

Financial Review

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FISCAL YEAR 2016

AGENDA

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Overview



Resource Sufficiency & Flexibility



Operating Results



Financial Asset Performance



Debt Management



Financial Outlook



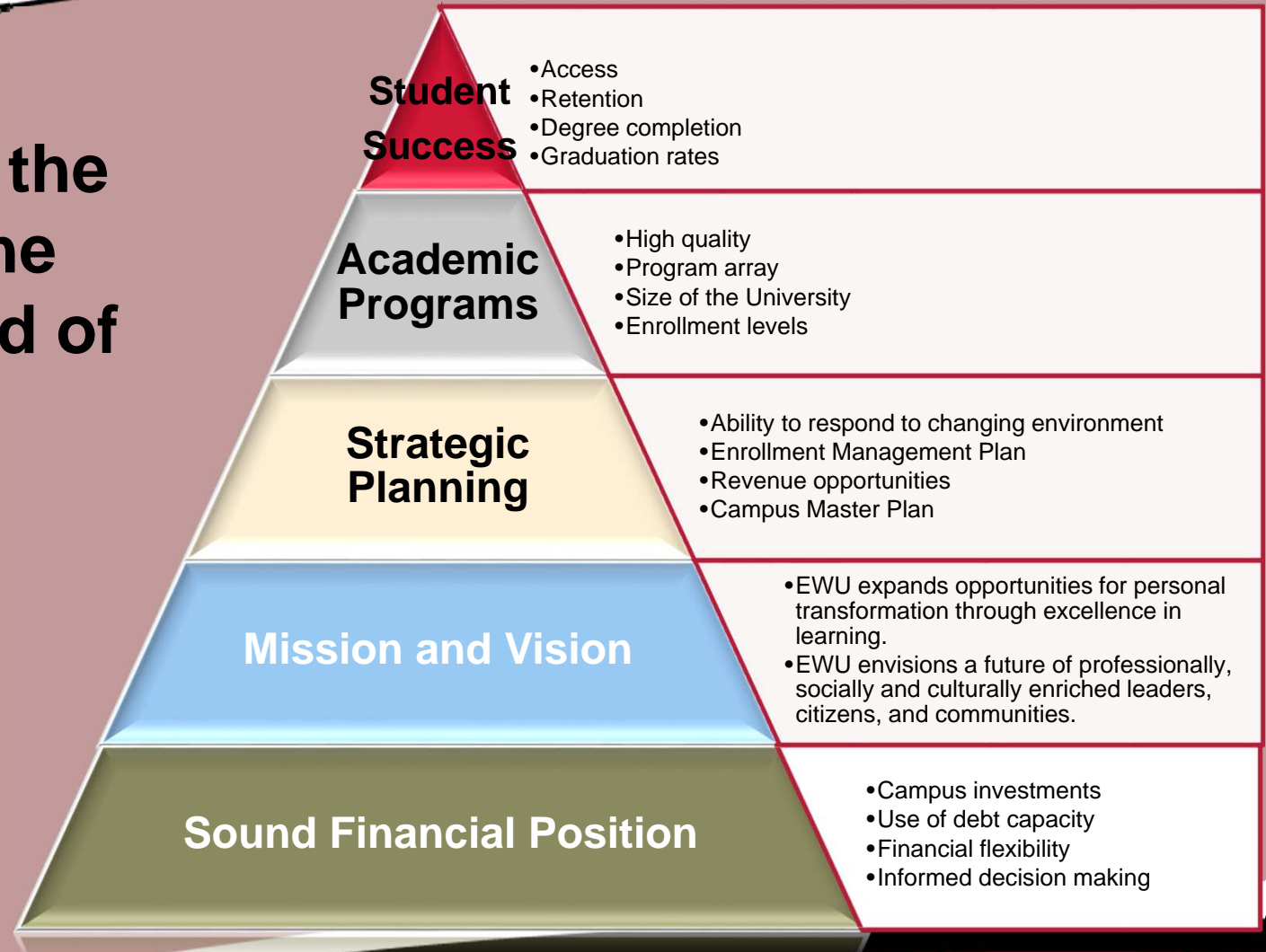
Overview

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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*

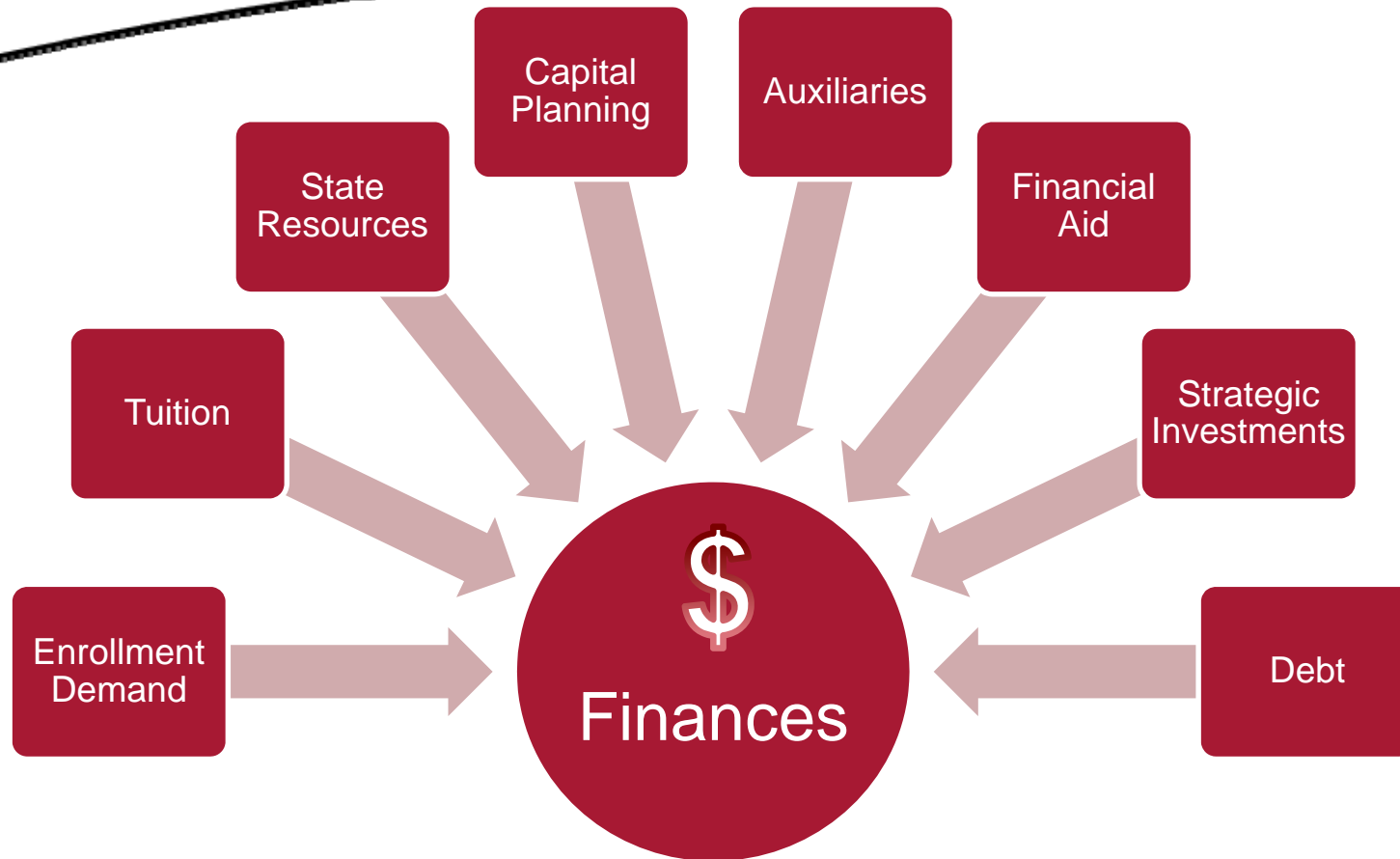


Achieving the Goals of the EWU Board of Trustees



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 EWU 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.

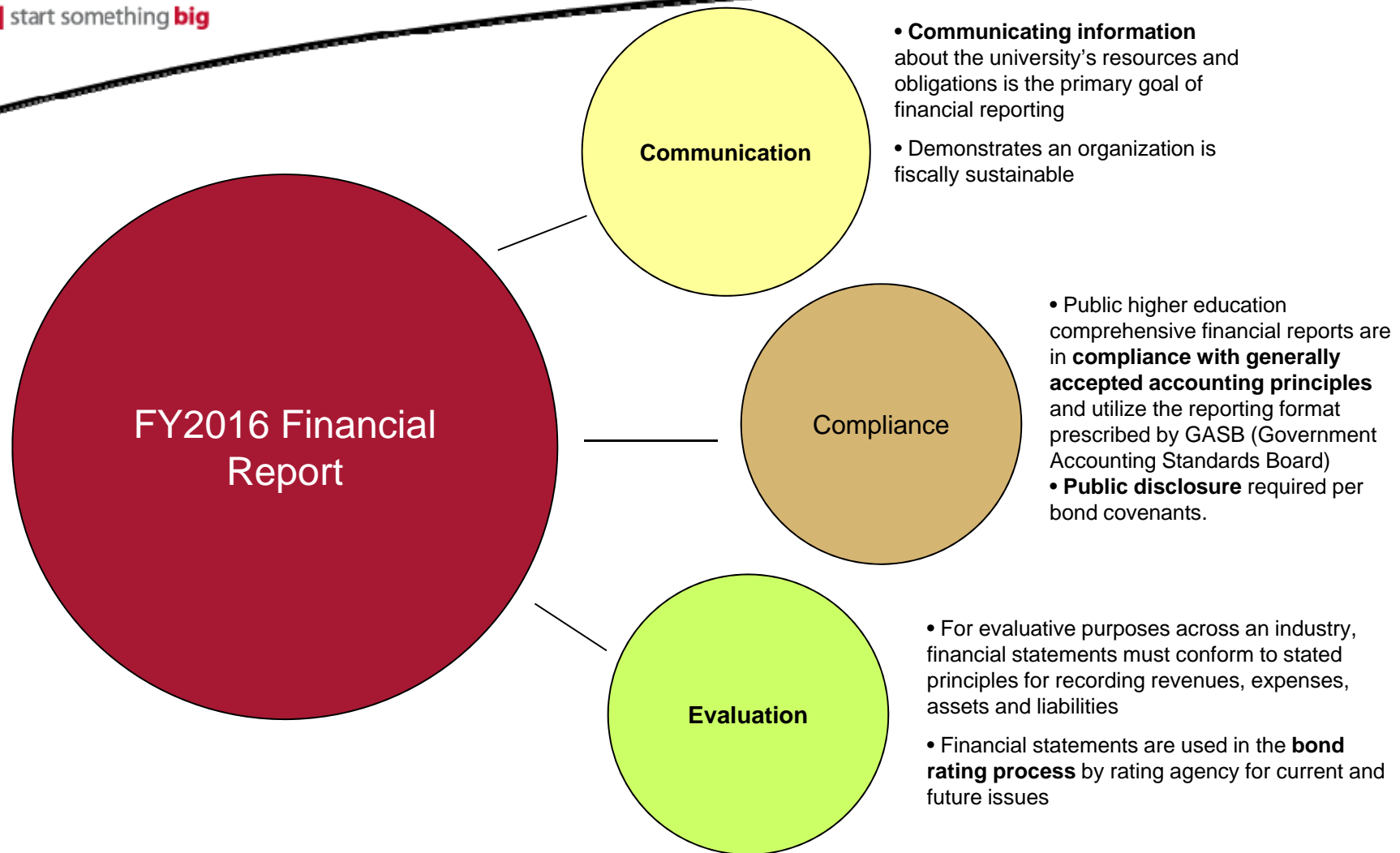
Financial Position impacted by statewide policy and budgetary decisions.

FY2016 FINANCIAL POSITION



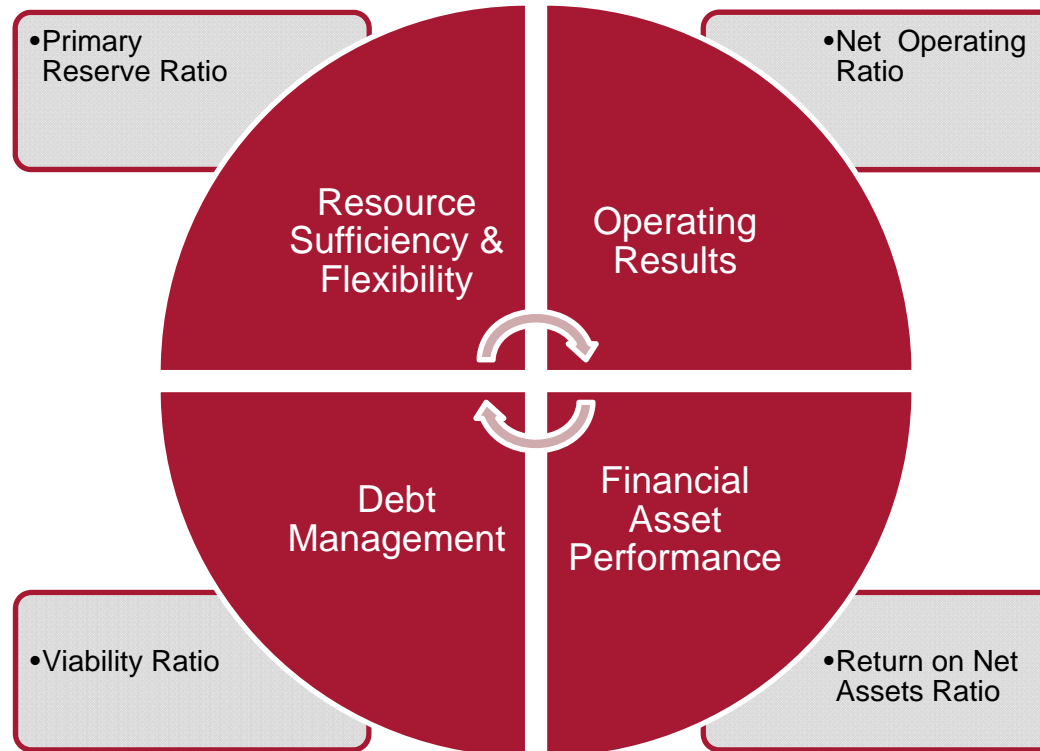
Financial Reporting

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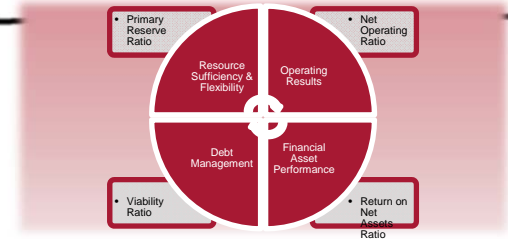
Measuring Financial Health

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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

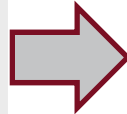
- Education & General
 - State Funds
 - Tuition (net of discount)
 - Dedicated local Funds
 - Service Funds

Auxiliary Enterprises

Scholarships & Fellowships

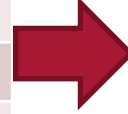
Sponsored Program

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
- Scholarship Allowance

← Depreciation

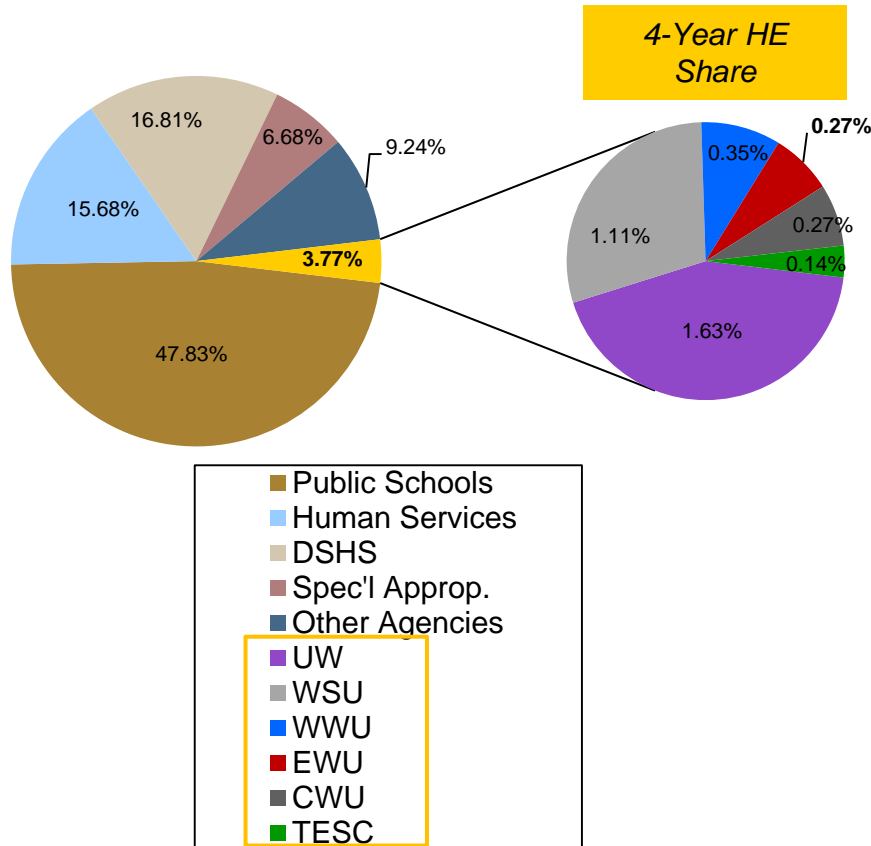
↔ Timing Differences and Other Reconciling Items



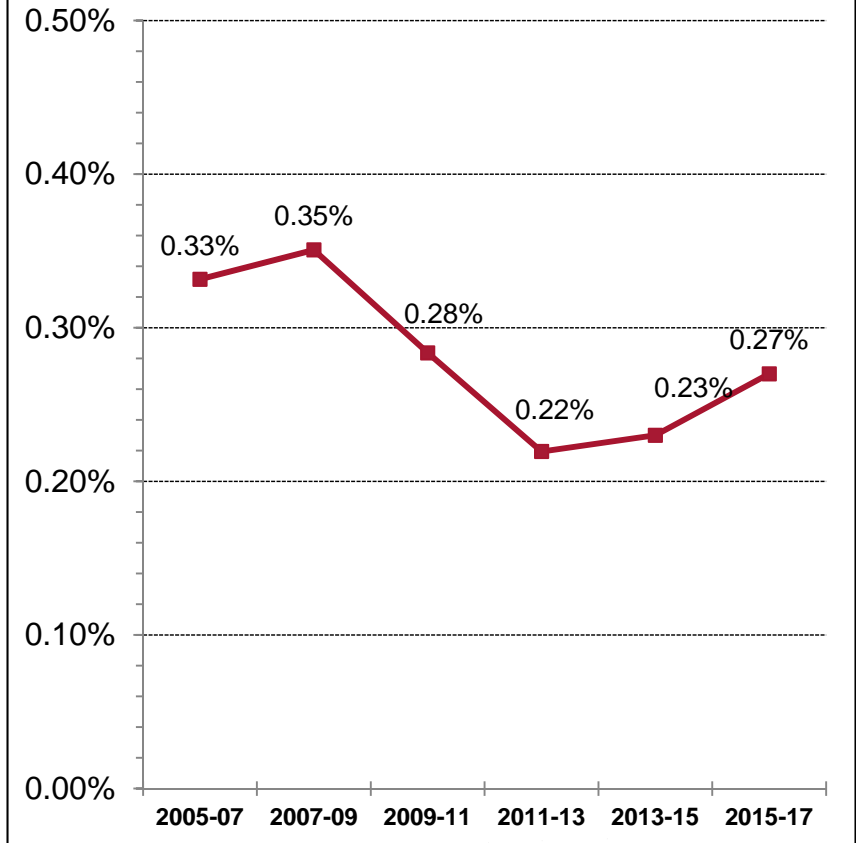
EWU's Share of Total State GF

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Total 2015-17 Budget



EWU % Share of Total State Budget



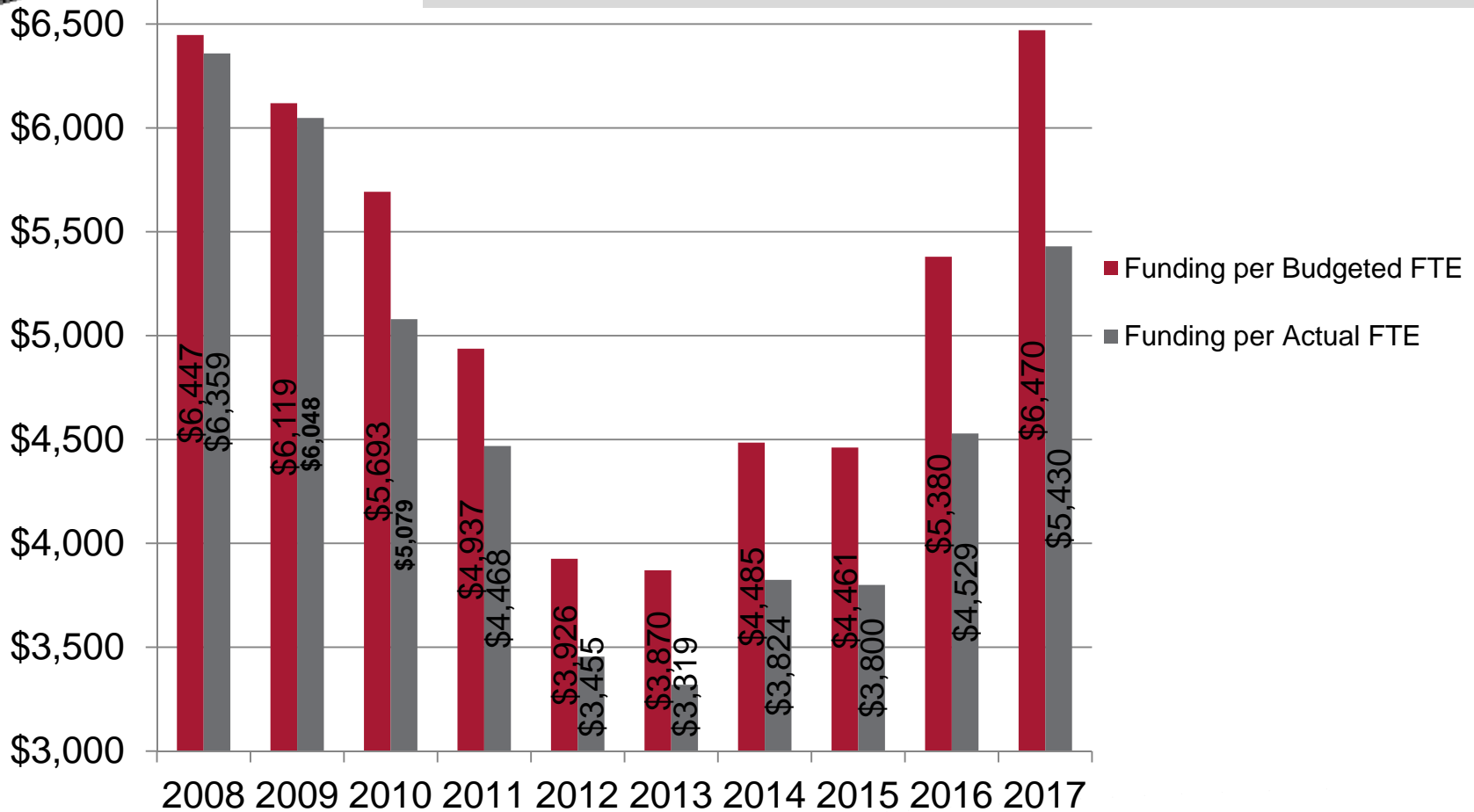
Source: fiscal.wa.gov - Operating Budget Statewide Summary



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 & FY2017** 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.

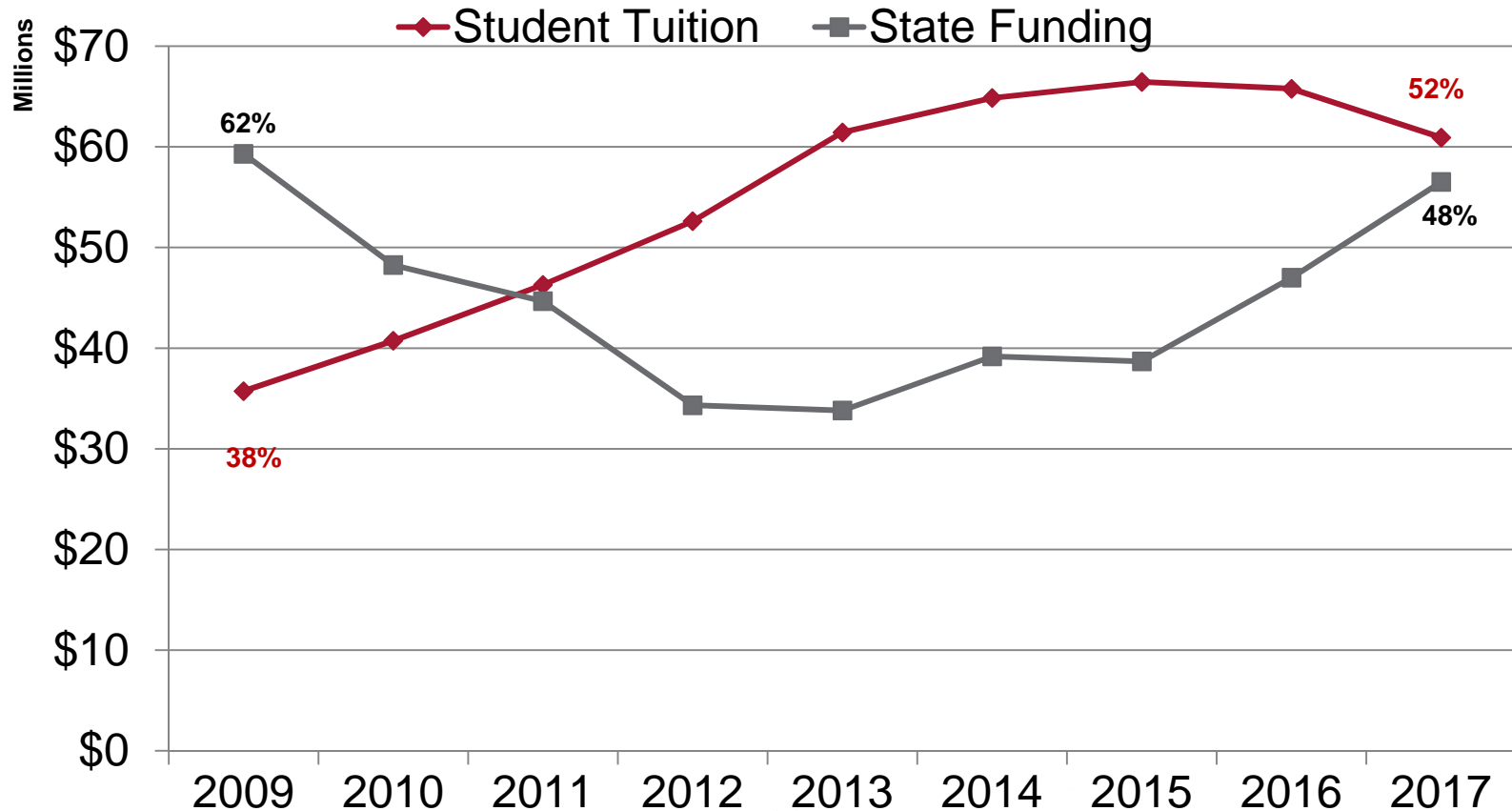


Key Funding Sources

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 and FY17 is due to the College Affordability Act.



Source: FY2016 Original Budget BOT Presentation

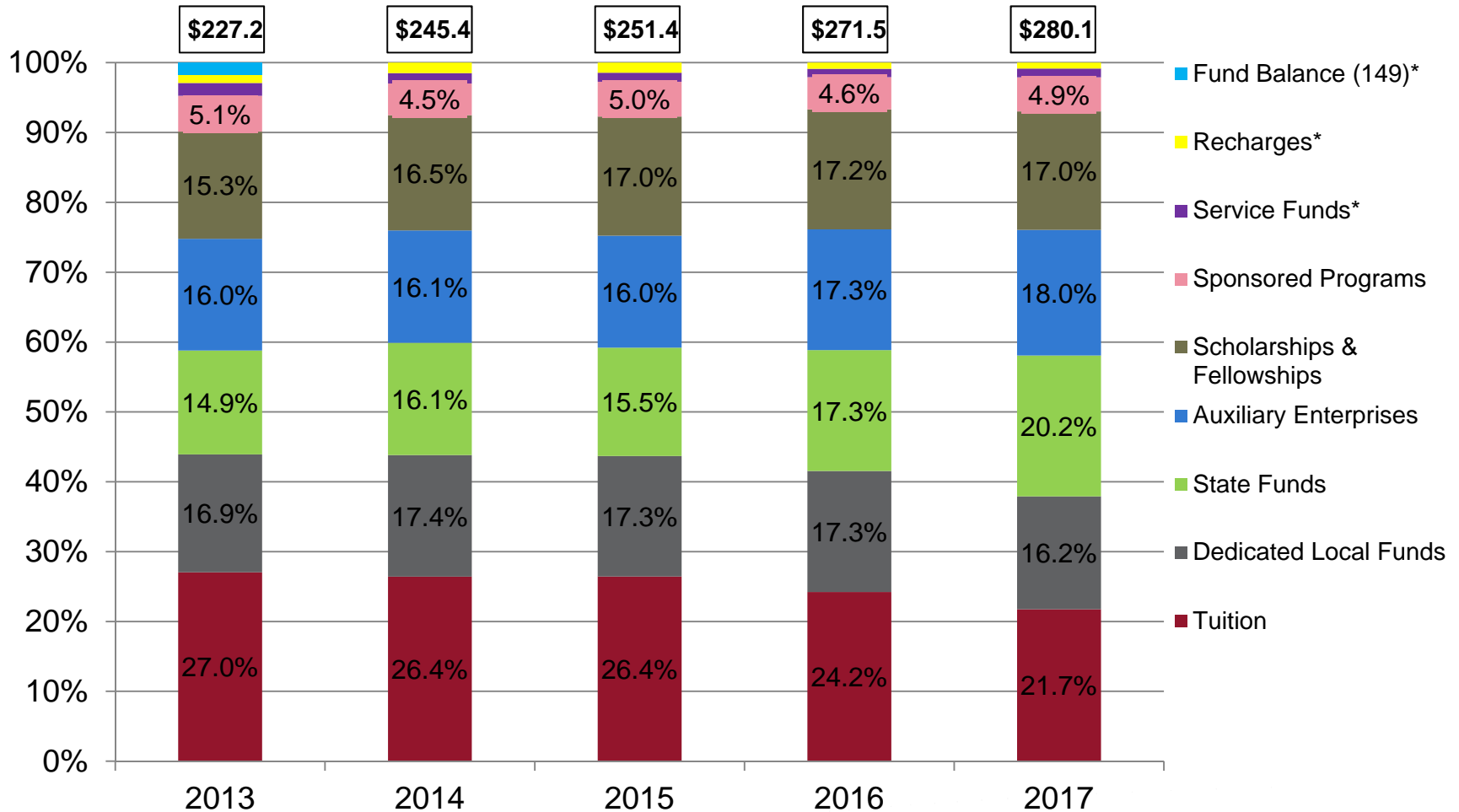


Institutional Annual Operating Budget History

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**

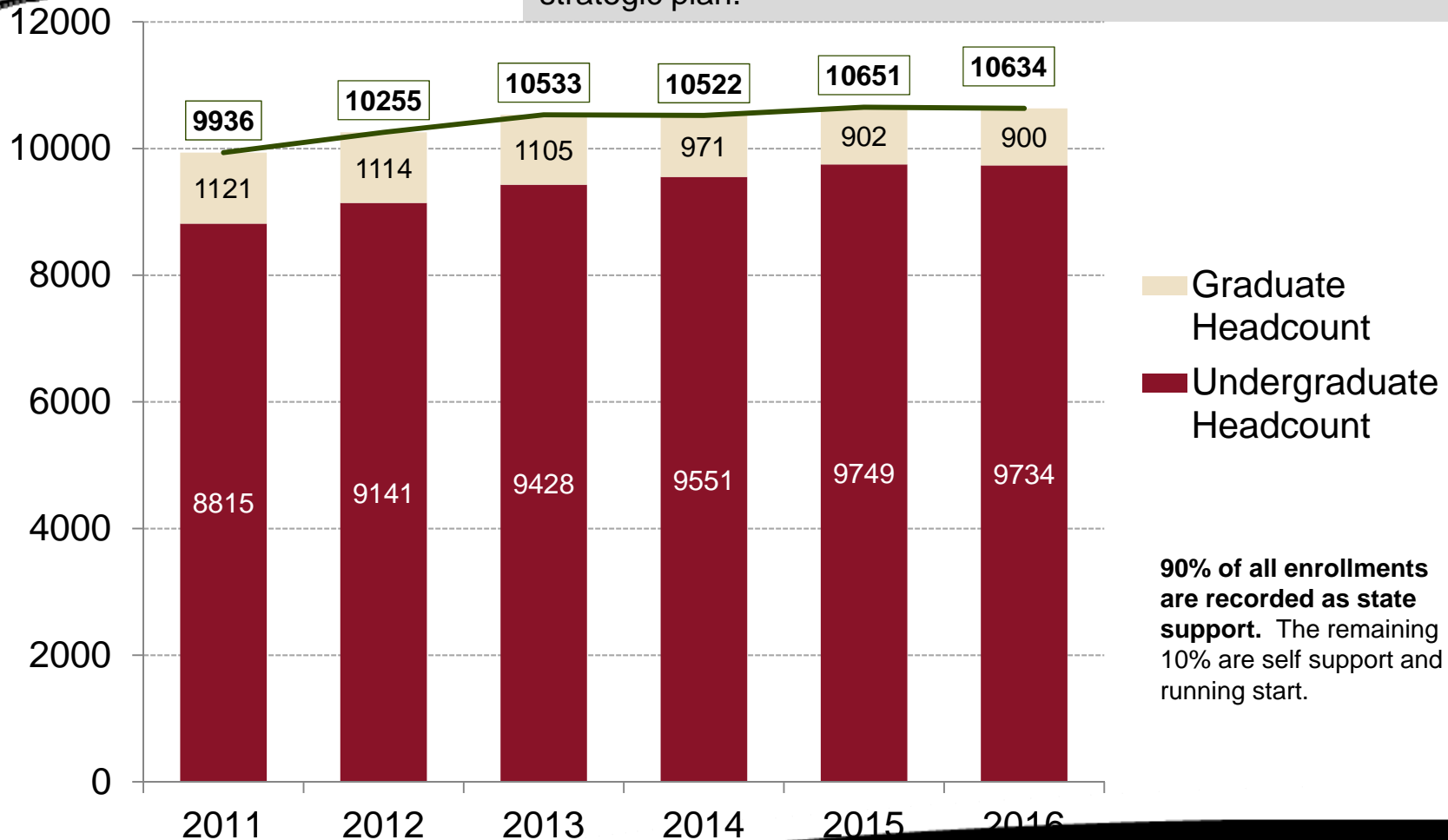


Academic Year Enrollments

State Support (AAHC)



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



Graduate Headcount
Undergraduate Headcount

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

Source: EWU Institutional Research





FINANCIAL AID FY2016

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

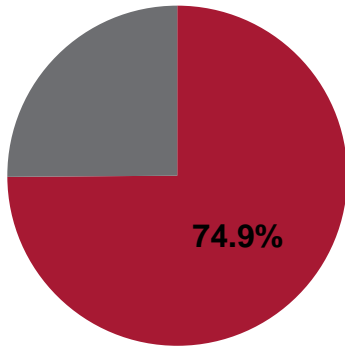


Financial Aid Fall 2016

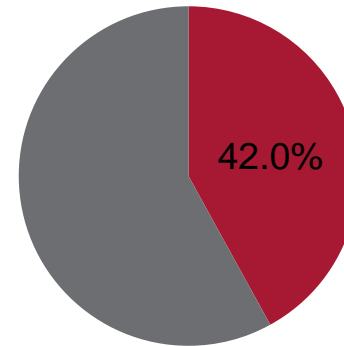
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9,686 Students Received Financial Aid

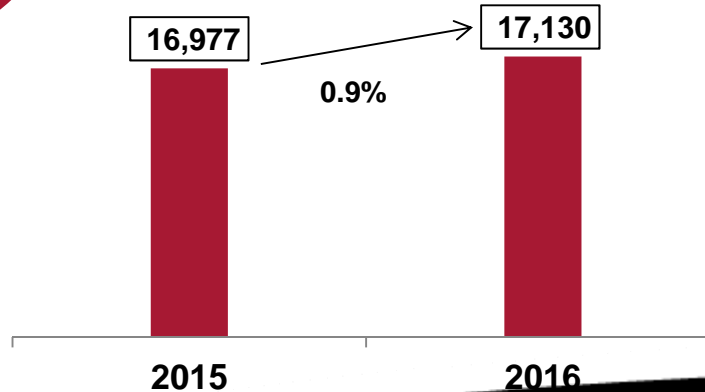
Percentage of students receiving Financial Aid



Percentage of students receiving Pell Grants



Applications Processed

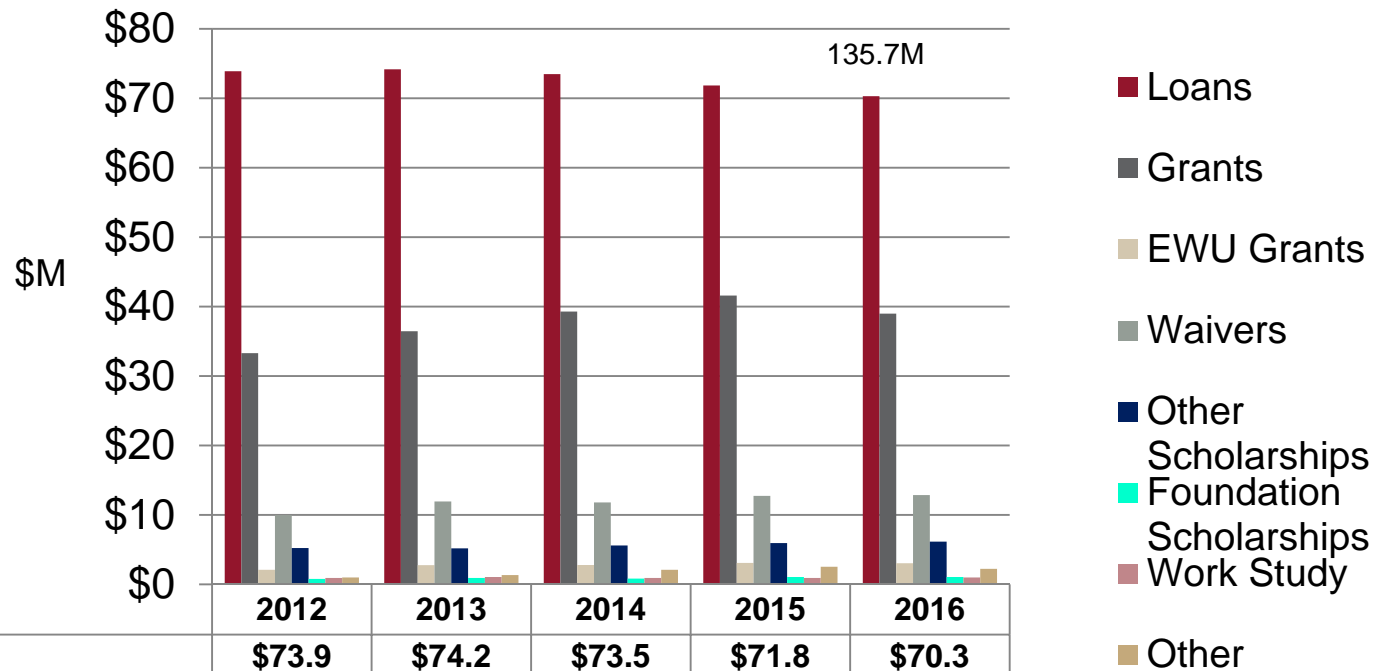


Source: Financial Aid Office-Financial Aid Stats



Financial Aid – by Type

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	2012	2013	2014	2015	2016
Loans	\$73.9	\$74.2	\$73.5	\$71.8	\$70.3
Grants	\$33.3	\$36.5	\$39.3	\$41.6	\$39.0
EWU Grants	\$2.1	\$2.8	\$2.8	\$3.1	\$3.1
Waivers	\$10.0	\$12.0	\$11.8	\$12.8	\$12.9
Other Scholarships	\$5.2	\$5.2	\$5.6	\$5.9	\$6.2
Foundation Scholarships	\$0.8	\$0.9	\$0.8	\$1.1	\$1.1
Work Study	\$0.9	\$1.1	\$0.9	\$0.9	\$1.0
Other	\$1.0	\$1.4	\$2.1	\$2.5	\$2.2

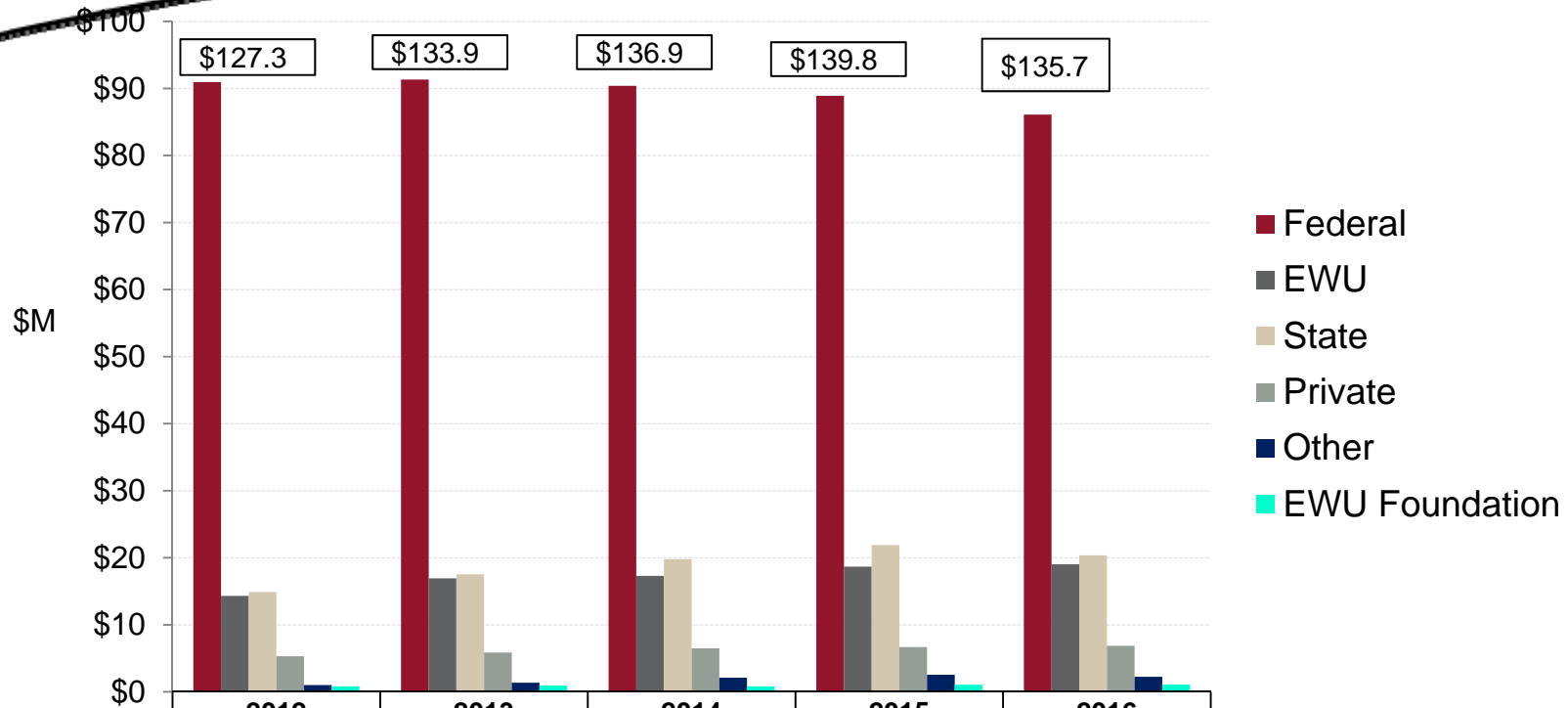
Source: Financial Aid Office-Financial Aid Stats



Financial Aid – By Source

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2.9% decrease related to decrease in resident tuition



	2012	2013	2014	2015	2016
Federal	\$91.0	\$91.3	\$90.4	\$88.9	\$86.1
EWU	\$14.3	\$16.9	\$17.3	\$18.7	\$19.0
State	\$14.9	\$17.5	\$19.8	\$21.9	\$20.4
Private	\$5.3	\$5.9	\$6.5	\$6.7	\$6.9
Other	\$1.0	\$1.4	\$2.1	\$2.6	\$2.2
EWU Foundation	\$0.83	\$0.93	\$0.83	\$1.1	\$1.07

Source: Financial Aid Office- Financial Aid Stats



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.

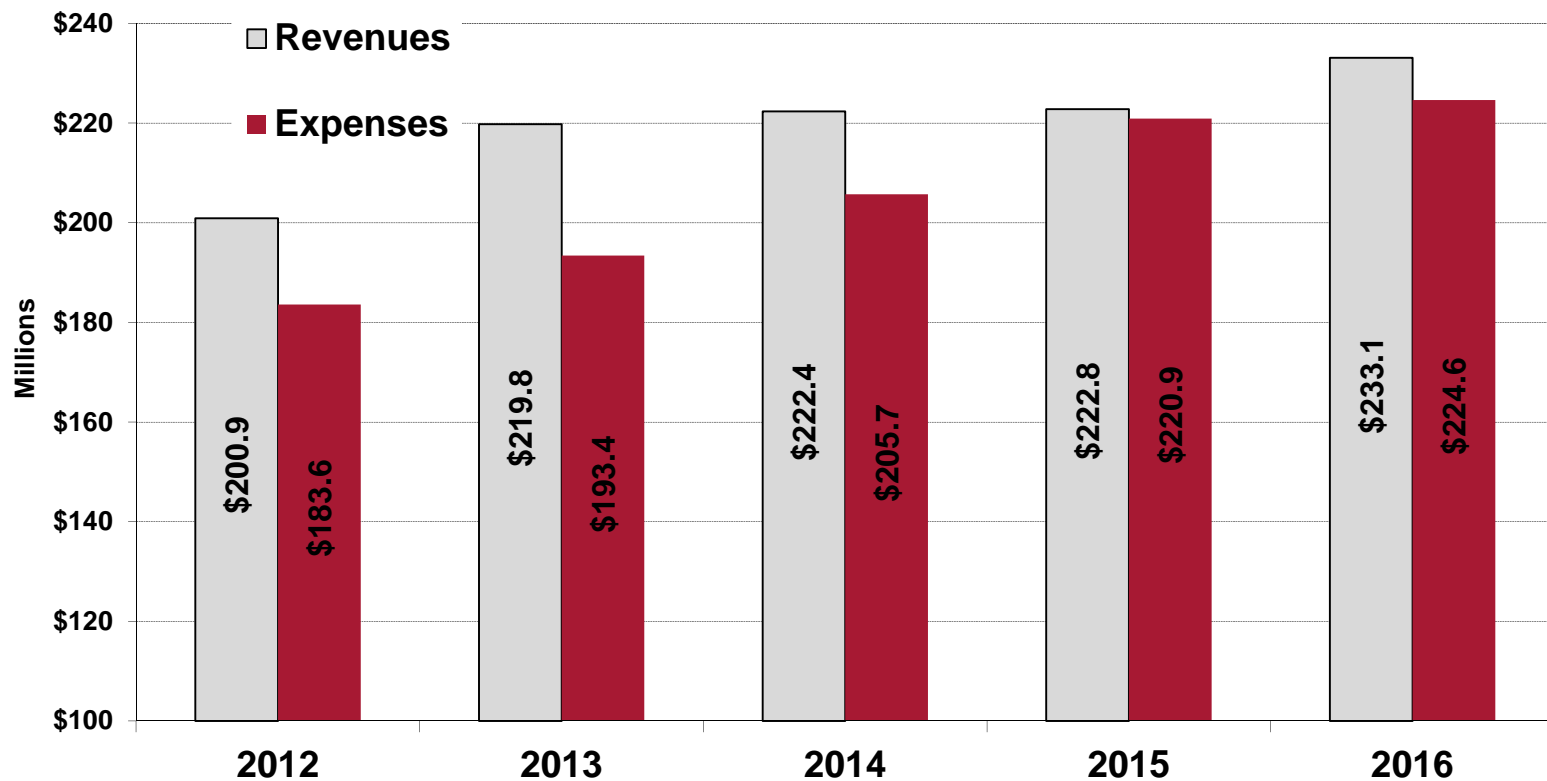
Expenditures represent the cost of providing services in support of achieving the institutional mission.



University Revenues, Expenses and Changes in Net Position

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Total revenues increased nearly 5% from FY15, while total expenses increased almost 2%.



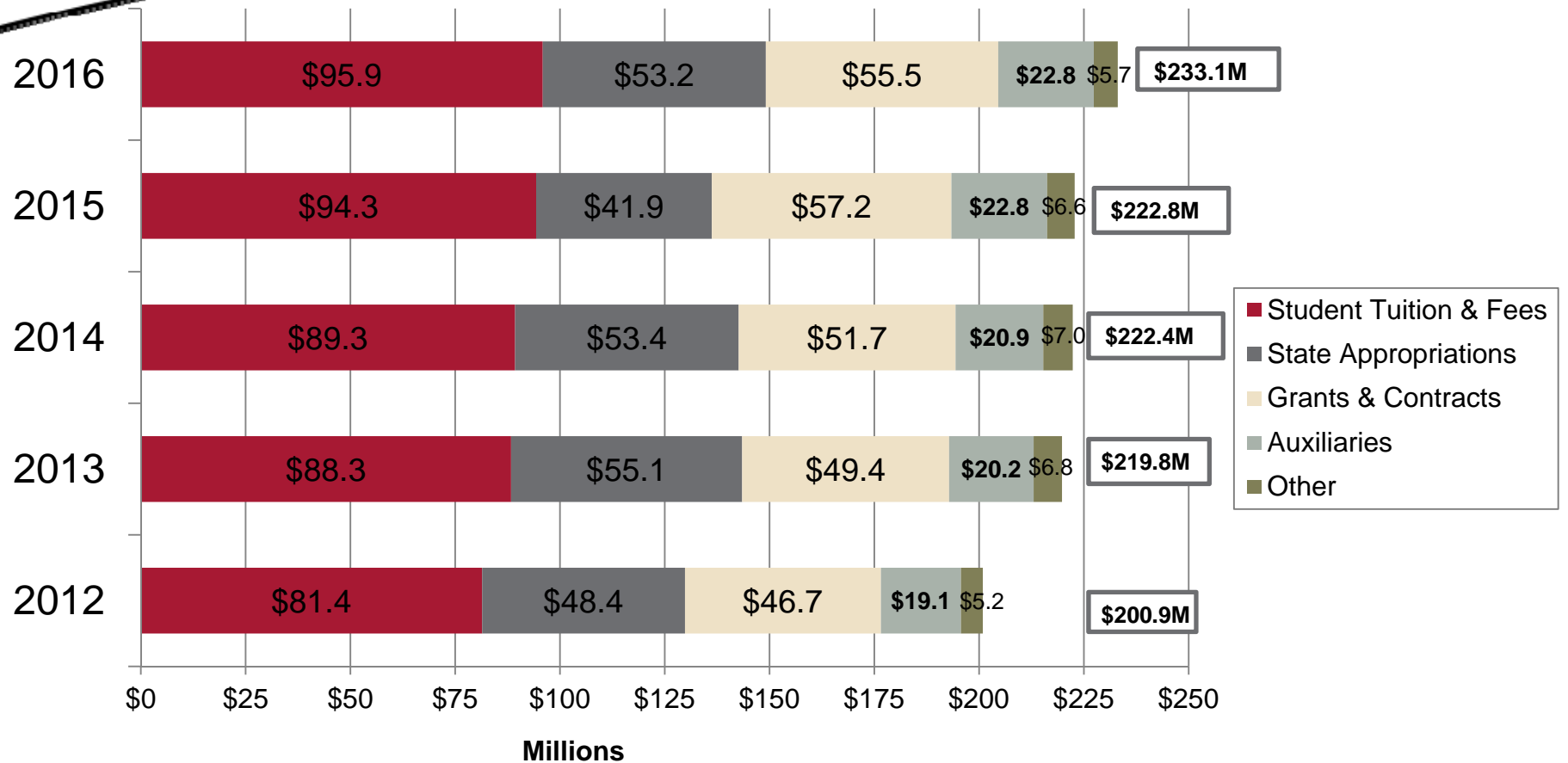
Source: EWU Office of Controller
FY 2016 Financial Report



University Revenues

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Eastern's revenue increased in FY 2016, primarily due to increases in operating and capital appropriations offsetting decreases in operating tuition rates.



Source: EWU Office of Controller
FY 2016 Financial Report



Key Revenue Indicators

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2.5% drop in FY16 reflects 5% resident undergrad tuition rate reduction backfilled by state appropriations.

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	54.8%
FY2012	61.9%
FY2013	62.6%
FY2014	62.0%
FY2015	62.6%
FY2016	60.1%

Source: EWU Office of Controller
FY 2016 Financial Report



Key Revenue Indicators

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State appropriations covered a larger portion of operating expenses in FY16.

Contribution Ratio <i>Shows portion of revenue by category to support actual operating expenses</i>	2015	2016
Student Tuition and Fees	43.0%	43.4%
State Appropriations – Operating	17.7%	21.3%
State and Local Grants & Contracts	12.2%	12.0%
Auxiliary Services	10.6%	10.3%
Pell Grant	9.3%	8.8%
Federal Grants & Contracts	2.4%	2.2%
Investment Earnings	1.7%	1.6%
Non-Governmental Grants & Contracts	2.3%	2.1%
Other Revenues	1.3%	1.0%

Source: EWU Office of Controller

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

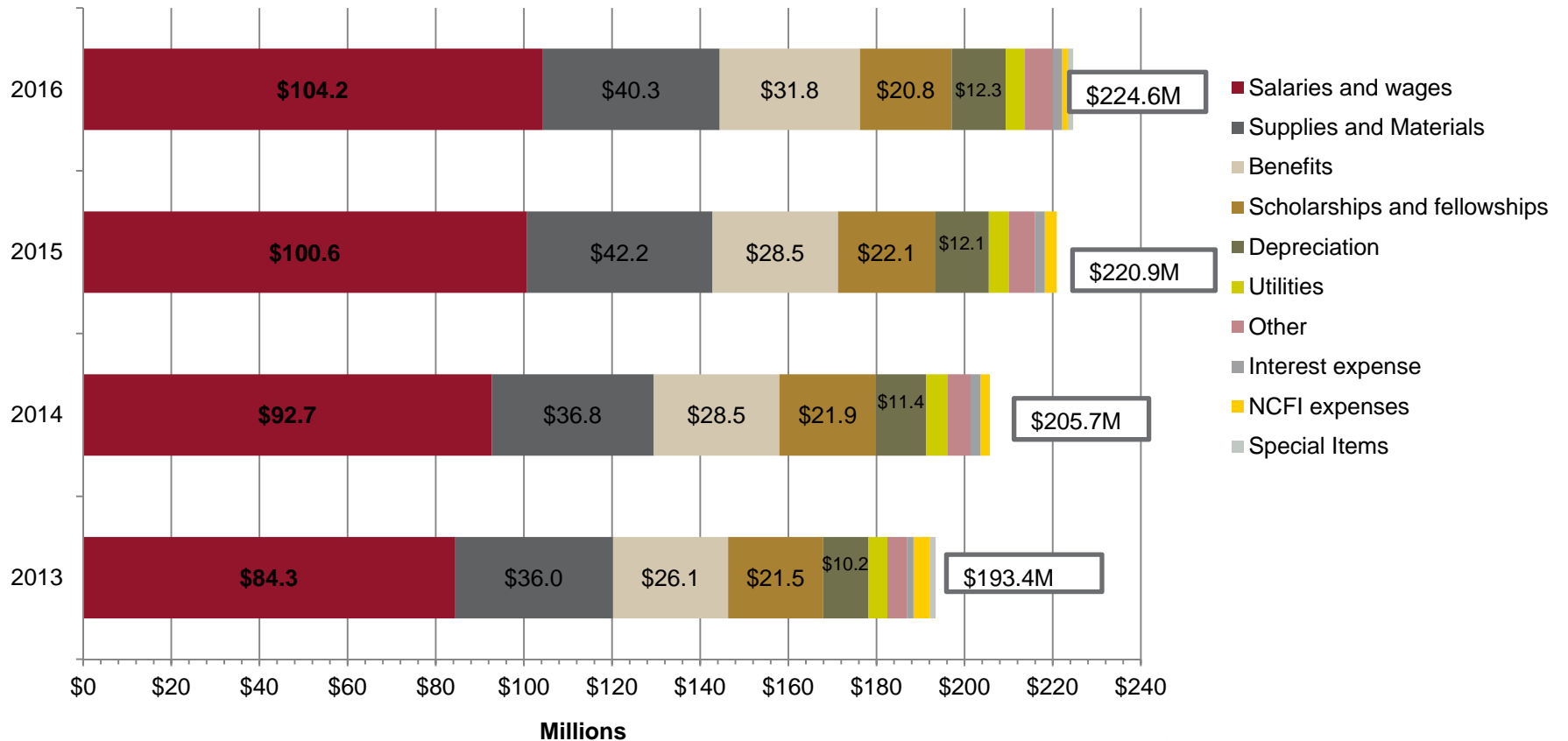
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University Expenses by Type

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Total University expenses increased 1.7% over FY15.

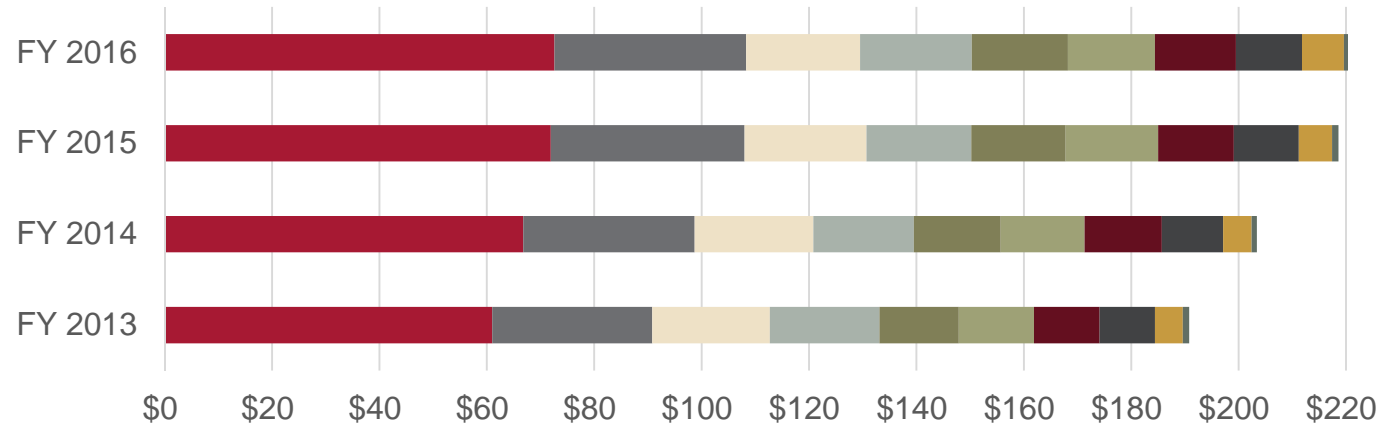


Source: EWU Office of Controller
FY 2016 Financial Report



Operating Expenses by Function

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	FY 2013	FY 2014	FY 2015	FY 2016
■ Instruction	\$61.0	\$66.8	\$71.9	\$72.6
■ Auxiliary Services	\$29.8	\$31.9	\$36.1	\$35.7
■ Scholarships & fellowships	\$21.9	\$22.1	\$22.7	\$21.2
■ Operation & maintenance of plant	\$20.4	\$18.7	\$19.5	\$20.8
■ Student services	\$14.8	\$16.2	\$17.6	\$17.9
■ Institutional support	\$14.0	\$15.6	\$17.2	\$16.2
■ Academic support	\$12.2	\$14.4	\$14.1	\$15.1
■ Depreciation	\$10.3	\$11.4	\$12.1	\$12.3
■ Public service	\$5.2	\$5.3	\$6.2	\$7.8
■ Research	\$1.2	\$1.0	\$1.2	\$1.3

Source: EWU Office of Controller
FY 2016 Financial Report



Expenditure Indicators

Demand by programmatic categories continues to remain stable.

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>	2014	2015	2016
Instruction	32.8%	33.4%	32.6%
Research	0.5%	0.6%	0.6%
Public Service	2.6%	2.9%	3.5%
Academic Support	7.1%	6.6%	6.8%
Student Services	7.9%	8.2%	8.0%
Institutional Support	7.6%	8.0%	7.3%
Operations & Maintenance	9.2%	9.0%	9.3%
Scholarships & Fellowships	10.8%	10.5%	9.5%
Auxiliary Enterprises	15.6%	16.7%	16.0%
Depreciation	5.6%	5.6%	5.5%

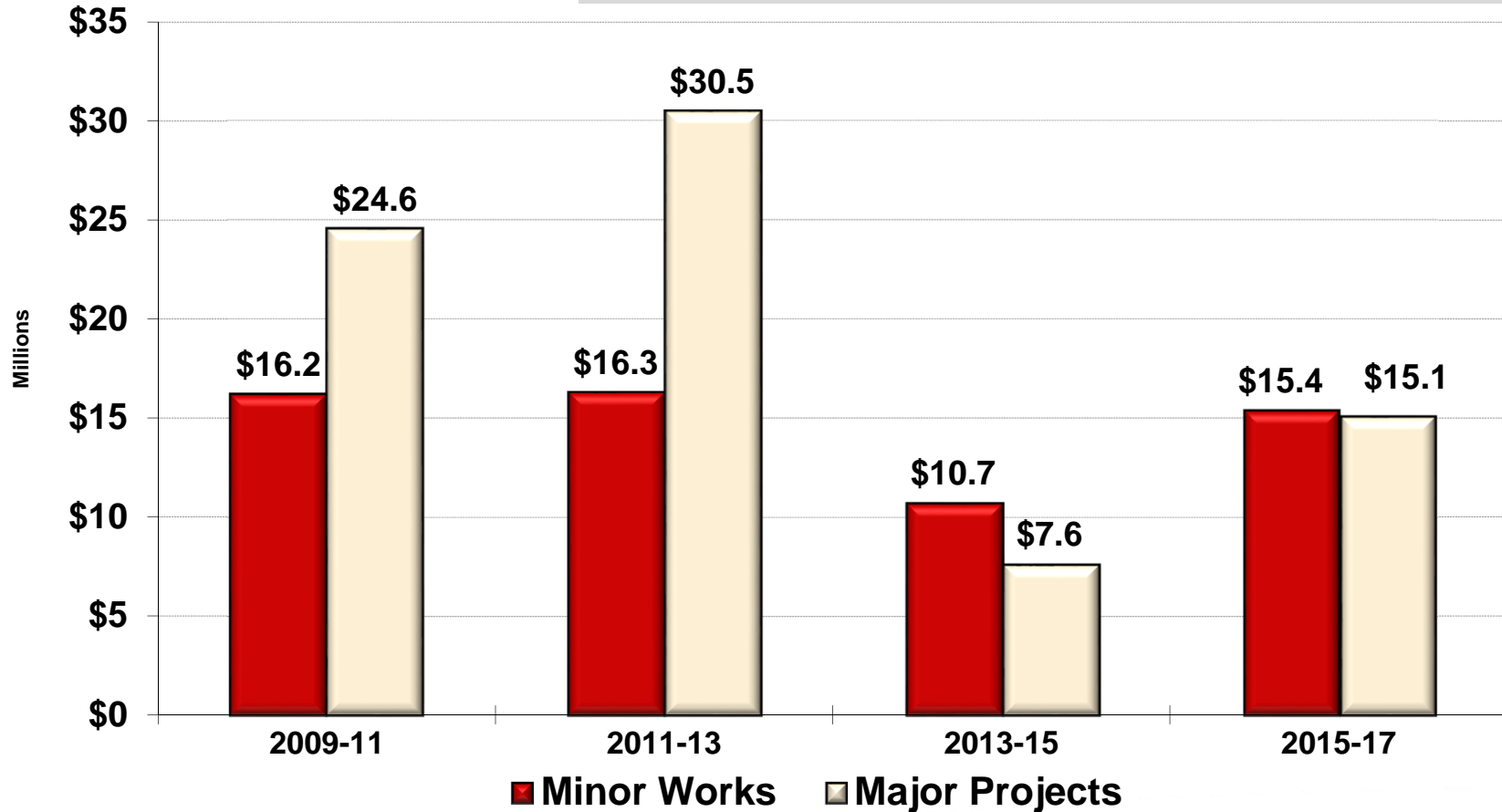
Source: EWU Office of Controller
FY 2016 Financial Report



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





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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Increases in assets from FY15 consist primarily of cash and investments as a result of operations and more capital projects being capitalized.

All Funds	2015 (millions)	2016 (millions)
Total Assets and Deferred Outflows	\$466.9	\$477.2
Total Liabilities and Deferred Inflows	\$115.9	\$117.7
Net Position (at June 30)	\$351.0	\$359.5

FY 2016 Major components-

Cash and investments **\$147.1M** or **31%** of total assets

Capital assets (land, building, equipment) **\$306.3M** or **65%** of total assets

Long term debt **\$52.3M** or **46%** of total liabilities

Unrestricted net assets (not legally restricted) **\$79.1M** or **22%** of net position

Source: EWU Office of Controller
FY2016 Financial Report

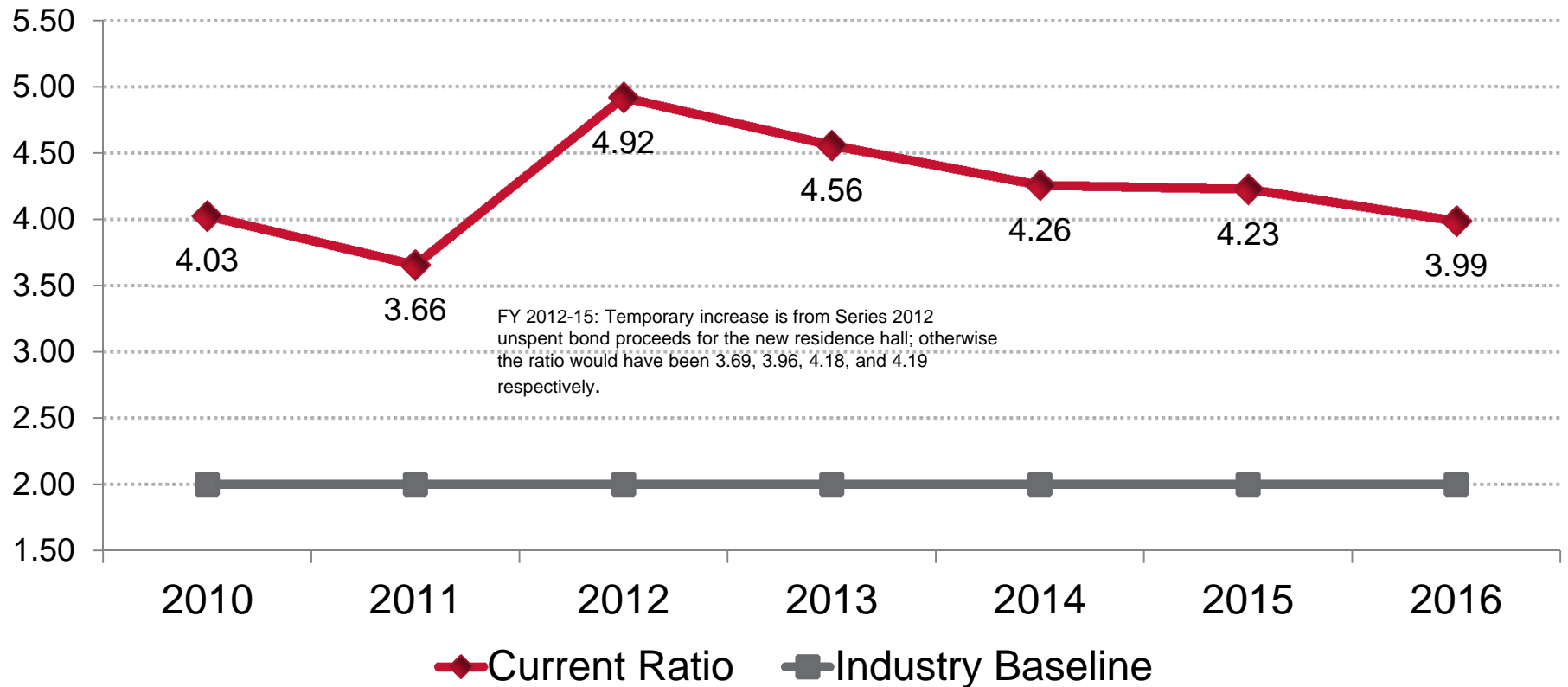


Key Balance Sheet Indicators

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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

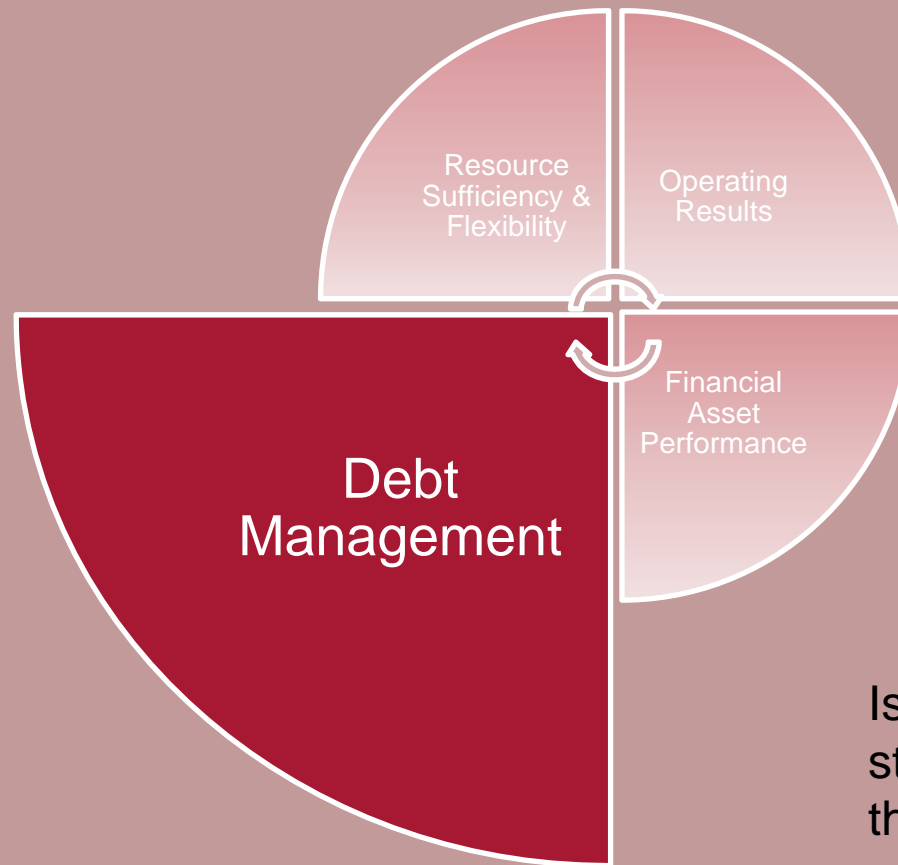


Source: EWU Office of Controller
FY 2016 Financial Report



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

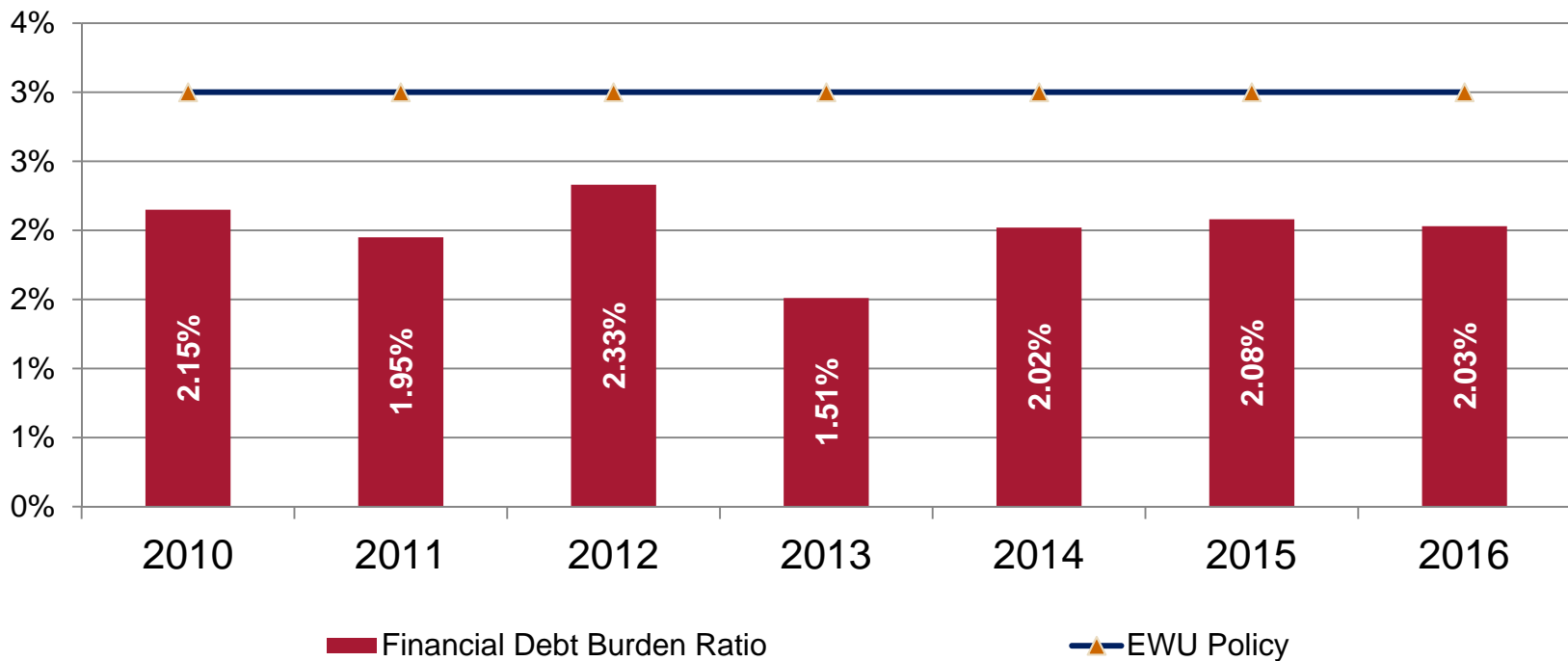


Key Balance Sheet Indicators

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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



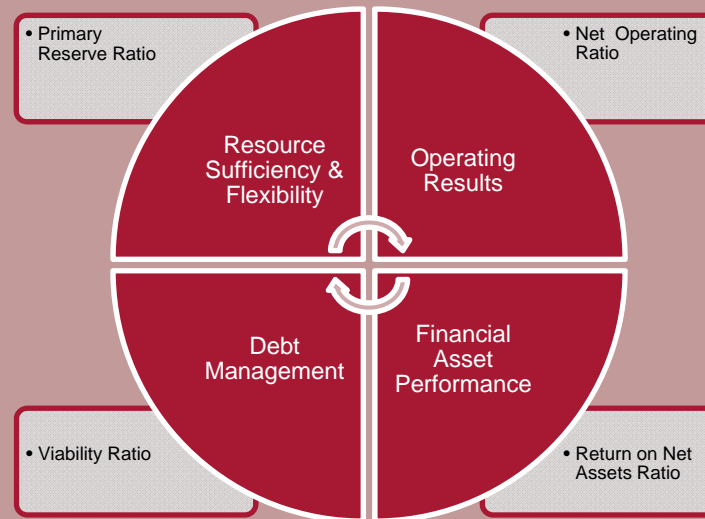
Source: EWU Office of Controller
FY 2016 Financial Report



Summary

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EWU's Financial Performance Profile



EWU Financial Health

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	FY2012	FY2013	FY2014	FY2015	FY2016
Primary Reserve ratio	.48x	.52x	.53x	.40x	.42x
<p>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 – <u>a ratio above .40x is advisable.</u></p>					
Net Operating Revenue ratio	2.32%	4.54%	1.59%	-0.67%	1.52%
<p>Net Operating Ratio measures net operating revenues (expenses) in contrast to total operating revenues – <u>the targeted ratio should be between 2%-4%</u> 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. Increases in operating appropriations contributed to the change for FY16.</p>					

Source: EWU Office of Controller
FY 2016 Financial Report



EWU Financial Health

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	FY2012	FY2013	FY2014	FY2015	FY2016
Return on Net Position ratio	5.54%	8.01%	4.67%	0.54%	2.42%

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. Increased appropriations and more capitalized costs helped this ratio in FY16. A ratio between 3%-4% should be targeted.

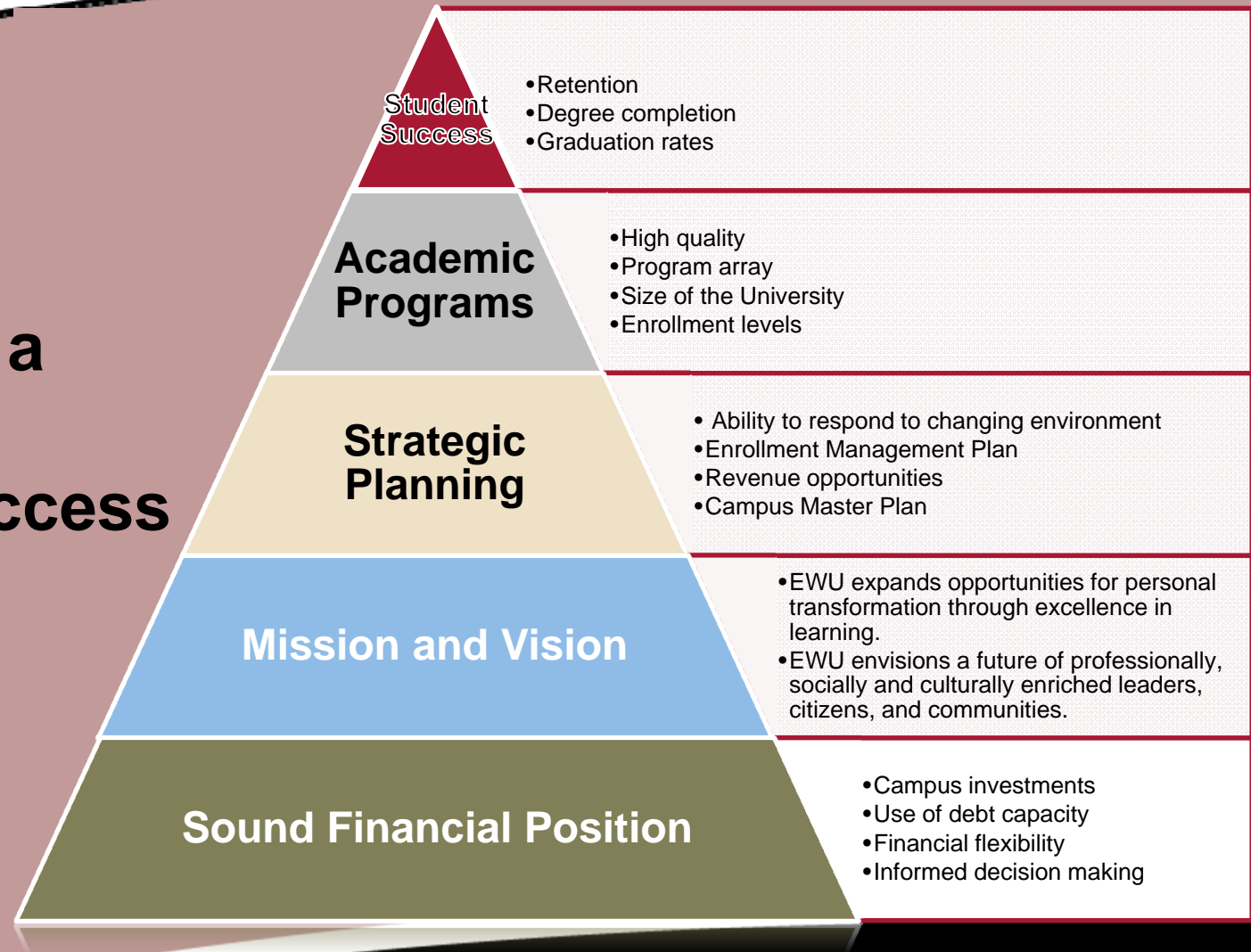
Viability ratio	1.33x	1.53x	1.68x	1.37x	1.51x
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A ratio of >1 indicates the institution has sufficient Unrestricted Net Position to satisfy debt obligations.

Source: EWU Office of Controller
FY 2016 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
- State tuition policy
- Annual revenue growth rate v. inflation and expenses
- Fully allocated revenue base- to invest further requires additional resources

Costs and Investments

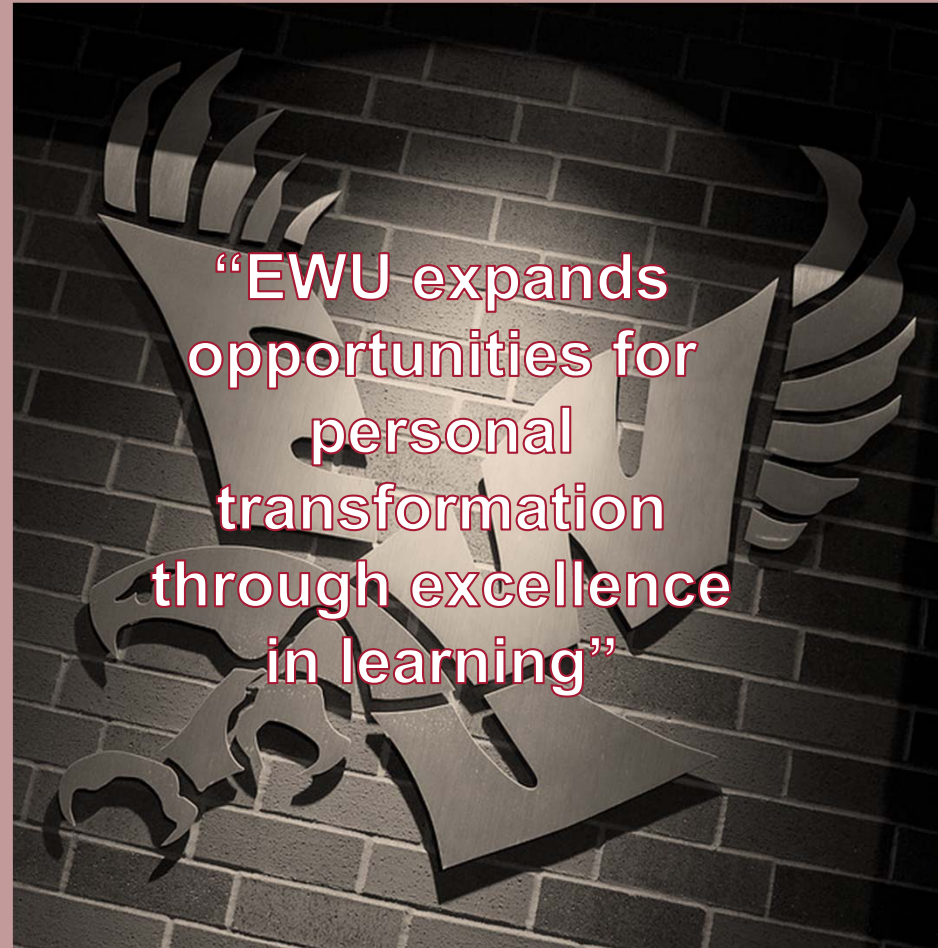
- Salary and benefits
- Enhanced investment in student success measures
- Continued growth in deferred maintenance backlog
- Renewal and investment in technology
- Financial aid needs



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



Key Balance Sheet Indicators

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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 2016 Eastern Washington University	249.3
2015 Eastern Washington University	241.6
2015 Median WA Public Universities	119.6
2015 Median A1 Public Universities (industry peers)	166.8
Eastern Washington University Dashboard Indicator	Good

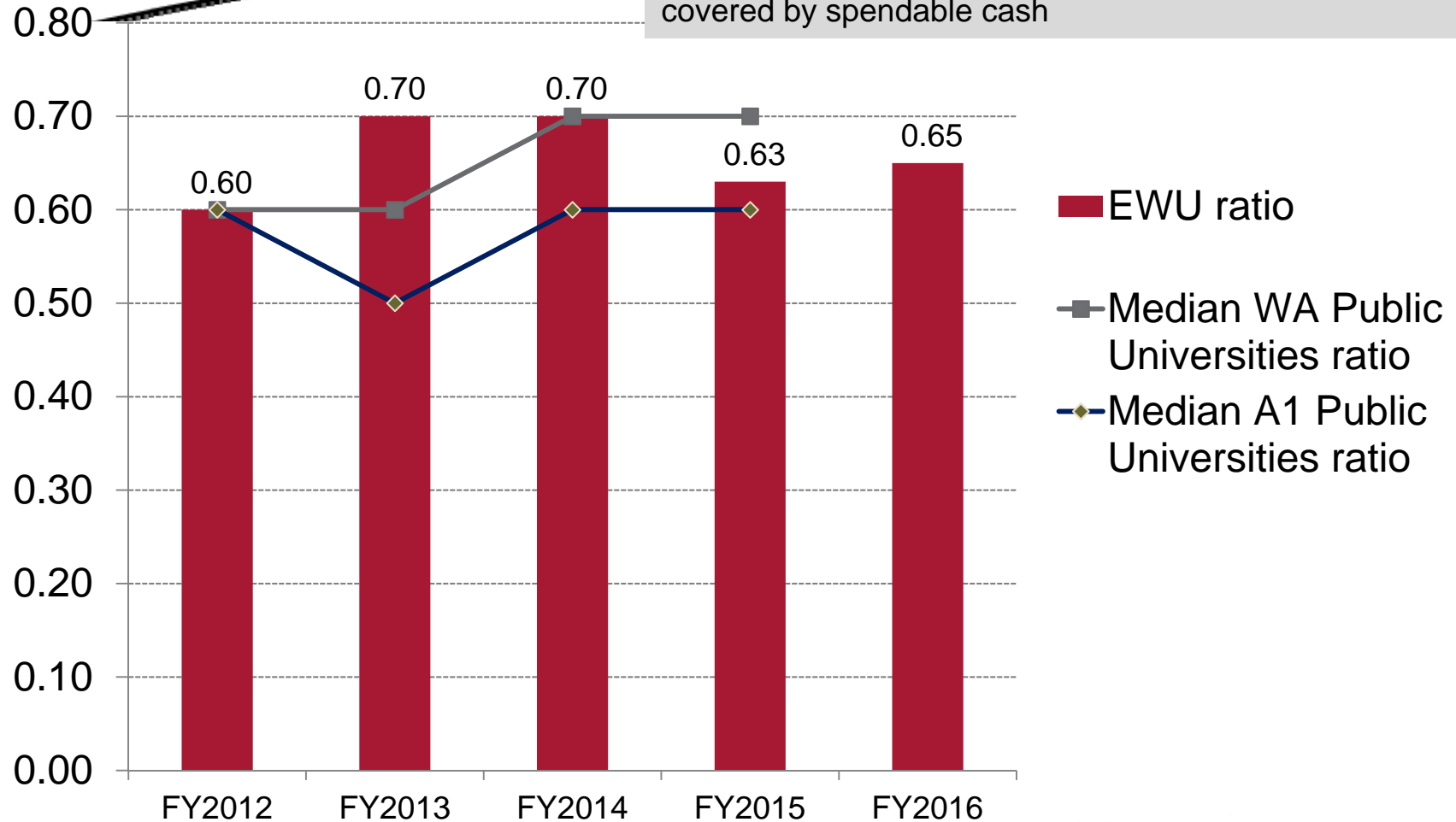
Source: EWU Office of Controller. Peer data from MFRA (Moody's)
FY 2016 Financial Report



Spendable Cash and Investments to Expenses

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Nearly two thirds of EWU's annual expenses could be covered by spendable cash



Source: EWU Office of Controller. Peer data from MFRA (Moody's)
FY 2016 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 2016 Eastern Washington University	.65x
2015 Eastern Washington University	.63x
2015 Median WA Public Universities	.70x
2015 Median A1 Public Universities (industry peers)	.60x
Eastern Washington University Dashboard Indicator	Good

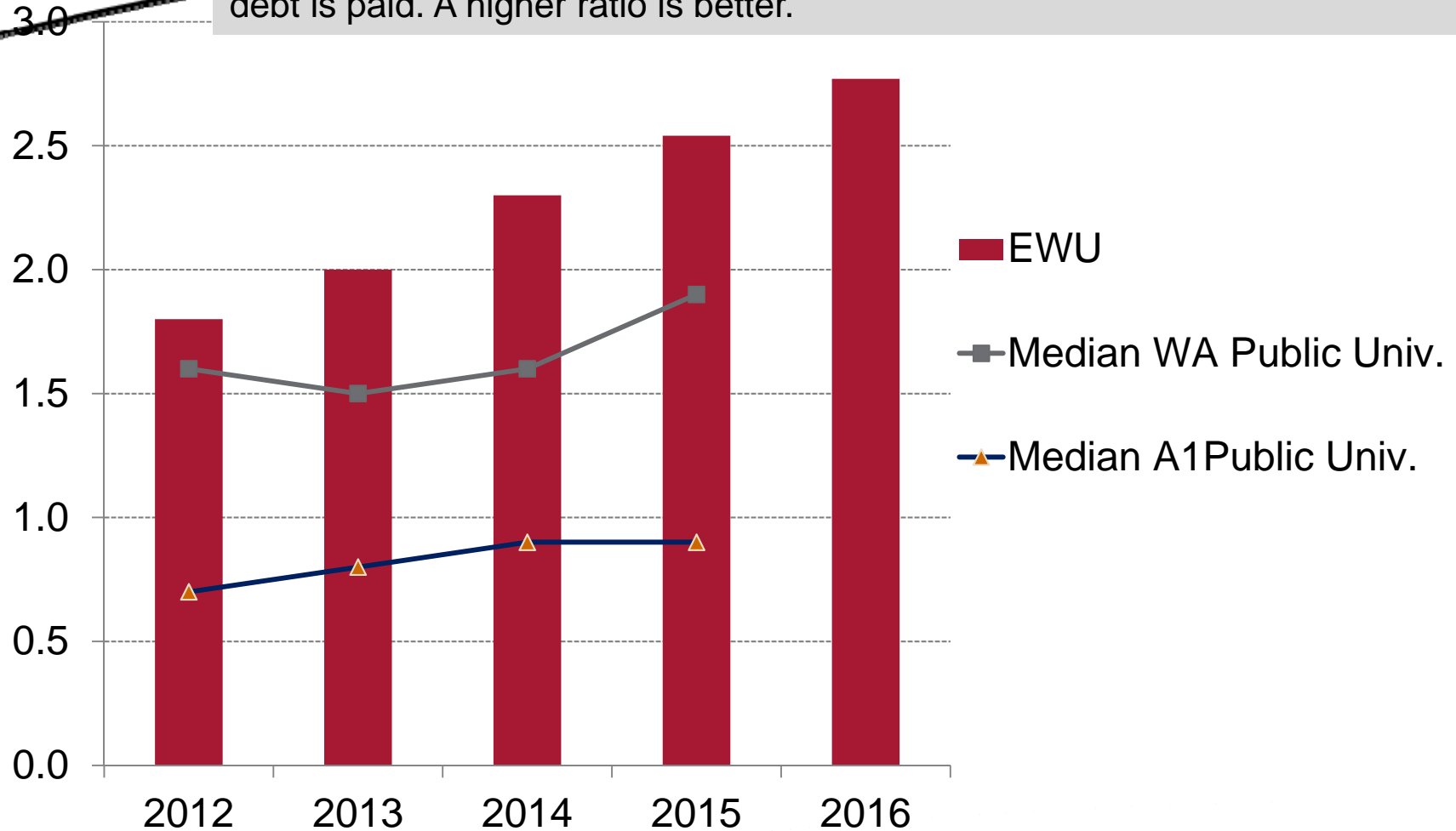
Source: EWU Office of Controller. Peer data from MFRA (Moody's)
FY 2016 Financial Report



Spendable Cash and Investments to Total Debt

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\$25.3M revenue bond debt was issued in FY12 to finance construction of new residence hall. The ratio of 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 2016 Financial Report



Key Balance Sheet Indicators

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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 2016 Eastern Washington University	2.77x
2015 Eastern Washington University	2.54x
2015 Median WA Public Universities	1.90x
2015 Median A1 Public Universities	0.90x
Eastern Washington University Dashboard Indicator	Good

Source: EWU Office of Controller. Peer data from MFRA (Moody's)
FY 2016 Financial Report

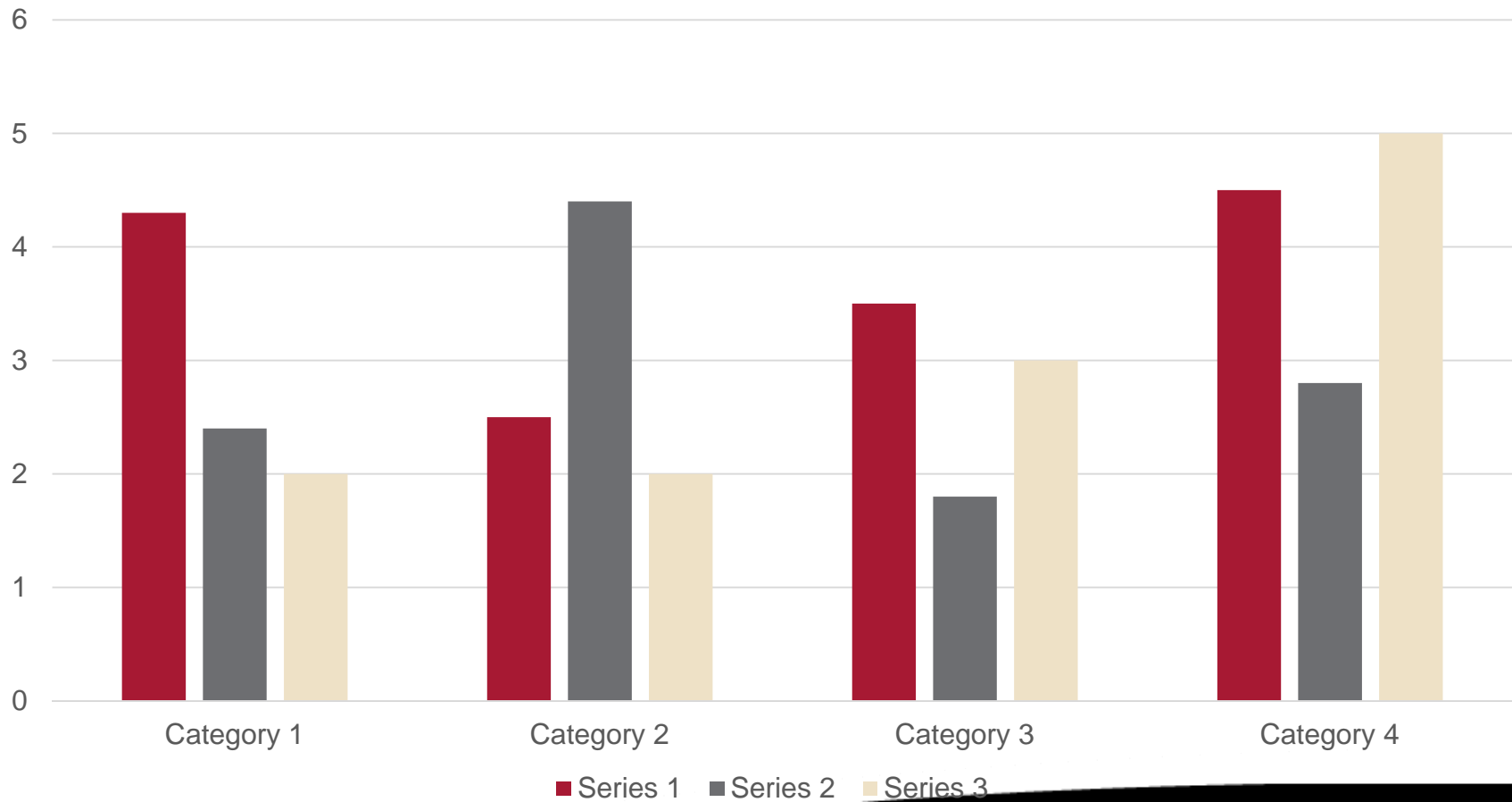


FTE Enrollment Budget to Actual

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New Slide – add narrative?

Chart Title



Source:

