



January 23, 2024

College and University Financial Performance Update

Board of Trustees
Finance & Facilities Committee Meeting

Current Annual Cadence of Finance and Facilities Committee Oversight of Operating Budgets and Financial Performance

October	November	January	March	April	May	June
State Biennial or Supplemental Budget Request 1st Reading	State Biennial or Supplemental Budget Request 2nd Reading				Legislature and Governor Enact State Budgets	
C/U Annual Operating Budgets Update	Audited Financial Statements Presented	Financial Health Indicator Results Presented		Long-Term Financial Planning (2024 Session)	C/U Annual Operating Budgets 1st Reading	C/U Annual Operating Budgets 2nd Reading

Summary of FY2023 System Audited Financial Statement Results

- Unmodified opinion on the systemwide financial statements
- The effects of GASB 68/75 on the audited financial statements can vary significantly year to year, thus affecting financial statements comparability between years.
- Overall long-term financial condition remains relatively stable:
 - HEERF funding phasing out in fiscal year 2023
 - Enrollment decreased between fiscal years 2022 and 2023
 - Resulting in the use of a portion of our net position in fiscal year 2023

Financial Health Indicators Annual Report

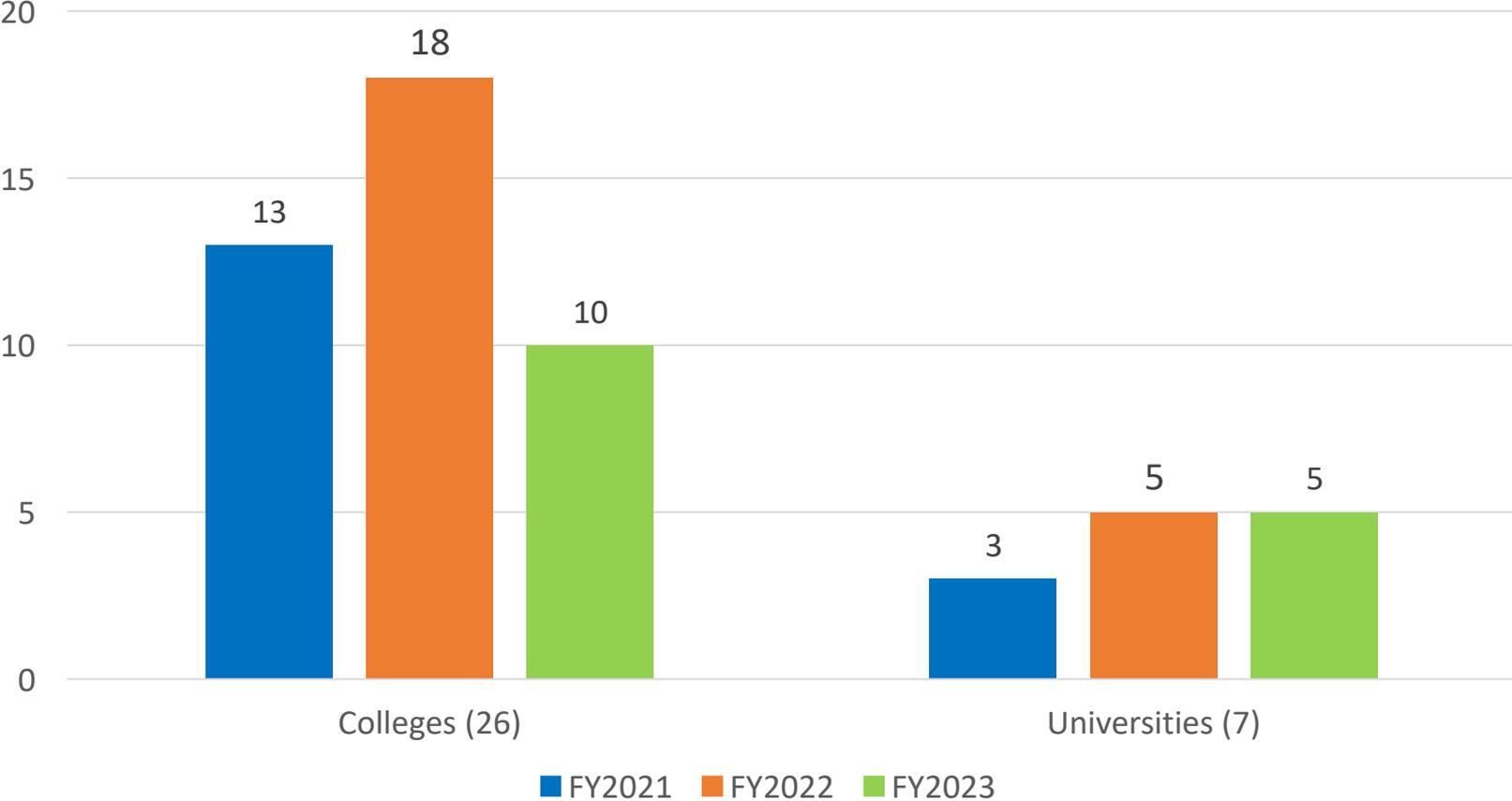
- Question for Trustee consideration:
What areas of emphasis would Trustees like to see in future reports, committee presentations, and training sessions to better understand the financial condition of the system and its colleges and universities?
- The purpose of System Procedure 7.3.16 is to facilitate monitoring, improve managerial performance and evaluate the financial effects of management decisions at colleges and universities.
- The measures addressed in this presentation are used to monitor financial health and need to be considered within the larger picture of an institution's health.

Financial Health Indicator Results

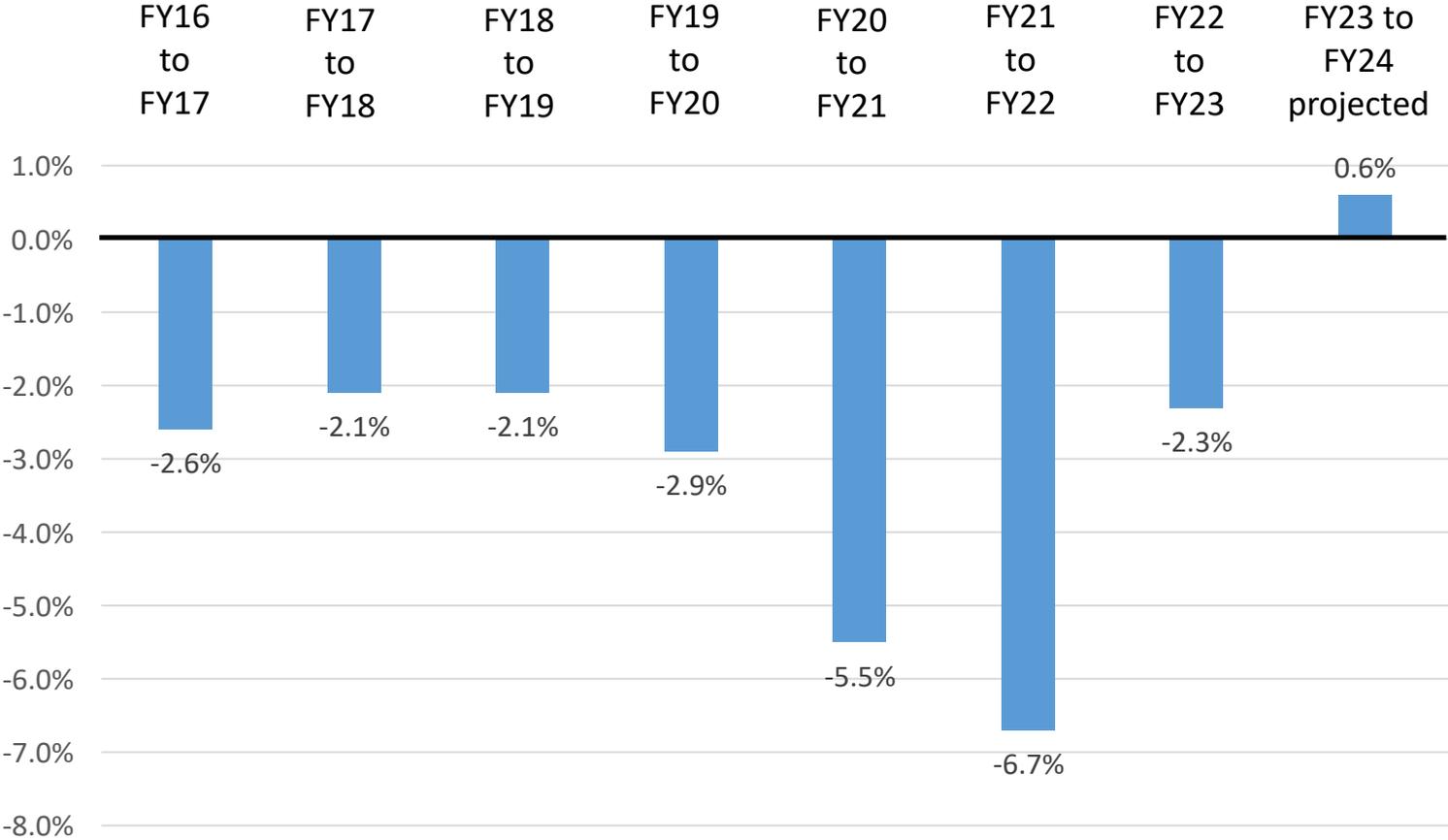
- **Subpart A: Enrollment-Based Risk Factors (Steve)**
 - FYE Enrollment Decline
- **Subpart B: Cash-Based Risk Factors (Steve)**
 - Year-End General Fund Balance
 - Use of General Fund Balance to balance the annual operating budget
- **Subpart C: Accrual-Based Risk Factors (Metody)**
 - Adjusted CFI score, All Funds
 - Change in Unrestricted Net Position, Revenue Fund
 - Maximum Annual Debt Service Coverage, Revenue Fund

A. Enrollment-Based Risk Factors

Measure A: Decline of more than eight percent over two years

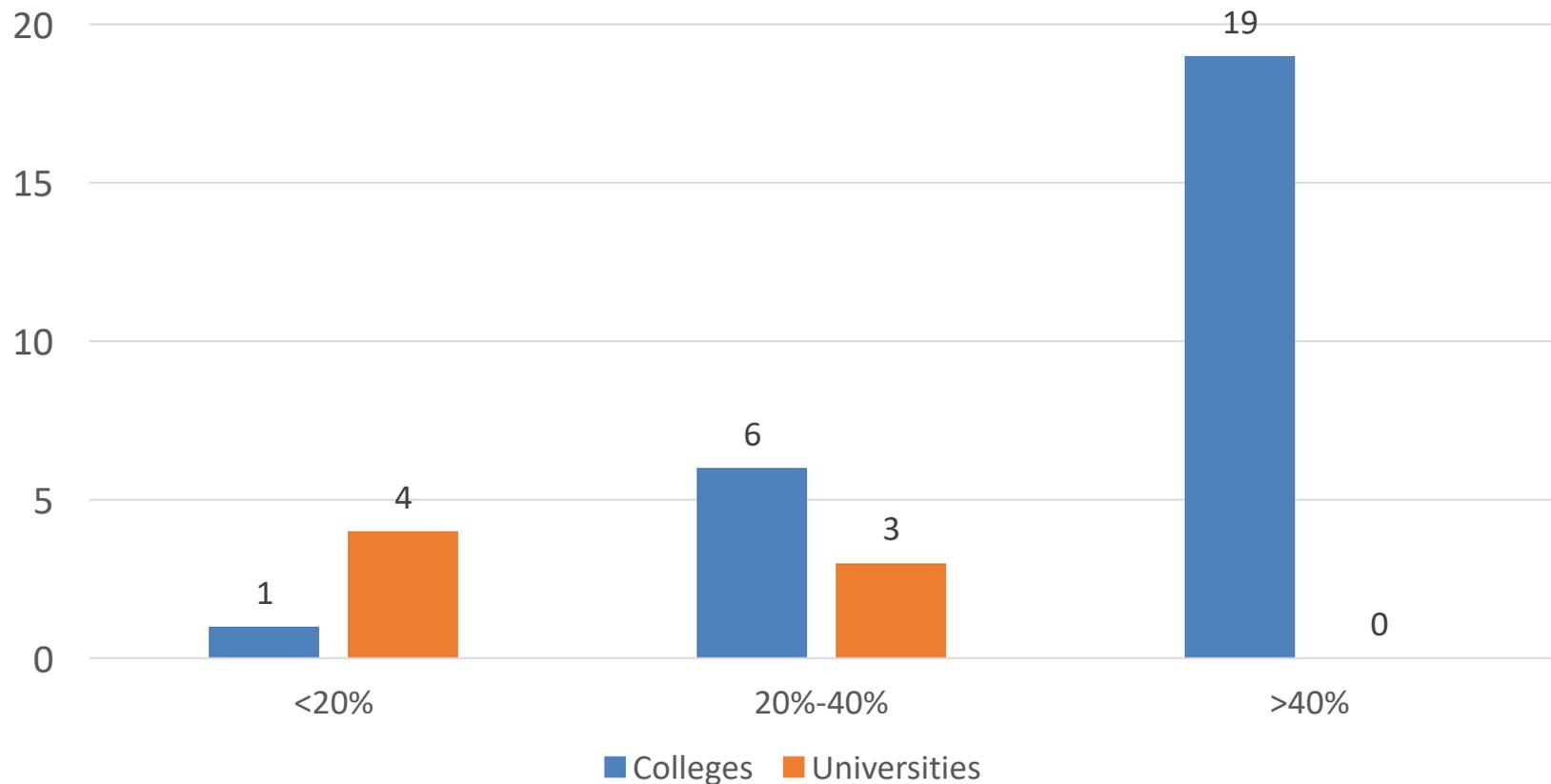


Enrollment-Based Risk Projections



B. Cash-Based Risk Factors

Measure B1: Year-end General Fund Cash Balance less than 20 percent of Annual Revenue



Measure B2: Use of General Fund Cash Balance in FY24 Operating Budget

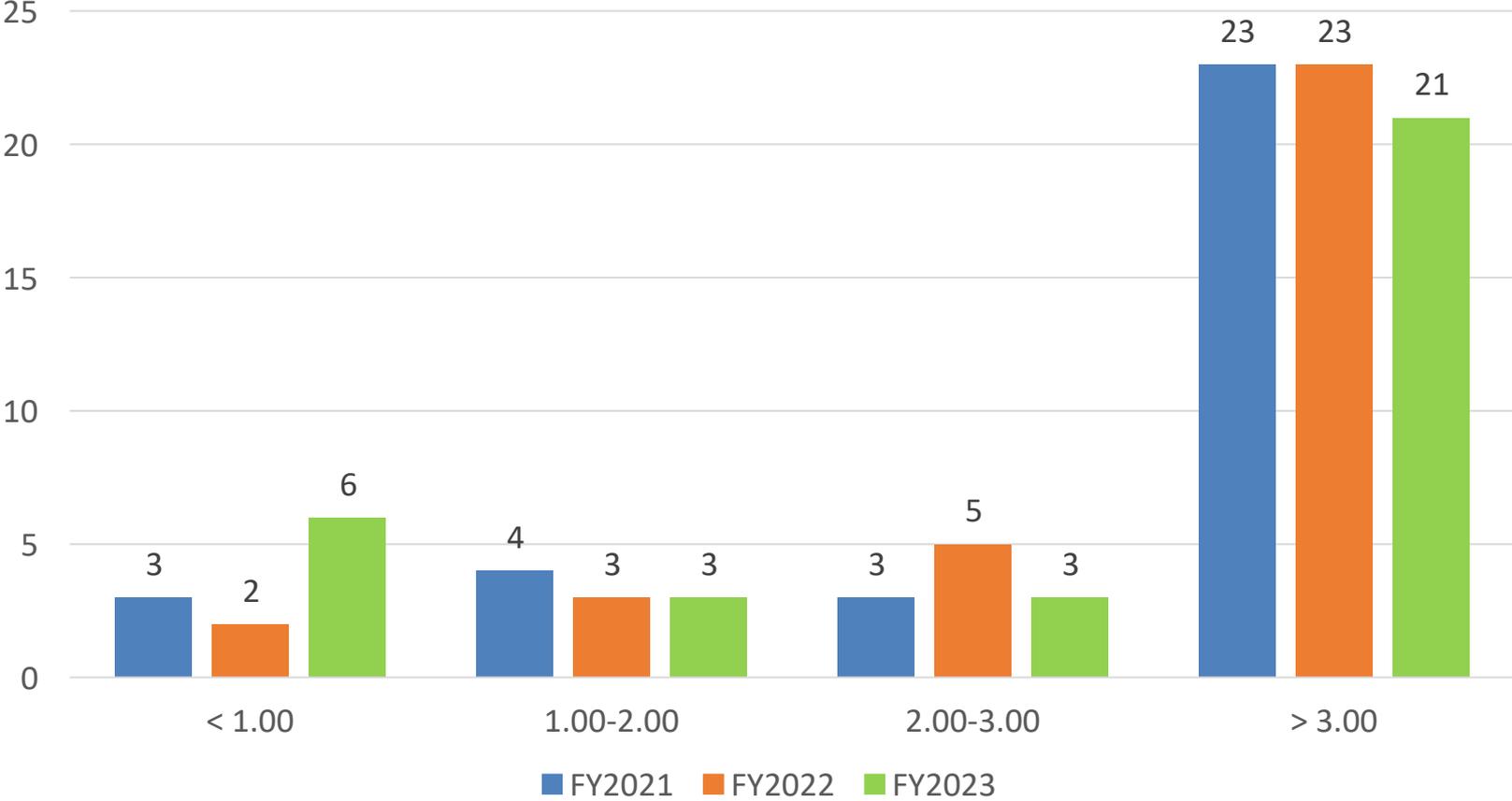
- This measure is newly implemented for fiscal year 2023 reporting
- One-time legislative funding of \$50 million was all distributed to colleges and universities in fiscal year 2024
- Due to one-time funds, no college or university incorporated enough fund balance in operating budgets to trigger this measure

Accrual-Based Financial Risk Factors

Measure C1: Composite Financial Index (CFI)

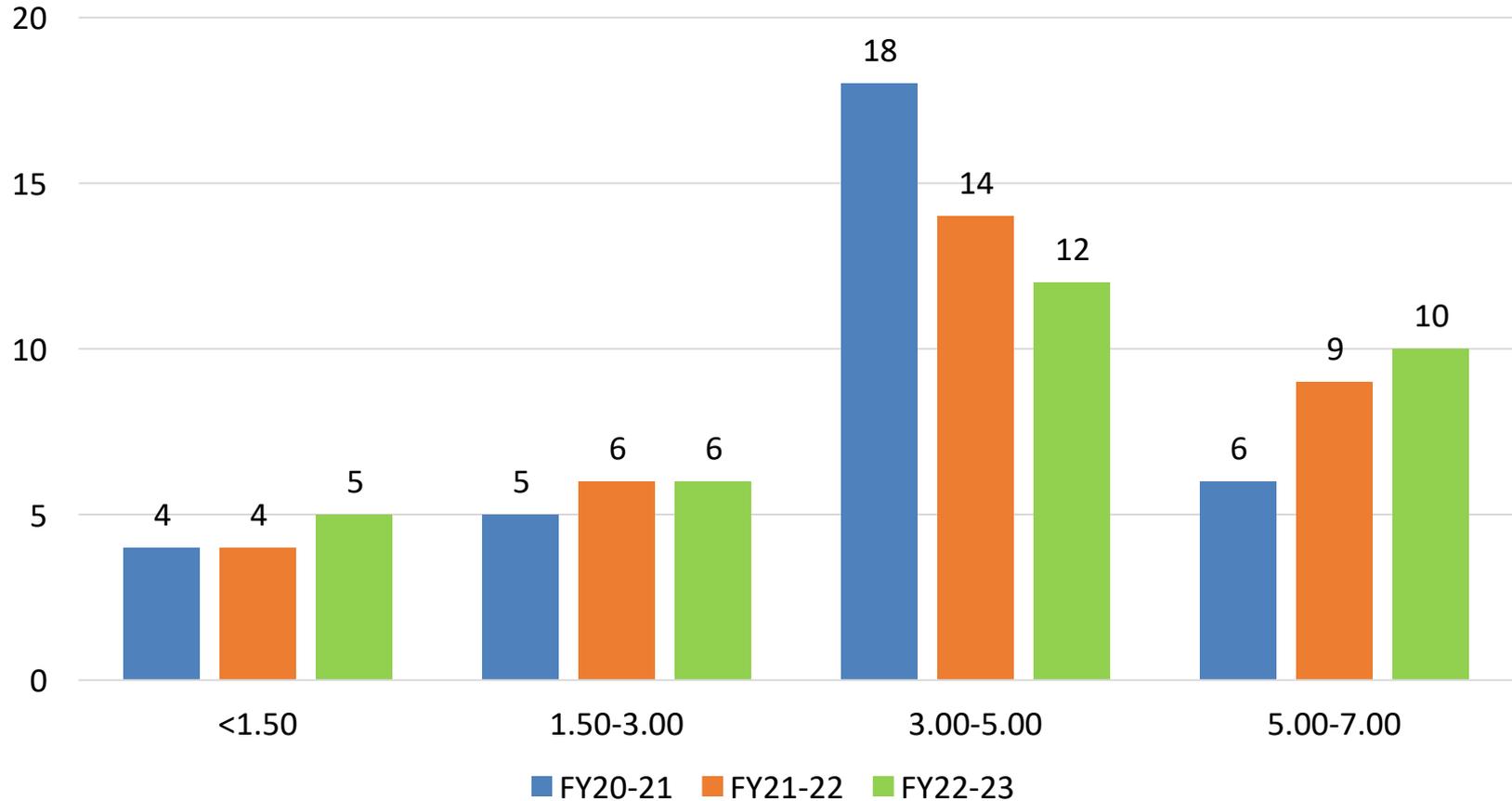
- Comprised of four different financial ratios
- Measures long-term financial health
- Ranges from negative 4 to positive 10
- Provides a consistent, comparable benchmark of financial health across higher education
- Higher Learning Commission (HLC) uses CFI in assessing institutions for accreditation

Annual Composite Financial Index (CFI)



Excludes the unfunded pension/OPEB liability entries

Two-year Average CFI

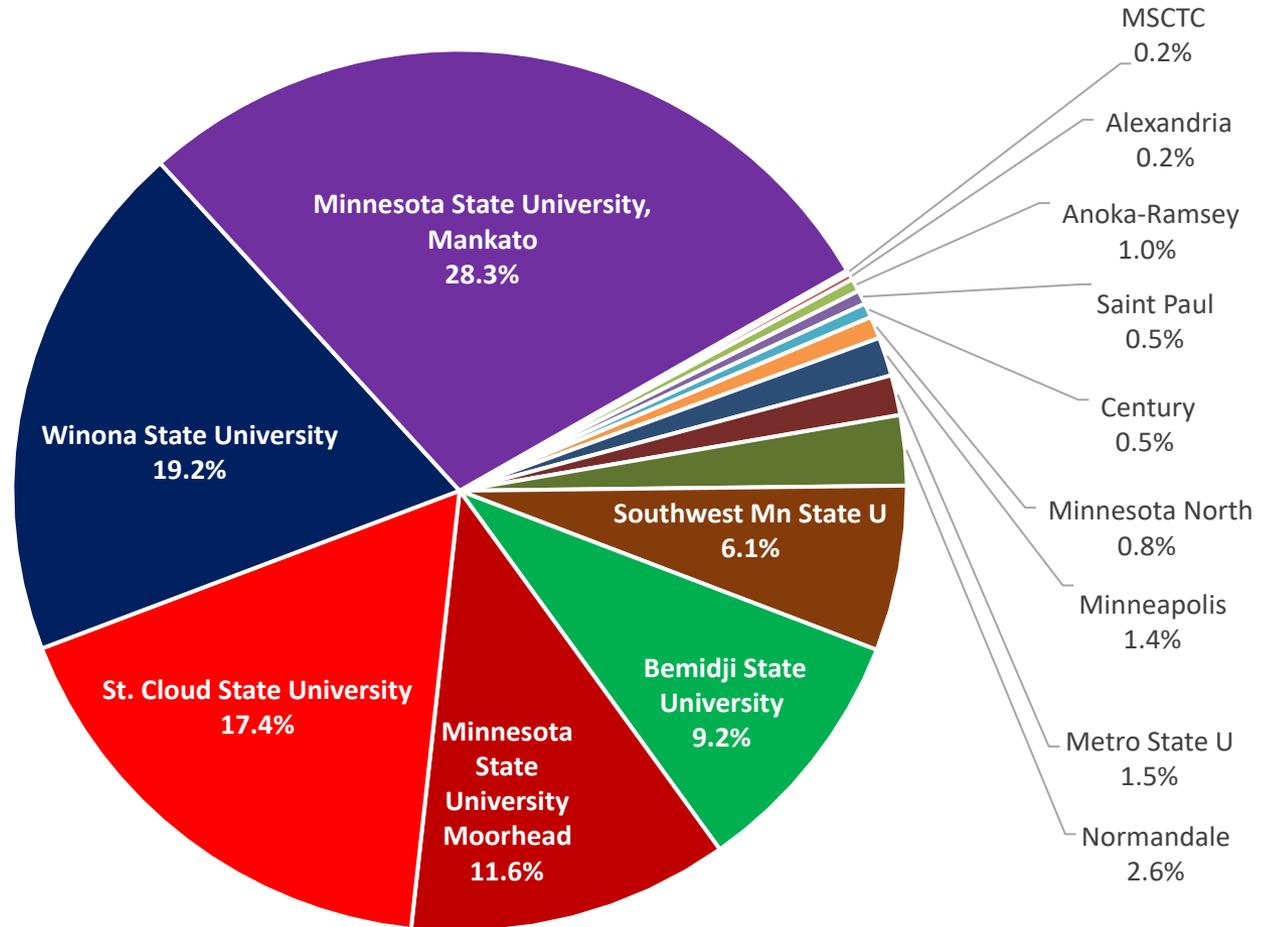


Excludes the unfunded pension/OPEB liability entries

Revenue Fund Financial Health Update

- Excluding the GASB Statements No. 68 and No. 75 effect, fiscal year 2023 net position increased by \$4.1 million, or 1.6 percent.
- This follows an increase of \$0.7 million, or 0.2 percent, in fiscal year 2022 ending net position.
- In fiscal year 2023 operating revenues increased by \$6.6 million, or 6.8 percent compared to fiscal year 2022.

FY2023 Revenue Fund Activity & Relative Size



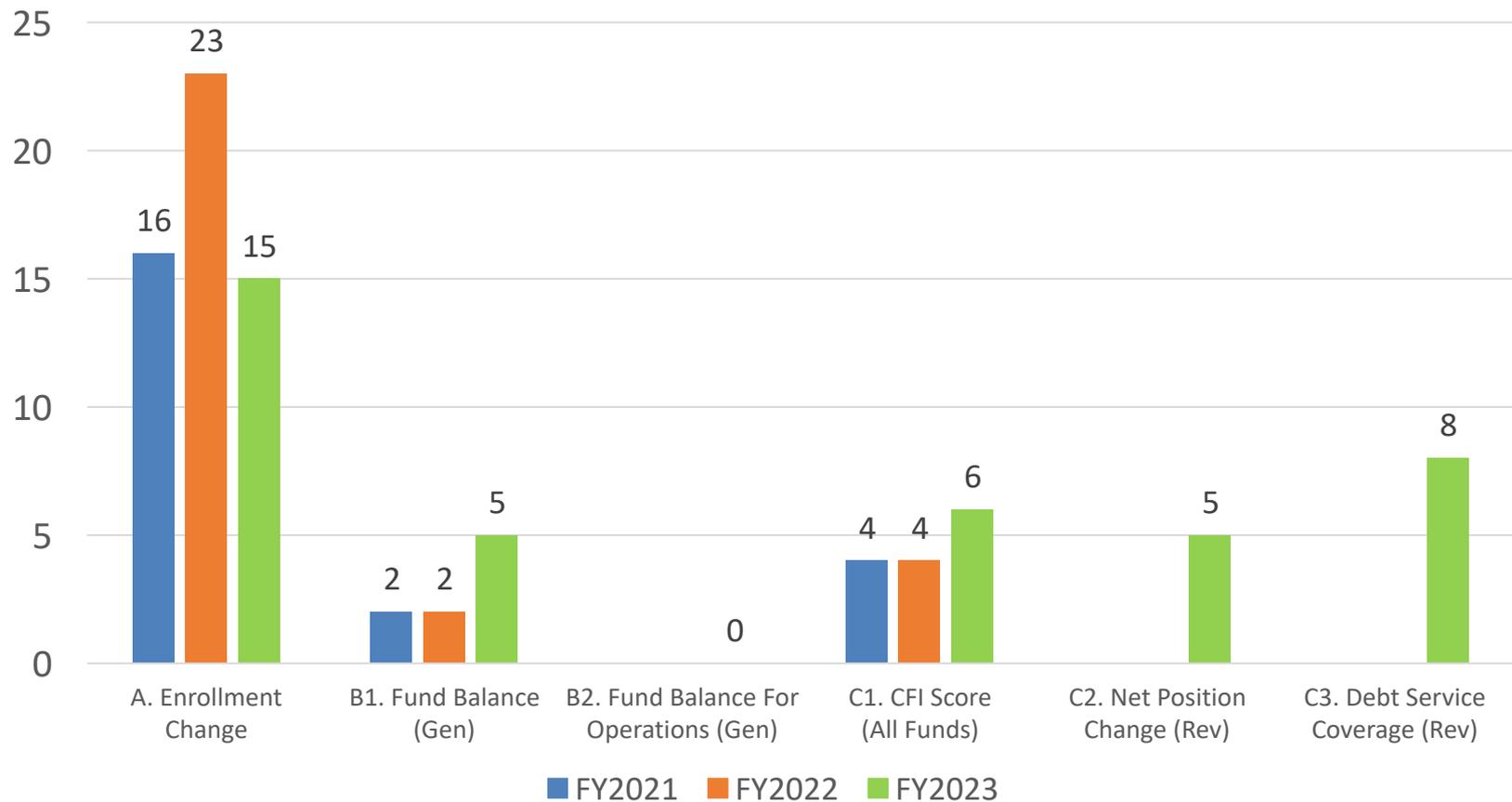
Measure C2: Change in Unrestricted Net Position, Revenue Fund

- New measure
- Measures the profit or loss for the year net of accrued obligations
- Triggered by a negative number more than ten percent lower than the previous year
- Also triggered by two consecutive years negative
- For FY2023: 3 colleges, 2 universities

Measure C3: Annual Debt Service Coverage, Revenue Fund

- New measure
- Measures the ability of the fund's net operating income to pay the fund's debt obligations for the year
- Triggered by a value of less than 1.25
- For FY2023: 4 colleges, 4 universities
- System-wide value is 1.24

Summary: Indicators Triggered in FY2023 Emphasize Continuing Enrollment Concerns



Follow-up with Institutions Triggering Financial Health Indicators

- Information is provided to the Vice Chancellor for Finance and Facilities.
- This information is reviewed in meetings with the Vice Chancellor.
- For institutions triggering the CFI measure, meetings with the Chancellor's leadership team and college or university leadership team occur.

Board Discussion

- What questions do Trustees have about the information presented?
- What areas of emphasis would Trustees like to see in future reports, committee presentations, and training sessions to better understand the financial condition of the system and its colleges and universities?





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