UNIVERSITY OF ALASKA FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(With Independent Auditors' Report Thereon)

UNIVERSITY OF ALASKA FOUNDATION
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REPORT OF INDEPENDENT AUDITORS

The Board of Trustees
University of Alaska Foundation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the University of Alaska Foundation and the University of Alaska Foundation Consolidated Endowment Fund, LP (the Foundation) which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of the University of Alaska Foundation Consolidated Endowment Fund, LP, an affiliated entity, whose statements reflect total assets of $319,636,528 as of June 30, 2014 and total revenues of $37,085,705 for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of Alaska Foundation Consolidated Endowment Fund, LP, is based solely on the report of the other auditors. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University of Alaska Foundation and the University of Alaska Foundation Consolidated Endowment Fund, LP (the Foundation) as of June 30, 2014, and the results of its consolidated changes in net assets and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Spokane, Washington
October 10, 2014

UNIVERSITY OF ALASKA FOUNDATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2014

Assets		
Cash and cash equivalents	$	25,523,988
Interest receivable		253,066
Contributions receivable, net		8,236,743
Remainder trusts receivable		1,901,020
Other receivables		2,573,483
Other assets		816,076
Pooled endowment funds		317,234,038
Other investments		25,583,238
Total assets	$	382,121,652
Liabilities		
Assets held in trust for University of Alaska	$	146,213,435
Due to University of Alaska		1,371,822
Other liabilities		363,685
Split interest obligations		350,849
Term endowment liability		1,000,000
Total liabilities		149,299,791
Net Assets		
Unrestricted		26,799,442
Temporarily restricted		106,689,108
Permanently restricted		99,333,311
Total net assets		232,821,861
Total liabilities and net assets	$	382,121,652

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

UNIVERSITY OF ALASKA FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support				
Contributions	$ 161,099	$ 15,755,621	$ 4,411,304	$ 20,328,024
Investment income	443,386	852,979	-	1,296,365
Net realized and unrealized investment gains (losses)	1,718,111	16,673,141	-	18,391,252
Other revenues	401	542,021	-	542,422
Actuarial adjustment of remainder trust obligations	-	321,841	3,441	325,282
Gains (losses) on disposition of other assets	6	(30,053)	100	(29,947)
Administrative assessments	2,160,161	(1,457,272)	(53,089)	649,800
Support from University of Alaska	800,000	-	-	800,000
Donor directed reclassifications	-	882,698	(882,698)	-
Net assets released from restriction	12,296,038	(12,296,038)	-	-
Total revenues, gains and other support	17,579,202	21,244,938	3,479,058	42,303,198
Expenses and distributions				
Operating expenses	2,637,922	-	-	2,637,922
Distributions for the benefit of University of Alaska	13,132,466	-	-	13,132,466
Total expenses and distributions	15,770,388	-	-	15,770,388
Increase in net assets	1,808,814	21,244,938	3,479,058	26,532,810
Net assets, beginning of year	24,990,628	85,444,170	95,854,253	206,289,051
Net assets, end of year	$ 26,799,442	$ 106,689,108	$ 99,333,311	$ 232,821,861

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

UNIVERSITY OF ALASKA FOUNDATION
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended June 30, 2014

Cash flows from operating activities:		
Change in net assets	$	26,532,810
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions of operating noncash assets		(221,172)
Contributions restricted for permanent investment		(4,411,304)
Net realized and unrealized investment (gains) losses		(18,391,252)
Loss on disposition of other assets		29,947
Non-cash operating expenses		20,957
Non-cash distributions to University of Alaska		74,919
Actuarial adjustment of remainder trust obligations		(325,282)
Changes in assets and liabilities:		
Interest receivable		(158,118)
Contributions receivable		(1,071,636)
Due to University of Alaska		(872,512)
Other liabilities		21,036
Split interest obligations		48,555
Net cash provided by operating activities		1,276,948
Cash flows from investing activities:		
Purchases of investments		(335,022,484)
Proceeds from sales of investments		331,704,633
Proceeds from disposition of assets		56,026
Net cash used by investing activities		(3,261,825)
Cash flows from financing activities:		
Contributions restricted for permanent investment		5,931,502
Investment income on charitable remainder trusts		9,581
Payment of split interest obligations		(42,100)
Net cash provided by financing activities		5,898,983
Net decrease in cash and cash equivalents		3,914,106
Cash and cash equivalents, beginning of year		21,609,882
Cash and cash equivalents, end of year	$	25,523,988
Supplemental disclosures:		
Contributions of noncash investment assets	$	417,509

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

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1. Organization

The University of Alaska Foundation (foundation) was established May 30, 1974 to solicit donations and to hold and manage such assets for the exclusive benefit of the University of Alaska (university). The foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code organized in accordance with the laws of the State of Alaska and governed by a volunteer Board of Trustees.

Although the university is the exclusive beneficiary of the foundation, the foundation is independent of the university. The net assets of the foundation are the exclusive property of the foundation. The Board of Trustees of the foundation is entitled to make all decisions regarding the business and affairs of the foundation, including, without limitation, distributions made to the university.

The consolidated financial statements include the accounts of the foundation and an affiliated entity, the University of Alaska Foundation Consolidated Endowment Fund, LP. The affiliated entity is included in these financial statements because the foundation has an economic interest in the organization and, although the foundation is the limited partner, it has authority to remove the general partner. All inter-entity transactions and balances have been eliminated. See Note 2 Pooled Endowment Funds for additional information related to the limited partnership.

2. Summary of Significant Accounting Policies

Basis of Presentation

These financial statements are prepared on the accrual basis of accounting. Net assets, revenues, expenses, distributions, gains, and losses are classified based on the existence or absence of donor-imposed or other external restrictions. Accordingly, net assets of the foundation and changes therein are classified and reported as follows:

> Unrestricted net assets - Assets, net of related liabilities, which are not subject to donor-imposed or other external restrictions.
>
> Temporarily restricted net assets - Assets, net of related liabilities, which are subject to donor-imposed or other external restrictions that may or will be met by actions of the foundation and/or the passage of time and unconditional promises to give that are due in future periods and are not permanently restricted.
>
> Permanently restricted net assets - Assets, net of related liabilities, which are subject to donor-imposed or other external restrictions and will be held in perpetuity by the foundation.

Revenues are reported as increases in unrestricted net assets, unless use of the earnings is subject to donor-imposed or other external restrictions. Gains and losses on investments and other assets and changes in liabilities are reported as increases or decreases in unrestricted net assets, unless subject to donor-imposed or other external restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. Expenses and distributions are reported as decreases in unrestricted net assets.

Basis of Accounting

The foundation maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is a procedure by which resources are classified for accounting purposes in accordance with activities or objectives as specified by donors, with restrictions or limitations imposed by sources outside the institution, or with directions issued by the governing board.

All investments, not held for long-term investment, with original maturities of three months or less are reported as cash and cash equivalents. These are highly liquid short-term investments including an overnight repurchase agreement and Rule 2a-7 qualified prime money market mutual funds.

Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Unconditional promises to give expected to be collected in one year or more are valued at fair value. The valuation technique used, which is consistent with the income approach, is expected present value (EPV). EPV is a probability-weighted average of all possible cash flows discounted by the risk-adjusted rate, which is based on Treasury note rates. The cash flows are further discounted to adjust for systematic risk by adding a risk premium of 3%. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Contributions received for memorials or prospective endowments that have not yet met the minimum requirements for acceptance as an endowment are accumulated in temporarily restricted accounts. The accumulated contributions are transferred to permanently restricted endowment accounts when the minimum requirements are fulfilled. If the requirements are not fulfilled, consistent with the conditions of acceptance, the contributions are expended for the purpose received.

Nonfinancial assets are stated at cost basis. The carrying value of donated assets other than marketable securities represents the fair value of the asset as determined by independent appraisal or management's estimate at the time of receipt or contribution. Inventories of artworks and books for sale are stated at the lower of cost (first-in, first-out method) or market.

Use of Estimates

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 statement of financial position and revenue and expenses for the period. Actual results could differ from those estimates.

The most significant accounting estimates applied in the preparation of the accompanying financial statements include those in the areas of contributions receivable discounts and allowances, fair value of investments, and obligations to beneficiaries of split interest agreements. Management periodically evaluates estimates used in the preparation of financial statements for continued reasonableness. Appropriate adjustments, if any, to the estimates are made prospectively based on such periodic evaluations.

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents, interest receivable, other receivables, other assets, due to the University of Alaska, other liabilities, split interest obligations and term endowment liability: The carrying amount approximates fair value, based on the nature or short maturity of those instruments.

Contributions receivable: The fair value is determined by the present value of future contractual cash flows, discounted at an interest rate that reflects the risks inherent in these cash flows.

Investments

Security transactions are accounted for on a trade date basis. Realized gains and losses from security transactions are determined using the specific identification method. Investment income is recorded on the accrual basis and is adjusted for the amortization of premiums and accretion of discounts. Principal on inflation-indexed securities is adjusted for inflation and any increase or decrease is recorded as investment income even though principal is not received until maturity. Coupon income is not recognized on securities for which collection is not expected. Realized gains and losses from principal paydowns on mortgage-backed and asset-backed securities are included in investment income. Noncash dividends, if any, are recorded at the fair market value of the asset received.

Purchases and sales of mutual funds and commingled funds are accounted for on a trade date basis. Realized gains and losses are determined using the specific identification method.

Purchases and sales of hedge fund investments are accounted for on a trade date basis. For hedge funds that are reported on a unitized basis, realized gains and losses are determined based on the specific identificaton method. For hedge funds that are not reported on a unitized basis, realized gains and losses are based on percentage of capital redeemed from the hedge fund.

Contributions to and distributions from private capital funds are accounted for on an effective date basis. Distributions, when identified as realized gain or loss or investment income, are recorded as such. Returns of capital reduce the private capital fund's cost basis.

Futures contracts are generally valued at the settlement price established at the close of each business day by the board of trade or exchange on which they are traded. The value of each futures contract is marked to market daily and an appropriate payable or receivable for the change in value ("variation margin") is recorded. The payable or receivable is settled the following business day. Gains or losses are recognized but not accounted for as realized until the contracts expire or are closed.

The net realized and unrealized appreciation (depreciation) in fair value of investments is reflected in the statement of activities. Income and net gains on investments of endowment and similar funds are generally reported as increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income; or as increases in unrestricted net assets in all other cases. Losses on the investments of a donor-restricted endowment fund reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining losses are classified as underwater endowment losses and reduce unrestricted net assets. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level are classified as increases in unrestricted net assets.

Remainder Trusts Receivable

A charitable remainder trust administered by a third party is an arrangement in which a donor establishes and funds a trust in which the assets are invested and administered by a third-party trustee and distributions are made to the income beneficiaries during the term of the agreement. Upon death of the donor, the assets or a portion of the assets remaining in the trust are distributed to a not-for-profit entity. The foundation, as remainder beneficiary, records its interest in these irrevocable trusts, upon discovery of their existence, at fair value as determined using the present value of the estimated future cash receipts to be received from the trust, discounted at rates between 4.14% and 8.68% which reflect the expected rate of return as adjusted for various risk factors. Initial recognition and subsequent adjustments to the assets' carrying value are recognized as contribution revenue and actuarial adjustment of the remainder trust obligations, respectively, and are classified as permanently restricted, temporarily restricted, or unrestricted support, depending on donor-imposed purpose and time restrictions, if any.

Other Receivables

Other receivables include escrows receivable, an installment contract receivable and receivables from underlying investments.

Escrows receivable of $214,824 are secured by deeds of trust from land sales, payable in monthly installments including interest at 7.25% to 8.25%.

An installment contract receivable of $125,344 resulted from the sale of capital stock in a closely held corporation. The contract is secured by the shares of capital stock sold, and payable in annual installments of $20,000 including interest at 4.75%.

Receivables from underlying investments of $2,233,315 include net proceeds receivable from sales pending settlement.

Pooled Endowment Funds

Effective July 1, 1997, management of the university's Land Grant Endowment Trust Fund was transferred from the State of Alaska Department of Revenue to the university Board of Regents. The foundation and the Board of Regents agreed to consolidate the foundation's pooled endowment funds and the university's land grant endowments into a Consolidated Endowment Fund (fund) for investment purposes. 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. Investment income, fees, and realized and unrealized gains and losses are distributed 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.

On June 17, 2013, the foundation entered into a partnership agreement with Cambridge Associates Resources, LLC to form the University of Alaska Foundation Consolidated Endowment Fund, L.P. (the partnership) and assume management of the fund effective July 1, 2013. The partnership is a single investor fund with Cambridge Associates Resources, LLC serving as general partner, and the foundation, with more than 99.99% ownership, serving as the sole limited partner. The investment manager of the partnership is Cambridge Associates, LLC. Effective July 1, 2013, all assets of the fund were transferred to the partnership for investment management purposes. This relationship does not affect the ownership of units in the Consolidated Endowment Fund by the university or the foundation.

Assets Held in Trust for University of Alaska

The liability represents the university's participation in the Consolidated Endowment Fund. The related assets are available for distribution to the university upon 60 days written notice, subject to availability of liquid resources of the fund and considerations of the potential adverse impacts on other endowments participating in the fund.

Split Interest Obligations

The foundation has established charitable remainder trust and charitable gift annuity plans for which the foundation serves as trustee. These plans specify that donors may contribute assets to the foundation in exchange for the right to receive a fixed dollar or fixed percentage annual return. The foundation records the assets held at fair value and the corresponding liability at the actuarially determined present value of payments to be made to the income beneficiaries. The difference between the amount of the gift and the present value of the liability for future payments, determined on an actuarial basis, is recognized as a contribution at the date of the gift. The present value of payments to income beneficiaries are calculated using discount rates which represent the Charitable Federal Midterm Rate (CFMR) in existence at the date of the gift. The split interest obligations are revalued annually and any resulting actuarial gain or loss is recorded as a change in net assets.

Term Endowment Liability

In July 1997 the foundation accepted a term endowment. Earnings from the endowment are restricted for the maintenance of a student housing facility. The agreement with the donor requires the original principal of the endowment to remain inviolate until April 30, 2020 at which time the original principal and the unexpended earnings, if any, will be returned to the donor. The original principal of $1,000,000 is recorded as a liability at June 30, 2014.

Administrative Assessments

The foundation charges assessments to cover administrative and fundraising expenses as follows:

Gifts – All cash gifts are assessed 1% of the gift value at the time of the gift. Noncash gifts are assessed 1% at the time of conversion to cash by the foundation, based on the proceeds received.

Endowments – 1% is assessed by the foundation each fiscal year based on the asset valuation at the end of the previous calendar year.

Land Grant Trust Fund Assets – 0.5% is assessed by the foundation each fiscal year based on the asset valuation of the university's land grant trust fund assets invested by the foundation as of the end of the previous calendar year.

Reclassification of Net Assets

The foundation reclassifies net assets from one category to another in the following situations:

Donor Directed Reclassifications – Net asset reclassifications which occur when a donor withdraws or increases their previously imposed restrictions, when prospective endowments meet the minimum requirements for acceptance as an endowment, and when net proceeds from appropriately advertised events are transferred to an endowment fund.

Net Assets Released from Restriction – Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose, collecting payment on unrestricted unconditional promises to give or by occurrence of other events specified by donors.

Income Taxes

The foundation is an organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is generally not subject to federal income taxes. Contributions to the foundation are deductible for tax purposes by the donor, subject to the normal limitations imposed by the taxing authorities. However, the foundation is 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. No income tax provision has been recorded from any unrelated trade or business. In the opinion of management any unrelated business income tax would be immaterial to the basic financial statements taken as a whole. The foundation is no longer subject to U.S. federal or state income tax examinations by tax authorities for fiscal years prior to June 30, 2011.

The foundation recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Subsequent Events

Subsequent events have been evaluated through October 10, 2014, the date the consolidated financial statements were available to be issued.

3. Contributions Receivable

Unconditional promises to make contributions are included in the financial statements as contributions receivable and temporarily or permanently restricted revenue. As of June 30, 2014, contributions receivable are expected to be realized in the following periods:

In one year or less	$ 3,830,946
Between one year and five years	4,267,047
More than five years	500,000
	8,597,993
Discount	(326,019)
Allowance for uncollectible pledges	(35,231)
	$ 8,236,743

Unconditional promises to give are recorded at the discounted present value of the future cash flows using a discount rate ranging from 3.1% to 25.4%. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

4. Investments

Operating Funds

Operating funds consist of investable resources of unrestricted funds, expendable gifts and endowment distributions prior to disbursement. The investment objective of these funds is to provide 1) for the liquidity necessary to meet operational needs and 2) for the preservation of the principal necessary to meet program commitments.

Pooled Endowment Funds

The pooled endowment funds consist of general foundation endowments and funds designated by the Board of Trustees to function as endowments, as well as the university's land grant endowments. The primary investment goal of these funds is to provide a real rate of return, net of investment expenses, sufficient to cover the endowment administrative fee and the annual spending allowances, in support of the purposes of the various endowments, in perpetuity.

Remainder Trusts and Other

Remainder trust assets valued at $123,524 for which the foundation is trustee are separately invested as management believes will best meet the objectives of each trust. Other investments include securities valued at $1,052,629 restricted by donors to be managed by university students as part of course curriculums. Other investments also include donated marketable securities valued at $300,984. Unless otherwise required by the donor, donated securities are sold as soon as practicable and the proceeds are reinvested in one of the other investment pools.

Fees

Direct investment management, custodial and consulting fees totaled $936,891 for the year ended June 30, 2014. These fees have been included as a reduction to investment income.

The following table summarizes the foundation's investments as of June 30, 2014:

	Operating Funds	Pooled Endowment Funds	Remainder Trusts and Other	Total
Cash held for long-term investment	$ -	$ 1,496,667	$ -	$ 1,496,667
Money market mutual funds	-	14,903,162	940	14,904,102
Marketable securities:				
US equity	-	42,702,134	1,250,827	43,952,961
Fixed income	24,106,100	27,297,871	75,491	51,479,462
Global and ex US equity	-	66,088,725	-	66,088,725
Emerging markets equity	-	19,425,905	-	19,425,905
Inflation protected securities and REITS	-	5,988,650	149,880	6,138,530
Hedge funds	-	107,289,082	-	107,289,082
Private capital funds	-	32,041,842	-	32,041,842
Total Investments	$ 24,106,100	$ 317,234,038	$ 1,477,138	$ 342,817,276

5. Fair Value

The foundation 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 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date.

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 investments valued at net asset value or equivalent.

Level 3 – Pricing inputs are unobservable and include situations where there is little, if any, market activity. The inputs into the determination of fair value require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, 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. These classifications (Level 1, 2 and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of quality, risk or liquidity.

In accordance with authoritative guidance on fair value measurements, as a practical expedient, an entity holding investments in certain entities that calculate net asset value per share or its equivalent (NAV) for which the fair value is not readily determinable, is permitted to measure fair value of such investments on the basis of that net asset value per share or its equivalent without adjustment.

Portfolio Securities

The foundation and the partnership may invest directly in securities that are listed on a securities exchange. Equity securities that are listed on the National Association of Securities Dealers Automated Quotations will be valued at the NASDAQ Official Closing Price (NOCP) which may not necessarily represent the last price. If there has been no sale on such exchange or on the NASDAQ on such day, the security is valued at the closing bid price on such day. Listed equity investments valued using observable inputs that reflect quoted prices in active markets are categorized as Level 1.

Foreign securities are valued at the closing market price in the foreign market.

Debt Securities

Debt securities, other than short-term obligations purchased with an original or remaining maturity of sixty days or less, are generally valued on the basis of pricing models that evaluate the mean between the most recent quoted bid and ask prices from an independent pricing service which determines valuations for normal, institutional-size trading units of such securities using market information, transactions for comparable securities and various relationships between securities which are generally recognized by institutional traders. To the extent that these inputs are observable, the value of such debt securities is categorized as Level 2. Broker dealer bid prices may be used if an independent pricing service either is unable to price a security or does not provide a reliable price for a security.

Short-term obligations purchased with an original or remaining maturity of sixty days or less are valued at amortized cost, which approximates market value. These securities are categorized within Level 2 of the fair value hierarchy.

Mutual Funds and Exchange Traded Funds

The foundation and the partnership may invest directly in mutual funds and exchange traded funds. These investments are typically considered Level 1 investments due to readily available, quoted prices. Investments in mutual funds are valued at the net asset value of each fund determined as of the close of the New York Stock Exchange on the valuation date.

Hedge Funds and Commingled Funds

Hedge funds are generally open-end funds as they typically offer subscription and redemption options to investors. The frequency of such subscriptions or redemptions is dictated by such fund's governing documents. The amount of liquidity provided to investors in a particular fund is generally consistent with the liquidity and risk associated with the underlying portfolio. Liquidity of individual hedge funds vary based on various factors and may include gates, holdbacks and side pockets imposed by the manager of the hedge fund, as well as redemption fees which may also apply.

Depending on the redemption options available, it may be possible that the reported NAV represents fair value based on observable data such as ongoing redemption and/or subscription activity. In these cases, the NAV is considered as a Level 2 input. However, certain hedge funds may provide the manager with the ability to suspend or postpone redemption (a gate) or holdback from the payment of redemption proceeds a portion of the redemption until the annual audited financial statements are distributed. In the case of the imposition of a gate, the ability to validate or verify the NAV through redeeming is impaired and the interest is generally classified as Level 3. If a holdback is considered significant, its impact on the overall valuation and the associated risk that the holdback will not be fully realized will generally result in the interest being classified as Level 3.

A side pocket is a portion of an underlying investment portfolio segregated from other investments of the portfolio for the purposes of allocating gains and losses. A side pocket typically has less liquidity and limited, if any, redemption rights, and no active market. Accordingly, side pocket interests, and the entire investment in the related hedge fund partnership if significant, are generally classified as Level 3.

Commingled funds consist of assets from multiple accounts that are pooled together to create economies of scale. Commingled funds are typically considered Level 2 investments as there are no redemption or lock-ups associated with them.

Private Capital Funds

Private capital funds are structured closed-end, commitment based investment funds where the investor commits a specified amount of capital upon inception of the fund which is then drawn down over a specified period of the fund's life. Such funds do not provide redemption options for investors and, subsequent to final closing, do not permit commitments by new or existing investors. These interests, in the absence of recent and relevant market transactions, including secondary markets, are generally classified as Level 3.

As of June 30, 2014, the estimated remaining life of capital appreciation funds ranges from 0 – 10 years. The remaining life of deflation sensitive funds is 3 years and the remaining life of diversifying strategies funds is 9 years.

Capital balances reported by the fund's manager are the primary input to its valuation; however, adjustments to the reported capital balance may be made based on various factors, including, but not limited to, the attributes of the interest held, including rights and obligations, and any restrictions or illiquidity on such interests, and the fair value of such fund's investment portfolio or other assets and liabilities.

Derivative Instruments

Derivative instruments can be exchange traded or privately negotiated over-the-counter (OTC). Exchange traded derivatives, such as futures contracts are typically classified within Level 1 or Level 2 of the fair value hierarchy depending on whether or not they are deemed to be actively traded.

The foundation follows the provisions of FASB Accounting Standards Codification ASC 815-10-50 (ASC 815). ASC 815 amends and expands the disclosure requirements related to derivative instruments, to provide users of financial statements with an enhanced understanding of the use of derivative instruments and how these derivatives affect financial position, financial performance and cash flows. It requires qualitative disclosures about the objectives and strategies for using derivative instruments, as well as disclosures about credit-risk-related contingent features in derivative agreements.

The foundation does not designate any derivative instruments as hedging instruments under ASC 815. Futures are transacted primarily for trading purposes with each instrument's primary risk exposure being interest rate, foreign exchange, equity, commodity, liquidity or counterparty risk. The fair value of these derivative instruments at June 30, 2014 of $10,372 is included in pooled endowment funds in the consolidated statement of financial position. Changes in fair value related to futures contracts reflected as net realized and unrealized investment gains (losses) within the consolidated statement of activities for the year ended June 30, 2014 were $1,553,411.

The following table summarizes the foundation's financial assets measured at fair value on a recurring basis as of June 30, 2014:

	Level 1	Level 2	Level 3	Total
Pooled Endowment Funds				
Money market mutual funds	$ 14,903,162	$ -	$ -	$ 14,903,162
Mutual funds:				
Deflation sensitive	5,170,263	-	-	5,170,263
Developed ex US equity	9,204,322	-	-	9,204,322
Emerging markets equity	19,424,995	-	-	19,424,995
Global equity	29,579,225	-	-	29,579,225
Inflation sensitive	5,989,625	-	-	5,989,625
US equity	15,812,204	-	-	15,812,204
Common stock:				
US equity	15,108,229	-	-	15,108,229
Exchange traded funds:				
US equity	11,761,188	-	-	11,761,188
Futures contracts:				
Deflation sensitive	3,469	-	-	3,469
Inflation sensitive	(975)	-	-	(975)
US equity	20,513	-	-	20,513
Developed ex US equity	(13,545)	-	-	(13,545)
Emerging markets equity	910	-	-	910
Asset-backed obligations:				
Automobile	-	1,049,427	-	1,049,427
Home	-	479,083	-	479,083
Other	-	3,117,051	-	3,117,051
Fixed Income:				
US treasuries, agencies, corporates	294,966	13,054,419	-	13,349,385
Non-US corporate bonds	-	624,732	-	624,732
Mortgage-backed securities:				
US collateralized mortgage obligation	-	1,134,605	-	1,134,605
US commercial mortgage backed securities	-	2,318,417	-	2,318,417
Preferred stocks and bonds	20	51,419	-	51,439
Commingled funds:				
Developed ex US equity	-	15,130,145	-	15,130,145
Global equity	-	12,188,578	-	12,188,578
Hedge funds:				
Deflation sensitive	-	9,338,437	6,098,396	15,436,833
Developed ex US equity	-	14,488,569	-	14,488,569
Diversifying strategies	-	23,208,286	19,543,640	42,751,926
Inflation sensitive	-	9,174,871	-	9,174,871
Market sensitive	-	18,998,599	6,438,284	25,436,883
Private capital funds:				
Capital appreciation	-	-	29,878,989	29,878,989
Deflation sensitive	-	-	1,206,114	1,206,114
Diversifying strategies	-	-	956,739	956,739
	$ 127,258,571	$ 124,356,638	$ 64,122,162	$ 315,737,371

	Level 1	Level 2	Level 3	Total
Other Investments				
Money market mutual funds	$ 940	$ -	$ -	$ 940
Fixed Income:				
US treasuries, agencies, corporates	13,791,876	10,389,715	-	24,181,591
Mutual funds:				
US balanced fund	54,988	-	-	54,988
Equity securities:				
US equity	1,195,838	-	-	1,195,838
Real estate investment trusts	149,880	-	-	149,880
	15,193,522	10,389,715	-	25,583,237
Total Investments	$ 142,452,093	$ 134,746,353	$ 64,122,162	$ 341,320,608
Remainder Trusts Receivable	$ -	$ -	$ 1,901,020	$ 1,901,020

During the period there were no transfers between levels. The following table presents the activity for financial assets classified in Level 3:

	Hedge Funds	Private Capital Funds	Remainder Trusts Receivable	Total
Balance, July 1, 2013	$ 931,788	$ 29,921,747	$ 2,028,346	$ 32,881,881
Additions	30,700,000	5,853,683	-	36,553,683
Withdrawals	(346,853)	(7,703,293)	(485,739)	(8,535,885)
Net realized and unrealized gains	795,385	3,969,705	358,413	5,123,503
Balance, June 30, 2014	$ 32,080,320	$ 32,041,842	$ 1,901,020	$ 66,023,182

The amount of net unrealized gains related to Level 3 assets that are still held at June 30, 2014 is $274,547 and the change therein is included in net realized and unrealized gains (losses) in the consolidated statement of activities.

Investments in certain entities that calculate net asset value (NAV) per share are summarized by category as of June 30, 2014 as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled funds:				
Developed ex US equity	$ 15,130,145	$ -	Monthly	10 days
Global equity	12,188,578	-	Monthly	6 days
Hedge funds:				
Deflation sensitive	15,436,833	-	Monthly - Quarterly	30-60 days
Developed ex US equity	14,488,569	-	Monthly	30 days
Diversifying strategies	42,658,591	-	Quarterly - Biennial	60-90 days
Diversifying strategies	93,335	-	-	-
Inflation sensitive	9,174,871	-	Monthly	5 days
Market sensitive	25,035,578	-	Quarterly - Triennial	60-90 days
Market sensitive	401,305	-	-	-
Private capital funds:				
Capital appreciation	29,878,989	12,719,612	-	-
Deflation sensitive	1,206,114	1,125,000	-	-
Diversifying strategies	956,739	1,356,000	-	-
	$ 166,649,647	$ 15,200,612		

6. Endowments

The foundation's endowment consists of more than 700 individual endowments established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Board-designated endowment funds are classified as either unrestricted or temporarily restricted depending on the existence of donor-imposed purpose restrictions.

The foundation's Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act UPMIFA enacted in the State of Alaska as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the foundation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the foundation
- The investment policies of the foundation

The endowment spending allowance policy is structured to help maintain the endowments in perpetuity, preserve their purchasing power and stabilize the flow of support for the purposes of the respective endowments.

A Viability Ratio (accumulated earnings divided by the total endowment value) is calculated for each endowment. The Viability Ratio provides a measure of the financial health of each endowment and gives an indication of the endowment's ability to continue making distributions to the beneficiary during market down cycles and for the life of the fund. The maximum spending rate is 4 percent (4%) of the average of the market values of the endowment at December 31 for the immediately preceding five years. If the annual spending allowance calculation exceeds 4 percent (4%) of the historic gift value of the endowment, the increase in the spending allowance over the prior year is limited to an inflation adjustment of 2 percent (2%). The spending rate is limited to 2 percent (2%) for endowments with negative Viability Ratios. No spending allowance is provided for endowments with a Viability Ratio lower than negative 20%.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets, and subsequent gains that restore the fair value of the assets of the endowment fund to the required level are recorded as an increase in unrestricted net assets. There were no deficiencies as of June 30, 2014.

Endowment net assets as of June 30, 2014 included the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 34,384,375	$ 99,261,036	$ 133,645,411
Board-designated endowment funds	15,916,417	26,621,676	-	42,538,093
	$ 15,916,417	$ 61,006,051	$ 99,261,036	$ 176,183,504

Changes in endowment net assets for the year ended June 30, 2014 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, July 1, 2013	$ 14,494,698	$ 46,880,778	$ 95,785,419	$ 157,160,895
Investment income	94,899	835,159	-	930,058
Net realized and unrealized investment gains	1,855,507	16,490,724	-	18,346,231
Investment return	1,950,406	17,325,883	-	19,276,289
Contributions	24,211	626,772	4,411,304	5,062,287
Uncollectible pledges	407	(15,828)	100	(15,321)
Administrative assessments	(148,923)	(1,289,067)	(53,089)	(1,491,079)
Distributions for endowment spending	(404,382)	(4,305,588)	-	(4,709,970)
Transfers to increase board-designated endowment funds	-	1,614,890	-	1,614,890
Transfers to increase (decrease) donor-restricted endowment funds	-	168,211	(882,698)	(714,487)
Balance, June 30, 2014	$ 15,916,417	$ 61,006,051	$ 99,261,036	$ 176,183,504

7. Net Assets

Net assets had the following donor-imposed purpose restrictions or board-imposed designations as of June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Engineering	$ 782,602	$ 5,734,333	$ 5,171,113	$ 11,688,048
Foundation	8,058,563	688	-	8,059,251
KUAC radio and television	-	1,302,297	-	1,302,297
Liberal arts	491	4,596,078	8,344,427	12,940,996
Library	77,645	2,700,615	5,978,190	8,756,450
Management/business administration	4,526,342	6,963,388	7,073,599	18,563,329
Museum	75,150	3,074,620	2,990,487	6,140,257
Natural sciences, agriculture and land	-	4,877,260	2,685,110	7,562,370
Research	-	9,335,487	6,646,944	15,982,431
Student aid		30,661,978	23,510,391	54,172,369
General campus support	13,277,520	37,442,364	36,933,050	87,652,934
Noncontrolling interest in pooled endowment funds	1,129	-	-	1,129
	$ 26,799,442	$ 106,689,108	$ 99,333,311	$ 232,821,861

Changes in consolidated net assets attributable to the controlling interest of the foundation and the noncontrolling interest of Cambridge Associates Resources, LLC in the pooled endowment funds were as follows:

	Controlling Interest	Noncontrolling Interest	Total
Balance, July 1, 2013	$ -	$ -	$ -
Fair value of cash and assets contributed at inception	286,313,904	-	286,313,904
Capital contributions	8,894,084	1,000	8,895,084
Capital withdrawals	(11,498,710)	-	(11,498,710)
Net increase in capital activity	283,709,278	1,000	283,710,278
Investment income	1,695,626	9	1,695,635
Net realized and unrealized investment gains	34,017,064	120	34,017,184
Investment return	35,712,690	129	35,712,819
Balance, June 30, 2014	$ 319,421,968	$ 1,129	$ 319,423,097

8. Distributions for the Benefit of University of Alaska

Distributions for the benefit of the University of Alaska, by functional classification, for year ended June 30, 2014 were as follows:

University of Alaska	
General	$ 57,123
	$ 57,123

University of Alaska Anchorage	
Engineering	$ 1,707,801
General	1,102,995
Liberal arts	128,218
Library	52,660
Management/business administration	646,884
Museum	564
Natural sciences, agriculture and land	15,559
Research	313,411
Student aid	1,090,328
	$ 5,058,420

University of Alaska Fairbanks	
Engineering	$ 153,438
General	1,946,910
KUAC radio and television	753,639
Liberal arts	769,373
Library	308,547
Management/business administration	189,166
Museum	306,938
Natural sciences, agriculture and land	590,708
Research	796,134
Student aid	1,825,694
	$ 7,640,547

University of Alaska Southeast	
General	$ 118,347
Liberal arts	875
Library	38,404
Natural sciences, agriculture and land	1,272
Student aid	217,478
	$ 376,376
	$ 13,132,466

9. Related Party Transactions

The university provided payment to the foundation in the amount of $800,000 for institutional support during the year ended June 30, 2014. The university also provides administrative and personnel support for the foundation. The foundation reimbursed the university $2,634,305 for these services for the year ended June 30, 2014. This reimbursement is included in the consolidated statement of activities as operating expenses.