

Financial Review

Fiscal Year 2019

Overview

- *Governance: Financial statement focus*
- *Prudent planning, financial management and decision-making ensures EWU's ability to respond to a rapidly changing environment*
- *Evaluate EWU's performance in relation to industry measures*

AGENDA



Financial Results & Key Performance Indicators



Resource Sufficiency & Flexibility



Operating Results



Financial Asset Performance

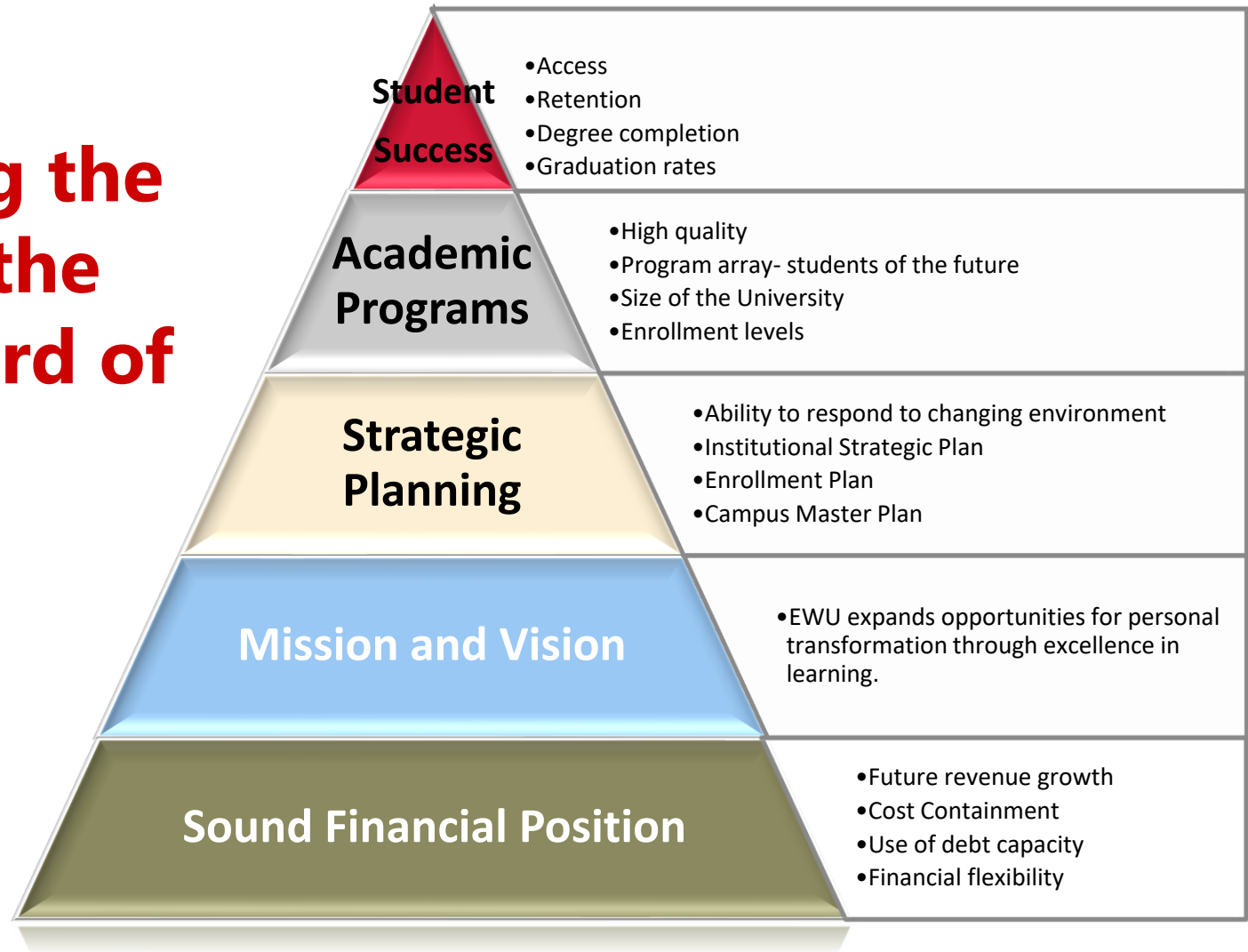


Debt Management

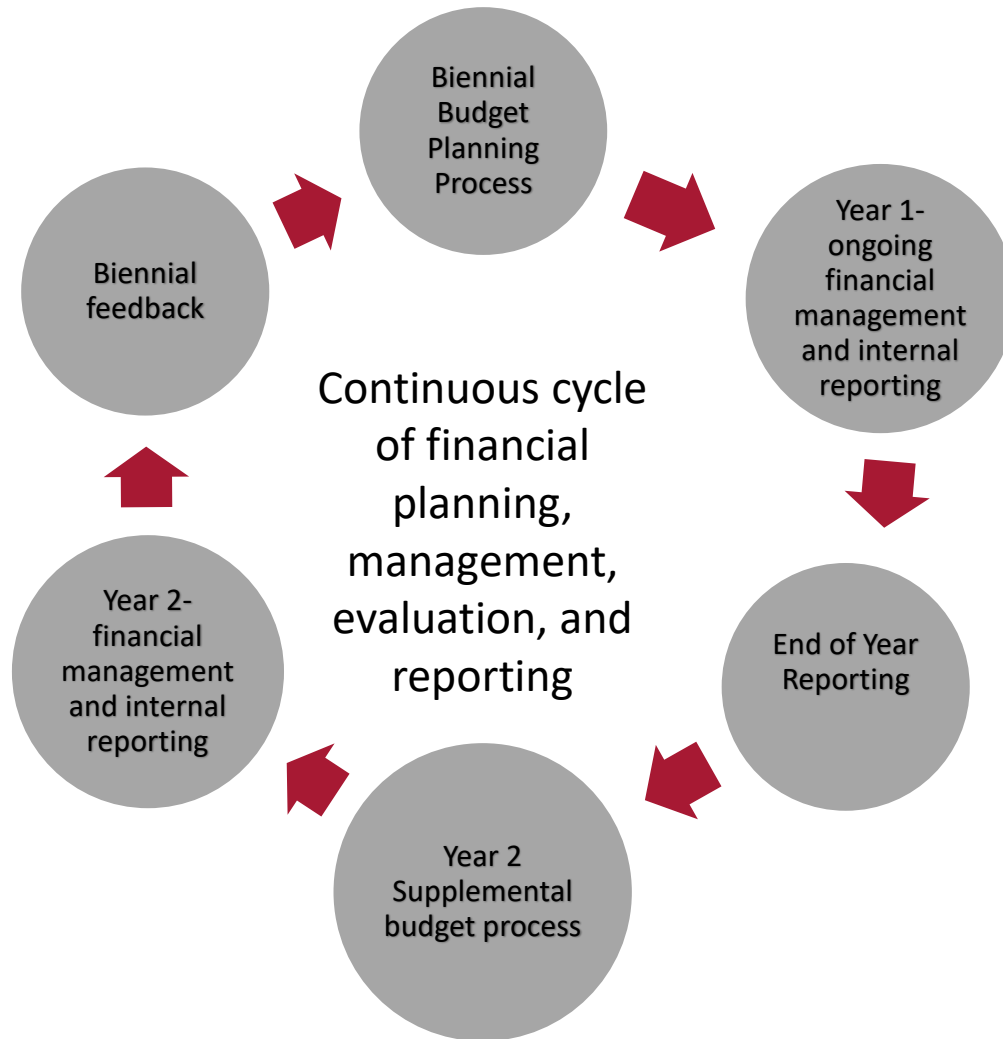


Financial Outlook

Achieving the Goals of the EWU Board of Trustees



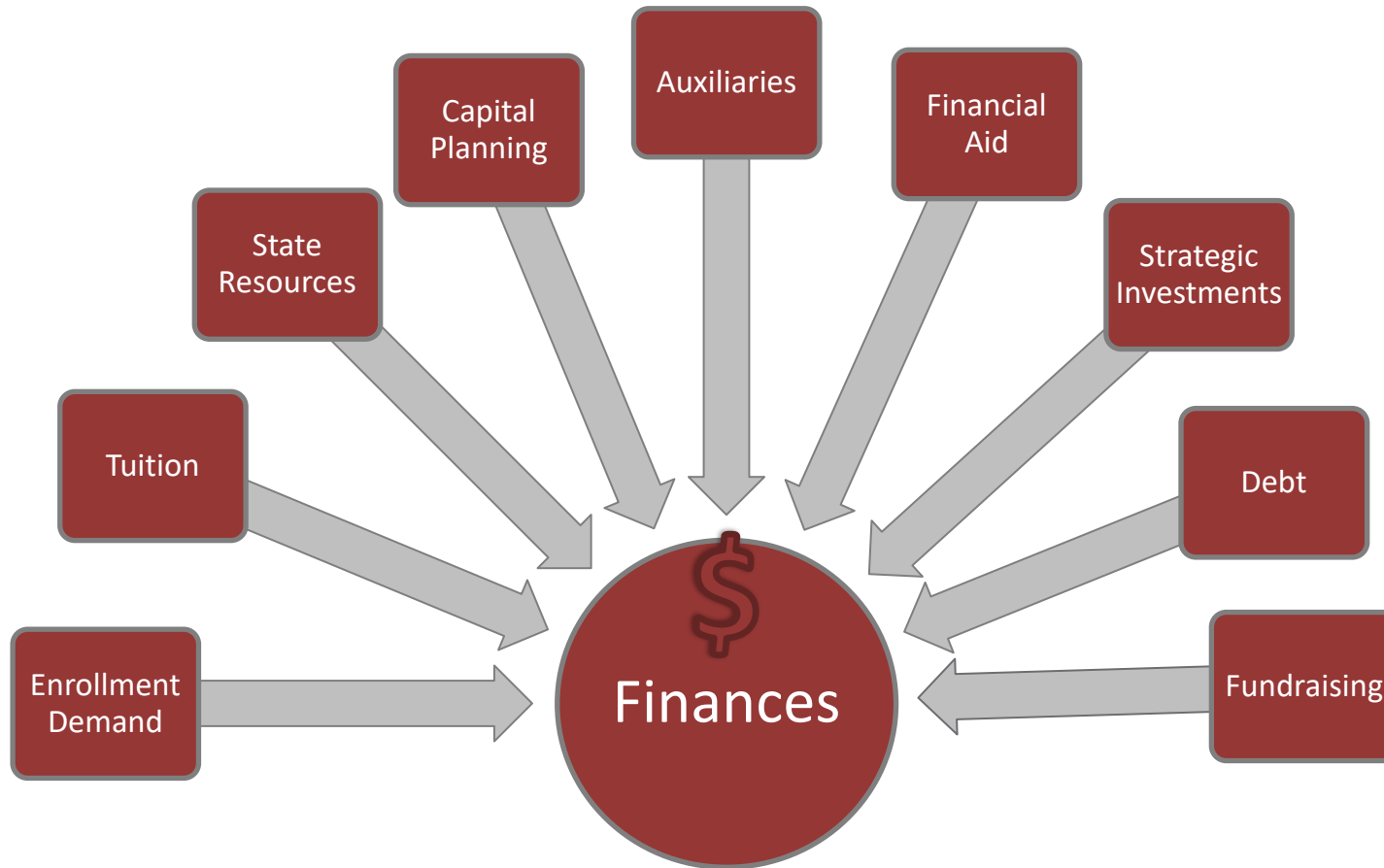
Financial Resource Governance



Campus Conversations

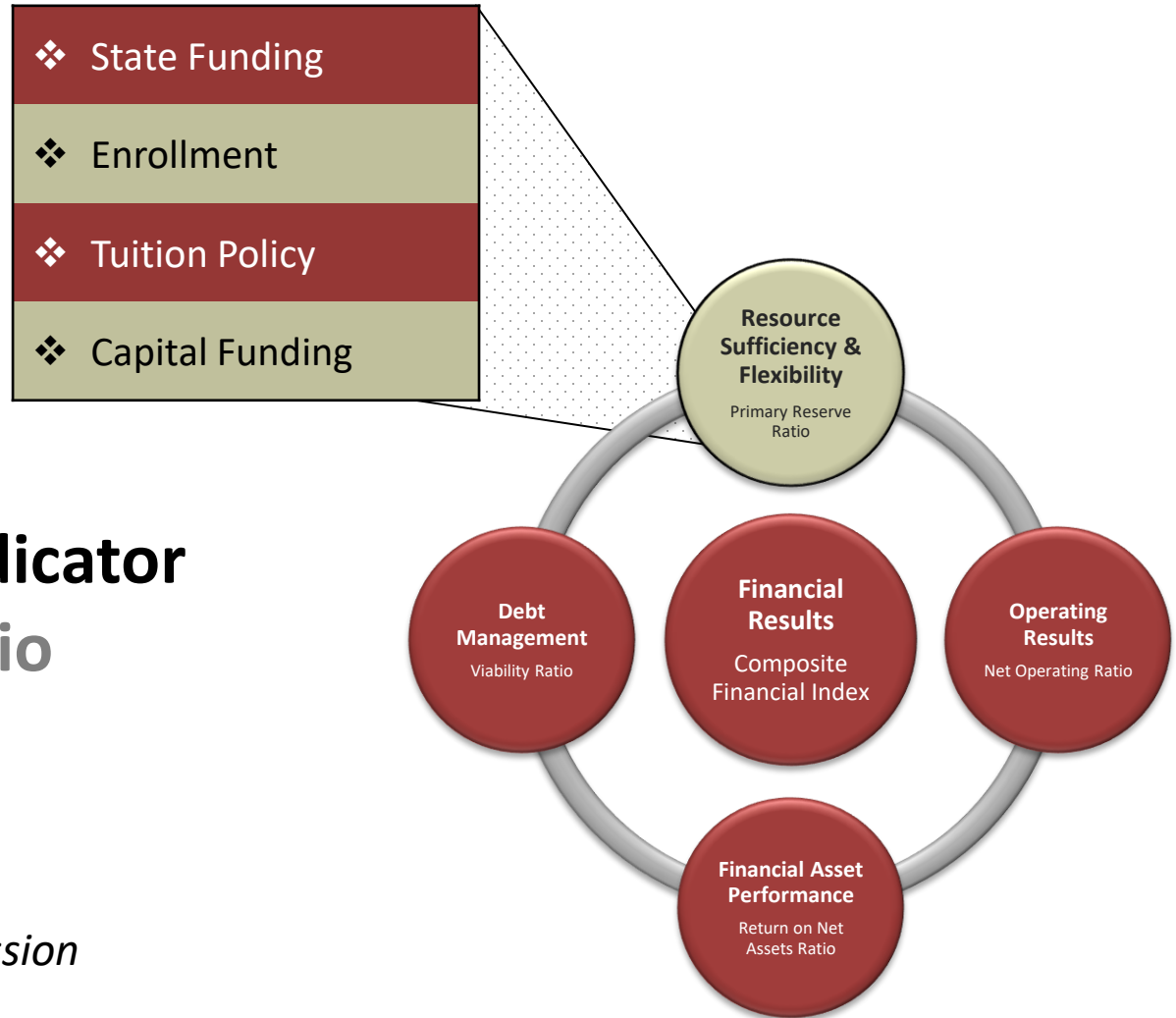
- Leadership- quarterly updates on enrollment, budget, financial reports
- University Budget Committee
 - Enrollment, quarterly financial reports, financial review/statements, debt compliance, annual and biennial planning, legislative
- Campus open forums- sponsored by UBC
- Enrollment and related information presented to campus
- Presentations at Faculty Commons
- Participation and presentations at department meetings
- Presentations at board meetings

Impacts to Eastern's Financial Position





RESOURCE SUFFICIENCY AND FLEXIBILITY

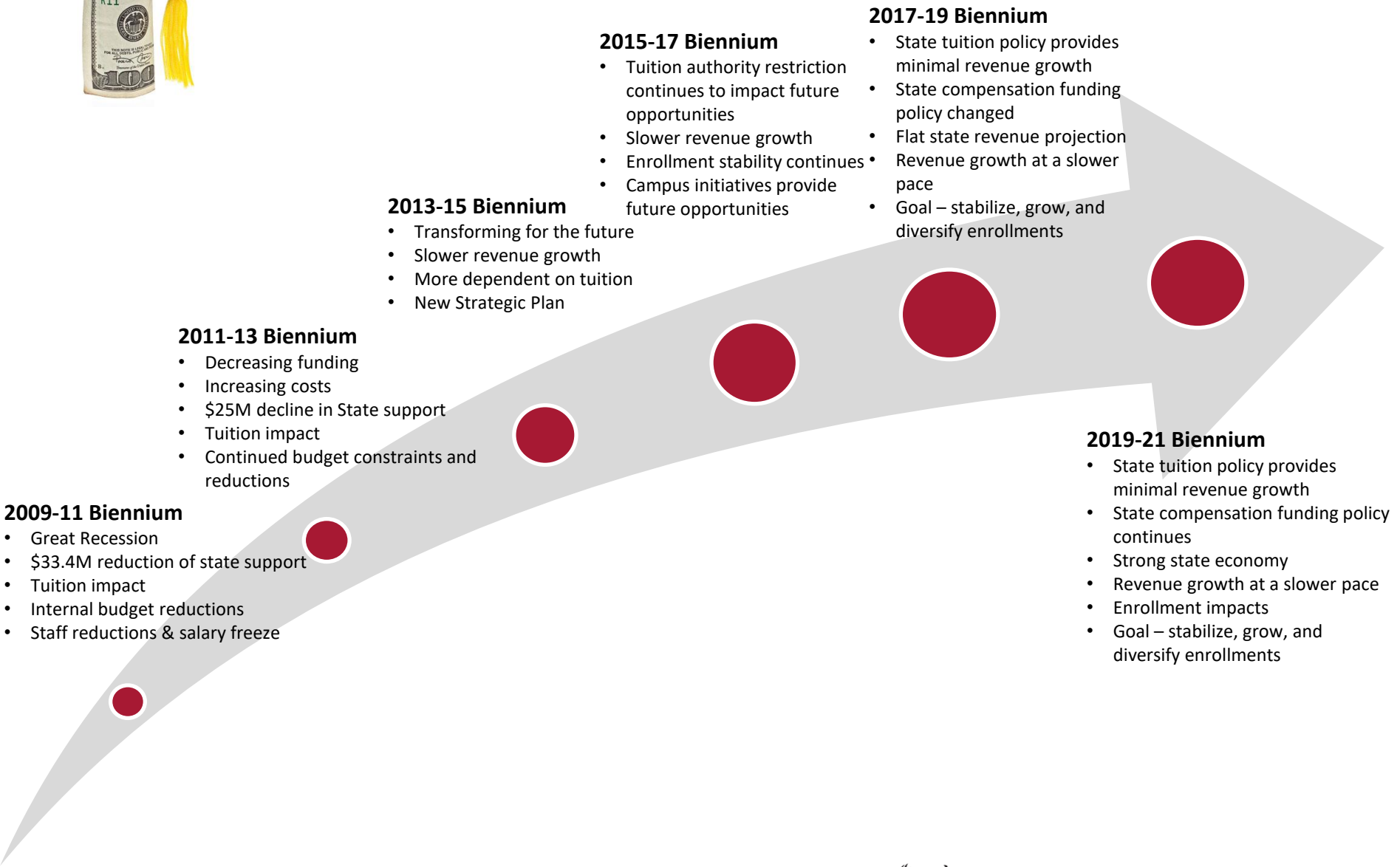


Key Performance Indicator Primary Reserve Ratio

To support the University's mission

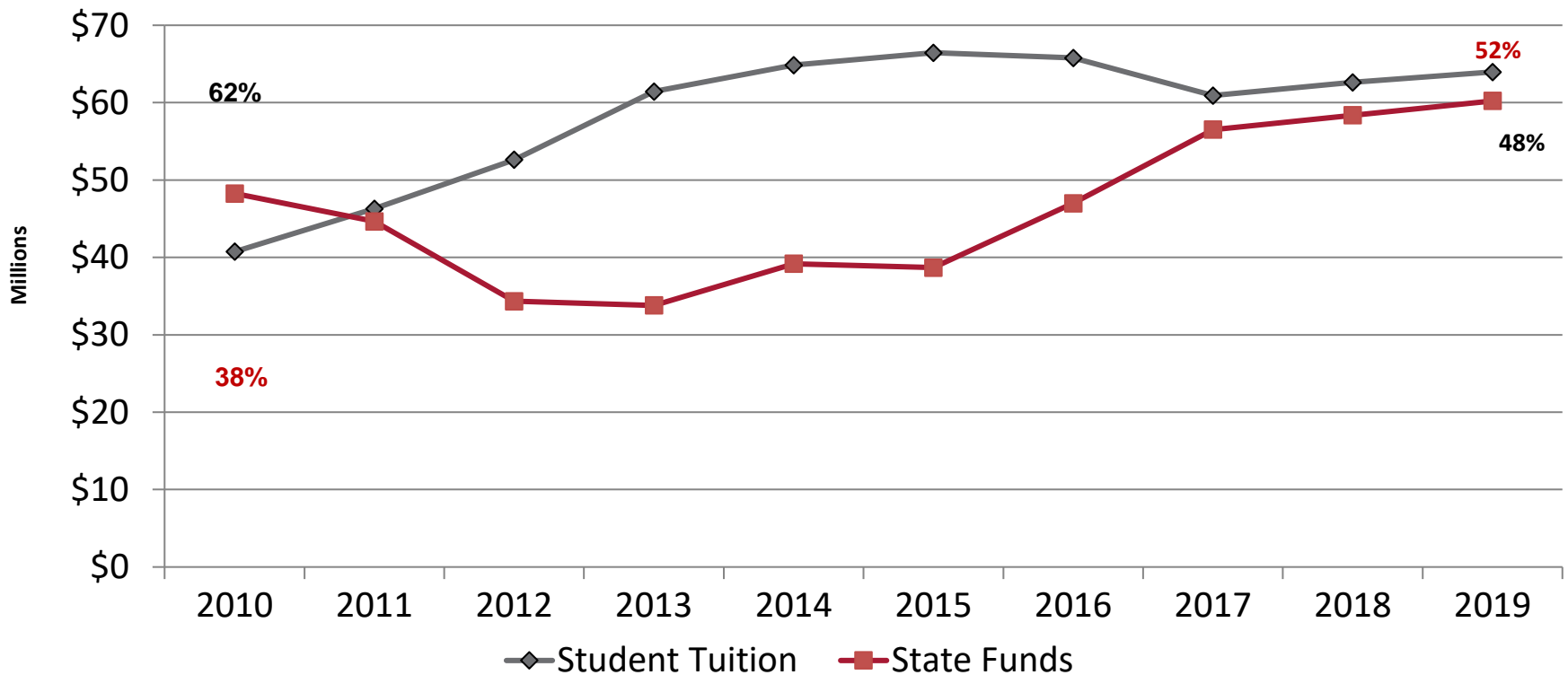


A Changing Financial Environment



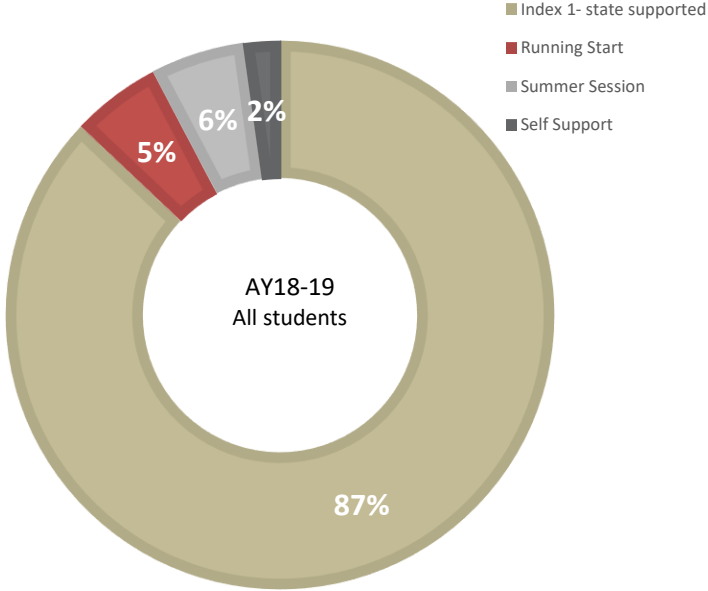
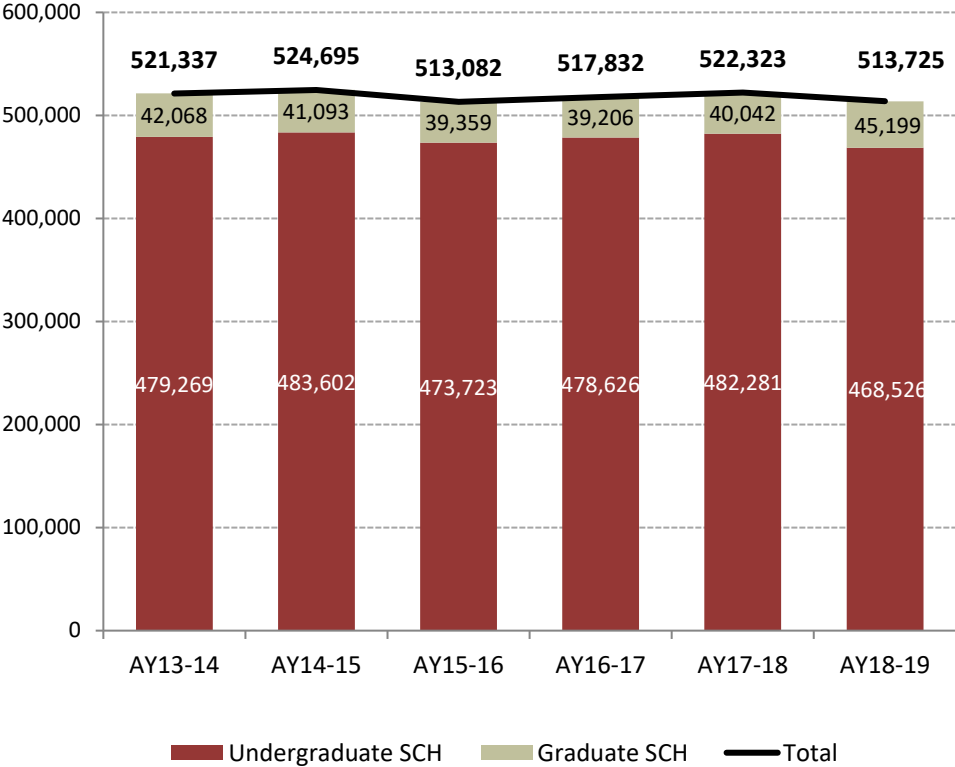
Key Funding Sources - State Funds and Student Tuition

The College Affordability Act increased the state investment in higher education beginning in FY16
State tuition policy is currently at 2.4%



Enrollment-12 Month

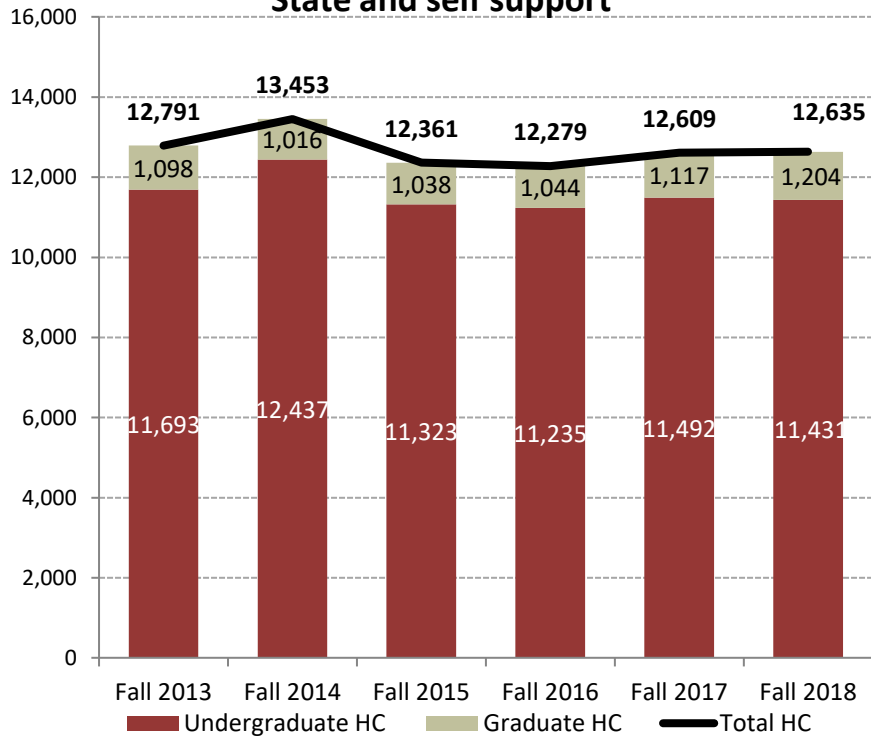
Student Credit Hours



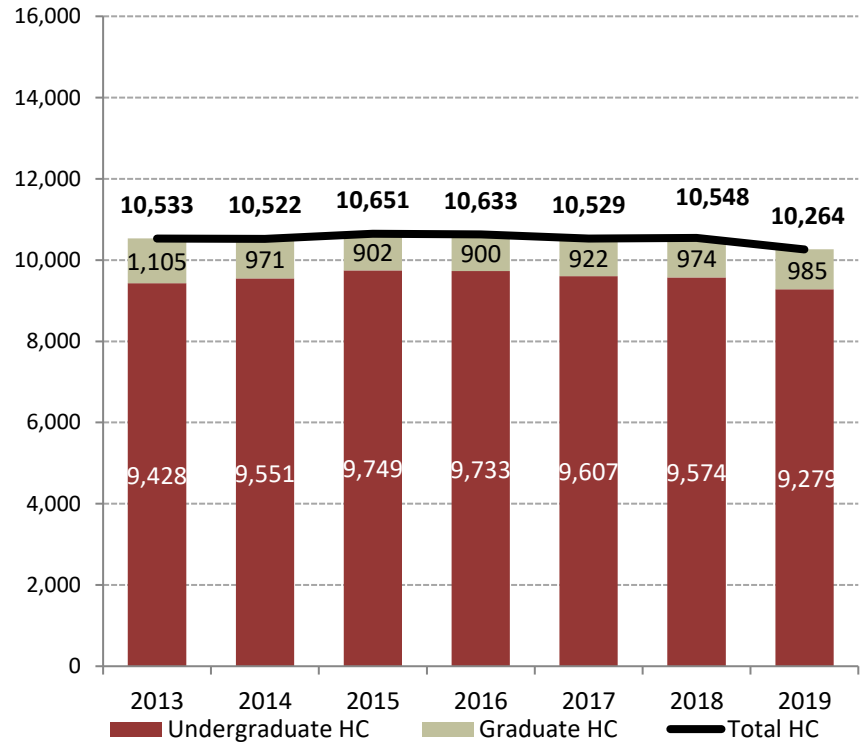
Note: SCH totals based on Fall – Summer term grouping
 Source: EWU census date enrollments

Fall Enrollment

**Total Fall Head Count
State and self support**



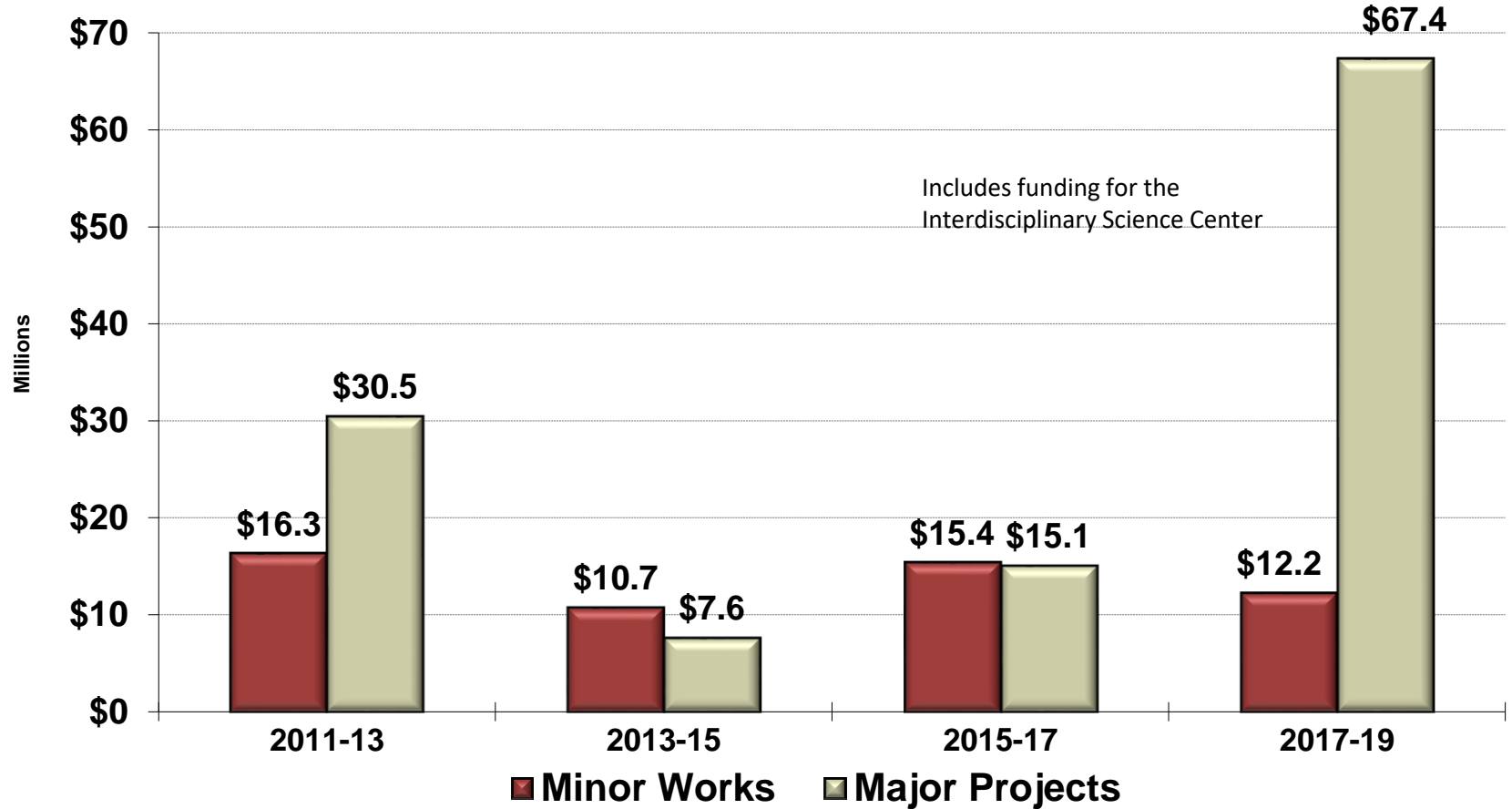
State Support – Average Annual Head Count



Source: EWU census date enrollments

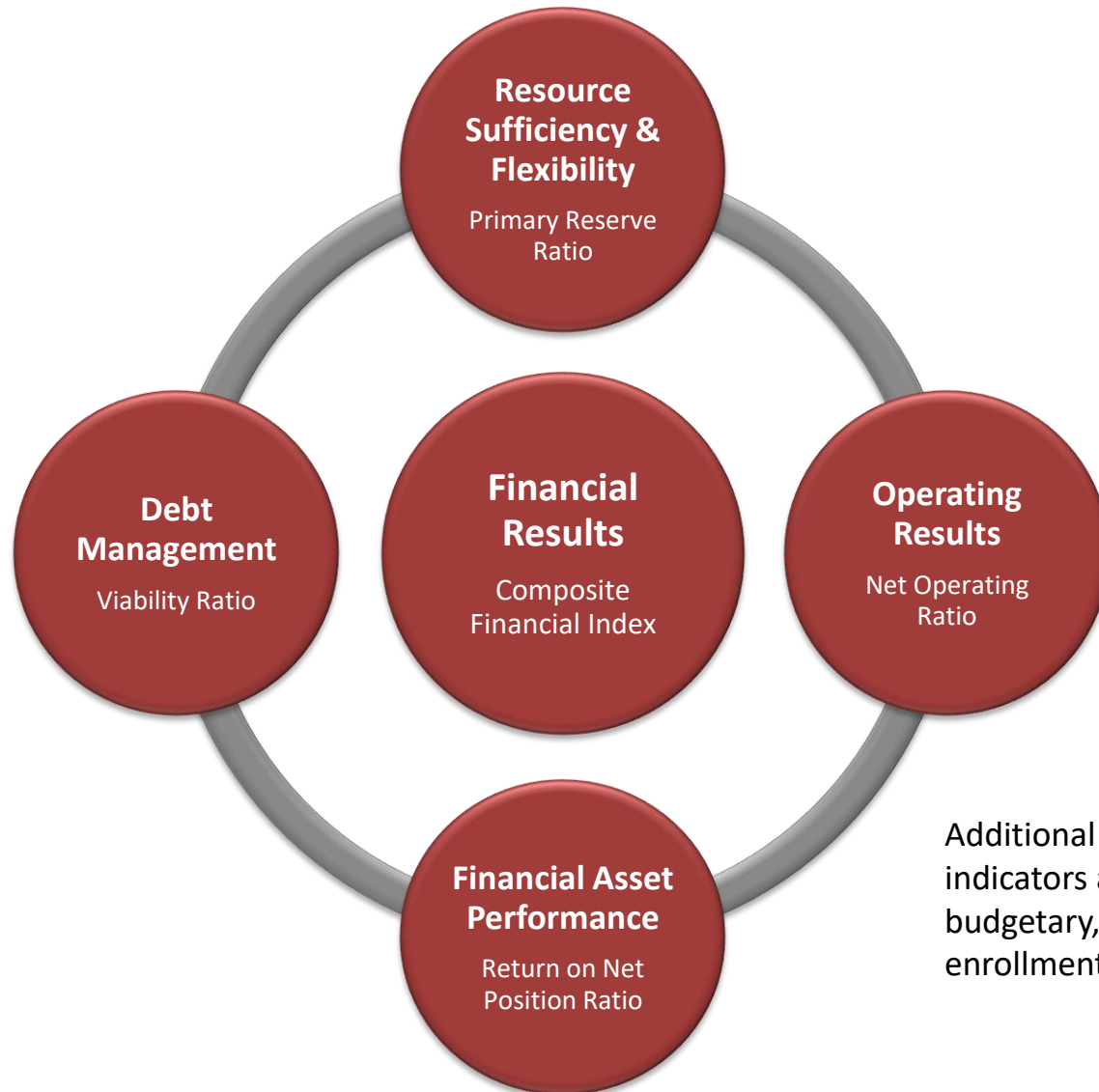
Capital Appropriation History

State capital funding can fluctuate between biennia and types of projects funded.



Source: Appropriation schedule - New appropriations only

Financial Results and Key Performance Indicators



Additional performance indicators are utilized for budgetary, financial and enrollment management.

Financial Statements

- Management Discussion and Analysis
 - *Overview of the financial position and financial activities (the overall story)*
- Statements of Net Position- Balance Sheet
 - *Owns and owes at June 30*
- Statements of Revenues, Expenses, and Changes in Net Position- Income Statement
 - *Annual operating performance*
 - *Change in net position*
- Statements of Cash Flows
 - *Categories of how cash is used*
- Notes to Financial Statements
 - *Required disclosures that supplement the financial statements*
- Required Supplementary Information
 - *Pension and other post employment benefit*
- Includes all financial activities
- EWU Foundation included as a component unit
- Annual audit by State Auditor's Office
- Opinion: Presented fairly in all material respects
- Results presented to BOT Audit Committee
- Annual financial review at February BOT meeting
- Debt report at February BOT meeting

FY 2019 Impacts to Financial Position

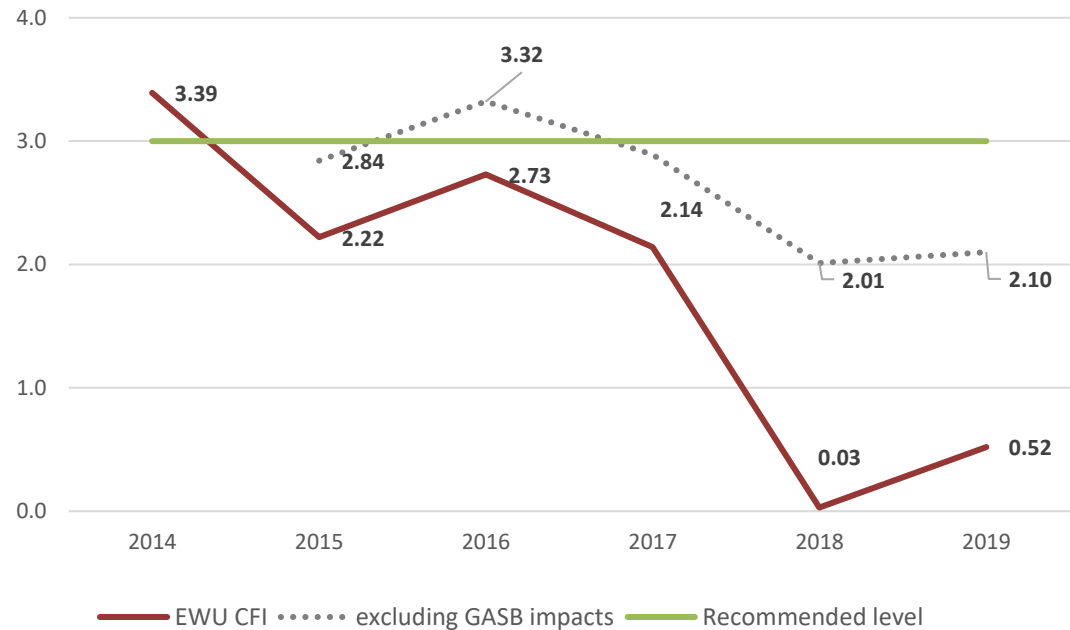
- Key Revenue Drivers
 - Enrollment- core enrollment index 1
 - Fall 18 HC decreased 1.5% over Fall 17
 - FY19 AAHC decreased 2.7% over FY18
 - Total revenues up 7.6% (includes capital appropriations)
 - Tuition and fee revenues, increased 2.9%
 - Index 1 revenue shortfall \$3.8M as compared to enrollment budget
 - Self support index 2 up \$5.9M over PY
 - State operating appropriations, increased 3.1%
 - State capital appropriations, increased \$10.6M due to spend rate on projects
 - Grants and contracts, increased <1%
 - Auxiliaries, up 8.2%
- Major Expense Categories
 - Operating expenses, up 3.3%
 - Salaries and wages, increased 3.3%
 - Health benefits, decreased 5.6%
 - Utilities, increased 25%
 - Supplies and materials increased 11.1%
 - Scholarships and fellowships, down 2%

Composite Financial Index



- **Overall measure of financial health**
- Combines the four key ratios using industry standard weighting
- Influenced by enrollment changes, state operating appropriations and tuition and fee pricing changes
- Two views presented
 - Solid line represents balance sheet unrestricted net position impact
 - Dotted line represents unrestricted net assets excluding one time impacts and GASB 68, 73,75 adjustments
- Useful in understanding the financial position of the institution in relation to an industry standard
- Combined insight into the trends of the institution's key financial indicators
- Recommended Level = 3

Composite Financial Index

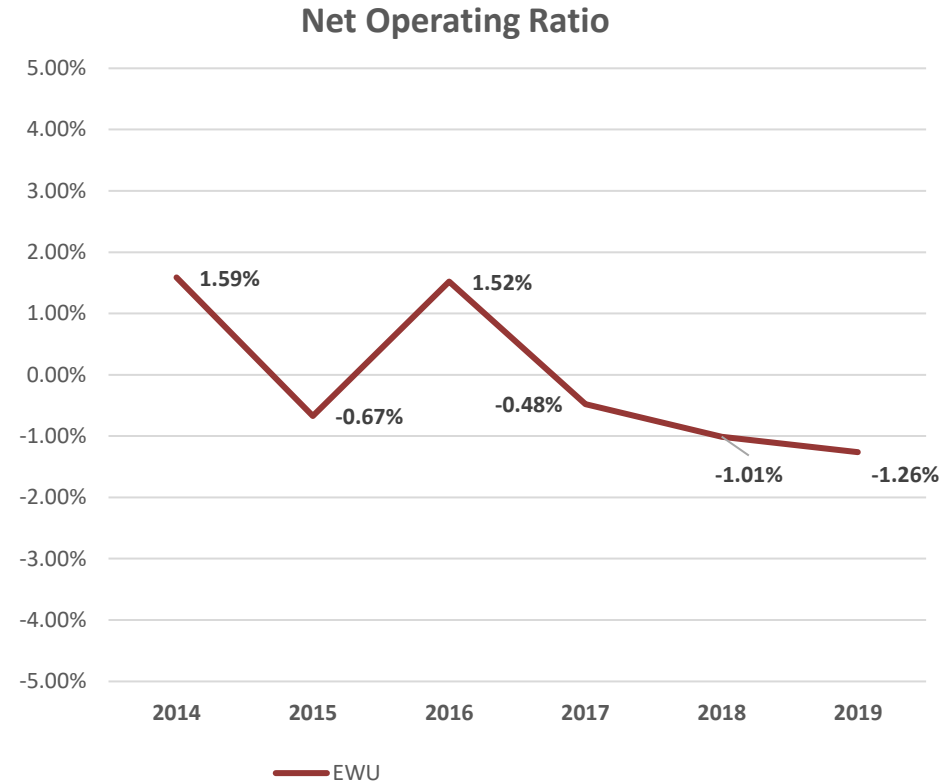


Source: EWU Financial Statements

Net Operating Ratio



- **Is the institution living within available resources on an annual basis?**
- Measures net operating revenues in contrast to total operating revenues
- Measured before state capital appropriations
- Negative ratios indicate a net operating and non operating deficit which may or may not be a problem
- A decline in ratio from prior year indicates operating expenses are increasing at a faster rate than operating revenues
- Targeted ratio should be between 2% and 4%
- Ratio Components-
 - Net operating and non-operating income (loss)
 - Total operating and non-operating revenue

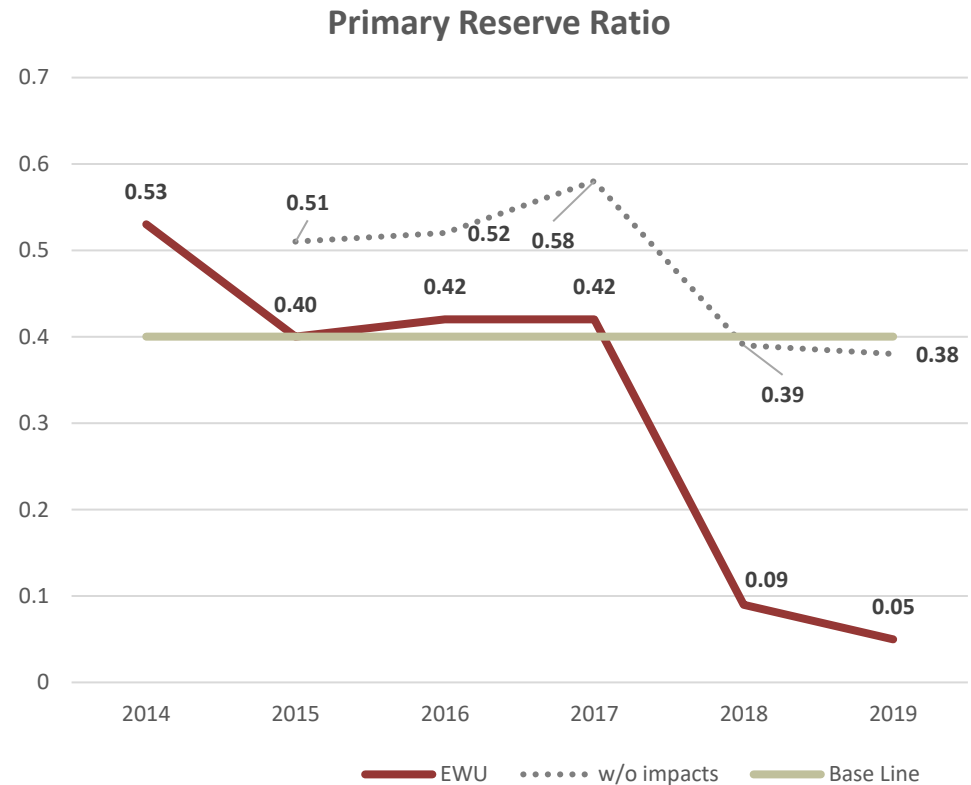


Source: EWU Financial Statements

Primary Reserve Ratio



- **Are resources sufficient and flexible enough to support the mission?**
- Measures the financial strength by indicating how long the institution could function without additional income
- Over time ratio should support reserve levels to ensure are keeping pace with institutional growth
- Two views presented
 - Red line represents balance sheet unrestricted net position impact
 - Dotted line represents unrestricted net assets excluding one time impacts and GASB 68, 73,75 adjustments
- Unrestricted net position should increase at least in proportion to the rate of growth in expenses
- Recommended Ratio is > .40
- Ratio components –
 - Unrestricted and restricted expendable net position
 - Operating and non-operating expenses



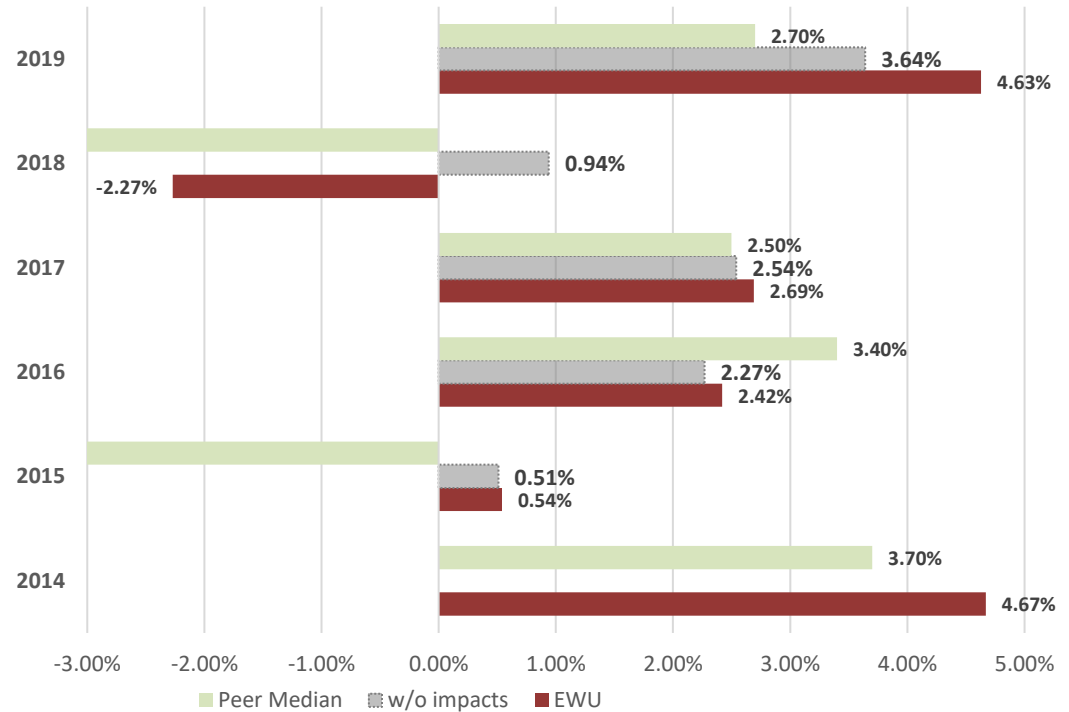
Source: EWU Financial Statements

Return on Net Position Ratio



- **Does financial asset performance support the strategic mission?**
- A positive return indicates the institution is financially better off than in previous years by measuring total economic return
- An improving trend is indicative of increasing net assets that will strengthen the institution's financial future
- Two views presented
 - Red bar represents balance sheet unrestricted net position impact
 - Gray bar represents unrestricted net assets excluding one time impacts and GASB 63, 73,75 adjustments
- A decline may be appropriate if it reflects a strategy to investment in mission fulfillment
- Industry target ratio: 3 – 4%
- Ratio Components –
 - Change in net position
 - Net assets (beginning of year)
- FY19 impacted by investment in capital assets
- Peers are Moody's rated A1 public institutions

Return on Net Position Ratio



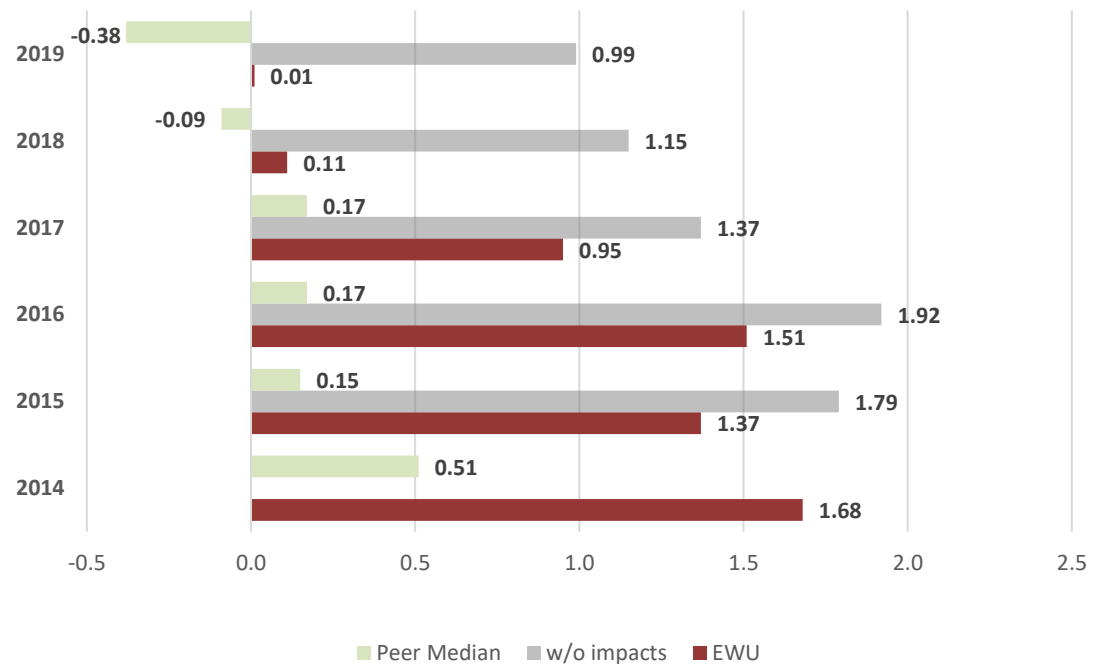
Source: EWU Financial Statements

Viability Ratio



- **Is debt managed strategically to advance the mission?**
- Measures the sufficiency of unrestricted net position to satisfy debt obligations
- A higher ratio indicates more funds available to cover debt
- Many institutions operate effectively at less than ratio 1:1 as state operating appropriations are not included in the calculation
- Two views presented
 - Red bar represents balance sheet unrestricted net position impact
 - Gray bar represents unrestricted net assets excluding one time impacts and GASB 68, 73,75 adjustments
- Desired ratio is > 1:1
- Peers are Moody's A1 rated public institutions
- Ratio Components –
 - Unrestricted net position
 - Long term debt – current and noncurrent

Viability Ratio



Source: EWU Financial Statements

Financial Indicators

<u>Financial Indicator</u>	<u>Definition</u>	FY 2019	FY 2018	FY 2017
Tuition dependency ratio (%)	Helps measure sensitivity to changes in enrollment levels	53.6	53.8	54.0
Unrestricted financial resources-to-operations (x) (1)	Measures coverage of annual operations by the most liquid resources	.004	.04	.39
Annual days cash on hand	Measures the number of days an institution is able to operate (cover its cash operating expenses)	242	257	251
Current ratio (2)	Measures liquidity – ability to meet current obligations with liquid assets	3.87	4.06	4.94
Expendable financial resources to direct debt (x) (3)	Measures coverage of direct debt by financial resources that are ultimately expendable	0.21	0.32	1.16
Financial debt burden ratio (%)	Examines dependence on borrowed funds as a source of financing the mission and the relative cost of borrowing to overall expenditures	2.22	2.11	2.48
Debt service coverage (x)	Measures actual margin of protection for annual debt service payments from annual operations. A higher ratio is considered to be advantageous while a declining ratio may be cause for concern.	2.30	2.50	2.59

⁽¹⁾ FY18 decrease result of reduction in unrestricted net position from GASB Statement No. 75

⁽²⁾ FY17 includes Series 2016B unspent bond proceeds which temporarily inflates the current ratio until invested in capital assets

⁽³⁾ FY18 ratio impacted by reduction in unrestricted net position from implementation of GASB Statement No. 75

Moody's Scorecard Results - 2018

Metric	% of Total Score	Value	Indicated Score
Market Profile (30%)			
Operating Revenue	15%	\$214,531	A
Annual Change in Operating Revenue	5%	1.9%	Ba
Strategic Positioning	10%	Very Good	A
Operating Performance (25%)			
Operating Cash Flow Margin	10%	8.0%	A
Maximum Single Contribution	15%	61.2%	A
Wealth & Liquidity (25%)			
Total Cash and Investments	10%	\$175,600	Aa
Spendable Cash & Investments to Operating Expenses	10%	0.7x	Aa
Monthly Days Cash on Hand	5%	261 days	Aa
Leverage (20%)			
Spendable Cash & Investments to Total Debt	10%	1.8x	Aa
Total Debt to Cash Flow	10%	4.8x	Aa

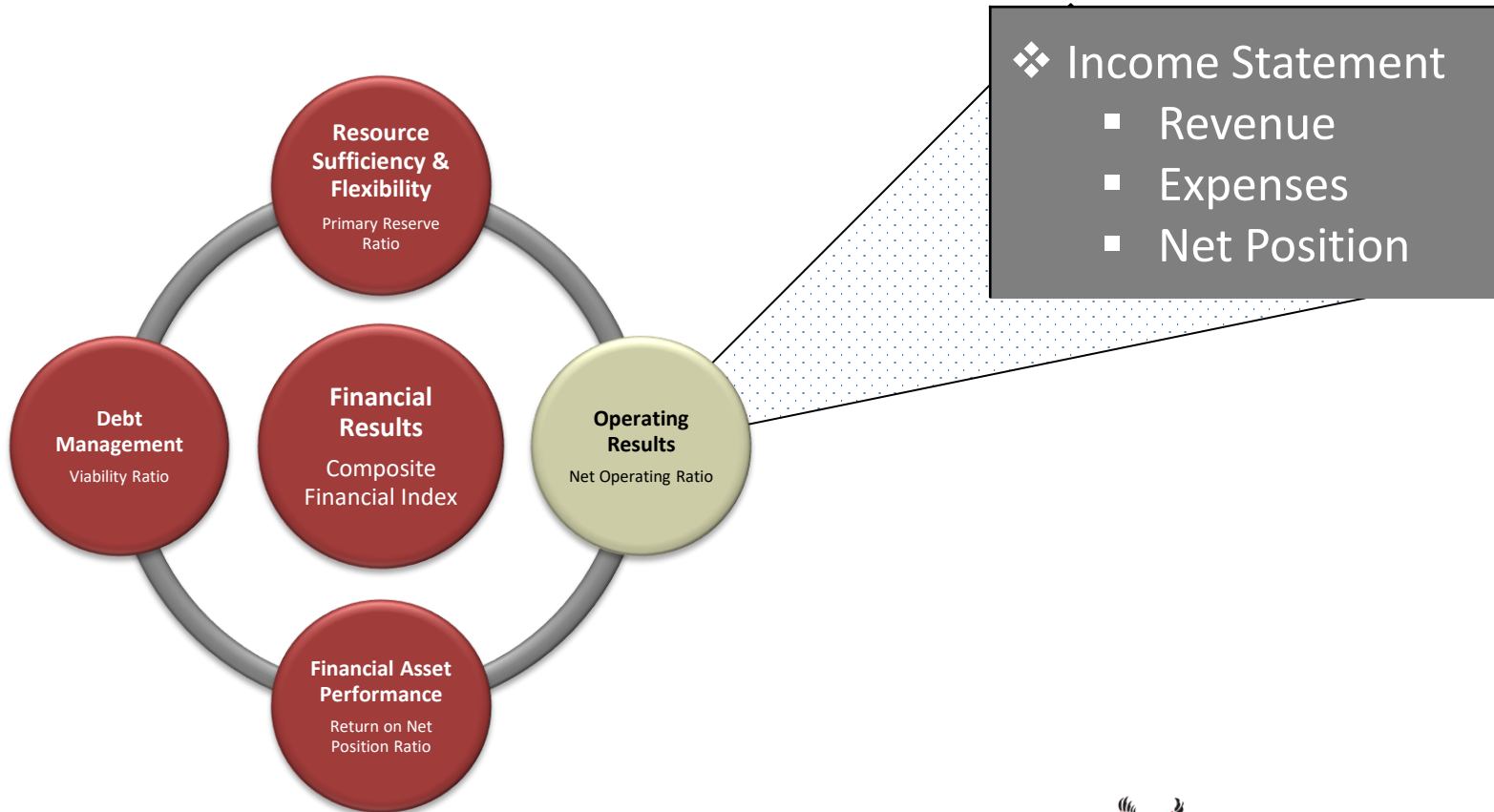
Note: Data based on Moody's "Annual Comment on Eastern Washington University" dated April 23, 2019



OPERATING RESULTS

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

Key Performance Indicator



What does the Operating Statement mean?

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

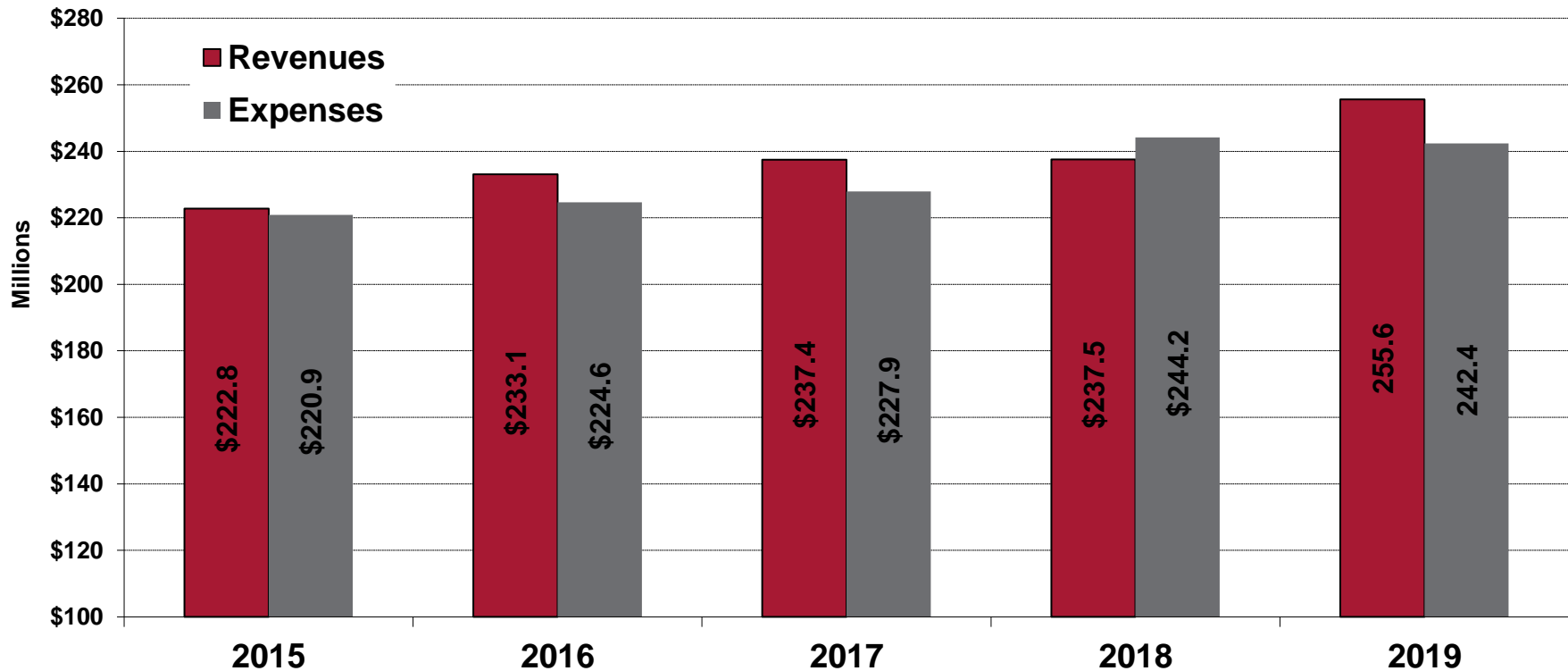
Presents a change in net financial position over the prior year

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

FY19: Total revenues increased by 7.6%. Total expenses decreased largely due to the absence of special items which occurred in FY18. Without the FY18 special items, expenses increased by 3.5%.

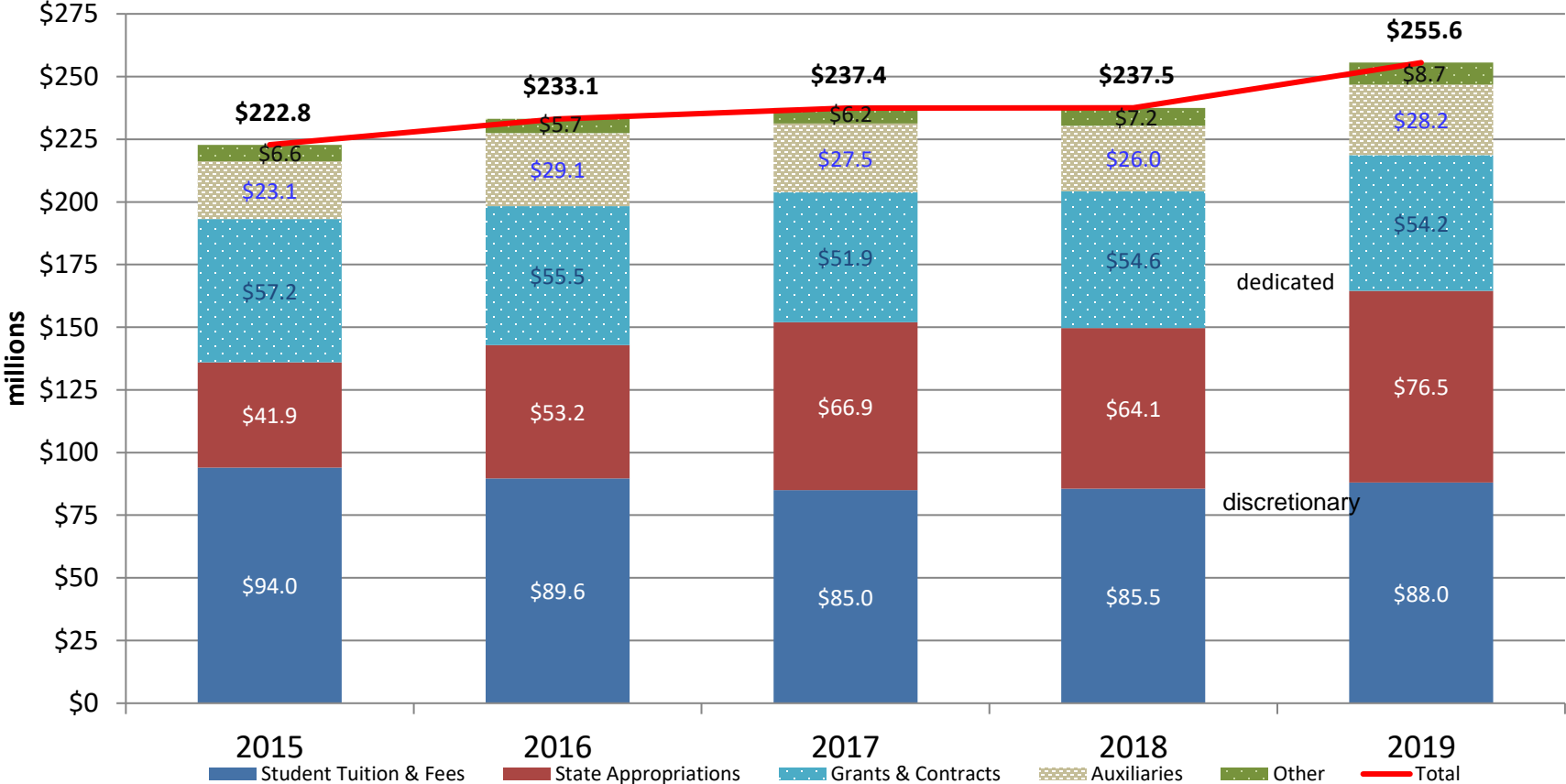


Source: EWU Financial Statements

University Revenues

FY19—

- Tuition & fees increased 2.9%
- Operating Appropriations increased 3.1%
- Capital Appropriations increased due to ISC construction

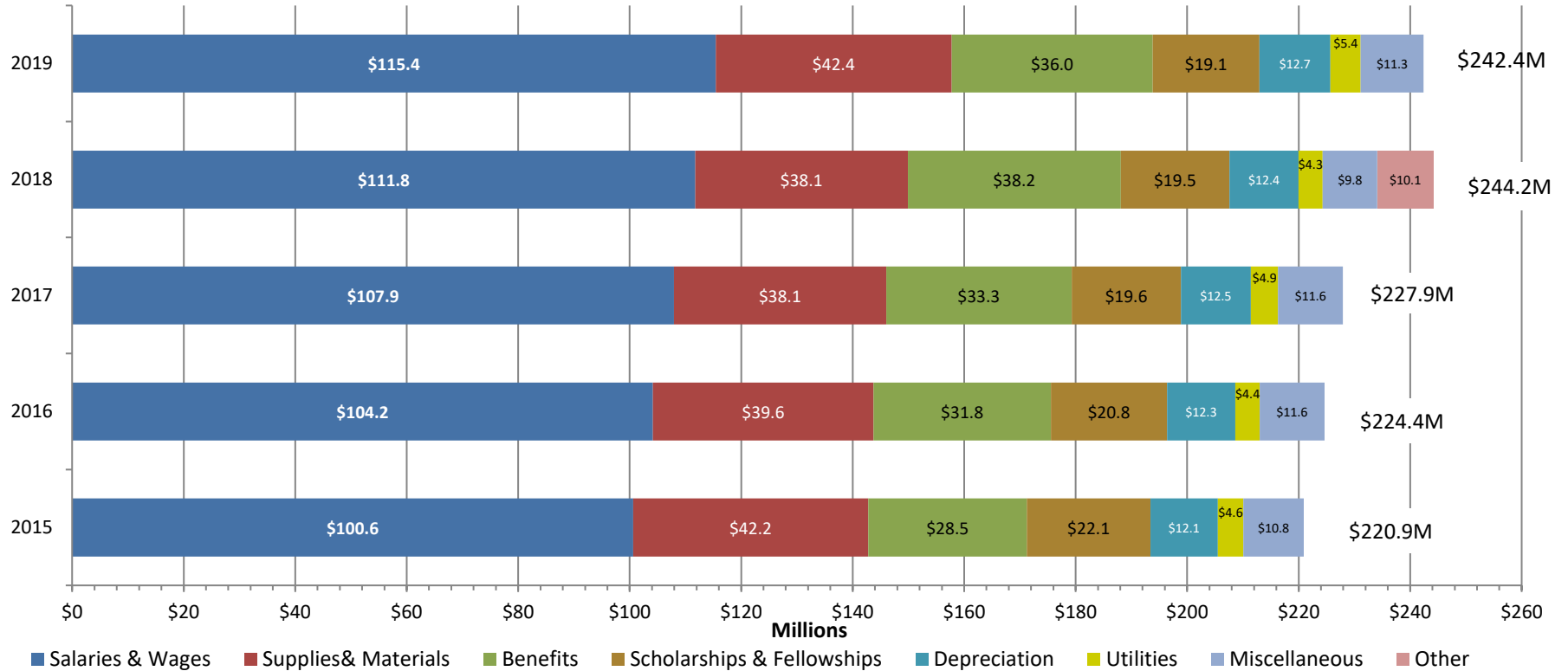


Source: EWU Financial Statements

University Expenses by Type

FY19 Impacts--

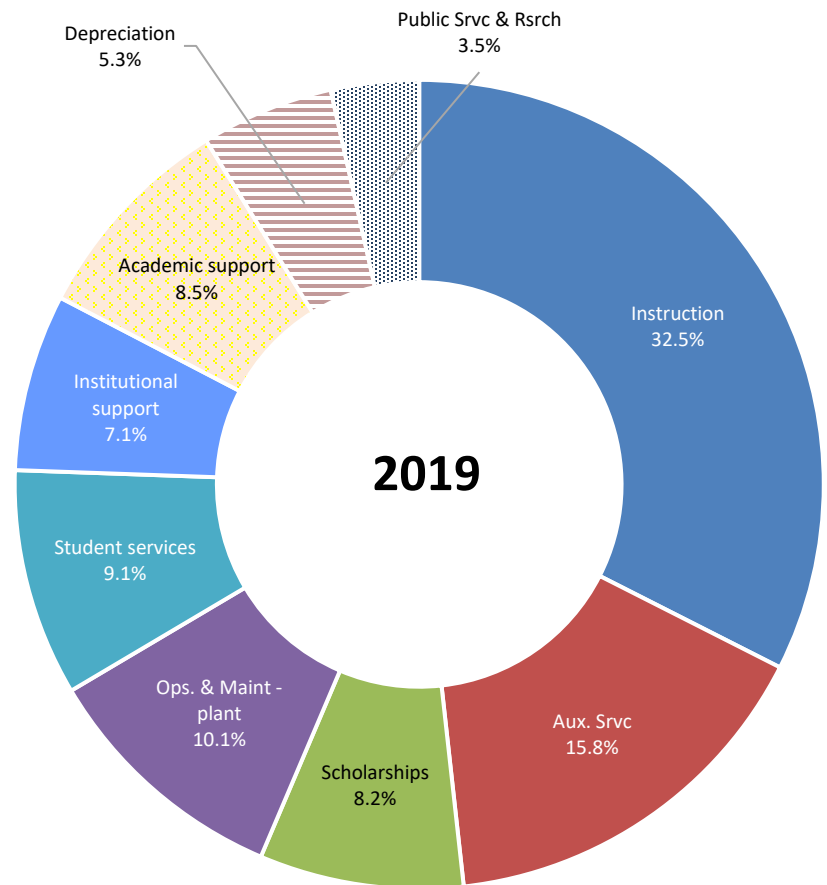
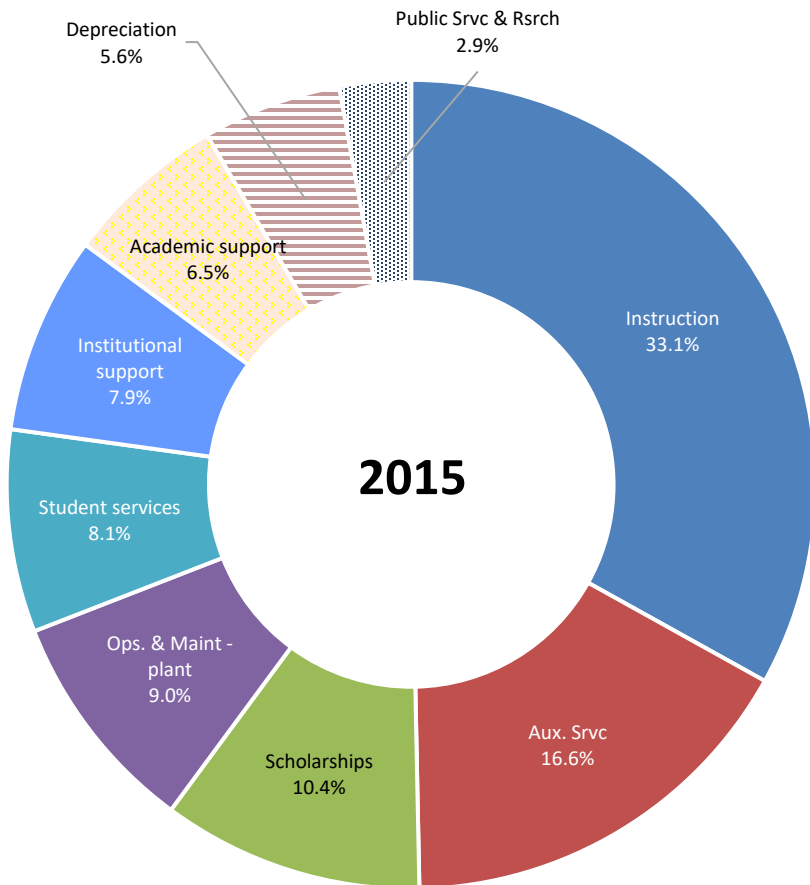
- Total expenses decreased by 1%
- Expenses without FY18 special items increased 3.5%
- Salaries & Wages increased 3.3%
- Benefits cost decreased 5.6%
- Supplies & Materials increased 11.1%
- Utilities increased 25%



FY18- 'Other' includes 3.9M Perkins loan program closeout expense and 6.1M loss on demo of old PUB

Source: EWU Financial Statements

Operating Expenses by Function



Source: 2015, 2019 Financial Reports



Does financial asset performance support the strategic mission?



BALANCE SHEET AND INDICATORS

What does the Balance Sheet represent?

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

All Funds	2018 (millions)	2019 (millions)
Total Assets and Deferred Outflows	\$526.5	\$546.0
Total Liabilities and Deferred Inflows	\$241.2	\$247.5
Net Position (at June 30)	\$285.3	\$298.5

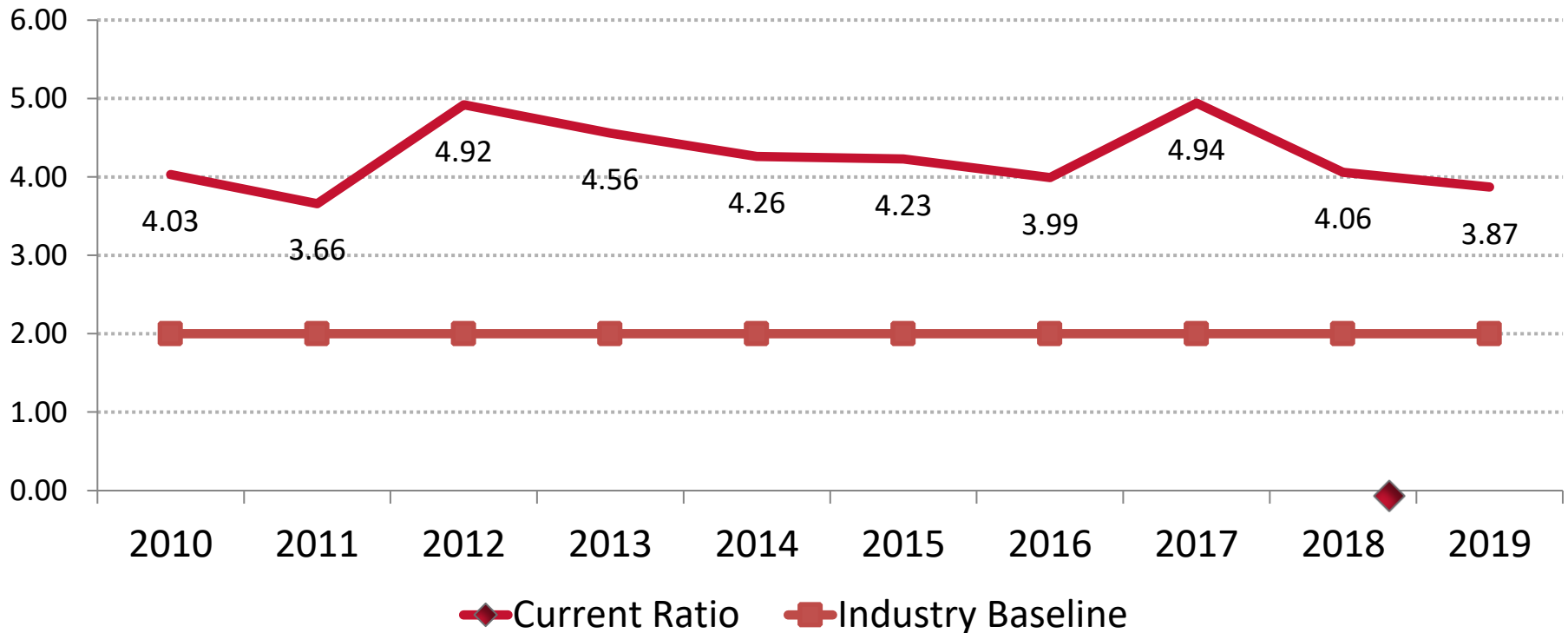
Unrestricted net position change due to results of operations and investment in capital assets

Source: FY2019 Financial Report

Key Balance Sheet Indicators

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

Current Ratio: Measure of Liquidity



Source: Financial Reports

DEBT MANAGEMENT



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

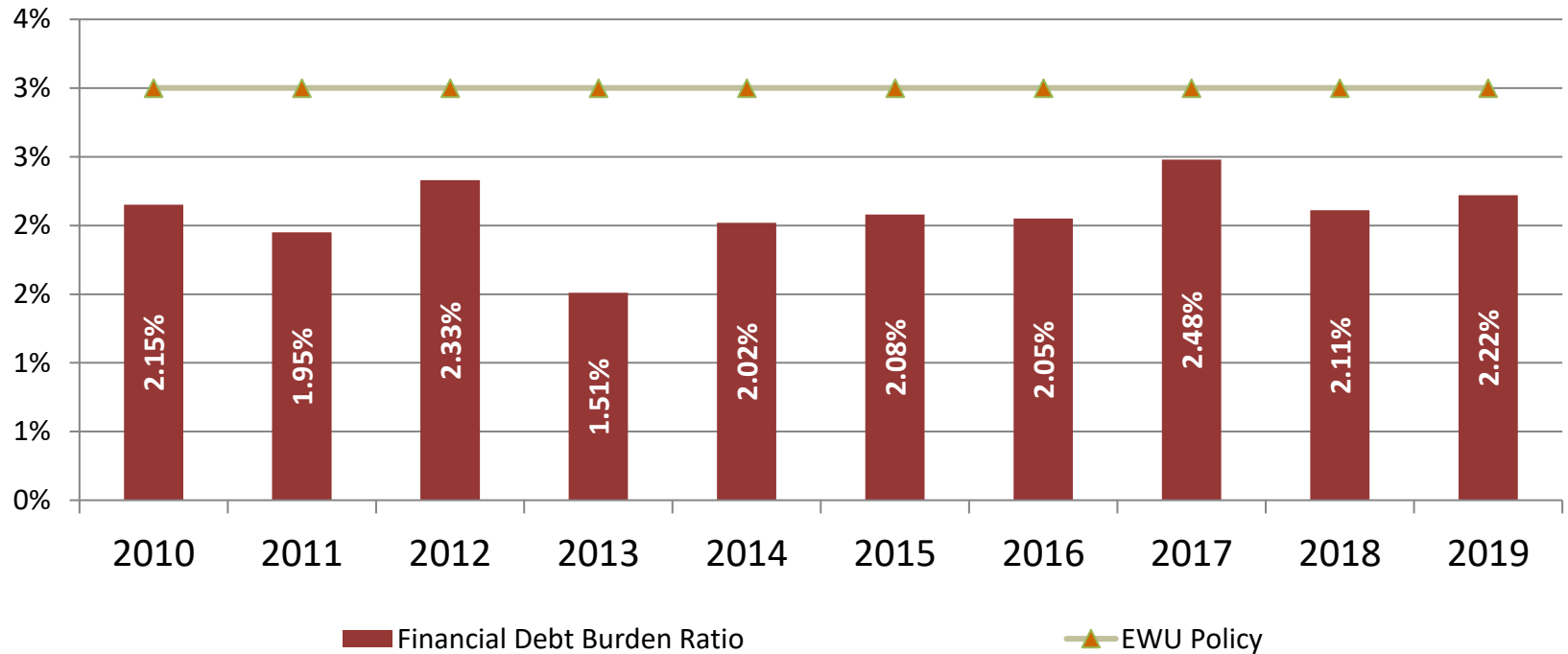
Debt Management and Oversight

- 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

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: Financial Reports

Moody's Higher Education Sector Outlook- December 2019

2020 outlook moves to stable with steady revenue growth and solid reserves

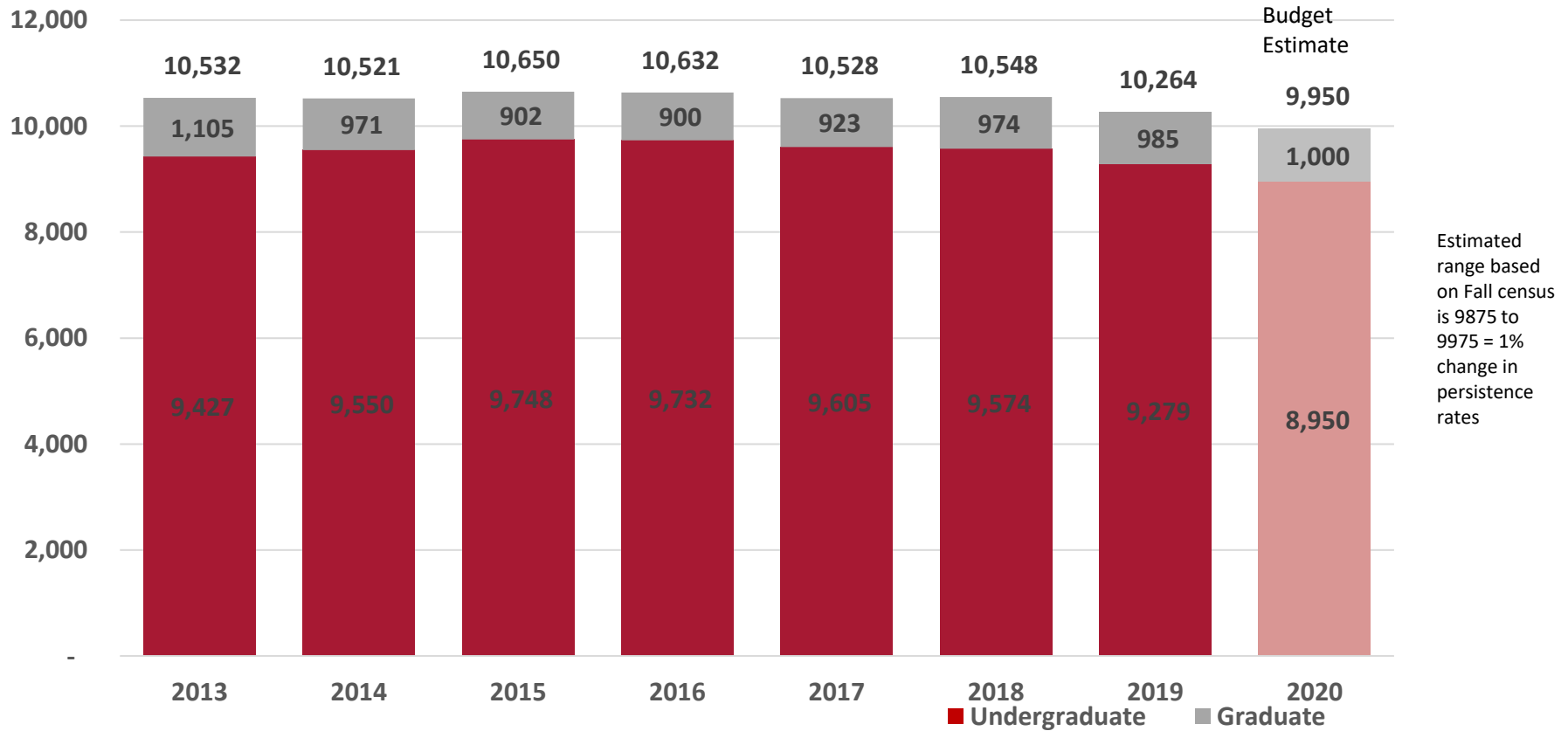
- Outlook moved to stable from negative based on expectation that while business environment remains difficult, the financial environment will not deteriorate materially.
- Revenue expected to grow 3-4%
- Tuition revenue will remain constrained at ~1% growth, while other revenues projected to increase ~3%
- Competitive landscape and emphasis on affordability will constrain net tuition revenue growth (enrollment and price)
- Flat or declining enrollment will limit overall tuition revenue growth
- Rising expenses will continue to challenge universities as expense growth is expected to be 3-4%
- Reserves will provide flexibility and overall debt issuance expected to be moderate
- Social impacts, including demographic changes, will transform sector over the long term creating challenges and opportunities
- State support to remain generally stable, with federal research environment improving
 - Anticipating moderate growth for public institutions of 2.5%-3%
 - State funding for colleges and universities is vulnerable during economic downturns due to discretionary nature

Looking Forward

- Ensure sustainable financial environment
 - Eastern's market position, enrollment, and financial pressures closely track the sector outlook
- Key financial drivers and impacts on future planning
 - Investments in technology and analytics to assist with planning, decisions, and serving students
 - Overall enrollment trajectory
 - Restructure/resize institution
 - Tuition revenue
 - Other student fee related revenue tied to enrollment
 - State funding and tuition policy
 - Fundraising
 - Cost containment
 - Institutional gift aid
 - Investment in new programs and delivery
 - Strategic investments to position for the future

Index 1 - Average Annual Headcount

2013 – 2019



Headcount and Credit Hours

Fall 2014- Fall 2019

All Enrollments

a-(CENSUS) Student HC and Attempted Hours: Summary

Population Selected: All

Campus: All; College: All; Department: All

ACADEMIC_YE..	ByTerm_QTR_SM..	Distinct Student Count (SHC)	% Diff. in SHC from the Previous	Student Credit Hours (SCH)	% Diff. in SCH from the Previous
2014-2015	1_Fall - 2014	13,453		177,269	
2015-2016	1_Fall - 2015	12,361	-8.12%	173,169	-2.31%
2016-2017	1_Fall - 2016	12,279	-0.66%	171,833	-0.77%
2017-2018	1_Fall - 2017	12,607	2.67%	173,639	1.05%
2018-2019	1_Fall - 2018	12,635	0.22%	172,068	-0.90%
2019-2020	1_Fall - 2019	12,326	-2.45%	166,914	-3.00%

Index 1 core

(CENSUS) Student HC and Attempted Hours; Summary

Population Selected: State-Support Only

Campus: All

College: All

ACADEMIC_YE..	c.Academic_Ye..	Distinct Student Count	% Difference in Distinct count of Record# from the Previous along Table (Down)	Course Credits	% Difference in CRSE_CREDITS from the Previous along Table (Down)
2014-2015	1_Fall - 2014	11,112		157,609	
2015-2016	1_Fall - 2015	11,227	1.03%	158,873	0.80%
2016-2017	1_Fall - 2016	11,036	-1.70%	156,005	-1.81%
2017-2018	1_Fall - 2017	11,093	0.52%	157,251	0.80%
2018-2019	1_Fall - 2018	10,927	-1.50%	153,754	-2.22%
2019-2020	1_Fall - 2019	10,503	-3.88%	146,511	-4.71%





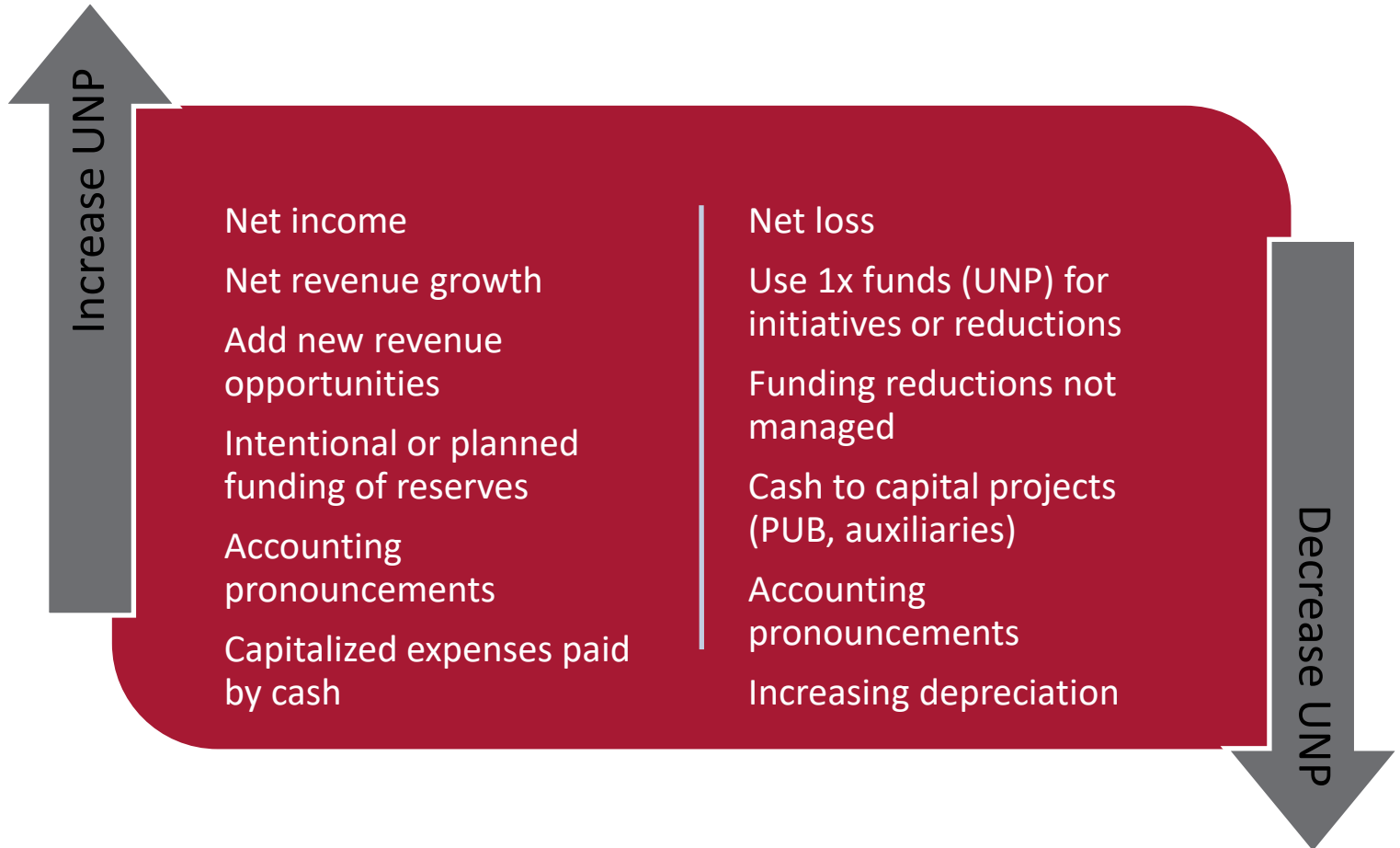
EASTERN WASHINGTON UNIVERSITY

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APPENDIX

Additional Selected Information

Changes in Unrestricted Net Position



Unrestricted Net Position Balance Sheet and GASB impacts

**Unrestricted Net Position Excluding Retirement
and OPEB (in thousands)**

	2019	2018	2017
Unrestricted net position, as reported	\$ 811	\$ 9,313	\$ 81,600
Impact of GASB 68 (retirement)	15,797	19,055	21,259
Impact of GASB 73 (retirement)	16,124	15,218	14,579
Impact of GASB 75 (OPEB)	77,991	75,476	-
Unrestricted net position, excluding retirement and OPEB	\$ 110,723	\$ 119,062	\$ 117,438

Source: EWU Financial Report, page 7