



UNIVERSITY
of ALASKA

Many Traditions One Alaska

UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Financial Statements
June 30, 2018 and 2017
(With Independent Auditors' Report Thereon)

University of Alaska
(A Component Unit of the State of Alaska)
Financial Statements
June 30, 2018 and 2017

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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, 2018 (2018) and June 30, 2017 (2017), with selected comparative information for the year ended June 30, 2016 (2016). 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, 2018, 2017 and 2016 follows (\$ in thousands):

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

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|-------------------------------------|---------------------|---------------------|---------------------|
| Assets: | | | |
| Current Assets | \$ 186,910 | \$ 183,287 | \$ 175,818 |
| Other noncurrent assets | 365,668 | 436,084 | 490,420 |
| Capital assets, net of depreciation | <u>1,730,285</u> | <u>1,692,527</u> | <u>1,617,876</u> |
| Total assets | <u>2,282,863</u> | <u>2,311,898</u> | <u>2,284,114</u> |
| Deferred Outflow of Resources | <u>31,783</u> | <u>54,483</u> | <u>32,536</u> |
| Liabilities: | | | |
| Current liabilities | 138,164 | 118,240 | 136,857 |
| Noncurrent liabilities | <u>594,247</u> | <u>702,442</u> | <u>624,023</u> |
| Total liabilities | <u>732,411</u> | <u>820,682</u> | <u>760,880</u> |
| Deferred Inflow of Resources | <u>38,985</u> | <u>3,275</u> | <u>4,646</u> |
| Net position: | | | |
| Net investment in capital assets | 1,374,668 | 1,366,640 | 1,411,653 |
| Restricted – expendable | 91,261 | 82,997 | 46,244 |
| Restricted – nonexpendable | 133,913 | 133,526 | 132,201 |
| Unrestricted | <u>(56,592)</u> | <u>(40,739)</u> | <u>(38,974)</u> |
| Total net position | <u>\$ 1,543,250</u> | <u>\$ 1,542,424</u> | <u>\$ 1,551,124</u> |

In fiscal year 2018, the most notable change in the statement of net position regards the recognition of a net other post-retirement benefit (OPEB) liability totaling \$32.8 million. The net OPEB liability is now required to be reported in accordance with GASB Statement 75. 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 increased \$0.8 million, or 0.05 percent. The unrestricted net position totaled negative \$56.6 million at June 30, 2018, representing a decrease of \$15.9 million over the prior year. As of June 30, 2018, \$167.0 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 \$421.1 million at June 30, 2018, as compared to \$481.3 million at June 30, 2017. 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.

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

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. 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 \$217.7 million, the net OPEB liability of \$32.8 million and long-term debt of \$337.5 million.

Total debt outstanding, which includes capital lease obligations, decreased from \$366.4 million at June 30, 2017 to \$353.0 million at June 30, 2018. The decrease was primarily due to paying down debt principal. More information is available in the *Capital and Debt Activities* section that follows.

Fiscal Year 2017 Comparisons (Statement of Net Position)

Significant comments about changes between 2016 and 2017 that were noted in fiscal year 2017 *Management's Discussion and Analysis* are summarized below:

The Statement of Net Position reflected an overall decrease in net position of 1 percent, or \$8.7 million.

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 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.

Unrestricted net position totaled negative \$40.7 million at June 30, 2017, representing a decrease of \$1.8 million over the prior year. At June 30, 2017, \$158.3 million was designated for specific purposes.

Statement of Revenues, Expenses and Changes in Net Position

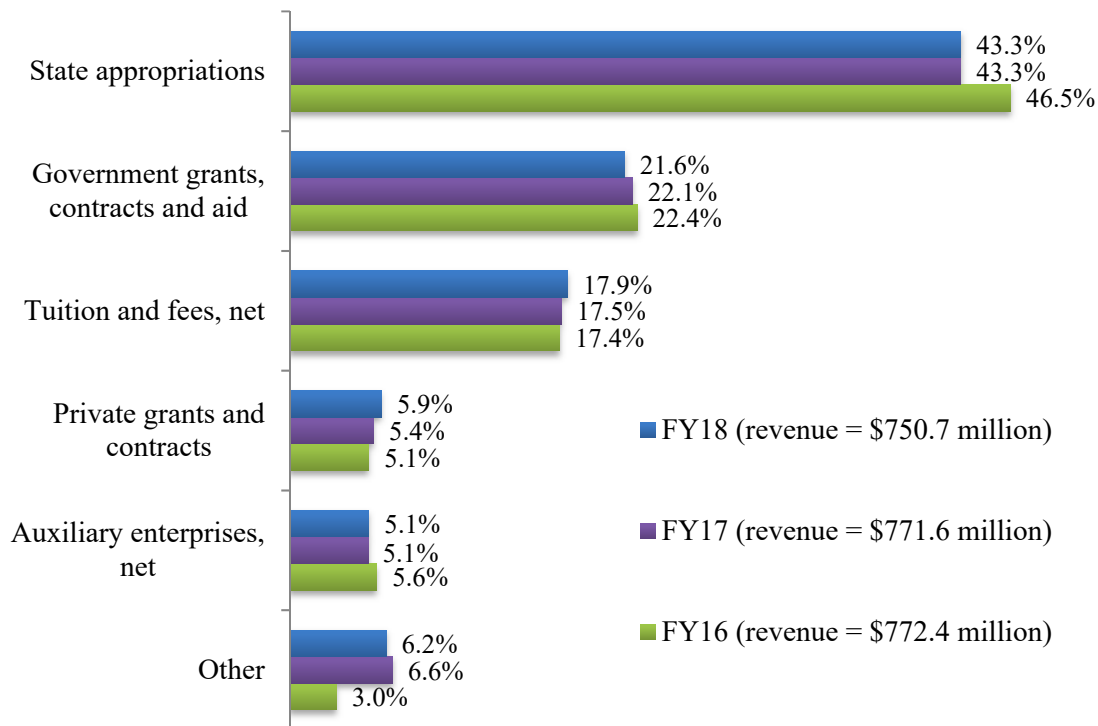
The Statement of Revenues, Expenses and Changes in Net Position presents the results of operations for the University as a whole. Revenues, expenses and other changes in net position are reported as either operating or non-operating. Significant recurring sources of University revenue, such as state 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, 2018, 2017 and 2016 follows (\$ in thousands):

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

| | 2018 | 2017 | 2016 |
|--|--------------------|--------------------|--------------------|
| Operating revenues | \$ 378,229 | \$ 387,359 | \$ 387,781 |
| Operating expenses | (759,722) | (806,851) | (844,595) |
| Operating loss | (381,493) | (419,492) | (456,814) |
| Net nonoperating revenues | 373,731 | 388,272 | 388,234 |
| Gain (Loss) before other revenues, expenses, gains, or losses | (7,762) | (31,220) | (68,580) |
| Other revenues, expenses, gains or losses | 54,889 | 22,520 | 92,132 |
| Increase (decrease) in net position | 47,127 | (8,700) | 23,552 |
| Net position, beginning of year | 1,542,424 | 1,551,124 | 1,527,572 |
| Cumulative effect of change in accounting principle | (46,301) | - | - |
| Net position, beginning of year (restated) | 1,496,123 | 1,551,124 | 1,527,572 |
| Net position, end of year | <u>\$1,543,250</u> | <u>\$1,542,424</u> | <u>\$1,551,124</u> |

Operating and Nonoperating Revenues* by Year



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

The fiscal year 2018 Statement of Revenues, Expenses and Changes in Net Position reflects an increase in net position of 0.05 percent, or \$0.8 million. Major changes in revenues and expenses in 2018 are described below.

State of Alaska general fund appropriations continue to be the single major source of revenue for the University, providing \$325.3 million in 2018, as compared to \$333.9 million in 2017. The

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

appropriations are substantially aimed to fund a portion of operations, and in some cases are targeted for special programs or initiatives. In addition, the state made on-behalf pension and post-employment health care benefit payments of \$12.5 million and \$10.9 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 2018 and 2017, 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 of covered payroll for PERS and TRS, respectively.

Gross student tuition and fee revenue totaled \$155.3 million in 2018 as compared to \$154.0 million in 2017. The increase was primarily due to the tuition rate increasing by 5 percent during fiscal year 2017 but offset by a decrease in enrollment.

Operating grant and contract revenue totaled \$183.3 million for 2018, as compared to \$191.7 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 increased from \$22.5 million in 2017 to \$54.9 million in 2018. The increase reflects the using of funding sources to construct the University of Alaska Fairbanks combined heat and power plant. 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 \$13.7 million in 2018, as compared to \$21.7 million in 2017. Total return in 2018 from the consolidated endowment fund was 8.12 percent as compared to 14.3 percent in 2017. 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.

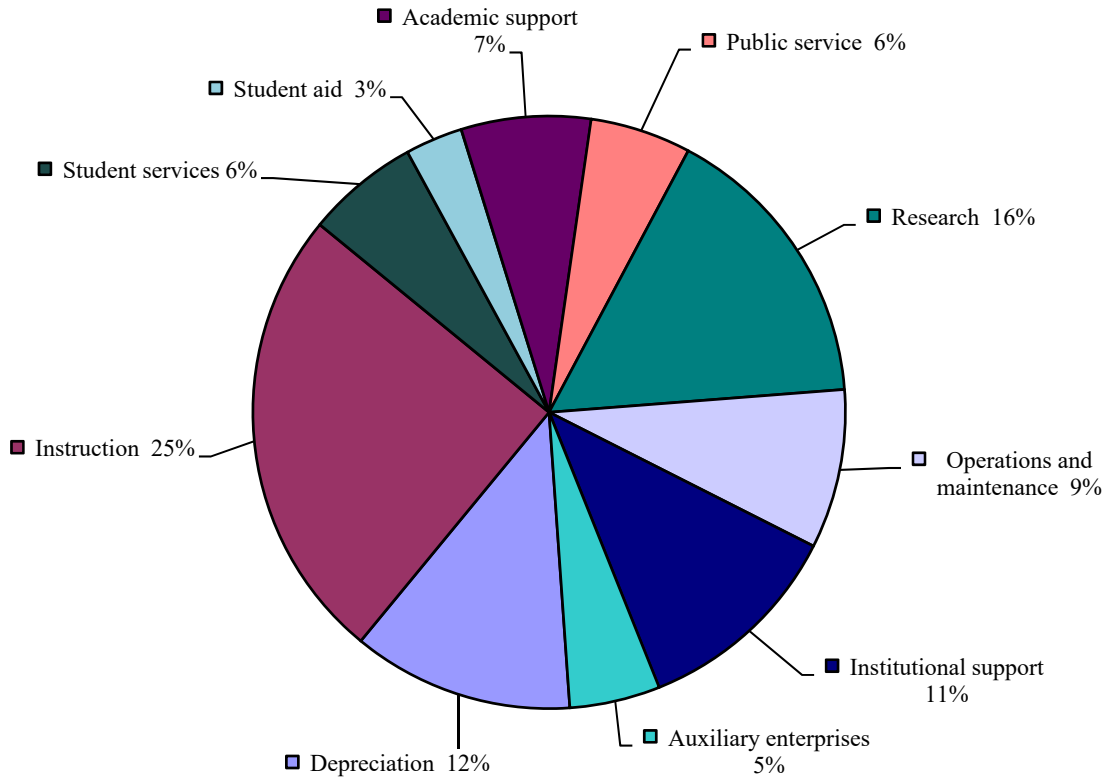
A comparison of operating expenses by functional and natural classification for selected fiscal years follows (see Note 18 of the financial statements for more information).

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

| Operating Expenses* | | | | | | |
|--|-----------------|---------------|-----------------|---------------|-----------------|---------------|
| Functional Classification (\$ in millions) | | | | | | |
| | FY2018 | | FY2017 | | FY2016 | |
| Instruction | \$ 186.4 | 24.9% | \$ 198.1 | 24.9% | \$ 214.6 | 25.9% |
| Student Services | 46.0 | 6.2% | 50.3 | 6.3% | 52.1 | 6.3% |
| Student aid | 23.4 | 3.1% | 23.8 | 3.0% | 23.3 | 2.8% |
| Academic Support | 52.8 | 7.1% | 60.7 | 7.7% | 64.5 | 7.8% |
| Student and Academic | 308.6 | 41.3% | 332.9 | 41.9% | 354.5 | 42.8% |
| Research | 119.5 | 16.0% | 127.7 | 16.0% | 133.3 | 16.1% |
| Public Service | 41.2 | 5.5% | 46.3 | 5.8% | 46.0 | 5.5% |
| Auxiliary Enterprises | 36.9 | 4.9% | 38.7 | 4.9% | 42.3 | 5.1% |
| Institutional Support | 85.8 | 11.5% | 97.3 | 12.2% | 98.7 | 11.9% |
| Operations and Maintenance | 64.9 | 8.7% | 66.4 | 8.3% | 68.0 | 8.2% |
| Depreciation | 90.3 | 12.1% | 86.6 | 10.9% | 86.5 | 10.4% |
| Total Operating Expenses | \$ 747.2 | 100.0% | \$ 795.9 | 100.0% | \$ 829.3 | 100.0% |

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

**Fiscal Year 2018
Functional Classification**

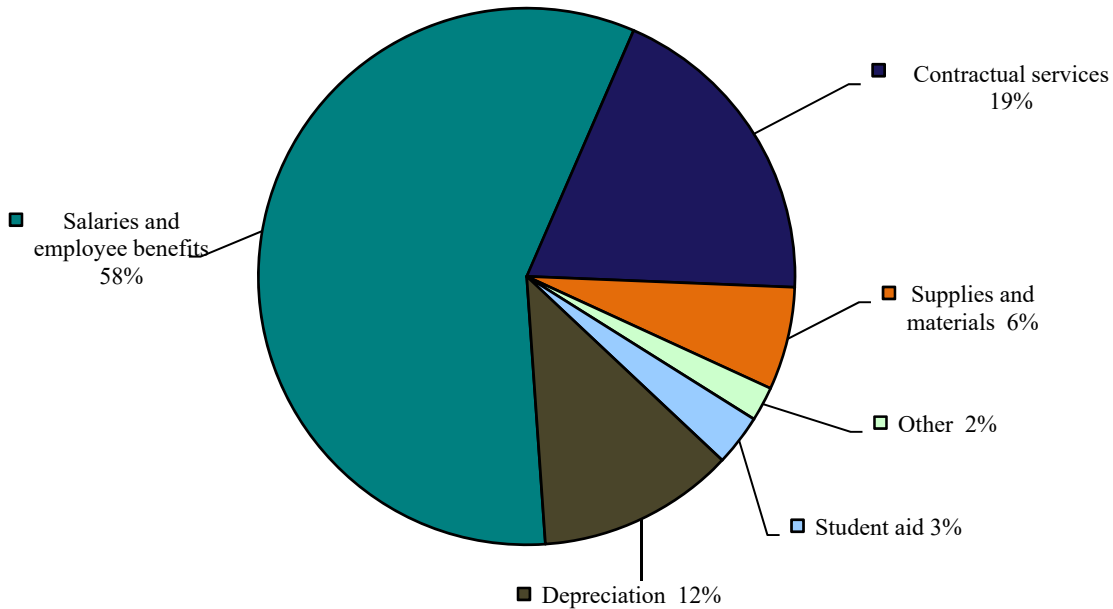


MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited – see accompanying accountants' report)

| | Operating Expenses* | | | | | |
|---------------------------|---|--------|----------|--------|----------|--------|
| | Natural Classification (\$ in millions) | | | | | |
| | FY2018 | | FY2017 | | FY2016 | |
| Compensation and benefits | \$ 437.9 | 58.7% | \$ 493.6 | 62.0% | \$ 516.9 | 62.3% |
| Contractual services | 145.2 | 19.4% | 141.0 | 17.7% | 149.3 | 18.0% |
| Materials | 47.2 | 6.3% | 47.9 | 6.0% | 50.7 | 6.1% |
| Student aid | 23.4 | 3.1% | 23.8 | 3.0% | 23.2 | 2.8% |
| Depreciation | 90.3 | 12.1% | 86.6 | 10.9% | 86.5 | 10.5% |
| Other | 3.2 | 0.4% | 3.0 | 0.4% | 2.7 | 0.3% |
| Total Operating Expenses | \$ 747.2 | 100.0% | \$ 795.9 | 100.0% | \$ 829.3 | 100.0% |

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

Fiscal Year 2018 Natural Classification



Total operating expenses (excludes on-behalf payments to PERS and TRS made by State of Alaska) decreased from \$795.9 million in 2017 to \$747.2 million in 2018. Expenditures related to the student and academic core mission, about 41.3 percent of all expenditures, showed a \$24.3 million decrease in 2018. For the same period, expenditures for research decreased \$8.2 million. Amounts expended for institutional support decreased \$11.5 million while expenditures for operations and maintenance of facilities decreased \$1.5 million as compared to 2017. The majority of the decrease is due to the compensation and benefits decreasing \$55.7 million from \$493.6 million in fiscal year 2017 to \$437.9 million in fiscal year 2018. The recognition of the net pension and OPEB liability resulted in an increase in pension expense of \$23.8 million in FY17 and a decrease in pension

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

expense of \$23.9 million in FY18, thereby creating a net decrease of \$47.7 million in compensation and staff benefits in comparison to FY17.

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 \$20.6 million in 2018 and \$19.3 million in 2017. 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 \$81.1 million and \$69.4 million in 2018 and 2017, respectively.

Fiscal Year 2017 Comparisons (Statement of Revenues, Expenses and Changes in Net Position)

Significant comments about changes between 2016 and 2017 that were noted in fiscal year 2017 *Management's Discussion and Analysis* are summarized below:

The Statement of Revenues, Expenses and Changes in Net Position reflected an overall decrease in net position of 1 percent, or \$8.7 million.

Gross student tuition and fee revenue totaled \$154 million in 2017 as compared to \$152.3 million in 2016. The increase was primarily due to the tuition rate increased by 5 percent during fiscal year 2017.

State of Alaska general fund appropriations continued 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

Total operating expenses decreased 4 percent in 2017 as compared to 1.7 percent increase in 2016. 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.

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 \$116.2 million in 2018, as compared with \$159.0 million in 2017 and \$144.1 million in 2016. 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 2018 and 2017 were \$5 million and \$0-million, respectively.

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

Construction in progress at June 30, 2018 totaled \$275 million and includes the following major projects:

The University is constructing 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, 2018, total debt outstanding, including capital leases, totaled \$353 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 October 2016, the University issued General Revenue Bonds 2016 Series V-1, with a par amount of \$32,845,000, an original issue premium of \$5,699,409, and a 28 year term. Average annual debt service is \$2.1 million. The bonds provide funding for the construction of the University of Alaska Fairbanks engineering facility.

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

Capital Activities – Looking Ahead and Subsequent to Year End

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

For fiscal year 2019, 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 2019 State operating appropriation to the University increased by \$9.4 million, or 2.9 percent, from fiscal year 2018. The additional state funding will be used for important strategic investments and fixed cost increases.

The University is currently preparing its Fiscal Year 2020 budget, which is expected to be presented to the Board of Regents at their meeting in November 2018. 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



INDEPENDENT AUDITORS' REPORT

Board of Directors
University of Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activity and discretely presented component unit of the University of Alaska, collectively a component unit of the State of Alaska, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University of Alaska'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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditors' 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 entity'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity and discretely presented component unit of the University of Alaska as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

During fiscal year ended June 30, 2018, the University of Alaska adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result of the implementation of this standard, the University of Alaska reported a restatement for the change in accounting principle (see Note 17). Our auditors' opinion was not modified with respect to the restatement.

Other Matters

The 2017 financial statements of the University of Alaska were audited by other auditors whose report dated October 13, 2017, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, as 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.



CliftonLarsonAllen LLP

St. Louis, Missouri
October 29, 2018

UNIVERSITY OF ALASKA
(A Component Unit of the State of Alaska)
Statements of Net Position
June 30, 2018 and 2017
(in thousands)

| Assets | 2018 | 2017 |
|--|--------------|--------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 26,833 | \$ 86,300 |
| Short-term investments | 91,686 | 23,327 |
| Accounts receivable, net | 62,390 | 68,256 |
| Inventories | 5,307 | 4,681 |
| Other assets | 694 | 723 |
| Total current assets | 186,910 | 183,287 |
| Noncurrent assets: | | |
| Restricted cash and cash equivalents | 1,777 | 2,288 |
| Notes receivable | 1,426 | 1,789 |
| Bond funds held with trustees | 12,615 | 115,119 |
| Endowment investments | 150,146 | 143,625 |
| Land Grant Trust property and other endowment assets | 61,672 | 62,621 |
| Long-term investments | 104,937 | 80,906 |
| Education Trust of Alaska investments | 33,095 | 29,736 |
| Capital assets, net | 1,730,285 | 1,692,527 |
| Total noncurrent assets | 2,095,953 | 2,128,611 |
| Total assets | 2,282,863 | 2,311,898 |
| Deferred Outflows of Resources | 31,783 | 54,483 |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | 19,878 | 23,837 |
| Accrued payroll and annual leave | 37,292 | 40,062 |
| Unearned revenue and deposits | 51,511 | 27,260 |
| Long-term debt - current portion | 14,925 | 12,735 |
| Capital lease obligation - current portion | 569 | 553 |
| Insurance and risk management | 13,989 | 13,793 |
| Total current liabilities | 138,164 | 118,240 |
| Noncurrent liabilities: | | |
| Unearned revenue | - | 54,631 |
| Long-term debt | 313,564 | 328,648 |
| Capital lease obligation | 23,903 | 24,471 |
| Net pension liability | 217,682 | 286,227 |
| Net Other Post Retirement Benefit (OPEB) liability | 32,777 | - |
| Other noncurrent liabilities | 6,321 | 8,465 |
| Total noncurrent liabilities | 594,247 | 702,442 |
| Total liabilities | 732,411 | 820,682 |
| Deferred Inflows of Resources | 38,985 | 3,275 |
| Net Position | | |
| Net investment in capital assets | 1,374,668 | 1,366,640 |
| Restricted: | | |
| Expendable | 91,261 | 82,997 |
| Nonexpendable | 133,913 | 133,526 |
| Unrestricted | (56,592) | (40,739) |
| Total net position | \$ 1,543,250 | \$ 1,542,424 |

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, 2018 and 2017
(in thousands)

| Assets | 2018 | 2017 |
|---|------------|------------|
| Cash and cash equivalents | \$ 31,990 | \$ 32,023 |
| Interest and dividends receivable | 145 | 334 |
| Contributions receivable, net | 2,374 | 2,219 |
| Other receivables | 8,468 | 6,315 |
| Other investments | 26,090 | 25,999 |
| Pooled endowment funds | 331,190 | 318,592 |
| Remainder trusts receivable | 10,306 | 9,662 |
| Other assets | 174 | 474 |
| Total assets | \$ 410,737 | \$ 395,618 |
| Liabilities | | |
| Due to University of Alaska | \$ 3,251 | \$ 2,921 |
| Other liabilities | 666 | 4,638 |
| Split interest obligations | 317 | 322 |
| Term endowment liability | 1,000 | 1,000 |
| Assets held in trust for University of Alaska | 146,368 | 141,127 |
| Total liabilities | 151,602 | 150,008 |
| Net Assets | | |
| Unrestricted | 25,588 | 24,941 |
| Temporarily restricted | 112,280 | 103,224 |
| Permanently restricted | 121,267 | 117,445 |
| Total net assets | 259,135 | 245,610 |
| Total liabilities and net assets | \$ 410,737 | \$ 395,618 |

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, 2018 and 2017
(in thousands)

| | 2018 | 2017 |
|--|---------------------|---------------------|
| Operating revenues | | |
| Student tuition and fees | \$ 155,256 | \$ 154,011 |
| less scholarship allowances | (20,560) | (19,255) |
| | <u>134,696</u> | <u>134,756</u> |
| Federal grants and contracts | 120,092 | 129,153 |
| State and local grants and contracts | 19,314 | 20,702 |
| Private grants and contracts | 43,924 | 41,796 |
| Sales and services, educational departments | 5,159 | 5,391 |
| Auxiliary enterprises, net of scholarship allowances of \$2,640 in 2018 and \$2,609 in 2017 | 38,542 | 39,174 |
| Other | 15,427 | 16,387 |
| Total operating revenues | <u>377,154</u> | <u>387,359</u> |
| Operating expenses | | |
| Instruction | 186,393 | 198,062 |
| Academic support | 52,788 | 60,720 |
| Research | 119,437 | 127,701 |
| Public service | 41,212 | 46,292 |
| Student services | 45,986 | 50,253 |
| Operations and maintenance | 64,936 | 66,397 |
| Institutional support | 85,828 | 97,290 |
| Student aid | 23,443 | 23,837 |
| Auxiliary enterprises | 36,942 | 38,716 |
| Depreciation | 90,277 | 86,639 |
| State on-behalf payments - pension | 12,480 | 10,944 |
| Total operating expenses | <u>759,722</u> | <u>806,851</u> |
| Operating loss | <u>(382,568)</u> | <u>(419,492)</u> |
| Nonoperating revenues (expenses) | | |
| State appropriations | 325,302 | 333,895 |
| State on-behalf contributions - pension | 12,480 | 10,944 |
| Investment earnings | 8,365 | 7,971 |
| Endowment proceeds and investment income | 13,661 | 21,724 |
| Federal student financial aid | 22,456 | 20,631 |
| Interest expense | (6,585) | (5,588) |
| Other nonoperating expenses | (873) | (1,305) |
| Net nonoperating revenues | <u>374,806</u> | <u>388,272</u> |
| Income (loss) before other revenues | <u>(7,762)</u> | <u>(31,220)</u> |
| Capital appropriations, grants and contracts | 54,889 | 22,520 |
| Increase (decrease) in net position | <u>47,127</u> | <u>(8,700)</u> |
| Net Position | | |
| Net position - beginning of year | 1,542,424 | 1,551,124 |
| Cumulative effect of change in accounting principle (note 17) | (46,301) | - |
| Net position - beginning of year as restated | <u>1,496,123</u> | <u>1,551,124</u> |
| Net position - end of year | <u>\$ 1,543,250</u> | <u>\$ 1,542,424</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, 2018 and 2017
(in thousands)

| | 2018 | | | Total |
|---|------------------|---------------------------|---------------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Revenues, gains and other support | | | | |
| Contributions | \$ 100 | 13,579 | 2,400 | \$ 16,079 |
| Investment income | 777 | 483 | - | 1,260 |
| Net realized and unrealized investment gains (losses) | 899 | 12,921 | - | 13,820 |
| Other revenues | - | 188 | - | 188 |
| Actuarial adjustment of remainder trust obligations | - | 180 | 893 | 1,073 |
| Gains (Losses) on disposition of other assets | - | (13) | - | (13) |
| Administrative assessments | 2,479 | (1,762) | (55) | 662 |
| Support from University of Alaska | 960 | - | - | 960 |
| Donor directed reclassifications | - | (584) | 584 | - |
| Net assets released from restriction | 15,936 | (15,936) | - | - |
| Total revenues, gains and other support | <u>21,151</u> | <u>9,056</u> | <u>3,822</u> | <u>34,029</u> |
| Expenses and distributions | | | | |
| Operating expenses | 3,647 | - | - | 3,647 |
| Distributions for the benefit of University of Alaska | 16,857 | - | - | 16,857 |
| Total expenses and distributions | <u>20,504</u> | <u>-</u> | <u>-</u> | <u>20,504</u> |
| Excess (deficiency) of revenues over expenses | 647 | 9,056 | 3,822 | 13,525 |
| Net assets, beginning of year | 24,941 | 103,224 | 117,445 | 245,610 |
| Net assets, end of year | <u>\$ 25,588</u> | <u>\$ 112,280</u> | <u>\$ 121,267</u> | <u>\$ 259,135</u> |

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

2017

| Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--------------|---------------------------|---------------------------|------------|
| \$ 86 | 12,232 | 12,768 | \$ 25,086 |
| 481 | 542 | - | 1,023 |
| 2,413 | 19,686 | - | 22,099 |
| - | 225 | - | 225 |
| - | 76 | - | 76 |
| (17) | 48 | - | 31 |
| 2,257 | (1,559) | (49) | 649 |
| 765 | - | - | 765 |
| (1,044) | 6 | 1,038 | - |
| 17,058 | (17,058) | - | - |
| 21,999 | 14,198 | 13,757 | 49,954 |
| 3,288 | - | - | 3,288 |
| 17,958 | - | - | 17,958 |
| 21,246 | - | - | 21,246 |
| 753 | 14,198 | 13,757 | 28,708 |
| 24,188 | 89,026 | 103,688 | 216,902 |
| \$ 24,941 | \$ 103,224 | \$ 117,445 | \$ 245,610 |

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, 2018 and 2017
(in thousands)

| | 2018 | 2017 |
|---|------------|------------|
| Cash flows from operating activities | | |
| Student tuition and fees | \$ 155,955 | \$ 150,826 |
| less scholarship allowances | (20,560) | (19,255) |
| | 135,395 | 131,571 |
| Grants and contracts | 187,313 | 188,435 |
| Sales and services, educational departments | 5,159 | 5,391 |
| Sales and services, auxiliary enterprises | 37,963 | 38,893 |
| Other operating receipts | 15,426 | 16,387 |
| Payments to employees for salaries and benefits | (464,173) | (469,637) |
| Payments to suppliers | (191,985) | (195,046) |
| Payments to students for financial aid | (28,250) | (18,678) |
| Net cash used for operating activities | (303,152) | (302,684) |
| Cash flows from noncapital financing activities | | |
| State appropriations | 325,102 | 334,113 |
| Other revenue | 20,169 | 19,083 |
| Direct lending receipts | 81,059 | 69,385 |
| Direct lending payments | (76,223) | (74,402) |
| Net cash provided by noncapital financing activities | 350,107 | 348,179 |
| Cash flows from capital and related financing activities | | |
| Capital appropriations, grants and contracts | 26,520 | 18,837 |
| Proceeds from issuance of capital debt | - | 57,096 |
| Purchases of capital assets | (130,185) | (159,415) |
| Principal paid on capital debt | (12,462) | (27,666) |
| Interest paid on capital debt | (14,420) | (15,503) |
| Net cash used for capital and related financing activities | (130,547) | (126,651) |
| Cash flows from investing activities | | |
| Proceeds from sales and maturities of investments | 153,562 | 197,306 |
| Purchases of investments | (140,096) | (92,976) |
| Interest received on investments | 6,047 | 6,330 |
| Interest and other sales receipts from endowment assets | 4,101 | 5,104 |
| Net cash provided by investing activities | 23,614 | 115,764 |
| Net increase (decrease) in cash and cash equivalents | (59,978) | 34,608 |
| Cash and cash equivalents, beginning of the year | 88,588 | 53,980 |
| Cash and cash equivalents, end of the year | \$ 28,610 | \$ 88,588 |
| Cash and cash equivalents (current) | \$ 26,833 | \$ 86,300 |
| Restricted cash and cash equivalents (noncurrent) | 1,777 | 2,288 |
| Total cash and cash equivalents | \$ 28,610 | \$ 88,588 |

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, 2018 and 2017
(in thousands)

Reconciliation of operating loss to net cash used for

| operating activities: | 2018 | 2017 |
|--|--------------|--------------|
| Operating loss | \$ (382,568) | \$ (419,492) |
| Adjustments to reconcile operating loss to net cash used for operating activities: | | |
| Depreciation expense | 90,277 | 86,639 |
| State on-behalf payments - pension & OPEB | 12,480 | 10,944 |
| Pension expense (credit) | (20,300) | 23,842 |
| OPEB expense (credit) | (3,520) | - |
| Changes in assets and liabilities that provided (used) cash: | | |
| Accounts receivable, net | 611 | (2,951) |
| Other assets | 29 | 3,220 |
| Inventories | (626) | (50) |
| Accounts payable and accrued expenses | 4,682 | (4,489) |
| Accrued payroll | (2,241) | 109 |
| Unearned revenue, deposits from students and others | (1,643) | 260 |
| Accrued annual leave | (529) | (367) |
| Insurance and risk management | 196 | (349) |
| Net cash used for operating activities | \$ (303,152) | \$ (302,684) |

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

For the Year Ended June 30, 2018

Decrease in accounts payable for capital assets is \$8.7 million.

For the Year Ended June 30, 2017

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

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 2018 and 2017.

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, 2018 and 2017

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

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

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

In preparing the financial statements, management is required to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the statement of net position. Actual results could differ from those estimates. The more significant accounting and reporting policies and estimates applied in the preparation of the accompanying financial statements are discussed below.

Summary of Significant Accounting Policies:

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

Cash and Cash Equivalents

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

Inventories

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

Investments

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

managers are evaluated by management and management believes such values are reasonable at June 30, 2018 and 2017. 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.

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

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 sources 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) 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.

Postemployment Benefits Other Than Pensions (OPEB)

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

For purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the defined benefit plans of the Public Employees Retirement System (PERS) and the Teachers' Retirement System (TRS) and additions to/deductions from these OPEB 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, 2017 financial statements have been reclassified for comparative purposes to conform to the presentation in the June 30, 2018 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 Postemployment Benefits Other Than Pensions (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). This standard was implemented in 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).

In April 2018, the GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

acceleration clauses. The Statement is effective for reporting periods beginning after June 15, 2018 (fiscal year 2019).

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement required that interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The Statement is effective for reporting periods beginning after December 15, 2019 (fiscal year 2021).

In August 2018, the GASB issued GASB Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statement No. 14 and No. 61*. This Statement defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of investment. The Statement is effective for reporting period beginning after December 15, 2018 (fiscal year 2020).

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

2. Deposits and Investments

Deposits and investments at June 30, 2018 were as follows (\$ in thousands):

| Investment Type | Operating | Capital Funds | Endowment | Education Trust of Alaska | Total |
|----------------------------------|------------|------------------|------------|---------------------------------|------------|
| Cash and Deposits | \$ 25,532 | \$ 2 | \$ 343 | \$ - | \$ 25,877 |
| Money Market Mutual Funds | 106,275 | 213 | 7,016 | 374 | 113,878 |
| Equities: | | | | | |
| Domestic | - | - | 6,860 | - | 6,860 |
| Domestic Funds | - | - | 20,943 | 11,754 | 32,697 |
| Global Funds | - | - | 38,828 | - | 38,828 |
| Exchange Traded Funds - Domestic | - | - | 9,517 | - | 9,517 |
| Debt-related: | | | | | |
| Corporate | 49,112 | - | - | - | 49,112 |
| Corporate - International | 964 | - | - | - | 964 |
| Federal Agency | 10,495 | - | - | - | 10,495 |
| U.S. Treasuries | 28,960 | 12,400 | 354 | - | 41,714 |
| U.S. Treasuries Fund | - | - | - | 1,409 | 1,409 |
| International Government | 3,896 | - | - | - | 3,896 |
| Fixed Income Funds | - | - | - | 19,558 | 19,558 |
| Alternative Investments: | | | | | |
| Private Equity Fund | - | - | 24,802 | - | 24,802 |
| Hedge Funds | - | - | 34,505 | - | 34,505 |
| Other | - | - | 6,978 | - | 6,978 |
| | \$ 225,234 | \$ 12,615 | \$ 150,146 | \$ 33,095 | \$ 421,090 |

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

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 |

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 \$7 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, 2018 and 2017, bond funds held by a trustee totaled \$12.6 million and \$64.1 million, respectively, and general revenue bond reserves totaling \$12.6 million and \$12.5 million, respectively.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

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 \$150.1 million and \$143.6 million in 2018 and 2017, respectively, primarily consisted of \$146.4 million and \$141.1 million in investable resources of the University's Land Grant Endowment Trust Fund at June 30, 2018 and 2017, 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, 2018 and 2017 had an estimated fair value of \$4.8 million and \$4.7 million, respectively.

At June 30, 2018, the University has \$203.6 million in investments that are not actively traded, compared to \$216.6 million at June 30, 2017. 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.

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, 2018, the University has the following recurring fair value measurements (\$ in thousands):

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

| | June 30, 2018 | Fair Value Measurement Using | | |
|---------------------------------|---------------|------------------------------|------------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Money market mutual funds | \$ 109,414 | \$ 109,414 | | \$ - |
| Debt-related: | | | | |
| U.S. Treasuries | 41,714 | 41,714 | - | - |
| U.S. Treasuries fund | 1,409 | 1,409 | - | - |
| Fixed income mutual funds | 19,557 | 19,557 | - | - |
| Corporate | 49,112 | - | 49,112 | - |
| International corporate | 964 | - | 964 | - |
| Federal agency | 10,495 | - | 10,495 | - |
| International government | 3,896 | - | 3,896 | - |
| Total debt securities | 236,561 | 172,094 | 64,467 | - |
| Endowment Fund | 40,913 | - | 40,913 | - |
| Equity: | | | | |
| Domestic mutual funds | 11,754 | 11,754 | - | - |
| Total investments by fair value | \$ 289,228 | \$ 183,848 | \$ 105,380 | \$ - |

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 \$146.4 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

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

total endowment, \$40.9 million has a level 2 measurement input and \$98.1 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, 2018, investments consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (\$ in thousands):

| Investment Type | Rating | Operating | Capital Funds | Endowment | Education Trust of Alaska |
|----------------------------|-----------|------------|------------------|-----------|---------------------------------|
| Money Market Mututal Funds | Aaa/AAA | \$ 105,049 | \$ - | \$ 3,778 | \$ - |
| Money Market Mututal Funds | Not Rated | 1,226 | 213 | 3,238 | 374 |
| Debt-related: | | | | | |
| Corporate | Aaa/AAA | 3,947 | | | - |
| Corporate | Aa1/AA+ | 1,996 | | | - |
| Corporate | Aa2/AA | 7,466 | | | - |
| Corporate | Aa3/AA- | 5,786 | | | - |
| Corporate | A1/A+ | 12,678 | | | - |
| Corporate - International | A1/A+ | 964 | | | - |
| Corporate | A2/A | 8,093 | | | - |
| Corporate | A3/A- | 4,811 | | | - |
| Corporate | Baa1/BBB+ | 4,334 | | | - |
| Federal Agency | Aaa/AAA | 10,495 | | | - |
| U.S. Treasuries | Aaa/AAA | 28,960 | 12,400 | 354 | - |
| U.S. Treasuries fund | Not Rated | | | | 1,409 |
| International Government | Aa2/AA | 3,897 | | | - |
| Fixed Income Funds | Not Rated | | | | 19,557 |
| Hedge Funds | Not Rated | | | 34,505 | - |

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, 2018, the University did not have any material concentrations of credit risk.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

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

Custodial Credit Risk:

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

At June 30, 2018, 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, 2018, provided \$16.8 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, 2018, 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 | \$ 3,896 | \$ - | \$ - | \$ - | 1.70 |
| Federal Agency | 10,495 | - | - | - | 4.70 |
| Corporate | 49,112 | - | - | - | 1.20 |
| U.S. Treasuries | 29,924 | - | - | - | 1.20 |
| Fixed Income Funds | - | - | - | 19,558 | 6.06 |
| U.S. Treasuries | - | - | 81,630 | - | 0.22 |

Hedge funds totaling \$34.5 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. There is no foreign currency held by university at June 30, 2018.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

3. Accounts Receivable

Accounts receivable consisted of the following at June 30, 2018 and 2017 (\$ in thousands):

| June 30, 2018 | Gross | Allowance | Net |
|---|------------------|-------------------|------------------|
| Student tuition and fees | \$ 20,023 | \$ (3,713) | \$ 16,310 |
| Sponsored programs | 42,791 | (442) | 42,349 |
| Auxiliary services and other operating activities | 1,721 | (48) | 1,673 |
| Capital appropriations, grants and contracts | 2,058 | - | 2,058 |
| Total | \$ 66,593 | \$ (4,203) | \$ 62,390 |

| 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 |

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 \$8.4 billion and \$7.8 billion at June 30, 2018 and 2017, 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 \$5.6 million and \$7.7 million at June 30, 2018 and 2017, 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 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,

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

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, 2018 and 2017, approximately 81,290 and 81,367 acres, respectively, were held in trust at zero basis because fair value at the time of transfer was not determinable.

A summary of the endowments and Land Grant Trust property for the years ended June 30, 2018 and 2017 follows (\$ in thousands):

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

| June 30, 2018 | LGETF and | | | Total |
|-----------------------------------|-------------------|------------------|-----------------|-------------------|
| | LGT | IPF | Other | |
| Assets: | | | | |
| Notes receivable | \$ 1,077 | \$ - | \$ - | \$ 1,077 |
| Investments | 126,203 | 20,165 | - | 146,368 |
| Property, rights and other assets | 30,280 | 30,194 | 1,199 | 61,673 |
| Total assets | 157,560 | 50,359 | 1,199 | 209,118 |
| Liabilities (interfund) | 3,940 | 13,731 | (811) | 16,860 |
| Net Position: | | | | |
| Unrestricted | - | 36,628 | 65 | 36,693 |
| Restricted - Expendable | 21,652 | - | - | 21,652 |
| Restricted - Non-expendable: | | | | |
| Endowment corpus | 103,320 | - | 1,945 | 105,265 |
| Land Grant Trust Property | 28,648 | - | - | 28,648 |
| Total non-expendable | 131,968 | - | 1,945 | 133,913 |
| Total net position | \$ 153,620 | \$ 36,628 | \$ 2,010 | \$ 192,258 |

| June 30, 2017 | LGETF and | | | Total |
|-----------------------------------|-------------------|------------------|-----------------|-------------------|
| | LGT | IPF | Other | |
| 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 (interfund) | 4,436 | 16,795 | (228) | 21,003 |
| Net Position: | | | | |
| Unrestricted | - | 35,226 | 65 | 35,291 |
| 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 | \$ 35,226 | \$ 2,590 | \$ 186,573 |

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

6. Capital Assets

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

| | Balance July 1, 2017 | Additions | Retirements | Balance June 30, 2018 |
|---------------------------------|-------------------------|------------|-------------|--------------------------|
| Capital assets not depreciated: | | | | |
| Land | \$ 39,685 | \$ 353 | \$ 1,507 | \$ 38,531 |
| Construction in progress | 302,938 | 122,952 | 150,870 | 275,020 |
| Museum collection | 7,344 | 5 | - | 7,349 |
| Other capital assets: | | | | |
| Buildings | 1,895,968 | 149,238 | 8,062 | 2,037,144 |
| Infrastructure | 162,243 | 1,631 | - | 163,874 |
| Equipment and vessel | 406,123 | 9,889 | 7,843 | 408,169 |
| Library books | 56,215 | 467 | 52 | 56,630 |
| Leasehold improvements | 25,424 | - | - | 25,424 |
| Other improvements | 36,150 | - | - | 36,150 |
| Total | 2,932,090 | 284,535 | 168,334 | 3,048,291 |
| Less accumulated depreciation: | | | | |
| Buildings | 907,809 | 59,956 | 4,509 | 963,256 |
| Infrastructure | 57,776 | 5,622 | - | 63,398 |
| Equipment and vessel | 187,569 | 21,505 | 7,273 | 201,801 |
| Library books | 47,161 | 1,103 | 52 | 48,212 |
| Leasehold improvements | 14,785 | 935 | - | 15,720 |
| Other improvements | 24,463 | 1,156 | - | 25,619 |
| Total accumulated depreciation | 1,239,563 | 90,277 | 11,834 | 1,318,006 |
| Capital assets, net | \$ 1,692,527 | \$ 194,258 | \$ 156,500 | \$ 1,730,285 |

| | 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 |

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

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 \$160.1 million as of June 30, 2018. 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 \$32.8 million and current year depreciation expense is \$8.3 million.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

7. Unrestricted and Restricted Net Position

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

| Unrestricted: | June 30, 2018 | June 30, 2017 |
|--|----------------------|----------------------|
| Auxiliaries | \$ 9,795 | \$ 10,802 |
| Working capital fund | 2,008 | 4,318 |
| Working capital advances | (910) | (1,476) |
| Service centers | 22,579 | 25,960 |
| Debt service funds | 33,402 | 24,739 |
| Renewal and replacement funds | 23,351 | 21,544 |
| Quasi-endowment funds | 36,692 | 35,291 |
| Employee benefit funds | 14,654 | 12,415 |
| Endowment earnings | 15,288 | 14,745 |
| Encumbrances | 9,074 | 8,807 |
| Cumulative net pension expense (GASB 68) | (216,323) | (236,624) |
| Cumulative net OPEB expense (GASB 75) | (42,781) | - |
| Matching funds | 1,018 | 1,006 |
| Undesignated | 35,561 | 37,734 |
| Total unrestricted net position | \$ (56,592) | \$ (40,739) |
| Restricted: | June 30, 2018 | June 30, 2017 |
| Expendable: | | |
| Restricted funds | \$ 892 | \$ 752 |
| Student loan funds | 170 | 170 |
| Education Trust of Alaska | 26,414 | 21,005 |
| Capital project funds | 29,549 | 30,785 |
| Debt service funds | 12,584 | 12,529 |
| Endowment accumulated earnings | 21,652 | 17,756 |
| Nonexpendable: | | |
| Endowment corpus | 105,265 | 104,626 |
| Land Grant Trust property | 28,648 | 28,900 |
| Total restricted net position | \$ 225,174 | \$ 216,523 |

Unrestricted net position includes non-lapsing University receipts of \$68.2 million at June 30, 2018. Non-lapsing University receipts of \$73.5 million from fiscal year 2017 were fully expended in fiscal year 2018.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

At June 30, 2018 and 2017, 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, 2018 | June 30, 2017 |
| Auxiliaries | \$ 9,795 | \$ 10,802 |
| Service centers | 22,579 | 25,960 |
| Matching funds | 1,018 | 1,006 |
| Encumbrances | 9,074 | 8,807 |
| Undesignated | 35,561 | 37,734 |
| Total | \$ 78,027 | \$ 84,309 |

8. Long-term Debt

Debt service requirements at June 30, 2018 were as follows (\$ in thousands):

| Years Ending June 30, | Principal | Interest | Total |
|-----------------------|-------------------|-------------------|-------------------|
| 2019 | \$ 13,273 | \$ 13,333 | \$ 26,606 |
| 2020 | 13,732 | 12,775 | 26,507 |
| 2021 | 14,284 | 12,169 | 26,453 |
| 2022 | 14,780 | 11,522 | 26,302 |
| 2023 | 15,082 | 10,856 | 25,938 |
| 2024-2028 | 73,145 | 44,237 | 117,382 |
| 2029-2033 | 53,614 | 30,157 | 83,771 |
| 2034-2038 | 46,170 | 18,463 | 64,633 |
| 2039-2043 | 41,105 | 7,231 | 48,336 |
| 2044-2046 | 14,780 | 638 | 15,418 |
| Total | \$ 299,965 | \$ 161,381 | \$ 461,346 |

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

Long-term debt consisted of the following at June 30, 2018 and 2017 (\$ in thousands):

| | 2018 | 2017 |
|---|------------|------------|
| 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. | \$ 283,425 | \$ 293,035 |
| 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. | 16,317 | 17,251 |
| Equipment financings: 2.18% to 3.29% notes payable for the purchase of equipment and vehicles due in quarterly installments through July 2020, secured by title liens. | 223 | 752 |
| | \$ 299,965 | \$ 311,038 |
| Premium on bonds | 28,524 | 30,345 |
| Long-term debt | \$ 328,489 | \$ 341,383 |

In fiscal year 2018 and 2017, the state reimbursed the University \$1,215,650 and \$1,216,800 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, 2018 and 2017 was \$12.6 and \$12.5 million, respectively. In addition, \$0- and \$51 million of bond funds are held in trust for construction purposes at June 30, 2018 and 2017, respectively, resulting in total bond funds held in trust of \$12.6 million and \$64.1 million at June 30, 2018 and 2017, respectively.

For fiscal year 2018 and 2017, total interest expense is \$6.6 million and \$5.6 million. Total interest capitalized is \$6.3 million and \$7.2 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

Future minimum lease payments under this capital lease and the present value of the minimum lease payments as of June 30, 2018 are as follows:

| Years Ending June 30, | Future Payments (\$ in thousands) |
|--|--------------------------------------|
| 2019 | \$ 1,385 |
| 2020 | 1,384 |
| 2021 | 1,383 |
| 2022 | 1,385 |
| 2023 | 1,382 |
| 2024-2028 | 6,904 |
| 2029-2033 | 6,871 |
| 2034-2038 | 6,848 |
| 2039-2043 | 6,818 |
| 2044-2045 | 2,802 |
| Total lease obligations | 37,162 |
| Less: amount representing interest costs | (12,690) |
| Present value of minimum lease obligations | \$ 24,472 |

10. Operating Leases

The University has various operating lease agreements for facilities. The expense for operating leases was \$3.7 million and \$3.9 million for the years ended June 30, 2018 and 2017, respectively.

The future minimum lease payments are as follows:

| Years Ending June 30, | Future Payments (\$ in thousands) |
|-------------------------|--------------------------------------|
| 2019 | \$ 1,931 |
| 2020 | 984 |
| 2021 | 872 |
| 2022 | 879 |
| 2023 | 788 |
| 2024-2028 | 1,195 |
| 2029-2033 | 432 |
| 2034-2038 | 432 |
| 2039-2042 | 216 |
| Total lease obligations | \$ 7,729 |

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

11. Long-term Liabilities

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

| | Balance July 1, 2017 | Additions | Reductions | Balance June 30, 2018 | Balance due within one year |
|------------------------------|-------------------------|------------------|-------------------|--------------------------|-----------------------------------|
| Capital lease obligation | \$ 25,024 | \$ 836 | \$ 1,388 | \$ 24,472 | \$ 569 |
| Long-term debt | 341,383 | - | 12,894 | 328,489 | 14,925 |
| Net pension liability | 286,227 | - | 68,545 | 217,682 | - |
| Net OPEB Liability | - | 32,777 | - | 32,777 | - |
| Other noncurrent liabilities | 63,096 | 6 | 56,781 | 6,321 | - |
| Total | \$ 715,730 | \$ 33,619 | \$ 139,608 | \$ 609,741 | \$ 15,494 |

| | 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 | 312,579 | 56,941 | 28,137 | 341,383 | 12,735 |
| Net pension liability | 239,525 | 46,702 | - | 286,227 | - |
| Other noncurrent liabilities | 58,608 | 4,635 | 147 | 63,096 | - |
| Total | \$ 636,272 | \$ 109,132 | \$ 29,674 | \$ 715,730 | \$ 13,288 |

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, 2018 and 2017, totaled \$10.1 million and \$21.2 million, respectively.

Construction commitments at June 30, 2018 aggregated \$38.2 million. At June 30, 2018, the University had received \$30.8 million from State of Alaska capital appropriations and other sources in advance of expenditures. The advances are included in unearned revenue and deposits.

13. Retirement Plans

Participation in one of the various retirement 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 retirement 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,

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- 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)

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

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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 2018 and 2017 actuarially determined rates were 25.01 percent and 26.14 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 2018 and 2017.

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 | | |
| 2018 | \$ 15,736 | \$ 4,486 | \$ 20,222 | 100% | 100% |
| 2017 | \$ 15,082 | \$ 7,097 | \$ 22,179 | 100% | 100% |
| 2016 | \$ 13,699 | \$ 10,335 | \$ 24,034 | 100% | 100% |

Alaska Statutes require the University contribute to PERS-DB and DC plans a minimum each year of 22 percent of the University's fiscal year 2008 PERS covered payroll. The annual required contributions table above includes the following additional University contributions of \$2,884,039, \$3,657,289 and \$4,159,098 for fiscal year 2018, 2017 and 2016, respectively, which were required to adhere to the minimum contribution levels per the statutes.

The amount of on-behalf nonemployer contribution from the State of Alaska for postemployment healthcare benefits for the PERS-DB for the year ended June 30, 2018, 2017 and 2016 are \$5.5 million, -0- and \$1.9 million.

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

At June 30, 2018, 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, 2018 | June 30, 2017 |
|---|-------------------|-------------------|
| University's proportionate share of the net pension liability - PERS | \$ 185,021 | \$ 237,381 |
| State's proportionate share of the net pension liability associated with the University (unaudited) | 68,931 | 29,912 |
| Total | \$ 253,952 | \$ 267,293 |

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The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. 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, 2018, the University's portion was 3.579 percent, which was a decrease of 0.668 percentage points from the University's portion measured as of June 30, 2017.

For the year ended June 30, 2018, the University recognized pension expense of \$5.1 million and revenue of \$5.5 million for support provided by the State of Alaska. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to PERS-DB pension plan from the following sources (\$ in thousands):

| | June 30, 2018 | |
|---|-----------------------------------|----------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | \$ - | \$ 3,327 |
| Difference between projected and actual investment earnings | 4,963 | - |
| Changes in assumptions | - | - |
| Changes in proportion and difference between employer contributions | 264 | 14,040 |
| Contributions subsequent to the measurement date | 15,736 | - |
| Total | \$ 20,963 | \$ 17,367 |

The contributions of \$15.7 million reported as deferred outflows of resources related to the PERS-DB pension plan 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, 2019. 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> | |
|------------------------------|-------------|
| 2019 | \$ (16,756) |
| 2020 | \$ 5,158 |
| 2021 | \$ 2,320 |
| 2022 | \$ (2,871) |
| Thereafter | - |

Actuarial Assumptions. The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016, which was rolled forward to June 30, 2017. This actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

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June 30, 2018 and 2017

| | |
|---------------------------|--|
| 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% |

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 96 percent of all rates of the RP-2000 table, 2000 Base Year projected to 2018 with Projection Scale BB.

The actuarial assumptions used in the June 30, 2016 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 the target 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 System pension plan's target asset allocation are 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 | 8.83% |
| Global ex-U.S. equity | 7.79% |
| Private equity | 12.02% |
| Intermediate Treasuries | 1.29% |
| Opportunistic | 4.76% |
| Real assests | 4.94% |
| Absolute return | 4.76% |
| Cash equivalents | 0.63% |

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 System Pension Plan's 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 in accordance with the method prescribed by GASB Statement No. 67.

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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 | \$ 243,043 | \$ 185,021 | \$ 136,025 |

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 \$68.9 million (unaudited) as of June 30, 2018.

Postemployment Benefits Other Than Pensions (OPEB) Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the University reported a liability for its proportionate share of the net Postemployment Benefits Other Than Pensions (OPEB) liability that reflected a reduction for State OPEB support provided to the University. The amount recognized by the University as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net PERS-DB OPEB liability that was associated with the University were as follows (\$ in thousands):

| | June 30, 2018 |
|--|---------------|
| University's proportionate share of the net OPEB liability | \$ 30,239 |
| State's proportionate share of the net OPEB liability associated with the University (unaudited) | 11,274 |
| Total | \$ 41,513 |

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016. The University's proportion of the net OPEB liability was based on a projection of the University's share of present value of future contributions to the OPEB plan relative to the projected present value of future contributions of all participating employers

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June 30, 2018 and 2017

and the State, actuarially determined. At June 30, 2018, the University's portion was 3.580 percent, which was a decrease of 0.667 percentage points from the University's portion measured as of June 30, 2016.

For the year ended June 30, 2018, the University recognized OPEB expense of \$3.8 million and revenue of \$1.8 million for support provided by the State of Alaska. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to the PERS-DB OPEB plan from the following sources (\$ in thousands):

| | June 30, 2018 | |
|---|--------------------------------|-------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | \$ - | \$ 1,631 |
| Difference between projected and actual investment earnings | - | 9,470 |
| Changes in assumptions | - | - |
| Changes in proportion and difference between employer contributions | - | 2,277 |
| Contributions subsequent to the measurement date | 4,485 | - |
| Total | \$ 4,485 | \$ 13,378 |

The contributions of \$4.5 million reported as deferred outflows of resources related to the PERS-DB OPEB plan resulting from the University contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to PERS-DB OPEB plan will be recognized in OPEB expense as follows (\$ in thousands):

| <u>Years Ending June 30,</u> | |
|------------------------------|------------|
| 2019 | \$ (4,538) |
| 2020 | \$ (4,105) |
| 2021 | \$ (2,367) |
| 2022 | \$ (2,368) |
| Thereafter | - |

Actuarial Assumptions. The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016, which was rolled forward to June 30, 2017. This actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

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June 30, 2018 and 2017

| | |
|-----------------------------|--|
| 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 an average inflation rate of 3.12% and a real rate of return of 4.88%. |
| Healthcare cost trend rates | Pre-65 medical: 8.8% grading down to 4.4% Post-65 medical: 5.8% grading down to 4.0% Prescription drugs: 5.4% grading down to 4.0% |

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

The actuarial assumptions used in the June 30, 2016 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 the target 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 System pension plan's target asset allocation are 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 | 8.83% |
| Global ex-U.S. equity | 7.79% |
| Private equity | 12.02% |
| Intermediate Treasuries | 1.29% |
| Opportunistic | 4.76% |
| Real assets | 4.94% |
| Absolute return | 4.76% |
| Cash equivalents | 0.63% |

Discount Rate. The discount rate used to measure the total OPEB 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 Plan's

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June 30, 2018 and 2017

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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the University's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the University's proportionate share of the net OPEB liability calculated using the discount rate of 8 percent, as well as what the University's proportionate share of the net OPEB 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 OPEB liability | \$ 64,715 | \$ 30,239 | \$ 1,240 |

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

According to GASB Statement No. 75, 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 OPEB liability of \$11.3 million (unaudited) as of June 30, 2018.

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

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2018, contractually required employee and employer contribution rates were 8.65 percent and 12.56 percent, respectively.

The actuarially determined employer contribution rate for 2018 and 2017 was 26.78 percent and 28.02 percent, respectively. The state appropriated funding directly to the TRS-DB plan to augment employer contributions for 2018.

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, 2018, 2017 and 2016 are -0-, -0- and \$1.8 million.

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

| Years Ended June 30, | TRS-DB Annual Required Contributions | | | Pension percentage contributed | Postemployment healthcare percentage contributed |
|-------------------------|--------------------------------------|------------------------------|----------|--------------------------------------|---|
| | Pension | Postemployment healthcare | Total | | |
| 2018 | \$ 1,859 | \$ 921 | \$ 2,780 | 100% | 100% |
| 2017 | \$ 1,911 | \$ 1,255 | \$ 3,166 | 100% | 100% |
| 2016 | \$ 2,010 | \$ 1,487 | \$ 3,497 | 100% | 100% |

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

At June 30, 2018, 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, 2018 | June 30, 2017 |
|---|------------------|-------------------|
| University's proportionate share of the net pension liability - TRS | \$ 32,661 | \$ 48,846 |
| State's proportionate share of the net pension liability associated with the University (unaudited) | 56,996 | 58,055 |
| Total | \$ 89,657 | \$ 106,901 |

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. 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, 2018 the University's portion was 1.612 percent which was a decrease of 0.528 percentage points from the University's portion measured as of June 30, 2017.

NOTES TO FINANCIAL STATEMENTS

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For the year ended June 30, 2018, the University recognized pension expense of \$2.3 million and revenue of \$4.6 million for support provided by the State of Alaska. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to the TRS-DB pension plan from the following sources (\$ in thousands):

| | June 30, 2018 | |
|---|-----------------------------------|----------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | \$ - | \$ 545 |
| Difference between projected and actual investment earnings | 1,493 | - |
| Change in assumptions | - | - |
| Changes in proportion and difference between employer contributions | 66 | 5,111 |
| Contributions subsequent to the measurement date | 1,859 | - |
| Total | \$ 3,418 | \$ 5,656 |

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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the TRS-DB pension plan will be recognized in pension expense as follows (\$ in thousands):

| Years Ending June 30, | |
|-----------------------|------------|
| 2019 | \$ (5,321) |
| 2020 | \$ 1,348 |
| 2021 | \$ 649 |
| 2022 | \$ (722) |
| Thereafter | - |

Actuarial Assumptions. The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016, which was rolled forward to June 30, 2017. 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%

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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 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, 2016 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 System'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 | 8.83% |
| Global ex-U.S. equity | 7.79% |
| Private equity | 12.02% |
| Intermediate Treasuries | 1.29% |
| Opportunistic | 4.76% |
| Real assets | 4.94% |
| Absolute return | 4.76% |
| Cash equivalents | 0.63% |

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):

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June 30, 2018 and 2017

| | 1% Decrease 7% | Discount Rate 8% | 1% Increase 9% |
|---|-------------------|---------------------|-------------------|
| University's proportionate share of the net pension liability | \$ 46,039 | \$ 32,661 | \$ 21,421 |

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued TRS-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 \$57 million (unaudited) as of June 30, 2018.

Postemployment Benefits Other Than Pensions (OPEB) Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the University reported a liability for its proportionate share of the net OPEB liability that reflected a reduction for State OPEB support provided to the University. The amount recognized by the University as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the University were as follows (\$ in thousands):

| | June 30, 2018 |
|--|-----------------|
| University's proportionate share of the net OPEB liability - TRS | \$ 2,955 |
| State's proportionate share of the net OPEB liability associated with the University (unaudited) | 5,182 |
| Total | \$ 8,137 |

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016. The University's proportion of the net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers and the State, actuarially determined. At June 30, 2018 the University's portion was 1.61 percent which was a decrease of 0.52 percentage points from the University's portion measured as of June 30, 2017.

For the year ended June 30, 2018, the University recognized OPEB expense of \$0.6 million and revenue of \$0.6 million for support provided by the State of Alaska. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to the TRS-DB OPEB plan from the following sources (\$ in thousands):

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

| | June 30, 2018 | |
|---|-----------------------------------|----------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | \$ - | \$ 383 |
| Difference between projected and actual investment earnings | - | 1,588 |
| Change in assumptions | - | - |
| Changes in proportion and difference between employer contributions | - | 405 |
| Contributions subsequent to the measurement date | 921 | - |
| Total | \$ 921 | \$ 2,376 |

The contributions of \$0.9 million reported as deferred outflows of resources related to OPEB resulting from the University contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the TRS-DB OPEB plan will be recognized in OPEB expense as follows (\$ in thousands):

| <u>Years Ending June 30,</u> | |
|------------------------------|----------|
| 2019 | \$ (960) |
| 2020 | \$ (622) |
| 2021 | \$ (397) |
| 2022 | \$ (397) |
| Thereafter | \$ - |

Actuarial Assumptions. The total OPEB liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016, which was rolled forward to June 30, 2017. 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% |
| Healthcare cost trend rates | Pre-65 medical: 8.8% grading down to 4.4% Post -65 medical: 5.8% grading down to 4.0% Prescription drugs: 5.4% grading down to 4.0% |

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

Post-termination mortality rates were based on 94 percent of the male rates and 97 percent of the 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 rates used for pre-termination mortality were 68 percent of the male and 60 percent of the female post-termination mortality rates.

The actuarial assumptions used in the June 30, 2016 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 System'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 | 8.83% |
| Global ex-U.S. equity | 7.79% |
| Private equity | 12.02% |
| Intermediate Treasuries | 1.29% |
| Opportunistic | 4.76% |
| Real assets | 4.94% |
| Absolute return | 4.76% |
| Cash equivalents | 0.63% |

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 OPEB liability to changes in the discount rate. The following presents the University's proportionate share of the net OPEB liability calculated using the discount rate of 8 percent, as well as what the University's proportionate share of the net OPEB 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):

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

| | 1% Decrease 7% | Discount Rate 8% | 1% Increase 9% |
|--|-------------------|---------------------|-------------------|
| University's proportionate share of the net OPEB liability - TRS | \$ 9,004 | \$ 2,955 | \$ 2,064 |

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

According to GASB Statement No. 75, 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 OPEB liability of \$5.2 million (unaudited) as of June 30, 2018.

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, 2018 and 2017, the University's total covered payroll for the PERS-DC plan was approximately \$35.8 million and \$27.3 million. Contributions made by the University follows (\$ in thousands):

| Years Ended June 30, | PERS-DC University Contributions | | |
|-------------------------|----------------------------------|------------------------------|------------------------|
| | Pension | Postemployment Healthcare | Total Contributions |
| 2018 | \$ 5,105 | \$ 2,766 | \$ 7,871 |
| 2017 | \$ 3,555 | \$ 2,441 | \$ 5,996 |

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

employer RMP contribution rates for fiscal years 2018 and 2017 are 1.03 and 1.18 percent, respectively, for medical coverage and 0.16 and 0.17 percent, respectively, (0.43 and 0.49 percent, respectively, for peace officers and firefighters) for occupational death and disability benefit contributions. For fiscal years 2018 and 2017, the HRA employer contributions are \$173.68 and \$170.78 per month, respectively, for full time employees and \$1.34 and \$1.31 per hour for part time employees, respectively.

Postemployment Benefits Other Than Pensions (OPEB) Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the University reported a liability for its proportionate share of the net OPEB liability related to PERS-DC Occupational Death & Disability, Reintree Medical plans that reflected a reduction for State OPEB support provided to the University. The amount recognized by the University as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the University were as follows:

| | June 30, 2018 |
|--|---------------------|
| University's proportionate share of the net OPEB liability (asset) - Occupational Death & Disability | \$ (368,574) |
| University's proportionate share of the net OPEB liability (asset) - Retiree Medical | 135,465 |
| Total | \$ (233,109) |

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016. The University's proportion of the net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers and the State, actuarially determined. At June 30, 2018 the University's portion was 2.60 percent which was an increase of 0.57 percentage points from the University's portion measured as of June 30, 2017.

At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to the PERS-DC Occupational Death and Disability plan from the following sources:

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

| | June 30, 2018 | |
|---|-----------------------------------|----------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | \$ - | \$ 10,867 |
| Difference between projected and actual investment earnings | - | 23,025 |
| Change in assumptions | - | - |
| Changes in proportion and difference between employer contributions | - | 81,935 |
| Contributions subsequent to the measurement date | 57,247 | - |
| Total | \$ 57,247 | \$ 115,827 |

At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to the PERS-DC Retiree Medical plan from the following sources:

| | June 30, 2018 | |
|---|-----------------------------------|----------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | \$ - | \$ 1,064 |
| Difference between projected and actual investment earnings | - | 65,834 |
| Change in assumptions | - | - |
| Changes in proportion and difference between employer contributions | 51,616 | - |
| Contributions subsequent to the measurement date | 368,528 | - |
| Total | \$ 420,144 | \$ 66,898 |

The contributions of \$57,247 to OPEB-DC Occupational Death & Disability and \$358,528 to OPEB-DC Retiree Medical plan reported as deferred outflow of resources resulting from the University contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the TRS-DB OPEB plan will be recognized in OPEB expense as follows:

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

| <u>Years Ending June 30,</u> | <u>PERS-DC ODD</u> | <u>PERS-DC RM</u> |
|------------------------------|--------------------|-------------------|
| 2019 | \$ (17,213) | \$ (10,217) |
| 2020 | (17,213) | (10,217) |
| 2021 | (17,213) | (10,217) |
| 2022 | (17,213) | (10,217) |
| 2023 | (11,457) | 6,241 |
| thereafter | (35,517) | 19,347 |

Actuarial Assumptions. The total OPEB liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016, which was rolled forward to June 30, 2017. 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% |
| 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% |
| Healthcare cost trend rates | Pre-65 medical: 8.8% grading down to 4.4% Post-65: medical: 5.8% grading down to 4.0% Prescription drugs: 5.4% grading down to 4.0% |

Post-termination mortality rates are 96 percent of all rates of RP-2000 table, 2000 Base Year projected to 2018 with Projection Scale BB. Disability mortality was in accordance with the RP-2000 Disabled Retiree Mortality Table, 2000 Base Year, projected to 2018 with Projection Scale BB. Pre-termination mortality rates are based upon the 2010-2013 actual mortality experience and 60 percent of the male and 65 percent of the female post-termination rates. Deaths are assumed to be occupational 70 percent of the time for Peace Officer/Firefighters and 50 percent of the time for All Others.

The actuarial assumptions used in the June 30, 2016 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 System's current and expected asset allocation is summarized in the following table (note that the rates shown below exclude the inflation component):

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

| Asset Class | Long-term Expected Real Rate of Return |
|-------------------------|---|
| Domestic equity | 8.83% |
| Global ex-U.S. equity | 7.79% |
| Private equity | 12.02% |
| Intermediate Treasuries | 1.29% |
| Opportunistic | 4.76% |
| Real assets | 4.94% |
| Absolute return | 4.76% |
| Cash equivalents | 0.63% |

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 OPEB liability.

Sensitivity of the University's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the University's proportionate share of the net OPEB liability calculated using the discount rate of 8 percent, as well as what the University's proportionate share of the net OPEB 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:

| | 1% Decrease 7% | Discount Rate 8% | 1% Increase 9% |
|---|-------------------|---------------------|-------------------|
| University's proportionate share of the net OPEB liability (asset) realted to PERS-DC ODD | \$ (332,727) | \$ (368,574) | \$ (397,875) |
| University's proportionate share of the net OPEB liability (asset) realted to PERS-DC Retiree Medical | \$ 634,621 | \$ 181,434 | \$ (254,306) |

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

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, 2018 and 2017, the University's total covered payroll for the TRS-DC plan was approximately \$8.2 million and \$7.7 million, respectively. Contributions made by the University follows (\$ in thousands):

| Years Ended June 30, | TRS-DC University Contributions | | |
|-------------------------|---------------------------------|------------------------------|------------------------|
| | Pension | Postemployment Healthcare | Total Contributions |
| 2018 | \$ 695 | \$ 335 | \$ 1,030 |
| 2017 | \$ 635 | \$ 335 | \$ 970 |

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 2018 and 2017 were 0.91 and 1.05 percent, respectively, for medical coverage and zero percent and zero percent, respectively, for occupational death and disability benefit contributions. For fiscal years 2018 and 2017, the HRA employer contributions are \$173.68 and \$170.78 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, \$173.68 and \$170.78, for fiscal years 2018 and 2017, respectively.

Postemployment Benefits Other Than Pensions (OPEB) Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the University reported a liability for its proportionate share of the net OPEB liability related to TRS-DC Occupational Death & Disability, Retiree Medical plans that reflected a reduction for State OPEB support provided to the University. The amount recognized by the University as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the University were as follows:

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

| | June 30, 2018 |
|--|---------------------|
| University's proportionate share of the net OPEB liability (asset) - Occupational Death & Disability | \$ (75,049) |
| University's proportionate share of the net OPEB liability (asset) - Retiree Medical | (108,853) |
| Total | \$ (183,902) |

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016. The University's proportion of the net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers and the State, actuarially determined. At June 30, 2018 the University's portion was 2.30 percent which was an increase of 0.03 percentage points from the University's portion measured as of June 30, 2017.

At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to the TRS-DC Occidental Death and Disability plan from the following sources:

| | June 30, 2018 | |
|---|--------------------------------|-------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | \$ - | \$ 312 |
| Difference between projected and actual investment earnings | - | 2,848 |
| Change in assumptions | - | - |
| Changes in proportion and difference between employer contributions | - | 629 |
| Contributions subsequent to the measurement date | - | - |
| Total | \$ - | \$ 3,789 |

At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to the TRS-DC Retiree Medical plan from the following sources:

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

| | June 30, 2018 | |
|---|--------------------------------|-------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | \$ - | \$ 42 |
| Difference between projected and actual investment earnings | - | 21,973 |
| Change in assumptions | - | - |
| Changes in proportion and difference between employer contributions | - | 513 |
| Contributions subsequent to the measurement date | 74,618 | - |
| Total | \$ 74,618 | \$ 22,528 |

The contributions of \$74,618 to TRS-DC Occupational Death & Disability reported as deferred outflow of resources resulting from the University contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the TRS-DC OPEB plan will be recognized in OPEB expense as follows:

| Years Ending June 30, | TRS-DC ODD | TRS-DC RM |
|-----------------------|------------|------------|
| 2019 | \$ (810) | \$ (5,551) |
| 2020 | (810) | (5,551) |
| 2021 | (810) | (5,551) |
| 2022 | (810) | (5,551) |
| 2023 | (98) | (58) |
| thereafter | (451) | (266) |

Actuarial Assumptions. The total OPEB liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016, which was rolled forward to June 30, 2017. 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% |
| Healthcare cost trend rates | Pre-65 medical: 8.8% grading down to 4.4% Post-65 medical: 5.8% grading down to 4.0% Prescription drugs: 5.4% grading down to 4.0% |

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

Post-termination mortality rates were based on 94 percent of the male rates and 97 percent of the 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. Pre-termination mortality rates were 68 percent of the male and 60 percent of the female post-termination rates. Deaths are assumed to result from occupational cause 15 percent of the time. Disability mortality rates were in accordance with the RP-2000 Disabled Retiree Mortality Table, 2000 Base Year, projected to 2018 with Projection Scale BB.

The actuarial assumptions used in the June 30, 2016 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 System'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 | 8.83% |
| Global ex-U.S. equity | 7.79% |
| Private equity | 12.02% |
| Intermediate Treasuries | 1.29% |
| Opportunistic | 4.76% |
| Real assests | 4.94% |
| Absolute return | 4.76% |
| Cash equivalents | 0.63% |

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 OPEB liability.

Sensitivity of the University's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the University's proportionate share of the net OPEB liability calculated using the discount rate of 8 percent, as well as what the University's proportionate share of the net OPEB 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):

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

| | 1% Decrease 7% | Discount Rate 8% | 1% Increase 9% |
|--|-------------------|---------------------|-------------------|
| University's proportionate share of the net OPEB liability realted to TRS-DC ODD | \$ (75,416) | \$ (75,049) | \$ (74,865) |
| University's proportionate share of the net OPEB liability realted to TRS-DC Retiree Medical | \$ 46,665 | \$ (108,853) | \$ (227,007) |

OPEB Plan Fiduciary Net Position. Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued TRS-DC financial report.

Each fiscal year, TRS-DC issues a publicly available financial report which includes financial statements and required supplementary information. That report may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

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 2018 and 2017 were as follows (\$ in thousands):

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

| | <u>ORP Tier 1</u> | | <u>ORP Tier 2</u> | | <u>ORP Tier 3</u> | |
|-------------------------------|-------------------|----------|-------------------|---------|-------------------|------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| 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 | \$34,529 | \$37,583 | \$2,706 | \$2,734 | \$112,701 | \$ 117,243 |
| University Contributions | \$ 4,834 | \$ 5,262 | \$ 325 | \$ 328 | \$ 13,524 | \$ 14,069 |

Plan Assets

At June 30, 2018 and 2017, plan assets (participants' accounts attributable to employer contributions) for ORP Tier 1, Tier 2 and Tier 3 had a net value of \$276.2 million and \$318.0 million, respectively. ORP Tier 1 and ORP Tier 2 participants are 100 percent vested at all times. University contributions for ORP Tier 3 participants are 100 percent vested after three years of service.

University of Alaska Pension Plan (Pension)

Plan Description

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

Funding Policy and Annual Pension Cost

Effective January 1, 2018 and 2017, 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 \$128,400 and \$127,200 in 2018 and 2017, 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 2018 and 2017, the University's total covered payroll for the Pension plan was \$153.3 million and \$155.8 million, respectively. The University's gross costs to fund and administer the plan totaled \$11.7 million and \$11.9 million for the years ended June 30, 2018 and 2017, respectively. At June 30, 2018 and 2017, plan assets (participants' accounts) had a net value of \$436.3 million and \$329.0 million, respectively.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

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, cyber-attacks, 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.

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

| | Balance July 1, 2017 | Provision for Claims | Claims Payments | Balance June 30, 2018 |
|-----------------------|-------------------------|-------------------------|--------------------|--------------------------|
| Health | \$ 6,215 | \$ 52,809 | \$ (52,989) | \$ 6,035 |
| General liability | 2,408 | 1,927 | (1,241) | 3,094 |
| Workers' compensation | 5,082 | 926 | (1,303) | 4,705 |
| Unemployment | 88 | 572 | (505) | 155 |
| | <u>\$ 13,793</u> | <u>\$ 56,234</u> | <u>\$ (56,038)</u> | <u>\$ 13,989</u> |

| | 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 | 1,041 | (1,040) | 2,408 |
| Workers' compensation | 4,684 | 2,446 | (2,048) | 5,082 |
| Unemployment | 135 | 459 | (506) | 88 |
| | <u>\$ 14,142</u> | <u>\$ 57,014</u> | <u>\$ (57,363)</u> | <u>\$ 13,793</u> |

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.

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 2018 and 2017,

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

the University transferred \$0.7 million and \$0.8 million for general support, respectively. For the same periods, the Foundation reimbursed the University for operating expenses totaling \$3.7 million and \$3.2 million, respectively.

For the years ended June 30, 2018 and 2017, distributions and expenditures by the Foundation for the benefit of the University totaled \$16.9 million and \$18.0 million, of which \$16.3 million and \$17.6 million were direct reimbursements to the University, respectively. Additionally, the University had a receivable from the Foundation of \$3.3 million and \$2.9 million at June 30, 2018 and 2017, 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, 2018 and 2017, the fair value of the fund was \$339.2 million and \$320.7 million, respectively. The University's share of this fund was \$146.4 million and \$141.1 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, 2018 and 2017

17. Restatement of Net Position

In fiscal year 2018, the University implemented GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of the implementation, the beginning net position as of July 1, 2018 was restated, resulting in a decrease of \$46.3 million to recognize the fiscal year 2017 net OPEB liability. This OPEB liability represents the University's proportionate share of the net OPEB liability of State of Alaska PERS and TRS defined benefit and defined contribution plans. The pension plans' net OPEB liability is measured as the plan's total pension liability, net of the OPEB plan's fiduciary net position.

It is not practical for the PERS and TRS plans to determine the amounts of all deferred inflows of resources and deferred outflows of resources related to pensions as of the beginning of the plan year. As a result, the prior year has not been restated for deferred inflows of resources, deferred outflows of resources, net OPEB liability and expense. Since the restatement of the prior year presented is not practical, the cumulative effect of applying this Statement is reported as a restatement of beginning net position as of June 30, 2017 (\$ in thousands).

| | As Previously Reported | | Restated | | Cumulative Effect |
|--------------|------------------------|----|---------------|----|-------------------|
| | June 30, 2017 | | June 30, 2017 | | of Change |
| Net Position | \$ 1,542,424 | \$ | 1,496,123 | \$ | (46,301) |

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

18. Functional and Natural Expense Classifications

The University's operating expenses by functional and natural classification for fiscal years 2018 and 2017 were as follows (\$ in thousands):

| | Compensation & Benefits | Contractual Services | Materials | Other | Student Aid | Depreciation | Total |
|----------------------------|----------------------------|-------------------------|------------------|------------------|------------------|------------------|-------------------|
| FY 2018 | | | | | | | |
| Instruction | \$ 158,223 | \$ 20,305 | \$ 7,194 | \$ 671 | \$ - | \$ - | \$ 186,393 |
| Academic support | 41,738 | 4,870 | 6,138 | 42 | - | - | 52,788 |
| Research | 80,504 | 29,612 | 9,137 | 184 | - | - | 119,437 |
| Public service | 26,088 | 12,444 | 2,448 | 232 | - | - | 41,212 |
| Student services | 34,131 | 9,465 | 2,275 | 115 | - | - | 45,986 |
| Operations and maintenance | 25,726 | 26,846 | 11,787 | 577 | - | - | 64,936 |
| Institutional support | 60,764 | 20,954 | 2,784 | 1,326 | - | - | 85,828 |
| Student aid | - | - | - | - | 23,443 | - | 23,443 |
| Auxiliary enterprises | 10,716 | 20,704 | 5,426 | 96 | - | - | 36,942 |
| Depreciation | - | - | - | - | - | 90,277 | 90,277 |
| State on-behalf payments | - | - | - | 12,480 | - | - | 12,480 |
| Total | \$ 437,890 | \$ 145,200 | \$ 47,189 | \$ 15,723 | \$ 23,443 | \$ 90,277 | \$ 759,722 |

| | 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 |

REQUIRED SUPPLEMENTAL INFORMATION

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

| | 2018 | 2017 | 2016 | 2015 |
|---|-------------------|-------------------|-------------------|-------------------|
| University's proportion of net pension liability | 3.579% | 4.247% | 4.162% | 3.427% |
| University's proportionate share of the net pension liability | \$ 185,021 | \$ 237,381 | \$ 201,845 | \$ 159,853 |
| State's proportionate share of the net pension liability associated with the University | \$ 68,931 | \$ 29,912 | \$ 54,062 | 113,146 |
| Total | \$ 253,952 | \$ 267,293 | \$ 255,907 | \$ 272,999 |

| | | | | |
|---|-----------|-----------|-----------|-----------|
| University's covered employee payroll | \$ 91,917 | \$ 84,191 | \$ 90,340 | \$ 98,033 |
| University's proportionate share of the net pension liability as of percentage of its covered payroll | 201.3% | 282.0% | 223.4% | 163.1% |
| Plan fiduciary net position as a percentage of the total pension liability | 63.4% | 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, 2017, 2016, 2015 and 2014.

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

| | | 2018 |
|--|-----------|---------------|
| University's proportion of net OPEB liability | | 3.579% |
| University's proportionate share of the net OPEB liability | \$ | 30,239 |
| State's proportionate share of the net OPEB liability associated with the University | \$ | 11,274 |
| Total | \$ | 41,513 |
| University's covered employee payroll | \$ | 91,917 |
| University's proportionate share of the net OPEB liability as of percentage of its covered payroll | | 32.9% |
| Plan fiduciary net position as a percentage of the total OPEB liability | | 89.7% |

* GASB Statement No. 75 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, 2017.

Schedule of the University's Proportionate Share of the Net OPEB Liability
PERS-DC Occidental Death and Disability Plan
Last 10 Fiscal Years*
(\$ in thousands)

| | | 2018 |
|--|----|--------|
| University's proportion of OPEB liability | | 2.598% |
| University's proportionate share of the net OPEB liability (asset) | \$ | (369) |
| University's covered employee payroll | \$ | 35,779 |
| University's proportionate share of the net OPEB liability as of percentage of its covered payroll | | 0.0% |
| Plan fiduciary net position as a percentage of the total pension liability | | 0.0% |

* GASB Statement 75 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, 2017

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

| | | 2018 |
|--|----|--------|
| University's proportion of OPEB liability | | 2.598% |
| University's proportionate share of the net OPEB liability | \$ | 135 |
| University's covered employee payroll | \$ | 35,779 |
| University's proportionate share of the net OPEB liability as of percentage of its covered payroll | | 0.4% |
| Plan fiduciary net position as a percentage of the total OPEB liability | | 94.0% |

* GASB Statement No. 75 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, 2017

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

| | 2018 | 2017 | 2016 | 2015 |
|---|------------------|-------------------|------------------|-------------------|
| University's proportion of net pension liability | 1.612% | 2.139% | 2.025% | 0.968% |
| University's proportionate share of the net pension liability | \$ 32,661 | \$ 48,846 | \$ 37,680 | \$ 29,024 |
| State's proportionate share of the net pension liability associated with the University | \$ 56,996 | \$ 58,055 | \$ 60,230 | 131,789 |
| Total | \$ 89,657 | \$ 106,901 | \$ 97,910 | \$ 160,813 |
| University's covered employee payroll | \$ 22,128 | \$ 25,212 | \$ 27,848 | \$ 31,575 |
| University's proportionate share of the net pension liability as of percentage of its covered payroll | 147.6% | 193.7% | 135.3% | 91.9% |
| Plan fiduciary net position as a percentage of the total pension liability | 72.4% | 68.4% | 73.8% | 55.7% |

* GASB Statement No. 75 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, 2017, 2016, 2015 and 2014.

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

| | | 2018 |
|--|----|--------|
| University's proportion of net OPEB liability | | 1.606% |
| University's proportionate share of the net OPEB liability | \$ | 2,955 |
| State's proportionate share of the net OPEB liability associated with the University | \$ | 5,182 |
| Total | \$ | 8,137 |
| University's covered employee payroll | \$ | 22,128 |
| University's proportionate share of the net OPEB liability as of percentage of its covered payroll | | 13.4% |
| Plan fiduciary net position as a percentage of the total OPEB liability | | 93.8% |

* GASB Statement No. 75 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, 2017.

**Schedule of the University's Proportionate Share of the Net OPEB Liability
 TRS-DC Occidental Death & Disability Plan
 Last 10 Fiscal Years*
 (\$ in thousands)**

| | | 2018 |
|--|----|--------|
| University's proportion of OPEB liability | | 2.296% |
| University's proportionate share of the net OPEB liability (asset) | \$ | (75) |
| University's covered employee payroll | \$ | 8,200 |
| University's proportionate share of the net OPEB liability as of percentage of its covered payroll | | 0.0% |
| Plan fiduciary net position as a percentage of the total pension liability | | 0.0% |

* GASB Statement 75 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, 2017

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

| | | 2018 |
|---|----|--------|
| University's proportion of OPEB liability | | 2.296% |
| University's proportionate share of the net OPEB liability (assets) | \$ | (109) |
| University's covered employee payroll | \$ | 8,200 |
| University's proportionate share of the net pension liability as of percentage of its covered payroll | | 0.0% |
| Plan fiduciary net position as a percentage of the total pension liability | | 0.0% |

* GASB Statement 75 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, 2017

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

| | 2018 | 2017 | 2016 | 2015 |
|--|-----------|-----------|-----------|-----------|
| Statutorily required contribution | \$ 15,736 | \$ 15,082 | \$ 13,699 | \$ 14,483 |
| Contributions in relation to the statutorily required contribution | \$ 15,736 | \$ 15,082 | \$ 13,699 | \$ 14,483 |
| Contribution (deficiency) excess | \$ - | \$ - | \$ - | \$ - |
| University's covered employee payroll | \$ 91,917 | \$ 84,191 | \$ 90,340 | \$ 98,033 |
| Contribution as a percentage of covered-University payroll | 17.1% | 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, 2017, 2016 2015 and 2014.

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

| | | 2018 |
|--|----|--------|
| Statorily required contribution | \$ | 4,486 |
| Contributions in relation to the statorily required contribution | \$ | 4,486 |
| Contribution (deficiency) excess | \$ | - |
| University's covered employee payroll | \$ | 91,917 |
| Contribution as a percentage of covered-University payroll | | 4.9% |

* GASB Statement No. 75 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, 2017.

**Schedule of the University's Contribution
PERS-DC Occidental Death & Disability Plan
Last 10 Fiscal Years*
(\$ in thousands)**

| | | 2018 |
|--|----|--------|
| Statutorily required contribution | \$ | 57 |
| Contributions in relation to the statutorily required contribution | \$ | 57 |
| Contribution (deficiency) excess | \$ | - |
| University's covered employee payroll | \$ | 35,779 |
| Contribution as a percentage of covered-University payroll | | 0.159% |

* GASB Statement No. 75 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, 2017.

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

| | | 2018 |
|--|----|--------|
| Statorily required contribution | \$ | 369 |
| Contributions in relation to the statorily required contribution | \$ | 369 |
| Contribution (deficiency) excess | \$ | - |
| University's covered employee payroll | \$ | 35,779 |
| Contribution as a percentage of covered-University payroll | | 1.03% |

* GASB Statement No. 75 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, 2017.

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

| | 2018 | 2017 | 2016 | 2015 |
|---|-----------|-----------|-----------|-----------|
| Statutorily required contribution | \$ 1,859 | \$ 1,911 | \$ 2,011 | \$ 2,280 |
| Contributions in relation to the statutorily required contribution | \$ 1,859 | \$ 1,911 | \$ 2,011 | \$ 2,280 |
| Contribution (deficiency) excess | \$ - | \$ - | \$ - | \$ - |
| University's covered employee payroll | \$ 22,128 | \$ 25,212 | \$ 27,848 | \$ 31,575 |
| Contribution as a percentage of covered- University payroll | 8.4% | 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, 2017, 2016, 2015 and 2014.

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

| | | 2018 |
|--|----|--------|
| Statorily required contribution | \$ | 921 |
| Contributions in relation to the statorily required contribution | \$ | 921 |
| Contribution (deficiency) excess | \$ | - |
| University's covered employee payroll | \$ | 22,128 |
| Contribution as a percentage of covered-University payroll | | 4.2% |

* GASB Statement No. 75 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, 2017, 2016, 2015 and 2014.

**Schedule of the University's Contribution
 TRS-DC Occidental Death & Disability Plan
 Last 10 Fiscal Years*
 (\$ in thousands)**

2018

| | | |
|--|----|-------|
| Statorily required contribution | \$ | - |
| Contributions in relation to the statorily required contribution | \$ | - |
| Contribution (deficiency) excess | \$ | - |
| University's covered employee payroll | \$ | 8,200 |
| Contribution as a percentage of covered-University payroll | | 0.0% |

* GASB Statement No. 75 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, 2017.

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

2018

| | | |
|--|----|-------|
| Statorily required contribution | \$ | 75 |
| Contributions in relation to the statorily required contribution | \$ | 75 |
| Contribution (deficiency) excess | \$ | - |
| University's covered employee payroll | \$ | 8,200 |
| Contribution as a percentage of covered-University payroll | | 0.9% |

* GASB Statement No. 75 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, 2017.