

**NORTHERN KENTUCKY UNIVERSITY FOUNDATION**

# **CONSOLIDATED FINANCIAL STATEMENTS**

*For the year ended June 30, 2021*

**NKU** NORTHERN  
KENTUCKY  
UNIVERSITY  
FOUNDATION





September 9, 2021

Dear NKU Foundation Board Members and Friends:

After more than a year and a half of living with the world's pandemic of COVID-19 and its variants, one thing I have learned is that flexibility and fortitude are the markers of what make good organizations and leaders great when met with adversity. The Foundation, NKU, and its leaders have been both, which has proven resilient as we face another difficult period ahead.

Now almost two years into our strategic plan, I am pleased where we are with our goals in support of student success: fundraising, stewardship, innovation, and advocacy. The following pages show our Consolidated Financial Statements for the years ending June 30, 2021 and June 30, 2020. They have been audited by BKD, LLP, whose report appears on page four. You will see that at 2021 fiscal year end, total Foundation assets reached \$152.4 million. The sale of our land in Covington (the original location of the university) and an excellent return on investments helped us toward increasing our resources to support NKU. The endowment pool also grew as new endowment accounts were created, growing total donor restricted endowments to 367.

This year our focus is on the final year of Further, Faster: The Campaign for NKU. The \$75 million goal is within reach. Once achieved we will have better positioned our students for success and our region for growth. In addition, the Foundation is making progress on innovative activities to support the university and its continued success.

In the area of advocacy, NKU and Foundation leaders worked with our Northern Kentucky Caucus to advance needed legislation to complete NKU's exit from the Kentucky Retirement System and a reduced rate on the university's cessation calculation.

As I conclude my last year as the Foundation President, I want to thank each of you for charging on and supporting our students, the lifeblood of our mission. Let's keep moving forward together by being purposeful, adaptable, and impactful in our support of student success.

Best,

A handwritten signature in black ink, appearing to read "Jason O. Jackman". The signature is fluid and cursive, with a large initial "J" and "O".

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



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## Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Northern Kentucky University Foundation, Inc., which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northern Kentucky University Foundation, Inc. as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Information***

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

*BKD, LLP*

Cincinnati, Ohio  
September 15, 2021

**Northern Kentucky University Foundation, Inc.**  
**Consolidated Statements of Financial Position**  
**As of June 30, 2021 and 2020**  
**(in thousands)**

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 11,996	\$ 9,007
Loans and accounts receivable, net	165	452
Contributions receivable, net	4,926	6,545
Prepaid expenses and deferred charges	207	130
Investments	134,768	106,234
Land and land improvements, net	323	355
<b>TOTAL ASSETS</b>	<b><u>\$ 152,385</u></b>	<b><u>\$ 122,723</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	\$ 243	\$ 395
Deferred income	675	674
Notes payable	-	2,000
Funds held in trust for Northern Kentucky University	15,889	12,487
<b>TOTAL LIABILITIES</b>	<b><u>16,807</u></b>	<b><u>15,556</u></b>
<b>NET ASSETS</b>		
Without Donor Restrictions		
For current operations	2,959	1,751
Amounts functioning as endowment funds	3,367	2,571
Invested in land and land improvements	323	355
Total without donor restrictions	<u>6,649</u>	<u>4,677</u>
With Donor Restrictions		
Unexpended funds received for restricted purposes	12,854	10,098
Contributions receivable	4,926	6,545
Loan funds	435	408
Endowment funds	110,714	85,439
Total with donor restrictions	<u>128,929</u>	<u>102,490</u>
<b>TOTAL NET ASSETS</b>	<b><u>135,578</u></b>	<b><u>107,167</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 152,385</u></b>	<b><u>\$ 122,723</u></b>

*See accompanying notes to the consolidated financial statements*

# Northern Kentucky University Foundation, Inc.

## Consolidated Statement of Activities

For the year ended June 30, 2021

(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES, GAINS AND OTHER SUPPORT</b>			
Gifts and bequests	\$ 1	\$ 4,879	\$ 4,880
State grants	-	12	12
Rental income	142	1	143
Investment return	842	28,166	29,008
Gain on sale of land	1,040	-	1,040
Other revenue	124	227	351
<b>Total revenues and gains</b>	<b>2,149</b>	<b>33,285</b>	<b>35,434</b>
<b>Net assets released from restrictions</b>	<b>6,452</b>	<b>(6,452)</b>	<b>-</b>
<b>Total revenues, gains and other support</b>	<b>8,601</b>	<b>26,833</b>	<b>35,434</b>
<b>EXPENSES AND LOSSES</b>			
<b>Program expenses</b>			
Instruction	710	-	710
Research	104	-	104
Public service	221	-	221
Libraries	5	-	5
Academic support	809	-	809
Student services	354	-	354
Institutional support	734	-	734
University facilities and equipment acquisition	3	-	3
Student financial aid	3,182	-	3,182
Other program expenses and losses	-	394	394
<b>Total program expenses</b>	<b>6,122</b>	<b>394</b>	<b>6,516</b>
<b>Support expenses</b>			
Management and general	444	-	444
Fund raising support	63	-	63
Rental property	-	-	-
<b>Total support expenses</b>	<b>507</b>	<b>-</b>	<b>507</b>
<b>TOTAL EXPENSES AND LOSSES</b>	<b>6,629</b>	<b>394</b>	<b>7,023</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>1,972</b>	<b>26,439</b>	<b>28,411</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>4,677</b>	<b>102,490</b>	<b>107,167</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 6,649</b>	<b>\$ 128,929</b>	<b>\$ 135,578</b>

*See accompanying notes to the consolidated financial statements*



# Northern Kentucky University Foundation, Inc.

## Consolidated Statement of Activities

For the year ended June 30, 2020

(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES, GAINS AND OTHER SUPPORT</b>			
Gifts and bequests	\$ 1	\$ 8,887	\$ 8,888
State grants	-	539	539
Rental income	131	-	131
Investment return	18	(2,957)	(2,939)
Other revenue	122	563	685
<b>Total revenues and gains</b>	<b>272</b>	<b>7,032</b>	<b>7,304</b>
<b>Net assets released from restrictions</b>	<b>7,338</b>	<b>(7,338)</b>	<b>-</b>
<b>Total revenues, gains and other support</b>	<b>7,610</b>	<b>(306)</b>	<b>7,304</b>
<b>EXPENSES AND LOSSES</b>			
<b>Program expenses</b>			
Instruction	765	-	765
Research	66	-	66
Public service	735	-	735
Libraries	10	-	10
Academic support	1,038	-	1,038
Student services	592	-	592
Institutional support	932	-	932
University facilities and equipment acquisition	150	-	150
Student financial aid	2,557	-	2,557
Other program expenses and losses	-	10	10
<b>Total program expenses</b>	<b>6,845</b>	<b>10</b>	<b>6,855</b>
<b>Support expenses</b>			
Management and general	503	-	503
Fund raising support	204	-	204
Rental property	4	-	4
<b>Total support expenses</b>	<b>711</b>	<b>-</b>	<b>711</b>
<b>TOTAL EXPENSES AND LOSSES</b>	<b>7,556</b>	<b>10</b>	<b>7,566</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>54</b>	<b>(316)</b>	<b>(262)</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>4,623</b>	<b>102,806</b>	<b>107,429</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 4,677</b>	<b>\$ 102,490</b>	<b>\$ 107,167</b>

See accompanying notes to the consolidated financial statements

**Northern Kentucky University Foundation, Inc.**  
**Consolidated Statements of Cash Flows**  
**For the years ended June 30, 2021 and 2020**  
**(in thousands)**

	<u>2021</u>	<u>2020</u>
<b>Cash flows from operating activities:</b>		
Interest and dividends received	\$ 3,029	\$ 2,395
Contributions received	3,394	2,921
Other receipts	712	1,662
Payments to vendors for goods and services	(1,241)	(2,572)
Subgrants to the University	(2,283)	(2,463)
Disbursements to students for financial aid	(3,182)	(2,557)
Interest paid	(13)	-
<b>Net cash provided by (used for) operating activities</b>	<u><b>416</b></u>	<u><b>(614)</b></u>
<b>Cash flows from investing activities:</b>		
Proceeds from sales and maturities of investments	16,524	8,639
Purchases of investments	(15,263)	(12,661)
<b>Net cash provided by (used for) investing activities</b>	<u><b>1,261</b></u>	<u><b>(4,022)</b></u>
<b>Cash flows from financing activities:</b>		
Endowment and other capital gifts	2,240	2,303
Proceeds from notes payable	-	2,000
Proceeds from disposal of land	1,072	-
Payment of notes payable	(2,000)	-
Acquisition of capital assets	-	(15)
<b>Net cash provided by (used for) financing activities</b>	<u><b>1,312</b></u>	<u><b>4,288</b></u>
<b>Net change in cash and cash equivalents</b>	2,989	(348)
<b>Cash and cash equivalents at beginning of year</b>	9,007	9,355
<b>Cash and cash equivalents at end of year</b>	<u><b>\$ 11,996</b></u>	<u><b>\$ 9,007</b></u>
<b>Reconciliation of change in net assets to net cash provided by (used for) operating activities:</b>		
<b>Change in net assets</b>	<b>\$ 28,411</b>	<b>\$ (262)</b>
Bad debt expense adjustment	2	-
Gain on sale of land	(1,040)	-
Provision for uncollectible pledges	3	-
Adjustment of life estate remainder interest	-	36
Contributions restricted for long-term investment	(2,240)	(2,303)
Net losses (gains) on investments	(25,979)	5,334
Contribution of real estate	(420)	-
<b>Changes in assets and liabilities:</b>		
Loans and accounts receivable	285	(261)
Contributions receivable	1,616	(3,533)
Prepaid expenses and deferred charges	(77)	(88)
Accounts payable	(152)	(10)
Deferred revenue	12	475
Cash surrender value of life insurance	(5)	(2)
<b>Net cash provided by (used for) operating activities</b>	<u><b>\$ 416</b></u>	<u><b>\$ (614)</b></u>

*See accompanying notes to the consolidated financial statements*

## ***Notes to Consolidated Financial Statements*** ***June 30, 2021 and 2020***

### **NOTE A – HISTORY AND PURPOSE**

#### **Northern Kentucky University Foundation, Inc.**

Northern Kentucky University Foundation, Inc. (the Foundation) was incorporated November 23, 1970, as a Kentucky non-stock, not-for-profit corporation. The purpose of the Foundation, as stated by the articles of incorporation, is to provide general and specific services and material things necessary or desirable for the growth and development of Northern Kentucky University (the University), and encompasses prospective students, students, alumni, faculty, and staff, as well as research and civic services and cooperative educational programs. Any and all things and acts in and incidental to the conduct of such activities deemed useful, necessary, proper and lawful, are also declared purposes.

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

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

#### **Scope of Statements**

The consolidated financial statements of the Foundation include the operations of the Foundation as well as the following single member limited liability companies: NKUF Properties 1, LLC, NKUF Properties 2, LLC, NKUF Properties 3, LLC, NKUF Properties 4, LLC, NKUF Properties 5, LLC, NKUF Properties 6, LLC, NKUF Properties 8, and NKUF Properties 10 LLC. These entities hold title to real estate and other assets formerly held by the Foundation. All material intercompany transactions and balances have been eliminated.

### **NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of Presentation**

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

These statements are presented on the accrual basis of accounting, and have been prepared to focus on the Foundation as a whole and to present transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of balances and transactions into two classes of net assets – with donor restrictions and without donor restrictions.

Net assets and changes therein are classified as follows:

*With donor restrictions* - Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

*Without donor restrictions* - Net assets not subject to donor-imposed stipulations. And are available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment

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

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

The value recorded for each contribution is recognized as follows:

<b>Nature of the Gift</b>	<b>Value Recognized</b>
<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.

### **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, 2021 and 2020, \$835,000 and \$2,353,000, respectively, was insured by federal depository insurance or collateralized with securities held by the financial institution's trust department or agent, but not in the Foundation's name. At June 30, 2021 and 2020, balances of \$11,111,000 and \$6,654,000, respectively, were neither insured nor collateralized.

### **Loans and Accounts Receivable**

Loans receivable consists primarily of loans made to students under privately funded loan programs. The advances are evidenced by signed promissory notes, bearing interest at varying stated interest rates, with varying due dates. Loans, accounts and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for a probable uncollectible allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts as of June 30, 2021 and 2020 was approximately \$41,000 and \$39,000, respectively.

### **Investments**

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

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

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

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

### Land and Land Improvements

At June 30, 2021 and 2020, land and land improvements (in thousands) consisted of:

<b>Type of asset:</b>	<u><b>2021</b></u>	<u><b>2020</b></u>
Land	\$ 178	\$ 178
Land held for sale	-	32
Land held for future use by the University	145	145
Land improvements	<u>208</u>	<u>208</u>
<b>Gross land and land improvements</b>	<b>531</b>	<b>563</b>
Less: accumulated depreciation	<u>(208)</u>	<u>(208)</u>
<b>Total land and land improvements, net</b>	<u><b>\$ 323</b></u>	<u><b>\$ 355</b></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.

### 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 years ended June 30, 2021 or 2020.

### Transfers Between Fair Value Hierarchy Levels

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

### Reclassifications

Certain reclassifications have been made to the 2020 consolidated financial statement to conform to the 2021 consolidated financial statement presentation. These reclassifications had no effect on changes in net assets.

**NOTE C – PROPERTY LEASES**

At June 30, 2021, 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 \$142,000 and \$131,000 for the years ended June 30, 2021 and 2020, respectively.

The following is a schedule by years of the future rentals receivable (in thousands) on property leases as of June 30, 2021:

<u>Year ending June 30</u>	
2022	135
2023	126
2024	126
2025	126
2026	138
2027 and thereafter	<u>2,172</u>
<b>Total future rentals</b>	<b><u>\$ 2,823</u></b>

In addition, during the year ended June 30, 2021 the Foundation entered an operating lease agreement to rent space within a building for certain program activities expiring September 30, 2023. Rent expense was \$20,000 for the year ended June 30, 2021. A portion of the leased space was subleased during the year ended June 30, 2021 with associated rental income totaling \$1,000. Future minimum lease payments at June 30, 2021 were:

<u>Year ending June 30</u>	
2022	24
2023	26
2024	6
<b>Total future payments</b>	<b><u>\$ 56</u></b>

<b>NOTE D – UNCONDITIONAL AND CONDITIONAL PROMISES TO GIVE</b>
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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, 2021 and 2020, the Foundation recognized contributions based on the following unconditional promises to give (in thousands):

	<u>2021</u>	<u>2020</u>
<b>Purpose:</b>		
Endowment giving	\$ 1,383	\$ 2,648
Capital purposes	230	300
Operating programs	3,672	3,818
<b>Gross unconditional promises</b>	<b>5,285</b>	<b>6,766</b>
Less: Discount and allowance for uncollectible accounts	(359)	(221)
<b>Net unconditional promises to give</b>	<b>\$ 4,926</b>	<b>\$ 6,545</b>
<b>Amounts due in:</b>		
Less than one year	1,857	2,391
One to five years	3,278	4,050
More than five years	150	325
<b>Total</b>	<b>\$ 5,285</b>	<b>\$ 6,766</b>

The discount rates used to calculate the present value of contributions receivable at June 30, 2021 and 2020 vary from 0.6% to 3.4%, depending on when the promise was made.

Conditional promises to give are not included as support until such time as the conditions are substantially met. The Foundation had received conditional promises to give of approximately \$2.5 million at June 30, 2021 and \$2.7 million at June 30, 2020, consisting of the face value of life insurance policies, net of accumulated cash surrender value, as well as conditional promises of \$1.7 million at June 30, 2021 and \$1.8 million at June 30, 2020 being from a single donor.

Approximately 15% of total pledges receivable were due from one donor at June 30, 2021. Approximately 15% of total pledges receivable were due from one donor at June 30, 2020.



## NOTE E – FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

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

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

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

Level 3 investments include those in which there is no active market. The Foundation holds no Level 3 investments at June 30, 2021 or 2020.

The following assets were measured at fair value on a recurring basis as of June 30, 2021 (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>June 30, 2021</b>					
<b>Type of Investment:</b>					
Short-term money market funds	\$ 29	\$ 29	\$ -	\$ -	\$ -
Cash surrender value	493	493	-	-	-
Fixed income funds:					
Core	5,675	5,675	-	-	-
Core Plus	6,650	6,650	-	-	-
Treasury Inflation Protected Securities	1,915	1,915	-	-	-
Intermediate	5,114	5,114	-	-	-
Equity funds:					
Large/Mid-Cap - Broad	35,015	35,015	-	-	-
Large/Mid-Cap - Value	8,857	8,857	-	-	-
Small Cap - Growth	2,485	2,485	-	-	-
Small Cap - Value	2,892	2,892	-	-	-
International - Core	9,386	9,386	-	-	-
International - Value	4,295	4,295	-	-	-
International Small Cap - Value	3,343	3,343	-	-	-
Emerging Markets - Value	5,932	5,932	-	-	-
Emerging Markets - Small Cap	6,104	6,104	-	-	-
Real Estate Investment Trust	44	44	-	-	-
Exchange Traded Funds	320	320	-	-	-
Remainder interest in real property and other	1,190	-	1,190	-	-
Public Natural Resources-Master Limited Partnerships	2,960	-	-	-	2,960
Private equity	14,973	-	-	-	14,973
Private debt	4,845	-	-	-	4,845
Natural resources	8,861	-	-	-	8,861
Private real estate	3,248	-	-	-	3,248
<b>Total</b>	<b>\$ 134,626</b>	<b>\$ 98,549</b>	<b>\$ 1,190</b>	<b>\$ -</b>	<b>\$ 34,887</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.

The following assets were measured at fair value on a recurring basis as of June 30, 2020 (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>June 30, 2020</b>					
<b>Type of Investment:</b>					
Short-term money market funds	\$ 10	\$ 10	\$ -	\$ -	\$ -
Cash surrender value	463	463	-	-	-
Fixed income funds:					
Core	4,772	4,772	-	-	-
Core Plus	6,148	6,148	-	-	-
Global	478	478	-	-	-
Treasury Inflation Protected Securities	1,798	1,798	-	-	-
Intermediate	5,123	5,123	-	-	-
Equity funds:					
Large/Mid-Cap - Broad	24,191	24,191	-	-	-
Large/Mid-Cap - Value	6,741	6,741	-	-	-
Small Cap - Growth	1,746	1,746	-	-	-
Small Cap - Value	1,549	1,549	-	-	-
International - Core	6,907	6,907	-	-	-
International - Value	3,327	3,327	-	-	-
International Small Cap - Value	2,323	2,323	-	-	-
Emerging Markets - Value	4,042	4,042	-	-	-
Emerging Markets - Small Cap	3,924	3,924	-	-	-
Real Estate Investment Trust	40	40	-	-	-
Exchange Traded Funds	116	116	-	-	-
Remainder interest in real property and other	3,653	-	3,653	-	-
Public Natural Resources-Master Limited Partnerships	1,913	-	-	-	1,913
Private equity	8,233	-	-	-	8,233
Private debt	2,667	-	-	-	2,667
Natural resources	7,629	-	-	-	7,629
Private real estate	2,675	-	-	-	2,674
Low-Volatility	5,632	-	-	-	5,632
<b>Total</b>	<b>\$ 106,100</b>	<b>\$ 73,698</b>	<b>\$ 3,653</b>	<b>\$ -</b>	<b>\$ 28,748</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.

## NOTE F – INVESTMENTS

The market values (in thousands) of the Foundation's investments as of June 30, 2021 and 2020 are categorized by type below:

Type of Investment:	<u>2021</u>	<u>2020</u>
Short-term money market funds	\$ 29	\$ 10
Cash and cash surrender value	635	597
Fixed income funds:		
Core	5,675	4,772
Core Plus	6,650	6,148
Global	-	478
Treasury Inflation Protected Securities	1,915	1,798
Intermediate	5,114	5,123
Equity funds:		
Large/Mid Cap - Broad	35,015	24,191
Large/Mid Cap - Value	8,857	6,741
Small Cap - Growth	2,485	1,746
Small Cap - Value	2,892	1,549
International - Core	9,386	6,907
International - Value	4,295	3,327
International Small Cap - Value	3,343	2,323
Emerging Markets - Value	5,932	4,042
Emerging Markets - Small Cap	6,104	3,924
Real Estate Investment Trust	44	40
Exchange Traded Funds	320	116
Public Natural Resources - Master Limited Partnerships	2,960	1,913
Remainder interest in real property and other	1,190	3,653
Private equity:		
Buyout	3,438	1,868
Diversified	560	912
Growth	3,178	1,470
Venture Capital	4,768	1,869
Secondary	3,029	2,114
Private debt:		
Distressed	4,837	2,659
Mezzanine	8	8
Natural Resources:		
Diversified	2,482	2,115
Energy	3,700	3,013
Commodities	2,679	2,501
Private real estate:		
Opportunistic	2,755	2,236
Value Added	493	439
Low-Volatility:		
Diversifying Strategies	-	5,632
<b>Total Investments</b>	<b><u>\$ 134,768</u></b>	<b><u>\$ 106,234</u></b>

Investment return (in thousands) for the years ended June 30 2021 and 2020 consists of:

	<u>2021</u>	<u>2020</u>
Interest and dividend income	\$ 3,029	\$ 2,395
(net of investment fees: 2021 - \$602, 2020 - \$573)		
Net realized gains (losses)	1,897	1,628
Net unrealized gains (losses)	<u>24,082</u>	<u>(6,962)</u>
	<u><b>\$29,008</b></u>	<u><b>\$ (2,939)</b></u>

The Foundation records the cost of managing its endowment portfolio as a decrease in investment income within the appropriate net asset class in the consolidated statement of activities. Some of the Foundation's investment managers report investment transactions net of fees.

The investments of the Foundation are commingled with certain investments which the Foundation holds in trust for the University. The market value of funds held in trust for the University at June 30, 2021 and 2020 was approximately \$15,889,000 and \$12,487,000 respectively. (See Note I)

At June 30, 2021 and 2020, the Foundation had committed approximately \$65,800,000 and \$57,700,000, respectively, of its endowment investment resources to alternative investments, of which approximately \$21,400,000 and \$17,800,000, respectively, had not yet been called by the investment managers. Alternative investments for which commitments have been made consist of private equity/debt, natural resources, private real estate and low-volatility.

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

#### **NOTE G – ENDOWMENTS**

The Foundation's endowment consists of 367 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, 2021 is as follows:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total Net Endowment Assets</b>
Donor restricted endowment funds	\$ -	\$ 106,009	\$ 106,009
Quasi-endowment funds	3,367	4,705	8,072
<b>Total endowment funds</b>	<b>\$ 3,367</b>	<b>\$ 110,714</b>	<b>\$ 114,081</b>

Changes in endowment net assets (in thousands) for the year ended June 30, 2021 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	\$ 2,571	\$ 85,439	\$ 88,010
Contributions collected and other additions	-	2,167	2,167
Investment income	88	2,917	3,005
Net investment gain (loss)	733	24,183	24,916
Amounts appropriated for expenditure	<u>(25)</u>	<u>(3,992)</u>	<u>(4,017)</u>
Endowment net assets, end of year	<b><u>\$ 3,367</u></b>	<b><u>\$ 110,714</u></b>	<b><u>\$ 114,081</u></b>

Endowment net asset composition by type of endowment (in thousands) as of June 30, 2020 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	\$ -	\$ 79,291	\$ 79,291
Quasi-endowment funds	<u>2,571</u>	<u>6,148</u>	<u>8,719</u>
Total endowment funds	<b><u>\$ 2,571</u></b>	<b><u>\$ 85,439</u></b>	<b><u>\$ 88,010</u></b>

Changes in endowment net assets (in thousands) for the year ended June 30, 2020 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	\$ 2,687	\$ 90,112	\$ 92,799
Contributions collected and other additions	-	2,243	2,243
Investment income	67	2,220	2,287
Net investment gain (loss)	(160)	(5,309)	(5,469)
Amounts appropriated for expenditure	(23)	(3,831)	(3,854)
Reclassify to held in perpetuity	<u>-</u>	<u>4</u>	<u>4</u>
Endowment net assets, end of year	<b><u>\$ 2,571</u></b>	<b><u>\$ 85,439</u></b>	<b><u>\$ 88,010</u></b>

*Funds with Deficiencies.* From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or KUPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies of this nature at June 30, 2021 and deficiencies of this nature were approximately \$84,000 at June 30, 2020. 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.

## NOTE H - CONTINGENT LIABILITIES

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

## NOTE I - REGIONAL UNIVERSITY EXCELLENCE TRUST FUND

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

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

## NOTE J - SUBSEQUENT EVENTS

Events occurring after June 30, 2021 have been evaluated for possible adjustment to the consolidated financial statements or disclosure through September 15, 2021, the date on which the consolidated financial statements were available to be issued.

## NOTE K - RELATED PARTY TRANSACTIONS

During the years ended June 30, 2021 and 2020, the Foundation made payments on behalf of the University of \$328,000 and \$331,000, respectively, for salaries, benefits, and other administrative costs for University staff that directly support the Foundation's operations. These payments are made by agreement between the Foundation and University. Approximately \$2,000 and \$0 as of June 30, 2021, and 2020, respectively, was owed to the University for such costs.

In support of University Programs, the Foundation incurred program expenses of \$6,516,000 and \$6,855,000 for 2021 and 2020, respectively, which consisted of payments on behalf of the University of \$4,508,000 and \$4,858,000, for 2021 and 2020, respectively; and amounts transferred to the University for restricted purposes of \$2,008,000 and \$1,997,000 for 2021 and 2020, respectively.

During the year ended June 30, 2020, the Foundation purchased 20.24 acres of land from the University to be held as an investment for the amount of approximately \$2,968,000 which was sold during the year ended June 30, 2021.

## NOTE L - LIQUIDITY AND AVAILABLE LIABILITIES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2021 and 2020, comprise the following (in thousands):

	<u>2021</u>	<u>2020</u>
Cash and equivalents	\$ 6,189	\$ 3,243
Accounts receivable	7	-
Contributions receivable	1,159	1,232
Less allowance for uncollectible pledges	(10)	(11)
	<u>\$ 7,345</u>	<u>\$ 4,464</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 years ended June 30, 2021 and 2020, restricted contributions of \$1,149,000 and \$1,221,000, respectively, were included in financial assets available to meet cash needs for general expenditures within one year.

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

The board-designated endowment for the years ended June 30, 2021 and 2020, of \$7,705,000 and \$7,439,000 is subject to an annual spending rate as described in Note G. Although the Foundation does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

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

## NOTE M – SCHEDULE OF FUNCTIONAL EXPENSES

The Foundation accounts for expenses in both natural classification categories and functional area categories. The summaries of these for the year ended June 30, 2021 and June 30, 2020 are as follows (in thousands):

### Schedule of Functional Expenses For the Year Ended 6/30/21 (in thousands)

	Subgranted to NKU- Payroll	Subgranted to NKU- Other	Contracted Services	Operating	Scholarships & Awards	Total
Instruction	\$ 513	\$ 60	\$ 40	\$ 97	\$ -	\$ 710
Research	97	-	-	7	-	104
Public service	25	-	58	138	-	221
Libraries	-	-	-	5	-	5
Academic support	627	-	25	157	-	809
Student services	184	-	16	154	-	354
Institutional support	528	-	41	165	-	734
University facilities and equipment acquisition	-	(25)	-	28	-	3
Student financial aid	-	-	-	-	3,182	3,182
Other program expenses and losses	-	-	-	394	-	394
<b>Total program expenses</b>	<b>\$ 1,974</b>	<b>\$ 35</b>	<b>\$ 180</b>	<b>\$ 1,145</b>	<b>\$ 3,182</b>	<b>\$ 6,516</b>
Management and general	328	-	53	63	-	444
Fund raising support	-	-	-	63	-	63
<b>Total support expenses</b>	<b>\$ 328</b>	<b>\$ -</b>	<b>\$ 53</b>	<b>\$ 126</b>	<b>\$ -</b>	<b>\$ 507</b>
<b>Total expenses and losses</b>	<b>\$ 2,302</b>	<b>\$ 35</b>	<b>\$ 233</b>	<b>\$ 1,271</b>	<b>\$ 3,182</b>	<b>\$ 7,023</b>

**Schedule of Functional Expenses**  
**For the Year Ended 6/30/20**  
(in thousands)

	Subgranted to NKU- Payroll	Subgranted to NKU- Other	Contracted Services	Operating	Scholarships & Awards	Total
Instruction	\$ 467	\$ 104	\$ 34	\$ 160	\$ -	\$ 765
Research	61	-	-	5	-	66
Public service	36	20	3	676	-	735
Libraries	-	-	-	10	-	10
Academic support	578	-	37	423	-	1,038
Student services	139	44	25	384	-	592
Institutional support	428	-	98	406	-	932
University facilities and equipment acquisition	-	120	-	30	-	150
Student financial aid	-	-	-	-	2,557	2,557
Other program expenses and losses	-	-	-	10	-	10
<b>Total program expenses</b>	<b>\$ 1,709</b>	<b>\$ 288</b>	<b>\$ 197</b>	<b>\$ 2,104</b>	<b>\$ 2,557</b>	<b>\$ 6,855</b>
Management and general	331	-	102	70	-	503
Fund raising support	-	-	-	204	-	204
Rental property	-	-	-	4	-	4
<b>Total support expenses</b>	<b>\$ 331</b>	<b>\$ -</b>	<b>\$ 102</b>	<b>\$ 278</b>	<b>\$ -</b>	<b>\$ 711</b>
<b>Total expenses and losses</b>	<b>\$ 2,040</b>	<b>\$ 288</b>	<b>\$ 299</b>	<b>\$ 2,382</b>	<b>\$ 2,557</b>	<b>\$ 7,566</b>

**NOTE N – LONG-TERM DEBT**

During the year ended June 30, 2020 the Foundation borrowed \$2 million on a promissory note collateralized by maintaining an amount equal to the loan in a savings account within the lending institution. The loan was obtained to purchase 20.24 acres of land from the University to be held as an investment. Accrued interest is payable monthly commencing on July 31, 2020 and continuing each month with one final payment of all remaining interest and principal due on June 30, 2022. The interest rate is variable being determined by the LIBOR rate plus 1.0% adjusted on a monthly basis with a fixed minimum rate of 1.75%. The promissory note was paid in full during the year ended June 30, 2021.

**NOTE O – FUTURE CHANGES IN ACCOUNTING PRINCIPLES**

*Accounting for Leases*

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





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