



Financial Statements

June 30, 2011 and 2010



UNIVERSITY
of ALASKA

Many Traditions One Alaska

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University of Alaska
(A Component Unit of the State of Alaska)
Financial Statements
June 30, 2011 and 2010

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the University of Alaska (university) for the years ended June 30, 2011 (2011) and June 30, 2010 (2010), with selected comparative information for the year ended June 30, 2009 (2009). This discussion has been prepared by management and should be read in conjunction with the financial statements including the notes thereto, which follow this section.

Using the Financial Statements

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

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

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

Statement of Net Assets

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

A summarized comparison of the university's assets, liabilities and net assets at June 30, 2011, 2010 and 2009 follows (\$ in thousands):

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Current assets	\$ 166,984	\$ 184,542	\$ 180,314
Other noncurrent assets	238,581	183,616	181,070
Capital assets, net of depreciation	<u>952,898</u>	<u>863,314</u>	<u>833,989</u>
Total assets	<u>1,358,463</u>	<u>1,231,472</u>	<u>1,195,373</u>
Liabilities:			
Current liabilities	115,212	114,695	100,481
Noncurrent liabilities	<u>120,631</u>	<u>126,915</u>	<u>142,709</u>
Total liabilities	<u>235,842</u>	<u>241,610</u>	<u>243,190</u>
Net assets:			
Invested in capital assets, net of debt	835,564	738,206	705,398
Restricted – expendable	30,825	16,614	12,233
Restricted – nonexpendable	129,317	128,341	127,416
Unrestricted	<u>126,915</u>	<u>106,701</u>	<u>107,136</u>
Total net assets	<u>\$ 1,122,621</u>	<u>\$ 989,862</u>	<u>\$ 952,183</u>

Overall total net assets of the university increased \$132.8 million, or 13.4 percent. This increase was mainly due to a \$97.4 million increase in net capital assets. The change in net capital assets is discussed in more detail in the *Capital and Debt Activities* section below.

In the asset section, operating cash and investments increased from \$109.0 million at June 30, 2010 to \$123.8 million at June 30, 2011, primarily as a result of improved operating margins. The major asset allocation change in operating cash and investments was the creation of two fixed income portfolios in 2011. These portfolios totaled \$78.6 million at June 30, 2011 and comprised 64% of operating funds. The remaining balance of the operating funds is invested in deposits, a collateralized repurchase agreement and money market funds. Note 2 of the financial statements provides more information about deposits and investments and associated risks.

Endowment investments at June 30, 2011 were \$127.4 million as compared to \$116.4 million at June 30, 2010. The growth is attributed to an 18 percent investment return in 2011. Distributions from the endowment totaling \$5.6 million in 2011 were primarily used to fund the University of Alaska Scholars Program and land management efforts. The endowment investments are invested in a consolidated endowment fund that is managed by the foundation.

Total liabilities are categorized as either current liabilities or noncurrent liabilities on the Statement of Net Assets. Current liabilities are those that are due or will likely be paid in the next fiscal year. They are primarily comprised of accounts payable, accrued payroll and other expenses, insurance and risk management payables, debt and student deposits. Noncurrent liabilities are comprised mostly of long-term debt. Total liabilities decreased \$5.8 million during 2011 to a total of \$235.8 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

Total debt outstanding decreased from \$121.3 million at June 30, 2010 to \$114.5 million at June 30, 2011 as a result of principal payments. There was no new debt issued during the fiscal year.

Self insurance reserves (liabilities) for health care, general liability and worker's compensation were decreased by \$12.1 million in 2011 to bring the amounts closer to actuarial estimates. Note 13 of the financial statements reports more information about insurance and risk management.

Unrestricted net assets totaled \$126.9 million at June 30, 2011, representing an increase of \$20.2 million over the prior year. At year end, \$107.0 million was designated for specific purposes. See Note 7 of the financial statements for a detailed list of these designations.

Fiscal Year 2010 Comparisons (Statement of Net Assets)

Significant comments about changes between 2009 and 2010 that were noted in fiscal year 2010 *Management's Discussion and Analysis* are summarized below:

The Statement of Net Assets reflected an overall increase in net assets of four percent, or \$37.7 million.

Overall, total assets of the university increased \$36.1 million primarily because net capital assets increased \$29.3 million. Total liabilities decreased \$1.6 million.

There were no significant changes in 2010 with the university's operating deposits and investments. Substantially all funds at June 30, 2010 were invested in bank deposits, government securities and money market funds. After the global financial crisis in 2009, management focused on liquidity and safety for its operating funds, with an eye towards restructuring its portfolio. As a result, subsequent to June 30, 2010, approximately \$75 million was invested in a new fixed income portfolio.

Endowment investments at June 30, 2010 were \$116.4 million as compared to \$111.0 million at June 30, 2009. The endowment earned 9.47 percent in 2010 and spending distributions totaled \$5.5 million.

Total debt outstanding decreased from \$128.0 million at June 30, 2009 to \$121.3 million at June 30, 2010. The balance was reduced by scheduled principal payments and the refunding of previously issued general revenue bonds. The only new debt was for an equipment financing totaling \$249.8 thousand.

Statement of Revenues, Expenses and Changes in Net Assets

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

A summarized comparison of the university's revenues, expenses and changes in net assets for the years ended June 30, 2011, 2010 and 2009 follows (\$ in thousands):

	2011	2010	2009
Operating revenues	\$ 397,565	\$ 372,933	\$ 356,025
Operating expenses	(796,238)	(778,287)	(759,067)
Operating loss	(398,673)	(405,354)	(403,042)
Net nonoperating revenues	413,653	381,082	321,480
Gain (Loss) before other revenues, expenses, gains, or losses	14,980	(24,272)	(81,562)
Other revenues, expenses, gains or losses	117,779	61,951	94,942
Increase in net assets	132,759	37,679	13,380
Net assets at beginning of year	989,862	952,183	938,803
Net assets at end of year	<u>\$ 1,122,621</u>	<u>\$ 989,862</u>	<u>\$ 952,183</u>

The Statement of Revenues, Expenses and Changes in Net Assets reflects an overall increase in net assets of 13.4 percent, or \$132.8 million. Major changes in revenues and expenses in 2011 are described below.

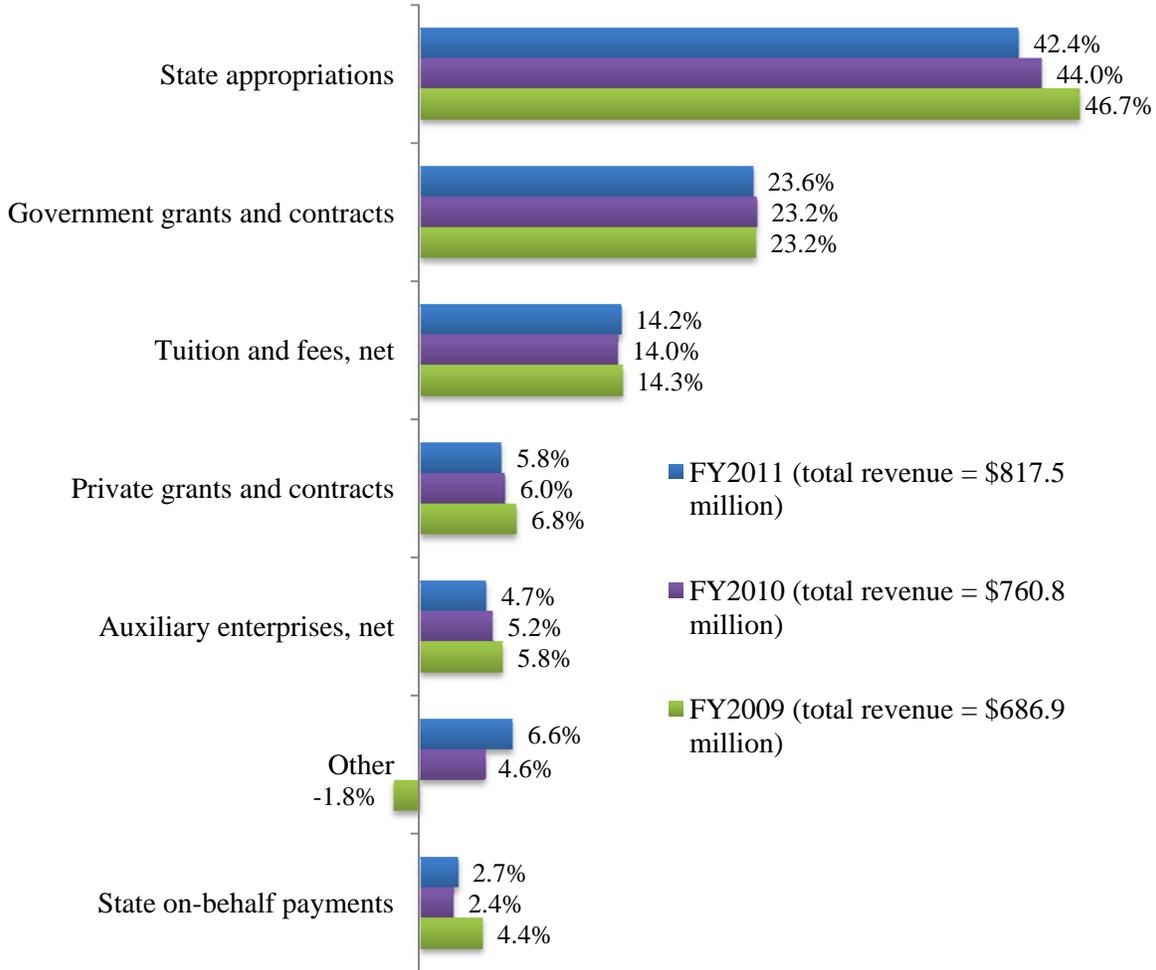
Capital appropriations and capital grant and contract revenue increased from \$62.0 million in 2010 to \$117.8 million in 2011. Revenue from capital sources is generally recognized as expenditures occur, so the amount shown on the Statement of Revenues, Expenses and Changes in Net Assets is a reflection of capital construction activity. A significant portion of the increase includes \$32.5 million expended for construction of the Alaska Region Research Vessel – Sikuliaq. For further discussion on capital activity, see the *Capital and Debt Activities* section which follows.

State of Alaska general fund appropriations continue to be the single major source of revenue for the university, providing \$346.6 million in 2011, as compared to \$334.8 million in 2010. Historically, the state has funded the university at an amount equal to or above the prior period's appropriation. In addition, the state made on-behalf pension payments of \$21.8 million directly to the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) defined benefit plans on behalf of the university. The state is paying the cost above the required employer contribution rate to fully fund the plans at the actuarial computed rate. Employer contribution rates have been capped at 22.00 percent and 12.56 percent for PERS and TRS, respectively. The pension payments were made on-behalf of the university and are presented as revenue and expense in the university's financial statements in accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

A comparison of operating and nonoperating revenues by source for 2011, 2010 and 2009 follows:

Operating and Nonoperating Revenues (excluding capital) by Year



Operating grant and contract revenue from federal, state, local and private sponsors totaled \$215.3 million for 2011, as compared to \$208.8 million in the prior year. The growth is primarily attributed to American Recovery and Reinvestment Act (ARRA) grants.

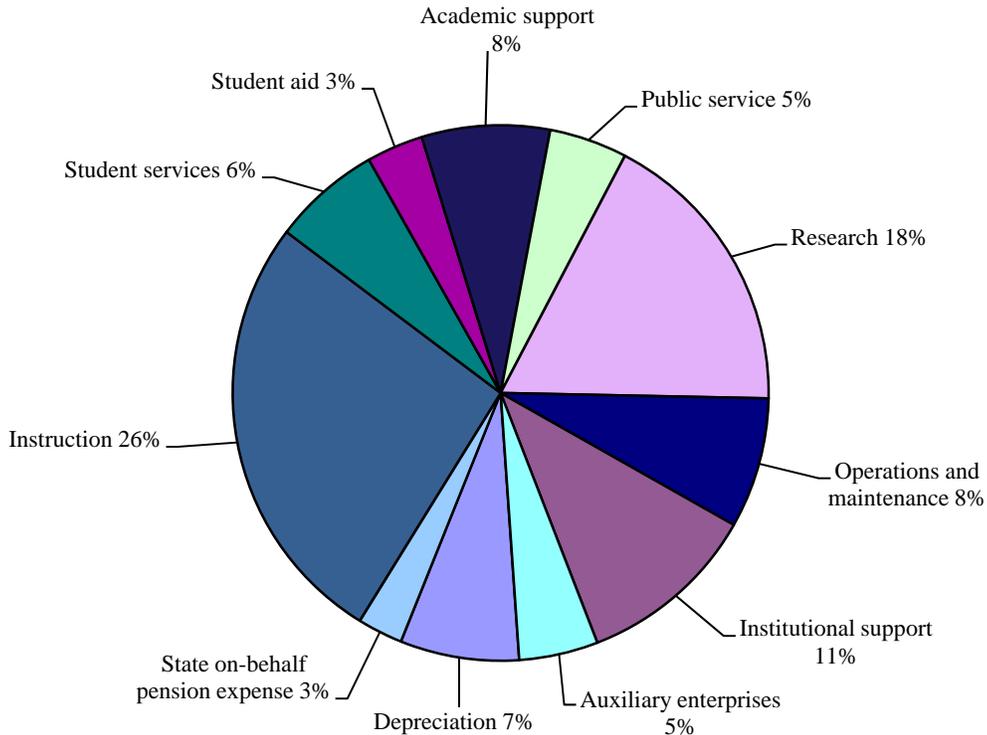
Gross student tuition and fee revenue totaled \$130.5 million in 2011 as compared to \$119.9 million in 2010. This was due in large part to a four percent increase in tuition rates for 100 to 200 level courses and seven percent for all other courses in academic year 2010 – 2011. Student headcount increased 2.3 percent to 34,480 students from Fall 2009 to Fall 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

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

	Operating Expenses					
	Functional Classification (in millions)					
	FY2011		FY2010		FY2009	
Instruction	\$ 210.7	26.5%	\$ 207.9	26.7%	\$ 196.7	25.9%
Student Services	52.2	6.6%	50.8	6.5%	48.3	6.4%
Student Aid	27.3	3.4%	21.0	2.7%	17.9	2.4%
Academic Support	61.5	7.7%	58.5	7.5%	54.7	7.2%
Student and Academic	351.7	44.2%	351.7	45.2%	351.7	46.3%
Public Service	37.5	4.7%	40.9	5.3%	37.9	5.0%
Research	140.4	17.6%	135.0	17.3%	127.2	16.8%
Operations and Maintenance	62.8	7.9%	59.8	7.7%	61.3	8.1%
Institutional Support	86.9	10.9%	87.8	11.3%	89.3	11.8%
Auxiliary Enterprises	37.9	4.8%	40.4	5.2%	39.7	5.2%
State On-Behalf Pension	21.8	2.7%	18.0	2.3%	30.5	4.0%
Depreciation	57.2	7.2%	58.2	7.5%	55.6	7.3%
Total Operating Expenses	\$ 796.2	100.0%	\$ 778.3	100.0%	\$ 759.1	100.0%

**Fiscal Year 2011
Functional Classification**

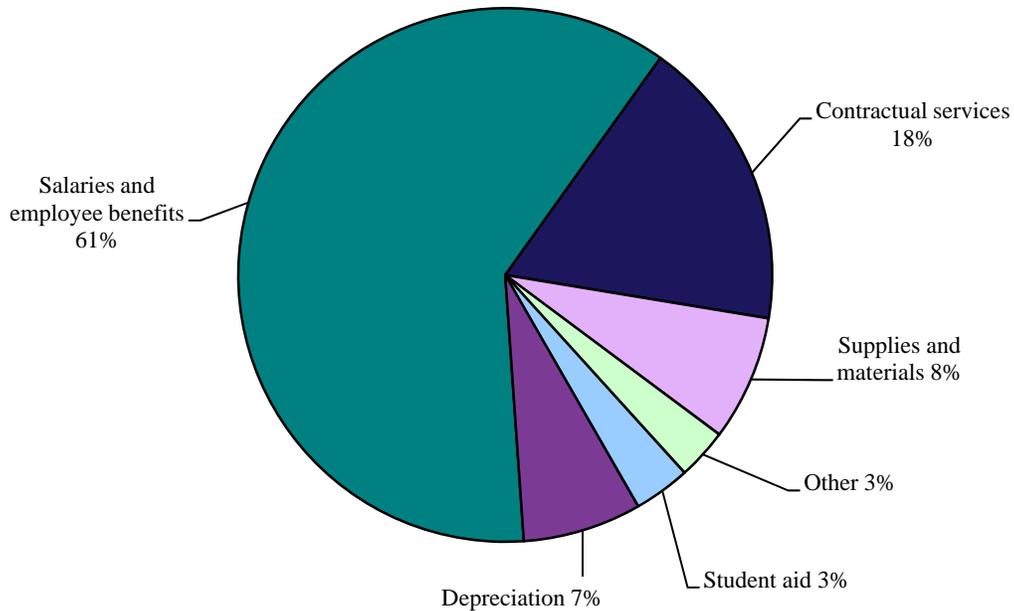


MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

Salaries and employee benefits increased 1.8 percent, or \$8.8 million, in 2011, which represents less of an increase than experienced in recent prior years. The relatively modest growth can be attributed to a combination of savings from vacancies and management efforts to minimize overall headcount growth.

	Operating Expenses					
	Natural Classification (in millions)					
	FY2011		FY2010		FY2009	
Salaries and Employee Benefits	\$ 485.6	61.0%	\$ 476.8	61.2%	\$ 453.7	59.7%
Contractual Services	141.2	17.7%	138.2	17.8%	132.5	17.5%
Supplies and Materials	60.4	7.6%	61.0	7.8%	65.1	8.6%
Other	24.6	3.1%	23.1	3.0%	34.3	4.5%
Student Aid	27.2	3.4%	21.0	2.7%	17.9	2.4%
Depreciation	57.2	7.2%	58.2	7.5%	55.6	7.3%
	\$ 796.2	100.0%	\$ 778.3	100.0%	\$ 759.1	100.0%

**Fiscal Year 2011
Natural Classification**



A portion of university resources applied to student accounts for tuition, fees, or room and board are not reported as student aid expense, but are reported in the financial statements as a scholarship allowance, directly offsetting student tuition and fee revenue or auxiliary revenue. Allowances totaled \$16.4 million in 2011 and \$15.5 million in 2010. In addition to the allowances, students participate in governmental financial aid loan programs. The loans are neither recorded as revenue or expense in the financial statements, but are recorded in the

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

Statements of Cash Flows as direct lending receipts totaling \$80.4 million and \$69.4 million in 2011 and 2010, respectively.

Endowment proceeds and investment income totaled \$22.8 million in 2011 as compared to \$13.0 million in 2010, primarily as a result of improved market returns. Total return in 2011 was 18 percent as compared to 9.5 percent in the prior year. This category also includes yield from, or sales of, trust land, and mineral interests, the net proceeds of which are generally deposited to the land grant endowment trust fund.

Fiscal Year 2010 Comparisons (Statement of Revenues, Expenses and Changes in Net Assets)

Significant comments about changes between 2009 and 2010 that were noted in fiscal year 2010 *Management's Discussion and Analysis* are summarized below:

The Statement of Revenues, Expenses and Changes in Net Assets reflected an overall increase in net assets of four percent, or \$37.7 million. The major changes in revenue and expense are described below.

Gross student tuition and fee revenue totaled \$119.8 million in 2010 as compared to \$107.4 million in 2009. This was due in large part to a five percent increase in tuition rates for students for academic year 2009-2010. Student headcount increased 4.3 percent to 33,710 students from Fall 2008 to Fall 2009.

Salary and employee benefit costs increased five percent, or \$23.1 million, in 2010. Employee benefits, such as pension plan contributions and health care costs, increased 1.9 percent and comprised \$2.5 million of the change. Salaries and wages increased 6.5 percent, or \$20.6 million.

Investment returns from all non-endowment sources totaled \$3.8 million in 2010 compared to an \$8.1 million loss in 2009, as a result of the global financial crisis.

Endowment investments experienced a \$9.7 million gain in 2010 as compared to a \$34.4 million loss in 2009. The significant losses in 2009 were the result of the global financial crisis.

Endowment gifts, sales, and other proceeds totaled \$3.2 million in fiscal year 2010 as compared to \$10.4 million in 2009. The 2009 balance included the sale of real property near the Mat-Su campus totaling \$6.1 million.

Capital and Debt Activities

The university continued to modernize various facilities and build new facilities to address emerging state needs. Net capital asset increases totaled \$136.7 million in 2011, as compared with \$73.9 million in 2010 and \$76.1 million in 2009. These capital additions primarily comprise replacement, renovation, code corrections and new construction of academic and research

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

facilities, as well as investments in equipment and information technology. State capital appropriations for 2011 and 2010 were \$258.6 million and \$3.2 million, respectively. The 2011 appropriation includes \$207 million funded by State of Alaska issued general obligations bonds.

Construction in progress at June 30, 2011 totaled \$147.0 million and includes the following major projects:

At the University of Alaska Anchorage, construction is underway on the Health Sciences Building. This \$46.5 million, 65,321 square-foot building will accommodate the academic programs of the School of Nursing Biomedical Programs and Allied Health Sciences. It will feature offices and classrooms, interactive simulation labs, seminar rooms and student activity spaces. The building was completed in August 2011 and is now occupied.

The University of Alaska Fairbanks began construction in fiscal year 2010 of a new research vessel, named "Sikuliaq". The vessel construction is being funded by a \$148.1 million award from the National Science Foundation. As designed, the vessel will be a 254 foot multipurpose oceanographic research ship capable of operating in seasonal ice and open regions around Alaska. Once constructed, the university will manage the vessel operations to support the National Science Foundation and other federally funded science activities. The ship is expected to be complete in 2014.

Construction on the new Life Sciences Facility at the Fairbanks campus began in fiscal year 2011. The facility is approximately 100,000 square feet and will integrate teaching and research in biological, wildlife and biomedical sciences. The project cost is \$88.3 million and was approximately 15 percent complete at June 30, 2011. The facility is expected to be complete by May 2013.

At June 30, 2011, \$258.2 million remains unexpended from current and prior year capital appropriations and general revenue bond proceeds, of which \$62.4 million is committed to existing construction contracts. The balance is for projects still in design or preconstruction, or is held for contingencies for work in progress.

Debt

At June 30, 2011, total debt outstanding was \$114.5 million, comprised of \$95.4 million in general revenue bonds, \$17.3 million in a note payable, and \$1.8 million in bank financing contracts. There were no new debt issuances in fiscal year 2011. In fiscal year 2010, the university issued general revenue refunding bonds Series P totaling \$14.0 million to refund and redeem the outstanding maturities of Series H and J general revenue bonds. The current refunding resulted in an economic gain of \$1.5 million and total debt service payments over the following 13 years will decrease by \$1.8 million.

In previous years, other bonds were issued to finance construction of student residences at three campuses, the West Ridge Research Building, student recreation centers, a research facility to

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

house the International Arctic Research Center, the acquisition and renovation of several properties adjacent to or near the university's campuses, additions to the university's self-operated power, heat, water and telephone utility systems in Fairbanks, purchase of the University Center Building in Anchorage, and to refund previously issued general revenue bonds and other contractual obligations in order to realize debt service savings.

The university has an Aa2 Stable credit rating from Moody's Investors Service and AA- Stable rating from Standard and Poor's. These ratings were affirmed in September 2011.

The university has traditionally utilized tax exempt financings to provide for its capital needs or to facilitate systematic renewals. Working capital is available to provide interim cash flow financing for facilities intended to be funded with general revenue bond proceeds or other debt arrangements.

Capital Activities – Looking Ahead

State of Alaska capital appropriations for fiscal year 2012 total \$79.5 million. The appropriations include \$37.5 million designated for deferred maintenance needs across the university system. This funding is the second installment of a five year deferred maintenance program instituted by the Governor. Also included are \$34 million for a 5,600 seat sports arena at the Anchorage campus, which represents the remaining funds needed for this approximately \$109 million project.

On October 5, 2011 the university sold competitively general revenue bonds with a par amount of \$48.9 million. The bonds fund a portion of the Fairbanks campus Life Sciences Facility, numerous deferred maintenance projects and a food service project on the Juneau campus. Bond closing is scheduled for October 25, 2011.

Other Economic and Financial Conditions

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

During the December 2010 meeting the Board of Regents approved a tuition rate increase beginning in the Fall of 2012. Undergraduate student tuition will increase seven percent and graduate rates will increase three percent.



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Anchorage, AK 99501

Independent Auditors' Report

The Board of Regents
University of Alaska:

We have audited the accompanying basic financial statements of the University of Alaska and its discretely presented component unit (University), a component unit of the State of Alaska, as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Alaska and its discretely presented component unit as of June 30, 2011 and 2010, and the respective changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2011 on our consideration of the University of Alaska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The Management's Discussion and Analysis, on pages 1 through 10 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

October 19, 2011

UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Net Assets
June 30, 2011 and 2010
(in thousands)

Assets	2011	2010
Current assets:		
Cash and cash equivalents	\$ 27,719	\$ 99,390
Short-term investments	57,973	6,129
Accounts receivable, less allowance of \$3,863 in 2011 and \$7,614 in 2010	73,739	70,369
Inventories	6,875	7,963
Other assets	678	691
Total current assets	166,984	184,542
Noncurrent assets:		
Restricted cash and cash equivalents	3,289	1,531
Notes receivable	3,219	4,189
Endowment investments	127,380	116,373
Land Grant Trust property and other assets	45,254	44,532
Long-term investments	47,582	7,652
Education Trust of Alaska investments	11,857	9,339
Capital assets, net of accumulated depreciation of \$807,411 in 2011 and \$760,343 in 2010	952,898	863,314
Total noncurrent assets	1,191,479	1,046,930
Total assets	1,358,463	1,231,472
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	34,003	24,904
Accrued payroll	29,430	28,346
Unearned revenue and deposits	17,822	18,886
Accrued annual leave	11,876	11,752
Unearned lease revenue - current portion	1,281	1,281
Long-term debt - current portion	6,958	6,763
Insurance and risk management	13,842	22,763
Total current liabilities	115,212	114,695
Noncurrent liabilities:		
Unearned revenue - capital	5,678	2,875
Unearned lease revenue	2,242	3,523
Long-term debt	107,579	114,537
Security deposits and other liabilities	5,131	5,980
Total noncurrent liabilities	120,630	126,915
Total liabilities	235,842	241,610
Net Assets		
Invested in capital assets, net of related debt	835,564	738,206
Restricted:		
Expendable	30,825	16,614
Nonexpendable	129,317	128,341
Unrestricted (see Note 7)	126,915	106,701
Total net assets	\$ 1,122,621	\$ 989,862

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

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UNIVERSITY OF ALASKA FOUNDATION
(A Component Unit of the University of Alaska)
Statements of Financial Position
June 30, 2011 and 2010
(in thousands)

Assets	2011	2010
Cash and cash equivalents	\$ 21,608	\$ 38,116
Interest receivable	137	78
Contributions receivable	14,166	14,251
Escrows receivable	296	134
Inventory	57	58
Other assets	486	507
Pooled endowment funds	131,853	102,012
Other long-term investments	24,459	16,869
Total assets	\$ 193,062	\$ 172,025
Liabilities		
Due to the University of Alaska	\$ 1,775	\$ 1,718
Other liabilities	5	22
Remainder trust obligations	283	411
Term endowment liability	1,000	1,000
Total liabilities	3,063	3,151
Net Assets		
Unrestricted	23,424	33,832
Temporarily restricted	79,551	62,732
Permanently restricted	87,024	72,310
Total net assets	189,999	168,874
Total liabilities and net assets	\$ 193,062	\$ 172,025

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

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UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2011 and 2010
(in thousands)

	2011	2010
Operating revenues		
Student tuition and fees	\$ 130,542	\$ 119,846
less scholarship allowances	(14,438)	(13,506)
	116,104	106,340
Federal grants and contracts	147,869	138,591
State and local grants and contracts	20,140	24,519
Private grants and contracts	47,276	45,728
Sales and services, educational departments	4,215	4,073
Sales and services, auxiliary enterprises, net of scholarship allowances of \$2,005 in 2011 and \$2,018 in 2010	39,265	39,225
Other	22,696	14,457
Total operating revenues	397,565	372,933
Operating expenses		
Instruction	210,653	207,864
Academic support	61,453	58,454
Research	140,453	135,045
Public service	37,547	40,861
Student services	52,174	50,814
Operations and maintenance	62,772	59,821
Institutional support	86,950	87,859
Student aid	27,280	20,965
Auxiliary enterprises	37,947	40,401
Depreciation	57,170	58,228
State on-behalf payments - pension	21,839	17,975
Total operating expenses	796,238	778,287
Operating loss	(398,673)	(405,354)
Nonoperating revenues (expenses)		
State appropriations	346,644	334,826
State on-behalf contributions - pension	21,839	17,975
Investment earnings	3,971	3,810
Endowment proceeds and investment income	22,777	12,953
Interest on debt	(4,400)	(4,852)
Federal student financial aid	24,692	18,275
Other nonoperating expenses	(1,870)	(1,905)
Net nonoperating revenues	413,653	381,082
Income (Loss) before other revenues	14,980	(24,272)
Capital appropriations, grants and contracts	117,779	61,951
Increase in net assets	132,759	37,679
Net assets		
Net assets - beginning of year	989,862	952,183
Net assets - end of year	\$ 1,122,621	\$ 989,862

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

UNIVERSITY OF ALASKA FOUNDATION
(A Component Unit of the University of Alaska)
Statements of Activities
For the years ended June 30, 2011 and 2010
(in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2011</u>
Revenues, gains (losses) and other support				
Contributions	\$ 458	\$ 10,320	\$ 5,024	\$ 15,802
Investment income	645	1,758	-	2,403
Net realized and unrealized investment gains	2,277	15,105	-	17,382
Other revenues	-	159	-	159
Actuarial adjustment of remainder trust obligations	-	49	249	298
Losses on disposition of other assets	(1)	(43)	-	(44)
Administrative assessments	1,718	(1,060)	(62)	596
Support from University of Alaska	890	-	-	890
Net assets released from restriction	11,532	(11,532)	-	-
Total revenues, gains (losses) and other support	<u>17,519</u>	<u>14,756</u>	<u>5,211</u>	<u>37,486</u>
Expenses and distributions				
Operating expenses	2,632	-	-	2,632
Distributions for the benefit of the University of Alaska	13,729	-	-	13,729
Total expenses and distributions	<u>16,361</u>	<u>-</u>	<u>-</u>	<u>16,361</u>
Excess of revenues over expenses	<u>1,158</u>	<u>14,756</u>	<u>5,211</u>	<u>21,125</u>
Transfers between net asset classes	(11,566)	2,063	9,503	-
Increase (decrease) in net assets	(10,408)	16,819	14,714	21,125
Net assets, beginning of year	33,832	62,732	72,310	168,874
Net assets, end of year	<u>\$ 23,424</u>	<u>\$ 79,551</u>	<u>\$ 87,024</u>	<u>\$ 189,999</u>

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010</u>
\$ 256	\$ 12,961	\$ 2,725	\$ 15,942
719	1,236	-	1,955
4,159	3,015	-	7,174
-	169	-	169
-	(28)	(71)	(99)
(3)	(115)	-	(118)
1,473	(888)	(43)	542
890	-	-	890
<u>10,963</u>	<u>(10,963)</u>	<u>-</u>	<u>-</u>
<u>18,457</u>	<u>5,387</u>	<u>2,611</u>	<u>26,455</u>
2,568	-	-	2,568
<u>13,290</u>	<u>-</u>	<u>-</u>	<u>13,290</u>
<u>15,858</u>	<u>-</u>	<u>-</u>	<u>15,858</u>
<u>2,599</u>	<u>5,387</u>	<u>2,611</u>	<u>10,597</u>
<u>-</u>	<u>(10,004)</u>	<u>10,004</u>	<u>-</u>
2,599	(4,617)	12,615	10,597
<u>31,233</u>	<u>67,349</u>	<u>59,695</u>	<u>158,277</u>
<u>\$ 33,832</u>	<u>\$ 62,732</u>	<u>\$ 72,310</u>	<u>\$ 168,874</u>

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

UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Cash Flows
For the Years Ended June 30, 2011 and 2010
(in thousands)

	2011	2010
Cash flows from operating activities		
Student tuition and fees, net	\$ 115,931	\$ 105,326
Grants and contracts	217,774	210,862
Sales and services, educational departments	4,216	4,073
Sales and services, auxiliary enterprises	39,471	39,435
Other operating receipts	12,551	13,176
Payments to employees for salaries and benefits	(487,980)	(471,657)
Payments to suppliers	(195,106)	(204,028)
Payments to students for financial aid	(27,334)	(20,993)
Net cash used by operating activities	(320,477)	(323,806)
Cash flows from noncapital financing activities		
State appropriations	346,898	334,672
Other revenue	23,453	17,303
Direct lending receipts	80,378	69,391
Direct lending payments	(80,359)	(69,893)
Net cash provided by noncapital financing activities	370,370	351,473
Cash flows from capital and related financing activities		
Capital appropriations, grants and contracts	114,719	49,392
Proceeds from issuance of capital debt	-	14,045
Redemption of general revenue bonds	-	(14,535)
Purchases of capital assets	(143,199)	(82,471)
Principal paid on capital debt	(6,763)	(6,473)
Interest paid on capital debt	(4,572)	(4,192)
Net cash used by capital and related financing activities	(39,815)	(44,234)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	51,740	267,202
Purchases of investments	(136,020)	(243,059)
Interest received on investments	2,605	1,843
Interest and other sales receipts from endowment assets	1,684	4,683
Net cash provided (used) by investing activities	(79,991)	30,669
Net increase (decrease) in cash and cash equivalents	(69,913)	14,102
Cash and cash equivalents, beginning of the year	100,921	86,819
Cash and cash equivalents, end of the year	\$ 31,008	\$ 100,921
Cash and cash equivalents (current)	\$ 27,719	\$ 99,390
Restricted cash and cash equivalents (noncurrent)	3,289	1,531
Total cash and cash equivalents	\$ 31,008	\$ 100,921

UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Cash Flows
For the Years Ended June 30, 2011 and 2010
(in thousands)

Reconciliation of operating loss to net cash used by operating activities:

	2011	2010
Operating loss	\$ (398,673)	\$ (405,354)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	57,170	58,228
State on-behalf payments - pension	21,839	17,975
Changes in assets and liabilities:		
Accounts receivable, net	4,549	(398)
Other assets	137	(32)
Inventories	1,088	(743)
Accounts payable and accrued expenses	3,527	(233)
Accrued payroll	1,084	3,380
Unearned revenue, deposits from students and others	(1,122)	1,591
Accrued annual leave	125	432
Unearned lease revenue - current portion	(1,281)	(1,281)
Insurance and risk management	(8,920)	2,629
Net cash used by operating activities	\$ (320,477)	\$ (323,806)

Noncash Investing, Capital and Financing Activities:

For the Year Ended June 30, 2011

Additions to capital assets include \$9.8 million expended and capitalized but not paid for at year end.

Book value of capital asset disposals totaled \$1.5 million.

The university received \$1.0 million in donated land and equipment.

The university received on-behalf pension payments from the State of Alaska totaling \$21.8 million.

For the Year Ended June 30, 2010

Additions to capital assets include \$7.1 million expended and capitalized but not paid for at year end.

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

Book value of capital asset disposals totaled \$0.5 million.

The university received on-behalf pension payments from the State of Alaska totaling \$18.0 million.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

1. Organization and Summary of Significant Accounting Policies:

Organization and Basis of Presentation:

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

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

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

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

- **Unrestricted Net Assets:** Assets, net of related liabilities, which are not subject to externally-imposed restrictions. Unrestricted net assets may be designated for specific purposes by the Board of Regents or may otherwise be limited by contractual agreements with outside parties.
- **Restricted Net Assets:**
 - Expendable** – Assets, net of related liabilities, which are subject to externally-imposed restrictions that may or will be met by actions of the university and/or that expire with the passage of time.
 - Non-expendable** – Assets, net of related liabilities, which are subject to externally-imposed restrictions requiring that they be maintained permanently by the university.
- **Invested in capital assets, net of related debt** – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies:

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

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

Cash and Cash Equivalents

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

Inventories

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

Investments

Investments are stated at fair value. Investments in fixed income and equity marketable securities are stated at fair value based on quoted market prices. Investments in private partnership interests are valued using the most current information provided by the general partner. General partners typically value privately held companies at cost as adjusted based on recent arms' length transactions. Public companies are valued using quoted market prices and exchange rates, if applicable. Real estate partnerships and funds are valued based on appraisals of properties held and conducted by third-party appraisers retained by the general partner or investment manager. General partners of marketable alternatives provide values based on quoted market prices and exchange rates for publicly held securities and valuation estimates of derivative instruments. General partners of oil and gas partnerships use third-party appraisers to value properties. Valuations provided by the general partners and investment managers are evaluated by management and management believes such values are reasonable at June 30, 2011. When, in the opinion of management, there has been a permanent impairment in the asset value, the asset is written down to its fair value. Income from other investments is recognized when received.

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

NOTES TO FINANCIAL STATEMENTS

Capital Assets

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

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

Endowments

Endowments consist primarily of the land grant endowment trust fund established pursuant to the 1929 federal land grant legislation and its related inflation proofing fund. Alaska Statute 14.40.400 provides that the net income from the sale or use of grant lands must be held in trust in perpetuity. The land grant endowment trust fund balance at the end of 2011 and 2010 was \$115.1 million and \$100.0 million, respectively. The accumulated net earnings were \$16.5 million and \$3.0 million at June 30, 2011 and 2010, respectively. The inflation proofing fund, a quasi-endowment fund included in unrestricted net assets, totaled \$19.8 million and \$20.0 million at the end of 2011 and 2010, respectively.

Alaska Statute 14.40.400 provides the Board of Regents with authority to manage the funds under the total return principles which intends to preserve and maintain the purchasing power of the endowment principal. The investable resources of the funds are invested in the consolidated endowment fund, a unitized investment fund. The annual spending allowance is currently based on four and one-half percent of a five-year moving average of the invested balance. Withdrawals of net earnings appreciation to meet the spending allowance are limited to the unexpended accumulated net earnings balance of the preceding December 31.

Operating Activities

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

Scholarship Allowances

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

NOTES TO FINANCIAL STATEMENTS

Lapse of State Appropriations

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

Reclassifications

Certain amounts in the June 30, 2010 financial statements have been reclassified for comparative purposes to conform to the presentation in the June 30, 2011 financial statements.

2. Deposits and Investments:

Deposits and investments at June 30, 2011 were as follows (\$ in thousands):

<u>Investment Type</u>	<u>Operating</u>	<u>Capital Funds</u>	<u>Endowment</u>	<u>College Savings Program</u>	<u>Total</u>
Cash and Deposits	\$ 7,323	\$ -	\$ 6,520	\$ -	\$ 13,843
Certificates of Deposit	3,770	-	-	-	3,770
Repurchase Agreement	22,199	-	-	-	22,199
Hedge Funds	-	-	8,910	-	8,910
Money Market Mutual Funds	12,168	12,351	1,958	553	27,030
Equities:					
Domestic	-	-	27,795	4,795	32,590
Global	-	-	30,713	-	30,713
Emerging Markets	-	-	6,457	-	6,457
Debt-related:					
Corporate	52,958	-	-	-	52,958
Federal Agency	21,306	435	-	-	21,741
U. S. Treasuries	4,053	-	8,859	-	12,912
Fixed Income Funds	-	-	16,402	6,509	22,911
Alternative Investments:					
Private Equity – Domestic	-	-	6,714	-	6,714
Private Equity – Int'l	-	-	2,096	-	2,096
Commodities	-	-	943	-	943
Natural Resources	-	-	3,425	-	3,425
Venture Capital	-	-	2,404	-	2,404
Mezzanine	-	-	934	-	934
Real Estate	-	-	1,546	-	1,546
Other	-	-	1,704	-	1,704
	<u>\$ 123,777</u>	<u>\$ 12,786</u>	<u>\$ 127,380</u>	<u>\$ 11,857</u>	<u>\$ 275,800</u>

NOTES TO FINANCIAL STATEMENTS

Deposits and investments at June 30, 2010 were as follows (\$ in thousands):

<u>Investment Type</u>	<u>Operating</u>	<u>Capital Funds</u>	<u>Endowment</u>	<u>College Savings Program</u>	<u>Total</u>
Cash and Deposits	\$ (735)	\$ -	\$ 11,757	\$ -	\$11,022
Certificates of Deposit	5,025	-	-	-	5,025
Repurchase Agreement	22,951	-	-	-	22,951
Multi-Strategy Bond Fund	-	-	5,708	-	5,708
Hedge Funds	851	-	9,582	-	10,433
Money Market Mutual Funds	80,859	5,297	2,168	145	88,469
Equities:					
Domestic	-	-	25,573	3,579	29,152
International	-	-	2,512	-	2,512
Global	-	-	17,855	-	17,855
Emerging Markets	-	-	4,776	-	4,776
Debt-related:					
Federal Agency	-	454	-	-	454
Fixed Income Funds	-	-	17,497	5,615	23,112
Alternative Investments:					
Private Equity - Domestic	-	-	7,104	-	7,104
Private Equity – Int’l	-	-	1,668	-	1,668
Commodities	-	-	775	-	775
Natural Resources	-	-	3,082	-	3,082
Venture Capital	-	-	1,683	-	1,683
Mezzanine	-	-	1,441	-	1,441
Real Estate	-	-	1,435	-	1,435
Other	-	-	1,757	-	1,757
	<u>\$ 108,951</u>	<u>\$ 5,751</u>	<u>\$116,373</u>	<u>\$ 9,339</u>	<u>\$ 240,414</u>

Operating funds consist of cash on hand, time deposits, an overnight repurchase agreement, money market funds and bonds. Alaska Statutes and Board of Regents’ policy provide the university with broad authority to invest funds. Generally, operating funds are invested according to the university’s liquidity needs. During fiscal year 2011, the university implemented operating fund investment guidelines, which sets forth the objectives, structure and acceptable investments for the university’s operating funds.

In fiscal year 2011, the university restructured its operating funds by investing in high quality bonds, including U.S. treasuries, federal agency bonds and corporate bonds. These investments are held under the name of the university. After the restructure, the bonds comprise the largest portion of operating funds. The majority of the money market mutual funds are invested through the Commonfund, a not-for-profit provider of pooled multi-manager investment vehicles for colleges and universities. Since fiscal

NOTES TO FINANCIAL STATEMENTS

year 2010, the university also used the Certificate of Deposit Account Registry Service (CDARS) to invest monies into certificates of deposit across many different banking institutions to keep deposits under the Federal Deposit Insurance Corporation insurance limits.

Capital funds include unexpended general revenue bond proceeds and related reserves, advances from state capital appropriations and other reserves designated for capital purposes. General revenue bond reserves totaling \$4.7 million are invested with a third party trustee in accordance with terms of a trust indenture, requiring purchase of investment securities that are investment grade.

Endowment funds primarily consist of \$125.4 million in investable resources of the university's land grant endowment trust fund and are invested in a consolidated endowment fund managed by the foundation. These resources are combined with the foundation's pooled endowment funds for investment purposes, and managed by the foundation's investment committee and treasurer on a total return basis in accordance with an investment policy approved by the Board of Regents.

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

Certain funds held in trust for the benefit of the university are not included in the financial statements as the university has only limited control over their administration. These funds are in the custody of independent fiduciaries and at June 30, 2011 had an estimated fair value of approximately \$4.0 million.

At June 30, 2011, the university has approximately \$25.2 million in investments that are not readily marketable. These investments are invested in the consolidated endowment fund managed by the foundation. 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, dependency 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 investment existed. Such difference could be material.

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

Credit Risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The operating fund investment guidelines require that at the time of purchase, short term instruments must be rated A1 or better by Standard & Poor's (S & P), and P1 or better by Moody's. Long term instruments must be rated BBB- or better by S & P and Baa3 or better by Moody's. The average credit rating of any separately management account portfolio shall be no lower than A by S & P and A2 by Moody's. The consolidated endowment fund investment policy requires all purchases of debt securities to be of investment grade and marketable at the time of purchase unless otherwise approved by the foundation's investment committee.

NOTES TO FINANCIAL STATEMENTS

At June 30, 2011, investments consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (\$ in thousands):

<u>Investment Type</u>	<u>Rating</u>	<u>Operating</u>	<u>Capital Funds</u>	<u>Endowment</u>	<u>College Savings Program</u>
Money Market Mutual Fund	Aaa	\$ 12,168	\$12,351	\$ 1,958	\$ -
Money Market Mutual Fund	Not Rated	-	-	-	553
Hedge Funds	Not Rated	-	-	8,910	-
Debt Related:					
Federal Agency	Aaa	16,306	435	-	-
Federal Agency	P-1	5,000	-	-	-
Fixed Income Funds	Aa2	-	-	16,402	-
Fixed Income Funds	Not Rated	-	-	-	6,509
Corporate	Aaa	28,812	-	-	-
Corporate	Aa1	4,763	-	-	-
Corporate	Aa2	4,297	-	-	-
Corporate	Aa3	4,355	-	-	-
Corporate	A1	3,979	-	-	-
Corporate	A2	2,649	-	-	-
Corporate	A3	4,103	-	-	-

Concentration of Credit Risk:

Concentration of credit risk is the risk of loss attributed to the magnitude of the university's investment in a single issuer. GASB 40 requires disclosure when the amount invested with a single issuer, by investment type, exceeds five percent or more of that investment type. At June 30, 2011, the university did not have any material concentrations of credit risk.

The operating fund investment guidelines limits the aggregate fair value of the portfolio that may be invested in any combination of instruments from one issuer to four percent and callable bonds are limited to fifteen percent of the total portfolio value, with exceptions for federally backed securities.

The consolidated endowment fund investment policy limits debt investments to five percent by issuer (except for mutual and pooled funds and U.S. government and agencies) for each specific managed portfolio within the consolidated endowment fund unless approved by the treasurer.

Custodial Credit Risk:

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

NOTES TO FINANCIAL STATEMENTS

At June 30, 2011, the university does not have custodial credit risk. Deposits of the university are covered by Federal Depository Insurance or securities pledged by the university's counterparty to its repurchase agreement held at a third party bank. The collateral is held in the name of the university and at June 30, 2011, provided \$2.3 million coverage in excess of deposits.

Interest Rate Risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The university uses the modified duration measurement to evaluate interest rate risk. Modified duration measures a debt investment's exposure to fair value changes arising from changing interest rates. For example, a modified duration of 2 means that for a rise in interest rates of one percent, the value of the security would decrease two percent. The university does not have a policy regarding interest rate risk. At June 30, 2011, the university had the following debt investments and corresponding modified duration (\$ in thousands):

<u>Investment Type</u>	Fair Value					<u>Modified Duration</u>
	<u>Operating</u>	<u>Capital Funds</u>	<u>Endowment</u>	<u>College Savings Program</u>		
Federal Agency	\$ 21,306	-	-	-		0.54
Federal Agency	-	\$ 435	-	-		0.84
Corporate	\$ 52,958	-	-	-		1.23
U.S. Treasuries	\$ 4,053	-	-	-		2.89
U.S. Treasuries	-	-	\$ 8,859	-		3.97
Fixed Income Fund	-	-	-	\$ 6,509		5.08
Fixed Income Fund	-	-	\$ 16,402	-		5.17

Hedge funds totaling \$8.9 million are exposed to interest rate risk, however, underlying fund data is not available to measure the interest rate risk.

Foreign Currency Risk:

Foreign currency risk is the risk that changes in exchange rates could have an adverse affect on an investment's value for investments denominated in foreign currencies. GASB 40 requires disclosure of value in U.S. dollars by foreign currency denomination and investment type. The university does not have a policy regarding foreign currency risk. At June 30, 2011, the university did not have any foreign currency risk.

NOTES TO FINANCIAL STATEMENTS

3. Accounts Receivable:

Accounts receivable consisted of the following at June 30, 2011 and 2010 (\$ in thousands):

June 30, 2011	Gross	Allowance	Net
Student tuition and fees	\$ 15,011	\$ (2,592)	\$ 12,419
Sponsored programs	46,363	(1,160)	45,203
Auxiliary services and other operating activities	511	(111)	400
Capital appropriations, grants and contracts	15,717	-	15,717
	<u>\$ 77,602</u>	<u>\$ (3,863)</u>	<u>\$ 73,739</u>

June 30, 2010	Gross	Allowance	Net
Student tuition and fees	\$ 16,041	\$ (6,301)	\$ 9,740
Sponsored programs	51,549	(1,203)	50,346
Auxiliary services and other operating activities	414	(110)	304
Capital appropriations, grants and contracts	9,979	-	9,979
	<u>\$ 77,983</u>	<u>\$ (7,614)</u>	<u>\$ 70,369</u>

4. Education Trust of Alaska:

Assets held in trust include operating funds of the Education Trust of Alaska (Trust). The Trust was established pursuant to state statute on April 20, 2001 by the Board of Regents to facilitate administration of the state's Internal Revenue Code (IRC) Section 529 College Savings Program. The program is a nationally marketed college savings program developed in accordance with IRC Section 529 and includes the resources of the university's former Advance College Tuition (ACT) Program. Participant account balances of approximately \$4.3 billion and \$3.4 billion at June 30, 2011 and 2010, respectively, are not included in the financial statements. Separately audited Trust financial statements are available upon request from the University of Alaska Controller's office.

Assets of the Trust are invested in various mutual funds at the direction of T. Rowe Price Associates, Inc., the program manager. The net assets of the Trust, which include a reserve for University of Alaska (UA) Tuition Value Guarantees, are available for payment of program administrative costs, benefits and other purposes of the Trust. Based on actuarial studies, management estimates reserve requirements for the UA Tuition Value Guarantees to be approximately \$4.5 million and \$5.3 million at June 30, 2011 and 2010, respectively.

5. Land Grant Trust Property and Other Assets:

Land Grant Trust property and other assets consist of real property and timber and other rights. By Acts of Congress in 1915 and 1929, approximately 110,000 acres of land was granted to the territory of Alaska to be held in trust for the benefit of the university. The lands were managed by the territory, and later the State of Alaska. In accordance with a 1982 agreement, the lands were subsequently transferred to the Board of Regents, as trustee. In 1982 and 1988 certain state lands including timber and other rights were transferred to the trust as replacement for lands disposed of or adversely affected during the period of administration by the territory and the state. These lands and property interests were recorded at their fair value as of the date of transfer. The net proceeds from land sales and other rights are deposited in the

NOTES TO FINANCIAL STATEMENTS

land grant endowment trust fund as described in the Endowment section in Note 1 above. At June 30, 2011 and 2010, approximately 82,411 and 82,423 acres, respectively, were held in trust at zero basis because fair value at the time of transfer was not determinable.

6. Capital Assets:

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

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011
Capital assets not depreciated:				
Land	\$ 28,490	\$ 9,491	\$ -	\$ 37,981
Construction in progress	59,176	133,337	45,519	146,994
Library and museum collections	57,964	1,182	-	59,146
Other capital assets:				-
Buildings	1,196,399	32,416	70	1,228,745
Infrastructure	61,191	1,760	-	62,951
Equipment	171,028	14,417	10,234	175,211
Leasehold improvements	26,632	-	1,723	24,909
Other improvements	22,777	1,595	-	24,372
Total	<u>1,623,657</u>	<u>194,198</u>	<u>57,546</u>	<u>1,760,309</u>
Less accumulated depreciation:				
Buildings	574,633	40,931	47	615,517
Infrastructure	32,044	1,918	-	33,962
Equipment	125,912	12,517	8,776	129,653
Leasehold improvements	9,916	1,127	1,279	9,764
Other improvements	17,838	677	-	18,515
Total accumulated depreciation	<u>760,343</u>	<u>57,170</u>	<u>10,102</u>	<u>807,411</u>
Capital assets, net	<u>\$ 863,314</u>	<u>\$ 137,028</u>	<u>\$ 47,444</u>	<u>\$ 952,898</u>

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010
Capital assets not depreciated:				
Land	\$ 28,490	\$ -	\$ -	\$ 28,490
Construction in progress	120,822	73,112	134,758	59,176
Library and museum collections	57,094	870	-	57,964
Other capital assets:				-
Buildings	1,065,605	130,794	-	1,196,399
Infrastructure	57,574	3,660	43	61,191
Equipment	171,075	14,144	14,191	171,028
Leasehold improvements	26,632	-	-	26,632
Other improvements	22,473	304	-	22,777
Total	<u>1,549,765</u>	<u>222,884</u>	<u>148,992</u>	<u>1,623,657</u>
Less accumulated depreciation:				
Buildings	533,018	41,616	-	574,634
Infrastructure	30,214	1,832	1	32,045
Equipment	126,850	12,721	13,661	125,910
Leasehold improvements	8,499	1,416	-	9,915
Other improvements	17,195	644	-	17,839
Total accumulated depreciation	<u>715,776</u>	<u>58,229</u>	<u>13,662</u>	<u>760,343</u>
Capital assets, net	<u>\$ 833,989</u>	<u>\$ 164,655</u>	<u>\$ 135,330</u>	<u>\$ 863,314</u>

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7. Unrestricted Net Assets:

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

	2011	2010
Designated:		
Auxiliaries	\$ 11,472	\$ 6,505
Working capital fund	4,827	4,826
Working capital advances	(252)	(2,611)
Service centers	17,399	12,894
Debt service funds	4,034	1,574
Quasi-endowment funds	28,600	28,449
Renewal and replacement funds	12,141	8,989
Employee benefit funds	1,415	(13)
Endowment earnings	12,769	12,302
Encumbrances	14,615	10,423
Total designated	107,020	83,338
Undesignated	19,895	23,363
Total unrestricted net assets	\$ 126,915	\$ 106,701

Unrestricted net assets include non-lapsing university receipts of \$51.9 million at June 30, 2011. Non-lapsing university receipts of \$46.7 million from 2010 were fully expended in 2011. At June 30, 2011 and 2010, \$63.4 million and \$53.2 million, respectively, of auxiliary funds, encumbrances and other unrestricted net assets were pledged as collateral for the university's general revenue bonds, as calculated under the terms of the 1992 General Revenue Bonds Trust Indenture.

8. Long-term Debt:

Debt service requirements at June 30, 2011 were as follows (\$ in thousands):

Year ended June 30,	Principal	Interest	Total
2012	\$ 6,958	\$ 4,359	\$ 11,317
2013	7,175	4,134	11,309
2014	6,821	3,903	10,724
2015	6,657	3,679	10,336
2016	6,974	3,435	10,409
2017-2021	34,221	13,149	47,370
2022-2026	27,941	6,664	34,605
2027-2031	14,075	2,053	16,128
2032-2036	3,715	311	4,026
	\$ 114,537	\$ 41,687	\$ 156,224

NOTES TO FINANCIAL STATEMENTS

Long-term debt consisted of the following at June 30, 2011 and 2010 (\$ in thousands):

	2011	2010
<p>Revenue bonds payable 1.40% to 5.00% general revenue bonds due serially to 2036, secured by a pledge of unrestricted current fund revenue generated from tuition, fees, recovery of facilities and administrative costs, sales and services of educational departments, miscellaneous receipts and auxiliaries.</p>	\$ 95,445	\$ 100,490
<p>Note payable - capital construction 1.826% assisted note to the Alaska Housing Finance Corporation (AHFC) to finance construction of Anchorage campus housing, due semiannually through February 2024.</p>	17,290	18,458
<p>Equipment financings 4.06% to 4.77% note for the purchase of equipment and vehicles due in quarterly installments through June 2017.</p>	1,802	2,352
	\$ 114,537	\$ 121,300

In fiscal year 2011, the state reimbursed the university \$1,409,822 for debt service on Series K general revenue bonds. Subject to annual appropriation, the state will reimburse the university for principal and interest on \$16,375,000 of the remaining bond principal. Annual debt service on this portion of the bonds is approximately \$1.4 million.

Under the terms of the 1992 General Revenue Bonds Trust Indenture, the university is required to maintain a reserve account with a trustee at an amount equal to one-half of the maximum annual general revenue bond debt service. The balance in the reserve account at June 30, 2011 and 2010 was \$4.7 million.

On October 5, 2011 the university sold competitively general revenue bonds with a par amount of \$48,870,000 and a 20 year term. The bonds fund a portion of the Fairbanks campus Life Sciences Facility, numerous deferred maintenance projects and a food service project on the Juneau campus. Bond closing is scheduled for October 25, 2011.

9. Unearned Lease Revenue:

In fiscal year 1997, the university entered into an agreement to construct a facility and establish the International Arctic Research Center (IARC), subsequently renamed Akasofu Building. The university received \$19,215,000 through a Japanese non-profit corporation to support the construction of the IARC in exchange for a commitment to provide research facilities to various Japanese research organizations and agencies for a period of 25 years, including lease extensions. The Japanese research organizations began occupying the Akasofu Building in fiscal year 1999. The unearned lease revenue at June 30, 2011 is \$3,522,750 and is reduced at the rate of \$1,281,000 per year with a corresponding increase to other operating revenue.

NOTES TO FINANCIAL STATEMENTS

10. Long-term Liabilities:

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

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Balance due within one year
Unearned revenue - capital	\$ 2,875	\$ 4,284	\$ 1,481	\$ 5,678	\$ -
Unearned lease revenue	4,804	-	1,281	3,523	1,281
Long-term debt	121,300	-	6,763	114,537	6,958
Security deposits and other liabilities	5,980	1	850	5,131	-
	<u>\$ 134,959</u>	<u>\$ 4,285</u>	<u>\$ 10,375</u>	<u>\$ 128,869</u>	<u>\$ 8,239</u>

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Balance due within one year
Unearned revenue - capital	\$ 10,519	\$ 812	\$ 8,456	\$ 2,875	\$ -
Unearned lease revenue	6,085	-	1,281	4,804	1,281
Long-term debt	128,013	14,295	21,008	121,300	6,763
Security deposits and other liabilities	5,846	140	6	5,980	-
	<u>\$ 150,463</u>	<u>\$ 15,247</u>	<u>\$ 30,751</u>	<u>\$ 134,959</u>	<u>\$ 8,044</u>

11. Capital Appropriations and Construction Commitments:

Major construction projects of the university are funded primarily by State of Alaska appropriations and general obligation bonds, university revenue bonds and federal grants. Unexpended and unbilled capital funds appropriated by the State of Alaska in prior years, which are not reflected as appropriation revenue or receivables on the university's books at June 30, 2011, totaled \$257.9 million. In addition, unexpended proceeds of university-issued general revenue bonds designated for construction projects totaled \$0.3 million at June 30, 2011.

Construction commitments at June 30, 2011 aggregated \$62.4 million. At June 30, 2011, the university had received \$6.9 million from State of Alaska capital appropriations and other sources in advance of expenditures.

As of June 30, 2011 the university has spent \$44.9 million, part of construction in progress, on building a ship named "Sikuliaq". The vessel will be owned by the National Science Foundation, the agency funding the construction, and operated by the University of Alaska Fairbanks, as part of the U.S. academic research fleet. It will be used by scientists in the United States and international oceanographic community through the University-National Oceanographic Laboratory System. The Sikuliaq is anticipated to be ready for unrestricted science operations in 2014 and will be home ported in Alaska at the Seward Marine Center.

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12. Pension Plans:

Participation in one of the various pension plans generally depends on when an employee was originally hired. Substantially all regular employees hired before July 1, 2006 participate in one of the following pension plans:

- The State of Alaska Public Employees' Retirement System – Defined Benefit (PERS-DB), a cost-sharing, multiple-employer public employee retirement plan,
- The State of Alaska Teachers' Retirement System – Defined Benefit (TRS-DB), a cost-sharing, multiple-employer public employee retirement plan,
- The University of Alaska Optional Retirement Plan (ORP) Tier 1 or Tier 2, a single-employer defined contribution plan.

In addition, substantially all eligible employees participate in the University of Alaska Pension Plan, a supplemental single-employer defined contribution plan. Employees hired on or after July 1, 2006 have a choice to participate in the University of Alaska Retirement Program or the applicable state defined contribution plan. The University of Alaska Retirement Program consists of ORP (Tier 3) and the University of Alaska Pension Plan. The state's defined contribution plans are the Public Employees' Retirement System – Defined Contribution (PERS-DC) or the Teachers' Retirement System-Defined Contribution (TRS-DC).

Each of the plans noted above are described in more detail in the sections that follow. None of the retirement systems or plans own any notes, bonds or other instruments of the university.

State of Alaska Public Employees' Retirement System - Defined Benefit (PERS-DB)

Plan Description

PERS is a defined benefit, cost-sharing, multiple-employer public employee retirement plan established and administered by the State of Alaska. The plan was originally established as an agent multiple-employer plan, but was converted by legislation to a cost-sharing plan, effective July 1, 2008.

PERS provides pension, postemployment health care, death and disability benefits to eligible participants. Benefit and contribution provisions are established by state law and may be amended only by the state legislature. Effective July 1, 2006, the state legislature closed PERS-DB to new members and created a Public Employees' Retirement System Defined Contribution Retirement Plan (PERS-DC), disclosed later in this note.

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

Funding Policy and Annual Pension Cost

Employee contribution rates are 6.75 percent (7.5 percent for peace officers and firefighters). The funding policy for PERS-DB provides for periodic employer contributions at actuarially determined

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rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate the assets to pay benefits when due. The 2011 actuarially determined rate was 27.96 percent of applicable gross pay. However, the employer contribution rate for the university was capped by the state at 22 percent for fiscal year 2011.

The state appropriated funding directly to the PERS-DB plan as a relief payment to employers' contributions for fiscal year 2011. The university recognized \$10,456,189, \$7,126,913, and \$16,724,174 for fiscal 2011, 2010 and 2009 respectively, in state on-behalf pension payments for the PERS-DB plan. The amounts contributed to PERS-DB by the university during the years ended June 30, 2011, 2010 and 2009 were \$26,390,066, \$27,074,153, and \$27,269,589, respectively, equal to the required employer contributions for each year.

PERS Defined Benefit Pension Plan Changes

The Alaska legislature converted PERS-DB from an agent multiple-employer plan to a cost-sharing plan effective July 1, 2008. This change provided for an integrated system of accounting for all employers. Under the integrated system, the PERS-DB plans' unfunded liability will be shared among all employers with each contributing 22 percent of their covered payroll.

State of Alaska Teachers' Retirement System - Defined Benefit (TRS-DB)

Plan Description

TRS-DB is a defined benefit, cost-sharing, multiple employer public employee retirement plan established and administered by the State of Alaska. TRS-DB provides pension, postemployment health care, death and disability benefits to participants. Benefit and contribution provisions are established by state law and may be amended only by the state legislature. Effective July 1, 2006, the state legislature closed TRS-DB to new members and created a Teachers' Retirement System Defined Contribution Retirement Plan (TRS-DC), disclosed later in this note.

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

Funding Policy and Annual Pension Cost

Employees contribute 8.65 percent of their base salary as required by state statute. The funding policy for TRS-DB provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate the assets to pay benefits when due. During fiscal year 2011, contractually required employee and employer contribution rates were 8.65 percent and 12.56 percent, respectively. The amounts contributed to TRS-DB by the university during the years ended June 30, 2011, 2010 and 2009 were \$5,243,968, \$5,454,265, and \$5,485,631, respectively, equal to the required employer contributions for each year.

The actuarially determined employer contribution rate for 2011 was 38.56 percent. The state appropriated funding directly to the TRS-DB plan to augment employer contributions for 2011. For

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fiscal year 2011, 2010 and 2009, the university recognized \$11,382,779, \$10,848,081, and \$13,778,074, respectively, in state on-behalf pension payments for the TRS-DB plan.

State of Alaska Public Employees' Retirement System - Defined Contribution (PERS-DC)

Plan Description

PERS-DC is a defined contribution, cost-sharing, multiple-employer public employee retirement plan established and administered by the State of Alaska to provide pension and postemployment healthcare benefits for eligible employees. Benefit and contribution provisions are established by state law and may be amended only by the state legislature. PERS-DC was created by the state effective July 1, 2006. Plan savings are accumulated in individual retirement accounts for the exclusive benefit of each member or beneficiary.

Funding Policy and Annual Pension Cost

The employee contribution rate is eight percent and the employer effective contribution rate is 22 percent of covered payroll for fiscal years 2011 and 2010. For the years ended June 30, 2011 and 2010, the university's total covered payroll for the PERS-DC plan was approximately \$7.0 million and \$6.1 million, and contributions made by the university totaled \$1,548,744 and \$1,346,145, respectively.

On July 1, 2006, three pension trust sub-funds were created within PERS, the Retiree Major Medical Insurance (RMP), Health Reimbursement Arrangement (HRA), and Occupation Death and Disability (OD&D). RMP allows eligible members who retire directly from the plan to obtain medical benefits. The HRA allows medical care expenses to be reimbursed from individual savings accounts established for eligible persons. OD&D provides employees with benefits as a result of death or disability on the job. PERS-DC participants are eligible members of RMP and HRA and their postemployment healthcare benefits are paid out of these funds. The employer RMP contribution rates for fiscal year 2011 and 2010 are 0.55 and 0.83 percent for medical coverage and 0.31 and 0.30 percent (1.18 percent for peace officers and firefighters) for occupational death and disability benefit contributions. For fiscal years 2011 and 2010, the HRA employer contributions are \$143.39 and \$141.64 per month for full time employees and \$1.10 and \$1.09 per hour for part time employees, respectively.

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

State of Alaska Teachers' Retirement System - Defined Contribution (TRS-DC)

Plan Description

TRS-DC is a defined contribution, cost-sharing, multiple-employer public employee retirement plan established and administered by the State of Alaska to provide pension and postemployment healthcare benefits for teachers and other eligible employees. Benefit and contribution provisions are established by state law and may be amended only by the state legislature. TRS-DC was created by the state effective July 1, 2006. Plan savings are accumulated in an individual retirement account for the exclusive benefit of members or beneficiaries.

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Funding Policy and Annual Pension Cost

The employee contribution rate is eight percent and the effective employer contribution rate is 12.56 percent of covered payroll for fiscal years 2011 and 2010. For the years ended June 30, 2011 and 2010, the university's total covered payroll for the TRS-DC plan was approximately \$3.4 million and \$2.7 million, and contributions made by the university totaled \$429,910 and \$333,253, respectively.

On July 1, 2006, two pension trust sub-funds were created in TRS, the Retiree Major Medical Insurance (RMP) and Health Reimbursement Arrangement (HRA). The TRS Occupational Death and Disability (OD&D) trust sub-fund was created on July 1, 2007. RMP allows eligible members who retire directly from the plan to obtain medical benefits. The HRA allows medical care expenses to be reimbursed from individual savings accounts established for eligible persons. OD&D provides employees with benefits as a result of death or disability on the job. TRS-DC participants are eligible members of RMP and HRA and their postemployment healthcare benefits are paid out of these funds. The employer RMP contribution rate for fiscal year 2011 and 2010 for each member's compensation was 0.68 and 1.03 percent for medical coverage, and 0.28 and 0.32 percent for occupational death and disability benefit contributions. For fiscal years 2011 and 2010, the HRA employer contributions are \$143.39 and \$141.64 per month for full time employees and \$1.10 and \$1.09 per hour for part time employees, respectively.

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

University of Alaska Optional Retirement Plan - Defined Contribution (ORP)

Plan Description

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

Funding Policy and Annual Pension Cost

ORP Tier 1

The ORP Tier 1 participants make employee contributions to one of the plan's annuity programs at a rate of 8.65 percent of covered payroll. The university contributes to one of the plan's authorized

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employee-selected annuity providers or investment managers at a rate equal to the three-year moving average of the TRS-DB employer contribution rates (12.56 percent for 2011 and 2010).

In fiscal year 2011 and 2010, the university's total covered payroll for the ORP Tier 1 plan was approximately \$49.4 million and \$50.8 million, respectively. The amounts contributed to the ORP Tier 1 by the university during the years ended June 30, 2011, 2010 and 2009 were \$6,203,129, \$6,381,618, and \$8,462,414, respectively.

ORP Tier 2

The ORP Tier 2 participants make employee contributions to one of the plan's annuity programs at a rate of 8.65 percent of covered payroll. The university contributes to one of the plan's authorized employee-selected annuity providers or investment managers at a rate of 12 percent of covered payroll for fiscal years 2011 and 2010.

In fiscal year 2011 and 2010, the university's total covered payroll for the ORP Tier 2 plan was approximately \$3.6 million and \$3.7 million, respectively. The amounts contributed to the ORP Tier 2 by the university during the years ended June 30, 2011, 2010 and 2009 were \$429,824, \$446,041, and \$541,237, respectively. The ORP Tier 2 plan was available for new ORP benefit-eligible employees hired in fiscal year 2006. As of July 1, 2006, the ORP Tier 2 plan was no longer available to newly-hired ORP benefit-eligible employees.

ORP Tier 3

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

In fiscal years 2011 and 2010, the university's total covered payroll for the ORP Tier 3 plan was approximately \$73.8 million and \$62.0 million, respectively. The amounts contributed to the ORP Tier 3 by the university during the years ended June 30, 2011, 2010 and 2009 were \$8,850,715, \$7,436,012, and \$5,596,529, respectively.

Plan Assets

At June 30, 2011 and 2010, plan assets (participants' accounts attributable to employer contributions) for ORP Tier 1, Tier 2 and Tier 3 had a net value of approximately \$143.8 million and \$113.8 million, respectively. ORP Tier 1 and ORP Tier 2 participants are 100 percent vested at all times. University contributions for ORP Tier 3 participants are 100 percent vested after three years of service.

University of Alaska Pension Plan (Pension)

Plan Description

In addition to the other retirement plans, substantially all regular employees (hired before July 1, 2006) and certain faculty classified as temporary, participate in the Pension plan which was established

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January 1, 1982, when the university withdrew from the federal social security program. Eligible employees, hired on or after July 1, 2006, electing to participate in the University of Alaska Retirement Program also participate in the Pension plan.

Funding Policy and Annual Pension Cost

Effective January 1, 2011, employer contributions for regular employees were 7.65 percent of covered wages up to \$42,000 and \$106,800 in 2011 for certain faculty classified as temporary. The plan provides for employer contributions to be invested in accordance with participant-directed investment elections to the plan's fixed income and/or equity funds. Participants hired before July 1, 2006 are 100 percent vested at all times. University contributions for participants hired on or after July 1, 2006 are 100 percent vested after three years of service.

Plan Assets

In 2011 and 2010, the university's total covered payroll for the Pension plan was approximately \$176.2 million and \$174.8 million, respectively. The university's costs to fund and administer the plan totaled \$13.5 million, or 7.65 percent of covered payroll. At June 30, 2011 and 2010, plan assets (participants' accounts) had a net value of approximately \$317.2 million and \$275.6 million, respectively.

13. Insurance and Risk Management:

The university is exposed to a wide variety of risks including property loss, bodily and personal injury, intellectual property, errors and omissions, aviation and marine. Exposures are handled with a combination of self-insurance, commercial insurance, and membership in a reciprocal risk retention group.

The university is self-insured up to the maximum of \$2.0 million per occurrence for casualty claims and \$250,000 for property claims. Commercial carriers provide coverage in excess of these amounts. Health care, workers' compensation and unemployment claims are fully self-insured. Liabilities have been established using actuarial analysis to cover estimates for specific reported losses, estimates for unreported losses based upon past experience modified for current trends, and estimates of expenses for investigating and settling claims.

Health, general liability and worker's compensation liabilities were reduced by \$2.8 million, \$6.1 million and \$3.2 million, respectively, in 2011 to bring the balances closer to actuarial estimates. The effect is shown in the provision for claims. The claims payment for general liability includes an internal repayment of a settlement totaling \$1.7 million.

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

	Balance July 1, 2010	Provision for Claims	Claims Payments	Balance June 30, 2011
Health	\$ 8,975	\$ 64,113	\$ (66,926)	\$ 6,162
General liability	6,863	(3,216)	(718)	2,929
Workers' compensation	6,690	(1,052)	(1,139)	4,499
Unemployment	235	993	(976)	252
	<u>\$ 22,763</u>	<u>\$ 60,838</u>	<u>\$ (69,759)</u>	<u>\$ 13,842</u>

	Balance July 1, 2009	Provision for Claims	Claims Payments	Balance June 30, 2010
Health	\$ 8,392	\$ 60,333	\$ (59,750)	\$ 8,975
General liability	5,613	1,591	(341)	6,863
Workers' compensation	5,991	1,973	(1,274)	6,690
Unemployment	138	813	(716)	235
	<u>\$ 20,134</u>	<u>\$ 64,710</u>	<u>\$ (62,081)</u>	<u>\$ 22,763</u>

	Balance July 1, 2008	Provision for Claims	Claims Payments	Balance June 30, 2009
Health	\$ 7,798	\$ 56,365	\$ (55,771)	\$ 8,392
General liability	5,362	932	(681)	5,613
Workers' compensation	6,051	1,555	(1,615)	5,991
Unemployment	72	493	(427)	138
	<u>\$ 19,283</u>	<u>\$ 59,345</u>	<u>\$ (58,494)</u>	<u>\$ 20,134</u>

14. Commitments and Contingencies:

Amounts received and expended by the university under various federal and state grants, contracts and other programs are subject to audit and potential disallowance. From time to time the university is named as a defendant in legal proceedings or cited in regulatory actions related to the conduct of its operations.

In the normal course of business, the university also has various other commitments and contingent liabilities which are not reflected in the accompanying financial statements. In the opinion of management, the university will not be affected materially by the final outcome of any of these proceedings, or insufficient information exists to make an opinion.

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On June 5, 2009 a group of beneficiaries of the Optional Retirement Plan (ORP) filed a class-action lawsuit entitled Abel Bult-Ito et al., v. State of Alaska, University of Alaska, et al., Case No. 3AN-09-7875 CI, in the Superior Court for the State of Alaska, Third Judicial District at Anchorage, against the State of Alaska and the University.

The group of beneficiaries alleges, among other things, that State legislation passed in 2007 and 2008 unconstitutionally diminished contributions to the ORP. The case is currently set for trial the week of January 30, 2012. The likelihood of success on the merits of the case is unknown as is the financial impact on the university.

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

15. University of Alaska Foundation:

The University of Alaska Foundation (foundation) is a legally separate, non profit organization formed in 1974 to solicit donations for the exclusive benefit of the University of Alaska. During 2011 and 2010, the university transferred \$1.2 million and \$0.9 million for general support, respectively. For the same periods, the foundation reimbursed the university for operating expenses totaling \$2.6 million.

For the years ended June 30, 2011 and 2010, distributions and expenditures by the foundation for the benefit of the university totaled \$13.7 million and \$13.3 million, of which \$12.6 million and \$12.6 million were direct reimbursements to the university. Additionally, the foundation owed the university \$1.8 million at June 30, 2011 and \$1.7 million at June 30, 2010, primarily for reimbursement of expenditures on funding provided by the foundation.

The investable resources of the university's land grant endowment trust fund and the foundation's pooled endowment funds are combined into a consolidated endowment fund for investment purposes. At June 30, 2011 and 2010, the fair value of the fund was \$257.3 million and \$216.2 million, respectively. The university's share of this fund was \$125.4 million and \$114.2 million, respectively, which is reflected in endowment investments.

The fund is managed by the foundation's investment committee and treasurer on a total return basis in accordance with an investment policy approved by the Board of Regents. The net assets and related activity for the university's land grant endowment trust's investment in the fund is reflected in the university's financial statements.

NOTES TO FINANCIAL STATEMENTS

16. Functional Classifications with Natural Classifications:

The university's operating expenses by natural classification for 2011 and 2010 were as follows (\$ in thousands):

	Compensation & Benefits	Contractual Services	Materials	Other	Student Aid	Depreciation	Total
Instruction	\$ 172,558	\$ 26,078	\$ 11,079	\$ 938	\$ -	\$ -	\$ 210,653
Academic support	46,644	7,506	7,237	66	-	-	61,453
Research	94,177	36,540	9,279	457	-	-	140,453
Public service	24,666	10,607	1,911	363	-	-	37,547
Student services	37,579	11,420	3,086	89	-	-	52,174
Operations and maintenance	29,012	20,063	13,263	434	-	-	62,772
Institutional support	71,208	11,428	4,011	303	-	-	86,950
Student aid	-	-	-	-	27,280	-	27,280
Auxiliary enterprises	9,741	17,538	10,573	95	-	-	37,947
Depreciation	-	-	-	-	-	57,170	57,170
State on-behalf payments	-	-	-	21,839	-	-	21,839
	<u>\$ 485,585</u>	<u>\$ 141,180</u>	<u>\$ 60,439</u>	<u>\$ 24,584</u>	<u>\$ 27,280</u>	<u>\$ 57,170</u>	<u>\$ 796,238</u>

	Compensation & Benefits	Contractual Services	Materials	Other	Student Aid	Depreciation	Total
Instruction	\$ 169,993	\$ 25,774	\$ 11,166	\$ 931	\$ -	\$ -	\$ 207,864
Academic support	44,005	7,259	7,116	74	-	-	58,454
Research	91,774	32,597	10,379	295	-	-	135,045
Public service	26,451	11,708	2,353	349	-	-	40,861
Student services	36,969	10,763	3,031	51	-	-	50,814
Operations and maintenance	27,633	19,180	12,415	593	-	-	59,821
Institutional support	69,982	11,915	3,349	2,613	-	-	87,859
Student aid	-	-	-	-	20,965	-	20,965
Auxiliary enterprises	9,944	18,991	11,200	266	-	-	40,401
Depreciation	-	-	-	-	-	58,228	58,228
State on-behalf payments	-	-	-	17,975	-	-	17,975
	<u>\$ 476,751</u>	<u>\$ 138,187</u>	<u>\$ 61,009</u>	<u>\$ 23,147</u>	<u>\$ 20,965</u>	<u>\$ 58,228</u>	<u>\$ 778,287</u>