

UNIVERSITY OF ALASKA FOUNDATION

Financial Statements

June 30, 2007 and 2006

(With Independent Auditor's Report Thereon)

UNIVERSITY OF ALASKA FOUNDATION

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KPMG LLP
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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 as of June 30, 2007 and 2006, 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 America. These standards require that we plan and perform the audits 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 at June 30, 2007 and 2006, 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.

The 2007 financial statements include investments valued at \$38.2 million, (23.1% of net assets) whose carrying values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

KPMG LLP

October 26, 2007

UNIVERSITY OF ALASKA FOUNDATION
STATEMENTS OF ACTIVITIES
For the years ended June 30, 2007 and 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2007</u>
Revenues, gains and other support				
Contributions	\$ 4,150,193	\$ 13,033,229	\$ 2,850,185	\$ 20,033,607
Investment income	1,832,691	1,914,824	-	3,747,515
Net realized and unrealized investment gains	4,512,365	12,670,683	-	17,183,048
Other revenues	941	124,844	-	125,785
Actuarial adjustment of remainder trust obligations	-	(1,500)	(7,151)	(8,651)
Losses on disposition of other assets	(25)	(83,145)	(98)	(83,268)
Administrative assessments	340,197	(130,951)	(17,222)	192,024
Support from University of Alaska	830,000	-	-	830,000
Net assets released from restriction	11,744,234	(11,744,234)	-	-
Total revenues, gains and other support	<u>23,410,596</u>	<u>15,783,750</u>	<u>2,825,714</u>	<u>42,020,060</u>
Expenses and distributions				
Operating expenses	1,620,368	-	-	1,620,368
Distributions for the benefit of the University of Alaska	15,510,503	-	-	15,510,503
Total expenses and distributions	<u>17,130,871</u>	<u>-</u>	<u>-</u>	<u>17,130,871</u>
Excess of revenues over expenses	6,279,725	15,783,750	2,825,714	24,889,189
Transfers between net asset classes	249,185	(236,830)	(12,355)	-
Increase in net assets	6,528,910	15,546,920	2,813,359	24,889,189
Net assets, beginning of year	<u>37,228,379</u>	<u>56,212,188</u>	<u>47,631,236</u>	<u>141,071,803</u>
Net assets, end of year	<u>\$ 43,757,289</u>	<u>\$ 71,759,108</u>	<u>\$ 50,444,595</u>	<u>\$ 165,960,992</u>

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2006</u>
\$ 5,084,053	\$ 10,868,330	\$ 2,266,503	\$ 18,218,886
1,513,066	1,721,348	-	3,234,414
2,156,903	6,900,657	-	9,057,560
714	101,994	-	102,708
-	(726)	30,479	29,753
-	(22,985)	(140)	(23,125)
-	-	-	-
-	-	-	-
<u>13,038,023</u>	<u>(13,038,023)</u>	<u>-</u>	<u>-</u>
<u>21,792,759</u>	<u>6,530,595</u>	<u>2,296,842</u>	<u>30,620,196</u>
773,462	-	-	773,462
<u>15,311,532</u>	<u>-</u>	<u>-</u>	<u>15,311,532</u>
<u>16,084,994</u>	<u>-</u>	<u>-</u>	<u>16,084,994</u>
5,707,765	6,530,595	2,296,842	14,535,202
-	43,870	(43,870)	-
<u>5,707,765</u>	<u>6,574,465</u>	<u>2,252,972</u>	<u>14,535,202</u>
<u>31,520,614</u>	<u>49,637,723</u>	<u>45,378,264</u>	<u>126,536,601</u>
<u>\$ 37,228,379</u>	<u>\$ 56,212,188</u>	<u>\$ 47,631,236</u>	<u>\$ 141,071,803</u>

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

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. 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 and 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.

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

1. Organization and Summary of Significant Accounting Policies, continued

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, 2007. Other investments, which consist of equity collateralized debt obligations, are stated at cost. 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.

At June 30, 2007, the foundation had approximately \$38.2 million in investments which were not readily marketable. These investments represent 23.6% of total investments and 23% of net assets at June 30, 2007. 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, dependence 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 investments existed. Such difference could be material.

The net realized and unrealized appreciation (depreciation) in fair value of investments is reflected in the statement of activities. Income and net gains on investments of endowment and similar funds are generally reported as increases in 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.

Noncash 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.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. 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. Contributions expected to be received one year or more in the future are discounted at a discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. 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.

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

1. Organization and Summary of Significant Accounting Policies, continued

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.

2. Cash and Cash Equivalents

Cash and cash equivalents include the following:

	<u>2007</u>	<u>2006</u>
Items in transit, non interest bearing	\$ 3,274,068	\$ 3,530,979
Interest bearing funds	<u>9,657,649</u>	<u>2,638,010</u>
	<u>\$ 12,931,717</u>	<u>\$ 6,168,989</u>

3. Short Term Investments

Short term investments consists of donated marketable securities valued at \$0 and \$20,498 at June 30, 2007 and 2006, respectively.

4. Contributions Receivable

Unconditional promises to make contributions are included in the financial statements as contributions receivable and temporarily restricted revenue. Contributions receivable at June 30, 2007 and 2006 were recorded at the discounted present value of the future cash flows using a discount rate of 5% through June 30, 2002, 2.5% from July 1, 2002 through June 30, 2005, and 5% after that date. Contributions receivable are expected to be realized in the following periods:

	<u>2007</u>	<u>2006</u>
In one year or less	\$ 5,411,864	\$ 4,945,770
Between one year and five years	1,211,528	1,263,722
More than five years	<u>215,531</u>	<u>11,700</u>
	6,838,923	6,221,192
Discount	(198,476)	(124,752)
Allowance for uncollectible accounts	<u>(884)</u>	<u>(11,110)</u>
	<u>\$ 6,639,563</u>	<u>\$ 6,085,330</u>

Included in contributions receivable was \$4.0 million and \$3.7 million at June 30, 2007 and 2006, respectively, due pursuant to a charter agreement between certain oil companies and the State of Alaska. The agreement provides that annually, these oil companies will designate an amount based on aggregate net Alaska liquids production after royalty and the price for West Texas Intermediate crude oil for funding charitable organizations and causes within Alaska. The agreement specifies that 30% of this amount be given to the University of Alaska Foundation and the remainder to general community needs. Commitments applicable to any periods subsequent to June 30, 2007 have not been formally communicated to the foundation, nor are they reasonably estimable and are therefore not included in the accompanying financial statements.

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

5. 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 10%.

6. Real Property

Under a cooperative agreement with the University of Alaska, the net proceeds from the sale of gifted real estate by the university, unless otherwise specified by the donor or the university president, will be transferred to the foundation to be managed in accordance with donor intent. Proceeds transferred to the foundation were \$0 and \$327,818 for the years ended June 30, 2007 and 2006, respectively.

7. Pooled Endowment Funds

Effective July 1, 1997, management of the university's land grant trust fund was transferred from the State Department of Revenue to the university. The foundation and the university agreed to consolidate the foundation's pooled endowment funds and the university's land grant trust funds into a Consolidated Endowment Fund (fund) for investment purposes. The foundation's investment represents 45% and 44% of the total fund at June 30, 2007 and 2006, respectively. The fund is managed by the foundation's investment committee under the "total return" concept of investment management intended to preserve and maintain the purchasing power of the principal. 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:

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 8,363,462	\$ 7,920,880
Fixed income securities	46,635,976	41,994,634
Equity securities	130,682,689	108,790,597
Alternative investments	64,679,787	50,863,337
Real estate partnerships and investment trusts	12,521,293	10,382,193
Other investments	3,556,498	4,000,000
Other	<u>104,245</u>	<u>199,684</u>
	<u>\$ 266,543,950</u>	<u>\$ 224,151,325</u>

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

	<u>2007</u>	<u>2006</u>
University of Alaska Foundation	\$ 119,528,124	\$ 99,097,957
University of Alaska	<u>147,015,826</u>	<u>125,053,368</u>
	<u>\$ 266,543,950</u>	<u>\$ 224,151,325</u>

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

7. Pooled Endowment Funds, continued

Investment management, custodial and consulting fees for the foundation's pooled endowment funds totaled \$209,063 and \$163,148 for the years ended June 30, 2007 and 2006, respectively. These fees have been included as reductions to investment income.

The calculation of the annual spending allowance is based on 4.5 percent of the five-year moving average of the December 31 market values of the endowment fund, not to exceed the unexpended accumulated earnings of the fund at December 31.

8. Other Long Term Investments

Other long term investments include the following:

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 20,662	\$ 25,302
Fixed income securities	28,384,792	31,218,144
Equity securities	633,320	512,363
Real estate partnerships	326,400	50,000
	<u>\$ 29,365,174</u>	<u>\$ 31,805,809</u>

Investment custodial and management fees for other long term investments totaled \$50,702 and \$45,435 for the years ended June 30, 2007 and 2006, respectively. These fees have been included as reductions to investment income.

9. Split Interest Obligations

The foundation has established charitable remainder trust and charitable gift annuity plans. 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 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 split interest obligations are revalued annually and any resulting actuarial gain or loss is recorded as a change in net assets.

10. 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, 2007 and 2006.

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

11. Net Assets

Unrestricted net assets consisted of the following:

	<u>2007</u>	<u>2006</u>
Available for current operations - amounts not designated by management for specific purposes or subject to donor-imposed restrictions	\$ 7,425,734	\$ 5,604,321
Designated for specific purposes - spendable earnings of quasi endowment funds and amounts designated for specific purposes by management	12,298,314	12,006,956
Quasi endowments - corpus of board designated endowment funds	15,984,063	14,364,762
Unexpended endowment earnings - accumulated earnings in excess of designated spending limits for quasi endowment funds not subject to donor-imposed restrictions	<u>8,049,178</u>	<u>5,252,340</u>
	<u>\$ 43,757,289</u>	<u>\$ 37,228,379</u>

Temporarily restricted net assets consisted of the following:

Restricted for specific purposes - spendable earnings of endowment funds and other non-endowment net assets subject to donor imposed restrictions	\$ 22,703,734	\$ 21,011,333
Unconditional promises to give – contributions receivable in future periods that are not subject to donor imposed restrictions	4,024,720	3,682,246
Quasi endowments - corpus of funds subject to donor imposed restrictions designated by the board as endowment funds	6,952,040	4,962,315
Endowments - corpus of term funded endowments	3,660,440	3,660,440
Unexpended endowment earnings - accumulated earnings in excess of designated spending limits for endowment funds subject to donor-imposed restrictions	<u>34,418,174</u>	<u>22,895,854</u>
	<u>\$ 71,759,108</u>	<u>\$ 56,212,188</u>

Permanently restricted net assets consisted of the following:

Endowments - corpus of endowment funds required by donor to be invested in perpetuity	\$ 49,955,050	\$ 47,134,540
Charitable remainder trusts - annuity trusts and unitrusts required by donor to be invested in perpetuity	<u>489,545</u>	<u>496,696</u>
	<u>\$ 50,444,595</u>	<u>\$ 47,631,236</u>

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

12. 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.

13. 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, 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
University of Alaska Anchorage		
Engineering	\$ 520,708	\$ 406,536
General	3,520,363	3,072,987
Liberal arts, human and rural development	115,283	54,919
Library	13,946	795
Management/business administration	174,821	200,054
Research	82,883	90,436
Student aid	<u>684,926</u>	<u>771,013</u>
	<u>5,112,930</u>	<u>4,596,740</u>
University of Alaska Fairbanks		
Engineering	46,772	20,788
General	3,583,154	2,184,618
KUAC radio and television	842,092	846,226
Liberal arts, human and rural development	186,310	96,568
Library	150,267	75,960
Management/business administration	76,935	1,428
Museum	1,010,461	3,391,008
Natural sciences, agriculture and land resources	201,074	159,910
Research	777,849	481,262
Student aid	<u>1,315,330</u>	<u>1,049,705</u>
	<u>8,190,244</u>	<u>8,307,473</u>
University of Alaska Southeast		
General	743,867	396,247
Liberal arts, human and rural development	4,539	4,257
Library	14,575	4,927
Natural sciences, agriculture and land resources	3,499	-
Student aid	<u>211,348</u>	<u>204,174</u>
	<u>977,828</u>	<u>609,605</u>
University of Alaska		
General	1,217,966	1,795,214
Student Aid	<u>11,535</u>	<u>2,500</u>
	<u>1,229,501</u>	<u>1,797,714</u>
	<u>\$ 15,510,503</u>	<u>\$ 15,311,532</u>

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

14. Assets Held in Trust By Others

The University of Alaska is a beneficiary of The Bentley Beneficiaries Trust which is managed by an independent trustee. In accordance with University of Alaska policy, the university's interest in this trust will accrue to the foundation. Distributions from the trust have been recorded by the foundation as unrestricted income during the period the distributions were received. Management's estimate of fair value of the university's undivided one-eighth (12.5%) interest in the trust at June 30, 2007 and 2006 is approximately \$2.6 and \$3.0 million, respectively. The principal of the trust has not been recorded in the accounts of the university or the foundation.

The foundation is a remainder beneficiary of The Metcalf Family Trust which is managed by an independent trustee. Management's estimate of fair value of the foundation's undivided one-half (50%) interest in the trust was approximately \$0.5 and \$0.4 million at June 30, 2007 and 2006, respectively. Since the foundation does not have control over the trust assets and cash flows cannot be reasonably estimated, the principal of the trust has not been recorded in the accounts of the foundation.

The University of Alaska is a remainder beneficiary of The Anthony John Nordale Trust and The Anthony John Nordale Reserve Trust. These trusts are managed by an independent trustee. In accordance with University of Alaska policy, the university's interest in these trusts will accrue to the foundation. Management's estimate of fair value of the university's undivided one-half (50%) interest in the Anthony John Nordale Trust at June 30, 2007 and 2006 is approximately \$0.4 and \$0.3 million, respectively. Management's estimate of fair value of the university's undivided one-half (50%) interest in the Anthony John Nordale Reserve Trust at June 30, 2007 and 2006 is approximately \$1.1 million and \$0.9 million, respectively. Since neither the university nor the foundation have control over the trust assets and cash flows cannot be reasonably estimated, the principal of the trusts has not been recorded in the accounts of the university or the foundation.

15. Administrative Assessments

Beginning July 1, 2006, 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 - .16% 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.

16. Related Party Transactions

The University of Alaska provided payment to the foundation in the amount of \$0.8 million for institutional support during the year ended June 30, 2007. The university also provides administrative and accounting support for the foundation. In an effort to become more self-sufficient, the foundation reimbursed the university \$1.6 and \$0.7 million for these services for the years ended June 30, 2007 and 2006, respectively. These reimbursements are included in the statements of activities as operating expenses.