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College and University Financial Performance Update

Board of Trustees

Finance & Facilities Committee Meeting

January 29, 2025

Financial Health Indicators Annual Report

- » 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.
- » Typically occurs each January after the annual audited financial statements are approved by the Board in November.
- » 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.
- » This procedure was revised, and these new measures went into effect for the FY2023 financial statements.

Summary of FY2024 System Audited Financial Statement Results

- » Overall Financial position improved compared to prior year as reflected in increase in system CFI from 2.3 to 3.6
- » Systemwide operating margin was \$30.1M
- » Unrestricted system net position increased by \$53.4M to \$811.3M
- » Two most significant factors for these results:
 - FY2024 FYE enrollment increased by 2.5 percent. The first annual enrollment increase since FY2011
 - State appropriation increased by \$167.1M or 21.1 percent

Chancellor and System Office Workplan FY2025

Improving Operational Effectiveness and Accountability

5. Enhance college and university financial accountability measures

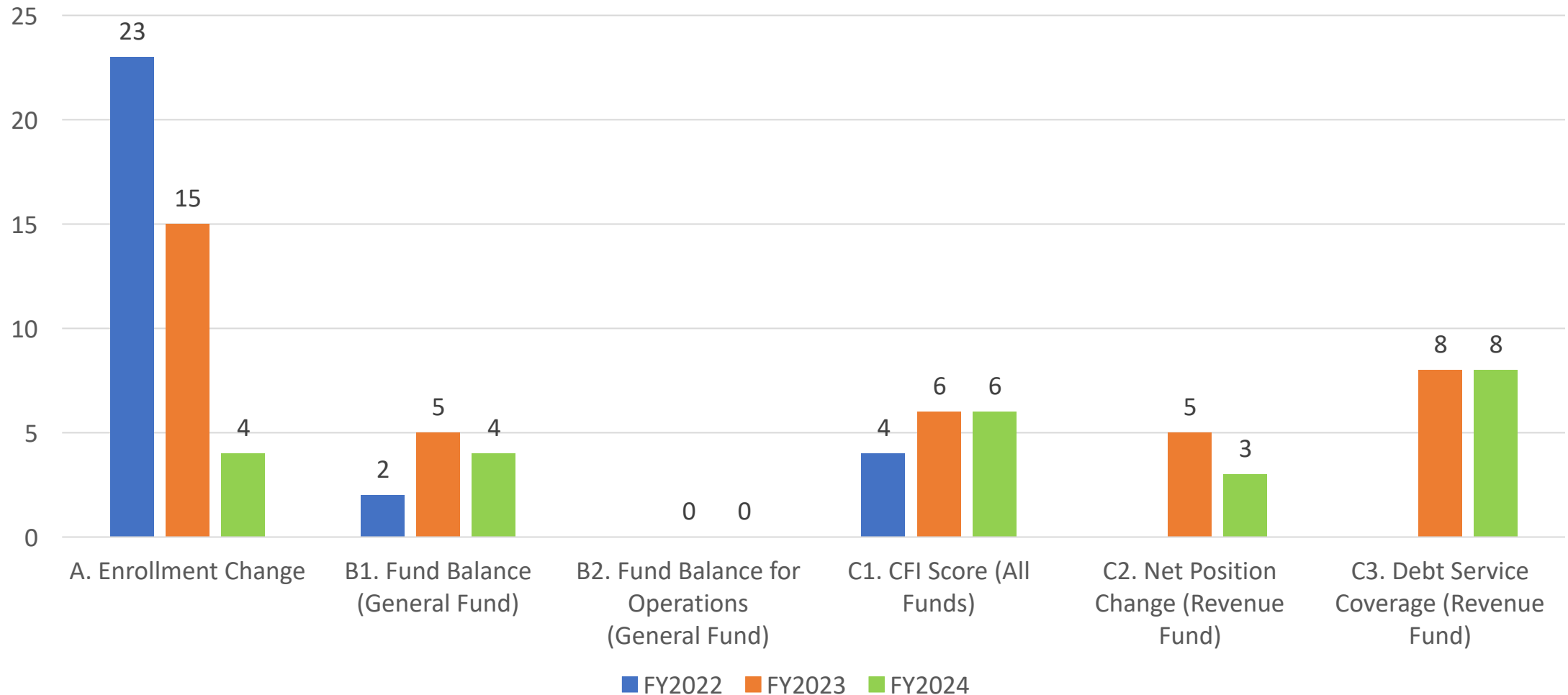
Illustrative Goals:

- By January 2025, develop an enhanced process for increasing the monitoring of financial accountability measures and short and long-term enrollment and budget projections.

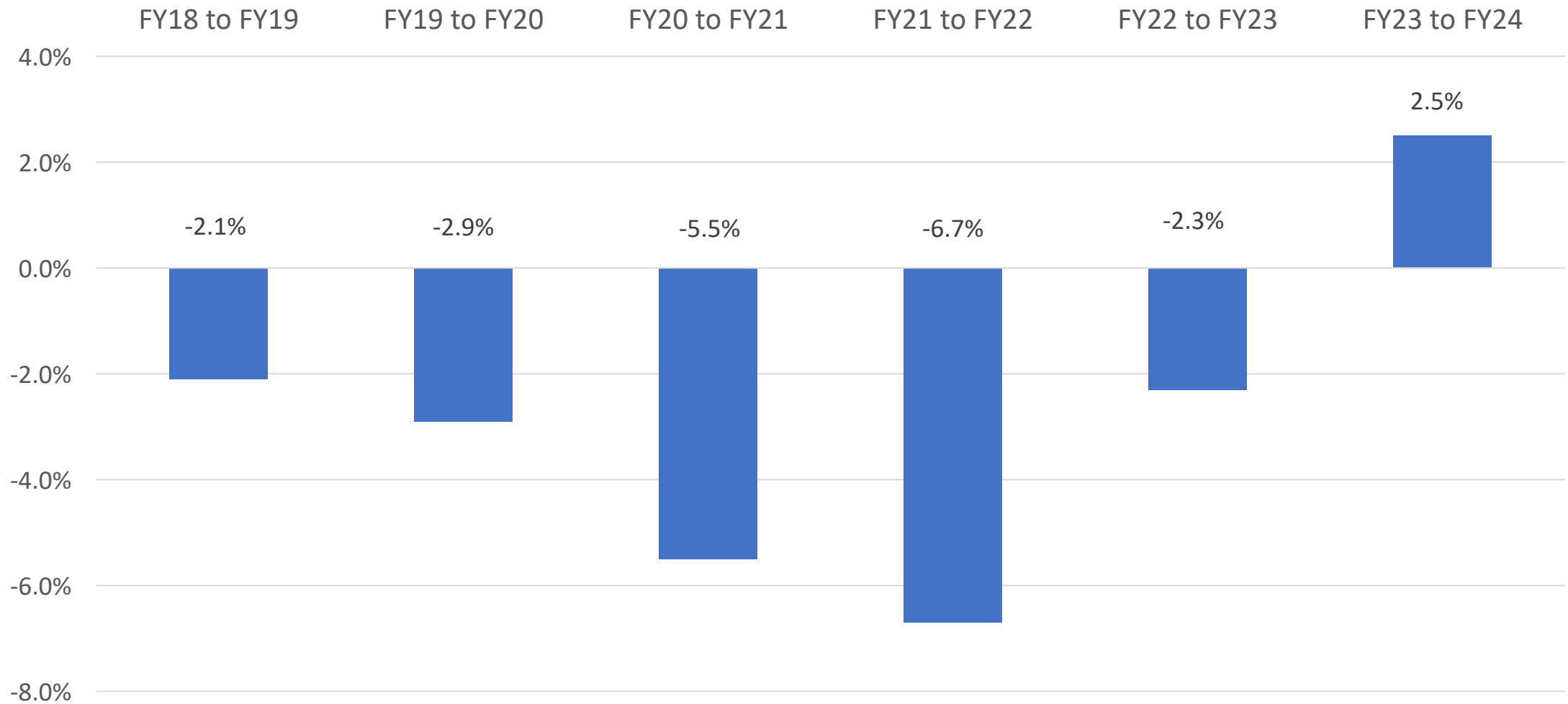
Financial Health Indicator Results

- » **Subpart A: Enrollment-Based Risk Factor (Steve)**
 - State appropriation increased by \$167.1M or 21.1 percent
- » **Subpart B: Cash-Based Risk Factors (Steve)**
 - Year-End General Fund Balance
 - Use of General Fund Balance to balance the 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

Summary: Indicators Triggered in FY2024 Significant Improvement from FY2023

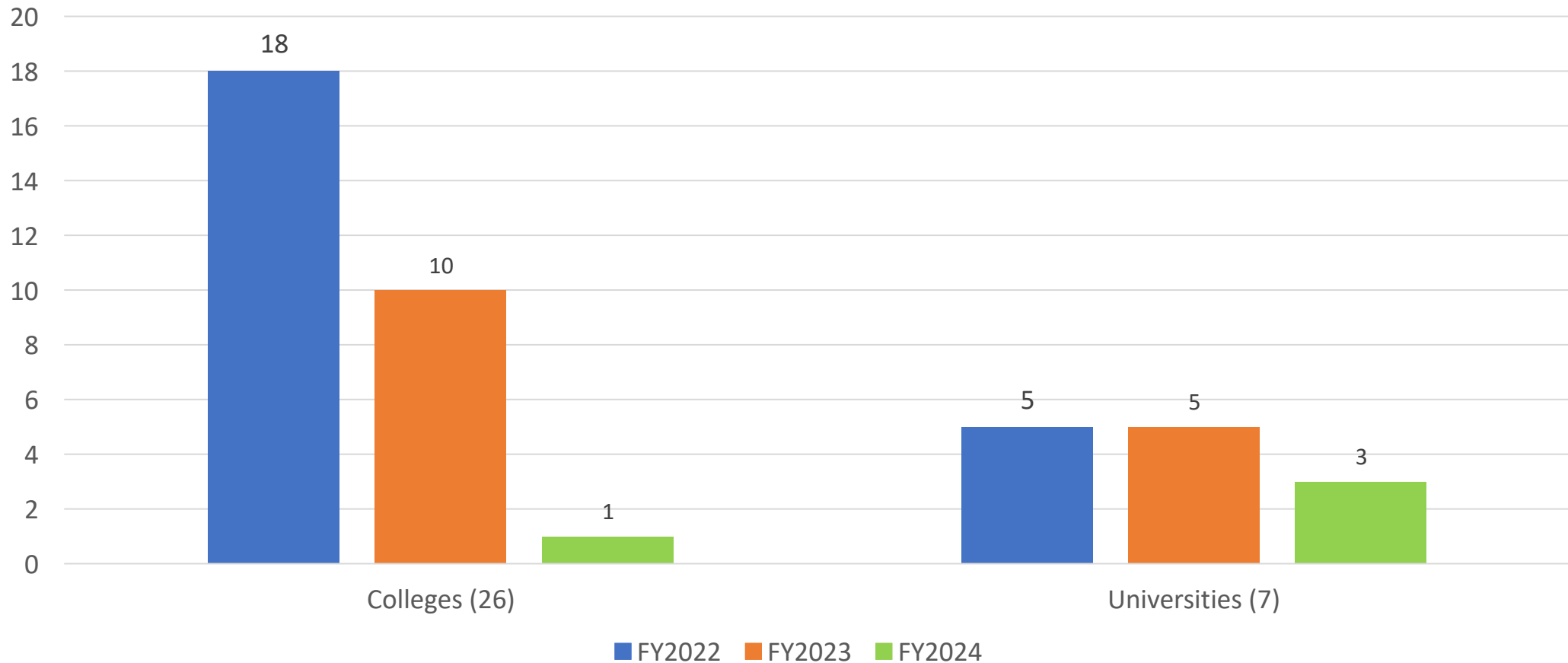


System Enrollment Changes Since FY 2018

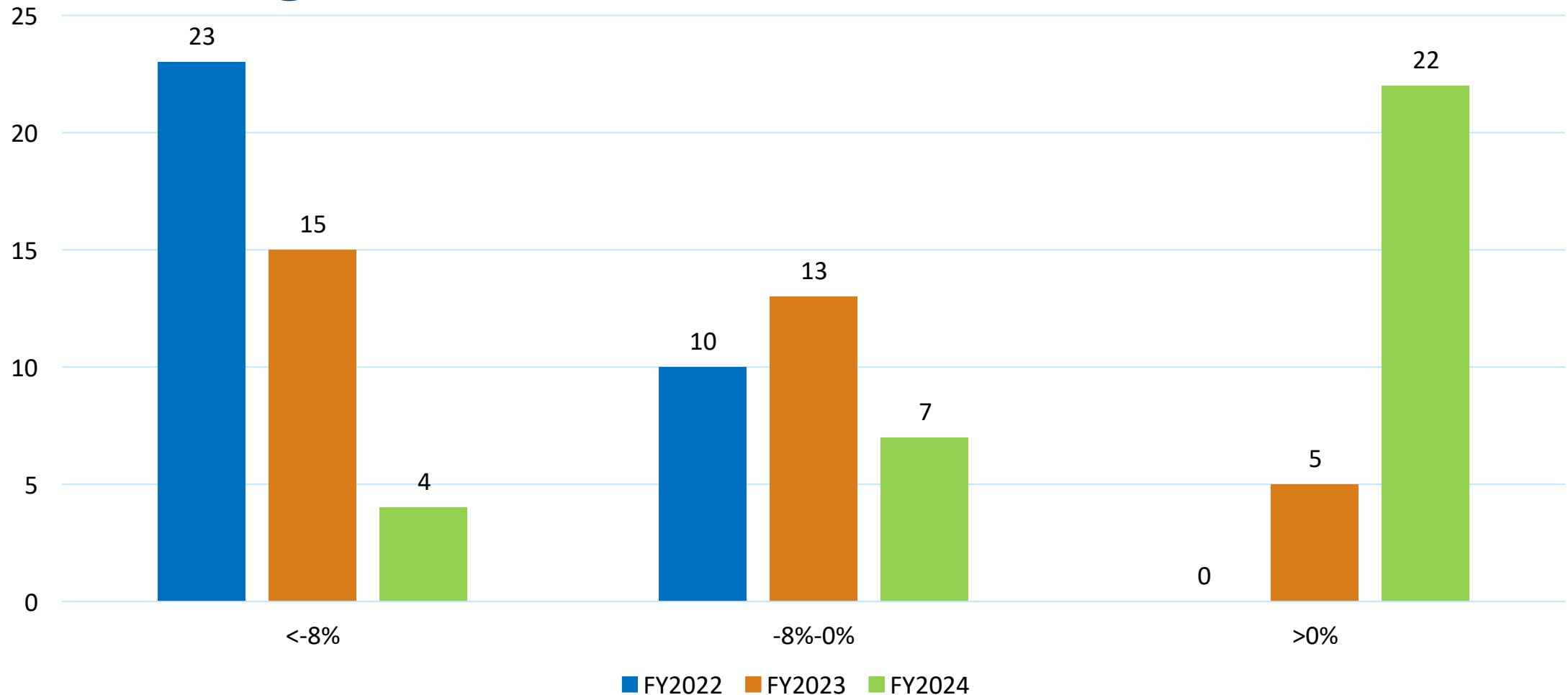


Enrollment-Based Risk Factors

Measure A: Enrollment Decline More Than Eight Percent Over Two Years, by Sector

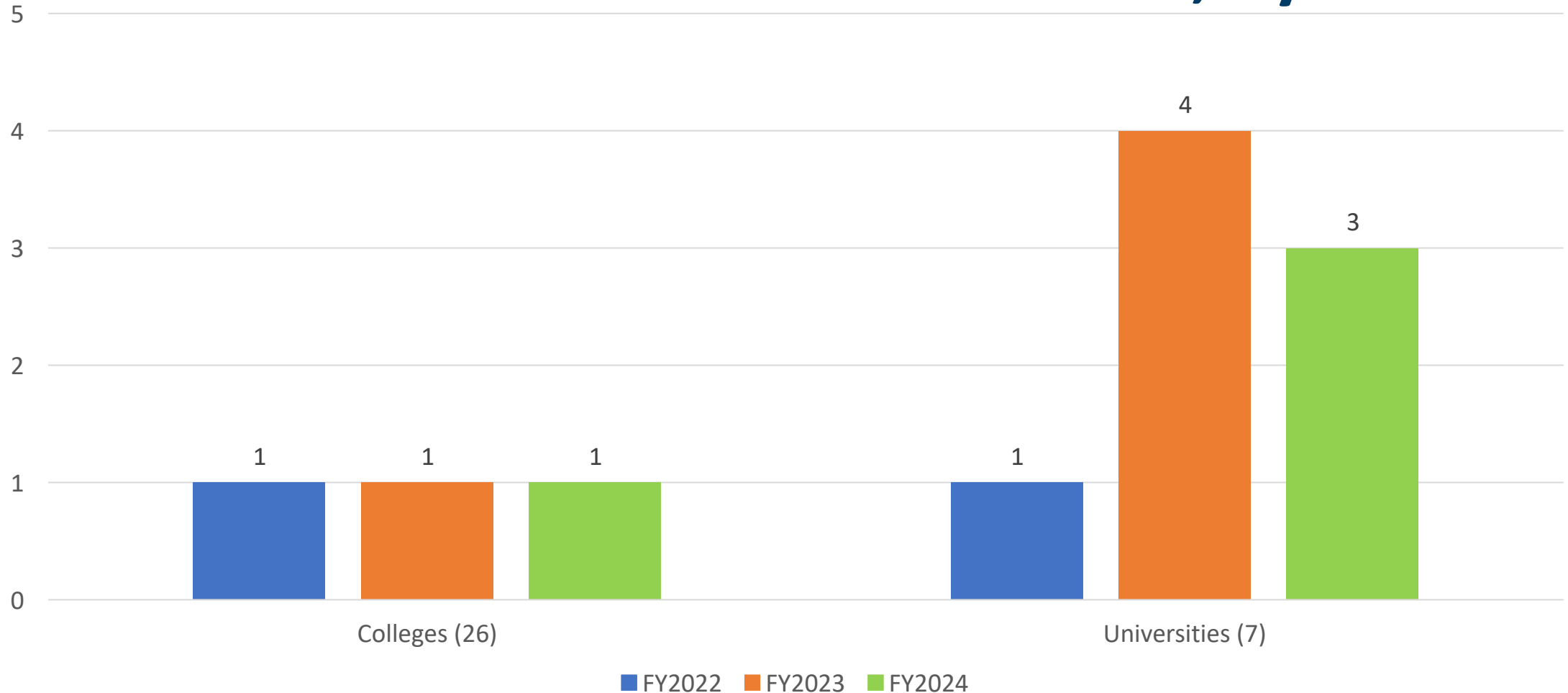


Measure A: Enrollment Change History, All Colleges and Universities

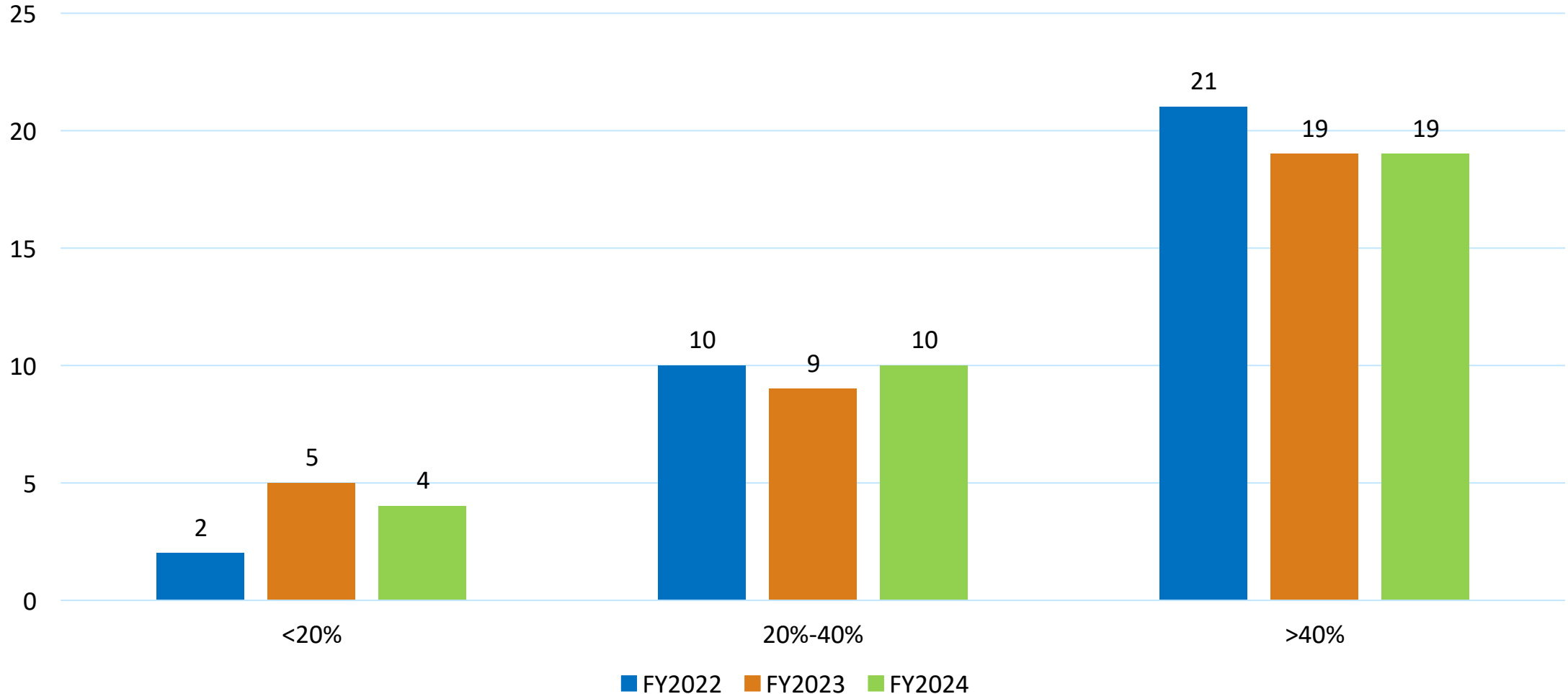


Cash-Based Risk Factors

Measure B1: Year-End General Fund Cash Balance Below 20 Percent of Revenue, by Sector



Measure B1: Year-End General Fund Cash Balance History, All Colleges and Universities



Accrual-Based Risk Factors

Measure C1: Composite Financial Index (CFI)

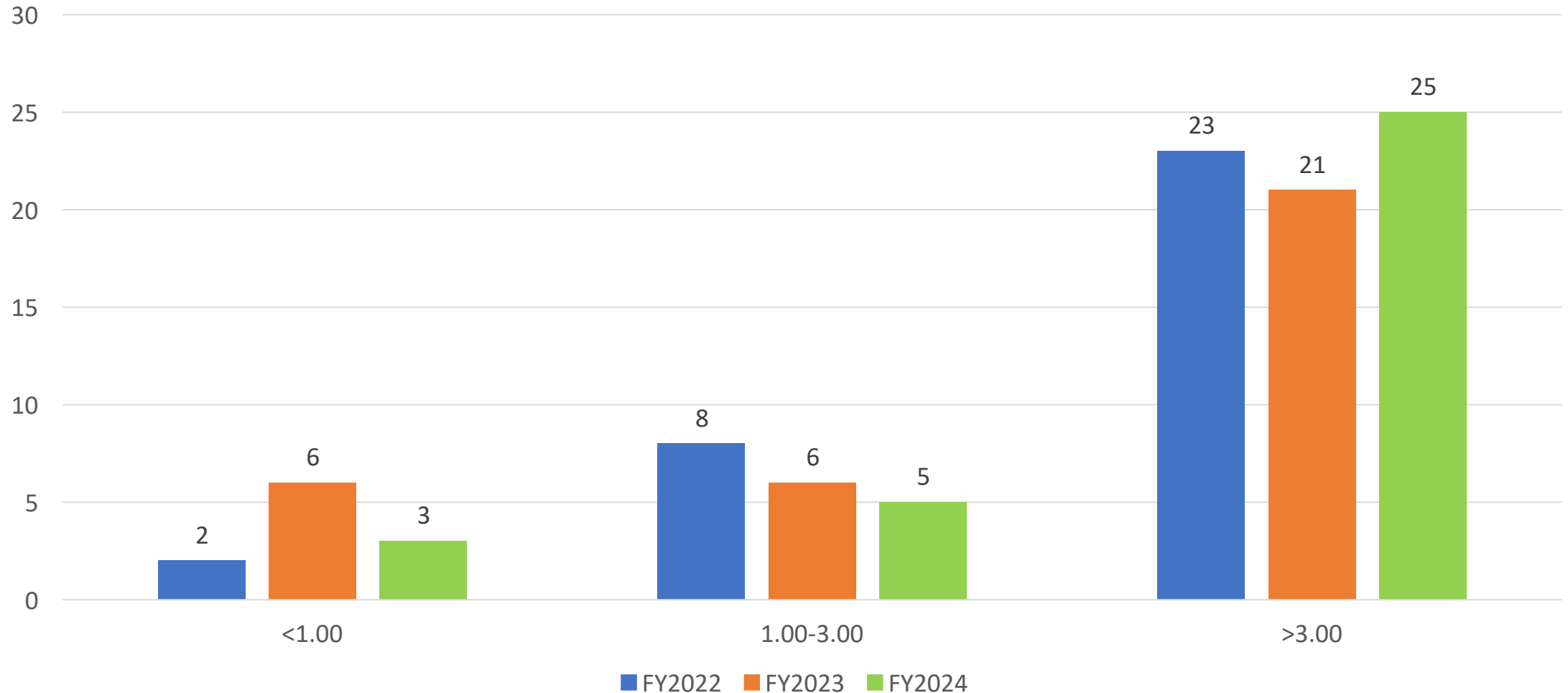
- » Comprised of four different financial ratios
- » Measures long-term financial health
- » Ranges from negative 4 to positive 10
- » Provides a consistent, comparable benchmark of financial health across higher education
- » Higher Learning Commission (HLC) uses CFI in assessing institutions for accreditation

Measure C1: Composite Financial Index (CFI)

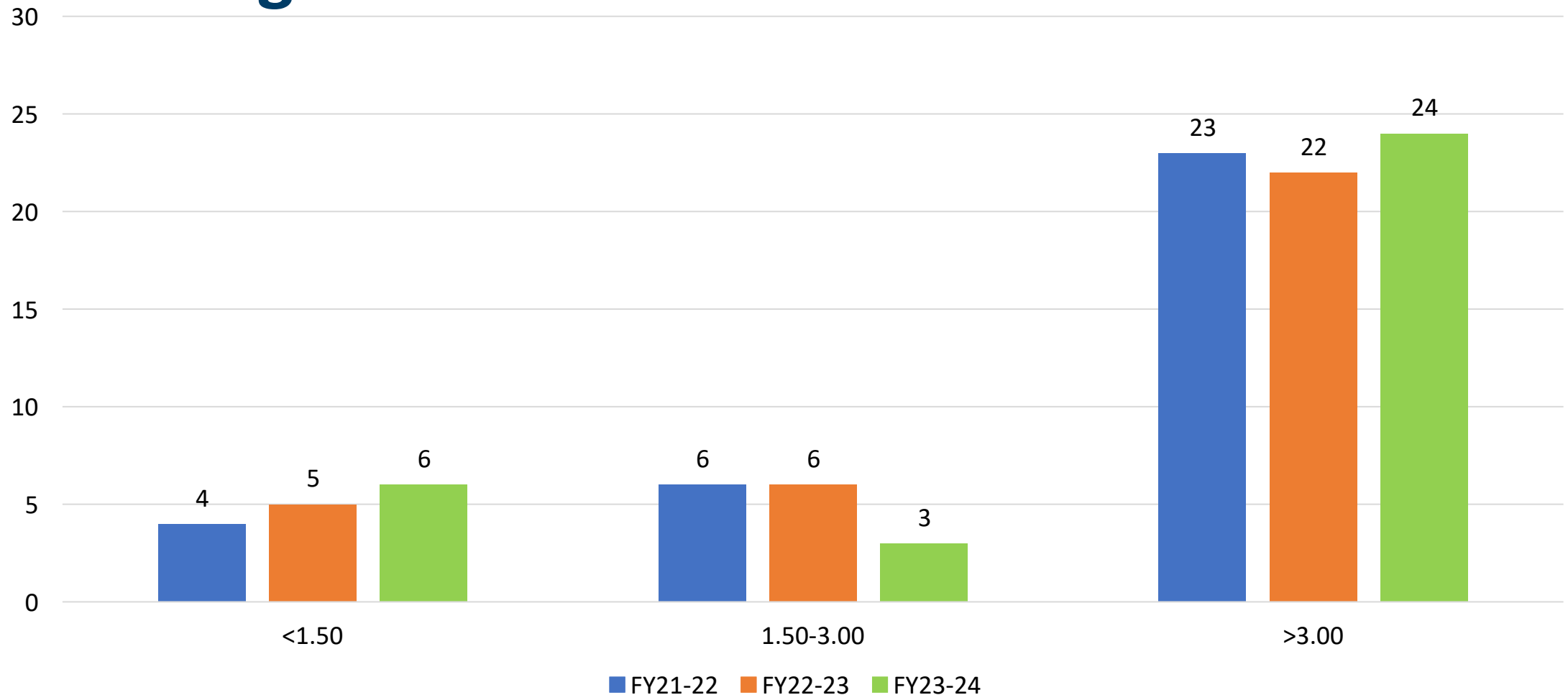
- » Two ratios of financial position from the system's balance sheet
 - **Primary Reserve Ratio** (35 percent weight)
 - **Viability Ratio** (35 percent weight)

- » And two ratios of financial operation from the system's income statements
 - **Return on Net Asset Ratio** (20 percent weight)
 - **Operating Margin Ratio** (10 percent weight)

Measure C1: Annual Composite Financial Index (CFI) 2024, All Colleges and Universities



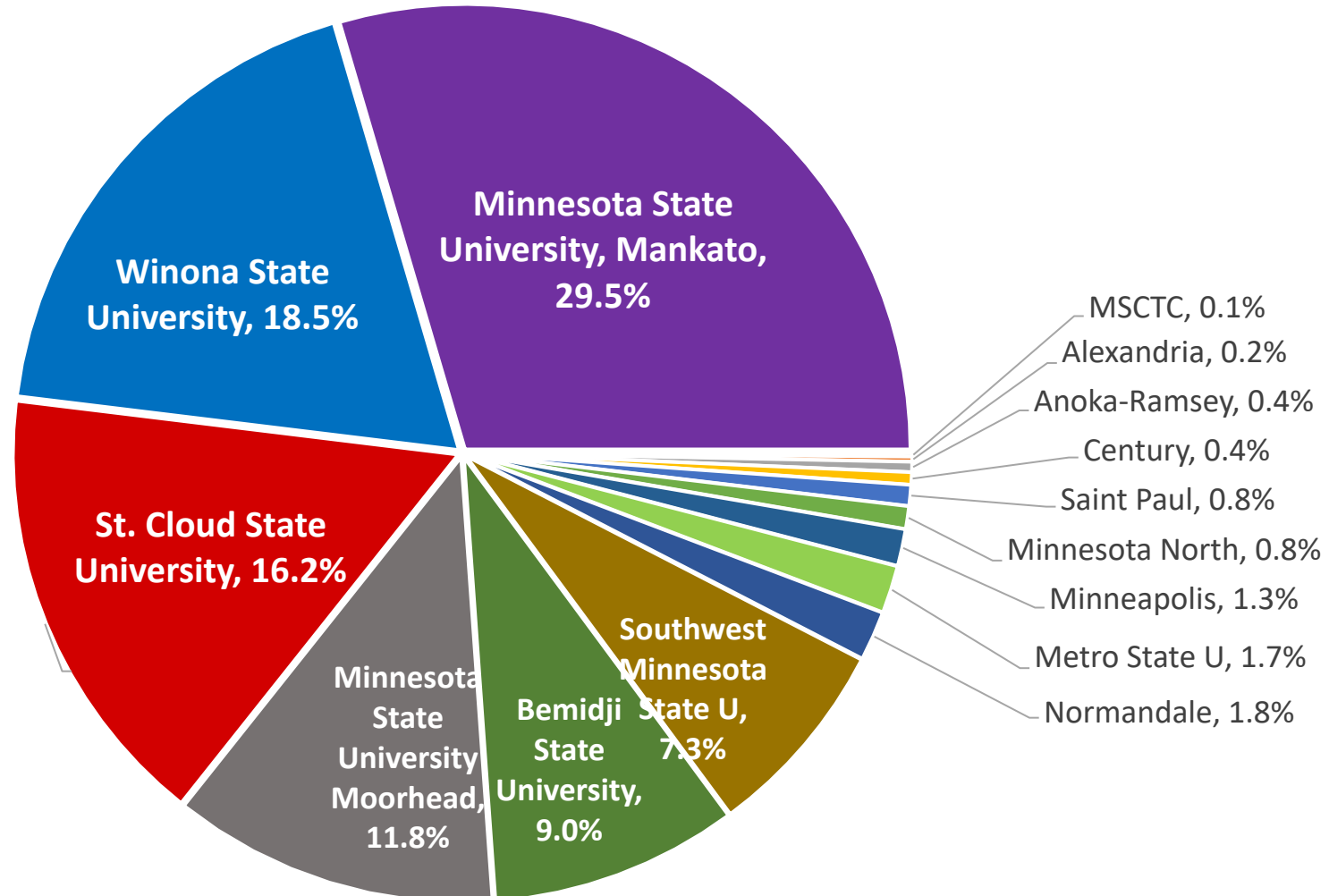
Measure C1: Annual Composite Financial Index (CFI) Two-Year Average 2023 and 2024, All Colleges and Universities



Summary of FY2024 System Audited Revenue Fund Financial Statement Results

- » The financial condition showed improvement in fiscal year 2024, continuing its recovery from the COVID-19 pandemic
- » Unrestricted net position increased \$11.8 million or 11.9 percent in fiscal year 2024
- » Room and board revenue, which makes up nearly 70 percent of the Revenue Fund, improved by nearly 10 percent, to approximately \$78 million

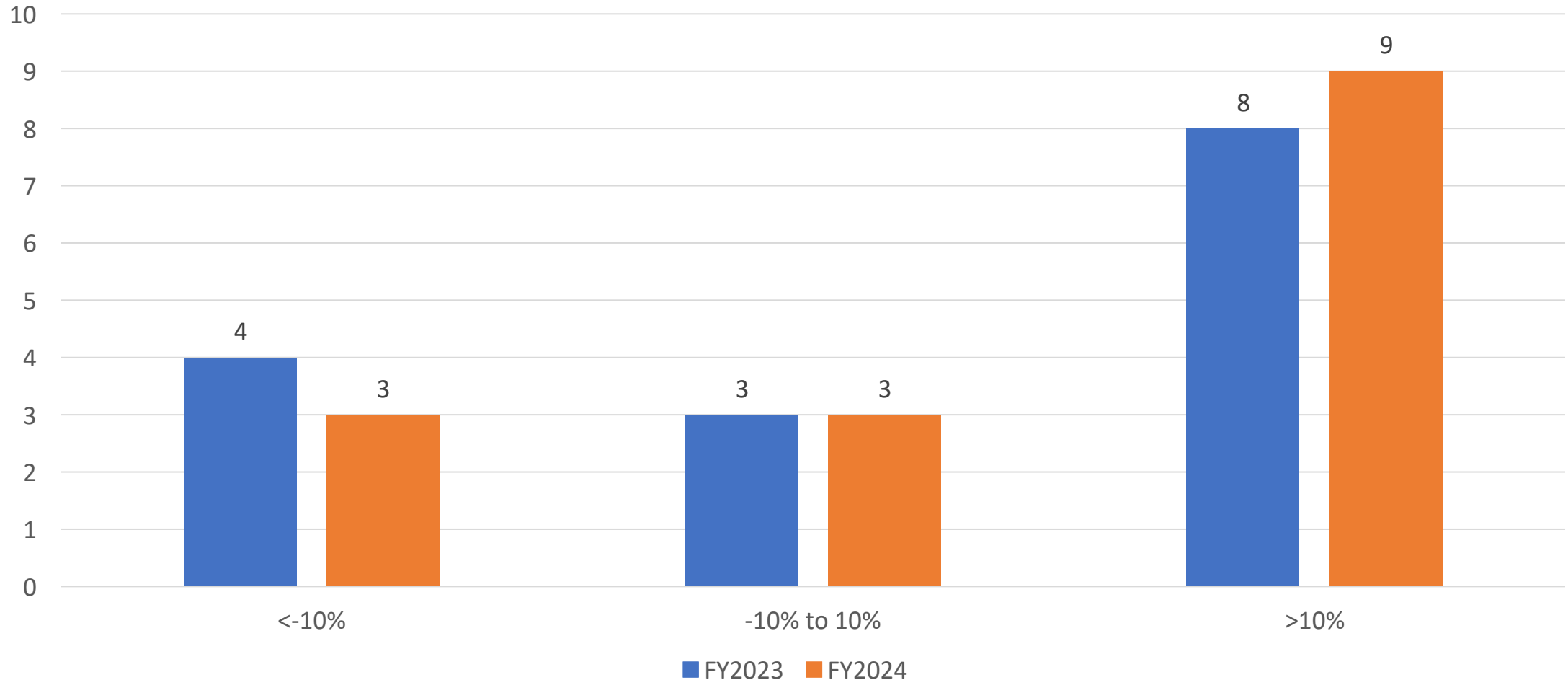
FY2024 Revenue Fund Activity Relative Size, 15 Institutions in Revenue Fund



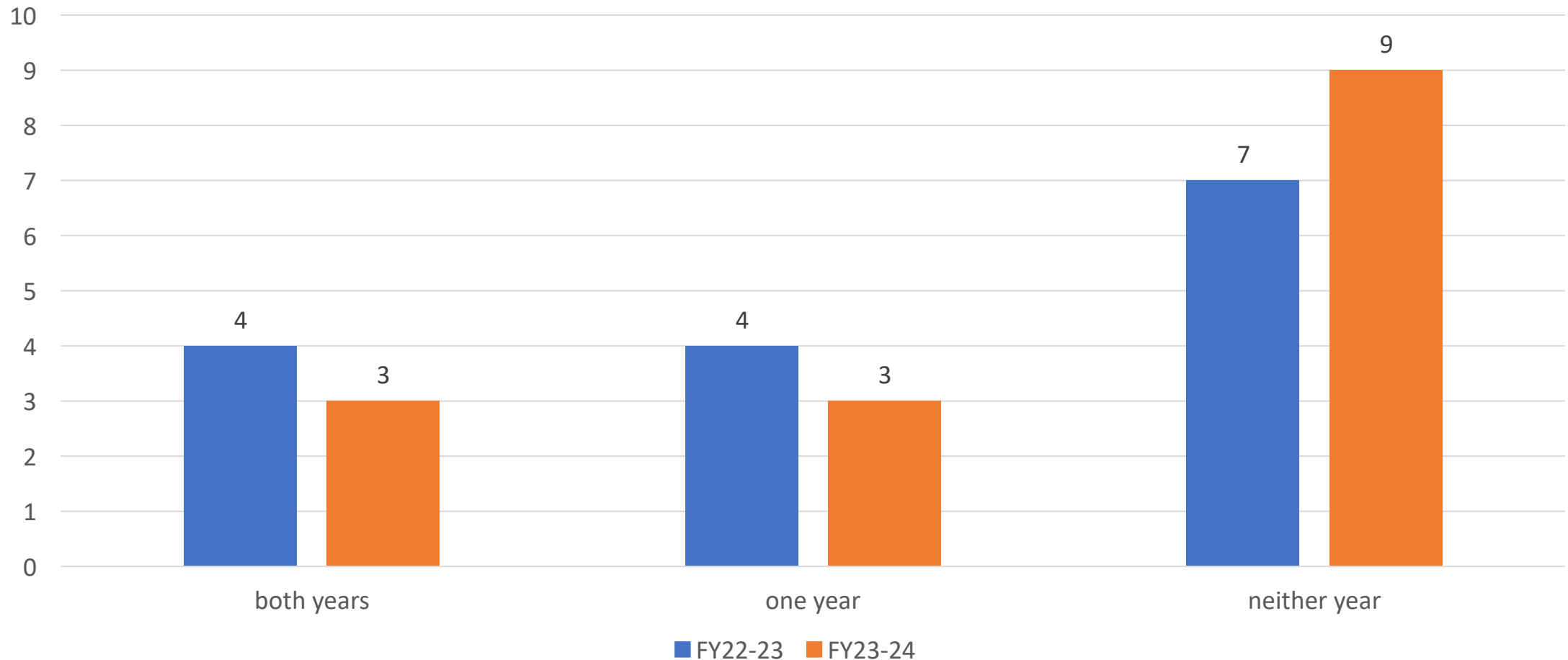
Measure C2: Revenue Fund – Change in Unrestricted Net Position

- » 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 FY2024: 2 college, 1 university

Measure C2: Revenue Fund Unrestricted Net Position Negative, More Than 10% Below Prior Year, 15 Institutions in Revenue Fund



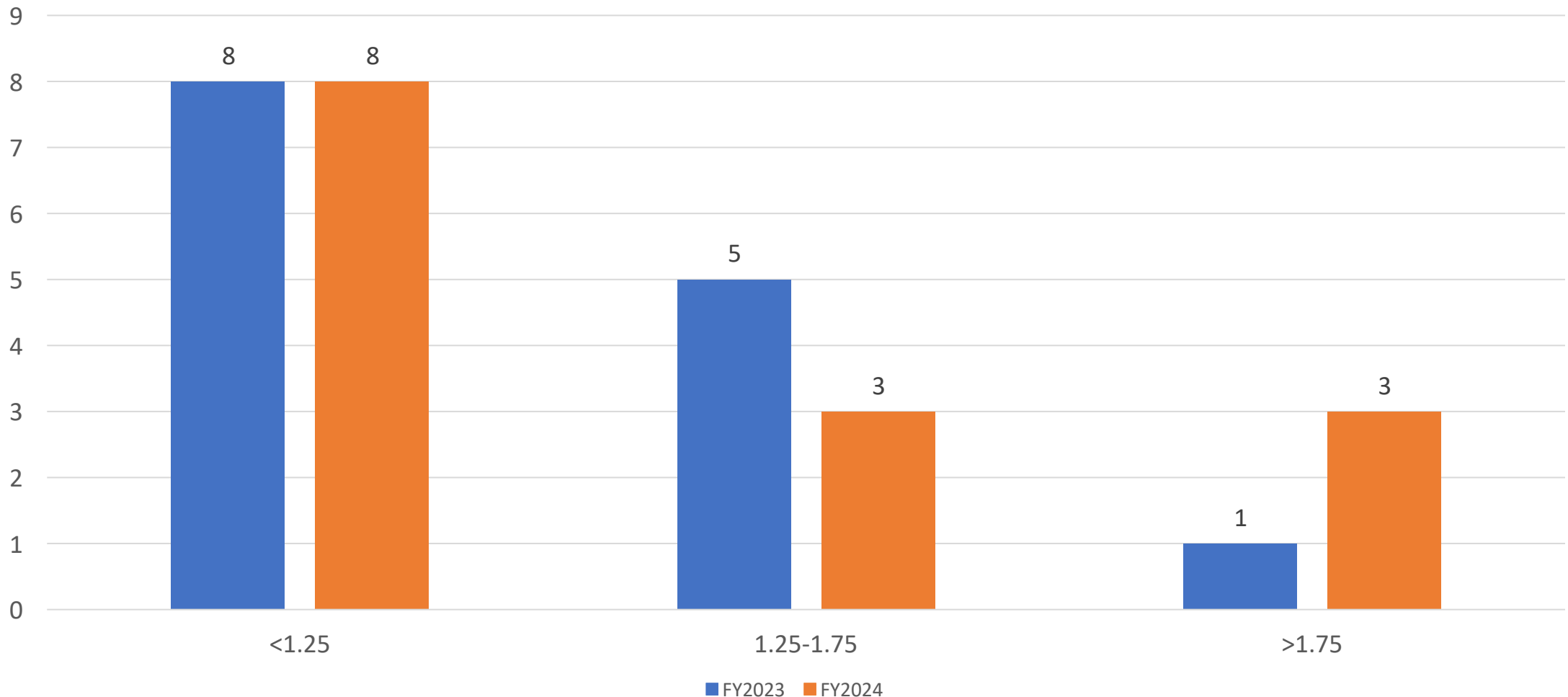
Measure C2: Revenue Fund Unrestricted Net Position Negative in Two Consecutive Years, 15 Institutions in Revenue Fund



Measure C3: Revenue Fund – Annual Debt Service Coverage

- » 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 FY2024: 5 colleges, 3 universities
- » System-wide value is 1.75

Measure C3: Revenue Fund Debt Service Coverage, 14 Institutions with Revenue Fund Debt



Follow-up with Institutions Triggering Financial Health Indicators

- » Written responses are provided to the Vice Chancellor for Finance and Facilities for each financial health indicator that is triggered.
- » More extensive follow-up is done if the CFI and/or the fund balance indicator is triggered or there are concerns about the longer-term trends of these measures.
- » Chancellor, Senior Vice Chancellor for Academic and Student Affairs, Vice Chancellor for Finance and Facilities, System Director for Financial Reporting, and System Director for Financial Planning and Analysis meet with college and university leadership team to discuss the institution's financial health and to better understand future planning assumptions.

Committee Discussion

Thank you.



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