System Procedure 7.3.16 Financial Health Indicators

Part 1. Purpose
This procedure facilitates monitoring, improves managerial performance and evaluates the financial effects of management decisions at colleges and universities. The Board of Trustees will be periodically updated on the administration and financial management of the system.

Part 2. Reporting
The vice chancellor for finance and facilities is responsible for reporting to the board on the financial condition of the system and each college and university. Financial information for each college and university will be monitored on a periodic basis in order to ensure financial health and stability throughout the fiscal year.

Part 3. Financial Health and Stability Measures
Specific aspects of each college and university finances, as described below, must be reviewed to determine if financial concerns are present. The vice chancellor for finance and facilities must work with the leadership at a college or university to resolve any financial issues. Colleges and universities triggering these indicators will provide follow-up information as specified in the operating instructions adopted pursuant to the section. These measures are intended to provide advance warning to institutions before there are potential consequences from external parties. If concerns continue beyond a reasonable amount of time, it will be brought to the attention of the chancellor and the board.

Subpart A. Enrollment-Based Risk Factors
Full-Year Equivalent (FYE) Enrollment Decline
a. Monitoring Timeline: Annually - Report by end of September
b. Data Source: System Enterprise Resource Planning (ERP) tool final FYE reporting
c. Trigger: Actual FYE enrollment has declined more than eight percent over the two most recent years.

Subpart B. Cash-Based Financial Risk Factors
1. Year-End Fund Balance – General Fund
a. Monitoring Timeline: Annually - Report by end of September
c. Trigger: Fiscal year-end general fund cash balance is less than 20 percent of general fund revenue.

2. Use of Fund Balance to balance the annual operation budget
   b. Data Source: Fiscal year-end general fund adjusted cash balance in the State of Minnesota Enterprise Resource Planning (ERP) tool; annual operating budget submission.
   c. Trigger: (1) General fund balance is between 30 and 50 percent of prior year revenue and current year budget reduces fund balance by 10 percent or more, or (2) General fund balance is less than 30 percent of prior year revenue and current year budget reduces fund balance by 5 percent or more.

Subpart C. Accrual-Based Financial Risk Factors

1. Adjusted Composite Financial Index (CFI) score – All Funds
   a. Monitoring Timeline: Annually - Report by early December
   b. Data source: The adjusted CFI score is computed annually by each college and university as part of a fiscal year-end analysis of financial trends and highlights. It is also computed by the vice chancellor for finance and facilities and reported to the board. The computation method will be defined by the vice chancellor for finance and facilities and labeled “adjusted CFI”.
   c. Trigger: The adjusted CFI score is (1) less than 1.5 (based on a two-year moving average) or (2) an adjusted CFI score under 1.0 for the most recent year. This trigger is intended to alert and help schools tackle any potential financial issues before they result in unfavorable internal or external consequences.

2. Change in Unrestricted Net Position – Revenue Fund
   a. Monitoring Timeline: Annually - Report by early December
   b. Data Source: Year End Revenue Fund Audited Financial Statements
   The Statement of Revenues, Expenses, and Changes in Net position shows the Revenue Fund profit/(loss) activity by program on an accrual basis. The current year profit/(loss) is referred to as Change in Net Position.
   c. Trigger: 1) Current year Change in Unrestricted Net Position is negative and more than 10 percent of Beginning Unrestricted Net Position, or 2) two consecutive years of negative Change in Net Position.

3. Maximum Annual Debt Service Coverage – Revenue Fund
   a. Monitoring Timeline: Annually - Report by early December
   b. Data source: Year End Revenue Fund Audited Financial Statements
   The Statement of Revenues, Expenses, and Changes in Net Position shows the Revenue Fund profit/(loss) activity by program on an accrual basis. The formula to compute the ratio is ((Income Before Other Revenues, Expenses, Gains, or Losses
from Audited Financial Statements - GASB 68/75 Effect + Depreciation Expense + Interest Expense)/Maximum Annual Debt Service). This ratio is a measure of the cash flow available to pay current debt obligations. It compares a college’s or university’s total debt obligations to its operating income.

c. Trigger: Calculated ratio of debt service coverage is less than 1.25.

**Subpart D. Physical Plant Risk Factors**

1. Repair and Replacement Expenditures
   b. Data source: Expenditure object code data will be extracted from the system ERP using the year-to-date fields for Repair and Replacement budgets as defined in the operating instructions adopted pursuant to this section.
   c. Trigger: Expenditures per square foot of (1) for academic square footage, less than $1.00 per square foot based on a three-year moving average or (b) for Revenue fund square footage, less than $2.50 per square foot based on a three-year moving average.

2. Energy Consumption Reduction
   a. Monitoring Timeline: Annually - Report by end of September
   b. Data source: Building, Benchmark, and Beyond (B3) Report, Energy Use Intensity (EUI), which measures the building’s energy use relative to its size in square feet.
   Trigger: Reductions in energy consumption for the past three years of less than six percent total.

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**Date of Adoption:** 12/19/03  
**Date of Implementation:** 12/19/03  
**Date of Last Review:** 08/28/23

**Date and Subject of Amendments:**
- **08/28/23** – Reviewed as part of the five-year review cycle. Amended Part 3 to remove duplication, increase oversight of all funds by adding Revenue Fund specific measures, modify use of fund balance measures, and align measures with rating agency requirements.

**Additional HISTORY.**