



UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Financial Statements
June 30, 2009 and 2008
(With Independent Auditors' Report Thereon)

University of Alaska
(A Component Unit of the State of Alaska)
Financial Statements
June 30, 2009 and 2008

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

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, 2009 (2009) and June 30, 2008 (2008), with selected comparative information for the year ended June 30, 2007 (2007). 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. GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, 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.

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 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

A summarized comparison of the university's assets, liabilities and net assets at June 30, 2009, 2008 and 2007 follows (\$ in thousands):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Assets:			
Current assets	\$ 180,314	\$ 113,073	\$ 109,700
Other assets	181,070	306,979	296,233
Capital assets, net of depreciation	<u>833,989</u>	<u>792,161</u>	<u>736,894</u>
Total assets	<u>1,195,373</u>	<u>1,212,213</u>	<u>1,142,827</u>
Liabilities:			
Current liabilities	100,481	95,803	92,406
Noncurrent liabilities	<u>142,709</u>	<u>177,607</u>	<u>162,971</u>
Total liabilities	<u>243,190</u>	<u>273,410</u>	<u>255,377</u>
Net assets:			
Invested in capital assets, net of debt	705,398	671,700	619,665
Restricted – expendable	12,233	46,707	55,587
Restricted – nonexpendable	127,416	126,752	124,114
Unrestricted	<u>107,136</u>	<u>93,644</u>	<u>88,084</u>
Total net assets	<u>\$ 952,183</u>	<u>\$ 938,803</u>	<u>\$ 887,450</u>

Overall, total assets of the university decreased \$16.8 million, or 1.4 percent from the prior year. The major change was in the endowment and non-endowment investments that suffered significant losses in 2009 and decreased \$52.6 million, or 18 percent from 2008. These declines were offset by an increase in net capital assets of \$41.8 million. Total liabilities decreased \$30.2 million largely due to the write off of the net pension and other post-employment benefit obligations of \$31.3 million. Each of these changes is discussed in more detail in the following sections.

The university significantly changed the allocation of its operating investment portfolio in 2009 in response to the global financial crisis. In general, management liquidated its long term investments and converted them to cash or safer, shorter term, investments. These actions were part of a strategy to reduce risk, enhance liquidity and safeguard university investments from additional market exposure. As a result, cash and cash equivalents increased \$73.1 million to \$81.7 million at June 30, 2009. The majority of these funds, \$69.8 million, are invested in a highly liquid government securities fund. Long-term investments were reduced from \$83.9 million at June 30, 2008 to \$7.9 million at June 30, 2009. There is more information in Note 2, *Deposits and Investments*, regarding the specific investments held at year end.

Restricted cash and cash equivalents decreased from \$19.7 million at June 30, 2008 to \$5.1 million at June 30, 2009. The decrease is mostly attributed to the expenditure of Series O general revenue bond proceeds for the University of Alaska Anchorage Parking Garage construction.

Endowment investments at June 30, 2009 were \$111.0 million as compared to \$145.2 million at June 30, 2008. This decrease was primarily caused by a 24 percent investment loss as a result of the global financial crisis.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

Net accounts receivable decreased from \$69.1 million at June 30, 2008 to \$64.5 million at June 30, 2009. Amounts due from the state as reimbursement for construction project expenditures were less at year end and comprised the majority of the decrease. Other components of accounts receivable consist of amounts due from students, government agencies, and auxiliary customers. These balances remained relatively stable as compared to prior year. Management continues to work on improving the billing and collection process. See Note 3 of the financial statements for accounts receivable detail.

Total liabilities are categorized as either current liabilities or noncurrent liabilities on the Statement of Net Assets. Current liabilities are those that are due or will likely be paid in the next fiscal year. They are primarily comprised of accounts payable, accrued payroll and other expenses, insurance and risk management payables, debt and student deposits. Noncurrent assets are comprised mostly of long-term debt. Total liabilities decreased \$30.2 million during 2009 to a total of \$243.2 million. The major changes are described below.

Net pension and OPEB obligations totaling \$31.3 million were written off effective July 1, 2008, when the Public Employees' Retirement System (PERS) plan changed from an agent to a multiple-employer plan. GASB does not require these obligations to be recorded for multiple-employer plans. The effect of this change is recorded on the Statement of Revenues, Expenses and Changes in Net Assets as an extraordinary item and is further discussed in Note 12, *Pension Plans*.

Total debt outstanding decreased from \$136.7 million at June 30, 2008 to \$128.0 million at June 30, 2009. The change consists of principal payments totaling \$6.0 million plus payoff of the Bunnell Park property note payable totaling \$3.8 million, less new equipment financings of \$1.1 million.

Deferred revenue related to capital projects totaled \$10.5 million at June 30, 2009, compared to \$5.8 million the year before. These amounts represent advance collections from the state based on estimated capital expenditures. The Anchorage Health Sciences building and the Tanana Valley Campus renovation comprised approximately \$4.4 million of the 2009 balance.

Unrestricted net assets increased \$13.5 million from June 30, 2008 to June 30, 2009. At year end, \$91.9 million of the \$107.1 million total is designated for specific purposes. See Note 7 of the financial statements for a detailed list of these designations.

Fiscal Year 2008 Comparisons (Statement of Net Assets)

Significant comments about changes between 2007 and 2008 that were noted in fiscal year 2008 *Management's Discussion and Analysis* are summarized below:

Overall, the financial position of the university improved in 2008 as indicated by the growth in net assets of \$51.4 million or 5.8 percent. There were several major changes in asset and liability balances:

Endowment investments at June 30, 2008 were \$145.2 million as compared to \$148.7 million at June 30, 2007. This decrease was primarily caused by a 2.4 percent investment loss in 2008 as compared to a 17.9 percent gain in 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

Net accounts receivable increased \$7.4 million from \$61.7 million at June 30, 2007 to \$69.1 million at June 30, 2008. This growth was primarily due to increased capital construction activity at year end. Capital receivables increased from \$5.3 million at June 30, 2007 to \$11.7 million at June 30, 2008.

Total liabilities increased by \$18.0 million during 2008 to a total of \$273.4 million. The increase was attributed to accounts payable rising from \$10.8 million at June 30, 2007 to \$13.6 million at June 30, 2008 and is reflective of increased capital construction activity in process at year end. Construction activity constituted 70 percent or \$9.4 million of the accounts payable balance at year end as compared to 55 percent or \$5.9 million, the year before. Long-term debt financing increased with the issuance of Series O general revenue bonds totaling \$23.8 million in 2008.

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, 2009, 2008 and 2007 follows (\$ in thousands):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues	\$ 367,837	\$ 356,624	\$ 352,410
Operating expenses	<u>(759,067)</u>	<u>(716,476)</u>	<u>(672,802)</u>
Operating loss	(391,230)	(359,852)	(320,392)
Net nonoperating revenues	<u>309,668</u>	<u>325,545</u>	<u>320,205</u>
Loss before other revenues, expenses, gains, or losses	(81,562)	(34,307)	(187)
Other revenues, expenses, gains or losses	<u>94,942</u>	<u>85,660</u>	<u>40,782</u>
Increase in net assets	<u>13,380</u>	<u>51,353</u>	<u>40,595</u>
Net assets at beginning of year	<u>938,803</u>	<u>887,450</u>	<u>846,855</u>
Net assets at end of year	<u>\$ 952,183</u>	<u>\$ 938,803</u>	<u>\$ 887,450</u>

The Statement of Revenues, Expenses and Changes in Net Assets reflects an overall increase in net assets of 1.4 percent, or \$13.4 million. Major changes in revenues and expenses in 2009 are described below:

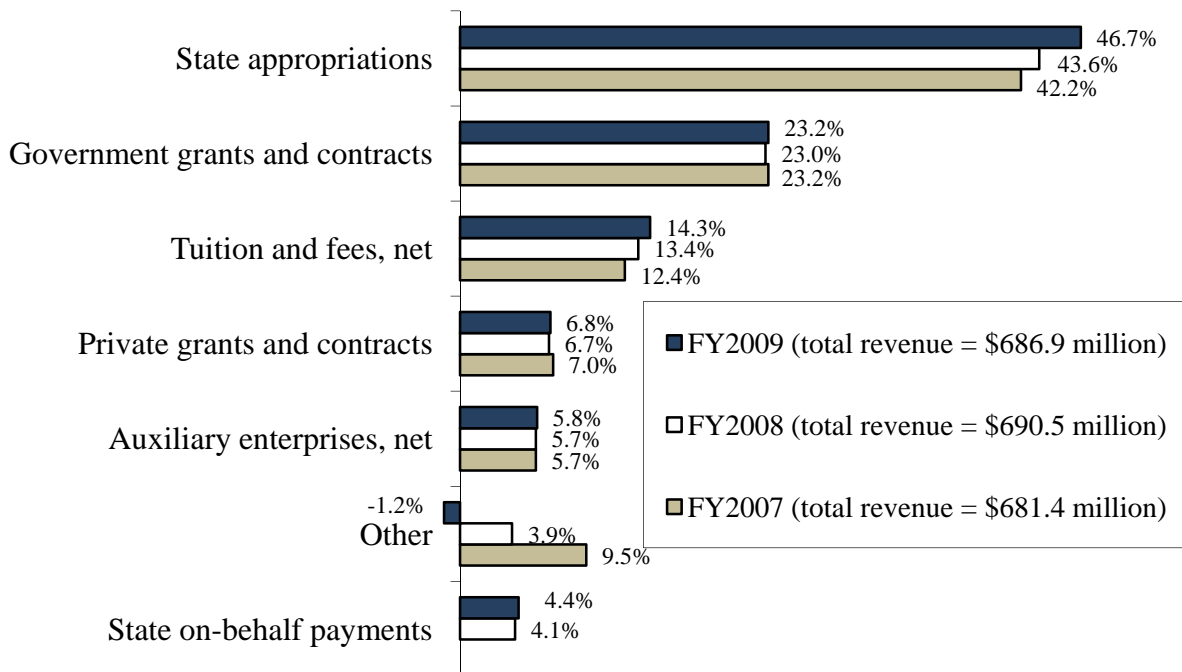
Capital appropriations and capital grant and contract revenue decreased from \$85.7 million in 2008 to \$63.6 million in 2009. Revenue from capital sources is generally recognized as expenditures occur. The decrease is attributed to fewer dollars being expended on the University of Alaska Anchorage's Integrated Science Building (ISB) in 2009 as compared to 2008. The ISB total project cost is \$91 million and was opened in fall 2009. For further discussion on capital activity, see the *Capital and Debt Activities* section which follows.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

State of Alaska general fund appropriations continue to be the single major source of revenue for the university, providing \$320.8 million in 2009, as compared to \$300 million in 2008. Historically, the state has funded the university at an amount equal to or above the prior period's appropriation. In addition, the state made on-behalf pension payments of \$30.5 million directly to the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) plans on behalf of the university. The state is paying the cost above the required employer contribution rate to fully fund the plans at the actuarial computed rate. Employer contribution rates have been capped at 22 percent and 12.56 percent for PERS and TRS, respectively. The on-behalf payments increase over 2008 was primarily caused by the actuarial rate for PERS increasing from 28.23 percent to 35.22 percent and the underlying covered payroll increasing. The pension payments were made on-behalf of the university and are presented as revenue and expenses in the university's financial statements in accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*.

A comparison of operating and nonoperating revenues by source for 2009, 2008 and 2007 follows:

Operating and Nonoperating Revenues (excluding capital) by Year

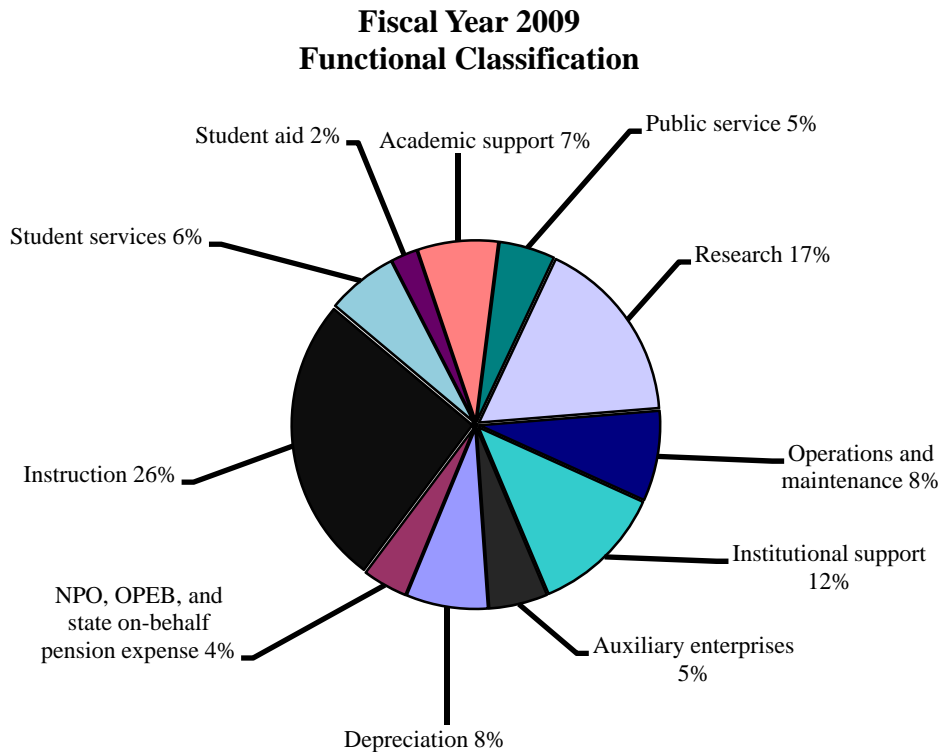


Grant and contract revenue from federal, state, local and private sponsors totaled \$205.9 million for 2009, a 1 percent increase over the prior year. The flat growth reflects the reduction in congressionally directed funding, plus stagnant competitive research budgets and lack of new state base support for research, particularly new facilities necessary to expand the research enterprise. However, in the latter part of 2009 and in 2010, the university received federal funding through the American Recovery and Reinvestment Act ("stimulus" funds). This is further discussed in the *Other Economic and Financial Conditions* section which follows. Gross student tuition and fee revenue totaled \$107.4 million in 2009 as compared to \$99.9 million in 2008. This was due in large part to a five percent increase in tuition rates for students for academic year 2008 - 2009, and a \$.8 million increase in total fee revenue from \$18.8 million at June 30, 2008 to \$19.6 million at June 30, 2009.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

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):

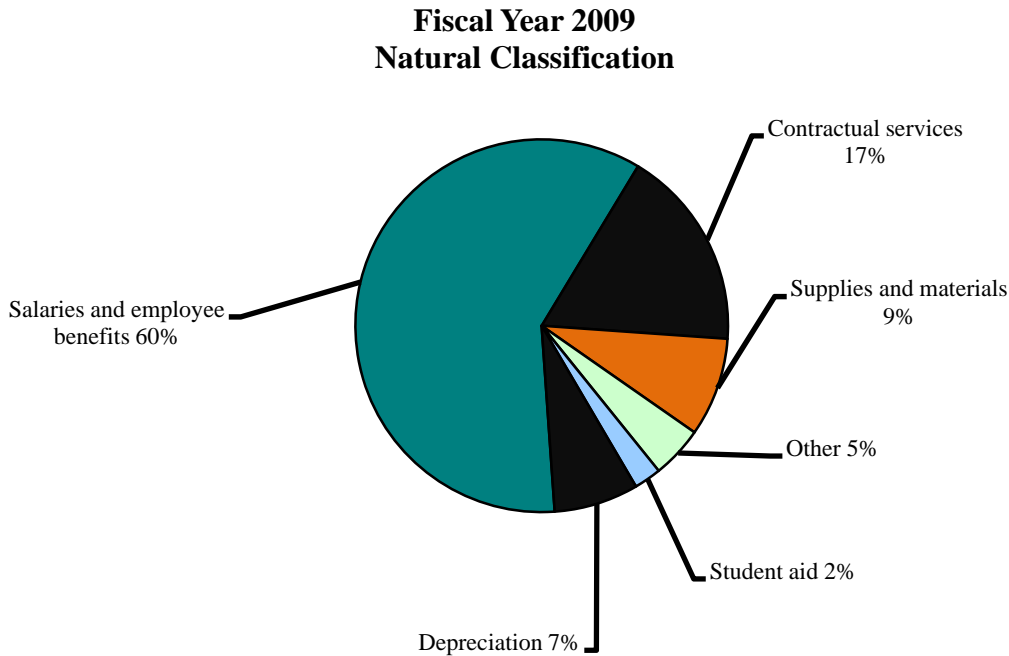
Operating Expenses						
Functional Classification (in millions)						
	FY2009		FY2008		FY2007	
Instruction	\$196.3	25.9%	\$183.2	25.6%	\$181.2	26.9%
Student Services	48.2	6.4%	45.4	6.3%	41.9	6.2%
Student Aid	17.9	2.3%	14.9	2.1%	13.5	2.0%
Academic Support	54.7	7.2%	52.2	7.3%	50.7	7.6%
Student and Academic	<u>\$317.1</u>	<u>41.8%</u>	<u>\$295.7</u>	<u>41.3%</u>	<u>\$287.3</u>	<u>42.7%</u>
Public Service	37.8	5.0%	36.1	5.0%	32.9	4.9%
Research	127.0	16.7%	121.8	17.0%	131.3	19.5%
Operations and Maintenance	61.2	8.1%	55.0	7.7%	50.2	7.5%
Institutional Support	90.2	11.9%	82.6	11.5%	69.6	10.3%
Auxiliary Enterprises	39.7	5.2%	39.4	5.5%	38.7	5.8%
NPO,OPEB, State On-Behalf	30.5	4.0%	29.0	4.1%	5.4	0.8%
Depreciation	55.6	7.3%	56.9	7.9%	57.4	8.5%
Total Operating Expenses	<u><u>\$759.1</u></u>	<u><u>100.0%</u></u>	<u><u>\$716.5</u></u>	<u><u>100.0%</u></u>	<u><u>\$672.8</u></u>	<u><u>100.0%</u></u>



MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

Salaries and employee benefits increased 6.3 percent, or \$27.0 million, in 2009. Employee benefits, such as pension plan contributions and health care costs, increased 7.14 percent and comprised \$8.9 million of the change. Salaries and wages increased 6.0 percent, or \$18.0 million. Other expenses are substantially higher in 2009 and 2008 as compared to 2007 as a result of recognizing state on-behalf pension payments totaling \$30.5 million, \$28.5 million, and zero, respectively.

Operating Expenses						
Natural Classification (in millions)						
	FY2009		FY2008		FY2007	
Salaries and Employee Benefits	\$453.7	59.7%	\$426.7	59.6%	\$407.0	60.5%
Contractual Services	132.5	17.5%	126.2	17.6%	124.8	18.5%
Supplies and Materials	65.1	8.6%	59.8	8.3%	61.7	9.2%
Other	34.3	4.5%	32.0	4.5%	8.4	1.2%
Student Aid	17.9	2.4%	14.9	2.1%	13.5	2.0%
Depreciation	55.6	7.3%	56.9	7.9%	57.4	8.6%
	\$759.1	100.0%	\$716.5	100.0%	\$672.8	100.0%



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 a scholarship allowance, directly offsetting student tuition and fee revenue or auxiliary revenue. Allowances totaled \$10.7 million in 2009 and \$9.1 million in 2008. In addition to the allowances, students participate in governmental financial aid loan programs. The loans are neither recorded as revenue or expense in the financial statements, but are recorded in the Statements of Cash Flows as direct lending receipts totaling \$75.0 million and \$67.4 million in 2009 and 2008, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

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.

Net investment losses from all non-endowment sources totaled \$8.1 million in 2009 as a result of the global financial crisis. Operating investments experienced a 6.9 percent loss. As discussed earlier in the assets and liabilities section, management sold many of its investments and placed substantially all funds in government securities, in an effort to reduce risk and stem further losses.

Endowment investments experienced a \$34.4 million loss in 2009 as compared to a \$4.6 million loss in the prior year. Total return was a negative 24 percent in 2009 as compared to a negative 2.4 percent in 2008. The significant losses in 2009 were the result of the global financial crisis.

Endowment gifts, sales and other proceeds totaled \$10.4 million in fiscal year 2009 as compared to \$5.6 million in 2008. The increase can be attributed to the \$6.1 million sale of the Trunk Road property located near the Mat-Su campus. This category also includes 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.

Fiscal Year 2008 Comparisons (Statement of Revenues, Expenses and Changes in Net Assets)

Significant comments about changes between 2007 and 2008 that were noted in fiscal year 2008 *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 5.8 percent, or \$51.4 million. The major changes in revenue and expenses are described below:

Gross student tuition and fee revenue increased to \$99.9 million in 2008 as compared to \$91.5 million in 2007. This was primarily due to a seven percent increase in tuition rates and a \$2.4 million increase in total fee revenue.

Endowment investments experienced a \$4.6 million loss in 2008 as compared to a \$22.3 million gain in 2007. Poor market conditions caused a 2.4 percent loss in 2008.

Endowment gifts, sales and other proceeds totaled \$5.6 million in 2008 as compared to \$7.7 million in 2007. The decline is mostly attributed to a \$2.6 million pledge included in the 2007 balance.

Net pension, OPEB and state on-behalf pension payments increased to \$29 million in 2008 as compared to \$5.4 million in 2007. This was primarily due to first-time state on-behalf pension payments, totaling \$28.5 million, paid directly to the PERS and TRS defined benefit plans to reduce the PERS and TRS employers' contributions for 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

Capital and Debt Activities

The University of Alaska has continued to modernize various facilities and to build new facilities to address emerging state needs. Net capital asset additions totaled \$76.1 million in 2009, as compared with \$101.9 million in 2008 and \$45.1 million in 2007. These capital additions primarily comprise replacement, renovation, code corrections and new construction of academic and research facilities, as well as investments in equipment and information technology. State capital appropriations for 2009 and 2008 were \$107.2 million and \$12.9 million, respectively. At June 30, 2009, \$125.7 million remains unexpended from current and prior year capital appropriations and general revenue bond proceeds, of which \$31.0 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.

State of Alaska capital appropriations for 2010 total \$3.2 million and are designated for renewal and replacement projects at various campuses in the university system.

Construction in progress at June 30, 2009 totaled \$120.8 million and includes the following major projects:

- University of Alaska Anchorage Integrated Science Building (ISB): This \$91 million facility completed in fall 2009 includes instructional, student, and administrative space. Features include state of the art science academic labs and technology associated with distance delivery. The facility is designed to incorporate program growth in integrated sciences, including integrated science instruction for majors and non-majors, environmental studies and systems research, biomedical research, and complex system studies to prepare students to meet the employment needs of the state of Alaska.
- University of Alaska Anchorage Parking Garage associated with the ISB, Loop Road and Amenities Building: This \$17.2 million structure completed in fall 2009 consists of a three level parking garage for 445 vehicles, a loop road connecting ISB service entrance to the Fine Arts building parking lot and a detached amenities/auxiliary building that houses the elevator, stairs, mechanical and electrical support for the garage.

At June 30, 2009, total debt outstanding was \$128.0 million, comprised of \$105.8 million in general revenue bonds, \$19.6 million in notes payable, and \$2.6 million in bank financing contracts. In December 2007, Moody's Investors Service raised its previous university credit rating of A1 to Aa3 with stable outlook, and in January 2008, Standard & Poor's affirmed its rating of AA- with stable outlook. Moody's Investors Service's upgrade of the university's credit rating is the university's first rating change since its general revenue issues were first rated in 1992.

The university issued Series O general revenue bonds totaling \$23.8 million in 2008. The bonds mature annually each October 1, through 2033, and bear coupon interest rates ranging from 3.375 percent to 4.25 percent. UAA's Parking Garage is the largest project on the bond, totaling \$13.0 million, while the remaining proceeds are being used for renovations or supplemental funding for new facilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

In previous years, other bonds were issued 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 tax exempt 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.

The Board of Regents approved the following tuition increases: 1) five percent for the 2009 – 2010 academic year, 2) four percent for 100 to 200 level courses and seven percent for all other courses in the 2010 – 2011 academic year, and 3) five percent for 100 to 200 level courses and ten percent for all other courses in the 2011 – 2012 academic year.

The University of Alaska Fairbanks received a \$148.1 million award from the National Science Foundation to construct the Alaska Region Research Vessel (ARRV). As designed, the vessel will be a 236 foot multipurpose oceanographic research ship capable of operating in seasonal ice and open regions around Alaska. Once constructed, the university will manage the vessel operations to support the National Science Foundation and other federally funded science activities. The ARRV is expected to be completed in 2014.

As of October 1, 2009, the university received \$169.0 million in American Recovery and Reinvestment Act (ARRA) awards (also known as "stimulus" funds). The largest award is for the ARRV described above. The other awards are predominantly for research activities that the university conducts in the normal course of its mission. Periods of performance range from one to five years. There are numerous ARRA proposals pending, totaling \$67.5 million.



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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, 2009 and 2008 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 *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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2009 and 2008, and the respective changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2009 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 accessing the results of our audit.

The Management's Discussion and Analysis, on pages 1 through 10 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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

November 4, 2009

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UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Net Assets
June 30, 2009 and 2008
(in thousands)

Assets	2009	2008
Current assets:		
Cash and cash equivalents	\$ 81,728	\$ 8,642
Short-term investments	26,184	26,463
Accounts receivable, less allowance of \$6,573 in 2009 and \$5,239 in 2008	64,523	69,084
Other assets	659	774
Inventories	7,220	8,110
Total current assets	180,314	113,073
Noncurrent assets:		
Restricted cash and cash equivalents	5,091	19,692
Notes receivable	4,433	4,583
Endowment investments	111,011	145,212
Land Grant Trust property and other assets	44,674	45,001
Long-term investments	7,875	83,922
Education Trust of Alaska	7,986	8,569
Capital assets, net of accumulated depreciation of \$715,776 in 2009 and \$681,520 in 2008	833,989	792,161
Total noncurrent assets	1,015,059	1,099,140
Total assets	1,195,373	1,212,213
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	19,221	18,797
Accrued payroll	24,966	21,292
Deferred revenue and deposits	17,086	15,032
Accrued annual leave	11,320	10,459
Deferred lease revenue - current portion	1,281	1,281
Long-term debt - current portion	6,473	9,659
Insurance and risk management	20,134	19,283
Total current liabilities	100,481	95,803
Noncurrent liabilities:		
Deferred revenue - capital	10,519	5,781
Deferred lease revenue	4,804	6,085
Long-term debt	121,540	127,019
Net pension and OPEB obligations	-	31,325
Security deposits and other liabilities	5,846	7,397
Total noncurrent liabilities	142,709	177,607
Total liabilities	243,190	273,410
Net Assets		
Invested in capital assets, net of related debt	705,398	671,700
Restricted:		
Expendable:		
Restricted funds	848	790
Education Trust of Alaska	2,879	5,173
Capital projects and debt service	8,496	7,303
Endowment	10	33,441
Nonexpendable		
Endowment	95,682	94,571
Land Grant Trust	31,734	32,181
Unrestricted (see Note 7)	107,136	93,644
Total net assets	\$ 952,183	\$ 938,803

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, 2009 and 2008
(in thousands)

Assets	2009	2008
Cash and cash equivalents	\$ 30,609	\$ 904
Interest receivable	77	110
Short-term investments	-	6,668
Contributions receivable	17,746	16,548
Escrows receivable	145	155
Inventory	50	77
Other assets	516	425
Pooled endowment funds	89,486	116,221
Other long-term investments	23,092	38,172
Total assets	\$ 161,721	\$ 179,280
Liabilities		
Due to the University of Alaska	\$ 2,118	\$ 2,033
Other liabilities	10	15
Remainder trust obligations	316	328
Term endowment liability	1,000	1,000
Total liabilities	3,444	3,376
Net Assets		
Unrestricted	31,233	41,379
Temporarily restricted	67,349	81,280
Permanently restricted	59,695	53,245
Total net assets	158,277	175,904
Total liabilities and net assets	\$ 161,721	\$ 179,280

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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, 2009 and 2008
(in thousands)

	2009	2008
Operating revenues		
Student tuition and fees	\$ 107,424	\$ 99,921
less scholarship allowances	(9,213)	(7,838)
	98,211	92,083
Federal grants and contracts	135,574	136,497
State grants and contracts	19,848	17,885
Local grants and contracts	3,533	3,472
Private grants and contracts	46,902	45,985
Federal appropriations	3,525	2,991
Local appropriations	717	717
Sales and services, educational departments	3,850	3,345
Sales and services, auxiliary enterprises, net of scholarship allowances of \$1,483 in 2009 and \$1,264 in 2008	39,990	39,192
Other	15,687	14,457
Total operating revenues	367,837	356,624
Operating expenses		
Instruction	196,304	183,190
Academic support	54,642	52,174
Research	126,949	121,843
Public service	37,820	36,063
Student services	48,170	45,437
Operations and maintenance	61,186	54,983
Institutional support	90,184	82,611
Student aid	17,937	14,879
Auxiliary enterprises	39,724	39,410
Depreciation	55,649	56,883
State on-behalf payments	30,502	29,003
Total operating expenses	759,067	716,476
Operating loss	(391,230)	(359,852)
Nonoperating revenues (expenses)		
State appropriations	320,770	300,027
State on-behalf contributions - pension	30,502	28,464
Investment earnings (losses)	(8,142)	4,408
Endowment investment loss	(34,408)	(4,595)
Endowment gifts, sales and other proceeds	10,360	5,559
Interest on debt	(4,986)	(4,895)
Other nonoperating expenses	(4,428)	(3,423)
Net nonoperating revenues	309,668	325,545
Loss before other revenues, expenses, gains or losses	(81,562)	(34,307)
Capital appropriations, grants and contracts	63,617	85,660
Loss (income) before extraordinary item	(17,945)	51,353
Extraordinary item - elimination of net pension and OPEB obligations	31,325	-
Net increase in net assets	13,380	51,353
Net assets		
Net assets - beginning of year	938,803	887,450
Net assets - end of year	\$ 952,183	\$ 938,803

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

UNIVERSITY OF ALASKA FOUNDATION
(A Component Unit of the University of Alaska)
Statements of Activities
For the years ended June 30, 2009 and 2008
(in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009</u>
Revenues, gains (losses) and other support				
Contributions	\$ 5,808	\$ 17,727	\$ 6,275	\$ 29,810
Investment income	1,062	1,056	-	2,118
Net realized and unrealized investment losses	(12,168)	(19,446)	-	(31,614)
Other revenues	2	73	-	75
Actuarial adjustment of remainder trust obligations	-	(6)	(30)	(36)
Losses on disposition of other assets	-	(526)	-	(526)
Administrative assessments	1,941	(1,171)	(23)	747
Support from University of Alaska	1,390	-	-	1,390
Net assets released from restriction	<u>11,362</u>	<u>(11,362)</u>	<u>-</u>	<u>-</u>
Total revenues, gains (losses) and other support	<u>9,397</u>	<u>(13,655)</u>	<u>6,222</u>	<u>1,964</u>
Expenses and distributions				
Operating expenses	1,891	-	-	1,891
Distributions for the benefit of the University of Alaska	<u>17,700</u>	<u>-</u>	<u>-</u>	<u>17,700</u>
Total expenses and distributions	<u>19,591</u>	<u>-</u>	<u>-</u>	<u>19,591</u>
Excess (deficit) of revenues over expenses	<u>(10,194)</u>	<u>(13,655)</u>	<u>6,222</u>	<u>(17,627)</u>
Transfers between net asset classes	<u>48</u>	<u>(276)</u>	<u>228</u>	<u>-</u>
Increase (decrease) in net assets	(10,146)	(13,931)	6,450	(17,627)
Net assets, beginning of year	<u>41,379</u>	<u>81,280</u>	<u>53,245</u>	<u>175,904</u>
Net assets, end of year	<u>\$ 31,233</u>	<u>\$ 67,349</u>	<u>\$ 59,695</u>	<u>\$ 158,277</u>

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2008</u>
\$ 857	\$ 25,652	\$ 2,622	\$ 29,131
1,889	1,494	-	3,383
(1,797)	(4,405)	-	(6,202)
1	97	-	98
-	(6)	(7)	(13)
-	(115)	-	(115)
1,214	(981)	(18)	215
858	-	-	858
<u>12,023</u>	<u>(12,023)</u>	<u>-</u>	<u>-</u>
<u>15,045</u>	<u>9,713</u>	<u>2,597</u>	<u>27,355</u>
1,983	-	-	1,983
<u>15,429</u>	<u>-</u>	<u>-</u>	<u>15,429</u>
<u>17,412</u>	<u>-</u>	<u>-</u>	<u>17,412</u>
<u>(2,367)</u>	<u>9,713</u>	<u>2,597</u>	<u>9,943</u>
<u>(11)</u>	<u>(192)</u>	<u>203</u>	<u>-</u>
<u>(2,378)</u>	<u>9,521</u>	<u>2,800</u>	<u>9,943</u>
<u>43,757</u>	<u>71,759</u>	<u>50,445</u>	<u>165,961</u>
<u>\$ 41,379</u>	<u>\$ 81,280</u>	<u>\$ 53,245</u>	<u>\$ 175,904</u>

UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Cash Flows
For the Years Ended June 30, 2009 and 2008
(in thousands)

	2009	2008
Cash flows from operating activities		
Student tuition and fees, net	\$ 99,077	\$ 90,481
Grants and contracts	203,465	202,720
Sales and services, educational departments	3,850	3,345
Sales and services, auxiliary enterprises	40,199	39,101
Federal appropriations	3,525	2,991
Local appropriations	717	717
Other operating receipts	14,406	13,176
Payments to employees for salaries and benefits	(448,630)	(424,880)
Payments to suppliers	(196,853)	(193,640)
Payments to students for financial aid	(17,933)	(14,889)
	(298,177)	(280,878)
Cash flows from noncapital financing activities		
State appropriations	320,985	300,027
Other payments	(905)	(1,085)
Direct lending receipts	74,994	67,427
Direct lending payments	(74,927)	(67,334)
	320,147	299,035
Cash flows from capital and related financing activities		
Capital appropriations, grants and contracts	76,163	78,903
Proceeds from issuance of capital debt	-	23,795
Purchases of capital assets	(100,614)	(109,026)
Principal paid on capital debt	(9,714)	(6,280)
Interest paid on capital debt	(5,473)	(4,843)
	(39,638)	(17,451)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	264,280	472,790
Purchases of investments	(199,648)	(465,825)
Interest received on investments	3,134	5,802
Interest and other sales receipts from endowment assets	8,387	11,293
	76,153	24,060
Net increase in cash and cash equivalents	58,485	24,766
Cash and cash equivalents, beginning of the year	28,334	3,568
Cash and cash equivalents, end of the year	\$ 86,819	\$ 28,334
Cash and cash equivalents (current)	\$ 81,728	\$ 8,642
Restricted cash and cash equivalents (noncurrent)	5,091	19,692
Total cash and cash equivalents	\$ 86,819	\$ 28,334

UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Cash Flows
For the Years Ended June 30, 2009 and 2008
(in thousands)

Reconciliation of operating loss to net cash used by

operating activities:	2009	2008
Operating loss	\$ (391,230)	\$ (359,852)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	55,649	56,883
State on-behalf payments	30,502	28,464
Changes in assets and liabilities:		
Accounts receivable, net	(3,262)	(3,300)
Other assets	115	(90)
Inventories	890	434
Accounts payable and accrued expenses	3,106	(5,240)
Accrued payroll	3,674	440
Deferred revenue, deposits from students and others	1,948	477
Accrued annual leave	861	533
Deferred lease revenue - current portion	(1,281)	(1,281)
Insurance and risk management	851	1,115
Net pension and OPEB obligations	-	539
Net cash used by operating activities	\$ (298,177)	\$ (280,878)

Noncash Investing, Capital and Financing Activities:

For the Year Ended June 30, 2009

Additions to capital assets include \$.6 million expended and capitalized but not paid for at year end.

The university financed the purchase of equipment totaling \$1.0 million.

Book value of capital asset disposals totaled \$1.8 million.

The university received on-behalf pension payments from the state of Alaska totaling \$30.5 million.

For the Year Ended June 30, 2008

Additions to capital assets include \$0.9 million expended and capitalized but not paid for at year end.

The university financed the purchase of equipment totaling \$0.2 million.

Book value of capital asset disposals totaled \$0.7 million.

The university received on-behalf pension payments from the state of Alaska totaling \$28.5 million.

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

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. 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.

NOTES TO FINANCIAL STATEMENTS

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. Investments in fixed income and equity marketable securities are stated at fair value based on quoted market prices. Investments in private partnership interests are valued using the most current information provided by the general partner. General partners typically value privately held companies at cost as adjusted based on recent arms' length transactions. Public companies are valued using quoted market prices and exchange rates, if applicable. Real estate partnerships and funds are valued based on appraisals of properties held and conducted by third-party appraisers retained by the general partner or investment manager. General partners of marketable alternatives provide values based on quoted market prices and exchange rates for publicly held securities and valuation estimates of derivative instruments. General partners of oil and gas partnerships use third-party appraisers to value properties. Valuations provided by the general partners and investment managers are evaluated by management and management believes such values are reasonable at June 30, 2009. When, in the opinion of management, there has been a permanent impairment in the asset value, the asset is written down to its fair value. Income from other investments is recognized when received.

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. Investments also include securities with contractual cash flows such as asset-backed securities, collateralized mortgage obligations and commercial mortgage-backed securities. The value, liquidity and related income of these securities are sensitive to economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates. 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.

NOTES TO FINANCIAL STATEMENTS

Capital Assets

Capital assets are stated at cost when purchased and at fair value when donated. Equipment with a unit value of \$5,000 or greater is capitalized. Buildings and infrastructure with a unit value of \$100,000 or greater are capitalized. Other capitalizable assets with a unit value of \$50,000 or greater are capitalized. 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 fund. 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, 2009, the land grant endowment trust fund was underwater \$1.4 million, meaning its fair value is below the endowment principal. This amount is classified as a claim on unrestricted net assets as shown in Note 7, *Unrestricted Net Assets*. The prior year accumulated earnings balance was a positive \$33.4 million and is shown in the restricted expendable net asset category on the statement of net assets. The inflation proofing fund, a quasi-endowment fund included in unrestricted net assets, totaled \$19.5 million and \$22.2 million at June 30, 2009 and 2008, respectively.

Alaska Statute 14.40.400 provides the Board of Regents with authority to manage the funds under the total return principles which are intended to preserve and maintain the purchasing power of the endowment principal. The investable resources of the funds are invested in the consolidated endowment fund, a unitized investment fund. The annual spending allowance is currently based on four and one-half 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 balance of the preceding December 31.

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.

Scholarship Allowances

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship allowances in the statement of revenues, expenses and changes in net assets. Scholarship 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.

NOTES TO FINANCIAL STATEMENTS

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 tuition and fees, donations, sales, rentals, facilities and administrative cost recovery, interest income, 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.

Reclassifications

Certain amounts in the June 30, 2008 financial statements have been reclassified for comparative purposes to conform to the presentation in the June 30, 2009 financial statements.

2. Deposits and Investments:

Deposits and investments at June 30, 2009 were as follows (\$ in thousands):

<u>Investment Type</u>	<u>Operating</u>	<u>Capital Funds</u>	<u>Endowment</u>	<u>College Savings Program</u>	<u>Total</u>
Cash and Deposits	\$ (780)	\$ -	\$ 174	\$ -	\$ (606)
Repurchase Agreement	15,789	-	-	-	15,789
Short Term Fund	8,011	90	759	-	8,860
Intermediate Term Fund	10,120	-	43	-	10,163
Multi-Strategy Bond Fund	-	-	5,140	-	5,140
Government Securities Fund	69,822	435	14,797	-	85,054
Hedge Funds	8,054	-	15,962	-	24,016
Money Market Mutual Funds	-	8,876	-	245	9,121
Equities:					
Domestic	-	-	33,272	3,349	36,621
International	-	-	10,524	-	10,524
Global	-	-	4,033	-	4,033
Emerging Markets	-	-	3,735	-	3,735
Debt-related:					
Federal Agency	-	461	-	-	461
Fixed Income Funds	-	-	10,781	4,392	15,173
Alternative Investments:					
Commodities	-	-	1,475	-	1,475
Natural Resources	-	-	2,846	-	2,846
Venture Capital	-	-	1,376	-	1,376
Mezzanine	-	-	1,322	-	1,322
Real Estate	-	-	3,320	-	3,320
Other	-	-	1,452	-	1,452
	<u>\$ 111,016</u>	<u>\$ 9,862</u>	<u>\$ 111,011</u>	<u>\$ 7,986</u>	<u>\$ 239,875</u>

NOTES TO FINANCIAL STATEMENTS

Deposits and investments at June 30, 2008 were as follows (\$ in thousands):

<u>Investment Type</u>	<u>Operating</u>	<u>Capital Funds</u>	<u>Endowment</u>	<u>College Savings Program</u>	<u>Total</u>
Cash and Deposits	\$ (4,010)	\$ -	\$ -	\$ -	\$ (4,010)
Repurchase Agreement	15,743	-	-	-	15,743
Short Term Fund	21,696	898	6,815	-	29,409
Intermediate Term Fund	5,429	-	98	-	5,527
Multi-Strategy Bond Fund	27,380	-	8,834	-	36,214
Hedge Funds	47,647	-	27,325	-	74,972
Money Market Mutual Funds	-	23,060	6	405	23,471
Equities:					
Domestic	-	-	46,586	3,323	49,909
International	-	-	14,861	-	14,861
Global	-	-	7,809	-	7,809
Emerging Markets	-	-	3,886	-	3,886
Debt-related:					
Federal Agency	-	876	-	-	876
Fixed Income Funds	-	-	9,198	4,841	14,039
Alternative Investments:					
Commodities	-	-	2,820	-	2,820
Natural Resources	-	-	3,835	-	3,835
Venture Capital	-	-	1,314	-	1,314
Mezzanine	-	-	1,672	-	1,672
Real Estate	-	-	7,069	-	7,069
Other	-	-	3,084	-	3,084
	<u>\$ 113,885</u>	<u>\$ 24,834</u>	<u>\$ 145,212</u>	<u>\$ 8,569</u>	<u>\$ 292,500</u>

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.

The Government Securities Fund comprises the largest portion of operating investments. This is a highly liquid, short duration fixed income fund. The Short Term and Hedge funds were closed in fiscal year 2009, preventing contributions to and limiting withdrawals from the funds. Balances in the funds are scheduled to be paid to participants over the course of fiscal year 2010, as the underlying securities mature or fund managers sell their positions. Management does not anticipate any significant effect on operations or impact on liquidity as a result of the closures.

NOTES TO FINANCIAL STATEMENTS

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 \$4.6 million and related reserves totaling \$4.8 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 \$108.9 million in investable resources of the university's land grant endowment trust fund and are invested in a consolidated endowment fund managed by the University of Alaska Foundation (foundation). These resources are combined with the foundation's pooled endowment funds for investment purposes, and 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 4 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, 2009 had an estimated fair value of approximately \$3.3 million.

At June 30, 2009, the university has approximately \$37.5 million in investments which are not readily marketable. Approximately \$29.4 million is invested in the consolidated endowment fund managed by the foundation and \$8.1 million is invested in hedge funds within the university's operating funds. These investment instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence upon key individuals, and nondisclosure of portfolio composition. Because these investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material.

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.

Foreign Currency Risk:

Foreign currency risk is the risk that changes in exchange rates could have an adverse affect on an investment's value for investments denominated in foreign currencies. GASB 40 requires disclosure of value in U.S. dollars by foreign currency denomination and investment type. The university does not have a policy regarding foreign currency risk. At June 30, 2009, the university did not have any foreign currency 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.

NOTES TO FINANCIAL STATEMENTS

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, 2009, investments consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (\$ in thousands):

<u>Investment Type</u>	<u>Rating</u>	<u>Operating</u>	<u>Capital Funds</u>	<u>Endowment</u>	<u>College Savings Program</u>
Money Market Mutual Fund	Aaa	-	\$ 8,876	-	-
Money Market Mutual Funds	Not Rated	-	-	-	\$ 245
Short Term Fund	Not Rated	\$ 8,011	\$ 90	\$ 759	-
Intermediate Term Fund	AAA	\$ 10,035	-	-	-
Intermediate Term Fund Tranche 2	AA	\$ 85	-	\$ 43	-
Multi-Strategy Bond Fund	AA	-	-	\$ 5,140	-
Hedge Funds	Not Rated	\$ 8,054	-	\$ 15,962	-
Debt Related		-	-	-	-
Federal Agency	Aaa	-	\$ 461	-	-
Fixed Income Funds	Not Rated	-	-	\$ 10,781	\$ 4,392

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 five percent or more of that investment type. At June 30, 2009, the university did not have any material concentrations of credit risk.

The consolidated endowment fund investment policy limits debt investments to five 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.

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, 2009, 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, 2009, provided \$5.1 million coverage in excess of deposits.

NOTES TO FINANCIAL STATEMENTS

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 one percent, the value of the security would decrease two percent. The university does not have a policy regarding interest rate risk. At June 30, 2009, the university had the following debt investments and corresponding modified duration (\$ in thousands):

<u>Investment Type</u>	<u>Fair Value</u>					<u>Modified Duration</u>
	<u>Operating</u>	<u>Capital Funds</u>	<u>Endowment</u>	<u>College Savings Program</u>		
Intermediate Term Fund	\$ 10,035	-	\$ 43	-		1.60
Intermediate Term Fund Tranche 2	\$ 85	-	-	-		1.30
Multi-Strategy Bond Fund	-	-	\$ 5,140	-		3.90
Federal Agency	-	\$ 461	-	-		2.60
Fixed Income Fund	-	-	-	\$ 4,392		4.26
Fixed Income Fund	-	-	\$ 10,775	-		4.28

Hedge funds totaling \$24.0 million are exposed to interest rate risk, however, underlying fund data is not available to measure the interest rate risk.

3. Accounts Receivable:

Accounts receivable consisted of the following at June 30, 2009 and 2008 (\$ in thousands):

<u>June 30, 2009</u>	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Student tuition and fees	\$ 13,472	\$ (5,386)	\$ 8,086
Sponsored programs	52,056	(1,155)	50,901
Auxiliary services and other operating activities	504	(32)	472
Capital appropriations, grants and contracts	<u>5,064</u>	<u>-</u>	<u>5,064</u>
	<u>\$ 71,096</u>	<u>\$ (6,573)</u>	<u>\$ 64,523</u>
<u>June 30, 2008</u>	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Student tuition and fees	\$ 11,857	\$ (3,748)	\$ 8,109
Sponsored programs	49,085	(1,414)	47,671
Auxiliary services and other operating activities	510	(77)	433
Capital appropriations, grants and contracts	<u>12,871</u>	<u>-</u>	<u>12,871</u>
	<u>\$ 74,323</u>	<u>\$ (5,239)</u>	<u>\$ 69,084</u>

NOTES TO FINANCIAL STATEMENTS

4. Education Trust of Alaska:

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 \$2.8 billion and \$3.2 billion at June 30, 2009 and 2008, respectively, are not included in the financial statements. Separately audited Trust financial statements are available upon request from the University of Alaska Controller's office.

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 \$5.2 million and \$3.5 million at June 30, 2009 and 2008, respectively.

5. Land Grant Trust Property and Other Assets:

Land Grant Trust property 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 as described in the *Endowment* section in Note 1 above. At June 30, 2009 and 2008, approximately 134,329 and 108,614 acres, respectively, were held in trust at no basis because fair value at the date of transfer was not determinable. Legislation passed in 2005 granted the University of Alaska approximately 250,000 acres of state land. The intent of the Legislature was 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 Alaska.

Two conservation groups filed a lawsuit against the state and university claiming the legislation was unconstitutional because it dedicated funds. The plaintiffs prevailed with the Alaska Supreme Court and the result was that the 2005 legislation was nearly all invalidated except for that portion which relates to a research forest to be conveyed to the university in 2055. The university will have to return approximately 33,700 acres of land that it has received through June 30, 2009 unless new legislation is passed reauthorizing the land conveyances. However, such properties have been recorded at zero basis, so there is no anticipated impact on the results of operations.

NOTES TO FINANCIAL STATEMENTS

6. Capital Assets:

A summary of capital assets follows (\$ in thousands):

	<u>Balance July 1, 2008</u>	<u>Additions/ Transfers</u>	<u>Reductions</u>	<u>Balance June 30, 2009</u>
Capital assets not depreciated:				
Land	\$ 28,083	\$ 407	\$ -	\$ 28,490
Construction in progress	92,918	84,822	56,918	120,822
Library and museum collections	56,104	990	-	57,094
Other capital assets:				
Buildings	1,012,719	52,886	-	1,065,605
Infrastructure	54,867	2,707	-	57,574
Equipment	180,575	13,681	23,181	171,075
Leasehold improvements	26,632	-	-	26,632
Other improvements	<u>21,783</u>	<u>690</u>	<u>-</u>	<u>22,473</u>
Total	1,473,681	156,183	80,099	1,549,765
Less accumulated depreciation:				
Buildings	493,593	39,425	-	533,018
Infrastructure	28,610	1,604	-	30,214
Equipment	135,801	12,442	21,393	126,850
Leasehold improvements	7,171	1,328	-	8,499
Other improvements	<u>16,345</u>	<u>850</u>	<u>-</u>	<u>17,195</u>
Total accumulated depreciation	<u>681,520</u>	<u>55,649</u>	<u>21,393</u>	<u>715,776</u>
Capital assets, net	<u>\$ 792,161</u>	<u>\$ 100,534</u>	<u>\$ 58,706</u>	<u>\$ 833,989</u>

	<u>Balance July 1, 2007</u>	<u>Additions/ Transfers</u>	<u>Reductions</u>	<u>Balance June 30, 2008</u>
Capital assets not depreciated:				
Land	\$ 27,969	\$ 145	\$ 31	\$ 28,083
Construction in progress	28,188	97,733	33,003	92,918
Library and museum collections	54,976	1,128	-	56,104
Other capital assets:				
Buildings	981,143	31,608	32	1,012,719
Infrastructure	54,726	141	-	54,867
Equipment	177,383	14,234	11,042	180,575
Leasehold improvements	25,851	781	-	26,632
Other improvements	<u>21,541</u>	<u>242</u>	<u>-</u>	<u>21,783</u>
Total	1,371,777	146,012	44,108	1,473,681
Less accumulated depreciation:				
Buildings	455,474	38,151	32	493,593
Infrastructure	27,032	1,578	-	28,610
Equipment	131,018	14,997	10,214	135,801
Leasehold improvements	5,835	1,336	-	7,171
Other improvements	<u>15,524</u>	<u>821</u>	<u>-</u>	<u>16,345</u>
Total accumulated depreciation	<u>634,883</u>	<u>56,883</u>	<u>10,246</u>	<u>681,520</u>
Capital assets, net	<u>\$ 736,894</u>	<u>\$ 89,129</u>	<u>\$ 33,862</u>	<u>\$ 792,161</u>

NOTES TO FINANCIAL STATEMENTS

7. Unrestricted Net Assets:

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

	<u>2009</u>	<u>2008</u>
Designated:		
Auxiliaries	\$ 7,278	\$ 6,394
Working capital fund	4,715	4,715
Working capital advances	(2,318)	(955)
Service centers	11,369	9,705
Debt service funds	1,598	1,494
Renewal and replacement funds	7,708	7,498
Quasi-endowment funds	27,711	27,228
Net pension and OPEB obligations	-	(31,325)
Employee benefit funds	8,437	9,537
Endowment earnings	11,916	12,346
Endowment - underwater	(1,398)	-
Encumbrances	<u>14,900</u>	<u>10,307</u>
Total designated	91,916	56,944
Undesignated	<u>15,220</u>	<u>36,700</u>
Total unrestricted net assets	<u>\$ 107,136</u>	<u>\$ 93,644</u>

Unrestricted net assets include non-lapsing university receipts of \$41.5 million at June 30, 2009. Non-lapsing university receipts of \$56.7 million from 2008 were fully expended in 2009. At June 30, 2009 and 2008, \$48.8 million and \$31.8 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.

8. Long-term Debt:

Debt service requirements at June 30, 2009 were as follows (\$ in thousands):

Year ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 6,473	\$ 4,993	\$ 11,466
2011	6,671	4,762	11,433
2012	6,895	4,522	11,417
2013	7,135	4,271	11,406
2014	6,799	4,016	10,815
2015-2019	34,652	16,147	50,799
2020-2024	33,758	9,286	43,044
2025-2029	18,815	3,568	22,383
2030-2034	6,240	747	6,987
2035-2036	<u>575</u>	<u>26</u>	<u>601</u>
	<u>\$ 128,013</u>	<u>\$ 52,338</u>	<u>\$ 180,351</u>

NOTES TO FINANCIAL STATEMENTS

Long-term debt consisted of the following at June 30, 2009 and 2008 (\$ in thousands):

	2009	2008
<p><u>Revenue bonds payable</u> 1.40% to 5.45% general revenue bonds due serially to 2036, 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.</p>	\$ 105,785	\$ 110,120
<p><u>Note payable – capital construction</u> 1.826% assisted note to the Alaska Housing Finance Corporation (AHFC) to finance construction of Anchorage campus housing, due semiannually through February 2024.</p>	19,605	20,732
<p><u>Note payable – real property purchase</u> 8.00% note for purchase of Bunnell Park property adjacent to the University of Alaska Fairbanks campus. The note was fully paid off in September 2008.</p>	-	3,852
<p><u>Equipment financings</u> 3.52% to 4.77% notes for the purchase of equipment and vehicles due in quarterly installments through June 2017.</p>	<u>2,623</u>	<u>1,974</u>
	\$ 128,013	\$ 136,678

In fiscal year 2009, the state reimbursed the university \$1,413,330 for debt service on Series K general revenue bonds. Subject to annual appropriation, the state will reimburse the university for principal and interest on \$17,615,000 of the remaining bond principal. Annual debt service on this portion of the bonds is approximately \$1.4 million.

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, 2009 and 2008 was \$4.8 million and \$4.9 million, respectively.

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, 2009 is \$6,084,750 and is reduced at the rate of \$1,281,000 per year with a corresponding increase to other operating revenue.

NOTES TO FINANCIAL STATEMENTS

10. Long-term Liabilities:

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

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Amounts due within one year
Deferred revenue - capital	\$ 5,781	\$ 9,147	\$ 4,409	\$ 10,519	\$ -
Deferred lease revenue	7,366	-	1,281	6,085	1,281
Long-term debt	136,678	1,049	9,714	128,013	6,473
Net pension and OPEB obligations	31,325	-	31,325	-	-
Security deposits and other liabilities	<u>7,397</u>	<u>1,690</u>	<u>3,241</u>	<u>5,846</u>	<u>-</u>
	<u>\$ 188,547</u>	<u>\$ 11,886</u>	<u>\$ 49,970</u>	<u>\$ 150,463</u>	<u>\$ 7,754</u>

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Amounts due within one year
Deferred revenue - capital	\$ 6,313	\$ 2,220	\$ 2,752	\$ 5,781	\$ -
Deferred lease revenue	8,647	-	1,281	7,366	1,281
Long-term debt	119,010	23,948	6,280	136,678	9,659
Net pension and OPEB obligations	30,786	539	-	31,325	-
Security deposits and other liabilities	<u>5,726</u>	<u>1,671</u>	<u>-</u>	<u>7,397</u>	<u>-</u>
	<u>\$ 170,482</u>	<u>\$ 28,378</u>	<u>\$ 10,313</u>	<u>\$ 188,547</u>	<u>\$ 10,940</u>

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, 2009, totaled \$121.6 million. In addition, unexpended proceeds of university-issued general revenue bonds designated for construction projects totaled \$4.1 million at June 30, 2009.

Construction commitments at June 30, 2009 aggregated \$31.0 million. At June 30, 2009, the university had received \$10.5 million from State of Alaska capital appropriations and other sources in advance of expenditures.

12. Pension Plans:

Participation in one of the various pension plans generally depends on when an employee was originally hired.

NOTES TO FINANCIAL STATEMENTS

Substantially all regular employees hired before July 1, 2006 participate in one of the following pension plans:

- The State of Alaska Public Employees' Retirement System – Defined Benefit (PERS-DB), a cost-sharing, multiple-employer public employee retirement plan,
- The State of Alaska Teachers' Retirement System – Defined Benefit (TRS-DB), a cost-sharing, multiple-employer public employee retirement plan,
- The University of Alaska Optional Retirement Plan (ORP) Tier 1 or Tier 2, a single-employer defined contribution plan.

In addition, substantially all eligible employees participate in the University of Alaska Pension Plan, a supplemental single-employer defined contribution plan. Employees hired on or after July 1, 2006 have a choice to participate in the University of Alaska Retirement Program or the applicable state defined contribution plan. The University of Alaska Retirement Program consists of ORP (Tier 3) and the University of Alaska Pension Plan. The state's defined contribution plans are the Public Employees' Retirement System – Defined Contribution (PERS-DC) or the Teachers' Retirement System-Defined Contribution (TRS-DC).

Each of the plans noted above are described in more detail in the sections that follow. None of the retirement systems or plans own any notes, bonds or other instruments of the university.

State of Alaska Public Employees' Retirement System - Defined Benefit (PERS-DB)

Plan Description

PERS-DB is a defined benefit, cost-sharing, multiple-employer public employee retirement plan established and administered by the State of Alaska. The plan was originally established as an agent multiple-employer plan, but was converted by legislation to a cost-sharing plan, effective July 1, 2008.

PERS-DB 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. Effective July 1, 2006, the state legislature closed PERS-DB to new members and created a Public Employees' Retirement System Defined Contribution Retirement Plan (PERS-DC), disclosed later in this note.

Each fiscal year, PERS-DB 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 6.75 percent (7.5 percent for peace officers and firefighters). The funding policy for PERS-DB 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. The 2009 actuarially determined rate was 35.22 percent of applicable gross pay. However, the employer contribution rate for the university was capped by the state at 22 percent for fiscal year 2009.

NOTES TO FINANCIAL STATEMENTS

The state appropriated funding directly to the PERS-DB plan as a relief payment to employers' contributions for fiscal year 2009. The university recognized \$16,724,174 in state on-behalf pension payments for the PERS-DB plan. The amounts contributed to PERS-DB by the university during the years ended June 30, 2009, 2008 and 2007 were \$27,269,589, \$27,230,213, and \$26,667,693, respectively, equal to the required employer contributions for each year.

PERS Defined Benefit Pension Plan Changes

The Alaska legislature converted PERS-DB from an agent multiple-employer plan to a cost-sharing plan effective July 1, 2008. This change provided for an integrated system of accounting for all employers. Under the integrated system, the PERS-DB plans' unfunded liability will be shared among all employers with each contributing 22 percent of their covered payroll.

As a result of the conversion, the Net Pension (NPO) and Other Postemployment Benefit (OPEB) obligations are no longer required to be recorded as liabilities for cost-sharing plans according to government accounting standards. Accordingly, net pension and OPEB obligations totaling \$31,325,361 were "written off" as extraordinary items as of July 1, 2008.

State of Alaska Teachers' Retirement System - Defined Benefit (TRS-DB)

Plan Description

TRS-DB is a defined benefit, cost-sharing, multiple employer public employee retirement plan established and administered by the State of Alaska. TRS-DB 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. Effective July 1, 2006, the state legislature closed TRS-DB to new members and created a Teachers' Retirement System Defined Contribution Retirement Plan (TRS-DC), disclosed later in this note.

Each fiscal year, TRS-DB 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

Employees contribute 8.65 percent of their base salary as required by state statute. The funding policy for TRS-DB provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate the assets to pay benefits when due. During fiscal year 2009, contractually required employee and employer contribution rates were 8.65 percent and 12.56 percent, respectively. The amounts contributed to TRS-DB by the university during the years ended June 30, 2009, 2008 and 2007 were \$5,485,631, \$5,444,878, and \$11,177,596, respectively, equal to the required employer contributions for each year.

The actuarially determined employer contribution rate for 2009 was 44.17 percent. The state appropriated funding directly to the TRS-DB plan to augment employer contributions for FY09. For fiscal year 2009, the university recognized \$13,778,074 in state on-behalf pension payments for the TRS-DB plan.

NOTES TO FINANCIAL STATEMENTS

Defined Contribution Plans:

State of Alaska Public Employees' Retirement System - Defined Contribution (PERS-DC)

Plan Description

PERS-DC is a defined contribution, cost-sharing, multiple-employer public employee retirement plan established and administered by the State of Alaska to provide pension and postemployment healthcare benefits for eligible employees. Benefit and contribution provisions are established by state law and may be amended only by the state legislature. PERS-DC was created by the state effective July 1, 2006. Plan savings are accumulated in an individual retirement account for the exclusive benefit of members or beneficiaries.

Funding Policy and Annual Pension Cost

The employee contribution rate is 8 percent and the employer effective contribution rate is 22 percent of covered payroll for fiscal years 2009 and 2008. For the years ended June 30, 2009 and 2008, the university's total covered payroll for the PERS-DC plan was approximately \$4.4 million and \$1.6 million, and contributions made by the university totaled \$965,143 and \$346,147, respectively.

On July 1, 2006, three pension trust sub-funds were created within PERS, the Retiree Major Medical Insurance (RMP), Health Reimbursement Arrangement (HRA), and Occupation Death and Disability (OD&D). RMP allows eligible members who retire directly from the plan to obtain medical benefits. The HRA allows medical care expenses to be reimbursed from individual savings accounts established for eligible persons. OD&D provides employees with benefits as a result of death or disability on the job. PERS-DC participants are eligible members of RMP and HRA and their postemployment healthcare benefits are paid out of these funds. The employer RMP contribution rates for fiscal year 2009 and 2008 are 0.99 percent for medical coverage and 0.58 percent (1.33 percent for peace officers and firefighters) for occupational death and disability benefit contributions. For fiscal years 2009 and 2008, the HRA employer contributions are \$134.73 and \$127.61 per month for full time employees and \$1.04 and \$.98 per hour for part time employees, respectively.

Each fiscal year, PERS-DC 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.

State of Alaska Teachers' Retirement System - Defined Contribution (TRS-DC)

Plan Description

TRS-DC is a defined contribution, cost-sharing, multiple-employer public employee retirement plan established and administered by the State of Alaska to provide pension and postemployment healthcare benefits for teachers and other eligible employees. Benefit and contribution provisions are established by state law and may be amended only by the state legislature. TRS-DC was created by the state effective July 1, 2006. Plan savings are accumulated in an individual retirement account for the exclusive benefit of members or beneficiaries.

NOTES TO FINANCIAL STATEMENTS

Funding Policy and Annual Pension Cost

The employee contribution rate is 8 percent and the effective employer contribution rate is 12.56 percent of covered payroll for fiscal years 2009 and 2008. For the years ended June 30, 2009 and 2008, the university's total covered payroll for the TRS-DC plan was approximately \$2.1 million and \$1.7 million, and contributions made by the university totaled \$266,443 and \$212,383, respectively.

On July 1, 2006, two pension trust sub-funds were created in TRS, the Retiree Major Medical Insurance (RMP) and Health Reimbursement Arrangement (HRA). The TRS Occupational Death and Disability (OD&D) trust sub-fund was created on July 1, 2007. RMP allows eligible members who retire directly from the plan to obtain medical benefits. The HRA allows medical care expenses to be reimbursed from individual savings accounts established for eligible persons. OD&D provides employees with benefits as a result of death or disability on the job. TRS-DC participants are eligible members of RMP and HRA and their postemployment healthcare benefits are paid out of these funds. The employer RMP contribution rate for fiscal year 2009 and 2008 for each member's compensation was 0.99 percent for medical coverage, 0.62 percent for occupational death and disability benefit contributions. For fiscal years 2009 and 2008, the HRA employer contributions are \$134.73 and \$127.61 per month for full time employees and \$1.04 and \$.98 per hour for part time employees, respectively.

Each fiscal year, TRS-DC 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.

University of Alaska Optional Retirement Plan (ORP)

Plan Description

The ORP is an employer funded defined contribution plan which operates in conjunction with a companion mandatory tax-deferred annuity plan. The ORP is comprised of three layers of participants, the original ORP or ORP Tier 1, ORP Tier 2 which was created for participants hired on or after July 1, 2005, and ORP Tier 3 which was created for participants hired on or after July 1, 2006. For ORP Tier 1 and ORP Tier 2, faculty classified as regular and certain administrators made a one-time election to participate in the ORP as an alternative to participation in the defined benefit plans, PERS-DB or TRS-DB. For ORP Tier 3, each new eligible employee may make a one-time election to participate in the University of Alaska Retirement Program (includes ORP Tier 3 and the University of Alaska Pension Plan) as an alternative to participation in the State of Alaska defined contribution plans, PERS-DC or TRS-DC.

Funding Policy and Annual Pension Cost

ORP Tier 1

The ORP Tier 1 participants make employee contributions to one of the plan's annuity programs at a rate of 8.65 percent of covered payroll. The university contributes 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-DB employer contribution rates (17.04 percent for FY09 and 19.85 percent for FY08).

NOTES TO FINANCIAL STATEMENTS

In fiscal year 2009 and 2008, the university's total covered payroll for the ORP Tier 1 plan was approximately \$49.7 million and \$50.1 million, respectively. The amounts contributed to the ORP Tier 1 by the university during the years ended June 30, 2009, 2008, and 2007 were \$8,462,414, \$9,945,730 and \$10,927,908, respectively.

ORP Tier 2

The ORP Tier 2 participants make employee contributions to one of the plan's annuity programs at a rate of 8.65 percent of covered payroll. The university contributed to one of the plan's authorized employee-selected annuity providers or investment managers at a rate of 12 percent of covered payroll for fiscal years 2009 and 2008.

In fiscal year 2009 and 2008, the university's total covered payroll for the ORP Tier 2 plan was approximately \$4.5 million and \$5.1 million, respectively. The amounts contributed to the ORP Tier 2 by the university during the years ended June 30, 2009, 2008 and 2007 were \$541,237, \$614,390 and \$683,786, respectively. The ORP Tier 2 plan was available for new ORP benefit-eligible employees hired in fiscal year 2006. As of July 1, 2006, the ORP Tier 2 plan was no longer available to newly-hired ORP benefit-eligible employees.

ORP Tier 3

The ORP Tier 3 is eligible for employees hired on or after July 1, 2006. The ORP Tier 3 participants make employee contributions to one of the plan's annuity programs at a rate of 8 percent of covered payroll. The university contributes to one of the plan's authorized employee-selected annuity providers or investment managers at a rate of 12 percent of covered payroll.

In fiscal years 2009 and 2008, the university's total covered payroll for the ORP Tier 3 plan was approximately \$46.6 million and \$30.8 million, respectively. The amounts contributed to the ORP Tier 3 by the university during the years ended June 30, 2009, 2008 and 2007 were \$5,596,529, \$3,700,880 and \$1,473,090 respectively.

Plan Assets

At June 30, 2009 and 2008, plan assets (participants' accounts attributable to employer contributions) for ORP Tier 1, Tier 2 and Tier 3 had a net value of approximately \$93.2 million and \$98.9 million, respectively. ORP Tier 1 and ORP Tier 2 participants are 100 percent vested at all times. University contributions for ORP Tier 3 participants are 100 percent vested after three years of service.

University of Alaska Pension Plan (Pension)

Plan Description

In addition to the other retirement plans, substantially all regular employees (hired before July 1, 2006) and certain faculty classified as temporary, participate in the Pension plan which was established January 1, 1982, when the university withdrew from the federal social security program. Eligible employees, hired on or after July 1, 2006, electing to participate in the University of Alaska Retirement Program also participate in the Pension plan.

NOTES TO FINANCIAL STATEMENTS

Funding Policy and Annual Pension Cost

Effective January 1, 2008, employer contributions for regular employees were 7.65 percent of covered wages up to \$42,000 and \$106,800 in 2009 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. Participants hired before July 1, 2006 are 100 percent vested at all times. University contributions for participants hired on or after July 1, 2006 are 100 percent vested after three years of service.

Plan Assets

In 2009 and 2008, the university's total covered payroll for the Pension plan was approximately \$175.8 million and \$175.7 million, respectively. The university's costs to fund and administer the plan totaled \$13.5 million, or 7.66 percent of covered payroll. At June 30, 2009 and 2008, plan assets (participants' accounts) had a net value of approximately \$254.7 million and \$298.9 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 \$2.0 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):

	<u>Balance</u> <u>July 1, 2008</u>	<u>Provision</u> <u>for Claims</u>	<u>Claims</u> <u>Payment</u>	<u>Balance</u> <u>June 30, 2009</u>
Health	\$ 7,798	\$ 55,770	\$ (55,176)	\$ 8,392
General liability	5,362	667	(416)	5,613
Workers' compensation	6,051	1,555	(1,615)	5,991
Unemployment	<u>72</u>	<u>493</u>	<u>(427)</u>	<u>138</u>
	<u>\$ 19,283</u>	<u>\$ 58,485</u>	<u>\$ (57,634)</u>	<u>\$ 20,134</u>

	<u>Balance</u> <u>July 1, 2007</u>	<u>Provision</u> <u>for Claims</u>	<u>Claims</u> <u>Payment</u>	<u>Balance</u> <u>June 30, 2008</u>
Health	\$ 6,862	\$ 49,052	\$ (48,116)	\$ 7,798
General liability	5,075	857	(570)	5,362
Workers' compensation	6,161	1,688	(1,798)	6,051
Unemployment	<u>70</u>	<u>303</u>	<u>(301)</u>	<u>72</u>
	<u>\$ 18,168</u>	<u>\$ 51,900</u>	<u>\$ (50,785)</u>	<u>\$ 19,283</u>

NOTES TO FINANCIAL STATEMENTS

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 of these legal proceedings, environmental investigations, audit adjustments, or other commitments and contingent liabilities.

In addition, an ongoing environmental assessment for the Northwest Campus Front Street property is discussed below:

- The university received a Potentially Responsible Party (PRP) letter from the Alaska Department of Environmental Conservation (ADEC) in August 2006. The letter identified the university as one of the potential parties that may be responsible for cleanup costs of soil contamination found during a water line improvement project next to Northwest Campus property. The extent of the contamination source, the number of potentially responsible parties, and remediation costs are being assessed but the outcome is unknown.

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 2009 and 2008, the university transferred \$1.4 million and \$1.1 million, to the foundation, of which institutional support comprised \$1.4 million and \$0.9 million, respectively. For the same periods, the foundation reimbursed the university for operating expenses totaling \$1.9 million and \$1.8 million respectively. At June 30, 2009 and 2008, distributions and expenditures by the foundation for the benefit of the university totaled \$17.7 million and \$15.4 million, of which \$17.3 million and \$14.9 million were direct reimbursements to the university. Additionally, the foundation owed the university \$2.1 million at June 30, 2009 and \$2.0 million at June 30, 2008, primarily for reimbursement of expenditures on grants provided by the foundation.

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, 2009 and 2008, the fair value of the fund was \$198.3 million and \$259.3 million, respectively. The university's share of this fund was \$108.9 million and \$143.1 million, respectively, 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.

NOTES TO FINANCIAL STATEMENTS

16. Functional Classifications with Natural Classifications:

The university's operating expenses by natural classification for 2009 and 2008 were as follows (\$ in thousands):

	<u>Compensation & Benefits</u>	<u>Contractual Services</u>	<u>Supplies & Materials</u>	<u>Other</u>	<u>Student Aid</u>	<u>Depre- ciation</u>	<u>Total</u>
Instruction	\$ 158,984	\$ 26,610	\$ 10,361	\$ 349	\$ -	\$ -	\$ 196,304
Academic support	42,050	5,431	7,109	52	-	-	54,642
Research	84,985	30,233	11,503	228	-	-	126,949
Public service	24,983	10,454	2,220	163	-	-	37,820
Student services	34,776	10,386	2,950	58	-	-	48,170
Operations and maintenance	27,238	18,686	14,451	811	-	-	61,186
Institutional support	71,012	13,297	3,974	1,901	-	-	90,184
Student aid	-	-	-	-	17,937	-	17,937
Auxiliary enterprises	9,672	17,376	12,538	138	-	-	39,724
Depreciation	-	-	-	-	-	55,649	55,649
State on-behalf payments	-	-	-	30,502	-	-	30,502
	<u>\$453,700</u>	<u>\$ 132,473</u>	<u>\$ 65,106</u>	<u>\$ 34,202</u>	<u>\$ 17,937</u>	<u>\$ 55,649</u>	<u>\$ 759,067</u>

	<u>Compensation & Benefits</u>	<u>Contractual Services</u>	<u>Supplies & Materials</u>	<u>Other</u>	<u>Student Aid</u>	<u>Depre- ciation</u>	<u>Total</u>
Instruction	\$ 149,943	\$ 23,768	\$ 9,199	\$ 280	\$ -	\$ -	\$ 183,190
Academic support	39,300	5,926	6,888	60	-	-	52,174
Research	83,739	29,198	8,751	155	-	-	121,843
Public service	23,905	9,919	2,042	197	-	-	36,063
Student services	33,020	9,817	2,536	64	-	-	45,437
Operations and maintenance	25,065	15,692	12,998	1,228	-	-	54,983
Institutional support	62,328	15,153	4,243	887	-	-	82,611
Student aid	-	-	-	-	14,879	-	14,879
Auxiliary enterprises	9,378	16,712	13,194	126	-	-	39,410
Depreciation	-	-	-	-	-	56,883	56,883
NPO, OPEB and state on-behalf payments	-	-	-	29,003	-	-	29,003
	<u>\$ 426,678</u>	<u>\$ 126,185</u>	<u>\$ 59,851</u>	<u>\$ 32,000</u>	<u>\$ 14,879</u>	<u>\$ 56,883</u>	<u>\$ 716,476</u>