70.0% in fall 2021).
- National Higher Education enrollment in public 4-year institutions continues to decline, although at a lower rate than prior years. For example, according to the National Student Clearinghouse Research Center, undergraduate enrollments in fall 2022 declined 1.2% from the prior fall for undergraduate programs at public 4-years institutions.
- The Kentucky Council on Postsecondary Education (CPE) established a 5% tuition cap for the 2-year period covering 2023-2025. The University proposed, and CPE subsequently approved, raising tuition 3% for 2023-2024. Increases are yet to be determined for 2024-2025 but will be limited to no more than 2%. We expect future tuition caps to be similarly modest as CPE works to keep access to postsecondary education within reach for all Kentuckians.
- The 2022-2024 biennium budget approved by the Kentucky General Assembly contained generous support for postsecondary education as a whole. \$683.5M in asset preservation (facilities) funding was authorized with \$47,794,000 allocated to the University (\$23,397,000 each year). The allocation requires a 15% institutional match (\$7 million) which the University plans to fund from recurring deferred maintenance and institutional bond savings. In addition, the University was allocated \$84,900,000 in 2023-2024 to expand the Herrmann Science Center for research labs. Performance Funding for the 2023-2024 year increased to a new high of \$12,683,900 to support general operations. Due to the University's strong commitment to student success we exceeded sector averages in 7 of 11 categories. To maintain and enhance this level of funding the University needs to continue efforts with student success and progression such as those associated with our Success by Design strategic framework.
- Management continues efforts to diversify revenue sources, contain costs, and redirect resources to core mission priorities. Recent activities have resulted in investment in health and business programs, marketing, and new online programs.

**Northern Kentucky University**  
**A Component Unit of the Commonwealth of Kentucky**  
**Statement of Net Position**  
**As of June 30, 2023**  
*(in thousands)*

**ASSETS**

Current Assets

Cash and cash equivalents	\$ 92,049
Notes, loans and accounts receivable, net	14,197
Lease receivable	938
Other current assets	4,996
Total current assets	112,180

Noncurrent Assets

Cash and cash equivalents	6,017
Investments	14,937
Notes, loans and accounts receivable, net	1,096
Lease receivable	9,040
Right-to-use subscription-based IT agreement asset, net	6,697
Right to use lease asset, net	1,025
Pension prepaid future service	17,382
Capital assets, net	355,484
Other noncurrent assets	401
Total noncurrent assets	412,079

Total Assets	524,259
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**DEFERRED OUTFLOWS OF RESOURCES**

Bond refunding loss	1,465
Pension and OPEB	740
Total deferred outflows of resources	2,205

<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$ 526,464</b>
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**Northern Kentucky University**  
**A Component Unit of the Commonwealth of Kentucky**  
**Statement of Net Position, continued**  
**As of June 30, 2023**  
*(in thousands)*

**LIABILITIES**

Current Liabilities	
Accounts payable and accrued liabilities	\$ 19,809
Unearned revenue	9,072
Subscription-based liabilities-current portion	1,725
Lease liabilities-current portion	267
Long-term debt-current portion	15,291
Other long-term liabilities-current portion	364
Total current liabilities	<u>46,528</u>

Noncurrent Liabilities	
Deposits	41
Subscription-based IT agreement liabilities	4,925
Lease liabilities	737
Long-term debt	293,758
Other long-term liabilities	649
Net pension and OPEB liabilities	2,043
Total noncurrent liabilities	<u>302,153</u>

Total Liabilities	<u>348,681</u>
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**DEFERRED INFLOWS OF RESOURCES**

Service agreements	2,149
Lease inflows	9,782
Pension and OPEB	335
Total deferred inflows of resources	<u>12,266</u>

**NET POSITION**

Net investment in capital assets	243,380
Restricted	
Nonexpendable	7,616
Expendable	11,432
Unrestricted	(96,911)
Total net position	<u>165,517</u>

<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<u><u>\$ 526,464</u></u>
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*See accompanying notes to the financial statements*

**Northern Kentucky University Foundation, Inc.**  
**Consolidated Statement of Financial Position**  
**As of June 30, 2023**  
*(in thousands)*

**ASSETS**

Cash and cash equivalents	\$	6,567
Loans and accounts receivable, net		371
Interest receivable		43
Contributions receivable, net		5,992
Prepaid expenses and deferred charges		127
Investments		137,979
Land and land improvements, net		323
Total assets	\$	<u>151,402</u>

**LIABILITIES AND NET ASSETS**

Accounts payable	\$	333
Agency funds		12
Deferred income		514
Funds held in trust for Northern Kentucky University		14,937
Total Liabilities		<u>15,796</u>

**NET ASSETS**

<b>Without Donor Restrictions</b>		
Undesignated		3,286
Amounts functioning as endowment funds		3,366
Invested in land and land improvements		323
Total without donor restrictions		<u>6,975</u>
<b>With Donor Restrictions</b>		
<b>Purpose Restrictions</b>		
Unexpended funds		13,368
Contributions receivable		5,992
Loan funds		1,202
Endowment funds		108,069
Total with donor restrictions		<u>128,631</u>
Total net assets		<u>135,606</u>
Total liabilities and net assets	\$	<u>151,402</u>

*See accompanying notes to the financial statements*

**Northern Kentucky University**  
**A Component Unit of the Commonwealth of Kentucky**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended June 30, 2023**  
*(in thousands)*

**OPERATING REVENUES**

Student tuition and fees (net of scholarship allowances of \$45,253)	\$ 120,148
Federal grants and contracts	4,595
State and local grants and contracts	3,807
Nongovernmental grants and contracts	3,740
Sales and services of educational departments	4,238
Auxiliary enterprises	
Housing and food service (net of scholarship allowances of \$1,021)	8,837
Other auxiliaries	3,086
Other operating revenues	8,940
Total operating revenues	157,391

**OPERATING EXPENSES**

Educational and general	
Instruction	100,061
Research	3,032
Public service	12,806
Libraries	5,518
Academic support	22,065
Student services	25,824
Institutional support	30,593
Operation and maintenance of plant	16,369
Depreciation and amortization	17,904
Student aid	23,705
Auxiliary enterprises	
Housing and food service	5,849
Other auxiliaries	942
Auxiliary depreciation and amortization	4,807
Other expenses	82
Total operating expenses	269,557
Net loss from operations	(112,166)

**NONOPERATING REVENUES (EXPENSES)**

State appropriations	63,611
Federal grants and contracts	12,754
State and local grants and contracts	13,103
Private gifts and grants	95
Investment income	5,777
Interest on capital asset and lease related debt	(9,456)
Other nonoperating revenues	185
Net nonoperating revenues	86,069
Loss before other revenues, expenses, gains or losses	(26,097)
Capital appropriations	2,298
Capital grants and gifts	281
Total other revenues	2,579
Change in net position	(23,518)
<b>NET POSITION-BEGINNING OF YEAR</b>	189,035
<b>NET POSITION-END OF YEAR</b>	\$ 165,517

*See accompanying notes to the financial statements*

**Northern Kentucky University Foundation, Inc.**  
**Consolidated Statement of Activities**  
**For the year ended June 30, 2023**  
*(in thousands)*

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>REVENUES, GAINS AND OTHER SUPPORT</b>			
Gifts and bequests	\$ -	\$ 5,579	\$ 5,579
Nonfinancial contributions	-	21	21
State grants	-	10	10
Rental income	145	-	145
Investment return	397	8,169	8,566
Other revenue	145	481	626
Total revenues and gains	<u>687</u>	<u>14,260</u>	<u>14,947</u>
Net assets released from restrictions	9,163	(9,163)	-
Total revenues, gains, and other support	<u>9,850</u>	<u>5,097</u>	<u>14,947</u>
<b>EXPENSES AND LOSSES</b>			
Program expenses			
Instruction	1,018	-	1,018
Research	133	-	133
Public service	225	-	225
Libraries	15	-	15
Academic support	1,220	-	1,220
Student services	1,262	-	1,262
Institutional support	1,331	-	1,331
University facilities and equipment acquisition	136	-	136
Student financial aid	3,374	-	3,374
Other program expenses and losses	-	115	115
Total program expenses	<u>8,714</u>	<u>115</u>	<u>8,829</u>
Support expenses			
Management and general	469	-	469
Fund raising support	201	-	201
Total support expenses	<u>670</u>	<u>-</u>	<u>670</u>
Total expenses and losses	<u>9,384</u>	<u>115</u>	<u>9,499</u>
Change in net assets	466	4,982	5,448
Net assets - beginning of year	<u>6,509</u>	<u>123,649</u>	<u>130,158</u>
Net assets - end of year	<u>\$ 6,975</u>	<u>\$ 128,631</u>	<u>\$ 135,606</u>

*See accompanying notes to the financial statements*

**Northern Kentucky University**  
**A Component Unit of the Commonwealth of Kentucky**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2023**  
*(in thousands)*

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and fees	\$ 117,248
Grants and contracts	12,599
Payments to suppliers	(64,119)
Payments for salaries and benefits	(158,000)
Payments for student financial aid	(24,232)
Loans issued to students	(236)
Collection of loans to students	65
Auxiliary enterprise receipts	
Housing operations	8,672
Other auxiliaries	2,892
Sales and service of educational departments	4,096
Other receipts	8,341
Net cash used in operating activities	<u>(92,674)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State appropriations	63,611
Gifts and grants for other than capital purposes	25,733
Agency and loan program receipts	89,961
Agency and loan program disbursements	(89,944)
Principal paid on noncapital debt	(4,915)
Interest paid on noncapital debt	(5,576)
Net cash provided by noncapital financing activities	<u>78,870</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital appropriations	2,063
Casualty loss reimbursement	496
Capital grants, gifts, and advances received	97
Proceeds from sale of capital assets	18
Purchases of capital assets	(11,001)
Principal paid on capital debt	(9,624)
Interest paid on capital debt	(4,261)
Principal payments received on leases receivable	976
Interest payments received on leases receivable	192
Principal paid on lease liabilities	(199)
Interest paid on lease liabilities	(12)
Principal paid on subscription-based IT agreement liabilities	(2,035)
Interest paid on subscription-based IT agreement liabilities	(11)
Net cash used in capital and related financing activities	<u>(23,301)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from sales and maturities of investments	(111)
Interest on investments	5,180
Net cash provided by investing activities	<u>5,069</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(32,036)</b>
Cash and cash equivalents-beginning of year	<u>130,102</u>
Cash and cash equivalents-end of year	<u>\$ 98,066</u>

**Northern Kentucky University**  
**A Component Unit of the Commonwealth of Kentucky**  
**Statement of Cash Flows, continued**  
**For the Year Ended June 30, 2023**  
*(in thousands)*

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

Net loss from operations	\$ (112,166)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization expense	22,711
Deferred inflows of resources	(1,517)
Deferred outflows of resources	(90)
Reduction in prepaid pension future service	3,621
Changes in assets and liabilities	
Receivables, net	1,320
Other assets	(508)
Accounts payable, accrued liabilities and deposits	(4,297)
Unearned revenue	(2,042)
Pension and OPEB liabilities	483
Long-term liabilities	(189)
Net cash used in operating activities	<u>\$ (92,674)</u>

**SUPPLEMENTAL CASH FLOWS INFORMATION**

Gifts of capital assets and trade-in credits	\$ 195
Capital asset acquisitions in accounts payable	2,249
Unrealized gains and losses on investments	986

*See accompanying notes to the financial statements*

**Northern Kentucky University**  
**A Component Unit of the Commonwealth of Kentucky**  
**Fiduciary Funds**  
**Statement of Fiduciary Net Position**  
**For the Year Ended June 30, 2023**  
*(in thousands)*

<b>ASSETS</b>	
Cash and cash equivalents	\$ 15,488
Total assets	15,488
 <b>LIABILITIES</b>	
Accounts payable and other liabilities	125
Total liabilities	125
 <b>NET POSITION</b>	
Restricted for individuals, organizations and other governments	15,363
Total net position	\$ 15,363

**Northern Kentucky University**  
**A Component Unit of the Commonwealth of Kentucky**  
**Fiduciary Funds**  
**Statement of Changes in Fiduciary Net Position**  
**For the Year Ended June 30, 2023**  
*(in thousands)*

<b>ADDITIONS</b>	
In-lieu fees	\$ 571
Investment income	594
Total additions	1,165
 <b>DEDUCTIONS</b>	
Contract expense	1,207
Administrative fees	34
Total deductions	1,241
Net change in fiduciary net position	(76)
Net position - beginning of year	15,439
Net position - end of year	\$ 15,363

*See accompanying notes to the financial statements*

**Northern Kentucky University**  
**A Component Unit of the Commonwealth of Kentucky**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2023**

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

**a. Reporting Entity**

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

The Northern Kentucky University Foundation, Inc. (the Foundation) is a legally separate, tax-exempt organization supporting the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation's Board of Directors is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

The accompanying financial statements do not include the financial position or operating results of the Chase College Foundation, Inc. This foundation is a separately incorporated not-for-profit entity organized for the purpose of promoting the educational mission of the University's Salmon P. Chase College of Law. Although this entity benefits the University's Salmon P. Chase College of Law, it is governed by an independent Board of Directors and is not controlled by the University.

**b. Basis of Presentation**

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

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

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



**c. Accrual Basis**

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

**d. Cash and Cash Equivalents**

Cash and cash equivalents include all readily available sources of cash such as petty cash, demand deposits, certificates of deposit and temporary investments in marketable debt securities with original maturities less than three months. Funds held by the Commonwealth of Kentucky are also considered cash equivalents.

**e. Notes, Loans and Accounts Receivable, net**

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

**f. Capital and Lease Assets**

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

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

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective assets, generally 40 years for land improvements, 10 – 40 years for buildings and fixed equipment, 10 years for library books and 3 – 10 years for equipment. The University capitalizes, but does not depreciate, works of art and historical treasures that are held for exhibition, education, research and public service.

The University evaluates capital and lease assets for impairment whenever events or circumstances indicate significant, unexpected decline in the service utility of a capital and lease asset has occurred. If a capital or lease asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, an impairment loss would be recorded. In December 2022, the University sustained property impairment losses of approximately \$462,000 due to freezing weather conditions.

**g. Compensated absences**

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

**h. Investments**

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

**i. Unearned Revenue**

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

**j. Cost-Sharing Defined Benefit Pension Plan**

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

**k. Cost-Sharing Defined Benefit Other Postemployment Benefit Plan**

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

**l. Deferred Outflows and Inflows of Resources**

A deferred outflow of resources is a loss in net position by the University that is applicable to a future reporting period. Deferred outflows of resources are reported in the statement of net position, but are not recognized in the financial statements as expense until in the related period. Deferred outflows of resources include \$1,465,000 of losses on bond refunding for the year ended June 30, 2023. The remaining balance of deferred outflows for year ended June 30, 2023 consists of the KERS pension and OPEB related unamortized balances.

A deferred inflow of resources is a gain in net position by the University that is applicable to a future reporting period. Deferred inflows of resources are reported in the statement of net position but are not recognized in the financial statements as revenue until in the related period. The agreement between the University and the University's food service providers resulted in a deferred inflow of resources of \$2,149,000 at June 30, 2023. The deferred inflows of resources related to this agreement are recognized evenly over the life of the contract. Lease agreements between the University and third-party entities for rental space resulted in a deferred inflow of resources of \$9,782,000 at June 30, 2023. The remaining deferred inflows of resources for the year ended June 30, 2023 consist of the KERS pension and OPEB related unamortized balances.

**m. Scholarship Allowances**

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

**n. Income Taxes**

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

**o. Restricted Asset Spending Policy**

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

**p. Operating Activities**

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

**q. Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**r. Component Unit Disclosure**

The accompanying financial statements of the Foundation have been prepared in accordance with GAAP as prescribed by the Financial Accounting Standards Board. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features.

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

**s. Related Party Transactions**

During the year ended June 30, 2023, the Foundation made payments on behalf of the University of \$334,000 for salaries, benefits, and other administrative costs for University staff that directly support the Foundation's operations. These payments are made by agreement between the Foundation and University. As of June 30, 2023, \$2,000 in payables to the University were recognized for such costs.

In support of University programs, the Foundation incurred program expenses of \$8,829,000 for 2023, which consisted of payments on behalf of the University of \$6,052,000 for 2023; and amounts transferred to the University for restricted purposes of \$2,777,000.

**t. Change in Accounting Principle**

During 2023, the University adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITA). The statement establishes a single approach for IT subscription accounting based on the principle that IT subscriptions are a means for financing the use of an underlying asset. The new guidance applies to all noncancelable SBITAs with terms greater than 12 months, including any options to extend. Under this statement, a governmental entity is required to recognize an intangible right-to-use asset and corresponding subscription liability. Adoption of this statement did not result in a change in net position as of July 1, 2022. As of July 1, 2022, the SBITA assets and liabilities were \$4,066,000 due to the implementation of GASB 96.

**u. Recent Accounting Pronouncements**

In June 2022, the GASB approved Statement No. 100, *Accounting Changes and Error Corrections*. The statement provides guidance for retroactive restatements for accounting changes and error corrections. The provisions of this statement are effective for reporting periods beginning after June 15, 2023. The University is currently evaluating the effects of this statement on its financial statements.

In June 2022, the GASB approved Statement No. 101, *Compensated Absences*, requiring the University to recognize liabilities for compensated absences for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through non-cash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through non-cash means. This statement becomes effective for the fiscal year ending June 30, 2025. The University is currently evaluating the effects of this statement on its financial statements.

## Note 2 – Cash, Cash Equivalents and Investments

At June 30, 2023, petty cash funds totaled \$52,000 and the carrying amount of the deposits was \$98,014,000 with a corresponding total bank balance of \$98,643,000. Of the bank balance, \$39,630,000 was covered by federal depository insurance, or collateralized with securities held by the pledging bank, or bank's agents, in the University's name and \$59,013,000 was held and invested by the Commonwealth. These deposits were covered by federal depository insurance or by collateral held by the Commonwealth in the Commonwealth's name.

### Investments

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

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

The fair value of the University's investments at June 30, 2023 was \$14,937,000. These investments represent the University's Regional University Excellence Trust Fund endowments which are invested in an investment pool managed by the Foundation. See Note 15 (c) for the required GASB fair value disclosures for the University's investments that are included in the Foundation's investment pool. University assets in the Foundation's investment pool at June 30, 2023 are invested as follows:

<b>Type of Investment:</b>	
Fixed income funds	12%
Domestic equity funds	31%
International equity funds	13%
Emerging markets	6%
Private equity	20%
Natural resources	9%
Other	9%
<b>Total Investments</b>	<b>100%</b>

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

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

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

*Foreign Currency Risk:* This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The University had no investments denominated in foreign currency at June 30, 2023.

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

Notes, loans and accounts receivable as of June 30, 2023 are as follows (in thousands):

	<b>Gross Receivable</b>	<b>Allowance</b>	<b>Net Receivable</b>
Student accounts receivable	\$ 13,695	\$ (5,014)	\$ 8,681
Student loans	1,085	(287)	798
Reimbursement receivable grants and contracts	1,582	-	1,582
Reimbursement receivable-casualty loss	1,000	-	1,000
State appropriations receivable	235	-	235
NKU Foundation receivable	272	-	272
Other	3,689	(964)	2,725
Total	<u>\$ 21,558</u>	<u>\$ (6,265)</u>	<u>\$ 15,293</u>
Current portion			\$ 14,197
Noncurrent portion			1,096
Total			<u>\$ 15,293</u>

**Note 4 – Lease Receivable**

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

Revenue recognized under lease contracts during the year ended June 30, 2023 was \$1,175,000 which includes both lease revenue and interest.

**Note 5 – Capital and Lease Assets, net**

Capital assets for the year ended June 30, 2023, are summarized as follows (in thousands):

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Cost:				
Land	\$ 9,375	-	-	\$ 9,375
Land improvements	43,464	511	217	43,758
Buildings	565,910	6,304	5,655	566,559
Equipment	74,426	1,740	5,615	70,551
Library books	9,846	459	159	10,146
Construction in process	2,123	2,651	-	4,774
	<u>705,144</u>	<u>11,665</u>	<u>11,646</u>	<u>705,163</u>
Accumulated Depreciation:				
Land improvements	14,026	1,172	198	15,000
Buildings	253,869	16,311	4,393	265,787
Equipment	63,700	2,556	5,541	60,715
Library books	7,939	397	159	8,177
	<u>339,534</u>	<u>20,436</u>	<u>10,291</u>	<u>349,679</u>
Capital assets, net	<u>\$ 365,610</u>	<u>\$ (8,771)</u>	<u>\$ 1,355</u>	<u>\$ 355,484</u>

The estimated cost to complete construction under contract at June 30, 2023 was approximately \$20,932,000.

As of June 30, 2023, the net book value of capital assets acquired through capital leases included in the above schedules totaled \$2,663,000.

*Leased assets* -In addition to the capital assets above, the University started the fiscal year on July 1, 2022 with leased equipment gross assets of \$1,274,000 and accumulated amortization of \$402,000. During the fiscal year, additions of \$445,000 were recognized. Lease amortization expense of \$292,000 was recognized during the year ended June 30, 2023, for a final net leased equipment asset balance of \$1,025,000.

*Subscription based IT agreement assets* -In addition to the assets above, effective July 1, 2022 the University adopted GASB 96 resulting in recording SBITA assets of \$4,066,000. During the fiscal year, additions of \$4,619,000 were recognized. SBITA asset amortization expense and accumulated amortization of \$1,988,000 was recognized during the year ended June 30, 2023, for a final net SBITA asset balance of \$6,697,000.

#### Note 6 – Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2023 are as follows (in thousands):

Payable to vendors and contractors	\$ 6,645
Accrued expenses, primarily payroll and vacation leave	8,737
Employee withholdings and deposits payable to third parties	3,021
Self-insured health liability	1,406
Total	\$ 19,809

#### Note 7 – Long-Term Liabilities

The changes in long-term liabilities for the year ended June 30, 2023 are summarized as follows (in thousands):

	<b>Balance</b>			<b>Balance</b>	<b>Current</b>	<b>Noncurrent</b>
	<b>July 1, 2022</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2023</b>	<b>Portion</b>	<b>Portion</b>
General Receipts Bonds Taxable	\$ 199,790	\$ -	\$ 4,915	\$ 194,875	\$ 4,940	\$ 189,935
General Receipts Bonds Tax Exempt (net of premiums)	121,669	-	10,195	111,474	10,023	101,451
Other financing arrangements	3,019	-	319	2,700	328	2,372
Total long-term debt	324,478	-	15,429	309,049	15,291	293,758
Federal portion of loan programs	598	125	109	614	-	614
Unearned revenue	11,131	9,601	11,656	9,076	9,072	4
KERS-sick leave	29	5	-	34	3	31
Deposits	417	438	453	402	361	41
Total other long-term liabilities	12,175	10,169	12,218	10,126	9,436	690
Lease liability	897	416	309	1,004	267	737
SBITA liability	4,066	4,619	2,035	6,650	1,725	4,925
Net pension and OPEB liability	1,601	442	-	2,043	-	2,043
Total long-term liabilities	\$ 343,217	\$ 15,646	\$ 29,991	\$ 328,872	\$ 26,719	\$ 302,153

##### a. Bonds

The outstanding obligation as of June 30, 2023 for the Northern Kentucky University General Receipts Bonds are reported net of premiums totaling \$6,689,000. The premiums on the bonds are being amortized to income over the life of the applicable bonds. The amortization reduced interest expense by \$890,015 for the year ended June 30, 2023. General Receipts Bonds are collateralized by the operating and nonoperating income of the University excluding income which as a condition of the receipt is not available for payment of debt service charges.

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

<b>General Receipts Taxable bond payable</b>		
Series A 2021 (taxable), dated April 20, 2021, with interest rates from 0.61% to 3.43%. Final principal payment date September 1, 2050.		<u>\$ 194,875</u>
<b>General Receipts Tax Exempt bonds payable</b>		
Series A 2014, dated January 7, 2014, with interest rates from 4.75% to 5.00%. Final principal payment date September 1, 2033.		31,515
Series A 2016, dated May 17, 2016, with interest rates from 2.25% to 5.00%. Final principal payment date September 1, 2027.		15,390
Series B 2016, dated August 25, 2016, with interest rates from 2.00% to 4.00%. Final principal payment date September 1, 2028.		10,670
Series A 2019, dated November 12, 2019, with interest rates from 3.00% to 5.00%. Final principal payment date September 1, 2044.		35,900
Series A 2020, dated November 4, 2020, with interest rate of 3.00%. Final principal payment date September 1, 2027.		4,240
Series B 2020, dated November 4, 2020, with interest rates from 2.00% to 3.00%. Final principal payment date September 1, 2028.		2,525
Series B 2021, dated October 21, 2021, with interest rates from 2.00% to 3.50%. Final principal payment date September 1, 2030.		4,545
<b>Total General Receipts Tax Exempt bonds payable</b>		<u>104,785</u>
Plus: Net of premiums		6,689
<b>Total bonds payable</b>		<u><u>\$ 306,349</u></u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 14,090	\$ 9,334	\$ 23,424
2025	15,000	8,881	23,881
2026	15,480	8,396	23,876
2027	15,985	7,906	23,891
2028	16,445	7,430	23,875
2029- 2033	54,450	31,593	86,043
2034 - 2038	43,725	23,708	67,433
2039 - 2043	46,680	17,076	63,756
2044 - 2048	47,890	9,088	56,978
2049 - 2051	29,915	1,561	31,476
Subtotal	<u>299,660</u>	<u>124,973</u>	<u>424,633</u>
Plus: Net premiums	6,689	-	6,689
Total	<u><u>\$ 306,349</u></u>	<u><u>\$ 124,973</u></u>	<u><u>\$ 431,322</u></u>

**b. Leases**

The University leases equipment, the terms of which expire in various years through 2029. The leases were measured based upon the University's incremental borrowing rate at lease commencement. During the year ended June 30, 2023, the University recognized \$292,000 in lease amortization expense.

The following is a schedule by year of payments under the leases as of June 30, 2023 (in thousands):

<u>Fiscal year</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 280	\$ 267	\$ 13
2025	266	257	9
2026	244	240	4
2027	147	146	1
2028	48	47	1
2029- 2033	47	47	-
Total	<u>\$ 1,032</u>	<u>\$ 1,004</u>	<u>\$ 28</u>

**c. Subscriptions**

The University has IT software arrangements, the terms of which expire in various years through 2028. The subscriptions were measured based upon the University's incremental borrowing rate at subscription commencement.

During the year ended June 30, 2023, the University recognized \$1,988,000 in subscription amortization expense.

The following is a schedule by year of payments under the subscriptions as of June 30, 2023 (in thousands):

<u>Fiscal year</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 1,955	\$ 1,725	\$ 230
2025	1,837	1,680	157
2026	1,576	1,486	90
2027	1,589	1,567	22
2028	194	192	2
Total	<u>\$ 7,151</u>	<u>\$ 6,650</u>	<u>\$ 501</u>

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

Employees of the University were covered by one of the following plans for the year ended June 30, 2023.

**a. Defined Contribution Plan**

A Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA CREF) sponsored plan, adopted by the Board of Regents in July 1970, is available upon completion of ninety days of service, to all regular full-time members of the faculty, administrative officers and other staff that were first employed on or after January 1, 2014. The TIAA CREF retirement plan is a defined contribution, money purchase retirement plan. The employees contribute 5 percent of their base salary to the plan. The University contributed 10 percent of base salary of participating employees for the year ended June 30, 2023. All payments are vested immediately and the contracts with the providers are owned by the individual employees. The employee is entitled to various payment options upon retirement. Benefit payments at retirement depend on the total contributions with interest deposited into the employee's account. Retirement benefits can begin upon retirement or termination of employment with the University. Covered payroll totaled \$78,623,000 for the year ended June 30, 2023. The University's contribution totaled \$7,862,000 for the year ended June 30, 2023.

**b. Defined Benefit Plan**

*Plan Description* - All regular employees not participating in the above plan were required to participate in either the Nonhazardous or Hazardous cost-sharing multiple employer defined benefit pension plan, both of which are under KERS, that is administered by the Board of Trustees of the KPPA. The defined benefit plans provide for retirement, disability and death benefits. Participants have a fully vested interest after the completion of 60 months of service, 12 of which are current service. KPPA issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPPA, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601-6124 or by calling (502) 696-8800.



*Cessation* – Effective June 30, 2021, the University ceased participation in the nonhazardous plan, resulting in the conversion of all Tier 3 employees to the University’s defined contribution plan on July 1, 2021. All new hires hired after the effective date will also participate in the defined contribution plan. Under this provision, Tier 1 and Tier 2 employees will continue to participate in the nonhazardous system with the University funding the actuarial liability calculated for these employees.

The final calculation for the cost of cessation included both payment of the University’s share of the unfunded liability, as well as the estimated future service expense for Tier 1 and Tier 2 employees. For the year ended June 30, 2023, the University recognized \$1,721,000 in expense for the amortization of the future service, in addition to \$1,901,000 in future service expense write-off. Amortization was calculated at the cessation date assuming a 2 percent annual increase over the remaining years through each employee’s first eligible retirement date. Future service write-offs occur when employees covered by this arrangement cease employment with the University prior to retirement.

University police officers continue to participate in the hazardous plan and were not part of the cessation. There were 14 employees actively participating at June 30, 2023.

**c. Compensated Absences**

University employees begin to accumulate annual vacation allowance from the initial date of employment; however, no vacation is granted until three months of continuous employment have been completed. The maximum accumulation of vacation leave is limited to the number of days that can be accumulated in twelve months, based upon length of service and employment classification. Eligible employees are paid their accumulated vacation upon termination, subject to certain limitations. At June 30, 2023, the University had recognized an accrued vacation liability of \$3,764,000.

**Note 9– Defined Benefit Other Post-Employment Benefits**

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

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

**Note 10 – Operating Expenses By Natural Classification**

The University’s operating expenses by natural classification are as follows for the year ended June 30, 2023 (in thousands):

Salaries and wages	\$ 123,913
Employee benefits-pension and OPEB	289
Employee benefits-other	38,229
Utilities	6,085
Supplies and other services	54,106
Depreciation and amortization	22,711
Student scholarships and financial aid	24,224
Total	<u>\$ 269,557</u>

## Note 11 – Risk Management

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

The Fund covers losses to property from fire, wind, earthquake, flood and most other causes of loss between \$10,000 and \$5 million per occurrence. Losses in excess of \$5 million are insured by commercial carriers up to \$1.5 billion per occurrence with buildings insured at replacement cost and contents on an actual cash value basis. As a state agency, the University is vested with Sovereign Immunity and is subject to the provisions of the Board of Claims Act, under which the University's liability for certain negligence claims is limited to \$250,000 for any one person or \$400,000 for all persons damaged by a single act of negligence. Claims against educators' errors and omissions and wrongful acts are insured through a reciprocal risk retention group. There have been no significant reductions in insurance coverage from 2022 to 2023. Settlements have not exceeded insurance coverage during the past three years.

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

The health self-insurance liability as of June 30, 2023, is detailed below (in thousands):

Liability, beginning of year	\$ 1,722
Claims and changes in estimates	15,412
Claims paid	<u>(15,728)</u>
Liability, end of year	<u>\$ 1,406</u>

The University also self-insures certain other employee benefits, including worker's compensation claims to the extent not covered by insurance. The University has recorded an estimate for asserted claims at June 30, 2023.

## Note 12 – Contingencies

The University is a party to various litigation and other claims in the ordinary course of business. University officials are of the opinion, based upon the advice of legal counsel, that the ultimate resolution of these matters will not have a material effect on the financial position of the University.

## Note 13 – Restricted Net Position

At June 30, 2023, restricted expendable net position was available for the following purposes:

Appreciation on permanent endowments	\$ 7,321
Capital projects and debt service	3,439
Funds restricted for noncapital purposes	<u>672</u>
Restricted Net Position, end of year	<u>\$ 11,432</u>

**Note 14 – Blended Entity Condensed Financial Information**

Condensed financial information for NKURF is provided below for the year ended June 30, 2023 (in thousands):

**NKURF Condensed Statement of Net Position**

<b>ASSETS</b>	
Current assets	\$ 1,719
Total assets	<u>1,719</u>
<b>LIABILITIES</b>	
Current liabilities	<u>385</u>
Total liabilities	<u>385</u>
<b>NET POSITION</b>	
Restricted expendable	40
Unrestricted	1,294
Total net position	<u>\$ 1,334</u>

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

<b>OPERATING REVENUES</b>	
Grants and contracts	\$ 3,075
Recoveries of facilities and administrative costs	<u>116</u>
Total operating revenues	<u>3,191</u>
<b>OPERATING EXPENSES</b>	
Operating expenses	<u>3,114</u>
Operating income	<u>77</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Nonexchange grants and gifts	16
Noncapital transfers to the University	(128)
Gifts and grants	<u>24</u>
Net nonoperating expenses	<u>(88)</u>
Change in net position	<u>(11)</u>
<b>NET POSITION</b>	
Net position-beginning of year	<u>1,345</u>
Net position-end of year	<u>\$ 1,334</u>

**NKURF Condensed Statement of Cash Flows**

Net cash used in operating activities	\$ (94)
Net cash provided by noncapital financing activities	<u>98</u>
Net increase in cash and cash equivalents	4
Cash and cash equivalents-beginning of year	<u>1,292</u>
Cash and cash equivalents-end of year	<u>\$ 1,296</u>

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

Selected disclosures from the Foundation are included as follows:

### a. Summary of Significant Accounting Policies

#### 1. Scope of Statements

The consolidated financial statements of the Northern Kentucky Foundation, Inc. include the operations of the Foundation and several single member limited liability companies. All material intercompany transactions and balances have been eliminated for the year ended June 30, 2023.

#### 2. Basis of Presentation

The consolidated financial statements have been prepared in conformity with GAAP which requires 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

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 and Expenses

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. Funds received for which required conditions have not yet been met are recorded as deferred income. Contributions of assets other than cash are recorded at their estimated fair value. Contributions receivable are discounted at an appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment of such factors as prior collection history, type of contribution and nature of the fund-raising activity.

The value recorded for each contribution is recognized as follows:

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

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

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

### 3. Cash and Cash Equivalents

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

At various times throughout the year, the Foundation has cash in certain financial institutions in excess of insured limits. Additionally, at June 30, 2023, \$3,797,000, was insured by federal depository insurance. At June 30, 2023, a balance of \$2,675,000 was not insured.

### 4. Loans and Accounts Receivable

Loans receivable consists primarily of loans made to students under privately funded loan programs. The advances are evidenced by signed promissory notes, bearing interest at varying stated interest rates, with varying due dates. Loans, accounts and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for a probable uncollectible allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts as of June 30, 2023, was approximately \$48,000.

### 5. Investments

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

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

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

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

**6. Land and Land Improvements**

At June 30, 2023 land and land improvements (in thousands) consisted of:

<b>Type of asset:</b>	
Land	\$ 178
Land held for future use by the University	145
Land improvements	<u>208</u>
Gross land and land improvements	531
Less: accumulated depreciation	<u>(208)</u>
Total land and land improvements, net	<u><u>\$ 323</u></u>

Assets acquired for Foundation use with a useful life greater than one year and a value of \$5,000 or more are capitalized. Annual depreciation for land improvements is calculated on a straight-line basis, beginning in the month of acquisition based on a useful life of 30 years. Assets purchased or constructed through the Foundation for immediate use by the University are recorded by the Foundation as a program expense.

**7. Long-Lived Asset Impairment**

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the year ended June 30, 2023.

**8. Adoption of New Accounting Standards**

Effective July 1, 2022, the Foundation adopted Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)* and associated amendments. This standard requires all leases to be recognized on the Foundation’s consolidated statements of financial position as a right-of-use asset and a lease liability, unless the lease is a short term lease (generally a lease with a term of twelve months or less). The Foundation recognizes: 1) a lease liability for the Foundation’s obligation to make payments under the lease agreement, measured on a discounted basis, and 2) a right-of-use asset that represents the Foundation’s right to use, or control the use of, the specified asset for the lease term.

The adoption of the new lease standard did not materially impact the consolidated financial statements and did not result in a cumulative-effect adjustment to the opening balance of net assets.

**b. Leases**

At June 30, 2023, 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 for these properties was \$145,000 for the year ended June 30, 2023.

The following is a schedule by years of the future rentals receivable (in thousands) on property leases as of June 30, 2023:

<u>Fiscal Year ending June 30</u>	
2024	\$ 145
2025	145
2026	157
2027	149
2028	139
2029 and thereafter	<u>1,894</u>
Total future rentals	<u>\$ 2,629</u>

**c. Unconditional and Conditional Promises to Give**

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts are computed using a risk free interest rate and amortization of the discount is included in gifts and bequests revenue.

At June 30, 2023 the Foundation recognized contributions based on the following unconditional promises to give (in thousands):

**Purpose:**

Endowment giving	\$ 1,094
Capital purposes	70
Operating programs	<u>5,446</u>
Gross unconditional promises to give	6,610
Less: Discount and allowance for uncollectible accounts	<u>(618)</u>
Net unconditional promises to give	<u>\$ 5,992</u>

**Amounts due in:**

Less than one year	\$ 2,252
One to five years	3,158
More than five years	<u>1,200</u>
Total	<u>\$ 6,610</u>

The discount rates used to calculate the present value of contributions receivable at June 30, 2023 vary from 0.6% to 4.2%, depending on when the promise was made.

Conditional promises to give are not included as support until such time as the conditions are substantially met. The Foundation had received conditional promises to give of approximately \$5.3 million at June 30, 2023, consisting of the face value of life insurance policies, net of accumulated cash surrender value, as well as conditional promises of \$3 million from one donor for the completion of a new facility, and \$1.6 million from two donors for support of specified administrative positions.

Approximately 41% of total pledges receivable were due from one donor at June 30, 2023.

#### **d. 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, 2023.

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.



The following assets were measured at fair value on a recurring basis as of June 30, 2023 (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*
<b>Type of Investment:</b>					
Cash surrender value	\$ 486	\$ 486	\$ -	\$ -	\$ -
Fixed income funds:					
Core	14,079	14,079	-	-	-
Global	3,556	3,556	-	-	-
Equity funds:					
Large/mid-cap - broad	27,147	27,147	-	-	-
Large/mid-cap - growth	1,895	1,895	-	-	-
Large/mid-cap - value	6,435	6,435	-	-	-
Small cap - growth	2,073	2,073	-	-	-
Small cap - value	3,097	3,097	-	-	-
International - core	9,953	9,953	-	-	-
International - value	3,332	3,332	-	-	-
International small cap - value	3,324	3,324	-	-	-
Emerging markets - value	3,588	3,588	-	-	-
Emerging markets - growth	3,469	3,469	-	-	-
Real estate investment trust	34	34	-	-	-
Exchange traded funds	172	172	-	-	-
Certificates of deposit	4,000	4,000	-	-	-
Remainder interest in real property and other	1,190	-	1,190	-	-
Public natural resources-master limited partnerships	2,532	-	-	-	2,532
Private equity	27,351	-	-	-	27,351
Private debt	5,555	-	-	-	5,555
Natural resources	8,292	-	-	-	8,292
Private real estate	5,256	-	-	-	5,256
<b>Total</b>	<b>\$ 136,816</b>	<b>\$ 86,640</b>	<b>\$ 1,190</b>	<b>\$ -</b>	<b>\$ 48,986</b>

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

### e. Investments

The market values (in thousands) of the Foundation's investments as of June 30, 2023 are categorized by type below:

<b>Type of Investment:</b>	
Cash and cash surrender value	\$ 1,649
Fixed income funds:	
Core	14,079
Global	3,556
Equity funds:	
Large/mid cap - broad	27,147
Large/mid cap - growth	1,895
Large/mid cap - value	6,435
Small cap - growth	2,073
Small cap - value	3,097
International - core	9,953
International - value	3,332
International small cap - value	3,324
Emerging markets - value	3,588
Emerging markets - growth	3,469
Real estate investment trust	34
Exchange traded funds	172
Certificates of deposit	4,000
Public natural resources - master limited partnerships	2,532
Remainder interest in real property and other	1,190
Private equity:	
Buyout	8,397
Diversified	207
Growth	5,735
Venture capital	11,146
Secondary	1,866
Private debt:	
Distressed	5,548
Mezzanine	7
Natural resources:	
Diversified	1,589
Energy	3,595
Commodities	3,108
Private real estate:	
Opportunistic	5,124
Value added	132
Total Investments	<u>\$ 137,979</u>

Investment return (in thousands) for the year ended June 30, 2023 consists of:

Interest and dividend income	\$ 1,915
(net of investment fees: \$1,086)	
Net realized losses	(767)
Net unrealized gains	7,418
Total investment return	<u>\$ 8,566</u>

The Foundation records the cost of managing its endowment portfolio as a decrease in investment income within the appropriate net asset class in the consolidated statements 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, 2023 was approximately \$14,937,000. (See h. Regional University Excellence Trust Fund)

At June 30, 2023, the Foundation had committed approximately \$87,000,000 of its endowment investment resources to alternative investments, of which approximately \$28,300,000 had not yet been called by the investment managers. Alternative investments for which commitments have been made consist of private equity/debt, natural resources, private real estate and low-volatility.

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

#### **f. Endowments**

The Foundation's endowment consists of 403 individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments (quasi-endowments). Net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The board, at their discretion, can at any time permit spending from the principal of any quasi-endowed fund, provided the expenditure complies with any donor-imposed restrictions related to the fund.

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

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

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

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

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

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

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

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

Endowment net asset composition by type of endowment (in thousands) as of June 30, 2023 is as follows:

	<b><u>Without Donor Restrictions</u></b>	<b><u>With Donor Restrictions</u></b>	<b><u>Total Net Endowment Assets</u></b>
Donor restricted endowment funds	\$ -	\$ 103,241	\$ 103,241
Quasi-endowment funds	<u>3,366</u>	<u>4,828</u>	<u>8,194</u>
Total endowment funds	<u>\$ 3,366</u>	<u>\$ 108,069</u>	<u>\$ 111,435</u>

Changes in endowment net assets (in thousands) for the year ended June 30, 2023 are as follows:

	<b><u>Without Donor Restrictions</u></b>	<b><u>With Donor Restrictions</u></b>	<b><u>Total Net Endowment Assets</u></b>
Endowment net assets, beginning of year	\$ 3,147	\$ 102,190	\$ 105,337
Contributions collected and other additions	-	2,029	2,029
Investment income	54	1,754	1,808
Net investment gain (loss)	196	6,331	6,527
Amounts appropriated for expenditure	<u>(31)</u>	<u>(4,235)</u>	<u>(4,266)</u>
Endowment net assets, end of year	<u>\$ 3,366</u>	<u>\$ 108,069</u>	<u>\$ 111,435</u>

Funds with Deficiencies. From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or KUPMIFA requires the Foundation to retain as a fund of perpetual duration. As of June 30, 2023, deficiencies of this nature were approximately \$1,000. The endowment principal of the effected endowments were \$118,000 as of June 30, 2023. These deficiencies resulted from unfavorable market conditions that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

**g. Contingent Liabilities**

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

**h. Regional University Excellence Trust Fund**

The Foundation holds certain funds, consisting of endowment matching funds received by 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 d. Investments)

**i. Related Party Transactions**

During the year ended June 30, 2023 the Foundation made payments on behalf of the University of \$334,000, for salaries, benefits, and other administrative costs for University staff that directly support the Foundation’s operations. These payments are made by agreement between the Foundation and University. Approximately \$2,000 as of June 30, 2023, was owed to the University for such costs.

In support of University Programs, the Foundation incurred program expenses of \$8,829,000 for 2023, which consisted of payments on behalf of the University of \$6,052,000 and amounts transferred to the University for restricted purposes of \$2,777,000.

**j. Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2023, comprise the following (in thousands):

Cash and equivalents	\$	4,806
Accounts receivable		217
Contributions receivable		1,682
Less allowance for uncollectible pledges		(12)
	\$	<u>6,693</u>

The Foundation receives significant contributions restricted by donors and considers contributions restricted for programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. For the year ended June 30, 2023 restricted contributions of \$1,670,000 were included in financial assets available to meet cash needs for general expenditures within one year.

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

The board-designated endowment for the years ended June 30, 2023, of \$7,400,000 is subject to an annual spending rate as described in e. Endowments. 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.

### k. Schedule of Functional Expenses

The Foundation accounts for expenses in both natural classification categories and functional area categories. The summaries of these for the year ended June 30, 2023 are as follows (in thousands):

#### Schedule of Functional Expenses (in thousands)

	Subgranted to NKU- Payroll	Subgranted to NKU- Other	Contracted Services	Operating	Scholarships & Awards	Total
Instruction	\$ 644	\$ 6	\$ 59	\$ 309	\$ -	\$ 1,018
Research	105	-	-	28	-	133
Public service	18	-	62	145	-	225
Libraries	-	-	2	13	-	15
Academic support	756	10	5	449	-	1,220
Student services	388	26	10	838	-	1,262
Institutional support	761	-	53	517	-	1,331
University facilities and equipment acquisition	2	61	-	73	-	136
Student financial aid	-	-	-	-	3,374	3,374
Other program expenses and losses (recoveries)	-	-	-	115	-	115
Total program expenses	\$ 2,674	\$ 103	\$ 191	\$ 2,487	\$ 3,374	\$ 8,829
Management and general	334	-	60	75	-	469
Fund raising support	-	-	-	201	-	201
Total support expenses	\$ 334	\$ -	\$ 60	\$ 276	\$ -	\$ 670
Total expenses and losses	\$ 3,008	\$ 103	\$ 251	\$ 2,763	\$ 3,374	\$ 9,499

### l. Nonfinancial Contributions

For the year ended June 30, 2023 contributed nonfinancial assets (in thousands) recognized within the consolidated statements of activities included:

Event Supplies/Administrative Costs	\$ 19
Other	2
	<u>\$ 21</u>

The Foundation recognized nonfinancial assets within revenue with donor restrictions, including event supplies/administrative costs and NKU FUEL Pantry supplies. The recognized values of these donated items are based on the fair market value of the contributions at the time of donation based upon a review of advertised similar products.

Contributed event supplies/administrative costs were utilized by various NKU events.

Contributed NKU FUEL Pantry supplies were utilized by the NKU FUEL Pantry which provides food and other necessities for NKU students.

Volunteers contribute significant amounts of time to the program services and the Foundation, however, the consolidated financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by GAAP.

## **Required Supplementary Information**

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

	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<b>Hazardous</b>									
University's proportionate share of the net pension liability	0.396579%	0.359247%	0.384598%	0.373520%	0.386465%	0.370876%	0.401133%	0.444514%	0.414511%
University's proportionate share of the collective net pension liability	\$ 2,013	\$ 1,601	\$ 2,156	\$ 2,041	\$ 1,952	\$ 1,844	\$ 1,571	\$ 1,524	\$ 1,059
University's covered-employee payroll	\$ 748	\$ 621	\$ 661	\$ 600	\$ 591	\$ 662	\$ 637	\$ 563	\$ 535
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	269.03%	258.00%	326.28%	340.16%	330.29%	278.50%	246.58%	270.64%	197.80%
Pension plan fiduciary net position as a % of the total pension liability	61.51%	66.03%	55.18%	55.49%	56.10%	54.80%	57.41%	61.70%	68.70%

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

\*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years which information is available.



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

	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<b>Hazardous</b>									
Contractually required contribution	\$ 271	\$ 240	\$ 233	\$ 287	\$ 256	\$ 180	\$ 170	\$ 127	\$ 136
University's contributions in relation to the contractually required contribution	271	240	233	287	256	180	170	127	136
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 850	\$ 717	\$ 646	\$ 835	\$ 744	\$ 838	\$ 806	\$ 776	\$ 831
Contributions as a percentage of covered-employee payroll	31.82%	33.43%	36.00%	34.39%	34.39%	21.44%	21.08%	16.37%	16.37%

Notes to the Schedule:

The following summarizes key changes in assumptions from year to year:

*Changes in assumptions from 2021 to 2022:* There were no material changes.

*Changes in assumptions from 2020 to 2021:* There were no material changes.

*Changes in assumptions from 2019 to 2020:* The salary increase assumption changed from 3.05% to an average of 3.55% to 20.05%, based on service.

*Changes in assumptions from 2018 to 2019:* The salary increase assumption changed from 4.00% to 3.05%.

*Changes in assumptions from 2017 to 2018:* The investment rate and discount rate both decreased from 7.50% to 6.25%. The plan inflation rate decreased from 3.25% to 2.3%.

*Changes in assumptions from 2016 to 2017:* There were no material changes.

*Changes in assumptions from 2015 to 2016:* There were no material changes.

\* The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

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

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

	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
<b>Hazardous</b>						
University's proportionate share of the net OPEB liability (asset)	0.396584%	0.359216%	0.384513%	0.372729%	0.386561%	0.370876%
University's proportionate share of the net net OPEB liability (asset)	\$ 30	\$ (41)	\$ 164	\$ (100)	\$ (128)	\$ 22
University's covered-employee payroll	\$ 748.00	\$ 620.00	\$ 701.00	\$ 564.00	\$ 736.00	\$ 635.00
University's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	4.04%	-6.67%	23.47%	-17.73%	-17.43%	3.46%
Plan fiduciary net position as a % of the total OPEB liability	98.72%	101.85%	92.42%	105.29%	106.83%	98.80%

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

\*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years which information is available.

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

	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
<b>Hazardous</b>						
Contractually required contribution	\$ -	\$ -	\$ -	\$ 21	\$ 18	\$ 19
University's contributions in relation to the contractually required contribution	-	-	-	21	18	19
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 850	\$ 717	\$ 656	\$ 835	\$ 744	\$ 838
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.00%	2.46%	2.46%	2.26%

Notes to the Schedule:

The following summarizes key changes in assumptions from year to year:

*Changes in assumptions from 2021 to 2022:* There were no material changes.

*Changes in assumptions from 2020 to 2021:* The healthcare trend rates for Under Age 65 and Ages 65 and Older decreased from 7.00% to 6.40% and 5.00% to 2.90%, respectively. The discount rate decreased from 5.66% to 5.28%.

*Changes in assumptions from 2019 to 2020:* Salary increase assumptions changed from 3.05% to a range of 3.55% to 20.05%, based on service. The discount rate decreased from 5.88% to 5.66%.

*Changes in assumptions from 2018 to 2019:* The discount rate increased from 5.87% to 5.88%.

*Changes in assumptions from 2017 to 2018:* The discount rate decreased from 7.20% to 5.87%, while the investment rate decreased from 7.50% to 6.25%.

Estimated salary increases decreased from 4.00% to 3.05%. The inflation rate decreased from 3.25% to 2.30%.

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

\*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years which information is available.

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Consolidated Financial Statements Performed in Accordance with  
*Government Auditing Standards***

**Report of Independent Auditors**

Board of Regents  
Northern Kentucky University  
Highland Heights, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities, the discretely presented component unit, and the fiduciary activities of Northern Kentucky University (the University), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 4, 2023.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Board of Regents  
Northern Kentucky University  
Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters, continued

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dean Dotson Allen Ford, PLLC*

Louisville, Kentucky  
October 4, 2023