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University of Alaska
(A Component Unit of the State of Alaska)
Financial Statements
June 30, 2010 and 2009

Table of Contents

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

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the University of Alaska (university) for the years ended June 30, 2010 (2010) and June 30, 2009 (2009), with selected comparative information for the year ended June 30, 2008 (2008). This discussion has been prepared by management and should be read in conjunction with the financial statements including the notes thereto, which follow this section.

Using the Financial Statements

The university's financial report includes the basic financial statements of the university and the financial statements of the University of Alaska Foundation (foundation), a legally separate, nonprofit component unit. The three basic financial statements of the university are: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These statements are prepared in accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) pronouncements. The university is presented as a business-type activity. GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, establishes standards for external financial reporting for public colleges and universities and classifies resources into three net asset categories – unrestricted, restricted, and invested in capital assets, net of related debt.

The University of Alaska Foundation is presented as a component unit of the university in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The foundation's financial statements include the Statement of Financial Position and the Statement of Activities and these statements are presented as originally audited according to generally accepted accounting principles and Financial Accounting Standards Board (FASB) pronouncements.

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 (operating independently and separately from the university's Board of Regents). The component unit status of the foundation indicates that significant resources are held by the foundation for the sole benefit of the university. However, the university is not accountable for, nor has ownership of, the foundation's resources.

Statement of Net Assets

The Statement of Net Assets presents the financial position of the university at the end of the fiscal year and includes all assets and liabilities of the university. The difference between total assets and total liabilities (net assets) is one indicator of the financial condition of the university, while the change in net assets is an indicator of whether the financial condition has improved or declined during the year.

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, 2010, 2009 and 2008 follows (\$ in thousands):

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets:			
Current assets	\$ 184,542	\$ 180,314	\$ 113,073
Other assets	183,616	181,070	306,979
Capital assets, net of depreciation	<u>863,314</u>	<u>833,989</u>	<u>792,161</u>
Total assets	<u>1,231,472</u>	<u>1,195,373</u>	<u>1,212,213</u>
Liabilities:			
Current liabilities			

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

A reduction of debt explains the majority of the change in liabilities. Other accrual and deferred revenue amounts remained relatively consistent with prior year amounts.

Total debt outstanding decreased from \$128.0 million

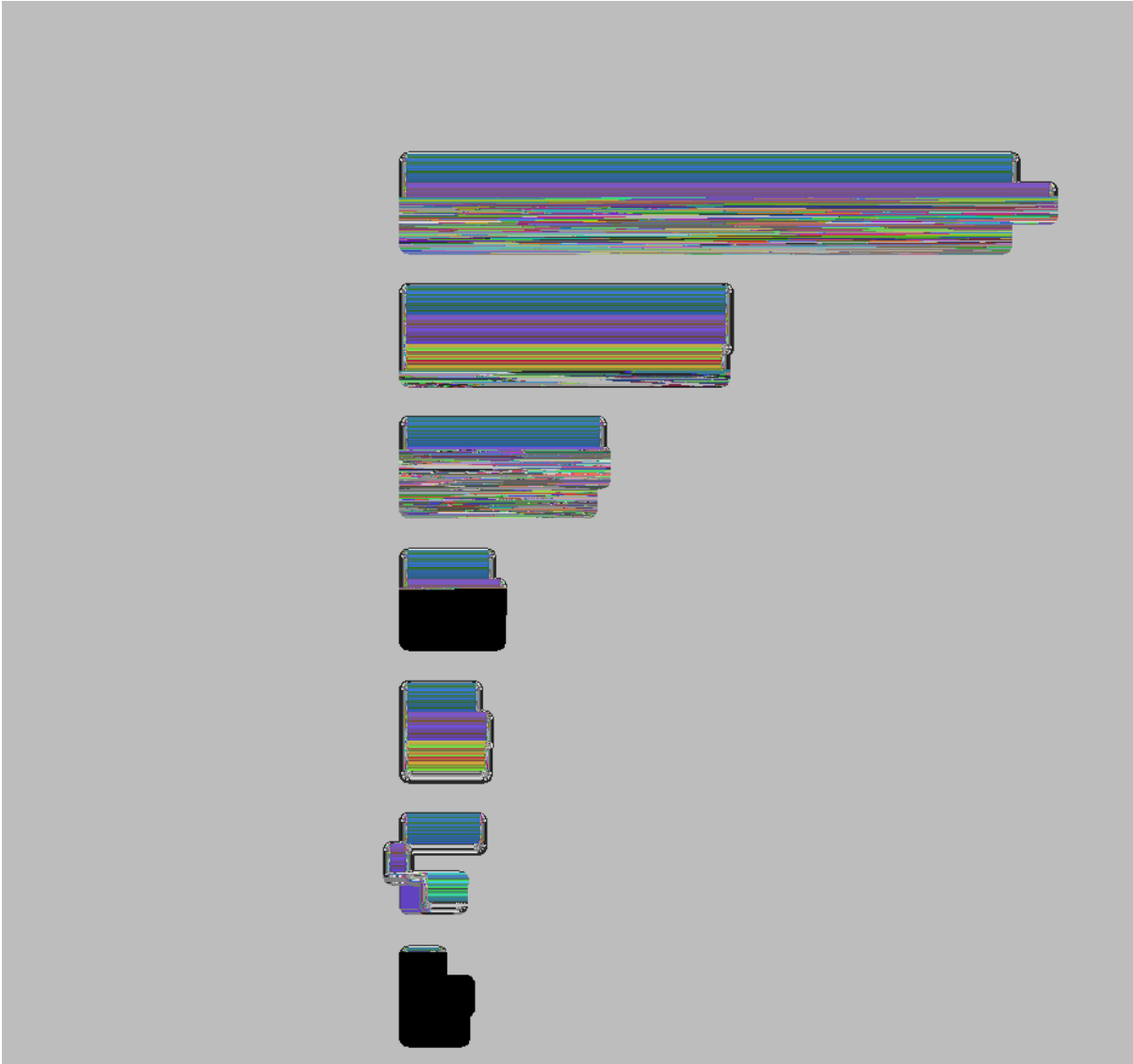
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

Total debt outstanding decreased from \$136.7 million at June 30, 2008 to \$128.0 million at June 30, 2009. The change consists of principal payments totaling \$6.0 million plus payoff of the Bunnell Park property note payable totaling \$3.8 million, less new equipment financings of \$1.1 million.

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

expense in the university's financial statements in accordance with GASB Statement No. 24, Accounting and Financial Reporting for Certain Grants and Other Financial Assistance.

A comparison of operating and nonoperating revenues by source for 2010, 2009 and 2008 follows:



Grant and contract revenue from federal, state, local and private sponsors totaled \$208.8 million for 2010, as compared to \$198.3 million in the prior year. The growth is primarily attributed to additional grants received from the American Recovery and Reinvestment Act (ARRA) which totaled \$14.1 million of which \$8.8 was related to grants and contracts and \$5.2 million was student financial aid.

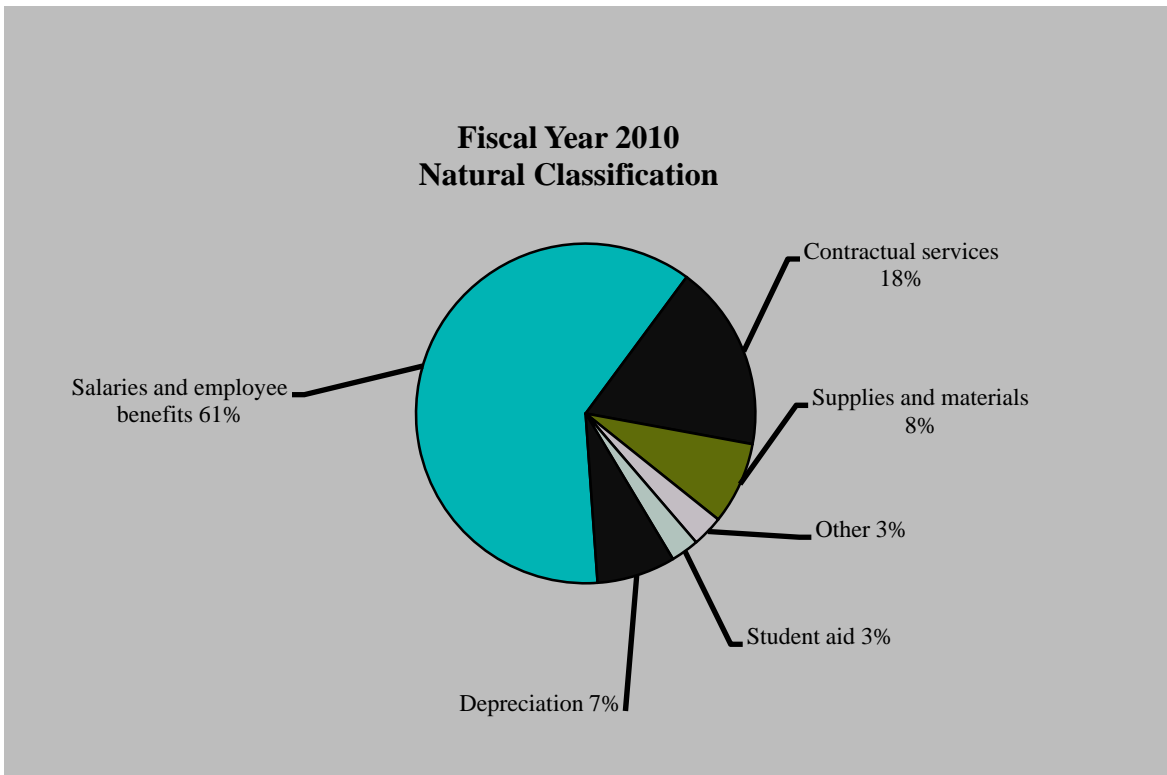
Gross student tuition and fee revenue totaled \$119.9 million in 2010 as compared to \$107.4 million in 2009. This was due in large part to a five percent increase in tuition rates for students for academic year 2009 – 2010. Student headcount increased 4.3 percent to 33,710 students from Fall 2008 to Fall 2009.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Salaries and employee benefits increased five percent, or \$23.1 million, in 2010. Employee benefits, such as pension plan contributions and health care costs, increased 1.9 percent and comprised \$2.5 million of the change. Salaries and wages increased 6.5 percent, or \$20.6 million. Other expenses are substantially less in 2010 as compared to 2009 and 2008 as a result of recognizing state on-behalf pension payments totaling \$18.0 million, \$30.5 million, and \$28.5 million, respectively.

	Operating Expenses					
	Natural Classification (in millions)					
	FY2010		FY2009		FY2008	
Salaries and Employee Benefits	\$476.8	61.2%	\$453.7	59.7%	\$426.7	59.6%
Contractual Services	138.2	17.8%	132.5	17.5%	126.2	17.6%
Supplies and Materials	61.0	7.8%	65.1	8.6%	59.8	8.3%
Other	23.1	3.0%	34.3	4.5%	32.0	4.5%
Student Aid	21.0	2.7%	17.9	2.4%	14.9	2.1%
Depreciation	58.2	7.5%	55.6	7.3%	56.9	7.9%
	\$778.3	100.0%	\$759.1	100.0%	\$716.5	100.0%



A portion of university resources applied to student accounts for tuition, fees, or room and board are not reported as student aid expense, but are reported in the financial statements as a scholarship allowance, directly offsetting student tuition and fee revenue or auxiliary revenue. Allowances totaled \$15.5 million in 2010 and \$10.7 million in 2009. In addition to the allowances, students participate in governmental financial aid loan programs. The loans are neither recorded as revenue or expense in the financial statements, but are recorded in the Statements of Cash Flows as direct lending receipts totaling \$69.4 million and \$75.0 million in 2010 and 2009, respectively.

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

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, added 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.

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

Endowment gifts, sales, and other proceeds totaled \$10.4 million in fiscal year 2009 as compared to \$5.6 million in 2008. The increase is mainly attributed to the \$6.1 million sale of real property located near the Mat-Su campus.

Capital and Debt Activities

The University of Alaska has continued to modernize various facilities and to build new facilities to address emerging state needs. Net capital asset additions totaled \$73.9 million in 2010, as compared with \$76.1 million in 2009 and \$101.9 million in 2008. These capital additions primarily comprise replacement, renovation, code corrections and new construction of academic and research facilities, as well as investments in equipment and information technology. State capital appropriations for 2010 and 2009 were \$3.2 million and \$107.2 million, respectively.

At June 30, 2010, \$114.5 million remains unexpended from current and prior year capital appropriations and general revenue bond proceeds, of which \$65.0 million is committed to existing construction contracts. The balance is for projects still in design or preconstruction, or is held for contingencies for work in progress.

Construction in progress at June 30, 2010 totaled \$59.2 million and includes the following major projects:

At the University of Alaska Anchorage, construction is underway on the Health Sciences Building. Once complete, this \$46.5 million, 65,321 square-foot building will accommodate the academic programs of the School of Nursing Biomedical Programs and Allied Health Sciences. It will feature offices and classrooms, interactive simulation labs, seminar rooms and student activity spaces. The building is scheduled to be completed in August 2011.

The University of Alaska Fairbanks began construction in fiscal year 2010 of a new research vessel, named "Sikuliaq". The vessel construction is being funded by a \$148.1 million award from the National Science Foundation. As designed, the vessel will be a 254 foot multipurpose oceanographic research ship capable of operating in seasonal ice and open regions around Alaska. Once constructed, the university will manage the vessel operations to support the National Science Foundation and other federally funded science activities. The ship is expected to be complete in 2014.

Debt

At June 30, 2010, total debt outstanding was \$121.3 million, comprised of \$100.5 million in general revenue bonds, \$18.4 million in a note pa

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

In previous years, other bonds were issued 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

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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, 2010 and 2009 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 *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 the University'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 respective financial position of the University of Alaska and its discretely presented component unit at June 30, 2010 and 2009, and the respective changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2010 on our consideration of the University of Alaska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in accessing the results of our audit.

The Management's Discussion and Analysis, on pages 1 through 10 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

November 11, 2010

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Assets	2010	2009
Current assets:		
Cash and cash equivalents	\$ 99,390	\$ 81,728
Short-term investments	6,129	26,184
Accounts receivable, less allowance of \$7,614 in 2010 and \$6,573 in 2009	70,369	64,523
Inventories	7,963	7,220
Other assets	691	659

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UNIVERSITY OF ALASKA FOUNDATION
(A Component Unit of the University of Alaska)
Statements of Financial Position
June 30, 2010 and 2009
(in thousands)

Assets	2010	2009
Cash and cash equivalents	\$ 38,116	\$ 30,609
Interest receivable	78	77
Contributions receivable	14,251	17,746
Escrows receivable	134	145
Inventory	58	50
Other assets	507	516
Pooled endowment funds	102,012	89,486
Other long-term investments	16,869	23,092
Total assets	\$ 172,025	\$ 161,721
 Liabilities		
Due to the University of Alaska	\$ 1,718	\$ 2,118
Other liabilities	22	

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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, 2010 and 2009
(in thousands)

	2010	2009
Operating revenues		
Student tuition and fees	\$ 119,846	\$ 107,424
less scholarship allowances	(13,506)	(9,213)
	106,340	98,211
Federal grants and contracts	138,591	127,287
State and local grants and contracts	24,519	24,098
Private grants and contracts	45,728	46,902
Sales and services, educational departments	4,073	3,850
Sales and services, auxiliary enterprises, net of scholarship allowances of \$2,018 in 2010 and \$1,483 in 2009	39,225	39,990
Other	14,457	15,687
Total operating revenues	372,933	356,025
Operating expenses		
Instruction	204,903	196,304
Academic support	57,688	54,642
Research	133,447	126,949
Public service	40,401	37,820
Student services	50,171	48,170
Operations and maintenance	59,339	61,186
Institutional support	94,942	90,184
Student aid	20,965	17,937
Auxiliary enterprises	40,228	39,724
Depreciation	58,228	55,649
State on-behalf payments	17,975	30,502
Total operating expenses	778,287	759,067
Operating loss	(405,354)	(403,042)
Nonoperating revenues (expenses)		
State appropriations	334,826	320,770
State on-behalf contributions - pension	17,975	30,502
Investment earnings (losses)	3,810	(8,142)
Endowment proceeds and investment income (loss)	12,953	(24,048)
Interest on debt	(4,852)	(4,986)
Federal student financial aid	18,275	11,812
Other nonoperating expenses	(1,905)	(4,428)
Net nonoperating revenues	381,082	321,480
Loss before other revenues, expenses, gains or losses	(24,272)	(81,562)
Capital appropriations, grants and contracts	61,951	63,617
Income (loss) before extraordinary item	37,679	(17,945)
Extraordinary item - elimination of net pension and OPEB obligations	-	31,325
Net increase in net assets	37,679	13,380
Net assets		
Net assets - beginning of year	952,183	938,803
Net assets - end of year	\$ 989,862	\$ 952,183

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

UNIVERSITY OF ALASKA FOUNDATION
(A Component Unit of the University of Alaska)
Statements of Activities
For the years ended June 30, 2010 and 2009
(in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010</u>
Revenues, gains (losses) and other support				
Contributions	\$ 256	\$ 12,961	\$ 2,725	\$ 15,942
Investment income	719	1,236	-	1,955
Net realized and unrealized investment losses	4,159	3,015	-	7,174
Other revenues	-	169	-	169
Actuarial adjustment of remainder trust obligations	-	(28)	(71)	(99)
Losses on disposition of other assets	(3)	(115)	-	(118)
Administrative assessments	1,473	(888)	(43)	542
Support from University of Alaska	890	-	-	890
Net assets released from restriction	<u>10,963</u>	<u>(10,963)</u>	<u>-</u>	<u>-</u>
Total revenues, gains (losses) and other support	<u>18,457</u>	<u>5,387</u>	<u>2,611</u>	<u>26,455</u>
Expenses and distributions				
Operating expenses	2,568	-	-	2,568
Distributions for the benefit of the University of Alaska	<u>13,290</u>	<u>-</u>	<u>-</u>	<u>13,290</u>
Total expenses and distributions	<u>15,858</u>	<u>-</u>	<u>-</u>	<u>15,858</u>
Excess (deficit) of revenues over expenses	<u>2,599</u>	<u>5,387</u>	<u>2,611</u>	<u>10,597</u>
Transfers between net asset classes	<u>-</u>	<u>(10,004)</u>	<u>10,004</u>	<u>-</u>
Increase (decrease) in net assets	2,599	(4,617)	12,615	10,597
Net assets, beginning of year	<u>31,233</u>	<u>67,349</u>	<u>59,695</u>	<u>158,277</u>
Net assets, end of year	<u><u>\$ 33,832</u></u>	<u><u>\$ 62,732</u></u>	<u><u>\$ 72,310</u></u>	<u><u>\$ 168,874</u></u>

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009</u>
\$ 5,808	\$ 17,727	\$ 6,275	\$ 29,810
1,062	1,056	-	2,118
(12,168)	(19,446)	-	(31,614)
2	73	-	75
-	(6)	(30)	(36)
-	(526)	-	(526)
1,941	(1,171)	(23)	747
1,390	-	-	1,390
11,362	(11,362)	-	-
<u>9,397</u>	<u>(13,655)</u>	<u>6,222</u>	<u>1,964</u>
1,891	-	-	1,891
17,700	-	-	17,700
<u>19,591</u>	<u>-</u>	<u>-</u>	<u>19,591</u>
<u>(10,194)</u>	<u>(13,655)</u>	<u>6,222</u>	<u>(17,627)</u>
<u>48</u>	<u>(276)</u>	<u>228</u>	<u>-</u>
(10,146)	(13,931)	6,450	(17,627)
41,379	81,280	53,245	175,904
<u>\$ 31,233</u>	<u>\$ 67,349</u>	<u>\$ 59,695</u>	<u>\$ 158,277</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, 2010 and 2009
(in thousands)

	2010	2009
Cash flows from operating activities		
Student tuition and fees, net	\$ 105,326	\$ 99,077
Grants and contracts	210,862	195,894
Sales and services, educational departments	4,073	3,850
Sales and services, auxiliary enterprises	39,435	40,199
Other operating receipts	13,176	14,406
Payments to employees for salaries and benefits	(471,657)	(448,630)
Payments to suppliers	(204,028)	(196,853)
Payments to students for financial aid	(20,993)	(17,933)
Net cash used by operating activities	(323,806)	(309,990)
Cash flows from noncapital financing activities		
State appropriations	334,672	320,985
Other revenue	17,303	10,908
Direct lending receipts	69,391	74,994
Direct lending payments	(69,893)	(74,927)
Net cash provided by noncapital financing activities	351,473	331,960
Cash flows from capital and related financing activities		
Capital appropriations, grants and contracts	49,392	76,163
Proceeds from issuance of capital debt	14,045	-
Redemption of general revenue bonds	(14,535)	-
Purchases of capital assets	(82,471)	(100,614)
Principal paid on capital debt	(6,473)	(9,714)
Interest paid on capital debt	(4,192)	(5,473)
Net cash used by capital and related financing activities	(44,234)	(39,638)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	267,202	264,280
Purchases of investments	(243,059)	(199,648)
Interest received on investments	1,843	3,134
Interest and other sales receipts from endowment assets	4,683	8,387
Net cash provided by investing activities	30,669	76,153
Net increase in cash and cash equivalents	14,102	58,485
Cash and cash equivalents, beginning of the year	86,819	28,334
Cash and cash equivalents, end of the year	\$ 100,921	\$ 86,819
Cash and cash equivalents (current)	\$ 99,390	\$ 81,728
Restricted cash and cash equivalents (noncurrent)	1,531	5,091
Total cash and cash equivalents	\$ 100,921	\$ 86,819

UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Cash Flows
For the Years Ended June 30, 2010 and 2009
(in thousands)

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

	2010	2009
Operating loss	\$ (405,354)	\$ (403,042)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	58,228	55,649
State on-behalf payments	17,975	30,502
Changes in assets and liabilities:		
Accounts receivable, net	(398)	(3,263)
Other assets	(32)	115
Inventories	(743)	890
Accounts payable and accrued expenses	(233)	3,106
Accrued payroll	3,380	3,674
Deferred revenue, deposits from students and others	1,591	1,948
Accrued annual leave	432	861
Deferred lease revenue - current portion	(1,281)	(1,281)
Insurance and risk management	2,629	851
Net cash used by operating activities	\$ (323,806)	\$ (309,990)

Noncash Investing, Capital and Financing Activities:

For the Year Ended June 30, 2010

Additions to capital assets include \$7.1 million expended and capitalized but not paid for at year end.

The university financed the purchase of equipment totaling \$0.2 million.

Book value of capital asset disposals totaled \$0.5 million.

The university received on-behalf pension payments from the state of Alaska totaling \$18.0 million.

For the Year Ended June 30, 2009

Additions to capital assets include \$2.3 million expended and capitalized but not paid for at year end.

The university financed the purchase of equipment totaling \$1.0 million.

Book value of capital asset disposals totaled \$1.8 million.

The university received on-behalf pension payments from the state of Alaska totaling \$30.5 million.

NOTES TO FINANCIAL STATEMENTS

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

NOTES TO FINANCIAL STATEMENTS

Capital Assets

Capital assets are stated at cost when purchased and at fair value when donated. Equipment with a unit value of \$5,000 or greater is capitalized. Buildings and infrastructure with a unit value of \$100,000 or greater are capitalized. Other capitalizable assets with a unit value of \$50,000 or greater are capitalized. Certain land and other resources acquired through land grants and donated museum collections for which fair value at date of acquisition was not determinable are reported at zero basis in the financial statements.

Depreciation is computed on a straight-line basis with useful lives of building and building components ranging from 12 to 50 years, 10 to 35 years for infrastructure and other improvements, and 5 to 11 years for equipment. Library and museum collections are not depreciated because they are preserved and cared for and have an extraordinarily long useful life.

Endowments

Endowments consist primarily of the land grant endowment trust fund established pursuant to the 1929 federal land grant legislation and its related inflation proofing fund. Alaska Statute 14.40.400 provides that the net income from the sale or use of grant lands must be held in trust in perpetuity. The land grant endowment trust fund balance at the end of 2010 and 2009 was \$100.0 million and \$94.3 million, respectively. The accumulated net earnings were \$3.0 million and \$(1.4) million at June 30, 2010 and 2009, respectively. The inflation proofing fund, a quasi-endowment fund included in unrestricted net assets, totaled \$20.0 million and \$19.5 million at the end of 2010 and 2009, respectively.

Alaska Statute 14.40.400 provides the Board of Regents with authority to manage the funds under the total return principles which intends to preserve and maintain the purchasing power of the endowment principal. The investable resources of the funds are invested in the consolidated endowment fund, a unitized investment fund. The annual spending allowance is currently based on four and one-half 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 balance of the preceding December 31.

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.

Scholarship Allowances

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship allowances in the statement of revenues, expenses and changes in net assets. Scholarship 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.

NOTES TO FINANCIAL STATEMENTS

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 tuition and fees, donations, sales, rentals, facilities and administrative cost recovery, interest income, 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.

Reclassifications

Certain amounts in the June 30, 2009 financial statements have been reclassified for comparative purposes to conform to the presentation in the June 30, 2010 financial statements.

2. Deposits and Investments:

Deposits and investments at June 30, 2010 were as follows (\$ in thousands):

<u>Investment Type</u>	<u>Operating</u>	<u>Capital Funds</u>	<u>Endowment</u>	<u>College Savings Program</u>	<u>Total</u>
Cash and Deposits	\$ (735)	\$ -	\$ 11,757	\$ -	\$ 11,022
Certificates of Deposit	5,025	-	-	-	5,025

NOTES TO FINANCIAL STATEMENTS

Deposits and investments at June 30, 2009 were as follows (\$ in thousands):

<u>Investment Type</u>	<u>Operating</u>	<u>Capital Funds</u>	<u>Endowment</u>	<u>College Savings Program</u>	<u>Total</u>
Cash and Deposits	\$ (780)	\$ -	\$ 174	\$ -	\$ (606)
Repurchase Agreement	15,789	-	-	-	15,789
Short Term Fund	8,011	90	759	-	8,860
Intermediate Term Fund	10,120	-	43	-	10,163
Multi-Strategy Bond Fund	-	-	5,140	-	5,140
Government Securities Fund	69,822	435	14,797	-	85,054
Hedge Funds	8,054	-	15,962	-	24,016
Money Market Mutual Funds	-	8,876	-	245	9,121
Equities:					
Domestic	-	-	33,272	3,349	36,621
International	-	-	10,524	-	10,524
Global	-	-	4,033	-	4,033
Emerging Markets	-	-	3,735	-	3,735
Debt-related:					

NOTES TO FINANCIAL STATEMENTS

In fiscal year 2011, the remaining balance in the Hedge funds will be paid to participants as the underlying securities mature or fund managers sell their positions.

Capital funds include unexpended general revenue bond proceeds and related reserves, advances from state capital appropriations and other reserves designated for capital purposes. General revenue bond reserves totaling \$4.7 million are invested with a third party trustee in accordance with terms of a trust indenture, requiring purchase of investment securities that are investment grade.

Endowment funds primarily consist

NOTES TO FINANCIAL STATEMENTS

Credit Risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The university does not have a policy regarding credit risk since it does not normally invest its operating and capital funds in individual debt securities.

The consolidated endowment fund investment policy requires all purchases of debt securities to be of investment grade and marketable at the time of purchase unless otherwise approved by the foundation's investment committee. At June 30, 2010, investments consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (\$ in thousands):

<u>Investment Type</u>	<u>Rating</u>	<u>Operating</u>	<u>Capital Funds</u>	<u>Endowment</u>	<u>College Savings Program</u>
Money Market Mutual Fund	Aaa	\$ 80,859	\$ 5,297	\$ 2,168	\$ -
Money Market Mutual Funds	Not Rated	-	-	-	145
Multi-Strategy Bond Fund	AA	-	-	5,708	-
Hedge Funds	Not Rated	851	-	9,582	-
Debt Related					
Federal Agency	Aaa	-	454	-	-
Fixed Income Funds	Not Rated	-	-	17,497	5,615

Concentration of Credit Risk:

Concentration of credit risk is the risk of loss attributed to the magnitude of the university's investment in a single issuer. GASB 40 requires disclosure when the amount invested with a single issuer, by investment type, exceeds five percent or more of that investment type. At June 30, 2010, the university did not have any material concentrations of credit risk.

The consolidated endowment fund investment policy limits debt investments to five 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.

Custodial Credit Risk:

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, the university will not be able to recover deposits or will not be able to recover collateral securities in the possession of an outside party. For investments, custodial credit risk is the risk that, in the event of failure of the counterparty to a transaction, the university will not be able to recover the value of investment or collateral securities in the possession of an outside party.

At June 30, 2010, the university does not have custodial credit risk. Deposits of the university are covered by Federal Depository Insurance or securities pledged by the university's counterparty to its repurchase agreement held at the Bank of New York. The collateral is held in the name of the university and at June 30, 2010, provided \$0.5 million coverage in excess of deposits.

NOTES TO FINANCIAL STATEMENTS

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

NOTES TO FINANCIAL STATEMENTS

4. Education Trust of Alaska:

Assets held in trust include operating funds of the Education Trust of Alaska (Trust). The Trust was established pursuant to state statute on April 20, 2001 by the Board of Regents to facilitate administration of the state's Internal Revenue Code (IRC) Section 529 College Savings Program. The program is a nationally marketed college savings program developed in accordance with IRC Section 529 and includes the resources of the university's former Advance College Tuition (ACT) Program. Participant account balances of approximately \$3.4 billion and \$2.8 billion at June 30, 2010 and 2009, respectively, are not included in the financial statements. Separately audited Trust financial statements are available upon request from the University of Alaska Controller's office.

Assets of the Trust are invested in various mutual funds at the direction of T. Rowe Price Associates, Inc., the program manager. The net assets of the Trust, which include a reserve for University of Alaska (UA) Tuition Value Guarantees, are available for payment of program administrative costs, benefits and other purposes of the Trust. Based on actuarial studies, management estimates reserve requirements for the UA Tuition Value Guarantees to be approximately \$5.3 million and \$5.2 million at June 30, 2010 and 2009, respectively.

5. Land Grant Trust Property and Other Assets:

Land Grant Trust property and other assets consist of real property and timber and other rights. By Acts of Congress in 1915 and 1929, approximately 110,000 acres of land was granted to the territory of Alaska to be held in trust for the benefit of the university. The lands were managed by the territory, and later the state of Alaska. In accordance with a 1982 agreement, the lands were subsequently transferred to the Board of Regents, as trustee. In 1982 and 1988 certain state lands including timber and other rights were transferred to the trust as replacement for lands disposed of or adversely affected during the period of administration by the territory and the state. These lands and property interests were recorded at their fair value as of the date of transfer.

The net proceeds from timber, land and other rights are deposited in the land grant endowment trust fund as described in the *Endowment* section in Note 1 above. At June 30, 2010 and 2009, approximately 82,243 and 116,306 acres, respectively, were held in trust at zero basis because fair value at the time of transfer was not determinable. Legislation passed in 2005 granted the University of Alaska approximately 250,000 acres of state land. The intent of the Legislature was to provide the university with an equitable land grant as originally envisioned in the federal land grant of 1915 and to supply the university with a significant portfolio of income producing land to help fund public higher education in Alaska.

Two conservation groups filed a lawsuit against the state and university claiming the legislation was unconstitutional because it dedicated funds. The plaintiffs prevailed with the Alaska Supreme Court which nearly invalidated the 2005 legislation. Approximately 33,658 acres of land the university had received through June 30, 2009 was returned in April 2010. A research forest, which will not be conveyed to the university until 2055, the old downtown Fairbanks Courthouse Building and the Key Bank parcel in Fairbanks were exceptions and will not be returned to the state. Since the returned properties were recorded at a zero basis, the ruling did not affect the results of operations.

NOTES TO FINANCIAL STATEMENTS

6. Capital Assets:

A summary of capital assets follows (\$ in thousands):

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010
Capital assets not depreciated:				
Land	\$ 28,490	\$ -	\$ -	\$ 28,490
Construction in progress	120,822	73,112	134,758	59,176
Library and museum collections	57,094	870	-	57,964
Other capital assets:				
Buildings	1,065,605	130,794	-	1,196,399
Infrastructure	57,574	3,660	43	61,191
Equipment	171,075	14,144	14,191	171,028
Leasehold improvements	26,632	-	-	26,632
Other improvements	<u>22,473</u>	<u>304</u>	<u>-</u>	<u>22,777</u>
Total	1,549,765	222,884	148,992	1,623,657
Less accumulated depreciation:				
Buildings	533,018	41,616	-	574,633
Infrastructure	30,214	1,832	1	32,044
Equipment	126,850	12,721	13,661	125,912
Leasehold improvements	8,499	1,416	-	9,916
Other improvements	<u>17,195</u>	<u>643</u>	<u>-</u>	<u>17,838</u>
Total accumulated depreciation	<u>715,776</u>	<u>58,228</u>	<u>13,662</u>	<u>760,343</u>
Capital assets, net	<u>\$ 833,989</u>			

NOTES TO FINANCIAL STATEMENTS

Long-term debt consisted of the following at June 30, 2010 and 2009 (\$ in thousands):

	<u>2010</u>	<u>2009</u>
<u>Revenue bonds payable</u> 1.40% to 5.00% general revenue		

NOTES TO FINANCIAL STATEMENTS

10. Long-term Liabilities:

Long-term liability activity was as follows (\$ in thousands):

	Balance			Balance	Amounts
	<u>July 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2010</u>	<u>due within</u>
					<u>one year</u>
Deferred revenue - capital	\$ 10,519	\$ 812	\$ 8,456	\$ 2,875	\$ -
Deferred lease revenue	6,085	-	1,281	4,804	1,281
Long-term debt	128,013	14,295	21,008	121,300	6,763
Security deposits and other liabilities	<u>5,846</u>	<u>140</u>	<u>6</u>	<u>5,980</u>	<u>-</u>
	<u>\$ 150,463</u>	<u>\$ 15,247</u>	<u>\$ 30,751</u>	<u>\$ 134,959</u>	<u>\$ 8,044</u>

	Balance			Balance	Amounts
	<u>July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2009</u>	<u>due within</u>
					<u>one year</u>
Deferred revenue - capital	\$ 5,781	\$ 9,147	\$ 4,409	\$ 10,519	\$ -
Deferred lease revenue	7,366	-	1,281	6,085	1,281
Long-term debt	136,678	1,049	9,714	128,013	6,473
Net pension and OPEB obligations	31,325	-	31,325	-	-
Security deposits and other liabilities	7,397				

NOTES TO FINANCIAL STATEMENTS

12. Pension Plans:

Participation in one of the various pension plans generally depends on when an employee was originally hired. Substantially all regular employees hired before July 1, 2006 participate in one of the following pension plans:

- The State of Alaska Public Employees' Retirement System – Defined Benefit (PERS-DB), a cost-sharing, multiple-employer public employee retirement plan,
- The State of Alaska Teachers' Retirement System – Defined Benefit (TRS-DB), a cost-sharing, multiple-employer public employee retirement plan,
- The University of Alaska Optional Retirement Plan (ORP) Tier 1 or Tier 2, a single-employer defined contribution plan.

In addition, substantially all eligible employees participate in the University of Alaska Pension Plan, a supplemental single-employer defined contribution plan. Employees hired on or after July 1, 2006 have

NOTES TO FINANCIAL STATEMENTS

Each fiscal year, PERS-DC issues a publicly available financial report which includes financial statements and required supplementary information. That report may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203,

NOTES TO FINANCIAL STATEMENTS

University of Alaska Optional Retirement Plan (ORP)

Plan Description

The ORP is an employer funded defined contribution plan which operates in conjunction with a companion mandatory tax-deferred annuity plan. The ORP is comprised of three layers of participants, the original ORP or ORP Tier 1, ORP Tier 2 which was created for participants hired on or after July 1, 2005, and ORP Tier 3 which was created for participants hired on or after July 1, 2006. For ORP Tier 1 and ORP Tier 2, faculty classified as regular and certain administrators made a one-time election to participate in the ORP as an alternative to participation in the defined benefit plans, PERS-DB or TRS-DB. For ORP Tier 3, each new eligible employee may make a one-time election to participate in the University of Alaska Retirement Program (includes ORP Tier 3 and the University of Alaska Pension Plan) as an alternative to participation in the State of Alaska defined contribution plans, PERS-DC or TRS-DC.

Funding Policy and Annual Pension Cost

ORP Tier 1

The ORP Tier 1 participants make employee contributions to one of the plan's annuity programs at a rate of 8.65 percent of covered payroll. The university contributes to one of the plan's authorized employee-selected annuity providers or investment managers at a rate equal to the three-year moving average of the TRS-DB employer contribution rates (12.56 percent for 2010 and 17.04 percent for 2009).

In fiscal year 2010 and 2009, the university's total covered payroll for the ORP Tier 1 plan was approximately \$50.8 million and \$49.7 million, respectively. The amounts contributed to the ORP Tier 1 by the university during the years ended June 30, 2010, 2009 and 2008 were \$6,381,618, \$8,462,414 and \$9,945,730, respectively.

ORP Tier 2

The ORP Tier 2 participants make employee contributions to one of the plan's annuity programs at a rate of 8.65 percent of covered payroll. The university contributed to one of the plan's authorized employee-selected annuity providers or investment managers at a rate of 12 percent of covered payroll for fiscal years 2010 and 2009.

In fiscal year 2010 and 2009, the university's total covered payroll for the ORP Tier 2 plan was approximately \$118.5 million and \$118.5 million, respectively. The amounts contributed to the ORP Tier 2 by the university during the years ended June 30, 2010, 2009 and 2008 were \$12,462,414, \$12,462,414 and \$12,462,414, respectively.

NOTES TO FINANCIAL STATEMENTS

ORP Tier 3

The ORP Tier 3 is eligible for employees hired on or after July 1, 2006. The ORP Tier 3 participants make employee contributions to one of the plan's annuity programs at a rate of eight percent of covered payroll. The university contributes to one of the plan's authorized employee-selected annuity providers or investment managers at a rate of 12 percent of covered payroll.

In fiscal years 2010 and 2009, the university's total covered payroll for the ORP Tier 3 plan was approximately \$62.0 million and \$46.6 million, respectively. The amounts contributed to the ORP Tier 3 by the university during the years ended June 30, 2010, 2009 and 2008 were \$7,436,012, \$5,596,529 and \$3,700,880, respectively.

Plan Assets

At June 30, 2010 and 2009, plan assets (participants' accounts attributable to employer contributions)

NOTES TO FINANCIAL STATEMENTS

13. Insurance and Risk Management:

The university is exposed to a wide variety of risks including property loss, bodily and personal injury, intellectual property, errors and omissions, aviation and marine. Exposures are handled with a

NOTES TO FINANCIAL STATEMENTS

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

The university received a Potentially Responsible Party (PRP) letter from the Alaska Department of Environmental Conservation (ADEC) in August 2006. The letter identified the university as one of the potential parties that may be responsible for cleanup costs of soil contamination found during a water line improvement project next to Northwest Campus property. The extent of the contamination source, the number of potentially responsible parties, and remediation costs are being assessed but the outcome is unknown.

15. University of Alaska Foundation:

The University of Alaska Foundation (foundation) is a legally separate, non profit organization formed in 1974 to solicit donations for the exclusive benefit of the University of Alaska. During 2010 and 2009, the university transferred \$0.9 million and \$1.4 million of institutional support, respectively. For the same periods, the foundation reimbursed the university for operating expenses totaling \$2.6 million and \$1.9 million, respectively.

At June 30, 2010 and 2009, distributions and expenditures by the foundation for the benefit of the university totaled \$13.3 million and \$17.7 million, of which \$12.6 million and \$17.3 million were direct reimbursements to the university. Additionally, the foundation owed the university \$1.7 million at June 30, 2010 and \$2.1 million at June 30, 2009, primarily for reimbursement of expenditures on funding provided by the foundation.

The investable resources of the university's land grant endowment trust fund and the foundation's pooled endowment funds are combined into a consolidated endowment fund for investment purposes. At June 30, 2010 and 2009, the fair value of the fund was \$216.2 million and \$198.3 million, respectively. The university's share of this fund was \$114.2 million and \$108.9 million, respectively, which is reflected in endowment investments. The fund is managed by the foundation's investment committee and treasurer on a total return basis in accordance with an investment policy approved by the Board of 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.

NOTES TO FINANCIAL STATEMENTS

16. Functional Classifications with Natural Classifications:

The university's operating expenses by natural classification for 2010 and 2009 were as follows (\$ in thousands):

<u>Compensation</u>	<u>Contractual</u>	<u>Supplies &</u>	<u>Student</u>	<u>Depre-</u>
<u>& Benefits</u>	<u>Services</u>	<u>Materials</u>		