



Tennessee TECH

Audit & Business Committee
December 5, 2024





Financial Update & Composite Financial Index





FY2023-24 Unaudited Statement of Revenues, Expenses,
and Changes in Net Position

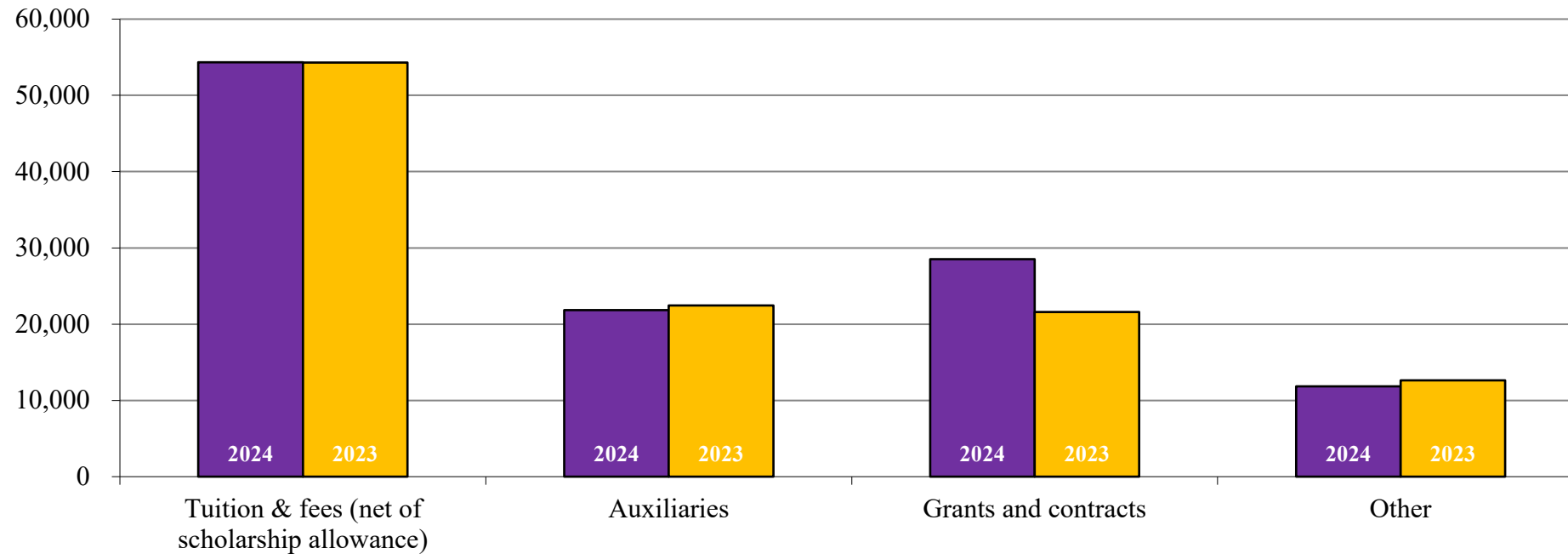


Statement of Revenues, Expenses, and Changes in Net Position
For Year Ended June 30, 2024 (unaudited)
(in thousands of dollars)

	<u>2024</u>	<u>2023</u>
Operating revenues	\$ 116,521	\$ 110,970
Operating expenses	<u>241,661</u>	<u>215,360</u>
Operating loss	(125,140)	(104,390)
Nonoperating revenues and expenses	<u>172,311</u>	<u>140,580</u>
Income (loss) before other revenues, expenses, gains or losses	47,171	36,190
Other revenues, expenses, gains or losses	<u>26,231</u>	<u>31,073</u>
Increase (decrease) in net position	\$ <u>73,402</u>	\$ <u>67,263</u>
Net position at beginning of year	\$ 454,089	\$ 386,826
Cumulative effect of change in accounting principle	<u>0</u>	<u>0</u>
Net position - beginning of year restated	\$ 454,089	\$ 386,826
Prior period adjustment	0	0
Net position at end of year	\$ <u><u>527,491</u></u>	\$ <u><u>454,089</u></u>



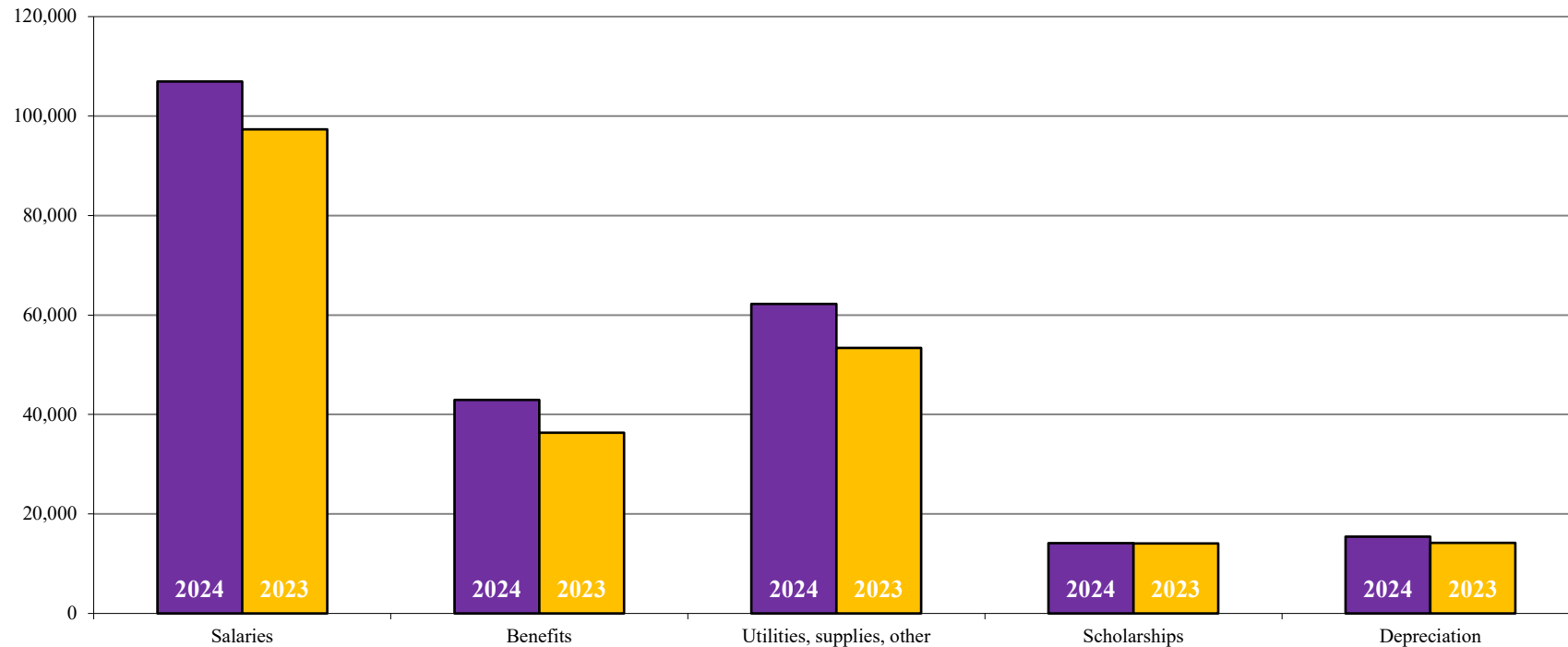
Operating Revenues by Source Comparison of FY2024 to FY2023 (in thousands of dollars)



Revenues received from external agencies to support student scholarships are shown as nonoperating grants and contracts. Most research grants and contracts are shown above as operating grants and contracts to the extent expenses have been incurred. Grants and contracts increased \$6.9 million (32.0%) largely due to the university's success in research.



Operating Expenses Comparison of FY2024 to FY2023 (in thousands of dollars)



- Benefits expense had an increase of \$6.6 million (18.1%) which was primarily due to changes in actuarial valuations and calculations related to pension and OPEB (other post-employment benefits).
- The utilities, supplies, and other category had an increase of \$8.8 million (16.5%) primarily due to increases in travel costs, supply costs, and building maintenance costs. This includes \$3.1 million in expenses associated directly with the new Enterprise Resource Planning software implementation.



Nonoperating Revenues and Expenses (unaudited)
Comparison of FY2024 to FY2023
(in thousands of dollars)

	<u>2024</u>	<u>2023</u>
State appropriations	\$ 114,197	\$ 89,080
Gifts	3,357	2,242
Grants and contracts	45,701	44,627
Investment income	11,512	7,359
Interest on capital asset debt	(2,429)	(2,340)
Other	<u>(27)</u>	<u>(388)</u>
	\$ <u>172,311</u>	\$ <u>140,580</u>

Certain revenue sources that the university relies on to provide funding for operations, including state appropriations, certain gifts and grants, and investment income, are defined by the Governmental Accounting Standards Board as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets.



Other Revenues (unaudited)
Comparison of FY2024 to FY2023
(in thousands of dollars)

	<u>2024</u>	<u>2023</u>
Capital appropriations	\$ 21,966	\$ 30,876
Capital grants and gifts	4,263	193
Addition to endowments (university)	2	4
	\$ 26,231	\$ 31,073

This category is composed of State appropriations for capital purposes, capital grants and gifts, and additions to permanent endowments.





FY2023-24 Capital Asset and Debt



Capital Assets (unaudited)
Comparison of FY2024 to FY2023
(in thousands of dollars)

	2024	2023
Land	\$ 11,202	\$ 11,202
Land improvements & infrastructure	20,526	17,227
Buildings	271,303	278,199
Equipment	16,739	15,241
Library holdings	359	415
Art & historical collections	882	174
Intangible assets		
Software	29	66
Right-to-use – infrastructure	153	308
Right-to-use – equipment	392	558
SBITA asset – software	6,023	7,227
Subscription asset – development in progress	2,413	0
Projects in progress	86,132	43,426
Total Capital Assets, Net of Depreciation	\$ 416,153	\$ 374,043

Tennessee Technological University had \$416.2 million invested in capital assets, net of accumulated depreciation of \$192.3 million at June 30, 2024; and \$374.0 million invested in capital assets, net of accumulated depreciation of \$178.7 million at June 30, 2023. Depreciation charges totaled \$15.4 million and \$14.2 million for the years ended June 30, 2024, and June 30, 2023, respectively.

The university is involved in various renovation, new construction, and other projects on campus that increased capital assets by \$42.1 million during FY2024. New construction on the Engineering Building was the largest project during FY2024.

At June 30, 2024, outstanding commitments under construction contracts totaled \$143.8 million for two new engineering buildings, roof replacements, and various other renovations and upgrades of which \$104.8 million will be funded by future state capital outlay appropriations.



Capital Assets - Commitments as of June 30, 2024

Capital Project Name	TOTAL Outstanding Commitments Under Construction	Amount Funded by Future State Capital Outlay	Amount Expected to be Funded by the University
ACME Engineering Building	\$ 61,594,855.16	\$ 56,602,855.16	\$ 4,992,000.00
Johnson Hall Renovation	\$ 34,919,075.39	\$ 33,414,675.39	\$ 1,504,400.00
Ashraf Islam Engineering Building	\$ 5,026,945.20	\$ 531,757.47	\$ 4,495,187.73
Tucker Stadium West	\$ 6,391,555.66	\$ -	\$ 6,391,555.66
J.J. Oakley Innovation Center and Residence Hall	\$ 4,000,000.00	\$ -	\$ 4,000,000.00
Roof replacements, other renovations, and upgrades	\$ 31,879,601.80	\$ 14,244,719.57	\$ 17,634,882.23
TOTALS	\$ 143,812,033.21	\$ 104,794,007.59	\$ 39,018,025.62

At June 30, 2024, outstanding commitments under construction contracts totaled \$143.8 million for two new engineering buildings, roof replacements, and various other renovations and upgrades of which \$104.8 million will be funded by future state capital outlay appropriations.



Debt (unaudited)
Comparison of FY2024 to FY2023
(in thousands of dollars)

	2024	2023
Debt Instrument:		
Bonds payable	\$ 73,820	\$ 75,016
Unamortized bond premium	12,510	13,670
Revolving credit facility/comm paper	0	0
Total outstanding debt	\$ 86,330	\$ 88,686

The university had \$86.3 million and \$88.7 million in debt outstanding at June 30, 2024, and June 30, 2023, respectively. The table above summarizes these amounts by type of debt instrument.

The TSSBA issued bonds with interest rates ranging from 0.339% to 5.0% due serially until November 2049 on behalf of Tennessee Technological University. The university is responsible for the debt service of these bonds. The current portion of the \$86.3 million outstanding at June 30, 2024, is \$6.3 million. The university had \$0.0 million in unspent bond proceeds at June 30, 2024 compared to \$5.0 million at June 30, 2023 (prior year).



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

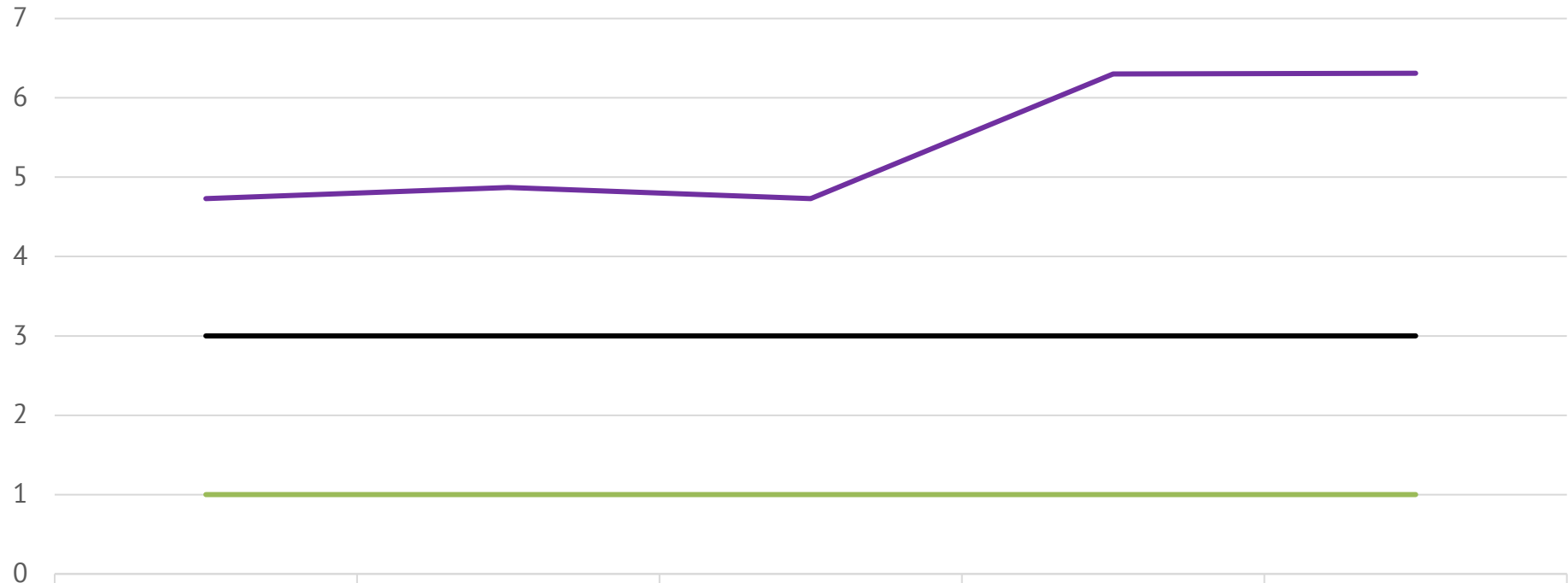


Composite Financial Index (CFI)

- 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)



	FY2020	FY2021	FY2022	FY2023	FY2024
TTU (University Only)	4.73	4.87	4.73	6.30	6.31
Expected	3	3	3	3	3
Watch	1	1	1	1	1

— TTU (University Only)
 — Expected
 — Watch



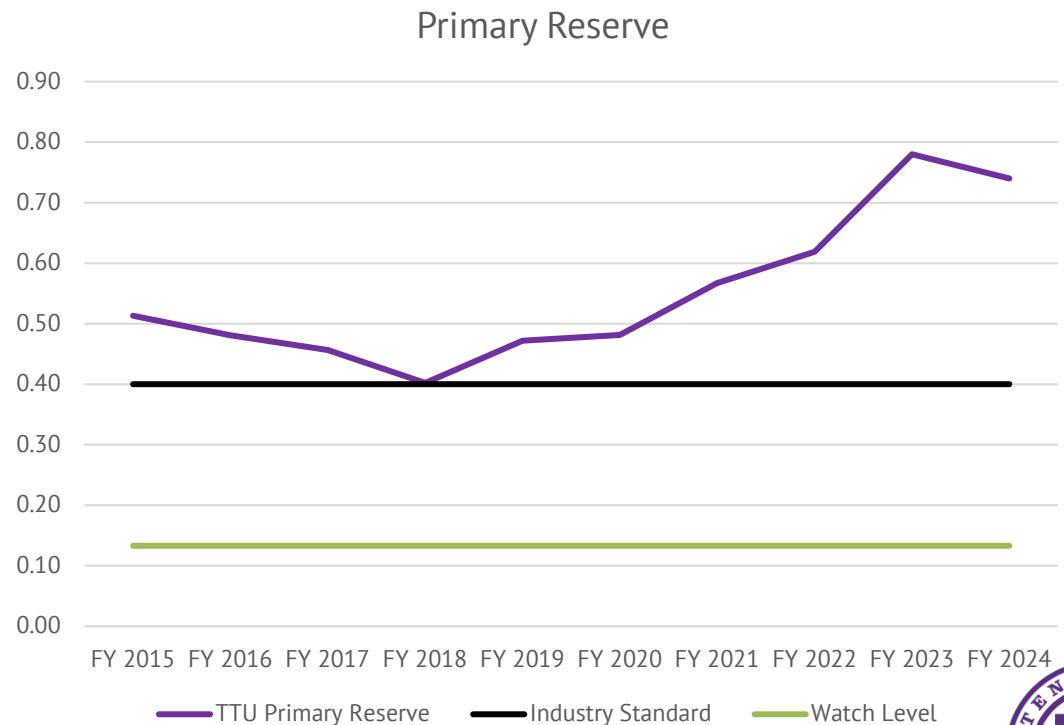
Components of CFI

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

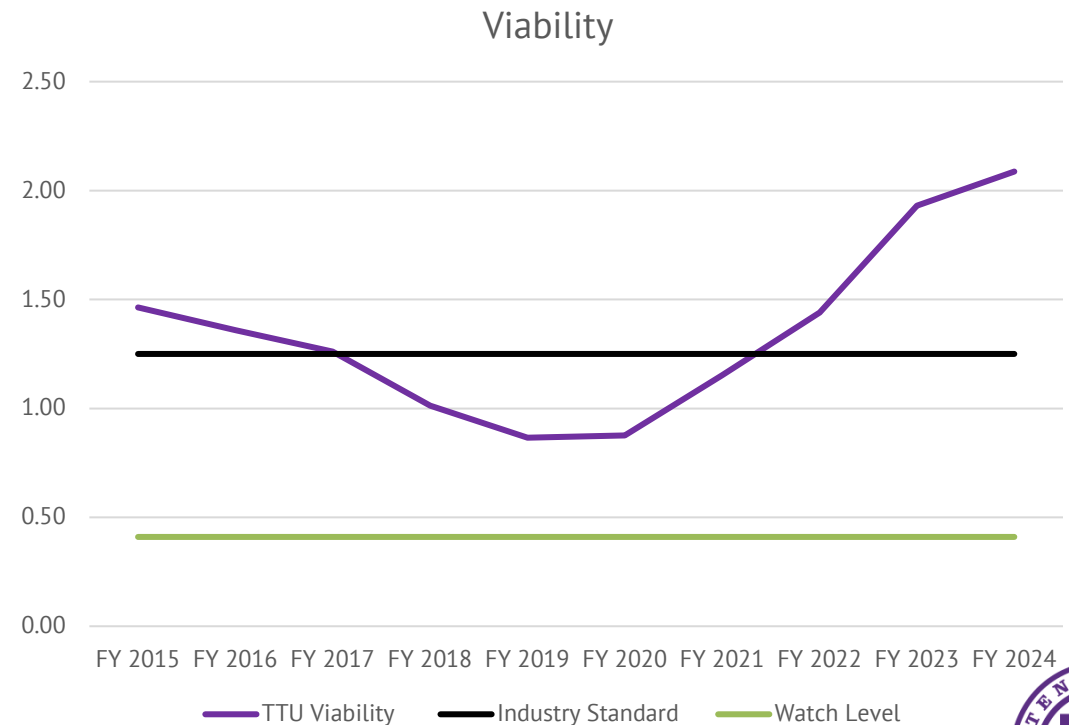


Components of CFI

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



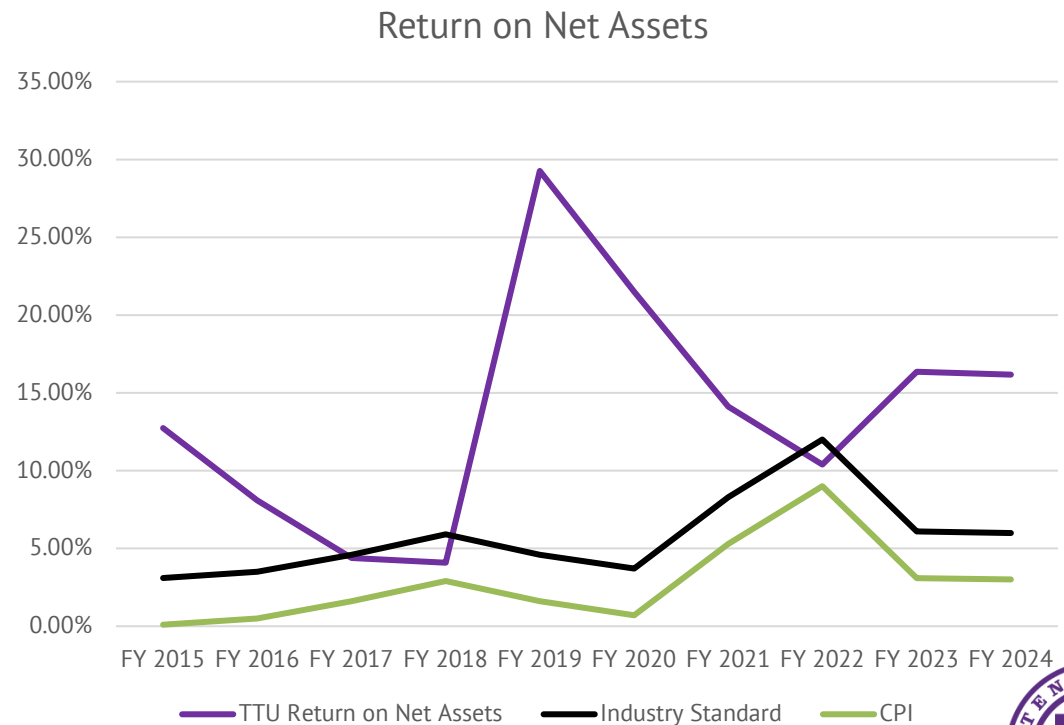
Components of CFI

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



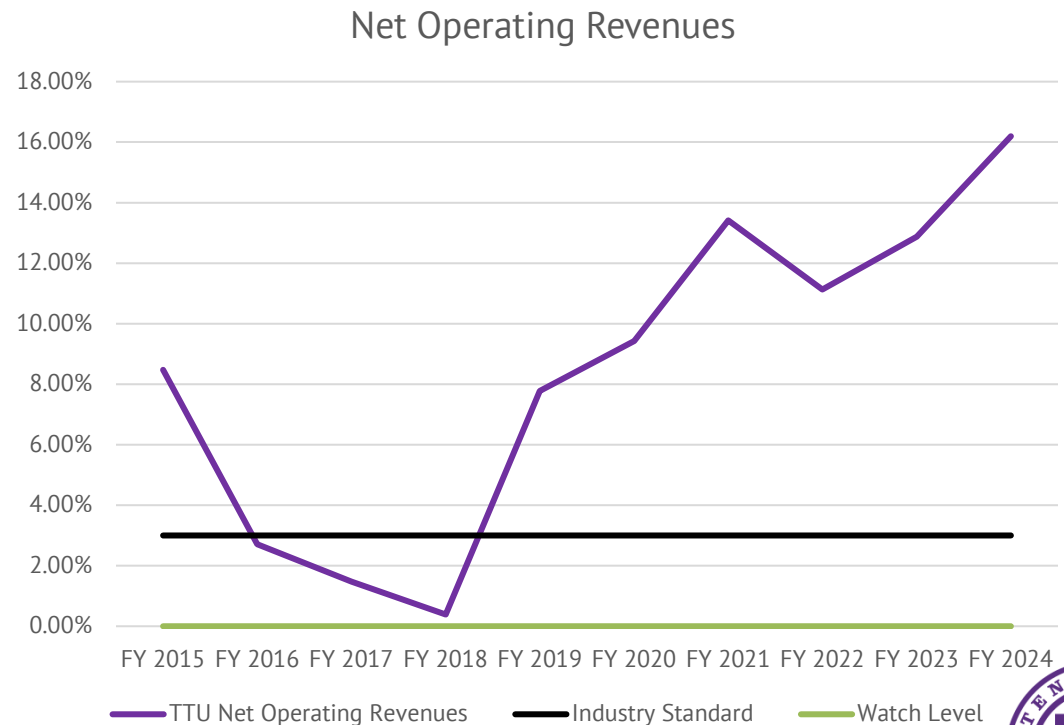
Components of CFI

Net Operating Revenues Ratio

Indicates whether institution is living within available resources.

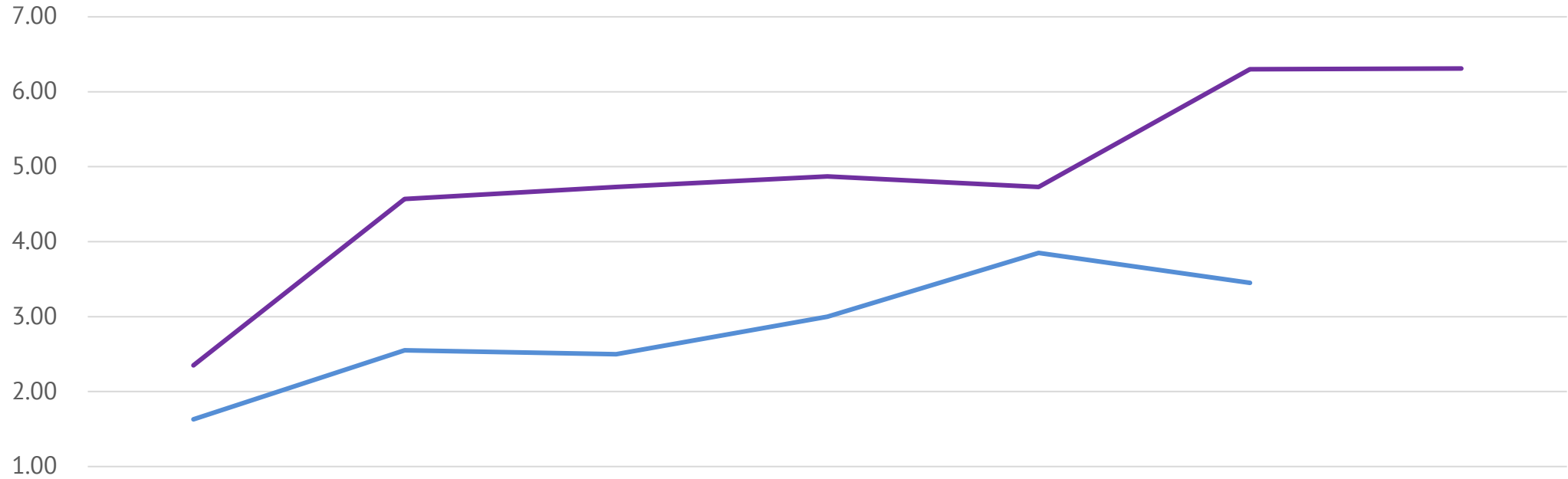
- Calculated as:
 - $(\text{Net operating result} + \text{all other revenues} - \text{expenses including interest expense}) / \text{All gross revenues}$
- Industry standard is 2% to 4%
- Did we balance operating expenses with available resources?
- Watch level – Consistently below zero
 - Deficits for 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

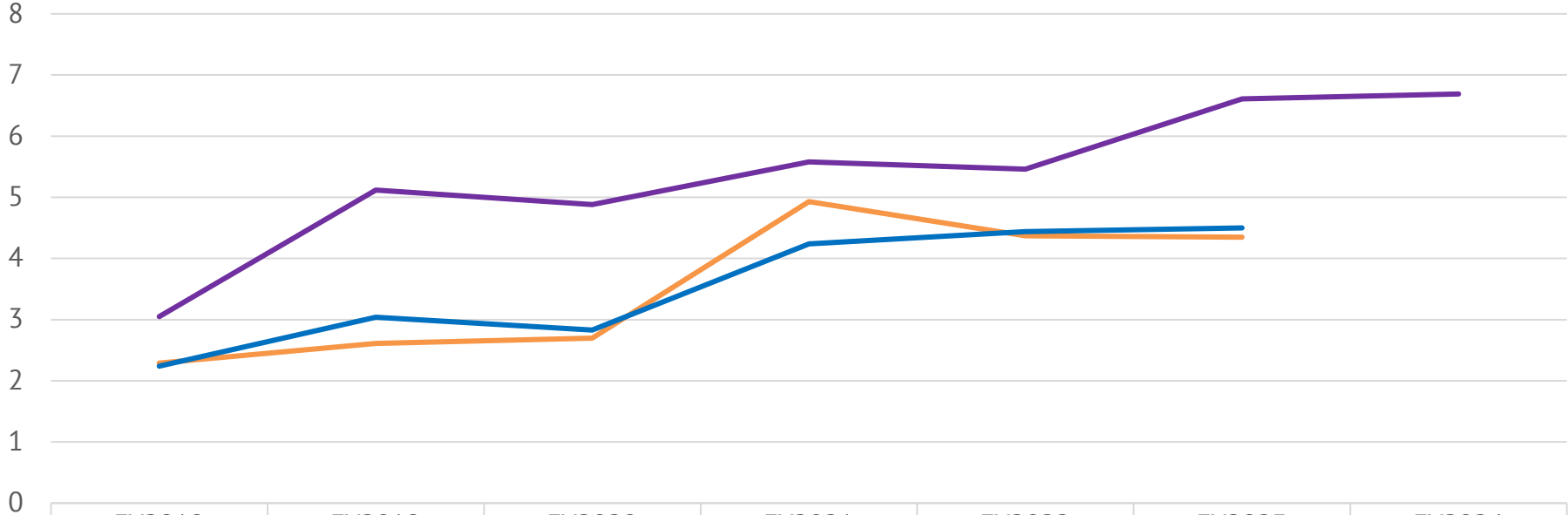


	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
TTU	2.35	4.57	4.73	4.87	4.73	6.30	6.31
LGIs AVG	1.63	2.55	2.50	3.00	3.85	3.45	



CFI Comparison to Other LGIs and UT

Including all Universities and their Foundations



	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
TTU w/Foundation	3.05	5.12	4.88	5.58	5.46	6.61	6.69
UT AVG w/Foundation	2.29	2.61	2.70	4.93	4.37	4.35	
LGIs AVG w/Foundation	2.24	3.04	2.83	4.24	4.44	4.5	





FY2024-25 Revised Budget/Organizational Chart



Reconciliation of Changes in E&G Revenues

	Proposed Budget FY2024-25	Revised Budget FY2024-25	Difference	% Change
Tuition and Fees	\$108,325,500	\$112,805,000	\$4,479,500	4.14%
State Appropriations	\$86,834,100	\$88,164,900	\$1,330,800	1.53%
Other Activities	\$14,067,500	\$14,270,400	\$202,900	1.44%
Total Revenues	\$209,227,100	\$215,240,300	\$6,013,200	2.87%



Proposed vs Revised E&G Reconciliation of Changes in Revenues FY2024-25

- Tuition and Fees \$4,479,500
 - Tuition enrollment changes based on Fall census \$1,023,000
 - Tuition 5% increase \$3,739,500
 - Summer Revenue (\$22,750)
 - Out-of-state tuition decrease (\$249,500) based on actual fall enrollment in international students
 - Out-of-state tuition decrease (\$46,250) based on actual fall enrollment in domestic students
 - Fee increases \$35,500
- State Appropriations \$1,330,800
 - Adjustments for OPEB (Other Post-Employment Benefits), TCRS (Tennessee Consolidated Retirement System), Risk Management, and Health Insurance (\$669,200)
 - Crossville Wind Tunnel (non-recurring) \$1,000,000
 - Rural Reimagined (non-recurring) \$1,000,000
- Other Revenue \$202,900
 - Other Misc. \$100,150
 - Athletics \$102,750



Change in Natural Classification Expenses

	Proposed Budget FY2024-25	Revised Budget FY2024-25	Difference	% Change
Salary and Wages	\$95,485,300	\$99,575,300	\$4,090,000	4.28%
Fringe Benefits	\$38,773,600	\$38,955,300	\$181,700	0.47%
Travel	\$2,073,000	\$2,793,300	\$720,300	34.75%
Operating & Utilities	\$36,709,500	\$59,980,600	\$23,271,100	63.39%
Scholarships & Fellowships	\$23,169,200	\$25,070,600	\$1,901,400	8.21%
Capital	<u>\$186,500</u>	<u>\$296,000</u>	<u>\$109,500</u>	58.71%
Total E&G	\$196,397,100	\$226,671,100	\$30,274,000	15.41%



Proposed vs Revised Reconciliation of Change in Natural Expenses FY2024-25

- Salary and Wages
 - Merit Raise, Phase 2 Comp Adjustments, FLSA Adjustments, Degree & Other Adjustments of \$1,864,400 (*beyond the State-funded portion budgeted in June*)
 - 8 new positions in 7 College/VP Units \$749,300
 - Faculty Promotions \$51,000 (*beyond what was budgeted in June*)
 - Departments transfer funds from operating to salary & wages \$1,425,000
- Fringe Benefits
 - Decrease of state funding-TCRS (Tennessee Consolidated Retirement System), Risk Mgmt. insurance, OPEB (Other Post-Employment Benefits) - (\$686,000)
 - Benefits budgeted for 8 new positions \$214,000
 - Benefits added for raise increases \$655,000
- Travel
 - Departments transfer funds from operating \$600,000
 - Athletics \$114,000
- Operating & Utilities
 - Re-budget of carryforward amounts \$22,849,434
 - Revenue Generating \$1,065,731
 - Faculty Research & Indirect Cost \$3,352,813
 - CEROC & Rural Reimagined Appropriations \$1,112,216
 - SAF \$472,391
 - TAF \$1,789,766
 - Engr State Appropriation funds \$2,764,337
 - Online & Alternate Delivery Fee \$4,459,885
 - Student Activity Fee \$531,913
 - Other department requests \$ 718,958
 - Purchase Orders \$368,596
 - Summer School \$171,084
 - University Future Commitments \$2,296,415
 - Lapse Pool \$1,420,951
 - Crossville TAP Property \$2,252,586
 - Governor's School \$71,792
 - FY23 Indirect Cost Distribution increase \$580,495
 - Contracts and Insurance increases \$845,000
 - Marketing, New Student Outreach and Student Engagement \$929,950
 - Athletics \$414,000
 - Departments transfer funds from operating to salaries, travel, capital, and transfers (\$2,350,000)
- Scholarships
 - Departmental Carryover \$21,530
 - Community College Transfer \$583,000
 - State Mandated Scholarships \$630,000
 - Athletic Scholarships \$667,000
- Capital
 - Units transfer funds from operating to Capital \$110,000





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





Disclosed Projects



Disclosed Projects

Project	Project Cost	Project Description
Crossville Facility Roof Replacement and Window Repairs	\$4,040,000	Replace all low slope roof systems. Install an elastomeric coating over the standing seam metal roof. Repair/replace window gaskets, shelf angles and window lintel angles. Add flashing where required. Repairs and replacements to include all related work.
Whitney Avenue Parking Lot	\$1,120,000	Install pavement, curb and gutter, landscaping and lighting of the gravel parking on N. Whitney Avenue, and all related work.
Track and Field Facility	\$5,440,000	Construct a competition track and field facility with a multi-purpose athletic field, complete with amenities and all related work.
Total Request	\$10,600,000	





Internal Audit Standards Update



State Requirements

State Audit Committee Act of 2005 (Tenn. Code Ann. § 4-35-101-108)

Establishes the Audit Committee and requirements for oversight of the Internal Audit function, including review and approval of the annual audit plan.

Tennessee Code Annotated § 4-3-304 (9)

Requires Internal Audit to perform work in compliance with the “Standards for the Professional Practice of Internal Auditing published by the Institute of Internal Auditors, Inc....”



Institute of Internal Auditors (IIA)

The IIA is the internal audit profession's global leader in standards, certifications, education, research, and technical guidance.

245K

Global IIA
members

150

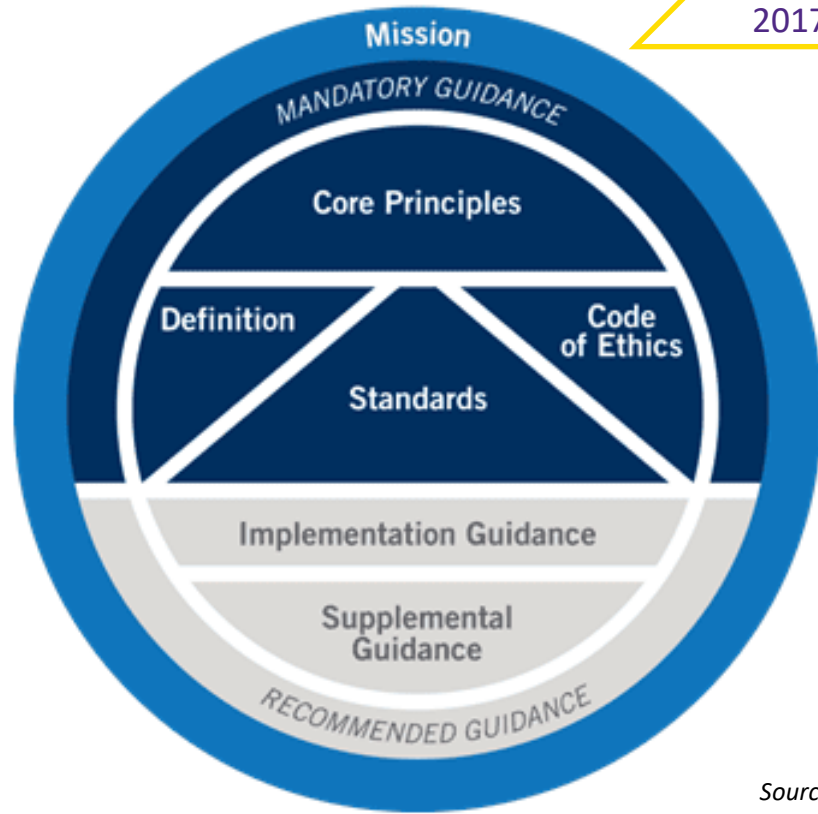
North American
chapters

70K

North American
members



International Professional Practices Framework (IPPF) Changes



5 Domains



Source: [2024 Global Internal Audit Standards \(theiia.org\)](https://www.theiia.org)

- The IPPF was reorganized into 5 domains that include the previously separate: mission, definition, core principles, code of ethics, standards, and guidance.
- Each of the newly developed domains includes **guiding principles** and **supporting standards**.
- Each standard within the domains includes **requirements/essential conditions**, considerations for implementation, and examples of conformance.



Domain III: Internal Audit Governance

AUDIT & BUSINESS COMMITTEE (A&B)



AUTHORIZED

IA mandate, charter, & support



INDEPENDENT

CAE is qualified & reports functionally to the A&B & administratively to the President



OVERSEEN

A&B meetings and discussions, resources, and quality assurance assessments

Tab 7.3 in the materials includes 2 pages of IIA guidance that specifically apply to the A&B of the Board of Trustees.

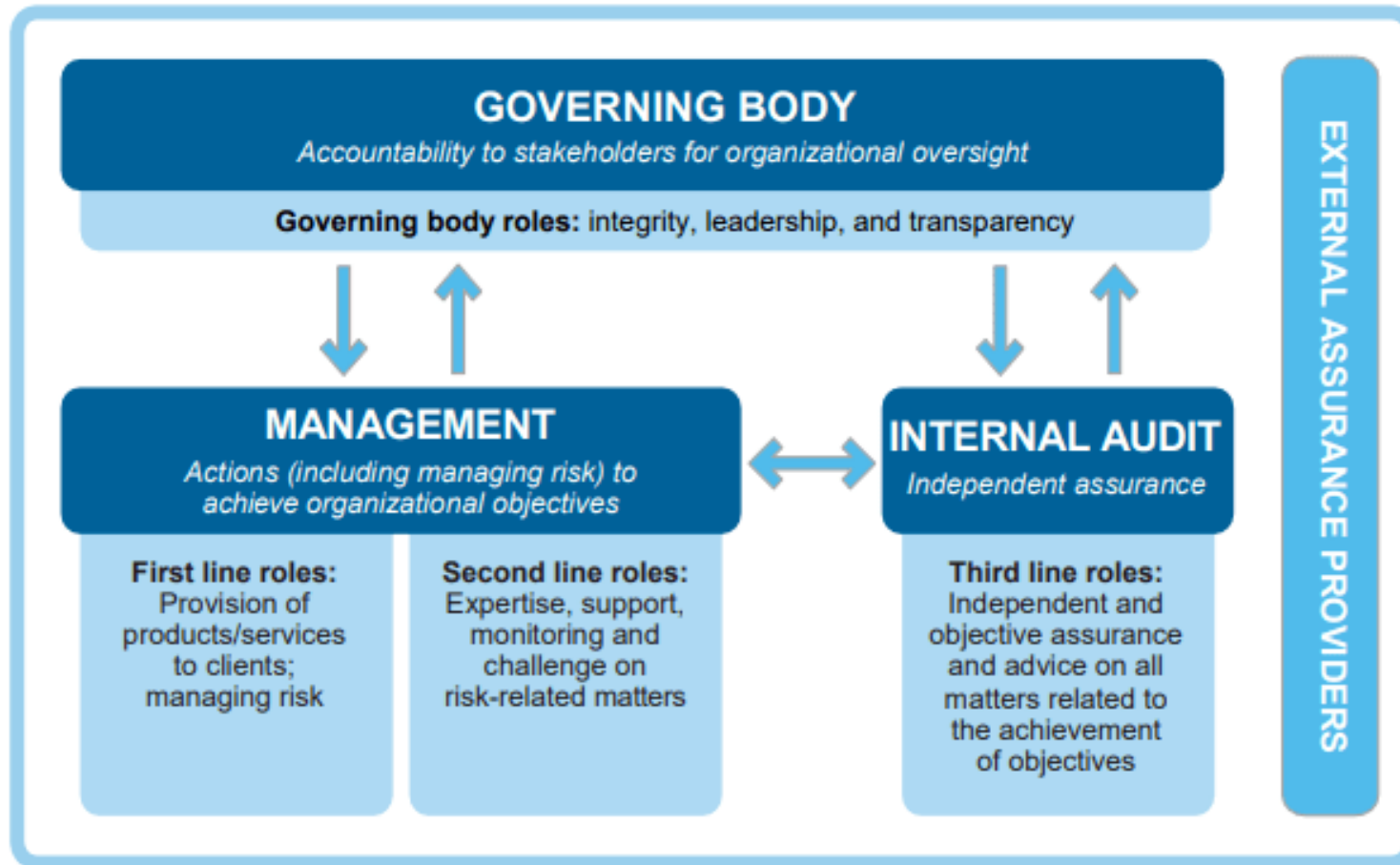
3 guiding principles with 9 supporting standards

Standards with requirements & essential conditions

INTERNAL AUDIT FUNCTION



Three Lines of Defense Model



- Defines best practices for organizational governance structures.
- Ensures Internal Audit independence to provide objective assurance.
- Guides Internal Audit activities and scope.

KEY: ↑ Accountability, reporting ↓ Delegation, direction, resources, oversight ↔ Alignment, communication coordination, collaboration



Summary of Required Changes for 2025

- Updated Audit Committee and IA Charters
- Required discussions between the Chief Audit Executive and the Board/Audit and Business Committee
- Meeting requirements & best practices
- Required Internal Audit strategic plan
- Updated audit workpapers and reports
- Required collaboration with IT & IT security
- Formal IA Quality Assurance & Improvement Program (QAIP) review





Approval of 2025 Audit Plan



Plan Update

- Comprehensive, risk-based audit plan
- Significant, required, and risk-based audit and advisory services
- Engagements selected based on the following criteria:
 - Engagements required by policy, state statute, or regulation
 - Top identified Tech objectives, related risks, and controls
 - Management concerns and requests
 - Changes in the unit (key personnel, program, volume, system)
 - Compliance-related industry risks



2025 Focus

- Provide Internal Audit services based on 3rd line of defense
- Revise approach to Procard audits
- Develop data analytics program
- Complete required Internal Audit Quality Assurance and Improvement Program (QAIP) to align with updated IIA Standards



