

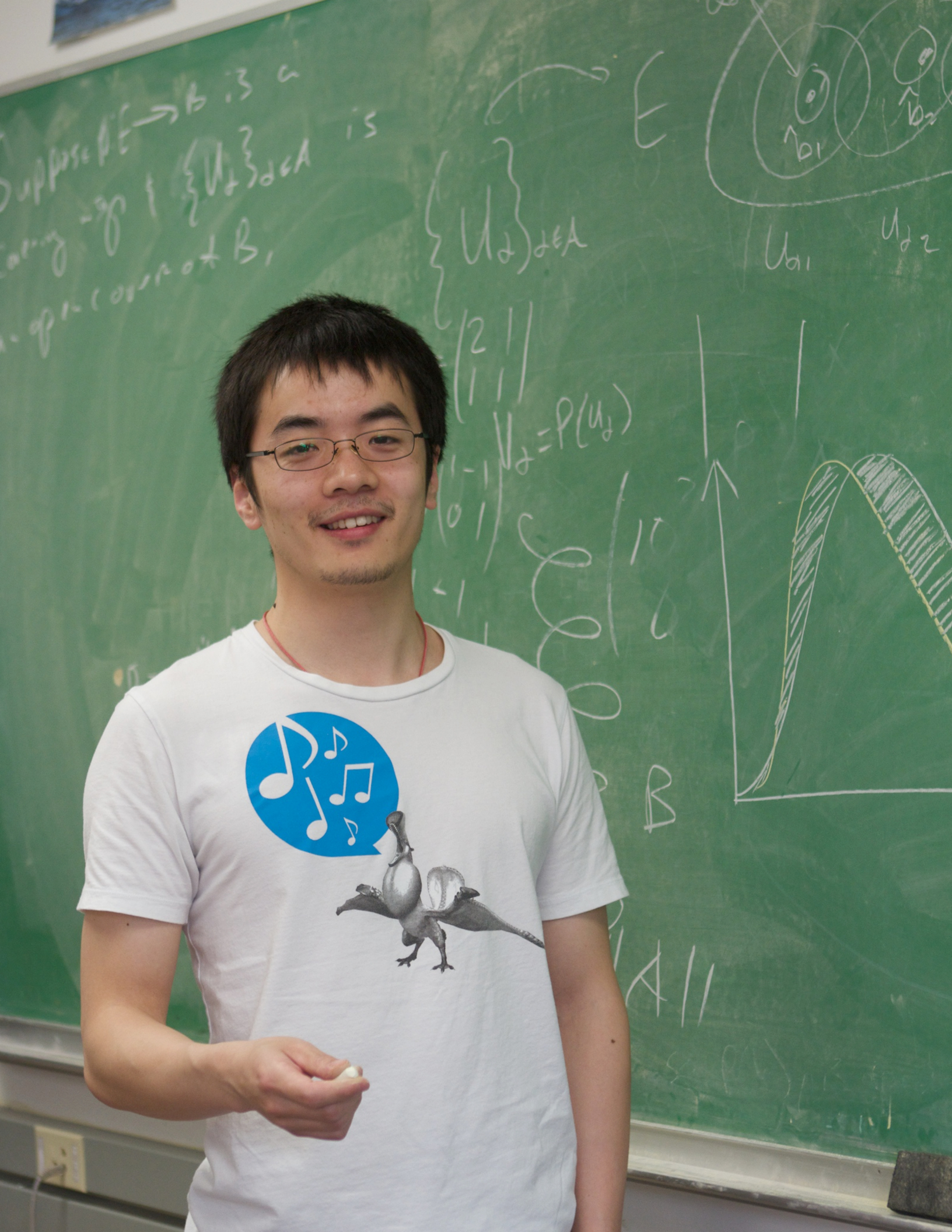


UNIVERSITY
of ALASKA

Many Traditions One Alaska

Annual Financial Report Fiscal Year 2013







University of Alaska
(A Component Unit of the State of Alaska)
Annual Financial Report
Fiscal Year 2013

Shaping Alaska's Future

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LETTER OF TRANSMITTAL

December 12, 2013

Board of Regents
University System of Alaska
910 Yukon Drive, Suite 202
Fairbanks, AK 99775

Dear Regents,

On behalf of President Gamble, I am pleased to present to you the Annual Financial Report of the University System of Alaska for the year ended June 30, 2013.

This report provides financial information regarding the System's operations during the year and presents its financial position at the end of the fiscal year.

Moss Adams, LLP, Certified Public Accountants, have performed the audit for the year ended June 30, 2013, and have issued an "unmodified" opinion, the most favorable outcome of the audit process. The audit opinion provides reasonable rather than absolute assurance that the financial statements are free of any material misstatements.

We have also received from Moss Adams, LLP, Single Audit Reports on federal awards in accordance with Government Auditing Standards and OMB Circular A-133.

Generally Accepted Accounting Principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion & Analysis. Accordingly this letter of transmittal should be read with that statement.

Additionally, on behalf of President Gamble, I am pleased to present to you the annual audited combined financial statements of the Education Trust of Alaska for the year ended June 30, 2013. PricewaterhouseCoopers, LLP, Certified Public Accountants, have issued an "unmodified" audit opinion on these statements.

Furthermore, for your review, I have also included the financial statements of the University of Alaska and the University of Alaska Foundation Consolidated Endowment Fund as well as the audited financial statements of the University of Alaska Foundation. These documents have been accepted by the University of Alaska Foundation's Board of Trustees. Both sets have received "unmodified" audit opinions from Moss Adams, LLP.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Ashok K. Roy', followed by a long horizontal flourish.

Ashok K. Roy, Ph.D., CIA, CBA
Vice President for Finance & Administration/ CFO
& Associate Professor of Business Administration



ST. JOHNS 5584 KM
NORTH POLE 2800 KM
WASHINGTON DC 5283 KM
HALIFAX 810 KM
WHITEHORSE 5367 KM
ST. LOUIS 4686 KM
MEXICO CITY 6100 KM
SAN FRANCISCO 3440 KM
NEW YORK 5257 KM
SEATTLE 2142 KM
OTTAWA 4741 KM
DAKAR 10255 KM
SINGAPORE 10731 KM
MOSCOW 6620 KM
VOSIBIRSK 6004 KM
6358 KM
5658 KM
17318 KM
12937 KM
7794 KM
8184 KM
8151 KM
806 KM
11131 KM
9484 KM





THE BOARD OF REGENTS

The University of Alaska Board Of Regents is an 11-member board, appointed by the Governor and confirmed by the Alaska Legislature. Members serve an eight year term, with the exception of the student regent who is nominated from his/her campus and serves a two year term.

The University of Alaska and the Board of Regents are established by the Constitution of the State of Alaska. The Board is responsible for the University of Alaska policy and management through the University President.

The Board oversees the University System of Alaska consisting of three separately accredited universities encompassing 16 campuses across Alaska. The University of Alaska serves a state twice the size of Texas. In Fall 2012, the University System of Alaska enrolled 33,581 students for credit, and employed 4,453 full-time employees and 4,212 part-time employees to provide teaching and related services to students and the communities in which they are located. The University System of Alaska maintains 400 buildings comprising \$6.7 million gross square feet, and has title to approximately 160,200 acres of land (educational property: 12,200 acres; investment property: 148,000). The University of Alaska at Fairbanks and the University of Alaska at Anchorage participate in three NCAA Division I teams, all other sports are NCAA Division II or multi-dimensional. Sports at the University of Alaska Southeast are recreational/intramural.

FY 2012

Full-time Equivalent (FTE) Enrollment:	19,390
Educational Appropriation per FTE :	\$11,909
Net Tuition Revenue per FTE:	\$ 4,545
Total Educational Revenue per FTE:	\$16,454





MEMBERS OF THE BOARD OF REGENTS:

Dale Anderson

Timothy Brady

Fuller A. Cowell

Courtney Enright

Kenneth J. Fisher

Jyotsna Heckman (Treasurer)

Mary K. Hughes

Patricia Jacobson (Chair)

Gloria O'Neill

Michael Powers (Secretary)

Kirk Wickersham (Vice Chair)

UNIVERSITY PRESIDENT:

Patrick K. Gamble





CHANCELLORS:

Brian Rogers, University of Alaska Fairbanks

Tom Case, University of Alaska Anchorage

John Pugh, University of Alaska Southeast

SYSTEM SENIOR FINANCE STAFF:

Myron Dosch, MBA, CPA

Wei Guo, M.Acc, CPA

James Lynch, BS, CPA, CGFM

Tamera Weaver, BBA, CPA

Nichole Pittman, BBA, CIA, CISA



Patrick Gamble, President
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UNIVERSITY
of ALASKA
Many Traditions One Alaska

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Fairbanks, AK 99775-5000

INTRODUCTION FROM THE PRESIDENT

Fiscal year 2013 has been marked by a combination of planning, analysis, change, and innovation as we set about implementing several major efforts across the University System of Alaska. Much like other public higher learning systems, the University faced a myriad of challenges such as concerns over college tuition and fee increases, student debt, student attainment and retention, creating incentives for expanding post-secondary access, investing in vocational and technical education, increasing value to students, productivity and efficiency, and incorporating rapidly evolving technologies. In the face of these challenges, our students, faculty, and staff continue to engage in remarkable work, transforming lives, and improving our state.

While we continue to steadfastly embrace the enduring value of a rigorous university education, as Alaska's public university we have an obligation to ensure that education remains affordable and accessible for all Alaskans. As a result, the breadth and quality of our core programs, the combination of moderate cost to students, and top academic quality continue to be essential to the task of attracting students from around the state and the nation. In the fall of 2012, we enrolled 33,581 students for credit, and our outstanding faculty continues to successfully vie for research funding that has become increasingly scarce and highly competitive.

With "smart growth" as the watchword, and anticipating a decade of tight money ahead, three concurrent priorities emerge that can position the University for success for the next five years: developing new revenue; lowering the UA cost structure; and enhancing both the real and perceived value of a UA education. As the details in this report will show, we are all about transforming the University System of Alaska for the 21st Century. It is a very exciting time for higher education across the nation and UA intends to be at the forefront of progress.

For the first time, our Annual Financial Report contains additional narratives on the very fine accomplishments by the three universities, the Strategic Direction Initiative (SDI), and some other select departments.

It is through the generous support of the state, the Board of Regents, and the dedication of our faculty and staff, that our continued financial success and stability will enable the University to journey into a bright institutional future.

Patrick K. Gamble
President





UNIVERSITY
of ALASKA
Many Traditions One Alaska

MESSAGE FROM THE VICE PRESIDENT FOR FINANCE &
ADMINISTRATION/CFO

It is my privilege to submit the University's annual financial report for the fiscal year ended June 30, 2013. I am proud to report that the University's financial health is strong as we make our way on our journey to fully serve our students and the state of Alaska.

Alaska's University is in transition. The University System's growth and progress are driving transformation across Alaska, and is a vital part of Alaska's economic future. The University of Alaska is delivering value and developing capabilities. We live in challenging times. And, challenges create opportunities to excel.

The fiscal year ending June 30, 2013, was a truly remarkable year for the University in terms of financial achievements and a banner year by virtually all financial performance measures.

State of Alaska general fund appropriation remains exceptional at 45% of revenues. Our annual debt service is modest at 2.9% of unrestricted revenues. Operating revenues increased by 1%. Overall, total operating expenses for the University increased by just 0.9% from the previous fiscal year, despite rising fixed costs and an ambitious agenda. A combination of factors allowed the University to grow its net position, a critical indicator of current financial health, by 16.6%.

It is, once again, a source of institutional pride to receive an "unmodified" opinion, the most favorable outcome of the audit process, from our independent financial auditors.

The Office of Naval Research, Department of the U.S. Navy, conducted an on-site Property Control System Analysis of the University. This comprehensive review is in accordance with FAR 45, and is conducted every other year. The audit is vital for continued funding for research and equipment purchases. We are pleased to report the University received the favorable rating of "compliant." A copy of this audit is distributed to all federal agencies (e.g., NASA, Army) that have awards to the University.

In the face of having to select from many competing priorities, which are often not susceptible to being met by simple answers or binary logic, the University successfully continued to strengthen its solid financial foundation. As a result of our efforts to keep our costs in line, our

credit ratings from Moody's Investor Service and Standard & Poor's remained strong at Aa2 and AA-, respectively. During the year, the University started construction of a new student dining facility at UAF via its first ever public-private partnership; continued construction of the new sports arena at UAA; broke ground on two new engineering buildings; completed work on a new Natural Sciences building, and also issued deferred maintenance and refunding bonds for \$31M (par amount).

Our continued development and effective sustainability depends on identifying and cultivating broader sources of revenues and finding more innovative approaches to manage expenses downward.

With "a thousand wonders to behold," for the first time I have added a section on the top accomplishments at the three universities and some departments.

It is also my privilege to submit the Education Trust of Alaska combined financial statements. The University and its partners (T. Rowe Price, John Hancock funds) can take pride in the quality of the program they have developed. The Education Trust of Alaska program is now one of the larger programs in the nation (portfolio \$5.4 Bn.), and ranks among the top programs of its type in terms of long-term performance.

It would be remiss of me not to thank President Patrick Gamble for his generous support in all our endeavors. My debt to President Gamble is exceeded only by my gratitude.

The preparation of this report could not have been accomplished without the professional and dedicated services of the staff of the System Finance department. In particular, I gratefully acknowledge Michelle Wood, Connie Hooper, Alex Amegashie, Vickie Gilligan, Elaine Main, Myron Dosch, Wei Guo, Nichole Pittman, James Lynch, Tamera Weaver and Susan Freel. My thanks are boundless.

A handwritten signature in dark ink, appearing to read 'Ashok K. Roy', followed by a long horizontal flourish line.

Ashok K. Roy, Ph.D., CIA, CBA
Vice President for Finance & Administration/ CFO
& Associate Professor of Business Administration







TOP CAMPUS AND DEPARTMENT ACCOMPLISHMENTS

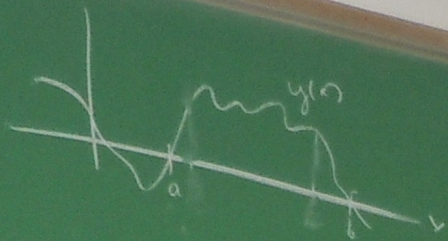
Shaping Alaska's Future

~ A Renaissance of Excellence ~

The University System of Alaska encompasses three separately accredited universities comprised of 16 campuses stretching from Ketchikan to Kotzebue serving 33,581 students. The University of Alaska serves a state twice the size of Texas.

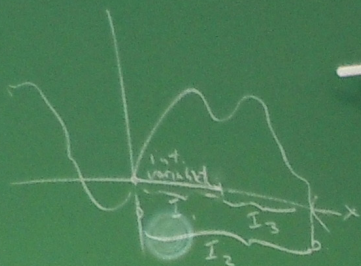
It is a very exciting time for higher education in Alaska as the list of accomplishments for FY2013 depict.

we take $y(a)=0$
 $y(b)=0$



le again
 equation

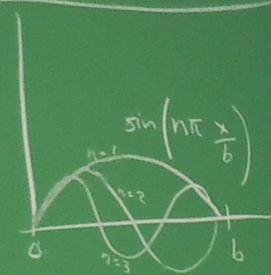
$y=0$ $y(0)=0$
 $y(b)=0$



once
 $y' = -\omega^2 \int_0^x y(t) dt + y'(0)$

$y = -\omega^2 \int_0^x \int_0^t y(t) dt dx + y'(0)x + y(0)$
 $\int_0^x (x-t)y(t) dt$

going to need



Now let $x \rightarrow b$

So that $y'(a)b = \omega^2 \int_0^b (b-t)y(t) dt$

Substitute back in $\star$

$= -\omega^2 \int_0^x (x-t)y(t) dt + x \omega^2 \int_0^b (b-t)y(t) dt$

$y(t) = \omega^2 \int_0^t \frac{t-s}{b} y(s) ds$

$K(x,t) = \begin{cases} \frac{t}{b}(b-x), & t \leq x \\ \frac{t}{b}(b-t), & t > x \end{cases}$

UNIVERSITY OF ALASKA FAIRBANKS (UAF)
(A Land Grant, Sea Grant, and Space Grant Institution)



GROWING STUDENT ACHIEVEMENT

UAF awarded 58 Ph.D.s, a new record for UAF, and twice the number awarded five years ago. The UAF Honors Program and Undergraduate Research and Scholarly Activity (URSA) Program grew significantly, enhancing baccalaureate program quality.

ENHANCING THE STUDENT EXPERIENCE

UAF completed the Sustainable Village, Nanook Terrain Park, UAF Climbing Wall, and renovations to the Student Recreation Center, and began construction of UA's first public-private-partnership, expanding the Wood Center Student Union and dining facility. All of the projects were or will be completed with private and student funds.

BUILDING RESEARCH STRENGTH

UAF launched the ice-capable Research Vessel *Sikuliaq*, the latest addition to the NSF UNOLS fleet. UAF will manage the ship on behalf of NSF as researchers conduct new oceanographic and fisheries research in the Arctic Ocean and the Bering Sea.

CONSTRUCTING FACILITIES ON TIME AND ON BUDGET

UAF completed the Margaret Murie Building for Life Sciences, extended the utilidor system, completed laboratories for the Alaska Center for Energy and Power and the Center for Alaska Native Health Research (in both Fairbanks and Bethel), completed a greenhouse for the School of Natural Resources & Agricultural Sciences, purchased and modified an airplane hangar for UAF's Community and Technical College, and started construction of a new Engineering facility.

TRANSFERRING TECHNOLOGY

UAF's Office of Intellectual Property Commercialization incorporated the non-profit Nanook Innovation Corporation, and its for-profit subsidiary, Nanook Tech Ventures, to commercialize UAF's intellectual property portfolio. Intellectual property disclosure activity has grown ten-fold above the average of the prior decade.



UNIVERSITY OF ALASKA ANCHORAGE (UAA)



CONSTRUCTION AND RENOVATION

Construction of UAA's new sports arena is on-time and on budget as the campus celebrates with the contractors the "topping out" milestone of that facility in May 2013. Additionally, UAA completed the first ever full building renovation and re-opened the science building as the *Natural Sciences Building* in January 2013. The renovation process involved recycling of 80% of the demolished material, which came to 106 tons.

NOTABLE NEW SCHOLARSHIP DONATIONS

Alaska Airlines created a new \$1M scholarship endowment with a preference for Alaskan student athletes. An individual private donor has provided a multi-million dollar bequest with a current \$500,000 cash gift to create both a first-generation scholarship and a Chancellor's discretionary fund to help keep Alaska's best and brightest students in Alaska.

ALASKA NATIVE STUDIES CONFERENCE

UAA organized and hosted its first-ever conference titled "Alaska Native Studies in the 21st Century: Transforming the University." More than 300 attendees from around the state participated in three days of lectures, group sessions, events and celebrations on campus and in the Anchorage community.

SEAWOLF HOLDINGS, INC.

UAA formed a corporation called Seawolf Holdings, Inc. and a subsidiary Seawolf Venture Fund LP to provide early state investment for startups and support entrepreneurial and innovative research. In April, UAA launched its first start-up company under this structure, called Zensor that offers a new generation of wireless sensors for use in remote monitoring, asset management, surveillance and security.

MILITARY STUDENT EXPERIENCE

UAA opens its Military and Veteran Student Resource Center this summer and celebrates the arrival of the VetSuccess on Campus program. Additionally, UAA received the Military Friendly School designation for the fourth year in a row.

INSTITUTIONAL ALUMNI RELATIONS

After an intensive investigation, goal setting and implementation process for alumni relations, UAA launched its new alumni association and installed eight new alumni leaders on the alumni association board of directors. The intent of the new organization is to more effectively engage UAA's more than 43,000 alumni in the life of the University through enhanced communications, chapter development and meaningful events and activities.



UNIVERSITY OF ALASKA SOUTHEAST (UAS)



INCREASED ITS GRADUATES BY 16% BETWEEN 2011 and 2012

UAS increased its endorsement, certificate, and degree awards to 543 in 2012, more than double the number (204) in 1998. Awards in 2013 are expected to exceed those in 2012. About half of all awards are master's degrees focusing on teacher education, business management, and public administration.

EXPANDING eLEARNING DEGREE OPTIONS

UAS continues to be a leader in expanding eLearning degree opportunities for students. In AY2013, UAS offered 42 degrees, endorsements, and certificates largely or entirely by eLearning. An additional 40 programs were offered in blended or hybrid delivery, combining face-to-face instruction with eLearning. Students recently highlighted access to fully online programs as a major attraction of UAS offerings. Over 40% of UAS students are enrolled primarily through eLearning.

ENHANCING ACADEMIC RIGOR

UAS faculty continues to focus on increasing academic rigor in all of our programs. We've instituted a new Honors Program and also created new Undergraduate Research and Creative Expression (URECA) award program to encourage academic excellence. In the past two years, 12 students completed and made public presentations about exceptional URECA research and artistic projects developed with support of a faculty mentor. UAS continues to conduct regular Program Reviews, required by the Board of Regents at least every five years. These have led to significant improvements as well as decisions to eliminate certain under-performing programs.

FOCUS ON HIGH-DEMAND OCCUPATIONS

Our UAS mission focuses on community engagement, to include producing graduates who can contribute to Alaska's economy and society. In FY12, 86% percent of all graduates received degrees in high demand fields—an increase of 8% over the previous year. In partnership with industry, UAS continues to develop targeted workforce programs—including the mine mechanic and fisheries technology degrees.

IMPROVED ADVISING FOR ACADEMIC SUCCESS

With funds recently provided for additional advising, UAS has expanded its academic and career services advising. UAS is providing incentives for students to 'stay on track'—including inducements to increase the number of credits taken and to complete degrees more quickly. Faculty and advisors are identifying students who struggle through an early alert system and are providing intrusive advising to get students back on track. UAS continues to encourage students to participate in internships, practicum experiences, field courses, and study abroad—all of which add value to their education and promote student success.



INFORMATION TECHNOLOGY

During FY13, Information Technology (IT) streamlined access to many electronic systems by consolidating and leveraging a single UA credential. This has reduced complexity and improved service to students, staff and faculty. IT also solidified a cooperative project among all campuses to unify all windows active directory instances again reducing complexity and leveraging system wide identities and policies. A unified Electronic Emergency notification system has provided a comprehensive approach that allows for centralized and distributed alerts to all UA students, staff and faculty. Further, course management systems across all three universities were standardized on the Blackboard Learn system, providing a more consistent interface and platform for students taking courses from multiple campuses. A power management project to reduce overall power consumption by desktop computers allowed the UAF campus to avoid \$131,000 in power generation costs and avoid 791,586 lbs. of CO₂ production.

RECORDS & INFORMATION MANAGEMENT

Digitally managed and stored 6,000,000 university records in the OnBase system versus hard copy in filing cabinets. Digitizing increases efficiency and security for records, saving cost of paper, folders, filing cabinets, and freeing up 2,400 cubic feet of office space. In conjunction with Student Enrollment Services initiated development of an automated transcript processing solution to provide faster transcript processing and credit evaluation. Finalized and published records and information retention and disposition schedules for cash management, fund accounting, and risk services.

Coordinated with an out-of-state donor for the donation of a large collection of out-of-print books from the Alaska Northwest Publishing. The Polar Regions Bibliographer at UAF and the head of Alaska Historical Collections in Juneau received the books. Some of the books are being considered for display in the governor's mansion.

The University is in compliance with and did not have any incidents of student or employee identity theft. This complies with the annual reporting requirements in the Board of Regents' approved Identity Theft Prevention Program pursuant to the Federal Trade Commission Red Flag Rule.

AUDIT & CONSULTING SERVICES

The Audit & Consulting Services department emphasized follow-up auditing in FY13 to reduce the backlog of prior audit recommendations. Electronic work paper system was used to gain efficiency, and revisions to the timing of the follow-up audit efforts to minimize backlog from occurring. University's processes for reporting fraud and ethical misconduct reporting were reviewed, as well as best practices and benchmarking against peers institutions. As part of quality assurance and improvement, a customer survey can be found on the recently revised website, <http://www.alaska.edu/audit/>, along with FAQ's.

ACADEMIC AFFAIRS

\$4.8 million was distributed in workforce development and technical education programs within UA through the Technical Vocational Education Program. The Stay on Track program helped increase by 11% the number of students taking 15 or more credits.

Pursuant to a program review, it was decided to eliminate the Corporate Programs unit. The Center for Creative Leadership completed training and assessments for 85 executives and staff.

EDUCATION TRUST OF ALASKA

The Education Trust of Alaska continues to be one of the leading college savings programs in the country. As of June 30, 2013 the Trust had approximately \$5.4 billion under management. The Trust's T. Rowe Price College Savings Plan is one of the three top performing plans in the country based on risk adjusted returns and was one of only four plans to achieve a Gold rating by Morningstar last year. A version of this plan is marketed in Alaska by the Trust as the University of Alaska College Savings Plan. As of June 30, 2013 more than 13,000 Alaskans have signed up for the PFD College Savings Check-Off this year. The Trust also entered into its first partnership with a native corporation, the Huna Totem Native Corporation, to allow its shareholders to automatically contribute their native corporation dividends to the college savings program.

UA SCHOLARS PROGRAM

The UA Scholars Program had another successful year and enrolled 439 new scholars: 255 at UAA, 143 at UAF, and 41 at UAS. The program has helped support 6,218 Alaskan students in their education goals since its inception in 1999. UA Scholars Program for first-time, full-time bachelor degree seeking freshmen led the UA system this year with the highest level of retention at 85.4% returning to the UA system. The University honored its new class of scholars with receptions at each of the main campuses and the publication of a circular citing each of their names along with a message from President Gamble in every major newspaper in Alaska and on the University of Alaska website at <http://www.alaska.edu/scholars/ScholarsInsert2013.pdf>.

PROCUREMENT

Procurement has made great progress during this past year in streamlining its electronic solicitation distribution processes and digitizing procurement files; in training and certifying personnel in high-volume end user departments to process many of their own procurements.

STRATEGIC DIRECTION INITIATIVE / SHAPING ALASKA'S FUTURE

The University of Alaska's Strategic Direction Initiative, (SDI) is now operating at Phase III (final phase) of evaluating and transforming the University's work agenda. Phase III of SDI brings the University to the stage when the work associated with the five overall themes actually begins to take place.

Deans and directors meetings were held at each of the three universities to ensure that every level of the organization has been engaged in SDI planning. Community campus directors joined the planning effort, and a summary planning meeting with university academic leadership was held on May 31 to include the final round of group inputs to the process.

Chancellors are reviewing Effect Statements, reflecting the desirable outcomes that we are working toward within the SDI Themes. Projects related to student success, student achievement and attainment, teacher education, greater course transferability, and a more robust e-learning programs are some of the early stage work efforts that are already underway. In addition, the SDI team continues to meet with the legislature, governance groups, local conferences, and community leaders to continue bringing forward ideas and suggestions for advancing continuous improvement system wide.

UNIVERSITY OF ALASKA FOUNDATION

The University of Alaska Foundation is a nonprofit corporation, operated as a public charity. It supports the MAUs in their development efforts through its mission to seek, secure and steward philanthropic support to build excellence at the University of Alaska.

In FY13 donors contributed \$14.5 million to the University of Alaska Foundation.

One notable in-kind gift was the donation of two FedEx Boeing 727 jets that will be used for hands-on learning by the aviation maintenance students at UAA and UAF.

In FY13, Icycle Seafoods exceeded \$1 million in cumulative giving to campuses and programs across Alaska.

The Foundation transferred \$16 million to the University in support of scholarships, programs and capital projects. Due to the generosity of donors past and present, the Foundation has transferred \$215.7 million in spendable funds to the University over the past 30 years.

RESEARCH

BUILDING RESEARCH CAPACITY IN A CHANGING ENVIRONMENT -- UAF

Recent cuts in and increased competition for research funding have created a significant challenge for research universities across the country. UAF is aggressively and successfully addressing this challenge through a number of different approaches resulting in no net loss of research funding through the third quarter of this last year when compared to last year. Measured against its peer institutions, UAF is near the top of the range for citations/publications and has the highest dollars in sponsored research per faculty member. UAF researchers have continued to work on a broad spectrum of subjects ranging from applied short term projects to long term theoretical research. UAF has been very active in submitting Arctic focused interdisciplinary research proposals that will directly benefit and engage Alaska's rural communities, build on national far north priorities and support sustainable economic development in Alaska.

UAF continues to build its reputation as a recognized national leader in climate change and oil spill research and continues to build out its capacity in remote sensing with the formation of the new Alaska Center for Unmanned Aircraft System Integration which now operates more than nine types of unmanned aerial systems with more than 70 total operational vehicles. Other highlights included the launch of the global-class ice capable research vessel Sikulaq, increased collaborative research with Alaska State agencies (including the Alaska Energy Authority, Department of Natural Resources, Department of Fish and Game, and the Department of Commerce and Economic Development), significant advancements in the commercialization of intellectual property through OPIC, the successful first year implementation of the new Statewide NSF EPSCoR cooperative agreement, a dramatic increase in funding for and engagement in undergraduate research through the two-year old Office of Undergraduate Research and Scholarly Activity, and finally a doubling of PhD degrees being granted between 2006-2012.

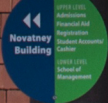
UAF has been able to maintain this robust research portfolio through the dedication of its faculty which continues to submit very competitive and well integrated proposals, through strong working relationships between institute directors, deans, and administrators, and through the development and strengthening of external partnership relations and institutional investment.

PUBLIC AFFAIRS

Statewide Public Affairs started a monthly outreach campaign in April of 2013 tied closely with President Gamble's Shaping Alaska's Future initiative. Each month, Public Affairs works collaboratively across the system to get the good news out about many of the positive stories happening at our universities and campuses across the state. Some of the monthly themes touch on challenges facing higher education, which UA is working diligently to address, while others are more celebratory in nature, highlighting achievements.

This low-cost public relations effort uses both traditional and non-traditional media including press releases; newspaper opinion columns; appearances of UA leaders on local and statewide media; and heavy use of social media, including Facebook, Twitter and YouTube; as well as other methods. Outreach topics have included teacher preparation, graduation, an update on Shaping Alaska's Future, the increase in credit hours by full-time students and affordability.

Welcome
UNIVERSITY OF ALASKA SOUTHEAST







UNIVERSITY
of ALASKA
Many Traditions One Alaska

Management Responsibility for Financial Statements

December 12, 2013

The management of the University System of Alaska is responsible for the preparation, integrity, and fair presentation of the financial statements which have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on judgments and estimates by management.

The University System of Alaska believes that all representations made to the independent auditors during their audit were valid and appropriate. Moss Adams' audit opinion is presented in this Report.

The University System of Alaska maintains a system of internal controls over financial reporting, which is designed to provide reasonable assurance to the University's management and the Board of Regents regarding the preparation of reliable published financial statements. Such controls are maintained by the establishments and communication of accounting and financial policies and procedures, by the selection and training of qualified personnel, and by an internal audit program designed to identify internal control weakness in order to permit management to take appropriate corrective action on a timely basis. There are, however, inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention of controls.

The Board of Regents, through its Audit Committee, is responsible for engaging the independent auditors and meeting regularly with management, internal audit, and the independent auditors to ensure that each is carrying out their responsibilities and to discuss auditing, internal control, and financial reporting matters. Both internal auditors and the independent auditors have full and free access to the Audit Committee.

Based on the above, I certify that the information contained in the accompanying financial statements fairly presents, in all material aspects, the financial condition of the University System of Alaska.

Ashok K. Roy, Ph.D., CIA, CBA
Vice President for Finance & Administration/ CFO
& Associate Professor of Business Administration





UNIVERSITY
of ALASKA

Many Traditions One Alaska

University of Alaska Financial Statements

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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, 2013 (2013) and June 30, 2012 (2012), with selected comparative information for the year ended June 30, 2011 (2011). 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 Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows. These statements are prepared in accordance with generally accepted accounting principles (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 position categories – unrestricted, restricted, and net investment in capital assets.

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 Position

The Statement of Net Position presents the financial position of the University at the end of the fiscal year and includes all assets, deferred outflows, liabilities and deferred inflows of the University. The net position is one indicator of the financial condition of the University, while

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

the change in net position 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 position at June 30, 2013, 2012 and 2011 follows (\$ in thousands):

	2013	2012	2011
Assets:			
Current Assets	\$ 143,039	\$ 157,492	\$ 166,984
Other noncurrent assets	336,078	296,779	238,581
Capital assets, net of depreciation	1,324,208	1,097,258	952,898
Total assets	<u>1,803,325</u>	<u>1,551,529</u>	<u>1,358,463</u>
Liabilities:			
Current liabilities	120,515	115,298	115,212
Noncurrent liabilities	194,936	159,863	120,630
Total liabilities	<u>315,451</u>	<u>275,161</u>	<u>235,842</u>
Net position:			
Net investment in capital assets	1,120,771	931,674	835,564
Restricted – expendable	78,443	74,102	30,825
Restricted – nonexpendable	131,365	130,513	129,317
Unrestricted	157,295	140,079	126,915
Total net position	<u>\$1,487,874</u>	<u>\$1,276,368</u>	<u>\$1,122,621</u>

Overall, total net position of the University increased \$211.5 million, or 16.6 percent. This increase was mainly due to a \$189.1 million increase in the net investment in capital assets. The change in net investment in capital assets is discussed in more detail in the *Capital and Debt Activities* section below. The unrestricted net position totaled \$157.3 million at June 30, 2013, representing an increase of \$17.2 million over the prior year. At year end, \$134.3 million was designated for specific purposes. See Note 7 of the financial statements for a detailed list of these designations.

Total operating cash and investments were \$124.6 million at June 30, 2013 compared to \$125.6 million at June 30, 2012. This portfolio consists primarily of bank deposits, money market mutual funds and fixed income securities that are held to maturity to match liquidity needs. The fixed income securities comprised 46 percent, or \$57.3 million, of total operating cash and investments at June 30, 2013. The money market mutual funds were \$43.4 million, or 35 percent of the total. Note 2 of the financial statements provides more information about deposits and investments and associated risks.

Other noncurrent assets increased from \$296.8 million at June 30, 2012, to \$336.1 million at June 30, 2013. The change was primarily due to increases in the endowment value stemming from a 10 percent total return on endowment investments. In addition, the University bought two

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

buildings in Anchorage that are being held as endowment investment property, included in the Statement of Net Position in Land Grant Trust property and other endowment assets.

Total liabilities are categorized as either current liabilities or noncurrent liabilities on the Statement of Net Position. 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, amounts due in the next year on debt, and student deposits. Noncurrent liabilities are comprised mostly of long-term debt. Total liabilities increased \$40.6 million during 2013 to a total of \$315.7 million primarily as a result of new debt issued and a long term capital lease entered into during the year.

Total debt outstanding, which includes capital lease obligations, increased from \$163.3 million at June 30, 2012 to \$201.6 million at June 30, 2013. The increase was a result of a new general revenue bond issuance, 2013 Series S, plus the Fairbanks campus entered into a long term capital lease for a new dining facility. The 2013 Series S bonds provide funding for numerous deferred maintenance projects throughout the state. In addition, the bonds refunded previously issued debt, providing debt service savings. More information is available in the *Capital and Debt Activities* section that follows.

Fiscal Year 2012 Comparisons (Statement of Net Position)

Significant comments about changes between 2011 and 2012 that were noted in fiscal year 2012 *Management's Discussion and Analysis* are summarized below:

The Statement of Net Position reflected an overall increase in net position of 13.7 percent, or \$153.7 million. Most of this change, or \$96.1 million, is attributed to the increase in the net investment in capital assets.

Total debt outstanding increased from \$114.5 million at June 30, 2011 to \$163.3 million at June 30, 2012 as a result of a \$48.9 million general revenue bond issuance, 2011 Series Q. The bonds provided funding for the Fairbanks campus Margaret Murie Life Sciences facility, numerous deferred maintenance projects and a food service project on the Juneau campus. In addition, previously issued bonds were refunded during the year, providing debt service savings.

Unrestricted net position totaled \$140.1 million at June 30, 2012, representing an increase of \$13.2 million over the prior year. At June 30, 2012, \$120.1 million was designated for specific purposes.

Statement of Revenues, Expenses and Changes in Net Position

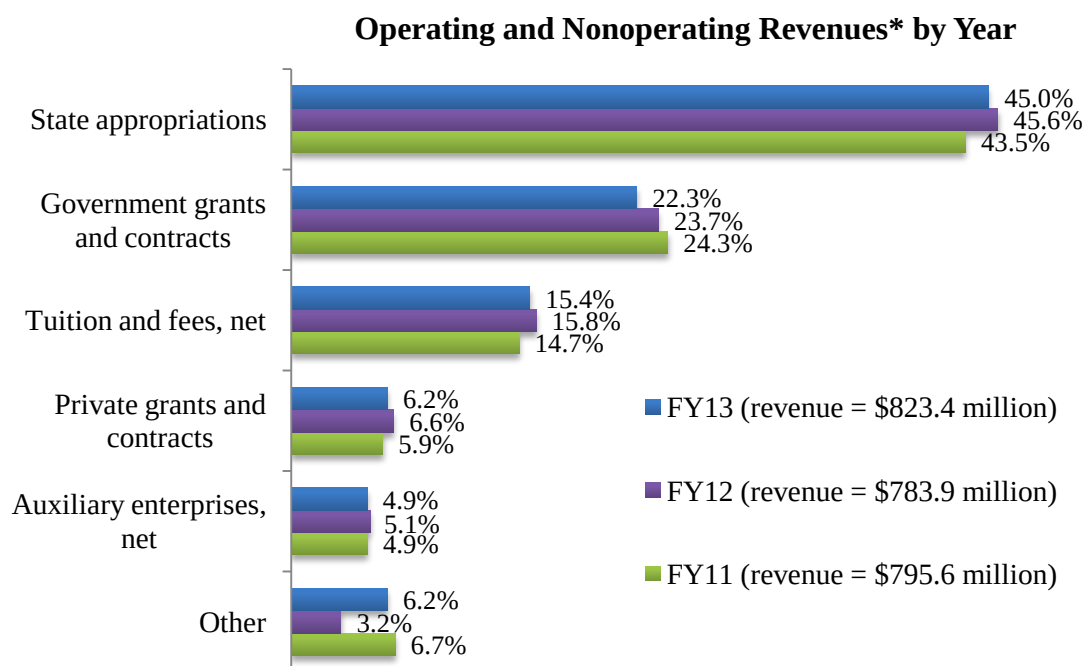
The Statement of Revenues, Expenses and Changes in Net Position presents the results of operations for the University as a whole. Revenues, expenses and other changes in net position are reported as either operating or non-operating. Significant recurring sources of University

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

revenue, such as state appropriations and investment earnings, are defined by GASB Statement No. 35 as non-operating.

A summarized comparison of the University's revenues, expenses and changes in net position for the years ended June 30, 2013, 2012 and 2011 follows (\$ in thousands):

	2013	2012	2011
Operating revenues	\$ 397,145	\$ 393,374	\$ 397,565
Operating expenses	(827,144)	(820,059)	(796,238)
Operating loss	(429,999)	(426,685)	(398,673)
Net nonoperating revenues	449,696	409,153	413,653
Gain (Loss) before other revenues, expenses, gains, or losses	19,697	(17,532)	14,980
Other revenues, expenses, gains or losses	191,809	171,279	117,779
Increase in net position	211,506	153,747	132,759
Net position at beginning of year	1,276,368	1,122,621	989,862
Net position at end of year	<u>\$1,487,874</u>	<u>\$1,276,368</u>	<u>\$1,122,621</u>



* Excludes capital appropriation and grant revenue, and state on-behalf payments for pension

The Statement of Revenues, Expenses and Changes in Net Position reflects an overall increase in net position of 16.6 percent, or \$211.5 million. Major changes in revenues and expenses in 2013 are described below.

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

State of Alaska general fund appropriations continue to be the single major source of revenue for the University, providing \$371.1 million in 2013, as compared to \$358.4 million in 2012. The appropriations are substantially aimed to fund a portion of the operations, and in some cases are targeted for special programs or initiatives. In addition, the state made on-behalf pension payments of \$33 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 University's employer contribution rate to fully fund the plans at the actuarial computed rate. The University's employer contribution rates have been capped at 22 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*.

Gross student tuition and fee revenue totaled \$141.9 million in 2013 as compared to \$138.5 million in 2012. The increase was primarily due to Fall 2012 tuition rate increases of seven percent for undergraduate courses and three percent for graduate courses. An overall enrollment decline from Fall 2011 to Fall 2012 of approximately two percent offset the tuition rate increases.

Grant and contract revenue from sponsors totaled \$208.2 million for 2013, as compared to \$210.5 million in the prior year. The University receives grant funding from a diverse group of federal agencies, the State of Alaska, and private sponsors, including the University of Alaska Foundation. Generally, grant revenue is recorded when expenditures of the grant award occur, so the revenue reported in the financial statements reflects the amount expended in the applicable fiscal year. Grants provide funding primarily for research projects, instructional programs, public service activities and student aid.

Capital appropriations and capital grant and contract revenue increased from \$170.0 million in 2012 to \$191.9 million in 2013. This revenue category consists mostly of funds appropriated from the State of Alaska's capital budget or from general obligation bonds issued by the State of Alaska for University capital projects. For a more detailed discussion on capital activity, see the *Capital and Debt Activities* section which follows.

Endowment proceeds and investment income totaled \$19 million in 2013 as compared to \$1.8 million in 2012, primarily as a result better market conditions and a gain on the sale of a building that was held by the endowment as investment property. Total return in 2013 from the consolidated endowment fund was 10 percent as compared to 0.9 percent in the prior year. Endowment proceeds 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.

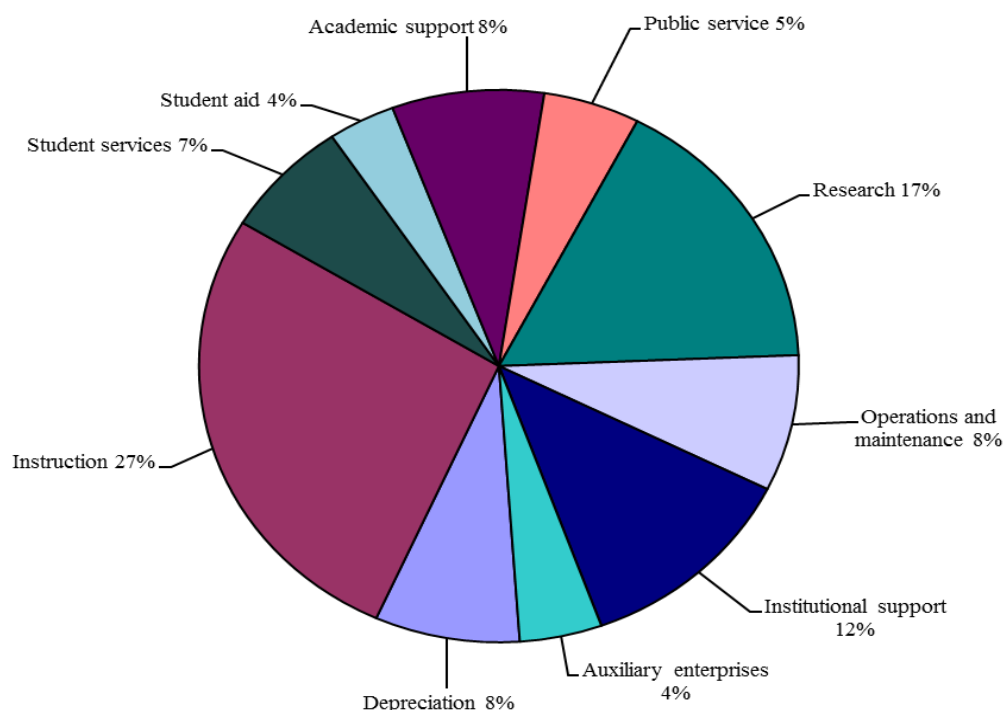
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

A comparison of operating expenses by functional and natural classification for selected fiscal years follows (see Note 18 of the financial statements for more information):

	Operating Expenses*					
	Functional Classification (\$ in millions)					
	FY2013		FY2012		FY2011	
Instruction	\$ 214.2	27.1%	\$ 213.2	26.9%	\$ 210.7	27.2%
Student Services	54.9	6.9%	53.1	6.7%	52.2	6.7%
Student Aid	28.8	3.6%	28.5	3.6%	27.3	3.6%
Academic Support	65.1	8.2%	65.2	8.2%	61.5	8.0%
Student and Academic	363.0	45.8%	360.0	45.4%	351.7	45.5%
Research	132.9	16.7%	135.9	17.2%	140.4	18.1%
Public Service	41.4	5.2%	38.8	4.9%	37.5	4.8%
Auxiliary Enterprises	35.3	4.4%	38.3	4.8%	37.9	4.9%
Institutional Support	96.1	12.1%	95.4	12.0%	86.9	11.2%
Operations and Maintenance	63.4	8.0%	65.5	8.3%	62.8	8.1%
Depreciation	62.1	7.8%	58.4	7.4%	57.2	7.4%
Total Operating Expenses	<u>\$ 794.2</u>	<u>100.0%</u>	<u>\$ 792.3</u>	<u>100.0%</u>	<u>\$ 774.4</u>	<u>100.0%</u>

* Does not include On-Behalf payments made by State of Alaska for pension

**Fiscal Year 2013
Functional Classification**

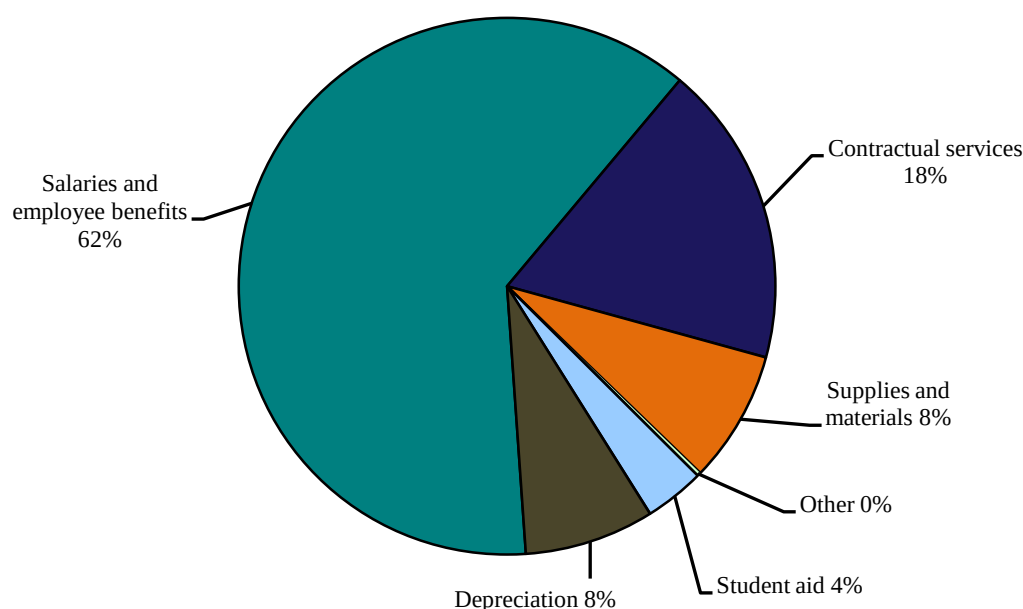


MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

	Operating Expenses*					
	Natural Classification (\$ in millions)					
	FY2013		FY2012		FY2011	
Salaries and benefits	\$ 494.1	62.2%	\$ 490.6	61.9%	\$ 485.6	62.7%
Contractual services	144.3	18.2%	144.4	18.2%	141.2	18.2%
Supplies and materials	63.2	8.0%	65.6	8.3%	60.4	7.8%
Student Aid	28.8	3.6%	28.5	3.6%	27.2	3.5%
Depreciation	62.1	7.8%	58.4	7.4%	57.2	7.4%
Other	1.7	0.2%	4.8	0.6%	2.8	0.4%
Total Operating Expenses	<u>\$ 794.2</u>	<u>100.0%</u>	<u>\$ 792.3</u>	<u>100.0%</u>	<u>\$ 774.4</u>	<u>100.0%</u>

* Does not include On-Behalf payments made by State of Alaska for pension

**Fiscal Year 2013
Natural Classification**



Total operating expenses increased only 0.2 percent in 2013 as compared to 2.3 percent in 2012. Expenditures related to the student and academic core mission, about 46 percent of all expenditures, showed a \$3 million increase in 2013. For the same period, expenditures for research decreased \$3 million, primarily a result of the tapering off of available American Recovery and Reinvestment Act funds and competitive pressures on grant monies. Amounts expended for institutional support and the operations and maintenance of facilities remained stable as compared to 2012.

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

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. Scholarship allowances totaled \$14.8 million in 2013 and \$14.6 million in 2012. 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 Statements of Cash Flows as direct lending receipts totaling \$83.9 million and \$87.5 million in 2013 and 2012, respectively.

Fiscal Year 2012 Comparisons (Statement of Revenues, Expenses and Changes in Net Position)

Significant comments about changes between 2011 and 2012 that were noted in fiscal year 2012 *Management's Discussion and Analysis* are summarized below:

The Statement of Revenues, Expenses and Changes in Net Position reflected an overall increase in net position of 13.7 percent, or \$153.7 million.

Gross student tuition and fee revenue totaled \$138.5 million in 2012 as compared to \$130.5 million in 2011. The increase was primarily due to fall 2011 tuition rate increases of five percent for 100 to 200 level courses and 10 percent for 300 to 400 level courses.

Salaries and employee benefits increased one percent, or \$5 million, in 2012, which represents less of an increase than experienced in recent years. The relatively modest growth can be attributed to a combination of savings from vacancies and management efforts to minimize overall headcount growth.

Capital appropriations and capital grant and contract revenue increased from \$117.8 million in 2011 to \$170.0 million in 2012. A significant portion of the increase includes \$64.4 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.

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 \$275.1 million in 2013, as compared with \$191.3 million in 2012 and \$136.7 million in 2011. These capital additions primarily comprise replacement, renovation, code corrections and new construction of academic and research facilities, as well as investments in equipment and information technology. State capital appropriations for 2013 and 2012 were \$154.9 million and \$79.5 million, respectively. Major components of the 2013 appropriation included \$58.6 million for the Anchorage campus engineering building, and \$46.3 million for the Fairbanks engineering building. Plus, \$37.5 million was provided for numerous high-priority deferred maintenance projects throughout the

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

University system. The 2012 appropriation included \$37.5 million for deferred maintenance and \$34.0 million for partial funding of the University of Alaska Anchorage Community Sports Arena.

Construction in progress at June 30, 2013 totaled \$402.2 million and includes the following major projects:

Construction of a new sports arena on the Anchorage campus is underway. This 196,000 square foot multi-use facility will house a 5,000 seat performance gymnasium for basketball and volleyball, plus supporting space for other athletic activities. The project cost of \$109 million is funded from State of Alaska capital appropriations and general obligation bonds. Expected occupancy date is July 2014.

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 261 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 in operation in calendar year 2014.

New engineering buildings are underway at both the Fairbanks and Anchorage campuses, to meet the engineering workforce demands of the state and modernize the classroom instruction experience. To date, the buildings have been funded by State of Alaska capital appropriations. Expected occupancy date is fall 2015.

At June 30, 2013, \$276.4 million remains unexpended from current and prior year capital appropriations and general revenue bond proceeds, of which \$169.8 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 and Capital Leases

At June 30, 2013, total debt outstanding, including capital leases, totaled \$201.6 million. The University traditionally issues general revenue bond debt, and secures the repayment via a master trust indenture with a broad pledge of university receipts.

In fiscal year 2013, the University issued general revenue and refunding bonds 2013 Series S with a par amount of \$31,020,000 and a 22 year term. The bonds funded numerous deferred maintenance projects and refunded substantially all maturities of 2003 Series L, 2004 Series M and 2005 Series N general revenue bonds. The economic gain from the refunding is \$782,516 in present value and total debt service payments are reduced by \$938,706 over the life of the bonds. The University also defeased \$1,540,000 of 2009 Series P general revenue bonds maturing through October 1, 2007 by contributing cash to an escrow account held by a trustee.

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

In fiscal year 2013, the University entered into a long term lease agreement with Community Properties of Alaska, Inc. (CPA), an Alaska non-profit corporation, to lease a new student dining facility on the University of Alaska Fairbanks Campus. CPA will build the student dining facility using proceeds from its Lease Revenue Bonds 2012. Expected occupancy is fall 2014. At June 30, 2013, the present value of the minimum lease payments is approximately \$25 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 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, deferred maintenance projects, 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 February 2013.

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

The State of Alaska appropriated \$62.6 million to the University for fiscal year 2014 via its capital budget. The appropriations include \$30 million designated for deferred maintenance needs across the University system. This funding is the fourth installment of a five year deferred maintenance program instituted by the Governor. The appropriations also include \$30 million for engineering buildings construction and renovation at the Anchorage and Fairbanks campuses. The remaining \$2.6 million are for other smaller projects.

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 or results of operations of the University.

In fiscal year 2014, the University may issue as much as \$14 million in new debt for reimbursement of expenditures incurred in connection with buildings purchased in fiscal year 2013. In addition, the University may issue \$10 million in new debt to support the construction of a new engineering building on the Fairbanks campus.

REPORT OF INDEPENDENT AUDITORS

The Board of Regents
University of Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of the University of Alaska (University) and its discretely presented component unit, University of Alaska Foundation, Inc., as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

REPORT OF INDEPENDENT AUDITORS (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University and its discretely present component unit as of June 30, 2013, and changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the University and its discretely presented component unit as of June 30, 2012, were audited by other auditors whose report dated October 23, 2012, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 18.1 through 18.10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The image shows a handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Spokane, Washington
October 17, 2013

UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Net Position
June 30, 2013 and 2012
(in thousands)

Assets	2013	2012
Current assets:		
Cash and cash equivalents	\$ 40,231	\$ 36,829
Short-term investments	22,668	38,575
Accounts receivable, less allowance of \$4,396 in 2013 and \$4,311 in 2012	73,308	74,989
Inventories	6,399	6,573
Other assets	433	526
Total current assets	<u>143,039</u>	<u>157,492</u>
Noncurrent assets:		
Restricted cash and cash equivalents	8,751	2,951
Notes receivable	2,739	2,948
Bond funds held with trustee	51,099	52,375
Endowment investments	136,679	127,223
Land Grant Trust property and other endowment assets	62,885	46,224
Long-term investments	58,795	51,726
Education Trust of Alaska investments	15,130	13,332
Capital assets, net of accumulated depreciation of \$902,409 in 2013 and \$854,305 in 2012	1,324,208	1,097,258
Total noncurrent assets	<u>1,660,286</u>	<u>1,394,037</u>
Total assets	<u>1,803,325</u>	<u>1,551,529</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	38,983	31,266
Accrued payroll and annual leave	36,132	33,990
Unearned revenue and deposits	18,923	24,856
Unearned lease revenue - current portion	961	1,281
Long-term debt - current portion	11,164	9,633
Insurance and risk management	14,352	14,272
Total current liabilities	<u>120,515</u>	<u>115,298</u>
Noncurrent liabilities:		
Unearned lease revenue	-	961
Long-term debt	165,464	153,669
Capital lease obligation	24,953	-
Other noncurrent liabilities	4,519	5,233
Total noncurrent liabilities	<u>194,936</u>	<u>159,863</u>
Total liabilities	<u>315,451</u>	<u>275,161</u>
Net Position		
Net investment in capital assets	1,120,771	931,674
Restricted:		
Expendable	78,443	74,102
Nonexpendable	131,365	130,513
Unrestricted	157,295	140,079
Total net position	<u>\$ 1,487,874</u>	<u>\$ 1,276,368</u>

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, 2013 and 2012
(in thousands)

Assets	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 21,609	\$ 23,956
Interest receivable	95	114
Contributions receivable, net	8,589	8,432
Remainder trusts receivable	2,028	1,486
Escrows receivable	176	259
Installment contracts receivable	152	168
Inventory	56	57
Other assets	762	762
Pooled endowment funds	151,728	137,819
Other long-term investments	24,879	24,471
	<u>210,074</u>	<u>197,524</u>
Total assets	<u>\$ 210,074</u>	<u>\$ 197,524</u>
 Liabilities		
Due to the University of Alaska	\$ 2,244	\$ 2,152
Other liabilities	239	260
Split interest obligations	302	309
Term endowment liability	1,000	1,000
	<u>3,785</u>	<u>3,721</u>
Total liabilities	<u>3,785</u>	<u>3,721</u>
 Net Assets		
Unrestricted	24,991	23,592
Temporarily restricted	85,444	78,014
Permanently restricted	95,854	92,197
	<u>206,289</u>	<u>193,803</u>
Total net assets	<u>206,289</u>	<u>193,803</u>
	<u>\$ 210,074</u>	<u>\$ 197,524</u>
Total liabilities and net assets	<u>\$ 210,074</u>	<u>\$ 197,524</u>

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 Position
For the Years Ended June 30, 2013 and 2012
(in thousands)

	2013	2012
Operating revenues		
Student tuition and fees	\$ 141,910	\$ 138,544
less scholarship allowances	(14,855)	(14,573)
	127,055	123,971
Federal grants and contracts	130,443	134,119
State and local grants and contracts	26,795	24,655
Private grants and contracts	51,006	51,696
Sales and services, educational departments	4,712	4,921
Auxiliary enterprises, net of scholarship allowances of \$2,051 in 2013 and \$2,051 in 2012	40,008	39,813
Other	17,126	14,199
Total operating revenues	397,145	393,374
Operating expenses		
Instruction	214,239	213,235
Academic support	65,136	65,166
Research	132,905	135,928
Public service	41,360	38,842
Student services	54,944	53,092
Operations and maintenance	63,364	65,476
Institutional support	96,072	95,372
Student aid	28,755	28,460
Auxiliary enterprises	35,276	38,288
Depreciation	62,103	58,403
State on-behalf payments - pension	32,990	27,797
Total operating expenses	827,144	820,059
Operating loss	(429,999)	(426,685)
Nonoperating revenues (expenses)		
State appropriations	371,051	358,441
State on-behalf contributions - pension	32,990	27,797
Investment earnings	5,474	4,058
Endowment proceeds and investment income	18,992	1,762
Federal student financial aid	25,804	26,296
Gain on sale of building	4,914	-
Interest on debt	(7,501)	(5,860)
Other nonoperating expenses	(2,028)	(3,341)
Net nonoperating revenues	449,696	409,153
Income (Loss) before other revenues	19,697	(17,532)
Capital appropriations, grants and contracts	191,809	170,026
Additions to permanent endowments	-	1,253
Increase in net position	211,506	153,747
Net Position		
Net Position - beginning of year	1,276,368	1,122,621
Net Position - end of year	\$ 1,487,874	\$ 1,276,368

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, 2013 and 2012
(in thousands)

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support				
Contributions	\$ 404	\$ 10,459	\$ 3,599	\$ 14,462
Investment income	472	358	-	830
Net realized and unrealized investment gains (losses)	1,261	12,179	-	13,440
Other revenues	-	390	-	390
Actuarial adjustment of remainder trust obligations	-	343	4	347
Gains (Losses) on disposition of other assets	-	(39)	-	(39)
Administrative assessments	1,903	(1,264)	(40)	599
Support from University of Alaska	900	-	-	900
Net assets released from restriction	14,946	(14,946)		-
Total revenues, gains and other support	19,886	7,480	3,563	30,929
Expenses and distributions				
Operating expenses	2,440	-	-	2,440
Distributions for the benefit of the University of Alaska	16,003	-	-	16,003
Total expenses and distributions	18,443	-	-	18,443
Excess (deficiency) of revenues over expenses	1,443	7,480	3,563	12,486
Transfers between net asset classes	(44)	(50)	94	-
Increase (decrease) in net assets	1,399	7,430	3,657	12,486
Net assets, beginning of year	23,592	78,014	92,197	193,803
Net assets, end of year	\$ 24,991	\$ 85,444	\$ 95,854	\$ 206,289

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

2012			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 713	\$ 11,866	\$ 5,251	\$ 17,830
633	1,091	-	1,724
(373)	(649)	-	(1,022)
-	186	-	186
-	(63)	(6)	(69)
-	(30)	-	(30)
1,944	(1,217)	(100)	627
1,000	-	-	1,000
12,697	(12,697)	-	-
16,614	(1,513)	5,145	20,246
2,526	-	-	2,526
13,916	-	-	13,916
16,442	-	-	16,442
172	(1,513)	5,145	3,804
(4)	(24)	28	-
168	(1,537)	5,173	3,804
23,424	79,551	87,024	189,999
\$ 23,592	\$ 78,014	\$ 92,197	\$ 193,803

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, 2013 and 2012
(in thousands)

	2013	2012
Cash flows from operating activities		
Student tuition and fees, net	\$ 124,587	\$ 118,983
Grants and contracts	210,649	209,044
Sales and services, educational departments	4,712	4,921
Sales and services, auxiliary enterprises	40,083	39,473
Other operating receipts	15,845	12,918
Payments to employees for salaries and benefits	(491,903)	(497,581)
Payments to suppliers	(204,075)	(216,333)
Payments to students for financial aid	(29,072)	(28,461)
Net cash used for operating activities	(329,174)	(357,036)
Cash flows from noncapital financing activities		
State appropriations	370,990	358,264
Other revenue	28,819	23,692
Direct lending receipts	83,902	87,489
Direct lending payments	(83,514)	(87,710)
Net cash provided by noncapital financing activities	400,197	381,735
Cash flows from capital and related financing activities		
Capital appropriations, grants and contracts	186,004	174,364
Proceeds from issuance of capital debt	31,203	81,675
Redemption of general revenue bonds	(10,395)	(35,310)
Purchases of capital assets	(258,536)	(193,222)
Principal paid on capital debt	(10,665)	(7,087)
Interest paid on capital debt	(5,664)	(5,195)
Net cash provided by (used for) capital and related financing activities	(68,053)	15,225
Cash flows from investing activities		
Proceeds from sales and maturities of investments	121,575	92,818
Purchases of investments	(123,237)	(131,581)
Interest received on investments	4,795	3,394
Interest and other sales receipts from endowment assets	3,099	4,217
Net cash provided by (used for) investing activities	6,232	(31,152)
Net increase (decrease) in cash and cash equivalents	9,202	8,772
Cash and cash equivalents, beginning of the year	39,780	31,008
Cash and cash equivalents, end of the year	<u>\$ 48,982</u>	<u>\$ 39,780</u>
 Cash and cash equivalents (current)	 \$ 40,231	 \$ 36,829
Restricted cash and cash equivalents (noncurrent)	8,751	2,951
Total cash and cash equivalents	<u>\$ 48,982</u>	<u>\$ 39,780</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, 2013 and 2012
(in thousands)

**Reconciliation of operating loss to net cash used for
operating activities:**

	2013	2012
Operating loss	\$ (429,999)	\$ (426,685)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation expense	62,103	58,403
State on-behalf payments - pension	32,990	27,797
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable, net	2,530	(7,508)
Other assets	93	27
Inventories	174	302
Accounts payable and accrued expenses	3,269	(3,876)
Accrued payroll	1,893	(7,773)
Unearned revenue, deposits from students and others	(2,838)	753
Accrued annual leave	250	456
Unearned lease revenue - current portion	(1,281)	(1,281)
Insurance and risk management	80	430
Real and personal property contributions	1,562	1,919
Net cash used for operating activities	<u>\$ (329,174)</u>	<u>\$ (357,036)</u>

Schedule of Noncash Investing, Noncapital Financing, Capital and Financing Related Activities:

For the Year Ended June 30, 2013

Increase in accounts payable for capital assets is \$3.3 million.

Book value of capital asset disposals totaled \$0.7 million.

The University received \$1.6 million in donated equipment.

The University received on-behalf pension payments from the State of Alaska totaling \$33.0 million.

For the Year Ended June 30, 2012

Increase in accounts payable for capital assets is \$2.5 million.

Book value of capital asset disposals totaled \$0.6 million.

The University received \$1.9 million in donated land and equipment.

The University received on-behalf pension payments from the State of Alaska totaling \$27.8 million.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

1. Organization and Summary of Significant Accounting Policies

Organization:

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 the only public institution of higher learning in Alaska. It is a statewide system that consists of three universities located in Anchorage, Fairbanks, and Juneau, with each having extended satellite colleges and sites throughout Alaska. The system's administrative offices are located on the Fairbanks campus. The University is governed by an eleven-member Board of Regents, which is appointed by the governor.

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, nonprofit 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* and Statement No. 61, *The Financial Reporting Entity: Omnibus*, an amendment of GASB Statement No. 14 and No. 34, 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.

The Nanook Innovation Corporation (NIC) and Seawolf Holdings, LLC were established in fiscal year 2013 for the purpose of supporting the University of Alaska through commercialization of University generated intellectual properties. The Nanook Innovation Corporation operates as a non-profit organization under the meaning of Internal Revenue Code 501(C)(3) and its tax-exempt status is pending Internal Revenue Service approval. The Board of Directors of NIC are appointed by the University. Seawolf Holdings, LLC is a limited liability company with the University being the sole member of the LLC. The Nanook Innovation Corporation and Seawolf Holdings, LLC are considered component units of the University according to GASB Statements No. 39 and No. 61. These entities had no significant activity in fiscal year 2013.

Basis of Presentation:

The University's financial statements are presented in accordance with U.S. generally accepted accounting principles as prescribed in applicable pronouncements of the Governmental Accounting Standards Board. The Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows report the financial activities of the University of Alaska.

The University adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Positions*, effective for the fiscal year ending June

NOTES TO FINANCIAL STATEMENTS

30, 2013. This statement amends the net asset reporting requirements in GASB Statement No. 34 by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

Deferred outflows of resources represent the consumption of net assets by the University in one period that is applicable to future periods.

Deferred inflows of resources represent the acquisition of net assets in one period that is applicable to future periods.

Net position represents the difference between (a) assets and deferred outflow of resources and (b) liabilities and deferred inflow of resources and is required to be classified for accounting and reporting purposes into the following categories:

- **Unrestricted net position** is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position may be designated for specific purposes by the Board of Regents or may otherwise be limited by contractual agreements with outside parties.
- **Restricted net position:**
 - Expendable net position** is 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 net position** is subject to externally-imposed restrictions requiring that they be maintained permanently by the University.
- **Net investment in capital assets** – Capital assets, net of accumulated depreciation, reduced by outstanding balances of debt attributable to the acquisition, construction or improvement of those assets.

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 position. 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.

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.

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.

NOTES TO FINANCIAL STATEMENTS

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, 2013 and 2012. 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 changes could materially affect the amounts reported in the statement of net position. 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 within the next fiscal year.

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 capital 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.

NOTES TO FINANCIAL STATEMENTS

Endowments

The University's endowments consist of the Land Grant Endowment Trust Fund (LGETF) established pursuant to the 1929 federal land grant legislation, its related Inflation Proofing Fund (IPF) and several smaller "other" endowments. 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.

Alaska Statute 14.40.400 provides the Board of Regents with authority to manage the LGETF under the total return principles which intends to preserve and maintain the purchasing power of the endowment principal. The investable resources of the LGETF and IPF are invested in the consolidated endowment fund, a unitized investment fund. The annual spending allowance is currently based on 4.5 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 position 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 position. 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.

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, investment earnings, 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, 2012 financial statements have been reclassified for comparative purposes to conform to the presentation in the June 30, 2013 financial statements.

Recently Issued Accounting Standards

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement requires that certain items that were previously reported as assets and liabilities be classified or recognized as deferred outflow of resources or deferred inflows of resources. These determinations are based on the definitions of those elements in GASB Concepts Statement No. 4, *Elements of Financial Statements*. The new standard is effective retrospectively for the fiscal year beginning July 1, 2013. The University is currently evaluating the impact that the adoption of GASB Statement No. 65 will have on its financial statements.

NOTES TO FINANCIAL STATEMENTS

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27. This Statement requires that an employer recognize its obligation for pension net of the amount of the pension plan's fiduciary net position that is available to satisfy that obligation as well as additional note disclosures regarding the obligation. The new standard is effective retrospectively for the fiscal year beginning July 1, 2014. The University is currently evaluating the impact that the adoption of GASB Statement 68 will have on its financial statements.

2. Deposits and Investments

Deposits and investments at June 30, 2013 were as follows (\$ in thousands):

Investment Type	Operating	Capital Funds	Endowment	Education Trust of Alaska	Total
Cash and Deposits	\$ 20,202	\$ -	\$ 1,404	\$ -	\$ 21,606
Certificates of Deposit	3,786	-	-	-	3,786
Money Market Mutual Funds	43,362	51,610	7,571	284	102,827
Equities:	-				
Domestic Funds	-	-	-	6,224	6,224
Global Funds	-	-	6,252	-	6,252
Exchange Traded Funds (ETF):					
Fixed Income	-	-	16,420	-	16,420
U.S. Treasuries	-	-	8,617	-	8,617
Domestic	-	-	23,960	-	23,960
Global	-	-	20,340	-	20,340
Emerging Markets	-	-	6,687	-	6,687
Real Assets	-	-	4,120	-	4,120
Debt-related:					
Corporate	36,259	-	-	-	36,259
Federal Agency	3,594	-	-	-	3,594
U.S. Treasuries	14,314	5,291	-	-	19,605
International Government	3,126	-	-	-	3,126
Fixed Income Funds	-	-	-	8,622	8,622
Alternative Investments:					
Private Equity - Domestic	-	-	1,226	-	1,226
Private Equity - Int'l	-	-	5,861	-	5,861
Commodities	-	-	921	-	921
Natural Resources	-	-	3,275	-	3,275
Venture Capital	-	-	2,478	-	2,478
Mezzanine	-	-	437	-	437
Hedge Funds	-	-	19,809	-	19,809
Real Estate	-	-	6,165	-	6,165
Other	-	-	1,136	-	1,136
	<u>\$ 124,643</u>	<u>\$ 56,901</u>	<u>\$ 136,679</u>	<u>\$ 15,130</u>	<u>\$ 333,353</u>

NOTES TO FINANCIAL STATEMENTS

Deposits and investments at June 30, 2012 were as follows (\$ in thousands):

<u>Investment Type</u>	<u>Operating</u>	<u>Capital Funds</u>	<u>Endowment</u>	<u>Education Trust of Alaska</u>	<u>Total</u>
Cash and Deposits	\$ 14,165	\$ -	\$ 5,643	\$ -	\$19,808
Certificates of Deposit	3,778	-	-	-	3,778
Money Market Mutual Funds	52,491	13,583	1,997	745	68,816
Equities:					
Domestic	-	-	21,550	5,496	27,046
Global	-	-	23,426	-	23,426
Emerging Markets	-	-	6,236	-	6,236
Debt-related:					
Corporate	41,377	-	-	-	41,377
Federal Agency	8,661	-	-	-	8,661
U.S Treasuries	5,080	43,321	8,523	-	56,924
Fixed Income Funds	-	-	15,930	7,091	23,021
Alternative Investments:					
Real Assets Index	-	-	4,183	-	4,183
Private Equity - Domestic	-	-	1,293	-	1,293
Private Equity – Int'l	-	-	6,359	-	6,359
Commodities	-	-	788	-	788
Natural Resources	-	-	3,251	-	3,251
Venture Capital	-	-	2,497	-	2,497
Mezzanine Debt	-	-	602	-	602
Hedge Funds	-	-	17,923	-	17,923
Real Estate	-	-	5,641	-	5,641
Other	-	-	1,381	-	1,381
	<u>\$ 125,552</u>	<u>\$ 56,904</u>	<u>\$ 127,223</u>	<u>\$ 13,332</u>	<u>\$ 323,011</u>

Operating funds consist of cash on hand (including overnight repurchase agreements), time deposits, 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. The University has operating fund investment guidelines, which set forth the objectives, structure and acceptable investments for the University's operating funds.

The University invests in high quality bonds, including U.S. treasuries, federal agency bonds, international government bonds, and corporate bonds. These investments are held under the name of the University. Bonds comprise the largest portion of operating funds. The majority of the money market mutual funds are invested through the Commonfund, a nonprofit provider of pooled multi-manager investment vehicles for colleges and universities. The University has a \$13 million compensating balance with its checking and depository financial institution.

NOTES TO FINANCIAL STATEMENTS

Capital funds include unexpended general revenue bond proceeds and related reserves and advances from state capital appropriations. At June 30, 2013 and 2012, bond funds held by a trustee totaled \$51.1 million and \$52.4 million, respectively, and consisted of funds held for construction purposes totaling \$43.9 million and \$46.1 million, respectively, and general revenue bond reserves totaling \$7.2 million and \$6.3 million, respectively. The General revenue bond reserves 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 investments totaling \$136.7 million and \$127.2 million in 2013 and 2012, respectively, primarily consisted of \$134.6 million and \$125.2 million in investable resources of the University's Land Grant Endowment Trust Fund at June 30, 2013 and 2012, respectively, 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.

Education Trust of Alaska investments include the operating funds of the college savings program, established pursuant to state statute by the Board of Regents and Internal Revenue Code Section 529. 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, 2013 had an estimated fair value of approximately \$4 million.

At June 30, 2013, the University has approximately \$47.6 million in investments that are not readily marketable, compared to \$37.4 million at June 30, 2012. 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*. 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 A2 or better by Standard & Poor's (S & P), and P2 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 managed 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

NOTES TO FINANCIAL STATEMENTS

investment grade and marketable at the time of purchase unless otherwise approved by the Foundation's investment committee.

At June 30, 2013, 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>Education Trust of Alaska</u>
Securities Underlying Repurchase Agreements	Aaa	\$ 43,279	\$ -	\$ -	\$ -
Money Market Mutual Funds	Aaa	41,091	51,610	7,571	-
Money Market Mutual Funds	Not Rated	2,271	-	-	284
Debt-related:					
Corporate	Aaa	1,764	-	-	-
Corporate	Aa1	1,361	-	-	-
Corporate	Aa2	2,549	-	-	-
Corporate	Aa3	7,965	-	-	-
Corporate	A1	6,365	-	-	-
Corporate	A2	5,322	-	-	-
Corporate	A3	6,144	-	-	-
Corporate	Baa1	4,789	-	-	-
Federal Agency	Aaa	3,594	-	-	-
International Government	Aaa	517	-	-	-
International Government	Aa1	527	-	-	-
International Government	Aa2	2,082	-	-	-
Fixed Income Funds	Not Rated	-	-	-	8,622
Hedge Funds	Not Rated	-	-	19,809	-

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 Statement No. 40 requires disclosure when the amount invested with a single issuer exceeds five percent of the University's total investments. At June 30, 2013, 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 15 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.

NOTES TO FINANCIAL STATEMENTS

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.

At June 30, 2013, 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, 2013, provided \$2.5 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, 2013, the University had the following debt investments and corresponding duration (\$ in thousands):

<u>Investment Type</u>	<u>Fair Value</u>					<u>Duration</u>
	<u>Operating</u>	<u>Capital Funds</u>	<u>Endowment</u>	<u>Education Trust of Alaska</u>		
Corporate	\$ 36,259	-	-	-	-	1.56
Federal Agency	\$ 3,594	-	-	-	-	1.01
U.S. Treasuries	\$ 14,314	-	-	-	-	1.31
U.S. Treasuries	-	\$ 5,291	-	-	-	0.24
International Government	\$ 3,126	-	-	-	-	1.56
Fixed Income Fund	-	-	-	\$ 8,622	-	5.41

Hedge funds totaling \$19.8 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 effect on an investment's value for investments denominated in foreign currencies. GASB Statement No. 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, 2013, 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, 2013 and 2012 (\$ in thousands):

June 30, 2013	Gross	Allowance	Net
Student tuition and fees	\$ 20,744	\$ (3,388)	\$ 17,356
Sponsored programs	43,755	(893)	42,862
Auxiliary services and other operating activities	570	(115)	455
Capital appropriations, grants and contracts	12,635	-	12,635
	<u>\$ 77,704</u>	<u>\$ (4,396)</u>	<u>\$ 73,308</u>

June 30, 2012	Gross	Allowance	Net
Student tuition and fees	\$ 19,186	\$ (3,221)	\$ 15,965
Sponsored programs	48,028	(981)	47,047
Auxiliary services and other operating activities	529	(109)	420
Capital appropriations, grants and contracts	11,557	-	11,557
	<u>\$ 79,300</u>	<u>\$ (4,311)</u>	<u>\$ 74,989</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 of Alaska 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. Participant account balances of approximately \$5.4 billion and \$4.6 billion at June 30, 2013 and 2012, 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 an actuarial study, management estimates reserve requirements for the UA Tuition Value Guarantees to be approximately \$4.1 million and \$4.8 million at June 30, 2013 and 2012, respectively. The Tuition Value Guarantees are recorded in the Statements of Net Position in Other Noncurrent Liabilities.

5. Endowments, Land Grant Trust Property and Other Endowment Assets

The University's endowments consist of the Land Grant Endowment Trust Fund (LGETF) established pursuant to the 1929 federal land grant legislation, its related Inflation Proofing Fund (IPF) and several smaller "other" endowments.

Land Grant Trust (LGT) 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

NOTES TO FINANCIAL STATEMENTS

fair value as of the date of transfer. The net proceeds from land sales and other rights are deposited in the Land Grant Endowment Trust Fund as described in the Endowment section in Note 1 above. At June 30, 2013 and 2012, approximately 82,393 and 82,400 acres, respectively, were held in trust at zero basis because fair value at the time of transfer was not determinable.

A summary of the endowments and Land Grant Trust property for the years ended June 30, 2013 and 2012 follows (\$ in thousands):

<u>June 30, 2013</u>	<u>LGETF and LGT</u>	<u>IPF</u>	<u>Other</u>	<u>Total</u>
Assets:				
Notes receivable	\$ 2,590	\$ -	\$ 149	\$ 2,739
Investments	116,895	19,064	720	136,679
Property, rights and other assets	30,070	31,004	1,811	62,885
Total assets	149,555	50,068	2,680	202,303
Liabilities (debt/internal borrowing)	2,845	16,120	-	18,965
Net Position:				
Unrestricted	-	33,948	64	34,012
Restricted - Expendable	17,954	-	7	17,961
Restricted - Non-expendable:				
Endowment corpus	98,803	-	2,609	101,412
Land Grant Trust Property	29,953	-	-	29,953
Total non-expendable	128,756	-	2,609	131,365
Total net position	\$ 146,710	\$ 33,948	\$ 2,680	\$ 183,338
 <u>June 30, 2012</u>	 <u>LGETF and LGT</u>	 <u>IPF</u>	 <u>Other</u>	 <u>Total</u>
Assets:				
Notes receivable	\$ 2,865	\$ 83	\$ -	\$ 2,948
Investments	109,765	16,784	674	127,223
Property, rights and other assets	30,197	14,147	1,881	46,225
Total assets	142,827	31,014	2,555	176,396
Liabilities (debt/internal borrowing)	3,194	677	(27)	3,844
Net Position:				
Unrestricted	-	30,337	65	30,402
Restricted - Expendable	11,634	-	3	11,637
Restricted - Non-expendable:				
Endowment corpus	97,693	-	2,514	100,207
Land Grant Trust Property	30,306	-	-	30,306
Total non-expendable	127,999	-	2,514	130,513
Total net position	\$ 139,633	\$ 30,337	\$ 2,582	\$ 172,552

NOTES TO FINANCIAL STATEMENTS

6. Capital Assets

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

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013
Capital assets not depreciated:				
Land	\$ 38,516	\$ 256	\$ 600	\$ 38,172
Construction in progress	265,347	274,119	137,289	402,177
Library and museum collections	60,319	1,379	-	61,698
Other capital assets:				
Buildings	1,288,110	120,692	6,500	1,402,302
Infrastructure	66,639	12,731	-	79,370
Equipment	180,780	19,685	12,008	188,457
Leasehold improvements	26,203	-	779	25,424
Other improvements	25,649	3,368	-	29,017
Total	1,951,563	432,230	157,176	2,226,617
Less accumulated depreciation:				
Buildings	657,414	44,433	1,938	699,909
Infrastructure	36,065	2,671	-	38,736
Equipment	130,777	13,048	11,282	132,543
Leasehold improvements	10,798	1,026	779	11,045
Other improvements	19,251	925	-	20,176
Total accumulated depreciation	854,305	62,103	13,999	902,409
Capital assets, net	<u>\$ 1,097,258</u>	<u>\$370,127</u>	<u>\$143,177</u>	<u>\$ 1,324,208</u>

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012
Capital assets not depreciated:				
Land	\$ 37,981	\$ 535	\$ -	\$ 38,516
Construction in progress	146,994	184,513	66,160	265,347
Library and museum collections	59,146	1,173	-	60,319
Other capital assets:				
Buildings	1,228,745	59,365	-	1,288,110
Infrastructure	62,951	3,688	-	66,639
Equipment	175,211	17,695	12,126	180,780
Leasehold improvements	24,909	1,294	-	26,203
Other improvements	24,372	1,277	-	25,649
Total	1,760,309	269,540	78,286	1,951,563
Less accumulated depreciation:				
Buildings	615,517	41,897	-	657,414
Infrastructure	33,962	2,103	-	36,065
Equipment	129,653	12,633	11,509	130,777
Leasehold improvements	9,764	1,034	-	10,798
Other improvements	18,515	736	-	19,251
Total accumulated depreciation	807,411	58,403	11,509	854,305
Capital assets, net	<u>\$ 952,898</u>	<u>\$211,137</u>	<u>\$ 66,777</u>	<u>\$ 1,097,258</u>

NOTES TO FINANCIAL STATEMENTS

7. Unrestricted and Restricted Net Position

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

	2013	2012
Unrestricted:		
Auxiliaries	\$ 10,562	\$ 10,478
Working capital fund	4,509	4,803
Working capital advances	(4,358)	(1,390)
Service centers	21,892	20,380
Debt service funds	6,021	6,882
Renewal and replacement funds	13,628	13,196
Quasi-endowment funds	34,012	30,402
Employee benefit funds	20,423	9,644
Endowment earnings	13,205	13,230
Encumbrances	14,399	12,468
Undesignated	23,002	19,986
Total unrestricted net position	<u>\$ 157,295</u>	<u>\$ 140,079</u>
Restricted:		
Expendable:		
Restricted funds	\$ 554	\$ 554
Student loan funds	194	194
Education Trust of Alaska	11,223	8,184
Capital project funds	41,297	47,206
Debt service funds	7,214	6,327
Endowment accumulated earnings	17,961	11,637
Nonexpendable:		
Endowment corpus	101,412	100,207
Land Grant Trust property	29,953	30,306
Total restricted net position	<u>\$ 209,808</u>	<u>\$ 204,615</u>

Unrestricted net position includes non-lapsing University receipts of \$59.3 million at June 30, 2013. Non-lapsing University receipts of \$52.8 million from fiscal year 2012 were fully expended in fiscal year 2013. At June 30, 2013 and 2012, \$69.9 million and \$63.3 million, respectively, of auxiliary funds, encumbrances and other unrestricted net position were pledged as collateral for the University's general revenue bonds, as calculated under the terms of the 1992 General Revenue Bonds Trust Indenture.

NOTES TO FINANCIAL STATEMENTS

8. Long-term Debt

Debt service requirements at June 30, 2013 were as follows (\$ in thousands):

Years Ending June 30,	Principal	Interest	Total
2014	\$ 10,289	\$ 6,208	\$ 16,497
2015	9,949	5,872	15,821
2016	10,354	5,522	15,876
2017	10,572	5,161	15,733
2018	10,823	4,798	15,621
2019-2023	53,855	17,854	71,709
2024-2028	43,701	7,367	51,068
2029-2033	14,450	1,614	16,064
2034-2037	1,650	58	1,708
	<u>\$ 165,643</u>	<u>\$ 54,454</u>	<u>\$ 220,097</u>

Long-term debt consisted of the following at June 30, 2013 and 2012 (\$ in thousands):

	2013	2012
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.	\$ 148,720	\$ 136,595
Note payable: 1.826% note payable to the Alaska Housing Finance Corporation (AHFC) to finance construction of Anchorage campus housing, due semiannually through February 2024.	14,888	16,100
Equipment financings: 3.0% to 4.77% notes payable for the purchase of equipment and vehicles due in quarterly installments through June 2021.	2,035	1,674
	<u>\$ 165,643</u>	<u>\$ 154,369</u>
Premium on bonds	12,476	8,933
Deferred amount on refunding	<u>(1,491)</u>	<u>-</u>
Long Term Debt	<u>\$ 176,628</u>	<u>\$ 163,302</u>

In fiscal year 2013, the University issued general revenue and refunding bonds 2013 Series S with a par amount of \$31,020,000 and a 22 year term. The bonds funded numerous deferred maintenance projects and refunded substantially all maturities of 2003 Series L, 2004 Series M and 2005 Series N general revenue bonds. The economic gain from the refunding is \$782,516 in present value and total debt service payments are reduced by \$938,706 over the life of the bonds. The University also defeased \$1,540,000 of

NOTES TO FINANCIAL STATEMENTS

2009 Series P general revenue bonds maturing through October 1, 2007 by contributing cash to an escrow account held by a trustee.

In fiscal year 2013, the state reimbursed the University \$1,253,047 for debt service on certain projects financed in the 2002 Series K general revenue bonds. The reimbursement is included in state appropriations. Subject to annual appropriation, future annual state reimbursement for the projects is approximately \$1.25 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 2013 Series S bonds' supplemental indenture includes a springing amendment that eliminates the reserve fund. The reserve is eliminated once all existing bonds prior to 2013 Series S (Series L through R) have been retired. The balance in the reserve account at June 30, 2013 and 2012 was \$7.2 million and \$6.3 million, respectively. In addition, \$43.9 million and \$46.1 million of bond funds are held in trust for construction purposes at June 30, 2013 and 2012, respectively, resulting in total bond funds held in trust of \$51.1 million and \$52.4 million at June 30, 2013 and 2012, respectively.

9. Capital Lease Obligation

In fiscal year 2013, the University entered into a long term lease agreement with Community Properties of Alaska, Inc. (CPA), an Alaska non-profit corporation, to lease a new student dining facility on the University of Alaska Fairbanks Campus. CPA will build the student dining facility using proceeds from its Lease Revenue Bonds 2012. CPA is leasing the underlying land from the University. Security for the Lease Revenue Bonds 2012 is the University's lease payments to CPA, paid from dining and other university receipts. The University will operate the facility. The University receives title to the facility when the bonds are fully paid off, which may be done at any time. The lease is recorded as a capital lease and the obligation is recorded at the present value of future minimum lease payments. Future minimum lease payments under this capital lease and the present value of the minimum lease payments as of June 30, 2013 are as follows:

Years Ending June 30,	Future Payments (\$ in thousands)
2014	\$ -
2015	621
2016	1,389
2017	1,390
2018	1,389
2019-2023	6,919
2024-2028	6,904
2029-2033	6,871
2034-2038	6,848
2039-2043	6,817
2044-2045	2,802
Total lease obligations	\$ 41,950
Less: amount representing interest costs	(16,997)
Present value of minimum lease obligations	<u>\$ 24,953</u>

NOTES TO FINANCIAL STATEMENTS

10. Operating Leases

The University has various operating lease agreements for facilities. The expense for operating leases was \$5.6 million and \$5.8 million for the years ended June 30, 2013 and 2012, respectively. The future minimum lease payments are as follows:

Years Ending June 30,	Future Payments (\$ in thousands)
2014	\$ 4,544
2015	2,654
2016	956
2017	835
2018	661
2019-2023	1,103
2024-2028	935
2029-2033	520
2034-2038	520
2039-2040	191
Total lease obligations	<u>\$ 12,919</u>

11. 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 nonprofit 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, 2013 and 2012 was \$960,750 and \$2,241,750, respectively. The balance of \$960,750 will be recognized as operating revenue in fiscal year 2014.

NOTES TO FINANCIAL STATEMENTS

12. Long-term Liabilities

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

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Balance due within one year
Unearned lease revenue	\$ 2,242	\$ -	\$ 1,281	\$ 961	\$ 961
Capital lease obligation	-	24,953	-	24,953	-
Long-term debt	163,302	34,983	21,657	176,628	11,164
Other noncurrent liabilities	5,233	135	849	4,519	-
	<u>\$ 170,777</u>	<u>\$ 60,071</u>	<u>\$ 23,787</u>	<u>\$ 207,061</u>	<u>\$ 12,125</u>

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Balance due within one year
Unearned lease revenue	\$ 3,523	\$ -	\$ 1,281	\$ 2,242	\$ 1,281
Long-term debt	123,853	82,230	42,781	163,302	9,633
Other noncurrent liabilities	5,131	354	252	5,233	-
	<u>\$ 132,507</u>	<u>\$ 82,584</u>	<u>\$ 44,314</u>	<u>\$ 170,777</u>	<u>\$ 10,914</u>

13. 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, 2013, totaled \$243.1 million. In addition, unexpended proceeds of University-issued general revenue bonds designated for construction projects totaled \$33.3 million at June 30, 2013.

Construction commitments at June 30, 2013 aggregated \$169.8 million. At June 30, 2013, the University had received \$2.3 million from State of Alaska capital appropriations and other sources in advance of expenditures. The advances are included in unearned revenue and deposits.

As of June 30, 2013 the University has spent \$148.3 million, included in construction in progress, on building a ship named "Sikuliaq". After construction, title of the vessel will be retained by the National Science Foundation, the agency funding the construction, but managed 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.

14. 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:

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- 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).

The University provides elective deferral options for employee contributions to deferred annuity plans in accordance with Internal Revenue Code sections 403(b) and 457(b), subject to eligibility criteria.

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 rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate the assets to pay benefits when due. The 2013 and 2012 actuarially determined rates were 35.84 percent and 33.49

NOTES TO FINANCIAL STATEMENTS

percent of applicable gross pay, respectively. However, the employer contribution rate for the University was capped by the state at 22 percent for fiscal years 2013 and 2012.

The state appropriated funding directly to the PERS-DB plan as a relief payment to employers' contributions for fiscal year 2013. The University recognized \$16,761,931, \$14,416,865 and \$10,456,189 for fiscal years 2013, 2012 and 2011, 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, 2013, 2012 and 2011 were \$24,118,880, \$25,281,376 and \$26,390,066, respectively, equal to the required employer contributions for each year.

Alaska Statutes require the University contribute to PERS-DB and DC plans a minimum each year of 22 percent of the University's fiscal year 2008 PERS covered payroll. Additional University contributions of \$1,831,664, \$311,725, and \$208,120 for fiscal years 2013, 2012, and 2011, respectively, were required to adhere to the minimum contribution levels per the statutes.

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 a percentage of annual covered payroll, are sufficient to accumulate the assets to pay benefits when due. During fiscal year 2013, 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, 2013, 2012 and 2011 were \$4,540,419, \$4,923,986, and \$5,243,968, respectively, equal to the required employer contributions for each year.

NOTES TO FINANCIAL STATEMENTS

The actuarially determined employer contribution rate for 2013 and 2012 was 52.67 percent and 45.55 percent, respectively. The state appropriated funding directly to the TRS-DB plan to augment employer contributions for 2013. For fiscal years 2013, 2012 and 2011, the University recognized \$16,228,064, \$13,379,877 and \$11,382,779, 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 8 percent and the employer effective contribution rate is 22 percent of covered payroll. For the years ended June 30, 2013 and 2012, the University's total covered payroll for the PERS-DC plan was approximately \$9.6 million and \$8.3 million, and contributions made by the University totaled \$2,117,637 and \$1,818,585, 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 2013 and 2012 are 0.48 and 0.51 percent, respectively, for medical coverage and 0.14 and 0.20 percent, respectively, (0.99 percent for peace officers and firefighters) for occupational death and disability benefit contributions. For fiscal years 2013 and 2012, the HRA employer contributions are \$154.04 and \$148.17 per month, respectively, for full time employees and \$1.18 and \$1.14 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

NOTES TO FINANCIAL STATEMENTS

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 individual retirement accounts for the exclusive benefit of members or beneficiaries.

Funding Policy and Annual Pension Cost

The employee contribution rate is 8 percent and the effective employer contribution rate is 12.56 percent of covered payroll. For the years ended June 30, 2013 and 2012, the University's total covered payroll for the TRS-DC plan was approximately \$5.6 million and \$4.4 million, and contributions made by the University totaled \$697,321 and \$558,275, 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 2013 and 2012 for each member's compensation was 0.49 and 0.58 percent, respectively, for medical coverage, zero and zero percent, respectively, for occupational death and disability benefit contributions. For fiscal years 2013 and 2012, the HRA employer contributions are \$154.04 and \$148.17 per month, respectively, for full time employees and \$1.18 and \$1.14 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 which was created for participants hired prior to July 1, 2005, ORP Tier 2 which was created for participants hired between July 1, 2005 and June 30, 2006, 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. 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. 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.

NOTES TO FINANCIAL STATEMENTS

Funding Policy and Annual Pension Cost

University contributions are remitted to the plan's authorized employee-selected annuity providers or investment managers. The contribution rates and amounts for fiscal years 2013 and 2012 were as follows:

	<u>ORP Tier 1</u>		<u>ORP Tier 2</u>		<u>ORP Tier 3</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Employee Contribution Rates	8.65%	8.65%	8.65%	8.65%	8.00%	8.00%
University Contribution Rates	14.00%	12.56%	12.00%	12.00%	12.00%	12.00%
Covered Payroll (in millions)	\$47.3	\$47.9	\$3.3	\$3.4	\$101.4	\$87.5
University Contributions (in millions)	\$6.6	\$6.0	\$0.4	\$0.4	\$12.2	\$10.5

Plan Assets

At June 30, 2013 and 2012, plan assets (participants' accounts attributable to employer contributions) for ORP Tier 1, Tier 2 and Tier 3 had a net value of \$199.5 million and \$155.3 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 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, 2013 and 2012, employer contributions for regular employees were 7.65 percent of covered wages up to \$42,000. For certain faculty classified as temporary, the employer contributions were 7.65 percent of covered wages up to \$113,700 and \$110,100 in 2013 and 2012, respectively. The plan provides for employer contributions to be invested in accordance with participant-directed investment elections. 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 2013 and 2012, the University's total covered payroll for the Pension plan was \$175.4 million and \$176.0 million, respectively. The University's gross costs to fund and administer the plan totaled \$13.4 million and \$13.5 million in 2013 and 2012, respectively. At June 30, 2013 and 2012, plan assets (participants' accounts) had a net value of \$340.5 million and \$311.6 million, respectively.

NOTES TO FINANCIAL STATEMENTS

15. 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.

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

	Balance July 1, 2012	Provision for Claims	Claims Payments	Balance June 30, 2013
Health	\$ 6,189	\$ 53,900	\$ (54,356)	\$ 5,733
General liability	3,163	834	(799)	3,198
Workers' compensation	4,774	2,047	(1,517)	5,304
Unemployment	146	670	(699)	117
	<u>\$ 14,272</u>	<u>\$ 57,451</u>	<u>\$ (57,371)</u>	<u>\$ 14,352</u>

	Balance July 1, 2011	Provision for Claims	Claims Payments	Balance June 30, 2012
Health	\$ 6,162	\$ 56,363	\$ (56,336)	\$ 6,189
General liability	2,929	692	(458)	3,163
Workers' compensation	4,499	2,143	(1,868)	4,774
Unemployment	252	818	(924)	146
	<u>\$ 13,842</u>	<u>\$ 60,016</u>	<u>\$ (59,586)</u>	<u>\$ 14,272</u>

	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>

16. 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.

NOTES TO FINANCIAL STATEMENTS

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.

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.

17. University of Alaska Foundation

The University of Alaska Foundation (Foundation) is a legally separate, nonprofit organization formed in 1974 to solicit donations for the exclusive benefit of the University of Alaska. During 2013 and 2012, the University transferred \$1.1 million and \$1.4 million for general support, respectively. For the same periods, the Foundation reimbursed the University for operating expenses totaling \$2.4 million and \$2.5 million, respectively.

For the years ended June 30, 2013 and 2012, distributions and expenditures by the Foundation for the benefit of the University totaled \$16 million and \$13.9 million, of which \$15.7 million and \$13.7 million were direct reimbursements to the University, respectively. Additionally, the University had a receivable from the Foundation of \$2.2 million at June 30, 2013 and \$2.2 million at June 30, 2012, primarily for unreimbursed expenditures incurred on Foundation awards made to the University.

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, 2013 and 2012, the fair value of the fund was \$286.3 million and \$263.0 million, respectively. The University's share of this fund was \$134.6 million and \$125.2 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.

On June 17, 2013, the Foundation entered into a partnership agreement with Cambridge Associates Resources, LLC to form the University of Alaska Foundation Consolidated Endowment Fund, L.P. (the partnership) and assume management of the fund effective July 1, 2013. The partnership is a single investor fund with Cambridge Associates Resources, LLC serving as general partner, and the University of Alaska Foundation serving as the sole limited partner. This relationship does not affect the ownership of units in the consolidated endowment fund by the University or the Foundation. Effective July 1, 2013, all assets of the fund were transferred to the partnership. The investment committee of the Foundation has retained authority for setting investment policy, guidelines and philosophy, and approving asset allocation targets and benchmarks. Under the restructuring plan for the fund, the general partner will be delegated discretionary authority by the investment committee for manager selection and termination, management of cash flows to and from investments of the partnership, due diligence on underlying managers and investments, and performance reporting.

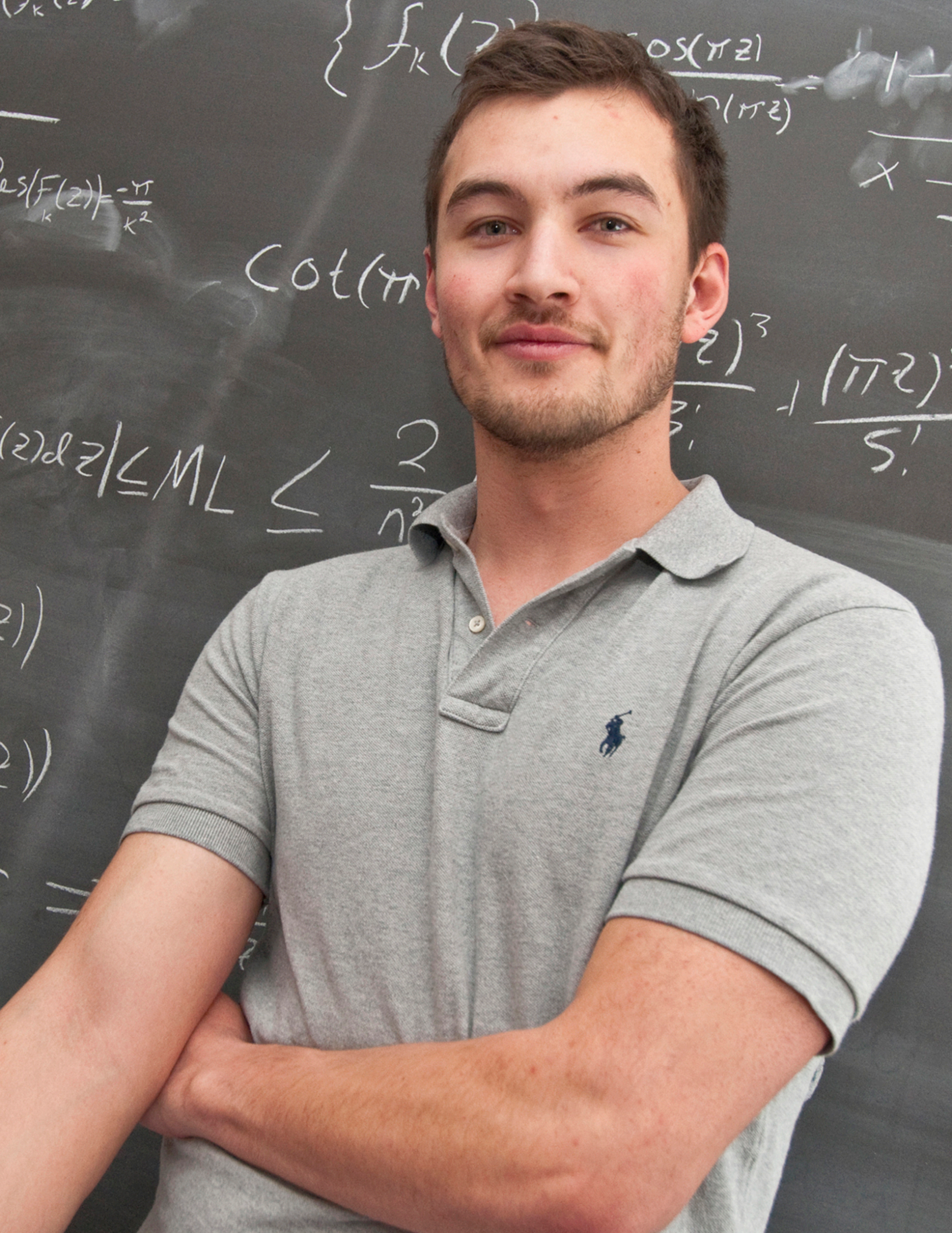
NOTES TO FINANCIAL STATEMENTS

18. Functional and Natural Expense Classifications

The University's operating expenses by functional and natural classification for 2013 and 2012 were as follows (\$ in thousands):

<u>FY 2013</u>	Compensation & Benefits	Contractual Services	Materials	Other	Student Aid	Depreciation	Total
Instruction	\$ 176,859	\$ 25,974	\$ 11,057	\$ 349	\$ -	\$ -	\$ 214,239
Academic support	50,246	7,456	7,379	55	-	-	65,136
Research	89,514	34,416	8,925	50	-	-	132,905
Public service	25,826	12,961	2,263	310	-	-	41,360
Student services	39,296	12,105	3,407	136	-	-	54,944
Operations and maintenance	29,095	17,143	17,020	106	-	-	63,364
Institutional support	73,612	17,308	4,616	536	-	-	96,072
Student aid	-	-	-	-	28,755	-	28,755
Auxiliary enterprises	9,671	16,913	8,534	158	-	-	35,276
Depreciation	-	-	-	-	-	62,103	62,103
State on-behalf payments	-	-	-	32,990	-	-	32,990
	<u>\$ 494,119</u>	<u>\$ 144,276</u>	<u>\$ 63,201</u>	<u>\$ 34,690</u>	<u>\$ 28,755</u>	<u>\$ 62,103</u>	<u>\$ 827,144</u>

<u>FY 2012</u>	Compensation & Benefits	Contractual Services	Materials	Other	Student Aid	Depreciation	Total
Instruction	\$ 175,186	\$ 26,807	\$ 10,522	\$ 720	\$ -	\$ -	\$ 213,235
Academic support	48,642	8,012	8,193	319	-	-	65,166
Research	91,310	34,658	9,646	314	-	-	135,928
Public service	24,552	11,521	2,432	337	-	-	38,842
Student services	38,081	11,684	3,235	92	-	-	53,092
Operations and maintenance	29,215	19,972	15,843	446	-	-	65,476
Institutional support	73,462	14,554	4,884	2,472	-	-	95,372
Student aid	-	-	-	-	28,460	-	28,460
Auxiliary enterprises	10,118	17,232	10,850	88	-	-	38,288
Depreciation	-	-	-	-	-	58,403	58,403
State on-behalf payments	-	-	-	27,797	-	-	27,797
	<u>\$ 490,566</u>	<u>\$ 144,440</u>	<u>\$ 65,605</u>	<u>\$ 32,585</u>	<u>\$ 28,460</u>	<u>\$ 58,403</u>	<u>\$ 820,059</u>







UNIVERSITY
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Education Trust of Alaska Combined Financial Statements

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Independent Auditor's Report

To the Board of Regents of the University of Alaska,
Trustee for the Education Trust of Alaska:

We have audited the accompanying combined financial statements of the Education Trust of Alaska (the "Trust"), which comprise the combined statements of net assets as of June 30, 2013 and the related combined statements of operations and changes in net assets for the year then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Trust's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Education Trust of Alaska at June 30, 2013, and the results of its operations and changes in net assets for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP".

Baltimore, Maryland
October 22, 2013

Education Trust of Alaska
Combined Statements of Net Assets
June 30, 2013

	Operating Fund	Participant Accounts	Total
Assets			
Receivables for securities and units sold	\$ -	\$ 4,449,876	\$ 4,449,876
Due from Participant Accounts (Note 2)	244,940	-	244,940
Interest receivable	20,244	-	20,244
Due from the Trustee	4,635	-	4,635
Receivables, other	-	1,394	1,394
Investments (Note 4)	15,129,848	5,420,146,297	5,435,276,145
	<u>15,399,667</u>	<u>5,424,597,567</u>	<u>5,439,997,234</u>
Liabilities			
Payables for securities and units purchased	-	4,374,182	4,374,182
Payables, other and accrued expenses	227,415	2,782,376	3,009,791
Due to Operating Accounts (Note 2)	-	244,940	244,940
Tuition-Value Guarantee (Note 8)	4,100,000	-	4,100,000
	<u>4,327,415</u>	<u>7,401,498</u>	<u>11,728,913</u>
Net assets	<u>\$ 11,072,252</u>	<u>\$5,417,196,069</u>	<u>\$5,428,268,321</u>

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

Education Trust of Alaska
Combined Statements of Operations and Changes in Net Assets
Year Ended June 30, 2013

	Operating Fund	Participant Accounts	Total
Revenues and other additions			
Dividend income	\$ 345,163	\$ 93,110,366	\$ 93,455,529
Program fees retained	2,708,004	-	2,708,004
Provision for Tuition-Value Guarantee (Note 8)	740,000	-	740,000
Total income	<u>3,793,167</u>	<u>93,110,366</u>	<u>96,903,533</u>
Expenses and other deductions			
Guarantees to participant accounts	121,217	-	121,217
Cost of reinstated suspended accounts (Note 7)	60,213	-	60,213
Program and administrative fees (Note 5)	-	34,607,020	34,607,020
Administrative expenses of the Trust (Note 6)	<u>1,334,069</u>	<u>-</u>	<u>1,334,069</u>
Total expenses	1,515,499	34,607,020	36,122,519
Fees waived by program manager	<u>-</u>	<u>(264,000)</u>	<u>(264,000)</u>
Total net expenses	<u>1,515,499</u>	<u>34,343,020</u>	<u>35,858,519</u>
Net investment income	<u>2,277,668</u>	<u>58,767,346</u>	<u>61,045,014</u>
Net realized and unrealized gain and (loss)			
Net realized gain (loss)	3,920	53,794,080	53,798,000
Capital gain (loss) distributions	116,658	44,940,061	45,056,719
Change in unrealized gain (loss)	<u>640,311</u>	<u>346,729,592</u>	<u>347,369,903</u>
Net realized and unrealized gain and (loss)	<u>760,889</u>	<u>445,463,733</u>	<u>446,224,622</u>
Increase in net assets from operations	3,038,557	504,231,079	507,269,636
Capital unit transactions			
Units sold	-	935,725,748	935,725,748
Units redeemed	<u>-</u>	<u>(630,848,670)</u>	<u>(630,848,670)</u>
Increase in net assets from capital share transactions	<u>-</u>	<u>304,877,078</u>	<u>304,877,078</u>
Net increase in net assets	3,038,557	809,108,157	812,146,714
Net assets			
Beginning of year	<u>8,033,695</u>	<u>4,608,087,912</u>	<u>4,616,121,607</u>
End of year	<u>\$ 11,072,252</u>	<u>\$5,417,196,069</u>	<u>\$5,428,268,321</u>

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

Education Trust of Alaska

Notes to Combined Financial Statements

June 30, 2013

1. Organization and Summary of Significant Accounting Policies

The Education Trust of Alaska (the "Trust"), formerly the University of Alaska Savings Trust, was established on April 20, 2001 to help participants provide for the increasing cost of higher education through tax-advantaged savings and investments in accordance with the provisions of Section 529 of the Internal Revenue Code. The University of Alaska (the "University"), serves as Trustee and T. Rowe Price Associates, Inc. (the "Program Manager") serves as program manager. For financial reporting purposes the Trust consists of two funds: the Operating Fund and Participant Accounts.

Operating Fund: The Operating Fund represents net assets retained as a reserve for payment of the University of Alaska tuition-value guarantees, program administrative costs, and participant benefits and other purposes of the Trust. The Operating Fund invests in a blend of equities, fixed income and money market funds.

Participant Accounts: The Participant Accounts consist of accounts established by participants in the University of Alaska College Savings Plan (the "Alaska Plan"), the T. Rowe Price College Savings Plan (the "Price Plan") and John Hancock Freedom 529 (the "Hancock Plan"), (collectively "the Plans"). The Alaska Plan is primarily distributed in Alaska, and the Price Plan is distributed nationally by T. Rowe Price. The Hancock Plan is distributed nationally by John Hancock Distributors LLC through brokers and other financial intermediaries. The plans offer enrollment-based and static portfolios, each of which invests in predetermined underlying equity, fixed-income, and/or money market mutual funds. In addition to other investment options, the Alaska Plan offers the ACT Portfolio that carries a University of Alaska tuition-value guarantee.

Basis of Presentation

The accompanying combined financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of estimates by the Program Manager and the Trustee. Actual amounts could differ from those estimates and the differences could have a material impact on the financial statements. Further, management believes no events have occurred between June 30, 2013 and October 22, 2013, the date the financial statements were available to be issued, which require adjustment of, or additional disclosure in, the financial statements.

Federal Income Taxes

The Trust is designed to operate as a qualified tuition program under Section 529 of the Internal Revenue Code of 1986, as amended. Accordingly, the Trust is exempt from general income tax and has no unrelated business income; therefore, it makes no provision for federal income taxes.

Investment Income and Transactions

Income and capital gain distributions from the underlying mutual fund investments are recorded on the ex-dividend date. Expenses are recorded on the accrual basis. Realized gains and losses from investment transactions are reported on the identified cost basis. Investment transactions in shares of the underlying mutual fund investments are accounted for based on the trade date.

Sales Charges

The Alaska Plan and the Price Plan are offered with one class of units and have no sales charges or loads. The portfolios of the Hancock Plan currently are offered in up to four classes of units. Class A units pay a 5.25% front-end sales load, except that: 1) contributions are subject to reduced sales charges at defined asset levels, based on an account holder's total plan assets and 2) additions to certain accounts established prior to June 3, 2002, are generally charged the original 3.50% sales load. Class B units are subject to a Contingent Deferred Sales Charge (CDSC) of up to 5.00%, declining annually, on withdrawals made within six years of the contribution. Class B units automatically convert to Class A units in the seventh year. Class C and Class C2 units incur no front-end sales loads and are not subject to any CDSC. Class C units are available only in certain

Education Trust of Alaska

Notes to Combined Financial Statements

June 30, 2013

portfolios and only to Class C accounts established prior to October 1, 2002. Transactions in the JH Money Market Portfolio incur no sales loads. In all other respects, each class has the same rights and obligations as the other classes.

Program Fees Retained by the Trust

For the Hancock Plan, the Trust retains a portion of the program fee equal to 5 basis points (0.05% annualized) of the average daily net assets of the Hancock Plan excluding the Money Market Portfolio. Effective December 1, 2007, the Trust agreed to forego the retention of any portion of the Program Fee for the Money Market Portfolio and to reimburse the Program Manager for program costs at 1 basis point (annualized 0.01%) of the average daily net assets, exclusive of the Money Market Portfolio.

For the Alaska and Price Plans, the Trust retains 4 basis points (0.04% annualized) of the program fee. The Trust also retains an additional 6 basis points (0.06%) on the combined assets of the two plans in excess of \$1 billion. The portion retained by the Trust is determined monthly based upon the combined average daily net assets of the Alaska and Price plans excluding the ACT Portfolio.

The program fees retained by the Trust are used exclusively for expenses of the program and other purposes of the Trust.

2. Due from (to) Participant Accounts

Due from (to) Participant Accounts represents program fees due to the Operating Fund for administration of the program. As of June 30, 2013, program fees of \$244,940 were due to the Operating Fund from Participants Accounts.

3. Investment Valuation

Investments of the Trust are reported at fair value as defined under FASB Accounting Standards Codification 820. Investments in underlying mutual funds are valued at the underlying mutual fund's closing net asset value (NAV) per share on the date of valuation. Each day that the New York Stock Exchange is open for business the assets of each portfolio are valued and totaled, liabilities are subtracted, and each class's proportionate share of the balance, called net assets, is divided by the number of units outstanding of that class.

Investments for which such valuation procedures are inappropriate or are deemed not to reflect fair value are stated at fair value as determined in good faith by or under the supervision of the program manager, as authorized by the Trustee. Additional information on the valuation policy of the underlying mutual funds can be found in the financial statements of each fund.

Various inputs are used to determine the value of investments. These inputs are summarized in the three broad levels listed below:

- Level 1 – quoted prices in active markets for identical securities
- Level 2 – observable inputs other than Level 1 quoted prices (including, but not limited to, quoted prices for similar securities, interest rates, prepayment speeds, and credit risk)
- Level 3 – unobservable inputs

Observable inputs are those based on market data obtained from sources independent of the Trust, and unobservable inputs reflect the Trust's own assumptions based on the best information available. The input levels are not necessarily an indication of the risk or liquidity associated with investments at that level. Investments are summarized by level, based on the inputs used to determine their values.

Education Trust of Alaska

Notes to Combined Financial Statements

June 30, 2013

Because the underlying mutual funds in which the Trust invests are actively traded at publicly available NAVs, all investments are classified as Level 1 on June 30, 2013.

4. Investments

Operating Fund

At June 30, 2013, the Trust's Operating Fund included the following investments in T. Rowe Price Mutual funds:

T. Rowe Price Equity Index 500 Fund	\$ 5,066,470
T. Rowe Price Extended Equity Market Index	1,156,873
T. Rowe Price Prime Reserve Fund	57,201
T. Rowe Price Summit Cash Reserves Fund	227,153
T. Rowe Price U.S. Bond Index Fund	8,622,151
	\$ 15,129,848

Participant Accounts

The Alaska Plan and Price Plan are distributed and managed by T. Rowe Price Associates, Inc. with investments in portfolios composed of T. Rowe Price mutual funds. Participant contributions are recorded and invested in the Alaska Plan or the Price Plan according to instructions provided by the participants on the trade date. Total investments in the plans were \$1,902,475,078 at June 30, 2013 and were invested in the following mutual funds:

T. Rowe Price Blue Chip Growth Fund	\$ 127,976,341
T. Rowe Price Emerging Markets Stock Fund	46,738,152
T. Rowe Price Equity Index 500 Fund	420,660,973
T. Rowe Price Extended Equity Market Index Fund	5,773,763
T. Rowe Price Inflation Focused Bond Fund	148,100,715
T. Rowe Price International Growth & Income Fund	78,341,307
T. Rowe Price International Stock Fund	75,162,207
T. Rowe Price Mid-Cap Growth Fund	34,799,813
T. Rowe Price Mid-Cap Value Fund	33,302,008
T. Rowe Price New Income Fund	152,399,572
T. Rowe Price Overseas Stock Fund	73,965,703
T. Rowe Price Real Asset Fund	40,278,980
T. Rowe Price Small-Cap Stock Fund	43,814,853
T. Rowe Price Spectrum Income Fund	403,501,642
T. Rowe Price Summit Cash Reserves Fund	43,392,084
T. Rowe Price Total Equity Market Index Portfolio	32,023,833
T. Rowe Price U.S. Bond Index Fund	43,326,008
T. Rowe Price Value Fund	98,917,124
	\$ 1,902,475,078

Education Trust of Alaska

Notes to Combined Financial Statements

June 30, 2013

The Hancock Plan is distributed by John Hancock Distributors LLC and managed by T. Rowe Price Associates, Inc. The Hancock Plan is invested in portfolios with underlying T. Rowe Price and other mutual funds. Total investments in the plan were \$3,517,671,219 at June 30, 2013 and were invested in the following mutual funds:

American Mutual Fund Class F1	\$ 87,682,094
John Hancock Disciplined Value Fund I	66,100,491
John Hancock Fund II International Value	192,266,357
John Hancock Funds II-Lifestyle Growth	161,676,641
John Hancock Funds II-Lifestyle Balanced	97,026,852
John Hancock Funds II-Lifestyle Moderate	42,655,608
John Hancock II Capital Appreciation	189,352,886
John Hancock II Emerging Markets Value Fund	55,418,704
John Hancock II Fundamental Value Fund	65,380,374
John Hancock II Total Return Fund	513,015,485
Oppenheimer International Growth Fund	170,712,068
T. Rowe Price Blue Chip Growth Fund	300,713,540
T. Rowe Price Equity Income Fund	272,518,849
T. Rowe Price Financial Services Fund	18,620,286
T. Rowe Price Health Sciences Fund	18,117,498
T. Rowe Price Inflation Focused Bond Fund	296,400,593
T. Rowe Price Mid-Cap Value Fund	129,286,290
T. Rowe Price New Horizons Fund	118,970,833
T. Rowe Price Real Asset Fund	73,418,766
T. Rowe Price Science & Technology Fund	19,297,957
T. Rowe Price Short-Term Bond Fund	32,873,304
T. Rowe Price Small-Cap Stock Fund	17,036,137
T. Rowe Price Spectrum Income Fund	514,718,296
T. Rowe Price Summit Cash Reserves Fund	64,411,310
	<u>\$ 3,517,671,219</u>
Total Participant Investments	<u>\$ 5,420,146,297</u>

5. Program and Administrative Fees

Program and administrative fees deducted from the Participant Accounts represent fees charged to participants for the administration, promotion and distribution of the plans. For the Alaska and Price plans, the Trust charges accounts an annual account fee of \$20 per account and a program management fee of 20 basis points (0.20% annualized) of the average daily net assets of an account. Accounts of the ACT Portfolio are not subject to any account fee or program management fee.

For the Hancock Plan accounts, the Trust charges an annual account fee of \$25 and a basic program fee of 35 basis points (0.35% annualized) except for the Money Market Portfolio for which a program fee of 30 basis points (0.30% annualized) is charged. A Trust fee of 5 basis points (0.05% annualized) included in the program fee is charged on all accounts except for the Money Market Portfolio, which is not subject to the Trust fee. Distribution fees, which range from 25 to 100 basis points (0.25% to 1.00% annualized), depending upon the unit class are also charged to all accounts.

Certain program and administrative fees are waived or reduced for accounts and account holders that achieve specified account balance levels, invest in the ACT Portfolio, or participate in authorized

Education Trust of Alaska

Notes to Combined Financial Statements

June 30, 2013

automatic payment, payroll deduction, or employer programs. All fees, except for the portions retained by the Trust as described in Note 1, are transferred to the Program Manager for program management services.

During the year ended June 30, 2013, the Trustee authorized the Program Manager to waive all or a portion of the applicable program management fee and distribution and service fees for the Money Market Portfolios in the Alaska, Price and Hancock Plans to the extent necessary to maintain a net yield of at least 0.00% for any specific day. Pursuant to this arrangement, fees of approximately \$73,000 were waived for the Money Market Portfolio in the Alaska and Price Plans, collectively, and \$176,000 for the Money Market Portfolio in the Hancock Plan. In addition, the Program Manager voluntarily agreed to limit the ratios of direct and indirect expenses for the Hancock Plan Fixed Income Portfolio to 1.34% for Class A, 2.09% for Classes B and C2, and 1.59% for Class C. Expenses in excess of the expense limit totaling \$15,000 were reimbursed by the Program Manager and will not be subject to future repayment.

6. Administrative Expenses of the Trust

Program and administrative expenses charged to the Operating Fund represent payments to the University of Alaska, as Trustee, for administration of the Trust including reimbursement of marketing, compensation and benefits and other expenses incurred by the University of Alaska on behalf of the Trust. The Trust has assumed responsibility for funding its direct costs including compensation and benefits of its staff, promotion and advertising, and the cost of audit services for the Alaska, Price and Hancock plans. In addition, effective December 1, 2007, the Trust commenced reimbursing the Program Manager monthly for costs incurred by the Program Manager in connection with the Hancock Plan at a rate of 1 basis point (0.01% annualized) times the average daily assets of the Hancock Plan excluding the Money Market Portfolio. For the fiscal year ended June 30, 2013 the Trust incurred direct costs of \$1,009,609 for administration of its College Savings Program. The Trust also incurred charges of \$324,460 for the fiscal year ended June 30, 2013 in connection with its cost sharing agreement with the Program Manager. At June 30, 2013, the Trust had payable and accrued expenses in the amount of \$227,415 of which \$28,617 is payable to the Program Manager as cost sharing.

7. Suspended Accounts

In FY2012, 357 inactive UA College Savings Plan accounts totaling \$494,204 were transferred to the T. Rowe Price Summit Cash Reserve and recorded as a Suspended Accounts Liability in the Operating Fund. Subsequent to the transfer, a number of requests were received from participants for reinstatement. Based on this experience, management determined that consistent application of the suspended account procedure was not practical. Therefore, in FY2013, all of the previously suspended accounts, including forgone earnings totaling \$60,213, were reinstated to their former positions within the UA College Savings Plan.

8. Tuition-Value Guarantee

The University of Alaska tuition-value guarantee represents a guarantee by the Trust that the long-term earnings applicable to investments in the ACT Portfolio, which are redeemed for payment of regular tuition at the University of Alaska, will keep pace with tuition inflation at the University of Alaska. As of June 30, 2013, the Trustee estimates the liability for the tuition-value guarantee to be approximately \$4,100,000. The Trustee utilized a methodology to estimate the liability, which is based in part on the number of ACT credits assigned to each account, at June 30, 2013. An ACT

Education Trust of Alaska

Notes to Combined Financial Statements

June 30, 2013

credit is a unit of education equal to one upper-division credit hour charge at the University of Alaska's largest campus in Anchorage. The actuarial analysis is based on several significant assumptions including: 1) that distribution and tuition utilization patterns for the most recent 5-year period will continue, 2) that the average annual tuition inflation for the University of Alaska will be similar to its average tuition inflation for the previous 32 years of approximately 8.00% and 3) that average portfolio earnings will be approximately 5.00% based on target asset allocations and management's long-term capital market return estimate. The expected payments needed from the Trust to provide the guarantee were discounted to a present value at June 30, 2013 using the risk-free spot rates of interest implied by the U.S. Treasury yield curve as of June 30, 2013. The actuarial assumptions and methodology are consistent with those of the prior year, except that tuition for the first year is expected to be 5.00% rather than 2.00% as used last year and the average earnings assumption at 5.00% remains unchanged from prior year. These assumptions and an earnings rate of 8.35% for the ACT portfolio resulted in decreasing the estimated Tuition-Value Guarantee by \$740,000 to \$4,100,000 as of June 30, 2013.

9. Related Party Transactions

As described in Note 1, the University serves as Trustee for the Trust. Certain University employees serve as management and staff for the Trust and the College Savings Plans. The direct costs incurred by the University for these positions and other costs of the College Savings Program are reimbursed by the Trust. Other University departments provide accounting and legal services without charge. Additional information regarding cost reimbursements to the University is provided in Note 6.

10. Portfolio Changes

The Alaska and Price Plans

In an effort to increase diversification within the portfolios, allocations to international equity funds have been introduced in the Portfolio for College and Portfolio 2015. The introduction of the funds is expected to occur on an incremental basis over an approximate 12 month period, and will come proportionately from the portfolios' existing domestic allocation.

The Hancock Plan

Similar to the Alaska and Price Plans, in an effort to increase diversification within the College Portfolio, increased allocations to international equity funds are being introduced.

Effective June 24, 2013, all Class B shares were closed to contribution for new accounts (See Note 12).

11. Market Conditions

For the Alaska and Price plans, all of the portfolios had returns of 3.43% to 18.46% for the year with an exception of the money market portfolio of 0.00% total return. For the Hancock Plan, all of the portfolios (Class A, B, C, and C2) had returns of 0.06% to 24.92% for the year with the exception of the Short-Term Bond Portfolios for Class B, C, and C2 with a return of (0.68)%, (0.18)%, and (0.66)% respectively.

Education Trust of Alaska
Notes to Combined Financial Statements
June 30, 2013

12. Subsequent Events

The Alaska and Price Plans

Effective September 30, 2013, the maximum contribution limit was increased from \$320,000 to \$400,000 and the annual account fee was decreased from \$20 to \$10.

The Hancock Plan

Effective September 3, 2013, the maximum contribution limit was increased from \$320,000 to \$400,000. As indicated in Note 10, Class B Shares contributions were closed to new accounts as of June 24, 2013. Contributions to previously opened Class B Share accounts were closed effective September 3, 2013.







UNIVERSITY
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Many Traditions One Alaska

University of Alaska Foundation Financial Statements

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REPORT OF INDEPENDENT AUDITORS

The Board of Trustees
University of Alaska Foundation

Report on Financial Statements

We have audited the accompanying financial statements of the University of Alaska Foundation (Foundation), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Alaska Foundation as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the University of Alaska Foundation as of and for the year ended June 30, 2012 were audited by other auditors whose report dated October 15, 2012 expressed an unmodified opinion on those statements.

Moss Adams LLP

Spokane, Washington
October 17, 2013

UNIVERSITY OF ALASKA FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012

Assets	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 21,609,882	\$ 23,956,171
Interest receivable	94,948	114,059
Contributions receivable, net	8,588,885	8,432,336
Remainder trusts receivable	2,028,346	1,486,358
Escrows receivable	176,112	258,760
Installment contracts receivable	151,642	167,500
Inventory	56,265	56,891
Other assets	761,092	762,374
Pooled endowment funds	151,727,705	137,818,907
Other long-term investments	<u>24,879,099</u>	<u>24,471,012</u>
Total assets	<u><u>\$ 210,073,976</u></u>	<u><u>\$ 197,524,368</u></u>
 Liabilities		
Due to the University of Alaska	\$ 2,244,334	\$ 2,151,984
Other liabilities	238,909	259,603
Split interest obligations	301,682	309,475
Term endowment liability	<u>1,000,000</u>	<u>1,000,000</u>
Total liabilities	<u>3,784,925</u>	<u>3,721,062</u>
 Net Assets		
Unrestricted	24,990,628	23,592,409
Temporarily restricted	85,444,170	78,013,621
Permanently restricted	<u>95,854,253</u>	<u>92,197,276</u>
Total net assets	<u>206,289,051</u>	<u>193,803,306</u>
Total liabilities and net assets	<u><u>\$ 210,073,976</u></u>	<u><u>\$ 197,524,368</u></u>

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

UNIVERSITY OF ALASKA FOUNDATION
STATEMENTS OF ACTIVITIES
For the years ended June 30, 2013 and 2012

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support				
Contributions	\$ 404,041	\$ 10,459,274	\$ 3,598,452	\$ 14,461,767
Investment income	471,939	357,385	-	829,324
Net realized and unrealized investment gains (losses)	1,261,301	12,179,673	-	13,440,974
Other revenues	203	390,090	-	390,293
Actuarial adjustment of remainder trust obligations	-	342,877	4,231	347,108
Gains (losses) on disposition of other assets	12	(38,896)	(100)	(38,984)
Administrative assessments	1,902,092	(1,263,694)	(39,806)	598,592
Support from University of Alaska	900,000	-	-	900,000
Net assets released from restriction	14,946,408	(14,946,408)	-	-
Total revenues, gains and other support	19,885,996	7,480,301	3,562,777	30,929,074
Expenses and distributions				
Operating expenses	2,440,031	-	-	2,440,031
Distributions for the benefit of the University of Alaska	16,003,298	-	-	16,003,298
Total expenses and distributions	18,443,329	-	-	18,443,329
Excess (deficiency) of revenues over expenses	1,442,667	7,480,301	3,562,777	12,485,745
Transfers between net asset classes	(44,448)	(49,752)	94,200	-
Increase (decrease) in net assets	1,398,219	7,430,549	3,656,977	12,485,745
Net assets, beginning of year	23,592,409	78,013,621	92,197,276	193,803,306
Net assets, end of year	\$ 24,990,628	\$ 85,444,170	\$ 95,854,253	\$ 206,289,051

2012			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 712,635	\$ 11,866,053	\$ 5,250,637	\$ 17,829,325
633,229	1,091,276	-	1,724,505
(372,895)	(649,599)	-	(1,022,494)
404	185,828	-	186,232
-	(62,636)	(5,943)	(68,579)
(273)	(29,764)	-	(30,037)
1,943,382	(1,217,300)	(99,458)	626,624
1,000,000	-	-	1,000,000
12,697,372	(12,697,372)	-	-
<u>16,613,854</u>	<u>(1,513,514)</u>	<u>5,145,236</u>	<u>20,245,576</u>
2,525,647	-	-	2,525,647
13,916,223	-	-	13,916,223
<u>16,441,870</u>	<u>-</u>	<u>-</u>	<u>16,441,870</u>
171,984	(1,513,514)	5,145,236	3,803,706
(3,676)	(24,087)	27,763	-
168,308	(1,537,601)	5,172,999	3,803,706
23,424,101	79,551,222	87,024,277	189,999,600
<u>\$ 23,592,409</u>	<u>\$ 78,013,621</u>	<u>\$ 92,197,276</u>	<u>\$ 193,803,306</u>

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

UNIVERSITY OF ALASKA FOUNDATION
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Contributions received	\$ 9,861,767	\$ 11,637,473
Investment income received	848,435	1,747,220
Distributions for the benefit of the University of Alaska	(15,788,470)	(13,451,927)
Cash paid for operating expenses	(2,450,195)	(2,500,492)
Other receipts	<u>1,877,523</u>	<u>2,078,922</u>
Net cash used in operating activities	<u>(5,650,940)</u>	<u>(488,804)</u>
Cash flows from investing activities:		
Net increase in investments	(877,304)	(7,277,823)
Receipts from disposition of assets	<u>98,506</u>	<u>57,237</u>
Net cash used in investing activities	<u>(778,798)</u>	<u>(7,220,586)</u>
Cash flows from financing activities:		
Contributions restricted for permanent investment	4,113,419	10,088,207
Investment income on charitable remainder trusts	8,180	4,055
Payment of charitable remainder trust obligations	<u>(38,150)</u>	<u>(34,914)</u>
Net cash provided by financing activities	<u>4,083,449</u>	<u>10,057,348</u>
Net increase (decrease) in cash and cash equivalents	(2,346,289)	2,347,958
Cash and cash equivalents, beginning of year	<u>23,956,171</u>	<u>21,608,213</u>
Cash and cash equivalents, end of year	<u><u>\$ 21,609,882</u></u>	<u><u>\$ 23,956,171</u></u>

	<u>2013</u>	<u>2012</u>
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets:	\$ 12,485,745	\$ 3,803,706
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Contributions of operating noncash assets	(292,668)	(981,471)
Net realized and unrealized investment (gains) losses	(13,440,974)	1,022,494
Loss on disposition of other assets	38,984	30,037
Non-cash operating expenses	17,673	15,266
Non-cash distributions to the University of Alaska	93,464	100,337
Contributions restricted for permanent investment	(3,598,452)	(5,250,637)
Actuarial adjustment of remainder trust obligations	(347,108)	68,579
Changes in assets and liabilities that provided (used) cash:		
Interest receivable	19,111	22,715
Short-term investments	24,455	7,694
Contributions receivable	(733,335)	32,562
Due to the University of Alaska	92,350	376,892
Other liabilities	(19,300)	239,734
Split Interest Obligations	<u>9,115</u>	<u>23,288</u>
Net cash used in operating activities	<u>\$ (5,650,940)</u>	<u>\$ (488,804)</u>
 Supplemental schedule of noncash investing activity		
Contributions of investment assets	\$ 50,482	\$ 213,412

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

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UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

1. Organization and Summary of Significant Accounting Policies

Organization

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

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

Basis of Presentation

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

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

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

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

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

Basis of Accounting

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

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

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

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

1. Organization and Summary of Significant Accounting Policies, continued

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

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

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

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents, interest receivable, installment contracts receivable, other assets, due to the University of Alaska, other liabilities, split interest obligations and term endowment liability: The carrying amount approximates fair value, based on the nature or short maturity of those instruments.

Contributions receivable: The fair value is determined by the present value of future contractual cash flows, discounted at an interest rate that reflects the risks inherent in these cash flows.

Investments

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

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

1. Organization and Summary of Significant Accounting Policies, continued

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

Fair Value Measurement

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

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

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

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

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following table summarizes the foundation's financial assets measured at fair value on a recurring basis as of June 30, 2013:

	June 30, 2013				Redemption Frequency	Days' Notice
	Level 1	Level 2	Level 3	Total		
Pooled Endowment Funds	\$ -	\$ -	\$ 151,727,705	\$ 151,727,705	Various (1)	NA
Other Long-term Investments:						
Fixed Income:						
US treasuries, agencies, corporates	7,218,123	16,768,164	-	23,986,287	Daily	1
	7,218,123	16,768,164	-	23,986,287		
Equity Securities:						
Domestic equity balanced fund	53,081	-	-	53,081	Daily	1
Domestic equities	838,953	-	-	838,953	Daily	1
	892,034	-	-	892,034		
Total Other Long-term Investments	8,110,157	16,768,164	-	24,878,321		
Total Investments	\$ 8,110,157	\$ 16,768,164	\$ 151,727,705	\$ 176,606,026		
Remainder Trusts Receivable	\$ -	\$ -	\$ 2,028,346	\$ 2,028,346		

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

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

1. Organization and Summary of Significant Accounting Policies, continued

The following table summarizes the foundation's financial assets measured at fair value on a recurring basis as of June 30, 2012:

	June 30, 2012				Redemption Frequency	Days' Notice
	Level 1	Level 2	Level 3	Total		
Pooled Endowment Funds	\$ -	\$ -	\$ 137,818,907	\$ 137,818,907	Various (1)	NA
Other Long-term Investments:						
Fixed Income:						
US treasuries, agencies, corporates	9,303,220	14,481,238	-	23,784,458	Daily	1
	9,303,220	14,481,238	-	23,784,458		
Equity Securities:						
Domestic equity balanced fund	53,282	-	-	53,282	Daily	1
Domestic equities	632,407	-	-	632,407	Daily	1
	685,689	-	-	685,689		
Total Other Long-term Investments	9,988,909	14,481,238	-	24,470,147		
Total Investments	\$ 9,988,909	\$ 14,481,238	\$ 137,818,907	\$ 162,289,054		
Remainder Trusts Receivable	\$ -	\$ -	\$ 1,486,358	\$ 1,486,358		

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

There are no additional lock ups or restrictions.

The following table presents the foundation's activities for the years ended June 30, 2013 and 2012 for financial assets classified in Level 3:

	Pooled Endowment Funds	Remainder Trusts Receivable	Total
Balance, July 1, 2011	\$ 131,853,275	\$ 832,938	\$ 132,686,213
Additions	11,623,575	687,691	12,311,266
Withdrawals	(5,999,393)	-	(5,999,393)
Net investment income	1,162,918	-	1,162,918
Net realized and unrealized losses	(821,468)	(34,271)	(855,739)
Balance, June 30, 2012	137,818,907	1,486,358	139,305,265
Additions	6,204,204	181,818	6,386,022
Withdrawals	(6,178,650)	-	(6,178,650)
Net investment income	356,833	-	356,833
Net realized and unrealized gains	13,526,411	360,170	13,886,581
Balance, June 30, 2013	\$ 151,727,705	\$ 2,028,346	\$ 153,756,051

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

1. Organization and Summary of Significant Accounting Policies, continued

The amount of net unrealized holding gains and losses related to Level 3 assets in the pooled endowment funds and other long term investments that are still held at June 30, 2013 and 2012 is approximately (\$0.2) and (\$3.0) million, respectively, and the change therein is included in the net gains and losses in the statements of activities.

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

Investments classified in Level 3 include shares or units in non-registered investment funds as opposed to direct interests in the funds' underlying securities, some of which are marketable or not difficult to value. Because each investment fund's reported NAV is used as a practical expedient to estimate the fair value of the fund's interest therein, the level in which an investment fund's fair value measurement is classified is based on the fund's ability to redeem its interest at or near the date of the statement of financial position. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risks associated with those investments or a reflection of the liquidity of or degree of difficulty in estimating the fair value of each investment fund's underlying assets and liabilities. There have been no changes in valuation techniques.

Investment liquidity as of June 30, 2013 is aggregated below based on redemption or sale period:

<u>Redemption Period</u>	<u>Amounts</u>	<u>Fiscal Year</u>	<u>Amounts</u>
Daily	\$ 123,496,401	2014	\$ 160,149,852
Monthly	14,843,595	2015	2,203,020
Quarterly	13,477,090	2016	1,192,087
Semi-Annually	8,153,809	2017	2,275,781
Illiquid	16,635,131	Thereafter	10,785,286
	<u>\$ 176,606,026</u>		<u>\$ 176,606,026</u>

Income Taxes

The foundation is an organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is generally not subject to federal income taxes. Contributions to the foundation are deductible for tax purposes by the donor, subject to the normal limitations imposed by the taxing authorities. However, the foundation is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded from any unrelated trade or business. In the opinion of management any unrelated business income tax would be immaterial to the basic financial statements taken as a whole. The foundation is no longer subject to U.S. federal or state income tax examinations by tax authorities for fiscal years prior to June 30, 2010.

The foundation recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

1. Organization and Summary of Significant Accounting Policies, continued

Subsequent Events

The foundation has evaluated subsequent events and transactions that occurred after June 30, 2013 through the date the financial statements were available to be issued, concluding October 17, 2013.

Effective July 1, 2013, all assets of the Consolidated Endowment Fund were transferred to a limited partnership for investment management purposes as described in detail in Note 6 below.

2. Contributions Receivable

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

	2013	2012
In one year or less	\$ 3,893,693	\$ 2,849,023
Between one year and five years	4,598,443	5,836,382
More than five years	500,000	200,000
	8,992,136	8,885,405
Discount	(356,173)	(417,681)
Allowance for uncollectible accounts	(47,078)	(35,388)
	<u>\$ 8,588,885</u>	<u>\$ 8,432,336</u>

Unconditional promises to give are recorded at the discounted present value of the future cash flows using a discount rate ranging from 3.1% to 13.6%. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

3. Remainder Trusts Receivable

A charitable remainder trust administered by a third party is an arrangement in which a donor establishes and funds a trust in which the assets are invested and administered by a third-party trustee and distributions are made to the income beneficiaries during the term of the agreement. Upon death of the donor, the assets or a portion of the assets remaining in the trust are distributed to a not-for-profit entity. The foundation, as remainder beneficiary, records its interest in these irrevocable trusts, upon discovery of their existence, at fair value as determined using the present value of the estimated future cash receipts to be received from the trust, discounted at rates between 4.32% and 9.86% which reflect the expected rate of return as adjusted for various risk factors. Initial recognition and subsequent adjustments to the assets' carrying value are recognized as contribution revenue and actuarial adjustment of the remainder trust obligations, respectively, and are classified as permanently restricted, temporarily restricted, or unrestricted support, depending on donor-imposed purpose and time restrictions, if any.

4. Escrows Receivable

The foundation's escrows receivable are secured by deeds of trust from land sales, payable in monthly installments including interest of 7.25% to 8.25%.

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

5. Installment Contract Receivable

The foundation's installment contract receivable resulted from the sale of capital stock in a closely held corporation. The contract is secured by the shares of capital stock sold, and payable in annual installments at an interest rate of 4.75%.

6. Pooled Endowment Funds

Effective July 1, 1997, management of the university's Land Grant Endowment Trust Fund was transferred from the State of Alaska Department of Revenue to the university Board of Regents. The foundation and the Board of Regents agreed to consolidate the foundation's pooled endowment funds and the university's land grant endowments into a Consolidated Endowment Fund (fund) for investment purposes. The net assets and related activity for their respective investment in the fund are reflected in the financial statements of the foundation and the university. The Consolidated Endowment Fund issues publicly-available financial statements that include detail of the investment balances and activity. Those financial statements are supplemental information to these financial statements and are presented immediately following these notes.

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

The Consolidated Endowment Fund includes the following:

	2013	2012
Cash and cash equivalents	\$ 13,161,843	\$ 13,103,620
Fixed income securities	52,996,527	51,109,718
Equity securities	161,530,364	147,609,974
Real assets	27,077,805	25,772,170
Absolute return	28,708,195	25,449,183
Other	2,839,170	-
	<u>\$ 286,313,904</u>	<u>\$ 263,044,665</u>

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

	2013	2012
University of Alaska Foundation	\$ 151,727,705	\$ 137,818,907
University of Alaska	134,586,199	125,225,758
	<u>\$ 286,313,904</u>	<u>\$ 263,044,665</u>

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

6. Pooled Endowment Funds, continued

Direct investment management, custodial and consulting fees for the foundation's pooled endowment funds totaled \$302,259 and \$219,839 for the years ended June 30, 2013 and 2012, respectively. These fees have been included as reductions to investment income.

On June 17, 2013, the foundation entered into a partnership agreement with Cambridge Associates Resources, LLC to form the University of Alaska Foundation Consolidated Endowment Fund, L.P. (the partnership) and assume management of the fund effective July 1, 2013. The partnership is a single investor fund with Cambridge Associates Resources, LLC serving as the general partner, and the University of Alaska Foundation serving as the sole limited partner. This relationship does not affect the ownership of units in the Consolidated Endowment Fund by the university or the foundation. Effective July 1, 2013, all assets of the fund were transferred to the partnership for investment management purposes.

Effective July 1, 2008, the foundation adopted the provisions of FSP FAS 117-1, as subsequently incorporated into the ASC Section 958-205-45. The FSP provides guidance on classifying net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA). A key component of the FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. Another key component of the FSP is a requirement for expanded disclosures about all endowment funds. The State of Alaska adopted a version of UPMIFA effective September 8, 2010.

The foundation's endowment consists of more than 700 individual endowments established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Board-designated endowment funds are classified as either unrestricted or temporarily restricted depending on the existence of donor-imposed purpose restrictions.

The foundation's Board of Trustees has interpreted the UPMIFA enacted in the State of Alaska as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the foundation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the foundation
- The investment policies of the foundation

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

6. Pooled Endowment Funds, continued

The foundation's primary investment goal for its endowments is to provide a real rate of return (total return minus investment expenses, administrative fees and inflation) sufficient to support, in perpetuity, the purposes of the various endowments that make up the pooled endowment fund. The endowment spending allowance policy is also structured to help maintain the endowments in perpetuity, preserve their purchasing power and stabilize the flow of support for the purposes of the respective endowments.

A Viability Ratio (accumulated earnings divided by the total endowment value) is calculated for each endowment. The Viability Ratio provides a measure of the financial health of each endowment and gives an indication of the endowment's ability to continue making distributions to the beneficiary during market down cycles and for the life of the fund. The general spending rate is 4 percent (4.0%) of the average of the market values of the endowment at December 31 for the immediately preceding five years. The spending rate is limited to 3 percent (3%) for first year endowments and those with negative Viability Ratios. No spending allowance is provided for endowments with a Viability Ratio lower than negative 20%.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets, and subsequent gains that restore the fair value of the assets of the endowment fund to the required level are recorded as an increase in unrestricted net assets.

Endowment net assets as of June 30, 2013 include the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (59,399)	\$ 24,508,562	\$ 95,785,419	\$ 120,234,582
Board-designated endowment funds	14,554,097	22,372,216	-	36,926,313
	<u>\$ 14,494,698</u>	<u>\$ 46,880,778</u>	<u>\$ 95,785,419</u>	<u>\$ 157,160,895</u>

Endowment net assets as of June 30, 2012 include the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (217,220)	\$ 18,391,221	\$ 92,132,673	\$ 110,306,674
Board-designated endowment funds	12,906,458	20,489,656	-	33,396,114
	<u>\$ 12,689,238</u>	<u>\$ 38,880,877</u>	<u>\$ 92,132,673</u>	<u>\$ 143,702,788</u>

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

6. Pooled Endowment Funds, continued

Changes in endowment net assets for the years ended June 30, 2013 and 2012 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, July 1, 2011	\$ 12,616,401	\$ 42,640,238	\$ 86,953,731	\$ 142,210,370
Investment Income	123,651	1,072,039	-	1,195,690
Net realized and unrealized investment losses	(185,109)	(635,163)	-	(820,272)
Investment return	(61,458)	436,876	-	375,418
Contributions	491,815	783,185	5,250,637	6,525,637
Uncollectible pledges	(269)	(11,126)	-	(11,395)
Administrative assessments	(132,125)	(1,087,874)	(99,458)	(1,319,457)
Distributions for endowment spending	(453,870)	(4,333,857)	-	(4,787,727)
Transfers to increase board- designated endowment funds	228,744	128,876	-	357,620
Transfers to increase donor-restricted endowment funds	-	324,559	27,763	352,322
Balance, June 30, 2012	12,689,238	38,880,877	92,132,673	143,702,788
Investment Income	41,788	343,960	-	385,748
Net realized and unrealized investment gains	1,474,186	12,053,177	-	13,527,363
Investment return	1,515,974	12,397,137	-	13,913,111
Contributions	202,220	616,100	3,598,452	4,416,772
Uncollectible pledges	215	(2,077)	(100)	(1,962)
Administrative assessments	(129,489)	(1,148,332)	(39,806)	(1,317,627)
Distributions for endowment spending	(468,937)	(4,438,874)	-	(4,907,811)
Transfers to increase board- designated endowment funds	685,477	82,990	-	768,467
Transfers to increase donor-restricted endowment funds	-	492,957	94,200	587,157
Balance, June 30, 2013	\$ 14,494,698	\$ 46,880,778	\$ 95,785,419	\$ 157,160,895

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

7. Other Long-term Investments

Other long-term investments include the following:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 778	\$ 865
Fixed income securities	23,986,287	23,784,458
Equity securities	<u>892,034</u>	<u>685,689</u>
	<u>\$ 24,879,099</u>	<u>\$ 24,471,012</u>

Investment custodial and management fees for other long-term investments totaled \$59,498 and \$57,467 for the years ended June 30, 2013 and 2012, respectively. These fees have been included as reductions to investment income.

8. Split Interest Obligations

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

The charitable remainder trust assets represent \$124,969 and \$126,956 for the years ended June 30, 2013 and 2012 respectively, and are reported as other long-term investments in the statements of financial position. The charitable gift annuity assets of \$254,200 and \$256,609 for the years ended June 30, 2013 and 2012 respectively, are reported as cash and cash equivalents in the statements of financial position. The fair value of the associated split interest obligations total \$301,682 and \$309,475 for the years ended June 30, 2013 and 2012 respectively.

9. Term Endowment Liability

In July 1997 the foundation accepted a term endowment. Earnings from the endowment are restricted for the maintenance of a student housing facility. The agreement with the donor requires the original principal of the endowment to remain inviolate until April 30, 2020 at which time the original principal and the unexpended earnings, if any, will be returned to the donor. The original principal of \$1,000,000 is recorded as a liability at June 30, 2013 and 2012.

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

10. Net Assets

	<u>2013</u>	<u>2012</u>
Unrestricted net assets:		
Available for current operations - spendable earnings of quasi endowments and amounts not designated by management or restricted by donor	\$ 5,766,958	\$ 4,888,651
Designated for specific purposes - spendable earnings of quasi endowments and amounts designated by management	4,728,972	6,014,520
Quasi endowments - corpus of quasi endowments without donor restrictions	12,582,251	11,694,904
Underwater endowment losses - net accumulated investment losses on endowments	(59,399)	(217,220)
Unappropriated endowment earnings - earnings in excess of spending limits for quasi endowments without donor restrictions	<u>1,971,846</u>	<u>1,211,554</u>
	<u>\$ 24,990,628</u>	<u>\$ 23,592,409</u>
Temporarily restricted net assets:		
Restricted for specific purposes - spendable earnings on endowments and non-endowed net assets restricted by donor stipulation or by UPMIFA	\$ 38,563,392	\$ 39,132,745
Unconditional promises to give - contributions receivable without donor restrictions	494	116
Quasi endowments - corpus of quasi endowments with donor restrictions	19,825,997	19,186,464
Endowments - corpus of term funded and annuity endowments	3,378,345	3,378,345
Unappropriated endowment earnings - earnings in excess of spending limits for endowments restricted by donor or by UPMIFA	<u>23,675,942</u>	<u>16,315,951</u>
	<u>\$ 85,444,170</u>	<u>\$ 78,013,621</u>
Permanently restricted net assets:		
Endowments - portion of funds required to be retained permanently by explicit donor stipulation or by UPMIFA	\$ 95,785,419	\$ 92,132,673
Charitable remainder trusts - trusts required by donor to be invested in perpetuity	<u>68,834</u>	<u>64,603</u>
	<u>\$ 95,854,253</u>	<u>\$ 92,197,276</u>

11. Net Assets Released from Restriction

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

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

12. Distributions for the Benefit of the University of Alaska

Distributions for the benefit of the University of Alaska, by functional classification, for the years ended June 30, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
University of Alaska Anchorage		
Engineering	\$ 2,386,418	\$ 1,178,658
General	1,504,666	1,826,685
Liberal arts, human and rural development	139,894	141,897
Library	7,158	16,809
Management/business administration	716,407	807,244
Museum	996	2,999
Natural Sciences, agriculture and land resources	43,857	61,875
Research	210,938	267,551
Student aid	<u>1,072,326</u>	<u>1,100,890</u>
	<u>6,082,660</u>	<u>5,404,608</u>
University of Alaska Fairbanks		
Engineering	198,724	230,233
General	3,315,577	3,085,449
KUAC radio and television	1,384,881	285,376
Liberal arts, human and rural development	832,437	433,001
Library	247,874	239,732
Management/business administration	151,128	184,393
Museum	327,235	331,009
Natural sciences, agriculture and land resources	321,966	392,641
Research	778,595	896,532
Student aid	<u>1,801,709</u>	<u>1,500,150</u>
	<u>9,360,126</u>	<u>7,578,516</u>
University of Alaska Southeast		
General	72,052	363,238
Library	63,067	41,699
Management/business administration	-	3,036
Natural sciences, agriculture and land resources	38,687	36,654
Research	-	1,320
Student aid	<u>300,692</u>	<u>298,274</u>
	<u>474,498</u>	<u>744,221</u>
University of Alaska		
General	<u>86,014</u>	<u>188,878</u>
	<u>86,014</u>	<u>188,878</u>
	<u>\$ 16,003,298</u>	<u>\$ 13,916,223</u>

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

13. Administrative Assessments

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

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

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

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

14. Related Party Transactions

The university provided payment to the foundation in the amount of \$0.9 million and \$1.0 million for institutional support during the years ended June 30, 2013 and 2012, respectively. The university also provides administrative and accounting support for the foundation. The foundation reimbursed the university \$2.4 million and \$2.5 million for these services for the years ended June 30, 2013 and 2012, respectively. These reimbursements are included in the statements of activities as operating expenses.







UNIVERSITY
of ALASKA

Many Traditions One Alaska

University of Alaska & University of Alaska Foundation
Consolidated Endowment Fund

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REPORT OF INDEPENDENT AUDITORS

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

Report on Financial Statements

We have audited the accompanying financial statements of the University of Alaska and University of Alaska Foundation Consolidated Endowment Fund (Fund) as of June 30, 2013, which comprise the statement of assets and liabilities as of June 30, 2013, and the related statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Alaska and University of Alaska Foundation Consolidated Endowment Fund as of June 30, 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, management has provided reference to additional information to provide the reader with a complete and accurate presentation. Our opinion is not modified with respect to that matter.

Other Matter

The financial statements of the University of Alaska and the University of Alaska Foundation Consolidated Endowment Fund as of and for the year ended June 30, 2012 were audited by other auditors whose report dated October 15, 2012 expressed an unmodified opinion on those statements.

Moss Adams LLP

Spokane, Washington
October 17, 2013

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

STATEMENTS OF ASSETS AND LIABILITIES
June 30, 2013 and 2012

Assets	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 13,161,843	\$ 13,103,620
Other receivable	2,839,170	-
Fixed income securities	52,996,527	51,109,718
Equity securities	161,530,364	147,609,974
Real assets	27,077,805	25,772,170
Absolute return	<u>28,708,195</u>	<u>25,449,183</u>
Total assets	<u>286,313,904</u>	<u>263,044,665</u>
Liabilities	<u>-</u>	<u>-</u>
Net Assets		
University of Alaska	134,586,199	125,225,758
University of Alaska Foundation	<u>151,727,705</u>	<u>137,818,907</u>
Total net assets	<u><u>\$ 286,313,904</u></u>	<u><u>\$ 263,044,665</u></u>

The accompanying notes are an integral part of the financial statements

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

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
For the years ended June 30, 2013 and 2012

	2013	2012
Investment Income		
Interest and dividend income	\$ 869,669	\$ 2,443,066
Operating gains	<u>381,127</u>	<u>233,748</u>
Net investment income before expenses	<u>1,250,796</u>	<u>2,676,814</u>
Expenses		
Management fees	470,513	300,221
Investment consulting fees	61,000	88,000
Audit fees	25,930	24,695
Other fees	<u>16,788</u>	<u>10,769</u>
Total expenses	<u>574,231</u>	<u>423,685</u>
Net investment income	676,565	2,253,129
Realized and Unrealized Investment Gains (Losses)		
Net realized and unrealized investment gains (losses)	<u>25,789,957</u>	<u>(1,836,302)</u>
Net Increase in Net Assets Resulting from Operations	26,466,522	416,827
Distributions for endowment spending	(9,636,511)	(9,839,646)
Distributions for endowment assessments	(1,869,431)	(1,838,290)
Participant contributions	<u>8,308,659</u>	<u>17,030,480</u>
Increase in Net Assets	23,269,239	5,769,371
Net assets, beginning of year	<u>263,044,665</u>	<u>257,275,294</u>
Net assets, end of year	<u><u>\$ 286,313,904</u></u>	<u><u>\$ 263,044,665</u></u>

The accompanying notes are an integral part of the financial statements

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**UNIVERSITY OF ALASKA
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CONSOLIDATED ENDOWMENT FUND**

**STATEMENTS OF CASH FLOWS
For the years ended June 30, 2013 and 2012**

Cash flows from operating activities:	<u>2013</u>	<u>2012</u>
Net increase in net assets from operations	\$ 26,466,522	\$ 416,827
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Purchases of investments	(8,677,272)	(57,072,714)
Proceeds from distributions or sale of investments	11,256,213	45,212,791
Net realized and unrealized gain (loss) on investments	<u>(25,789,957)</u>	<u>1,836,302</u>
Net cash provided (used) in operating activities	<u>3,255,506</u>	<u>(9,606,794)</u>
 Cash flows from financing activities:		
Spending distributions	(9,636,511)	(9,839,646)
Endowment assessments	(1,869,431)	(1,838,290)
Participant contributions	<u>8,308,659</u>	<u>17,030,480</u>
Net cash provided (used) by financing activities	<u>(3,197,283)</u>	<u>5,352,544</u>
 Net increase (decrease) in cash and cash equivalents	58,223	(4,254,250)
Cash and cash equivalents, beginning of year	<u>13,103,620</u>	<u>17,357,870</u>
Cash and cash equivalents, end of year	<u><u>\$ 13,161,843</u></u>	<u><u>\$ 13,103,620</u></u>

The accompanying notes are an integral part of the financial statements

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**UNIVERSITY OF ALASKA
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**NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012**

1. Organization

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

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

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

Investments of the fund may be held in the name of the foundation, the university, the fund, or any fund or nominee as may be authorized by the foundation's treasurer. The net assets, including any restrictions, and related activity for their respective investment in the fund are reflected in the financial statements of the university and the foundation.

2. Summary of Significant Accounting Policies

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

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

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

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

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

**UNIVERSITY OF ALASKA
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NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

2. Summary of Significant Accounting Policies, continued

Investments

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

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

Fair Value Measurement

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

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

Level 2 – Quoted prices for similar assets or liabilities, or inputs that are observable, either directly or indirectly, in markets that are either active or inactive. This includes alternative investments valued at net asset value or equivalent with a redemption period of 90 days or less.

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

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

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NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

2. Summary of Significant Accounting Policies, continued

The majority of the fund's investments are reported at the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value of the fund's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2013 and 2012, the fund had no plans or intentions to sell investments at amounts different from NAV.

The following tables summarize the fund's investments by major category in the fair value hierarchy as of June 30, 2013 and 2012, as well as related strategy, liquidity and funding commitments. In accordance with FASB guidance, these tables do not include cash and cash equivalents or other receivable amounts.

	June 30, 2013				Redemption Frequency	Days' Notice
	Level 1	Level 2	Level 3	Total		
Fixed income securities:						
US core index	\$ 34,756,542	\$ -	\$ -	\$ 34,756,542	Daily	1
US Treasury index	18,239,985	-	-	18,239,985	Daily	1
	<u>52,996,527</u>	<u>-</u>	<u>-</u>	<u>52,996,527</u>		
Equity securities:						
Domestic index	50,717,968	-	-	50,717,968	Daily	1
Global index	29,673,225	-	-	29,673,225	Daily	1
Global value fund	13,381,017	-	-	13,381,017	Daily	1
Global growth funds	-	13,232,872	-	13,232,872	Monthly	15
Multi-strategy hedged funds	-	6,495,535	5,795,009	12,290,544	Various (1)	90
Event arbitrage hedged fund	-	-	931,789	931,789	Illiquid (2)	N/A
Global REIT fund	-	3,572,824	-	3,572,824	Monthly	15
Emerging markets index fund	14,155,113	-	-	14,155,113	Daily	1
Private equity & venture funds	-	-	20,245,877	20,245,877	Illiquid (3)	N/A
Mezzanine & distressed debt funds	-	-	3,329,135	3,329,135	Illiquid (4)	N/A
	<u>107,927,323</u>	<u>23,301,231</u>	<u>30,301,810</u>	<u>161,530,364</u>		
Real assets:						
Real assets index	8,721,060	-	-	8,721,060	Daily	1
Multi-strategy commodities fund	-	1,948,696	-	1,948,696	Monthly	5
US private real estate funds	-	-	93,102	93,102	Illiquid (5)	N/A
Energy & natural resources funds	-	-	6,931,577	6,931,577	Illiquid (6)	N/A
Open-ended core real estate funds	-	9,383,370	-	9,383,370	Quarterly	30-60
	<u>8,721,060</u>	<u>11,332,066</u>	<u>7,024,679</u>	<u>27,077,805</u>		
Absolute return:						
Absolute return hedged funds	-	19,047,861	9,660,334	28,708,195	Various (7)	65-95
	<u>-</u>	<u>19,047,861</u>	<u>9,660,334</u>	<u>28,708,195</u>		
	<u>\$ 169,644,910</u>	<u>\$ 53,681,158</u>	<u>\$ 46,986,823</u>	<u>\$ 270,312,891</u>		

(1) One fund allows quarterly redemptions, one fund allows semi-annual redemptions next available December 2013.

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

(3) Funds are expected to liquidate within 1-15 years. Unfunded future commitments total \$8.67 million.

(4) Funds are expected to liquidate within 1-6 years. Unfunded future commitments total \$0.71 million.

(5) Funds are expected to liquidate within 1 year. Unfunded future commitments total \$0.05 million.

(6) Funds are expected to liquidate within 1-15 years. Unfunded future commitments total \$3.36 million.

(7) One fund allows monthly redemptions, one fund allows quarterly redemptions, one fund allows semi-annual redemptions next available December 2013.

There are no additional lock ups or restrictions.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

2. Summary of Significant Accounting Policies, continued

	June 30, 2012				Redemption Frequency	Days' Notice
	Level 1	Level 2	Level 3	Total		
Fixed income securities:						
US core index fund	\$ -	\$ 33,295,554	\$ -	\$ 33,295,554	Daily	5
US Treasury index fund	-	17,814,164	-	17,814,164	Daily	5
	-	51,109,718	-	51,109,718		
Equity securities:						
Domestic index fund	-	45,041,565	-	45,041,565	Daily	5
Global index fund	-	25,686,876	-	25,686,876	Semi-monthly	5
Global value mutual fund	11,613,707	-	-	11,613,707	Daily	1
Global growth funds	-	11,661,492	-	11,661,492	Monthly	6-15
Multi-strategy hedged funds	-	5,691,608	5,096,310	10,787,918	Various (1)	90
Event arbitrage hedged fund	-	-	1,224,759	1,224,759	Illiquid (2)	N/A
Global REIT fund	-	3,203,119	-	3,203,119	Monthly	15
Emerging markets index fund	-	13,033,499	-	13,033,499	Semi-monthly	5
Private equity & venture funds	-	-	21,212,807	21,212,807	Illiquid (3)	N/A
Mezzanine & distressed debt funds	-	-	4,144,232	4,144,232	Illiquid (4)	N/A
	11,613,707	104,318,159	31,678,108	147,609,974		
Real assets:						
Real assets index fund	-	8,743,270	-	8,743,270	Semi-monthly	5
Multi-strategy commodities fund	-	1,646,224	-	1,646,224	Monthly	30
US private real estate funds	-	-	6,100	6,100	Illiquid (5)	N/A
Energy & natural resources funds	-	-	6,795,868	6,795,868	Illiquid (6)	N/A
Open-ended core real estate funds	-	8,580,708	-	8,580,708	Quarterly	30-60
	-	18,970,202	6,801,968	25,772,170		
Absolute return:						
Absolute return hedged funds	-	17,091,982	8,357,201	25,449,183	Various (7)	65-95
	-	17,091,982	8,357,201	25,449,183		
	\$ 11,613,707	\$ 191,490,061	\$ 46,837,277	\$ 249,941,045		

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

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

(3) Funds are expected to liquidate within 1-15 years. Unfunded future commitments total \$10.17 million.

(4) Funds are expected to liquidate within 1-7 years. Unfunded future commitments total \$0.83 million.

(5) Funds are expected to liquidate within 1-3 years. Unfunded future commitments total \$0.05 million.

(6) Funds are expected to liquidate within 1-15 years. Unfunded future commitments total \$3.69 million.

(7) One fund allows monthly redemptions, one fund allows quarterly redemptions, one fund allows semi-annual redemptions next available December 2012.

There are no additional lock ups or restrictions.

The fund's registered mutual fund and exchange traded funds are classified in Level 1 of the fair value hierarchy because fair value is based on quoted market prices. Most investments classified in Levels 2 and 3 consist of shares or units in non-registered investment funds as opposed to direct interests in the funds' underlying securities, some of which are marketable or not difficult to value. Because each investment fund's reported NAV is used as a practical expedient to estimate the fair value of the fund's interest therein, the level in which an

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NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

2. Summary of Significant Accounting Policies, continued

investment fund's fair value measurement is classified is based on the fund's ability to redeem its interest at or near the date of the statement of assets and liabilities. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risks associated with those investments or a reflection of the liquidity of or degree of difficulty in estimating the fair value of each investment fund's underlying assets and liabilities.

Securities classified within Level 3 investments are based on valuations provided by the external investment managers. The foundation's investment committee, in conjunction with the external investment advisors, monitors and analyzes the valuation of the investments. The valuations consider variables such as financial performance of investments, recent sales prices of investments, and other pertinent information.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. During the year ended June 30, 2013, the fund's Level 2 common trust funds were sold and replaced with Level 1 exchange traded funds. This is not considered a transfer and there have been no changes in valuation techniques.

Management has evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets available for benefits. There were no transfers between levels during the years ended June 30, 2013 and June 30, 2012.

The following table presents the fund's activities for the years ended June 30, 2013 and 2012 for investments classified in Level 3:

	Equity Securities	Real Assets	Absolute Return	Total
Balance, July 1, 2011	\$ 35,018,128	\$ 6,926,037	\$ -	\$ 41,944,165
Additions	2,525,499	787,500	8,200,000	11,512,999
Withdrawals	(6,337,859)	(1,214,400)	-	(7,552,259)
Net investment income (losses)	(126,644)	84,168	(57,394)	(99,870)
Net realized gains	1,784,789	208,472	-	1,993,261
Change in net unrealized gains (losses)	(1,185,805)	10,191	214,595	(961,019)
Balance, June 30, 2012	31,678,108	6,801,968	8,357,201	46,837,277
Additions	1,617,724	337,500	400,000	2,355,224
Withdrawals	(6,308,399)	(2,389,973)	-	(8,698,372)
Net investment income (losses)	144,345	95,137	(116,099)	123,383
Net realized gains	2,864,671	1,627,886	-	4,492,557
Change in net unrealized gains	305,361	552,160	1,019,232	1,876,753
Balance, June 30, 2013	<u>\$ 30,301,810</u>	<u>\$ 7,024,678</u>	<u>\$ 9,660,334</u>	<u>\$ 46,986,822</u>

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NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

2. Summary of Significant Accounting Policies, continued

The amount of net unrealized gains related to Level 3 assets still held at June 30, 2013 is approximately \$1.7 million and is included in the net realized and unrealized investment gains in the statement of operations and changes in net assets.

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

Investment liquidity as of June 30, 2013 is aggregated below based on redemption or sale period:

<u>Redemption Period</u>	<u>Amounts</u>	<u>Fiscal Year</u>	<u>Amounts</u>
Daily	\$ 169,644,910	2014	\$ 239,120,620
Monthly	28,135,668	2015	4,175,770
Quarterly	25,545,491	2016	2,259,572
Semi-Annually	15,455,343	2017	4,313,686
Illiquid	31,531,479	Thereafter	20,443,243
	<u>\$ 270,312,891</u>		<u>\$ 270,312,891</u>

Income Taxes

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

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NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

2. Summary of Significant Accounting Policies, continued

Subsequent Events

Management has evaluated subsequent events and transactions that occurred after June 30, 2013 through the date the financial statements were available to be issued, concluding October 17, 2013.

On June 17, 2013, the foundation entered into a partnership agreement with Cambridge Associates Resources, LLC to form the University of Alaska Foundation Consolidated Endowment Fund, L.P. (the partnership) and assume management of the fund effective July 1, 2013. The partnership is a single investor fund with Cambridge Associates Resources, LLC serving as general partner, and the University of Alaska Foundation serving as the sole limited partner. This relationship does not affect the ownership of units in the Consolidated Endowment Fund by the university or the foundation. Effective July 1, 2013, all assets of the fund were transferred to the partnership. The investment committee of the foundation has retained authority for setting investment policy, guidelines and philosophy, and approving asset allocation targets and benchmarks. Under the restructuring plan for the fund, the general partner will be delegated discretionary authority by the investment committee for manager selection and termination, management of cash flows to and from investments of the partnership, due diligence on underlying managers and investments, and performance reporting.

3. Asset Allocation

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

	2013	2012
Cash and cash equivalents	4.6%	5.0%
Fixed income	18.7%	19.4%
Equities, domestic	17.9%	17.1%
Equities, global	25.8%	24.4%
Equities, emerging markets	5.0%	5.0%
Equities, private	8.3%	9.6%
Real assets	9.6%	9.8%
Absolute return	10.1%	9.7%
	<u>100%</u>	<u>100%</u>

4. Other Receivable

On the last business day of the fiscal year, the fund sold all of its common trust fund investments and purchased exchange traded funds. The purchase and sale transactions all had trade dates of June 28, 2013 with settlement dates in early July, 2013.

Proceeds receivable from sale of securities	\$ 159,161,331
Payable for purchase of securities	<u>(156,322,161)</u>
	<u>\$ 2,839,170</u>

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NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

5. Changes in Net Asset Balances

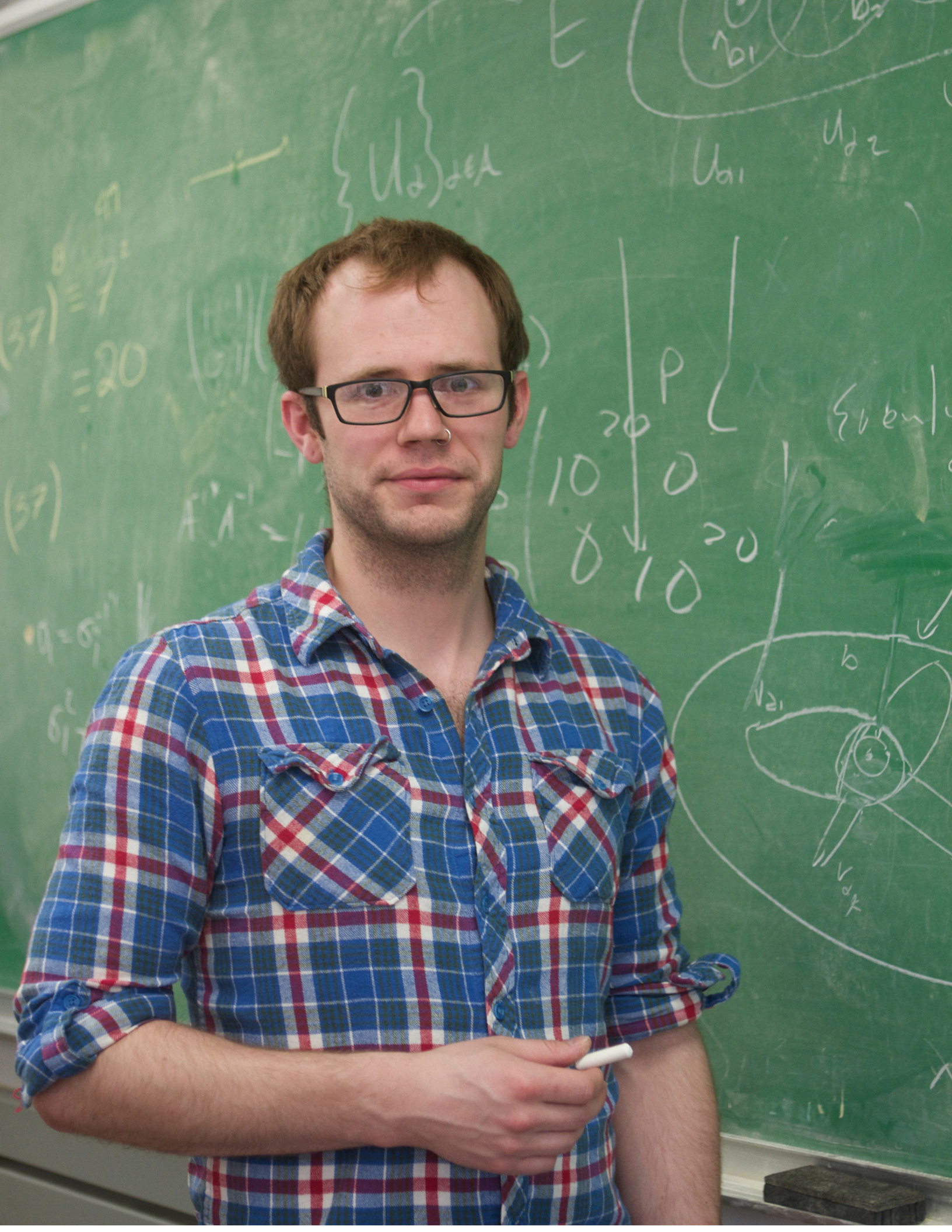
Changes in net asset balances by participant were as follows:

	University	Foundation	Total
Balance, July 1, 2011	\$ 125,422,019	\$ 131,853,275	\$ 257,275,294
Net increase from operations	75,377	341,450	416,827
Distributions for spending	(5,051,919)	(4,787,727)	(9,839,646)
Distributions for assessments	(626,625)	(1,211,665)	(1,838,290)
Participant contributions	5,406,906	11,623,574	17,030,480
Balance, June 30, 2012	125,225,758	137,818,907	263,044,665
Net increase from operations	12,583,278	13,883,244	26,466,522
Distributions for spending	(4,728,700)	(4,907,811)	(9,636,511)
Distributions for assessments	(598,592)	(1,270,839)	(1,869,431)
Participant contributions	2,104,455	6,204,204	8,308,659
Balance, June 30, 2013	<u>\$ 134,586,199</u>	<u>\$ 151,727,705</u>	<u>\$ 286,313,904</u>

6. Distributions

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







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Acknowledgements

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