

Land-Grant Endowment Funds

The University of Alaska Land Grant Endowment has its origin in the federal land grant acts of 1915 and 1929 and subsequently the Alaska Statehood Act. Approximately 110,000 acres of land were transferred to the territory of Alaska and eventually to the Board of Regents to be held in trust for the university. The net proceeds from the sale, lease, exchange and other uses of these lands have been deposited in the University of Alaska Endowment Trust Fund as provided by Alaska Statute 14.40.400. Alaska Statute 14.40.400 gives the Board of Regents the authority to manage the endowment under the total return principles which are intended to preserve and maintain the purchasing power of the endowment fund, a unitized investment fund.

The accompanying schedules of Net Position and Changes in Net Position reflect the financial position of the Land-Grant Endowment and related funds as of June 30, 2010 and the changes in net position for the year then ended. The investments of the Land-Grant Endowment and Inflation-Proofing Fund, which have fair values at June 30, 2010 of \$98.8 and \$14.3 million, respectively, are invested in a consolidated endowment fund managed by the University of Alaska Foundation in accordance with an agreement and investment policy approved by the Board of Regents.

Expenditure of the endowment fund earnings is governed by regents' policy, which provides that a portion of the earnings be utilized to manage the university's lands, a portion be set aside in order to maintain the purchasing power of the endowment, and a portion be transferred to the Natural Resources Fund for the purpose of funding programs in support of UA Scholars, natural resource management, marketing and education, and other university programs.

The Schedule of Allocated Natural Resources Fund Balances represents a summary of awards, transfers and expenditures for Natural Resources Fund projects.

Land-Grant Endowment Funds
Notes to the Financial Schedules
June 30, 2010

By Acts of Congress in 1915 and 1929, approximately 110,000 acres of land were transferred to the territory of Alaska to be held in trust for the university. The grant lands were subsequently transferred to the state of Alaska and eventually to the Board of Regents to be held in trust for the university. Currently, approximately 82,243 acres of these lands are held at no basis because fair value at the date of transfer was not determinable. In 1982 and 1988, the university was allowed to select certain state lands including timber and other rights as replacement for lands disposed of by the territory and the state. These replacement lands and property interests were recorded at their fair value as of the date of transfer.

Land-Grant Trust Fund

The Land-Grant Trust Fund as reported in these schedules represents the original land grant, the invested proceeds from the sale and/or development of these resources and the appreciation in value of the invested funds. The endowment is managed on a total return basis. Receivables of approximately \$4.0 million are primarily from sales of trust land. Investments of approximately \$98.8 million are held in a consolidated endowment fund under the direction of the University of Alaska Foundation. The consolidated investment fund is managed by the Foundation's investment committee and treasurer in accordance with an investment policy approved by the Board of Regents. Cash balances are invested in pooled investment funds. Real property of approximately \$31.6 million is comprised primarily of replacement and property interests and does not include the value of the university's original entitlement land. Security deposits totaling \$0.6 million are held for security or performance on contracts and other leases. Net position include \$3.0 million of accumulated net earnings.

The annual spending allowance is based on four and one half percent of a five-year moving average of the December 31 market value of the investable resources of the Land-Grant and Inflation-Proofing funds. The annual spending allowance is limited to the unexpended accumulated earnings of the endowments as of the preceding December 31. The spending allowance requirement for fiscal year 2010 was \$5,641,292. To meet the spending allowance, \$3,286,456 and \$459,261, were transferred from the Land-Grant and Inflation-Proofing funds, respectively. The spending allowance distributions include a provision of \$798,139 for land management operating costs and \$4,843,153 for program support to be distributed through the Natural Resources Fund.

Inflation-Proofing Fund

The Inflation-Proofing Fund represents reinvested earnings of the Land-Grant Trust Fund and net proceeds of non-trust real property transactions designated for preservation of the long-term purchasing strength of the endowment. Its assets include approximately \$14.1 million in improved and unimproved real property held for investment including the University Lake and Diplomacy Buildings. The cash balances of the Inflation-Proofing Fund are invested in pooled investment funds. The other investments are held in the consolidated endowment fund under the direction of the University of Alaska Foundation. The long-term debt is approximately \$1.8 million for real estate located near the University of Alaska. The total net position of \$28.4 million is considered accumulated net earnings, of which \$1.3 million is designated for future renewal and replacement of investment property and \$0.5 million is designated for other projects approved by the Board of Regents.

In fiscal year 2001, the Inflation-Proofing Fund financed construction costs of \$527,947 for certain leased facilities at the Poker Flat Research Range near Fairbanks. The Inflation-Proofing Fund will receive monthly rent of \$6,482 for use of the facilities through fiscal year 2011. The rent is recorded as income in the period received. The leased facilities are included in the university's Investment in Plant fund group.

Land-Grant Endowment Funds
Notes to the Financial Schedules
June 30, 2010

Revenue Fund

The Revenue Fund represents a depository fund for the distributable earnings of the Land-Grant Trust Fund, the Inflation-Proofing Fund, and the Natural Resources Fund.

Investment income reported in the Revenue Fund represents current yield or income on investments and other assets of the endowment and related designated funds.

Natural Resources Fund

The Natural Resources Fund represents spendable funds designated by regents' policy to provide support for UA Scholars, agriculture, forestry, fisheries, mineral, and other university programs. All unexpended funds are invested in pooled investment funds.

On October 23, 2005 House Bill 130, granting to the University of Alaska approximately 250,000 acres of state land, passed into law. The intent of the Legislature is to provide the university with an equitable land grant as originally envisioned in the federal land grant of 1915 and to provide the university ownership of a significant portfolio of income producing land to help fund public higher education in the state of Alaska. Because of restrictions in the legislation related to native allotments, municipal entitlements and the University Research Forest, and delays in the conveyance of two parcels from the federal government to the state of Alaska, only 49 parcels, totaling approximately 198,900 acres, are eligible for immediate conveyance to the university. Net proceeds and royalties received from property development will be deposited into the land grant endowment trust fund. The lands will be recorded at zero basis when no determinable fair value is available at the time of transfer.

Two conservation groups filed a lawsuit against the state and university claiming the legislation was unconstitutional because it dedicated funds. The plaintiffs prevailed with the Alaska Supreme Court which nearly invalidated the 2005 legislation. Approximately 33,658 acres of land the university had received through June 30, 2009 was returned in April 2010. A research forest, which will not be conveyed to the university until 2055, the old downtown Fairbanks Courthouse Building and the Key Bank parcel in Fairbanks were exceptions and will not be returned to the state. The returned properties were recorded at a zero basis, so the ruling did not affect the results of operations.

Land Management Operations Fund

The Land Management Operations Fund represents spendable funds designated by regents' policy to provide support for land management operations. All unexpended funds are invested in pooled investment funds.

Land Grant Endowment Funds
Schedule of Net Position
June 30, 2010

	Land Grant Trust Fund	Inflation Proofing Fund	Revenue Fund	Natural Resources Fund	Land Management Operations
Assets:					
Cash (due (to) from University)	\$ (3,605,045)	\$ 1,632,892	\$ -	\$ 10,800,507	\$ 1,501,900
Receivables	4,003,291	185,362	-	-	-
Investments	98,822,464	14,281,529	-	-	-
Real property & subdivision inventory	31,611,785	14,147,015	-	-	-
Total Assets:	130,832,495	30,246,798	-	10,800,507	1,501,900
Liabilities:					
Security deposits and other payables	585,292	84,327	-	-	-
Long-term debt	-	1,780,000	-	-	-
Total Liabilities	585,292	1,864,327	-	-	-
Net position	\$ 130,247,203	\$ 28,382,471	\$ -	\$ 10,800,507	\$ 1,501,900

Schedule of Changes in Net Position
For the Year Ended June 30, 2010

Revenue and other additions:					
property, materials, and mineral interests	2,523,777	886,629	-	-	-
Cost basis of property sold	(217,134)	-	-	-	-
Net sales	2,306,643	886,629	-	-	-
Net realized and unrealized gain (loss)					
from investments	7,700,703	925,395	1,569,702	-	-
Total Revenue	10,007,346	1,812,024	1,569,702	-	-
Expenditures and other deductions:					
Development project costs	1,021,281	17,644	-	-	809,439
Interest expense	-	-	-	-	-
Natural Resources Fund projects	-	-	-	4,445,407	-
	1,021,281	17,644	-	4,445,407	809,439
Transfers in (out):					
Earnings in (out)	(373,460)	(519,529)	331,657	-	-
Debt Service	-	(64,824)	(5,785)	-	-
Provision for land management operations	-	-	(798,139)	-	798,139
Transfer for spending allowance	(3,286,455)	(459,261)	3,745,716	-	-
Natural Resources Fund allocation	-	-	(4,843,153)	4,843,153	-
	(3,659,915)	(1,043,614)	(1,569,704)	4,843,153	798,139
Net increase (decrease) in net position	5,326,150	750,766	-	397,746	(11,300)
Net position at beginning of year	124,921,053	27,631,705	-	10,402,760	1,513,200
Net position at end of year	\$ 130,247,203	\$ 28,382,471	\$ -	\$ 10,800,506	\$ 1,501,900

See accompanying notes to these schedules.

Land Grant Endowment Funds
Schedule of Allocated Natural Resources Fund Balances
For the Year Ended June 30, 2010

Project	Available June 30, 2009	New Awards & Transfers	Expen- ditures	Available June 30, 2010
NATURAL RESOURCES PROJECTS				
Animals				
UAS/Ring Seal Survey	1,041	-	-	1,041
Fisheries				
UAF/Prince of Wales Island Aquaculture	3,817	-	-	3,817
Forestry				
UAF/Factors Influence Spruce Bark Beetle	11,266	-	-	11,266
Resources Management, Marketing, Education, and Other				
UAF/Master Land Planning, Agriculture Research Station	42,298	-	-	42,298
SYS/Competitive Grants				
<i>sub-grants to:</i>				
UAF/Competitive Grants	8,153	-	8,153	-
OTHER PROJECTS				
Faculty Development				
UAF/Promoting Teacher Retention & Renewal	6,740	-	275	6,465
Outreach/Public Service				
UAF/University of Alaska Press	80,000	80,000	80,000	80,000
Program Development/Enhancement				
UAF/Cooperative Extension Support	895,610	400,000	398,873	896,737
Student Services				
UAA/Alaska Scholars Program	-	2,083,813	2,083,813	-
UAF/Alaska Scholars Program	-	1,401,125	1,401,125	-
UAS/Alaska Scholars Program	-	154,000	154,000	-
SYS/Alaska Scholars Program	7,693,179	229,183	141,338	7,781,024
SYS/Tuition Waiver Program, Coop. Scholarships	213,806	160,000	177,829	195,977
	<u>8,955,910</u>	<u>4,508,121</u>	<u>4,445,406</u>	<u>9,018,625</u>
Undistributed				
FY04 Transfer	836,850	-	-	836,850
FY05 Transfer	610,000	-	-	610,000
FY10 Transfer		335,032	-	335,032
	<u>\$ 10,402,760</u>	<u>\$ 4,843,153</u>	<u>\$ 4,445,406</u>	<u>\$ 10,800,507</u>