

2.11.1

Financial Resources

The institution has a sound financial base and demonstrated financial stability to support the mission of the institution and the scope of its programs and services.

The member institution provides the following financial statements: (1) an institutional audit (or *Standard Review Report* issued in accordance with *Statements on Standards for Accounting and Review Services issued by the AICPA* for those institutions audited as part of a systemwide or statewide audit) and written institutional management letter for the most recent fiscal year prepared by an independent certified public accountant and/or an appropriate governmental auditing agency employing the appropriate audit (or *Standard Review Report*) guide; (2) a statement of financial position of unrestricted net assets, exclusive of plant assets and plant-related debt, which represents the change in unrestricted net assets attributable to operations for the most recent year; and (3) an annual budget that is preceded by sound planning, is subject to sound fiscal procedures, and is approved by the governing board.

Audit requirements for applicant institutions may be found in the Commission policy entitled "Accreditation Procedures for Applicant Institutions."

Judgment

Compliance Partial Compliance Non-Compliance Not Applicable

Narrative

Tennessee Technological University (TTU) demonstrates, by providing an institutional audit and management letter for the most recent fiscal year prepared by the State of Tennessee, Comptroller of the Treasury's Department of Audit, that it has a sound financial base and demonstrated financial stability to support the mission of the University and the scope of its programs and services.

Financial Base

A statement of financial position of unrestricted net assets, exclusive of plant assets and plant-related debt [1], which represents the change in unrestricted net assets attributable to operations for the most recent year, is attached. Additionally, evidence of the creation of an annual budget that is preceded by sound planning, which is subject to sound fiscal procedures, and is approved by the governing board, is attached and discussed in the following sections.

The graph below shows a trend of unrestricted net assets for Education and General (E&G) and auxiliaries, exclusive of plant assets and plant-related debt, and proves stability in the funds available for E&G and auxiliary operations. Unrestricted net assets for E&G and auxiliary, exclusive of plant assets and plant-related debt, have remained steady over the past five years [1]. The decrease from fiscal year 2011 to fiscal year 2012 was the result of a loss of non-recurring state appropriations that has been offset by increased collection of tuition and fees, increased enrollment, and additional state appropriations as discussed in the funding section below.

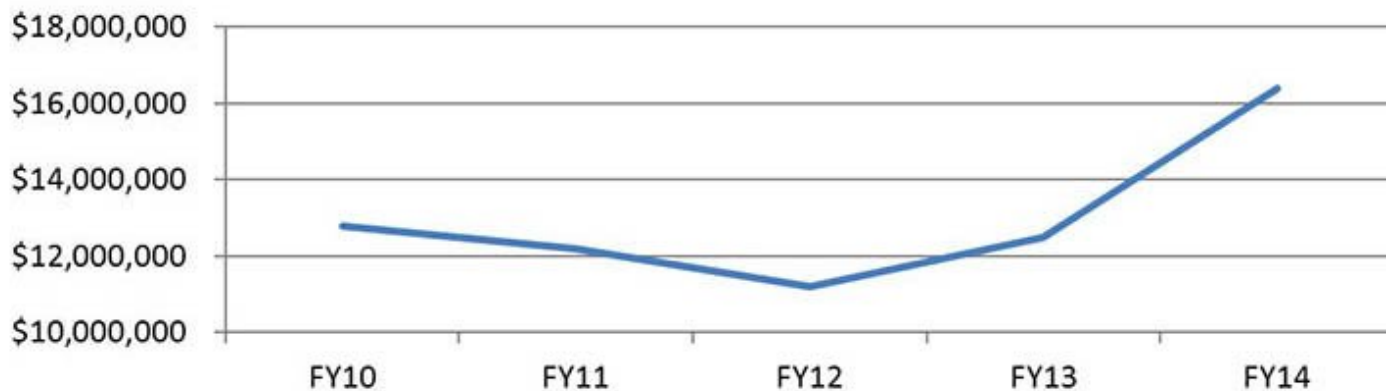


Figure 1. Unrestricted net assets, exclusive of plant and plant-related debt (E&G and Auxiliary).

TTU's fiscal year begins on July 1 and ends on June 30. Audits occur annually for the most recently completed fiscal year by Tennessee law (T.C.A. § 4-3-304) [2]. The Tennessee Comptroller Office's Division of State Audit conducts this required annual audit of the financial statements and supporting records for TTU. The audit is conducted by the State of Tennessee Comptroller of the Treasury's Department of State Audit in accordance with generally accepted auditing standards, and an opinion is issued on the fairness of the statements presented. TTU has received audits for the fiscal years 2010 [3], 2011 [3b], 2012 [4], 2013 [5], and 2014 [6a] [6b] [6c] with unqualified opinions for fiscal years 2010 through 2012. An unmodified opinion was issued for 2013 and 2014. The American Institute of Certified Public Accountants' standard terminology followed by state audit changed starting with the 2013 audit. All audited statements have an audit opinion that each audited statement is presented fairly in all material respects. The 2014 management letters are also attached [6a] [6b] [6c]. Although the University has not received an audit management letter for fiscal year 2015, the University's audit for the fiscal year ending June 30, 2015, and the management letter [7] will be made available upon receipt.

Unrestricted Net Assets

The University's annual financial statement contains a Statement of Net Assets, renamed for fiscal year 2013 to Statement of Net Position, that reflects balances for unrestricted net assets, exclusive of plant and other capital items. For the fiscal year ending June 30, 2010, the unrestricted net asset balance was \$44,049,813.16 [3]. For the fiscal year ending June 30, 2011, the unrestricted net asset balance was \$63,027,103.71 [3b]. For the fiscal year ending June 30, 2012, the unrestricted net asset balance was \$71,113,682.72 [4]. For the fiscal year ending June 30, 2013, the unrestricted net position was \$78,671,089.24 [5]. The unrestricted net position balance for the fiscal year ending June 30, 2014, was \$86,851,317.67 [6a]. The unrestricted net position balance for the fiscal year ending June 30, 2015, will be made available upon receipt. Unrestricted net assets have steadily increased over time, indicating fiscal stability. The graph below depicts the trend. The major difference in the dollars in the unrestricted net assets/position in the below graph and unrestricted net assets exclusive of the plant in the above graph are funds held in unexpended plant and renewals and replacement to cover large renovation and building projects. A reconciliation of the audit report unrestricted net position/assets and unrestricted E&G and auxiliaries net assets without plant and plant funds is displayed at the bottom of the first attachment of Evidentiary Document [1]. The second attachment to Evidentiary Document [1b] shows the upward trend in both unrestricted net position and total net position of the University.

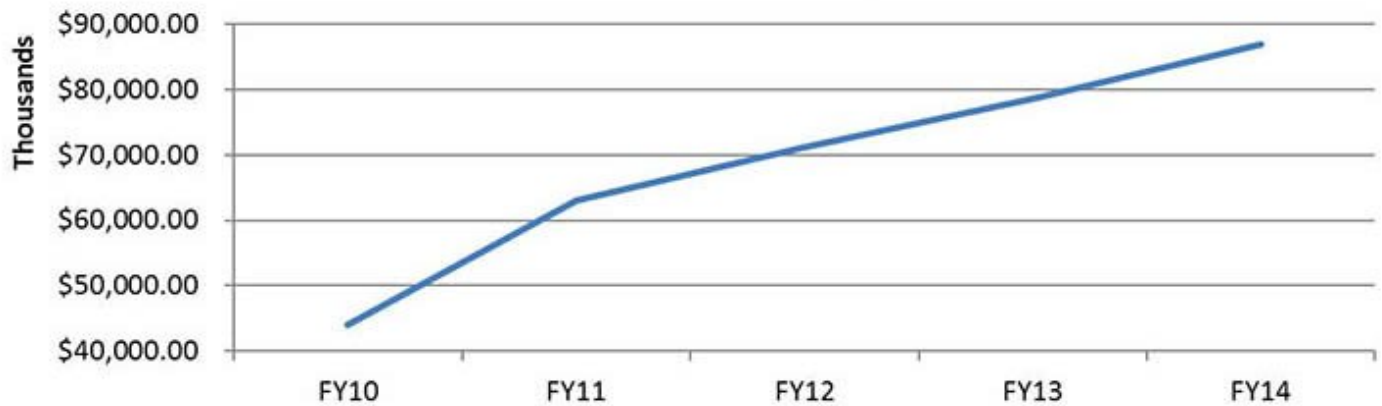


Figure 2. Unrestricted net assets/position.
 *Note: 2014 numbers are unaudited as of 9/25/14.

TTU's ratio analysis for fiscal year 2014 also shows stability of the institution in meeting its mission. The Composite Financial Index (CFI) is a single measure of the overall financial health of the institution. Its calculation is based on applying weights to four core ratios: the Primary Reserve Ratio, Viability Ratio, Return on Net Assets, and the Net Operating Revenues Ratio. The CFI for TTU is 4.43, with the industry standard being 3.00. The CFI, when combining TTU and the TTU Foundation, is 5.31. Below is a five-year trend for the CFI of the University and the combined CFI for the University and the TTU Foundation. Both have always been above the industry standard of 3.0. Section 3.10.1 has charts for selected component ratios. The improvement in the current ratio (measure of how current assets can cover current liabilities) is shown in Evidentiary Document [1b] below.

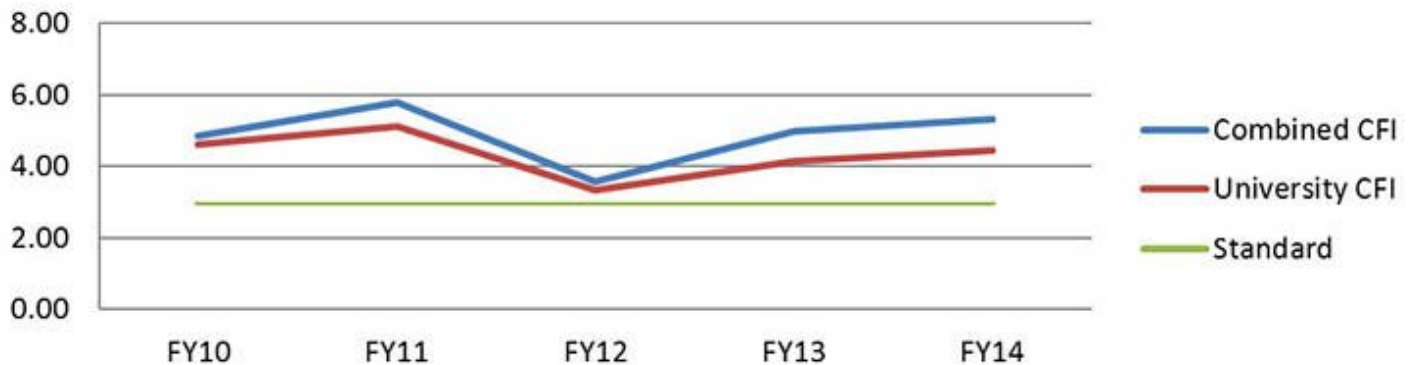


Figure 3. Composite financial index.

Funding

Like most public institutions, TTU has seen reductions in state appropriations. During the 2009 fiscal year, the State of Tennessee applied for and received an allocation of the State Federal Stimulus Funds (SFSF), which were part of the American Recovery and Reinvestment Act (ARRA) of 2009. The State of Tennessee offset state appropriation budget cuts with the stimulus funds. Knowing those funds were temporary for a three-year period, TTU provided TBR with a three-year plan on how operations would continue once those funds ceased [8].

Through careful planning and prioritization, a continuation plan tied with campus priorities was formulated. The future growth and expansion for TTU is funded primarily with increases in student enrollment and tuition [9] and future state appropriations from the funding formula given in [10] and [11]. Trends in tuition and fees and state appropriations can also be seen in Evidentiary Document [1b].

Budget Process

As a unit of the Tennessee Board of Regents (TBR), TTU has a budget planning and administration process that is governed by TBR policy 4:01:00:00 [12]. Three budgets are submitted for review to TBR's Office of Business and Finance staff during two cycles (proposed and spring budgets are done in the same cycle) — proposed, revised, and spring estimated. Each budget cycles' guidelines are issued by the TBR [13] [13b] [13c]. One of the submitted forms is a Summary of Unrestricted Current Funds Available and Applied [14] [15]. Once the TBR staff review is complete, the institution is sent a notification that the budget has been accepted and will be submitted to the TBR Board for approval through the TBR Finance Committee [16a] [16b]. Budgets are approved by the Regents for the system as a whole as funding for operations at the June [17] and December [18] quarterly meetings (found in New Business — Action Items) in total for the TBR system during the regular quarterly board meetings.

The University has demonstrated the ability to support its needed level of expenditures. The attached table of Summary Form 1 completed data in the proposed budget cycle shows budgeted revenues, expenditures, and changes in reserves for four years (proposed fiscal years 12, 13, 14, and 15) [19]. Proposed E&G revenues are budgeted in excess of budgeted E&G expenditures and transfers for fiscal years 12, 13, and 14. For fiscal year 15, strategic investments are being made using reserves.

TTU uses a defined calendar for its budget process based on the TBR policies stated above [12] [12b]. Departments are allowed to request budget revisions throughout the year [20] [21]. Specific operational processes and deadlines are communicated to departmental personnel before each cycle as needed [22]. Internally, the President determines budget allocation priorities on the advice of the Budget Advisory Committee, basing allocations and decisions according to the strategic priorities in the Flight Plan [23] that have been approved for the University. Budget priorities are then assembled and a fee increase proposal is sent to TBR for review by the Finance Committee before TBR staff formally present it to the TBR Board in the June meeting [24] [24b]. Fee increases and operating budgets are approved at the June quarterly meetings as referenced above [17].

The President has also initiated a Budget Steering Committee to study the methodology of allocating funds to each department. This process was started in January 2014 and is expected to take approximately two years to implement. An outside consulting group will be leading the efforts.

A significant portion of TTU's budget is contained in a group of funds known as E&G, which includes instruction, research, public service, academic support, student service, institutional support, and maintenance and operation functions. E&G functions are funded through state appropriations, student tuition, indirect-cost revenues, educational sales and services, and various other sources. In addition, TTU has auxiliary and student activities fund groups for fee-based, self-supporting operations including Housing, Dining Services, and the Fitness Center. Finally, the University is supported by the TTU Foundation, a nonprofit affiliate organization not governed by the University budget system. The TTU Foundation is a component unit of the University reported in each year's annual audited financial statements [3] [4] [5].

TTU, like all TBR institutions, receives state-appropriated funding, which is allocated with 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 [25] [25b]. 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. The strategic recruitment of international students and strategic maintenance fee increases have also offset the loss. TBR allows requests for strategic maintenance fee increases. These increases are primarily to support student success. A supplemental maintenance fee request is prepared and reviewed by TBR according to strategic objectives and then as adjusted input into the fee increase proposal. Approved fees are then sent to TTU for implementation [26] [26b] [26c] [26d]. The Section 3.10.1 graph shows a five-year trend in unrestricted state appropriations that can also be seen in Evidentiary Document [1b].













Notes to Reviewer: The information for the 2015 fiscal year audits will be added when it is available.

Conclusion

The University maintains a sound financial base and has demonstrated financial stability to support the mission of the institution and scope of its programs and services. Through a continued realignment of resources via the budgeting process and a consistent pattern of growth in revenue and net assets, TTU has demonstrated compliance with Core Requirement 2.11.1.

Sources

-  [01] Statement of Financial Position of Unrestricted Net Assets
-  [01b] Core Financial Analysis Worksheet_Tuition and Appropriations (Page 2)
-  [02] State of Tennessee_T.C.A. 4_3_304_State Audit Requirement
-  [03] FY10 Audit Report (Pages 11 and 32)
-  [03b] FY11 Audit Report (Pages 10 and 30)
-  [04] FY12 Audit Report (Pages 12 and 33)
-  [05] FY13 Audit Report (Pages 2 and 16)
-  [06a] TTU Audit Report FY 2014 (Pages 2 and 16)
-  [06b] 2014 Management Representation Letter
-  [06c] 2014 Management Representation Letter Single Audit
-  [08] Three Year Plans
-  [09] TTU Enrollment Profile Trend
-  [10] THEC Document Fall 2013 (Pages 51 and 53)
-  [10b] THEC DocumentSummer2014 (Page 52)
-  [11] THEC Document Fall 2013 (Page 53)
-  [12] TBR Budget Control Policy 4_01_00_00
-  [12b] TBR Budget Control Policy 4_01_00_01
-  [13] Budget Guidelines Memos Estimated 12_13_Proposed 13_14_Revised 13_14
-  [13b] Budget Guidelines Memos Proposed 14_15
-  [13c] Budget Guidelines Memos Revised 14_15
-  [14] Proposed FY14_15 Summary Forms (Page 1)
-  [15] Revised FY13_14 Summary Forms (Page 1)
-  [16a] TBR Budget Notification for Revised 13_14 Budget
-  [16b] Budget Memo
-  [17] June 2014 Board Minutes (Page 5)
-  [18] December 5 2013_Minutes (Page 6)
-  [19] Proposed Budget Table

-  [20] Request for Budget Revision
-  [21] Budget Process Timeline
-  [22] Example Budget Process Instructions_Current Estimate 13_14
-  [23] TTU Strategic Plan Key Priorities
-  [24] Budget Request to TBR
-  [24b] Finance Committee Materials 6_4_13
-  [25] THEC Formula Explanation
-  [25b] THEC Outcomes Based Formula Narrative
-  [26] TBR New Fee Rate Approval
-  [26b] TBR Summary of Hourly Rates
-  [26c] TBR Tuition Increase Justification
-  [26d] June 20_2014_Minutes