

Financial Review

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FISCAL YEAR 2015

AGENDA

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Overview



Resource Sufficiency & Flexibility



Operating Results



Financial Asset Performance



Debt Management



Financial Outlook



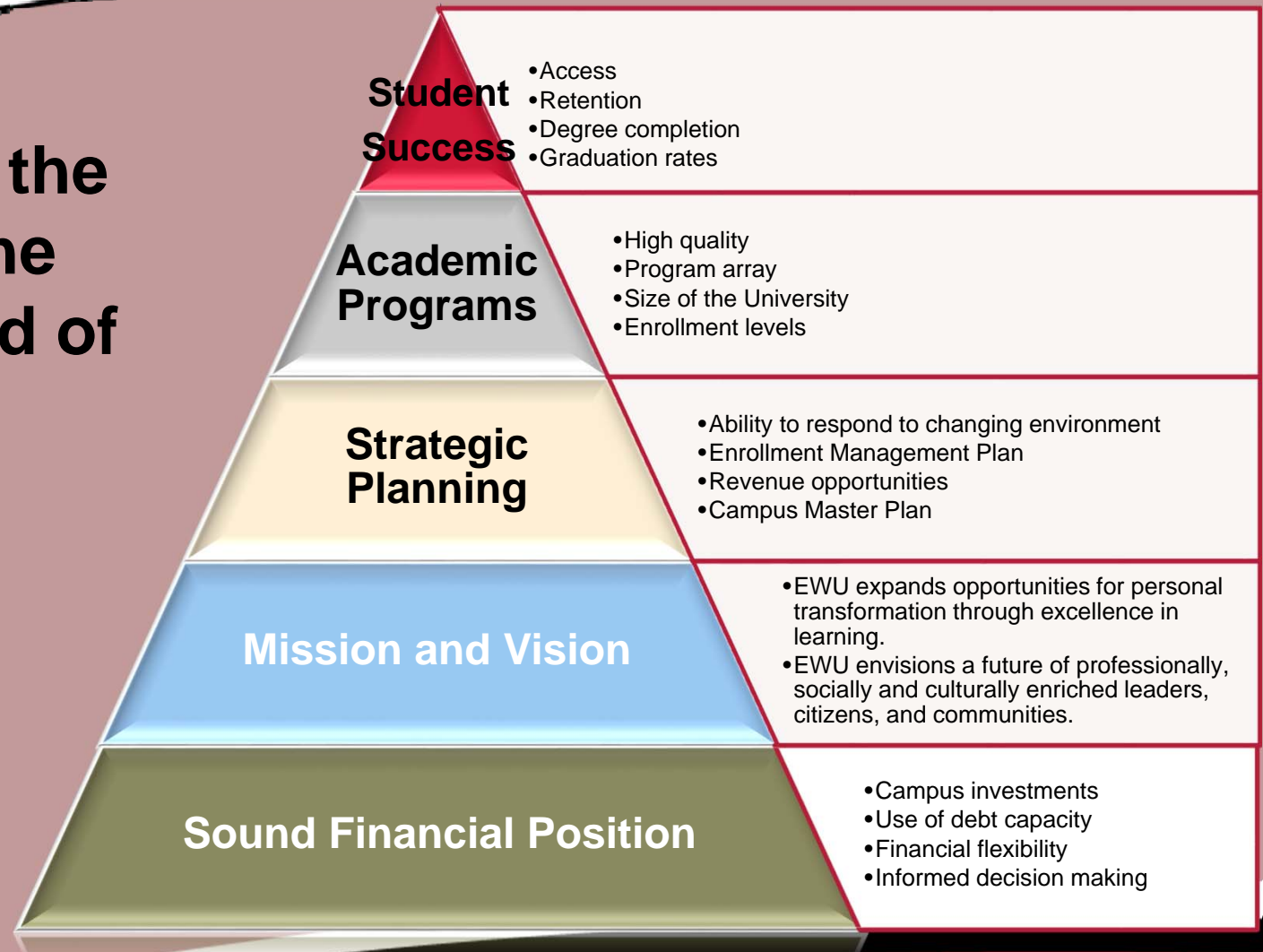
Overview

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- *EWU is strong, vibrant, and financially healthy*
- *Prudent planning and financial management and decision-making ensures EWU's sustainability in a changing environment*
- *Evaluate EWU's performance in relation to industry measures*

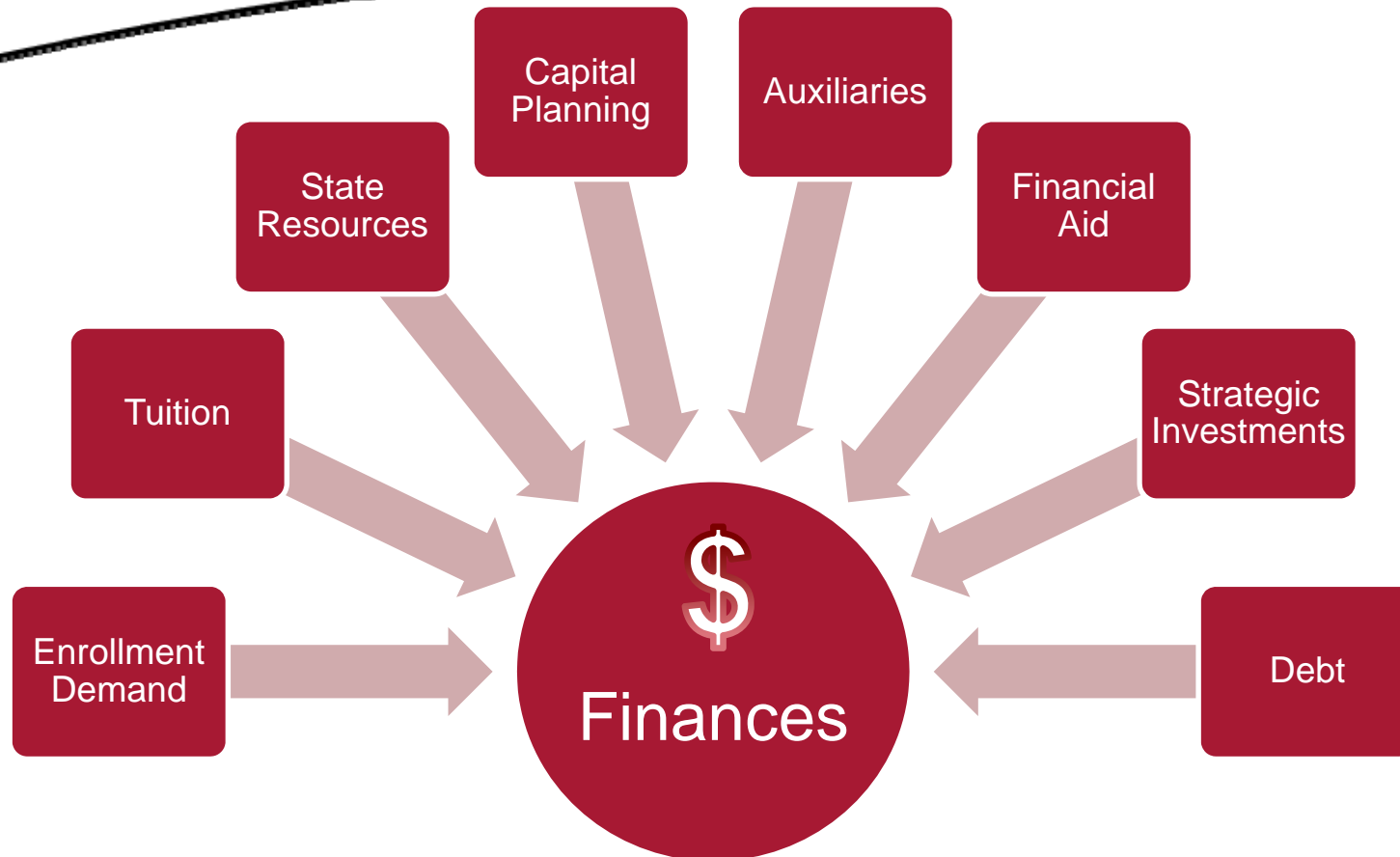


Achieving the Goals of the EWU Board of Trustees



Impacts to Eastern's Financial Position

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A sound financial position supports Eastern's Mission and Strategic Objectives

Preserving and advancing Eastern's institutional strength and security

A stable financial position is a critical element in support of developing goals, strategies, and actions for Eastern to meet the challenges of the future

Stable Financial Position enables Growth.

Financial Performance meets or exceeds industry measures.

Solid position enables investment planning and resource management to meet future budget challenges.

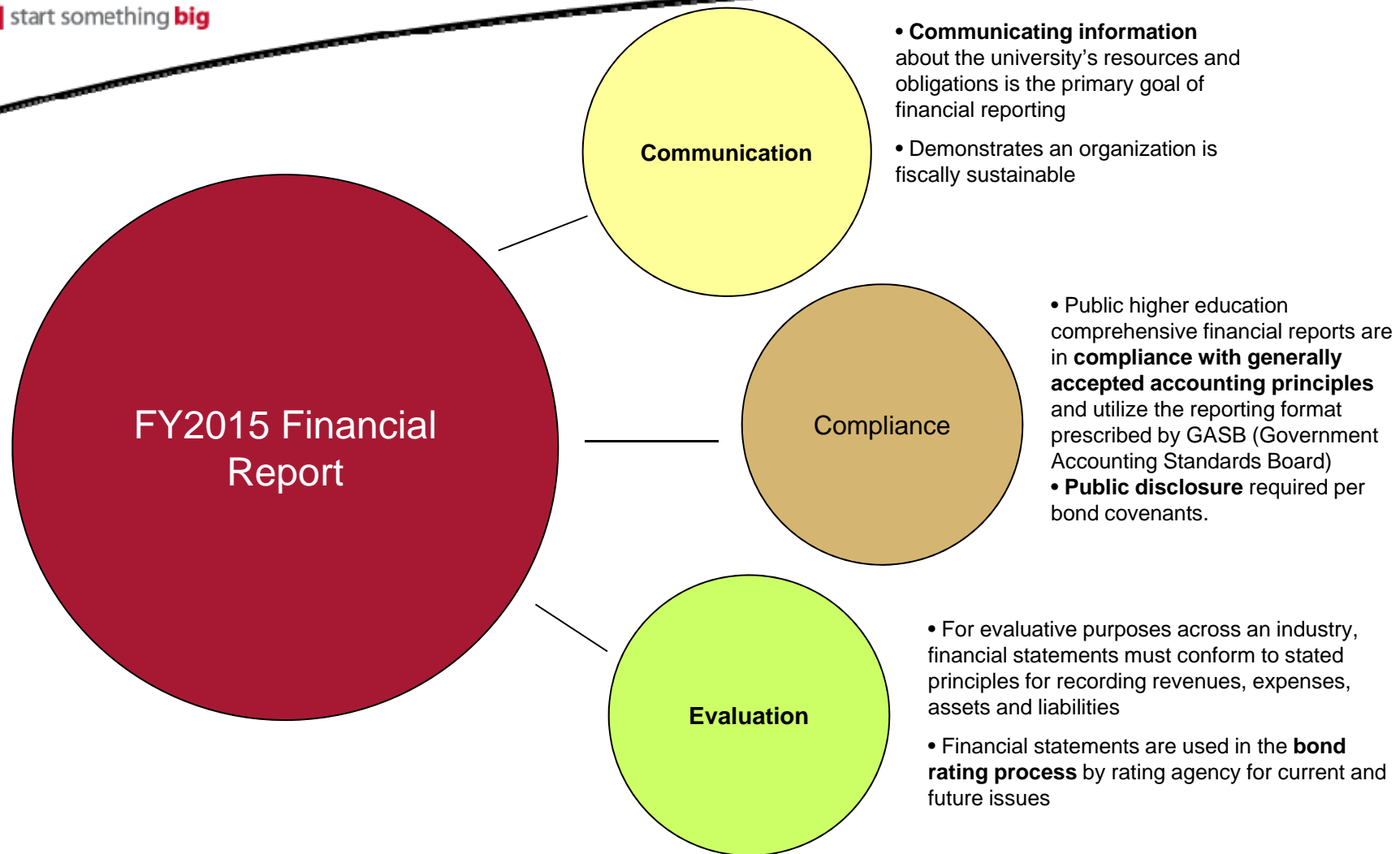
Financial Position impacted by statewide policy and budgetary decisions.

FY2015 FINANCIAL POSITION



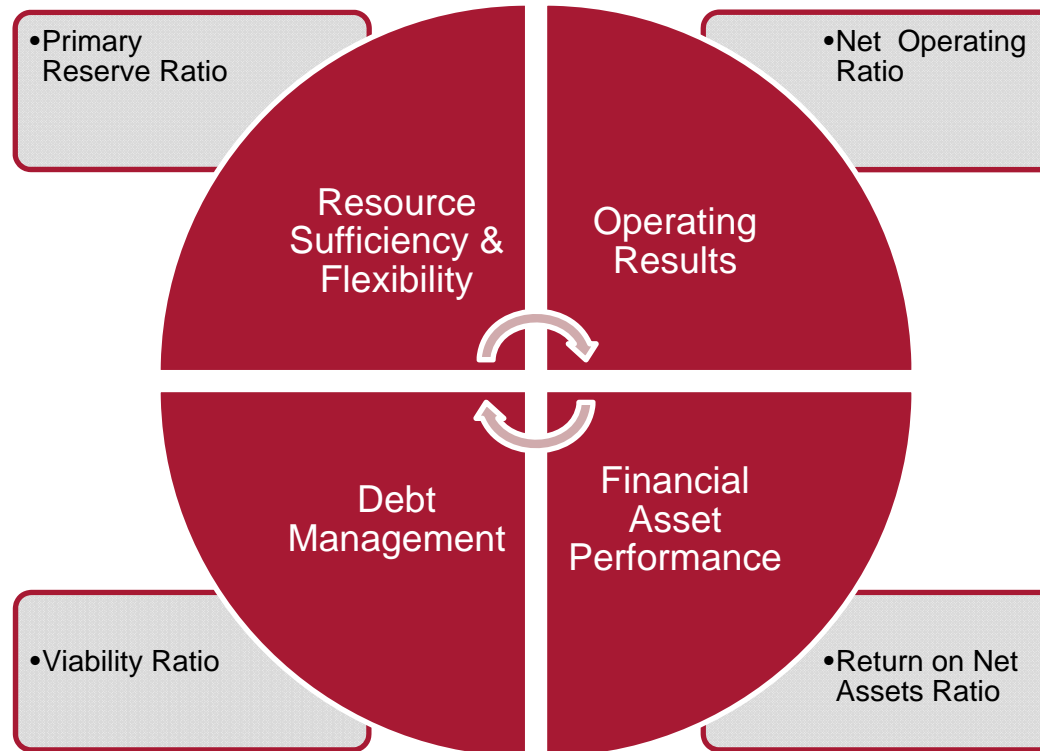
Financial Reporting

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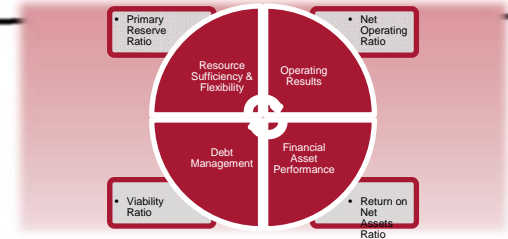
Measuring Financial Health

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Key Financial Performance Measures

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<p>Primary Reserve Ratio</p>	<p><i>Measures the financial strength of the institution by comparing expendable net position to total expenses. (Are resources sufficient and flexible enough to support the mission?)</i></p>
<p>Net Operating Ratio</p>	<p><i>Indicates surplus or deficit from operating activities. (Do operating results indicate the institution is living within available resources?)</i></p>
<p>Return on Net Assets Ratio</p>	<p>Determines whether the institution is financially better off than in previous years by measuring total economic return. (Does financial asset performance support the strategic mission?)</p>
<p>Viability Ratio</p>	<p><i>Measures the availability of Unrestricted Net Position to cover debt obligations at the balance sheet date. (Is debt managed strategically to advance the mission?)</i></p>



Retrospective

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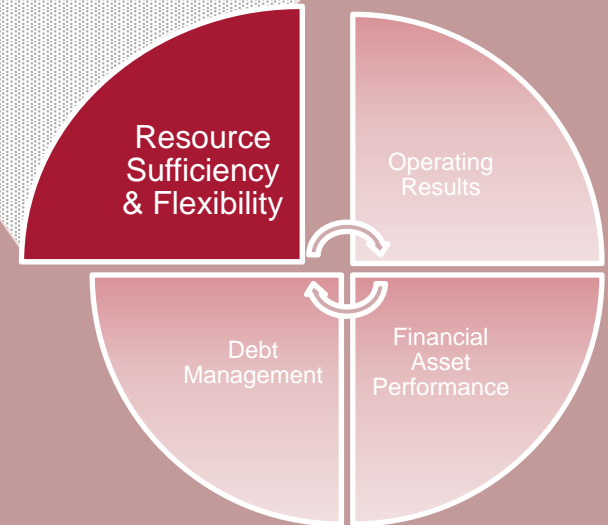
- EWU has successfully navigated through the economic downturn to retain a sound financial position
- Tuition policy continues to impact future opportunities
- State funding for core operations budget continues to be constrained
- Enrollment: focus on market position, demand, capacity.
- Declining state investment in deferred maintenance and capital funding presents a major issue for the future.



RESOURCE SUFFICIENCY AND FLEXIBILITY

To support the University's mission

- ❖ Planning
- ❖ State Funding and Tuition
- ❖ Enrollment
- ❖ Financial Aid



FINANCIAL PLANNING

*Biennial Budget Process
Long Term Planning*

Planning for Resource Sufficiency and Flexibility



Budget Process Relationship to Financial Reporting

Budget and Planning Process



- 2 year budget with internal planning for future biennia
- Multi-year enrollment planning
- Revenue forecast and projections
- Future cost impacts
- Analysis of reserves
- Strategies for revenues and funding
- Link to Strategic Plan

Financial Management

- ❖ On-going analysis of spend rate and cash balances
- ❖ Interim reporting
- ❖ Budget vs. Actual Revenues and Expenses
- ❖ Ongoing enrollment review
- ❖ Financial Aid review
- ❖ Capital Projects

Financial Reporting



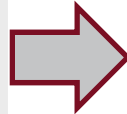
- Monthly- various financial reports are produced
- Variance reporting
- Benchmarking and industry level Analysis
- Audited annual financial statements
- Audited fund level financial statements for selected funds.



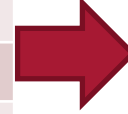
Planning Process Connects to Financial Reporting

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FUNDING SOURCES
OPERATING REVENUE
Education & General
• State Funds
• Tuition(net of discount)
• Dedicated local Funds
• Service Funds
Auxiliary Enterprises
Scholarships & Fellowships
Sponsored Program
CAPITAL FUNDING



BUDGET CATEGORIES
Salaries & Wages
Benefits
Operating Expenses
Debt Interest
Scholarships & Fellowships
Capital Budget



OPERATING STATEMENT
Salaries & Wages
Benefits
Operating Expenses
Debt Interest
Scholarships & Fellowships
Depreciation
Other Expenses

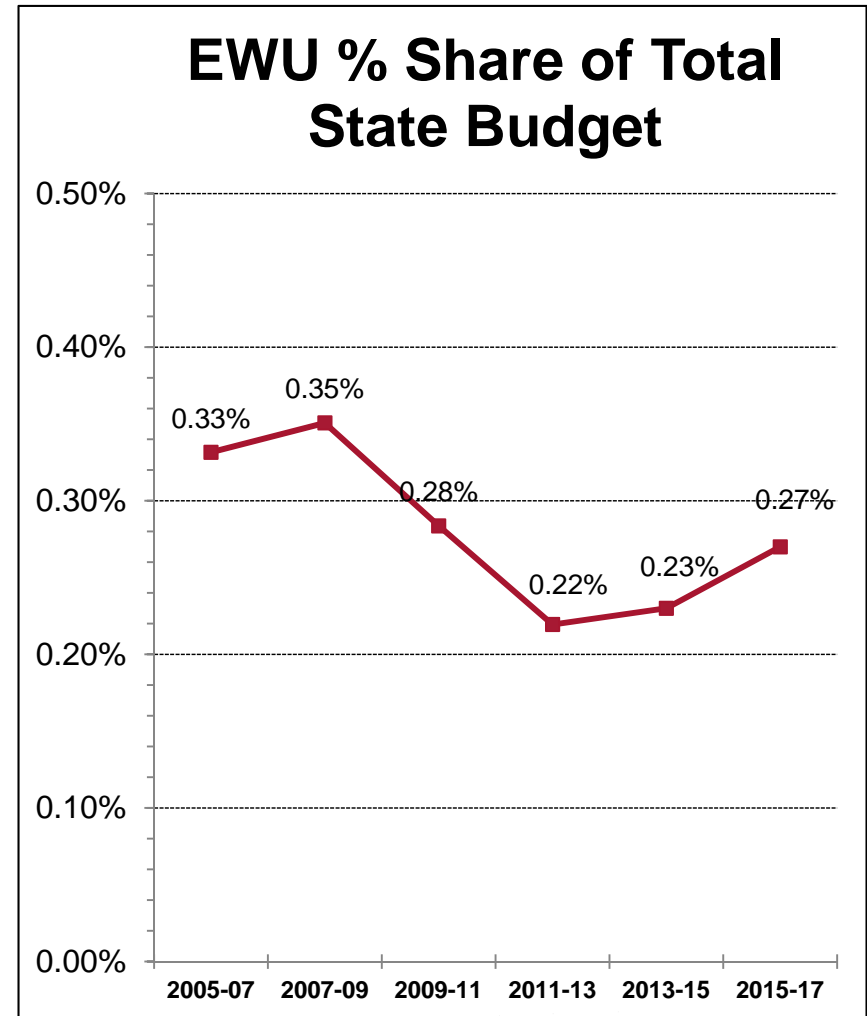
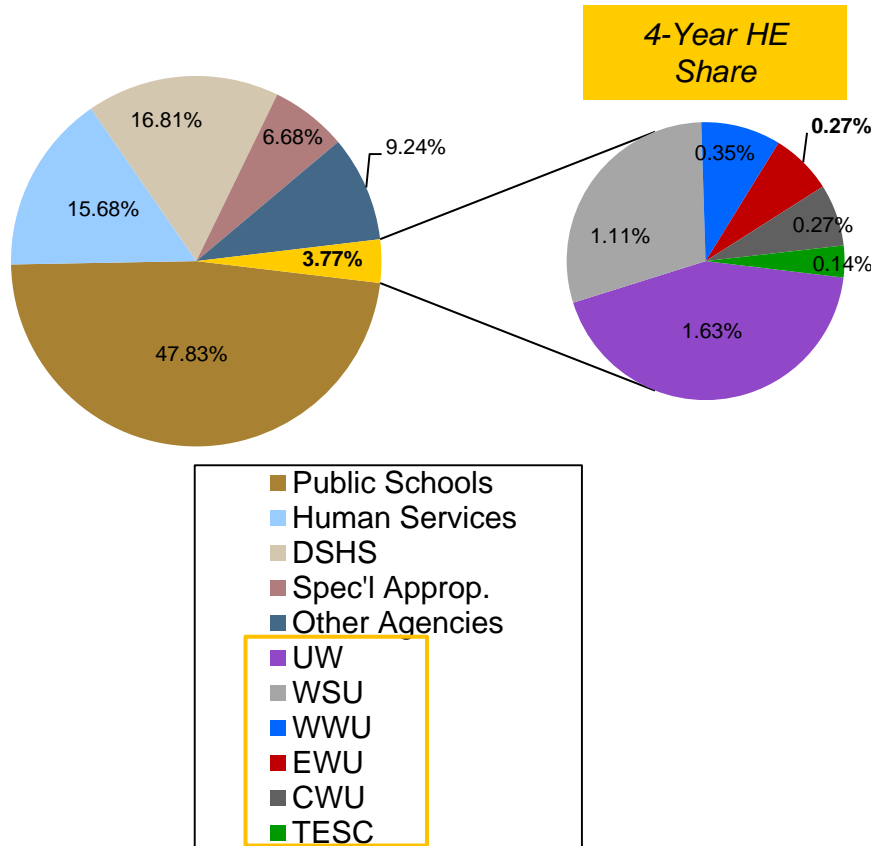
Adjust Budgetary Basis to GAAP	
→ Debt Principal	← Depreciation
→ Scholarship Allowance	
↔ Timing Differences and Other Reconciling Items	



EWU's Share of Total State GF

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Total 2015-17 Budget



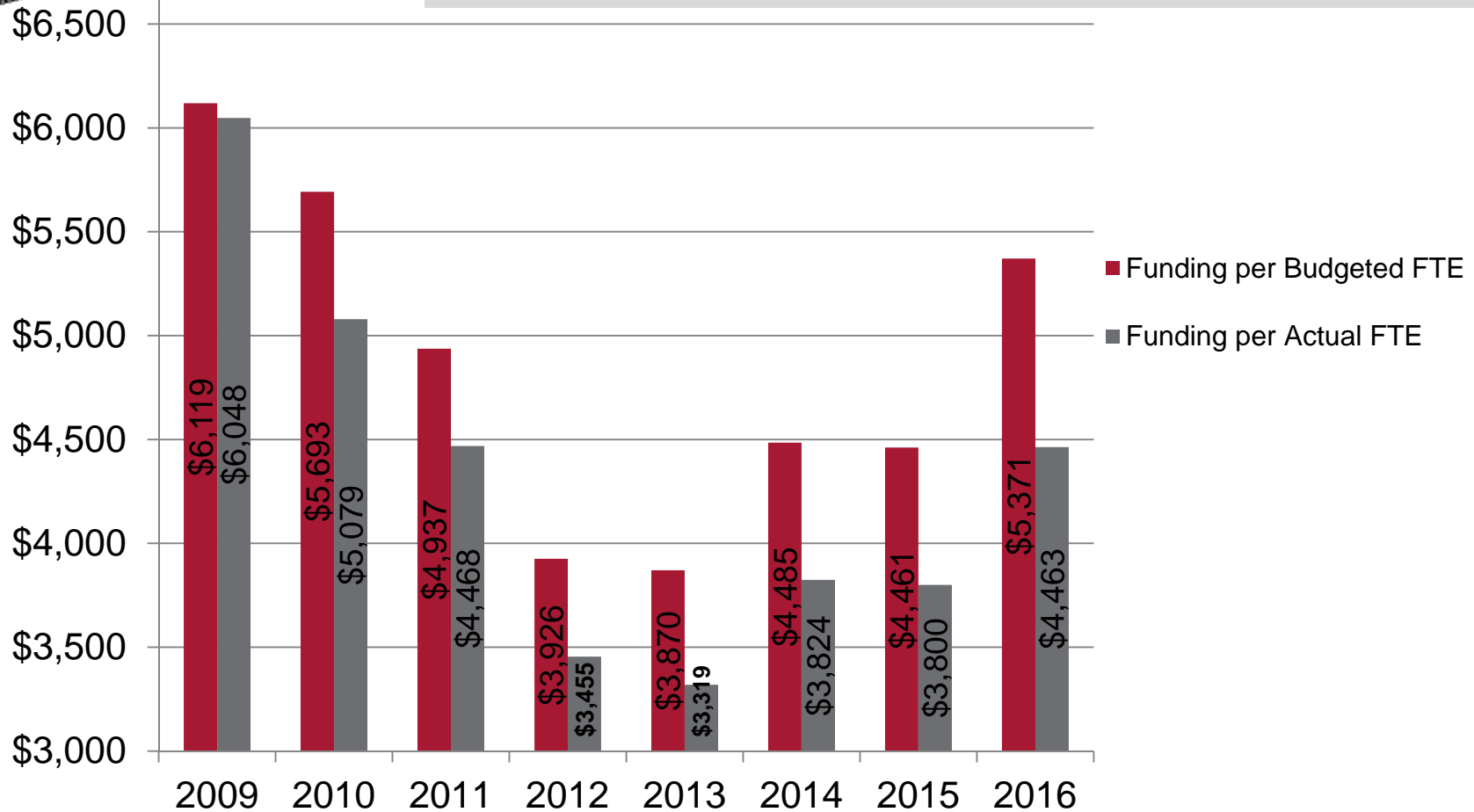
Source: fiscal.wa.gov - Operating Budget Statewide Summary



GF-State Funding per FTE Student

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EWU's GF-State funding per OFM Budgeted FTE declined by **67%** (\$2,577) between **FY2008** and **FY2013**, and increased **16%** (\$615) in **FY2014**. **FY2016** increased due to the College Affordability Act.



Source: Data based on GFS allocations and OFM budgeted state enrollments. 2016 projections based on original budget. Actual FTE funding based on GFS allocations and Annual Average state enrollments. 2016 projections based on original budget FTE at 10,407.

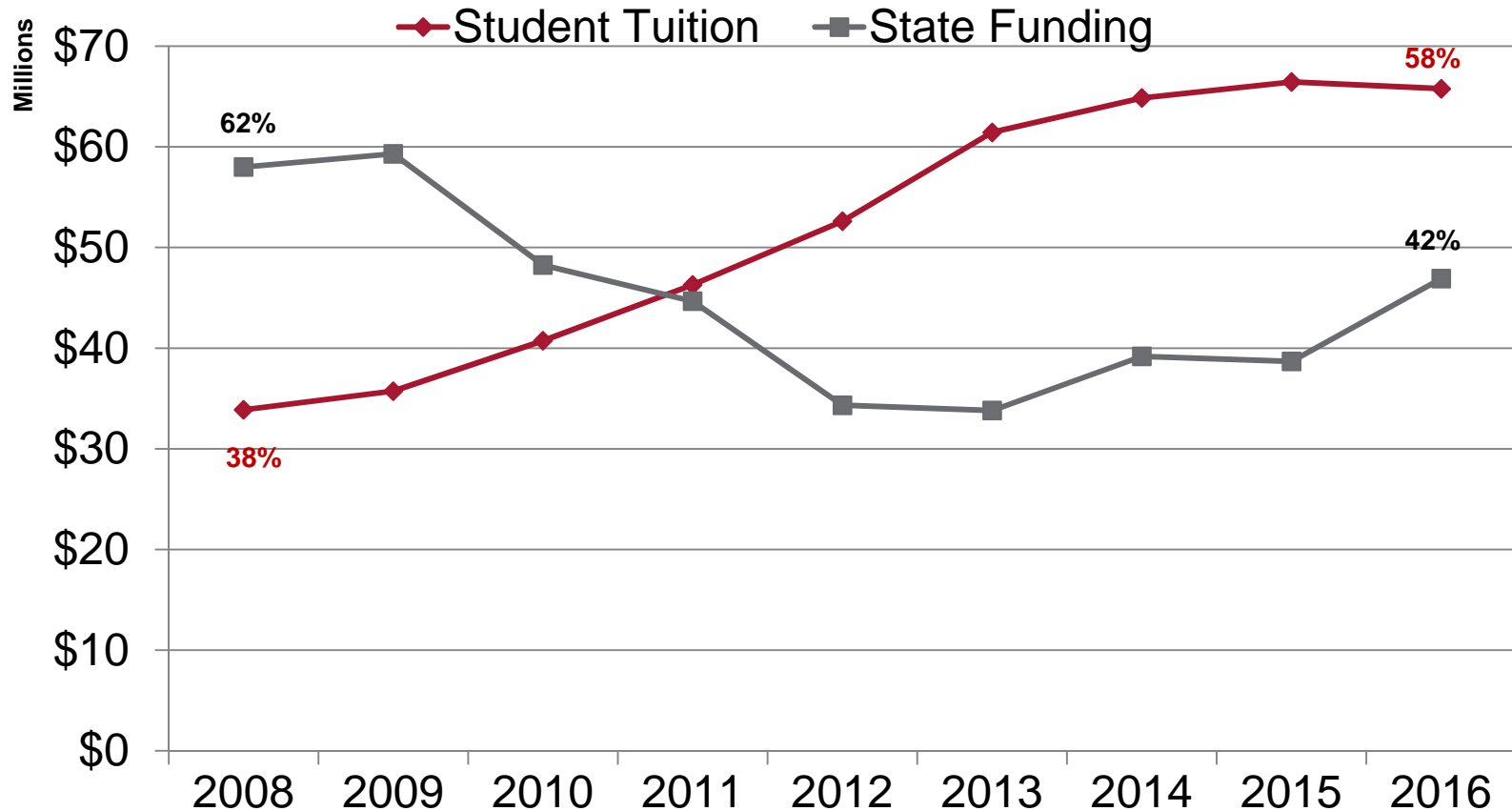


Key Funding Sources

State Funds and Student Tuition

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Since 2011, the state funding/student tuition balance in operating budget funding sources has shifted completely. Increased state funding FY16 is due to the College Affordability Act.



Source: FY2016 Original Budget BOT Presentation

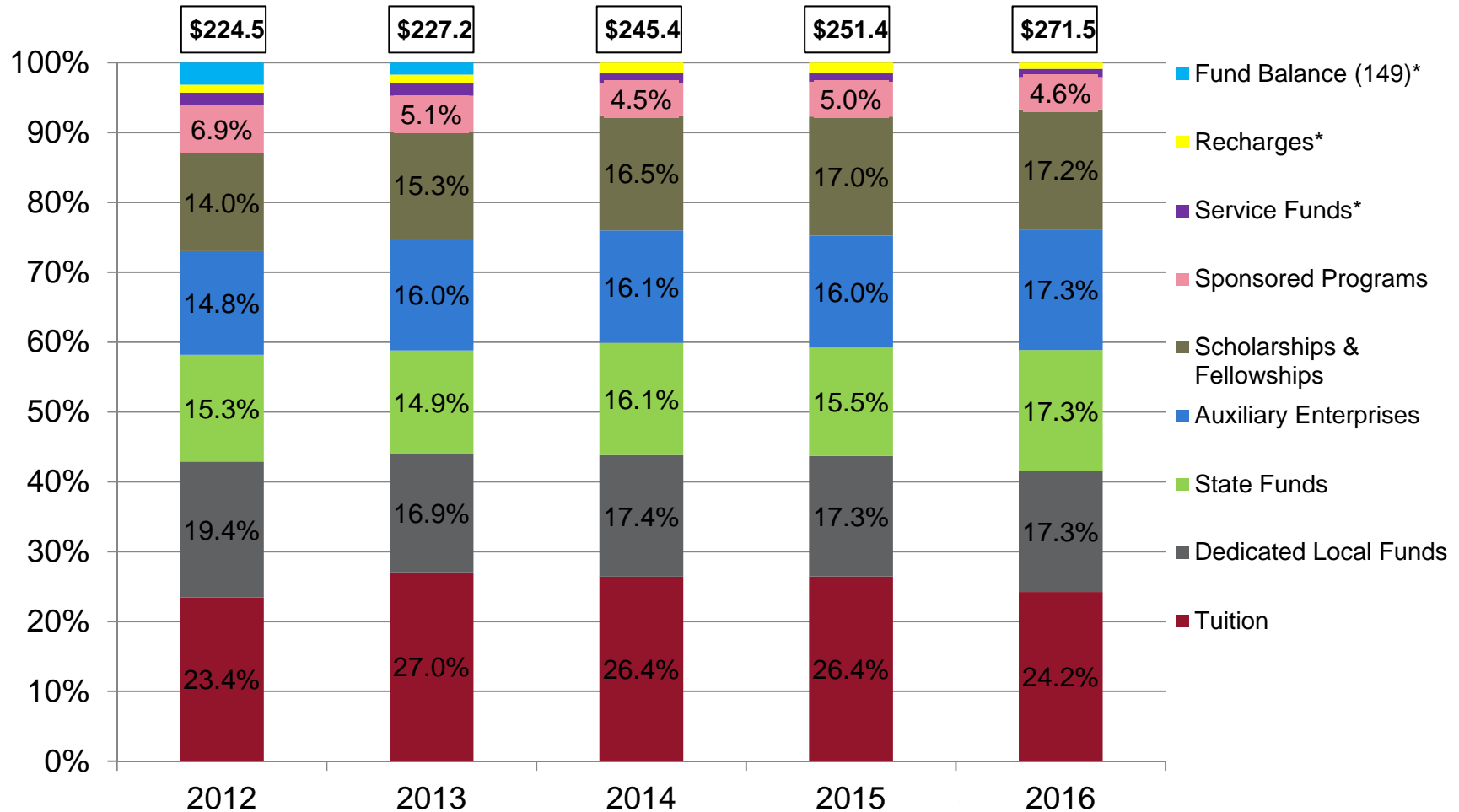


Institutional Annual Operating Budget History

Expenditures

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Eastern's total annual operating budget continues to grow with a 7.9% increase in FY2016. The increase is primarily due to state funding investment and growth in auxiliaries.



Source: FY2016 Original Budget BOT Presentation



ENROLLMENT REVIEW



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**Critical planning component underpinning resource
sufficiency and flexibility**

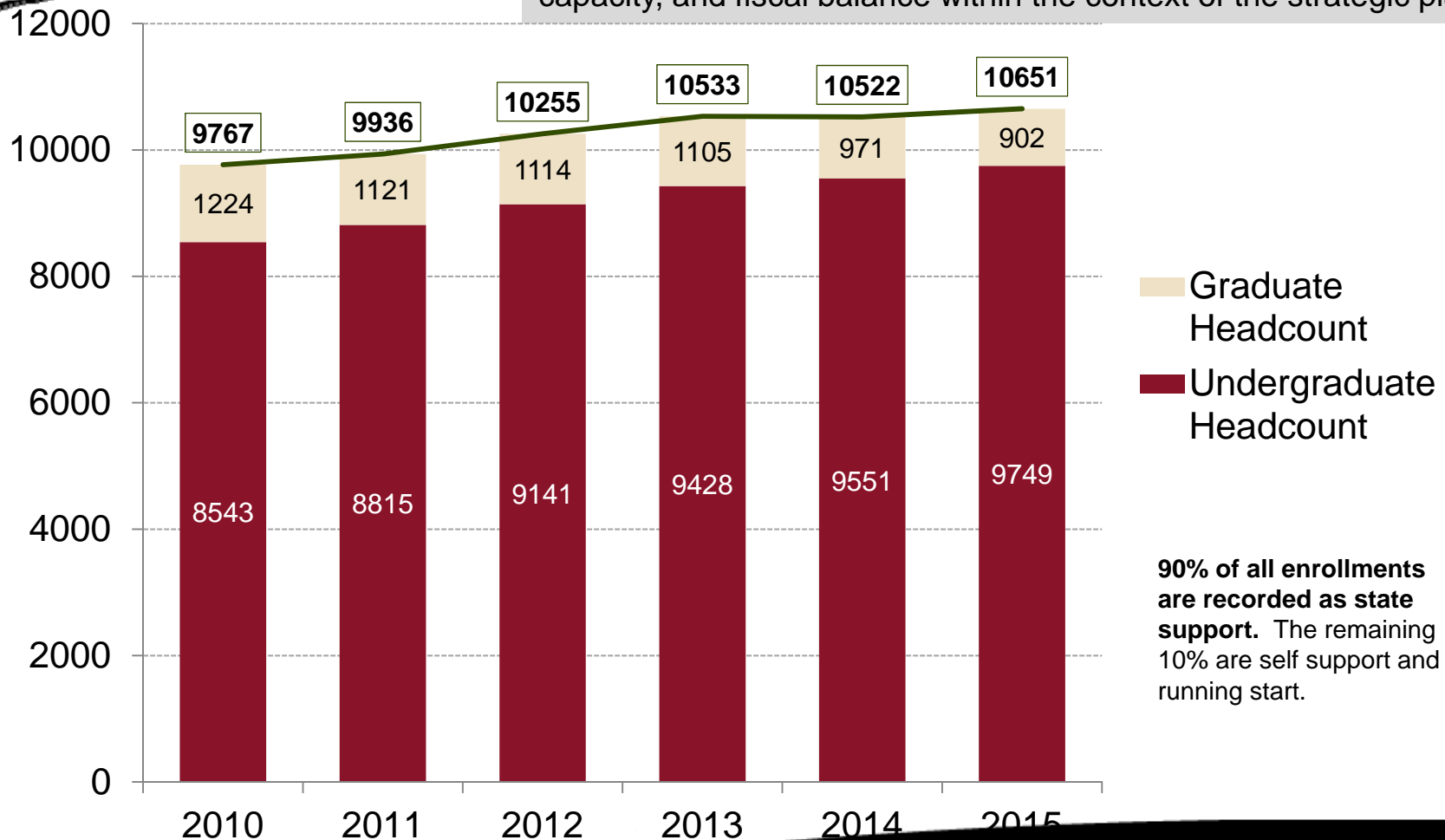


Academic Year Enrollments

State Support (AAHC)



Eastern's enrollments remain stable with undergraduate enrollments continuing to grow. Future enrollment goals will consider access, capacity, and fiscal balance within the context of the strategic plan.



Source: EWU Institutional Research

90% of all enrollments are recorded as state support. The remaining 10% are self support and running start.





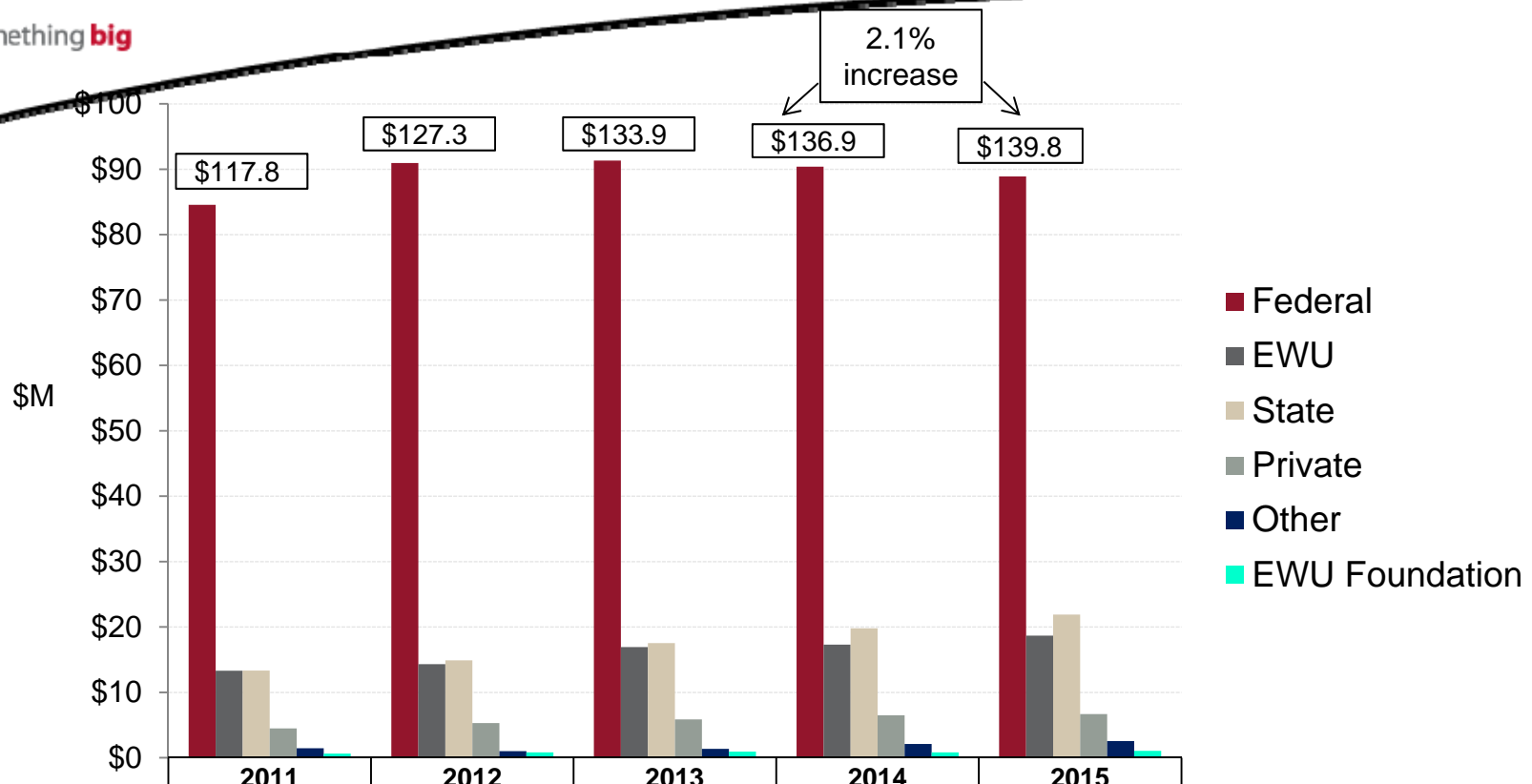
FINANCIAL AID FY2015

Affordability and access to higher education largely relies on ability to offer necessary levels and types of financial aid



Financial Aid – By Source

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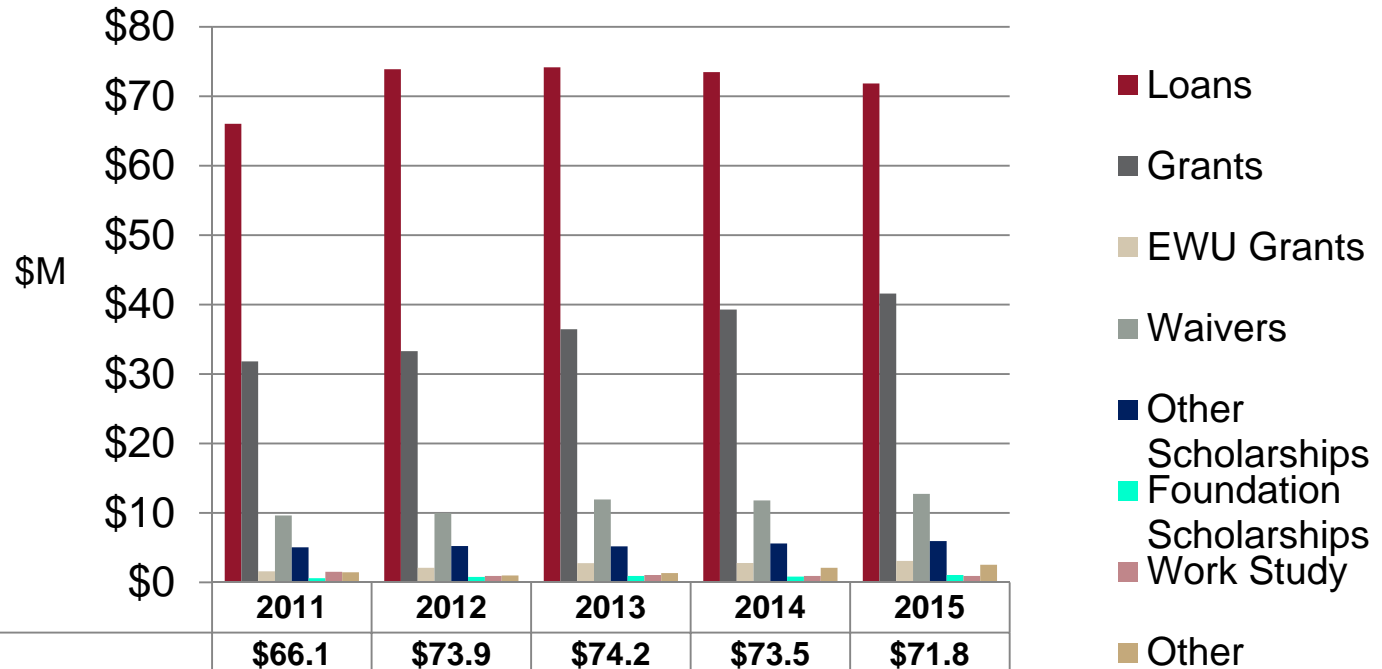
	2011	2012	2013	2014	2015
Federal	\$84.6	\$91.0	\$91.3	\$90.4	\$88.9
EWU	\$13.3	\$14.3	\$16.9	\$17.3	\$18.7
State	\$13.3	\$14.9	\$17.5	\$19.8	\$21.9
Private	\$4.5	\$5.3	\$5.9	\$6.5	\$6.7
Other	\$1.5	\$1.0	\$1.4	\$2.1	\$2.6
EWU Foundation	\$0.63	\$0.83	\$0.93	\$0.83	\$1.1

Source: Financial Aid Office



Financial Aid – by Type

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	2011	2012	2013	2014	2015
Loans	\$66.1	\$73.9	\$74.2	\$73.5	\$71.8
Grants	\$31.8	\$33.3	\$36.5	\$39.3	\$41.6
EWU Grants	\$1.6	\$2.1	\$2.8	\$2.8	\$3.1
Waivers	\$9.6	\$10.0	\$12.0	\$11.8	\$12.8
Other Scholarships	\$5.1	\$5.2	\$5.2	\$5.6	\$5.9
Foundation Scholarships	\$0.6	\$0.8	\$0.9	\$0.8	\$1.1
Work Study	\$1.5	\$0.9	\$1.1	\$0.9	\$0.9
Other	\$1.5	\$1.0	\$1.4	\$2.1	\$2.5

Source: Financial Aid Office

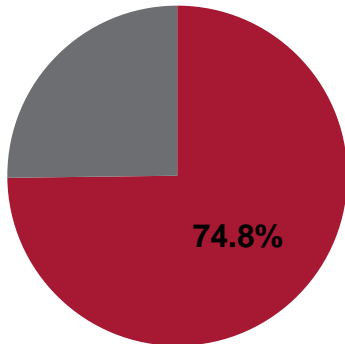


Financial Aid Fall 2014

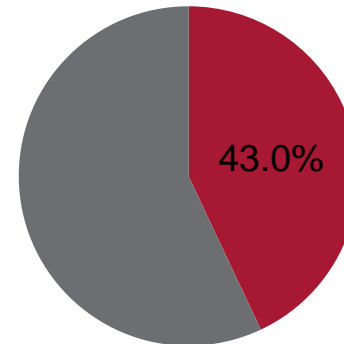
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10,065 Students Received Financial Aid

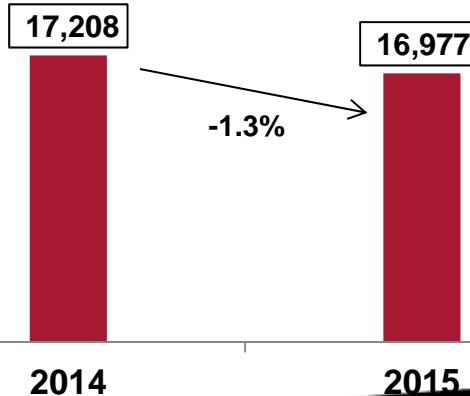
Percentage of students receiving Financial Aid



Percentage of students receiving Pell Grants



Applications Processed

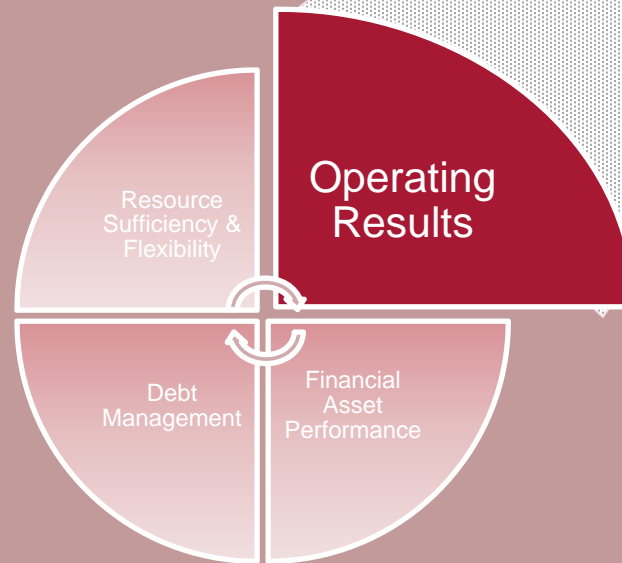


Source: Financial Aid Office



OPERATING RESULTS

- ❖ Income Statement
 - Revenue
 - Expenses
 - Net Assets



Do the operating results indicate the university is managed within available resources?



What does the Operating Statement mean?

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At any level of overall university assets, Eastern must live within it's annual income over time.

Presents a change in net financial position over the prior year

Analysis of performance of the university across the industry.

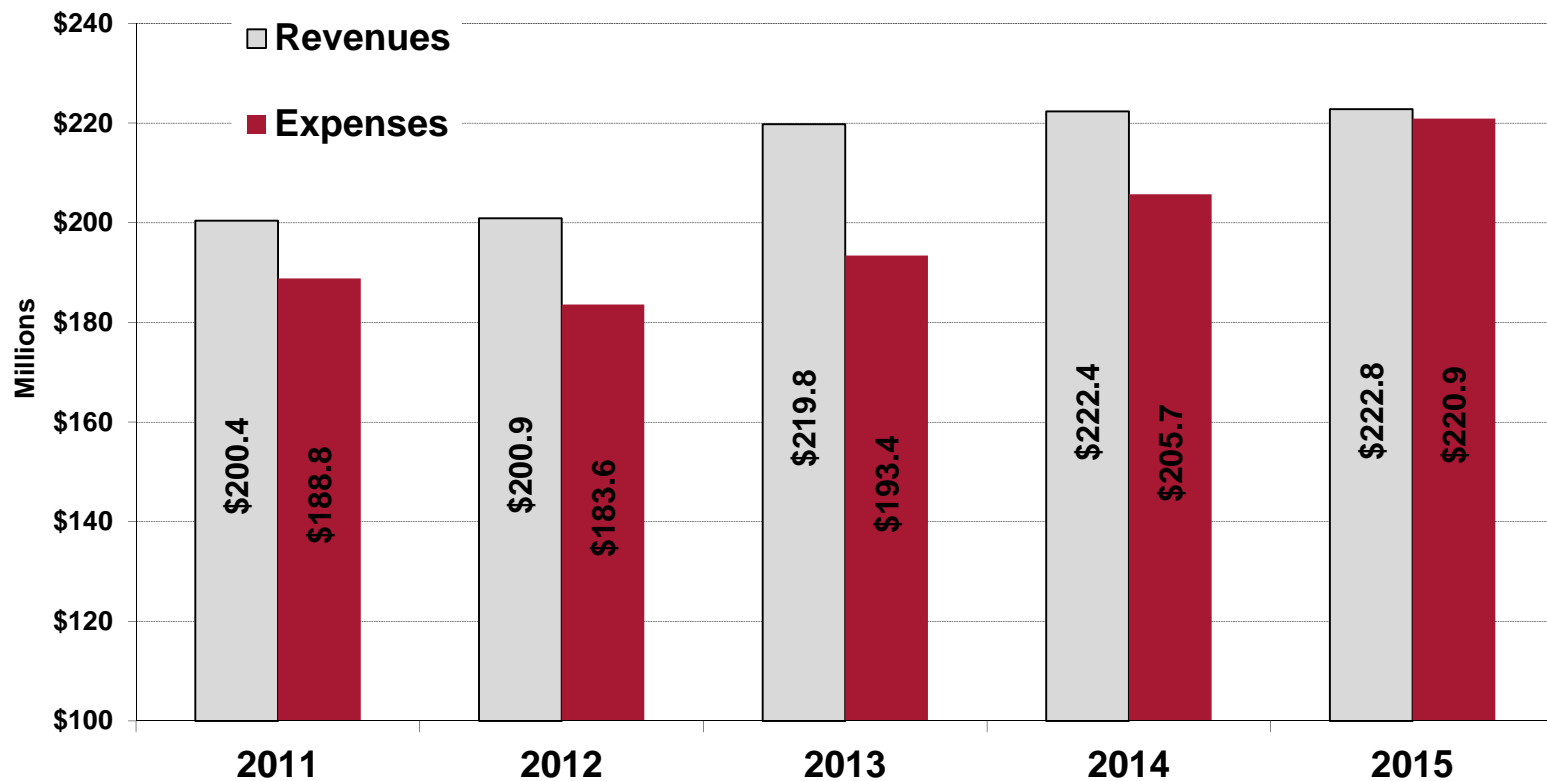
Expenditures represent the cost of providing services in support of achieving the institutional mission.



University Revenues, Expenses and Changes in Net Position

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Operating revenues increased 6% compared to FY14, while operating expenses increased 7.4%



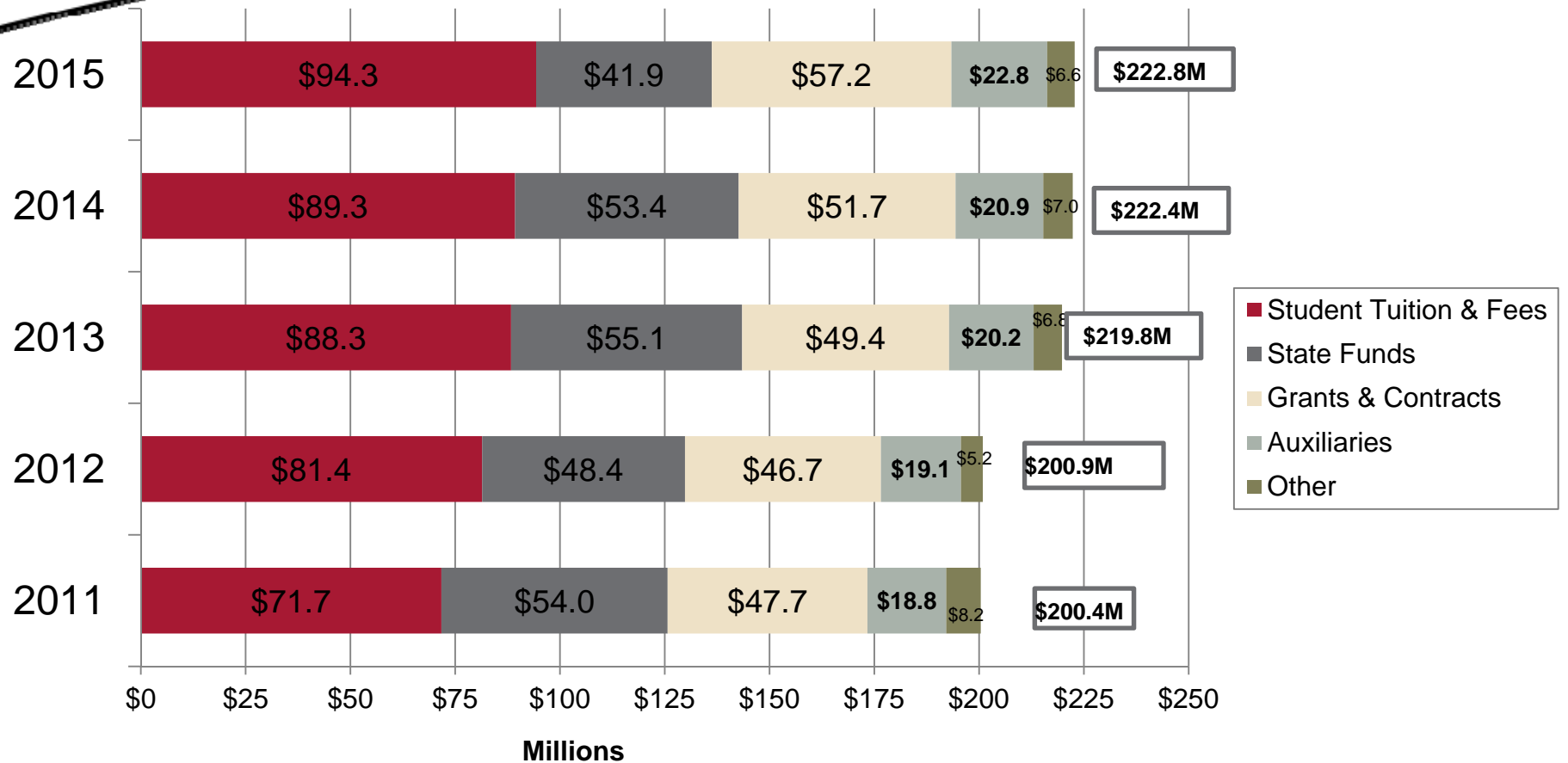
Source: EWU Office of Controller
FY 2015 Financial Report



University Revenues

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Eastern's revenue remained stable in FY 2015. Increases in tuition & fees and grants & contracts offset decreases in operating and capital appropriations.



Source: EWU Office of Controller
FY 2015 Financial Report



Key Revenue Indicators

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12% increase in reliance on student tuition and fees from 2010 to 2015.

Tuition Dependency Ratio

Net tuition and fees plus governmental grants to the institution for student tuition divided by the sum of operating and non-operating revenues

FY2010	51.1%
FY2011	54.7%
FY2012	61.9%
FY2013	62.6%
FY2014	62.0%
FY2015	62.7%



Key Revenue Indicators

start something **big**

State appropriations covered a smaller portion of operating expenses in FY15.

Contribution Ratio <i>Shows portion of revenue by category to support actual operating expenses</i>	2014	2015
Student Tuition and Fees	43.9%	43.1%
State Appropriations – Operating	19.2%	17.7%
State and Local Grants & Contracts	11.9%	12.2%
Auxiliary Services	10.3%	10.4%
Pell Grant	9.8%	9.3%
Federal Grants & Contracts	2.2%	2.4%
Investment Earnings	2.5%	1.7%
State Appropriations – NCFI	0.4%	0.0%
Non-Governmental Grants & Contracts	1.6%	2.3%
Other Revenues	1.0%	1.3%

Source: EWU Office of Controller

Note: Excludes state capital appropriations and contributions to permanent university endowments

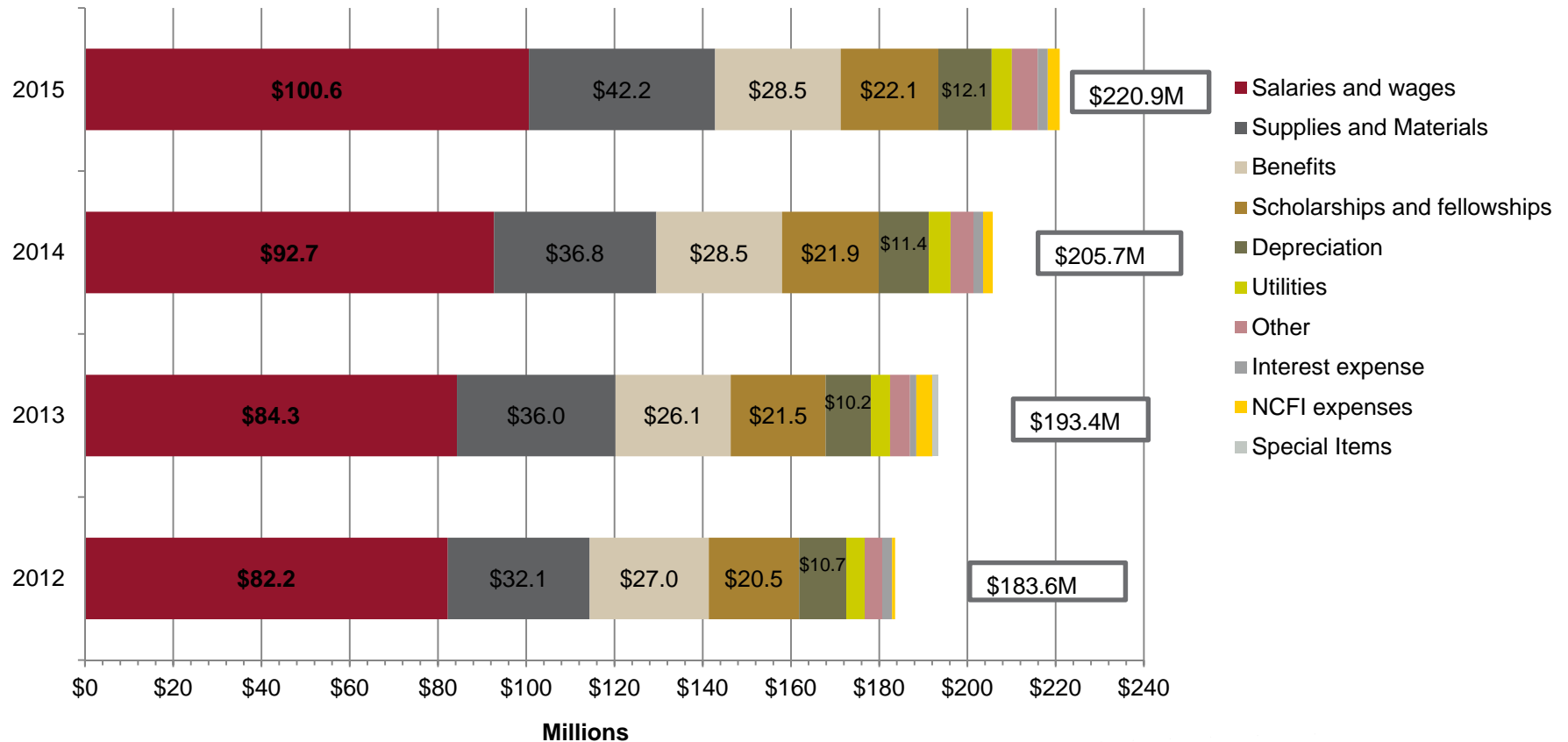
FY 2015 Financial Report



University Expenses by Type

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FY15 University expenses increased 7.4% over FY14.



Source: EWU Office of Controller
FY 2015 Financial Report

Expenditure Indicators

Demand by programmatic categories remained relatively stable in FY2015.

Demand Ratio <i>Trend analysis to determine when a particular category of expenses is consuming a growing or dwindling share of student-generated revenues</i>	2013	2014	2015
Instruction	31.1%	32.8%	33.4%
Research	0.6%	0.5%	0.6%
Public Service	2.6%	2.6%	2.9%
Academic Support	6.2%	7.1%	6.6%
Student Services	7.5%	7.9%	8.2%
Institutional Support	7.1%	7.6%	8.0%
Operations & Maintenance	10.4%	9.2%	9.0%
Scholarships & Fellowships	11.1%	10.8%	10.5%
Auxiliary Enterprises	15.1%	15.6%	16.7%
Depreciation	5.2%	5.6%	5.6%

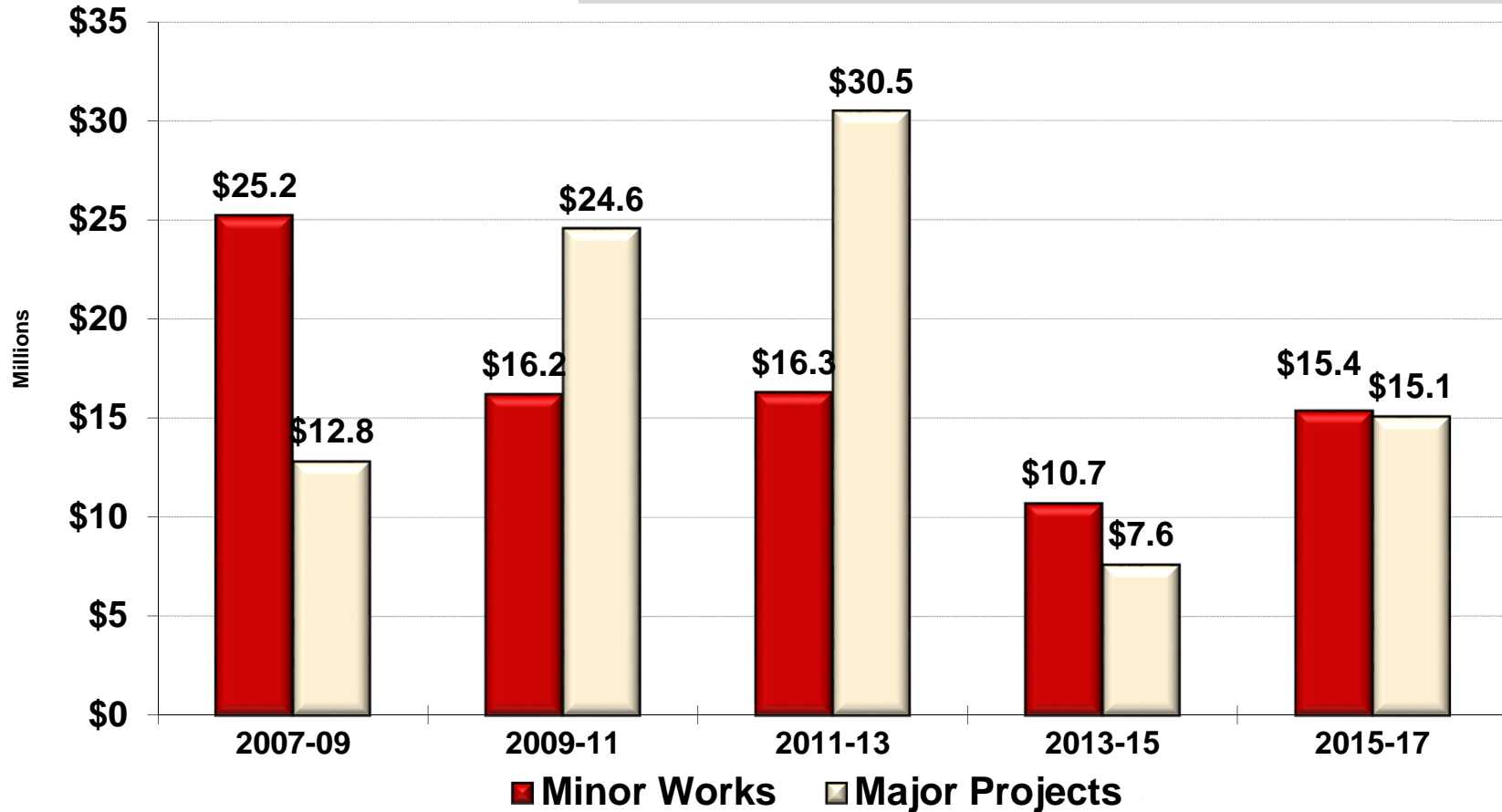
Source: EWU Office of Controller
FY 2015 Financial Report



Capital Appropriation History

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State capital funding can fluctuate between biennia and types of projects funded. 2013-15 reflects a dramatic decrease in major projects and minor works funding due to recession impacts.



Source: Appropriation schedule - New appropriations only



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Does financial asset performance support the strategic mission?

BALANCE SHEET AND INDICATORS

FY2015 (PRELIMINARY, UNAUDITED)



What does the Balance Sheet represent?

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University Assets and Liabilities at a point in time

A Comprehensive View of all that Eastern Owns... and all that Eastern Owes

Peer analysis of Performance within an industry

Analyze Debt Capacity for future capital investments



Balance Sheet Overview

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FY15 Unrestricted Net Position and total liabilities were affected by new accounting treatment for pension liabilities.

All Funds	2014 (millions)	2015 (millions)
Total Assets	\$457.9	\$464.0
Total Liabilities	\$85.6	\$107.9
Net Position (at June 30)	\$372.4	\$351.0

FY 2015 Major components-

Cash and investments **\$140.6M** or **30%** of total assets

Capital assets (land, building, equipment) **\$303.3M** or **65%** of total assets

Long term debt **\$54.4M** or **50%** of total liabilities

Unrestricted net assets (not legally restricted) **\$74.7M** or **21%** of net position

Source: EWU Office of Controller
FY2015 Financial Report

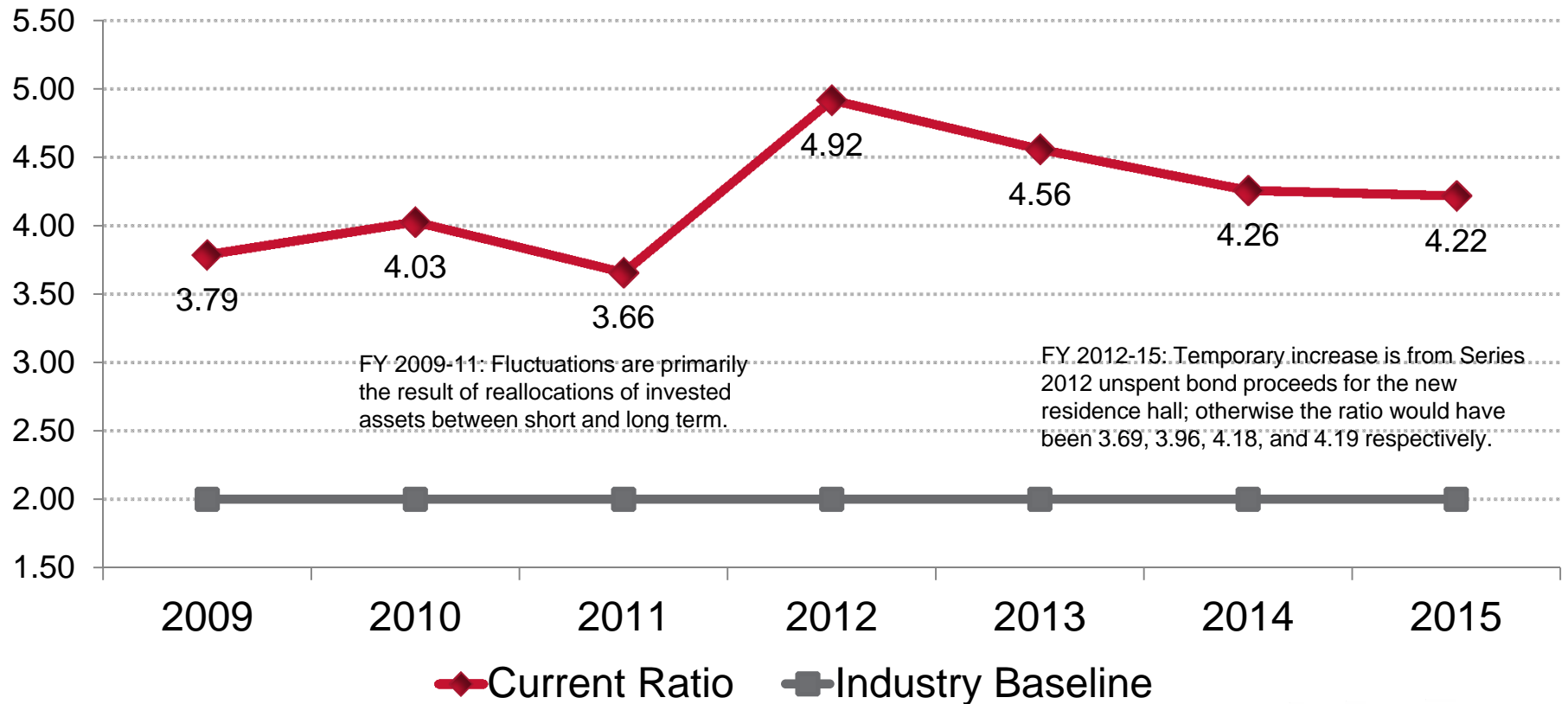


Key Balance Sheet Indicators

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Eastern has consistently remained above the industry baseline with about \$4 to cover every \$1 of current liabilities.

Current Ratio: Measure of Liquidity

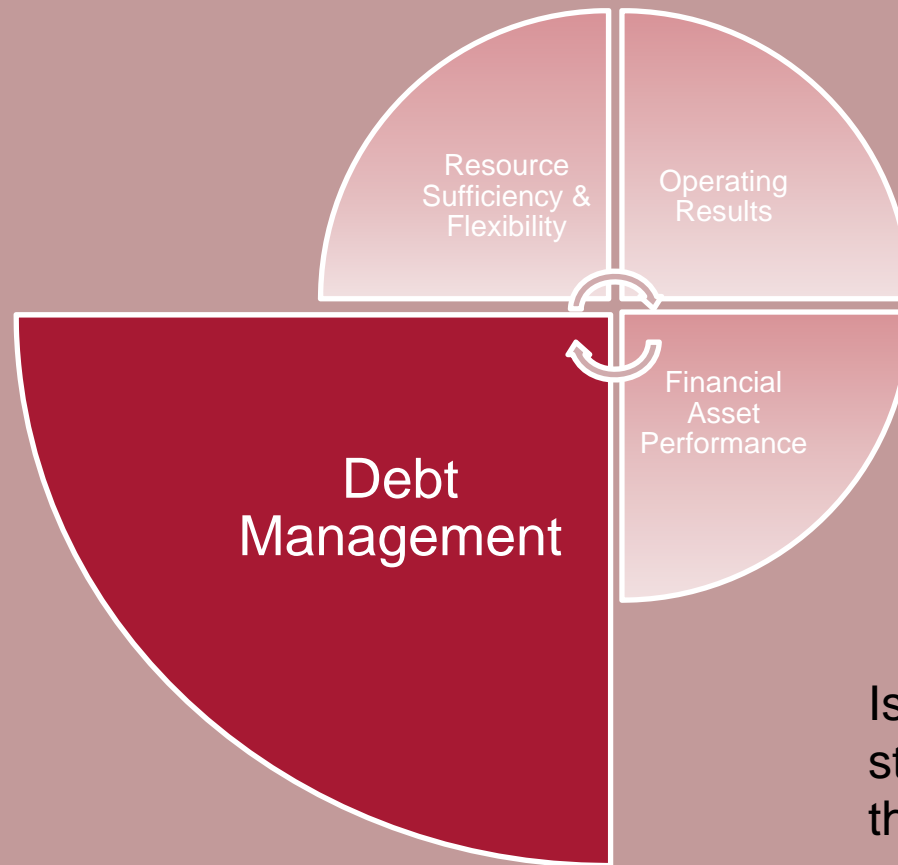


Source: EWU Office of Controller
FY 2015 Financial Report



Debt Management

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Is debt managed strategically to advance the University's mission?



Debt Management and Oversight

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- University Policy
- Debt Issuance approved by Board of Trustees
- Annual Report to Board of Trustees
 - Compliance with policy
 - Review of existing debt and associated covenants
 - Debt capacity analysis
 - Long term capital plans that require financing
 - Pending debt financed projects

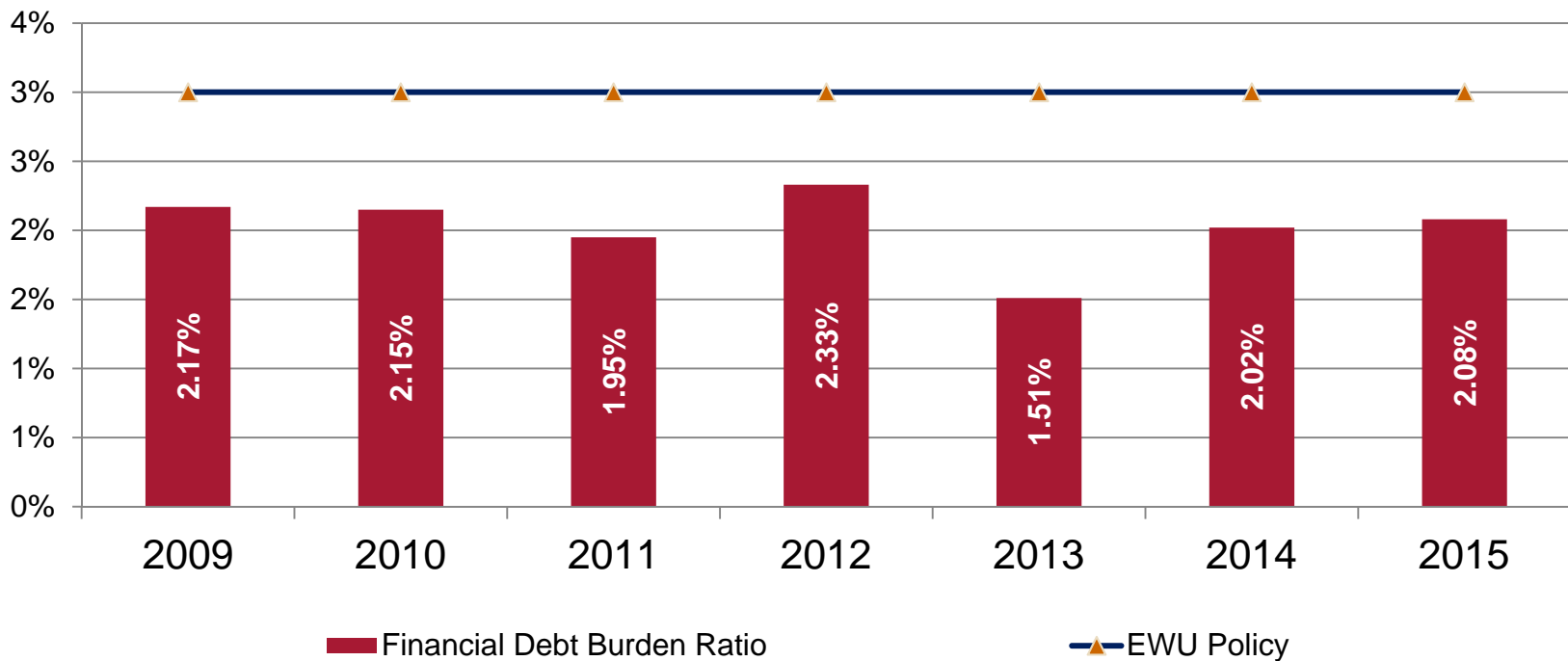


Key Balance Sheet Indicators

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Eastern is managing debt levels in compliance with the University debt policy.

Financial Debt Burden Ratio: Measures dependence on debt as a source of financing the mission



Source: EWU Office of Controller
FY 2015 Financial Report

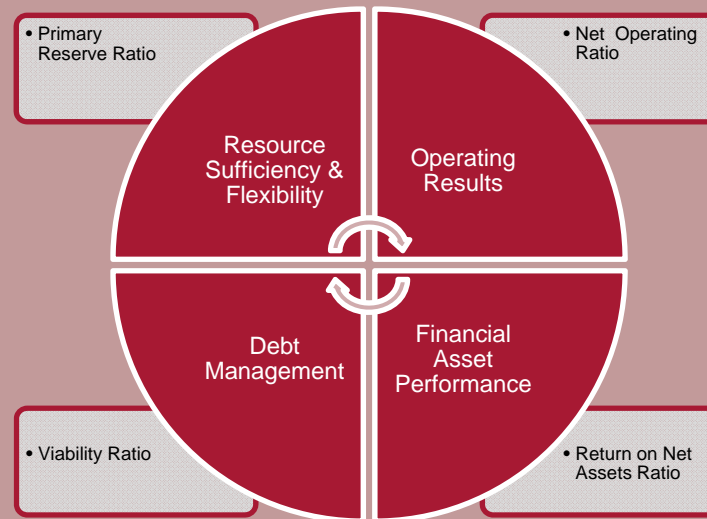
The FY 2014 ratio reflects the first
principal payment on the Series 2012
bonds.



Summary

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EWU's Financial Performance Profile



EWU Financial Health

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	FY2012	FY2013	FY2014	FY2015
Primary Reserve ratio	.48x	.52x	.53x	.40x

Primary Reserve Ratio provides a snapshot of financial strength by indicating how long the institution could function on expendable reserves without relying on additional net position to be generated by operations – a ratio above .40x is advisable.

Net Operating Revenue ratio	2.32%	4.54%	1.59%	-0.67%
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Net Operating Ratio measures net operating revenues (expenses) in contrast to total operating revenues – the targeted ratio should be between 2%-4% over an extended time period. The decrease in FY14 and FY15 was primarily due to tapering revenue growth, increased compensation costs, and strategic use of reserves.

Source: EWU Office of Controller
FY 2015 Financial Report



EWU Financial Health

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	FY2012	FY2013	FY2014	FY2015
Return on Net Position ratio	5.54%	8.01%	4.67%	0.54%

A positive return on net position indicates that the institution is better off than it was at the beginning of the year. An improving trend in this ratio is indicative of increasing net position that will strengthen the institution's financial future. The FY15 ratio is impacted by tapering revenues and increased operating costs. A ratio between 3%-4% should be targeted.

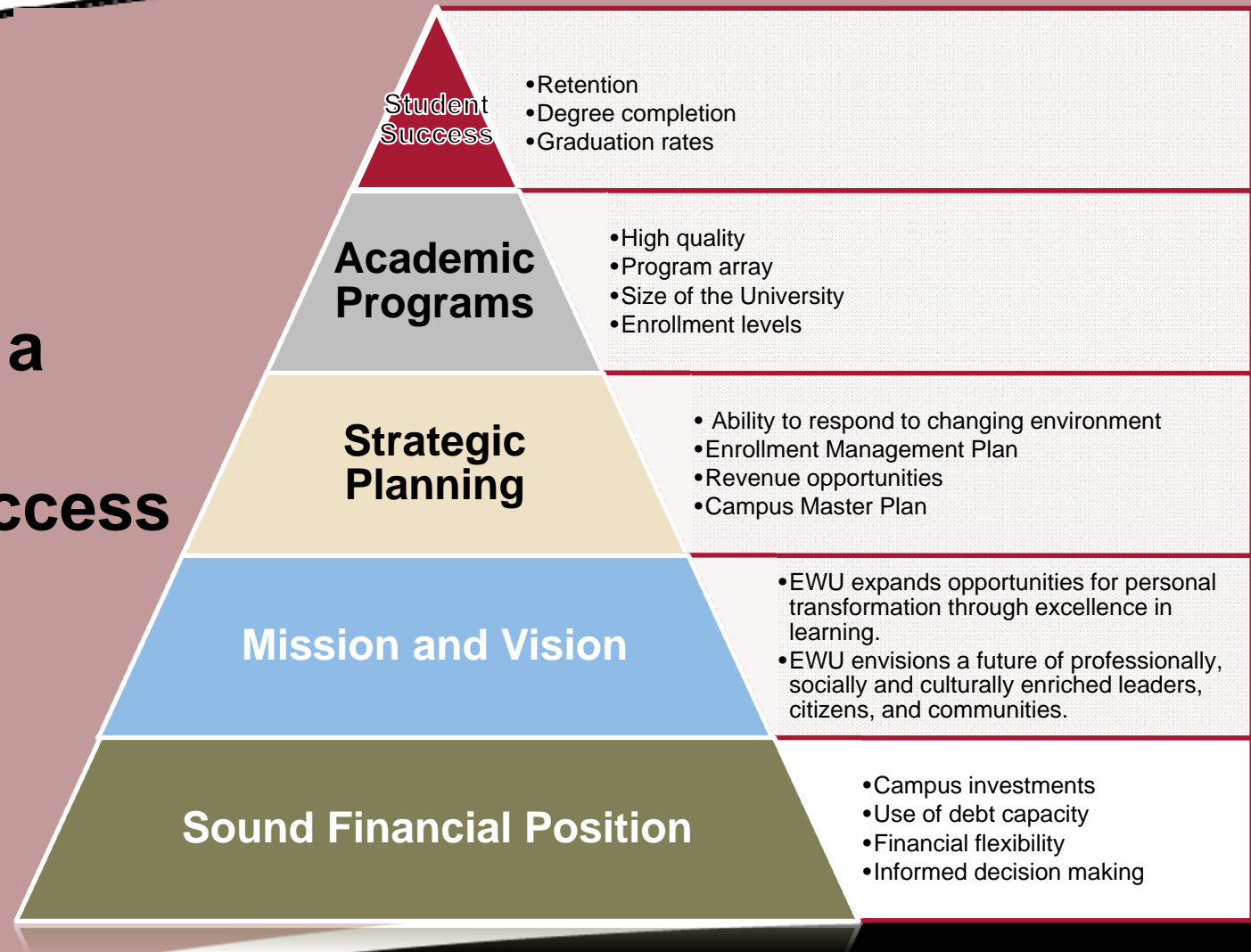
Viability ratio	1.33x	1.53x	1.68x	1.37x
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A ratio of >1 indicates the institution has sufficient Unrestricted Net Position to satisfy debt obligations.

Source: EWU Office of Controller
FY 2015 Financial Report



University Financial Position as a Basis for Student Success



Future Financial Impacts

Enrollment

- Strategic Enrollment Plan will shape Eastern's future enrollment mix and size
- Affordability and access
- Diverse enrollment mix
- Higher education participation rates...focus on 4 year sector
- Impact of enrollment growth on revenue

Revenues

- State investment in higher education
- Tuition policy
- Annual revenue growth rate v. inflation and expenses
- Fully allocated revenue base- to invest further requires additional resources

Costs and Investments

- Salary and benefits
- Enhanced investment in student success measures
- Continued growth in deferred maintenance backlog
- Renewal and investment in technology
- Financial aid needs



CONCLUSION

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Eastern Washington University's continued financial stability will enable fulfillment of our mission.





EASTERN
WASHINGTON UNIVERSITY

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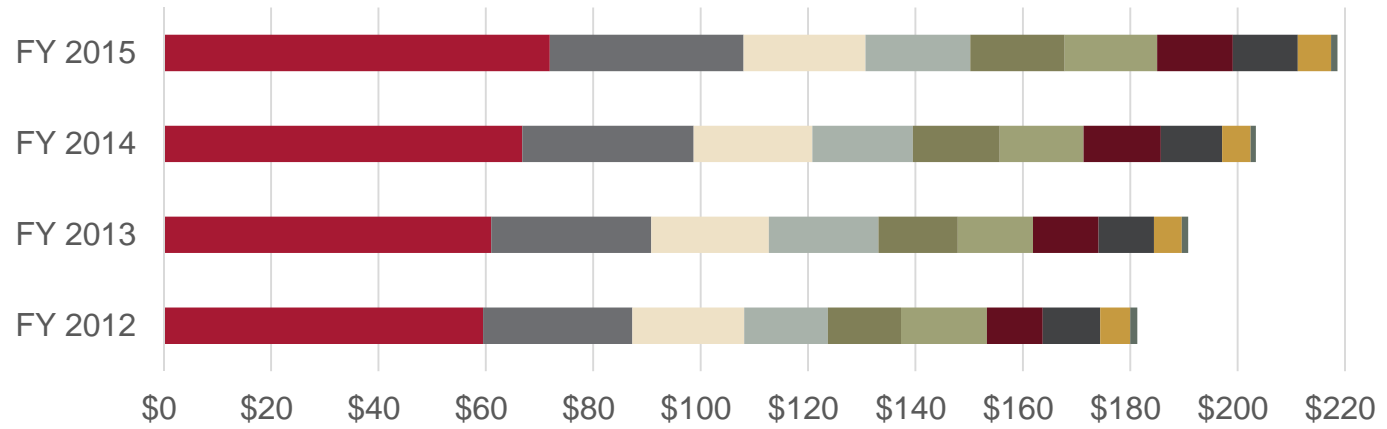
APPENDIX

Additional Selected Information



Operating Expenses by Function

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	FY 2012	FY 2013	FY 2014	FY 2015
■ Instruction	\$59.5	\$61.0	\$66.8	\$71.9
■ Auxiliary Services	\$27.8	\$29.8	\$31.9	\$36.1
■ Scholarships & fellowships	\$20.8	\$21.9	\$22.1	\$22.7
■ Operation & maintenance of plant	\$15.6	\$20.4	\$18.7	\$19.5
■ Student services	\$13.6	\$14.8	\$16.2	\$17.6
■ Institutional support	\$16.0	\$14.0	\$15.6	\$17.2
■ Academic support	\$10.4	\$12.2	\$14.4	\$14.1
■ Depreciation	\$10.7	\$10.3	\$11.4	\$12.1
■ Public service	\$5.6	\$5.2	\$5.3	\$6.2
■ Research	\$1.3	\$1.2	\$1.0	\$1.2



Key Balance Sheet Indicators

■ start something **big**

Indicates relative advantage in meeting current obligations.

Annual Days Cash on Hand

Measures the number of days an institution is able to operate - cover its cash operating expenses

Prelim 2015 Eastern Washington University	242
2014 Eastern Washington University	246
2014 Median WA Public Universities	126
2014 Median A1 Public Universities (industry peers)	144
Eastern Washington University Dashboard Indicator	Good

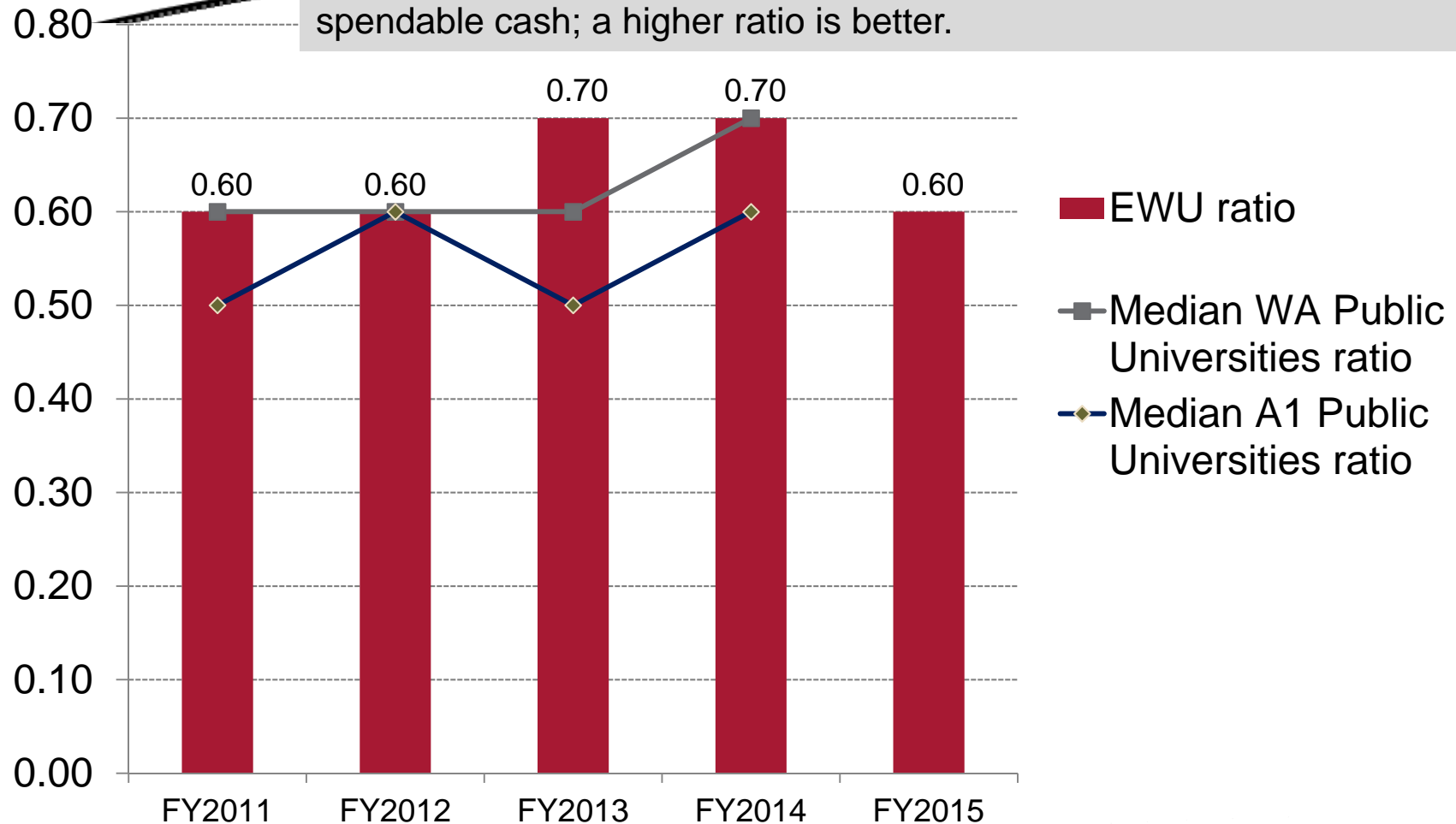
Source: EWU Office of Controller. Peer data from MFRA (Moody's)
FY 2015 Financial Report



Spendable Cash and Investments to Expenses

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Nearly two thirds of EWU's annual expenses could be covered by spendable cash; a higher ratio is better.



Source: EWU Office of Controller. Peer data from MFRA (Moody's)
FY 2015 Financial Report



Key Balance Sheet Indicators



This indicator suggests Eastern could rely on existing resources to operate in times of revenue volatility.

Spendable Cash and Investments to Expenses

Measures coverage of annual operations by the most liquid resources

Prelim 2015 Eastern Washington University	.60x
2014 Eastern Washington University	.70x
2014 Median WA Public Universities	.70x
2014 Median A1 Public Universities (industry peers)	.60x
Eastern Washington University Dashboard Indicator	Good

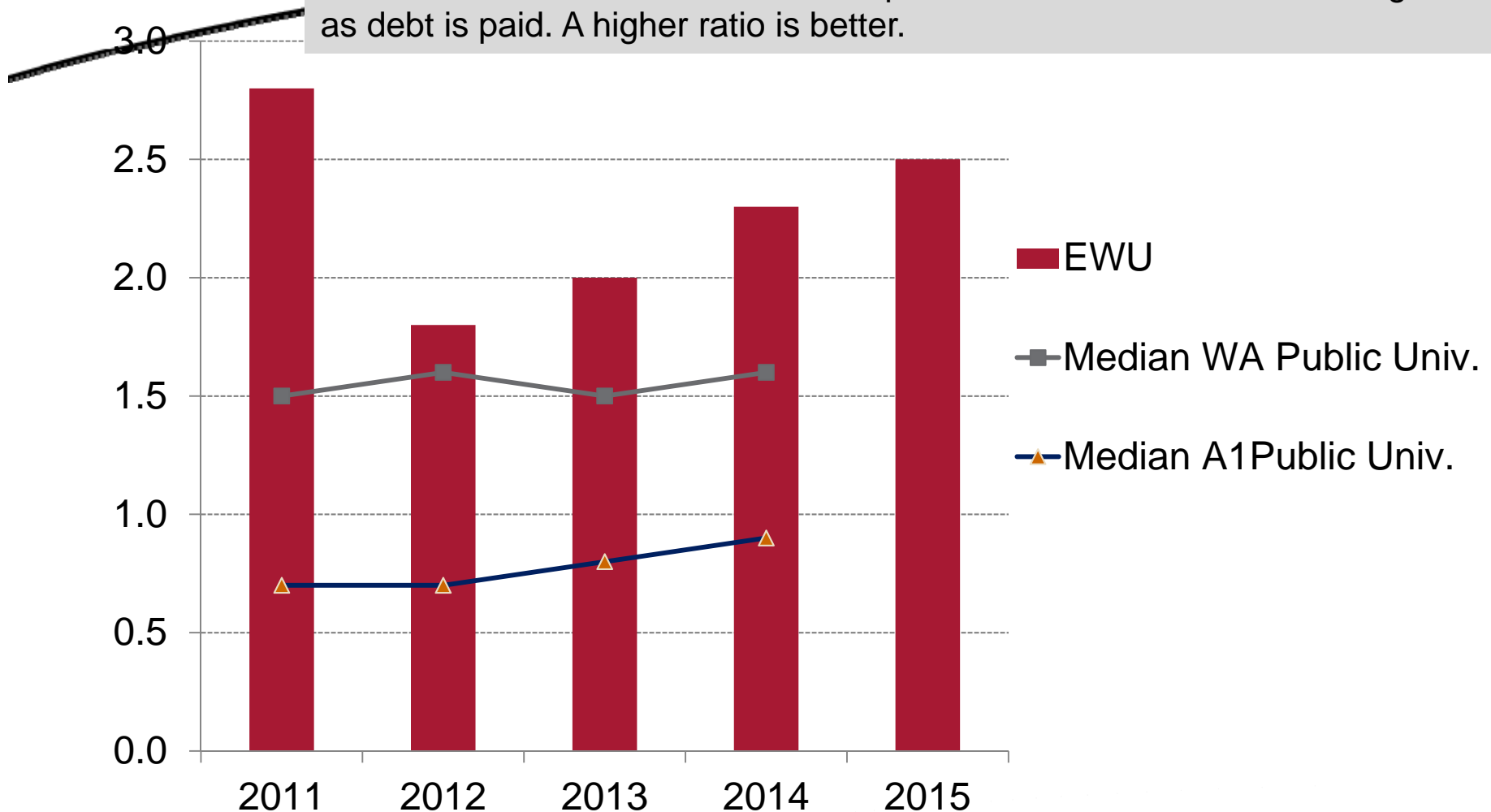
Source: EWU Office of Controller. Peer data from MFRA (Moody's)
FY 2015 Financial Report



Spendable Cash and Investments to Total Debt

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Decrease in FY12 ratio is the result of \$25.3M bond debt issued to finance construction of new residence hall. Spendable resources continue to grow as debt is paid. A higher ratio is better.



Source: EWU Office of Controller. Peer data from MFRA (Moody's)
FY 2015 Financial Report

Key Balance Sheet Indicators

■ start something **big**

Spendable cash and investments is more than twice as much as outstanding debt.

Spendable Cash and Investments to Total Debt

Measures coverage of direct debt by the most liquid resources

Prelim 2015 Eastern Washington University	2.5x
2014 Eastern Washington University	2.3x
2014 Median WA Public Universities	1.6x
2014 Median A1 Public Universities	0.9x
Eastern Washington University Dashboard Indicator	Good

Source: EWU Office of Controller. Peer data from MFRA (Moody's)
FY 2015 Financial Report

