

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

Financial Statements

June 30, 2008 and 2007

(With Independent Auditor's Report Thereon)

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

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

STATEMENTS OF ASSETS AND LIABILITIES

June 30, 2008 and 2007

Assets	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 6,255	\$ 669
Fixed income securities	56,269,967	54,998,769
Equity securities	114,187,940	130,682,689
Alternative investments	74,218,437	64,679,787
Real estate partnerships and investment trusts	12,811,410	12,521,293
Other investments	1,776,243	3,556,498
Interest and dividends receivable	<u>22,433</u>	<u>104,245</u>
Total assets	<u>259,292,685</u>	<u>266,543,950</u>
Liabilities	<u>-</u>	<u>-</u>
Net Assets		
University of Alaska	143,071,174	147,015,826
University of Alaska Foundation	<u>116,221,511</u>	<u>119,528,124</u>
Total net assets	<u>\$ 259,292,685</u>	<u>\$ 266,543,950</u>
Net Asset Value Per Unit	<u>\$251.89</u>	<u>\$264.78</u>

The accompanying notes are an integral part of the financial statements

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

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

For the years ended June 30, 2008 and 2007

Investment Income	2008	2007
Interest and dividend income	\$ 4,499,772	\$ 4,695,810
Operating income (losses) from alternative investments	(199,099)	220,273
Other investment income	201,627	837,137
Net investment income before expenses	4,502,300	5,753,220
 Expenses		
Management fees	366,013	371,978
Investment consulting fees	50,000	50,000
Custodial fees	17,521	37,471
Audit fees	9,699	12,438
Total expenses	443,233	471,887
Net investment income	4,059,067	5,281,333
 Realized and Unrealized Investment Gains (Losses)		
Net realized and unrealized investment gains (losses)	(13,047,254)	35,054,918
 Net Increase (Decrease) in Net Assets Resulting from Operations	 (8,988,187)	 40,336,251
Distributions for endowment spending	(7,321,197)	(8,123,946)
Distributions for endowment assessments	(1,293,555)	(418,584)
Additional investments	10,351,674	10,598,904
Net Increase (Decrease) in Net Assets	 (7,251,265)	 42,392,625
Net assets, beginning of year	266,543,950	224,151,325
Net assets, end of year	\$ 259,292,685	\$ 266,543,950

The accompanying notes are an integral part of the financial statements

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UNIVERSITY OF ALASKA
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CONSOLIDATED ENDOWMENT FUND

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STATEMENTS OF CASH FLOWS
For the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Net increase (decrease) in net assets from operations	\$ (8,988,187)	\$ 40,336,251
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash used in operating activities:		
Purchases of investments	(99,268,010)	(91,661,651)
Proceeds from distributions or sale of investments	93,395,795	84,226,258
Net realized and unrealized (gain) loss on investments	13,047,254	(35,054,918)
Decrease in interest and dividends receivable	81,812	95,439
Net cash used in operating activities	<u>(1,731,336)</u>	<u>(2,058,621)</u>
Cash flows from financing activities:		
Additions	10,351,674	10,598,904
Spending distributions	(7,321,197)	(8,123,946)
Endowment assessments	<u>(1,293,555)</u>	<u>(418,584)</u>
Net cash provided by financing activities	<u>1,736,922</u>	<u>2,056,374</u>
Net increase (decrease) in cash and cash equivalents	5,586	(2,247)
Cash and cash equivalents, beginning of year	<u>669</u>	<u>2,916</u>
Cash and cash equivalents, end of year	<u>\$ 6,255</u>	<u>\$ 669</u>

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

1. Organization and Summary of Significant Accounting Policies

Organization

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

The University Endowment Trust Fund, codified in Alaska Statute 14.40.400, is an endowment trust fund. The source of the funding consists of income from the sale or lease of land granted to the university by an Act of Congress approved January 21, 1929 and other gifts and bequests.

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

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

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

Basis of Accounting

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

Due to the endowment nature of the fund, all assets, including cash and cash equivalents, are considered non-current assets held for long-term investment.

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. The net realized and unrealized appreciation (depreciation) in fair value of investments is reflected in the statement of operations.

UNIVERSITY OF ALASKA
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NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

1. Organization and Summary of Significant Accounting Policies, continued

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of net assets.

At June 30, 2008, the fund had approximately \$96.4 million in investments which were not readily marketable. These investments represent 37% of total investments and 37% 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.

Other investments, which consist of equity collateralized debt obligations, are stated at cost. When, in the opinion of management, there has been a permanent impairment in the asset value, the asset is written down to its fair value. Income from other investments is recognized when received.

In September 2006, the FASB released Statement of Financial Accounting Standards No. 157 (FAS 157) "Fair Value Measurements." FAS 157 establishes an authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. The application of FAS 157 is required for fiscal years beginning after November 15, 2007. Management is currently evaluating the impact that the adoption of FAS 157 will have on the financial statements, however, management does not believe the adoption of FAS 157 will have a material impact on the amounts reported in the financial statements.

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

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

Reclassifications

Certain reclassifications have been made to prior period amounts to conform them to current period presentation.

**UNIVERSITY OF ALASKA
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NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

2. Asset Allocation

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

	<u>2008</u>	<u>2007</u>
Fixed income, domestic	21.7%	20.7%
Equities, domestic	26.8%	29.7%
Equities, foreign	11.8%	13.3%
Equities, global	5.5%	6.1%
Alternative investments	28.6%	24.1%
Real estate partnerships and investment trusts	4.9%	4.7%
Other investments	<u>.7%</u>	<u>1.4%</u>
	<u>100%</u>	<u>100%</u>

3. Commitments

The fund had commitments to make capital contributions to various alternative investments and real estate investment trusts totaling \$21 million and \$23 million at June 30, 2008 and 2007.

4. Changes in Net Asset Balances

Changes in net asset balances by participant were as follows:

	<u>Foundation</u>	<u>University</u>	<u>Total</u>
Balance, July 1, 2006	\$ 99,097,957	\$ 125,053,368	\$ 224,151,325
Net increase from operations	17,889,962	22,446,289	40,336,251
Distributions for endowment spending	(3,432,139)	(4,691,807)	(8,123,946)
Distributions for endowment assessments	(226,560)	(192,024)	(418,584)
Additional net investments	<u>6,198,904</u>	<u>4,400,000</u>	<u>10,598,904</u>
Balance, June 30, 2007	119,528,124	147,015,826	266,543,950
Net decrease from operations	(4,007,843)	(4,980,344)	(8,988,187)
Distributions for endowment spending	(3,871,893)	(3,449,304)	(7,321,197)
Distributions for endowment assessments	(1,078,551)	(215,004)	(1,293,555)
Additional net investments	<u>5,651,674</u>	<u>4,700,000</u>	<u>10,351,674</u>
Balance, June 30, 2008	<u>\$ 116,221,511</u>	<u>\$ 143,071,174</u>	<u>\$ 259,292,685</u>

5. Distributions

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

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6. Subsequent Events

Effective September 29, 2008, Wachovia Bank, N.A., as Trustee of the Common Fund 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 fund's balance in the Short Term Fund was \$8.6 and \$5.3 million as of June 30, 2008 and October 29, 2008, respectively. As of October 29, 2008, approximately 21 percent of Short Term Fund assets were available for withdrawal. The value of the liquidation proceeds received by the fund 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.

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

UNIVERSITY OF ALASKA FOUNDATION

Financial Statements

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(With Independent Auditor's Report Thereon)

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UNIVERSITY OF ALASKA FOUNDATION

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UNIVERSITY OF ALASKA FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2008 and 2007

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Assets	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 904,340	\$ 3,592,496
Interest receivable	110,020	57,509
Short term investments	6,667,761	9,339,221
Contributions receivable, net	16,548,427	6,639,563
Escrows receivable	154,695	189,399
Inventory	77,311	77,363
Other assets	424,560	424,561
Pooled endowment funds	116,221,511	119,528,124
Other long term investments	<u>38,171,670</u>	<u>29,365,174</u>
Total assets	<u>\$ 179,280,295</u>	<u>\$ 169,213,410</u>
 Liabilities		
Due to the University of Alaska	\$ 2,033,256	\$ 1,920,407
Other liabilities	15,328	272
Remainder trust obligations	327,737	331,739
Term endowment liability	<u>1,000,000</u>	<u>1,000,000</u>
Total liabilities	<u>3,376,321</u>	<u>3,252,418</u>
 Net Assets		
Unrestricted	41,378,777	43,757,289
Temporarily restricted	81,280,653	71,759,108
Permanently restricted	<u>53,244,544</u>	<u>50,444,595</u>
Total net assets	<u>175,903,974</u>	<u>165,960,992</u>
Total liabilities and net assets	<u>\$ 179,280,295</u>	<u>\$ 169,213,410</u>

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UNIVERSITY OF ALASKA FOUNDATION
STATEMENTS OF ACTIVITIES
For the years ended June 30, 2008 and 2007

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	Unrestricted	Temporarily Restricted	Permanently Restricted	2008
Revenues, gains and other support				
Contributions	\$ 857,258	\$ 25,651,894	\$ 2,622,220	\$ 29,131,372
Investment income	1,888,662	1,494,285	-	3,382,947
Net realized and unrealized investment gains (losses)	(1,796,560)	(4,405,566)	-	(6,202,126)
Other revenues	517	97,217	-	97,734
Actuarial adjustment of remainder trust obligations	-	(6,067)	(6,936)	(13,003)
Losses on disposition of other assets	-	(114,689)	-	(114,689)
Administrative assessments	1,213,775	(980,553)	(18,218)	215,004
Support from University of Alaska	857,774	-	-	857,774
Net assets released from restriction	12,023,093	(12,023,093)	-	-
Total revenues, gains and other support	15,044,519	9,713,428	2,597,066	27,355,013
Expenses and distributions				
Operating expenses	1,982,543	-	-	1,982,543
Distributions for the benefit of the University of Alaska	15,429,488	-	-	15,429,488
Total expenses and distributions	17,412,031	-	-	17,412,031
Excess (deficit) of revenues over expenses	(2,367,512)	9,713,428	2,597,066	9,942,
Transfers between net asset classes	(11,000)	(191,883)	202,883	-
Increase (decrease) in net assets	(2,378,512)	9,521,545	2,799,949	9,942,982
Net assets, beginning of year	43,757,289	71,759,108	50,444,595	165,960,992
Net assets, end of year	<u>\$ 41,378,777</u>	<u>\$ 81,280,653</u>	<u>\$ 53,244,544</u>	<u>\$ 175,903,974</u>

Unrestricted	Temporarily Restricted	Permanently Restricted	2007
\$ 4,150,193	\$ 13,033,229	\$ 2,850,185	\$ 20,033,607
1,832,691	1,914,824	-	3,747,515
4,512,365	12,670,683	-	17,183,048
941	124,844	-	125,785
-	(1,500)	(7,151)	(8,651)
(25)	(83,145)	(98)	(83,268)
340,197	(130,951)	(17,222)	192,024
830,000	-	-	830,000
11,744,234	(11,744,234)	-	-
<u>23,410,596</u>	<u>15,783,750</u>	<u>2,825,714</u>	<u>42,020,060</u>
1,620,368	-	-	1,620,368
15,510,503	-	-	15,510,503
<u>17,130,871</u>	<u>-</u>	<u>-</u>	<u>17,130,871</u>
6,279,725	15,783,750	2,825,714	24,889,189
249,185	(236,830)	(12,355)	-
6,528,910	15,546,920	2,813,359	24,889,189
37,228,379	56,212,188	47,631,236	141,071,803
<u>\$ 43,757,289</u>	<u>\$ 71,759,108</u>	<u>\$ 50,444,595</u>	<u>\$ 165,960,992</u>

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

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UNIVERSITY OF ALASKA FOUNDATION
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2008 and 2007

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	2008	2007
Cash flows from operating activities:		
Contributions received	\$ 17,046,236	\$ 16,436,334
Investment income received	3,330,436	3,825,252
Distributions for the benefit of the University of Alaska	(15,397,251)	(15,234,167)
Cash paid for operating expenses	(1,583,488)	(1,321,274)
Other receipts	1,346,143	958,871
Net cash provided by operating activities	4,742,076	4,665,016
Cash flows from investing activities:		
Net increase in investments	(9,273,253)	(7,653,323)
Receipts from disposition of assets	34,704	16,490
Net cash used in investing activities	(9,238,549)	(7,636,833)
Cash flows from financing activities:		
Contributions restricted for permanent investment	1,836,657	2,534,490
Investment income on charitable remainder trusts	34,358	40,634
Payment of charitable remainder trust obligations	(62,698)	(63,910)
Net cash provided by financing activities	1,808,317	2,511,214
Net decrease in cash and cash equivalents	(2,688,156)	(460,603)
Cash and cash equivalents, beginning of year	3,592,496	4,053,099
Cash and cash equivalents, end of year	\$ 904,340	\$ 3,592,496

	<u>2008</u>	<u>2007</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 9,942,982	\$ 24,889,189
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions of noncash assets	(104,370)	(465,577)
Net realized and unrealized investment gains (losses)	6,421,291	(17,183,048)
Loss on disposition of other assets	114,689	83,268
Non-cash operating expenses	3,384	4,786
Non-cash distributions to the University of Alaska	84,476	94,099
Contributions restricted for permanent investment	(1,836,657)	(2,534,490)
Actuarial adjustment of remainder trust obligations	13,004	8,651
Changes in assets and liabilities:		
(Increase) decrease in interest receivable	(52,511)	77,737
(Increase) decrease in contributions receivable	(10,033,503)	(596,926)
(Increase) decrease in inventory	52	1,810
(Increase) decrease in long term investments	50,000	-
Increase (decrease) in due to the University of Alaska	112,849	285,785
Increase (decrease) in other liabilities	15,056	(268)
Increase (decrease) in annuity payment liabilities	11,334	-
Net cash provided by operating activities	<u>\$ 4,742,076</u>	<u>\$ 4,665,016</u>
Noncash investing activity		
Contributions of investment assets	\$ 26,460	\$ 355,995

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

1. Organization and Summary of Significant Accounting Policies

Organization

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

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

Basis of Presentation

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

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

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

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

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

Basis of Accounting

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

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

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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1. Organization and Summary of Significant Accounting Policies, continued

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

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of net assets.

The Foundation's investments 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.

At June 30, 2008, the foundation had approximately \$64.5 million in investments which were not readily marketable. These investments represent 39.9% of total investments and 36.7% 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.

In September 2006, the FASB released Statement of Financial Accounting Standards No. 157 (FAS 157) "Fair Value Measurements." FAS 157 establishes an authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. The application of FAS 157 is required for fiscal years beginning after November 15, 2007. Management is currently evaluating the impact that the adoption of FAS 157 will have on the financial statements; however, management does not believe the adoption of FAS 157 will have a material impact on the amounts reported in the financial statements.

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

1. Organization and Summary of Significant Accounting Policies, continued

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

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

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions expected to be received one year or more in the future are discounted at a discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

Contributions received for memorials or prospective endowments that have not yet met the minimum requirements for acceptance as an endowment are accumulated in temporarily restricted accounts. The accumulated contributions are transferred to permanently restricted endowment accounts when the minimum requirements are fulfilled. If the requirements are not fulfilled, consistent with the conditions of acceptance, the contributions are expended for the purpose received.

Reclassifications

Certain reclassifications have been made to prior period amounts in order to conform them to current period presentation.

2. Cash and Cash Equivalents

Cash and cash equivalents include the following:

	<u>2008</u>	<u>2007</u>
Items in transit, non interest bearing	\$ 693,159	\$ 3,274,068
Interest bearing funds	<u>211,181</u>	<u>318,428</u>
	<u>\$ 904,340</u>	<u>\$ 3,592,496</u>

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3. Short Term Investments

Short term investments include the following:

	<u>2008</u>	<u>2007</u>
Commonfund Short Term Fund	\$ 6,666,919	\$ 9,339,221
Donated marketable securities	842	-
	<u>\$ 6,667,761</u>	<u>\$ 9,339,221</u>

4. Contributions Receivable

Unconditional promises to make contributions are included in the financial statements as contributions receivable and temporarily restricted revenue. Contributions receivable at June 30, 2008 and 2007 were recorded at the discounted present value of the future cash flows using a discount rate of 5% through June 30, 2002, 2.5% from July 1, 2002 through June 30, 2005, 5% from July 1, 2005 through June 30, 2007 and 3% after that date. Contributions receivable are expected to be realized in the following periods:

	<u>2008</u>	<u>2007</u>
In one year or less	\$ 1,807,883	\$ 5,411,864
Between one year and five years	12,153,762	1,211,528
More than five years	4,551,204	215,531
	<u>18,512,849</u>	<u>6,838,923</u>
Discount	(1,941,382)	(198,476)
Allowance for uncollectible accounts	(23,040)	(884)
	<u>\$ 16,548,427</u>	<u>\$ 6,639,563</u>

Included in contributions receivable were \$11 million and \$4 million at June 30, 2008 and 2007, respectively, due pursuant to a charter agreement between certain oil companies and the State of Alaska. The agreement provides that annually, these oil companies will designate an amount based on aggregate net Alaska liquids production after royalty and the price for West Texas Intermediate crude oil for funding charitable organizations and causes within Alaska. The agreement specifies that 30% of this amount be given to the University of Alaska Foundation and the remainder to general community needs.

5. Escrows Receivable

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

6. Real Property

Under a cooperative agreement with the University of Alaska, the net proceeds from the sale of gifted real estate by the university, unless otherwise specified by the donor or the university president, will be transferred to the foundation to be managed in accordance with donor intent. Proceeds transferred to the foundation were \$140,546 and \$0 for the years ended June 30, 2008 and 2007, respectively.

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7. Pooled Endowment Funds

Effective July 1, 1997, management of the university's land grant trust fund was transferred from the State Department of Revenue to the university. The foundation and the university agreed to consolidate the foundation's pooled endowment funds and the university's land grant trust funds into a Consolidated Endowment Fund (fund) for investment purposes. The foundation's investment represents 45% of the total fund at June 30, 2008 and 2007. The fund is managed by the foundation's investment committee under the "total return" concept of investment management intended to preserve and maintain the purchasing power of the principal. The net assets and related activity for their respective investment in the fund are reflected in the financial statements of the foundation and the university.

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

The Consolidated Endowment Fund includes the following:

	<u>2008</u>	<u>2007</u>
Fixed income securities	\$ 56,276,222	\$ 54,999,438
Equity securities	114,187,940	130,682,689
Alternative investments	74,218,437	64,679,787
Real estate partnerships and investment trusts	12,811,410	12,521,293
Other investments	1,776,243	3,556,498
Other	22,433	104,245
	<u>\$ 259,292,685</u>	<u>\$ 266,543,950</u>

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

	<u>2008</u>	<u>2007</u>
University of Alaska Foundation	\$ 116,221,511	\$ 119,528,124
University of Alaska	143,071,174	147,015,826
	<u>\$ 259,292,685</u>	<u>\$ 266,543,950</u>

Investment management, custodial and consulting fees for the foundation's pooled endowment funds totaled \$198,298 and \$209,063 for the years ended June 30, 2008 and 2007, respectively. These fees have been included as reductions to investment income.

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

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8. Other Long Term Investments

Other long term investments include the following:

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 84,632	\$ 20,662
Fixed income securities	37,175,588	28,384,792
Equity securities	635,050	633,320
Real estate partnerships	276,400	326,400
	<u>\$ 38,171,670</u>	<u>\$ 29,365,174</u>

Investment custodial and management fees for other long term investments totaled \$55,595 and \$50,702 for the years ended June 30, 2008 and 2007, respectively. These fees have been included as reductions to investment income.

9. Split Interest Obligations

The foundation has established charitable remainder trust and charitable gift annuity plans. These plans specify that donors may contribute assets to the foundation in exchange for the right to receive a fixed dollar or fixed percentage annual return. The difference between the amount of the gift and the present value of the liability for future payments, determined on an actuarial basis, is recognized as a contribution at the date of the gift. The split interest obligations are revalued annually and any resulting actuarial gain or loss is recorded as a change in net assets.

10. Term Endowment Liability

In July 1997 the foundation accepted a term endowment. Earnings from the endowment are restricted for the maintenance of a student housing facility. The agreement with the donor requires the original principal of the endowment to remain inviolate until April 30, 2020 at which time the original principal and the unexpended earnings, if any, will be returned to the donor. The original principal of \$1,000,000 is recorded as a liability at June 30, 2008 and 2007.

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11. Net Assets

	<u>2008</u>	<u>2007</u>
Unrestricted net assets consisted of the following:		
Available for current operations - amounts not designated by management for specific purposes or subject to donor-imposed restrictions.	\$ 4,015,677	\$ 7,425,734
Designated for specific purposes - spendable earnings of quasi endowment funds and amounts designated for specific purposes by management.	14,297,109	12,298,314
Quasi endowments - corpus of board designated endowment funds	16,835,327	15,984,063
Underwater endowment losses - investment losses on donor restricted endowment funds in excess of net appreciation	(33,287)	-
Unexpended endowment earnings - accumulated earnings in excess of designated spending limits for quasi endowment funds not subject to donor-imposed restrictions.	6,263,951	8,049,178
	<u>\$ 41,378,777</u>	<u>\$ 43,757,289</u>
Temporarily restricted net assets consisted of the following:		
Restricted for specific purposes - spendable earnings of endowment funds and other non-endowment net assets subject to donor imposed restrictions	\$ 40,625,015	\$ 22,703,734
Unconditional promises to give - contributions receivable in future periods that are not subject to donor imposed	4,130	4,024,720
Quasi endowments - corpus of funds subject to donor imposed restrictions designated by the board as endowment	9,678,080	6,952,040
Endowments - corpus of term funded endowments	3,660,440	3,660,440
Unexpended endowment earnings - accumulated earnings in excess of designated spending limits for endowment funds subject to donor-imposed restrictions	27,312,988	34,418,174
	<u>\$ 81,280,653</u>	<u>\$ 71,759,108</u>
Permanently restricted net assets consisted of the following:		
Endowments - corpus of endowment funds required by donor to be invested in perpetuity	\$ 52,761,935	\$ 49,955,050
Charitable remainder trusts - annuity trusts and unitrusts required by donor to be invested in perpetuity	482,609	489,545
	<u>\$ 53,244,544</u>	<u>\$ 50,444,595</u>

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12. Net Assets Released from Restriction

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

13. Distributions for the Benefit of the University of Alaska

Distributions for the benefit of the University of Alaska, by functional classification, for the years ended June 30, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
University of Alaska Anchorage		
Engineering	\$ 487,810	\$ 520,708
General	2,799,176	3,520,363
Liberal arts, human and rural development	186,781	115,283
Library	90,318	13,946
Management/business administration	181,614	174,821
Museum	6,996	-
Natural Sciences, agriculture and land resources	17,074	-
Research	192,079	82,883
Student aid	900,093	684,926
	<u>4,861,941</u>	<u>5,112,930</u>
University of Alaska Fairbanks		
Engineering	66,751	46,772
General	4,257,117	3,583,154
KUAC radio and television	628,426	842,092
Liberal arts, human and rural development	384,662	186,310
Library	174,482	150,267
Management/business administration	47,440	76,935
Museum	561,169	1,010,461
Natural sciences, agriculture and land resources	206,847	201,074
Research	588,493	777,849
Student aid	1,164,668	1,315,330
	<u>8,080,055</u>	<u>8,190,244</u>
University of Alaska Southeast		
General	968,004	743,867
Liberal arts, human and rural development	4,976	4,539
Library	28,194	14,575
Management/business administration	2,665	-
Natural sciences, agriculture and land resources	668	3,499
Student aid	202,978	211,348
	<u>1,207,485</u>	<u>977,828</u>
University of Alaska		
General	1,280,007	1,229,501
	<u>1,280,007</u>	<u>1,229,501</u>
	<u>\$ 15,429,488</u>	<u>\$ 15,510,503</u>

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14. Assets Held in Trust By Others

The University of Alaska is a beneficiary of The Bentley Beneficiaries Trust which is managed by an independent trustee. In accordance with University of Alaska policy, the university's interest in this trust will accrue to the foundation. Distributions from the trust have been recorded by the foundation as unrestricted income during the period the distributions were received. Management's estimate of fair value of the university's undivided one-eighth (12.5%) interest in the trust at June 30, 2008 and 2007 is approximately \$1.0 and \$2.6 million, respectively. The principal of the trust has not been recorded in the accounts of the university or the foundation.

The foundation is a remainder beneficiary of The Metcalf Family Trust which is managed by an independent trustee. Management's estimate of fair value of the foundation's undivided one-half (50%) interest in the trust was approximately \$0.4 and \$0.5 million at June 30, 2008 and 2007, respectively. Since the foundation does not have control over the trust assets and cash flows cannot be reasonably estimated, the principal of the trust has not been recorded in the accounts of the foundation.

The University of Alaska is a remainder beneficiary of The Anthony John Nordale Trust and The Anthony John Nordale Reserve Trust. These trusts are managed by an independent trustee. In accordance with University of Alaska policy, the university's interest in these trusts will accrue to the foundation. Management's estimate of fair value of the university's undivided one-half (50%) interest in the Anthony John Nordale Trust at June 30, 2008 and 2007 is approximately \$0.3 and \$0.4 million, respectively. Management's estimate of fair value of the university's undivided one-half (50%) interest in the Anthony John Nordale Reserve Trust at June 30, 2008 and 2007 is approximately \$1.0 million and \$1.1 million, respectively. Since neither the university nor the foundation have control over the trust assets and cash flows cannot be reasonably estimated, the principal of the trusts has not been recorded in the accounts of the university or the foundation.

15. Administrative Assessments

Beginning July 1, 2006, the foundation charges assessments to cover administrative and fundraising expenses as follows.

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

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

Land Grant Trust Fund Assets - .16% is assessed by the foundation annually based on the asset valuation of the university's land grant trust fund assets invested by the foundation as of the end of the previous calendar year.

16. Related Party Transactions

The University of Alaska provided payment to the foundation in the amount of \$0.9 million and \$0.8 million for institutional support during the years ended June 30, 2008 and 2007 respectively. The university also provides administrative and accounting support for the foundation. In an effort to become more self-sufficient, the foundation reimbursed the university \$1.9 and \$1.6 million for these services for the years ended June 30, 2008 and 2007, respectively. These reimbursements are included in the statements of activities as operating expenses.

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17. Subsequent Events

Effective September 29, 2008, Wachovia Bank, N.A., as Trustee of the Common Fund 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 foundation's balance in the Short Term Fund was \$10.6 and \$10.4 million as of June 30, 2008 and October 29, 2008, respectively. As of October 29, 2008, approximately 14 percent of Short Term Fund assets were available for withdrawal. The value of the liquidation proceeds received by the foundation 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.

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

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