### 3.10.1

# Financial Resources: Financial stability

The institution's recent financial history demonstrates financial stability.

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### **Narrative**

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The recent financial history of Angelo State University demonstrates financial stability as evidenced by the following:

- · Growth in revenue, enrollment, and other indicators of financial health
- Successful capital investment strategies
- Effective fund raising endeavors

As part of the Texas Tech University System, ASU is an agency of the State of Texas, and ASU's financial information is compiled with and audited as part of the Texas statewide audit. The component institutions of the TTU System follow common reporting and budget guidelines established by the State of Texas and the TTU System and are subject to the same audit standards. The institutions share a common fiscal year from September 1 through August 31. At the time of this submission, financial statements for the fiscal year ending August 31, 2012 are not yet available. Financial statements for FY 2012 will be available in February 2013. The following financial statements are attached:

- ASU's Annual Financial Reports as submitted to the state for the past three fiscal years (AFR FY11, AFR FY10, AFR FY09)
- Comprehensive Annual Financial Reports for the State of Texas, which include independent auditor's reports, for the past three fiscal years (CAFR FY11, CAFR FY10, CAFR FY09), can be accessed from the list of Sources.

#### **FINANCIAL GROWTH**

Over the past three fiscal years, ASU has experienced growth in revenue streams from institutional sources as well as growth in enrollment, total assets, and endowments. These diverse indicators reflect the institution's overall financial stability.

### **Major Revenue Sources**

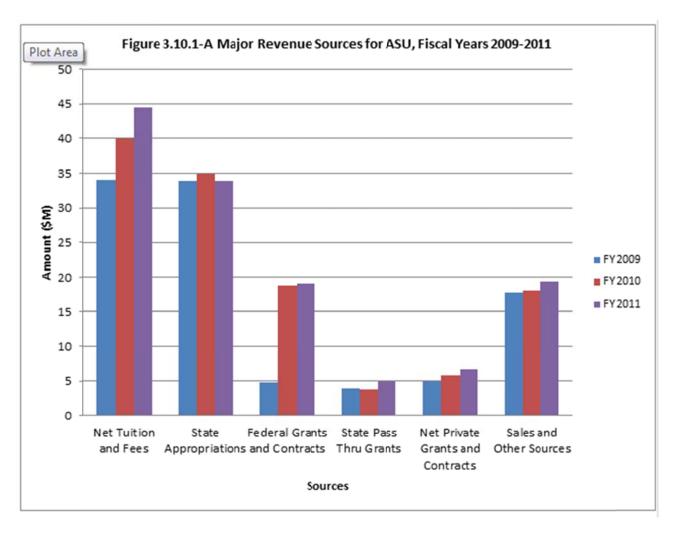
ASU's operating revenue is generated in part through its mission-focused educational and research activities. Educational programs generate revenue through tuition and fees, and research programs generate revenue through grants and contracts. In addition, the institution receives operating funds through state appropriations and gifts. Funds for the construction and renovation of facilities on all

campuses are received from the Higher Education Assistance Fund (HEAF), tuition revenue bonds, and gifts. This combination of institution-generated revenue and state support provides ASU with a diversified pool of financial resources that allows the institution to maintain the financial flexibility it needs in times of economic change.

As illustrated in the following table and figure, ASU has experienced growth in all of its major revenue sources, with the exception of state appropriations, over the past three fiscal years.

Table 3.10.1-A. Major Revenue Sources for ASU, Fiscal Years 2009–2011

Major Revenue Sources	FY 2009 (\$M)	FY 2010 (\$M)	FY 2010 Growth	FY 2011 (\$M)	FY 2011 Growth
Net Tuition and Fees	34.0	40.0	17.60%	44.5	11.30%
State Appropriations	33.9	35.0	3.20%	33.9	-3.10%
Federal Grants and Contracts	4.8	18.8	291.70%	19.0	1.10%
State Pass Thru Grants	3.8	3.7	-2.60%	4.9	32.40%
Net Private Grants and Contracts	4.9	5.7	16.30%	6.6	15.80%
Sales and Other Sources	17.8	18.0	1.10%	19.3	7.20%
Total of Major Revenue Sources	99.2	121.2	22.20%	128.2	5.80%



As indicated above, student tuition and fee revenues increased by 17.6 percent for 2010 and 11.3 percent for 2011. These increases primarily resulted from overall increases in enrollment and increases in tuition rates. Enrollment growth is an important indicator of the institution's operational and financial health. State appropriations, for example, are based in part on student enrollment. The legislature determines funding for general academic institutions based on formula and non-formula items. The formula for Instructional and Operations Support funding is directly based on student enrollment numbers. The formula for Infrastructure Support funding is driven by the predicted square feet in the institution's Space Projection Model, which in turn is driven by student enrollment numbers. Thus, positive enrollment trends favorably impact ASU's funding appropriations from the state. The institution's growth in enrollment over the past three years is summarized in the following table:

Table 3.10.1-B. ASU Enrollment Trends, Fiscal Years 2009–2011

	Fall 2009	Fall 2010	2010 Growth	Fall 2011	2011 Growth
Headcount	6,387	6,856	7.3%	7084	3.3%
FTEs	5,246	5,618	7.1%	5816	3.5%

**NOTE:** Headcount = total number of students in all programs; FTE = number of full-time-equivalent students, calculated as the total number of student semester credit hours taught by the institution in a semester divided by 15 at the undergraduate level, 12 at the master's level, and 9 at the doctoral level (where student semester credit hours = number of students enrolled in a course x number of credits for which the course is offered).

#### Other Growth Indicators

ASU's financial stability is also evidenced by continued growth in other areas, including operating revenues, net assets, and total endowments. The institution has not experienced any unusual financial conditions. As part of the normal course of operations, ASU's operating revenues and expenses continue to increase. These growth indicators, which are summarized in the table below, reflect the institution's ability to ensure financial stability despite economic downturns or other unforeseen influences.

Table 3.10.1-C. Significant Growth Indicators for ASU, Fiscal Years 2009–2011

Significant Growth Indicators (Unaudited)	FY 2009 (\$M)	FY 2010 (\$M)	FY 2010 Growth	FY 2011 (\$M)	FY 2011 Growth
Operating Revenues	47.4	47.3	-0.2%	60.6	28.0%
Operating Expenses	95.1	99.9	5.0%	111.5	11.6%
Total Assets	274.7	284.8	3.7%	311.30	9.3%
Current Assets	76.9	79.3	3.1%	76.0	-4.1%
Current Liabilities	45.8	50.6	10.5%	86.8	71.5%
Net Assets	186.3	186.2	-0.1%	191.60	2.9%

Capital Assets (Net of Depreciation)	105.4	103.1	-2.2%	122.4	18.7%
Investments	120.6	130.0	7.8%	135.9	4.5%
Total Endowments	92.9	103.0	10.9%	113.60	10.3%
Facilities (Million Sq Ft)	1.9	1.8	-5.3%	1.9	5.6%

ASU's financial records reflect compliance with applicable state statutes and regulations, including the Texas Comptroller of Public Accounts Reporting Requirements for State Institutions of Higher Education, as indicated in the Summary of Significant Accounting Policies provided as Note 1 in each of the attached ASU Annual Financial Reports. For reporting purposes, ASU's operating activities are distinguished from non-operating activities. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the institution's principal ongoing operations. Operating expenses include administrative expenses and depreciation of capital assets, among others. Thus, as indicated in Table 3.10.1-C above, ASU's annual operating expenses exceed its annual operating revenues. However, after adjusting for non-cash depreciation expenses and non-operating revenues and gains, such as legislative appropriations revenue, federal grant and contract revenues, and investment income, the institution has more than enough net assets to meet its annual capital needs. A summary of the revenues, expenses, and changes in net assets for the fiscal year ended August 31, 2011 is provided in the attached ASU Annual Financial Report for Fiscal Year 2011.

### MANAGEMENT OF EXPENDITURE AND DEBT

Financial controls established by the state, the TTU System, and the institution ensure effective management of ASU's expenditures and debt. As described in *The Rules and Regulations of the Board of Regents of the Texas Tech University System*, the board and the principal officers of the TTU System have the responsibilities of a fiduciary in the administration of all funds subject to the control and management of the TTU System (Section 07.01, *Regents' Rules*).

### **Budget Rules and Procedures**

According to the Board of Regents' budget rules and procedures (Section 07.04, *Regents' Rules*), the board is required by law to approve an annual budget covering the operation of the ensuing fiscal year. This budget is prepared within the limits of revenue available from legislative appropriations and estimated local and other funds. The budget is constructed along organizational lines using appropriate fund groupings required by state law or recommended by the State Auditor's Office or the State Comptroller's Office.

The board fulfills its oversight responsibilities by reviewing and approving general budgeting policies and establishing general budget priorities. The board delegates detailed budgetary development and control to the chancellor, the presidents, and the chief fiscal officers of the component institutions (Section 07.04.2.c, *Regents' Rules*). The Finance and Administration Committee, a standing committee of the board, oversees the budgeting process and reviews all requests for budgets covering expenditures of educational and general funds, designated funds, and auxiliary programs (Section 01.02.8.d.(3), *Regents' Rules*).

ASU's Vice President for Finance and Administration (VPFA) is the institution's chief fiscal officer and has the responsibility of ensuring that all policies, regulations, and the highest standards of asset management are followed. The VPFA is responsible to the president, the chancellor, and the board for ensuring that expenditures do not exceed available funds and maintaining other budgetary controls in accordance with Section 07.04.3, *Regents' Rules*. ASU administrators are not authorized to commit funds without a budget approved by the VPFA or his designee.

The Budget Office of ASU is charged with planning, overseeing, and reporting the institution's budget, and the office uses a proactive approach to ensure proper management of current resources and adequate funding for future operations. For more information about the institution's proactive budget planning, please see Core Requirement 2.11.1, Financial resources. Additional information about the institution's control of financial resources, including copies of current and past operating budgets and evidence of the qualifications of the VPFA and other key financial staff members, is provided in Comprehensive Standard 3.10.3, Control of finances.

## **Debt Management**

The Board of Regents is also responsible for authorizing the issuance of all TTU System indebtedness in accordance with the board's debt management policy (Section 07.05, *Regents' Rules*). All debt programs are made in accordance with applicable state and federal statutes and regulations. To the extent permitted by law, the board may grant to the chancellor the authority to issue short-term indebtedness. The short-term debt program is utilized for capital projects during construction and for equipment acquisition. All conversions to long-term or bond indebtedness are approved by the board. The Texas Tech University System Office of Investments is charged with managing the TTU System's debt. More information about this office is provided below under Capital Investment Strategies.

During Fiscal Year 2011, \$4.267 million in bonds matured, resulting in a decrease in bonds outstanding of \$68.686 million. The System has issued on the behalf of ASU short-term commercial paper to serve as an interim financing source for long-term construction projects in advance of issuing authorized bonds. As of August 31, 2011, \$32.4 million in commercial paper debt was outstanding. Several categories of long-term liabilities are reported in the attached ASU Annual Financial Reports, including bonds payable, claims payable, and compensable leave payable. See, for example, the Summary of Long-Term Liabilities in the ASU Annual Financial Report for Fiscal Year 2011, Note 5. The following table summarizes trends in ASU's short- and long-term debt for the past three fiscal years:

Table 3.10.1-D. ASU Short and Long-Term Debt, Fiscal Years 2009–2011

	FY 2009 (\$M)	FY 2010 (\$M)	2010 Growth	FY 2011 (\$M)	2011 Growth
Short-Term Debt	5.5	12.1	119.6%	32.4	267.8%
Long-Term Debt	77.3	73.0	-5.6%	68.7	-6.3%

### **CAPITAL INVESTMENT**

Responsibility for the investment and management of institutional funds resides at the system level and is overseen and governed by the Board of Regents. The board has established policies governing the investment of TTU System funds in Chapter 09, *Regents' Rules* and in the Investment Policy Statement for

the Short/Intermediate-Term Investment Fund (SITIF) and the Investment Policy Statement for the Long-Term Investment Fund (LTIF). The SITIF comprises the operating funds of the TTU System (excluding those of ASU), and the LTIF is composed of endowment and other long-term institutional funds, including ASU's endowment.

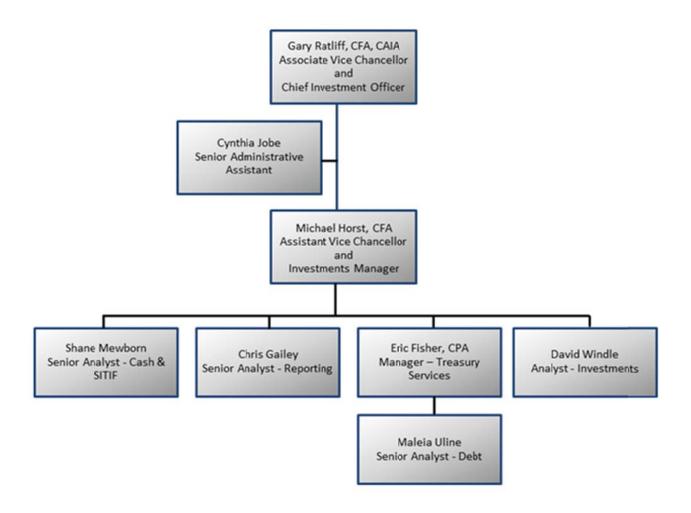
## **Investment Advisory Committee**

The Investment Advisory Committee (IAC) is a special committee authorized by the board that is responsible for meeting quarterly with investment counsel, investment managers, and appropriate officers and staff for the purpose of reviewing and consulting with these parties and advising the Board of Regents and the board of directors of the Texas Tech Foundation on asset allocation, investment policy, and investment results. The IAC is also responsible for monitoring the performance of investments, evaluating fund manager performance, developing and recommending an asset allocation plan for the LTIF, and reviewing the investments and performance of the SITIF (Section 01.02.8.f., *Regents' Rules*). Minimum qualifications required of IAC members are outlined in Section 01.02.8.f.(4), *Regents' Rules*.

### Office of Investments

The Office of Investments is charged with managing the system's LTIF, SITIF, and debt. The office reports directly to the Chief Financial Officer for the TTU System. The office is currently composed of eight individuals outlined in the following organizational chart:

Figure 3.10.1-B. TTU System Office of Investments



Minimum qualifications of the Chief Investment Officer (CIO) include a bachelor's degree with at least nine years of professional and management experience in investments, and the CFA designation. A master's degree is preferred. The Investments Manager is required to have a bachelor's degree with eight years of experience (master's degree preferred), while the senior analyst and section manager positions require three and five years of experience, respectively. Certifications are preferred, with three members of the current staff holding Certified Public Accountant or Chartered Financial Analyst licenses.

### **Endowment Returns**

The LTIF is composed primarily of endowment funds, with some institutional funds included. The LTIF is managed by external investment management organizations in accordance with investment manager guidelines (Section 12 and Section 14, Investment Policy Statement for the LTIF) and under the guidance of the Investment Advisory Committee and the CIO. The spending rate on LTIF investment earnings is governed by the spending policy detailed in Section 9, Investment Policy Statement for the LTIF. As the LTIF has grown in size, spending has increased as well, as illustrated in Table 3.10.1-E, which summarizes returns, assets, and annual spending on the LTIF for the past three fiscal years.

Table 3.10.1-E. TTU System Investment Assets and Returns, Fiscal Years 2009–2011

	Ţ	FY 2010		FY 2011
FY 2009	FY 2010	Growth	FY 2011	Growth

LTIF assets (\$M)	661.7	730.8	10.45%	784.0	7.27%
LTIF returns (%)	-12.66%	9.94%	-	9.50%	-
LTIF spending (\$M)	31.9	33.5	4.23%	33.8	1.93%

**NOTE:** This table shows investment assets and returns for the TTU System. For information on ASU's total endowments, see Table 3.10.1-C above. LTIF = Long-Term Investment Fund (endowment fund)

The National Association of College and University Business Officers (NACUBO) Endowment Study is an annual survey studying the endowment holdings of higher education institutions and their foundations. Eight hundred and twenty-three institutions in the United States and Canada participated in the 2011 NACUBO Endowment Study. Among these institutions, the TTU System ranked in the ninth decile for the rate of return on its endowments in 2011. For the three- and five-year rate of return on its endowment, the TTU System was ranked in the sixth and fifth deciles, respectively. In 2011, relative performance was hurt by an underweighting (by 7.5%) to equities as compared to the NACUBO universe. However, net performance was still 14.7%.

#### **FUND RAISING**

Fund raising aimed at increasing ASU endowment funds is coordinated internally through the Office of Development under the direction of the ASU president. In addition, the ASU Foundation, an independent, separately incorporated foundation, solicits gifts in support of ASU.

### Office of Development

The president of ASU is charged by the Board of Regents with (1) working actively to ensure that the institution secures sufficient financial resources from public and private sources to achieve its goals and objectives and (2) engaging in "fundraising activities that increase the institution's endowment and address the needs of all the institution's schools and colleges" (Section 02.04.2.k, *Regents' Rules*). The Vice President of Development for ASU reports to the president of ASU and works with the TTU System's centralized Office of Institutional Advancement, which reports directly to the chancellor. The vice president oversees the ASU Office of Development, which is governed by board policies on institutional advancement (Chapter 6, *Regents' Rules*) and by ASU Operating Policies and Procedures, including ASU OP 32.04, Operation and Maintenance of Endowment Funds. For more information, please see Comprehensive Standard 3.2.12, Fund-raising activities.

## **ASU Foundation**

The ASU Foundation, Inc. is a public, non-profit organization established to provide financial assistance to ASU primarily from gifts and earnings on endowed funds. The foundation oversees management, investment, and distribution of all foundation funds for the furtherance of educational purposes at ASU and in accordance with donors' wishes. No balances or activities associated with the foundation are included in ASU's Annual Financial Reports. The foundation produces its own annual financial reports, which are subject to annual external audit.

Through soliciting donor gifts, ASU and the ASU Foundation have achieved impressive growth, as shown in the following table:

Table 3.10.1-F. Fund Raising Data, Fiscal Years 2009–2011

Significant Growth Indicators (Unaudited)	FY 2009 (\$M)	FY 2010 (\$M)	FY 2010 Growth	FY 2011 (\$M)	FY 2011 Growth
ASU Gifts and Grants	1.13	1.38	22.1%	2.11	52.9%
ASU Foundation Net Assets	2.9	3.7	27.6%	4.5	21.6%

#### **OVERALL FINANCIAL STABILITY**

ASU's financial growth and its effective management of expenditures, capital investment, and fundraising all contribute to the institution's overall financial stability. Key financial ratios also support the institution's claim of financial viability, as follows:

- Return on Net Assets. The institution's return on net assets (RONA) is equal to the annual change in net assets divided by the total of fixed assets plus working capital (where working capital is current assets minus current liabilities). The ratio is an indicator of the amount of income generated by each dollar of assets, and a positive ratio indicates that an organization's management has been successful in generating income from its current resources. For each of the past three fiscal years (FY 2009–FY 2011), ASU has improved its RONA ratio, and in FY 2011 ASU had a positive RONA ratio.
- Current Ratio. The institution's current ratio equals current assets divided by current liabilities. Generally, a current ratio of 1.0 or above is a good indicator of financial strength. For each of the past three fiscal years, ASU has had a current ratio that exceeds 1.0 (1.68 in FY 2009, 1.57 in FY 2010, 1.44 in FY 2011). Thus, the current ratio for ASU supports the institution's claim of continued financial viability by indicating liquidity and the ability of the institution to meet upcoming obligations.

Other significant indicators of the institution's overall financial stability include the following:

- **Enrollment.** ASU's enrollment has increased from an enrollment of 6,387 in Fall 2009 to an enrollment of 7,084 in Fall 2011.
- Scholarship Aid. Although ASU has additional needs in the area of scholarships, the scholarships and fellowships it has awarded annually have grown from \$7.2 million in 2002 to over \$15.9 million in 2011.
- **Library Investments.** The annual budget for the ASU library has increased by approximately \$1.2 million since 2002, allowing a twelve percent increase in bound volumes and the addition of new subscriptions to electronic resources. The library maintains subscriptions to more than 46,000 electronic journals.
- Information Technology Investments. During the past seven years, over \$14 million has been invested in information technology infrastructure. Investments include capital expenditures in classroom technologies, distance education network enhancements, information systems infrastructure, and security. In addition, personnel have been added to provide increased support

for students, faculty, and staff. Investment in information technology for education continues to be a high priority for the institution.

• Facilities. ASU now operates approximately 67 buildings with a combined gross area of 1,927,300 square feet.