

UNIVERSITY OF ALASKA FOUNDATION
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June 30, 2016 and 2015

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REPORT OF INDEPENDENT AUDITORS

The Board of Trustees
University of Alaska Foundation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the University of Alaska Foundation and the University of Alaska Foundation Consolidated Endowment Fund, LP (the Foundation), which comprise the consolidated statement of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management *Report* *6 to 16* *61*

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

At *Report*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the University of Alaska Foundation Consolidated Endowment Fund, LP, an affiliated entity, whose statements reflect total assets of \$285,343,543 and \$310,138,831 as of June 30, 2016 and 2015, respectively, and total revenues, losses, and other support of \$(14,124,286) and \$(2,975,439) for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of Alaska Foundation Consolidated Endowment Fund, LP, is based solely on

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In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of University of Alaska Foundation and the University of Alaska Foundation Consolidated Endowment Fund, LP (the Foundation), and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Spokane, Washington
October 19, 2016

UNIVERSITY OF ALASKA FOUNDATION

| | | 2015 |
|---|----------------|----------------|
| Assets | | |
| Cash and cash equivalents | \$ 32,825,178 | \$ 29,548,307 |
| Interest and dividends receivable | 254,476 | 414,722 |
| Contributions receivable, net | 2,741,559 | 6,367,452 |
| Other receivables | 1,860,432 | 9,278,586 |
| Other investments | 24,809,949 | 25,521,463 |
| Pooled endowment funds | 283,492,217 | 300,846,915 |
| Remainder trusts receivable | 1,844,185 | 1,968,573 |
| Other assets | 767,774 | 669,712 |
| Total assets | \$ 348,595,770 | \$ 374,615,730 |
| Liabilities | | |
| Due to University of Alaska | \$ 2,053,818 | \$ 2,751,481 |
| Other liabilities | 580,256 | 363,545 |
| Split interest obligations | 298,019 | 418,028 |
| Term endowment liability | 1,000,000 | 1,000,000 |
| Assets held in trust for University of Alaska | 127,761,635 | 140,571,691 |
| Total liabilities | 131,693,728 | 145,104,745 |
| Net Assets | | |
| Unrestricted | 24,188,450 | 25,950,882 |
| Temporarily restricted | 89,025,930 | 101,324,088 |
| Permanently restricted | 103,687,662 | 102,236,015 |
| Total net assets | 216,902,042 | 229,510,985 |
| Total liabilities and net assets | \$ 348,595,770 | \$ 374,615,730 |

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

Revenues, gains and other support

| | | | | |
|---|-------------|---------------|--------------|---------------|
| Contributions | \$ 131,755 | \$ 11,246,160 | \$ 1,704,327 | \$ 13,082,242 |
| Investment income | 392,571 | 519,861 | - | 912,432 |
| Net realized and unrealized investment gains (losses) | (1,429,640) | (7,647,987) | - | (9,077,627) |
| Other revenues | (144) | 360,963 | - | 360,819 |
| Actuarial adjustment of remainder trust obligations | - | (64,384) | 25,711 | (38,673) |
| Gains (losses) on disposition of other assets | (3,288) | (54,732) | (15,245) | (73,265) |
| Administrative assessments | 2,377,857 | (1,646,573) | (31,924) | 699,360 |
| Support from University of Alaska | 400,000 | - | - | 400,000 |
| Donor directed reclassifications | (8,251) | 239,473 | (231,222) | - |
| Net assets released from restriction | 15,250,939 | (15,250,939) | - | - |
| Total revenues, gains and other support | 17,111,799 | (12,298,158) | 1,451,647 | 6,265,288 |

Expenses and distributions

Revenues, gains and other support

| | | | | | | | | |
|-------------------|----|---------|----|------------|----|-----------|----|------------|
| Contributions | \$ | 212,723 | \$ | 13,704,901 | \$ | 2,695,735 | \$ | 16,613,359 |
| Investment income | | | | | | | | |

Cash flows from operating activities:

| | | | | | |
|---|--------------|----|--------------|----|-------------|
| Change in net assets | | \$ | (12,608,943) | \$ | (3,310,876) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | | | | |
| Contributions of operating noncash assets | | | (252,175) | | (353,611) |
| Contributions restricted for permanent investment | | | (1,704,327) | | (2,695,735) |
| Net realized and unrealized investment (gains) losses | | | 9,077,627 | | 3,086,051 |
| Non-cash other revenues | | | (5,144) | | - |
| Loss on disposition of other assets | | | 73,265 | | 150,897 |
| Non-cash operating expenses | | | 8,917 | | 9,065 |
| Non-cash distributions to University of Alaska | | | 169,447 | | 123,001 |
| ActuarM | | | | | |
| ,663) | 1,379,659 | | | | |
| ,325 | (72,228) | | | | |
| ,600 | 65,761 | | | | |
| ,558) | (754,080) | | | | |
| ,555) | (90,537,378) | | | | |
| ,098 | 91,733,269 | | | | |
| ,670 | 31,226 | | | | |
| ,213 | 1,227,117 | | | | |
| ,386 | 3,598,736 | | | | |
| ,333 | 2,196 | | | | |
| ,503) | (49,650) | | | | |
| ,216 | 3,551,282 | | | | |
| ,871 | | | | | |
| ng of year | | | 29,548,307 | | 25,523,988 |
| ear | | \$ | 32,825,178 | \$ | 29,548,307 |
| ment assets | | \$ | 75,651 | \$ | 138,515 |
| | | \$ | 788 | \$ | 13,856 |

Use of Estimates

In preparing the financial statements in conformity with US generally accepted accounting principles, management is required to make estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the statement of financial position and revenue and expenses for the period. Actual results could differ from those estimates.

The most significant accounting estimates applied in the preparation of the accompanying financial statements include those in the areas of contributions receivable discounts and allowances, fair value of investments, and obligations to beneficiaries of split interest agreements. Management periodically evaluates estimates used in the preparation of financial statements for continued reasonableness. Appropriate adjustments, if any, to the estimates are made prospectively based on such periodic evaluations.

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents, interest receivable, other receivables, other assets, due to the University of Alaska, other liabilities, split interest obligations and term endowment liability: The carrying amount approximates fair value, based on the nature or short maturity of those instruments.

Contributions receivable: The fair value is determined by the present value of future contractual cash flows, discounted at an interest rate that reflects the risks inherent in these cash flows.

Other Receivables

Other receivables include escrows receivable, an installment contract receivable and receivables from underlying investments.

Escrows receivable of \$107,008 and \$183,598 at June 30, 2016 and 2015, respectively, are secured by deeds of trust from land sales, payable in monthly installments including interest at 7.25% to 8.25%.

An installment contract receivable of \$96,482 and \$125,344 at June 30, 2016 and 2015, respectively, resulted from the sale of capital stock in a closely held corporation. The contract is secured by the shares of capital stock sold, and payable in annual installments of \$20,000 including interest at 4.75%.

Receivables from underlying investments of \$1,656,942 and \$8,969,644 at June 30, 2016 and 2015, respectively, include net proceeds receivable from sales pending settlement.

Investments

Security transactions are accounted for on a trade date basis. Realized gains and losses from security transactions are determined using the specific identification method. Investment income is recorded on the accrual basis and is adjusted for the amortization of premiums and accretion of discounts. Principal on inflation-indexed securities is adjusted for inflation and any increase or decrease is recorded as investment income even though principal is not received until maturity. Coupon income is not recognized on securities for which collection is not expected. Realized gains and losses from principal paydowns on mortgage-backed and asset-backed securities are included in investment income. Noncash dividends, if any, are recorded at the fair market value of the asset received.

Purchases and sales of mutual funds, (not a part of the consolidated financial statements) (3)

the endowment fund to the required level are classified as increases in unrestricted net assets.

Pooled Endowment Funds

Effective July 1, 1997, management of the university's Land Grant Endowment Trust Fund was transferred from the State of Alaska Department of Revenue to the university Board of Regents. The foundation and the university Board of Regents agreed to consolidate the foundation's pooled endowment funds and the university's land grant endowments into a Consolidated Endowment Fund (fund) for investment purposes. The fund uses a unitized system to account for each participant's interest. Contributions to and withdrawals from the fund result in an increase or decrease in the number of units owned and are based on the unit value at the beginning of the month in which the contribution or withdrawal is made. Investment income, fees, and realized and unrealized gains and losses are distributed monthly to participating funds on a per unit basis. Investment income net of fees increases the number of units outstanding, while realized and unrealized gains and losses affect the per unit value.

The foundation entered into a partnership agreement with Cambridge Associates Resources, LLC to form the University of Alaska Foundation Consolidated Endowment Fund, L.P. (the partnership) and assume management of the fund effective July 1, 2013. The partnership is a single investor fund with Cambridge Associates Resources, LLC serving as general partner, and the foundation, with more than 99.99% ownership, serving as the sole limited partner. The investment manager of the partnership is Cambridge Associates, LLC. This relationship does not affect the ownership of units in the Consolidated Endowment Fund by the university or the foundation.

Remainder Trusts Receivable

A charitable remainder trust administered by a third party is an arrangement in which a donor establishes and funds a trust in which the assets are invested and administered by a third-party trustee and distributions are made to the income beneficiaries during the term of the agreement. Upon death of the donor, the assets or a portion of the assets remaining in the trust are distributed to a not-for-profit entity. The foundation, as remainder beneficiary, records its interest in these irrevocable trusts, upon discovery of their existence, at fair value as determined using the present value of the estimated future cash receipts to be received from the trust, discounted at rates between 4.86% and 9.61% which reflect the expected rate of return as adjusted for various risk factors. Initial recognition and subsequent adjustments to the assets' carrying value are recognized as contribution revenue and actuarial adjustment of the remainder trust obligations, respectively, and are classified as permanently restricted, temporarily restricted, or unrestricted support, depending on donor-imposed purpose and time restrictions, if any.

Endowments – 1% is assessed by the foundation each fiscal year based on the asset valuation at the end of the previous calendar year.

Land Grant Trust Fund Assets – 0.5% is assessed by the foundation each fiscal year based on the asset valuation of the university's land grant trust fund assets invested by the foundation as of the end of the previous calendar year.

Reclassification of Net Assets

The foundation reclassifies net assets from one category to another in the following situations:

Donor Directed Reclassifications – Net asset reclassifications which occur when a donor withdraws or increases their previously imposed restrictions, when prospective endowments meet the minimum requirements for acceptance as an endowment, and when net proceeds from appropriately advertised events are transferred to an endowment fund.

Net Assets Released from Restriction – Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose, collecting payment on unrestricted unconditional promises to give or by occurrence of other events specified by donors.

Income Taxes

The foundation is an organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is generally not subject to federal income taxes. Contributions to the foundation are deductible for tax purposes by the donor, subject to the normal limitations imposed by the taxing authorities. However, the foundation is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. Accordinglee

5. Fair Value

Money Market Mutual Funds

The foundation follows the Financial Accounting Standards Board (FASB) guidance on fair value measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. The three levels of the fair value hierarchy are described below:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date.

Level 2 – Quoted prices for similar assets or liabilities, or inputs that are observable, either directly or indirectly, in markets that are either active or inactive.

Level 3 – Pricing inputs are unobservable and include situations where there is little, if any, market activity. The inputs into the determination of fair value require significant management judgment or estimation.

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 of any input that is significant to the fair value measurement. These classifications (Level 1, 2 and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of quality, risk or liquidity.

In accordance with authoritative guidance on fair value measurements, as a practical expedient, an entity holding investments in certain entities that calculate net asset value per share or its equivalent (NAV) for which the fair value is not readily determinable, is permitted to measure fair value of such investments on the basis of that net asset value per share or its equivalent without adjustment.

The FASB issued Accounting Standards Update 2015-07 (ASU 2015-07), Fair Value Measurement (Topic 820), Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent). ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. Prior to the issuance of ASU 2015-07, investments valued using the net asset value per share practical expedient were categorized within the fair value hierarchy based upon the foundation's ability to redeem its investment on the measurement date. Reporting entities are required to adopt ASU 2015-07 retrospectively. The effective date for adoption for public entities is fiscal years beginning after December 15, 2015 and for all other entities is fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. Early adoption is permitted for all entities. Management has determined that early adoption of ASU 2015-07 is appropriate.

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

The following table summarizes the foundation's financial assets measured at fair value on a recurring basis as of June 30, 2016:

Management has used NAV as a practical expedient to measure fair value for \$26,871,553 of underlying commingled funds, \$113,098,119 of underlying hedge funds, and \$35,515,941 of underlying private capital funds, for a total of \$175,485,613 at June 30, 2016.

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UNIVERSITY OF ALASKA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

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Investments in certain entities that calculate net asset value (NAV) per share are summarized by category as of June 30, 2016 as follows:

Investments in certain entities that calculate net asset value (NAV) per share are summarized by category as of June 30, 2015 as follows:

6. Endowments

The foundation's endowment consists of more than 800 individual endowments established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with

endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Board-designated endowment funds are classified as either unrestricted or temporarily restricted depending on the existence of donor-imposed purpose restrictions.

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

Changes in endowment net assets for the years ended June 30, 2016 and 2015 were as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------|---------------------------|---------------------------|----------------|
| Balance, July 1, 2014 | \$ 15,916,417 | \$ 61,006,051 | \$ 99,261,036 | \$ 176,183,504 |
| Investment income | 51,946 | 465,821 | - | 517,767 |
| Net realized and unrealized investment gains (losses) | (331,265) | (2,807,709) | - | (3,138,974) |
| Investment return | (279,319) | (2,341,888) | - | (2,621,207) |
| Contributions | 17,580 | 1,081,237 | 2,695,735 | 3,794,552 |
| Uncollectible pledges | (22) | (1,868) | (708) | (2,598) |
| Administrative assessments | (162,059) | (1,468,270) | (37,573) | (1,667,902) |
| Distributions for endowment spending | (489,367) | (4,817,248) | - | (5,306,615) |
| Transfers to increase (decrease) board- designated endowment funds | (960) | 77,967 | - | 77,007 |
| Transfers to increase (decrease) donor-restricted endowment funds | - | 90,399 | 251,393 | 341,792 |
| Balance, June 30, 2015 | 15,002,270 | 53,626,380 | 102,169,883 | 170,798,533 |
| Investment income | 52,307 | 494,691 | - | 546,998 |
| Net realized and unrealized investment gains (losses) | (1,466,512) | (7,648,863) | - | (9,115,375) |
| Investment return | (1,414,205) | (7,154,172) | - | (8,568,377) |
| Contributions | 19,038 | 582,591 | 1,704,327 | 2,305,956 |
| Uncollectible pledges | (350) | - | (7,194) | (7,544) |
| Gains (losses) on disposition of other assets | (140) | (2) | (8,051) | (8,193) |
| Administrative assessments | (159,602) | (1,494,971) | (31,933) | (1,686,506) |
| Distributions for endowment spending | (567,146) | (5,153,846) | - | (5,720,992) |
| Transfers to increase (decrease) board- designated endowment funds | 919 | 160,254 | - | 161,173 |
| Transfers to increase (decrease) donor-restricted endowment funds | - | 70,671 | (179,870) | (109,199) |
| Balance, June 30, 2016 | \$ 12,880,784 | \$ 40,636,905 | \$ 103,647,162 | \$ 157,164,851 |

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

7. Net Assets

Net assets had the following donor-imposed purpose restrictions or board-imposed designations as of June 30, 2016:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------|------------------------|------------------------|----------------|
| Engineering | \$ 664,277 | \$ 6,050,507 | \$ 5,285,376 | \$ 12,000,160 |
| Foundation | 8,355,066 | 222 | - | 8,355,288 |
| KUAC radio and television | (1,265) | 1,903,414 | 24,800 | 1,926,949 |
| Liberal arts | (5,112) | 2,627,618 | 5,053,136 | 7,675,642 |
| Library | 71,796 | 1,511,161 | 6,010,201 | 7,593,158 |
| Management/business administration | 3,897,783 | 5,475,283 | 7,066,542 | 16,439,608 |
| Museum | 69,563 | 3,036,654 | 3,327,037 | 6,433,254 |
| Natural sciences, agriculture and land | (6,443) | 4,096,059 | 2,819,216 | 6,908,832 |
| Research | (221,701) | 7,304,993 | 7,168,541 | 14,251,833 |
| Student aid | (337,507) | 27,772,388 | 33,834,032 | 61,268,913 |
| General campus support | 11,700,931 | 29,247,631 | 33,098,781 | 74,047,343 |
| Noncontrolling interest in pooled endowment funds | 1,062 | - | - | 1,062 |
| | \$ 24,188,450 | \$ 89,025,930 | \$ 103,687,662 | \$ 216,902,042 |

Net assets had the following donor-imposed purpose restrictions or board-imposed designations as of June 30, 2015:

| | | | | |
|--|------------|--------------|-----------------------------|---------------|
| Engineering | \$ 763,863 | \$ 6,108,547 | \$ 5,002,597 | \$ 11,875,007 |
| Foundation | 8,261,208 | 619 | - | 8,261,827 |
| KUAC radio and television | - | 1,578,926 | - | 1,578,926 |
| Liberal arts | 551 | 3,783,836 | 7,219,362 | 11,003,749 |
| Library | 75,914 | 2,435,434 | 5,982,846 | 8,494,194 |
| Management/business administration | 4,283,067 | 6,598,866 | 6,998,827 | 17,880,760 |
| Museum | 76,763 | 3,752,109 | 3,239,105 | 7,067,977 |
| Natural sciences, agriculture and land | - | 4,482,044 | 2,757,547 | 7,239,591 |
| Research | (4,134) | 8,304,797 | 7,148,483 | 15,449,146 |
| Student aid | (16,981) | 31,054,990 | 31,352,838 | 62,390,847 |
| General campus support | 12,509,515 | 33,223,920 | 32,5(6, .Tc -0.027 Tw 8.98 | |

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

Changes in consolidated net assets attributable to the controlling interest of the foundation and the noncontrolling interest of Cambridge Associates Resources, LLC in the pooled endowment funds for the years ended June 30, 2016 and 2015 were as follows:

| | | | | | | |
|-----------------------|----|-------------|----|-------|----|-------------|
| Balance, July 1, 2014 | \$ | 319,421,968 | \$ | 1,129 | \$ | 319,423,097 |
|-----------------------|----|-------------|----|-------|----|-------------|

8. Distributions for the Benefit of University of Alaska

Distributions for the benefit of the University of Alaska, by functional classification, for year ended June 30, 2016 were as follows:

UNIVERSITY OF ALASKA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

Distributions for the benefit of the University of Alaska, by functional classification, for year ended June 30, 2015 were as follows:

9. Related Party Transactions

The university provided payment to the foundation in the amount of \$400,000 and \$600,000 in 2015 and 2014, respectively. The amount of \$400,000 in 2015 was for the purchase of 100,000 shares of common stock of the foundation at \$4.00 per share. The amount of \$600,000 in 2014 was for the purchase of 150,000 shares of common stock of the foundation at \$4.00 per share. The amount of \$400,000 in 2015 was for the purchase of 100,000 shares of common stock of the foundation at \$4.00 per share. The amount of \$600,000 in 2014 was for the purchase of 150,000 shares of common stock of the foundation at \$4.00 per share.