UNIVERSITY of ALASKA

Many Traditions One Alaska

Financial Statements
June 30, 2010 and 2009

University of Alaska
(A Component Unit of the State of Alaska)
Financial Statements
June 30, 2010 and 2009

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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, 2010 (2010) and June 30, 2009 (2009), with selected comparative information for the year ended June 30, 2008 (2008). 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, nonprofit 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.

A summarized comparison of the university's assets, liabilities and net assets at June 30, 2010, 2009 and 2008 follows ($ in thousands):

	2010	2009	2008
Assets:			
Current assets	$ 184,542	$ 180,314	$ 113,073
Other assets	183,616	181,070	306,979
Capital assets, net of depreciation	863,314	833,989	792,161
Total assets	1,231,472	1,195,373	1,212,213
Liabilities:			
Current liabilities	114,695	100,481	95,803
Noncurrent liabilities	126,915	142,709	177,607
Total liabilities	241,610	243,190	273,410
Net assets:			
Invested in capital assets, net of debt	738,206	705,398	671,700
Restricted – expendable	16,614	12,233	46,707
Restricted – nonexpendable	128,341	127,416	126,752
Unrestricted	106,701	107,136	93,644
Total net assets	$ 989,862	$ 952,183	$ 938,803

Overall total net assets of the university increased $37.7 million, or four percent. This increase was mainly due to a $29.3 million increase in net capital assets. The change in net capital assets is discussed in more detail in the *Capital and Debt Activities* section below.

There were no significant changes in 2010 with the university's operating deposits and investments. Substantially all funds at June 30, 2010 were invested in bank deposits, government securities and money market funds. After the global financial crisis in 2009, management focused on liquidity and safety for its operating funds, with an eye towards restructuring its portfolio. As a result, subsequent to June 30, 2010, approximately $75 million was invested in a new fixed income portfolio. The balance of the operating funds is invested in deposits, collateralized repurchase agreements and money market funds. Note 2 of the financial statements provides more information about deposits and investments and associated risks.

Endowment investments at June 30, 2010 were $116.4 million as compared to $111.0 million at June 30, 2009. The fund earned an investment return of 9.47 percent in 2010. Distributions from the endowment totaling $5.5 million in 2010 were primarily used to fund the University of Alaska Scholars Program and land management efforts. The endowment investments are invested in a consolidated endowment fund that is managed by the University of Alaska Foundation.

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 $1.6 million during 2010 to a total of $241.6 million.

A reduction of debt explains the majority of the change in liabilities. Other accrual and deferred revenue amounts remained relatively consistent with prior year amounts.

Total debt outstanding decreased from $128.0 million at June 30, 2009 to $121.3 million at June 30, 2010. The balance was reduced by scheduled principal payments and the refunding of previously issued general revenue bonds. The only new debt was for equipment financing that totaled $249.8 thousand.

Unrestricted net assets decreased $435 thousand from June 30, 2009 to June 30, 2010. At year end, $83.4 million of the $106.7 million total was designated for specific purposes. See Note 7 of the financial statements for a detailed list of these designations.

Fiscal Year 2009 Comparisons (Statement of Net Assets)

Significant comments about changes between 2008 and 2009 that were noted in fiscal year 2009 *Management's Discussion and Analysis* are summarized below:

The Statement of Net Assets reflected an overall increase in net assets of 1.4 percent, or $13.4 million.

Overall, total assets of the university decreased $16.8 million, or 1.4 percent from 2008 to 2009. 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.

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, were 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.

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 in 2009 as a result of the global financial crisis.

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.

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, 2010, 2009 and 2008 follows ($ in thousands):

	2010	2009	2008
Operating revenues	$ 372,933	$ 356,025	$ 346,193
Operating expenses	(778,287)	(759,067)	(716,476)
Operating loss	(405,354)	(403,042)	(370,283)
Net nonoperating revenues	381,082	321,480	335,976
Loss before other revenues, expenses, gains, or losses	(24,272)	(81,562)	(34,307)
Other revenues, expenses, gains or losses	61,951	94,942	85,660
Increase in net assets	37,679	13,380	51,353
Net assets at beginning of year	952,183	938,803	887,450
Net assets at end of year	$ 989,862	$ 952,183	$ 938,803

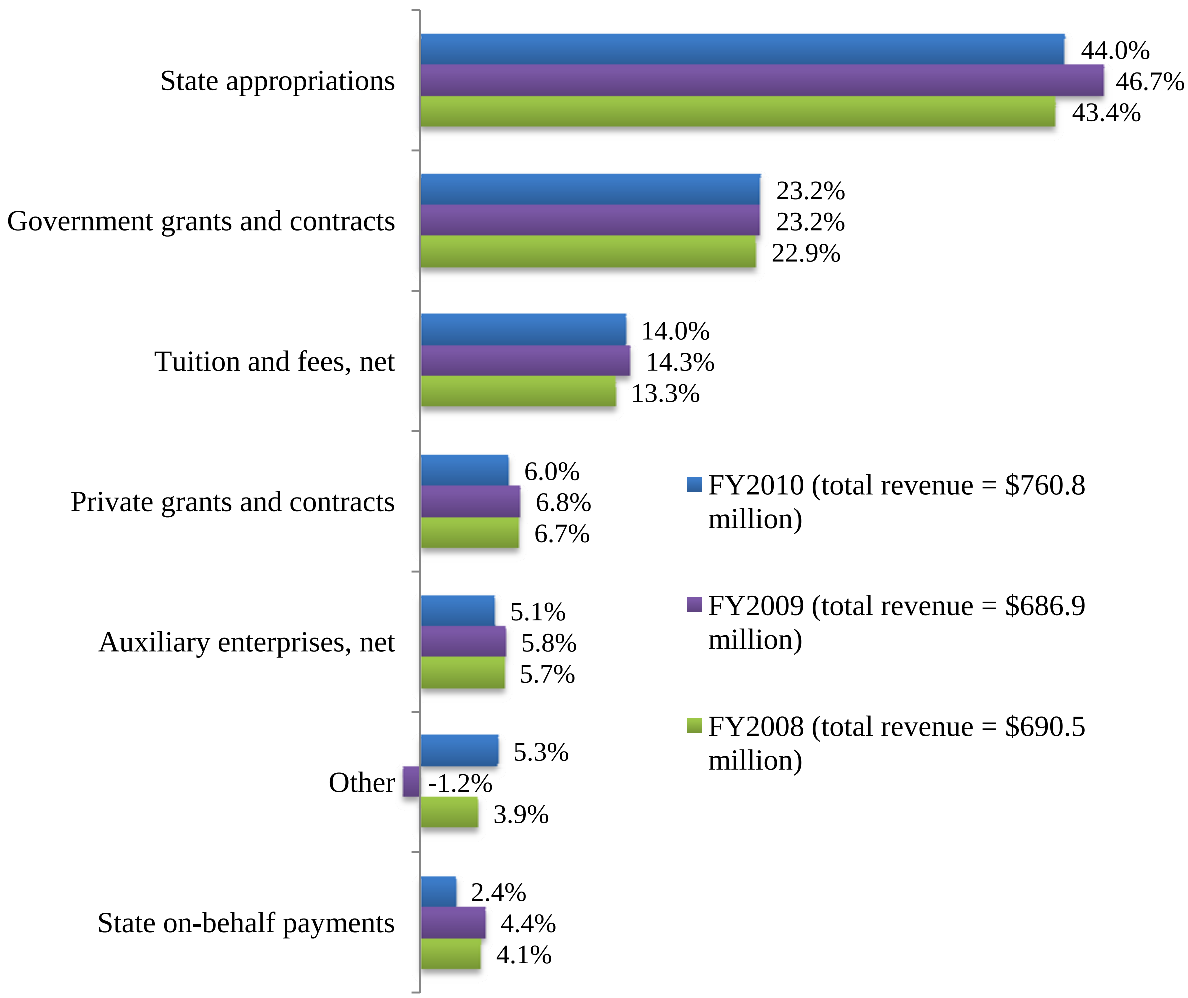
The Statement of Revenues, Expenses and Changes in Net Assets reflects an overall increase in net assets of four percent, or $37.7 million. Major changes in revenues and expenses in 2010 are described below.

Capital appropriations and capital grant and contract revenue decreased from $63.6 million in 2009 to $62.0 million in 2010. Revenue from capital sources is generally recognized as expenditures occur, so the amount shown on the Statement of Revenues, Expenses and Changes in Net Assets is a reflection of capital construction activity. For further discussion on capital activity, see the *Capital and Debt Activities* section which follows.

State of Alaska general fund appropriations continue to be the single major source of revenue for the university, providing $334.8 million in 2010, as compared to $320.8 million in 2009. 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 $18.0 million directly to the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) defined benefit 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 22.00 percent and 12.56 percent for PERS and TRS, respectively. The on-behalf payments decrease from 2009 was primarily caused by the actuarial computed rates for PERS and TRS decreasing by 7.57 and 4.64 percentage points, respectively. The pension payments were made on-behalf of the university and are presented as revenue and expense 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 2010, 2009 and 2008 follows:

Operating and Nonoperating Revenues (excluding capital) by Year



Grant and contract revenue from federal, state, local and private sponsors totaled $208.8 million for 2010, as compared to $198.3 million in the prior year. The growth is primarily attributed to additional grants received from the American Recovery and Reinvestment Act (ARRA) which totaled $14.1 million of which $8.8 was related to grants and contracts and $5.2 million was student financial aid.

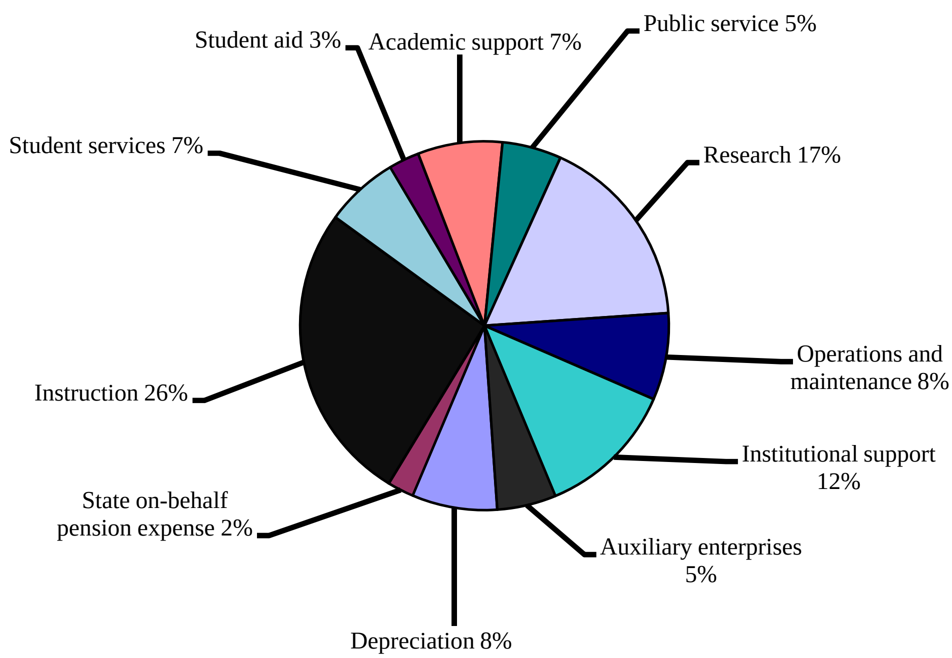
Gross student tuition and fee revenue totaled $119.9 million in 2010 as compared to $107.4 million in 2009. This was due in large part to a five percent increase in tuition rates for students for academic year 2009 – 2010. Student headcount increased 4.3 percent to 33,710 students from Fall 2008 to Fall 2009.

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)

	FY2010		FY2009		FY2008	
Instruction	$204.9	26.3%	$196.3	25.9%	$183.2	25.6%
Student Services	50.2	6.5%	48.2	6.4%	45.4	6.3%
Student Aid	21.0	2.7%	17.9	2.3%	14.9	2.1%
Academic Support	57.7	7.4%	54.7	7.2%	52.2	7.3%
Student and Academic	$333.8	42.9%	$317.1	41.8%	$295.7	41.3%
Public Service	40.4	5.2%	37.8	5.0%	36.1	5.0%
Research	133.4	17.1%	127.0	16.7%	121.8	17.0%
Operations and Maintenance	59.4	7.6%	61.2	8.1%	55.0	7.7%
Institutional Support	94.9	12.1%	90.2	11.9%	82.6	11.5%
Auxiliary Enterprises	40.2	5.2%	39.7	5.2%	39.4	5.5%
NPO,OPEB, State On-Behalf	18.0	2.4%	30.5	4.0%	29.0	4.1%
Depreciation	58.2	7.5%	55.6	7.3%	56.9	7.9%
Total Operating Expenses	$778.3	100.0%	$759.1	100.0%	$716.5	100.0%

Fiscal Year 2010
Functional Classification

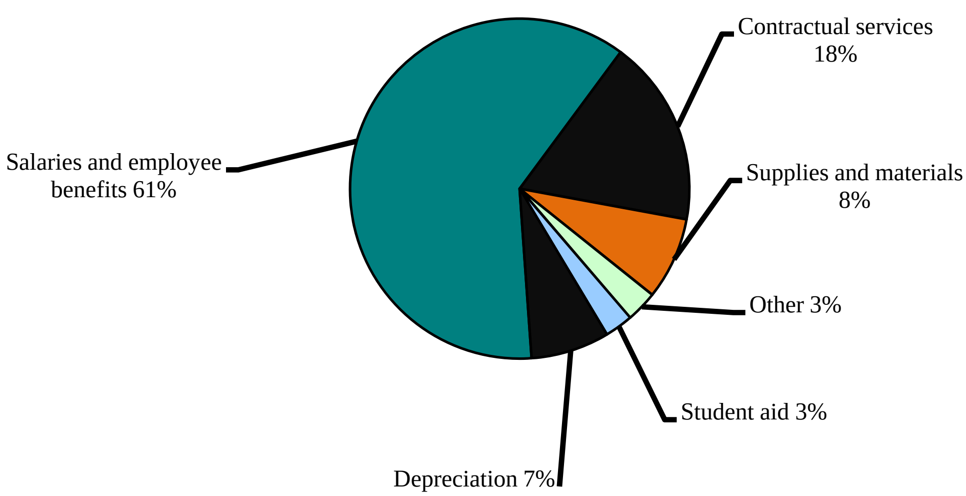


Salaries and employee benefits increased five percent, or $23.1 million, in 2010. Employee benefits, such as pension plan contributions and health care costs, increased 1.9 percent and comprised $2.5 million of the change. Salaries and wages increased 6.5 percent, or $20.6 million. Other expenses are substantially less in 2010 as compared to 2009 and 2008 as a result of recognizing state on-behalf pension payments totaling $18.0 million, $30.5 million, and $28.5 million, respectively.

Operating Expenses
Natural Classification (in millions)

	FY2010		FY2009		FY2008	
Salaries and Employee Benefits	$476.8	61.2%	$453.7	59.7%	$426.7	59.6%
Contractual Services	138.2	17.8%	132.5	17.5%	126.2	17.6%
Supplies and Materials	61.0	7.8%	65.1	8.6%	59.8	8.3%
Other	23.1	3.0%	34.3	4.5%	32.0	4.5%
Student Aid	21.0	2.7%	17.9	2.4%	14.9	2.1%
Depreciation	58.2	7.5%	55.6	7.3%	56.9	7.9%
	$778.3	100.0%	$759.1	100.0%	$716.5	100.0%

Fiscal Year 2010
Natural Classification



A portion of university resources 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 $15.5 million in 2010 and $10.7 million in 2009. 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 $69.4 million and $75.0 million in 2010 and 2009, respectively.

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, added 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.

Investment returns from all non-endowment sources totaled $3.8 million in 2010 compared to an $8.1 million loss in 2009, as a result of the global financial crisis.

Endowment investments experienced a $9.7 million gain in 2010 as compared to a $34.4 million loss in 2009. The significant losses in 2009 were the result of the global financial crisis.

Endowment gifts, sales and other proceeds totaled $3.2 million in fiscal year 2010 as compared to $10.4 million in 2009. The 2009 balance included the sale of real property near the Mat-Su campus totaling $6.1 million. 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 2009 Comparisons (Statement of Revenues, Expenses and Changes in Net Assets)

Significant comments about changes between 2008 and 2009 that were noted in fiscal year 2009 *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 1.4 percent, or $13.4 million. The major changes in revenue and expense are described below.

Revenue earned for capital construction decreased from $85.7 million in 2008 to $63.6 million in 2009. 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 was completed in August 2010.

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.

Salary and employee benefit costs increased 6.3 percent, or $27.0 million, in 2009.

Net investment losses from all non-endowment sources totaled $8.1 million in 2009 as a result of the global financial crisis.

Endowment investments experienced a $34.4 million loss in 2009 as compared to a $4.6 million loss in 2008 due to 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 is mainly attributed to the $6.1 million sale of real property located near the Mat-Su campus.

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 $73.9 million in 2010, as compared with $76.1 million in 2009 and $101.9 million in 2008. 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 2010 and 2009 were $3.2 million and $107.2 million, respectively.

At June 30, 2010, $114.5 million remains unexpended from current and prior year capital appropriations and general revenue bond proceeds, of which $65.0 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.

Construction in progress at June 30, 2010 totaled $59.2 million and includes the following major projects:

At the University of Alaska Anchorage, construction is underway on the Health Sciences Building. Once complete, this $46.5 million, 65,321 square-feet building will accommodate the academic programs of the School of Nursing Biomedical Programs and Allied Health Sciences. It will feature offices and classrooms, interactive simulation labs, seminar rooms and student activity spaces. The building is scheduled to be completed in August 2011.

The University of Alaska Fairbanks began construction in fiscal year 2010 of a new research vessel, named "Sikuliaq". The vessel construction is being funded by a $148.1 million award from the National Science Foundation. As designed, the vessel will be a 254 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 ship is expected to be complete in 2014.

Debt

At June 30, 2010, total debt outstanding was $121.3 million, comprised of $100.5 million in general revenue bonds, $18.4 million in a note payable, and $2.4 million in bank financing contracts. In May 2010, Moody's Investors Service changed the university's credit rating of Aa3 to Aa2 with stable outlook as part of their rating recalibration program. The change is not considered an upgrade nor does it reflect a new assessment of the university's creditworthiness. In January 2008, Standard & Poor's affirmed its rating of AA- with stable outlook.

In fiscal year 2010, the university issued general revenue refunding bonds Series P totaling $14,045,000 to refund and redeem the outstanding maturities of Series H and J general revenue bonds. The current refunding resulted in an economic gain of $1,487,000 and total debt service payments over the next 13 years will decrease by $1,813,000.

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.

Capital Activities – Looking Ahead

State of Alaska capital appropriations for fiscal year 2011 total $51.55 million. The majority of the funding, $37.5 million, is designated for deferred maintenance needs across the university system. Another $12 million was allocated for engineering facility planning and design at the Fairbanks and Anchorage campuses.

In addition, the legislature approved a general obligation bond measure that was passed by Alaskan voters on November 2, 2010. The measure includes university projects totaling $207 million, of this $88 million is for the University of Alaska Fairbanks Life Sciences Classroom and Laboratory Facility and $60 million for the Community Arena and Athletic Facility at the Anchorage campus. Various community campuses will also benefit through renovation or new construction of buildings. The bonds will be an obligation of the state.

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.

During the September 2010 meeting the Board of Regents approved a tuition increase beginning in the Fall of 2011. Undergraduate courses for the 100 to 200 levels will increase five percent and 300 to 400 levels will increase ten percent.

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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, 2010 and 2009 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, 2010 and 2009, 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 11, 2010 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 11, 2010

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UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Net Assets
June 30, 2010 and 2009
(in thousands)

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	$ 99,390	$ 81,728
Short-term investments	6,129	26,184
Accounts receivable, less allowance of $7,614 in 2010 and $6,573 in 2009	70,369	64,523
Inventories	7,963	7,220
Other assets	691	659
Total current assets	184,542	180,314
Noncurrent assets:		
Restricted cash and cash equivalents	1,531	5,091
Notes receivable	4,189	4,433
Endowment investments	116,373	111,011
Land Grant Trust property and other assets	44,532	44,674
Long-term investments	7,652	7,875
Education Trust of Alaska	9,339	7,986
Capital assets, net of accumulated depreciation of $760,343 in 2010 and $715,776 in 2009	863,314	833,989
Total noncurrent assets	1,046,930	1,015,059
Total assets	1,231,472	1,195,373
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	24,904	19,221
Accrued payroll	28,346	24,966
Deferred revenue and deposits	18,886	17,086
Accrued annual leave	11,752	11,320
Deferred lease revenue - current portion	1,281	1,281
Long-term debt - current portion	6,763	6,473
Insurance and risk management	22,763	20,134
Total current liabilities	114,695	100,481
Noncurrent liabilities:		
Deferred revenue - capital	2,875	10,519
Deferred lease revenue	3,523	4,804
Long-term debt	114,537	121,540
Security deposits and other liabilities	5,980	5,846
Total noncurrent liabilities	126,915	142,709
Total liabilities	241,610	243,190
Net Assets		
Invested in capital assets, net of related debt	738,206	705,398
Restricted:		
Expendable	16,614	12,233
Nonexpendable	128,341	127,416
Unrestricted (see Note 7)	106,701	107,136
Total net assets	$ 989,862	$ 952,183

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, 2010 and 2009
(in thousands)

Assets	2010	2009
Cash and cash equivalents	$ 38,116	$ 30,609
Interest receivable	78	77
Contributions receivable	14,251	17,746
Escrows receivable	134	145
Inventory	58	50
Other assets	507	516
Pooled endowment funds	102,012	89,486
Other long-term investments	16,869	23,092
Total assets	$ 172,025	$ 161,721
Liabilities		
Due to the University of Alaska	$ 1,718	$ 2,118
Other liabilities	22	10
Remainder trust obligations	411	316
Term endowment liability	1,000	1,000
Total liabilities	3,151	3,444
Net Assets		
Unrestricted	33,832	31,233
Temporarily restricted	62,732	67,349
Permanently restricted	72,310	59,695
Total net assets	168,874	158,277
Total liabilities and net assets	$ 172,025	$ 161,721

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

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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, 2010 and 2009
(in thousands)

	2010	2009
Operating revenues		
Student tuition and fees	$ 119,846	$ 107,424
less scholarship allowances	(13,506)	(9,213)
	106,340	98,211
Federal grants and contracts	138,591	127,287
State and local grants and contracts	24,519	24,098
Private grants and contracts	45,728	46,902
Sales and services, educational departments	4,073	3,850
Sales and services, auxiliary enterprises, net of scholarship allowances of $2,018 in 2010 and $1,483 in 2009	39,225	39,990
Other	14,457	15,687
Total operating revenues	372,933	356,025
Operating expenses		
Instruction	204,903	196,304
Academic support	57,688	54,642
Research	133,447	126,949
Public service	40,401	37,820
Student services	50,171	48,170
Operations and maintenance	59,339	61,186
Institutional support	94,942	90,184
Student aid	20,965	17,937
Auxiliary enterprises	40,228	39,724
Depreciation	58,228	55,649
State on-behalf payments	17,975	30,502
Total operating expenses	778,287	759,067
Operating loss	(405,354)	(403,042)
Nonoperating revenues (expenses)		
State appropriations	334,826	320,770
State on-behalf contributions - pension	17,975	30,502
Investment earnings (losses)	3,810	(8,142)
Endowment proceeds and investment income (loss)	12,953	(24,048)
Interest on debt	(4,852)	(4,986)
Federal student financial aid	18,275	11,812
Other nonoperating expenses	(1,905)	(4,428)
Net nonoperating revenues	381,082	321,480
Loss before other revenues, expenses, gains or losses	(24,272)	(81,562)
Capital appropriations, grants and contracts	61,951	63,617
Income (loss) before extraordinary item	37,679	(17,945)
Extraordinary item - elimination of net pension and OPEB obligations	-	31,325
Net increase in net assets	37,679	13,380
Net assets		
Net assets - beginning of year	952,183	938,803
Net assets - end of year	$ 989,862	$ 952,183

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, 2010 and 2009
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010
Revenues, gains (losses) and other support				
Contributions	$ 256	$ 12,961	$ 2,725	$ 15,942
Investment income	719	1,236	-	1,955
Net realized and unrealized investment losses	4,159	3,015	-	7,174
Other revenues	-	169	-	169
Actuarial adjustment of remainder trust obligations	-	(28)	(71)	(99)
Losses on disposition of other assets	(3)	(115)	-	(118)
Administrative assessments	1,473	(888)	(43)	542
Support from University of Alaska	890	-	-	890
Net assets released from restriction	10,963	(10,963)	-	-
Total revenues, gains (losses) and other support	18,457	5,387	2,611	26,455
Expenses and distributions				
Operating expenses	2,568	-	-	2,568
Distributions for the benefit of the University of Alaska	13,290	-	-	13,290
Total expenses and distributions	15,858	-	-	15,858
Excess (deficit) of revenues over expenses	2,599	5,387	2,611	10,597
Transfers between net asset classes	-	(10,004)	10,004	-
Increase (decrease) in net assets	2,599	(4,617)	12,615	10,597
Net assets, beginning of year	31,233	67,349	59,695	158,277
Net assets, end of year	$ 33,832	$ 62,732	$ 72,310	$ 168,874

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

Unrestricted	Temporarily Restricted	Permanently Restricted	2009
$ 5,808	$ 17,727	$ 6,275	$ 29,810
1,062	1,056	-	2,118
(12,168)	(19,446)	-	(31,614)
2	73	-	75
-	(6)	(30)	(36)
-	(526)	-	(526)
1,941	(1,171)	(23)	747
1,390	-	-	1,390
11,362	(11,362)	-	-
9,397	(13,655)	6,222	1,964
1,891	-	-	1,891
17,700	-	-	17,700
19,591	-	-	19,591
(10,194)	(13,655)	6,222	(17,627)
48	(276)	228	-
(10,146)	(13,931)	6,450	(17,627)
41,379	81,280	53,245	175,904
$ 31,233	$ 67,349	$ 59,695	$ 158,277

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

UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Cash Flows
For the Years Ended June 30, 2010 and 2009
(in thousands)

	2010	2009
Cash flows from operating activities		
Student tuition and fees, net	$ 105,326	$ 99,077
Grants and contracts	210,862	195,894
Sales and services, educational departments	4,073	3,850
Sales and services, auxiliary enterprises	39,435	40,199
Other operating receipts	13,176	14,406
Payments to employees for salaries and benefits	(471,657)	(448,630)
Payments to suppliers	(204,028)	(196,853)
Payments to students for financial aid	(20,993)	(17,933)
Net cash used by operating activities	(323,806)	(309,990)
Cash flows from noncapital financing activities		
State appropriations	334,672	320,985
Other revenue	17,303	10,908
Direct lending receipts	69,391	74,994
Direct lending payments	(69,893)	(74,927)
Net cash provided by noncapital financing activities	351,473	331,960
Cash flows from capital and related financing activities		
Capital appropriations, grants and contracts	49,392	76,163
Proceeds from issuance of capital debt	14,045	-
Redemption of general revenue bonds	(14,535)	-
Purchases of capital assets	(82,471)	(100,614)
Principal paid on capital debt	(6,473)	(9,714)
Interest paid on capital debt	(4,192)	(5,473)
Net cash used by capital and related financing activities	(44,234)	(39,638)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	267,202	264,280
Purchases of investments	(243,059)	(199,648)
Interest received on investments	1,843	3,134
Interest and other sales receipts from endowment assets	4,683	8,387
Net cash provided by investing activities	30,669	76,153
Net increase in cash and cash equivalents	14,102	58,485
Cash and cash equivalents, beginning of the year	86,819	28,334
Cash and cash equivalents, end of the year	$ 100,921	$ 86,819
Cash and cash equivalents (current)	$ 99,390	$ 81,728
Restricted cash and cash equivalents (noncurrent)	1,531	5,091
Total cash and cash equivalents	$ 100,921	$ 86,819

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

UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Cash Flows
For the Years Ended June 30, 2010 and 2009
(in thousands)

Reconciliation of operating loss to net cash used by operating activities:	2010	2009
Operating loss	$ (405,354)	$ (403,042)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	58,228	55,649
State on-behalf payments	17,975	30,502
Changes in assets and liabilities:		
Accounts receivable, net	(398)	(3,263)
Other assets	(32)	115
Inventories	(743)	890
Accounts payable and accrued expenses	(233)	3,106
Accrued payroll	3,380	3,674
Deferred revenue, deposits from students and others	1,591	1,948
Accrued annual leave	432	861
Deferred lease revenue - current portion	(1,281)	(1,281)
Insurance and risk management	2,629	851
Net cash used by operating activities	$ (323,806)	$ (309,990)

Noncash Investing, Capital and Financing Activities:

For the Year Ended June 30, 2010

Additions to capital assets include $7.1 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 $0.5 million.

The university received on-behalf pension payments from the state of Alaska totaling $18.0 million.

For the Year Ended June 30, 2009

Additions to capital assets include $2.3 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.

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

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.

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, 2010. 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.

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. The land grant endowment trust fund balance at the end of 2010 and 2009 was $100.0 million and $94.3 million, respectively. The accumulated net earnings were $3.0 million and $(1.4) million at June 30, 2010 and 2009, respectively. The inflation proofing fund, a quasi-endowment fund included in unrestricted net assets, totaled $20.0 million and $19.5 million at the end of 2010 and 2009, respectively.

Alaska Statute 14.40.400 provides the Board of Regents with authority to manage the funds under the total return principles which intends 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.

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, 2009 financial statements have been reclassified for comparative purposes to conform to the presentation in the June 30, 2010 financial statements.

2. Deposits and Investments:

Deposits and investments at June 30, 2010 were as follows ($ in thousands):

Investment Type	Operating	Capital Funds	Endowment	College Savings Program	Total
Cash and Deposits	$ (735)	$ -	$ 11,757	$ -	$ 11,022
Certificates of Deposit	5,025	-	-	-	5,025
Repurchase Agreement	22,951	-	-	-	22,951
Multi-Strategy Bond Fund	-	-	5,708	-	5,708
Hedge Funds	851	-	9,582	-	10,433
Money Market Mutual Funds	80,859	5,297	2,168	145	88,469
Equities:					
Domestic	-	-	25,573	3,579	29,152
International	-	-	2,512	-	2,512
Global	-	-	17,855	-	17,855
Emerging Markets	-	-	4,776	-	4,776
Debt-related:					
Federal Agency	-	454	-	-	454
Fixed Income Funds	-	-	17,497	5,615	23,112
Alternative Investments:					
Private Equity – Domestic	-	-	7,104	-	7,104
Private Equity – Int’l	-	-	1,668	-	1,668
Commodities	-	-	775	-	775
Natural Resources	-	-	3,082	-	3,082
Venture Capital	-	-	1,683	-	1,683
Mezzanine	-	-	1,441	-	1,441
Real Estate	-	-	1,435	-	1,435
Other	-	-	1,757	-	1,757
	$ 108,951	$ 5,751	$ 116,373	$ 9,339	$ 240,414

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

Investment Type	Operating	Capital Funds	Endowment	College Savings Program	Total
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
	$ 111,016	$ 9,862	$ 111,011	$ 7,986	$ 239,875

Operating funds consist of cash on hand, time deposits, an overnight repurchase agreement and investments in Common*f*und 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 Common*f*und 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.

Money market mutual funds comprise the largest portion of operating investments. In fiscal year 2010, the university used the Certificate of Deposit Account Registry Service (CDARS) to invest monies into certificates of deposits across many different banking institutions to keep deposits under the Federal Deposit Insurance Corporation insurance limits.

In fiscal year 2011, the remaining balance in the Hedge funds will be paid to participants as the underlying securities mature or fund managers sell their positions.

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 reserves totaling $4.7 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 $114.2 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, 2010 had an estimated fair value of approximately $3.3 million.

At June 30, 2010, the university has approximately $24.1 million in investments that are not readily marketable. Approximately $23.2 million is invested in the consolidated endowment fund managed by the foundation and $0.9 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.

<u>Foreign Currency Risk:</u>

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, 2010, 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.

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, 2010, investments consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows ($ in thousands):

Investment Type	Rating	Operating	Capital Funds	Endowment	College Savings Program
Money Market Mutual Fund	Aaa	$ 80,859	$ 5,297	$ 2,168	$ -
Money Market Mutual Funds	Not Rated	-	-	-	145
Multi-Strategy Bond Fund	AA	-	-	5,708	-
Hedge Funds	Not Rated	851	-	9,582	-
Debt Related					
Federal Agency	Aaa	-	454	-	-
Fixed Income Funds	Not Rated	-	-	17,497	5,615

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, 2010, 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, 2010, 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, 2010, provided $0.5 million coverage in excess of deposits.

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, 2010, the university had the following debt investments and corresponding modified duration ($ in thousands):

	Fair Value				
Investment Type	Operating	Capital Funds	Endowment	College Savings Program	Modified Duration
Multi-Strategy Bond Fund	-	-	$ 5,708	-	3.50
Federal Agency	-	$ 454	-	-	1.75
Fixed Income Fund	-	-	-	$ 5,615	4.07
Fixed Income Fund	-	-	$ 17,497	-	4.30

Hedge funds totaling $10.4 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, 2010 and 2009 ($ in thousands):

June 30, 2010	Gross	Allowance	Net
Student tuition and fees	$ 16,041	$ (6,301)	$ 9,740
Sponsored programs	51,549	(1,203)	50,346
Auxiliary services and other operating activities	414	(110)	304
Capital appropriations, grants and contracts	9,979	-	9,979
	$ 77,983	$ (7,614)	$ 70,369

June 30, 2009	Gross	Allowance	Net
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	5,064	-	5,064
	$ 71,096	$ (6,573)	$ 64,523

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 $3.4 billion and $2.8 billion at June 30, 2010 and 2009, 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 $5.3 million and $5.2 million at June 30, 2010 and 2009, 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, 2010 and 2009, approximately 82,243 and 116,306 acres, respectively, were held in trust at zero basis because fair value at the time 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 supply the university with 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 which nearly invalidated the 2005 legislation. Approximately 33,658 acres of land the university had received through June 30, 2009 was returned in April 2010. A research forest, which will not be conveyed to the university until 2055, the old downtown Fairbanks Courthouse Building and the Key Bank parcel in Fairbanks were exceptions and will not be returned to the state. Since the returned properties were recorded at a zero basis, the ruling did not affect the results of operations.

6. Capital Assets:

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

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010
Capital assets not depreciated:				
Land	$ 28,490	$ -	$ -	$ 28,490
Construction in progress	120,822	73,112	134,758	59,176
Library and museum collections	57,094	870	-	57,964
Other capital assets:				
Buildings	1,065,605	130,794	-	1,196,399
Infrastructure	57,574	3,660	43	61,191
Equipment	171,075	14,144	14,191	171,028
Leasehold improvements	26,632	-	-	26,632
Other improvements	22,473	304	-	22,777
Total	1,549,765	222,884	148,992	1,623,657
Less accumulated depreciation:				
Buildings	533,018	41,616	-	574,633
Infrastructure	30,214	1,832	1	32,044
Equipment	126,850	12,721	13,661	125,912
Leasehold improvements	8,499	1,416	-	9,916
Other improvements	17,195	643	-	17,838
Total accumulated depreciation	715,776	58,228	13,662	760,343
Capital assets, net	$ 833,989	$ 164,655	$ 135,330	$ 863,314

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009
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	21,783	690	-	22,473
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	16,345	850	-	17,195
Total accumulated depreciation	681,520	55,649	21,393	715,776
Capital assets, net	$ 792,161	$ 100,534	$ 58,706	$ 833,989

7. Unrestricted Net Assets:

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

	2010	2009
Designated:		
Auxiliaries	$ 6,505	$ 7,278
Working capital fund	4,826	4,715
Working capital advances	(2,611)	(2,318)
Service centers	12,894	11,369
Debt service funds	1,574	1,598
Renewal and replacement funds	8,989	7,708
Quasi-endowment funds	28,449	27,711
Employee benefit funds	(13)	8,437
Endowment earnings	12,302	10,518
Encumbrances	10,423	14,900
Total designated	83,338	91,916
Undesignated	23,363	15,220
Total unrestricted net assets	$ 106,701	$ 107,136

Unrestricted net assets include non-lapsing university receipts of $46.7 million at June 30, 2010. Non-lapsing university receipts of $41.5 million from 2009 were fully expended in 2010. At June 30, 2010 and 2009, $53.2 million and $48.8 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, 2010 were as follows ($ in thousands):

Year ended June 30,	Principal	Interest	Total
2011	$ 6,763	$ 4,572	$ 11,335
2012	6,958	4,359	11,317
2013	7,175	4,134	11,309
2014	6,821	3,949	10,770
2015	6,657	3,679	10,336
2016-2020	34,344	14,475	48,819
2021-2025	30,902	7,875	38,777
2026-2030	16,380	2,755	19,135
2031-2035	5,005	501	5,506
2036	295	7	302
	$ 121,300	$ 46,306	$ 167,606

Long-term debt consisted of the following at June 30, 2010 and 2009 ($ in thousands):

	2010	2009
Revenue bonds payable 1.40% to 5.00% 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.	$ 100,490	$ 105,785
Note payable – capital construction 1.826% assisted note to the Alaska Housing Finance Corporation (AHFC) to finance construction of Anchorage campus housing, due semiannually through February 2024.	18,458	19,605
Equipment financings 3.94% to 4.77% notes for the purchase of equipment and vehicles due in quarterly installments through June 2017.	2,352	2,623
	$ 121,300	$ 128,013

In fiscal year 2010, the state reimbursed the university $1,412,615 for debt service on Series K general revenue bonds. Subject to annual appropriation, the state will reimburse the university for principal and interest on $17,005,000 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, 2010 and 2009 was $4.7 million and $4.8 million, respectively.

In fiscal year 2010, the university issued general revenue refunding bonds Series P totaling $14,045,000 to refund and redeem the outstanding maturities of Series H and J general revenue bonds. The current refunding resulted in an economic gain of $1,487,000 and total debt service payments over the next 13 years will decrease by $1,813,000.

9. Deferred Lease Revenue:

In fiscal year 1997, the university entered into an agreement to construct a facility and establish the International Arctic Research Center (IARC). The university received $19,215,000 through a Japanese non-profit corporation to support the construction of the IARC in exchange for a commitment to provide research facilities to various Japanese research organizations and agencies for a period of 25 years, including lease extensions. The Japanese research organizations began occupying the IARC in fiscal year 1999. The deferred lease revenue at June 30, 2010 is $4,803,750 and is reduced at the rate of $1,281,000 per year with a corresponding increase to other operating revenue.

10. Long-term Liabilities:

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

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Amounts due within one year
Deferred revenue - capital	$ 10,519	$ 812	$ 8,456	$ 2,875	$ -
Deferred lease revenue	6,085	-	1,281	4,804	1,281
Long-term debt	128,013	14,295	21,008	121,300	6,763
Security deposits and other liabilities	5,846	140	6	5,980	-
	$ 150,463	$ 15,247	$ 30,751	$ 134,959	$ 8,044

	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	7,397	1,690	3,241	5,846	-
	$ 188,547	$ 11,886	$ 49,970	$ 150,463	$ 7,754

11. Capital Appropriations and Construction Commitments:

Major construction projects of the university are funded primarily by State of Alaska appropriations, university revenue bonds and federal grants. 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, 2010, totaled $114.0 million. In addition, unexpended proceeds of university-issued general revenue bonds designated for construction projects totaled $0.5 million at June 30, 2010. Construction commitments at June 30, 2010 aggregated $65.0 million. At June 30, 2010, the university had received $4.1 million from State of Alaska capital appropriations and other sources in advance of expenditures.

In 2010 the university spent $ 5.96 million, part of construction in progress, on building the Sikuliaq. The vessel will be owned by the National Science Foundation, the agency funding the construction, and operated by the University of Alaska Fairbanks, as part of the U.S. academic research fleet. It will be used by scientists in the United States and international oceanographic community through the University-National Oceanographic Laboratory System. The Sikuliaq is anticipated to be ready for unrestricted science operations in 2014 and will be home ported in Alaska at the Seward Marine Center.

12. Pension Plans:

Participation in one of the various pension plans generally depends on when an employee was originally hired. 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 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 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 2010 actuarially determined rate was 27.65 percent of applicable gross pay. However, the employer contribution rate for the university was capped by the state at 22 percent for fiscal year 2010.

The state appropriated funding directly to the PERS-DB plan as a relief payment to employers' contributions for fiscal year 2010. The university recognized $7,126,913 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, 2010, 2009 and 2008 were $27,074,153, $27,269,589, and $27,230,213, 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.

<u>State of Alaska Teachers' Retirement System - Defined Benefit (TRS-DB)</u>

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 2010, 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, 2010, 2009 and 2008 were $5,454,265, $5,485,631, and $5,444,878, respectively, equal to the required employer contributions for each year.

The actuarially determined employer contribution rate for 2010 was 39.53 percent. The state appropriated funding directly to the TRS-DB plan to augment employer contributions for 2010. For fiscal year 2010, the university recognized $10,848,081 in state on-behalf pension payments for the TRS-DB plan.

Defined Contribution Plans:

<u>State of Alaska Public Employees' Retirement System - Defined Contribution (PERS-DC)</u>

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 eight percent and the employer effective contribution rate is 22 percent of covered payroll for fiscal years 2010 and 2009. For the years ended June 30, 2010 and 2009, the university's total covered payroll for the PERS-DC plan was approximately $6.1 million and $4.4 million, and contributions made by the university totaled $1,346,145 and $965,143, 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 2010 and 2009 are 0.83 and 0.99 percent for medical coverage and 0.30 and 0.58 percent (1.33 percent for peace officers and firefighters) for occupational death and disability benefit contributions. For fiscal years 2010 and 2009, the HRA employer contributions are $141.64 and $134.73 per month for full time employees and $1.09 and $1.04 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.

Funding Policy and Annual Pension Cost

The employee contribution rate is eight percent and the effective employer contribution rate is 12.56 percent of covered payroll for fiscal years 2010 and 2009. For the years ended June 30, 2010 and 2009, the university's total covered payroll for the TRS-DC plan was approximately $2.7 million and $2.1 million, and contributions made by the university totaled $333,253 and $266,443, 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 2010 and 2009 for each member's compensation was 1.03 and 0.99 percent for medical coverage, and 0.32 and 0.62 percent for occupational death and disability benefit contributions. For fiscal years 2010 and 2009, the HRA employer contributions are $141.64 and $134.73 per month for full time employees and $1.09 and $1.04 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 (12.56 percent for 2010 and 17.04 percent for 2009).

In fiscal year 2010 and 2009, the university's total covered payroll for the ORP Tier 1 plan was approximately $50.8 million and $49.7 million, respectively. The amounts contributed to the ORP Tier 1 by the university during the years ended June 30, 2010, 2009 and 2008 were $6,381,618, $8,462,414 and $9,945,730, 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 2010 and 2009.

In fiscal year 2010 and 2009, the university's total covered payroll for the ORP Tier 2 plan was approximately $3.7 million and $4.5 million, respectively. The amounts contributed to the ORP Tier 2 by the university during the years ended June 30, 2010, 2009 and 2008 were $446,041, $541,237 and $614,390, 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 eight 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 2010 and 2009, the university's total covered payroll for the ORP Tier 3 plan was approximately $62.0 million and $46.6 million, respectively. The amounts contributed to the ORP Tier 3 by the university during the years ended June 30, 2010, 2009 and 2008 were $7,436,012, $5,596,529 and $3,700,880, respectively.

Plan Assets

At June 30, 2010 and 2009, plan assets (participants' accounts attributable to employer contributions) for ORP Tier 1, Tier 2 and Tier 3 had a net value of approximately $113.8 million and $93.2 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.

<u>University of Alaska Pension Plan (Pension)</u>

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.

Funding Policy and Annual Pension Cost

Effective January 1, 2010, employer contributions for regular employees were 7.65 percent of covered wages up to $42,000 and $106,800 in 2010 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 2010 and 2009, the university's total covered payroll for the Pension plan was approximately $174.8 million and $175.8 million, respectively. The university's costs to fund and administer the plan totaled $13.4 million, or 7.65 percent of covered payroll. At June 30, 2010 and 2009, plan assets (participants' accounts) had a net value of approximately $275.6 million and $254.7 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):

	Balance July 1, 2009	Provision for Claims	Claims Payment	Balance June 30, 2010
Health	$ 8,392	$ 59,750	$ (59,167)	$ 8,975
General liability	5,613	1,326	(76)	6,863
Workers' compensation	5,991	1,973	(1,274)	6,690
Unemployment	138	813	(716)	235
	$ 20,134	$ 63,862	$ (61,233)	$ 22,763

	Balance July 1, 2008	Provision for Claims	Claims Payment	Balance June 30, 2009
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	72	493	(427)	138
	$ 19,283	$ 58,485	$ (57,634)	$ 20,134

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.

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 2010 and 2009, the university transferred $0.9 million and $1.4 million of institutional support, respectively. For the same periods, the foundation reimbursed the university for operating expenses totaling $2.6 million and $1.9 million, respectively.

At June 30, 2010 and 2009, distributions and expenditures by the foundation for the benefit of the university totaled $13.3 million and $17.7 million, of which $12.6 million and $17.3 million were direct reimbursements to the university. Additionally, the foundation owed the university $1.7 million at June 30, 2010 and $2.1 million at June 30, 2009, primarily for reimbursement of expenditures on funding 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, 2010 and 2009, the fair value of the fund was $216.2 million and $198.3 million, respectively. The university’s share of this fund was $114.2 million and $108.9 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.

16. Functional Classifications with Natural Classifications:

The university's operating expenses by natural classification for 2010 and 2009 were as follows ($ in thousands):

	Compensation & Benefits	Contractual Services	Supplies & Materials	Other	Student Aid	Depre-ciation	Total
Instruction	$ 167,032	$ 25,774	$ 11,166	$ 931	$ -	$ -	$ 204,903
Academic support	43,239	7,259	7,116	74	-	-	57,688
Research	90,176	32,597	10,379	295	-	-	133,447
Public service	25,991	11,708	2,353	349	-	-	40,401
Student services	36,326	10,763	3,031	51	-	-	50,171
Operations and maintenance	27,151	19,180	12,415	593	-	-	59,339
Institutional support	77,065	11,915	3,349	2,613	-	-	94,942
Student aid	-	-	-	-	20,965	-	20,965
Auxiliary enterprises	9,771	18,991	11,200	266	-	-	40,228
Depreciation	-	-	-	-	-	58,228	58,228
State on-behalf payments	-	-	-	17,975	-	-	17,975
	$ 476,751	$ 138,187	$ 61,009	$ 23,147	$ 20,965	$ 58,228	$ 778,287

	Compensation & Benefits	Contractual Services	Supplies & Materials	Other	Student Aid	Depre-ciation	Total
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
	$ 453,700	$ 132,473	$ 65,106	$ 34,202	$ 17,937	$ 55,649	$ 759,067