



UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Financial Statements
June 30, 2009 and 2008
(With Independent Auditors' Report Thereon)

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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, 2009 (2009) and June 30, 2008 (2008), with selected comparative information for the year ended June 30, 2007 (2007). 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, non profit component unit. The three basic financial statements of the university are: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These statements are prepared in accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) pronouncements. The university is presented as a business-type activity. GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, establishes standards for external financial reporting for public colleges and universities and classifies resources into three net asset categories – unrestricted, restricted, and invested in capital assets, net of related debt.

The University of Alaska 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

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

A summarized comparison of the university's assets, liabilities and net assets at June 30, 2009, 2008 and 2007 follows (\$ in thousands):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Assets:			
Current assets	\$ 180,314	\$ 113,073	\$ 109,700
Other assets	181,070	306,979	296,233
Capital assets, net of depreciation	<u>833,989</u>	<u>792,161</u>	<u>736,894</u>
Total assets	<u>1,195,373</u>	<u>1,212,213</u>	<u>1,142,827</u>
Liabilities:			
Current liabilities	100,481	95,803	92,406
Noncurrent liabilities	<u>142,709</u>	<u>177,607</u>	<u>162,971</u>
Total liabilities	<u>243,190</u>	<u>273,410</u>	<u>255,377</u>
Net assets:			
Invested in capital assets, net of debt	705,398	671,700	619,665
Restricted – expendable	12,233	46,707	55,587
Restricted – nonexpendable	127,416	126,752	124,114
Unrestricted	<u>107,136</u>	<u>93,644</u>	<u>88,084</u>
Total net assets	<u>\$ 952,183</u>	<u>\$ 938,803</u>	<u>\$ 887,450</u>

Overall, total assets of the university decreased \$16.8 million, or 1.4 percent from the prior year. The major change was in the endowment and non-endowment investments that suffered significant losses in 2009 and decreased \$52.6 million, or 18 percent from 2008. These declines were offset by an increase in net capital assets of \$41.8 million. Total liabilities decreased \$30.2 million largely due to the write off of the net pension and other post-employment benefit obligations of \$31.3 million. Each of these changes is discussed in more detail in the following sections.

The university significantly changed the allocation of its operating investment portfolio in 2009 in response to the global financial crisis. In general, management liquidated its long term investments and converted them to cash or safer, shorter term, investments. These actions were part of a strategy to reduce risk, enhance liquidity and safeguard university investments from additional market exposure. As a result, cash and cash equivalents increased \$73.1 million to \$81.7 million at June 30, 2009. The majority of these funds, \$69.8 million, are invested in a highly liquid government securities fund. Long-term investments were reduced from \$83.9 million at June 30, 2008 to \$7.9 million at June 30, 2009. There is more information in Note 2, *Deposits and Investments*, regarding the specific investments held at year end.

Restricted cash and cash equivalents decreased from \$19.7 million at June 30, 2008 to \$5.1 million at June 30, 2009. The decrease is mostly attributed to the expenditure of Series O general revenue bond proceeds for the University of Alaska Anchorage Parking Garage construction.

Endowment investments at June 30, 2009 were \$111.0 million as compared to \$145.2 million at June 30, 2008. This decrease was primarily caused by a 24 percent investment loss as a result of the global financial crisis.

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

Net accounts receivable decreased from \$69.1 million at June 30, 2008 to \$64.5 million at June 30, 2009. Amounts due from the state as reimbursement for construction project expenditures were less at year end and comprised the majority of the decrease. Other components of accounts receivable consist of amounts due from students, government agencies, and auxiliary customers. These balances remained relatively stable as compared to prior year. Management continues to work on improving the billing and collection process. See Note 3 of the financial statements for accounts receivable detail.

Total liabilities are categorized as either current liabilities or noncurrent liabilities on the Statement of Net Assets. Current liabilities are those that are due or will likely be paid in the next fiscal year. They are primarily comprised of accounts payable, accrued payroll and other expenses, insurance and risk management payables, debt and student deposits. Noncurrent assets are comprised mostly of long-term debt. Total liabilities decreased \$30.2 million during 2009 to a total of \$243.2 million. The major changes are described below.

Net pension and OPEB obligations totaling \$31.3 million were written off effective July 1, 2008, when the Public Employees' Retirement System (PERS) plan changed from an agent to a multiple-employer plan. GASB does not require these obligations to be recorded for multiple-employer plans. The effect of this change is recorded on the Statement of Revenues, Expenses and Changes in Net Assets as an extraordinary item and is further discussed in Note 12, *Pension Plans*.

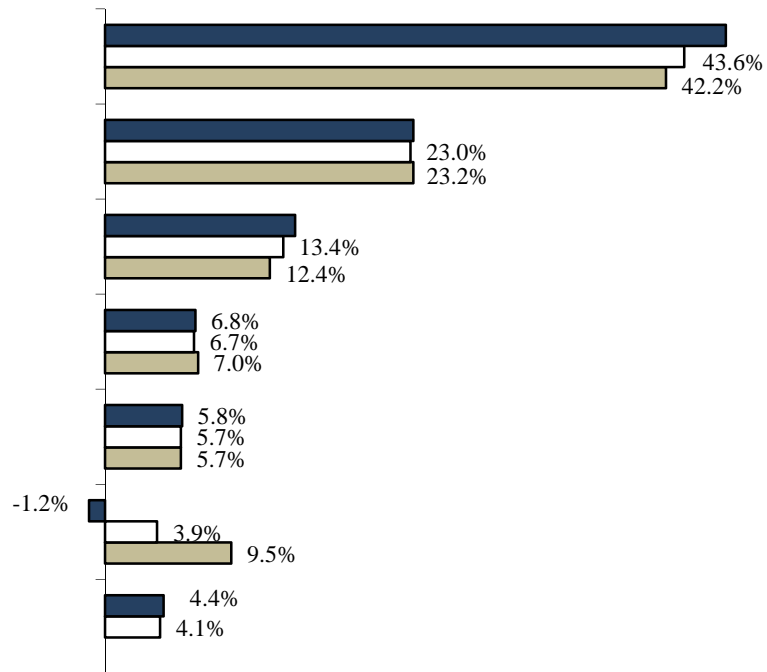
Total debt outstanding decreased from \$136.7 million at June 30, 2008 to \$128.0 million at June 30, 2009. The change consists of principal payments totaling \$6.0 million plus payoff of the Bunnell Park property note payable totaling \$3.8 million, less new equipment financings of \$1.1 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 \$320.8 million in 2009, as compared to \$300 million in 2008. Historically, the state has funded the university at 2.56 percent of the state general fund. The 2.56 percent increase over 2008 was primarily caused by the actuarial rate for PERS increasing from 28.23 percent to 35.22 percent and the underlying covered payroll increasing. The pension payments were made on-behalf of the university and are presented as revenue and expenses in the university’s financial statements in accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*.

A comparison of operating and nonoperating revenues by source for 2009, 2008 and 2007 follows:

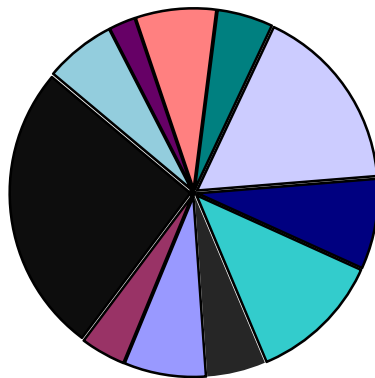


funding through the American Recovery and Reinvestment Act (“stimulus” funds). This is further discussed in the *Other Economic and Financial Conditions* section which follows. Gross student tuition and fee revenue totaled \$107.4 million in 2009 as compared to \$99.9 million in 2008. This was due in large part to a five percent increase in tuition rates for students for academic year 2008 - 2009, and a \$.8 million increase in total fee revenue from \$18.8 million at June 30, 2008 to \$19.6 million at June 30, 2009.

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

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

Operating Expenses						
Functional Classification (in millions)						
	<u>FY2009</u>		<u>FY2008</u>		<u>FY2007</u>	
Instruction	\$196.3	25.9%	\$183.2	25.6%	\$181.2	26.9%
Student Services	48.2	6.4%	45.4	6.3%	41.9	6.2%
Student Aid	17.9	2.3%	14.9	2.1%	13.5	2.0%
Academic Support	54.7	7.2%	52.2	7.3%	50.7	7.6%
Student and Academic	<u>\$317.1</u>	<u>41.8%</u>	<u>\$295.7</u>	<u>41.3%</u>	<u>\$287.3</u>	<u>42.7%</u>
Public Service	37.8	5.0%	36.1	5.0%	32.9	4.9%
Research	127.0	16.7%	121.8	17.0%	131.3	19.5%
Operations and Maintenance	61.2	8.1%	55.0	7.7%	50.2	7.5%
Institutional Support	90.2	11.9%	82.6	11.5%	69.6	10.3%
Auxiliary Enterprises	39.7	5.2%	39.4	5.5%	38.7	5.8%
NPO,OPEB, State On-Behalf	30.5	4.0%	29.0	4.1%	5.4	0.8%
Depreciation	55.6	7.3%	56.9	7.9%	57.4	8.5%
Total Operating Expenses	<u><u>\$759.1</u></u>	<u><u>100.0%</u></u>	<u><u>\$716.5</u></u>	<u><u>100.0%</u></u>	<u><u>\$672.8</u></u>	<u><u>100.0%</u></u>



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

Salaries and employee benefits increased 6.3 percent, or \$27.0 million, in 2009. Employee benefits, such as pension plan contributions and

MANAGEMENT'S DISCUSSION AND ANALYSIS
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Institutional support expenses fluctuate due to the accounting method used to record employee benefits. The university employs a central benefits pool concept, and uses a staff benefit rate, to charge estimated employee benefits, such as pension and healthcare costs, to labor recorded in the various functional expense categories. Institutional support expenses are impacted when the amounts charged exceed, or are less than, actual benefits paid to third parties. Over recovery or under recovery of charges in one year are built into the rate building process the following year. When considered in total, operating expenses across all functional categories include the correct amount of employee benefit expense each fiscal year.

Net investment losses from all non-endowment sources totaled \$8.1 million in 2009 as a result of the global financial crisis. Operating investments experienced a 6.9 percent loss. As discussed earlier in the assets and liabilities section, manage

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

Capital and Debt Activities

The University of Alaska has continued to modernize various facilities and to build new facilities to address emerging state needs. Net capital asset additions totaled \$76.1 million in 2009, as compared with \$101.9 million in 2008 and \$45.1 million in 2007. 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 2009 and 2008 were \$107.2 million and \$12.9 million, respectively. At June 30, 2009, \$125.7 million remains unexpended from current and prior year capital appropriations and general revenue bond proceeds, of which \$31.0 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.

State of Alaska capital appropriations for 2010 total \$3.2 million and are designated for renewal and replacement projects at various campuses in the university system.

Construction in progress at June 30, 2009 totaled \$120.8 million and includes the following major projects:

University of Alaska Anchorage Integrated Science Building (ISB): This \$91 million facility completed in fall 2009 includes instructional, student, and administrative space. Features include state of the art science academic labs and technology associated with distance delivery. The facility is designed to incorporate program growth in integrated sciences, including integrated science instruction for majors and non-majors, environmental studies and systems research, biomedical research, and complex system studies to prepare students to meet the employment needs of the state of Alaska.

University of Alaska Anchorage Parking Garage associated with the ISB, Loop Road and Amenities Building: This \$17.2 million structure completed in fall 2009 consists of a three level parking garage for 445 vehicles, a loop road connecting ISB service entrance to the Fine Arts building parking lot and a detached amenities/auxiliary building that hoed 055 u

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

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, and to refund previously issued general revenue bonds and other contractual obligations in order to realize debt service savings.

The university has traditionally utilized tax exempt financings to provide for its capital needs or to facilitate systematic renewals. Short-term lines of credit or working capital is available to provide interim cash flow financing for facilities intended to be funded with general revenue bond proceeds.

Other Economic and Financial Conditions

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

The Board of Regents approved the following tuition increases: 1) five percent for the 2009 – 2010 academic year, 2) four percent for 100 to 200 level courses and seven percent for all other courses in the 2010 – 2011 academic year, and 3) five percent for 100 to 200 level courses and ten percent for all other courses in the 2011 – 2012 academic year.

The University of Alaska Fairbanks received a \$148.1 million award from the National Science Foundation to construct the Alaska Region Research Vessel (ARRV). As designed, the vessel will be a 236 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 ARRV is expected to be completed in 2014.

As of October 1, 2009, the university received \$169.0 million in American Recovery and Reinvestment Act (ARRA) awards (also known as "stimulus" funds). The largest award is for the ARRV described above. The other awards are predominantly for research activities that the university conducts in the normal course of its mission. Periods of performance range from one to five years. There are numerous ARRA proposals pending, totaling \$67.5 million.



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Independent Auditors' Report

The Board of Regents
University of Alaska:

We have audited the accompanying basic financial statements of the University of Alaska and its discretely presented component unit (University), a component unit of the State of Alaska, as of and for the years ended June 30, 2009 and 2008 as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Alaska and its discretely presented component unit at June 30, 2009 and 2008, and the respective changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2009 on our consideration of the University of Alaska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in accessing the results of our audit.

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

November 4, 2009

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UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Net Assets
June 30, 2009 and 2008
(in thousands)

Assets	2009	2008
Current assets:		
Cash and cash equivalents	\$ 81,728	\$ 8,642
Short-term investments	26,184	26,463
Accounts receivable, less allowance of \$6,573 in 2009 and \$5,239 in 2008	64,523	69,084
Other assets	659	774
Inventories	7,220	8,110
Total current assets	180,314	113,073
Noncurrent assets:		
Restricted cash and cash equivalents	5,091	19,692
Notes receivable	4,433	4,583
Endowment investments	111,011	145,212
Land Grant Trust property and other assets	44,674	45,001
Long-term investments	7,875	83,922
Education Trust of Alaska	7,986	8,569
Capital assets, net of accumulated depreciation of \$715,776 in 2009 and \$681,520 in 2008	833,989	792,161
Total noncurrent assets	1,015,059	1,099,140
Total assets	1,195,373	1,212,213
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	19,221	18,797
Accrued payroll	24,966	21,292
Deferred revenue and deposits	17,086	15,032
Accrued annual leave	11,320	10,459
Deferred lease revenue - current portion	1,281	1,281
Long-term debt - current portion	6,473	9,659
Insurance and risk management	20,134	19,283
Total current liabilities	100,481	95,803
Noncurrent liabilities:		
Deferred revenue - capital	10,519	5,781
Deferred lease revenue	4,804	6,085
Long-term debt	121,540	127,019
Net pension and OPEB obligations	-	31,325
Security deposits and other liabilities	5,846	7,397
Total noncurrent liabilities	142,709	177,607
Total liabilities	243,190	273,410
Net Assets		
Invested in capital assets, net of related debt	705,398	671,700
Restricted:		
Expendable:		
Restricted funds	848	790
Education Trust of Alaska	2,879	5,173
Capital projects and debt service	8,496	7,303
Endowment	10	33,441
Nonexpendable		
Endowment	95,682	94,571
Land Grant Trust	31,734	32,181
Unrestricted (see Note 7)	107,136	93,644
Total net assets	\$ 952,183	\$ 938,803

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UNIVERSITY OF ALASKA FOUNDATION
(A Component Unit of the University of Alaska)
Statements of Financial Position
June 30, 2009 and 2008
(in thousands)

Assets	2009	2008
Cash and cash equivalents	\$ 30,609	\$ 904
Interest receivable	77	110
Short-term investments	-	6,668
Contributions receivable	17,746	16,548
Escrows receivable	145	155

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UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2009 and 2008
(in thousands)

	2009	2008
Operating revenues		
Student tuition and fees	\$ 107,424	\$ 99,921
less scholarship allowances	(9,213)	(7,838)
	98,211	92,083
Federal grants and contracts	135,574	136,497
State grants and contracts	19,848	17,885
Local grants and contracts	3,533	3,472
Private grants and contracts	46,902	45,985
Federal appropriations	3,525	2,991

UNIVERSITY OF ALASKA FOUNDATION
(A Component Unit of the University of Alaska)
Statements of Activities
For the years ended June 30, 2009 and 2008
(in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009</u>
Revenues, gains (losses) and other support				
Contributions	\$ 5,808	\$ 17,727	\$ 6,275	\$ 29,810
Investment income	1,062	1,056	-	2,118
Net realized and unrealized investment losses	(12,168)	(19,446)	-	(31,614)
Other revenues	2	73	-	75
Actuarial adjustment of remainder trust obligations	-	(6)	(30)	(36)
Losses on disposition of other assets	-	(526)	-	(526)
Administrative assessments	1,941	(1,171)	(23)	747
Support from University of Alaska	1,390	-	-	1,390
Net assets released from restriction	<u>11,362</u>	<u>(11,362)</u>	<u>-</u>	<u>-</u>
Total revenues, gains (losses) and other support	<u>9,397</u>	<u>(13,655)</u>	<u>6,222</u>	<u>1,964</u>
Expenses and distributions				
Operating expenses	1,891	-	-	1,891
Distributions for the benefit of the University of Alaska	<u>17,700</u>	<u>-</u>	<u>-</u>	<u>17,700</u>
Total expenses and distributions	<u>19,591</u>	<u>-</u>	<u>-</u>	<u>19,591</u>
Excess (deficit) of revenues over expenses	<u>(10,194)</u>	<u>(13,655)</u>	<u>6,222</u>	<u>(17,627)</u>
Transfers between net asset classes	<u>48</u>	<u>(276)</u>	<u>228</u>	<u>-</u>
Increase (decrease) in net assets	(10,146)	(13,931)	6,450	(17,627)
Net assets, beginning of year	<u>41,379</u>	<u>81,280</u>	<u>53,245</u>	<u>175,904</u>
Net assets, end of year	<u>\$ 31,233</u>	<u>\$ 67,349</u>	<u>\$ 59,695</u>	<u>\$ 158,277</u>

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2008</u>
\$ 857	\$ 25,652	\$ 2,622	\$ 29,131
1,889	1,494	-	3,383
(1,797)	(4,405)	-	(6,202)
1	97	-	98
-	(6)	(7)	(13)
-	(115)	-	(115)
1,214	(981)	(18)	215
858	-	-	858
<u>12,023</u>	<u>(12,023)</u>	<u>-</u>	<u>-</u>
<u>15,045</u>	<u>9,713</u>	<u>2,597</u>	<u>27,355</u>
1,983	-	-	1,983
<u>15,429</u>	<u>-</u>	<u>-</u>	<u>15,429</u>
<u>17,412</u>	<u>-</u>	<u>-</u>	<u>17,412</u>
<u>(2,367)</u>	<u>9,713</u>	<u>2,597</u>	<u>9,943</u>
<u>(11)</u>	<u>(192)</u>	<u>203</u>	<u>-</u>
<u>(2,378)</u>	<u>9,521</u>	<u>2,800</u>	<u>9,943</u>
<u>43,757</u>	<u>71,759</u>	<u>50,445</u>	<u>165,961</u>
<u>\$ 41,379</u>	<u>\$ 81,280</u>	<u>\$ 53,245</u>	<u>\$ 175,904</u>

UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Cash Flows
For the Years Ended June 30, 2009 and 2008
(in thousands)

	2009	2008
Cash flows from operating activities		
Student tuition and fees, net	\$ 99,077	\$ 90,481
Grants and contracts	203,465	202,720
Sales and services, educational departments	3,850	3,345
Sales and services, auxiliary enterprises	40,199	39,101
Federal appropriations	3,525	2,991
Local appropriations	717	717
Other operating receipts	14,406	13,176
Payments to employees for salaries and benefits	(448,630)	(424,880)
Payments to suppliers	(196,853)	(193,640)
Payments to students for financial aid	(17,933)	(14,889)
	(298,177)	(280,878)
Cash flows from noncapital financing activities		
State appropriations	320,985	300,027
Other payments	(905)	(1,085)
Direct lending receipts	74,994	67,427
Direct lending payments	(74,927)	(67,334)
	320,147	299,035
Cash flows from capital and related financing activities		
Capital appropriations, grants and contracts	76,163	78,903
Proceeds from issuance of capital debt	-	23,795
Purchases of capital assets	(100,614)	(109,026)
Principal paid on capital debt	(9,714)	(6,280)
Interest paid on capital debt	(5,473)	(4,843)
	(39,638)	(17,451)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	264,280	472,790
Purchases of investments	(199,648)	(465,825)
Interest received on investments	3,134	5,802
Interest and other sales receipts from endowment assets	8,387	11,293
	76,153	24,060
Net increase in cash and cash equivalents	58,485	24,766
Cash and cash equivalents, beginning of the year	28,334	3,568
Cash and cash equivalents, end of the year	\$ 86,819	\$ 28,334
Cash and cash equivalents (current)	\$ 81,728	\$ 8,642
Restricted cash and cash equivalents (noncurrent)	5,091	19,692
Total cash and cash equivalents	\$ 86,819	\$ 28,334

UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Cash Flows
For the Years Ended June 30, 2009 and 2008
(in thousands)

Reconciliation of operating loss to net cash used by

operating activities:	2009	2008
Operating loss	\$ (391,230)	\$ (359,852)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	55,649	56,883
State on-behalf payments	30,502	28,464
Changes in assets and liabilities:		
Accounts receivable, net	(3,262)	(3,300)
Other assets	115	(90)
Inventories	890	434
Accounts payable and accrued expenses	3,106	(5,240)
Accrued payroll	3,674	440
Deferred revenue, deposits from students and others	1,948	477
Accrued annual leave	861	533
Deferred lease revenue - current portion	(1,281)	(1,281)
Insurance and risk management	851	1,115
Net pension and OPEB obligations	-	539
Net cash used by operating activities	\$ (298,177)	\$ (280,878)

Noncash Investing, Capital and Financing Activities:

For the Year Ended June 30, 2009

Additions to capital assets include \$.6 million expended and capitalized but not paid for at year end.

The university financed the purchase of equipment totaling \$1.0 million.

Book value of capital asset disposals totaled \$1.8 million.

The university received on-behalf pension payments from the state of Alaska totaling \$30.5 million.

For the Year Ended June 30, 2008

Additions to capital assets include \$0.9 million expended and capitalized but not paid for at year end.

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

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

The university received on-behalf pension payments from the state of Alaska totaling \$28.5 million.

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

1. Organization and Summary of Significant Accounting Policies:

Organization and Basis of Presentation:

The University of Alaska (university) is a constitutionally created corporation of the State of Alaska which is authorized to hold title to real and personal

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies:

The accompanying financial statements have been prepared on the economic resources measurement focus and the accrual basis of accounting. All significant intra-university transactions have been

NOTES TO FINANCIAL STATEMENTS

Capital Assets

Capital assets are stated at cost when purchased and

NOTES TO FINANCIAL STATEMENTS

Lapse of State Appropriations

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

Reclassifications

Certain amounts in the June 30, 2008 financial statements have been reclassified for comparative purposes to conform to the presentation in the June 30, 2009 financial statements.

2. Deposits and Investments:

Deposits and investments at June 30, 2009 were as follows (\$ in thousands):

<u>Investment Type</u>	<u>Operating</u>	<u>Capital Funds</u>	<u>Endowment</u>	<u>College Savings Program</u>	<u>Total</u>
Cash and Deposits	\$ (780)	\$ -	\$ 174	\$ -	\$ (606)
Repurchase Agreement	15,789	-	-	-	15,789
Short Term Fund	8,011	90	759	-	8,860
Intermediate Term Fund	10,120	-	43	-	10,163
Multi-Strategy Bond Fund	-	-	5,140	-	5,140
Government Securities Fund	69,822	435	14,797	-	85,054
Hedge Funds	8,054	-	15,962	-	24,016
Money Market Mutual Funds	-	8,876	-	24,016	33,792

NOTES TO FINANCIAL STATEMENTS

Capital funds include unexpended general revenue bond proceeds and related reserves, advances from state capital appropriations and other reserves designated for capital purposes. General revenue bond proceeds of \$4.6 million and related reserves totaling \$4.8 million are invested with a third party trustee in accordance with terms of a trust indenture, requiring purchase of investment securities that are investment grade.

Endowment funds primarily consist of \$108.9 million in investable resources of the university's land grant endowment trust fund and are invested in a consolidated endowment fund managed by the University of Alaska Foundation (foundation). These resources are combined with the foundation's pooled endowment funds for investment purposes, and managed by the foundation's investment committee and treasurer on a total return basis in accordance with an investment policy approved by the Board of Regents.

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

Certain funds held in trust for the benefit of the university are not included in the financial statements as the university has only limited control over their administration. These funds are in the custody of independent fiduciaries and at June 30, 2009 had an estimated fair value of approximately \$3.3 million.

At June 30, 2009, the university has approximately \$37.5 million in investments which are not readily marketable. Approximately \$29.4 million is invested in the consolidated endowment fund managed by the foundation and \$8.1 million is invested in hedge funds within the university's operating funds. 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, dependence 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 investments existed. Such difference could be material.

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

Foreign Currency Risk:

Foreign currency risk is the risk that changes in exchange rates could have
currency risk.

Credit Risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

NOTES TO FINANCIAL STATEMENTS

The consolidated endowment fund investment policy requires all purchases of debt securities to be of investment grade and marketable at the time of purchase unless otherwise approved by the foundation's investment committee. At June 30, 2009, investments consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (\$ in thousands):

<u>Investment Type</u>	<u>Rating</u>	<u>Operating</u>	<u>Capital Funds</u>	<u>Endowment</u>	<u>College Savings Program</u>
Money Market Mutual Fund	Aaa	-	\$ 8,876	-	-
Money Market Mutual Funds	Not Rated	-	-	-	\$ 245
Short Term Fund	Not Rated	\$ 8,011	\$ 90	\$ 759	-
Intermediate Term Fund	AAA	\$ 10,035	-	-	-
Intermediate Term Fund Tranche 2	AA	\$ 85	-	\$ 43	-
Multi-Strategy Bond Fund	AA	-	-	\$ 5,140	-
Hedge Funds	Not Rated	\$ 8,054	-	\$ 15,962	-
Debt Related		-	-	-	-
Federal Agency	Aaa	-	\$ 461	-	-
Fixed Income Funds	Not Rated	-	-	\$ 10,781	\$ 4,392

Concentration of Credit Risk:

Concentration of credit risk is the risk of loss attributed to the magnitude of the university's investment in a single issuer. GASB 40 requires disclosure when the amount invested with a single issuer, by investment type, exceeds five percent or more of that investment type. At June 30, 2009, the university did not have any material concentrations of credit risk.

The consolidated endowment fund investment policy limits debt investment to 20% of the total endowment. The custodial credit risk for deposits held at a financial institution, the university will not be able to recover deposits if the institution fails. For investments in securities in the possession of an outside party. For investments in securities, in the event of failure of the counterparty to a transaction, the university may not receive the full value of investment or collateral securities in the possession of the counterparty.

At June 30, 2009, the university does not have custodial investments in securities covered by Federal Depository Insurance or securities purchased under a securities repurchase agreement held at the Bank of New York. The custodial credit risk for deposits held at June 30, 2009, provided \$5.1 million coverage in excess of the amount of deposits held.

NOTES TO FINANCIAL STATEMENTS

Interest Rate Risk:

NOTES TO FINANCIAL STATEMENTS

4. Education Trust of Alaska:

Assets held in trust include operating funds of the Education Trust of Alaska (Trust). The Trust was established pursuant to state statute on April 20, 2001 by the Board of Regents to facilitate administration of the state's Internal Revenue Code (IRC) Section 529 College Savings Program. The program is a nationally marketed college savings program developed in accordance with IRC Section

NOTES TO FINANCIAL STATEMENTS

6. Capital Assets:

NOTES TO FINANCIAL STATEMENTS

7. Unrestricted Net Assets:

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

	<u>2009</u>	<u>2008</u>
Designated:		
Auxiliaries	\$ 7,278	\$ 6,394
Working capital fund	4,715	4,715
Working capital advances	(2,318)	(955)
Service centers	11,369	9,705
Debt service funds	1,598	1,494
Renewal and replacement funds	7,708	7,498
Quasi-endowment funds	27,711	27,228
Net pension and OPEB obligations	-	(31,325)
Employee benefit funds	8,437	9,537
Endowment earnings	11,916	12,346
Endowment - underwater	(1,398)	-
Encumbrances	<u>14,900</u>	<u>10,307</u>
Total designated	91,916	56,944

NOTES TO FINANCIAL STATEMENTS

Substantially all regular employees hired before July 1, 2006 participate in one of the following pension plans:

The State of Alaska Public Employees' Retirement System – Defined Benefit (PERS-DB), a cost-sharing, multiple-employer public employee retirement plan,

The State of Alaska Teachers' Retirement System – Defined Benefit (TRS-DB), a cost-sharing, multiple-employer public employee retirement plan,

The University of Alaska Optional Retirement Plan (ORP) Tier 1 or Tier 2, a single-employer defined contribution plan.

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

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

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

Plan Description

PERS-DB 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-DB 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 2009 actuarially determined rate was 35.22 percent of applicable gross pay. However, the employer contribution rate for the university was capped by the state at 22 percent for fiscal year 2009.

NOTES TO FINANCIAL STATEMENTS

The state appropriated funding directly to the PERS-DB plan as a relief payment to employers' contributions for fiscal year 2009. The university recognized \$16,724,174 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, 2009, 2008 and 2007 were \$27,269,589, \$27,230,213, and \$26,667,693, respectively, equal to the required employer contributions for each year.

PERS Defined Benefit Pension Plan Changes

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

As a result of the conversion, the Net Pension (NPO) and Other Postemployment Benefit (OPEB) obligations are no longer required to be recorded as liabilities for cost-sharing plans according to government accounting standards. Accordingly, net pension and OPEB obligations totaling \$31,325,361 were "written off" as extraordinary items as of July 1, 2008.

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 cre of trbof tob8o72.8(er)-5.9(s)0g, ms-uTD.0ro4 TD.0006 T

NOTES TO FINANCIAL STATEMENTS

Defined Contribution Plans:

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 an individual retirement account for the exclusive benefit of members or beneficiaries.

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 fiscal years 2009 and 2008. For the years ended June 30, 2009 and 2008, the university's total covered payroll for the PERS-DC plan was approximately \$4.4 million and \$1.6 million, and contributions made by the university totaled \$965,143 and \$346,147, 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 2009 and 2008 are 0.99 percent for medical coverage and 0.58 percent (1.33 percent for peace officers and firefighters) for occupational death and disability benefit contributions. For fiscal years 2009 and 2008, the HRA employer contributions are \$134.73 and \$127.61 per month for full time employees and \$1.04 and \$.98 per hour for part time employees, respectively.

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

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

Plan Description

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

NOTES TO FINANCIAL STATEMENTS

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 fiscal years 2009 and 2008. For the years ended June 30, 2009 and 2008, the university's total covered payroll for the TRS-DC plan was approximately \$2.1 million and \$1.7 million, and contributions made by the university totaled \$266,443 and \$212,383, 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 2009 and 2008 for each member's compensation was 0.99 percent for medical coverage, 0.62 percent for occupational death and disability benefit contributions. For fiscal years 2009 and 2008, the HRA employer contributions are \$134.73 and \$127.61 per month for full time employees and \$1.04 and \$.98 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 (ORP)

Plan Description

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

Funding Policy and Annual Pension Cost

ORP Tier 1

The ORP Tier 1 participants make employee contributions to one of the plan's annuity programs at a rate of 8.65 percent of covered payroll. The university contributes to one of the plan's authorized employee-selected annuity providers or investment managers at a rate equal to the three-year moving average of the TRS-DB employer contribution rates (17.04 percent for FY09 and 19.85 percent for FY08).

NOTES TO FINANCIAL STATEMENTS

In fiscal year 2009 and 2008, the university's total covered payroll for the ORP Tier 1 plan was approximately \$49.7 million and \$50.1 million, respectively. The amounts contributed to the ORP Tier 1 by the university during the years ended June 30,

NOTES TO FINANCIAL STATEMENTS

14. Commitments and Contingencies:

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

NOTES TO FINANCIAL STATEMENTS

16. Functional Classifications with Natural Classifications:

The university's operating expenses by natural classification for 2009 and 2008 were as follows (\$ in thousands):