

## **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, 2009 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, 2009 of \$92.7 and \$15.8 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, 2009**

	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)	\$ (3,408,435)	\$ (323,295)	\$ --	\$10,402,760
Receivables	4,432,591	201,455	--	--
Investments	92,731,846	15,812,137	--	--
Real property held for investment	--	13,947,015	--	--
Real property	<u>32,011,783</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total assets	125,767,785	29,637,312	--	10,402,760
Liabilities:				
Security deposits and other payables	650,907	115,607	--	--
Long-term debt	<u>--</u>	<u>1,890,000</u>	<u>--</u>	<u>--</u>
Total liabilities	<u>650,907</u>	<u>2,005,607</u>	<u>--</u>	<u>--</u>
Net assets	<u>\$125,116,878</u>	<u>\$27,631,705</u>	<u>\$ --</u>	<u>\$10,402,760</u>

**Schedule of Changes in Net Assets  
For the Year Ended June 30, 2009**

Revenue and other additions:				
Sale, lease, or transfer of real property, materials and mineral interests	\$ 2,469,359	\$ 6,908,407	\$ --	\$ --
Cost basis of property sold	<u>(431,506)</u>	<u>--</u>	<u>--</u>	<u>--</u>
Net sales	2,037,853	6,908,407	--	--
Net realized and unrealized losses from investments	(31,718,728)	(3,486,933)	--	--
Investment income	<u>--</u>	<u>15,506</u>	<u>2,078,723</u>	<u>--</u>
	<u>(29,680,875)</u>	<u>3,436,980</u>	<u>2,078,723</u>	<u>--</u>
Expenditures and other deductions:				
Development project costs	(1,373,704)	(498,454)	--	--
Natural Resources Fund projects	<u>--</u>	<u>--</u>	<u>--</u>	<u>(4,144,677)</u>
	<u>(1,373,704)</u>	<u>(498,454)</u>	<u>--</u>	<u>(4,144,677)</u>
Transfers:				
Provision for land management operations	--	--	(916,822)	--
Transfer to UA for investment losses	--	(2,154,367)	--	(923,300)
Transfer for spending allowance	(3,110,086)	(301,637)	3,411,723	--
Natural Resource Fund allocation	<u>--</u>	<u>--</u>	<u>(4,573,624)</u>	<u>4,573,624</u>
	<u>(3,110,086)</u>	<u>(2,456,004)</u>	<u>(2,078,723)</u>	<u>3,650,324</u>
Net increase (decrease) in net assets	(34,164,665)	482,522	--	(494,353)
Net assets at beginning of year	<u>159,281,543</u>	<u>27,149,183</u>	<u>--</u>	<u>10,897,113</u>
Net assets at end of year	<u>\$125,116,878</u>	<u>\$27,631,705</u>	<u>\$ --</u>	<u>\$10,402,760</u>

See accompanying notes to these schedules.

Land-Grant Endowment Funds  
Notes to the Financial Schedules  
June 30, 2009

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 82,500 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 \$4.4 million are primarily from sales of trust land. Investments of approximately \$92.7 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 \$32.0 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 \$0.6 million are held for security or performance on contracts and other leases. Net assets include \$(1.4) million of accumulated net earnings.

The annual spending allowance is based on four and one half 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 2009 was \$5,490,445. To meet the spending allowance, \$3,110,086 and \$301,636, were transferred from the Land-Grant and Inflation-Proofing funds, respectively. The spending allowance distributions include a provision of \$916,821 for land management operating costs and \$4,573,624 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 \$13.9 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 \$2.0 million for real estate located near the University of Alaska. Total net assets of \$27.6 million are considered accumulated net earnings, of which \$1.1 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.

On June 5, 2009, the Board of Regents approved a transfer from the Inflation-Proofing Fund and the Natural Resource Fund for the purpose of funding a portion of university operating investment losses incurred in Fiscal Year 2009. To meet this commitment, \$2,154,367 and \$923,300 were transferred, respectively.

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.

### **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 2009, the Revenue Fund transferred \$916,821 to the land management operating budget reserve. Not reflected in these financial schedules is the reserve with a balance of \$1,513,200 at June 30, 2009. 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.

On October 23, 2005 House Bill 130, granting to the University of Alaska approximately 250,000 acres of state land, passed into law. The intent of the Legislature is to provide the university with an equitable land grant as originally envisioned in the federal land grant of 1915 and to provide the university ownership of a significant portfolio of income producing land to help fund public higher education in the state of Alaska. Because of restrictions in the legislation related to native allotments, municipal entitlements and the University Research Forest, and delays in the conveyance of two parcels from the federal government to the state of Alaska, only 49 parcels, totaling approximately 198,900 acres, are eligible for immediate conveyance to the university. Net proceeds and royalties received from property development will be deposited into the land grant endowment trust fund. The lands will be recorded at zero basis when no determinable fair value is available at the time of transfer.

Two conservation groups filed a lawsuit against the state and university claiming the legislation was unconstitutional because it dedicated funds. The plaintiffs prevailed with the Alaska Supreme Court and the result was that the 2005 legislation was nearly all invalidated except for that portion which relates to a research forest to be conveyed to the university in 2055. The university will have to return approximately 33,700 acres of land that it has received through June 30, 2009 unless new legislation is passed reauthorizing the land conveyances. However, such properties have been recorded at zero basis, so there is no anticipated impact on the results of operations.

**Land Grant Endowment Funds**  
**Schedule of Allocated Natural Resources Fund Balances**  
**For the Year Ended June 30, 2009**

<b>Project</b>	<b>Available June 30, 2008</b>	<b>New Awards &amp; Transfers</b>	<b>Expen- ditures</b>	<b>Available June 30, 2009</b>
<b>NATURAL RESOURCES PROJECTS</b>				
<b>Animals</b>				
UAS/Ring Seal Survey	1,041	-	-	1,041
<b>Fisheries</b>				
UAF/Prince of Wales Island Aquaculture	3,817	-	-	3,817
<b>Forestry</b>				
UAF/Factors Influence Spruce Bark Beetle	11,371	-	105	11,266
<b>Resources Management, Marketing, Education, and Other</b>				
UAF/Master Land Planning, Agriculture Research Station	42,298	-	-	42,298
SYS/Competitive Grants				
<i>sub-grants to:</i>				
UAA/Competitive Grants	788	-	788	-
UAF/Competitive Grants	71,284	-	63,131	8,153
<b>OTHER PROJECTS</b>				
<b>Faculty Development</b>				
UAF/Promoting Teacher Retention & Renewal	8,116	-	1,376	6,740
<b>Outreach/Public Service</b>				
UAF/University of Alaska Press	80,000	80,000	80,000	80,000
<b>Program Development/Enhancement</b>				
UAF/Cooperative Extension Support	800,000	400,000	304,390	895,610
<b>Student Services</b>				
UAA/Alaska Scholars Program	-	2,085,187	2,085,187	-
UAF/Alaska Scholars Program	-	1,328,250	1,328,250	-
UAS/Alaska Scholars Program	-	101,750	101,750	-
SYS/Alaska Scholars Program	7,246,846	478,437	32,104	7,693,179
SYS/Tuition Waiver Program, Coop. Scholarships	261,402	100,000	147,596	213,806
	<u>8,526,963</u>	<u>4,573,624</u>	<u>4,144,677</u>	<u>8,955,910</u>
<b>Undistributed</b>				
FY03 Transfer	890,150	(890,150)	-	-
FY04 Transfer	870,000	(33,150)	-	836,850
FY05 Transfer	610,000	-	-	610,000
FY08 Transfer	-	-	-	-
	<u>\$ 10,897,113</u>	<u>\$ 3,650,324</u>	<u>\$ 4,144,677</u>	<u>\$ 10,402,760</u>