

Financial Review

Fiscal Year 2020

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

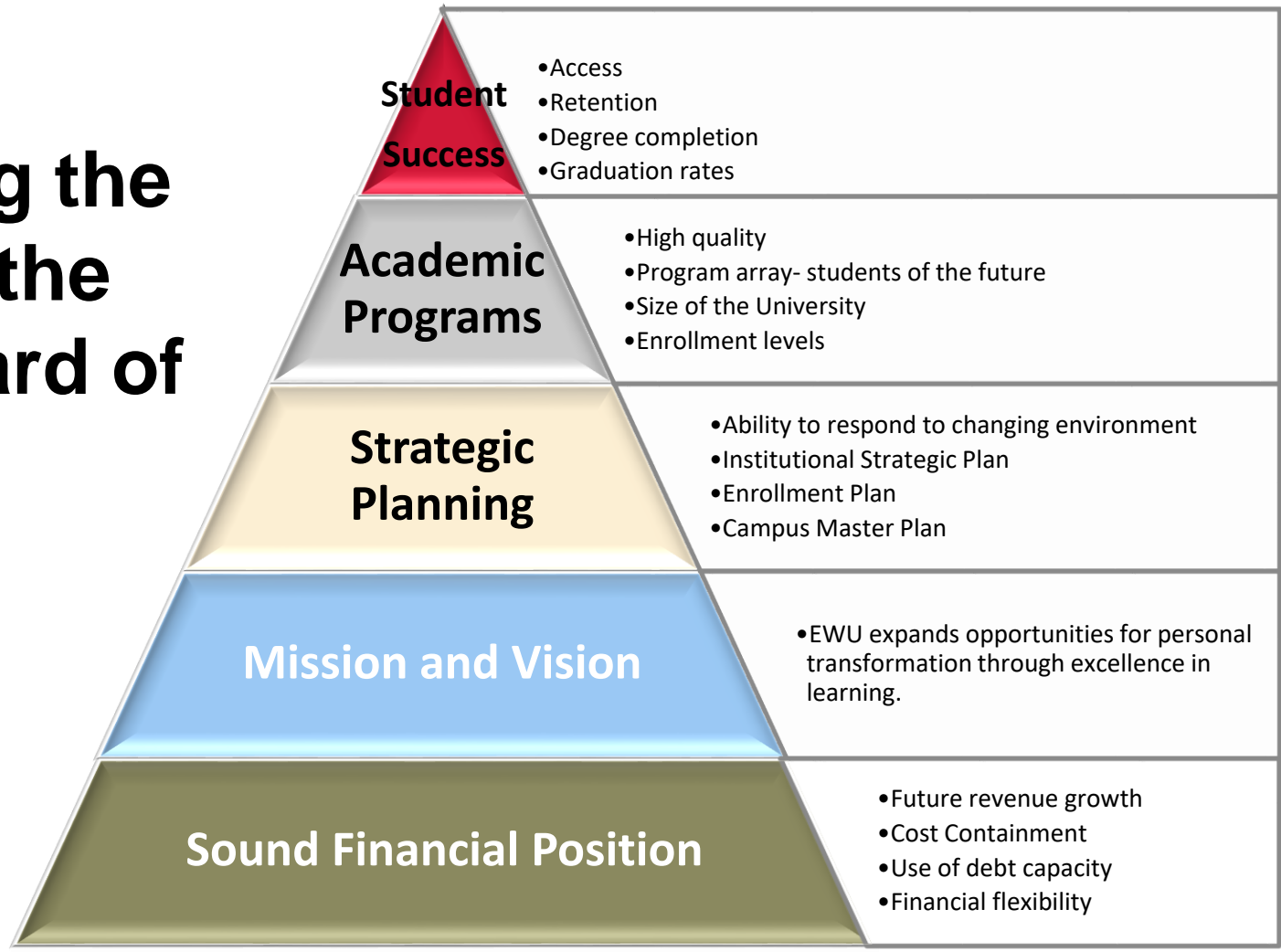


Debt Management

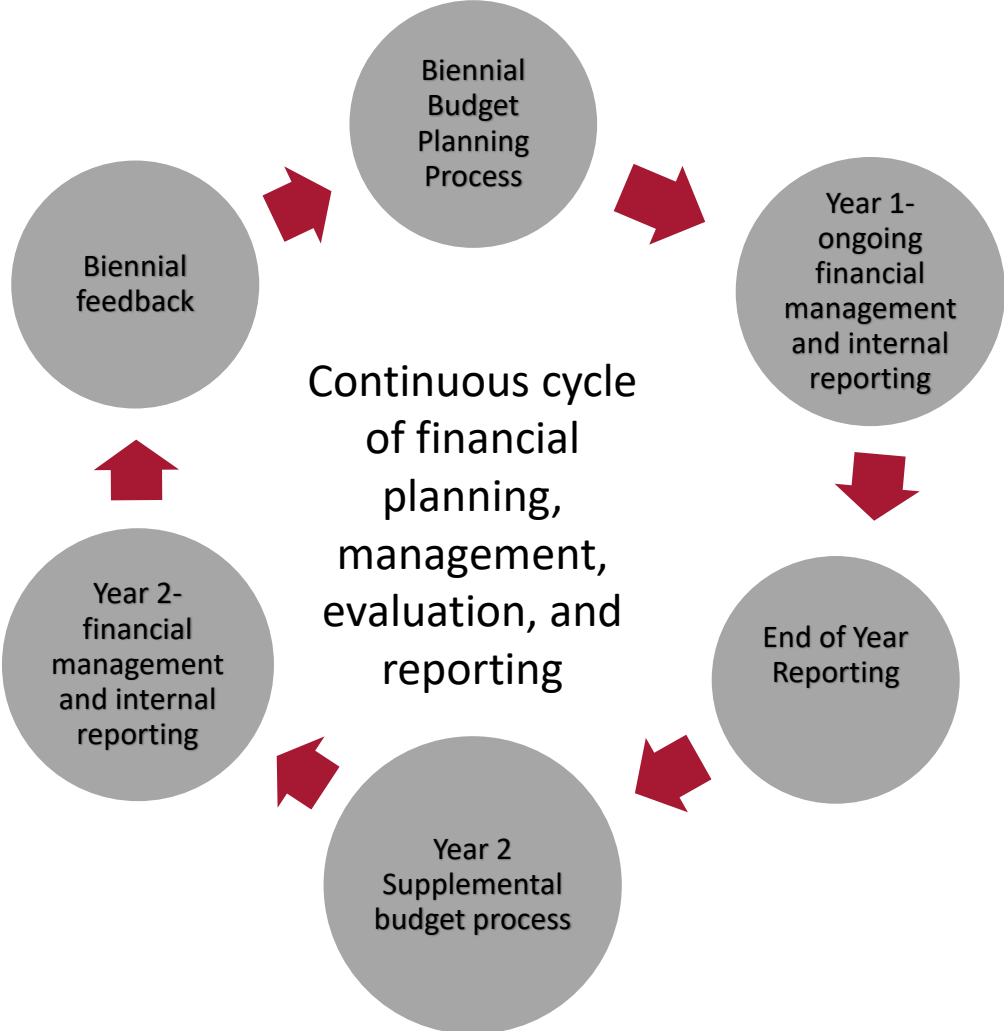


Financial Outlook

Achieving the Goals of the EWU Board of Trustees



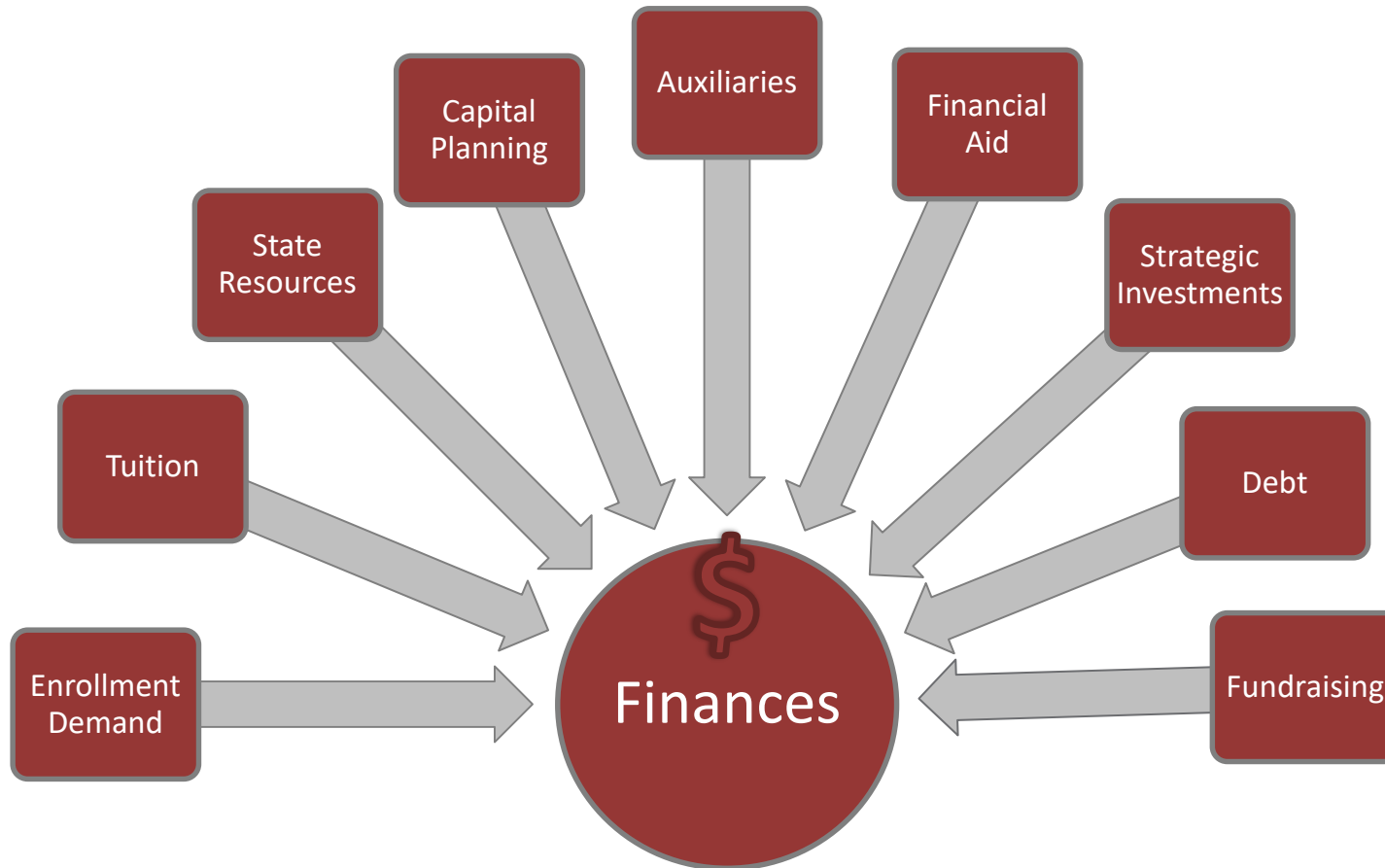
Financial Resource Governance



Campus Conversations

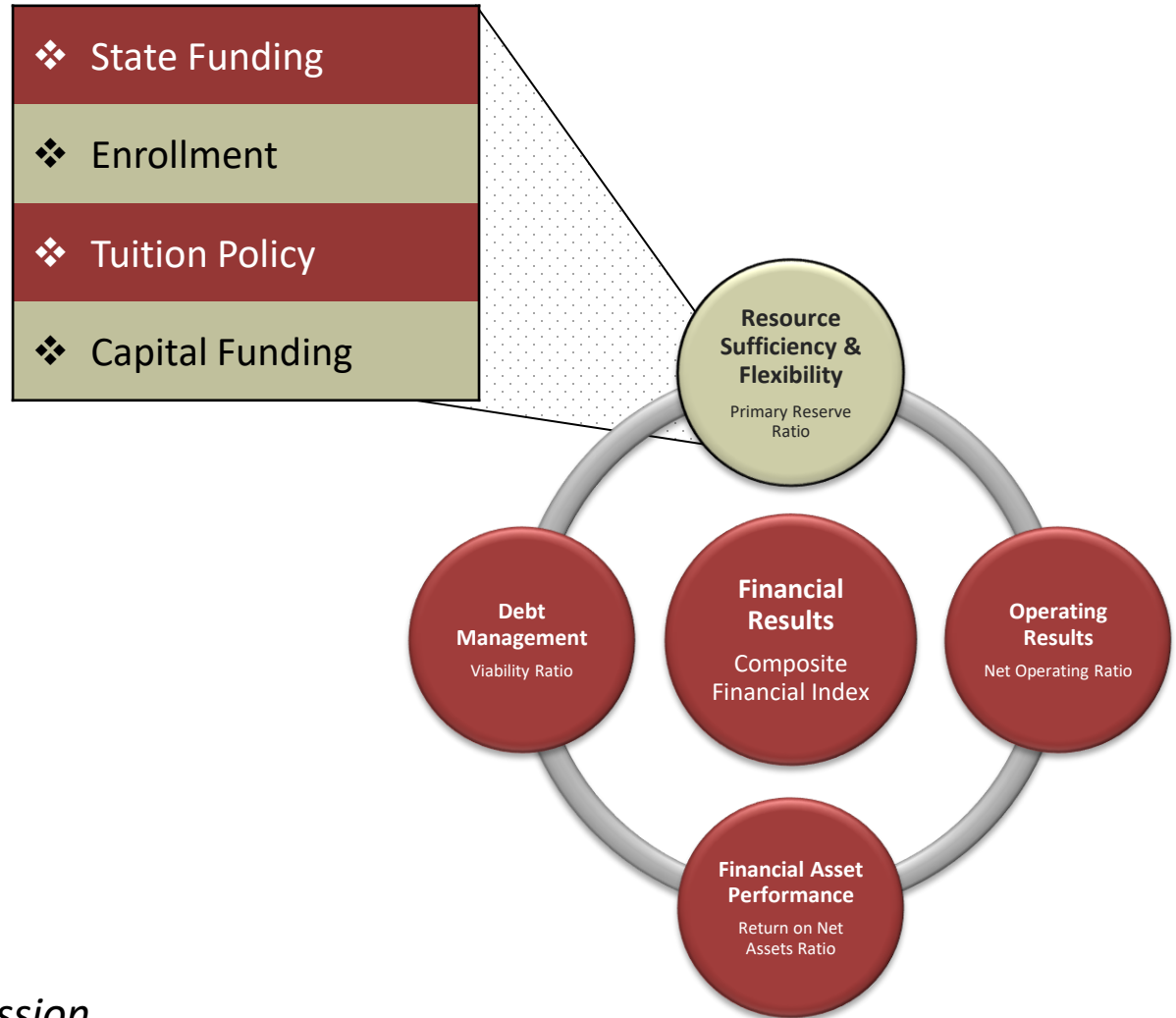
- Leadership- quarterly updates on enrollment, budget, financial reports
- University Budget Committee
 - Enrollment, quarterly financial reports, financial review/statements, debt compliance, annual and biennial planning, legislative
- Campus open forums- sponsored by UBC
- Enrollment and related information 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

2015-17 Biennium

- Tuition authority restriction continues to impact future opportunities
- Slower revenue growth
- Enrollment stability continues
- Campus initiatives provide future opportunities

2017-19 Biennium

- State tuition policy provides minimal revenue growth
- State compensation funding policy changed
- Flat state revenue projection
- Revenue growth at a slower pace
- Goal – stabilize, grow, and diversify enrollments

2019-21 Biennium

- State tuition policy provides minimal revenue growth
- State funding policies continue in shared model
- Revenue growth at a slower pace
- Enrollment impacts
- Goal – stabilize, grow, and diversify enrollments
- COVID Q4 FY20 and FY21

2021-23 Biennium

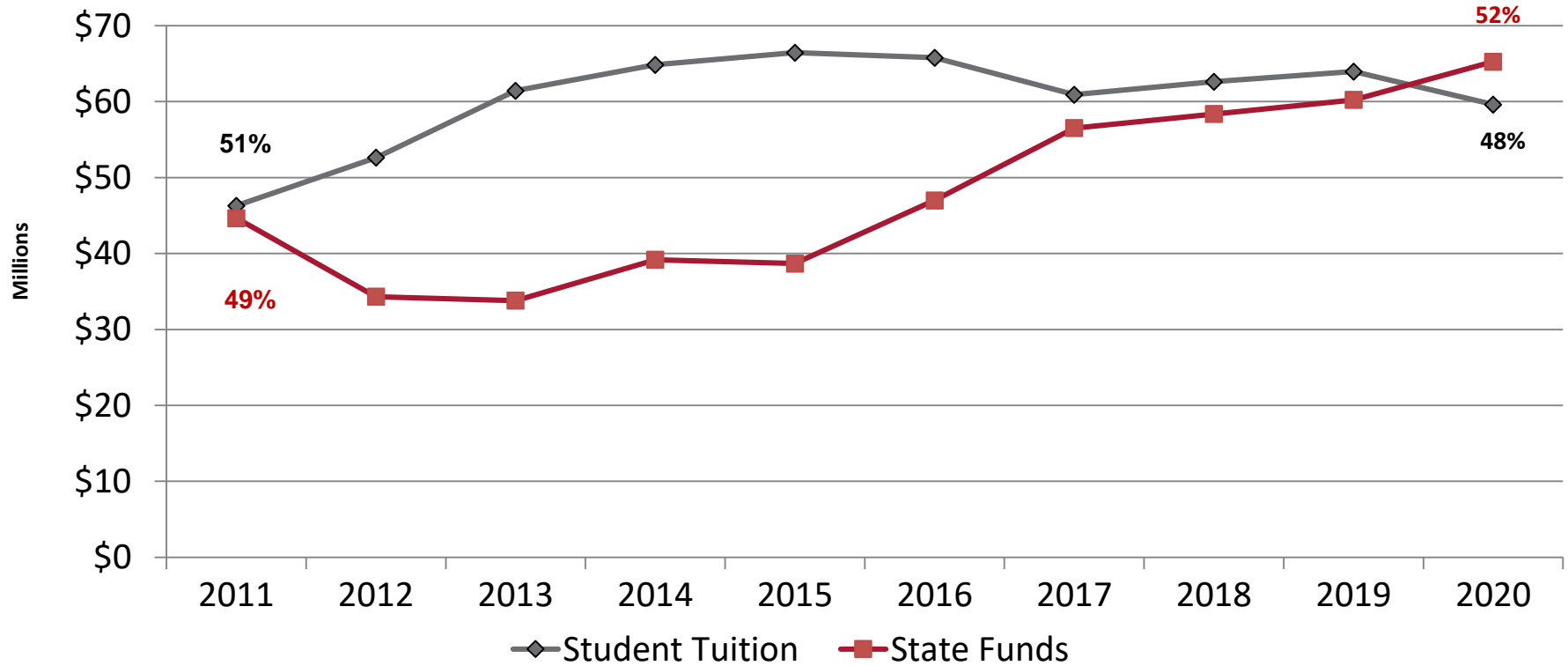
- State tuition policy provides minimal revenue growth
- State funding policies continue in shared model
- Enrollment impacts

2013-15 Biennium

- Transforming for the future
- Slower revenue growth
- More dependent on tuition
- New Strategic Plan

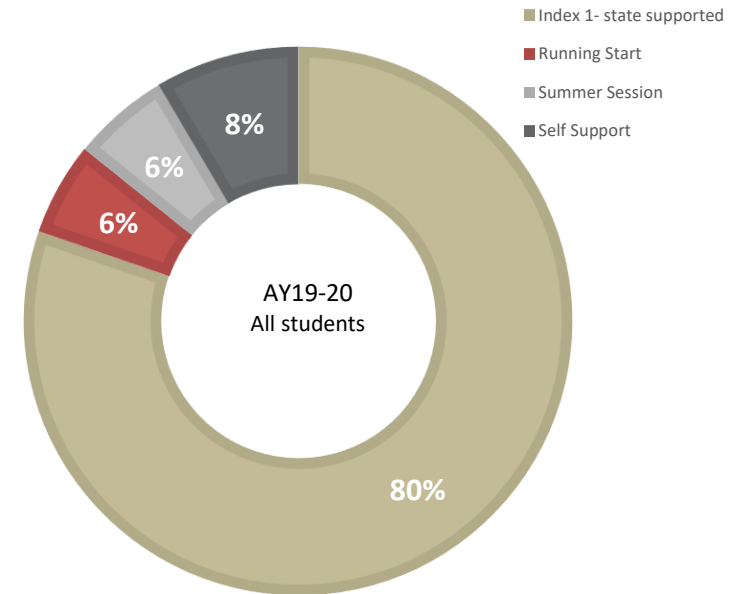
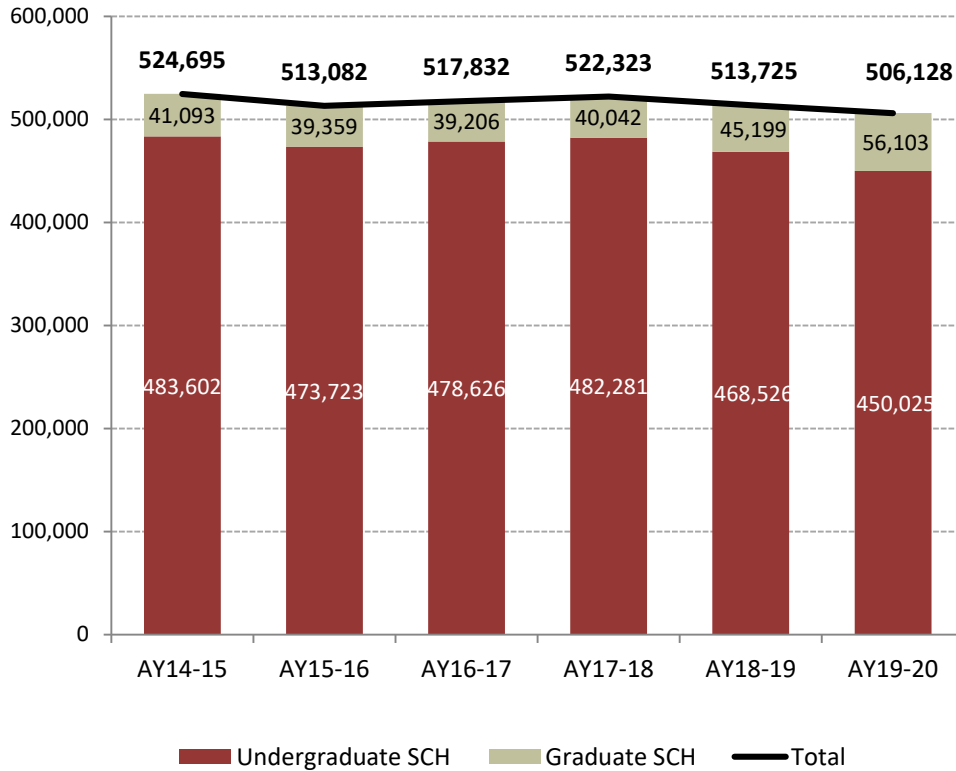
Key Funding Sources - State Funds and Student Tuition

- State funding policy anticipates 50/50 cost sharing model.
- The College Affordability Act increased the state investment in higher education beginning in FY16
- State tuition policy is currently at 2.5%
- Tuition proportion changing in FY20 due to enrollment



Enrollment-12 Month

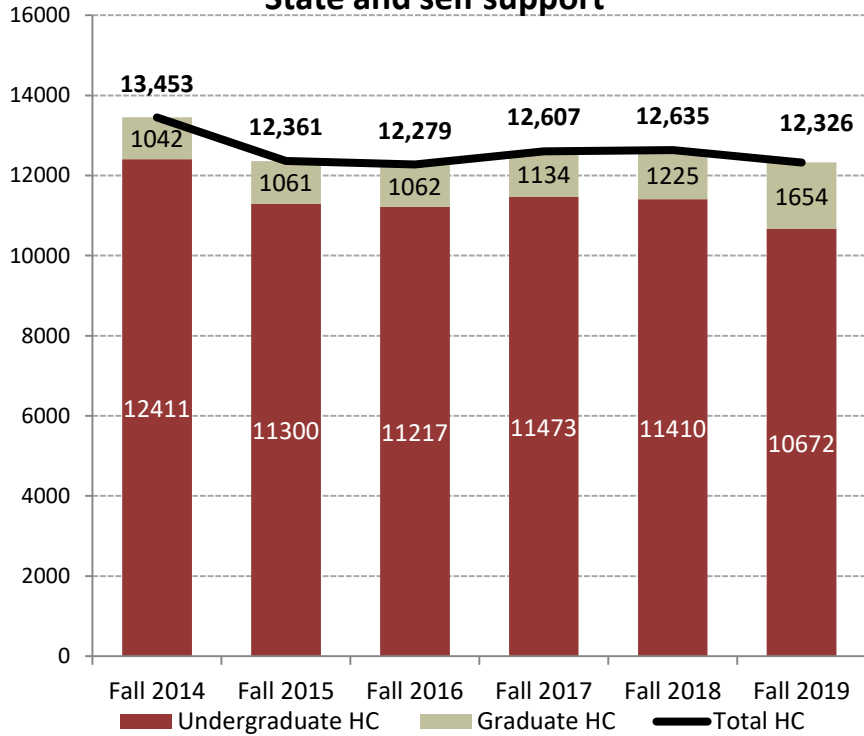
Student Credit Hours



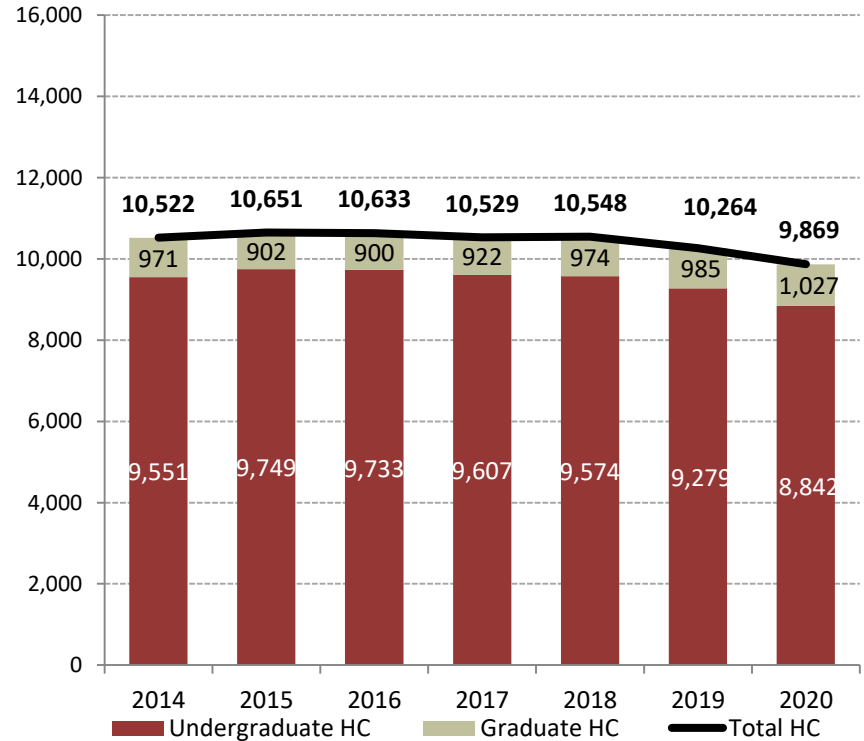
Note: SCH totals based on Fall – Summer term grouping at census date
 Does not include course credits registered after census date
 Source: EWU census date enrollments

Fall Enrollment

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



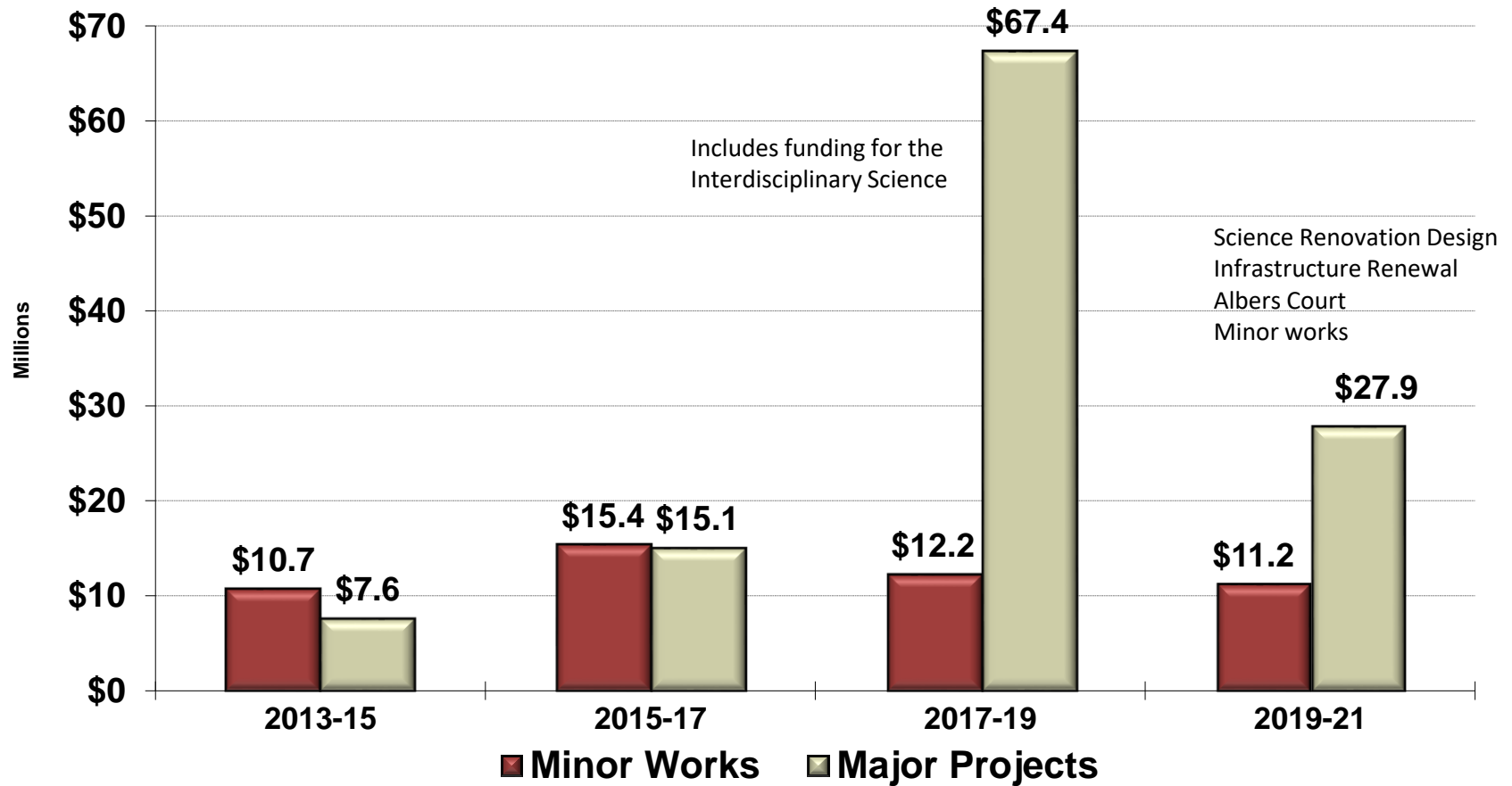
State Support – Average Annual Head Count



Source: EWU census date enrollments

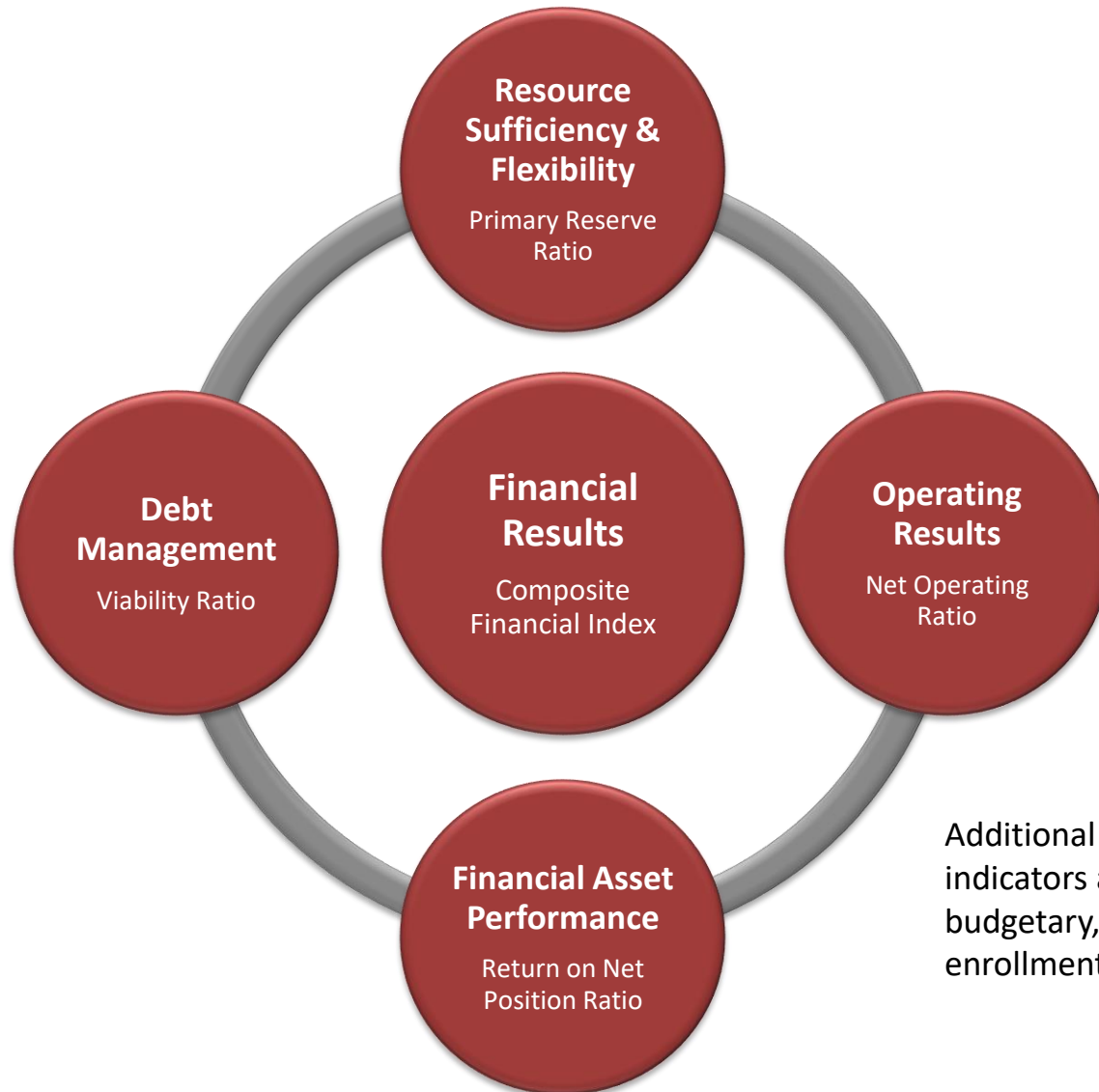
Capital Appropriation History

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 2020 Impacts to Financial Position

- Key Revenue Drivers
 - Enrollment- core enrollment index 1
 - FY20 AAHC decreased 3.9% from FY19
 - FY19 AAHC decreased 2.7% over FY18
 - Total revenues up 8.2% (includes capital appropriations)
 - Tuition and fee revenues, down slightly
 - State operating appropriations, increased 8.5%
 - State capital appropriations, increased \$17.8M due to spend rate on projects
 - Grants and contracts, increased 21%
 - Auxiliaries, declined 25%
- Major Expense Categories
 - Operating expenses, declined 2% or \$5M
 - Salaries and wages, decreased 1% or \$1.1M
 - Scholarships and fellowships increased 31% or \$10M
 - Utilities, decreased 21% or \$1.1M
 - Supplies and materials decreased 21% or \$8M

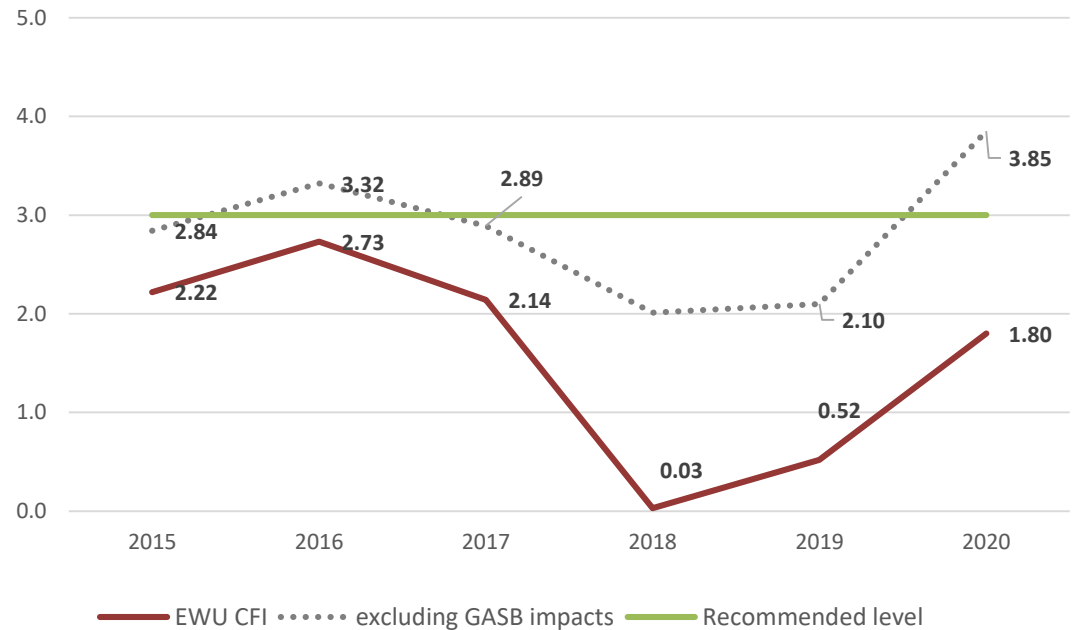
*COVID19 heavily
impacted FY20 Q4*

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 position 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

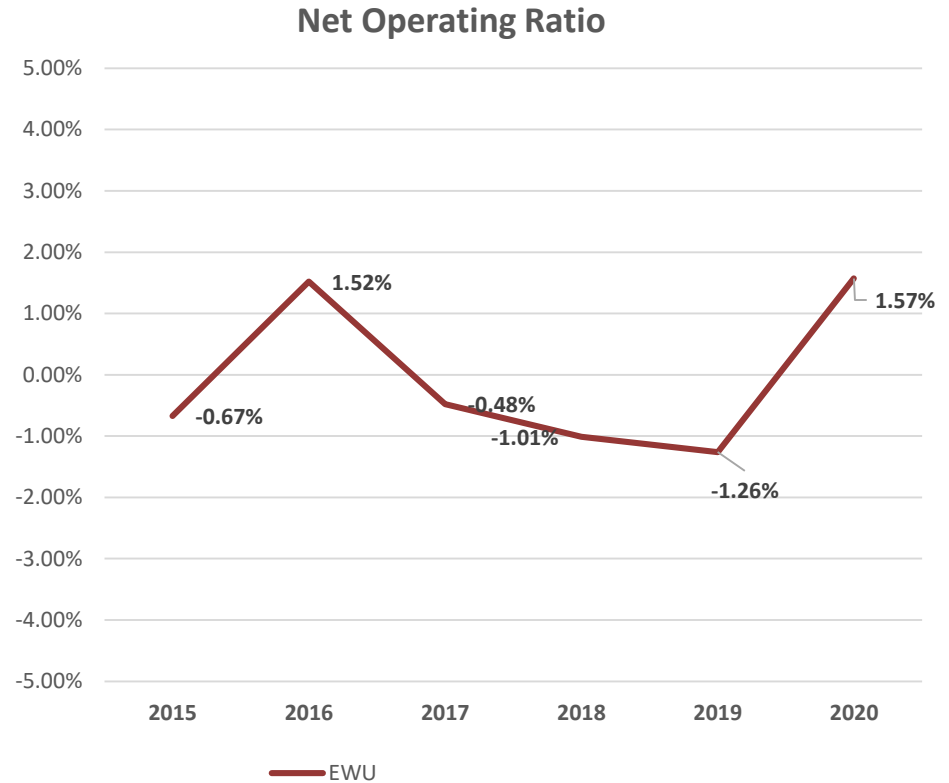


Source: EWU Financial Statements

Net Operating Ratio



- **Is the institution living within available resources on an annual basis?**
- Measures net revenues in contrast to total 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



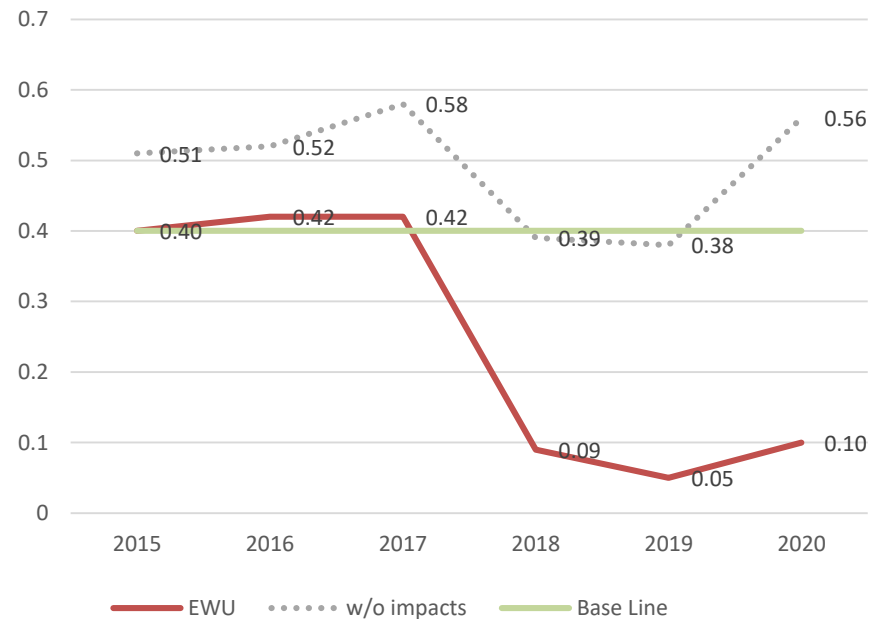
Source: EWU Financial Statements

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

Primary Reserve Ratio



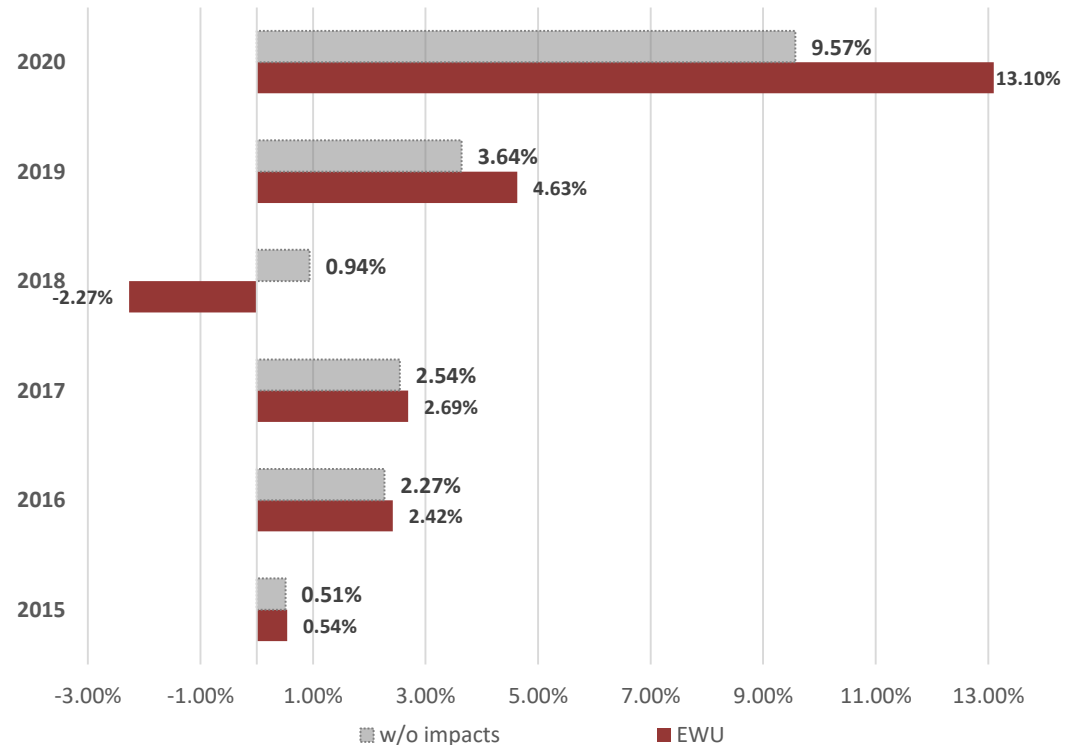
Source: EWU Financial Statements

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)
- FY20 impacted by investment in capital assets

Return on Net Position Ratio



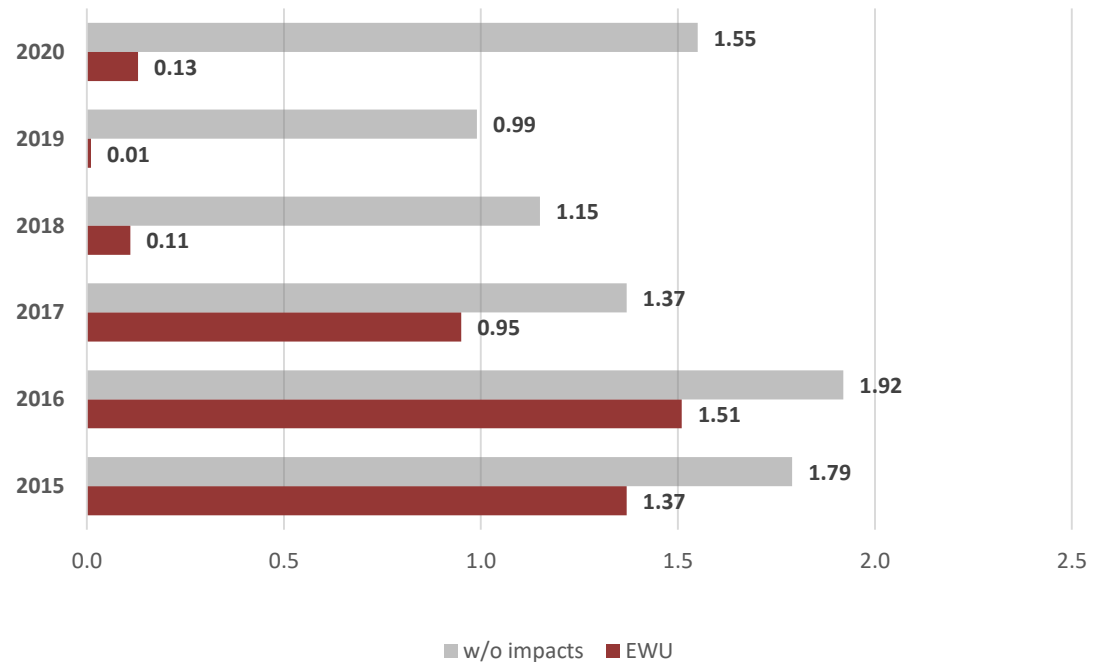
Source: EWU Financial Statements

Viability Ratio



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
- Ratio Components –
 - Unrestricted net position
 - Long term debt – current and noncurrent



Source: EWU Financial Statements

Financial Indicators

<u>Financial Indicator</u>	<u>Definition</u>	FY 2020	FY 2019	FY 2018
Tuition dependency ratio (%)	Helps measure sensitivity to changes in enrollment levels	53.3	53.6	53.8
Unrestricted financial resources-to-operations (x) (1)	Measures coverage of annual operations by the most liquid resources	.049	.004	.04
Annual days cash on hand	Measures the number of days an institution is able to operate (cover its cash operating expenses)	266	242	257
Current ratio	Measures liquidity – ability to meet current obligations with liquid assets	4.27	3.74	4.06
Expendable financial resources to direct debt (x) (2)	Measures coverage of direct debt by financial resources that are ultimately expendable	0.33	0.21	0.32
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	2.37	2.22	2.11
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.	3.64	2.30	2.50

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

⁽²⁾ FY18 ratio impacted by reduction in unrestricted net position from implementation of GASB Statement No. 75

Moody's Scorecard Results - 2019

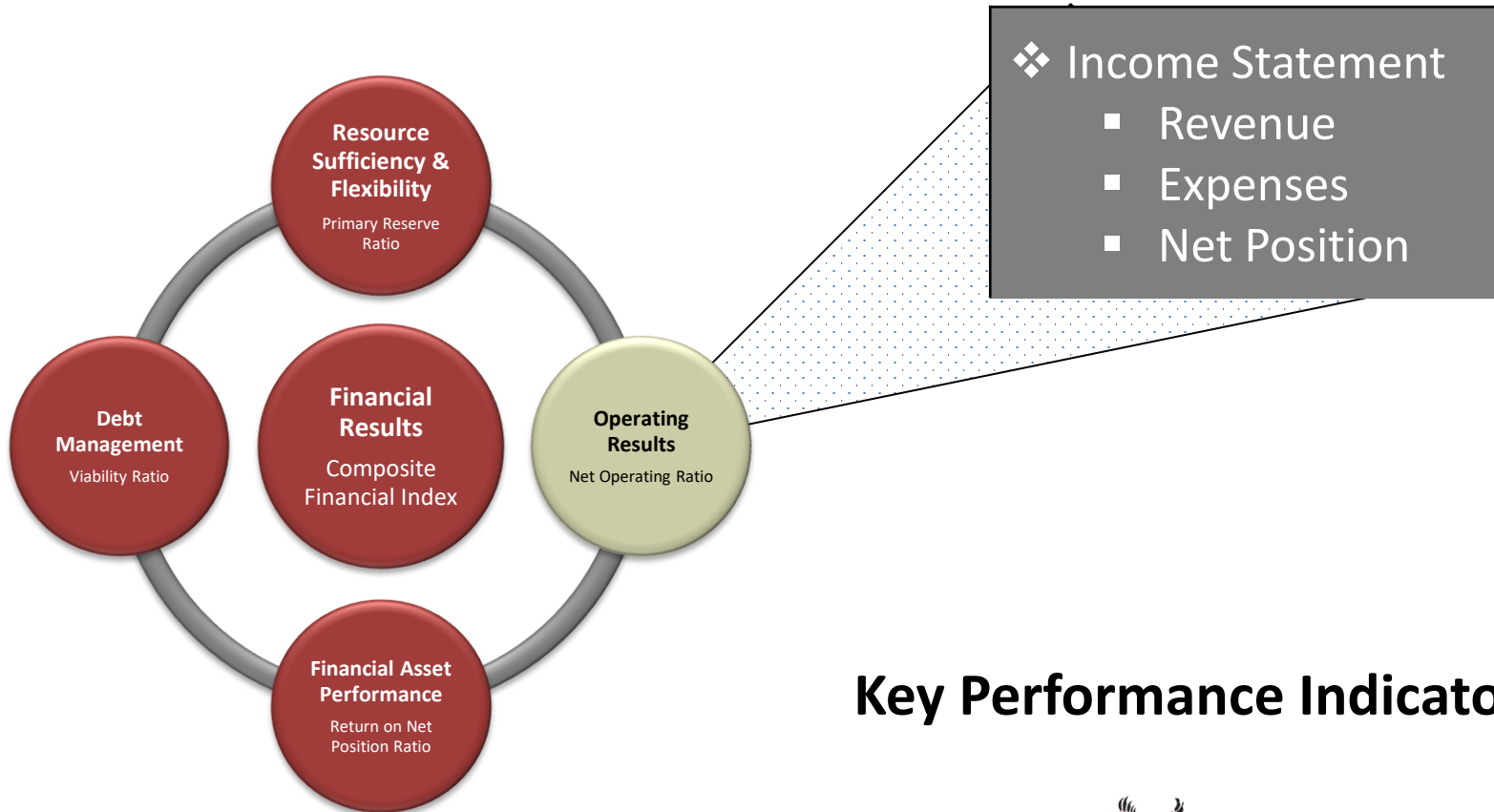
Metric	% of Total Score	Value	Indicated Score
Market Profile (30%)			
Operating Revenue	15%	\$221,454	A
Annual Change in Operating Revenue	5%	3.18%	Baa
Strategic Positioning	10%	Very Good	A
Operating Performance (25%)			
Operating Cash Flow Margin	10%	6.0%	A
Maximum Single Contribution	15%	62.0%	A
Wealth & Liquidity (25%)			
Total Cash and Investments	10%	\$182,930	Aa
Spendable Cash & Investments to Operating Expenses	10%	0.71x	Aa
Monthly Days Cash on Hand	5%	267 days	Aaa
Leverage (20%)			
Spendable Cash & Investments to Total Debt	10%	1.99x	Aa
Total Debt to Cash Flow	10%	6.04x	Aa

Note: Data based on MFRA data



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.

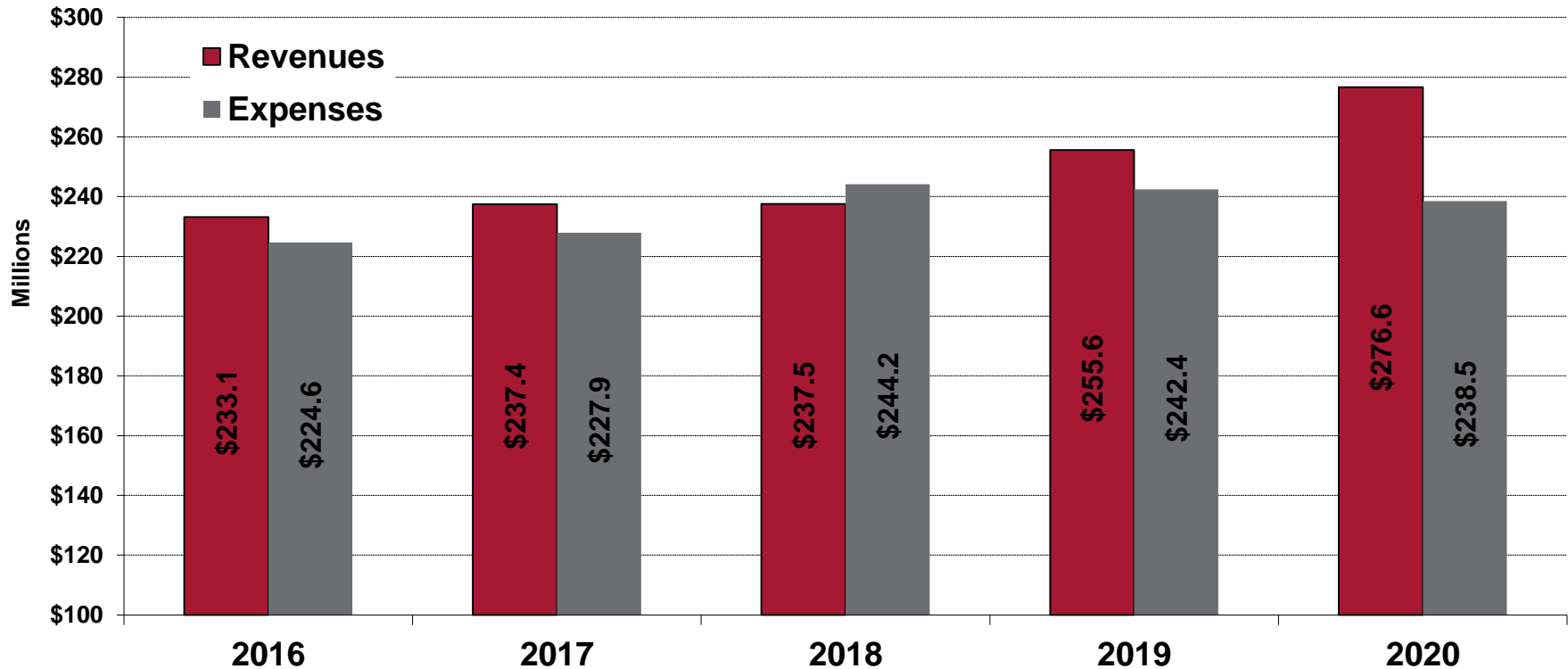
Presents a change in net financial position over the prior year

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

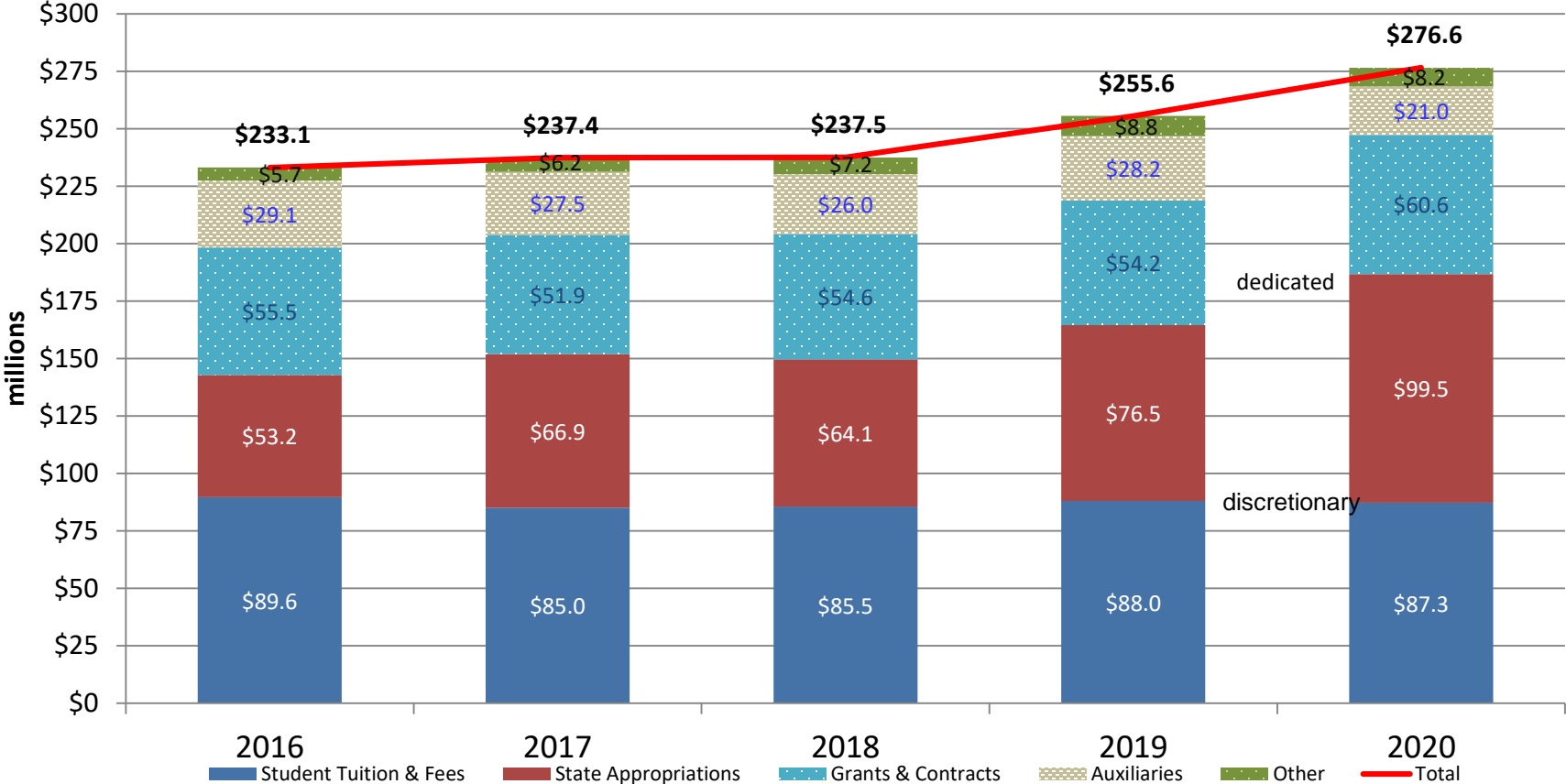
Increase in net position of \$38.1M largely due to capital appropriations
General expense containment in FY20 Q4



Source: EWU Financial Statements

University Revenues

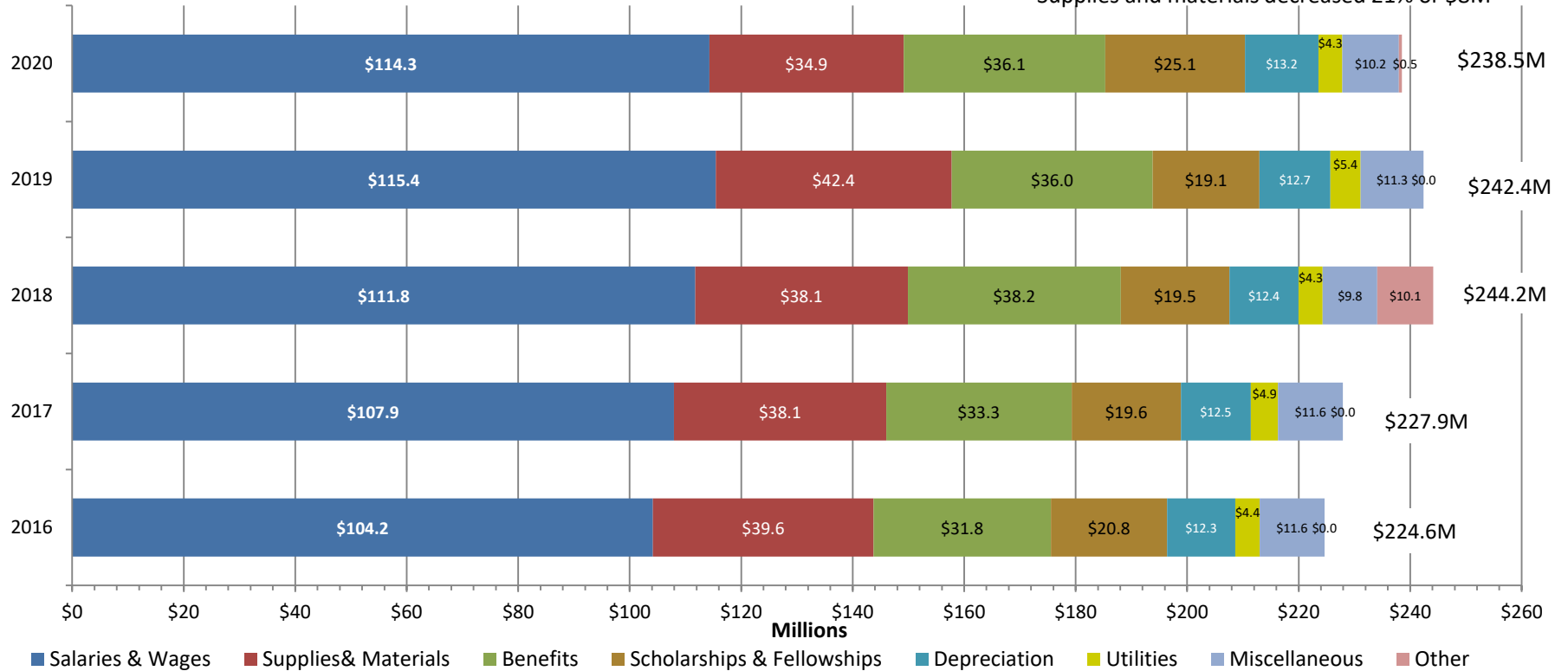
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Source: EWU Financial Statements

University Expenses by Type

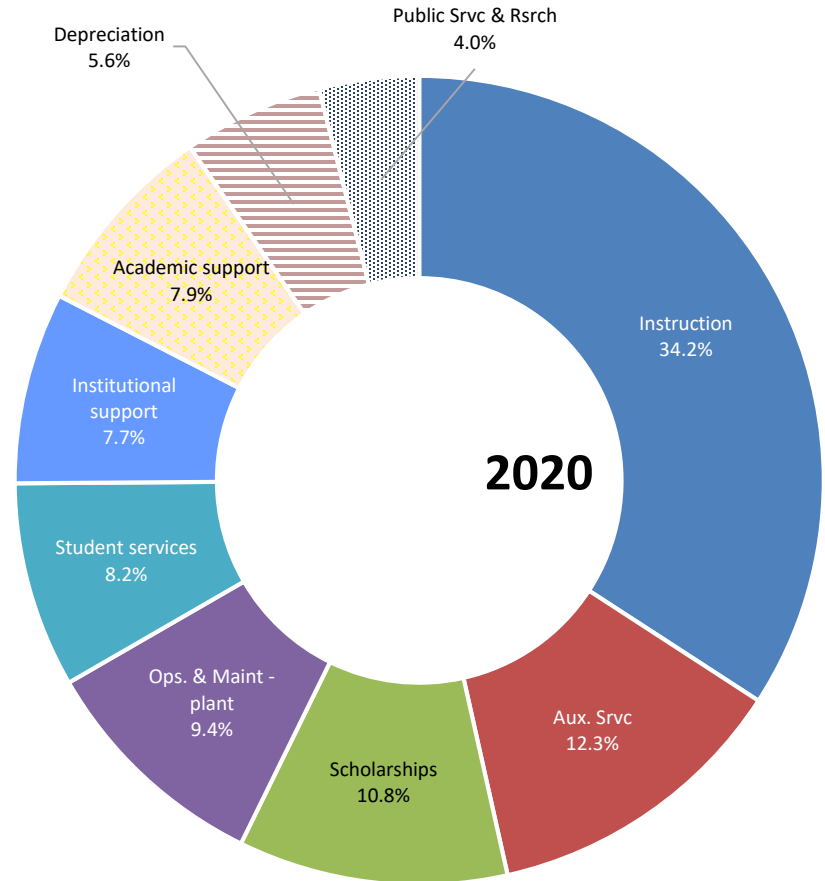
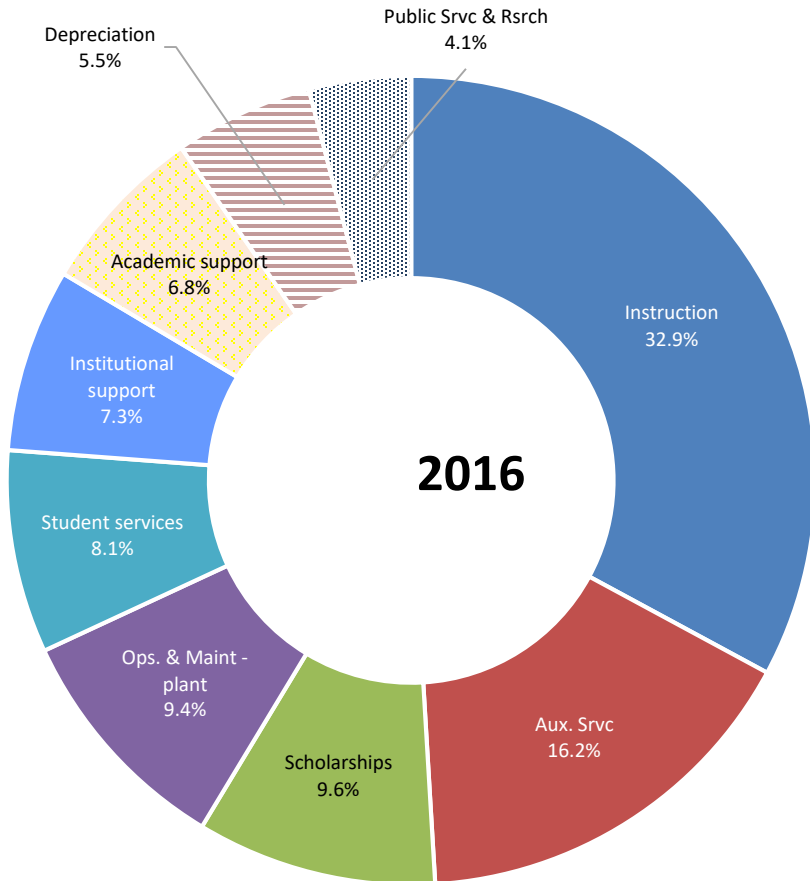
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- ✓ Utilities, decreased 21% or \$1.1M
- ✓ Supplies and materials decreased 21% or \$8M



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: 2016, 2020 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	2019 (millions)	2020 (millions)
Total Assets and Deferred Outflows	\$546.0	\$592.3
Total Liabilities and Deferred Inflows	\$247.5	\$255.7
Net Position (at June 30)	\$298.5	\$336.6

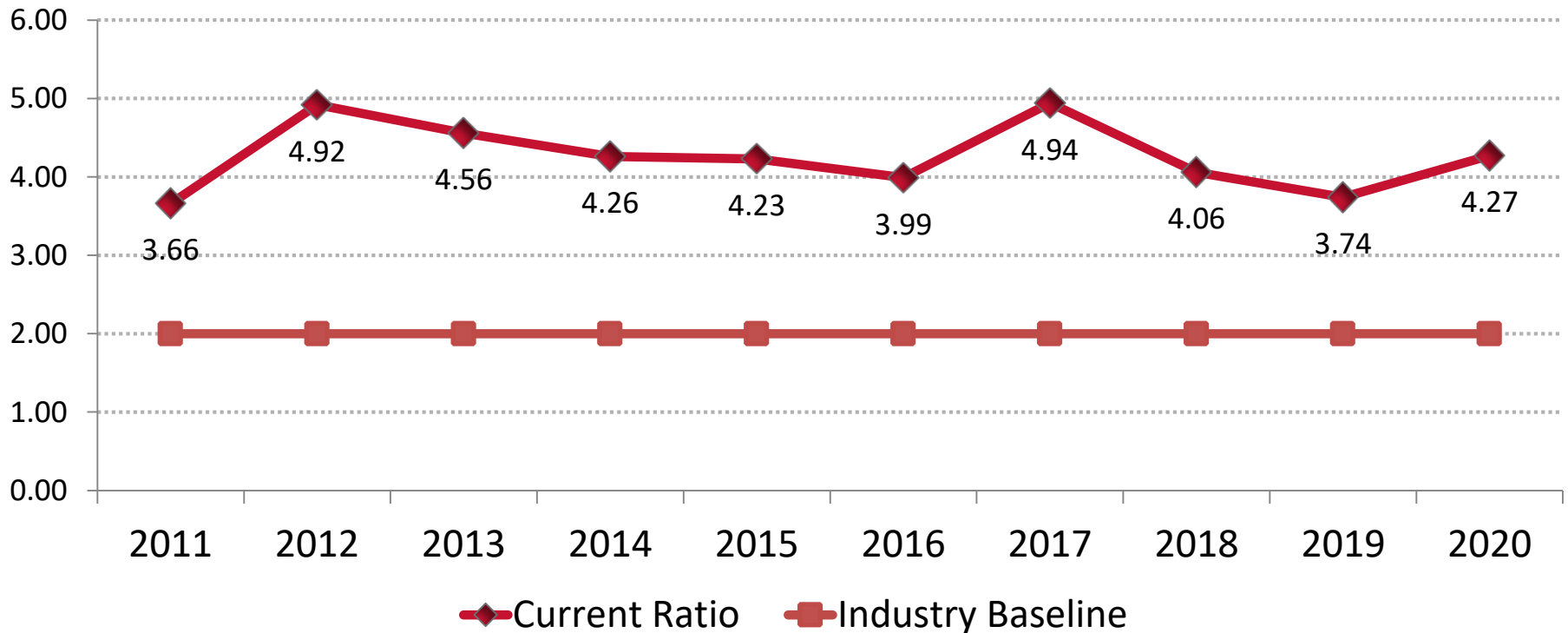
Unrestricted net position change due to results of operations and investment in capital assets

Source: FY2020 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?

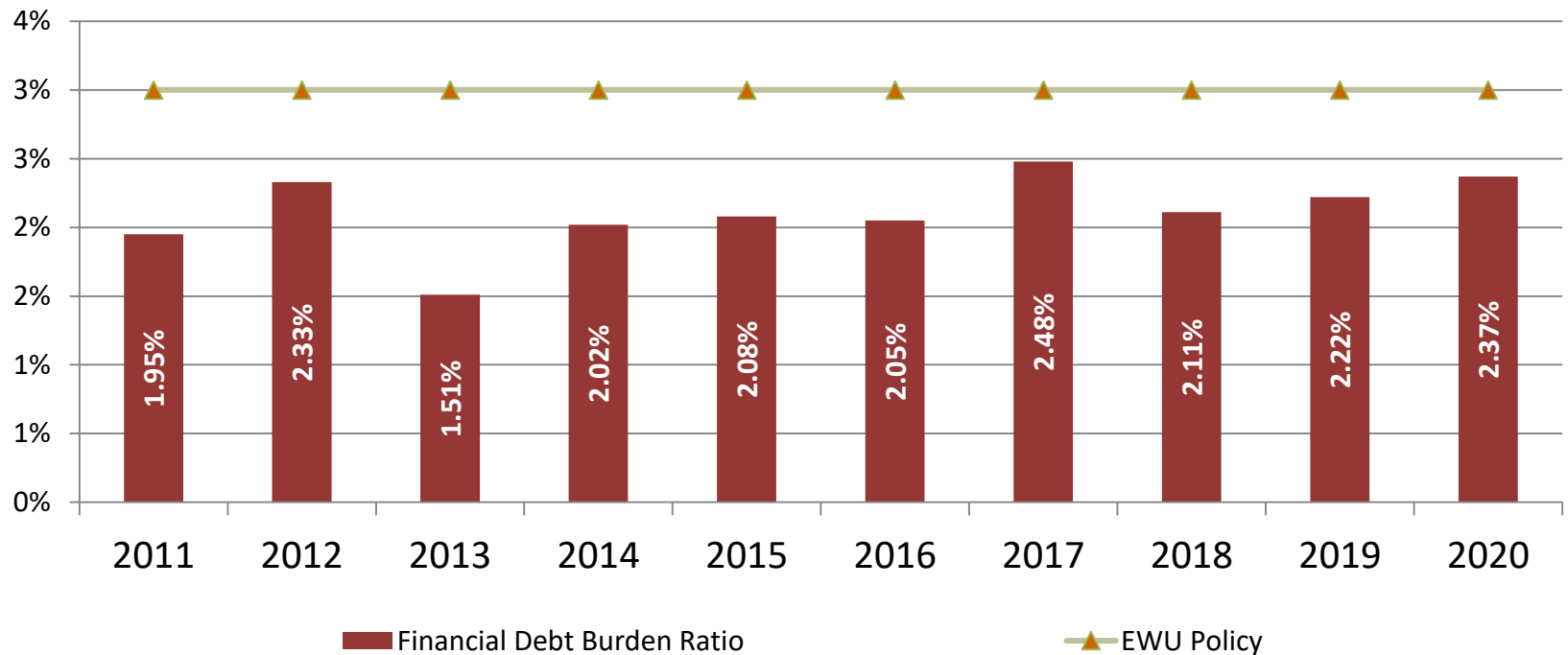
Debt Management and Oversight

- 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 2020

2021 outlook moves to negative as pandemic weakens
key revenue streams

- Uncertainty continues over the pace of economic recovery and length of the public health crisis
- Operating revenue will decline 5-10% sectorwide as universities face near-term shocks to key business lines.
 - Auxiliary services remain the hardest-hit revenue stream
 - Funding from state in flux as many confront revenue declines
 - Endowment spending and philanthropy will be susceptible to investment market volatility
- High fixed cost and varied working assumptions about the duration of the pandemic restrain universities' ability to quickly adjust expense on a one-to-one basis.
- Ability to refinance debt for near-term budget savings and access to low cost liquidity are favorable credit conditions.
- ESG considerations will become more prevalent as the sector confronts fundamental changes

Moody's Global Credit Themes affecting US Higher Education Sector in 2021

- Uneven recovery
 - State support will vary across the country as states grapple with their own budget issues
- Policy Challenges
 - Federal HE policy
 - Affordability and accountability will remain in the spotlight
- Rising Debt Burdens
 - Universities will continue to use a variety of balance sheet tools to mitigate mounting deficits
 - Largest universities have moved up borrowing
 - Rise in taxable borrowing will likely continue
- Digital Transformation
 - Pandemic has accelerated use of technology in education
 - Confidence in a university's digital infrastructure will factor into student choices
 - Universities will have to embrace shift toward online teaching to remain competitive
- Environmental Impact
 - Sustainability will continue to play a key role in campus infrastructure and investment
- Social Trends
 - Universities will focus on offering programs with strong employment outcomes at affordable prices

Looking Forward

- Ensure sustainable financial environment
 - Eastern’s market position, enrollment, and financial pressures closely track the sector outlook
 - Strategic management through and recovery from COVID19
- 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



EASTERN WASHINGTON UNIVERSITY

start something **big**

APPENDIX

Additional Selected Information

Unrestricted Net Position Balance Sheet and GASB impacts

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

	2020	2019	2018
Unrestricted net position, as reported	\$ 10,305	\$ 811	\$ 9,313
Impact of GASB 68 (retirement)	12,459	15,797	19,055
Impact of GASB 73 (retirement)	17,859	16,124	15,218
Impact of GASB 75 (OPEB)	79,523	77,991	75,476
Unrestricted net position, excluding retirement and OPEB	\$ 120,146	\$ 110,723	\$ 119,062

Source: EWU FY20 Financial Report, Management's Discussion and Analysis