

UNIVERSITY OF ALASKA

(A Component Unit of the State of Alaska)

Financial Statements

June 30, 2002

(With Independent Auditors' Report Thereon)

University of Alaska  
(A Component Unit of the State of Alaska)  
Financial Statements  
June 30, 2002

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited – see accompanying accountants' report)

A review of the university's statement of net assets shows a decrease in working capital and unrestricted and restricted expendable net assets. The decline in net assets was offset somewhat by capital additions in excess of depreciation for the period. A more detailed analysis of the reasons for these changes follows.

Although working capital (current assets less current liabilities) declined by \$25.4 million in 2002, \$14.2 million was due to management's decision to transfer the majority of its short-term investments to longer-term securities. The decrease in unrestricted cash and cash equivalents of

## MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited – see accompanying accountants' report)

The Statement of Revenues, Expenses and Changes in Net Assets reflects an overall decrease in net assets of 1.67 percent, or \$12.5 million. Major factors contributing to this change are discussed below.

State of Alaska general fund appropriations continue to be the single major source of revenue for the university, providing \$201.6 million in 2002, as compared to \$190.7 million in 2001. Despite increased appropriation levels, operating costs exceeded the rise in operating and nonoperating revenues. Appropriations are used primarily to cover basic operating costs including salaries, travel, equipment, supplies and contractual services. Historically, the Legislature has funded the university at an amount equal to or above the prior period's appropriation.

Revenues from federal and other sources for sponsored research and education-related programs increased 16 percent, from \$128.5 million in 2001

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

The university is self-insured for health care costs. Rising health care costs were a significant factor in the reduction of unrestricted net assets. Health claims and administrative costs for non-

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

**Capital and Debt Activities**

The University of Alaska has continued to modernize its complement of older facilities and to build new facilities to maintain or enhance the quality of the university's academic, research and student service programs.

Net capital additions totaled \$50.1 million in 2002, as compared with \$45.1 million in 2001. These capital additions primarily comprise replacement, renovation and new construction of

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.

The level of annual state appropriation funding is conditional upon the legislative process, which is directly influenced by current economic conditions and other factors. While it is not possible to predict annual appropriation levels, management is active in maximizing other revenue sources to keep pace with the anticipated growth in enrollment. One response has been a proposed 10 percent tuition rate increase for academic year 2004 and 2005. In terms of instructional expenditures as compared to tuition revenue, the proposed tuition increases would move the university closer to the industry average.

The university has made a commitment to enhance its competitive research capacity. Within the



## Independent Auditor's Report

The Board of Regents

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integral part of an audit performed in accordance with *Government Auditing Standards* and should be read  
in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, on pages 1 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



September 30, 2002



| <b>Assets</b>                                                                 | 2002      | 2001      |
|-------------------------------------------------------------------------------|-----------|-----------|
| Currents assets:                                                              |           |           |
| Cash and cash equivalents                                                     | \$ 17,178 | \$ 33,835 |
| Short-term investments                                                        | 1,147     | 22,333    |
| Accounts receivable, less allowance<br>of \$4,257 in 2002 and \$4,720 in 2001 | 62,495    | 48,572    |
| State appropriations receivable                                               | 400       | 260       |
| Other assets                                                                  | 1,214     | 228       |
| Inventories                                                                   | 6,906     | 7,014     |
| Total current assets                                                          | 89,340    | 112,242   |
| Noncurrent assets:                                                            |           |           |
| Restricted cash and cash equivalents                                          | 9,755     | 6,296     |
| Notes receivable                                                              | 5,283     | 5,626     |
| Endowment investments                                                         | 75,430    | 82,452    |
| Other endowment assets                                                        | 40,473    | 40,657    |
| Long-term investments                                                         | 19,029    | 4,563     |
| Assets held in trust                                                          | 5,017     | 5,806     |
| Capital assets, net of accumulated depreciation                               | 651,268   | 650,323   |
| Total noncurrent assets                                                       | 806,255   | 795,723   |
| Total assets                                                                  | 895,595   | 907,965   |
| <b>Liabilities</b>                                                            |           |           |
| Current liabilities:                                                          |           |           |
| Accounts payable                                                              | 10,825    | 12,647    |
| Accrued expenses                                                              | 2,893     | 1,861     |
| Accrued payroll                                                               | 10,475    | 11,223    |
| Deferred revenue                                                              | 3,479     | 2,701     |
| Accrued annual leave                                                          | 7,563     | 7,075     |
| Deferred lease revenue - current portion                                      | 1,281     | 1,281     |
| Long-term debt - current portion                                              | 3,903     | 4,153     |
| Insurance and risk management                                                 | 19,578    | 16,947    |
| Deposits from students and others                                             | 2,554     | 2,199     |
| Total current liabilities                                                     | 62,551    | 60,087    |
| Noncurrent liabilities:                                                       |           |           |
| Capital appropriation advances                                                | 8,946     | 6,678     |

**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, 2002 and 2001**  
**(in thousands)**

|                                                                                                                | 2002      | 2001      |
|----------------------------------------------------------------------------------------------------------------|-----------|-----------|
| <b>Operating revenues</b>                                                                                      |           |           |
| Student tuition and fees                                                                                       | \$ 54,245 | \$ 50,434 |
| less tuition allowances                                                                                        | (5,358)   | (4,713)   |
|                                                                                                                | 48,887    | 45,721    |
| Federal grants and contracts                                                                                   | 97,356    | 77,191    |
| State grants and contracts                                                                                     | 12,542    | 10,425    |
| Local grants and contracts                                                                                     | 3,700     | 3,055     |
| Private grants and contracts                                                                                   | 35,218    | 37,797    |
| Federal appropriations                                                                                         | 1,296     | 962       |
| Local appropriations                                                                                           | 705       | 715       |
| Sales and services, educational departments                                                                    | 3,677     | 3,798     |
| Sales and services, auxiliary enterprises, net of tuition allowances<br>of \$1,266 in 2002 and \$1,113 in 2001 | 29,685    | 27,542    |
| Other                                                                                                          | 11,237    | 12,994    |
| Total operating revenues                                                                                       | 244,303   | 220,200   |
| <b>Operating expenses</b>                                                                                      |           |           |
| Instruction                                                                                                    | 124,040   | 111,543   |
| Academic support                                                                                               | 30,443    | 27,721    |
| Research                                                                                                       | 97,193    | 81,327    |
| <br>State grants d77,191<br>Sta s2 113.82447ts                                                                 |           |           |

**UNIVERSITY OF ALASKA**  
**(A Component Unit of the State of Alaska)**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2002 and 2001**  
**(in thousands)**

|                                                 | 2002      | 2001      |
|-------------------------------------------------|-----------|-----------|
| <b>Cash flows from operating activities</b>     |           |           |
| Student tuition and fees, net                   | \$ 48,889 | \$ 47,031 |
| Grants and contracts                            | 135,735   | 118,971   |
| Sales and services, educational departments     | 3,677     | 3,798     |
| Sales and services, auxiliary enterprises       | 29,649    | 27,863    |
| Federal appropriations                          | 1,296     | 962       |
| Local appropriations                            | 705       | 715       |
| Other operating receipts                        | 8,970     | 12,591    |
| Payments to employees for salaries and benefits | (273,504) | (249,100) |
| Payments to supplier[LoerprB]                   |           |           |

**UNIVERSITY OF ALASKA**  
**(A Component Unit of the State of Alaska)**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2002 and 2001**  
**(in thousands)**

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

|                                                                                   | 2002         | 2001         |
|-----------------------------------------------------------------------------------|--------------|--------------|
| Operating loss                                                                    | \$ (252,751) | \$ (225,800) |
| Adjustments to reconcile operating loss to net cash used by operating activities: |              |              |
| Depreciation expense                                                              | 57,764       | 55,460       |
| Changes in assets and liabilities:                                                |              |              |
| Accounts receivable, net                                                          | (13,775)     | (8,134)      |
| Other assets                                                                      | (986)        | 878          |
| Inventories                                                                       | 108          | 398          |
| Accounts payable                                                                  | (3,024)      | 4,208        |
| Accrued expenses                                                                  | 1,377        | (1,019)      |
| Accrued payroll                                                                   | (747)        | (2,371)      |
| Deferred revenue                                                                  | 798          | 270          |
| Accrued annual leave                                                              | 488          | 589          |
| Deferred lease revenue - current portion                                          | (1,281)      | (1,281)      |
| Insurance and risk management                                                     | 2,631        | 1,226        |
| Deposits from students and others                                                 | (26)         | 83           |
| Net cash used by operating activities                                             | \$ (209,424) | \$ (175,493) |

**Noncash Investing, Capital and Financing Activities (in thousands):**

- During 2002, the university purchased equipment through a lease purchase contract totaling \$425. Payments are scheduled quarterly for a period of three years.
- During 2002, the university received a gift of real property totaling \$127 for a new endowment.

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

## NOTES TO FINANCIAL STATEMENTS

June 30, 2002 and 2001

1. Organization and Summary of Significant Accounting Policies:

Organization and Basis of Presentation:

## NOTES TO FINANCIAL STATEMENTS

- **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

term and that such changes 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 \$2,500 is not capitalized. Certain land and other resources acquired through land grants and donated museum collections for which fair value at date of acquisition was not determinable are reported at zero basis in the financial statements.

Depreciation is computed on a straight-line basis with useful lives of building and building components ranging from 12 to 50 years, 10 to 35 years for infrastructure and other improvements, and 4 to 10 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 university's land grant endowments. The net appreciation on investments of the endowments available for authorization and expenditure by the Board of Regents is \$18.1 million and \$26.3 million, respectively, at June 30, 2002 and 2001. These amounts are recorded in the restricted expendable net asset category. Alaska Statute 14.40.400 provides the Board of Regents with authority to manage the endowments using the total return concept of investment management which is intended to preserve and maintain the purchasing power of the principal.

In accordance with Board of Regents policy, the annual spending allowance is based on five percent of a five-year moving average of the invested balance. Withdrawals of net appreciation to meet the



NOTES TO FINANCIAL STATEMENTS

2. Unrestricted Net Assets:

At June 30 unrestricted net assets included the following:

|                                         | 2002          | 2001          |
|-----------------------------------------|---------------|---------------|
| Designated:                             |               |               |
| Auxiliaries                             | \$ 9,022,047  | \$ 7,795,237  |
| Working capital fund                    | 4,715,368     | 4,715,368     |
| Service centers                         | 3,905,339     | 4,238,619     |
| Computing/telecommunications technology | 941,799       | 1,576,200     |
| Deferred maintenance/renovation         | 245,664       | 305,482       |
| Renewal and replacement funds           | 2,046,563     | 1,530,446     |
| Quasi-endowment funds                   | 78,610        | 78,131        |
| Employee benefit funds                  | (7,302,894)   | (1,947,515)   |
| Endowment earnings                      | 5,973,471     | 6,695,281     |
| Retirement Incentive Program            | -             | (1,254,968)   |
| Encumbrances                            | 7,954,140     | 13,835,506    |
| Total designated                        | 27,580,107    | 37,567,787    |
| Undesignated                            | 8,933,953     | 7,906,656     |
| Total unrestricted net assets           | \$ 36,514,060 | \$ 45,474,443 |

Unrestricted net assets include non-lapsing university receipts of \$21 million at June 30, 2002. Non-lapsing university receipts of \$25.2 million from 2001 were fully expended in 2002.

At June 30, 2002 and 2001, \$30 million and \$32.1 million, respectively, of auxiliary funds, encumbrances and other unrestricted net assets were pledged as collateral for the university's general revenue bonds, as calculated under the terms of the 1992 General Revenue Bonds Trust Indenture.

3. Cash and Investments:

Alaska statutes and Board of Regents' policy provide the university with broad authority to invest funds. GASB requires that bank balances and investment securities be disclosed or classified by category of credit risk as follows:

Deposits: Insured or collateralized with securities held by the university or its agent in the name of the university (category 1); collateralized with securities held by the pledging financial institution's trust department or agent in the name of the university (category 2); uncollateralized including collateralized balances for which securities are held by the pledging financial institution or by its trust department or agent but not in the name of the university (category 3).

Investment Securities: Insured or registered, with securities held by the university or its agent in the name of the university (category 1); Uninsured and unregistered, with securities held by the counterparty's (another party to the transaction, i.e. seller or dealer) trust department or agent in the name of the university (category 2); Uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in the name of the university (category 3).

NOTES TO FINANCIAL STATEMENTS

|                                               | 2002       |            | 2001       |            |
|-----------------------------------------------|------------|------------|------------|------------|
|                                               | Book       | Bank       | Book       | Bank       |
| Deposits (in thousands):                      |            |            |            |            |
| Insured or collateralized (Category 1):       |            |            |            |            |
| Demand deposits                               | \$ 340     | \$ 340     | \$ 315     | \$ 316     |
| Time deposits                                 | 100        | 100        | 100        | 100        |
| Uncollateralized (Category 3):                |            |            |            |            |
| Demand deposits                               | (7,195)    | 394        | (6,667)    | 456        |
| Time deposits                                 | 4,100      | 4,100      | 1,900      | 1,900      |
| Total deposits                                | \$ (2,655) | \$ 4,934   | \$ (4,352) | \$ 2,772   |
| Investment securities:                        |            |            |            |            |
| Insured and registered (Category 1)           |            |            |            |            |
| Common stock                                  |            | \$ 2       |            | \$ 2       |
| Uninsured and unregistered (Category 3)       |            |            |            |            |
| Repurchase agreements                         |            | 6,317      |            | 7,634      |
| Total investment securities                   |            | \$ 6,319   |            | \$ 7,636   |
| Other deposits and investments:               |            |            |            |            |
| Money market funds                            |            | \$ 262     |            | \$ 171     |
| Commonfund, short and intermediate term funds |            | 29,884     |            | 62,284     |
| Commonfund, absolute return fund              |            | 12,244     |            | -          |
| Funds held by others:                         |            |            |            |            |
| Endowment funds                               |            | 73,900     |            | 80,749     |
| Bond proceeds and redemption funds            |            | 2,585      |            | 2,991      |
| Total other deposits and investments          |            | \$ 118,875 |            | \$ 146,195 |

Deposits reported in Category 1 by the university were insured by federal depository insurance. Deposits and investments reported in Category 3 were secured under a tri-party agreement with Bank of New York to hold the collateral for the benefit of the university; however, the securities are not held in the name of the university. At June 30, 2002 and 2001, securities with an estimated fair value of \$20.5 million and \$15.3 million were held as collateral under the tri-party agreement. Time deposits consist of a non-interest bearing deposit in the amount of \$4.2 million maintained as a compensating balance in exchange for banking services.

Repurchase agreements represent overnight investments secured under tri-party agreements with various bank trust departments to hold the collateral for the benefit of the university; however, the securities are not held in the name of the university. The Commonfund is a not-for-profit provider of pooled multi-manager investment vehicles for colleges and universities. Endowment funds are managed by the University of Alaska Foundation under a consolidated fund agreement. Bond proceeds and related redemption funds are held by bank trustees in accordance with debt covenants.

Certain funds held in trust are not included in the financial statements as the university has only limited control over their administration. These funds are in the custody of independent fiduciaries and at June 30, 2002 and 2001, had an estimated fair value of approximately \$6.4 million and \$5.7 million, respectively.

## NOTES TO FINANCIAL STATEMENTS

### 4. Accounts Receivable:

Accounts receivable consisted of the following at June 30, 2002 and 2001 (in thousands):

|                                                   | 2002      | 2001      |
|---------------------------------------------------|-----------|-----------|
| Student tuition and fees                          | \$ 3,333  | \$ 2,604  |
| Grants and contracts                              | 53,526    | 40,986    |
| Auxiliary services and other operating activities | 1,076     | 1,021     |
| Capital appropriations, grants and contracts      | 8,817     | 8,681     |
|                                                   | 66,752    | 53,292    |
| Less allowance for doubtful accounts              | 4,257     | 4,720     |
| Accounts receivable, net                          | \$ 62,495 | \$ 48,572 |

### 5. 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 Section 529 College Savings Program. The program is a nationally marketed college savings program developed in accordance with Internal Revenue Code Section 529 and includes the resources of the former Advance College Tuition (ACT) Program. Participant account balances of approximately \$400 million and \$24.4 million at June 30, 2002 and 2001, respectively, are not included in the financial statements.

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. Management estimates reserve requirements for the UA Tuition Value Guarantees to be approximately \$200,000 and \$250,000 at June 30, 2002 and 2001, respectively.

### 6. Other Endowment Assets:

Other endowment assets consist of real property and timber and other rights. By Acts of Congress in 1915 and 1929, the university was granted approximately 110,000 acres of land which the territory, and later the state of Alaska managed on behalf of the university. At June 30, 2002 and 2001, the university held approximately 88,000 acres of these lands at no basis because fair value at the date of transfer was not determinable. In 1982 and 1988 the university was allowed to select certain state lands including timber and other rights as replacement for lands disposed of 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.

## NOTES TO FINANCIAL STATEMENTS

7. Capital Assets:

A summary of capital assets follows (in thousands):

| <u>Balance</u><br><u>July 1, 2001</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u><br><u>June 30, 2002</u> |
|---------------------------------------|------------------|-------------------|----------------------------------------|
|---------------------------------------|------------------|-------------------|----------------------------------------|

NOTES TO FINANCIAL STATEMENTS

8. Long-term Debt:

Debt service requirements at June 30, 2002 were as follows (in thousands):

| <u>Year ended</u><br><u>June 30,</u> | <u>Principal</u> | <u>Interest</u>  | <u>Total</u>      |
|--------------------------------------|------------------|------------------|-------------------|
| 2003                                 | \$ 3,903         | \$ 2,716         | \$ 6,619          |
| 2004                                 | 4,042            | 2,551            | 6,593             |
| 2005                                 | 4,069            | 2,390            | 6,459             |
| 2006                                 | 4,098            | 2,231            | 6,329             |
| 2007                                 | 4,162            | 2,069            | 6,231             |
| 2008-2012                            | 15,372           | 8,417            | 23,789            |
| 2013-2017                            | 16,503           | 5,652            | 22,155            |
| 2018-2022                            | 16,176           | 2,490            | 18,666            |
| 2023-2024                            | <u>5,603</u>     | <u>196</u>       | <u>5,799</u>      |
|                                      | <u>\$ 73,928</u> | <u>\$ 28,712</u> | <u>\$ 102,640</u> |

Long-term debt consisted of the following at June 30, 2002 and 2001:

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <u>2002</u>          | <u>2001</u>          |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| <u>Note payable – capital construction</u> 1.826% assisted note to the Alaska Housing Finance Corporation (AHFC) to finance construction of Anchorage campus housing, payable beginning August 1999 to February 2024. In 1996, the university entered into an agreement with AHFC to borrow a total of \$33 million, of which \$30 million was issued on an assisted basis with interest at 1.826% and an additional \$3 million issued on an unassisted basis at 6.0% | \$ 29,905,365        | \$ 30,958,092        |
| <u>Note payable – quasi-endowment funds</u> 5.0% note to finance the purchase of two buildings located on University Lake Drive in Anchorage, due serially to May 2022                                                                                                                                                                                                                                                                                                 | 2,430,188            | 2,500,004            |
| <u>Revenue bonds payable</u> 3.95% to 6.25% general revenue bonds due serially to 2023, secured by a pledge of unrestricted current fund revenue generated from tuition, fees, recovery of facilities and administrative costs, sales and services of educational departments, miscellaneous receipts and auxiliaries                                                                                                                                                  | 41,200,735           | 44,231,306           |
| <u>Installment contracts</u> 5.44% installment contract for the purchase of air traffic control simulation equipment due in quarterly installments through January 2005                                                                                                                                                                                                                                                                                                | <u>391,687</u>       | <u>--</u>            |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <u>\$ 73,927,975</u> | <u>\$ 77,689,402</u> |

Under the terms of the 1992 General Revenue Bonds Trust Indenture, the university is required to maintain a reserve account with a trustee at an amount equal to one-half of the maximum annual debt

## NOTES TO FINANCIAL STATEMENTS

service. The balance in the reserve account

## NOTES TO FINANCIAL STATEMENTS

Major construction projects of the university are funded primarily by State of Alaska appropriations and university revenue bonds. The majority of appropriations are financed through capital project bonds issued by the Alaska Housing Finance Corporation, a component unit of the State of Alaska, while

## NOTES TO FINANCIAL STATEMENTS

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

| Pension | Postemployment |
|---------|----------------|
|---------|----------------|



NOTES TO FINANCIAL STATEMENTS

Pension and Postemployment Healthcare Benefits  
(in thousands)

|                                     | Actuarial<br>valuation<br>year ended<br><u>June 30</u> | Actuarial<br>value<br>of plan<br>assets | Actuarial<br>accrued<br>liability<br><u>(AAL)</u> | Unfunded<br>(overfunded)<br>actuarial<br>accrued<br>liability<br><u>(UAAL)</u> | Funded<br>ratio | Covered<br>payroll | UAAL as a<br>percentage<br>of<br>covered<br>payroll |
|-------------------------------------|--------------------------------------------------------|-----------------------------------------|---------------------------------------------------|--------------------------------------------------------------------------------|-----------------|--------------------|-----------------------------------------------------|
| Pension benefits:                   |                                                        |                                         |                                                   |                                                                                |                 |                    |                                                     |
|                                     | 1998                                                   | 304,455                                 | 284,192                                           | (20,263)                                                                       | 107%            | 72,338             | N/A                                                 |
|                                     | 1999                                                   | 308,959                                 | 272,389                                           | (36,570)                                                                       | 113%            | 74,258             | N/A                                                 |
|                                     | 2001                                                   | 360,222                                 | 331,693                                           | (28,529)                                                                       | 109%            | 93,210             | N/A                                                 |
| Postemployment healthcare benefits: |                                                        |                                         |                                                   |                                                                                |                 |                    |                                                     |
|                                     | 1998                                                   | 121,421                                 | 113,341                                           | (8,080)                                                                        | 107%            | 72,338             | N/A                                                 |
|                                     | 1999                                                   | 125,249                                 | 110,424                                           | (14,825)                                                                       | 113%            | 74,258             | N/A                                                 |
|                                     | 2001                                                   | 152,517                                 | 140,438                                           | (12,079)                                                                       | 109%            | 93,210             | N/A                                                 |
| Total:                              |                                                        |                                         |                                                   |                                                                                |                 |                    |                                                     |
|                                     | 1998                                                   | 425,876                                 | 397,533                                           | (28,343)                                                                       | 107%            | 72,338             | N/A                                                 |
|                                     | 1999                                                   | 434,208                                 | 382,813                                           | (51,395)                                                                       | 113%            | 74,258             | N/A                                                 |
|                                     | 2001                                                   | 512,739                                 | 472,131                                           | (40,608)                                                                       | 109%            | 93,210             | N/A                                                 |

Valuation data for fiscal year 2000 is not available since the State of Alaska has decided, in accordance with GASB Statement No. 27, to do a valuation report biennially.

State of Alaska Teachers' Retirement System (TRS)

*Plan Description*

TRS provides pension, postemployment health care, death and disability benefits to participants. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

Each fiscal year, TRS 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*

Employees contribute 8.65% 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 2002, required employee and employer contribution rates were 8.65% and 11%, respectively. The amounts contributed to TRS by the university during the years ended June 30, 2002, 2001 and 2000 were \$4,196,154, \$4,349,722, and \$4,324,920, respectively, equal to the required employer contributions for each year.

## NOTES TO FINANCIAL STATEMENTS

Defined Contribution Plans:

University of Alaska Optional Retirement Plan (ORP)

Faculty classified as regular and certain administrators may make a one-time election to participate in

## NOTES TO FINANCIAL STATEMENTS

Changes in applicable liability amounts follow (in thousands):

|                       | <u>Balance</u><br><u>July 1, 2001</u> | <u>Provision</u><br><u>for Claims</u> | <u>Claims</u><br><u>Payment</u> | <u>Balance</u><br><u>June 30, 2002</u> |
|-----------------------|---------------------------------------|---------------------------------------|---------------------------------|----------------------------------------|
| Health                | \$ 5,378                              | \$ 26,558                             | \$ (24,373)                     | \$ 7,563                               |
| General liability     | 7,401                                 | 1,130                                 | (646)                           | 7,885                                  |
| Workers' compensation | 4,055                                 | 1,147                                 | (1,190)                         | 4,012                                  |
| Unemployment          | 113                                   | 520                                   | (515)                           | 118                                    |
|                       | <u>\$ 16,947</u>                      | <u>\$ 29,355</u>                      | <u>\$ (26,724)</u>              | <u>\$ 19,578</u>                       |

|                       | <u>Balance</u><br><u>July 1, 2000</u> | <u>Provision</u><br><u>for Claims</u> | <u>Claims</u><br><u>Payment</u> | <u>Balance</u><br><u>June 30, 2001</u> |
|-----------------------|---------------------------------------|---------------------------------------|---------------------------------|----------------------------------------|
| Health                | \$ 4,797                              | \$ 21,910                             | \$ (21,329)                     | \$ 5,378                               |
| General liability     | 6,549                                 | 1,273                                 | (421)                           | 7,401                                  |
| Workers' compensation | 4,282                                 | 547                                   | (774)                           | 4,055                                  |
| Unemployment          | 94                                    | 397                                   | (378)                           | 113                                    |
|                       | <u>\$ 15,722</u>                      | <u>\$ 24,127</u>                      | <u>\$ (22,902)</u>              | <u>\$ 16,947</u>                       |

Subsequent to June 30, 2002, insured coverage limits for property claims decreased from \$200 million to \$100 million. Within the \$25 million primary layer of coverage and the \$50 million layer in excess of \$50 million, the university is uninsured for \$7.5 million and \$25 million, respectively. Insurance coverage limits for casualty claims decreased from \$45 million to \$25 million and aviation limits for the flight school and aircraft liability decreased from \$500 million to \$25 million and \$10 million, respectively.

#### 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 the administration, 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. Related Party Transactions:

The University of Alaska Foundation (Foundation) is a tax-exempt organization formed in 1974 to solicit donations for the exclusive benefit of the University of Alaska. At June 30, 2002 and 2001, the Foundation had net assets totaling \$105.4 million and \$102.1 million, respectively. The Foundation's financial statements are not combined with the university's financial statements. During 2002 and 2001, the university transferred \$980,204 and \$396,593, respectively, to the Foundation. Distributions and expenditures by the Foundation for the benefit of the university totaled \$7.4 million and \$4.9 million, of which \$7.1 million and \$4.7 million were direct reimbursements to the university. At June 30, 2002 and 2001 the Foundation owed the university \$1.4 million and \$.8 million, respectively, primarily for reimbursement of grant and contract and scholarship expenditures. The university

