UNIVERSITY OF ALASKA

(A Component Unit of the State of Alaska)

Financial Statements

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

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Introduction

The following discussion and analysis provides an overview of the financial position and activities of the University of Alaska (university) for the years ended June 30, 2008 (fiscal year 2008) and June 30, 2007 (fiscal year 2007), with selected comparative information for the year ended June 30, 2006. This discussion has been prepared by management and should be read in conjunction with the financial statements including the notes thereto, which follow this section.

Using the Financial Statements

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

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

The foundation was established to solicit donations and to hold and manage such assets for the exclusive benefit of the university. Resources managed by the foundation and distributions made to the university are governed by the foundation's Board of Trustees (operating independently and separately from the university's Board of Regents). The component unit status of the foundation indicates that significant resources are held by the foundation for the sole benefit of the university. However, the university is not accountable for, nor has ownership of, the foundation's resources.

Statement of Net Assets

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

A summarized comparison of the university's assets, liabilities and net assets at June 30, 2008, 2007 and 2006 follows ($ in thousands):

	2008	2007	2006
Assets:			
Current assets	$ 105,847	$ 101,667	$ 106,614
Other assets	306,979	296,233	251,405
Capital assets, net of depreciation	792,161	736,894	731,010
Total assets	1,204,987	1,134,794	1,089,029
Liabilities:			
Current liabilities	88,894	84,421	80,444
Noncurrent liabilities	177,290	162,923	161,730
Total liabilities	266,184	247,344	242,174
Net assets:			
Invested in capital assets, net of debt	671,700	619,665	608,596
Restricted – expendable	73,856	82,736	58,590
Restricted – nonexpendable	126,752	124,114	123,275
Unrestricted	66,495	60,935	56,394
Total net assets	$ 938,803	$ 887,450	$ 846,855

Major changes to assets and liabilities during fiscal year 2008 include increased operating and restricted cash and cash equivalents, a decline in endowment investments, increased accounts receivable, growth in net capital assets, and increased liabilities due to construction activity and new debt issuance. In fiscal year 2008, the university experienced overall growth in net assets of $51.4 million, or 5.8 percent. Each of these changes is discussed in more detail in the following sections.

Total assets increased by $70.2 million during fiscal year 2008 to a total of $1.2 billion. Total assets are categorized as either current assets or noncurrent assets on the Statement of Net Assets. Key components of current assets include cash and cash equivalents, short-term investments and accounts receivable. Noncurrent assets are comprised mainly of restricted cash and cash equivalents, investments and net capital assets.

Operating cash and cash equivalents at June 30, 2008 were a positive $8.6 million as compared to a negative $0.5 million at June 30, 2007. Operating cash and cash equivalents includes checking accounts, change funds, and the university's repurchase agreements. Near the end of fiscal year 2008 funds were moved from short-term investments to cash to cover liabilities such as payroll, that were due in July.

Restricted cash and cash equivalents increased from $4.1 million at June 30, 2007 to $19.7 million at June 30, 2008. Increased restricted cash and cash equivalents are mostly attributed to unexpended general revenue bond proceeds from the issuance of Series O general revenue bonds in January 2008.

Short-term investments decreased from $39.3 million at June 30, 2007 to $26.5 million at June 30, 2008. As discussed earlier, funds were moved from this category to cash at year end. These funds were invested in the Common*f*und's Short Term Fund and Intermediate Term Fund, which had a 5.25 percent and 5.54 percent total return for the year ended June 30, 2007 and a 3.21 percent and 0.54 percent total return for the year ended June 30, 2008, respectively.

Long-term investments increased $0.4 million to $83.9 million for fiscal year 2008. Approximately, $47.6 million was invested in the Common*f*und's Absolute Return Fund, $27.4 million in the Common*f*und's Multi-Strategy Bond Fund, and $8.9 million in various bond or construction-related funds. The Absolute Return Fund had a negative 1.89 percent total return for the year ended June 30, 2008 and a positive 13.17 percent total return for the year ended June 30, 2007. The Multi-Strategy Bond Fund had a 6.14 percent total return for the year ended June 30, 2008 and 6.98 percent total return for the year ended June 30, 2007.

Endowment investments at June 30, 2008 were $145.2 million as compared to $148.7 million at June 30, 2007. This decrease was primarily caused by a negative 2.4 percent total return in 2008 as compared to a positive 17.9 percent total return in 2007.

Net accounts receivable increased $8.2 million from $53.6 million at June 30, 2007 to $61.8 million at June 30, 2008. Growth in accounts receivable is primarily due to an increase in capital construction activity in process at year end which increased capital receivables from $6.6 million at June 30, 2007 to $12.6 million at June 30, 2008. Year end construction activity attributed to increased receivables includes $4.6 million for the University of Alaska Anchorage (UAA) Integrated Science Building, $0.7 million for the University of Alaska Fairbanks (UAF) Tanana Valley Campus renovation, and $0.6 million for UAA fire alarm system upgrades. The other components of accounts receivable consist of tuition and fees, sponsored programs, and auxiliary services. See Note 3 of the financial statements for accounts receivable detail.

Net capital assets at June 30, 2008 were $792.2 million as compared to $736.9 million at June 30, 2007. For further discussion, see Note 6 of the financial statements for capital asset detail, and the *Capital and Debt Activities* section which follows.

Total liabilities are categorized as either current liabilities or noncurrent liabilities on the Statement of Net Assets. Current liabilities are primarily comprised of accounts payable, accrued payroll and other expenses, insurance and risk management payables, current debt and student deposits. Noncurrent assets are comprised mostly of long-term debt and net pension and OPEB obligations. Total liabilities increased by $18.8 million during fiscal year 2008 to a total of $266.2 million. Increased liabilities are mainly attributed to:

- The increase in accounts payable from $10.8 million at June 30, 2007 to $13.6 million at June 30, 2008 is reflective of increased capital construction activity in process at year end. Construction activity constituted 70 percent, or $9.4 million of the accounts payable balance at year end as compared to 55 percent or $5.9 million, the year before. The remaining accounts payable balance represents amounts due for recurring supplies and services for operations.

- Long-term debt financing increased with the issuance of Series O general revenue bonds totaling $23.8 million in fiscal year 2008. The majority of this bond is for the UAA Parking Garage as discussed in the *Capital and Debt Activities* section that follows.

Unrestricted net assets increased $5.6 million from June 30, 2007 to June 30, 2008. At year end, $29.8 million of the $66.5 million total is designated for specific purposes or otherwise limited by contractual agreements with external parties. See Note 7 of the financial statements for a detailed list of these designations.

Fiscal Year 2007 Comparisons (Statement of Net Assets)

Significant comments about changes between 2006 and 2007 that were noted in fiscal year 2007 *Management's Discussion and Analysis* are summarized below:

Major changes from 2006 to 2007 on the Statement of Net Assets included a reduction in cash and cash equivalents and short-term investments, long-term investment growth, increased accounts receivable and increased liabilities due to the net pension and other postemployment benefit obligations, and accrued expenses. Overall, the financial position of the university improved in fiscal year 2007 as indicated by the growth in net assets of $40.6 million or 4.8 percent. For comparative purposes, cash and cash equivalents, short-term investments, and long-term investments in the June 30, 2007 financial statements have been reclassified to conform to the presentation in the June 30, 2008 financial statements.

The Statement of Net Assets reflected a decrease in cash and cash equivalents and short-term investments, and an increase in long-term investments. Cash and cash equivalents at June 30, 2007 were a negative $0.5 million as compared to a positive $1.3 million in 2006. Additionally, short-term investments decreased from $47.1 million at June 30, 2006 to $39.3 million at June 30, 2007. In fiscal year 2007, the university began investing more of the university's core operating funds in long-term investments. At June 30, 2007, long-term investments were $83.5 million as compared to $65.6 million at June 30, 2006. Approximately, $41.5 million was invested in the Common*f*und's Absolute Return Fund, $33.2 million in the Common*f*und's Multi-Strategy Bond Fund, and $8.8 million in various operating and capital bond or construction-related funds. The Absolute Return Fund had a total return of 13.17 percent for the year ended June 30, 2007 and a 10.77 percent total return for the year ended June 30, 2006. The Multi-Strategy Bond Fund (a new university investment in fiscal year 2006) had a 6.98 percent total return for the year ended June 30, 2007.

Net accounts receivable increased 11.5 percent, from $48.1 million at June 30, 2006 to $53.6 million at June 30, 2007. This growth was primarily due to an increase in net sponsored program receivables.

Total liabilities increased 2.1 percent from $242.2 million at June 30, 2006 to $247.3 million at June 30, 2007. Increased liabilities were attributed to:

- The State of Alaska Public Employees' Retirement System (PERS) combined net pension and OPEB obligations increased from $25.4 million at June 30, 2006 to $30.8 million at June 30, 2007.

- Accrued expenses increased from $4.2 million at June 30, 2006 to $9.5 million at June 30, 2007 due to agreed upon net settlement costs of $4.65 million for the University of Alaska Museum of the North construction activity.

Unrestricted net assets increased $4.5 million from June 30, 2006 to June 30, 2007.

Statement of Revenues, Expenses and Changes in Net Assets

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

A summarized comparison of the university's revenues, expenses and changes in net assets for the years ended June 30, 2008, 2007 and 2006 follows ($ in thousands):

	2008	2007	2006
Operating revenues	$ 356,624	$ 352,410	$ 341,205
Operating expenses	(716,476)	(672,802)	(631,372)
Operating loss	(359,852)	(320,392)	(290,167)
Net nonoperating revenues	325,545	320,205	272,422
Gain (loss) before other revenues, expenses, gains, or losses	(34,307)	(187)	(17,745)
Other revenues, expenses, gains or losses	85,660	40,782	30,541
Increase (decrease) in net assets	51,353	40,595	12,796
Net assets at beginning of year	887,450	846,855	834,059
Net assets at end of year	$ 938,803	$ 887,450	$ 846,855

The Statement of Revenues, Expenses and Changes in Net Assets reflects an overall increase in net assets of 5.8 percent, or $51.4 million. Revenue sources contributed positively to the increase in net assets. These revenue sources include: capital appropriations and capital grants and contracts revenue, tuition and fee revenue, and State of Alaska general fund appropriations. However, net health care costs and salaries and employee benefits offset overall growth in net assets.

- Net health care costs increased by $5.9 million to $50 million for fiscal year 2008.

- Salaries and employee benefits increased by $19.7 million for fiscal year 2008.

In 2008, the university recorded a $0.5 million net pension and OPEB expense (and related liability) for the state-administered PERS defined benefit plan. This expense represents the difference between contribution amounts based on actuarially determined rates and contributions actually paid to PERS. The university made the contributions required by the PERS plan, and these amounts were based on a capped rate that was 6.23 percentage points lower than the actuarially computed rate. For further discussion on PERS, see the *Other Economic and Financial Conditions* section which follows.

Capital appropriations and capital grant and contract revenue increased from $40.8 million in 2007 to $85.7 million in 2008. Revenue from capital sources is generally recognized as expenditures occur. The State of Alaska appropriated capital funds totaling $107.9 million in 2007 and $12.9 million in 2008. For further discussion on capital activity, see the *Capital and Debt Activities* section which follows.

Gross student tuition and fee revenue increased to $99.9 million in fiscal year 2008 as compared to $91.5 million in fiscal year 2007. This was due in large part to a 7 percent increase in tuition rates for students for academic year 2007 – 2008, and a $2.4 million increase in total fee revenue from $16.4 million at June 30, 2007 to $18.8 million at June 30, 2008.

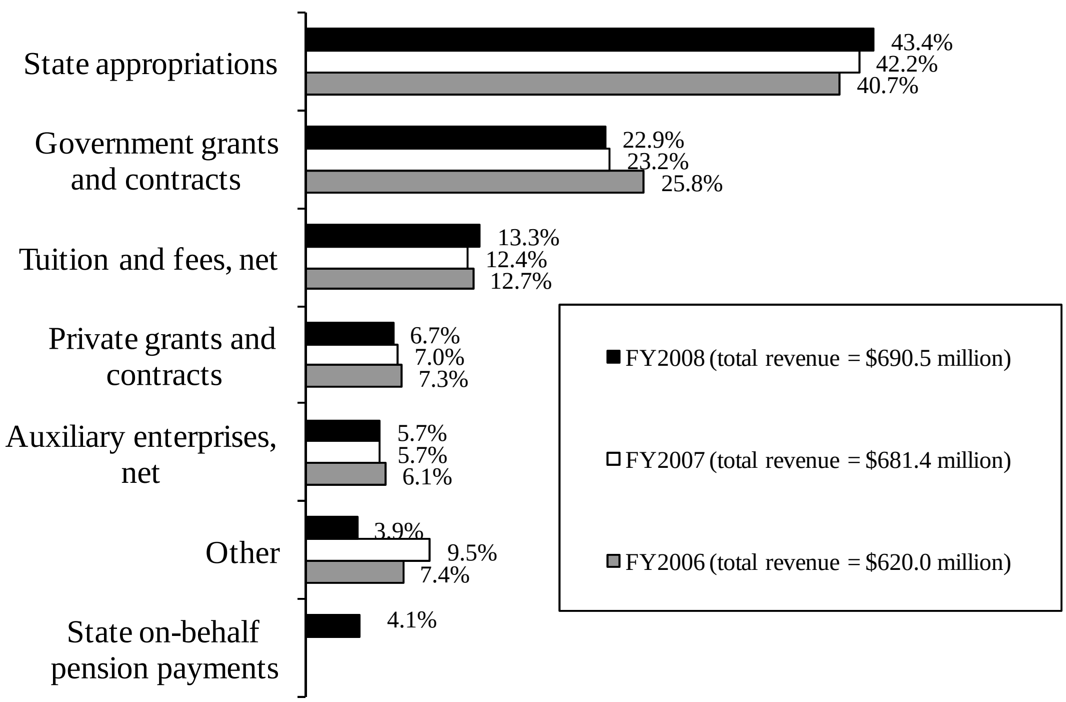
Endowment investments experienced a $4.6 million loss in 2008 as compared to a $22.3 million gain, in the prior year. Total return was a negative 2.4 percent in 2008 as compared to a positive 17.9 percent in 2007.

Endowment gifts, sales and other proceeds totaled $5.6 million in fiscal year 2008 as compared to $7.7 million in fiscal year 2007. The $2.1 million decline in revenue between fiscal year 2007 and fiscal year 2008 is due mostly to receipt of a $2.6 million pledge in fiscal year 2007. This category also includes yield from, or sales of, trust land, timber and mineral interests, the net proceeds of which are generally deposited to the land grant endowment trust fund.

State of Alaska general fund appropriations continue to be the single major source of revenue for the university, providing $300 million in 2008, as compared to $287.4 million in 2007. Historically, the Legislature has funded the university at an amount equal to or above the prior period's appropriation.

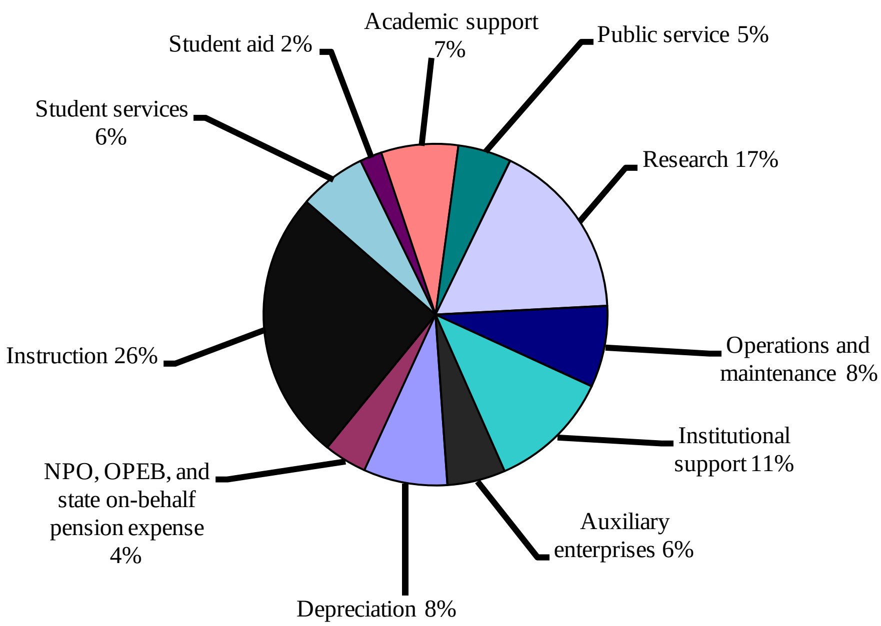
A comparison of operating and nonoperating revenues by source for fiscal year 2008, 2007 and 2006 follows:

Operating and Nonoperating Revenues (excluding capital) by Year



A comparison of operating expenses by functional and natural classification for selected fiscal years follows (see Note 16 of the financial statements for more information):

Fiscal Year 2008
Functional Classification



Operating Expenses
Functional Classification (in millions)

	FY2008		FY2007		FY2006	
Instruction	$183.2	25.6%	$181.2	26.9%	$163.5	25.9%
Student Services	45.4	6.3%	41.9	6.2%	38.5	6.1%
Student Aid	14.9	2.1%	13.5	2.0%	13.4	2.1%
Academic Support	52.2	7.3%	50.7	7.6%	44.6	7.1%
Student and Academic	$295.7	41.3%	$287.3	42.7%	$260.0	41.2%
Public Service	36.1	5.0%	32.9	4.9%	32.1	5.1%
Research	121.8	17.0%	131.3	19.5%	126.3	20.0%
Operations and Maintenance	55.0	7.7%	50.2	7.5%	44.2	7.0%
Institutional Support	82.6	11.5%	69.6	10.3%	61.8	9.8%
Auxiliary Enterprises	39.4	5.5%	38.7	5.8%	37.2	5.9%
NPO,OPEB, State On-Behalf	29.0	4.1%	5.4	0.8%	9.9	1.5%
Depreciation	56.9	7.9%	57.4	8.5%	59.8	9.5%
Total Operating Expenses	$716.5	100.0%	$672.8	100.0%	$631.3	100.0%

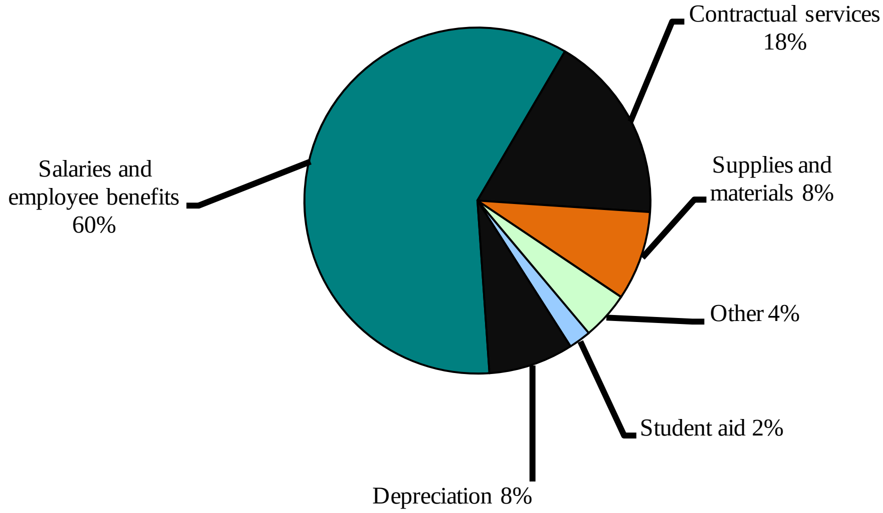
Student aid expense increased from $13.5 million in fiscal year 2007 to $14.9 million in fiscal year 2008. Certain amounts applied to student accounts for tuition, fees, or room and board are not reported as student aid expense, but are reported in the financial statements as a scholarship allowance, directly offsetting student tuition and fee revenue or auxiliary revenue. Allowances totaled $9.1 million in 2008 and $8.3 million in 2007. In addition to the allowances, students participate in governmental financial aid loan programs. The loans are neither recorded as revenue nor expense in the financial statements, but are recorded in the Statements of Cash Flows as direct lending receipts totaling approximately $67.4 million and $64.8 million in fiscal year 2008 and 2007, respectively.

Net pension, OPEB and state on-behalf pension payments increased to $29 million in fiscal year 2008 as compared to $5.4 million in fiscal year 2007. This was primarily due to first-time state on-behalf pension payments, totaling $28.5 million, paid directly to the PERS and TRS defined benefit plans to reduce the PERS and TRS employers' contributions for fiscal year 2008. The pension payments were made on-behalf of the university and are presented as revenue and expenses in the university's financial statements in accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance.*

Research expenses decreased $9.5 million from $131.3 million at June 30, 2007 to $121.8 million at June 30, 2008. The decreases in recent years reflects loss or reduction in congressionally directed funding, plus stagnant competitive federal research budgets and lack of new state base support for research.

Institutional support expenses fluctuate due to the accounting method used to record employee benefits. The university employs a central benefits pool concept, and uses a staff benefit rate, to charge estimated employee benefits, such as pension and healthcare costs, to labor recorded in the various functional expense categories. Institutional support expenses are impacted when the amounts charged exceed, or are less than, actual benefits paid to third parties. Over recovery or under recovery of charges in one year are built into the rate building process the following year. When considered in total, operating expenses across all functional categories include the correct amount of employee benefit expense each fiscal year.

Fiscal Year 2008
Natural Classification



Operating Expenses
Natural Classification (in millions)

	FY2008		FY2007		FY2006	
Salaries and Employee Benefits	$426.7	59.6%	$407.0	60.5%	$370.3	58.6%
Contractual Services	126.2	17.6%	124.8	18.5%	119.7	19.0%
Supplies and Materials	59.8	8.3%	61.7	9.2%	56.2	8.9%
Other	32.0	4.5%	8.3	1.2%	11.9	1.9%
Student Aid	14.9	2.1%	13.6	2.0%	13.4	2.1%
Depreciation	56.9	7.9%	57.4	8.6%	59.8	9.5%
	$716.5	100.0%	$672.8	100.0%	$631.3	100.0%

Salaries and employee benefits increased 4.8 percent, or $19.7 million, in fiscal year 2008. Employee benefits, such as pension plan contributions and health care costs, increased 2.9 percent and comprised $3.5 million of the change. Salaries and wages increased 5.7 percent, or $16.2 million. Other expenses increased by $23.7 million in fiscal year 2008 and are primarily attributed to the State of Alaska PERS and TRS on-behalf pension payments.

Fiscal Year 2007 Comparisons (Statement of Revenues, Expenses and Changes in Net Assets)

Significant comments about changes between 2006 and 2007 that were noted in fiscal year 2007 *Management's Discussion and Analysis* are summarized below:

The Statement of Revenues, Expenses and Changes in Net Assets reflected an overall increase in net assets of 4.8 percent or $40.6 million. Revenue sources contributed positively to the increase in net assets. These revenue sources included: capital appropriations and capital grants and contracts revenue, tuition and fee revenue, endowment investment income and other proceeds, and State of Alaska general fund appropriations. However, increased costs in pension plans, net health care costs, salaries and wages, and the PERS net pension and OPEB obligations offset overall growth in net assets.

- PERS, TRS, and ORP costs increased by $12.2 million for the year ended June 30, 2007.
- Net health care costs increased by $9.9 million for fiscal year 2007.
- Salaries and wages increased by $14.3 million for fiscal year 2007.
- The PERS net pension and OPEB obligations increased by $5.4 million for the year ended June 30, 2007.

The increase in revenue recognized from capital funding sources also contributed to increases in net assets. Capital appropriations and capital grants and contracts revenue increased from $30.5 million in 2006 to $40.8 million in 2007.

Other major revenue sources included state general fund appropriations, tuition and fee revenue, and endowment investment income. State general fund appropriations were $287.4 million in 2007, as compared to $252.5 million in 2006. Gross tuition and fee revenue increased to $91.5 million in fiscal year 2007 as compared to $85.3 million in fiscal year 2006. This was due in large part to a 10 percent increase in tuition rates for students in academic year 2006 - 2007. Student full-time equivalent enrollment for Fall 2006 was 17,541, a 0.8 percent increase from the prior Fall period. Additionally, endowment investment income was approximately $22.3 million in 2007 as compared to $13.9 million in 2006.

Capital and Debt Activities

The University of Alaska has continued to modernize various facilities and to build new facilities to address emerging state needs. Net capital additions totaled $97.7 million in 2008, as compared with $57.4 million in 2007 and $44.5 million in 2006. These capital additions primarily comprise replacement, renovation, code corrections and new construction of academic and research facilities, as well as investments in equipment and information technology. State capital appropriations for 2008 and 2007 were $12.9 million and $107.9 million, respectively. At June 30, 2008, $88.8 million remains unexpended from current and prior year capital appropriations and general revenue bond proceeds, of which $61.9 million is committed to existing construction contracts. The balance is for projects still in design or preconstruction, or is held for contingencies for work in progress.

Construction in progress at June 30, 2008 totaled $92.9 million and includes the following major projects:

- University of Alaska Anchorage Integrated Science Building (ISB): This $91 million facility will incorporate the existing science facility into expanded instructional, student, and administrative space. Features include state of the art science academic labs and technology associated with distance delivery. The facility is designed to incorporate program growth in integrated sciences, including integrated science instruction for majors and non-majors, environmental studies and systems research, biomedical research, and complex system studies to prepare students to meet the employment needs of the state of Alaska. The estimated occupancy date is fall 2009.

- University of Alaska Anchorage Parking Garage associated with the ISB, Loop Road and Amenities Building: This $17.2 million structure will consist of a three level parking garage for 445 vehicles, a loop road connecting ISB service entrance to the Fine Arts building parking lot and a detached amenities/auxiliary building that will house the elevator, stairs, mechanical and electrical support for the garage. The estimated completion date is August 2009.

- University of Alaska Fairbanks School of Fisheries and Ocean Sciences (SFOS) Facility at Lena Point in Juneau, Alaska: This $26.2 million facility will provide long-term support for the SFOS's academic and research mission. The facility will allow for consolidation of classes, research facilities and faculty currently spread between two locations.

State of Alaska capital appropriations for fiscal year 2009 total $107.2 million. The main components of this appropriation include $15 million designated for a new UAA Sports Arena, $46 million for the new UAA Health Sciences Building, $3 million for the UAF Tanana Valley Campus Revitalization, and $42.8 million for maintaining existing facilities and equipment.

At June 30, 2008, total debt outstanding was $136.7 million, comprised of $110.1 million in general revenue bonds, $24.6 million in notes payable, and $2 million in bank financing contracts. In December 2007, Moody's Investors Service raised its previous university credit rating of A1 to Aa3 with stable outlook, and in January 2008, Standard & Poor's affirmed its rating of AA- with stable outlook. Moody's Investors Service's upgrade of the university's credit rating is the university's first rating change since its general revenue issues were first rated in 1992.

The university issued Series O general revenue bonds totaling $23.8 million in fiscal year 2008. The bonds mature annually each October 1, through 2033, and bear coupon interest rates ranging from 3.375 percent to 4.25 percent. Series O bond proceeds are being used for capital projects.

In previous years, other bonds were issued to finance construction of student residences at three campuses, the West Ridge Research Building, student recreation centers, a research facility to house the International Arctic Research Center, the acquisition and renovation of several properties adjacent to or near the university's campuses, additions to the university's self-operated power, heat, water and telephone utility systems in Fairbanks, purchase of the University Center Building in Anchorage, and to refund previously issued general revenue bonds and other contractual obligations in order to realize debt service savings.

The university has traditionally utilized both tax exempt and non-tax exempt equipment lease financings to provide for its capital needs or to facilitate systematic renewals. Short-term lines of credit or working capital is available to provide interim cash flow financing for facilities intended to be funded with general revenue bond proceeds.

Other Economic and Financial Conditions

The following is a description of currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position (net assets) or results of operations (revenues, expenses, and other changes in net assets) of the university.

At their September 2007 meeting, the Board of Regents approved a 5 percent increase in tuition for the 2008 – 2009 and 2009 – 2010 academic years. At their September 2008 meeting, the Board of Regents approved a 4 percent increase in tuition for 100 to 200 level courses and a 7 percent tuition increase for 300 to 400 level courses in the 2010 – 2011 academic year.

The rising cost of participation in the state-administered defined benefit PERS and TRS has been a challenge for several years. Since fiscal year 2005, the university has accrued a total PERS net pension and OPEB liability of $31.3 million and in addition to the university's annual fiscal year 2008 employer contributions to PERS and TRS, the state contributed a combined $28.5 million in on-behalf pension payments directly to both defined benefit plans. Continued employer relief has been sought through recently enacted state legislation, Alaska Legislature Senate Bill 125 (SB 125), effective July 1, 2008. SB 125 converted PERS from an agent multiple-employer plan to a cost-sharing plan, like the TRS, and provided for one integrated system of accounting for all employers. SB 125 further amended AS 39.35.255 (PERS) and reenacted AS 14.25.070 (TRS) as follows:

- The bill established one uniform rate for PERS employers at 22 percent for fiscal year 2009, with the state contributing the difference between total PERS actuarial required contributions and the employer contribution rate. The Alaska Retirement and Management Board (ARMB) fiscal year 2009 adopted rate for the actuarial required contributions is 35.22 percent.

- The bill established the TRS employer contribution rate at 12.56 percent for fiscal year 2009, with the state contributing the difference between total TRS actuarial required contributions and the employer contribution rate. The ARMB fiscal year 2009 adopted rate for the actuarial required contributions is 44.17 percent.

With the enactment of SB125, it is expected the university will no longer have a net pension and OPEB obligation reported on its Statement of Net Assets, effective July 1, 2008. In accordance with generally accepted accounting principles, net pension and OPEB obligations are not reported by each employer in a cost-sharing pension plan when an employer contributes the contractually required amounts.

For fiscal year 2009, state appropriations for operations and debt service reimbursement total $321 million, a 7 percent increase over fiscal year 2008. The level of annual state appropriation funding is conditional upon the legislative process, which is directly influenced by current economic conditions and other factors. The university continues to seek additional revenues from sources other than state appropriations.

Subsequent to June 30, 2008, several major U.S. financial institutions and investment banks experienced significant financial difficulties primarily as a result of the decline in value of risky investments. The risky investments are often referred to as "sub-prime" mortgages. These entities were either purchased by other entities, or were otherwise aided by federal funding in an effort to keep them in business.

Consequently, there has been significant unrest in the financial markets, decrease in stock values and a substantial decrease in inter-bank lending and the extension of credit. At the time of this writing, there remains uncertainty and instability in the financial markets. The university has experienced a decline in the value of its investments subsequent to June 30, 2008. In addition, the university experienced the closure of one of its cash management accounts on September 29, 2008 as further described in Note 2 of the financial statements. Management continues to monitor these events, and at this time, does not anticipate any significant disruption to its activities, functions and operations.

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Independent Auditors' Report

The Board of Regents
University of Alaska:

We have audited the accompanying basic financial statements of the University of Alaska and its discretely presented component unit (University), a component unit of the State of Alaska, as of and for the years ended June 30, 2008 and 2007 as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Alaska and its discretely presented component unit at June 30, 2008 and 2007, and the respective changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis, on pages 1 through 13, and the Schedule of Funding Progress for PERS on page 49 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

November 4, 2008

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UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Net Assets
June 30, 2008 and 2007
(in thousands)

Assets	2008	2007
Current assets:		
Cash and cash equivalents	$ 8,642	$ (524)
Short-term investments	26,463	39,317
Accounts receivable, less allowance of $5,239 in 2008 and $4,678 in 2007	61,858	53,646
Other assets	774	684
Inventories	8,110	8,544
Total current assets	105,847	101,667
Noncurrent assets:		
Restricted cash and cash equivalents	19,692	4,092
Notes receivable	4,583	5,329
Endowment investments	145,212	148,713
Land Grant Trust property and other assets	45,001	46,272
Long-term investments	83,922	83,503
Education Trust of Alaska	8,569	8,324
Capital assets, net of accumulated depreciation of $681,520 in 2008 and $634,883 in 2007	792,161	736,894
Total noncurrent assets	1,099,140	1,033,127
Total assets	1,204,987	1,134,794
Liabilities		
Current liabilities:		
Accounts payable	13,582	10,800
Accrued expenses	5,215	9,476
Accrued payroll	21,292	20,852
Deferred revenue	4,974	4,303
Accrued annual leave	10,459	9,926
Deferred lease revenue - current portion	1,281	1,281
Long-term debt - current portion	9,659	6,278
Insurance and risk management	19,283	18,168
Deposits from students and others	3,149	3,337
Total current liabilities	88,894	84,421
Noncurrent liabilities:		
Capital appropriation advances	5,464	6,313
Deferred lease revenue	6,085	7,366
Long-term debt	127,019	112,732
Net pension and OPEB obligations	31,325	30,786
Security deposits and other liabilities	7,397	5,726
Total noncurrent liabilities	177,290	162,923
Total liabilities	266,184	247,344
Net Assets		
Invested in capital assets, net of related debt	671,700	619,665
Restricted:		
Expendable:		
Restricted funds	519	881
Student loan funds	271	270
Education Trust of Alaska	5,173	6,413
Capital projects	2,992	1,678
Debt service	4,311	3,528
Endowment	60,590	69,966
Nonexpendable		
Endowment	94,571	89,949
Land Grant Trust	32,181	34,165
Unrestricted (see Note 7)	66,495	60,935
Total net assets	$ 938,803	$ 887,450

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

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UNIVERSITY OF ALASKA FOUNDATION
(A Component Unit of the University of Alaska)
Statements of Financial Position
June 30, 2008 and 2007
(in thousands)

Assets	2008	2007
Cash and cash equivalents	$ 904	$ 3,593
Interest receivable	110	57
Short-term investments	6,668	9,339
Contributions receivable	16,548	6,640
Escrows receivable	155	189
Inventory	77	77
Other assets	425	425
Pooled endowment funds	116,221	119,528
Other long-term investments	38,172	29,365
Total assets	$ 179,280	$ 169,213
Liabilities		
Due to the University of Alaska	$ 2,033	$ 1,920
Other liabilities	15	-
Remainder trust obligations	328	332
Term endowment liability	1,000	1,000
Total liabilities	3,376	3,252
Net Assets		
Unrestricted	41,379	43,757
Temporarily restricted	81,280	71,759
Permanently restricted	53,245	50,445
Total net assets	175,904	165,961
Total liabilities and net assets	$ 179,280	$ 169,213

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

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UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2008 and 2007
(in thousands)

	2008	2007
Operating revenues		
Student tuition and fees	$ 99,921	$ 91,473
less scholarship allowances	(7,838)	(7,004)
	92,083	84,469
Federal grants and contracts	136,497	139,361
State grants and contracts	17,885	15,605
Local grants and contracts	3,472	3,214
Private grants and contracts	45,985	47,859
Federal appropriations	2,991	3,811
Local appropriations	717	717
Sales and services, educational departments	3,345	3,688
Sales and services, auxiliary enterprises, net of scholarship allowances of $1,264 in 2008 and $1,246 in 2007	39,192	38,849
Other	14,457	14,837
Total operating revenues	356,624	352,410
Operating expenses		
Instruction	183,190	181,175
Academic support	52,174	50,659
Research	121,843	131,283
Public service	36,063	32,926
Student services	45,437	41,890
Operations and maintenance	54,983	50,216
Institutional support	82,611	69,562
Student aid	14,879	13,566
Auxiliary enterprises	39,410	38,681
Depreciation	56,883	57,455
Pension expense - NPO, OPEB and state on-behalf payments	29,003	5,389
Total operating expenses	716,476	672,802
Operating loss	(359,852)	(320,392)
Nonoperating revenues (expenses)		
State appropriations	300,027	287,414
State on-behalf contributions - pension	28,464	-
Investment earnings	4,408	11,656
Endowment investment income (loss)	(4,595)	22,254
Endowment gifts, sales and other proceeds	5,559	7,710
Interest on debt	(4,895)	(4,295)
Other nonoperating expenses	(3,423)	(4,534)
Net nonoperating revenues	325,545	320,205
Loss before other revenues, expenses, gains or losses	(34,307)	(187)
Capital appropriations, grants and contracts	85,660	40,782
Net increase in net assets	51,353	40,595
Net assets		
Net assets - beginning of year	887,450	846,855
Net assets - end of year	$ 938,803	$ 887,450

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

UNIVERSITY OF ALASKA FOUNDATION
(A Component Unit of the University of Alaska)
Statements of Activities
For the years ended June 30, 2008 and 2007
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008
Revenues, gains and other support				
Contributions	$ 857	$ 25,652	$ 2,622	$ 29,131
Investment income	1,889	1,494	-	3,383
Net realized and unrealized investment gains (losses)	(1,797)	(4,405)	-	(6,202)
Other revenues	1	97	-	98
Actuarial adjustment of remainder trust obligations	-	(6)	(7)	(13)
Losses on disposition of other assets	-	(115)	-	(115)
Administrative assessments	1,214	(981)	(18)	215
Support from University of Alaska	858	-	-	858
Net assets released from restriction	12,023	(12,023)	-	-
Total revenues, gains and other support	15,045	9,713	2,597	27,355
Expenses and distributions				
Operating expenses	1,983	-	-	1,983
Distributions for the benefit of the University of Alaska	15,429	-	-	15,429
Total expenses and distributions	17,412	-	-	17,412
Excess (deficit) of revenues over expenses	(2,367)	9,713	2,597	9,943
Transfers between net asset classes	(11)	(192)	203	-
Increase (decrease) in net assets	(2,378)	9,521	2,800	9,943
Net assets, beginning of year	43,757	71,759	50,445	165,961
Net assets, end of year	$ 41,379	$ 81,280	$ 53,245	$ 175,904

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

Unrestricted	Temporarily Restricted	Permanently Restricted	2007
$ 4,150	$ 13,033	$ 2,850	$ 20,033
1,833	1,915	-	3,748
4,512	12,671	-	17,183
1	125	-	126
-	(2)	(7)	(9)
-	(83)	-	(83)
340	(131)	(17)	192
830	-	-	830
11,744	(11,744)	-	-
23,410	15,784	2,826	42,020
1,620	-	-	1,620
15,511	-	-	15,511
17,131	-	-	17,131
6,279	15,784	2,826	24,889
249	(237)	(12)	-
6,528	15,547	2,814	24,889
37,229	56,212	47,631	141,072
$ 43,757	$ 71,759	$ 50,445	$ 165,961

UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Cash Flows
For the Years Ended June 30, 2008 and 2007
(in thousands)

	2008	2007
Cash flows from operating activities		
Student tuition and fees, net	$ 90,481	$ 84,566
Grants and contracts	202,720	199,562
Sales and services, educational departments	3,345	3,688
Sales and services, auxiliary enterprises	39,101	39,124
Federal appropriations	2,991	3,811
Local appropriations	717	717
Other operating receipts	13,176	13,556
Payments to employees for salaries and benefits	(424,880)	(406,846)
Payments to suppliers	(193,640)	(186,785)
Payments to students for financial aid	(14,889)	(13,567)
Net cash used by operating activities	(280,878)	(262,174)
Cash flows from noncapital financing activities		
State appropriations	300,027	287,290
Other payments	(1,085)	92
Direct lending receipts	67,427	64,771
Direct lending payments	(67,334)	(64,901)
Net cash provided by noncapital financing activities	299,035	287,252
Cash flows from capital and related financing activities		
Capital appropriations, grants and contracts	78,903	40,631
Proceeds from issuance of capital debt	23,795	-
Purchases of capital assets	(109,026)	(65,233)
Principal paid on capital debt	(6,280)	(5,272)
Interest paid on capital debt	(4,843)	(4,577)
Net cash used by capital and related financing activities	(17,451)	(34,451)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	472,790	403,506
Purchases of investments	(465,825)	(412,344)
Interest received on investments	5,802	6,566
Interest and other sales receipts from endowment assets	11,293	7,464
Net cash provided by investing activities	24,060	5,192
Net increase (decrease) in cash and cash equivalents	24,766	(4,181)
Cash and cash equivalents, beginning of the year	3,568	7,749
Cash and cash equivalents, end of the year	$ 28,334	$ 3,568
Cash and cash equivalents (current)	$ 8,642	$ (524)
Restricted cash and cash equivalents (noncurrent)	19,692	4,092
Total cash and cash equivalents	$ 28,334	$ 3,568

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

UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Cash Flows
For the Years Ended June 30, 2008 and 2007
(in thousands)

Reconciliation of operating loss to net cash used by operating activities:	2008	2007
Operating loss	$ (359,852)	$ (320,392)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	56,883	57,455
State on-behalf payments	28,464	-
Changes in assets and liabilities:		
Accounts receivable, net	(3,300)	(6,069)
Other assets	(90)	395
Inventories	434	499
Accounts payable	(565)	(1,152)
Accrued expenses	(4,675)	5,329
Accrued payroll	440	(1,459)
Deferred revenue	671	(262)
Accrued annual leave	533	749
Deferred lease revenue - current portion	(1,281)	(1,281)
Insurance and risk management	1,115	(1,601)
Deposits from students and others	(194)	226
Net pension and OPEB obligations	539	5,389
Net cash used by operating activities	$ (280,878)	$ (262,174)

Noncash Investing, Capital and Financing Activities:

For the Year Ended June 30, 2008

Additions to capital assets include $0.9 million expended and capitalized but not paid for at year end.

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

Book value of capital asset disposals totaled $0.7 million.

The university received on-behalf pension payments from the state of Alaska totaling $28.5 million.

For the Year Ended June 30, 2007

Additions to capital assets include $0.6 million expended and capitalized but not paid for at year end.

The university financed the purchase of equipment totaling $1.2 million.

Book value of capital asset disposals totaled $4.6 million.

Interest expense on general revenue bond financed projects totaling $0.2 million was capitalized during the year.

Endowment assets increased $0.1 million through receipt of donated real property.

Endowment investment real property was purchased in part through issuance of a note totaling $4.6 million.

1. Organization and Summary of Significant Accounting Policies:

Organization and Basis of Presentation:

The University of Alaska (university) is a constitutionally created corporation of the State of Alaska which is authorized to hold title to real and personal property and to issue debt in its own name. The university is a component unit of the State of Alaska for purposes of financial reporting. As an instrumentality of the State of Alaska, the university is exempt from federal income tax under Internal Revenue Code Section 115, except for unrelated business activities as covered under Internal Revenue Code Sections 511 to 514.

The University of Alaska Foundation (foundation) is a legally separate, non profit component unit of the university. The foundation was established to solicit donations and to hold and manage such assets for the exclusive benefit of the university. Resources managed by the foundation and distributions made to the university are governed by the foundation's Board of Trustees. Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, required the university to include the foundation as part of its financial statements to better report resources benefiting the university. The university is not accountable for, nor has ownership of, the foundation's resources. The foundation's financial statements include the Statement of Financial Position and the Statement of Activities and these statements are presented in their original audited format according to Financial Accounting Standards Board (FASB) pronouncements.

In preparing the financial statements, management is required to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the statement of net assets. 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.

GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net asset categories:

- **Unrestricted Net Assets:** Assets, net of related liabilities, which are not subject to externally-imposed restrictions. Unrestricted net assets may be designated for specific purposes by the Board of Regents or may otherwise be limited by contractual agreements with outside parties.

- **Restricted Net Assets:**

  Expendable – Assets, net of related liabilities, which are subject to externally-imposed restrictions that may or will be met by actions of the university and/or that expire with the passage of time.

  Non-expendable – Assets, net of related liabilities, which are subject to externally-imposed restrictions requiring that they be maintained permanently by the university.

- **Invested in capital assets, net of related debt** – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Summary of Significant Accounting Policies:

The accompanying financial statements have been prepared on the economic resources measurement focus and the accrual basis of accounting. All significant intra-university transactions have been eliminated. The university reports as a business type activity, as defined by GASB Statement No. 35. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

The university has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The university has elected not to apply FASB pronouncements issued after the applicable date.

Cash and Cash Equivalents

All highly liquid investments, not held for long-term investment, with original maturities of three months or less are reported as cash and cash equivalents.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Investments

Investments are stated at fair value. Investments in fixed income and equity marketable securities are stated at fair value based on quoted market prices. Investments in private partnership interests are valued using the most current information provided by the general partner. General partners typically value privately held companies at cost as adjusted based on recent arms' length transactions. Public companies are valued using quoted market prices and exchange rates, if applicable. Real estate partnerships and funds are valued based on appraisals of properties held and conducted by third-party appraisers retained by the general partner or investment manager. General partners of marketable alternatives provide values based on quoted market prices and exchange rates for publicly held securities and valuation estimates of derivative instruments. General partners of oil and gas partnerships use third-party appraisers to value properties. Valuations provided by the general partners and investment managers are evaluated by management and management believes such values are reasonable at June 30, 2008. When, in the opinion of management, there has been a permanent impairment in the asset value, the asset is written down to its fair value. Income from other investments is recognized when received.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of net assets. Investments also include securities with contractual cash flows such as asset-backed securities, collateralized mortgage obligations and commercial mortgage-backed securities. The value, liquidity and related income of these securities are sensitive to economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates. Long-term investments include those restricted by outside parties as to withdrawal or use for other than current operations, or are designated for expenditure in the acquisition or construction of noncurrent assets or held with an intent not to be used for operations.

Capital Assets

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

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

Endowments

Endowments consist primarily of the land grant endowment trust fund established pursuant to the 1929 federal land grant legislation and its related inflation proofing funds. Alaska Statute 14.40.400 provides that the net income from the sale or use of grant lands must be held in trust in perpetuity. At June 30, 2008 and 2007 the accumulated net earnings and appreciation on investments is $60.7 million and $70 million, respectively. These amounts, which are recorded in the restricted expendable net asset category, are available for expenditure in accordance with spending policies established by the Board of Regents in its capacity as trustee. Alaska Statute 14.40.400 provides the Board of Regents with authority to manage the fund under the total return principles which are intended to preserve and maintain the purchasing power of the endowment principal. The investable resources of the fund are invested in the consolidated endowment fund, a unitized investment fund. The annual spending allowance is currently based on five percent of a five-year moving average of the invested balance. Withdrawals of net earnings appreciation to meet the spending allowance are limited to the unexpended accumulated net earnings of the endowments.

Operating Activities

The university's policy for defining operating activities as reported on the statement of revenues, expenses and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations and investment earnings.

Scholarship Allowances

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship allowances in the statement of revenues, expenses and changes in net assets. Scholarship allowances are the difference between the stated charge for tuition and room and board provided by the university and the amount paid by the student and/or third parties making payments on the students' behalf.

Lapse of State Appropriations

Alaska Statutes provide that unexpended balances of one-year appropriations will lapse on June 30 of the fiscal year of the appropriation; however, university receipts in excess of expenditures may be expended by the university in the next fiscal year. University receipts include student tuition and fees, donations, sales, rentals, facilities and administrative cost recovery, interest income, auxiliary and restricted revenues. The unexpended balances of capital appropriations lapse upon completion of the project or upon determination that the funds are no longer necessary for the project.

Reclassifications

Certain amounts in the June 30, 2007 financial statements have been reclassified for comparative purposes to conform to the presentation in the June 30, 2008 financial statements.

2. Deposits and Investments:

Deposits and investments at June 30, 2008 were as follows ($ in thousands):

Investment Type	Operating	Capital Funds	Endowment	College Savings Program	Total
Cash and Deposits	$ (4,010)	$ -	$ -	$ -	$ (4,010)
Repurchase Agreement	15,743	-	-	-	15,743
Short Term Fund	21,696	898	6,815	-	29,409
Intermediate Term Fund	5,429	-	98	-	5,527
Multi-Strategy Bond Fund	27,380	-	8,834	-	36,214
Hedge Funds	47,647	-	27,325	-	74,972
Money Market Mutual Funds	-	23,060	6	405	23,471
Equities:					
Domestic	-	-	46,586	3,323	49,909
International	-	-	14,861	-	14,861
Global	-	-	7,809	-	7,809
Emerging Markets	-	-	3,886	-	3,886
Debt-related:					
Federal Agency	-	876	-	-	876
Fixed Income Funds	-	-	9,198	4,841	14,039
Alternative Investments:					
Commodities	-	-	2,820	-	2,820
Natural Resources	-	-	3,835	-	3,835
Venture Capital	-	-	1,314	-	1,314
Mezzanine	-	-	1,672	-	1,672
Real Estate	-	-	7,069	-	7,069
Other	-	-	3,084	-	3,084
	$ 113,885	$ 24,834	$ 145,212	$ 8,569	$ 292,500

Deposits and investments at June 30, 2007 were as follows ($ in thousands):

Investment Type	Operating	Capital Funds	Endowment	College Savings Program	Total
Cash and Deposits	$ (5,266)	$ -	$ -	$ -	$ (5,266)
Repurchase Agreement	6,333	-	-	-	6,333
Short Term Fund	18,613	3,786	5,762	-	28,161
Intermediate Term Fund	20,704	-	548	-	21,252
Multi-Strategy Bond Fund	33,184	-	8,322	-	41,506
Balanced Portfolio	-	-	-	31	31
Hedge Funds	41,490	-	23,743	-	65,233
Money Market Mutual Funds	-	566	184	422	1,172
Equities:					
Domestic	-	-	54,076	3,357	57,433
International	-	-	18,482	-	18,482
Global	-	-	4,604	-	4,604
Emerging Markets	-	-	4,938	-	4,938
Debt-related:					
Federal Agency	-	854	-	-	854
U.S. Treasury Securities	-	3,948	-	-	3,948
Fixed Income Funds	-	-	10,501	4,514	15,015
Commercial Paper	-	2,176	-	-	2,176
Alternative Investments:					
Commodities	-	-	1,993	-	1,993
Natural Resources	-	-	2,480	-	2,480
Venture Capital	-	-	964	-	964
Mezzanine	-	-	1,328	-	1,328
Real Estate	-	-	6,906	-	6,906
Other	-	-	3,882	-	3,882
	$ 115,058	$ 11,330	$ 148,713	$ 8,324	$ 283,425

Operating funds consist of cash on hand, time deposits, an overnight repurchase agreement and investments in Common*f*und pooled investment funds. Alaska Statutes and Board of Regents' policy provide the university with broad authority to invest funds. Generally, operating funds are invested according to the university's liquidity needs. The Common*f*und is a not-for-profit provider of pooled multi-manager investment vehicles for colleges and universities. The university invests in a variety of these funds according to its investment objectives.

Within the operating funds, the university uses the Common*f*und Short Term Fund for regular cash management activities and liquidity. In prior years, the Short Term Fund had been classified as a cash and cash equivalent. However, $18.6 million in the Short Term Fund that had been previously classified as a cash and cash equivalent in the June 30, 2007 financial statements, has been classified as a short-term investment for operating purposes in these financial statements. For further discussion, see the *Subsequent Events* section which follows.

Capital funds include unexpended general revenue bond proceeds and related reserves, advances from state capital appropriations and other reserves designated for capital purposes. General revenue bond proceeds of $19.6 million and related reserves totaling $4.3 million are invested with a third party trustee in accordance with terms of a trust indenture, requiring purchase of investment securities that are investment grade.

Endowment funds primarily consist of $143.1 million in investable resources of the university's land grant endowment trust fund and are invested in a consolidated endowment fund (fund) managed by the University of Alaska Foundation (foundation). These resources are combined with the foundation's pooled endowment funds for investment purposes, and managed by the foundation's investment committee and treasurer on a total return basis in accordance with an investment policy approved by the Board of Regents.

College savings program investments include the operating funds of the Education Trust of Alaska, established pursuant to state statute by the Board of Regents to facilitate administration of the state's Internal Revenue Code Section 529 College Savings Program. Program investments are in mutual funds of T. Rowe Price Associates, Inc., the program manager. See Note 4 for further information.

Certain funds held in trust for the benefit of the university are not included in the financial statements as the university has only limited control over their administration. These funds are in the custody of independent fiduciaries and at June 30, 2008 had an estimated fair value of approximately $5.1 million.

At June 30, 2008, the university has approximately $100.8 million in investments which are not readily marketable. Approximately $53.2 million is invested in the consolidated endowment fund managed by the foundation and $47.6 million is invested in hedge funds within the university's operating funds. These investments represent 34.5 percent of total deposits and investments and 10.7 percent of net assets at June 30, 2008. 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.

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

Credit Risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The university does not have a policy regarding credit risk since it does not normally invest its operating and capital funds in individual debt securities. The consolidated endowment fund investment policy requires all purchases of debt securities to be of investment grade and marketable at the time of purchase unless otherwise approved by the foundation's investment committee. At June 30, 2008, investments consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows ($ in thousands):

Investment Type	Rating	Operating	Capital Funds	Endowment	College Savings Program
Money Market Mutual Fund	Aaa	-	$ 23,060	-	-
Money Market Mutual Funds	Not Rated	-	-	$ 6	$ 405
Short Term Fund	AAA	$ 21,696	$ 898	$ 6,815	-
Intermediate Term Fund	AA+	$ 5,429	-	$ 98	-
Multi-Strategy Bond Fund	AA	$ 27,380	-	$ 8,834	-
Hedge Funds	Not Rated	$ 47,647	-	$ 27,325	-
Debt-related:					
Federal Agency	AAA	-	$ 876	-	-
Fixed Income Funds	Baa2	-	-	$ 276	-
Fixed Income Funds	Not Rated	-	-	$ 8,922	$ 4,841

Concentration of Credit Risk:

Concentration of credit risk is the risk of loss attributed to the magnitude of the university's investment in a single issuer. GASB 40 requires disclosure when the amount invested with a single issuer, by investment type, exceeds five percent or more of that investment type. At June 30, 2008, the university did not have any material concentrations of credit risk.

The consolidated endowment fund investment policy limits debt investments to five percent by issuer (except for mutual and pooled funds and U.S. government and agencies) for each specific managed portfolio within the consolidated endowment fund unless approved by the treasurer. The university does not have a policy regarding concentration of credit risk since it does not normally invest its operating and capital funds in individual debt investments.

Interest Rate Risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The university uses the modified duration measurement to evaluate interest rate risk. Modified duration measures a debt investment's exposure to fair value changes arising from changing interest rates. For example, a modified duration of 2 means that for a rise in interest rates of one percent, the value of the security would decrease two percent. The university does not have a policy regarding interest rate risk. At June 30, 2008, the university had the following debt investments and corresponding modified duration ($ in thousands):

	Fair Value				
Investment Type	Operating	Capital Funds	Endowment	College Savings Program	Modified Duration
Short Term Fund	$ 21,696	$ 898	$ 6,815	-	3.10
Intermediate Term Fund	$ 5,429	-	$ 98	-	1.90
Multi-Strategy Bond Fund	$ 27,380	-	$ 8,834	-	4.80
Federal Agency	-	$ 876	-	-	1.82
Fixed Income Fund	-	-	-	$ 4,841	4.66
Fixed Income Fund	-	-	$ 8,922	-	4.68
Collateralized Loan Obligation	-	-	$ 276	-	5.42

Hedge funds totaling $75 million are exposed to interest rate risk, however, underlying fund data is not available to measure the interest rate risk.

Custodial Credit Risk:

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

At June 30, 2008, the university does not have custodial credit risk. Deposits of the university are covered by Federal Depository Insurance or securities pledged by the university's counterparty to its repurchase agreement held at the Bank of New York. The collateral is held in the name of the university and at June 30, 2008, provided $5.2 million coverage in excess of deposits.

Foreign Currency Risk:

Foreign currency risk is the risk that changes in exchange rates could have an adverse affect on an investment's value for investments denominated in foreign currencies. GASB 40 requires disclosure of value in U.S. dollars by foreign currency denomination and investment type. The university does not have a policy regarding foreign currency risk. At June 30, 2008, the university did not have any foreign currency risk.

Subsequent Events:

Effective September 29, 2008, Wachovia Bank, N.A., as Trustee of the Common*f*und for Short Term Investments (the "Short Term Fund") announced its decision to terminate and liquidate the Short Term Fund. No additional contributions to the Short Term Fund will be accepted. Under the liquidation plan, investors in the Short Term Fund will be allowed to withdraw balances based on their proportional interest in the Short Term Fund as assets mature or are sold.

The university's balance in the Short Term Fund was $29.4 million and $46.3 million as of June 30, 2008 and October 29, 2008, respectively. As of October 29, 2008, approximately 16.2 percent of Short Term Fund assets were available for withdrawal. The value of the liquidation proceeds received by the university is not expected to vary significantly from the fair value carried on the fund's books based on the current net asset value of the Short Term Fund. However, the realization of this value will depend upon market conditions including the liquidity of the Short Term Fund's assets during the liquidation period. The university is not anticipating any adverse effects on its available working capital.

Subsequent to June 30, 2008, the fair value of the university's investments had declined due to deterioration in market conditions. Further deterioration in the markets could more likely than not result in further declines.

3. Accounts Receivable:

Accounts receivable consisted of the following at June 30, 2008 and 2007 ($ in thousands):

June 30, 2008	Gross	Allowance	Net
Student tuition and fees	$ 11,857	$ (3,748)	$ 8,109
Sponsored programs	42,176	(1,414)	40,762
Auxiliary services and other operating activities	510	(77)	433
Capital appropriations, grants and contracts	12,554	-	12,554
	$ 67,097	$ (5,239)	$ 61,858

June 30, 2007	Gross	Allowance	Net
Student tuition and fees	$ 9,846	$ (2,888)	$ 6,958
Sponsored programs	40,330	(1,699)	38,631
Pledge receivable	1,100	-	1,100
Auxiliary services and other operating activities	401	(91)	310
Capital appropriations, grants and contracts	6,647	-	6,647
	$ 58,324	$ (4,678)	$ 53,646

4. Education Trust of Alaska:

Assets held in trust include operating funds of the Education Trust of Alaska (Trust). The Trust was established pursuant to state statute on April 20, 2001 by the Board of Regents to facilitate administration of the state's Internal Revenue Code (IRC) Section 529 College Savings Program. The program is a nationally marketed college savings program developed in accordance with IRC Section 529 and includes the resources of the university's former Advance College Tuition (ACT) Program. Participant account balances of approximately $3.2 billion and $3.1 billion at June 30, 2008 and 2007, respectively, are not included in the financial statements. Separately audited Trust financial statements are available upon request from the University of Alaska Controller's office.

Assets of the Trust are invested in various mutual funds at the direction of T. Rowe Price Associates, Inc., the program manager. The net assets of the Trust, which include a reserve for University of Alaska (UA) Tuition Value Guarantees, are available for payment of program administrative costs, benefits and other purposes of the Trust. Based on actuarial studies, management estimates reserve requirements for the UA Tuition Value Guarantees to be approximately $3.5 million and $1.9 million at June 30, 2008 and 2007, respectively.

5. Land Grant Trust Property and Other Assets:

Land Grant Trust property and other assets consist of real property and timber and other rights. By Acts of Congress in 1915 and 1929, approximately 110,000 acres of land was granted to the territory of Alaska to be held in trust for the benefit of the university. The lands were managed by the territory, and later the state of Alaska. In accordance with a 1982 agreement, the lands were subsequently transferred to the Board of Regents, as trustee. In 1982 and 1988 certain state lands including timber and other rights were transferred to the trust as replacement for lands disposed of or adversely affected during the period of administration by the territory and the state. These lands and property interests were recorded at their fair value as of the date of transfer. The net proceeds from timber, land and other rights are deposited in the land grant endowment trust fund as described in the *Endowment* section in Note 1 above. At June 30, 2008 and 2007, approximately 108,614 and 83,200 acres, respectively, were held in trust at no basis because fair value at the date of transfer was not determinable.

On October 23, 2005 House Bill 130, granting to the University of Alaska approximately 250,000 acres of state land, passed into law. The intent of the Legislature is to provide the university with an equitable land grant as originally envisioned in the federal land grant of 1915 and to provide the university ownership of a significant portfolio of income producing land to help fund public higher education in the state of Alaska. Because of restrictions in the legislation related to native allotments, municipal entitlements and the University Research Forest, and delays in the conveyance of two parcels from the federal government to the state of Alaska, only 49 parcels, totaling approximately 198,900 acres, are eligible for immediate conveyance to the university. As of June 30, 2008, the state of Alaska has conveyed 25,902 acres of the state grant lands to the university. Net proceeds and royalties received from property development will be deposited into the land grant endowment trust fund. The lands will be recorded at zero basis when no determinable fair value is available at the time of transfer. The legislation has been challenged and management does not believe the outcome will have a material effect on the financial statements.

6. Capital Assets:

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

	Balance July 1, 2007	Additions/ Transfers	Reductions	Balance June 30, 2008
Capital assets not depreciated:				
Land	$ 27,969	$ 145	$ 31	$ 28,083
Construction in progress	28,188	97,733	33,003	92,918
Library and museum collections	54,976	1,128	-	56,104
Other capital assets:				
Buildings	981,143	31,608	32	1,012,719
Infrastructure	54,726	141	-	54,867
Equipment	177,383	14,234	11,042	180,575
Leasehold improvements	25,851	781	-	26,632
Other improvements	21,541	242	-	21,783
Total	1,371,777	146,012	44,108	1,473,681
Less accumulated depreciation:				
Buildings	455,474	38,151	32	493,593
Infrastructure	27,032	1,578	-	28,610
Equipment	131,018	14,997	10,214	135,801
Leasehold improvements	5,835	1,336	-	7,171
Other improvements	15,524	821	-	16,345
Total accumulated depreciation	634,883	56,883	10,246	681,520
Capital assets, net	$ 736,894	$ 89,129	$ 33,862	$ 792,161

	Balance July 1, 2006	Additions/ Transfers	Reductions	Balance June 30, 2007
Capital assets not depreciated:				
Land	$ 27,129	$ 850	$ 10	$ 27,969
Construction in progress	38,722	57,362	67,896	28,188
Library and museum collections	53,353	1,623	-	54,976
Other capital assets:				
Buildings	920,885	60,476	218	981,143
Infrastructure	49,986	4,740	-	54,726
Equipment	189,929	11,025	23,571	177,383
Leasehold improvements	25,707	144	-	25,851
Other improvements	20,928	613	-	21,541
Total	1,326,639	136,833	91,695	1,371,777
Less accumulated depreciation:				
Buildings	417,425	38,235	186	455,474
Infrastructure	25,332	1,700	-	27,032
Equipment	133,646	15,387	18,015	131,018
Leasehold improvements	4,563	1,272	-	5,835
Other improvements	14,663	861	-	15,524
Total accumulated depreciation	595,629	57,455	18,201	634,883
Capital assets, net	$ 731,010	$ 79,378	$ 73,494	$ 736,894

7. Unrestricted Net Assets:

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

	2008	2007
Designated:		
Auxiliaries	$ 6,394	$ 9,053
Working capital fund	4,715	4,715
Working capital advances	(955)	(2,302)
Service centers	9,705	9,158
Debt service funds	1,494	1,404
Renewal and replacement funds	7,498	6,360
Quasi-endowment funds	79	79
Net pension and OPEB obligations	(31,325)	(30,786)
Employee benefit funds	9,537	6,987
Endowment earnings	12,346	11,296
Encumbrances	10,307	12,256
Total designated	29,795	28,220
Undesignated	36,700	32,715
Total unrestricted net assets	$ 66,495	$ 60,935

Unrestricted net assets include non-lapsing university receipts of $56.7 million at June 30, 2008. Non-lapsing university receipts of $54.1 million from 2007 were fully expended in 2008.

At June 30, 2008 and 2007, $31.8 million and $32.4 million, respectively, of auxiliary funds, encumbrances and other unrestricted net assets were pledged as collateral for the university's general revenue bonds, as calculated under the terms of the 1992 General Revenue Bonds Trust Indenture.

8. Long-term Debt:

Debt service requirements at June 30, 2008 were as follows ($ in thousands):

Year ended June 30,	Principal	Interest	Total
2009	$ 9,659	$ 5,469	$ 15,128
2010	6,280	4,955	11,235
2011	6,469	4,733	11,202
2012	6,685	4,501	11,186
2013	6,916	4,258	11,174
2014-2018	34,935	17,486	52,421
2019-2023	33,913	10,659	44,572
2024-2028	22,376	4,510	26,886
2029-2033	7,775	1,056	8,831
2034-2036	1,670	76	1,746
	$ 136,678	$ 57,703	$ 194,381

Long-term debt consisted of the following at June 30, 2008 and 2007 ($ in thousands):

	2008	2007
Revenue bonds payable 1.40% to 5.45% general revenue bonds due serially to 2036, secured by a pledge of unrestricted current fund revenue generated from tuition, fees, recovery of facilities and administrative costs, sales and services of educational departments, miscellaneous receipts and auxiliaries.	$ 110,120	$ 90,280
Note payable – capital construction 1.826% assisted note to the Alaska Housing Finance Corporation (AHFC) to finance construction of Anchorage campus housing, due semiannually through February 2024.	20,732	21,838
Note payable – real property purchase 8.00% note for purchase of Bunnell Park property adjacent to the University of Alaska Fairbanks campus. The note was fully paid off in September 2008.	3,852	4,646
Equipment financings 3.52% to 4.77% notes for the purchase of equipment and vehicles due in quarterly installments through June 2017.	1,974	2,246
	$ 136,678	$ 119,010

On January 31, 2008, the university issued Series O general revenue bonds totaling $23,795,000. The bonds mature annually each October 1, through 2033 and bear coupon interest rates ranging from 3.375 percent to 4.25 percent. Series O bond proceeds are being used for capital improvement projects.

In fiscal year 2008, the state reimbursed the university $1,411,900 for debt service on Series K general revenue bonds. Subject to annual appropriation, the state will reimburse the university for principal and interest on $18,205,000 of the remaining bond principal. Annual debt service on this portion of the bonds is approximately $1.4 million.

Under the terms of the 1992 General Revenue Bonds Trust Indenture, the university is required to maintain a reserve account with a trustee at an amount equal to one-half of the maximum annual general revenue bond debt service. The balance in the reserve account at June 30, 2008 and 2007 was $4.9 million and $4.2 million, respectively. The reserve balance at June 30, 2008 includes a reserve fund policy, purchased with the issuance of Series L, totaling $0.6 million.

In fiscal year 2006, the university defeased certain maturities of Series G general revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Trust assets and related liabilities for the defeased bonds are not included in the university's financial statements. Outstanding defeased bonds were $7.9 million for the year ended June 30, 2007. At June 30, 2008, outstanding defeased bonds were fully paid.

9. Deferred Lease Revenue:

In fiscal year 1997, the university entered into an agreement to construct a facility and establish the International Arctic Research Center (IARC). The university received $19,215,000 through a Japanese non-profit corporation to support the construction of the IARC in exchange for a commitment to provide research facilities to various Japanese research organizations and agencies for a period of 25 years, including lease extensions. The Japanese research organizations began occupying the IARC in fiscal year 1999. The deferred lease revenue at June 30, 2008 is $7,365,750 and is reduced at the rate of $1,281,000 per year with a corresponding increase to other operating revenue.

10. Long-term Liabilities:

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

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Amounts due within one year
Capital appropriation advances	$ 6,313	$ 1,903	$ 2,752	$ 5,464	$ -
Deferred lease revenue	8,647	-	1,281	7,366	1,281
Long-term debt	119,010	23,948	6,280	136,678	9,659
Net pension and OPEB obligations	30,786	539	-	31,325	-
Security deposits and other liabilities	5,726	1,671	-	7,397	-
	$ 170,482	$ 28,061	$ 10,313	$ 188,230	$ 10,940

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Amounts due within one year
Capital appropriation advances	$ 8,116	$ 1,562	$ 3,365	$ 6,313	$ -
Deferred lease revenue	9,928	-	1,281	8,647	1,281
Long-term debt	118,383	5,899	5,272	119,010	6,278
Net pension and OPEB obligations	25,397	5,389	-	30,786	-
Security deposits and other liabilities	6,387	25	686	5,726	-
	$ 168,211	$ 12,875	$ 10,604	$ 170,482	$ 7,559

11. Capital Appropriations and Construction Commitments:

Major construction projects of the university are funded primarily by state of Alaska appropriations and university revenue bonds. The appropriations are financed through state-issued general obligation bonds or capital project bonds issued by the Alaska Housing Finance Corporation, a component unit of the state of Alaska, while other appropriations are received directly from the state or state agencies.

Unexpended and unbilled capital funds appropriated by the state of Alaska in prior years, which are not reflected as appropriation revenue or receivables on the university's books at June 30, 2008, totaled $70.5 million. In addition, unexpended proceeds of university-issued general revenue bonds designated for construction projects totaled $18.3 million at June 30, 2008.

Construction commitments at June 30, 2008 aggregated $61.9 million. At June 30, 2008, the university had received $5.5 million from State of Alaska capital appropriations and other sources in advance of expenditures.

12. Pension Plans:

Substantially all regular employees hired before July 1, 2006 participate in one of the following pension plans:

- The State of Alaska Public Employees' Retirement System (PERS), an agent multiple-employer defined benefit plan,
- The State of Alaska Teachers' Retirement System (TRS), a cost-sharing multiple-employer defined benefit plan,
- The University of Alaska Optional Retirement Plan (ORP), a single-employer defined contribution plan.

In addition, substantially all eligible employees participate in the University of Alaska Pension Plan, a supplemental single-employer defined contribution plan.

State legislation enacted in July 2005 offers new eligible employees hired on or after July 1, 2006 defined contribution retirement plans under PERS and TRS.

The University of Alaska Retirement Program, a single-employer defined contribution plan, which includes participation in both the ORP (Tier III) and the University of Alaska Pension Plan, is also effective for new participants hired on or after July 1, 2006.

Each new eligible employee will have a choice to participate in the applicable state plan or the University of Alaska Retirement Program.

None of the retirement systems or plans own any notes, bonds or other instruments of the university.

Defined Benefit Plans:

State of Alaska Public Employees' Retirement System (PERS)

Plan Description

The university contributes to PERS, a defined benefit, agent multiple-employer public employee retirement system established and administered by the state of Alaska. PERS provides pension, postemployment health care, death and disability benefits to eligible participants. Benefit and contribution provisions are established by state law and may be amended only by the state legislature.

Each fiscal year, PERS issues a publicly available financial report which includes financial statements and required supplementary information. That report may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

Funding Policy and Annual Pension Cost

Employee contribution rates are 7.5 percent for peace officers and firefighters and 6.75 percent for other employees, as required by state statute. The funding policy for PERS provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate the assets to pay benefits when due. However, the 2008 actuarially determined rate was 28.23 percent of applicable gross pay and the employer contribution rate was capped by the state at 22 percent. Additionally, the state appropriated funding directly to the PERS defined benefit plan to augment the PERS employers' contribution for fiscal year 2008. The university recognized $7,672,429 in state on-behalf pension payments for the PERS defined benefit plan.

The university's annual pension cost for the current year and related information is as follows:

	Pension	Postemployment healthcare	Total
Contribution rates:			
Employee:			
Peace officers and firefighters	3.83%	3.67%	7.50%
Other employees	3.44%	3.31%	6.75%
Employer	11.22%	10.78%	22.00%
Annual pension/OPEB cost	$18,391,477	$17,656,104	$36,047,581
Contributions made	$18,116,422	$17,392,050	$35,508,472
Actuarial assumptions:			
Inflation rate	3.50%	Same	
Investment return	8.25%	Same	
Projected salary increase:			
Inflation	3.50%	N/A	
Productivity and merit:			
Peace officers and firefighters	2.50%	N/A	
Others	2.00%	N/A	
Health cost trend			
Medical	N/A	8.50%	
Pharmacy	N/A	12.00%	

An actuarial valuation as of June 30, 2005 set the contribution rates for the year ended June 30, 2008. The projected unit credit method was used and the initial unfunded accrued liability and future gains/losses are being amortized on a 25-year fixed period level percentage of pay.

The university's net pension obligation (NPO) for fiscal year 2008 was as follows:

Annual required contribution	$ 18,116,422
Interest on net pension obligation	1,295,840
Adjustment to annual required contribution	(1,020,785)
Annual pension cost (APC)	18,391,477
Contributions made	(18,116,422)
Increase in net pension obligation	275,055
Net pension obligation beginning of year	18,733,288
Net pension obligation end of year	$ 19,008,343

Three year trend information for pension benefits follows:

Year Ended June 30	APC	Percentage of APC Contributed	NPO
2006	$18,116,634	66.92%	$15,572,221
2007	$18,801,669	83.19%	$18,733,288
2008	$18,391,477	98.50%	$19,008,343

The university's net other postemployment obligation (OPEB) for fiscal year 2008 was as follows:

Annual required contribution	$ 17,392,050
Interest on net OPEB obligation	1,244,026
Adjustment to annual required contribution	(979,972)
Annual OPEB cost	17,656,104
Contributions made	(17,392,050)
Increase in net OPEB obligation	264,054
Net OPEB obligation beginning of year	12,052,964
Net OPEB obligation end of year	$ 12,317,018

Three year trend information for postemployment healthcare benefits follows:

Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2006	$12,107,981	66.92%	$ 9,824,318
2007	$13,255,737	83.19%	$12,052,964
2008	$17,656,104	98.50%	$12,317,018

Funding Status and Funding Progress

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for pension and other postemployment healthcare benefits. The funded status of PERS for pension and other postemployment healthcare benefits (OPEB) as of June 30, 2006, was as follows ($ in thousands):

	Pension	OPEB	Total
Actuarial accrued liability (AAL)	$ 522,315	$ 468,355	$ 990,670
Actuarial value of plan assets	456,238	195,281	651,519
Unfunded actuarial accrued liability (UAAL)	$ (66,077)	$(273,074)	$(339,151)
Funded ratio (actuarial value of plan assets/AAL)	87%	42%	66%
Covered payroll (active plan members)	$ 135,451	$ 135,451	$ 135,451
UAAL as a percentage of covered payroll	49%	202%	172%

PERS Defined Benefit Pension Plan Changes

The Alaska Legislature Senate Bill 125, signed into law April 9, 2008, converts PERS from an agent multiple-employer plan to a cost-sharing plan effective July 1, 2008. This change provided for an integrated system of accounting for all employers. Under the integrated system, the PERS defined benefit plans' unfunded liability will be shared among all employers. The Bill also established a uniform PERS employer contribution rate of 22 percent of participating employees' covered payroll.

State of Alaska Teachers' Retirement System (TRS)

Plan Description

TRS provides pension, postemployment health care, death and disability benefits to participants. Benefit and contribution provisions are established by state law and may be amended only by the state legislature.

Each fiscal year, TRS issues a publicly available financial report which includes financial statements and required supplementary information. That report may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

Funding Policy

Employees contribute 8.65 percent of their base salary as required by state statute. The funding policy for TRS provides for periodic employer contributions at actuarially determined and ARMB approved rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. During fiscal year 2008, contractually required employee and employer contribution rates were 8.65 percent and 12.56 percent, respectively. No net pension or OPEB obligation is recorded for TRS, since according to GASB 27 and GASB 45 no such obligation is recorded for cost-sharing defined benefit plans when an employer's contribution equals the contractually required contribution. The amounts contributed to TRS by the university during the years ended June 30, 2008, 2007 and 2006 were $5,444,878, $11,177,596, and $9,167,681, respectively, equal to the required employer contributions for each year.

The actuarially determined employer contribution rate for 2008 was 42.26 percent. Upon consideration of actuarial reports on the funded status of the TRS defined benefit plan, the ARMB approved an employer contribution rate of 54.03 percent for FY08. As provided by Alaska Statute AS 14.25.070(a), the Legislature appropriated funding directly to the TRS defined benefit plan to augment the TRS employers' contribution for FY08. For fiscal year 2008, the university recognized $20,790,988 in state on-behalf pension payments for the TRS defined benefit plan.

Defined Contribution Plans:

State of Alaska Public Employees' Retirement System (PERS)

For eligible employees hired on or after July 1, 2006, the university contributes to PERS (Tier IV), a hybrid defined contribution and OPEB cost-sharing defined benefit plan established and administered by the state of Alaska. PERS provides pension, post employment health care, and occupational death and disability benefits to eligible participants. Benefit and contribution provisions are established by state law and may be amended only by the state legislature.

Each fiscal year, PERS issues a publicly available financial report which includes financial statements and required supplementary information. That report may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

Employee contribution rates are 8 percent and employer contributions are 5 percent of covered payroll for fiscal years 2008 and 2007. For the years ended June 30, 2008 and 2007, the university's total covered payroll for the PERS plan was approximately $3.2 million and $1.3 million, and contributions made by the university totaled $158,626 and $66,682, respectively.

On July 1, 2006, the Public Employees' and Teachers' Retiree Major Medical Insurance Plan (RMP) and Health Reimbursement Arrangement Plan (HRA) were created. A separate stand-alone financial report that includes financial statements and required supplementary information is issued for RMP and HRA. These reports may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

PERS defined contribution participants are eligible members of RMP and HRA. The employer RMP contribution rates for fiscal year 2008 and 2007 are 0.99 percent and 1.75 percent for medical coverage, and 0.58 percent and 0.3 percent (1.33 percent and 0.4 percent for peace officers and firefighters) for occupational death and disability benefit contributions, respectively. For fiscal years 2008 and 2007, the HRA employer contributions are at 3 percent of the employer's average annual employee compensation, based on the participant's employment classification.

The amounts contributed to the RMP by the university during the years ended June 30, 2008 and 2007 were $50,374 and $27,183, respectively, equal to the required employer contributions for each year.

Contributions to the HRA by the university during the years ended June 30, 2008 and 2007 were $137,148 and $70,096, respectively.

State of Alaska Teachers' Retirement System (TRS)

For eligible employees hired on or after July 1, 2006, the university contributes to TRS (Tier III), a hybrid defined contribution and OPEB cost-sharing defined benefit plan established and administered by the state of Alaska. TRS provides pension, postemployment health care, and occupational death and disability benefits to eligible participants. Benefit and contribution provisions are established by state law and may be amended only by the state legislature.

Each fiscal year, TRS issues a publicly available financial report which includes financial statements and required supplementary information. That report may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

Employee contribution rates are 8 percent and employer contributions are 7 percent of covered payroll for fiscal years 2008 and 2007. For the years ended June 30, 2008 and 2007, the university's total covered payroll for the TRS plan was approximately $1.8 million and $0.9 million, and contributions made by the university totaled $129,000 and $60,403, respectively.

On July 1, 2006, the Public Employees' and Teachers' Retiree Major Medical Insurance Plan (RMP) and Health Reimbursement Arrangement Plan (HRA) were created. A separate stand-alone financial report that includes financial statements and required supplementary information is issued for RMP and HRA. These reports may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

TRS defined contribution participants are eligible members of RMP and HRA. The employer RMP contribution rates for fiscal year 2008 and 2007 are 0.99 percent and 1.75 percent for medical coverage, and 0.62 percent and 0 percent for occupational death and disability benefit contributions, respectively. For fiscal years 2008 and 2007, the HRA employer contributions are at 3 percent of the employer's average annual employee compensation, based on the participant's employment classification.

The amounts contributed to the RMP by the university during the years ended June 30, 2008 and 2007 were $29,682 and $15,087, respectively, equal to the required employer contributions for each year.

Contributions to the HRA by the university during the years ended June 30, 2008 and 2007 were $53,701 and $28,415, respectively.

University of Alaska Optional Retirement Plan (ORP)

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

ORP Tier 1

The ORP Tier 1 participants make employee contributions to one of the plan's annuity programs at a rate of 8.65 percent of covered payroll. The university contributes to one of the plan's authorized employee-selected annuity providers or investment managers at a rate equal to the three-year moving average of the TRS employer contribution rates (19.85 percent for FY08 and 21 percent for FY07).

In fiscal year 2008 and 2007, the university's total covered payroll for the ORP Tier 1 plan was approximately $50.1 million and $52 million, respectively. The amounts contributed to the ORP Tier 1 by the university during the years ended June 30, 2008, 2007, and 2006 were $9,945,730, $10,927,908 and $8,907,978, respectively.

ORP Tier 2

The ORP Tier 2 participants make employee contributions to one of the plan's annuity programs at a rate of 8.65 percent of covered payroll. The university contributed to one of the plan's authorized employee-selected annuity providers or investment managers at a rate of 12 percent of covered payroll for fiscal years 2008 and 2007.

In fiscal year 2008 and 2007, the university's total covered payroll for the ORP Tier 2 plan was approximately $5.1 million and $5.7 million, respectively. The amounts contributed to the ORP Tier 2 by the university during the years ended June 30, 2008, 2007 and 2006 were $614,390, $683,786 and $484,288, respectively.

The ORP Tier 2 plan was available for newly-hired ORP benefit-eligible employees hired in fiscal year 2006. As of July 1, 2006, the ORP Tier 2 plan was no longer available to newly-hired ORP benefit-eligible employees.

ORP Tier 3

The ORP Tier 3 is eligible for employees hired on or after July 1, 2006. The ORP Tier 3 participants make employee contributions to one of the plan's annuity programs at a rate of 8 percent of covered payroll. The university contributed to one of the plan's authorized employee-selected annuity providers or investment managers at a rate of 12 percent of covered payroll for fiscal years 2008 and 2007.

In fiscal years 2008 and 2007, the university's total covered payroll for the ORP Tier 3 plan was approximately $30.8 million and $12.3 million, respectively. The amounts contributed to the ORP Tier 3 by the university during the years ended June 30, 2008 and 2007 were $3,700,880 and $1,473,090, respectively.

Plan Assets

At June 30, 2008 and 2007, plan assets (participants' accounts attributable to employer contributions) had a net value of approximately $98.9 million for ORP Tier 1, ORP Tier 2 and ORP Tier 3, and $92.3 million for ORP Tier 1, ORP Tier 2 and ORP Tier 3, respectively. ORP Tier 1 and ORP Tier 2 participants are 100 percent vested at all times. University contributions for ORP Tier 3 participants are 100 percent vested after three years of service.

University of Alaska Pension Plan (Pension)

In addition to the other retirement plans, substantially all regular employees (hired before July 1, 2006) and certain faculty classified as temporary participate in the Pension plan which was established effective January 1, 1982, when the university withdrew from the federal social security program. Eligible employees, hired on or after July 1, 2006, electing to participate in the University of Alaska Retirement Program also participate in the Pension plan. Effective January 1, 2008, employer contributions for regular employees were 7.65 percent of covered wages up to a maximum of $42,000 and $102,000 for certain faculty classified as temporary. The plan provides for employer contributions to be invested in accordance with participant-directed investment elections to the plan's fixed income and/or equity funds. Participants hired before July 1, 2006 are 100 percent vested at all times. University contributions for participants hired on or after July 1, 2006 are 100 percent vested after three years of service.

In 2008 and 2007, the university's total covered payroll for the Pension plan was approximately $175.7 million and $175.3 million, respectively. The university's costs to fund and administer the plan totaled $13.4 million, or 7.65 percent of covered payroll. At June 30, 2008 and 2007, plan assets (participants' accounts) had a net value of approximately $298.9 million and $318.8 million, respectively.

13. Insurance and Risk Management:

The university is exposed to a wide variety of risks including property loss, bodily and personal injury, intellectual property, errors and omissions, aviation and marine. Exposures are handled with a combination of self-insurance, commercial insurance, and membership in a reciprocal risk retention group. The university is self-insured up to the maximum of $2 million per occurrence for casualty claims and $250,000 for property claims. Commercial carriers provide coverage in excess of these amounts. Health care, workers' compensation and unemployment claims are fully self-insured.

Liabilities have been established to cover estimates for specific reported losses, estimates for unreported losses based upon past experience modified for current trends, and estimates of expenses for investigating and settling claims.

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

	Balance July 1, 2007	Provision for Claims	Claims Payment	Balance June 30, 2008
Health	$ 6,862	$ 49,052	$ (48,116)	$ 7,798
General liability	5,075	857	(570)	5,362
Workers' compensation	6,161	1,688	(1,798)	6,051
Unemployment	70	303	(301)	72
	$ 18,168	$ 51,900	$ (50,785)	$ 19,283

	Balance July 1, 2006	Provision for Claims	Claims Payment	Balance June 30, 2007
Health	$ 6,404	$ 45,764	$ (45,306)	$ 6,862
General liability	7,518	743	(3,186)	5,075
Workers' compensation	5,778	2,075	(1,692)	6,161
Unemployment	69	316	(315)	70
	$ 19,769	$ 48,898	$ (50,499)	$ 18,168

14. Commitments and Contingencies:

Amounts received and expended by the university under various federal and state grants, contracts and other programs are subject to audit and potential disallowance. From time to time the university is named as a defendant in legal proceedings or cited in regulatory actions related to the conduct of its operations. In the normal course of business, the university also has various other commitments and contingent liabilities which are not reflected in the accompanying financial statements. In the opinion of management, the university will not be affected materially by the final outcome of any of these legal proceedings, environmental investigations, audit adjustments, or other commitments and contingent liabilities. In addition, an ongoing environmental assessment for the Northwest Campus Front Street property is discussed below:

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

15. University of Alaska Foundation:

The University of Alaska Foundation (foundation) is a legally separate, non profit organization formed in 1974 to solicit donations for the exclusive benefit of the University of Alaska. During 2008 and 2007, the university transferred $1.1 million and $1 million, to the foundation, of which institutional support comprised $0.9 million and $0.8 million, respectively. For the same periods, the foundation reimbursed the university for operating expenses totaling $1.8 million and $1.5 million, respectively. At June 30, 2008 and 2007, distributions and expenditures by the foundation for the benefit of the university totaled $15.4 million and $15.5 million, of which $14.9 million and $15.2 million were direct reimbursements to the university. Additionally, the foundation owed the university $2 million at June 30, 2008 and $1.9 million at June 30, 2007, primarily for reimbursement of expenditures on grants provided by the foundation.

The investable resources of the university's land grant endowment trust fund and the foundation's pooled endowment funds are combined into a consolidated endowment fund for investment purposes. At June 30, 2008 and 2007, the fair value of the fund was $259.3 million and $266.5 million, respectively. The university's share of this fund was $143.1 million and $147.0 million, which is reflected in endowment investments. The fund is managed by the foundation's investment committee and treasurer on a total return basis in accordance with an investment policy approved by the Board of Regents. The net assets and related activity for the university's land grant endowment trust's investment in the fund is reflected in the university's financial statements.

16. Functional Classifications with Natural Classifications:

The university's operating expenses by natural classification were as follows ($ in thousands):

	Year ended June 30, 2008						
	Compensation & Benefits	Contractual Services	Supplies & Materials	Other	Student Aid	Depre- ciation	Total
Instruction	$ 149,943	$ 23,768	$ 9,199	$ 280	$ -	$ -	$ 183,190
Academic support	39,300	5,926	6,888	60	-	-	52,174
Research	83,739	29,198	8,751	155	-	-	121,843
Public service	23,905	9,919	2,042	197	-	-	36,063
Student services	33,020	9,817	2,536	64	-	-	45,437
Operations and maintenance	25,065	15,692	12,998	1,228	-	-	54,983
Institutional support	62,328	15,153	4,243	887	-	-	82,611
Student aid	-	-	-	-	14,879	-	14,879
Auxiliary enterprises	9,378	16,712	13,194	126	-	-	39,410
Depreciation	-	-	-	-	-	56,883	56,883
NPO, OPEB and state on-behalf payments	-	-	-	29,003	-	-	29,003
	$ 426,678	$ 126,185	$ 59,851	$ 32,000	$ 14,879	$ 56,883	$ 716,476

	Year ended June 30, 2007						
	Compensation & Benefits	Contractual Services	Supplies & Materials	Other	Student Aid	Depre- ciation	Total
Instruction	$ 146,619	$ 24,561	$ 9,869	$ 126	$ -	$ -	$ 181,175
Academic support	37,301	6,524	6,781	53	-	-	50,659
Research	83,740	37,427	10,071	45	-	-	131,283
Public service	22,556	8,422	1,661	287	-	-	32,926
Student services	30,183	8,714	2,803	190	-	-	41,890
Operations and maintenance	23,638	13,528	11,963	1,087	-	-	50,216
Institutional support	53,602	10,679	4,339	942	-	-	69,562
Student aid	-	-	-	-	13,566	-	13,566
Auxiliary enterprises	9,338	14,967	14,217	159	-	-	38,681
Depreciation	-	-	-	-	-	57,455	57,455
NPO and OPEB	-	-	-	5,389	-	-	5,389
	$ 406,977	$ 124,822	$ 61,704	$ 8,278	$ 13,566	$ 57,455	$ 672,802

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for PERS
($ in thousands):

	Actuarial valuation year ended June 30	Actuarial value of plan assets	Actuarial accrued liability (AAL)	(Unfunded) overfunded actuarial accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
Pension benefits:							
	2004	$ 326,815	$ 444,092	$ (117,277)	74%	$ 116,156	101%
	2005	$ 307,243	$ 441,742	$ (134,499)	70%	$ 124,699	108%
	*2006	$ 456,238	$ 522,315	$ (66,077)	87%	$ 135,451	49%
Postemployment healthcare benefits:							
	2004	$ 230,444	$ 313,137	$ (82,693)	74%	$ 116,156	71%
	2005	$ 294,945	$ 424,061	$ (129,116)	70%	$ 124,699	104%
	*2006	$ 195,281	$ 468,355	$ (273,074)	42%	$ 135,451	202%
Total:							
	2004	$ 557,259	$ 757,229	$ (199,970)	74%	$ 116,156	89%
	2005	$ 602,188	$ 865,803	$ (263,615)	70%	$ 124,699	106%
	*2006	$ 651,519	$ 990,670	$ (339,151)	66%	$ 135,451	172%

Note: On July 1, 2008, PERS became a cost sharing plan and the state of Alaska will not be publishing a *Supplement to the Actuarial Valuation Report as of June 30, 2007*.

* The actuarial cost method was changed from Projected Unit Credit to Entry Age Normal effective with the June 30, 2006 valuation.