



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

**Financial Statements**

**June 30, 2006 and 2005**

**(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, 2006 and 2005, 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 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 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 at June 30, 2006 and 2005, and the changes in its net assets and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The 2006 financial statements include investments valued at \$71.8 million (32% of net assets) whose carrying values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

**KPMG LLP**

October 16, 2006

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

**STATEMENTS OF ASSETS AND LIABILITIES**

June 30, 2006 and 2005

<b>Assets</b>	2006	2005
Cash and cash equivalents	\$ 7,920,880	\$ 10,451,863
Fixed income securities	41,994,634	45,112,675
Equity securities	108,790,597	87,379,899
Alternative investments	50,863,337	31,933,783
Real estate partnerships and investment trusts	10,382,193	9,498,012
Other investments	4,000,000	5,000,000
Interest and dividends receivable	199,684	163,728
Total assets	224,151,325	189,539,960
 <b>Liabilities</b>	 -	 -
 <b>Net Assets</b>		
University of Alaska	125,053,368	113,261,216
University of Alaska Foundation	99,097,957	76,278,744
Total net assets	\$ 224,151,325	\$ 189,539,960
 <b>Net Asset Value Per Unit</b>	 \$229.01	 \$207.81

The accompanying notes are an integral part of the financial statements

**UNIVERSITY OF ALASKA**  
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**CONSOLIDATED ENDOWMENT FUND**

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS  
For the years ended June 30, 2006 and 2005

<b>Investment Income</b>	<u>2006</u>	<u>2005</u>
Interest and dividend income	\$ 3,860,591	\$ 3,350,358
Operating income from alternative investments	333,006	225,612
Other investment income	<u>799,142</u>	<u>753,022</u>
Net investment income before expenses	<u>4,992,739</u>	<u>4,328,992</u>
 <b>Expenses</b>		
Management fees	260,316	234,029
Investment consulting fees	50,000	50,000
Custodial fees	59,280	28,752
Audit fees	<u>8,798</u>	<u>8,379</u>
Total expenses	<u>378,394</u>	<u>321,160</u>
Net investment income	4,614,345	4,007,832
 <b>Realized and Unrealized Investment Gains</b>		
Net realized and unrealized investment gains	<u>19,859,112</u>	<u>13,506,758</u>
 <b>Net Increase in Net Assets Resulting from Operations</b>		
	24,473,457	17,514,590
Distributions for endowment spending	(7,571,544)	(6,196,292)
Additional investments	<u>17,709,452</u>	<u>17,153,275</u>
<b>Net Increase in Net Assets</b>	34,611,365	28,471,573
Net assets, beginning of year	<u>189,539,960</u>	<u>161,068,387</u>
Net assets, end of year	<u>\$ 224,151,325</u>	<u>\$ 189,539,960</u>

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**STATEMENTS OF CASH FLOWS  
For the years ended June 30, 2006 and 2005**

	2006	2005
<b>Cash flows from operating activities:</b>		
Net increase in net assets from operations	\$ 24,473,457	\$ 17,514,590
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Purchases of investments	(37,431,857)	(19,208,442)
Proceeds from distributions or sale of investments	25,176,676	8,042,133
Net realized and unrealized gain on investments	(19,859,112)	(13,506,758)
(Increase) decrease in interest and dividends receivable	(35,956)	68,481
Decrease in management fees payable	-	(47,933)
Net cash used in operating activities	(7,676,792)	(7,137,929)
 <b>Cash flows from financing activities:</b>		
Additions	12,717,353	17,160,524
Spending distributions	(7,571,544)	(6,196,292)
Net cash provided by financing activities	5,145,809	10,964,232
 Net increase (decrease) in cash and cash equivalents	(2,530,983)	3,826,303
Cash and cash equivalents, beginning of year	10,451,863	6,625,560
Cash and cash equivalents, end of year	\$ 7,920,880	\$ 10,451,863
 <b>Noncash financing activity</b>		
Noncash additions	\$ 4,992,099	\$ -

The accompanying notes are an integral part of the financial statements

**UNIVERSITY OF ALASKA**  
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**CONSOLIDATED ENDOWMENT FUND**

NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

**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, 2006. The net realized and unrealized appreciation (depreciation) in fair value of investments is reflected in the statement of operations.

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NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

**1. Organization and Summary of Significant Accounting Policies, continued**

Other investments, which consist of equity 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>2006</u>	<u>2005</u>
Cash and cash equivalents	3.6%	5.5%
Fixed income, domestic	18.8%	23.9%
Equities, domestic	33.8%	32.0%
Equities, foreign	14.8%	14.1%
Alternative investments	22.6%	16.9%
Real estate partnerships and investment trusts	4.6%	5.0%
Other investments	<u>1.8%</u>	<u>2.6%</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 \$27 million and \$24 million at June 30, 2006 and 2005.

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NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005

**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, 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	76,278,744	113,261,216	189,539,960
Net increase from operations	10,507,832	13,965,625	24,473,457
Distributions for endowment spending	(2,812,200)	(4,759,344)	(7,571,544)
Additional net investments	<u>15,123,581</u>	<u>2,585,871</u>	<u>17,709,452</u>
Balance, June 30, 2006	<u>\$ 99,097,957</u>	<u>\$ 125,053,368</u>	<u>\$ 224,151,325</u>

**5. Distributions**

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