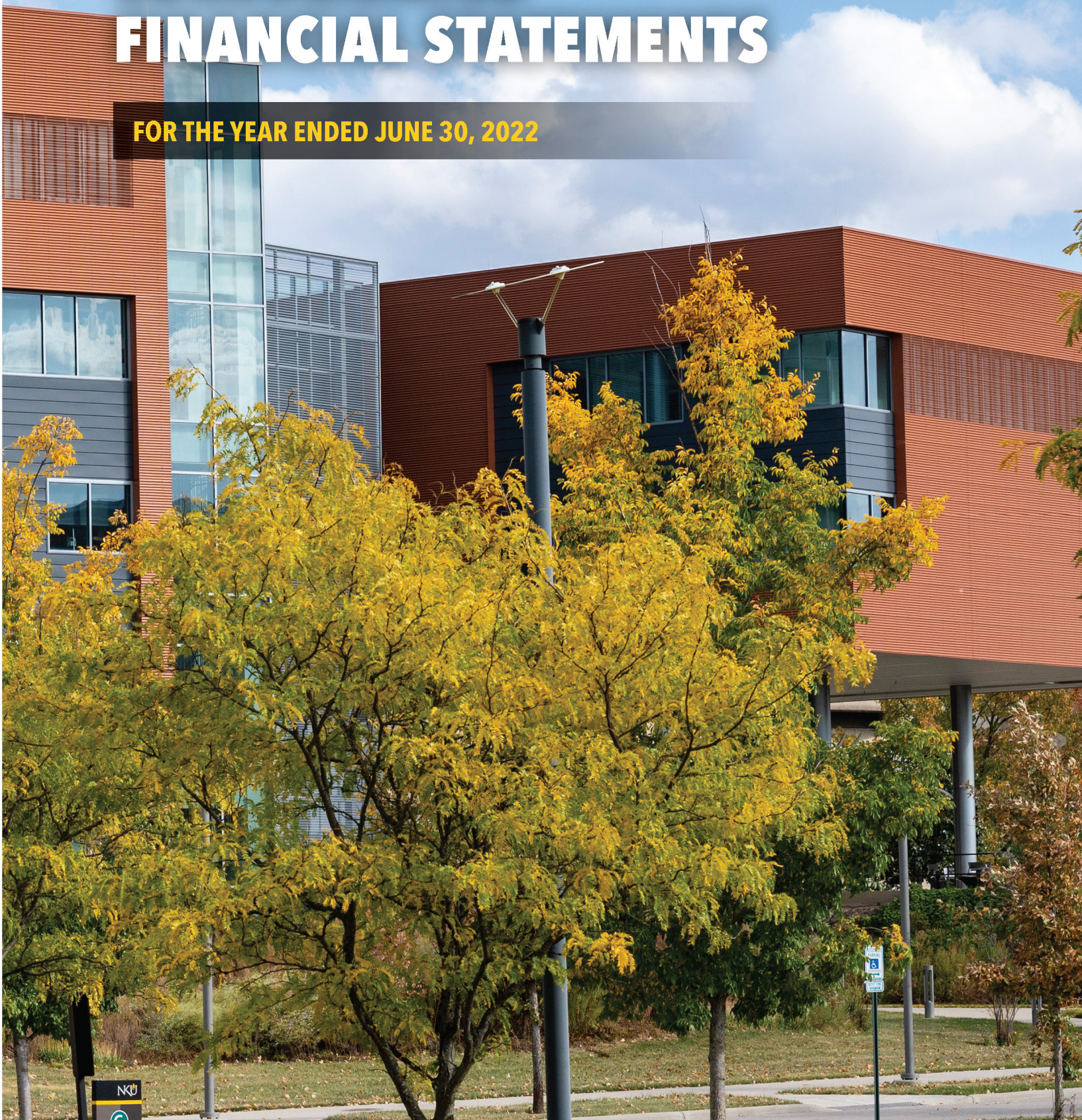


CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022





October 2022

Dear foundation board members and friends:

It seems that we are finally settling into a new post-pandemic reality. Hybrid, quarantine, unprecedented, asymptomatic...these words are finally used less in our everyday vocabulary. We are moving into our 'new normal' and have a lot to look back on, and as much to look forward to.

The end of this fiscal year was not only the beginning of a new chapter, but it also concluded NKU's largest and most successful campaign in its history. The \$84.8 million raised toward the Further, Faster Campaign for NKU is an astounding achievement ~ even without a pandemic curve ball. Whether you gave through a campaign gift, attended an NKU event, or spent time on committee work (or all three!), thank you. Your leadership and generosity were the fuel that propelled the campaign through.

The Foundation's Consolidated Financial Statements for the years ending June 30, 2022 and June 30, 2021 are on the following pages. They have been audited by FORVIS, LLP (formerly BKD, LLP), whose report appears on pages four and five. At 2022 fiscal year end, total Foundation assets were \$145.9 million and the total number of donor restricted endowments grew from 367 to 384.

There will still be hills to climb and changes to navigate, but I firmly believe that we can get through them together. Thanks again for all you do to support the Foundation and Northern Kentucky University.

Best,

A handwritten signature in black ink that reads 'Tom Wiedemann'. The signature is written in a cursive, flowing style.

Thomas C. Wiedemann

President

Northern Kentucky University Foundation, Inc.



Lucas Administrative Center 822
Highland Heights, KY 41099
(859) 572-5129
nku.edu/foundation

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TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	4-5
Consolidated Financial Statements	
Consolidated Statements of Financial Position	6
Consolidated Statement of Activities, <i>year ended June 30, 2022</i>	7
Consolidated Statement of Activities, <i>year ended June 30, 2021</i>	8
Consolidated Statements of Cash Flows	9
Notes to Consolidated Financial Statements	10-26

Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Northern Kentucky University Foundation, Inc., which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities and cash flow for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Northern Kentucky University Foundation, Inc. as of June 30, 2022 and 2021, 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.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Northern Kentucky University Foundation, Inc.'s ability to continue as a going concern within one year after the date that these consolidated financial statements are available to be issued.

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

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 Northern Kentucky University Foundation, Inc.'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Northern Kentucky University Foundation, Inc.'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.

Other Information

Management is responsible for the other information. The other information comprises the board of directors listing, letter from the president, and executive committee/officers listing but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does 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 consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

FORVIS,LLP

Cincinnati, Ohio
October 6, 2022

Northern Kentucky University Foundation, Inc.
Consolidated Statements of Financial Position
As of June 30, 2022 and 2021
(in thousands)

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 12,861	\$ 11,996
Loans and accounts receivable, net	630	165
Contributions receivable, net	6,970	4,926
Prepaid expenses and deferred charges	210	207
Investments	124,858	134,768
Land and land improvements, net	323	323
TOTAL ASSETS	<u>\$ 145,852</u>	<u>\$ 152,385</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 324	\$ 243
Agency funds	11	-
Deferred income	939	675
Funds held in trust for Northern Kentucky University	14,420	15,889
TOTAL LIABILITIES	<u>15,694</u>	<u>16,807</u>
NET ASSETS		
Without Donor Restrictions		
For current operations	3,039	2,959
Amounts functioning as endowment funds	3,147	3,367
Invested in land and land improvements	323	323
Total without donor restrictions	<u>6,509</u>	<u>6,649</u>
With Donor Restrictions		
Unexpended funds received for restricted purposes	13,370	12,854
Contributions receivable	6,970	4,926
Loan funds	1,119	435
Endowment funds	102,190	110,714
Total with donor restrictions	<u>123,649</u>	<u>128,929</u>
TOTAL NET ASSETS	<u>130,158</u>	<u>135,578</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 145,852</u>	<u>\$ 152,385</u>

See accompanying notes to the consolidated financial statements

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

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

See accompanying notes to the 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
REVENUES, GAINS AND OTHER SUPPORT			
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
Total revenues and gains	2,149	33,285	35,434
Net assets released from restrictions	6,452	(6,452)	-
Total revenues, gains and other support	8,601	26,833	35,434
EXPENSES AND LOSSES			
Program expenses			
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
Total program expenses	6,122	394	6,516
Support expenses			
Management and general	444	-	444
Fund raising support	63	-	63
Total support expenses	507	-	507
TOTAL EXPENSES AND LOSSES	6,629	394	7,023
INCREASE (DECREASE) IN NET ASSETS	1,972	26,439	28,411
NET ASSETS - BEGINNING OF YEAR	4,677	102,490	107,167
NET ASSETS - END OF YEAR	\$ 6,649	\$ 128,929	\$ 135,578

See accompanying notes to the consolidated financial statements

Northern Kentucky University Foundation, Inc.
Consolidated Statements of Cash Flows
For the years ended June 30, 2022 and 2021
(in thousands)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Interest and dividends received	\$ 4,601	\$ 3,029
Contributions received	3,899	3,394
Other receipts	766	712
Payments to vendors for goods and services	(2,139)	(1,241)
Subgrants to the University	(2,378)	(2,283)
Disbursements to students for financial aid	(3,020)	(3,182)
Interest paid	-	(13)
Net cash provided by (used for) operating activities	<u>1,729</u>	<u>416</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	18,383	16,524
Purchases of investments	(20,764)	(15,263)
Net cash provided by (used for) investing activities	<u>(2,381)</u>	<u>1,261</u>
Cash flows from financing activities:		
Endowment and other capital gifts	1,517	2,240
Proceeds from disposal of land	-	1,072
Payment of notes payable	-	(2,000)
Net cash provided by (used for) financing activities	<u>1,517</u>	<u>1,312</u>
Net change in cash and cash equivalents	865	2,989
Cash and cash equivalents at beginning of year	11,996	9,007
Cash and cash equivalents at end of year	<u>\$ 12,861</u>	<u>\$ 11,996</u>
Reconciliation of change in net assets to net cash provided by (used for) operating activities:		
Change in net assets	\$ (5,420)	\$ 28,411
Bad debt expense adjustment	2	2
Gain on sale of land	-	(1,040)
Provision for uncollectible pledges	185	3
Adjustment of life estate remainder interest	50	-
Contributions restricted for long-term investment	(1,517)	(2,240)
Net losses (gains) on investments	10,806	(25,979)
Contribution of real estate	-	(420)
Changes in assets and liabilities:		
Loans and accounts receivable	(467)	285
Contributions receivable	(2,227)	1,616
Prepaid expenses and deferred charges	(3)	(77)
Accounts payable and agency funds	92	(152)
Deferred revenue	214	12
Cash surrender value of life insurance	14	(5)
Net cash provided by (used for) operating activities	<u>\$ 1,729</u>	<u>\$ 416</u>

See accompanying notes to the consolidated financial statements

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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 7, LLC, NKUF Properties 8, LLC, NKUF Properties 10, LLC, NKUF Properties – Tennis, LLC, NKUF Ventures, LLC, and Twelve Mile Nature Preserve, 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:

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.

Cash and Cash Equivalents

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

At various times throughout the year, the Foundation has cash in certain financial institutions in excess of insured limits. Additionally, at June 30, 2022 and 2021, \$1,172,000 and \$835,000, 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, 2022 and 2021, balances of \$11,646,000 and \$11,111,000, 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, 2022 and 2021 was approximately \$44,000 and \$41,000, respectively.

Investments

Investments in equity securities with readily determinable fair values and all debt securities are reported at 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, 2022 and 2021, land and land improvements (in thousands) consisted of:

Type of asset:	<u>2022</u>	<u>2021</u>
Land	\$ 178	\$ 178
Land held for future use by the University	145	145
Land improvements	<u>208</u>	<u>208</u>
Gross land and land improvements	531	531
Less: accumulated depreciation	<u>(208)</u>	<u>(208)</u>
Total land and land improvements, net	<u>\$ 323</u>	<u>\$ 323</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, 2022 or 2021.

Transfers Between Fair Value Hierarchy Levels

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

NOTE C – PROPERTY LEASES

At June 30, 2022, 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 and \$142,000 for the years ended June 30, 2022 and 2021, respectively.

The following is a schedule by years of the future rentals receivable (in thousands) on property leases as of June 30, 2022:

<u>Fiscal Year ending June 30</u>	
2023	145
2024	145
2025	145
2026	157
2027	149
2028 and thereafter	2,033
Total future rentals	<u>\$ 2,774</u>

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 \$24,000 and \$20,000 for the years ended June 30, 2022 and 2021, respectively. Future minimum lease payments at June 30, 2022 were:

<u>Fiscal Year ending June 30</u>	
2023	26
2024	6
Total future payments	<u>\$ 32</u>

NOTE D – UNCONDITIONAL AND CONDITIONAL PROMISES TO GIVE

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

At June 30, 2022 and 2021, the Foundation recognized contributions based on the following unconditional promises to give (in thousands):

	2022	2021
Purpose:		
Endowment giving	\$ 1,134	\$ 1,383
Capital purposes	140	230
Operating programs	6,414	3,672
Gross unconditional promises	7,688	5,285
Less: Discount and allowance for uncollectible accounts	(718)	(359)
Net unconditional promises to give	\$ 6,970	\$ 4,926
 Amounts due in:		
Less than one year	2,449	1,857
One to five years	3,739	3,278
More than five years	1,500	150
Total	\$ 7,688	\$ 5,285

The discount rates used to calculate the present value of contributions receivable at June 30, 2022 and 2021 vary from 0.6% to 3.6%, depending on when the promise was made.

Conditional promises to give are not included as support until such time as the conditions are substantially met. The Foundation had received conditional promises to give of approximately \$5.4 million at June 30, 2022 and \$2.5 million at June 30, 2021, consisting of the face value of life insurance policies, net of accumulated cash surrender value, as well as conditional promises of \$4.6 million at June 30, 2022 consisting of promises from three donors and \$1.7 million at June 30, 2021 being from a single donor.

Approximately 36% of total pledges receivable were due from one donor at June 30, 2022. Approximately 15% of total pledges receivable were due from one donor at June 30, 2021.

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, 2022 or 2021.

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

	Total	Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV*
June 30, 2022					
Type of Investment:					
Short-term money market funds	\$ 15	\$ 15	\$ -	\$ -	\$ -
Cash surrender value	472	472	-	-	-
Fixed income funds:					
Core	10,415	10,415	-	-	-
Core Plus	2,624	2,624	-	-	-
Treasury Inflation Protected Securities	4,000	4,000	-	-	-
Intermediate	-	-	-	-	-
Equity funds:					
Large/Mid-Cap - Broad	25,930	25,930	-	-	-
Large/Mid Cap Equity - Growth	1,983	1,983	-	-	-
Large/Mid-Cap - Value	5,782	5,782	-	-	-
Small Cap - Growth	1,696	1,696	-	-	-
Small Cap - Value	2,683	2,683	-	-	-
International - Core	8,625	8,625	-	-	-
International - Value	2,967	2,967	-	-	-
International Small Cap - Value	2,885	2,885	-	-	-
Emerging Markets - Value	3,324	3,324	-	-	-
Emerging Markets - Small Cap	-	-	-	-	-
Emerging Markets - Growth	3,172	3,172	-	-	-
Real Estate Investment Trust	40	40	-	-	-
Exchange Traded Funds	279	279	-	-	-
Remainder interest in real property and other	1,190	-	1,190	-	-
Public Natural Resources-Master Limited Partnerships	2,469	-	-	-	2,469
Private equity	23,307	-	-	-	23,307
Private debt	5,786	-	-	-	5,786
Natural resources	8,772	-	-	-	8,772
Private real estate	4,607	-	-	-	4,607
Total	\$ 123,023	\$ 76,892	\$ 1,190	\$ -	\$ 44,941

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

The following assets were measured at fair value on a recurring basis as of June 30, 2021 (in thousands):

	Fair Value Measurements Using				
	Quoted Prices in Active Markets for Identical Assets Total	Significant Other Observable Inputs (Level 1)	Significant Unobservable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV*
June 30, 2021					
Type of Investment:					
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
Total	\$ 134,626	\$ 98,549	\$ 1,190	\$ -	\$ 34,887

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

NOTE F – INVESTMENTS

The market values (in thousands) of the Foundation's investments as of June 30, 2022 and 2021 are categorized by type below:

Type of Investment:	<u>2022</u>	<u>2021</u>
Short-term money market funds	\$ 15	\$ 29
Cash and cash surrender value	2,307	635
Fixed income funds:		
Core	10,415	5,675
Core Plus	2,624	6,650
Treasury Inflation Protected Securities	4,000	1,915
Intermediate	-	5,114
Equity funds:		
Large/Mid Cap - Broad	25,930	35,015
Large/Mid Cap - Growth	1,983	
Large/Mid Cap - Value	5,782	8,857
Small Cap - Growth	1,696	2,485
Small Cap - Value	2,683	2,892
International - Core	8,625	9,386
International - Value	2,967	4,295
International Small Cap - Value	2,885	3,343
Emerging Markets - Value	3,324	5,932
Emerging Markets - Small Cap	-	6,104
Emerging Markets - Growth	3,172	-
Real Estate Investment Trust	40	44
Exchange Traded Funds	279	320
Public Natural Resources - Master		
Limited Partnerships	2,469	2,960
Remainder interest in real property and other	1,190	1,190
Private equity:		
Buyout	5,497	3,438
Diversified	284	560
Growth	5,057	3,178
Venture Capital	10,123	4,768
Secondary	2,346	3,029
Private debt:		
Distressed	5,777	4,837
Mezzanine	9	8
Natural Resources:		
Diversified	2,310	2,482
Energy	3,519	3,700
Commodities	2,943	2,679
Private real estate:		
Opportunistic	4,270	2,755
Value Added	337	493
Total Investments	<u>\$ 124,858</u>	<u>\$ 134,768</u>

Investment return (in thousands) for the years ended June 30 2022 and 2021 consists of:

	<u>2022</u>	<u>2021</u>
Interest and dividend income	\$ 4,603	\$ 3,029
(net of investment fees: 2022 - \$1,009, 2021 - \$602)		
Net realized gains (losses)	24,770	1,897
Net unrealized gains (losses)	<u>(35,576)</u>	<u>24,082</u>
	<u>\$ (6,203)</u>	<u>\$29,008</u>

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

The investments of the Foundation are commingled with certain investments which the Foundation holds in trust for the University. The market value of funds held in trust for the University at June 30, 2022 and 2021 was approximately \$14,420,000 and \$15,889,000 respectively. (See Note I)

At June 30, 2022 and 2021, the Foundation had committed approximately \$78,000,000 and \$65,800,000, respectively, of its endowment investment resources to alternative investments, of which approximately \$25,500,000 and \$21,400,000, 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, and private real estate.

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

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

An interpretation of KUPMIFA provisions by the Foundation Board of Directors requires that the historical dollar amount of a donor-restricted endowment fund be preserved. As a result of this requirement, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. In the absence of donor restrictions, the net appreciation on a

donor-restricted endowment fund is spendable. The net appreciation of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation.

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

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

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

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

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

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

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

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

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ 3,367	\$ 110,714	\$ 114,081
Contributions collected and other additions	-	1,454	1,454
Investment income	137	4,468	4,605
Net investment gain (loss)	(331)	(10,638)	(10,969)
Amounts appropriated for expenditure	<u>(26)</u>	<u>(3,808)</u>	<u>(3,834)</u>
Endowment net assets, end of year	<u>\$ 3,147</u>	<u>\$ 102,190</u>	<u>\$ 105,337</u>

Endowment net asset composition by type of endowment (in thousands) as of June 30, 2021 is as follows:

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

Changes in endowment net assets (in thousands) for the year ended June 30, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
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	<u>\$ 3,367</u>	<u>\$ 110,714</u>	<u>\$ 114,081</u>

Funds with Deficiencies. From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or KUPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature were approximately \$21,000 at June 30, 2022. These deficiencies resulted from unfavorable market conditions that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. There were no such deficiencies of this nature at June 30, 2021.

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

NOTE K – RELATED PARTY TRANSACTIONS

During the years ended June 30, 2022 and 2021, the Foundation made payments on behalf of the University of \$303,000 and \$328,000, 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 \$0 and \$2,000 as of June 30, 2022, and 2021, respectively, was owed to the University for such costs.

In support of University Programs, the Foundation incurred program expenses of \$7,074,000 and \$6,516,000 for 2022 and 2021, respectively, which consisted of payments on behalf of the University of \$4,921,000 and \$4,508,000, for 2022 and 2021, respectively; and amounts transferred to the University for restricted purposes of \$2,153,000 and \$2,008,000 for 2022 and 2021, respectively.

During the year ended June 30, 2021, the Foundation sold 20.24 acres of land for approximately \$2,968,000 which had been purchased from the University during the year ended June 30, 2020.

NOTE L – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2022 and 2021, comprise the following (in thousands):

	<u>2022</u>	<u>2021</u>
Cash and equivalents	\$ 6,045	\$ 6,189
Accounts receivable	51	7
Contributions receivable	1,877	1,159
Less allowance for uncollectible pledges	(11)	(10)
	<u>\$ 7,962</u>	<u>\$ 7,345</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, 2022 and 2021, restricted contributions of \$1,866,000 and \$1,149,000, 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 quasi-endowment for the years ended June 30, 2022 and 2021, of \$7,100,000 and \$7,705,000 is subject to an annual spending rate as described in Note G. Although the Foundation does not intend to spend from this quasi-endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

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

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, 2022 and June 30, 2021 are as follows (in thousands):

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

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

**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
Total program expenses	\$ 1,974	\$ 35	\$ 180	\$ 1,145	\$ 3,182	\$ 6,516
Management and general	328	-	53	63	-	444
Fund raising support	-	-	-	63	-	63
Total support expenses	\$ 328	\$ -	\$ 53	\$ 126	\$ -	\$ 507
Total expenses and losses	\$ 2,302	\$ 35	\$ 233	\$ 1,271	\$ 3,182	\$ 7,023

NOTE N – 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. Management is still evaluating the potential impact of this standard.



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