

Financial Review---final version 1.21.15

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FISCAL YEAR 2014

AGENDA

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Overview



Resource Sufficiency & Flexibility



Operating Results



Financial Asset Performance



Debt Management



Financial Outlook



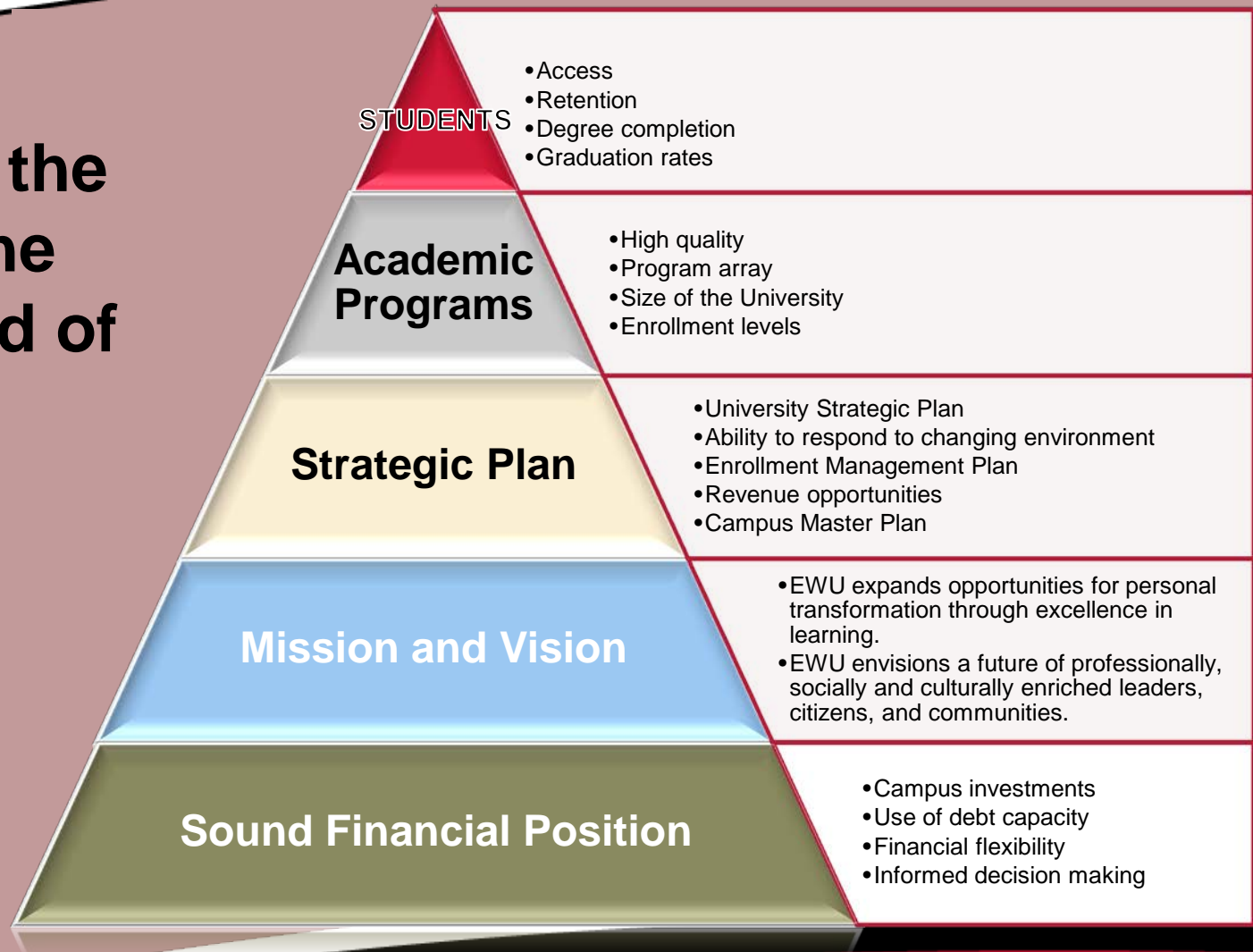
Overview

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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*

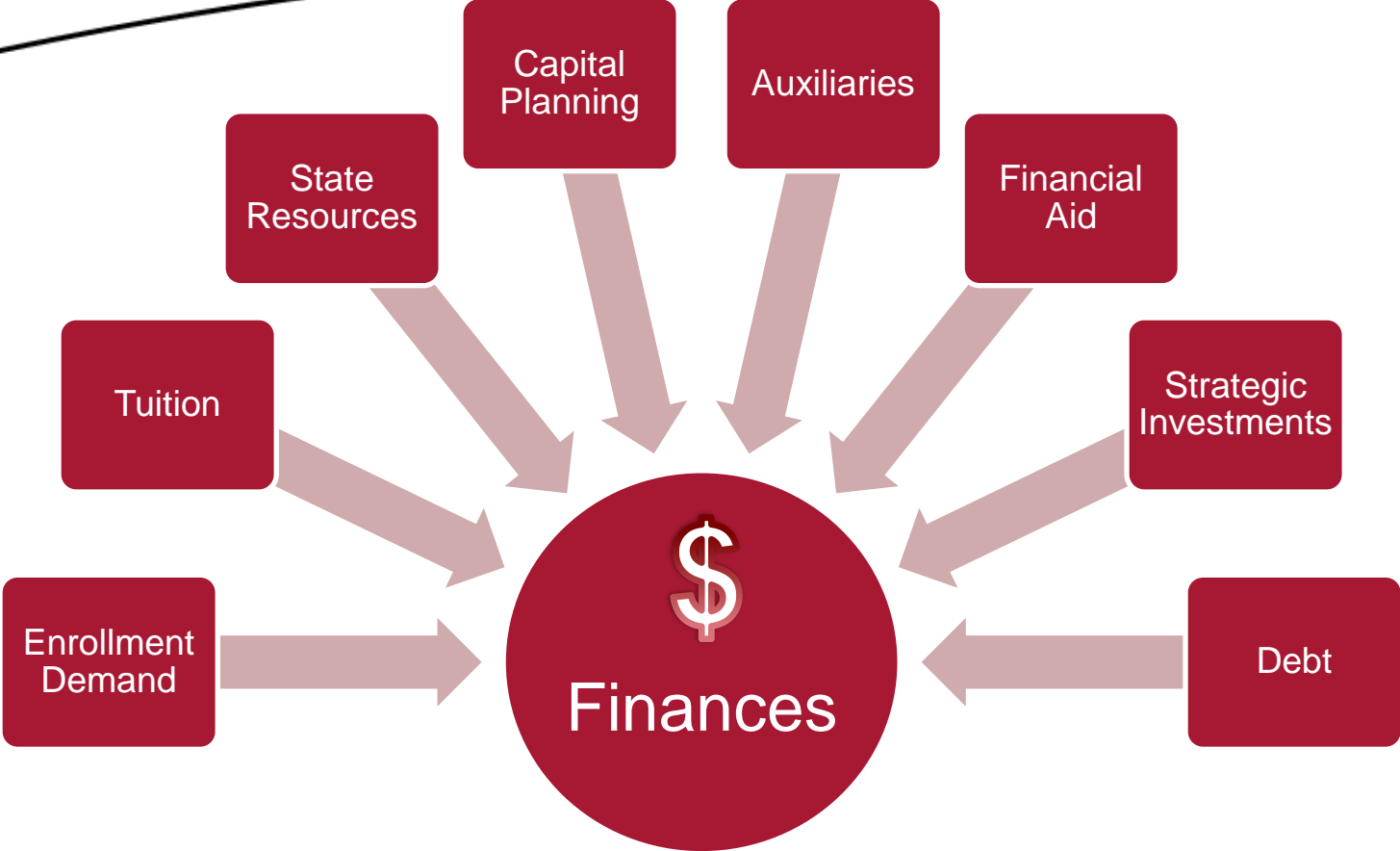


Achieving the Goals of the EWU Board of Trustees



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 is a Board of Trustees priority

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.

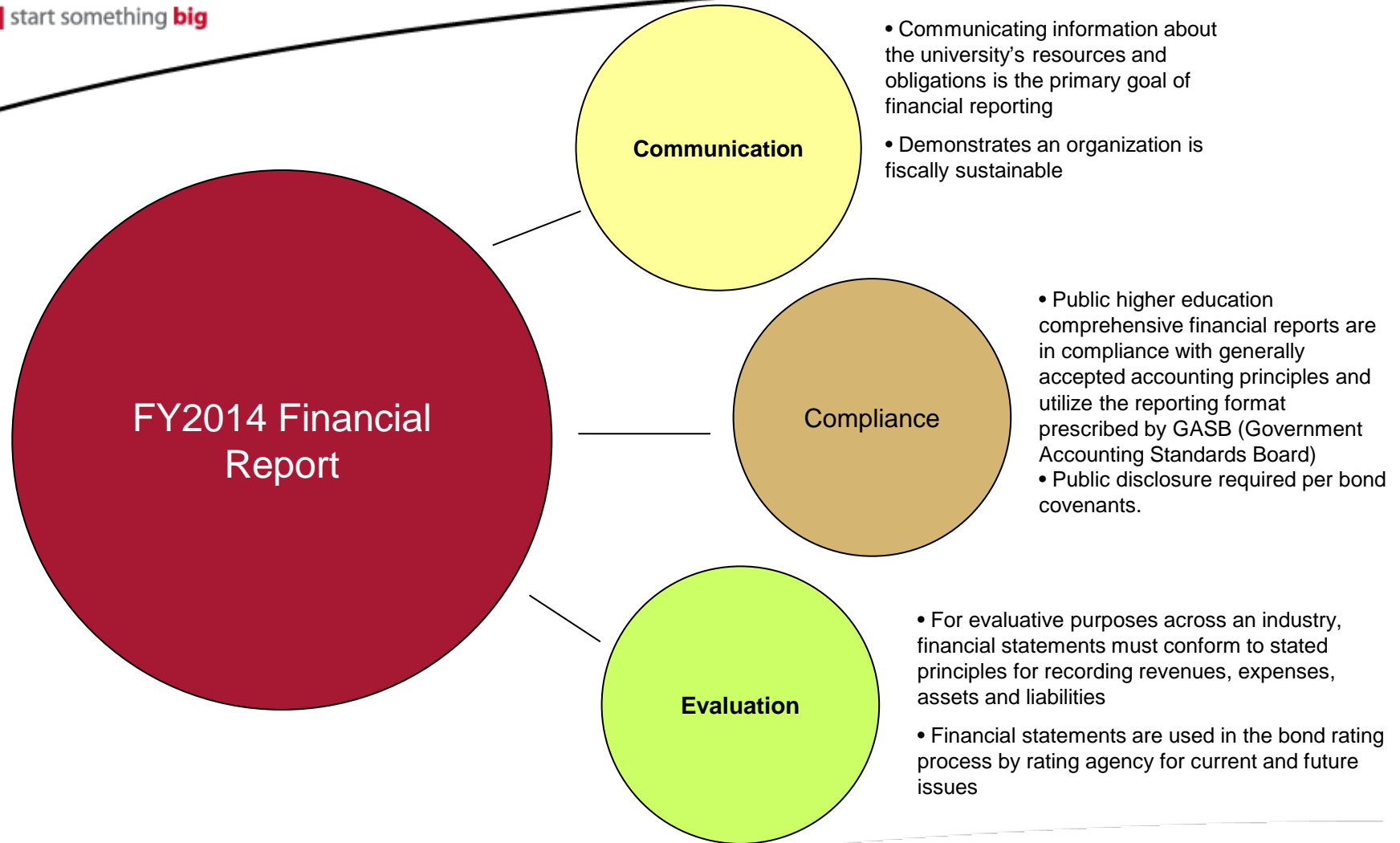
Financial Position impacted by 2015-17, and future, budget decisions.

FY2014 FINANCIAL POSITION



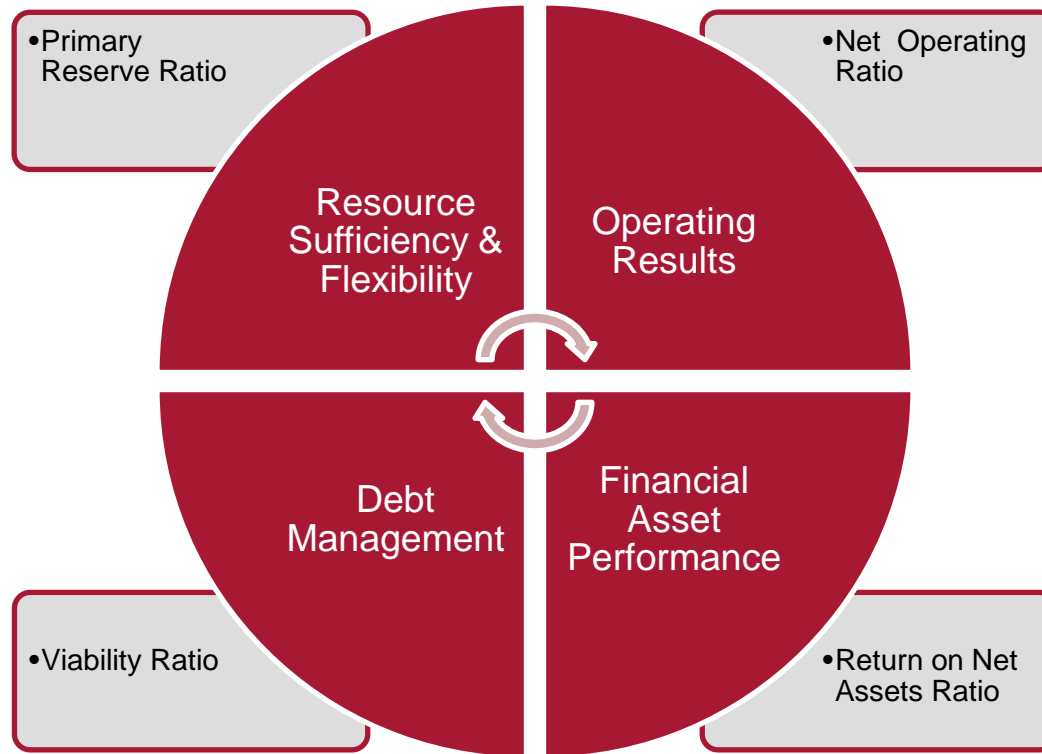
Financial Reporting

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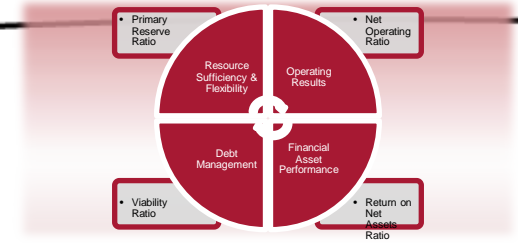
Measuring Financial Health

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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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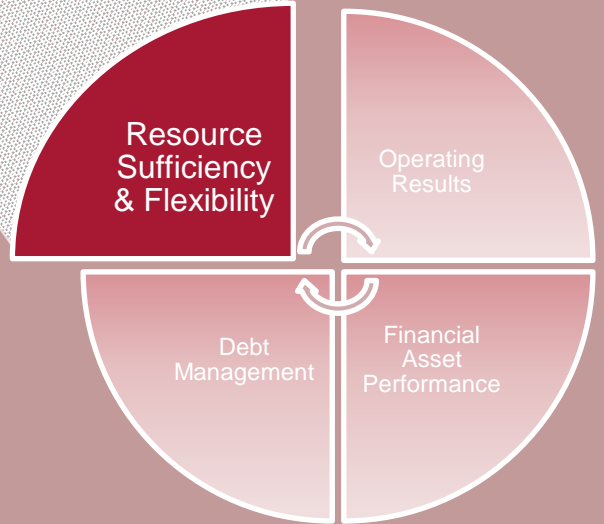
- EWU has successfully navigated through the economic downturn to retain a sound financial position
- State funding for operational budget continues to be constrained
- Tuition authority restriction continues to impact future opportunities
- Enrollment: focus on market position, demand, capacity. Historical strong demand yet demographics indicate current market sector will slow.
- 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

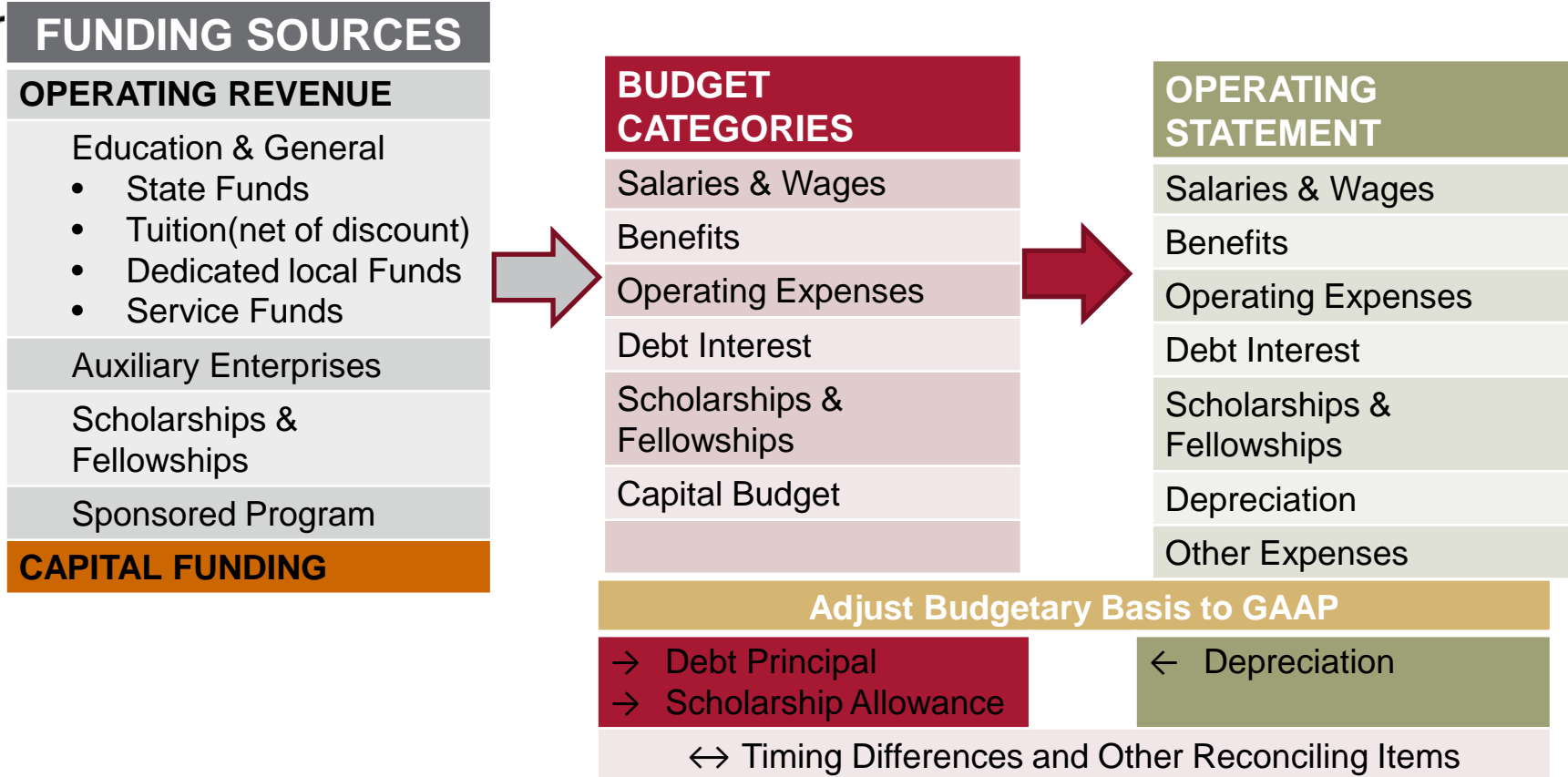


- Monthly- various financial reports are produced
- Variance reporting
- Benchmarking and industry level Analysis
- Audited annual financial statements
- Audited fund level financial statements for selected funds.



Budget Categories Relationship to Financial Reporting

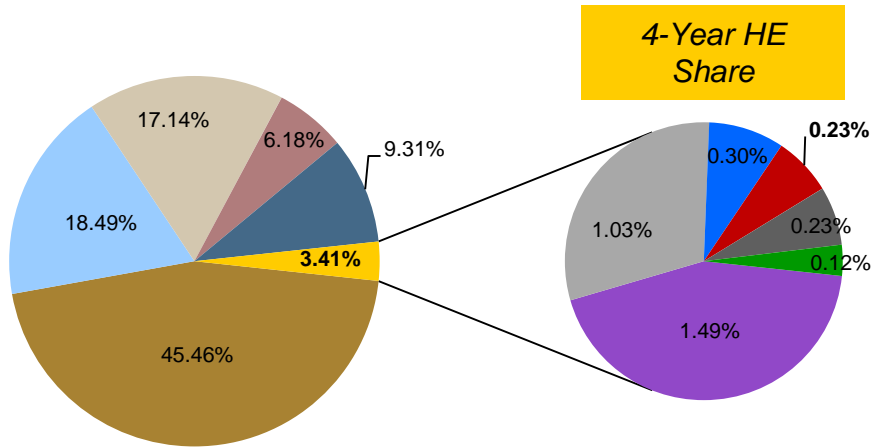
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EWU's Share of Total State GF

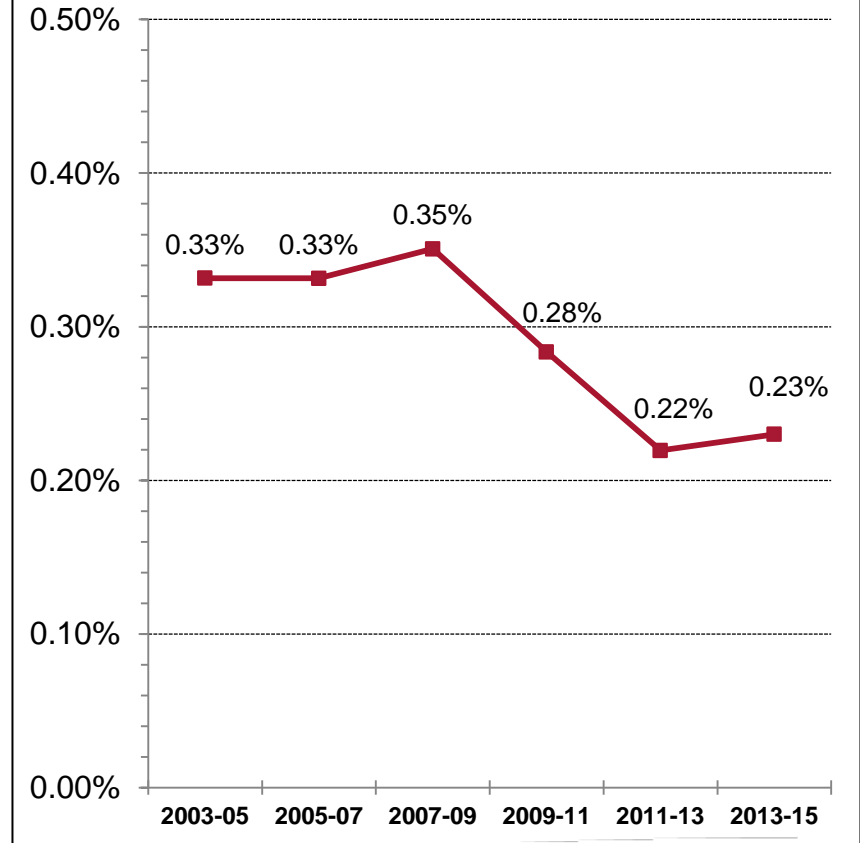
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Total 2013-15 Budget



- Public Schools
- Human Services
- DSHS
- Spec'l Approp.
- Other Agencies
- UW
- WSU
- WWU
- EWU
- CWU
- TESC

EWU % Share of Total State Budget



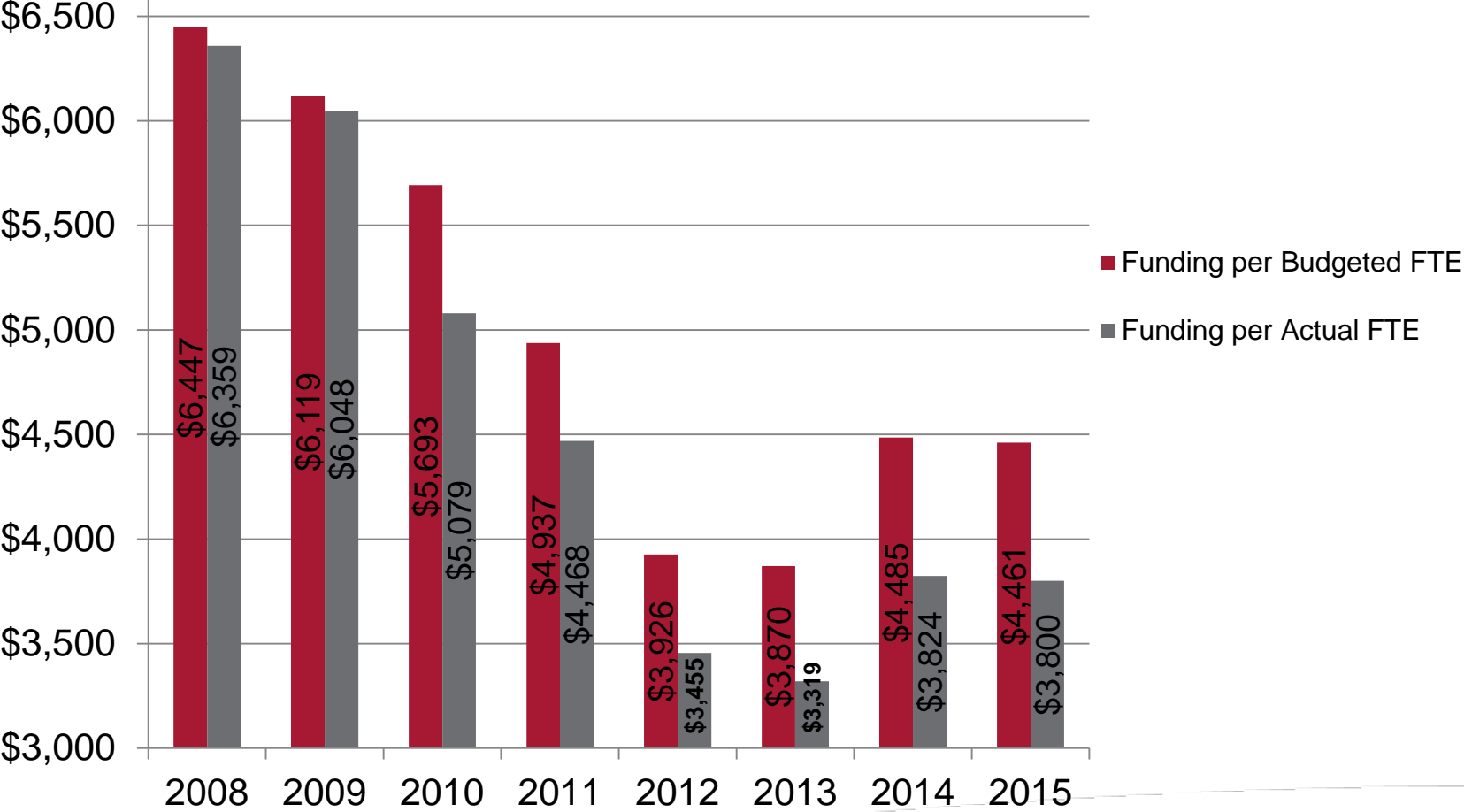
Source: fiscal.wa.gov - Operating Budget Statewide Summary



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**. The FY2015 budgeted information shows a slight decline.



Source: Data based on GFS allocations and OFM budgeted state enrollments. 2015 projections based on original budget. Actual FTE funding based on GFS allocations and Annual Average state enrollments. 2015 projections based on original budget FTE at 10,250.

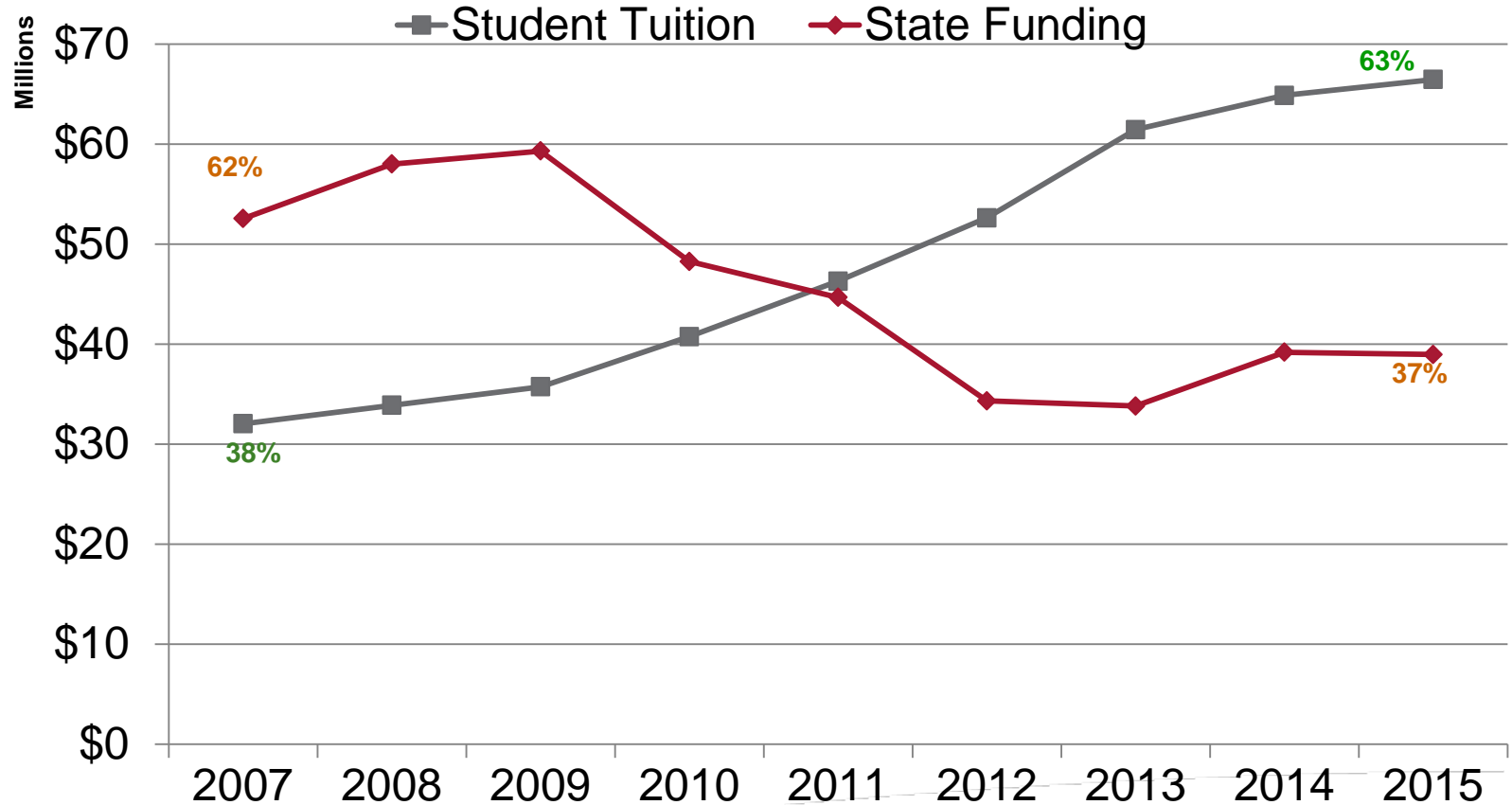


Key Funding Sources

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.



Source: 2013-15 Budget Book

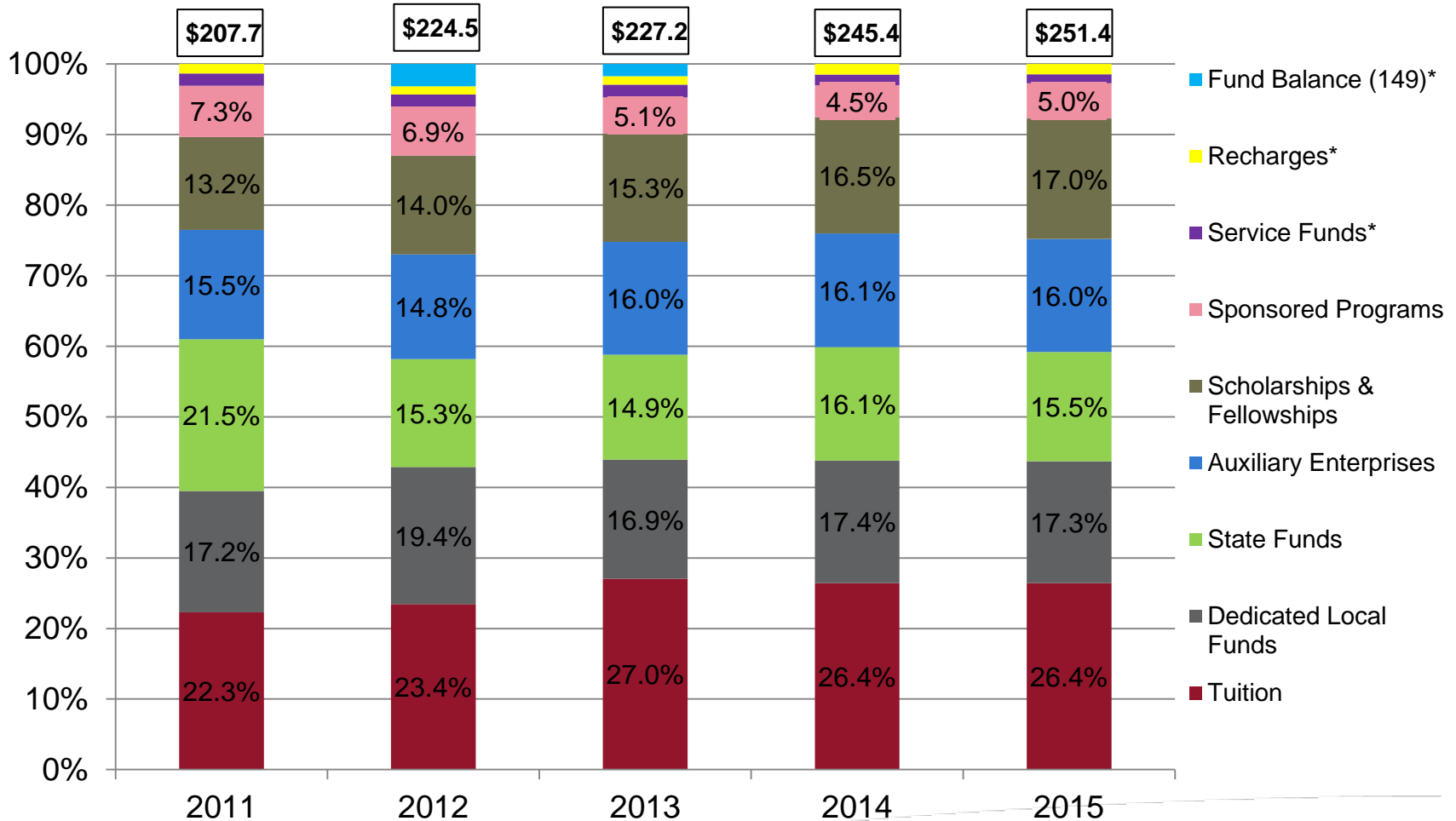


Institutional Annual Operating Budget History

Expenditures

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Eastern's total annual operating budget is growing at a faster pace in FY14 (7.8%). The increase is primarily due to state funding investment, enrollment impacts and student tuition and fees.



Source: 2013-15 Budget Book



ENROLLMENT REVIEW



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

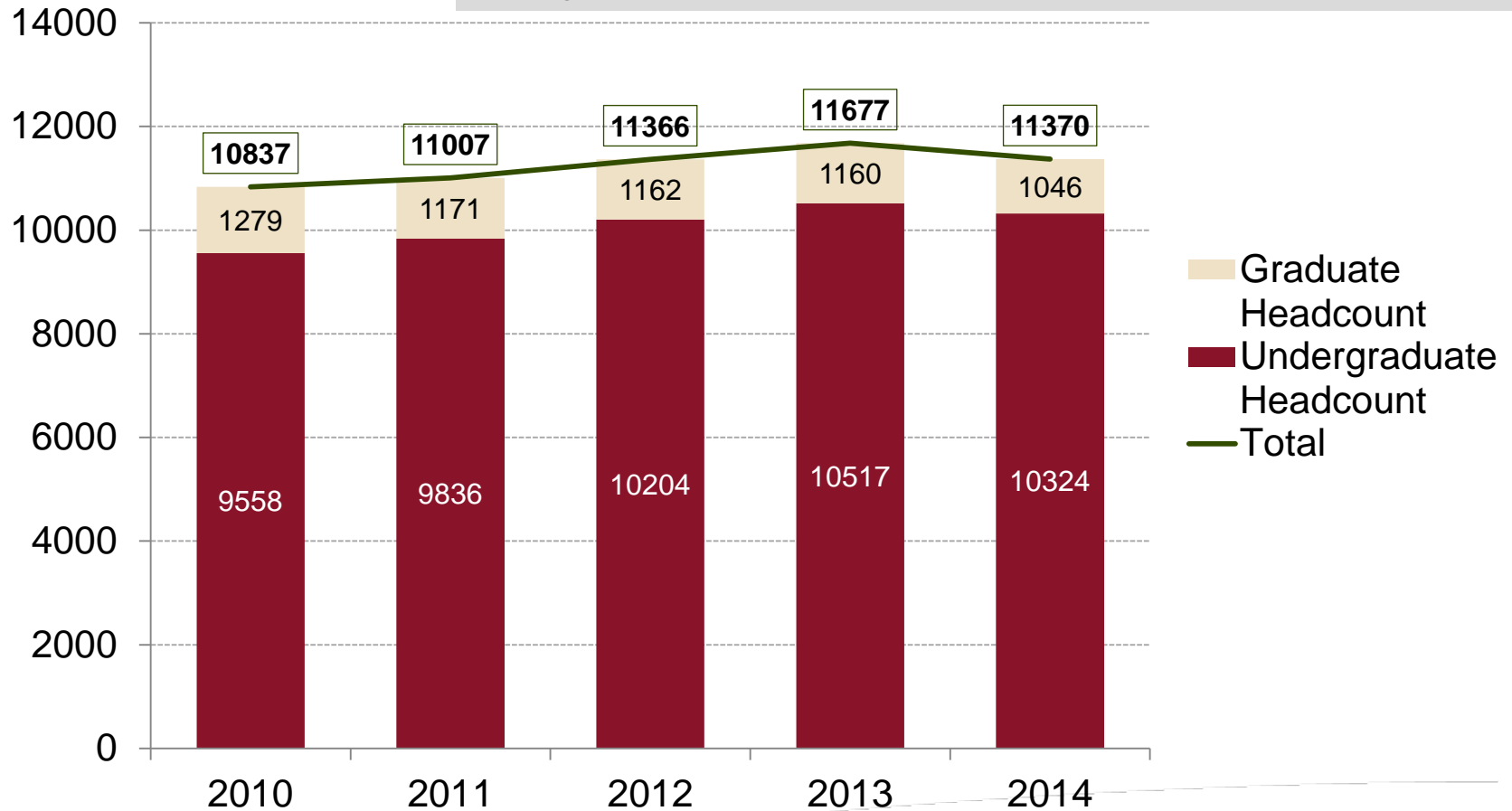


Total Academic Year Enrollments

State and Self-Support (HC)

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



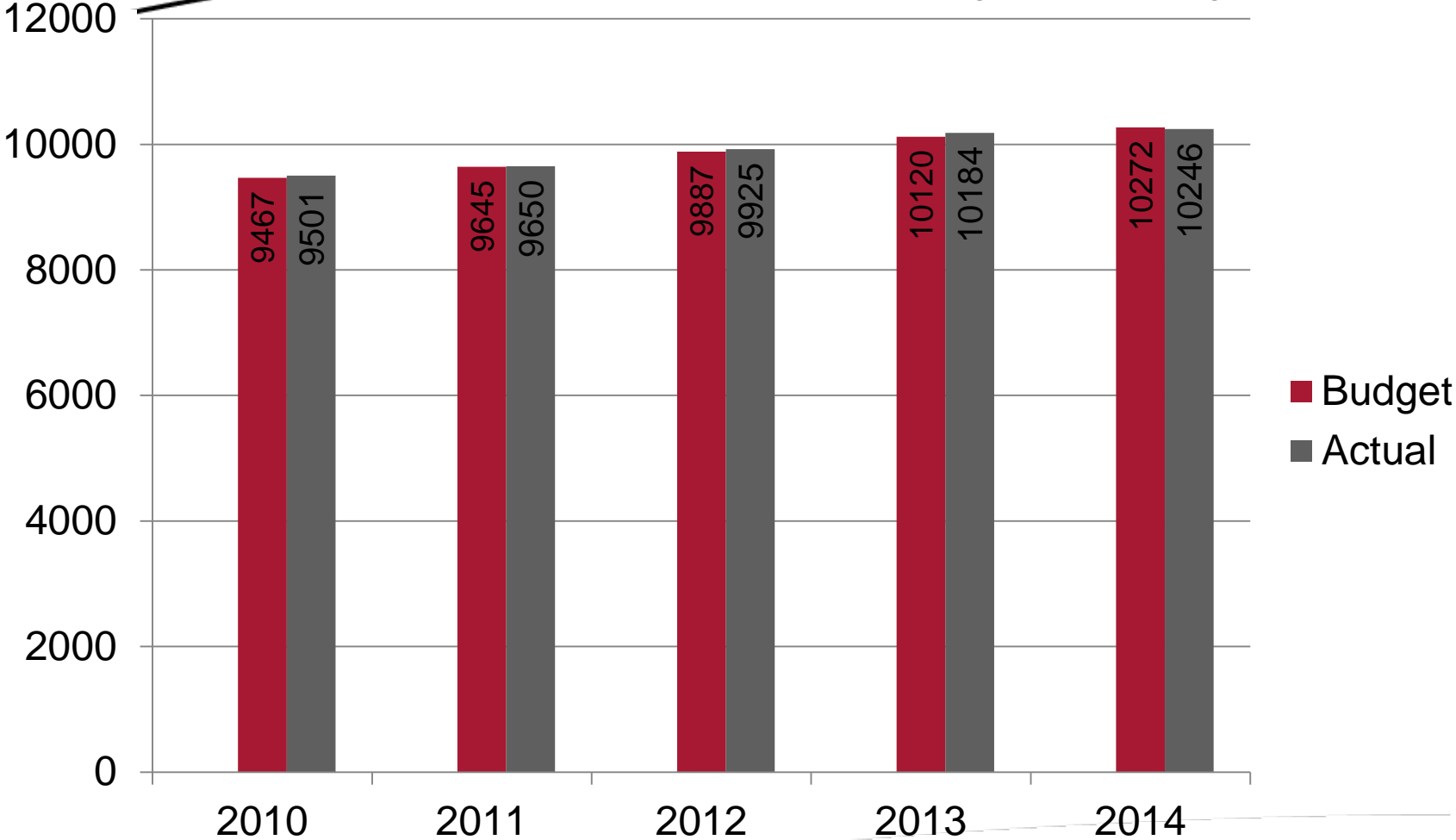
Source: EWU Institutional Research



FTE Enrollment* Budget to Actual

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*State supported: basis for budgeted operating fee revenue





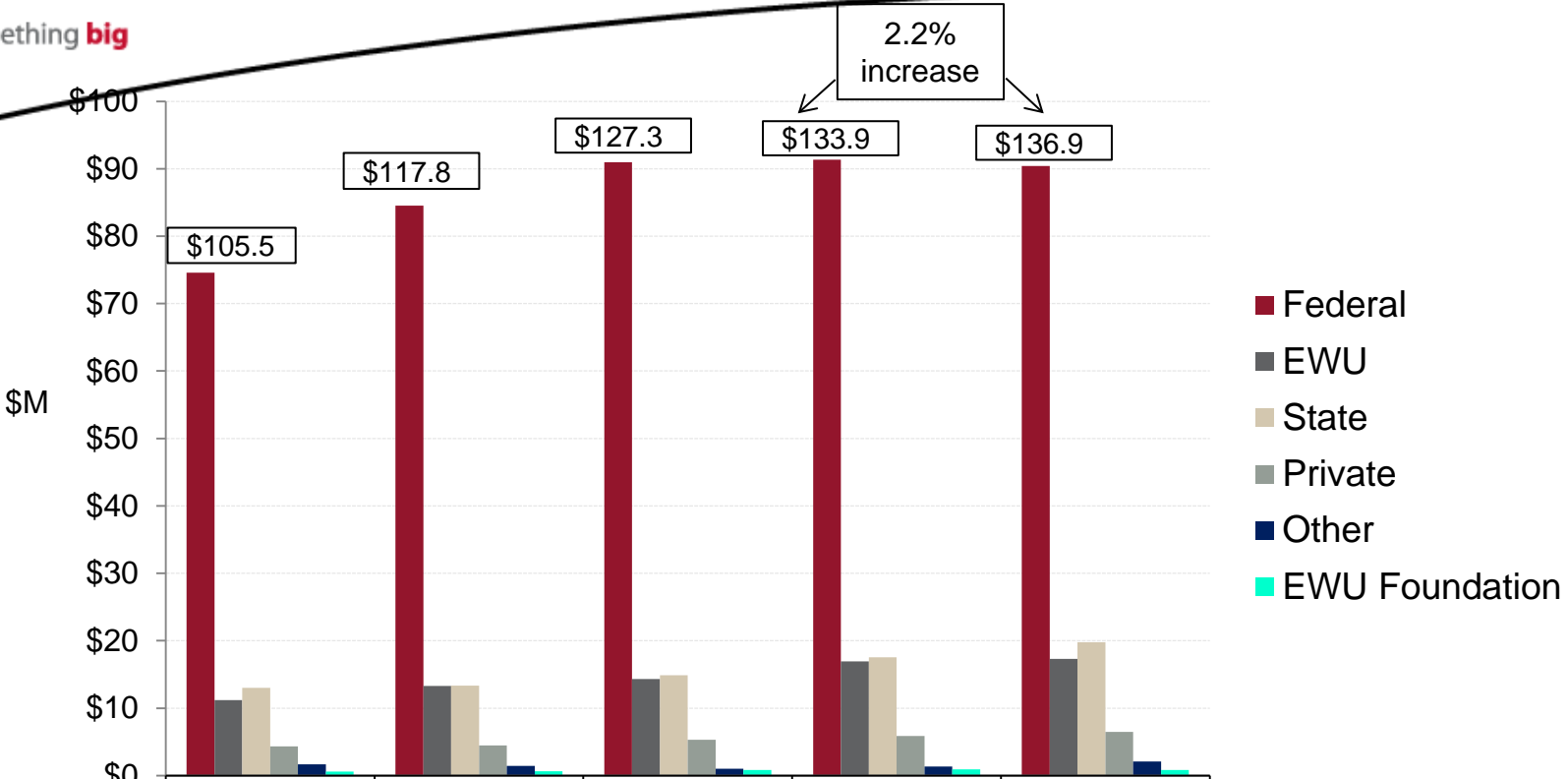
FINANCIAL AID FY2014

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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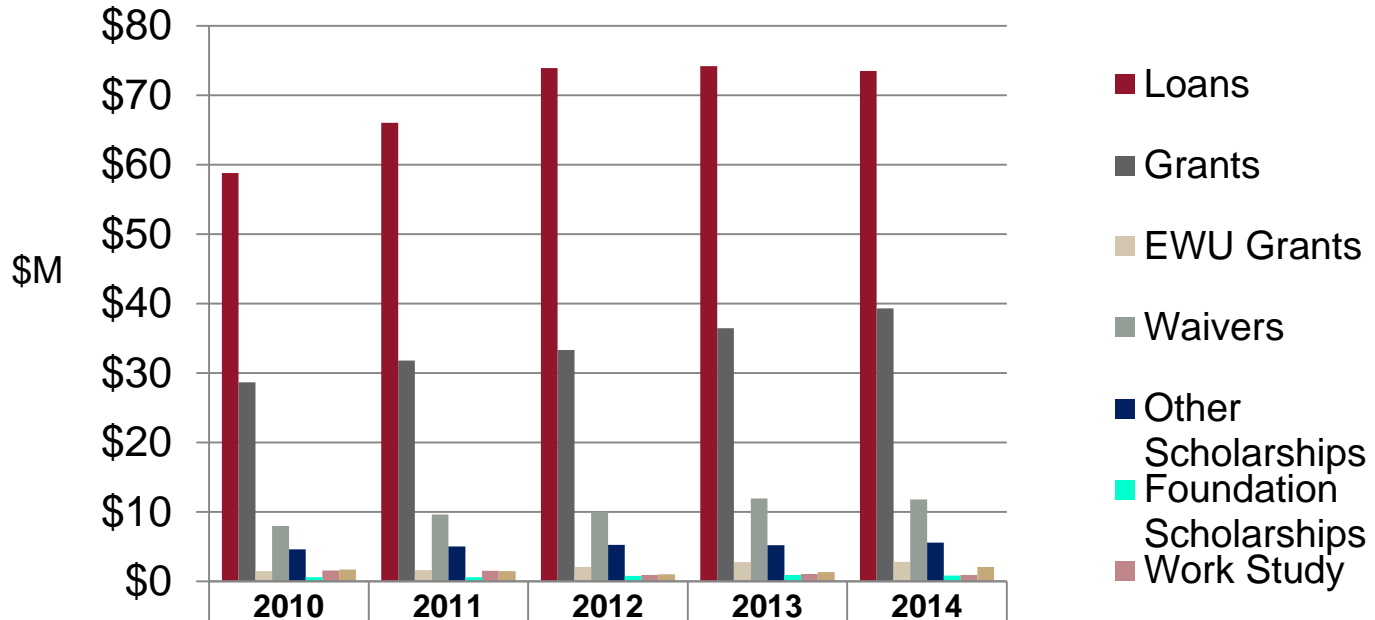
	2010	2011	2012	2013	2014
Federal	\$74.6	\$84.6	\$91.0	\$91.3	\$90.4
EWU	\$11.2	\$13.3	\$14.3	\$16.9	\$17.3
State	\$13.0	\$13.3	\$14.9	\$17.5	\$19.8
Private	\$4.4	\$4.5	\$5.3	\$5.9	\$6.5
Other	\$1.7	\$1.5	\$1.0	\$1.4	\$2.1
EWU Foundation	\$0.60	\$0.63	\$0.83	\$0.93	\$0.83

Source: Financial Aid Office



Financial Aid – by Type

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	2010	2011	2012	2013	2014
Loans	\$58.8	\$66.1	\$73.9	\$74.2	\$73.5
Grants	\$28.7	\$31.8	\$33.3	\$36.5	\$39.3
EWU Grants	\$1.5	\$1.6	\$2.1	\$2.8	\$2.8
Waivers	\$8.0	\$9.6	\$10.0	\$12.0	\$11.8
Other Scholarships	\$4.6	\$5.1	\$5.2	\$5.2	\$5.6
Foundation Scholarships	\$0.6	\$0.6	\$0.8	\$0.9	\$0.8
Work Study	\$1.6	\$1.5	\$0.9	\$1.1	\$0.9
Other	\$1.7	\$1.5	\$1.0	\$1.4	\$2.1

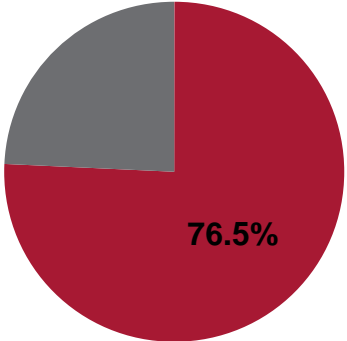
Source: Financial Aid Office

Financial Aid Fall 2013

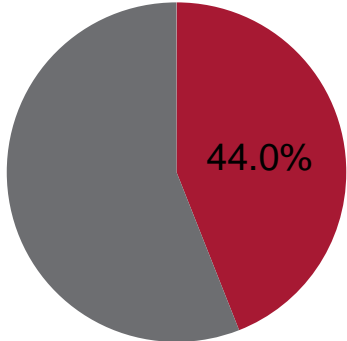
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9,856 Students Received Financial Aid

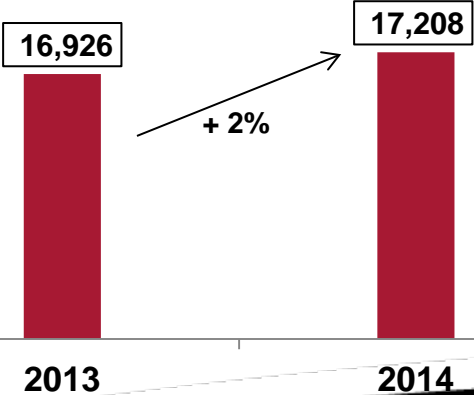
Percentage of students receiving Financial Aid



Percentage of students receiving Pell Grants

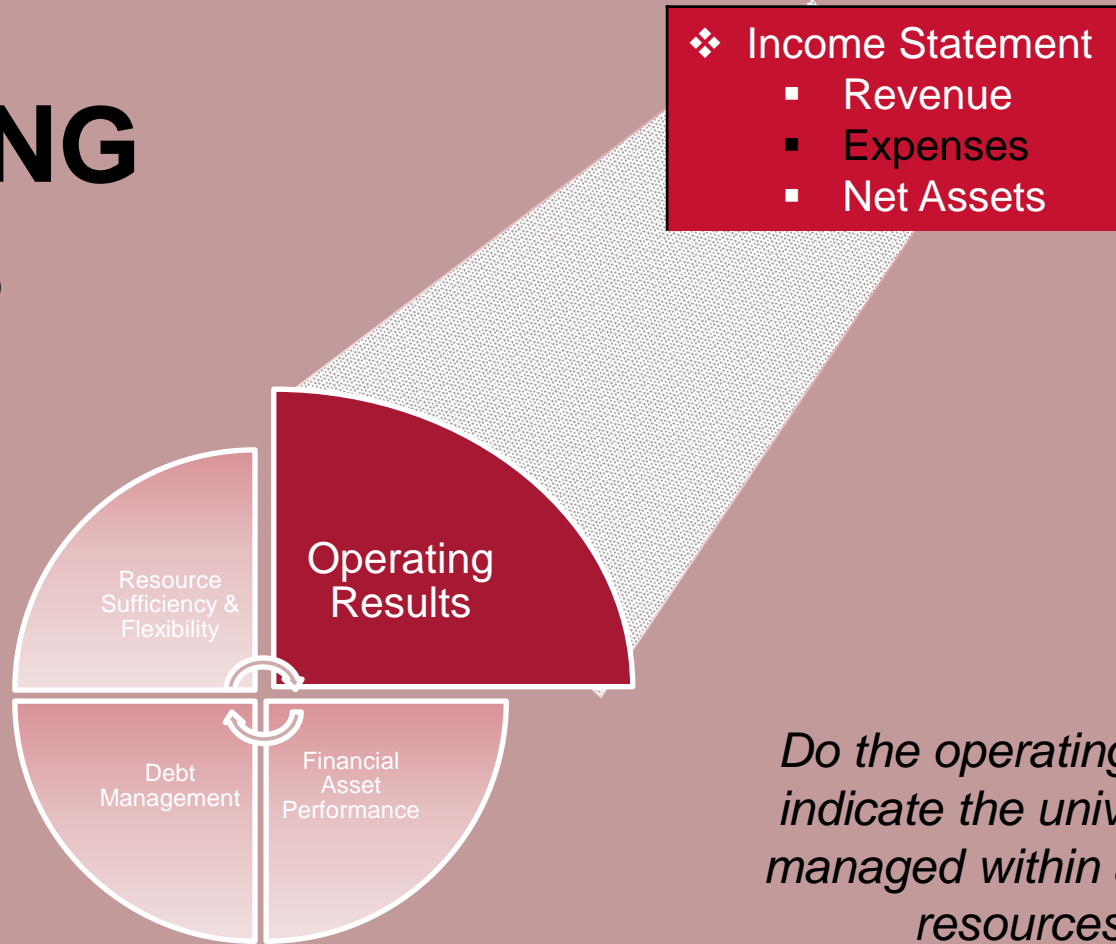


Applications Processed



Source: Financial Aid Office

OPERATING RESULTS



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.

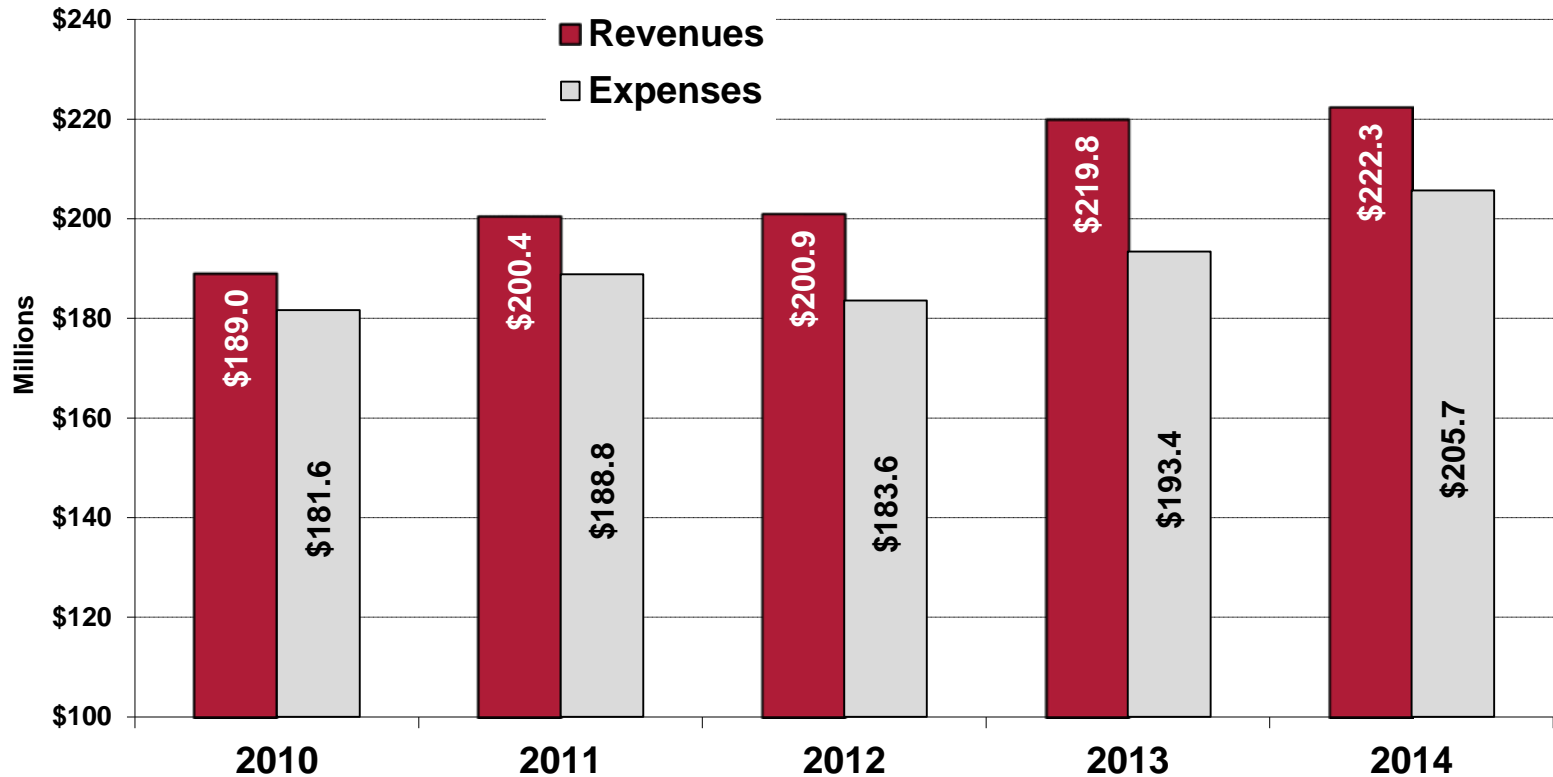
Expenditures represent the cost of providing services in support of achieving the institutional mission.



University Revenues, Expenses and Changes in Net Position

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Revenues remained relatively flat compared to FY13, while operating expenses increased 6.7%, primarily due to an increase in compensation costs.



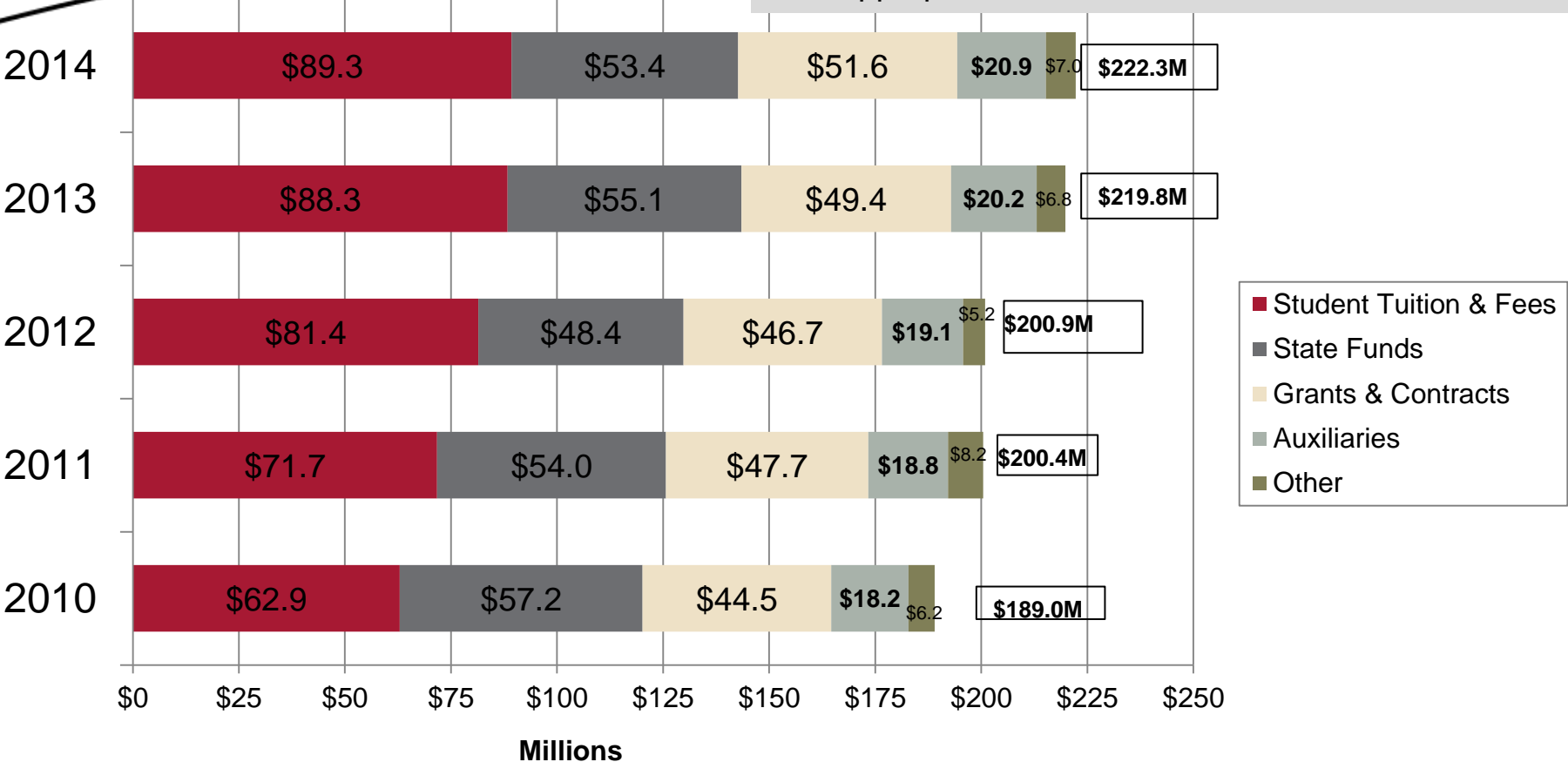
Source: EWU Office of Controller
FY 2014 Financial Report



University Revenues

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Eastern's revenue remained stable in FY 2014. State operating appropriations increased slightly but total state funds dropped because revenue recognized for state capital projects is a function of spending rather than appropriations.



Source: EWU Office of Controller
FY 2014 Financial Report

Key Revenue Indicators

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The university has increased its reliance on student tuition and fees.

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

FY2009	44.3%
FY2010	51.1%
FY2011	54.7%
FY2012	61.9%
FY2013	62.6%
FY2014	62.1%



Key Revenue Indicators

■ start something **big**

Student tuition and fees covered a smaller portion of operating expenses in FY14 as resident undergraduate tuition rates were held steady compared to the prior year.

Contribution Ratio

Shows portion of revenue by category to support actual operating expenses

	2013	2014
Student Tuition and Fees	46.3%	43.9%
State Appropriations – Operating	17.7%	19.3%
State and Local Grants & Contracts	11.4%	11.8%
Auxiliary Services	10.6%	10.3%
Pell Grant	10.2%	9.8%
Federal Grants & Contracts	2.5%	2.2%
Investment Earnings	1.9%	2.5%
State Appropriations – NCFI	1.4%	0.4%
Non-Governmental Grants & Contracts	1.8%	1.6%
Other Revenues	1.6%	1.0%

Source: EWU Office of Controller

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

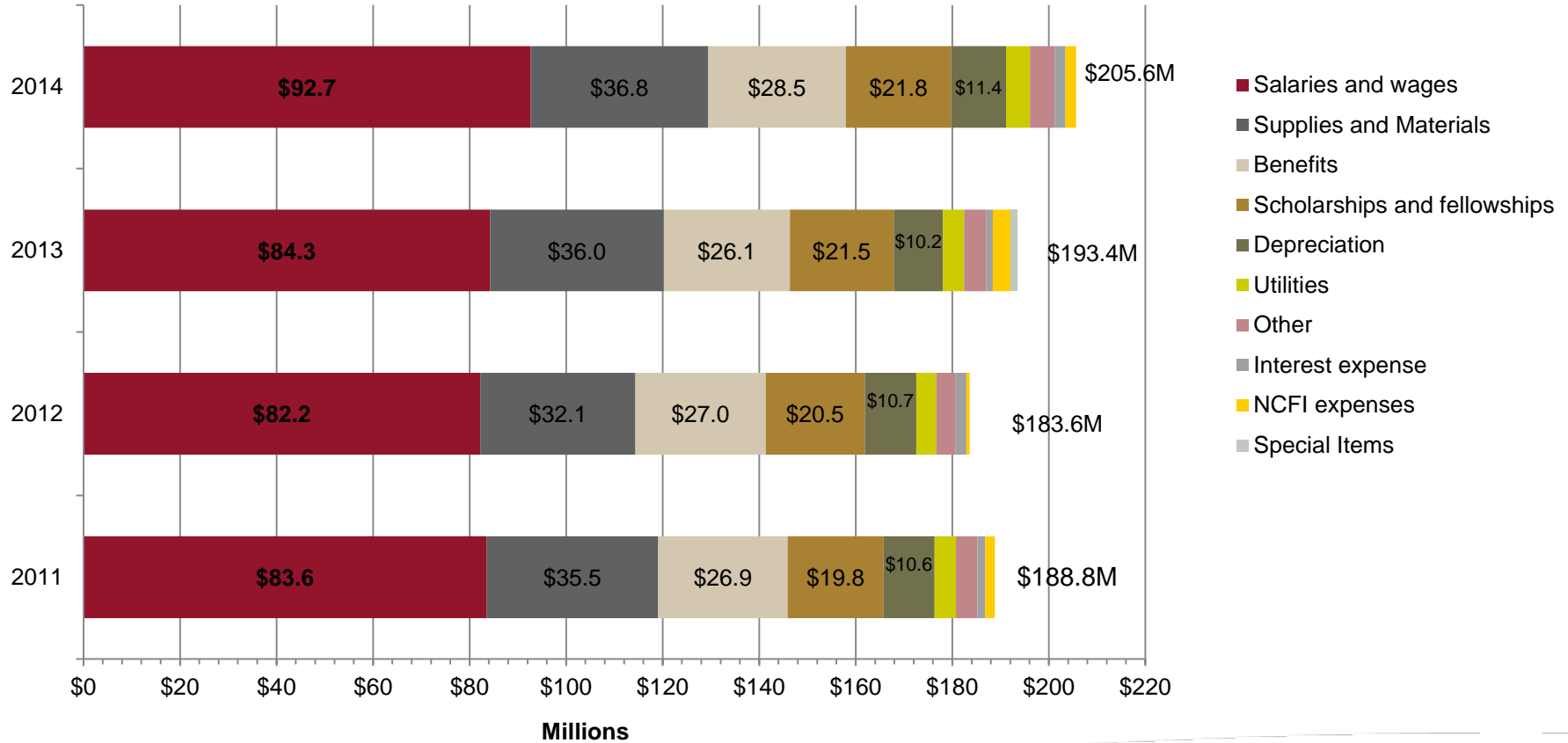
FY 2014 Financial Report



University Expenses by Type

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FY14 University operating expenses increased 6.7% over FY13.



Source: EWU Office of Controller
FY 2014 Financial Report



Expenditure Indicators

Demand by programmatic categories remained relatively stable in FY2014.

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>	2012	2013	2014
Instruction	32.4%	31.1%	32.8%
Research	0.7%	0.6%	0.5%
Public Service	3.0%	2.6%	2.6%
Academic Support	5.7%	6.2%	7.1%
Student Services	7.4%	7.5%	7.9%
Institutional Support	8.7%	7.1%	7.6%
Operations & Maintenance	8.5%	10.4%	9.2%
Scholarships & Fellowships	11.3%	11.1%	10.9%
Auxiliary Enterprises	15.1%	15.1%	15.6%
Depreciation	5.8%	5.2%	5.6%

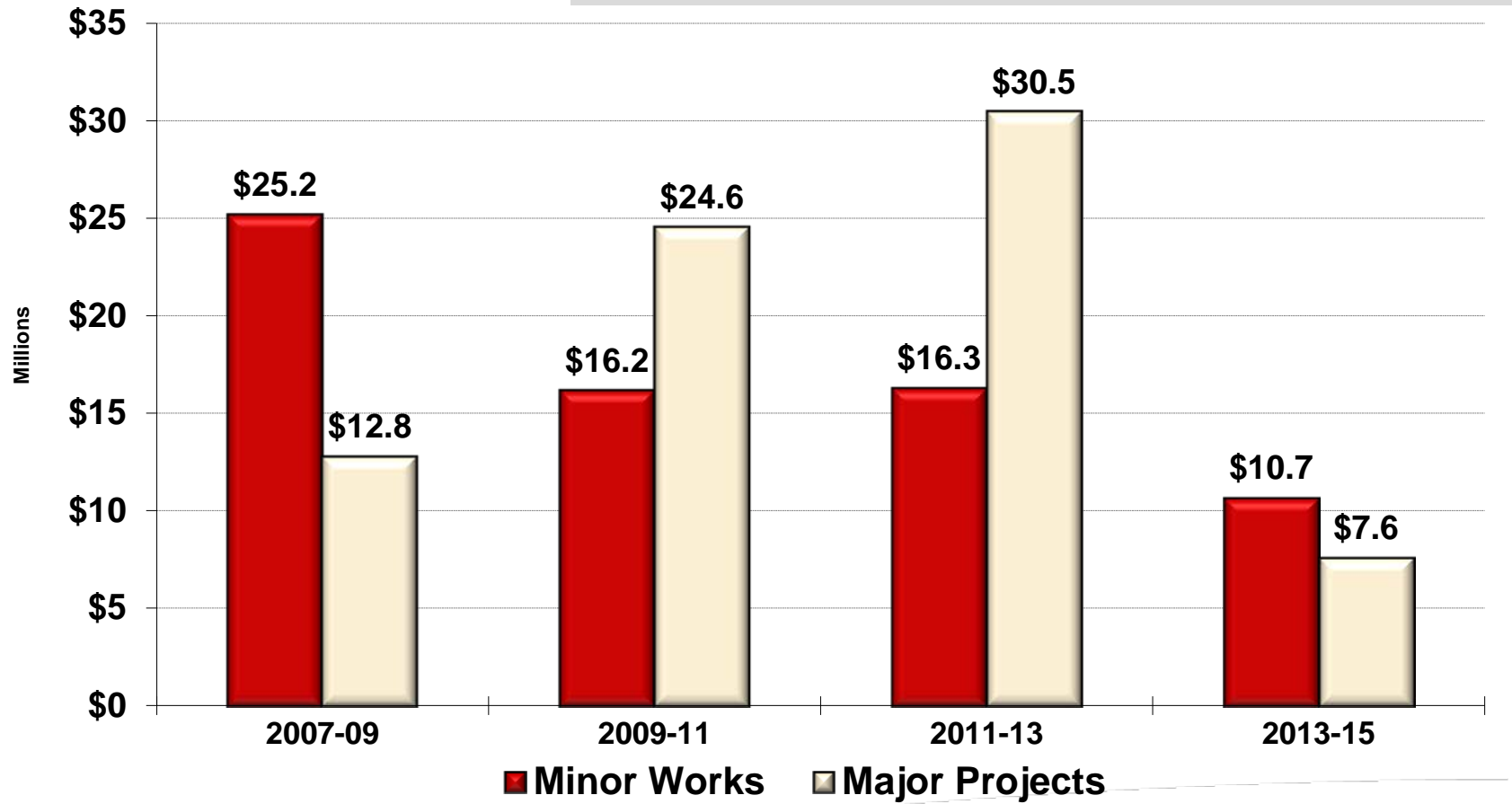
Source: EWU Office of Controller
FY 2014 data is preliminary, unaudited



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

FY2014 (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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FY14 Total Net Position increased 4.7% over FY13.

All Funds	2013 (millions)	2014 (millions)
Total Assets	\$441.5	\$457.8
Total Liabilities	\$85.7	\$85.5
Net Position (at June 30)	\$355.8	\$372.4

FY 2014 Major components-

Cash and investments **\$133.7M** or **29%** of total assets

Capital assets (land, building, equipment) **\$304.8M** or **67%** of total assets

Long term debt **\$56.4M** or **66%** of total liabilities

Unrestricted net assets (not legally restricted) **\$94.8M** or **25%** of net position

Source: EWU Office of Controller
FY2014 Financial Report

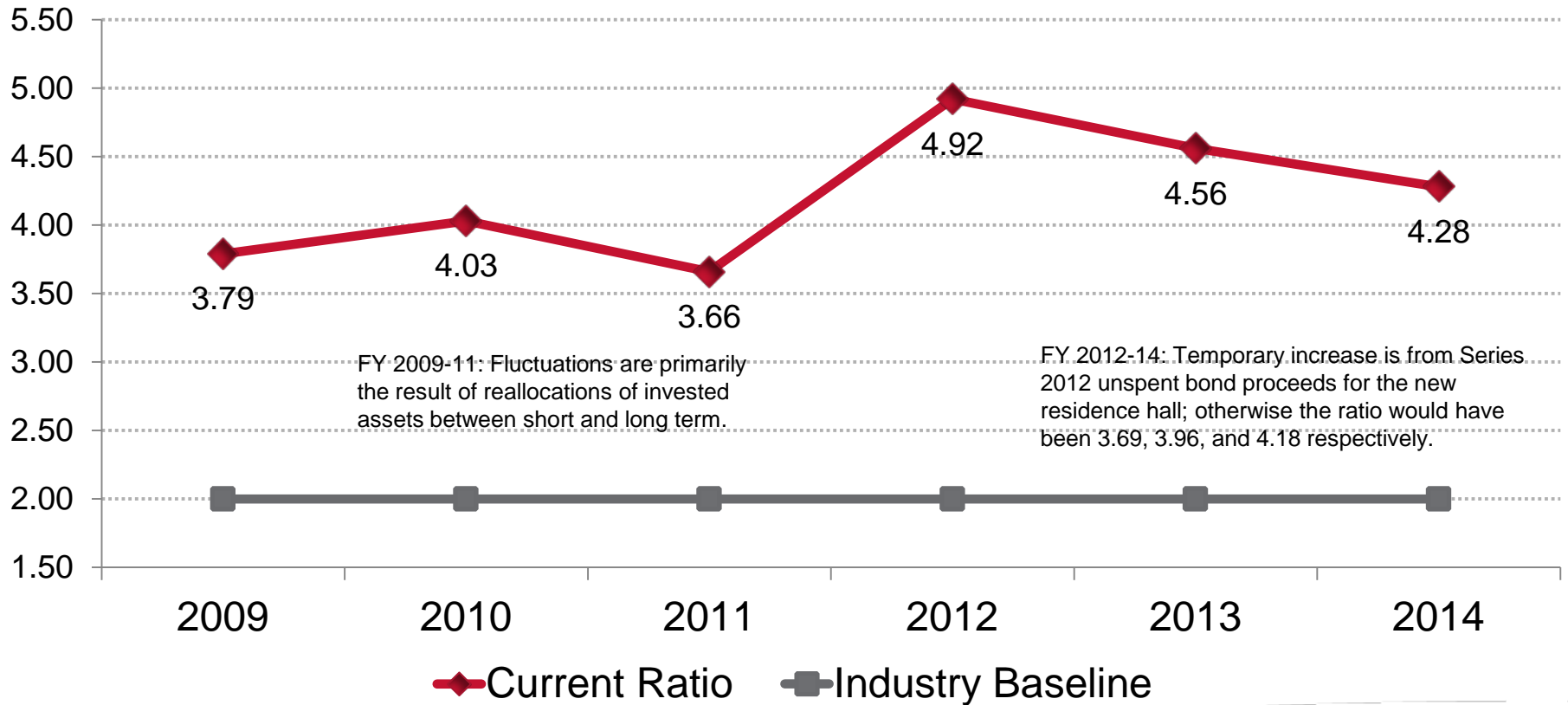


Key Balance Sheet Indicators

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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

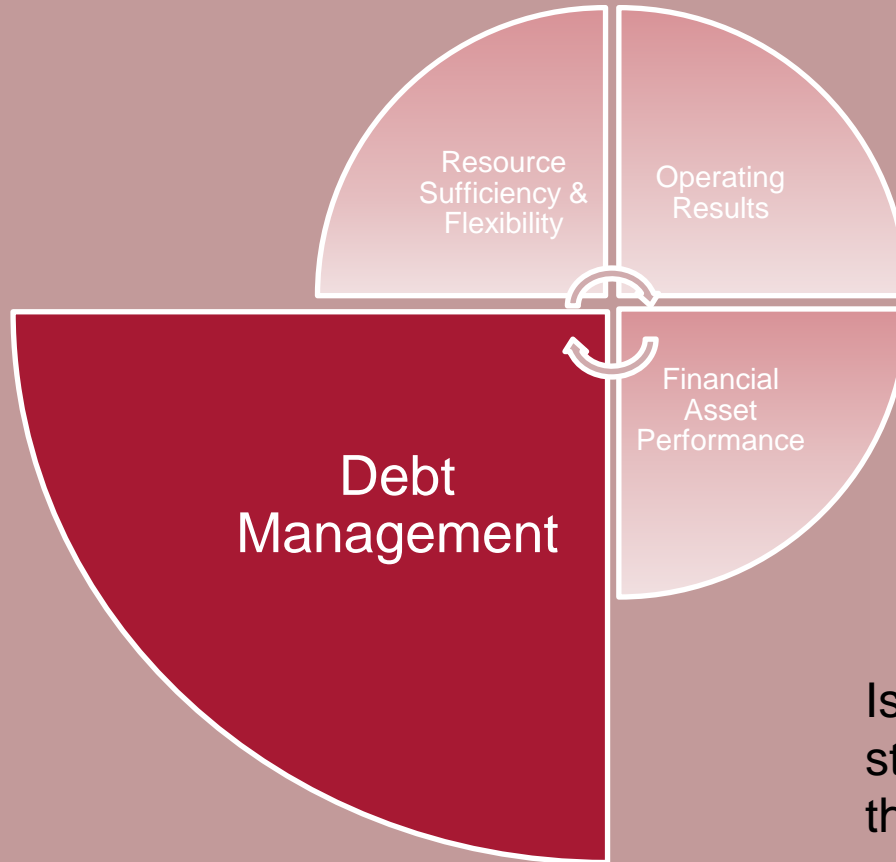


Source: EWU Office of Controller
FY 2014 Financial Report



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

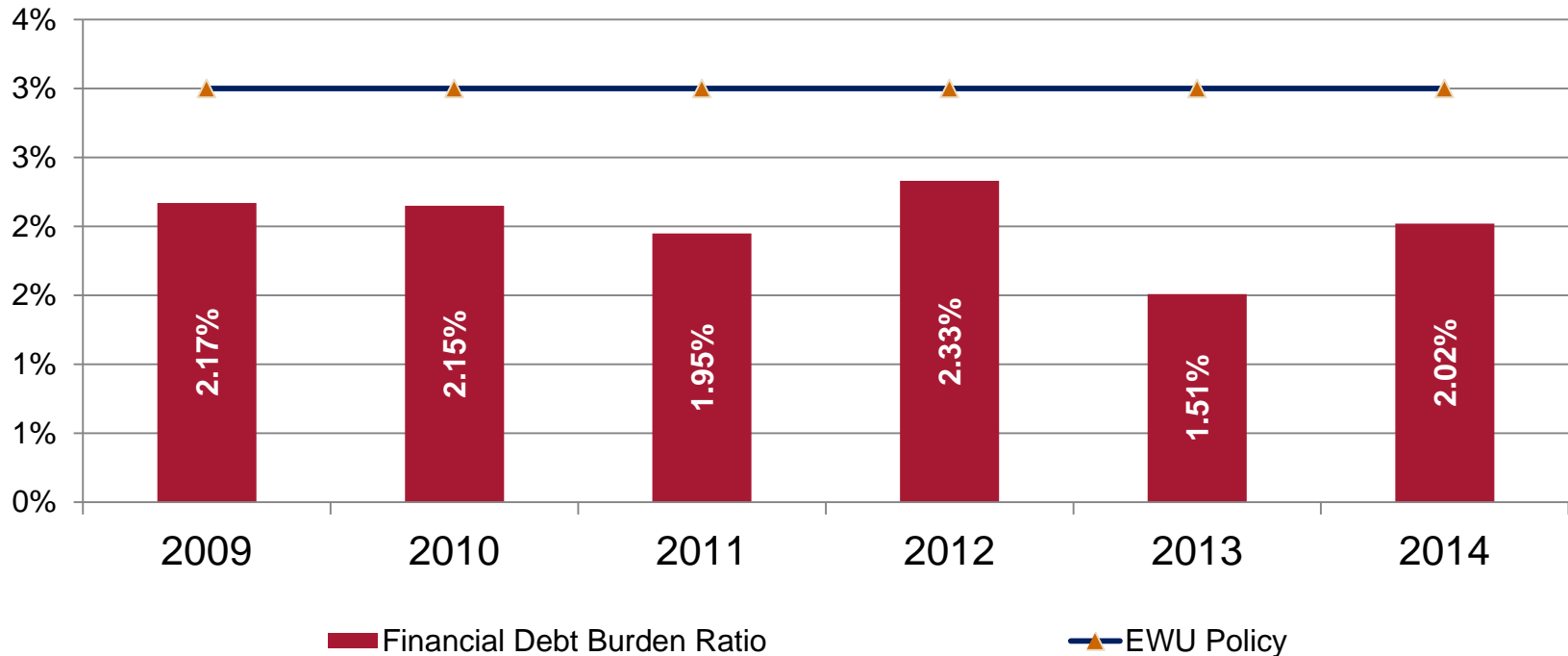


Key Balance Sheet Indicators

start something big

Eastern is managing debt levels in compliance with the University debt policy. The FY 2014 ratio reflects the first principal payment on the Series 2012 bonds.

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



Source: EWU Office of Controller
FY 2014 Financial Report



Summary

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EWU's Financial Performance Profile



EWU Financial Health



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	FY2011	FY2012	FY2013	FY2014
Primary Reserve ratio	.41x	.48x	.52x	.53x

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	0.84%	1.97%	4.54%	1.58%
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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 for FY14 was primarily due to increased compensation costs.

Source: EWU Office of Controller
FY 2014 Financial Report



EWU Financial Health

start something **big**



	FY2011	FY2012	FY2013	FY2014
Return on Net Position ratio	3.89%	5.54%	8.01%	4.67%

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. A ratio between 3%-4% should be targeted.

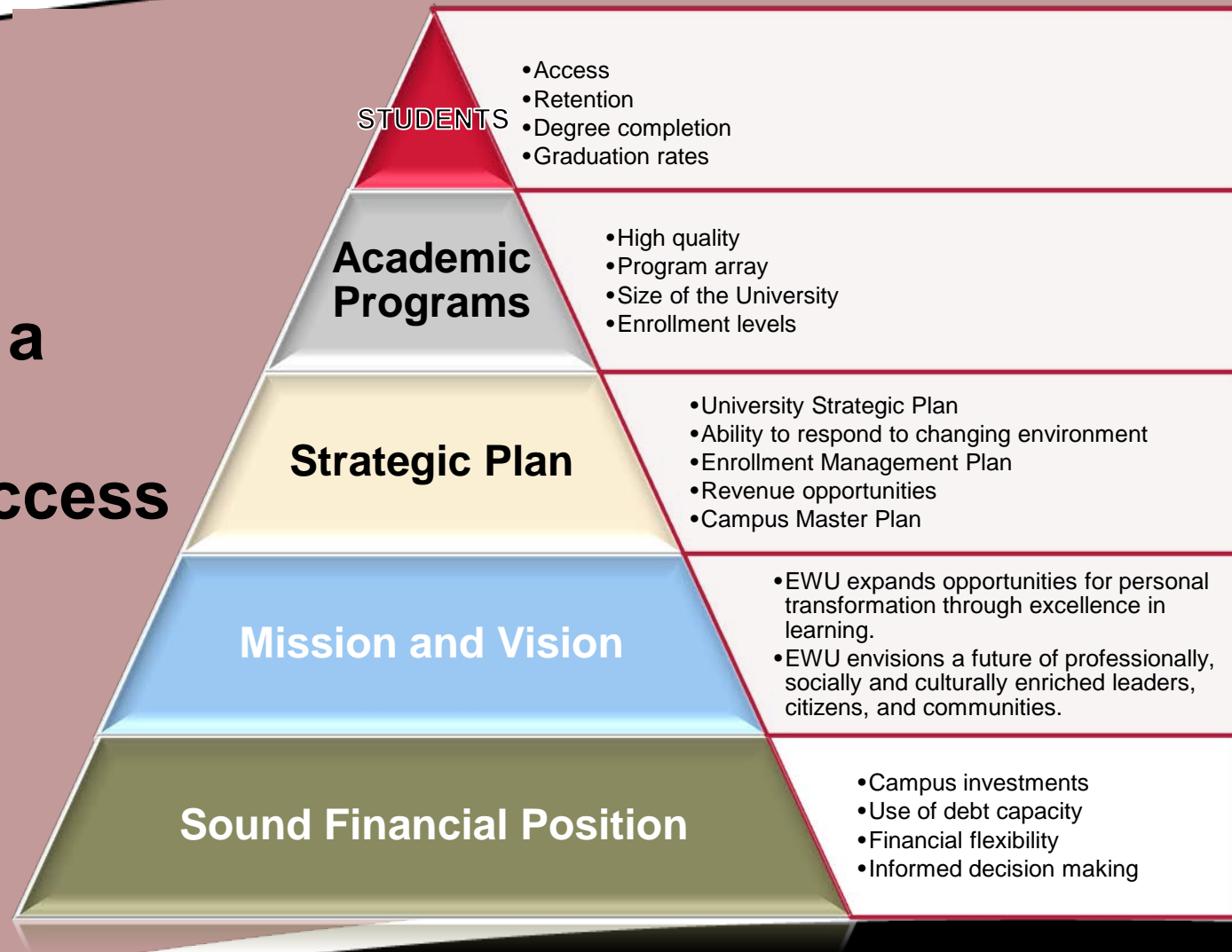
Viability ratio	1.98x	1.33x	1.53x	1.68x
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A ratio of >1 indicates the institution has sufficient Unrestricted Net Position to satisfy debt obligations.

Source: EWU Office of Controller
FY 2014 Financial Report



University Financial Position as a Basis for Student Success



Future Financial Impacts

Enrollment

- In EWU's current market area, the enrollment demographics are going to be relatively flat before increasing
- Strategic Enrollment Plan will shape Eastern's future enrollment shape and size
- Affordability and access
- Higher education participation rates...focus on 4 year sector
- Statewide higher education enrollment goals

Revenues

- State investment in higher education
- Tuition flexibility
- Annual growth rate v. inflation and expenses
- Impact of enrollment growth on revenue

Costs and Investments

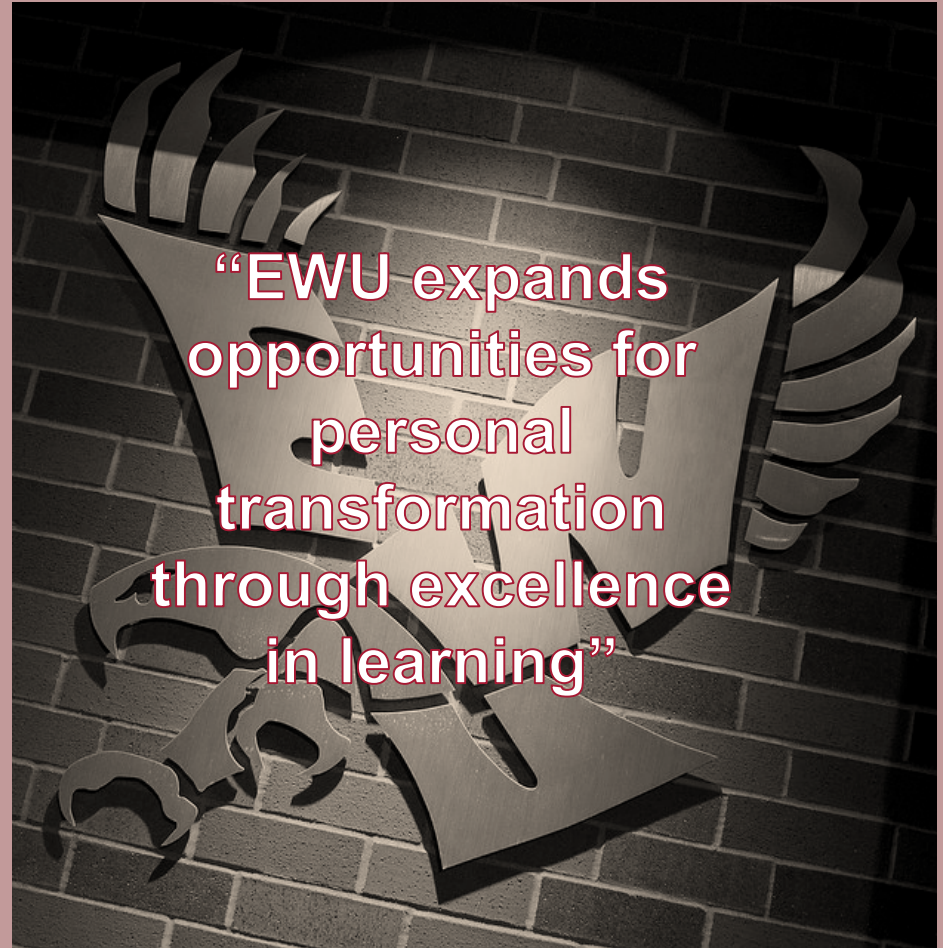
- Increase in salary and benefit costs
- Continued growth in deferred maintenance backlog
- Renewal and investment in technology
- Strategic Plan
- Financial aid needs



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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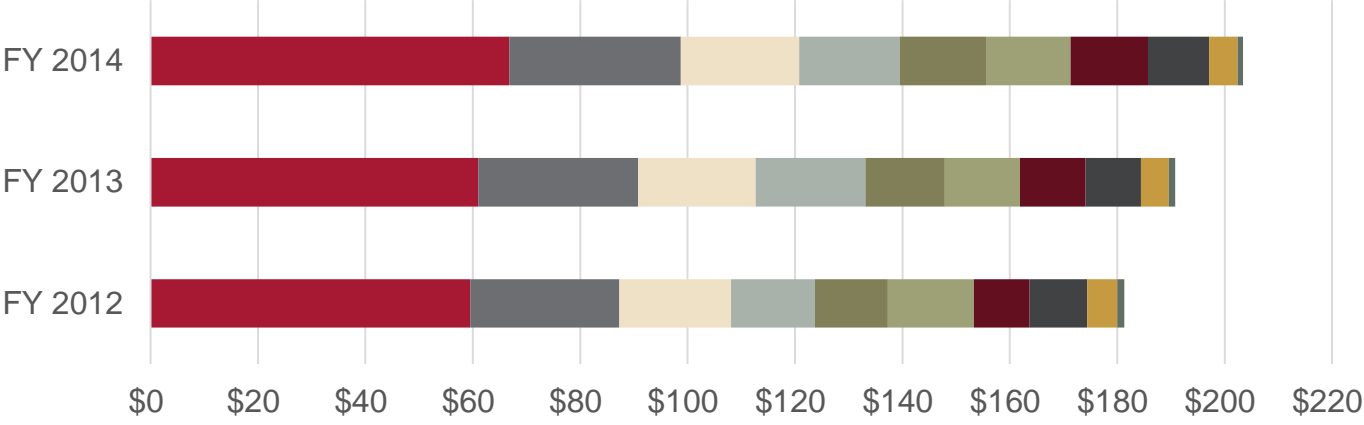
APPENDIX

Additional Selected Information



Operating Expenses by Function

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

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- Balance Sheet Indicators
- Selected Fund Levels



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 2014 Eastern Washington University	241
2013 Eastern Washington University	236
2013 Median WA Public Universities	125
2013 Median A1 Public Universities (industry peers)	138
Eastern Washington University Dashboard Indicator	Good

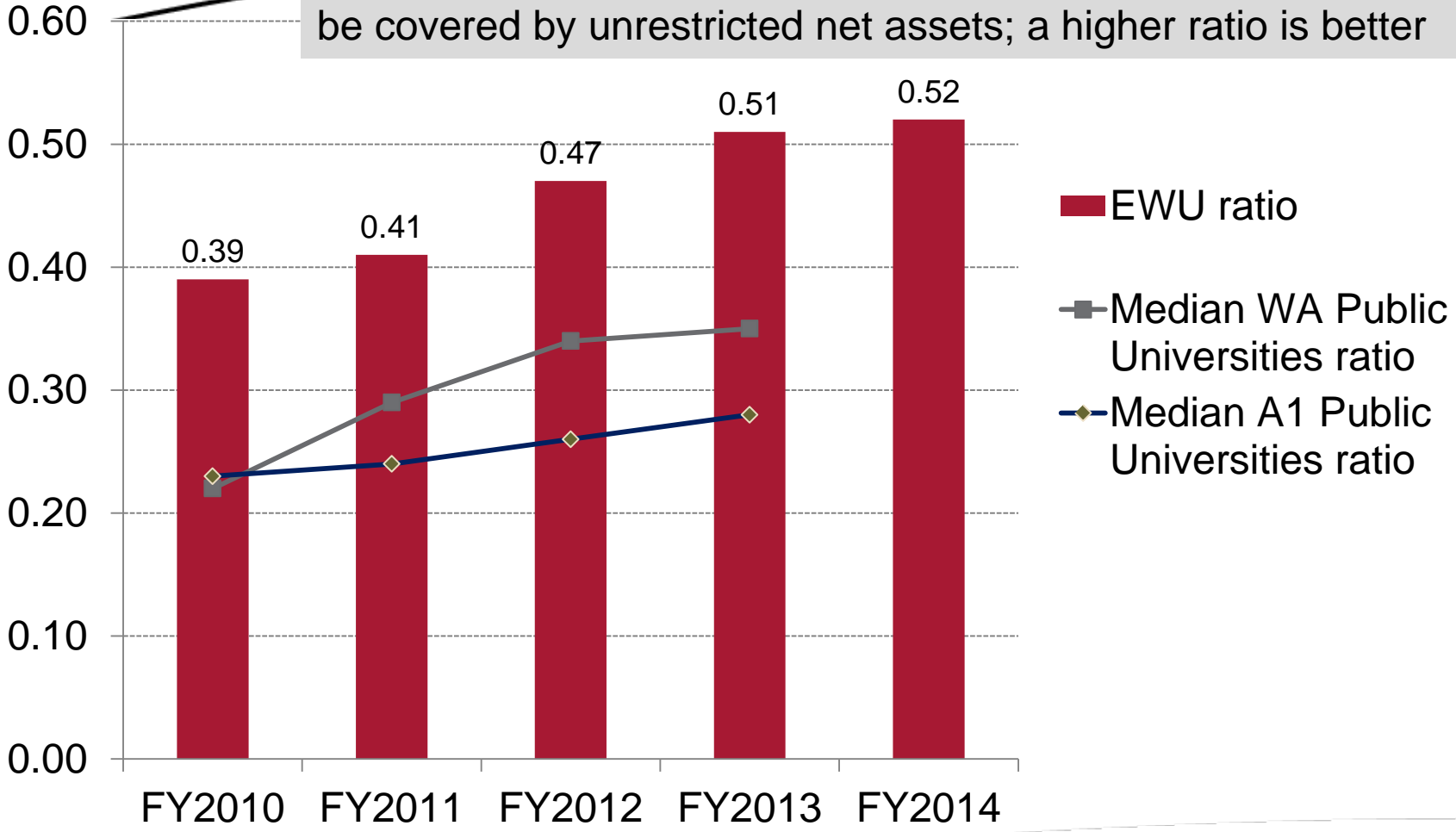
Source: EWU Office of Controller. Peer data from MFRA (Moody's)
FY 2014 Financial Report



Unrestricted Financial Resources to Operations

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About half of EWU's adjusted annual operating expenses could be covered by unrestricted net assets; a higher ratio is better



Source: EWU Office of Controller. Peer data from MFRA (Moody's) FY 2014 Financial Report

Key Balance Sheet Indicators



This indicator suggests Eastern is in a relatively better position to make future investments.

Unrestricted Financial Resources to Operations

Measures coverage of annual operations by the most liquid resources

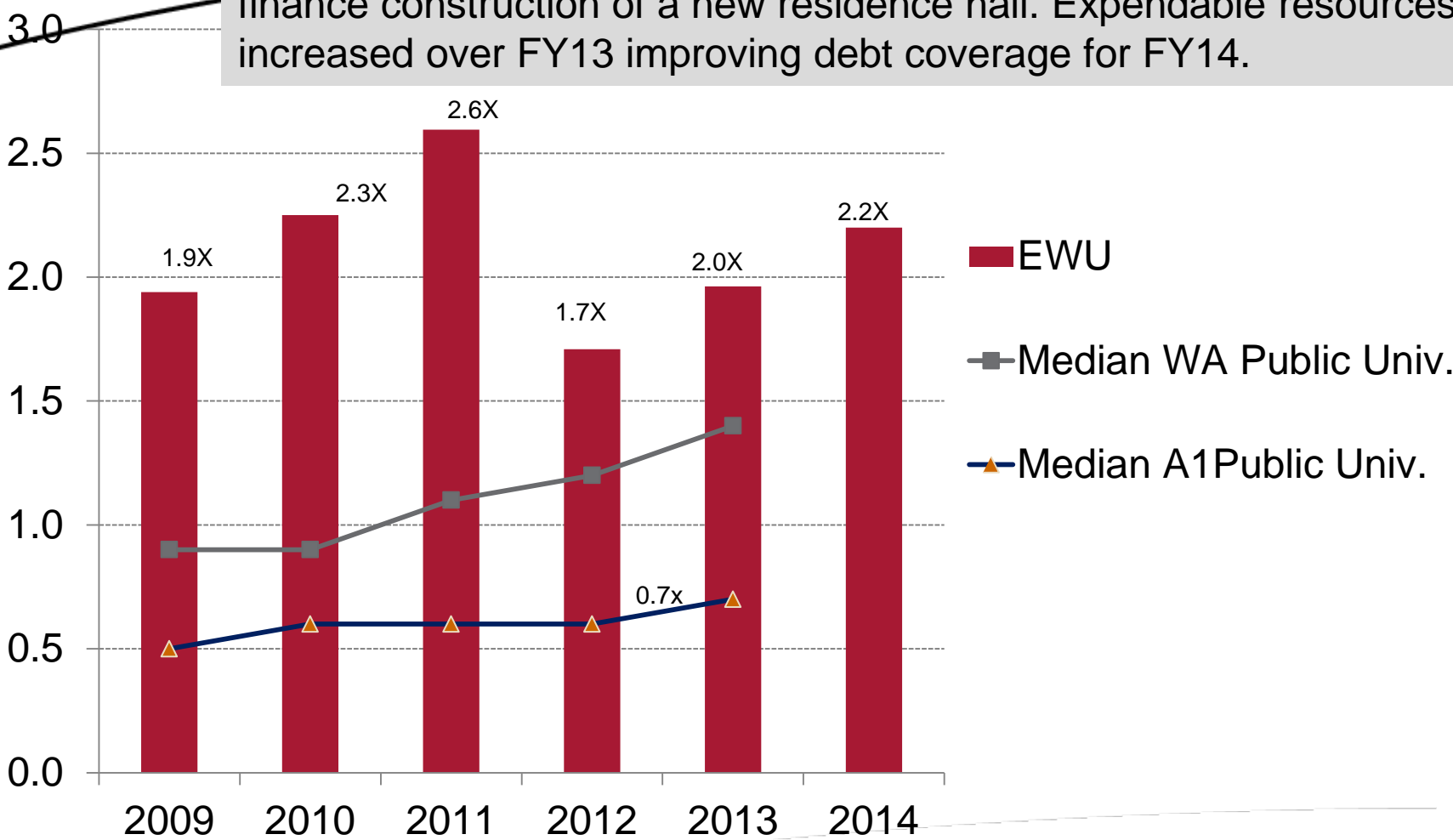
Prelim 2014 Eastern Washington University	.52x
2013 Eastern Washington University	.51x
2013 Median WA Public Universities	.35x
2013 Median A1 Public Universities (industry peers)	.28x
Eastern Washington University Dashboard Indicator	Good

Source: EWU Office of Controller. Peer data from MFRA (Moody's) FY 2014 Financial Report

Expendable Financial Resources to Direct Debt

start something big

Decrease in FY12 ratio is the result of \$25.3M bond debt issued to finance construction of a new residence hall. Expendable resources increased over FY13 improving debt coverage for FY14.



Source: EWU Office of Controller. Peer data from MFRA (Moody's) FY 2014 Financial Report

Key Balance Sheet Indicators

■ start something **big**

Expendable resources are twice as much as outstanding debt. Coverage would be 1.7x if relying only on unrestricted net assets.

Expendable Financial Resources to Direct Debt

Measures coverage of direct debt by the most liquid resources

Prelim 2014 Eastern Washington University	2.2x
2013 Eastern Washington University	2.0x
2013 Median WA Public Universities	1.4x
2013 Median A1 Public Universities	0.7x
Eastern Washington University Dashboard Indicator	Good

Source: EWU Office of Controller. Peer data from MFRA (Moody's)
FY 2014 Financial Report

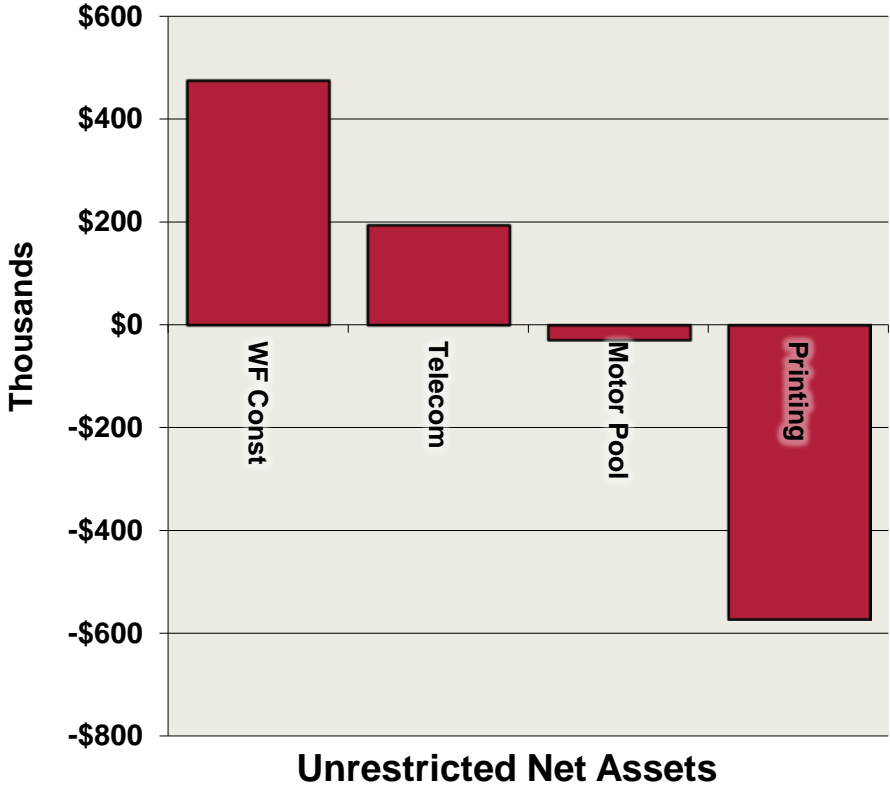
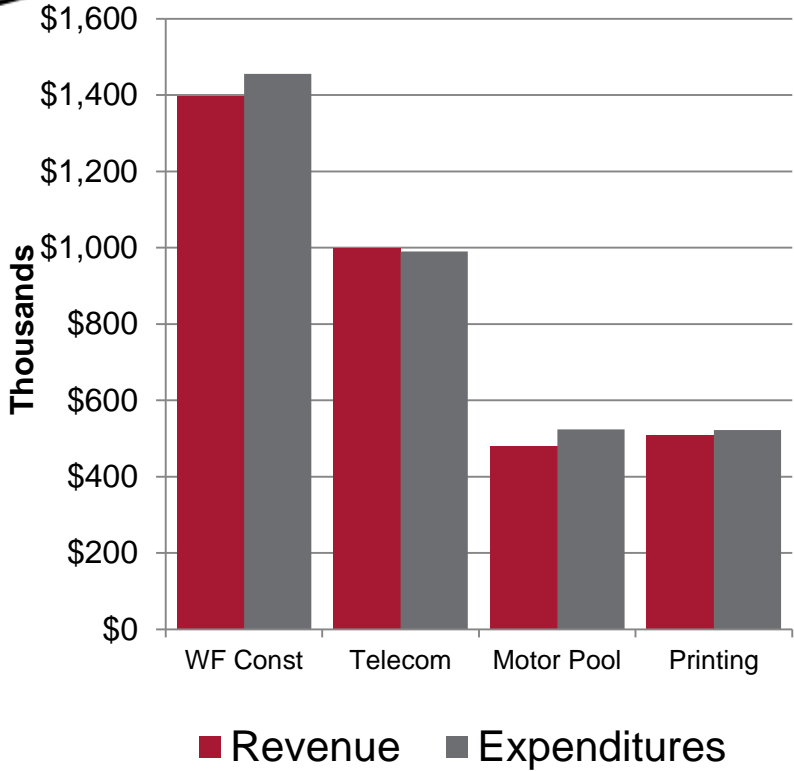


Selected Fund Level Information



FY2014 Service Funds

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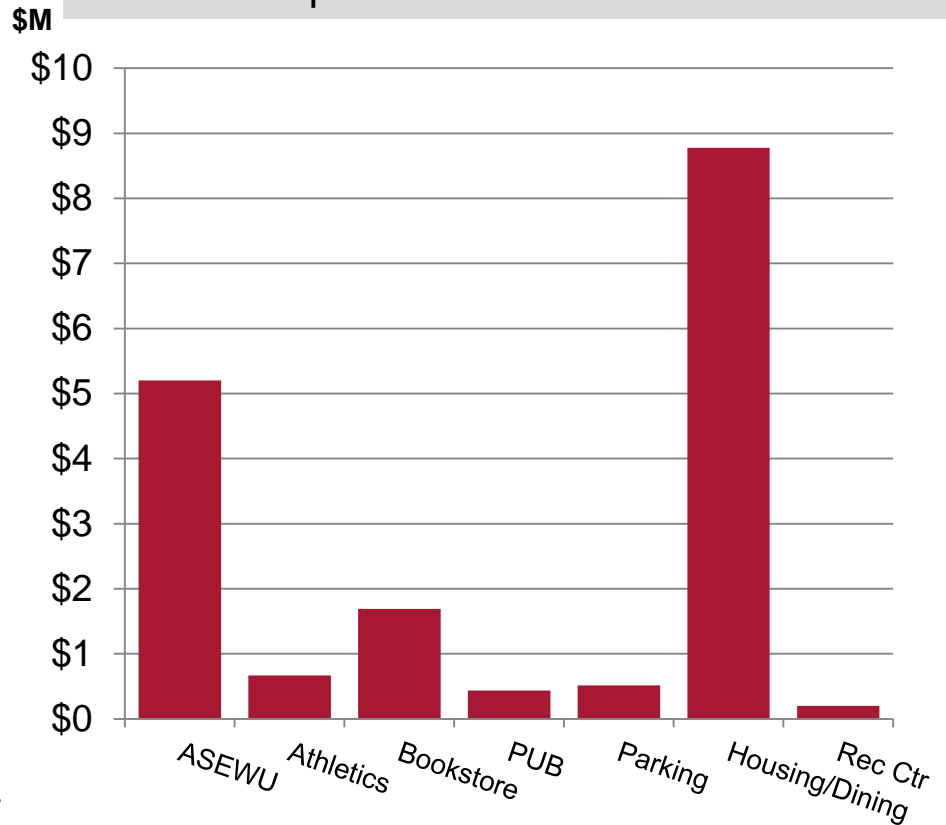
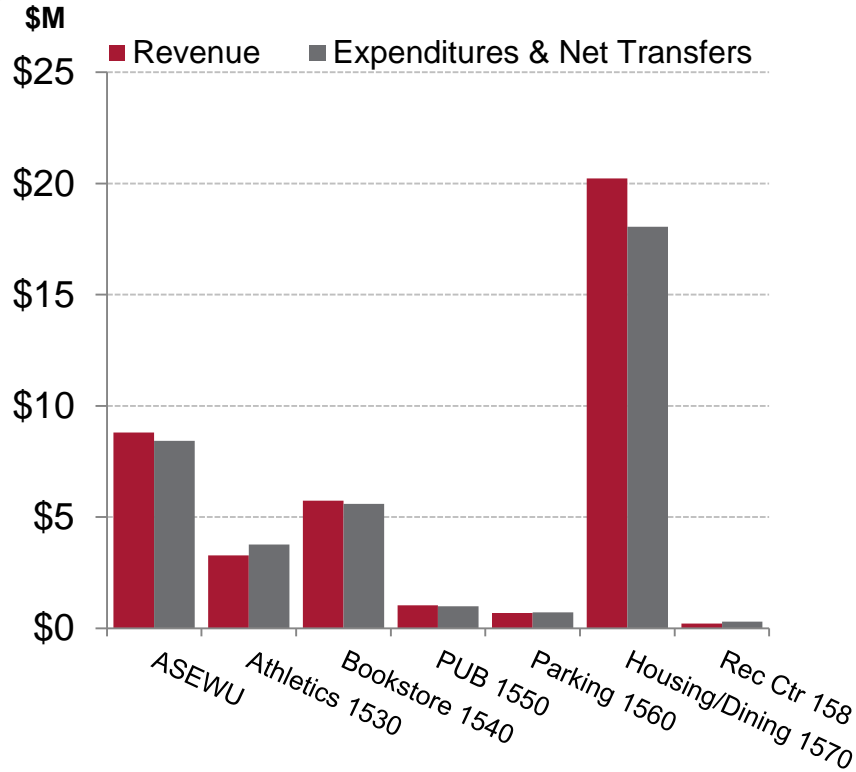
Service funds are intended to provide goods & services for other university operations

Source: EWU Office of Controller

FY2014 Auxiliary Funds

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Generally, the auxiliary units operated in line with annual plans.



Unrestricted Net Assets by Fund

Auxiliary enterprises provide essential elements of support to university's academic programs. These funds are expected to operate as profit centers.

Source: EWU Office of Controller

