



University of Alaska  
(A Component Unit of the State of Alaska)  
Financial Statements  
June 30, 2007 and 2006

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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, 2007 (fiscal year 2007) and June 30, 2006 (fiscal year 2006), with selected comparative information for the year ended June 30, 2005. 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 standards Board (GASB) pronouncements. The university is presented as a business-type activity. GASB Statement No. 35, *Basic Financial Statement—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 Position and the Statement of Activities and these statements are presented as originally audited according to generally accepted accounting principles and Financial Accounting Standards Board (FASB) pronouncements.

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

**Statement of Net Assets**

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

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, 2007, 2006 and 2005 follows (\$ in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets:			
Current assets	\$ 101,667	\$ 106,614	\$ 119,109
Other assets	296,233	251,405	194,918
Capital assets, net of depreciation	<u>736,894</u>	<u>731,010</u>	<u>737,290</u>
Total assets	<u>1,134,794</u>	<u>1,089,029</u>	<u>1,051,317</u>
Liabilities:			
Current liabilities	84,421	80,444	76,600
Noncurrent liabilities	<u>162,923</u>	<u>161,730</u>	<u>140,658</u>
Total liabilities	<u>247,344</u>	<u>242,174</u>	<u>217,258</u>
Net assets:			
Invested in capital assets, net of debt	619,665	608,596	625,727
Restricted – expendable	82,736	58,590	48,969
Restricted – nonexpendable	124,114	123,275	118,462
Unrestricted	<u>60,935</u>	<u>56,394</u>	<u>40,901</u>
Total net assets	<u>\$ 887,450</u>	<u>\$ 846,855</u>	<u>\$ 834,059</u>

Major changes to assets and liabilities during fiscal year 2007 include a reduction in cash and cash equivalents, growth in investments, increased accounts receivable, and increased liabilities due to the net pension (NPO) and other postemployment benefit (OPEB) obligations, and accrued expenses. Overall, the financial position of the university improved in fiscal year 2007 as indicated by the growth in net assets of \$40.6 million, or 4.8 percent. Each of these changes is discussed in more detail in the following sections.

Cash and cash equivalents at June 30, 2007 were \$18.1 million as compared to \$32.9 million in 2006 and \$57.3 million in 2005. Decreases in cash and cash equivalents are primarily due to management investing more of the university's operating funds in short-term and long-term investments as follows:

- Short-term investments increased from \$15.5 million at June 30, 2006 to \$20.7 million at June 30, 2007. These funds were invested in the Commonfund's Intermediate Term Fund which had a 2.75 percent total return for the year ended June 30, 2006 and a 5.54 percent total return for the year ended June 30, 2007.
- Long-term investments at June 30, 2007 were \$79.7 million as compared to \$62.6 million in 2006. Approximately, \$41.5 million was invested in the Commonfund's Absolute Return Fund, \$33.2 million in the Commonfund's Multi-Strategy Bond Fund, and \$5.0 million in various operating and capital bond or construction-related funds. The Absolute Return Fund had a total return of 13.17 percent for the year ended June 30, 2007 and a 10.77 percent total return for the year ended June 30, 2006. The Multi-Strategy Bond fund (a new university investment in fiscal year 2006) had a 6.98 percent total return for the year ended June 30, 2007.

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

Net accounts receivable increased 11.5 percent, from \$48.1 million at June 30, 2006 to \$53.6 million at June 30, 2007. The growth is primarily due to an increase in net sponsored program receivables, which grew from \$32.2 million at June 30, 2006 to \$38.6 million at June 30, 2007. The other components of net accounts receivable consist of a pledge receivable, student tuition and fees, and capital appropriations. See Note 3 of the financial statements for accounts receivable detail.

Total liabilities increased 2.1 percent from \$242.2 million at June 30, 2006 to \$247.3 million at June 30, 2007. Increased liabilities are mainly attributed to:

- The State of Alaska Public Employees' Retirement System (PERS) combined net pension and OPEB obligations increased from \$25.4 million at June 30, 2006 to \$30.8 million at June 30, 2007. The PERS-related obligations are the result of an employer required contribution rate that was lower than the full actuarial rate.
- Accrued expenses increased from \$4.2 million at June 30, 2006 to \$9.5 million at June 30, 2007 due to agreed upon net settlement costs of \$4.65 million for the University of Alaska Museum of the North construction activity.

Unrestricted net assets increased \$4.5 million from June 30, 2006 to June 30, 2007. At year end, \$28.2 million of the \$60.9 million total is designated for specific purposes or otherwise limited by contractual agreements with external parties. See Note 7 of the financial statements for a detailed list of these designations.

***Fiscal Year 2006 Comparisons (Statement of Net Assets)***

For comparative purposes, significant comments about changes between 2005 and 2006 that were noted in fiscal year 2006 Management's Discussion and Analysis are summarized below:

Major changes from 2005 to 2006 on the Statement of Net Assets included a reduction in cash and cash equivalents, investment growth, and increased noncurrent liabilities. Management investment strategies improved the university's financial position. Increases in the net pension and OPEB obligations reduced overall growth in net assets.

The Statement of Net Assets reflected a decrease in cash and cash equivalents and an increase in short-term investments and long-term investments. Cash and cash equivalents at June 30, 2006 were \$32.9 million as compared to \$57.3 million in 2005. In recent years, there was steady growth in cash and cash equivalents due to improved receivable collections and increased student tuition and revenue. In fiscal year 2006, the university began investing more of the university's

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

- Long-term investments at June 30, 2006 were \$62.6 million as compared to \$21.4 million in 2005. Approximately, \$36.7 million was invested in the Commonfund's Absolute Return Fund, \$20.1 million in the Commonfund's Multi-Strategy Bond Fund, and \$5.8 million in various operating and capital bond or construction-related funds. The Absolute Return Fund had a total return of 10.77 percent for the year ended June 30, 2006.

Management utilized an improved cash position to increase and diversify investments as a strategy in improving the university's financial position.

Total liabilities increased 11.5 percent from \$217.3 million at June 30, 2005 to \$242.2 million at June 30, 2006. Increased liabilities were attributed to:

- Long-term debt financing with issuance of Series N general revenue bonds totaling \$24.4 million in fiscal year 2006.
- The State of Alaska Public Employees' Retirement System (PERS) combined net pension and OPEB obligations increased from \$15.4 million at June 30, 2005 to \$25.4 million at June 30, 2006.

Unrestricted net assets increased \$15.5 million from June 30, 2005 to June 30, 2006.

**Statement of Revenues, Expenses and Changes in Net Assets**

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

A summarized comparison of the university's revenues, expenses and changes in net assets for the years ended June 30, 2007, 2006 and 2005 follows (\$ in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues	\$ 352,410	\$ 341,205	\$ 319,013

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

Alaska general fund appropriations. However, rising costs in pension plans, net health care costs, salaries and wages, and the PERS net pension and OPEB obligations offset overall growth in net assets.

- PERS, Teachers' Retirement System (TRS), and Optional Retirement Plan (ORP) costs increased by \$12.2 million for the year ended June 30, 2007.
- Net health care costs increased by \$9.9 million to \$44.1 million for fiscal year 2007.
- Salaries and wages increased by \$14.3 million for fiscal year 2007.
- The PERS net pension and OPEB obligations increased by \$5.4 million for the year ended June 30, 2007.

In 2007, the university recorded a \$5.4 million net pension and OPEB expense (and related liability) for the state-administered PERS defined benefit plan. This expense represents the difference between contribution amounts based on actuarially determined rates and contributions actually paid to PERS. Even though the university made the contributions required by the PERS board, these amounts were based on a capped rate that was 3.8 percentage points lower than the actuarially computed rate. The rate was capped in accordance with PERS board policy that limits yearly increases in the employer contribution rate to 5 percentage points.

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



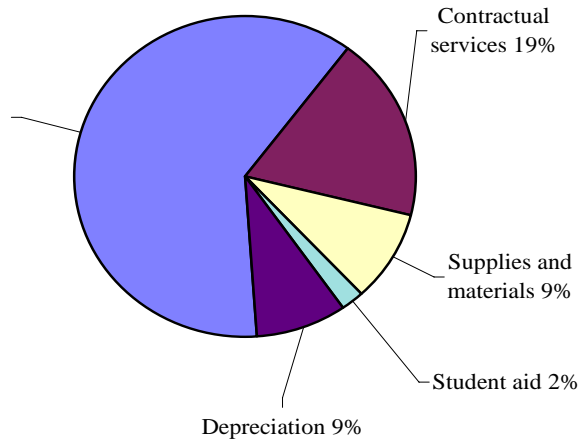
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited – see accompanying accountants' report)

<b>Operating Expenses</b>						
<b>Functional Classification (in millions)</b>						
	<u>FY2007</u>		<u>FY2006</u>		<u>FY2005</u>	
Instruction	\$181.2	27.2%	\$163.5	26.3%	\$150.0	25.3%
Student Services	41.9	6.3%	38.5	6.2%	36.0	6.1%
Student Aid	13.5	2.0%	13.4	2.2%	12.8	2.2%
Academic Support	50.7	7.6%	44.6	7.2%	41.0	6.9%
Student and Academic	<u>\$287.3</u>	<u>43.1%</u>	<u>\$260.0</u>	<u>41.9%</u>	<u>\$239.8</u>	<u>40.5%</u>
Public Service	32.9	4.9%	32.1	5.2%	31.2	5.3%
Research	131.3	19.7%	126.3	20.3%	119.0	20.1%
Operations and Maintenance	50.2	7.5%	44.2	7.1%	45.0	7.6%
Institutional Support	69.6	10.4%	61.8	9.9%	63.4	10.7%
Auxiliary Enterprises	38.7	5.8%	37.2	6.0%	33.9	5.7%
Depreciation	57.4	8.6%	59.8	9.6%	60.1	10.1%
Total Operating Expenses	<u>\$667.4</u>	<u>100.0%</u>	<u>\$621.4</u>	<u>100.0%</u>	<u>\$592.4</u>	<u>100.0%</u>

Student aid expense remained stable in fiscal year 2007. Certain amounts 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 an allowance, directly offsetting student tuition and fee revenue or auxiliary revenue. Allowances totaled \$8.3 million in 2007 and \$7.4 million in 2006. In addition to the allowances, students participate in governmental financial aid loan programs. The loans are neither recorded as revenue nor expense in the financial statements, but are

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

**Fiscal Year 2007**  
**Natural Classification**



## MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited – see accompanying accountants' report)

- The PERS net pension and OPEB obligations increased by \$10.0 million in fiscal year 2006.

The increase in revenue recognized from capital funding sources also contributed to increases in net assets. Capital appropriations and capital grant and contract revenue increased from \$17.6 million in 2005 to \$30.5 million in 2006.

Other major revenue sources included state general fund appropriations, sponsored programs, and tuition revenue. State general fund appropriations were \$252.5 million in 2006, as compared to \$232.9 million in 2005. Sponsored program re

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

and regional corporations, companies in the oil industry, the professional engineering and construction industry, and nonprofits.

Construction in progress at June 30, 2007 totaled \$28.2 million and includes the following major projects:

- University of Alaska Anchorage Integrated Science Facility: This \$87 million facility will incorporate the existing science facility into expanded instructional, student, and administrative space. Features include state of the art science academic labs and technology associated with distance delivery. The facility will be 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. The estimated occupancy date is fall 2009.
- University of Alaska Fairbanks School of Fisheries and Ocean Sciences (SFOS) Facility at Lena Point in Juneau, Alaska: This \$26.2 million facility will provide long-term support for the SFOS's academic and research mission. The facility will allow for consolidation of classes, research facilities and faculty currently spread between two locations.

State of Alaska capital appropriations for fiscal year 2008 total \$12.9 million. The main component of this appropriation includes \$8 million designated for maintaining existing facilities and equipment.

At June 30, 2007, total debt outstanding was \$119.0 million, comprised of \$90.3 million in general revenue bonds, \$26.5 million in notes payable, and \$2.2 million in bank financing contracts. In August 2005, Moody's Investors Service affirmed its previous university credit rating of A1 with stable outlook and Standard & Poor's affirmed its rating of AA-. The University has maintained these ratings since its general revenue issues were first rated in 1992.

The university issued Series N general revenue bonds totaling \$24,355,000 in fiscal year 2006. The bonds mature annually each October 1, through 2035, and bear coupon interest rates ranging from 3 percent to 5 percent. Series N bond proceeds totaling \$14,055,000 are being used for capital improvement projects, and the remaining \$10,300,000 was used to advance refund 1997 Series G general revenue bonds and redeem a note payable originally issued for student housing in Anchorage.

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 both tax exempt and non-tax ex

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

**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.

At their September 2006 meeting, the Board of Regents approved a 7 percent increase in tuition for the 2007 – 2008 academic year. At their September 2007 meeting, the Board of Regents approved a 5 percent increase in tuition for the 2008 – 2009 and 2009 – 2010 academic years.

For fiscal year 2008, state appropriations for operations and debt service reimbursement total \$295.1 million, a 2.68 percent increase over fiscal year 2007. The level of annual state appropriation funding is conditional upon the legislative process, which is directly influenced by current economic conditions and other factors. The university continues to seek additional revenues from sources other than state appropriations.

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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

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<b>Assets</b>	2007	2006
Current assets:		
Cash and cash equivalents	\$ 18,089	\$ 32,885
Short-term investments	20,704	15,480
Accounts receivable, less allowance of \$4,678 in 2007 and \$4,096 in 2006	53,646	48,127

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**UNIVERSITY OF ALASKA FOUNDATION**  
**(A Component Unit of the University of Alaska)**  
**Statements of Financial Position**  
**June 30, 2007 and 2006**  
**(in thousands)**

<b>Assets</b>	2007	2006
Cash and cash equivalents	\$ 12,932	\$ 6,169
Interest receivable	57	135
Short-term investments	-	21
Contributions receivable	6,640	6,085
Escrows receivable	189	206
Inventory	77	79
Other assets	425	454
Pooled endowment funds	119,528	99,098
Other long-term investments	29,365	31,806
Total assets	\$ 169,213	\$ 144,053
 <b>Liabilities</b>		
Due to the University of Alaska	\$ 1,920	\$ 1,634
Other liabilities	-	1
Remainder trust obligations	332	346
Term endowment liability	1,000	1,000
Total liabilities	3,252	2,981
 <b>Net Assets</b>		
Unrestricted	43,757	37,229
Temporarily restricted	71,759	56,212
Permanently restricted	50,445	47,631
Total net assets	165,961	141,072
Total liabilities and net assets	\$ 169,213	\$ 144,053

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

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**UNIVERSITY OF ALASKA**  
**(A Component Unit of the State of Alaska)**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**For the Years Ended June 30, 2007 and 2006**  
**(in thousands)**

	2007	2006
<b>Operating revenues</b>		
Student tuition and fees	\$ 91,473	\$ 85,296
less tuition allowances	(7,004)	(6,254)
	84,469	79,042
Federal grants and contracts	139,361	141,787
State grants and contracts	15,605	15,188

**UNIVERSITY OF ALASKA FOUNDATION**  
**(A Component Unit of the University of Alaska)**  
**Statements of Activities**  
**For the years ended June 30, 2007 and 2006**  
**(in thousands)**

	Unrestricted			2007
<b>Revenues, gains and other support</b>				
Contributions	\$ 4,150	\$ 13,033	\$ 2,850	\$ 20,033
Investment income	1,833	1,915	-	3,748
Net realized and unrealized investment gains	4,512	12,671	-	17,183
Other revenues	1	125	-	126
Actuarial adjustment of remainder trust obligations	-	(2)	(7)	(9)
Losses on disposition of other assets	-	(83)	-	(83)
Administrative assessments	340	(131)	(17)	192
Support from University of Alaska	830	-	-	-

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2006</u>
\$ 5,084	\$ 10,868	\$ 2,267	\$ 18,219
1,513	1,721	-	3,234
2,157	6,901	-	9,058
1	102	-	103
-	(1)	30	29
-	(23)	-	(23)
-	-	-	-
-	-	-	-
13,038	(13,038)	-	-
<u>21,793</u>	<u>6,530</u>	<u>2,297</u>	<u>30,620</u>
773	-	-	773
<u>15,312</u>	<u>-</u>	<u>-</u>	<u>15,312</u>
<u>16,085</u>	<u>-</u>	<u>-</u>	<u>16,085</u>
<u>5,708</u>	<u>6,530</u>	<u>2,297</u>	<u>14,535</u>
<u>-</u>	<u>44</u>	<u>(44)</u>	<u>-</u>
5,708	6,574	2,253	14,535
<u>31,521</u>	<u>49,638</u>	<u>45,378</u>	<u>126,537</u>
<u>\$ 37,229</u>	<u>\$ 56,212</u>	<u>\$ 47,631</u>	<u>\$ 141,072</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, 2007 and 2006**  
**(in thousands)**

	2007	2006
<b>Cash flows from operating activities</b>		
Student tuition and fees, net	\$ 84,566	\$ 77,897
Grants and contracts	199,562	207,684
Sales and services, educational departments	3,688	3,361
Sales and services, auxiliary enterprises	39,124	37,479
Federal appropriations	3,811	3,150
Local appropriations	717	717
Other operating receipts	13,556	10,796
Payments to employees for salaries and benefits	(406,846)	(366,640)
Payments to suppliers	(186,785)	(179,853)
Payments to students for financial aid	(13,567)	(13,353)
	(262,174)	(218,762)
<b>Net cash used by operating activities</b>		
<b>Cash flows from noncapital financing activities</b>		
State appropriations	287,290	252,714
Other payments	92	(330)
Direct lending receipts	68,728	64,328
Direct lending payments	(68,858)	(64,138)
	287,252	252,574
<b>Net cash provided by noncapital financing activities</b>		
<b>Cash flows from capital and related financing activities</b>		
Capital appropriations, grants and contracts	40,631	35,129
Proceeds from issuance of capital debt	-	24,355
Redemption of general revenue bonds and note payable	-	(10,266)
Purchases of capital assets	(65,233)	(56,871)
Principal paid on capital debt	(5,272)	(5,018)
Interest paid on capital debt	(4,577)	(3,737)
	(34,451)	(16,408)
<b>Net cash used by capital and related financing activities</b>		
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	24,861	18,938
Purchases of investments	(45,844)	(73,267)
Interest received on investments	6,566	4,402
Interest and other sales receipts from endowment assets	7,464	9,140
	(6,953)	(40,787)
<b>Net cash used in investing activities</b>		
Net decrease in cash and cash equivalents	(16,326)	(23,383)
Cash and cash equivalents, beginning of the year	42,293	65,676
Cash and cash equivalents, end of the year	\$ 25,967	\$ 42,293
Cash and cash equivalents (current)	\$ 18,089	\$ 32,885
Restricted cash and cash equivalents (noncurrent)	7,878	9,408
Total cash and cash equivalents	\$ 25,967	\$ 42,293



**UNIVERSITY OF ALASKA**  
**(A Component Unit of the State of Alaska)**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2007 and 2006**  
**(in thousands)**

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

	<u>2007</u>	<u>2006</u>
Operating loss	\$ (315,003)	\$ (280,168)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	57,455	59,807
Changes in assets and liabilities:		
Accounts receivable, net	(6,069)	986
Other assets	395	(245)
Inventories	499	(990)
Accounts payable	(1,152)	113
Accrued expenses	5,329	(1,134)
Accrued payroll	(1,459)	2,440
Deferred revenue	(262)	214
Accrued annual leave	749	286
Deferred lease revenue - current portion	(1,281)	(1,281)
Insurance and risk management	(1,601)	1,220
Deposits from students and others	226	(10)
Net cash used by operating activities	<u>\$ (262,174)</u>	<u>\$ (218,762)</u>

**Noncash Investing, Capital and Financing Activities:**

**For the Year Ended June 30, 2007**

Additions to capital assets include \$0.6 million expended and capitalized but not paid for at year end.

The university purchased equipment through bank financing totaling \$1.2 million.

Book value of capital asset disposals totaled \$4.6 million.

Interest expense on general revenue bond financed projects totaling \$0.2 million was capitalized during the year.

The university recorded a \$5.4 million pension and other postemployment benefit expense for the state-administered PERS defined benefit plan.

Endowment assets increased \$0.1 million through receipt of donated real property.

Endowment investment real property was purchased in part through issuance of a note totaling \$4.6 million.

**For the Year Ended June 30, 2006**

Additions to capital assets include \$0.5 million expended and capitalized but not paid for at year end.

The university purchased equipment through bank financing totaling \$0.9 million.

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

Interest expense on general revenue bond financed projects totaling \$0.5 million was capitalized during the year.

The university recorded a \$10.0 million pension and other postemployment benefit expense for the state-administered PERS defined benefit plan.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

### 1. Organization and Summary of Significant Accounting Policies:

#### Organization and Basis of Presentation:

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

### Summary of Significant Accounting Policies:

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

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

### **Cash and Cash Equivalents**

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

### **Inventories**

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

### **Investments**

Investments are stated at fair value. Investments in fixed income and equity marketable securities are stated at fair value based on quoted market prices. Investments in private partnership interests are valued using the most current information provided by the general partner. General partners typically value privately held companies at cost as adjusted based on recent arms' length transactions. Public companies are valued using quoted market prices and exchange rates, if applicable. Real estate partnerships and funds are valued based on appraisals of properties held and conducted by third-party appraisers retained by the general partner or investment manager. General partners of marketable alternatives provide values based on quoted market prices and exchange rates for publicly held securities and valuation estimates of derivative instruments. General partners of oil and gas partnerships use third-party appraisers to value properties. Valuations provided by the general partners and investment managers are evaluated by management and management believes such values are reasonable at June 30, 2007. When, in the opinion of management, there has been a permanent impairment in the asset value, the asset is written down to its fair value. Income from other investments is recognized when received.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of net assets. 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.

### **Capital Assets**

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

## NOTES TO FINANCIAL STATEMENTS

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

### **Endowments**

Endowments consist primarily of the land grant endowment trust fund established pursuant to the 1929 federal land grant legislation and its related inflation proofing funds. 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. At June 30, 2007 and 2006 the accumulated net earnings and appreciation on investments is \$70.0 million and \$46.7 million, respectively. These amounts, which are recorded in the restricted expendable net asset category, are available for expenditure in accordance with spending policies established by the Board of Regents in its capacity as trustee. Alaska Statute 14.40.400 provides the Board of Regents with authority to manage the endowments under the total return principles which are intended to preserve and maintain the purchasing power of the endowment principal. The investable resources of the fund are invested in the consolidated endowment fund, a unitized investment fund. The annual spending allowance is currently based on five 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 of the endowments.

### **Operating Activities**

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

### **Tuition Allowances**

Student tuition and fee revenues and certain other revenues from students are reported net of tuition allowances in the statement of revenues, expenses and changes in net assets. Tuition 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 fees, donations, sales, rentals, facilities and administrative cost recovery, 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.

## NOTES TO FINANCIAL STATEMENTS

2. Deposits and Investments:

Deposits and investments at June 30, 2007 were as follows (\$ in thousands):

<u>Investment Type</u>	<u>Operating</u>	<u>Capital Funds</u>	<u>Endowment</u>
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## NOTES TO FINANCIAL STATEMENTS

Deposits and investments at June 30, 2006 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	\$ (4,892)	\$ -	\$ -	\$ -	\$ (4,892)
Repurchase Agreement	8,870	-	-	-	8,870
Guaranteed Investment Contract	-	2,754	-	-	2,754
Short Term Fund	31,584	2,960	5,818	-	40,362
Intermediate Term Fund	15,479	-	457	-	15,936
Multi-Strategy Bond Fund	20,075	-	-	-	20,075
Balanced Portfolio	-	-	-	90	90
Hedge Funds	36,662	-	18,436	-	55,098
Money Market Mutual Funds	-	3,522	651	154	4,327
Equities:					
Domestic	-	-	49,766	2,367	52,133
International	-	-	16,130	-	16,130
Emerging Markets	-	-	3,537	-	3,537
Equity Index Fund	-	-	-	100	100
Equity Funds	-	-	-	100	100
Debt-related:					
Corporate	-	-	3,715	-	3,715
Federal Agency	-	-	2,318	-	2,318
U.S. Treasury Securities	-	1,669	737	-	2,406
Fixed Income Funds	-	-	10,226	4,034	14,260
Commercial Paper	-	1,708	-	-	1,708
Alternative Investments:					
Commodities	-	-	1,938	-	1,938
Natural Resources	-	-	2,053	-	2,053
Venture Capital	-	-	726	-	726
Mezzanine	-	-	1,058	-	1,058
Real Estate	-	-	-	-	-

## NOTES TO FINANCIAL STATEMENTS

Operating funds consist of cash on hand, time deposits, an overnight repurchase agreement and investments in Commonfund pooled investment funds. 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 Commonfund is a not-for-profit provider of pooled multi-manager investment vehicles for colleges and universities. The university invests in a variety of these funds according to its investment objectives.

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





## NOTES TO FINANCIAL STATEMENTS

### 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 1 percent, the value of the security would decrease 2 percent. The university does not have a policy regarding interest rate risk. At June 30, 2007, the university had the following debt investments and corresponding modified duration (\$ in thousands):

Fair Value

College

## NOTES TO FINANCIAL STATEMENTS

### Foreign Currency Risk:

Foreign currency risk is the risk that changes in exchange rates could have an adverse affect on an investment's value for investments denominated in foreign currencies. GASB 40 requires disclosure of value in U.S. dollars by foreign currency denomination and investment type. The university does not have a policy regarding foreign currency risk. At June 30, 2007, the university had foreign currency risk in the endowment funds as follows (\$ in thousands):

<u>Foreign Currency</u>	<u>Equity Market Value</u>
Bermudian Dollar	\$ 60
Canadian Dollar	136
Chinese Yuan	53
Cypriot Pound	123
Euro Currency	1,043
Japanese Yen	181
Mexican Nuevo Peso	131
Singaporean Dollars	56
Swedish Krona	89
Swiss Franc	429
United Kingdom Pound	153
	<u>\$ 2,454</u>

### 3. Accounts Receivable:

Accounts receivable consisted of the following at June 30, 2007 and 2006 (\$ in thousands):

<u>June 30, 2007</u>	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Student tuition and fees	\$ 9,846	\$ (2,888)	\$ 6,958
Sponsored programs	40,330	(1,699)	38,631
Pledge receivable	1,100	-	1,100
Auxiliary services and other operating activities	401	(91)	310
Capital appropriations, grants and contracts	<u>6,647</u>	<u>-</u>	<u>6,647</u>
	<u>\$ 58,324</u>	<u>\$ (4,678)</u>	<u>\$ 53,646</u>
<u>June 30, 2006</u>			
Student tuition and fees	\$ 9,440	\$ (2,278)	\$ 7,162
Sponsored programs	33,915	(1,721)	32,194
Auxiliary services and other operating activities	567	(97)	470
Capital appropriations, grants and contracts	8,299	-	8,299
State operating appropriation	<u>2</u>	<u>-</u>	<u>2</u>
	<u>\$ 52,223</u>	<u>\$ (4,096)</u>	<u>\$ 48,127</u>

## NOTES TO FINANCIAL STATEMENTS

### 4. Assets Held in Trust:

Assets held in trust include operating funds of the Education Trust of Alaska (Trust). The Trust was established pursuant to state statute on April 20, 2001 by the Board of Regents to facilitate administration of the state's Internal Revenue Code (IRC) Section 529 College Savings Program. The program is a nationally marketed college savings program developed in accordance with IRC Section 529 and includes the resources of the university's former Advance College Tuition (ACT) Program. Participant account balances of approximately \$3.1 billion and \$2.2 billion at June 30, 2007 and 2006, respectively, are not included in the financial statements. Separately audited Trust financial statements are available upon request from the University of Alaska Controller's office.

Assets of the Trust are invested in various mutual funds at the direction of T. Rowe Price Associates, Inc., the program manager. The net assets of the Trust, which include a reserve for University of Alaska (UA) Tuition Value Guarantees, are available for payment of program administrative costs, benefits and other purposes of the Trust. Based on actuarial studies, management estimates reserve requirements for the UA Tuition Value Guarantees to be approximately \$1.9 million at June 30, 2007 and 2006.

### 5. Endowed Land and Other Assets:

Endowed land and other assets consist of real property and timber and other rights. By Acts of Congress in 1915 and 1929, approximately 110,000 acres of land was granted to the territory of Alaska to be held in trust for the benefit of the university. The lands were managed by the territory, and later the State of Alaska. In accordance with a 1982 agreement, the lands were subsequently transferred to the Board of Regents, as trustee. In 1982 and 1988 certain state lands including timber and other rights were transferred to the trust as replacement for lands disposed of or adversely affected during the period of administration by the territory and the state. These lands and property interests were recorded at their fair value as of the date of transfer. The net proceeds from timber, land and other rights are deposited in the land grant endowment trust fund described under Endowments in Note 1 above. At June 30, 2007 and 2006, approximately 83,200 and 83,400 acres, respectively, were held in trust at no basis because fair value at the date of transfer was not determinable.

On July 25, 2005, Alaska's governor approved a transfer of approximately 250,000 acres of State of Alaska land to the university. As provided by Alaska Statute 14.40.365, the lands will be conveyed to the university by July 1, 2008 with the exception of two parcels subject to native allotments, parcels subject to borough formations, and one 52,000 acre forestry research parcel being transferred in 50 years. The intent of the Legislature is to provide the university with an equitable land grant as originally envisioned in the federal land grant of 1915 and to provide the university ownership of a significant portfolio of income producing land to help fund public higher education in the State of Alaska. Proceeds and royalties received from property development will be deposited into the land grant trust endowment fund. The lands will be recorded at zero basis when no determinable fair value is available at the time of transfer. The legislation has been challenged and management does not believe the outcome will have a material effect on the financial statements.

NOTES TO FINANCIAL STATEMENTS

6. Capital Assets:

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

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions/</u> <u>Transfers</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>
Capital assets not depreciated				
Land	\$ 27,129	\$ 850	\$ 10	\$ 27,969
Construction in progress	38,722	57,362	67,896	28,188
Library and museum collections	53,353	1,623	-	54,976
Other capital assets				
Buildings	920,885	60,476	218	981,143
Infrastructure	49,986	4,740	-	54,726
Equipment	189,929	11,025	23,571	177,383
Leasehold improvements	25,707	144	-	25,851
Other improvements	<u>20,928</u>	<u>613</u>		



NOTES TO FINANCIAL STATEMENTS

Long-term debt consisted of the following at June 30, 2007 and 2006 (\$ in thousands):

	<u>2007</u>	<u>2006</u>
<u>Revenue bonds payable</u> 1.40% to 5.45% general revenue bonds due serially to 2036, secured by a pledge of		

NOTES TO FINANCIAL STATEMENTS

9. Deferred Lease Revenue:

In fiscal year 1997, the university entered into an agreement to construct a facility and establish the International Arctic Research Center (IARC). The university received \$19,215,000 through a Japanese non-profit corporation to support the construction of the IARC in exchange for a commitment to provide research facilities to various Japanese research organizations and agencies for a period of 25 years, including lease extensions. The Japanese research organizations began occupying the IARC in fiscal year 1999. The deferred lease revenue at June 30, 2007 is \$8,646,750 and is reduced at the rate of \$1,281,000 per year with a corresponding increase to other operating revenue.

10. Long-term Liabilities:

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

	Balance			Balance	Amounts
	July 1, 2006	Additions	Reductions	June 30, 2007	due within
					one year
Capital appropriation advances	\$ 8,116	\$ 1,562	\$ 3,365	\$ 6,313	\$ -
Deferred lease revenue	9,928	-	1,281	8,647	1,281
Long-term debt	118,383	5,899	5,272	119,010	6,278
Security deposits and other liabilities	6,387	25	686	5,726	-
Net pension and OPEB obligations	25,397	5,389	-	30,786	-
	<u>\$ 168,211</u>	<u>\$ 12,875</u>	<u>\$ 10,604</u>	<u>\$ 170,482</u>	<u>\$ 7,559</u>

	Balance			Balance	Amounts
	July 1, 2005	Additions	Reductions	June 30, 2006	due within
					one year
Capital appropriation advances	\$ 6,021	\$ 4,119	\$ 2,024	\$ 8,116	\$ -
Deferred lease revenue	11,209	-	1,281	9,928	1,281
Long-term debt	108,449	25,218	15,284	118,383	5,200
Security deposits and other liabilities	5,726	662	1	6,387	-
Net pension and OPEB obligations	15,398	9,999	-	25,397	-
	<u>\$ 146,803</u>	<u>\$ 39,998</u>	<u>\$ 18,590</u>	<u>\$ 168,211</u>	<u>\$ 6,481</u>

11. Capital Appropriations and Construction Commitments:

Major construction projects of the university are funded primarily by State of Alaska appropriations and university revenue bonds. The appropriations are financed through state-issued general obligation bonds or capital project bonds issued by the Alaska Housing Finance Corporation, a component unit of the State of Alaska, while other appropriations are received directly from the state or state agencies.

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, 2007, totaled \$138.8 million. In addition, unexpended proceeds of university-issued general revenue bonds designated for construction projects totaled \$4.0 million at June 30, 2007.

Construction commitments at June 30, 2007 aggregated \$89.0 million. At June 30, 2007, the university had received \$6.3 million from State of Alaska capital appropriations and other sources in advance of expenditures.

## NOTES TO FINANCIAL STATEMENTS

### 12. Pension Plans:

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 (PERS), an agent multiple-employer defined benefit plan,
- The State of Alaska Teachers' Retirement System (TRS), a cost-sharing multiple-employer defined benefit plan,
- The University of Alaska Optional Retirement Plan (ORP), 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.

State legislation enacted in July 2005 offers new eligible employees hired on or after July 1, 2006 defined contribution retirement plans under PERS and TRS.

The University of Alaska Retirement Program, a single-employer defined contribution plan, which includes participation in both the ORP (Tier III) and the University of Alaska Pension Plan, is also effective for new participants hired on or after July 1, 2006.

Each new eligible employee will have a choice to participate in the applicable state plan or the University of Alaska Retirement Program.

None of the retirement systems or plans own any notes, bonds or other instruments of the university.

#### Defined Benefit Plans:

##### State of Alaska Public Employees' Retirement System (PERS)

###### *Plan Description*

The university contributes to PERS, a defined benefit, agent multiple-employer public employee retirement system established and administered by the State of Alaska (State). 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.

Each fiscal year, PERS 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 7.5 percent for peace officers and firefighters and 6.75 percent for other employees, as required by State statute. The funding policy for PERS 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. However, the 2007 actuarially determined rate was 24.38 percent of applicable gross pay and the employer contribution rate was capped at 20.58 percent in accordance with PERS board policy that limited yearly increases to 5 percentage points.



## NOTES TO FINANCIAL STATEMENTS

The university's annual pension cost for the current year and related information is as follows:

Postemployment

## NOTES TO FINANCIAL STATEMENTS

The university's net other postemployment obligation (OPEB) for fiscal year 2007 was as follows:

Annual required contribution	\$ 13,063,192
Interest on net OPEB obligation	866,371
Adjustment to annual required contribution	<u>(673,826)</u>
Annual pension cost	13,255,737
Contributions made	<u>(11,027,091)</u>

## NOTES TO FINANCIAL STATEMENTS

### *Funding Policy*

Employees contribute 8.65 percent of their base salary as required by State statute. The funding policy for TRS provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. During fiscal year 2007, contractually required employee and employer contribution rates were 8.65 percent and 26 percent, respectively. The actuarially determined employer contribution rate for 2007 was 41.78 percent. No net pension or OPEB obligation is recorded for TRS, since according to GASB 27 and GASB 45 no such obligation is recorded for cost sharing defined benefit plans when an employer's contribution equals the contractually required contribution. The amounts contributed to TRS by the university during the years ended June 30, 2007, 2006 and 2005 were \$11,177,596, \$9,167,681, and \$6,769,122, respectively, equal to the required employer contributions for each year.

### Defined Contribution Plans:

#### State of Alaska Public Employees' Retirement System (PERS)

For eligible employees hired on or after July 1, 2006, the university contributes to PERS (Tier IV), a defined contribution plan established and administered by the State of Alaska (State). PERS provides pension, post employment health care, and occupational 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.

Employee contribution rates are 8 percent of covered payroll. Employer contributions are 5 percent of covered payroll, retiree medical plan contributions at 1.75 percent, occupational death and disability benefit contributions at .4 percent for peace officers and firefighters and .3 percent for other employees, and health reimbursement arrangement contributions

NOTES TO FINANCIAL STATEMENTS

University of Alaska Optional Retirement Plan (ORP)

## NOTES TO FINANCIAL STATEMENTS

## 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. 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 legal proceedings, environmental investigations, audit adjustments, or other commitments and contingent liabilities.

In addition, an ongoing environmental assessment for the Northwest Campus Front Street property and



REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for PERS  
(\$ in thousands):

	Actuarial valuation year ended <u>June 30</u>	Actuarial value of plan assets	Actuarial accrued liability ( <u>AAL</u> )	(Unfunded) overfunded actuarial accrued liability ( <u>UAAL</u> )	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
Pension benefits:							
	2004	\$ 326,815	\$ 444,092	\$ (117,277)	74%	\$ 116,156	101%
	2005	\$ 307,243	\$ 441,742	\$ (134,499)	70%	\$ 124,699	108%
	2006	\$ 456,238	\$ 522,315	\$ (66,077)	87%	\$ 135,451	49%