

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

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

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

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KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report

The Board of Trustees
University of Alaska and University of Alaska
Foundation Consolidated Endowment Fund:

We have audited the accompanying statements of assets and liabilities of the University of Alaska and University of Alaska Foundation Consolidated Endowment Fund (Fund), as of June 30, 2011 and 2010, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University of Alaska and University of Alaska Foundation Consolidated Endowment Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the 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 Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Alaska and University of Alaska Foundation Consolidated Endowment Fund as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

November 7, 2011

UNIVERSITY OF ALASKA
and
UNIVERSITY OF ALASKA FOUNDATION
CONSOLIDATED ENDOWMENT FUND
STATEMENTS OF ASSETS AND LIABILITIES
June 30, 2011 and 2010

Assets	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 17,357,870	\$ 22,257,628
Fixed income securities	50,972,030	43,931,643
Equity securities	175,354,548	137,681,595
Real assets	8,827,879	7,761,226
Absolute return	<u>4,762,967</u>	<u>4,585,476</u>
Total assets	<u>257,275,294</u>	<u>216,217,568</u>
 Liabilities	 <u>-</u>	 <u>-</u>
 Net Assets		
University of Alaska	125,422,019	114,205,567
University of Alaska Foundation	<u>131,853,275</u>	<u>102,012,001</u>
Total net assets	<u>\$ 257,275,294</u>	<u>\$ 216,217,568</u>
 Net Asset Value Per Unit	 <u>\$238.84</u>	 <u>\$203.92</u>

The accompanying notes are an integral part of the financial statements

UNIVERSITY OF ALASKA
and
UNIVERSITY OF ALASKA FOUNDATION
CONSOLIDATED ENDOWMENT FUND
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
For the years ended June 30, 2011 and 2010

Investment Income	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 4,132,919	\$ 3,605,297
Operating losses	<u>(62,584)</u>	<u>(251,145)</u>
Net investment income before expenses	<u>4,070,335</u>	<u>3,354,152</u>
 Expenses		
Management fees	154,315	153,799
Investment consulting fees	107,000	84,000
Audit fees	23,519	22,399
Other	<u>242</u>	<u>6,215</u>
Total expenses	<u>285,076</u>	<u>266,413</u>
Net investment income	3,785,259	3,087,739
 Realized and Unrealized Investment Gains		
Net realized and unrealized investment gains	<u>36,723,293</u>	<u>15,189,794</u>
 Net Increase in Net Assets Resulting from Operations	40,508,552	18,277,533
Distributions for endowment spending	(8,161,231)	(5,511,696)
Distributions for endowment assessments	(1,619,574)	(1,422,952)
Additional investments	<u>10,329,979</u>	<u>6,526,617</u>
Net Increase in Net Assets	41,057,726	17,869,502
 Net assets, beginning of year	<u>216,217,568</u>	<u>198,348,066</u>
Net assets, end of year	<u><u>\$ 257,275,294</u></u>	<u><u>\$ 216,217,568</u></u>

The accompanying notes are an integral part of the financial statements

UNIVERSITY OF ALASKA
and
UNIVERSITY OF ALASKA FOUNDATION
CONSOLIDATED ENDOWMENT FUND
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2011 and 2010

Cash flows from operating activities:	<u>2011</u>	<u>2010</u>
Net increase in net assets from operations	\$ 40,508,552	\$ 18,277,533
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Purchases of investments	(34,820,033)	(38,268,453)
Proceeds from distributions or sale of investments	25,585,842	33,994,434
Net realized and unrealized gain on investments	(36,723,293)	(15,189,794)
Net cash used in operating activities	<u>(5,448,932)</u>	<u>(1,186,280)</u>
 Cash flows from financing activities:		
Net additions	10,329,979	6,526,617
Spending distributions	(8,161,231)	(5,511,696)
Endowment assessments	(1,619,574)	(1,422,952)
Net cash provided by (used in) financing activities	<u>549,174</u>	<u>(408,031)</u>
 Net decrease in cash and cash equivalents	(4,899,758)	(1,594,311)
Cash and cash equivalents, beginning of year	22,257,628	23,851,939
Cash and cash equivalents, end of year	<u><u>\$ 17,357,870</u></u>	<u><u>\$ 22,257,628</u></u>

The accompanying notes are an integral part of the financial statements

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010**

1. Organization

The Consolidated Endowment Fund (fund) was established July 1, 1997 to combine, for investment purposes, certain assets of the University of Alaska (university) Land-Grant Endowments and the University of Alaska Foundation (foundation) Pooled Endowment Fund. The fund is managed by the foundation through its investment committee and treasurer.

The university's Land-Grant Endowments consist of the Endowment Trust Fund, which is codified in Alaska Statute 14.40.400, and its companion Inflation-Proofing Fund. The source of the funding consists of income from the sale or lease of land granted to the university by an Act of Congress approved January 21, 1929, other gifts and bequests and funds dedicated to the purposes of the Endowment Trust Fund by the Board of Regents.

The Foundation Pooled Endowment Fund includes endowment and similar funds contributed to the foundation that do not have specific investment restrictions. Earnings from the Pooled Endowment Fund are primarily for the support of the university, subject to donor imposed restrictions.

Investments of the fund may be held in the name of the foundation, the university, the fund, or any fund or nominee as may be authorized by the foundation's treasurer.

In preparing the financial statements, management is required to make estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the statements of assets and liabilities and operations for the period. Actual results may differ from those estimates and those differences could be material. The more significant accounting and reporting policies and estimates applied in the preparation of the accompanying financial statements are discussed below.

2. Summary of Significant Accounting Policies

The financial statements are prepared using the accrual basis of accounting.

Due to the endowment nature of the fund, all assets, including cash and cash equivalents, are considered non-current assets held for long-term investment. Cash and cash equivalents consist of highly liquid short-term investments including an overnight repurchase agreement and Rule 2a-7 qualified prime money market accounts.

The fund is managed under the "total return" concept of investment management intended to preserve and maintain the purchasing power of the principal. This approach emphasizes total investment return - traditional yield or investment income, and net realized and unrealized gains and losses.

The fund uses a unitized system to account for each participant's interest. Contributions to and withdrawals from the fund result in an increase or decrease in the number of units owned and are based on the unit value at the beginning of the month in which the contribution or withdrawal is made. Large additions to the fund are initially invested in cash and cash equivalents and dollar cost-averaged into the investment pool over a ten month period. Investment income, fees, and realized and unrealized gains and losses are allocated monthly to participating funds on a per unit basis. Investment income net of fees increases the number of units outstanding, while realized and unrealized gains and losses affect the per unit value.

**UNIVERSITY OF ALASKA
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CONSOLIDATED ENDOWMENT FUND**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010**

2. Summary of Significant Accounting Policies, continued

Investments

The overall investment objective of the fund is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to support, in perpetuity, the various purposes of the endowments that make up the fund. The fund diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by an Investment Committee of the Board of Trustees, which oversees the fund's investment program in accordance with established agreements.

The fund holds interests in traditional fixed income and equity securities through commingled funds, and also invests in alternative strategies, including various hedged and private capital funds. Investment funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments, and are valued accordingly. Private capital funds include private equity and venture capital, energy and natural resources, mezzanine and distressed debt, and private real estate partnerships. Private capital strategies often require the estimation of fair values by the fund managers in the absence of readily determinable market values. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by investment fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held. Moreover, the fair values of the fund's interests in shares or units of these funds, because of liquidity and capital commitment terms that vary depending on the specific fund or partnership agreement, may differ from the fair value of the funds' underlying net assets.

Fair Value Measurement

The foundation follows the Financial Accounting Standards Board (FASB) guidance on fair value measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 – Quoted prices for similar assets or liabilities, or inputs that are observable, either directly or indirectly, in markets that are either active or inactive. This includes alternative investments valued at net asset value or equivalent with a redemption period of 90 days or less.

Level 3 – Pricing inputs are unobservable for the asset or liability and are based on the fund's own assumptions about the assumptions that market participants would use in pricing the asset or liability. Level 3 includes investments that are supported by little or no market activity.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The inputs or methodology used for valuing investments are not necessarily an indication of the risk associated with investing in those investments.

**UNIVERSITY OF ALASKA
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CONSOLIDATED ENDOWMENT FUND**

NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

2. Summary of Significant Accounting Policies, continued

The majority of the fund's investments are reported at the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value of the fund's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2011 and 2010, the fund had no plans or intentions to sell investments at amounts different from NAV.

The following tables summarize the fund's investments by major category in the fair value hierarchy as of June 30, 2011 and 2010, as well as related strategy, liquidity and funding commitments:

	June 30, 2011				Redemption Frequency	Days' Notice
	Level 1	Level 2	Level 3	Total		
Fixed income securities:						
US core index fund	\$ -	\$ 33,095,642	\$ -	\$ 33,095,642	Daily	5
US Treasury index fund	-	17,876,388	-	17,876,388	Daily	5
	-	50,972,030	-	50,972,030		
Equity securities:						
Domestic index fund	-	56,084,887	-	56,084,887	Daily	5
Global index fund	-	25,995,202	-	25,995,202	Semi-monthly	5
Global value mutual fund	11,408,036	-	-	11,408,036	Daily	1
Global growth funds	-	24,569,487	-	24,569,487	Monthly	6-15
Multi-strategy hedged funds	-	6,146,616	5,439,403	11,586,019	Various (1)	90
Event arbitrage hedged fund	-	-	1,627,368	1,627,368	Illiquid (2)	N/A
Global REIT fund	-	3,102,858	-	3,102,858	Monthly	15
Emerging markets index fund	-	13,029,334	-	13,029,334	Semi-monthly	5
Private equity & venture funds	-	-	22,628,157	22,628,157	Illiquid (3)	N/A
Mezzanine & distressed debt funds	-	-	5,323,200	5,323,200	Illiquid (4)	N/A
	11,408,036	128,928,384	35,018,128	175,354,548		
Real assets:						
Multi-strategy commodities fund	-	1,901,842	-	1,901,842	Monthly	30
US private real estate fund	-	-	15,730	15,730	Illiquid (5)	N/A
Energy & natural resources funds	-	-	6,910,307	6,910,307	Illiquid (6)	N/A
Open-ended core real estate funds	-	-	-	-	(7)	
	-	1,901,842	6,926,037	8,827,879		
Absolute return:						
Absolute return hedged fund	-	4,762,967	-	4,762,967	Quarterly	60
	-	4,762,967	-	4,762,967		
	<u>\$ 11,408,036</u>	<u>\$ 186,565,223</u>	<u>\$ 41,944,165</u>	<u>\$ 239,917,424</u>		

(1) One fund allows quarterly redemptions, one fund allows annual redemptions next available December 2012.

(2) Fund is in liquidation. Timing of redemption proceeds is unknown.

(3) Funds are expected to liquidate within 1-9 years. Unfunded future commitments total \$8.18 million.

(4) Funds are expected to liquidate within 1-6 years. Unfunded future commitments total \$0.86 million.

(5) Funds are expected to liquidate within 1 year. Unfunded future commitments total \$0.05 million.

(6) Funds are expected to liquidate within 1-8 years. Unfunded future commitments total \$1.48 million.

(7) Unfunded future commitments total \$8.0 million.

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CONSOLIDATED ENDOWMENT FUND**

NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

2. Summary of Significant Accounting Policies, continued

	June 30, 2010				Redemption	Days'
	Level 1	Level 2	Level 3	Total	Frequency	Notice
Fixed income securities:						
US core index fund	\$ -	\$ 33,125,777	\$ -	\$ 33,125,777	Daily	5
US & global multi-strategy fund	-	10,805,866	-	10,805,866	Daily	5
	-	43,931,643	-	43,931,643		
Equity securities:						
Domestic index fund	-	48,415,883	-	48,415,883	Daily	5
Global index fund	-	15,620,860	-	15,620,860	Semi-monthly	5
Global value mutual fund	8,631,599	-	-	8,631,599	Daily	1
Global growth funds	-	18,594,197	-	18,594,197	Monthly	6-15
Multi-strategy hedged funds	-	10,645,310	-	10,645,310	Various (1)	90
Event arbitrage hedged fund	-	-	2,910,086	2,910,086	Illiquid (2)	N/A
Global REIT fund	-	2,257,303	-	2,257,303	Monthly	15
Emerging markets fund	-	4,755,749	-	4,755,749	Monthly	30
Private equity & venture funds	-	-	19,793,087	19,793,087	Illiquid (3)	N/A
Mezzanine & distressed debt funds	-	-	6,057,521	6,057,521	Illiquid (4)	N/A
	8,631,599	100,289,302	28,760,694	137,681,595		
Real assets:						
Multi-strategy commodities fund	-	1,467,064	-	1,467,064	Monthly	30
US private real estate funds	-	-	459,071	459,071	Illiquid (5)	N/A
Energy & natural resources funds	-	-	5,835,091	5,835,091	Illiquid (6)	N/A
	-	1,467,064	6,294,162	7,761,226		
Absolute return:						
Absolute return hedged fund	-	4,585,476	-	4,585,476	Quarterly	60
	-	4,585,476	-	4,585,476		
	\$ 8,631,599	\$ 150,273,485	\$ 35,054,856	\$ 193,959,940		

(1) One fund allows quarterly redemptions, one fund allows annual redemptions.

(2) Fund is in liquidation. Timing of redemption proceeds is unknown.

(3) Funds are expected to liquidate within 1-12 years. Unfunded future commitments total \$10.31 million.

(4) Funds are expected to liquidate within 2-7 years. Unfunded future commitments total \$0.97 million.

(5) Funds are expected to liquidate within 2-5 years. Unfunded future commitments total \$0.05 million.

(6) Funds are expected to liquidate within 1-10 years. Unfunded future commitments total \$1.94 million.

The fund's registered mutual fund is classified in Level 1 of the fair value hierarchy because its fair value is based on quoted market prices. Most investments classified in Levels 2 and 3 consist of shares or units in non-registered investment funds as opposed to direct interests in the funds' underlying securities, some of which are marketable or not difficult to value. Because each investment fund's reported NAV is used as a practical expedient to estimate the fair value of the fund's interest therein, the level in which an investment fund's fair value measurement is classified is based on the fund's ability to redeem its interest at or near the date of the statement of assets and liabilities. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risks associated with those investments or a reflection of the liquidity of or degree of difficulty in estimating the fair value of each investment fund's underlying assets and liabilities.

**UNIVERSITY OF ALASKA
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CONSOLIDATED ENDOWMENT FUND**

NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

2. Summary of Significant Accounting Policies, continued

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

The fund evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets available for benefits. For the year ended June 30, 2011, the fund reported one significant transfer from Level 2 to Level 3. ASC 820, as amended by ASU 2009-12, provides that investments redeemable at net asset value in the near term may be classified as Level 2. AICPA Technical Practice Aid 2220.18-.27 defines a redemption period of 90 days or less as 'near term'. This transfer between levels was due to a redemption period of greater than 90 days.

The following table presents the fund's activities for the years ended June 30, 2011 and 2010 for investments classified in Level 3:

	Fixed Income	Equity Securities	Real Assets	Total
Balance, July 1, 2009	\$ 972,203	\$ 30,122,647	\$ 9,559,143	\$ 40,653,993
Additions	-	2,339,959	602,500	2,942,459
Withdrawals	(1,041,066)	(8,085,397)	(587,578)	(9,714,041)
Net investment income (losses)	57,540	(89,490)	(138,522)	(170,472)
Net realized gains (losses)	-	811,763	(186,441)	625,322
Change in net unrealized gains (losses)	11,323	3,661,212	(2,954,940)	717,595
Balance, June 30, 2010	-	28,760,694	6,294,162	35,054,856
Transfers in from Level 2	-	4,988,914	-	4,988,914
Additions	-	2,332,468	457,500	2,789,968
Withdrawals	-	(7,870,812)	(682,113)	(8,552,925)
Net investment income (losses)	-	157,337	(81,146)	76,191
Net realized gains (losses)	-	1,917,609	(3,765,088)	(1,847,479)
Change in net unrealized gains	-	4,731,918	4,702,722	9,434,640
Balance, June 30, 2011	<u>\$ -</u>	<u>\$ 35,018,128</u>	<u>\$ 6,926,037</u>	<u>\$ 41,944,165</u>

The amount of net unrealized gains related to Level 3 assets still held at June 30, 2011 is approximately \$5.8 million and is included in the net realized and unrealized investment gains in the statement of operations and changes in net assets.

**UNIVERSITY OF ALASKA
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CONSOLIDATED ENDOWMENT FUND**

NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

2. Summary of Significant Accounting Policies, continued

Private capital investments are generally made through limited partnerships. Under the terms of such agreements, the fund may be required to provide additional funding when capital or liquidity calls are made by investment fund managers. These partnerships have a limited existence, and they may provide for annual extensions for the purpose of disposing of portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, or other factors, a manager may extend the terms of an investment fund beyond its originally anticipated existence or may wind it down prematurely. The fund cannot anticipate such changes because they generally arise from unforeseeable events, but should they occur they could reduce liquidity or originally anticipated investment returns. Accordingly, the timing and amount of future capital or liquidity calls in any particular future year are uncertain. Several of the fund's private capital investments are in mature stages where wind down or liquidation is likely in the next several years. The fund's hedge funds also have liquidity limitations including two funds with quarterly redemptions and another with annual redemptions each December.

Investment liquidity as of June 30, 2011 is aggregated below based on redemption or sale period:

<u>Redemption Period</u>	<u>Amounts</u>	<u>Fiscal Year</u>	<u>Amounts</u>
Daily	\$ 118,464,952	2012	\$ 203,919,758
Semi-Monthly	39,024,536	2013	9,465,870
Monthly	29,574,187	2014	4,379,128
Quarterly	10,909,584	2015	1,781,824
Annually	5,439,403	2016	4,429,169
Illiquid	36,504,762	Thereafter	15,941,675
	<u>\$ 239,917,424</u>		<u>\$ 239,917,424</u>

Income Taxes

The fund itself is not subject to federal or state income taxes and, therefore, no provision for income taxes has been made in the accompanying financial statements. The participants in the fund are subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. Any income tax provision from an unrelated trade or business would be recorded in the financial statements of each participant.

Reclassifications

If applicable, certain prior year amounts have been reclassified to conform to current year presentation.

Subsequent Events

The fund has evaluated subsequent events and transactions that occurred after June 30, 2011 but before financial statements are available to be issued, concluding November 7, 2011. The fund is heavily dependent upon the investment markets and is subject to the volatility exhibited in these markets.

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CONSOLIDATED ENDOWMENT FUND**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010**

3. Asset Allocation

The asset allocation of the fund's investments was as follows:

	2011	2010
Cash and cash equivalents	6.7%	10.3%
Fixed income	19.8%	20.3%
Equities, domestic	21.8%	22.4%
Equities, global	30.4%	27.1%
Equities, emerging markets	5.1%	2.2%
Equities, private	10.9%	12.0%
Real assets	3.4%	3.6%
Absolute return	1.9%	2.1%
	<u>100%</u>	<u>100%</u>

4. Changes in Net Asset Balances

Changes in net asset balances by participant were as follows:

	Foundation	University	Total
Balance, July 1, 2009	\$ 89,486,071	\$ 108,861,995	\$ 198,348,066
Net increase from operations	8,008,112	10,269,421	18,277,533
Distributions for endowment spending	(1,781,962)	(3,729,734)	(5,511,696)
Distributions for endowment assessments	(881,203)	(541,749)	(1,422,952)
Additional net investments	7,180,983	(654,366)	6,526,617
Balance, June 30, 2010	102,012,001	114,205,567	216,217,568
Net increase from operations	19,330,511	21,178,041	40,508,552
Distributions for endowment spending	(3,313,940)	(4,847,291)	(8,161,231)
Distributions for endowment assessments	(1,022,234)	(597,340)	(1,619,574)
Additional net investments	14,846,937	(4,516,958)	10,329,979
Balance, June 30, 2011	<u>\$ 131,853,275</u>	<u>\$ 125,422,019</u>	<u>\$ 257,275,294</u>

5. Distributions

Distributions from the fund are based on spending policies established by each participant and assessments charged by the foundation to cover administrative and fundraising expenses.

UNIVERSITY OF ALASKA FOUNDATION

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

University of Alaska Foundation

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KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report

The Board of Trustees
University of Alaska Foundation:

We have audited the accompanying statements of financial position of the University of Alaska Foundation (Foundation), as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University of Alaska Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the 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 Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Alaska Foundation as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

November 7, 2011

UNIVERSITY OF ALASKA FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2011 and 2010

Assets	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 21,608,213	\$ 38,116,077
Interest receivable	136,774	77,588
Contributions receivable, net	13,333,203	13,495,945
Remainder trusts receivable	832,938	754,883
Escrows receivable	295,997	134,303
Inventory	57,366	57,744
Other assets	485,800	507,076
Pooled endowment funds	131,853,275	102,012,001
Other long term investments	<u>24,459,007</u>	<u>16,869,331</u>
Total assets	<u><u>\$ 193,062,573</u></u>	<u><u>\$ 172,024,948</u></u>
 Liabilities		
Due to the University of Alaska	\$ 1,775,092	\$ 1,717,592
Other liabilities	5,142	22,500
Split interest obligations	282,739	410,984
Term endowment liability	<u>1,000,000</u>	<u>1,000,000</u>
Total liabilities	<u>3,062,973</u>	<u>3,151,076</u>
 Net Assets		
Unrestricted	23,424,101	33,832,327
Temporarily restricted	79,551,222	62,732,292
Permanently restricted	<u>87,024,277</u>	<u>72,309,253</u>
Total net assets	<u>189,999,600</u>	<u>168,873,872</u>
Total liabilities and net assets	<u><u>\$ 193,062,573</u></u>	<u><u>\$ 172,024,948</u></u>

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

UNIVERSITY OF ALASKA FOUNDATION
STATEMENTS OF ACTIVITIES
For the years ended June 30, 2011 and 2010

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support								
Contributions	\$ 457,109	\$ 10,320,103	\$ 5,023,966	\$ 15,801,178	\$ 255,915	\$ 12,961,368	\$ 2,724,454	\$ 15,941,737
Investment income	645,186	1,757,967	-	2,403,153	719,110	1,236,174	-	1,955,284
Net realized and unrealized investment gains	2,277,487	15,105,300	-	17,382,787	4,158,668	3,014,934	-	7,173,602
Other revenues	2	158,802	-	158,804	173	168,832	-	169,005
Actuarial adjustment of remainder trust obligations	-	49,400	249,433	298,833	-	(28,080)	(71,019)	(99,099)
Losses on disposition of other assets	(1,355)	(42,958)	(75)	(44,388)	(2,707)	(115,230)	(25)	(117,962)
Administrative assessments	1,718,484	(1,059,538)	(61,607)	597,339	1,472,977	(888,575)	(42,653)	541,749
Support from University of Alaska	890,000	-	-	890,000	890,000	-	-	890,000
Net assets released from restriction	11,532,488	(11,532,488)	-	-	10,962,699	(10,962,699)	-	-
Total revenues, gains and other support	17,519,401	14,756,588	5,211,717	37,487,706	18,456,835	5,386,724	2,610,757	26,454,316
Expenses and distributions								
Operating expenses	2,632,989	-	-	2,632,989	2,567,645	-	-	2,567,645
Distributions for the benefit of the University of Alaska	13,728,989	-	-	13,728,989	13,290,094	-	-	13,290,094
Total expenses and distributions	16,361,978	-	-	16,361,978	15,857,739	-	-	15,857,739
Excess of revenues over expenses	1,157,423	14,756,588	5,211,717	21,125,728	2,599,096	5,386,724	2,610,757	10,596,577
Transfers between net asset classes	(104,879)	31,002	73,877	-	260	(10,003,822)	10,003,562	-
Change in net assets due to adoption of UPMIFA	(11,460,770)	2,031,340	9,429,430	-	-	-	-	-
Increase (decrease) in net assets	(10,408,226)	16,818,930	14,715,024	21,125,728	2,599,356	(4,617,098)	12,614,319	10,596,577
Net assets, beginning of year	33,832,327	62,732,292	72,309,253	168,873,872	31,232,971	67,349,390	59,694,934	158,277,295
Net assets, end of year	<u>\$ 23,424,101</u>	<u>\$ 79,551,222</u>	<u>\$ 87,024,277</u>	<u>\$ 189,999,600</u>	<u>\$ 33,832,327</u>	<u>\$ 62,732,292</u>	<u>\$ 72,309,253</u>	<u>\$ 168,873,872</u>

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

UNIVERSITY OF ALASKA FOUNDATION
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Contributions received	\$ 9,995,033	\$ 13,741,117
Investment income received	2,343,967	1,954,471
Distributions for the benefit of the University of Alaska	(13,593,483)	(13,268,962)
Cash paid for operating expenses	(2,599,740)	(2,286,280)
Other receipts	1,762,853	1,091,755
Net cash provided by (used in) operating activities	<u>(2,091,370)</u>	<u>1,232,101</u>
Cash flows from investing activities:		
Net (increase) decrease in investments	(19,900,363)	979,141
Receipts from disposition of assets	36,306	10,545
Net cash provided by (used in) investing activities	<u>(19,864,057)</u>	<u>989,686</u>
Cash flows from financing activities:		
Contributions restricted for permanent investment	5,465,866	5,322,283
Investment income on charitable remainder trusts	24,918	29,937
Payment of charitable remainder trust obligations	(43,221)	(66,749)
Net cash provided by financing activities	<u>5,447,563</u>	<u>5,285,471</u>
Net increase (decrease) in cash and cash equivalents	(16,507,864)	7,507,258
Cash and cash equivalents, beginning of year	38,116,077	30,608,819
Cash and cash equivalents, end of year	<u>\$ 21,608,213</u>	<u>\$ 38,116,077</u>

	2011	2010
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets:	\$ 21,125,728	\$ 10,596,577
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions of operating noncash assets	(263,197)	(965,435)
Net realized and unrealized investment gains	(17,382,787)	(7,173,602)
Loss on disposition of other assets	44,388	117,962
Non-cash operating expenses	16,718	17,782
Non-cash distributions to the University of Alaska	112,706	130,230
Contributions restricted for permanent investment	(5,023,966)	(2,724,454)
Actuarial adjustment of remainder trust obligations	(298,833)	99,099
Changes in assets and liabilities:		
Increase in interest receivable	(59,186)	(812)
(Increase) decrease in contributions receivable	(518,982)	1,489,269
Decrease in inventory	-	933
Decrease in other assets	21,990	-
Increase (decrease) in due to the University of Alaska	57,500	(400,480)
Increase (decrease) in other liabilities	(17,358)	12,810
Increase in annuity payment liabilities	93,909	32,222
Net cash provided by (used in) operating activities	<u>\$ (2,091,370)</u>	<u>\$ 1,232,101</u>
Supplemental schedule of noncash investing activity		
Contributions of investment assets	\$ 147,799	\$ 108,665

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

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

1. Organization and Summary of Significant Accounting Policies

Organization

The University of Alaska Foundation (foundation) was established May 30, 1974 to solicit donations and to hold and manage such assets for the exclusive benefit of the University of Alaska (university). The foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

In preparing the financial statements, management is required to make estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the statement of financial position and revenue and expenses for the period. Actual results could differ from those estimates. The more significant accounting and reporting policies and estimates applied in the preparation of the accompanying financial statements are discussed below.

Basis of Presentation

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

Unrestricted net assets - Assets, net of related liabilities, which are not subject to donor-imposed or other external restrictions.

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

Permanently restricted net assets - Assets, net of related liabilities, which are subject to donor-imposed or other external restrictions and will be held in perpetuity by the foundation.

Revenues are reported as increases in unrestricted net assets, unless use of the earnings is subject to donor-imposed or other external restrictions. Gains and losses on investments and other assets and changes in liabilities are reported as increases or decreases in unrestricted net assets, unless subject to donor-imposed or other external restrictions. Expirations of temporary restrictions on net assets through expenditure for the stipulated purpose or the passage of the stipulated time period are reported as reclassifications between the applicable classes of net assets. Expenses and distributions are reported as decreases in unrestricted net assets.

Basis of Accounting

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

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

Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Unconditional promises to give

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

1. Organization and Summary of Significant Accounting Policies, continued

expected to be collected in one year or more are valued at fair value. The valuation technique used, which is consistent with the income approach, is expected present value (EPV). EPV is a probability-weighted average of all possible cash flows discounted by the risk-adjusted rate, which is based on Treasury note rates. The cash flows are further discounted to adjust for systematic risk by adding a risk premium of 3%. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Contributions received for memorials or prospective endowments that have not yet met the minimum requirements for acceptance as an endowment are accumulated in temporarily restricted accounts. The accumulated contributions are transferred to permanently restricted endowment accounts when the minimum requirements are fulfilled. If the requirements are not fulfilled, consistent with the conditions of acceptance, the contributions are expended for the purpose received. Transfers between net asset classes reported on the statement of activities in the amounts of \$0.1 million and \$10.0 million for 2011 and 2010, respectively, result from this type of transaction.

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

Investments

Investments in fixed income and equity marketable securities are stated at fair value based on quoted market prices. Investment funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments, and are valued accordingly. The pooled endowment funds invest in traditional fixed income and equity securities through commingled funds, and also invest in alternative strategies, including various hedged and private capital funds. Private capital funds include private equity and venture capital, energy and natural resources, mezzanine and distressed debt, and private real estate partnerships. Private capital strategies often require the estimation of fair values by the fund managers in the absence of readily determinable market values. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by investment fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held. Moreover, the fair values of interests in shares or units of these funds, because of liquidity and capital commitment terms that vary depending on the specific fund or partnership agreement, may differ from the fair value of the funds' underlying net assets.

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

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

1. Organization and Summary of Significant Accounting Policies, continued

Fair Value Measurement

The foundation follows the Financial Accounting Standards Board (FASB) guidance on fair value measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 – Quoted prices for similar assets or liabilities, or inputs that are observable, either directly or indirectly, in markets that are either active or inactive. This includes investments valued at net asset value or equivalent.

Level 3 – Pricing inputs are unobservable for the asset or liability and are based on the fund's own assumptions about the assumptions that market participants would use in pricing the asset or liability. Level 3 includes investments that are supported by little or no market activity.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The inputs or methodology used for valuing investments are not necessarily an indication of the risk associated with investing in those investments.

The following table summarizes the foundation's financial assets measured at fair value on a recurring basis as of June 30, 2011:

	June 30, 2011				Redemption Days'	
	Level 1	Level 2	Level 3	Total	Frequency	Notice
Pooled Endowment Funds	\$ -	\$ -	\$ 131,853,275	\$ 131,853,275	Various (1)	NA
Other Long Term Investments:						
Fixed Income:						
US treasuries, agencies, corporates	8,341,606	15,121,123	-	23,462,729	Daily	1
	8,341,606	15,121,123	-	23,462,729		
Equity Securities:						
Domestic equity balanced fund	56,640	-	-	56,640	Daily	1
Domestic equities	655,793	-	-	655,793	Daily	1
	712,433	-	-	712,433		
Total Other Long Term Investments	9,054,039	15,121,123	-	24,175,162		
Total Investments	\$ 9,054,039	\$ 15,121,123	\$ 131,853,275	\$ 156,028,437		
Remainder Trusts Receivable	\$ -	\$ -	\$ 832,938	\$ 832,938		

(1) Redemption requests are processed based on available liquidity of the pool and vary depending on amount and timing requested.

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

1. Organization and Summary of Significant Accounting Policies, continued

The following table summarizes the foundation's financial assets measured at fair value on a recurring basis as of June 30, 2010:

	June 30, 2010				Redemption Frequency	Days' Notice
	Level 1	Level 2	Level 3	Total		
Pooled Endowment Funds	\$ -	\$ -	\$ 102,012,001	\$ 102,012,001	Various (1)	NA
Other Long Term Investments:						
Fixed Income:						
US treasuries, agencies, corporates	7,516,339	7,657,164	-	15,173,503	Daily	1
Municipal bonds	-	567,002	-	567,002	Daily	1
Absolute return hedge fund	-	-	331,814	331,814	Illiquid (2)	NA
	<u>7,516,339</u>	<u>8,224,166</u>	<u>331,814</u>	<u>16,072,319</u>		
Equity Securities:						
Domestic equity balanced fund	52,755	-	-	52,755	Daily	1
Domestic equities	466,000	-	-	466,000	Daily	1
	<u>518,755</u>	<u>-</u>	<u>-</u>	<u>518,755</u>		
Total Other Long Term Investments	<u>8,035,094</u>	<u>8,224,166</u>	<u>331,814</u>	<u>16,591,074</u>		
Total Investments	<u>\$ 8,035,094</u>	<u>\$ 8,224,166</u>	<u>\$ 102,343,815</u>	<u>\$ 118,603,075</u>		
Remainder Trusts Receivable	\$ -	\$ -	\$ 754,883	\$ 754,883		

(1) Redemption requests are processed based on available liquidity of the pool and vary depending on amount and timing requested.

(2) Fund is in liquidation. Timing of redemption proceeds is unknown.

The following table presents the foundation's activities for the years ended June 30, 2011 and 2010 for financial assets classified in Level 3:

	Pooled Endowment Funds	Other Long Term Investments	Remainder Trusts Receivable	Total
Balance, July 1, 2009	\$ 89,486,071	\$ 4,472,712	\$ -	\$ 93,958,783
Additions	7,180,983	-	754,883	7,935,866
Withdrawals	(2,663,165)	(4,398,461)	-	(7,061,626)
Net investment income	1,423,170	97,684	-	1,520,854
Net realized and unrealized gains	<u>6,584,942</u>	<u>159,879</u>	<u>-</u>	<u>6,744,821</u>
Balance, June 30, 2010	102,012,001	331,814	754,883	103,098,698
Additions	14,846,937	-	-	14,846,937
Withdrawals	(4,336,174)	(191,633)	-	(4,527,807)
Net investment income	1,848,337	-	-	1,848,337
Net realized and unrealized gains (losses)	<u>17,482,174</u>	<u>(140,181)</u>	<u>78,055</u>	<u>17,420,048</u>
Balance, June 30, 2011	<u>\$ 131,853,275</u>	<u>\$ -</u>	<u>\$ 832,938</u>	<u>\$ 132,686,213</u>

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

1. Organization and Summary of Significant Accounting Policies, continued

The amount of net unrealized gains related to Level 3 assets still held at June 30, 2011 is approximately \$16.5 million and is included in the net gains and losses in the statement of activities.

For arrangements where the foundation is a beneficiary of a trust held by a third party, the asset represents the foundation's beneficial interest in future cash flows and is valued using a discounted cash flow analysis based on the assumed timing and duration of those cash flows. Because this involves significant judgment and estimation, the valuations of these beneficial interests are included in Level 3.

Investments classified in Level 3 include shares or units in non-registered investment funds as opposed to direct interests in the funds' underlying securities, some of which are marketable or not difficult to value. Because each investment fund's reported NAV is used as a practical expedient to estimate the fair value of the fund's interest therein, the level in which an investment fund's fair value measurement is classified is based on the fund's ability to redeem its interest at or near the date of the statement of financial position. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risks associated with those investments or a reflection of the liquidity of or degree of difficulty in estimating the fair value of each investment fund's underlying assets and liabilities.

Investment liquidity as of June 30, 2011 is aggregated below based on redemption or sale period:

<u>Redemption Period</u>	<u>Amounts</u>	<u>Fiscal Year</u>	<u>Amounts</u>
Daily	\$ 84,888,450	2012	\$ 128,684,038
Semi Monthly	20,000,075	2013	4,851,259
Monthly	15,156,771	2014	2,244,303
Quarterly	5,591,162	2015	913,185
Annually	2,787,694	2016	2,269,949
Illiquid	18,708,690	Thereafter	8,170,108
	<u>\$ 147,132,842</u>		<u>\$ 147,132,842</u>

Income Taxes

The foundation is an organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is generally not subject to federal income taxes. Contributions to the foundation are deductible for tax purposes by the donor, subject to the normal limitations imposed by the taxing authorities. However, the foundation is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded from any unrelated trade or business. In the opinion of management any unrelated business income tax would be immaterial to the basic financial statements taken as a whole.

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

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

1. Organization and Summary of Significant Accounting Policies, continued

Subsequent Events

The foundation has evaluated subsequent events and transactions that occurred after June 30, 2011 but before financial statements are available to be issued, concluding November 7, 2011. The foundation is heavily dependent upon the investment markets and is subject to the volatility exhibited in these markets.

2. Contributions Receivable

Unconditional promises to make contributions are included in the financial statements as contributions receivable and temporarily or permanently restricted revenue. Contributions receivable are expected to be realized in the following periods:

	2011	2010
In one year or less	\$ 2,145,101	\$ 2,141,181
Between one year and five years	12,049,880	12,425,294
More than five years	4,040	34,181
	14,199,021	14,600,656
Discount	(832,817)	(1,064,524)
Allowance for uncollectible accounts	(33,001)	(40,187)
	<u>\$ 13,333,203</u>	<u>\$ 13,495,945</u>

Unconditional promises to give are recorded at the discounted present value of the future cash flows using a discount rate ranging from 2.5% to 5.9%. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

3. Remainder Trusts Receivable

A charitable remainder trust administered by a third party is an arrangement in which a donor establishes and funds a trust in which the assets are invested and administered by a third-party trustee and distributions are made to the income beneficiaries during the term of the agreement. Upon death of the donor, the assets or a portion of the assets remaining in the trust are distributed to a not-for-profit entity. The foundation, as remainder beneficiary, records its interest in these irrevocable trusts, upon discovery of their existence, at fair value as determined using the present value of the estimated future cash receipts to be received from the trust, discounted at rates between 9.05% and 10.78% which reflect the expected rate of return as adjusted for various risk factors. Initial recognition and subsequent adjustments to the assets' carrying value are recognized as contribution revenue and actuarial adjustment of the remainder trust obligations, respectively, and are classified as permanently restricted, temporarily restricted, or unrestricted support, depending on donor-imposed purpose and time restrictions, if any.

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

4. Escrows Receivable

The foundation's escrows receivable are secured by deeds of trust from land sales, payable in monthly installments including interest of 7.25% to 8.5%.

5. Pooled Endowment Funds

Effective July 1, 1997, management of the university's Land Grant Endowment Trust Fund was transferred from the State of Alaska Department of Revenue to the university Board of Regents. The foundation and the Board of Regents agreed to consolidate the foundation's pooled endowment funds and the university's land grant endowments into a Consolidated Endowment Fund (fund) for investment purposes. The foundation's investment represents 51% and 47% of the total fund at June 30, 2011 and 2010, respectively. The net assets and related activity for their respective investment in the fund are reflected in the financial statements of the foundation and the university.

The fund uses a unitized system to account for each participant's interest. Contributions to and withdrawals from the fund result in an increase or decrease in the number of units owned and are based on the unit value at the beginning of the month in which the contribution or withdrawal is made. Large additions to the fund are initially invested in cash and cash equivalents and dollar-cost-averaged into the investment pool over a ten month period. Investment income, fees, and realized and unrealized gains and losses are distributed monthly to participating funds on a per unit basis. Investment income net of fees increases the number of units outstanding, while realized and unrealized gains and losses affect the per unit value.

The Consolidated Endowment Fund includes the following:

	2011	2010
Cash and cash equivalents	\$ 17,357,870	\$ 22,257,628
Fixed income securities	50,972,030	43,931,643
Equity securities	175,354,548	137,681,595
Real assets	8,827,879	7,761,226
Absolute return	4,762,967	4,585,476
	<u>\$ 257,275,294</u>	<u>\$ 216,217,568</u>

Ownership of the net assets of the Consolidated Endowment Fund is as follows:

	2011	2010
University of Alaska Foundation	\$ 131,853,275	\$ 102,012,001
University of Alaska	125,422,019	114,205,567
	<u>\$ 257,275,294</u>	<u>\$ 216,217,568</u>

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

5. Pooled Endowment Funds, continued

Direct investment management, custodial and consulting fees for the foundation's pooled endowment funds totaled \$139,776 and \$122,522 for the years ended June 30, 2011 and 2010, respectively. These fees have been included as reductions to investment income.

Effective July 1, 2008, the foundation adopted the provisions of FSP FAS 117-1, as subsequently incorporated into the ASC Section 958-205-45. The FSP provides guidance on classifying net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA). A key component of the FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. Another key component of the FSP is a requirement for expanded disclosures about all endowment funds. The State of Alaska adopted a version of UPMIFA effective September 8, 2010.

The foundation's endowment consists of 678 individual endowments established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

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

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

5. Pooled Endowment Funds, continued

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets, and subsequent gains that restore the fair value of the assets of the endowment fund to the required level are recorded as an increase in unrestricted net assets.

The foundation's Primary Investment Goal for its endowments is to provide a real rate of return (total return minus investment expenses, administrative fees and inflation) sufficient to support, in perpetuity, the purposes of the various endowments that make up the pooled endowment fund. The endowment spending allowance policy is also structured to help maintain the endowments in perpetuity, preserve their purchasing power and stabilize the flow of support for the purposes of the respective endowments. The spending allowance for each endowment in the years ended June 30, 2011 and 2010 was limited to the unexpended accumulated earnings or return (both realized and unrealized) of the respective endowment as of the preceding December 31, up to a maximum of 4 percent (4.0%) of the average of the market values of the fund at December 31 for the immediately preceding five years, unless otherwise provided by the donor or the Investment Committee if the endowment had sufficient accumulated return.

Endowment net assets as of June 30, 2011 include the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (108,163)	\$ 22,084,182	\$ 86,953,731	\$ 108,929,750
Board-designated endowment funds	12,724,564	20,556,056	-	33,280,620
	<u>\$ 12,616,401</u>	<u>\$ 42,640,238</u>	<u>\$ 86,953,731</u>	<u>\$ 142,210,370</u>

Endowment net assets as of June 30, 2010 include the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (1,412,382)	\$ 11,031,141	\$ 71,928,408	\$ 81,547,167
Board-designated endowment funds	15,122,904	16,145,489	-	31,268,393
	<u>\$ 13,710,522</u>	<u>\$ 27,176,630</u>	<u>\$ 71,928,408</u>	<u>\$ 112,815,560</u>

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

5. Pooled Endowment Funds, continued

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, July 1, 2009	\$ 9,696,895	\$ 24,018,468	\$ 59,243,070	\$ 92,958,433
Investment Income	220,263	1,216,870	-	1,437,133
Net realized and unrealized investment gains	3,643,885	2,940,758	-	6,584,643
Investment return	3,864,148	4,157,628	-	8,021,776
Contributions	75,768	1,034,196	2,724,454	3,834,418
Other revenues	-	(66)	(25)	(91)
Administrative assessments	(140,597)	(741,126)	(42,653)	(924,376)
Distributions for endowment spending	(285,692)	(1,496,269)	-	(1,781,961)
Transfers to increase board-designated endowment funds	500,000	122,654	-	622,654
Transfers to increase donor-restricted endowment funds	-	81,145	10,003,562	10,084,707
Balance, June 30, 2010	13,710,522	27,176,630	71,928,408	112,815,560
Change in net assets due to adoption of UPMIFA	(10,941,290)	1,511,860	9,429,430	-
Investment Income	133,119	1,743,319	-	1,876,438
Net realized and unrealized investment gains	2,535,678	14,923,054	-	17,458,732
Investment return	(8,272,493)	18,178,233	9,429,430	19,335,170
Contributions	102,552	898,867	5,023,966	6,025,385
Other revenues	(173)	(5,119)	(75)	(5,367)
Administrative assessments	(72,168)	(960,207)	(61,607)	(1,093,982)
Distributions for endowment spending	(278,705)	(3,035,235)	-	(3,313,940)
Transfers to increase board-designated endowment funds	7,426,866	243,571	-	7,670,437
Transfers to increase donor-restricted endowment funds	-	143,498	633,609	777,107
Balance, June 30, 2011	\$ 12,616,401	\$ 42,640,238	\$ 86,953,731	\$ 142,210,370

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

6. Other Long Term Investments

Other long term investments include the following:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 7,443	\$ 1,857
Fixed income securities	23,462,730	16,072,319
Equity securities	712,434	518,755
Real estate partnerships	276,400	276,400
	<u>\$ 24,459,007</u>	<u>\$ 16,869,331</u>

Investment custodial and management fees for other long term investments totaled \$62,983 and \$44,375 for the years ended June 30, 2011 and 2010, respectively. These fees have been included as reductions to investment income.

7. Split Interest Obligations

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

The split interest assets represent \$363,677 and \$822,439 for the years ended June 30, 2011 and 2010 respectively, and are reported as other long term investments in the statements of financial position. The fair value of the associated obligations total \$282,739 and \$410,984, respectively.

8. Term Endowment Liability

In July 1997 the foundation accepted a term endowment. Earnings from the endowment are restricted for the maintenance of a student housing facility. The agreement with the donor requires the original principal of the endowment to remain inviolate until April 30, 2020 at which time the original principal and the unexpended earnings, if any, will be returned to the donor. The original principal of \$1,000,000 is recorded as a liability at June 30, 2011 and 2010.

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

9. Net Assets

	<u>2011</u>	<u>2010</u>
Unrestricted net assets:		
Available for current operations - spendable earnings of quasi endowments and amounts not designated by management or restricted by donor	\$ 5,161,148	\$ 5,321,333
Designated for specific purposes - spendable earnings of quasi endowments and amounts designated by management	5,646,553	14,800,471
Quasi endowments - corpus of quasi endowments without donor restrictions	10,974,979	13,280,016
Underwater endowment losses - net accumulated investment losses on endowments	(108,163)	(1,412,382)
Unappropriated endowment earnings - earnings in excess of spending limits for quasi endowments without donor restrictions	<u>1,749,584</u>	<u>1,842,889</u>
	<u><u>\$ 23,424,101</u></u>	<u><u>\$ 33,832,327</u></u>
Temporarily restricted net assets:		
Restricted for specific purposes - spendable earnings on endowments and non-endowed net assets restricted by donor stipulation or by UPMIFA	\$ 36,910,983	\$ 35,555,483
Unconditional promises to give - contributions receivable without donor restrictions	417	314
Quasi endowments - corpus of quasi endowments with donor restrictions	18,388,764	16,858,974
Endowments - corpus of term funded and annuity endowments	3,378,345	3,529,007
Unappropriated endowment earnings - earnings in excess of spending limits for endowments restricted by donor or by UPMIFA	<u>20,872,713</u>	<u>6,788,514</u>
	<u><u>\$ 79,551,222</u></u>	<u><u>\$ 62,732,292</u></u>
Permanently restricted net assets:		
Endowments - portion of funds required to be retained permanently by explicit donor stipulation or by UPMIFA	\$ 86,953,731	\$ 71,928,408
Charitable remainder trusts - trusts required by donor to be invested in perpetuity	<u>70,546</u>	<u>380,845</u>
	<u><u>\$ 87,024,277</u></u>	<u><u>\$ 72,309,253</u></u>

10. Net Assets Released from Restriction

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

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

11. Distributions for the Benefit of the University of Alaska

Distributions for the benefit of the University of Alaska, by functional classification, for the years ended June 30, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
University of Alaska Anchorage		
Engineering	\$ 1,059,083	\$ 1,052,750
General	1,785,042	3,210,432
Liberal arts, human and rural development	175,232	125,606
Library	48,749	29,153
Management/business administration	568,747	580,501
Natural Sciences, agriculture and land resources	29,250	71,423
Research	149,268	164,079
Student aid	866,310	1,112,992
	<u>4,681,681</u>	<u>6,346,936</u>
University of Alaska Fairbanks		
Engineering	107,813	40,002
General	2,948,233	2,651,314
KUAC radio and television	630,418	55,772
Liberal arts, human and rural development	684,347	379,307
Library	235,332	256,241
Management/business administration	123,155	138,798
Museum	397,983	574,476
Natural sciences, agriculture and land resources	336,221	170,995
Research	598,606	651,389
Student aid	1,712,952	1,318,040
	<u>7,775,060</u>	<u>6,236,334</u>
University of Alaska Southeast		
General	220,930	321,544
Liberal arts, human and rural development	2,395	6,242
Library	60,281	59,539
Natural sciences, agriculture and land resources	739	1,554
Research	6,347	-
Student aid	211,214	190,686
	<u>501,906</u>	<u>579,565</u>
University of Alaska		
General	770,342	114,895
Management/business administration	-	12,364
	<u>770,342</u>	<u>127,259</u>
	<u>\$ 13,728,989</u>	<u>\$ 13,290,094</u>

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

12. Administrative Assessments

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

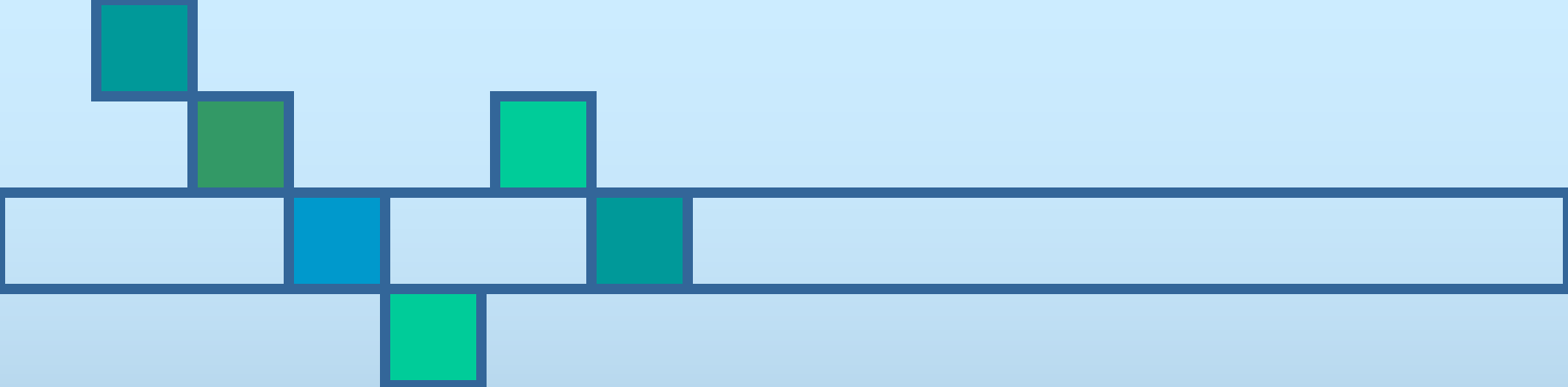
Gifts – All cash gifts are assessed 1% of the gift value at the time of the gift. Noncash gifts are assessed 1% at the time of conversion to cash by the foundation, based on the proceeds received.

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

Land Grant Trust Fund Assets – .50% is assessed by the foundation annually based on the asset valuation of the university's land grant trust fund assets invested by the foundation as of the end of the previous calendar year.

13. Related Party Transactions

The university provided payment to the foundation in the amount of \$0.9 million for institutional support during the years ended June 30, 2011 and 2010. The university also provides administrative and accounting support for the foundation. The foundation reimbursed the university \$2.6 million for these services for the years ended June 30, 2011 and 2010. These reimbursements are included in the statements of activities as operating expenses.

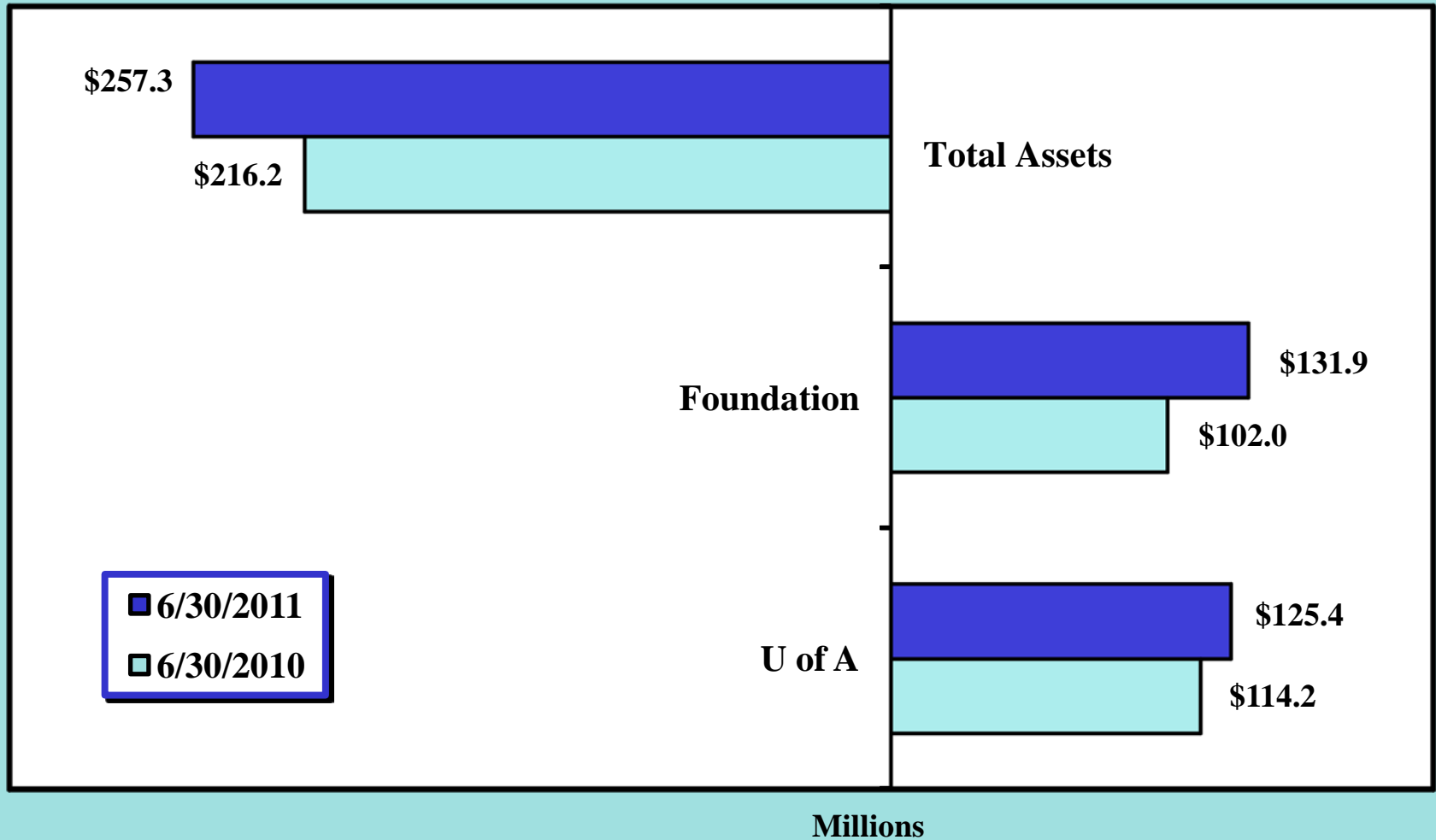


Consolidated Endowment Fund



Financial Statement Presentation
June 30, 2011

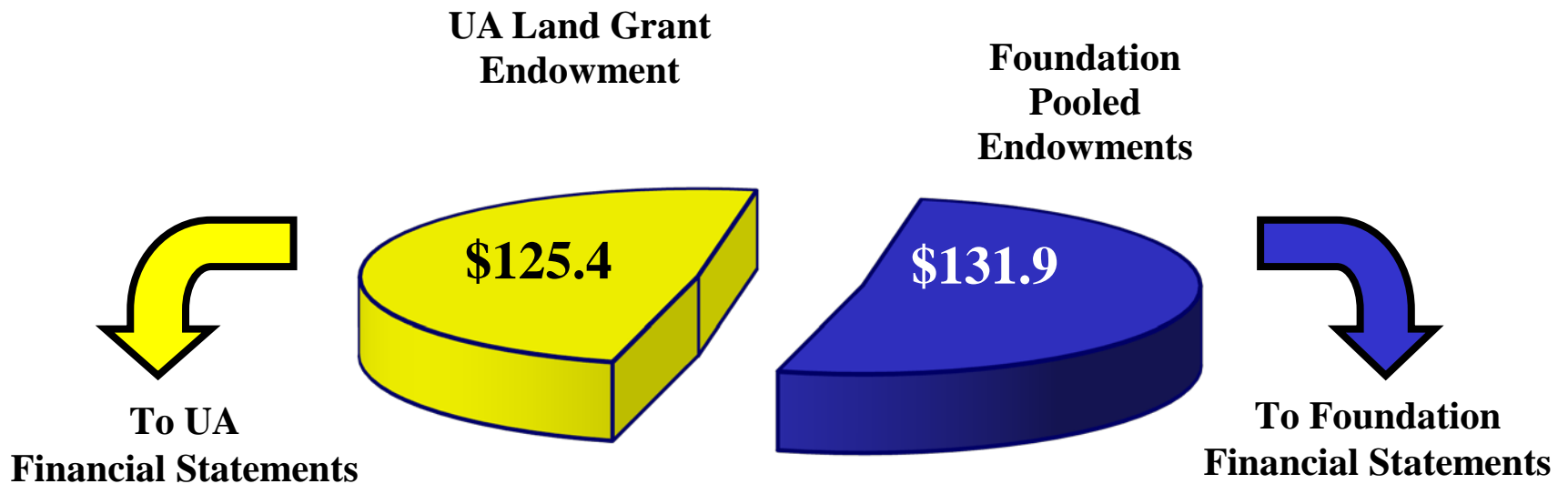
Consolidated Endowment Fund Financial Position



Consolidated Endowment Fund

June 30, 2011

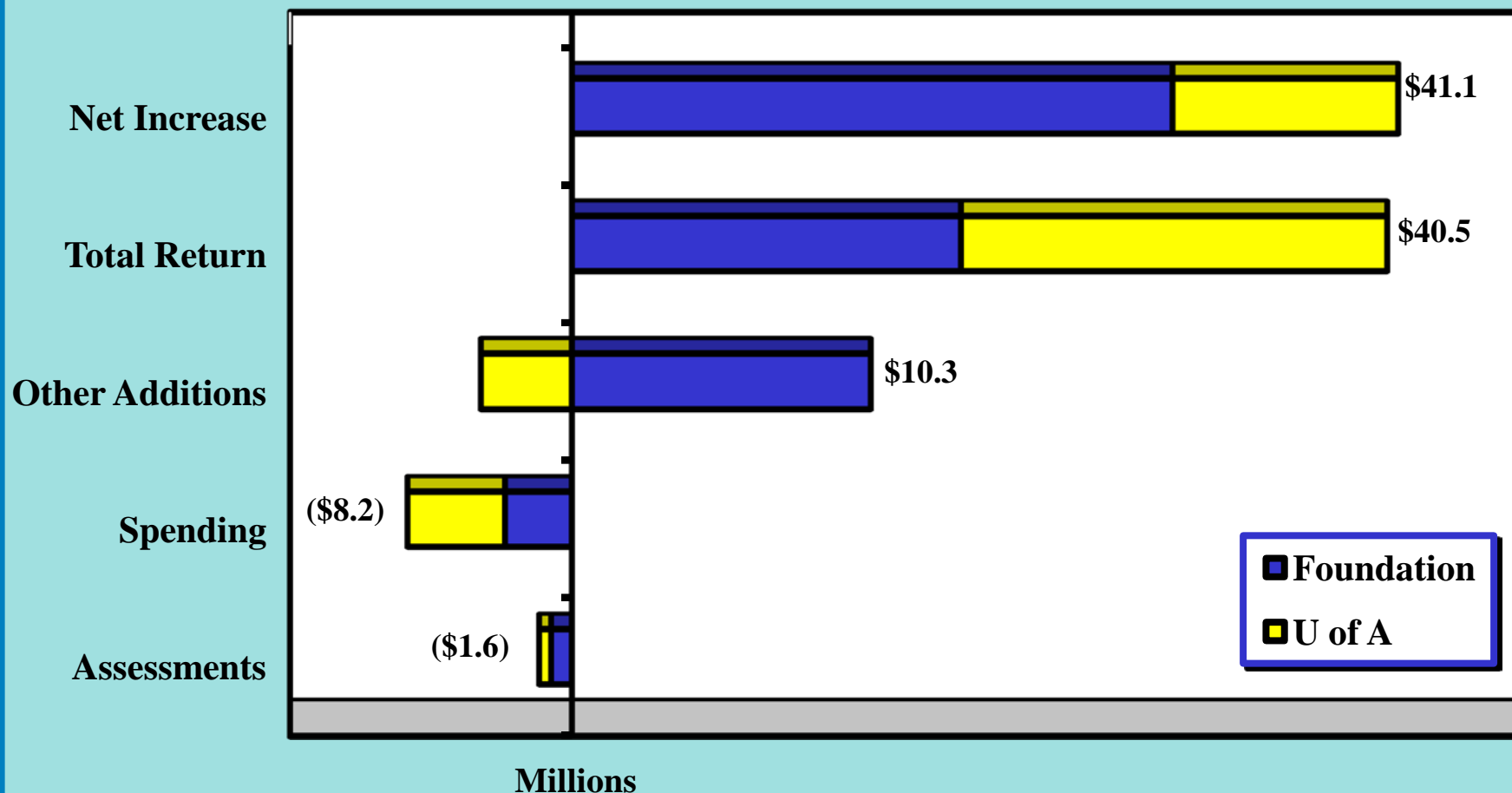
(in millions)



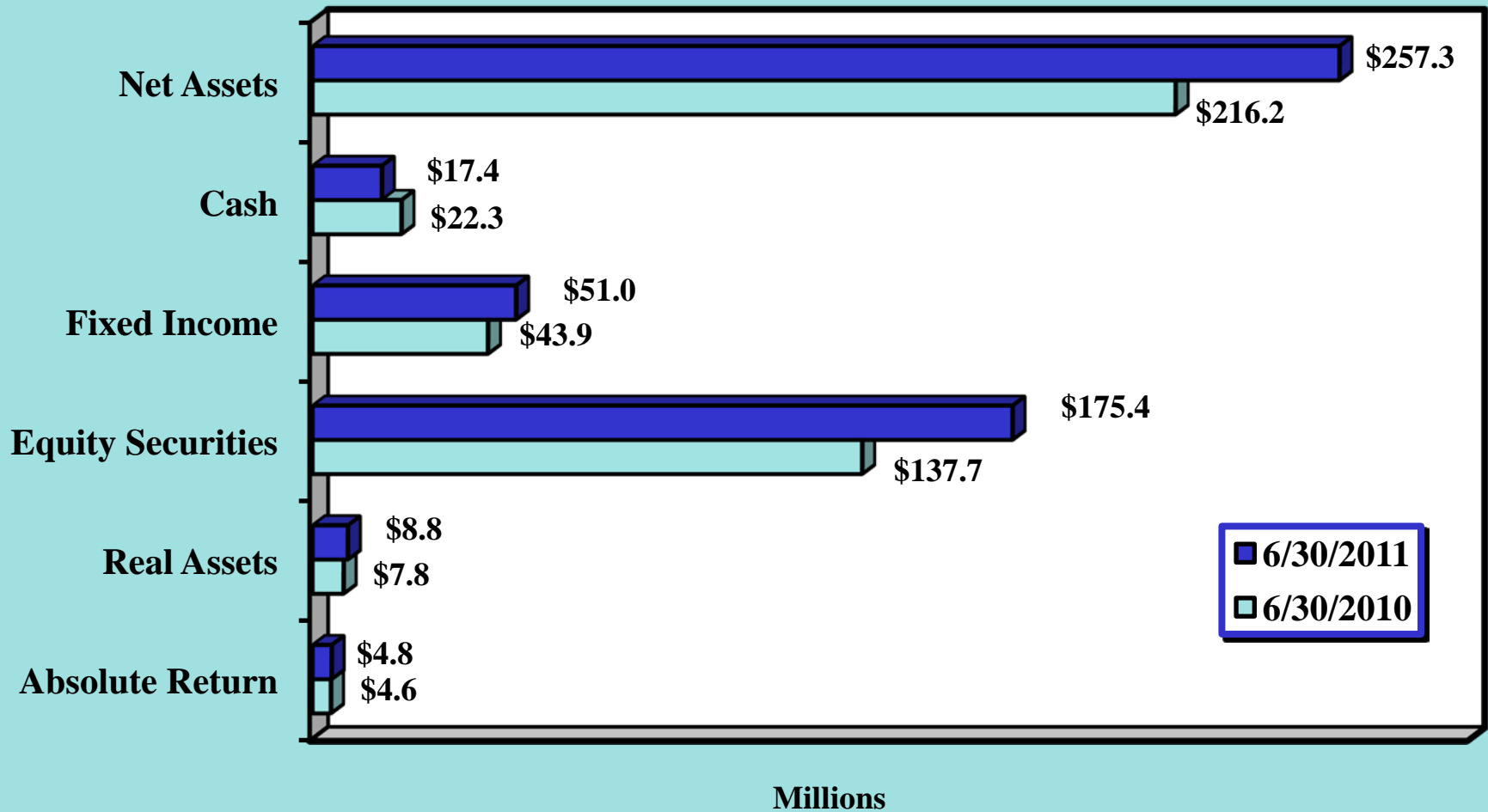
Consolidated Endowment Fund

Changes in Net Assets

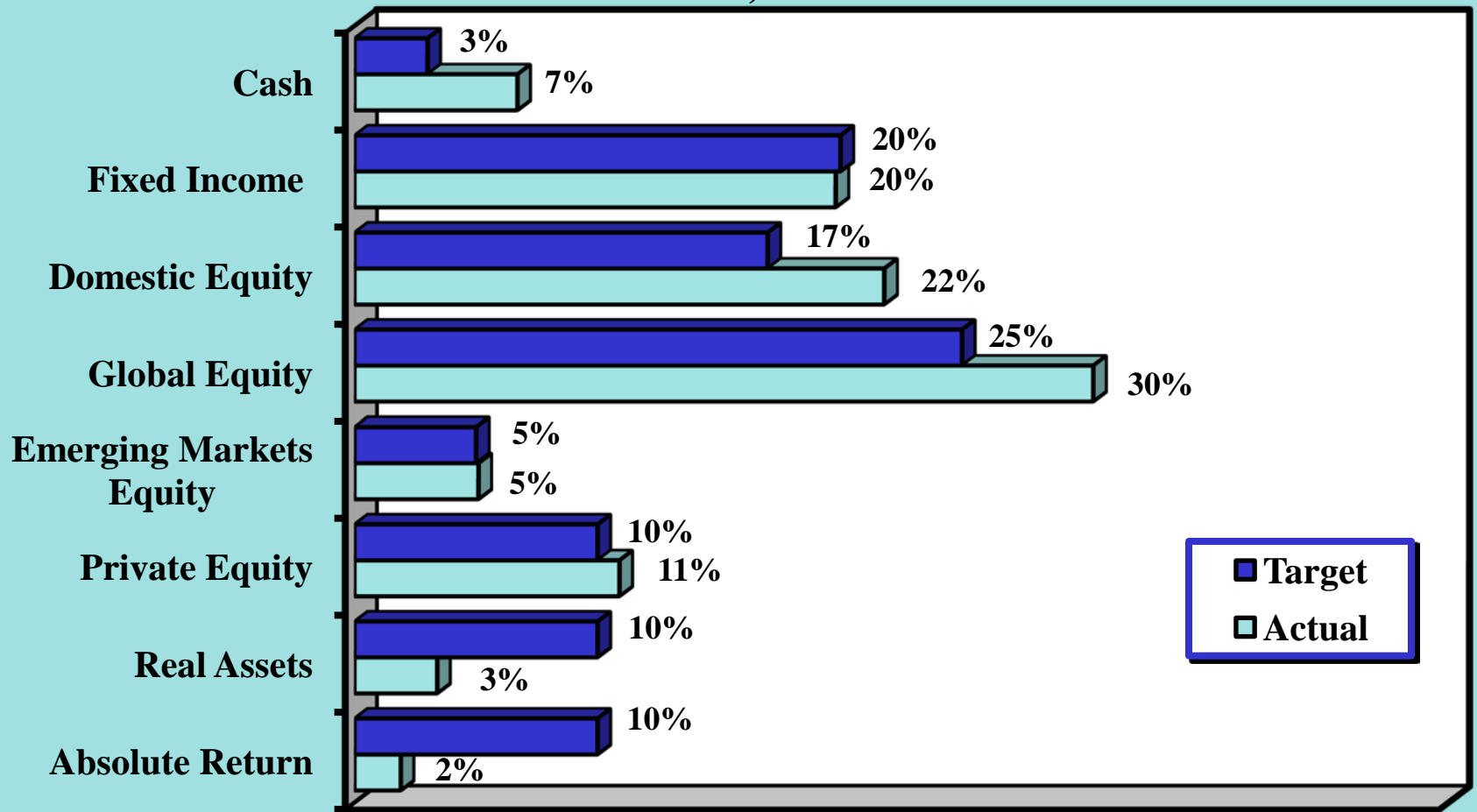
July 1, 2010 - June 30, 2011



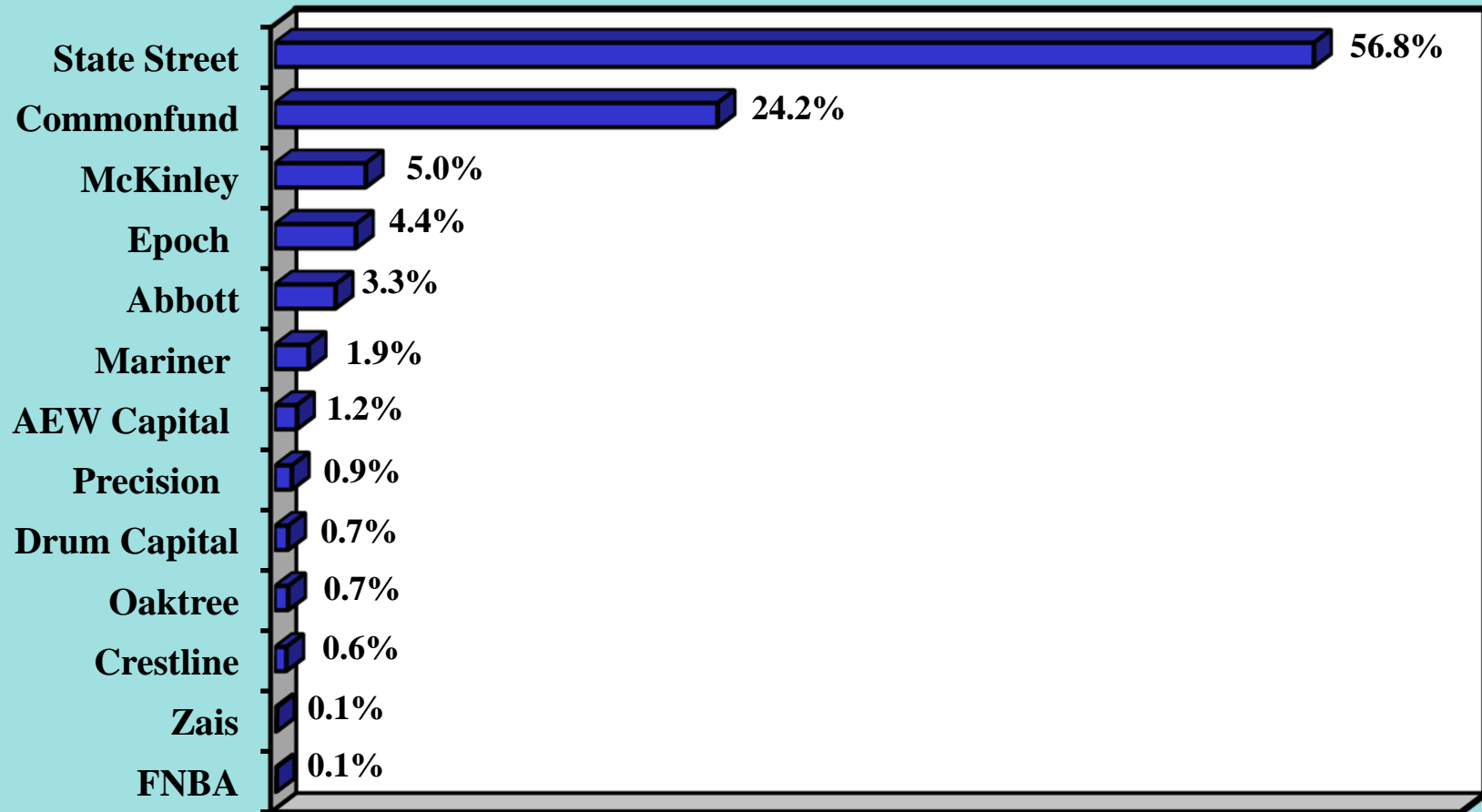
Consolidated Endowment Fund Assets



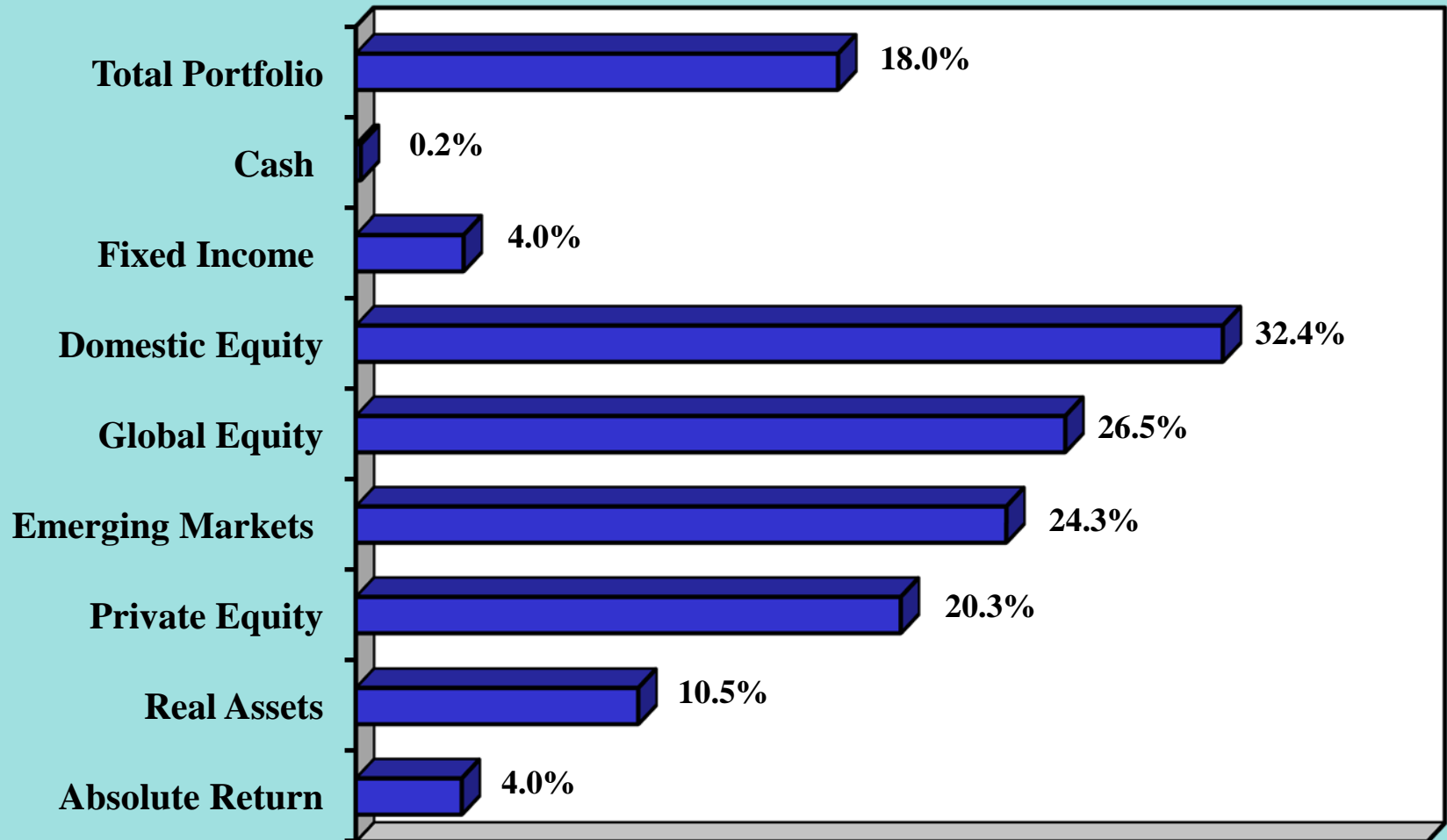
Consolidated Endowment Fund Asset Allocation Target v. Actual June 30, 2011



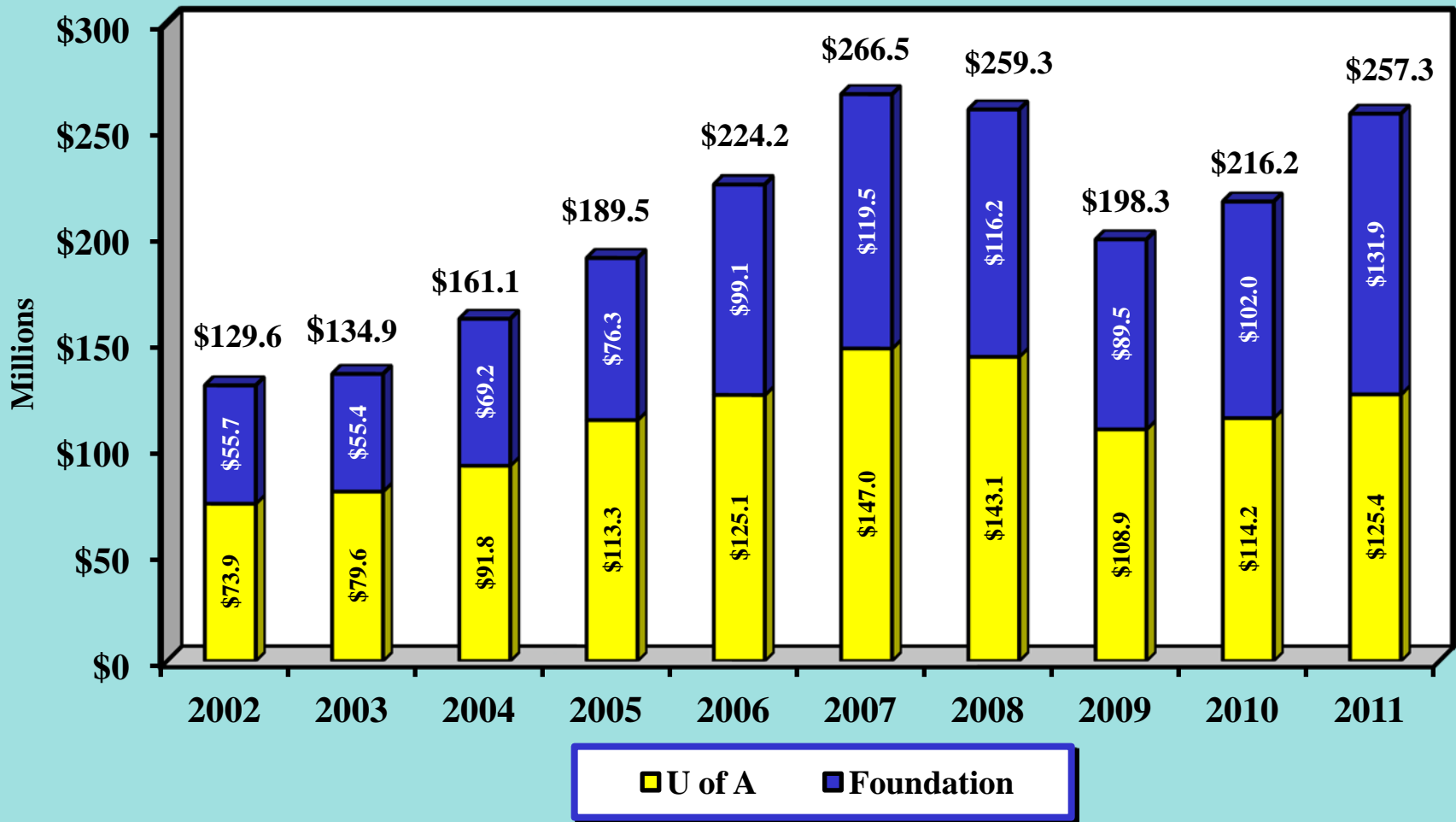
Consolidated Endowment Fund Assets Distribution by Manager June 30, 2011



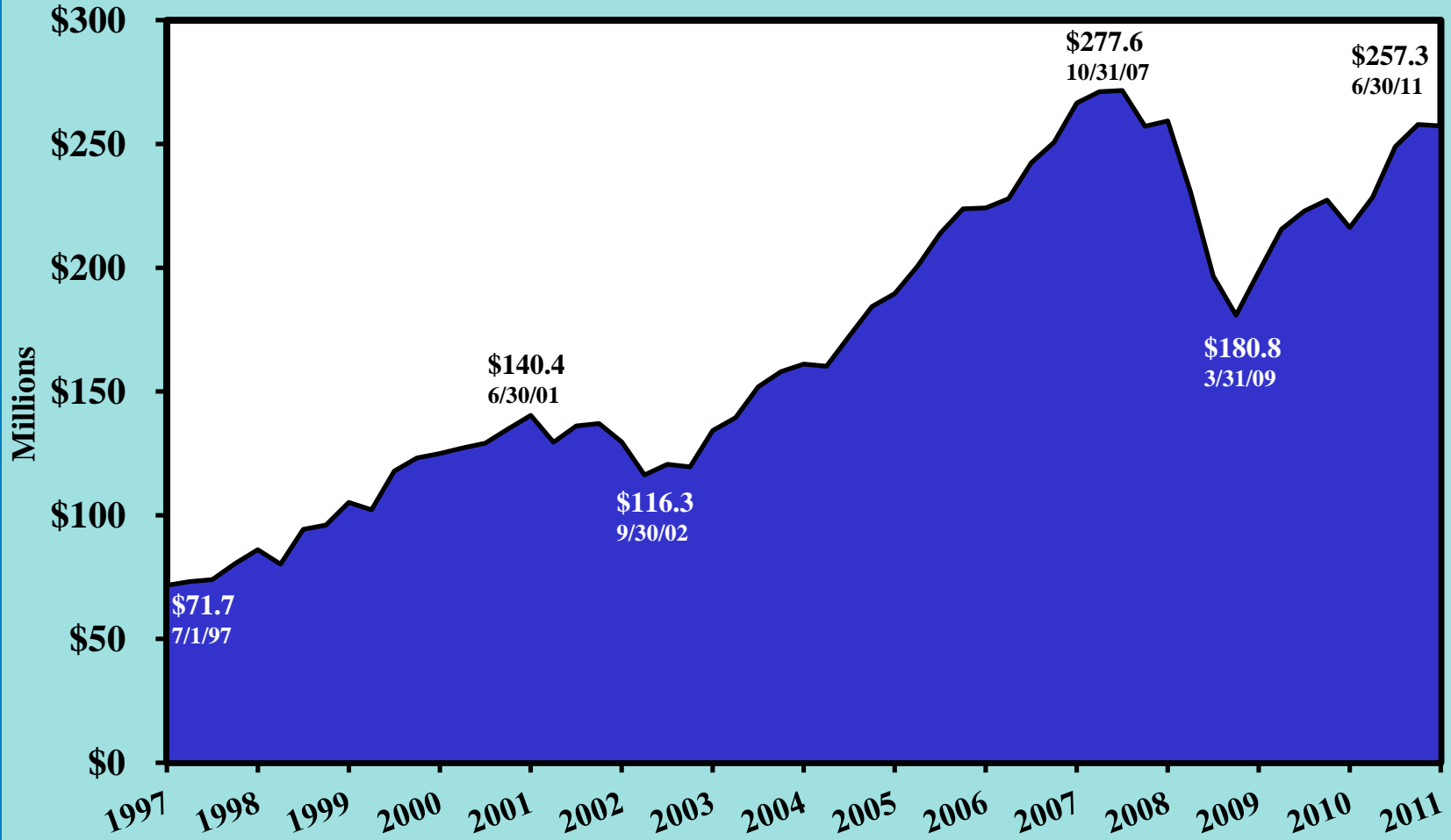
Consolidated Endowment Fund FY 11 Investment Returns



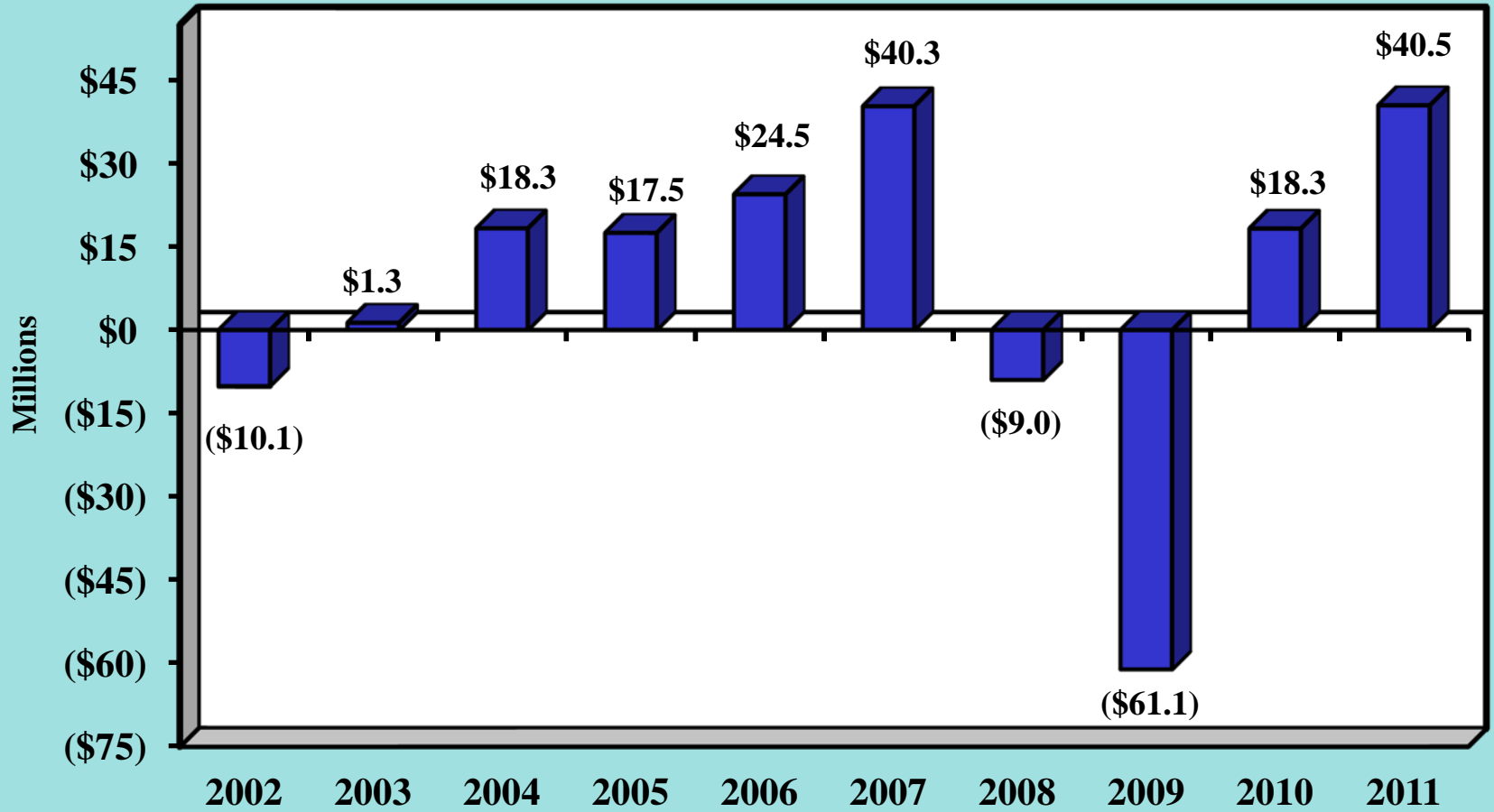
Consolidated Endowment Fund Total Assets



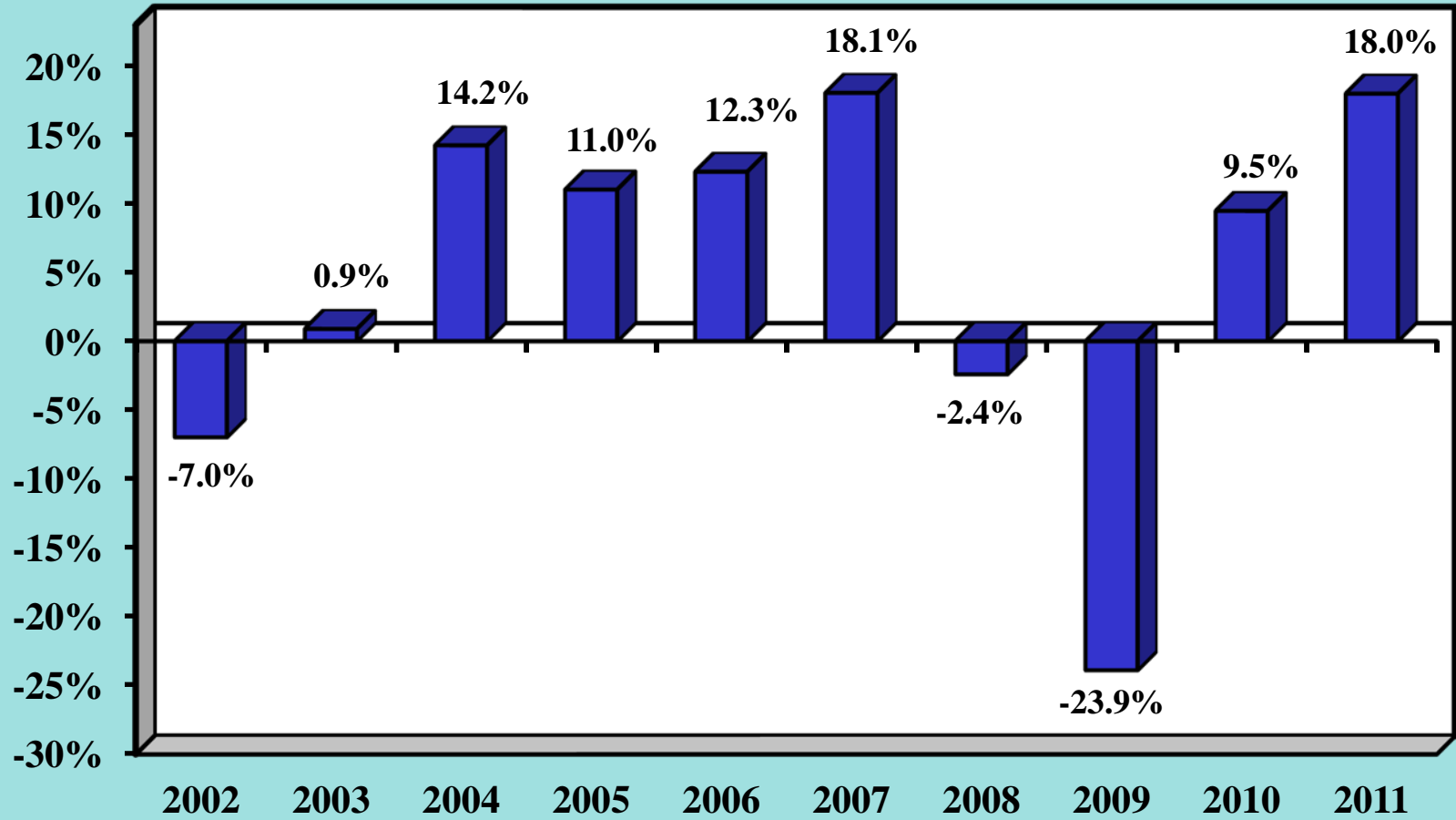
Consolidated Endowment Fund Total Assets



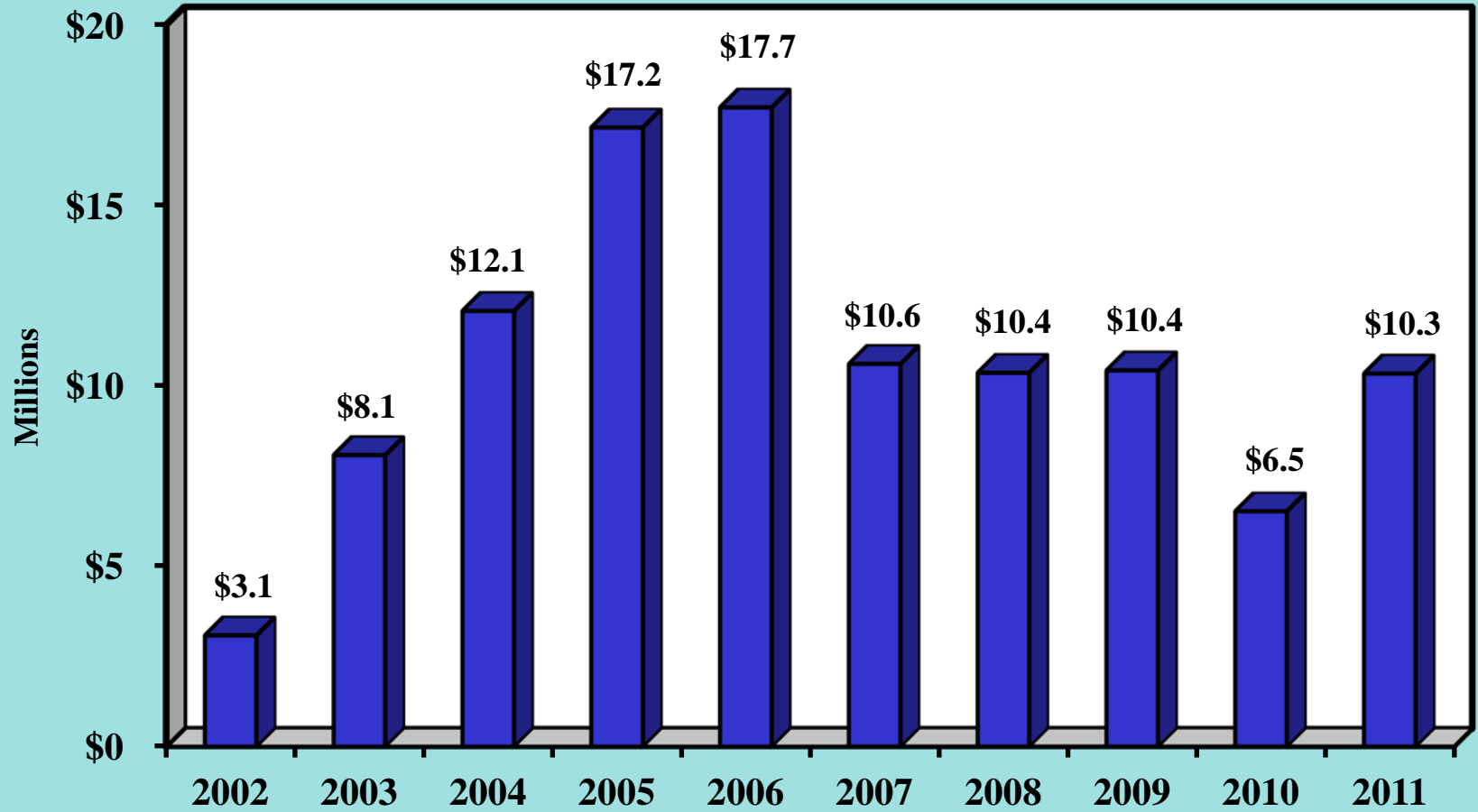
Consolidated Endowment Fund Investment Earnings



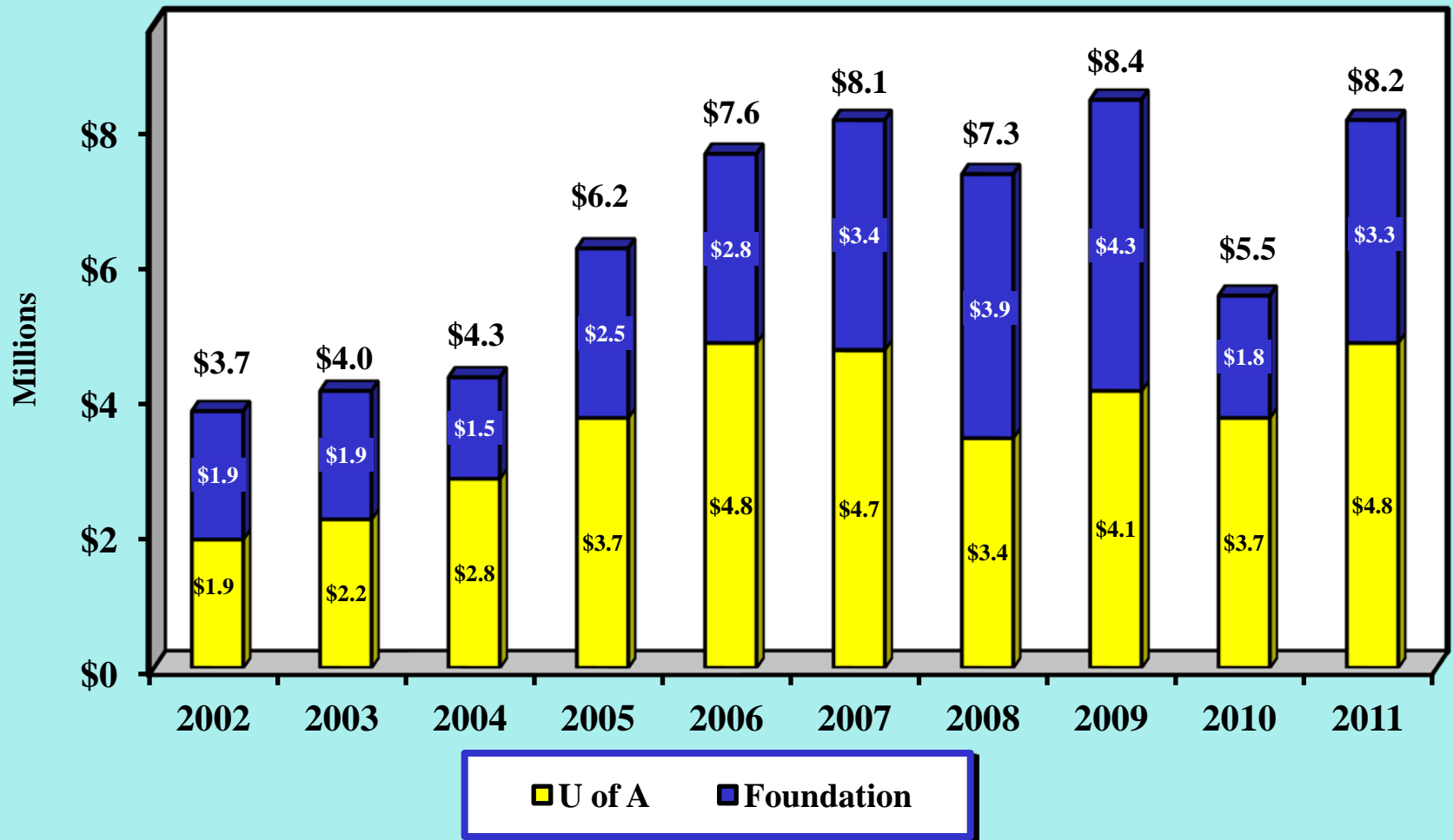
Consolidated Endowment Fund Investment Returns

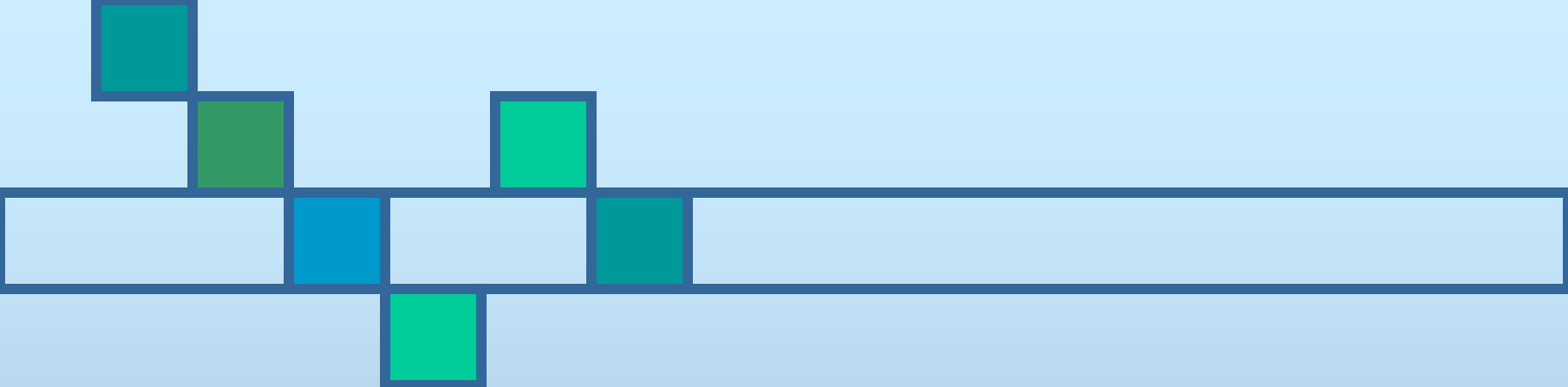


Consolidated Endowment Fund Net Additions



Consolidated Endowment Fund Spending Distributions



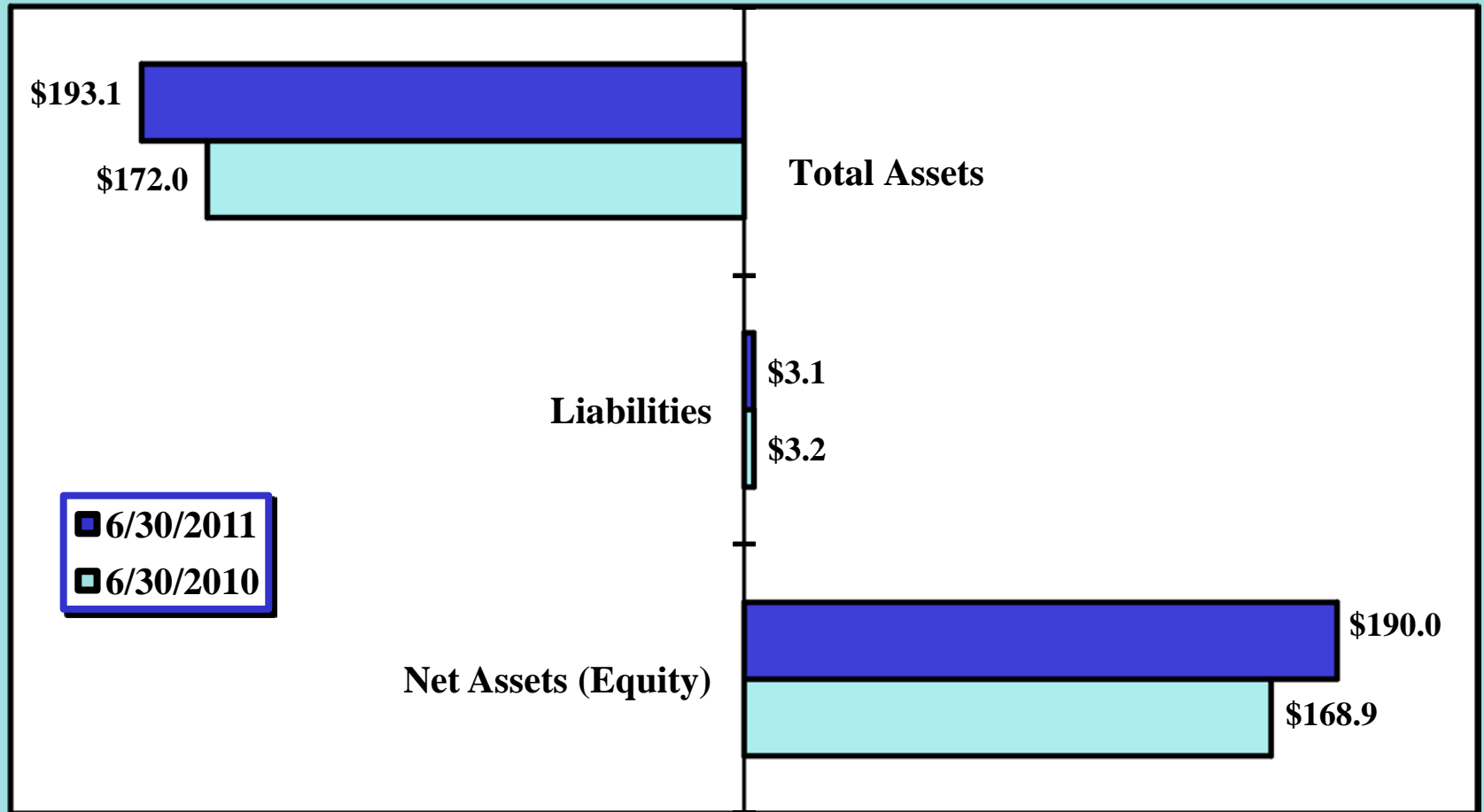


University of Alaska Foundation



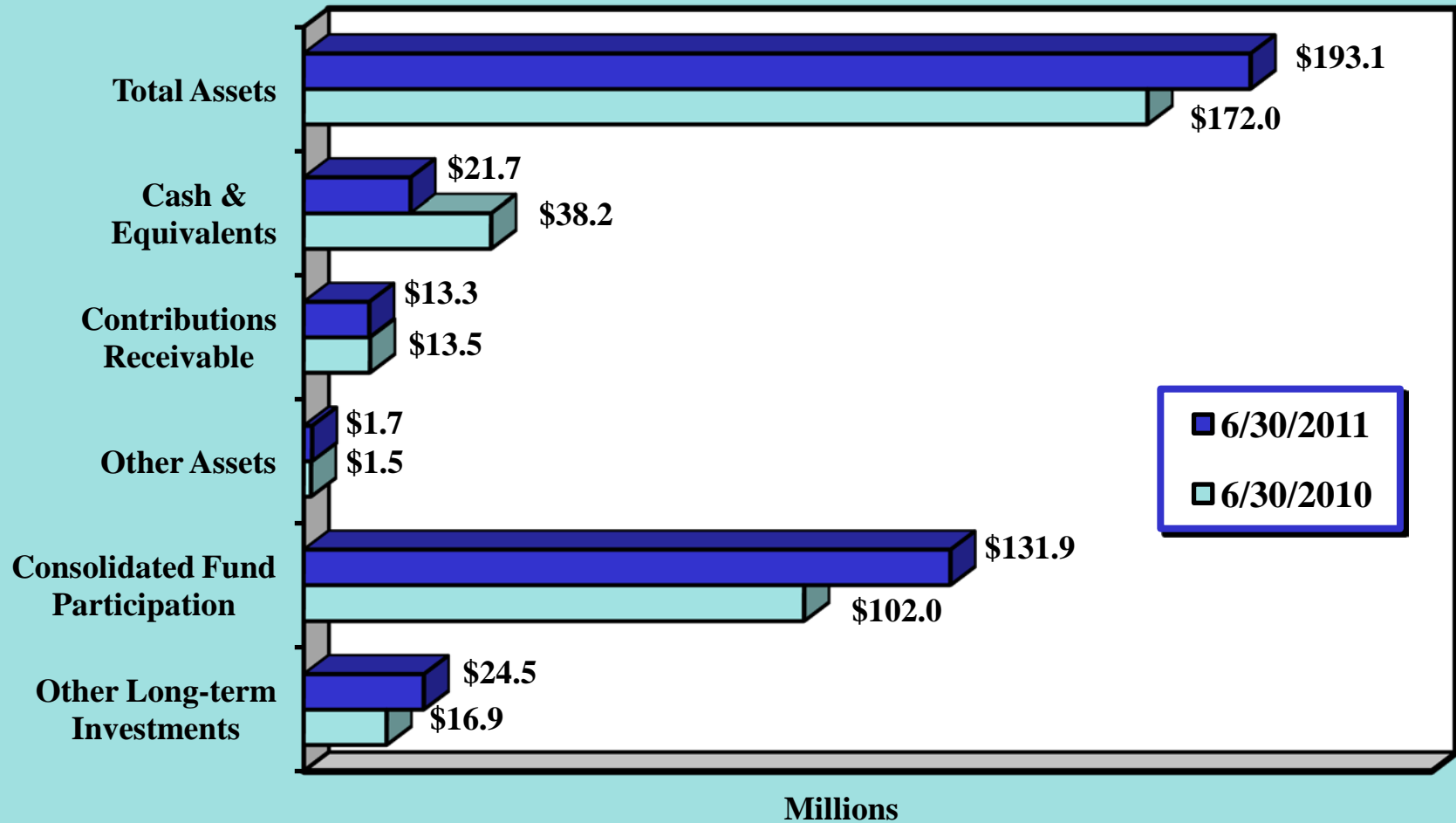
Financial Statement Presentation
June 30, 2011

University of Alaska Foundation Financial Position

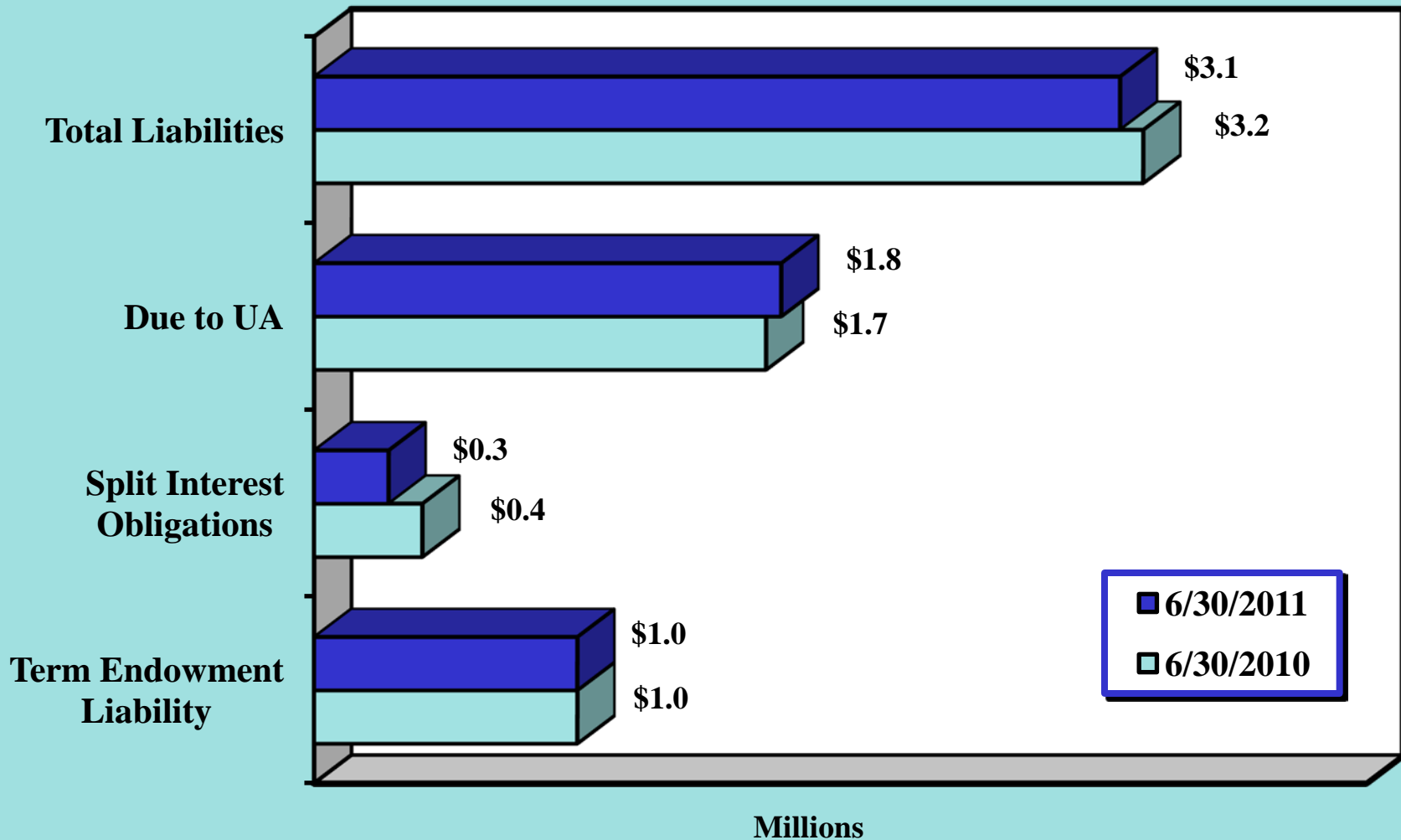


Millions

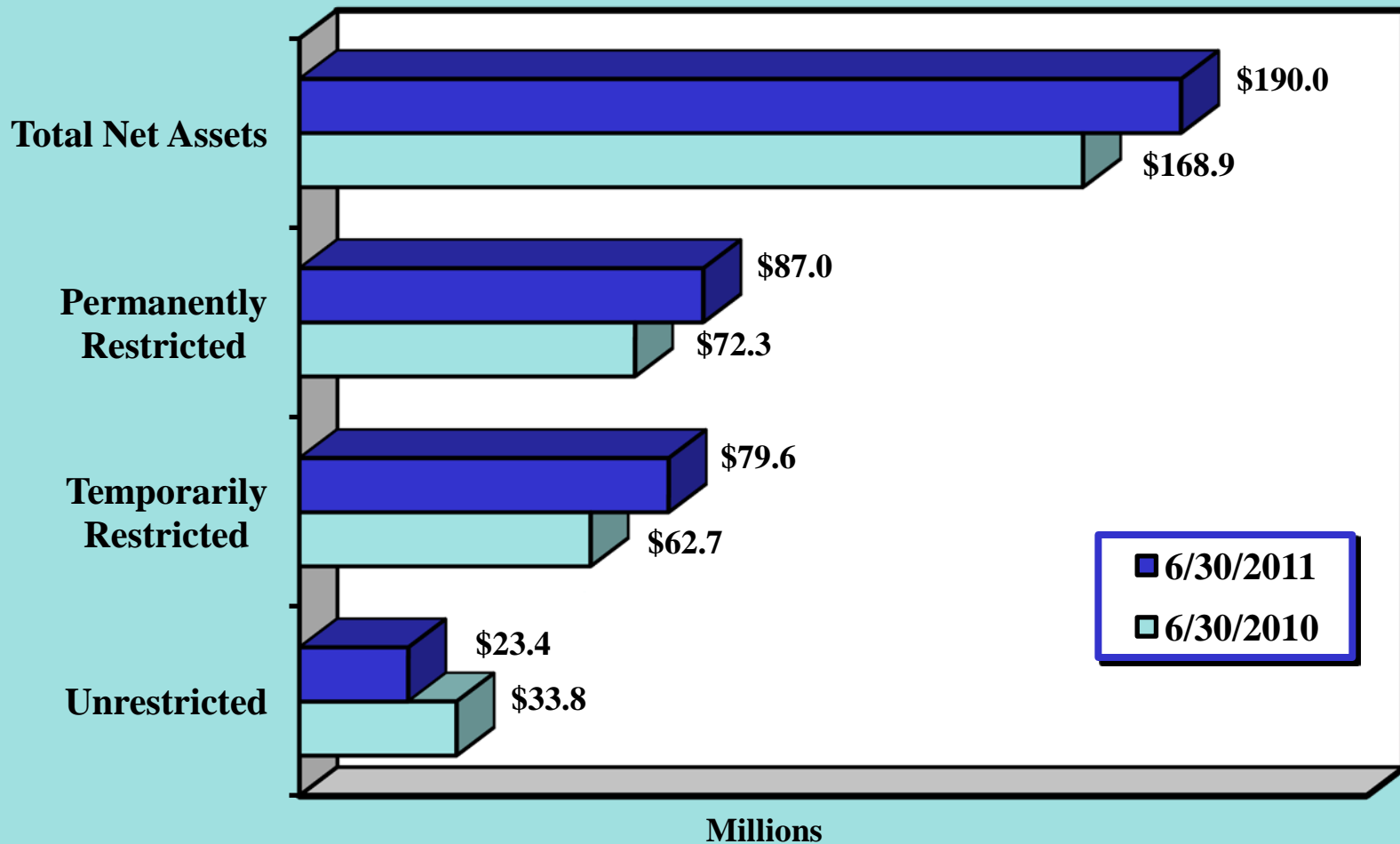
University of Alaska Foundation Total Assets



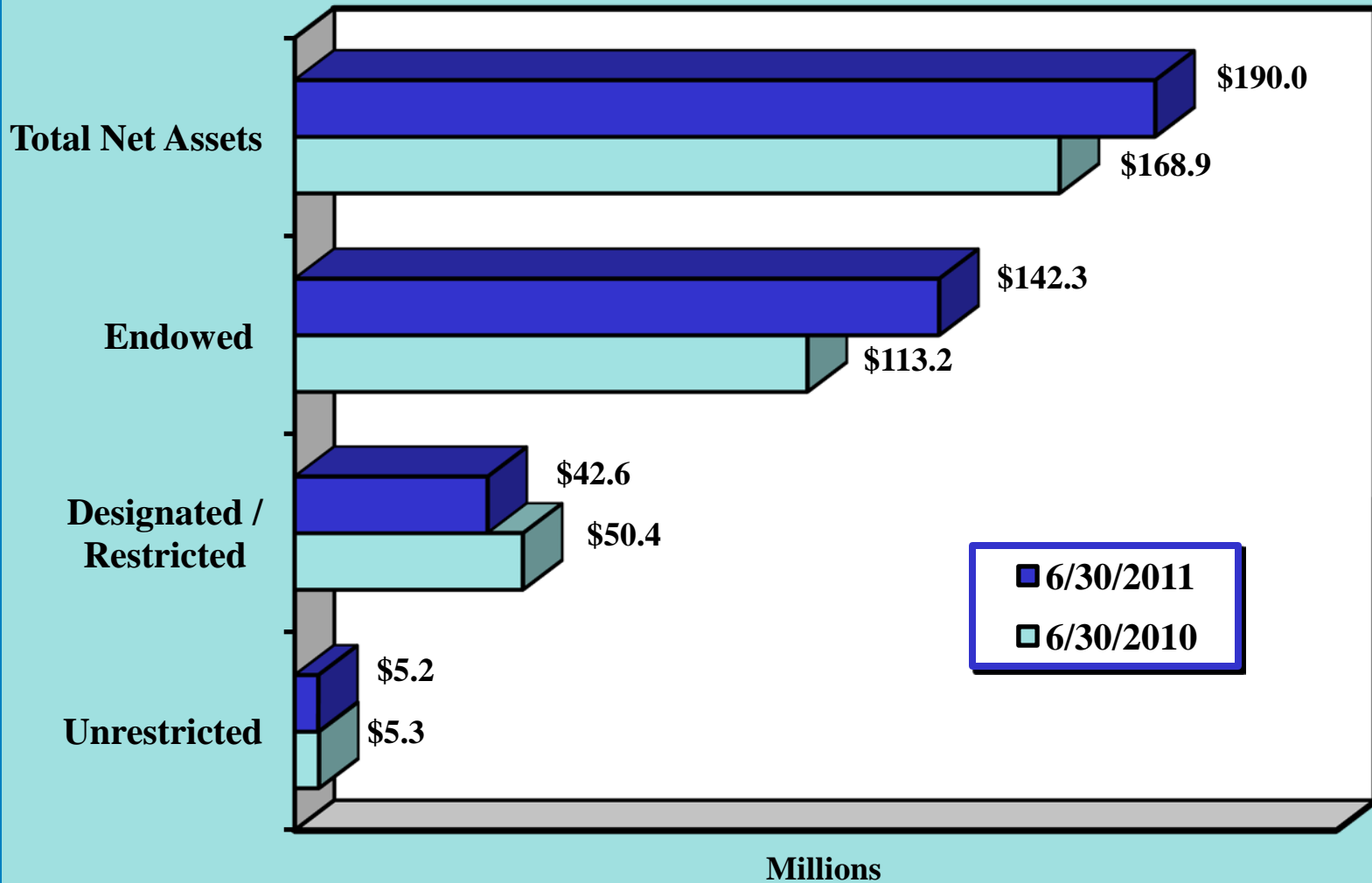
University of Alaska Foundation Liabilities



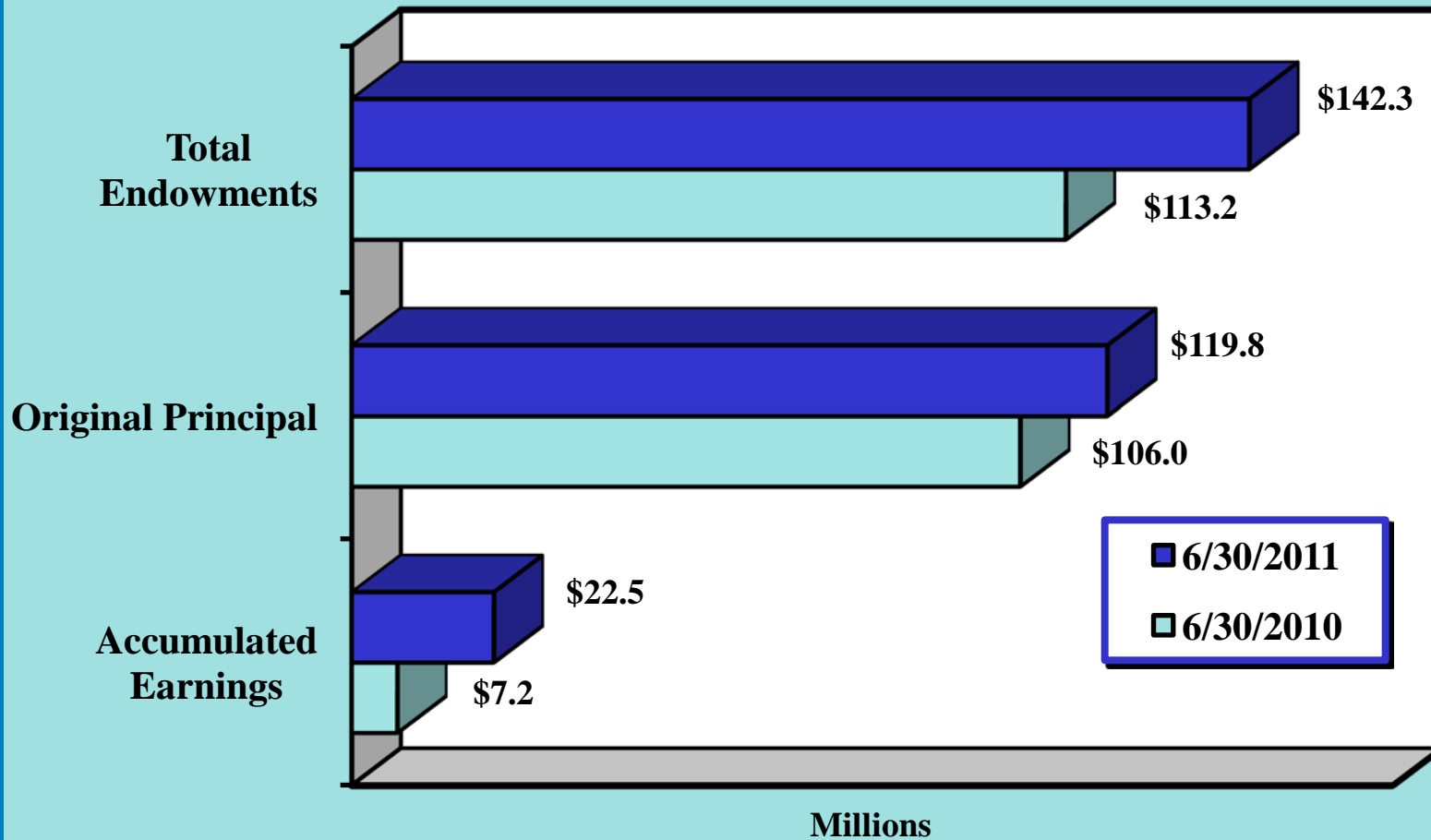
University of Alaska Foundation Net Assets By Classification



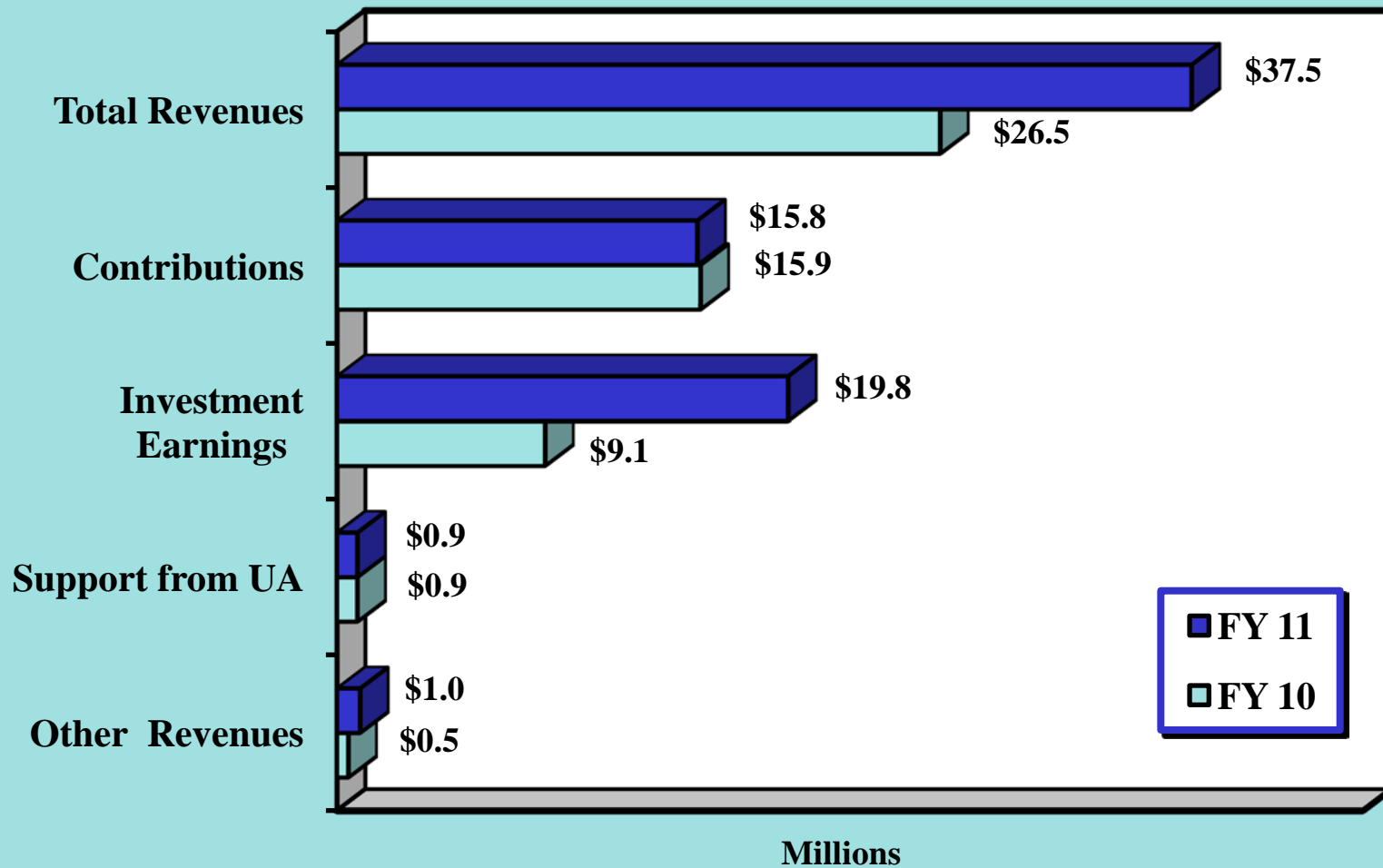
University of Alaska Foundation Net Assets By Type



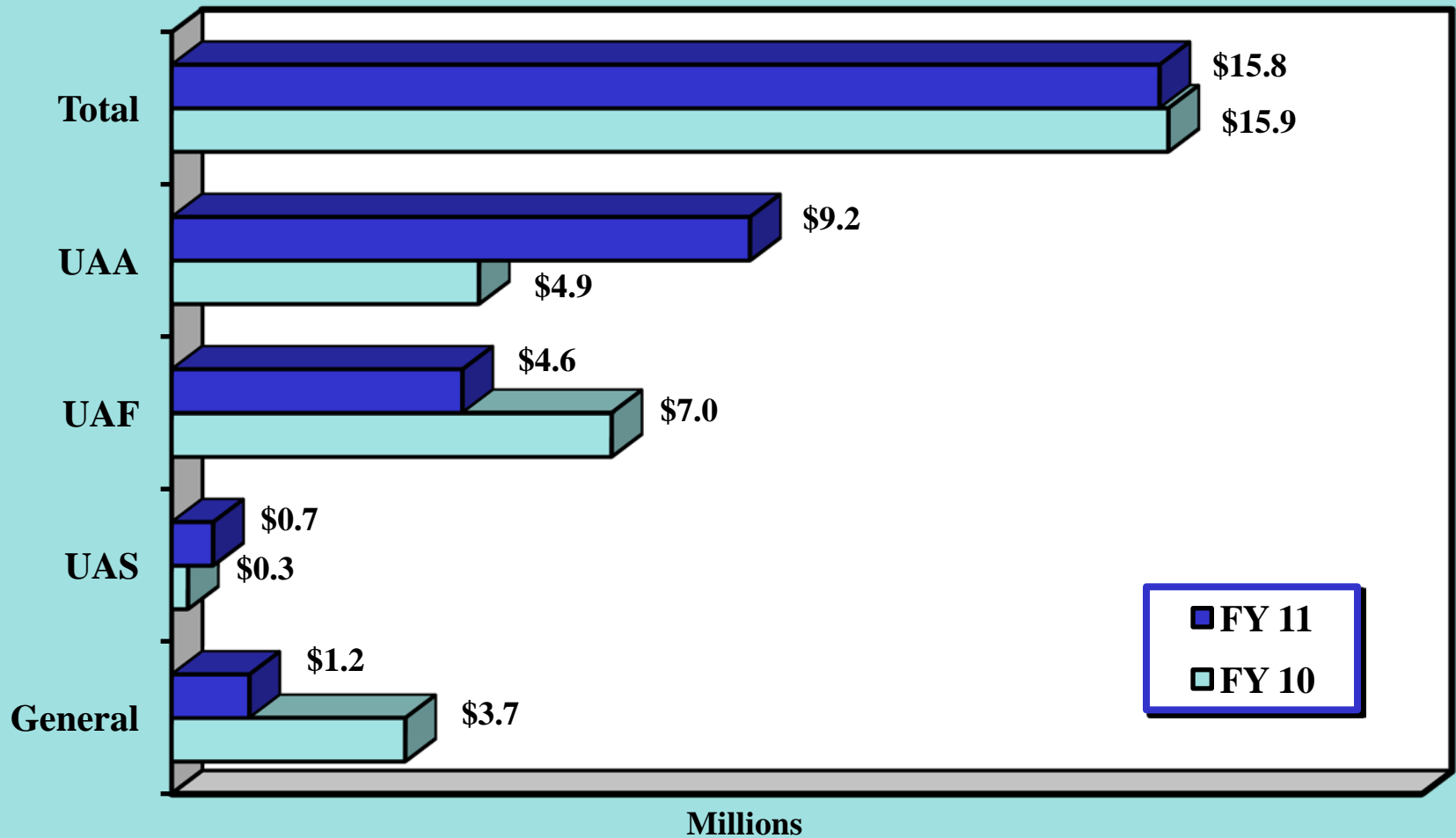
University of Alaska Foundation Endowment Funds



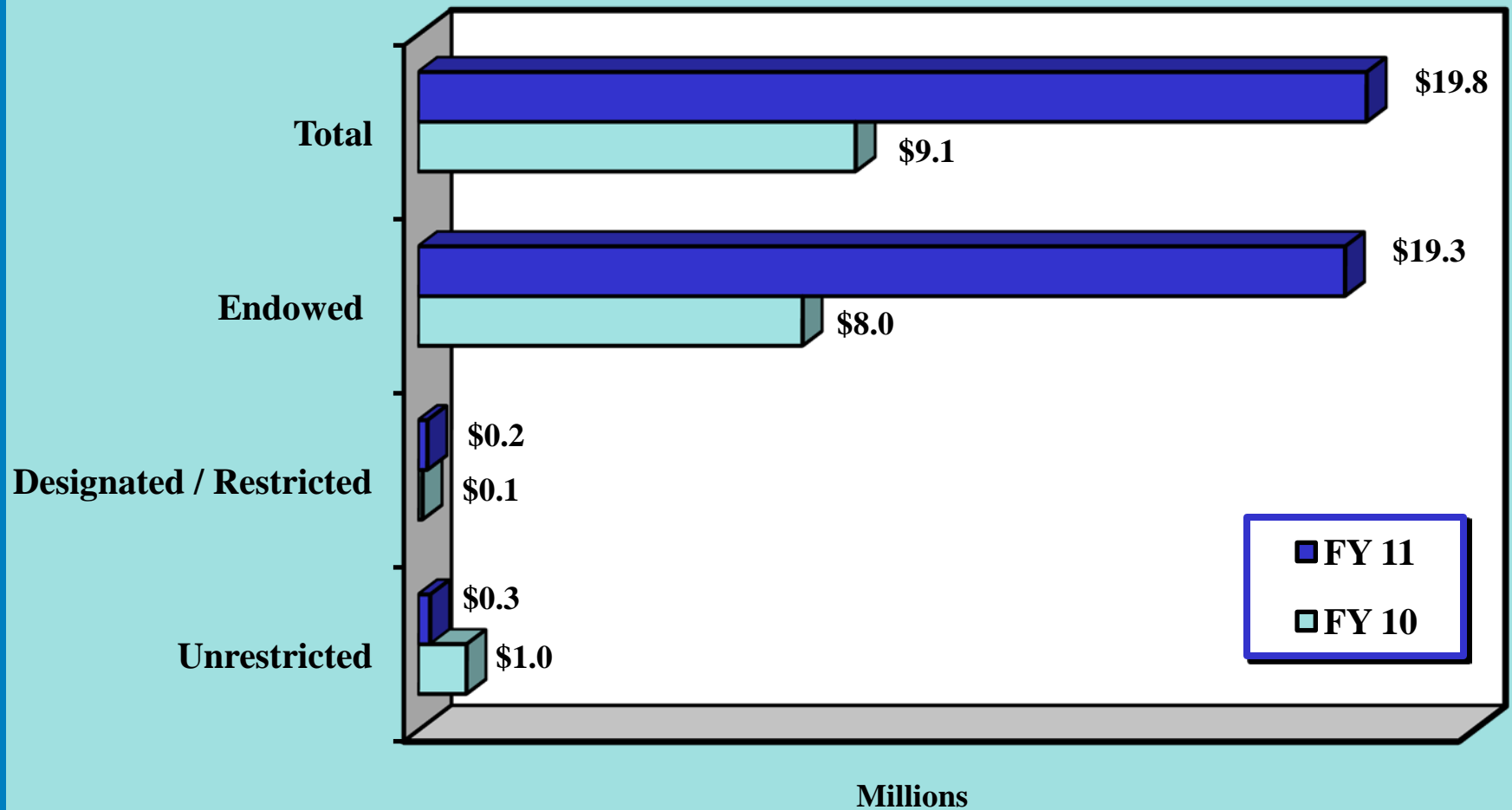
University of Alaska Foundation Total Revenues



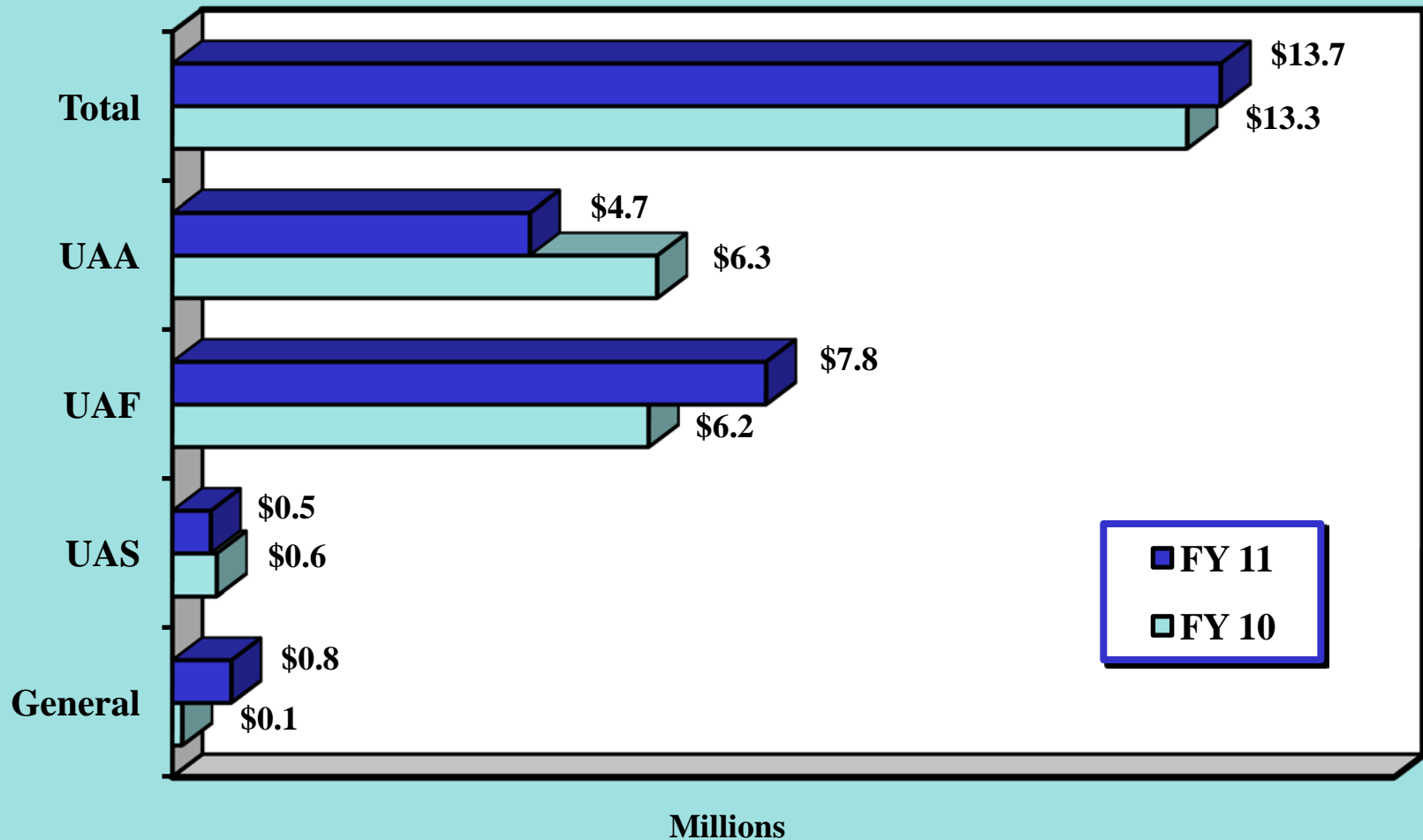
University of Alaska Foundation Contribution Income



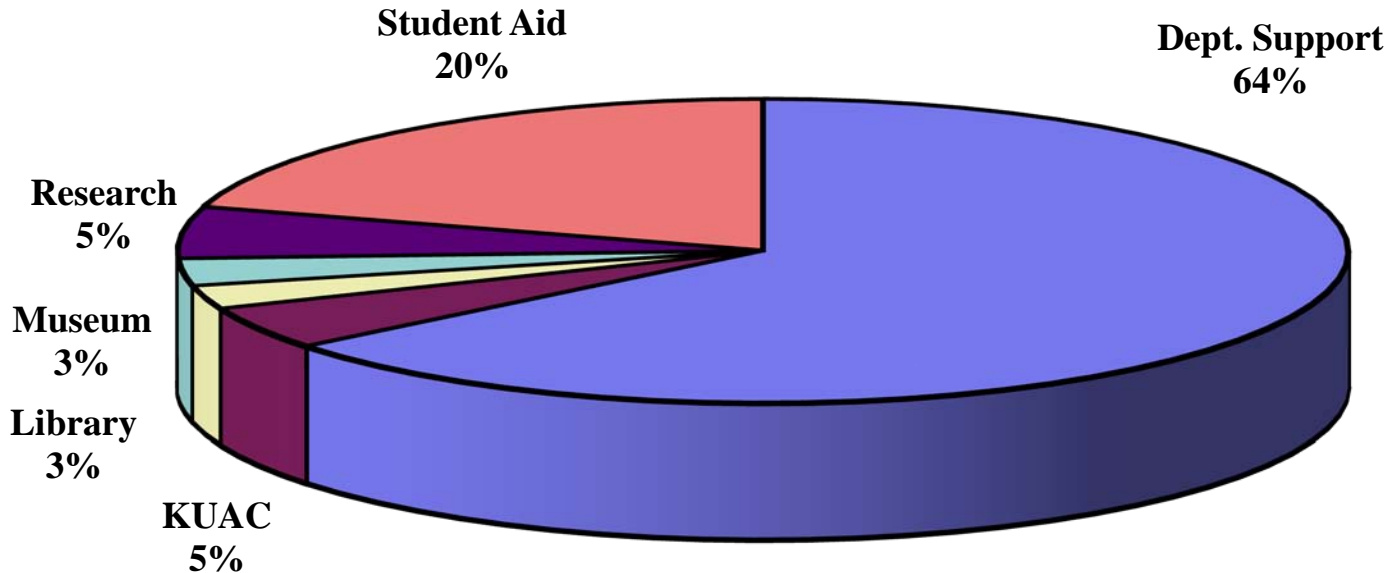
University of Alaska Foundation Investment Earnings



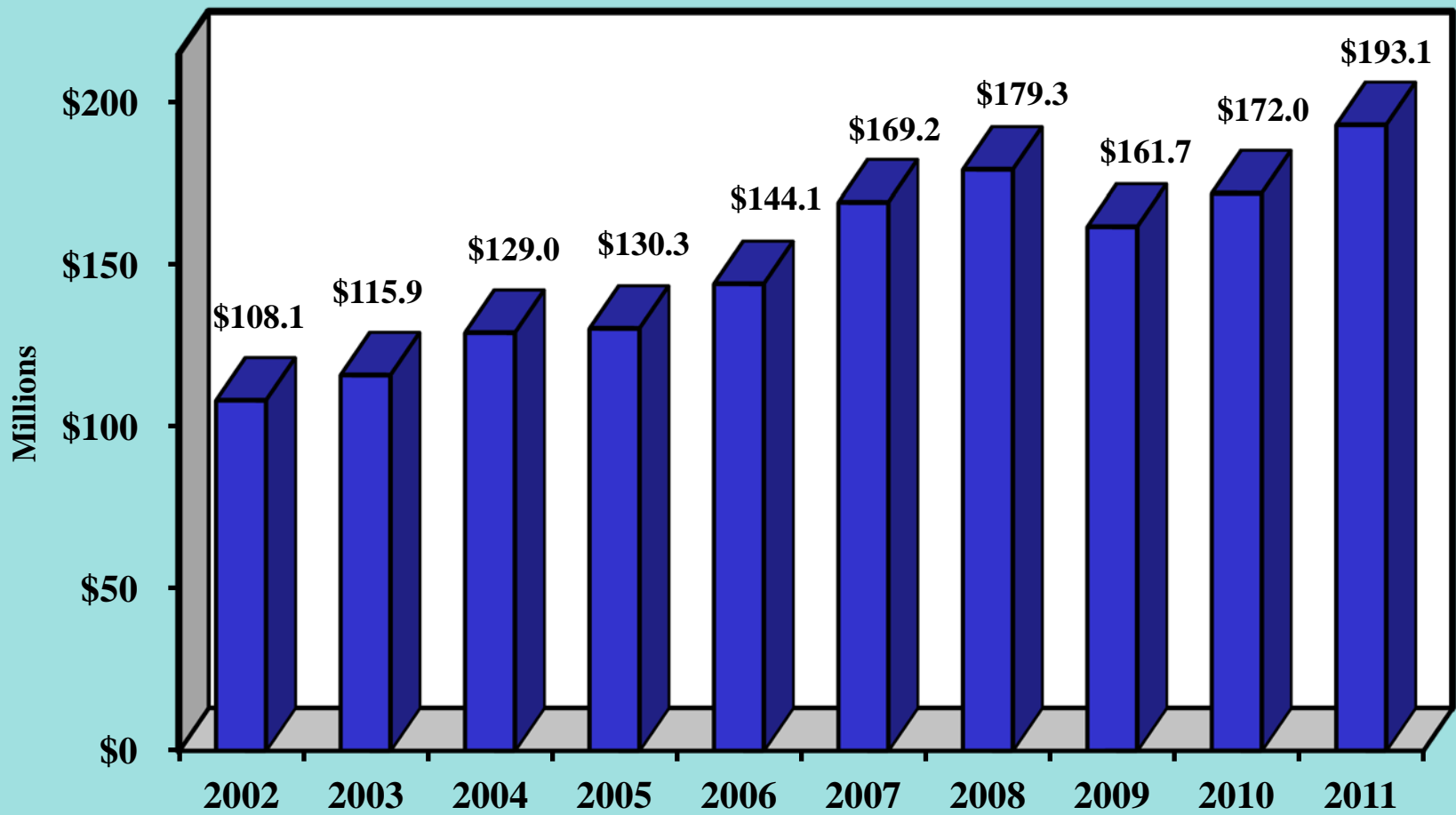
University of Alaska Foundation Distributions for the Benefit of University of Alaska



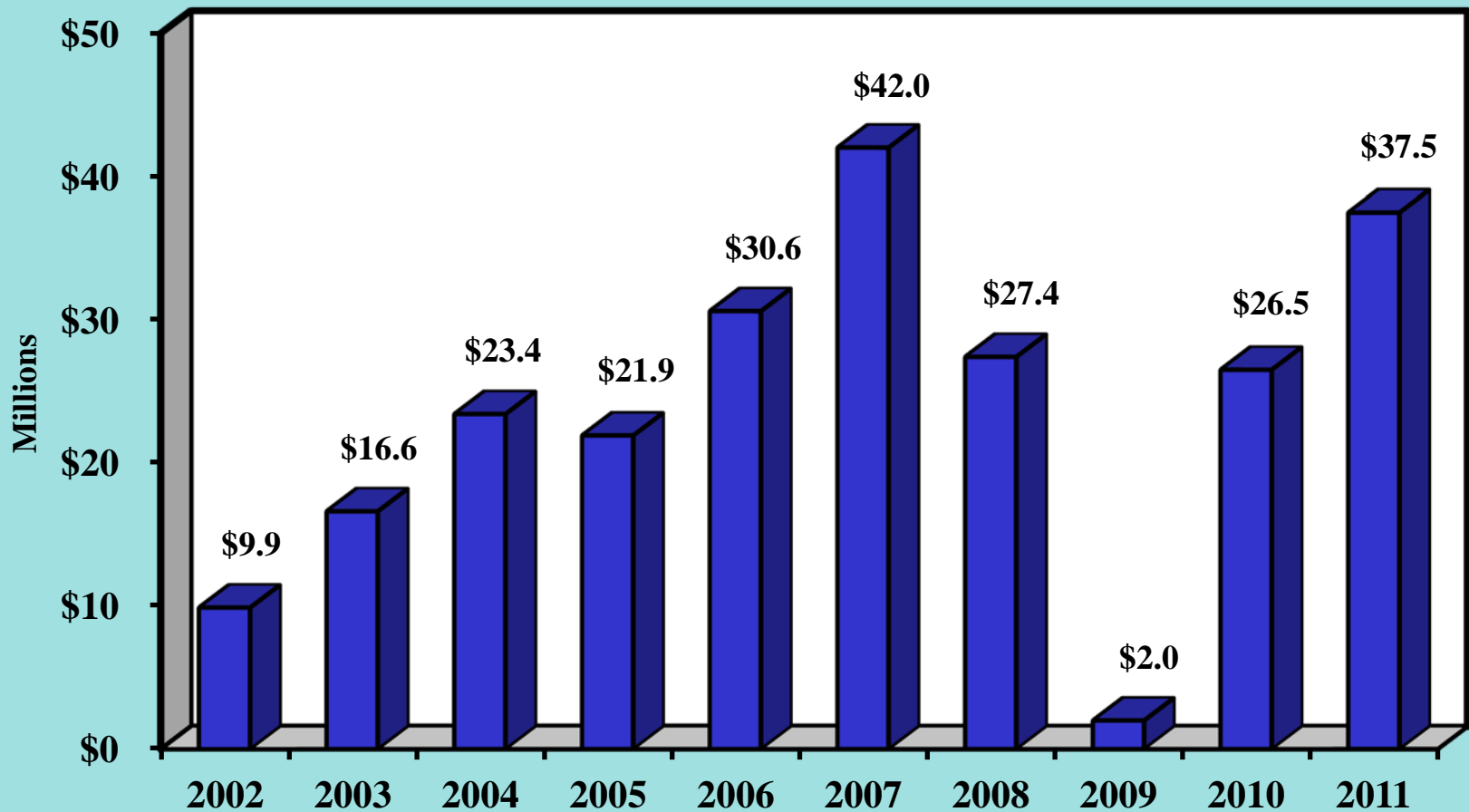
**University of Alaska Foundation
Distributions for the Benefit of University of Alaska
Year Ended June 30, 2011**



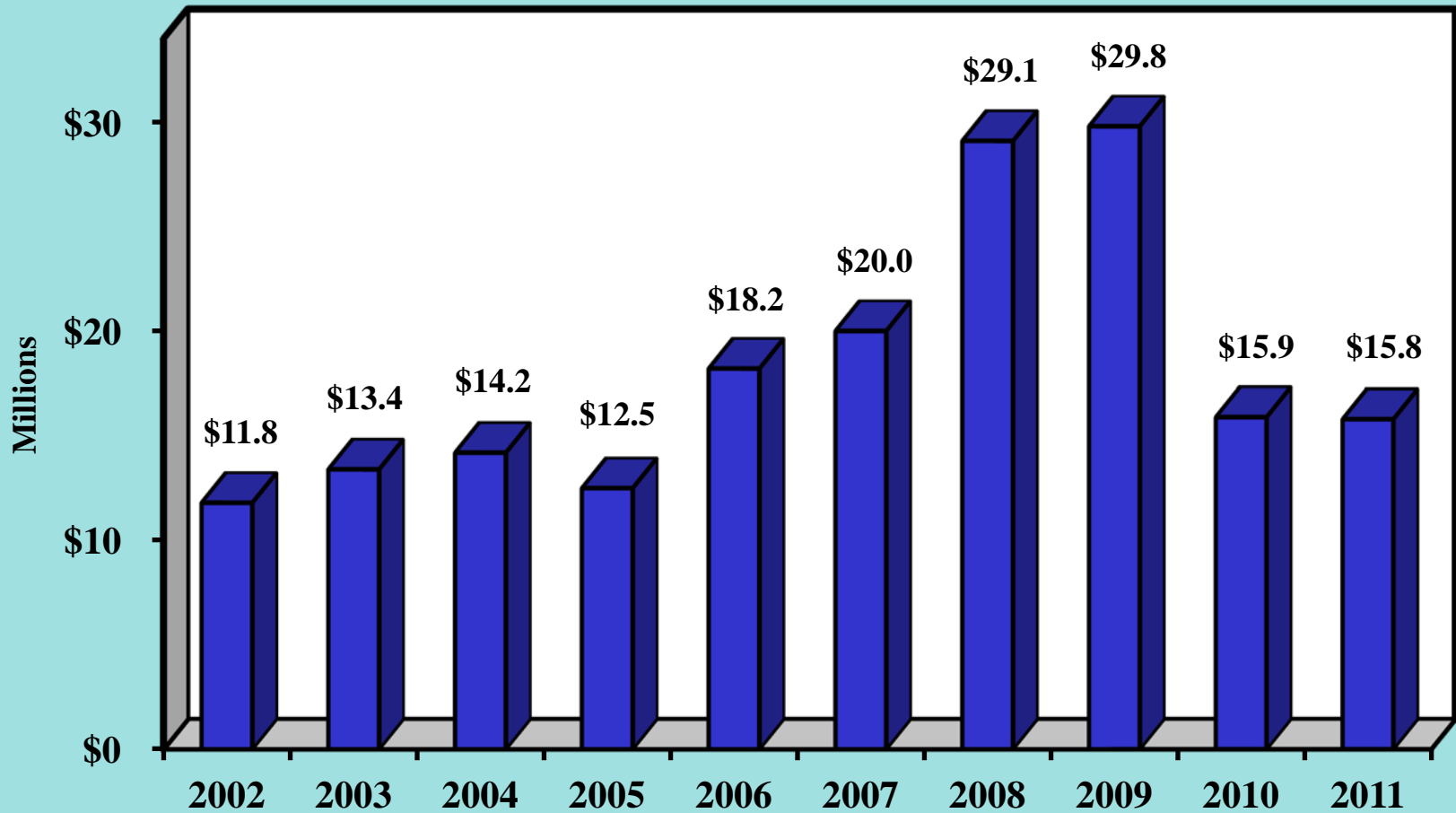
University of Alaska Foundation Total Assets



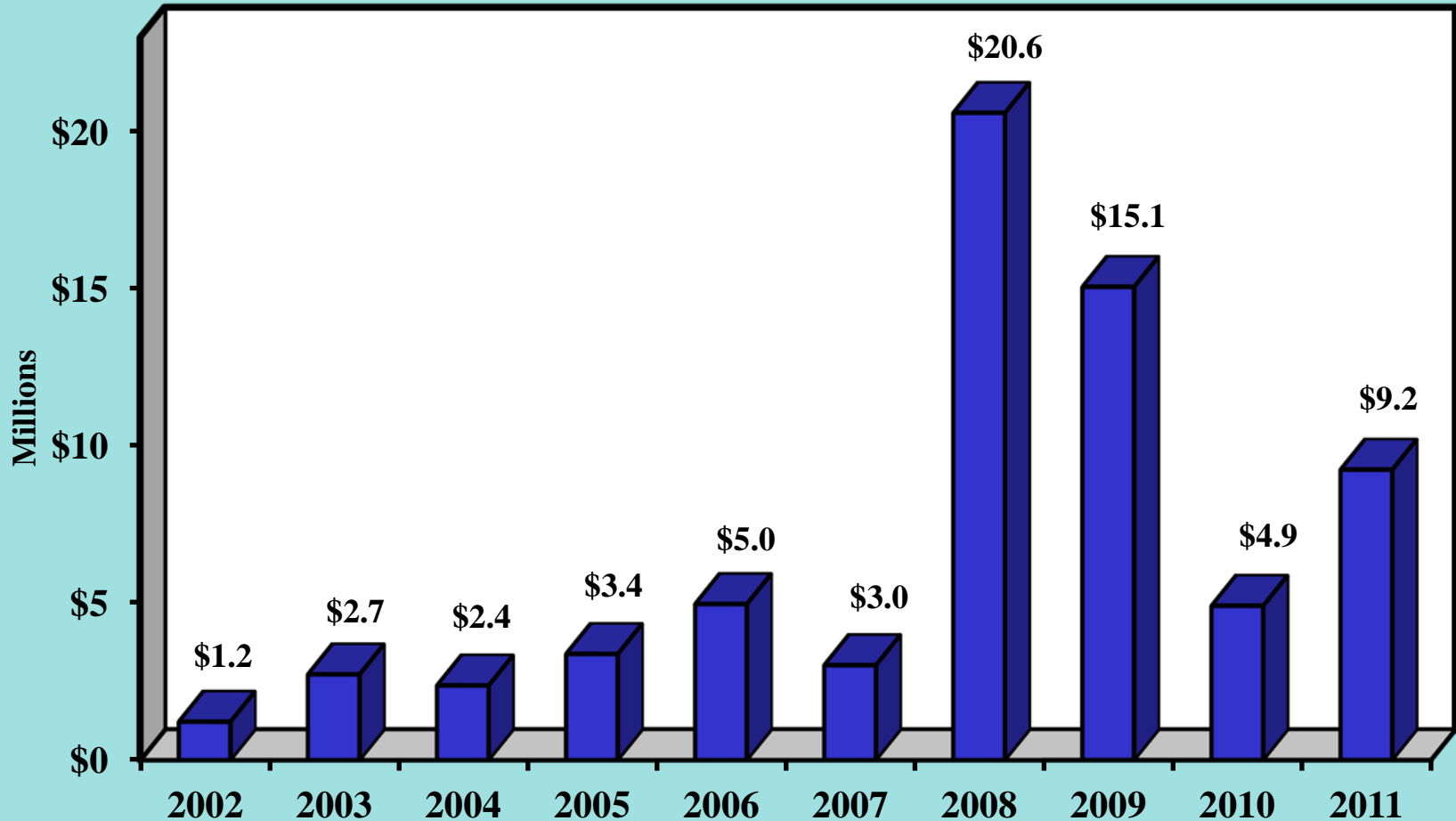
University of Alaska Foundation Total Revenues



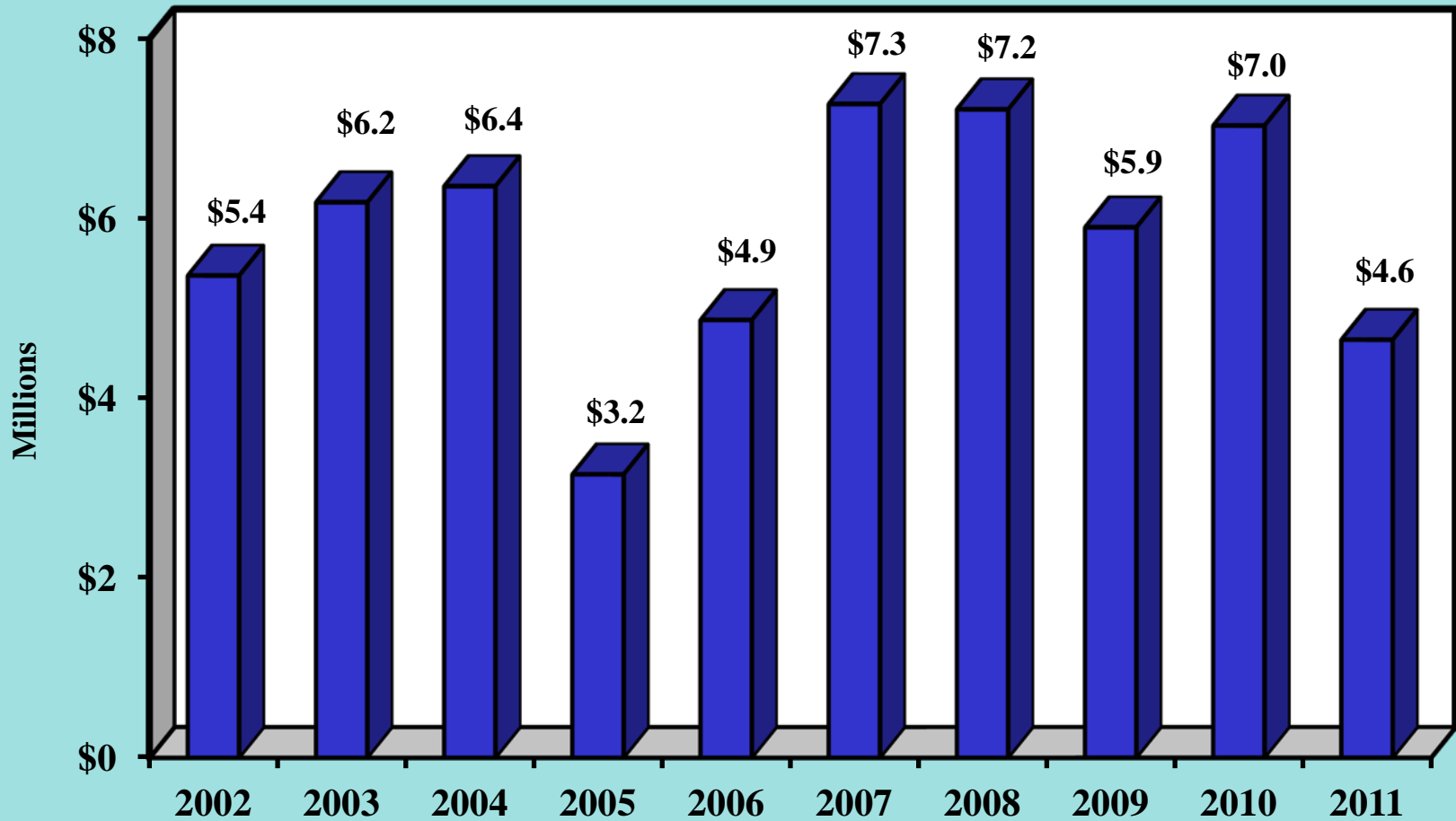
University of Alaska Foundation Contribution Revenues



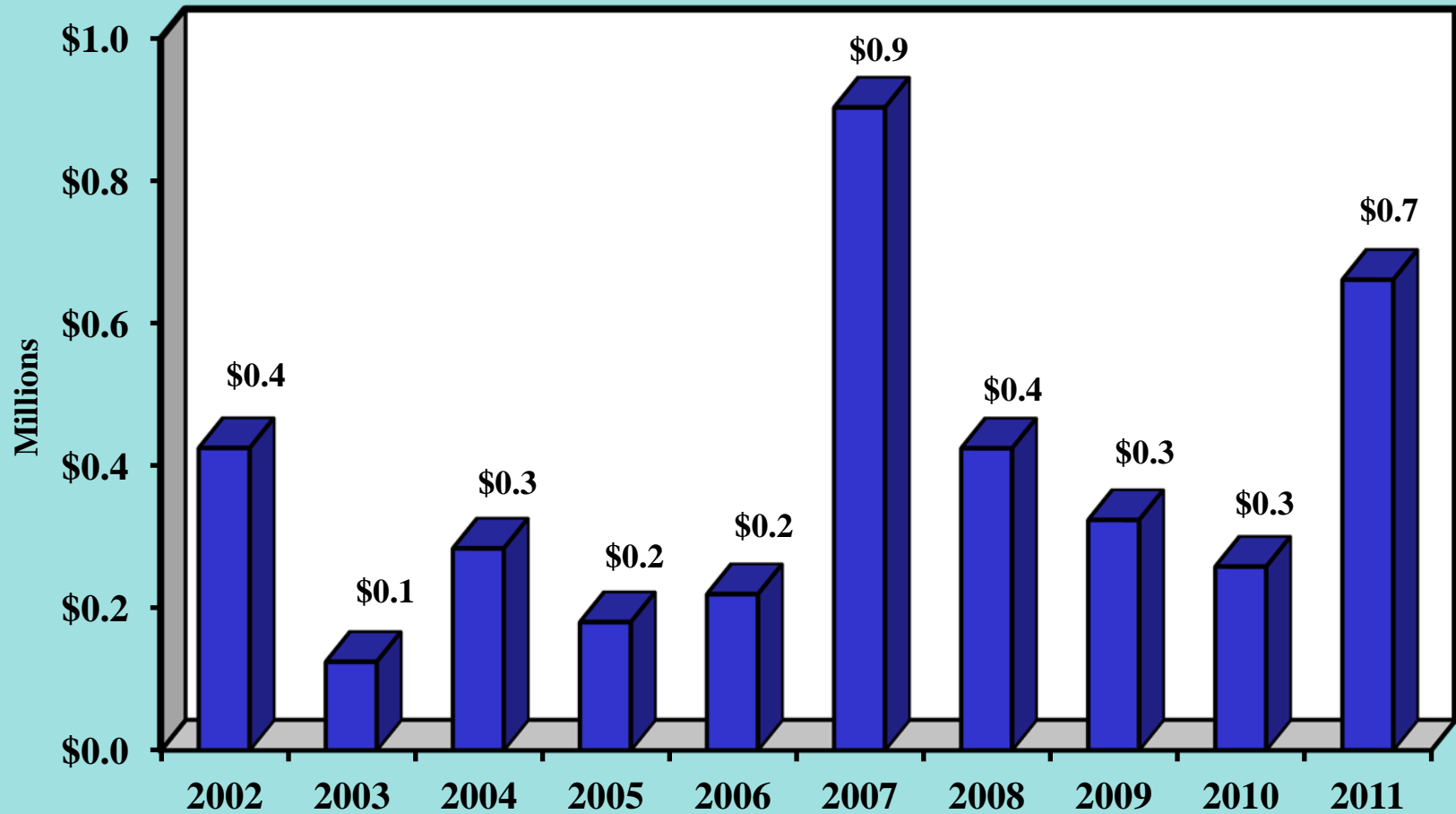
University of Alaska Foundation UAA Contribution Revenues



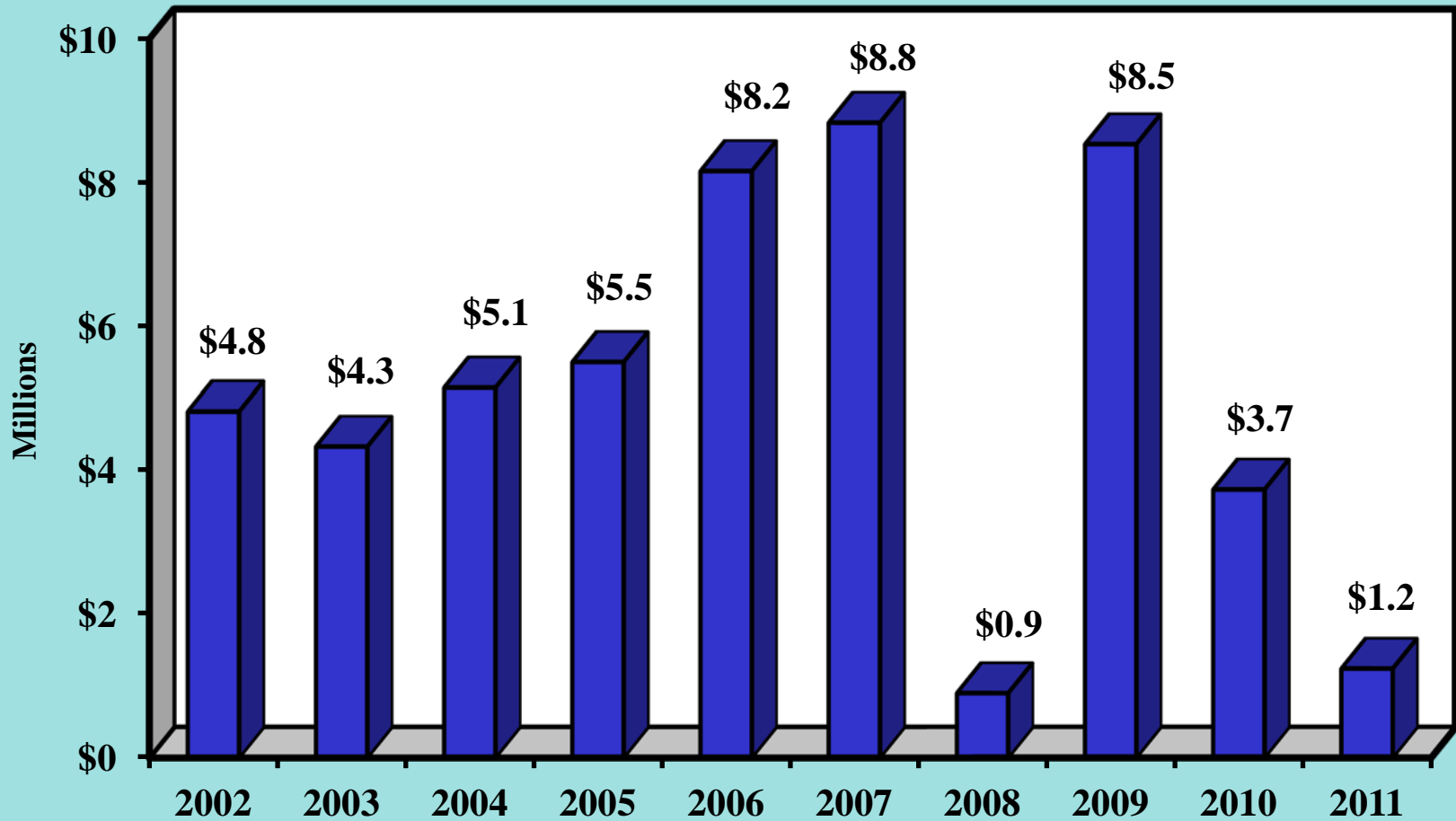
University of Alaska Foundation UAF Contribution Revenues



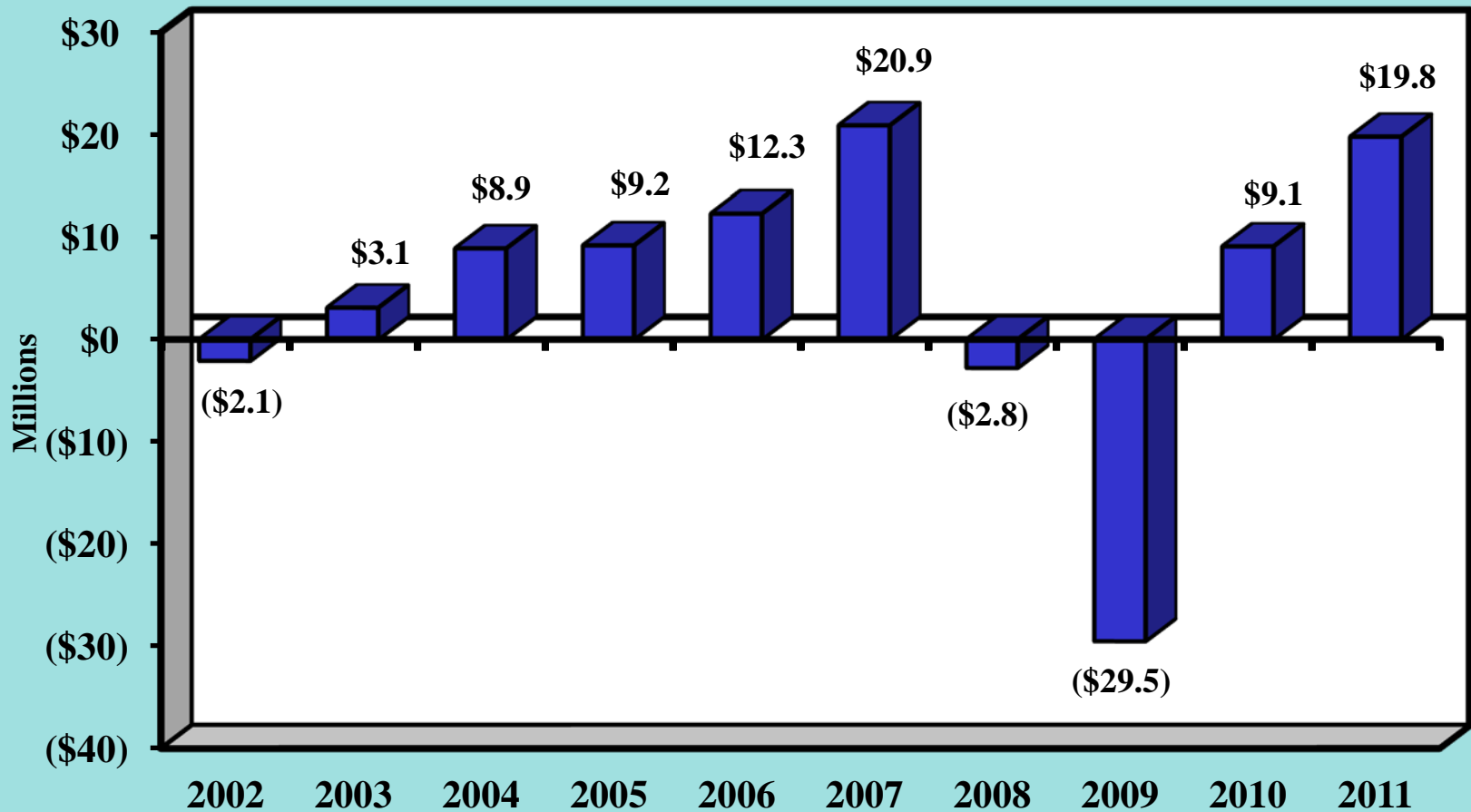
University of Alaska Foundation UAS Contribution Revenues



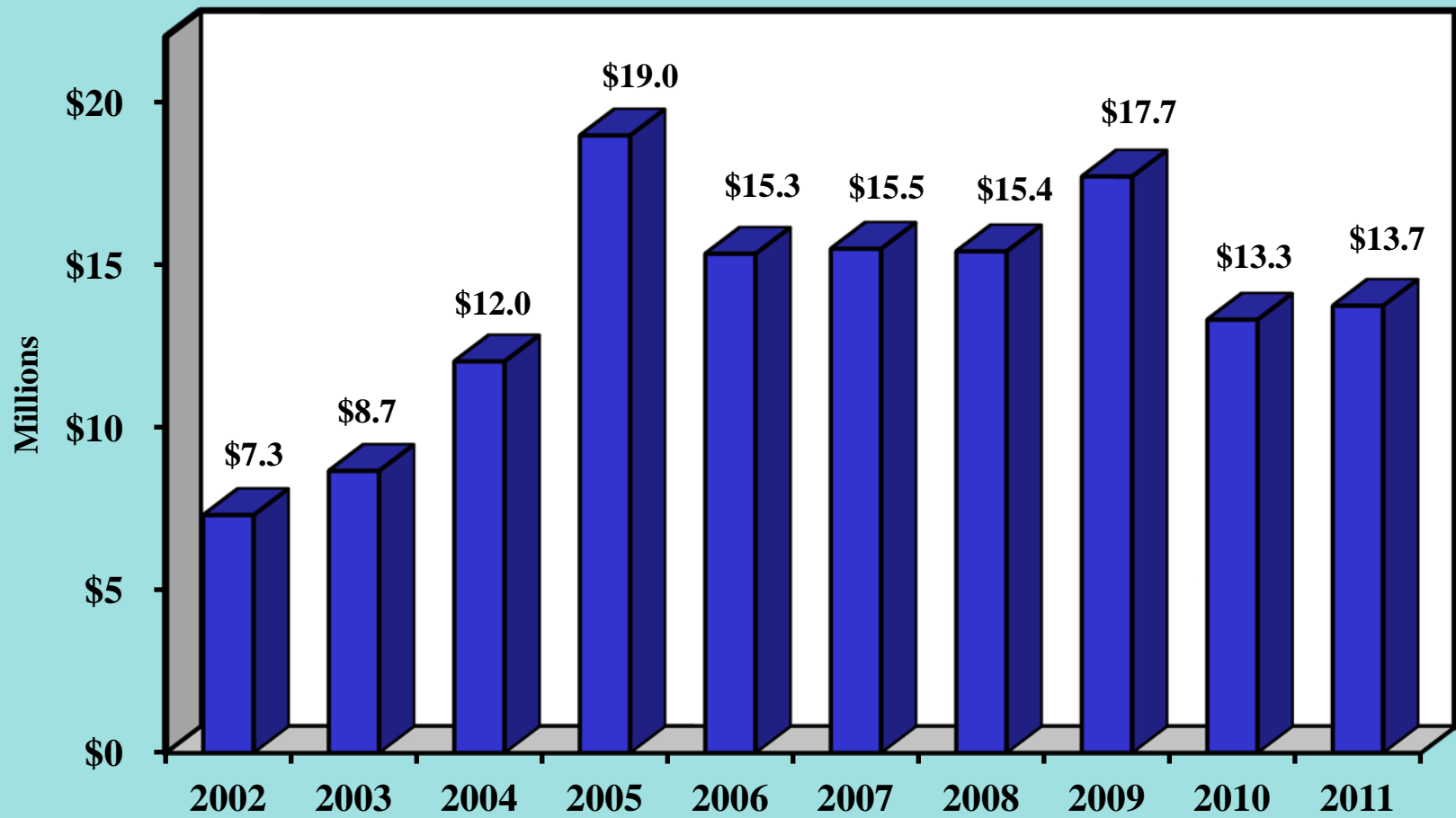
University of Alaska Foundation UA General Contribution Revenues



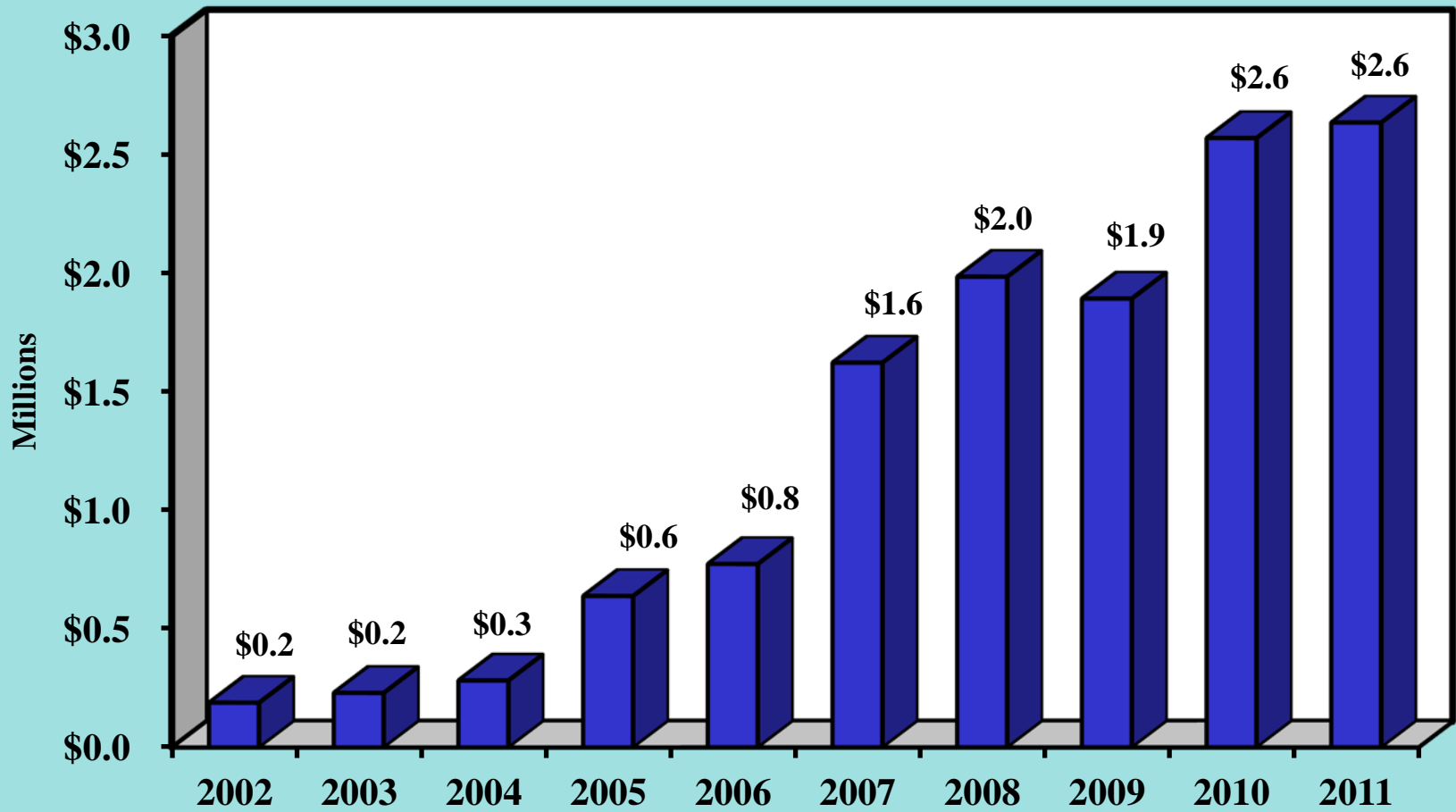
University of Alaska Foundation Investment Earnings



University of Alaska Foundation Distributions for the Benefit of University of Alaska



University of Alaska Foundation Operating Expenses Funded by Foundation



University of Alaska Foundation Assets Under Management, June 30, 2011

