

Land-Grant Endowment Funds

The University of Alaska Land Grant Endowment has its origin in the federal land grant acts of 1915 and 1929 and subsequently the Alaska Statehood Act. Approximately 110,000 acres of land were transferred to the territory of Alaska and eventually to the Board of Regents to be held in trust for the university. The net proceeds from the sale, lease, exchange and other uses of these lands have been deposited in the University of Alaska Endowment Trust Fund as provided by Alaska Statute 14.40.400. Alaska Statute 14.40.400 gives the Board of Regents the authority to manage the endowment under the total return principles which are intended to preserve and maintain the purchasing power of the endowment fund, a unitized investment fund.

The accompanying schedules of Net Assets and Changes in Net Assets reflect the financial position of the Land-Grant Endowment and related funds as of June 30, 2006 and the changes in net assets for the year then ended. The investments of the Land-Grant Endowment and Inflation-Proofing Fund, which have fair values at June 30, 2006 of \$110.3 and \$14.0 million, respectively, are invested in a consolidated endowment fund managed by the University of Alaska Foundation in accordance with an agreement and investment policy approved by the Board of Regents.

Expenditure of the endowment fund earnings is governed by regents' policy, which provides that a portion of the earnings be utilized to manage the university's lands, a portion be set aside in order to maintain the purchasing power of the endowment, and a portion be transferred to the Natural Resources Fund for the purpose of funding programs in support of UA Scholars, natural resource management, marketing and education, and other university programs.

The Schedule of Allocated Natural Resources Fund Balances represents a summary of awards, transfers and expenditures for Natural Resources Fund projects.

**Land-Grant Endowment Funds
Schedule of Net Assets
June 30, 2006**

	Land-Grant Trust <u>Fund</u>	Inflation- Proofing <u>Fund</u>	Revenue <u>Fund</u>	Natural Resources <u>Fund</u>
Assets:				
Cash (due (to) from University)	\$ 3,176,452	\$ 1,235,998	\$ --	\$8,786,406
Receivables	5,903,733	25,504	--	--
Investments	110,307,259	13,977,706	--	--
Real property held for investment	--	7,508,973	--	--
Real property	<u>33,917,297</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total assets	153,304,741	22,748,181	--	8,786,406
Liabilities:				
Security deposits and other payables	4,757,400	75,929	--	--
Long-term debt	<u>--</u>	<u>2,200,000</u>	<u>--</u>	<u>--</u>
Total liabilities	<u>4,757,400</u>	<u>2,275,929</u>	<u>--</u>	<u>--</u>
Net assets	<u>\$148,547,341</u>	<u>\$20,472,252</u>	<u>\$ --</u>	<u>\$8,786,406</u>

**Schedule of Changes in Net Assets
For the Year Ended June 30, 2006**

Revenue and other additions:				
Sale, lease, or transfer of real property, materials and mineral interests	\$ 6,625,767	\$ 672,679	\$ --	\$ --
Cost basis of property sold	<u>(580,509)</u>	<u>--</u>	<u>--</u>	<u>--</u>
Net sales	6,045,258	672,679	--	--
Net realized and unrealized gains from investments	10,027,112	1,342,901	--	--
Investment income	<u>--</u>	<u>--</u>	<u>3,747,761</u>	<u>--</u>
	<u>16,072,370</u>	<u>2,015,580</u>	<u>3,747,761</u>	<u>--</u>
Expenditures and other deductions:				
Development project costs	(1,231,791)	(1,809,117)	--	--
Natural Resources Fund projects	<u>--</u>	<u>--</u>	<u>--</u>	<u>(3,572,309)</u>
	<u>(1,231,791)</u>	<u>(1,809,117)</u>	<u>--</u>	<u>(3,572,309)</u>
Transfers:				
Provision for land management operations	--	--	(660,172)	--
Transfer for spending allowance	(746,290)	(113,190)	859,480	--
Natural Resource Fund allocation	<u>--</u>	<u>--</u>	<u>(3,947,069)</u>	<u>3,947,069</u>
	<u>(746,290)</u>	<u>(113,190)</u>	<u>(3,747,761)</u>	<u>3,947,069</u>
Net increase (decrease) in net assets	14,094,289	93,273	--	374,760
Net assets at beginning of year	<u>134,453,052</u>	<u>20,378,979</u>	<u>--</u>	<u>8,411,646</u>
Net assets at end of year	<u>\$148,547,341</u>	<u>\$20,472,252</u>	<u>\$ --</u>	<u>\$8,786,406</u>

See accompanying notes to these schedules.

Land-Grant Endowment Funds
Notes to the Financial Schedules
June 30, 2006

By Acts of Congress in 1915 and 1929, approximately 110,000 acres of land were transferred to the territory of Alaska to be held in trust for the university. The grant lands were subsequently transferred to the state of Alaska and eventually to the Board of Regents to be held in trust for the university. Currently, approximately 83,400 acres of these lands are held at no basis because fair value at the date of transfer was not determinable. In 1982 and 1988, the university was allowed to select certain state lands including timber and other rights as replacement for lands disposed of by the territory and the state. These replacement lands and property interests were recorded at their fair value as of the date of transfer.

Land-Grant Trust Fund

The Land-Grant Trust Fund as reported in these schedules represents the original land grant, the invested proceeds from the sale and/or development of these resources and the appreciation in value of the invested funds. The endowment is managed on a total return basis. Receivables of approximately \$5.9 million are primarily from sales of trust land. Investments of approximately \$110.3 million are held in a consolidated endowment fund under the direction of the University of Alaska Foundation. The consolidated investment fund is managed by the Foundation's investment committee and treasurer in accordance with an investment policy approved by the Board of Regents. Cash balances are invested in pooled investment funds of The Commonfund. Real property of approximately \$33.9 million is comprised primarily of replacement and property interests and does not include the value of the university's original entitlement land. Security deposits totaling \$4.4 million are held for security or performance on contracts and other leases. Net assets include \$26.1 million of accumulated net earnings.

The annual spending allowance is based on five percent of a five-year moving average of the December 31 market value of the investable resources of the Land-Grant and Inflation-Proofing funds. The annual spending allowance is limited to the unexpended accumulated earnings of the endowments as of the preceding December 31. The spending allowance requirement for fiscal year 2006 was \$4,607,241. To meet the spending allowance, \$746,290 and \$113,190, were transferred from the Land-Grant and Inflation-Proofing funds, respectively. The spending allowance distributions include a provision of \$660,172 for land management operating costs and \$3,947,069 for program support to be distributed through the Natural Resources Fund.

Inflation-Proofing Fund

The Inflation-Proofing Fund represents reinvested earnings of the Land-Grant Trust Fund and net proceeds of non-trust real property transactions designated for preservation of the long-term purchasing strength of the endowment. Its assets include approximately \$7.5 million in improved and unimproved real property held for investment including the University Lake and Diplomacy Buildings. The cash balances of the Inflation-Proofing Fund are invested in pooled investment funds of The Commonfund. The other investments are held in the consolidated endowment fund under the direction of the University of Alaska Foundation. The long-term debt is approximately \$2.2 million for real estate located near the University of Alaska Anchorage. Total net assets of \$20.5 million are considered accumulated net earnings, of which \$0.8 million is designated for future renewal and replacement of investment property and \$0.5 million is designated for other projects approved by the Board of Regents.

In fiscal year 2001, the Inflation-Proofing Fund financed construction costs of \$527,947 for certain leased facilities at the Poker Flat Research Range near Fairbanks. The Inflation-Proofing Fund will receive monthly rent of \$6,482 for use of the facilities through fiscal year 2011. The rent is recorded as income in the period received. The leased facilities are included in the university's Investment in Plant fund group.

In fiscal year 2006, the Inflation Proofing Fund advanced \$1.3 million to the UAF Museum to help with their expansion. The funds were repaid in July 2006.

Revenue Fund

The Revenue Fund represents a depository fund for the distributable earnings of the Land-Grant Trust Fund, the Inflation-Proofing Fund, and the Natural Resources Fund.

Investment income reported in the Revenue Fund represents current yield or income on investments and other assets of the endowment and related designated funds.

In fiscal year 2006, the Revenue Fund transferred \$660,172 to the land management operating budget reserve. Not reflected in these financial schedules is the reserve with a balance of \$1,207,200 at June 30, 2006. The reserve is included in the university financial statements.

Natural Resources Fund

The Natural Resources Fund represents spendable funds designated by regents' policy to provide support for UA Scholars, agriculture, forestry, fisheries, mineral, and other university programs. All unexpended funds are invested in pooled investment funds of The Commonfund.

In fiscal year 2005, the Board of Regents allocated an additional \$566,811 from the Natural Resource Fund to Land Management to fund expenditures related to the selection and transfer of land from the State of Alaska. The remaining balance of \$274,705 is not reflected in these schedules but is included in the university financial statements.

On July 25, 2005, Alaska's governor approved a transfer of approximately 250,000 acres of State of Alaska land to the university. As provided by Alaska Statute 14.40.365, the lands will be conveyed to the university by July 1, 2008 with the exception of one 52,000 acre forestry research parcel being transferred in 50 years. The intent of the Legislature is to provide the university with an equitable land grant as originally envisioned in the federal land grant of 1915 and to provide the university ownership of a significant portfolio of income producing land to help fund public higher education in the State of Alaska. Proceeds and royalties received from property development will be deposited into the land grant trust endowment fund. The lands will be recorded at zero basis as no determinable fair value is available at the time of transfer.

Land Grant Endowment Funds
Schedule of Allocated Natural Resources Fund Balances
For the Year Ended June 30, 2006

Project	Available June 30, 2005	New Awards & Transfers	Expen- ditures	Available June 30, 2006
NATURAL RESOURCES PROJECTS				
Agriculture				
UAF/Forage Management	5,576	-	5,442	134
Animals				
UAF/Walrus Stock Analysis	3,400	-	-	3,400
UAS/Ring Seal Survey	29,000	-	21,491	7,509
Fisheries				
UAA/Aquatic Macroinvertebrate Tolerance	789	(325)	464	-
UAA/Marketing Internships	2,703	-	1,353	1,350
UAF/Characteristics of Luminous Salmon Bacteria	(263)	-	(263)	-
UAF/Develop Sensor-Monitor Low Vapor Pressure	931	-	931	-
UAF/NOAA Facility	423,384	-	155,029	268,355
UAF/Prince of Wales Island Aquaculture	4,964	-	823	4,141
UAS/Aquatic Invertebrates Catalog	1,019	-	-	1,019
Forestry				
UAA/Spruce Bark Beetle Research Cood. Committee	469	(14)	455	-
UAF/Factors Influence Spruce Bark Beetle	25,116	-	6,066	19,050
UAF/Management Plan - UA Experimental Forest	10,295	-	9,882	413
UAF/Testing of Alaska Trusses	261	-	-	261
Minerals				
UAF/Noninvasive Environmental Monitoring	3,369	-	3,150	219
UAF/Sedimentology NE Alaska	5,382	-	380	5,002
UAF/Oil Economics/High School	11,853	-	12,041	(188)
UAS/Identifying Mineralogy of Glacially Eroded Sediment	2,663	-	-	2,663
Resources Management, Marketing, Education, and Other				
UAA/Natural Resource & Environmental				
Research Internship Program	3,427	-	3,427	-
UAA/Resource Atlas	4,125	(4,125)	-	-
UAF/Master Land Planning, Agriculture Research Station	160,000	-	3,948	156,052
UAF/Online Arctic Engineering Course	7,330	-	-	7,330
UAF/Partnership in Arctic Research & Education	729	(729)	-	-
UAS/Response of Mendenhall Glacier to Climate Change	156	-	-	156
UAS/Satellite Images	1,195	-	1,195	-
SYS/Competitive Grants	25,420	-	-	25,420
<i>sub-grants to:</i>				
UAA/Competitive Grants	82,926	-	13,947	68,979
UAF/Competitive Grants	119,414	-	430	118,984
UAF/Toolik Water System Upgrade	2,603	-	-	2,603
UAF/UAA EPA EPSCOR	5,966	-	5,966	-
UAS/Competitive Grants	592	-	-	592
Water				
UAA/Statewide Water Quality Clearinghouse	(52)	-	(52)	-
UAS/Sediment in Mendenhall Lake	289	-	-	289
UAS/Undergraduate Research	294	-	-	294
OTHER PROJECTS				
Distance Delivery, Technologically Enhanced Instruction				
SYS/UA Learning Cooperative	1,801	-	-	1,801
Faculty Development				
UAF/Promoting Teacher Retention & Renewal	10,703	-	1,469	9,234

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Schedule of Allocated Natural Resources Fund Balances
For the Year Ended June 30, 2006

Project	Available June 30, 2005	New Awards & Transfers	Expen- ditures	Available June 30, 2006
Outreach/Public Service				
PWSCC/4th, 5th Annual Theater Conference	2,073	-	600	1,473
UAF/University of Alaska Press	-	80,000	80,000	-
Program Development/Enhancement				
UAA,UAF,UAS/Engineering Collaboration	2,076	-	-	2,076
UAF/Circumpolar Region Database	2,411	-	354	2,057
SYS/Academic Program Support	9,323	-	-	9,323
<i>sub-grants to:</i>				
UAF/Transportation Research - FAA Match	163	-	-	163
Research, Scholarship, Creative Activity				
UAF/UA/MIT MOA	3,525	(3,525)	-	-
Student Services				
UAA/Alaska Scholars Program	-	1,894,726	1,894,726	-
UAF/Alaska Scholars Program	-	1,062,803	1,062,803	-
UAS/Alaska Scholars Program	-	138,026	138,026	-
SYS/Alaska Scholars Program	1,323,748	335,370	62,167	1,596,951
SYS/Tuition Waiver Program, Coop. Scholarships	129,000	100,000	86,059	142,941
	<u>2,430,148</u>	<u>3,602,207</u>	<u>3,572,309</u>	<u>2,460,046</u>
Undistributed				
Closed Projects	10,743	(1,602)	-	9,141
President Discretionary Awards	59,515	(59,515)	-	-
FY03 Transfer	890,150	-	-	890,150
FY04 Transfer	870,000	-	-	870,000
FY05 Transfer	610,000	-	-	610,000
FY06 Transfer	3,541,090	(3,541,090)	-	-
FY07 Transfer		3,947,069	-	3,947,069
	<u>\$ 8,411,646</u>	<u>\$ 3,947,069</u>	<u>\$ 3,572,309</u>	<u>\$ 8,786,406</u>