

**UNIVERSITY OF ALASKA
and
UNIVERSITY OF ALASKA FOUNDATION
CONSOLIDATED FUND**

Financial Statements

June 30, 2002 and 2001

(With Independent Auditor's Report Thereon)

**UNIVERSITY OF ALASKA
and
UNIVERSITY OF ALASKA FOUNDATION
CONSOLIDATED FUND**

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**UNIVERSITY OF ALASKA
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**STATEMENTS OF ASSETS AND LIABILITIES
June 30, 2002 and 2001**

Assets	<u>2002</u>	<u>2001</u>
Cash and cash equivalents	\$ 2,470,860	\$ 2,616,608
Fixed income securities	37,816,611	39,539,666
Equity securities	72,790,526	80,544,732
Limited partnership interests	11,144,277	12,963,135
Real estate partnerships and investment trusts	5,240,737	4,530,330
Interest and dividends receivable	137,804	154,189
Due from the University of Alaska Foundation	<u>229</u>	<u>2,345</u>
Total assets	<u>129,601,044</u>	<u>140,351,005</u>
 Liabilities	 <u>-</u>	 <u>-</u>
 Net Assets		
University of Alaska	73,900,051	80,749,046
University of Alaska Foundation	<u>55,700,993</u>	<u>59,601,959</u>
Total net assets	<u>\$ 129,601,044</u>	<u>\$ 140,351,005</u>
 Net Asset Value Per Unit	 <u>\$173.75</u>	 <u>\$191.63</u>

The accompanying notes are an integral part of the financial statements

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**STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
For the years ended June 30, 2002 and 2001**

Investment Income	<u>2002</u>	<u>2001</u>
Interest and dividend income	\$ 3,465,781	\$ 3,776,448
Operating losses from limited partnerships	<u>(88,848)</u>	<u>(69,817)</u>
Net investment income before expenses	<u>3,376,933</u>	<u>3,706,631</u>
 Expenses		
Management fees	200,728	202,632
Investment consulting fees	50,000	74,000
Custodial fees	25,917	27,189
Audit fees	<u>5,500</u>	<u>5,195</u>
Total expenses	<u>282,145</u>	<u>309,016</u>
Net investment income	3,094,788	3,397,615
 Realized and Unrealized Investment Losses		
Net realized and unrealized investment losses	<u>(13,191,576)</u>	<u>(6,459,781)</u>
 Net Decrease in Net Assets Resulting from Operations		
	(10,096,788)	(3,062,166)
Distributions for endowment spending	(3,740,240)	(3,910,732)
Additional investments	<u>3,087,067</u>	<u>22,392,792</u>
Net Increase (Decrease) in Net Assets	(10,749,961)	15,419,894
Net assets, beginning of year	<u>140,351,005</u>	<u>124,931,111</u>
Net assets, end of year	<u>\$ 129,601,044</u>	<u>\$ 140,351,005</u>

The accompanying notes are an integral part of the financial statements

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NOTES TO FINANCIAL STATEMENTS
June 30, 2002 and 2001

1. Organization and Summary of Significant Accounting Policies

Organization

The Consolidated Fund (fund) was established July 1, 1997 to combine, for investment purposes, certain assets of the University of Alaska (university) Endowment Trust Fund and the University of Alaska Foundation (foundation) Pooled Endowment Fund. The fund is managed by the foundation through its investment committee and treasurer.

The University Endowment Trust Fund, codified in Alaska Statute 14.40.400, is an endowment trust fund. The source of the funding consists of income from the sale or lease of land granted to the university by an Act of Congress approved January 21, 1929 and other gifts and bequests.

The Foundation Pooled Endowment Fund includes endowment and similar funds contributed to the foundation which do not have specific investment restrictions. Earnings from the Pooled Endowment Fund are for the support of the university, subject to donor imposed restrictions.

Investments of the fund may be held in the name of the foundation, the university, the fund, or any fund or nominee as may be authorized by the foundation's treasurer.

In preparing the financial statements, management is required to make estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the statements of assets and liabilities and operations for the period. 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.

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting.

Due to the endowment nature of the fund, all assets, including cash and cash equivalents, are considered non-current assets held for long-term investment.

Investments are stated at current fair value. The net realized and unrealized appreciation (depreciation) in fair value of investments is reflected in the statement of operations.

Investment returns of limited partnerships and real estate investment trusts are recorded with a one calendar-quarter time lag due to the timing of the earnings reports from investment managers. Each June 30 fiscal year for the fund includes investment returns for these investments for the preceding four calendar quarters ended March 31 rather than the four calendar quarters ended June 30. Management believes that this difference is not material to these financial statements. Due to volatility of investment returns, accurate estimates of earnings and/or related asset value adjustments are not available until receipt of historic performance reports. The average earnings (losses) for each of the four quarters ended March 31, 2002, and 2001 were (\$785,194) and \$121,182 respectively.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2002 and 2001

1. Organization and Summary of Significant Accounting Policies, continued

The fund is managed under the "total return" concept of investment management which is intended to preserve and maintain the purchasing power of the principal. This approach emphasizes total investment return - traditional yield or investment income, and net realized and unrealized gains and losses.

The fund uses a unitized system to account for each participant's interest. Contributions to and withdrawals from the fund result in an increase or decrease in the number of units owned and are based on the unit value at the beginning of the month in which the contribution or withdrawal is made. Investment income, fees and realized and unrealized gains and losses are allocated monthly to participating funds on a per unit basis. Investment income net of fees increases the number of units outstanding, while realized and unrealized gains and losses affect the per unit value.

Reclassifications

Certain reclassifications have been made to prior period amounts in order to conform them to current period presentation.

2. Asset Allocation

The asset allocation of the fund's investments was as follows:

	<u>2002</u>	<u>2001</u>
Cash and cash equivalents	1.9%	1.9%
Fixed income, domestic	29.3%	28.3%
Equities, domestic	44.2%	46.2%
Equities, foreign	12.0%	11.2%
Limited partnership interests	8.6%	9.2%
Real estate partnerships and investment trusts	<u>4.0%</u>	<u>3.2%</u>
	<u>100%</u>	<u>100%</u>

3. Commitments

The fund had commitments to make capital contributions to various limited partnerships and real estate investment trusts totaling \$23 million and \$17 million at June 30, 2002 and 2001, respectively.

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4. Changes in Net Asset Balances

Changes in net asset balances by participant were as follows:

	<u>Foundation</u>	<u>University</u>	<u>Total</u>
Balance, July 1, 2000	\$ 44,888,149	\$ 80,042,962	\$ 124,931,111
Net decrease from operations	(1,525,449)	(1,536,717)	(3,062,166)
Distributions for endowment spending	(1,553,166)	(2,357,566)	(3,910,732)
Additional investments	<u>17,792,425</u>	<u>4,600,367</u>	<u>22,392,792</u>
Balance, June 30, 2001	59,601,959	80,749,046	140,351,005
Net decrease from operations	(4,299,995)	(5,796,793)	(10,096,788)
Distributions for endowment spending	(1,888,038)	(1,852,202)	(3,740,240)
Additional investments	<u>2,287,067</u>	<u>800,000</u>	<u>3,087,067</u>
Balance, June 30, 2002	<u>\$ 55,700,993</u>	<u>\$ 73,900,051</u>	<u>\$ 129,601,044</u>

5. Distributions

Distributions from the fund are based on policies established by each participant.