



**UNIVERSITY OF ALASKA
and
UNIVERSITY OF ALASKA FOUNDATION
CONSOLIDATED FUND**

Financial Statements

June 30, 2004 and 2003

(With Independent Auditor's Report Thereon)



**UNIVERSITY OF ALASKA
and
UNIVERSITY OF ALASKA FOUNDATION
CONSOLIDATED FUND**

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KPMG LLP
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Independent Auditors' Report

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

We have audited the accompanying statements of assets and liabilities of the University of Alaska and University of Alaska Foundation Consolidated Fund as of June 30, 2004 and 2003, and the related statements of operations and changes in net assets for the years then ended. These financial statements are the responsibility of the University of Alaska and University of Alaska Foundation Consolidated 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. These standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Alaska and University of Alaska Foundation Consolidated Fund at June 30, 2004 and 2003, and the changes in its net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

September 10, 2004



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**UNIVERSITY OF ALASKA
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**STATEMENTS OF ASSETS AND LIABILITIES
June 30, 2004 and 2003**

| Assets | 2004 | 2003 |
|--|----------------|----------------|
| Cash and cash equivalents | \$ 6,625,560 | \$ 6,795,069 |
| Fixed income securities | 43,560,605 | 35,628,379 |
| Equity securities | 72,128,917 | 66,382,560 |
| Alternative investments | 24,977,613 | 14,551,350 |
| Real estate partnerships and investment trusts | 8,584,168 | 8,344,783 |
| Other investments | 5,000,000 | 3,067,682 |
| Interest and dividends receivable | 232,209 | 110,080 |
| Due from the University of Alaska Foundation | 7,248 | 60,362 |
| Total assets | 161,116,320 | 134,940,265 |
| | | |
| Liabilities | | |
| Management fees payable | 47,933 | - |
| Total liabilities | 47,933 | - |
| | | |
| Net Assets | | |
| University of Alaska | 91,822,084 | 79,554,458 |
| University of Alaska Foundation | 69,246,303 | 55,385,807 |
| Total net assets | \$ 161,068,387 | \$ 134,940,265 |

The accompanying notes are an integral part of the financial statements

**UNIVERSITY OF ALASKA
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**STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
For the years ended June 30, 2004 and 2003**

| Investment Income | 2004 | 2003 |
|---|----------------|----------------|
| Interest and dividend income | \$ 2,790,479 | \$ 2,725,604 |
| Operating income (losses) from alternative investments | 79,035 | (138,013) |
| Other investment income | 505,776 | 37,035 |
| Net investment income before expenses | 3,375,290 | 2,624,626 |
| Expenses | | |
| Management fees | 193,548 | 195,889 |
| Investment consulting fees | 50,000 | 50,000 |
| Custodial fees | 31,755 | 24,041 |
| Audit fees | 7,980 | 5,750 |
| Total expenses | 283,283 | 275,680 |
| Net investment income | 3,092,007 | 2,348,946 |
| Realized and Unrealized Investment Gains (Losses) | | |
| Net realized and unrealized investment gains (losses) | 15,232,696 | (1,051,107) |
| Net Increase in Net Assets Resulting from Operations | 18,324,703 | 1,297,839 |
| Distributions for endowment spending | (4,264,674) | (4,044,489) |
| Additional investments | 12,068,093 | 8,085,871 |
| Net Increase in Net Assets | 26,128,122 | 5,339,221 |
| Net assets, beginning of year | 134,940,265 | 129,601,044 |
| Net assets, end of year | \$ 161,068,387 | \$ 134,940,265 |

The accompanying notes are an integral part of the financial statements

UNIVERSITY OF ALASKA
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NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

1. Organization and Summary of Significant Accounting Policies

Organization

The Consolidated Fund (fund) was established July 1, 1997 to combine, for investment purposes, certain assets of the University of Alaska (university) Endowment Trust Fund 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 Endowment Trust Fund, codified in Alaska Statute 14.40.400, is an endowment trust 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 and other gifts and bequests.

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 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, 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 for the period. 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.

Basis of Accounting

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.

Investments that have a readily determinable fair value are stated at current fair value. The net realized and unrealized appreciation (depreciation) in fair value of investments is reflected in the statement of operations.

Other investments that do not have a readily determinable fair value are stated at cost. 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.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

1. Organization and Summary of Significant Accounting Policies, continued

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.

Reclassifications

Certain reclassifications have been made to prior period amounts in order to conform them to current period presentation.

2. Asset Allocation

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

| | <u>2004</u> | <u>2003</u> |
|--|-------------|-------------|
| Cash and cash equivalents | 4.1% | 5.0% |
| Fixed income, domestic | 27.1% | 26.5% |
| Equities, domestic | 33.2% | 37.5% |
| Equities, foreign | 11.6% | 11.7% |
| Alternative investments | 15.6% | 10.8% |
| Real estate partnerships and investment trusts | 5.3% | 6.2% |
| Other investments | <u>3.1%</u> | <u>2.3%</u> |
| | <u>100%</u> | <u>100%</u> |

3. Commitments

The fund had commitments to make capital contributions to various alternative investments and real estate investment trusts totaling \$17 million and \$23 million at June 30, 2004 and 2003.

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4. Changes in Net Asset Balances

Changes in net asset balances by participant were as follows:

| | <u>Foundation</u> | <u>University</u> | <u>Total</u> |
|--|----------------------|----------------------|-----------------------|
| Balance, July 1, 2002 | \$ 55,700,993 | \$ 73,900,051 | \$ 129,601,044 |
| Net decrease from operations | 409,843 | 887,996 | 1,297,839 |
| Distributions for endowment spending | (1,881,410) | (2,163,079) | (4,044,489) |
| Additional investments | <u>1,156,381</u> | <u>6,929,490</u> | <u>8,085,871</u> |
| Balance, June 30, 2003 | 55,385,807 | 79,554,458 | 134,940,265 |
| Net increase from operations | 7,649,450 | 10,675,253 | 18,324,703 |
| Distributions for endowment spending | (1,458,831) | (2,805,843) | (4,264,674) |
| Additional net investments/withdrawals | <u>7,669,877</u> | <u>4,398,216</u> | <u>12,068,093</u> |
| Balance, June 30, 2004 | <u>\$ 69,246,303</u> | <u>\$ 91,822,084</u> | <u>\$ 161,068,387</u> |

5. Distributions

Distributions from the fund are based on policies established by each participant.