

UNIVERSITY OF ALASKA

(A Component Unit of the State of Alaska)

Financial Statements

June 30, 2003 and 2002

(With Independent Auditors' Report Thereon)



University of Alaska  
(A Component Unit of the State of Alaska)  
Financial Statements  
June 30, 2003 and 2002

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**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

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

A review of the university's statement of net assets shows an increase in working capital (current assets less current liabilities) over the past year from \$26.8 million to \$32.6 million. Working capital at year end represents 23 days of operating expenses, as compared to 20 days in 2002. The improvement can be attributed to a reduced level of spending in anticipation of increases in

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

The Statement of Revenues, Expenses and Changes in Net Assets reflects an overall increase in net assets of 6.5 percent, or \$47.9 million. Major factors contributing to this change are discussed below.

The primary factor for the increase in net assets is attributed to the excess of \$79.6 million from revenue recognized from capital funding sources over depreciation expense of \$59.7 million on capital assets. Revenue is recognized as expenditures for capital projects occur. Significant capital activity in 2003 is discussed in the *Capital and Debt Activities* section which follows.

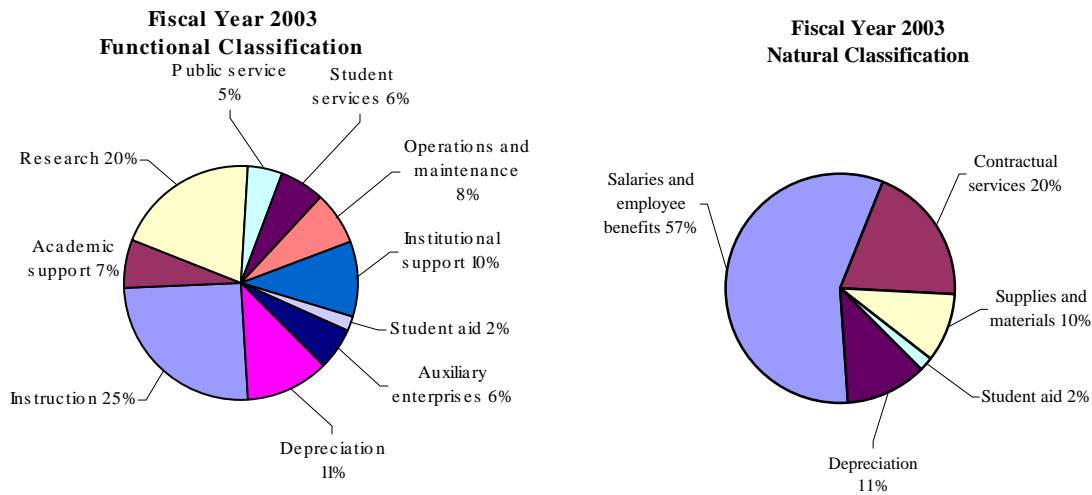
Endowment proceeds and investment income contributed positively to the increase in net assets by providing \$11.8 million in 2003 as compared to a loss of \$1.8 million in 2002. A significant component of this change is from increased sales of trust land, timber and mineral interests, the net proceeds of which are required to be deposited to the land grant endowment trust fund. The other major component is investment income, generated from the endowment principal invested in a consolidated fund managed by the University of Alaska Foundation. Total 310.98 126pa

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

Revenues from federal and other sources for sponsored research and education-related programs increased 14 percent, from \$148.8 million in 2002 to \$169.9 million in 2003. Facility and administrative cost recovery provided \$26.5 million in 2003 as compared to \$22.7 million in 2002. Increased funding enables the university to expand existing programs and start new programs, like those in fisheries, data analysis and basic research. In addition to supporting new programs, facility and administrative cost recovery reimburses the university for facilities and administrative costs necessary to operate and support sponsored programs, and provides cash flow to service debt on research facilities.

Student enrollment and tuition rate increases for the 2003 academic year provided for gross student tuition and fee revenue of \$59.8 million in 2003 as compared to \$54.2 million in 2002. Student full-time equivalent enrollment for Fall 2002 was 16,624, an 8.1 percent increase from the prior Fall period. Tuition rates increased 3.2 percent for 2003, roughly equal to the estimated inflationary impact on the costs of providing higher education.

A comparison of operating expenses by functional and natural classification for the year ended June 30, 2003 follows (see Note 16 of the financial statements for more information):



**Statement of Cash Flows**

The statement of cash flows provides additional information about the university's financial results by reporting the major sources and uses of cash. The statement helps users understand or assess:

How operations and plant a

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

**Fiscal Year 2002**

For comparative purposes, significant comments noted in fiscal year 2002 Management's Discussion and Analysis are summarized below:

The significant factors affecting fiscal year 2002 operating results included a sharp increase in health care costs and lower than normal investment returns, contributing to a \$12.5 million decline in net assets. Health claims and administrative costs for non-union and represented employees exceeded the university's defined contribution by \$4.4 million in 2002. While health care plan costs continued to rise in fiscal year 2003, increases in employee and employer contributions kept pace with the growth. Effective July 1, 2003, the university began increasing its defined contribution, and employee contributions will increase again in January, 2004.

Investment earnings from the university's operating capital decreased from \$5.1 million in 2001 to \$2.2 million in 2002 primarily due to a decline in market conditions. In addition, endowment earnings decreased from \$5.5 million in 2001 to a negative \$1.8 million in 2002, causing the majority of the decrease in expendable restricted net assets. Both of these revenue sources are reported as nonoperating revenue, and provide additional resources necessary to supplement operating revenue and other revenues.

Other major revenue sources include state general fund appropriations, sponsored programs and tuition revenue. State ge10.9ef48i4f Tc54niversit



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

preconstruction, or is held for contingencies for work in progress. At June 30, 2003, \$11.8 million in private gifts and grants for construction of the University of Alaska Museum addition and renovation remain unexpended. Such gifts, held

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

The university is planning to issue general revenue bonds (Series L) in November 2003 for approximately \$11 million. Approximately \$2.2 million of the bonds will be used for redemption of general revenue bonds issued in prior years, while the remainder will be used for capital7T, while the remE



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03 and 2002 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 *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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Alaska at June 30, 2003 and 2002, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2003 on our consideration of the University of Alaska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an

tion required by accounting prin

<b>Assets</b>	2003	2002
Currents assets:		
Cash and cash equivalents	\$ 22,147	\$ 17,178
Short-term investments	1,215	1,147

**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, 2003 and 2002**  
**(in thousands)**

	2003	2002
<b>Operating revenues</b>		
Student tuition and fees	\$ 59,825	\$ 54,245
less tuition allowances	(5,256)	(5,358)
	54,569	48,887
Federal grants and contracts	115,996	97,356
State grants and contracts	11,775	12,542
Local grants and contracts	3,547	3,700
Private grants and contracts	38,617	35,218
Federal appropriations	2,214	1,296
Local appropriations	705	705
Sales and services, educational departments	3,681	3,677
Sales and services, auxiliary enterprises, net of tuition allowances of \$1,151 in 2003 and \$1,266 in 2002	32,283	29,685
Other	11,739	11,237
Total operating revenues	275,126	244,303
<b>Operating expenses</b>		
Instruction	134,192	124,040
Academic support	34,279	30,443
Research	107,615	97,193
Public service	24,967	22,267
Student services	31,323	28,709
Operations and maintenance	40,291	42,210
Institutional support	53,529	56,132
Student aid	10,441	9,405
Auxiliary enterprises	31,827	28,891
Depreciation	59,684	57,764
Total operating expenses	528,148	497,054
Operating loss	(253,022)	(252,751)
<b>Nonoperating revenues (expenses)</b>		
State appropriations	211,152	201,596
Investment earnings	2,411	2,188
Endowment proceeds and investment income	11,745	(1,812)
Interest on debt	(2,936)	(2,886)
Other nonoperating expenses	(1,108)	(3,363)
Net nonoperating revenues	221,264	195,723
Loss before other revenues, expenses, gains or losses	(31,758)	(57,028)
Capital appropriations, grants and contracts	79,640	44,429
Additions to permanent endowments	-	127
Net increase (decrease) in net assets	47,882	(12,472)
<b>Net assets</b>		
Net assets - beginning of year	734,632	747,104
Net assets - end of year	\$ 782,514	\$ 734,632

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, 2003 and 2002**  
**(in thousands)**

	2003	2002
<b>Cash flows from operating activities</b>		
Student tuition and fees, net	\$ 53,911	\$ 48,889
Grants and contracts	171,403	135,735
Sales and services, educational departments	3,680	3,677
Sales and services, auxiliary enterprises	32,666	29,649
Federal appropriations	2,214	1,296
Local appropriations	705	705
Other operating receipts	10,418	8,970
Payments to employees for salaries and benefits	(299,886)	(273,504)
Payments to suppliers	(154,653)	(155,547)
Payments to students for financial aid	(10,381)	(9,294)
Net cash used by operating activities	(189,923)	(209,424)
<b>Cash flows from noncapital financing activities</b>		
State appropriations	211,401	201,345
Other revenue (payments), net	170	(900)
Direct lending receipts	45,418	37,719
Direct lending payments	(45,920)	(37,453)
Net cash provided by noncapital financing activities	211,069	200,711
<b>Cash flows from capital and related financing activities</b>		
Capital appropriations, grants and contracts	69,335	46,669
Proceeds from issuance of capital debt	33,515	-
Redemption of general revenue bonds	(3,885)	-
Purchases of capital assets	(102,479)	(59,648)
Principal paid on capital debt and leases	(3,650)	(4,186)
Interest paid on capital debt and leases	(3,302)	(2,871)
Net cash used by capital and related financing activities	(10,466)	(20,036)
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	3,776	26,311
Purchase of investment	8,160	(29,260)
Net cash provided by investing activities	6,111	15,551
Net increase (decrease) in cash and cash equivalents	4,793	(1,196)
Cash and cash equivalents, beginning of the year	26,933	40,211
Cash and cash equivalents, end of the year	43,724	\$ 26,933

**UNIVERSITY OF ALASKA**  
**(A Component Unit of the State of Alaska)**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2003 and 2002**  
**(in thousands)**

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

	<u>2003</u>	<u>2002</u>
Operating loss	\$ (253,022)	\$ (252,751)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	59,684	57,764
Changes in assets and liabilities:		
Accounts receivable, net	1,048	(13,775)
Other assets	(40)	(986)
Inventories	(738)	108
Accounts payable	3,472	(3,024)
Accrued expenses	(236)	1,377
Accrued payroll	1,011	(747)
Deferred revenue	(148)	798
Accrued annual leave	405	488
Deferred lease revenue - current portion	(1,281)	(1,281)
Insurance and risk management	(157)	2,631
Deposits from students and others	79	(26)
Net cash used by operating activities	<u>\$ (189,923)</u>	<u>\$ (209,424)</u>

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

**For the Year Ended June 30, 2003**

The university purchased equipment through a lease purchase contract totaling \$0.4 million. Payments are scheduled quarterly over the next five years.

The State of Alaska transferred the Tanana Valley Campus Barnette Street facility to the university with a fair market value of \$2.7 million.

Additions to capital assets include \$7.7 million expended and capitalized but not paid for at year end.

**For the Year Ended June 30, 2002**

The university purchased equipment through a lease purchase contract totaling \$0.4 million. Payments are scheduled quarterly for a period of three years.

The university received a gift of real property totaling \$0.1 million for a new endowment.

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

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

## NOTES TO FINANCIAL STATEMENTS

June 30, 2003 and 2002

### 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.

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.

Governmental Accounting Standards Board (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 action of management or 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.

#### 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.



## NOTES TO FINANCIAL STATEMENTS

### **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 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

## NOTES TO FINANCIAL STATEMENTS

### 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):

	2003	2002
Designated:		
Auxiliaries	\$ 9,529	\$ 9,022
Working capital fund	4,715	4,715
Service centers	4,473	3,905
Computing/telecommunications technology	680	942
Deferred maintenance/renovation	107	246
Renewal and replacement funds	2,578	2,047
Quasi-endowment funds	79	79
Employee benefit funds	(7,389)	(7,303)
Endowment earnings	7,108	5,973
Encumbrances	7,159	7,954
Total designated	29,039	27,580
Undesignated	11,796	8,934
Total unrestricted net assets	\$ 40,835	\$ 36,514

Unrestricted net assets include non-lapsing university receipts of \$24.2 million at June 30, 2003. Non-lapsing university receipts of \$21 million from 2002 were fully expended in 2003.

At June 30, 2003 and 2002, \$33.7 million and \$30 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).

## NOTES TO FINANCIAL STATEMENTS

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).

	2003		2002	
	Book	Bank	Book	Bank
Deposits (in thousands):				
Insured or collateralized (Category 1):				
Demand deposits	\$ 304	\$ 302	\$ 340	\$ 340
Time deposits	100	100	100	100
Uncollateralized (Category 3):				
Demand deposits	(16,721)	736	(7,195)	394
Time deposits	<u>4,100</u>	<u>4,100</u>	<u>4,100</u>	<u>4,100</u>
Total deposits	<u>\$ (12,217)</u>	<u>\$ 5,238</u>	<u>\$ (2,655)</u>	<u>\$ 4,934</u>
Investment securities:				
Insured and registered (Category 1)				
Common stock		\$ 2		\$ 2
Uninsured and unregistered (Category 3)				
Repurchase agreements		<u>16,399</u>		<u>6,317</u>
Total investment securities		<u>\$ 16,401</u>		<u>\$ 6,319</u>
Other deposits and investments:				
Money market funds		\$ 120		\$ 262
Commonfund, short and intermediate term funds		35,227		29,884
Commonfund, absolute return fund		12,816		12,244
Funds held by others:				
Endowment funds		79,555		73,900
Bond proceeds and redemption funds		<u>14,966</u>		<u>2,585</u>
Total other deposits and investments		<u>\$ 142,684</u>		<u>\$ 118,875</u>

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, 2003 and 2002, securities with an estimated fair value of \$26.4 million and \$20.5 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 for the benefit of the university are not included in the financial statements as the university has only limited control over their administration. These funds are in the custody of

## NOTES TO FINANCIAL STATEMENTS

independent fiduciaries and at June 30, 2003 and 2002, had an estimated fair value of approximately \$5.6 million and \$6.4 million, respectively.

4. Accounts Receivable:

Accounts receivable consisted of the following at June 30, 2003 and 2002 (in thousands):

<u>June 30, 2003</u>	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Student tuition and fees	\$ 6,718	\$ (1,368)	\$ 5,350
Sponsored programs	49,014	(2,600)	46,414
Auxiliary services and other operating activities	1,009	(150)	859
Capital appropriations, grants and contracts	22,302	-	22,302
State operating appropriation	<u>1</u>	<u>-</u>	<u>1</u>
	<u>\$ 79,044</u>	<u>\$ (4,118)</u>	<u>\$ 74,926</u>
<u>June 30, 2002</u>	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Student tuition and fees	\$ 6,067	\$ (1,239)	\$ 4,828
Sponsored programs	50,725	(2,831)	47,894
Auxiliary services and other operating activities	1,142	(187)	955
Capital appropriations, grants and contracts	8,968	-	8,968
State operating appropriation	<u>250</u>	<u>-</u>	<u>250</u>
	<u>\$ 67,152</u>	<u>\$ (4,257)</u>	<u>\$ 62,895</u>

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 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 \$714 million and \$400 million at June 30, 2003 and 2002, 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 \$600,000 and \$200,000 at June 30, 2003 and 2002, respectively.

6. 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, 2003 and 2002, the approximately 86,000 and 88,000 acres, respectively, were held in trust at no basis because fair value at the date of transfer was not determinable.

## NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

8. Long-term Debt:

Debt service requirements at June 30, 2003 were as follows (in thousands):

Year ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 4,354	\$ 3,795	\$ 8,149
2005	4,357	3,655	8,012
2006	4,369	3,512	7,881
2007	4,409	3,364	7,773
2008	4,736	3,202	7,938
2009-2013	20,563	13,826	34,389
2014-2018	22,748	9,761	32,509
2018-2023	22,590	5,203	27,793
2024-2028	11,549	1,383	12,932
2029	<u>640</u>	<u>16</u>	<u>656</u>
	<u>\$ 100,315</u>	<u>\$ 47,717</u>	<u>\$ 148,032</u>

Long-term debt consisted of the following at June 30, 2003 and 2002 (in thousands):

	2003	2002
<u>Note payable – capital construction</u> 1.826% assisted note to the Alaska Housing Finance Corporation (A96q(A96q(A96qb -5.5tec6): 3908 Tcdus housing,		

## NOTES TO FINANCIAL STATEMENTS

On July 31, 2002, the university issued general revenue bonds (Series K) totaling \$33,515,000. The bonds mature on October 1, 2028 and bear interest at rates ranging from 1.4 percent to 5 percent. Subject to annual appropriation, the State of Alaska will reimburse the university for principal and interest on \$19,470,000 of the principal amount of the bonds, beginning in fiscal year 2004 and





NOTES TO FINANCIAL STATEMENTS

*Funding Policy and Annual Pension Cost*

Employee contribution rates are 7.5% for peace officers and firefighters and 6.75% 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.

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

	<u>Pension</u>	<u>Postemployment healthcare</u>	<u>Total</u>
Contribution rates:			
Employee:			
Peace officers and firefighters	5.34%	2.16%	7.50%
Other employees	4.80%	1.95%	6.75%
Employer	2.90%	1.18%	4.08%
Annual pension cost	\$3,306,428	\$1,340,695	\$4,647,123
Contributions made	\$3,306,428	\$1,340,695	\$4,647,123
Actuarial assumptions:			
Inflation rate	3.50%	Same	
Investment return	8.25%	Same	
Projected salary increase:			
Inflation	3.50%	N/A	
Productivity and merit:			
Peace officers and firefighters	2.50%	N/A	
Others	2.00%	N/A	
Health cost trend	N/A	12.0%	

The actuarial valuation date was June 30, 2002. The projected unit cost credit method is used and the initial unfunded accrued liability and future gains/losses are amortized as a 25-year fixed period level percentage of pay. Effective June 30, 2002, the asset valuation method recognizes 20 percent of the investment gain or loss in each of the current and preceding four years. This method will be phased in over the next five years. All assets are valued at market value.

During 2003, the annual required contribution (ARC) and the amount contributed by the university for annual pension cost (APC) was \$4,647,123. The university has fully funded its pension obligation; therefore, no net pension obligation (NPO) existed at fiscal year end.

Three year trend information follows:

	<u>Year ended June 30</u>	<u>APC</u>	<u>Employer contribution rate</u>	<u>Percentage of APC contributed</u>	<u>NPO</u>
Pension:	2001	2,936,457	3.25%	100%	-
	2002	3,006,906	2.90%	100%	-
	2003	3,306,428	2.90%	100%	-
Postemployment Healthcare:	2001	1,171,050	1.30%	100%	-
	2002	1,219,245	1.18%	100%	-
	2003	1,340,695	1.18%	100%	-



## 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 the ORP as an alternative to participation in PERS or TRS. The ORP is an employer funded defined contribution plan which operates in conjunction with a companion mandatory tax-deferred annuity plan. ORP participants are required to make employee contributions to one of the plan's authorized tax-deferred annuity programs at a rate equivalent to the TRS employee contribution rate of 8.65%. The university makes matching employer contributions to one of the plan's authorized employee-selected annuity providers or investment managers at a rate equal to the three-year moving average of the TRS employer contribution rates (11.33% for FY03 and 11.67% for FY02). In fiscal year 2003 and 2002, the university's total covered payroll for the ORP plan was approximately \$46.5 million and \$40.5 million, respectively. The amounts contributed to ORP by the university during the years ended June 30, 2003, 2002 and 2001 were \$5,266,348, \$4,729,946, and \$4,182,523, respectively. At June 30, 2003 and 2002, plan assets (participants' accounts attributable to employer contributions) had a net value of approximately \$38.6 million and \$34.4 million, respectively. Each participant is 100% vested at all times.

#### University of Alaska Pension Plan (Pension)

In addition to the other retirement plans, substantially all regular employees and faculty classified as temporary participate in the Pension plan which was established effective January 1, 1982, when the university withdrew from the federal social security program. Effective January 1, 2003, employer contributions for regular employees were 7.65% of covered wages up to a maximum of \$42,000 and \$87,000 for certain faculty classified as temporary. The plan provides for employer contributions to be invested in accordance with participant-directed investment elections to the plan's fixed income and/or equity funds. Each participant is 100% vested at all times.

In 2003 and 2002, the university's total covered payroll for the Pension plan was approximately \$160.9 million and \$148.8 million, respectively. The university's costs to fund and administer the plan amounted to approximately \$12.3 million, or 7.66% of covered payroll. At June 30, 2003 and 2002, plan assets (participants' accounts) had a net value of approximately \$214.5 million and \$211.9 million, respectively.

### 13. Insurance and Risk Management:

The university is exposed to a wide variety of risks including property loss, bodily and personal injury, intellectual property, errors and omissions, aviation and marine. Exposures are handled with a combination of self-insurance, commercial insurance, and membership in a reciprocal risk retention group. The university is self-insured up to the maximum of \$2 million per occurrence for casualty claims and \$250,000 for property claims. Commercial carriers provide coverage in excess of these



