Annual Financial Report for Fiscal Year 2013

Presentation to: The Board of Regents

Ashok K. Roy, Ph.D., CIA, CBA
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.
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
## Condensed Statements of Net Position

<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><strong>Total assets</strong></td>
<td><strong>1,803,325</strong></td>
<td><strong>1,551,529</strong></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><strong>Total liabilities</strong></td>
<td><strong>315,451</strong></td>
<td><strong>275,161</strong></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><strong>Total net position</strong></td>
<td><strong>$1,487,874</strong></td>
<td><strong>$1,276,368</strong></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>$358,441</td>
</tr>
<tr>
<td>Capital Appropriations and Grants</td>
<td>191,809</td>
<td>170,026</td>
</tr>
<tr>
<td>Student Tuition and Fees, net</td>
<td>127,055</td>
<td>123,971</td>
</tr>
<tr>
<td>Federal Grants and Contracts</td>
<td>156,247</td>
<td>160,415</td>
</tr>
<tr>
<td>State, Local and Private Grants</td>
<td>77,801</td>
<td>76,351</td>
</tr>
<tr>
<td>Auxiliary Enterprises</td>
<td>40,008</td>
<td>39,813</td>
</tr>
<tr>
<td>Endowment Income</td>
<td>18,992</td>
<td>3,015</td>
</tr>
<tr>
<td>Other</td>
<td>32,226</td>
<td>23,178</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>1,015,189</td>
<td>955,210</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student and Academic</td>
<td>363,074</td>
<td>359,953</td>
</tr>
<tr>
<td>Research</td>
<td>132,905</td>
<td>135,928</td>
</tr>
<tr>
<td>Public Service</td>
<td>41,360</td>
<td>38,842</td>
</tr>
<tr>
<td>Operations and Maintenance</td>
<td>63,364</td>
<td>65,476</td>
</tr>
<tr>
<td>Institutional Support</td>
<td>96,072</td>
<td>95,372</td>
</tr>
<tr>
<td>Auxiliary Enterprises</td>
<td>35,276</td>
<td>38,288</td>
</tr>
<tr>
<td>Depreciation</td>
<td>62,103</td>
<td>58,403</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>9,529</td>
<td>9,201</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>803,683</td>
<td>801,463</td>
</tr>
<tr>
<td><strong>Increase in Net Position</strong></td>
<td>$ 211,506</td>
<td>$ 153,747</td>
</tr>
</tbody>
</table>

($ in Thousands)
Revenue Mix

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

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

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Expenditure Mix by Function

Student & Academic ($363m, 45%)

Operations & Maintenance ($63m, 8%)

Research ($133m, 17%)

Institutional Support ($96m, 12%)

Depreciation ($62m, 8%)

Other ($10m, 1%)

Auxiliaries ($35m, 4%)

Public Service ($41m, 5%)
Net Position

![Net Position Graph]

- 2011: $1,123
- 2012: $1,276
- 2013: $1,488

Millions
Total Annual Debt Service
June 30, 2013
Operating Cash & Investments ($125M)

- **Cash**
  - $24m, 19%
- **Money Market Funds**
  - $43m, 35%
- **U.S. Treasuries**
  - $15m, 11%
- **Intn'l Govt Bonds**
  - $3m, 3%
- **Federal Agencies**
  - $4m, 3%
- **Corporate Bonds**
  - $36m, 29%
Financial Metrics
Viability Ratio

(Measures debt burden and debt capacity)

Norm = 3 (see red line)

Expendable Net Position
Debt

Value

Fiscal Year

2011

2012

2013
Return on Net Position Ratio

(Measures the return on total net position)

Norm = 3 (see red line)

Change in Net Position
Total Net Position

Fiscal Year

2011
2012
2013
Primary Reserve Ratio
(Measures the level of reserves relative to expenses)

Expendable Net Position
Total Expenses

Norm = 3 (see red line)
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

Score

2011
2012
2013

Fiscal Year
Composite Financial Index (CFI) (2 of 2)

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

- Primary Reserve Ratio
- Viability Ratio
- Return on Net Position Ratio

Values:
- Primary Reserve Ratio: 3.27
- Viability Ratio: 4.50
- Return on Net Position Ratio: 6.61