Annual Financial Report for Fiscal Year 2013

Presentation to: The Board of Regents

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Vice President for Finance & Administration/ CFO

December 12, 2013
FY2013 marked a year of stability, strength, and progress for the University System of Alaska.

- State support very robust – 45% of revenues.
- Tuition & Fees – 15.42% of revenues.
- Total Net position increased 16.6% (FY12-13).
- Rating agency Morningstar awarded a “Gold” rating to the T. Rowe Price College Savings Plan. Portfolio managed on June 30, 2013: $5.4 Billion.
• Total Operating expenses grew only 0.9%.
• Operating funds were invested ( $124.6 M) for necessary liquidity, security, reasonable returns.
• Investment return on our Consolidated Fund ($134.6 M) = 10%.
• Total Debt outstanding = $201.6 M.
• Annual Debt level modest = $17.3 M.
• Annual Debt Service = 2.9% of unrestricted revenues.
5 Successful External Audits

a) Received “unmodified” opinion, the most favorable, from external/independent auditors (Moss Adams LLP).
b) Received favorable ratings of “compliant” in Property Control Systems Analysis by the Office of Naval Research (Dept. of the U.S. Navy).
c) Received “unmodified” opinion from Pricewaterhouse Coopers, LLP. for the Education Trust of Alaska.
d) No exceptions/deficiencies noted in F & A cost rates audit by Defense Contract Audit Agency. These rates are used on Federal grants/contracts for recovering indirect/overhead costs

e) Received from Moss Adams a Single Audit report on federal awards in accordance with Government Auditing Standards and OMB Circular A-133.
Maintained high Credit Ratings from both Standard & Poor (AA-) and Moody’s Investor Services (Aa2).

**CODA**

1. Financial health has 2 dimensions: *capacity* (measured by resources) & *sustainability* (ability to maintain capacity).
2. Portfolio Risk has 2 categories: *debt service risk* & *liquidity risk*.

From both perspectives, we are pleased to report that the University System of Alaska continues to be financially healthy. This has been a remarkable year.
Graphical Presentation of Data
<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets</td>
<td>$ 143,039</td>
<td>$ 157,492</td>
</tr>
<tr>
<td>Other noncurrent assets</td>
<td>336,078</td>
<td>296,779</td>
</tr>
<tr>
<td>Capital assets, net of depreciation</td>
<td>1,324,208</td>
<td>1,097,258</td>
</tr>
<tr>
<td>Total assets</td>
<td>1,803,325</td>
<td>1,551,529</td>
</tr>
<tr>
<td><strong>Liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>120,515</td>
<td>115,298</td>
</tr>
<tr>
<td>Noncurrent liabilities</td>
<td>194,936</td>
<td>159,863</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>315,451</td>
<td>275,161</td>
</tr>
<tr>
<td><strong>Net position:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net investment in capital assets</td>
<td>1,120,771</td>
<td>931,674</td>
</tr>
<tr>
<td>Restricted – expendable</td>
<td>78,443</td>
<td>74,102</td>
</tr>
<tr>
<td>Restricted – nonexpendable</td>
<td>131,365</td>
<td>130,513</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>157,295</td>
<td>140,079</td>
</tr>
<tr>
<td>Total net position</td>
<td>$ 1,487,874</td>
<td>$ 1,276,368</td>
</tr>
</tbody>
</table>

($ in Thousands)
## Condensed Statements of Revenues & Expenses

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Operating Appropriations</td>
<td>$ 371,051</td>
<td>$ 358,441</td>
</tr>
<tr>
<td>Capital Appropriations and Grants</td>
<td>191,809</td>
<td>170,026</td>
</tr>
<tr>
<td>Student Tuition and Fees, net</td>
<td>127,055</td>
<td>123,971</td>
</tr>
<tr>
<td>Federal Grants and Contracts</td>
<td>156,247</td>
<td>160,415</td>
</tr>
<tr>
<td>State, Local and Private Grants</td>
<td>77,801</td>
<td>76,351</td>
</tr>
<tr>
<td>Auxiliary Enterprises</td>
<td>40,008</td>
<td>39,813</td>
</tr>
<tr>
<td>Endowment Income</td>
<td>18,992</td>
<td>3,015</td>
</tr>
<tr>
<td>Other</td>
<td>32,226</td>
<td>23,178</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>1,015,189</td>
<td>955,210</td>
</tr>
<tr>
<td><strong>Expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student and Academic</td>
<td>363,074</td>
<td>359,953</td>
</tr>
<tr>
<td>Research</td>
<td>132,905</td>
<td>135,928</td>
</tr>
<tr>
<td>Public Service</td>
<td>41,360</td>
<td>38,842</td>
</tr>
<tr>
<td>Operations and Maintenance</td>
<td>63,364</td>
<td>65,476</td>
</tr>
<tr>
<td>Institutional Support</td>
<td>96,072</td>
<td>95,372</td>
</tr>
<tr>
<td>Auxiliary Enterprises</td>
<td>35,276</td>
<td>38,288</td>
</tr>
<tr>
<td>Depreciation</td>
<td>62,103</td>
<td>58,403</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>9,529</td>
<td>9,201</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>803,683</td>
<td>801,463</td>
</tr>
<tr>
<td>Increase in Net Position</td>
<td>$ 211,506</td>
<td>$ 153,747</td>
</tr>
</tbody>
</table>

($ in Thousands)
Revenue Mix

- Federal Grants and Contracts ($156m, 19%)
- Tuition and Fees ($127m, 16%)
- State, Private and Local Grants ($78m, 9%)
- State Appropriations ($371m, 45%)
- Auxiliaries ($40m, 5%)
- Other ($51m, 6%)

Total Revenue: $516m
Expenses are divided as follows:

- **Salaries & Benefits** ($494m, 61%)
- **Contractual Services** ($144m, 18%)
- **Supplies & Materials** ($63m, 8%)
- **Student Aid** ($29m, 4%)
- **Depreciation** ($62m, 8%)
- **Other** ($11m, 1%)

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Expenditure Mix by Function

- Student & Academic ($363m, 45%)
- Institutional Support ($96m, 12%)
- Operations & Maintenance ($63m, 8%)
- Research ($133m, 17%)
- Public Service ($41m, 5%)
- Depreciation ($62m, 8%)
- Other ($10m, 1%)
- Auxiliaries ($35m, 4%)
Total University of Alaska Debt Outstanding
June 30, 2013
Total Annual Debt Service
June 30, 2013
Operating Cash & Investments ($125M)

- **Money Market Funds**
  - ($43m, 35%)

- **Corporate Bonds**
  - $36m, 29%

- **U.S. Treasuries**
  - ($15m, 11%)

- **Federal Agencies**
  - ($4m, 3%)

- **Int'l Govt Bonds**
  - ($3m, 3%)

- **Cash**
  - ($24m, 19%)
Financial Metrics
Viability Ratio

(Measures debt burden and debt capacity)

Value

Norm = 3 (see red line)

2011 2012 2013
Fiscal Year
Return on Net Position Ratio

(Measures the return on total net position)

Norm = 3 (see red line)

Change in Net Position
Total Net Position
Primary Reserve Ratio
(Measures the level of reserves relative to expenses)

Norm = 3 (see red line)

Expendable Net Position
Total Expenses

Fiscal Year

Value

2011 2012 2013
Composite Financial Index (CFI) (1 of 2)

(Measures overall financial health)

Norm = 3 (see red line)

CFI:
38% Primary Reserve Ratio
37% Viability Ratio
25% Return on Net Position Ratio
Composite Financial Index (CFI) (2 of 2)

Key:
- Blue triangle = University of Alaska
- Inside triangle = Norm
- Outside triangle = Outer limit of scale