

Understanding NU's Financial Statements

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Controller

February 24, 2022

Northwestern

Agenda

- 2022 Financial Update Message
- Transactions: Inception to Reporting
- Consolidated Financial Statements
 - Statements of Position
 - Statements of Activities
 - Statements of Cash Flows
- Notes to Consolidated Financial Statements

2022 Financial Update Message

- FY 2021 Operating Surplus of \$87.8 million
- Record endowment gain of 37%
- Appreciation for faculty and staff adaptability
- Pandemic's fundamental impact to the way we work
- Resumption of essential capital planning and activity
- Success of "We Will" Campaign

2022 Financial Update

January 13, 2022

[Kathleen Hagerty, Craig Johnson, Morton Schapiro](#)

Dear members of the Northwestern community,

Each January, we offer an update on the University's finances, as well as information on our commitments and priorities for the future.

Despite a worldwide pandemic that continues to impact individuals, society and the global economy, Northwestern begins 2022 in a stable financial position. We believe this will allow us to address the unpredictable challenges of the pandemic while making crucial investments in our people and infrastructure.

Transactions: Inception to Reporting

Transactions

Examples: Tuition · Room & Board · Gifts · Ticket sales · Endowment payout · Payroll · Expense reimbursements · Supply purchases · Utility payments · Interest payments

Funds

Operating · Gifts · Endowment · Student Loans · Research · Agency · Capital · Rubicon Insurance

Consolidation

Consolidated financial statements and disclosures

Annual Financial Report

Consolidated Financial Statements

- Statement of Position
 - “Balance Sheet”
 - Wealth
 - Balances as of close
- Statement of Activities
 - “Income Statement”
 - Annual performance
 - Transactions 9/1 – 8/31
- Statement of Cash Flows
 - Cash usage



<https://www.northwestern.edu/financial-operations/annual-financial-reports/index.html>

Northwestern website search: “Annual Financial Report”

Consolidated Statements of Position (SOP)

(in thousands of dollars)

	2021	2020
Assets		
Cash and cash equivalents	\$285,059	\$381,442
Accounts receivable, <i>net</i>	218,147	214,787
Contributions receivable, <i>net</i>	259,037	277,871
Notes receivable, <i>net</i>	136,111	146,657
Investments	15,143,205	11,576,232
Right-of-use assets - operating, <i>net</i>	159,206	-
Land, buildings, and equipment, <i>net</i>	3,177,018	3,258,694
Total assets	19,377,783	15,855,683

Liabilities

Accounts payable and accrued liabilities	206,908	223,707
Deferred revenue	205,750	137,757
Deposits and actuarial liability of annuities payable	199,041	200,602
Lease liabilities - operating	165,623	-
Bonds, notes, and other debt payable, <i>net</i>	2,538,133	2,832,036
Total liabilities	3,315,455	3,394,102

Net assets

Without donor restrictions	9,863,772	7,782,322
With donor restrictions	6,198,556	4,679,259
Total net assets	16,062,328	12,461,581

Total liabilities and net assets	\$19,377,783	\$15,855,683
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Household Assets

Checking account
 \$\$\$ "they owe us tomorrow"

Savings and 403(b)
 Homes and cars

Household Liabilities

\$\$ "we owe them tomorrow"

The "mortgage"

Financial Strength

Consolidated Statements of Activities (SOA)

<i>(in thousands of dollars)</i>	2021	2020	
Net assets without donor restrictions			Household
Operating revenue			Income
Tuition and fees <i>(net of aid)</i>	\$659,916	\$661,099	Job #1 - Education
Auxiliary services	40,528	69,658	
Grants and contracts	752,376	719,122	Job #2 Research
Private gifts	232,369	233,671	Birthday/inheritance money
Investment return designated for operations	421,626	402,815	Investment Income
Sales and services	156,004	195,736	
Professional fees	48,537	45,969	
Net assets released from restrictions	248,035	214,713	
Total operating revenues	2,559,391	2,542,783	
Operating expenses			Household expenses
Salaries, wages, and benefits	1,477,348	1,455,808	Running the household
Services, supplies, maintenance, and other	717,159	728,002	
Depreciation	185,918	181,647	Owning the house
Interest on indebtedness	91,163	93,894	
Total operating expenses	2,471,588	2,459,351	
Excess of operating revenues over expenses	\$87,803	\$83,432	

Consolidated Statements of Activities (SOA), continued

Nonoperating revenue and expense	2021	2020	Other activities
Private gifts and grants for bldgs and equip.	\$20	\$40	Birthday/inheritance money
Investment returns, reduced by op. dist.	2,023,088	238,794	Investment Income
Change in value of derivative instruments	5,158	(465)	
Net assets reclassified	\$(30,005)	-	
Other (expenses) revenues, <i>net</i>	(4,614)	(10,421)	Job #1 - Education
Excess (deficit) of non-operating revenues over expenses	1,993,647	227,948	
Change in net assets without donor restrictions	2,081,450	311,380	
Net assets with donor restrictions			
Private gifts and grants for bldgs and equip.	250	-	Birthday/inheritance money
Restricted private gifts	169,233	94,570	
Net gain (loss) on annuity obligation	12,536	2,112	
Investment return	1,555,308	240,725	Investment Income
Net assets reclassified	\$30,005	-	
Net assets released from restrictions	\$(248,035)	\$(214,713)	
Change in net assets with donor restrictions	1,519,297	122,694	
Change in total net assets	3,600,747	434,074	
Beginning net assets	12,461,581	12,027,507	
Ending net assets	\$16,062,328	\$12,461,581	

Consolidated Statements of Cash Flows

Starting point: Change in net assets (or “net income”) \$3.6 billion

- Back out noncash activities
- Report cash inflows and outflows in categories:
 - Operating
 - Investing
 - Financing

Ending point: Net Increase/Decrease in Cash

Final check: FY 2020 Cash + Net Increase/Decrease in cash = FY 2021 Cash

Statement showing net cash ins/outs for the year

Consolidated Statements of Cash Flows

<i>(in thousands of dollars)</i>	2021	2020
Cash flows from operating activities		
Change in net assets	\$3,600,747	\$434,074
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	185,918	181,647
Losses on disposals, retirements, and sales of buildings and equipment, <i>net</i>	3,454	2,133
(Accretion) amortization of issuance costs, premiums, and discounts, <i>net</i>	(453)	33
Change in allowance for student accounts receivable	394	(452)
Change in allowance for notes receivable and bad debt expense	580	3,320
Realized and unrealized gains on investments, <i>net</i>	(3,973,382)	(866,020)
Gifts of contributed securities	(58,582)	(20,352)
Proceeds from sale of unrestricted contributed securities	48,212	11,006
Change in value of derivative instruments	(5,158)	465
Restricted contributions received for long-term investment and capital projects	(112,724)	(82,093)
Changes in assets and liabilities		
Accounts receivable	(2,227)	(2,786)
Contributions receivable	14,736	18,015
Reduction in the carrying amount of the right-of-use assets—operating	21,639	—
Accounts payable and accrued liabilities	(1,483)	19,856
Deferred revenue	73,086	(93,699)
Deposits payable and actuarial liability of annuities payable	(26,919)	18,021
Lease liabilities—operating	(20,315)	—
Net cash used in operating activities	(252,477)	(376,832)

Consolidated Statements of Cash Flows, continued

Cash flows from investing activities		
Purchases of investments	(2,545,240)	(1,630,446)
Proceeds from sales of investments	2,975,480	2,013,364
Acquisitions of land, buildings, and equipment	(121,957)	(145,496)
Proceeds from sale of buildings or equipment	4,103	1,687
Student loans disbursed	(21,506)	(29,409)
Principal collected on student loans	31,723	23,796
Other	(251)	(388)
Net cash provided by investing activities	322,352	233,108
Cash flows from financing activities		
Proceeds from issuance of notes, bonds, and other debt payable	100,000	595,000
Payments for debt issuance costs	—	(1,476)
Principal payments on notes, bonds, and other debt payable	(393,450)	(313,085)
Proceeds from sale of restricted contributed securities	10,370	9,346
Restricted contributions received for long-term investment and capital projects	116,822	79,912
Net cash (used in) provided by financing activities	(166,258)	369,697
(Decrease) increase in cash and cash equivalents	(96,383)	225,973
Cash and cash equivalents at beginning of year	381,442	155,469
Cash and cash equivalents at end of year	\$285,059	\$381,442
Supplemental disclosure of cash flow information		
Change in accrued liabilities for construction in progress	(\$10,246)	(\$22,043)
Capitalized interest	—	41
Cash paid for interest	91,549	90,798

Notes to the Consolidated Financial Statements

- 1. Summary of Significant Accounting Policies**
2. Accounts Receivable and Notes Receivable
3. Contributions Receivable
- 4. Investments**
5. Land, Buildings, and Equipment
6. Leases **New!**
7. Deferred Revenue
8. Deposits Payable and Actuarial Liability of Annuities Payable
- 9. Bonds, Notes, and Other Debt Payable**
- 10. Endowments**
11. Postretirement and Postemployment Benefit Plans
12. Related Parties
13. Self-Insurance Reserves and Other Contingencies
14. Grants and Contracts
- 15. Liquidity and Availability**
- 16. Functional Classification of Expenses**
17. Subsequent Events

Note 1 – Net Assets

(in thousands of dollars)

2021

Nature of specific net assets	Without donor restrictions	With donor restrictions	Total net assets
Teaching, research, and program support	\$3,380,552	\$3,937,558	\$7,318,110
Student financial aid	886,967	1,144,384	2,031,351
Capital and operations	1,294,610	717,111	2,011,721
Endowment net assets subtotal	5,562,129	5,799,053	11,361,182
Pledges	—	259,037	259,037
Unexpended gifts	—	31,260	31,260
Annuity and other split-interest agreements	—	66,946	66,946
Student loan funds	63,392	42,260	105,652
Operating and plant	4,238,251	—	4,238,251
Total	\$9,863,772	\$6,198,556	\$16,062,328

Note 1 – Current Environment

Several revenue sources were negatively impacted by the pandemic. Related to students, fall-quarter undergraduate tuition was discounted by 10 percent, and the residence halls experienced lower occupancy during the same period (revenues from auxiliary services attributed to room and board were \$40.3 million and \$64.3 million in fiscal years 2021 and 2020, respectively). Sales and services revenues also decreased, driven by reduced athletics income and fees for services and goods to external parties (\$156 million and \$195.7 million in fiscal years 2021 and 2020, respectively).

University cost-containment measures continued in fiscal year 2021, including the University's continuation of the temporary suspension of retirement contributions through December 31, 2020 (the University contributed \$58.7 million and \$64.2 million in fiscal years 2021 and 2020, respectively). Campus operations, events, and travel did not return to normal operating levels, resulting in additional decreases in operating expenses from services, supplies, maintenance, and other. Incremental costs related to COVID-19 testing and facilities were incurred. In August 2021, in recognition of the Northwestern community's service during fiscal year 2021, the University paid a one-time bonus to the majority of benefits-eligible faculty and staff.

Note 4 Investments

- Matrix: **Asset class** (type) x **Valuation level** (pricing confidence)
- Rollforward of changes in investments with less certain valuations
- Liquidation (ability to sell) terms and future funding commitments
- Description of asset classes

<i>(in thousands of dollars)</i>	<i>2021</i>	<i>2020</i>
Assets		
Investments	15,143,205	11,576,232

Note 16 – Functional Classification of Expenses

Expenses by functional categories reflect salaries, wages, benefits, goods, and services used for those specific purposes. The University has allocated functional expenses for depreciation and interest on indebtedness to other functional categories based on the functional use of space on the University's campuses.

Operating expenses incurred in the fiscal years ended August 31 were as follows:

(in thousands of dollars)

				2021
	Academic	Research	Support	Total
Salaries, wages, and benefits	\$920,387	\$309,515	\$247,446	\$1,477,348
Services, supplies, maintenance, and other	471,688	203,054	42,417	717,159
Depreciation	125,805	46,162	13,951	185,918
Interest on indebtedness	61,687	22,635	6,841	91,163
Total	\$1,579,567	\$581,366	\$310,655	\$2,471,588

Thank You