



NLU

Analysis of the Financial Condition of National Louis University

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Framework

- The administration has decided that the university is in dire financial condition, and that draconian cuts to the core academic mission are the only option.
- This analysis will examine:
 - 1. Is the university in dire financial condition?
 - 2. If not dire, are there still problems?
 - 3. What actions, other than cutting the core academic mission, should be considered?

Executive Summary

- Conclusion: The faculty layoffs should not have been implemented. Administrative savings should come first, and a zero-based budget analysis of administrative costs must be undertaken before any additional layoffs occur. Specifically, the fundraising costs – given what is being raised – are extraordinarily high and should be reduced before any cuts the core academic mission are implemented.
- Conclusion: There are major transparency issues for the NJU administration. Until all data issues are resolved, no faculty layoffs should occur.
- The administration comes at the problem by seeing how much of the core mission can be cut and still keep going; the goal should be to preserve the core academic mission at all costs, by cutting as little as possible from that core.

Roadmap

- Analysis of Financial Performance
 - Basic ratios through 6/30/11
 - Updates for 8 months ended 2/29/2012
- Revenues: Where is the money coming from?
Tuition, grants, contracts, endowment income.
- Focus on Enrollment
- Expenses: Is the administration devoting sufficient resources to the core academic mission?
- Other metrics: Faculty salaries, number of employees

Main Data Sources

- **Audited financial statements.**
- **Budgets. This is a loaded word. The key fact is this:**
 - Audited financial statements report what happened.
 - Budgets predict what will happen.
- **IRS 990: Publicly available only through 6/30/2010**
- **Timing:**
 - Audited financial statements are available for the year ended June, 2011.
 - The budget for the current year (2011-12) is already done; the budget for the 2012-13 year is being debated.
 - The 990 is due 4 ½ months after the fiscal year end; an automatic 3-month extension is typically utilized, giving the administration until 1/15/2012. Any further extension beyond 1/15/2012 requires special circumstances. Therefore, the 2011 990 is available, and should be shared.

Other Data Sources

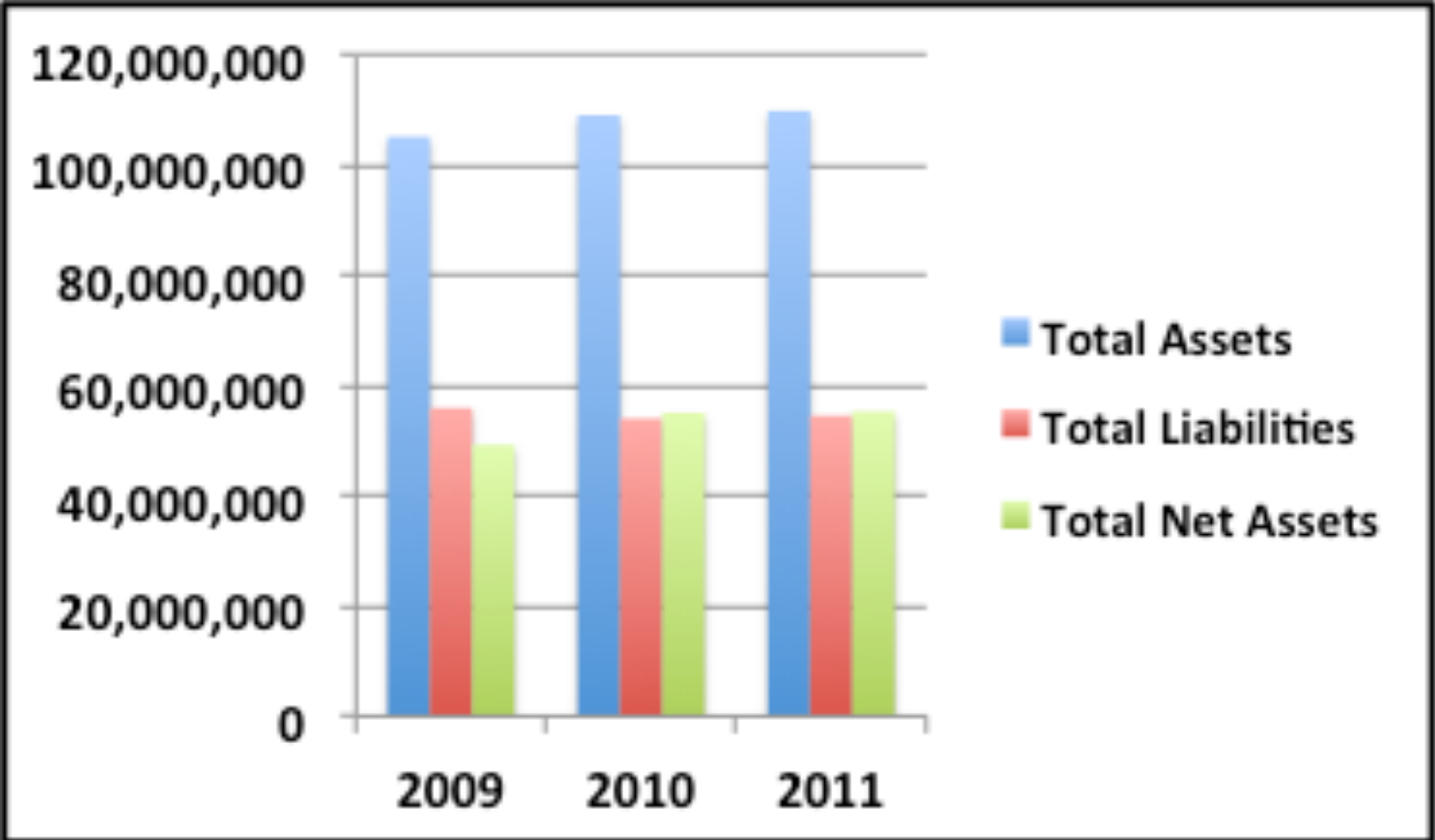
- **IPEDS (Integrated Postsecondary Education Data System) for detailed revenue and expense analysis**
- **AAUP Salary Surveys**
- **University budget and other documents**

Statement of Net Assets Summary

In Dollars	2009	2010	2011
Total Assets	105,298,884	109,186,021	109,990,233
Total Liabilities	55,998,414	54,077,944	54,495,429
Total Net Assets	49,300,470	55,108,077	55,494,804
As % of Total Assets	2009	2010	2011
Total Assets	100%	100%	100%
Total Liabilities	53%	50%	50%
Total Net Assets	47%	50%	50%

- Net Assets = Assets - Liabilities
- This basically tells us that the university is not broke; liabilities are only 50% of total assets, and the percentage has not changed much over the last 3 years; this is a similar percentage for February of 2012
- We will examine the components of all three elements, as the focus on net assets lets us see what reserves exist

Statement of Net Assets Graphically

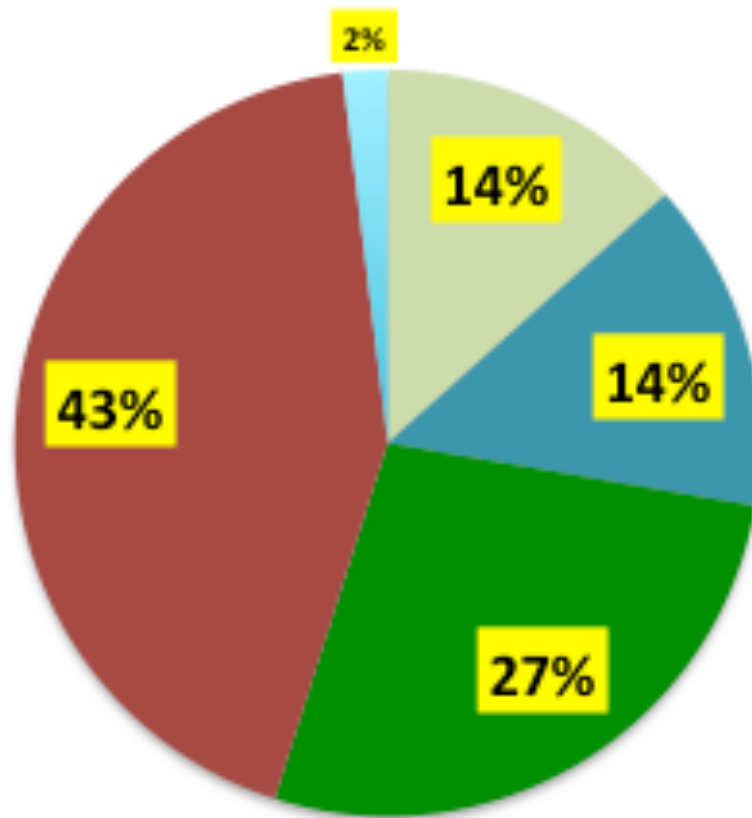


Asset Composition

	2009	2010	2011
Cash	9,656,750	14,908,628	14,738,113
Receivables	19,999,812	18,133,176	15,728,908
Investments	23,566,095	25,475,467	29,922,844
Capital Assets	50,558,533	49,136,672	47,458,115
Other Assets	1,517,694	1,532,078	2,142,253
Total Assets	105,298,884	109,186,021	109,990,233

- Investments are almost entirely the endowment
- Capital assets are the largest asset; these decline each year due to non-cash depreciation

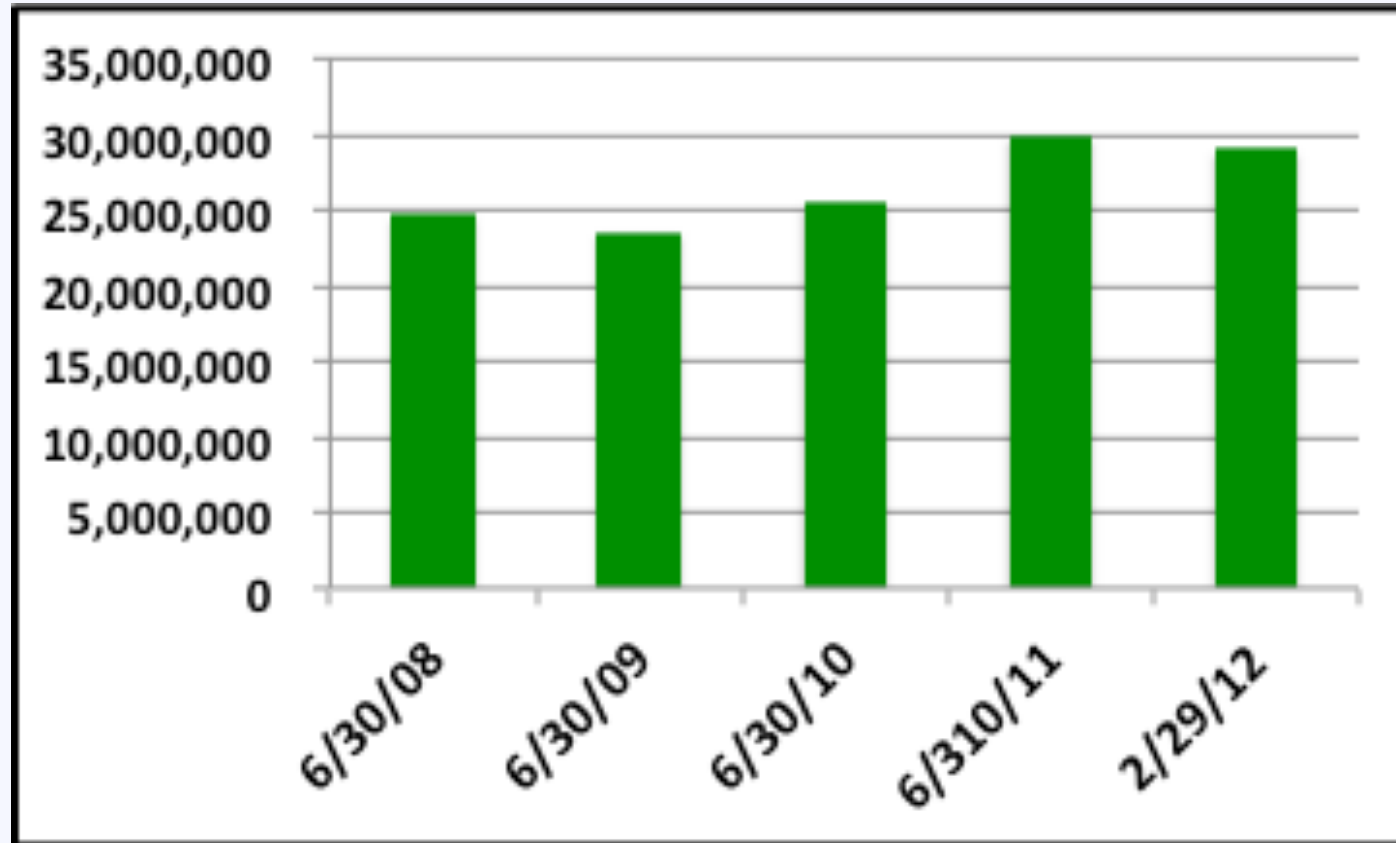
2011 Asset Composition



**Total Assets =
\$110 Million**

- Cash
- Receivables
- Investments
- Capital Assets
- Other Assets

Investments from 2008 to 2012



- Total investments have more than recovered from the 2009 decline
- It cannot be claimed that the decline in investments is a factor in the financial health of NLU

Investment Portfolio 2011

	Dollars	% of Total
Domestic Equity Funds	14,143,305	47%
Fixed Income Funds	8,451,851	28%
International Funds	4,464,846	15%
Hedge Funds	2,688,601	9%
Cash	158,241	1%
Other	16,000	0%
Total Investments	29,922,844	100%

- This is not an aggressive portfolio
- For hedge funds, these are often called “alternative investments.”
Think Bernie Madoff

Liability Composition

	6/30/09	6/30/10	6/310/11	2/29/12
Deferred Tuition	13,359,915	12,046,080	9,989,706	6,247,251
Accounts Payable	6,636,896	6,623,695	9,922,541	5,538,929
Lease Payable	4,587,725	5,010,087	5,039,755	4,653,109
Bond Payable	29,900,000	28,900,000	27,900,000	27,900,000
Other Liabilities	1,513,878	1,498,082	1,643,427	1,664,735
Total Liabilities	55,998,414	54,077,944	54,495,429	46,004,024

- The decline in liabilities for February of 2012 is not that revealing; in February of 2011, total liabilities also declined, as tuition collected in advance ceased being a liability
- Technical accounting note: When tuition is received before the term, it is a liability of the university. Once the term commences, the liability is reduced and the university recognizes tuition revenue
- It is revealing that the liability situation overall is very steady, and that there is not a high level of liabilities relative to assets or reserves

Discussion of Liabilities and Swaps

- The bond payable is issued through a public entity; this demonstrates that though NLU is private, they use taxpayer dollars (and millions for loans and Pell Grants). Denying basic financial information is not appropriate.
- The principal of the \$42M, 1999 variable rate bond is paid off at the rate of \$1M per year through 2013, then \$1.2M through 2015, and \$1.4M per year afterwards.
- In July of 2011, the university entered into an interest-rate swap, where they will swap into fixed payments. This is fine, but it is risky; organizations that are in dire financial trouble do not get involved in interest-rate swaps. The conservative play is to borrow fixed.
- There is an untapped \$3 million line of credit that the University has not utilized.

Net Asset Composition

	6/30/09	6/30/10	6/30/11	2/29/2012
Unrestricted Net Assets	37,387,878	42,528,334	41,766,840	41,568,466
Temporarily Restricted	3,179,656	3,509,979	4,428,443	4,343,488
Permanently Restricted	8,732,936	9,069,714	9,299,521	9,336,372
Total Net Assets	49,300,470	55,108,077	55,494,804	55,248,326

- As we will see, not all of the unrestricted net assets are available as reserves.
- It is healthy that there are over 55 Million of net assets – we will see how much in real reserves there are

Definition of Net Asset Categories

Source: Page 7 of 2011 Audited Financial Statements

- “Unrestricted – net assets that are not subject to donor-imposed restrictions
- Temporarily Restricted: net assets subject to donor-imposed restrictions that will be met either by actions of the University or the passage of time. Temporarily restricted net assets are generally restricted by the donor for research, plant activities and other University operations.
- Permanently Restricted - subject to donor-imposed restrictions to be maintained permanently by the university. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for scholarships, education and other University operations.”

More on Unrestricted Net Assets

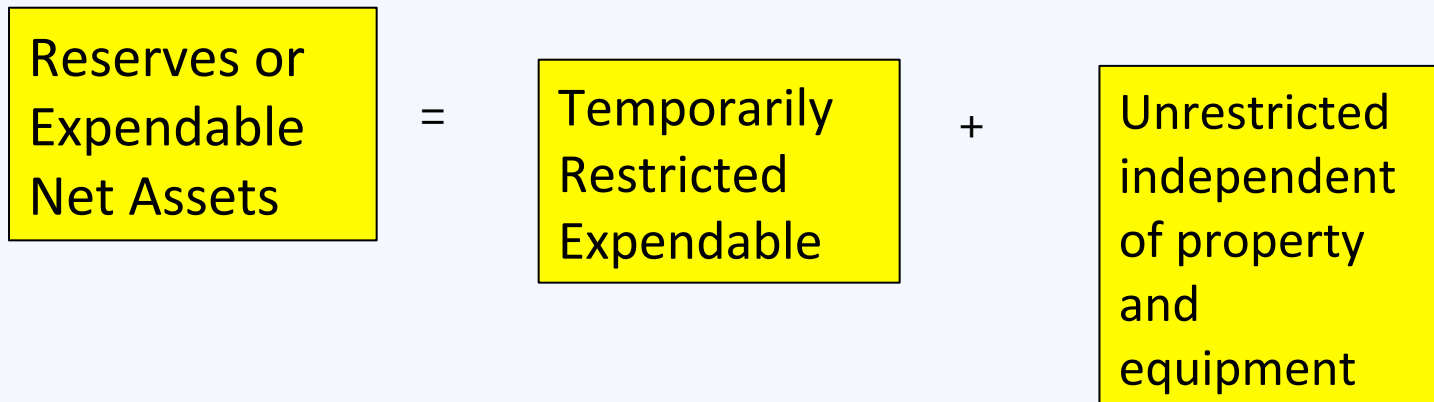
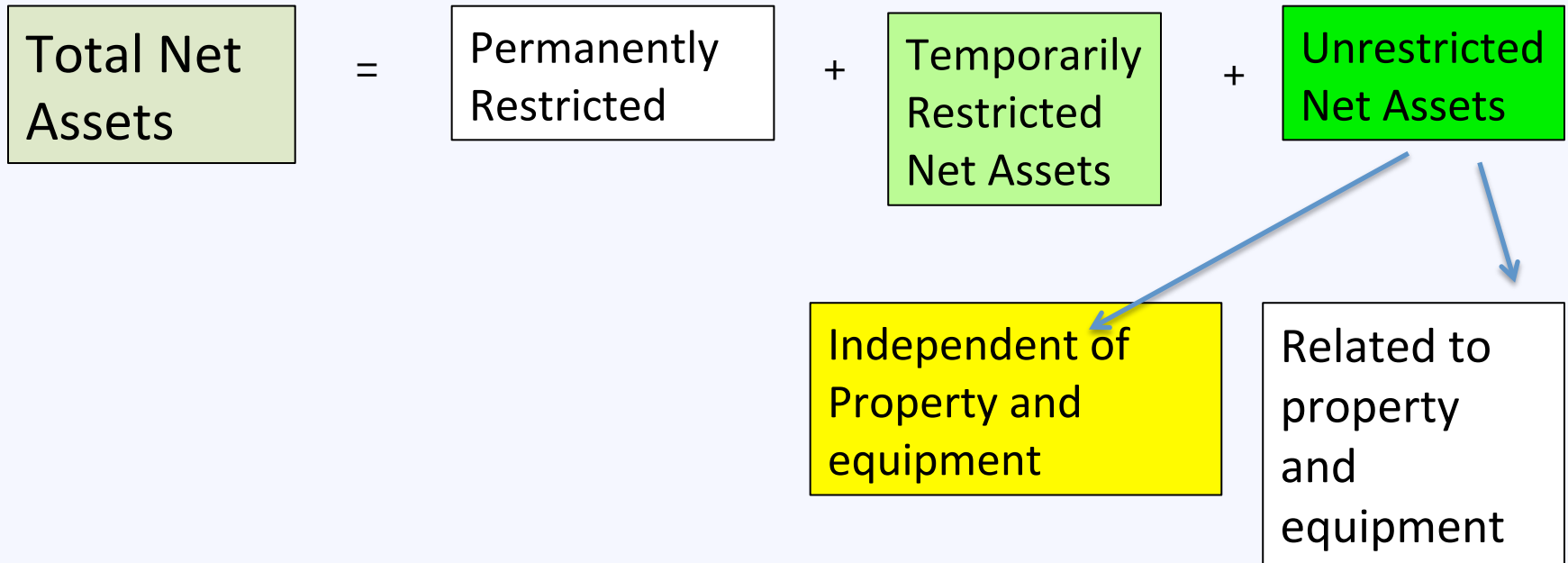
- The unrestricted category overstates what is available to the administration, and we conservatively make an adjustment for this accounting construct.
- The amount that is invested in plant assets is not available for the university (the university is not going to sell the buildings), and this amount is subtracted when analyzing the net assets of a private university.
- Reserves are the numerical sum of temporarily restricted net assets and the portion of unrestricted net assets unrelated to plant (buildings that are free of debt)

Unrestricted Net Asset Composition

	2009	2010	2011
Unrestricted Net Assets	37,387,878	42,528,334	41,766,840
Capital Assets	50,558,533	49,136,672	47,458,115
Bonds Payable	29,900,000	28,900,000	27,900,000
Capital Assets, Free of Debt	20,658,533	20,236,672	19,558,115
"Free" Component of Unrestricted Net Assets	16,729,345	22,291,662	22,208,725

- In 2011, of \$41.8 million of unrestricted reserves, only \$22.3 million is truly a reserve.
- It is revealing that these reserves have been increasing. We will next compare the size of reserves to total expenses and to debt.
- Note that total reserves will also include temporarily restricted reserves – see next slide

Reserves



Primary Reserve Ratio: Reserves vs. Expenses

	2009	2010	2011
Free Unrestricted	16,729,345	22,291,662	22,208,725
Temporarily Restricted	3,179,656	3,509,979	4,428,443
Total Reserves	19,909,001	25,801,641	26,637,168
Total Expenses	85,454,207	84,647,950	85,035,491
Primary Reserve Ratio	23%	30%	31%

- The primary reserve ratio is defined as total reserves over total expenses
- A ratio of 31% indicates that NLU could cover 3-4 months of expenses; 2-3 months is considered prudent
- If there is a temporary budget problem, reserves should be considered before any cuts to the core academic mission

Viability Ratio: Reserves vs. Debt

	2009	2010	2011
Total Reserves	19,909,001	25,801,641	26,637,168
Debt	29,900,000	28,900,000	27,900,000
Viability Ratio	67%	89%	95%

- The viability ratio is defined as total reserves over interest-bearing debt
- The increase in this ratio is due to an increase in reserves and paying off debt; these are both positive developments.
- For the first 8 months of 2012, the debt is even lower, and reserves are about flat with 2011 levels.

Revenues and Expenses: Big Picture

	2009	2010	2011
Total Revenues	82,026,104	90,455,507	89,169,660
Total Expenses	85,454,207	84,647,950	85,035,491
Change in Net Assets	(3,428,103)	5,807,557	4,134,169
As % of Total Revenues	-4.2%	6.4%	4.6%

- The net income ratio is defined as the change in net assets divided by total revenues
- The change in net assets is negative in 2009 – this is mostly due to paper losses on the endowment. Cash flow data will reveal how the University really performed

Moody's Ratio Analysis

- Moody's uses three ratios to judge the financial condition of public universities. Though NLU is private, the rating system is still very relevant, as bonds are issued through a public entity.
- A composite score is compiled based on these 3 ratios:
 - Primary Reserve Ratio
 - Are there sufficient reserves?
 - Viability Ratio
 - Is there too much debt?
 - Net Income Ratio
 - Are revenues and expenses in line with each other?

Moody's Ratio Definitions

- *Primary reserve ratio*: Expendable net assets divided by total operating expenses.
- *Viability ratio*: Expendable net assets divided by debt.
- *Net Income Ratio*: Change in total net assets divided by total revenues.
- Final Score =
 - 50% * Primary Reserve Ratio +
 - 30% * Viability Ratio +
 - 20% * Net Income Ratio

Moody's Summary Scores

SCORE	0	1	2	3	4	5
Primary Reserve Ratio	< -.1	-10% to 4.9%	5% to 9.9%	10% to 24.9%	25% to 49.9%	50% or more
Viability Ratio	< 0	0% to 29%	30% to 59%	60% to 99%	100% to 250%	> 250% or NA
Net Income Ratio	< -.05	-5% to 0%	0% to 0.9%	1% to 2.9%	3% to 4.9%	5% or more

NLU Moody's Scores

	2009	2010	2011
Primary Reserve Ratio	23%	30%	31%
Viability Ratio	67%	89%	95%
Net Income Ratio	-4.2%	6.4%	4.6%
Primary Reserve Score	3	4	4
Viability Score	3	3	3
Net Income Score	1	5	4
Moody's Composite Index	2.6	3.9	3.7

- To be in financial trouble, according to Moody's, an institution must have a composite score of below 1.75 for two consecutive years
- 5.0 is a perfect score
- 3.7 is a solid rating; To suggest that NLU is broke is simply untrue.

Other Ratios: Cash Flows

	2010	2011
Cash Flows from Operations	6,476,335	1,992,853
Total Revenues	90,455,507	89,169,660
Cash Flow Margin	7.2%	2.2%

- **Cash Flow Margin = Operating cash flows divided by total revenues**
- **A positive ratio is solid, and is a real strength for NLU**
- **In 2009, though the change in net assets was negative, due to paper losses and depreciation expense, it is likely cash flows were positive (I do not have the audited financial statements for 2009)**

Conclusions from Ratio Analysis

- As of June 30, 2011, NLU is in solid financial condition.
- There are solid reserves, manageable debt, revenues exceeding expenses, and positive cash flows.
- For the first 8 months of 2012, reserves are flat, revenues are about the same as expenses, and debt has declined.
- What will the enrollment decline mean going forward? At this point, draconian cuts do not seem necessary at all; existing reserves and the ability to tap into a line of credit are viable options that do not appear to have been considered. As we will see, the best option is to cut administrative costs.

Revenue Dollar Analysis

Source: Audited Financial Statements for 2010 and 2011; Internal for 2009

	2009	2010	2011
Tuition and Fees, Net	77,052,064	79,078,945	72,035,720
Grants and Contracts	5,199,365	5,606,438	8,992,846
Investment Return	(3,535,377)	2,937,672	5,094,452
Sales and services of educational activities	1,150,562	1,520,481	1,454,891
Gifts	1,471,403	736,600	758,880
Other Income	318,943	263,037	456,676
Auxiliaries	369,144	312,334	376,195
Total Revenues	82,026,104	90,455,507	89,169,660

- **Auxiliaries = residential and food service operations**
- **Sales and services of educational activities are items sold to faculty, students, staff, and the public, relating to instruction/lab experiences for students**
- **We will examine percentage changes, as well as tuition discounting**

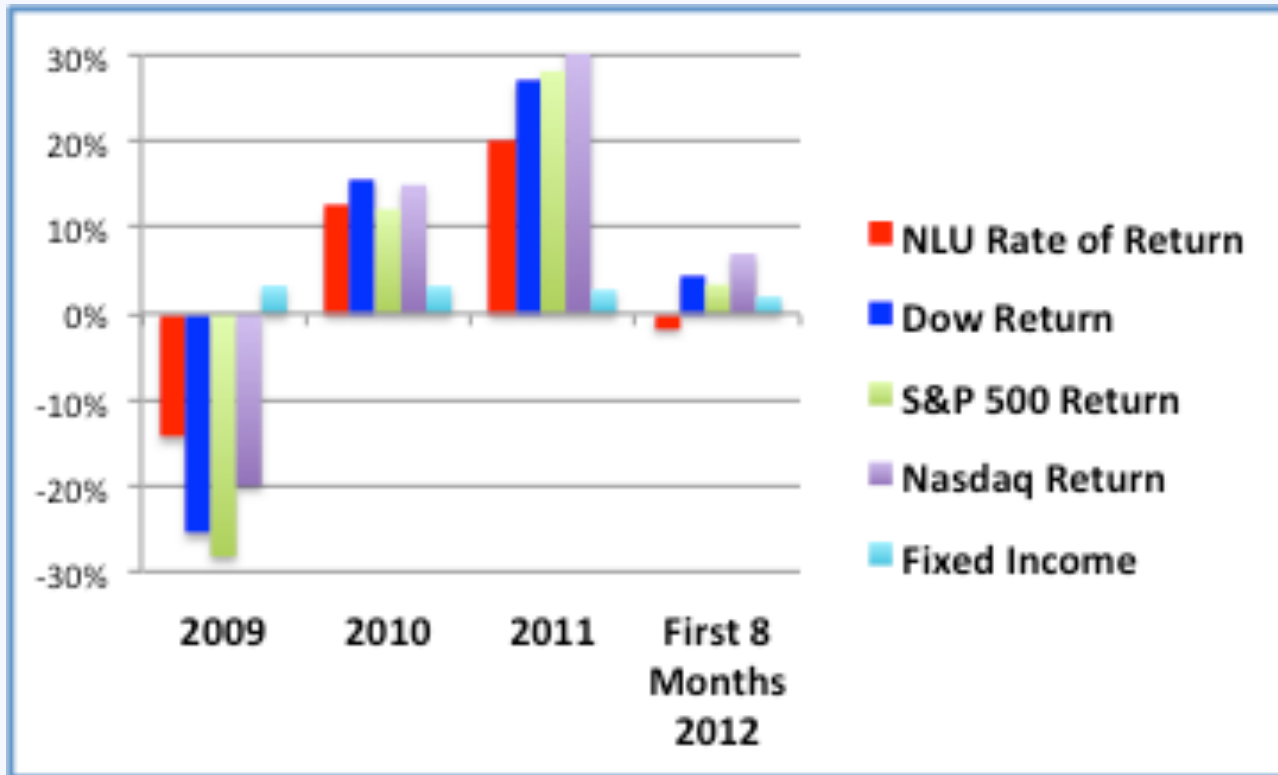
Revenue Dollar Analysis: 8 Months 2012 vs. 8 Months 2011

Source: Internal Financial Statements

	First 8 Months 2011	First 8 Months 2012	Dollar Change	Percentage Change
Tuition and Fees, Net	48,567,315	41,385,218	(7,182,097)	-17%
Grants and Contracts	5,138,457	5,396,795	258,338	5%
Investment Return	5,025,726	(506,016)	(5,531,742)	
educational activities	814,235	973,373	159,138	16%
Gifts	570,869	901,362	330,493	37%
Other Income	256,366	299,806	43,440	14%
Auxiliaries	288,435	115,319	(173,116)	
Total Revenues	60,661,403	48,565,857	(12,095,546)	-25%

- Tuition revenue is down, and the other revenues are not able to overcome this.
- However, the investment return, as we will see, is -500k when it should be +1M, at least.
- All major stock and bond indexes are up for the June 2011 to February 2012 period; they have increased from February 2012 to April 2012 as well

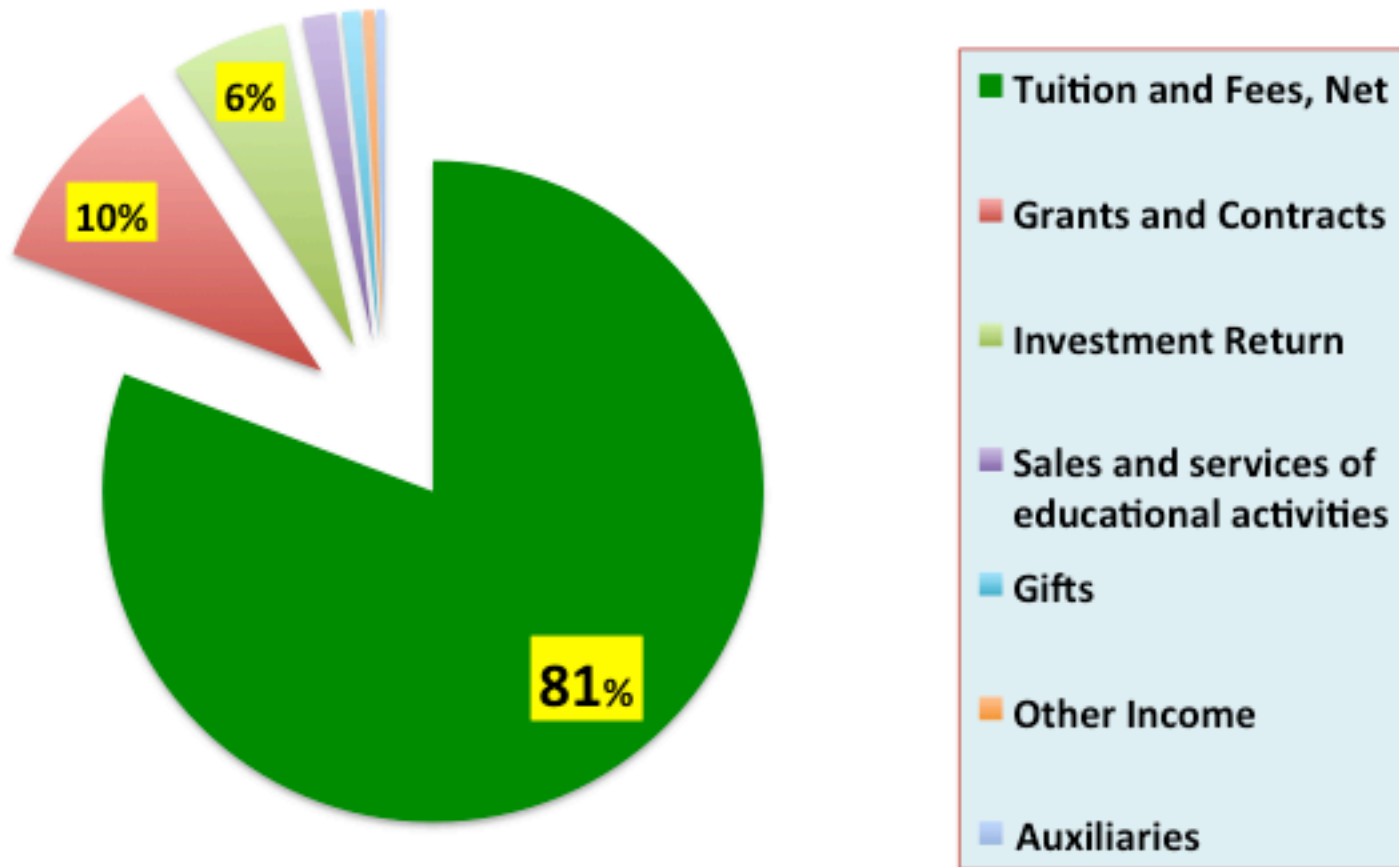
2012 Investment Return: Something is Not Right



- In 2009, 2010, and 2011, the NLU investment return was less volatile but in the same direction as the major indexes and fixed income returns.
- In 2012, the NLU return is negative, while all other index returns are positive for the same time period. Why did this change? The NLU return is -\$500,000; it should be about + 1M. This \$1.5M could be a factor in the decision to lay people off, and it should not be the basis for such a decision

NLU 2011 Revenue Percentage Analysis

2011 Revenue Distribution



Dollar and Revenue Percentage Change Analysis

Dollar Changes	2009 to 2010	2010 to 2011	2009 to 2011
Tuition and Fees	2,026,881	(7,043,225)	(5,016,344)
All Other Revenues	6,402,522	5,757,378	12,159,900
Total Revenues	8,429,403	(1,285,847)	7,143,556
Percentage Changes	2009 to 2010	2010 to 2011	2009 to 2011
Tuition and Fees	3%	-9%	-7%
All Other Revenues	129%	51%	71%
Total Revenues	10%	-1%	9%

- All other revenues are driven by the paper losses in 2009, and the paper gains in 2010 and 2011; that is why the percentage changes here are in small font
- Tuition revenue declined from 2010 to 2011, though the prior year had an increase; we will examine enrollment in detail, as well as tuition discounting

Be Wary of Budgets

- The original operating budget for 2011 had a surplus of **+1.2 million**.
- The final forecast had a deficit of **\$4.5 million**
- The change in net assets was POSITIVE **\$4.1 million**.
- A similar pattern occurred in 2010
- For 2012, there is a proposed budget deficit of **\$900k**.
- Be wary of budgets – they are predictions, and the administration has an incentive to make things look as bad as possible.
- What matters most are the actual, audited results.

Tuition Discounting

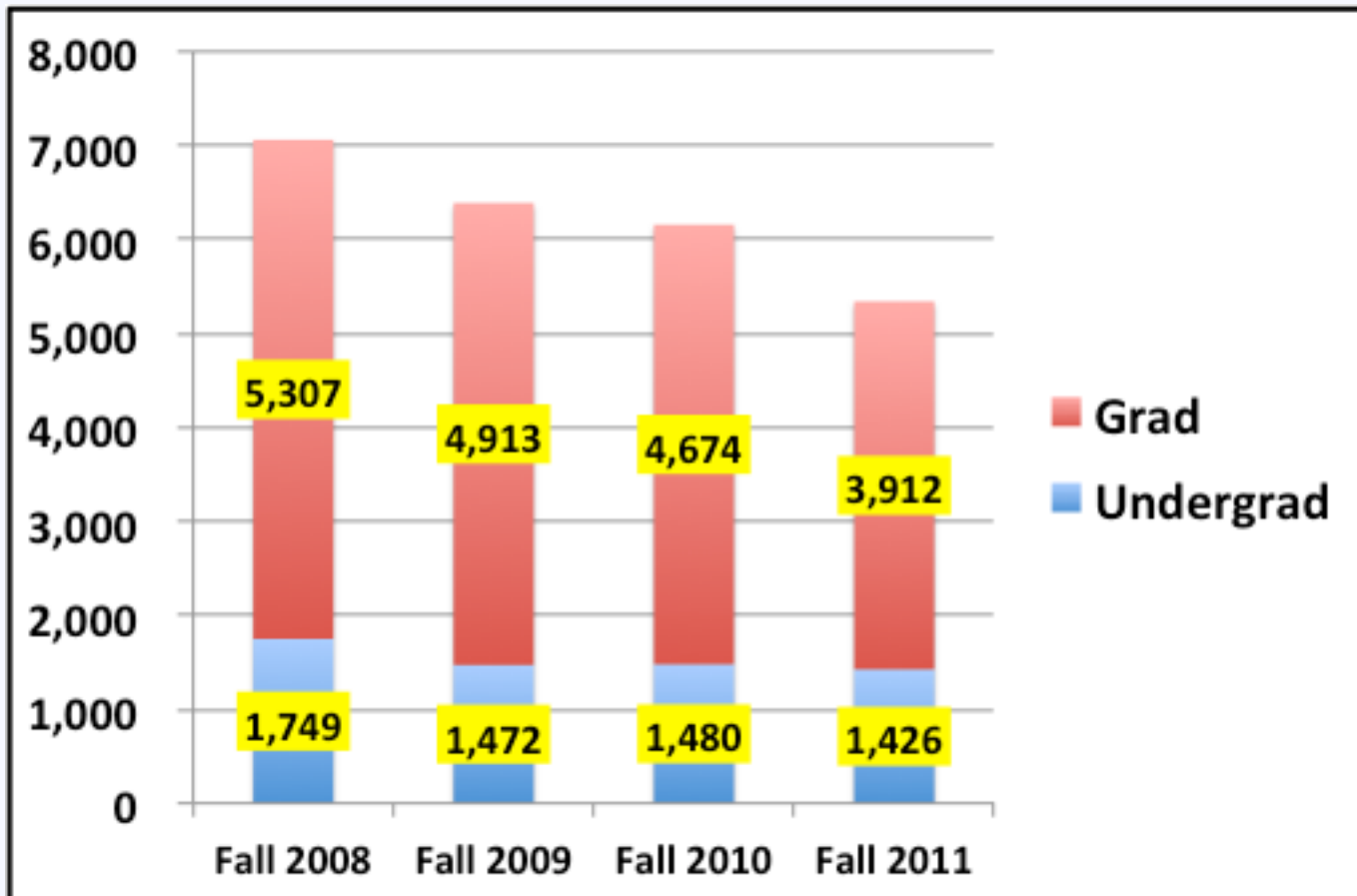
Source: Audited Financial Statements

	2009	2010	2011	First 8 Months 2012
Tuition and Fees	81,359,568	82,891,053	75,136,357	43,677,996
University Assistance	(4,307,504)	(3,812,108)	(3,100,637)	(2,292,778)
Tuition and Fees, Net	77,052,064	79,078,945	72,035,720	41,385,218
Discount Rate	5.3%	4.6%	4.1%	5.2%

- The discount rate is increasing over time, but is still not as high in 2012 as it was in 2009
- This rate is lower than at more expensive private institutions
- There are other forms of aid, such as Pell Grants. Above is aid given by the institution

Enrollment Analysis: 2008 to 2011

Fall Enrollment per IPEDS



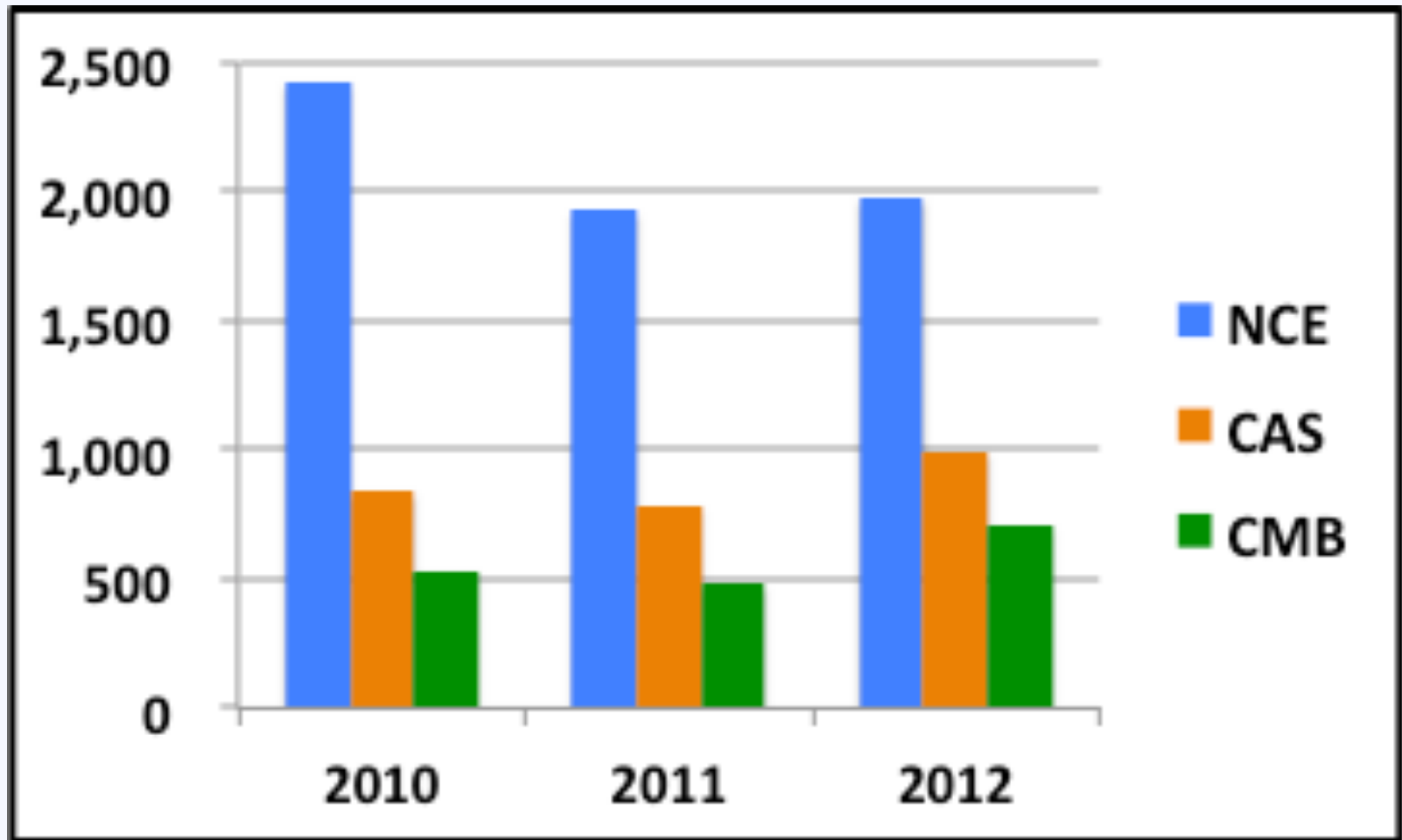
Enrollment Analysis: 2010 to 2012

Source: NLU 2012 Operating Budget

	2010	2011	2012
Total Students	5,800	4,730	5,225
Number Change		(1,070)	495
% Change		-18%	10%
Total Undergraduate	1,003	952	1,249
Number Change		(51)	297
% Change		-5%	31%
Total Graduate	2,800	2,245	2,444
Number Change		(555)	199
% Change		-20%	9%
Non-Degree	1,997	1,532	1,532
Number Change		(465)	0
% Change		-23%	0%

Enrollment Analysis: 2010 to 2012 By College

Source: NLU 2012 Operating Budget



Enrollment Analysis Spring 2011 vs. Spring 2012

Source: NLU Summer of Enrollment: 3/26/2012

	Spring 11 HC	Spring 12 HC Budget	Spring 2012 to date
Total HC	5,583	5,432	4,311
Revenue per student	\$3,333		
Every 100 students	100		
Revenue loss	\$333,316		

- This is the only full enrollment report I have; it is very difficult to analyze enrollment without multi-year trends
- It is unclear if the problem is 1000 students (\$3.3 million spring hole), or whether this problem is true for fall 2012 and beyond
- From the prior slide, it is very hard to measure the size of the budget problem. It is possible it is being overstated.

Transparency Issues

- Overall, transparency is a real problem at NLU. Confidentiality agreements are not needed for financial information
- NLU is private in name only; they receive millions in state aid, through public debt offerings and federal loans/grants.
- Before people lose their jobs, the following data should be analyzed:
 - IRS form 990 for the year ended June 30, 2011. This document has been completed and filed
 - IPEDS data submission for the year ended June 30, 2011. This data has been compiled and reported as of April 15, 2011
 - Full detail of the number of employees by function (faculty, administration, etc.).
 - Percent of classes taught by faculty, adjuncts, etc. for the last 5 years
 - Class size per the US Department of Education Common Data Set for the past 5 years
 - Enrollment per the common data set for the past 5 years, as well as enrollment projections (and how reality = projections in the past).

Sum of Revenue Analysis

- There was a \$7 million decline in revenue from 2010 to 2011
- It is not clear what the decline will be for 2012 to 2013.
- The decline in the investment return for 2012 must be explained
- The shortfall for 2012 has already been dealt with; through 2/29/2012, there has not been a large decline in reserves or cash.
- The question is: what is the real problem for 2012-13? The administration's answer is reduce faculty costs significantly. They also claim the "hole" is closer to \$10-\$12 million. What is the size of the "hole," and where is it coming from?

What Should Be Done?

- Is it appropriate to reduce faculty by a significant amount, given the expected shortfall and given the reserve and debt situation of the university?
- What about administrative costs?
- We will examine all the expenses of the university, then come to some conclusions about the appropriate courses of action.

Expense Dollar Analysis

Source: Audited Financial Statements

	2009	2010	2011
Salaries	41,843,100	41,199,187	40,500,631
Fringes	11,040,208	11,116,267	10,916,079
All Other Expenses	32,570,899	32,332,496	33,618,781
Total Expenses	85,454,207	84,647,950	85,035,491
As % of Total Expenses	2009	2010	2011
Salaries	49.0%	48.7%	47.6%
Fringes	12.9%	13.1%	12.8%
Salaries & Fringes	61.9%	61.8%	60.5%
All Other Expenses	38.1%	38.2%	39.5%
Total Expenses	100.0%	100.0%	100.0%

- All salaries and fringes are approximately 60% of total expenses
- Rent, supplies, and depreciation are the largest components of all other expenses

Expense Breakdown by Functional Categories

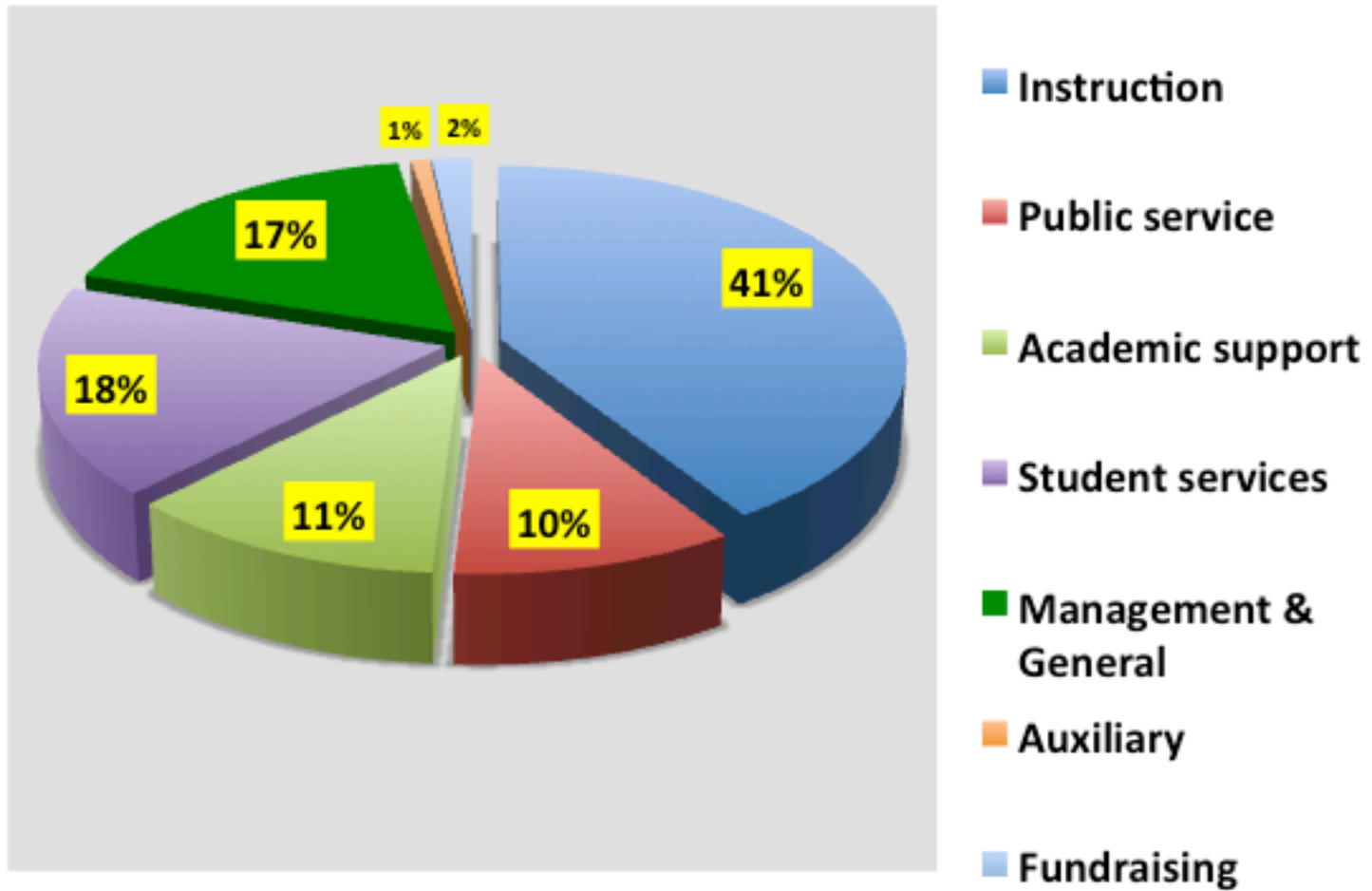
Source: Audited Financial Statements

	2010	2011	\$\$ Change	% Change
Instruction	37,719,342	34,747,061	(2,972,281)	-7.9%
Public service	5,261,144	8,604,608	3,343,464	63.6%
Academic support	9,562,480	9,777,995	215,515	2.3%
Student services	14,415,130	14,908,852	493,722	3.4%
Management & General	15,472,526	14,791,639	(680,887)	-4.4%
Auxiliary	611,682	704,379	92,697	15.2%
Fundraising	1,605,645	1,500,957	(104,688)	-6.5%
Total Expenses	84,647,949	85,035,491	387,542	0.5%

- The definition of what is in these categories is a few slides ahead
- Why is instruction going down more than management and general? This should never happen
- In 2011, gift revenue was \$570,000. Fundraising costs were more than three times gift revenue.
- I did not have access to 2009 audited financial statements

2011 Expense Distribution

Source: Audited Financial Statements



IPEDS (Integrated Postsecondary Education Data System of the US Department of Education Categories)

- The next several slides reports the definitions of the different expense categories.
- Instruction contains more than faculty salaries, as we will see
- Institutional support = upper-level administration.
- Academic support contains most of the academic administration, as well as other student-oriented costs.
- Public service is mostly administration as well.

Definition of Instruction Expense Per IPEDS

<http://nces.ed.gov/ipeds/glossary/>

- **A functional expense category that includes expenses of the colleges, schools, departments, and other instructional divisions of the institution and expenses for departmental research and public service that are not separately budgeted. Includes general academic instruction, occupational and vocational instruction, community education, preparatory and adult basic education, and regular, special, and extension sessions. Also includes expenses for both credit and non-credit activities.**
- **Excludes expenses for academic administration where the primary function is administration (e.g., academic deans).**
- **Information technology expenses related to instructional activities if the institution separately budgets and expenses information technology resources are included (otherwise these expenses are included in academic support).**
- **Institutions include actual or allocated costs for operation and maintenance of plant, interest, and depreciation.**

Definition of Research Expense Per IPEDS

- A functional expense category that includes expenses for activities specifically organized to produce research outcomes and commissioned by an agency either external to the institution or separately budgeted by an organizational unit within the institution.
- The category includes institutes and research centers, and individual and project research. This function does not include non-research sponsored programs (e.g., training programs).

Definition of Public Service Expense Per IPEDS

- A functional expense category that includes expenses for activities established primarily to provide non-instructional services beneficial to individuals and groups external to the institution.
- Examples are conferences, institutes, general advisory service, reference bureaus, and similar services provided to particular sectors of the community.
- This function includes expenses for community services, cooperative extension services, and public broadcasting services.
- Also includes information technology expenses related to the public service activities if the institution separately budgets and expenses information technology resources (otherwise these expenses are included in academic support).

Definition of Academic Support Expense Per IPEDS

- A functional expense category that includes expenses of activities and services that support the institution's primary missions of instruction, research, and public service.
- It includes the retention, preservation, and display of educational materials (for example, libraries, museums, and galleries); organized activities that provide support services to the academic functions of the institution (such as a demonstration school associated with a college of education or veterinary and dental clinics if their primary purpose is to support the instructional program); media such as audiovisual services; academic administration (**including academic deans** but not department chairpersons); and formally organized and separately budgeted academic personnel development and course and curriculum development expenses.
- Also included are information technology expenses related to academic support activities; if an institution does not separately budget and expense information technology resources, the costs associated with the three primary programs will be applied to this function and the remainder to institutional support.
- Institutions include actual or allocated costs for operation and maintenance of plant, interest, and depreciation.

Definition of Student Services Expense Per IPEDS

- A functional expense category that includes expenses for admissions, registrar activities, and activities whose primary purpose is to contribute to students emotional and physical well - being and to their intellectual, cultural, and social development outside the context of the formal instructional program.
- Examples include student activities, cultural events, student newspapers, intramural athletics, student organizations, supplemental instruction outside the normal administration, and student records.
- Intercollegiate athletics and student health services may also be included except when operated as self - supporting auxiliary enterprises.
- Institutions include actual or allocated costs for operation and maintenance of plant, interest, and depreciation.

Definition of Institutional Support Expense Per IPEDS

- A functional expense category that includes expenses for the day-to-day operational support of the institution.
- Includes expenses for general administrative services, central executive-level activities concerned with management and long range planning, legal and fiscal operations, space management, employee personnel and records, logistical services such as purchasing and printing, and public relations and development.
- Also includes information technology expenses related to institutional support activities. If an institution does not separately budget and expense information technology resources, the IT costs associated with student services and operation and maintenance of plant will also be applied to this function.

Expenses Per IPEDS

In Dollars	2008	2009	2010
Instruction	37,026,053	38,631,179	38,115,751
Research	45,036	90,840	0
Public service	6,036,333	5,256,920	5,261,144
Academic support	2,758,152	9,271,078	9,166,071
Student services	14,123,694	15,147,531	14,416,131
Institutional support	14,795,840	16,307,366	15,472,526
Auxiliary	775,080	749,293	611,682
Other	11,151,170	0	1,604,645
Total Expenses	86,711,358	85,454,207	84,647,950
% of Total Expenses	2008	2009	2010
Instruction	42.7%	45.2%	45.0%
Research	0.1%	0.1%	0.0%
Public service	7.0%	6.2%	6.2%
Academic support	3.2%	10.8%	10.8%
Student services	16.3%	17.7%	17.0%
Institutional support	17.1%	19.1%	18.3%
Auxiliary	0.9%	0.9%	0.7%
Other	12.9%	0.0%	1.9%
Total Expenses	100.0%	100.0%	100.0%

Discussion of IPEDS Expenses

- First, timing: IPEDS only has data available through 2009-10. Therefore, I compare 2007-08 to 2009-10. The administration needs to make the 2010-11 IPEDS data available.
- It appears as if the administration is devoting more and more dollars to instruction over the last few years. A close look at instructional costs will reveal a different story.
- Instruction includes salaries and benefits of everyone who teaches classes, and also includes other costs besides those, such as depreciation and “other.”

Instruction Expense Detail Per IPEDS

Instruction:	2008	2009	2010	\$ Change 08 to 10	% Change 08 to 10
Salaries	24,741,191	22,259,901	22,085,457	(2,655,734)	-11%
Benefits	6,432,710	5,850,660	6,055,903	(376,807)	-6%
Plant	269,537	310,797	5,252,886		
Depreciation	1,883,547	1,687,099	1,633,208		
Interest	788,621	451,113	306,385		
Other	2,910,447	8,071,609	2,781,912		
Total Instruction Expenses	37,026,053	38,631,179	38,115,751	1,089,698	3%
	2008	2009	2010		
Instruction Salaries & Ben	31,173,901	28,110,561	28,141,360	(3,032,541)	-10%
All Other Instruction	5,852,152	10,520,618	9,974,391	4,122,239	70%
Total Instruction	37,026,053	38,631,179	38,115,751	1,089,698	3%

- The top panel includes all categories; the bottom panel collates plant, depreciation, interest and other into one line (all other instruction)
- As you can see, the increase in instructional costs over the 2008 to 2010 period is not due to salaries and benefits, but due to the other costs
- In fact, salary and benefit costs have declined; the entire increase is driven by non-personnel costs. The administration needs to reveal what these are

Further Analysis of Expenses Per IPEDS

	2008	2009	2010
Total Instructional Salaries	24,741,191	22,259,901	22,085,457
Total Instructional Benefits	5,850,660	5,850,660	6,055,903
Total Instructional Sal & Ben	30,591,851	28,110,561	28,141,360
All Other Salaries	17,225,240	19,583,199	19,113,730
All Other Benefits	5,060,612	5,189,548	5,048,668
All Other Salaries & Benefits	22,285,852	24,772,747	24,162,398
All Other Expenses	33,833,655	32,570,899	32,344,192
Total University Expenses	86,711,358	85,454,207	84,647,950

- This is very revealing data: instructional salaries and benefits are DECLINING, while all other salaries and benefits (mostly administrative) are INCREASING
- Instructional salaries and benefits are not the majority of total expenses. Why do most of the new cuts seem to be coming from instructional salaries and benefits?

Summary of NLU Expenses Per IPEDS (2010)

	In Millions	% of total
Instructional Sal & Benefits	28.1	33%
Non-instructional Sal & Benefits	24.2	29%
All Other Expenses	32.3	38%
Total Expenses	84.6	100%

- Now, as we move to 2012-13, total expenses are lower; in the \$75-80M range.
- However, the breakdown of total expenses should at least hold to the above formulation. With the proposed cuts, it is very likely that instructional salaries and benefits will be closer to 25% of total expenses. That is not appropriate.
- Administrative salaries and costs must be cut first – or at least to keep the proportion of total expenses reported above
- In fact, instructional salaries and benefits were 35% of total expenses in 2008

Faculty Salaries

Source: AAUP Salary Surveys (2011-12 and 2005-06)

	Full	Associate	Assistant	Instructor	All Ranks
2011-12	\$78,716	\$60,809	\$53,030	\$45,700	\$58,372
Number	26	73	92	17	208
2005-06	73,325	56,360	48,271	40,112	53,897
Number	42	71	114	26	253
% Increase in Salary	7.4%	7.9%	9.9%	13.9%	8.3%
% Change in Number	-38.1%	2.8%	-19.3%	-34.6%	-17.8%

- As we will see, the **LEVEL** of these salaries is very low when compared to peer institutions
- The **CHANGES** in these salaries over a 6-year period are paltry; inflation has been much greater than these raises over the 6 years.
- The number of faculty have declined significantly, and the recent changes suggest there will be very few full professors – and everything they have to offer – moving forward

Faculty Salaries in Context

Source: AAUP Salary Survey and NLU 2012 Operating Budget

2011-12 Total Compensation	Number	Average Total Comp	Total Outlay
Full	26	98,213	2,553,527
Associate	73	77,436	5,652,837
Assistant	92	67,125	6,175,458
Instructors	17	61,454	1,044,716
Subtotal	208	74,041	15,426,539
2012 Operating Budget			74,157,905
Faculty Salaries and Benefits as % of Operating Budget			21%

- Total salaries and benefits of full time faculty are only 21% of total expenses
- Why are so many of the cuts coming from this group?

Faculty Salaries in Context: Add Overload and Adjunct Costs

2011-12 Total Compensation	Number	Average Total Comp	Total Outlay
Full Time Faculty (from prior slide)	208	74,041	15,426,539
Faculty Overloads and fringes (20%)			2,559,684
Adjunct Salaries and fringes (10%)			5,443,155
All Instructional Costs			23,429,378
2012 Operating Budget			74,157,905
Instructional Costs as % of Operating Budget			32%

- Even when we add overload and adjunct costs, total instructional salaries and benefits are LESS than 1/3 of total expenses
- The cuts should come from outside the core academic mission

Savings from Cutting 13 Faculty

	2013	2014	2015
Savings if Cut 13 Faculty (salaries and benefits; assume 2 full, 6 assoc, 5 asst)	996,665	996,665	996,665
Extra Costs:			
Pay 1/2 Salary and Medical at \$4,000 per	(445,716)	(445,716)	0
Adjunct replacement (7 courses at \$2,000 per course) plus taxes	(200,200)	(200,200)	(200,200)
New Coordinator	(44,415)	(44,415)	(44,415)
Total Extra Costs	(690,331)	(690,331)	(244,615)
Net Savings	306,334	306,334	752,050
Total University Expenses	75,000,000	75,000,000	75,000,000
Percent of Total Expenses Saved	0.4%	0.4%	1.0%

- In a meeting on Monday, 4/23/2012, the administration claimed that the 2013 savings were \$400,000; it depends on the salaries of those who are leaving, and how many are leaving. I assumed the mix of those leaving was similar in ranks to the existing faculty.
- If 20 faculty leave, the savings is approximately \$460,000
- As is discussed on the next slide, there will likely be enrollment and other revenue losses, from anywhere to \$50k to \$100k per year

Additional Costs from Cutting Faculty

- The university will lose enrollment; full time faculty expertise, institutional knowledge, student mentoring, job contacts, professional contacts, and discipline-based ideas cannot be replaced without a true cost to the university
- Departments are not profit centers; putting one against another does not work; we are creating citizens, and NLU is one university
- The accreditation and reputation of the university will be irrevocably destroyed by the haphazard elimination of faculty and departments
- There is not a similar reputation loss when an administrator is returned to faculty; in fact, the students get smaller classes.
- The administration used terms such as “accounting” to suggest larger savings; what matters is how much is saved on a cash flow basis. The prior slide is an attempt to address that issue – but what you see is that the savings are very small, and the potential costs are quite large to the future of the university. Administrative costs must be considered first; it is hard to comprehend how academic costs are the first to be considered.

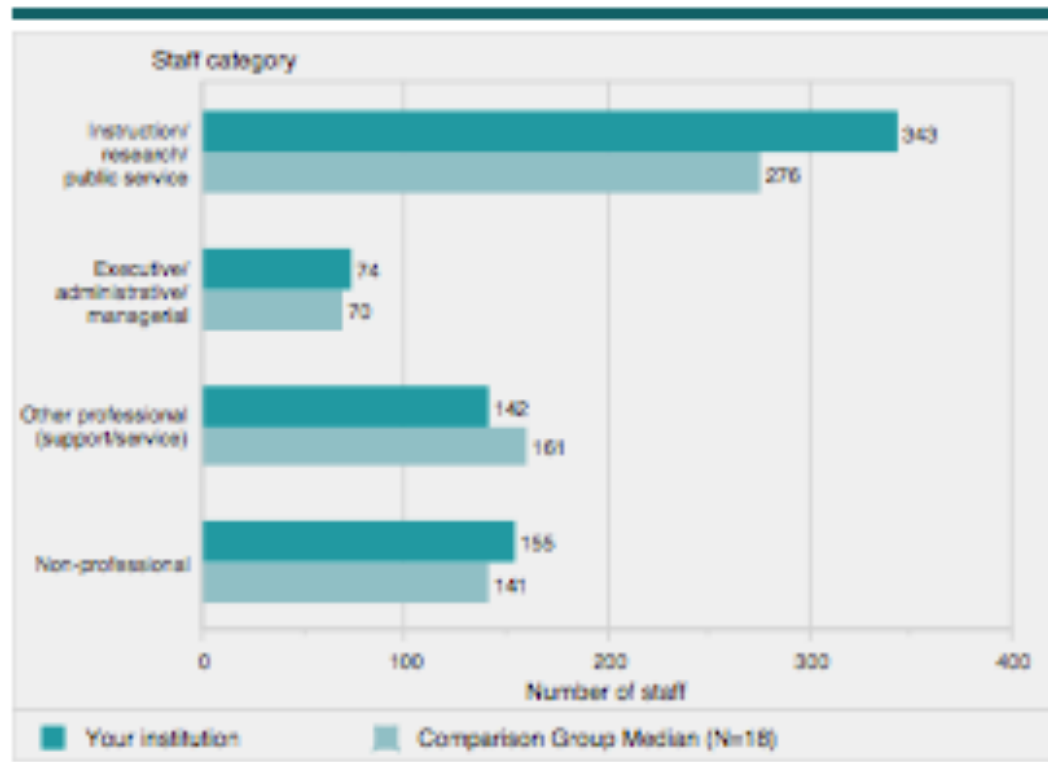
Peer Institutions Per IPEDS

Aurora University (IL)	Lesley University (MA)
Bank Street College of Education (NY)	Loyola University (IL)
Benedictine University (IL)	National University (CA)
Cardinal Stritch University (WI)	North Park University (IL)
Chicago State (IL)	Nova Southeastern (FL)
Concordia - Chicago (IL)	Olivet Nazarene (IL)
Concordia - Wisconsin (WI)	Roosevelt (IL)
DePaul (IL)	U Maryland Eastern Shore (MD)
Dominican University (IL)	U of Maryland College (MD)

Criteria Used to Select Peers:	
Enrollment Composition	Average Aid Received
Student Headcount	Graduation Rates
Degrees Awarded	Faculty Salaries
Tuition and Fees	Percent Distribution Revenues
Price of Attendance	Percent Distribution Expenses
% Students Receiving Aid	

2011 IPEDS Data Feedback Reports: Number of Staff

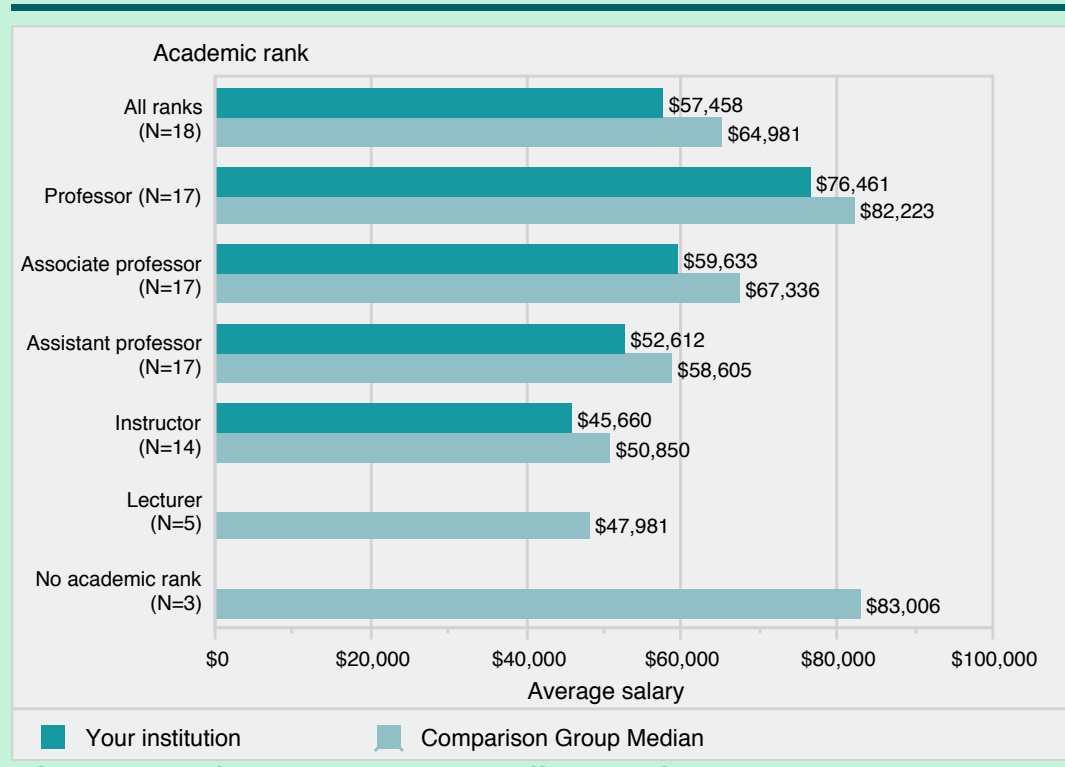
Figure 12. Full-time equivalent staff, by assigned position: Fall 2010



- The number of instructional staff for NLU is 343; note that the number of full time faculty is only 208
- There are more administrators at NLU than at peer institutions

2011 IPEDS Data Feedback Report: Faculty Salaries vs. Peers

Figure 13. Average salaries of full-time instructional staff equated to 9-month contracts, by academic rank: Academic year 2010-11

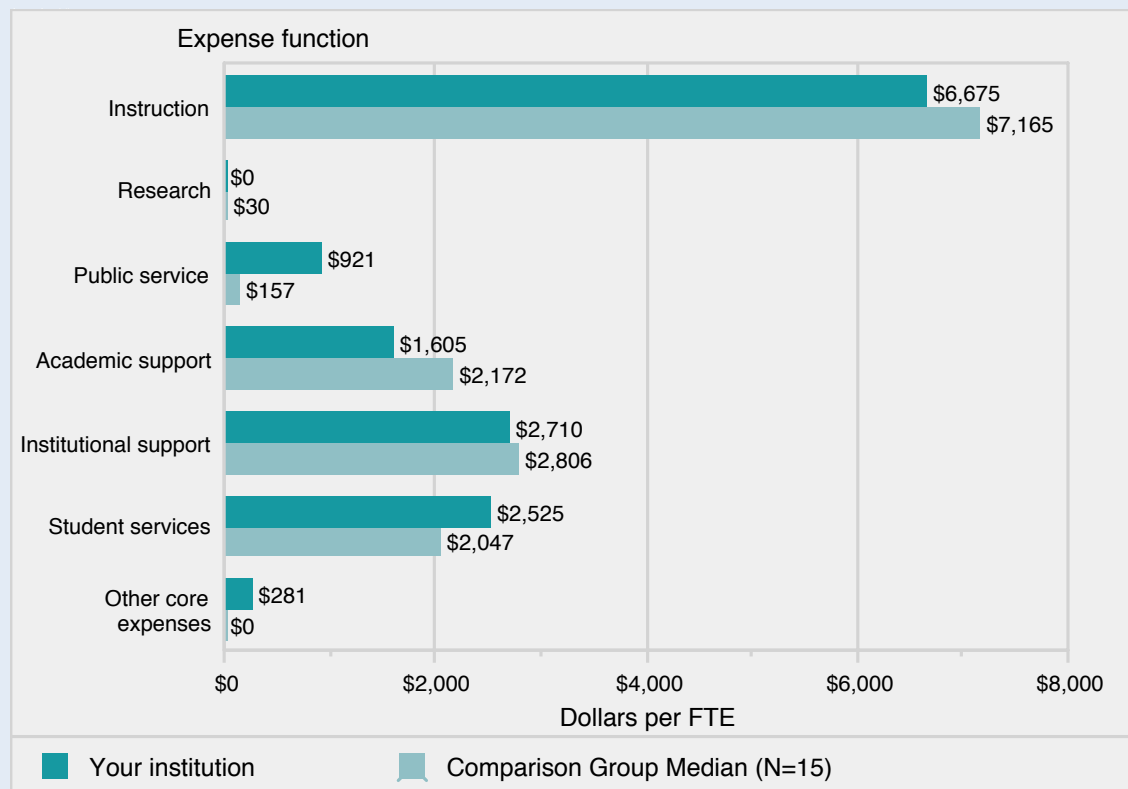


- NLU faculty are clearly paid less than faculty at peer institutions
- This is true for all ranks of faculty, and has been true for years

2011 IPEDS Data Feedback Report

Spending Per FTE Student

Figure 15. Core expenses per FTE enrollment, by function: Fiscal year 2010



- NLU spends less on instruction per FTE student than peer institutions
- Public service, academic support and institutional support are mostly administrative functions; taken together, NLU spends more on these functions than peer institutions

Conclusions from IPEDS Data

- Any cuts that are going to be made should come first from administration. It is clear that there have been disproportionate cuts to the core academic mission up until 2010; that pattern is likely continuing
- Metrics such as the percent of total expenses devoted to instructional salaries and benefits, versus administrative salaries and benefits, must be utilized to ensure that the administration is staying true to the core academic mission.
- This administration needs to conduct a zero-based budget analysis of all administrative costs; it is not just administrative salaries, but their budgets – outside consultants, travel, and administrative costs in general.
- **Not one faculty member should have been laid off until a thorough analysis of administrative costs was undertaken.**

Top 2010 Administrative Compensation

Source: IRS 990

Position	Base	Bonus	Other Comp	Deferred	Nontaxable	Total
President (part year)	\$212,253	\$30,000	\$7,054	\$16,499	\$13,534	\$279,340
Interim President	\$179,693	\$0	\$2,666	\$13,954	\$17,283	\$213,596
VP Finance Admin	\$185,843	\$0	\$138	\$15,796	\$11,774	\$213,551
VP Human Resources	\$144,101	\$0	\$90	\$11,729	\$17,151	\$173,071
VP Development	\$174,153	\$0	\$762	\$14,650	\$10,692	\$200,257
VP Operations	\$134,311	\$0	\$594	\$10,426	\$8,272	\$153,603
Dean, CMB	\$172,324	\$0	\$258	\$14,796	\$18,853	\$206,231
Vice Provost	\$134,993	\$0	\$60	\$0	\$25,056	\$160,109
VP Enrollment (part year)	\$150,940	\$0	\$258	\$12,158	\$10,646	\$174,002
VP Marketing (part year)	\$137,927	\$0	\$10,303	\$11,088	\$11,291	\$170,609
TOTALS	\$1,626,538	\$30,000	\$22,183	\$121,096	\$144,552	\$1,944,369
Means	\$162,654	\$3,000	\$2,218	\$12,110	\$14,455	\$194,437
	Base	All Other	Total			
Interim Provost	\$117,174	\$16,066	\$133,240			
Interim VP Enrollment (part year)	\$83,236	\$14,229	\$97,465			
Legal Counsel	\$94,488	\$18,406	\$112,894			
Controller	\$91,269	\$35,896	\$127,165			

Fundraising Revenues and Costs per IRS 990

	2008	2009	2010
Fundraising Event Revenue	\$0	\$18,600	\$33,500
All Other contributions and grants	\$3,283,121	\$2,452,617	\$1,863,906
Total Fundraising-related Revenue	\$3,283,121	\$2,471,217	\$1,897,406
Fundraising Expenses	\$1,785,738	\$1,463,599	\$1,543,671
Cost to Raise \$1	\$0.54	\$0.59	\$0.81
Personnel Costs within Fundraising	\$1,137,360	\$1,014,146	\$1,275,976
Professional Fundraising	\$0	\$156,917	\$0

- The cost to raise \$1 should be at most 20 cents; these fundraising costs are alarmingly high
- We need to see what these costs are for 2011 and going forward; it is inconceivable that fundraising costs this high would be maintained in an environment where departments are being eliminated

Top Contractors/Consultants Per IRS 990

Firm	Type	2008	2009	2010
Sungard Higher Educaation	IT Services		\$4,073,661	\$4,273,409
Conroy Media	Advertising	\$1,744,217	\$1,903,531	\$2,183,272
ODE Business Services	Copy Svcs		\$1,227,386	\$1,225,144
KPMG	Accounting	\$150,800	\$187,400	\$141,500
Custom Enterprise Solutions	Prof Development			\$232,800
Clune Construction Compnay	Construction	\$3,279,936	\$870,980	
Jackson Lewis	Legal	\$74,036		
DCI Group Associates	Lobbying	\$119,955		
Sonnenschein Nath and Rosenthal	Legal	\$153,336		

- After 2008, the top 5 consultants were not required to be reported
- Only the top 5 independent contractors are reported in 2009 and 2010
- This is another area of potential savings to be considered before there are cuts to the core academic mission

Additional Information from the 2010 990

- The University has a membership in a local social club that is in the University President's name which is for the purpose of helping promote and conduct business on behalf of the University. The social club membership is used 100 percent for business and the President uses the accountable plan rules for documenting the business use.
- The University provided a compensation package to the President that included the payment of an additional amount that was contingent upon the achievement of certain pre-determined objectives. Such objectives were achieved during the fiscal year and the payments for such services are included in the compensation schedule.
- The University has an agreement with a University in Poland; the President or Provost visits Poland at least once per year. In 2010, the University recognized \$88,950 in revenue from this arrangement (revenue was \$150,000 in 2009).

Number of Employees: 2003-04 vs. 2010-11

Source: IPEDS

	2003-04	2010-11	# Change	% Change
Tenure/TT Faculty	195	171	(24)	-12%
Non-Tenure Track Faculty	89	81	(8)	-9%
Total FT Faculty	284	252	(32)	-11%
Part Time Faculty	735	274	(461)	-63%
Total Instruction	1,019	526	(493)	-48%
Exec/Admin/Mgrl	104	74	(30)	-29%
Other Staff	391	306	(85)	-22%
Total Non-Instruction	495	380	(115)	-23%
Total Employees	1,514	906	(608)	-40%
Total Enrollment	7,666	5,338	(2,328)	-30%

- 2003-04 was the earliest year of comparable data
- There was a large decline in part-time faculty, but it now seems as if this trend will be reversing.
- The 74 administrators is still higher than the number at peer institutions

Overall Conclusions

- National Louis University is not in dire financial condition; there are sufficient reserves and a low level of debt, in addition to solid cash flows in recent years.
- There has been an enrollment decline, and if cuts have to be made, the following should be considered:
 - Using reserves
 - Cutting the number of administrators
 - Cutting the salaries of administrators
 - Cutting the budgets (consultants) of administrators
- The core academic mission needs to be preserved.
- Instructional salaries and benefits are only 1/3rd of the entire university; this should not be the first place to look for cuts – it should be the last place to look.