

Analysis of the Financial Audits of Western Washington University

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EXECUTIVE SUMMARY

In the 2022-23 academic year, 5,918 Title IV institutions provided higher education in the United States and its jurisdictions. Of those institutions, 1,925 (32.5%) were public and 3,993 (67.5%) were private.¹ Regardless of the control or level of an institution, all higher education stakeholders rely upon reliable and valid information to make decisions. That information is found in the audited financial statements of higher education institutions; a review of them reveals their financial condition, the decisions and actions that contributed to that condition, and, for public institutions, the views of its administration on the challenges it faces now and those it anticipates in the future.

Components of this Analysis

This analysis of Western Washington University ("University" or "WWU") is comprised of twelve sections. The first describes the higher education institution and its component unit, the organization which supports the institution in meeting its mission. It also provides the institution's classification from an objective, degree-based framework for comparative purposes. Lastly, it provides its mission statement, as the activities of each institution are directed towards the fulfillment of that mission. The general accounting standards applied to the financial statements and audits are provided next as those differ depending on control, along with an analysis of each provided by the institution. The University's component unit is described in the context of its mission and assets. Ratio analyses are provided to offer insights as to the extent to which the institution is using its resources effectively to meet its mission, raise revenue, and maintain appropriate liability levels. Lastly, future economic conditions including enrollment, government appropriations, and the economy are addressed.

Findings

This analysis of the audited financial statements of Western Washington University was based upon five financial audits in which the independent auditor in each case offered unmodified opinions on the University's financial statements and internal control over financial reporting and on compliance and other matters. The information provided in them is therefore reliable and valid. Total net position is one indicator of the University's current financial condition; the changes in net position that occur over time indicate improvement or deterioration in an institution's financial condition. From fiscal year (FY) 2018-22, the University's total net position increased 16.1% (\$55,290,058) nominally (without adjustment for inflation). In the five years under observation, positive annual changes in net position were observed in two years. Over that same time, the University experienced a nominal 69.8% (\$10,358,948) increase in ending cash and cash equivalents; its negative operating cash flow was not addressed with the addition of state noncapital appropriations. The University is supported by one discretely-presented component unit, the financial resources of which are substantial. The state's economy is strong, and several financial ratios reflect positive levels over the past five fiscal years. Most recently, the University received nearly \$70 million in federal pandemic relief, most of which is spent.

Implications

Institutional comparisons using the information in the second section of this analysis are appropriate, as are comparative analyses on the functional distribution of operating expenses with comparable institutions.² Future levels of student enrollment will be important to note, as will be the University's net position, changes in net position, operating losses, and cash flows from operating activities after the federal pandemic awards expire. The level and trend of the University's financial ratios will also be important to track prospectively so that its financial performance can be compared with its past to inform the present.

¹ IPEDS, 2023a. Title IV institutions are those with a written agreement with the U.S. Department of Education that allows the institution to participate in any of the Title IV federal student financial assistance programs.

² Note that the University has published its preferred list of peer institutions at <https://bfp.wwu.edu/peer-institutions>

SECTION 01 | PURPOSE OF THE FINANCIAL AUDIT ANALYSIS

An analysis of a higher education institution's financial audits provides insight into the financial condition of the institution, its funding sources, its priorities, and the consequences of its past fiscal decisions. The analysis is useful to the extent that it provides objective information for organizing and bargaining purposes. While the process of collective bargaining reflects the tension produced by management and labor strategies to represent their separate interests, both parties must cooperate to achieve an agreement that is satisfactory to both sides (Balliet, 1987). Cooperation is founded in trust, and the locus of trust in many negotiations is confidence in the audited financial information analyzed by both parties, as that information informs awareness of the financial condition of the institution both parties serve. Other factors which address the efficiency and effectiveness of collective bargaining are addressed separately in the literature (e.g., Julius & DiGiovanni, 2016). To the extent that the financial condition of the institution is strong, both parties benefit in the short- and long-term.

In the present case, the financial condition of Western Washington University is of paramount importance to the employer and its employees. As asserted above, the financial condition of a public institution is best understood in the context of its audited financial statements. These are provided in the annual financial audits conducted by the Office of the Washington State Auditor (Olympia, WA) that encompass all University activities.³ Supplemental data from the Carnegie Classification of Institutions of Higher Education at the Center for Postsecondary Research at the Indiana University School of Education, the U.S. Department of Education's Institute for Education Sciences (IES), and the National Center for Education Statistics' Integrated Postsecondary Education Data System (IPEDS) and were used to contextualize the University's financial information. Any errors that might exist in those materials may also be reflected in this document.

GASB Concepts Statement No. 1, *Objectives of Financial Reporting*, states that financial reporting is a means of communicating financial information to users (GASB, 2019, ¶14, B7). For this communication to be effective, the information in a financial report must be characterized by understandability, reliability, relevance, timeliness, consistency, and comparability (GASB, 2019, ¶62, B22). Given this fact and the recommendation of the Government Finance Officers Association on financial trend analysis (Government Finance Officers Association, 2003), this financial audit analysis covers FY2018-22.⁴ This report is intended solely for the higher education leadership of the National Education Association and its local affiliate at the University. Every effort has been made to ensure that the information in this report is accurate. Any errors or misstatements in it are purely unintentional.

³ In Washington, local governments which receive over \$2 million in annual revenues; spend more than \$750,000 in federal financial assistance; or are specified in financing arrangements such as bonds, loans, or grant agreements must submit an annual financial report to the Office of the Washington State Auditor within 150 days of the end of their fiscal year by virtue of state law ([RCW 43.09.230](#)).

Recipients of federal funding must arrange for an audit when they spend \$750,000 or more in federal awards in a year. A federal single audit's objective is to determine and report on whether a local government that received federal funding has complied with applicable requirements. Each federal single audit contains two components: (i) An audit of the local government's internal controls and compliance with federal requirements; and (ii) An audit of financial statements. Single audits typically must be completed and submitted to the [Federal Audit Clearinghouse](#) within nine months following the fiscal year end being reported on.

Note that the University's self-supporting auxiliary units (e.g., Housing and Dining System and the Wade King Recreational Center) are also subject to separate financial audits which present a selected portion of University activities. These reports are also available directly from the Office of the Washington State Auditor.

⁴ The Government Finance Officers Association (GFOA) considers it a best practice to examine the percentage relationship among data elements over time to enhance the utility of trend data, and to use, at a minimum, five years of data to provide an effective trend analysis (Government Finance Officers Association, 2003).

SECTION 02 | COLLEGE AND COMPONENT UNIT DESCRIPTIONS

Western Washington University and its component unit are described in financial reporting terms in the University's FY2022 audited financial statement report (Office of the Washington State Auditor, 2023, pp. 12, 31).

"Western Washington University is one of six public, four-year institutions of higher education in the State of Washington. WWU is governed by a Board of eight Trustees, which has broad responsibilities to supervise, coordinate, manage and regulate WWU as provided by State law. Trustees are appointed by the Governor for a term of six years, except a student Trustee who is appointed to a one-year term.

As a comprehensive regional university, WWU offers undergraduate and graduate degrees in more than 200 academic programs on its main campus in Bellingham, Washington and seven satellite sites around the Puget Sound area and serves more than 15,000 students. WWU was established in 1893 and currently has over 16,000 full-time and part-time students in seven colleges and the graduate school. Western Washington University's main campus is situated on the ancestral homelands of the Coast Salish Peoples, who have lived in the Salish Sea basin, all throughout the San Juan Islands and the North Cascades watershed from time immemorial. We express our deepest respect and gratitude to our Indigenous neighbors, for their enduring care and protection of our shared lands and waterways" (Office of the Washington State Auditor, 2022, p. 12).

"The (Western Washington University) Foundation is a legally separate, tax-exempt entity. The Board of Directors is self-perpetuating and consists of 31 members. WWU has an agreement with the Foundation to design and implement such programs and procedures so as to persuade continuous and special philanthropic support for the benefit of WWU. In exchange, WWU provides the Foundation with office facilities, furniture and equipment, and a significant number of full-time employees and support services, including depository, disbursing, and payroll and purchasing functions. Although WWU does not control the timing or the amount of receipts from the Foundation, the majority of the resources or income the Foundation holds and invests is restricted for the activities of WWU by the donors" (ibid, p. 31).

The basic Carnegie Classification of the institution is Master's Colleges and Universities: Larger Programs.⁵

According to the National Center for Education Statistics (NCES) of the Institute of Education Sciences (IES), Western Washington University (IPEDS ID 237011; OPE ID 00380200) is a four-year public university that awards less than one-year certificates, bachelor's degrees, postbaccalaureate certificates, master's degrees, and doctor's degrees (research/scholarship and professional practice) in a town/fringe setting with campus housing. With a student population of 14,747 (13,801 undergraduate) the student to faculty ratio is 17:1.⁶ As of fall 2022, 68.5% (684 / (684+314)) of its total faculty are full-time. By way of comparison, in FY2021, the national average proportion of full-time instructional staff at public four-year universities

⁵ The Carnegie Classification of Institutions of Higher Education® [lookup](#) function. Downloaded on December 30, 2023. Understanding the Carnegie Classification of the Institution is important in establishing benchmark organizations to compare an institution within the context of negotiations, as does its student to faculty ratio, and proportion of full-time faculty. Carnegie explains its methodology on its website at <https://carnegieclassifications.acenet.edu/>.

⁶ Student population is derived from IPEDS' fall enrollment headcount; student to faculty ratio is reported by the institution on IPEDS' fall enrollment survey; IPEDS provides a worksheet for administrators to facilitate calculation (Barbett, 2023).

was 53.0% (IPEDS, 2023c). The University is also served by 265 total graduate assistants, 261 of whom are classified as instructional and 4 as research.

NCES notes that the University is accredited by the Northwest Commission on Colleges and Universities (NWCCU). NWCCU is one of six regional and independent accreditors recognized by the United States Department of Education (USDOE) and the Council for Higher Education Accreditation (CHEA) that support the quality of higher learning. The U.S. Department of Education works with these accrediting agencies to ensure that its member institutions comply with federal laws and help determine institutional eligibility for federal assistance. The next NWCCU review is scheduled for April 1, 2024.⁷

Through its website (footnote 4), NCES provides a link to the University's mission statement:

"Western Washington University is a public comprehensive institution dedicated to serving the people of the state of Washington. Together our students, staff, and faculty are committed to making a positive impact in the state and the world with a shared focus on academic excellence and inclusive achievement.

As a community, we uphold certain basic values. These include:

- Commitment to student success, critical thought, creativity, and sustainability
- Commitment to equity and justice, and respect for the rights and dignity of others
- Pursuit of excellence, in an environment characterized by principles of shared governance, academic freedom and effective engagement
- Integrity, responsibility and accountability in all our work."

Past and present institutional decisions reflected in an institution's annual audited financial statements can be compared to this mission statement to ensure alignment, as an institution's mission drives its decisions and long-term desired outcomes (Bryson, 2018, pp. 124-127).

SECTION 03 | SOURCE DOCUMENTS

The primary material for the analysis is the annual audited financial reports of Western Washington University as audited by the Office of the Washington State Auditor (FY2018-22) and made available on the Auditor's website.

Audited Financial Statements

The financial reports of a public institution provide a summary of the institution's financial status in four sections: management's discussion and analysis, financial statements, and the notes to the financial statements. Management's discussion and analysis is written by the institution's management team and provides explanations of and reasons for the institution's financial activities for the fiscal year based upon facts and conditions known at the time. It is required by the Government Accounting Standards Board (GASB) in Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments- An Amendment of GASB Statement No. 34*.

⁷ Institute for Education Sciences, National Center for Education Statistics. Downloaded from the IES/NCES College Navigator on December 30, 2023. [IPEDS](#) is the Integrated Postsecondary Education Data System. It is a system of interrelated surveys conducted annually by the U.S. Department of Education's National Center for Education Statistics (NCES). IPEDS gathers information from every college, university, and technical and vocational institution that participates in the federal student financial aid programs. The Higher Education Act of 1965, as amended, requires that institutions that participate in federal student aid programs report data on enrollments, program completions, graduation rates, faculty and staff, finances, institutional prices, and student financial aid. These data are made available through the College Navigator and IPEDS Data Center.

That Statement requires institutions to provide the financial highlights of the fiscal year as compared to the previous year; descriptions and analyses of the financial statements provided in the report; descriptions and analyses of significant revenue and expense activity with reasons for those changes; the financial condition of the institution and the causes of its improvement or deterioration over the previous fiscal year; and economic factors which may affect the institution's future operations. The University reports as a special-purpose government engaged only in business-type activity as defined by GASB Statement No. 35. Under this model, the financial report consists of three statements: the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows (GASB, 2019, §Co5.106, p. 3438).

The notes to the financial statements are also written by the institution's management team. This section of the financial report provides essential explanatory information about the financial statements. In Note 1 to the financial statements in all five financial audits under analysis, the University attested that its financial statements had been prepared using the economic resources measurement focus and the accrual basis of accounting (whereby revenues are recorded when earned and expenses are recorded at the time liabilities are incurred) in accordance with the GASB.

The financial report of the institution is accompanied by an independent auditor's report. This section is prepared by an independent auditor, and provides the auditors' opinion on whether the information in the financial report is presented in accordance with generally accepted accounting principles (GAAP). GAAP represents standards of accounting and financial reporting established by the GASB for all public colleges and universities in the United States. The auditors' opinion that is included in this section will be one of four types: unmodified (clean) and three types of modified opinions- qualified, adverse, and disclaimer of opinion. An unmodified opinion means that institutional stakeholders can use the financial statements to evaluate the financial position of the institution. A modified opinion is accompanied by reasons behind the opinion and what the institution must do to improve financial reporting.

The independent auditor's reports on Western Washington University offered an unmodified opinion on the University's financial statements and internal control over financial reporting and on compliance and other matters in every year under examination (Office of the Washington State Auditor, 2022, pp. 4-10; 2021; pp. 4-9; 2020, pp. 4-10; 2019, pp. 4-9; 2018, pp. 4-10). Similarly, the independent auditors did not identify any deficiencies in internal control that they considered to be material weaknesses. The audits disclosed that the basic financial statements of the University presented fairly, in all material respects, the respective financial position of the University and its discreetly presented component unit, and the respective changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

SECTION 04 | STATEMENTS OF NET POSITION

To provide insights into a higher education institution's financial assets and liabilities, an analysis of its statements of net position are useful.⁸ The statement of net position can be used to determine what an institution owns and owes and how that has changed over time; an institution's current financial status; and, to some extent, an institution's future financial status (Mead, 2018, p. 46). Total net position is measured by the difference between (a) assets and deferred outflows of resources, and (b) liabilities and

⁸ The technique used in this and the other financial statement analyses is horizontal (trend) analyses and vertical analyses (common size or proportional) analyses. Horizontal analyses use comparative data over several reporting periods to detect trends, patterns, and anomalies. Vertical analyses analyze the proportion of components within a whole to illuminate the relationship(s) between individual components and a base (e.g., the relationship between instruction as a proportion of total operating expenses). See Mead (2018, pp. 307-315) and Smith (2019, pp. 239-244) for additional information. Ratio analyses are covered in Section 8 (Ratio Analysis) of this report.

deferred inflows of resources.⁹ Total net position is one indicator of the University's current financial condition; the changes in net position that occur over time indicate improvement or deterioration in an institution's financial condition. The statements of net position for the fiscal years ended June 30 can be found in Table 1 (Statement of Net Position).

The statement of net position reports an institution's financial and capital resources at a single point in time. It is the only financial statement that reports general capital assets and general long-term liabilities, which are capital assets and long-term liabilities that are not specifically related to activities reported in proprietary or fiduciary funds and that are associated with and generally arise from governmental activities (American Institute of Certified Public Accountants, Inc., 2020, §2.16). Users read an institution's statement of net position to identify its relative liquidity, its ability to meet institutional obligations, and its need for external financing (National Association of College and Business Officers, 2021, p. 87).

As a government-wide financial statement, the statement of net position is prepared in the modified accrual basis of accounting, where revenues are recognized revenues in the period in which they become available and measurable, and prepared using the current economic resources measurement focus, where assets and liabilities reported on the financial statements are limited to those representing current available resources or requiring expenditure of said resources. GASB Statement No. 34, as amended, encourages institutions to present assets and liabilities in order of relative liquidity.

Assets are resources with present service capacity that the institution presently controls. The present service capacity of an asset is its existing capability to enable the institution to provide services, which in turn enables it to fulfill its mission (GASB, 2019, Appendix B, GASB Concepts Statement 4, ¶18-16). Within the asset category, the University reports on current and non-current assets separately.

In Table 1, it can be observed that the current assets of the University consist of cash and equivalents; restricted cash and cash equivalents; restricted investments; investments; funds with the State Treasurer; interest receivable; accounts receivable, net; pledged gift receivable from the Foundation; prepaid expenses; and inventories. A horizontal analysis (variance across years) reveals that total current assets have increased 1.8% nominally (\$1,453,523) from FY2018-22, with the largest dollar variance observed in restricted investments (-\$20,779,413). A vertical analysis (variance within each year's distribution of components relative to a reference base) demonstrates low variability, with 4 of 10 components of current assets varying more than 5% over this five-year span as measured by the range of the percentage distribution.¹⁰

The noncurrent assets of the University are comprised of restricted cash and cash equivalents; restricted investments; investments; due from State Treasurer; student loans receivable, net; pledged gift receivable from the Foundation; non-depreciable capital assets; depreciable capital assets, net; restricted net pension; and other assets. A horizontal analysis indicates that noncurrent assets increased 23.2% nominally (\$131,076,444) from FY2018-22, with the largest dollar variance seen in depreciable capital assets, net (\$93,521,368).¹¹ A vertical analysis indicates low variability, with 4 of 10 components of non-current assets varying more than 5% over the observation period. Across current and noncurrent assets, total assets rose 20.6% nominally (\$132,529,967) from FY2018-22.

⁹ AICPA, 2020, §10.03.

¹⁰ Description of variability: 0-20%, very low; 21-40%, low; 41-60%, moderate; 61-80%, high; 81-100%, very high.

¹¹ In the Management's Discussion and Analysis section of its FY2022 audited financial statements, the University notes "Non-depreciable and depreciable capital assets, net increased \$3.6 million (.6%) and \$61.9 million (12.4%) during FY 2022 and 2021, respectively, primarily due to construction work performed on the New Residence Hall and the Science Building Addition" (Office of the Washington State Auditor, 2022, p. 14).

The next item in Table 1 is deferred outflows of resources. Deferrals represent flows of resources into an institution in future periods like a grant that has been received this year but cannot be used until next year. Items that meet the definition of a deferred outflow are reported among the assets at present but relate to future reporting periods.¹² Deferred outflows of resources for the University include the deferred loss on bond refunding, pensions and other postemployment benefits. From FY2018-22, deferred outflows of resources rose to \$40,118,811 partly because of recognition required by Government Accounting Standards Board (GASB) Statements No. 63, 65, 68, and 75.¹³

Liabilities represent present obligations to sacrifice resources that the institution has little or no discretion to avoid (GASB, 2019, Appendix B, GASB Concepts Statement 4, ¶17-23). Within the liabilities category, the University presents separate information on current and non-current liabilities. In Table 1, it can be observed that total current liabilities for the University consisted of accounts payable and accrued liabilities; deposits payable; unearned revenue; the current portion of bonds and notes payable, net pension obligations, and OPEB; and deposits held in custody for others. A horizontal analysis demonstrates that the current liabilities of the University increased 5.8% nominally (\$2,271,485) from FY2018-22 with the largest dollar variance occurring within accounts payable and accrued liabilities (-\$1,834,682). A vertical analysis found 5 of 7 components of current liabilities varied more than 5.0%, a high level of variability.

The noncurrent liabilities of the University consist of the long-term portion of bonds and notes payable; compensated absences; Perkins Federal contribution refund; long-term pension liabilities; and long-term OPEB liabilities. A horizontal analysis indicates that total non-current liabilities increased 18.6% nominally (\$45,920,852) from FY2018-22 with the largest dollar variance occurring within long-term pension liabilities (-\$30,613,173). A vertical analysis demonstrates that 3 of 5 components of noncurrent liabilities increased more than 5%, a moderate level of variability. Across current and noncurrent liabilities, total liabilities increased 16.8% nominally (\$48,192,337) from FY2018-22.

Deferred inflows of resources represent an acquisition of net assets by the University that is applicable to a future reporting period. Financial ratios which do not include deferrals are one approach to understanding the financial condition of an institution recommended by the GASB (Government Accounting Standards Board, 2013) and will be addressed in section 8 of this report. From FY2018-22, deferred inflows of resources rose to \$84,350,478 partly because of recognition required by Government Accounting Standards Board (GASB) Statements No. 63, 65, 68, and 75.

In accordance with GASB Statement No. 63, the University reports net position in three components- net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted (GASB, 2019, §2200.117, p. 480). The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As can be seen in Table 1, net investment in capital assets increased 2.4% nominally (\$9,819,900) from FY2018-22.

The University's restricted non-expendable funds are dedicated to scholarships and professorships which increased nominally 1.4% (\$78,450) from FY2018-22. The University's restricted expendable funds consist of instruction and research; loans; capital projects; and net pensions. These funds increased 26.5% nominally (\$6,774,812) from FY2018-22.

¹² Recall the GASB definition of the term net position: assets + deferred outflows - liabilities - deferred inflows = net position (GASB, 2019, Appendix B, GASB Concepts Statement 4, ¶18-16).

¹³ Here it should be noted that the University has met its contractually required pension contributions each year from FY2015-22 as reported in the 'Schedule of Contributions' table (Office of the Washington State Auditor, 2023, p. 71-76).

The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position (GASB, 2019, §2200.124, p. 482). As the University states, these are “all other funds available to the institution for any purpose, although these are often internally designated for specific purposes” (Office of the Washington State Auditor, 2023, p. 15). As of June 30, 2022, the unrestricted component of net position was -\$54,513,843 partially. As the University wrote, “Unrestricted net position decreased \$14.1 million during FY 2018 primarily due to increases to the total OPEB liability (see Note 20) and operational and capital projects spending. Unrestricted net position decreased \$108.6 million during FY 2017 primarily due to the implementation of GASB Statement No. 75 along with increased spending on repairs and maintenance, institutionally funded capital acquisitions, and salary increases” (Office of the Washington State Auditor, 2018, pp. 15, 32).

In this context it is important to note that financial analysts have recognized the phenomenon of negative unrestricted net position in the context of financial reporting standards of the GASB, n.b. “In such circumstances, the existence of an unrestricted net position deficit indicates that the government has deferred the funding of these liabilities, but it does not necessarily reflect positively or negatively on the government’s ability to fund those liabilities when they come due” (Mead, 2018, p. 45).

Total net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. The University’s total net position increased 16.1% nominally (\$55,290,058) from FY2018-22 (Figure 1). As the University stated on page 15 of its FY2022 financial audit, “The change in net position measures whether the overall financial condition has improved or deteriorated during the year and is driven by the difference between revenues and expenses.” Figure 1 provides a visual representation in the improvement in the financial condition of the University from FY2018-22.

The statement of net position provides the information needed to assess the question of solvency. Theoretically, the University can pay its debts if its assets and deferred outflows of resources exceeds its liabilities and inflows of resources (net position), though this assumes that all assets can be readily converted into cash.

Figure 1: *Total Assets, Total Liabilities, and Total Net Position*

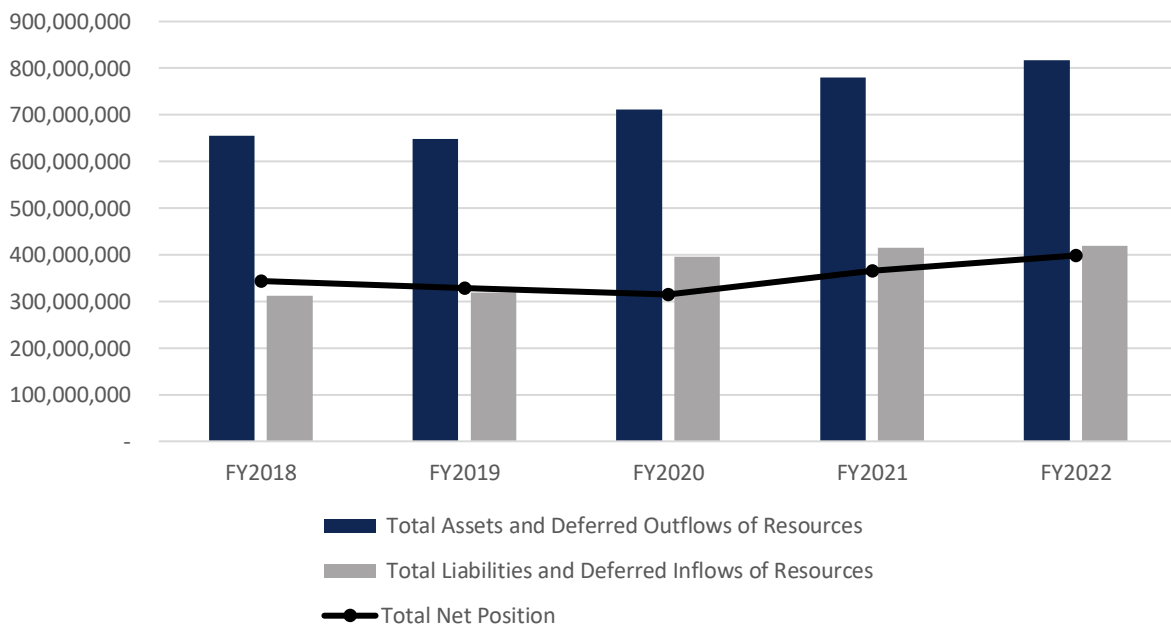


Table 1: Statement of Net Position

	2018	2019	2020	2021	2022
Assets					
Current Assets:					
Cash and cash equivalents	\$ 9,830,335	\$ 22,399,778	\$ 19,852,778	\$ 24,110,290	\$ 19,590,221
Restricted cash and cash equivalents	4,728,475	2,700,997	5,567,428	5,576,359	4,330,150
Restricted investments	22,265,087	1,888,388	35,244,928	9,141,877	1,485,674
Investments	26,165,082	18,262,294	18,541,216	27,030,472	29,611,353
Funds with State Treasurer	4,453,972	6,170,793	8,376,372	7,241,868	7,694,417
Interest receivable	1,215,013	1,193,644	1,261,451	848,069	418,459
Accounts receivable, net	8,787,912	9,130,453	12,987,726	41,806,396	12,470,372
Pledged gift receivable from the Foundation	250,000	250,000	-	-	1,500,000
Prepaid expenses	230,934	580,622	675,834	822,930	2,120,704
Inventories	1,765,059	1,740,353	2,332,407	1,698,174	1,924,042
Total Current Assets	79,691,869	64,317,322	104,840,140	118,276,435	81,145,392
Noncurrent Assets:					
Restricted cash and cash equivalents	282,489	779,998	3,853,146	2,915,355	1,279,876
Restricted investments	10,791,946	9,879,086	22,942,562	11,715,234	14,279,719
Investments	62,311,744	51,127,484	36,994,702	30,789,841	63,431,597
Due from State Treasurer	3,220,803	4,361,982	5,899,374	10,404,716	6,359,901
Student loans receivable, net	7,821,272	6,504,747	5,467,497	4,331,025	3,068,349
Pledged gift receivable from the Foundation	251,762	-	-	-	-
Non-depreciable capital assets	28,568,828	60,819,275	41,550,372	125,617,343	21,005,340
Depreciable capital assets, net	450,905,244	430,704,850	458,450,377	436,255,139	544,426,612
Restricted net pension	753,328	1,239,184	1,432,295	1,116,555	42,055,250
Other assets	-	-	-	-	77,216
Total Noncurrent Assets	564,907,416	565,416,606	576,590,325	623,145,208	695,983,860
Total Assets	644,599,285	629,733,928	681,430,465	741,421,643	777,129,252
Deferred Outflows					
Deferred loss on bond refunding	1,281,516	1,086,663	876,607	9,650,267	9,507,656
Relating to pension	7,557,617	11,587,981	17,822,084	17,243,297	20,201,326
Relating to OPEB	2,002,916	5,481,331	10,549,490	11,197,261	10,409,829
Total Deferred Outflows of Resources	10,842,049	18,155,975	29,248,181	38,090,825	40,118,811
Total Assets and Deferred Outflows of Resources	655,441,334	647,889,903	710,678,646	779,512,468	817,248,063

Table 1: Statement of Net Position, Continued

	2018	2019	2020	2021	2022
Liabilities					
Current Liabilities:					
Accounts payable and accrued liabilities	22,353,892	20,467,704	20,927,514	28,103,738	20,519,210
Deposits payable	3,068,696	1,797,550	837,818	1,617,345	2,336,823
Unearned revenue	8,388,872	9,658,028	10,039,680	24,077,381	10,102,953
Current portion of bonds and notes payable	5,193,470	5,883,099	6,143,423	1,594,770	6,655,880
Current portion of net pension obligations	-	-	8,498,760	-	-
Current portion of OPEB	-	-	1,622,646	1,688,984	1,706,951
Deposits held in custody for others	272,309	197,050	243,058	212,897	226,907
Total Current Liabilities	39,277,239	38,003,431	48,312,899	57,295,115	41,548,724
Noncurrent Liabilities:					
Long-term portion of bonds and notes payable	94,044,732	87,824,383	153,228,622	165,311,395	158,954,107
Compensated absences	8,905,785	9,277,179	10,609,358	12,270,908	12,152,406
Perkins Federal contribution refund	-	6,948,850	5,934,269	4,885,645	3,921,219
Long-term pension liabilities	49,941,257	48,321,652	43,347,907	25,434,000	19,328,084
Long-term OPEB liabilities	94,060,078	82,552,772	92,481,724	94,334,455	98,516,888
Total Noncurrent Liabilities	246,951,852	234,924,836	305,601,880	302,236,403	292,872,704
Total Liabilities	286,229,091	272,928,267	353,914,779	359,531,518	334,421,428
Deferred Inflows					
Relating to bond refunding	-	-	-	477,939	5,537
Related to pension	13,074,963	14,905,974	14,487,805	28,885,268	61,429,078
Related to OPEB	12,951,181	31,494,089	27,529,649	25,496,557	22,915,863
Total Deferred Inflows of Resources	26,026,144	46,400,063	42,017,454	54,859,764	84,350,478
Total Liabilities and Deferred Inflows of Resources	312,255,235	319,328,330	395,932,233	414,391,282	418,771,906
Net Position					
Net investment in capital assets	405,301,132	398,903,306	394,277,247	418,030,084	415,121,032
Restricted for:					
Nonexpendable: scholarships and professorships	5,432,603	5,471,520	5,503,980	5,507,680	5,511,053
Expendable:					
Instruction and research	2,516,253	1,599,484	1,261,883	(15,398,308)	(808,766)
Loans	12,896,034	6,422,703	6,624,700	6,820,404	6,608,729
Capital projects	9,476,099	11,834,118	16,458,666	16,876,529	16,342,780
Net pensions	694,717	930,329	1,092,033	1,533,354	10,215,172
Unrestricted	(93,130,739)	(96,599,887)	(110,472,096)	(68,248,557)	(54,513,843)
Total Net Position	\$ 343,186,099	\$ 328,561,573	\$ 314,746,413	\$ 365,121,186	\$ 398,476,157

SECTION 05 | STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The University's statements of revenues, expenses and changes in net position are presented in Table 2 to differentiate the institution's operating results from its non-operating revenues and expenses. The purpose of the statement is to provide information to stakeholders regarding the operating performance of the institution and the effects of non-operating transactions and events that change its net position (National Association of College and University Business Officers, 2021). In the form of an equation, *revenue – expenses = change in net assets*.

While the statement of net position focuses on assets and liabilities, this statement provides information on revenues and expenses and how they affect net position, yielding three insights: (1) Operating and nonoperating expenses indicate what the institution spent during the year to show spending priorities; (2) Operating and nonoperating revenues reveal how the institution pays for expenses and sustains its operations; and (3) Changes in net position identify whether the institution's expenses were less than it took in and increased net position, or were more than it took in and decreased net position. In the five years under observation in this report, positive changes in net position were observed in only two of five years (FY2021-22).¹⁴

The format of the statement focuses on revenues and expenses; within the former, operating revenues are detailed while in the latter, operating expenses are separated from non-operating revenues. As a proprietary fund financial statement, the statement of revenues, expenses, and changes in net position is prepared in the accrual basis of accounting, where revenues and expenses are recognized when earned or incurred, and prepared using the economic resources measurement focus, which reports all inflows, outflows, and balances affecting or reflecting an institution's net position.

In the statement, activities are classified as either operating or non-operating. With public higher education institutions there will normally be an operating deficit since state appropriations are classified as non-operating revenues, as are investment income (except interest income on student loans) and gifts since they were not generated by normal institutional operations (Smith, 2019, p. 225). The term 'operating revenues' means that these revenue sources represent charges levied by the institution for services it has provided. Here the FY2022 operating loss of -\$123,542,252 can be observed as the difference between total operating revenues of \$220,545,413 and total operating expenses of \$344,087,665.

The operating revenues of the University consist of student tuition and fees net of scholarship allowances; federal, state, local and nongovernmental grants and contracts; sales and services of educational departments; interest earned on loans to students; other operating revenue, and auxiliary enterprise revenue less scholarship allowances. A horizontal analysis of the operating revenues of the University indicate that operating revenues increased 3.6% nominally (\$7,648,622) from FY2018-22; the largest dollar contributor to the variance was in state grants and contracts (\$7,452,626). A vertical analysis demonstrates that 3 of 8 components of operating revenues varied by more than 5% as measured by the range of the percentage distribution, a low level of variability.

The operating expenses of the University are provided in their natural classification. This is a method of grouping expenses according to the kinds of economic benefits received in incurring these expenses. As such, they are comprised of salaries and wages; benefits; scholarships and fellowships; utilities; services and materials; purchased services; and depreciation. A horizontal analysis of total operating expenses reveals a nominal increase of 4.2% (\$13,990,220) from FY2018-22; the largest dollar change was seen in

¹⁴ As the administrated has written, "The implementation of GASB statement No. 75 OPEB (see Note 20) in FY 2018 required WWU to include its share of Washington State's unfunded OPEB liability and to restate the FY 2017 net position by \$98.7 million. Total net position decreased \$13.5 million (-3.8%) in FY 2018 from the restated FY 2017 net position due to increased operational spending and the continued reporting of the unfunded OPEB net liability. Total net position decreased \$76.3 million (-17.6%) in FY 2017 primarily due to the implementation of GASB Statement No. 75" (Office of the Washington State Auditor, 2018, p. 14).

salaries and wages (\$23,333,980). A vertical analysis demonstrates that 3 of 7 components of total operating expenses except compensation and employee benefits varied by more than 5% during this time, a moderate level of variability.

Nonoperating revenues (expenses) for the University consist of state appropriations; Federal Pell grant revenue; Federal COVID-19 relief revenue; Federal Perkins Program refundable grant revenue; investment income; interest on indebtedness; gain (loss) on endowments; and nonoperating rental property expense/income. A horizontal analysis indicates that net nonoperating revenues rose 42.8% nominally (\$40,842,126); the largest dollar variance was in state appropriations (\$19,686,757). A vertical analysis reveals that 4 of 8 components of nonoperating revenues (expenses) varied by more than 5%, a moderate level of variability.

Here it is instructive to review the major sources of support for the University. The operating revenue base of the University is varied, while its non-operating revenue in the form of state appropriations and investment income is strong. In FY2022, student tuition and fees net of scholarship allowances provided 32.5% of the University's total operating revenues and net nonoperating revenues; state noncapital appropriations provided 27.6%, leaving the University balanced between major revenue sources.

The University notes the impact of funding provided by the Higher Education Emergency Relief Fund (HEERF) in its FY2021 audited financial statements (p. 12), though most of the funds were reported as being spent by the end of CY2022: "WWU was provided with a total of \$62.0 million in HEERF I, II, and III. Of the \$62.0 million, \$27.7 million were used to provide emergency financial aid grants to students for expenses related to the disruption of campus operations. The remaining \$34.3 million could be used to cover any costs associated with significant changes to the delivery of instruction. As of June 30, 2022, \$24.7 million has been spent on financial aid grants to students and \$32.3 million to reimburse WWU for allowable expenses and lost revenue" (Office of the Washington State Auditor, 2022, p. 12).

Table 2: Statement of Revenues, Expenses, & Changes in Net Position

	2018	2019	2020	2021	2022
Operating Revenues					
Student tuition and fees	\$ 144,408,819	\$ 151,351,274	\$ 151,749,041	\$ 143,130,085	\$ 150,897,976
Less scholarship allowances	(30,964,892)	(32,680,523)	(33,916,134)	(37,391,711)	(34,760,015)
Net student tuition and fees	113,443,927	118,670,751	117,832,907	105,738,374	116,137,961
Federal grants and contracts	5,693,982	5,143,468	5,055,965	6,753,920	7,787,797
State and local grants and contracts	19,913,051	22,631,614	24,715,106	26,810,043	27,365,677
Nongovernmental grants and contracts	4,214,617	4,673,459	4,143,939	5,120,416	5,598,059
Sales and services of educational activities	4,613,182	7,331,107	6,347,306	3,078,934	2,492,393
Interest earned on loans to students	173,018	161,759	180,178	171,543	149,741
Other operating revenue	362,411	361,260	276,647	371,469	479,481
Auxiliary enterprises	72,431,731	72,268,272	57,416,342	31,654,569	70,055,704
Less scholarship allowances	(7,949,128)	(8,187,751)	(6,357,269)	(2,891,952)	(9,521,400)
Net auxiliary enterprises	64,482,603	64,080,521	51,059,073	28,762,617	60,534,304
Total Operating Revenues	212,896,791	223,053,939	209,611,121	176,807,316	220,545,413
Operating Expenses					
Salaries and wages	161,887,240	168,739,636	177,697,315	172,522,302	185,221,220
Benefits	52,096,057	49,739,540	53,150,088	42,943,506	37,091,079
Scholarships and fellowships	20,918,289	21,882,192	29,062,568	30,651,683	34,359,051
Utilities	5,156,640	5,115,655	4,401,989	4,196,291	6,527,721
Services and materials	58,330,267	63,521,706	51,058,112	30,502,188	47,090,580
Purchased services	5,165,762	5,341,215	4,997,859	5,840,500	6,866,594
Depreciation	26,543,190	24,357,626	26,449,602	25,984,636	26,931,420
Total Operating Expenses	330,097,445	338,697,570	346,817,533	312,641,106	344,087,665
Operating Loss	(117,200,654)	(115,643,631)	(137,206,412)	(135,833,790)	(123,542,252)
Nonoperating Revenues (Expenses)					
State appropriations	78,652,047	84,834,784	90,537,711	95,979,448	98,338,804
Federal Pell grant revenue	17,635,311	16,979,661	16,150,366	14,626,348	14,113,266
Federal COVID-19 relief revenue	-	-	6,173,001	21,700,007	26,795,277
Federal Perkins Program refundable grant revenue	-	(6,948,850)	(21,973)	-	-
Investment income	1,775,765	2,383,235	2,533,425	1,479,816	864,244
Interest on indebtedness	(3,616,033)	(4,059,026)	(5,468,674)	(41,947)	(2,099,436)
Gain (loss) on endowments	938,744	698,358	88,933	3,794,977	(1,794,786)
Nonoperating rental property expense/income	30,231	48,104	39,349	23,794	40,822
Net Nonoperating Revenues (Expenses)	95,416,065	93,936,266	110,032,138	137,562,443	136,258,191
Income (Loss) before other revenues	(21,784,589)	(21,707,365)	(27,174,274)	1,728,653	12,715,939
Other Revenues					
Capital appropriations	2,397,857	4,724,712	10,455,430	44,689,905	16,113,282
Gift revenue	3,255,646	-	-	707,634	2,379,429
Other capital revenue	2,626,143	2,358,127	2,903,684	3,248,581	2,146,321
Total Other Revenues	8,279,646	7,082,839	13,359,114	48,646,120	20,639,032
Increase (Decrease) in Net Position	(13,504,943)	(14,624,526)	(13,815,160)	50,374,773	33,354,971
Net Position, Beginning of Year	356,691,042	343,186,099	328,561,573	314,746,413	365,121,186
Net Position, End of Year	\$ 343,186,099	\$ 328,561,573	\$ 314,746,413	\$ 365,121,186	\$ 398,476,157

GASB Statements No. 34 and 35 provide flexibility in reporting expenses in either functional or natural categories. While the University chose to use the natural classification in its statement of revenues, expenses, and net position, it translated its operating expenses into the functional classification system recommended by the National Association of College and University Business Officers (NACUBO) in the *Notes to the Financial Statements* section of the annual financial reports under review (Operating Expenses by Function).¹⁵ A functional expense classification is a method of grouping expenses according to the

¹⁵ Office of the Washington State Auditor, 2022, p. 46; 2021, p. 44; 2020, p. 45; 2019, p. 42; 2018, p. 44.

purpose for which the costs are incurred. The classifications tell why an expense was incurred rather than what was purchased.

Table 3 provides information on the University's operating expenses for FY2018-22 (Functional Classification of Operating Expenses, FY2018-22); Figure 2 (Functional Classification of Operating Expenses, FY2021), on the following page provides a distributional analysis of the University's operating expense components for FY2021 (which is chosen for comparative purposes with the most recent national benchmarks (IPEDS, 2023b) for the proportion of operating expenses devoted to instruction).

The concept of the threefold mission of universities—teaching, research, and public service—is widely accepted and discussed in the academic literature on higher education. The reality is slightly different. Nationally, in fiscal year 2021, American public four-year universities spent 25.9% of their operating expenses on instruction, 11.6% on research, 8.4% on institutional support, 8.0% on academic support, 4.7% on scholarships and fellowships, 4.7% on public service, and the remaining proportions on other priorities (IPEDS, 2023b).¹⁶ Table 3 and Figure 2 provide insights into the operating expenses of the University for comparative purposes. In FY2021, Western Washington University devoted most of its operating expenses to instruction (42.3% (rank 1)); operation and maintenance of plant (17.3% (rank 2)); and scholarships and fellowships (9.8% (rank 3)). Each of these classifications is discussed and explained below.

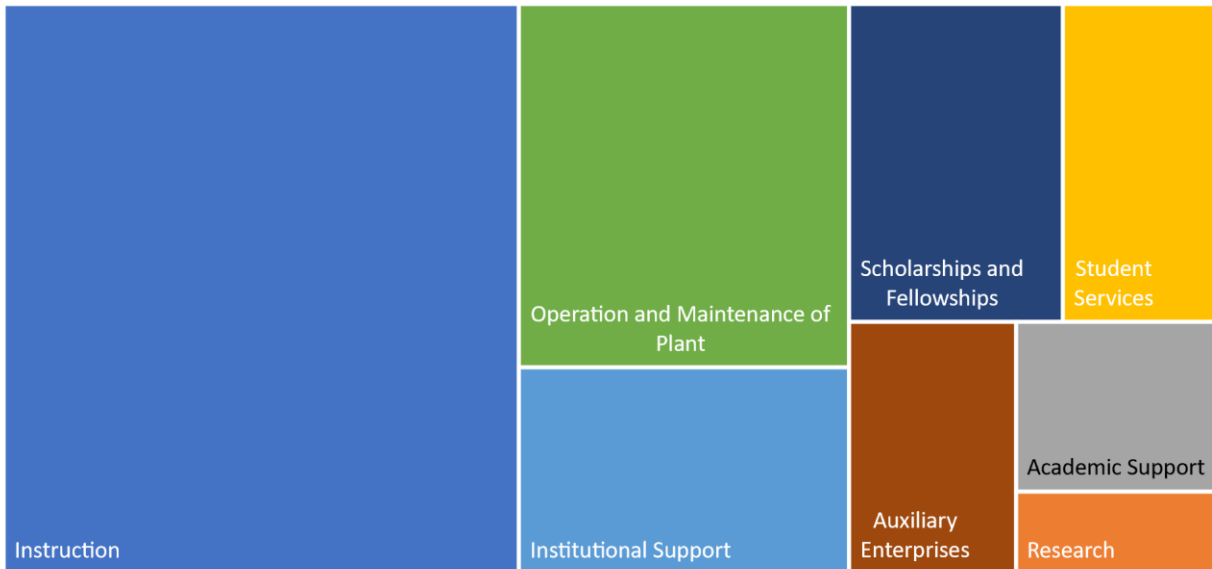
Table 3: Functional Classification of Operating Expenses, FY2018-22

Component	FY2018	FY2019	FY2020	FY2021	FY2022
Instruction	\$129,132,566	\$133,944,076	\$136,350,931	\$132,333,762	\$134,791,679
Research	\$7,155,928	\$7,153,399	\$6,909,515	\$7,593,476	\$8,654,057
Academic Support	\$15,821,322	\$16,047,795	\$17,018,413	\$15,626,353	\$16,265,611
Student Services	\$23,343,414	\$23,550,792	\$24,119,375	\$22,601,398	\$22,730,393
Institutional Support	\$25,595,835	\$27,068,669	\$32,281,102	\$30,753,962	\$28,826,518
Operation and Maintenance of Plant	\$51,607,403	\$51,991,243	\$53,487,828	\$54,131,237	\$50,083,550
Scholarships and Fellowships	\$20,916,287	\$21,882,192	\$29,062,568	\$30,651,683	\$34,359,051
Auxiliary Enterprises	\$56,524,697	\$57,059,404	\$47,587,801	\$18,949,235	\$48,376,806
Total Operating Expenses	\$330,097,452	\$338,697,570	\$346,817,533	\$312,641,106	\$344,087,665

¹⁶ IPEDS, 2023b. Note that the phrase 'total expenses' for IPEDS includes the total expenses for the essential education activities of the institution. Core expenses for public institutions reporting under GASB standards include expenses for instruction, research, public service, academic support, student services, institutional support, scholarships, and fellowships, and other operating and nonoperating expenses.

Core expenses for FASB (primarily private, not-for-profit, and for-profit) institutions include expenses on instruction, research, public service, academic support, student services, institutional support, net grant aid to students, and other expenses. For both FASB and GASB institutions, core expenses exclude expenses for auxiliary enterprises (e.g., bookstores, dormitories), hospitals, and independent operations. However, these expenses are included in the sum of total expenses and included in the calculation of the instructional spend estimate in the federal report.

Figure 2: Functional Classification of Operating Expenses, FY2021



NACUBO provides guidance on the types of expenses that can be included under each operating expense component for public institutions in their Financial Accounting and Reporting Manual for Higher Education; these conventions are utilized by the National Center for Education Statistics' Integrated Postsecondary Education Data System (IPEDS) and the Office of Management and Budget. The definitions of each type of functional expense are provided to the public in Appendix B of the *NACUBO Advisory Report 2010-1, Public Institutions: Methodologies for Allocating Depreciation, Operation and Maintenance of Plant, and Interest Expenses to Functional Expense Categories* (National Association of College and University Business Officers, 2010).

Each of the standard expense categories are listed below by their order of expenses in Table 3 to provide a comparison of expenses at Western Washington University to those of other four-year higher education institutions in the United States. In each case, the definition of each is taken directly from Appendix B of NACUBO Advisory Report 2010-1.

Instruction

"The instruction classification includes expenses for all activities that are part of an institution's instruction program. Expenses for credit and noncredit courses; academic, vocational, and technical instruction; remedial and tutorial instruction; and regular, special, and extension sessions should be included. Expenses for departmental research and public service that are not separately budgeted also are included in this classification. This classification excludes expenses for those academic personnel whose primary activity is administration—for example, academic deans" (National Association of College and University Business Officers, 2010, pp. 13-14). From FY2018-22, operating expenses for instruction increased nominally 4.4% (\$5,659,113).

Research

"The research classification includes all expenses for activities specifically organized to produce research, whether commissioned by an agency external to the institution or separately budgeted by an organizational unit within the institution. Subject to those conditions, the classification includes expenses for individual

and/or project research as well as that of institutes and research centers. This classification does not include all sponsored programs nor is it necessarily limited to sponsored research, since internally supported research programs, if separately budgeted, might be included in this classification.

Expenses for departmental research that are separately budgeted are included in this classification. However, the research classification does not include expenses for departmental research that are not separately budgeted. Such expenses are included in the instructional category" (National Association of College and University Business Officers, 2010, p. 15). From FY2018-22, operating expenses for research rose nominally 20.9% (\$1,498,129).

Academic Support

"The academic support classification includes expenses incurred to provide support services for the institution's primary missions: instruction, research, and public service. It includes the following activities: The retention, preservation, and display of educational materials, such as libraries, museums, and galleries; the provision of services that directly assist the academic functions of the institution, such as demonstration schools associated with a department, school, or college of education; media, such as audio-visual services and information technology; academic administration (including academic deans but not department chairpersons) and personnel providing administrative support and management direction to the primary missions; and separately budgeted support for course and curriculum development. For institutions that currently charge some of the expenses—for example, computing support—directly to the various operating units of the institution, this classification does not include those expenses" (National Association of College and University Business Officers, 2010, pp. 17-18). From FY2018-22, operating expenses for academic support increased nominally 2.8% (\$444,289).

Student Services

"Student service expenses include expenses incurred for offices of admissions and the registrar and activities with the primary purpose of contributing to students' emotional and physical well-being and intellectual, cultural and social development outside the context of the formal instructional program. It includes expenses for student activities, cultural events, student newspapers, intramural athletics, student organizations, intercollegiate athletics (if the program is not operated as an auxiliary enterprise), counseling and career guidance (excluding informal academic counseling by the faculty), student aid administration, and student health service (if not operated as an auxiliary enterprise)" (National Association of College and University Business Officers, 2010, p. 19). From FY2018-22, operating expenses for student services declined nominally 2.6% (-\$613,021).

Institutional Support

"The institutional support classification includes expenses for central, executive-level activities concerned with management and long-range planning for the entire institution, such as the governing board, planning and programming operations, and legal services; fiscal operations, including the investment office; administrative information technology (when not accounted for in other categories); space management; employee personnel and records; logistical activities that provide procurement, storerooms, and printing; transportation services to the institution; support services to faculty and staff that are not operated as auxiliary enterprises; and activities concerned with community and alumni relations, including development and fundraising. Appropriate allocations of institutional support should be made to auxiliary enterprises, hospitals, and any other activities not directly related to the primary programs—instruction, research, and public service—or their related support classifications" (National Association of College and University Business Officers, 2010, p. 21). From 2018-22, operating expenses for institutional support increased nominally 12.6% (\$3,230,683).

Operation and Maintenance of Plant

"The operation and maintenance of plant category includes all expenses for the administration, supervision, operation, maintenance, preservation, and protection of the institution's physical plant. These expenses include items such as janitorial and utility services; repairs and ordinary or normal alterations of buildings, furniture, and equipment; care of grounds; maintenance and operation of buildings and other plant facilities; security; earthquake and disaster preparedness; safety; hazardous waste disposal; property, liability, and all other insurance relating to property; space and capital leasing; facility planning and management; and central receiving. This category does not include interest expense on capital-related debt" (National Association of College and University Business Officers, 2010, p. 23). From FY2018-22, operating expenses for the operation and maintenance of plant decreased nominally 3.0% (-\$1,523,853).

Scholarships and Fellowships

The scholarships and fellowships classification includes expenses for scholarships and fellowships - from restricted or unrestricted funds - in the form of grants to students, resulting from selection by the institution or from an entitlement program. The category also includes trainee stipends, prizes, and awards. Trainee stipends awarded to persons who are not enrolled in formal course work should be charged to instruction, research, or public service. Recipients of grants are not required to perform service to the institution as consideration for the grant; nor are they expected to repay the amount of the grant to the funding source. When services are required in exchange for financial assistance, as in the Federal Work-Study Program, charges should be classified as expense of the department or organizational unit to which the service is rendered.

Aid to students in the form of tuition or fee remissions also should be included in this category. However, remission of tuition or fees granted because of faculty or staff status, or family relationship of students to faculty or staff, should be recoded as staff benefits expenses in the appropriate functional expense category" (National Association of College and University Business Officers, 2010, p. 24-25). Operating expenses for scholarships and fellowships rose nominally 64.3% (\$13,442,764) from FY2018-22; this is due in part to the disbursement of HEER funds throughout the pandemic (Office of the Washington State Auditor, 2021, p. 18; 2022, p. 18).

Auxiliary Enterprises

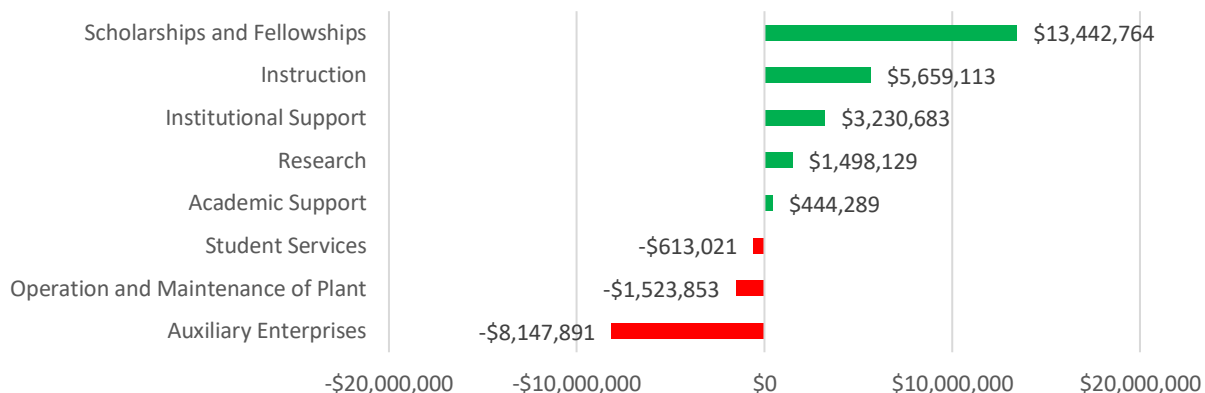
"An auxiliary enterprise exists to furnish goods or services to students, faculty, staff, other institutional departments, or incidentally to the general public, and charges a fee directly related to, although not necessarily equal to, the cost of the goods or services. The distinguishing characteristic of an auxiliary enterprise is that it is managed to operate as a self-supporting activity. Over time, the revenues will equal or exceed the expenses, although in any individual year there may be a deficit or a surplus. Examples are residence halls, food services, intercollegiate athletics (only if essentially self-supporting), college stores, faculty clubs, parking, and faculty housing. Student health services, when operated as an auxiliary enterprise, also are included. Hospitals, although they may serve students, faculty, or staff, are classified separately because of their financial significance.

The auxiliary enterprise category includes all expenses relating to the operation of auxiliary enterprises, including expenses for operation and maintenance of plant, depreciation (if allocated to functional expense categories), and administration. Also included are other direct and indirect costs, whether charged directly as expenses or allocated as a proportionate share of costs of other departments or units. To ensure that data regarding individual auxiliary enterprises are complete and adequate for management decisions, cost data should be prepared using full costing methods. Full costing means that the costs attributed to each enterprise include a portion of indirect costs related to that enterprise, as well as the costs directly attributable to its operation" (National Association of College and University Business Officers, 2010, p. 26). From FY2018-22, auxiliary enterprise expenses decreased nominally 14.4% (-\$8,147,891); this expense

category was heavily impacted by the pandemic as well (Office of the Washington State Auditor, 2022, p. 18).

The changes in the University’s operating expenses from FY2018-22 as viewed through a functional classification are substantial, and are led by substantial operating changes due to the pandemic (See Figure 3 below).

Figure 3: Nominal Dollar Changes in Operating Expenses, FY2018-22



SECTION 06 | STATEMENT OF CASH FLOWS

The purpose of the statement of cash flows is to provide information to stakeholders regarding the cash receipts and payments of an institution during a specified period. This can help readers estimate the institution’s ability to generate net cash flows and meet its obligations as they come due, and offer insights on its need for external financing (National Association of College and University Business Officers, 2021). This statement allows readers to determine if the institution’s business-type activities met their cash needs and, if so, how they met them during the time under observation. Lastly, it also identifies the sources of the institution’s cash and the primary uses of that cash, and provides stakeholders with an understanding of whether cash increased or decreased because of current-year receipts and disbursements through the net increase or decrease in cash and cash equivalents entry.

As a proprietary fund financial statement, the statement of cash flows is prepared in the accrual basis of accounting wherein revenues and expenses are recognized when earned or incurred, and prepared using the economic resources measurement focus, which reports all inflows, outflows, and balances affecting or reflecting an entity's net assets. The format of this statement focuses on cash flows from operating activities, non-capital financing activities, capital financing activities, and investing activities.

The statements of cash flows are reported by the University using the direct method. The direct method of cash flows reporting portrays net cash flows from operations as major classes of operating receipts (e.g., tuition and other student fees) and disbursements (e.g., payments to employees). GASB Statement No. 35 requires this method to be used for postsecondary education institutions. Under direct method, the major classes of operating cash receipts and disbursements are reported separately in the operating activities section. The total of operating cash disbursements is deducted from the total of operating cash receipts to arrive at net cash flows from operating activities. If the total of all operating cash receipts for the period is greater than the total of all operating cash disbursements, the resulting figure is known as the ‘net cash provided by operating activities’. If the total of operating cash receipts is less than the total of operating cash disbursements, the resulting figure is known as the ‘net cash used by operating activities’.

Statements of cash flow reconcile the amount of beginning cash and cash equivalents to the ending amount of cash and cash equivalents shown on the statement of net position. The statement also reconciles the operating loss as shown on the statements of revenues, expenses, and changes in net position to the net cash used in operating activities.

The statements of cash flows for FY2018-22 can be found in Table 4. It is divided into five parts. The first, cash flows from operating activities, provides data on the source and use of cash from ordinary operating activities such as cash received from students paying tuition and fees and payments to suppliers and employees. A horizontal analysis demonstrates that net cash used in operating activities fell nominally 49.7% (-\$42,347,179) from -\$85.3 million in FY2018 to -\$127.6 million in FY2022. As has been written:

“Operating cash flows indicate the institution’s financial viability. High positive operating cash flows usually correlate with high revenues, low overhead, and efficient operations. Negative operating cash flows mean that the institution must meet this deficit through revenue from some other source or by borrowing money” (Smith, 2019, p. 228).

When a public institution experiences negative operating cash flows, analysts look to government appropriations to make up the shortfall. Important sources of revenue such as state appropriations are required by the GASB to be reported as nonoperating revenue (presented in this Statement under ‘Cash flows from non-capital financing activities’). In this case, the addition of state noncapital appropriations did not address the negative operating activity cash flows of the University during the years under observation.

The second, cash flows from noncapital financing activities, tracks cash received and spent for nonoperating, noninvesting and noncapital financing activities such as cash received from property taxes and state noncapital appropriations and cash received and distributed for federal student loan programs. Here net cash provided by non-capital financing activities rose nominally 76.8% (\$73,698,802) from FY2018-22 due largely to the influx of federal pandemic relief funds.

The third, investing activities, identifies cash from investing activities such as interest received on investments and cash received from the sale of or purchase of investments. Net cash provided (used) by investing activities fell nominally 85.8% (-\$14,158,999).

The fourth, cash flows from capital and related financing activities, provides information on cash from capital and related financing activities. Examples of these types of transactions include borrowing money or repaying debt for building or equipment purchases and proceeds from the sale of buildings and equipment. Here net cash provided (used) by capital financing activities fell nominally 428.7% (-\$24,510,129).

The beginning of year cash and cash equivalents is equal to the end of year cash and cash equivalents from the prior year unless a restatement has been made. The end of year cash and cash equivalents is equal to the beginning of year cash and cash equivalents plus the sum of each category of cash flows (i.e., operating activities, noncapital financing activities, capital financing and related financing activities, and investing activities). From FY2018-22, Western Washington University experienced a nominal increase of 69.8% (\$10,358,948) in ending cash and cash equivalents.¹⁷

¹⁷ The end of year cash and cash equivalents also equals the sum of current and noncurrent cash equivalents, both restricted and unrestricted, in the Statement of Net Position. For FY2022, this is reflected in the current cash and cash equivalents entry of \$25,200,247. While this increase is significant, the level of cash and cash equivalents is small relative to the University’s operating expenses (see Appendix).

Table 4: Statement of Cash Flows

	2018	2019	2020	2021	2022
Cash Flows from Operating Activities					
Student tuition and fees	114,316,531	119,558,691	116,895,386	120,291,948	101,927,434
Grants and contracts	30,798,692	31,931,246	34,364,214	38,023,217	39,964,783
Payments to vendors	(89,129,687)	(96,271,937)	(91,908,667)	(69,744,186)	(94,633,967)
Payments to employees for salaries and benefits	(210,552,298)	(218,006,891)	(227,607,245)	(221,239,170)	(241,202,687)
Loans issued to students	(1,211,779)	(263,821)	(154,963)	(99,786)	38,362
Collection of loans to students	1,463,193	1,422,602	1,114,783	1,167,072	1,290,906
Sales of auxiliary enterprises	63,741,900	63,983,298	49,606,407	31,256,959	60,511,282
Sales and services of educational activities	4,748,103	6,862,430	5,468,898	1,354,196	3,837,570
Interest received on loans to students	535,429	523,019	456,825	543,012	629,222
Net Cash Used by Operating Activities	(85,289,916)	(90,261,363)	(111,764,362)	(98,446,738)	(127,637,095)
Cash Flows from Noncapital Financing Activities					
State appropriations	78,664,840	84,624,116	90,410,102	92,703,176	100,107,405
Direct lending proceeds	62,642,749	60,548,832	52,071,101	37,213,368	38,127,271
Direct lending disbursements	(62,958,286)	(60,510,448)	(51,873,900)	(37,152,750)	(38,186,416)
Federal Pell grant receipts	17635311	16,979,661	16,150,366	14,626,348	14,113,266
Federal HEERF grant receipts	-	-	4,668,049	(7,081,957)	56,486,316
Federal Perkins grant disbursements	-	-	(1,036,554)	(1,048,624)	(964,426)
Net Cash Provided by Noncapital Financing Activities	95,984,614	101,642,161	110,389,164	99,259,561	169,683,416
Cash Flows from Investing Activities					
Purchases of investments	(97,450,700)	(18,296,440)	(75,079,460)	(21,582,074)	(76,666,124)
Proceeds from sales of investments	79,906,236	59,036,876	42,480,504	60,175,101	44,680,686
Interest received on investments	1048020	2,452,068	1,459,233	1,739,856	1,329,995
Net Cash Provided (Used by) Capital and Related Financing Activities	(16,496,444)	43,192,504	(31,139,723)	40,332,883	(30,655,443)
Cash Flows from Capital and Related Financing Activities					
Proceeds from capital debt	46,741,838	192,631	72,199,070	21,760,000	18,800,518
Interest earned on bond proceeds	176,374	287,066	1,128,119	401,274	23,595
Capital appropriations	4,611,333	3,794,201	9,045,647	43,460,835	18,389,496
Other capital (expense)/revenue	(1,023,558)	(1,716,821)	(2,205,579)	1,134,504	(452,549)
Contributions and gifts in-kind	2,626,143	2,358,127	2,903,684	3,956,215	3,025,750
Proceeds from disposal of capital assets	247,028	201,154	87,459	96,915	103,019
Purchases of capital assets	(26,724,028)	(38,818,681)	(36,045,145)	(85,007,352)	(37,149,817)
Principal paid on capital debt	(16,077,941)	(5,207,321)	(5,883,099)	(13,083,423)	(19,890,085)
Interest paid on capital debt	(4,889,926)	(4,672,288)	(5,362,005)	(10,559,816)	(1,683,384)
Other activities	30,231	48,104	39,349	23,794	40,822
Net Cash Provided (Used) by Investing Activities	5,717,494	(43,533,828)	35,907,500	(37,817,054)	(18,792,635)
Net increase/(decrease) in cash and cash equivalents	(84,252)	11,039,474	3,392,579	3,328,652	(7,401,757)
Cash and cash equivalents, beginning of year	14,925,551	14,841,299	25,880,773	29,273,352	32,602,004
Cash and cash equivalents, end of year	14,841,299	25,880,773	29,273,352	32,602,004	25,200,247
Reconciliation of Operating Loss to Net Cash used by Operating Activities					
Operating Loss	(117,200,654)	(115,643,631)	(137,206,412)	(135,833,790)	(123,542,252)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:					
Depreciation expense	26,543,190	24,357,626	26,449,602	25,984,636	26,931,420
Gain/Loss on disposal of capital assets	304,290	(146,585)	(65,226)	(96,915)	(71,719)
Changes in assets, liabilities and deferred inflows and outflows					
Accounts receivable	(770,579)	(90,780)	(2,102,322)	(36,704)	(355,016)
Student loans receivable	(41,117)	1,316,525	1,037,250	1,136,472	1,262,676
Inventories	(25,186)	24,706	(592,054)	634,233	(225,868)
Prepaid expenses	667,722	(349,688)	(95,212)	(147,096)	(1,297,774)
Accounts payable and accrued expenses	(24,694)	762,332	1,008,476	5,406,898	(1,868,927)
Unearned revenue	1,043,157	1,269,156	381,652	14,037,701	(13,974,428)
Student and other deposits	617,207	(1,271,146)	(959,732)	779,527	719,478
Deposits held in custody	342,321	(113,644)	(151,193)	(90,779)	73,155
Compensated absences	163,182	371,394	1,332,179	1,661,550	(118,502)
Pension and OPEB related deferred inflows and outflows	20,255,653	12,379,283	(15,684,871)	12,295,387	27,792,519
Pension liability	(11,023,273)	(1,619,605)	3,331,904	(26,096,927)	(47,162,257)
Total OPEB liability	(6,141,135)	(11,507,306)	11,551,598	1,919,069	4,200,400
Net cash used by operating activities	(85,289,916)	(90,261,363)	(111,764,361)	(98,446,738)	(127,637,095)

SECTION 07 | **COMPONENT UNIT**

As noted in section 2 of this report, Western Washington University is supported by one discretely-presented component unit, the Western Washington University Foundation, Inc. (Foundation). As presented in the University's FY2022 financial audit, the Foundation's total net assets were \$127,105,126 as of June 30, 2022 (p. 25). Further,

"In fiscal year 2022, WWU and the Foundation signed a Memorandum of Understanding in which the Foundation committed to fund the development and construction of a new Advance Technology Building up to \$2.5 million. The commitment is contingent upon the results of fundraising efforts by the Foundation, and as such, no receivable has been recorded related to this conditional commitment. The range of the receivable is \$0 to \$2.5 million, and, at this time, a reasonable amount cannot be estimated. During the year ended June 30, 2022, the Foundation estimated the range of the liability to be \$1.5 million to \$2.5 million based on the fundraising efforts during the year ended June 30, 2022. As such, an estimated liability and grant commitment of \$1.5 million was recognized as of and for the year ended June 30, 2022" (pp. 35-36).

The economic resources held by this component unit is substantial, and is dedicated for the benefit of the University.¹⁸

SECTION 08 | **RATIO ANALYSIS**

As a preface to this section of the report, a caveat is in order. Financial condition analysis is part art and part science. While definitions of several financial ratios are based upon the similar calculations, they can and do differ; in addition, the inferences which follow from them can differ from analyst to analyst depending upon institutional and analyst factors. In this sense, financial ratios need to be placed in context to given them meaning, and the results should be analyzed iteratively over time to detect trends, patterns, and anomalies (Mead, 2018, pp. 207-308). According to a seminal text on higher education finance:

"Financial metrics and ratios should be used to measure success factors in order to improve the institution financially to achieve its mission; (2) The information being compared must be prepared on a fairly consistent basis; and (3) Peer comparisons are only a weak relative indicator and do not measure attainment of an institution's unique mission. Therefore, common sense, qualitative interpretation and internal interpretation are required" (Tahey, Salluzo, Prager, Mezzina, & Cowen, 2010, p. 100).

Note further that the priority of each ratio may change from year to year depending upon the local context and the challenges each institution faces. Each should not be presented alone: one ratio rarely summarizes the situation of an institution adequately. For clarity to arise, a basket of standardized measurements taken at regular intervals over time is most appropriate (Mead, 2018, pp. 307-309).

The Government Finance Officers Association (GFOA) advises financial analysts to utilize a public institution's own past performance as the context for analyzing its own current financial position and performance and to express an institution's financial position and performance emphasizing key indicators such as revenues, expenditures, and fund balances. One-time events or significant changes in underlying assumptions across years should be noted. As stated earlier, the GFOA considers it a best practice to examine the percentage relationship among data elements over time to enhance the utility of trend data,

¹⁸ Foundation support levels are typically limited by law, policy, and practice. For those institutions addressed by the Washington Uniform Prudent Management of Institutional Funds Act ([§24.55 RCW](#)), disbursements from institutional funds must comply with a variety of standards.

and to use, at a minimum, five years of data to provide an effective trend analysis (Government Finance Officers Association, 2003).

A ratio represents the relative magnitudes of two quantities and is usually expressed as a quotient. Ratio analyses have traditionally been defined as the evaluation and interpretation of an institution's financial data using standard financial ratios or accounting ratios to determine an institution's financial state or condition. In higher education financial ratio analysis, the financial ratios that are calculated focus on the institution's relative ability to repay current and future debt and whether the institution is using its financial resources effectively to meet its mission.

As provided below in Table 5 (Results of the Financial Ratio Analysis), several financial ratios estimating financial position and fiscal capacity (liquidity, solvency, and ability to pay) were examined in the context of this analysis. In each case, dollar figures were taken and ratios were derived from the audited financial statements of the University; full-time student enrollment values were taken from the IPEDS 12-Month Enrollment reports as provided through the University's Office of Institutional Effectiveness website; Section 9 of this report provides enrollment detail.

Table 5: Results of the Financial Ratio Analysis

Economic Condition Ratios	FY2018	FY2019	FY2020	FY2021	FY2022
Financial Position					
Total Net Position	\$343,186,099	\$328,561,573	\$314,746,413	\$365,121,186	\$398,476,157
Fiscal Capacity					
Liquidity					
Current Ratio	2.03	1.69	2.17	2.06	1.95
Solvency					
Liabilities to Assets Ratio	0.44	0.43	0.52	0.48	0.43
Ability to raise revenue					
Net Tuition revenue per FTE	\$7,908	\$8,090	\$7,961	\$7,244	\$8,521
State noncapital appropriations per FTE	\$5,483	\$5,783	\$6,117	\$6,576	\$7,215
Ability to Pay Off Liabilities					
Long-term Debt per FTE	6,555	5,987	10,353	11,326	11,663

Note: The ratios displayed in Table 5 do not include the University's discretely presented component unit

Financial Position

The financial position of a public higher education institution can be assessed in part through a horizontal analysis of its net position (the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources). This was provided above in Figure 1 of this report. As previously reported, the University's total net position increased nominally 16.1% (\$55,290,058) from FY2018-22 (Table 1, Figure 1, and Table 5). As the University administration has written:

"The change in net position measures whether the overall financial condition has improved or deteriorated during the year and is driven by the difference between revenues and expenses (Office of the Washington State Auditor, 2022, p. 15).

From this perspective, the financial condition of the University has improved from FY2018-22.

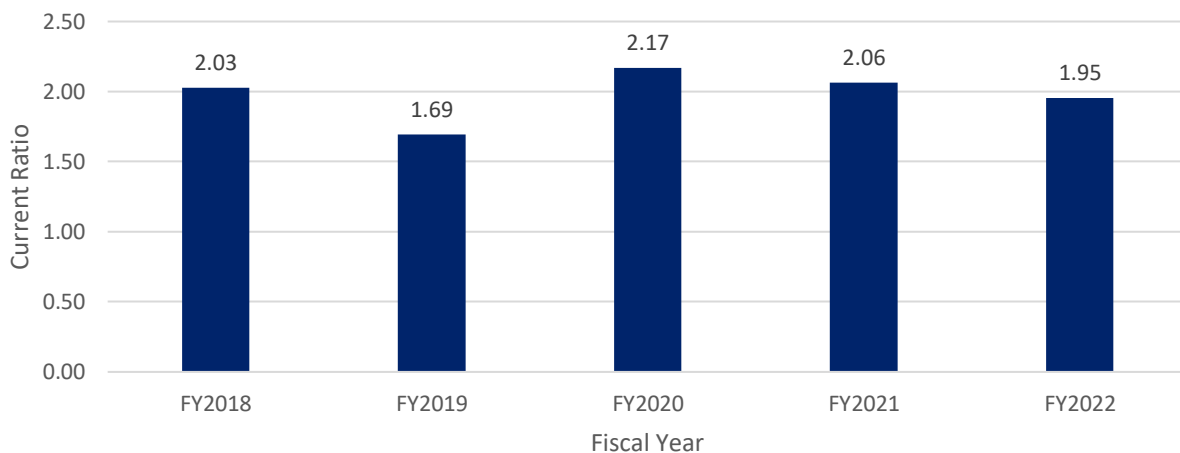
Fiscal Capacity

Fiscal capacity refers to an institution's ability to meet its financial obligations as they come due, and can be interpreted through liquidity (short-term), solvency (long-term), and ability to pay.

Liquidity

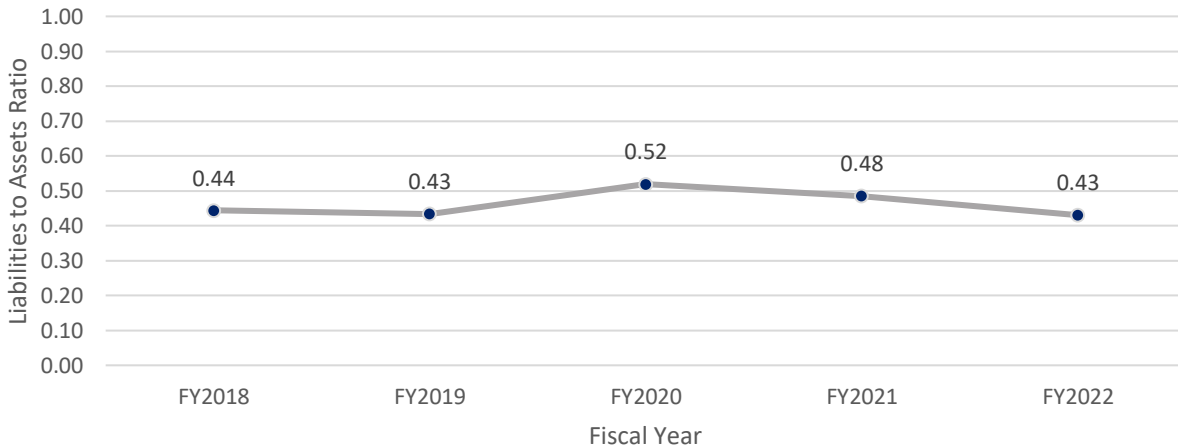
In Table 5 and Figure 3, liquidity is estimated with the current ratio. The current ratio is calculated as total current assets divided by total current liabilities. From FY2018-22, the current ratio declined from 2.03 in FY2018 to 1.95 in FY2022 (Figure 3, Liquidity as Measured by the Current Ratio). To interpret the FY2022 current ratio, it could be said that the University had nearly two dollars of current assets to cover each dollar of current liabilities in FY2022. The meaning of a current ratio is part objective and part subjective. Although liquidity ratios should be greater than 1.0x, the degree to which it is above that minimum is an institution-specific decision (Tahey, Salluzzo, Prager, Mezzina, & Cowen, 2010, p. 110). The level of the current ratio is a positive finding for liquidity.

Figure 3: Liquidity as Measured by the Current Ratio



Fiscal capacity can also be measured through solvency ratios. These ratios are used to examine an institution’s ability to fulfill its long-term obligations. Leverage ratios measure the degree to which an institution’s assets are financed through borrowing and other long-term obligations. The liabilities-to-assets ratio represents total liabilities divided by total assets (See Figure 4, Solvency as Measured by the Liabilities to Assets Ratio). The quotient has decreased slightly from 0.44 in FY2018 to 0.43 in FY2022. The ending value of 0.37 indicates that about 43% of the University’s assets are financed with borrowing of one form or another.

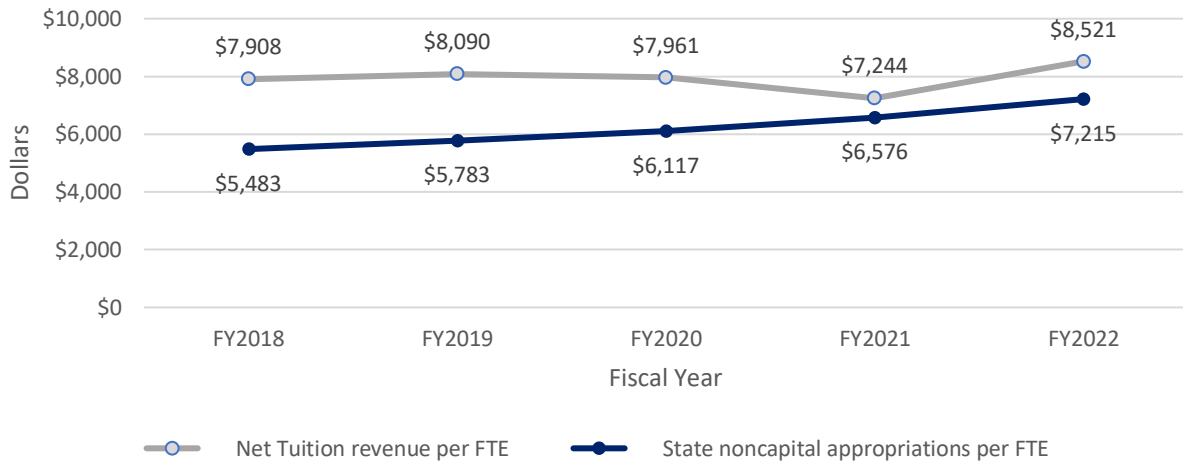
Figure 4: *Solvency as Measured by the Liabilities to Assets Ratio*



Ability to Raise Revenue

Ability-to-pay ratios combine financial statement information with nonfinancial data to provide a perspective on the economic indicators that reveal an institution’s ability to pay for services it provides. One type of such ratio is ability to raise revenues ratios. In the context of public higher education, these measures can generally be calculated as a source of revenue divided by FTE enrollment. Figure 5 (Ability to Raise Revenue through Student Tuition and Fees and State Noncapital Appropriations) provides an insight into two of the University’s most important sources of revenue, state noncapital appropriations and net student tuition and fee revenue. Overall, the nominal level of support from both has increased from \$13,390 per FTE (FY2018) to \$15,737 per FTE (FY2022), though this is largely the result of declining student enrollment. The increase and level of support are both positive signs of the University’s ability to raise revenue.

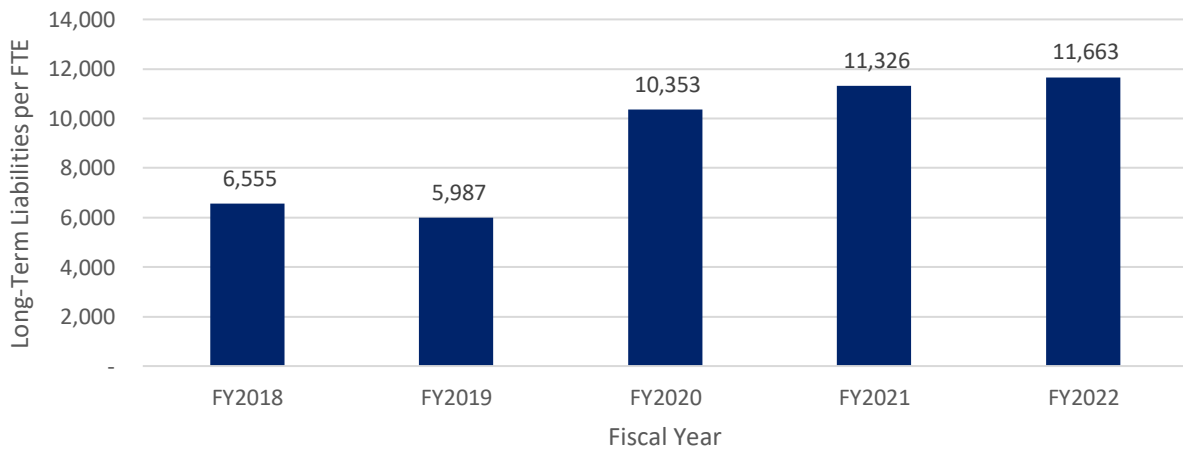
Figure 5: Ability to Raise Revenue through Student Tuition and Fees and State Noncapital Appropriations



Ability to Pay Off Liabilities

The other type of fiscal capacity ratio measures an institution’s ability to pay off its liabilities. In the context of public postsecondary education, these measures include long-term debt per FTE.¹⁹ In Figure 6 (Ability to Pay Off Liabilities) it can be observed that the University’s long-term debt per FTE has risen significantly over time.

Figure 6: Ability to Pay Off Liabilities



¹⁹ Long-term debt is reported by the University as the long-term portion of bonds and notes payable in the Statement of Net Position. This subset of long-term liabilities is consistent with Smith (2019)’s treatment of long-term debt (see pp. 236-239).

SECTION 09 | **FUTURE ECONOMIC CONDITIONS**

Over time, increases or decreases in net position are one indicator of the improvement or deterioration of a higher education institution's financial health. Other factors such as enrollment growth, state appropriations, a state's economy, and an institution's credit rating need to be considered. The administration touches upon some of these issues in the 'Summary of Financial Health and Economic Factors that Will Affect the Future' portion of the Management's Discussion and Analysis section of its annual financial audit (Office of the Washington Auditor, 2022, p. 23):

"WWU students, faculty and staff will begin Fall quarter 2022 (FY 2023) on September 23, 2022, as close to "normal" operations when compared to FY 2021 and FY 2022 and is continuing to recover from the COVID-19 pandemic. Fall 2022 will have the largest freshmen class when compared to previous quarters; however, total headcount is down.

WWU is in the beginning phases of heating conversion study to reduce or eliminate the current heating system from steam distribution on its campus to a water-based system. WWU will be requesting capital appropriations in the amount of \$10 million during the FY 2023/2025 biennium from the state as well as reviewing other funding options. Total estimated cost of this project over all is \$149 million.

WWU will be submitting various decisions packages in the 2023-2025 Biennial Operating Budget Request. Included will be a request to fund various wage increases at a higher rate than previous years as well as an \$8 million to establish a robust four-year university campus on the Kitsap and Olympic Peninsulas that will build on current strengths and community partnerships to establish innovative new degree pathways aimed at meeting regional education and workforce needs. As a public university, WWU's ability to deliver its mission depends on our dedicated and talented workforce. With cost of living increasing more rapidly than tuition rates (capped by the state to ensure affordability), greater support is needed from the state to ensure we have the resources to recruit and retain highly qualified faculty and staff. Over the next ten years, WWU's goal is to dramatically increase student enrollments at WWU-Peninsulas through targeted outreach programs to create permanent and sustainable pathways to post-secondary credentials for high school students and working adults, innovative partnerships with Olympic and Peninsula Colleges and models of delivery focused on serving location-bound and underserved populations. WWU's 2025 Strategic Plan focuses on three core themes: Increasing Washington Impact, Advancing Inclusive Success, and Enhancing Academic Excellence. This request addresses each theme by expanding four-year academic opportunities to a historically underserved region and place-bound population."

Enrollment

The status of enrollment is obviously an important factor when considering the economic condition of a University. Enrollment data from the University's Office of Institutional Effectiveness provides data on 12-month enrollment as submitted to IPEDS in Tables 6 and 7 and Figures 8 and 9.²⁰ Student enrollment as measured by headcount has decreased 3.4% (-594 students), while the number of full-time equivalent students has declined 5.0% (-717 students). The student enrollment decrease is consistent with national trends of postsecondary student enrollment declines (Berg et al., 2023).

²⁰ See <https://oie.wvu.edu/factbook/ipeds-reports/>. Data collected in the 12-Month Enrollment survey component (reporting period is from July 1 to June 30) includes information for both undergraduate and graduate students. These data include (but are not limited to): unduplicated headcounts by level of student and by race / ethnicity and gender; instructional activity; and full-time equivalent (FTE) enrollment.

Table 6: 12-Month Unduplicated Headcount Student Enrollment, FY2018-22

<i>Headcount</i>	2017-18	2018-19	2019-20	2020-21	2021-22
Undergraduate	16,246	16,553	16,762	16,791	15,665
Graduate	1,229	1,229	1,204	1,092	1,216
Total Headcount	17,475	17,782	17,966	17,883	16,881

Figure 7: 12-Month Unduplicated Headcount Student Enrollment, FY2018-22

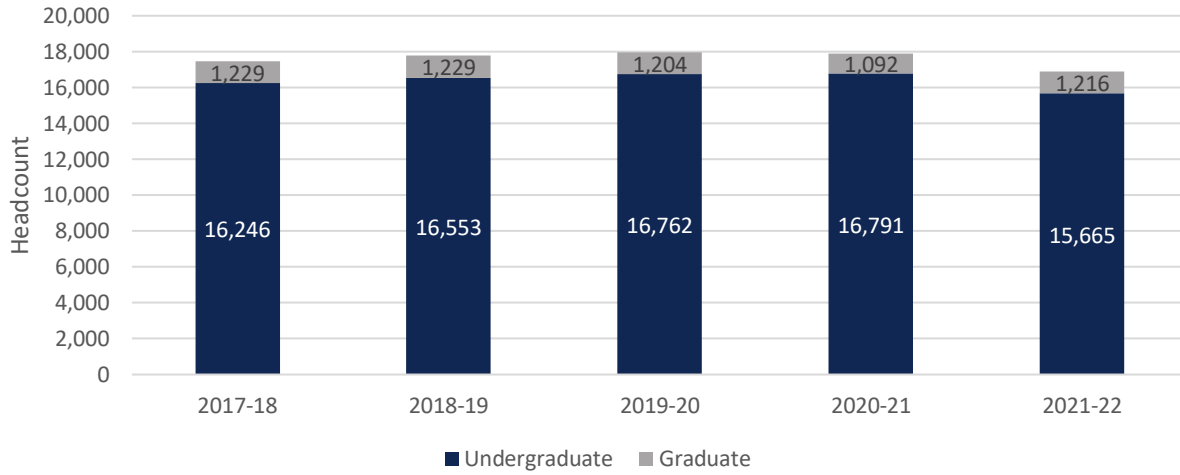
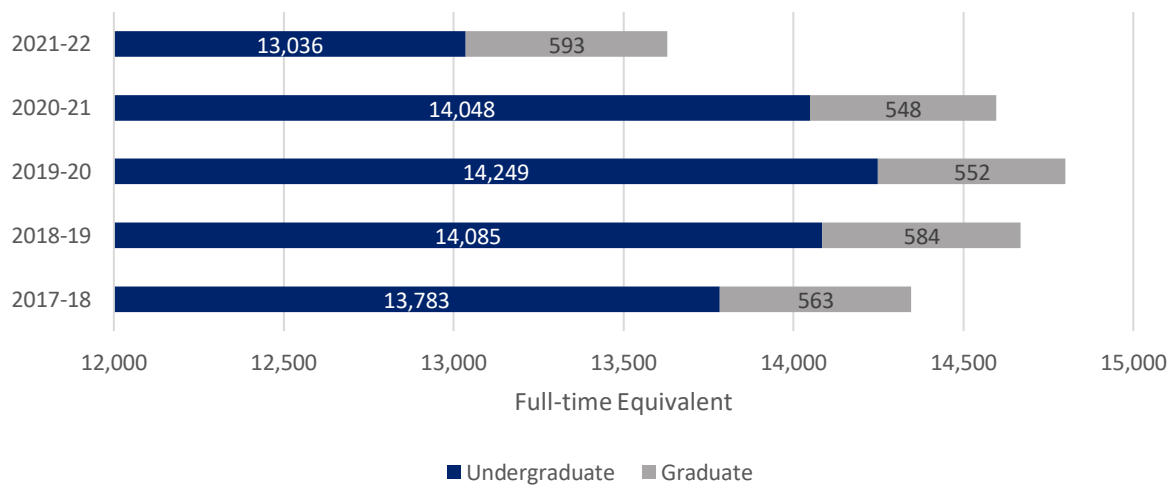


Table 7: 12-Month Full-Time Equivalent Student Enrollment, FY2018-22

<i>FTE</i>	2017-18	2018-19	2019-20	2020-21	2021-22
Undergraduate	13,783	14,085	14,249	14,048	13,036
Graduate	563	584	552	548	593
Total FTE	14,346	14,669	14,801	14,596	13,629

Figure 8: 12-Month Full-Time Student Enrollment, FY2018-22



State Governance

Prior to a short examination of state appropriations, it is appropriate to provide information on state governance of higher education in Washington State. According to the Education Commission of the States, “Washington’s Student Achievement Council (WSAC) serves as the state’s coordinating board for public education. The governor appoints the executive director based on the recommendation of the coordinating board. The affiliated agency implements board policies, conducts research and analysis, and administers academic and student financial aid programs. The Washington State Board for Community and Technical Colleges coordinates a system of two-year institutions, which have individual governing boards. The universities, some of which have multiple campuses, are governed by local boards” (Pechota, Fulton, & Broom, 2020).

State Appropriations

Washington state colleges and universities receive funding from state appropriations, student tuition and fees, and federal funds. The latest information on state appropriations is available from the State of Washington Legislative Budget Notes, 2023-25 Biennium and 2023 Supplemental. Before quoting the information therein, it is important to note the difference between ‘Funds Subject to Outlook’ and ‘Total Budgeted Funds’.

“Funds Subject to Outlook” (NGF-O) is tied to the WA requirement that state budgets must balance for the following four years (i.e., current and next biennia, or 2023–25 and 2025–27). NGF-O is typically the number referenced when someone asks about the amount of the biennial operating budget. “Total Budgeted Funds” include the NGF-O amount as well as funds from other sources (i.e., state funds, federal funds, local funds, and non-appropriated funds). This and additional information are available on the Washington State Fiscal Information website maintained by the Legislative Evaluation and Accountability Program (LEAP) Committee and the Office of Financial Management.

Total state higher education spending increased nominally from the 2021-23 to the 2023-25 budget: *Funds Subject to Outlook* increased \$721,890,000 (14.2%) from \$5,102,922,000 to \$5,824,812,000; *Total Budgeted Funds* increased \$1,412,447,000 (8.4%) from \$16,807,571,000 to \$18,220,018,000 (State of Washington, 2023, p. O-18). The results for Western Washington University and other state colleges and universities are provided on page O-27 and Table 8 below.²¹ The increase and level of state appropriations are both positive.

Table 8: Washington State Omnibus Operating Budget, 2021-23 vs. 2023-25 Budget (Dollars in Thousands)

	Funds Subject to Outlook			Total Budgeted Funds		
	2021-23	2023-25	Difference	2021-23	2023-25	Difference
Student Achievement Council	1,062,464	1,030,195	-3.0%	1,123,485	1,238,939	10.3%
University of Washington	907,136	1,103,569	21.7%	8,400,094	9,200,804	9.5%
Washington State University	578,393	646,631	11.8%	1,878,481	1,998,431	6.4%
Eastern Washington University	152,476	174,511	14.5%	367,483	398,182	8.4%
Central Washington University	149,190	176,106	18.0%	442,851	463,017	4.6%
The Evergreen State College	77,129	88,591	14.9%	176,166	189,852	7.8%
Western Washington University	199,225	237,739	19.3%	457,497	508,339	11.1%
Community/Technical College System	1,976,609	2,367,470	19.8%	3,961,514	4,222,454	6.6%
Total	\$5,102,622	\$5,824,812	14.2%	\$16,807,571	\$18,220,018	8.4%

²¹ <https://fiscal.wa.gov/BudgetBasics/BudgetFAQ>

State Economy

Given the importance of the state economy to higher education, it is prudent to consider economic conditions from a national and state perspective. According to the U.S. Bureau of Labor Statistics' State employment and unemployment summary for October 2023, the national unemployment rate was 3.9%; in Washington State, it was 3.8%. The year prior, Washington State's unemployment rate was 4.6% (U.S. Bureau of Labor Statistics, 2023).

Similarly, real gross domestic product (GDP increased in all 50 states and the District of Columbia in the third quarter of 2023, with a range of 0.7% (Arkansas) to 9.7% (Kansas); Washington was 5.1%. Personal income, in current dollars, increased 3.5% at an annual rate and 0.9% in Washington State, 2023:Q2-2023:Q3 (U.S. Bureau of Economic Analysis, 2023). Thus, the economic picture for Washington and its citizens is positive.

SECTION 10 | CONCLUSIONS

All five independent financial audits conducted on behalf of Western Washington University yielded clean opinions on the financial statements and reporting of the institution. These opinions provide stakeholders with assurance that the information in the financial statements is correct, and that they can make sound decisions based on the data. These opinions reflect favorably on the financial management of the institution. Several findings from the annual financial reports examined by the independent auditor herein put the University's financial condition into perspective.

Information provided in Section 4 (Statements of Net Position) of this report indicated that the University's total net position increased 16.1% nominally (\$55,290,058) nominally from FY2018-22. As the University stated on page 14 of its FY2022 financial audit,

"The change in net position measures whether the overall financial condition has improved or deteriorated during the year and is driven by the difference between revenues and expenses."

Information provided in Section 5 (Statement of Revenues, Expenses, and Changes in Net Position) of this report indicates that the University's income is derived from a variety of sources, the strongest of which has been state noncapital appropriations and student tuition and fees. The annual change in net assets measures an institution's financial viability by indicating if it is spending within its means:

"An increase in net position indicates that the university is spending within its means; it is taking in more than it is spending. Any surplus can be reinvested in the institution. In contrast, a decrease in net position indicates that the university is not living within its means; it is spending more than it is taking in. Consequently, the university must find a way to meet the operating deficit in the short term. Possible solutions include dipping into cash reserves, increasing endowment payout, and taking out loans" Smith, 2019, p. 225).

In the five years under observation in this report, positive changes in net position were observed in only two of five years.

Information provided in Section 6 (Statement of Cash Flows) of this report demonstrates that the University experienced a nominal increase of 69.8% (\$10,358,948) in ending cash and cash equivalents from FY2018-22 despite negative operating cash flows. When a public institution experiences negative operating cash flows, analysts look to government appropriations to make up the shortfall. Important sources of revenue such as state appropriations are required by the GASB to be reported as nonoperating revenue (presented in this Statement under 'Cash flows from non-capital financing activities'). In this case, the addition of state noncapital appropriations did not address the negative operating activity cash flows of the University during the years under observation.

Section 7 (Component Units) of this report reported on the University's component unit, organizations formed for the exclusive benefit of the University. The University is supported by one discretely-presented component unit, the Western Washington University Foundation, Inc. (Foundation). As presented in the University's FY2022 financial audit, the Foundation's total net assets were \$127,105,126 as of June 30, 2022 (p. 25). The economic resources held by this component units are substantial, and are dedicated for the benefit of the University.

Section 8 (Ratio Analysis) of this report reviewed a variety of financial ratios reflecting the financial position and fiscal capacity of the University; all but one reflected positive levels or levels over the past five fiscal years.

Section 9 (Future Economic Conditions) of this report included information on student enrollment, state noncapital appropriations, and economic factors to consider relative to the economic condition of the University. Student enrollment data provided by the University and displayed in Tabled 6 and 7 reveal student enrollment declines consistent with national trends that need to be addressed by the University to continue the improvement of its economic condition.

SECTION 11 | **PANDEMIC**

In December 2019, an outbreak of coronavirus disease (COVID-19) caused by the 2019 novel coronavirus (SARS-CoV-2) occurred in Wuhan, Hubei Province, China and has since spread throughout the globe. Early estimates of its reproducibility demonstrated considerable human-to-human transmission causing governments to slow its rapid transmission by employing mitigation interventions (Xu et al., 2020).

On March 13, 2020, the President of the United States declared that a national emergency concerning the COVID-19 outbreak began on March 1, 2020, as stated in "Declaring a National Emergency Concerning the Novel Coronavirus Disease (COVID-19) Outbreak," Proclamation 9994 of March 13, 2020, Federal Register Vol. 85, No. 53 at 15337-38. Since then, three laws passed by the Congress have directed relief towards post-secondary higher education institutions in the U.S.
Congressional Relief for Coronavirus Pandemic

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020. The Act provided \$2.2 trillion in economic stimulus through one-time cash payments to individuals, increased unemployment benefits, forgivable loans to small businesses, loans for corporations, payments for hospitals and public health, payments to state and local governments, and education.

Funds for higher education were provided through the Education Stabilization Fund (ESF) and two other funds. Under Section 18001 of the Act, the Secretary of Education was first required to reserve up to 0.5% for the outlying areas on the basis of their respective needs; 0.5% for programs operated or funded by the Bureau of Indian Education; and 1% for competitive grants to the states with the highest coronavirus burden to support activities under the ESF. Following that, the Secretary was required to provide the remainder of the funds to three emergency education relief funds: The Governor's Emergency Relief Fund (GEER), the Elementary and Secondary School Emergency Relief Fund (ESSER), and the Higher Education Emergency Relief (HEER) Fund.

The second bill passed by the United States Congress to address the consequences of the pandemic was signed into law on December 27, 2020 as Consolidated Appropriations Act (Public Law 116-260). In all, \$900 billion in relief funding was attached to law; of that, \$22.7 billion was set aside for higher education through Division M of the Act, the Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSAA). Of those funds, 89% were directed for the Higher Education Emergency Relief Fund (HEER); 7.5% to historically Black colleges and universities (HBCU), Hispanic Serving institutions, and other minority serving institutions; 3% for emergency student aid at for-profit institutions; and 0.5% for grants through the Fund for the Improvement of Postsecondary Education (FIPSE) to institutions particularly impacted by

the pandemic or disadvantaged by the formula for student aid. The Act also forgave an estimated \$1.3 billion in existing HBCU Capital Financing Loans.

The third bill was signed into law on March 11, 2021, one year from the date when the World Health Organization (WHO) declared the coronavirus a global pandemic. It provided \$1.9 trillion in relief funding through a number of programs including direct payments to citizens, expanded unemployment benefits and the child tax credit, vaccine distribution, and money for state, local, and tribal governments. The Act appropriated \$39.6 billion to the USDOE for making allocations to institutions of higher education with the same terms and conditions of section 314 of the CRRSAA with minor changes (HEER). Additional funding was provided to the outlying areas (see footnote 3), Gallaudet University, Howard University, the National Technical Institute for the Deaf, and administrative support.

Through these three acts, Western Washington University was awarded \$5,456,837 through the GEER Fund and \$62,027,260 through the Higher Education Emergency Relief (HEER) Fund. Within the HEER Fund, \$27,742,616 was provided for the student portion and \$34,284,644 was provided for the institutional portion. By June 30, 2023, the College had spent 100% of its institutional HEER Funds ([U.S. Department of Education](#)).

The first annual report covered a reporting period of March 13, 2020 – December 31, 2020. The second covered January 1 – December 31, 2021. Quarterly reports from Q3 2020-Q4 2022 posted on the University's [website](#) provide a preliminary breakdown of institutional HEER Fund expenditures by category (Table 9).²² In many cases the quarterly reports provide additional detail regarding the nature of the expenditures. Many of these expenditures are subject to various rules and regulations published by the U.S. Department of Education over time; these are available in the Appendix to this report.

Table 9: *Higher Education Emergency Relief Fund (HEERF) Institutional Expenditures*

Purpose	Percent
Lost revenue recovery	89.83%
Public health measures	5.08%
Other uses as specified	4.69%
Distance learning supplies	0.40%

On April 4, 2022, the Office of Postsecondary Education in the Department of Education issued a notice regarding an automatic extension of HEERF grantees' performance period.²³ The Department asked institutions receiving aid through these three acts to report on the ways in which HEERF helped the institution and its students in their second annual report provided on the Department's website linked above. In its response (options strongly disagree to strongly agree, not applicable, unable to determine) to the survey questions, the University noted that the funds identified in Table 1 above enabled it to:

- Continue offering planned programs (i.e., programs of study listed in our course catalog) that were at risk of discontinuation due to pandemic-related factors (N/A).
- Keep student net prices similar to pre-pandemic levels (neutral).

²² By August 19, 2023, the College's quarterly reports posted on its website accounted for \$32,924,244 or 96.0% of its institutional HEERF awards. While the quarterly reports should reflect the same amount of spending as recorded by the U.S. Department of Education above, report amendments can occur while the institution's HEERF grant is active.

²³ According to the [Department](#), "The Department is extending the performance period on all HEERF grants through June 30, 2023. This extension does not apply to grants that are closed or in the closeout process, nor does it apply to grants that have an award balance of \$1,000 or less. The Department believes that extending the performance period on all HEERF grants through June 30, 2023, is consistent with the intent of Congress and authorized by the law."

- Keep students enrolled by providing them with electronic devices and Internet access (agree).
- Keep students enrolled who were at risk of dropping out due to pandemic-related factors by providing direct financial support to students (agree).
- Keep faculty, staff, employees, and contractors at full salary levels who were at risk of unemployment due to pandemic-related factors (agree).
- Purchase COVID tests, health screening, and the healthcare needed to help students and faculty (strongly agree).

These survey responses indicate that the University's receipt of these funds enabled it to address revenue losses and unique expenditures required by the pandemic. Now that the HEER funds are nearly extinguished, the impact of the expenditure patterns revealed in Table 9 above will help in determining how the University addressed the unique challenges imposed by the pandemic.

SECTION 12 | CODA

As reported by *Inside Higher Ed*, the rating agency Moody's Investors Services and Fitch Ratings issued negative sector outlooks for 2023 in December 2022 (Seltzer, 2022). Moody's forecasted that 60% of public and 75% of private universities would experience net tuition decline among soft enrollment and downwards pressure for auxiliary enterprise revenue, philanthropy, and state appropriations. Fitch forecasted enrollment declines as well, and suggested that consumers would have a renewed focus on access and affordability.

This period in America's history is unique, as it has been more than a century since a pandemic had such a large impact on the lives of Americans. While the impact of the 2019 novel coronavirus (SARS-CoV-2) pandemic has been substantial, it does not represent the only time that financial challenges have threatened higher education's ability to operate. Indeed, the history of higher education in America is a testament to its resilience in addressing change and confronting challenges (Thelin, 2019). In that context, a seminal college financing text published by the National Association of College and University Business Officers (NACUBO) addresses potential college and university responses to financial exigency.

In it, the author writes that higher education institutions should develop plans to accommodate financial crises just as they develop plans for disaster recovery and emergency preparedness to avoid retrenchment (Goldstein, 2019, p. 310). Goldstein continues:

"Generally, the less time an institution has to react to a fiscal emergency, the narrower the range of options available. Rather than carefully considering their options - which could include tapping into reserves or using a budget contingency, along with unallocated initiative funds - the institution typically responds [sic] by implementing travel bans, hiring freezes, and across-the-board budget costs" (p. 310).

Goldstein cautions that "... personnel cutbacks have lasting negative effects on institutional culture..." (p. 309) that lasts for years. Therefore, he offers several short- and long-term strategies designed to avoid such cuts such as leaving vacant positions open, relying on attrition, and identifying new revenue streams.

APPENDIX

Days cash on hand (DCOH) can be calculated using the Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position. The steps and calculations for FY2022 are provided below.

1. Identify the cash on hand, which can be found on the institution's statement of net position (SNP) as cash and cash equivalents (unrestricted and restricted, current only): \$23,920,371.
2. Determine the annual operating expenses by looking at the institution's statement of revenues, expenses, and changes in net position (RECNP) and summing the items that fall under the operating expenses category: \$317,156,245.
3. Identify any non-cash expenses like depreciation and amortization, also found in the income statement typically at the bottom of the RECNP under the other expenses category: \$26,931,420 (depreciation).
4. Calculate the cash outflow per day by subtracting non-cash expenses from annual operating expenses and dividing the result by 365 days: \$868,921.
5. Divide the cash on hand by the outflow per day to find days cash on hand: 28.

While the DCOH provides a quick check of an institution's financial health to identify cash flow issues and allows you to compare institutions' liquidity with a single figure, it is based on average daily cash flow rather than the true nature of cash flow, it ignores seasonal variations, and it does not account for the fact that management can take actions to reduce expenses if cash declines faster than anticipated. For comparative purposes, here it is noted that Eastern Washington University's DCOH is 227 days.

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