

# Financial Review

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Fiscal Year 2021

# 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

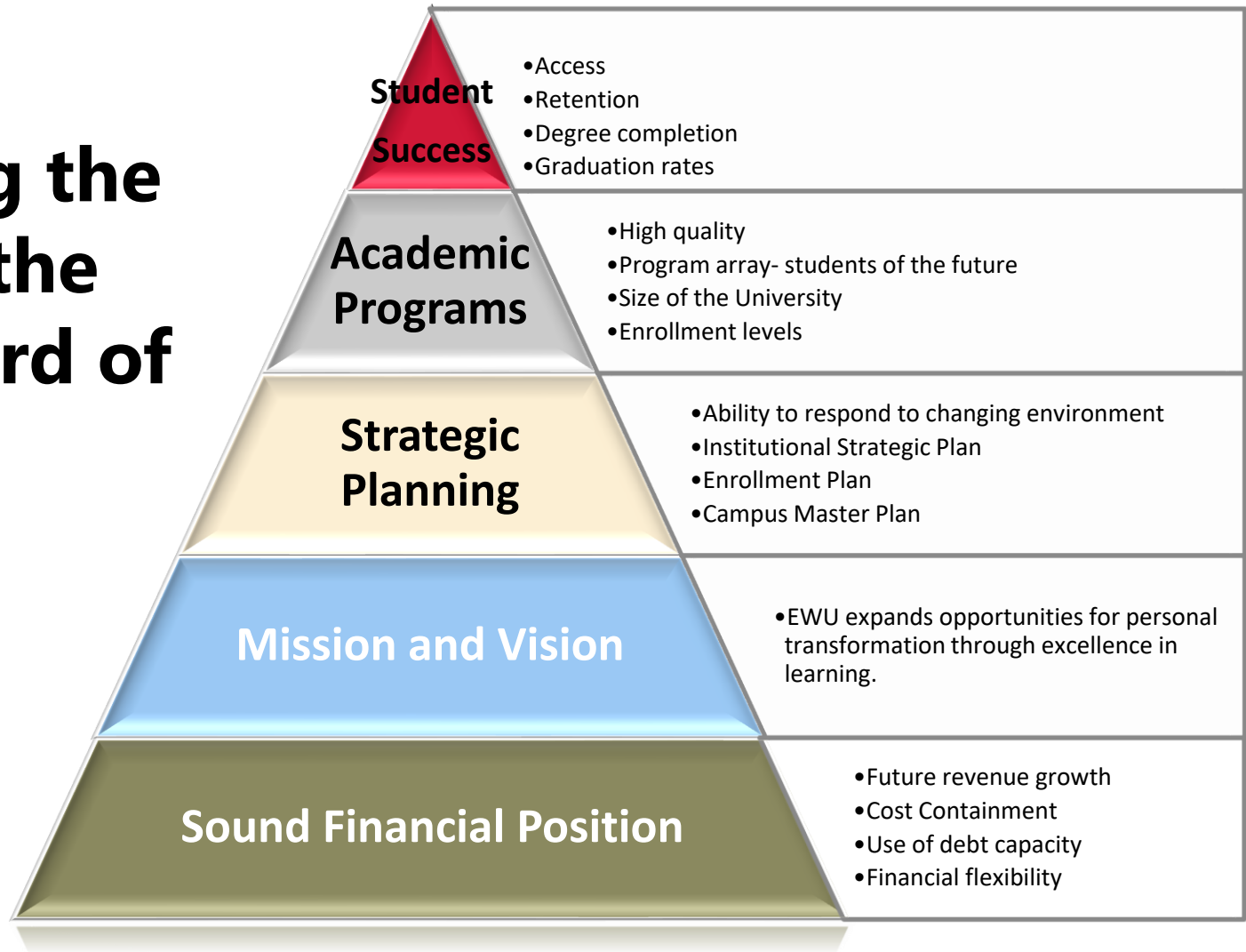


Debt Management

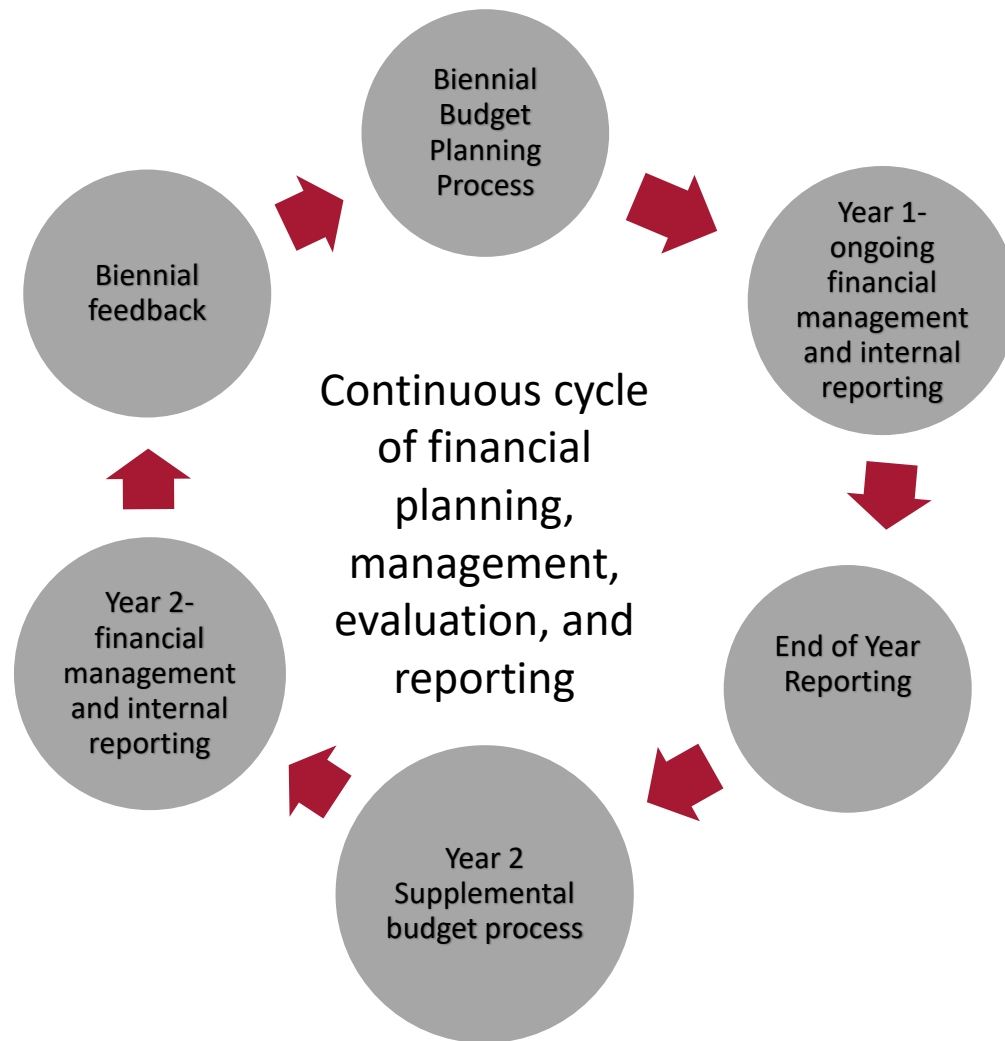


Financial Outlook

# Achieving the Goals of the EWU Board of Trustees



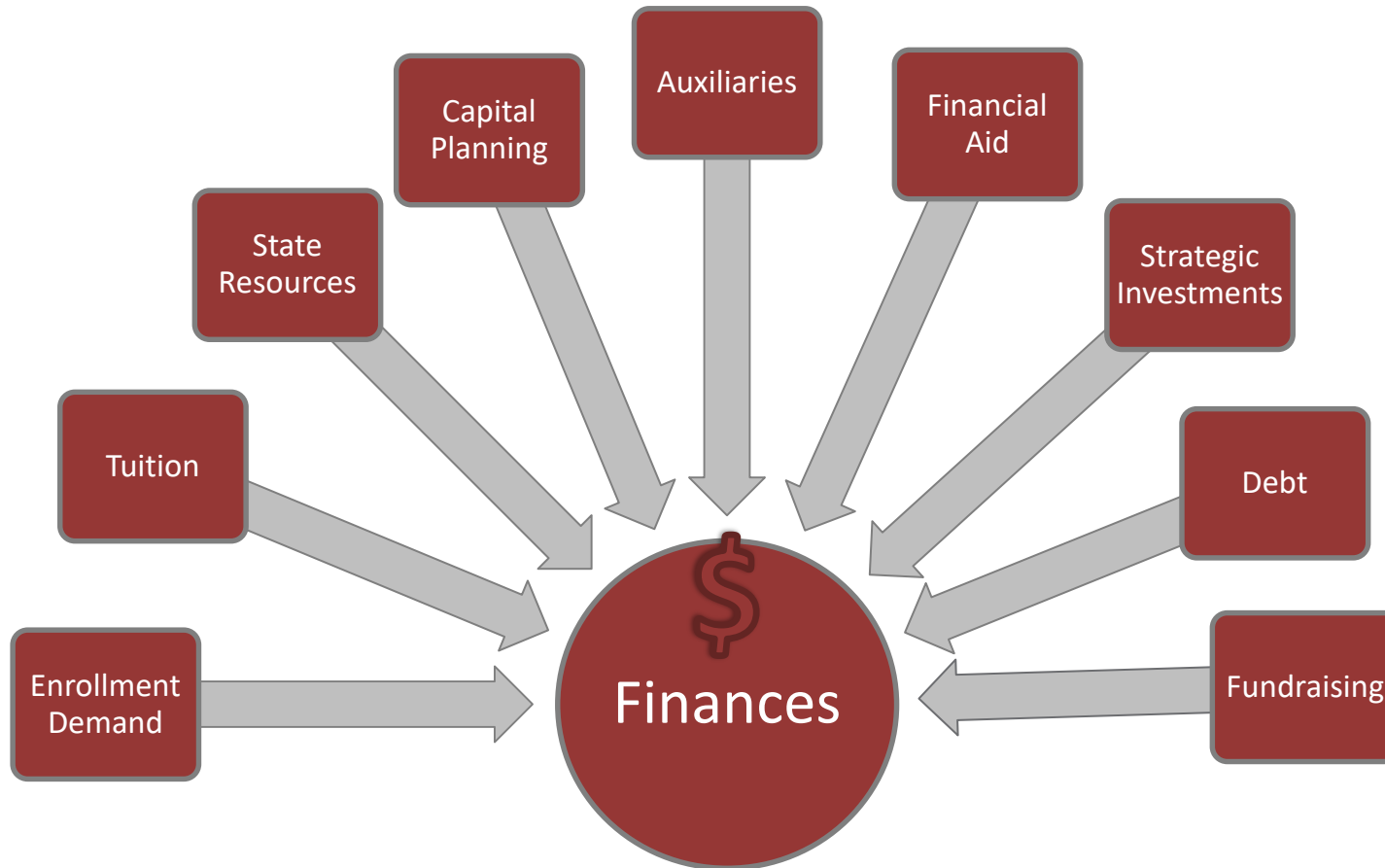
# Financial Resource Governance



# Campus Conversations

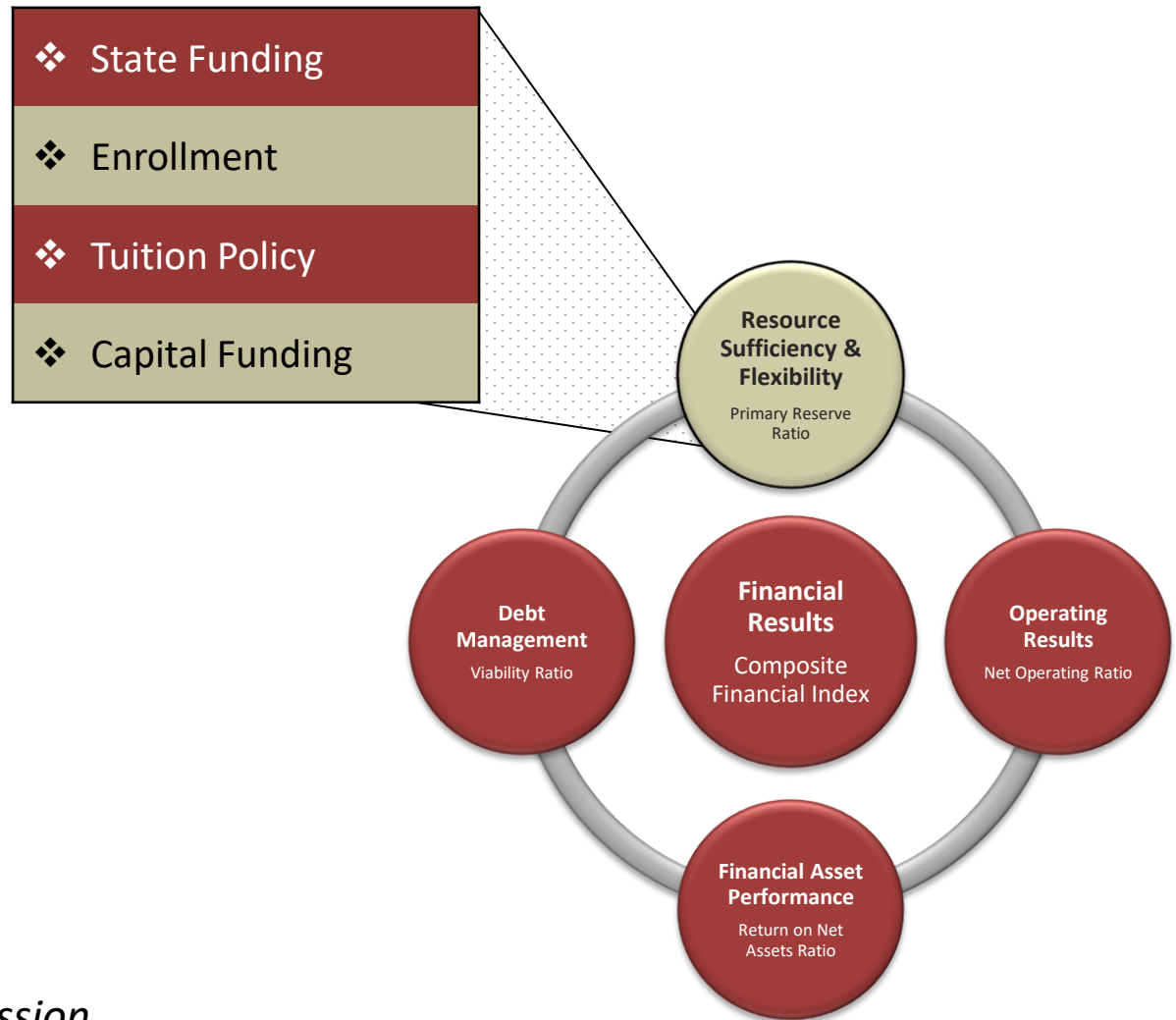
- Leadership- quarterly updates on enrollment, budget, financial reports
- University Budget Committee
  - Enrollment, quarterly financial reports, financial review/statements, debt compliance, annual and biennial planning, legislative
- Campus open forums- sponsored by UBC
- Enrollment and related information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

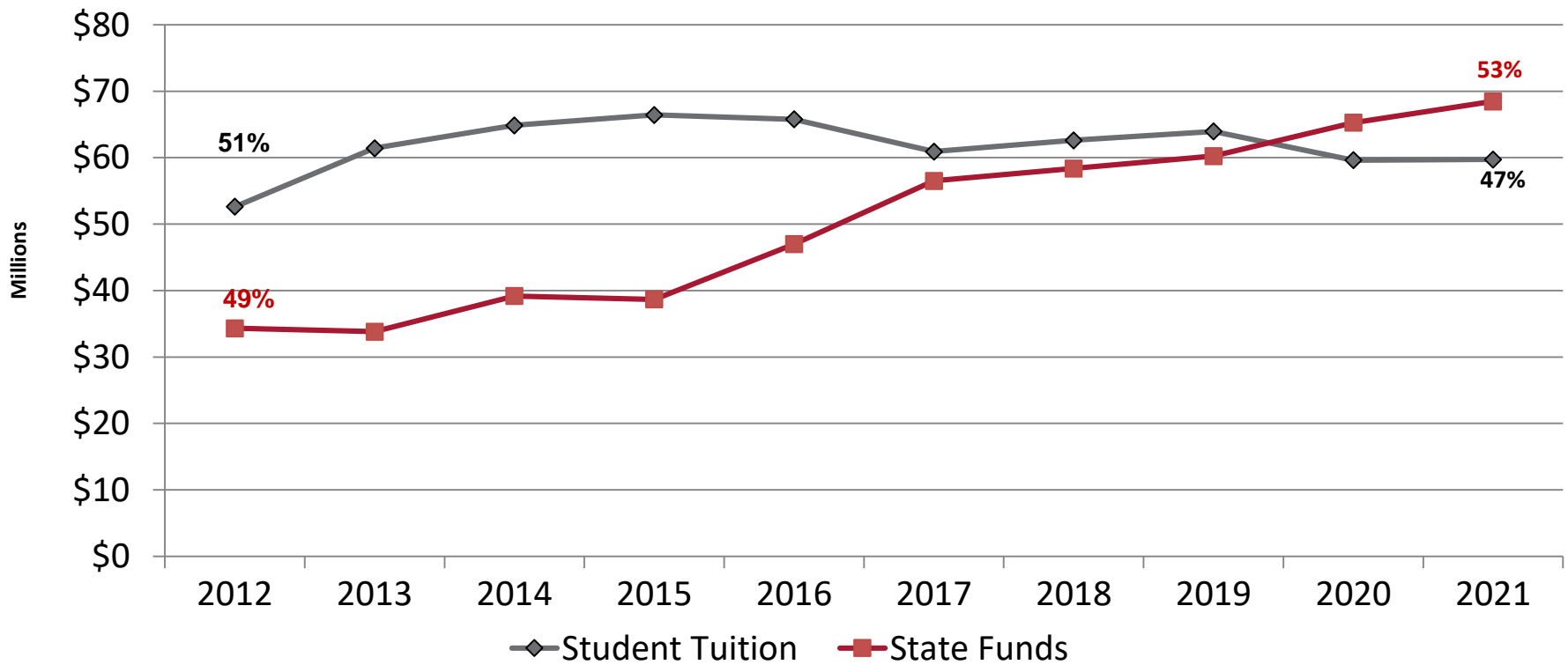
- State tuition policy provides minimal revenue growth
- State funding policies continue in shared model
- Enrollment impacts

## 2013-15 Biennium

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

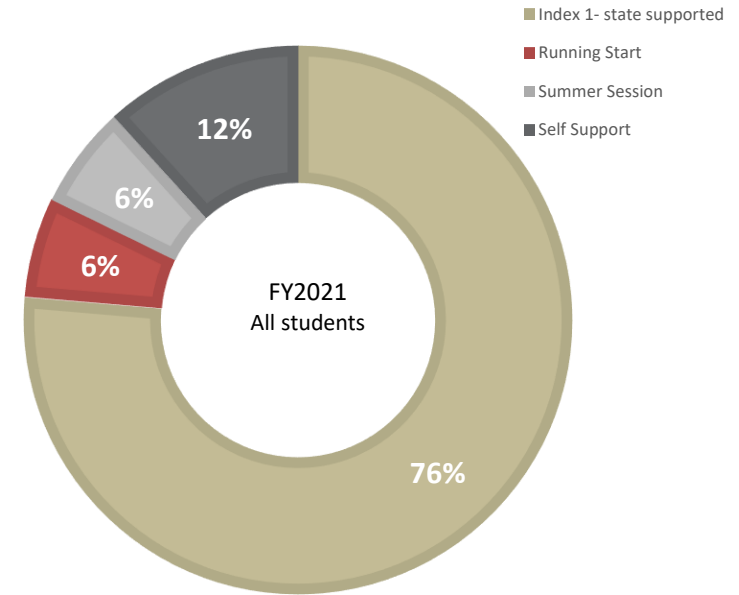
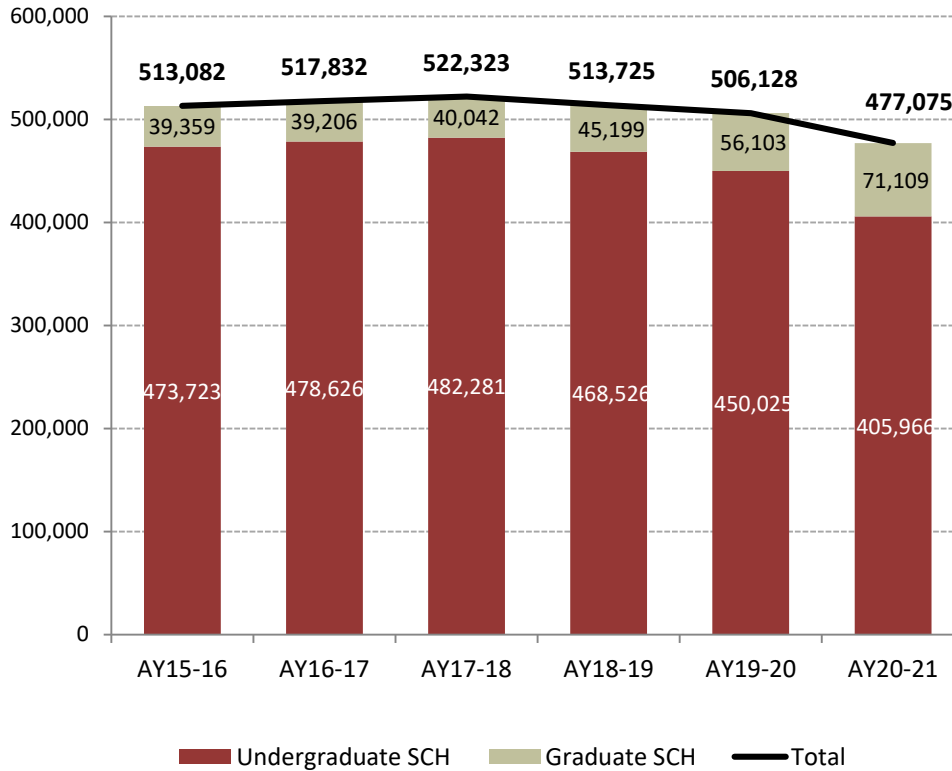
# Key Funding Sources - State Funds and Student Tuition

- State funding policy -- cost sharing model.
- The College Affordability Act increased the state investment in higher education beginning in FY16
- State tuition policy is currently at 2.8%
- Tuition proportion changing due to enrollment



# Enrollment-12 Month

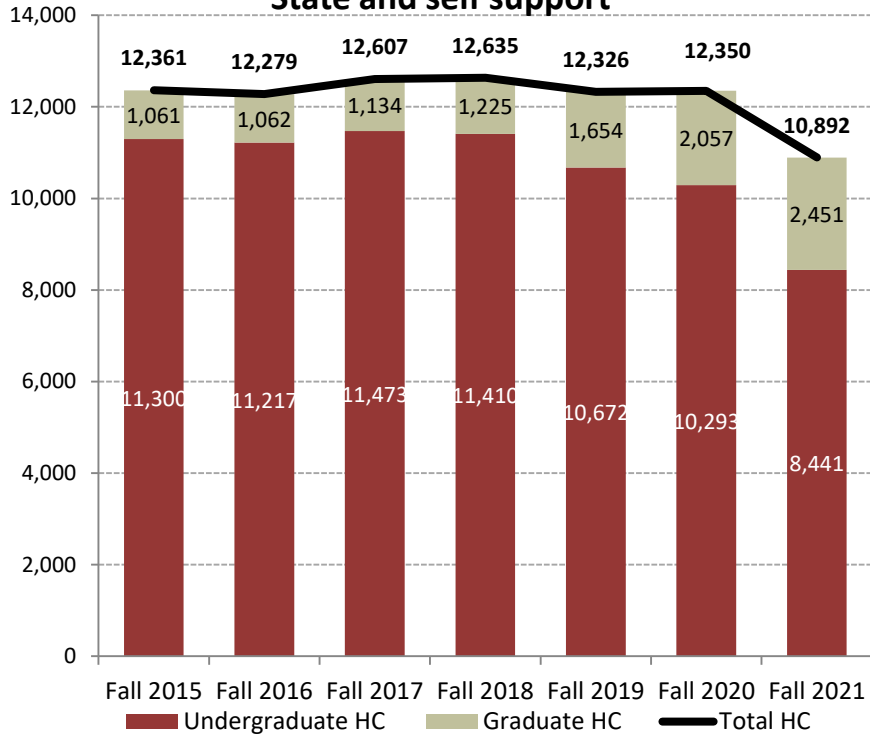
## Student Credit Hours



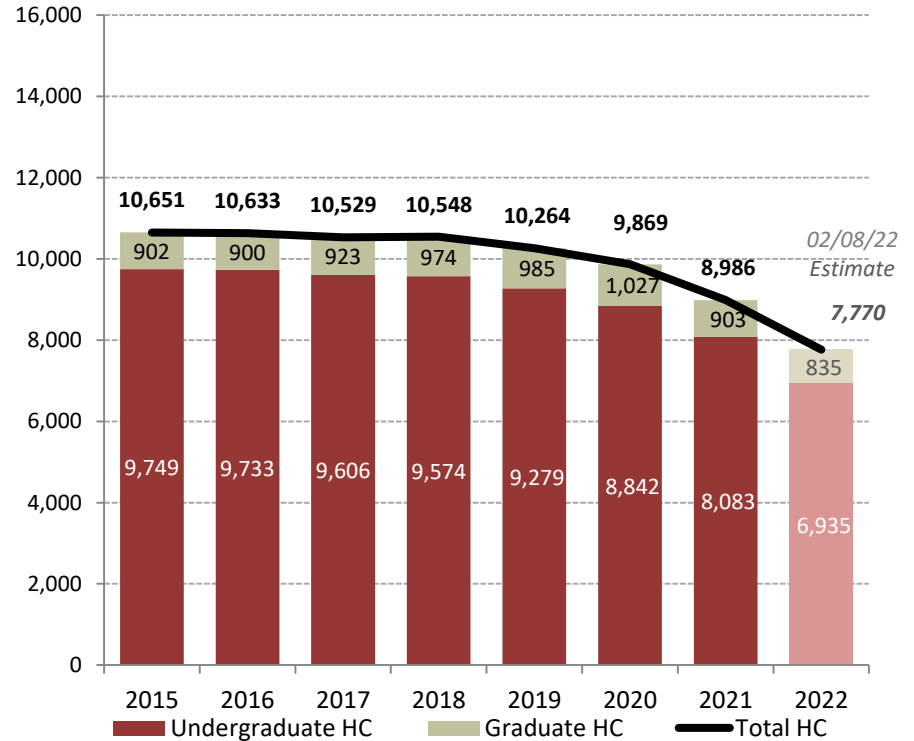
Note: SCH totals based on Fall – Summer term grouping at census date  
 Does not include course credits registered after census date  
 Source: EWU census date enrollments

# Fall and AAHC Enrollment

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



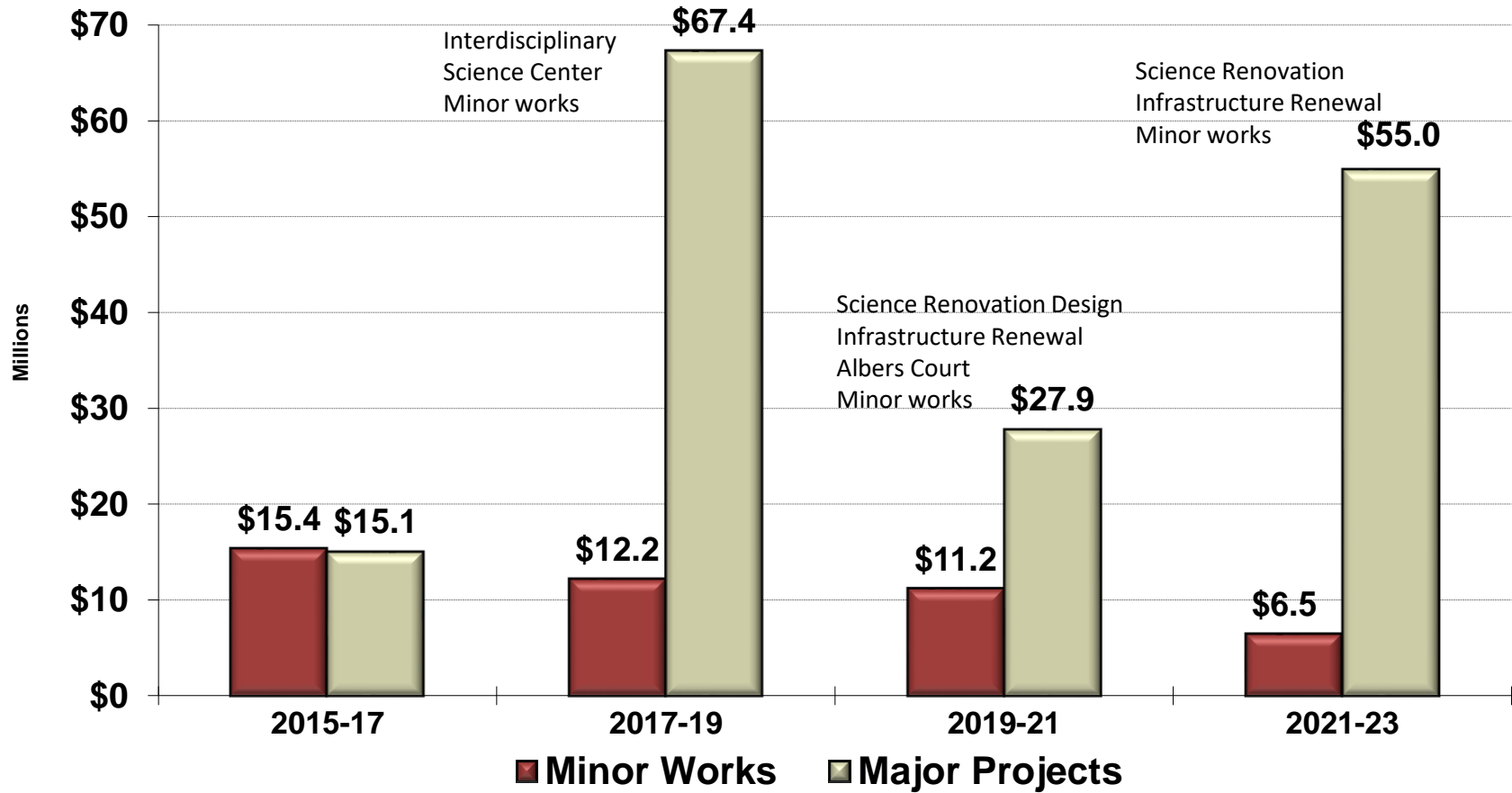
**State Support Index 1 – Average Annual Head Count**



Source: EWU census date enrollments

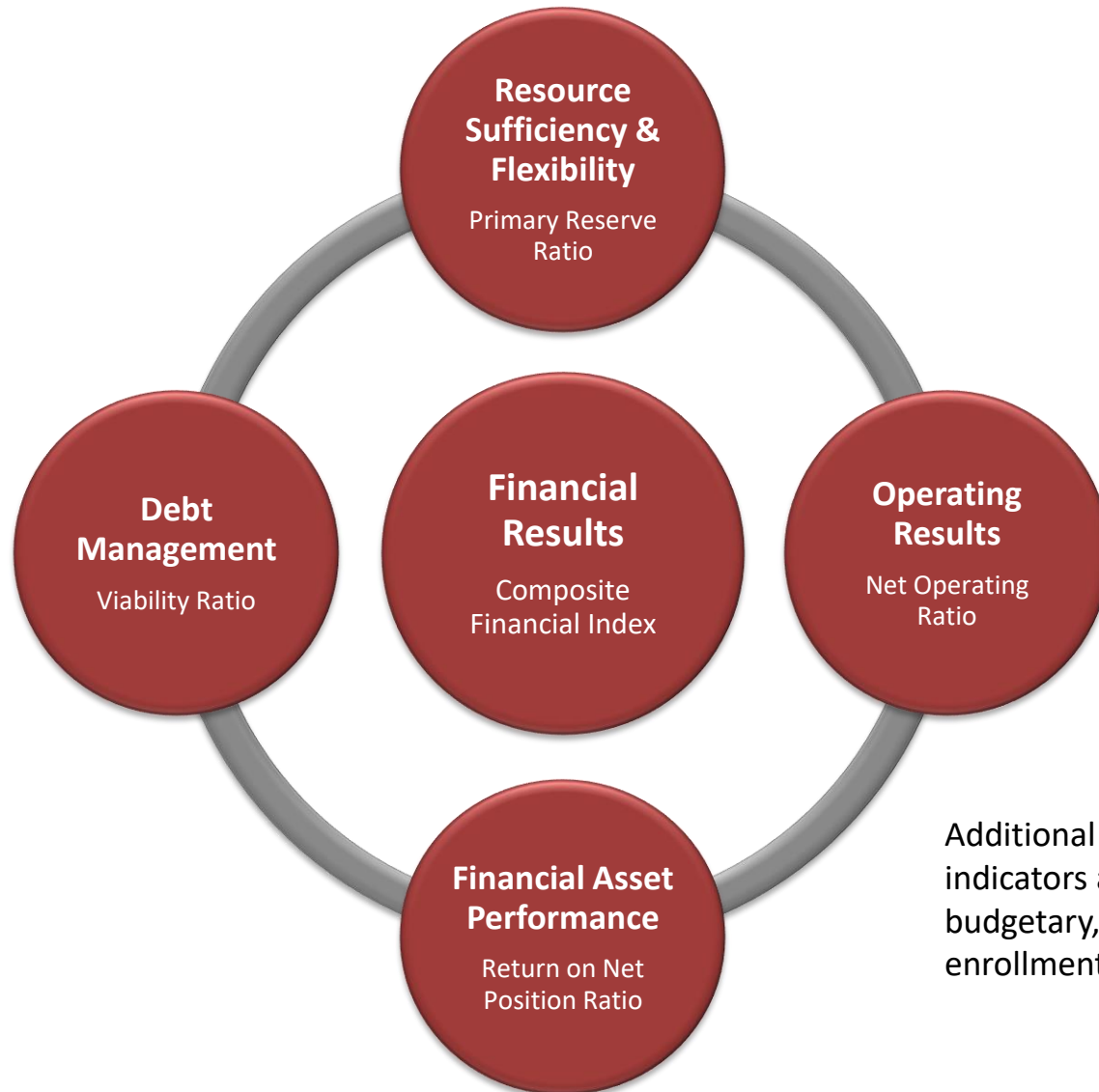
# Capital Appropriation History

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 on 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

# FY 2021 Impacts to Financial Position

- Key Revenue Drivers

- Enrollment- core enrollment index 1
  - FY21 AAHC decreased 8.9% from FY20
  - FY20 AAHC decreased 3.8% from FY19
- Total revenues declined 7% most notable via declines in capital appropriations and auxiliaries
- State operating appropriations increased 3.4%
- Student tuition and fees declined 6.4%
- State capital appropriations declined 54.2%
- Grants and contracts increased 21.9%
- Auxiliaries declined 59.4%

*COVID19 heavily impacted FY21 as instruction remained online significantly curtailing campus-based operations.*

- Major Expense Categories

- Operating expenses declined 11.6%% or \$27.8 M
- Salaries and wages declined 13.6% or \$15.6M
- Benefits declined 27% or \$9.7M
- Scholarships and fellowships increased 4% or \$1M

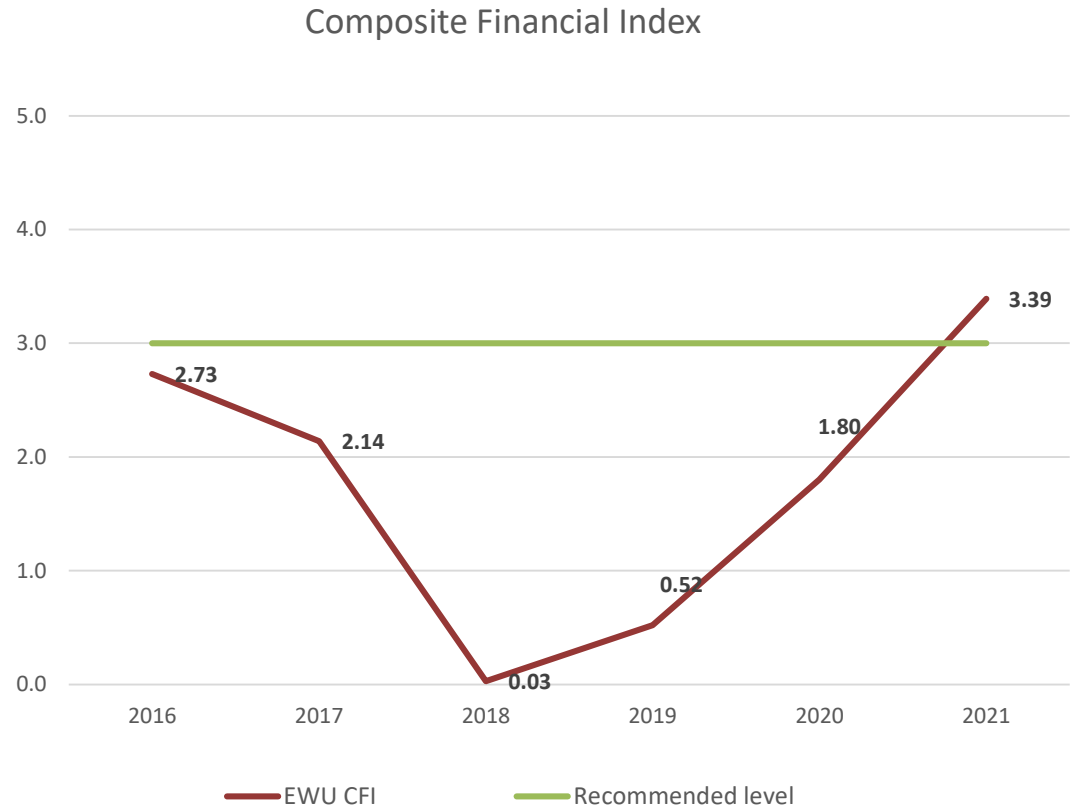




# Composite Financial Index



- **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
- Useful in understanding the financial position of the institution in relation to an industry standard
- Recommended Level = 3



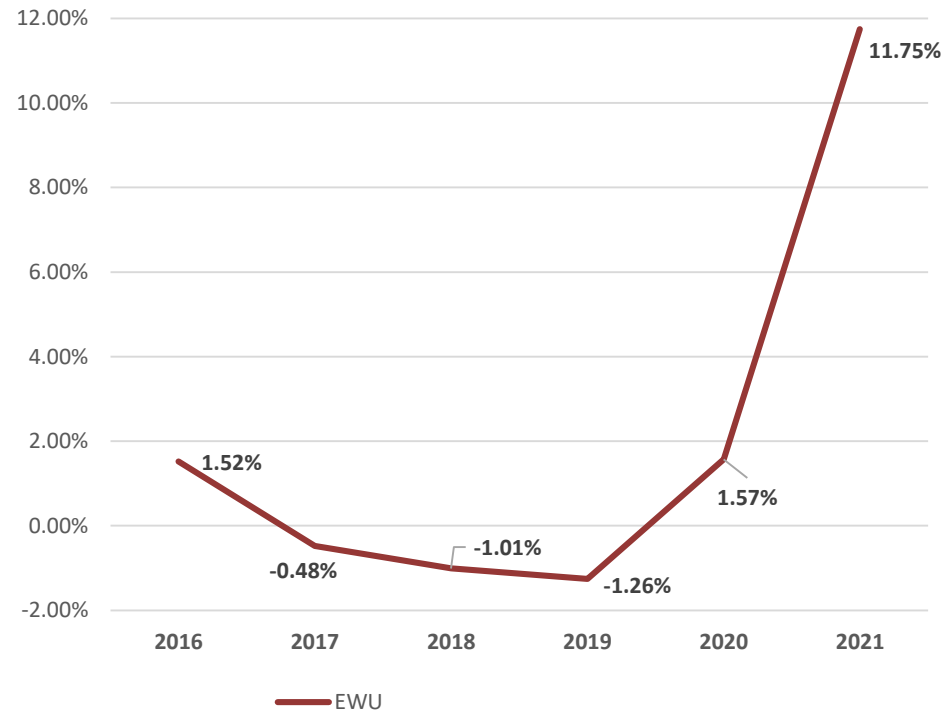
Source: EWU Financial Statements

# 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
- Targeted ratio should be between 2% and 4%
- 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
- Ratio Components-
  - Net operating and non-operating income (loss)
  - Total operating and non-operating revenue

Net Operating Ratio



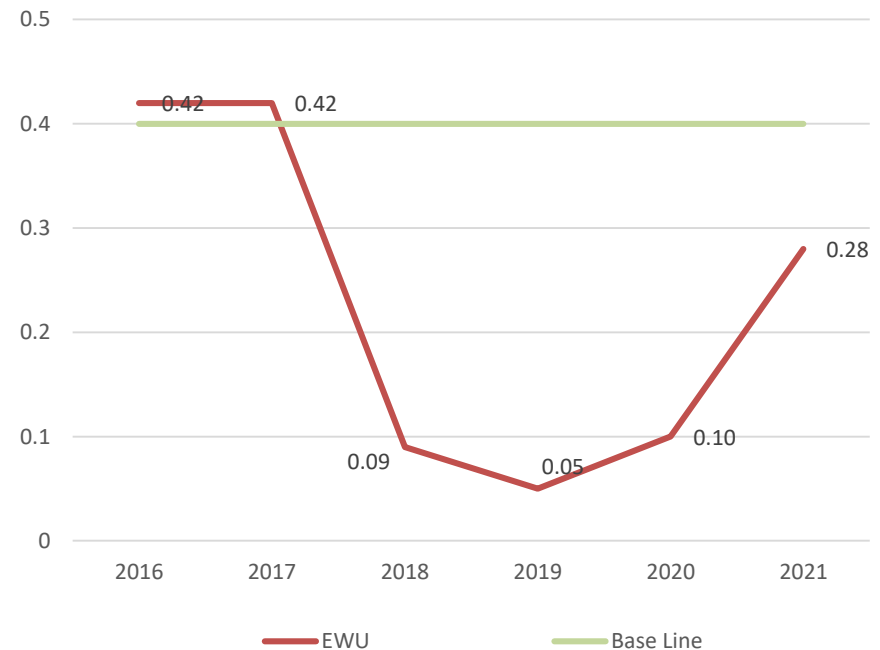
Source: EWU Financial Statements

# 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
- Recommended Ratio is  $> .40$
- Over time ratio should support reserve levels to ensure are keeping pace with institutional growth
- Unrestricted net position should increase at least in proportion to the rate of growth in expenses
- Ratio components –
  - Unrestricted and restricted expendable net position
  - Operating and non-operating expenses

Primary Reserve Ratio



Source: EWU Financial Statements

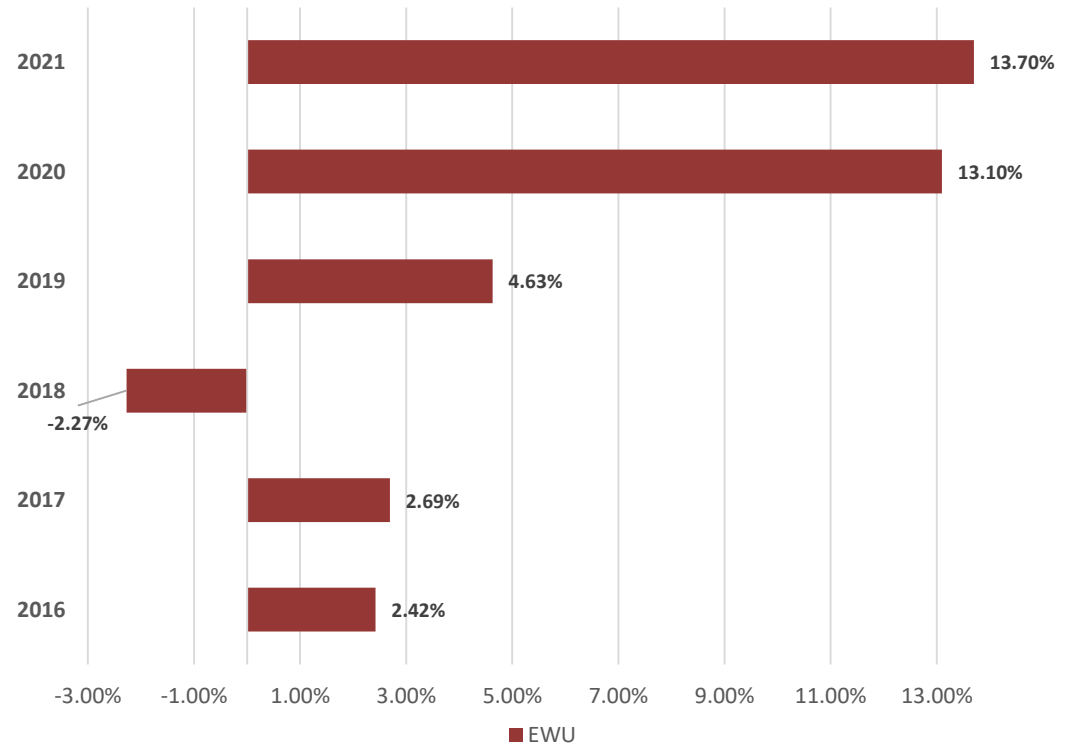
# Return on Net Position Ratio



- **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
- Industry target ratio: 3 – 4%
- An improving trend is indicative of increasing net assets that will strengthen the institution’s financial future
- A decline may be appropriate if it reflects a strategy to investment in mission fulfillment
- Ratio Components –
  - Change in net position
  - Net assets (beginning of year)

Return on Net Position Ratio



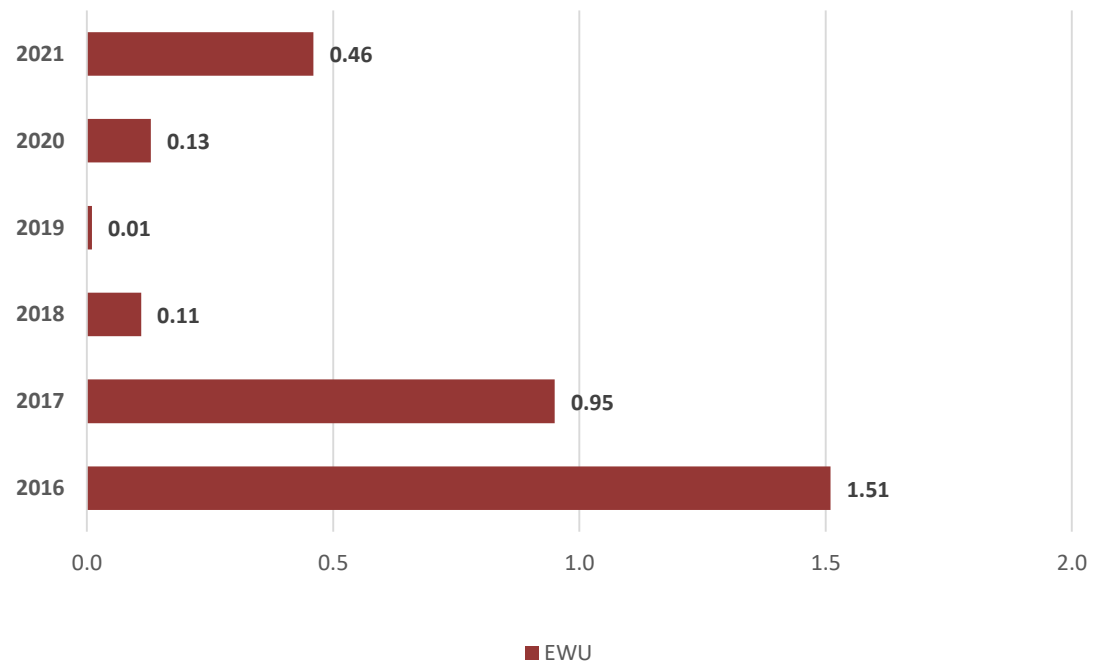
Source: EWU Financial Statements

# 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
- 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 2021	FY 2020	FY 2019
Tuition dependency ratio (%)	Helps measure sensitivity to changes in enrollment levels	51.0	53.3	53.6
Unrestricted financial resources-to-operations (x) (1)	Measures coverage of annual operations by the most liquid resources	.215	.048	.004
Annual days cash on hand	Measures the number of days an institution is able to operate (cover its cash operating expenses)	348	266	242
Current ratio	Measures liquidity – ability to meet current obligations with liquid assets	5.68	4.27	3.74
Expendable financial resources to direct debt (x) (2)	Measures coverage of direct debt by financial resources that are ultimately expendable	0.73	0.33	0.21
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	2.23	2.37	2.22
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.	10.28	3.64	2.30

# Moody's Scorecard Results - 2021

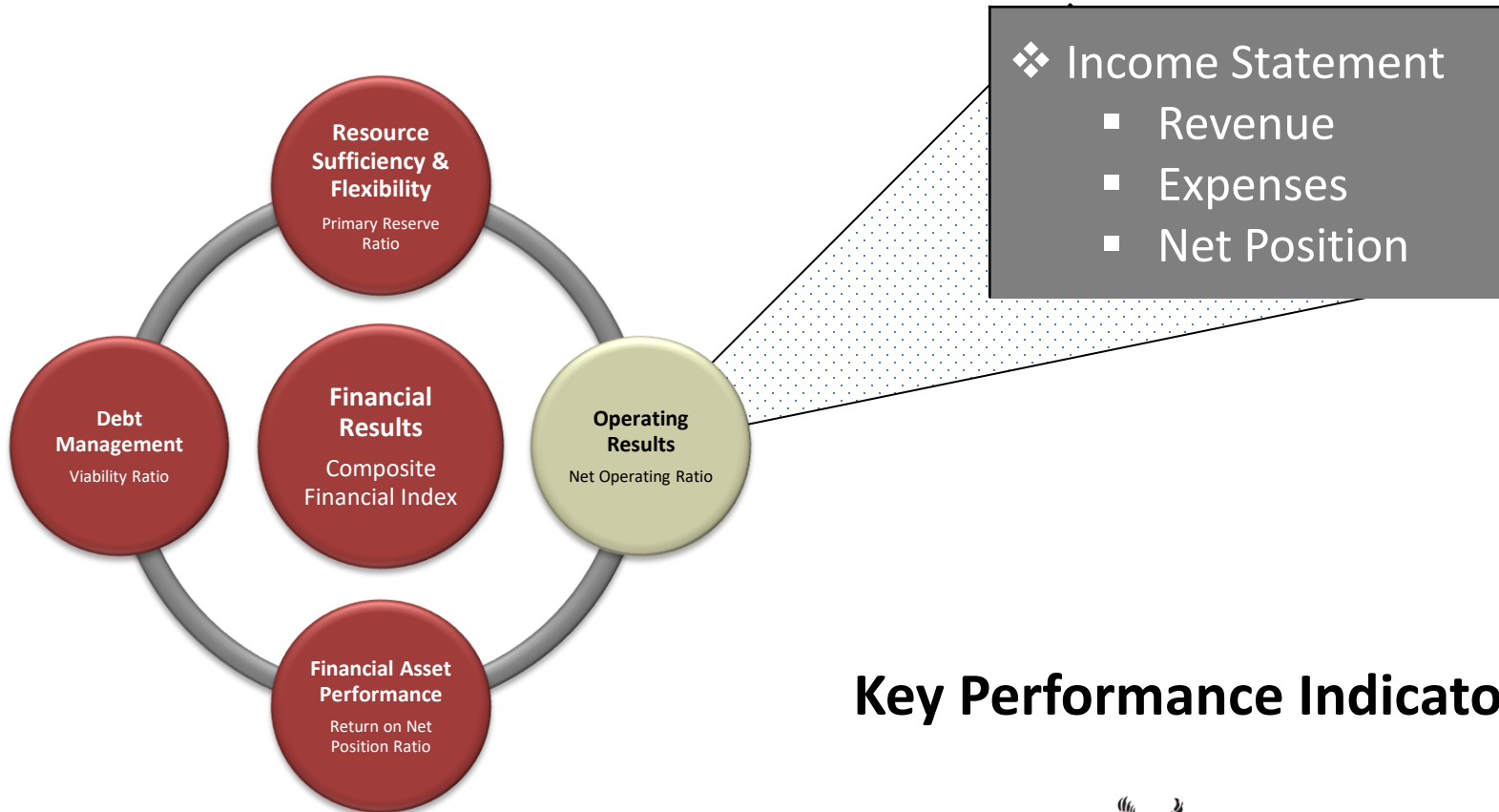
Scorecard Factors and Sub-factors	Value	Score
<b>Scale and Market Profile (35%)</b>		
Adjusted Operating Revenue (USD Million)	219	A
Brand and Strategic Positioning	A	A
Operating Environment	A	A
<b>Operating Performance and Financial Policy and Strategy (20%)</b>		
EBIDA Margin	10%	A
Financial Policy and Strategy	A	A
<b>Financial Resources &amp; Liquidity (25%)</b>		
Total Cash and Investments (USD Million)	192	Aa
Total Cash and Investments to Operating Expenses	0.9	Aa
<b>Leverage and Coverage (20%)</b>		
Total Cash and Investment to Total Adjusted Debt	1.0	A
Annual Debt Service Coverage	4.1	Aaa

*Note: Data based on most recent fiscal year available.*



# 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.

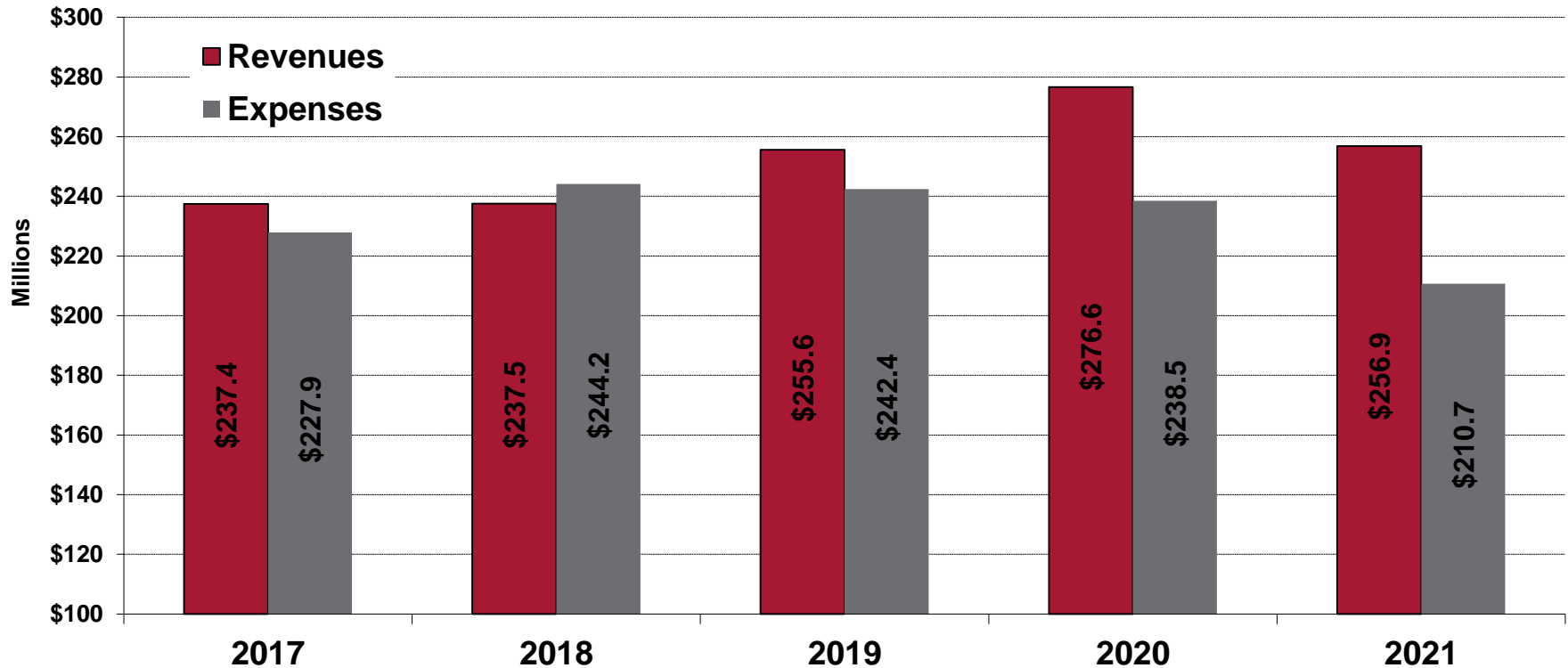
Presents a change in net financial position over the prior year

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

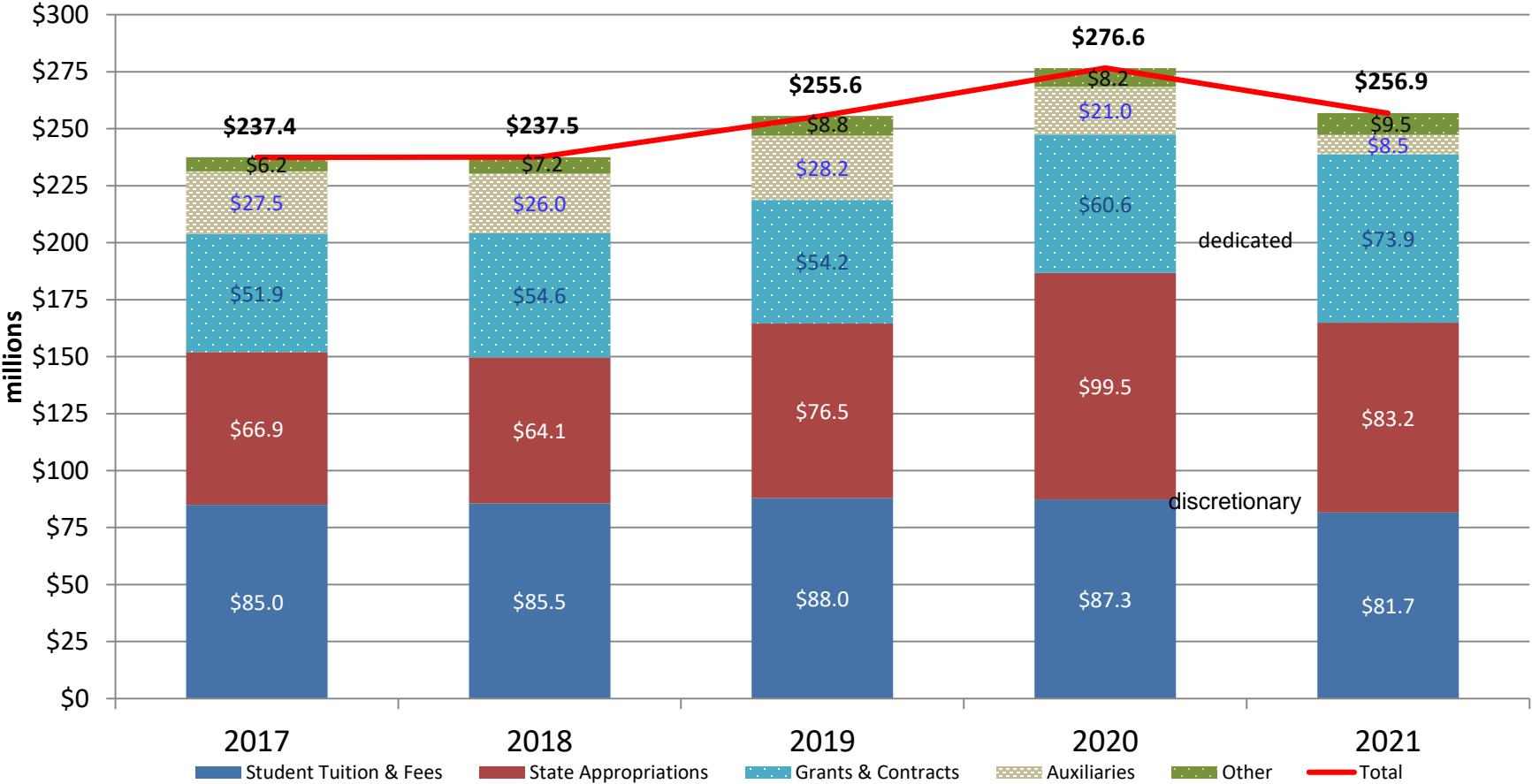
Increase in net position of \$46.1M largely due to 11.6% decline in operating expense



Source: EWU Financial Statements

# University Revenues

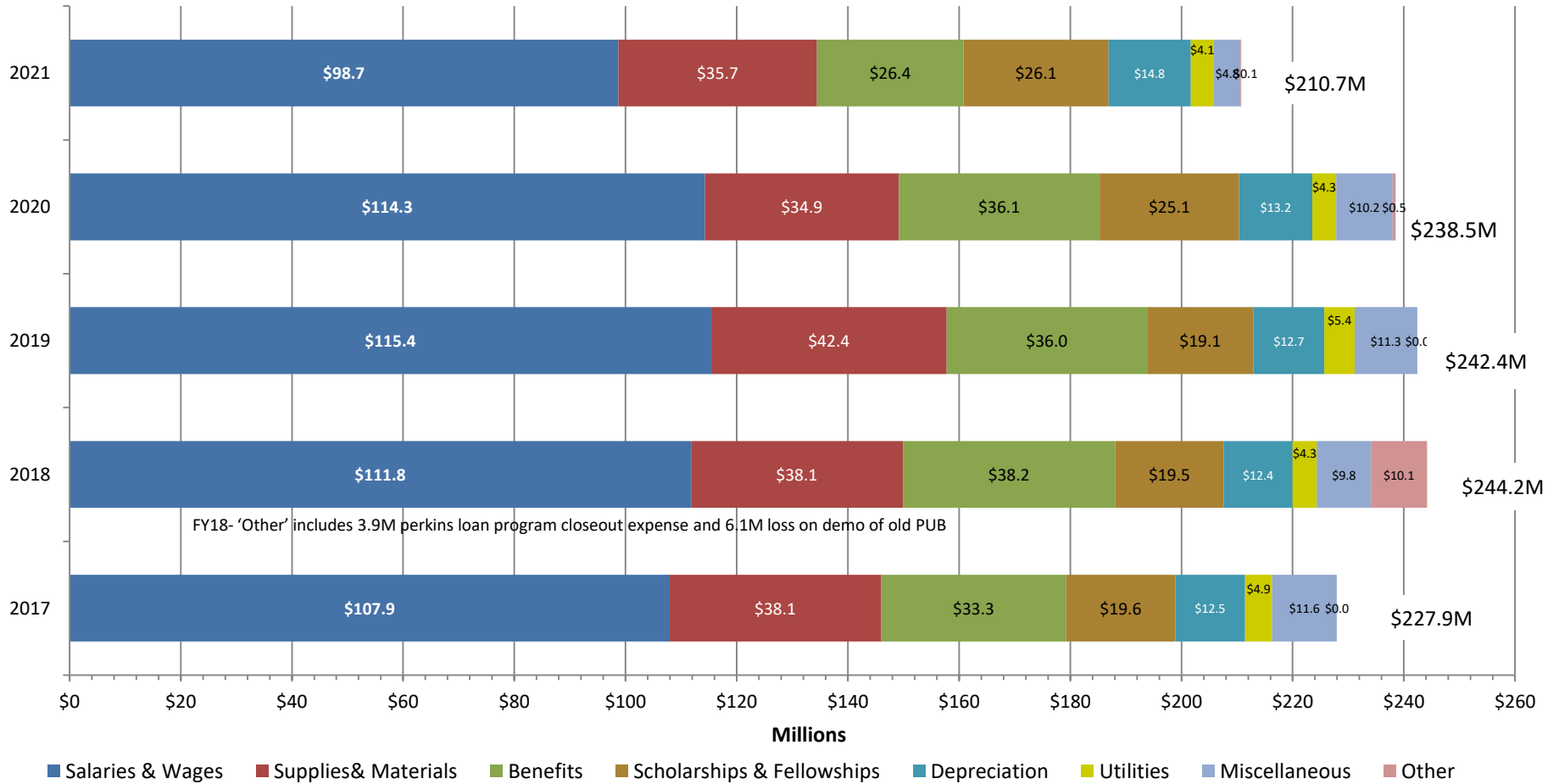
- ✓ Total revenues declined 7% most notable via declines in capital appropriations and auxiliaries
- ✓ Operating revenues, decreased by 2.1%
- ✓ State operating appropriations, increased 3.4%
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Source: EWU Financial Statements

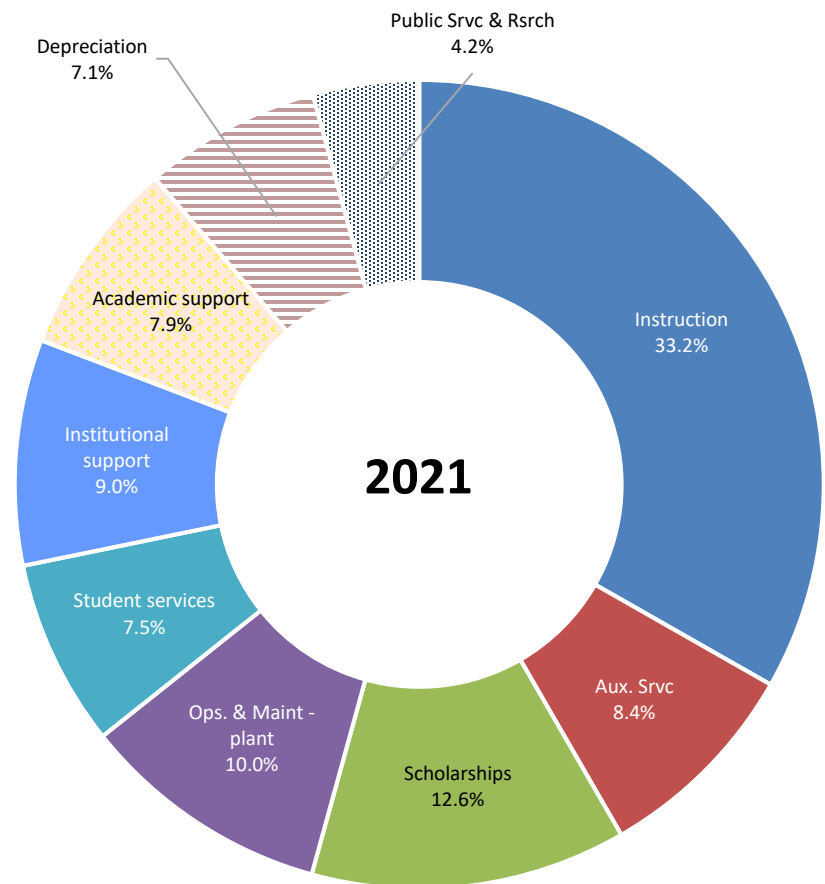
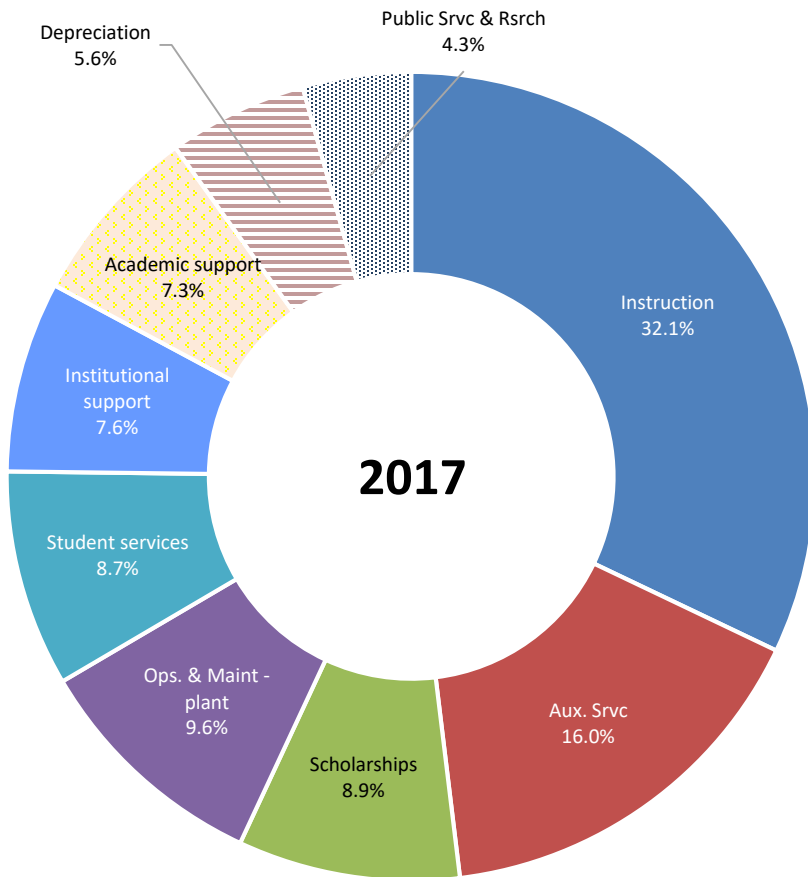
# University Expenses by Type

- ✓ Operating expenses declined 11.6% or \$27.8 M
- ✓ Salaries and wages declined 13.6% or \$15.6M
- ✓ Benefits declined 27% or \$9.7M
- ✓ Scholarships and fellowships increased 4% or \$1M



Source: EWU Financial Statements

# Operating Expenses by Function



Source: EWU Financial Statements



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	2020 (millions)	2021 (millions)
<b>Total Assets and Deferred Outflows</b>	<b>\$592.3</b>	<b>\$624.5</b>
<b>Total Liabilities and Deferred Inflows</b>	<b>\$255.7</b>	<b>\$241.9</b>
<b>Net Position</b> (June 30)	<b>\$336.6</b>	<b>\$382.7</b>

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

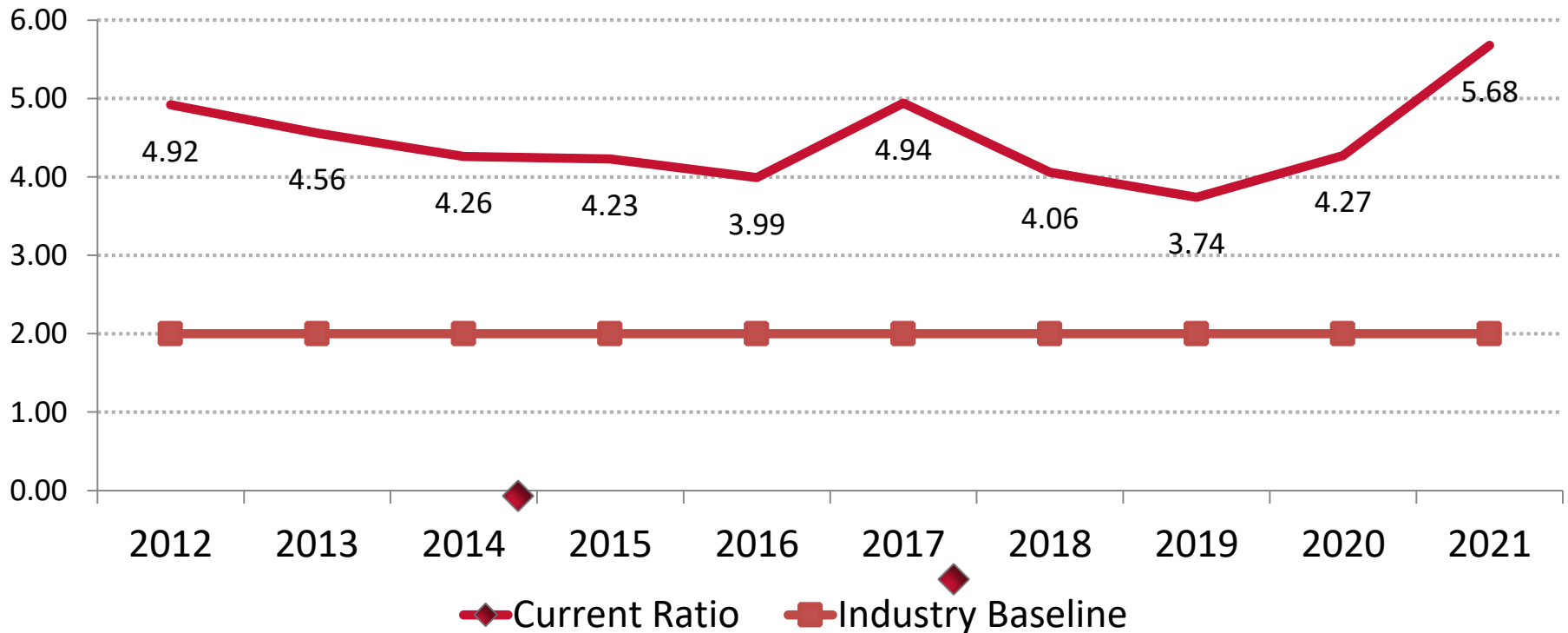
Source: EWU Financial Statements



# 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?

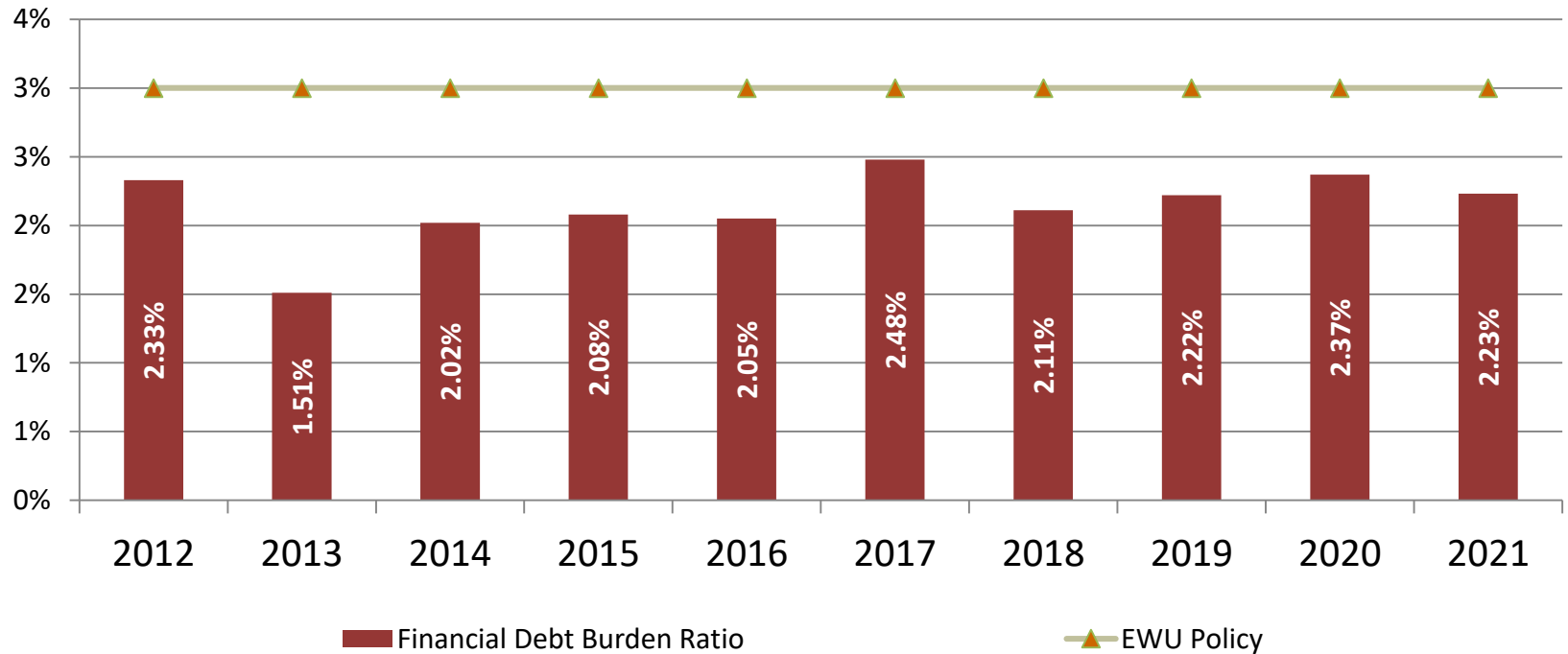
# Debt Management and Oversight

- 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 2021

## 2022 Outlook stable as emergence from remote learning supports revenue growth

- Operating revenue will rise 4-6% following students' return to campus in fall 2021.
  - Moderate growth in net tuition revenue, with privates performing better than publics
  - Return to more normal housing occupancy rates will boost auxiliary revenues
- Inflation and labor shortages will push spending higher, diminishing margins.
  - Universities face shortages of administrative and support staff
  - Elevated commodity prices and supply chain issues increase infrastructure costs
- Record investment returns in 2021 bolster wealth and liquidity.
- Social and cyber risk pose challenges amid strained budgets.

# Looking Forward

- Ensure sustainable financial environment
  - Eastern's market position, enrollment, and financial pressures have some similarity to the sector outlook
- Key financial drivers and impacts on future planning
  - 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**