UNIVERSITY OF ALASKA

(A Component Unit of the State of Alaska)

Financial Statements

June 30, 2005 and 2004

(With Independent Auditors' Report Thereon)

University of Alaska
(A Component Unit of the State of Alaska)
Financial Statements
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Introduction

The following discussion and analysis provides an overview of the financial position and activities of the University of Alaska (university) for the years ended June 30, 2005 (fiscal year 2005) and June 30, 2004 (fiscal year 2004), with selected comparative information for the year ended June 30, 2003. This discussion has been prepared by management and should be read in conjunction with the financial statements including the notes thereto, which follow this section.

Using the Financial Statements

The university's financial report includes the basic financial statements of the university and the financial statements of the University of Alaska Foundation (foundation), a legally separate, non profit component unit. The three basic financial statements of the university are: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These statements are prepared in accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) pronouncements. The university is presented as a business-type activity. The statement establishes standards for external financial reporting for public colleges and universities and classifies resources into three net asset categories – unrestricted, restricted, and invested in capital assets, net of related debt.

Commencing in fiscal year 2004, the University of Alaska Foundation is presented as a component unit of the university in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The university's fiscal year 2003 financial statements were restated to conform to the requirements of GASB Statement No. 39. The foundation's financial statements include the Statement of Financial Position and the Statement of Activities and these statements are presented as originally audited according to generally accepted accounting principles and Financial Accounting Standards Board (FASB) pronouncements.

The foundation was established to solicit donations and to hold and manage such assets for the exclusive benefit of the university. Resources managed by the foundation and distributions made to the university are governed by the foundation's Board of Trustees (operating independently and separately from the university's Board of Regents). The component unit status of the foundation indicates that significant resources are held by the foundation for the sole benefit of the university. However, the university is not accountable for, nor has ownership of, the foundation's resources.

Statement of Net Assets

The Statement of Net Assets presents the financial position of the university at the end of the fiscal year and includes all assets and liabilities of the university. The difference between total assets and total liabilities (net assets) is one indicator of the financial condition of the university, while the change in net assets is an indicator of whether the financial condition has improved or declined during the year.

A summarized comparison of the university's assets, liabilities and net assets at June 30, 2005, 2004 and 2003 follows (in thousands):

	2005	2004	2003
Assets:			
Current assets	$ 119,109	$ 109,721	$ 107,186
Other assets	194,918	182,960	173,719
Capital assets, net of depreciation	737,290	760,757	703,855
Total assets	1,051,317	1,053,438	984,760
Liabilities:			
Current liabilities	76,600	69,631	74,547
Noncurrent liabilities	140,658	133,576	127,699
Total liabilities	217,258	203,207	202,246
Net assets			
Invested in capital assets, net of debt	625,727	648,016	602,274
Restricted – expendable	48,969	36,591	31,102
Restricted – nonexpendable	118,462	111,142	108,303
Unrestricted	40,901	54,482	40,835
Total net assets	$ 834,059	$ 850,231	$ 782,514

Major changes to assets and liabilities during fiscal year 2005 include a reduction in accounts receivable, growth in endowment investments, and increased liabilities due to the net pension (NPO) and other postemployment benefit (OPEB) obligations. Overall, the university experienced a decrease in net assets of $16.2 million or 1.9 percent. Each of these changes is discussed in more detail in the sections that follow.

Working capital (current assets less current liabilities) over the past year increased from $40.1 million to $42.5 million, largely due to an improved cash position. Cash and cash equivalents at June 30, 2005 were $57.3 million as compared to $41.8 million in 2004 and $22.1 million in 2003. This three year increase in cash and cash equivalents was primarily due to improved receivable collections and increases in student tuition and fees revenue.

Net accounts receivable decreased 11 percent from $58.0 million at June 30, 2004 to $51.6 million at June 30, 2005. The decrease is primarily due to net sponsored programs receivables decreasing by $5.3 million to $34.6 million at June 30, 2005. For the same period, sponsored programs revenue increased 5.7 percent reflecting an improvement in the billing and collection process. The other components of accounts receivable consist of those from operations, such as tuition and fees and capital appropriations. Days of operating revenue in accounts receivable from operations decreased from 56 in 2004 to 47 in 2005. Management continues to prioritize improvement in the billing and collection process. See Note 4 of the financial statements for accounts receivable detail.

The decrease in accounts payable from $13.2 million at June 30, 2004 to $10.9 million at June 30, 2005 is a reflection of the decrease in capital construction activity in process at year-end. At June 30, 2005, construction activity constituted almost half, or $4.6 million, of the accounts payable balance and in the prior year it represented $6.7 million. The remaining accounts payable balance represents amounts due for recurring supplies and services for operations.

Total liabilities increased by $14.1 million, to $217.3 million at June 30, 2005. The increase can be attributed primarily to the State of Alaska Public Employees’ Retirement System (PERS) combined $15.4 million net pension and OPEB obligations recorded at June 30, 2005. The PERS-related obligations are a result of increased healthcare costs and changes in actuarial assumptions. See Note 12 of the financial statements for details on PERS net pension and OPEB obligations.

Restricted expendable endowment net assets increased $13.3 million to $37.2 million at June 30, 2005. The increase is largely due to several significant land sales and a close out payment received on the university’s timber harvesting contract. Further details on endowments are discussed in the *Statement of Revenues, Expenses, and Changes in Net Assets* section below.

The university experienced a 25 percent, or $13.6 million, reduction in unrestricted net assets in fiscal year 2005. Increased costs of $9.6 million for pension plans, $15.4 million in net pension and OPEB obligations, and $5.6 million in net health care costs were primarily responsible for the reduction. As further detailed in Note 2 of the financial statements, $20.9 million of the $40.9 million total is designated by the Board of Regents for specific purposes or otherwise limited by contractual agreements with external parties. The $15.4 million net pension and OPEB obligation will be funded from future period revenues. See the *Statement of Revenues, Expenses, and Changes in Net Assets* section for additional details on net assets.

Fiscal Year 2004 Comparisons (Statement of Net Assets)

For comparative purposes, significant comments about changes between 2003 and 2004 that were noted in fiscal year 2004 Management’s Discussion and Analysis are summarized below:

Major changes from 2003 to 2004 on the Statement of Net Assets include those with unrestricted net assets, accounts receivable, working capital and accounts payable. Unrestricted net assets, a common indicator of financial strength or flexibility, increased 33.4 percent to $54.5 million at June 30, 2004. Net accounts receivable decreased 23 percent, from $74.9 million at June 30, 2003 to $58.0 million at June 30, 2004. The decrease was primarily due to capital project receivables decreasing by $10.6 million to $11.7 million at June 30, 2004. Working capital (current assets less current liabilities) in 2004 increased from $32.6 million to $40.1 million. Working capital at June 30, 2004 represented 27 days of operating expenses, as compared to 23 days in 2003. The improvement was attributed primarily to the increase in tuition revenue. The decrease in accounts payable from $20.7 million at June 30, 2003 to $13.2 million at June 30, 2004 was a reflection of the decrease in capital construction activity in process at June 30, 2004. At June 30, 2004, construction activity constituted about half, or $6.7 million, of the accounts payable balance and in the prior year it represented $10.4 million.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the results of operations for the university as a whole. Revenues, expenses and other changes in net assets are reported as either operating or nonoperating. Significant recurring sources of university revenue, such as state appropriations and investment earnings, are defined by GASB Statement No. 35 as nonoperating.

A summarized comparison of the university's revenues, expenses and changes in net assets for the years ended June 30, 2005, 2004 and 2003 follows (in thousands):

	2005	2004	2003
Operating revenues	$ 319,013	$ 299,677	$ 275,126
Operating expenses	(592,459)	(549,236)	(528,148)
Operating loss	(273,446)	(249,559)	(253,022)
Net nonoperating revenues	255,112	230,706	221,264
Loss before other revenues, expenses, gains, or losses	(18,334)	(18,853)	(31,758)
Other revenues, expenses, gains or losses	2,162	86,570	79,640
Increase (decrease) in net assets	(16,172)	67,717	47,882
Net assets at beginning of year	850,231	782,514	734,632
Net assets at end of year	$ 834,059	$ 850,231	$ 782,514

The Statement of Revenues, Expenses and Changes in Net Assets reflects an overall decrease in net assets of 1.9 percent, or $16.2 million. The decline in net assets is chiefly attributed to increases in the following costs:

- PERS, Teachers' Retirement System (TRS), and Optional Retirement Plan (ORP) costs increased by $9.6 million for the year ended June 30, 2005.

- Net health care costs increased by $5.8 million to $34.7 million for fiscal year 2005, representing a 20 percent increase.

- A PERS $15.4 million net pension and OPEB obligation was recorded in fiscal year 2005.

The university recorded a $15.4 million pension and other postemployment benefit (OPEB) expense (and related liability) for the state-administered PERS defined benefit plan. This expense represents the difference between contribution amounts based on actuarially determined rates and contributions actually paid to PERS. Even though the university made the contributions required by the PERS board, these amounts were based on a capped rate that was 12.46 percentage points lower than the actuarially computed rate. The rate was capped in accordance with PERS board policy that limits yearly increases in the employer contribution rate to 5 percentage points.

Another factor for the decrease in net assets is the decline in revenue recognized from capital funding sources. Capital appropriations and capital grant and contract revenue decreased from $86.6 million in 2004 to $17.6 million in 2005. Revenue from capital sources is generally recognized as expenditures occur. Fiscal year 2005 represents a year of diminished capital construction activity largely due to fewer available capital appropriation funds. State capital appropriation funds awarded were $4.1 million in 2004 and $0.5 million in 2005. For further discussion on capital activity, see the *Capital and Debt Activities* section which follows.

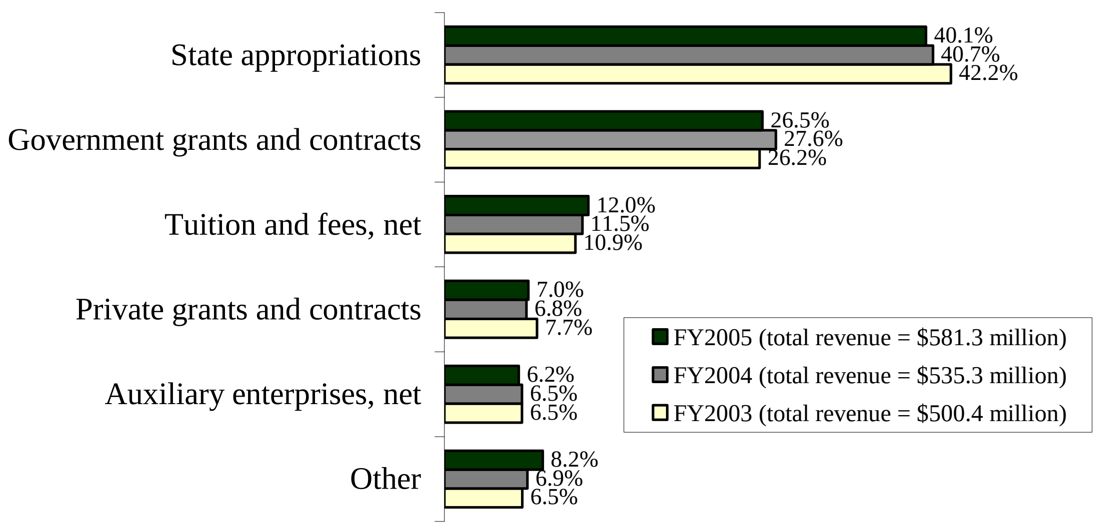
Student enrollment and tuition rate increases for the 2004 - 2005 academic year provided for gross student tuition and fee revenue of $75.9 million in fiscal year 2005 as compared to $67.8 million in fiscal year 2004. This was due in large part to a 10 percent increase in tuition rates for resident students (20 percent for non-residents) for academic year 2004 - 2005. Student full-time equivalent enrollment for Fall 2004 was 17,454, a 0.8 percent increase from the prior Fall period.

Endowment proceeds and investment income increased to $26.2 million in 2005 as compared to $16.2 million in 2004. A significant component of these amounts is investment income generated from the endowment principal. Total return from the endowment was approximately 11 percent, or $9.7 million, in 2005 as compared to a 14 percent return, or $10.6 million, in the prior year. The other major component in this category is yield from, or sales of, trust land, timber and mineral interests, the net proceeds of which are generally deposited to the land grant endowment trust fund. These sources generated revenue of $16.5 million in 2005 as compared to $5.6 million in 2004.

State of Alaska general fund appropriations continue to be the single major source of revenue for the university, providing $232.9 million in 2005, as compared to $217.7 million in 2004. Historically, the Legislature has funded the university at an amount equal to or above the prior period's appropriation.

A comparison of operating and nonoperating revenues by source for fiscal year 2005, 2004 and 2003 follows:

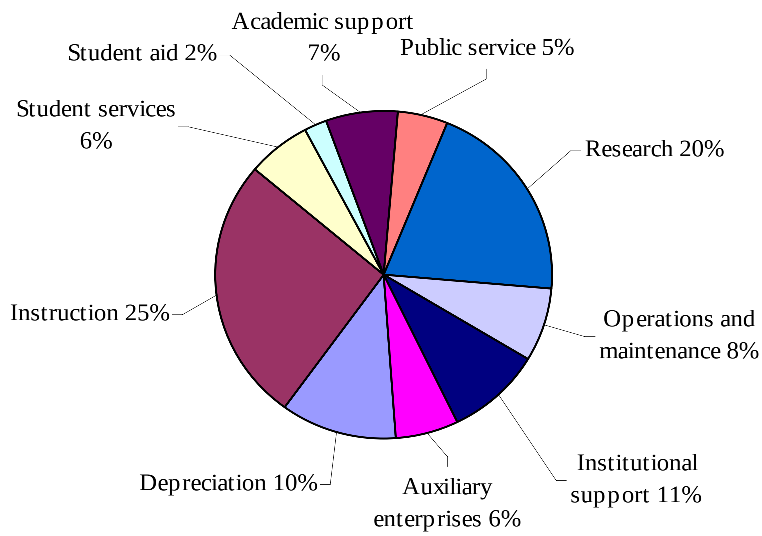
Operating and Nonoperating Revenues (excluding capital) by Year



Revenues from federal and other sources for sponsored research and education-related programs increased 5.7 percent, from $184.4 million in 2004 to $194.9 million in 2005. Facility and administrative cost recovery provided $31.2 million in 2005 as compared to $29.7 million in 2004. This increased funding enables the university to expand existing programs and start new programs, like those in health, science and basic research. In addition to supporting new programs, facility and administrative cost recovery reimburses the university for facilities and administrative costs necessary to operate and support sponsored programs, and provides cash flow to service debt on, and renew, research facilities.

A comparison of operating expenses by functional and natural classification for selected fiscal years follows (see Note 16 of the financial statements for more information):

Fiscal Year 2005
Functional Classification



Operating Expenses
Functional Classification (in millions)

	FY2005		FY2004		FY2003	
Instruction	$150.0	25.3%	$144.1	26.2%	$134.2	25.4%
Student Services	36.0	6.1%	33.0	6.0%	31.3	5.9%
Student Aid	12.8	2.2%	13.0	2.4%	10.4	2.0%
Academic Support	41.0	6.9%	37.1	6.8%	34.3	6.5%
Student and Academic	$239.8	40.5%	$227.2	41.4%	$210.2	39.8%
Public Service	31.2	5.3%	26.2	4.8%	25.0	4.7%
Research	119.0	20.1%	112.0	20.4%	107.6	20.4%
Operations and Maintenance	45.0	7.6%	39.2	7.0%	40.3	7.7%
Institutional Support	63.4	10.7%	50.3	9.2%	53.5	10.1%
Auxiliary Enterprises	33.9	5.7%	33.8	6.2%	31.8	6.0%
Depreciation	60.1	10.1%	60.5	11.0%	59.7	11.3%
Total Operating Expenses	$592.4	100.0%	$549.2	100.0%	$528.1	100.0%

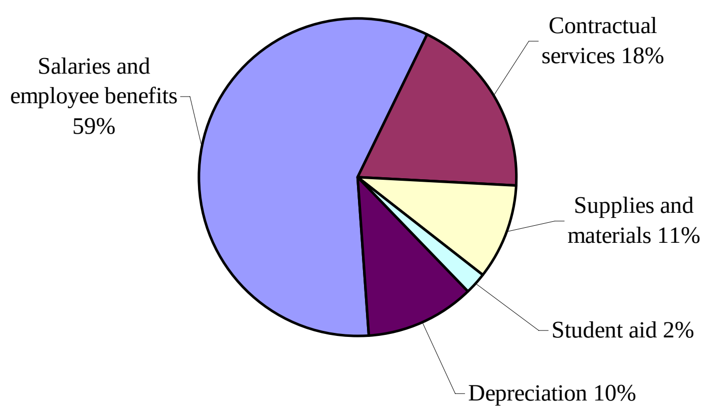
Student aid expense remained relatively stable in fiscal year 2005. Certain amounts applied to student accounts for tuition, fees, or room and board are not reported as student aid expense, but are reported in the financial statements as an allowance, directly offsetting student tuition and fee revenue or auxiliary revenue. Allowances totaled $7.6 million in 2005 and 2004. In addition to the allowances, students participate in governmental financial aid loan programs. The loans are neither recorded as revenue nor expense in the financial statements, but are recorded in the

Statements of Cash Flows as direct lending receipts totaling approximately $57 million and $51 million in fiscal year 2005 and 2004, respectively.

Public service expenditures increased 19 percent in fiscal year 2005, primarily due to the receipt of several federal grants that benefit rural Alaska communities.

Institutional support expenses fluctuate due to the accounting method used to record employee benefits. The university employs a central benefits pool concept, and uses a staff benefit rate, to charge estimated employee benefits, such as pension and healthcare costs, to labor recorded in the various functional expense categories. Institutional support expenses are impacted when the amounts charged exceed, or are less than, actual benefits paid to third parties. Over recovery or under recovery of charges in one year are built into the rate building process the following year. When considered in total, operating expenses across all functional categories include the correct amount of employee benefit expense each fiscal year.

Fiscal Year 2005
Natural Classification



Operating Expenses
Natural Classification (in millions)

	FY2005		FY2004		FY2003	
Salaries and Employee Benefits	$347.6	58.7%	$319.2	58.1%	$300.9	57.0%
Contractual Services	106.1	17.9%	102.1	18.6%	105.3	19.9%
Supplies and Materials	65.8	11.1%	54.4	9.9%	51.8	9.8%
Student Aid	12.8	2.2%	13.0	2.4%	10.4	2.0%
Depreciation	60.1	10.1%	60.5	11.0%	59.7	11.3%
	$592.4	100.0%	$549.2	100.0%	$528.1	100.0%

Salaries and employee benefits increased 9 percent, or $28.4 million, in fiscal year 2005. Employee benefits, such as pension plan contributions and health care costs, increased 23 percent and comprised $16.0 million of the change. Salaries and wages increased 5 percent, or $12.4 million.

Fiscal Year 2004 Comparisons (Statement of Revenues, Expenses and Changes in Net Assets)

For comparative purposes, significant comments about changes between 2003 and 2004 that were noted in fiscal year 2004 Management's Discussion and Analysis are summarized below:

The Statement of Revenues, Expenses and Changes in Net Assets reflected an overall increase in net assets of 8.7 percent, or $67.7 million, from 2003 to 2004. Significant factors affecting the fiscal year 2004 increase in net assets included $86.6 million revenue recognized from capital funding sources, such as state capital appropriations. Endowment proceeds and investment income also contributed positively to the increase in net assets by providing $16.2 million in 2004 as compared to $11.8 million in 2003. A significant component of these amounts was investment income, generated from the endowment principal. Total return from the endowment was approximately 14 percent, or $10.6 million, in 2004 as compared to a 1 percent return, or $0.9 million, in the prior year. The other major component in this category was yield from, or sales of, trust land, timber and mineral interests, which generated revenue of $5.6 million in 2004 as compared to $10.9 million in 2003.

Other major revenue sources included state general fund appropriations, sponsored programs, and tuition revenue. State general fund appropriations were $217.7 million in 2004, as compared to $211.2 million in 2003. Sponsored program revenue, primarily from research and education related programs, increased 9 percent, from $169.9 million in 2003 to $184.4 million in 2004. Facility and administrative cost recovery provided $29.7 million in 2004 as compared to $26.5 million in 2003. Student enrollment and tuition rate increases for the 2003 - 2004 academic year provided for gross student tuition and fee revenue of $67.8 million in fiscal year 2004 as compared to $59.8 million in fiscal year 2003. This was due in large part to a 10 percent increase in tuition rates for academic year 2003 - 2004. Student full-time equivalent enrollment for Fall 2003 was 17,319, a 4.2 percent increase from the prior Fall period.

Capital and Debt Activities

The University of Alaska has continued to modernize various facilities and to build new facilities to address emerging state needs. Capital additions primarily comprise replacement, renovation and new construction of academic and research facilities, as well as investments in equipment and information technology. Net capital additions totaled $28.0 million in 2005, as compared with $110.8 million in 2004 and $104.2 million in 2003. The lower net capital additions in 2005 can be attributed to fewer capital appropriation funds available than in prior years. State capital appropriations for 2004 and 2005 were $4.1 million and $0.5 million, respectively. At June 30, 2005, $41.4 million remains unexpended from current and prior year capital appropriations and general revenue bond proceeds, of which $26.7 million is committed to existing construction contracts. The balance is for projects still in design or preconstruction, or is held for contingencies for work in progress.

Construction in progress at June 30, 2005 totaled $55.0 million and includes the following major projects:

- University of Alaska Museum addition and renovation on the Fairbanks campus. This $42 million expansion project doubles the size of the existing museum to 81,000 square feet. Features include a new research center to house natural and cultural history collections and research laboratories; a new art gallery; a new learning center featuring a pre-college learning center and a "smart classroom" for university students; and an enhanced visitor experience with a multimedia auditorium, lectures and performances by Alaska Native athletes and dancers. Full occupancy of the museum is expected by spring 2006.
- University of Alaska Southeast Joint Readiness Center in Juneau. This joint-funded and joint-occupied facility will provide a recreational complex for students within proximity of the Juneau student housing. The university is building the facility for the Alaska Army National Guard with $10.0 million in State of Alaska funds and $5.5 million in university general revenue bonds. This facility was completed in July 2005.
- Biological Research and Diagnostics Facility on the Fairbanks campus. This $23 million facility adds to the nucleus of other science and research facilities located on the campus' West Ridge. The facility incorporates live animal research, program components and space for laboratories, procedure rooms, necropsy, incinerator and related administrative space. The project is being funded by $14.4 million in State of Alaska general obligation bonds, $4.76 million in university general revenue bonds and a $3.8 million National Institute of Health grant. The estimated completion date is fall 2006.

State of Alaska capital appropriations for fiscal year 2006 total $48.1 million, with $16.5 million designated for major renewal, code and safety upgrades, or other smaller projects. The appropriation also provides $21.6 million for the Integrated Science Facility (Phase I) on the Anchorage campus and $10 million for the School of Fisheries and Ocean Sciences research facility located at Lena Point in Juneau.

At June 30, 2005, total debt outstanding was $108.4 million, comprised of $81.0 million in general revenue bonds, $26.6 million in notes payable, and $0.8 million in lease finance contracts. In August 2005, Moody's Investors Service affirmed its previous university credit rating of A1 with stable outlook and Standard & Poor's affirmed its rating of AA-. The University has maintained these ratings since its general revenue issues were first rated in 1992.

The university had two general revenue bond issues in 2004 totaling $21,040,000. The Series L bonds totaled $9,970,000 and mature annually each October 1, through 2030, bearing coupon interest rates ranging from 3 percent to 4.7 percent. Series L bond proceeds totaling $7,780,000 are being used for capital improvement projects, while the remaining $2,190,000 was used to redeem all of 1993 Series F general revenue bonds. The Series M bond issue totaled $11,070,000. The bonds mature each October 1, through 2028, and bear coupon interest rates ranging from 3.25 percent to 4.75 percent. Series M bond proceeds totaling $8,680,000 are being used for capital improvement projects and acquisition of real estate, and the remaining $2,390,000 was used to refinance a deed of trust note originally issued for the purchase of two buildings located in Anchorage.

Subsequent to year-end, on August 31, 2005, the university issued Series N general revenue bonds totaling $24,355,000. The bonds mature annually each October 1, through 2035, and bear coupon interest rates ranging from 3 percent to 5 percent. Series N bond proceeds totaling $14,055,000 are being used for capital improvement projects, and the remaining $10,300,000 was used to advance refund 1997 Series G general revenue bonds and redeem a note payable originally issued for student housing in Anchorage. The advance refunding and note redemption result in an economic gain of approximately $971,000 and the total debt service payments over the next 20 years decrease by $1,366,000.

Bonds were issued in prior years to finance construction of student residences at three campuses, the West Ridge Research Building, student recreation centers, a research facility to house the International Arctic Research Center, the acquisition and renovation of several properties adjacent to or near the university's campuses, additions to the university's self-operated power, heat, water and telephone utility systems in Fairbanks, purchase of the University Center Building in Anchorage, and to refund previously issued general revenue bonds and other contractual obligations in order to realize debt service savings.

The university has traditionally utilized both tax exempt and non-tax exempt equipment lease financings to provide for its capital needs or to facilitate systematic renewals. Short-term lines of credit or working capital is available to provide interim cash flow financing for facilities intended to be funded with general revenue bond proceeds.

Other Economic and Financial Conditions

The following is a description of currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position (net assets) or results of operations (revenues, expenses, and other changes in net assets) of the university.

At their September 2004 meeting, the Board of Regents approved a 10 percent increase in tuition for the 2005 – 2006 academic year. At their September 2005 meeting, the Board of Regents approved a 10 percent increase in tuition for the 2006 - 2007 academic year.

In July 2005, the Governor signed legislation approving a transfer of approximately 250,000 acres of State of Alaska land to the university. The lands will be conveyed to the University over the next three years with the exception of one 70,000 acre forestry research parcel being transferred in 50 years. 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. The land includes approximately 75,000 acres of investment property located throughout the State, 90,000 acres of oil and gas property in the Nenana Basin (70 miles southwest of Fairbanks) and approximately 85,000 acres of educational/research related properties. Proceeds and royalties received from property development will be deposited into the university's Land Grant Endowment Trust Fund, the earnings from which provide unrestricted funding to the university. The lands will be recorded at zero basis as no determinable fair value is available at the time of transfer.

The rising cost of participation in the state-administered defined benefit PERS and TRS will continue to be a challenge in the upcoming years. The university recorded a net pension and OPEB liability in fiscal year 2005 totaling $15.4 million. That amount is expected to rise to $25.0 million by June 30, 2006. University employer contributions for PERS and TRS totaled $19.8 million in fiscal year 2005 compared to $11.6 million in 2004 and $29.3 million anticipated for 2006. PERS and TRS employer contribution rates are expected to increase 5 percentage points in 2007 over 2006 rates to 20.58 percent and 26.0 percent of applicable gross pay, respectively. The university will continue to seek state appropriations to fund the required contributions. See Note 12 of the financial statements for more information regarding pension plans.

Recently enacted state legislation will affect retirement benefits for new employees. The legislation requires all new eligible employees hired on or after July 1, 2006 to be participants in newly created defined contribution retirement plans. Under the new plans, public employees will contribute 8 percent of compensation and employers will contribute approximately 10 to 12 percent of compensation plus additional amounts (not all of which have yet been set) for certain medical insurance, disability and death benefits. As part of the legislation, the existing PERS and TRS boards will be eliminated and replaced with the Alaska Retirement Management (ARM) Board.

In June 2005, the Board of Regents created the New Optional Retirement Plan (NORP), a university-administered single employer defined contribution plan, for new participants hired on or after July 1, 2005. In fiscal year 2006, the NORP employer contribution rate is 12 percent as compared to 16.33 percent for the original ORP plan. The employee contribution rate remains the same as the original ORP. More information on this plan is available in Note 12 of the financial statements.

For fiscal year 2006, state appropriations for operations and debt service reimbursement total $249.6 million, a 7.2 percent increase over fiscal year 2005. The level of annual state appropriation funding is conditional upon the legislative process, which is directly influenced by current economic conditions and other factors. The university continues to seek additional revenues from sources other than state appropriations.

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Independent Auditors' Report

The Board of Regents
University of Alaska:

We have audited the accompanying basic financial statements of the University of Alaska and its discretely presented component unit (University), a component unit of the State of Alaska, as of and for the years ended June 30, 2005 and 2004 as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Alaska and its discretely presented component unit at June 30, 2005 and 2004, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 12 to the financial statements, as of July 1, 2004 the University of Alaska adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions.*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005 on our consideration of the University of Alaska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, on pages 1 through 11, and the Schedule of Funding Progress for PERS on page 41 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

September 30, 2005

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UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Net Assets
June 30, 2005 and 2004
(in thousands)

Assets	2005	2004
Currents assets:		
Cash and cash equivalents	$ 57,276	$ 41,815
Short-term investments	1,269	1,231
Accounts receivable, less allowance of $3,882 in 2005 and $3,990 in 2004	51,622	57,974
Other assets	889	640
Inventories	8,053	8,061
Total current assets	119,109	109,721
Noncurrent assets:		
Restricted cash and cash equivalents	8,400	19,164
Notes receivable	6,125	5,212
Endowment investments	115,119	93,834
Endowed land and other assets	37,698	38,358
Long-term investments	21,351	20,694
Assets held in trust	6,225	5,698
Capital assets, net of accumulated depreciation of $544,897 in 2005 and $493,386 in 2004	737,290	760,757
Total noncurrent assets	932,208	943,717
Total assets	1,051,317	1,053,438
Liabilities		
Current liabilities:		
Accounts payable	10,998	13,246
Accrued expenses	4,463	4,156
Accrued payroll	19,871	13,563
Deferred revenue	4,351	3,553
Accrued annual leave	8,891	8,152
Deferred lease revenue - current portion	1,281	1,281
Long-term debt - current portion	4,864	4,855
Insurance and risk management	18,549	18,591
Deposits from students and others	3,332	2,234
Total current liabilities	76,600	69,631
Noncurrent liabilities:		
Capital appropriation advances	6,021	8,633
Deferred lease revenue	9,928	11,209
Long-term debt	103,585	108,239
Net pension and OPEB obligations	15,398	-
Security deposits and other liabilities	5,726	5,495
Total noncurrent liabilities	140,658	133,576
Total liabilities	217,258	203,207
Net Assets		
Invested in capital assets, net of related debt	625,727	648,016
Restricted:		
Expendable:		
Restricted funds	1,467	1,512
Student loan funds	271	259
Education Trust of Alaska	4,735	4,843
Capital projects	2,143	2,925
Debt service	3,105	3,092
Endowment	37,248	23,960
Nonexpendable	118,462	111,142
Unrestricted (see Note 2)	40,901	54,482
Total net assets	$ 834,059	$ 850,231

The accompanying notes are an integral part of the financial statements.

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UNIVERSITY OF ALASKA FOUNDATION
(A Component Unit of the University of Alaska)
Statements of Financial Position
June 30, 2005 and 2004
(in thousands)

Assets	2005	2004
Cash and cash equivalents	$ 3,794	$ 3,662
Interest receivable	186	281
Short term investments	24	48
Contributions receivable	7,578	7,621
Escrows receivable	726	621
Inventory	81	74
Other assets	427	410
Remainder trust receivable	395	391
Pooled endowment funds	76,279	69,246
Other long term investments	40,794	46,658
Total assets	$ 130,284	$ 129,012
Liabilities		
Due to the University of Alaska	$ 2,608	$ 3,631
Other liabilities	15	36
Remainder trust obligations	124	158
Term endowment liability	1,000	1,000
Total liabilities	3,747	4,825
Net Assets		
Unrestricted	31,521	29,439
Temporarily restricted	49,638	50,962
Permanently restricted	45,378	43,786
Total net assets	126,537	124,187
Total liabilities and net assets	$ 130,284	$ 129,012

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UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2005 and 2004
(in thousands)

	2005	2004
Operating revenues		
Student tuition and fees	$ 75,853	$ 67,756
less tuition allowances	(6,365)	(6,260)
	69,488	61,496
Federal grants and contracts	138,494	133,897
State grants and contracts	12,240	10,520
Local grants and contracts	3,276	3,313
Private grants and contracts	40,843	36,641
Federal appropriations	2,837	2,758
Local appropriations	705	705
Sales and services, educational departments	3,446	3,415
Sales and services, auxiliary enterprises, net of tuition allowances of $1,214 in 2005 and $1,298 in 2004	36,033	34,605
Other	11,651	12,327
Total operating revenues	319,013	299,677
Operating expenses		
Instruction	150,052	144,115
Academic support	40,990	37,095
Research	118,933	112,013
Public service	31,226	26,216
Student services	36,033	33,002
Operations and maintenance	44,953	39,184
Institutional support	63,388	50,290
Student aid	12,822	13,052
Auxiliary enterprises	33,927	33,786
Depreciation	60,135	60,483
Total operating expenses	592,459	549,236
Operating loss	(273,446)	(249,559)
Nonoperating revenues (expenses)		
State appropriations	232,868	217,745
Investment earnings	3,242	1,674
Endowment proceeds and investment income	26,163	16,187
Interest on debt	(4,029)	(3,394)
Other nonoperating expenses	(3,132)	(1,506)
Net nonoperating revenues	255,112	230,706
Loss before other revenues, expenses, gains or losses	(18,334)	(18,853)
Capital appropriations, grants and contracts	17,560	86,570
Pension expense - net pension and OPEB obligations	(15,398)	-
Net increase (decrease) in net assets	(16,172)	67,717
Net assets		
Net assets - beginning of year	850,231	782,514
Net assets - end of year	$ 834,059	$ 850,231

The accompanying notes are an integral part of the financial statements.

UNIVERSITY OF ALASKA FOUNDATION
(A Component Unit of the University of Alaska)
Statement of Activities
For the years ended June 30, 2005 and 2004
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2005
Revenues, gains and other support				
Contributions	$ 269	$ 10,569	$ 1,379	$ 12,217
Investment income	1,405	1,755	-	3,160
Net realized and unrealized investment gains (losses)	1,316	4,716	-	6,032
Other revenues	1	89	-	90
Actuarial adjustment of remainder trust obligations	-	(1)	80	79
Gains (losses) on disposition of other assets	-	(3)	(1)	(4)
Transfers from the University of Alaska	21	172	133	326
Net assets released from restriction	18,620	(18,620)	-	-
Total revenues, gains and other support	21,632	(1,323)	1,591	21,900
Expenses and distributions				
Operating expenses	638	-	-	638
Distributions for the benefit of the University of Alaska	18,912	-	-	18,912
Total expenses and distributions	19,550	-	-	19,550
Excess of revenues over expenses	2,082	(1,323)	1,591	2,350
Transfers between net asset classes	-	-	-	-
Increase (decrease) in net assets	2,082	(1,323)	1,591	2,350
Net assets, beginning of year	29,439	50,961	43,787	124,187
Net assets, end of year	$ 31,521	$ 49,638	$ 45,378	$ 126,537

The accompanying notes are an intergral part of the financial statements.

Unrestricted		Temporarily Restricted		Permanently Restricted		2004
$	1,317	$	8,833	$	4,016	$ 14,166
	1,401		1,514		-	2,915
	1,752		4,216		-	5,968
	5		124		-	129
	-		-		(25)	(25)
	-		96		(1)	95
	-		1		142	143
	11,360		(11,360)		-	-
	15,835		3,424		4,132	23,391
	282		-		-	282
	12,058		-		-	12,058
	12,340		-		-	12,340
	3,495		3,424		4,132	11,051
	-		(41)		41	-
	3,495		3,383		4,173	11,051
	25,944		47,578		39,614	113,136
$	29,439	$	50,961	$	43,787	$ 124,187

UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Cash Flows
For the Years Ended June 30, 2005 and 2004
(in thousands)

	2005	2004
Cash flows from operating activities		
Student tuition and fees, net	$ 71,431	$ 61,900
Grants and contracts	198,389	190,920
Sales and services, educational departments	3,446	3,415
Sales and services, auxiliary enterprises	36,161	34,554
Federal appropriations	2,837	2,758
Local appropriations	705	705
Other operating receipts	10,370	11,046
Payments to employees for salaries and benefits	(340,613)	(316,830)
Payments to suppliers	(171,847)	(158,595)
Payments to students for financial aid	(12,835)	(12,655)
Net cash used by operating activities	(201,956)	(182,782)
Cash flows from noncapital financing activities		
State appropriations	233,487	217,050
Other revenue, net	79	45
Direct lending receipts	56,558	51,397
Direct lending payments	(55,966)	(51,815)
Net cash provided by noncapital financing activities	234,158	216,677
Cash flows from capital and related financing activities		
Capital appropriations, grants and contracts	15,898	90,875
Proceeds from issuance of capital debt	-	21,134
Redemption of general revenue bonds	-	(4,392)
Purchases of capital assets	(40,687)	(122,016)
Principal paid on capital debt	(4,867)	(4,486)
Interest paid on capital debt	(4,289)	(4,002)
Net cash used by capital and related financing activities	(33,945)	(22,887)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	11,517	9,340
Purchase of investments	(22,283)	(10,466)
Interest received on investments	1,590	608
Interest and other sales receipts from endowment assets	15,616	6,765
Net cash provided by investing activities	6,440	6,247
Net increase in cash and cash equivalents	4,697	17,255
Cash and cash equivalents, beginning of the year	60,979	43,724
Cash and cash equivalents, end of the year	$ 65,676	$ 60,979
Cash and cash equivalents (current)	$ 57,276	$ 41,815
Restricted cash and cash equivalents (noncurrent)	8,400	19,164
Total cash and cash equivalents	$ 65,676	$ 60,979

The accompanying notes are an integral part of the financial statements.

UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Cash Flows
For the Years Ended June 30, 2005 and 2004
(in thousands)

Reconciliation of operating loss to net cash used by operating activities:	2005	2004
Operating loss	$ (273,446)	$ (249,559)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	60,135	60,483
Changes in assets and liabilities:		
Accounts receivable, net	4,782	7,038
Other assets	(243)	713
Inventories	8	(417)
Accounts payable	(967)	(2,401)
Accrued expenses	1,237	951
Accrued payroll	6,308	2,077
Deferred revenue	798	222
Accrued annual leave	740	183
Deferred lease revenue - current portion	(1,281)	(1,281)
Insurance and risk management	(42)	(830)
Deposits from students and others	15	39
Net cash used by operating activities	$ (201,956)	$ (182,782)

Noncash Investing, Capital and Financing Activities:

For the Year Ended June 30, 2005

Additions to capital assets include $2.2 million expended and capitalized but not paid for at year end.

The university purchased equipment through a lease purchase contract totaling $0.2 million.

Losses on equipment disposals totaled $2.3 million.

Interest expense on general revenue bond financed projects totaling $0.3 million was capitalized during the year.

The university recorded a $15.4 million pension and other postemployment benefit expense for the state-administered PERS defined benefit plan.

For the Year Ended June 30, 2004

Additions to capital assets include $5.5 million expended and capitalized but not paid for at year end.

The university purchased equipment through a lease purchase contract totaling $0.6 million.

Losses on equipment disposals totaled $0.5 million.

Interest expense on general revenue bond financed projects totaling $0.6 million was capitalized during the year.

1. Organization and Summary of Significant Accounting Policies:

Organization and Basis of Presentation:

The University of Alaska (university) is a constitutionally created corporation of the State of Alaska which is authorized to hold title to real and personal property and to issue debt in its own name. The university is a component unit of the State of Alaska for purposes of financial reporting. As an instrumentality of the State of Alaska, the university is exempt from federal income tax under Internal Revenue Code Section 115, except for unrelated business activities as covered under Internal Revenue Code Sections 511 to 514.

The University of Alaska Foundation (foundation) is a legally separate, non profit component unit of the university. The foundation was established to solicit donations and to hold and manage such assets for the exclusive benefit of the university. Resources managed by the foundation and distributions made to the university are governed by the foundation's Board of Trustees. Commencing in fiscal year 2004, Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, required the university to include the foundation as part of its financial statements to better report resources benefiting the university. The university is not accountable for, nor has ownership of, the foundation's resources. The foundation's financial statements include the Statement of Financial Position and the Statement of Activities and these statements are presented in their original audited format according to Financial Accounting Standards Board (FASB) pronouncements.

In preparing the financial statements, management is required to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the statement of net assets. Actual results could differ from those estimates. The more significant accounting and reporting policies and estimates applied in the preparation of the accompanying financial statements are discussed below.

GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net asset categories:

- **Unrestricted Net Assets:** Assets, net of related liabilities, which are not subject to externally-imposed restrictions. Unrestricted net assets may be designated for specific purposes by the Board of Regents or may otherwise be limited by contractual agreements with outside parties.

- **Restricted Net Assets:**

  Expendable – Assets, net of related liabilities, which are subject to externally-imposed restrictions that may or will be met by actions of the university and/or that expire with the passage of time.

  Non-expendable – Assets, net of related liabilities, which are subject to externally-imposed restrictions requiring that they be maintained permanently by the university.

- **Invested in capital assets, net of related debt** – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Summary of Significant Accounting Policies:

The accompanying financial statements have been prepared on the economic resources measurement focus and the accrual basis of accounting. All significant intra-university transactions have been eliminated. The university reports as a business type activity, as defined by GASB Statement No. 35. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

The university has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The university has elected not to apply FASB pronouncements issued after the applicable date.

Cash and Cash Equivalents

All highly liquid investments, not held for long-term investment, with original maturities of three months or less are reported as cash and cash equivalents.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Investments

Investments are stated at fair value. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of net assets. Long-term investments include those restricted by outside parties as to withdrawal or use for other than current operations, or are designated for expenditure in the acquisition or construction of noncurrent assets or held with an intent not to be used for operations.

Capital Assets

Capital assets are stated at cost when purchased and at fair value when donated. Equipment with a unit value of less than $5,000 is not capitalized. Buildings, infrastructure, and other capitalizable assets with a unit value of less than $100,000 are not capitalized. In fiscal year 2004, the capitalizable threshold for equipment was $2,500 and $50,000 for buildings, infrastructure, and other capitalizable assets. Certain land and other resources acquired through land grants and donated museum collections for which fair value at date of acquisition was not determinable are reported at zero basis in the financial statements.

Depreciation is computed on a straight-line basis with useful lives of building and building components ranging from 12 to 50 years, 10 to 35 years for infrastructure and other improvements, and 5 to 11 years for equipment. Library and museum collections are not depreciated because they are preserved and cared for and have an extraordinarily long useful life.

Endowments

Endowments consist primarily of the land grant endowment trust fund established pursuant to the 1929 federal land grant legislation and its related inflation proofing funds. Alaska Statute 14.40.400 provides that the net income from the sale or use of grant lands must be held in trust in perpetuity. At June 30, 2005 and 2004 the accumulated net earnings and appreciation on investments is $37.3 million and $24.0 million, respectively. These amounts, which are recorded in the restricted expendable net asset category, are available for expenditure in accordance with spending policies established by the Board of Regents in its capacity as trustee. Alaska Statute 14.40.400 provides the Board of Regents with authority to manage the endowments under the total return principles which are intended to preserve and maintain the purchasing power of the endowment principal. The investable resources of the fund are invested in the consolidated endowment fund, a unitized investment fund. The annual spending allowance is currently based on five percent of a five-year moving average of the invested balance. Withdrawals of net earnings appreciation to meet the spending allowance are limited to the unexpended accumulated net earnings of the endowments.

Operating Activities

The university's policy for defining operating activities as reported on the statement of revenues, expenses and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations and investment earnings.

Tuition Allowances

Student tuition and fee revenues and certain other revenues from students are reported net of tuition allowances in the statement of revenues, expenses and changes in net assets. Tuition allowances are the difference between the stated charge for tuition and room and board provided by the university and the amount paid by the student and/or third parties making payments on the students' behalf.

Lapse of State Appropriations

Alaska Statutes provide that unexpended balances of one-year appropriations will lapse on June 30 of the fiscal year of the appropriation; however, university receipts in excess of expenditures may be expended by the university in the next fiscal year. University receipts include student fees, donations, sales, rentals, facilities and administrative cost recovery, auxiliary and restricted revenues. The unexpended balances of capital appropriations lapse upon completion of the project or upon determination that the funds are no longer necessary for the project.

2. Unrestricted Net Assets:

At June 30, unrestricted net assets included the following (in thousands):

	2005	2004
Designated:		
Auxiliaries	$ 9,997	$ 9,431
Working capital fund	4,715	4,715
Working capital advances	(3,369)	-
Service centers	6,329	6,227
Renewal and replacement funds	3,664	3,066
Quasi-endowment funds	79	79
Net pension and OPEB obligations	(15,398)	-
Employee benefit funds	(2,802)	(1,065)
Endowment earnings	9,879	8,717
Encumbrances	7,764	6,697
Total designated	20,858	37,867
Undesignated	20,043	16,615
Total unrestricted net assets	$ 40,901	$ 54,482

Unrestricted net assets include non-lapsing university receipts of $34.1 million at June 30, 2005. Non-lapsing university receipts of $29.5 million from 2004 were fully expended in 2005.

At June 30, 2005 and 2004, $28.7 million and $38.9 million, respectively, of auxiliary funds, encumbrances and other unrestricted net assets were pledged as collateral for the university's general revenue bonds, as calculated under the terms of the 1992 General Revenue Bonds Trust Indenture.

3. Deposits and Investments:

Deposits and investments at June 30, 2005 were as follows (in thousands):

Investment Type	Operating	Capital Funds	Endowment	College Savings Program	Total
Cash and Deposits	$ (5,143)	$ -	$ -	$ -	$ (5,143)
Repurchase Agreement	7,895	-	-	-	7,895
Short Term Fund	58,875	2,674	7,645	-	69,194
Intermediate Term Fund	1,269	-	459	-	1,728
Private Hedge Funds	14,042	-	5,229	-	19,271
Money Market Mutual Funds	-	6,843	89	506	7,438
Equities:					
Domestic	-	-	36,230	2,131	38,361
International	-	-	12,754	-	12,754
Emerging Markets	-	-	3,231	-	3,231
Debt-related:					
Corporate	-	-	2,837	-	2,837
Federal Agency	-	-	2,222	-	2,222
U.S. Treasury Securities	-	1,841	1,027	-	2,868
Fixed Income Funds	-	-	15,553	3,588	19,141
Alternative Investments	-	-	19,082	-	19,082
Real Estate	-	-	5,676	-	5,676
Other	-	-	3,085	-	3,085
	$ 76,938	$ 11,358	$ 115,119	$ 6,225	$ 209,640

Operating funds consist of cash on hand, time deposits, an overnight repurchase agreement and investments in Commonfund pooled investment funds. Alaska Statutes and Board of Regents' policy provide the university with broad authority to invest funds. Generally, operating funds are invested according to the university's liquidity needs. The Commonfund is a not-for-profit provider of pooled multi-manager investment vehicles for colleges and universities. The university invests in a variety of these funds according to its investment objectives.

Capital funds include unexpended general revenue bond proceeds and related reserves, advances from state capital appropriations and other reserves designated for capital purposes. General revenue bond proceeds of $5.6 million and related reserves totaling $3.1 million are invested with a third party trustee in accordance with terms of a trust indenture, requiring purchase of investment securities that are investment grade.

Endowment funds primarily consist of $113.3 million invested in a consolidated endowment fund (fund) managed by the University of Alaska Foundation (foundation). The investable resources of the university's land grant endowment trust fund and the foundation's pooled endowment funds are combined in the fund for investment purposes. The fund is managed by the foundation's investment committee and treasurer on a total return basis in accordance with an investment policy approved by the Board of Regents.

College savings program investments include the operating funds of the Education Trust of Alaska, established pursuant to state statute by the Board of Regents to facilitate administration of the state's Internal Revenue Code Section 529 College Savings Program. Program investments are in mutual funds of T. Rowe Price Associates, Inc., the program manager. See Note 5 for further information.

Certain funds held in trust for the benefit of the university are not included in the financial statements as the university has only limited control over their administration. These funds are in the custody of independent fiduciaries and at June 30, 2005 had an estimated fair value of approximately $7.6 million.

Commencing in fiscal year 2005, disclosures for deposits and investments are presented according to GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (GASB 40). Accordingly, the following information addresses various risk categories for university deposits and investments and the investment policies for managing that risk.

Credit Risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The university does not have a policy regarding credit risk since it does not normally invest its operating and capital funds in individual debt securities. The consolidated endowment fund investment policy requires all purchases of debt securities to be of investment grade and marketable at the time of purchase unless otherwise approved by the foundation's investment committee. At June 30, 2005, investments consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (in thousands):

Investment Type	Rating	Operating	Capital Funds	Endowment	College Savings Program	Total
Money Market Mutual Fund	AAA	$ -	$ 6,843	$ -	$ -	$ 6,843
Money Market Mutual Funds	Not Rated	-	-	89	506	595
Short Term Fund	AAA	58,875	2,674	7,645	-	69,194
Intermediate Term Fund	AA+	1,269	-	459	-	1,728
Private Hedge Funds	Not Rated	14,042	-	5,229	-	19,271
Debt-related:						
Corporate	A	-	-	1,044	-	1,044
Corporate	AA	-	-	1,554	-	1,554
Corporate	AAA	-	-	239	-	239
Federal Agency	AAA	-	-	2,222	-	2,222
Fixed Income Funds	Not Rated	-	-	15,553	3,588	19,141
Investments with no credit exposure		2,752	1,841	81,085	2,131	87,809
		$ 76,938	$ 11,358	$ 115,119	$ 6,225	$209,640

Concentration of Credit Risk:

Concentration of credit risk is the risk of loss attributed to the magnitude of the university's investment in a single issuer. GASB 40 requires disclosure when the amount invested with a single issuer, by investment type, exceeds 5 percent or more of that investment type. At June 30, 2005, the university did not have any material concentrations of credit risk.

The consolidated endowment fund investment policy limits debt investments to 5 percent by issuer (except for mutual and pooled funds and U.S. government and agencies) for each specific managed portfolio within the consolidated endowment fund unless approved by the treasurer. The university does not have a policy regarding concentration of credit risk since it does not normally invest its operating and capital funds in individual debt investments.

Interest Rate Risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The university uses the modified duration measurement to evaluate interest rate risk. Modified duration measures a debt investment's exposure to fair value changes arising from changing interest rates. For example, a modified duration of 2 means that for a rise in interest rates of 1 percent, the value of the security would decrease 2 percent. The university does not have a policy regarding interest rate risk. At June 30, 2005, the university had the following debt investments and corresponding modified duration ($ in thousands):

	Fair Value				
Investment Type	Operating	Capital Funds	Endowment	College Savings Program	Modified Duration
Short Term Fund	$ 58,875	$ 2,674	$ 7,645	-	2.58
Intermediate Term Fund	$ 1,269	-	$ 459	-	1.20
Corporate	-	-	$ 2,837	-	2.05
Federal Agency	-	-	$ 2,222	-	2.09
U.S. Treasury Securities	-	-	$ 1,027	-	3.05
U.S. Treasury Securities	-	$ 1,841	-	-	5.46
Fixed Income Fund	-	-	-	$ 1,973	1.51
Fixed Income Fund	-	-	$ 15,553	-	4.16
Fixed Income Fund	-	-	-	$ 1,615	4.26

Private hedge funds totaling $19.3 million are exposed to interest rate risk, however, underlying fund data is not available to measure the interest rate risk.

Custodial Credit Risk:

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, the university will not be able to recover deposits or will not be able to recover collateral securities in the possession of an outside party. For investments, custodial credit risk is the risk that, in the event of failure of the counterparty to a transaction, the university will not be able to recover the value of investment or collateral securities in the possession of an outside party.

At June 30, 2005, the university does not have custodial credit risk. Deposits of the university are covered by Federal Depository Insurance or securities pledged by the university's counterparty to its repurchase agreement held at the Bank of New York. The collateral is held in the name of the university and at June 30, 2005, provided $11.3 million coverage in excess of deposits.

4. Accounts Receivable:

Accounts receivable consisted of the following at June 30, 2005 and 2004 (in thousands):

June 30, 2005	Gross	Allowance	Net
Student tuition and fees	$ 7,720	$ (1,937)	$ 5,783
Sponsored programs	36,359	(1,777)	34,582
Auxiliary services and other operating activities	610	(168)	442
Capital appropriations, grants and contracts	10,737	-	10,737
State operating appropriation	78	-	78
	$ 55,504	$ (3,882)	$ 51,622
June 30, 2004			
Student tuition and fees	$ 6,911	$ (1,669)	$ 5,242
Sponsored programs	42,032	(2,168)	39,864
Auxiliary services and other operating activities	632	(153)	479
Capital appropriations, grants and contracts	11,693	-	11,693
State operating appropriation	696	-	696
	$ 61,964	$ (3,990)	$ 57,974

5. Assets Held in Trust:

Assets held in trust include operating funds of the Education Trust of Alaska (Trust). The Trust was established pursuant to state statute on April 20, 2001 by the Board of Regents to facilitate administration of the state's Internal Revenue Code (IRC) Section 529 College Savings Program. The program is a nationally marketed college savings program developed in accordance with IRC Section 529 and includes the resources of the university's former Advance College Tuition (ACT) Program. Participant account balances of approximately $1.7 billion and $1.2 billion at June 30, 2005 and 2004, respectively, are not included in the financial statements.

Assets of the Trust are invested in various mutual funds at the direction of T. Rowe Price Associates, Inc., the program manager. The net assets of the Trust, which include a reserve for University of Alaska (UA) Tuition Value Guarantees, are available for payment of program administrative costs, benefits and other purposes of the Trust. Based on actuarial studies, management estimates reserve requirements for the UA Tuition Value Guarantees to be approximately $1.5 million and $0.9 million at June 30, 2005 and 2004, respectively.

6. Endowed Land and Other Assets:

Endowed land and other assets consist of real property and timber and other rights. By Acts of Congress in 1915 and 1929, approximately 110,000 acres of land was granted to the territory of Alaska to be held in trust for the benefit of the university. The lands were managed by the territory, and later the state of Alaska. In accordance with a 1982 agreement, the lands were subsequently transferred to the Board of Regents, as trustee. In 1982 and 1988 certain state lands including timber and other rights were transferred to the trust as replacement for lands disposed of or adversely affected during the period of administration by the territory and the state. These lands and property interests were recorded at their fair value as of the date of transfer. The net proceeds from timber, land and other rights are deposited in the land grant endowment trust fund described under Endowments in Note 1 above. At June 30, 2005 and 2004, approximately 83,600 and 84,200 acres, respectively, were held in trust at no basis because fair value at the date of transfer was not determinable.

Subsequent to year end, on July 25, 2005, Alaska's governor approved a transfer of approximately 250,000 acres of State of Alaska land to the university. The lands will be conveyed to the university over the next three years with the exception of one 70,000 acre forestry research parcel being transferred in 50 years. 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. Proceeds and royalties received from property development will be deposited into the land grant trust endowment fund. The lands will be recorded at zero basis as no determinable fair value is available at the time of transfer.

7. Capital Assets:

A summary of capital assets follows (in thousands):

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005
Capital assets not depreciated				
Land	$ 27,281	$ 305	$ 226	$ 27,360
Construction in progress	72,123	33,204	50,309	55,018
Library and museum collections	49,646	1,756	-	51,402
Other capital assets				
Buildings	857,349	22,554	65	879,838
Infrastructure	33,514	8,625	-	42,139
Equipment	188,616	11,079	11,019	188,676
Leasehold improvements	4,845	11,981	-	16,826
Other improvements	20,769	159	-	20,928
Total	1,254,143	89,663	61,619	1,282,187
Less accumulated depreciation:				
Buildings	343,238	37,651	14	380,875
Infrastructure	22,380	1,406	-	23,786
Equipment	112,853	19,277	8,610	123,520
Leasehold improvements	2,099	829	-	2,928
Other improvements	12,816	972	-	13,788
Total accumulated depreciation	493,386	60,135	8,624	544,897
Capital assets, net	$ 760,757	$ 29,528	$ 52,995	$ 737,290

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004
Capital assets not depreciated				
Land	$ 25,949	$ 1,332	$ -	$ 27,281
Construction in progress	94,212	81,452	103,541	72,123
Library and museum collections	47,917	1,729	-	49,646
Other capital assets				
Buildings	755,084	102,265	-	857,349
Infrastructure	33,514	-	-	33,514
Equipment	161,503	34,213	7,100	188,616
Leasehold improvements	4,845	-	-	4,845
Other improvements	20,320	449	-	20,769
Total	1,143,344	221,440	110,641	1,254,143
Less accumulated depreciation:				
Buildings	304,452	38,786	-	343,238
Infrastructure	21,191	1,189	-	22,380
Equipment	100,250	19,189	6,586	112,853
Leasehold improvements	1,857	242	-	2,099
Other improvements	11,739	1,077	-	12,816
Total accumulated depreciation	439,489	60,483	6,586	493,386
Capital assets, net	$ 703,855	$ 160,957	$ 104,055	$ 760,757

8. Long-term Debt:

Debt service requirements at June 30, 2005 were as follows (in thousands):

Year ended June 30,	Principal	Interest	Total
2006	$ 4,864	$ 4,150	$ 9,014
2007	4,942	3,996	8,938
2008	5,067	3,833	8,900
2009	4,360	3,675	8,035
2010	4,455	3,525	7,980
2011-2015	23,749	15,104	38,853
2016-2020	26,161	10,334	36,495
2021-2025	24,551	4,825	29,376
2026-2030	9,675	1,090	10,765
2031	625	15	640
	$ 108,449	$ 50,547	$ 158,996

Long-term debt consisted of the following at June 30, 2005 and 2004 (in thousands):

	2005	2004
Note payable – capital construction 1.826% assisted note to the Alaska Housing Finance Corporation (AHFC) to finance construction of Anchorage campus housing, payable beginning August 1999 to February 2024. In 1996, the university entered into an agreement with AHFC to borrow a total of $33 million, of which $30 million was issued on an assisted basis with interest at 1.826% and an additional $3 million issued on an unassisted basis at 6.0%	$ 26,614	$ 27,734
Revenue bonds payable 1.40% to 5.45% general revenue bonds due serially to 2031, secured by a pledge of unrestricted current fund revenue generated from tuition, fees, recovery of facilities and administrative costs, sales and services of educational departments, miscellaneous receipts and auxiliaries	81,045	84,430
Installment contracts 2.68% to 5.44% installment contracts for the purchase of air traffic control simulation equipment and vehicles due in quarterly installments through June 2010	790	930
	$ 108,449	$ 113,094

In fiscal year 2005, the state reimbursed the university for debt service of $1,413,993 on Series K general revenue bonds. Subject to annual appropriation, the state will reimburse the university for principal and interest on $19,870,000 of the remaining bond principal. Annual debt service on this portion of the bonds is approximately $1.4 million.

In prior years, the university defeased housing system revenue bonds and certain general revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Trust assets and related liabilities for the defeased bonds are not included in the university’s financial statements. At June 30, 2005 and 2004, outstanding defeased bonds were $0.3 million and $0.4 million, respectively.

Under the terms of the 1992 General Revenue Bonds Trust Indenture, the university is required to maintain a reserve account with a trustee at an amount equal to one-half of the maximum annual general revenue bond debt service. The balance in the reserve account at June 30, 2005 and 2004 was $3.7 million and $3.6 million, respectively. The reserve balance at June 30, 2005 includes a reserve fund policy, purchased with the issuance of Series L, totaling $0.6 million.

Subsequent to year end, on August 31, 2005, the university issued Series N general revenue bonds totaling $24,355,000. The bonds mature annually each October 1, through 2035 and bear coupon interest rates ranging from 3 percent to 5 percent. Series N bond proceeds totaling $14,055,000 are being used for capital improvement projects, and the remaining $10,300,000 was used to advance refund 1997 Series G general revenue bonds and redeem a note payable originally issued for student housing in Anchorage. The advance refunding and note redemption result in an economic gain of approximately $971,000 and the total debt service payments over the next 20 years decrease by $1,366,000.

9. Deferred Lease Revenue:

In fiscal year 1997, the university entered into an agreement to construct a facility and establish the International Arctic Research Center (IARC). The university received $19,215,000 through a Japanese non-profit corporation to support the construction of the IARC in exchange for a commitment to provide research facilities to various Japanese research organizations and agencies for a period of 25 years, including lease extensions. The Japanese research organizations began occupying the IARC in fiscal year 1999. The deferred lease revenue at June 30, 2005 is $11,208,750 and is reduced at the rate of $1,281,000 per year with a corresponding increase to other operating revenue.

10. Long-term Liabilities:

Long-term liability activity was as follows (in thousands):

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Amounts due within one year
Capital appropriation advances	$ 8,633	$ 1,479	$ 4,091	$ 6,021	$ -
Deferred lease revenue	12,490	-	1,281	11,209	1,281
Long-term debt	113,094	221	4,866	108,449	4,864
Security deposits and other liabilities	5,495	752	521	5,726	-
Net pension and OPEB obligations	-	15,398	-	15,398	-
	$ 139,712	$ 17,850	$ 10,759	$ 146,803	$ 6,145

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Amounts due within one year
Capital appropriation advances	$ 14,684	$ 7,282	$ 13,333	$ 8,633	$ -
Deferred lease revenue	13,771	-	1,281	12,490	1,281
Long-term debt	100,315	21,658	8,879	113,094	4,855
Security deposits and other liabilities	4,564	931	-	5,495	-
	$ 133,334	$ 29,871	$ 23,493	$ 139,712	$ 6,136

11. Capital Appropriations and Construction Commitments:

Major construction projects of the university are funded primarily by State of Alaska appropriations and university revenue bonds. The appropriations are financed through state-issued general obligation bonds or capital project bonds issued by the Alaska Housing Finance Corporation, a component unit of the State of Alaska, while other appropriations are received directly from the state or state agencies.

Unexpended and unbilled capital funds appropriated by the State of Alaska in prior years, which are not reflected as appropriation revenue or receivables on the university’s books at June 30, 2005, totaled $36.1 million. In addition, unexpended proceeds of university-issued general revenue bonds designated for construction projects totaled $5.3 million at June 30, 2005.

Construction commitments at June 30, 2005 aggregated $26.7 million. At June 30, 2005, the university had received $6.0 million from State of Alaska capital appropriations and other sources in advance of expenditures.

12. Pension Plans:

Substantially all regular employees participate in either the State of Alaska Public Employees' Retirement System (PERS), an agent multiple-employer public employees' retirement system, the State of Alaska Teachers' Retirement System (TRS), a cost-sharing multiple-employer plan, or the University of Alaska Optional Retirement Plan (ORP), a single-employer defined contribution plan. In addition, substantially all regular employees and faculty classified as temporary participate in the University of Alaska Pension Plan, a supplemental single-employer defined contribution plan. None of the retirement systems or plans own any notes, bonds or other instruments of the university.

Recently enacted state legislation will affect retirement benefits for new employees. The legislation requires all new eligible employees hired on or after July 1, 2006 to be participants in newly created defined contribution retirement plans. Under the new plans, employers will contribute approximately 10 to 12 percent of compensation plus additional amounts (not all of which have yet been set) for certain medical insurance, disability and death benefits. As part of the legislation, the existing PERS and TRS boards will be eliminated and replaced with the Alaska Retirement Management (ARM) Board.

In June 2005, the Board of Regents created the New Optional Retirement Plan (NORP), a single employer defined contribution plan, for new participants hired on or after July 1, 2005. The NORP employer contribution rate is 12 percent, and the employee contribution rate remains the same as the original ORP.

Defined Benefit Plans:

<u>State of Alaska Public Employees’ Retirement System (PERS)</u>

Plan Description

The university contributes to PERS, a defined benefit, agent multiple-employer public employee retirement system established and administered by the State of Alaska (State). PERS provides pension, postemployment health care, death and disability benefits to eligible participants. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

Each fiscal year, PERS issues a publicly available financial report which includes financial statements and required supplementary information. That report may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

Funding Policy and Annual Pension Cost

Employee contribution rates are 7.5% for peace officers and firefighters and 6.75% for other employees, as required by State statute. The funding policy for PERS provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate the assets to pay benefits when due. However, the 2005 actuarially determined rate was 23.04% of applicable gross pay and the employer contribution rate was capped at 10.58% in accordance with PERS board policy that limits yearly increases to 5 percentage points.

The university's annual pension cost for the current year and related information is as follows:

	Pension	Postemployment healthcare	Total
Contribution rates:			
Employee:			
Peace officers and firefighters	4.67%	2.83%	7.50%
Other employees	4.20%	2.55%	6.75%
Employer	6.58%	4.00%	10.58%
Annual pension/OPEB cost	$17,712,969	$10,759,896	$28,472,865
Contributions made	$8,133,820	$4,940,959	$13,074,779
Actuarial assumptions:			
Inflation rate	3.50%	Same	
Investment return	8.25%	Same	
Projected salary increase:			
Inflation	3.50%	N/A	
Productivity and merit:			
Peace officers and firefighters	2.50%	N/A	
Others	2.00%	N/A	
Health cost trend	N/A	12.00%	

An actuarial valuation as of June 30, 2002 set the contribution rates for the year ended June 30, 2005. The projected unit credit method was used and the initial unfunded accrued liability and future gains/losses are being amortized on a 25-year fixed period level percentage of pay. Effective June 30, 2002, the asset valuation method recognizes 20 percent of the investment gain or loss in each of the current and preceding four years. This method will be phased in over the next five years.

In fiscal year 2005 the university recognized a net pension obligation (NPO) totaling $9,579,149 in accordance with the provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* (GASB 27). The annual required contribution (ARC) was $17,712,969. The annual pension cost (APC) was equal to the ARC for fiscal year 2005. Three year trend information for pension benefits follows:

Year ended June 30	APC	Percentage of APC contributed	NPO
2003	$3,306,428	100%	-
2004	$4,729,156	100%	-
2005	$17,712,969	45.92%	$9,579,149

In fiscal year 2005 the university recognized a net other postemployment benefit (OPEB) obligation totaling $5,818,937 for PERS covered postemployment healthcare benefits in accordance with the provisions GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). The university chose to implement GASB 45 in 2005 rather than wait until the first required year, fiscal year 2008. The annual required contribution (ARC) for postemployment healthcare benefits was $10,759,896. The annual OPEB cost was equal to the ARC for fiscal year 2005.

Three year trend information for postemployment healthcare benefits follows:

Year ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2003	$1,340,695	100%	-
2004	$2,002,717	100%	-
2005	$10,759,896	45.92%	$5,818,937

Funding Status and Funding Progress

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. A schedule of funding progress for each of the three most recent actuarial valuations is included in this report as required supplementary information, which follows these notes to the basic financial statements. The funded status of PERS for pension and other postemployment healthcare benefits (OPEB) as of June 30, 2003, was as follows (in thousands):

	Pension	OPEB	Total
Actuarial accrued liability (AAL)	$ 419,463	$ 280,355	$ 699,818
Actuarial value of plan assets	313,807	209,738	523,545
Unfunded actuarial accrued liability (UAAL)	$(105,656)	$ (70,617)	$(176,273)
Funded ratio (actuarial value of plan assets/AAL)	75%	75%	75%
Covered payroll (active plan members)	$ 113,096	$ 113,096	$ 113,096
UAAL as a percentage of covered payroll	93%	62%	81%

The State of Alaska has not released an actuarial valuation analysis for fiscal year 2004 as of the date of this publication.

State of Alaska Teachers' Retirement System (TRS)

Plan Description

TRS provides pension, postemployment health care, death and disability benefits to participants. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

Each fiscal year, TRS issues a publicly available financial report which includes financial statements and required supplementary information. That report may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

Funding Policy

Employees contribute 8.65% of their base salary as required by State statute. The funding policy for TRS provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. During fiscal year 2005, contractually required employee and employer contribution rates were 8.65% and 16%, respectively. The actuarially determined employer contribution rate for 2005 was 35.57 percent. No net pension or OPEB obligation is recorded for TRS, since according to GASB 27 and GASB 45 no such obligation is recorded for cost sharing defined benefit plans when an employer's contribution equals the contractually required contribution. The amounts contributed to TRS by the university during the years ended June 30, 2005, 2004 and 2003 were $6,769,122, $4,860,511, and $4,281,511, respectively, equal to the required employer contributions for each year.

Defined Contribution Plans:

University of Alaska Optional Retirement Plan (ORP)

Faculty classified as regular and certain administrators may make a one-time election to participate in the ORP as an alternative to participation in PERS or TRS. The ORP is an employer funded defined contribution plan which operates in conjunction with a companion mandatory tax-deferred annuity plan. ORP participants are required to make employee contributions to one of the plan's authorized tax-deferred annuity programs at a rate equivalent to the TRS employee contribution rate of 8.65%. The university makes matching employer contributions to one of the plan's authorized employee-selected annuity providers or investment managers at a rate equal to the three-year moving average of the TRS employer contribution rates (13.00% for FY05 and 11.33% for FY04).

In fiscal year 2005 and 2004, the university's total covered payroll for the ORP plan was approximately $54.9 million and $50.9 million, respectively. The amounts contributed to ORP by the university during the years ended June 30, 2005, 2004 and 2003 were $7,133,412, $5,761,999, and $5,266,348, respectively. At June 30, 2005 and 2004, plan assets (participants' accounts attributable to employer contributions) had a net value of approximately $57.8 million and $48.3 million, respectively. Each participant is 100% vested at all times.

University of Alaska Pension Plan (Pension)

In addition to the other retirement plans, substantially all regular employees and faculty classified as temporary participate in the Pension plan which was established effective January 1, 1982, when the university withdrew from the federal social security program. Effective January 1, 2005, employer contributions for regular employees were 7.65% of covered wages up to a maximum of $42,000 and $90,000 for certain faculty classified as temporary. The plan provides for employer contributions to be invested in accordance with participant-directed investment elections to the plan's fixed income and/or equity funds. Each participant is 100% vested at all times.

In 2005 and 2004, the university's total covered payroll for the Pension plan was approximately $168.5 million and $165.2 million, respectively. The university's costs to fund and administer the plan totaled $12.9 million, or 7.65% of covered payroll. At June 30, 2005 and 2004, plan assets (participants' accounts) had a net value of approximately $261.5 million and $246.3 million, respectively.

13. Insurance and Risk Management:

The university is exposed to a wide variety of risks including property loss, bodily and personal injury, intellectual property, errors and omissions, aviation and marine. Exposures are handled with a combination of self-insurance, commercial insurance, and membership in a reciprocal risk retention group. The university is self-insured up to the maximum of $2 million per occurrence for casualty claims and $250,000 for property claims. Commercial carriers provide coverage in excess of these amounts. Health care, workers' compensation and unemployment claims are fully self-insured.

Liabilities have been established to cover estimates for specific reported losses, estimates for unreported losses based upon past experience modified for current trends, and estimates of expenses for investigating and settling claims.

Changes in applicable liability amounts follow (in thousands):

	Balance July 1, 2004	Provision for Claims	Claims Payment	Balance June 30, 2005
Health	$ 6,505	$ 39,412	$ (39,658)	$ 6,259
General liability	7,267	625	(758)	7,134
Workers' compensation	4,686	1,784	(1,434)	5,036
Unemployment	133	584	(597)	120
	$ 18,591	$ 42,405	$ (42,447)	$ 18,549

	Balance July 1, 2003	Provision for Claims	Claims Payment	Balance June 30, 2004
Health	$ 6,928	$ 34,127	$ (34,550)	$ 6,505
General liability	8,176	189	(1,098)	7,267
Workers' compensation	4,180	1,645	(1,139)	4,686
Unemployment	137	620	(624)	133
	$ 19,421	$ 36,581	$ (37,411)	$ 18,591

14. Commitments and Contingencies:

Amounts received and expended by the university under various federal and state grants, contracts and other programs are subject to audit and potential disallowance. From time to time the university is named as a defendant in legal proceedings or cited in regulatory actions related to the conduct of its operations. In the normal course of business, the university also has various other commitments and contingent liabilities which are not reflected in the accompanying financial statements. In the opinion of management, the university will not be affected materially by the final outcome of any present legal proceedings, environmental investigations, audit adjustments, or other commitments and contingent liabilities.

15. University of Alaska Foundation:

The University of Alaska Foundation (foundation) is a legally separate, non profit organization formed in 1974 to solicit donations for the exclusive benefit of the University of Alaska. During 2005 and 2004, the university transferred $386,760 and $142,544 respectively, to the foundation. For the same periods, distributions and expenditures by the foundation for the benefit of the university totaled $18.9 million and $12.1 million, of which $18.8 million and $11.9 million were direct reimbursements to the university. At June 30, 2005 and 2004 the foundation owed the university $2.6 million and $3.6 million, respectively, primarily for reimbursement of museum construction expenditures and other grant and contract and scholarship expenditures. The university provides administrative and accounting support for the foundation. Reimbursements to the university for these services were $0.6 million and $0.2 million for the years ended June 30, 2005 and 2004, respectively.

The investable resources of the university's land grant endowment trust fund and the foundation's pooled endowment funds are combined into a consolidated endowment fund for investment purposes. At June 30, 2005 and 2004, the fair value of the fund was $189.5 million and $161.1 million, respectively. The university's share of this fund was $113.3 million and $91.8 million, which is reflected in endowment investments. The fund is managed by the foundation's investment committee and treasurer on a total return basis in accordance with an investment policy approved by the Board of

Regents. The net assets and related activity for the university's land grant endowment trust's investment in the fund is reflected in the university's financial statements.

16. Functional Classifications with Natural Classifications:

The university's operating expenses by natural classification were as follows (in thousands):

	Year ended June 30, 2005						
	Compensation & Benefits	Contractual Services	Supplies & Materials	Other	Student Aid	Depre-ciation	Total
Instruction	$ 120,892	$ 19,191	$ 9,688	$ 281	$ -	$ -	$ 150,052
Academic support	30,019	5,960	4,975	36	-	-	40,990
Research	74,189	34,917	9,819	8	-	-	118,933
Public service	19,101	9,544	2,397	184	-	-	31,226
Student services	25,734	7,674	2,769	(144)	-	-	36,033
Operations and maintenance	20,446	10,138	13,569	800	-	-	44,953
Institutional support	49,368	5,864	7,127	1,029	-	-	63,388
Student aid	-	-	-	-	12,822	-	12,822
Auxiliary enterprises	7,884	12,766	13,112	165	-	-	33,927
Depreciation	-	-	-	-	-	60,135	60,135
	$ 347,633	$ 106,054	$ 63,456	$ 2,359	$ 12,822	$ 60,135	$ 592,459

	Year ended June 30, 2004						
	Compensation & Benefits	Contractual Services	Supplies & Materials	Other	Student Aid	Depre-ciation	Total
Instruction	$ 116,128	$ 19,108	$ 8,501	$ 378	$ -	$ -	$ 144,115
Academic support	27,307	5,575	4,144	69	-	-	37,095
Research	70,009	32,226	9,653	125	-	-	112,013
Public service	17,179	7,502	1,546	(11)	-	-	26,216
Student services	23,787	6,894	2,303	18	-	-	33,002
Operations and maintenance	19,877	7,567	11,135	605	-	-	39,184
Institutional support	37,444	9,321	3,271	254	-	-	50,290
Student aid	-	-	-	-	13,052	-	13,052
Auxiliary enterprises	7,438	13,897	12,160	291	-	-	33,786
Depreciation	-	-	-	-	-	60,483	60,483
	$ 319,169	$ 102,090	$ 52,713	$ 1,729	$ 13,052	$ 60,483	$ 549,236

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for PERS
(in thousands):

	Actuarial valuation year ended June 30	Actuarial value of plan assets	Actuarial accrued liability (AAL)	(Unfunded) overfunded actuarial accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
Pension benefits:							
	2001	360,222	331,693	28,529	109%	93,210	N/A
	2002	301,429	402,604	(101,175)	75%	102,892	98%
	2003	313,807	419,463	(105,656)	75%	113,096	93%
Postemployment healthcare benefits:							
	2001	152,517	140,438	12,079	109%	93,210	N/A
	2002	183,143	244,615	(61,472)	75%	102,892	60%
	2003	209,738	280,355	(70,617)	75%	113,096	62%
Total:							
	2001	512,739	472,131	40,608	109%	93,210	N/A
	2002	484,572	647,219	(162,647)	75%	102,892	84%
	2003	523,545	699,818	(176,273)	75%	113,096	81%