

# Financial Review

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Fiscal Year 2018

# Overview

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- *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

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Financial Results & Key Performance Indicators



Resource Sufficiency & Flexibility



Operating Results



Financial Asset Performance



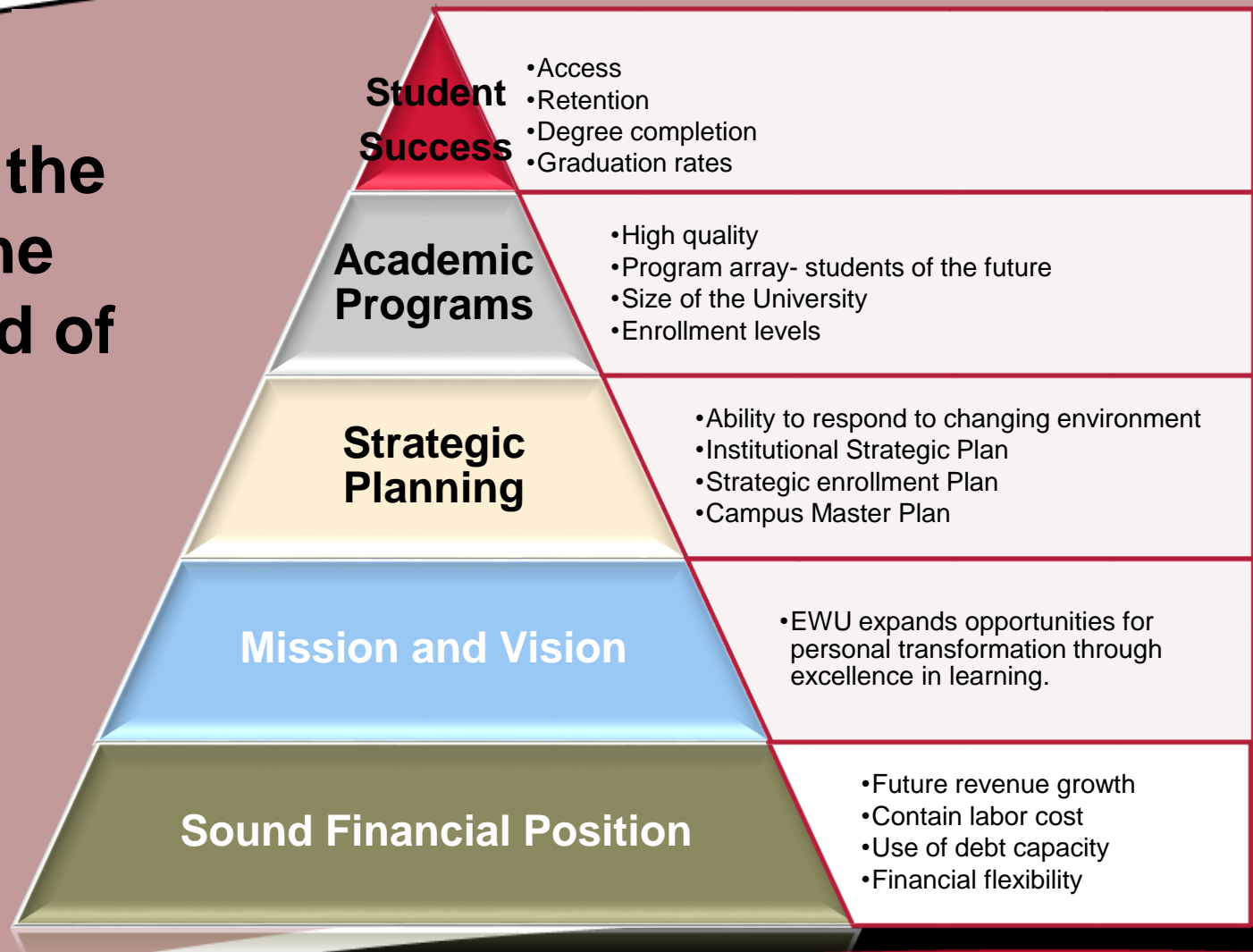
Debt Management



Financial Outlook



# Achieving the Goals of the EWU Board of Trustees



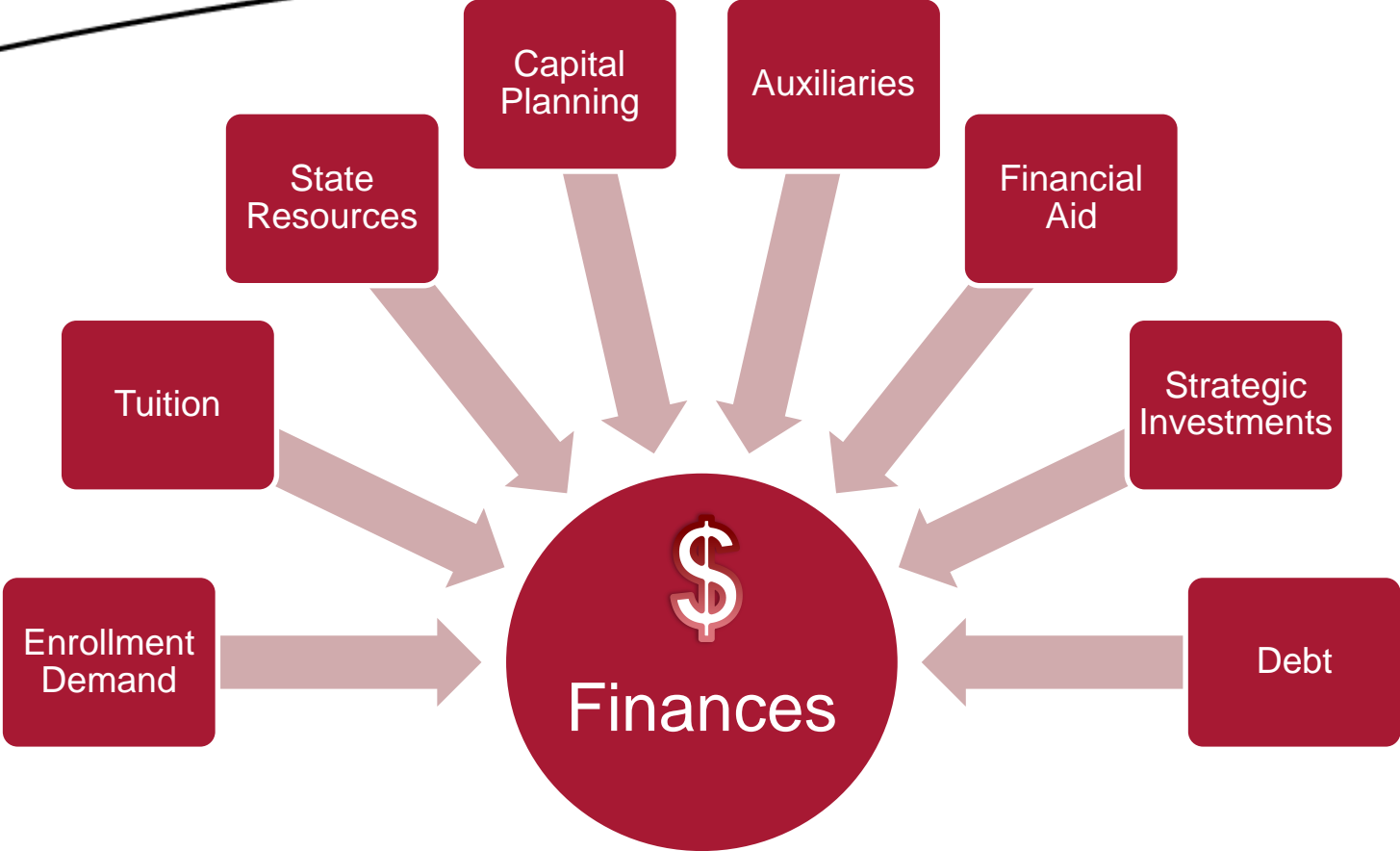
# Financial Resource Governance

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# Impacts to Eastern's Financial Position

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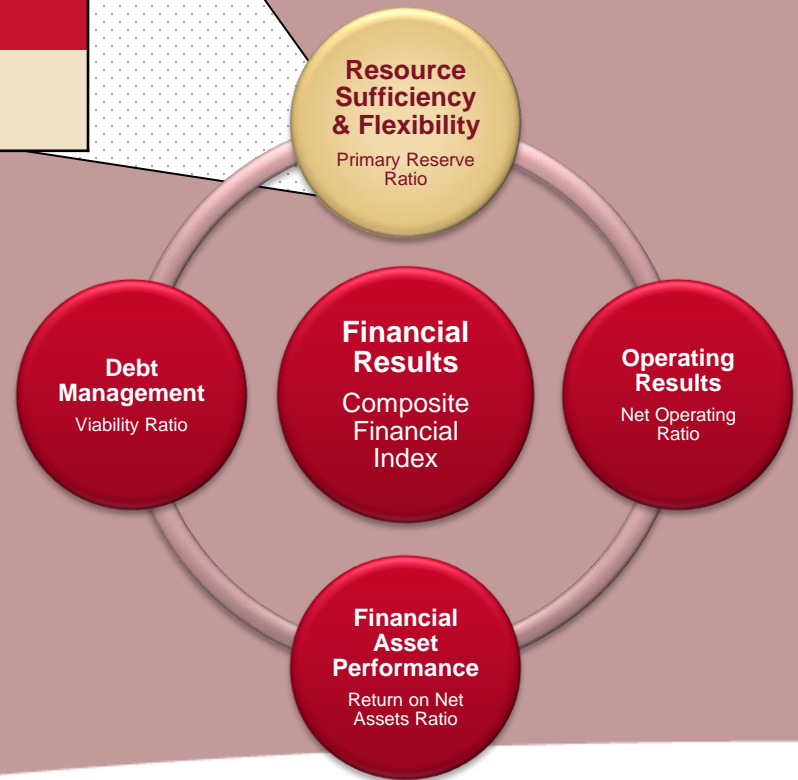
# RESOURCE SUFFICIENCY AND FLEXIBILITY

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- ❖ State Funding
- ❖ Enrollment
- ❖ Tuition Policy
- ❖ Capital Funding

## Key Performance Indicator Primary Reserve Ratio

*To support the University's mission*





# A Changing Financial Environment

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## 2011-13 Biennium

- Decreasing funding
- Increasing costs
- \$25M decline in State support
- Tuition impact
- Continued budget constraints and reductions

## 2013-15 Biennium

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

## 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
- Flat state revenue projection
- Revenue growth at a slower pace
- Goal – stabilize, grow, and diversify enrollments

## 2009-11 Biennium

- Great Recession
- \$33.4M reduction of state support
- Tuition impact
- Internal budget reductions
- Staff reductions & salary freeze

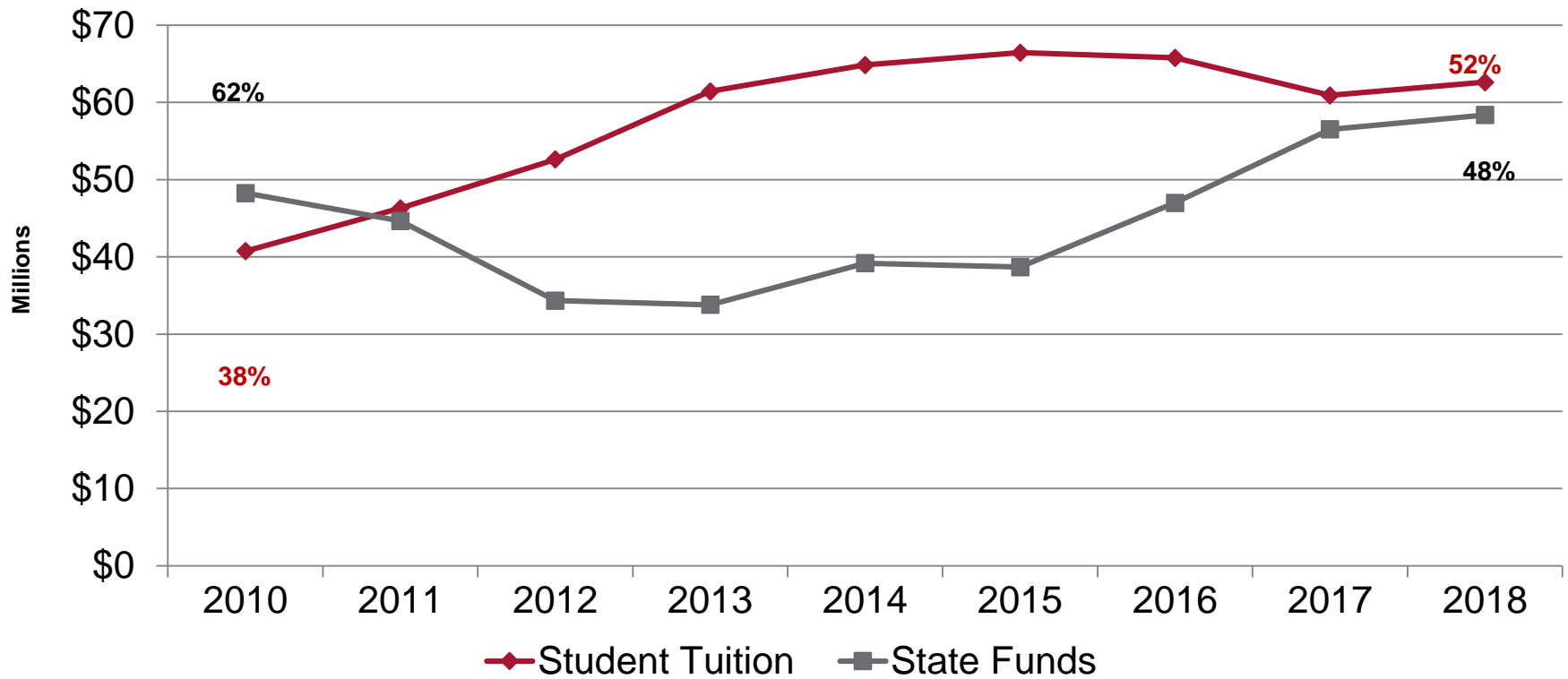




# Key Funding Sources - State Funds and Student Tuition

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The College Affordability Act increased the state investment in higher education beginning in FY16  
State tuition policy is at 2.2%



Fund 001, 08A, 149 funding

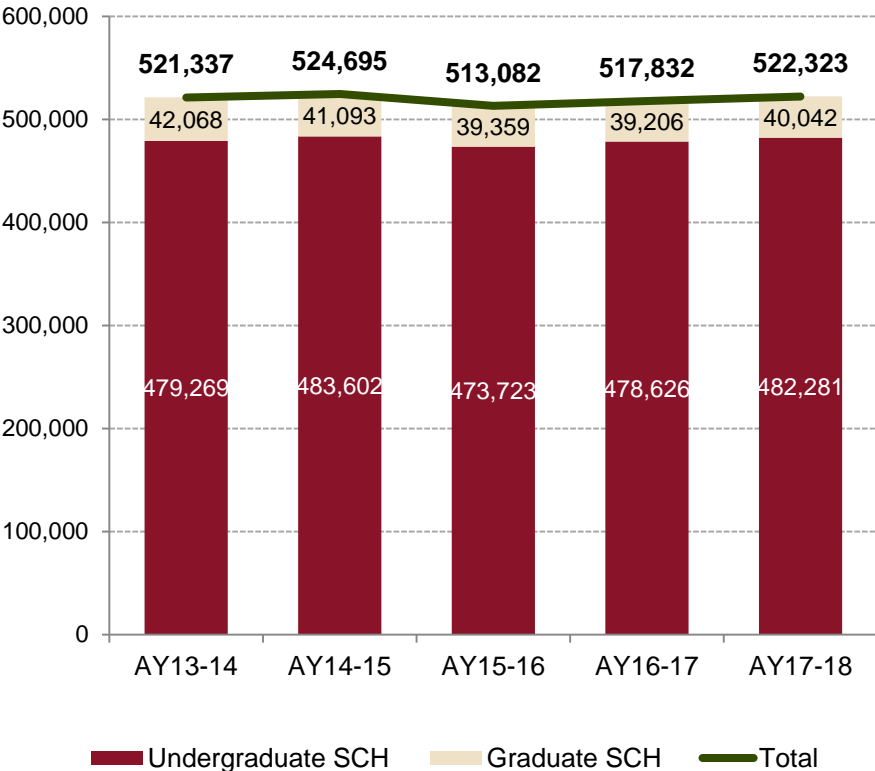


# Enrollment-12 Month

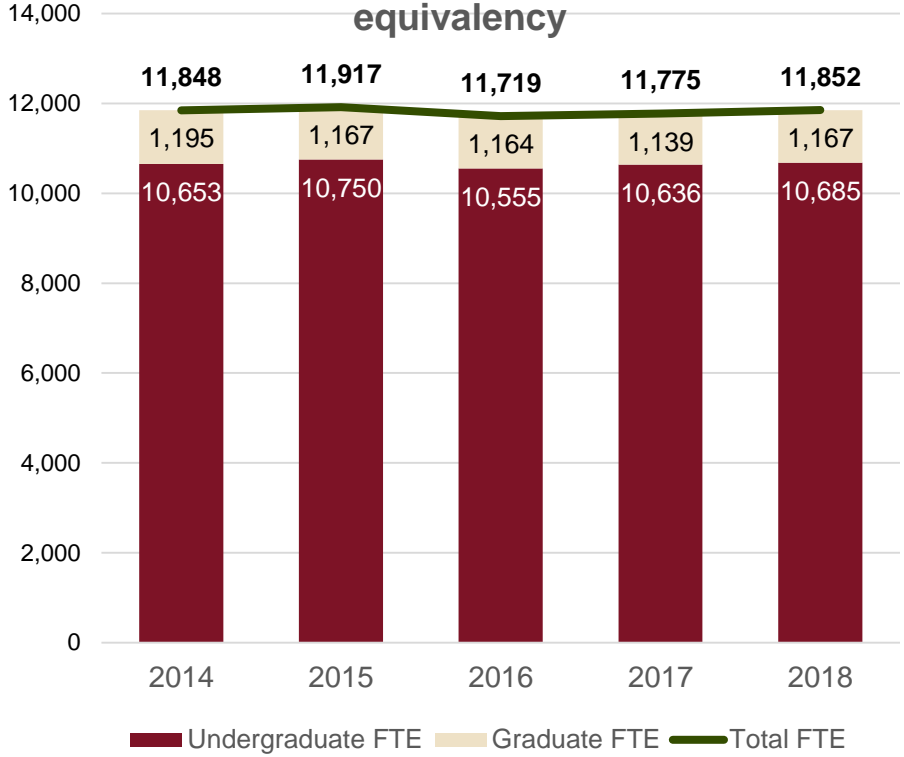
Index 1 core enrollment, self support and summer session

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### Student Credit Hours



### IPEDS FTE Enrollment, based on quarter equivalency



Note: SCH totals based on Fall – Summer term grouping  
 Source: EWU institutional Research Enrollment Reports, 10<sup>th</sup> day

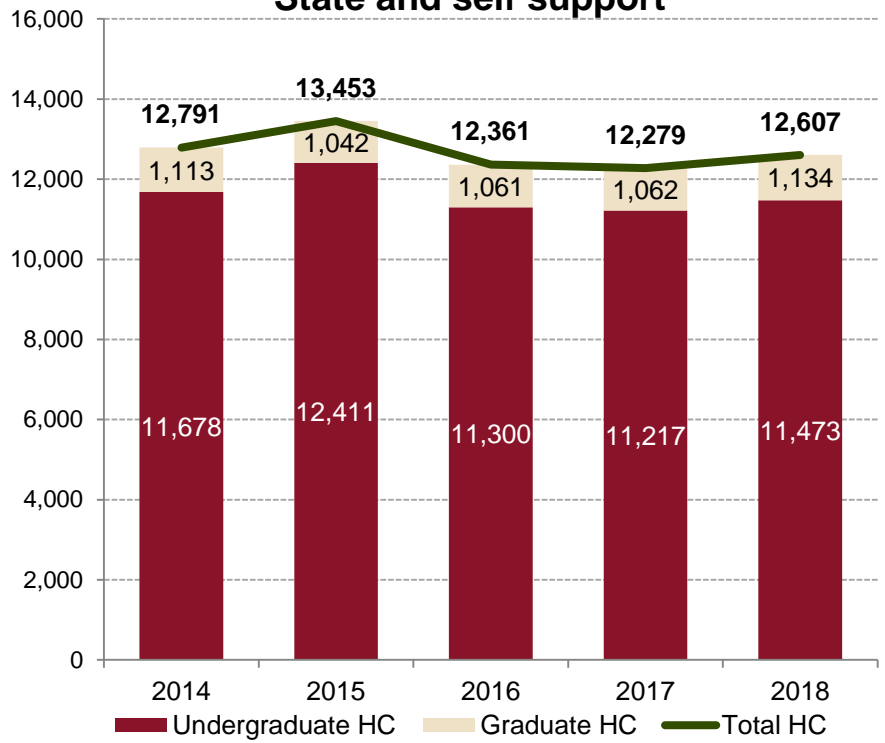
Source: IPEDS 12-month Enrollment Survey. Time frame: July - June

# Fall Enrollment

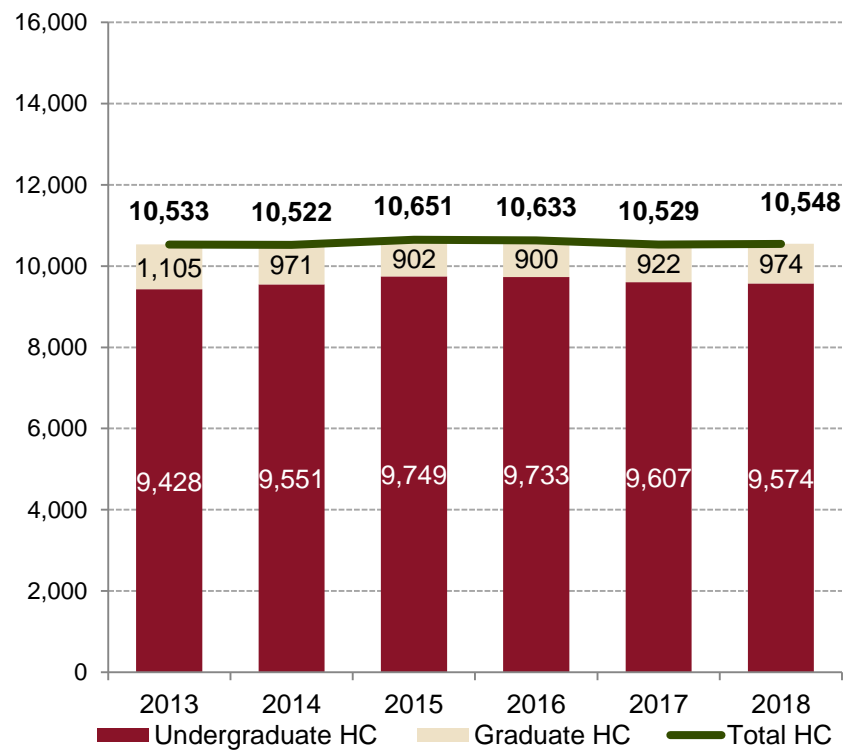
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Through FY18 enrollment has remained fairly stable.

### Total Fall Head Count State and self support



### State Support – Average Annual Head Count

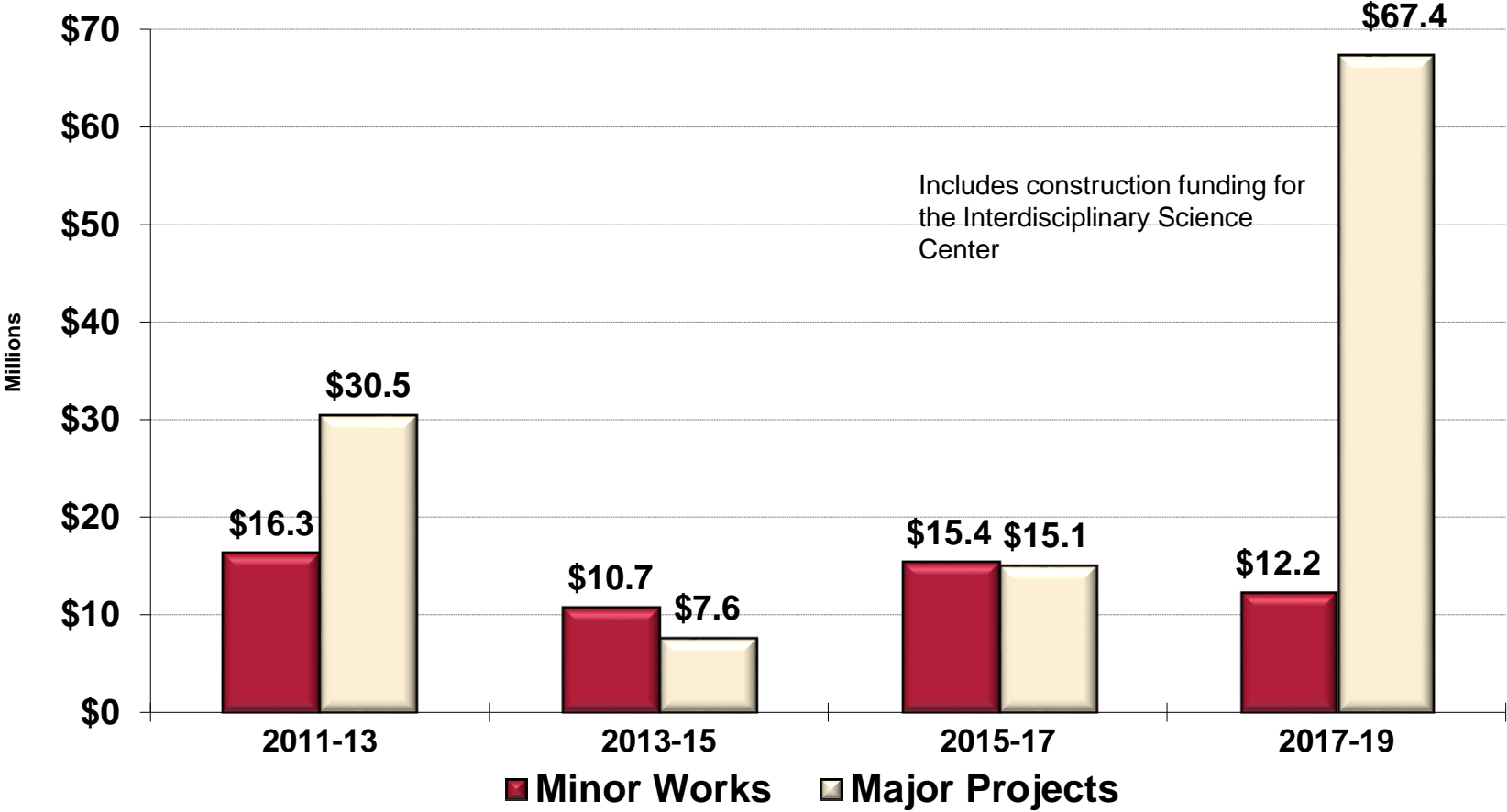


Source: EWU Institutional Research Enrollment Reports, 10<sup>th</sup> day

# Capital Appropriation History

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



Source: Appropriation schedule - New appropriations only

# Financial Results and Key Performance Indicators

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

# FY 2018 Impacts to Financial Position



## Major changes in revenues and expenses

	2018	change
Total Revenues	237,519,865	0.03%
Operating revenues	148,693,641	0.5%
State operating appropriations	58,531,000	3.6%
Total revenues excluding capital appropriations	231,932,052	2.2%
Total expenses	244,155,344	7.1%
Total expenses excluding 1x impacts	234,059,048	2.7%
Salaries	111,779,038	3.6%
Benefits	38,181,176	14.7%





# FY 2018 Impacts to Financial Position



- Key Revenue Drivers
  - Enrollment- core enrollment was relatively flat
  - Total revenues essentially flat
  - Tuition and fee revenues, increased <1%
  - State operating appropriations, increased 3.5%
  - Grants and contracts, increased 5.7%
  - Auxiliaries, down 5%
- Major Expense Categories
  - Salaries and wages, increased 3.5%
  - Health benefits, increased 14.7%
  - Operating expenses, down 4%
  - Scholarships and fellowships, flat



# FY 2018 Impacts to Financial Position



- One-Time Impacts to Income Statement
  - Perkins loan program closeout, \$3.97M, expense/liability, with future cash impact
  - PUB asset value adjustment of \$6.09M related to substantial demolition of existing building (no cash impact)
  - GASB 75- Other post employment benefits (OPEB), \$70.9M beginning net position adjustment and long term liability (no cash impact). Similar impact as GASB 68 beginning net position adjustment in 2015 and GASB 73 impact in FY17
- Overall Income Statement
  - Before special items and capital appropriations- net loss \$2.16M
  - Overall decrease in net position \$6.64M
  - Adjustment to beginning net position \$70.9M



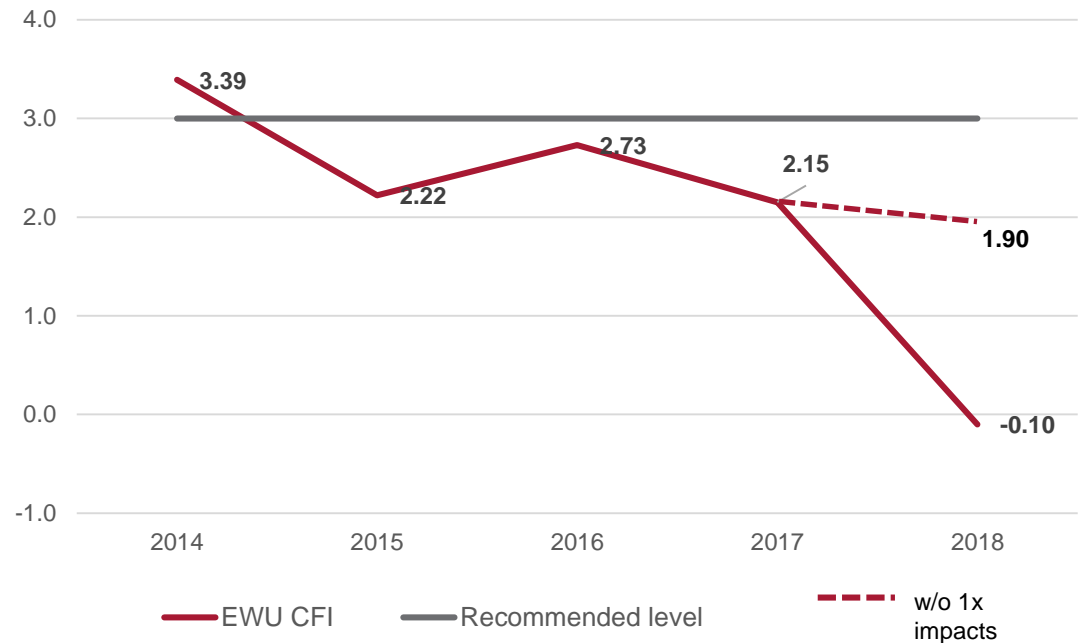
# Composite Financial Index

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- 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
- Combined insight into the trends of the institution's key financial indicators
- Recommended Level = 3

Composite Financial Index



Source: EWU Financial Statements



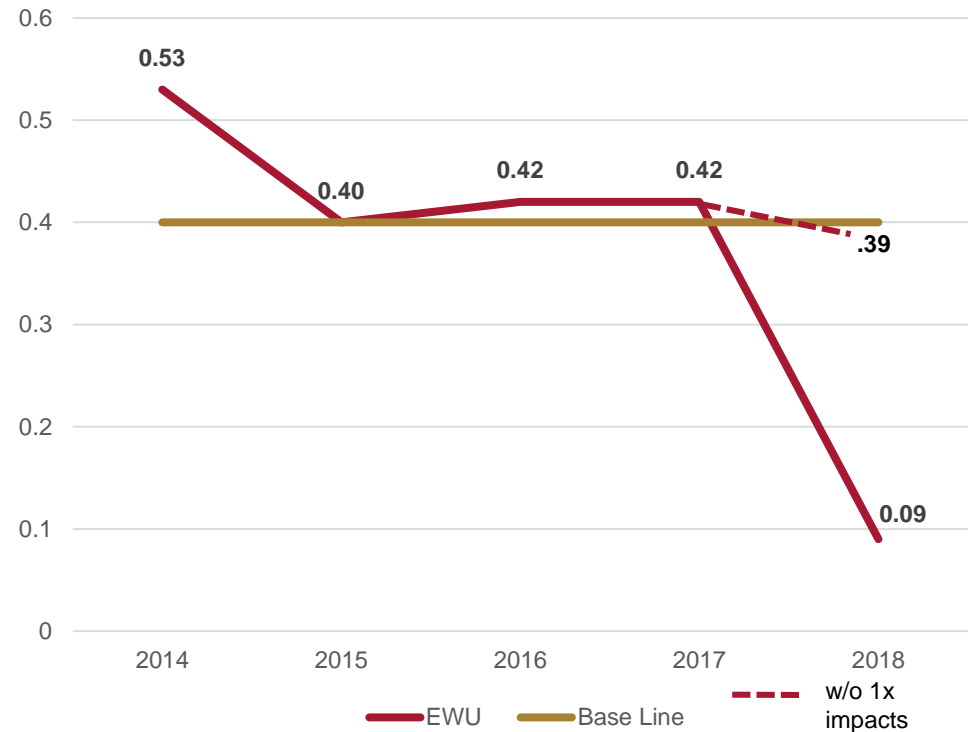
# Primary Reserve Ratio

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- **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
- Unrestricted net assets 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



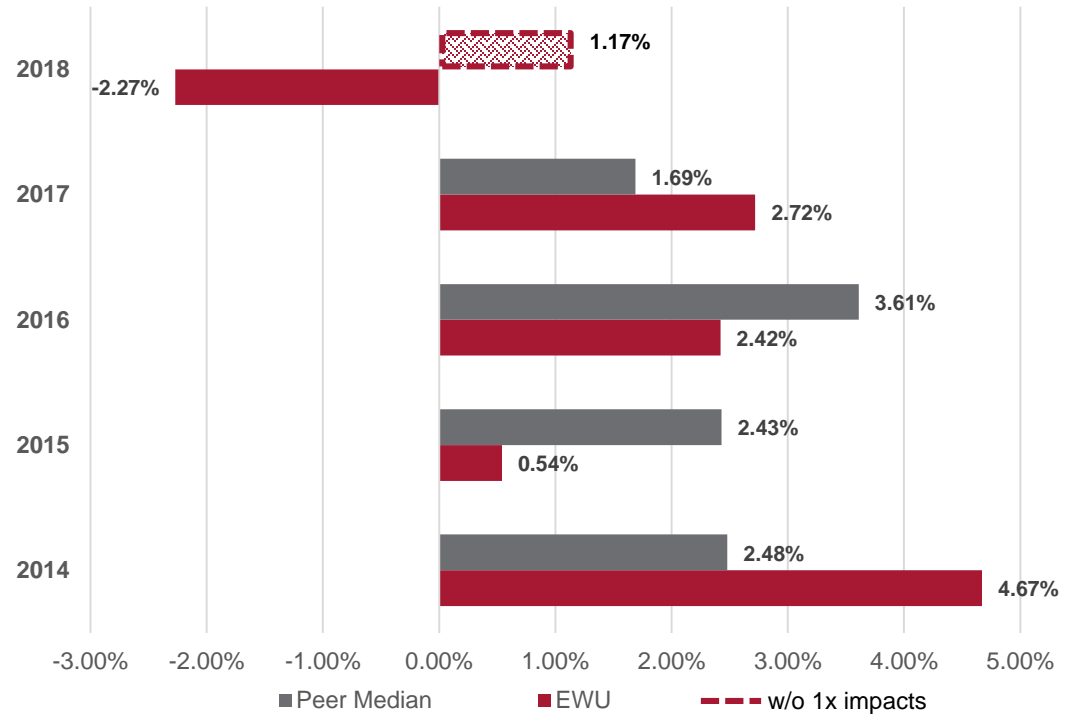
# Return on Net Position Ratio

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- **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
- 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)

Return on Net Position Ratio



Source: EWU Financial Statements

Note: 2018 peer data not yet available



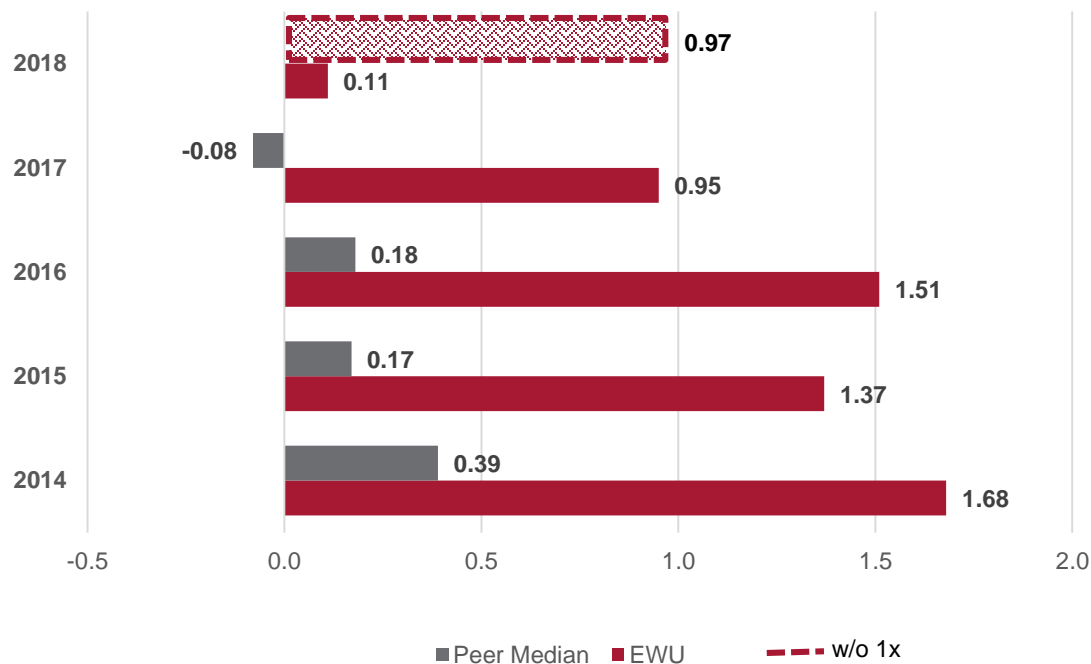
# Viability Ratio

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- **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
- FY17 issued revenue bonds to renovate the PUB
- 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

Viability Ratio



Source: EWU Financial Statements

Note: 2018 peer data not yet available



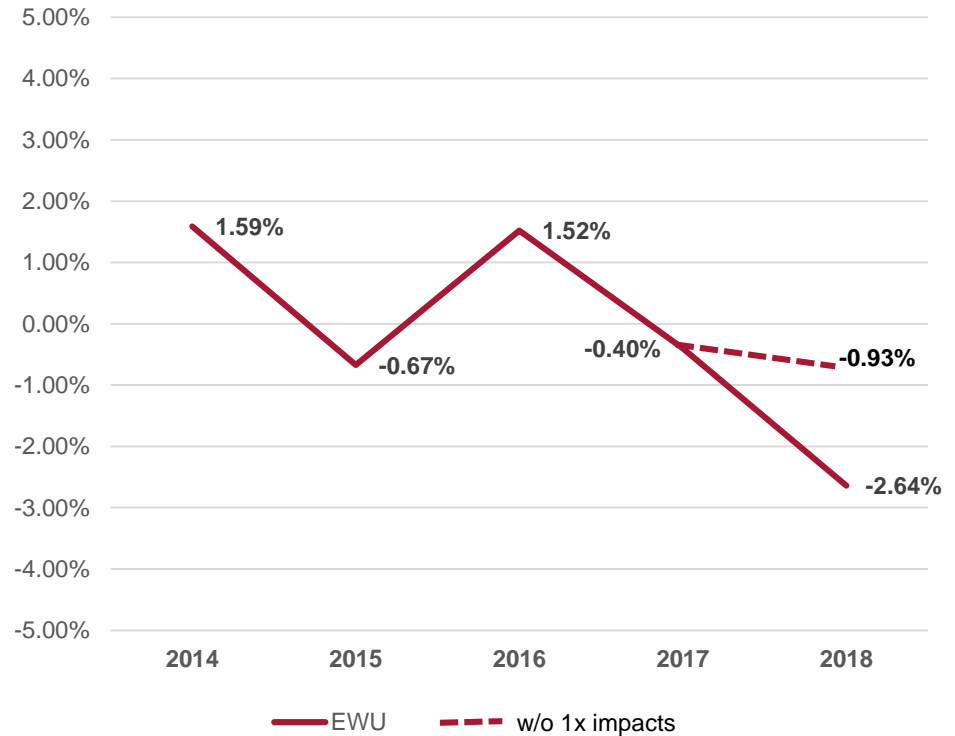
# Net Operating Ratio

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- **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

Net Operating Ratio



Source: EWU Financial Statements

Note: 2018 peer data not yet available





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

## Key Performance Indicator Net Operating Ratio



- ❖ Income Statement
  - Revenue
  - Expenses
  - Net Assets



# 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.

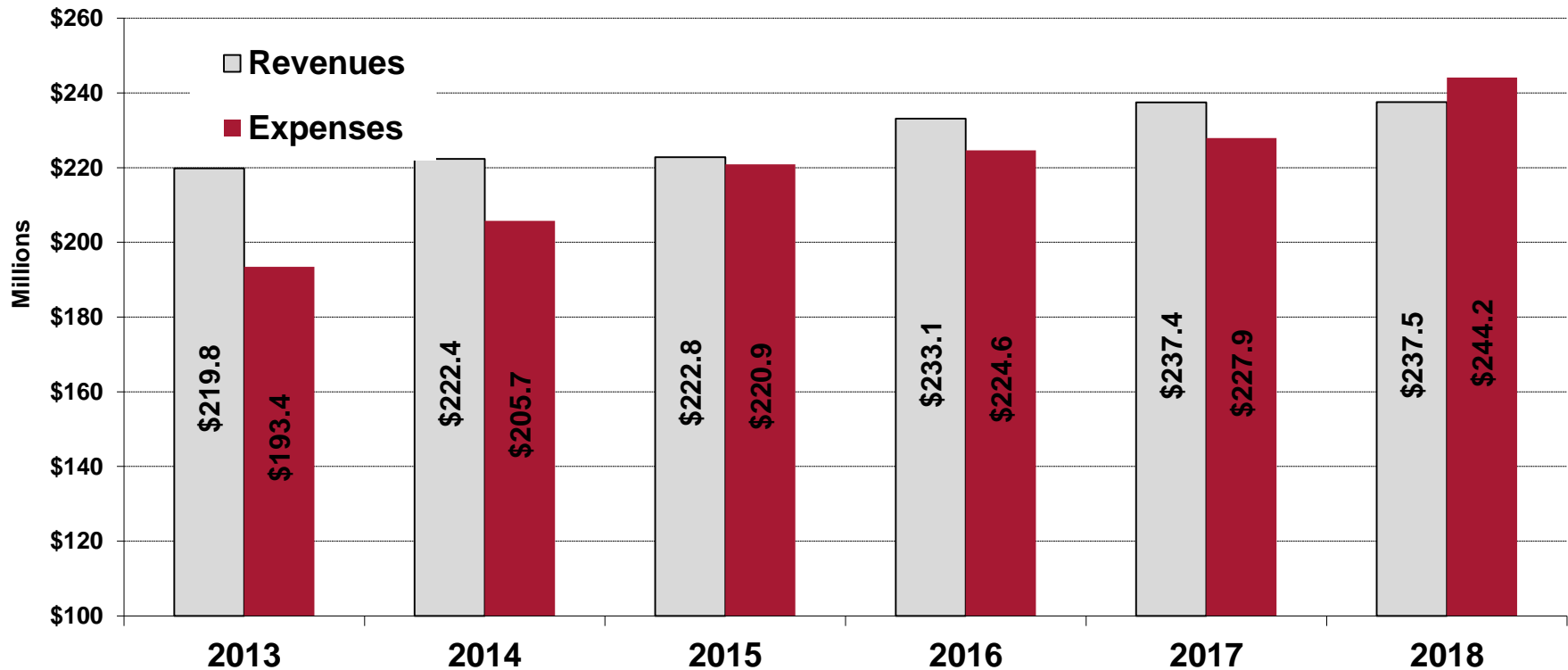
Expenditures represent the cost of providing services in support of achieving the institutional mission.



# University Revenues, Expenses and Changes in Net Position

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Total revenues (includes capital appropriations) were essentially flat. Total expenses increased 7.1%, partly due to one-time impacts such as Perkins loan closeout and loss on demolition of capital assets. Excluding one time impacts, expenses increased 2.7%.



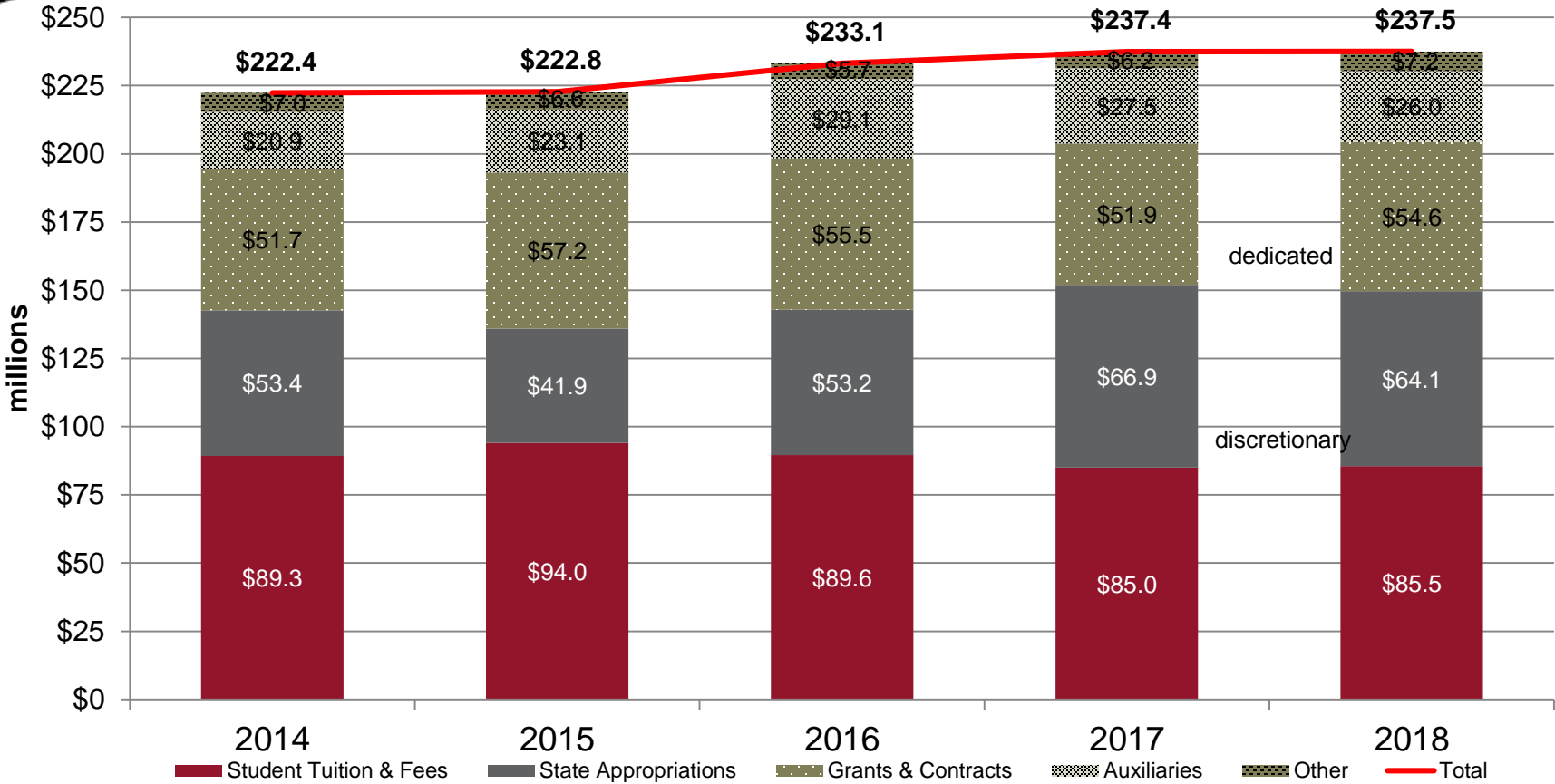
Source: FY 2013-2018 Financial Reports



# University Revenues

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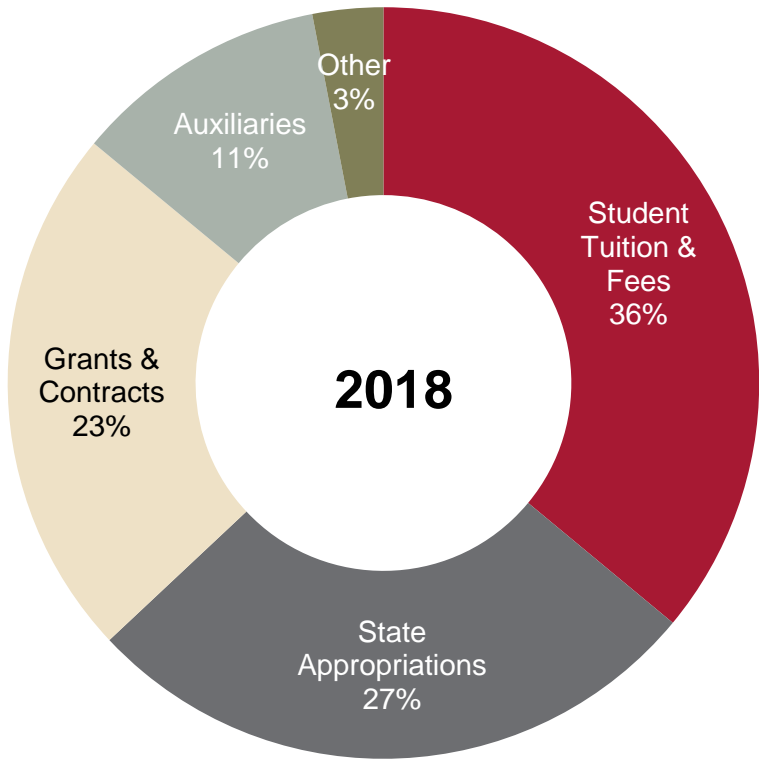
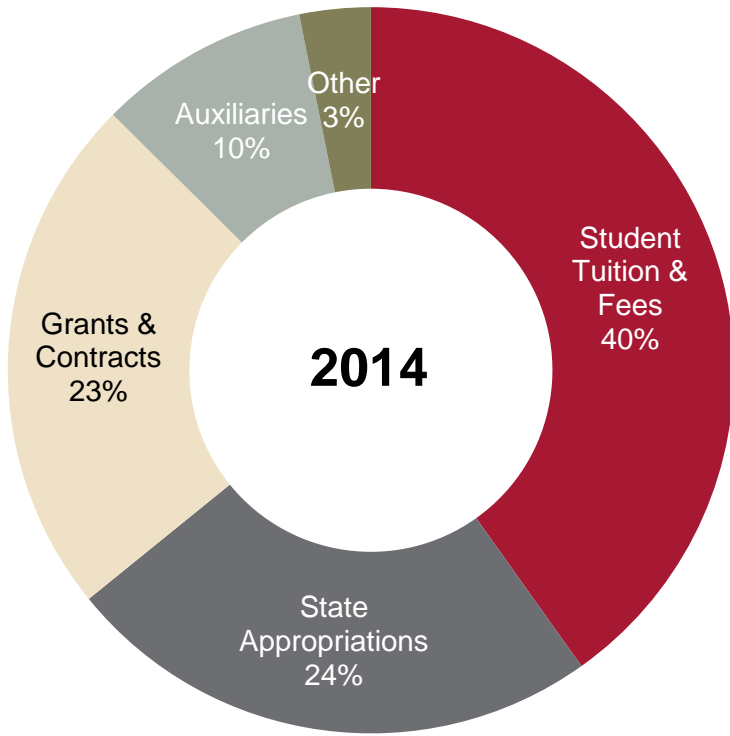
Total revenues were essentially flat over 2017



Source: EWU Office of Controller  
 2013- 2017 Financial Reports

# University Revenues – Five Year Comparison by Source

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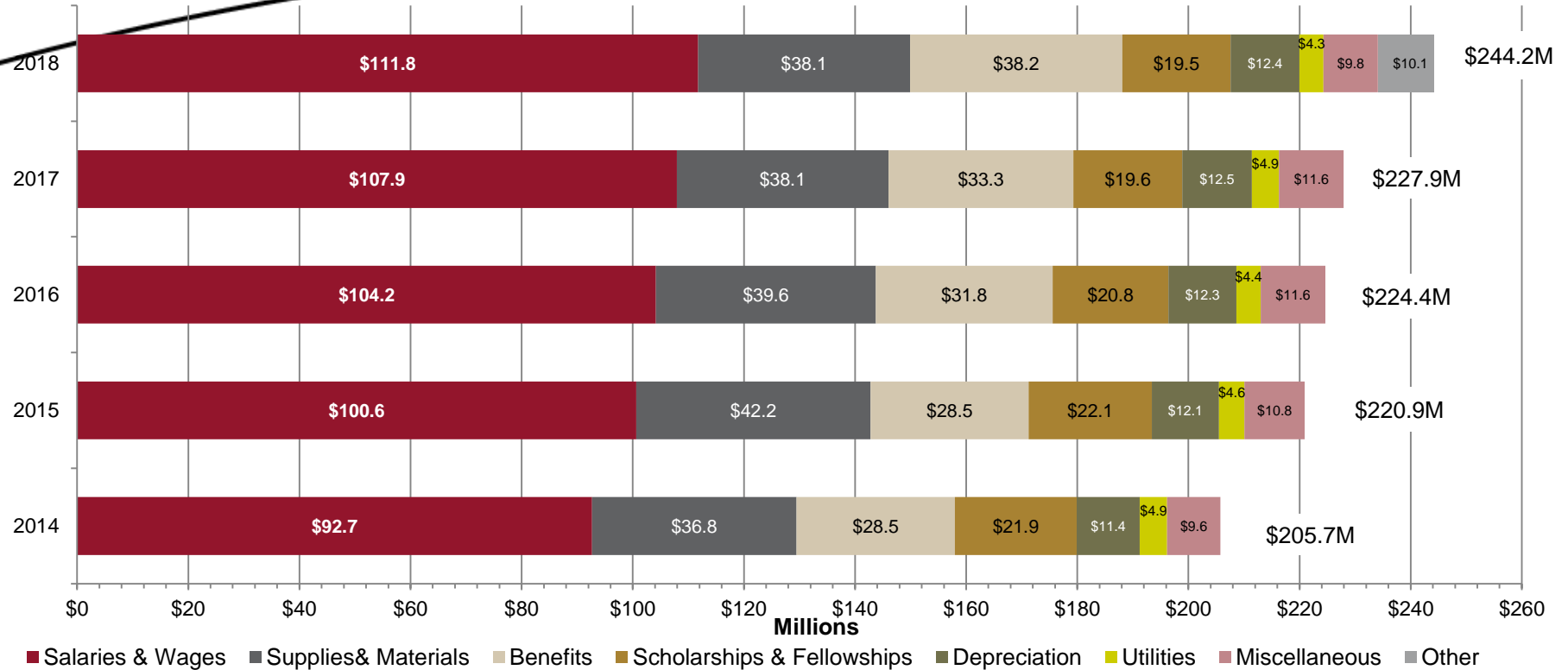
Source: 2014, 2018 Financial Report



# University Expenses by Type

Total expenses grew by 7.1%  
 Expenses without special items increased 2.7%  
 Salaries & wages increased 3.6%

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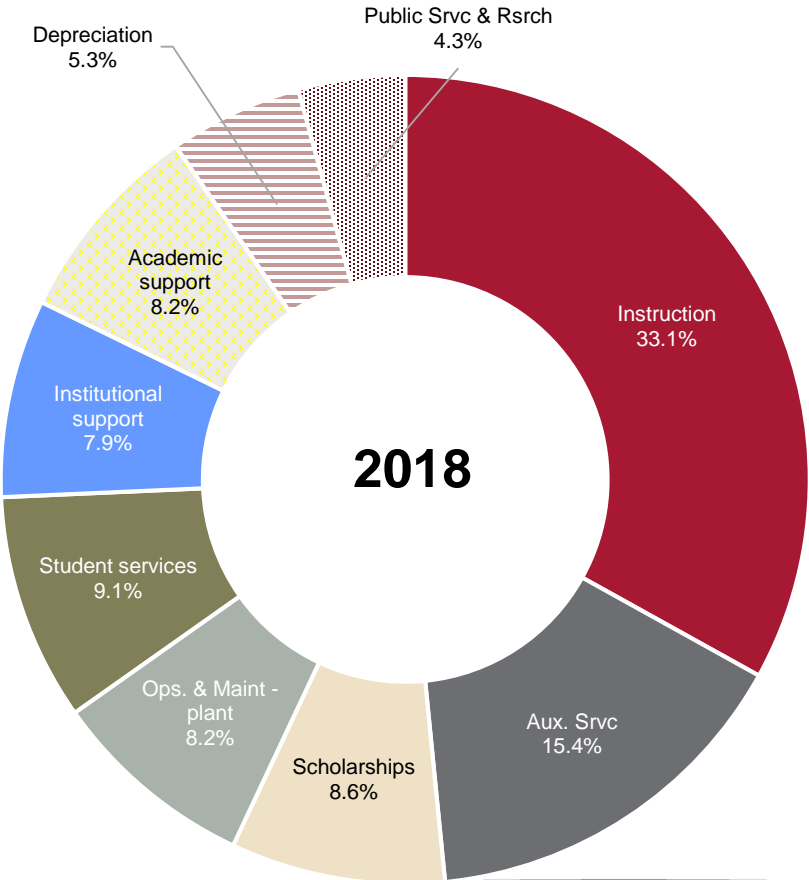
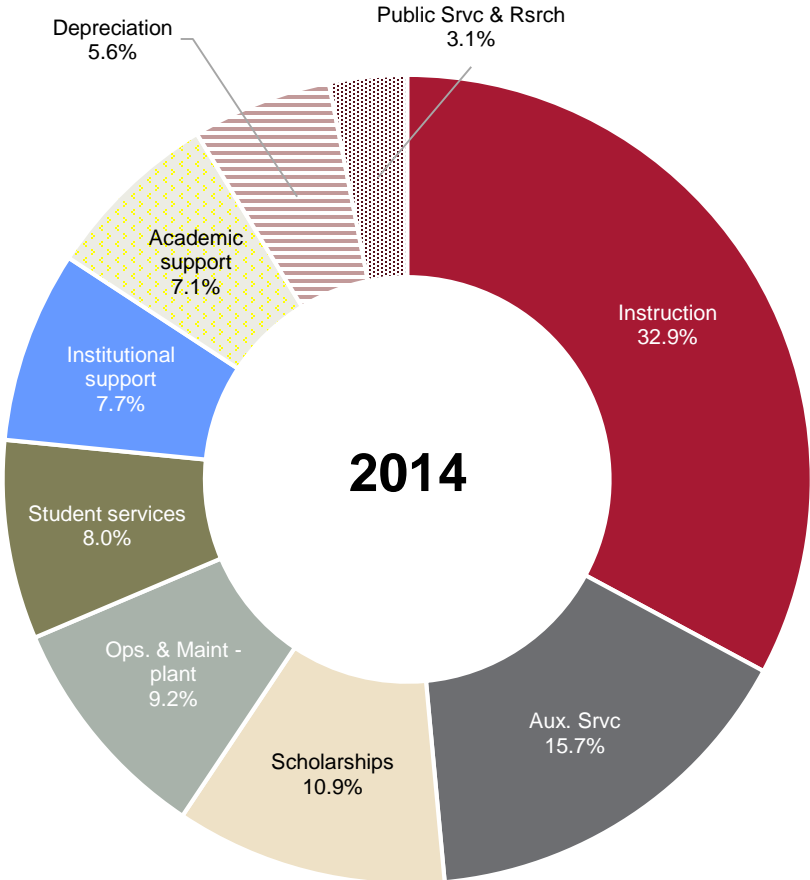
FY18- 'Other' includes 3.9M Perkins loan program closeout expense and 6.1M loss on demo of old PUB

Source: EWU Office of Controller  
 2014-2018 Financial Report

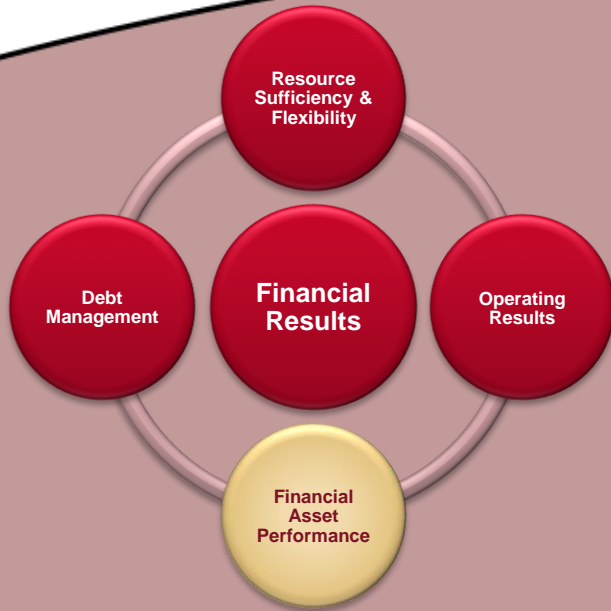


# Operating Expenses by Function

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Source: 2014, 2018 Financial Report



Does financial asset performance support the strategic mission?



# BALANCE SHEET AND INDICATORS

# 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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All Funds	2017 (millions)	2018 (millions)
<b>Total Assets and Deferred Outflows</b>	<b>\$526.1</b>	<b>\$526.5</b>
<b>Total Liabilities and Deferred Inflows</b>	<b>\$163.2</b>	<b>\$241.2</b>
<b>Net Position</b> (at June 30)	<b>\$362.9</b>	<b>\$285.3</b>

Assets- change in cash and investments due to PUB project; increase capital assets due to PUB project

Liabilities- increase Perkins loan program and GASB 75 OPEB liability

Deferred Inflows/Outflows- impacted due to change in pension and OPEB expenses

Net Position- GASB 75 impact and results of annual operations

Source: FY2018 Financial Report

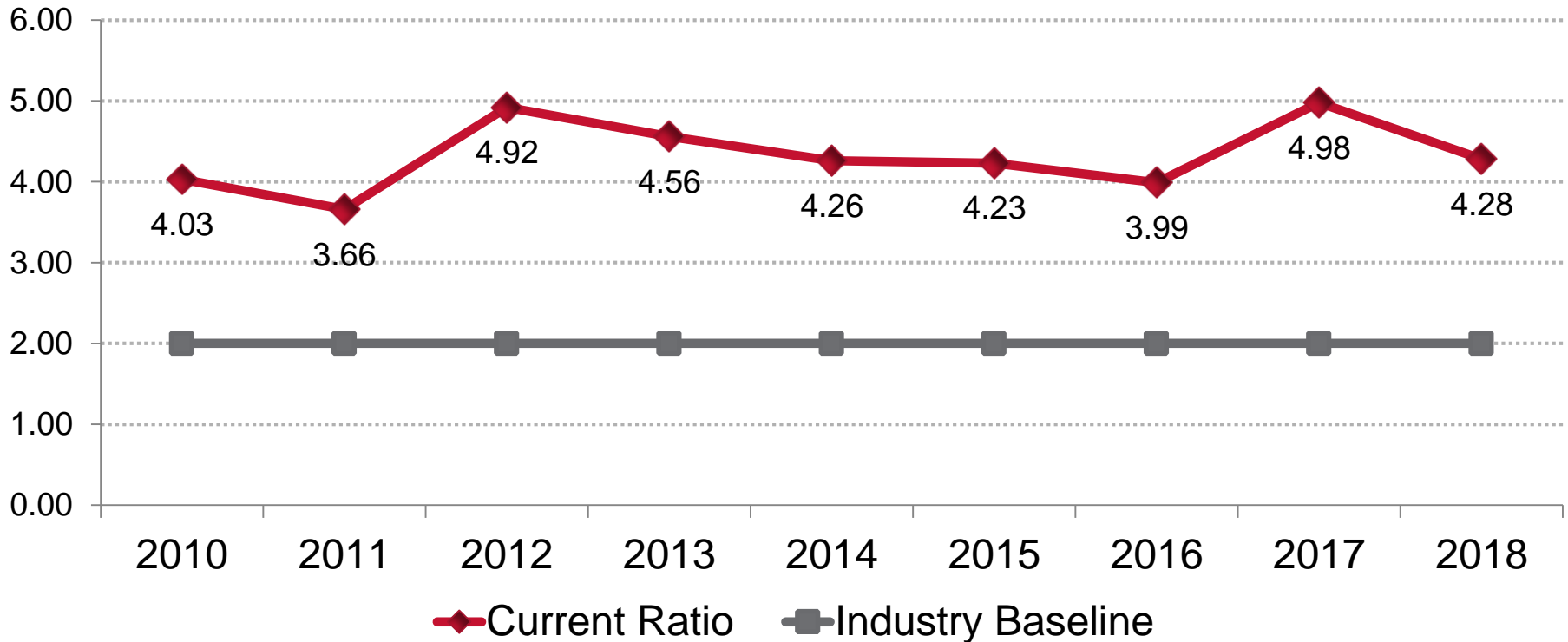


# Key Balance Sheet Indicators

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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

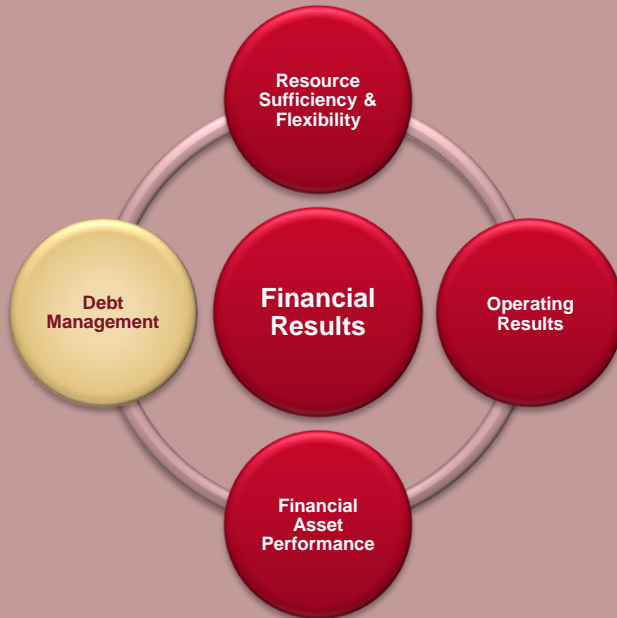


Source: EWU Office of Controller  
FY 2017 Financial Report



# 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



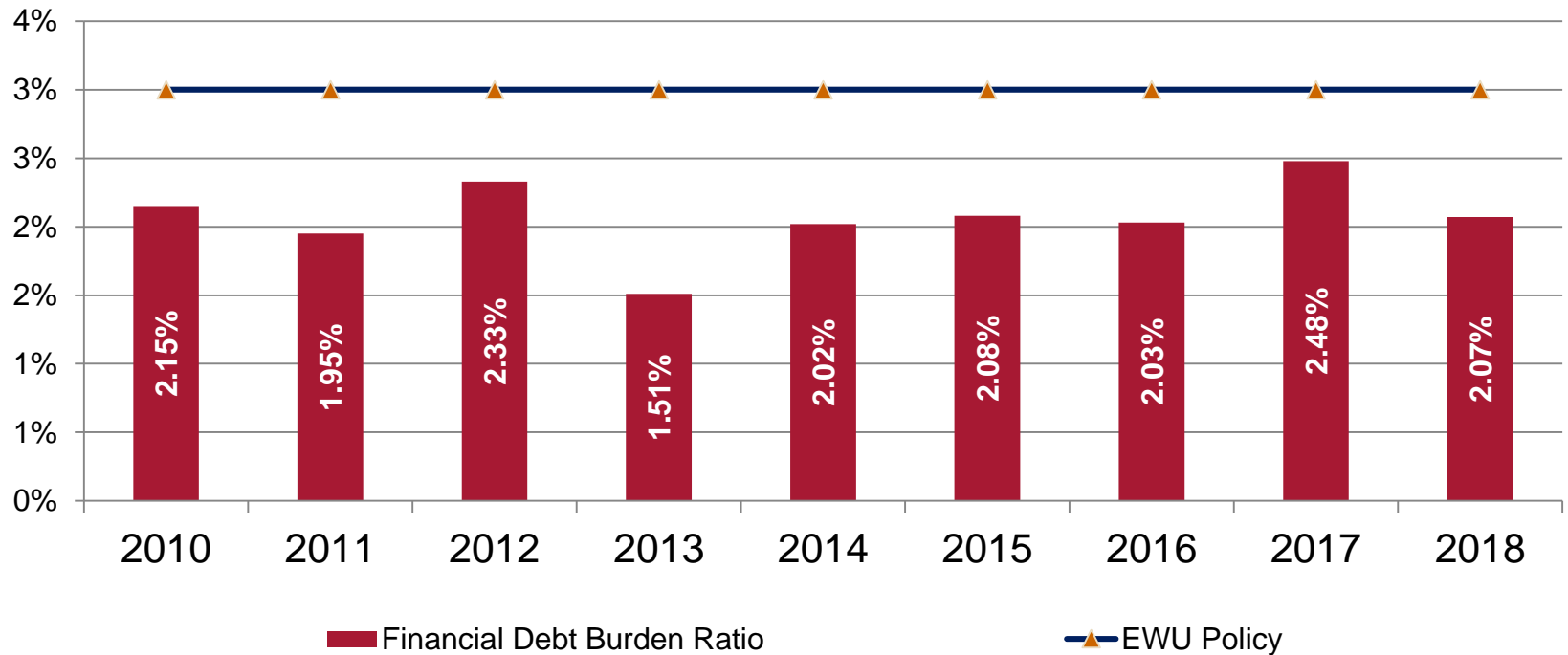


# Key Balance Sheet Indicators

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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 2017 Financial Report



# Another Financial Performance View: Moody's Scorecard



Eastern Washington University Scorecard Results - 2018	Sub-Factor Weights	Value	Score	Indicated Score
<b>Factor 1: Market Profile: (30%)</b>				
Scope of Operations (Operating Revenue) (\$000)	15%	214,528	5.2	A1
Reputation and Pricing Power (Annual Change in Operating Revenue) (%)	5%	1.9	10.7	Ba1
Strategic Positioning	10%	A	6.0	A
<b>Factor 2: Operating Performance: (25%)</b>				
Operating Results (Operating Cash Flow Margin) (%)	10%	6.6	6.1	A2
Revenue Diversity (Maximum Single Contribution) (%)	15%	61.1	5.9	A2
<b>Factor 3: Wealth &amp; Liquidity: (25%)</b>				
Total Wealth (Total Cash & Investments) (\$000)	10%	140,042	4.4	Aa3
Operating Reserve (Spendable Cash & Investments to Operating Expenses) (x)	10%	0.67	3.0	Aa2
Liquidity (Monthly Days Cash on Hand)	5%	258	1.6	Aa1
<b>Factor 4: Leverage: (20%)</b>				
Financial Leverage (Spendable Cash & Investments to Total Debt) (x)	10%	1.74	2.8	Aa2
Debt Affordability (Total Debt to Cash Flow) (x)	10%	5.86	2.4	Aa1

Preliminary Scorecard Results  
Prepared by PFM Financial Advisors, LLC



# Moody's Scorecard Results

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<b>Weighted Score:</b> 4.75	
<b>Scorecard Output</b>	<b>A1</b>
<b>Existing Rating</b>	<b>A1</b>
<b>Weighted Score Legend:</b>	
Aaa	≤ 1.5
Aa1	> 1.5, ≤ 2.5
Aa2	> 2.5, ≤ 3.5
Aa3	> 3.5, ≤ 4.5
<b>A1</b>	<b>&gt; 4.5, ≤ 5.5</b>
A2	> 5.5, ≤ 6.5
A3	> 6.5, ≤ 7.5
Baa1	> 7.5, ≤ 8.5
Baa2	> 8.5, ≤ 9.5
Baa3	> 9.5, ≤ 10.5
Ba1	> 10.5, ≤ 11.5
Ba2	> 11.5, ≤ 12.5
Ba3	> 12.5, ≤ 13.5
Below Ba3	> 13.5

- Results similar to FY17 (score 4.60), yet weakening due to lack of revenue growth.
  - Most notable change was cash flow operating margin (6.6% vs 10.6% 2017)
  - Anticipating continued revenue pressure; expense containment continues to be critical
- Moody's may also incorporate qualitative, state, and industry factors when determining a rating and underlying outlook
- EWU's current rating is A1 with a stable outlook, September 2016

# Moody's Higher Education Outlook- December 2018



## 2019 outlook remains negative with continued low net tuition growth

- Revenue will be constrained, low tuition revenue growth remains the most difficult business condition
  - Constrained by weak net tuition growth of 1%-3.5%
  - 2018 Annual Tuition Survey- public institutions will have the lowest median net tuition revenue growth in a decade at 1.5%
- Competitive landscape and emphasis on affordability will constrain net tuition revenue growth
- State support to remain generally stable, with federal research environment improving
  - Anticipating moderate growth for public institutions of 2.5%-3%



# Moody's US Higher Education Outlook – December 2018

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- Sector will remain focused on expense containment, providing longer term challenges related to programmatic and capital investment
  - 3% proxy for inflation
- Sector is adaptable and most universities are adjusting to systemic changes
  - Overall flat number of high school graduates, with declining in some states
  - Declining numbers of transfer students, reflecting reduced community college enrollments
  - Some reduction in international students
- Solid financial reserves add a stabilizing element



# Overall review and future impacts



- Ensure sustainable financial environment
  - Eastern's market position, enrollment, and financial pressures closely track the sector outlook
- Key financial drivers, future planning, and impacts
  - 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
  - Strategic investments to position for the future





**EASTERN**  
**WASHINGTON UNIVERSITY**

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# APPENDIX

## Additional Selected Information





# EWU Peers- as established for strategic enrollment planning process

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- Arkansas State University- main campus
- Central Connecticut State University
- Idaho State University
- Louisiana Tech University
- Murray State University
- Southeast Missouri State University
- Southeastern Louisiana University
- Southern Connecticut State University
- University of Montana
- University of Tennessee-Chattanooga
- University of Central Arkansas
- University of Idaho
- University of Minnesota- Duluth
- University of Northern Colorado
- University of Northern Iowa
- University of Southern Mississippi
- University of Northern Colorado
- University of Northern Iowa
- University of Southern Mississippi
- Western Illinois University
- Western Kentucky University
- Youngstown State University
- Central Washington University
- Western Washington University

