

3.10.1

Financial Resources: Financial stability

The institution's recent financial history demonstrates financial stability.

Judgment

Compliance Partial Compliance Non-Compliance Not Applicable

Narrative

Tennessee Technological University (TTU) has a documented history of financial stability. Through sound, conservative fiscal management, TTU has substantially increased its academic program enrollments and developed as a four-year campus despite decreases in state-appropriated funding for higher education. Because of state funding reductions, TTU has become more reliant on student tuition and fees to provide a more stable financial base.

Financial Appropriation Allocation

TTU, like all Tennessee Board of Regents (TBR) institutions, receives a state appropriation based on an outcomes-based funding formula, rather than one that is enrollment based. The formula measures student progression at 24, 48, and 72 credit-hours, as well as degree completion using a three-year rolling average of points earned for student progression [1]. There has been some decrease in appropriations due to the decrease in graduate degrees. TTU is strategically investing in graduate students to increase the graduate degree outcome. A strategic recruitment of international students and strategic maintenance fee increases have also offset the loss.

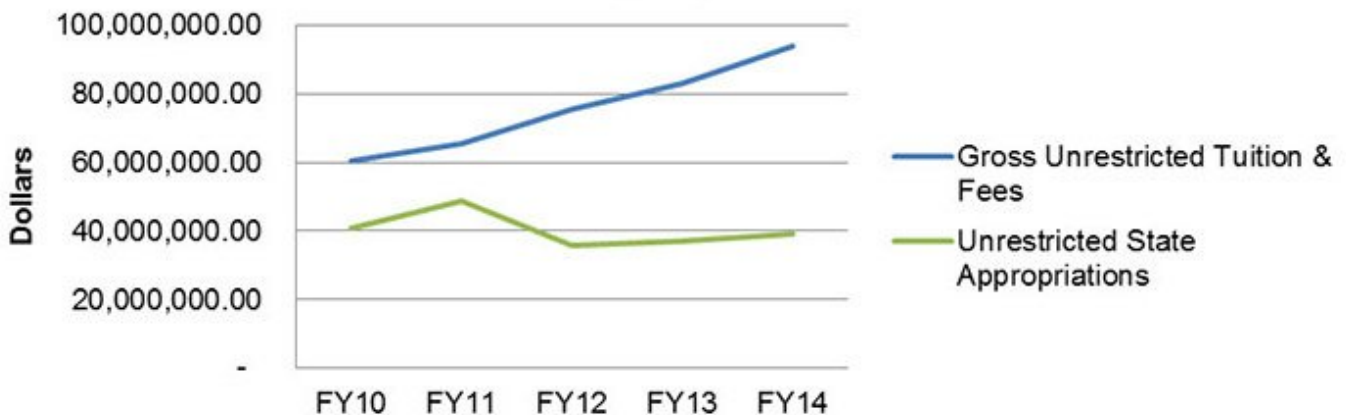


Figure 1. Unrestricted tuition and fees to unrestricted state appropriations.

The complete schedule of tuition and fees is available for public view on the TTU Bursar website [2].

Financial Stability and Use of Funds

During a time of limited state resources, TTU has elected to use reserved plant funds to improve campus facilities, including renovating academic buildings, residential halls, and apartments; improving Information Technology (IT) infrastructure; making ADA modifications in various buildings; and upgrading fire alarms [3].

The University's financial stability is demonstrated by financial data provided in the University's audited financial statements for the fiscal years ending June 30, 2010, through June 30, 2014. These statements document a consistent pattern of growth in revenue, expenditures, and net assets [4]: audited financial statement 2010 [5], audited financial statement 2011 [6], audited financial statement 2012 [7], audited financial statement 2013 [8], and audited financial statement 2014 [9].

Unrestricted net assets include plant funds, which have been significantly utilized and discussed above in this section. However, net assets have continued to increase [10] [Cross-reference to 2.11.1: Unrestricted Net Assets].

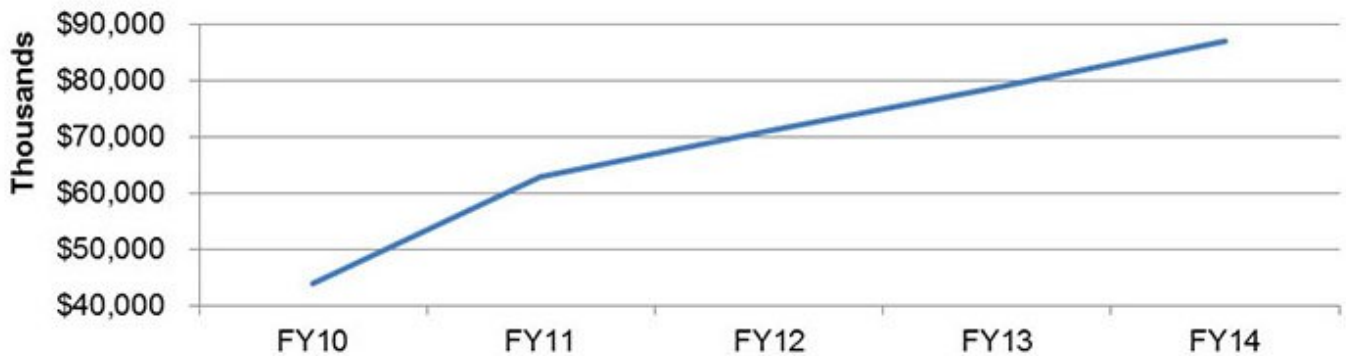


Figure 2. Unrestricted net assets/position.

The current ratio consistently hovers at approximately 2.5. The current ratio is a measure of the entity's ability to pay short-term obligations.

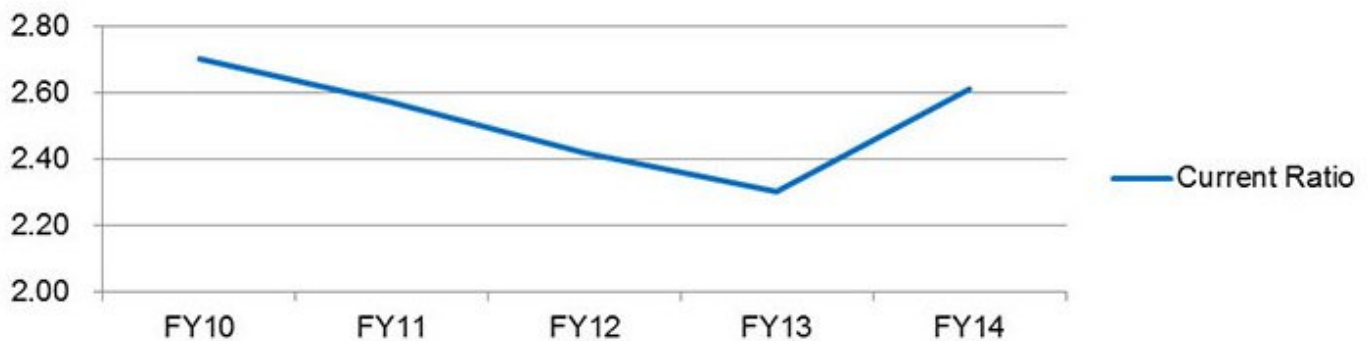


Figure 3. Current ratio.

The return on net assets has remained above the higher education industry standard of 3 percent to 4 percent. [Cross-reference to 2.11.1 for other ratios including CFI].



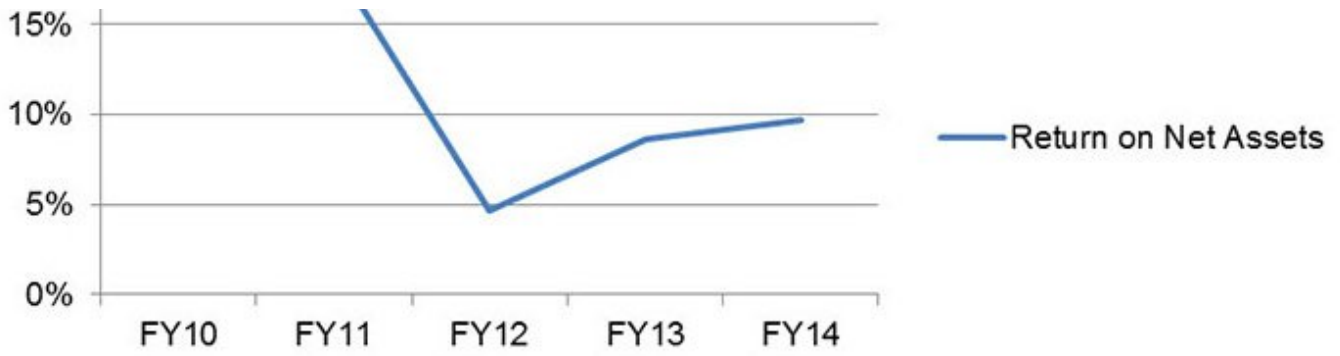


Figure 4. Return on net assets.

Cash flows from operations and noncapital combined (state-appropriated funding is included in cash flows from noncapital financing) have remained positive for the past five fiscal years (2010 through 2014) [4].

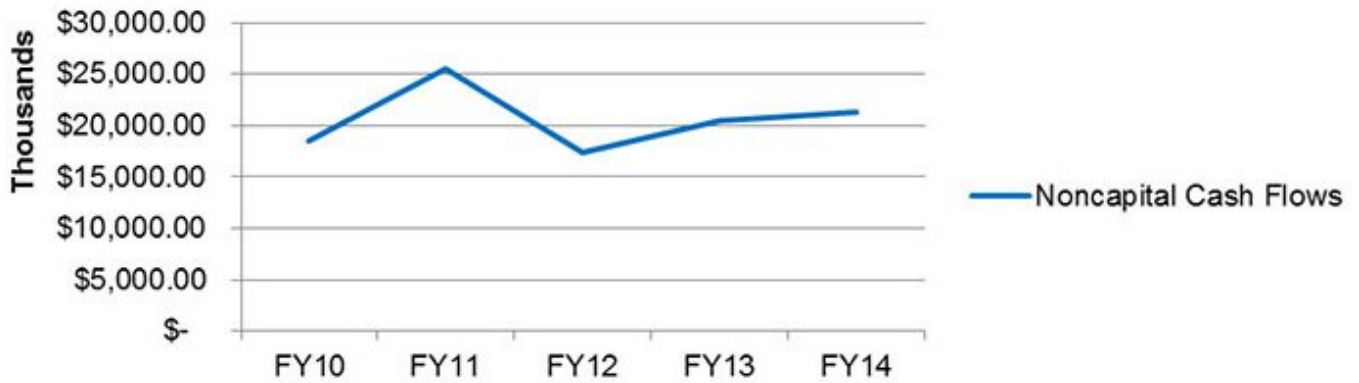


Figure 5. Noncapital cash flows.

Enrollment

Enrollment at TTU has been strong since 2003 with a 10-year change of a 28 percent increase in total headcount and 27 percent increase in FTE [11].

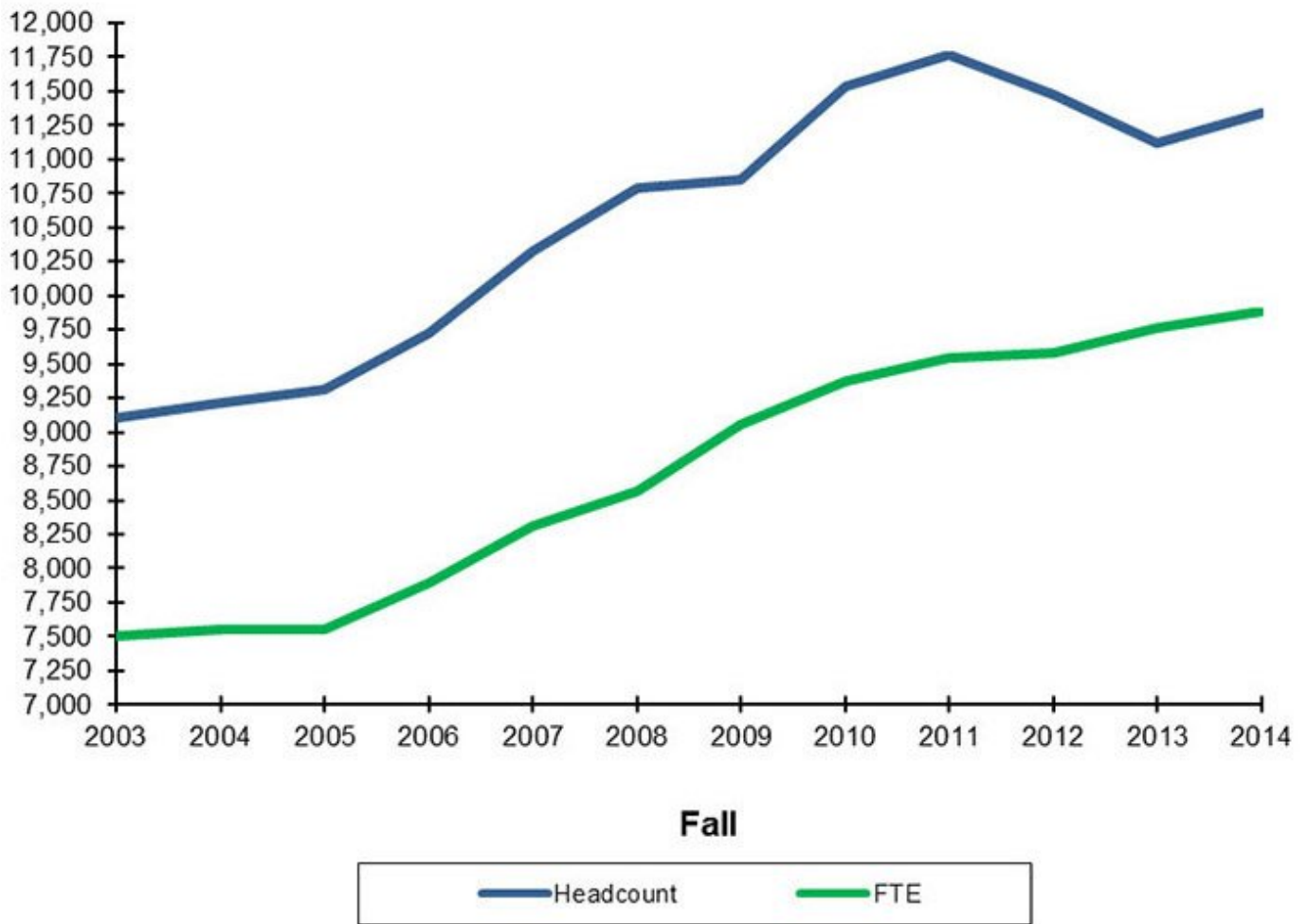


Figure 6. Enrollment.

The growth in students and facilities has brought with it related expense increases. Operating expenses have increased by \$18 million since fiscal year 2010 with significant increases being in salaries, benefits, and operating [12]. The University anticipated these increases and has identified the appropriate recurring or one-time funding sources to sustain the appropriate operations with a combination of accumulated fund balances and/or new or higher fees and tuition.

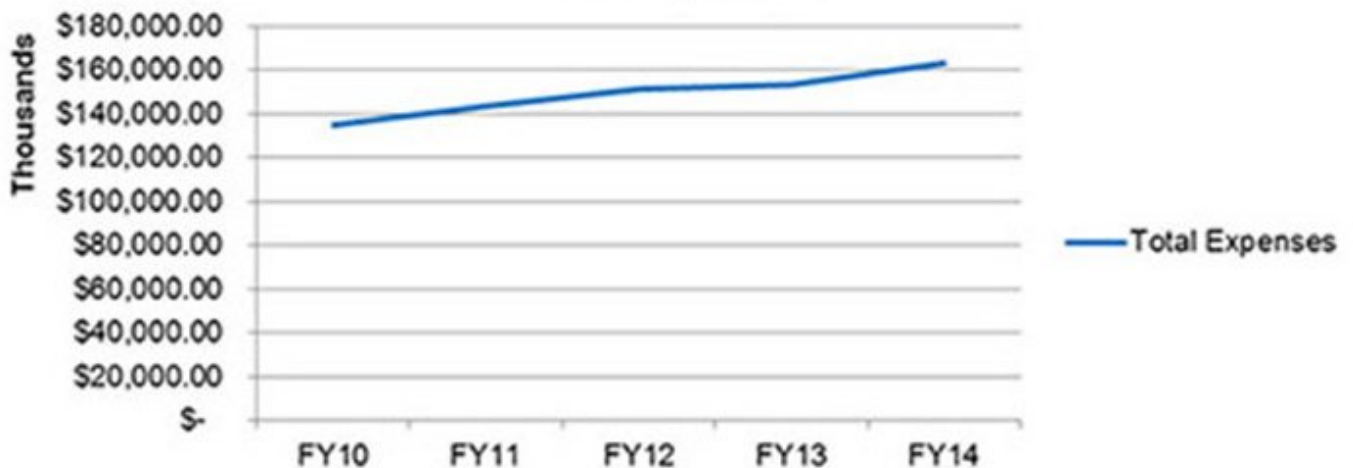


Figure 7. Total expenses.

Capital Assets

The University continues to enhance the campus community through the acquisition, construction, and improvement of its capital assets. The institution continues to make significant investments in buildings and infrastructure as it implements its long-range plan of growth and expansion. As of June 30, 2014, TTU had \$131,017,739.62 invested in capital assets, net of accumulated depreciation of \$117,478,508.89. Debt has increased over the past five years [13]. The majority of the increased debt has funded new residential halls and renovations to existing residential halls [14].

The University does not participate in capital leases or short-term notes payable. Bonds, with interest rates ranging from 2 percent to 5 percent, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially until November 2033 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the University, including state appropriations. The bonded indebtedness with the TSSBA included in long-term liabilities on the Statement of Net Assets or Statement of Net Position is shown net of assets held by the authority in the debt service reserve and net of unexpended debt proceeds. The reserve amount was \$2,297,022.88 at June 30, 2014. There were no unexpended debt proceeds at June 30, 2014.

The TSSBA issues loans from the revolving credit facility to finance costs of various capital projects during the construction phase. When projects are placed in service, long-term, fixed-rate debt is issued by TSSBA to finance the project over its useful payback period, and the revolving credit facility debt is redeemed. The amount outstanding for projects at the University was \$4,217,540.80 at June 30, 2014.

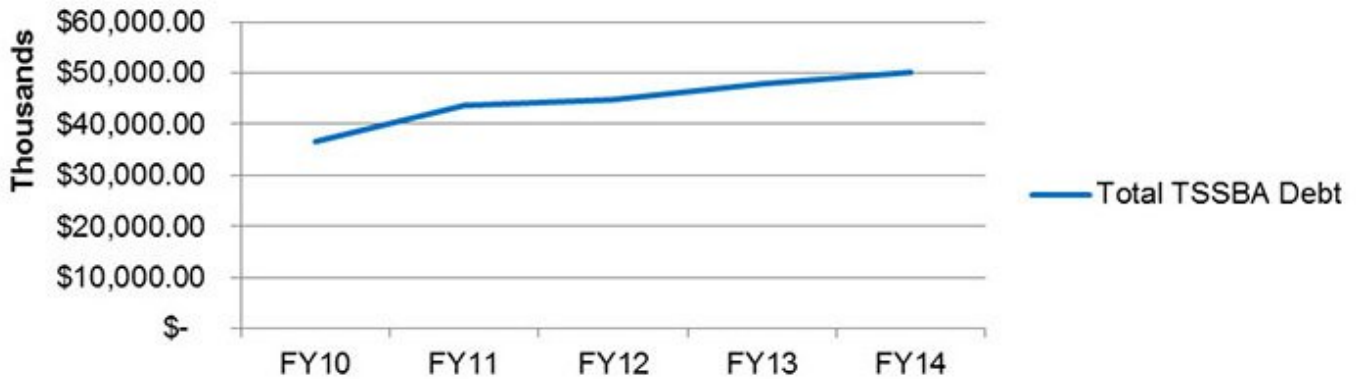


Figure 8. Total TSSBA debt.

Endowment funds at TTU continue to grow as a result of the efforts of the TTU Foundation and the University Advancement staff. The Foundation created the Investment Committee as a subcommittee to review the investment returns and portfolio and the spending plan. The Investment Committee is made up of three members of the Foundation Board, the TTU Vice President for Planning and Finance, and the Financial Management Analyst at TTU. The Investment Committee recommends changes in investments to the Foundation Board. The Investment Committee makes recommendations in accordance with the Foundation Investment Policy [15].

The Foundation complies with the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Foundation chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the Foundation, a percentage (currently 5 percent) of the book value of the endowment or a percentage of the actual earnings as designated by the donor has been authorized for expenditure. The remaining amount becomes part of the permanent endowment as stated in the letter of agreement with the donor. The Foundation's endowment consists of

individual funds established for a variety of purposes. As required by Generally Accepted Accounting Principles, net assets associated with endowment funds are classified based on the existence or absence of donor-imposed restrictions. The following table shows the categories of the Foundation's expendable funding.

Table 1. Categories of the TTU Foundation's Expendable Funding.

Restricted For:	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Scholarships and fellowships	3,908,487.48	4,450,494.59	4,519,584.89	5,424,862.39	6,247,540.39
Research	102,209.10	121,953.25	124,555.42	170,888.71	276,044.32
Instructional department uses	1,275,618.13	1,310,931.29	1,206,198.81	1,263,164.05	1,777,611.58
Capital projects	295,683.55	48,301.40	7,821.89	26,984.28	1,170,066.23
Other	4,365,476.02	6,333,254.65	8,361,495.32	9,819,981.10	10,910,751.41
Total	9,947,474.28	12,264,935.18	14,219,656.33	16,705,880.53	20,382,013.93
% Change		18.90%	13.75%	14.88%	18.04%

The following table shows the combined Composite Financial Index for the University and the Foundation [Cross-reference to 2.11.1 for CFI Graph].

Table 2. Combined Composite Financial Index for the University and the TTU Foundation.

Combined	Industry Standard	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
CFI	3.00	4.85	5.77	3.57	4.98	5.31
Primary Reserve	0.40	0.40	0.53	0.57	0.63	0.65
Viability	1.25	1.52	1.79	1.97	2.06	2.16
Return on Net Assets	3%-4%	16.93%	18.93%	3.03%	9.51%	10.70%
Net Operating Revenues	2%-4%	10.66%	12.79%	1.45%	8.44%	9.29%

Financial Authority

The Vice President for Planning and Finance [16] [17] has primary responsibility for control of these resources. The Vice President for Planning and Finance reports directly to the President and is a Certified Public Accountant (CPA) in Virginia (inactive) with more than 20 years of experience in higher education. Departments reporting to the Vice President of Planning and Finance that are responsible for control over financial resources include Business and Fiscal Affairs, Budget, Facilities and Business Services, Auxiliaries, and Human Resources [18]. Offices within Business and Fiscal Affairs under the supervision of the Associate Vice President of Business and Fiscal Affairs include General Accounting, Grant Accounting, and the Bursar. The Associate Vice President of Business and Fiscal Affairs is a CPA in Tennessee (inactive) with more than 20 years of experience in higher education [19] [20]. These offices retain primary control of the University's financial resources. The Bursar Office oversees cashiers, accounts receivable, and loans. The General Accounting Office oversees accounts payable and maintains the official accounting records and related systems of internal control. The Grant Accounting Office oversees the billing and accounting for grants. The Purchasing office is within Facilities and Business Services and reports directly to the Vice President for Planning and Finance. The Purchasing office ensures that all purchases made on behalf of TTU adhere to University and TBR policies as well as state and federal laws.

Conclusion

TTU's history of financial stability is reflected in the University's financial statements which document a consistent pattern of growth in revenue, expenditures, and net assets. Despite decreases in state funding, TTU has maintained a stable financial base which demonstrates that the University is in compliance with Comprehensive Standard 3.10.1.

Sources

-  [01] THEC Funding Formula
-  [02] Tuition and Fees Schedule
-  [03] Schedule 10 Schedule of Changes in Investment in Plant for FY2014
-  [04] Financial Analysis
-  [05] Audited Financial Statements FY 2010
-  [06] Audited Financial Statements FY 2011
-  [07] Audited Financial Statements FY 2012
-  [08] Audited Financial Statements FY 2013
-  [09] Audited Financial Statements FY 2014
-  [10] Net Assets Exclusive of Plant
-  [11] Fall_Enrollment_2004_2014
-  [12] Expense_AnalysisAcrobat Document
-  [13] Schedule of Debt
-  [14] Schedule of Bonds and Notes Payable FY14
-  [15] TTU Foundation Investment Policy
-  [16] Vice President for Planning and Finance Job Description
-  [17] Vice President for Planning and Finance Resume
-  [18] TTU Organizational Chart_1_2015
-  [19] Associate Vice President for Business and Fiscal Affairs Job Description
-  [20] Associate Vice President for Business and Fiscal Affairs Resume