



UNIVERSITY
of ALASKA

Many Traditions One Alaska

UNIVERSITY OF ALASKA

(A Component Unit of the State of Alaska)

Financial Statements

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

University of Alaska
(A Component Unit of the State of Alaska)
Financial Statements
June 30, 2017 and 2016

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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, 2017 (2017) and June 30, 2016 (2016), with selected comparative information for the year ended June 30, 2015 (2015). 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, 2017, 2016 and 2015 follows (\$ in thousands):

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets:			
Current Assets	\$ 183,287	\$ 175,818	\$ 217,877
Other noncurrent assets	436,084	490,420	360,087
Capital assets, net of depreciation	<u>1,692,527</u>	<u>1,617,876</u>	<u>1,544,665</u>
Total assets	<u>2,311,898</u>	<u>2,284,114</u>	<u>2,122,629</u>
Deferred Outflow of Resources	<u>54,483</u>	<u>32,536</u>	<u>18,018</u>
Liabilities:			
Current liabilities	118,240	136,857	168,472
Noncurrent liabilities	<u>702,442</u>	<u>624,023</u>	<u>421,557</u>
Total liabilities	<u>820,682</u>	<u>760,880</u>	<u>590,029</u>
Deferred Inflow of Resources	<u>3,275</u>	<u>4,646</u>	<u>23,046</u>
Net position:			
Net investment in capital assets	1,366,640	1,411,653	1,359,385
Restricted – expendable	82,997	46,244	59,352
Restricted – nonexpendable	133,526	132,201	131,790
Unrestricted	<u>(40,739)</u>	<u>(38,974)</u>	<u>(22,955)</u>
Total net position	<u>\$ 1,542,424</u>	<u>\$ 1,551,124</u>	<u>\$ 1,527,572</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 in the Notes to Financial Statements.

Overall, total net position of the University decreased \$8.7 million, or 1.0 percent. The unrestricted net position totaled negative \$40.7 million at June 30, 2017, representing a decrease of \$1.8 million over the prior year. As of June 30, 2017, \$158.3 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 \$481.3 million at June 30, 2017, as compared to \$530.5 million at June 30, 2016. 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 decrease relates to the use of general revenue bond proceeds for capital projects, such as the Fairbanks campus combined heat and power plant. 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 \$286.2 million, long-term debt of \$353.1 million and unearned revenue of \$54.6 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 \$338.1 million at June 30, 2016 to \$366.4 million at June 30, 2017. The increase was primarily a result of the issuance of 2016 General Revenue Bonds Series V-1 to provide funding for the construction of University of Alaska Fairbanks engineering facility. More information is available in the *Capital and Debt Activities* section that follows.

Fiscal Year 2016 Comparisons (Statement of Net Position)

Significant comments about changes between 2015 and 2016 that were noted in fiscal year 2016 *Management's Discussion and Analysis* are summarized below:

The Statement of Net Position reflected an overall increase in net position of 2 percent, or \$23.6 million.

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 a result of the issuance of 2016 General Revenue Bonds Series T, and a loan from Alaska Municipal Bond Bank to fund the construction of University of Alaska Fairbanks combined heat and power plant.

Unrestricted net position totaled negative \$39.0 million at June 30, 2016, representing a decrease of \$16.0 million over the prior year. At June 30, 2016, \$138.6 million was designated for specific purposes.

Statement of Revenues, Expenses and Changes in Net Position

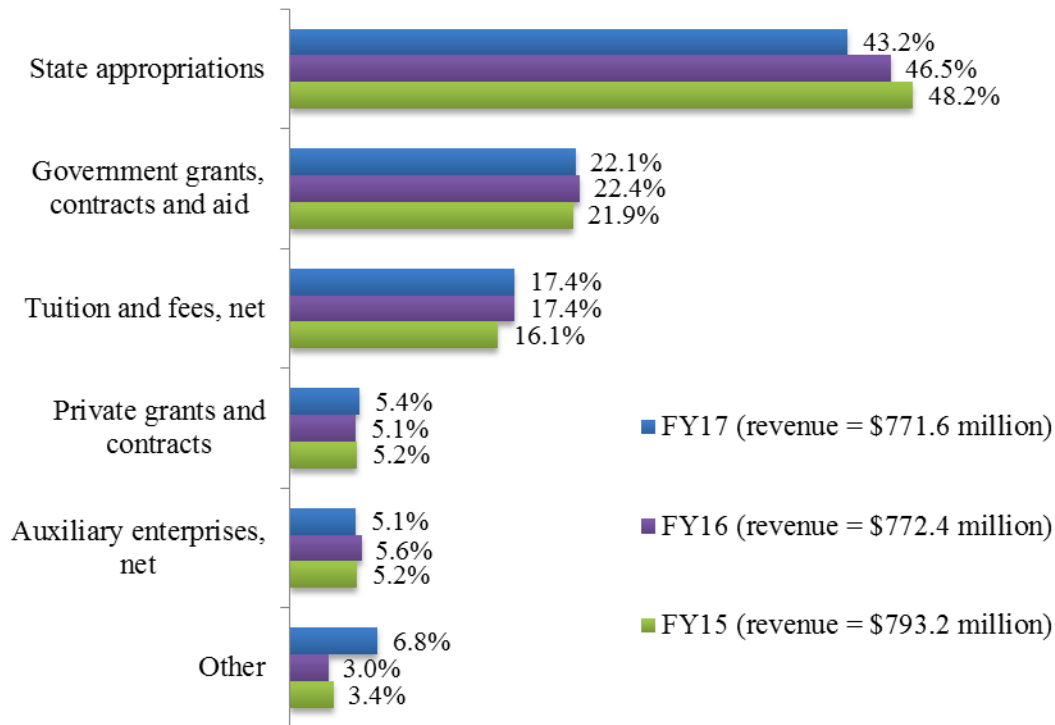
The Statement of Revenues, Expenses and Changes in Net Position presents the results of operations for the University as a whole. Revenues, expenses and other changes in net position are reported as either operating or non-operating. Significant recurring sources of University revenue, such as state 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, 2017, 2016 and 2015 follows (\$ in thousands):

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

	2017	2016	2015
Operating revenues	\$ 387,359	\$ 387,781	\$ 377,878
Operating expenses	(806,851)	(844,595)	(960,505)
Operating loss	(419,492)	(456,814)	(582,627)
Net nonoperating revenues	388,272	388,234	552,524
Gain (Loss) before other revenues, expenses, gains, or losses	(31,220)	(68,580)	(30,103)
Other revenues, expenses, gains or losses	22,520	92,132	126,450
Increase (decrease) in net position	(8,700)	23,552	96,347
Net position, beginning of year	1,551,124	1,527,572	1,631,226
Cumulative effect of change in accounting principle	-	-	(200,001)
Net position, beginning of year (restated)	1,551,124	1,527,572	1,431,225
Net position, end of year	<u>\$1,542,424</u>	<u>\$1,551,124</u>	<u>\$1,527,572</u>

Operating and Nonoperating Revenues* by Year



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

The fiscal year 2017 Statement of Revenues, Expenses and Changes in Net Position reflects a decrease in net position of 1.0 percent, or \$8.7 million. Major changes in revenues and expenses in 2017 are described below.

State of Alaska general fund appropriations continue to be the single major source of revenue for the University, providing \$333.9 million in 2017, as compared to \$359.3 million in 2016. The appropriations are substantially aimed to fund a portion of operations, and in some cases are

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

targeted for special programs or initiatives. In addition, the state made on-behalf pension and post-employment health care benefit payments of \$10.9 million and \$15.3 million directly to the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) defined benefit plans on behalf of the University for fiscal years 2017 and 2016, 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.

Gross student tuition and fee revenue totaled \$154.0 million in 2017 as compared to \$152.3 million in 2016. The increase was primarily due to the tuition rate increasing by 5 percent during fiscal year 2017 and a decrease in enrollment.

Operating grant and contract revenue totaled \$191.7 million for 2017, as compared to \$190.4 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 \$92.1 million in 2016 to \$22.5 million in 2017. The large decrease reflects the relatively small level of capital appropriations in recent years. 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 income of \$21.7 million in 2017, as compared to a \$3.9 million loss in 2016. Total return in 2017 from the consolidated endowment fund was 14.3 percent as compared to negative 5.1 percent in 2016. 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 17 of the financial statements for more information).

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

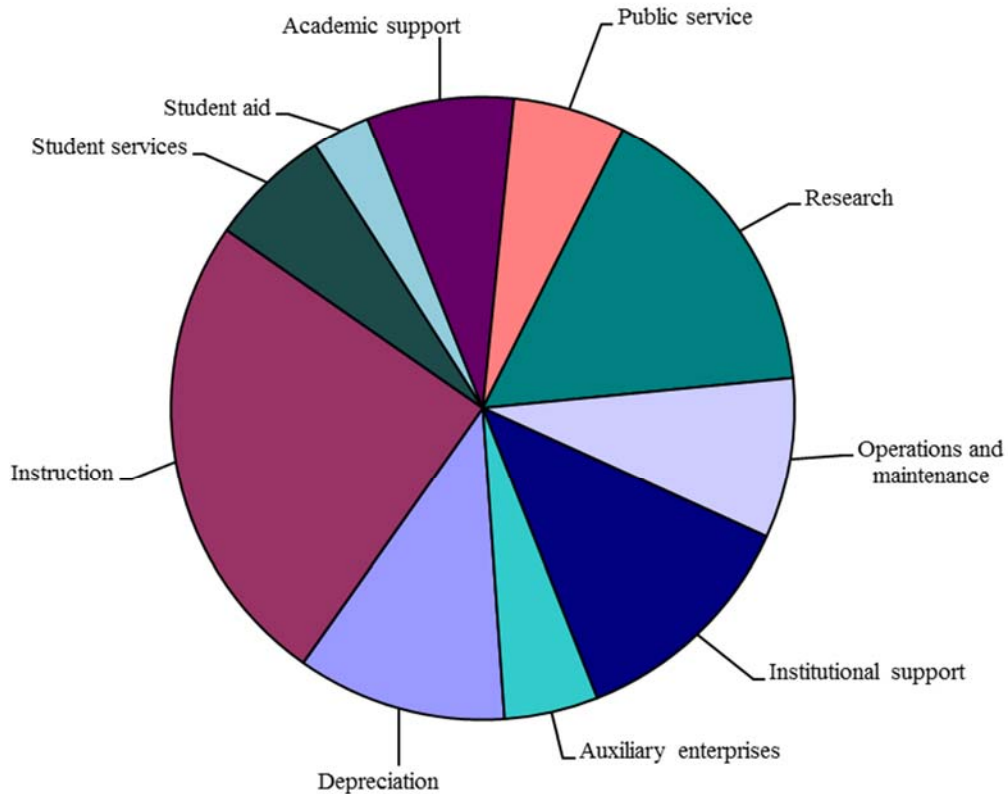
Operating Expenses*

Functional Classification (\$ in millions)

	FY2017		FY2016		FY2015	
Instruction	\$ 198.1	24.9%	\$ 214.6	25.9%	\$ 216.3	26.5%
Student Services	50.3	6.3%	52.1	6.3%	53.4	6.5%
Student aid	23.8	3.0%	23.3	2.8%	24.9	3.1%
Academic Support	60.7	7.7%	64.5	7.8%	64.0	7.8%
Student and Academic	332.9	41.9%	354.5	42.8%	358.6	43.9%
Research	127.7	16.0%	133.3	16.1%	120.8	14.8%
Public Service	46.3	5.8%	46.0	5.5%	48.5	5.9%
Auxiliary Enterprises	38.7	4.9%	42.3	5.1%	41.7	5.1%
Institutional Support	97.3	12.2%	98.7	11.9%	95.5	11.7%
Operations and Maintenance	66.4	8.3%	68.0	8.2%	67.2	8.4%
Depreciation	86.6	10.9%	86.5	10.4%	83.3	10.2%
Total Operating Expenses	\$ 795.9	100.0%	\$ 829.3	100.0%	\$ 815.6	100.0%

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

**Fiscal Year 2017
Functional Classification**



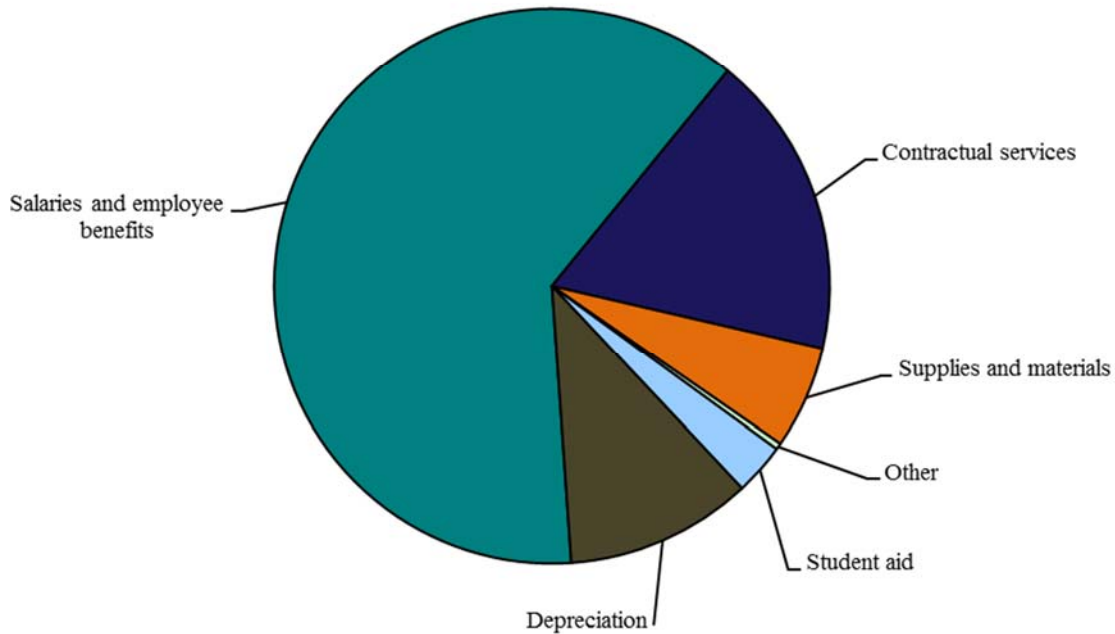
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

Operating Expenses*

	Natural Classification (\$ in millions)					
	FY2017		FY2016		FY2015	
Compensation and benefits	\$ 493.6	62.0%	\$ 516.9	62.3%	\$ 502.2	61.4%
Contractual services	141.0	17.7%	149.3	18.0%	143.4	17.6%
Materials	47.9	6.0%	50.7	6.1%	55.1	6.9%
Student aid	23.8	3.0%	23.2	2.8%	24.9	3.1%
Depreciation	86.6	10.9%	86.5	10.5%	83.3	10.2%
Other	3.0	0.4%	2.7	0.3%	6.7	0.8%
Total Operating Expenses	\$ 795.9	100.0%	\$ 829.3	100.0%	\$ 815.6	100.0%

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

**Fiscal Year 2017
Natural Classification**



Total operating expenses (excludes on-behalf payments to PERS and TRS made by State of Alaska) decreased from \$829.3 million in 2016 to \$795.9 million in 2017. Expenditures related to the student and academic core mission, about 41.9 percent of all expenditures, showed a \$21.6 million decrease in 2017. For the same period, expenditures for research decreased \$5.6 million. Amounts expended for institutional support decreased \$1.4 million while expenditures for operations and maintenance of facilities decreased \$1.6 million as compared to 2016. The significant decline in operating expenses is a direct result of a \$25.4 million, or 7 percent decline in state operating appropriations. The majority of the decrease is due to the compensation and benefits decreasing

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

\$74 million from \$516.9 million in fiscal year 2016 to \$493.6 million in fiscal year 2017 through elimination of positions.

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 \$19.3 million in 2017 and \$17.9 million in 2016. 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 \$69.4 million and \$72.7 million in 2017 and 2016, respectively.

Fiscal Year 2016 Comparisons (Statement of Revenues, Expenses and Changes in Net Position)

Significant comments about changes between 2015 and 2016 that were noted in fiscal year 2016 *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 1.5 percent, or \$23.6 million.

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 a maximum of \$6 per credit for the full year of 2016. In addition, the tuition rate also increased by 5 percent during fiscal year 2016.

State of Alaska general fund appropriations continued 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.

Total operating expenses increased 1.7 percent in 2016 as compared to 14 percent in 2015. Expenditures related to the student and academic core mission, about 42.8 percent of all expenditures, showed a \$4.1 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 \$0.8 million as compared to 2015.

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 \$159.0 million in 2017, as compared with \$144.1 million in 2016 and \$177.4 million in 2015. 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 2017 and 2016 were \$-0- and \$3 million, respectively. The 2016 appropriation is a \$3 million capital appropriation for deferred maintenance.

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

Construction in progress at June 30, 2017 totaled \$302.9 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.

The University is constructing 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. The expected completion date is December 2018. More information about the debt is in Note 8 of the *Notes to Financial Statements*.

Debt and Capital Leases

At June 30, 2017, total debt outstanding, including capital leases, totaled \$366.4 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 has assigned ratings of "A1" and a "stable outlook" to the rating of the University. This rating was issued August 2017. Standard Poors assigned "AA-" and a "negative outlook" in 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 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.

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.

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

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

For fiscal year 2018, the University received a \$5 million capital appropriation from the State of Alaska for deferred maintenance.

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 2018 State operating appropriation to the University decreased by \$8 million, or 2.5 percent, from Fiscal Year 2017. 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 positions through attrition, non-renewal and layoffs, 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, among others. These efforts will be implemented in fiscal year 2018. 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 2019 budget, which is expected to be presented to the Board of Regents at their meeting in November 2017. In constructing its budget, the University anticipates requesting an operating appropriation from the State in the amount of the Fiscal Year 2018 appropriation plus an increment for investments to meet State needs, fixed costs and critical needs.

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, 2017 and 2016, 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.

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, 2017 and 2016, 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 PERS-DB Plan and TRS-DB Plan, and the Schedules of the University's Contributions PERS-DB Plan and TRS-DB Plan, 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
October 13, 2017

UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Net Position
June 30, 2017 and 2016
(in thousands)

Assets	2017	2016
Current assets:		
Cash and cash equivalents	\$ 86,300	\$ 51,291
Short-term investments	23,327	54,109
Accounts receivable, net	68,256	61,844
Inventories	4,681	4,631
Other assets	723	3,943
Total current assets	183,287	175,818
Noncurrent assets:		
Restricted cash and cash equivalents	2,288	2,689
Notes receivable	1,789	2,687
Funds held for construction	115,119	195,599
Endowment investments	143,625	130,249
Land Grant Trust property and other endowment assets	62,621	62,662
Long-term investments	80,906	71,960
Education Trust of Alaska investments	29,736	24,574
Capital assets, net	1,692,527	1,617,876
Total noncurrent assets	2,128,611	2,108,296
Total assets	2,311,898	2,284,114
Deferred Outflows of Resources		
Deferred outflows related to pension	52,879	31,389
Deferred amount on debt refunding	1,604	1,147
Total deferred outflows of resources	54,483	32,536
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	23,837	34,712
Accrued payroll and annual leave	40,062	40,320
Unearned revenue and deposits	27,260	35,434
Long-term debt - current portion	12,735	11,714
Capital lease obligation - current portion	553	535
Insurance and risk management	13,793	14,142
Total current liabilities	118,240	136,857
Noncurrent liabilities:		
Unearned revenue	54,631	50,000
Long-term debt	328,648	300,865
Capital lease obligation	24,471	25,025
Net pension liability	286,227	239,525
Other noncurrent liabilities	8,465	8,608
Total noncurrent liabilities	702,442	624,023
Total liabilities	820,682	760,880
Deferred Inflows of Resources		
Deferred inflows related to pension	3,275	4,646
Net Position		
Net investment in capital assets	1,366,640	1,411,653
Restricted:		
Expendable	82,997	46,244
Nonexpendable	133,526	132,201
Unrestricted	(40,739)	(38,974)
Total net position	\$ 1,542,424	\$ 1,551,124

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, 2017 and 2016
(in thousands)

Assets	2017	2016
Cash and cash equivalents	\$ 32,023	\$ 32,825
Interest and dividends receivable	334	255
Contributions receivable, net	2,219	2,742
Other receivables	6,315	1,860
Other investments	25,999	24,810
Pooled endowment funds	318,592	283,492
Remainder trusts receivable	9,662	1,844
Other assets	474	767
Total assets	\$ 395,618	\$ 348,595
 Liabilities		
Due to University of Alaska	\$ 2,921	\$ 2,054
Other liabilities	4,638	580
Split interest obligations	322	298
Term endowment liability	1,000	1,000
Assets held in trust for University of Alaska	141,127	127,761
Total liabilities	150,008	131,693
 Net Assets		
Unrestricted	24,941	24,188
Temporarily restricted	103,224	89,026
Permanently restricted	117,445	103,688
Total net assets	245,610	216,902
Total liabilities and net assets	\$ 395,618	\$ 348,595

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, 2017 and 2016
(in thousands)

	2017	2016
Operating revenues		
Student tuition and fees	\$ 154,011	\$ 152,344
less scholarship allowances	<u>(19,255)</u>	<u>(17,937)</u>
	134,756	134,407
Federal grants and contracts	129,153	125,689
State and local grants and contracts	20,702	25,403
Private grants and contracts	41,796	39,305
Sales and services, educational departments	5,391	5,246
Auxiliary enterprises, net of scholarship allowances of \$2,609 in 2017 and \$2,599 in 2016	39,174	43,214
Other	<u>16,387</u>	<u>14,517</u>
Total operating revenues	<u>387,359</u>	<u>387,781</u>
Operating expenses		
Instruction	198,062	214,593
Academic support	60,720	64,503
Research	127,701	133,345
Public service	46,292	46,039
Student services	50,253	52,149
Operations and maintenance	66,397	68,029
Institutional support	97,290	98,652
Student aid	23,837	23,250
Auxiliary enterprises	38,716	42,298
Depreciation	86,639	86,473
State on-behalf payments - pension	<u>10,944</u>	<u>15,264</u>
Total operating expenses	<u>806,851</u>	<u>844,595</u>
Operating loss	<u>(419,492)</u>	<u>(456,814)</u>
Nonoperating revenues (expenses)		
State appropriations	333,895	359,284
State on-behalf contributions - pension	10,944	15,264
Investment earnings	7,971	7,159
Endowment proceeds and investment income	21,724	(3,943)
Federal student financial aid	20,631	22,102
Interest on debt	(5,588)	(6,227)
Other nonoperating expenses	<u>(1,305)</u>	<u>(5,405)</u>
Net nonoperating revenues	<u>388,272</u>	<u>388,234</u>
Income (loss) before other revenues	<u>(31,220)</u>	<u>(68,580)</u>
Capital appropriations, grants and contracts	<u>22,520</u>	<u>92,132</u>
Increase (decrease) in net position	<u>(8,700)</u>	<u>23,552</u>
Net Position		
Net position - beginning of year	1,551,124	1,527,572
Net position - end of year	<u>\$ 1,542,424</u>	<u>\$ 1,551,124</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, 2017 and 2016
(in thousands)

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains and other support				
Contributions	\$ 86	12,232	12,768	\$ 25,086
Investment income	481	542	-	1,023
Net realized and unrealized investment gains (losses)	2,413	19,686	-	22,099
Other revenues	-	225	-	225
Actuarial adjustment of remainder trust obligations	-	76	-	76
Gains (Losses) on disposition of other assets	(17)	48	-	31
Administrative assessments	2,257	(1,559)	(49)	649
Support from University of Alaska	765	-	-	765
Donor directed reclassifications	(1,044)	6	1,038	-
Net assets released from restriction	17,058	(17,058)	-	-
Total revenues, gains and other support	21,999	14,198	13,757	49,954
Expenses and distributions				
Operating expenses	3,288	-	-	3,288
Distributions for the benefit of University of Alaska	17,958	-	-	17,958
Total expenses and distributions	21,246	-	-	21,246
Excess (deficiency) of revenues over expenses	753	14,198	13,757	28,708
Net assets, beginning of year	24,188	89,026	103,688	216,902
Net assets, end of year	\$ 24,941	\$ 103,224	\$ 117,445	\$ 245,610

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

2016

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 132	11,246	1,704	\$ 13,082
392	520	-	912
(1,430)	(7,648)	-	(9,078)
-	362	-	362
-	(64)	26	(38)
(3)	(55)	(15)	(73)
2,378	(1,647)	(32)	699
400	-	-	400
(8)	239	(231)	-
15,251	(15,251)	-	-
17,112	(12,298)	1,452	6,266
2,949	-	-	2,949
15,926	-	-	15,926
18,875	-	-	18,875
(1,763)	(12,298)	1,452	(12,609)
25,951	101,324	102,236	229,511
\$ 24,188	\$ 89,026	\$ 103,688	\$ 216,902

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, 2017 and 2016
(in thousands)

	2017	2016
Cash flows from operating activities		
Student tuition and fees	\$ 150,826	\$ 153,881
less scholarship allowances	(19,255)	(17,938)
	131,571	135,943
Grants and contracts	188,435	193,369
Sales and services, educational departments	5,391	5,246
Sales and services, auxiliary enterprises	38,893	42,807
Other operating receipts	16,387	14,517
Payments to employees for salaries and benefits	(469,637)	(500,879)
Payments to suppliers	(195,046)	(198,950)
Payments to students for financial aid	(18,678)	(23,546)
Net cash used for operating activities	(302,684)	(331,493)
Cash flows from noncapital financing activities		
State appropriations	334,113	358,987
Other revenue	19,083	20,291
Direct lending receipts	69,385	72,675
Direct lending payments	(74,402)	(72,538)
Net cash provided by noncapital financing activities	348,179	379,415
Cash flows from capital and related financing activities		
Capital appropriations, grants and contracts	18,837	54,539
Proceeds from issuance of capital debt	57,096	170,870
Purchases of capital assets	(159,415)	(152,989)
Principal paid on capital debt	(27,666)	(16,558)
Interest paid on capital debt	(15,503)	(11,580)
Net cash used for capital and related financing activities	(126,651)	44,282
Cash flows from investing activities		
Proceeds from sales and maturities of investments	197,306	95,082
Purchases of investments	(92,976)	(186,615)
Interest received on investments	6,330	5,356
Interest and other sales receipts from endowment assets	5,104	3,364
Net cash provided by investing activities	115,764	(82,813)
Net increase in cash and cash equivalents	34,608	9,391
Cash and cash equivalents, beginning of the year	53,980	44,589
Cash and cash equivalents, end of the year	\$ 88,588	\$ 53,980
Cash and cash equivalents (current)	\$ 86,300	\$ 51,291
Restricted cash and cash equivalents (noncurrent)	2,288	2,689
Total cash and cash equivalents	\$ 88,588	\$ 53,980

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, 2017 and 2016
(in thousands)

Reconciliation of operating loss to net cash used for

operating activities:	2017	2016
Operating loss	\$ (419,492)	\$ (456,814)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation expense	86,639	86,473
State on-behalf payments - pension	10,944	15,264
Pension expense (credit)	23,842	17,621
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable, net	(2,951)	5,555
Other assets	3,220	212
Inventories	(50)	849
Accounts payable and accrued expenses	(4,489)	(1,839)
Accrued payroll	109	2,158
Unearned revenue, deposits from students and others	260	(1,036)
Accrued annual leave	(367)	(313)
Insurance and risk management	(349)	377
Net cash used for operating activities	\$ (302,684)	\$ (331,493)

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

For the Year Ended June 30, 2017

Decrease in accounts payable for capital assets is \$6.1 million.

For the Year Ended June 30, 2016

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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 years 2017 and 2016.

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, 2017 and 2016

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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 managers are evaluated by management and management believes such values are reasonable at June 30, 2017 and 2016. 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.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amount due from federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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.

Non-operating Revenues

Non-operating revenues and expenses include revenues and expenses from activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue and expense source that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state appropriations and investment income

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.

Compensated Absences

Employee vacation and compensatory time pay is accrued at year-end for financial statement purposes. Compensated absence costs are included in benefits expense in the statement of revenue, expenses, and changes in net position.

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)

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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 funds received 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. State capital appropriations are subject to five year lapse provisions per State Statute. The period may be extended.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affected the reported amounts of assets, liabilities, net position and disclosures regarding contingent assets and liabilities. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the June 30, 2016 financial statements have been reclassified for comparative purposes to conform to the presentation in the June 30, 2017 financial statements.

Recently Issued Accounting Standards

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 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 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities*. This Statement establishes standards of accounting and financial reporting for fiduciary activities and is effective for fiscal year beginning after December 15, 2018 (fiscal year 2020).

In June 2017, the GASB issued GASB Statement No. 87, *Leases*. This Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Statement is effective for reporting periods beginning after December 15, 2019 (fiscal year 2021).

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, 2017 and 2016

2. Deposits and Investments

Deposits and investments at June 30, 2017 were as follows (\$ in thousands):

Investment Type	Operating	Capital Funds	Endowment	Education Trust of Alaska	Total
Cash and Deposits	\$ 24,511	\$ 1	\$ -	\$ -	\$ 24,512
Money Market Mutual Funds	102,786	4,940	6,896	316	114,938
Equities:					
Domestic	-	-	7,144	-	7,144
Domestic Funds	-	-	20,251	10,758	31,009
Global	-	-	575	-	575
Global Funds	-	-	19,903	-	19,903
Exchange Traded Funds - Domestic	-	-	9,517	-	9,517
Emerging Markets Funds	-	-	6,112	-	6,112
Debt-related:					
Corporate	37,176	22,886	5,640	-	65,702
Mutual Fund	-	-	-	-	-
Federal Agency	6,708	7,665	-	-	14,373
U.S. Treasuries	20,637	79,627	4,108	1,519	105,891
U.S. Municipals	-	-	254	-	254
International Government	1,003	-	-	-	1,003
Fixed Income Funds	-	-	-	17,143	17,143
Asset Backed Securities	-	-	1,937	-	1,937
Mortgage Backed Securities	-	-	829	-	829
Alternative Investments:					
Private Equity Fund	-	-	18,469	-	18,469
Depository Receipts	-	-	145	-	145
Global Private Equity Fund	-	-	1,241	-	1,241
Hedge Funds	-	-	39,436	-	39,436
Other	-	-	1,168	-	1,168
	\$ 192,821	\$ 115,119	\$ 143,625	\$ 29,736	\$ 481,301

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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

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, 2017 and 2016, bond funds held by a trustee totaled \$64.1 million and

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

\$144.8 million, respectively, and consisted of funds held for construction purposes totaling \$51.6 million and \$133.1 million, respectively, and general revenue bond reserves totaling \$12.5 million and \$11.7 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 \$143.6 million and \$130.2 million in 2017 and 2016, respectively, primarily consisted of \$141.1 million and \$127.8 million in investable resources of the University's Land Grant Endowment Trust Fund at June 30, 2017 and 2016, 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, 2017 and 2016 had an estimated fair value of \$4.7 million and \$4.4 million, respectively.

At June 30, 2017, the University has \$216.6 million in investments that are not actively traded, compared to \$279.1 million at June 30, 2016. 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 actively traded, 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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.

At June 30, 2017, the University has the following recurring fair value measurements (\$ in thousands):

	June 30, 2017	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Money market mutual funds	\$ 108,941	\$ 108,941	\$ -	\$ -
Debt-related:				
U.S. Treasuries	101,783	101,783	-	-
Fixed income mutual funds	17,142	17,142	-	-
Corporate	60,063	-	60,063	-
Federal agency	14,373	-	14,373	-
International government	1,003	-	1,003	-
Total debt securities	303,305	227,866	75,439	-
Endowment Fund	62,026	-	62,026	-
Equity:				
Domestic mutual funds	10,758	10,758	-	-
Total investments by fair value	\$ 376,089	\$ 238,624	\$ 137,465	\$ -

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 \$141.1 million are investments in the Consolidated Endowment Fund which consisted of various type of investments that are valued using level 1, level 2 inputs and net assets value measurement in the separate University of Alaska Foundation financial statements. Of the total endowment, \$62 million has a level 2 measurement input and \$79.1 million are measured at net asset value.

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.

At June 30, 2017, investments consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (\$ in thousands):

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

Investment Type	Rating	Operating	Capital Funds	Endowment	Education Trust of Alaska
Money Market Mututal Funds	Aaa/AAA	\$ 101,186	\$ 4,940	\$ 2,498	\$ -
Money Market Mututal Funds	Not Rated	1,600	-	4,397	316
Debt-related:					
Corporate	Aaa/AAA	3,007	-	74	-
Corporate	Aa1/AA+	2,018	1,297	-	-
Corporate	Aa2/AA	7,654	5,014	89	-
Corporate	Aa3/AA-	5,729	3,721	90	-
Corporate	A1/A+	9,940	4,265	277	-
Corporate	A2/A	3,277	4,613	373	-
Corporate	A3/A-	3,685	2,030	1,069	-
Corporate	Baa1/BBB+	1,866	1,947	1,461	-
Corporate	Baa2/BBB	-	-	1,109	-
Corporate	Baa3/BBB-	-	-	536	-
Corporate	Ba1/BB+	-	-	171	-
Corporate	Not Rated	-	-	391	-
Federal Agency	Aaa/AAA	6,708	7,665	-	-
U.S. Treasuries	Aaa/AAA	20,637	79,627	4,107	-
U.S. Treasuries fund	Not Rated	-	-	-	1,519
U.S. Municipals	Aa2/AA+	-	-	97	-
U.S. Municipals	Aa3/AA-	-	-	2	-
U.S. Municipals	A1/A	-	-	94	-
U.S. Municipals	Baa1/BBB+	-	-	60	-
International Government	Aa2/AA	1,003	-	-	-
Fixed Income Funds	Not Rated	-	-	-	17,143
Asset Backed Securities	Aaa/AAA	-	-	991	-
Asset Backed Securities	Not Rated	-	-	947	-
Mortgaged Backed Securities	Aaa/AAA	-	-	525	-
Mortgaged Backed Securities	Not Rated	-	-	304	-
Hedge Funds	Not Rated	-	-	39,436	-

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, 2017, 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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, 2017, 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, 2017, provided \$7.5 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, 2017, the University had the following debt investments and corresponding duration (\$ in thousands):

Investment Type	Operating	Capital Funds	Endowment	Education Trust of Alaska	Duration
Debt-related:					
International Government	\$ 1,003	\$ -	\$ -	\$ -	0.62
Federal Agency	6,708	7,677	-	-	4.16
Corporate	37,176	20,946	-	-	1.32
U.S. Treasuries	20,637	67,328	-	-	0.63
Fixed Income Funds	-	-	-	17,143	5.98
Mortgaged Backed Securities	-	-	819	-	3.67
Asset Backed Securities	-	-	1,937	-	2.62
U.S. Treasuries	-	-	4,107	-	8.33
Corporate	-	-	5,640	-	6.58
U.S. Municipals	-	-	253	-	9.23

Hedge funds totaling \$39.4 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, 2017, the University's foreign currency

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

risk consisted of the Consolidated Endowment Fund's investments with a fair value of \$569,329 in Canadian Dollars, \$371,014 in Swiss Francs, \$204,001 in British Pounds and \$671,597 in Euros.

3. Accounts Receivable

Accounts receivable consisted of the following at June 30, 2017 and 2016 (\$ in thousands):

June 30, 2017	Gross	Allowance	Net
Student tuition and fees	\$ 21,724	\$ (3,721)	\$ 18,003
Sponsored programs	47,447	(519)	46,928
Auxiliary services and other operating activities	807	(53)	754
Capital appropriations, grants and contracts	2,571	-	2,571
Total	\$ 72,549	\$ (4,293)	\$ 68,256

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
Total	\$ 66,292	\$ (4,448)	\$ 61,844

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 \$7.8 billion and \$7.0 billion at June 30, 2017 and 2016, 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 \$7.7 million at June 30, 2017 and 2016, respectively. The Tuition Value Guarantees are recorded in the Statements of Net Position in Other Noncurrent Liabilities.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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, 2017 and 2016, approximately 81,367 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, 2017 and 2016

A summary of the endowments and Land Grant Trust property for the years ended June 30, 2017 and 2016 follows (\$ in thousands):

June 30, 2017	LGETF and			
	LGT	IPF	Other	Total
Assets:				
Notes receivable	\$ 1,329	\$ -	\$ -	\$ 1,329
Investments	121,585	21,457	583	143,625
Property, rights and other assets	30,279	30,564	1,779	62,622
Total assets	153,193	52,021	2,362	207,576
Liabilities (debt/internal borrowing)	4,438	13,447	(230)	17,655
Net Position:				
Unrestricted	-	38,574	65	38,639
Restricted - Expendable	17,756	-	-	17,756
Restricted - Non-expendable:				
Endowment corpus	102,101	-	2,525	104,626
Land Grant Trust Property	28,900	-	-	28,900
Total non-expendable	131,001	-	2,525	133,526
Total net position	\$ 148,757	\$ 38,574	\$ 2,590	\$ 189,921
June 30, 2016				
	LGETF and			
	LGT	IPF	Other	Total
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
Total assets	142,642	49,988	2,409	195,039
Liabilities (debt/internal borrowing)	4,761	13,885	(181)	18,465
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
Total non-expendable	129,676	-	2,525	132,201
Total net position	\$ 137,881	\$ 36,103	\$ 2,590	\$ 176,574

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

6. Capital Assets

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

	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017
Capital assets not depreciated:				
Land	\$ 40,317	\$ (563)	\$ 69	\$ 39,685
Construction in progress	209,595	150,627	57,284	302,938
Museum collection	7,344	-	-	7,344
Other capital assets:				
Buildings	1,845,504	51,045	581	1,895,968
Infrastructure	156,274	5,969	-	162,243
Equipment and vessel	397,219	10,571	1,667	406,123
Library books	56,108	396	289	56,215
Leasehold improvements	25,424	-	-	25,424
Other improvements	35,316	835	-	36,151
Total	2,773,101	218,880	59,890	2,932,091
Less accumulated depreciation:				
Buildings	852,277	55,942	410	907,809
Infrastructure	52,395	5,381	-	57,776
Equipment and vessel	167,087	22,083	1,601	187,569
Library books	46,301	1,149	289	47,161
Leasehold improvements	13,850	935	-	14,785
Other improvements	23,315	1,149	-	24,464
Total accumulated depreciation	1,155,225	86,639	2,300	1,239,564
Capital assets, net	\$ 1,617,876	\$ 132,241	\$ 57,590	\$ 1,692,527

	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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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 \$168.4 million as of June 30, 2017. 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 \$24.5 million and current year depreciation expense is \$8.3 million.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

7. Unrestricted and Restricted Net Position

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

Unrestricted:	June 30, 2017	June 30, 2016
Auxiliaries	\$ 10,802	\$ 12,440
Working capital fund	4,318	4,742
Working capital advances	(4,824)	(5,043)
Service centers	25,960	22,252
Debt service funds	24,739	22,962
Renewal and replacement funds	21,544	16,312
Quasi-endowment funds	38,639	36,168
Employee benefit funds	12,415	1,226
Endowment earnings	14,745	14,209
Encumbrances	8,985	9,378
Pension expense	(236,624)	(212,782)
Matching funds	1,006	4
Undesignated	37,556	39,158
Total unrestricted net position	\$ (40,739)	\$ (38,974)
Restricted:	June 30, 2017	June 30, 2016
Expendable:		
Restricted funds	\$ 752	\$ 838
Student loan funds	170	195
Education Trust of Alaska	21,005	17,175
Capital project funds	30,785	8,094
Debt service funds	12,529	11,737
Endowment accumulated earnings	17,756	8,205
Nonexpendable:		
Endowment corpus	104,626	103,025
Land Grant Trust property	28,900	29,176
Total restricted net position	\$ 216,523	\$ 178,445

Unrestricted net position includes non-lapsing University receipts of \$72.5 million at June 30, 2017. Non-lapsing University receipts of \$70.8 million from fiscal year 2016 were fully expended in fiscal year 2017.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

At June 30, 2017 and 2016, 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, 2017	June 30, 2016
Auxiliaries	\$ 10,802	\$ 12,440
Service centers	25,960	22,252
Encumbrances	8,985	9,378
Undesignated	37,556	39,162
Total	\$ 83,303	\$ 83,232

8. Long-term Debt

Debt service requirements at June 30, 2017 were as follows (\$ in thousands):

Years Ending June 30,	Principal	Interest	Total
2018	\$ 11,075	\$ 13,775	\$ 24,850
2019	13,274	13,333	26,607
2020	13,732	12,775	26,507
2021	14,284	12,169	26,453
2022	14,780	11,522	26,302
2023-2027	74,478	47,564	122,042
2028-2032	57,256	32,634	89,890
2033-2037	46,445	20,735	67,180
2038-2042	44,010	9,231	53,241
2043-2046	21,704	1,418	23,122
Total	\$ 311,038	\$ 175,156	\$ 486,194

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

Long-term debt consisted of the following at June 30, 2017 and 2016 (\$ in thousands):

	2017	2016
Revenue bonds payable: 2.00% to 5.25% 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.	\$ 293,035	\$ 270,270
Note payable: 3.395% note payable to the Alaska Housing Finance Corporation (AHFC) to finance Anchorage campus housing, due semiannually through February 2032. The financed housing property is held as collateral of the note.	17,251	16,224
Equipment financings: 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.	752	1,331
	\$ 311,038	\$ 287,825
Premium on bonds	30,345	24,754
Deferred amount on debt refunding	(1,604)	(1,147)
Long-term debt	\$ 339,779	\$ 311,432

In fiscal year 2017 and 2016, the state reimbursed the University \$1,216,800 and \$1,219,300 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 will be eliminated once all bonds issued prior to 2013 Series S have been retired. The balance in the reserve account at June 30, 2017 and 2016 was \$12.5 and \$11.8 million, respectively. In addition, \$51 million and \$133 million of bond funds are held in trust for construction purposes at June 30, 2017 and 2016, respectively, resulting in total bond funds held in trust of \$64.1 million and \$144.8 million at June 30, 2017 and 2016, 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, 2017 and 2016

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 provided 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 refunded General Revenue Bonds 2005 Series N and 2008 Series O except for the October 1, 2017 maturity. The economic gain from the refunding was \$1.7 million in present value and total debt service payments were reduced by approximately \$2 million over the life of the bonds.

For fiscal year 2017 and 2016, total interest expense is \$5.6 million and \$6.2 million. Total interest capitalized is \$7.2 million and \$5.4 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, 2017 are as follows:

Years Ending June 30,	Future Payments (\$ in thousands)
2018	\$ 1,389
2019	1,385
2020	1,384
2021	1,383
2022	1,385
2023-2027	6,910
2028-2032	6,876
2033-2037	6,850
2038-2042	6,825
2043-2045	4,162
Total lease obligations	38,549
Less: amount representing interest costs	(13,525)
Present value of minimum lease obligations	\$ 25,024

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

10. Operating Leases

The University has various operating lease agreements for facilities. The expense for operating leases was \$3.9 million and \$4.1 million for the years ended June 30, 2017 and 2016, respectively.

The future minimum lease payments are as follows:

Years Ending June 30,	Future Payments (\$ in thousands)
2018	\$ 2,277
2019	1,383
2020	608
2021	467
2022	470
2023-2027	1,587
2028-2032	540
2033-2037	540
2038-2042	306
Total lease obligations	\$ 8,178

11. Long-term Liabilities

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

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Balance due within one year
Capital lease obligation	\$ 25,560	\$ 854	\$ 1,390	\$ 25,024	\$ 553
Long-term debt	311,432	56,328	27,981	339,779	12,735
Net pension liability	239,525	46,702	-	286,227	-
Other noncurrent liabilities	58,608	4,635	147	63,096	-
Total	\$ 635,125	\$ 108,519	\$ 29,518	\$ 714,126	\$ 13,288

	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	-
Total	\$ 432,004	\$ 225,217	\$ 22,096	\$ 635,125	\$ 12,249

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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 on the University's books at June 30, 2017 and 2016, totaled \$21.2 million and \$33.3 million, respectively. In addition, unexpended proceeds of University issued general revenue bonds designated for construction projects totaled \$62.3 million and \$127.0 million at June 30, 2017 and 2016, respectively.

Construction commitments at June 30, 2017 aggregated \$123.0 million. At June 30, 2017, the University had received \$59.4 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 2017, the University capitalized \$90.4 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, 2017, the University has encumbered \$91.5 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, certain 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)

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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 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 2017 and 2016 actuarially determined rates were 26.14 percent and 27.19 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 2017 and 2016.

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		
2017	\$ 15,082	\$ 7,097	\$ 22,179	100%	100%
2016	\$ 13,699	\$ 10,335	\$ 24,034	100%	100%
2015	\$ 14,483	\$ 10,926	\$ 25,409	100%	100%

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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 includes the additional University contributions of \$3,657,289, \$4,159,098 and \$3,841,271 for fiscal years 2017, 2016 and 2015, respectively, which were required to adhere to the minimum contribution levels per the statutes.

The amount of on-behalf nonemployer contributions from the State of Alaska for postemployment healthcare benefits for the PERS-DB for the year ended June 30, 2017, 2016 and 2015 are -0-, \$1.9 million and -0-.

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

At June 30, 2017, 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, 2017	June 30, 2016
University's proportionate share of the net pension liability - PERS	\$ 237,381	\$ 201,845
State's proportionate share of the net pension liability associated with the University (unaudited)	29,912	54,062
Total	\$ 267,293	\$ 255,907

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. 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, 2017, the University's portion was 4.2468 percent, which was an increase of 0.085 percent from the University's portion measured as of June 30, 2016.

For the year ended June 30, 2017, the University recognized pension expense of \$37.4 million and revenue of \$4.0 million for support provided by the State of Alaska. At June 30, 2017, the University reported deferred outflows of resources and deferred inflows of resources related to PERS-DB from the following sources (\$ in thousands):

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

	June 30, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 22	\$ 2,645
Difference between projected and actual investment earnings	23,333	-
Changes in assumptions	1,095	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	2,972	-
Contributions subsequent to the measurement date	15,082	-
Total	\$ 42,504	\$ 2,645

The contributions of \$15.1 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, 2018. 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>	
2018	\$ 2,529
2019	\$ 3,577
2020	\$ 9,539
2021	\$ 6,159
Thereafter	\$ -

Actuarial Assumptions. The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of June 30, 2015, which was rolled forward to June 30, 2016. 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	8.00%, 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%

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

Pre-termination mortality rates were based upon the 2010 to 2013 actual mortality experience, 60 percent of male and 65 percent of female post-termination rates. Deaths are assumed to be occupational 70 percent of the time for Peace officer/Firefighters, 50 percent of the time for others. Post-termination mortality were based on 95 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, 2015 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):

	7%	8%	9%
University's proportionate share of the net pension liability	\$ 305,734	\$ 237,381	\$ 179,728

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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 would no longer report under 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 \$30 million (unaudited) as of June 30, 2017.

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 2017, contractually required employee and employer contribution rates were 8.65 percent and 12.56 percent, respectively.

The actuarially determined employer contribution rate for 2017 and 2016 was 28.02 percent and 29.27 percent, respectively. The state appropriated funding directly to the TRS-DB plan to augment employer contributions for 2017.

The amount of on-behalf nonemployer contributions from the State of Alaska for postemployment healthcare benefits for the TRS-DB for the year ended June 30, 2017, 2016 and 2015 are -0-, \$1.8 million and \$16.2 million.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

Years Ended June 30,	TRS-DB Annual Required Contributions			Pension percentage contributed	Postemployment healthcare percentage contributed
	Pension	Postemployment healthcare	Total		
2017	\$ 1,911	\$ 1,255	\$ 3,166	100%	100%
2016	\$ 2,010	\$ 1,487	\$ 3,497	100%	100%
2015	\$ 2,280	\$ 1,686	\$ 3,966	100%	100%

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

At June 30, 2017, 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, 2017	June 30, 2016
University's proportionate share of the net pension liability - TRS	\$ 48,846	\$ 37,680
State's proportionate share of the net pension liability associated with the University (unaudited)	58,055	60,230
Total	\$ 106,901	\$ 97,910

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. 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, 2016 the University's portion was 2.1392 percent which was an increase of 0.1139 percentage points from the University's portion measured as of June 30, 2015.

For the year ended June 30, 2017, the University recognized pension expense of \$14.4 million and revenue of \$6.9 million for support provided by the State of Alaska. At June 30, 2017, the University reported deferred outflows of resources and deferred inflows of resources related to TRS-DB from the following sources (\$ in thousands):

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

	June 30, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 630
Difference between projected and actual investment earnings	7,464	-
Change in assumptions	160	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	840	-
Contributions subsequent to the measurement date	1,911	-
Total	\$ 10,375	\$ 630

The contributions of \$1.9 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, 2018. 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,	
2018	\$ 969
2019	\$ 1,325
2020	\$ 2,814
2021	\$ 1,886
Thereafter	\$ -

Actuarial Assumptions. The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of June 30, 2015, which was rolled forward to June 30, 2016. 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%

Pre-termination mortality rates were based upon the 2010 to 2013 actual mortality experience, 68 percent of male and 65 percent of female post-termination rates. Deaths are assumed to be non-occupational 85 percent of the time. Post-termination mortality rates were based on 94 percent of the male and 97 percent of the

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

female rates of the 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, 2015 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	\$ 66,559	\$ 48,846	\$ 33,996

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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 would no longer report under a special funding situation. For example, in a non-special funding situation, the University would be required to recognize additional net pension liability of \$58 million (unaudited) as of June 30, 2017.

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, 2017 and 2016, the University's total covered payroll for the PERS-DC plan was approximately \$27.3 million and \$19.2 million. Contributions made by the University follows (\$ in thousands):

Years Ended June 30,	PERS-DC University Contributions			
	Pension	Postemployment Healthcare	Total Contributions	
2017	\$ 3,555	\$ 2,441	\$ 5,996	
2016	\$ 2,178	\$ 2,046	\$ 4,224	

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 2017 and 2016 are 1.18 and 1.68 percent, respectively, for medical coverage and 0.17 and 0.22 percent, respectively, (0.49 and 1.05 percent, respectively, for peace officers and firefighters) for occupational death and disability benefit contributions. For fiscal years 2017 and 2016, the HRA employer contributions are \$170.78 and \$167.04 per month, respectively, for full time employees and \$1.31 and \$1.28 per hour for part time employees, respectively.

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June 30, 2017 and 2016

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, 2017 and 2016, the University's total covered payroll for the TRS-DC plan was approximately \$7.7 million and \$7.1 million, respectively. Contributions made by the University follows (\$ in thousands):

Years Ended June 30,	Pension	Postemployment Healthcare	Total Contributions
2017	\$ 635	\$ 335	\$ 970
2016	\$ 536	\$ 352	\$ 888

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. The employer RMP contribution rates for fiscal years 2017 and 2016 were 1.05 and 2.04 percent, respectively, for medical coverage and zero percent and zero percent, respectively, for occupational death and disability benefit contributions. For fiscal years 2017 and 2016, the HRA employer contributions are \$170.78 and \$167.04 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, \$170.78 and \$167.04, for fiscal years 2017 and 2016, 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,

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

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 2017 and 2016 were as follows (\$ in thousands):

	<u>ORP Tier 1</u>		<u>ORP Tier 2</u>		<u>ORP Tier 3</u>	
	2017	2016	2017	2016	2017	2016
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	\$37,583	\$41,371	\$2,734	\$2,855	\$117,243	\$ 125,740
University Contributions	\$ 5,262	\$ 5,792	\$ 328	\$ 343	\$ 14,069	\$ 15,089

Plan Assets

At June 30, 2017 and 2016, plan assets (participants' accounts attributable to employer contributions) for ORP Tier 1, Tier 2 and Tier 3 had a net value of \$318.0 million and \$268.5 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.

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June 30, 2017 and 2016

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 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, 2017 and 2016, 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 2017 and 2016, 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 2017 and 2016, the University's total covered payroll for the Pension plan was \$155.8 million and \$164.5 million, respectively. The University's gross costs to fund and administer the plan totaled \$11.9 million and \$12.6 million for the years ended June 30, 2017 and 2016, respectively. At June 30, 2017 and 2016, plan assets (participants' accounts) had a net value of \$329.0 million and \$379.4 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

June 30, 2017 and 2016

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

	Balance July 1, 2016	Provision for Claims	Claims Payments	Balance June 30, 2017
Health	\$ 6,916	\$ 53,068	\$ (53,769)	\$ 6,215
General liability	2,407	1	-	2,408
Workers' compensation	4,684	2,446	(2,048)	5,082
Unemployment	135	459	(506)	88
	\$ 14,142	\$ 55,974	\$ (56,323)	\$ 13,793

	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

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 2017 and 2016, the University transferred \$0.8 million and \$0.4 million for general support, respectively. For the same periods, the Foundation reimbursed the University for operating expenses totaling \$3.2 million and \$2.9 million, respectively.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

For the years ended June 30, 2017 and 2016, distributions and expenditures by the Foundation for the benefit of the University totaled \$18.0 million and \$16.0 million, of which \$17.6 million and \$14.9 million were direct reimbursements to the University, respectively. Additionally, the University had a receivable from the Foundation of \$2.9 million and \$2.1 million at June 30, 2017 and 2016, 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, 2017 and 2016, the fair value of the fund was \$320.7 million and \$284.9 million, respectively. The University's share of this fund was \$141.1 million and \$127.8 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, 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, 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

17. Functional and Natural Expense Classifications

The University's operating expenses by functional and natural classification for fiscal years 2017 and 2016 were as follows (\$ in thousands):

	Compensation & Benefits	Contractual Services	Materials	Other	Student Aid	Depreciation	Total
FY 2017							
Instruction	170,522	19,975	7,005	560	-	-	\$ 198,062
Academic support	48,936	5,381	6,368	35	-	-	60,720
Research	90,569	28,617	8,524	(9)	-	-	127,701
Public service	29,495	14,140	2,371	286	-	-	46,292
Student services	37,834	10,229	2,090	100	-	-	50,253
Operations and maintenance	30,761	22,401	12,656	579	-	-	66,397
Institutional support	73,783	20,005	2,405	1,097	-	-	97,290
Student aid	-	-	-	-	23,837	-	23,837
Auxiliary enterprises	11,721	20,236	6,485	274	-	-	38,716
Depreciation	-	-	-	-	-	86,639	86,639
State on-behalf payments	-	-	-	10,944	-	-	10,944
Total	\$ 493,621	\$ 140,984	\$ 47,904	\$ 13,866	\$ 23,837	\$ 86,639	\$ 806,851

	Compensation & Benefits	Contractual Services	Materials	Other	Student Aid	Depreciation	Total
FY2016							
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	682	-	-	68,029
Institutional support	77,596	17,409	3,081	566	-	-	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	-	-	-	15,264	-	-	15,264
Total	\$ 516,911	\$ 149,260	\$ 50,722	\$ 17,979	\$ 23,250	\$ 86,473	\$ 844,595

REQUIRED SUPPLEMENTAL INFORMATION

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

	2017	2016	2015
University's proportion of net pension liability	4.247%	4.162%	3.427%
University's proportionate share of the net pension liability	\$ 237,381	\$ 201,845	\$ 159,853
State's proportionate share of the net pension liability associated with the University	\$ 29,912	\$ 54,062	113,146
Total	\$ 267,293	\$ 255,907	\$ 272,999

University's covered employee payroll	\$ 84,191	\$ 90,340	\$ 98,033
University's proportionate share of the net pension liability as of percentage of its covered payroll	282.0%	223.4%	163.1%
Plan fiduciary net position as a percentage of the total pension liability	59.6%	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, 2016, 2015 and 2014.

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

	2017	2016	2015
University's proportion of net pension liability	2.139%	2.025%	0.968%
University's proportionate share of the net pension liability	\$ 48,846	\$ 37,680	\$ 29,024
State's proportionate share of the net pension liability associated with the University	\$ 58,055	\$ 60,230	131,789
Total	\$ 106,901	\$ 97,910	\$ 160,813
University's covered employee payroll	\$ 25,212	\$ 27,848	\$ 31,575
University's proportionate share of the net pension liability as of percentage of its covered payroll	193.7%	135.3%	91.9%
Plan fiduciary net position as a percentage of the total pension liability	68.40%	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, 2016, 2015 and 2014.

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

	2017	2016	2015
Statutorily required contribution	\$ 15,082	\$ 13,699	\$ 14,483
Contributions in relation to the statutorily required contribution	\$ 15,082	\$ 13,699	\$ 14,483
Contribution (deficiency) excess	\$ -	\$ -	\$ -
University's covered employee payroll	\$ 84,191	\$ 90,340	\$ 98,033
Contribution as a percentage of covered-University payroll	17.9%	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, 2016 2015 and 2014.

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

	2017	2016	2015
Statutorily required contribution	\$ 1,911	\$ 2,011	\$ 2,280
Contributions in relation to the statutorily required contribution	\$ 1,911	\$ 2,011	\$ 2,280
Contribution (deficiency) excess	\$ -	\$ -	\$ -
University's covered employee payroll	\$ 25,212	\$ 27,848	\$ 31,575
Contribution as a percentage of covered-University payroll	7.6%	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, 2016, 2015 and 2014.