

Financial Review

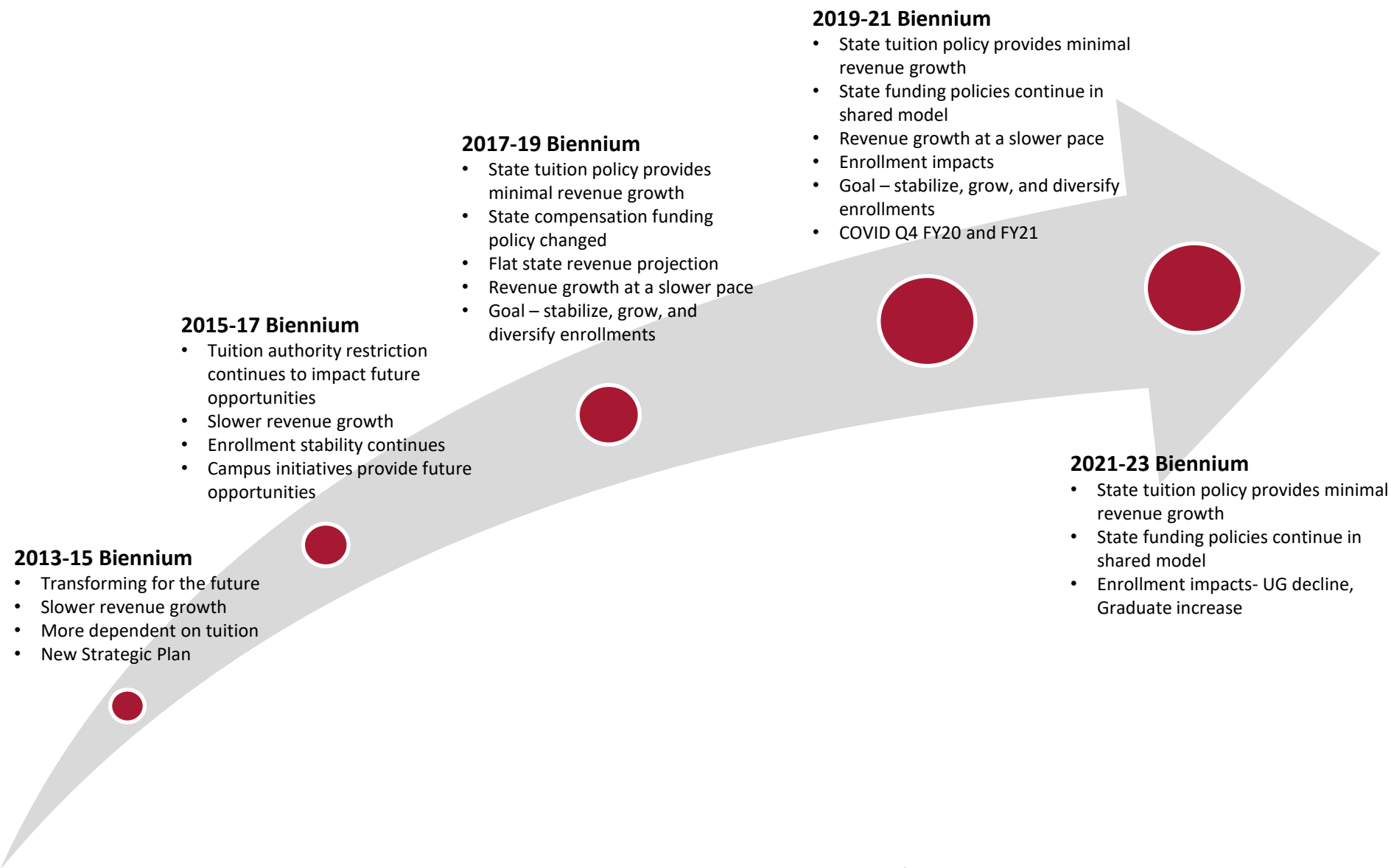
Fiscal Year 2022

*Toni Habegger, CPA
Chief Financial Officer
Board of Trustees meeting, February 24, 2023*

Environmental Scan

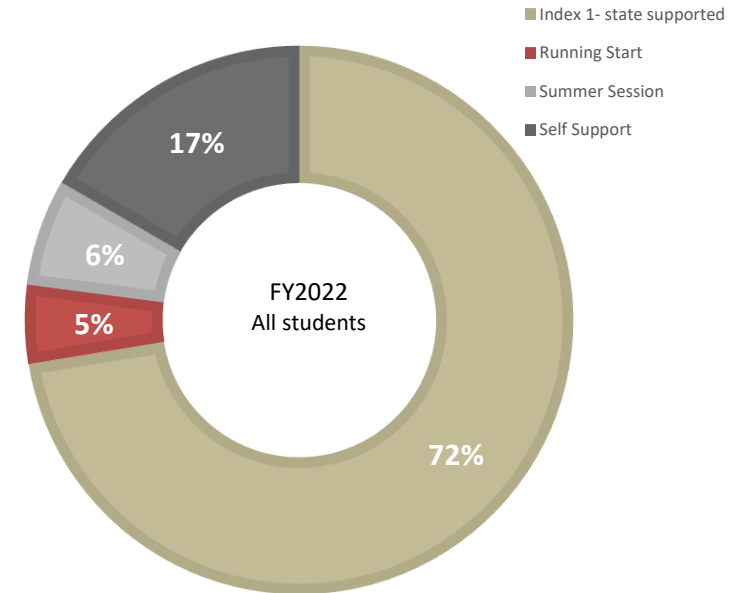
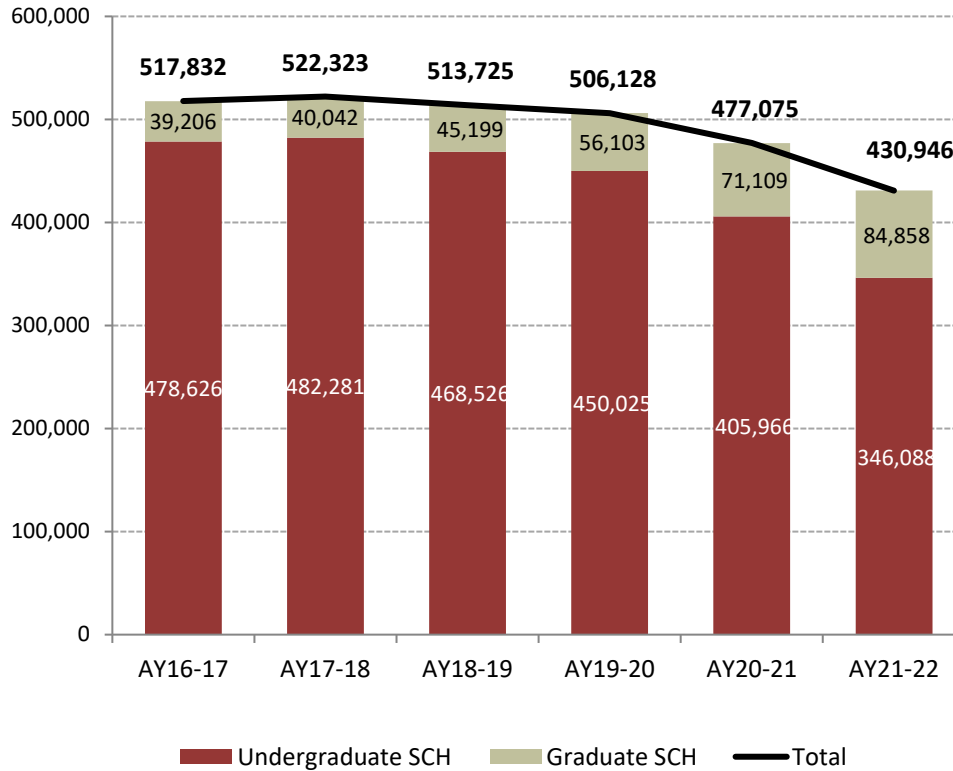
- Eastern's financial condition has been stable through a changing landscape
 - General fund (index 1) budget gap due to enrollment declines
 - Decline in core undergraduate enrollment of over 3000 headcount
 - Increase in online accelerated graduate programs
 - Federal funding offset revenue loss
 - State appropriation growth
 - Campus prudently managed expenses
 - Programs in place to reduce labor cost

A Changing Financial Environment



Enrollment-12 Month

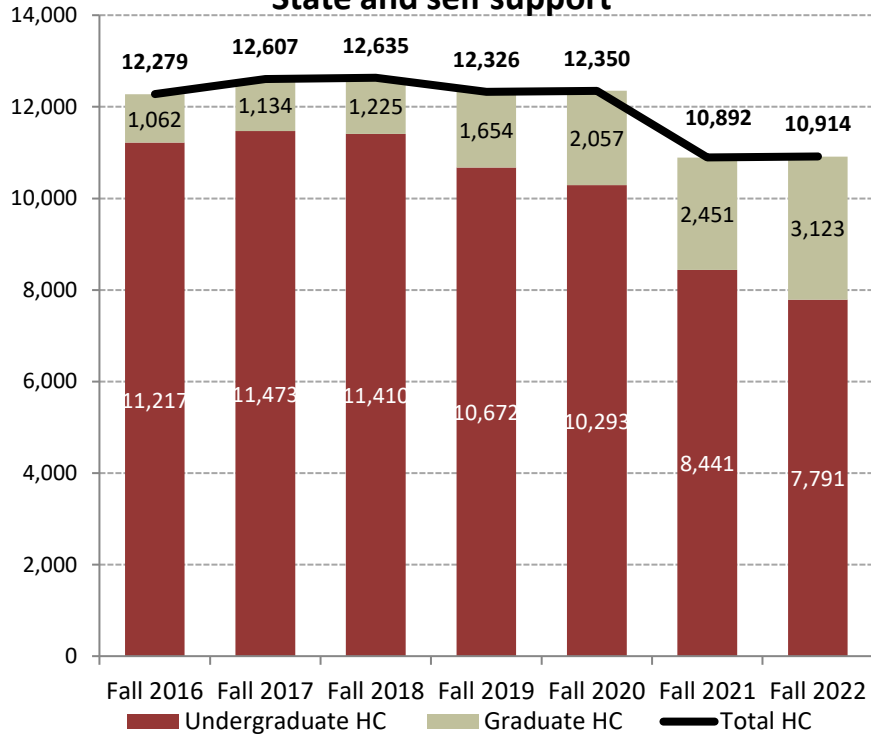
Student Credit Hours



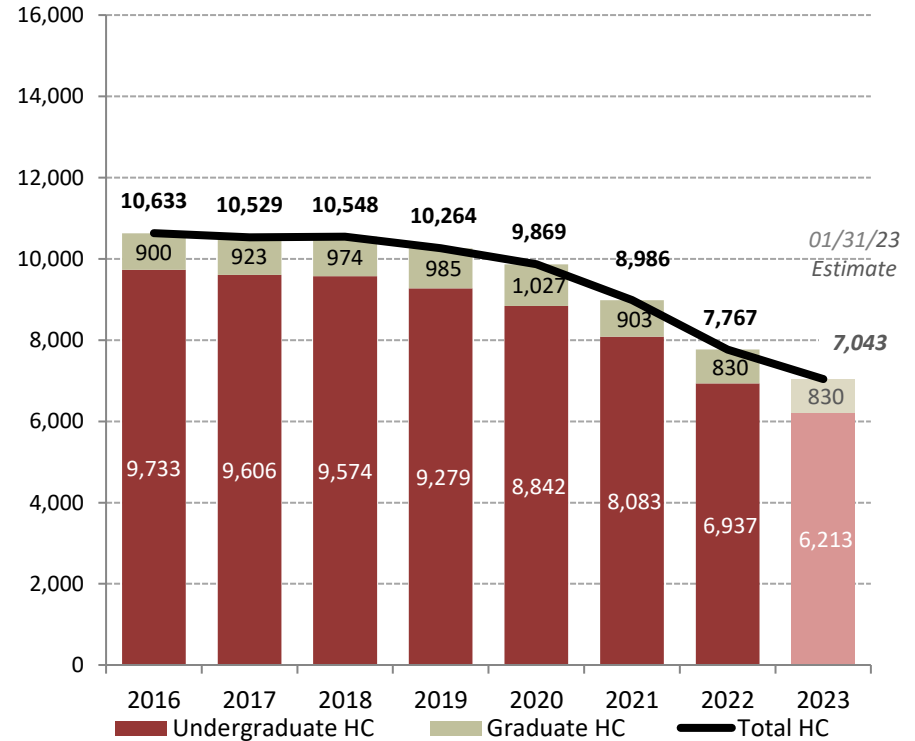
Note: SCH totals based on Fall – Summer term grouping at census date
Does not include course credits registered after census date
Source: EWU census date enrollments

Fall and AAHC Enrollment

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



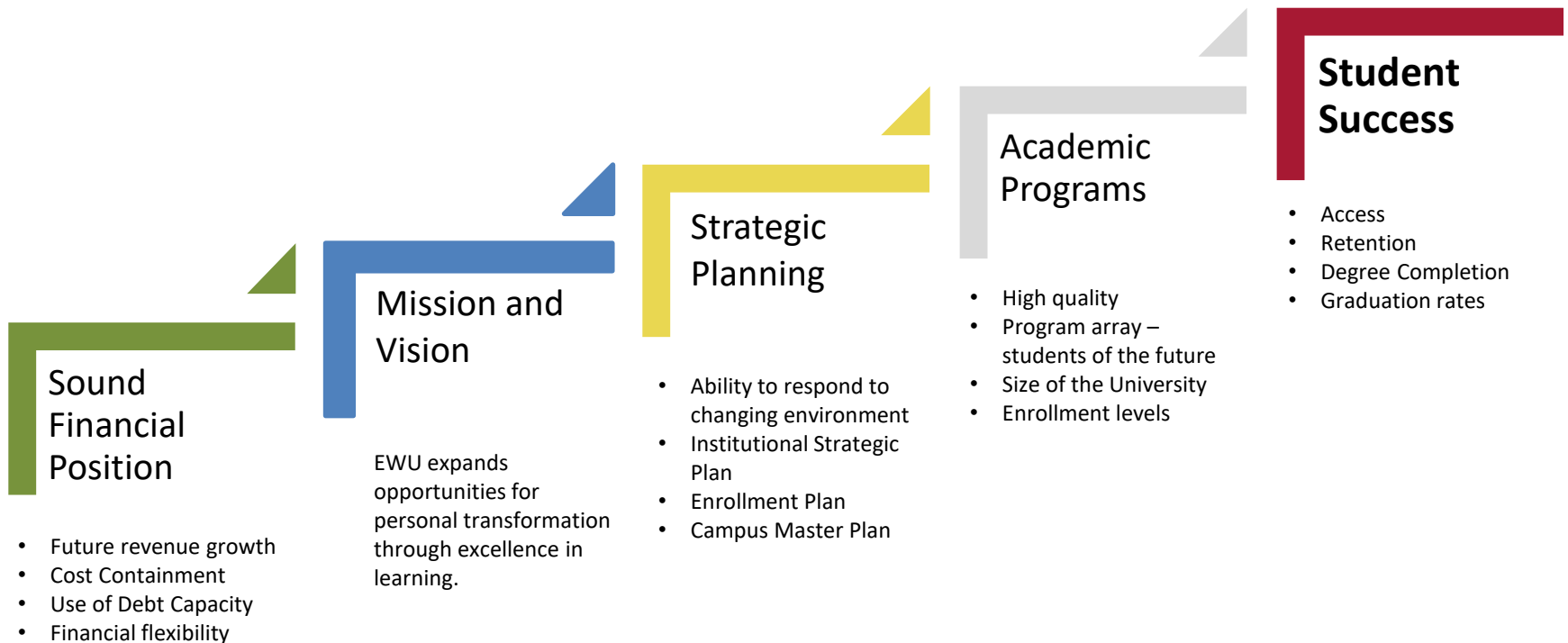
State Support Index 1 – Average Annual Head Count



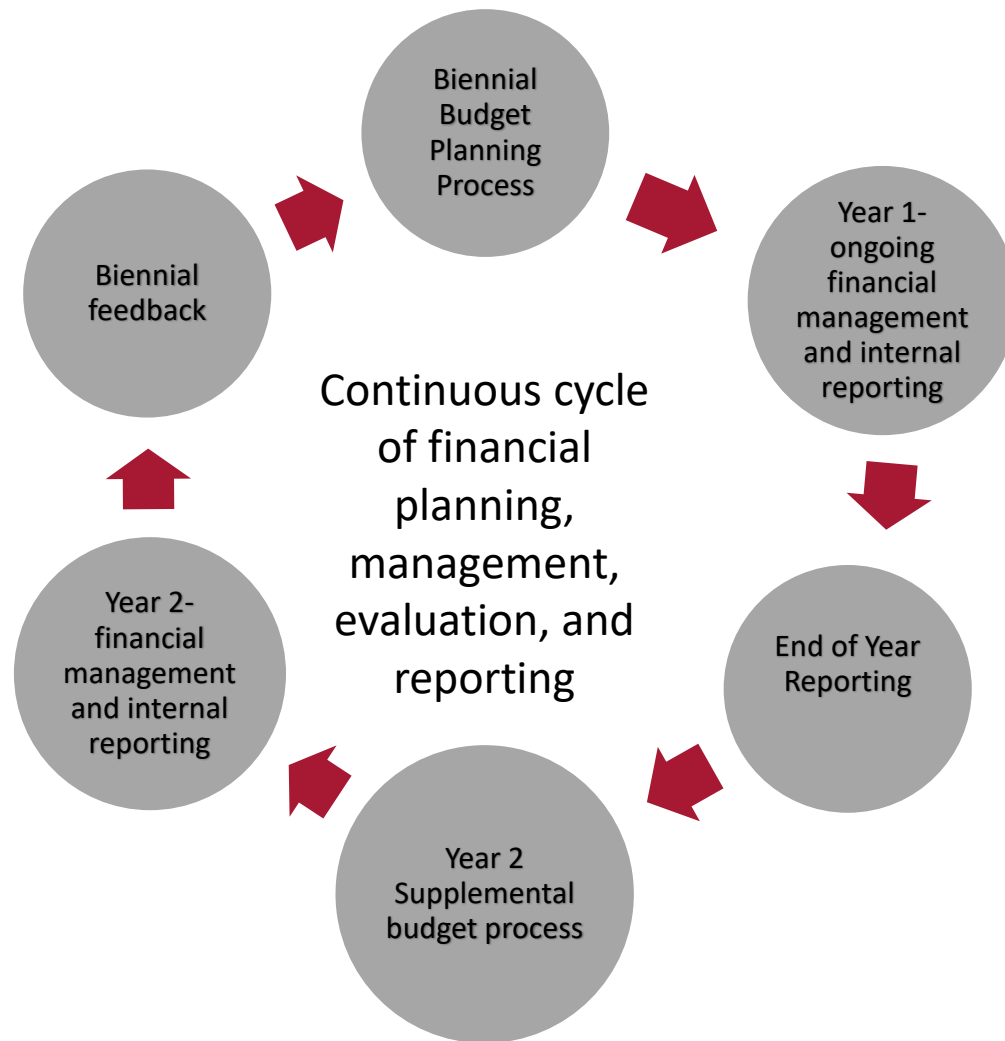
Source: EWU census date enrollments

Governance Section

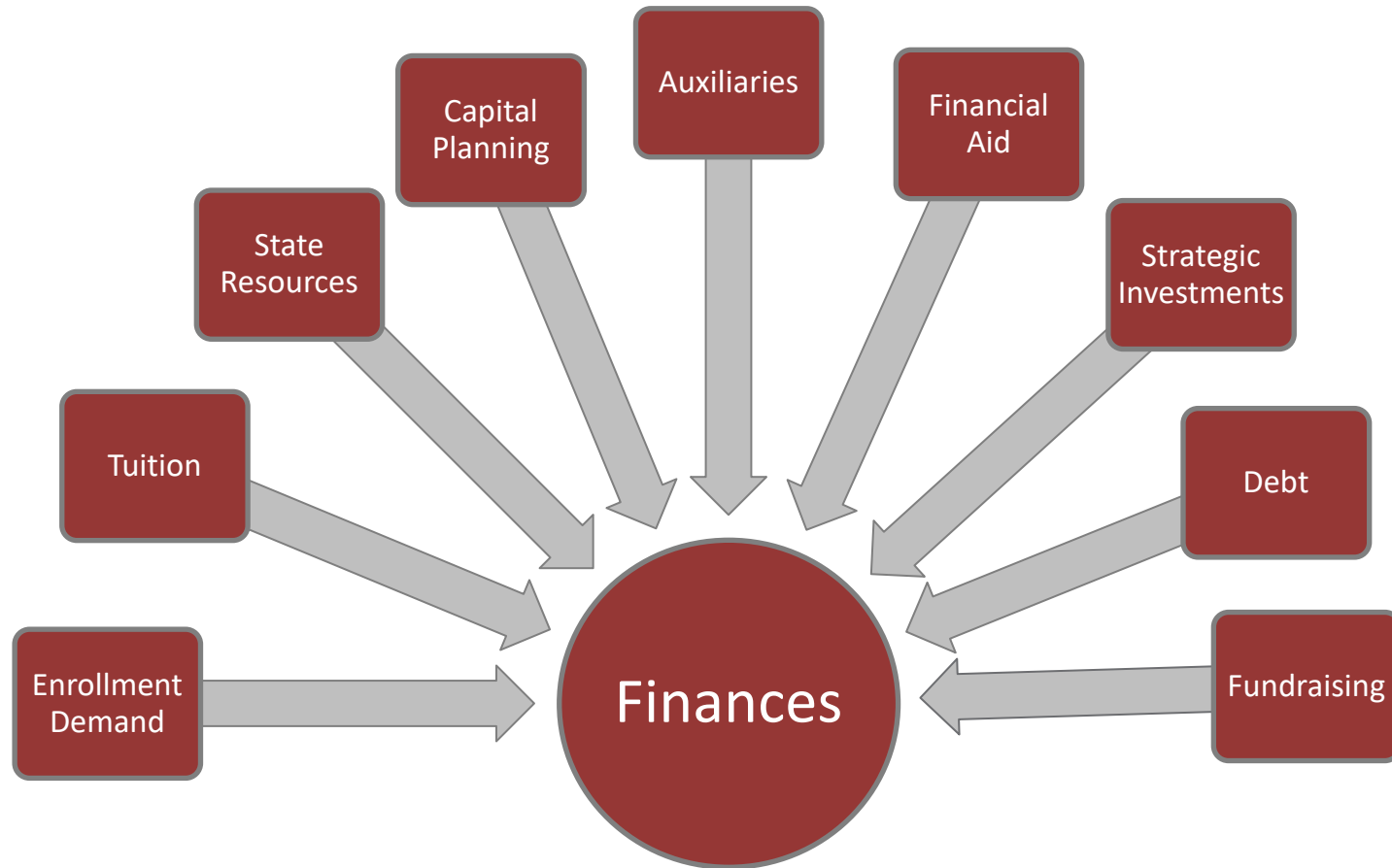
Achieving the Goals of the EWU Board of Trustees



Financial Resource Governance



Impacts to Eastern's Financial Position



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
- FY2022 audit in process
- Results presented to BOT Audit Committee (March 2023)
- Annual financial review at February BOT meeting

Financial Results and Key Performance Indicators



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

FY 2022 Impacts to Financial Position

- Key Revenue Drivers
 - General Fund Enrollment- core enrollment index 1
 - FY22 AAHC decreased 21% from FY20
 - Revenue declined \$16M over the same 2-year period
 - Enrollment- self support index 2
 - FY22 HC increased 37% from FY20
 - Revenue increased \$11.8M over the same 2-year period
 - Operating revenues increased 10% due to grants and auxiliary return to operation
 - State operating appropriations increased 6.3%
 - State capital appropriations increased 21%
 - Grants and contracts increased 21%
 - Auxiliaries return to operations therefore increase 229%
- Major Expense Categories
 - Natural growth in expenses along with ramped up inflation
 - Operating expenses increased 7.2% or \$15M
 - Salaries and wages increased 3.5% or \$3.5M
 - Benefits declined 29% or \$7.5M, mainly due to OPEB and pension changes
 - Scholarships and fellowships increased 24% or \$6.2M

FY 2022 Impacts to Financial Position

NET POSITION			
Net investment in capital assets	\$	320,368,644	\$ 313,975,978
Restricted for:			
Nonexpendable:			
Endowments		5,421,610	5,416,860
Expendable:			
Loans		6,460,079	5,690,113
Capital projects		6,271,503	4,087,210
Endowments and other		6,093,940	8,176,920
Net pension asset		25,802,650	1,038,497
Unrestricted		51,400,791	41,700,508
Total net position	\$	<u>421,819,217</u>	<u>\$ 380,086,086</u>

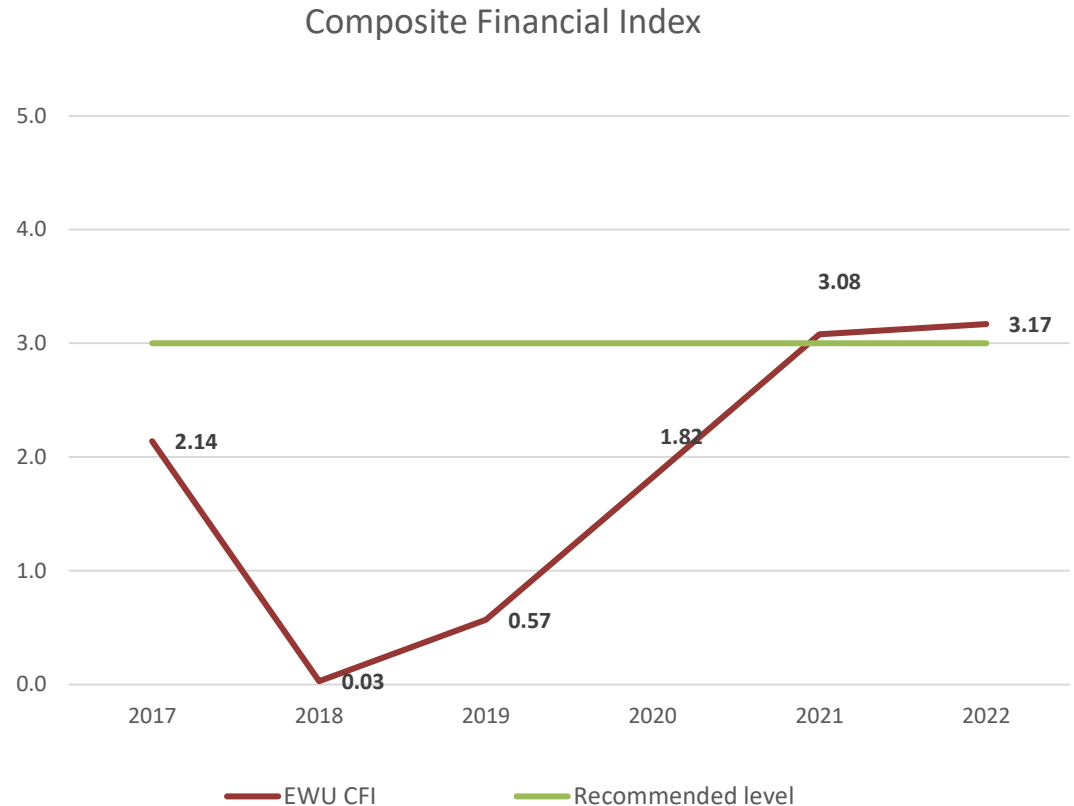
Change in Net Position \$41.7M

- \$6.4M increase in capital assets
- \$2.2M increase in unexpended capital projects funds
- \$24.7M increase in net pension asset (measurement date 6.30.21)
- \$9.7M increase in unrestricted
- \$2M decrease in FMV endowments

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

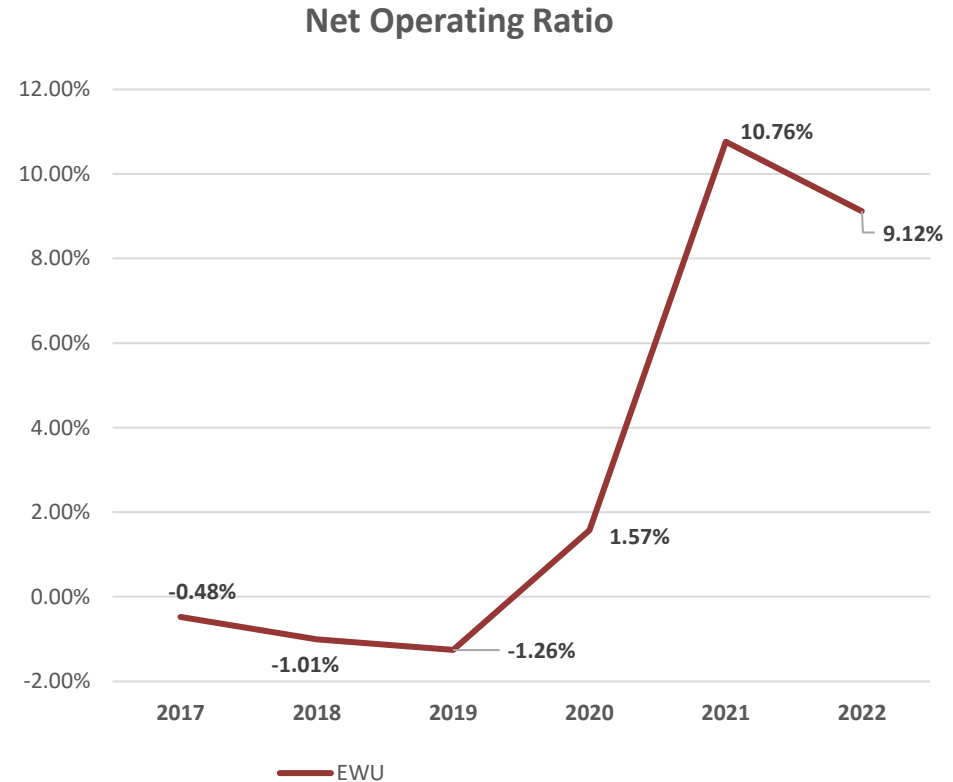


Source: EWU Financial Statements

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



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

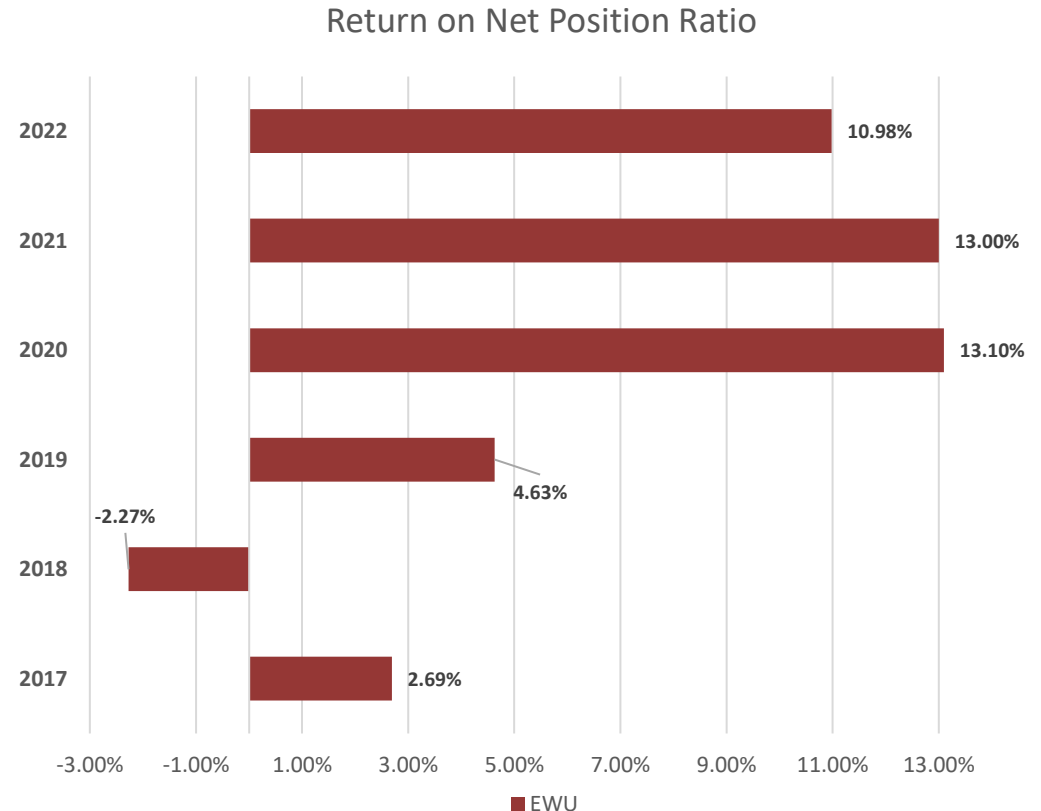


Source: EWU Financial Statements

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)



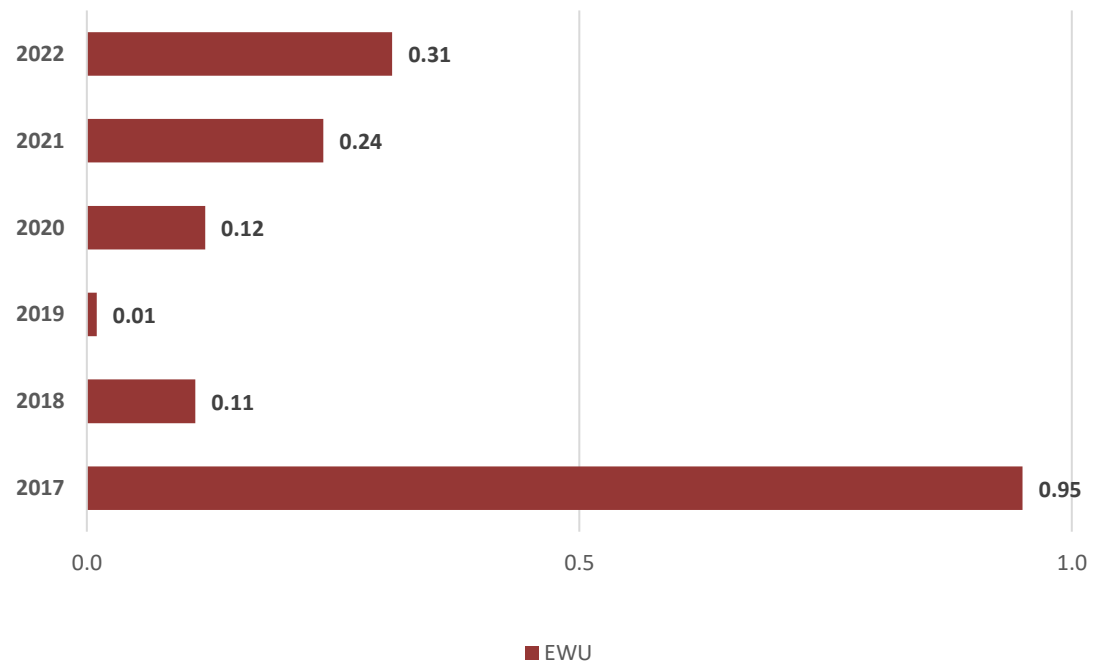
Source: EWU Financial Statements

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

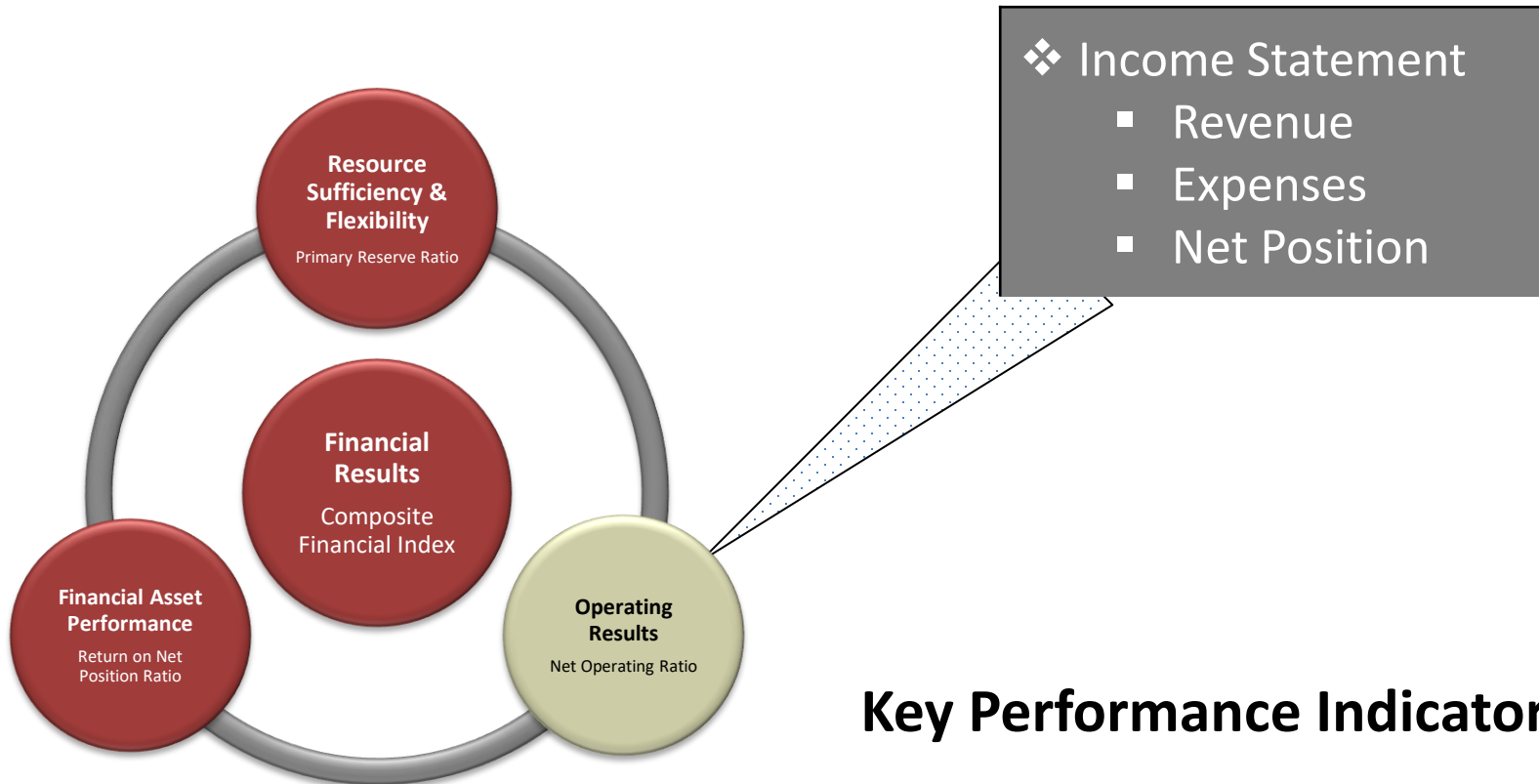
Financial Indicators

<u>Financial Indicator</u>	<u>Definition</u>	FY 2022	FY 2021	FY 2020
Tuition dependency ratio (%)	Helps measure sensitivity to changes in enrollment levels	46.5	51.0	53.3
Unrestricted financial resources-to-operations (x)	Measures coverage of annual operations by the most liquid resources	.26	.22	.04
Annual days cash on hand	Measures the number of days an institution is able to operate (cover its cash operating expenses)	356	354	266
Current ratio	Measures liquidity – ability to meet current obligations with liquid assets	5.81	5.51	4.27
Expendable financial resources to direct debt (x)	Measures coverage of direct debt by financial resources that are ultimately expendable	0.42	0.34	0.33
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	5.08	4.69	2.37
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.	5.48	5.39	3.64



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.

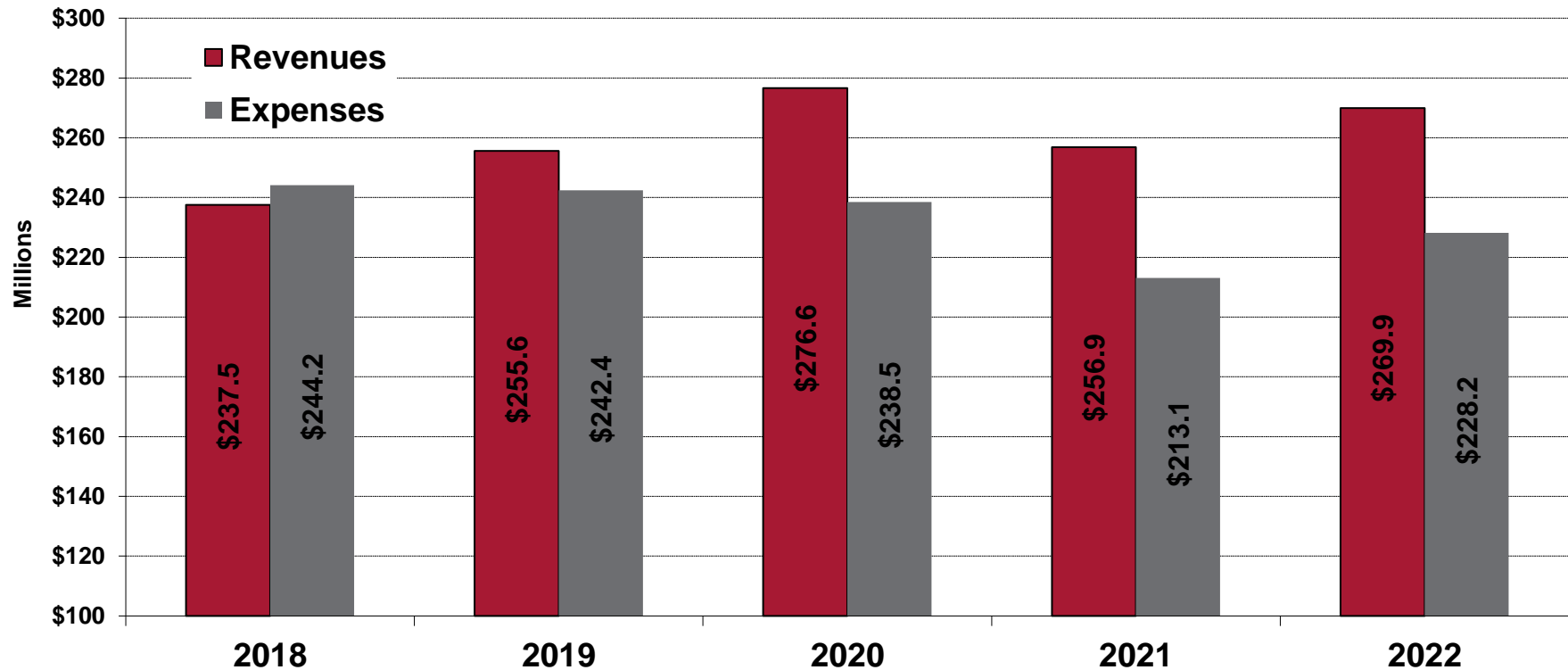
Presents a change in net financial position over the prior year

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

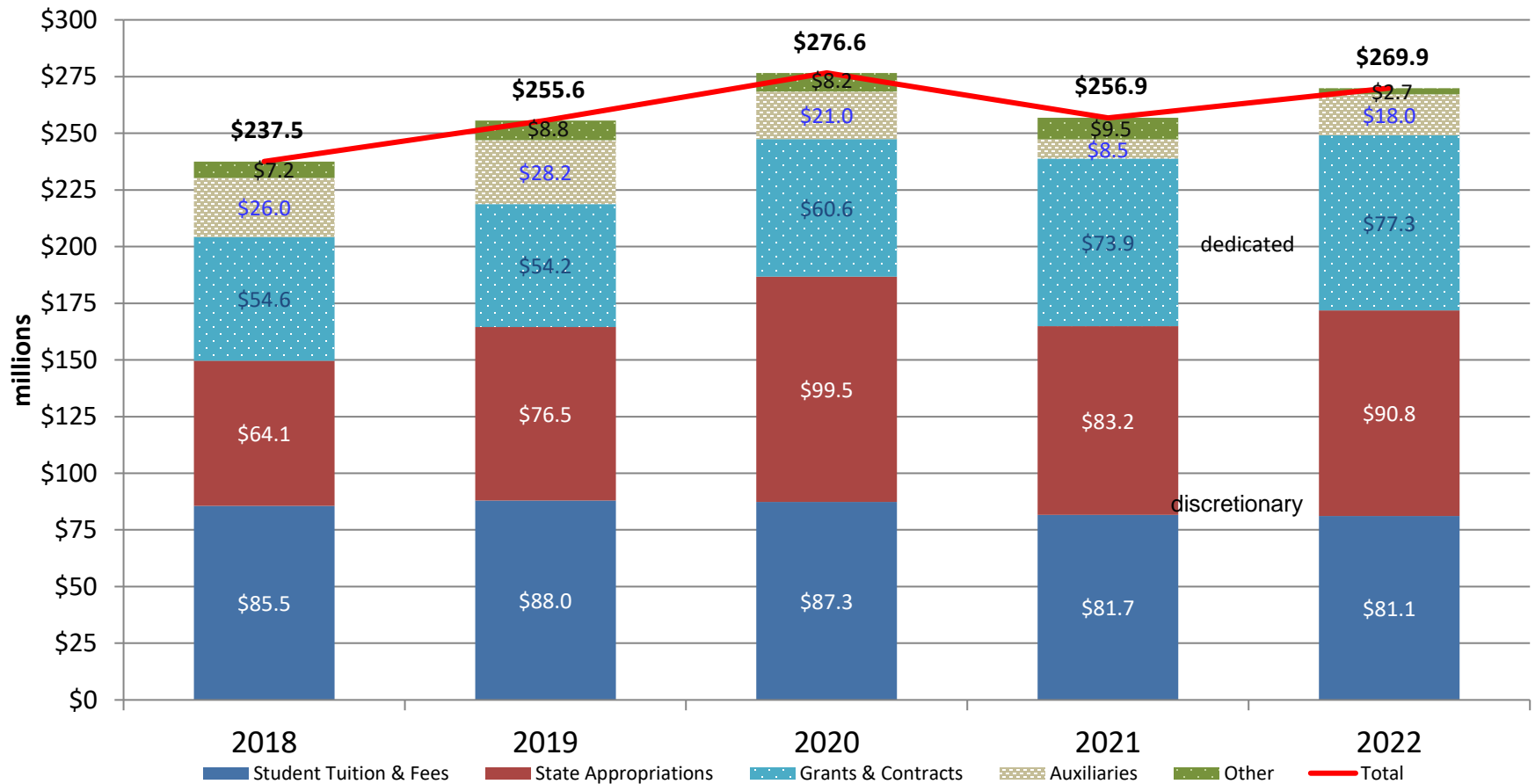
Increase in net position of \$41.7M due revenue growth outpacing expenses and increases in state operating and capital appropriations



Source: EWU Financial Statements

University Revenues

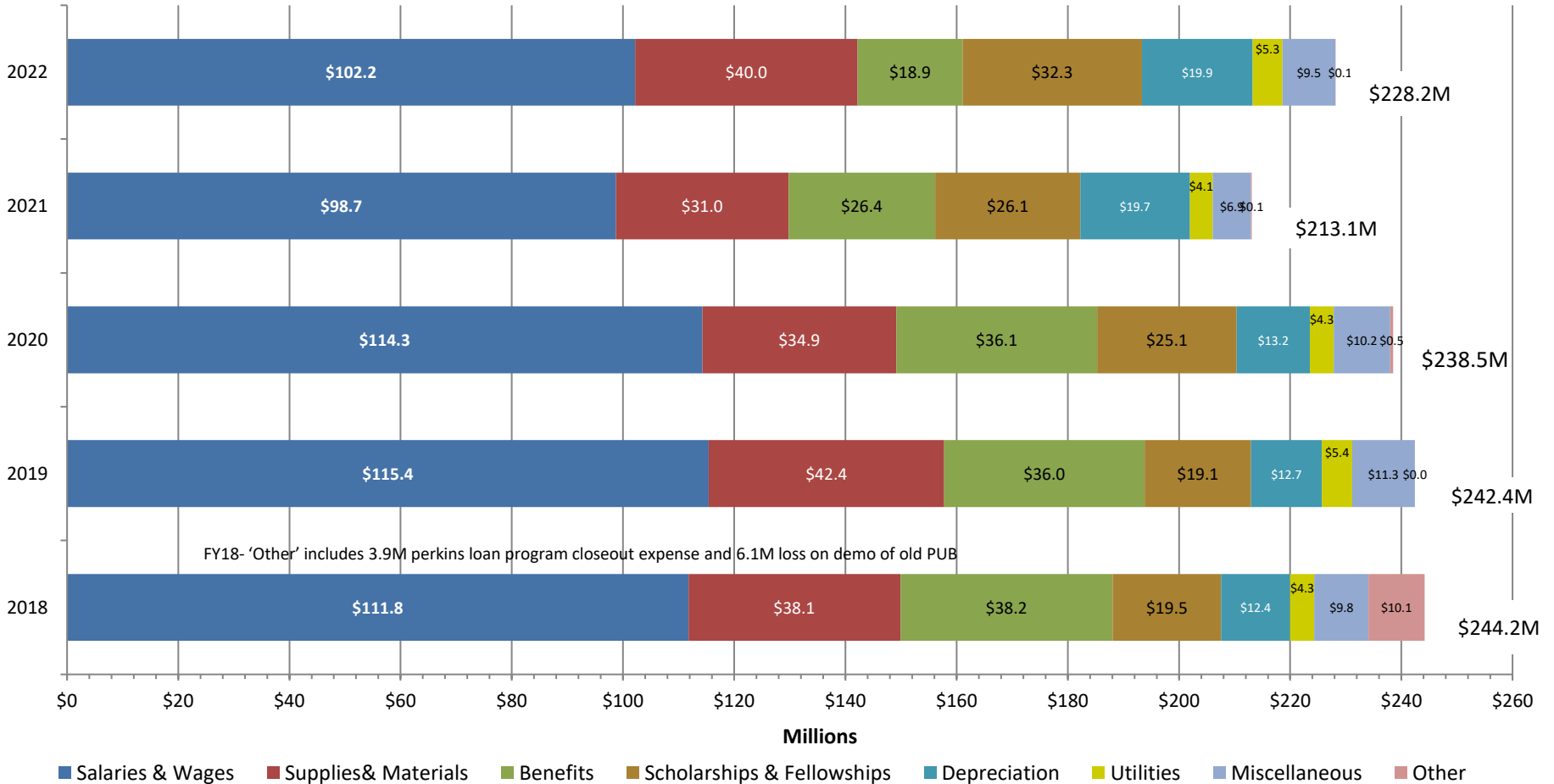
- ✓ Operating revenues increased 10.4% most notably due to increase in auxiliary activity and grants
- ✓ State operating appropriations, increased 6.3%
- ✓ Student tuition and fees, slight decline of .7%
- ✓ State capital appropriations, increased 21%
- ✓ Grants and contracts, increased 20.8%
- ✓ Auxiliaries returned to relative normal operation, increasing 229%



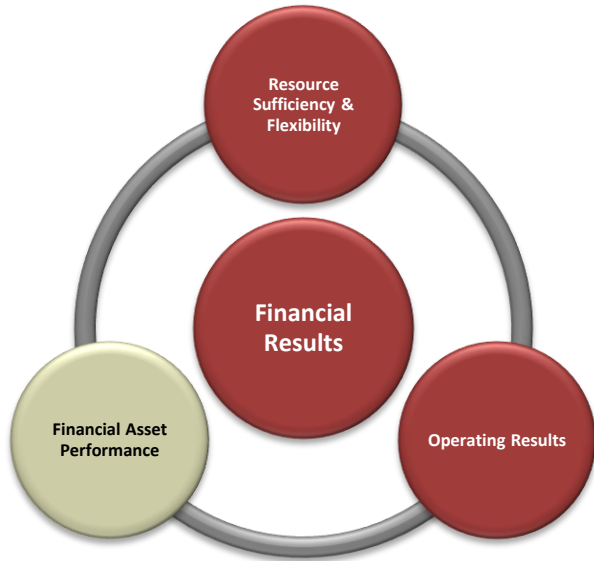
Source: EWU Financial Statements

University Expenses by Type

- ✓ Operating expenses increased 7.2% or \$15M
- ✓ Salaries and wages increased 3.5% or \$3.5M
- ✓ Benefits declined 29% or \$7.5M
- ✓ Scholarships and fellowships increased 24% or \$6.2M
- ✓ Services and supplies increased 29% or \$8.8M



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	2021 (millions)	2022 (millions)
Total Assets and Deferred Outflows	\$710.6	\$759.9
Total Liabilities and Deferred Inflows	\$330.5	\$338.1
Net Position (June 30)	\$380.1	\$421.8

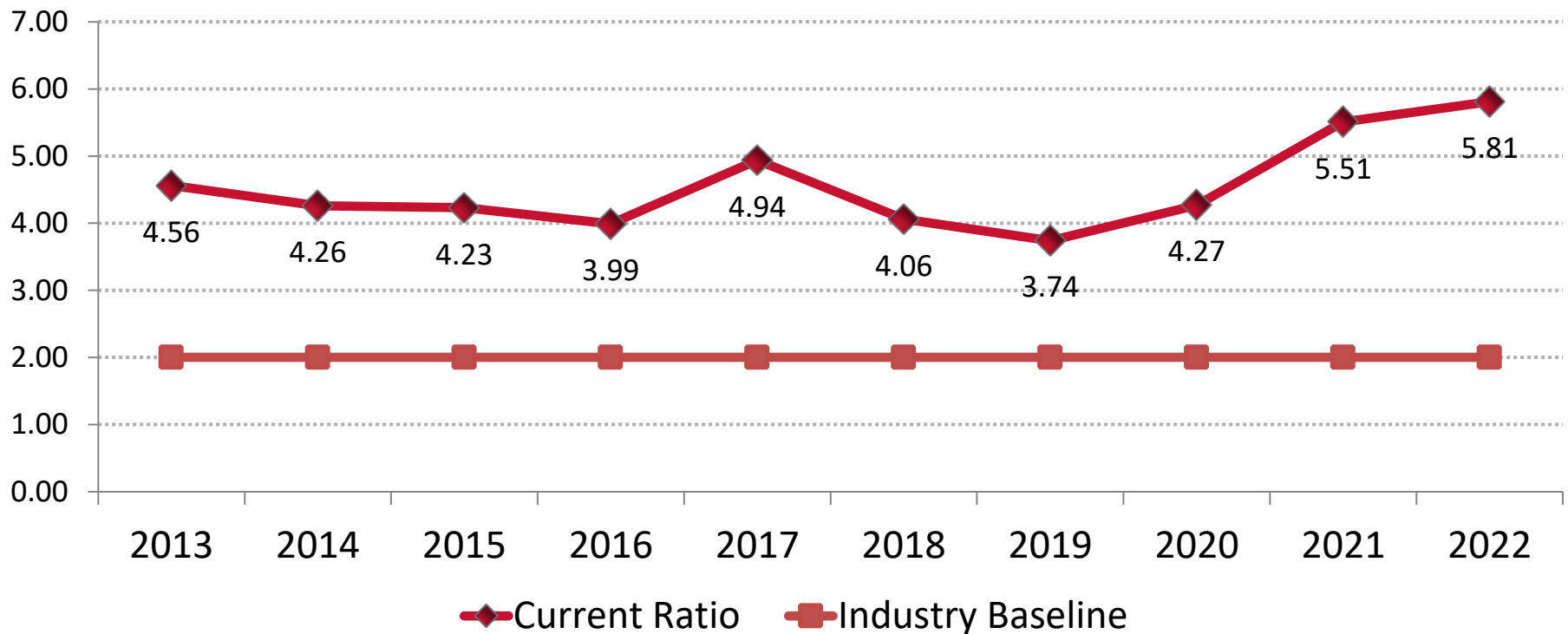
Unrestricted net position change due to results of operations and investment in capital assets

Source: EWU Financial Statements

Key Balance Sheet Indicators

Eastern has consistently remained above the industry baseline with approximately \$6 of current assets to cover every \$1 of current liabilities.

Current Ratio: Measure of Liquidity

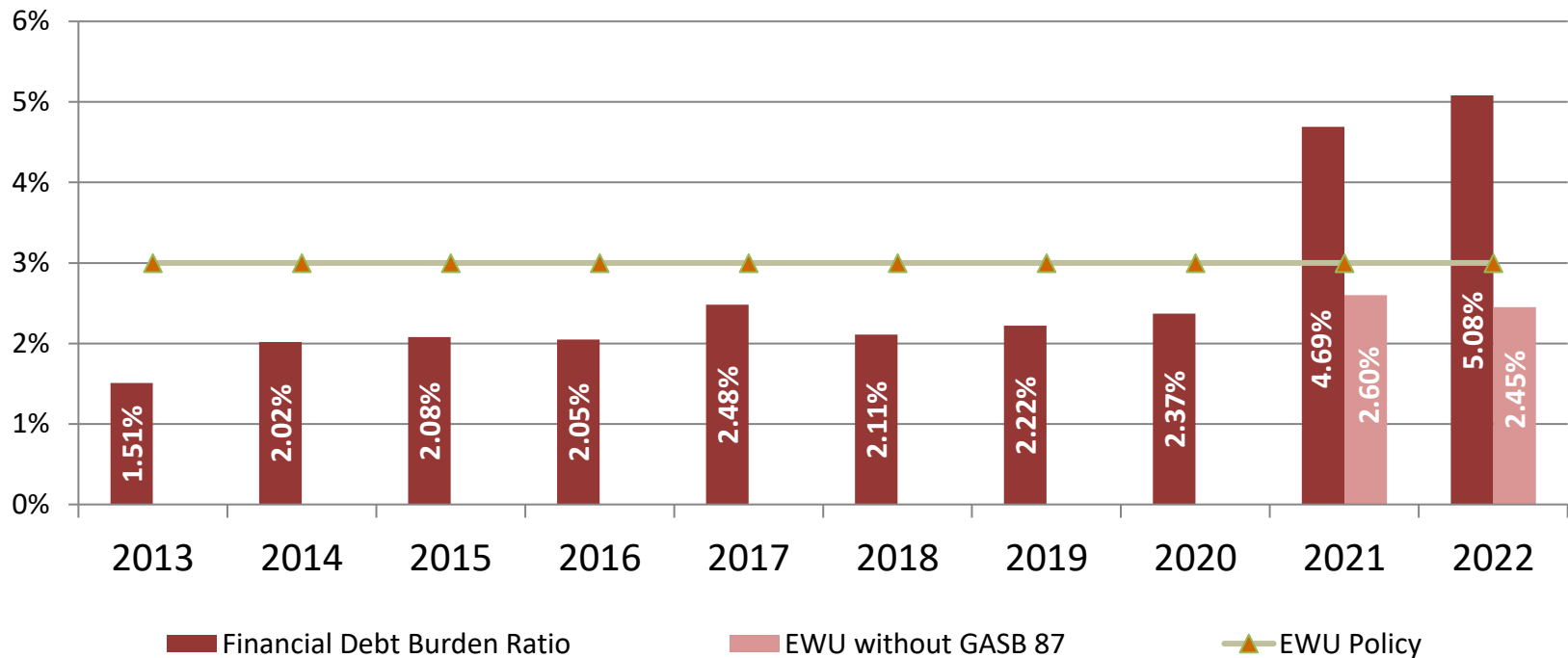


Source: Financial Reports

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



FY2021 & 2022 reflect the implementation of GASB 87- which establishes a single model for lease accounting based on the principle that leases are financings of the right to use an asset. Implemented for FY2022 with application to FY2021.

Source: Financial Reports

Moody's Scorecard Results

Metric	% of Total Score	Value	Indicated Score
Scale (15%)			
Adjusted Operating Revenue	15%	\$214,437,000	A
Market Profile (25%)			
Brand and Strategic Positioning	10%	Very Good	A
Operating Environment	10%	Very Good	A
Operating Performance (10%)			
EBIDA Margin	10%	18.06%	Aa
Financial Resources & Liquidity (25%)			
Total Cash and Investments	10%	\$179,438,000	Aa
Total Cash & Investments to Operating Expenses	15%	93%	Aa
Leverage & Coverage (20%)			
Total Cash & Investments to Total Adjusted Debt	10%	0.82x	A
Annual Debt Service Coverage	10%	8.76x	Aaa
Financial Policy (10%)			
Financial Policy and Strategy	10%	Very Good	A

Note: Data based on MFRA data as of 6/30/2021

Moody's Higher Education Methodology

for rating public and nonprofit colleges and universities

Scorecard Factors		Aaa	Aa	A	Baa
Scale (15%)	Measured by level of operating revenue	>\$2,500M	\$500-\$2,500M	\$100-\$500M	\$40-\$100M
Market Profile (20%)	Brand strength to generate revenue and ability to use brand to leverage operating environment. Operating environment related to primary government financial support (state of WA)	Exceptional Very strong Highly predictable	Excellent Strong predictable	Very good Very good Mostly predictable	Good Good Moderate volatility
Operating Performance (10%)	Operating performance is important for the long-term financial health. Advance mission by generating enough revenue to sustain long -term financial viability. EBITDA margin =Earnings before interest, taxes, depreciation, and amortization as a percentage of revenue	≥ 25%	≥17.5 -25%	≥ 10-17.5%	≥ 5-10%
Financial Resources & Liquidity (25%)	Financial resources and liquidity provide important indications of its ability to withstand periods of volatility Cash and Investments Cash and Investments to operating expenses	>\$2,500M ≥1.25x	\$100-\$2,500M 0.75-1.25x	\$25-\$100M 0.5-0.75x	\$10-\$25M 0.15-0.5x
Leverage & Coverage (20%)	Indicators of a university's ability to pay annual fixed costs, including debt, to fulfill its mission Total Cash and Investments to Total Debt Annual Debt Service Coverage	≥3x ≥.4x	1-3x 2-4x	0.2-1x 1.5-2x	0.1-0.2x 1-1.5x
Financial Policy (10%)	The quality of management, governance, oversight, and administration of the financial and treasury operations, including level of board involvement and support for these functions	Exceptional	Excellent	Very Good	Good

Qualitative and quantitative factors
 Scorecard used to approximate credit profiles
 Factors in addition to the scorecard
 Rating is forward looking



2023 Outlook – Negative as revenue rebound stalls and expenses surge

- Muted growth in multiple revenue streams will limit sector-wide revenue growth to below inflation
- Rising expenses will lead to operating deficits for a growing share of the sector, forcing more colleges and universities to tap reserves
- Prior cash and investment growth will provide some cushion, but the benefits will cool
- ESG and nontraditional risks will have a growing effect on budgets as universities adapt to a changing environment

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
 - BOT approved multi year plan for annual balanced budget while the permanent (ongoing) budget gap is resolved
 - Overall enrollment trajectory
 - Restructure/resize institution to meet student demand
 - Expense management
 - Other student fee related revenue tied to enrollment
 - Fundraising
 - Investment in new programs and delivery
 - Strategic investments to position for the future



EASTERN
WASHINGTON UNIVERSITY