Northeastern Illinois University Financial Reserves
Office of the Vice President for Finance and Administration
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What are financial reserves?

- Financial reserves, or "unrestricted net assets", are accumulated financial resources set aside for non-operating and/or non-recurring expenses.
- On the University's combined financial statements, Statement of Net Position, the reserves are the "unrestricted net position".

Why maintain financial reserves?

- Strengthen the overall financial health of the University
- Maintain and improve the University's bond/credit ratings
- Meet the accreditation requirements of the Higher Learning Commission (HLC)
- Ensure adequate resources to provide cash flow for employee payroll, and pay bondholders
- Protect the University's cash position from tardy and erratic State appropriation disbursements, and unplanned and unforeseen financial requirements
- Expand facilities to better position the University to be competitive in the future
- Improve, maintain, repair and renew facilities to offset declines in state capital funding

What are appropriate uses of financial reserves?

- Non-recurring expenses that will position the University for growth and expansion
- Non-recurring short-term and urgent needs

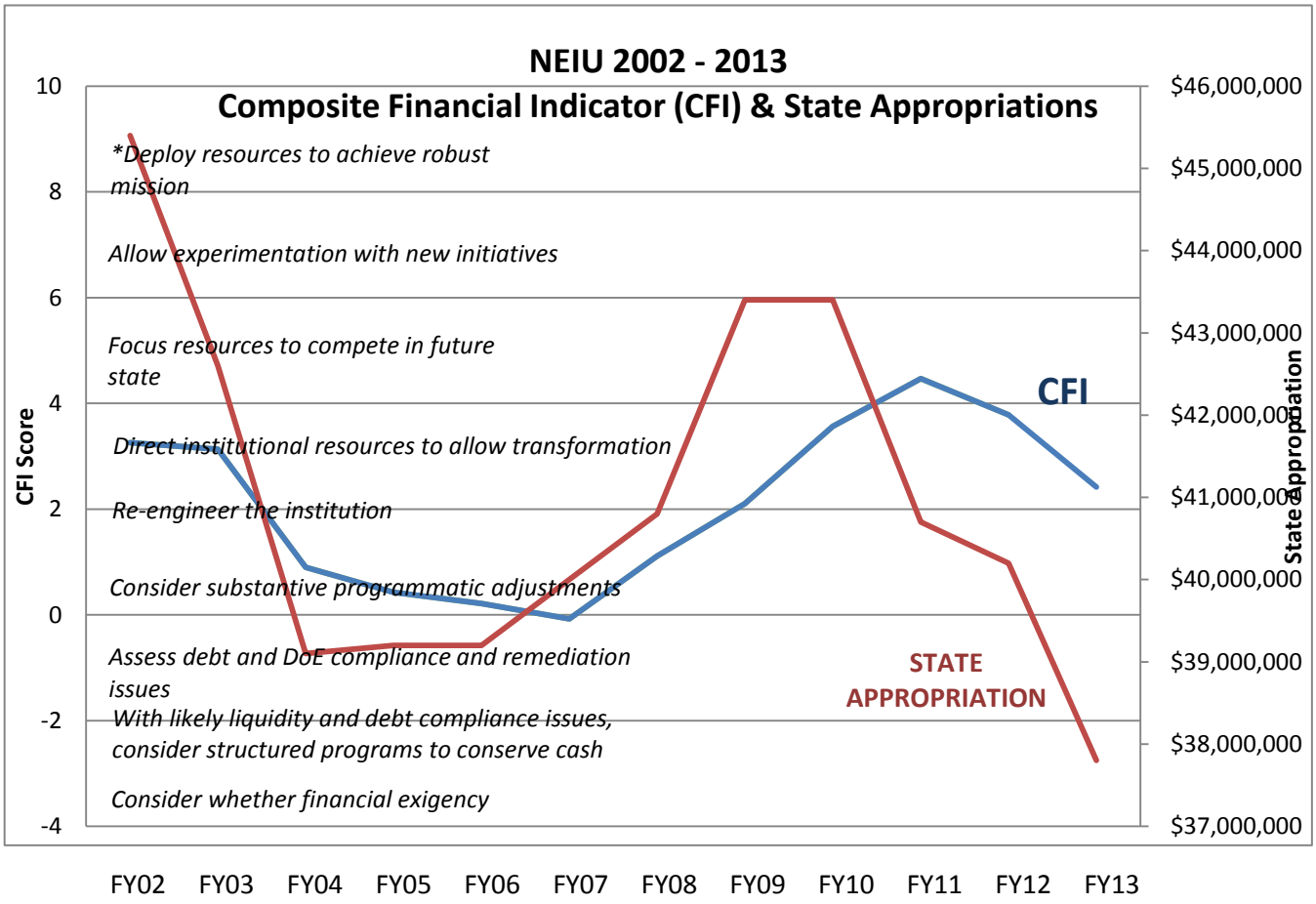
What are inappropriate uses of reserves?

- Using the reserves to balance annual operating budgets would result in structural imbalances compounded in future years, a trend that would be increasingly difficult to amend over time.
- Using reserves for operating expenses creates operating losses, with revenues being less than expenses. Operating losses would be a factor lowering our credit rating, are counter to our budgetary commitment to the Board of Trustees, and if intentional are contrary to State law.
- Once reserves were depleted, drastic budget cuts would then be required in an environment of weak resources, weak credit ratings, and weak future investment.

What is the appropriate level of reserves for NEIU?

- The National Association of College and University Business Officers (NACUBO) recommends a level of reserves equal to five months of expenses. NEIU's monthly unrestricted general operating expenses are, on average, $7.75 million. Keeping this recommended level of reserves requires nearly $39 million.

- Bond rating agencies account for State funding cuts and NEIU's reliance on its state appropriation. For the past two years, the annual state appropriation to NEIU was about $37.8 million. In 2012, Moody's rating agency noted the University's balance sheet level put it in a weak position to weather state funding cuts; NEIU's reserves were $45.0 million at that time. Our reserves were increased partially in response to this judgment. Recently, Standard & Poors rating agency stated that NEIU's rating weakness was "mitigated by the university's . . . adjusted unrestricted net assets at June 30, 2012 . . .."
- The HLC calculates a Composite Financial Index (CFI) to determine a university's financial health. A CFI score lower than 2 indicates financial weakness and concern. A score greater than 2 suggests that the University is positioned to grow new initiatives. The level of reserves is one measure determining the CFI score, and our recent historical accumulation of reserves offset declining appropriations and correlated with healthier CFI scores.



*CFI rating descriptions from Strategic Financial Analysis for HIgher Education provide broad ranges of financial health. CFI Scores take into account University and Foundation assets, operating and non-operating revenues, operating and non-operating expenses, and long term debt.

- Here are financial ratios used by bond rating agencies and suggested by NEIU's investment advisors:
    - Unrestricted net assets to debt – NEIU was one of the strongest Illinois public universities in winter, 2014, due to reserve levels
    - Expendable resources to debt -- among the strongest of Illinois public universities in winter, 2014, thanks to reserve levels
    - Total resources to debt -- among the strongest Illinois public universities in winter, 2014, thanks to reserve levels
    - Resources to operations -- at or above Moody's medians in FY10, FY11, and FY12, because of reserve levels

  NEIU's substantive reserve levels are as suggested by our investment advisors, and provide benefit for bond ratings.
- Given the above, the appropriate level of reserves for NEIU is within a range of $39 million - $45 million, and additional reserves are needed for planned and engaged capital projects.

NEIU reserves history (unrestricted net assets on combined financial statement)

Historically, NEIU's reserves were very low. The funds were built to acceptable levels primarily during a period of significant enrollment growth.

	Total Combined Statements (all revenue sources including multi-year grants, capital funds, cash accounts, etc.)	**Unrestricted General Operating (tuition and state appropriations only)**
FY2009	$5.9 million	$4.5 million
FY2010	$21.4 million	$18.2 million
FY2011	$41.6 million	$35.1 million
FY2012	$45.0 million	$49.9 million
FY2013	$65.9 million	$61.4 million
FY2014	$53.3 million	$51.8 million

Note: In FY12, $12 million was invested in the new El Centro. In FY13, $12 million was recovered via bonding for the new El Centro commitment in FY14.

What are the planned uses of existing financial reserves?

- The State appropriation, used solely for salaries, has become consistently late, with payments beyond the end of the fiscal year. This end of year shortfall has required financial reserves to bridge from June 30 to receipt of the final appropriation payment. **$8.0 to $12.0 million**

- The University is undergoing major physical plant improvements and expansions requiring use of reserves.
    - **El Centro --** This project is being financed without State assistance. The University secured long-term debt for the land acquisition and much of the new facility construction. Additional building and land costs are being funded through the University reserves, to expand the University, expand enrollments, and secure the future. Projected total use of reserves, **$16.0 to $18.0 million**
    - **Education Building utilities infrastructure --** The University has a State capital appropriation to fund the construction of the new Education Building, but the University is incurring expenses to bring utilities infrastructure (electricity, heating and cooling, water, sewer) to the location. **$12.0 to $18.0 million.**
    - **Education Building equipment –** The State capital appropriation for Education Building furniture, fixtures and equipment has not been approved. This item was first on the Illinois Board of Higher Education (IBHE) priority list in FY2015, but no capital project funding was forthcoming. Until it is approved, there is funding risk that must be offset using reserves. **$9.0 million**.
    - **Residence hall projects --** As outlined in the University's strategic plan, the University is working toward a residential life component on its main campus for future enrollment growth. The reserves will finance land acquisition and other expenses for construction of residence halls, to be privately financed, developed, and operated by a university partner. **$11.0 to $15.0 million**
    - **Building B expansion**. This building houses the Angelina Pedroso Center for Diversity and Intercultural Affairs, including the Women's, African-American, Latino, LGBTQA, and Asian and Global Resource Centers. The University's growth in enrollment and student diversity is supported and encouraged by these programs, which require more space. **$2.0 million**.
- The University can no longer rely on the State of Illinois for regular capital funding for new buildings, or for capital renewal funding to maintain existing facilities. Planned or emergency repair of facilities needs to be financed locally, and as operating budgets become tighter, permanent improvement budgets from operating funds are less likely to be available.

Conclusion

The current reserve level is considered strong by some, but the planned spending of reserves for capital investments will result in levels within a range that would present negative implications if reduced further. These include further bond rating downgrades, inability to address cash flow issues caused by state payment delays, and accreditation implications. However, the financial investments being made from current reserves are appropriate and will better position the University to be more competitive and financially stronger in the future.