



UNIVERSITY OF ALASKA

(A Component Unit of the State of Alaska)

Financial Statements

June 30, 2000

(With Independent Auditors' Report Thereon)



601 West Fifth Avenue
Suite 700
Anchorage, AK 99501-2258

Independent Auditors' Report

The Board of Regents
University of Alaska:

We have audited the accompanying balance sheet of the University of Alaska (a component unit of the State of Alaska) as of June 30, 2000, and the related statements of changes in fund balances and current funds revenues, expenditures and other changes for the year then ended. 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 audit.

We conducted our audit 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 audit provides 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, 2000, and the changes in fund balances and the current funds revenues, expenditures and other changes for the year 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 29, 2000 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 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.

KPMG LLP

September 29, 2000



THIS PAGE INTENTIONALLY LEFT BLANK

Alaska College Savings Program Fund	Plant Funds	Agency Funds	Totals	
			2000	1999
\$ 28,061	\$ 10,593	\$ 30	\$ 176,109	\$ 164,876
		285,787	285,787	256,512
	7,650		45,173	39,344
	10,429		12,219	12,174
		3	7,412	7,478
			42,911	44,490
	925,983		925,983	915,264
<u>\$ 28,061</u>	<u>\$ 954,655</u>	<u>\$ 285,820</u>	<u>\$ 1,495,594</u>	<u>\$ 1,440,138</u>
\$ 1	\$ 1,045	\$ 81	\$ 39,463	\$ 47,111
21,283		287,038	293,076	262,839
			21,283	19,213
			6,486	5,925
			14	
	17,581		17,581	18,536
	68,767		71,333	72,056
<u>21,284</u>	<u>87,393</u>	<u>287,119</u>	<u>449,236</u>	<u>425,680</u>
<u>35</u>	<u>907</u>	<u>(1,299)</u>		
			42,132	34,990
				511
	1,328		1,328	1,275
			14,446	10,572
			2,292	2,028
			728	721
			113,663	103,416
6,742			6,742	5,796
	22,411		22,411	24,397
	2,981		2,981	3,454
	839,635		839,635	827,298
<u>6,742</u>	<u>866,355</u>		<u>1,046,358</u>	<u>1,014,458</u>
<u>\$ 28,061</u>	<u>\$ 954,655</u>	<u>\$ 285,820</u>	<u>\$ 1,495,594</u>	<u>\$ 1,440,138</u>

Endowment and Similar Funds	Alaska College Savings Program Fund	Plant Funds			
		Unexpended	Retirement of Indebtedness	Renewals and Replacements	Investment in Plant
\$	\$	\$	\$	\$	\$
		3,450			
		10,294			
		3,610			
11,316	1,780	285	208	67	
		(98)			
					30,355
					4,014
<u>11,316</u>	<u>1,780</u>	<u>17,541</u>	<u>208</u>	<u>67</u>	<u>34,369</u>
		232			
			4,014		
			3,083		
		16,485			
282	834	3,213	33		
					19,636
					326
					3,351
<u>282</u>	<u>834</u>	<u>19,930</u>	<u>7,130</u>		<u>23,313</u>
236			3,519		
			2,343		
13					
(563)		403	76	(14)	1,281
(314)		403	5,938	(14)	1,281
10,720	946	(1,986)	(984)	53	12,337
116,650	5,796	24,397	3,965	1,275	827,298
<u>\$ 127,370</u>	<u>\$ 6,742</u>	<u>\$ 22,411</u>	<u>\$ 2,981</u>	<u>\$ 1,328</u>	<u>\$ 839,635</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2000

1. Summary of Significant Accounting Policies:

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.

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 balance sheet and revenue and expenditures 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.

Fund Accounting

The accounts of the university are maintained in accordance with the principles of "fund accounting" in order to ensure observance of limitations and restrictions placed on the use of resources. This procedure classifies resources for accounting and reporting purposes into funds in accordance with activities or objectives specified. Separate accounts are maintained for each fund. In the accompanying financial statements, funds which have similar characteristics have been combined into fund groups.

Within each fund group, fund balances restricted by outside sources are identified and distinguished from unrestricted funds designated for specific purposes by action of the Board of Regents or management. Externally restricted funds may only be utilized in accordance with purposes established by the funding source. The Board of Regents and management have control over the use of unrestricted funds.

Endowment funds are restricted by gift or originating instruments generally requiring that the endowment principal be invested and only the income expended. Quasi-endowment funds established by the Board of Regents for the same purposes as endowment funds are included as "designated" funds in the balance sheet. Quasi-endowment funds may be expended, if authorized by the Board of Regents.

Agency funds are funds held as fiscal agent for others such as student groups and associations. Pension funds for the university's defined contribution retirement plans, which are held by external custodians, are also reported as agency funds.

Gains and losses from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund which owned such assets. Ordinary income derived from investments and receivables is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds.

All unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, endowment income and other restricted resources are accounted for in restricted funds. In general, restricted current funds are reported as revenue and expenditures when expended for current operating purposes.

NOTES TO FINANCIAL STATEMENTS

Alaska College Savings Program Fund

The Alaska College Savings Program Fund includes resources administered for the University of Alaska Advance College Tuition Savings Plan (ACT). ACT is a college savings program and its assets are restricted for payment of benefits and administrative costs of the program.

ACT's assets, liabilities and related fund balance were reclassified to the Alaska College Savings Program Fund in fiscal year 2000 to more accurately reflect the restrictions on these resources. The statement of current funds revenues, expenditures, and other changes reports the effect of the reclassification as a decrease to fiscal year 1999 total current funds revenues and expenditures of approximately \$2.4 million and \$.7 million, respectively, in order to conform to current year presentation.

2. Fund Balance:

Unrestricted current fund balance at June 30, 2000 included the following:

Designated:

Auxiliaries	\$ 8,042,501
Working capital fund	4,715,368
Service centers	2,414,816
Computing / telecommunications technology	1,909,270
Deferred maintenance / renovation	573,208
Employee benefit funds	1,306,761
Endowment earnings	6,129,870
Retirement Incentive Program	(3,711,627)
Encumbrances	<u>6,859,427</u>
Total designated	28,239,594

Undesignated	<u>14,445,761</u>
--------------	-------------------

Total unrestricted current fund balance	<u>\$ 42,685,355</u>
---	----------------------

Fund balance includes non-lapsing university receipts of \$25.1 million. Prior year non-lapsing university receipts of \$21.8 million were fully expended in the current year.

The Retirement Incentive Program (RIP) represents the unfunded employer RIP costs recognized for financial statement purposes as of the employee's retirement date. These costs are payable to the State Retirement System in subsequent accounting periods.

At June 30, 2000, \$29.7 million of auxiliary funds, encumbrances and other unrestricted funds 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. At June 30, the university held the following cash and investments at fair value:

NOTES TO FINANCIAL STATEMENTS

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, 2000, securities with an estimated fair value of \$14.8 million were held as collateral under the tri-party agreement. Time deposits consist of a non-interest bearing certificate of deposit in the amount of \$2.0 million maintained as a compensating balance in exchange for banking services.

	June 30, 2000 (000's omitted)	June 30, 1999 (000's omitted)
Investment securities:		
Insured and registered (Category 1)		
Common stock	\$ 2	\$ 2
Uninsured and unregistered (Category 3)		
Repurchase agreements	<u>9,360</u>	<u>9,555</u>
Total investment securities	<u>\$ 9,362</u>	<u>\$ 9,557</u>
Other deposits and investments:		
Commonfund	\$ 56,386	\$ 53,309
Other money market funds	81	59
Funds held by others:		
Alaska College Savings Program	28,061	25,062
Endowment funds	80,043	70,228
Bond proceeds and redemption funds	<u>4,529</u>	<u>9,027</u>
Total other deposits and investments	<u>\$ 169,100</u>	<u>\$ 157,685</u>

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 for Short Term Investments represents a not-for-profit pooled investment fund for colleges and universities. The Alaska College Savings Program funds are managed by the Alaska Department of Revenue. 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, 2000, had an estimated fair value of approximately \$5.9 million. The university received income of \$62,177 from these sources during fiscal year 2000 for general and designated purposes.

4. Other Assets:

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. The university holds approximately 89,000 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

NOTES TO FINANCIAL STATEMENTS

Principal
Outstanding

Notes - Plant funds

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%

\$ 31,989,463

Notes - Quasi-endowment funds

5.0% note to finance the purchase of two buildings located on University Lake Drive in Anchorage, due serially to May 2022

\$ 2,565,800

Revenue Bonds

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 indirect costs, sales and services of educational departments, miscellaneous receipts and auxiliaries

\$ 47,001,615

Installment Contracts

3.9% to 5.32% installment contracts for the purchase of computing and other equipment due in monthly to annual installments through June 2001

\$ 97,717

In prior years, the university defeased housing system revenue bonds, certain general revenue bonds and certificates of participation by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Trust assets and related liabilities for the defeased bonds are not included in the university's financial statements. At June 30, 2000, outstanding defeased bonds were \$14.9 million.

7. Future Lease Obligations:

In fiscal year 1997, the university entered into an agreement to construct a facility and establish the International Arctic Research Center (IARC). The university received \$19,215,000 to support the construction of the IARC in exchange for a commitment to provide research facilities to various Japanese research organizations and agencies for a period of 25 years, including lease extensions. The Japanese research organizations began occupying the IARC in fiscal year 1999. The future lease obligation, net of \$1,601,250 lease income earned to date through June 30, 2000 and \$32,438 not yet expended for construction, of \$17,581,312 is reflected as a liability in the plant funds.

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 sufficient 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	5.46%	2.04%	7.50%
Other employees	4.92%	1.83%	6.75%
Employer	4.11%	1.53%	5.64%
Annual pension cost	\$3,404,011	\$1,268,619	\$4,672,630
Contributions made	\$3,404,011	\$1,268,619	\$4,672,630
Actuarial assumptions:			
Inflation rate	4.00%	Same	
Investment return	8.25%	Same	
Projected salary increase:			
Inflation	4.00%	N/A	
Productivity and merit	1.50%	N/A	
Health cost trend	N/A	8.50%	

Actuarial assumptions made include a June 30, 1997, valuation date; projected unit credit cost method; level dollar, open amortization method; a rolling 25-year amortization period and a 5-year smoothed market asset valuation method.

During fiscal year 2000, the annual required contribution (ARC) and the amount contributed by the university for annual pension cost (APC) was \$4,672,630. 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:	1998	\$3,226,440	4.09%	100%	-
	1999	3,802,753	4.81%	100%	-
	2000	3,404,011	4.11%	100%	
Postemployment Healthcare:	1998	1,212,189	1.54%	100%	-
	1999	1,465,677	1.85%	100%	-
	2000	1,268,619	1.53%	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 (12% for FY00). In fiscal year 2000, the university's total covered payroll for the ORP plan was approximately \$30.1 million. The amounts contributed to ORP by the university during the years ended June 30, 2000, 1999 and 1998 were \$3,615,692, \$3,130,238 and \$2,733,056, respectively. At June 30, 2000, plan assets (participants' accounts attributable to employer contributions) had a net value of approximately \$35 million which is included in agency funds. 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, 2000, employer contributions for regular employees were 7.65% of covered wages up to a maximum of \$42,000 and \$76,200 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 fiscal year 2000, the university's total covered payroll for the Pension plan was approximately \$124 million. The university's costs to fund and administer the plan amounted to approximately \$9.5 million, or 7.67% of covered payroll. At June 30, 2000, plan assets (participants' accounts) had a net value of approximately \$250.7 million which is recorded in agency funds.

10. Self-insurance:

The university is self-insured for basic automobile, workers' compensation, general liability, property and employees' health claims. Insurance coverage is purchased for amounts in excess of the basic self-insurance program. Liabilities have been established to cover estimates for specific reported losses, estimates for unreported losses based upon past experience modified for current trends, and estimates of expenses for investigating and settling claims. The administration believes that the liability recorded at June 30, 2000, is adequate to cover the ultimate net cost of losses incurred to date.

11. 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

