

UNIVERSITY OF ALASKA

(A Component Unit of the State of Alaska)

Financial Statements

June 30, 2005 and 2004

(With Independent Auditors' Report Thereon)

University of Alaska
(A Component Unit of the State of Alaska)
Financial Statements
June 30, 2005 and 2004

Table of Contents

	Page
Management's Discussion and Analysis	1

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, 2005, 2004 and 2003 follows (in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Current assets	\$ 119,109	\$ 109,721	\$ 107,186
Other assets	194,918	182,960	173,719
Capital assets, net of depreciation	<u>737,290</u>	<u>760,757</u>	<u>703,855</u>
Total assets	<u>1,051,317</u>	<u>1,053,438</u>	<u>984,760</u>
Liabilities:			
Current liabilities	76,600	69,631	74,547
Noncurrent liabilities	<u>140,658</u>	<u>133,576</u>	<u>127,699</u>
Total liabilities	<u>217,258</u>	<u>203,207</u>	<u>202,246</u>
Net assets			
Invested in capital assets, net of debt	625,727	648,016	602,274
Restricted – expendable	48,969	36,591	31,102
Restricted – nonexpendable	118,462	111,142	108,303
Unrestricted	<u>40,901</u>	<u>54,482</u>	<u>40,835</u>
Total net assets	<u>\$ 834,059</u>		<u> </u>

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

A summarized comparison of the university's revenues, expenses and changes in net assets for the years ended June 30, 2005, 2004 and 2003 follows (in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues	\$ 319,013	\$ 299,677	\$ 275,126
Operating expenses	<u>(592,459)</u>	<u>(549,236)</u>	<u>(528,148)</u>
Operating loss	(273,446)	(249,559)	(253,022)
Net nonoperating revenues	<u>255,112</u>	<u>230,706</u>	<u>221,264</u>
Loss before other revenues, expenses, gains, or losses	(18,334)	(18,853)	(31,758)
Other revenues, expenses, gains or losses	<u>2,162</u>	<u>86,570</u>	<u>79,640</u>
Increase (decrease) in net assets	<u>(16,172)</u>	<u>67,717</u>	<u>47,882</u>
Net assets at beginning of year	<u>850,231</u>	<u>782,514</u>	<u>734,632</u>
Net assets at end of year	<u>\$ 834,059</u>	<u>\$ 850,231</u>	<u>\$ 782,514</u>

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

Endowment proceeds and investment income increased to \$26.2 million in 2005 as compared to \$16.2 million in 2004. A significant component of these amounts is investment income generated from the endowment principal. Total return from the endowment was approximately 11 percent, or \$9.7 million, in 2005 as compared to a 14 percent return, or \$10.6 million, in the prior year. The other major component in this category is yield from, or sales of, trust land, timber and mineral interests, the net proceeds of which are generally deposited to the land grant endowment trust fund. These sources generated revenue of \$16.5 million in 2005 as compared to \$5.6 million in 2004.

State of Alaska general fund appr

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):

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

Statements of Cash Flows as direct lending receipts totaling approximately \$57 million and \$51 million in fiscal year 2005 and 2004, respectively.

Public service expenditures increased 19 percent in fiscal year 2005, primarily due to the receipt of several federal grants that benefit rural Alaska communities.

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 in

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

Salaries and employee benefits increased 9 percent, or \$28.4 million, in fiscal year 2005. Employee benefits, such as pension plan contributions and health care costs, increased 23 percent and comprised \$16.0 million of the change. Salaries and wages increased 5 percent, or \$12.4 million.

Fiscal Year 2004 Comparisons (Statement of Revenues, Expenses and Changes in Net Assets)

For comparative purposes, significant comments about changes between 2003 and 2004 that were noted in fiscal year 2004 Management's Discussion and Analysis are summarized below:

The Statement of Revenues, Expenses and Changes in Net Assets reflected an overall increase in net assets of 8.7 percent, or \$67.7 million, from 2003 to 2004. Significant factors affecting the fiscal year 2004 increase in net assets included \$86.6 million revenue recognized from capital funding sources, such as state capital appropriations. Endowment proceeds and investment income also contributed positively to the increase in net assets by providing \$16.2 million in 2004 as compared to \$11.8 million in 2003. A significant component of these amounts was investment income, generated from the endowment principal. Total return from the endowment was approximately 14 percent, or \$10.6 million, in 2004 as compared to a 1 percent return, or \$0.9

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

- University of Alaska Museum addition and renovation on the Fairbanks campus. This \$42 million expansion project doubles the size of the existing museum to 81,000 square feet. Features include a new research center to house natural and cultural history collections and research laboratories; a new art gallery; a new learning center featuring a pre-college learning center and a “smart classroom” for university students; and an enhanced visitor experience with a multimedia auditorium, lectures and performances by Alaska Native athletes and dancers. Full occupancy of the museum is expected by spring 2006.
- University of Alaska Southeast Joint Readiness Center in Juneau. This joint-funded and joint-occupied facility will provide a recreational complex for students within proximity of the Juneau student housing. The university is building the facility for the Alaska Army National Guard with \$10.0 million in State of Alaska funds and \$5.5 million in university general revenue bonds. This facility was completed in July 2005.
- Biological Research and Diagnostics Facility on the Fairbanks campus. This \$23 million facility adds to the nucleus of other science and research facilities located on the campus' West Ridge. The facility incorporates live animal research, program components and space for laboratories, procedure rooms, necropsy, incinerator and related administrative space. The project is being funded by \$14.4 million in State of Alaska general obligation bonds, \$4.76 million in university general revenue bonds and a \$3.8 million National Institute of Health grant. The estimated completion date is fall 2006.

State of Alaska capital appropriations for fiscal year 2006 total \$48.1 million, with \$16.5 million designated for major renewal, code and safety upgrades, or other smaller projects. The appropriation also provides \$21.6 million for the Integrated Science Facility (Phase I) on the Anchorage campus and \$10 million for the School of Fisheries and Ocean Sciences research facility located at Lena Point in Juneau.

At June 30, 2005, total debt outstanding was \$108.4 million, comprised of \$81.0 million in general revenue bonds, \$26.6 million in notes payable, and \$0.8 million in lease finance 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 had two general revenue bond issues in 2004 totaling \$21,040,000. The Series L bonds totaled \$9,970,000 and mature annually each October 1, through 2030, bearing coupon interest rates ranging from 3 percent to 4.7 percent. Series L bond proceeds totaling \$7,780,000 are being used for capital improvement projects, while the remaining \$2,190,000 was used to redeem all of 1993 Series F general revenue bonds. The Series M bond issue totaled \$11,070,000. The bonds mature each October 1, through 2028, and bear coupon interest rates ranging from 3.25 percent to 4.75 percent. Series M bond proceeds totaling \$8,680,000 are being used for capital improvement projects and acquisition of real estate, and the remaining \$2,390,000 was used to refinance a deed of trust note originally issued for the purchase of two buildings located in Anchorage.

Subsequent to year-end, on August 31, 2005, the university issued Series N general revenue bonds totaling \$24,355,000. 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

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

originally issued for student housing in Anchorage. The advance refunding and note redemption result in an economic gain of approximately \$971,000 and the total debt service payments over the next 20 years decrease by \$1,366,000.

Bonds were issued in prior years 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 exempt equipment lease 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 actual ic gi4c59(i)-7(s5dMhd1CID 3 BDC BT/TT0 1 Tf0 Tc 0 Tw 10.9802.8026.98 90.0005 565.8023 Tr

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

contributions. See Note 12 of the financial statements for more information regarding pension plans.

Recently enacted state legislation will affect retirement benefits for new employees. The legislation requires all new eligible employees hired on or after July 1, 2006 to be participants in newly created defined contribution retirement plans. Under the new plans, public employees will contribute 8 percent of compensation and employers will contribute approximately 10 to 12 percent of compensation plus additional amounts (not all of which have yet been set) for certain medical insurance, disability and death benefits. As part of the legislation, the existing PERS and TRS boards will be eliminated and replaced with the Alaska Retirement Management (ARM) Board.

In June 2005, the Board of Regents created the New Optional Retirement Plan (NORP), a university-administered single employer defined contribution plan, for new participants hired on or after July 1, 2005. In fiscal year 2006, the NORP employer contribution rate is 12 percent as compared to 16.33 percent for the original ORP plan. The employee contribution rate remains the same as the original ORP. More information on this plan is available in Note 12 of the financial statements.

For fiscal year 2006, state appropriations for operations and debt service reimbursement total \$249.6 million, a 7.2 percent increase over fiscal year 2005. 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.

This page intentionally left blank



KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

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, 2005 and 2004 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 the *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 internal control. Our audits were conducted for the years ended June 30, 2005 and 2004. The financial statements are for the years ended June 30, 2005 and 2004.

This page intentionally left blank

Assets	2005	2004
Currents assets:		
Cash and cash equivalents	\$ 57,276	\$ 41,815
Short-term investments	1,269	1,231
Accounts receivable, less allowance of \$3,882 in 2005 and \$3,990 in 2004	51,622	57,974
Other assets	889	640
Inventories	8,053	8,061
Total current assets	119,109	109,721
Noncurrent assets:		
Restricted cash and cash equivalents	8,400	19,164
Notes receivable	6,125	5,212
Endowment investments	115,119	93,834
Endowed land and other assets	37,698	38,358

This page intentionally left blank

UNIVERSITY OF ALASKA FOUNDATION

This page intentionally left blank

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, 2005 and 2004
(in thousands)

	2005	2004
Operating revenues		
Student tuition and fees	\$ 75,853	\$ 67,756
less tuition allowances	(6,365)	(6,260)
	69,488	61,496
Federal grants and contracts	138,494	133,897
State grants and contracts	12,240	10,520
Local grants and contracts	3,276	3,313
Private grants and contracts	40,843	36,641
Federal appropriations	2,837	2,758
Local appropriations	705	705
Sales and services, educational departments	3,446	3,415
Sales and services, auxiliary enterprises, net of tuition allowances of \$1,214 in 2005 and \$1,298 in 2004	36,033	34,605
Other	11,651	12,327
Total operating revenues	319,013	299,677
Operating expenses		
Instruction	150,052	144,115
Academic support	40,990	37,095
Research	118,933	112,013
Public service	31,226	26,216
Student services	36,033	33,002
Operations and maintenance	44,953	39,184
Institutional support	63,388	50,290
Student aid	12,822	13,052
Auxiliary enterprises	33,927	33,786
Depreciation	60,135	60,483
Total operating expenses	592,459	549,236
Operating loss	(273,446)	(249,559)
Nonoperating revenues (expenses)		
State appropriations	232,868	217,745
Investment earnings	3,242	1,674
Endowment proceeds and investment income	26,163	16,187
Interest on debt	(4,029)	(3,394)
Other nonoperating expenses	(3,132)	(1,506)
Net nonoperating revenues	255,112	230,706
Loss before other revenues, expenses, gains or losses	(18,334)	(18,853)
Capital appropriations, grants and contracts	17,560	86,570
Pension expense - net pension and OPEB obligations	(15,398)	-
Net increase (decrease) in net assets	(16,172)	67,717
Net assets		
Net assets - beginning of year	850,231	782,514
Net assets - end of year	\$ 834,059	\$ 850,231

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

UNIVERSITY OF ALASKA FOUNDATION
(A Component Unit of the University of Alaska)
Statement of Activities
For the years ended June 30, 2005 and 2004
(in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2005</u>
Revenues, gains and other support				
Contributions	\$ 269	\$ 10,569	\$ 1,379	\$ 12,217
Investment income	1,405	1,755	-	3,160
Net realized and unrealized investment gains (losses)	1,316	4,716	-	6,032
Other revenues	1	89	-	90
Actuarial adjustment of remainder trust obligations	-	(1)	80	79
Gains (losses) on disposition of other assets	-	(3)	(1)	(4)
Transfers from the University of Alaska	21	172	133	326
Net assets released from restriction	18,620	(18,620)	-	-
Total revenues, gains and other support	<u>21,632</u>	<u>(1,323)</u>	<u>1,591</u>	<u>21,900</u>
Expenses and distributions				
Operating expenses	638	-	-	638
Distributions for the benefit of the University of Alaska	18,912	-	-	18,912
Total expenses and distributions	<u>19,550</u>	<u>-</u>	<u>-</u>	<u>19,550</u>
Excess of revenues over expenses	<u>2,082</u>	<u>(1,323)</u>	<u>1,591</u>	<u>2,350</u>
Transfers between net asset classes	-	-	-	-
Increase (decrease) in net assets	2,082	(1,323)	1,591	2,350
Net assets, beginning of year	<u>29,439</u>	<u>50,961</u>	<u>43,787</u>	<u>124,187</u>
Net assets, end of year	<u>\$ 31,521</u>	<u>\$ 49,638</u>	<u>\$ 45,378</u>	<u>\$ 126,537</u>

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2004</u>
\$ 1,317	\$ 8,833	\$ 4,016	\$ 14,166
1,401	1,514	-	2,915
1,752	4,216	-	5,968
5	124	-	129
-	-	(25)	(25)
-	96	(1)	95
-	1	142	143
11,360	(11,360)	-	-
<u>15,835</u>	<u>3,424</u>	<u>4,132</u>	<u>23,391</u>
282	-	-	282
12,058	-	-	12,058
<u>12,340</u>	<u>-</u>	<u>-</u>	<u>12,340</u>
<u>3,495</u>	<u>3,424</u>	<u>4,132</u>	<u>11,051</u>
-	(41)	41	-
3,495	3,383	4,173	11,051
25,944	47,578	39,614	113,136
<u>\$ 29,439</u>	<u>\$ 50,961</u>	<u>\$ 43,787</u>	<u>\$ 124,187</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, 2005 and 2004
(in thousands)

	2005	2004
Cash flows from operating activities		
Student tuition and fees, net	\$ 71,431	\$ 61,900
Grants and contracts	198,389	190,920
Sales and services, educational departments	3,446	3,415
Sales and services, auxiliary enterprises	36,161	34,554
Federal appropriations	2,837	2,758
Local appropriations	705	705
Other operating receipts	10,370	11,046
Payments to employees for salaries and benefits	(340,613)	(316,830)
Payments to suppliers	(171,847)	(158,595)
Payments to students for financial aid	(12,835)	(12,655)
Net cash used by operating activities	(201,956)	(182,782)
Cash flows from noncapital financing activities		
State appropriations	233,487	217,050
Other revenue, net	79	45
Direct lending receipts	56,558	51,397

70a032-542ice1.9(41 -1.15296,677 activities)-15839.5((201,956))-3036.9((182,782D956))7(11,relncid 1 Tf-2.4941 -1.5529 TD(

UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Cash Flows
For the Years Ended June 30, 2005 and 2004
(in thousands)

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

	2005	2004
Operating loss	\$ (273,446)	\$ (249,559)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	60,135	60,483
Changes in assets and liabilities:		
Accounts receivable, net	4,782	7,038
Other assets	(243)	713
Inventories	8	(417)
Accounts payable	(967)	(2,401)
Accrued expenses	1,237	951
Accrued payroll	6,308	2,077
Deferred revenue	798	222
Accrued annual leave	740	183
Deferred lease revenue - current portion	(1,281)	(1,281)
Insurance and risk management	(42)	(830)
Deposits from students and others	15	39
Net cash used by operating activities	\$ (201,956)	\$ (182,782)

Noncash Investing, Capital and Financing Activities:

For the Year Ended June 30, 2005

Additions to capital assets include \$2.2 million expended and capitalized but not paid for at year end.

The university purchased equipment through a lease purchase contract totaling \$0.2 million.

Losses on equipment disposals totaled \$2.3 million.

Interest expense on general revenue bond financed projects totaling \$0.3 million was capitalized during the year.

The university recorded a \$15.4 million pension and other postemployment benefit expense for the state-administered PERS defined benefit plan.

For the Year Ended June 30, 2004

Additions to capital assets include \$5.5 million expended and capitalized but not paid for at year end.

The university purchased equipment through a lease purchase contract totaling \$0.6 million.

Losses on equipment disposals totaled \$0.5 million.

Interest expense on general revenue bond financed projects totaling \$0.6 million was capitalized during the year.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005 and 2004

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. Commencing in fiscal year 2004, 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.

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. 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 less than \$5,000 is not capitalized. Buildings, infrastructure, and other capitalizable assets with a unit value of less than \$100,000 are not capitalized. In fiscal year 2004, the capitalizable threshold for equipment was \$2,500 and \$50,000 for buildings, infrastructure, and other capitalizable assets. Certain land and other resources acquired through land grants

NOTES TO FINANCIAL STATEMENTS

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.

2. Unrestricted Net Assets:

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

NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

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 5 for further information.

Certain funds held in trust for the benefit of the university are not included in the financial statements as

NOTES TO FINANCIAL STATEMENTS

The consolidated endowment fund investment policy limits debt investments to 5 percent by issuer (except for mutual and pooled funds and U.S. government and agencies) for each specific managed portfolio within the consolidated endowment fund unless approved by the treasurer. The university does not have a policy regarding concentration of credit risk since it does not normally invest its operating and capital funds in individual debt investments.

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, 2005, the university had the following debt investments and corresponding modified duration (\$ in thousands):

<u>Investment Type</u>	<u>Fair Value</u>				
	<u>Operating</u>	<u>Capital Funds</u>	<u>Endowment</u>	<u>College Savings Program</u>	<u>Modified Duration</u>
Short Term Fund	\$ 58,875	\$ 2,674	\$ 7,645	-	2.58
Intermediate Term Fund	\$ 1,269	-	\$ 459	-	1.20
Corporate	-	-	\$ 2,837	-	2.05
Federal Agency	-	-	\$ 2,222	-	2.09
U.S. Treasury Securities	-	-	\$ 1,027	-	3.05
U.S. Treasury Securities	-	\$ 1,841	-	-	5.46
Fixed Income Fund	-	-	-	\$ 1,973	1.51
Fixed Income Fund	-	-	\$ 15,553	-	4.16
Fixed Income Fund	-	-	-	\$ 1,615	4.26

Private hedge funds totaling \$19.3 million are exposed to interest rate risk, however, underlying fund data is not available to measure the interest rate risk.

Custodial Credit Risk:

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, the university will not be able to recover deposits or will not be able to recover collateral securities in the possession of an outside party. For investments, custodial credit risk is the risk that, in the event of failure of the counterparty to a transaction, the university will not be able to recover the value of investment or collateral securities in the possession of an outside party.

At June 30, 2005, the university does not have custodial credit risk. Deposits of the university are covered by Federal Depository Insurance or securities pledged by the university's counterparty to its repurchase agreement held at the Bank of New York. The collateral is held in the name of the university and at June 30, 2005, provided \$11.3 million coverage in excess of deposits.

NOTES TO FINANCIAL STATEMENTS

4. Accounts Receivable:

Accounts receivable consisted of the following at June 30, 2005 and 2004 (in thousands):

<u>June 30, 2005</u>	<u>Gross</u>	<u>Allowance</u>
----------------------	--------------	------------------

NOTES TO FINANCIAL STATEMENTS

Subsequent to year end, on July 25, 2005, Alaska's governor approved a transfer of approximately 250,000 acres of State of Alaska land to the university. The lands will be conveyed to the university over the next three years with the exception of one 70,000 acre forestry research parcel being transferred in 50 years. The intent of the Legislature is to provide the university with an equitable land grant as originally envisioned in the federal land grant of 1915 and to provide the university ownership of a significant portfolio of income producing land to help fund public higher education in the State of Alaska. Proceeds and royalties received from property development will be deposited into the land grant trust endowment fund. The lands will be recorded at zero basis as no determinable fair value is available at the time of transfer.

7. Capital Assets:

A summary of capital assets follows (in thousands):

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2005</u>
Capital assets not depreciated				
Land	\$ 27,281	\$ 305	\$ 226	\$ 27,360

NOTES TO FINANCIAL STATEMENTS

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2004</u>
Capital assets not depreciated				
Land	\$ 25,949	\$ 1,332	\$ -	\$ 27,281
Construction in progress	94,212	81,452	103,541	72,123
Library and museum collections	47,917	1,729	-	49,646
Other capital assets				
Buildings	755,084	102,265	-	857,349
Infrastructure	33,514	-	-	33,514
Equipment	161,503	34,213	7,100	188,616
Leasehold improvements	4,845	-	-	4,845
Other improvements	<u>20,320</u>	<u>449</u>	<u>-</u>	<u>20,769</u>
Total	1,143,344	221,440	110,641	1,254,143
Less accumulated depreciation:				
Buildings	304,452	38,786	-	343,238
Infrastructure	21,191	1,189	-	22,380
Equipment	100,250	19,189	6,586	112,853
Leasehold improvements	1,857	242	-	2,099
Other improvements	<u>11,739</u>	<u>1,077</u>	<u>-</u>	<u>12,816</u>
Total accumulated depreciation	<u>439,489</u>	<u>60,483</u>	<u>6,586</u>	<u>493,386</u>
Capital assets, net	<u>\$ 703,855</u>	<u>\$ 160,957</u>	<u>\$ 104,055</u>	<u>\$ 760,757</u>

8. Long-term Debt:

Debt service requirements at June 30, 2005 were as follows (in thousands):

<u>Year ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 4,864	\$ 4,150	\$ 9,014
2007	4,942	3,996	8,938
2008	5,067	3,833	8,900
2009	4,360	3,675	8,035
2010	4,455	3,525	7,980
2011-2015	23,749	15,104	38,853
2016-2020	26,161	10,334	36,495
2021-2025	24,551	4,825	29,376
2026-2030	9,675	1,090	10,765
2031	<u>625</u>	<u>15</u>	<u>640</u>
	<u>\$ 108,449</u>	<u>\$ 50,547</u>	<u>\$ 158,996</u>

NOTES TO FINANCIAL STATEMENTS

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

	<u>Pension</u>	Postemployment <u>healthcare</u>	<u>Total</u>
Contribution rates:			
Employee:			
Peace officers and firefighters	4.67%	2.83%	7.50%
Other employees	4.20%	2.55%	6.75%
Employer	6.58%	4.00%	10.58%
Annual pension/OPEB cost	\$17,712,969	\$10,759,896	\$28,472,865
Contributions made	\$8,133,820	\$4,940,959	\$13,074,779
Actuarial assumptions:			
Inflation rate	3.50%	Same	
Investment return	8.25%	Same	

		<u>Cost Contributed</u>	<u>Obligation</u>
2003	\$1,340,695	100%	

NOTES TO FINANCIAL STATEMENTS

employer's contribution equals the contractually required contribution. The amounts contributed to TRS by the university during the years ended June 30, 2005, 2004 and 2003 were \$6,769,122, \$4,860,511, and \$4,281,511, respectively, equal to the required employer contributions for each year.

NOTES TO FINANCIAL STATEMENTS

Changes in applicable liability amounts follow (in thousands):

	<u>Balance</u> <u>July 1, 2004</u>	<u>Provision</u> <u>for Claims</u>	<u>Claims</u> <u>Payment</u>	<u>Balance</u> <u>June 30, 2005</u>
Health	\$ 6,505	\$ 39,412	\$ (39,658)	\$ 6,259
General liability	7,267	625	(758)	7,134
Workers' compensation	4,686	1,784	(1,434)	5,036
Unemployment	<u>133</u>	<u>584</u>	<u>(597)</u>	<u>120</u>
	<u>\$ 18,591</u>	<u>\$ 42,405</u>	<u>\$ (42,447)</u>	<u>\$ 18,549</u>

	<u>Balance</u> <u>July 1, 2003</u>	<u>Provision</u> <u>for Claims</u>	<u>Claims</u> <u>Payment</u>	<u>Balance</u> <u>June 30, 2004</u>
Health	\$ 6,928	\$ 34,127	\$ (34,550)	\$ 6,505
General liability	8,176	189	(1,098)	7,267
Workers' compensation	4,180	1,645	(1,139)	4,686
Unemployment	<u>137</u>	<u>620</u>	<u>(624)</u>	<u>133</u>
	<u>\$ 19,421</u>	<u>\$ 36,581</u>	<u>\$ (37,411)</u>	<u>\$ 18,591</u>

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

15. University of Alaska Foundation:

The University of Alaska Foundation (UAF) is a legally separate, non profit organization formed in 1974 to solicit donations for the exclusive benefit of the University of Alaska. During 2005 and

NOTES TO FINANCIAL STATEMENTS

Regents. The net assets and related activity for the university's land grant endowment trust's investment in the fund is reflected in the university's financial statements.

16. Functional Classifications with Natural Classifications:

The university's operating expenses by natural classification were as follows (in thousands):

	Year ended June 30, 2005						
	<u>Compensation & Benefits</u>	<u>Contractual Services</u>	<u>Supplies & Materials</u>	<u>Other</u>	<u>Student Aid</u>	<u>Depre- ciation</u>	<u>Total</u>
Instruction	\$ 120,892	\$ 19,191	\$ 9,688	\$ 281	\$ -	\$ -	\$ 150,052
Academic support	30,019	5,960	4,975	36	-	-	40,990
Research	74,189	34,917	9,819	8	-	-	118,933
Public service	19,101	9,544	2,397	184	-	-	31,226
Student services	25,734	7,674	2,769	(144)	-	-	36,033
Operations and maintenance	20,446	10,138	13,569	800	-	-	44,953
Institutional support	49,368	5,864	7,127	1,029	-	-	63,388
Student aid	-	-	-	-	12,822	-	12,822
Auxiliary enterprises	7,884	12,766	13,112	165	-	-	33,927
Depreciation	-	-	-	-	-	60,135	60,135
	<u>\$ 347,633</u>	<u>\$ 106,054</u>	<u>\$ 63,456</u>	<u>\$ 2,359</u>	<u>\$ 12,822</u>	<u>\$ 60,135</u>	<u>\$ 592,459</u>

	Year ended June 30, 2004				
	<u>Compensation & Benefits</u>	<u>Contractual</u>	<u>Supplies &</u>	<u>Student</u>	<u>Depre-</u>

