

Tennessee State University
Policy No. 05.01
Budget Principles and Control
Effective Date: June 2020

I. PURPOSE

As a public entity, the System is responsible for the prudent management of resources entrusted to its care by Tennesseans. Ensuring that budgets developed by institutions and considered by the Board are prepared in accordance with sound budget principles is fundamental to good stewardship of university financial resources. The budget principles included in this policy are intended to respond to the expectations of various stakeholders relating to the generation and expenditure of funds. All university officials responsible for budgeting processes are directed to adhere not only to the specific requirements of this policy, but to also act within the spirit of this policy and in a manner that evidences forthrightness and engenders public trust.

II. POLICY/GUIDELINE

A. Guiding Principles

1. Budgeting is the process whereby the plans of an institution are translated into an itemized, authorized, and systematic plan of operation, expressed in dollars, for a given period. Budgets are the blueprints for the orderly execution of program plans; they serve as control mechanisms to match anticipated and actual revenues and expenditures. It is widely recognized that budget control is essential for effective financial management of any organization.
2. Working within the institution's shared governance process, the President has the responsibility and full authority to propose a budget to the President and Board. The President will ensure that the process for budget development is open, provides for accountability, includes appropriate constituencies in

budget planning, and incorporates clear guidelines and adequate training for those involved.

3. In the development and submission of budgets, the President shall adhere to the following principles.
 - a. Budgetary needs should be prioritized relative to the institution's core mission and consistent with its strategic plan, with resources aligned accordingly. In situations where resources are constrained or limited, resources should be redistributed as needed to ensure that limited resources meet the highest priority needs of the institution.
 - b. Budgets must respect generational neutrality. In general, this to say that the cost of educating the current generation of students should be borne by the current generation and not be deferred to future generations.
 - c. The Budget must be balanced:
 1. In total, such that all planned expenditures do not exceed expected revenues and use of reserves or other non-recurring funds; and
 2. On a recurring basis, such that planned ongoing (recurring) expenditures do not exceed expected recurring revenues. Use of non-recurring revenues and/or funds to meet recurring expenditures is discouraged; however, it is acknowledged that special circumstances may arise when it is in the best interest of the institution to do so. In the event non-recurring revenues and/or funds are budgeted to meet recurring expenses, this must be specifically disclosed to the Board as part of the budget consideration process, including justification and the institution's plan for achieving recurring balance.
 - d. A degree of fiscal conservatism must be incorporated in the budget to reduce the risk of year-end deficits by:

1. Ensuring all costs are fully recognized and budgeted. Use of anticipated savings as a funding source (e.g., lapsed salaries) for recurring expenses is discouraged. If anticipated savings are used to fund recurring expenses, this must be specifically disclosed to the Board as part of the budget consideration process;
 2. Using financially conservative, yet reasonable, revenue estimates in light of existing conditions. Estimates of revenues derived from students must be based on analysis of historic enrollment patterns, modified for any recent observable patterns. The basis for student derived revenue estimates must be communicated to the Board as part of the budget consideration process; and
 3. Maintaining appropriate contingency funds for revenue shortfalls and emergencies for both Education & General and Auxiliary operations, consistent with relevant TSU policies and guidelines.
- e. Related to the principle on generational neutrality and to ensure the long term viability of the institution, sufficient provision must be made in both Education & General and Auxiliary budgets to annually fund:
1. Maintenance and facilities renewals to the physical plant and grounds; and
 2. Acquisition, repair and replacement of teaching equipment, computers, and other equipment.
- f. Opportunities for cost savings arising from shared services and resources between departments and organizations within an institution and among other institutions should be aggressively pursued.

B. Operational Provisions

1. Accountability for the effective management of the budget rests with the President, who ensures that proper controls and budget management policies are established.

2. Guidelines and procedures may be developed that further direct and clarify application of the above principles in the budget development and administration process. The President is authorized to issue directives on these matters consistent with the provisions of this policy.

III. PROCEDURES

A. Submission of Budgets

1. It is recognized that a budget is a plan and that circumstances may necessitate revisions or changes to the original plan from time to time. In view of this, the university is to submit detailed budgets to the TSU Board of Trustees for approval three times for each fiscal year. The three submissions are described briefly as follows:
 - a. Proposed Budget - This is the original budget prepared in the spring that is for the fiscal year to begin July 1. It is normally submitted to the TSU Board of Trustees for approval at the June Board meeting.
 - b. Revised Budget - This budget is a revision of the proposed budget and is normally referred to as the "October Revised Budget". It is submitted in October after actual fall enrollments and other estimated costs and closing balances are known and is normally presented to the TSU Board of Trustees for approval at the November Board meeting.
 - c. Spring Estimated Budget - This budget is the final budget submitted for the current year operations. It is submitted in the spring at the same time as the Proposed Budget for the coming year. This is the final approved budget for the institutions and therefore contains the control totals against which final year-end amounts are compared.
2. It should be noted that the approval of a budget does not waive statutory, policy, or other restrictions for expending funds.

B. Operating Budgets

1. Level of Budget Control

- a. University budget control amounts are approved for educational and general total expenditures as well as the major educational and general functional classifications of Instruction, Research, Public Service, Academic Support, Student Services, Institutional Support, Operation and Maintenance of Plant, and Scholarships and Fellowships where applicable.
- b. Auxiliary Enterprises are controlled on a profit or break-even basis.
- c. Additionally, control amounts are approved for educational and general transfers, both mandatory and non-mandatory. Funds transferred to other funds whether mandatory or non-mandatory are restricted in the other funds for the designated purpose. This restriction, however, does not prevent subsequent reallocations or transfers to other funds.
- d. All discretionary allocations of the fund balance must be approved.
- e. Once approved, the institution may not exceed the educational and general total expenditure control limits established by the Board without prior approval of the President.

2. Budget Revisions

- a. Revisions within Functional Area
 1. The university may make budget revisions within a given functional area at the campus level.
 2. The revisions should be properly documented and approved by the president, or designee.
- b. Revisions between Functions
 1. Budget revisions from one functional area to another that exceed 1% of total expenditures must receive prior approval of the President if proposed at other than the three regular budget submission times.

2. The request for revision should be submitted in writing with a detailed explanation.

c. Revision of Overall Expenditure Total

1. Budget revisions to one or more educational and general functional areas that increase the overall educational and general expenditure budget must receive prior approval of the President if proposed at other than the three regular submission times.
2. The request for revision should be submitted in writing with detailed explanation and should include the source of funding for the proposed revision.

C. Plant Fund Budgets

1. Unexpended Funds

a. General

1. The purpose of the Unexpended Plant Fund is to account for the unexpended resources derived from various sources to finance the acquisition of long-term plant assets and the associated liabilities.
2. These funds will be used for capital projects such as major additions and/or renovations to physical facilities.
3. The University may request approval for transfer of funds to the Unexpended Plant Fund during the regular budgetary process or special request to the President.
4. All funds added or transferred into the Unexpended Plant Fund will be controlled by specific project.
5. Expenditures in the Unexpended Plant Fund will be budgeted and controlled by specific project.
6. Commitments or expenditures for any capital project shall be in conformance with all applicable state laws and requirements of the State Building Commission.

7. All project budget revisions and the utilization of reallocated project balances shall be approved by the President or designee, if proposed at other than the three regular budget submission times.

b. Extraordinary Maintenance

1. Within the Unexpended Plant Fund, the university shall establish an account for extraordinary maintenance to be used for unusual or unanticipated maintenance needs.

2. The annual budget shall include a minimum balance in the extraordinary maintenance account. This minimum shall be the greater of 0.1% of plant funds or \$100,000 at community colleges.

3. All projects in the extraordinary maintenance account shall be approved by the President or designee.

2. Renewals and Replacements

a. The resources set aside for renewals and replacements, as distinguished from additions and improvements to plant, are accounted for in this fund group.

b. Institutions which have the responsibility to replace auxiliary equipment must transfer at least 5% of auxiliary gross margin to the renewal and replacement fund.

c. Expenditures in the Renewal and Replacement fund will be budgeted at the individual fund level (i.e. Instructional Equipment, IT Equipment, Motor Vehicle Replacement, etc.) but controlled at the total Renewal and Replacement fund level.

3. Retirement of Indebtedness

a. The purpose of this fund is to account for the accumulation of resources for interest and principal payments and other debt service charges relating to plant fund indebtedness.

b. Additions to this fund are to be set up in separate debt service accounts.

D. Guideline and Position Controls

1. Aside from budget controls specified above, institutions are required to comply with certain other controls.
 - a. A schedule of these controls will be distributed with the budget guidelines each year.
2. Position control is a part of the personnel budget process.
 - a. The number of authorized permanent positions at the university is controlled within unrestricted educational and general accounts and auxiliaries.
 - b. Controls exist on the total number of positions at the university.
 - c. Positions are reported to the Board office each year in the proposed and revised budgeting processes, and at additional times as requested by the Board office during the legislative session.
 - d. Authorized permanent positions for each institution are approved at the June and December Board meetings.
 - e. Changes may be requested by special request to the President in the interim between budget periods.

E. Legislative Controls

1. Each budget year will normally have unique guidelines and requirements depending on legislative or executive branch requirements.
 - a. A schedule of these requirements will be prepared each budget cycle.
 - b. It is the responsibility of the university to ensure that all budget guidelines for a given fiscal year are incorporated into the budget and are carried out operationally.

F. Budget Control

1. The university shall develop appropriate controls and procedures and ensure that established control limits are not exceeded.
2. Summary management reports should be prepared for top level administrators to evaluate the current financial status of the institution.

G. Follow-up by Board

1. At the end of each fiscal year, the Board will review the annual financial report of TSU.
2. Actual year-end amounts will be compared to the Spring Estimated Budget or the Spring Estimated Budget as officially revised, which is the final approved budget for the year.
3. Educational and general expenditure totals and plant fund expenditures will be analyzed for adherence to the approved control levels.
4. The financial information will also be examined for compliance with all budget guidelines and/or Board policies in effect for the fiscal year just completed.
5. The President shall report any material institutional deficiencies or non-compliance with budget controls and guidelines to the Board.

Reference: TBR 4.01.00.01

Approved by: President as part of Appendix A of the Policy Development and Review Process Policy

Adopted: June 2020