

UNIVERSITY OF ALASKA

(A Component Unit of the State of Alaska)

Financial Statements

June 30, 2001

(With Independent Auditors' Report Thereon)



701 West Eighth Avenue
Suite 600
Anchorage, AK 99501

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, 2001, 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, 2001, 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 28, 2001 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 28, 2001



THIS PAGE INTENTIONALLY LEFT BLANK

UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
BALANCE SHEET
June 30, 2001
(with comparative totals for 2000)
(000's omitted)

	Current Funds		Student Loan Funds	Endowment and Similar Funds
	Unrestricted	Restricted		
ASSETS				
Cash and investments	\$ 58,620	\$ 42	\$ 171	\$ 81,969
Assets held in trust for others				
Accounts and notes receivable, less allowance of \$4,720 in 2001 and \$3,781 in 2000	1,692	37,609	579	5,626
State appropriations receivable				
Inventories	7,014			
Other assets	225	3		40,657
Investment in plant				
Total assets	\$ 67,551	\$ 37,654	\$ 750	\$ 128,252
LIABILITIES				
Accounts payable and accrued expenses	\$ 39,239	\$ 2,349	\$	\$ 20
Deposits held in custody for others	6,261	70		36
College savings benefits payable				
Accrued annual leave	7,075			
Capital appropriation advances				
State appropriations lapsed				
Future lease obligations				
Long-term debt				2,500
Total liabilities	52,575	2,419		2,556
Interfund	(27,872)	32,768	(165)	(802)
FUND BALANCES				
Unrestricted:				
Designated				
General	35,959			13,435
Renewals and replacements				
Undesignated	6,889			
Restricted:				
Grants refundable		2,467		
Federal loan programs			727	
Established by donors			188	113,063
Alaska College Savings Trust				
Unexpended plant				
Retirement of indebtedness				
Net investment in plant				
Total fund balances	42,848	2,467	915	126,498
Total liabilities and fund balances	\$ 67,551	\$ 37,654	\$ 750	\$ 128,252

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

Alaska College Savings Trust Fund	Plant Funds	Agency Funds	Totals	
			2001	2000 (restated)
\$ 30,043	\$ 8,646	\$ 31	\$ 149,479	\$ 148,048
		252,620	282,663	313,848
2	8,681	9	54,198	45,173
	260		260	2,064
			7,014	7,412
			40,885	42,911
	965,967		965,967	925,983
<u>\$ 30,045</u>	<u>\$ 983,554</u>	<u>\$ 252,660</u>	<u>\$ 1,500,466</u>	<u>\$ 1,485,439</u>
\$ 1	\$ 3,732	\$ 105	\$ 45,446	\$ 39,463
		253,950	260,317	293,076
24,247			24,247	21,283
			7,075	6,486
	6,678		6,678	3,290
				14
	16,333		16,333	17,581
	68,880		71,380	71,333
<u>24,248</u>	<u>95,623</u>	<u>254,055</u>	<u>431,476</u>	<u>452,526</u>
<u>534</u>	<u>(3,068)</u>	<u>(1,395)</u>		
			49,394	42,132
	1,530		1,530	1,328
	1,018		7,907	14,446
			2,467	2,292
			727	728
			113,251	113,663
5,263			5,263	6,742
	5,188		5,188	8,966
	2,509		2,509	2,981
	880,754		880,754	839,635
<u>5,263</u>	<u>890,999</u>		<u>1,068,990</u>	<u>1,032,913</u>
<u>\$ 30,045</u>	<u>\$ 983,554</u>	<u>\$ 252,660</u>	<u>\$ 1,500,466</u>	<u>\$ 1,485,439</u>

UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
STATEMENT OF CHANGES IN FUND BALANCES
Year Ended June 30, 2001
(000's omitted)

	<u>Current Funds</u>		Student Loan Funds
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Funds</u>
Revenues and other additions:			
Unrestricted current funds revenue	\$ 321,337	\$	\$
State appropriations, restricted			
Federal appropriations, restricted		962	
Federal grants and contracts, restricted		77,186	3
State grants and contracts, restricted		10,301	
Local grants and contracts, restricted		1,794	
Private gifts, grants and contracts, restricted		35,381	
Investment income, restricted		6	12
Endowment income, restricted		28	
Sales and services, educational departments, restricted		592	
Other income, restricted		449	2
Additions for plant facilities			
Retirement of indebtedness			
Total revenues and other additions	<u>321,337</u>	<u>126,699</u>	<u>17</u>
Expenditures and other deductions:			
Educational and general expenditures	282,411	107,887	
Auxiliary enterprises	30,939		
Facilities and administrative costs recovered		18,546	
Retirement of indebtedness			
Interest on indebtedness			
Expended for plant facilities			
Other			16
Disposal of plant assets			
Future lease obligations			
Increase in net indebtedness			
Total expenditures and other deductions	<u>313,350</u>	<u>126,433</u>	<u>16</u>
Transfers between funds:			
Mandatory:			
Principal and interest, educational plant	(4,037)		
Principal and interest, auxiliary enterprises	(2,361)		
Endowment	(1)	(1)	
Nonmandatory	(1,425)	(90)	
Net transfers between funds	<u>(7,824)</u>	<u>(91)</u>	
Net increase (decrease) in fund balances	163	175	1
Fund balances at beginning of year, as originally reported	42,685	2,292	914
Cumulative effect of change in accounting principle			
Fund balances at beginning of year, as restated	<u>42,685</u>	<u>2,292</u>	<u>914</u>
Fund balances at end of year	<u>\$ 42,848</u>	<u>\$ 2,467</u>	<u>\$ 915</u>

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

Endowment and Similar Funds	Alaska College Savings Trust Fund	Plant Funds			
		Unexpended	Retirement of Indebtedness	Renewals and Replacements	Investment in Plant
\$	\$	\$	\$	\$	\$
		5,513			
		768			
		17,824			
		(993)			
	392	9	172	87	
(466)					
					43,499
					3,899
<u>(466)</u>	<u>392</u>	<u>23,121</u>	<u>172</u>	<u>87</u>	<u>47,398</u>
		60			
			3,899		
			2,916		
		23,607			
418	1,871	2,521	29		
					3,515
					32
<u>418</u>	<u>1,871</u>	<u>26,188</u>	<u>6,844</u>		<u>4,013</u>
					7,560
323		(1,146)	4,860		
			2,361		
2					
(313)		435	(3)	115	1,281
12		(711)	7,218	115	1,281
(872)	(1,479)	(3,778)	546	202	41,119
127,370	6,742	22,411	2,981	1,328	839,635
		(13,445)			
<u>127,370</u>	<u>6,742</u>	<u>8,966</u>	<u>2,981</u>	<u>1,328</u>	<u>839,635</u>
<u>\$ 126,498</u>	<u>\$ 5,263</u>	<u>\$ 5,188</u>	<u>\$ 3,527</u>	<u>\$ 1,530</u>	<u>\$ 880,754</u>

UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
Year Ended June 30, 2001
(with comparative totals for 2000)
(000's omitted)

	Current Funds		Totals	
	Unrestricted	Restricted	2001	2000
Revenues:				
Tuition and fees	\$ 50,434	\$	\$ 50,434	\$ 48,625
State appropriations	190,650		190,650	178,367
Federal appropriations		959	959	1,042
Local appropriations	715		715	705
Federal grants and contracts	2	64,335	64,337	55,179
State grants and contracts	124	8,904	9,028	8,901
Local grants and contracts	1,261	1,647	2,908	2,849
Private gifts, grants and contracts	2,416	30,974	33,390	25,349
Investment income	4,408	84	4,492	2,947
Endowment income	5,906	2	5,908	4,558
Sales and services, educational departments	3,206	717	3,923	4,137
Sales and services, auxiliary enterprises	31,078		31,078	29,561
Recovery of facilities and administrative costs	18,606		18,606	16,091
Other	12,531	265	12,796	12,941
Total current funds revenues	<u>321,337</u>	<u>107,887</u>	<u>429,224</u>	<u>391,252</u>
Expenditures:				
Instruction	101,876	13,542	115,418	101,647
Academic support	28,256	1,521	29,777	27,452
Research	24,807	68,970	93,777	80,698
Public service	8,163	11,534	19,697	18,683
Student service	23,577	2,856	26,433	24,116
Operations and maintenance	37,687	(401)	37,286	34,631
Institutional support	52,610	1,942	54,552	45,978
Student aid	5,435	7,923	13,358	11,552
Auxiliary enterprises	30,939		30,939	28,747
Total current funds expenditures	<u>313,350</u>	<u>107,887</u>	<u>421,237</u>	<u>373,504</u>
Transfers and Other Changes:				
Mandatory transfers				
Principal and interest, educational plant	(4,037)		(4,037)	(3,755)
Principal and interest, auxiliary enterprises	(2,361)		(2,361)	(2,343)
Endowment	(1)	(1)	(2)	(13)
Nonmandatory transfers and other changes				
Restricted	85	(85)		
Endowment	(117)	(1)	(118)	179
Unexpended plant funds		(4)	(4)	(19)
Retirement of indebtedness funds	3		3	(76)
Renewals and replacements	(115)		(115)	14
Investment in plant	(1,281)		(1,281)	(1,281)
State appropriation lapsed				(14)
Excess of restricted receipts over transfers to revenue		266	266	371
Total transfers and other changes	<u>(7,824)</u>	<u>175</u>	<u>(7,649)</u>	<u>(6,937)</u>
Net increase in fund balances	<u>\$ 163</u>	<u>\$ 175</u>	<u>\$ 338</u>	<u>\$ 10,811</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

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.

Accrual Basis

Financial statements of the university have been prepared on the accrual basis of accounting, except for the recording of depreciation as explained under accounting policies for investment in plant.

NOTES TO FINANCIAL STATEMENTS

Current Funds

The statement of changes in current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present results of operation or net income or loss for the period as would a statement of income or a statement of revenues and expenses.

Current funds used to finance plant asset acquisitions are accounted for as expenditures in the case of normal replacement of movable equipment, library books and other asset acquisitions, or as mandatory transfers in the case of required provisions for debt amortization and interest.

Encumbrances representing outstanding purchase orders and other commitments for materials or services not received as of June 30 are not reported as expenditures. These encumbrances are included in designated unrestricted fund balances.

Investment in Plant

Plant and equipment are stated at cost when purchased and at fair market value when donated. Equipment with a unit value of less than \$2,500 is not capitalized. Land and other resources acquired through land grants and donated museum collections for which fair market value at date of acquisition was not determinable are reported at zero basis in the financial statements. In conformity with current accounting practices for governmental educational institutions, depreciation is not recorded. However, estimates of current depreciation expense and accumulated depreciation are included in note 5.

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 balance sheet.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

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, indirect cost recovery, auxiliaries 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.

Restatement - Change in Accounting Principle

In fiscal year 2001 the university adopted Governmental Accounting Standards Board Statement No. 33 which establishes accounting and financial reporting standards for nonexchange transactions. In a nonexchange transaction the university receives (or gives) value without directly giving (or receiving) equal value in return.

NOTES TO FINANCIAL STATEMENTS

In prior periods, all revenue from certain state capital appropriations had been recognized in the year appropriated. Under Statement No. 33 the university now records revenue as nonexchange transactions. In fiscal year 2001 and prospectively, revenue will be recorded as expenditures are incurred or eligibility requirements are met. The effect of this change is to restate the financial statements by reducing the fund balance at the beginning of the year for unexpended plant funds by \$13,444,698.

Alaska College Savings Trust Fund

The Alaska College Savings Trust Fund (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.

At June 30, 2001, 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 potential University of Alaska (UA) Tuition Value Guarantees, are restricted 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 \$250,000 at June 30, 2001.

2. Fund Balance:

Unrestricted current fund balance at June 30, 2001 included the following:

Designated:

Auxiliaries	\$ 7,795,237
Working capital fund	4,715,368
Service centers	4,238,619
Computing / telecommunications technology	1,576,200
Deferred maintenance / renovation	305,482
Employee benefit funds	(1,947,515)
Endowment earnings	6,695,281
Retirement Incentive Program	(1,254,968)
Encumbrances	<u>13,835,506</u>
Total designated	35,959,210
Undesignated	<u>6,888,737</u>

Total unrestricted current fund balance \$ 42,847,947

Fund balance includes non-lapsing university receipts of \$25.2 million. Prior year non-lapsing university receipts of \$25.1 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, 2001, \$32.1 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.

NOTES TO FINANCIAL STATEMENTS

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:

	June 30, 2001 <u>(000's omitted)</u>	June 30, 2000 <u>(000's omitted)</u>
Deposits	\$ (4,352)	\$ (2,353)
Investment securities	7,636	9,362
Other deposits and investments	<u>146,195</u>	<u>141,039</u>
	<u>\$149,479</u>	<u>\$148,048</u>

Fund Group

Unrestricted current funds	\$ 58,620	\$ 55,546
Restricted current funds	42	55
Student loan funds	171	81
Endowment and similar funds	81,969	81,743
Plant funds	8,646	10,593
Agency funds	<u>31</u>	<u>30</u>
	<u>\$149,479</u>	<u>\$148,048</u>

The Governmental Accounting Standards Board 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).

	June 30, 2001 <u>(000's omitted)</u>		June 30, 2000 <u>(000's omitted)</u>	
	<u>Book</u>	<u>Bank</u>	<u>Book</u>	<u>Bank</u>
Deposits:				
Insured or collateralized (Category 1):				
Demand deposits	\$ 315	\$ 316	\$ 258	\$ 416
Time deposits	100	100	100	100
Uncollateralized (Category 3):				
Demand deposits	(6,667)	456	(4,611)	912
Time deposits	<u>1,900</u>	<u>1,900</u>	<u>1,900</u>	<u>1,900</u>
Total deposits	<u>\$ (4,352)</u>	<u>\$ 2,772</u>	<u>\$ (2,353)</u>	<u>\$ 3,328</u>

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, 2001, securities with an estimated fair value of \$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 \$2.0 million maintained as a compensating balance in exchange for banking services.

	<u>June 30, 2001</u> <u>(000's omitted)</u>	<u>June 30, 2000</u> <u>(000's omitted)</u>
Investment securities:		
Insured and registered (Category 1)		
Common stock	\$ 2	\$ 2
Uninsured and unregistered (Category 3)		
Repurchase agreements	<u>7,634</u>	<u>9,360</u>
Total investment securities	<u>\$ 7,636</u>	<u>\$ 9,362</u>
Other deposits and investments:		
Commonfund	\$ 62,284	\$ 56,386
Other money market funds	171	81
Funds held by others:		
Endowment funds	80,749	80,043
Bond proceeds and redemption funds	<u>2,991</u>	<u>4,529</u>
Total other deposits and investments	<u>\$ 146,195</u>	<u>\$ 141,039</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. 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, 2001, had an estimated fair value of approximately \$5.7 million. The university received income of \$55,202 from these sources during fiscal year 2001 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 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. Other assets include approximately \$40.7 million of these lands at June 30, 2001.

NOTES TO FINANCIAL STATEMENTS

5. Investment in Plant:

A summary of investment in plant at June 30, 2001, follows:

Land	\$ 24,981,789
Buildings	680,631,647
Improvements other than buildings	66,697,230
Equipment (including library books and museum artworks)	159,273,562
Construction in progress	27,872,311
Other capitalizable assets	1,666,333
Leasehold improvements	<u>4,844,531</u>
	<u>\$ 965,967,403</u>

At June 30, 2001, the university held equipment owned by the federal government and others which was acquired for use under various grants and contracts at a cost of \$31,378,129. This equipment is not included in the financial statements.

Consistent with reporting practices of governmental educational institutions, the university does not record depreciation. However, depreciation for the year ended June 30, 2001 was calculated on a straight-line basis using 50-year lives for buildings and building components, improvements other than buildings and other capitalizable assets, and 4 to 10 year lives for equipment. Current period depreciation is approximately \$21.7 million and estimated accumulated depreciation at June 30, 2001, is approximately \$322.7 million.

6. Long-term Debt:

A summary of long-term debt at June 30, 2001, follows:

	<u>Total</u>	<u>Current Maturities FY 2002</u>
Notes	\$ 33,458,096	\$ 1,122,243
Revenue bonds	<u>44,231,306</u>	<u>3,030,571</u>
	77,689,402	4,152,814
Unamortized discount on revenue bonds	(66,909)	
Unexpended bond proceeds	<u>(6,242,000)</u>	
Net long-term debt	<u>\$ 71,380,493</u>	
Interest		<u>2,866,317</u>
Total annual debt service		<u>\$ 7,019,131</u>

Principal and interest maturities for the fiscal years 2002 through 2006 are \$7,019,131, \$6,464,864, \$6,438,562, \$6,342,818 and \$6,329,739, respectively, with the balance of \$76,639,981 maturing in subsequent years.

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%

\$ 30,958,092

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

\$ 2,500,004

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

\$ 44,231,306

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, 2001, outstanding defeased bonds were \$13.1 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 \$2,882,250 lease income earned to date through June 30, 2001, of \$16,332,750 is reflected as a liability in the plant funds.

8. Capital Appropriations and Construction Commitments:

Major construction projects of the university are funded primarily by State of Alaska direct appropriations and university revenue bonds. Construction commitments at June 30, 2001, aggregated \$31.7 million. At June 30, 2001, the university's unexpended plant funds include capital appropriation advances of \$6.7 million from State of Alaska direct appropriations.

Unbilled capital funds appropriated by the State of Alaska in prior years, which are not reflected as appropriation revenue or receivables on the university's books at June 30, 2001, totaled approximately \$102.7 million.

NOTES TO FINANCIAL STATEMENTS

9. Pension Plans:

As of June 30, 2001, substantially all regular employees participate in either the State of Alaska Public Employees' Retirement System (PERS), an agent multiple-employer public employees' retirement system, the State of Alaska Teachers' Retirement System (TRS), a cost-sharing multiple-employer plan, or the University of Alaska Optional Retirement Plan (ORP), a single-employer defined contribution plan. In addition, substantially all regular employees and faculty classified as temporary participate in the University of Alaska Pension Plan, a supplemental single-employer defined contribution plan. None of the retirement systems or plans own any notes, bonds or other instruments of the university.

Defined Benefit Plans:

State of Alaska Public Employees' Retirement System (PERS)

Plan Description

The university contributes to PERS, a defined benefit, agent multiple-employer public employee retirement system established and administered by the State of Alaska (State). PERS provides pension, postemployment health care, death and disability benefits to eligible participants. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

Each fiscal year, PERS 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 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	5.36%	2.14%	7.50%
Other employees	4.83%	1.92%	6.75%
Employer	3.25%	1.30%	4.55%
Annual pension cost	\$2,936,457	\$1,171,050	\$4,107,507
Contributions made	\$2,936,457	\$1,171,050	\$4,107,507
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	7.50%	

NOTES TO FINANCIAL STATEMENTS

Actuarial assumptions made include a June 30, 1998, 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 2001, the annual required contribution (ARC) and the amount contributed by the university for annual pension cost (APC) was \$4,107,507. The university has fully funded its pension obligation; therefore, no net pension obligation (NPO) existed at fiscal year end.

Three year trend information follows:

	Year ended <u>June 30</u>	<u>APC</u>	Employer contribution <u>rate</u>	Percentage of APC <u>contributed</u>	<u>NPO</u>
Pension:	1999	\$3,802,753	4.81%	100%	-
	2000	3,404,011	4.11%	100%	-
	2001	2,936,457	3.25%	100%	-
Postemployment Healthcare:	1999	1,465,677	1.85%	100%	-
	2000	1,268,619	1.53%	100%	-
	2001	1,171,050	1.30%	100%	-

In the current fiscal year, the University determined, in accordance with provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* (GASB 27), that no pension liability existed to PERS and there were no previously reported liabilities to PERS.

Schedule of Funding Progress Pension and Postemployment Healthcare Benefits (000's omitted)

	Actuarial valuation year ended <u>June 30</u>	Actuarial value of plan <u>assets</u>	Actuarial accrued liability <u>(AAL)</u>	Unfunded (overfunded) actuarial accrued liability <u>(UAAL)</u>	Funded <u>ratio</u>	Covered <u>payroll</u>	UAAL as a percentage of covered <u>payroll</u>
Pension benefits:							
	1997	280,677	253,729	(26,948)	111%	75,089	N/A
	1998	304,455	284,192	(20,263)	107%	72,338	N/A
	1999	308,959	272,389	(36,570)	113%	74,258	N/A
Postemployment healthcare benefits:							
	1997	104,612	94,567	(10,045)	111%	75,089	N/A
	1998	121,421	113,341	(8,080)	107%	72,338	N/A
	1999	125,249	110,424	(14,825)	113%	74,258	N/A
Total:							
	1997	385,289	348,296	(36,993)	111%	75,089	N/A
	1998	425,876	397,533	(28,343)	107%	72,338	N/A
	1999	434,208	382,813	(51,395)	113%	74,258	N/A

NOTES TO FINANCIAL STATEMENTS

Valuation data for fiscal year 2000 is not available since the State has decided, in accordance with GASB Statement No. 27, to do a valuation report biennially. The next valuation report will be completed for fiscal year 2001.

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 the year ended June 30, 2001, required employee and employer contribution rates were 8.65% and 12%, respectively. The amounts contributed to TRS by the university during the years ended June 30, 2001, 2000 and 1999 were \$4,349,722, \$4,324,920 and \$4,471,165, respectively, equal to the required employer contributions for each year.

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 FY01). In fiscal year 2001, the university's total covered payroll for the ORP plan was approximately \$34.8 million. The amounts contributed to ORP by the university during the years ended June 30, 2001, 2000 and 1999 were \$4,182,523, \$3,615,692 and \$3,130,238, respectively. At June 30, 2001, plan assets (participants' accounts attributable to employer contributions) had a net value of approximately \$33 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, 2001, employer contributions for regular employees were 7.65% of covered wages up to a maximum of \$42,000 and \$80,400 for certain faculty classified as temporary. The plan provides for employer contributions to be invested in accordance with

NOTES TO FINANCIAL STATEMENTS

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 2001, the university's total covered payroll for the Pension plan was approximately \$133.6 million. The university's costs to fund and administer the plan amounted to approximately \$10.2 million, or 7.67% of covered payroll. At June 30, 2001, plan assets (participants' accounts) had a net value of approximately \$219.6 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, 2001, 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 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.

12. 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, 2001, the Foundation had net assets totaling approximately \$102.1 million. The Foundation's financial statements are not combined with the university's financial statements. During the year ended June 30, 2001, the university transferred \$460,809 to the Foundation. Distributions and expenditures by the Foundation for the benefit of the university totaled approximately \$4.9 million, of which approximately \$4.7 million were direct reimbursements to the university. The university provides in-kind administrative and accounting support for the Foundation, the costs of which are included as expenditures in the university's financial statements.

The investable resources of the university's land grant endowment trust fund and the Foundation's pooled endowment funds are combined into a consolidated fund (fund) for investment purposes. At June 30, 2001, the fair value of the fund was approximately \$140.4 million. The university's share of this fund was \$80.7 million, which is reflected in other deposits and investments. The fund is managed by the Foundation's investment committee and treasurer on a total return basis in accordance with an investment policy approved by the Board of Regents. The net assets and related activity for the university's land grant endowment trust's investment in the fund is reflected in the university's financial statements.