UNIVERSITY
of ALASKA
Many Traditions One Alaska

Annual Financial Report
Fiscal Year 2012

University of Alaska
(A Component Unit of the State of Alaska)
Annual Financial Report
Fiscal Year 2012

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LETTER OF TRANSMITTAL

December 6, 2012

Board of Regents
University System of Alaska

Dear Regents,

On behalf of President Gamble, I am pleased to present to you the Annual Financial Report for the Board of Regents of the University System of Alaska for the year ended June 30, 2012. The report provides financial information about the University System of Alaska's operations during the year and presents its financial position at the end of the fiscal year.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls established for this purpose, the objective of which is to provide reasonable assurance that the financial statements are free of material misstatements. Further, the officers of the various institutions of the University System of Alaska and its affiliated organizations have assured that every effort has been made to reflect accurately the information considered important to all concerned parties.

State law, federal guidelines, bond covenants and the by-laws of the Board of Regents require that the accounting and financial records of the University System of Alaska be audited each year. KPMG, LLP has performed the audit for the year ended June 30, 2012 and has issued an unqualified opinion, the most favorable outcome of the audit process. KPMG's report is located at the beginning of the financial section.

Management's discussion and analysis (MD & A) immediately follows the auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction therewith.

For your review, we have included the Financial Statements of the University of Alaska and the University of Alaska Foundation Consolidated Endowment Fund. Separately, the audited financial statements of the University of Alaska Foundation have been presented to the University of Alaska Foundation Board of Trustees.

Respectfully submitted,

Ashok Roy, Ph.D.,CIA,CBA
Vice President for Finance & Administration/CFO

UNIVERSITY of ALASKA

Many Traditions One Alaska

Members of the Board of Regents

The University of Alaska Board of Regents is an 11-member board, appointed by the Governor and confirmed by the Alaska Legislature. Members serve an 8-year term, with the exception of the student regent who is nominated from his/her campus and serves a 2-year term.

The Board was established through the Alaska Constitution and is responsible for University of Alaska policy and management through the University President.

The Board oversees the University System of Alaska. The University System of Alaska enrolled 35,000 students in the Fall 2011 and employed 4,553 regular faculty and staff to provide teaching and related services to students and the communities in which they are located.

KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

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, 2012 and 2011, 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 as of June 30, 2012 and 2011, 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 October 23, 2012 on our consideration of the University of Alaska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

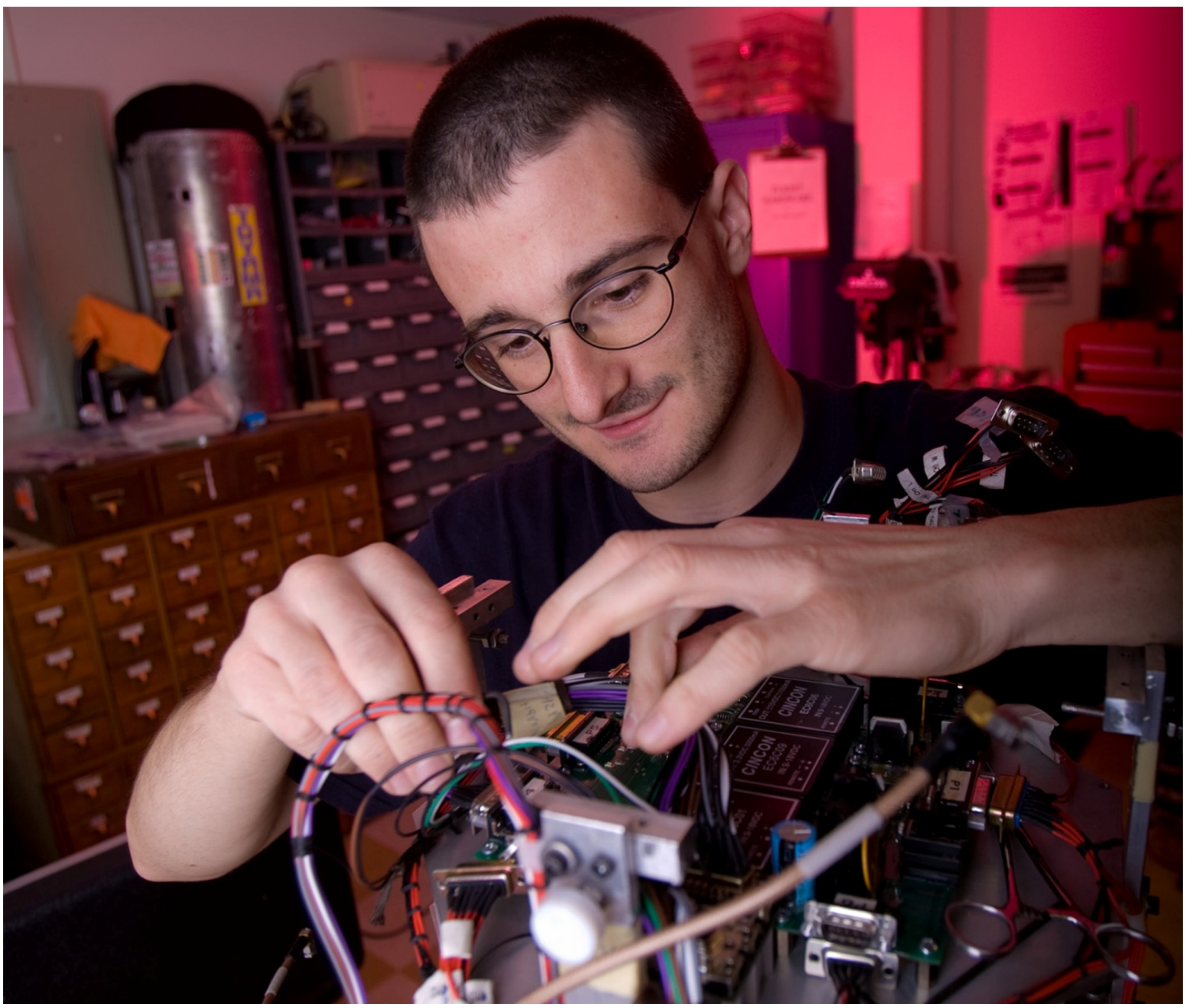
KPMG

U.S. generally accepted accounting principles require that the *management's discussion and analysis* on pages 1 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

October 23, 2012

University of Alaska Financial Section



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, 2012 (2012) and June 30, 2011 (2011), with selected comparative information for the year ended June 30, 2010 (2010). 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 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 U.S. 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, 2012, 2011 and 2010 follows ($ in thousands):

	2012	2011	2010
Assets:			
Current Assets	$ 157,492	$ 166,984	$ 184,542
Other noncurrent assets	296,779	238,581	183,616
Capital assets, net of depreciation	1,097,258	952,898	863,314
Total assets	1,551,529	1,358,463	1,231,472
Liabilities:			
Current liabilities	118,119	115,212	114,695
Noncurrent liabilities	157,042	120,630	126,915
Total liabilities	275,161	235,842	241,610
Net assets:			
Invested in capital assets, net of debt	931,674	835,564	738,206
Restricted – expendable	74,102	30,825	16,614
Restricted – nonexpendable	130,513	129,317	128,341
Unrestricted	140,079	126,915	106,701
Total net assets	$ 1,276,368	$ 1,122,621	$ 989,862

Overall, total net assets of the university increased $153.7 million, or 13.7 percent. This increase was mainly due to a $96.1 million increase in capital net assets, net of debt. The change in net capital assets is discussed in more detail in the *Capital and Debt Activities* section below.

In the asset section, total operating cash and investments increased from $123.8 million at June 30, 2011 to $125.6 million at June 30, 2012. This portfolio consists primarily of fixed income securities that are held to maturity to match liquidity needs. These securities comprised 44 percent, or $55.1 million, of total operating cash and investments at June 30, 2012. The remaining balance of the operating funds is invested in deposits, a collateralized repurchase agreement and money market funds. Note 2 of the financial statements provides more information about deposits and investments and associated risks.

Other noncurrent assets increased from $238.6 million at June 30, 2011 to $296.8 million at June 30, 2012. This increase results from general revenue bond funds that were issued in 2012 and are held with a third party trustee. At year end, $52.4 million was held by the trustee as compared to $4.7 million at June 30, 2011.

Endowment investments at June 30, 2012 were $127.2 million as compared to $127.4 million at June 30, 2011. Total return in 2012 was 0.9 percent as compared to 18 percent in 2011. Distributions from the endowment totaling $5.7 million in 2012 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 foundation. Separately audited consolidated endowment fund financial statements are available from the university's controller office.

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 liabilities are comprised mostly of long-term debt. Total liabilities increased $39.3 million during 2012 to a total of $275.2 million as a result of new debt issued during the year.

Total debt outstanding increased from $114.5 million at June 30, 2011 to $154.4 million at June 30, 2012 as a result of a $48.9 million general revenue bond issuance, 2011 Series Q. The bonds provide funding for the Fairbanks campus Life Sciences facility, numerous deferred maintenance projects and a food service project on the Juneau campus. In addition, previously issued bonds were refunded during the year, providing debt service savings. More information is available in the *Capital and Debt Activities* section that follows.

Unrestricted net assets totaled $140.1 million at June 30, 2012, representing an increase of $13.2 million over the prior year. At year end, $120.1 million was designated for specific purposes. See Note 7 of the financial statements for a detailed list of these designations.

Fiscal Year 2011 Comparisons (Statement of Net Assets)

Significant comments about changes between 2010 and 2011 that were noted in fiscal year 2011 *Management's Discussion and Analysis* are summarized below:

The Statement of Net Assets reflected an overall increase in net assets of 13.4 percent, or $132.8 million. Most of this change, or $97.4 million, is attributed to the increase in capital net assets, net of debt.

Self insurance reserves (liabilities) for health care, general liability and worker's compensation were decreased by $12.1 million in 2011 to bring the amounts closer to actuarial estimates. Note 13 of the financial statements reports more information about insurance and risk management.

Unrestricted net assets totaled $126.9 million at June 30, 2011, representing an increase of $20.2 million over the prior year. At year end, $107.0 million was designated for specific purposes.

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, 2012, 2011 and 2010 follows ($ in thousands):

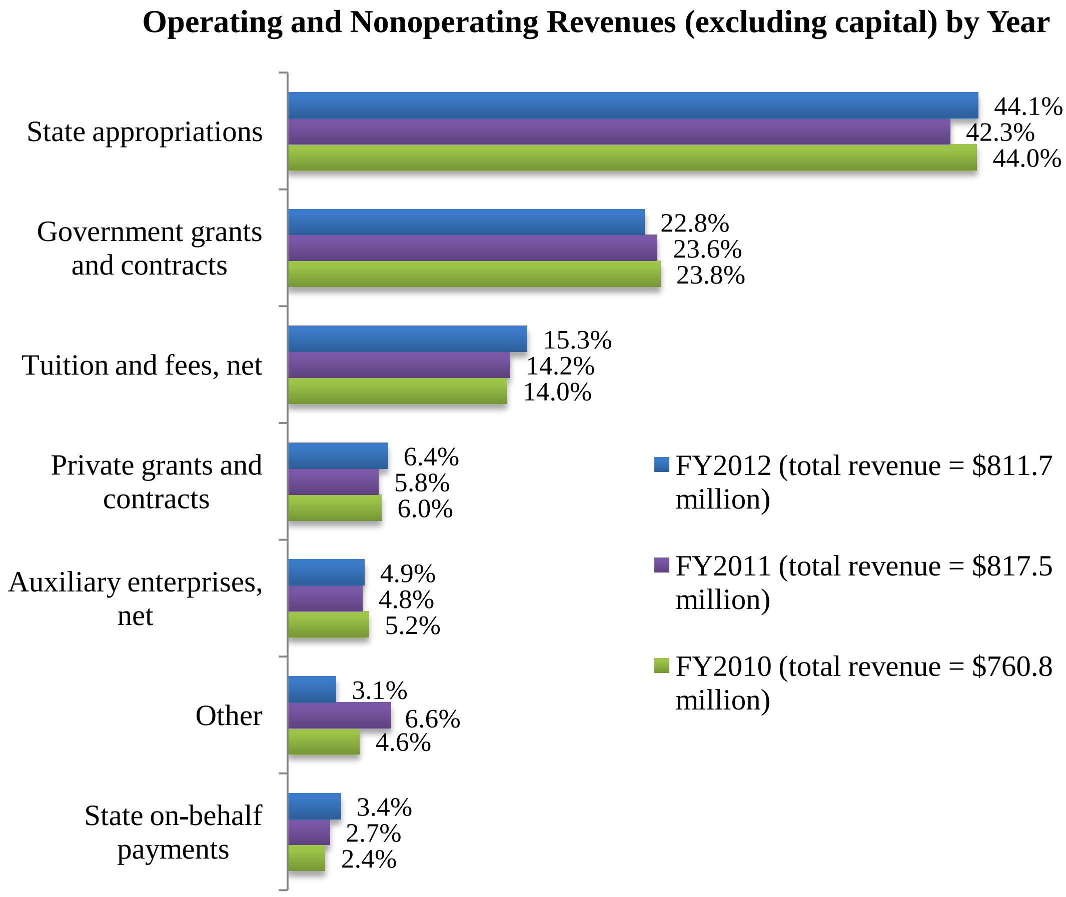
	2012	2011	2010
Operating revenues	$ 393,374	$ 397,565	$ 372,933
Operating expenses	(820,059)	(796,238)	(778,287)
Operating loss	(426,685)	(398,673)	(405,354)
Net nonoperating revenues	409,153	413,653	381,082
Gain (Loss) before other revenues, expenses, gains, or losses	(17,532)	14,980	(24,272)
Other revenues, expenses, gains or losses	171,279	117,779	61,951
Increase in net assets	153,747	132,759	37,679
Net assets at beginning of year	1,122,621	989,862	952,183
Net assets at end of year	$ 1,276,368	$ 1,122,621	$ 989,862

The Statement of Revenues, Expenses and Changes in Net Assets reflects an overall increase in net assets of 13.7 percent, or $153.7 million. Major changes in revenues and expenses in 2012 are described below.

Capital appropriations and capital grant and contract revenue increased from $117.8 million in 2011 to $170.0 million in 2012. 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. A significant portion of the activity relates to $64.4 million expended for construction of the Alaska Region Research Vessel – Sikuliaq. 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 $358.4 million in 2012, as compared to $346.6 million in 2011. 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 $27.8 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 university's employer contribution rate to fully fund the plans at the actuarial computed rate. The university's employer contribution rates have been capped at 22 percent and 12.56 percent for PERS and TRS, 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 2012, 2011 and 2010 follows:



Operating grant and contract revenue from federal, state, local and private sponsors totaled $210.5 million for 2012, as compared to $215.3 million in the prior year. The decrease is primarily due to the discontinuance of a major federal contract that supported the supercomputing center at the Fairbanks campus.

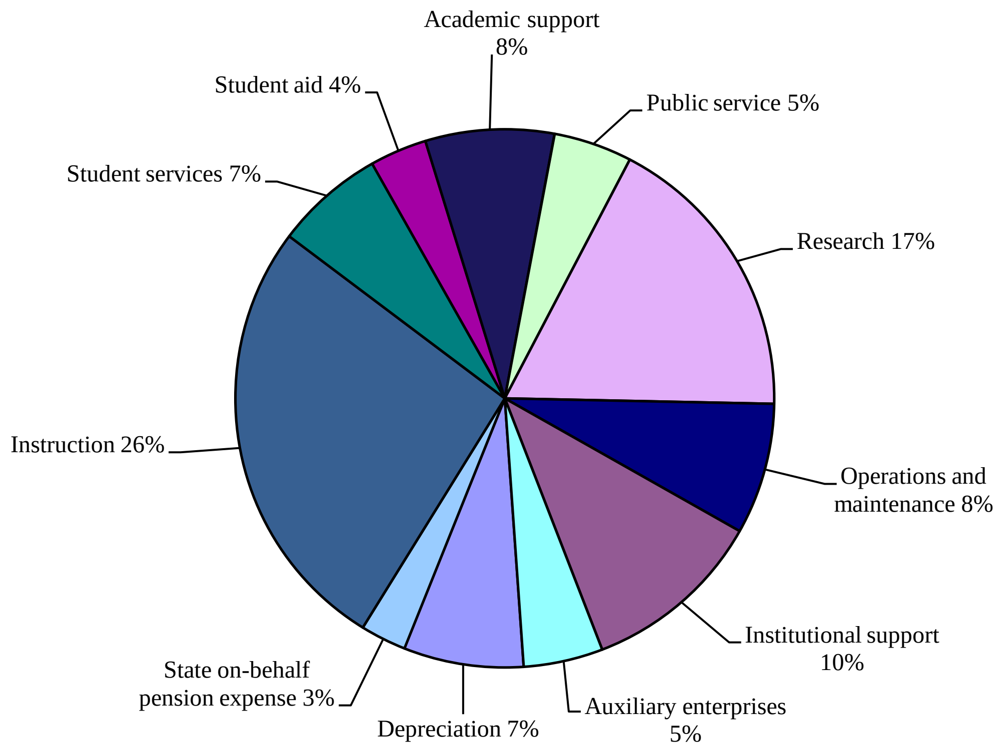
Gross student tuition and fee revenue totaled $138.5 million in 2012 as compared to $130.5 million in 2011. The increase was primarily due to Fall 2011 tuition rate increases of five percent for 100 to 200 level courses and 10 percent for 300 to 400 level courses.

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)

	FY2012		FY2011		FY2010	
Instruction	$ 213.2	26.0%	$ 210.7	26.5%	$ 207.9	26.7%
Student Services	53.1	6.5%	52.2	6.6%	50.8	6.5%
Student Aid	28.5	3.5%	27.3	3.4%	21.0	2.7%
Academic Support	65.2	8.0%	61.5	7.7%	58.5	7.5%
Student and Academic	360.0	44.0%	351.7	44.2%	338.2	43.4%
Public Service	38.8	4.7%	37.5	4.7%	40.9	5.3%
Research	135.9	16.6%	140.4	17.6%	135.0	17.3%
Operations and Maintenance	65.5	8.0%	62.8	7.9%	59.8	7.7%
Institutional Support	95.4	11.5%	86.9	10.9%	87.8	11.3%
Auxiliary Enterprises	38.3	4.7%	37.9	4.8%	40.4	5.2%
State On-Behalf Pension	27.8	3.4%	21.8	2.7%	18.0	2.3%
Depreciation	58.4	7.1%	57.2	7.2%	58.2	7.5%
Total Operating Expenses	$ 820.1	100.0%	$ 796.2	100.0%	$ 778.3	100.0%

Fiscal Year 2012
Functional Classification

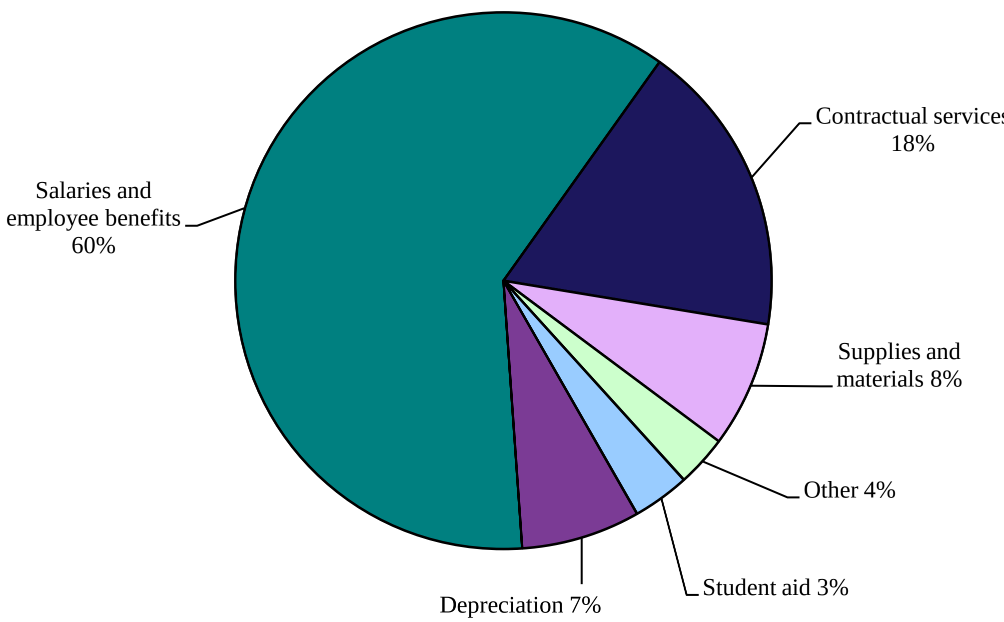


Salaries and employee benefits increased one percent, or $5.0 million, in 2012, which represents less of an increase than experienced in recent prior years. The relatively modest growth can be attributed to a combination of savings from vacancies and management efforts to minimize overall headcount growth.

Operating Expenses
Natural Classification (in millions)

	FY2012		FY2011		FY2010	
Salaries and Benefits	$ 490.6	59.8%	$ 485.6	61.0%	$ 476.8	61.2%
Contractual Services	144.4	17.6%	141.2	17.7%	138.2	17.8%
Supplies and Materials	65.6	8.0%	60.4	7.6%	61.0	7.8%
Other	32.6	4.0%	24.6	3.1%	23.1	3.0%
Student Aid	28.5	3.5%	27.2	3.4%	21.0	2.7%
Depreciation	58.4	7.1%	57.2	7.2%	58.2	7.5%
	$ 820.1	100.0%	$ 796.2	100.0%	$ 778.3	100.0%

Fiscal Year 2012
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 $14.6 million in 2012 and $14.4 million in 2011. 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 $87.5 million and $80.4 million in 2012 and 2011, respectively.

Endowment proceeds and investment income totaled $1.8 million in 2012 as compared to $22.8 million in 2011, primarily as a result of poorer market conditions. Total return in 2012 was 0.9 percent as compared to 18 percent in the prior year. This category also includes yield from, or sales of, trust land, and mineral interests, the net proceeds of which are generally deposited to the land grant endowment trust fund.

Fiscal Year 2011 Comparisons (Statement of Revenues, Expenses and Changes in Net Assets)

Significant comments about changes between 2010 and 2011 that were noted in fiscal year 2011 *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 13.4 percent, or $132.8 million.

Gross student tuition and fee revenue totaled $130.5 million in 2011 as compared to $119.8 million in 2010. This was due to a four percent increase in tuition rates for 100 to 200 level courses and seven percent for all other courses. In addition, student headcount increased 2.3 percent to 34,480 students from Fall 2009 to Fall 2010.

Salaries and employee benefits increased 1.8 percent, or $8.8 million, in 2011, which represents less of an increase than experienced in recent previous years. The relatively modest growth can be attributed to a combination of savings from vacancies and management efforts to minimize overall headcount growth.

Capital appropriations and capital grant and contract revenue increased from $62.0 million in 2010 to $117.8 million in 2011. A significant portion of the increase includes $32.5 million expended for construction of the Alaska Region Research Vessel – Sikuliaq. For further discussion on capital activity, see the *Capital and Debt Activities* section which follows.

Capital and Debt Activities

The university continued to modernize various facilities and build new facilities to address emerging state needs. Net capital asset increases totaled $191.3 million in 2012, as compared with $136.7 million in 2011 and $73.9 million in 2010. 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 2012 and 2011 were $79.5 million and $258.6 million, respectively. Major components of the 2012 appropriation include $37.5 million for deferred maintenance and $34.0 million that provides partial funding for the University of Alaska Anchorage Community Sports Arena. The 2011 appropriation includes $207 million funded by State of Alaska issued general obligations bonds for various university projects, including $88 million for the Fairbanks campus Life Sciences facility and $60 million for the Anchorage campus sports arena.

Construction in progress at June 30, 2012 totaled $265.3 million and includes the following major projects:

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 in operation in calendar year 2014.

Construction on the new Life Sciences Facility at the Fairbanks campus began in fiscal year 2011. The facility is approximately 100,000 square feet and will integrate teaching and research in biological, wildlife and biomedical sciences. The project cost is $108.6 million and was approximately 60 percent complete at June 30, 2012. The facility is expected to be complete by May 2013.

At June 30, 2012, $283.7 million remains unexpended from current and prior year capital appropriations and general revenue bond proceeds, of which $143.7 million is committed to existing construction contracts. The balance is for projects still in design or preconstruction, or is held for contingencies for work in progress.

Debt

At June 30, 2012, total debt outstanding was $154.4 million, comprised of $136.6 million in general revenue bonds, $16.1 million in a note payable, and $1.7 million in bank financing contracts.

In October 2011 the university issued general revenue bonds 2011 Series Q with a par amount of $48,870,000 and a 20 year term. The bonds fund a portion of the Fairbanks campus Life Sciences facility, numerous deferred maintenance projects and a food service project on the Juneau campus. In March 2012 the university issued general revenue refunding bonds 2012 Series R with a par amount of $32,805,000 and a 17 year term. The bonds refunded substantially all maturities of 2002 Series K, 2003 Series L and 2004 Series M general revenue bonds. The economic gain from the refunding is approximately $5.0 million in present value and total debt service payments are reduced by $6.4 million over the life of the bonds.

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 an Aa2 Stable credit rating from Moody’s Investors Service and AA- Stable rating from Standard and Poor’s. These ratings were affirmed in March 2012.

The university has traditionally utilized tax exempt financings to provide for its capital needs or to facilitate systematic renewals. Working capital is available to provide interim cash flow financing for facilities intended to be funded with general revenue bond proceeds or other debt arrangements.

Capital Activities – Looking Ahead

State of Alaska capital appropriations for fiscal year 2013 total $154.9 million. The appropriations include $37.5 million designated for deferred maintenance needs across the university system. This funding is the third installment of a five year deferred maintenance program instituted by the Governor. The appropriations also include $104.9 million for engineering buildings construction and renovation at the Anchorage and Fairbanks campuses.

Other Economic and Financial Conditions

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

At its September 28, 2012 meeting the Board of Regents approved the university to enter into a public private partnership that will deliver a new dining and food service facility at the Fairbanks campus. The transaction will be a capital lease with annual payments of approximately $1.6 million. Tax-exempt bonds are expected to be issued by a third party nonprofit in December 2012 to finance the construction.

In fiscal year 2013, the university intends to issue $22.6 million in new general revenue bonds to fund numerous deferred maintenance projects across the university system. The bond issue will be the second and final portion of $50 million bonding authority that the state legislature provided the university to fund deferred maintenance projects.

University of Alaska Financial Statements

UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Net Assets
June 30, 2012 and 2011
(in thousands)

Assets	2012	2011
Current assets:		
Cash and cash equivalents	$ 36,829	$ 27,719
Short-term investments	38,575	57,973
Accounts receivable, less allowance of $4,311 in 2012 and $3,863 in 2011	74,989	73,739
Inventories	6,573	6,875
Other assets	526	678
Total current assets	157,492	166,984
Noncurrent assets:		
Restricted cash and cash equivalents	2,951	3,289
Notes receivable	2,948	3,219
Bond funds held with trustee	52,375	4,658
Endowment investments	127,223	127,380
Land Grant Trust property and other assets	46,224	45,254
Long-term investments	51,726	42,924
Education Trust of Alaska investments	13,332	11,857
Capital assets, net of accumulated depreciation of $854,305 in 2012 and $807,411 in 2011	1,097,258	952,898
Total noncurrent assets	1,394,037	1,191,479
Total assets	1,551,529	1,358,463
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	40,199	34,003
Accrued payroll	21,658	29,430
Unearned revenue and deposits	19,425	17,822
Accrued annual leave	12,332	11,876
Unearned lease revenue - current portion	1,281	1,281
Long-term debt - current portion	8,952	6,958
Insurance and risk management	14,272	13,842
Total current liabilities	118,119	115,212
Noncurrent liabilities:		
Unearned revenue - capital	5,431	5,678
Unearned lease revenue	961	2,242
Long-term debt	145,417	107,579
Security deposits and other liabilities	5,233	5,131
Total noncurrent liabilities	157,042	120,630
Total liabilities	275,161	235,842
Net Assets		
Invested in capital assets, net of related debt	931,674	835,564
Restricted:		
Expendable	74,102	30,825
Nonexpendable	130,513	129,317
Unrestricted (see Note 7)	140,079	126,915
Total net assets	$ 1,276,368	$ 1,122,621

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, 2012 and 2011
(in thousands)

	2012	2011
Operating revenues		
Student tuition and fees	$ 138,544	$ 130,542
less scholarship allowances	(14,573)	(14,438)
	123,971	116,104
Federal grants and contracts	134,119	147,869
State and local grants and contracts	24,655	20,140
Private grants and contracts	51,696	47,276
Sales and services, educational departments	4,921	4,215
Sales and services, auxiliary enterprises, net of scholarship allowances of $2,051 in 2012 and $2,005 in 2011	39,813	39,265
Other	14,199	22,696
Total operating revenues	393,374	397,565
Operating expenses		
Instruction	213,235	210,653
Academic support	65,166	61,453
Research	135,928	140,453
Public service	38,842	37,547
Student services	53,092	52,174
Operations and maintenance	65,476	62,772
Institutional support	95,372	86,950
Student aid	28,460	27,280
Auxiliary enterprises	38,288	37,947
Depreciation	58,403	57,170
State on-behalf payments - pension	27,797	21,839
Total operating expenses	820,059	796,238
Operating loss	(426,685)	(398,673)
Nonoperating revenues (expenses)		
State appropriations	358,441	346,644
State on-behalf contributions - pension	27,797	21,839
Investment earnings	4,058	3,971
Endowment proceeds and investment income	1,762	22,777
Interest on debt	(5,860)	(4,400)
Federal student financial aid	26,296	24,692
Other nonoperating expenses	(3,341)	(1,870)
Net nonoperating revenues	409,153	413,653
Income (Loss) before other revenues	(17,532)	14,980
Capital appropriations, grants and contracts	170,026	117,779
Additions to permanent endowments	1,253	-
Increase in net assets	153,747	132,759
Net assets		
Net assets - beginning of year	1,122,621	989,862
Net assets - end of year	$ 1,276,368	$ 1,122,621

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, 2012 and 2011
(in thousands)

	2012	2011
Cash flows from operating activities		
Student tuition and fees, net	$ 118,983	$ 115,931
Grants and contracts	209,044	217,774
Sales and services, educational departments	4,921	4,216
Sales and services, auxiliary enterprises	39,473	39,471
Other operating receipts	12,918	12,551
Payments to employees for salaries and benefits	(497,581)	(487,980)
Payments to suppliers	(216,333)	(195,106)
Payments to students for financial aid	(28,461)	(27,334)
Net cash used for operating activities	(357,036)	(320,477)
Cash flows from noncapital financing activities		
State appropriations	358,264	346,898
Other revenue	23,692	23,453
Direct lending receipts	87,489	80,378
Direct lending payments	(87,710)	(80,359)
Net cash provided by noncapital financing activities	381,735	370,370
Cash flows from capital and related financing activities		
Capital appropriations, grants and contracts	174,364	114,719
Proceeds from issuance of capital debt	81,675	-
Redemption of general revenue bonds	(35,310)	-
Purchases of capital assets	(193,222)	(143,199)
Principal paid on capital debt	(7,087)	(6,763)
Interest paid on capital debt	(5,195)	(4,572)
Net cash provided by (used for) capital and related financing activities	15,225	(39,815)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	92,818	51,740
Purchases of investments	(131,581)	(136,020)
Interest received on investments	3,394	2,605
Interest and other sales receipts from endowment assets	4,217	1,684
Net cash provided by (used for) investing activities	(31,152)	(79,991)
Net increase (decrease) in cash and cash equivalents	8,772	(69,913)
Cash and cash equivalents, beginning of the year	31,008	100,921
Cash and cash equivalents, end of the year	$ 39,780	$ 31,008
Cash and cash equivalents (current)	$ 36,829	$ 27,719
Restricted cash and cash equivalents (noncurrent)	2,951	3,289
Total cash and cash equivalents	$ 39,780	$ 31,008

UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Cash Flows
For the Years Ended June 30, 2012 and 2011
(in thousands)

Reconciliation of operating loss to net cash used for operating activities:	2012	2011
Operating loss	$ (426,685)	$ (398,673)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation expense	58,403	57,170
State on-behalf payments - pension	27,797	21,839
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable, net	(7,508)	4,549
Other assets	27	137
Inventories	302	1,088
Accounts payable and accrued expenses	(3,876)	3,527
Accrued payroll	(7,773)	1,084
Unearned revenue, deposits from students and others	753	(1,122)
Accrued annual leave	456	125
Unearned lease revenue - current portion	(1,281)	(1,281)
Insurance and risk management	430	(8,920)
Real and personal property contributions	1,919	-
Net cash used for operating activities	$ (357,036)	$ (320,477)

Schedule of Noncash Investing, Noncapital Financing, Capital and Financing Related Activities:

For the Year Ended June 30, 2012

Additions to capital assets include $9.2 million expended and capitalized but not paid for at year end.

Book value of capital asset disposals totaled $0.6 million.

The university received $1.9 million in donated land and equipment.

The university received on-behalf pension payments from the State of Alaska totaling $27.8 million.

For the Year Ended June 30, 2011

Additions to capital assets include $9.8 million expended and capitalized but not paid for at year end.

Book value of capital asset disposals totaled $1.5 million.

The university received $1.0 million in donated land and equipment.

The university received on-behalf pension payments from the State of Alaska totaling $21.8 million.

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

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University of Alaska Foundation Financial Statements

UNIVERSITY OF ALASKA FOUNDATION
(A Component Unit of the University of Alaska)
Statements of Financial Position
June 30, 2012 and 2011
(in thousands)

Assets	2012	2011
Cash and cash equivalents	$ 23,956	$ 21,608
Interest receivable	114	137
Contributions receivable, net	8,432	13,333
Remainder trusts receivable	1,486	833
Escrows receivable	259	296
Installment contracts receivable	168	-
Inventory	57	57
Other assets	486	486
Pooled endowment funds	137,819	131,853
Other long-term investments	24,747	24,459
Total assets	$ 197,524	$ 193,062
Liabilities		
Due to the University of Alaska	$ 2,152	$ 1,775
Other liabilities	260	5
Split interest obligations	309	283
Term endowment liability	1,000	1,000
Total liabilities	3,721	3,063
Net Assets		
Unrestricted	23,592	23,424
Temporarily restricted	78,014	79,551
Permanently restricted	92,197	87,024
Total net assets	193,803	189,999
Total liabilities and net assets	$ 197,524	$ 193,062

UNIVERSITY OF ALASKA FOUNDATION
(A Component Unit of the University of Alaska)
Statements of Activities
For the years ended June 30, 2012 and 2011
(in thousands)

	2012			
Revenues, gains and other support	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Contributions	$ 713	$ 11,866	$ 5,251	$ 17,830
Investment income	633	1,091	-	1,724
Net realized and unrealized investment gains (losses)	(373)	(649)	-	(1,022)
Other revenues	-	186	-	186
Actuarial adjustment of remainder trust obligations	-	(63)	(6)	(69)
Losses on disposition of other assets	-	(30)	-	(30)
Administrative assessments	1,944	(1,217)	(100)	627
Support from University of Alaska	1,000	-	-	1,000
Net assets released from restriction	12,697	(12,697)	-	-
Total revenues, gains and other support	16,614	(1,513)	5,145	20,246
Expenses and distributions				
Operating expenses	2,526	-	-	2,526
Distributions for the benefit of the University of Alaska	13,916	-	-	13,916
Total expenses and distributions	16,442	-	-	16,442
Excess (deficiency) of revenues over expenses	172	(1,513)	5,145	3,804
Transfers between net asset classes	(4)	(24)	28	-
Change in net assets due to adoption of UPMIFA	-	-	-	-
Increase (decrease) in net assets	168	(1,537)	5,173	3,804
Net assets, beginning of year	23,424	79,551	87,024	189,999
Net assets, end of year	$ 23,592	$ 78,014	$ 92,197	$ 193,803

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

2011			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 458	$ 10,320	$ 5,024	$ 15,802
645	1,758	-	2,403
2,277	15,105	-	17,382
-	159	-	159
-	49	249	298
(1)	(43)	-	(44)
1,718	(1,060)	(62)	596
890	-	-	890
11,532	(11,532)	-	-
17,519	14,756	5,211	37,486
2,632	-	-	2,632
13,729	-	-	13,729
16,361	-	-	16,361
1,158	14,756	5,211	21,125
(105)	31	74	-
(11,461)	2,032	9,429	-
(10,408)	16,819	14,714	21,125
33,832	62,732	72,310	168,874
$ 23,424	$ 79,551	$ 87,024	$ 189,999

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

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UNIVERSITY of ALASKA

Many Traditions One Alaska

University of Alaska Notes to 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, nonprofit 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*, require 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, 2012. 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 2012 and 2011 was $111.8 million and $115.1 million, respectively. The accumulated net earnings were $11.6 million and $16.5 million at June 30, 2012 and 2011, respectively. The inflation proofing fund, a quasi-endowment fund included in unrestricted net assets, totaled $21.6 million and $19.8 million at the end of 2012 and 2011, 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 4.5 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 generally lapse after five years or upon determination that the funds are no longer necessary for the project.

Reclassifications

Certain amounts in the June 30, 2011 financial statements have been reclassified for comparative purposes to conform to the presentation in the June 30, 2012 financial statements.

Recently Issued Accounting Standards

In December 2010, the GASB issued GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Statement 62 incorporates into GASB's authoritative literature certain accounting and reporting guidance issued by the FASB and AICPA issued on or before November 30, 1989, which do not conflict or contradict GASB pronouncements. The new standard is effective retrospectively for the fiscal year beginning July 1, 2012. The university is currently evaluating the impact that the adoption of Statement 62 will have on its financial statements.

In June 2012, the GASB issued GASB 68, *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27. This Statement requires that an employer recognize its obligation for pension net of the amount of the pensions plan's fiduciary net position that is available to satisfy that obligation as well as additional note disclosures regarding the obligation. The new standard is effective retrospectively for the fiscal year beginning July 1, 2014. The university is currently evaluating the impact that the adoption of Statement 68 will have on its financial statements.

2. Deposits and Investments:

Deposits and investments at June 30, 2012 were as follows ($ in thousands):

Investment Type	Operating	Capital Funds	Endowment	Education Trust of Alaska	Total
Cash and Deposits	$ 7,630	$ -	$ 5,643	$ -	$ 13,273
Certificates of Deposit	3,778	-	-	-	3,778
Repurchase Agreement	8,796	-	-	-	8,796
Hedge Funds	-	-	17,923	-	17,923
Money Market Mutual Funds	50,230	13,583	1,997	745	66,555
Equities:					
Domestic	-	-	21,550	5,496	27,046
Global	-	-	23,426	-	23,426
Emerging Markets	-	-	6,236	-	6,236
Debt-related:					
Corporate	41,377	-	-	-	41,377
Federal Agency	8,661	-	-	-	8,661
U. S. Treasuries	5,080	43,321	8,523	-	56,924
Fixed Income Funds	-	-	15,930	7,091	23,021
Alternative Investments:					
Real Assets Index	-	-	4,183	-	4,183
Private Equity – Domestic	-	-	1,293	-	1,293
Private Equity – Int’l	-	-	6,359	-	6,359
Commodities	-	-	788	-	788
Natural Resources	-	-	3,251	-	3,251
Venture Capital	-	-	2,497	-	2,497
Mezzanine	-	-	602	-	602
Real Estate	-	-	5,641	-	5,641
Other	-	-	1,381	-	1,381
	$ 125,552	$ 56,904	$ 127,223	$ 13,332	$ 323,011

Deposits and investments at June 30, 2011 were as follows ($ in thousands):

Investment Type	Operating	Capital Funds	Endowment	Education Trust of Alaska	Total
Cash and Deposits	$ 7,323	$ -	$ 6,520	$ -	$ 13,843
Certificates of Deposit	3,770	-	-	-	3,770
Repurchase Agreement	22,199	-	-	-	22,199
Hedge Funds	-	-	8,910	-	8,910
Money Market Mutual Funds	12,168	12,351	1,958	553	27,030
Equities:					
Domestic	-	-	27,795	4,795	32,590
Global	-	-	30,713	-	30,713
Emerging Markets	-	-	6,457	-	6,457
Debt-related:					
Corporate	52,958	-	-	-	52,958
Federal Agency	21,306	435	-	-	21,741
U.S Treasuries	4,053	-	8,859		12,912
Fixed Income Funds	-	-	16,402	6,509	22,911
Alternative Investments:					
Private Equity - Domestic	-	-	6,714	-	6,714
Private Equity – Int'l	-	-	2,096	-	2,096
Commodities	-	-	943	-	943
Natural Resources	-	-	3,425	-	3,425
Venture Capital	-	-	2,404	-	2,404
Mezzanine Debt	-	-	934	-	934
Real Estate	-	-	1,546	-	1,546
Other	-	-	1,704	-	1,704
	$ 123,777	$ 12,786	$127,380	$ 11,857	$ 275,800

Operating funds consist of cash on hand, time deposits, an overnight repurchase agreement, money market funds and bonds. 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. During fiscal year 2011, the university implemented operating fund investment guidelines, which sets forth the objectives, structure and acceptable investments for the university's operating funds.

In fiscal year 2011, the university restructured its operating funds by investing in high quality bonds, including U.S. treasuries, federal agency bonds and corporate bonds. These investments are held under the name of the university. After the restructure, the bonds comprise the largest portion of operating funds. The majority of the money market mutual funds are invested through the Common*f*und, a nonprofit provider of pooled multi-manager investment vehicles for colleges and universities. The university has a $13 million compensating balance with its checking and depository financial institution.

Capital funds include unexpended general revenue bond proceeds and related reserves and advances from state capital appropriations. Unexpended bond funds held by a trustee for construction purposes totaled $46.1 million. General revenue bond reserves totaling $6.3 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 $125.2 million in investable resources of the university's land grant endowment trust fund and are invested in a consolidated endowment fund managed by the 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.

Education Trust of Alaska investments include the operating funds of the college savings program, established pursuant to state statute by the Board of Regents and Internal Revenue Code Section 529. 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, 2012 had an estimated fair value of approximately $3.4 million.

At June 30, 2012, the university has approximately $37.4 million in investments that are not readily marketable. These investments are invested in the consolidated endowment fund managed by the foundation. 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, dependency 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 investment 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.

Credit Risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The operating fund investment guidelines require that at the time of purchase, short term instruments must be rated A1 or better by Standard & Poor's (S & P), and P1 or better by Moody's. Long term instruments must be rated BBB- or better by S & P and Baa3 or better by Moody's. The average credit rating of any separately management account portfolio shall be no lower than A by S & P and A2 by Moody's. 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, 2012, 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	Education Trust of Alaska
Money Market Mutual Fund	Aaa	$ 50,230	$13,583	$ 1,997	$ -
Money Market Mutual Fund	Not Rated	-	-	-	745
Hedge Funds	Not Rated	-	-	17,923	-
Debt Related:					
Federal Agency	Aaa	8,661	-	-	-
Fixed Income Funds	Not Rated	-	-	15,930	7,091
Corporate	Aaa	4,840	-	-	-
Corporate	Aa1	3,098	-	-	-
Corporate	Aa2	6,327	-	-	-
Corporate	Aa3	6,790	-	-	-
Corporate	A1	4,918	-	-	-
Corporate	A2	8,097	-	-	-
Corporate	A3	4,807	-	-	-
Corporate	Baa1	2,500	-	-	-

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, 2012, the university did not have any material concentrations of credit risk.

The operating fund investment guidelines limits the aggregate fair value of the portfolio that may be invested in any combination of instruments from one issuer to four percent and callable bonds are limited to 15 percent of the total portfolio value, with exceptions for federally backed securities.

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.

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, 2012, 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 a third party bank. The collateral is held in the name of the university and at June 30, 2012, provided $15.1 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, 2012, the university had the following debt investments and corresponding modified duration ($ in thousands):

	Fair Value				
Investment Type	Operating	Capital Funds	Endowment	Education Trust of Alaska	Modified Duration
Federal Agency	$ 8,661	-	-	-	0.81
Corporate	$ 41,377	-	-	-	1.46
U.S. Treasuries	$ 5,080	-	-	-	2.25
U.S. Treasuries	-	$ 43,321	-	-	0.62
U.S. Treasuries	-	-	$ 8,523	-	3.88
Fixed Income Fund	-	-	$ 15,930	-	5.05
Fixed Income Fund	-	-	-	$ 7,091	5.07

Hedge funds totaling $17.9 million are exposed to interest rate risk; however, underlying fund data is not available to measure the interest rate risk.

Foreign Currency Risk:

Foreign currency risk is the risk that changes in exchange rates could have an adverse affect on an investment's value for investments denominated in foreign currencies. GASB 40 requires disclosure of value in U.S. dollars by foreign currency denomination and investment type. The university does not have a policy regarding foreign currency risk. At June 30, 2012, the university did not have any foreign currency risk.

3. Accounts Receivable:

Accounts receivable consisted of the following at June 30, 2012 and 2011 ($ in thousands):

June 30, 2012	Gross	Allowance	Net
Student tuition and fees	$ 19,186	$ (3,221)	$ 15,965
Sponsored programs	48,028	(981)	47,047
Auxiliary services and other operating activities	529	(109)	420
Capital appropriations, grants and contracts	11,557	-	11,557
	$ 79,300	$ (4,311)	$ 74,989

June 30, 2011	Gross	Allowance	Net
Student tuition and fees	$ 15,011	$ (2,592)	$ 12,419
Sponsored programs	46,363	(1,160)	45,203
Auxiliary services and other operating activities	511	(111)	400
Capital appropriations, grants and contracts	15,717	-	15,717
	$ 77,602	$ (3,863)	$ 73,739

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 $4.6 billion and $4.3 billion at June 30, 2012 and 2011, 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 $4.8 million and $4.5 million at June 30, 2012 and 2011, 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 land sales 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, 2012 and 2011, approximately 82,400 and 82,411 acres, respectively, were held in trust at zero basis because fair value at the time of transfer was not determinable.

6. Capital Assets:

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

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012
Capital assets not depreciated:				
Land	$ 37,981	$ 535	$ -	$ 38,516
Construction in progress	146,994	184,513	66,160	265,347
Library and museum collections	59,146	1,173	-	60,319
Other capital assets:				
Buildings	1,228,745	59,365	-	1,288,110
Infrastructure	62,951	3,688	-	66,639
Equipment	175,211	17,695	12,126	180,780
Leasehold improvements	24,909	1,294	-	26,203
Other improvements	24,372	1,277	-	25,649
Total	1,760,309	269,540	78,286	1,951,563
Less accumulated depreciation:				
Buildings	615,517	41,897	-	657,414
Infrastructure	33,962	2,103	-	36,065
Equipment	129,653	12,633	11,509	130,777
Leasehold improvements	9,764	1,034	-	10,798
Other improvements	18,515	736	-	19,251
Total accumulated depreciation	807,411	58,403	11,509	854,305
Capital assets, net	$ 952,898	$211,137	$ 66,777	$ 1,097,258

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011
Capital assets not depreciated:				
Land	$ 28,490	$ 9,491	$ -	$ 37,981
Construction in progress	59,176	133,337	45,519	146,994
Library and museum collections	57,964	1,182	-	59,146
Other capital assets:				
Buildings	1,196,399	32,416	70	1,228,745
Infrastructure	61,191	1,760	-	62,951
Equipment	171,028	14,417	10,234	175,211
Leasehold improvements	26,632	-	1,723	24,909
Other improvements	22,777	1,595	-	24,372
Total	1,623,657	194,198	57,546	1,760,309
Less accumulated depreciation:				
Buildings	574,633	40,931	47	615,517
Infrastructure	32,044	1,918	-	33,962
Equipment	125,912	12,517	8,776	129,653
Leasehold improvements	9,916	1,127	1,279	9,764
Other improvements	17,838	677	-	18,515
Total accumulated depreciation	760,343	57,170	10,102	807,411
Capital assets, net	$ 863,314	$137,028	$ 47,444	$ 952,898

7. Unrestricted Net Assets:

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

	2012	2011
Designated:		
Auxiliaries	$ 10,478	$ 11,472
Working capital fund	4,803	4,827
Working capital advances	(1,390)	(252)
Service centers	20,380	17,399
Debt service funds	6,882	4,034
Quasi-endowment funds	30,402	28,600
Renewal and replacement funds	13,196	12,141
Employee benefit funds	9,644	1,415
Endowment earnings	13,230	12,769
Encumbrances	12,468	14,615
Total designated	120,093	107,020
Undesignated	19,986	19,895
Total unrestricted net assets	$ 140,079	$ 126,915

Unrestricted net assets include non-lapsing university receipts of $52.8 million at June 30, 2012. Non-lapsing university receipts of $51.9 million from 2011 were fully expended in 2012. At June 30, 2012 and 2011, $63.3 million and $63.4 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, 2012 were as follows ($ in thousands):

Year ended June 30,	Principal	Interest	Total
2013	$ 8,952	$ 5,761	$ 14,713
2014	9,308	5,439	14,747
2015	8,977	5,189	14,166
2016	9,334	4,867	14,201
2017	9,516	4,540	14,056
2018-2022	46,742	17,483	64,225
2023-2027	40,229	8,232	48,461
2028-2032	17,111	2,330	19,441
2033-2036	4,200	201	4,401
	$ 154,369	$ 54,042	$ 208,411

Long-term debt consisted of the following at June 30, 2012 and 2011 ($ in thousands):

	2012	2011
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.	$ 136,595	$ 95,445
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.	16,100	17,290
Equipment financings 3.0% to 4.77% note for the purchase of equipment and vehicles due in quarterly installments through June 2017.	1,674	1,802
	$ 154,369	$ 114,537

In October 2011 the university issued general revenue bonds 2011 Series Q with a par amount of $48,870,000 and a 20 year term. The bonds fund a portion of the Fairbanks campus Life Sciences Facility, numerous deferred maintenance projects and a food service project on the Juneau campus. In March 2012, the university issued general revenue refunding bonds 2012 Series R with a par amount of $32,805,000 and a 17 year term. The bonds refunded substantially all maturities of 2002 Series K, 2003 Series L and 2004 Series M general revenue bonds. The economic gain from the refunding is approximately $5.0 million in present value and total debt service payments are reduced by $6.4 million over the life of the bonds.

In fiscal year 2012, the state reimbursed the university $1,415,470 for debt service on 2002 Series K general revenue bond projects. During fiscal year 2012, substantially all maturities of 2002 Series K were refunded with the issuance of 2012 Series R. As a result, and subject to appropriation, future annual reimbursement for the projects is approximately $1.25 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, 2012 and 2011 was $6.3 million and $4.7 million, respectively.

9. Unearned Lease Revenue:

In fiscal year 1997, the university entered into an agreement to construct a facility and establish the International Arctic Research Center (IARC), subsequently renamed Akasofu Building. The university received $19,215,000 through a Japanese nonprofit 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 Akasofu Building in fiscal year 1999. The unearned lease revenue at June 30, 2012 is $2,241,750 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, 2011	Additions	Reductions	Balance June 30, 2012	Balance due within one year
Unearned revenue - capital	$ 5,678	$ 4,922	$ 5,169	$ 5,431	-
Unearned lease revenue	3,523	-	1,281	2,242	1,281
Long-term debt	114,537	82,229	42,397	154,369	8,952
Security deposits and other	5,131	354	252	5,233	-
	$ 128,869	$87,505	$ 49,099	$ 167,275	$ 10,233

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Balance due within one year
Unearned revenue - capital	$ 2,875	$ 4,284	$ 1,481	$ 5,678	-
Unearned lease revenue	4,804	-	1,281	3,523	1,281
Long-term debt	121,300	-	6,763	114,537	6,958
Security deposits and other	5,980	1	850	5,131	-
	$ 134,959	$ 4,285	$ 10,375	$ 128,869	$ 8,239

11. Capital Appropriations and Construction Commitments:

Major construction projects of the university are funded primarily by State of Alaska appropriations and general obligation bonds, 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, 2012, totaled $240.1 million. In addition, unexpended proceeds of university-issued general revenue bonds designated for construction projects totaled $43.6 million at June 30, 2012.

Construction commitments at June 30, 2012 aggregated $143.7 million. At June 30, 2012, the university had received $6.2 million from State of Alaska capital appropriations and other sources in advance of expenditures.

As of June 30, 2012 the university has spent $109.3 million, part of construction in progress, on building a ship named "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).

The university provides elective deferral options for employee contributions to deferred annuity plans in accordance with Internal Revenue Code sections 403(b) and 457(b), subject to eligibility criteria.

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.

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

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 2012 actuarially determined rate was 33.49 percent of applicable gross pay. However, the employer contribution rate for the university was capped by the state at 22 percent for fiscal year 2012.

The state appropriated funding directly to the PERS-DB plan as a relief payment to employers' contributions for fiscal year 2012. The university recognized $14,416,865, $10,456,189 and $7,126,913 for fiscal 2012, 2011 and 2010, respectively, 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, 2012, 2011 and 2010 were $25,281,376, $26,390,066 and $27,074,153, 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.

<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 a percentage of annual covered payroll, are sufficient to accumulate the assets to pay benefits when due. During fiscal year 2012, 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, 2012, 2011 and 2010 were $4,923,986, $5,243,968, and $5,454,265, respectively, equal to the required employer contributions for each year.

The actuarially determined employer contribution rate for 2012 was 45.55 percent. The state appropriated funding directly to the TRS-DB plan to augment employer contributions for 2012. For fiscal year 2012, 2011 and 2010, the university recognized $13,379,877, $11,382,779 and $10,848,081, respectively, in state on-behalf pension payments for the TRS-DB plan.

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

Plan Description

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

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 2012 and 2011. For the years ended June 30, 2012 and 2011, the university's total covered payroll for the PERS-DC plan was approximately $8.3 million and $7.0 million, and contributions made by the university totaled $1,818,585 and $1,548,744, 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 2012 and 2011 are 0.51 and 0.55 percent for medical coverage and 0.20 and 0.31 percent (0.97 percent for peace officers and firefighters) for occupational death and disability benefit contributions. For fiscal years 2012 and 2011, the HRA employer contributions are $148.17 and $143.39 per month for full time employees and $1.14 and $1.10 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 2012 and 2011. For the years ended June 30, 2012 and 2011, the university's total covered payroll for the TRS-DC plan was approximately $4.4 million and $3.4 million, and contributions made by the university totaled $558,275 and $429,910, 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 2012 and 2011 for each member's compensation was 0.58 and 0.68 percent for medical coverage, zero and 0.28 percent for occupational death and disability benefit contributions. For fiscal years 2012 and 2011, the HRA employer contributions are $148.17 and $143.39 per month for full time employees and $1.14 and $1.10 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 - Defined Contribution (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 2012 and 2011). The employer contribution rate will be 14 percent in fiscal year 2013 as a result of a class-action lawsuit settlement agreed to in fiscal year 2012.

In fiscal year 2012 and 2011, the university's total covered payroll for the ORP Tier 1 plan was approximately $47.9 million and $49.4 million, respectively. The amounts contributed to the ORP Tier 1 by the university during the years ended June 30, 2012, 2011 and 2010 were $6,016,545, $6,203,129, and $6,381,618, 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 contributes 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 2012 and 2011.

In fiscal year 2012 and 2011, the university's total covered payroll for the ORP Tier 2 plan was approximately $3.4 million and $3.6 million, respectively. The amounts contributed to the ORP Tier 2 by the university during the years ended June 30, 2012, 2011 and 2010 were $409,160, $429,824, and $446,041, 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 2012 and 2011, the university's total covered payroll for the ORP Tier 3 plan was approximately $87.5 million and $73.8 million, respectively. The amounts contributed to the ORP Tier 3 by the university during the years ended June 30, 2012, 2011 and 2010 were $10,496,123, $8,850,715, and $7,436,012, respectively.

Plan Assets

At June 30, 2012 and 2011, plan assets (participants' accounts attributable to employer contributions) for ORP Tier 1, Tier 2 and Tier 3 had a net value of approximately $155.3 million and $143.8 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, 2012, employer contributions for regular employees were 7.65 percent of covered wages up to $42,000 and $110,100 in 2012 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 2012 and 2011, the university's total covered payroll for the Pension plan was approximately $176.0 million and $176.2 million, respectively. The university's costs to fund and administer the plan totaled $13.5 million, or 7.65 percent of covered payroll. At June 30, 2012 and 2011, plan assets (participants' accounts) had a net value of approximately $311.6 million and $317.2 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 using actuarial analysis 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.

Health, general liability and worker's compensation liabilities were reduced by $2.8 million, $6.1 million and $3.2 million, respectively, in 2011 to bring the balances closer to actuarial estimates. The effect is shown in the provision for claims. The claims payment for general liability includes an internal repayment of a settlement totaling $1.7 million.

Changes in applicable liability amounts follow ($ in thousands):

	Balance July 1, 2011	Provision for Claims	Claims Payments	Balance June 30, 2012
Health	$ 6,162	$ 56,363	$ (56,336)	$ 6,189
General liability	2,929	692	(458)	3,163
Workers' compensation	4,499	2,143	(1,868)	4,774
Unemployment	252	818	(924)	146
	$ 13,842	$ 60,016	$ (59,586)	$ 14,272

	Balance July 1, 2010	Provision for Claims	Claims Payments	Balance June 30, 2011
Health	$ 8,975	$ 64,113	$ (66,926)	$ 6,162
General liability	6,863	(3,216)	(718)	2,929
Workers' compensation	6,690	(1,052)	(1,139)	4,499
Unemployment	235	993	(976)	252
	$ 22,763	$ 60,838	$ (69,759)	$ 13,842

	Balance July 1, 2009	Provision for Claims	Claims Payments	Balance June 30, 2010
Health	$ 8,392	$ 60,333	$ (59,750)	$ 8,975
General liability	5,613	1,591	(341)	6,863
Workers' compensation	5,991	1,973	(1,274)	6,690
Unemployment	138	813	(716)	235
	$ 20,134	$ 64,710	$ (62,081)	$ 22,763

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 proceedings, or insufficient information exists to make an opinion.

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, nonprofit organization formed in 1974 to solicit donations for the exclusive benefit of the University of Alaska. During 2012 and 2011, the university transferred $1.4 million and $1.2 million for general support, respectively. For the same periods, the foundation reimbursed the university for operating expenses totaling $2.5 million and $2.6 million, respectively.

For the years ended June 30, 2012 and 2011, distributions and expenditures by the foundation for the benefit of the university totaled $13.9 million and $13.7 million, of which $13.7 million and $12.6 million were direct reimbursements to the university. Additionally, the foundation owed the university $2.2 million at June 30, 2012 and $1.8 million at June 30, 2011, 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, 2012 and 2011, the fair value of the fund was $263.0 million and $257.3 million, respectively. The university’s share of this fund was $125.2 million and $125.4 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 2012 and 2011 were as follows ($ in thousands):

	Compensation & Benefits	Contractual Services	Materials	Other	Student Aid	Depreciation	Total
Instruction	$ 175,186	$ 26,807	$ 10,522	$ 720	$ -	$ -	$ 213,235
Academic support	48,642	8,012	8,193	319	-	-	65,166
Research	91,310	34,658	9,646	314	-	-	135,928
Public service	24,552	11,521	2,432	337	-	-	38,842
Student services	38,081	11,684	3,235	92	-	-	53,092
Operations and maintenance	29,215	19,972	15,843	446	-	-	65,476
Institutional support	73,462	14,554	4,884	2,472	-	-	95,372
Student aid	-	-	-	-	28,460	-	28,460
Auxiliary enterprises	10,118	17,232	10,850	88	-	-	38,288
Depreciation	-	-	-	-	-	58,403	58,403
State on-behalf payments	-	-	-	27,797	-	-	27,797
	$ 490,566	$ 144,440	$ 65,605	$ 32,585	$ 28,460	$ 58,403	$ 820,059

	Compensation & Benefits	Contractual Services	Materials	Other	Student Aid	Depreciation	Total
Instruction	$ 172,558	$ 26,078	$ 11,079	$ 938	$ -	$ -	$ 210,653
Academic support	46,644	7,506	7,237	66	-	-	61,453
Research	94,177	36,540	9,279	457	-	-	140,453
Public service	24,666	10,607	1,911	363	-	-	37,547
Student services	37,579	11,420	3,086	89	-	-	52,174
Operations and maintenance	29,012	20,063	13,263	434	-	-	62,772
Institutional support	71,208	11,428	4,011	303	-	-	86,950
Student aid	-	-	-	-	27,280	-	27,280
Auxiliary enterprises	9,741	17,538	10,573	95	-	-	37,947
Depreciation	-	-	-	-	-	57,170	57,170
State on-behalf payments	-	-	-	21,839	-	-	21,839
	$ 485,585	$ 141,180	$ 60,439	$ 24,584	$ 27,280	$ 57,170	$ 796,238

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UNIVERSITY of ALASKA
Many Traditions One Alaska

University of Alaska and University of Alaska Foundation Consolidated Endowment Fund

KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report

The Board of Trustees
University of Alaska and University of Alaska
Foundation Consolidated Endowment Fund:

We have audited the accompanying statements of assets and liabilities of the University of Alaska and University of Alaska Foundation Consolidated Endowment Fund (Fund) as of June 30, 2012 and 2011, and the related statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Fund'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. 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 Fund'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 financial position of the University of Alaska and University of Alaska Foundation Consolidated Endowment Fund as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 15, 2012

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UNIVERSITY OF ALASKA
and
UNIVERSITY OF ALASKA FOUNDATION
CONSOLIDATED ENDOWMENT FUND

STATEMENTS OF ASSETS AND LIABILITIES
June 30, 2012 and 2011

Assets	2012	2011
Cash and cash equivalents	$ 13,103,620	$ 17,357,870
Fixed income securities	51,109,718	50,972,030
Equity securities	147,609,974	175,354,548
Real assets	25,772,170	8,827,879
Absolute return	25,449,183	4,762,967
Total assets	263,044,665	257,275,294
Liabilities	-	-
Net Assets		
University of Alaska	125,225,758	125,422,019
University of Alaska Foundation	137,818,907	131,853,275
Total net assets	$ 263,044,665	$ 257,275,294

The accompanying notes are an integral part of the financial statements

UNIVERSITY OF ALASKA
and
UNIVERSITY OF ALASKA FOUNDATION
CONSOLIDATED ENDOWMENT FUND

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
For the years ended June 30, 2012 and 2011

	2012	2011
Investment Income		
Interest and dividend income	$ 2,443,066	$ 4,132,919
Operating gains (losses)	233,748	(62,584)
Net investment income before expenses	2,676,814	4,070,335
Expenses		
Management fees	300,221	154,315
Investment consulting fees	88,000	107,000
Audit fees	24,695	23,519
Other	10,769	242
Total expenses	423,685	285,076
Net investment income	2,253,129	3,785,259
Realized and Unrealized Investment Gains (Losses)		
Net realized and unrealized investment gains (losses)	(1,836,302)	36,723,293
Net Increase in Net Assets Resulting from Operations	416,827	40,508,552
Distributions for endowment spending	(9,839,646)	(8,161,231)
Distributions for endowment assessments	(1,838,290)	(1,619,574)
Additional net investments	17,030,480	10,329,979
Increase in Net Assets	5,769,371	41,057,726
Net assets, beginning of year	257,275,294	216,217,568
Net assets, end of year	$ 263,044,665	$ 257,275,294

The accompanying notes are an integral part of the financial statements

UNIVERSITY OF ALASKA
and
UNIVERSITY OF ALASKA FOUNDATION
CONSOLIDATED ENDOWMENT FUND

STATEMENTS OF CASH FLOWS
For the years ended June 30, 2012 and 2011

Cash flows from operating activities:	2012	2011
Net increase in net assets from operations	$ 416,827	$ 40,508,552
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Purchases of investments	(57,072,714)	(34,820,033)
Proceeds from distributions or sale of investments	45,212,791	25,585,842
Net realized and unrealized gain (loss) on investments	1,836,302	(36,723,293)
Net cash used in operating activities	(9,606,794)	(5,448,932)
Cash flows from financing activities:		
Additional net investments	17,030,480	10,329,979
Spending distributions	(9,839,646)	(8,161,231)
Endowment assessments	(1,838,290)	(1,619,574)
Net cash provided by financing activities	5,352,544	549,174
Net decrease in cash and cash equivalents	(4,254,250)	(4,899,758)
Cash and cash equivalents, beginning of year	17,357,870	22,257,628
Cash and cash equivalents, end of year	$ 13,103,620	$ 17,357,870

The accompanying notes are an integral part of the financial statements

1. Organization

The Consolidated Endowment Fund (fund) was established July 1, 1997 to combine, for investment purposes, certain assets of the University of Alaska (university) Land-Grant Endowments and the University of Alaska Foundation (foundation) Pooled Endowment Fund. The fund is managed by the foundation through its investment committee and treasurer.

The university's Land-Grant Endowments consist of the Endowment Trust Fund, which is codified in Alaska Statute 14.40.400, and its companion Inflation-Proofing Fund. The source of the funding consists of income from the sale or lease of land granted to the university by an Act of Congress approved January 21, 1929, other gifts and bequests and funds dedicated to the purposes of the Endowment Trust Fund by the Board of Regents.

The Foundation Pooled Endowment Fund includes endowment and similar funds contributed to the foundation that do not have specific investment restrictions. Earnings from the Pooled Endowment Fund are primarily for the support of the university, subject to donor imposed restrictions.

Investments of the fund may be held in the name of the foundation, the university, the fund, or any fund or nominee as may be authorized by the foundation's treasurer.

In preparing the financial statements in conformity with US generally accepted accounting principles, management is required to make estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the statements of assets and liabilities and operations and changes in net assets for the period. Actual results may differ from those estimates and those differences could be material. The more significant accounting and reporting policies and estimates applied in the preparation of the accompanying financial statements are discussed below.

2. Summary of Significant Accounting Policies

The financial statements are prepared using the accrual basis of accounting.

Due to the endowment nature of the fund, all assets, including cash and cash equivalents, are considered non-current assets held for long-term investment. Cash and cash equivalents consist of highly liquid short-term investments including an overnight repurchase agreement and Rule 2a-7 qualified prime money market accounts.

The fund is managed under the "total return" concept of investment management intended to preserve and maintain the purchasing power of the principal. This approach emphasizes total investment return - traditional yield or investment income, and net realized and unrealized gains and losses.

The fund uses a unitized system to account for each participant's interest. Contributions to and withdrawals from the fund result in an increase or decrease in the number of units owned and are based on the unit value at the beginning of the month in which the contribution or withdrawal is made. Large additions to the fund are initially invested in cash and cash equivalents and dollar cost-averaged into the investment pool over a ten month period. Investment income, fees, and realized and unrealized gains and losses are allocated monthly to participating funds on a per unit basis. Investment income net of fees increases the number of units outstanding, while realized and unrealized gains and losses affect the per unit value.

2. Summary of Significant Accounting Policies, continued

Investments

The overall investment objective of the fund is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to support, in perpetuity, the various purposes of the endowments that make up the fund. The fund diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by an Investment Committee of the foundation's Board of Trustees, which oversees the fund's investment program in accordance with established agreements.

The fund holds interests in traditional fixed income and equity securities through commingled funds, and also invests in alternative strategies, including various hedged and private capital funds. Investment funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments, and are valued accordingly. Private capital funds include private equity and venture capital, energy and natural resources, mezzanine and distressed debt, and private real estate partnerships. Private capital strategies often require the estimation of fair values by the fund managers in the absence of readily determinable market values. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by investment fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held. Moreover, the fair values of the fund's interests in shares or units of these funds, because of liquidity and capital commitment terms that vary depending on the specific fund or partnership agreement, may differ from the fair value of the funds' underlying net assets.

Fair Value Measurement

The fund follows the Financial Accounting Standards Board (FASB) guidance on fair value measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 – Quoted prices for similar assets or liabilities, or inputs that are observable, either directly or indirectly, in markets that are either active or inactive. This includes alternative investments valued at net asset value or equivalent with a redemption period of 90 days or less.

Level 3 – Pricing inputs are unobservable for the asset or liability and are based on the fund's own assumptions about the assumptions that market participants would use in pricing the asset or liability. Level 3 may include investments that are supported by little or no market activity.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The inputs or methodology used for valuing investments are not necessarily an indication of the risk associated with investing in those investments.

Summary of Significant Accounting Policies, continued

The majority of the fund's investments are reported at the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value of the fund's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2012 and 2011, the fund had no plans or intentions to sell investments at amounts different from NAV.

The following tables summarize the fund's investments by major category in the fair value hierarchy as of June 30, 2012 and 2011, as well as related strategy, liquidity and funding commitments:

	June 30, 2012				Redemption	Days'
	Level 1	Level 2	Level 3	Total	Frequency	Notice
Fixed income securities:						
US core index fund	$ -	$ 33,295,554	$ -	$ 33,295,554	Daily	5
US Treasury index fund	-	17,814,164	-	17,814,164	Daily	5
	-	51,109,718	-	51,109,718		
Equity securities:						
Domestic index fund	-	45,041,565	-	45,041,565	Daily	5
Global index fund	-	25,686,876	-	25,686,876	Semi-monthly	5
Global value mutual fund	11,613,707	-	-	11,613,707	Daily	1
Global growth funds	-	11,661,492	-	11,661,492	Monthly	6-15
Multi-strategy hedged funds	-	5,691,608	5,096,310	10,787,918	Various (1)	90
Event arbitrage hedged fund	-	-	1,224,759	1,224,759	Illiquid (2)	N/A
Global REIT fund	-	3,203,119	-	3,203,119	Monthly	15
Emerging markets index fund	-	13,033,499	-	13,033,499	Semi-monthly	5
Private equity & venture funds	-	-	21,212,807	21,212,807	Illiquid (3)	N/A
Mezzanine & distressed debt funds	-	-	4,144,232	4,144,232	Illiquid (4)	N/A
	11,613,707	104,318,159	31,678,108	147,609,974		
Real assets:						
Real assets index fund	-	8,743,270	-	8,743,270	Semi-monthly	5
Multi-strategy commodities fund	-	1,646,224	-	1,646,224	Monthly	30
US private real estate funds	-	-	6,100	6,100	Illiquid (5)	N/A
Energy & natural resources funds	-	-	6,795,868	6,795,868	Illiquid (6)	N/A
Open-ended core real estate funds	-	8,580,708	-	8,580,708	Quarterly	30-60
	-	18,970,202	6,801,968	25,772,170		
Absolute return:						
Absolute return hedged funds	-	17,091,982	8,357,201	25,449,183	Various (7)	65-95
	-	17,091,982	8,357,201	25,449,183		
	$ 11,613,707	$ 191,490,061	$ 46,837,277	$ 249,941,045		

(1) One fund allows quarterly redemptions, one fund allows annual redemptions next available December 2012.
(2) Fund is in liquidation. Timing of redemption proceeds is unknown.
(3) Funds are expected to liquidate within 1-15 years. Unfunded future commitments total $10.17 million.
(4) Funds are expected to liquidate within 1-7 years. Unfunded future commitments total $0.83 million.
(5) Funds are expected to liquidate within 1-3 years. Unfunded future commitments total $0.05 million
(6) Funds are expected to liquidate within 1-15 years. Unfunded future commitments total $3.69 million.
(7) One fund allows monthly redemptions, one fund allows quarterly redemptions, one fund allows semi-annual redemptions next available December 2012.

2. Summary of Significant Accounting Policies, continued

	June 30, 2011				Redemption	Days'
	Level 1	Level 2	Level 3	Total	Frequency	Notice
Fixed income securities:						
US core index fund	$ -	$ 33,095,642	$ -	$ 33,095,642	Daily	5
US Treasury index fund	-	17,876,388	-	17,876,388	Daily	5
	-	50,972,030	-	50,972,030		
Equity securities:						
Domestic index fund	-	56,084,887	-	56,084,887	Daily	5
Global index fund	-	25,995,202	-	25,995,202	Semi-monthly	5
Global value mutual fund	11,408,036	-	-	11,408,036	Daily	1
Global growth funds	-	24,569,487	-	24,569,487	Monthly	6-15
Multi-strategy hedged funds	-	6,146,616	5,439,403	11,586,019	Various (1)	90
Event arbitrage hedged fund	-	-	1,627,368	1,627,368	Illiquid (2)	N/A
Global REIT fund	-	3,102,858	-	3,102,858	Monthly	15
Emerging markets index fund	-	13,029,334	-	13,029,334	Semi-monthly	5
Private equity & venture funds	-	-	22,628,157	22,628,157	Illiquid (3)	N/A
Mezzanine & distressed debt funds	-	-	5,323,200	5,323,200	Illiquid (4)	N/A
	11,408,036	128,928,384	35,018,128	175,354,548		
Real assets:						
Multi-strategy commodities fund	-	1,901,842	-	1,901,842	Monthly	30
US private real estate fund	-	-	15,730	15,730	Illiquid (5)	N/A
Energy & natural resources funds	-	-	6,910,307	6,910,307	Illiquid (6)	N/A
Open-ended core real estate funds	-	-	-	-	(7)	
	-	1,901,842	6,926,037	8,827,879		
Absolute return:						
Absolute return hedged fund	-	4,762,967	-	4,762,967	Quarterly	60
	-	4,762,967	-	4,762,967		
	$ 11,408,036	$ 186,565,223	$ 41,944,165	$ 239,917,424		

(1) One fund allows quarterly redemptions, one fund allows annual redemptions next available December 2012.
(2) Fund is in liquidation. Timing of redemption proceeds is unknown.
(3) Funds are expected to liquidate within 1-9 years. Unfunded future commitments total $8.18 million.
(4) Funds are expected to liquidate within 1-6 years. Unfunded future commitments total $0.86 million.
(5) Funds are expected to liquidate within 1 year. Unfunded future commitments total $0.05 million
(6) Funds are expected to liquidate within 1-8 years. Unfunded future commitments total $1.48 million.
(7) Unfunded future commitments total $8.0 million.

The fund’s registered mutual fund is classified in Level 1 of the fair value hierarchy because its fair value is based on quoted market prices. Most investments classified in Levels 2 and 3 consist of shares or units in non-registered investment funds as opposed to direct interests in the funds’ underlying securities, some of which are marketable or not difficult to value. Because each investment fund’s reported NAV is used as a practical expedient to estimate the fair value of the fund’s interest therein, the level in which an investment fund’s fair value measurement is classified is based on the fund’s ability to redeem its interest at or near the date of the

2. Summary of Significant Accounting Policies, continued

statement of assets and liabilities. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risks associated with those investments or a reflection of the liquidity of or degree of difficulty in estimating the fair value of each investment fund's underlying assets and liabilities.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

The fund evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets available for benefits. For the year ended June 30, 2011, the fund reported one significant transfer from Level 2 to Level 3. ASC 820, as amended by ASU 2009-12, provides that investments redeemable at net asset value in the near term may be classified as Level 2. AICPA Technical Practice Aid 2220.18-.27 defines a redemption period of 90 days or less as 'near term'. This transfer between levels was due to a redemption period of greater than 90 days. There were no transfers between levels during the year ended June 30, 2012.

The following table presents the fund's activities for the years ended June 30, 2012 and 2011 for investments classified in Level 3:

	Equity Securities	Real Assets	Absolute Return	Total
Balance, July 1, 2010	$ 28,760,694	$ 6,294,162	$ -	$ 35,054,856
Transfers in from Level 2	4,988,914	-	-	4,988,914
Additions	2,332,468	457,500	-	2,789,968
Withdrawals	(7,870,812)	(682,113)	-	(8,552,925)
Net investment income (losses)	157,337	(81,146)	-	76,191
Net realized gains (losses)	1,917,609	(3,765,088)	-	(1,847,479)
Change in net unrealized gains	4,731,918	4,702,722	-	9,434,640
Balance, June 30, 2011	$ 35,018,128	$ 6,926,037	$ -	$ 41,944,165
Additions	2,525,499	787,500	8,200,000	11,512,999
Withdrawals	(6,337,859)	(1,214,400)	-	(7,552,259)
Net investment income (losses)	(126,644)	84,168	(57,394)	(99,870)
Net realized gains	1,784,789	208,472	-	1,993,261
Change in net unrealized gains (losses)	(1,185,805)	10,191	214,595	(961,019)
Balance, June 30, 2012	$ 31,678,108	$ 6,801,968	$ 8,357,201	$ 46,837,277

The amount of net unrealized losses related to Level 3 assets still held at June 30, 2012 is approximately $1.0

2. Summary of Significant Accounting Policies, continued

million and is included in the net realized and unrealized investment gains in the statement of operations and changes in net assets.

Private capital investments are generally made through limited partnerships. Under the terms of such agreements, the fund may be required to provide additional funding when capital or liquidity calls are made by investment fund managers. These partnerships have a limited existence, and they may provide for annual extensions for the purpose of disposing of portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, or other factors, a manager may extend the terms of an investment fund beyond its originally anticipated existence or may wind it down prematurely. The fund cannot anticipate such changes because they generally arise from unforeseeable events, but should they occur they could reduce liquidity or originally anticipated investment returns. Accordingly, the timing and amount of future capital or liquidity calls in any particular future year are uncertain. Several of the fund's private capital investments are in mature stages where wind down or liquidation is likely in the next several years. The fund's hedge funds also have liquidity limitations including two funds with quarterly redemptions and another with annual redemptions each December.

Investment liquidity as of June 30, 2012 is aggregated below based on redemption or sale period:

Redemption Period	Amounts	Fiscal Year	Amounts
Daily	$ 107,764,989	2013	$ 222,773,861
Semi-Monthly	47,463,644	2014	5,288,027
Monthly	24,899,446	2015	1,800,928
Quarterly	22,523,646	2016	3,452,432
Semi-Annually	8,357,201	2017	9,261,326
Annually	5,096,311	2018	-
Illiquid	33,835,808	Thereafter	7,364,471
	$ 249,941,045		$ 249,941,045

Income Taxes

The fund itself is not subject to federal or state income taxes and, therefore, no provision for income taxes has been made in the accompanying financial statements. The participants in the fund are subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. Any income tax provision from an unrelated trade or business would be recorded in the financial statements of each participant.

Subsequent Events

The fund has evaluated subsequent events and transactions that occurred after June 30, 2012 through the date the financial statements were available to be issued, concluding October 15, 2012. The fund is heavily dependent upon the investment markets and is subject to the volatility exhibited in these markets.

3. Asset Allocation

The asset allocation of the fund's investments was as follows:

	2012	2011
Cash and cash equivalents	5.0%	6.7%
Fixed income	19.4%	19.8%
Equities, domestic	17.1%	21.8%
Equities, global	24.4%	30.4%
Equities, emerging markets	5.0%	5.1%
Equities, private	9.6%	10.9%
Real assets	9.8%	3.4%
Absolute return	9.7%	1.9%
	100%	100%

4. Changes in Net Asset Balances

Changes in net asset balances by participant were as follows:

	Foundation	University	Total
Balance, July 1, 2010	$ 102,012,001	$ 114,205,567	$ 216,217,568
Net increase from operations	19,330,511	21,178,041	40,508,552
Distributions for spending	(3,313,940)	(4,847,291)	(8,161,231)
Distributions for assessments	(1,022,234)	(597,340)	(1,619,574)
Additional net investments (withdrawals)	14,846,937	(4,516,958)	10,329,979
Balance, June 30, 2011	131,853,275	125,422,019	257,275,294
Net increase from operations	341,450	75,377	416,827
Distributions for spending	(4,787,727)	(5,051,919)	(9,839,646)
Distributions for assessments	(1,211,665)	(626,625)	(1,838,290)
Additional net investments	11,623,574	5,406,906	17,030,480
Balance, June 30, 2012	$ 137,818,907	$ 125,225,758	$ 263,044,665

5. Distributions

Distributions from the fund are based on spending policies established by each participant and assessments charged by the foundation to cover administrative and fundraising expenses.

Front Cover Courtesy of Monique Musick

Back Cover Courtesy of Todd Paris