2011

Newsletter, August 2011

IWU Chapter of the AAUP

Jim Matthews
Chapter President, Illinois Wesleyan University

aaup

Illinois Wesleyan Chapter of the AAUP

SEPTEMBER 21, 2011 NEWSLETTER VOLUME 1, NUMBER 1

Chapter Executive Committee:

James Matthews (president)

Rebecca Roesner (vice-president)

Joerg Tiede (secretary-treasurer)

In this issue:

President's Welcome

Colleagues,

I am very happy to welcome you to IWU for the 2011-2012 academic year, one that will offer numerous opportunities for AAUP members to serve the University. We have a new Provost/Dean of the Faculty whom we have invited to meet with us early in September. The Self-Study Steering Committee (SSSC) will offer drafts of its reports for our consideration this fall, and is counting on our feedback. We have scheduled two speakers this year and will be offering two reading groups. We have begun a newsletter as you can see, and we continue to maintain close ties with both the state and national AAUP leadership through the service of Joerg Tiede.

Having now worked on SSSC for two years, my question to our members is "Who is watching the watchmen?" Given the increased transparency of the budgeting process, I am left to wonder if AAUP shouldn't be responding to reports provided to us. While our attention is drawn to the budgeting process, (creating a spending plan for each year), shouldn't we also be talking about Form 990 (mandated information furnished to the IRS by non-profit organizations) that details how the money was spent? Let's not forget that Category IIB, used to mark our salary progress or lack thereof, is an AAUP category and came from an annual salary report that our local chapter provided to the entire faculty over many years.

I hope you will put the dates Joerg has already sent you into your calendar, and more importantly, will be present at these events. I would also remind you please to invite a colleague to these events. I look forward to greeting you and your guest personally at our first gathering on September 8.

Cheers,

Jim Matthews, President
IWU Chapter--AAUP

IRS Form 990: Access and Use

Most nonprofits are required to file an IRS Form 990 every year, and these forms are public information. Your institution's 990 filings can provide insight into its overall financial health. The guidelines offered here will help you to locate and make sense of your institution's 990 forms.

Accessing 990 filings:

Two websites, www.guidestar.org and www.foundationcenter.org, make 990 forms available **free** to users. Use of Guidestar's website requires you to register, but the service is free.

To locate a 990 form on the Guidestar website: on the homepage, login with your username and password, then enter the name of the institution in the search box. Click on the correct result (you may be asked to refine your search or receive more than one hit). Click the "Forms 990 and Docs" tab and select which year's 990 filing you want to view. It will open in a .pdf file.

To locate a 990 form on the Foundation Center website: on the homepage, click on the "Find Funders" tab. On the next page, in the left-hand column, click on "990 finder." Fill in the organization's name and state. You can further refine your search, including by year, if desired. Hit "Find" and then click on the correct result to access the 990. It will open in a .pdf file. This service is also free.

******Note 1****: There is a considerable lag time between when institutions file Forms 990 and when they are archived on these sites. Many 2010 filings are not yet available on either site, but your institution's business office should be able to provide a copy to you upon request.*

Chapter website:

http://www.iwu.edu/~iwuaaup

Reading 990 filings:

In 2008, the IRS introduced a drastically revised IRS Form 990. The information on both versions of the form remains the same, but is organized differently on each. The guidelines below use the line numbers from the old form but list in parentheses the corresponding lines from the new version.

The Numbers:

Expenses/revenue comparison: At the most basic level of analysis, financially healthy organizations take in more money than they spend. So the first step in reading a 990 is to compare total revenue, line 12 (also line 12 on new form), to total expenses, line 17 (line 18 on new form). Obviously, it's desirable for revenue to be greater than expenses, because that indicates fiscal efficiency – in other words, that the organization spends less than it takes in. To calculate an organization's efficiency ratio, divide expenses by revenue.

For example: If an institution's total revenue is $28,000,000 and its total expenses are $24,000,000, its efficiency ratio would equal 0.86.

A ratio lower than 1 is a good sign; a higher ratio may be a red flag that the institution has an increased financial vulnerability or may have some financial problems.

Understanding expenses: It's important to understand not just how much money an institution spends, but also **how** it spends the money. An institution's expenses are broken down into three categories:

- **program services** – line 13 (13,14)
- **management/administrative costs** – line 14 (15)
- **fundraising** – line 15 (16).

How much a nonprofit organization spends directly on its mission – what it *does* (or "produces") – is usually contained in the "program services," line 13. Like the expenses-to-revenue comparison, the way expenses are distributed across these categories can indicate an institution's efficiency and priorities. Compare lines 13, 14, and 15:

Joining the AAUP:

http://www.aaup.org

Does the institution spend more on management than on its core mission?

Without a line-item breakdown and further information about how the institution determines which expenses are programmatic and which are administrative, these numbers are suggestions rather than conclusive statements. For example, faculty salaries may be listed under program services (as part of the cost of carrying out the organizational mission of education), while administrators' salaries may appear under management costs, but it is also possible that some portion of each is distributed across both categories. We simply don't know from looking at the 990. It is, however, safe to say that a bigger distribution in line 13 is one mark of an institution that is being true to its core mission.

Do its fundraising expenses appear to be justified by its total revenue?

Generally, an efficient nonprofit will generate a lot of revenue without spending too much on fundraising. If an institution's main source of revenue is student tuition, then a high figure in line 15 might lead you to ask more questions about how the institution calculated this amount (e.g., does line 15 include money spent recruiting new students or that portion of the president's salary proportional to the time s/he spends meeting with donors?, etc.).

The website, www.charitynavigator.org, uses these categories to rate charities' efficiency. While the site doesn't contain information about many higher education institutions, its rating system provides good examples of how these three categories should be read against each other.

Determining financial fluidity: Generally speaking, a healthy institution doesn't normally carry a heavy debt load and has some capital to invest in its own growth.

Debt load: An institution's total assets (i.e., what it's worth) is the sum of its liabilities (debt) and net assets (equity): Line 74 (34) = line 66 (26) + line 73 (33). Examine the total liabilities as a percent of its total assets.

The difference between line 73 and line 66 is the institution's working capital. If an institution's total worth contains more debt than equity (negative capital), it may be cause for concern. (Not always, however: for example, if an institution has just bought an investment property, its debt load may be higher than its net assets, but other factors need to be considered, such as the terms of the debt and the institution's ability to make its payments.)

Net assets: An institution's financial health is partially determined by the liquidity of its net assets – in other words, how much of its equity is "tied up" or unavailable and how much is free to be used to address whatever circumstances (good or bad) may arise. Net assets fall into three categories: line 67 (p. 10, line 27) – unrestricted (discretionary funds), line 68 (28) – temporarily restricted (e.g., time-limited donor restrictions), and line 69 (29) – permanently restricted (e.g., endowments, fixed assets like buildings). If an institution's net assets are primarily on lines 68 and 69, it may not have the flexibility it needs to grow or meet unexpected financial challenges.

General Considerations:

The Financial Vulnerability Index (FVI): The authors of a 2002 article in *The CPA Journal* developed a formula for assessing a nonprofit institution's financial vulnerability. The article, which can be found at http://www.luca.com/cpajournal/2002/0602/dept/d066602.htm, includes instructions for calculating an institution's FVI, but more useful for anyone who isn't a finance expert are the explanations of the multiple factors to consider in assessing a nonprofit's financial health. Taken together, these guidelines summarize the "big picture" that is formed by utilizing the 990 analysis tips provided above. A higher FVI may be a sign of financial trouble.

- Debt ratio: The higher an institution's debt, the more difficulty it will face in the event of a financial crisis, both because lost revenue can make it harder for the institution to make its payments and because a high debt load will decrease its ability to borrow money in an emergency.

- Diversity of revenue streams: An institution that gets most of its revenue from one or two sources may have a higher FVI than one with several revenue streams, since the latter will have more alternatives to rely on if a financial crisis severely affects one or more of its revenue sources.

- Administrative cost ratio: A nonprofit with a low percentage of administration costs may have a higher FVI that one with higher administration costs because, when faced with a financial crisis, it will be more likely to have to cut services rather than its administrative budget.

- Surplus margin: This is the difference between an institution's revenue and its expenses, divided by its revenue. The higher the surplus, the more likely the institution will be able to weather a financial emergency without reducing services.

- Organizational size: Smaller institutions may be more vulnerable than larger ones because their budgets are smaller overall, which allows for fewer options in the event of a financial crisis.

Source: Department of Organizing & Services, American Association of University Professors, organizing@aaup.org.

Upcoming Events

September 8: Chapter Meeting. At 4:00pm in CNS E 103.

September 15: Chapter Meeting with Provost Green. At 4:00pm in CNS E 103.

September 29: Reading Group Meeting: *For the Common Good: Principles of American Academic Freedom* by Matthew W. Finkin and Robert C. Post. At 4:00pm in CNS E 101. From the publisher's description:

> Matthew W. Finkin and Robert C. Post trace how the American conception of academic freedom was first systematically articulated in 1915 by the American Association of University Professors (AAUP) and how this conception was in subsequent years elaborated and applied by Committee A of the AAUP. The authors discuss the four primary dimensions of academic freedom—research and publication, teaching, intramural speech, and extramural speech. They carefully distinguish academic freedom from the kind of individual free speech right that is created by the First Amendment. The authors strongly argue that academic freedom protects the capacity of faculty to pursue the scholar's profession according to the standards of that profession.

October 7: Talk by Irene Mulvey, Fairfield University. Prof. Mulvey is president of the Connecticut State Conference of the AAUP, a member of the AAUP Council and its Executive Committee, and a member of the Committee on College and University Governance. At 4:00pm in CNS E 103.

October 17: Non-Org to follow up on Irene Mulvey's talk. At 12:00 in the Davidson Room.

November 17: Workshop on Action-Oriented Meetings and Parliamentary Procedure. At 4:00pm. Location CNS E 106.