



UNIVERSITY  
*of* ALASKA

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*Many Traditions One Alaska*

**UNIVERSITY OF ALASKA**

**(A Component Unit of the State of Alaska)**

**Financial Statements**

**June 30, 2016 and 2015**

**(With Independent Auditors' Report Thereon)**

University of Alaska  
(A Component Unit of the State of Alaska)  
Financial Statements  
June 30, 2016 and 2015

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

**Introduction**

The following discussion and analysis provides an overview of the financial position and activities of the University of Alaska (University) for the years ended June 30, 2016 (2016) and June 30, 2015 (2015), with selected comparative information for the year ended June 30, 2014 (2014). This discussion has been prepared by management and should be read in conjunction with the financial statements including the notes thereto, which follow this section.

**Using the Financial Statements**

The University's financial report includes the basic financial statements of the University and the financial statements of the University of Alaska Foundation (Foundation), a legally separate, nonprofit component unit. The three basic financial statements of the University are: the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows. These statements are prepared in accordance with generally accepted accounting principles (Governmental Accounting Standards Board (GASB) pronouncements). The University is presented as a business-type activity. GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, establishes standards for external financial reporting for public colleges and universities and classifies resources into three net position categories – unrestricted, restricted, and net investment in capital assets.

The Foundation is presented as a component unit of the University in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The Foundation's financial statements include the Statement of Financial Position and the Statement of Activities and these statements are presented according to U.S. generally accepted accounting principles and Financial Accounting Standards Board (FASB) pronouncements.

The Foundation was established to solicit donations and to hold and manage such assets for the exclusive benefit of the University. Resources managed by the Foundation and distributions made to the University are governed by the Foundation's Board of Trustees (operating independently and separately from the University's Board of Regents). The component unit status of the Foundation indicates that significant resources are held by the Foundation for the sole benefit of the University. However, the University is not accountable for, nor has ownership of, the Foundation's resources.

**Statement of Net Position**

The Statement of Net Position presents the financial position of the University at the end of the fiscal year and includes all assets, deferred outflows of resources, liabilities and deferred inflows of resources of the University. The net position is one indicator of the financial condition of the University, while the change in net position is an indicator of whether the financial condition has improved or declined during the year.

A summarized comparison of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at June 30, 2016, 2015 and 2014 follows (\$ in thousands):

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets:			
Current Assets	\$ 175,818	\$ 217,877	\$ 171,236
Other noncurrent assets	490,420	360,087	315,979
Capital assets, net of depreciation	<u>1,617,876</u>	<u>1,544,665</u>	<u>1,447,301</u>
Total assets	<u>2,284,114</u>	<u>2,122,629</u>	<u>1,934,516</u>
Deferred Outflow of Resources	<u>32,536</u>	<u>18,018</u>	<u>1,369</u>
Liabilities:			
Current liabilities	136,857	168,472	117,980
Noncurrent liabilities	<u>624,023</u>	<u>421,557</u>	<u>186,679</u>
Total liabilities	<u>760,880</u>	<u>590,029</u>	<u>304,659</u>
Deferred Inflow of Resources	<u>4,646</u>	<u>23,046</u>	<u>-</u>
Net position:			
Net investment in capital assets	1,411,653	1,359,385	1,255,355
Restricted – expendable	46,244	59,352	69,987
Restricted – nonexpendable	132,201	131,790	130,853
Unrestricted	<u>(38,974)</u>	<u>(22,955)</u>	<u>175,031</u>
Total net position	<u>\$ 1,551,124</u>	<u>\$ 1,527,572</u>	<u>\$ 1,631,226</u>

In fiscal year 2015, the most notable change in the statement of net position regards the recognition of a net pension liability totaling \$188.9 million in accordance with GASB Statement 68. It is important to note that the standard does not affect the cash flows or budget of the University, but rather affects the timing of the recognition of pension expense for external financial reporting. More detailed information is available in Note 13 and Note 18 in the Notes to Financial Statements.

Overall, total net position of the University increased \$23.6 million, or 2.0 percent. The unrestricted net position totaled negative \$39.0 million at June 30, 2016, representing an decrease of \$16.0 million over the prior year. As of June 30, 2016, \$134.6 million of the unrestricted net position was designated for specific purposes. See Note 7 of the financial statements for a detailed list of these designations.

Deposits and investments totaled \$530.5 million at June 30, 2016, as compared to \$435.3 million at June 30, 2015. These funds consist of operating funds, endowment funds, funds for capital, and for the Education Trust of Alaska. As discussed later under noncurrent liabilities, the primary reason for the increase relates to the issuance of general revenue bonds, a loan from the Alaska Municipal Bond Bank, and the receipt of capital appropriations for construction projects. More information is in Note 2 of the Notes to Financial Statements.

Liabilities are categorized as either current liabilities or noncurrent liabilities on the Statement of Net Position. Current liabilities are those that are due or will likely be paid in the next fiscal year.

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

They are primarily comprised of accounts payable, accrued payroll and other expenses, insurance and risk management payables, amounts due in the next year on debt, and student deposits.

Noncurrent liabilities are comprised mostly of the net pension liability totaling \$239.5 million, long-term debt of \$325.9 million and unearned revenue of \$50 million. The unearned revenue relates to capital appropriation funds received for the new combined heat and power plant being constructed on the Fairbanks campus.

Total debt outstanding, which includes capital lease obligations, increased from \$184.9 million at June 30, 2015 to \$338.1 million at June 30, 2016. The increase was primarily a result of the issuance of 2016 General Revenue Bonds Series T, and a loan from the Alaska Municipal Bond Bank to fund the construction of University of Alaska Fairbanks combined heat and power plant. More information is available in the *Capital and Debt Activities* section that follows.

***Fiscal Year 2015 Comparisons (Statement of Net Position)***

Significant comments about changes between 2014 and 2015 that were noted in fiscal year 2015 *Management's Discussion and Analysis* are summarized below:

The Statement of Net Position reflected an overall decrease in net position of 6 percent, or \$103.7 million. Most of this change is due to implementation of GASB 68 which resulted in recognition of a \$188.9 million net pension liability in fiscal year 2015.

Total debt outstanding, which includes capital lease obligations, decreased from \$193.1 million at June 30, 2014 to \$184.9 million at June 30, 2015. The decrease was a result of scheduled payments on existing debt.

Unrestricted net position totaled negative \$23 million at June 30, 2015, representing a decrease of \$198 million over the prior year mainly due to the recognition of a net pension liability of \$188.9 million in fiscal year 2015 and a restatement of the beginning balance of \$200 million. At June 30, 2015, \$138.5 million was designated for specific purposes.

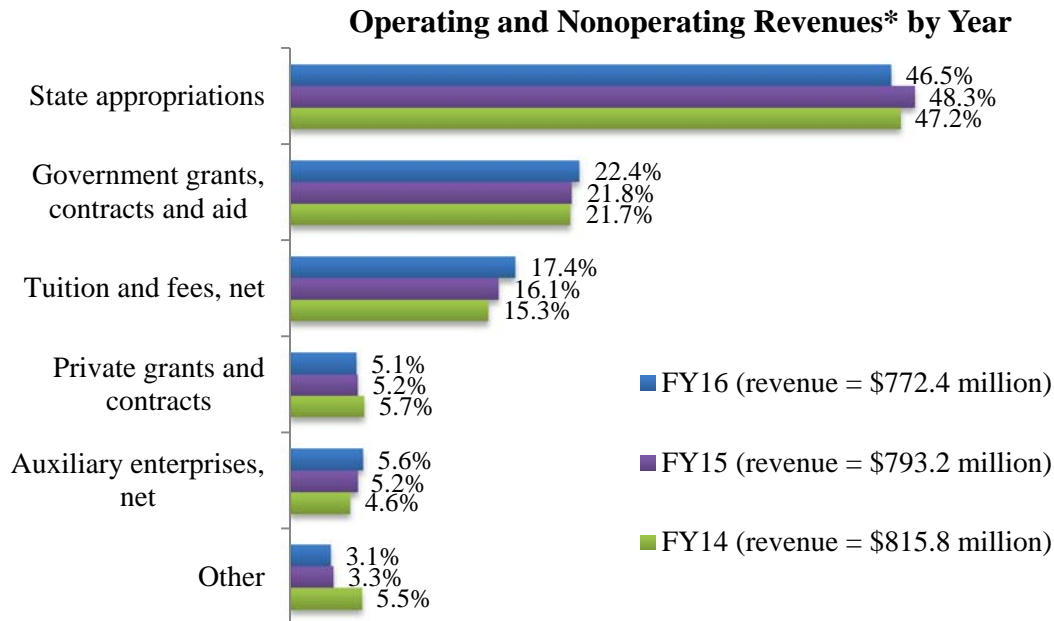
**Statement of Revenues, Expenses and Changes in Net Position**

The Statement of Revenues, Expenses and Changes in Net Position presents the results of operations for the University as a whole. Revenues, expenses and other changes in net position are reported as either operating or non-operating. Significant recurring sources of University revenue, such as state appropriations and investment earnings, are defined by GASB Statement No. 35 as non-operating.

A summarized comparison of the University's revenues, expenses and changes in net position for the years ended June 30, 2016, 2015 and 2014 follows (\$ in thousands):

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

	2016	2015	2014
Operating revenues	\$ 387,781	\$ 377,878	\$ 380,433
Operating expenses	(844,848)	(960,505)	(841,138)
Operating loss	(457,067)	(582,627)	(460,705)
Net nonoperating revenues	388,487	552,524	461,636
Gain (Loss) before other revenues, expenses, gains, or losses	(68,580)	(30,103)	931
Other revenues, expenses, gains or losses	92,132	126,450	186,331
Increase in net position	23,552	96,347	187,262
Net position, beginning of year	1,527,572	1,631,226	1,443,964
Cumulative effect of change in accounting principle	-	(200,001)	-
Net position, beginning of year (restated)	1,527,572	1,431,225	1,443,964
Net position, end of year	<u>\$1,551,124</u>	<u>\$1,527,572</u>	<u>\$1,631,226</u>



\* Excludes capital appropriations, grants and contracts, and state on-behalf payments for pension

The fiscal year 2016 Statement of Revenues, Expenses and Changes in Net Position reflects an increase in net position of 2.0 percent, or \$23.6 million. The fiscal year 2015 beginning net position was decreased by \$200 million due to implementation of GASB Statement No. 68, resulting in an overall decrease of \$103.7 million in net position from fiscal year 2014. Major changes in revenues and expenses in 2016 are described below.

State of Alaska general fund appropriations continue to be the single major source of revenue for the University, providing \$359.3 million in 2016, as compared to \$383.4 million in 2015. The appropriations are substantially aimed to fund a portion of operations, and in some cases are targeted for special programs or initiatives. In addition, the state made on-behalf pension payments of \$12.1 million and \$144.9 million directly to the Public Employees' Retirement System (PERS)

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

and Teachers' Retirement System (TRS) defined benefit plans on behalf of the University for fiscal years 2016 and 2015, respectively. The state is paying the cost above the University's employer contribution rate to fully fund the plans at the actuarial computed rate and pay down the net pension liability. The University's employer contribution rates have been capped by state statutes at 22 percent and 12.56 percent for PERS and TRS, respectively. The pension payments were made on-behalf of the University and are presented as revenue and expense in the University's financial statements in accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*.

Gross student tuition and fee revenue totaled \$152.3 million in 2016 as compared to \$145.2 million in 2015. The increase was primarily due to facility fees were charged at the maximum of \$6 per credit for the full year of FY2016. In addition, tuition rate also increased by 5 percent during fiscal year 2016.

Operating grant and contract revenue totaled \$190.4 million for 2016, as compared to \$189.6 million in the prior year. The University receives grant funding from a diverse group of federal agencies, the State of Alaska, and private sponsors, including the University of Alaska Foundation. Generally, grant revenue is recorded when expenditures of the grant award occur, so the revenue reported in the financial statements reflects the amount expended in the applicable fiscal year. Grants provide funding primarily for research projects, instructional programs, public service activities and student aid.

Capital appropriations and capital grant and contract revenue decreased from \$126.5 million in 2015 to \$92.1 million in 2016. This revenue category consists mostly of funds appropriated from the State of Alaska's capital budget or from general obligation bonds issued by the State of Alaska for University capital projects. For a more detailed discussion on capital activity, see the *Capital and Debt Activities* section which follows.

Endowment proceeds and investments experienced a net loss \$3.9 million in 2016, as compared to \$1.5 million income in 2015. Total return in 2016 from the consolidated endowment fund was negative 5.1 percent as compared to negative 1.5 percent in 2015. Endowment proceeds also includes yield from, or sales of, trust land, and mineral interests, the net proceeds of which are generally deposited to the land grant endowment trust fund.

A comparison of operating expenses by functional and natural classification for selected fiscal years follows (see Note 19 of the financial statements for more information):

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

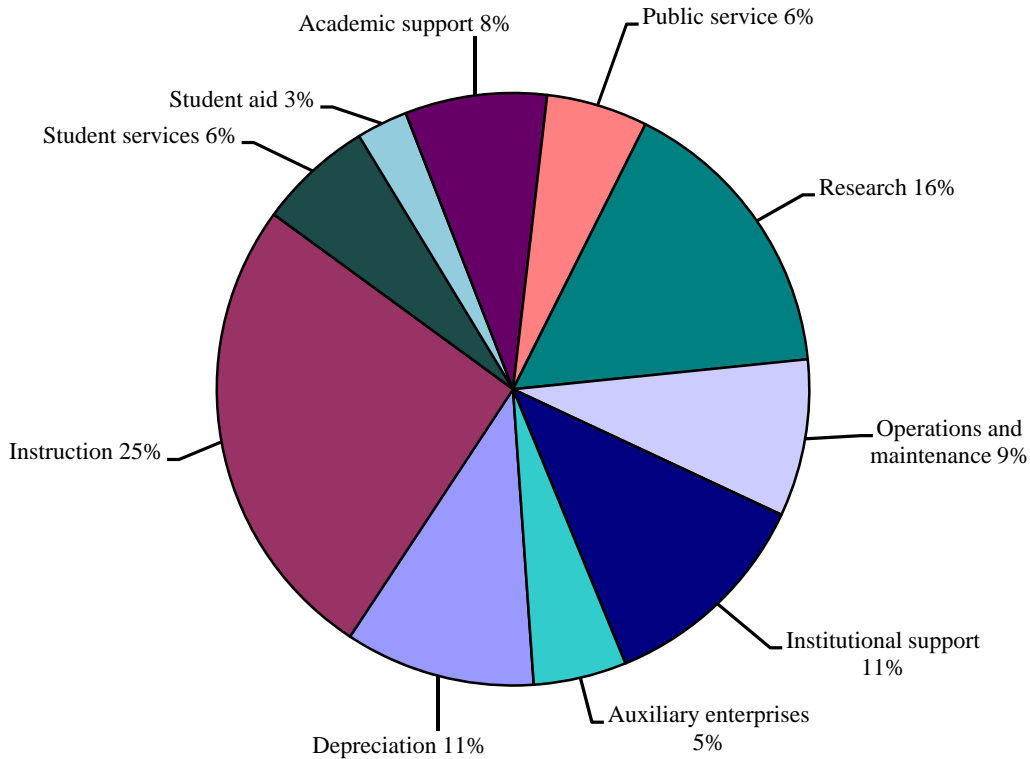
Operating Expenses\*

Functional Classification (\$ in millions)

	FY2016		FY2015		FY2014	
Instruction	\$ 214.6	25.8%	\$ 216.3	26.5%	\$ 217.3	26.9%
Student Services	52.1	6.3%	53.4	6.5%	54.6	6.8%
Student aid	23.2	2.8%	24.9	3.1%	26.9	3.3%
Academic Support	64.5	7.7%	64.0	7.8%	67.0	8.3%
Student and Academic	354.4	42.6%	358.6	43.9%	365.8	45.3%
Research	133.3	16.0%	120.8	14.8%	129.8	16.1%
Public Service	46.0	5.5%	48.5	5.9%	45.6	5.6%
Auxiliary Enterprises	42.3	5.1%	41.7	5.1%	35.7	4.4%
Institutional Support	98.7	11.9%	95.5	11.7%	95.8	11.9%
Operations and Maintenance	71.5	8.6%	67.2	8.4%	68.9	8.5%
Depreciation	86.5	10.3%	83.3	10.2%	66.6	8.2%
<b>Total Operating Expenses</b>	<b>\$ 832.7</b>	<b>100.0%</b>	<b>\$ 815.6</b>	<b>100.0%</b>	<b>\$ 808.2</b>	<b>100.0%</b>

\* Does not include On-Behalf payments made by State of Alaska for pension

**Fiscal Year 2016  
Functional Classification**



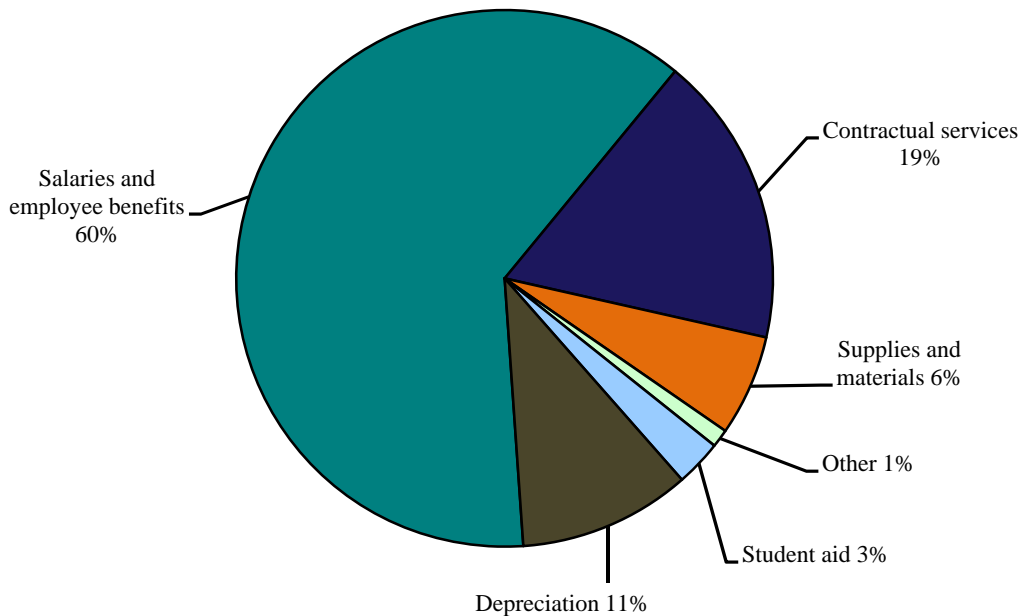


MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited – see accompanying accountants' report)

Operating Expenses*						
Natural Classification (\$ in millions)						
	FY2016		FY2015		FY2014	
Compensation and benefits	\$ 517.0	62.1%	\$ 502.2	61.4%	\$ 506.4	62.8%
Contractual services	146.3	17.6%	143.4	17.6%	149.5	18.5%
Materials	50.7	6.1%	55.1	6.9%	56.1	6.9%
Student aid	23.2	2.8%	24.9	3.1%	26.9	3.3%
Depreciation	86.5	10.4%	83.3	10.2%	66.6	8.2%
Other	9.0	1.0%	6.7	0.8%	2.7	0.3%
Total Operating Expenses	\$ 832.7	100.0%	\$ 815.6	100.0%	\$ 808.2	100.0%

\* Does not include On-Behalf payments made by State of Alaska for pension

**Fiscal Year 2016  
Natural Classification**



Total operating expenses (excludes on-behalf payments to PERS and TRS made by State of Alaska) increased from \$815.6 million in 2015 to \$832.7 million in 2016. Note that a non-cash \$17.6 million adjustment to increase pension expense across functional categories was recorded in 2016 in connection with implementation of GASB 68 implemented in fiscal year 2015. Expenditures related to the student and academic core mission, about 42.6 percent of all expenditures, showed a \$4.2 million decrease in 2016. For the same period, expenditures for research increased \$12.5 million. Amounts expended for institutional support increased \$3.2 million while expenditures for operations and maintenance of facilities increased \$4.3 million as compared to 2015.

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

A portion of University resources applied to student accounts for tuition, fees, or room and board are not reported as student aid expense, but are reported in the financial statements as a scholarship allowance, directly offsetting student tuition and fee revenue or auxiliary revenue. Scholarship allowances totaled \$17.9 million in 2016 and \$17.4 million in 2015. In addition to the allowances, students participate in governmental financial aid loan programs. The loans are neither recorded as revenue or expense in the financial statements, but are recorded in the Statements of Cash Flows as direct lending receipts totaling \$72.7 million and \$73.3 million in 2016 and 2015, respectively.

***Fiscal Year 2015 Comparisons (Statement of Revenues, Expenses and Changes in Net Position)***

Significant comments about changes between 2014 and 2015 that were noted in fiscal year 2015 *Management's Discussion and Analysis* are summarized below:

The Statement of Revenues, Expenses and Changes in Net Position reflected an overall increase in net position of 6 percent, or \$103.7 million.

Gross student tuition and fee revenue totaled \$145.2 million in 2015 as compared to \$140.3 million in 2014. The fall 2014 tuition rates increased \$6 per credit for undergraduate course, \$12 per credit for graduate course and \$12 per credit for the non-resident surcharge. However, an overall enrollment decline from fall 2013 to fall 2014 of approximately 3.6 percent offset the tuition rate increases.

State of Alaska general fund appropriations continued to be the single major source of revenue for the University, providing \$383.4 million in 2015, as compared to \$385.9 million in 2014.

Total operating expenses increased 14 percent in 2015 as compared to 1.6 percent in 2014. Expenditures related to the student and academic core mission, about 43.8 percent of all expenditures, showed a \$7.2 million decrease in 2015. For the same period, expenditures for research decreased \$9 million, primarily a result of the tapering off of available American Recovery and Reinvestment Act funds, competitive pressures on grant monies and federal sequestration. Amounts expended for institutional support remained stable while expenditures for operations and maintenance of facilities decreased \$1.7 million as compared to 2014.

**Capital and Debt Activities**

The University continued to modernize various facilities and build new facilities to address emerging state needs. Net capital asset increases (excluding accumulated depreciation) totaled \$144.1 million in 2016, as compared with \$177.4 million in 2015 and \$224.9 million in 2014. These capital additions primarily comprise replacement, renovation, code corrections and new construction of academic and research facilities, as well as investments in equipment and information technology. State capital appropriations for 2016 and 2015 were \$3 million and \$144.9 million, respectively. The 2016 appropriation is a \$3 million capital appropriation for deferred maintenance. Major components of the 2015 appropriation included (1) \$74.5 million for the new

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

University of Alaska Fairbanks combined heat and power plant, (2) \$50.6 million for the Anchorage campus engineering building and the Fairbanks engineering building and (3) \$19.3 million for numerous high-priority deferred maintenance projects throughout the University system. The 2014 appropriation included \$30 million for deferred maintenance and \$30 million for the Anchorage and Fairbanks engineering buildings.

Construction in progress at June 30, 2016 totaled \$209.6 million and includes the following major projects:

A new engineering building is underway at the Fairbanks campus, to meet the engineering workforce demands of the state and modernize the classroom instruction experience. To date, the building has been funded by State of Alaska capital appropriations. The construction in progress also includes the University of Alaska Fairbanks combined heat and power plant.

*Debt and Capital Leases*

At June 30, 2016, total debt outstanding, including capital leases, totaled \$338.1 million. The University traditionally issues general revenue bond tax-exempt debt, and secures the repayment via a master trust indenture with a broad pledge of university receipts.

In previous years, other bonds were issued to finance construction of student residences at three campuses, the West Ridge Research Building, student recreation centers, a research facility to house the International Arctic Research Center, the acquisition and renovation of several properties adjacent to or near the University's campuses, additions to the University's self-operated power, heat, water and telephone utility systems in Fairbanks, purchase of the University Center Building in Anchorage, deferred maintenance projects, and to refund previously issued general revenue bonds and other contractual obligations in order to realize debt service savings.

Moody's Investors Service and S&P Global Ratings have assigned ratings of 'Aa3' and "AA-", respectively, and have each assigned a "negative outlook" to the rating of the University. These ratings were issued September 2016.

The University has traditionally utilized tax exempt financings to provide for its capital needs or to facilitate systematic renewals. Working capital is available to provide interim cash flow financing for facilities intended to be funded with general revenue bond proceeds or other debt arrangements.

In July 2015, the University issued General Revenue Bonds 2015 Series T with a par amount of \$65,350,000 and a 25 year term. Average annual debt service is \$4.9 million. In September 2015, the University entered into a loan agreement with the Alaska Municipal Bond Bank to borrow \$86,050,000 with a 30 year term. Average annual debt service is \$5.6 million. Both the bond and the loan provide funding for construction of the University of Alaska Fairbanks combined heat and power plant.

In June 2016, University partially defeased \$640,000 of General Revenue Bonds 2001 Series O maturing through October 1, 2027 and \$3.9 million of General Revenue Bonds 2012 Series R maturing through October 1, 2028 by contributing cash to an escrow account held by a trustee.

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

In October 2016, the University issued General Revenue Bonds 2016 Series V-1, with a par amount of \$32,845,000, an original issue premium of \$5,699,409, and a 28 year term. Average annual debt service is \$2.1 million. The bonds provide funding for the construction of the University of Alaska Fairbanks engineering facility.

In October 2016, the University issued General Revenue Refunding Bonds 2016 Series V-2 with a par amount of \$14,645,000, an original issue premium of \$1,906,984, and a 17 year term. Average annual debt service is \$1.1 million. The bonds refund General Revenue Bonds 2005 Series N and 2008 Series O, except for the October 1, 2017 maturity. The economic gain from the refunding is \$1.7 million in present value and total debt service payments are reduced by approximately \$2 million over the life of the bonds.

*Capital Activities – Looking Ahead and Subsequent to Year End*

The University began construction of a new combined heat and power plant on the Fairbanks campus. The estimated cost of the plant is \$248 million, with \$157.5 million being funded with debt proceeds and the remaining \$90.5 million funded from a combination of capital and operating appropriations. During fiscal year 2015, the University issued a general revenue bond and entered into a loan agreement that together provides \$157.5 million for the new plant. More information about the debt is in Note 17 of the *Notes to Financial Statements*. Subsequent to June 30, 2016, the University issued general revenue bond series V-1 to partially fund the construction of the engineering facility in University of Alaska Fairbanks campus.

For fiscal year 2017, the University did not receive any capital appropriation from the State of Alaska.

**Other Economic and Financial Conditions**

The following is a description of currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations of the University.

The fiscal year 2017 State operating appropriation to the University decreased by \$25.9 million, or 7.4 percent, from Fiscal Year 2016. In response, the University implemented a combination of strategic revenue and expenditure actions to maintain a balanced budget and invest in new opportunities. These actions include but are not limited to a 5 percent tuition rate increase, the elimination of over 500 positions through attrition, non-renewal and layoffs, using fund balance to defease debt, academic program reductions/suspensions, off campus lease reductions, and travel and contractual services savings. For Fiscal Year 2017, the President began several strategic investments and a systematic review of academic programs and administrative functions with the goal of cost savings. Strategic investments include fundraising and development, additional funding to deferred maintenance and recruitment, retention and degree completion efforts.

The University is currently preparing its Fiscal Year 2018 budget, which is expected to be presented to the Board of Regents at their meeting in November 2016. In constructing its budget, the

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

University anticipates requesting an operating appropriation from the State in the amount of the Fiscal Year 2017 appropriation plus an increment for fixed costs and critical needs. The University is nevertheless preparing for a potential \$16 million to \$32 million reduction in funding from the State, representing an approximately five to ten percent reduction in operating appropriations, due to the State's challenging fiscal position. Among the means to offset such reduction in funding is an increase in tuition and fees. The extent of any such increase is not known at the current time, and is currently anticipated to range from 5 to 10 percent. The University's tuition and fees remain low compared to other universities - approximately 19 percent less than the average tuition and fees charged by colleges and universities, according to the Western Interstate Commission for Higher Education. By 2025, the University hopes to have the University's tuition closer to the Western states' average, adjusted to account for the incremental cost of operating in Alaska.

## Independent Auditors' Report

## REPORT OF INDEPENDENT AUDITORS

The Board of Regents  
University of Alaska

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the University of Alaska (University), and its discretely presented component unit, the University of Alaska Foundation, Inc., as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

**REPORT OF INDEPENDENT AUDITORS  
(continued)**

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As described in Note 13, the University has accounted for their net pension liability under a special funding situation with the state of Alaska. If the special funding did not exist, the University's net position would be significantly different.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedules of the University's Proportionate Share of the Net Pension Liability, and Schedule of the University's Contributions, listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Moss Adams LLP*

Spokane, Washington  
November 3, 2016



**UNIVERSITY OF ALASKA**  
**(A Component Unit of the State of Alaska)**  
**Statements of Net Position**  
**June 30, 2016 and 2015**  
**(in thousands)**

<b>Assets</b>	2016	2015
<b>Current assets:</b>		
Cash and cash equivalents	\$ 51,291	\$ 41,197
Short-term investments	54,109	99,172
Accounts receivable, net	61,844	67,873
Inventories	4,631	5,480
Other assets	3,943	4,155
Total current assets	175,818	217,877
<b>Noncurrent assets:</b>		
Restricted cash and cash equivalents	2,689	3,392
Notes receivable	2,687	2,720
Funds held for construction	195,599	60,114
Endowment investments	130,249	143,056
Land Grant Trust property and other endowment assets	62,662	62,390
Long-term investments	71,960	66,765
Education Trust of Alaska investments	24,574	21,650
Capital assets, net	1,617,876	1,544,665
Total noncurrent assets	2,108,296	1,904,752
Total assets	2,284,114	2,122,629
 <b>Deferred Outflows of Resources</b>		
Deferred outflows related to pension	31,389	16,763
Deferred amount on debt refunding	1,147	1,255
Total deferred outflows of resources	32,536	18,018
 <b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	34,712	33,533
Accrued payroll and annual leave	40,320	38,475
Unearned revenue and deposits	35,434	70,997
Long-term debt - current portion	11,714	11,185
Capital lease obligation - current portion	535	517
Insurance and risk management	14,142	13,765
Total current liabilities	136,857	168,472
<b>Noncurrent liabilities:</b>		
Unearned revenue	50,000	54,119
Long-term debt	300,865	147,609
Capital lease obligation	25,025	25,560
Net pension liability	239,525	188,877
Other noncurrent liabilities	8,608	5,392
Total noncurrent liabilities	624,023	421,557
Total liabilities	760,880	590,029
 <b>Deferred Inflows of Resources</b>		
Deferred inflows related to pension	4,646	23,046
 <b>Net Position</b>		
Net investment in capital assets	1,411,653	1,359,385
Restricted:		
Expendable	46,244	59,352
Nonexpendable	132,201	131,790
Unrestricted	(38,974)	(22,955)
Total net position	\$ 1,551,124	\$ 1,527,572

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

**UNIVERSITY OF ALASKA FOUNDATION**  
**(A Component Unit of the University of Alaska)**  
**Statements of Financial Position**  
**June 30, 2016 and 2015**  
**(in thousands)**

<b>Assets</b>	2016	2015
Cash and cash equivalents	\$ 32,825	\$ 29,548
Interest and dividends receivable	255	415
Contributions receivable, net	2,742	6,367
Other receivables	1,860	9,279
Other investments	24,810	25,521
Pooled endowment funds	283,492	300,847
Remainder trusts receivable	1,844	1,969
Other assets	767	670
Total assets	\$ 348,595	\$ 374,616
 <b>Liabilities</b>		
Due to University of Alaska	\$ 2,054	\$ 2,751
Other liabilities	580	364
Split interest obligations	298	418
Term endowment liability	1,000	1,000
Assets held in trust for University of Alaska	127,761	140,572
Total liabilities	131,693	145,105
 <b>Net Assets</b>		
Unrestricted	24,188	25,951
Temporarily restricted	89,026	101,324
Permanently restricted	103,688	102,236
Total net assets	216,902	229,511
Total liabilities and net assets	\$ 348,595	\$ 374,616

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

**UNIVERSITY OF ALASKA**  
**(A Component Unit of the State of Alaska)**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended June 30, 2016 and 2015**  
**(in thousands)**

	2016	2015
<b>Operating revenues</b>		
Student tuition and fees	\$ 152,344	\$ 145,174
less scholarship allowances	<u>(17,937)</u>	<u>(17,397)</u>
	134,407	127,777
Federal grants and contracts	125,689	121,251
State and local grants and contracts	25,403	27,246
Private grants and contracts	39,305	41,081
Sales and services, educational departments	5,246	5,874
Auxiliary enterprises, net of scholarship allowances of \$4,448 in 2016 and \$2,666 in 2015	43,214	41,602
Other	<u>14,517</u>	<u>13,047</u>
Total operating revenues	<u>387,781</u>	<u>377,878</u>
<b>Operating expenses</b>		
Instruction	214,593	216,257
Academic support	64,503	64,020
Research	133,345	120,763
Public service	46,039	48,491
Student services	52,149	53,350
Operations and maintenance	71,420	67,199
Institutional support	98,652	95,494
Student aid	23,250	24,948
Auxiliary enterprises	42,298	41,774
Depreciation	86,473	83,313
State on-behalf payments - pension	<u>12,126</u>	<u>144,896</u>
Total operating expenses	<u>844,848</u>	<u>960,505</u>
Operating loss	<u>(457,067)</u>	<u>(582,627)</u>
<b>Nonoperating revenues (expenses)</b>		
State appropriations	359,284	383,381
State on-behalf contributions - pension	12,126	144,896
Investment earnings	7,159	5,827
Endowment proceeds and investment income	(3,943)	1,532
Federal student financial aid	22,102	24,550
Interest on debt	(6,227)	(4,542)
Other nonoperating expenses	<u>(2,014)</u>	<u>(3,120)</u>
Net nonoperating revenues	<u>388,487</u>	<u>552,524</u>
Income (loss) before other revenues	<u>(68,580)</u>	<u>(30,103)</u>
Capital appropriations, grants and contracts	<u>92,132</u>	<u>126,450</u>
Increase in net position	<u>23,552</u>	<u>96,347</u>
<b>Net Position</b>		
Net position - beginning of year	1,527,572	1,631,226
Cumulative effect of change in accounting principle (note 18)		<u>(200,001)</u>
Net position - beginning of year as restated	<u>1,527,572</u>	<u>1,431,225</u>
Net position - end of year	<u>\$ 1,551,124</u>	<u>\$ 1,527,572</u>

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

**UNIVERSITY OF ALASKA FOUNDATION**  
**(A Component Unit of the University of Alaska)**  
**Statements of Activities**  
**For the years ended June 30, 2016 and 2015**  
**(in thousands)**

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenues, gains and other support</b>				
Contributions	\$ 132	11,246	1,704	\$ 13,082
Investment income	392	520	-	912
Net realized and unrealized investment gains (losses)	(1,430)	(7,648)	-	(9,078)
Other revenues	-	362	-	362
Actuarial adjustment of remainder trust obligations	-	(64)	26	(38)
Gains (Losses) on disposition of other assets	(3)	(55)	(15)	(73)
Administrative assessments	2,378	(1,647)	(32)	699
Support from University of Alaska	400	-	-	400
Donor directed reclassifications	(8)	239	(231)	-
Net assets released from restriction	15,251	(15,251)	-	-
Total revenues, gains and other support	17,112	(12,298)	1,452	6,266
<b>Expenses and distributions</b>				
Operating expenses	2,949	-	-	2,949
Distributions for the benefit of University of Alaska	15,926	-	-	15,926
Total expenses and distributions	18,875	-	-	18,875
Excess (deficiency) of revenues over expenses	(1,763)	(12,298)	1,452	(12,609)
Net assets, beginning of year	25,951	101,324	102,236	229,511
Net assets, end of year	\$ 24,188	\$ 89,026	\$ 103,688	\$ 216,902

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

2015

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 213	\$ 13,705	\$ 2,696	\$ 16,614
403	485	-	888
(513)	(2,572)	-	(3,085)
-	443	-	443
-	25	(6)	19
-	(150)	(1)	(151)
2,376	(1,631)	(38)	707
600	-	-	600
(45)	(207)	252	-
15,463	(15,463)	-	-
18,497	(5,365)	2,903	16,035
2,895	-	-	2,895
16,451	-	-	16,451
19,346	-	-	19,346
(849)	(5,365)	2,903	(3,311)
26,800	106,689	99,333	232,822
\$ 25,951	\$ 101,324	\$ 102,236	\$ 229,511

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

**UNIVERSITY OF ALASKA**  
**(A Component Unit of the State of Alaska)**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2016 and 2015**  
**(in thousands)**

	2016	2015
<b>Cash flows from operating activities</b>		
Student tuition and fees	\$ 153,881	\$ 146,680
less scholarship allowances	(17,938)	(17,397)
	135,943	129,283
Grants and contracts	193,369	201,395
Sales and services, educational departments	5,246	5,874
Sales and services, auxiliary enterprises	42,807	40,879
Other operating receipts	14,517	12,991
Payments to employees for salaries and benefits	(500,879)	(505,473)
Payments to suppliers	(202,340)	(213,345)
Payments to students for financial aid	(23,546)	(24,791)
Net cash used for operating activities	(334,883)	(353,187)
<b>Cash flows from noncapital financing activities</b>		
State appropriations	358,987	383,412
Other revenue	23,682	22,570
Direct lending receipts	72,674	73,291
Direct lending payments	(72,538)	(73,155)
Net cash provided by noncapital financing activities	382,805	406,118
<b>Cash flows from capital and related financing activities</b>		
Capital appropriations, grants and contracts	54,539	237,017
Proceeds from issuance of capital debt	170,870	2,500
Purchases of capital assets	(152,989)	(177,414)
Principal paid on capital debt	(16,558)	(10,651)
Interest paid on capital debt	(11,580)	(5,938)
Net cash used for capital and related financing activities	44,282	45,514
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	95,082	40,830
Purchases of investments	(186,615)	(151,741)
Interest received on investments	5,356	4,867
Interest and other sales receipts from endowment assets	3,364	1,494
Net cash provided by investing activities	(82,813)	(104,550)
Net increase in cash and cash equivalents	9,391	(6,105)
Cash and cash equivalents, beginning of the year	44,589	50,694
Cash and cash equivalents, end of the year	\$ 53,980	\$ 44,589
Cash and cash equivalents (current)	\$ 51,291	\$ 41,197
Restricted cash and cash equivalents (noncurrent)	2,689	3,392
Total cash and cash equivalents	\$ 53,980	\$ 44,589

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

**UNIVERSITY OF ALASKA**  
**(A Component Unit of the State of Alaska)**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2016 and 2015**  
**(in thousands)**

**Reconciliation of operating loss to net cash used for**

<b>operating activities:</b>	2016	2015
Operating loss	\$ (457,067)	\$ (582,627)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation expense	86,473	83,313
State on-behalf payments - pension	12,126	144,896
Real and personal property contributions	-	20
Pension expense (credit)	17,621	(4,839)
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable, net	5,555	6,804
Other assets	212	(2,094)
Inventories	849	356
Accounts payable and accrued expenses	(1,839)	(6,841)
Accrued payroll	2,158	1,841
Unearned revenue, deposits from students and others	(1,036)	6,116
Accrued annual leave	(313)	42
Insurance and risk management	377	(174)
Net cash used for operating activities	\$ (334,884)	\$ (353,187)

**Schedule of Noncash Investing, Noncapital Financing, Capital and Financing Related Activities:**

**For the Year Ended June 30, 2016**

Increase in accounts payable for capital assets is \$0.8 million.

The University received on-behalf pension payments from the State of Alaska totaling \$12.1 million.

**For the Year Ended June 30, 2015**

Increase in accounts payable for capital assets is \$2.3 million.

The University received \$20,000 in donated equipment.

The University received on-behalf pension payments from the State of Alaska totaling \$144.9 million.

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

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

### 1. Organization and Summary of Significant Accounting Policies

#### Organization:

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 the only public institution of higher learning in Alaska. It is a statewide system that consists of three universities located in Anchorage, Fairbanks, and Juneau, with each having extended satellite colleges and sites throughout Alaska. The system's administrative offices are located on the Fairbanks campus. The University is governed by an eleven-member Board of Regents, which is appointed by the governor.

The University is a component unit of the State of Alaska for purposes of financial reporting. As an instrumentality of the State of Alaska, the University is exempt from federal income tax under Internal Revenue Code Section 115, except for unrelated business activities as covered under Internal Revenue Code Sections 511 to 514. The University of Alaska Foundation (Foundation) is a legally separate, nonprofit component unit of the University. The Foundation was established to solicit donations and to hold and manage such assets for the exclusive benefit of the University. Resources managed by the Foundation and distributions made to the University are governed by the Foundation's Board of Trustees. Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and Statement No. 61, *The Financial Reporting Entity: Omnibus*, an amendment of GASB Statement No. 14 and No. 34, require the University to include the Foundation as part of its financial statements to better report resources benefiting the University. The University is not accountable for, nor has ownership of, the Foundation's resources. The Foundation's financial statements include the Statement of Financial Position and the Statement of Activities and these statements are presented in their original audited format according to Financial Accounting Standards Board (FASB) pronouncements.

The Nanook Innovation Corporation (NIC) and Seawolf Holdings, LLC were established in fiscal year 2013 for the purpose of supporting the University of Alaska through commercialization of University generated intellectual properties. The Nanook Innovation Corporation operates as a non-profit organization under Internal Revenue Code 501(c) (3). The Board of Directors of NIC are appointed by the University. Seawolf Holdings, LLC is a limited liability company with the University being the sole member of the LLC. The Nanook Innovation Corporation and Seawolf Holdings, LLC are considered component units of the University according to GASB Statements No. 39 and No. 61. These entities had no significant activity in fiscal year 2016 and 2015.

#### Basis of Presentation:

The University's financial statements are presented in accordance with U.S. generally accepted accounting principles as prescribed in applicable pronouncements of the Governmental Accounting Standards Board. The Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows report the financial activities of the University of Alaska.

*Deferred outflows of resources* represent the consumption of net assets by the University in one period that is applicable to future periods.

*Deferred inflows of resources* represent the acquisition of net assets in one period that is applicable to future periods.



## NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

*Net position* represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources and is required to be classified for accounting and reporting purposes into the following categories:

- *Unrestricted net position* is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position may be designated for specific purposes by the Board of Regents or may otherwise be limited by contractual agreements with outside parties.
- *Restricted net position:*
  - Expendable net position* is subject to externally-imposed restrictions that may or will be met by actions of the University and/or that expire with the passage of time.
  - Non-expendable net position* is subject to externally-imposed restrictions requiring that they be maintained permanently by the University.
- *Net investment in capital assets* – Capital assets, net of accumulated depreciation, reduced by outstanding balances of debt attributable to the acquisition, construction or improvement of those assets.

When both restricted and unrestricted funds are available for the same purpose, the University's policy is to use the restricted funds first, unless it is not advisable based on all the facts and circumstances.

In preparing the financial statements, management is required to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the statement of net position. 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.

### Summary of Significant Accounting Policies:

The accompanying financial statements have been prepared on the economic resources measurement focus and the accrual basis of accounting. All significant intra-university transactions have been eliminated. The University reports as a business type activity, as defined by GASB Statement No. 35. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

#### *Cash and Cash Equivalents*

All highly liquid investments, not held for long-term investment, with original maturities of three months or less are reported as cash and cash equivalents.

#### *Inventories*

Inventories are stated at the lower of cost (first-in, first-out method) or market. Inventories consist of parts, fuel, books, shop stock, etc.

#### *Investments*

Investments are stated at fair value. Investments in fixed income and equity marketable securities are stated at fair value based on quoted market prices. Investments in private partnership interests are valued using the most current information provided by the general partner. Valuations provided by the general partners and investment

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

managers are evaluated by management and management believes such values are reasonable at June 30, 2016 and 2015. When, in the opinion of management, there has been a permanent impairment in the asset value, the asset is written down to its fair value. Income from other investments is recognized when received.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net position. Investments also include securities with contractual cash flows such as asset-backed securities, collateralized mortgage obligations and commercial mortgage-backed securities. The value, liquidity and related income of these securities are sensitive to economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates. Long-term investments include those restricted by outside parties as to withdrawal or use for other than current operations, or are designated for expenditure in the acquisition or construction of noncurrent assets or held with an intent not to be used for operations within the next fiscal year.

### *Capital Assets*

Capital assets are stated at cost when purchased and at fair value when donated. Equipment with a unit value of \$5,000 or greater is capitalized. Buildings and infrastructure with a unit value of \$100,000 or greater are capitalized. Other capital assets with a unit value of \$50,000 or greater are capitalized. Certain land and other resources acquired through land grants and donated museum collections for which fair value at date of acquisition was not determinable are reported at zero basis in the financial statements.

Depreciation is computed on a straight-line basis with useful lives ranging from 12 to 50 years for building and building components, 10 to 35 years for infrastructure and other improvements, 5 to 40 years for equipment and 20 years for library books. Museum collections are not depreciated because they are preserved and cared for and have an extraordinarily long useful life.

### *Endowments*

The University's endowments consist of the Land Grant Endowment Trust Fund (LGETF) established pursuant to the 1929 federal land grant legislation, its related Inflation Proofing Fund (IPF) and several smaller "other" endowments. Alaska Statute 14.40.400 provides that the net income from the sale or use of grant lands must be held in trust in perpetuity.

Alaska Statute 14.40.400 provides the Board of Regents with authority to manage the LGETF under the total return principles which intends to preserve and maintain the purchasing power of the endowment principal. The investable resources of the LGETF and IPF are invested in the Consolidated Endowment Fund, a unitized investment fund. The annual spending allowance is currently based on 4.5 percent of a five-year moving average of the invested balance. Withdrawals of net earnings appreciation to meet the spending allowance are limited to the unexpended accumulated net earnings balance of the preceding December 31.

### *Operating Activities*

The University's policy for defining operating activities as reported on the statement of revenues, expenses and changes in net position are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations and investment earnings.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

### *Scholarship Allowances*

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship allowances in the statement of revenues, expenses and changes in net position. Scholarship allowances are the difference between the stated charge for tuition and room and board provided by the University and the amount paid by the student and/or third parties making payments on the students' behalf.

### *Lapse of State Appropriations*

Alaska Statutes provide that unexpended balances of one-year appropriations will lapse on June 30 of the fiscal year of the appropriation; however, university receipts in excess of expenditures may be expended by the University in the next fiscal year. University receipts include student tuition and fees, donations, sales, rentals, facilities and administrative cost recovery, investment earnings, auxiliary and restricted revenues. The unexpended balances of capital appropriations generally lapse after five years or upon determination that the funds are no longer necessary for the project.

### *Pensions*

For purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit plans of the Public Employees Retirement System (PERS) and the Teachers' Retirement System (TRS) and additions to/deductions from these pension plans' fiduciary net position have been determined on the same basis they are reported by PERS and TRS defined benefit plans. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### *Unearned Revenue*

Unearned revenue consists of tuition, fees and certain auxiliary activities prior to the end of the fiscal year, but related to the subsequent accounting period. It also consists of funds received from grants, sponsors and State capital appropriations which have not yet been earned. The State capital appropriation are subject to five year lapse provisions per State Statute. The period may be extended.

### *Reclassifications*

Certain amounts in the June 30, 2015 financial statements have been reclassified for comparative purposes to conform to the presentation in the June 30, 2016 financial statements.

### *Recently Issued Accounting Standards*

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. This standard is effective for the fiscal year beginning after June 15, 2015. The University has implemented this Statement in fiscal year 2016.

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement addresses accounting and financial reporting for Other Post Retirement Benefits (OPEB) that is provided to the employees of state and local governmental

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

employers and establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense. This standard is effective for the fiscal years beginning after June 15, 2017 (fiscal year 2018).

In January 2016, the GASB issued GASB Statement No. 80, *Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14*. This Statement requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016 (fiscal year 2017).

The University is currently evaluating the impact the adoption of these GASB Statements will have on its financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

**2. Deposits and Investments**

Deposits and investments at June 30, 2016 were as follows (\$ in thousands):

Investment Type	Operating	Capital Funds	Endowment	Education Trust of Alaska	Total
Cash and Deposits	\$ 25,151	\$ 2	\$ 406	\$ -	\$ 25,559
Money Market Mutual Funds	46,506	21,492	5,755	550	74,303
Equities:					
Domestic	-	-	6,091	-	6,091
Domestic Funds	-	-	15,388	9,378	24,766
Global	-	-	791	-	791
Global Funds	-	-	11,445	-	11,445
Exchange Traded Funds - Domestic	-	-	4,217	-	4,217
Emerging Markets Funds	-	-	8,330	-	8,330
Debt-related:					
Corporate	53,958	32,112	4,747	-	90,817
Mutual Fund	-	-	4	-	4
Federal Agency	33,258	31,006	-	-	64,264
U.S. Treasuries	19,979	111,176	2,592	209	133,956
U.S. Municipals	-	-	359	-	359
International Government	1,008	-	-	-	1,008
Fixed Income Funds	-	-	-	14,437	14,437
Asset Backed Securities	-	-	1,482	-	1,482
Mortgage Backed Securities	-	-	1,146	-	1,146
Alternative Investments:					
Private Equity Fund	-	-	15,189	-	15,189
Depository Receipts	-	-	145	-	145
Global Private Equity Fund	-	-	740	-	740
Hedge Funds	-	-	50,726	-	50,726
Other	-	-	696	-	696
	\$ 179,860	\$ 195,788	\$ 130,249	\$ 24,574	\$ 530,471

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

Deposits and investments at June 30, 2015 were as follows (\$ in thousands):

Investment Type	Operating	Capital Funds	Endowment	Education Trust of Alaska	Total
Cash and Deposits	\$ 20,192	\$ -	\$ 12	\$ -	\$ 20,204
Certificates of Deposit	3,795	-	-	-	3,795
Money Market Mutual Funds	40,171	11,270	7,375	782	59,598
Equities:					
Domestic	-	-	6,949	-	6,949
Domestic Funds	-	-	18,647	8,171	26,818
Global Funds	-	-	10,022	-	10,022
Exchange Traded Funds - Domestic	-	-	3,899	-	3,899
Emerging Markets Funds	-	-	8,080	-	8,080
Debt-related:					
Corporate	69,368	39,733	4,903	-	114,004
Mutual Fund	-	-	4	-	4
Federal Agency	52,404	8,011	-	-	60,415
U.S. Treasuries	22,174	2,011	2,343	-	26,528
U.S. Municipals	-	-	292	-	292
International Government	1,511	-	-	-	1,511
Fixed Income Funds	-	-	-	12,697	12,697
Asset Backed Securities	-	-	2,178	-	2,178
Mortgage Backed Securities	-	-	1,870	-	1,870
Alternative Investments:					
Private Equity	-	-	14,884	-	14,884
Futures and Depository Receipts	-	-	463	-	463
Global Private Equity Fund	-	-	313	-	313
Hedge Funds	-	-	56,752	-	56,752
Other	-	-	4,070	-	4,070
	\$ 209,615	\$ 61,025	\$ 143,056	\$ 21,650	\$ 435,346

Operating funds consist of cash on hand (including overnight repurchase agreements), time deposits, money market funds and bonds. Alaska Statutes and Board of Regents' policy provide the University with broad authority to invest funds. Generally, operating funds are invested according to the University's liquidity needs. The University has operating fund investment guidelines, which set forth the objectives, structure and acceptable investments for the University's operating funds.

The University's operating funds include investments in high quality bonds, including U.S. treasuries, federal agency bonds, international government bonds, and corporate bonds. These investments are held under the name of the University. Bonds comprise the largest portion of operating funds. The University has a \$13 million compensating balance with its checking and depository financial institution.

Capital funds include unexpended general revenue bond proceeds, related reserves and advances from state capital appropriations. At June 30, 2016 and 2015, bond funds held by a trustee totaled \$144.8 million and \$9.9 million, respectively, and consisted of funds held for construction purposes totaling \$133 million and \$2.8

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

million, respectively, and general revenue bond reserves totaling \$11.8 million and \$7.1 million, respectively. The general revenue bond reserves are invested with a third party trustee in accordance with terms of a trust indenture, requiring purchase of investment securities that are investment grade.

Endowment investments totaling \$130.2 million and \$143.1 million in 2016 and 2015, respectively, primarily consisted of \$127.8 million and \$140.6 million in investable resources of the University's Land Grant Endowment Trust Fund at June 30, 2016 and 2015, respectively, and are invested in a Consolidated Endowment Fund managed by the Foundation. These resources are combined with the Foundation's pooled endowment funds for investment purposes, and managed by the University of Alaska Foundation Consolidated Endowment Fund in accordance with an investment policy approved by the Board of Regents. A copy of the Consolidated Endowment Fund's investment policy and guidelines can be obtained by contacting the University Controller's Office.

Education Trust of Alaska investments include the operating funds of the college savings program, established pursuant to state statute by the Board of Regents and Internal Revenue Code Section 529. Program investments are in mutual funds of T. Rowe Price Associates, Inc., the program manager. See Note 4 for further information.

Certain funds held in trust for the benefit of the University are not included in the financial statements as the University has only limited control over their administration. These funds are in the custody of independent fiduciaries and at June 30, 2016 and 2015 had an estimated fair value of approximately \$4.4 million and \$4.5 million, respectively.

At June 30, 2016, the University has approximately \$41 million in investments that are not readily marketable, compared to \$43.4 million at June 30, 2015. These investments are invested in the Consolidated Endowment Fund managed by the Foundation. These investment instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependency upon key individuals, and nondisclosure of portfolio composition. Because these investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investment existed. Such difference could be material.

### Fair Value

In fiscal year 2016, the University implemented GASB Statement No. 72, *Fair Value Measurement and Application*. The University measures and records its investments using fair value measurement requirements established by the Statement. The University categorized the inputs to valuation techniques used to measure fair value into the following three levels.

Level 1 - Quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 - Quoted prices that are observable for an asset or liability, either directly or indirectly.

Level 3 - Pricing inputs are unobservable for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, a financial instrument's level within the fair value hierarchy is based on the lowest level.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

At June 30, 2016, the University has the following recurring fair value measurements (\$ in thousands):

	June 30, 2016	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Money market mutual funds	\$ 69,215	\$ 69,215	\$ -	\$ -
Debt-related:				
U.S. Treasuries	131,363	131,363	-	-
Fixed income mutual funds	14,437	14,437	-	-
Corporate	86,069	-	86,069	-
Federal agency	64,265	-	64,265	-
International government	1,008	-	1,008	-
Total debt securities	366,357	215,015	151,342	-
Endowment Fund	127,761	-	127,761	-
Equity:				
Domestic mutual funds	9,378	9,378	-	-
Total investments by fair value	\$ 503,496	\$ 224,393	\$ 279,103	\$ -

Money market mutual funds, U.S. treasuries, fixed income and domestic mutual funds are valued using quoted prices for identical securities in the active markets. Debt securities are valued using quoted prices for similar securities in active markets. Endowment funds of \$127.8 million are investments in the Consolidated Endowment Fund which consisted of various type of investments that are valued using level 1 and level 2 inputs in the separate University of Alaska Foundation financial statements. The lowest level, level 2 input, is used by the University as a participant in the endowment fund.

Disclosures for deposits and investments are presented according to GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. Accordingly, the following information addresses various risk categories for University deposits and investments and the investment policies for managing that risk.

Credit Risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The operating fund investment guidelines require that at the time of purchase, short term instruments must be rated A2 or better by Standard & Poor's (S & P), and P2 or better by Moody's. Long term instruments must be rated BBB- or better by S & P and Baa3 or better by Moody's. The average credit rating of any separately managed account portfolio shall be no lower than A by S & P and A2 by Moody's.



NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

At June 30, 2016, investments consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (\$ in thousands):

Investment Type	Rating	Operating	Capital Funds	Endowment	Education Trust of Alaska
Securities Underlying Repurchase Agreements	Aaa/AAA	\$ 30,313	\$ -	\$ -	\$ -
Money Market Mututal Funds	Aaa/AAA	44,685	21,492	2,488	-
Money Market Mututal Funds	Not Rated	1,821	-	3,267	550
Debt-related:					
Corporate	Aaa/AAA	3,057	4,004	35	-
Corporate	Aa1/AA+	3,191	4,317	-	-
Corporate	Aa2/AA	7,079	7,537	-	-
Corporate	Aa3/AA-	6,809	2,234	98	-
Corporate	A1/A+	4,475	4,290	134	-
Corporate	A2/A	4,075	5,734	240	-
Corporate	A3/A-	4,324	1,005	941	-
Corporate	Baa1/BBB+	1,889	2,991	1,239	-
Corporate	Baa2/BBB	1,060	-	965	-
Corporate	Baa3/BBB-	-	-	433	-
Corporate	Ba1/BB+	-	-	193	-
Corporate	B1/B+	-	-	20	-
Corporate	P-1	13,499	-	-	-
Corporate	P-2	4,500	-	-	-
Corporate	Not Rated	-	-	447	-
Mutual Fund	Not Rated	-	-	4	-
Federal Agency	Aaa/AAA	2,008	31,006	-	-
Federal Agency	P-1	31,250	-	-	-
U.S. Treasuries	Aaa/AAA	19,979	111,176	2,412	-
U.S. Treasuries	Not Rated	-	-	179	-
U.S. Treasuries fund	Not Rated	-	-	-	209
U.S. Municipals	Aa2/AA+	-	-	105	-
U.S. Municipals	Aa3/AA-	-	-	52	-
U.S. Municipals	A1/A	-	-	104	-
U.S. Municipals	A3/A-	-	-	98	-
International Government	Aaa/AAA	1,008	-	-	-
Fixed Income Funds	Not Rated	-	-	-	14,437
Asset Backed Securities	Aaa/AAA	-	-	796	-
Asset Backed Securities	Not Rated	-	-	686	-
Mortgaged Backed Securities	Aaa/AAA	-	-	321	-
Mortgaged Backed Securities	Aa3/AA+	-	-	46	-
Mortgaged Backed Securities	A3/A-	-	-	90	-
Mortgaged Backed Securities	Baa2/BBB	-	-	95	-
Mortgaged Backed Securities	Not Rated	-	-	594	-
Hedge Funds	Not Rated	-	-	50,726	-

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

Concentration of Credit Risk:

Concentration of credit risk is the risk of loss attributed to the magnitude of the University's investment in a single issuer. GASB Statement No. 40 requires disclosure when the amount invested with a single issuer exceeds five percent of the University's total investments. At June 30, 2016, the University did not have any material concentrations of credit risk.

The operating fund investment guidelines limits the aggregate fair value of the portfolio that may be invested in any combination of instruments from one issuer to four percent and callable bonds are limited to 15 percent of the total portfolio value, with exceptions for federally backed securities.

Custodial Credit Risk:

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, the University will not be able to recover deposits or will not be able to recover collateral securities in the possession of an outside party. For investments, custodial credit risk is the risk that, in the event of failure of the counterparty to a transaction, the University will not be able to recover the value of investment or collateral securities in the possession of an outside party.

At June 30, 2016, the University does not have custodial credit risk. Deposits of the University are covered by Federal Depository Insurance or securities pledged by the University's counterparty to its repurchase agreement held at a third party bank. The collateral is held in the name of the University and at June 30, 2016, provided \$9.2 million coverage in excess of deposits.

Interest Rate Risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University uses the modified duration measurement to evaluate interest rate risk. Modified duration measures a debt investment's exposure to fair value changes arising from changing interest rates. For example, a modified duration of 2 means that for a rise in interest rates of one percent, the value of the security would decrease two percent. The University does not have a policy regarding interest rate risk.

At June 30, 2016, the University had the following debt investments and corresponding duration (\$ in thousands):

Investment Type	Operating	Capital Funds	Endowment	Education Trust of Alaska	Duration
<u>Debt-related:</u>					
International Government	\$ 1,008	\$ -	\$ -	\$ -	1.60
Federal Agency	33,258	31,006	-	-	0.32
Corporate	53,958	32,112	-	-	1.21
U.S. Treasuries	19,979	111,176	-	-	0.87
Fixed Income Funds	-	-	-	14,437	5.59
Mortgaged Backed Securities	-	-	1,146	-	1.53
Asset Backed Securities	-	-	1,482	-	3.85
U.S. Treasuries	-	-	2,592	-	9.30
Corporate	-	-	4,747	-	7.01
U.S. Municipals	-	-	359	-	7.87

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

Hedge funds totaling \$50,726 million are exposed to interest rate risk; however, underlying fund data is not available to measure the interest rate risk.

### Foreign Currency Risk:

Foreign currency risk is the risk that changes in exchange rates could have an adverse effect on an investment's value for investments denominated in foreign currencies. GASB Statement No. 40 requires disclosure of value in U.S. dollars by foreign currency denomination and investment type. The University does not have a policy regarding foreign currency risk. At June 30, 2016, the University's foreign currency risk consisted of the Consolidated Endowment Fund's investments with a fair value of \$298,359 in Canadian Dollars, \$290,176 in Swiss Francs, \$431,028 in British Pounds and \$512,143 in Euros.

### **3. Accounts Receivable**

Accounts receivable consisted of the following at June 30, 2016 and 2015 (\$ in thousands):

June 30, 2016	Gross	Allowance	Net
Student tuition and fees	\$ 19,105	\$ (3,771)	\$ 15,334
Sponsored programs	43,933	(617)	43,316
Auxiliary services and other operating activities	691	(60)	631
Capital appropriations, grants and contracts	2,563	-	2,563
<b>Total</b>	<b>\$ 66,292</b>	<b>\$ (4,448)</b>	<b>\$ 61,844</b>

June 30, 2015	Gross	Allowance	Net
Student tuition and fees	\$ 21,032	\$ (3,575)	\$ 17,457
Sponsored programs	47,907	(961)	46,946
Auxiliary services and other operating activities	1,030	(50)	980
Capital appropriations, grants and contracts	2,490	-	2,490
<b>Total</b>	<b>\$ 72,459</b>	<b>\$ (4,586)</b>	<b>\$ 67,873</b>

### **4. Education Trust of Alaska**

Assets held in trust include operating funds of the Education Trust of Alaska (Trust). The Trust was established pursuant to State of Alaska statute on April 20, 2001 by the Board of Regents to facilitate administration of the State's Internal Revenue Code (IRC) Section 529 College Savings Program. The program is a nationally marketed college savings program developed in accordance with IRC Section 529. Participant account balances of approximately \$7.0 billion and \$6.9 billion at June 30, 2016 and 2015, respectively, are not included in the financial statements. Separately audited Trust financial statements are available upon request from the University of Alaska Controller's office.

Assets of the Trust are invested in various mutual funds at the direction of T. Rowe Price Associates, Inc., the program manager. The net assets of the Trust, which include a reserve for University of Alaska (UA) Tuition Value Guarantees, are available for payment of program administrative costs, benefits and other purposes of the Trust. Based on an actuarial study, management estimates reserve requirements for the UA Tuition Value Guarantees to be approximately \$7.7 million and \$4.7 million at June 30, 2016 and 2015, respectively. The Tuition Value Guarantees are recorded in the Statements of Net Position in Other Noncurrent Liabilities.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

### **5. Endowments, Land Grant Trust Property and Other Endowment Assets**

The University's endowments consist of the Land Grant Endowment Trust Fund (LGETF) established pursuant to the 1929 federal land grant legislation, its related Inflation Proofing Fund (IPF) and several smaller "other" endowments.

Land Grant Trust (LGT) property and other assets consist of real property and timber and other rights. By Acts of Congress in 1915 and 1929, approximately 110,000 acres of land was granted to the territory of Alaska to be held in trust for the benefit of the University. The lands were managed by the territory, and later the State of Alaska. In accordance with a 1982 agreement, the lands were subsequently transferred to the Board of Regents, as trustee. In 1982 and 1988 certain state lands including timber and other rights were transferred to the trust as replacement for lands disposed of or adversely affected during the period of administration by the territory and the state. These lands and property interests were recorded at their fair value as of the date of transfer. The net proceeds from land sales and other rights are deposited in the Land Grant Endowment Trust Fund as described in the Endowment section in Note 1 above. At June 30, 2016 and 2015, approximately 81,367 and 82,223 acres, respectively, were held in trust at zero basis because fair value at the time of transfer was not determinable.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

A summary of the endowments and Land Grant Trust property for the years ended June 30, 2016 and 2015 follows (\$ in thousands):

June 30, 2016	LGETF and			Total
	LGT	IPF	Other	
Assets:				
Notes receivable	\$ 1,892	\$ 236	\$ -	\$ 2,128
Investments	110,430	19,189	630	130,249
Property, rights and other assets	30,320	30,563	1,779	62,662
<b>Total assets</b>	<b>142,642</b>	<b>49,988</b>	<b>2,409</b>	<b>195,039</b>
<b>Liabilities (debt/internal borrowing)</b>	<b>4,761</b>	<b>13,885</b>	<b>(181)</b>	<b>18,465</b>
Net Position:				
Unrestricted	-	36,103	65	36,168
Restricted - Expendable	8,205	-	-	8,205
Restricted - Non-expendable:				
Endowment corpus	100,500	-	2,525	103,025
Land Grant Trust Property	29,176	-	-	29,176
<b>Total non-expendable</b>	<b>129,676</b>	<b>-</b>	<b>2,525</b>	<b>132,201</b>
<b>Total net position</b>	<b>\$ 137,881</b>	<b>\$ 36,103</b>	<b>\$ 2,590</b>	<b>\$ 176,574</b>

June 30, 2015	LGETF and			Total
	LGT	IPF	Other	
Assets:				
Notes receivable	\$ 1,809	\$ 241	\$ -	\$ 2,050
Investments	121,863	20,551	642	143,056
Property, rights and other assets	30,048	30,563	1,779	62,390
<b>Total assets</b>	<b>153,720</b>	<b>51,355</b>	<b>2,421</b>	<b>207,496</b>
<b>Liabilities (debt/internal borrowing)</b>	<b>4,504</b>	<b>14,967</b>	<b>(169)</b>	<b>19,302</b>
Net Position:				
Unrestricted	-	36,388	65	36,453
Restricted - Expendable	19,951	-	-	19,951
Restricted - Non-expendable:				
Endowment corpus	100,125	-	2,525	102,650
Land Grant Trust Property	29,140	-	-	29,140
<b>Total non-expendable</b>	<b>129,265</b>	<b>-</b>	<b>2,525</b>	<b>131,790</b>
<b>Total net position</b>	<b>\$ 149,216</b>	<b>\$ 36,388</b>	<b>\$ 2,590</b>	<b>\$ 188,194</b>

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

**6. Capital Assets**

A summary of capital assets follows (\$ in thousands):

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016
Capital assets not depreciated:				
Land	\$ 39,535	\$ 865	\$ 83	\$ 40,317
Construction in progress	220,781	147,115	158,301	209,595
Museum collection	7,169	175	-	7,344
Other capital assets:				
Buildings	1,702,756	143,314	566	1,845,504
Infrastructure	151,154	5,120	-	156,274
Equipment and vessel	392,570	19,858	15,209	397,219
Library books	56,063	586	541	56,108
Leasehold improvements	25,424	-	-	25,424
Other improvements	33,516	1,800	-	35,316
Total	2,628,968	318,833	174,700	2,773,101
Less accumulated depreciation:				
Buildings	797,017	55,366	106	852,277
Infrastructure	46,930	5,465	-	52,395
Equipment and vessel	159,630	22,361	14,904	167,087
Library books	45,644	1,198	541	46,301
Leasehold improvements	12,915	935	-	13,850
Other improvements	22,167	1,148	-	23,315
Total accumulated depreciation	1,084,303	86,473	15,551	1,155,225
Capital assets, net	\$ 1,544,665	\$ 232,360	\$ 159,149	\$ 1,617,876

	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015
Capital assets not depreciated:				
Land	\$ 39,376	\$ 159	\$ -	\$ 39,535
Construction in progress	528,128	166,859	474,206	220,781
Museum collection	6,642	527	-	7,169
Other capital assets:				
Buildings	1,475,990	227,088	322	1,702,756
Infrastructure	91,653	59,501	-	151,154
Equipment and vessel	196,134	198,850	2,414	392,570
Library books	56,226	573	736	56,063
Leasehold improvements	25,424	-	-	25,424
Other improvements	31,987	1,529	-	33,516
Total	2,451,560	655,086	477,678	2,628,968
Less accumulated depreciation:				
Buildings	744,284	53,055	322	797,017
Infrastructure	41,662	5,268	-	46,930
Equipment and vessel	140,032	21,809	2,211	159,630
Library books	45,175	1,205	736	45,644
Leasehold improvements	11,980	935	-	12,915
Other improvements	21,126	1,041	-	22,167
Total accumulated depreciation	1,004,259	83,313	3,269	1,084,303
Capital assets, net	\$ 1,447,301	\$ 571,773	\$ 474,409	\$ 1,544,665

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

As of June 30, 2015 the University completed construction of the research vessel named “Sikuliaq”. Title of the vessel is retained by the National Science Foundation, the agency funding the construction, but managed and operated by the University of Alaska Fairbanks, as part of the U.S. academic research fleet. It is used by scientists in the United States and international oceanographic community through the University-National Oceanographic Laboratory System. The vessel was put into unrestricted science operations in fiscal year 2015 and is home ported in Alaska at the Seward Marine Center. The book value of the vessel is \$176.7 million as of June 30, 2016. The cost of the vessel is \$192.9 million and is included in the Equipment and Vessel category in the preceding table. The vessel has an accumulated depreciation of \$16.2 million and current year depreciation expense is \$8.3 million.

**7. Unrestricted and Restricted Net Position**

At June 30, unrestricted and restricted net position included the following (\$ in thousands):

Unrestricted:	June 30, 2016	June 30, 2015
Auxiliaries	\$ 12,440	\$ 10,846
Working capital fund	4,742	4,340
Working capital advances	(5,043)	(5,758)
Service centers	22,252	27,509
Debt service funds	22,962	13,655
Renewal and replacement funds	16,312	17,127
Quasi-endowment funds	36,168	36,453
Employee benefit funds	1,226	11,270
Endowment earnings	14,209	14,009
Encumbrances	9,378	9,046
Cumulative pension expense (GASB 68)	(212,782)	(195,160)
Undesignated	39,162	33,708
Total unrestricted net position	\$ (38,974)	\$ (22,955)
Restricted:	June 30, 2016	June 30, 2015
Expendable:		
Restricted funds	\$ 838	\$ 592
Student loan funds	195	194
Education Trust of Alaska	17,175	17,154
Capital project funds	8,094	14,358
Debt service funds	11,737	7,102
Endowment accumulated earnings	8,205	19,952
Nonexpendable:		
Endowment corpus	103,025	102,650
Land Grant Trust property	29,176	29,140
Total restricted net position	\$ 178,445	\$ 191,142

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

Unrestricted net position includes non-lapsing University receipts of \$70.8 million at June 30, 2016. Non-lapsing University receipts of \$70.3 million from fiscal year 2015 were fully expended in fiscal year 2016.

At June 30, 2016 and 2015, the following 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 (\$ in thousands).

	Pledged Revenue	
	June 30, 2016	June 30, 2015
Auxiliaries	\$ 12,440	\$ 10,846
Service centers	22,252	27,509
Encumbrances	9,378	9,046
Undesignated	39,162	33,708
<b>Total</b>	<b>\$ 83,232</b>	<b>\$ 81,109</b>

**8. Long-term Debt**

Debt service requirements at June 30, 2016 were as follows (\$ in thousands):

Years Ending June 30,	Principal	Interest	Total
2017	\$ 10,302	\$ 12,658	\$ 22,960
2018	10,526	12,325	22,851
2019	12,806	11,843	24,649
2020	13,266	11,281	24,547
2021	13,808	10,685	24,493
2022-2026	70,695	43,951	114,646
2027-2031	55,962	29,183	85,145
2032-2036	40,785	18,636	59,421
2037-2041	39,015	8,520	47,535
2042-2045	20,660	1,694	22,354
<b>Total</b>	<b>\$ 287,825</b>	<b>\$ 160,776</b>	<b>\$ 448,601</b>



NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

Long-term debt consisted of the following at June 30, 2016 and 2015 (\$ in thousands):

	2016	2015
<b>Revenue bonds payable:</b> 2.00% to 5.00% general revenue bonds due serially to 2045, secured by a pledge of unrestricted current fund revenue generated from tuition, fees, recovery of facilities and administrative costs, sales and services of educational departments, miscellaneous receipts and auxiliaries.	\$ 270,270	\$ 132,185
<b>Note payable:</b> 3.395% note payable to the Alaska Housing Finance Corporation (AHFC) to finance Anchorage campus housing, due semiannually through February 2029. The financed housing property are held as collateral of the note.	16,224	14,898
<b>Equipment financings:</b> 2.18% to 4.77% notes payable for the purchase of equipment and vehicles due in quarterly installments through June 2021, secured by title liens.	1,331	1,201
	\$ 287,825	\$ 148,284
Premium on bonds	24,754	10,510
Deferred amount on debt refunding	(1,147)	(1,255)
<b>Long-term debt</b>	<b>\$ 311,432</b>	<b>\$ 157,539</b>

In fiscal year 2016 and 2015, the state reimbursed the University \$1,219,300 and \$1,216,125 respectively, for debt service on certain projects originally financed in the 2002 Series K general revenue bonds. The reimbursement is included in state appropriations. Subject to annual appropriation, future annual state reimbursement for the projects are approximately \$1.22 million.

Under the terms of the 1992 General Revenue Bonds Trust Indenture, the University is required to maintain a reserve account with a trustee at an amount equal to one-half of the maximum annual general revenue bond debt service. The 2013 Series S bonds' supplemental indenture includes a springing amendment that eliminates the reserve fund. The reserve is eliminated once all bonds issued prior to 2013 Series S have been retired. The balance in the reserve account at June 30, 2016 and 2015 was \$11.8 and \$7.1 million, respectively. In addition, \$133 million and \$2.8 million of bond funds are held in trust for construction purposes at June 30, 2016 and 2015, respectively, resulting in total bond funds held in trust of \$144.8 million and \$9.9 million at June 30, 2016 and 2015, respectively.

In July 2015, the University issued General Revenue Bonds 2015 Series T with a par amount of \$65,350,000, original issue premium of \$9,296,101, and a 25 year term. Average annual debt service is \$4.9 million. In September 2015, the University entered into a loan agreement with the Alaska Municipal Bond Bank. The loan has an \$86,050,000 par amount, \$6,864,206 original issue premium, and a 30 year term. Average annual debt service is \$5.6 million. Both the bond and the loan provide funding for construction of the University of Alaska Fairbanks combined heat and power plant.

In June 2016, University partially defeased \$640,000 of General Revenue Bonds 2008 Series O maturing through October 1, 2027 and \$3.9 million of General Revenue Bonds 2012 Series R maturing through October 1, 2028 by contributing cash to an escrow account held by a trustee.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

For fiscal year 2016 and 2015, total interest expense is \$6.2 million and \$4.5 million. Total interest capitalized is \$5.4 million and \$0.4 million.

### 9. Capital Lease Obligation

In fiscal year 2013, the University entered into a long term lease agreement with Community Properties of Alaska, Inc. (CPA), an Alaska non-profit corporation, to lease a new student dining facility on the University of Alaska Fairbanks Campus. CPA completed construction of the student dining facility using proceeds from its Lease Revenue Bonds 2012 in fiscal year 2014. CPA is leasing the underlying land from the University. Security for the Lease Revenue Bonds 2012 is the University's lease payments to CPA, paid from dining and other university receipts. The University operates the facility. The University receives title to the facility when the bonds are fully paid off, which may be done at any time. The lease is recorded as a capital lease and the obligation is recorded at the present value of future minimum lease payments.

Future minimum lease payments under this capital lease and the present value of the minimum lease payments as of June 30, 2016 are as follows:

Years Ending June 30,	Future Payments (\$ in thousands)
2017	\$ 1,390
2018	1,389
2019	1,385
2020	1,384
2021	1,383
2022-2026	6,916
2027-2031	6,882
2032-2036	6,852
2037-2041	6,831
2042-2045	5,528
Total lease obligations	39,940
Less: amount representing interest costs	(14,380)
Present value of minimum lease obligations	\$ 25,560

### 10. Operating Leases

The University has various operating lease agreements for facilities. The expense for operating leases was \$4.1 million and \$4.8 million for the years ended June 30, 2016 and 2015, respectively.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

The future minimum lease payments are as follows:

Years Ending June 30,	Future Payments (\$ in thousands)
2017	\$ 2,612
2018	1,542
2019	995
2020	260
2021	154
2022-2026	772
2027-2031	520
2032-2036	520
2037-2041	416
<b>Total lease obligations</b>	<b>\$ 7,791</b>

**11. Long-term Liabilities**

Long-term liability activity was as follows (\$ in thousands):

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Balance due within one year
Capital lease obligation	\$ 26,077	\$ 872	\$ 1,389	\$ 25,560	\$ 535
Long-term debt	157,539	170,481	16,588	311,432	11,714
Net pension liability	188,877	50,648	-	239,525	-
Other noncurrent liabilities	59,511	3,216	4,119	58,608	-
<b>Total</b>	<b>\$ 432,004</b>	<b>\$ 225,217</b>	<b>\$ 22,096</b>	<b>\$ 635,125</b>	<b>\$ 12,249</b>

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Balance due within one year
Capital lease obligation	\$ 25,814	\$ 883	\$ 620	\$ 26,077	\$ 517
Long-term debt	165,924	2,500	10,885	157,539	11,185
Net pension liability	-	188,877	-	188,877	-
Other noncurrent liabilities	4,442	55,460	391	59,511	-
<b>Total</b>	<b>\$ 196,180</b>	<b>\$ 247,720</b>	<b>\$ 11,896</b>	<b>\$ 432,004</b>	<b>\$ 11,702</b>

**12. Capital Appropriations and Construction Commitments**

Major construction projects of the University are funded primarily by State of Alaska appropriations and general obligation bonds, University general revenue bonds and federal grants. Unexpended and unbilled capital funds appropriated by the State of Alaska in prior years, which are not reflected as appropriation revenue or receivables

## NOTES TO FINANCIAL STATEMENTS

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on the University's books at June 30, 2016 and 2015, totaled \$33.3 million and \$90.2 million, respectively. In addition, unexpended proceeds of University issued general revenue bonds designated for construction projects totaled \$127.0 million and \$1.5 million at June 30, 2016 and 2015, respectively.

Construction commitments at June 30, 2016 aggregated \$139.4 million. At June 30, 2016, the University had received \$63.1 million from State of Alaska capital appropriations and other sources in advance of expenditures. The advances are included in unearned revenue and deposits.

In the fiscal year 2016, the University capitalized \$57.2 million, included in construction in progress, on building a new combined heat and power plant on University of Alaska Fairbanks Campus. The project is estimated to cost \$248 million and expected to be completed in the winter of 2018. As of June 30, 2016, the University has encumbered \$117.6 million on this project.

### **13. Pension Plans**

Participation in one of the various pension plans generally depends on when an employee was originally hired. Substantially all regular employees hired before July 1, 2006 participate in one of the following pension plans:

- The State of Alaska Public Employees' Retirement System – Defined Benefit (PERS-DB), a cost-sharing, multiple-employer public employee retirement plan,
- The State of Alaska Teachers' Retirement System – Defined Benefit (TRS-DB), a cost-sharing, multiple-employer public employee retirement plan,
- The University of Alaska Optional Retirement Plan (ORP) Tier 1 or Tier 2, a single-employer defined contribution plan.

In addition, substantially all eligible employees participate in the University of Alaska Pension Plan, a supplemental single-employer defined contribution plan. Employees hired on or after July 1, 2006 have a choice to participate in the University of Alaska Retirement Program or the applicable state defined contribution plan. The University of Alaska Retirement Program consists of ORP (Tier 3) and the University of Alaska Pension Plan. However, staff hired July 1, 2015 and later are not eligible for the ORP. The State's defined contribution plans are the Public Employees' Retirement System – Defined Contribution (PERS-DC) or the Teachers' Retirement System-Defined Contribution (TRS-DC).

The University provides elective deferral options for employee contributions to deferred annuity plans in accordance with Internal Revenue Code sections 403(b) and 457(b), subject to eligibility criteria.

Each of the plans noted above are described in more detail in the sections that follow. None of the retirement systems or plans own any notes, bonds or other instruments of the University.

#### State of Alaska Public Employees' Retirement System - Defined Benefit (PERS-DB)

##### *Plan Description*

PERS-DB is a defined benefit, cost-sharing, multiple-employer public employee retirement plan established and administered by the State of Alaska. The plan was originally established as an agent multiple-employer plan, but was converted by legislation to a cost-sharing plan, effective July 1, 2008. This change provided for an

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integrated system of accounting for all employers. Under the integrated system, the PERS-DB plans' unfunded liability will be shared among all employers with each contributing 22 percent of their covered payroll.

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. Effective July 1, 2006, the state legislature closed PERS-DB to new members and created a Public Employees' Retirement System Defined Contribution Retirement Plan (PERS-DC), disclosed later in this note.

The PERS-DB Plan is a plan within the Public Employees' Retirement System (PERS). PERS includes the PERS-DB and Alaska Retiree Healthcare Trust (ARHCT). Senate Bill 123 was passed during the 2007 legislative session and created the ARHCT. ARHCT is self-funded and provides major medical coverage to retirees of PERS. PERS retains the risk of loss of allowable claims for eligible members. ARHCT began paying member healthcare claims on March 1, 2008. Prior to that time, healthcare claims were paid for by the Retiree Health Fund (RHF).

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 6.75 percent (7.5 percent for peace officers and firefighters). The funding policy for PERS-DB provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate the assets to pay benefits when due. The 2016 and 2015 actuarially determined rates were 27.19 percent and 44.03 percent of applicable gross pay, respectively. However, the employer contribution rate for the University was capped by the state at 22 percent for fiscal years 2016 and 2015.

The state appropriated funding directly to the PERS-DB plan as a relief payment to employers' contributions for fiscal year 2016. The University recognized \$6,266,968, \$48,895,116 and \$16,444,951 for fiscal years 2016, 2015 and 2014, respectively, in state on-behalf pension and other post-employment healthcare payments for the PERS-DB plan.

The University's Schedule of Required Contributions follows (\$ in thousands):

Years Ended June 30,	PERS-DB Annual Required Contributions			Pension percentage contributed	Postemployment healthcare percentage contributed
	Pension	Postemployment healthcare	Total		
2016	\$ 13,699	\$ 10,335	\$ 24,034	100%	100%
2015	\$ 14,483	\$ 10,926	\$ 25,409	100%	100%
2014	\$ 12,375	\$ 13,213	\$ 25,588	100%	100%

Alaska Statutes require the University contribute to PERS-DB and DC plans a minimum each year of 22 percent of the University's fiscal year 2008 PERS covered payroll. The annual required contributions table above

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includes the additional University contributions of \$4,159,098, \$3,841,271 and \$2,270,876 for fiscal years 2016, 2015 and 2014, respectively, which were required to adhere to the minimum contribution levels per the statutes.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2016, the University reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the University. The amount recognized by the University as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the University were as follows (\$ in thousands):

	June 30, 2016	June 30, 2015
University's proportionate share of the net pension liability - PERS	\$ 201,845	\$ 159,853
State's proportionate share of the net pension liability associated with the University (unaudited)	54,062	113,146
<b>Total</b>	<b>\$ 255,907</b>	<b>\$ 272,999</b>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. The University's proportion of the net pension liability was based on a projection of the University's share of present value of future contributions to the pension plan relative to the projected present value of future contributions of all participating employers and the State, actuarially determined. At June 30, 2016, the University's portion was 4.1617 percent, which was an increase of 0.73 percent from the University's portion measured as of June 30, 2015.

For the year ended June 30, 2016, the University recognized pension expense and revenue of \$4.4 million for support provided by the State. At June 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to PERS-DB from the following sources (\$ in thousands):

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	June 30, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual investment earnings	\$ 235	\$ 3,573
Changes in assumptions	11,802	
Changes in proportion and difference between employer contributions and proportionate share of contributions	695	232
Contributions subsequent to the measurement date	13,699	-
<b>Total</b>	<b>\$ 26,431</b>	<b>\$ 3,805</b>

The contributions of \$13.7 million reported as deferred outflows of resources related to pensions resulting from the University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to PERS-DB will be recognized in pension expense as follows (\$ in thousands):

<u>Years Ending June 30,</u>	
2017	\$ 9,047
2018	\$ (1,138)
2019	\$ (2,295)
2020	\$ 3,312

*Actuarial Assumptions.* The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of June 30, 2014, which was rolled forward to June 30, 2015. The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of June 30, 2014. This actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation rate	3.12% per year
Salary increases	Graded by service, from 9.66% to 4.92% for Peace Officer/Firefighter Graded by age and service, from 8.55% to 4.34% for All Others
Investment rate of return	8%, net of pension plan investment expenses. This is based on average inflation rate of 3.12% and a real rate of return of 4.88%

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Mortality rates (pre-termination) were based on the 2010 to 2013 actual mortality experience, 60 percent of male rates and 65 percent of female rates of post-termination mortality rates. Deaths are assumed to be occupational 70 percent of the time for Peace officer/Firefighters, 50 percent of the time for others. Mortality (post termination) are based upon 96 percent of all rates of the RP-2000 table, 2000 Base Year projected to 2018 with Projection Scale BB.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study for the period from July 1, 2009 to June 30, 2013, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect expected future experience.

*Long –term expected rate of return.* The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by an asset allocation percentage, which is based on the nature and mix of current and expected plan investments, and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan’s current and expected asset allocation is summarized in the following table (note that the rates shown below exclude the inflation component):

Asset Class	Long-term Expected Real Rate of Return
Domestic equity	5.35%
Global equity (non-U.S.)	5.55%
Private equity	6.25%
Fixed income composite	0.80%
Real estate	3.65%
Alternative equity	4.70%

*Discount Rate.* The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that employer and non-employer contributions will continue to follow the current funding policy, which meets State Statutes. Based on those assumptions, the Plans fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the University’s proportionate share of the net pension liability to changes in the discount rate.* The following presents the University’s proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the University’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate (\$ in thousands):



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	1% Decrease 7%	Discount Rate 8%	1% Increase 9%
University's proportionate share of the net pension liability	\$ 268,336	\$ 201,845	\$ 145,867

*Pension Plan Fiduciary Net Position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS-DB financial report.

According to GASB Statement No. 68, the University is reporting under a special funding situation. The special funding situation indicates that the State of Alaska is legally responsible for making contributions directly to the PERS-DB plan for the University as further described in Alaska Statute 39.35.280. If the law did not exist or was eliminated, the University may no longer record as a special funding situation. For example, in a non-special funding situation, the University would be required to recognize an additional net pension liability of \$54.1 million (unaudited) as of June 30, 2016

State of Alaska Teachers' Retirement System - Defined Benefit (TRS-DB)

*Plan Description*

TRS-DB is a defined benefit, cost-sharing, multiple employer public employee retirement plan established and administered by the State of Alaska. TRS-DB 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. Effective July 1, 2006, the state legislature closed TRS-DB to new members and created a Teachers' Retirement System Defined Contribution Retirement Plan (TRS-DC), disclosed later in this note.

Each fiscal year, TRS-DB 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*

Employees contribute 8.65 percent of their base salary as required by state statute. The funding policy for TRS-DB provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate the assets to pay benefits when due. During fiscal year 2016, contractually required employee and employer contribution rates were 8.65 percent and 12.56 percent, respectively.

The actuarially determined employer contribution rate for 2016 and 2015 was 27.19 percent and 70.75 percent, respectively. The state appropriated funding directly to the TRS-DB plan to augment employer contributions for 2016. For fiscal years 2016, 2015 and 2014, the University recognized \$5,859,152, \$96,000,927 and \$16,427,624 respectively, in state on-behalf pension and other post-employment healthcare payments for the TRS-DB plan.

The University's Schedule of Required Contributions follows (\$ in thousands):

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Years Ended June 30,	TRS-DB Annual Required Contributions			Pension percentage contributed	Postemployment healthcare percentage contributed
	Pension	Postemployment healthcare	Total		
2016	\$ 2,010	\$ 1,487	\$ 3,497	100%	100%
2015	\$ 2,280	\$ 1,686	\$ 3,966	100%	100%
2014	\$ 2,297	\$ 2,035	\$ 4,332	100%	100%

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2016, the University reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the University. The amount recognized by the University as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the University were as follows (\$ in thousands):

	June 30, 2016	June 30, 2015
University's proportionate share of the net pension liability - TRS	\$ 37,680	\$ 29,024
State's proportionate share of the net pension liability associated with the University (unaudited)	60,230	131,789
<b>Total</b>	<b>\$ 97,910</b>	<b>\$ 160,813</b>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers and the State, actuarially determined. At June 30, 2015 the University's portion was 2.0253 percent which was an increase of 1.058 percent from the University's portion measured as of June 30, 2014.

For the year ended June 30, 2016, the University recognized pension expense and revenue of \$4.1 million for support provided by the State. At June 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to TRS-DB from the following sources (\$ in thousands):

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	June 30, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 60
Difference between projected and actual investment earnings	-	554
Change in assumptions	1,665	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	1,283	227
Contributions subsequent to the measurement date	2,010	-
<b>Total</b>	<b>\$ 4,958</b>	<b>\$ 841</b>

The contributions of \$2 million reported as deferred outflows of resources related to pensions resulting from the University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to TRS-DB will be recognized in pension expense as follows (\$ in thousands):

Years Ending June 30,	
2017	\$ 1,921
2018	\$ (215)
2019	\$ (477)
2020	\$ 878

*Actuarial Assumptions.* The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of June 30, 2014, which was rolled forward to June 30, 2015. The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of June 30, 2014. This actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation rate	3.12% per year
Salary increases	Graded by service, from 8.11% to 3.87%
Investment rate of return	8.00%, net of pension plan investment expenses.
	This is based on average inflation rate of 3.12% and a real rate of return of 4.88%

Mortality rate (Pre-termination) was based on the 2010-2013 actual experience, 68 percent of male rates and 60 percent of female rates of post-termination mortality. Deaths are assumed to result from ono-occupational causes 85 percent of the time. Mortality rate (Post-termination) was based on the 2010-2013 actual experience, 94

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percent of male and 97 percent of female rates of RP-2000 Mortality Table, 2000 Base Year projected to 2018 with Projection Scale BB, with a 3-year setback for males and a 4-year setback for females.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study for the period from July 1, 2009 to June 30, 2013, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect expected future experience.

*Long-term expected rate of return.* The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by an asset allocation percentage, which is based on the nature and mix of current and expected plan investments, and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's current and expected asset allocation is summarized in the following table (note that the rates shown below exclude the inflation component):

Asset Class	Long-term Expected Real Rate of Return
Domestic equity	5.35%
Global equity (non-U.S.)	5.55%
Private equity	6.25%
Fixed income composite	0.80%
Real estate	3.65%
Alternative equity	4.70%

*Discount Rate.* The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that the employer and the nonemployer contributions will continue to follow the current funding policy, which meets State Statutes. Based on those assumptions, the Plans fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate.* The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate (\$ in thousands):

	1% Decrease 7%	Discount Rate 8%	1% Increase 9%
University's proportionate share of the net pension liability	\$ 54,383	\$ 37,680	\$ 23,683

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*Pension Plan Fiduciary Net Position.* Detailed information about the pension plan’s fiduciary net position is available in the separately issued PERS-DB financial report.

According to GASB Statement No. 68, the University is reporting under a special funding situation. The special funding situation indicates that the State of Alaska is legally responsible for making contributions directly to the TRS-DB plan for the University as further described in Alaska Statute 14.25.085. If the law did not exist or was eliminated, the University may no longer record as a special funding situation. For example, in a non-special funding situation, the University would be required to recognize additional net pension liability of \$60 million (unaudited) as of June 30, 2016.

State of Alaska Public Employees’ Retirement System - Defined Contribution (PERS-DC)

*Plan Description*

PERS-DC is a defined contribution, cost-sharing, multiple-employer public employee retirement plan established and administered by the State of Alaska to provide pension and postemployment healthcare benefits for eligible employees. Benefit and contribution provisions are established by state law and may be amended only by the state legislature. PERS-DC was created by the state effective July 1, 2006. Plan savings are accumulated in individual retirement accounts for the exclusive benefit of each member or beneficiary.

*Funding Policy and Annual Pension Cost*

The employee contribution rate is 8 percent and the employer effective contribution rate is 22 percent of covered payroll. For the years ended June 30, 2016 and 2015, the University’s total covered payroll for the PERS-DC plan was approximately \$19.2 million and \$12.4 million. Contributions made by the University follows (\$ in thousands):

Years Ended June 30,	PERS-DC University Contributions		
	Pension	Postemployment Healthcare	Total Contributions
2016	\$ 2,178	\$ 2,046	\$ 4,224
2015	\$ 1,411	\$ 1,325	\$ 2,736

On July 1, 2006, three pension trust sub-funds were created within PERS, the Retiree Major Medical Insurance (RMP), Health Reimbursement Arrangement (HRA), and Occupation Death and Disability (OD&D). RMP allows eligible members who retire directly from the plan to obtain medical benefits. The HRA allows medical care expenses to be reimbursed from individual savings accounts established for eligible persons. OD&D provides employees with benefits as a result of death or disability on the job. PERS-DC participants are eligible members of RMP and HRA and their postemployment healthcare benefits are paid out of these funds. The employer RMP contribution rates for fiscal years 2016 and 2015 are 1.68 and 1.66 percent, respectively, for medical coverage and 0.22 and 0.22 percent, respectively, (1.05 and 1.06 percent, respectively, for peace officers and firefighters) for occupational death and disability benefit contributions. For fiscal years 2016 and 2015, the HRA employer contributions are \$167.04 and \$163.38 per month, respectively, for full time employees and \$1.28 and \$1.26 per hour for part time employees, respectively.

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Each fiscal year, PERS-DC 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.

State of Alaska Teachers' Retirement System -Defined Contribution (TRS-DC)

*Plan Description*

TRS-DC is a defined contribution, cost-sharing, multiple-employer public employee retirement plan established and administered by the State of Alaska to provide pension and postemployment healthcare benefits for teachers and other eligible employees. Benefit and contribution provisions are established by state law and may be amended only by the state legislature. TRS-DC was created by the state effective July 1, 2006. Plan savings are accumulated in individual retirement accounts for the exclusive benefit of members or beneficiaries.

*Funding Policy and Annual Pension Cost*

The employee contribution rate is 8 percent and the effective employer contribution rate is 12.56 percent of covered payroll. For the years ended June 30, 2016 and 2015, the University's total covered payroll for the TRS-DC plan was approximately \$7.1 million and \$6.3 million, respectively. Contributions made by the University follows (\$ in thousands):

Years Ended June 30,	TRS-DC University Contributions		
	Pension	Postemployment Healthcare	Total Contributions
2016	\$ 536	\$ 352	\$ 888
2015	\$ 478	\$ 313	\$ 791

On July 1, 2006, two pension trust sub-funds were created in TRS, the Retiree Major Medical Insurance (RMP) and Health Reimbursement Arrangement (HRA). The TRS Occupational Death and Disability (OD&D) trust sub-fund was created on July 1, 2007. RMP allows eligible members who retire directly from the plan to obtain medical benefits. The HRA allows medical care expenses to be reimbursed from individual savings accounts established for eligible persons. OD&D provides employees with benefits as a result of death or disability on the job. TRS-DC participants are eligible members of RMP and HRA and their postemployment healthcare benefits are paid out of these funds. For both fiscal years 2016 and 2015, the employer RMP contribution rate was 2.04 percent for medical coverage and zero percent for occupational death and disability benefit contributions. For fiscal years 2016 and 2015, the HRA employer contributions are \$167.04 and \$163.38 per month, respectively, for full time employees. For part-time employees, the HRA rate is based on the contract percentage worked multiplied by the published HRA employer contributions per month for full time employees, \$167.04 and \$163.38, for fiscal years 2016 and 2015, respectively.

Each fiscal year, TRS-DC 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.

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University of Alaska Optional Retirement Plan - Defined Contribution (ORP)

*Plan Description*

The ORP is an employer funded defined contribution plan which operates in conjunction with a companion mandatory tax-deferred annuity plan. The ORP is comprised of three layers of participants: the original ORP or ORP Tier 1 which was created for participants hired prior to July 1, 2005, ORP Tier 2 which was created for participants hired between July 1, 2005 and June 30, 2006, and ORP Tier 3 which was created for participants hired on or after July 1, 2006. For ORP Tier 1 and ORP Tier 2, faculty classified as regular and certain administrators made a one-time election to participate in the ORP as an alternative to participation in the defined benefit plans, PERS-DB or TRS-DB. The ORP Tier 2 plan was available for new ORP benefit-eligible employees hired in fiscal year 2006. As of July 1, 2006, the ORP Tier 2 plan was no longer available to newly-hired ORP benefit-eligible employees. For ORP Tier 3, each new eligible employee was able to make a one-time election to participate in the University of Alaska Retirement Program (includes ORP Tier 3 and the University of Alaska Pension Plan) as an alternative to participation in the State of Alaska defined contribution plans, PERS-DC or TRS-DC. Beginning July 1, 2015 the ORP was closed to new hired regular staff.

*Funding Policy and Annual Pension Cost*

University contributions are remitted to the plan's authorized employee-selected annuity providers or investment managers. The contribution rates and amounts for fiscal years 2016 and 2015 were as follows (\$ in thousands):

	<u>ORP Tier 1</u>		<u>ORP Tier 2</u>		<u>ORP Tier 3</u>	
	2016	2015	2016	2015	2016	2015
Employee Contribution Rates	8.65%	8.65%	8.65%	8.65%	8.00%	8.00%
University Contribution Rates	14.00%	14.00%	12.00%	12.00%	12.00%	12.00%
Covered Payroll	\$41,371	\$47,328	\$2,855	\$3,329	\$125,740	\$ 122,989
University Contributions	\$ 5,792	\$ 6,626	\$ 343	\$ 399	\$ 15,089	\$ 14,759

*Plan Assets*

At June 30, 2016 and 2015, plan assets (participants' accounts attributable to employer contributions) for ORP Tier 1, Tier 2 and Tier 3 had a net value of \$268.5 million and \$262.2 million, respectively. ORP Tier 1 and ORP Tier 2 participants are 100 percent vested at all times. University contributions for ORP Tier 3 participants are 100 percent vested after three years of service.

University of Alaska Pension Plan (Pension)

*Plan Description*

In addition to the other retirement plans, substantially all regular employees (hired before July 1, 2006) and certain faculty classified as temporary, participate in the Pension plan which was established January 1, 1982, when the University withdrew from the federal social security program. Eligible employees, hired on or after

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July 1, 2006, who elected to participate in the University of Alaska Retirement Program also participate in the Pension plan. Beginning July 1, 2015 the ORP was closed to new hired regular staff.

### *Funding Policy and Annual Pension Cost*

Effective January 1, 2016 and 2015, employer contributions for regular employees were 7.65 percent of covered wages up to \$42,000. For certain faculty classified as temporary, the employer contributions were 7.65 percent of covered wages up to \$118,500 in 2016 and 2015, respectively. The plan provides for employer contributions to be invested in accordance with participant-directed investment elections. Participants hired before July 1, 2006 are 100 percent vested at all times. University contributions for participants hired on or after July 1, 2006 are 100 percent vested after three years of service. Regular staff hired on or after July 1, 2015 are also 100 percent vested after three years of service of the employer contributions of the pension plan.

### *Plan Asset*

In fiscal years 2016 and 2015, the University's total covered payroll for the Pension plan was \$164.5 million and \$170.6 million, respectively. The University's gross costs to fund and administer the plan totaled \$12.6 million and \$13.0 million for the years ended June 30, 2016 and 2015, respectively. At June 30, 2016 and 2015, plan assets (participants' accounts) had a net value of \$379.4 million and \$391.7 million, respectively.

## **14. Insurance and Risk Management**

The University is exposed to a wide variety of risks including property loss, bodily and personal injury, intellectual property, errors and omissions, aviation and marine. Exposures are handled with a combination of self-insurance, commercial insurance, and membership in a reciprocal risk retention group.

The University is self-insured up to the maximum of \$2.0 million per occurrence for casualty claims and \$250,000 for property claims. Commercial carriers provide coverage in excess of these amounts. Health care, workers' compensation and unemployment claims are fully self-insured. Liabilities have been established using actuarial analysis 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.



NOTES TO FINANCIAL STATEMENTS

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Changes in applicable self-insured liability amounts follow (\$ in thousands):

	Balance July 1, 2015	Provision for Claims	Claims Payments	Balance June 30, 2016
Health	\$ 6,005	\$ 61,059	\$ (60,148)	\$ 6,916
General liability	3,171	(1)	(763)	2,407
Workers' compensation	4,520	1,998	(1,834)	4,684
Unemployment	69	1,275	(1,209)	135
	\$ 13,765	\$ 64,331	\$ (63,954)	\$ 14,142

	Balance July 1, 2014	Provision for Claims	Claims Payments	Balance June 30, 2015
Health	\$ 6,398	\$ 57,730	\$ (58,123)	\$ 6,005
General liability	2,938	1,668	(1,435)	3,171
Workers' compensation	4,448	1,607	(1,535)	4,520
Unemployment	155	529	(615)	69
	\$ 13,939	\$ 61,534	\$ (61,708)	\$ 13,765

**15. Commitment 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 management, the University will not be affected materially by the final outcome of any of these proceedings, or insufficient information exists to make an opinion.

The University received a Potentially Responsible Party (PRP) letter from the Alaska Department of Environmental Conservation (ADEC) in August 2006. The letter identified the University as one of the potential parties that may be responsible for cleanup costs of soil contamination found during a water line improvement project next to Northwest Campus property. The extent of the contamination source, the number of potentially responsible parties, and remediation costs are being assessed but the outcome is unknown.

**16. University of Alaska Foundation**

The University of Alaska Foundation (Foundation) is a legally separate, nonprofit organization formed in 1974 to solicit donations for the exclusive benefit of the University of Alaska. During the fiscal years 2016 and 2015, the University transferred \$0.4 million and \$0.6 million for general support, respectively. For the same periods, the Foundation reimbursed the University for operating expenses totaling \$2.91 million and \$2.88 million, respectively.

For the years ended June 30, 2016 and 2015, distributions and expenditures by the Foundation for the benefit of the University totaled \$16.0 million and \$16.5 million, of which \$14.9 million and \$16.1 million were direct

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

reimbursements to the University, respectively. Additionally, the University had a receivable from the Foundation of \$2.1 million and \$2.8 million at June 30, 2016 and 2015, respectively, primarily for unreimbursed expenditures incurred on Foundation awards made to the University.

The investable resources of the University's Land Grant Endowment Trust Fund and the Foundation's pooled endowment funds are combined into a Consolidated Endowment Fund for investment purposes. At June 30, 2016 and 2015, the fair value of the fund was \$284.9 million and \$309.8 million, respectively. The University's share of this fund was \$127.8 million and \$140.6 million, respectively, which is reflected in endowment 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 and Inflation Proofing Funds' investment in the fund is reflected in the University's financial statements.

On June 17, 2013, the Foundation entered into a partnership agreement with Cambridge Associates Resources, LLC to form the University of Alaska Foundation Consolidated Endowment Fund, L.P. (the partnership) and assume management of the fund effective July 1, 2013. The partnership is a single investor fund with Cambridge Associates Resources, LLC serving as general partner, and the University of Alaska Foundation serving as the sole limited partner. This relationship does not affect the ownership of units in the Consolidated Endowment Fund by the University or the Foundation. Effective July 1, 2013, all assets of the fund were transferred to the partnership. The investment committee of the Foundation has retained authority for setting investment policy, guidelines and philosophy, and approving asset allocation targets and benchmarks. Under the restructuring plan for the fund, the general partner has been delegated discretionary authority by the investment committee for manager selection and termination, management of cash flows to and from investments of the partnership, due diligence on underlying managers and investments, and performance reporting.

As a result of the partnership formation, the Foundation changed its presentation of the Statement of Financial Position. In fiscal years 2013 and before, the University and the Foundation reported their respective shares of the Consolidated Endowment Fund in their financial statements. Beginning fiscal year 2014, the Foundation incorporated the total value of the Consolidated Endowment Fund into its Statement of Financial Position, and University's portion of the Consolidated Endowment Fund is presented as Assets Held for University of Alaska in the Statement of Financial Position.

The financial statements of Foundation may be obtained by writing to University of Alaska Foundation, P.O. Box 755080, Fairbanks, Alaska 99775 or by calling (907) 450-8030.

### **17. Subsequent Events**

In October 2016, the University issued General Revenue Bonds 2016 Series V-1, with a par amount of \$32,845,000, original issue premium of \$5,699,409, and a 28 year term. Average annual debt service is \$2.1 million. The bonds provide funding for the construction of the University of Alaska Fairbanks engineering facility.

In October 2016, the University issued General Revenue Refunding Bonds 2016 Series V-2 with a par amount of \$14,645,000, original issue premium of \$1,906,984, and a 17 year term. Average annual debt service is \$1.1 million. The bonds refund General Revenue Bonds 2005 Series N and 2008 Series O except for the October 1,

NOTES TO FINANCIAL STATEMENTS

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2017 maturity. The economic gain from the refunding is \$1.7 million in present value and total debt service payments are reduced by approximately \$2 million over the life of the bonds.

**18. Restatement of Net Position**

In fiscal year 2015, the University implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contribution Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. As a result of the implementation, the beginning net position as of July 1, 2014 was restated, resulting in a decrease of \$200 million to recognize the fiscal year 2014 net pension liability. This net pension liability represents the University’s proportionate share of the net pension liability of State of Alaska PERS-DB and TRS-DB plans. The pension plans’ net pension liability is measured as the plan’s total pension liability, net of the pension plan’s fiduciary net position.

It was not practical for the PERS-DB and TRS-DB plans to determine the amounts of all deferred inflows of resources and deferred outflows of resources related to pensions as of the beginning of the plan year. As a result, fiscal year 2014 was not restated for deferred inflows of resources, deferred outflows of resources, net pension liability and pension expense. Since the restatement of fiscal year 2014 presented was not practical, the cumulative effect of applying this Statement was reported as a restatement of beginning net position as of June 30, 2014 (\$ in thousands).

	As Previously Reported June 30, 2014	Restated June 30, 2014	Cumulative Effect of Change
Net Position	\$ 1,631,226	\$ 1,431,225	\$ (200,001)

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**19. Functional and Natural Expense Classifications**

The University's operating expenses by functional and natural classification for fiscal years 2016 and 2015 were as follows (\$ in thousands):

FY 2016	Compensation & Benefits	Contractual Services	Materials	Other	Student Aid	Depreciation	Total
Instruction	\$ 184,698	\$ 21,445	\$ 8,083	\$ 367	\$ -	\$ -	\$ 214,593
Academic support	51,359	5,803	7,301	40	-	-	64,503
Research	93,202	31,744	8,378	21	-	-	133,345
Public service	28,763	14,217	2,770	289	-	-	46,039
Student services	39,058	10,729	2,196	166	-	-	52,149
Operations and maintenance	30,969	24,642	11,736	4,073	-	-	71,420
Institutional support	77,596	14,469	3,081	3,506	-	-	98,652
Student aid	-	-	-	-	23,250	-	23,250
Auxiliary enterprises	11,266	23,271	7,177	584	-	-	42,298
Depreciation	-	-	-	-	-	86,473	86,473
State on-behalf payments	-	-	-	12,126	-	-	12,126
<b>Total</b>	<b>\$ 516,911</b>	<b>\$ 146,320</b>	<b>\$ 50,722</b>	<b>\$ 21,172</b>	<b>\$ 23,250</b>	<b>\$ 86,473</b>	<b>\$ 844,848</b>

FY2015	Compensation & Benefits	Contractual Services	Materials	Other	Student Aid	Depreciation	Total
Instruction	\$ 184,238	\$ 22,560	\$ 9,165	\$ 294	\$ -	\$ -	\$ 216,257
Academic support	50,362	6,101	7,471	86	-	-	64,020
Research	86,803	27,239	6,688	33	-	-	120,763
Public service	27,399	16,652	4,074	366	-	-	48,491
Student service	39,140	11,229	2,793	188	-	-	53,350
Operations and maintenance	30,622	20,605	13,476	2,496	-	-	67,199
Institutional support	73,613	16,283	3,103	2,495	-	-	95,494
Student aid	-	-	-	-	24,948	-	24,948
Auxiliary enterprises	10,019	22,754	8,337	664	-	-	41,774
Depreciation	-	-	-	-	-	83,313	83,313
State on-behalf payments	-	-	-	144,896	-	-	144,896
<b>Total</b>	<b>\$ 502,196</b>	<b>\$ 143,423</b>	<b>\$ 55,107</b>	<b>\$ 151,518</b>	<b>\$ 24,948</b>	<b>\$ 83,313</b>	<b>\$ 960,505</b>

**REQUIRED SUPPLEMENTAL INFORMATION**

**Schedule of the University's Proportionate Share of the Net Pension Liability  
PERS-DB Plan  
Last 10 Fiscal Years\*  
(\$ in thousands)**

	2016	2015
University's proportion of net pension liability	4.162%	3.427%
University's proportionate share of the net pension liability	\$ 201,845	\$ 159,853
State's proportionate share of the net pension liability associated with the University	\$ 54,062	113,146
<b>Total</b>	<b>\$ 255,907</b>	<b>\$ 272,999</b>
University's covered employee payroll	\$ 90,340	\$ 98,033
University's proportionate share of the net pension liability as of percentage of its covered payroll	223.4%	163.1%
Plan fiduciary net position as a percentage of the total pension liability	64.0%	62.4%

\* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the University will present information for those years for which information is available.

Data reported is measured as of July 1, 2015 and 2014.

**Schedule of the University's Proportionate Share of the Net Pension Liability**  
**TRS-DB Plan**  
**Last 10 Fiscal Years\***  
**(\$ in thousands)**

	2016	2015
University's proportion of net pension liability	2.025%	0.968%
University's proportionate share of the net pension liability	\$ 37,680	\$ 29,024
State's proportionate share of the net pension liability associated with the University	\$ 60,230	131,789
<b>Total</b>	<b>\$ 97,910</b>	<b>\$ 160,813</b>
University's covered employee payroll	\$ 27,848	\$ 31,575
University's proportionate share of the net pension liability as of percentage of its covered payroll	135.3%	91.9%
Plan fiduciary net position as a percentage of the total pension liability	73.8%	55.7%

\* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the University will present information for those years for which information is available.

Data reported is measured as of July 1, 2015 and 2014.

**Schedule of the University's Contribution  
PERS-DB Plan  
Last 10 Fiscal Years\*  
(\$ in thousands)**

	2016	2015
Statutorily required contribution	\$ 13,699	\$ 14,483
Contributions in relation to the statutorily required contribution	\$ 13,699	\$ 14,483
Contribution (deficiency) excess	\$ -	\$ -
University's covered employee payroll	\$ 90,340	\$ 98,033
Contribution as a percentage of covered-University payroll	15.2%	14.8%

\* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the University will present information for those years for which information is available.

Data reported is measured as of July 1, 2015 and 2014.



**Schedule of the University's Contribution  
 TRS-DB Plan  
 Last 10 Fiscal Years\*  
 (\$ in thousands)**

	2016	2015
Statutorily required contribution	\$ 2,011	\$ 2,280
Contributions in relation to the statutorily required contribution	\$ 2,011	\$ 2,280
Contribution (deficiency) excess	\$ -	\$ -
University's covered employee payroll	\$ 27,848	\$ 31,575
Contribution as a percentage of covered-University payroll	7.2%	7.2%

\* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the University will present information for those years for which information is available.

Data reported is measured as of July 1, 2015 and 2014.