



Financial Statements

June 30, 2011 and 2010

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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, 2011 (2011) and June 30, 2010 (2010), with selected comparative information for the year ended June 30, 2009 (2009). 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 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 U.S. 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.

A summarized comparison of the university's assets, liabilities and net assets at June 30, 2011, 2010 and 2009 follows (\$ in thousands):

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(Unaudited – see accompanying accountants' report)

Total debt outstanding decreased from \$121.3 million at June 30, 2010 to \$114.5 million at June 30, 2011 as a result of principal payments. There was no new debt issued during the fiscal year.

Self insurance reserves (liabilities) for health care, general liability and worker's compensation were decreased by \$12.1 million in 2011 to bring the amounts closer to actuarial estimates. Note 13 of the financial statements reports more information about insurance and risk management.

Unrestricted net assets totaled \$126.9 million at June 30, 2011, representing an increase of \$20.2 million over the prior year. At year end, \$107.0 million was designated for specific purposes. See Note 7 of the financial statements for a detailed list of these designations.

Fiscal Year 2010 Comparisons (Statement of Net Assets)

Significant comments about changes between 2009 and 2010 that were noted in fiscal year 2010 *Management's Discussion and Analysis* are summarized below:

The Statement of Net Assets reflected an overall increase in net assets of four percent, or \$37.7 million.

Overall, total assets of the university increased \$36.1 million primarily because net capital assets increased \$29.3 million. Total liabilities decreased \$1.6 million.

There were no significant changes in 2010 with the university's operating deposits and investments. Substantially all funds at June 30, 2010 were invested in bank deposits, government securities and money market funds. After the global financial crisis in 2009, management focused on liquidity and safety for its operating funds, with an eye towards restructuring its portfolio. As a result, subsequent to June 30, 2010, approximately \$75 million was invested in a new fixed income portfolio.

Endowment investments at June 30, 2010 were \$116.4 million as compared to \$111.0 million at June 30, 2009. The endowment earned 9.47 percent in 2010 and spending distributions totaled \$5.5 million.

Total debt outstanding decreased from \$128.0 million at June 30, 2009 to \$121.3 million at June 30, 2010. The balance was reduced by scheduled principal payments and the refunding of previously issued general revenue bonds. The only new debt was for an equipment financing totaling \$249.8 thousand.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the results of operations for the university as a whole. Revenues, expenses and other changes in net assets are reported as either operating or nonoperating. Significant recurring sources of university revenue, such as state appropriations and investment earnings, are defined by GASB Statement No. 35 as nonoperating.

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, 2011, 2010 and 2009 follows (\$ in thousands):

	2011	2010	2009
Operating revenues	\$ 397,565	\$ 372,933	\$ 356,025
Operating expenses	(796,238)	(778,287)	(759,067)
Operating loss	(398,673)	(405,354)	(403,042)
Net nonoperating revenues	413,653	381,082	321,480
Gain (Loss) before other revenues, expenses, gains, or losses	14,980	(24,272)	(81,562)
Other revenues, expenses, gains or losses	117,779	61,951	94,942
Increase in net assets	132,759	37,679	13,380
Net assets at beginning of year	989,862	952,183	938,803
Net assets at end of year	<u>\$ 1,122,621</u>	<u>\$ 989,862</u>	<u>\$ 952,183</u>

The Statement of Revenues, Expenses and Changes in Net Assets reflects an overall increase in net assets of 13.4 percent, or \$132.8 million. Major changes in revenues and expenses in 2011 are described below.

Capital appropriations and capital grant and contract revenue increased from \$62.0 million in 2010 to \$117.8 million in 2011. Revenue from capital sources is generally recognized as expenditures occur, so the amount shown on the Statement of Revenues, Expenses and Changes in Net Assets is a reflection of capital construction activity. A significant portion of the increase includes \$32.5 million expended for construction of the Alaska Region Research Vessel – Sikuliaq. For further discussion on capital activity, see the *Capital and Debt Activities* section which follows.

State of Alaska general fund appropriations continue to be the single major source of revenue for the university, providing \$346.6 million in 2011, as compared to \$334.8 million in 2010. Historically, the state has funded the university at an amount equal to or above the prior period's appropriation. In addition, the state made on-behalf pension payments of \$21.8 million directly to the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) defined benefit plans on behalf of the university. The state is paying the cost above the required employer contribution rate to fully fund the plans at the actuarial computed rate. Employer contribution rates have been capped at 22.00 percent and 12.56 percent for PERS and TRS, respectively. The pension payments were made on-behalf of the university and are presented as revenue and 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*.

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

A comparison of operating and nonoperating revenues by source for 2011, 2010 and 2009 follows:



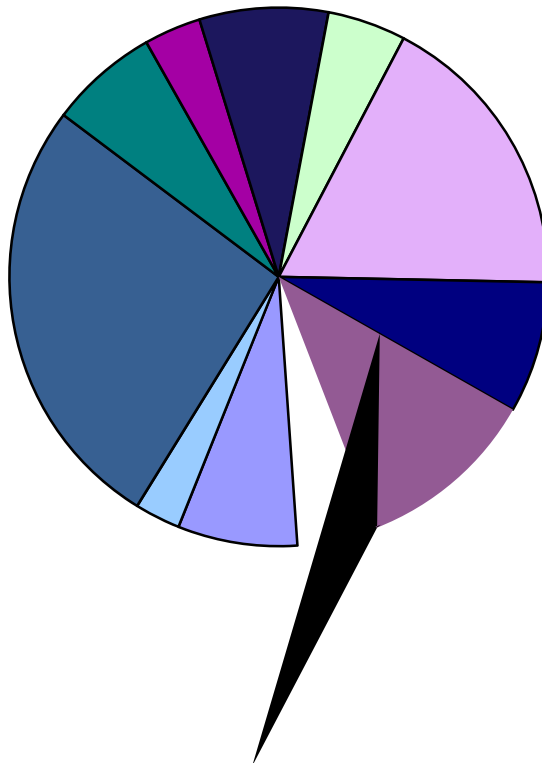
Operating grant and contract revenue from federal, state, local and private sponsors totaled \$215.3 million for 2011, as compared to \$208.8 million in the prior year. The growth is primarily attributed to American Recovery and Reinvestment Act (ARRA) grants.

Gross student tuition and fee revenue totaled \$130.5 million in 2011 as compared to \$119.9 million in 2010. This was due in large part to a four percent increase in tuition rates for 100 to 200 level courses and seven percent for all other courses in academic year 2010 – 2011. Student headcount increased 2.3 percent to 34,480 students from Fall 2009 to Fall 2010.

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):

	Operating Expenses					
	Functional Classification (in millions)					
	FY2011		FY2010		FY2009	
Instruction	\$ 210.7	26.5%	\$ 207.9	26.7%	\$ 196.7	25.9%
Student Services	52.2	6.6%	50.8	6.5%	48.3	6.4%
Student Aid	27.3	3.4%	21.0	2.7%	17.9	2.4%
Academic Support	61.5	7.7%	58.5	7.5%	54.7	7.2%
Student and Academic	351.7	44.2%	351.7	45.2%	351.7	46.3%
Public Service	37.5	4.7%	40.9	5.3%	37.9	5.0%
Research	140.4	17.6%	135.0	17.3%	127.2	16.8%
Operations and Maintenance	62.8	7.9%	59.8	7.7%	61.3	8.1%
Institutional Support	86.9	10.9%	87.8	11.3%	89.3	11.8%
Auxiliary Enterprises	37.9	4.8%	40.4	5.2%	39.7	5.2%
State On-Behalf Pension	21.8	2.7%	18.0	2.3%	30.5	4.0%
Depreciation	57.2	7.2%	58.2	7.5%	55.6	7.3%
Total Operating Expenses	\$ 796.2	100.0%	\$ 778.3	100.0%	\$ 759.1	100.0%



MANAGEMENT'S DISCUSSION AND ANALYSIS

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(Unaudited – see accompanying accountants' report)

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facilities, as well as investments in equipment and information tecD

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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



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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, 2011 and 2010, 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 as of June 30, 2011 and 2010, 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 October 19, 2011 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 assessing 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.

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October 19, 2011

Assets

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UNIVERSITY OF ALASKA FOUNDATION
(A Component Unit of the University of Alaska)
Statements of Financial Position
June 30, 2011 and 2010
(in thousands)

Assets	2011	2010
Cash and cash equivalents	\$ 21,608	\$ 38,116
Interest receivable	137	78
Contributions receivable	14,166	14,251
Escrows receivable		

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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, 2011 and 2010
(in thousands)

	2011	2010
Operating revenues		
Student tuition and fees	\$ 130,542	\$ 119,846
less scholarship allowances	(14,438)	(13,506)
	116,104	106,340
Federal grants and contracts	147,869	138,591
State and local grants and contracts	20,140	24,519
Private grants and contracts	47,276	45,728
Sales and services, educational departments	4,215	4,073
Sales and services, auxiliary enterprises, net of scholarship allowances of \$2,005 in 2011 and \$2,018 in 2010	39,265	39,225
Other	22,696	14,457
Total operating revenues	397,565	372,933
Operating expenses		
Instruction	210,653	207,864
Academic support	61,453	58,454
Research	140,453	135,045
Public service	37,547	40,861
Student services	52,174	50,814
Operations and maintenance	62,772	59,821
Institutional support	86,950	87,859
Student aid	27,280	20,965
Auxiliary enterprises	37,947	40,401
Depreciation	57,170	58,228
State on-behalf payments - pension	21,839	17,975
Total operating expenses	796,238	778,287
Operating loss	(398,673)	(405,354)
Nonoperating revenues (expenses)		
State appropriations	346,644	334,826
State on-behalf contributions - pension	21,839	17,975
Investment earnings	3,971	3,810
Endowment proceeds and investment income	22,777	12,953
Interest on debt	(4,400)	(4,852)
Federal student financial aid	24,692	18,275
Other nonoperating expenses	(1,870)	(1,905)
Net nonoperating revenues	413,653	381,082
Income (Loss) before other revenues	14,980	(24,272)
Capital appropriations, grants and contracts	117,779	61,951
Increase in net assets	132,759	37,679
Net assets		
Net assets - beginning of year	989,862	952,183
Net assets - end of year	\$ 1,122,621	\$ 989,862

UNIVERSITY OF ALASKA FOUNDATION
(A Component Unit of the University of Alaska)
Statements of Activities
For the years ended June 30, 2011 and 2010
(in thousands)

	Unrestricted		2011	
Revenues, gains (losses) and other support				
Contributions	\$ 458	\$ 10,320	\$ 5,024	\$ 15,802
Investment income				

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010</u>
\$ 256	\$ 12,961	\$ 2,725	\$ 15,942
719	1,236	-	1,955
4,159	3,015	-	7,174
-	169	-	169
-	(28)	(71)	(99)
(3)	(115)	-	(118)
1,473	(888)	(43)	542
890	-	-	890
<u>10,963</u>	<u>(10,963)</u>	<u>-</u>	<u>-</u>
<u>18,457</u>	<u>5,387</u>	<u>2,611</u>	<u>26,455</u>
2,568	-	-	2,568
<u>13,290</u>	<u>-</u>	<u>-</u>	<u>13,290</u>
<u>15,858</u>	<u>-</u>	<u>-</u>	<u>15,858</u>
<u>2,599</u>	<u>5,387</u>	<u>2,611</u>	<u>10,597</u>
<u>-</u>	<u>(10,004)</u>	<u>10,004</u>	<u>-</u>
2,599	(4,617)	12,615	10,597
<u>31,233</u>	<u>67,349</u>	<u>59,695</u>	<u>158,277</u>
<u>\$ 33,832</u>	<u>\$ 62,732</u>	<u>\$ 72,310</u>	<u>\$ 168,874</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, 2011 and 2010
(in thousands)

	2011	2010
Cash flows from operating activities		
Student tuition and fees, net	\$ 115,931	\$ 105,326
Grants and contracts	217,774	210,862
Sales and services, educational departments	4,216	4,073
Sales and services, auxiliary enterprises	39,471	39,435
Other operating receipts	12,551	13,176
Payments to employees for salaries and benefits	(487,980)	(471,657)
Payments to suppliers	(195,106)	(204,028)
Payments to students for financial aid	(27,334)	(20,993)
Net cash used by operating activities	(320,477)	(323,806)
Cash flows from noncapital financing activities		
State appropriations	346,898	334,672
Other revenue	23,453	17,303
Direct lending receipts	80,378	69,391
Direct lending payments	(80,359)	(69,893)
Net cash provided by noncapital financing activities	370,370	351,473
Cash flows from capital and related financing activities		
Capital appropriations, grants and contracts	114,719	49,392
Proceeds from issuance of capital debt		

UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Cash Flows
For the Years Ended June 30, 2011 and 2010
(in thousands)

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

	2011	
Operating loss	\$ (398,673)	\$ (405,354)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	57,170	58,228
State on-behalf payments - pension	21,839	17,975
Changes in assets and liabilities:		
Accounts receivable, net	4,549	(398)
Other assets	137	(32)
Inventories	1,088	(743)
Accounts payable and accrued expenses	3,527	(233)
Accrued payroll	1,084	3,380
Unearned revenue, deposits from students and others	(1,122)	1,591
Accrued annual leave	125	432
Unearned lease revenue - current portion	(1,281)	(1,281)
Insurance and risk management	(8,920)	2,629
Net cash used by operating activities	\$ (320,477)	\$ (323,806)

Noncash Investing, Capital and Financing Activities:

For the Year Ended June 30, 2011t

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

1. Organization and Summary of Significant Accounting Policies:

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. Investments in fixed income and equity marketable securities are stated at fair value based on quoted market prices. Investments in private partnership interests are valued using the most current information provided by the general partner. General partners typically value privately held companies at cost as adjusted based on recent arms' length transactions. Public companies are valued using quoted market prices and exchange rates, if applicable. Real estate partnerships and funds are valued based on appraisals of properties held and conducted by third-party appraisers retained by the general partner or investment manager. General partners of marketable alternatives provide values based on quoted market prices and exchange rates for publicly held securities and valuation estimates of derivative instruments. General partners of oil and gas partnerships use third-party appraisers to value properties. Valuations provided by the general partners and investment managers are evaluated by management and management believes such values are reasonable at June 30, 2011. When, in the opinion of management, there has been a permanent impairment in the asset value, the asset is written down to its fair value. Income from other investments is recognized when received.

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. Investments also include securities with contractual cash flows such as asset-backed securities, collateralized mortgage obligations and commercial mortgage-backed securities. The value, liquidity and related income of these securities are sensitive to economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates. 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.

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

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 generally lapse after five years or upon determination that the funds are no longer necessary for the project.

Reclassifications

Certain amounts in the June 30, 2010 financial statements have been reclassified for comparative purposes to conform to the presentation in the June 30, 2011 financial statements.

2. Deposits and Investments:

Deposits and investments at June 30, 2011 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	\$ 7,323	\$ -	\$ 6,520	\$ -	\$ 13,843
Certificates of Deposit	3,770	-	-	-	3,770
Repurchase Agreement	22,199	-	-	-	22,199
Hedge Funds	-	-	8,910	-	8,910
Money Market Mutual Funds	12,168	12,351	1,958	553	27,030
Equities:					
Domestic	-	-	27,795	4,795	32,590
Global	-	-	30,713	-	30,713
Emerging Markets	-	-	6,457	-	6,457
Debt-related:					
Corporate	52,958	-	-	-	52,958
Federal Agency	21,306	435	-	-	21,741
U. S. Treasuries	4,053	-	8,859	-	12,912
Fixed Income Funds	-	-	16,402	6,509	22,911
Alternative Investments:					
Private Equity – Domestic	-	-	6,714	-	6,714
Private Equity – Int'l	-	-	2,096	-	2,096
Commodities	-	-	943	-	943
Natural Resources	-	-	3,425	-	3,425
Venture Capital	-	-	2,404	-	2,404
Mezzanine	-	-	934	-	934
Real Estate	-	-	1,546	-	1,546
Other	-	-	1,704	-	1,704
	<u>\$ 123,777</u>	<u>\$ 12,786</u>	<u>\$ 127,380</u>	<u>\$ 11,857</u>	<u>\$ 275,800</u>

NOTES TO FINANCIAL STATEMENTS

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>	College
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NOTES TO FINANCIAL STATEMENTS

year 2010, the university also used the Certificate of Deposit Account Registry Service (CDARS) to invest monies into certificates of deposit across many different banking institutions to keep deposits under the Federal Deposit Insurance Corporation insurance limits.

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 of \$125.4 million in investable resources of the university's land grant endowment trust fund and are invested in a consolidated endowment fund managed by the foundation. These resources are combined with the foundation's pooled endowment funds for investment purposes, and 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.

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 4 for further information.

Certain funds held in trust for the benefit of the university are not included in the financial statements as the university has only limited control over their administration. These funds are in the custody of independent fiduciaries and at June 30, 2011 had an estimated fair value of approximately \$4.0 million.

At June 30, 2011, the university has approximately \$25.2 million in investments that are not readily marketable. These investments are invested in the consolidated endowment fund managed by the foundation. These investment instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependency upon key individuals, and nondisclosure of portfolio composition. Because these investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investment existed. Such difference could be material.

Disclosures for deposits and investments are presented according to GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (GASB 40). Accordingly, the following information addresses various risk categories for university deposits and investments and the investment policies for managing that risk.

Credit Risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The operating fund investment guidelines require that at the time of purchase, short term instruments must be rated A1 or better by Standard & Poor's (S & P), and P1 or better by Moody's. Long term instruments must be rated BBB- or better by S & P and Baa3 or better by Moody's. The average credit rating of any separately management account portfolio shall be no lower than A by S & P and A2 by Moody's. 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.

NOTES TO FINANCIAL STATEMENTS

At June 30, 2011, 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	\$ 12,168	\$12,351	\$ 1,958	\$ -

NOTES TO FINANCIAL STATEMENTS

At June 30, 2011, 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 a third party bank. The collateral is held in the name of the university and at June 30, 2011, provided \$2.3 million coverage in excess of deposits.

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 one percent, the value of the security would decrease two percent. The university does not have a policy regarding interest rate risk. At June 30, 2011, the university had the following debt investments and corresponding modified duration (\$ in thousands):

<u>Investment Type</u>	Fair Value					<u>Modified Duration</u>
	<u>Operating</u>	<u>Capital Funds</u>	<u>Endowment</u>	<u>College Savings Program</u>		
Federal Agency	\$ 21,306	-	-	-		0.54
Federal Agency	-	\$ 435	-	-		0.84
Corporate	\$ 52,958	-	-	-		1.23
U.S. Treasuries	\$ 4,053	-	-	-		2.89
U.S. Treasuries	-	-	\$ 8,859	-		3.97
Fixed Income Fund	-	-	-	\$ 6,509		5.08
Fixed Income Fund	-	-	\$ 16,402	-		5.17

Hedge funds totaling \$8.9 million are exposed to interest rate risk, however, underlying fund data is not available to measure the interest rate risk.

Foreign Currency Risk:

Foreign currency risk is the risk that changes in exchange rates c

NOTES TO FINANCIAL STATEMENTS

3. Accounts Receivable:

Accounts receivable consisted of the following at June 30, 2011 and 2010 (\$ in thousands):

June 30, 2011	Gross	Allowance	Net
Student tuition and fees	\$ 15,011	\$ (2,592)	\$ 12,419

NOTES TO FINANCIAL STATEMENTS

land grant endowment trust fund as described in the Endowment section in Note 1 above. At June 30, 2011 and 2010, approximately 82,411 and 82,423 acres, respectively, were held in trust at zero basis because fair value at the time of transfer was not determinable.

6. Capital Assets:

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

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011
Capital assets not depreciated:				
Land	\$ 28,490	\$ 9,491	\$ -	\$ 37,981
Construction in progress	59,176	133,337	45,519	146,994
Library and museum collections	57,964	1,182	-	59,146
Other capital assets:				-
Buildings	1,196,399	32,416	70	1,228,745
Infrastructure	61,191	1,760	-	62,951
Equipment	171,028	14,417	10,234	175,211
Leasehold improvements	26,632	-	1,723	24,909
Other improvements	22,777	1,595	-	24,372
Total	1,623,657	194,198	57,546	1,760,309
Less accumulated depreciation:				
Buildings	574,633	40,931	47	615,517
Infrastructure	32,044	1,918	-	33,962
Equipment	125,907	75,908	806,038	1,007,851

NOTES TO FINANCIAL STATEMENTS

7. Unrestricted Net Assets:

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

	2011	2010
Designated:		
Auxiliaries	\$ 11,472	\$ 6,505
Working capital fund	4,827	4,826
Working capital advances	(252)	(2,611)
Service centers	17,399	12,894
Debt service funds	4,034	1,574
Quasi-endowment funds	28,600	28,449
Renewal and replacement funds	12,141	8,989
Employee benefit funds	1,415	(13)
Endowment earnings	12,769	12,302
Encumbrances	14,615	10,423
Total designated	107,020	83,338
Undesignated	19,895	23,363
Total unrestricted net assets	\$ 126,915	\$ 106,701

Unrestricted net assets include non-lapsing university receipts of \$51.9 million at June 30, 2011. Non-lapsing university receipts of \$46.7 million from 2010 were fully expended in 2011. At June 30, 2011 and 2010, \$63.4 million and \$53.2 million, respectively, of auxiliary funds, encumbrances and other unrestricted net assets were pledged as collateral for the university's general revenue bonds, as calculated under the terms of the 1992 General Revenue Bonds Trust Indenture.

8. Long-term Debt:

Debt service requirements at June 30, 2011 were as follows (\$ in thousands):

Year ended June 30,	Principal	Interest	Total
2012	\$ 6,958	\$ 4,359	\$ 11,317
2013	7,175	4,134	11,309
2014	6,821	3,903	10,724
2015	6,657	3,679	10,336
2016	6,974	3,435	10,409
2017-2021	34,221	13,149	47,370
2022-2026	27,941	6,664	34,605
2027-2031	14,075	2,053	16,128
2032-2036	3,715	311	4,026
	\$ 114,537	\$ 41,687	\$ 156,224

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

NOTES TO FINANCIAL STATEMENTS

rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate the assets to pay benefits when due. The 2011 actuarially determined rate was 27.96 percent of applicable gross pay. However, the employer contribution rate for the university was capped by the state at 22 percent for fiscal year 2011.

The state appropriated funding directly to the PERS-DB plan as a relief payment to employers' contributions for fiscal year 2011. The university recognized \$10,456,189, \$7,126,913, and \$16,724,174 for fiscal 2011, 2010 and 2009 respectively, in state on-behalf pension payments for the PERS-DB plan. The amounts contributed to PERS-DB by the university during the years ended June 30, 2011, 2010 and 2009 were \$26,390,066, \$27,074,153, and \$27,269,589, respectively, equal to the required employer contributions for each year.

PERS Defined Benefit Pension Plan Changes

The Alaska legislature converted PERS-DB from an agent multiple-employer plan to a cost-sharing plan effective July 1, 2008. This change provided for an integrated system of accounting for all employers. Under the integrated system, the PERS-DB plans' unfunded liability will be shared among all employers with each contributing 22 percent of their covered payroll.

State of Alaska Teachers' Retirement System - Defined Benefit (TRS-DB)

Plan Description

TRS-DB is a defined benefit, cost-sharing, multiple employer public employee retirement plan established and administered by the State of Alaska. TRS-DB provides pension, postemployment health care, death and disability benefits to participants. Benefit and contribution provisions are established by state law and may be amended only by the state legislature. Effective July 1, 2006, the state legislature closed TRS-DB to new members and created a Teachers' Retirement System Defined Contribution Retirement Plan (TRS-DC), disclosed later in this note.

Each fiscal year, TRS-DB issues a publicly available financial statement and cont

NOTES TO FINANCIAL STATEMENTS

fiscal year 2011, 2010 and 2009, the university recognized \$11,382,779, \$10,848,081, and \$13,778,074, respectively, in state on-behalf pension payments for the TRS-DB plan.

State of Alaska Public Employees' Retirement System - Defined Contribution (PERS-DC)

Plan Description

PERS-DC is a defined contribution, cost-sharing, multiple-employer public employee retirement plan established and administered by the State of Alaska to provide pension and postemployment healthcare benefits for eligible employees. Benefit and contribution provisions are established by state law and may be amended only by the state legislature. PERS-DC was created by the state effective July 1, 2006. Plan savings are accumulated in individual retirement accounts for the exclusive benefit of each member or beneficiary.

Funding Policy and Annual Pension Cost

The employee contribution rate is eight percent and the employer effective contribution rate is 22 percent of covered payroll for fiscal years 2011 and 2010. For the years ended June 30, 2011 and 2010, the university's total covered payroll for the PERS-DC plan was approximately \$7.0 million and \$6.1 million, and contributions made by the university totaled \$1,548,744 and \$1,346,145, respectively.

On July 1, 2006, three pension trust sub-funds were created within PERS, the Retiree Major Medical Insurance (RMP), Health Reimbursement Arrangement (HRA), and Occupation Death and Disability (OD&D). RMP allows eligible members who retire directly from the plan to obtain medical benefits. The HRA allows medical care expenses to be reimbursed from individual savings accounts established for eligible persons. OD&D provides employees with benefits as a result of death or disability on the job. PERS-DC participants are eligible members of RMP and HRA and their postemployment healthcare benefits are paid out of these funds. The employer RMP contribution rates for fiscal year 2011 and 2010 are 0.55 and 0.83 percent for medical coverage and 0.31 and 0.30 percent (1.18 percent for peace officers and firefighters) for occupational death and disability benefit contributions. For fiscal years 2011 and 2010, the HRA employer contributions are \$143.39 and \$141.64 per month for full time employees and \$1.10 and \$1.09 per hour for part time employees, respectively.

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, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

State of Alaska Teachers' Retirement System - Defined Contribution (TRS-DC)

Plan Description

TRS-DC is a defined contribution, cost-sharing, multiple-employer public employee retirement plan established and administered by the State of Alaska to provide pension and postemployment healthcare benefits for teachers and other eligible employees. Benefit and contribution provisions are established by state law and may be amended only by the state legislature. TRS-DC was created by the state effective July 1, 2006. Plan savings are accumulated in an individual retirement account for the exclusive benefit of members or beneficiaries.

NOTES TO FINANCIAL STATEMENTS

Funding Policy and Annual Pension Cost

The employee contribution rate is eight percent and the effective employer contribution rate is 12.56 percent of covered payroll for fiscal years 2011 and 2010. For the years ended June 30, 2011 and 2010, the university's total covered payroll for the TRS-DC plan was approximately \$3.4 million and \$2.7 million, and contributions made by the university totaled \$429,910 and \$333,253, respectively.

On July 1, 2006, two pension trust sub-funds were created in TRS, the Retiree Major Medical Insurance (RMP) and Health Reimbursement Arrangement (HRA). The TRS Occupational Death and Disability (OD&D) trust sub-fund was created on July 1, 2007. RMP allows eligible members who retire directly from the plan to obtain medical benefits. The HRA allows medical care expenses to be reimbursed from individual savings accounts established for eligible persons. OD&D provides employees with benefits as a result of death or disability on the job. TRS-DC participants are eligible members of RMP and HRA and their postemployment healthcare benefits are paid out of these funds. The employer RMP contribution rate for fiscal year 2011 and 2010 for each member's compensation was 0.68 and 1.03 percent for medical coverage, and 0.28 and 0.32 percent for occupational death and disability benefit contributions. For fiscal years 2011 and 2010, the HRA employer contributions are \$143.39 and \$141.64 per month for full time employees and \$1.10 and \$1.09 per hour for part time employees, respectively.

Each fiscal year, TRS-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, Di

NOTES TO FINANCIAL STATEMENTS

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 2011 and 2010).

NOTES TO FINANCIAL STATEMENTS

January 1, 1982, when the university withdrew from the federal social security program. Eligible employees, hired on or after July 1, 2006, electing to participate in the University of Alaska Retirement Program also participate in the Pension plan.

NOTES TO FINANCIAL STATEMENTS

Changes in applicable liability amounts follow (\$ in thousands):

	Balance July 1, 2010	Provision for Claims	Claims Payments	Balance June 30, 2011
Health	\$ 8,975	\$ 64,113	\$ (66,926)	\$ 6,162
General liability	6,863	(3,216)	(718)	2,929
Workers' compensation	6,690	(1,052)	(1,139)	4,499
Unemployment	235	993	(976)	252
	<u>\$ 22,763</u>	<u>\$ 60,838</u>	<u>\$ (69,759)</u>	<u>\$ 13,842</u>

	Balance July 1, 2009	Provision for Claims	Claims Payments	Balance June 30, 2010
Health	\$ 8,392	\$ 60,333	\$ (59,750)	\$ 8,975
General liability	5,613	1,591	(341)	6,863
Workers' compensation	5,991	1,973	(1,274)	6,690
Unemployment	138	813	(716)	235
	<u>\$ 20,134</u>	<u>\$ 64,710</u>	<u>\$ (62,081)</u>	<u>\$ 22,763</u>

	Balance July 1, 2008	Provision for Claims	Claims Payments	Balance June 30, 2009
Health	\$ 7,798	\$ 56,365	\$ (55,771)	\$ 8,392
General liability	5,362	932	(681)	5,613
Workers' compensation	6,051	1,555	(1,615)	5,991
Unemployment	72	493	(427)	138
	<u>\$ 19,283</u>	<u>\$ 59,345</u>	<u>\$ (58,494)</u>	<u>\$ 20,134</u>

NOTES TO FINANCIAL STATEMENTS

On June 5, 2009 a group of beneficiaries of the Optional Retirement Plan (ORP) filed a class-action lawsuit entitled Abel Bult-Ito et al., v. State of Alaska, University of Alaska, et al., Case No. 3AN-09-7875 CI, in the Superior Court for the State of Alaska, Third Judicial District at Anchorage, against the State of Alaska and the University.

The group of beneficiaries alleges, among other things, that State legislation passed in 2007 and 2008 unconstitutionally diminished contributions to the ORP. The case is currently set for trial the week of January 30, 2012. The likelihood of success on the merits of the case is unknown as is the financial impact on the university.

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 2011 and 2010, the university transferred \$1.2 million and \$0.9 million for general support, respectively. For the same periods, the foundation reimbursed the university for operating expenses totaling \$2.6 million.

For the years ended June 30, 2011 and 2010, distributions and expenditures by the foundation for the benefit of the university totaled \$13.7 million and \$13.3 million, of which \$12.6 million and \$12.6 million were direct reimbursements to the university. Additionally, the foundation owed the university \$1.8 million at June 30, 2011 and \$1.7 million at June 30, 2010, 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, 2011 and 2010, the fair value of the fund was \$257.3 million and \$216.2 million, respectively. The university's share of this fund was \$125.4 million and \$114.2 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 2011 and 2010 were as follows (\$ in thousands):

	Compensation & Benefits	Contractual Services	Materials	Other	Student Aid	Depreciation	Total
Instruction	\$ 172,558	\$ 26,078	\$ 11,079	\$ 938	\$ -	\$ -	\$ 210,653
Academic support	46,644	7,506	7,237	66	-	-	61,453
Research	94,177	36,540	9,279	457	-	-	140,453
Public service	24,666	10,607	1,911	363	-	-	37,547
Student services	37,579	11,420	3,086	89	-	-	52,174