



UNIVERSITY OF ALASKA

(A Component Unit of the State of Alaska)

Financial Statements

June 30, 1999

(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, 1999, 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 generally accepted auditing standards 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, 1999, and the changes in fund balances and the current funds revenues, expenditures and other changes for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 1999 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.

The Year 2000 supplementary information is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that the University of Alaska is or will become Year 2000 compliant, that the University of Alaska's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the University of Alaska does business are or will become Year 2000 compliant.

**KPMG LLP**

September 30, 1999



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Endowment and Similar Funds	Plant Funds	Agency Funds	Totals	
			1999	1998
\$ 70,439	\$ 14,936	\$ 31	\$ 164,876	\$ 144,305
		256,512	256,512	222,748
5,131	4,173		39,344	43,302
	11,860		12,174	13,869
		2	7,478	8,028
43,040			44,490	45,008
	915,264		915,264	879,488
<u>\$ 118,610</u>	<u>\$ 946,233</u>	<u>\$ 256,545</u>	<u>\$ 1,440,138</u>	<u>\$ 1,356,748</u>
\$ 19	\$ 2,657	\$ 58	\$ 47,111	\$ 51,881
		257,606	262,839	228,941
			19,213	17,570
			5,925	5,911
	18,536		18,536	15,218
2,627	69,429		72,056	66,968
<u>2,646</u>	<u>90,622</u>	<u>257,664</u>	<u>425,680</u>	<u>386,489</u>
<u>(686)</u>	<u>(1,324)</u>	<u>(1,119)</u>		
13,424			40,786	39,231
	511		511	190
	1,275		1,275	785
			10,572	9,066
			2,028	2,062
			721	721
103,226			103,416	91,848
	24,397		24,397	24,134
	3,454		3,454	2,233
	827,298		827,298	799,989
<u>116,650</u>	<u>856,935</u>		<u>1,014,458</u>	<u>970,259</u>
<u>\$ 118,610</u>	<u>\$ 946,233</u>	<u>\$ 256,545</u>	<u>\$ 1,440,138</u>	<u>\$ 1,356,748</u>

Student Loan Funds	Endowment and Similar Funds	Plant Funds			
		Unexpended	Retirement of Indebtedness	Renewals and Replacements	Investment in Plant
\$	\$	\$	\$	\$	\$
		449			
		10,412			
17		6,991			
	11,391	312	244	38	
		12,330	14,272		
4		334			
					43,700
					2,899
<u>21</u>	<u>11,391</u>	<u>30,828</u>	<u>14,516</u>	<u>38</u>	<u>46,599</u>
		65			
			2,899		
			1,841		
		27,972			
18	131		14,048		
		1,339	229		
					7,925
					3,638
					8,047
<u>18</u>	<u>131</u>	<u>29,376</u>	<u>19,017</u>		<u>19,610</u>
	261	(1,197)	5,275		
	27		802		
	129	8	(34)	452	320
	417	(1,189)	6,043	452	320
3	11,677	263	1,542	490	27,309
908	104,973	24,134	2,423	785	799,989
<u>\$ 911</u>	<u>\$ 116,650</u>	<u>\$ 24,397</u>	<u>\$ 3,965</u>	<u>\$ 1,275</u>	<u>\$ 827,298</u>

## NOTES TO FINANCIAL STATEMENTS

June 30, 1999

### 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

### University of Alaska Advance College Tuition Payment Plan

The University of Alaska Advance College Tuition Payment Plan was authorized by the Legislature in 1990. Assets of the plan are held and invested by the State of Alaska for payment of benefits under the plan. The investments totaled approximately \$25.1 million at June 30, 1999.

### Reclassifications

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

### 2. Fund Balance:

Unrestricted current fund balance at June 30, 1999 included the following:

Designated:	
Auxiliaries	\$ 7,256,220
Working capital fund	4,715,368
Service centers	2,819,409
Computing / telecommunications technology	1,413,150
Employee benefit funds	(261,551)
Endowment earnings	5,356,980
Advance College Tuition Program	5,796,721
Retirement incentive program	(7,883,108)
Encumbrances	<u>8,149,390</u>
Total designated	27,362,579
Undesignated	<u>10,571,888</u>
Total unrestricted current fund balance	<u>\$ 37,934,467</u>

Fund balance includes non-lapsing university receipts of \$21.8 million. Prior year non-lapsing university receipts of \$19.2 million were fully expended in the current year. At June 30, 1999, \$21.7 million of auxiliary funds, encumbrances and other unrestricted funds were pledged as collateral under the terms of the university's general revenue bonds.

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.

### 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, 1999 (000's omitted)	June 30, 1998 (000's omitted)
Deposits	\$ (2,366)	\$ 1,662
Investment securities	9,557	9,743
Other deposits and investments	<u>157,685</u>	<u>132,900</u>
	<u>\$164,876</u>	<u>\$144,305</u>

## NOTES TO FINANCIAL STATEMENTS

Deposits reported in Category 1 by the university were insured by federal depository insurance. Deposits 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, 1999, securities with an estimated fair value of \$15 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 \$2.65 million maintained as a compensating balance in exchange for banking services.

	<u>June 30, 1999</u> <u>(000's omitted)</u>	<u>June 30, 1998</u> <u>(000's omitted)</u>
Investment securities:		
Insured and registered (Category 1)		
Common stock	\$ 2	\$ -
Uninsured and unregistered (Category 3)		
Repurchase agreements	<u>9,555</u>	<u>9,743</u>
Total investment securities	<u>\$ 9,557</u>	<u>\$ 9,743</u>
Other deposits and investments:		
The Common Fund	\$ 53,309	\$ 50,830
Other money market funds	59	30
Funds held by others:		
Advance College Tuition Fund	25,062	21,895
Endowment funds	70,228	54,825
Bond proceeds and redemption funds	<u>9,027</u>	<u>5,320</u>
Total other deposits and investments	<u>\$ 157,685</u>	<u>\$ 132,900</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 Common Fund for Short Term Investments represents a not-for-profit pooled investment fund for colleges and universities. The Advance College Tuition Fund is managed by the Alaska Department of Revenue in accordance with Alaska Statute 14.40.805. 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, 1999, had an estimated fair value of approximately \$6.7 million. The university received income of \$62,135 from these sources during fiscal year 1999 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 90,000 acres of these lands at no basis because fair value at the date of transfer was not determinable. In 1982 and 1988 the



## NOTES TO FINANCIAL STATEMENTS

Principal maturities for the fiscal years 2000 through 2004 are \$4,075,211, \$3,965,530, \$4,152,814, \$3,768,431 and \$3,898,891, respectively, with the balance of \$65,869,208 maturing in subsequent years.

	<u>Principal Outstanding</u>
<u>Notes - Plant funds</u>	
1.826% assisted note to the Alaska Housing Finance Corporation (AHFC) to finance construction of Anchorage campus housing, payable beginning August 1999 to February 2024. In 1996, the university entered into an agreement with AHFC to borrow a total of \$33 million, of which \$30 million was issued on an assisted basis with interest at 1.826% and an additional \$3 million issued on an unassisted basis at 6.0%	\$ 33,000,000
<u>Notes - Quasi-endowment funds</u>	
5.0% note to finance the purchase of a building in Anchorage at 3890 University Lake Drive, due serially to May 2022	\$ 2,627,292
<u>Revenue Bonds</u>	
3.95% to 6.25% general revenue bonds due serially to 2023, secured by a pledge of unrestricted current fund revenue generated from tuition, fees, recovery of indirect costs, sales and services of educational departments, miscellaneous receipts and auxiliaries	\$ 49,838,010
<u>Installment Contracts</u>	
3.9% to 5.32% installment contracts for the purchase of vehicles, computing and other equipment due in monthly to annual installments through June 2001	\$ 264,783

In fiscal year 1999, the university issued general revenue bonds to defease \$11.8 million of the General Revenue Bonds Series A, B, E and \$1.4 million in certificates of participation. Investments acquired from the net proceeds of the sale of university general revenue bonds were deposited in an irrevocable trust to provide for the future debt service payments on the outstanding general revenue bonds and certificates of participation. The advance refunding will reduce the university's total debt service payments over the next 18 years by \$1.4 million and result in an economic gain of approximately \$1.0 million.

In prior years, the university defeased housing system revenue bonds and certain general revenue bonds 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, 1999, outstanding defeased bonds were \$2.1 million, \$11.9 million and \$1.4 million for the housing bonds, general revenue bonds and certificates of participation, respectively.

## NOTES TO FINANCIAL STATEMENTS

### 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	5.41%	2.09%	7.50%
Other employees	4.87%	1.88%	6.75%
Employer	4.81%	1.85%	6.66%
Annual pension cost	\$3,802,753	\$1,465,677	\$5,268,430
Contributions made	\$3,802,753	\$1,465,677	\$5,268,430
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	5.50%	

Actuarial assumptions made include a June 30, 1996, 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.

## NOTES TO FINANCIAL STATEMENTS

### 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, 1999, 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, 1999, 1998 and 1997 were \$4,471,165, \$4,770,633 and \$5,232,888, 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 FY99). In fiscal year 1999, the university's total covered payroll for the ORP plan was approximately \$26.1 million. The amounts contributed to ORP by the university during the years ended June 30, 1999, 1998 and 1997 were \$3,130,238, \$2,733,056 and \$2,520,024, respectively. At June 30, 1999, plan assets (participants' accounts attributable to employer contributions) had a net value of approximately \$28.9 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, 1999, employer contributions for regular employees were 7.65% of covered wages up to a maximum of \$42,000 and \$72,600 for certain faculty classified as temporary. The plan provides for employer contributions to be invested in accordance

## NOTES TO FINANCIAL STATEMENTS

On June 30, 1999, real property with book values totaling \$633,655 was deeded from the Foundation in accordance with a cooperative agreement. This agreement transfers the responsibility for management and disposal of all gifted real estate to the university. The net proceeds from the sale of gifted real estate by the university, unless otherwise specified by the donor or the university president, will be transferred to the Foundation to be managed in accordance with donor intent.

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, 1999, the fair value of the fund was approximately \$105.2 million. The university's share of this fund was \$70.2 million, 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 investment in the fund is reflected in the university's financial statements.

## REQUIRED SUPPLEMENTARY INFORMATION

### Year 2000 Readiness Disclosure (unaudited):

The University of Alaska received a supplemental appropriation from the State of Alaska of \$3,464,900 for Year 2000 assessment and remediation. The appropriation covers the period of July 1, 1998 to March 31, 2000. The unexpended and unobligated balance at June 30, 1999, was \$2,870,033.

The university has developed a work plan to address Year 2000 compliance issues, with the goal that all life threatening and highest priority Mission Critical Business Functions (MCBFs) be assessed, remedied, tested and implemented by December 1999. The first phase of the university's Year 2000 compliance effort was to identify MCBFs and to inventory the hardware and software that affect those systems. As MCBFs were identified and inventoried, the university assessed them to determine what Year 2000 problems exist and to plan how to address those problems. This process has been complete for the university's major administrative computer systems and for most other MCBFs. Completion dates for remediation, testing and implementation vary depending on the nature and complexity of the systems involved. Remediation on the major administrative computer systems is projected to be complete by the end of October 1999, followed by testing and implementation to be complete by the end of December 1999. Other high priority systems, including facilities and security functions, are either already complete or are projected to be so by December 1999. In conjunction with this effort, the university is seeking assurances that its key business partners and vendors will be able to provide necessary goods and services. Contingency plans are also being developed for highest priority MCBFs to prevent interruptions in services.

The foregoing information with respect to the university has been provided for informational purposes only and is not intended to serve as a warranty or guarantee that systems and equipment will be Year 2000 compliant. The information provided here constitutes a year 2000 Readiness Disclosure for purposes of the Year 2000 Information and Readiness Disclosure Act.

