Submitted by: William Decatur, Vice President for Finance and Business Operations

# Executive Summary - Financial Results for FY 2016

The University experienced mixed financial performance in FY 2016. Although the University operating funds results reflect a significant turnaround from our previous years, continuing challenges in the School of Medicine and the Fund for Medical Research and Education (FMRE) require a significant write-off of losses against the University's General Fund. The overall results for the Total Current Funds in FY 2016 are a net decrease in Net Assets of $6.2M. The following paragraphs outline key points in the University's FY 2016 financial performance.

CURRENT FUNDS

1. General Fund

For the first time since 2012, our General Fund operating results, before adjustments for FMRE, produced a positive balance of $16.9 million. The positive performance results from a combination of tuition revenues being slightly higher than budgeted and significant spending below budget in centrally funded obligations such as fringe benefit costs and utilities. Outside of the School of Medicine, most schools, colleges and divisions reduced expenditures and ended the year with small positive balances within their General Fund operating budgets. The School of Medicine ended the year with a negative balance in their General Fund allocation of $3.1 million. Please note that this is in addition to the $29 million shortfall in revenues incurred by SOM and the University as a result of activity related to the Fund for Medical Research and Education, which is discussed below.

Revenues

General Fund revenues were on target, totaling $607M on a budget of $602M. Specifically, we experienced a slight increase in tuition of approximately $2M. This increase was the result of growth in the spring/summer enrollment initiatives. In an effort to improve retention and graduation rates, the university offers a 30% discount to students that have enrolled full time in both the fall and winter semesters and completed a combined 24 credit hours during those two semesters. This program will continue to be offered in FY17. Other General Fund revenues experienced minor variations compared to budget. Investment and Endowment Income was $2M more than budgeted and Indirect Cost Recovery was approximately $1M less than planned. The Indirect Cost Recovery from grants and contracts experienced nearly a 3% shortfall which will need to be monitored closely during FY 2017. For the University to achieve the FY 2017 budget target, the University will need to record an actual increase in sponsored expenditures of ~9%, compared to the budgeted increase of 6% percent.

Expenses

Total expenses in the General Fund were nearly 2% less than budgeted, a "savings" of more than $12M. The savings were primarily in two areas of institutional support – fringe benefits and utilities. Actual fringe benefit costs were nearly $5M less than budgeted. Similarly, due to favorable weather conditions in 2015-16, actual utility costs were nearly $1M less than the previous year and $5M less than budgeted.

Expenses of the regular operations of the institution were relatively stable and within budget. Overall, salaries and wages were slightly greater (less than 1%) of budget. In total, other operational costs were essentially on budget, except for the aforementioned central obligations of fringe benefits and utilities.

Tuition and Financial Aid

The relationship of Tuition revenues and financial aid costs is best thought of as a "discount" in the sales price. The University's true value collected from tuition charges is the Net Tuition, which is calculated by subtracting financial aid funded from gross tuition. This calculation is referred to as the tuition discount. As noted above, the University experienced a slight increase in total gross tuition revenues. However, the University exceeded the financial budget. The financial aid budget for FY 2016 increased 3.9% over FY 2015, which primarily reflects the increase in tuition rates and associated increase in cost of education. However, the University awards exceeded the FY 2016 financial aid budget by $7M. The University's "discount rate" increased from 29.58% to 30.17%. This rate is significantly higher than the industry standard for four-year public institutions which is 15-16%. The relationship between tuition, financial aid, enrollment targets and enrollment demographics is a critical strategic matter, and must be continuously examined as the University strives to achieve its strategic goals

Impact of FMRE

During FY 2016, the School of Medicine allocated more than $29M of personnel costs to the FMRE reimbursable accounts. During the year, FMRE was unable to fund any of these amounts. Combined with the previous year's shortfall of nearly $10 million that remained in the Restricted Expendable Net Assets, FMRE accounted for a cumulative net decrease of $39,681,270. After reviewing the draft financials for FMRE and in consultation with WSU School of Medicine management, it has been determined that the full amount due to WSU is uncollectible. In consultation with our Auditors, we determined that this shortfall should be recorded in the Designated fund which is a sub fund of the General Fund, and charged against the University's General Fund Net Assets. This has had a significant impact on the University's General Fund Net Assets. As noted previously, the General Fund operating results netted a $16.9 million positive balance. However, the impact of the FMRE transaction reduces the General Fund Net Asset balance from $84.4 million to $61.6 million.

**Overall, the General Funds ended the year with a decrease in Net Positon of nearly $23M.**

<u>Designated Fund</u>

Financial and budget reporting has focused primarily on the University's General Fund. While the General Fund is indeed the largest fund within current fund group, the Designated funds play a key role in institutional operations. The Designated funds is considered a "sub fund" of the General fund. These funds are not currently budgeted so our discussion of the results are limited to a "revenue vs. expense" assessment. The Designated funds will be part of the annual budget process for the FY 2018 budget. Finally, as we will see within this year's financial results, expense and revenue activity in this area can influence the University's overall financial picture.

What funds constitute the Designated fund group? The Designated funds represent revenues that are received or generated from non-educational activities. These revenues are not restricted but "designated" for use by BOG or institutional policy. Examples of these are fees for services, unrestricted gifts, salary reimbursements.

Overall Financial Results

Total revenues in FY 2016 were $85.0M, an increase of more than $14M. Many of these revenues are used to support the activities of schools and colleges and are either reimbursement for costs already incurred or incurred within the near future. Total expenses in FY 2016 were $66.9M, a decrease of $8.6M. Fund balance increases are expected as certain revenues are not earmarked or expended within the year.

**Overall, the Designated Funds ended the year with an increase in Net Position of approximately $18M.**

Auxiliary Activities and Independent Operations

Auxiliary Activities funds support the University community in a variety of ways by providing ancillary services to the students, faculty and staff. These operations generate considerable revenue and are expected to be self-supporting. In some ways they operate as individual "businesses" but are driven by delivering service versus generating profits. The three primary operations are: 1) Housing and Food Services, 2) Parking, and, 3) Student Center operations. In the case of the Student Center, revenues are generated by lease arrangements with retail entities, such as fast food companies within the Student Center. These revenues help defray the costs of building operations.

For FY 2016, these entities generated more than $47M of revenue to support their operations. This represents an increase of nearly $1 million. As noted above, the primary areas within this group are Housing and Food Services, Parking and Student Center operations. Each of these areas have their own expense vs. revenue statement. Expenses for the year were nearly $48 million, resulting in an overall net loss of $720 thousand.

A second portion of the Auxiliary funds is the Independent Operations component. This component represents the operations of WDET, the public service radio station. Along with their sales and other revenues, WDET receives a General Fund subsidy of $472K in order to remain in operation. Overall, WDET received $2.3 million in revenues and incurred expenses of approximately $3.1 million. Offsetting the loss by the General Fund subsidy, WDET still operated at a $297 thousand loss for the year, decreasing their fund balance to a negative $1.7M.

**Overall, the Auxiliary Activities and Independent Operations Funds ended the year with a decrease in Net Position of approximately $1M.**

Expendable Restricted Funds

Expendable Restricted funds (ERF) are provided by external sources for very specific purposes, hence the classification of "restricted". The majority of these funds are represented by the grants and contracts the institution receives to support the research and scholarly activities of our faculty and academic programs. Additionally, due to the level of restrictions placed by the donors, certain gift funds may be included in this area. Because the nature of these funds is that they are to be expended for very specific purposes and the activities are to be funded from externals sources, the expectation is that these funds are always in a balanced financial state.

WSU continues to experience a turnaround in the area of sponsored program work, primarily Federal research awards. In FY 2016, WSU recorded a 4.3% increase in Federal research awards after seeing an increase in FY 2015 of 7.8% in that area. These awards support future work so their affect is reflected in both FY 2016 and subsequent years.

**Overall, the Expendable Restricted Funds ended the year with a decrease in Net Position of $494K.**

Overall Financial Results of Current Operating Funds

**The combined results of all of the financial activities within these funds, which together define our current fund operations, is a decrease in Net Position of approximately $6.2M.**