EASTERN OREGON UNIVERSITY

FINANCIAL RATIOS OVERVIEW

Introduction:

Financial ratios are a tool used to evaluate the financial performance and long-term viability of an institution. The ratios themselves need to be viewed holistically, as well as viewed in a trend analysis of performance over time. Most importantly, financial ratios are a tool that should only be utilized while simultaneously evaluating the institution's progress toward mission fulfillment. (I.e., an institution could be reaching benchmarks in all financial ratios, but not be fulfilling its mission.)

Financial ratios are calculated from the numbers provided in an institution's audited financial statements – which means they capture the financial performance of all funds in the institution.

The primary and industry standard financial ratios help answer the following:

1. ***Are resources sufficient and flexible enough to support the mission?***
2. ***Are debt and investments managed strategically to advance the mission?***
3. ***Do operating results indicate the institution is living within available resources?***
4. ***Does asset performance and management support the strategic direction?***

To address the above-mentioned questions, this overview contains the four primary, and industry standard, financial ratios: Viability Ratio, Primary Reserve Ratio, Net Operating Revenues Ratio, and Return on Net Assets Ratio. This overview also includes a fifth ratio to more closely examine debt service payments as a proportion of all expenses – the Debt Burden Ratio. As noted within, the financial ratios have been presented both with and without the EOU Foundation's data. It is industry standard, however, since most foundations are a component unit of universities in terms of financial reporting, that the ratios be presented to include foundation data.

FY2016 saw significant accounting changes with GASB 68, as well as additional financial statement impacts due to the break apart of OUS. Thus, FY2015 and FY2016 presented large variances in a variety of reporting categories, creating additional variances when comparing it to FY2017 financial results. As a reminder, GASB 68 revised the required reporting and disclosure requirements of pension liabilities by public pension plans and public employers. Among the changes is a requirement that a Net Pension Liability be determined and reported.

Prior to GASB 68, employer pension liability was only reported in the notes to the financial statement and not recorded as a liability in the balance sheet. The new accounting standards do not impact employer and non-employer funding or member contributions, but change how pension expense, and net pension liability is reported in the financial statements of the pension plan and the employer. This additional liability negatively impacts net position for all public employers who participate in this type of plan. Thus, for this report, all ratios for FY17 are shown with and without the GASB 68 impact.

Lastly, and perhaps most importantly, best practice benchmarks may simply be unattainable for EOU due to our mission and identity. For instance, driving revenue and assets is one key way to impact financial ratios; however, doing so might price us out of our market and out of fulfilling our mission to serve this region. As such, as time progresses and as we build consistent historic data on our financial ratios, we may find it necessary to adjust our benchmarks.

I. Primary Reserve Ratio - *Are resources sufficient and flexible enough to support the mission?*

The Primary Reserve Ratio compares expendable net assets to total expenses and gives a picture as to how long the institution could function using its expendable reserves, without relying on any additional net assets from operations. This ratio's trend analysis determines if, over time, an institution is increasing its net worth in proportion to the rate of growth in its operating size.

Best Practice Ratio Benchmark: .40

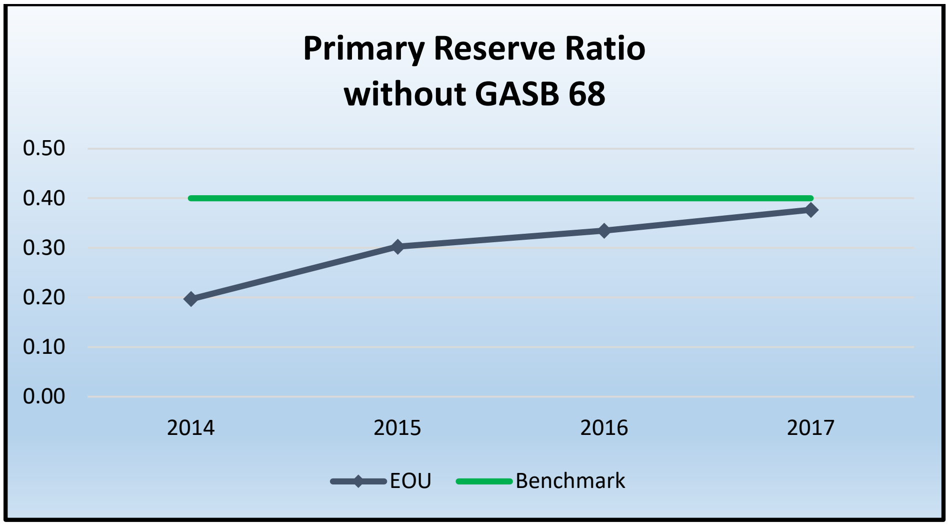
The benchmark of .40 implies that an institution would have the ability to cover about five months of expenses (40% of 12 months) from existing expendable funds. Institutions that operate at this level rely primarily on internal cash flow to meet obligations and can manage through most unforeseen, adverse financial events with the assets they have at hand. A ratio below .10 - .15 is illustrative of an institution that often must utilize short-term borrowing to fulfill obligations, could only cover approximately one month of expenses, and often lacks the ability to reinvest or provide new resources for strategic initiatives.

The following chart illustrates the correlation between the Primary Reserve Ratio and the days of operating expense that could be covered by existing unrestricted net assets:

Primary Reserve Ratio	Days of Operating Expense
.45	164
.40	146
.35	128
.30	110
.25	91
.20	73
.15	55

Ratio Results:

Primary Reserve	2014 w/o GASB 68	2015 w/o GASB 68	2016 w/o GASB 68	2017 w/o GASB 68	2017 with GASB 68
Net Position	13,835	16,472	62,830	64,208	55,556
Less: Restricted Endowments	-554	-554	-554	-554	-554
Less: Invest in Cap Assets	-7,969	-5,714	-49,520	-48,648	-48,648
Operating Expenses	52,178	49,112	52,053	53,518	55,913
Interest Expenses	3,881	3,152	1,495	1,121	1,121
w/o Foundation	**0.09**	**0.20**	**0.24**	**0.27**	**0.11**
Expendable Net Assets	5,872	5,820	5,449	5,929	5,929
Total Expenditures	696	705	827	970	970
w/ Foundation	**0.20**	**0.30**	**0.33**	**0.38**	**0.21**



How to Impact Ratio Results:

- Increase revenue and total assets
- Decrease operating expenses and debt liabilities
  (EOU's depreciation expense often outweighs our capital assets due to lack of investment in new capital assets.)

II. Viability Ratio - *Are debt and investments managed strategically to advance the mission?*

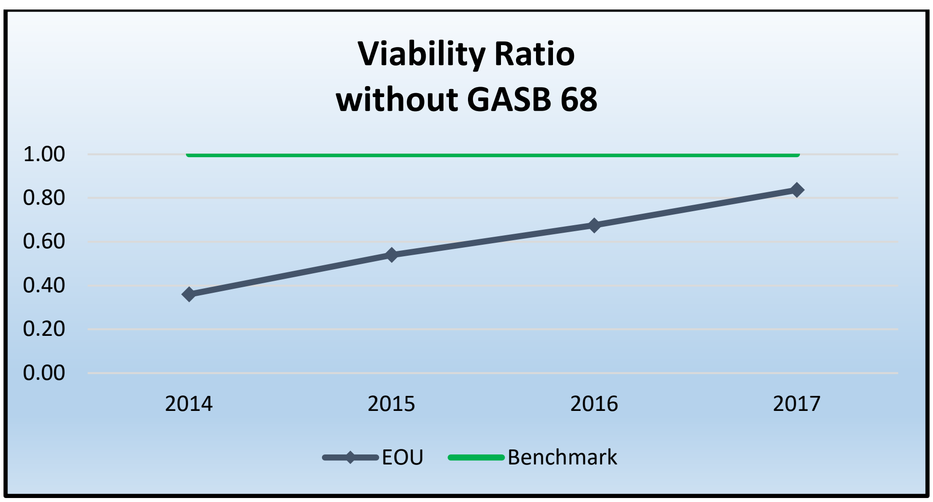
The Viability Ratio measures the availability of expendable net assets to cover debt should the institution need to settle its obligations as of the balance sheet dates. For this calculation, debt is defined as plant-related debt, both current and long-term portions.

Best Practice Ratio Benchmark: 1:1

> Benchmark Caveat: Although a ratio of 1:1 indicates that an institution has enough expendable net assets to cover its obligations, the 1:1 value should not necessarily serve as the objective. Most debt relating to plant assets is long term and won't ever need to be paid off at once.

Ratio Results:

Viability Ratio	2014 w/o GASB 68	2015 w/o GASB 68	2016 w/o GASB 68	2017 w/o GASB 68	2017 with GASB 68
Net Position	13,835	16,472	62,830	64,208	55,556
Less: Endowments	-554	-554	-554	-554	-554
Less: Invest in Cap Assets	-7,969	-5,714	-49,520	-48,648	-48,648
Long-Term Debt	31,084	29,684	26,986	25,014	25,014
w/o Foundation	**0.17**	**0.34**	**0.47**	**0.60**	**0.25**
Change in Net Assets	5,872	5,820	5,449	5,929	5,929
Long Term Debt	0	0	0	0	0
w/ Foundation	**0.36**	**0.54**	**0.67**	**0.84**	**0.49**



How to Impact Ratio Results:

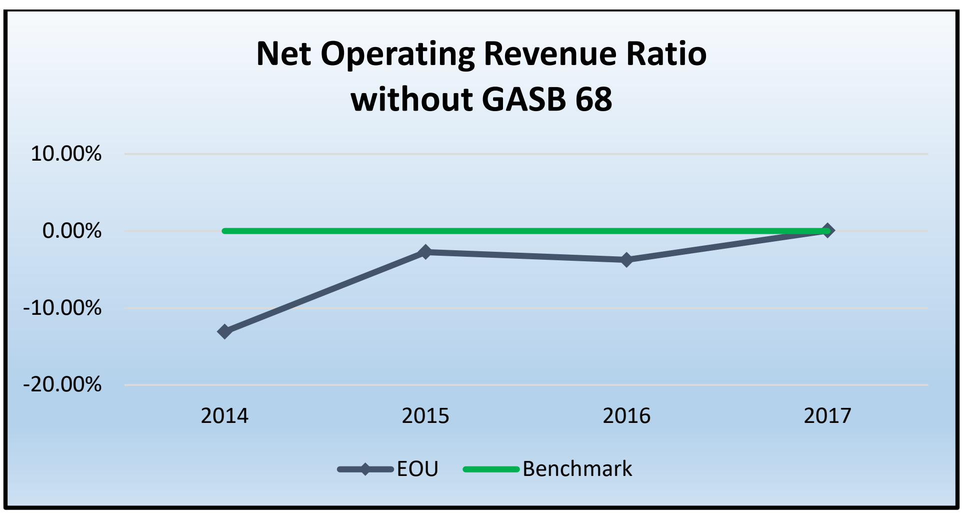
- Increase total assets
- Decrease expenses and debt liabilities
  (EOU's depreciation expense often outweighs our capital assets due to lack of investment in new capital assets.)

III. Net Operating Revenues Ratio – *Do operating results indicate the institution is living within available resources?*

The Net Operating Revenues Ratio measures whether an institution experienced an operating surplus or loss for a given year. A negative number indicates a loss, while a positive number indicates a surplus.

Ratio Results:

Net Operating Revenue	2014 w/o GASB 68	2015 w/o GASB 68	2016 w/o GASB 68	2017 w/o GASB 68	2017 with GASB 68
Operating Income (Loss)	-26,602	-23,067	-27,493	-27,108	-29,503
Net Nonoperating Revenues	18,983	21,678	25,500	27,009	27,009
Operating Revenues	25,576	26,045	24,559	26,410	26,410
Net Nonoperating Revenues (excluding interest expense)	22,863	24,830	26,996	28,129	28,129
w/o Foundation	**-15.73%**	**-2.73%**	**-3.87%**	**-0.18%**	**-4.57%**
Change in Net Assets	1,145	-25	17	126	126
Total Revenues	1,011	680	844	1,096	1,096
w/ Foundation	**-13.09%**	**-2.74%**	**-3.77%**	**0.05%**	**-4.26%**



How to Impact Ratio Results:

- Increase operating revenues (student fees, grants and contracts, auxiliary revenues, sales and services)
- Decrease operating and interest expense

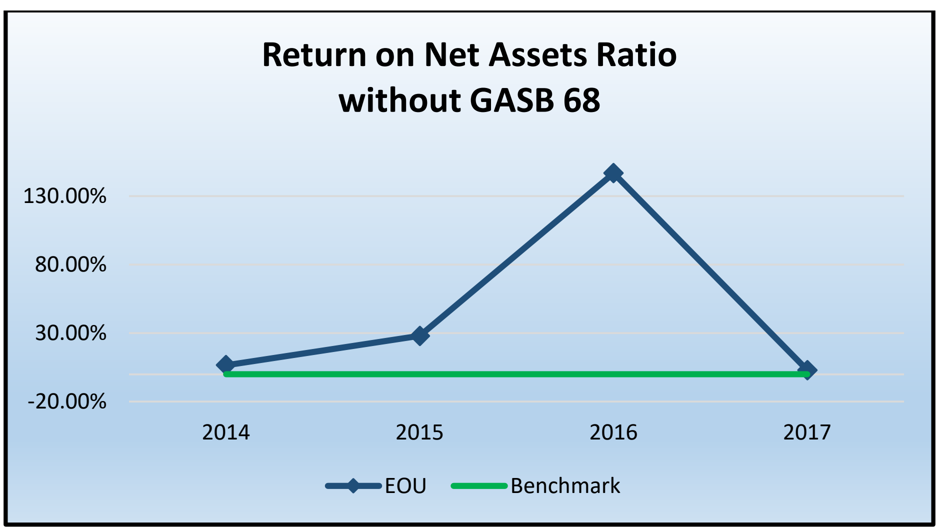
IV. Return on Net Assets Ratio - *Does the financial asset performance support the strategic direction?*

The Return on Net Assets Ratio examines whether an institution's financial condition is improving over prior year by measuring total economic return. This ratio compares the change in net assets to total net assets. As with the other ratios, this ratio is best viewed over an extended period of time, as fluctuations are the natural course of business – i.e. strategic investments in a new program might naturally not see economic returns until future years. Because of this sensitivity, many institutions opt to measure this particular ratio as an average of three fiscal years.

Best Practice Ratio Benchmark: 3-4%

Ratio Results:

Return on Net Assets	2014 w/o GASB 68	2015 w/o GASB 68	2016 w/o GASB 68	2017 w/o GASB 68	2017 with GASB 68	
Change in Net Position	-71	7,156	44,976	1,377	-1,018	Variance from 2016 to 2017 was due to the large write-off of state paid debt in 2016 (OUS reorganization)
Beginning Net Position	13,906	13,835	17,854	62,830	56,574	
w/o Foundation	**-0.51%**	**51.72%**	**251.91%**	**2.19%**	**-1.80%**	
Change in Net Assets	1,710	199	-221	873	873	
Beginning Net Assets	10,731	12,440	12,639	12,418	12,418	
w/ Foundation	**6.65%**	**27.99%**	**146.77%**	**2.99%**	**-0.21%**	



How to Impact Ratio Results:

- Increase operating revenues (student fees, grants and contracts, auxiliary revenues, sales and services)
- Increase appropriations, financial aid awards, gifts, investments
- Decrease operating and interest expense

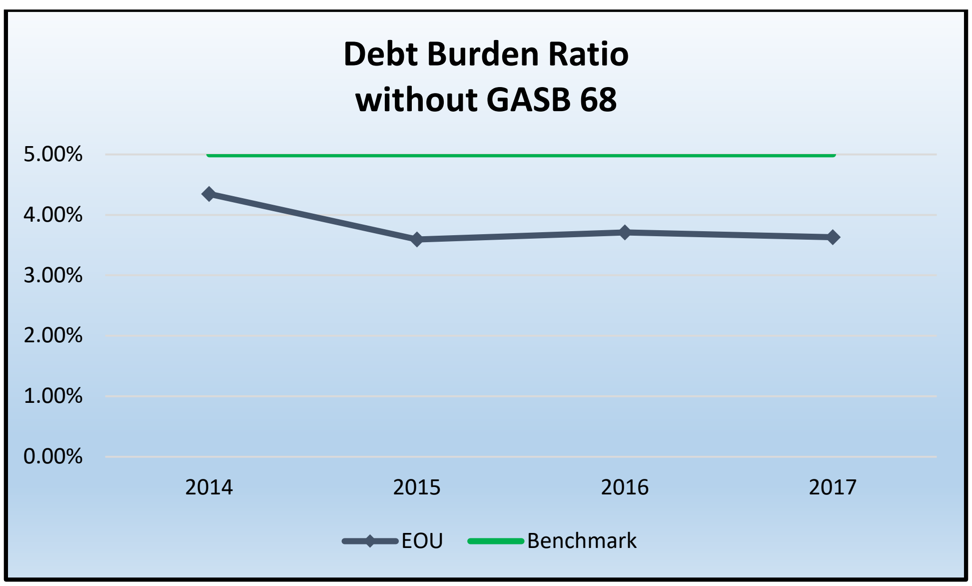
V. Debt Burden Ratio

While not a core financial ratio, the debt burden ratio is a tool to measure debt affordability. This ratio looks at the cost of borrowing to overall expenditures, comparing the level of current debt service with the institution's total expenditures.

Best Practice Ratio: $\leq$ 5%

Ratio Results:

Debt Burden	2014 w/o GASB 68	2015 w/o GASB 68	2016 w/o GASB 68	2017 w/o GASB 68	2017 with GASB 68
Principal Paid	1,407	875	1,032	1,030	1,030
Interest Paid	951	918	876	881	881
Operating Expenses	56,059	52,264	53,548	54,639	57,034
Less: depreciation expense	-3,923	-3,945	-3,983	-4,026	-4,026
Add back: principal paid	1,407	875	1,032	1,030	1,030
w/o Foundation	**4.40%**	**3.64%**	**3.77%**	**3.70%**	**3.54%**
Long Term Debt	0	0	0	0	0
Total Expenditures	694	704	827	969	969
w/ Foundation	**4.35%**	**3.59%**	**3.71%**	**3.63%**	**3.47%**



How to Impact Ratio Results:

- Reduce XI-F Debt Burden
- *(For illustration, EOU could have an additional $1M in annual debt service expense, in order to exceed the 5% benchmark.)*