

Financial Review

Fiscal Year 2023

*Toni Habegger, CPA
Chief Financial Officer
Board of Trustees meeting, February 22, 2024*

Environmental Scan

- Eastern's financial condition has been stable through a changing landscape
 - Changing enrollment patterns and student demand drive revenue changes
 - State appropriation provisos fund new programs
 - Stimulus funding tapering
 - Capital investments

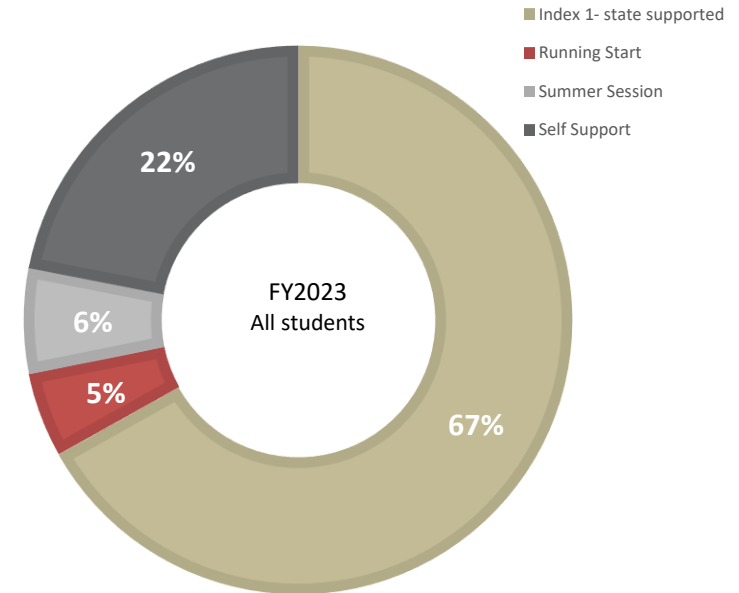
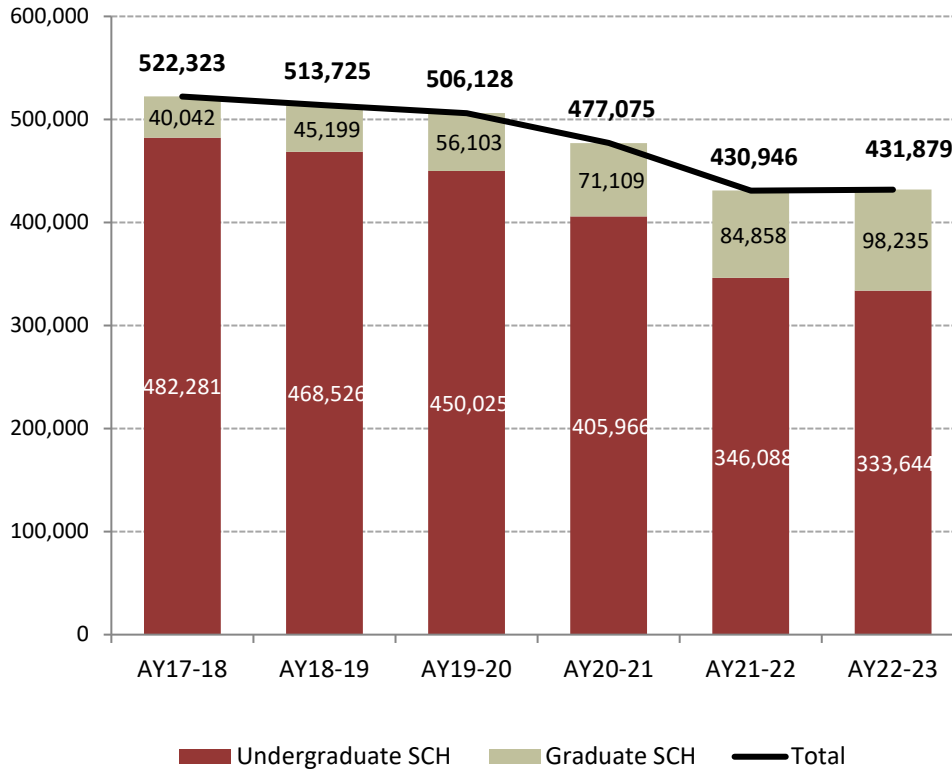
Financial Outlook

- **Overall budget perspective**
 - Economic Model, Business Model and Budget Models
 - Educational and General Budget (index 1 & 2)
 - General Fund structural budget imbalance
 - Budget Model Redesign Project (all funds)
 - Glide path to balanced status
- **Long-term financial plan**
 - Influenced by current operations
 - Operational efficiencies
 - Strategic planning outcomes and investments
 - Academic plan
 - Enrollment plan
 - Student services support levels
 - Infrastructure support
 - Fundraising plan

Eastern's business model will be flexible and responsive to the economic environment over time

Enrollment-12 Month

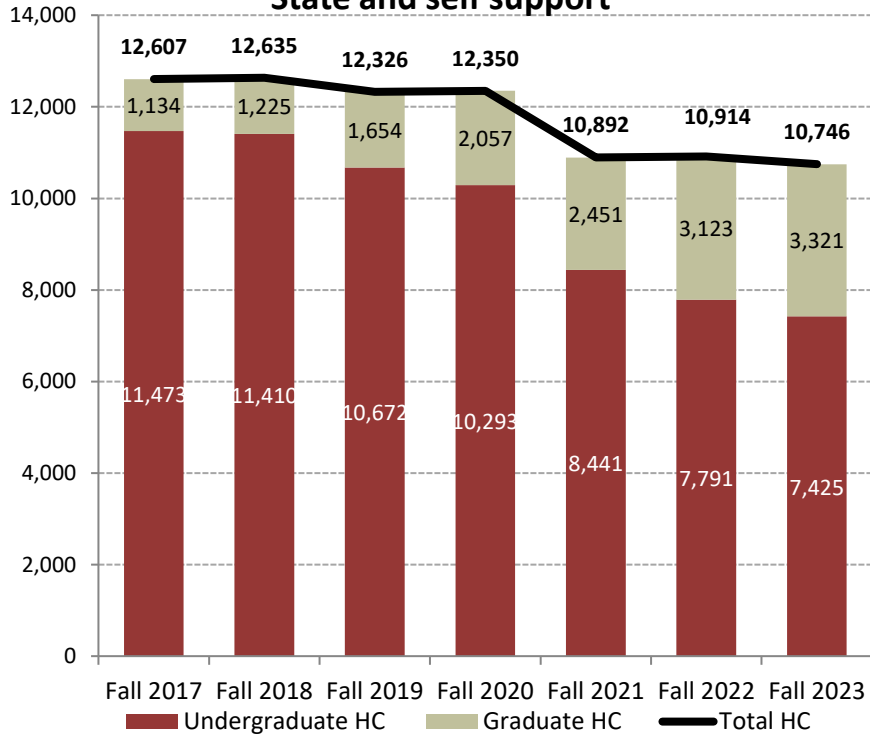
Student Credit Hours



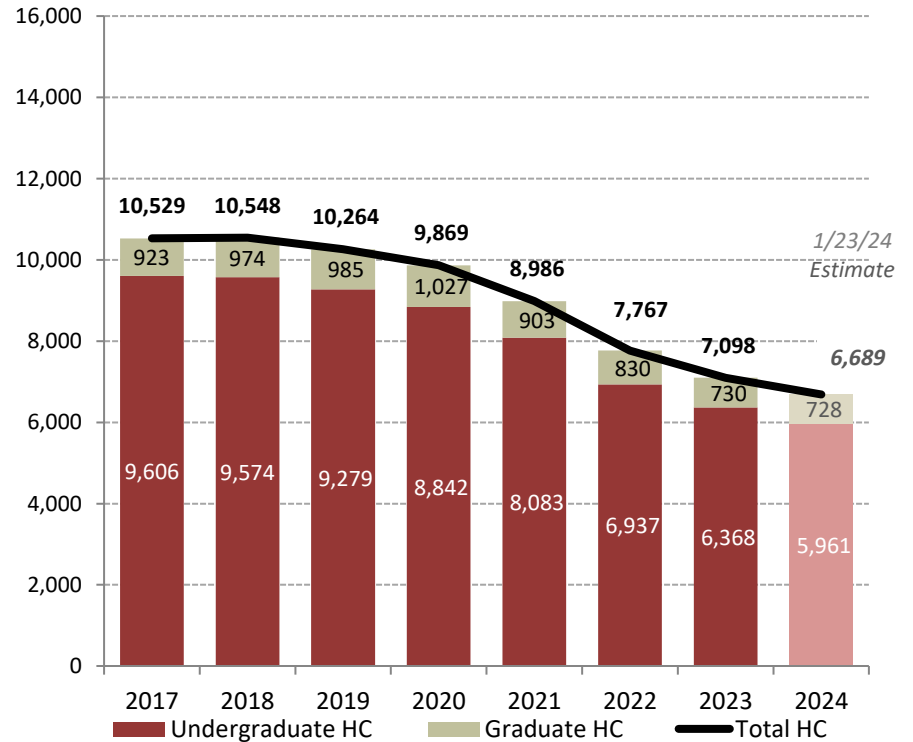
Note: SCH totals based on Fall – Summer term grouping at census date
 Does not include course credits registered after census date
 Source: EWU census date enrollments

Fall and AAHC Enrollment

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



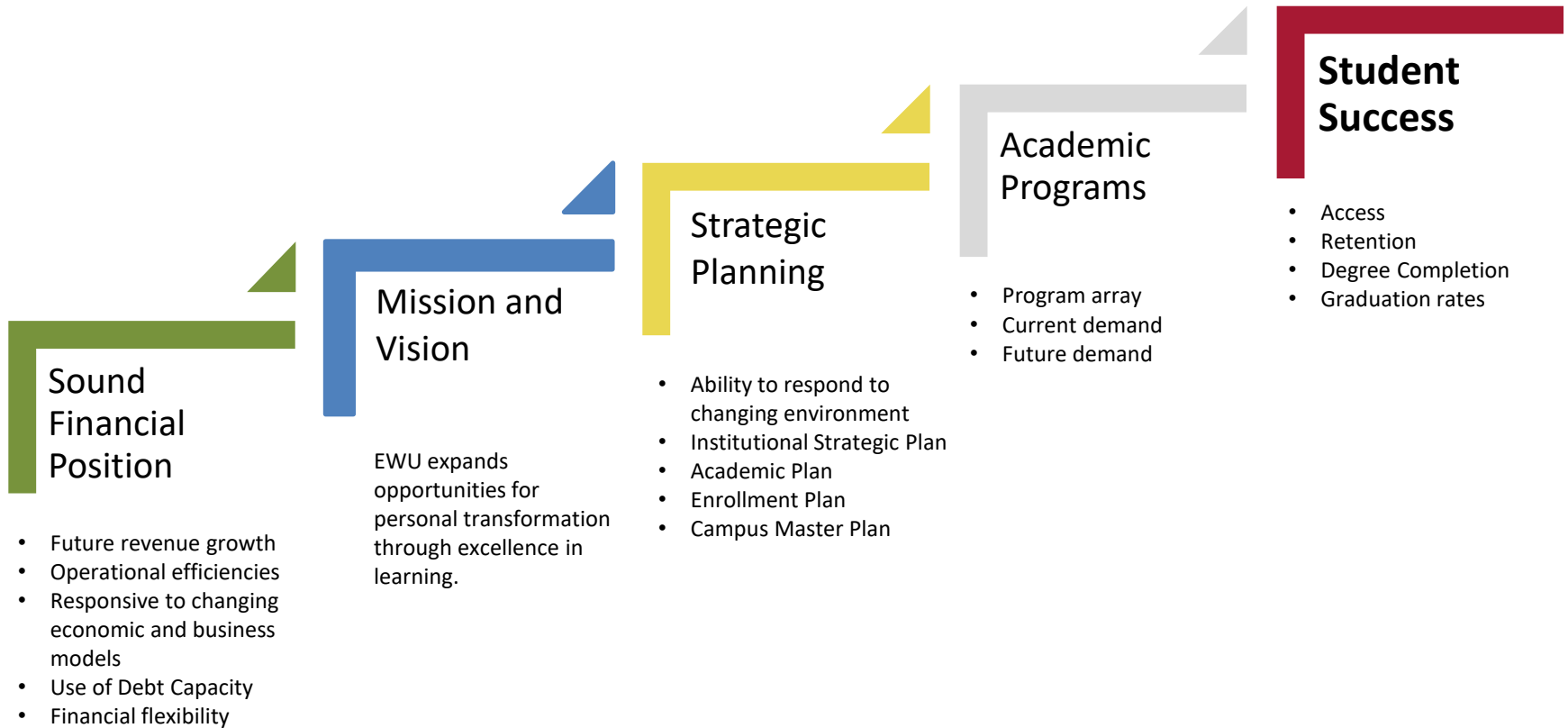
State Support Index 1 – Average Annual Head Count



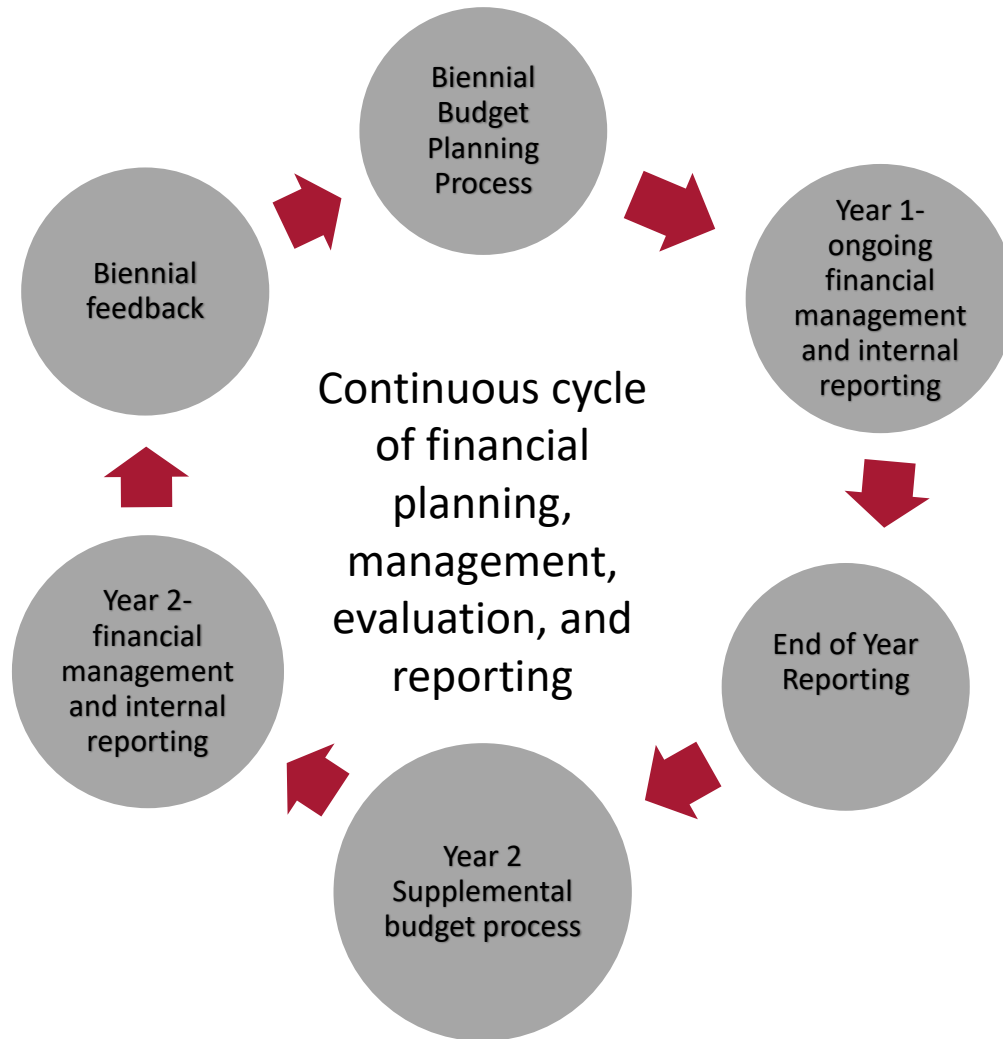
Source: EWU census date enrollments

Governance Section

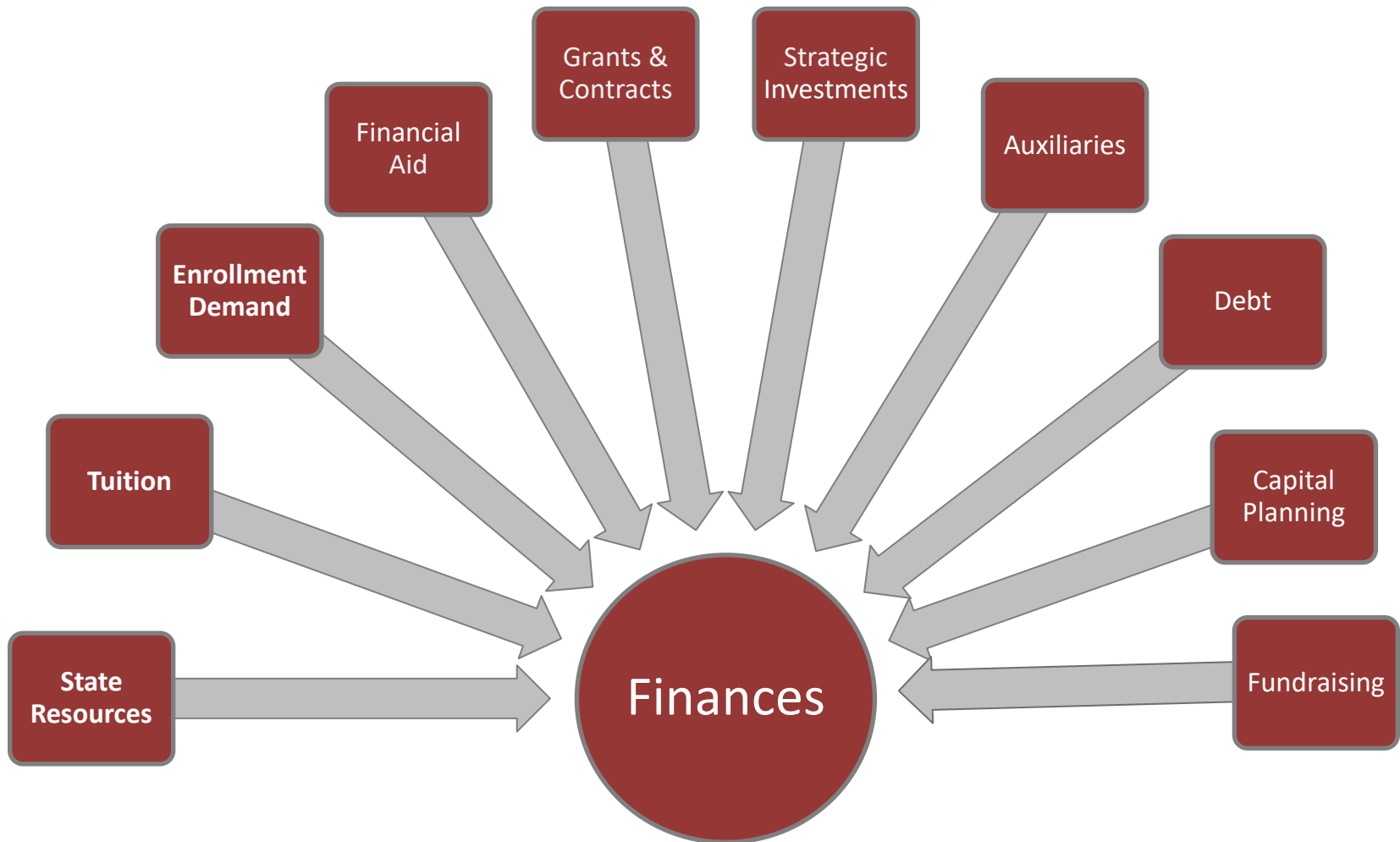
Achieving the Goals of the EWU Board of Trustees



Financial Resource Governance



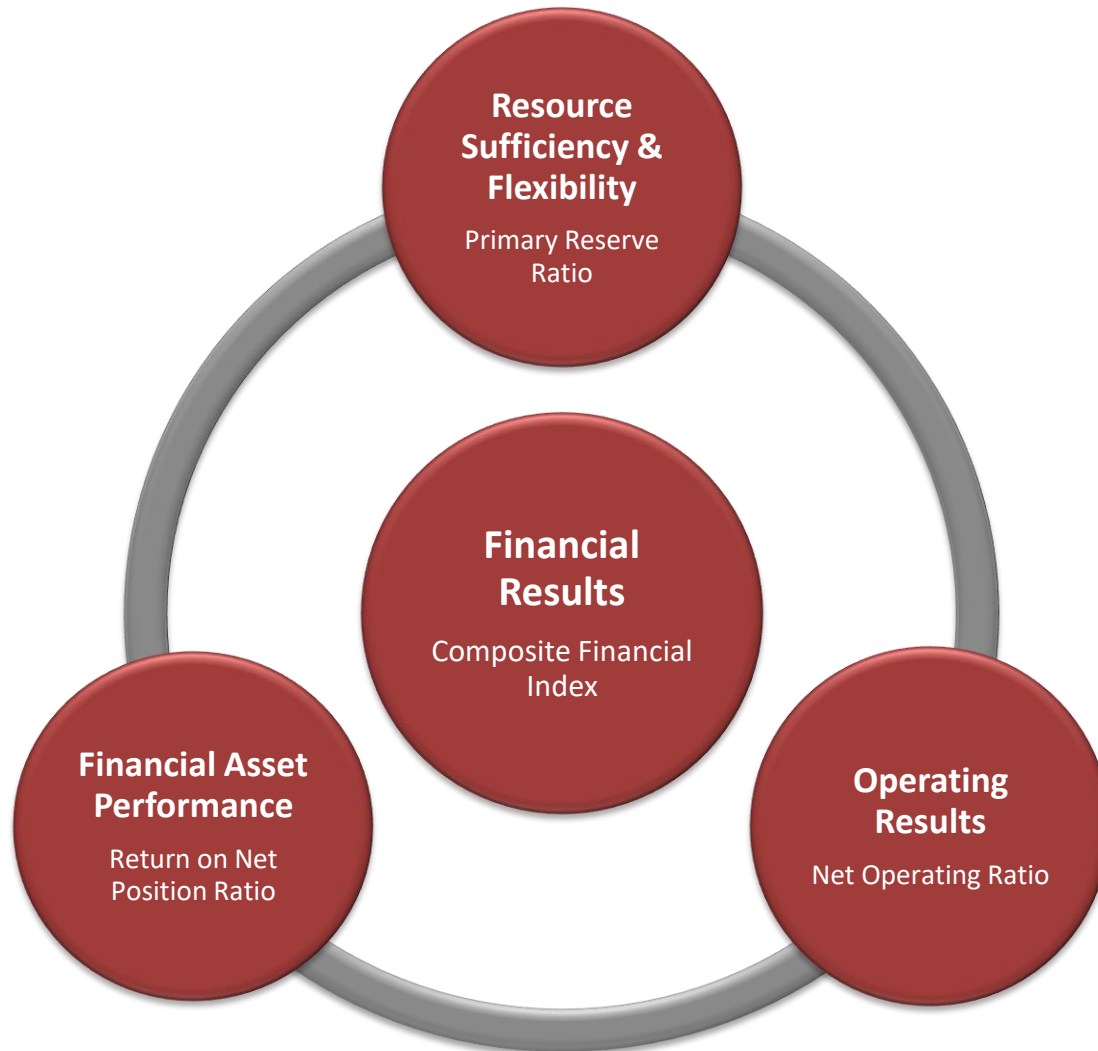
Impacts to Eastern's Financial Position



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
- Results presented to BOT Audit Committee (February 2024)
- 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 2023 Impacts to Financial Position

Key Revenue Drivers

General Fund Enrollment - core index 1

- FY23 AAHC decreased 9% from FY22
- Revenue declined \$4.4M

Enrollment- self support index 2

- FY23 HC increased 28.6% from FY22
- Revenue increased \$5.4M

Operating revenues declined 7.3% due to the end of federal COVID funds

State operating appropriations increased 16%

State capital appropriations increased 79%

State and local grants and contracts increased 10%

Auxiliary revenues increased increase 24%

Major Expense Categories

Natural growth in expenses along with ramped up inflation

Operating expenses increased 6% or \$14M

Salaries and wages increased 7% or \$7.4M

Benefits increased 45% or \$8.5M, mainly due to OPEB and pension changes

Scholarships and fellowships declined 39% or \$12.5M

FY 2023 Impacts to Financial Position

NET POSITION

	June 30, 2023	June 30, 2022
Net investment in capital assets	\$ 343,737,067	\$ 321,916,288
Restricted for:		
Non Expendable:		
Endowments	5,421,610	5,421,610
Expendable:		
Loans	6,612,204	6,460,079
Capital projects	9,813,281	6,271,503
Endowments and other	4,001,528	6,093,940
Net pension asset	9,336,470	25,802,650
Unrestricted	94,565,716	51,400,791
Total Net position	<u>\$ 473,487,876</u>	<u>\$ 423,366,861</u>

Change in Net Position \$50.1M

- \$21.8M increase in capital assets
- \$3.5M increase in unexpended capital projects funds
- \$16.6M decrease in net pension asset (measurement date 6.30.22)
- \$43.2M increase in unrestricted (pension, OPEB, SRP, operations)
- \$2.1M decrease in FMV endowments

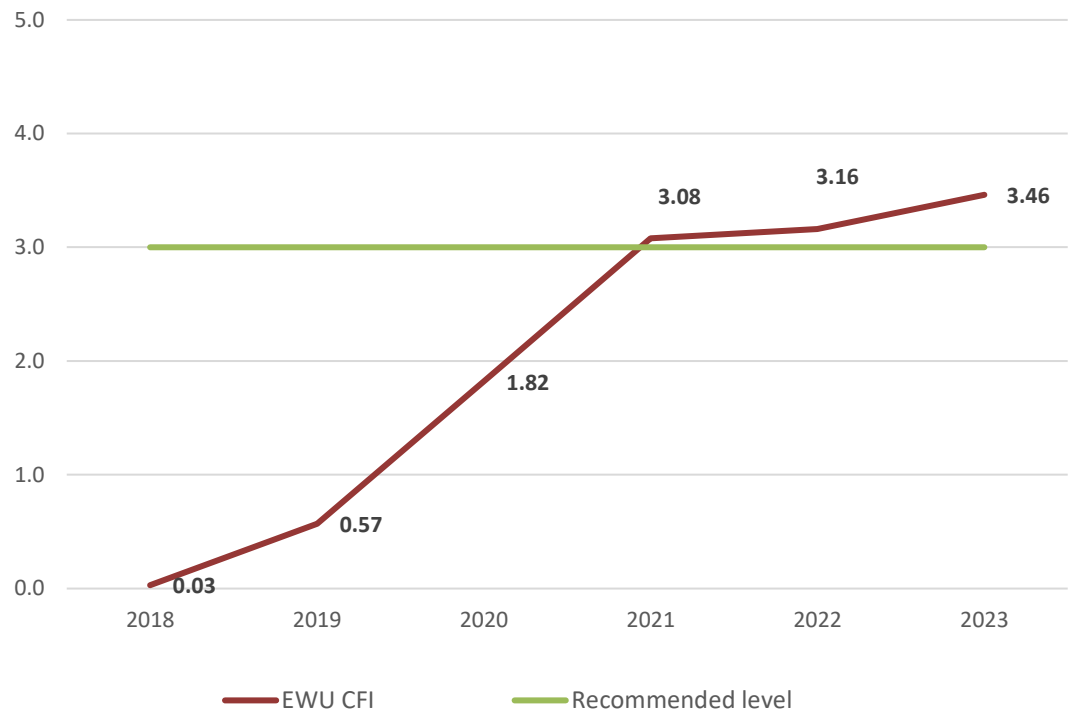
Composite Financial Index



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

Composite Financial Index



Source: EWU Financial Statements

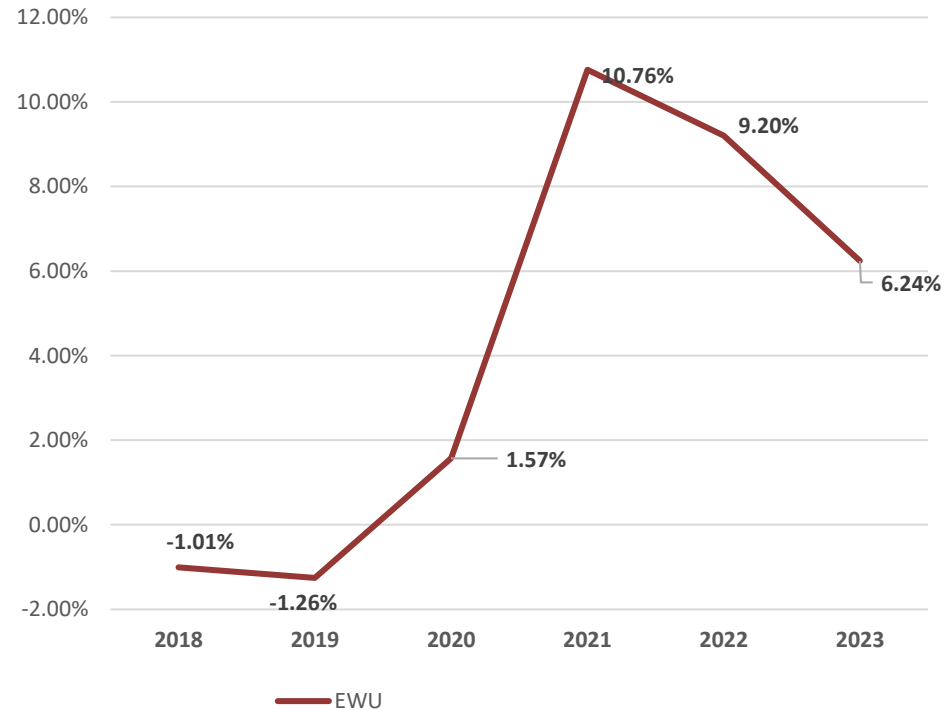
Net Operating Ratio



Is the institution living within available resources on an annual basis

- Measures net revenues in contrast to total revenues
- Measured before state capital appropriations
- 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

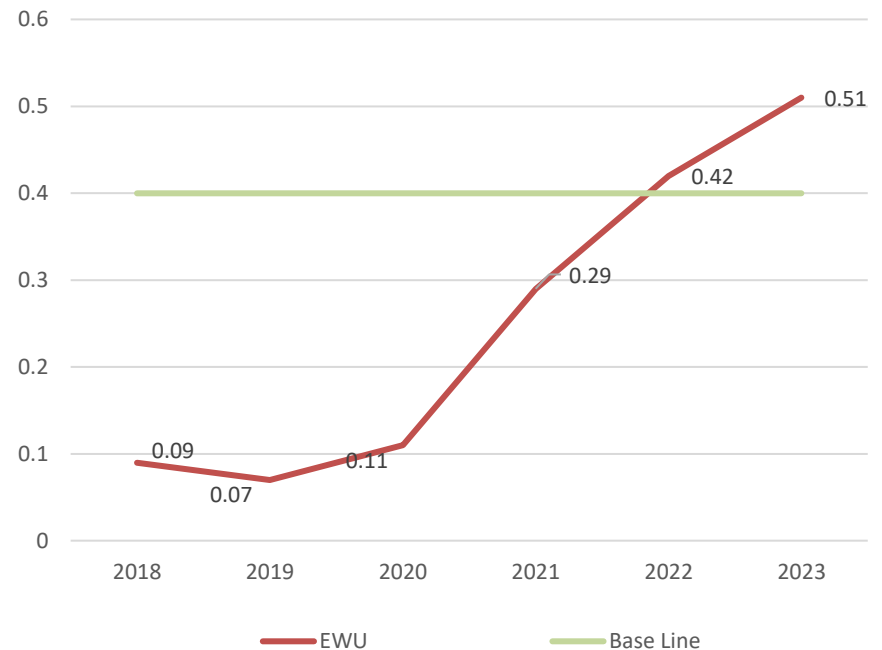
Primary Reserve Ratio



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

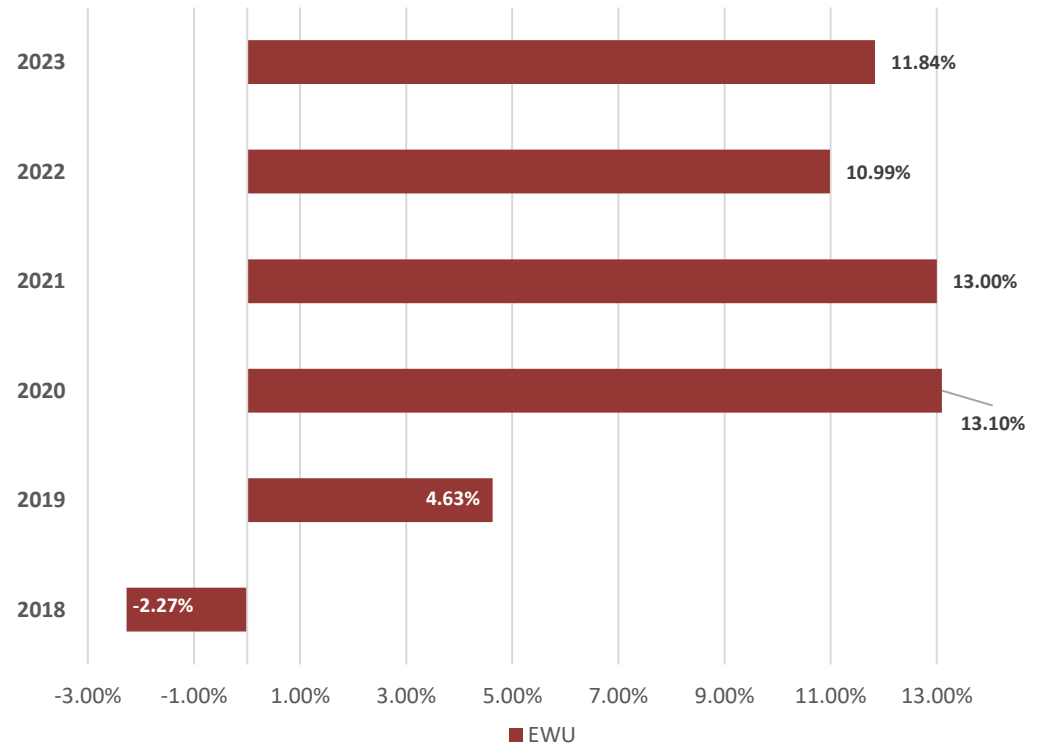
Return on Net Position Ratio



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

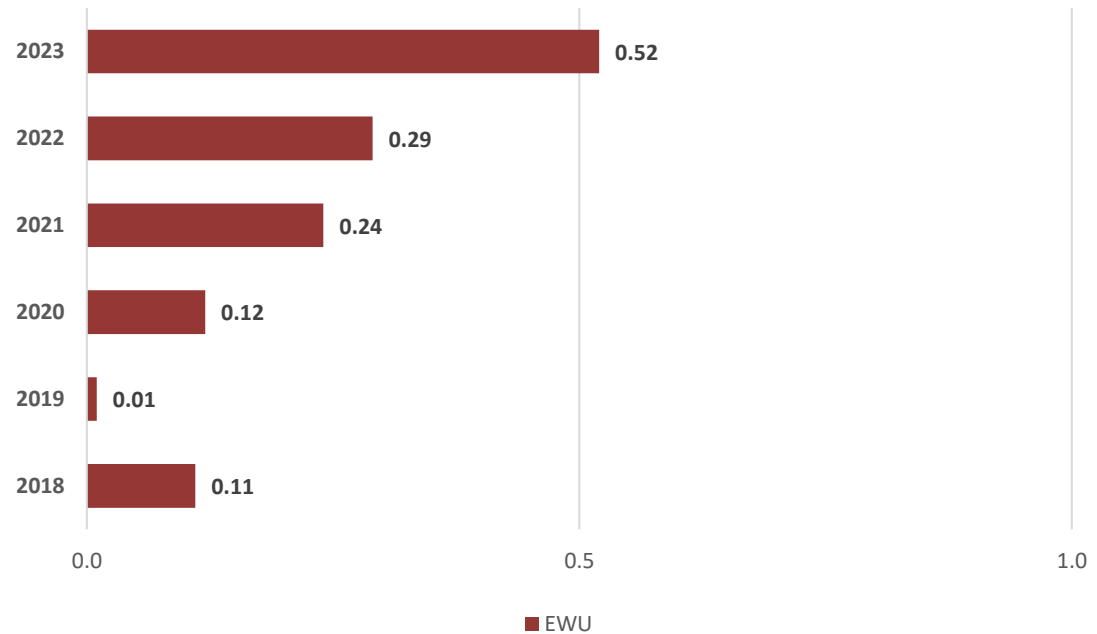
Viability Ratio



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

Viability Ratio



Source: EWU Financial Statements

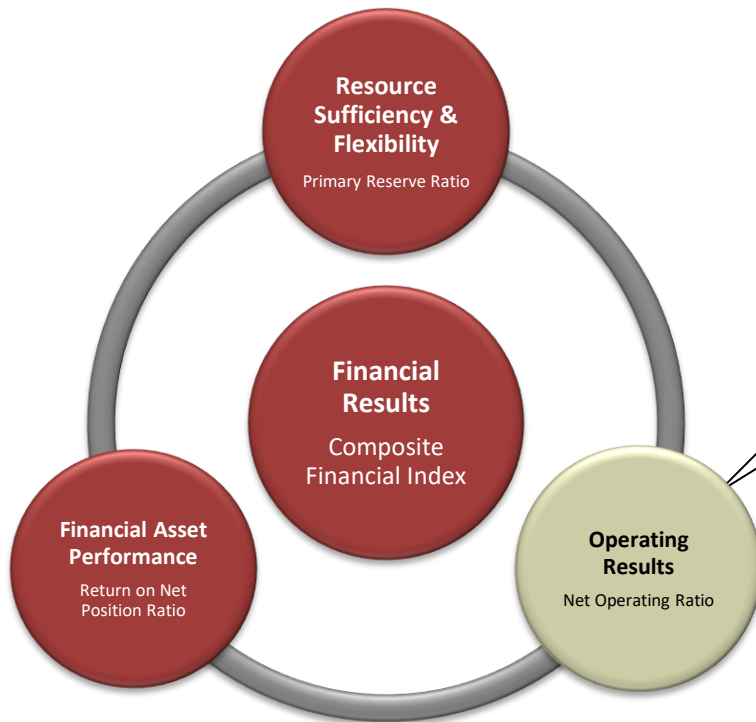
Financial Indicators

Financial Indicator	Definition	FY 2023	FY 2022	FY 2021
Tuition dependency ratio (%)	Helps measure sensitivity to changes in enrollment levels	39.8	46.5	51.0
Unrestricted financial resources-to-operations (x)	Measures coverage of annual operations by the most liquid resources	.426	.263	.223
Annual days cash on hand	Measures the number of days an institution is able to operate (cover its cash operating expenses)	369	359	354
Current ratio	Measures liquidity – ability to meet current obligations with liquid assets	5.83	5.53	5.51
Expendable financial resources to direct debt (x)	Measures coverage of direct debt by financial resources that are ultimately expendable	0.64	0.41	0.34
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	5.66	5.85	4.69
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.	3.36	3.90	5.39



OPERATING RESULTS

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



- ❖ Income Statement
 - Revenue
 - Expenses
 - Net Position

Key Performance Indicator

What does the Operating Statement mean?

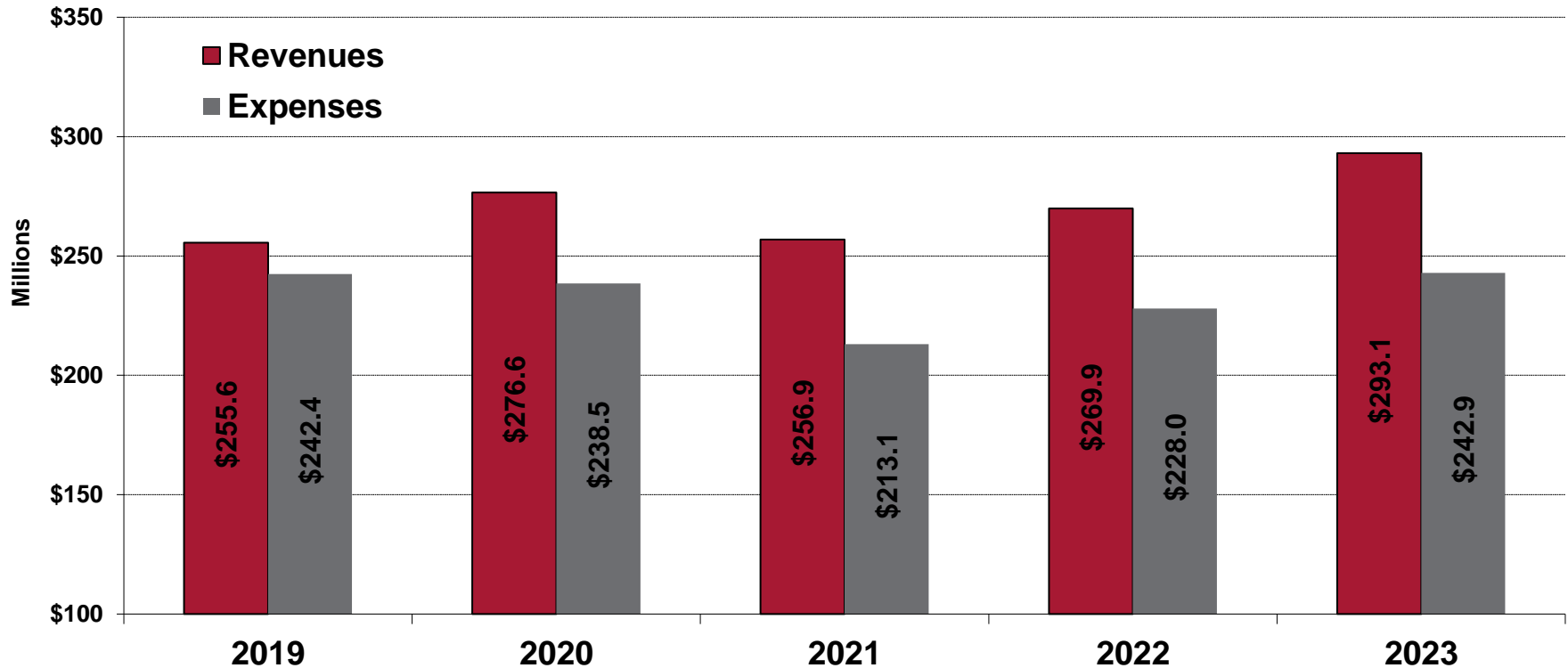
At any level of overall university assets, Eastern must live within it's annual income over time.

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



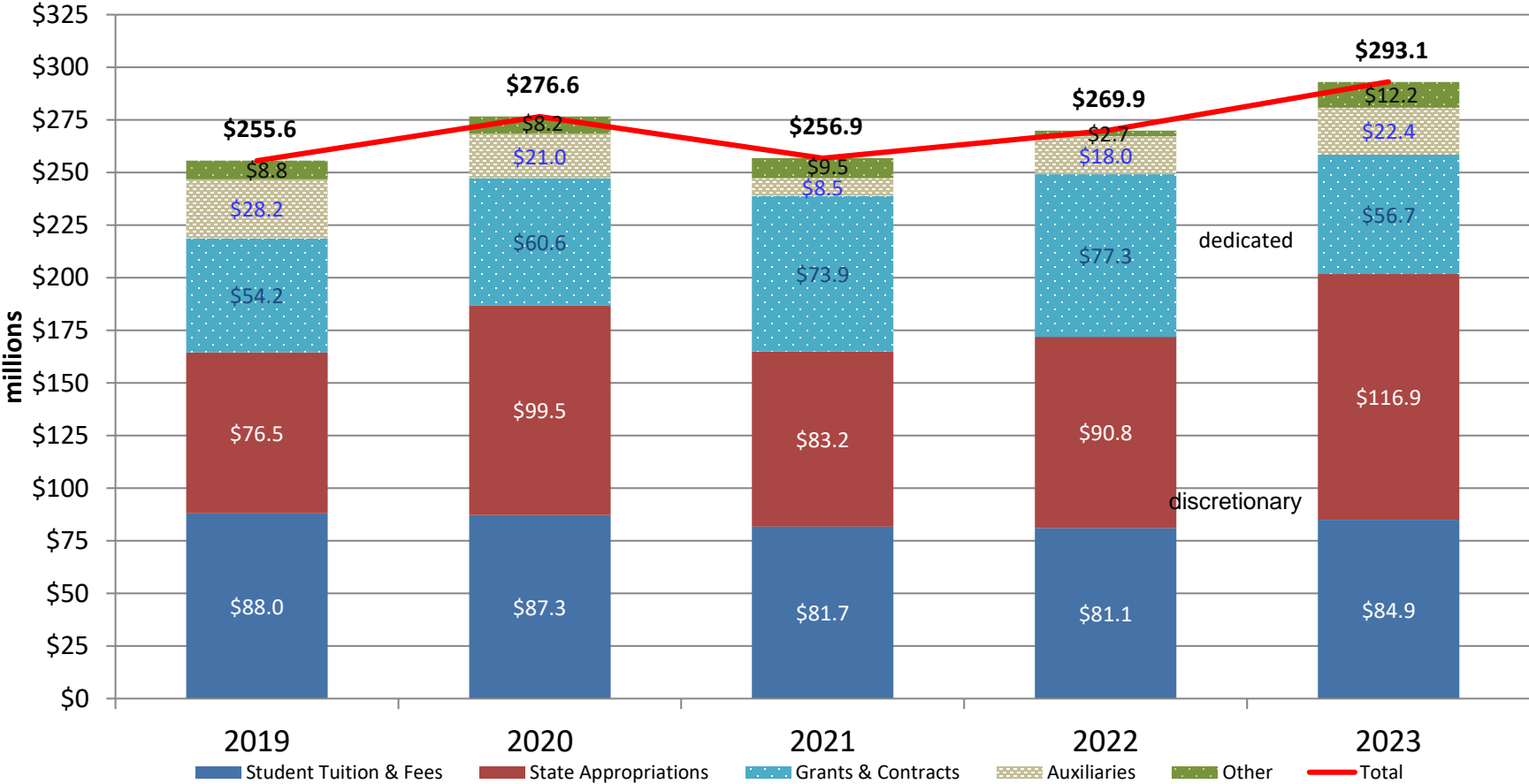
Increase in net position of \$50.1M, refer to slide 13

Source: EWU Financial Statements

Note: State capital appropriations included in revenue with majority capitalized as assets

University Revenues

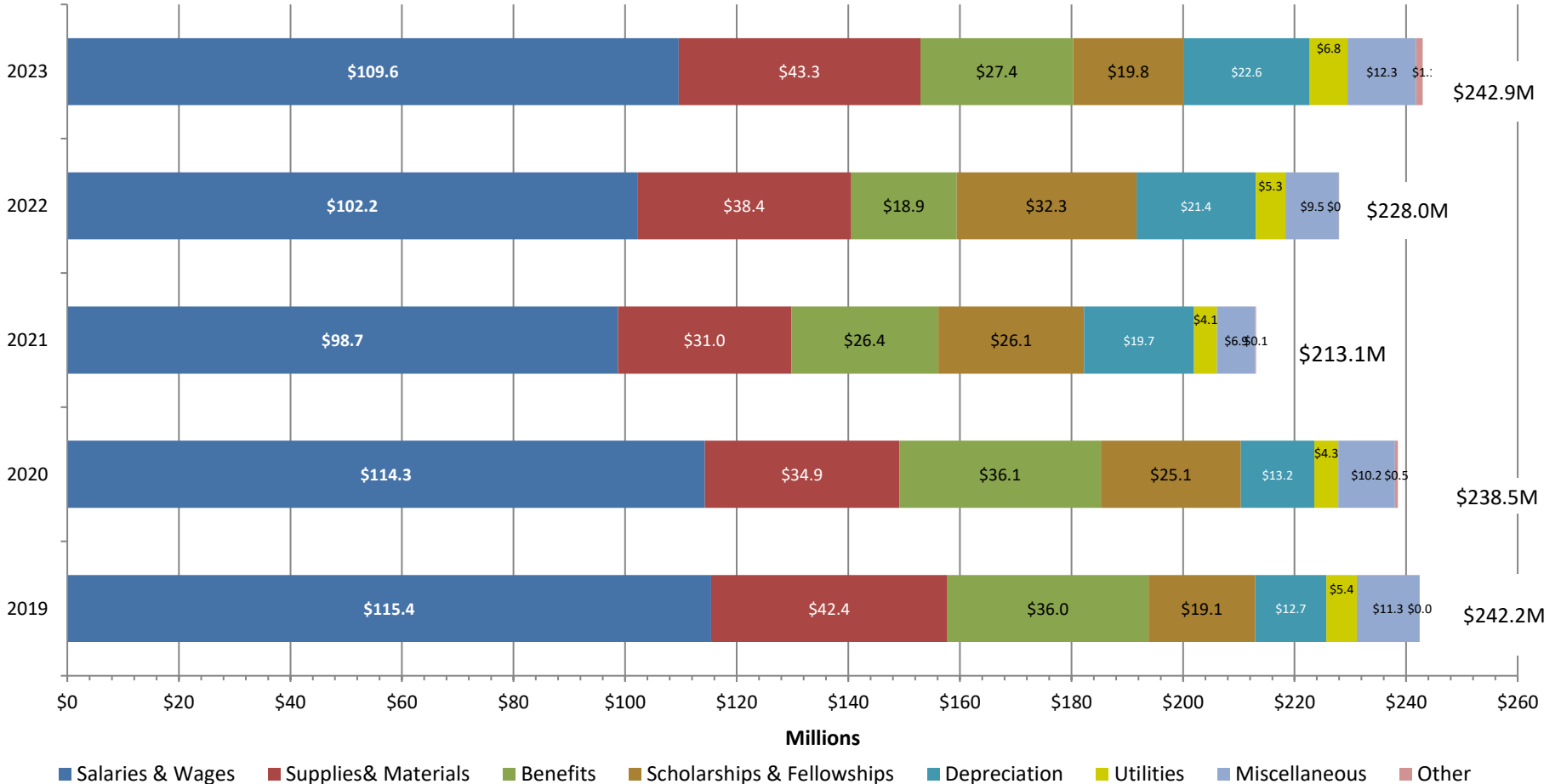
- ✓ Operating revenues declined 7%
- ✓ Student tuition and fees, increased 5%
- ✓ Grants and contracts, decreased 27%
- ✓ Auxiliaries, increased 24%
- ✓ State operating appropriations, increased 16%
- ✓ State capital appropriations, increased 79%



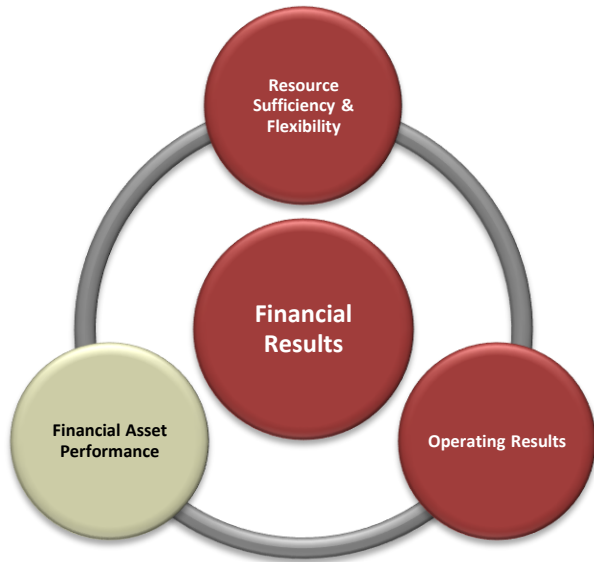
Source: EWU Financial Statements

University Expenses by Type

- ✓ Operating expenses increased 6% or \$14.1M
- ✓ Salaries and wages increased 7% or \$7.4M
- ✓ Benefits increased 45% or \$8.5M
- ✓ Scholarships and fellowships declined 38% or \$12.5M
- ✓ Supplies and materials increased 13% or \$5.0M



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	2022 (millions)	2023 (millions)
Total Assets and Deferred Outflows	\$767.5	\$805.7
Total Liabilities and Deferred Inflows	\$344.1	\$332.2
Net Position (June 30)	\$423.4	\$473.5

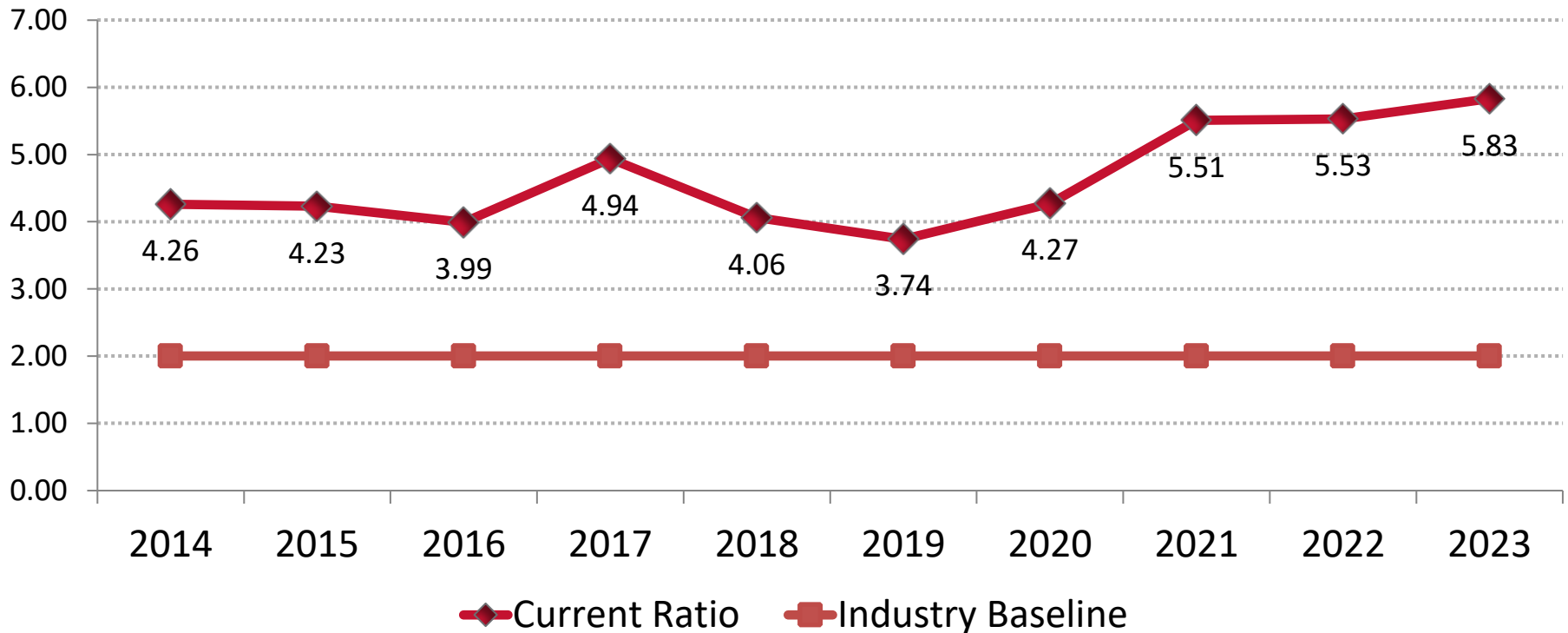
Unrestricted net position change due to results of operations and investment in capital assets

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

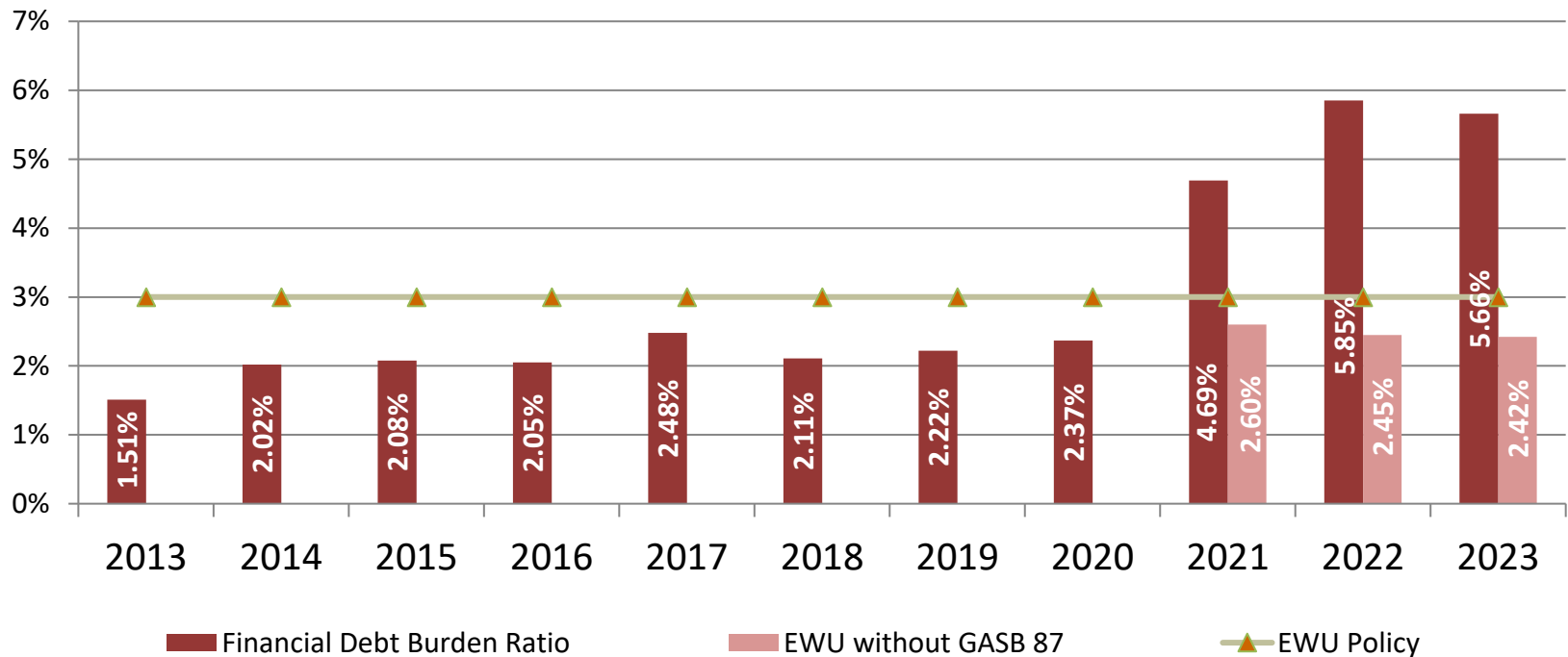


Source: EWU Financial Report

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: EWU Financial Report

2024 Outlook – Revised to stable as revenue growth closes gap on expenses

- Revenue growth will accelerate as gains materialize across multiple sources
- Moderating expense growth will prevent a material erosion in operating margins
- Reserves will remain sound as investment returns rebound and gift revenue grows
- Adjusted debt will fall as high interest rates discourage borrowing and alleviate pension liabilities
- **What could change the outlook.** The outlook could move to positive if revenue growth significantly overtakes expenses, supported by material strengthening across multiple sources. A negative outlook could materialize if revenue stagnates and expense growth fails to slow, leading to further erosion in sector-wide operating performance.

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EASTERN
WASHINGTON UNIVERSITY