**2016 Annual Financial Report (AFR) Discussion Notes**

**Tarleton State University**

In accordance with section 51.005 of the Texas Education Code, and by direction of the Board of Regents, The Texas A&M University System (TAMUS) is required to publish an annual financial report (AFR) in compliance with guidance provided by the State Comptroller’s Office. The AFR is made up of sixteen schedules, four of which are published by the TAMUS Office of Budgets and Accounting each fall: Statement of Net Position (III), Statement of Revenues, Expenses, and Changes in Net Position (IV), the Statement of Cash Flows (V), and the NACUBO Function to Natural Classification Matrix (IV-1). The following notes provide an explanation of major financial changes in the last fiscal year compared to the prior fiscal year. (Subtotals may not tie due to rounding errors.)

**Statement of Net Position**

The Statement of Net Position (AFR III) presents a snapshot of current and non-current assets and liabilities for Tarleton State University as of the end of the fiscal year. Current assets include cash, cash equivalents, and those assets that can be converted to cash within one year. Non-current assets include those assets that are not likely to turn to unrestricted cash within one year and are often referred to as long-term assets. The liabilities recognized on the Statement are primarily Accounts Payable, Payroll Payable, and Unearned Revenue (that is, tuition for the fall semester paid before the start of the fiscal year). Certain long term liabilities (such as debt) are not shown on our Statement as those are consolidated at the A&M System level.

* Total Assets and Deferred Outflows increased $14.1 million, or 3.85%, to $380 million. The increase occurred across the following categories:
  + Cash & Cash Equivalents (Unrestricted and Restricted) increased $4.2 million, or 17.64%, to $27.8 million.
  + Federal Receivables decreased $7 million, or 67%, to $3.4 million due to timely drawing of reimbursements related to the federal Pell grant program.
  + Student Receivables decreased $1.1 million, or 53%, to just under $1 million.
  + Other Current Assets increased $8.6 million, or 119%, to $15.8 million primarily due to an increase in prepaid scholarship expense. This was made up of increased commitment of Texas Grants (restricted fund group), TPEG and Tuition Set-Asides (designated fund group). Not only were more funds awarded, but these awards were made earlier in 2016 (in August, rather than September) as part of the financial aid department’s effort to get funds to students earlier in the semester.
  + Restricted and unrestricted Assets held by the System Office increased a total of $3.7 million, or 2.8%, to $136 million.
  + The net change in all Capital Assets increased $5.9 million, or 3.5%, to $178.4 million. The net increase consisted primarily of $8.2 in Construction in Progress, $9.8 in additional Capital Assets, and $12.3 million in Accumulated Depreciation.
* Total Liabilities and Deferred Inflows increased $15.9 million, or 27.3%, from the 2015 amount of $58.3 million to $74.2 million in 2016. The total increase is due to the following:
  + Accounts Payable increased $6.9 million due to more accurate accrual of payments due on purchases received not yet invoiced. This increased accuracy was the result of implementation of e-procurement.
  + The amount Due to Other Members increased $5.3 million because of funds committed to Texas A&M System to fund initial costs of capital projects funded by FY17 tuition revenue bonds. These funds will be returned to the University in FY17.
  + An additional $3.7 million fluctuation was due to increased unearned revenue of $5.9 million ($3.4 million in housing and dining deposits and $2.5 million in tuition and fees paid for the 2017 academic year), an increase in accrued of payroll of $800,000, and a decrease in funds held for others of $3 million.
* The Unrestricted Net Position decreased 8.2% or $6.2 million, as expected, given the investment in campus capital projects and deferred maintenance.
* The result of all the balance sheet changes is that the Total Net Position decreased $1.8 million, or 0.6%, from the 2015 amount of $307.6 million to $305.8 million in 2016. This result is reflected as the Change in Net Position on Exhibit IV, which is discussed next.

**Statement of Revenues, Expenses, and Changes in Net Position**

The Statement of Revenues, Expenses, and Changes in Net Position (AFR IV) presents financial activity for the fiscal year ended August 31, 2016. This Statement is commonly referred to as an “income statement.” Activity is broken into the following sections: Operating Revenues, Operating Expenses, Non-Operating Revenues and Expenses, and Other Revenues and Transfers.

* Operating Revenues increased $8.1 million, or 7.6%, from $106.8 million for the year ended August 31, 2015 to $115 million for the year ended August 31, 2016. Revenue by category changed as follows:
  + Net tuition and fee revenue increased $7.3 million, or 11.3%, from $65.2 million for the year ended August 31, 2015 to $72.5 million for the year ended August 31, 2016. The net tuition and fee increase was comprised of
    - Statutory tuition ($800,000), which reflects the overall increase in semester credit hours (SCH) produced;
    - Designated tuition ($2 million) as a result of SCH growth and a board-approved inflation adjustment for incoming freshmen; and
    - Online program fees ($1.3 million) and other fees ($3.2 million). Included in these figures is a $.6 million increase in Hazelwood exemptions to $4.5 million total.
  + Auxiliary and Other Sales revenue increased by $2.4 million, or 9.8%, from $24.4 million for the year ended August 31, 2015 to $26.8 million for the year ended August 31, 2016, net of discounts and allowances. This increase consisted of housing revenue ($.4 million), dining revenue ($.6 million), ground lease revenue ($.9 million), and other auxiliary and sales revenues ($.5 million).
  + Operating revenues from grants and contracts (Federal, State, and Other) decreased $1.7 million, or 9.9%, from $16.7 million for the year ended August 31, 2015 to $15 million for the year ended August 31, 2016. The decrease is primarily due to a $2.2 million decrease in revenue received from the Center of Agribusiness Excellence grant program.
* Operating Expenses increased $12.2 million, or 7.3%, from $166.3 million for the year ended August 31, 2015 to $178.5 million for the year ended August 31, 2016. Expenses by function changed as follows:
  + Instruction expense increased $3.3 million, or 5.9%, from $56.0 million for the year ended August 31, 2015 to $59.3 million for the year ended August 31, 2016.
  + Research expense was relatively unchanged at $8.3 million for the year ended August 31, 2016.
  + Public Service expense was relatively unchanged at $2.3 million for the year ended August 31, 2016.
  + Academic Support expense increased $1.1 million, or 10%, from $11.1 million for the year ended August 31, 2015 to $12.2 million for the year ended August 31, 2016.
  + Student Services expense increased $2.1 million, or 26.0%, from $8.2 million for the year ended August 31, 2015 to $10.3 million for the year ended August 31, 2016.
  + Institutional Support expense increased $2.9 million, or 29.4%, from $10.1 million for the year ended August 31, 2015 to $ 13 million for the year ended August 31, 2016. The increase included $770,000 for IT, HR, and Business Services; $755,000 for Advancement, Community Relations, and the Capital Campaign; $500,000 for employee benefits; $150,000 for credit card charges; and $500,000 in other miscellaneous increases.
  + Operations & Maintenance of Plant was relatively unchanged at $15.4 million for the year ended August 31, 2016. A 2.5% ($172,000) increase in the facility outsourcing contract was offset by lower fixed plant costs (down $153,000 from 2015).
  + Scholarship expense decreased $0.8 million, or 5.9%, from $14.3 million for the year ended August 31, 2015 to $13.5 million for the year ended August 31, 2016.
  + Auxiliary expense increased $2.9 million, or 10.2%, from $28.6 million for the year ended August 31, 2015 to $31.5 million for the year ended August 31, 2016.
  + Depreciation expense increased $0.6 million, or 4.8%, from $12.1 million to $12.6 million.
* Non-Operating Revenues and Expenses, which includes state appropriations and investment income, increased $12.9 million, or 22.11%, from $58.6 million in fiscal year 2015 to $71.5 million in fiscal year 2016.
* State appropriation income increased $3.9 million, or 9%, from $43.2 million for the year ended August 31, 2015 to $47.1 million for the year ended August 31, 2016 due to the State reallocation of formula funding and an increased benefit reimbursement.
* Expendable gift revenues increased 4% from $1.4 million for the year ended August 31, 2015 to $1.5 million for the year ended August 31, 2016.
* Investment gains, net of investment expense, increased $6.6 million from a loss of $1.3 million for the year ended August 31, 2015 to $5.3 million for the year ended August 31, 2016.
* Changes in Other Nonoperating Revenue and Expenses increased the Total Non-Operating Revenue by $1.8 million for the year ended August 31, 2016.
* Non-Operating revenues from grants and contracts increased $700,000, or 3.7%, from $17.8 million in fiscal year 2015 to $18.5 million in fiscal year 2016. This category consists solely of revenue from the federal Pell grant program.
* Other Revenues and Transfers decreased $12.4 million from $2.6 million for the year ended August 31, 2015 to a loss of $9.8 million for the year ended August 31, 2016. The decrease was due to the following
  + Capital contributions decreased $.5 million, or 95%, from $.5 million in fiscal year 2015 to $22,000 in fiscal year 2016.
  + Additions to permanent endowments decreased $0.7 million, or 58.9%, to $0.5 million.
  + Transfers from other agencies decreased $6.2 million, or 48.5%, to $6.6 million. Several older capital projects were closed by the System and transferred to University books during fiscal year 2015. This was one-time activity that was not repeated in fiscal year 2016.
  + Transfers to other agencies increased $5.3 million, or 75.86%, to 12.3 million. This was primarily due to a one-time advancement of funding for the Applied Sciences Building, which will be reversed by Tuition Revenue Bond proceeds in fiscal year 2017.
  + Net legislative transfers decreased $.3 million due to a change in funding method for the Hazelwood supplement received from the Texas Veterans Commission.

Summary Note

Although healthy increases in tuition and state appropriation were realized in fiscal year 2016 over 2015, increased costs in response to expanding enrollment and overhead support resulted in a net operating gain of only $1 million for the year when adjusted for nonoperating investment and gift activity. The total revenue increase was $372 per full-time student while total operating expense increase was $584 per full-time student.

NACUBO Function to Natural Classification Matrix

The NACUBO Function to Natural Classification Matrix (IV-1) shows expenses in natural classification, much like you would see on a corporate income statement. This schedule supplements the Statement of Revenue, Expenses and Changes in Net Assets, which lists expenses only by NACUBO category. A summary of major changes by natural classification for fiscal year 2016 are as follows:

* Salaries & Wages increased $5.4 million or 8.18%.
* Payroll Related Costs increased $2 million or 10.75%.
* Professional Fees & Services increased $4 million or 19.49% (mostly due to non-capitalized plant expenses).
* Travel increased $.2 million or 7.17%.
* Materials & Supplies increased $1.6 million or 23.34%.
* Communication & Utilities decreased $.6 million or 9.4%.
* Repairs & Maintenance decreased $.2 million or 8.6%.
* Rentals & Leases decreased $.7 million or 8.7%.
* Printing & Reproduction decreased $.1 million or 20%.
* Depreciation increased $.6 million or 5%.
* Scholarships decreased $.8 million or 5.4%.
* Other Operating Expenses increased $.3 million or 6.4%.

**Statement of Cash Flows**

The Statement of Cash Flows (AFR V) presents detailed information on the cash activity during the year. The first section presents operating cash flows and the net cash used by operating activities. The next section presents the results of non-capital financing activities. This section includes the cash flows from state appropriations and other non-operating activities. The capital and related financing activities section includes cash used for acquisition and construction of capital assets. The investing activities section reports purchases, proceeds, and earnings from investments. The final section is a reconciliation of net cash from operations to operating income. Changes by category for fiscal year 2016 are as follows:

* Net Cash Used by Operating Activities increased $14 million, or 36.9%.
* Net Cash Provided by Non-Capital Financing Activities increased $12.7 million, or 18.6%.
* Net Cash Used by Capital-Related Financing Activities increased $4.2 million, or 19.8%.
* Net Cash Used by Investing Activities increased $3.3 million, or 167.8%.