

UNIVERSITY OF ALASKA

(A Component Unit of the State of Alaska)

Financial Statements

June 30, 2005 and 2004

(With Independent Auditors' Report Thereon)

University of Alaska
(A Component Unit of the State of Alaska)
Financial Statements
June 30, 2005 and 2004

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

A summarized comparison of the university's assets, liabilities and net assets at June 30, 2005, 2004 and 2003 follows (in thousands):

| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|---|-------------------|------------------|-----------------------------|
| Assets: | | | |
| Current assets | \$ 119,109 | \$ 109,721 | \$ 107,186 |
| Other assets | 194,918 | 182,960 | 173,719 |
| Capital assets, net of depreciation | <u>737,290</u> | <u>760,757</u> | <u>703,855</u> |
| Total assets | <u>1,051,317</u> | <u>1,053,438</u> | <u>984,760</u> |
| Liabilities: | | | |
| Current liabilities | 76,600 | 69,631 | 74,547 |
| Noncurrent liabilities | <u>140,658</u> | <u>133,576</u> | <u>127,699</u> |
| Total liabilities | <u>217,258</u> | <u>203,207</u> | <u>202,246</u> |
| Net assets | | | |
| Invested in capital assets, net of debt | 625,727 | 648,016 | 602,274 |
| Restricted – expendable | 48,969 | 36,591 | 31,102 |
| Restricted – nonexpendable | 118,462 | 111,142 | 108,303 |
| Unrestricted | <u>40,901</u> | <u>54,482</u> | <u>40,835</u> |
| Total net assets | <u>\$ 834,059</u> | | <u> </u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

A summarized comparison of the university's revenues, expenses and changes in net assets for the years ended June 30, 2005, 2004 and 2003 follows (in thousands):

| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|---|-------------------|-------------------|-------------------|
| Operating revenues | \$ 319,013 | \$ 299,677 | \$ 275,126 |
| Operating expenses | <u>(592,459)</u> | <u>(549,236)</u> | <u>(528,148)</u> |
| Operating loss | (273,446) | (249,559) | (253,022) |
| Net nonoperating revenues | <u>255,112</u> | <u>230,706</u> | <u>221,264</u> |
| Loss before other revenues, expenses, gains, or losses | (18,334) | (18,853) | (31,758) |
| Other revenues, expenses, gains or losses | <u>2,162</u> | <u>86,570</u> | <u>79,640</u> |
| Increase (decrease) in net assets | <u>(16,172)</u> | <u>67,717</u> | <u>47,882</u> |
| Net assets at beginning of year | <u>850,231</u> | <u>782,514</u> | <u>734,632</u> |
| Net assets at end of year | <u>\$ 834,059</u> | <u>\$ 850,231</u> | <u>\$ 782,514</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

Endowment proceeds and investment income increased to \$26.2 million in 2005 as compared to \$16.2 million in 2004. A significant component of these amounts is investment income generated from the endowment principal. Total return from the endowment was approximately 11 percent, or \$9.7 million, in 2005 as compared to a 14 percent return, or \$10.6 million, in the prior year. The other major component in this category is yield from, or sales of, trust land, timber and mineral interests, the net proceeds of which are generally deposited to the land grant endowment trust fund. These sources generated revenue of \$16.5 million in 2005 as compared to \$5.6 million in 2004.

State of Alaska general fund appr

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

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):

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

Statements of Cash Flows as direct lending receipts totaling approximately \$57 million and \$51 million in fiscal year 2005 and 2004, respectively.

Public service expenditures increased 19 percent in fiscal year 2005, primarily due to the receipt of several federal grants that benefit rural Alaska communities.

Institutional support expenses fluctuate due to the accounting method used to record employee benefits. The university employs a central benefits pool concept, and uses a staff benefit rate, to charge estimated employee benefits, such as pension and healthcare costs, to labor recorded in the various functional expense categories. Institutional support expenses are impacted when the amounts charged exceed, or are less than, actual benefits paid to third parties. Over recovery or under recovery of charges in one year are built in

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

Salaries and employee benefits increased 9 percent, or \$28.4 million, in fiscal year 2005. Employee benefits, such as pension plan contributions and health care costs, increased 23 percent and comprised \$16.0 million of the change. Salaries and wages increased 5 percent, or \$12.4 million.

Fiscal Year 2004 Comparisons (Statement of Revenues, Expenses and Changes in Net Assets)

For comparative purposes, significant comments about changes between 2003 and 2004 that were noted in fiscal year 2004 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 8.7 percent, or \$67.7 million, from 2003 to 2004. Significant factors affecting the fiscal year 2004 increase in net assets included \$86.6 million revenue recognized from capital funding sources, such as state capital appropriations. Endowment proceeds and investment income also contributed positively to the increase in net assets by providing \$16.2 million in 2004 as compared to \$11.8 million in 2003. A significant component of these amounts was investment income, generated from the endowment principal. Total return from the endowment was approximately 14 percent, or \$10.6 million, in 2004 as compared to a 1 percent return, or \$0.9

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

- University of Alaska Museum addition and renovation on the Fairbanks campus. This \$42 million expansion project doubles the size of the existing museum to 250,000 square feet. Features include a new research center to house natural history collections and research laboratories; a new art gallery; a new learning center; a pre-college learning center and a “smart classroom” for university students; and an enhanced visitor experience with a multimedia auditorium, lectures and performances by Alaska Native athletes and dancers. Full occupancy of the museum is expected in late 2006.
- University of Alaska Southeast Joint Readiness Center in Juneau. This joint-occupied facility will provide a recreational complex for students with 100,000 square feet of the Juneau student housing. The university is building the facility for the Alaska National Guard with \$10.0 million in State of Alaska funds and \$5.5 million in university general revenue bonds. This facility was completed in July 2005.
- Biological Research and Diagnostics Facility on the Fairbanks campus. This \$23 million facility adds to the nucleus of other science and research facilities located on the campus West Ridge. The facility incorporates live animal research, program components and space for laboratories, procedure rooms, necropsy, incinerator and related administrative space. The project is being funded by \$14.4 million in State of Alaska general obligation bonds, \$4.76 million in university general revenue bonds and \$3.84 million in university general revenue bonds. The facility is expected to be completed in late 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

originally issued for student housing in Anchorage. The advance refunding and note redemption result in an economic gain of approximately \$971,000 and the total debt service payments over the next 20 years decrease by \$1,366,000.

Bonds were issued in prior years 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 traditionally utilized both tax exempt and non-tax exempt equipment lease financings to provide for its capital needs or to facilitate systematic renewals. Short-term lines of credit or working capital is available to provide interim cash flow financing for facilities intended to be funded actual ic gi4c59(i)-7(s5dMhd1CID 3 BDC BT/TT0 1 Tf0 Tc 0 Tw 10.9802.8026.98 90.0005 565.8023 Tr

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

contributions. See Note 12 of the financial statements for more information regarding pension plans.

Recently enacted state legislation will affect retirement benefits for new employees. The legislation requires all new eligible employees hired on or after July 1, 2006 to be participants in newly created defined contribution retirement plans. Under the new plans, public employees will contribute 8 percent of compensation and employers will contribute approximately 10 to 12 percent of compensation plus additional amounts (not all of which have yet been set) for certain medical insurance, disability and death benefits. As part of the legislation, the existing PERS and TRS boards will be eliminated and replaced with the Alaska Retirement Management (ARM) Board.

In June 2005, the Board of Regents created the New Optional Retirement Plan (NORP), a university-administered single employer defined contribution plan, for new participants hired on or after July 1, 2005. In fiscal year 2006, the NORP employer contribution rate is 12 percent as compared to 16.33 percent for the original ORP plan. The employee contribution rate remains the same as the original ORP. More information on this plan is available in Note 12 of the financial statements.

For fiscal year 2006, state appropriations for operations and debt service reimbursement total \$249.6 million, a 7.2 percent increase over fiscal year 2005. The level of annual state appropriation funding is conditional upon the legislative process, which is directly influenced by current economic conditions and other factors. The university continues to seek additional revenues from sources other than state appropriations.

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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, 2005 and 2004 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 the *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 internal control. Our audits were conducted for the years ended June 30, 2005 and 2004. The financial statements are the responsibility of the University's management.

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| Assets | 2005 | 2004 |
|---|-----------|-----------|
| Currents assets: | | |
| Cash and cash equivalents | \$ 57,276 | \$ 41,815 |
| Short-term investments | 1,269 | 1,231 |
| Accounts receivable, less allowance of \$3,882 in 2005 and \$3,990 in 2004 | 51,622 | 57,974 |
| Other assets | 889 | 640 |
| Inventories | 8,053 | 8,061 |
| Total current assets | 119,109 | 109,721 |
| Noncurrent assets: | | |
| Restricted cash and cash equivalents | 8,400 | 19,164 |
| Notes receivable | 6,125 | 5,212 |
| Endowment investments | 115,119 | 93,834 |
| Endowed land and other assets | 37,698 | 38,358 |

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UNIVERSITY OF ALASKA FOUNDATION

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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, 2005 and 2004
(in thousands)

| | 2005 | 2004 |
|--|------------|------------|
| Operating revenues | | |
| Student tuition and fees | \$ 75,853 | \$ 67,756 |
| less tuition allowances | (6,365) | (6,260) |
| | 69,488 | 61,496 |
| Federal grants and contracts | 138,494 | 133,897 |
| State grants and contracts | 12,240 | 10,520 |
| Local grants and contracts | 3,276 | 3,313 |
| Private grants and contracts | 40,843 | 36,641 |
| Federal appropriations | 2,837 | 2,758 |
| Local appropriations | 705 | 705 |
| Sales and services, educational departments | 3,446 | 3,415 |
| Sales and services, auxiliary enterprises, net of tuition allowances of \$1,214 in 2005 and \$1,298 in 2004 | 36,033 | 34,605 |
| Other | 11,651 | 12,327 |
| Total operating revenues | 319,013 | 299,677 |
| Operating expenses | | |
| Instruction | 150,052 | 144,115 |
| Academic support | 40,990 | 37,095 |
| Research | 118,933 | 112,013 |
| Public service | 31,226 | 26,216 |
| Student services | 36,033 | 33,002 |
| Operations and maintenance | 44,953 | 39,184 |
| Institutional support | 63,388 | 50,290 |
| Student aid | 12,822 | 13,052 |
| Auxiliary enterprises | 33,927 | 33,786 |
| Depreciation | 60,135 | 60,483 |
| Total operating expenses | 592,459 | 549,236 |
| Operating loss | (273,446) | (249,559) |
| Nonoperating revenues (expenses) | | |
| State appropriations | 232,868 | 217,745 |
| Investment earnings | 3,242 | 1,674 |
| Endowment proceeds and investment income | 26,163 | 16,187 |
| Interest on debt | (4,029) | (3,394) |
| Other nonoperating expenses | (3,132) | (1,506) |
| Net nonoperating revenues | 255,112 | 230,706 |
| Loss before other revenues, expenses, gains or losses | (18,334) | (18,853) |
| Capital appropriations, grants and contracts | 17,560 | 86,570 |
| Pension expense - net pension and OPEB obligations | (15,398) | - |
| Net increase (decrease) in net assets | (16,172) | 67,717 |
| Net assets | | |
| Net assets - beginning of year | 850,231 | 782,514 |
| Net assets - end of year | \$ 834,059 | \$ 850,231 |

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

UNIVERSITY OF ALASKA FOUNDATION
(A Component Unit of the University of Alaska)
Statement of Activities
For the years ended June 30, 2005 and 2004
(in thousands)

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>2005</u> |
|---|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Revenues, gains and other support | | | | |
| Contributions | \$ 269 | \$ 10,569 | \$ 1,379 | \$ 12,217 |
| Investment income | 1,405 | 1,755 | - | 3,160 |
| Net realized and unrealized investment gains (losses) | 1,316 | 4,716 | - | 6,032 |
| Other revenues | 1 | 89 | - | 90 |
| Actuarial adjustment of remainder trust obligations | - | (1) | 80 | 79 |
| Gains (losses) on disposition of other assets | - | (3) | (1) | (4) |
| Transfers from the University of Alaska | 21 | 172 | 133 | 326 |
| Net assets released from restriction | 18,620 | (18,620) | - | - |
| Total revenues, gains and other support | <u>21,632</u> | <u>(1,323)</u> | <u>1,591</u> | <u>21,900</u> |
| Expenses and distributions | | | | |
| Operating expenses | 638 | - | - | 638 |
| Distributions for the benefit of the University of Alaska | 18,912 | - | - | 18,912 |
| Total expenses and distributions | <u>19,550</u> | <u>-</u> | <u>-</u> | <u>19,550</u> |
| Excess of revenues over expenses | <u>2,082</u> | <u>(1,323)</u> | <u>1,591</u> | <u>2,350</u> |
| Transfers between net asset classes | - | - | - | - |
| Increase (decrease) in net assets | 2,082 | (1,323) | 1,591 | 2,350 |
| Net assets, beginning of year | <u>29,439</u> | <u>50,961</u> | <u>43,787</u> | <u>124,187</u> |
| Net assets, end of year | <u>\$ 31,521</u> | <u>\$ 49,638</u> | <u>\$ 45,378</u> | <u>\$ 126,537</u> |

| <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>2004</u> |
|---------------------|-----------------------------------|-----------------------------------|-------------------|
| \$ 1,317 | \$ 8,833 | \$ 4,016 | \$ 14,166 |
| 1,401 | 1,514 | - | 2,915 |
| 1,752 | 4,216 | - | 5,968 |
| 5 | 124 | - | 129 |
| - | - | (25) | (25) |
| - | 96 | (1) | 95 |
| - | 1 | 142 | 143 |
| 11,360 | (11,360) | - | - |
| <u>15,835</u> | <u>3,424</u> | <u>4,132</u> | <u>23,391</u> |
| 282 | - | - | 282 |
| 12,058 | - | - | 12,058 |
| 12,340 | - | - | 12,340 |
| 3,495 | 3,424 | 4,132 | 11,051 |
| - | (41) | 41 | - |
| 3,495 | 3,383 | 4,173 | 11,051 |
| 25,944 | 47,578 | 39,614 | 113,136 |
| <u>\$ 29,439</u> | <u>\$ 50,961</u> | <u>\$ 43,787</u> | <u>\$ 124,187</u> |

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, 2005 and 2004
(in thousands)

| | 2005 | 2004 |
|--|-----------|-----------|
| Cash flows from operating activities | | |
| Student tuition and fees, net | \$ 71,431 | \$ 61,900 |
| Grants and contracts | 198,389 | 190,920 |
| Sales and services, educational departments | 3,446 | 3,415 |
| Sales and services, auxiliary enterprises | 36,161 | 34,554 |
| Federal appropriations | 2,837 | 2,758 |
| Local appropriations | 705 | 705 |
| Other operating receipts | 10,370 | 11,046 |
| Payments to employees for salaries and benefits | (340,613) | (316,830) |
| Payments to suppliers | (171,847) | (158,595) |
| Payments to students for financial aid | (12,835) | (12,655) |
| Net cash used by operating activities | (201,956) | (182,782) |
| Cash flows from noncapital financing activities | | |
| State appropriations | 233,487 | 217,050 |
| Other revenue, net | 79 | 45 |
| Direct lending receipts | 56,558 | 51,397 |

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UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Cash Flows
For the Years Ended June 30, 2005 and 2004
(in thousands)

Reconciliation of operating loss to net cash used by operating activities:

| | 2005 | 2004 |
|---|--------------|--------------|
| Operating loss | \$ (273,446) | \$ (249,559) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | |
| Depreciation expense | 60,135 | 60,483 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | 4,782 | 7,038 |
| Other assets | (243) | 713 |
| Inventories | 8 | (417) |
| Accounts payable | (967) | (2,401) |
| Accrued expenses | 1,237 | 951 |
| Accrued payroll | 6,308 | 2,077 |
| Deferred revenue | 798 | 222 |
| Accrued annual leave | 740 | 183 |
| Deferred lease revenue - current portion | (1,281) | (1,281) |
| Insurance and risk management | (42) | (830) |
| Deposits from students and others | 15 | 39 |
| Net cash used by operating activities | \$ (201,956) | \$ (182,782) |

Noncash Investing, Capital and Financing Activities:

For the Year Ended June 30, 2005

Additions to capital assets include \$2.2 million expended and capitalized but not paid for at year end.

The university purchased equipment through a lease purchase contract totaling \$0.2 million.

Losses on equipment disposals totaled \$2.3 million.

Interest expense on general revenue bond financed projects totaling \$0.3 million was capitalized during the year.

The university recorded a \$15.4 million pension and other postemployment benefit expense for the state-administered PERS defined benefit plan.

For the Year Ended June 30, 2004

Additions to capital assets include \$5.5 million expended and capitalized but not paid for at year end.

The university purchased equipment through a lease purchase contract totaling \$0.6 million.

Losses on equipment disposals totaled \$0.5 million.

Interest expense on general revenue bond financed projects totaling \$0.6 million was capitalized during the year.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005 and 2004

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, non profit 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. Commencing in fiscal year 2004, Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, required 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.

NOTES TO FINANCIAL STATEMENTS

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. 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. 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 less than \$5,000 is not capitalized. Buildings, infrastructure, and other capitalizable assets with a unit value of less than \$100,000 are not capitalized. In fiscal year 2004, the capitalizable threshold for equipment was \$2,500 and \$50,000 for buildings, infrastructure, and other capitalizable assets. Certain land and other resources acquired through land grants

NOTES TO FINANCIAL STATEMENTS

preserve and maintain the purchasing power of the endowment principal. The investable resources of the fund are invested in the consolidated endowment fund, a unitized investment fund. The annual spending allowance is currently based on five 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 of the endowments.

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.

Tuition Allowances

Student tuition and fee revenues and certain other revenues from students are reported net of tuition allowances in the statement of revenues, expenses and changes in net assets. Tuition 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 fees, donations, sales, rentals, facilities and administrative cost recovery, auxiliary and restricted revenues. The unexpended balances of capital appropriations lapse upon completion of the project or upon determination that the funds are no longer necessary for the project.

2. Unrestricted Net Assets:

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

NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

committee and treasurer on a total return basis in accordance with an investment policy approved by the Board of Regents.

College savings program investments include the operating funds of the Education Trust of Alaska, established pursuant to state statute by the Board of Regents to facilitate administration of the state's Internal Revenue Code Section 529 College Savings Program. Program investments are in mutual funds of T. Rowe Price Associates, Inc., the program manager. See Note 5 for further information.

Certain funds held in trust for the benefit of the university are not included in the financial statements as

NOTES TO FINANCIAL STATEMENTS

The consolidated endowment fund investment policy limits debt investments to 5 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. The university does not have a policy regarding concentration of credit risk since it does not normally invest its operating and capital funds in individual debt investments.

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 1 percent, the value of the security would decrease 2 percent. The university does not have a policy regarding interest rate risk. At June 30, 2005, the university had the following debt investments and corresponding modified duration (\$ in thousands):

| <u>Investment Type</u> | <u>Fair Value</u> | | | | <u>Modified Duration</u> |
|------------------------|-------------------|--------------------------|------------------|--|------------------------------|
| | <u>Operating</u> | <u>Capital Funds</u> | <u>Endowment</u> | <u>College Savings Program</u> | |
| Short Term Fund | \$ 58,875 | \$ 2,674 | \$ 7,645 | - | 2.58 |
| Intermediate Term Fund | \$ 1,269 | - | \$ 459 | - | 1.20 |
| Corporate | - | - | \$ 2,837 | - | 2.05 |

NOTES TO FINANCIAL STATEMENTS

4. Accounts Receivable:

Accounts receivable consisted of the following at June 30, 2005 and 2004 (in thousands):

| <u>June 30, 2005</u> | <u>Gross</u> | <u>Allowance</u> |
|----------------------|--------------|------------------|
|----------------------|--------------|------------------|

NOTES TO FINANCIAL STATEMENTS

Subsequent to year end, on July 25, 2005, Alaska's governor approved a transfer of approximately 250,000 acres of State of Alaska land to the university. The lands will be conveyed to the university over the next three years with the exception of one 70,000 acre forestry research parcel being transferred in 50 years. The intent of the Legislature is to provide the university with an equitable land grant as originally envisioned in the federal land grant of 1915 and to provide the university ownership of a significant portfolio of income producing land to help fund public higher education in the State of Alaska. Proceeds and royalties received from property development will be deposited into the land grant trust endowment fund. The lands will be recorded at zero basis as no determinable fair value is available at the time of transfer.

7. Capital Assets:

A summary of capital assets follows (in thousands):

| | <u>Balance</u> <u>July 1, 2004</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>June 30, 2005</u> |
|--------------------------------|---------------------------------------|------------------|-------------------|--|
| Capital assets not depreciated | | | | |
| Land | \$ 27,281 | \$ 305 | \$ 226 | \$ 27,360 |

NOTES TO FINANCIAL STATEMENTS

| | <u>Balance</u> <u>July 1, 2003</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>June 30, 2004</u> |
|--------------------------------|---------------------------------------|-------------------|-------------------|--|
| Capital assets not depreciated | | | | |
| Land | \$ 25,949 | \$ 1,332 | \$ - | \$ 27,281 |
| Construction in progress | 94,212 | 81,452 | 103,541 | 72,123 |
| Library and museum collections | 47,917 | 1,729 | - | 49,646 |
| Other capital assets | | | | |
| Buildings | 755,084 | 102,265 | - | 857,349 |
| Infrastructure | 33,514 | - | - | 33,514 |
| Equipment | 161,503 | 34,213 | 7,100 | 188,616 |
| Leasehold improvements | 4,845 | - | - | 4,845 |
| Other improvements | <u>20,320</u> | <u>449</u> | <u>-</u> | <u>20,769</u> |
| Total | 1,143,344 | 221,440 | 110,641 | 1,254,143 |
| Less accumulated depreciation: | | | | |
| Buildings | 304,452 | 38,786 | - | 343,238 |
| Infrastructure | 21,191 | 1,189 | - | 22,380 |
| Equipment | 100,250 | 19,189 | 6,586 | 112,853 |
| Leasehold improvements | 1,857 | 242 | - | 2,099 |
| Other improvements | <u>11,739</u> | <u>1,077</u> | <u>-</u> | <u>12,816</u> |
| Total accumulated depreciation | <u>439,489</u> | <u>60,483</u> | <u>6,586</u> | <u>493,386</u> |
| Capital assets, net | <u>\$ 703,855</u> | <u>\$ 160,957</u> | <u>\$ 104,055</u> | <u>\$ 760,757</u> |

8. Long-term Debt:

Debt service requirements at June 30, 2005 were as follows (in thousands):

| <u>Year ended</u> <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------------|-------------------|------------------|-------------------|
| 2006 | \$ 4,864 | \$ 4,150 | \$ 9,014 |
| 2007 | 4,942 | 3,996 | 8,938 |
| 2008 | 5,067 | 3,833 | 8,900 |
| 2009 | 4,360 | 3,675 | 8,035 |
| 2010 | 4,455 | 3,525 | 7,980 |
| 2011-2015 | 23,749 | 15,104 | 38,853 |
| 2016-2020 | 26,161 | 10,334 | 36,495 |
| 2021-2025 | 24,551 | 4,825 | 29,376 |
| 2026-2030 | 9,675 | 1,090 | 10,765 |
| 2031 | <u>625</u> | <u>15</u> | <u>640</u> |
| | <u>\$ 108,449</u> | <u>\$ 50,547</u> | <u>\$ 158,996</u> |

NOTES TO FINANCIAL STATEMENTS

The university's annual pension cost for the current year and related information is as follows:

| | <u>Pension</u> | Postemployment <u>healthcare</u> | <u>Total</u> |
|---------------------------------|----------------|-------------------------------------|--------------|
| Contribution rates: | | | |
| Employee: | | | |
| Peace officers and firefighters | 4.67% | 2.83% | 7.50% |
| Other employees | 4.20% | 2.55% | 6.75% |
| Employer | 6.58% | 4.00% | 10.58% |
| Annual pension/OPEB cost | \$17,712,969 | \$10,759,896 | \$28,472,865 |
| Contributions made | \$8,133,820 | \$4,940,959 | \$13,074,779 |
| Actuarial assumptions: | | | |
| Inflation rate | 3.50% | Same | |
| Investment return | 8.25% | Same | |

| | | <u>Cost Contributed</u> | <u>Obligation</u> |
|------|-------------|-------------------------|-------------------|
| 2003 | \$1,340,695 | 100% | |

NOTES TO FINANCIAL STATEMENTS

employer's contribution equals the contractually required contribution. The amounts contributed to TRS by the university during the years ended June 30, 2005, 2004 and 2003 were \$6,769,122, \$4,860,511, and \$4,281,511, respectively, equal to the required employer contributions for each year.

NOTES TO FINANCIAL STATEMENTS

Changes in applicable liability amounts follow (in thousands):

| | <u>Balance</u> <u>July 1, 2004</u> | <u>Provision</u> <u>for Claims</u> | <u>Claims</u> <u>Payment</u> | <u>Balance</u> <u>June 30, 2005</u> |
|-----------------------|---------------------------------------|---------------------------------------|---------------------------------|--|
| Health | \$ 6,505 | \$ 39,412 | \$ (39,658) | \$ 6,259 |
| General liability | 7,267 | 625 | (758) | 7,134 |
| Workers' compensation | 4,686 | 1,784 | (1,434) | 5,036 |
| Unemployment | <u>133</u> | <u>584</u> | <u>(597)</u> | <u>120</u> |
| | <u>\$ 18,591</u> | <u>\$ 42,405</u> | <u>\$ (42,447)</u> | <u>\$ 18,549</u> |

| | <u>Balance</u> <u>July 1, 2003</u> | <u>Provision</u> <u>for Claims</u> | <u>Claims</u> <u>Payment</u> | <u>Balance</u> <u>June 30, 2004</u> |
|-----------------------|---------------------------------------|---------------------------------------|---------------------------------|--|
| Health | \$ 6,928 | \$ 34,127 | \$ (34,550) | \$ 6,505 |
| General liability | 8,176 | 189 | (1,098) | 7,267 |
| Workers' compensation | 4,180 | 1,645 | (1,139) | 4,686 |
| Unemployment | <u>137</u> | <u>620</u> | <u>(624)</u> | <u>133</u> |
| | <u>\$ 19,421</u> | <u>\$ 36,581</u> | <u>\$ (37,411)</u> | <u>\$ 18,591</u> |

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 present legal proceedings, environmental investigations, audit adjustments, or other commitments and contingent liabilities.

15. University of Alaska Foundation:

The University of Alaska Foundation (UAF) is a legally separate, non profit organization formed in 1974 to solicit donations for the exclusive benefit of the University of Alaska. During 2005 and

NOTES TO FINANCIAL STATEMENTS

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 were as follows (in thousands):

