



January 24, 2023

College and University Financial Performance Update

Board of Trustees
Finance & Facilities Committee Meeting

Presentation Overview

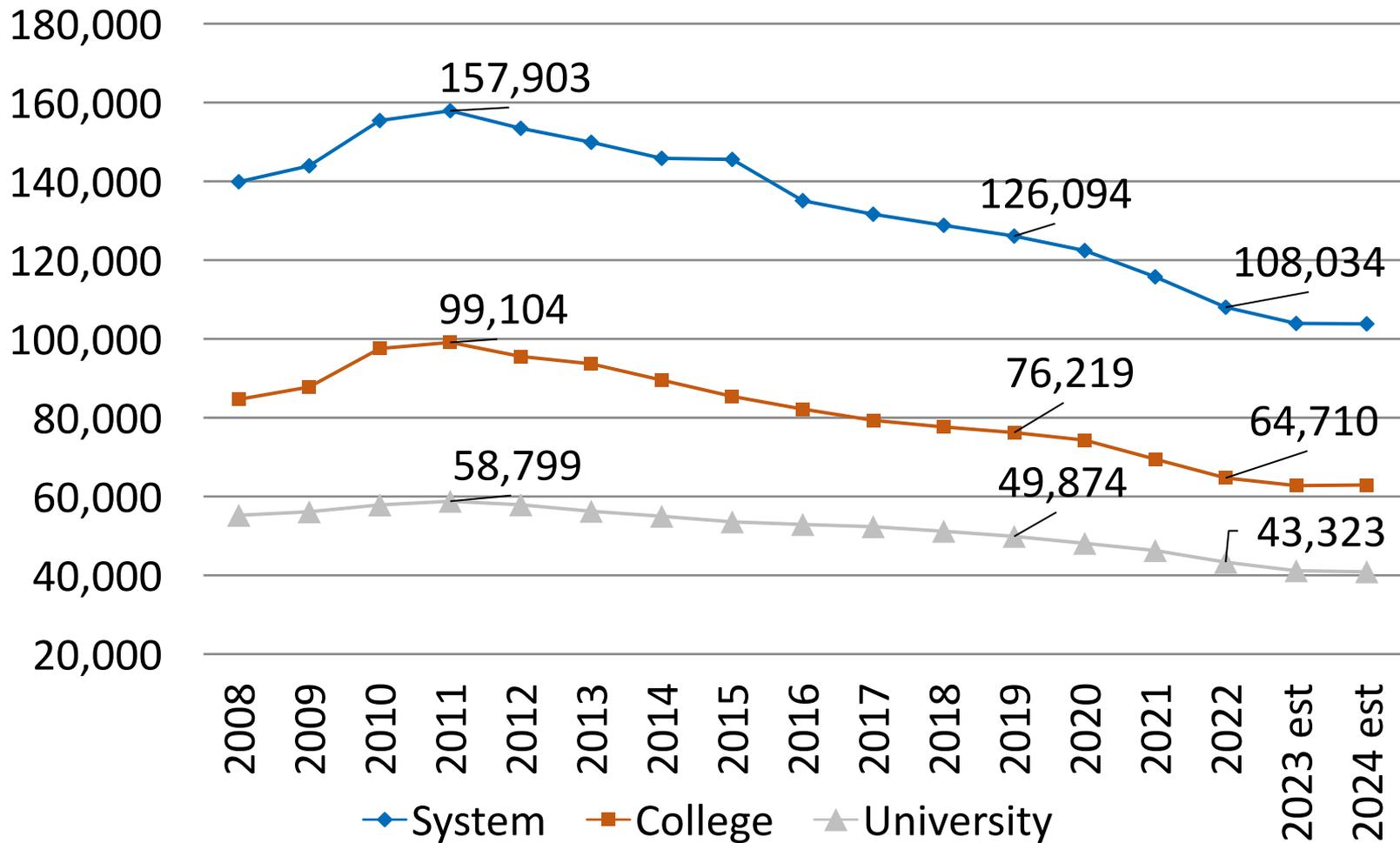
- Enrollment Trends and Federal Financial Assistance
- Overview of Financial Health Measures
- Minnesota State FY2022 Financial Statement Results
- College and University FY2022 Financial Health Indicator Results
- Review and Updates for System Procedure



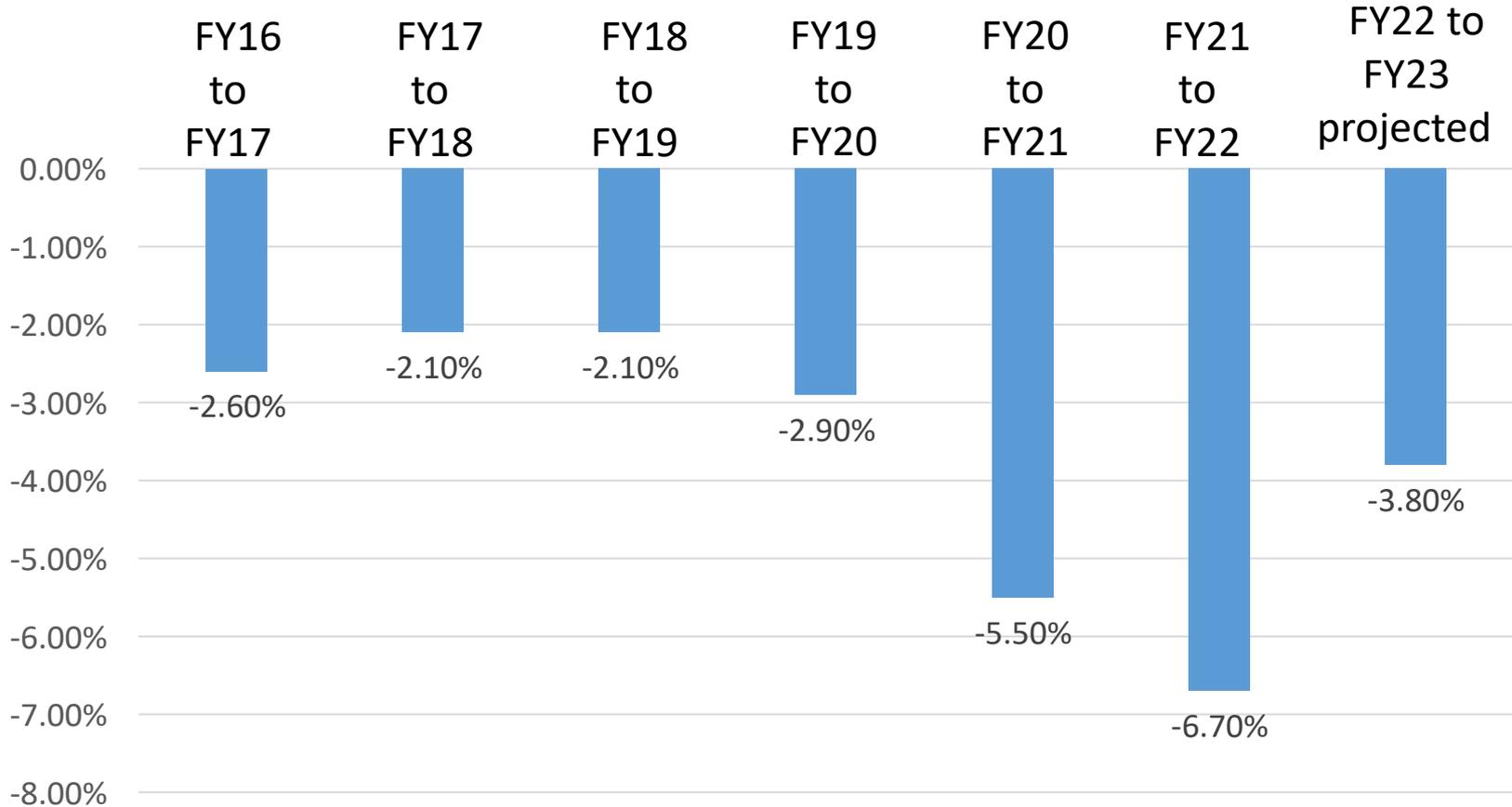
Enrollment Trends and Federal Financial Assistance



Historical & Projected Enrollment for the System



Enrollment Decline is a Continuing Concern



HEERF Funds Helped With Lost Revenues, Campus Safety, Instructional Delivery

- FY2020 \$14 million (+\$43M directly to students)
- FY2021 \$97 million (+\$59M directly to students)
- FY2022 \$129 million (+\$194M directly to students)

- Remaining \$70 million is being be used in FY2023
(of which \$6M has already gone directly to students)

- Financial health would have been considerably worse
without this assistance

Overview of Financial Health Measures



System Procedure 7.3.16

Indicators measure financial health

Enrollment-based indicators

- **A1.** Long-term enrollment
-decline of more than 8 percent over two years
- **A2.** Short-term enrollment
-shortfall more than 2% compared to budget

Cash-based indicators

- **B1.** General fund cash balance less than 20 percent of annual general fund revenue
- **B2.** General fund cash balance decline of 10% or more over three-year period

Accrual-based indicators

- **C.** Adjusted CFI (without pension/retirement benefits)
-below 1.5 (2-year average) or 0.5 (most recent year)

Measures of Financial Health Derived from Audited Financial Statements

- Financial Position measures (balance sheet)
 - **Primary Reserve Ratio** measures the ability to fund operations from relatively liquid net worth during business interruption, fund innovation, etc.
 - **Viability Ratio** measures the capacity to increase debt or service debt if business operations are interrupted
- Financial Operation measures (income statement)
 - **Return on Net Assets Ratio** measures rate of return when measured against investment in net assets
 - **Operating Margin Ratio** measures the extent to which operations generate positive or negative financial results

Composite Financial Index - CFI

- Combines four measures:
 - Primary Reserve Ratio (35%)
 - Viability Ratio (35%)
 - Net Assets Ratio (20%)
 - Operating Margin Ratio (10%)
- Resulting value is relative measure of financial health
- Used in higher education as a composite performance measure for assessing financial health
- Higher Learning Commission (HLC) uses CFI in assessing institutions for accreditation
- Continued use provides a consistent, comparable benchmark

Composite Financial Index (CFI)

Financial Health Indicator Ranges

Status	issues with viability and survival are possible	consider substantive program adjustments	moderate capacity to withstand adversity	increasingly stronger financial health
Actions	more analysis required	management needs to focus on longer term financial stability	ability to innovate and pursue emerging opportunities	ability to be transformational and allow for experimentation and new initiatives
	< 0.5	0.5 - 1.5	1.5 - 3.0	> 3.0

Source: [Strategic Financial Analysis for Higher Education](#), 7th Edition



System Composite Financial Index – CFI

- FY2022 CFI = 3.28 (without GASB 68/75)
- FY2021 CFI = 2.70 (without GASB 68/75)
- FY2020 CFI = 2.53 (without GASB 68/75)

- FY2022 CFI = 3.62 (with GASB 68/75)
- FY2021 CFI = 0.41 (with GASB 68/75)
- FY2020 CFI = 0.30 (with GASB 68/75)

Minnesota State FY2022 Financial Statement Results

System Financial Statements Summary

- Unmodified opinion on the systemwide, revenue fund, and Itasca student housing financial statements
- GASB 68/75 continues to have a substantial impact on the reported condition of the system, colleges and universities
- Overall financial condition remained stable due to:
 - HEERF funding covering a portion of lost revenue lost due to declining enrollment and some expenses related to the pandemic
 - Management of overall operating expenses

CHANGES IN NET POSITION

FY2022 - FY2020

Revenues/(Expense) (in Thousands)

Components and changes	FY2022	FY2021	FY2020
Revenue from students, net of financial aid	\$ 737,140	\$ 730,373	\$ 774,502
State appropriation revenue	795,315	767,931	762,135
Federal and state grant revenue	678,075	504,990	442,482
Compensation Expense	(1,179,090)	(1,411,613)	(1,420,716)
All other revenues/(expenses), net	(774,811)	(581,141)	(532,635)
Change in Net Position	\$ 256,629	\$ 10,540	\$ 25,768

- Compensation expense decrease in fiscal year 2022 includes a decrease of \$197.8M, or 14 percent, related to GASB Statements No. 68 & 75
- Excluding GASB 68/75 effect, the change in fiscal year 2022 compensation expense was a decrease of \$21.3M, or 1.5 percent

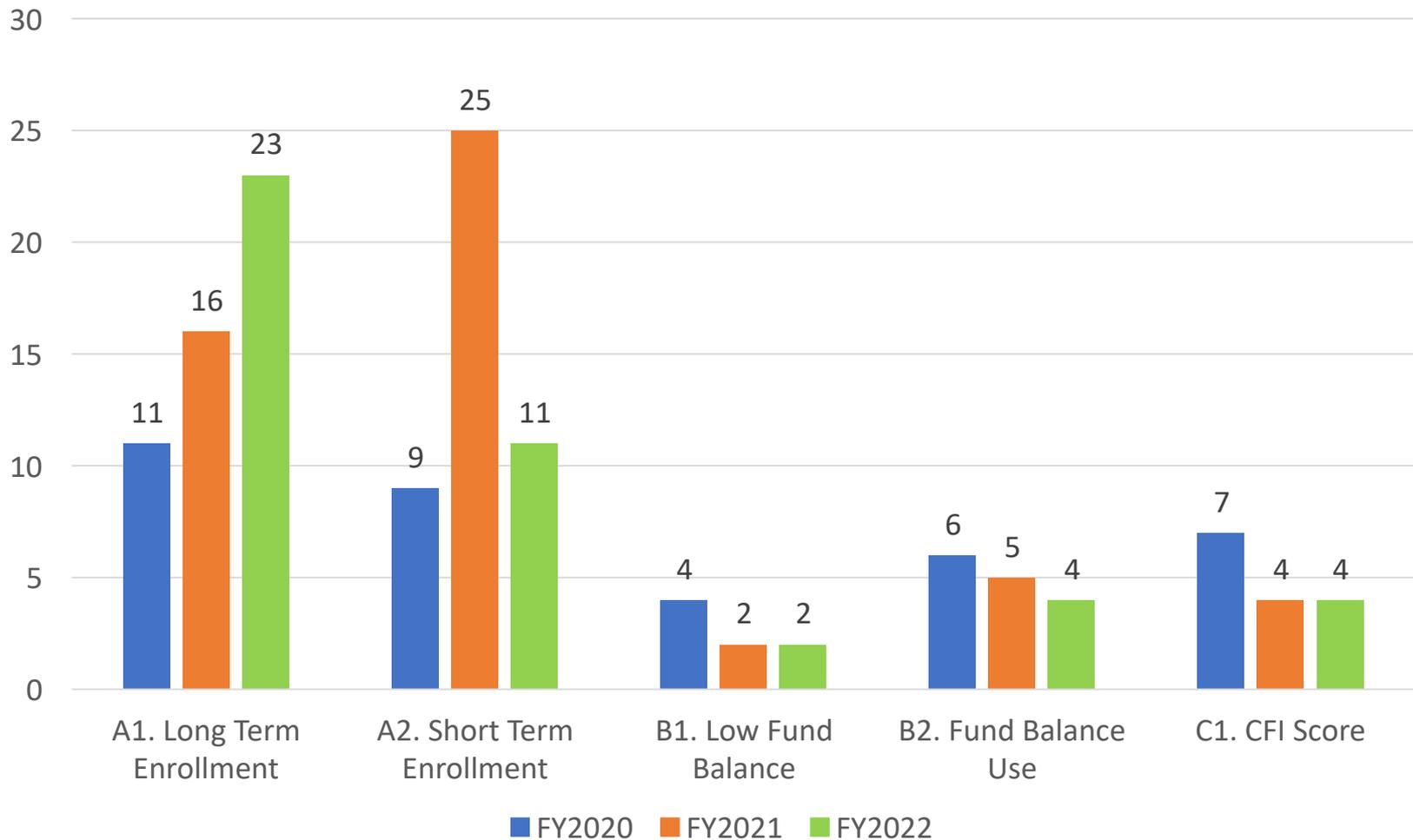


Financial Statement Results

- Excluding the effects of GASB 68 & 75, adjusted operating margins remained close to “break-even” in both FY2022 and FY2021
 - FY22 adjusted operating margin: \$25.1M; 1.1% of operating expenses
 - FY21 adjusted operating margin: \$(6.6M); (0.3%) of operating expenses
- Excluding the effects of GASB 68 & 75, total operating/non-operating expenses increased, primarily due to increase in HEERF student financial aid

College and University FY2022 Financial Health Indicator Results

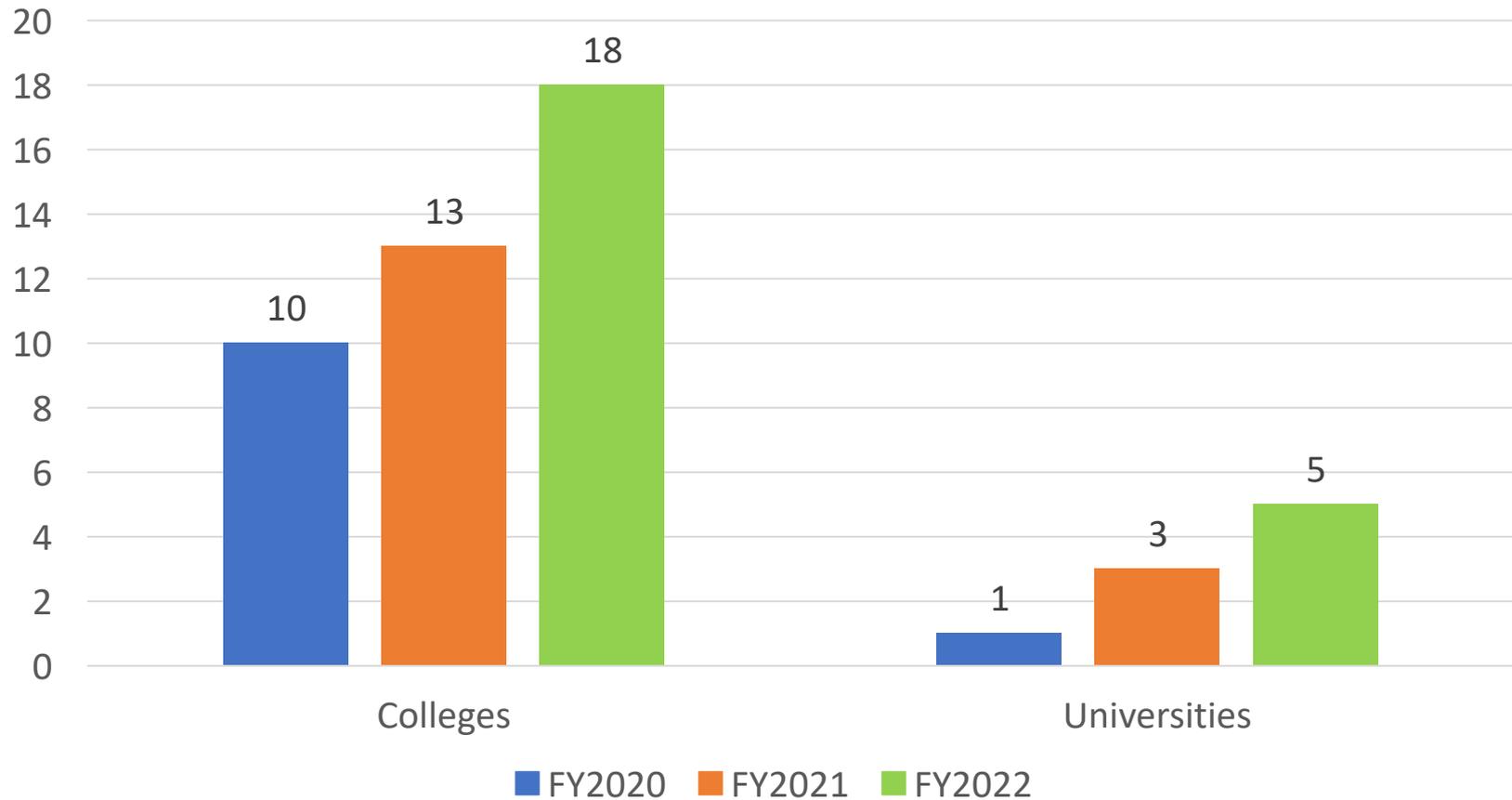
Indicators triggered in FY2022 emphasize continuing enrollment concerns



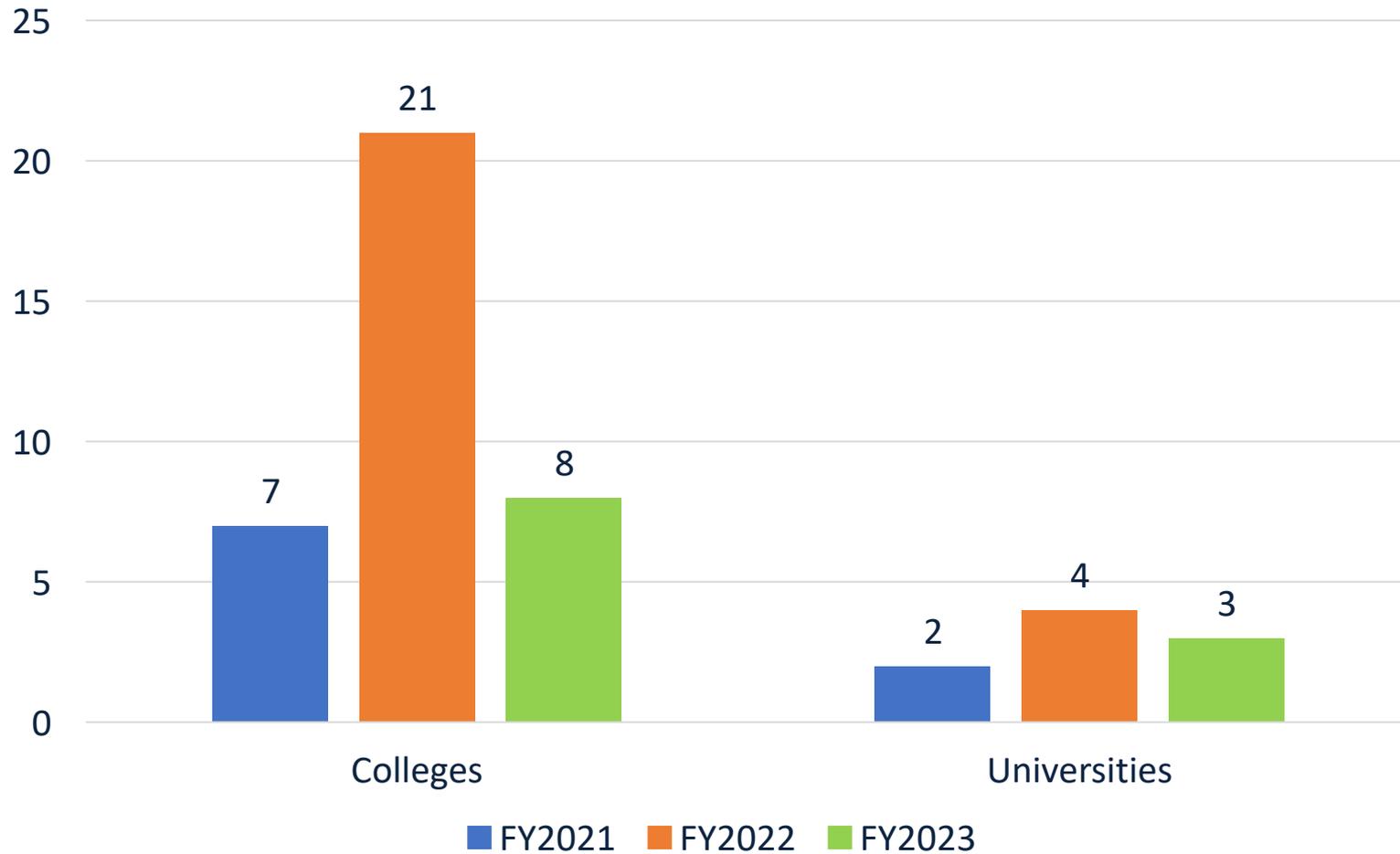
Key for the Charts –System-wide Perspective

- 33 institutions
- 2-5 years of data (FYs 2019 - 2023)
- Grouped by categories
- College and University sectors
- Summary of all institutions in relation to the indicators

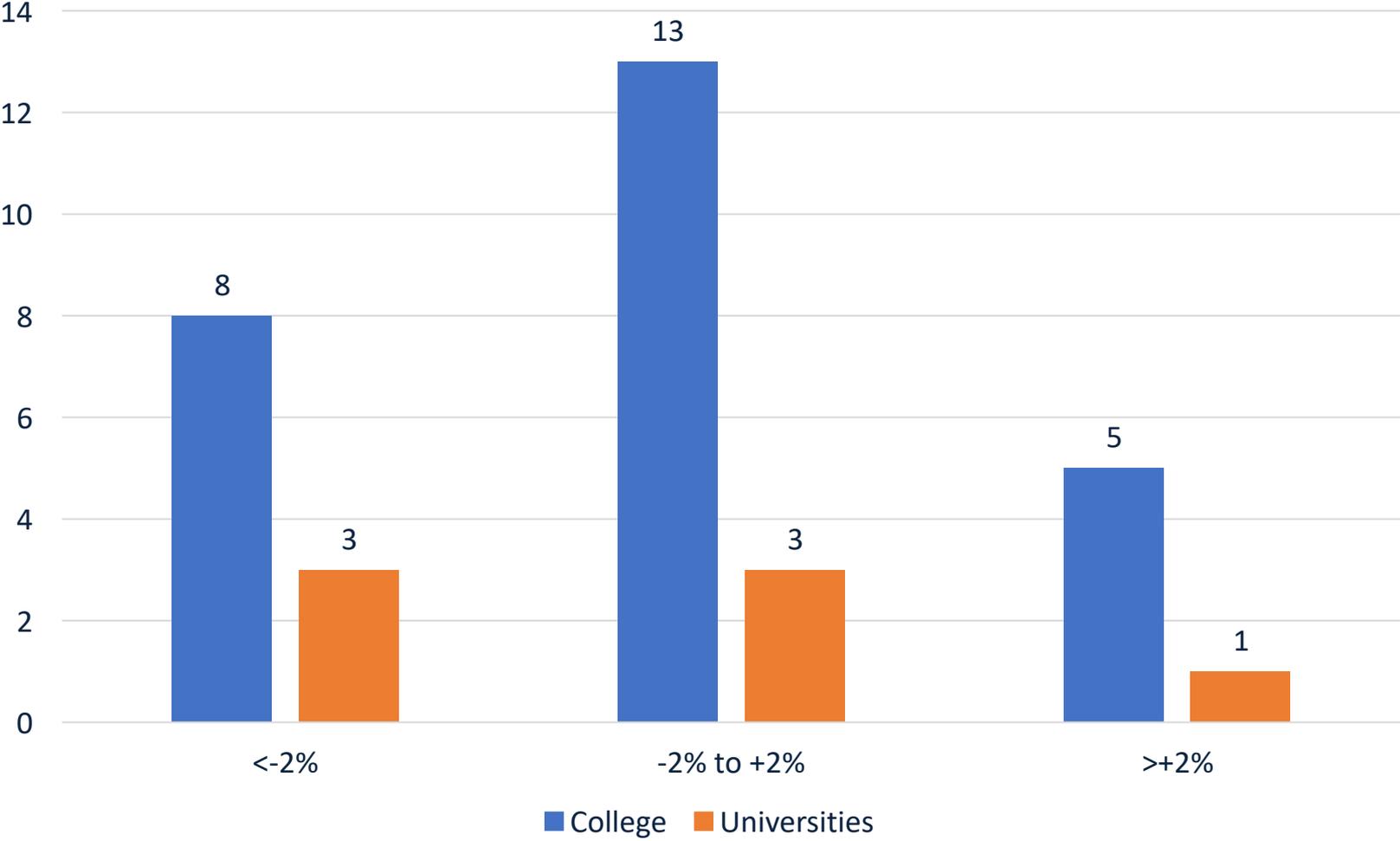
A1. Enrollment decline of more than 8% over two years



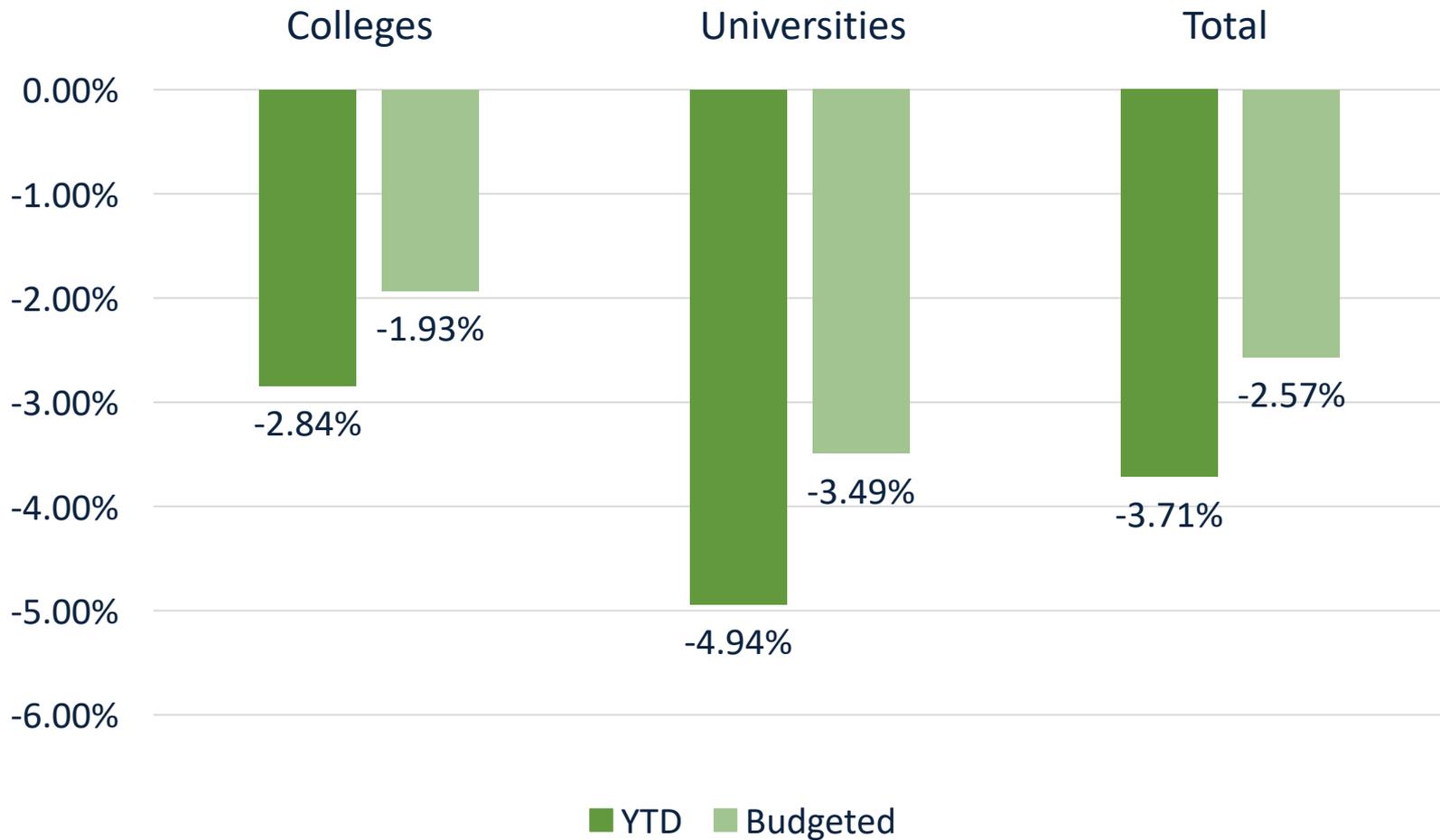
A2. Year-to-date enrollment versus budgeted



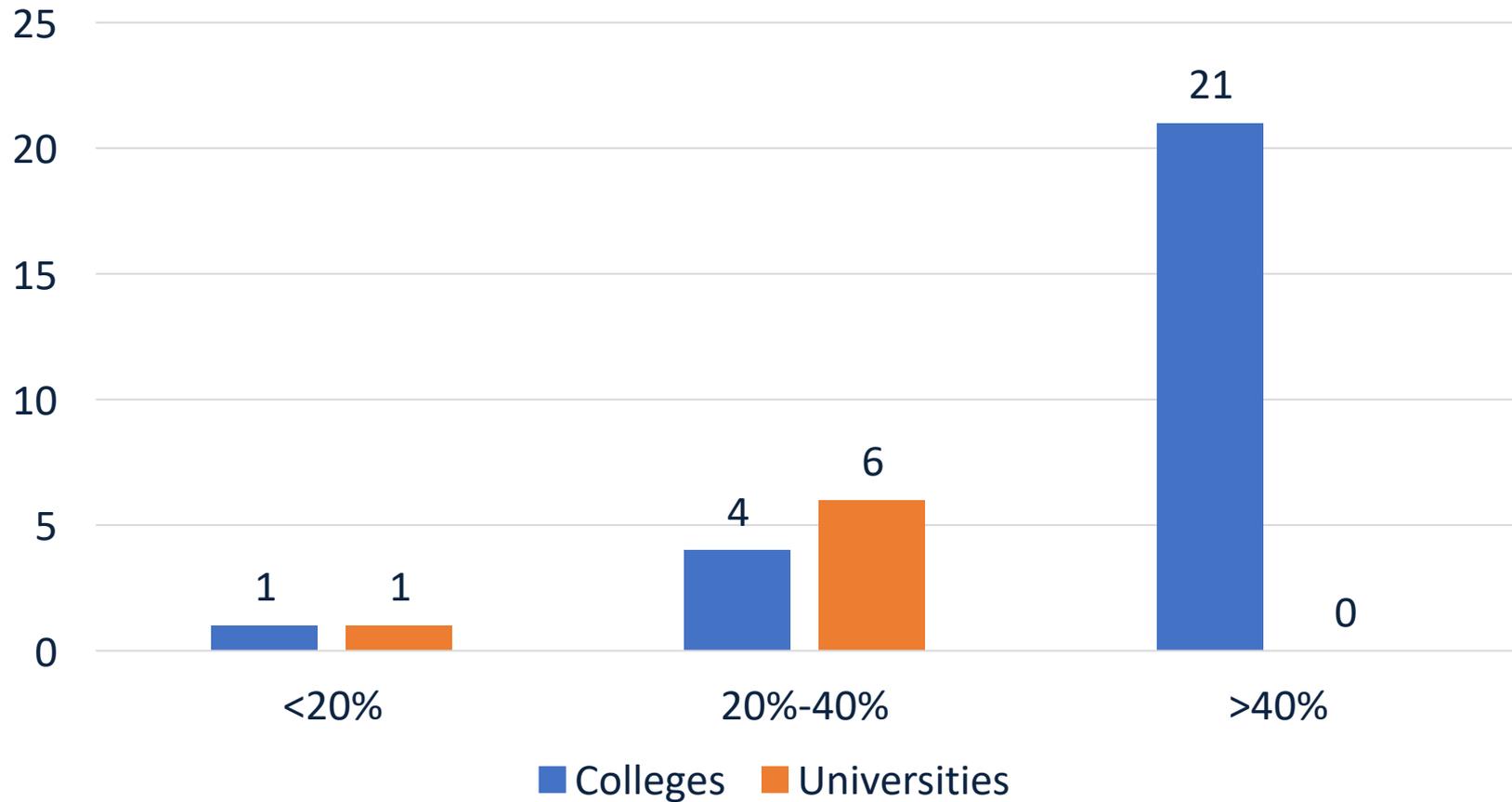
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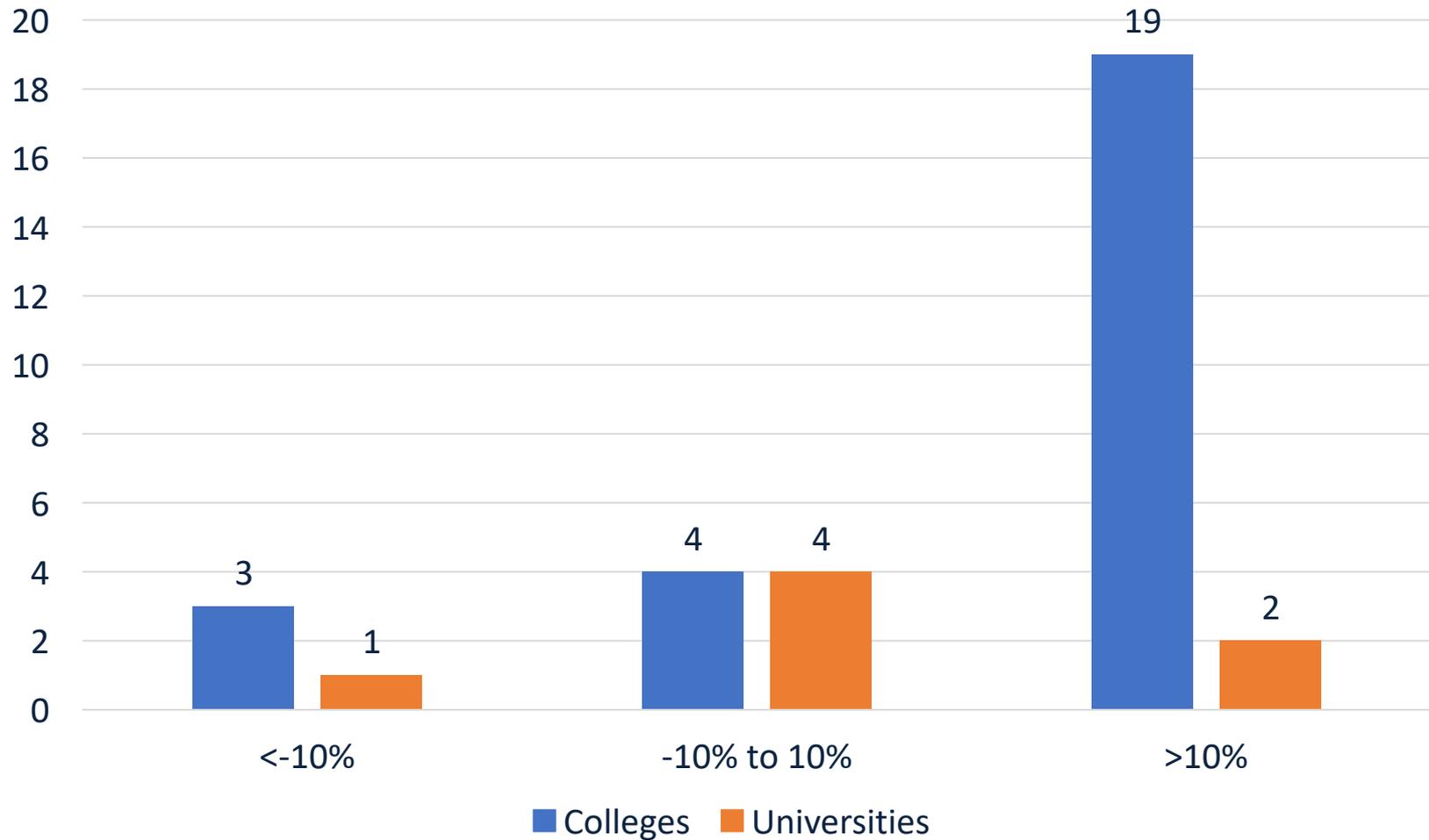
A2. October 2022 year-to-date enrollment worse than budgeted enrollment



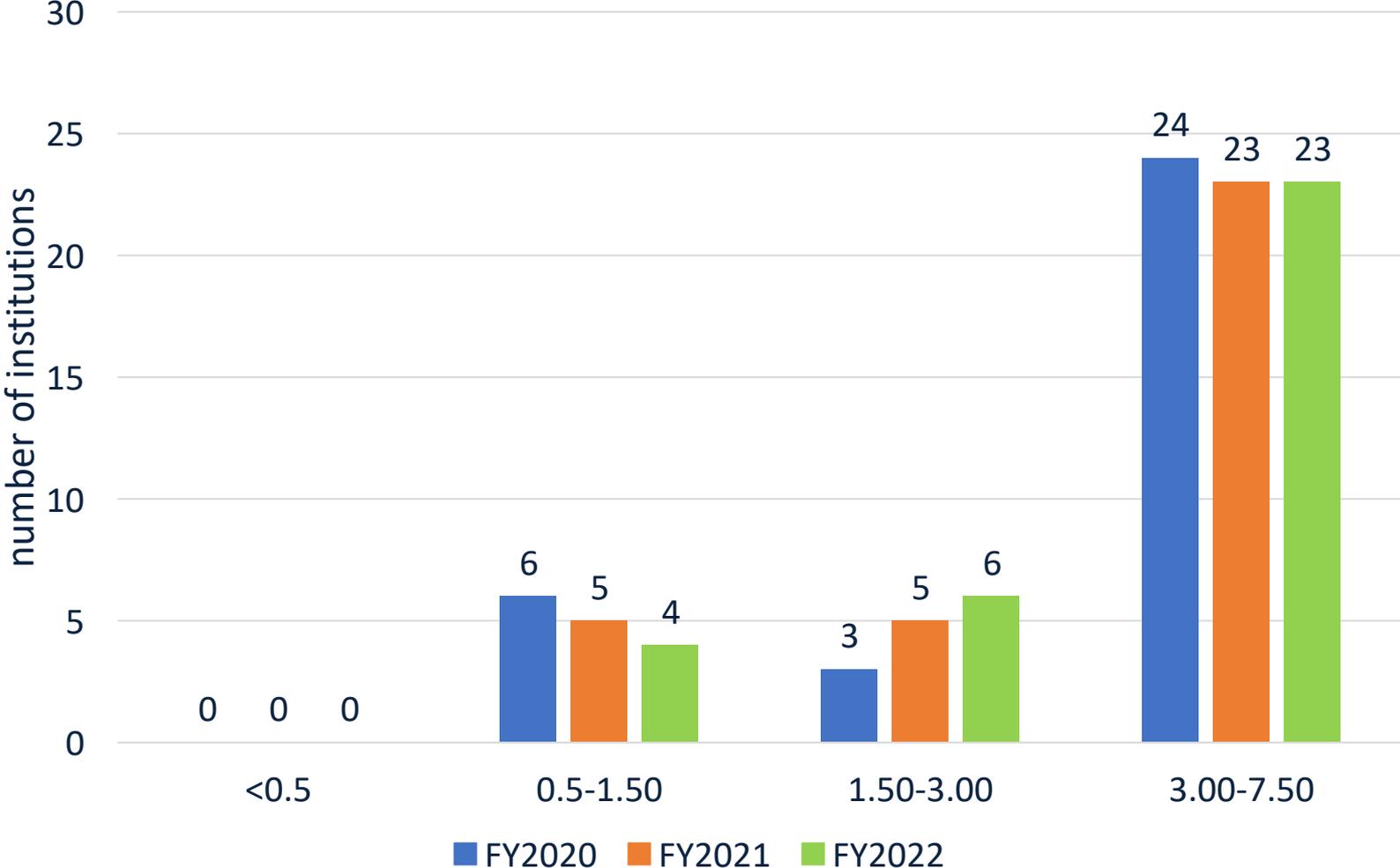
B1. Nearly all fund balances are in compliance with the health indicators



B2. General fund balance change FY20 to FY22

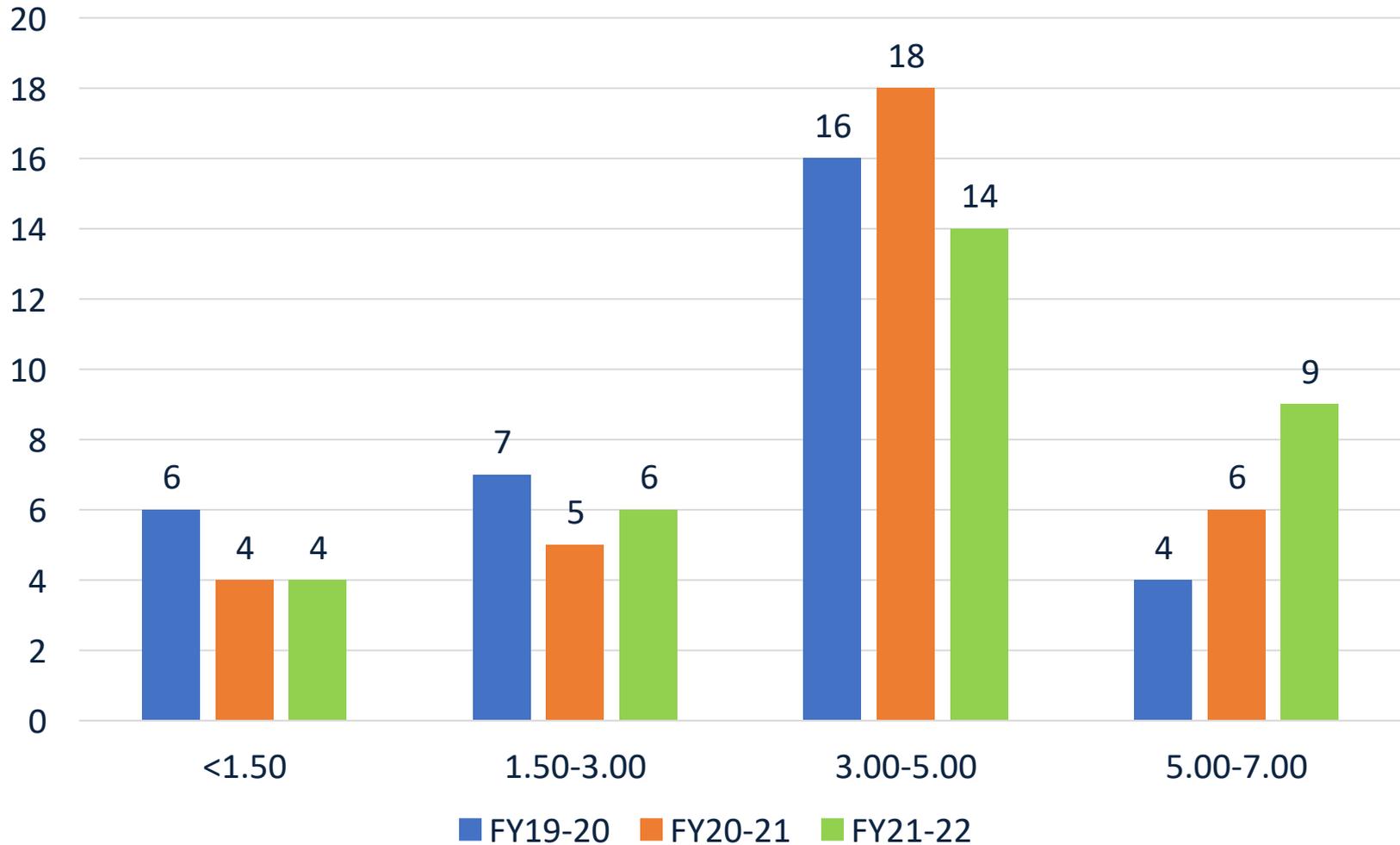


Annual CFIs remained stable in FY2022



Excludes the unfunded pension/OPEB liability entries

Two-year average CFIs show improvement

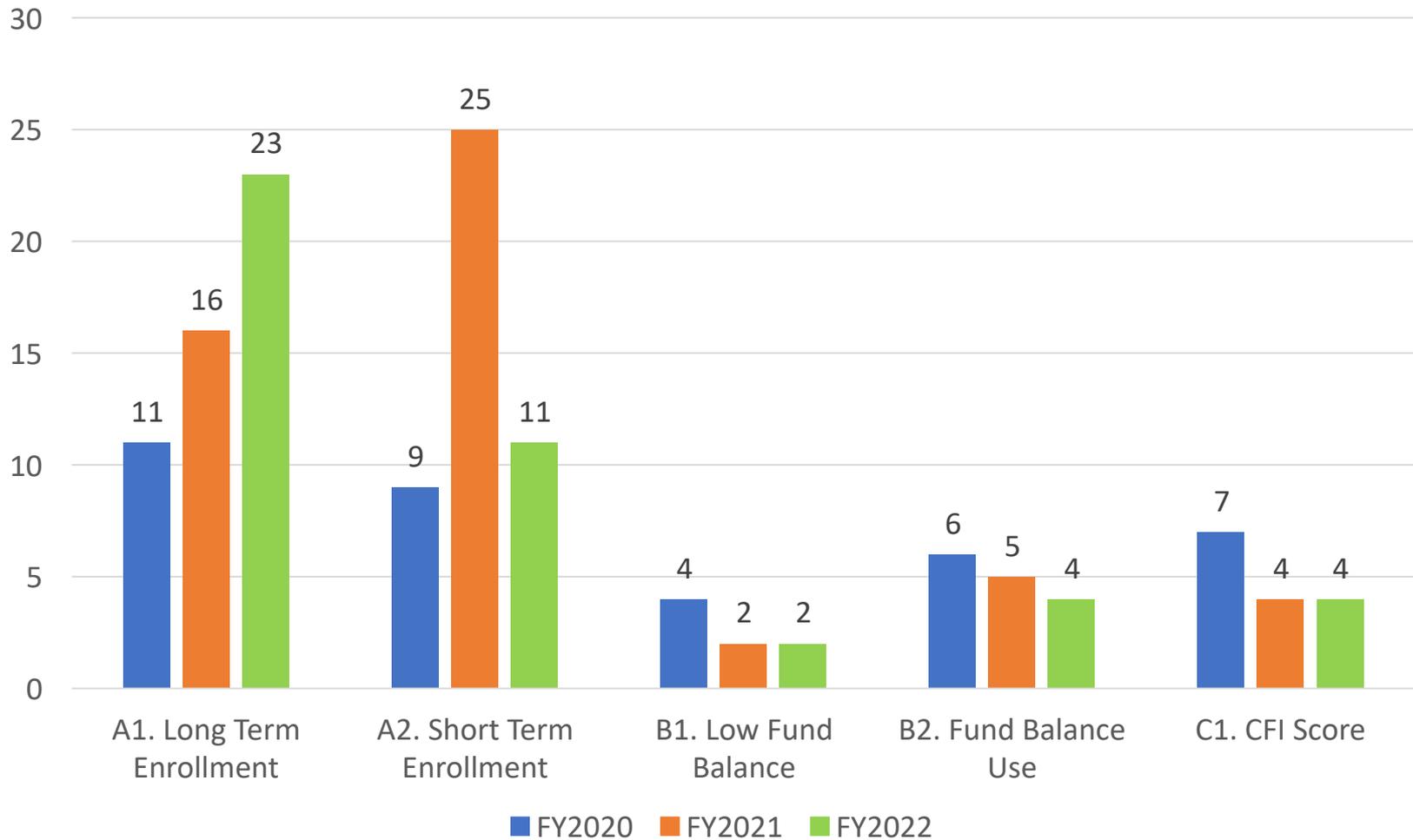


Excludes the unfunded pension/OPEB liability entries

Financial Health Reporting and Monitoring

- 23 institutions triggered the long-term enrollment (A1) indicator, resulting in reviews of strategies related to enrollment
- 11 institutions triggered the short-term enrollment (A2) indicator
- 8 colleges and universities triggered one of the fund balance indicators (B1, B2) or the CFI indicator (C1), requiring submission of revised financial planning reports

Indicators triggered in FY2022 emphasize continuing enrollment concerns



Colleges and Universities Financial Health Summary

- Colleges and universities continue to face financial and enrollment challenges
- Federal funding has provided crucial help with one-time pandemic costs but is not a substitute for ongoing funding sources to provide long-term structural balances
- Institutions continue to adjust their academic offerings and services to align with their available resources

Review and Updates for System Procedure

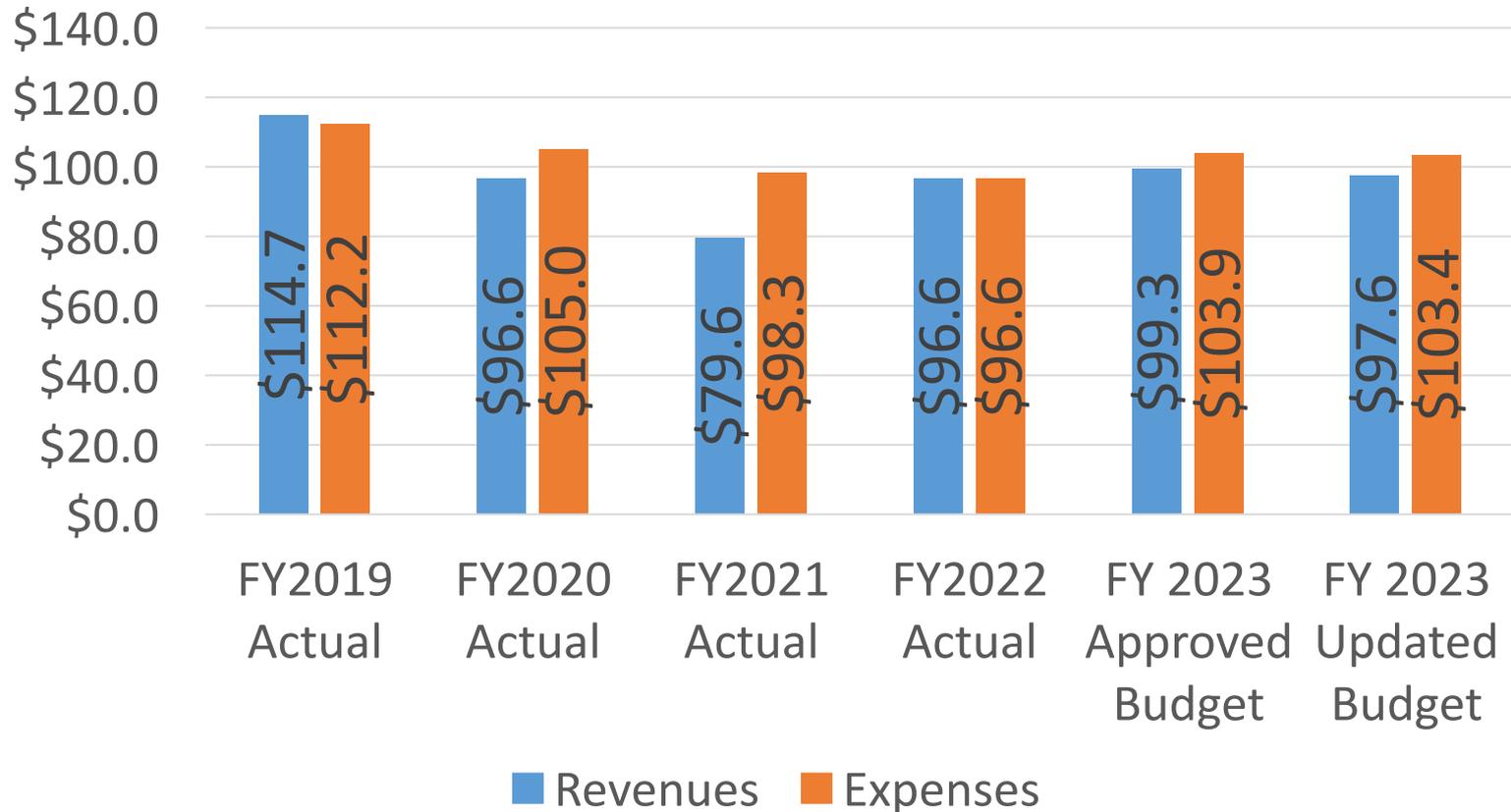


Continual Improvement: Review of Procedure by Finance Resource Allocation & Policy (FRAP)

- FRAP advisory group was created to review policy, procedure, and practice and offer advice to the Vice Chancellor for Finance and Facilities
- FRAP members include campus leaders, geographically and functionally diverse from:
 - colleges and universities, large and small institutions, multi- and single-campus, urban and rural
 - Academic & Student Affairs, Institutional Research, Equity & Inclusion, and Finance
- FRAP reviewed and discussed Financial Health Indicator measures and resolutions, and the policy goals driving them
- Analyzed effectiveness of components
- Recommended modifications and additions

Revenue Fund Comparison of Revenues and Expenses

- Create measures specific to the Revenue Fund
 - On-campus housing occupancy
 - Ability of operating surpluses to cover debt service



Procedure 7.3.16 Financial Health Indicators FRAP Recommendations

(information item, no action required)

- Create a measure relating to fund balance to balance operating budgets
- Revise resolution requirements to focus on strategic management rather than status quo
- Align reporting dates, resolution parameters, and data requirements



January 25, 2023

College and University Financial Performance Update

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Finance & Facilities Committee Meeting