



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

Financial Statements

June 30, 2005 and 2004

(With Independent Auditor's Report Thereon)

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

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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 as of June 30, 2005 and 2004, 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 Endowment 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 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 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 Endowment 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 16, 2005

**UNIVERSITY OF ALASKA
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CONSOLIDATED ENDOWMENT FUND**

STATEMENTS OF ASSETS AND LIABILITIES

June 30, 2005 and 2004

Assets	2005	2004
Cash and cash equivalents	\$ 10,451,863	\$ 6,625,560
Fixed income securities	45,112,675	43,560,605
Equity securities	87,379,899	72,128,917
Alternative investments	31,933,783	24,977,613
Real estate partnerships and investment trusts	9,498,012	8,584,168
Other investments	5,000,000	5,000,000
Interest and dividends receivable	163,728	232,209
Due from the University of Alaska Foundation	-	7,248
Total assets	189,539,960	161,116,320
Liabilities		
Management fees payable	-	47,933
Total liabilities	-	47,933
Net Assets		
University of Alaska	113,261,216	91,822,084
University of Alaska Foundation	76,278,744	69,246,303
Total net assets	\$ 189,539,960	\$ 161,068,387
Net Asset Value Per Unit	\$207.81	\$191.73

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, 2005 and 2004

Investment Income	2005	2004
Interest and dividend income	\$ 3,350,358	\$ 2,790,479
Operating income from alternative investments	225,612	79,035
Other investment income	753,022	505,776
Net investment income before expenses	4,328,992	3,375,290
 Expenses		
Management fees	234,029	193,548
Investment consulting fees	50,000	50,000
Custodial fees	28,752	31,755
Audit fees	8,379	7,980
Total expenses	321,160	283,283
Net investment income	4,007,832	3,092,007
 Realized and Unrealized Investment Gains		
Net realized and unrealized investment gains	13,506,758	15,232,696
 Net Increase in Net Assets Resulting from Operations	 17,514,590	 18,324,703
Distributions for endowment spending	(6,196,292)	(4,264,674)
Additional investments	17,153,275	12,068,093
Net Increase in Net Assets	28,471,573	26,128,122
Net assets, beginning of year	161,068,387	134,940,265
Net assets, end of year	\$ 189,539,960	\$ 161,068,387

The accompanying notes are an integral part of the financial statements

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NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

1. Organization and Summary of Significant Accounting Policies

Organization

The Consolidated Endowment 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 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, 2005. The net realized and unrealized appreciation (depreciation) in fair value of investments is reflected in the statement of operations.

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June 30, 2005 and 2004

1. Organization and Summary of Significant Accounting Policies, continued

Other investments, which consist of collateralized debt obligations, 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.

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. Asset Allocation

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

	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	5.5%	4.1%
Fixed income, domestic	23.9%	27.1%
Equities, domestic	32.0%	33.2%
Equities, foreign	14.1%	11.6%
Alternative investments	16.9%	15.6%
Real estate partnerships and investment trusts	5.0%	5.3%
Other investments	<u>2.6%</u>	<u>3.1%</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 \$24 million and \$17 million at June 30, 2005 and 2004.

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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, 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	<u>7,669,877</u>	<u>4,398,216</u>	<u>12,068,093</u>
Balance, June 30, 2004	69,246,303	91,822,084	161,068,387
Net increase from operations	7,419,410	10,095,180	17,514,590
Distributions for endowment spending	(2,489,346)	(3,706,946)	(6,196,292)
Additional net investments	<u>2,102,377</u>	<u>15,050,898</u>	<u>17,153,275</u>
Balance, June 30, 2005	<u>\$ 76,278,744</u>	<u>\$ 113,261,216</u>	<u>\$ 189,539,960</u>

5. Distributions

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