

Regent Universities Cash and Cash Equivalents

Cash and Cash Equivalents allow the Regent universities to manage liquidity in order to meet normal operating expenses; that is, ongoing obligations to vendors and employees.

Liquidity

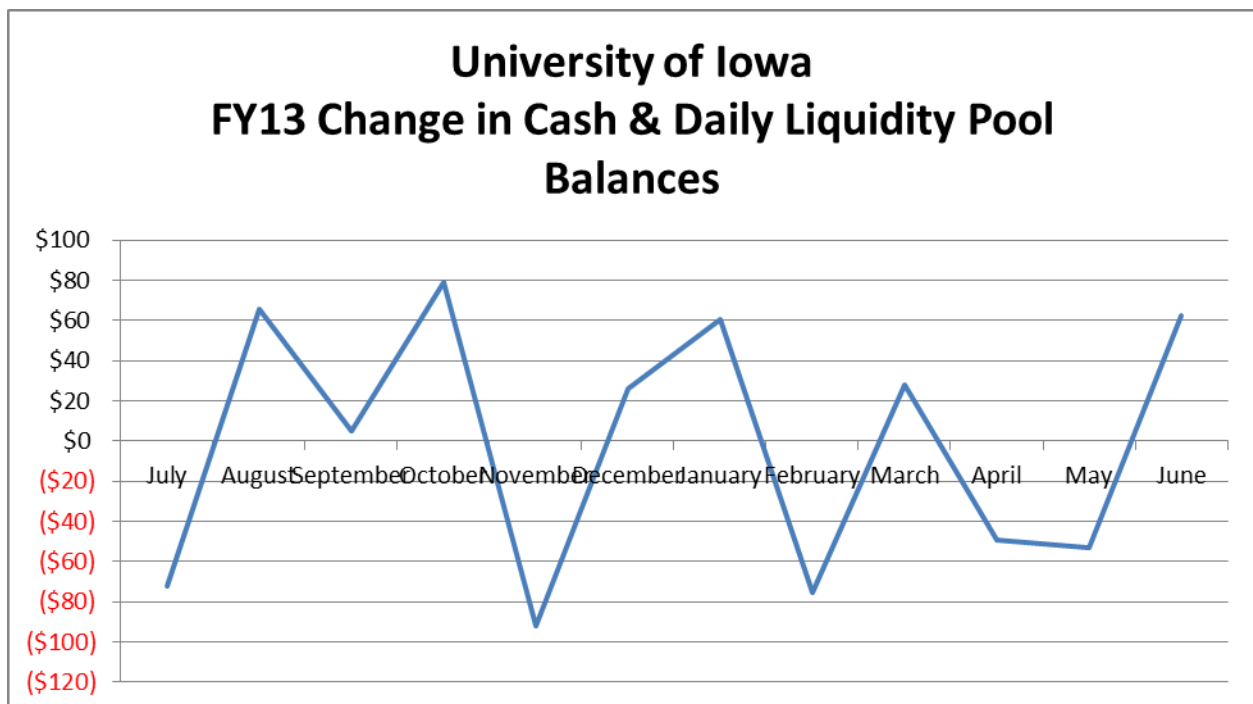
Cash and Cash Equivalents are the most liquid assets found within the asset portions of any institution's balance sheet. Cash and Cash Equivalents are typically defined as funds that are immediately available to the institution (maturity date of 90 days or less) as opposed to assets that must be sold to generate cash.

These short-term investments are made to earn a prudent and safe rate of return and fund expenditures if there are unanticipated changes in project cash flows. The amount of cash on hand is based upon the need for cash to cover planned expenses and maintain positive bank balances.

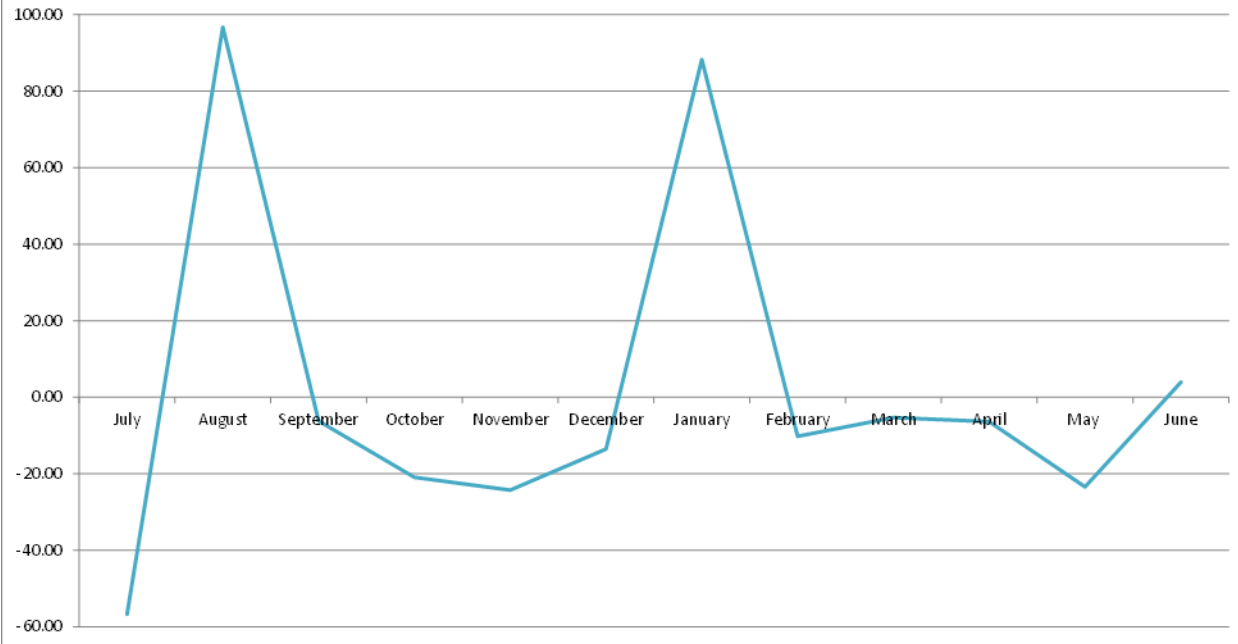
Operational Liquidity is needed for:

- Daily/monthly/seasonal needs (debt service)
- Incoming cash flow patterns
- Extraordinary circumstances (SUI 2008 Flood)
- Balancing investment maturity against operational needs
- Rating impacts (Moody's, S&P)
- Opportunity costs

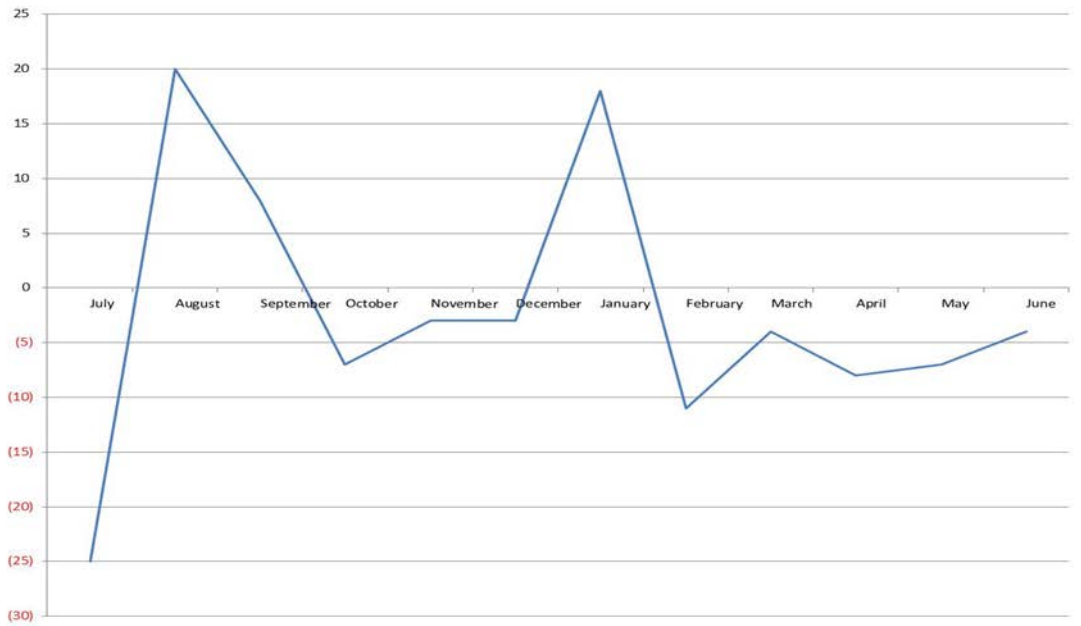
As shown by the charts below for FY 2013 (the most recently audited financials available,) cash influx and outflow do not always mesh and require Cash and Cash Equivalents to be on hand to cover shortages.



IOWA STATE UNIVERSITY
FY 2013 Net Bank Cash Flows
(In Millions)



University of Northern Iowa
FY 2013 Net Bank Cash Flows
(in millions)



Volatility of Balance

The balances in Cash and Cash Equivalents are a snapshot of available funds on any given day and may fluctuate greatly from day to day.

For example, the University of Iowa payroll is paid on the first of each month (\$154M paid on July 1, 2013) so the June 30th cash balance must contain sufficient funds to meet the payroll obligation. Likewise, Iowa State University's hourly payroll is paid on the 15th of the following month so the cash balance must contain sufficient funds to meet that obligation. The University of Northern Iowa's payroll and the bulk of Iowa State University's payroll are paid on the last day of month.

These ebbs and flows of available cash make sound cash management practices a necessity to ensure the proper amount is available each day to fund necessary outlays. The Regent universities model cash flow every day to ensure that cash balances are sufficient to meet expenses and contingencies.

What Makes Up These Balances?

University cash balances include all liquid investments not only for the general university but for other appropriated units and enterprises as well, including residence systems, athletics, memorial unions, centers for university advancement, parking, recreation facilities, telecomm facilities, utilities, etc., and hugely significant for SUI – the University of Iowa Hospitals and Clinics.

Cash is also held for bond principal and interest payments. The Regent universities have bonded enterprises that are rated in the investment grade categories. These bond ratings strongly depend on each enterprise's financial condition over a period of time and its ability to adjust revenues and control expenses to meet additional debt service requirements.

Bond covenants established for each enterprise legally restrict the use of funds – they cannot be used for purposes outside of the respective systems. Any net revenues must stay in their respective systems for the protection of Regent bondholders and the viability of the enterprise.

Finally, at all three public universities, funds are tracked according to their purpose. For example, each university's general education fund is tracked separately from federal grants and contracts, which are tracked independent of auxiliary units. Cash balances in federal grants and contracts or in bonded enterprise units (auxiliary units) cannot be used to fund expenditures in the general education fund. Through the annual financial audit and the OMB Circular A-133 audit, the Auditor of State verifies that these funds are appropriately accounted for.

See the table on the following page for further detail.

Regent Universities June 30, 2013 Cash and Cash Equivalents:

| Purpose | SUI | ISU | UNI |
|---|-----------------------|-----------------------|----------------------|
| Agency | \$ 276,526,311 | \$ 76,750,130 | \$ 7,757,117 |
| Endowments | 252,490,778 | 887,641 | 4,069,419 |
| Auxiliary Enterprises | 518,750,496 | 96,903,538 | |
| Hospital/Health | 84,548,043 | | |
| Organized Activities | 335,721,143 | 238,918,576 | |
| Student Loan Funds | 10,751,475 | 6,368,217 | 1,550,956 |
| Other Appropriations | 204,531 | | |
| General Buildings | | 25,177,028 | |
| Plant Funds | | | 39,795,790 |
| Contracts/Grants | | (13,986,295) | |
| Investment Pool | (784,336,269) | (259,608,418) | (30,102,490) |
| General Education | 38,624,832 | 40,168,745 | 4,112,522 |
| Subtotal June 30 | \$ 733,281,340 | \$ 211,579,162 | \$ 27,183,314 |
| <u>Adjustments</u> | | | |
| Funds belonging to UIHC | \$ (391,149,000) | | |
| July 1 Payroll* | (139,935,997) | | |
| July 1 Bond payments - principal & interest | (31,001,787) | (21,425,361) | (19,028,641) |
| TOTAL* | \$ 171,194,556 | \$ 190,153,801 | \$ 8,154,673 |

Days Cash on Hand **44.99** **72.50** **12.10**
 (Number of days expenses can be covered with current total cash balances.)

* Total numbers have not been reduced to reflect committed funds.
 e.g. bond funds, agency funds, capital project encumbrances, accounts payables.)

Detail of General Education Funds:

| | | | |
|-----------------------|---------------------|----------------------|---------------------|
| General Education | \$ 38,624,832 | \$ 40,168,745 | \$ 4,112,522 |
| July 1 Payroll | (33,476,003) | | |
| Adjusted Total | \$ 5,148,829 | \$ 40,168,745 | \$ 4,112,522 |

| | | | |
|--|----------------|----------------|----------------|
| General Education Expenditures | \$ 655,160,437 | \$ 512,515,396 | \$ 163,389,344 |
| % of General Education Expenditures | 0.8% | 7.8% | 2.5% |

General Education Funds

General Education funds are comprised mainly of tuition revenues and state appropriations for the general education purposes of the Regent universities. As tuition revenues are seasonal, and state appropriations are distributed evenly throughout the year and drawn a month in arrears, there has to be enough working capital on hand to cushion those months when cash is scarce.

Iowa Code Section 262.9, subsection 19.b authorizes *each institution of higher education to retain the student fees and charges it collects to further the institution's purposes as authorized by the board.*

Cash and cash equivalents at the end of a fiscal year are carried forward to cover obligations for capital projects, specialized equipment, payables, or strategic purposes. The latter is an effective budgeting practice that promotes long-term strategic planning, supports fiscally responsible management practice, and manages financial risk.

Most sources suggest that it is prudent and best business practice to have cash and cash equivalents available to cover several months' worth of operating expense to prevent any breaks in service during leaner times.

As noted on the previous page, the universities had very little cash on hand for General Education at June 30, 2013, and nearly all of those funds were obligated to year-end encumbrances (accounts payable), reported to state government, or held for strategic purposes such as program initiatives, faculty and staff recruitment and retention, equipment upgrades, facility renovations and repairs, bridge funding, and contingencies.

Fund Classifications

| | |
|-------------------------------|---|
| Agency | <p>Cash held under an agency relationship for another entity. Examples: Student Organizations, Student Publications.</p> <p>Acting as an agency, the University of Iowa invests monies from the University of Northern Iowa in SUI's investment portfolio.</p> <p>This fund also contains Federal and State Withholding Taxes and other payroll deductions, and the self-insured Regents Motor Vehicle Liability Program.</p> |
| Endowments | <p>Permanent funds whose corpus is not expendable and whose interest and gains are used as the donor directs.</p> <p>May include quasi-endowments such as SUI's funding for post-retirement benefits other than pensions.</p> |
| Auxiliary Enterprises | <p>A self-supporting entity which exists to furnish goods or services to students, faculty, or staff. e.g., residence systems, utility systems, athletics, health centers, UIHC.</p> |
| Hospital/Health | <p>Hospital/Health care accounts such as Hygienic Lab, Family Practice, and Primary Health Care.</p> |
| Organized Activities | <p>Funds held by departments for specific purposes. e.g., treasury operations, library, physics & astronomy.</p> |
| Student Loan Funds | <p>As the title implies, these funds are for students.</p> |
| Other Appropriations | <p>Miscellaneous special purpose units such as Iowa Flood Center, Cooperative Extension Service, STEM Initiative.</p> |
| General Buildings/Plant Funds | <p>Funds dedicated to the capital expenses of university property.</p> |
| Contracts/Grants | <p>Contract or Grant expenditures awaiting reimbursement.</p> |
| Investment Pool | <p>Funds covered by investments of respective funds.</p> |
| General Education | <p>Operating funds of the universities' respective general education activities.</p> |

