UNIVERSITY OF ALASKA FOUNDATION

Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

University of Alaska Foundation

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KPMG LLP
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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, 2012 and 2011, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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, 2012 and 2011, 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

October 15, 2012

UNIVERSITY OF ALASKA FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

Assets	2012	2011
Cash and cash equivalents	$ 23,956,171	$ 21,608,213
Interest receivable	114,059	136,774
Contributions receivable, net	8,432,336	13,333,203
Remainder trusts receivable	1,486,358	832,938
Escrows receivable	258,760	295,997
Installment contracts receivable	167,500	-
Inventory	56,891	57,366
Other assets	485,973	485,800
Pooled endowment funds	137,818,907	131,853,275
Other long-term investments	24,747,413	24,459,007
Total assets	$ 197,524,368	$ 193,062,573
Liabilities		
Due to the University of Alaska	$ 2,151,984	$ 1,775,092
Other liabilities	259,603	5,142
Split interest obligations	309,475	282,739
Term endowment liability	1,000,000	1,000,000
Total liabilities	3,721,062	3,062,973
Net Assets		
Unrestricted	23,592,409	23,424,101
Temporarily restricted	78,013,621	79,551,222
Permanently restricted	92,197,276	87,024,277
Total net assets	193,803,306	189,999,600
Total liabilities and net assets	$ 197,524,368	$ 193,062,573

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

UNIVERSITY OF ALASKA FOUNDATION
STATEMENTS OF ACTIVITIES
For the years ended June 30, 2012 and 2011

	2012			
Revenues, gains and other support	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Contributions	$ 712,635	$ 11,866,053	$ 5,250,637	$ 17,829,325
Investment income	633,229	1,091,276	-	1,724,505
Net realized and unrealized investment gains (losses)	(372,895)	(649,599)	-	(1,022,494)
Other revenues	404	185,828	-	186,232
Actuarial adjustment of remainder trust obligations	-	(62,636)	(5,943)	(68,579)
Losses on disposition of other assets	(273)	(29,764)	-	(30,037)
Administrative assessments	1,943,382	(1,217,300)	(99,458)	626,624
Support from University of Alaska	1,000,000	-	-	1,000,000
Net assets released from restriction	12,697,372	(12,697,372)	-	-
Total revenues, gains and other support	16,613,854	(1,513,514)	5,145,236	20,245,576
Expenses and distributions				
Operating expenses	2,525,647	-	-	2,525,647
Distributions for the benefit of the University of Alaska	13,916,223	-	-	13,916,223
Total expenses and distributions	16,441,870	-	-	16,441,870
Excess (deficiency) of revenues over expenses	171,984	(1,513,514)	5,145,236	3,803,706
Transfers between net asset classes	(3,676)	(24,087)	27,763	-
Change in net assets due to adoption of UPMIFA	-	-	-	-
Increase (decrease) in net assets	168,308	(1,537,601)	5,172,999	3,803,706
Net assets, beginning of year	23,424,101	79,551,222	87,024,277	189,999,600
Net assets, end of year	$ 23,592,409	$ 78,013,621	$ 92,197,276	$ 193,803,306

2011			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 457,109	$ 10,320,103	$ 5,023,966	$ 15,801,178
645,186	1,757,967	-	2,403,153
2,277,487	15,105,300	-	17,382,787
2	158,802	-	158,804
-	49,400	249,433	298,833
(1,355)	(42,958)	(75)	(44,388)
1,718,484	(1,059,538)	(61,607)	597,339
890,000	-	-	890,000
11,532,488	(11,532,488)	-	-
17,519,401	14,756,588	5,211,717	37,487,706
2,632,989	-	-	2,632,989
13,728,989	-	-	13,728,989
16,361,978	-	-	16,361,978
1,157,423	14,756,588	5,211,717	21,125,728
(104,879)	31,002	73,877	-
(11,460,770)	2,031,340	9,429,430	-
(10,408,226)	16,818,930	14,715,024	21,125,728
33,832,327	62,732,292	72,309,253	168,873,872
$ 23,424,101	$ 79,551,222	$ 87,024,277	$ 189,999,600

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, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Contributions received	$ 11,637,473	$ 9,995,033
Investment income received	1,747,220	2,343,967
Distributions for the benefit of the University of Alaska	(13,451,927)	(13,593,483)
Cash paid for operating expenses	(2,500,492)	(2,599,740)
Other receipts	2,078,922	1,762,853
Net cash used in operating activities	(488,804)	(2,091,370)
Cash flows from investing activities:		
Net increase in investments	(7,277,823)	(19,900,363)
Receipts from disposition of assets	57,237	36,306
Net cash used in investing activities	(7,220,586)	(19,864,057)
Cash flows from financing activities:		
Contributions restricted for permanent investment	10,088,207	5,465,866
Investment income on charitable remainder trusts	4,055	24,918
Payment of charitable remainder trust obligations	(34,914)	(43,221)
Net cash provided by financing activities	10,057,348	5,447,563
Net increase (decrease) in cash and cash equivalents	2,347,958	(16,507,864)
Cash and cash equivalents, beginning of year	21,608,213	38,116,077
Cash and cash equivalents, end of year	$ 23,956,171	$ 21,608,213

	2012	2011
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets:	$ 3,803,706	$ 21,125,728
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Contributions of operating noncash assets	(981,471)	(263,197)
Net realized and unrealized investment (gains) losses	1,022,494	(17,382,787)
Loss on disposition of other assets	30,037	44,388
Non-cash operating expenses	15,266	16,718
Non-cash distributions to the University of Alaska	100,337	112,706
Contributions restricted for permanent investment	(5,250,637)	(5,023,966)
Actuarial adjustment of remainder trust obligations	68,579	(298,833)
Changes in assets and liabilities that provided (used) cash:		
Interest receivable	22,715	(59,186)
Short-term investments	7,694	-
Contributions receivable	32,562	(518,982)
Other assets	-	21,990
Due to the University of Alaska	376,892	57,500
Other liabilities	239,734	(17,358)
Annuity payment liabilities	23,288	93,909
Net cash used in operating activities	$ (488,804)	$ (2,091,370)

Supplemental schedule of noncash investing activity		
Contributions of investment assets	$ 213,412	$ 147,799

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

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 in conformity with US generally accepted accounting principles, 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

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 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.

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents, interest receivable, installment contracts receivable, other assets, due to the University of Alaska, other liabilities, split interest obligations and term endowment liability: The carrying amount approximates fair value, based on the nature or short maturity of those instruments.

Contributions receivable: The fair value is determined by the present value of future contractual cash flows, discounted at an interest rate that reflects the risks inherent in these cash flows.

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.

1. Organization and Summary of Significant Accounting Policies, continued

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.

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 may include 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, 2012:

	June 30, 2012				Redemption	Days'
	Level 1	Level 2	Level 3	Total	Frequency	Notice
Pooled Endowment Funds	$ -	$ -	$ 137,818,907	$ 137,818,907	Various (1)	NA
Other Long-term Investments:						
Fixed Income:						
US treasuries, agencies, corporates	9,303,220	14,481,238	-	23,784,458	Daily	1
	9,303,220	14,481,238	-	23,784,458		
Equity Securities:						
Domestic equity balanced fund	53,282	-	-	53,282	Daily	1
Domestic equities	632,407	-	-	632,407	Daily	1
	685,689	-	-	685,689		
Total Other Long-term Investments	9,988,909	14,481,238	-	24,470,147		
Total Investments	$ 9,988,909	$ 14,481,238	$ 137,818,907	$ 162,289,054		
Remainder Trusts Receivable	$ -	$ -	$ 1,486,358	$ 1,486,358		

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

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, 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.

The following table presents the foundation's activities for the years ended June 30, 2012 and 2011 for financial assets classified in Level 3:

	Pooled Endowment Funds	Other Long-term Investments	Remainder Trusts Receivable	Total
Balance, July 1, 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)	17,482,174	(140,181)	78,055	17,420,048
Balance, June 30, 2011	131,853,275	-	832,938	132,686,213
Additions	11,623,575	-	687,691	12,311,266
Withdrawals	(5,999,393)	-	-	(5,999,393)
Net investment income	1,162,918	-	-	1,162,918
Net realized and unrealized losses	(821,468)	-	(34,271)	(855,739)
Balance, June 30, 2012	$ 137,818,907	$ -	$ 1,486,358	$ 139,305,265

1. Organization and Summary of Significant Accounting Policies, continued

The amount of net unrealized holding gains and losses related to Level 3 assets still held at June 30, 2012 and 2011 is approximately ($3.0) and $16.5 million, respectively, and the change therein is included in the net gains and losses in the statements 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, 2012 is aggregated below based on redemption or sale period:

Redemption Period	Amounts	Fiscal Year	Amounts
Daily	$ 88,136,058	2013	$ 148,119,804
Semi-Monthly	24,755,022	2014	2,758,010
Monthly	12,986,494	2015	939,288
Quarterly	11,747,378	2016	1,800,642
Semi-Annually	4,358,761	2017	4,830,315
Annually	2,658,020	2018	-
Illiquid	17,647,321	Thereafter	3,840,995
	$ 162,289,054		$ 162,289,054

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.

1. Organization and Summary of Significant Accounting Policies, continued

Subsequent Events

The foundation has evaluated subsequent events and transactions that occurred after June 30, 2012 through the date the financial statements were available to be issued, concluding October 15, 2012. 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:

	2012	2011
In one year or less	$ 2,849,023	$ 2,145,101
Between one year and five years	5,836,382	12,049,880
More than five years	200,000	4,040
	8,885,405	14,199,021
Discount	(417,681)	(832,817)
Allowance for uncollectible accounts	(35,388)	(33,001)
	$ 8,432,336	$ 13,333,203

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 8.47% and 10.54% 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.

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 8.25%.

5. Installment Contract Receivable

The foundation's installment contract receivable resulted from the sale of capital stock in a closely held corporation. The contract is secured by the shares of capital stock sold, and payable in annual installments at an interest rate of 4.79%.

6. 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 52.4% and 51.2% of the total fund at June 30, 2012 and 2011, 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:

	2012	2011
Cash and cash equivalents	$ 13,103,620	$ 17,357,870
Fixed income securities	51,109,718	50,972,030
Equity securities	147,609,974	175,354,548
Real assets	25,772,170	8,827,879
Absolute return	25,449,183	4,762,967
	$ 263,044,665	$ 257,275,294

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

	2012	2011
University of Alaska Foundation	$ 137,818,907	$ 131,853,275
University of Alaska	125,225,758	125,422,019
	$ 263,044,665	$ 257,275,294

6. Pooled Endowment Funds, continued

Direct investment management, custodial and consulting fees for the foundation's pooled endowment funds totaled $219,839 and $139,776 for the years ended June 30, 2012 and 2011, 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 more than 700 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

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.

6. Pooled Endowment Funds, continued

Beginning with the year ended June 30, 2012, a Viability Ratio (accumulated earnings divided by the total endowment value) is calculated for each endowment. The Viability Ratio provides a measure of the financial health of each endowment and gives an indication of the endowment's ability to continue making distributions to the beneficiary during market down cycles and for the life of the fund. The general spending rate is 4 percent (4.0%) of the average of the market values of the fund at December 31 for the immediately preceding five years. The spending rate is limited to 3 percent (3%) for first year endowments and those with negative Viability Ratios. No spending allowance is provided for endowments with a Viability Ratio lower than negative 20%.

The spending allowance for each endowment in the year ended June 30, 2011 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 total value 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.

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.

Endowment net assets as of June 30, 2012 include the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (217,220)	$ 18,391,221	$ 92,132,673	$ 110,306,674
Board-designated endowment funds	12,906,458	20,489,656	-	33,396,114
	$ 12,689,238	$ 38,880,877	$ 92,132,673	$ 143,702,788

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
	$ 12,616,401	$ 42,640,238	$ 86,953,731	$ 142,210,370

6. Pooled Endowment Funds, continued

Changes in endowment net assets for the years ended June 30, 2012 and 2011 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, July 1, 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
Uncollectible pledges	(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
Investment Income	123,651	1,072,039	-	1,195,690
Net realized and unrealized investment losses	(185,109)	(635,163)	-	(820,272)
Investment return	(61,458)	436,876	-	375,418
Contributions	491,815	783,185	5,250,637	6,525,637
Uncollectible pledges	(269)	(11,126)	-	(11,395)
Administrative assessments	(132,125)	(1,087,874)	(99,458)	(1,319,457)
Distributions for endowment spending	(453,870)	(4,333,857)	-	(4,787,727)
Transfers to increase board-designated endowment funds	228,744	128,876	-	357,620
Transfers to increase donor-restricted endowment funds	-	324,559	27,763	352,322
Balance, June 30, 2012	$ 12,689,238	$ 38,880,877	$ 92,132,673	$ 143,702,788

7. Other Long-term Investments

Other long-term investments include the following:

	2012	2011
Cash and cash equivalents	$ 866	$ 7,445
Fixed income securities	23,784,458	23,462,729
Equity securities	685,689	712,433
Real estate partnerships	276,400	276,400
	$ 24,747,413	$ 24,459,007

Investment custodial and management fees for other long-term investments totaled $57,467 and $62,983 for the years ended June 30, 2012 and 2011, respectively. These fees have been included as reductions to investment income.

8. 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 charitable remainder trust assets represent $126,956 and $132,891 for the years ended June 30, 2012 and 2011 respectively, and are reported as other long-term investments in the statements of financial position. The charitable gift annuity assets of $256,609 and $230,786 for the years ended June 30, 2012 and 2011 respectively, are reported as cash and cash equivalents in the statements of financial position. The fair value of the associated split interest obligations total $309,475 and $282,739 for the years ended June 30, 2012 and 2011 respectively.

9. 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, 2012 and 2011.

10. Net Assets

	2012	2011
Unrestricted net assets:		
Available for current operations - spendable earnings of quasi endowments and amounts not designated by management or restricted by donor	$ 4,888,651	$ 5,161,148
Designated for specific purposes - spendable earnings of quasi endowments and amounts designated by management	6,014,520	5,646,553
Quasi endowments - corpus of quasi endowments without donor restrictions	11,694,904	10,974,979
Underwater endowment losses - net accumulated investment losses on endowments	(217,220)	(108,163)
Unappropriated endowment earnings - earnings in excess of spending limits for quasi endowments without donor restrictions	1,211,554	1,749,584
	$ 23,592,409	$ 23,424,101
Temporarily restricted net assets:		
Restricted for specific purposes - spendable earnings on endowments and non-endowed net assets restricted by donor stipulation or by UPMIFA	$ 39,132,745	$ 36,910,983
Unconditional promises to give - contributions receivable without donor restrictions	116	417
Quasi endowments - corpus of quasi endowments with donor restrictions	19,186,464	18,388,764
Endowments - corpus of term funded and annuity endowments	3,378,345	3,378,345
Unappropriated endowment earnings - earnings in excess of spending limits for endowments restricted by donor or by UPMIFA	16,315,951	20,872,713
	$ 78,013,621	$ 79,551,222
Permanently restricted net assets:		
Endowments - portion of funds required to be retained permanently by explicit donor stipulation or by UPMIFA	$ 92,132,673	$ 86,953,731
Charitable remainder trusts - trusts required by donor to be invested in perpetuity	64,603	70,546
	$ 92,197,276	$ 87,024,277

11. 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.

12. 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, 2012 and 2011 were as follows:

	2012	2011
University of Alaska Anchorage		
Engineering	$ 1,178,658	$ 1,059,083
General	1,826,685	1,785,042
Liberal arts, human and rural development	141,897	175,232
Library	16,809	48,749
Management/business administration	807,244	568,747
Museum	2,999	-
Natural Sciences, agriculture and land resources	61,875	29,250
Research	267,551	149,268
Student aid	1,100,890	866,310
	5,404,608	4,681,681
University of Alaska Fairbanks		
Engineering	230,233	107,813
General	3,085,449	2,948,233
KUAC radio and television	285,376	630,418
Liberal arts, human and rural development	433,001	684,347
Library	239,732	235,332
Management/business administration	184,393	123,155
Museum	331,009	397,983
Natural sciences, agriculture and land resources	392,641	336,221
Research	896,532	598,606
Student aid	1,500,150	1,712,952
	7,578,516	7,775,060
University of Alaska Southeast		
General	363,238	220,930
Liberal arts, human and rural development	-	2,395
Library	41,699	60,281
Management/business administration	3,036	-
Natural sciences, agriculture and land resources	36,654	739
Research	1,320	6,347
Student aid	298,274	211,214
	744,221	501,906
University of Alaska		
General	188,878	770,342
	188,878	770,342
	$ 13,916,223	$ 13,728,989

13. 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.

14. Related Party Transactions

The university provided payment to the foundation in the amount of $1.0 million and $0.9 million for institutional support during the years ended June 30, 2012 and 2011, respectively. The university also provides administrative and accounting support for the foundation. The foundation reimbursed the university $2.5 million and $2.6 million for these services for the years ended June 30, 2012 and 2011, respectively. These reimbursements are included in the statements of activities as operating expenses.