



NORTHWESTERN GRADUATE WORKERS

MEMORANDUM

Subject: 2020 NUGW Analysis of the Northwestern Annual Financial Report

Date: January 5, 2021

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1 Summary and Quick Facts

The following is a summary of Northwestern's 2020 Annual Financial Report, with attention aimed especially towards implications for graduate funding capacities and employment protections.¹ This report also contains a number of explanation related to various technical terms used in the report. Corporate power in general, and the corporatized university in particular, relies on an air of impenetrability and expertise. It is critical to the mission of empowering workers that this mystique is eliminated. This report tries to accomplish that by walking the reader through important terms while providing analysis of the University's monies.

All of the above findings are taken directly from Northwestern's 2020 Annual Financial Report, with page numbers and section titles provided.

In the fiscal year 2020, Northwestern had:

- over \$380 million in cash and cash equivalents, a \$250 million increase since the 2019 fiscal year (p. 10, Consolidated Statements of Financial Position).
- over \$1.1 billion in liquid assets which Northwestern could access within a year (p.34, Liquidity and Availability).
- a \$90 million increase from 2019 in endowment funds without any donor restrictions (p. 14-15, Notes to the Consolidated Financial Statements).
- a Long-Term Balanced Pool ("the endowment") grow to \$11.13 billion (p. 4, Investment Report).
- \$238.7 million in remaining investment returns this year without any donor restrictions (p. 12, Consolidated Statement of Activities).
- an investment portfolio that grew by 7.1% last year, exceeding even the University's expectations (p. 6-7, Investment Report).
- a budget surplus of \$83.4 million (p. 11, Consolidated Statement of Activities)
- net assets grow to \$12.46 billion (p. 12, Consolidated Statement of Activities)

What does that mean for NUGW's demands? The following:

1. Despite the fact that they were fully able to cover their wages and benefits, the University saved \$12.1 million via laying off hundreds of staff workers. These layoffs contributed to only 14.5% of the university's surplus.
2. The maximum cost (see Appendix A) of guaranteeing 6th year stipend funding and NU-SHIP health insurance coverage would be \$22,479,438, which amounts to 27% of the surplus.

¹The 2020 Annual Financial Report is available at <https://www.northwestern.edu/financial-operations/annual-financial-reports/2020-financial-report.pdf>

3. The university, utilizing the surplus, can rehire all of its laid off workers and provide funding extensions along with health insurance packages (including even vision and dental) for all graduate workers.
4. Northwestern's unrestricted investment returns and cash on hand would also be able to: **(1)** fully fund all of CoalitionNU's demands, **(2)** provide paycheck and health insurance coverage from all furloughed workers, and **(3)** provide transportation subsidies for students and post docs.

Northwestern has the money to adequately provide for **all** of its workers during this exceptional time. Northwestern University Graduate Workers calls on Northwestern to make use of its tremendous resources (laid out here in black and white) to make good on its stated commitment to the wellbeing of its community.

2 Fichtenbaum-Bunsis Ratios

2.1 Point of Calculating FB Ratios

These ratios analyze the university along several fundamental aspects of viability, including general profitability, deficit spending capacities, and reserve capacities. The University's assets and spending capacities are convoluted, but these ratios are very handy for getting a sense of just how financially healthy the University really is.² These ratios measure both short-term and long-term financial capabilities. One of the main arguments given by the university is that increased funding for graduate workers and other sectors of workers is that the potential funding's increase draw on the endowment would be "unsustainable." **These ratios show just how sustainable and reasonable NUGW, UniteHere Local 1, Coalition NU, and SOLR's demands actually are.**

2.2 Calculating the True Total Reserves

The most important number for calculating the Fichtenbaum-Bunsis Ratios is the True Total Reserves. This is calculated by summing the unrestricted net assets along with the expendable temporarily donor-restricted expendable assets. These **True Total Reserves** represent the portion of the University's total wealth that they could actually, feasibly spend without betting on their ability to sell real estate or violating various donor agreements. These **True Total Reserves** more accurately reflects the University's real-world financial health.

²For an example of the utility of these ratios see Professor Howard Bunsis' analysis of Wright State University's finances for the eponymous chapter of the AAUP, available here <https://thewebsiteofwrightstateuniversitysaaupchapter.files.wordpress.com/2018/10/000-2-howard-bunsis-fact-finding-presentation.pdf>

Obtaining this number is somewhat complex and not directly stated in the University financial report. Walking through the calculation, however, may help to orient readers to university finances more generally.

To determine the **True Total Reserves** for FY 2020, we first take Northwestern's reported **Total Assets**, which represents the grand total of all the wealth Northwestern has. **Their total assets amounted to \$15,855,683,000 in FY 2020:**

<i>(in thousands of dollars)</i>	2020	2019
Assets		
Cash and cash equivalents	\$381,442	\$155,469
Accounts receivable, <i>net</i>	210,085	199,535
Contributions receivable, <i>net</i>	277,871	293,705
Notes receivable, <i>net</i>	146,657	143,976
Investments	11,576,232	11,079,424
Land, buildings, and equipment, <i>net</i>	3,258,694	3,320,363
Other assets	4,702	11,703
Total assets	15,855,683	15,204,175

Northwestern, however, has a number of **Liabilities** which they are legally obligated to fulfill. These liabilities are mostly forms of debt, and they are shown below.

For FY2020, Northwestern's total Liabilities were \$3,394,102,000:

Liabilities		
Accounts payable and accrued liabilities	214,582	206,020
Deferred revenue	137,757	231,456
Deposits payable and actuarial liability of annuities payable	200,602	168,564
Government advances for student loans	9,125	19,064
Bonds, notes, and other debt payable, <i>net</i>	2,832,036	2,551,564
Total liabilities	3,394,102	3,176,668

When we remove Northwestern's liabilities from its total assets, we are left with their **Net Assets**.

For FY2020, Northwestern's Net Assets were \$12,461,581,000:

(in thousands of dollars)

2020

Nature of specific net assets	Without donor restrictions	With donor restrictions	Total net assets
Teaching, research, and program support	\$2,429,304	\$2,876,248	\$5,305,552
Student financial aid	672,551	844,035	1,516,586
Capital and operations	1,115,034	547,534	1,662,568
Endowment net assets subtotal	4,216,889	4,267,817	8,484,706
Pledges	—	277,871	277,871
Unexpended gifts	—	31,027	31,027
Annuity and other split-interest agreements	—	61,818	61,818
Student loan funds	65,861	40,726	106,587
Operating and plant	3,499,572	—	3,499,572
Total	7,782,322	4,679,259	12,461,581

However, the **Net Assets** are not the **True Total Reserves**. Northwestern cannot easily sell its building and land, so this wealth cannot be readily leveraged to pay for expenses. This is especially true of Northwestern's most specialized scientific facilities and equipment. Thus, we subtract Northwestern's various land, building, equipment, and incomplete projects. **Northwestern's total land, buildings, and equipment amounted to \$3,258,694,000 in FY 2020.**³ The breakdown for these assets are shown below:

(in thousands of dollars)

2020

2019

Land	\$31,036	\$31,036
Construction-in-progress	45,983	117,474
Buildings and leasehold improvements	4,594,774	4,455,482
Equipment	703,454	663,544
Accumulated depreciation	(2,116,553)	(1,947,173)
Total land, buildings, and equipment, net	\$3,258,694	\$3,320,363

Are these the **True Total Reserves**? Almost. Northwestern has an **Endowment** composed of a large number of various funds created by donors (around 2,800).⁴ All these funds have different restrictions attached to them by the donors, and the university is legally obliged to obey the particular restrictions of a fund when spending against that fund.

As an important note (discussed more below on page 11), the **Endowment** referred to here in this report is **not** the same as the "\$11 Billion Endowment" discussed so much in

³You may notice that **Net Assets** has a line listed as "Operating and plant" which is somewhat higher than their total land, buildings, and equipment. This difference represents Northwestern's unused building funds, which they use for both future construction and for routine renovation/maintenance. Because these funds are not tangible objects like the land and buildings, this difference can be included in the **True Total Reserves**. Northwestern may not be able to easily sell its buildings, but it could, at least theoretically, spend its wealth tied earmarked for renovation and future construction funds.

⁴There is also an additional 1,000 or so funds which "function as endowment." The difference between "endowment funds" and "funds which function as endowments" is that the latter are created by the University itself under the direction of the Board of Trustees. Some of these are funds which are basically temporarily restricted funds which the Board of Trustees approve, while others are funds governed by general guidelines which University management gets approved by the Trustees.

the media; that \$11 Billion is the "Long-Term Balanced Pool." We will be getting to that shortly.

In FY2020, Northwestern had Endowment funds totaling \$8,484,706,000.

(in thousands of dollars)	With donor restrictions				2020
	Without donor restrictions	Funds held in perpetuity	Accumulated gains (losses)	Total	Total funds
Institution-designated endowment funds	\$4,216,889				\$4,216,889
With donor restrictions					
Underwater funds		\$47,401	(\$579)	\$46,822	46,822
All other funds		1,691,042	2,529,953	4,220,995	4,220,995
Endowment assets at end of year	\$4,216,889	\$1,738,443	\$2,529,374	\$4,267,817	\$8,484,706

Some of these funds are **Permanently Restricted Funds**, which means that Northwestern is allowed to spend the interest coming from the funds but cannot ever spend the principle itself. The point of these funds are to establish an endowment which can serve the University (and its workers!) for generations to come. **In FY2020, Northwestern had \$1,738,443,000 in Permanently Restricted Funds in their Endowment.**

Other endowment funds, however, are **Temporarily Restricted Funds**. Northwestern, under certain time-based or use-based conditions given by the donor, is able to spend the principle on these funds. **In FY2020, Northwestern had \$2,529,374,000 in Temporarily Restricted Funds in their Endowment.** This number can be calculated by taking the total of **Endowment** assets with donor restrictions in the table below and subtracting the column titled "Funds held in perpetuity."⁵

Lastly, there are **Unrestricted Endowment Funds**. These are the funds in the **Endowment** which the university is able to spend as it needs to without checking whether they are obeying the original donors' wishes. The University aims to keep roughly half its **Endowment** in **Unrestricted Endowment Funds**. **For FY2020, Northwestern had \$4,216,889,000 in Unrestricted Endowment Funds.** These funds are shown below:⁶

⁵Northwestern also has a small number of "underwater funds." These refer to donor-restricted funds where the current value is below the original donation amount. This can happen, for instance, if the donation takes the form of various stocks which have since lost value. Northwestern has about \$46,822,000 in funds that are less than they were originally worth. In 2020, Northwestern saw about \$579,000 in losses from these underwater funds.

⁶The University is able to spend **Unrestricted Endowment Funds** without violating donor agreements, but this does not mean the University can spend this **Endowment** money as it pleases. Northwestern's **Endowment** is still subject to Illinois **Uniform Prudent Management of Institutional Funds Act (UPMIFA)** which requires the university spend its **Endowment** "prudently" such that the **Endowment** provides equal or greater spending power from one generation to the next (a concept known as "generational equity") unless a donor specifies otherwise for their particular fund. This legal requirement, however, is negligible for the calculation of the **True Total Reserves** because the **UPMIFA** allows the university to spend against the **Endowment** in order to avoid defaulting on liabilities and maintaining the basic functioning of the university. These funds, under extreme enough circumstances, are thus spendable, though no university would want to be in such a situation.

The portion of the **Endowment** which contributes to the **True Total Reserves** are the **Unrestricted Endowment Funds** and **Temporarily Restricted Funds**. These are the portions of the **Endowment** which the university might feasibly spend. **In FY2020, Northwestern had non-permanently restricted endowment assets of \$6,746,263,000.**

To find the **True Total Reserves**, then, we do the following:

True Total Reserves = Net Assets - Land,Buildings,Equipment - Permanently Restricted Endowment Funds

True Total Reserves = \$12,461,581,000 - \$3,258,694,000 - \$1,738,443,000

True Total Reserves = \$7,464,444,000

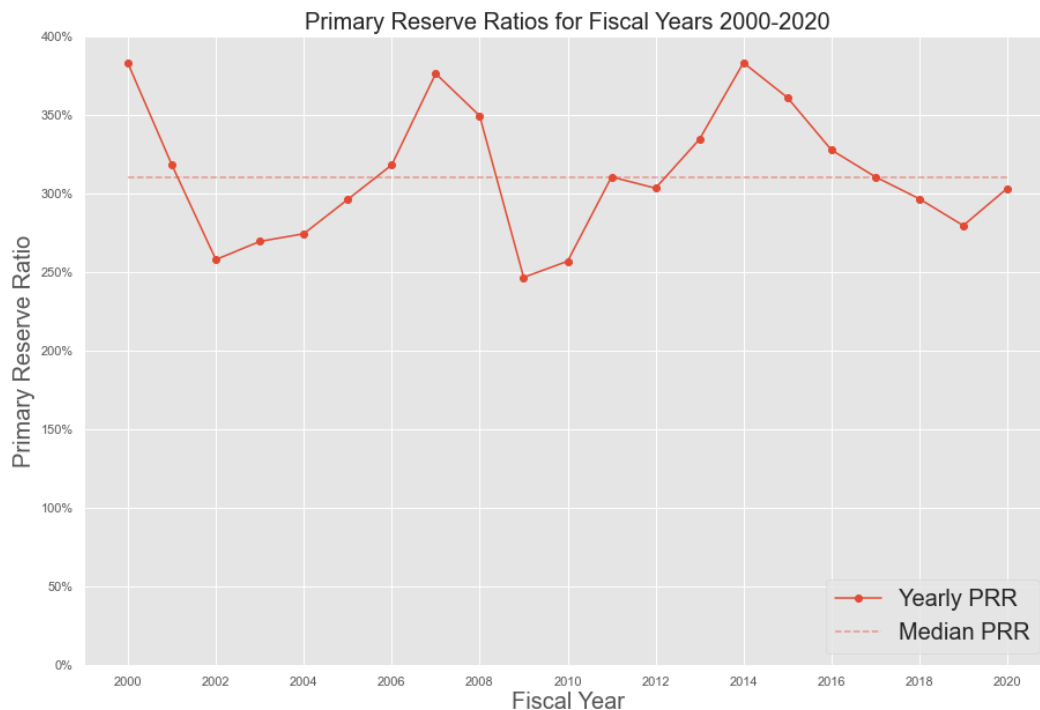
This number is important because it represents the portion of Northwestern's wealth which could feasibly be used to pay for various incurred expenses. Let's now go to the Fichtenbaum-Bunsis Ratios themselves to see Northwestern's financial health.

2.3 Fichtenbaum-Bunsis Ratio Results

Primary Reserve Ratio (PRR): Obtained by dividing True Total Reserves (\$7,464,444,000) by Total Expenses (\$2,459,351,000). This ratio, likely the most important, measures the wealth of a university against its expenses. A PRR of 0.5 or higher is considered to constitute excellent long-term financial health. A university with a PRR over 0.5 could pay all of its expenses for half a year without receiving a penny of incoming revenue through things like tuition or room and board or taking on any more debt.

Northwestern's Primary Reserve Ratio was 3.0351, an increase from 2.7984 in 2019 and 2.9687 in 2018. This means Northwestern has enough money relatively easily on hand to pay all of its expenses for three years without receiving any tuition/fees/room and board in the meantime or taking on any additional debt.

Below are the PRR values for Northwestern from 2000 to 2020. As can be seen, Northwestern has long been in stellar health:

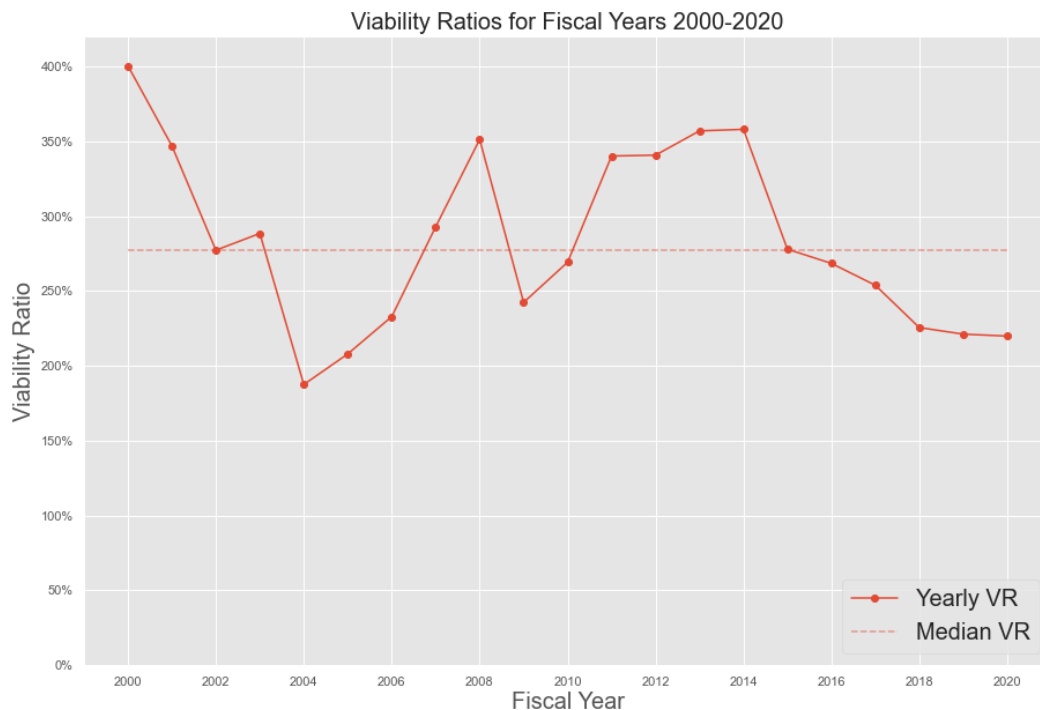


Viability Ratio (VR): Obtained by dividing True Total Reserves (\$7,464,444,000) by Total Debt (\$3,394,102,000). The VR measures the wealth of a university against its debt, giving a picture of how burdensome Northwestern’s debt is. Next to the Primary Reserve Ratio, this is the other major ratio for measuring long-term financial health.

Northwestern’s Viability Ratio was 2.1992 in 2020, a slight decrease from 2.2122 in 2019 and 2.2516 in 2018. This is also below Northwestern’s 20-year VR average of 2.8390, but still considered an outstanding result relative to peers.

This drop is due to Northwestern taking on around \$320 million in debt for FY2020, partially due to the refinancing of \$300 million in commercial paper. The VR is, generally, easier to improve as well since the denominator can be reduced by simply scheduled repayments on the principle of the loan (assuming positive cash flow ratios during this time). Improving the PRR’s denominator, in contrast, often requires austerity measures. Northwestern’s debt has more than doubled since 2012 (when it had a VR of 3.4089), with FY2018 especially standing out due to the University issuing over \$425 million in debt to finance ambitious construction projects.

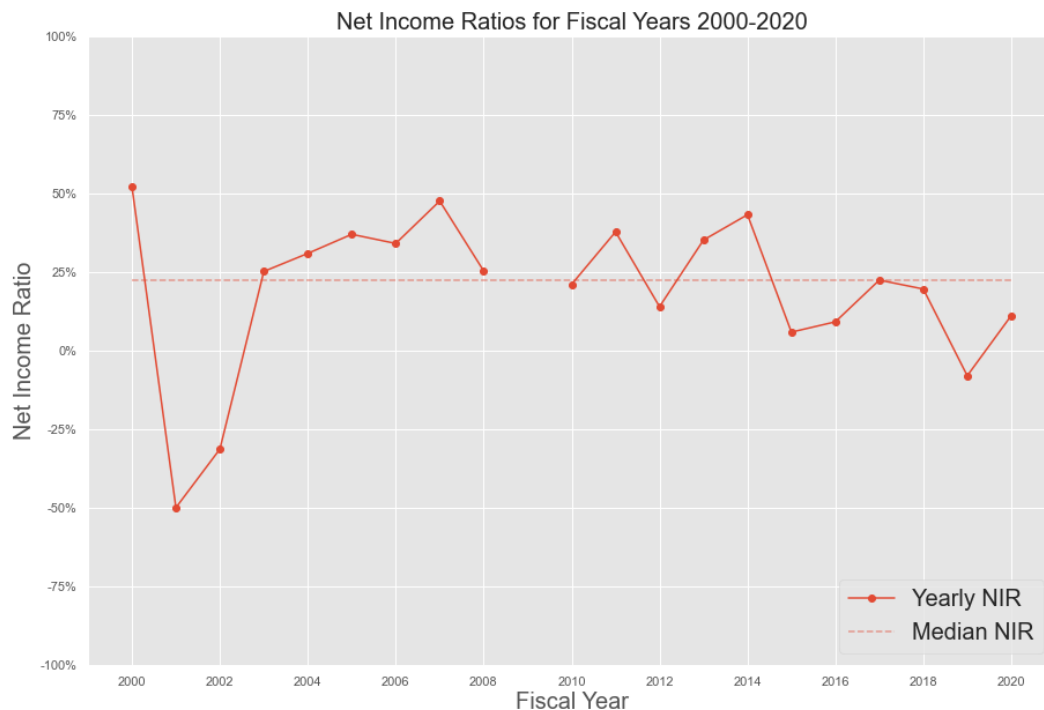
Below are the VR values for Northwestern from 2000 to 2020:



Net Income Ratio (NIR): Obtained by dividing the Change in Net Assets from FY2019 to FY2020 (\$311,380,000) by Total Revenue (\$2,770,731,000). A NIR above about 5% is considered excellent, implying substantial savings after expenses.

Northwestern's Net Income Ratio was 11.24% for FY2020. This is an increase from -7.90% in 2019, though it is still lower than 19.71% in 2018 when Northwestern reported nearly \$1 billion in investment returns.

Below are the NIR values for Northwestern from 2000 to 2020. It should be noted that, due to the 2008 financial crash, Northwestern reported an NIR of -695.3% for FY2009. For ease of reading, that data point is noted but visually excluded.

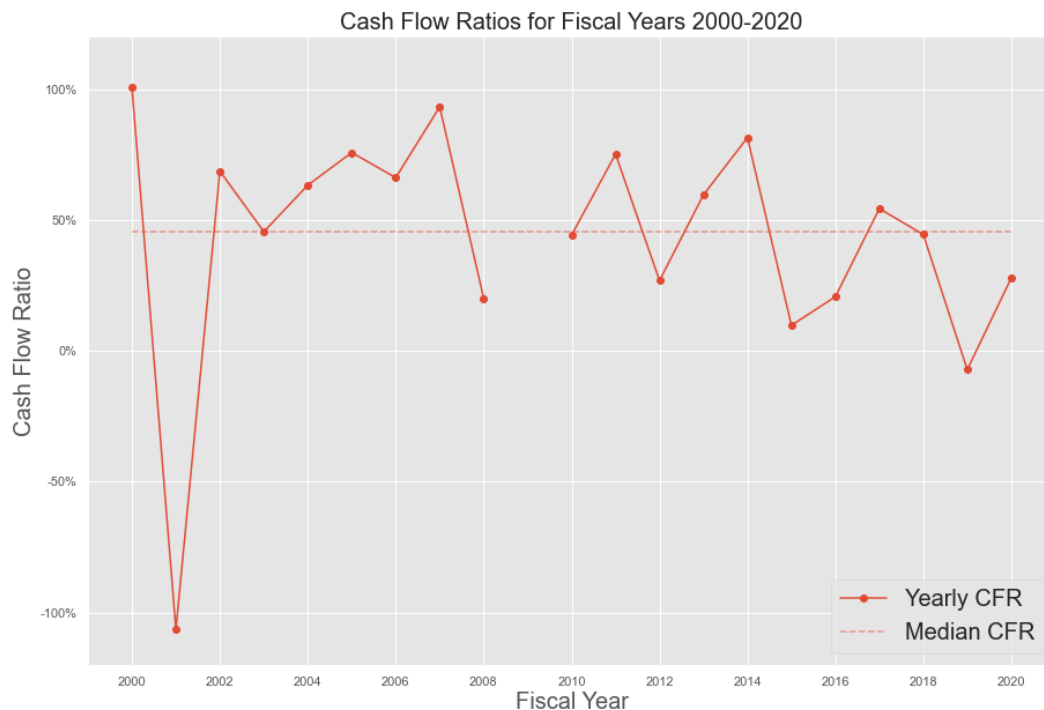


Cash Flow Ratio (CFR): Obtained by dividing the Operating Cash Flow (\$771,342,000).⁷ The Operating Cash Flow is then divided by the Total Revenues (\$2,770,731,000). A CFR above 5% is considered excellent, implying substantial cash remaining on hand after operational costs. This means that, after revenue is used to cover expenses, there is still a lot of cash left over to pay off debts and other liabilities; it also can be reinvested or used for other projects (such as 6th year funding or rehiring laid off staff workers!).

Northwestern Cash Flow Ratio was 27.84% for FY2020. This is a substantial increase from -7.14% in 2019, though lower than 44.48% in 2018 (again, due to 2018's ¿\$1 billion investment return).

Below are the NIR values for Northwestern from 2000 to 2020. It should be noted that, due to the 2008 financial crash, Northwestern reported an NIR of -1357.25% for FY2009. For ease of reading, that data point is noted but visually excluded.

⁷The Operating Cash Flow is obtained by summing the Change in Net Assets (\$ 311,380,000), Capital Depreciation (-\$181,647,000), and Investment Income (\$641,609,000).



2.4 FB Ratio Conclusion

This report shows that Northwestern's Primary Reserve Ratio and the Viability Ratio - the two FB ratios that consider long-term capacities - are extremely high, implying very robust, long-term funding capabilities. Further, Northwestern high Net Income Ratio and Cash Flow Ratio entail robust liquid assets which can be utilized in many ways to reverse the impact of austerity

While there have been some decreases in the University's Fichtenbaum-Bunsis Ratios from past years, the two ratios most important for NUGW's demands (the NIR and CFR) are extremely high. It may be appropriate at this point to quote Senior Vice President Craig Johnson's letter attached to the financial report:

Fiscal year 2020 saw net assets increase by over \$400 million to \$12.5 billion, driven by the ongoing strength of an \$11.1 billion endowment and a positive operating performance of \$83.4 million. The We Will campaign also hit its expanded goal of \$5 billion, raised from more than 168,000 donors. **This strong financial performance, and the sustained generosity of our donors, position us well for future growth.**

3 University Endowment

3.1 The Long-Term Balanced Pool, Popularly Reported as Northwestern's \$11 Billion Endowment

University financial terminology is sometimes ambiguous with regard to what constitutes the "endowment," especially for a large university such as Northwestern. As discussed in **Section 2.2**, financial reports refer to the **Endowment** as the amalgamation of around 3,800 funds with various donor-related or Trustee-related restrictions. Some of these funds have no restrictions at all, but they are still all managed under the Illinois UPMFIA (see **Footnote 6** above on page 6). As seen above, these 3,800 accounts amount to \$8,484,706,000.

But this is **not** what is usually meant by the endowment in exoteric reports about the university finances, including in the Senior Vice President for Business and Finance's opening letter. What is usually talked about as the endowment in these more public-facing discussions, including in news articles, the **Long-Term Balanced Pool**. The **Long-Term Balanced Pool** includes all the funds of the **Endowment**, but it also contains a number of investment funds which the university grows by stashing some of the cash remaining at the end of the year. The reason this **Long-Term Balanced Pool** is referred to as the endowment is because this bigger pot is geared towards the same thing as the **Endowment** funds: a long-term financial basis whose returns can fund the university in perpetuity.

When people refer to "The Endowment" outside the context of the University's technical annual financial report, they are referring to the Long-Term Balanced Pool. In FY2020, Northwestern's Long-Term Balanced Pool ("The Endowment") had \$11,131,111,000. This is the the "\$11 billion endowment."

History of the Merged Pools as of August 31, 2020					
	2016	2017	2018	2019	2020
Long-Term Balanced Pool					
Net asset value (in thousands of dollars)	\$9,803,725	\$10,456,022	\$11,014,417	\$10,800,749	\$11,131,111

3.2 President Schapiro's April 16 Email on 1 Year Funding Extension

President Morton Schapiro's April 16th email to the Northwestern community about the "financial implications" of COVID-19 mentions that "These endowed funds tend to be restricted for specific purposes and a portion of them are allocated to illiquid investments."⁸ This is true, but misleading. A portion of these funds are restricted, but

⁸Pollard, James, *The Daily Northwestern*, April 16 2020, 'Schapiro: University Funding Hampered by COVID-19', <https://dailynorthwestern.com/2020/04/16/campus/schapiro-university-funding-hampered-by-covid-19/>

many are not as seen above. **In fact, even the single year drop in these unrestricted endowment funds would be enough to guarantee an extra year of stipend funding for all PhD students currently in their 1st through 6th years of their programs.**

Inside of the Endowment portion of the Long-Term Balanced Pool, there is **\$2,368,537,000 is earmarked for "Teaching, research, and program support," with no donor restrictions. Meanwhile, the breakdown of the endowment with donor restrictions has \$2,771,527,000 dedicated to "Teaching, research, and program support."**

The breakdown of the endowment assets with donor restrictions is important for the following reason. While Northwestern is only able to use these funds for the purpose specified, what counts as a donor restrictions is highly variable and can include specifications on (among other things)

1. Time limits for expenditure
2. Investment restrictions
3. Specific departments/schools/institutes to be funded
4. Financial aid, assistantships, and grants for specific groups of students

These restrictions can possess a wide range of granularity even inside these categories. **However, while these may have restrictions, that by no means none of this money can be used for the purposes of graduate funding.** If a hypothetical endowment donation specified that it were to help fund doctorate student education in Chemistry, then Northwestern would still be able to use that specifically to guarantee an extra year of funding for Chemistry students even as they also draw from the unrestricted pool to provide support to other graduates. This makes President Schapiro's claim that these assets have restrictions true but misleading in another respect.

4 The University Surplus

The administration reported a \$83.4 million surplus for FY2020; this adds to the \$68.7 million surplus reported from FY 2019, giving a two-year budget surplus of \$152.1 million. This represents tremendous financial success for the university, especially given the economic devastation wrought by the COVID-19 pandemic. The surplus is shown below, circled in green (reported in thousands of dollars):

Operating expenses		
Salaries, wages, and benefits	1,455,808	1,439,159
Services, supplies, maintenance, and other	728,002	820,166
Depreciation	181,647	165,142
Interest on indebtedness	93,894	86,724
Total operating expenses	2,459,351	2,511,191
Excess of operating revenues over expenses	\$83,432	\$68,732

4.1 Strong Investment Returns

This surplus was generated by both harmful austerity measures and tremendous success in Northwestern's investments. During a global depression triggered by COVID-19, Northwestern posted returns exceeding their pre-COVID benchmarks by .8 points

Annualized Returns: Exceeding the Objective (as of August 31, 2020)					
	1-year	3-year	5-year	10-year	15-year
Annual total return*	7.1%	6.6%	6.6%	8.6%	7.5%
– Spending	4.3%	4.6%	4.5%	4.3%	4.1%
– University management fee and support	0.7%	0.7%	0.7%	0.7%	0.7%
– Inflation	1.3%	1.9%	1.8%	1.8%	1.9%
= Above or below objective	0.8%	-0.6%	-0.4%	1.8%	0.8%

* Total returns are net of fees and calculated on annual changes in net asset value. They may differ from payout distributions.

What was the cause of this 7.1% growth during a historic pandemic? These large returns were driven most of all by Northwestern's various equity holdings. **To wit, its international equities grew by an incredible 16.5%, a showing which in the context of a devastated economy was so strong that Northwestern's own investment report declared it was "unprecedented," (p.4, Investment Report).**

Northwestern does not spend all of their returns, usually designating around half to reinvestment. This half is divided into two classes: the first are investment returns from endowment funds governed by specific donor-restrictions. These can be used in operations if the donor wishes, but they are usually reinvested. The other half is unrestricted returns that remain after deducting expenses. These are often reinvested, though the University can use them for later expenses in the year. This latter part of reinvested returns are the part Northwestern would be able to draw from to support workers.

In FY2020, Northwestern designated \$402,815,000 in investment returns for operations, leaving them with \$238,794,000 in unspent, unrestricted returns after expenses.

On the next page are the various holdings Northwestern has, along with how easily these positions can be redeemed.

(in thousands of dollars)

	Fair value	Remaining life	Uncalled commitments	Redemption terms	Redemption restrictions
US equity	\$1,602,450	No limit	\$12,000	Daily to annually, with 1- to 90-day notice periods	Lock-up provisions ranging from none to 3 years
International equity	\$1,900,189	No limit	\$29,100	Daily to annually, with 1- to 180-day notice periods	Lock-up provisions ranging from none to 3 years
Fixed income	\$866,452	No limit	—	Daily to monthly, with 1- to 10-day notice periods	No lock-up provisions
High-yield credit	\$244,668	No limit to 12 years	\$118,659	Certain partnerships ineligible for redemption; other funds semiannually to annually, with 90-day notice periods	Certain partnerships not redeemable; other partnerships include side pockets subject to general partner discretion
Absolute return	\$1,810,817	No limit	\$75,250	Daily to greater than annually, with 1- to 120-day notice periods; private partnership ineligible for redemption	Lock-up provisions ranging from none to 3 years; side pockets on many funds; one partnership not redeemable
Private investments	\$3,291,435	No limit to 12 years	\$944,697	Partnerships ineligible for redemption; equity securities daily, with 1-day notice	Private partnerships not redeemable; equity securities have no lock-up provisions
Real assets	\$1,613,840	No limit to 14 years	\$795,514	Partnerships ineligible for redemption; commodity and equity funds are weekly, with 1- to 3-day notice periods	Drawdown partnerships not redeemable; no restriction on commodity and equity funds

As a final note, consider the \$1.61 billion under “Real Assets.” As alluded to on page 23 of the annual report,⁹ and as crucially publicized by Fossil Free NU, Northwestern has a number of holdings in fossil fuel companies.¹⁰ To wit, Northwestern has substantial holdings in coal, gas, and oil companies on the Carbon Undergrounds list. Regarding coal, in 2020 Northwestern had \$3.9 million directly invested in ArcelorMittal, BHP Billiton, Glencore, ITOCHU, Mitsubishi, and Rio Tinto. In terms of oil and gas, in 2020 Northwestern has \$45.4 million directly invested in Anadarko Petroleum, Antero Resources, BASF, BHP Billiton, BP, Denbury Resources, Inpex, Noble Energy, Peyto E & D, Range Resources, Statoil, Total, Tourmaline Oil, and WPX Energy.

NUGW stands in total solidarity with Fossil Free NU’s call to the Board of Trustees to divest these assets which cause global ecological damage and which especially harm many colonized people across the Global South. As becomes clear from this financial analysis, Northwestern can both meet all of NUGW’s standing demands *and* divest from these \$49.3 million in holdings without even remotely approaching financial exigency.

⁹“The real assets portfolio includes the University’s investments in energy, timber, real estate, and public investments in certain commodity and equity funds.

¹⁰This list can be found under Appendix A of Fossil Free NU’s proposal for divestment: <https://fossilfreenorthwes.wixsite.com/fossilfreenu/our-proposal>

4.2 Minimal Savings from Maximum Disruption of Workers

The investment returns (especially in the area of international equities) did much to generate a surplus. However, the university also created a surplus off the backs of Northwestern's least compensated and least protected workers.

The other main cause of the surplus is the reduction in salaries for support and maintenance staff by \$12.1 million via layoffs, circled in red below. It is remarkable that, of the hundreds of workers laid off, upending them and their family's livelihoods, these layoffs contributed to only 14.5% of the university's surplus. The vast majority of the surplus was generated by an uptick in one portion of the University's gigantic investment holdings.

This strategy of obtaining "positive operating performance" is made all the more galling by Northwestern's claim to fight for racial justice. The support and maintenance staff laid off are disproportionately Black, Indigenous, and people of color. At the same time, Northwestern's own financial report begins with a letter from Senior Vice President Johnson proclaiming:

And in a year in which longstanding issues of social and racial justice came to the fore nationally, Northwestern unveiled a range of initiatives to achieve greater diversity, inclusion, and equity on our campuses and in our larger communities.

These layoffs directly betray this stated desire to achieve greater diversity, inclusion, and equity on Northwestern's campus. As an anti-racist labor union, Northwestern Graduate Workers demand these workers be rehired.

Below is the table of reported expenses, classified by function (see page 36 of report), which reveal the relatively small savings gained by these personally devastating layoffs:

(in thousands of dollars)

2020

	Academic	Research	Support	Total
Salaries, wages, and benefits	\$923,409	\$298,256	\$234,143	\$1,455,808
Services, supplies, maintenance, and other	517,945	196,006	14,051	728,002
Depreciation	113,167	55,374	13,106	181,647
Interest on indebtedness	58,496	28,623	6,775	93,894
Total	\$1,613,017	\$578,259	\$268,075	\$2,459,351

(in thousands of dollars)

2019

	Academic	Research	Support	Total
Salaries, wages, and benefits	\$914,581	\$278,335	\$246,243	\$1,439,159
Services, supplies, maintenance, and other	566,670	193,503	59,993	820,166
Depreciation	111,854	40,342	12,946	165,142
Interest on indebtedness	58,740	21,185	6,799	86,724
Total	\$1,651,845	\$533,365	\$325,981	\$2,511,191

One of the most important points to take from this surplus are these:

the \$12.1 million in savings from reductions in wages and benefits makes up less than a fifth of the university's surplus this year. *Northwestern is able to easily rehire all of the workers the University has laid off, and to refuse to do so based on alleged economic hardship is both willfully inaccurate and unconscionable.*

Further, the university still has a lot left to provide guaranteed funding extensions to all graduate workers. The total stipend cost (stipend + NU-SHIP + dental insurance + vision insurance) of guaranteeing 6th year funding would be \$26.3 million, which amounts to 31.53% of the surplus.¹¹ With this surplus, Northwestern would also be able to provide funding for rising 7th and 8th years AND rehire all laid off support workers.

5 Liquid Assets

Furthermore, Northwestern has tremendous amounts of liquid assets which would be able to satisfy other pro-worker demands which are necessary in light of the devastation. The following is Northwestern's reported liquidity, available within one year. **Within one year, about \$1.87 billion is available through various ways:**

<i>(in thousands of dollars)</i>	<i>2020</i>	<i>2019</i>
Financial assets		
Cash and cash equivalents	\$381,442	\$155,469
Accounts receivable, net	197,013	199,535
Notes receivable	23,796	23,109
Contributions receivable	88,633	57,392
Investment return for operations	495,710	471,000
Financial assets available within one year	1,186,594	906,505
Liquidity resources		
Commercial paper	300,000	—
Bank lines of credit	385,000	665,000
Total financial assets and liquidity resources available within one year for general expenditure	\$1,871,594	\$1,571,505

Northwestern multiple, large sources of liquid assets which may be used for general expenditure. The first, most obvious liquid asset is the cash and cash equivalents available. **For FY2020, Northwestern had \$381,442,000 in cash and cash equivalents, increase of \$225,973,000 from FY2019; this is more than double their cash on hand from 2019.** This is money which Northwestern can use for a wide variety of expenditures, can keep in the bank, or can reinvest. Cash and cash equivalents for investment purposes include bank accounts holding cash and money market funds consisting of short-term US Treasury securities which are usually redeemable within the year. ss **Given this large**

¹¹ An explanation of the calculation and assumptions (all of which boost Northwestern's case as much as possible) can found in Appendix A.

amount of cash, larger than many universities' entire endowments, Northwestern is in an excellent position to reduce their recent austerity measures against staff and maintenance workers and graduate workers. Besides the aforementioned funding extensions and rehires, Northwestern would also be well positioned to fund the following:

1. Universal 1 year funding extension for all graduate students
2. Paycheck and health insurance coverage for all furloughed service staff
3. Funding for safe transportation or transportation subsidy for students and postdoctoral fellows
4. Funding for proposed and additional diversity initiatives advanced by CoalitionNU.

We hope this report has been useful for you and provided a source for future agitation and strategy.

In solidarity,

The Research Committee



**NORTHWESTERN
GRADUATE WORKERS**

A Explanation of 6th Year Funding Methodology

To calculate an upper bound on the cost of guaranteeing a sixth year of funding to doctoral students, we first need to know the number of students in their sixth year. While Northwestern does not make this data readily available, they do provide the number of students that matriculate each year. A total of **597 doctoral students** matriculated in 2016 and will be entering their sixth year during the next academic year. In the very extreme case with no attrition, every student takes a sixth year, and no student receives external funding, this is the total number of sixth year students that Northwestern would have to fund next year. Using the base stipend (**\$33,504**) and NU-SHIP premium cost (**\$4,150**) for the 20-21 academic year,¹² we can calculate an upper bound on the cost to the university.¹³

$$597 \times (\$33,504 + \$4,150) = \$22,479,438$$

This total of approximately **\$22.5 million** represents approximately **27%** of this year's **\$83.4 million budget surplus**. However, the real cost of guaranteeing a sixth year of funding would likely be well under this value. Given that a large number of students complete their degree before their sixth year, TGS has roughly a 12% attrition rate, and that many students, particularly in STEM fields that represent approximately 60% of doctoral students at Northwestern, receive external funding, it's not too far-fetched to assume that the real cost would be less than half of the amount presented here.

Given that the cost of providing a stipend and insurance benefits at their current rates is well below the total budget surplus, it is well within Northwestern's reach to expand those benefits. Currently, Northwestern does not cover premiums for dental (**\$384 for the Delta PPO plan**) or vision insurance (**\$85 for the DeltaVision Select plan**).¹⁴ The cost of covering these premiums for **all 3,337 enrolled doctoral students** is given below.

$$3,337 \times (\$384 + \$85) = \$1,565,053$$

Furthermore, Northwestern could easily match the \$1800 in federal aid provided to domestic students for the approximately **1230** international students.

$$1230 \times \$1800 = \$2,214,000$$

Altogether, the extreme high end of guaranteeing a sixth year of funding, providing dental and vision insurance to all doctoral students, and matching federal aid for international students comes to approximately **\$26.3 million**, representing less than one third of the total budget surplus.

¹²Information about the 2020-2021 PhD stipend amount can be found here: <https://www.tgs.northwestern.edu/funding/>

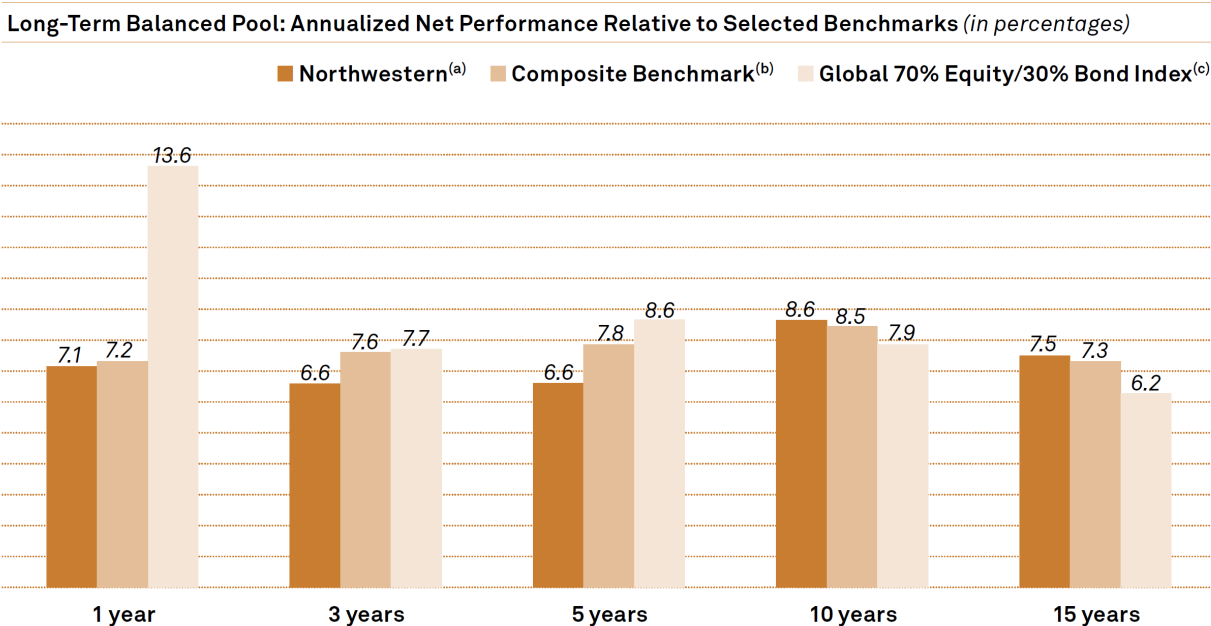
¹³The 2020-2021 premiums for the NU-SHIP health insurance can be found here: <https://www.northwestern.edu/student-insurance/plan-info-reqs/nu-ship-information/2019-20-premiums.html>

¹⁴The costs of the dental and vision insurance plans can be founds here <https://nuinfo-proto12.northwestern.edu/studentaffairs/student-insurance/optional-insurance-plans/2019-20-dental-vision-insurance-options.html>

B Further Questions and Concerns

B.1 Undefined Benchmark for Long-Term Balanced Pool

Here is the return of the Long-Term Balanced Pool (the thing common reported as “the endowment”) across several windows alongside two different benchmarks.



^(a) Northwestern's returns are net of investment manager fees.

^(b) An internal benchmark consisting of market indices weighted by the target policy portfolio

^(c) A stock/bond mix representing MSCI All Country World Investable Index and Barclays Capital Global Aggregate Bond Index

The 2020 report uses an undefined benchmark in evaluating its assets. The first (Benchmark A) is referred to as an “internal” metric. The second (Benchmark B) is defined as a weighted average (70% Equity and 30% Bonds), measured by MSCI All Country World Investable Index and the Barclays Capital Global Aggregate Bond Index respectively. These metrics are comparable to those used by mutual peer universities such as Duke.

Benchmark A, however, is unusual because Northwestern's peers do not report results of internal benchmarks in their financial reports. Duke,¹⁵ Emory, Harvard, Loyola, MIT, Princeton, Stanford, U Chicago, and Yale all either report no benchmarks at all or define the ones used. This finding is based on the most recent financial reports for each of these universities.¹⁶

¹⁵Duke defines theirs as follows: “Under the policy approved by the Board, endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a benchmark composed of 70% of the MSCI All Country World Index and 30% of the Bloomberg Barclays U.S. Aggregate Bond Index. Duke expects its endowment funds, over long time periods, to provide an average annual real rate of return of approximately 5.0%. Actual returns in any given year may vary from this amount,” p. 29. Link: Duke 2018-2019 Financial Report

¹⁶Yale (p.19) provides the most comprehensive definition of their benchmarks, employing separate for-

So, there are at least three questions arising from this metric:

1. **What is the formula used for the internal benchmark?**
2. **How long has Northwestern University used this benchmark?**
3. **How does this benchmark compare to the latter benchmark in terms of impact on university decision making?**

A member of the research committee emailed the Office of Financial Operations and the Treasury Accounting Services with these questions regarding the internal benchmark. So far, the office has not responded to these questions.

mulae for each class of investment.

Active Benchmarks: **Absolute Return:** Credit Suisse and Inverse Wilshire 5000 Composite —**Domestic Equity:** BNY Median Manager, —**U.S. Equity Fixed Income:** Barclays 6-12 Month U.S. Treasury Index after June 2018. Barclays 1-3 Year Treasury Index from October 2013 to June 2018. Barclays 1-5 Year Treasury Index through September 2013. — **Foreign Equity:** BNY Median Manager Composite, Foreign Equity — **Leveraged Buyouts:** Cambridge Associates Global Leveraged Buyouts — **Venture Capital:** Cambridge Associates Venture Capital Composite — **Real Estate:** Cambridge Associates Real Estate — **Natural Resources:** Cambridge Associates Natural Resources

Passive Benchmarks: —**Absolute Return:** Barclays 9-12 Mo Treasury —**Domestic Equity:** Wilshire 5000 —**Fixed Income:** Barclays 6-12 Month U.S. Treasury Index after June 2018. Barclays 1-3 Year Treasury Index from October 2013 to June 2018. Barclays 1-5 Year Treasury Index through September 2013 —**Foreign Equity:** MSCI EAFE Investable Market Index / MSCI Emerging Markets Investable Market Index + MSCI China A-Share Investable Market Index, weighted according to target developed and emerging equity allocations since December 2014. MSCI EAFE Investable Market Index / MSCI Emerging Markets Investable Market Index + MSCI China A-Share Investable Market Index / Custom Opportunistic Benchmark, weighted according to target developed, emerging and opportunistic allocations through November 2014. —**Leveraged Buyouts:** Russell 2000 (75%) / MSCI ACWI ex-US Small-Cap Index (25%) —**Venture Capital:** Russell 2000 Technology Index (56%) / MSCI China Small-Cap Index (20%) / NASDAQ Biotechnology Index (19%) / MSCI India Small-Cap Index (5%) after June 2018. Russell 2000 Technology Index (56%) / NASDAQ Biotechnology Index (19%) / MSCI China Small Cap Index (17%) / MSCI India Small Cap Index (8%) after April 2014 through June 2018. Russell 2000 Technology Index (75%) / MSCI China Small Cap Index (17%) / MSCI India Small Cap Index (8%) through April 2014. Russell 2000 Technology Index through June 2010. —**Natural Resources:** Custom Timber REIT basket / S&P Oil & Gas Exploration & Production Index / Euromoney Global Mining Index / Custom Agriculture REIT Basket, weighted according to contemporaneous target timber, oil and gas, mining and agriculture allocations

Link: Yale 2018-2019 Financial Report