



Audit & Business Committee  
December 1, 2022





## Composite Financial Index



# Major Metrics to Measure and Monitor Financial Health

Strategic Risk Question	Related Ratio
1. Overall – What is the institution’s overall financial health?	Composite Financial Index (CFI)
2. Liquidity – Does the institution have sufficient liquidity in the near and medium term?	Primary reserve ratio
3. Viability – Is debt managed strategically?	Viability ratio
4. Return on Assets – Does the institution have adequate return on all assets?	Return on net assets ratio
5. Net Operating Revenues – Is the institution generating adequate resources in excess of its operational costs?	Net operating revenue ratio

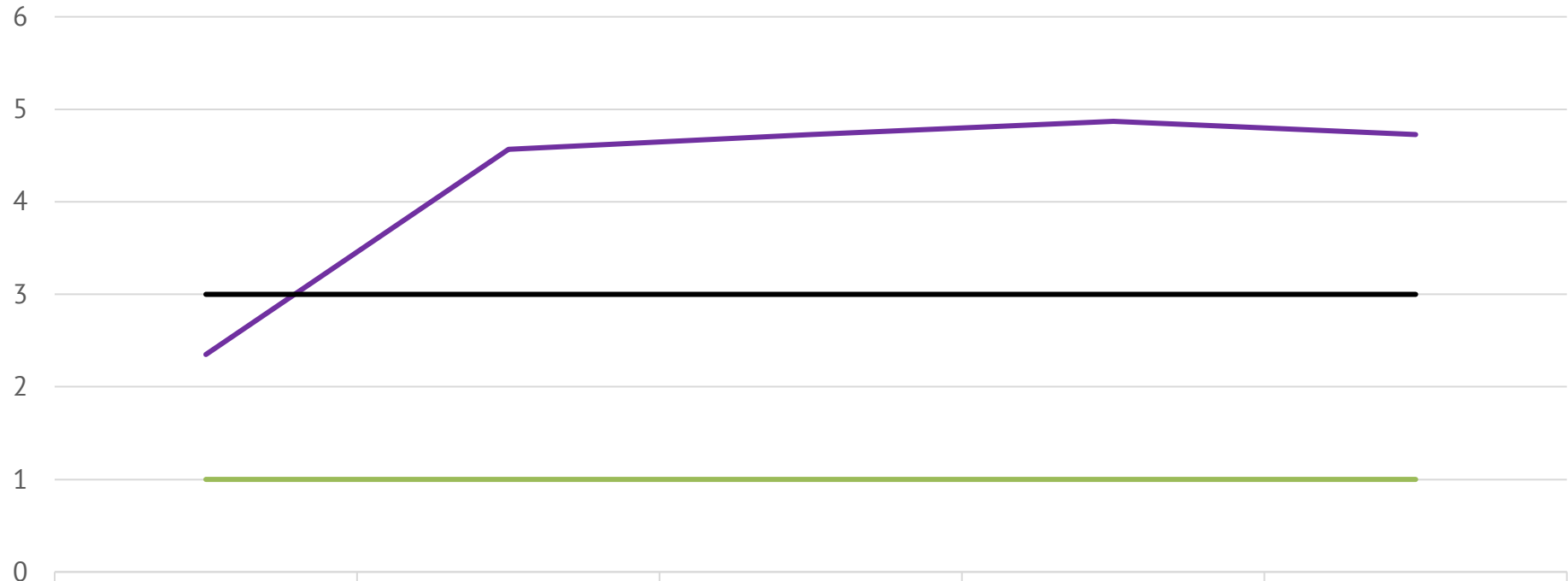


# Composite Financial Index (CFI)

- Four ratios weighted and scored on a scale to create a single score of financial health.
  - Primary reserve ratio
  - Viability ratio
  - Return on assets ratio
  - Net operating revenues ratio
- Single weighted score allows weakness in one ratio to be offset by strength in another ratio.
- Expected value is a national comparison (both public and private universities).  
(KPMG – Prager, Sealy & Co., LLC)
- Excludes assets of Foundation.



# Composite Financial Index (CFI)



	FY2018	FY2019	FY2020	FY2021	FY2022
TTU (University Only)	2.35	4.57	4.73	4.87	4.73
Expected	3	3	3	3	3
Watch	1	1	1	1	1

— TTU (University Only)   
 — Expected   
 — Watch



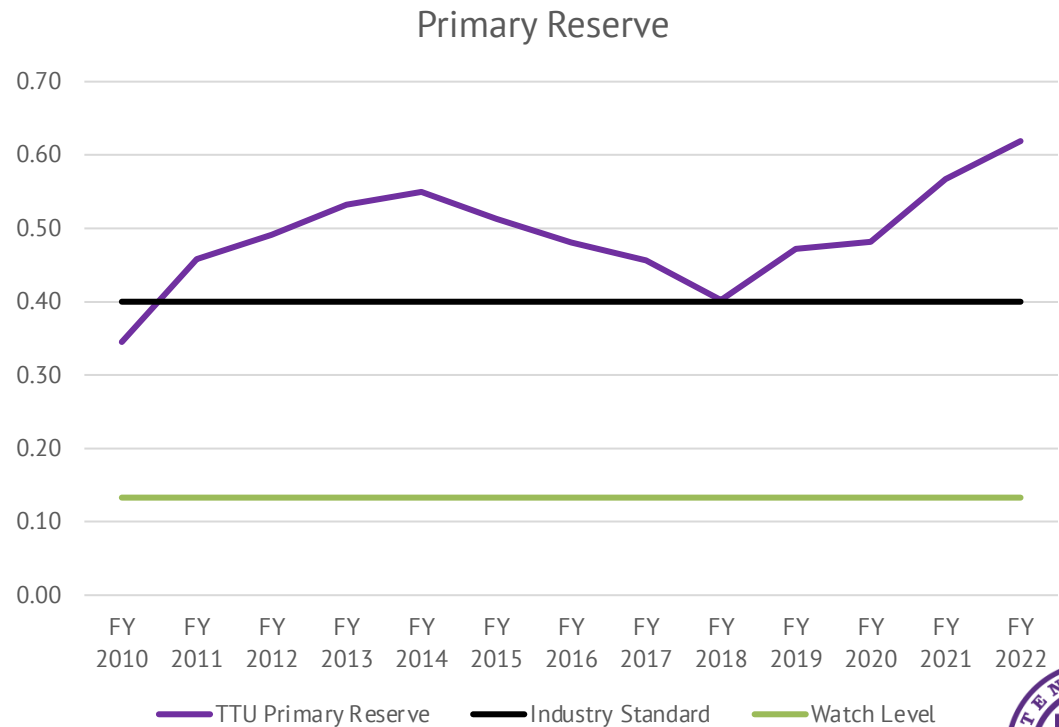
# Components of CFI

## Primary Reserve Ratio

Indicates the sufficiency of resources and their flexibility.

- Calculated as:
  - $\text{Expendable Fund Balance} / \text{Total Expenditures}$
- Industry standard of .40 represents about 5 months of expenses.
- At this level a reasonable level of facilities maintenance can be expected.
- Watch level – A ratio of .133 (less than 1.5 months of expenses in ready assets) or less.
  - Less flexibility to meet unexpected demands.

## 10-Year Trend

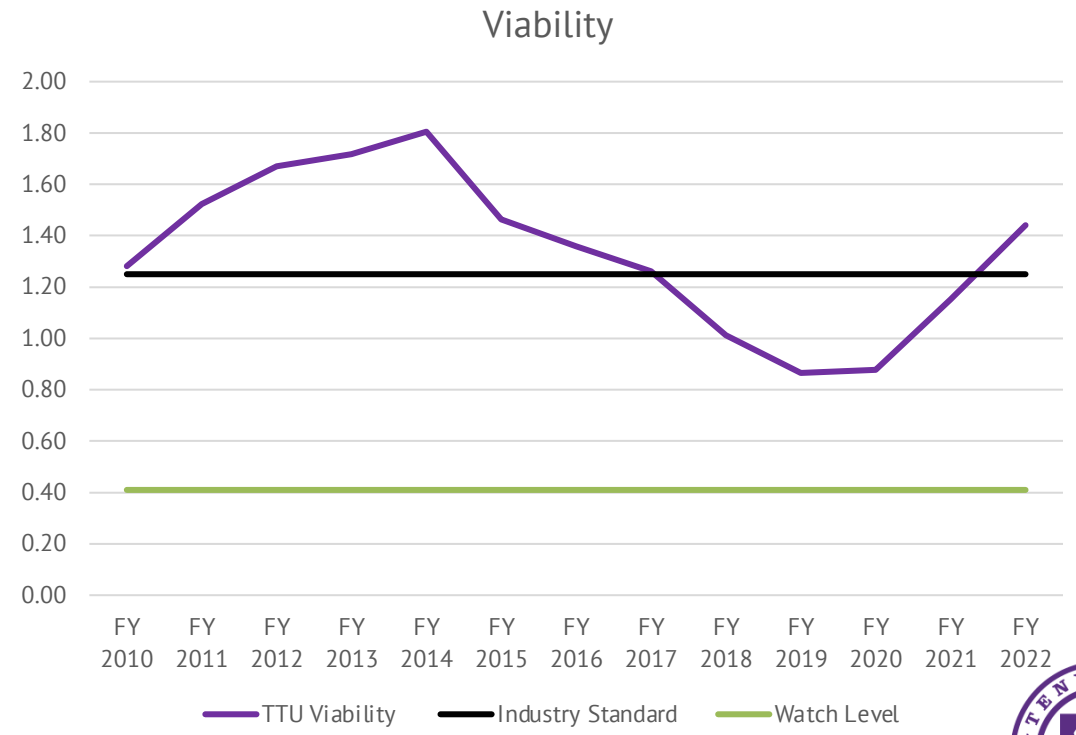


# Components of CFI

## Viability Ratio

- Indicates the capacity to repay debt through reserves.
  - Calculated as:
    - $\text{Expendable Fund Balance} / \text{Total Plant Debt}$
  - Industry standard is 1.25 or greater.
  - Ratio of expendable net assets over plant debt – coverage of plant debt with expendable assets.
  - Watch level – a ratio of .41 or less.
    - Decreased flexibility to respond to unforeseen events or opportunities

## 10-Year Trend



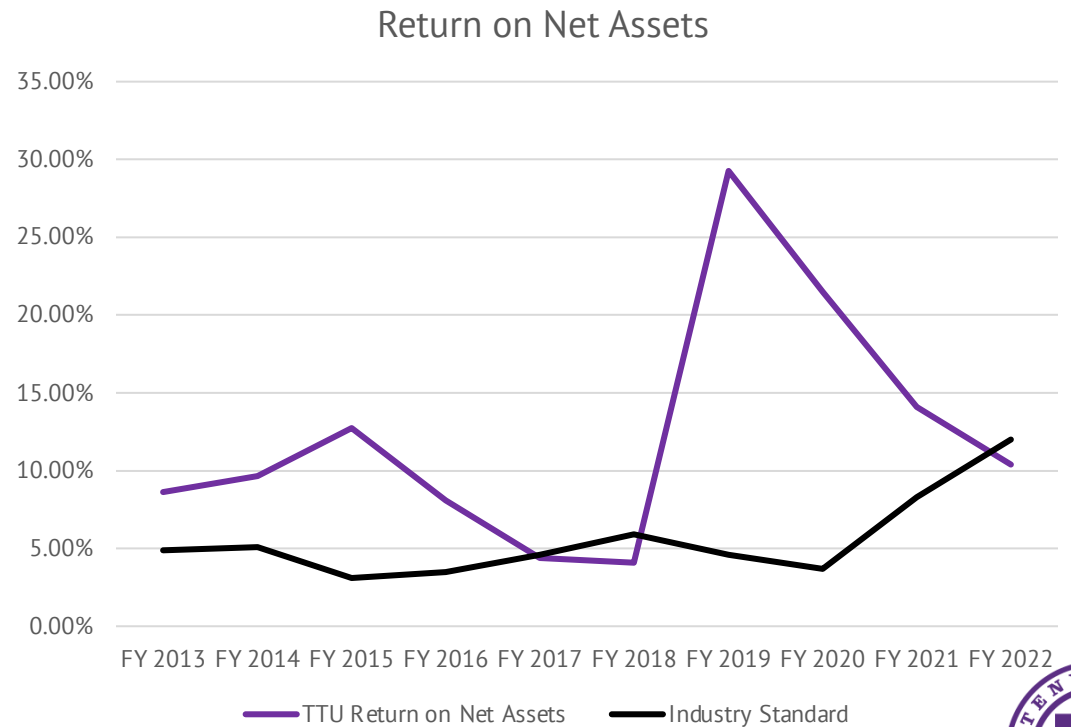
# Components of CFI

## Return on Net Assets Ratio

Measure of total economic return similar to ROE.

- Calculated as:
  - $\text{Change in Net Assets} / \text{Beginning Net Assets}$
- Industry standard is 3% above CPI.
- Are we better off this year? Strategic direction correct?
- Watch level – anything below rate of inflation is reduction of the institution's asset base in real dollars.

## 10-Year Trend





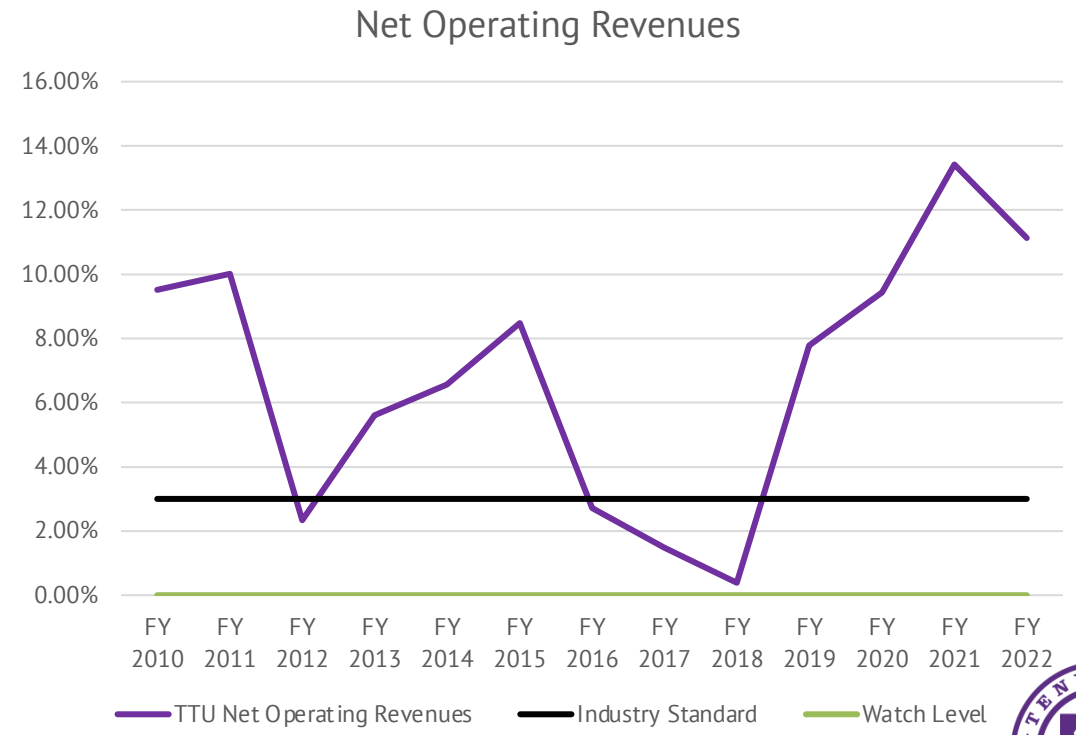
# Components of CFI

## Net Operating Revenues Ratio

Indicates whether institution is living within available resources.

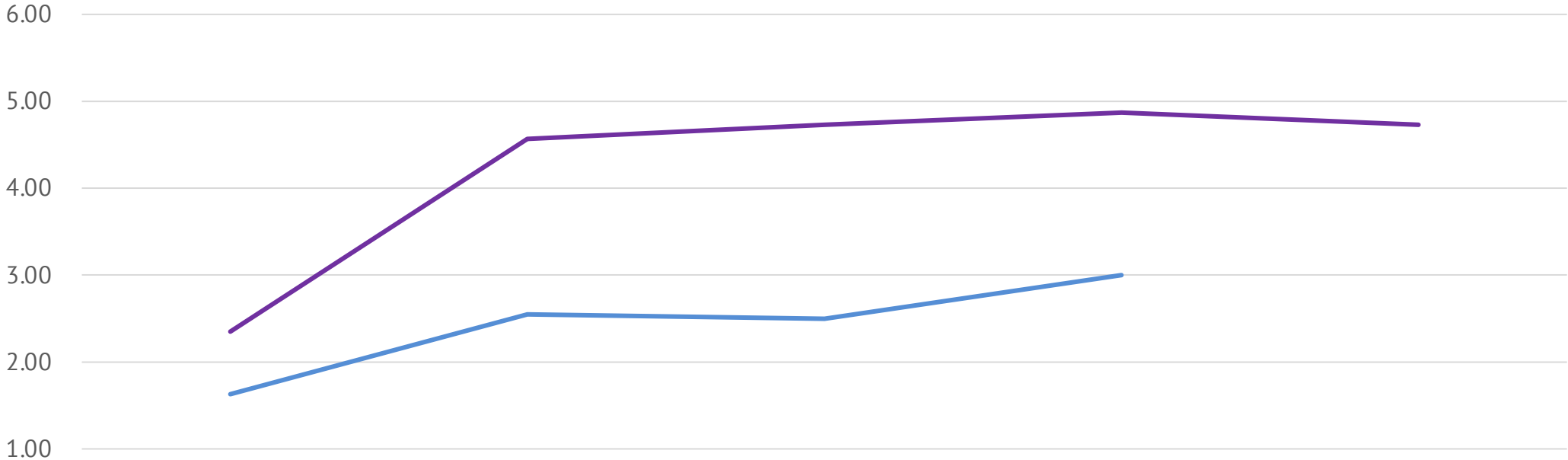
- Calculated as:
  - $(\text{Net operating result} + \text{all other revenues} - \text{expenses including interest expense}) / \text{All gross revenues}$
- Industry standard is 2% to 4%.
- Did we balance operating expenses with available resources?
- Watch level – Consistently below zero.
  - Deficits for one year not an issue. Deficits over several years suggest the institution’s mission can’t be sustained.

## 10-Year Trend



# CFI Comparison to other LGIs

LGI Universities without their Foundations

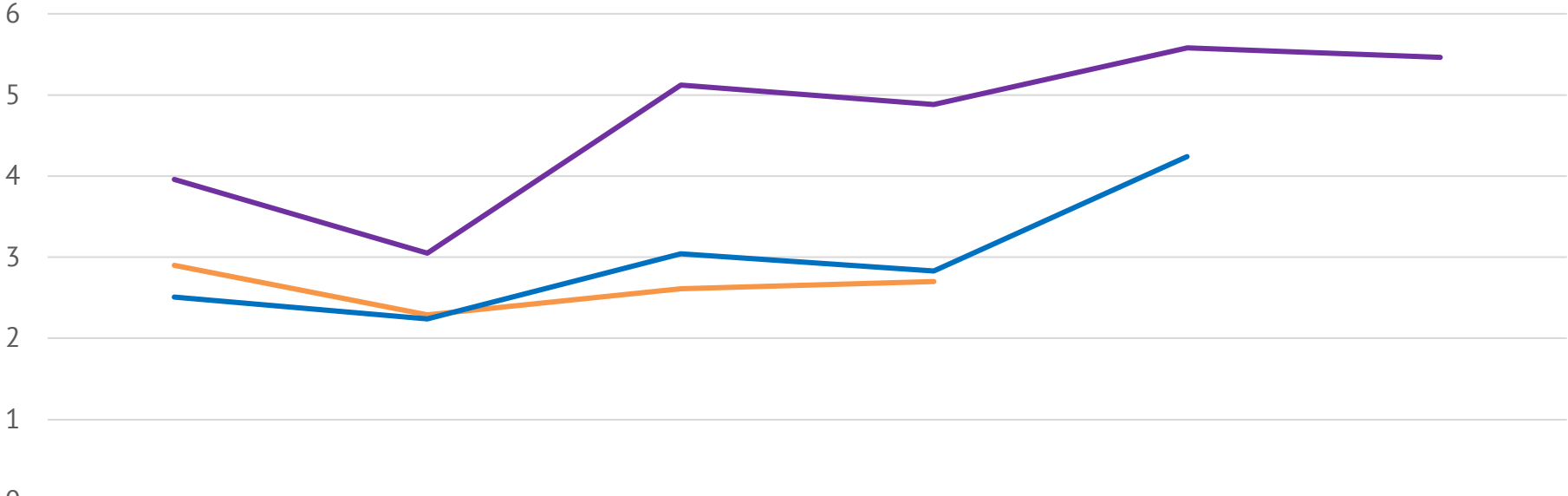


	FY2018	FY2019	FY2020	FY2021	FY2022
TTU	2.35	4.57	4.73	4.87	4.73
LGI AVG	1.63	2.55	2.50	3.00	



# CFI Comparison to other LGIs and UT

Including all Universities and their Foundations



	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
TTU w/Foundation	3.96	3.05	5.12	4.88	5.58	5.46
UT AVG w/Foundation	2.90	2.29	2.61	2.70		
LGI AVG w/Foundation	2.51	2.24	3.04	2.83	4.24	





## FY2022-23 Revised Budget/Organizational Chart



# Reconciliation of Changes in E&G revenues

	Actuals FY2021-22	Proposed Budget FY2022-23	Difference	Revised Budget FY2022-23	Difference
Tuition and Fees	\$100,912,809	\$100,785,900	(\$126,909)	\$100,544,000	(\$241,900)
State Appropriations	\$64,531,413	\$78,863,600	\$14,332,187	\$79,920,600	\$1,057,000
Other Activities	\$19,442,451	\$12,798,400	(\$6,644,051)	\$12,949,300	\$150,900
<b>Total Revenues</b>	<b>\$184,886,673</b>	<b>\$192,447,900</b>	<b>\$7,561,227</b>	<b>\$193,413,900</b>	<b>\$966,000</b>



# E&G Revenues Reconciliation of Difference

## Proposed vs Actual

- Tuition and Fees (\$126,909)
  - Proposed budget was based on conservative estimates for tuition revenues
- State Appropriations \$14,332,187
  - Formula adjustment (\$497,500)
  - New state appropriations for outcomes funding \$4,380,400
  - Salary Pool \$2,201,500
  - Adjustments for OPEB, TCRS, Risk Management, and Health insurance \$611,100
  - Wind tunnel & Super Comp \$3,500,000
  - NSF Match one-time funding \$700,000
  - Rural Reimagined one-time funding \$1,000,000
  - Craft Center one-time funding \$2,840,000
- Other Revenue (\$6,644,051)
  - Budgeted decline in grants revenue (\$992,440)
  - Did not budget HEERF Foregone Revenue of (\$5,231,630)

## Revised vs Proposed

- Tuition and Fees (\$241,900)
  - In state tuition increase \$277,550
  - Out of state tuition decrease (\$38,250) based on actual fall enrollment in International students
  - Debt Service fee reduction (\$202,500)
  - Technology Access fee reduction (\$94,250)
  - Facilities Fee reduction (\$80,250)
- State Appropriations \$1,057,000
  - Adjustments for OPEB, TCRS, Risk Management, and Health Insurance \$170,800
  - 401k Enhancement Match one-time funding \$886,200
- Other Revenue \$160,900
  - Federal Indirect Cost Revenue \$150,000



# Change in Expenses

	Actuals FY2021-22	Proposed Budget FY2022-23	Difference	Revised Budget FY2022-23	Difference
Instruction	\$74,401,456	\$86,981,400	\$12,579,944	\$87,781,500	\$800,100
Research	\$2,274,583	\$2,750,800	\$476,217	\$6,972,900	\$4,222,100
Public Service	\$2,042,070	\$2,056,600	\$14,530	\$3,297,200	\$1,240,600
Academic Support	\$12,936,251	\$14,308,000	\$1,371,749	\$17,641,500	\$3,333,500
Student Services	\$21,390,410	\$22,823,600	\$1,433,190	\$23,825,400	\$1,001,800
Institutional Support	\$16,895,889	\$19,915,000	\$3,019,111	\$18,128,200	(\$1,786,800)
Oper. & Maint. of Plant	\$14,855,807	\$16,319,900	\$1,464,093	\$18,274,500	\$1,954,600
Scholarships & Fellowships	<u>\$16,000,095</u>	<u>\$17,536,300</u>	<u>\$1,536,205</u>	<u>\$19,154,100</u>	<u>\$1,617,800</u>
<b>Total Expenses</b>	\$160,796,561	\$182,691,600	\$21,895,039	\$195,075,300	\$12,383,700

# Proposed vs Actual Reconciliation of Change in Expenses

- Instruction
  - Lapse salaries from unfilled faculty and staff positions in FY 2021-22 \$1,663,542
  - Budgeted 4% Salary Pool increase \$2,047,242
  - Faculty Promotions \$203,897
  - Wind Tunnel \$3,500,000
  - CEROC \$1,200,000
  - Rural Reimagined \$1,000,000
  - Craft Center \$2,800,000
- Research
  - Budgeted 4% Salary Pool increase \$24,950
  - Indirect Cost Pool increase \$293,050
- Public Service
  - Budgeted 4% Salary Pool increase \$20,955
- Academic Support
  - Maintenance Contract increase \$65,000
  - Budgeted 4% Salary Pool increase \$566,118
  - FY21-22 unspent budget \$824,818
- Student Services
  - Budgeted 4% Salary Pool increase \$528,687
  - FY21-22 unspent budget \$808,647
- Inst. Support
  - Increased TCRS Benefit Rate \$611,100
  - Increase Marketing budget \$650,000
  - Budgeted 4% Salary Pool increase \$477,485
  - FY21-22 unspent budget \$976,823
- Main & Operations
  - Budgeted 4% Salary Pool increase \$219,618
  - Increase Utilities \$427,000
  - FY21-22 unspent budget \$805,365
- Scholarships
  - Scholarships FY21-22 Unspent budget \$320,587
  - Increase Scholarship budget \$1,200,000





# Revised vs Proposed Reconciliation of Change in Expenses

- Instruction
  - Re-budget of Carryforwards:
    - Collapsed SACF \$341,863
    - SAF \$816,623
    - TAF \$2,499,662
    - Engr State Appropriation funds \$1,988,692
    - Online & Alternate Delivery Fee \$2,708,099
    - Purchase Orders \$293,264
    - Departmental Requests \$289,449
    - Summer School \$362,829
    - Revenue generating \$612,543
    - University Future Funding \$1,098,470
  - New State Appropriations at Proposed placed in instruction and at Revised moved into Research, Public Service, and Transfer accounts
    - Wind Tunnel (\$3,500,000)
    - CEROC (\$1,200,000)
    - Rural Reimagined (\$1,000,000)
    - Craft Center (\$2,800,000)
  - Reduce Benefit budget (\$1,548,008)
  - Adjustments due to fees collected (\$277,217)
- Research
  - Re-budget of Carryforwards \$2,607,290
  - FY21 Indirect Cost Distribution Adjustment \$288,383
  - CEROC \$1,200,000
- Public Service
  - Re-budget of Carryforwards \$145,155
  - Rural Reimagined \$1,000,000
- Academic Support
  - Re-budget of Carryforwards \$2,923,291
  - Library budget increase \$150,000
- Student Services
  - Counseling Center - \$169,000
  - Courserdog software - \$183,678
  - Re-budget of Carryforwards \$838,184
- Institutional Support
  - Reduce Benefit Budget (\$2,233,335)
  - Marketing Budget Continuation increase \$150,000
  - Re-budget of Carryforwards \$297,148
- Maint & Operations
  - Utilities increase \$1,736,069
  - Re-budget of Purchase Order Carryforwards \$123,748
- Scholarships
  - Presidential Scholarship \$1,410,882
  - Athletic Scholarships \$170,480



# Change in Natural Classification Expenses

	Actuals FY2021-22	Proposed Budget FY2022-23	Difference	Revised Budget FY2022-23	Difference
Salary and Wages	\$80,452,871	\$85,226,469	\$4,773,598	\$87,736,836	\$2,510,367
Fringe Benefits	\$33,210,644	\$37,031,366	\$3,820,722	\$33,379,955	(\$3,651,411)
Travel	\$1,835,680	\$1,584,615	(\$251,065)	\$2,075,850	\$491,235
Operating & Utilities	\$27,098,850	\$40,394,442	\$13,295,592	\$51,385,055	\$10,990,613
Scholarships & Fellowships	\$16,563,879	\$18,093,623	\$1,529,744	\$19,682,220	\$1,588,597
Capital	<u>\$1,634,637</u>	<u>\$361,094</u>	<u>(\$1,273,543)</u>	<u>\$815,104</u>	<u>\$454,010</u>
<b>Total E&amp;G</b>	\$160,796,561	\$182,691,609	\$21,895,048	\$195,075,020	\$12,383,411



# Proposed vs Actual Reconciliation of Change in Natural Expenses

- **Salary and Wages**
  - Lapse salaries from unfilled faculty and staff positions re-established in Proposed Budget \$1,663,542
  - Budgeted 4% Salary Pool increase \$2,993,339
  - Faculty Promotions \$203,897
- **Benefits**
  - FY 2021-22 unspent benefits due to vacant positions and decrease in anticipated fringe benefit rate due to shift of employees from Legacy to Hybrid plan and lower cost for Pension & OPEB passed through from state, including \$2,853,703.86 in additional state contributions made to the TCRS Legacy Pension Plan.
  - Increased TCRS Benefit Rate \$611,100
- **Travel**
  - Temporary funds transferred into and spent for travel in FY21-22 in excess of permanent Proposed budget.
- **Operating & Utilities**
  - FY 2021-22 unspent budgets and special fees \$(21,240,392)
  - State Appropriations added at Proposed in the operating budget.
    - Wind Tunnel \$3,500,000
    - CEROC \$1,200,000
    - Rural Reimagined \$1,000,000
    - Craft Center \$2,800,000
  - Marketing increase \$650,000
  - Utilities increase \$427,000
- **Scholarships & Fellowships**
  - Scholarships Unspent \$320,587
  - Increase Scholarship budget \$1,200,000
- **Capital**
  - Temporary funds transferred into and spent for departmental projects and equipment in FY21-22



# Revised vs Proposed Reconciliation of Change in Natural Expenses

- **Salary and Wages**
  - New positions funded by units \$429,727
  - Faculty promotions, equity, and degree adjustments \$480,385
  - Police and security positions \$136,476
  - Add funds for longevity \$129,938
  - Units move funds for adjuncts, temporary, and student workers \$1,300,000
- **Fringe Benefits**
  - Reduced budget to reflect actuals – transferred funds for presidential scholarships and anticipated utilities increase (\$2,512,427)
  - Reduced budget temporarily to fund one-time request (\$1,298,008)
- **Travel**
  - Funds transferred to travel by units \$491,235
- **Operating & Utilities**
  - Re-budget of carryforward amounts \$17,528,815
    - Collapsed SACF \$341,863
    - Faculty Research & Indirect Cost \$1,944,472
    - SAF \$816,623
    - TAF \$2,499,662
    - Engr State Appropriation funds \$1,988,692
    - Online & Alternate Delivery Fee \$4,116,438
    - Student Activity Fee \$606,936
    - Other department requests \$ 2,431,211
    - Purchase Orders \$1,158,441
    - Summer School \$362,829
    - Projects \$163,178
    - University Future Commitments \$1,098,470
  - Move State Appropriations to Transfer accounts
    - Wind Tunnel (\$3,500,000)
    - Craft Center (\$2,800,000)
  - Marketing Budget increase \$150,000
  - Library increase \$150,000
  - Counseling Center \$169,000
  - Courserdog software \$183,678
  - Increase Utility Budget \$1,736,069
  - Units transfer funds from operating to salary & wages (\$1,300,000)
  - Reduction due to Fee revenue estimates (\$458,331)
- **Scholarships**
  - Presidential Scholarship \$1,410,882
  - Athletic Scholarships \$170,480
- **Capital**
  - Purchase Order Carryforwards \$364,316
  - Funds transferred for departmental projects \$89,694





## Tuition Transparency Act Report (T.C.A. §49-7-1604)





## TTU Policy 537 (Naming Buildings, Facilities and Organizational Units)





# Tennessee TECH

Approval of 2023 Audit Plan



