

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

Financial Statements

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

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

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

Independent Auditors' Report

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

We have audited the accompanying statements of assets and liabilities of the University of Alaska and University of Alaska Foundation Consolidated Endowment Fund as of June 30, 2010 and 2009, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University of Alaska and University of Alaska Foundation Consolidated Endowment Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Alaska and University of Alaska Foundation Consolidated Endowment Fund at June 30, 2010 and 2009, and the changes in its net assets and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

November 3, 2010

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

**STATEMENTS OF ASSETS AND LIABILITIES
June 30, 2010 and 2009**

Assets	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 22,257,628	\$ 23,851,939
Fixed income securities	43,931,643	36,680,276
Equity securities	96,018,288	79,449,850
Alternative investments	51,293,635	52,316,633
Real estate partnerships and investment trusts	<u>2,716,374</u>	<u>6,049,368</u>
Total assets	<u>216,217,568</u>	<u>198,348,066</u>
 Liabilities	 <u>-</u>	 <u>-</u>
 Net Assets		
University of Alaska	114,205,567	108,861,995
University of Alaska Foundation	<u>102,012,001</u>	<u>89,486,071</u>
Total net assets	<u>\$ 216,217,568</u>	<u>\$ 198,348,066</u>
 Net Asset Value Per Unit	 <u>\$203.92</u>	 <u>\$188.10</u>

The accompanying notes are an integral part of the financial statements

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

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
For the years ended June 30, 2010 and 2009

Investment Income	<u>2010</u>	<u>2009</u>
Interest and dividend income	\$ 3,605,297	\$ 3,440,598
Operating losses from alternative investments	<u>(251,145)</u>	<u>(390,375)</u>
Net investment income before expenses	<u>3,354,152</u>	<u>3,050,223</u>
 Expenses		
Management fees	153,799	182,656
Investment consulting fees	84,000	53,106
Custodial fees	113	1,061
Audit fees	22,399	21,349
Other	<u>6,102</u>	<u>-</u>
Total expenses	<u>266,413</u>	<u>258,172</u>
Net investment income	3,087,739	2,792,051
 Realized and Unrealized Investment Gains (Losses)		
Net realized and unrealized investment gains (losses)	<u>15,189,794</u>	<u>(63,860,375)</u>
 Net Increase (Decrease) in Net Assets Resulting from Operations	18,277,533	(61,068,324)
Distributions for endowment spending	(5,511,696)	(8,358,942)
Distributions for endowment assessments	(1,422,952)	(1,936,501)
Additional investments	<u>6,526,617</u>	<u>10,419,148</u>
Net Increase (Decrease) in Net Assets	17,869,502	(60,944,619)
Net assets, beginning of year	<u>198,348,066</u>	<u>259,292,685</u>
Net assets, end of year	<u><u>\$ 216,217,568</u></u>	<u><u>\$ 198,348,066</u></u>

The accompanying notes are an integral part of the financial statements

UNIVERSITY OF ALASKA
and
UNIVERSITY OF ALASKA FOUNDATION
CONSOLIDATED ENDOWMENT FUND

STATEMENTS OF CASH FLOWS
For the years ended June 30, 2010 and 2009

Cash flows from operating activities:	2010	2009
Net increase (decrease) in net assets from operations	\$ 18,277,533	\$ (61,068,324)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by (used in) operating activities:		
Purchases of investments	(38,268,453)	(14,332,583)
Proceeds from distributions or sale of investments	33,994,434	35,240,078
Net realized and unrealized gain (loss) on investments	(15,189,794)	63,860,375
Decrease in interest and dividends receivable	-	22,433
Net cash provided by (used in) operating activities	<u>(1,186,280)</u>	<u>23,721,979</u>
 Cash flows from financing activities:		
Additions	6,526,617	10,419,148
Spending distributions	(5,511,696)	(8,358,942)
Endowment assessments	<u>(1,422,952)</u>	<u>(1,936,501)</u>
Net cash provided by (used in) financing activities	<u>(408,031)</u>	<u>123,705</u>
 Net increase (decrease) in cash and cash equivalents	(1,594,311)	23,845,684
Cash and cash equivalents, beginning of year	<u>23,851,939</u>	<u>6,255</u>
Cash and cash equivalents, end of year	<u><u>\$ 22,257,628</u></u>	<u><u>\$ 23,851,939</u></u>

The accompanying notes are an integral part of the financial statements

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009**

1. Organization

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

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

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

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

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

2. Summary of Significant Accounting Policies

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

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

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

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

**UNIVERSITY OF ALASKA
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CONSOLIDATED ENDOWMENT FUND**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009**

2. Summary of Significant Accounting Policies, continued

Investments

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

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

Fair Value Measurement

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

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

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

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

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

**UNIVERSITY OF ALASKA
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CONSOLIDATED ENDOWMENT FUND**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009**

2. Summary of Significant Accounting Policies, continued

The majority of the fund's investments are reported at the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value of the fund's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2010 and 2009, the fund had no plans or intentions to sell investments at amounts different from NAV.

The following tables summarize the fund's investments by major category in the fair value hierarchy as of June 30, 2010 and 2009, as well as related strategy, liquidity and funding commitments:

	June 30, 2010				Redemption Frequency	Days' Notice
	Level 1	Level 2	Level 3	Total		
Fixed Income:						
US core index fund	\$ -	\$ 33,125,777	\$ -	\$ 33,125,777	Daily	5
US and global multi-strategy fund	-	10,805,866	-	10,805,866	Monthly	6
	-	43,931,643	-	43,931,643		
Equity Securities:						
Domestic equity index fund	-	48,415,883	-	48,415,883	Daily	5
Global equity index fund	-	15,620,860	-	15,620,860	Monthly	5
Global equity value fund	8,631,599	-	-	8,631,599	Daily	1
Global equity growth funds	-	18,594,197	-	18,594,197	Monthly	6-15
Emerging markets equity fund	-	4,755,749	-	4,755,749	Monthly	30
	8,631,599	87,386,689	-	96,018,288		
Alternative Investments:						
Multi-strategy commodities fund	-	1,467,064	-	1,467,064	Monthly	30
Multi-strategy hedged equity funds	-	10,645,310	-	10,645,310	Various (1)	90
Absolute return hedged equity fund	-	4,585,476	-	4,585,476	Monthly	60
Event arbitrage hedged equity fund	-	-	2,910,086	2,910,086	Illiquid (2)	N/A
Energy & natural resources funds	-	-	5,835,091	5,835,091	Illiquid (3)	N/A
Private equity & venture capital funds	-	-	19,793,087	19,793,087	Illiquid (4)	N/A
Mezzanine & distressed debt funds	-	-	6,057,521	6,057,521	Illiquid (5)	N/A
	-	16,697,850	34,595,785	51,293,635		
Real Estate:						
Global real estate fund	-	2,257,303	-	2,257,303	Monthly	15
US private real estate partnerships	-	-	459,071	459,071	Illiquid (6)	N/A
	-	2,257,303	459,071	2,716,374		
	<u>\$ 8,631,599</u>	<u>\$ 150,273,485</u>	<u>\$ 35,054,856</u>	<u>\$ 193,959,940</u>		

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

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

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

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

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

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

**UNIVERSITY OF ALASKA
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NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

2. Summary of Significant Accounting Policies, continued

	June 30, 2009				Redemption Frequency	Days' Notice
	Level 1	Level 2	Level 3	Total		
Fixed Income:						
US core index fund	\$ -	\$ 19,642,570	\$ -	\$ 19,642,570	Daily	5
US and global multi-strategy funds	-	9,365,415	972,203	10,337,618	Various (1)	6
Absolute return hedged fund	-	6,700,088	-	6,700,088	Quarterly	95
	-	35,708,073	972,203	36,680,276		
Equity Securities:						
Domestic equity index fund	-	48,845,594	-	48,845,594	Daily	5
Global equity value fund	-	2,594,052	-	2,594,052	Monthly	15
Global equity growth funds	-	21,205,119	-	21,205,119	Monthly	6-15
Emerging markets equity fund	-	6,805,085	-	6,805,085	Monthly	30
	-	79,449,850	-	79,449,850		
Alternative Investments:						
Multi-strategy commodities fund	-	2,687,236	-	2,687,236	Monthly	30
Multi-strategy hedged equity funds	-	9,975,016	-	9,975,016	Various (2)	90
Absolute return hedged equity fund	-	4,345,992	-	4,345,992	Monthly	60
Event arbitrage hedged equity fund	-	-	8,060,996	8,060,996	Illiquid (3)	N/A
Energy & natural resources funds	-	-	5,185,742	5,185,742	Illiquid (4)	N/A
Private equity & venture capital funds	-	-	17,007,330	17,007,330	Illiquid (5)	N/A
Mezzanine & distressed debt funds	-	-	5,054,321	5,054,321	Illiquid (6)	N/A
	-	17,008,244	35,308,389	52,316,633		
Real Estate:						
Global real estate fund	-	1,675,967	-	1,675,967	Monthly	15
US private real estate partnerships	-	-	4,373,401	4,373,401	Illiquid (7)	N/A
	-	1,675,967	4,373,401	6,049,368		
	\$ -	\$ 133,842,134	\$ 40,653,993	\$ 174,496,127		

(1) One fund allows monthly withdrawals, one fund included in level 3 is illiquid.

(2) One fund allows quarterly redemptions, one fund allows annual redemptions next available December 2011.

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

(4) Funds are expected to liquidate within 1-11 years. Unfunded future commitments total \$2.54 million.

(5) Funds are expected to liquidate within 1-13 years. Unfunded future commitments total \$12.35 million.

(6) Funds are expected to liquidate within 3-8 years. Unfunded future commitments total \$1.54 million.

(7) Funds are expected to liquidate within 3-6 years. Unfunded future commitments total \$0.05 million

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

**UNIVERSITY OF ALASKA
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CONSOLIDATED ENDOWMENT FUND**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009**

2. Summary of Significant Accounting Policies, continued

The following table presents the fund's activities for the years ended June 30, 2010 and 2009 for investments classified in Level 3:

	Fixed Income	Alternative Investments	Real Estate	Total
Balance, July 1, 2008	\$ 8,634,277	\$ 46,096,721	\$ 10,060,239	\$ 64,791,237
Additions	8,412,240	3,189,625	-	11,601,865
Withdrawals	(16,104,657)	(1,822,015)	-	(17,926,672)
Net investment income (losses)	41,666	(98,801)	(259,310)	(316,445)
Net realized gains	-	339,377	27,648	367,025
Change in net unrealized losses	(11,323)	(12,396,518)	(5,455,176)	(17,863,017)
Balance, June 30, 2009	972,203	35,308,389	4,373,401	40,653,993
Additions	-	2,942,459	-	2,942,459
Withdrawals	(1,041,066)	(8,672,975)	-	(9,714,041)
Net investment income (losses)	57,540	(176,544)	(51,468)	(170,472)
Net realized gains (losses)	-	1,015,722	(390,400)	625,322
Change in net unrealized gains (losses)	11,323	4,178,734	(3,472,462)	717,595
Balance, June 30, 2010	<u>\$ -</u>	<u>\$ 34,595,785</u>	<u>\$ 459,071</u>	<u>\$ 35,054,856</u>

All net realized and unrealized gains and losses in the table above are reflected in the accompanying statements of operations and changes in net assets in net realized and unrealized investment gains (losses). They are attributable to the change in unrealized gains (losses) relating to assets still held at the reporting date except for \$11,323 of fixed income investments, which were liquidated in the year ended June 30, 2010.

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

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NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

2. Summary of Significant Accounting Policies, continued

Investment liquidity as of June 30, 2010 is aggregated below based on redemption or sale period:

Redemption Period	Amounts	Fiscal Year	Amounts
Daily	\$ 90,173,259	2011	\$ 162,840,600
Monthly	58,086,515	2012	4,023,529
Quarterly	5,656,396	2013	3,447,638
Annually	4,988,914	2014	4,154,442
Illiquid	35,054,856	Thereafter	19,493,731
	<u>\$ 193,959,940</u>		<u>\$ 193,959,940</u>

Income Taxes

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

Subsequent Events

The fund has evaluated subsequent events and transactions that occurred after June 30, 2010 but before financial statements are available to be issued, concluding November 3, 2010. The fund is heavily dependent upon the investment markets. In general, public equity and private capital markets are recovering, but economic conditions remain uncertain. Particularly, real estate continues to be challenged by tight credit markets, low valuations and occupancy issues. These investments could experience further declines in value.

3. Asset Allocation

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

	2010	2009
Cash and cash equivalents	10.3%	12.0%
Fixed income, domestic	20.3%	18.5%
Equities, domestic	22.4%	24.6%
Equities, foreign	6.4%	11.7%
Equities, global	15.6%	3.7%
Alternative investments	23.7%	26.4%
Real estate partnerships and investment trusts	1.3%	3.1%
	<u>100%</u>	<u>100%</u>

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NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

4. Changes in Net Asset Balances

Changes in net asset balances by participant were as follows:

	Foundation	University	Total
Balance, July 1, 2008	\$ 116,221,511	\$ 143,071,174	\$ 259,292,685
Net decrease from operations	(27,407,652)	(33,660,672)	(61,068,324)
Distributions for endowment spending	(4,309,417)	(4,049,525)	(8,358,942)
Distributions for endowment assessments	(1,189,151)	(747,350)	(1,936,501)
Additional net investments	6,170,780	4,248,368	10,419,148
Balance, June 30, 2009	89,486,071	108,861,995	198,348,066
Net increase from operations	8,008,112	10,269,421	18,277,533
Distributions for endowment spending	(1,781,962)	(3,729,734)	(5,511,696)
Distributions for endowment assessments	(881,203)	(541,749)	(1,422,952)
Additional net investments	7,180,983	(654,366)	6,526,617
Balance, June 30, 2010	<u>\$ 102,012,001</u>	<u>\$ 114,205,567</u>	<u>\$ 216,217,568</u>

5. Distributions

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

UNIVERSITY OF ALASKA FOUNDATION

Financial Statements

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

UNIVERSITY OF ALASKA FOUNDATION

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KPMG LLP
Suite 600
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Anchorage, AK 99501

Independent Auditors' Report

The Board of Trustees
University of Alaska Foundation:

We have audited the accompanying statements of financial position of the University of Alaska Foundation as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University of Alaska Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Alaska Foundation at June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

November 3, 2010

UNIVERSITY OF ALASKA FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2010 and 2009

Assets	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 38,116,077	\$ 30,608,819
Interest receivable	77,588	76,776
Contributions receivable, net	13,495,945	17,746,087
Remainder trusts receivable	754,883	-
Escrows receivable	134,303	144,848
Inventory	57,744	50,515
Other assets	507,076	516,281
Pooled endowment funds	102,012,001	89,486,071
Other long term investments	<u>16,869,331</u>	<u>23,092,135</u>
Total assets	<u><u>\$ 172,024,948</u></u>	<u><u>\$ 161,721,532</u></u>
 Liabilities		
Due to the University of Alaska	\$ 1,717,592	\$ 2,118,072
Other liabilities	22,500	9,690
Split interest obligations	410,984	316,475
Term endowment liability	<u>1,000,000</u>	<u>1,000,000</u>
Total liabilities	<u>3,151,076</u>	<u>3,444,237</u>
 Net Assets		
Unrestricted	33,832,327	31,232,971
Temporarily restricted	62,732,292	67,349,390
Permanently restricted	<u>72,309,253</u>	<u>59,694,934</u>
Total net assets	<u>168,873,872</u>	<u>158,277,295</u>
Total liabilities and net assets	<u><u>\$ 172,024,948</u></u>	<u><u>\$ 161,721,532</u></u>

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

UNIVERSITY OF ALASKA FOUNDATION
STATEMENTS OF ACTIVITIES
For the years ended June 30, 2010 and 2009

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support				
Contributions	\$ 255,915	\$ 12,961,368	\$ 2,724,454	\$ 15,941,737
Investment income	719,110	1,236,174	-	1,955,284
Net realized and unrealized investment gains (losses)	4,158,668	3,014,934	-	7,173,602
Other revenues	173	168,832	-	169,005
Actuarial adjustment of remainder trust obligations	-	(28,080)	(71,019)	(99,099)
Losses on disposition of other assets	(2,707)	(115,230)	(25)	(117,962)
Administrative assessments	1,472,977	(888,575)	(42,653)	541,749
Support from University of Alaska	890,000	-	-	890,000
Net assets released from restriction	10,962,699	(10,962,699)	-	-
Total revenues, gains and other support	18,456,835	5,386,724	2,610,757	26,454,316
Expenses and distributions				
Operating expenses	2,567,645	-	-	2,567,645
Distributions for the benefit of the University of Alaska	13,290,094	-	-	13,290,094
Total expenses and distributions	15,857,739	-	-	15,857,739
Excess (deficit) of revenues over expenses	2,599,096	5,386,724	2,610,757	10,596,577
Transfers between net asset classes	260	(10,003,822)	10,003,562	-
Increase (decrease) in net assets	2,599,356	(4,617,098)	12,614,319	10,596,577
Net assets, beginning of year	31,232,971	67,349,390	59,694,934	158,277,295
Net assets, end of year	<u>\$ 33,832,327</u>	<u>\$ 62,732,292</u>	<u>\$ 72,309,253</u>	<u>\$ 168,873,872</u>

2009

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 5,807,496	\$ 17,727,482	\$ 6,275,665	\$ 29,810,643
1,062,384	1,055,937	-	2,118,321
(12,168,228)	(19,446,206)	-	(31,614,434)
2,068	72,884	-	74,952
-	(6,327)	(30,744)	(37,071)
-	(525,811)	-	(525,811)
1,940,479	(1,170,691)	(22,439)	747,349
1,390,000	-	-	1,390,000
11,362,447	(11,362,447)	-	-
<u>9,396,646</u>	<u>(13,655,179)</u>	<u>6,222,482</u>	<u>1,963,949</u>
1,890,590	-	-	1,890,590
<u>17,700,038</u>	<u>-</u>	<u>-</u>	<u>17,700,038</u>
<u>19,590,628</u>	<u>-</u>	<u>-</u>	<u>19,590,628</u>
(10,193,982)	(13,655,179)	6,222,482	(17,626,679)
<u>48,176</u>	<u>(276,084)</u>	<u>227,908</u>	<u>-</u>
(10,145,806)	(13,931,263)	6,450,390	(17,626,679)
<u>41,378,777</u>	<u>81,280,653</u>	<u>53,244,544</u>	<u>175,903,974</u>
<u>\$ 31,232,971</u>	<u>\$ 67,349,390</u>	<u>\$ 59,694,934</u>	<u>\$ 158,277,295</u>

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

UNIVERSITY OF ALASKA FOUNDATION
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Contributions received	\$ 13,741,117	\$ 24,840,199
Investment income received	1,954,471	2,151,564
Distributions for the benefit of the University of Alaska	(13,268,962)	(17,369,817)
Cash paid for operating expenses	(2,286,280)	(1,281,876)
Other receipts	<u>1,091,755</u>	<u>1,484,465</u>
Net cash provided by operating activities	<u>1,232,101</u>	<u>9,824,535</u>
 Cash flows from investing activities:		
Net decrease in investments	979,141	16,877,556
Receipts from disposition of assets	<u>10,545</u>	<u>9,847</u>
Net cash provided by investing activities	<u>989,686</u>	<u>16,887,403</u>
 Cash flows from financing activities:		
Contributions restricted for permanent investment	5,322,283	3,040,874
Investment income on charitable remainder trusts	29,937	16,041
Payment of charitable remainder trust obligations	<u>(66,749)</u>	<u>(64,374)</u>
Net cash provided by financing activities	<u>5,285,471</u>	<u>2,992,541</u>
 Net increase in cash and cash equivalents	7,507,258	29,704,479
Cash and cash equivalents, beginning of year	<u>30,608,819</u>	<u>904,340</u>
Cash and cash equivalents, end of year	<u><u>\$ 38,116,077</u></u>	<u><u>\$ 30,608,819</u></u>

	<u>2010</u>	<u>2009</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 10,596,577	\$ (17,626,679)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions of operating noncash assets	(965,435)	(190,828)
Net realized and unrealized investment (gains) losses	(7,173,602)	31,614,434
Loss on disposition of other assets	117,962	525,811
Non-cash operating expenses	17,782	15,398
Non-cash distributions to the University of Alaska	130,230	97,335
Contributions restricted for permanent investment	(2,724,454)	(6,275,665)
Actuarial adjustment of remainder trust obligations	99,099	37,071
Changes in assets and liabilities:		
(Increase) decrease in interest receivable	(812)	33,244
(Increase) decrease in contributions receivable	1,489,269	1,501,594
Decrease in inventory	933	13,641
Increase (decrease) in due to the University of Alaska	(400,480)	84,817
Increase (decrease) in other liabilities	12,810	(5,638)
Increase in annuity payment liabilities	<u>32,222</u>	<u>-</u>
Net cash provided by operating activities	<u><u>\$ 1,232,101</u></u>	<u><u>\$ 9,824,535</u></u>
 Supplemental schedule of noncash investing activity		
Contributions of investment assets	\$ 108,665	\$ 9,254

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

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

1. Organization and Summary of Significant Accounting Policies

Organization

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

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

Basis of Presentation

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

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

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

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

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

Basis of Accounting

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

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

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

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

1. Organization and Summary of Significant Accounting Policies, continued

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

Contributions received for memorials or prospective endowments that have not yet met the minimum requirements for acceptance as an endowment are accumulated in temporarily restricted accounts. The accumulated contributions are transferred to permanently restricted endowment accounts when the minimum requirements are fulfilled. If the requirements are not fulfilled, consistent with the conditions of acceptance, the contributions are expended for the purpose received. Transfers between net asset classes reported on the statement of activities in the amounts of \$10 million and \$0.3 million for 2010 and 2009, respectively, result from this type of transaction.

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

Investments

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

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

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

1. Organization and Summary of Significant Accounting Policies, continued

Fair Value Measurement

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

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

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

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

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

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

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

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

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

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

1. Organization and Summary of Significant Accounting Policies, continued

The following table summarizes the foundation's financial assets measured at fair value on a recurring basis as of June 30, 2009:

	June 30, 2009				Redemption Frequency	Days' Notice
	Level 1	Level 2	Level 3	Total		
Pooled Endowment Funds	\$ -	\$ -	\$ 89,486,071	\$ 89,486,071	Various (1)	NA
Other Long Term Investments:						
Fixed Income:						
US treasuries, agencies, corporates	1,160,613	14,891,500	-	16,052,113	Daily	1
Municipal bonds	-	582,880	-	582,880	Daily	1
US and global multi-strategy funds	-	1,260,177	1,650,490	2,910,667	Various (2)	6
Absolute return hedge fund	-	-	2,822,222	2,822,222	Illiquid (3)	NA
	<u>1,160,613</u>	<u>16,734,557</u>	<u>4,472,712</u>	<u>22,367,882</u>		
Equity Securities:						
Domestic equity balanced fund	52,131	-	-	52,131	Daily	1
Domestic equities	380,947	-	-	380,947	Daily	1
	<u>433,078</u>	<u>-</u>	<u>-</u>	<u>433,078</u>		
Total Other Long Term Investments	<u>1,593,691</u>	<u>16,734,557</u>	<u>4,472,712</u>	<u>22,800,960</u>		
Total Investments	<u>\$ 1,593,691</u>	<u>\$ 16,734,557</u>	<u>\$ 93,958,783</u>	<u>\$ 112,287,031</u>		

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

(2) One fund has monthly withdrawals, one fund included in level 3 is illiquid.

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

The following table presents the foundation's activities for the years ended June 30, 2010 and 2009 for financial assets classified in Level 3:

	Pooled Endowment Funds	Other Long Term Investments	Remainder Trusts Receivable	Total
Balance, July 1, 2008	\$ 116,221,512	\$ 17,336,542	\$ -	\$ 133,558,054
Additions	6,170,780	11,565,822	-	17,736,602
Withdrawals	(5,498,568)	(22,969,667)	-	(28,468,235)
Net investment income	1,247,061	40,586	-	1,287,647
Net realized and unrealized losses	<u>(28,654,714)</u>	<u>(1,500,571)</u>	<u>-</u>	<u>(30,155,285)</u>
Balance, June 30, 2009	89,486,071	4,472,712	-	93,958,783
Additions	7,180,983	-	754,883	7,935,866
Withdrawals	(2,663,165)	(4,398,461)	-	(7,061,626)
Net investment income	1,423,170	97,684	-	1,520,854
Net realized and unrealized gains	<u>6,584,942</u>	<u>159,879</u>	<u>-</u>	<u>6,744,821</u>
Balance, June 30, 2010	<u>\$ 102,012,001</u>	<u>\$ 331,814</u>	<u>\$ 754,883</u>	<u>\$ 103,098,698</u>

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

1. Organization and Summary of Significant Accounting Policies, continued

All net realized and unrealized gains and losses in the previous table are reflected in the accompanying statements of activities in net realized and unrealized investment gains (losses). They are attributable to the change in unrealized gains (losses) relating to assets still held at the reporting date except for \$19,223 of other long term investments, which were liquidated in the year ended June 30, 2010.

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

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

Investment liquidity as of June 30, 2010 is aggregated below based on redemption or sale period:

Redemption Period	Amounts	Fiscal Year	Amounts
Daily	\$ 58,803,002	2011	\$ 93,419,268
Monthly	27,405,218	2012	1,898,301
Quarterly	2,668,688	2013	1,626,596
Annually	2,353,770	2014	1,960,066
Illiquid	16,870,695	Thereafter	9,197,142
	<u>\$ 108,101,373</u>		<u>\$ 108,101,373</u>

Income Taxes

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

Beginning with the adoption of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, included in FASB ASC Subtopic 740-10, as of July 1, 2009, the foundation recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Reclassifications

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

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

1. Organization and Summary of Significant Accounting Policies, continued

Subsequent Events

The foundation has evaluated subsequent events and transactions that occurred after June 30, 2010 but before financial statements are available to be issued, concluding November 3, 2010. The Uniform Prudent Management of Institutional Funds Act became effective September 8, 2010 in the State of Alaska. This will result in certain endowments currently classified as unrestricted and temporarily restricted to be reclassified as permanently restricted. Management is still evaluating the impact on the foundation.

The foundation is heavily dependent upon the investment markets. In general, public equity and private capital markets are recovering, but economic conditions remain uncertain. Particularly, real estate continues to be challenged by tight credit markets, low valuations, and occupancy issues. These investments could experience further declines in value.

2. Contributions Receivable

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

	2010	2009
In one year or less	\$ 2,141,181	\$ 4,590,533
Between one year and five years	12,425,294	12,333,851
More than five years	34,181	2,286,877
	14,600,656	19,211,261
Discount	(1,064,524)	(1,444,074)
Allowance for uncollectible accounts	(40,187)	(21,100)
	<u>\$ 13,495,945</u>	<u>\$ 17,746,087</u>

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

3. Remainder Trusts Receivable

A charitable remainder trust administered by a third party is an arrangement in which a donor establishes and funds a trust in which the assets are invested and administered by a third-party trustee and distributions are made to the income beneficiaries during the term of the agreement. Upon death of the donor, the assets or a portion of the assets remaining in the trust are distributed to a not-for-profit entity. The foundation, as remainder beneficiary, records its interest in these irrevocable trusts, upon discovery of their existence, at fair value as determined using the present value of the estimated future cash receipts to be received from the trust, discounted at rates between 8.4% and 11.2% which reflect the expected rate of return as adjusted for various risk factors. Initial recognition and subsequent adjustments to the assets' carrying value are recognized as contribution revenue and actuarial adjustment of the remainder trust obligations, respectively, and are classified as permanently restricted, temporarily restricted, or unrestricted support, depending on donor-imposed purpose and time restrictions, if any.

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

4. Escrows Receivable

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

5. Pooled Endowment Funds

The foundation's pooled endowment funds consist of approximately 650 individual endowments established for a variety of purposes. They include unrestricted and donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Effective July 1, 1997, management of the university's Land Grant Endowment Trust Fund was transferred from the State of Alaska Department of Revenue to the university Board of Regents. The foundation and the Board of Regents agreed to consolidate the foundation's pooled endowment funds and the university's land grant endowments into a Consolidated Endowment Fund (fund) for investment purposes. The foundation's investment represents 47% and 45% of the total fund at June 30, 2010 and 2009, respectively. The net assets and related activity for their respective investment in the fund are reflected in the financial statements of the foundation and the university.

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

The Consolidated Endowment Fund includes the following:

	2010	2009
Cash and cash equivalents	\$ 22,257,628	\$ 23,851,939
Fixed income securities	43,931,643	36,680,276
Equity securities	96,018,288	79,449,850
Alternative investments	51,293,635	52,316,633
Real estate partnerships and investment trusts	2,716,374	6,049,368
	<u>\$ 216,217,568</u>	<u>\$ 198,348,066</u>

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

	2010	2009
University of Alaska Foundation	\$ 102,012,001	\$ 89,486,071
University of Alaska	114,205,567	108,861,995
	<u>\$ 216,217,568</u>	<u>\$ 198,348,066</u>

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

5. Pooled Endowment Funds, continued

Direct investment management, custodial and consulting fees for the foundation's pooled endowment funds totaled \$122,522 and \$115,071 for the years ended June 30, 2010 and 2009, respectively. These fees have been included as reductions to investment income.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was signed into law in the State of Alaska on June 14, 2010 with an effective date of September 8, 2010. The university Board of Regents is, by law, the named fiduciary for all gifts and endowments of the university and subject to AS 37.10.071, for fiduciary standards and requirements. The Board of Regents has entered into agreements with the foundation to manage and invest all gifts and endowments received by or for the benefit of the university. Management considers its commitment to donors to be contractual obligations to administer the funds in accordance with expressed donor intent and its published policies, as they may be revised from time to time. These policies provide for the administration of endowments based on total return, including preservation of the original gift value as of the gift date for donor-restricted endowments, absent specific donor instructions to the contrary. The foundation classifies as temporarily restricted or permanently restricted net assets the original gift value of donor-restricted endowments as well as the original value of subsequent gifts to such endowments. The remaining accumulated return for donor-restricted endowments is classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

From time to time the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor requires the foundation to retain as a fund of perpetual duration. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions. Deficiencies of this nature are reported as a reduction in unrestricted net assets.

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

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

Endowment net assets as of June 30, 2009 include the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (3,970,873)	\$ 9,762,332	\$ 59,243,070	\$ 65,034,529
Board-designated endowment funds	13,667,768	14,256,136	-	27,923,904
	<u>\$ 9,696,895</u>	<u>\$ 24,018,468</u>	<u>\$ 59,243,070</u>	<u>\$ 92,958,433</u>

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

5. Pooled Endowment Funds, continued

Changes in endowment net assets were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, July 1, 2008	\$ 23,065,991	\$ 40,651,748	\$ 52,761,935	\$ 116,479,674
Investment Income	216,614	1,037,238	-	1,253,852
Net realized and unrealized investment losses	(9,401,833)	(19,252,717)	-	(28,654,550)
Investment return	(9,185,219)	(18,215,479)	-	(27,400,698)
Contributions	653,467	6,001,118	6,275,665	12,930,250
Other revenues	400	(200)	-	200
Administrative assessments	(224,745)	(1,041,455)	(22,438)	(1,288,638)
Distributions for endowment spending	(752,029)	(3,550,113)	-	(4,302,142)
Transfers to increase (decrease) board-designated endowment funds	(3,860,970)	172,849	-	(3,688,121)
Transfers to increase donor-restricted endowment funds	-	-	227,908	227,908
Balance, June 30, 2009	9,696,895	24,018,468	59,243,070	92,958,433
Investment Income	220,263	1,216,870	-	1,437,133
Net realized and unrealized investment gains	3,643,885	2,940,758	-	6,584,643
Investment return	3,864,148	4,157,628	-	8,021,776
Contributions	75,768	1,034,196	2,724,454	3,834,418
Other revenues	-	(66)	(25)	(91)
Administrative assessments	(140,597)	(741,126)	(42,653)	(924,376)
Distributions for endowment spending	(285,692)	(1,496,269)	-	(1,781,961)
Transfers to increase board-designated endowment funds	500,000	122,654	-	622,654
Transfers to increase donor-restricted endowment funds	-	81,145	10,003,562	10,084,707
Balance, June 30, 2010	\$ 13,710,522	\$ 27,176,630	\$ 71,928,408	\$ 112,815,560

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

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

6. Other Long Term Investments

Other long term investments include the following:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 1,857	\$ 14,773
Fixed income securities	16,072,319	22,367,883
Equity securities	518,755	433,079
Real estate partnerships	<u>276,400</u>	<u>276,400</u>
	<u>\$ 16,869,331</u>	<u>\$ 23,092,135</u>

Investment custodial and management fees for other long term investments totaled \$44,375 and \$41,552 for the years ended June 30, 2010 and 2009, respectively. These fees have been included as reductions to investment income.

7. Split Interest Obligations

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

The split interest assets represent \$822,439 and \$784,678 for the years ended June 30, 2010 and 2009 respectively, and are reported as other long term investments in the statements of financial position. The fair value of the associated obligations total \$410,984 and \$316,475 respectively.

8. Term Endowment Liability

In July 1997 the foundation accepted a term endowment. Earnings from the endowment are restricted for the maintenance of a student housing facility. The agreement with the donor requires the original principal of the endowment to remain inviolate until April 30, 2020 at which time the original principal and the unexpended earnings, if any, will be returned to the donor. The original principal of \$1,000,000 is recorded as a liability at June 30, 2010 and 2009.

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

9. Net Assets

	<u>2010</u>	<u>2009</u>
Unrestricted net assets:		
Available for current operations - not designated by management or restricted by donor	\$ 5,321,333	\$ 4,246,284
Designated for specific purposes - spendable earnings of quasi endowments and amounts designated by management	14,800,471	17,289,792
Quasi endowments - corpus of quasi endowments without donor restrictions	13,280,016	13,205,006
Underwater endowment losses - net accumulated investment losses on endowments	(1,412,382)	(3,970,873)
Unexpended endowment earnings - earnings in excess of spending limits for quasi endowments without donor restrictions	1,842,889	462,762
	<u>\$ 33,832,327</u>	<u>\$ 31,232,971</u>
Temporarily restricted net assets:		
Restricted for specific purposes - spendable earnings on endowments and non-endowed net assets with donor restrictions	\$ 35,555,483	\$ 43,325,553
Unconditional promises to give - contributions receivable without donor restrictions	314	5,620
Quasi endowments - corpus of quasi endowments with donor restrictions	16,858,974	15,764,835
Endowments - corpus of term funded and annuity endowments	3,529,007	3,660,440
Unappropriated endowment earnings - earnings in excess of spending limits for endowments with donor restrictions	6,788,514	4,592,942
	<u>\$ 62,732,292</u>	<u>\$ 67,349,390</u>
Permanently restricted net assets:		
Endowments - corpus of endowments required by donor to be invested in perpetuity	\$ 71,928,408	\$ 59,243,070
Charitable remainder trusts - trusts required by donor to be invested in perpetuity	380,845	451,864
	<u>\$ 72,309,253</u>	<u>\$ 59,694,934</u>

10. Net Assets Released from Restriction

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

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

11. Distributions for the Benefit of the University of Alaska

Distributions for the benefit of the University of Alaska, by functional classification, for the years ended June 30, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
University of Alaska Anchorage		
Engineering	\$ 1,052,750	\$ 446,585
General	3,210,432	5,164,904
Liberal arts, human and rural development	125,606	127,716
Library	29,153	104,081
Management/business administration	580,501	169,072
Natural Sciences, agriculture and land resources	71,423	9,850
Research	164,079	259,998
Student aid	<u>1,112,992</u>	<u>970,448</u>
	<u>6,346,936</u>	<u>7,252,654</u>
University of Alaska Fairbanks		
Engineering	40,002	41,071
General	2,651,314	4,847,680
KUAC radio and television	55,772	1,235,237
Liberal arts, human and rural development	379,307	287,392
Library	256,241	167,212
Management/business administration	138,798	37,937
Museum	574,476	267,824
Natural sciences, agriculture and land resources	170,995	218,770
Research	651,389	802,274
Student aid	<u>1,318,040</u>	<u>1,241,251</u>
	<u>6,236,334</u>	<u>9,146,648</u>
University of Alaska Southeast		
General	321,544	812,996
Liberal arts, human and rural development	6,242	3,058
Library	59,539	29,484
Management/business administration	-	4,487
Natural sciences, agriculture and land resources	1,554	279
Student aid	<u>190,686</u>	<u>204,417</u>
	<u>579,565</u>	<u>1,054,721</u>
University of Alaska		
General	114,895	246,015
Management/business administration	<u>12,364</u>	<u>-</u>
	<u>127,259</u>	<u>246,015</u>
	<u>\$ 13,290,094</u>	<u>\$ 17,700,038</u>

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

12. Administrative Assessments

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

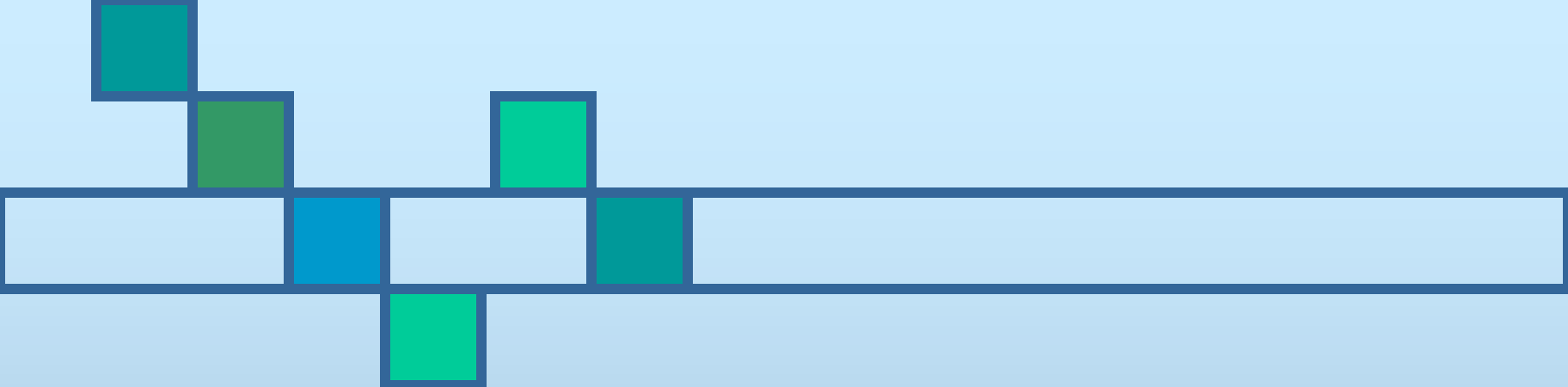
Gifts – All cash gifts are assessed 1% of the gift value at the time of the gift. Noncash gifts are assessed 1% at the time of conversion to cash by the foundation, based on the proceeds received.

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

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

13. Related Party Transactions

The university provided payment to the foundation in the amount of \$0.9 million and \$1.4 million for institutional support during the years ended June 30, 2010 and 2009, respectively. The university also provides administrative and accounting support for the foundation. The foundation reimbursed the university \$2.6 million and \$1.9 million for these services for the years ended June 30, 2010 and 2009, respectively. These reimbursements are included in the statements of activities as operating expenses.

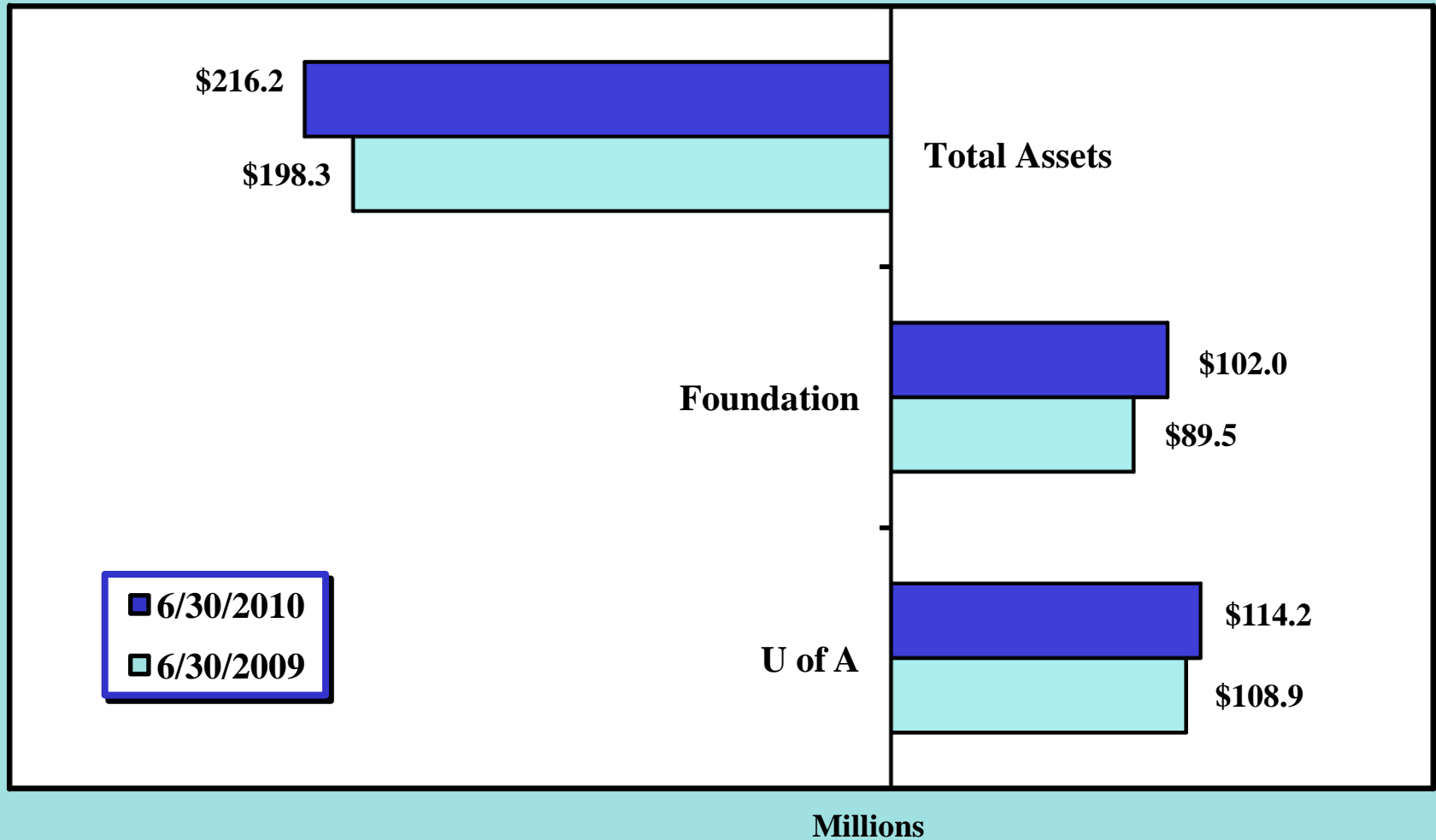


Consolidated Endowment Fund



Financial Statement Presentation
June 30, 2010

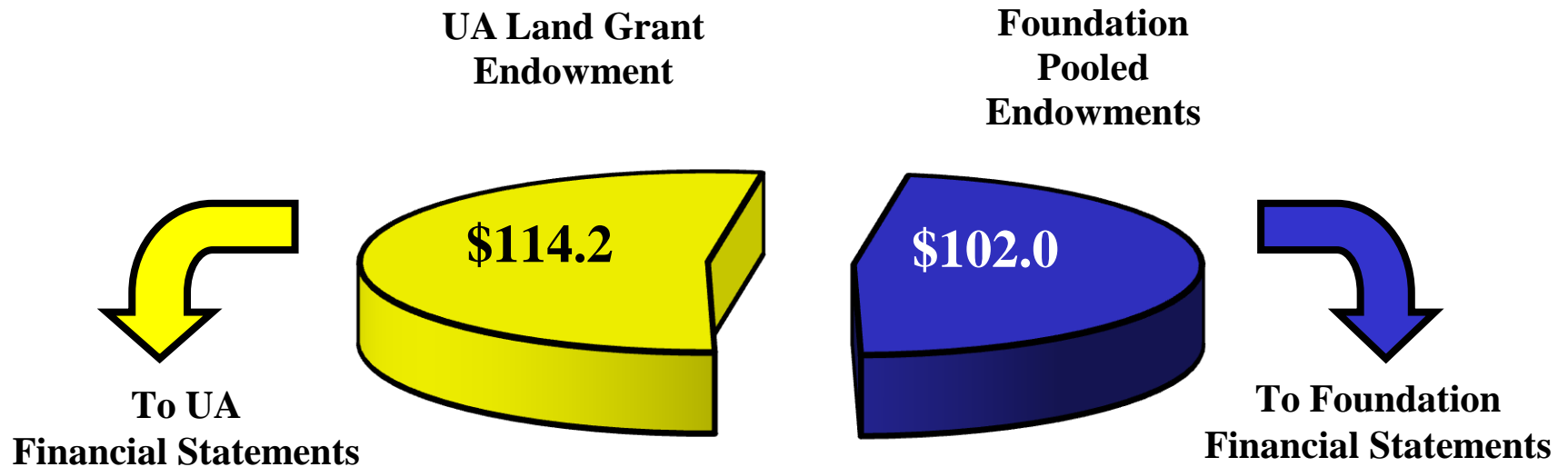
Consolidated Endowment Fund Financial Position



Consolidated Endowment Fund

June 30, 2010

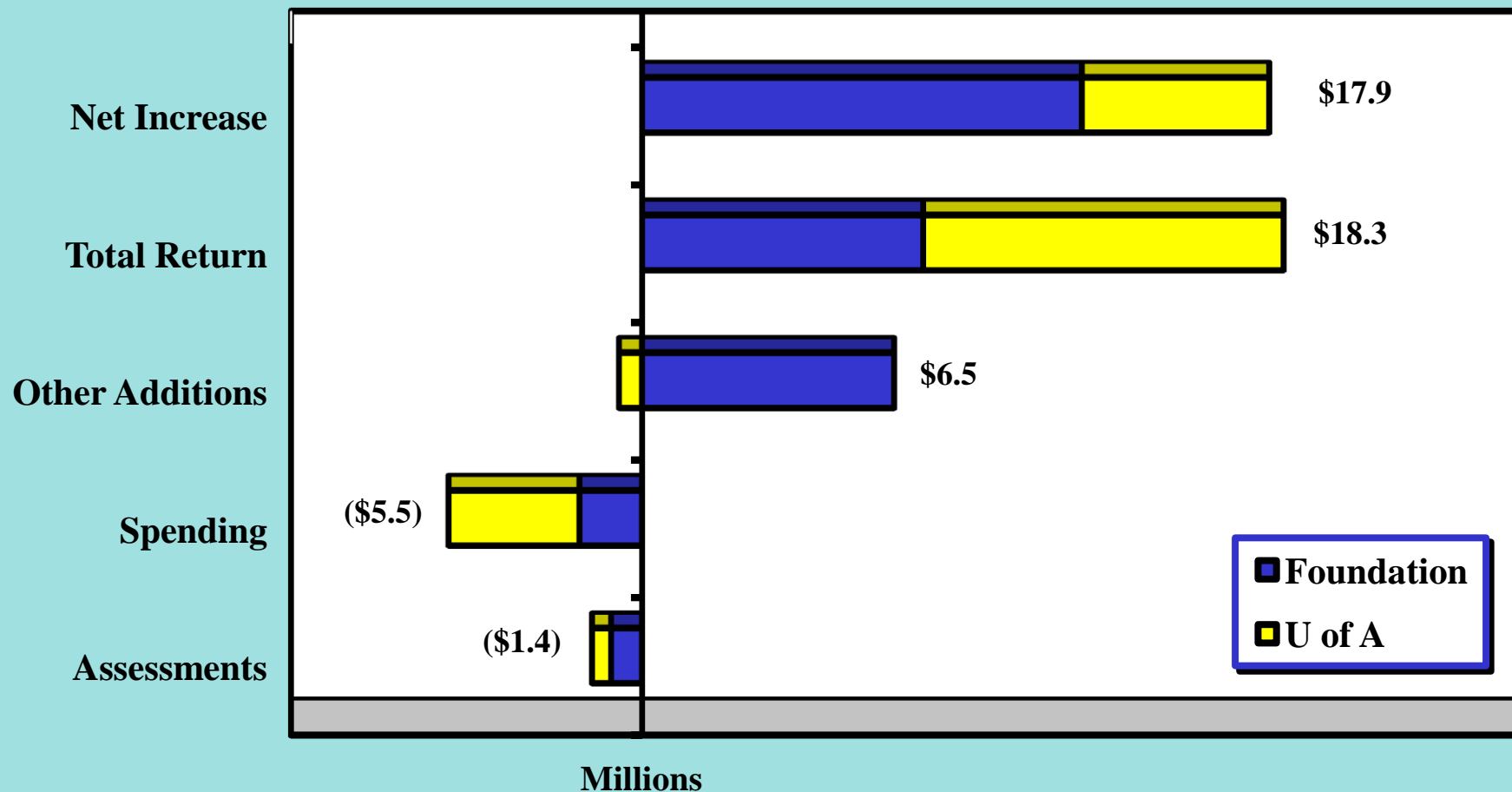
(in millions)



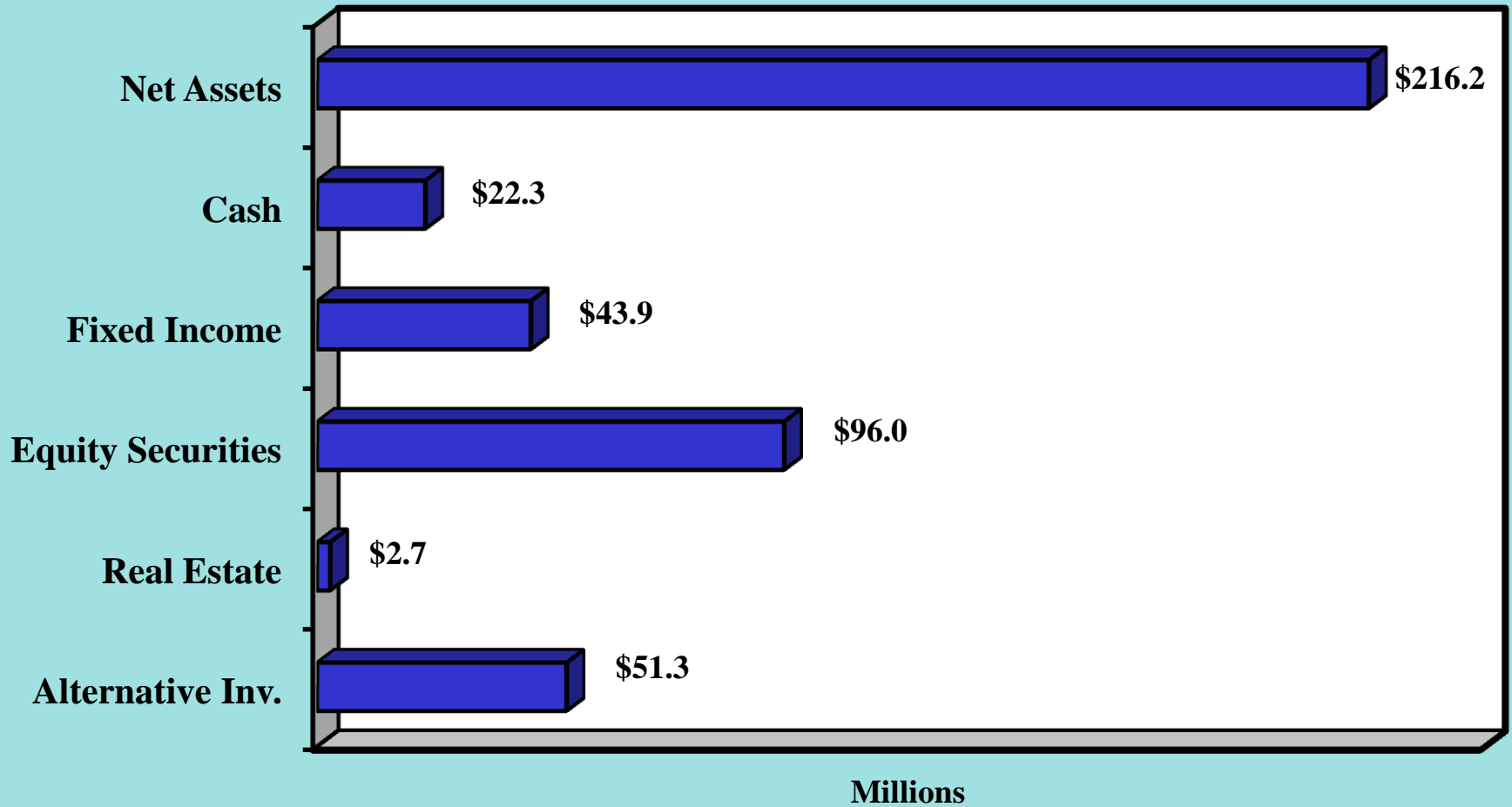
Consolidated Endowment Fund

Changes in Net Assets

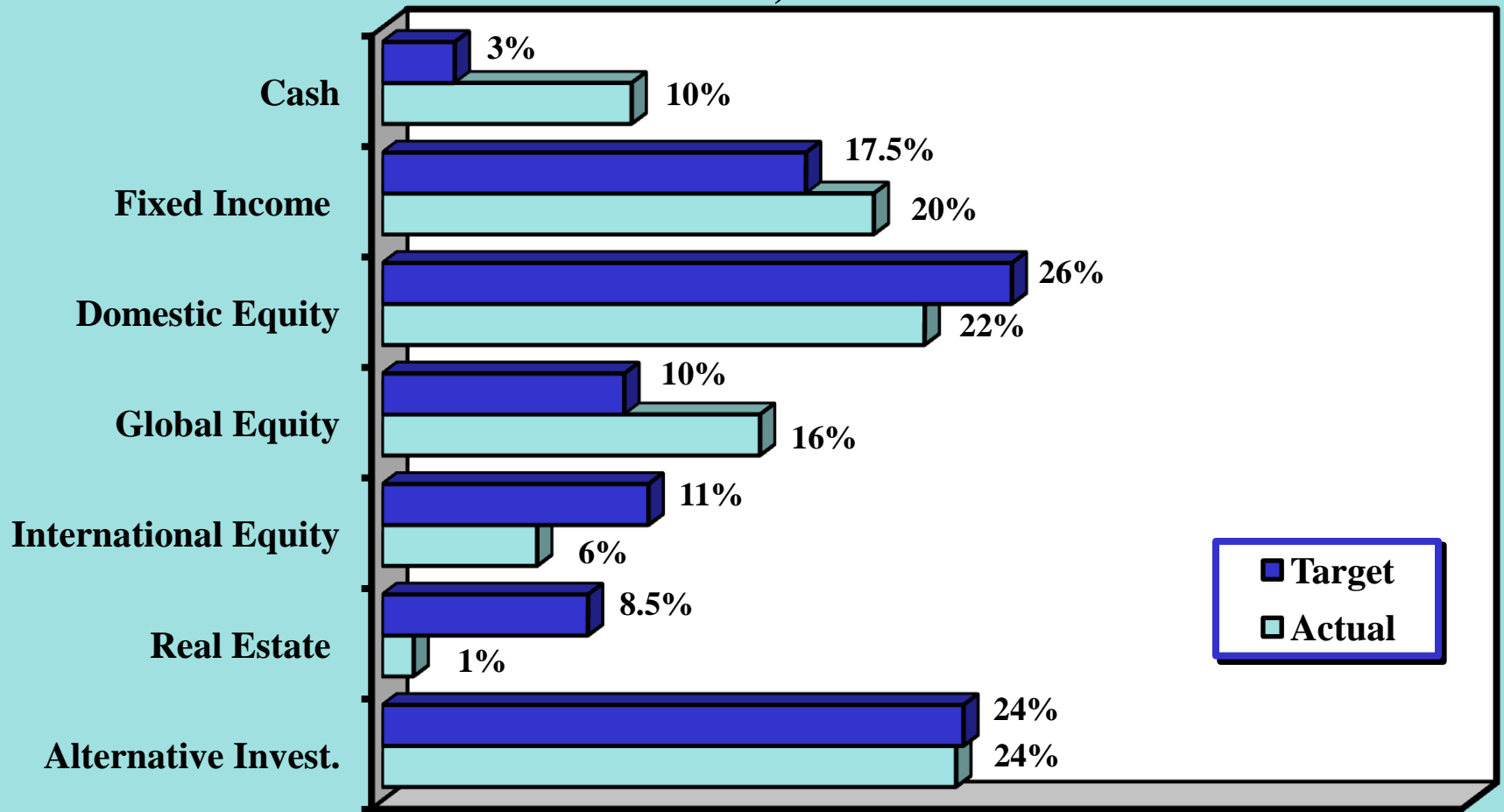
July 1, 2009 - June 30, 2010



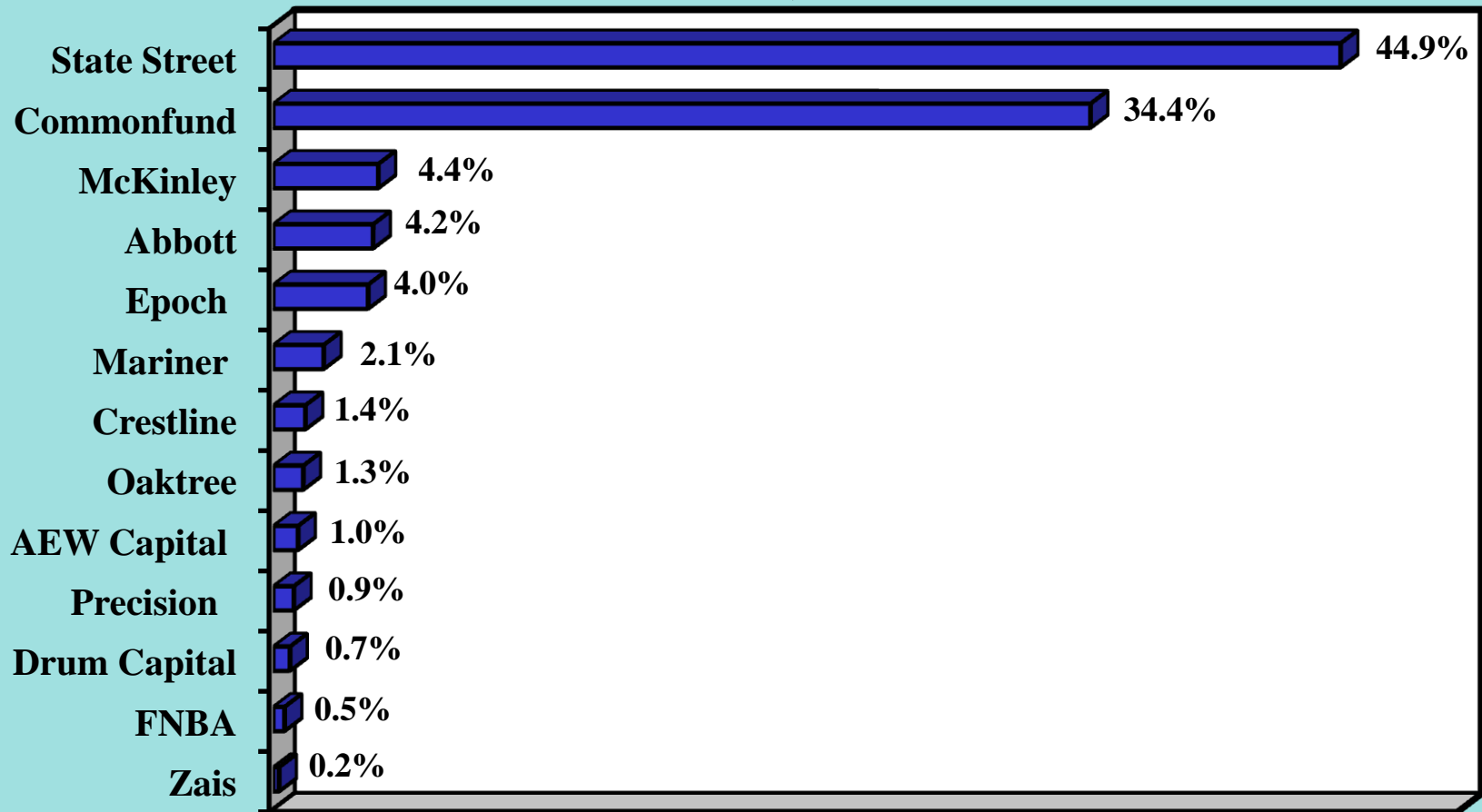
Consolidated Endowment Fund Assets June 30, 2010



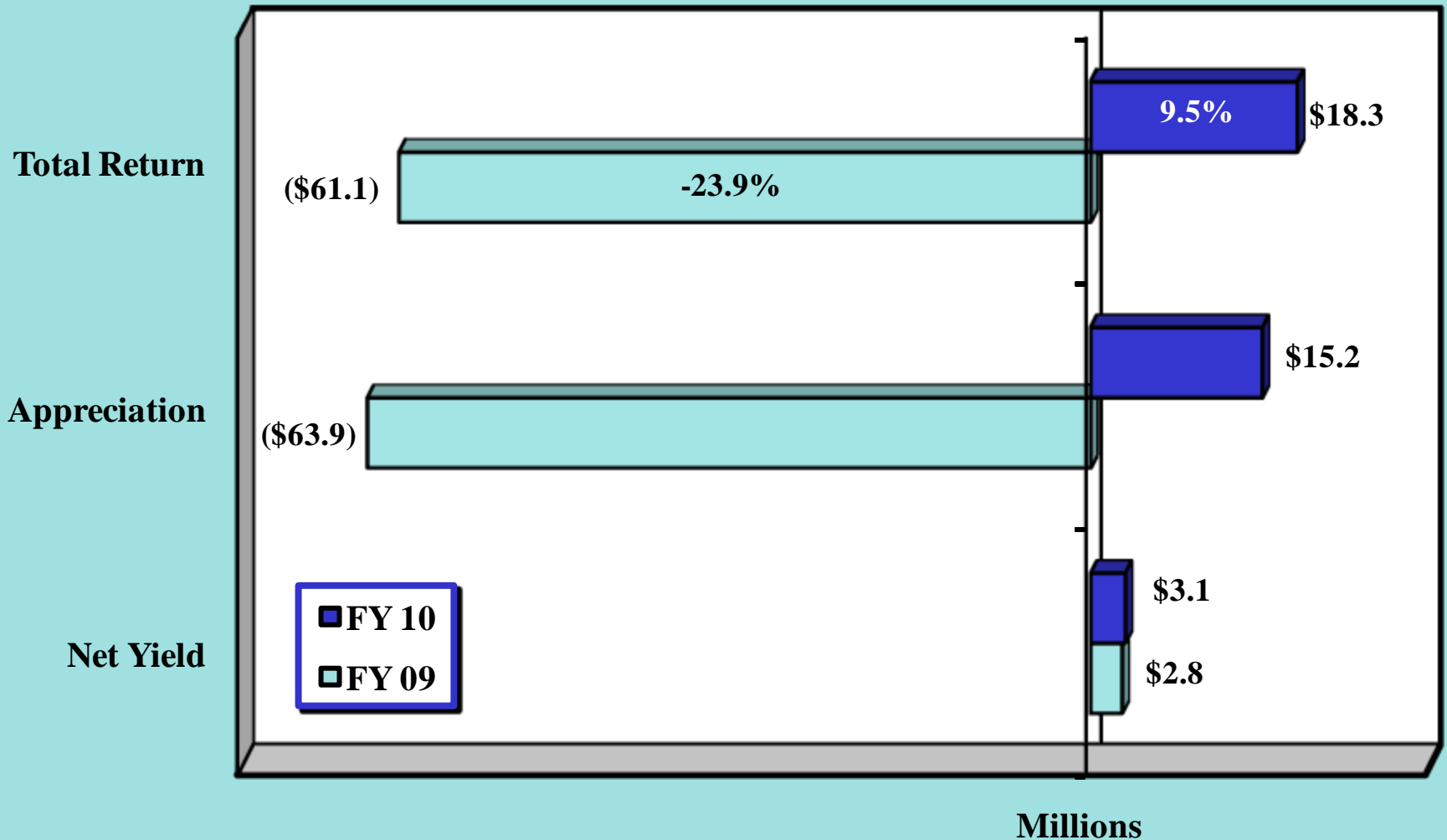
Consolidated Endowment Fund Asset Allocation Target v. Actual June 30, 2010



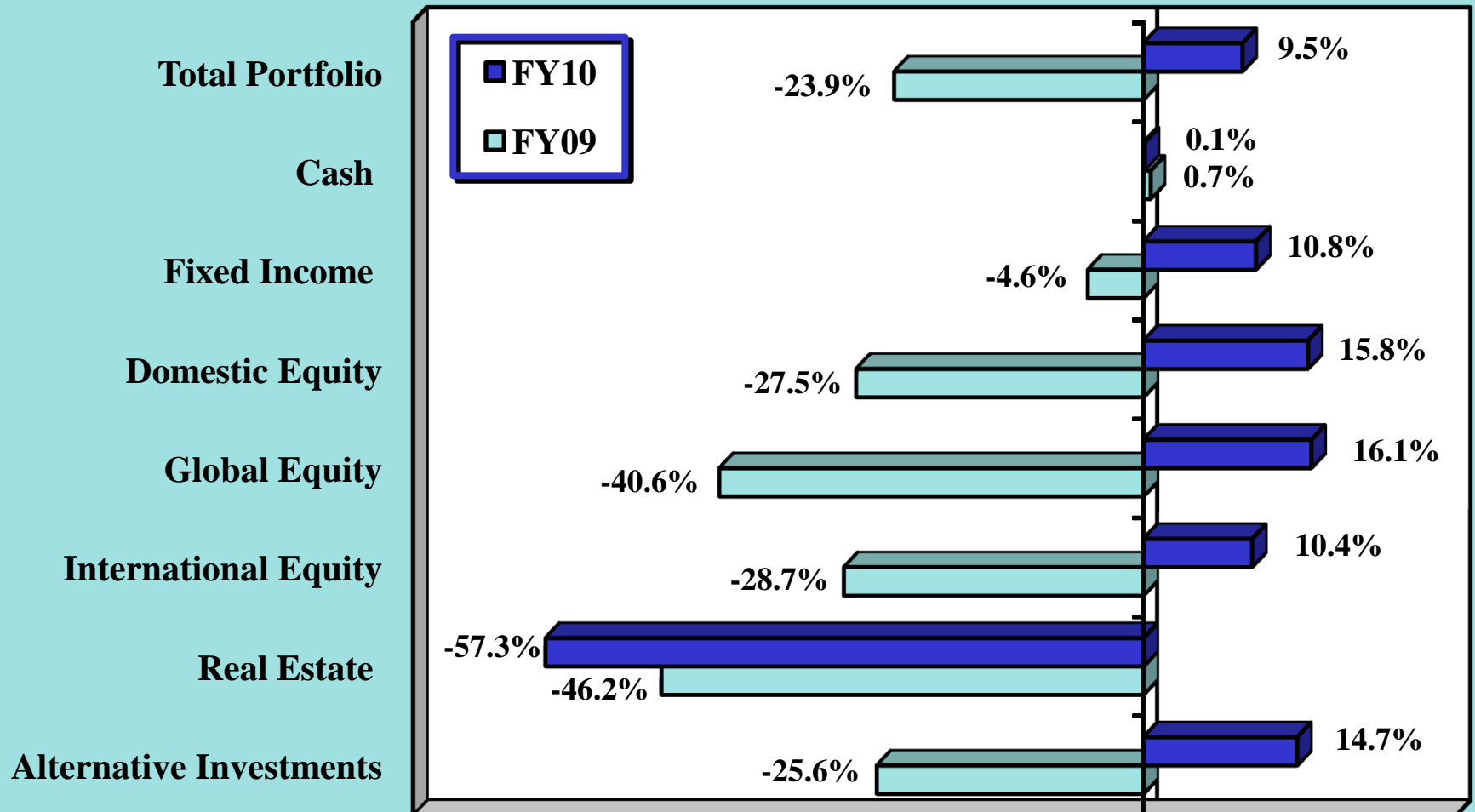
Consolidated Endowment Fund Assets Distribution by Manager June 30, 2010



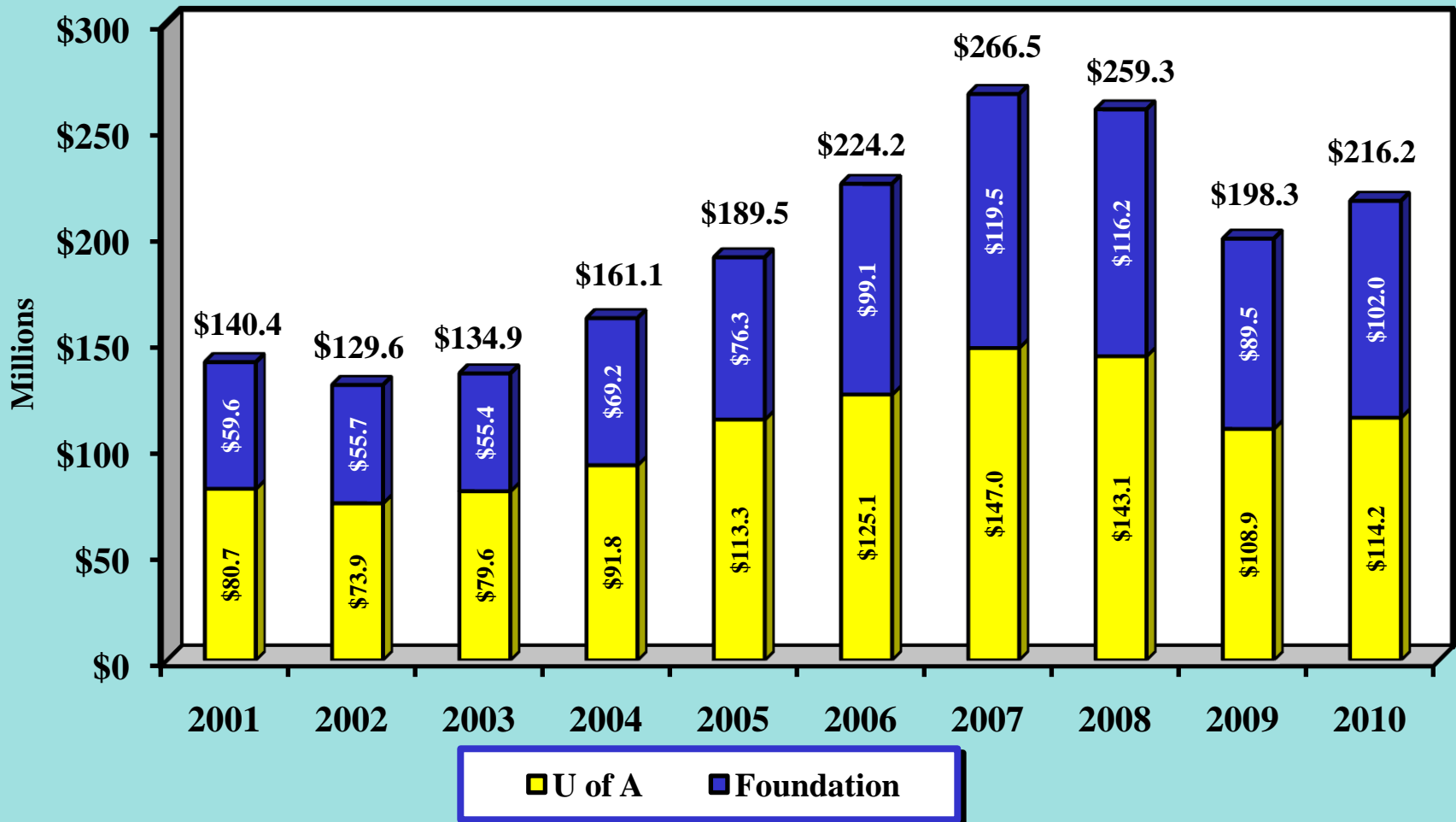
Consolidated Endowment Fund Total Return



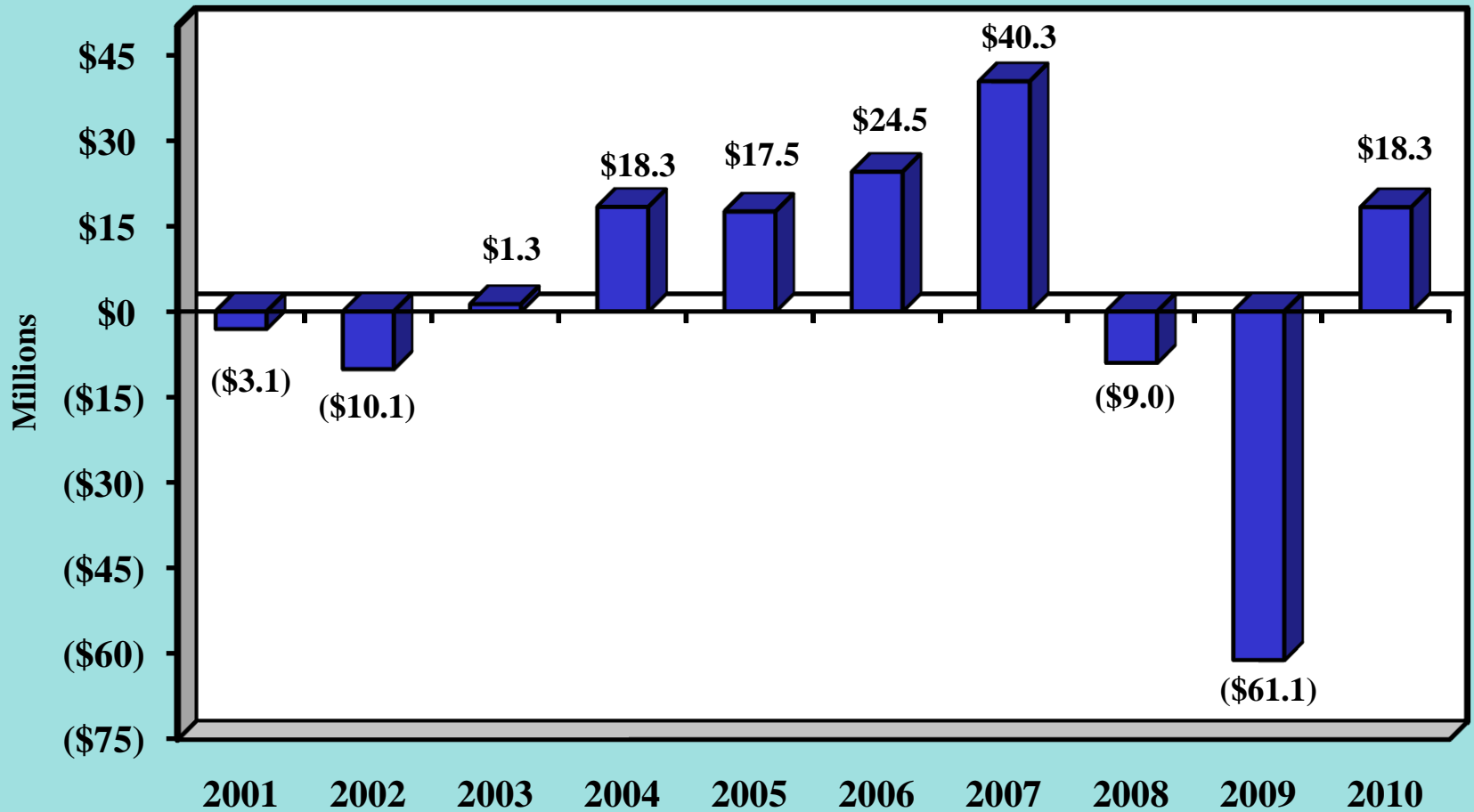
Consolidated Endowment Fund Investment Returns



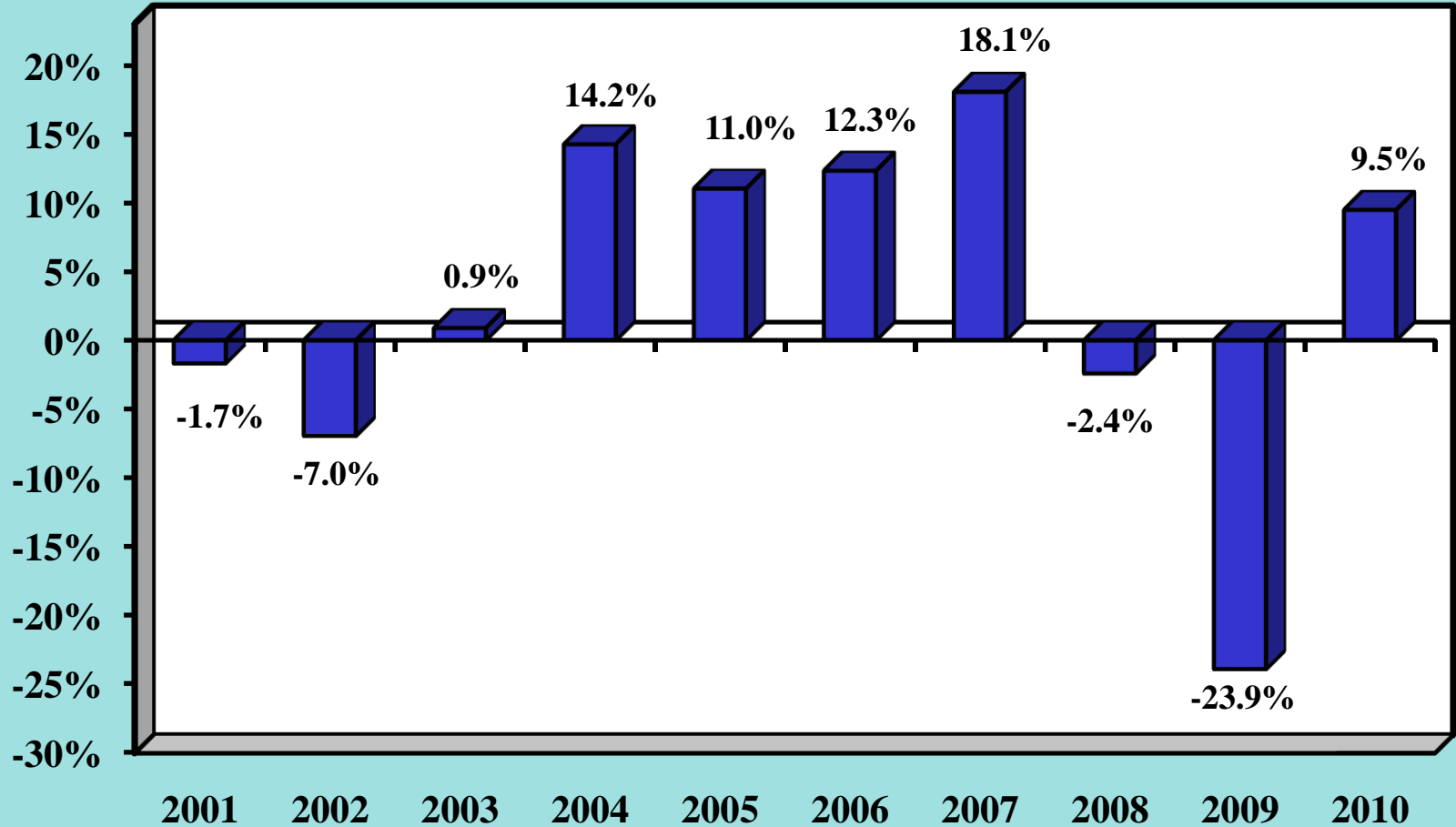
Consolidated Endowment Fund Total Assets



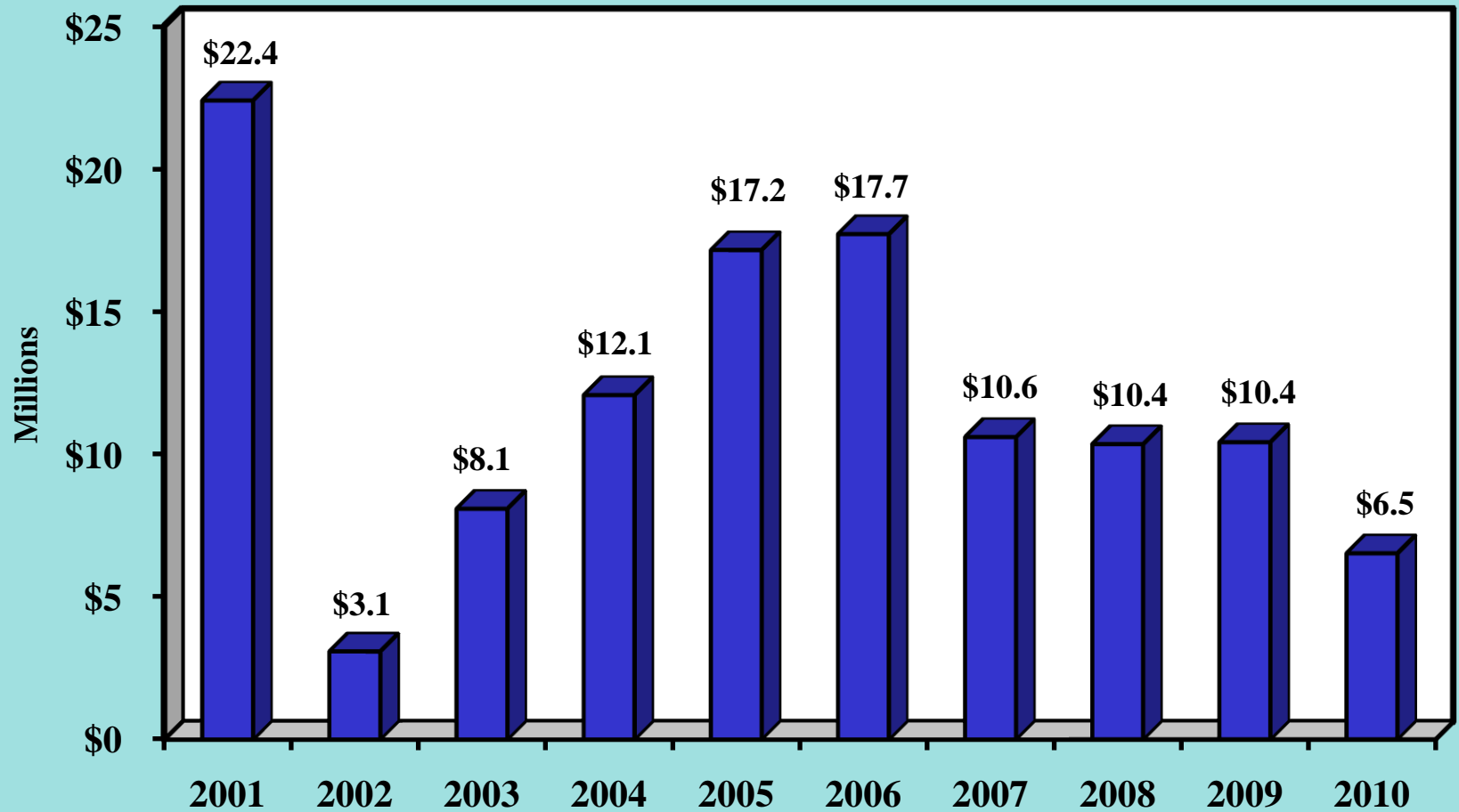
Consolidated Endowment Fund Investment Earnings



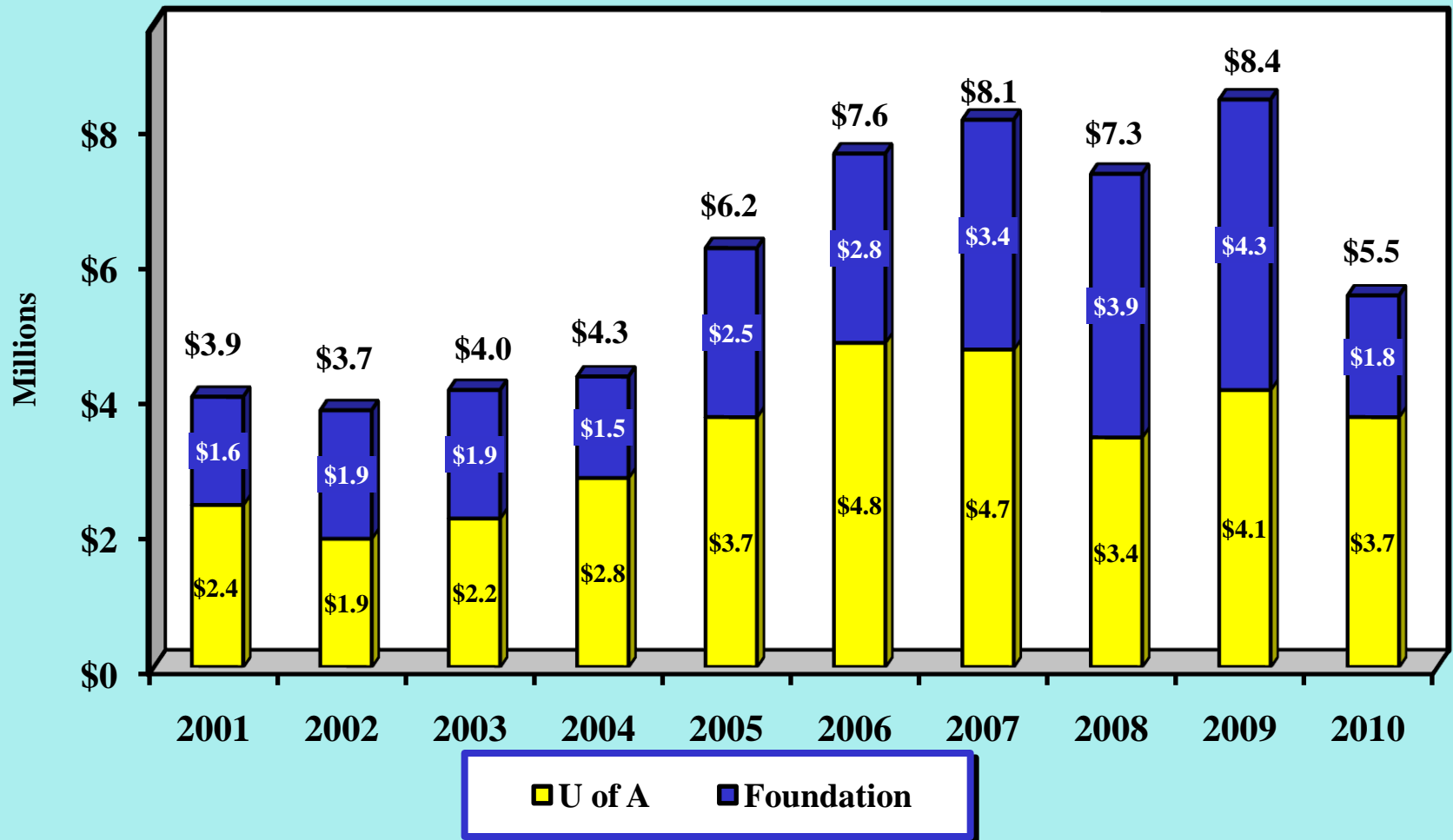
Consolidated Endowment Fund Investment Returns

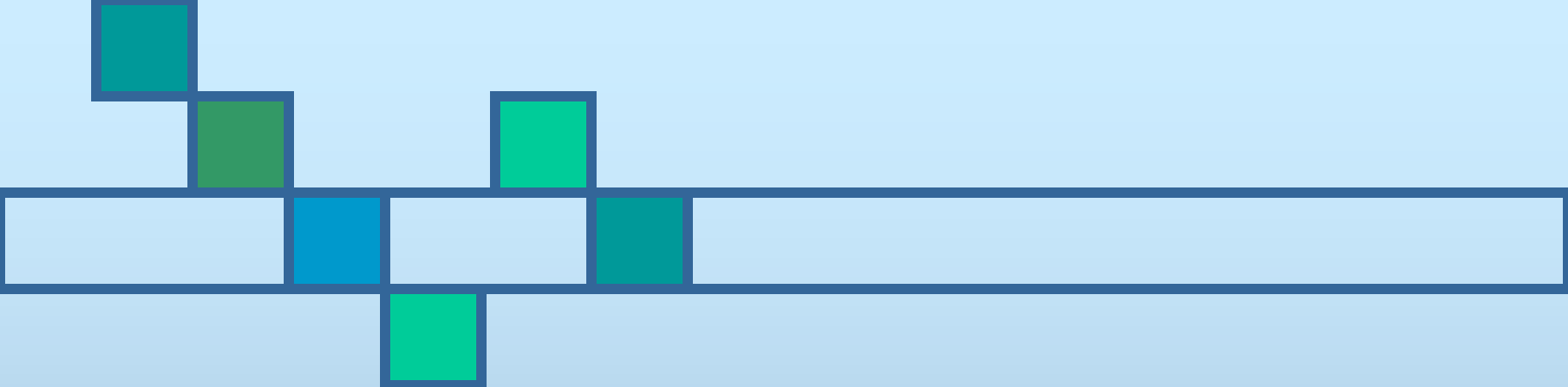


Consolidated Endowment Fund Net Additions



Consolidated Endowment Fund Spending Distributions



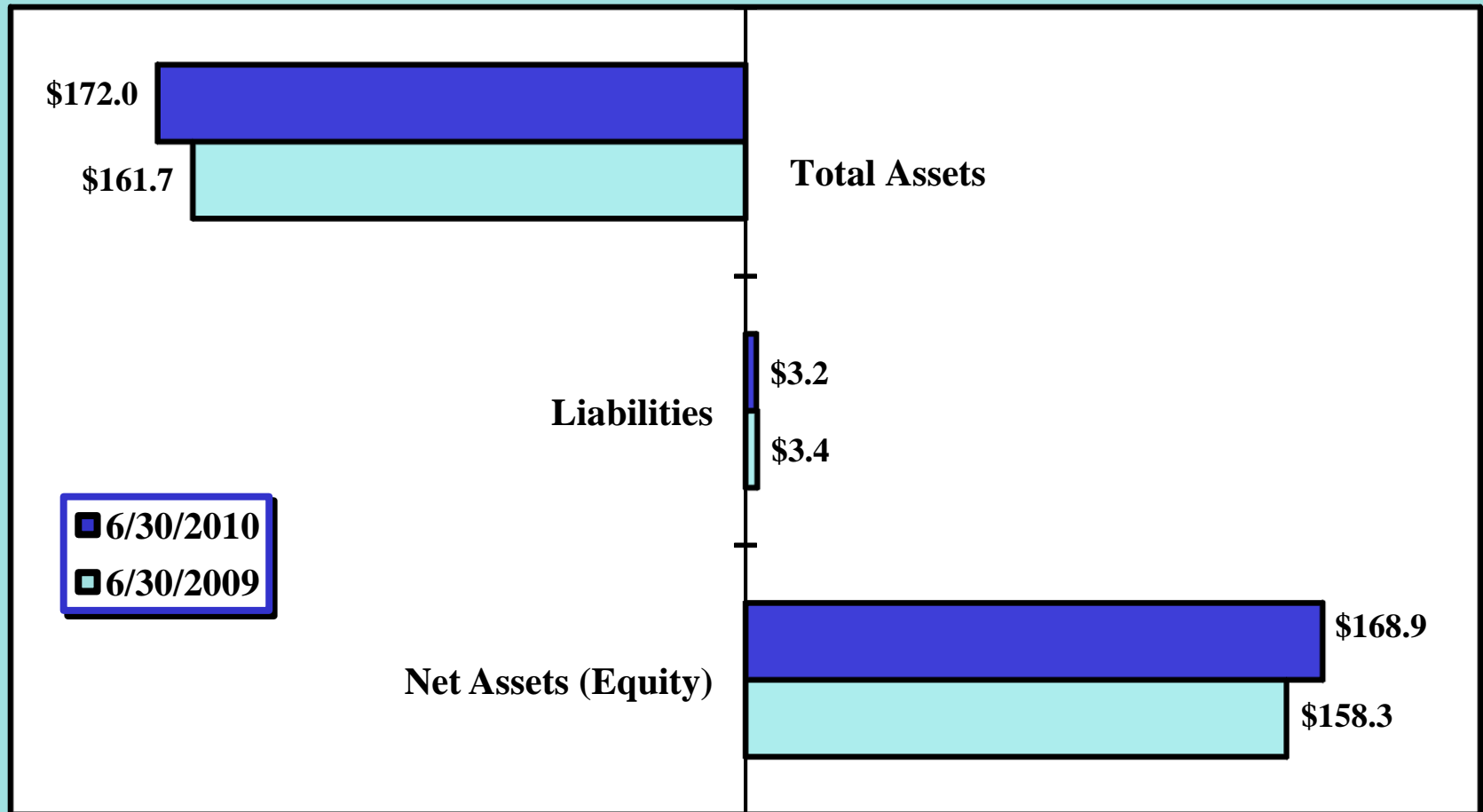


University of Alaska Foundation



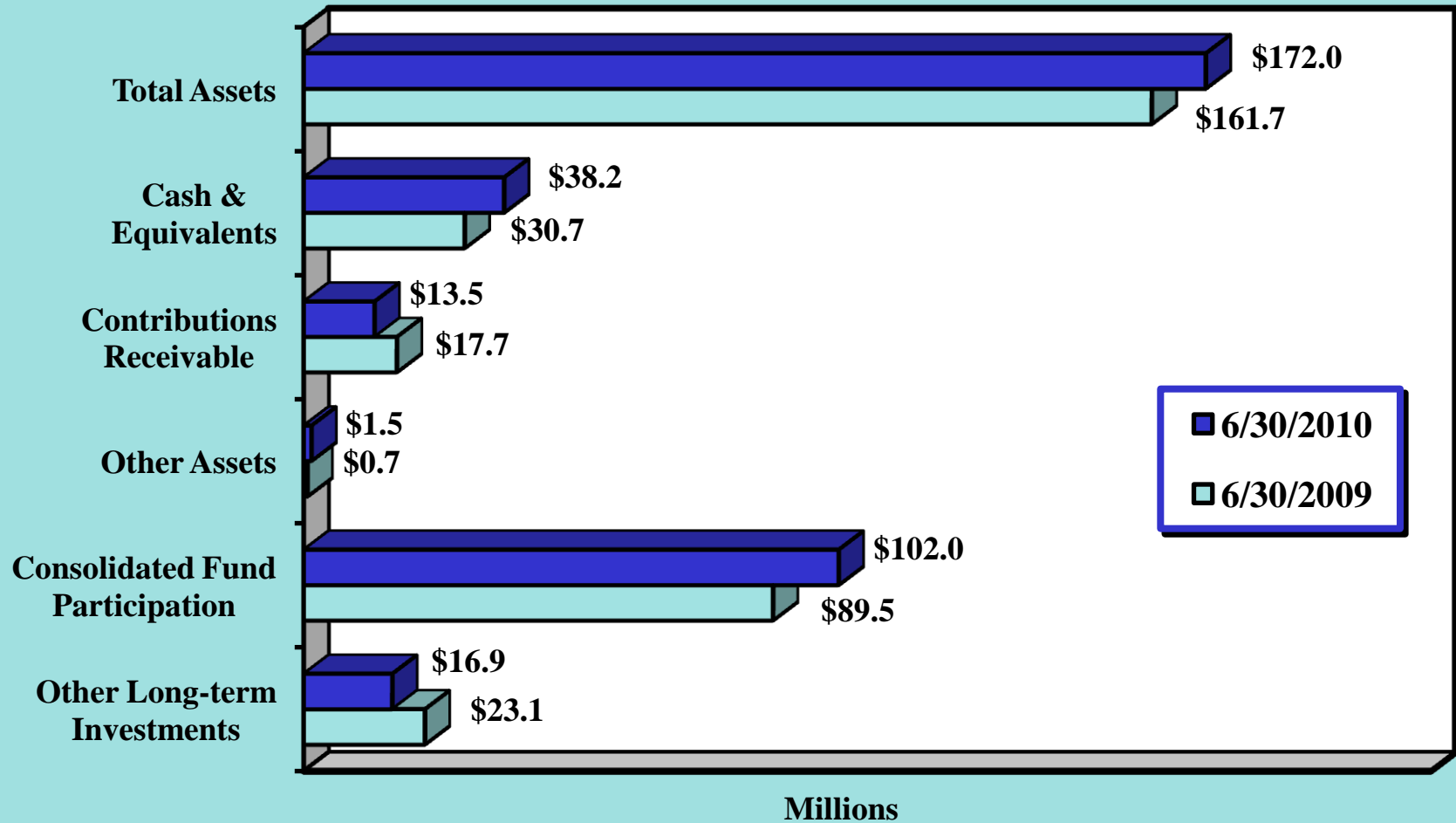
Financial Statement Presentation
June 30, 2010

University of Alaska Foundation Financial Position

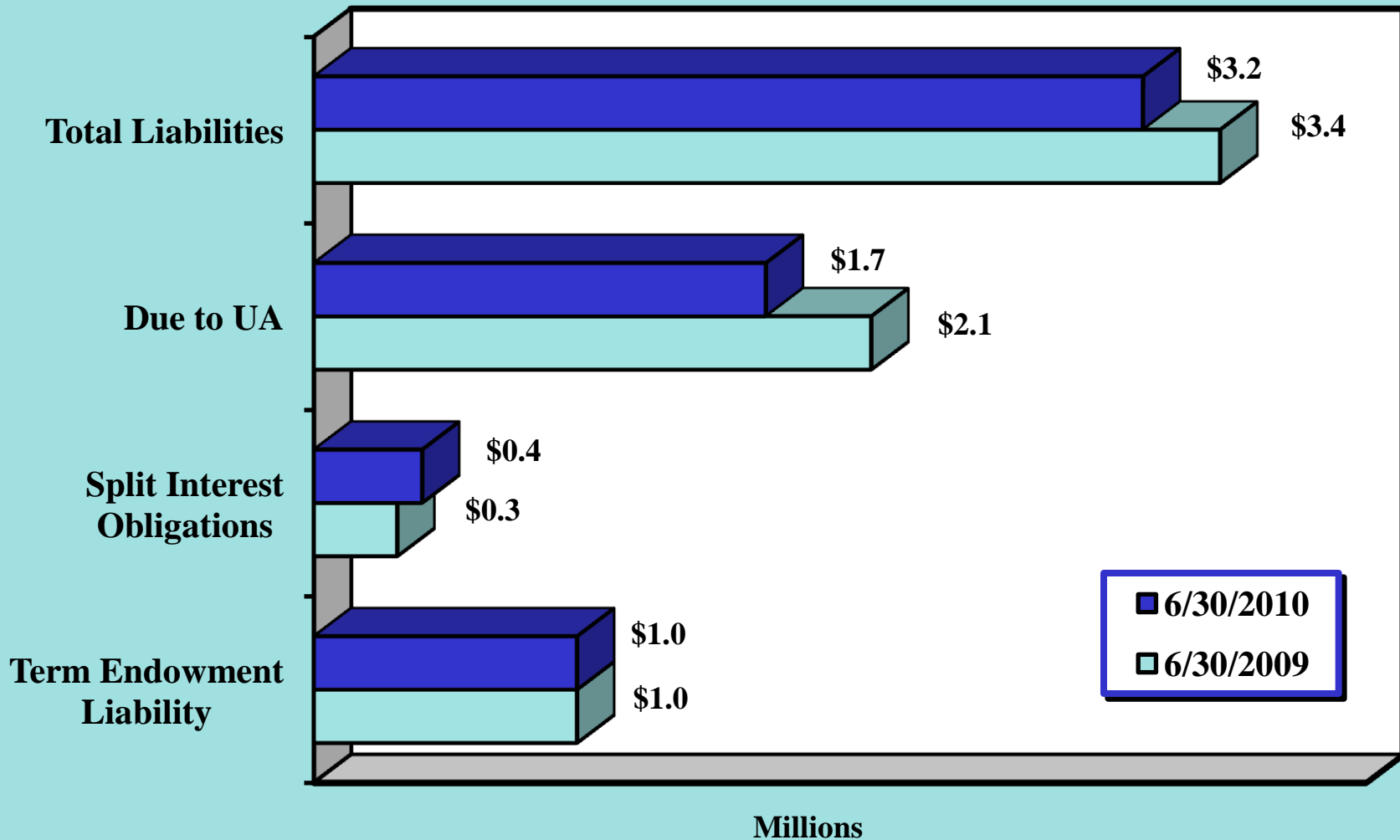


Millions

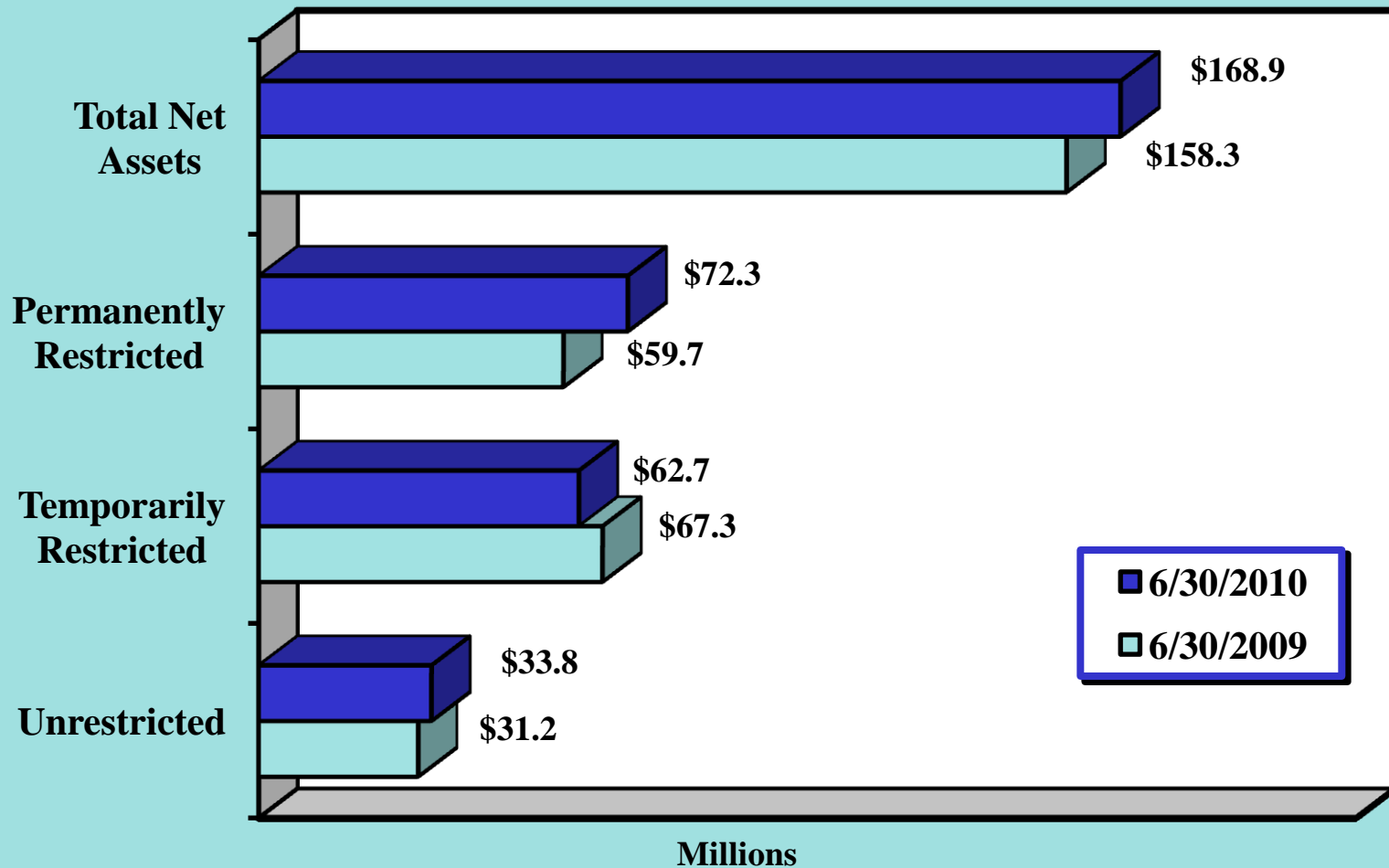
University of Alaska Foundation Total Assets



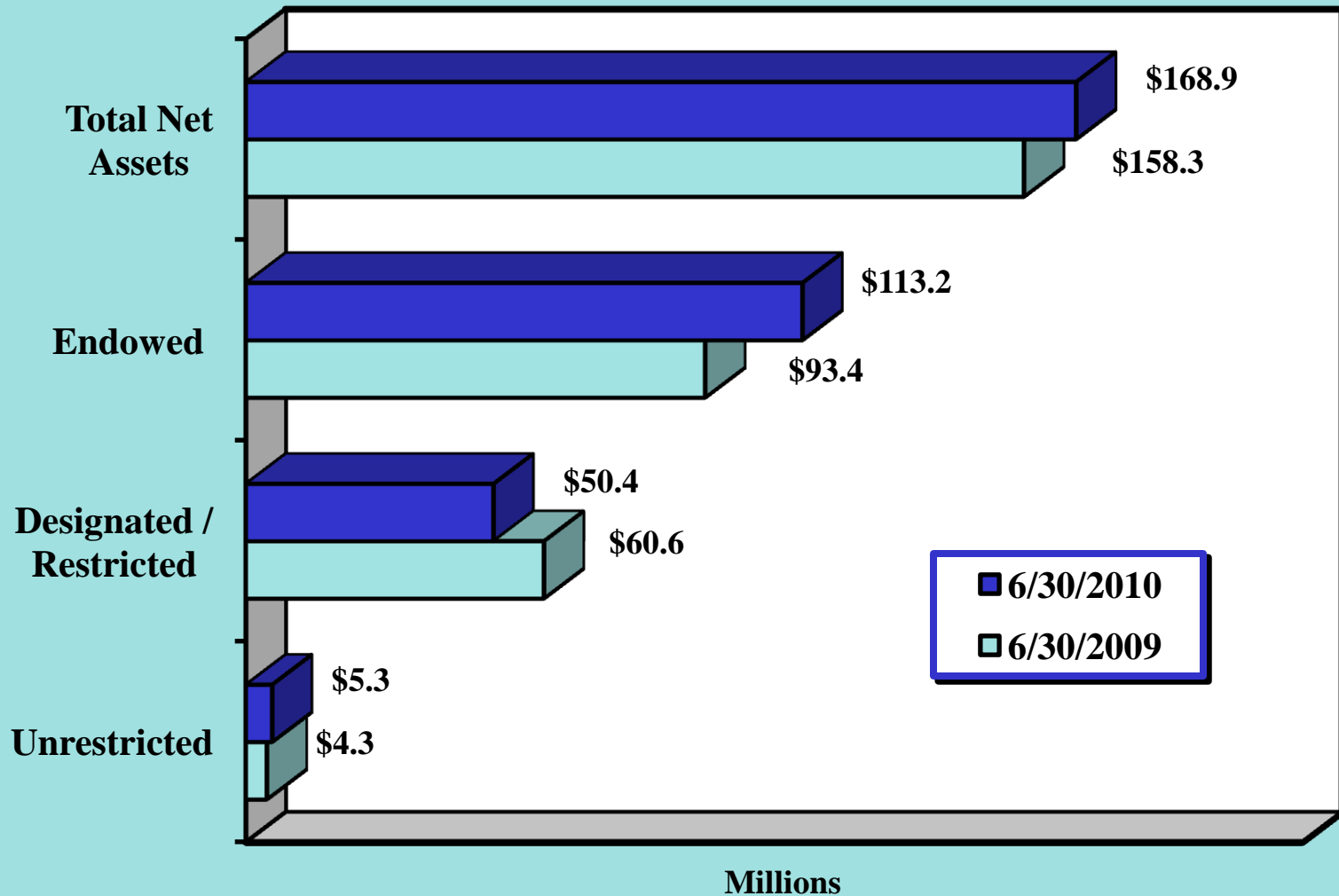
University of Alaska Foundation Liabilities



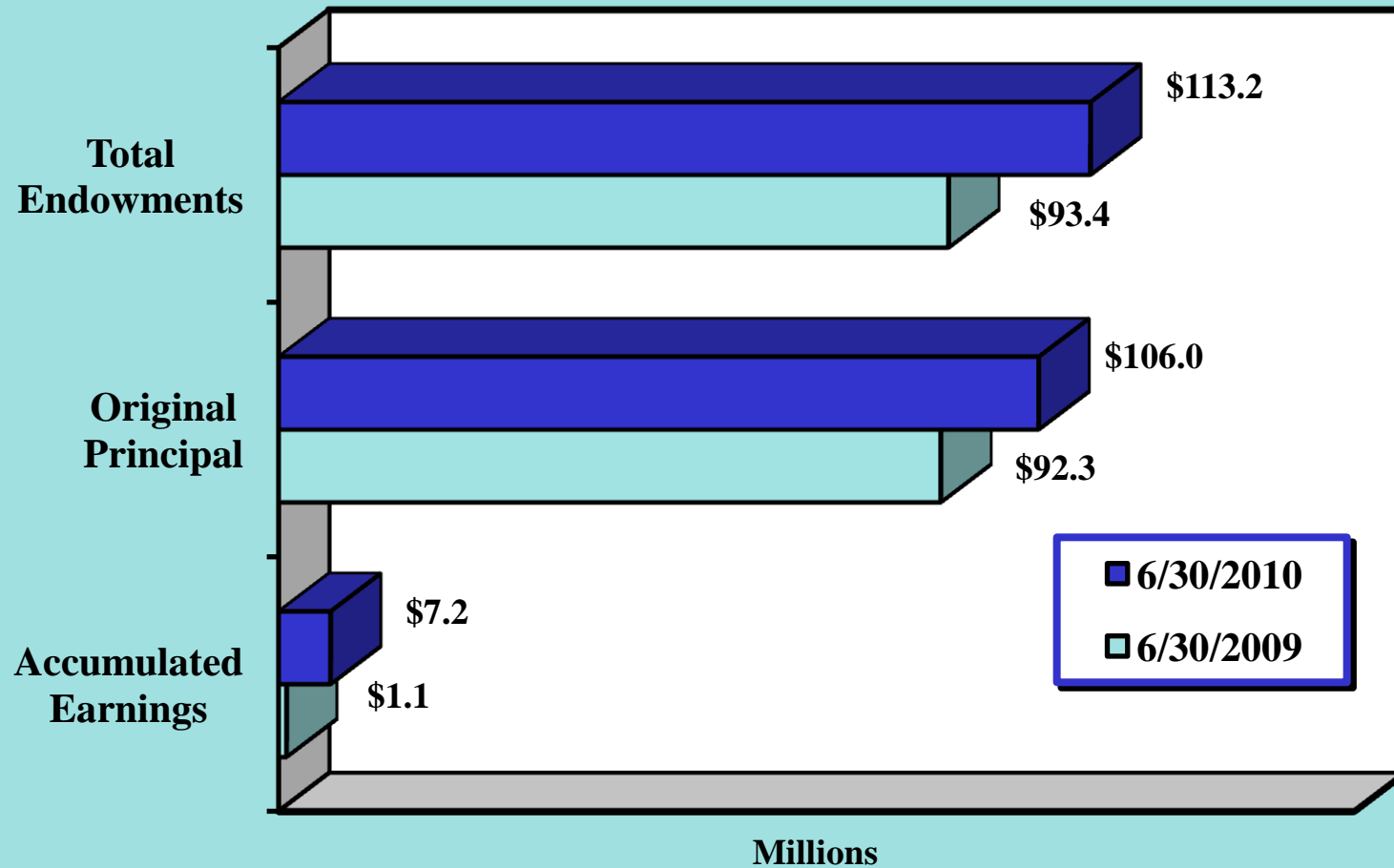
University of Alaska Foundation Net Assets By Classification



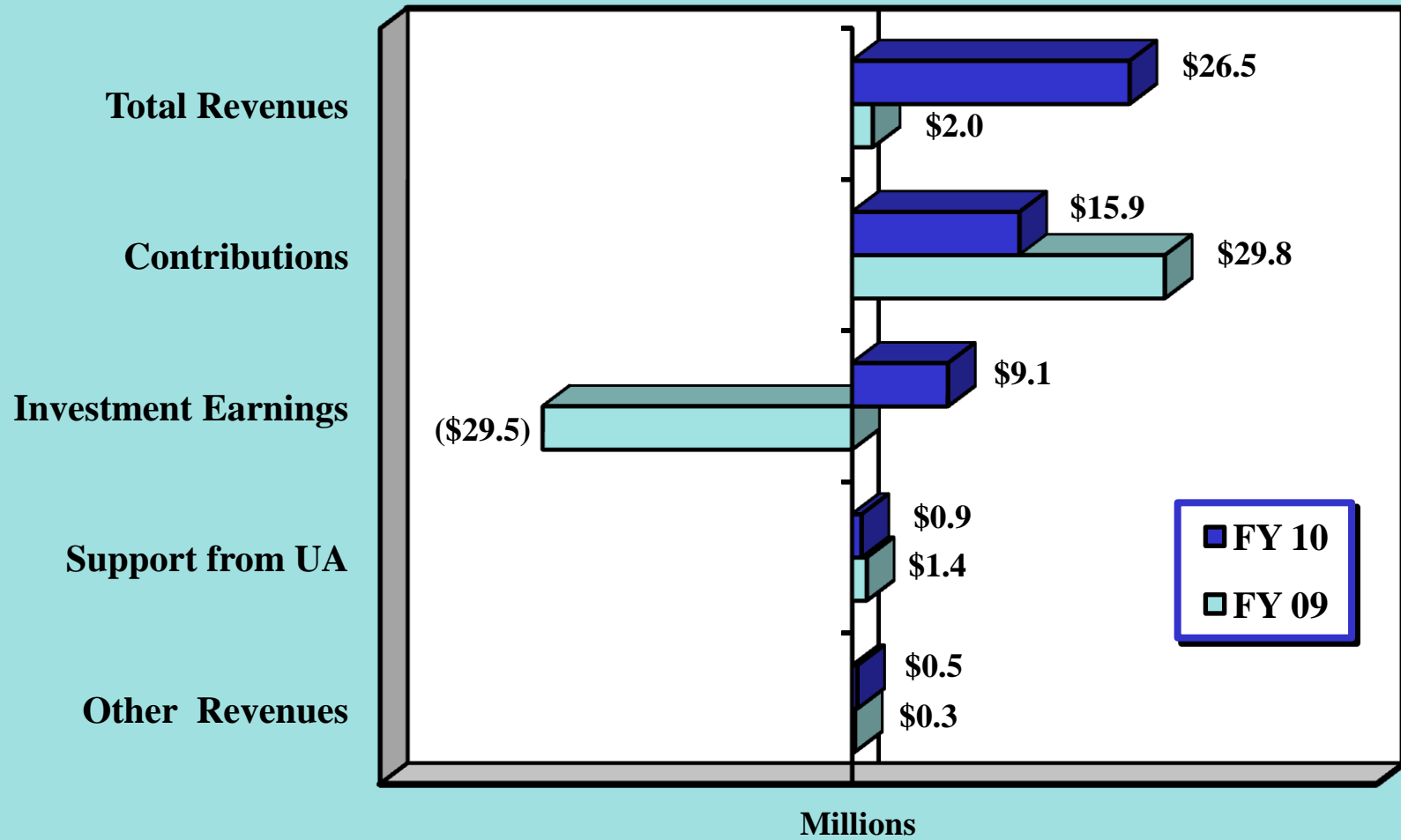
University of Alaska Foundation Net Assets By Type



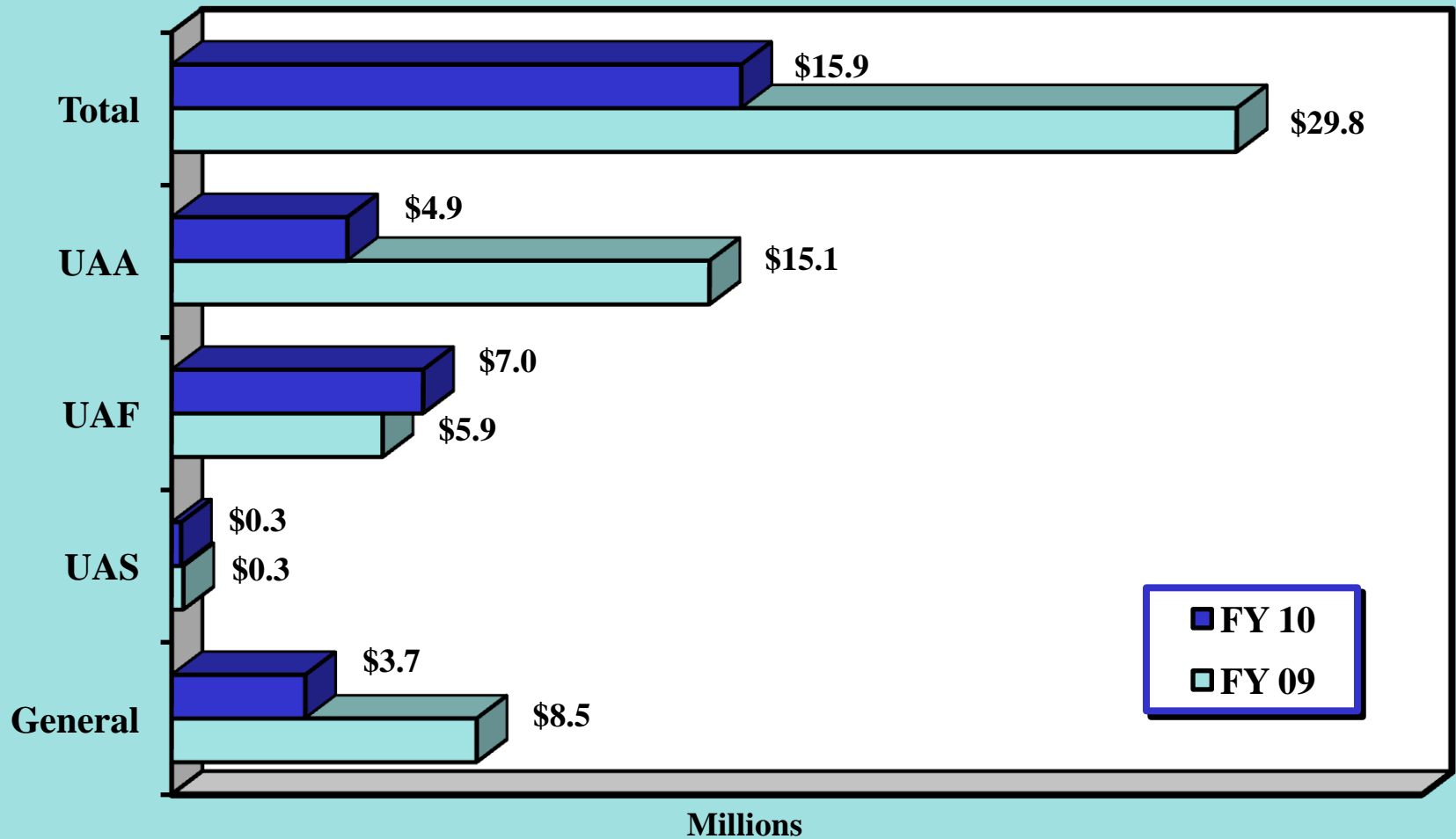
University of Alaska Foundation Endowment Funds



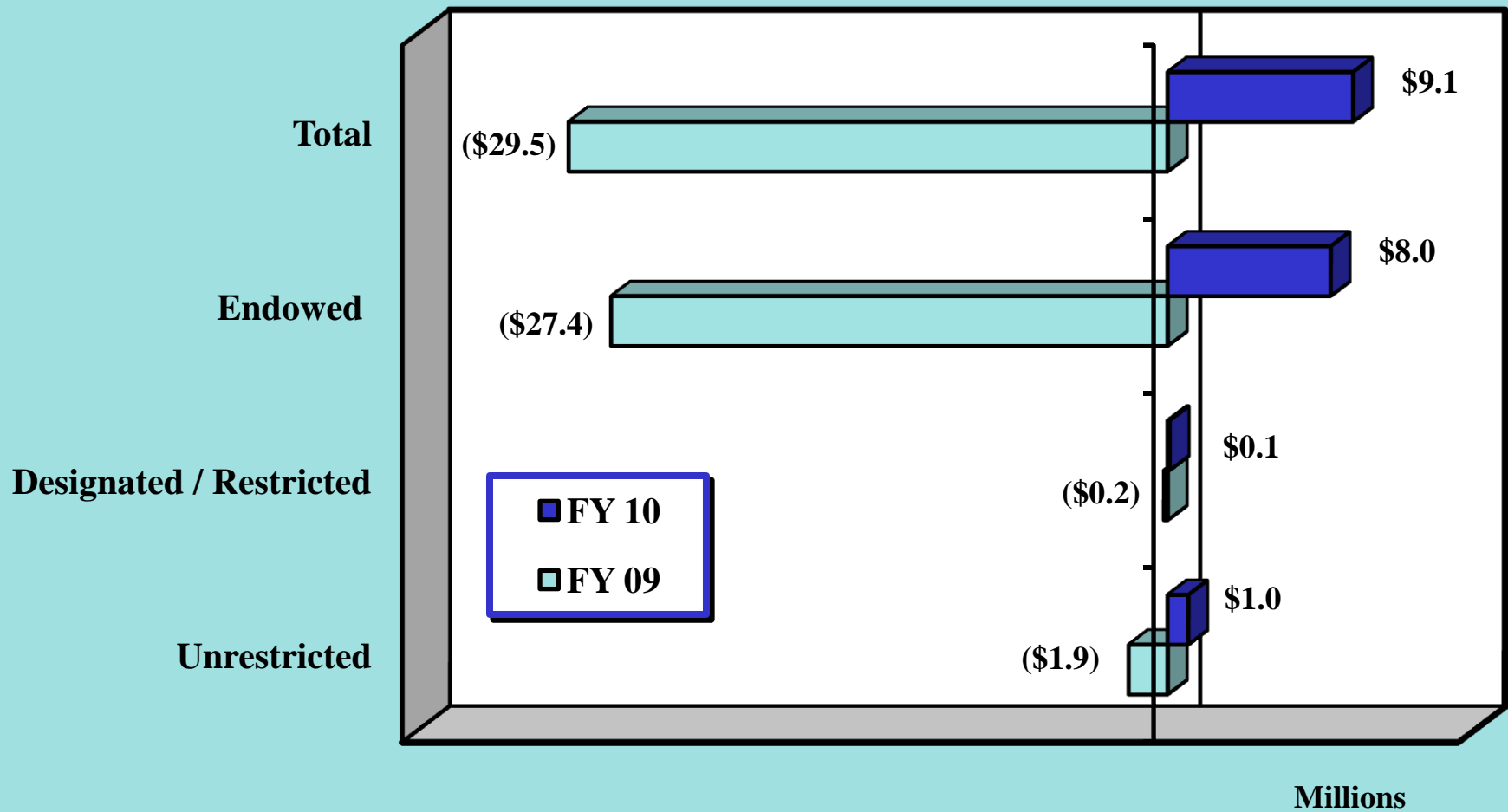
University of Alaska Foundation Total Revenues



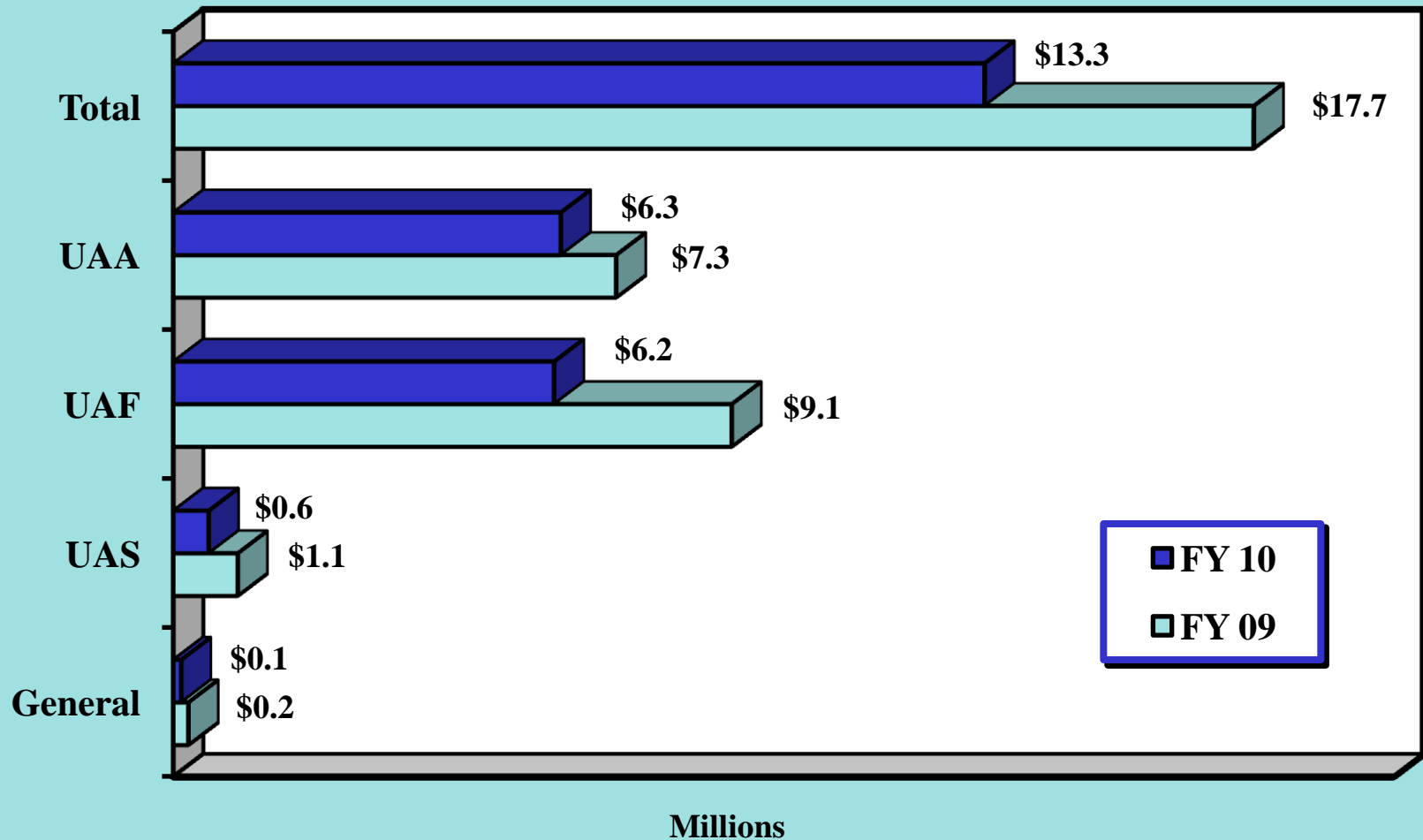
University of Alaska Foundation Contribution Income



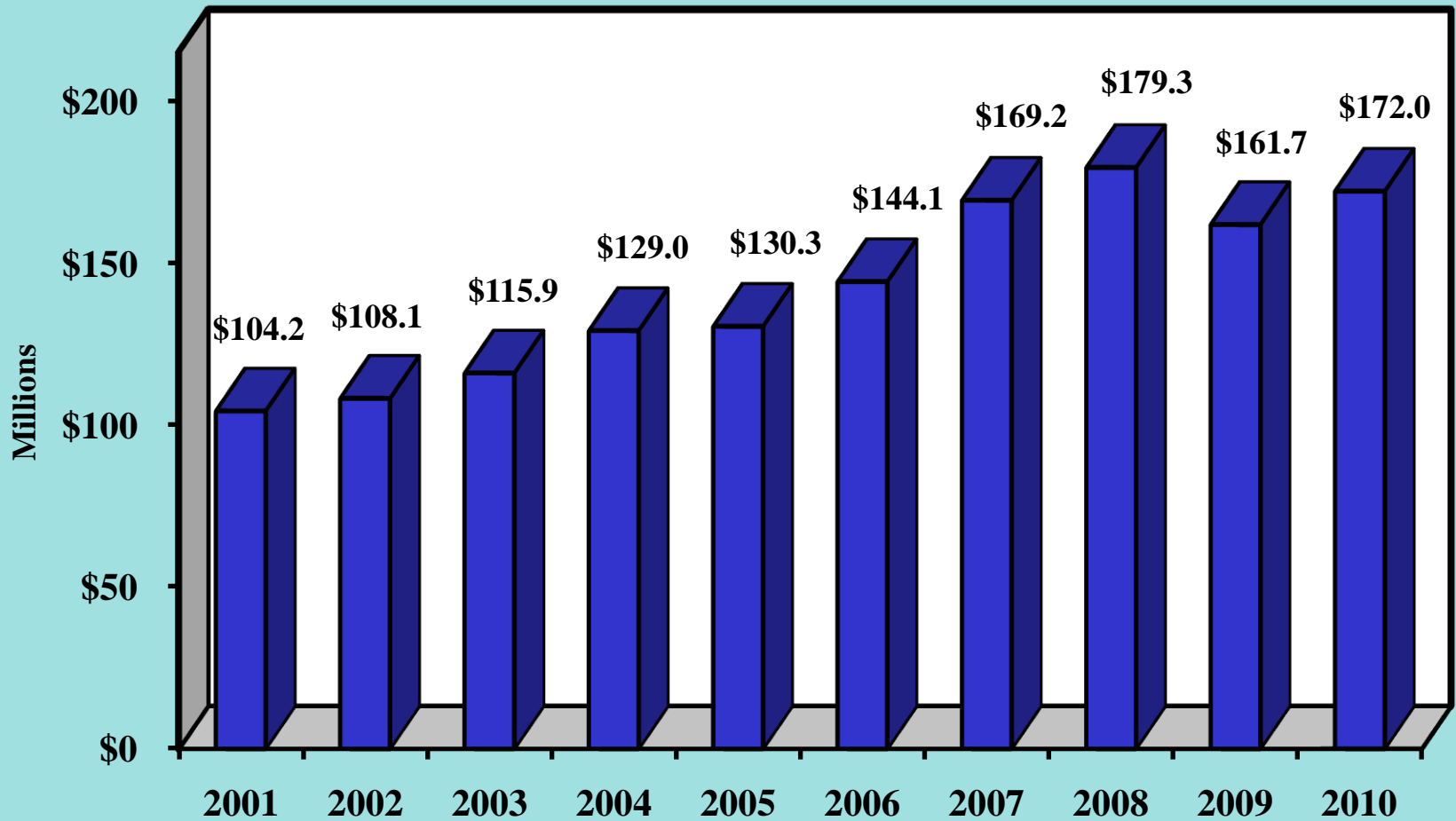
University of Alaska Foundation Investment Earnings



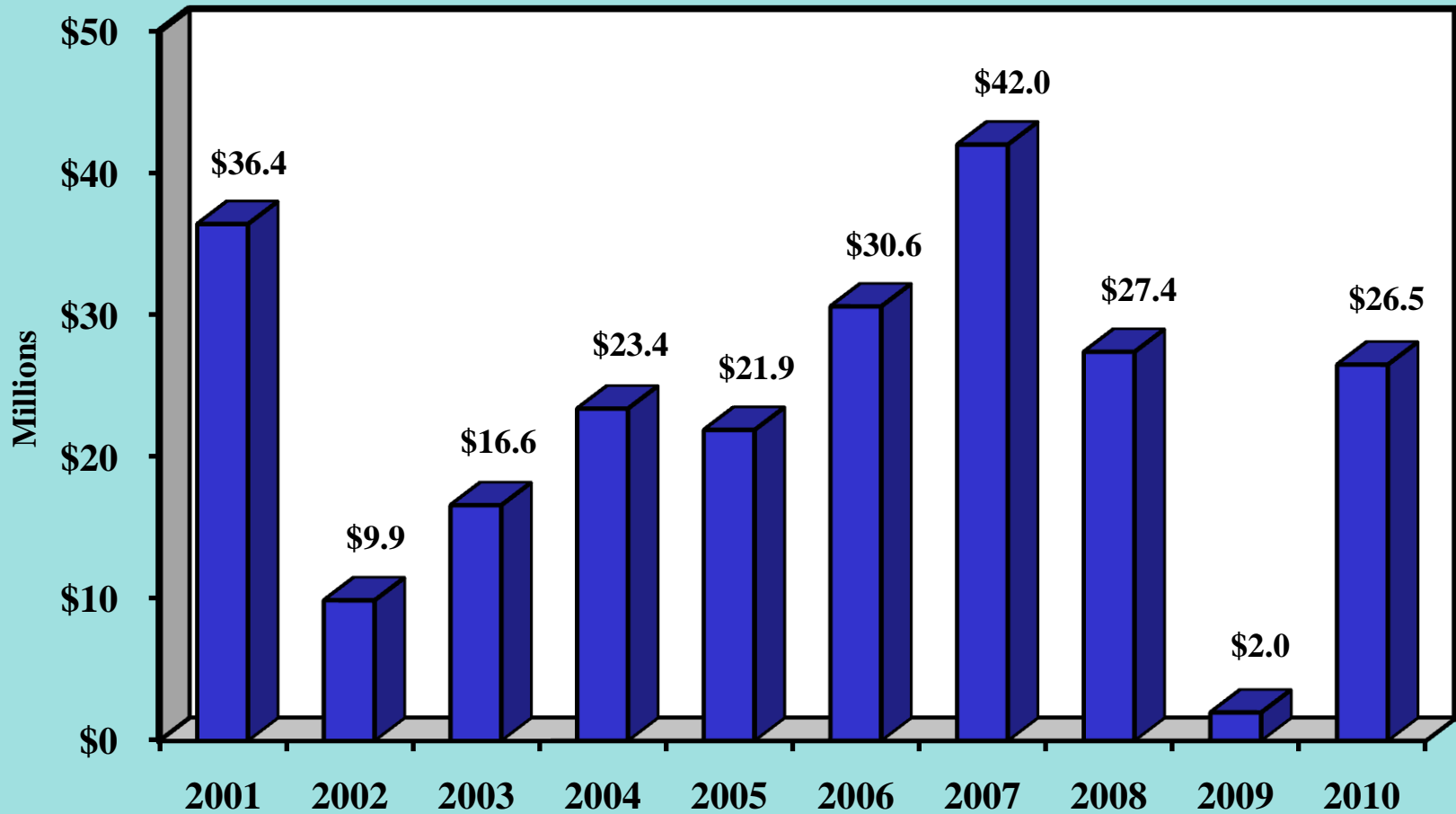
University of Alaska Foundation Distributions for the Benefit of University of Alaska



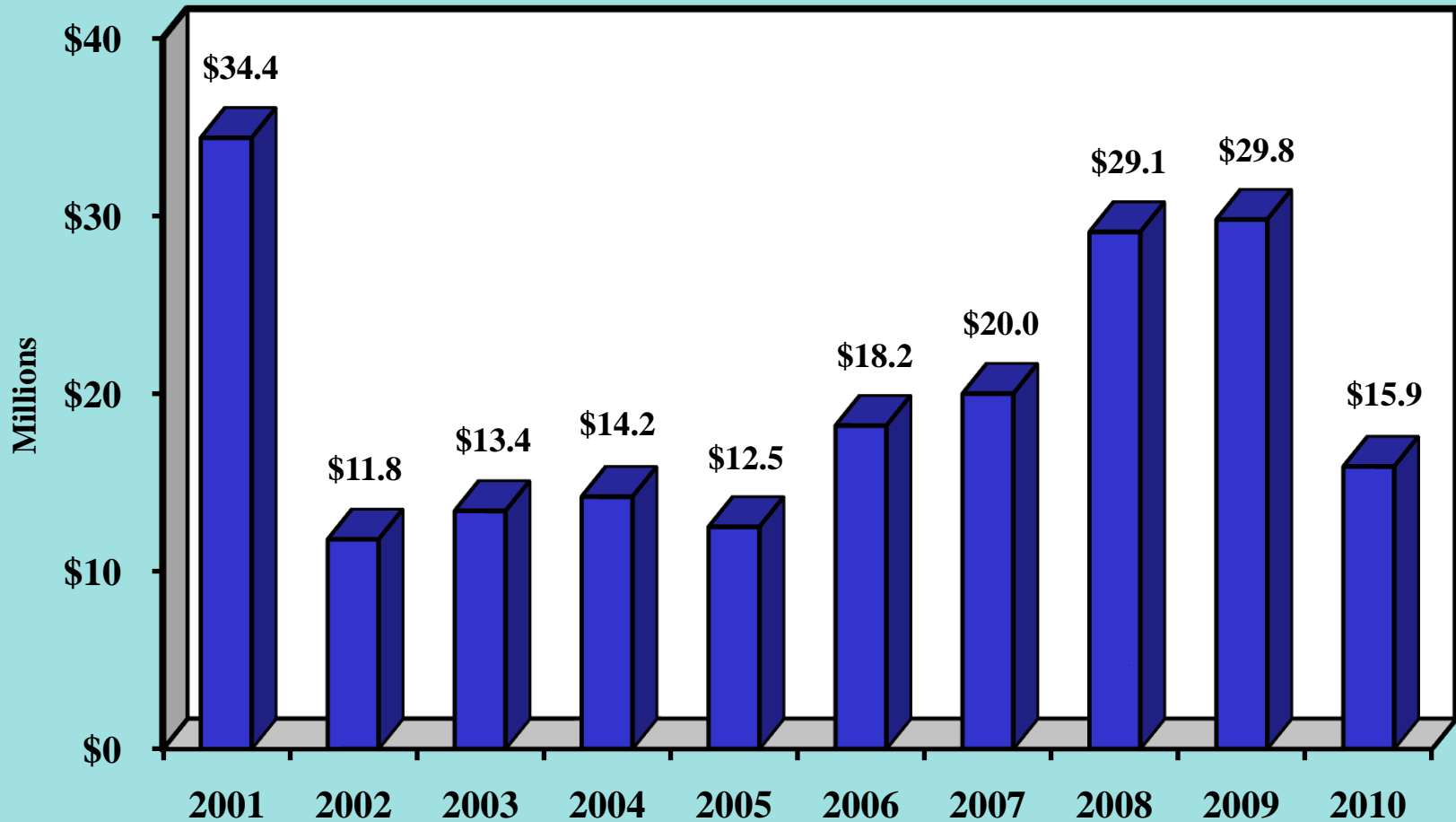
University of Alaska Foundation Total Assets



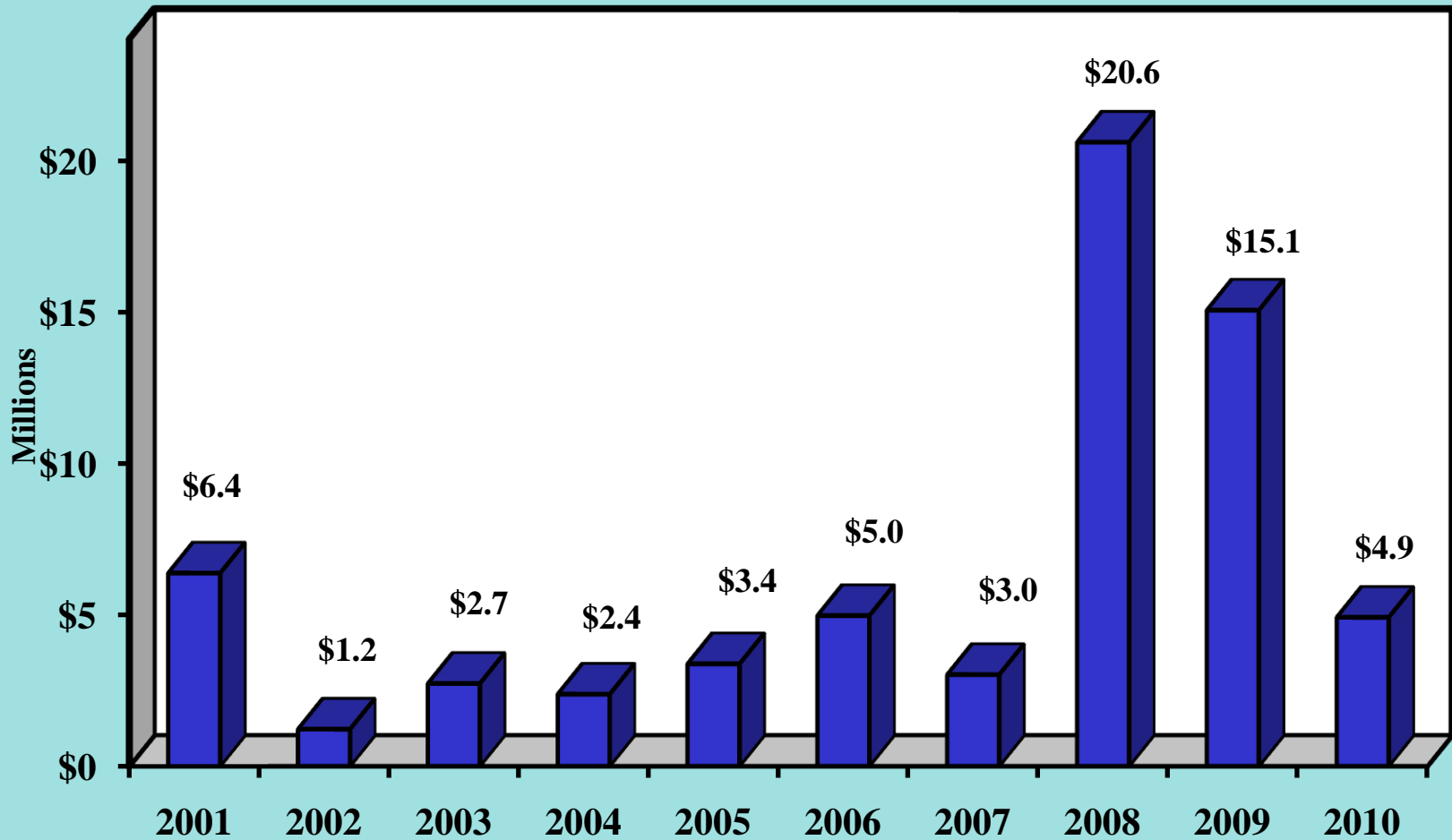
University of Alaska Foundation Total Revenues



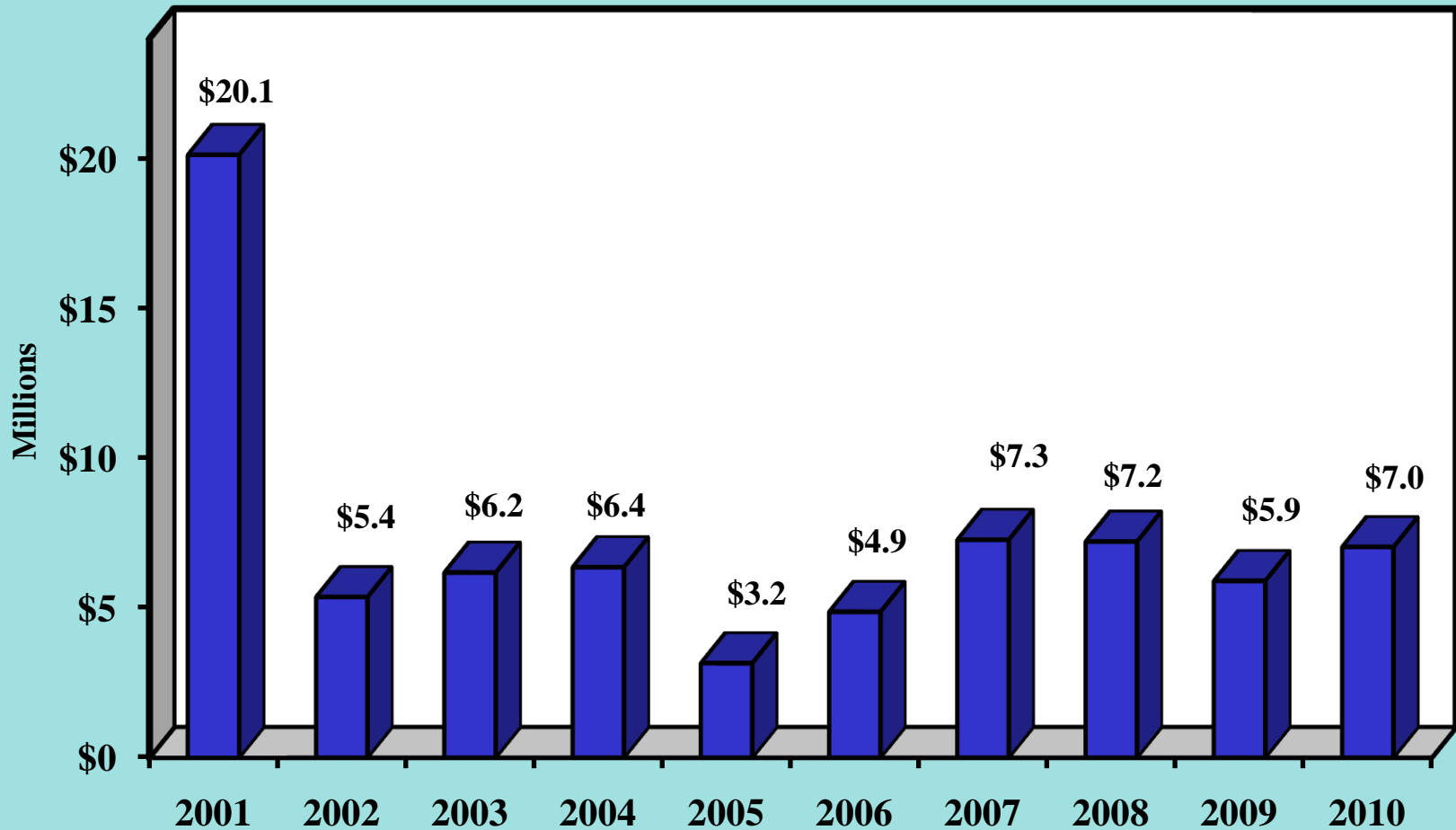
University of Alaska Foundation Contribution Revenues



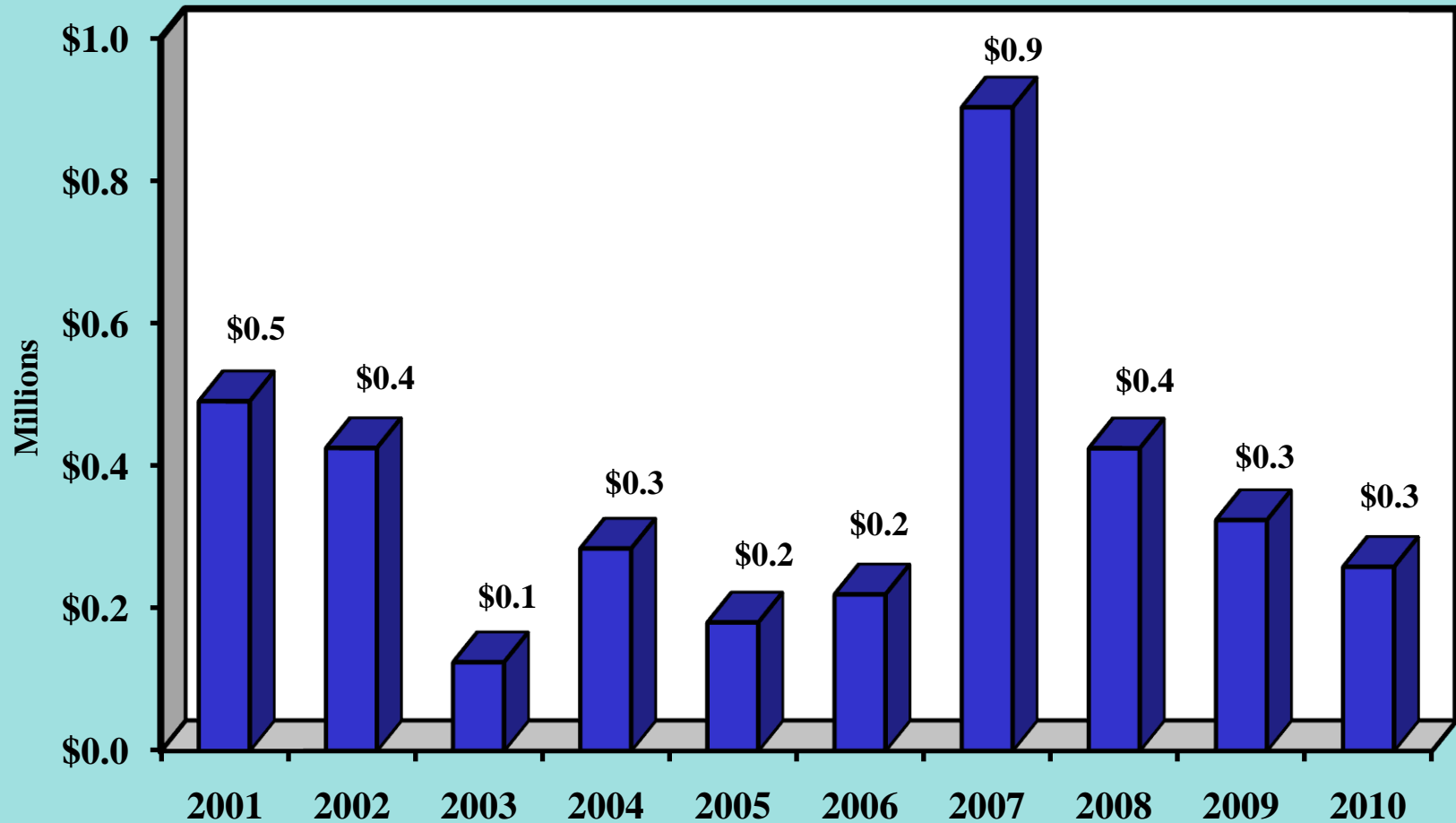
University of Alaska Foundation UAA Contribution Revenues



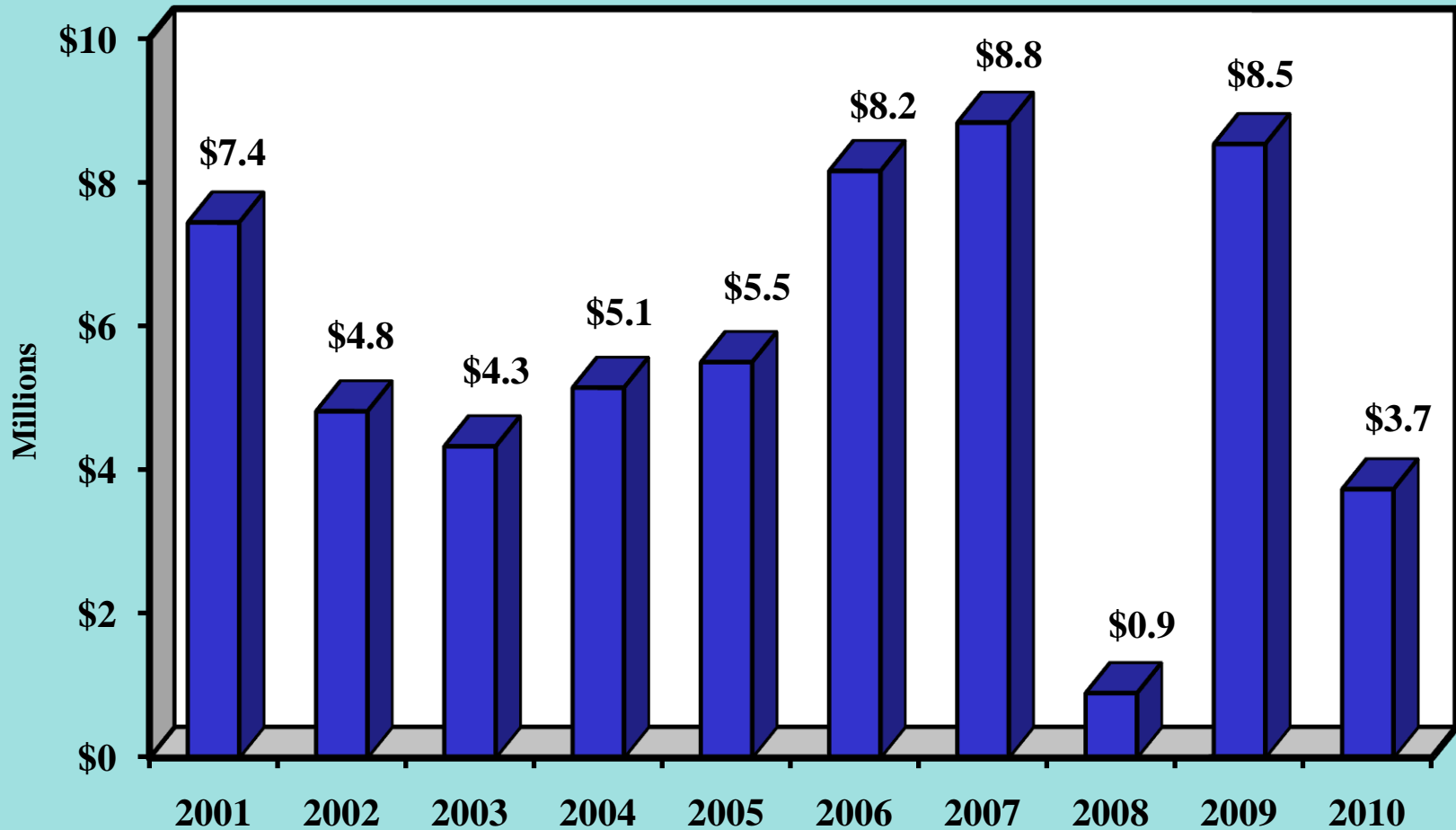
University of Alaska Foundation UAF Contribution Revenues



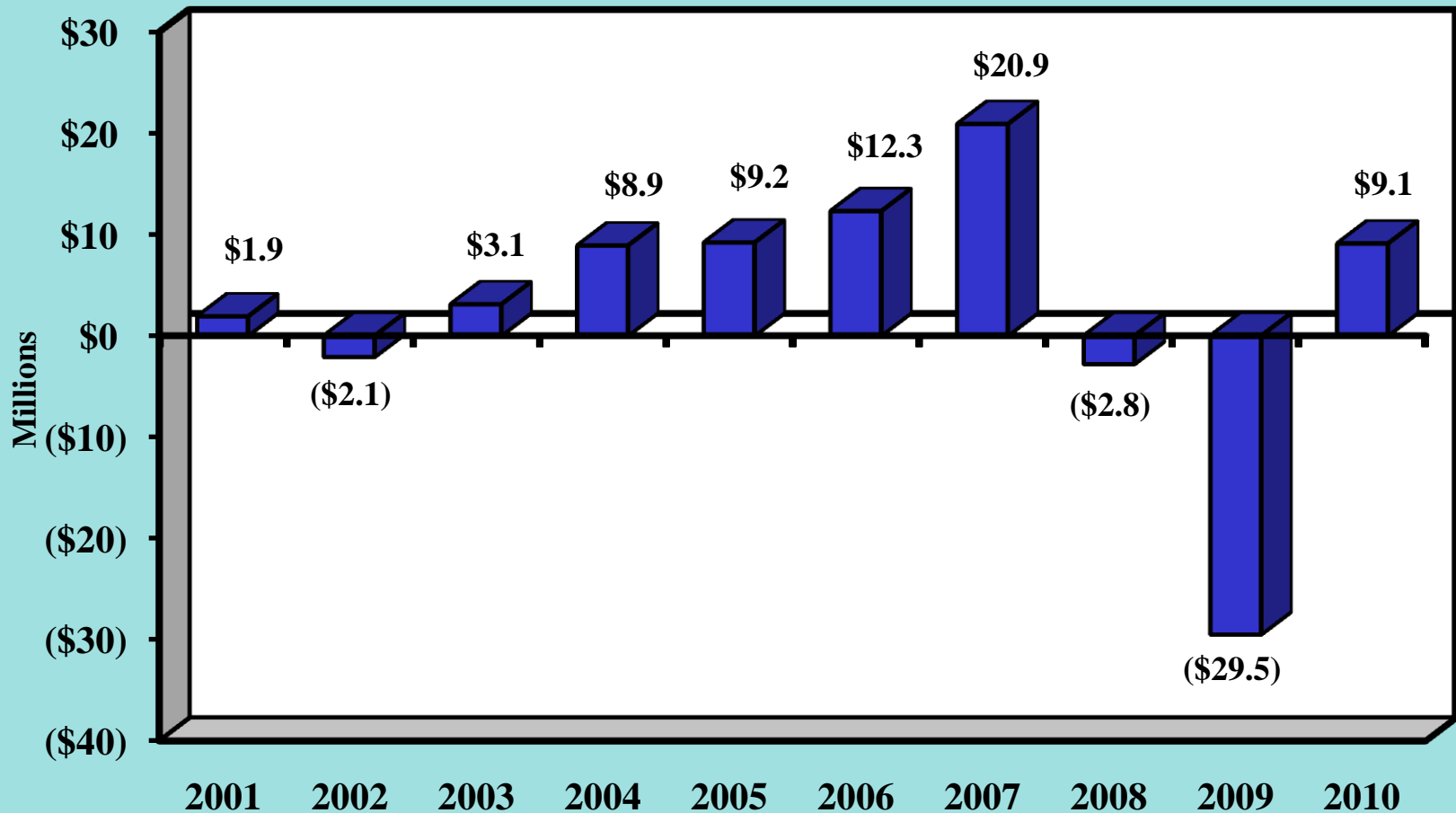
University of Alaska Foundation UAS Contribution Revenues



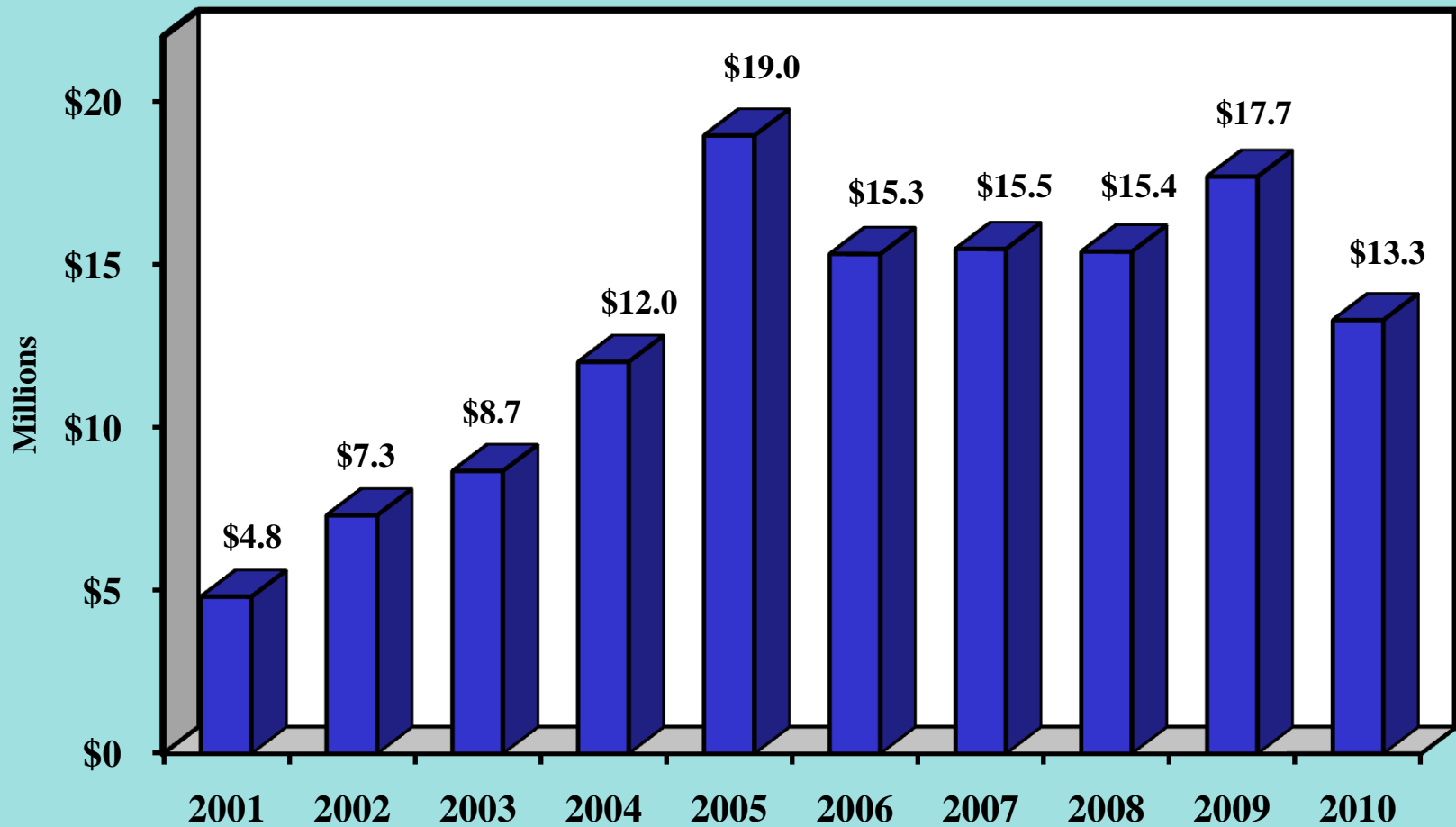
University of Alaska Foundation UA General Contribution Revenues



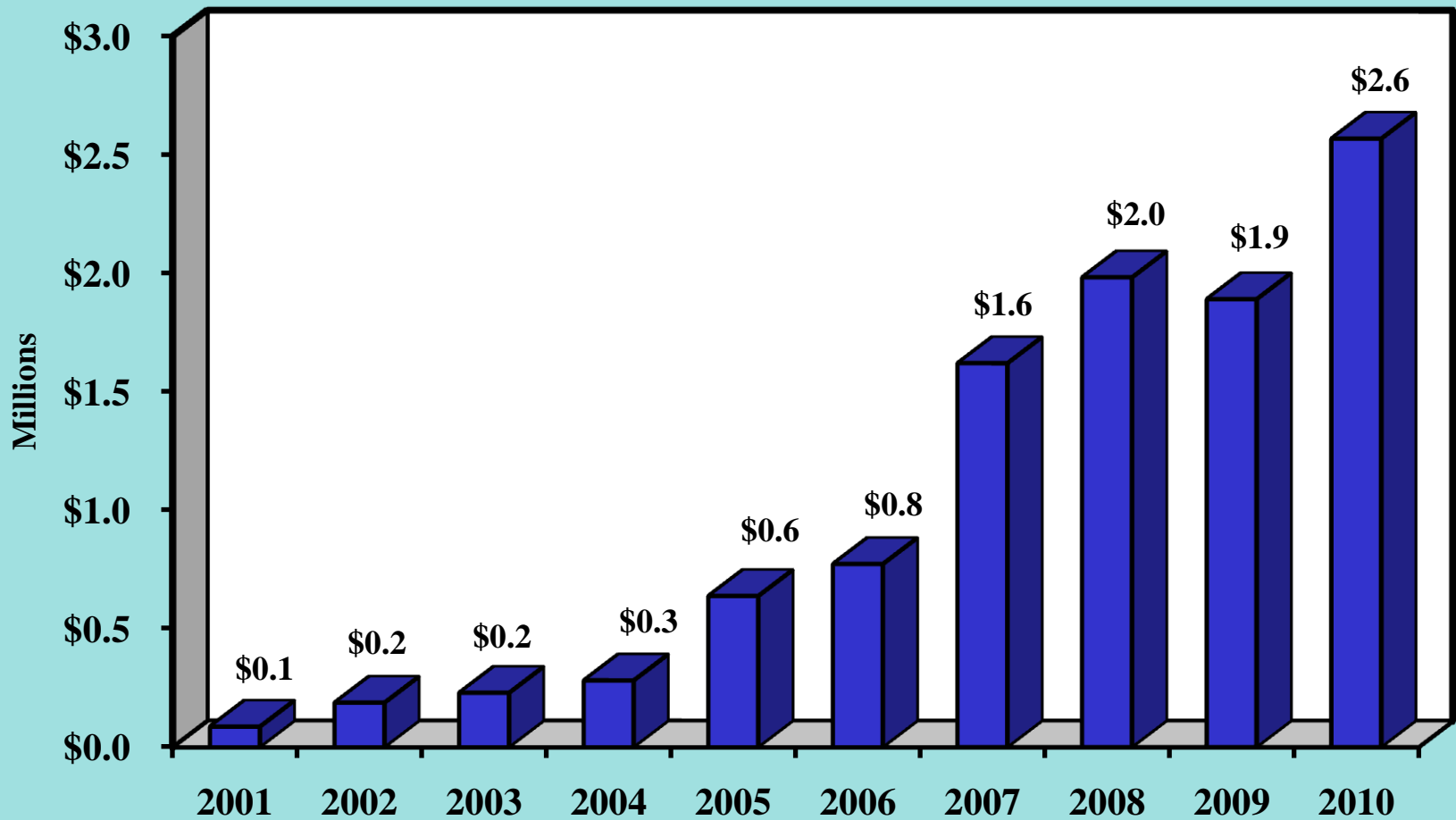
University of Alaska Foundation Investment Earnings



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



University of Alaska Foundation Operating Expenses Funded by Foundation



University of Alaska Foundation

Assets Under Management, June 30, 2010

