

Report on University Finances

Faculty Senate Fiscal Planning and Budgeting Committee

Fall 2020

Outline

- Fiscal 2020 in review
- University Credit Rating
- Fiscal 2021
- Beyond 2021: Opportunities and Challenges

Fiscal 2020

- First full-year with MFA consolidation
 - Of the University loss, significant portion due to MFA
- Change to Accounting for Leases
 - Reduces off-balance sheet leases. Affects Balance Sheet and Income Statement
- COVID impact (spring 2020)
 - Housing
 - Patient Revenues
- Auditor Change – Grant Thornton
- Endowment performance

Revenue and Expense: 2020

Consolidated Statement of Activities
Year Ended June 30, 2020
(in thousands)

Consolidated Statement of Activities
Year Ended June 30, 2019
(in thousands)

	Consolidated Statement of Activities Year Ended June 30, 2020 (in thousands)			Consolidated Statement of Activities Year Ended June 30, 2019 (in thousands)		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE						
Student tuition and fees, net of \$340,440 university funded scholarships	\$ 784,524	\$ -	\$ 784,524	\$ 774,143	\$ -	\$ 774,143
→ Patient care, net	278,212	-	278,212	171,188	-	171,188
→ Grants and contracts including indirect cost recoveries	209,133	-	209,133	206,391	-	206,391
Auxiliary enterprises, net	90,387	-	90,387	119,753	-	119,753
Endowment income distributed for operations	86,581	-	86,581	86,575	-	86,575
Medical education agreements	61,472	-	61,472	65,391	-	65,391
Contributions	27,248	-	27,248	19,079	-	19,079
Investment income used in operations	18,321	-	18,321	25,871	-	25,871
Net assets released from restrictions	12,200	-	12,200	13,351	-	13,351
Other	117,026	-	117,026	64,825	-	64,825
Total operating revenue	1,685,104	-	1,685,104	1,548,168	-	1,548,168
OPERATING EXPENSES						
Salaries and benefits	1,042,738	-	1,042,738	891,934	-	891,934
Purchased services	266,940	-	266,940	250,860	-	250,860
Depreciation	93,808	-	93,808	90,373	-	90,373
Interest	73,953	-	73,953	70,593	-	70,593
Scholarships and fellowships	26,471	-	26,471	17,270	-	17,270
Other	240,401	-	240,401	208,509	-	208,509
Total operating expenses	1,744,311	-	1,744,311	1,529,538	-	1,529,538
DECREASE IN NET ASSETS FROM OPERATING ACTIVITIES	(59,207)	-	(59,207)	16,628	-	16,628
NON-OPERATING ACTIVITIES						
Investment income, net	55,749	(5,998)	49,751	40,284	(848)	39,436
Net assets released from restriction	35,077	(47,277)	(12,200)	40,994	(34,345)	(13,351)
Contributions, net	-	48,270	48,270	-	34,069	34,069
Endowment income distributed for operations	(87,775)	1,194	(86,581)	(88,697)	2,123	(86,575)
Other	(2,841)	2,221	(620)	(4,594)	401	(4,193)
Total non-operating activities	210	(1,590)	(1,380)	(13,013)	(18,601)	(30,614)
DECREASE IN NET ASSETS	(58,997)	(1,590)	(60,587)	4,615	(18,601)	(13,986)
NET ASSETS AT THE BEGINNING OF THE YEAR	1,668,158	687,488	2,355,646	1,663,543	706,089	2,369,632
NET ASSETS AT THE END OF THE YEAR	\$ 1,609,161	\$ 685,898	\$ 2,295,059	\$ 1,668,158	\$ 687,488	\$ 2,355,646

University Balance Sheet : 2020 and 2019

THE GEORGE
WASHINGTON
UNIVERSITY
WASHINGTON, DC

Consolidated Balance Sheets
As of June 30, 2020 and 2019
(in thousands)

	<u>2020</u>	<u>2019</u>
ASSETS		
→ Cash and cash equivalents	\$ 696,429	\$ 162,476
Short-term investments	100	269,524
Accounts receivable, net	129,026	141,351
Contributions receivable, net	29,349	36,677
Investments	2,329,157	2,306,287
Loans and notes receivable, net	20,983	26,368
Property, plant, and equipment, net	1,771,307	1,780,440
→ Other assets	123,907	24,925
Total assets	<u>\$ 5,100,258</u>	<u>\$ 4,748,048</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 395,258	\$ 305,578
Deferred revenue	140,254	117,079
→ Long-term debt, net	2,244,657	1,940,133
Funds advanced for student loans	25,030	29,612
Total liabilities	<u>2,805,199</u>	<u>2,392,402</u>
NET ASSETS		
Without donor restrictions	1,609,161	1,668,158
With donor restrictions	685,898	687,488
Total net assets	<u>2,295,059</u>	<u>2,355,646</u>
Total liabilities and net assets	<u>\$ 5,100,258</u>	<u>\$ 4,748,048</u>

Consolidated Cash Flows 2020 & 2019

THE GEORGE
WASHINGTON
UNIVERSITY
WASHINGTON, DC

Consolidated Statements of Cash Flows
Years Ended June 30, 2020 and 2019
(in thousands)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (60,587)	\$ (13,986)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contribution - MFA business combination	-	(3,109)
Contributions restricted for long-term investment	(4,068)	(7,885)
Donated assets	(140)	(206)
Depreciation, amortization and accretion expenses	93,961	90,434
Net realized/unrealized (gain) on investments	(34,795)	(23,285)
Other non-cash items	3,852	3,755
Changes in operating assets and liabilities:		
Accounts receivable	8,043	(2,696)
Contributions receivable	7,328	10,694
Other assets	(98,902)	3,664
Accounts payable and accrued expenses	96,240	10,560
Deferred revenue	28,186	(2,617)
Net cash provided by operating activities	39,118	65,323
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(463,972)	(739,348)
Sales and maturity of investments	748,210	777,396
Purchases of property, plant, and equipment	(87,855)	(86,727)
Cash investment - MFA business combination	-	11,774
Change in other loans and notes receivable	5,411	4,404
Net cash provided by (used in) investing activities	201,794	(32,501)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	4,068	7,885
Payments of long-term debt	(2,211)	(474)
Proceeds from borrowings	125,000	-
Net proceeds from borrowings on lines of credit	174,091	1,310
Refunds (payments) of debt issuance costs	(30)	75
Payments of finance lease obligations	(3,295)	(1,941)
Change in refundable government student loan funds	(4,582)	(9)
Net cash provided by financing activities	293,041	6,846
NET CHANGE IN CASH AND CASH EQUIVALENTS	533,953	39,668
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	162,476	122,808
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	\$ 696,429	\$ 162,476
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Net interest paid	\$ 85,609	\$ 79,910
Income tax payments	2,668	1,341



Income: University and MFA

THE GEORGE
WASHINGTON
UNIVERSITY

WASHINGTON, DC

Supplemental Schedule to the Consolidated Financial Statements
Consolidating Statement of Activities
Year Ended June 30, 2020
(in thousands)

	<u>GWU</u>	<u>MFA</u>	<u>Elimination</u>	<u>Total</u>
OPERATING REVENUE				
Student tuition and fees, net of \$340,440 university funded scholarships	\$ 784,524	\$ -	\$ -	\$ 784,524
Patient care, net	-	278,212	-	278,212
Grants and contracts including indirect cost recoveries	207,478	5,303	(3,648)	209,133
Auxiliary enterprises, net	89,716	671	-	90,387
Endowment income distributed for operations	86,581	-	-	86,581
Medical education agreements	69,031	18,981	(26,540)	61,472
Contributions	27,248	-	-	27,248
Investment income used in operations	17,108	1,349	(136)	18,321
Net assets released from restrictions	12,200	-	-	12,200
Other	32,345	99,942	(15,261)	117,026
Total operating revenue	<u>1,326,231</u>	<u>404,458</u>	<u>(45,585)</u>	<u>1,685,104</u>
OPERATING EXPENSES				
Salaries and benefits	744,233	298,365	140	1,042,738
Purchased services	265,396	37,843	(36,299)	266,940
Depreciation	86,623	7,185	-	93,808
Interest	68,790	5,299	(136)	73,953
Scholarships and fellowships	26,471	-	-	26,471
Other	130,971	98,720	(9,290)	240,401
Total operating expenses	<u>1,342,484</u>	<u>447,412</u>	<u>(45,585)</u>	<u>1,744,311</u>
DECREASE IN NET ASSETS FROM OPERATING ACTIVITIES	<u>(16,253)</u>	<u>(42,954)</u>	<u>-</u>	<u>(59,207)</u>
NON-OPERATING ACTIVITIES				
Investment income, net	49,751	-	-	49,751
Net assets released from restriction	(12,200)	-	-	(12,200)
Contributions, net	48,270	-	-	48,270
Endowment income distributed for operations	(86,581)	-	-	(86,581)
Other	(620)	-	-	(620)
Total non-operating activities	<u>(1,380)</u>	<u>-</u>	<u>-</u>	<u>(1,380)</u>
DECREASE IN NET ASSETS	<u>(17,633)</u>	<u>(42,954)</u>	<u>-</u>	<u>(60,587)</u>
NET ASSETS AT THE BEGINNING OF THE YEAR	<u>2,346,875</u>	<u>11,880</u>	<u>(3,109)</u>	<u>2,355,646</u>
NET ASSETS AT THE END OF THE YEAR	<u>\$ 2,329,242</u>	<u>\$ (31,074)</u>	<u>\$ (3,109)</u>	<u>\$ 2,295,059</u>

Credit Rating

[https://finance.gwu.edu/sites/g/files/zaxdzs3726/f/downloads/Credit Opinion - George-Washington-University-DC - 14Oct20.pdf](https://finance.gwu.edu/sites/g/files/zaxdzs3726/f/downloads/Credit%20Opinion%20-%20George-Washington-University-DC%20-%2014Oct20.pdf)

GW Bond rating: A1 (higher ratings Aa3 – aA1, Aaa)
Outlook (Stable)

Credit strengths

- » Strong national profile for comprehensive university aided by location in Washington, DC
- » Favorable total wealth, with total cash and investment in excess of \$3 billion, including real estate assets
- » Absolute scale, with \$1.7 billion in operating revenue
- » Immediate actions to respond to revenue challenges highlights continued strong financial and risk management

Credit challenges

- » Financial resources have above average concentration in commercial real estate holdings near campus, complicated by government restrictions tied to the coronavirus pandemic
- » Restructuring of faculty practice plan increases direct healthcare risk; management of hospital relationship challenged by potential mission misalignment
- » Long dated bullet maturity debt structure amplifies importance of favorable treasury management
- » Lack of full institutional alignment with strategic plan and pandemic related measures raises governance and management risks

Credit Rating Continued

Rating outlook

The stable outlook reflects our expectations that management will continue to take prudent and aggressive actions to adjust to near term operational and financial challenges posed by the coronavirus pandemic and positions the university towards long term fiscal sustainability. Based on outlined plans for adjustment, GWU should revert to historical performance after the disruption caused in fiscal 2021, with operational cash flow margins of above 10% and over 200 monthly days cash on hand.

Factors that could lead to an upgrade

- » Substantial increase in operating reserves
- » Sustained improvement in cash flow from operations, which would partially mitigate high debt levels
- » Further strengthening of long term strategic position, reflected in ability to successfully implement its strategic plan while also improving the position of its academic medical center

Factors that could lead to a downgrade

- » Softening of student demand or operating performance with cash flow margins below 10%
- » Increase in financial leverage given already high debt levels
- » Marked reduction in unrestricted liquidity
- » Material decline in market value of real estate assets

GW Credit Rating

reflects the university's large scale, with \$1.7 billion in operating revenue and considerable financial strength, reflected by \$3 billion in cash and investments. **Operating performance will soften in fiscal 2021 but management has identified a path for break even operating performance.** The university's strategic position is very good, driven by the university's diversified programs offerings at the graduate and undergraduate level and planning actions to position the university in a changing higher education landscape. **Offsetting credit considerations include high financial leverage, with spendable cash and investments to total debt of 1.2 times, and a large investment concentration in directly held commercial real estate, geographically concentrated near the campus.** The university also has both **direct and indirect exposure to health care** through its faculty practice plan, which has recently generated losses, and affiliation with a for profit hospital.

Fiscal 2021

- Fiscal 2021 Budget
- Fiscal Mitigation Measures
- Fiscal 2021 Update

Approved “Provisional” 2021 Budget Relative to Pre-Covid 2021 Baseline

	FY 2021 Baseline	FY 2021 Approved	Difference
Tuition and Fees - Net	\$ 799.50	\$ 723.30	-76.2
Indirect Cost Recoveries	35.4	28.3	-7.1
Medical Education	70.6	70.6	0.0
Contributions, net	26.6	26.6	0.0
Endowment Support	86.2	86.2	0.0
Investment Income	16.0	18.5	2.5
Auxiliaries	114.0	14.6	-99.4
Other Income	26.8	46.8	20.0
Total - Revenue	1,175.1	1,014.9	-160.2
Expenses			
Compensation and	688.9	599.3	-89.6
Purchased Services	170.2	143.1	-27.1
Depreciation and	85.2	85.2	0.0
Occupancy	51.2	46.4	-4.8
Scholarships and	15.3	15.3	0.0
Interest	66.7	66.7	0.0
Other	85.2	57.3	-27.9
Contingency			
Total Expenses	1162.7	1014.9	-147.8

Budget Mitigation

- “Phase I”
 - Total Amount ≈ **\$100 million**
 - Employee reductions in force ≈ **\$47 million**
 - Temporary Faculty/Staff Merit Pay Freeze ≈ **\$15 million**
 - Noncompensation reductions ≈ **\$38 million**
- “Phase II”
 - Total amount ≈ **\$68 million**
 - Temporary Suspension of Retirement Contributions ≈ **\$27 million**
 - Expense reductions (school and unit level) ≈ **\$21 million**
 - Draw on unrestricted assets ≈ **\$20 million**

FY2021 Q1 Tuition Projection

Millions	Full Year		
	Budget	Forecast	Favorable/ (Unfavorable)
Revenue			
Undergraduate Tuition Revenue	480.7	481.3	0.6
Graduate (On Campus) Tuition Revenue	315.0	319.8	4.8
Graduate (Off Campus) Tuition Revenue	54.9	56.2	1.3
Online Tuition Revenue	122.2	125.9	3.7
Non-Degree / Other Tuition Revenue	11.8	12.4	0.6
Summer Tuition Revenue	39.5	41.1	1.6
Fees (Application, Course, Other)	15.8	13.4	(2.4)
Student Tuition & Fees	1,039.9	1,050.1	10.2
University Funded Scholarships	(316.6)	(317.8)	(1.3)
Net Student Tuition & Fees	723.3	732.2	9.0

FY2021 Q1 Full Forecast

Millions	Full Year		
	Budget	Forecast	Favorable / (Unfavorable)
<u>Revenue</u>			
Net Student Tuition & Fees	723.3	732.2	9.0
Indirect Cost Recoveries	28.3	32.4	4.1
Medical Education Agreements	70.2	70.2	-
Contributions, net	27.1	28.3	1.2
Endowment Support	86.2	86.2	-
Investment Income	18.5	14.5	(4.0)
Auxiliaries	14.6	23.5	8.8
<u>Other</u>	46.8	52.5	5.7
<u>Income</u>			
Total - Revenue	\$ 1,015.0	\$ 1,039.8	\$ 24.8
<u>Expenses</u>			
Compensation and Benefits	585.6	585.6	-
Purchased Services	162.8	162.8	-
Depreciation and Amortization	85.2	85.2	-
Occupancy	44.8	51.9	(7.0)
Scholarships and Fellowships	15.0	15.0	-
Interest	66.7	72.2	(5.4)
Other	53.13	53.13	-
	1.6	1.6	-
<u>Contingency</u>			
Total - Expenses	\$ 1,015.0	\$ 1,027.4	\$ (12.5)

Update and Mitigation

Current projection - \$12.4M favorable (relative to initial budget projection)

Mitigation phase II components

- Pause of retirement contribution
 - \$1.4M/month base
 - \$1.8M/month match
- Curtail variable operating expenses
- University asset contribution
 - \$20M

Priority action

- Possible restoration of base retirement contribution - \$8.4M

“Beyond” Fiscal 2021

- Pessimistic Scenario
 - University continues to operate virtually
- Moderately Optimistic Scenario
 - {Enrollment remains constant relative to FY 2021 + university opens in “normal” mode} => Increase in net income from auxiliary services (housing) + no 10% tuition discount
- Optimistic Scenario
 - {Enrollment higher than FY 2021 + university opens in “normal” mode} => Increase in in net tuition (including no 10% tuition discount) + net income from auxiliary services (housing)

Opportunities & Challenges

- Opportunities

- Improving net auxiliary revenue from returning to normal operations
- Greater net tuition revenue from higher enrollments
- Completion of Thurston Hall renovations
- Improved endowment performance
- Capital campaign
- “New” Revenue streams
 - 21st and Penn
 - Near term expiration of World Bank lease

- Challenges

- National trends in undergraduate enrollment?
- Greater competition for admitted undergraduates (DOJ ruling)
- Completion of Thurston Hall Renovations
- Trends in international students?
- Changing environment for philanthropy