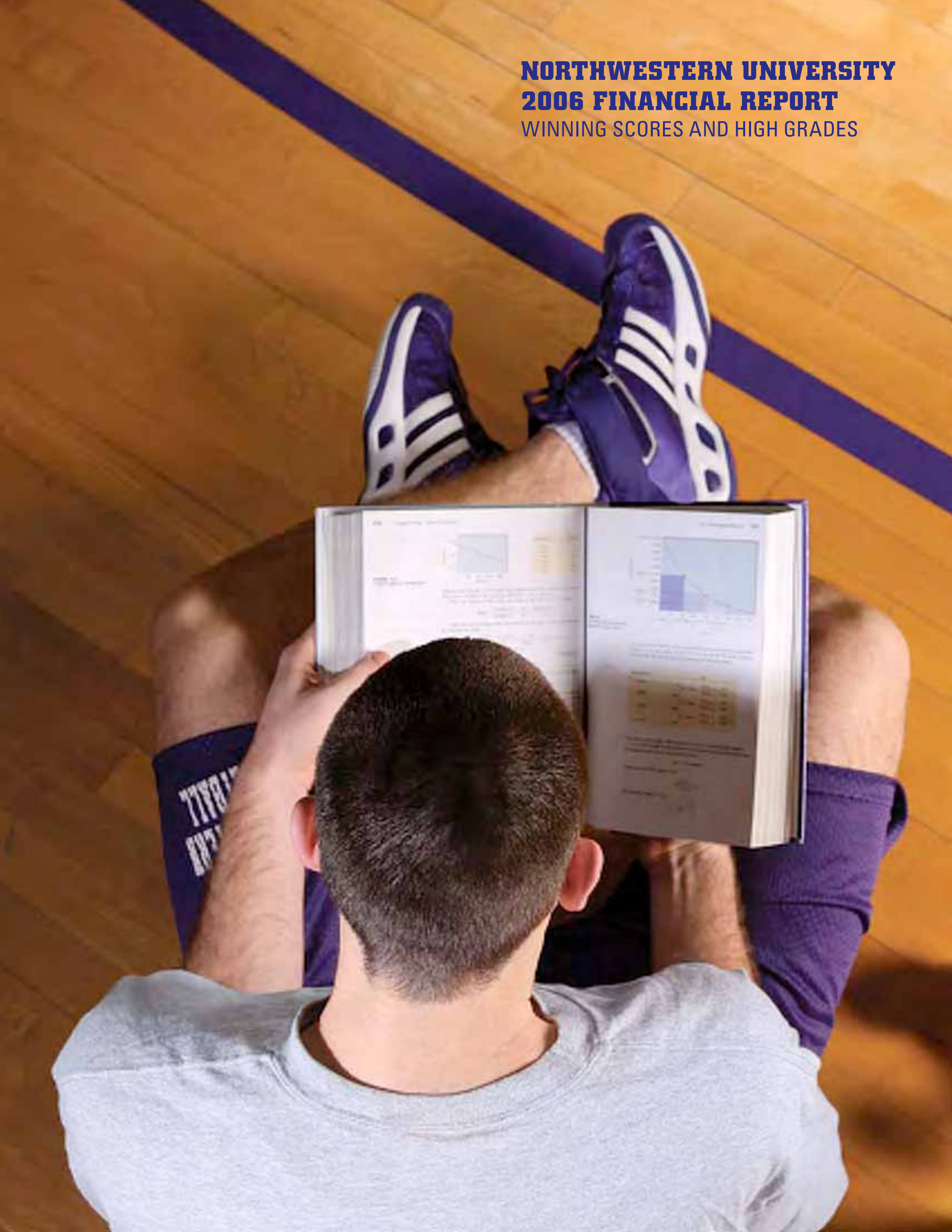
NORTHWESTERN UNIVERSITY 2006 FINANCIAL REPORT

WINNING SCORES AND HIGH GRADES



National champions: the Northwestern women's lacrosse team

Consistently a Big Ten and national leader in the graduation rate of our athletes, Northwestern in academic year 2005–06 was a major player athletically as well as academically. We compiled our best sports record ever. Eleven teams went to postseason competition, and we earned national championships in lacrosse, women's tennis doubles, and the 100-yard backstroke in men's swimming and finished as runner-up for the national softball title. The stellar year is highlighted in these pages.

As much as we revel in victories, and hope and strive for more, we know that not every year is likely to match the last one. But whatever the standings, the administration considers our intercollegiate athletic program a perennial success. That's because we measure its effectiveness by not only wins and losses but also the all-around welfare of our student-athletes. We are proud that they succeed in their academic work as well as in their chosen sports. We also believe that athletic competition is an integral part of the educational process. Sports have educational benefits that are at least as important as the physical aspects, including the opportunity to exercise leadership, develop teamwork skills, appreciate the discipline of sustained practice and training, and realize the value of good sportsmanship.

Few schools have athletes who perform as well academically as Northwestern's. During the 2005–06 school year 122 Northwestern student-athletes received Academic All–Big Ten honors by earning a 3.0 cumulative grade point average along with a letter in their sports. One Northwestern student was All-America and three others were All-District in the College Sports Information Directors of America's academic honors selections.

FEW SCHOOLS HAVE ATHLETES WHO PERFORM AS WELL ACADEMICALLY AS NORTHWESTERN'S.

Our athletes' graduation rate — consistently around 90 percent — puts us among *U.S. News & World Report*'s top 10 schools. In fact, we tied for number 1 when the National Collegiate Athletic Association Foundation and *USA Today* announced their first Academic Achievement Awards in 2001 to recognize schools for high student-athlete graduation rates. Northwestern and Duke had the highest graduation rate (90 percent) among NCAA schools that play Division I-A football.

When the National Collegiate Scouting Association recently released its fourth annual Collegiate Power Rankings, developed to encourage student-athletes and their parents to evaluate colleges on academic as well as athletic merits, Northwestern was fourth among NCAA Division I institutions and the highest-ranked school in the Big Ten. Scores are calculated by averaging the student-athlete graduation rate, a school's overall ranking by *U.S. News & World Report,* and the U.S. Sports Academy Directors' Cup ranking of overall athletic programs.

Northwestern also led the Big Ten when the NCAA released its first report on "academic progress rates," or APRs, for 326 Division I schools in 2005. Our score of 986 was well above the "cut rate" of 926 — equating to a 50 percent graduation rate — that the NCAA considered a minimum standard. Ten of our varsity sports programs (men's basketball, men's golf, men's swimming and diving, men's tennis, women's fencing, women's golf, women's lacrosse, women's soccer, women's tennis, and women's volleyball) achieved a perfect 1,000, and the other 9 all scored above the Division 1-A average of 947.

The APR figures were used in a report on the academic performance of football players at the 56 schools competing in bowl games after the 2005 season. Northwestern led all bowl teams with its 83 percent overall graduation rate for football student-athletes and 90 percent graduation rate for African Americans on the football team.

Also recognizing the graduation rate of football student-athletes, the Academic Achievement Award of the American Football Coaches Association has gone to Northwestern four times — in 2005 (shared with Duke), 2004 (shared with Boston College), 2002, and 1998 — a record that only three other schools have achieved. This year we were one of only five schools to have an athlete graduation rate of 90 percent or better. In comparison, the overall graduation rate among the schools responding was 58 percent.

WE TAKE A GREAT DEAL OF PRIDE IN OUR RECORD OF GRADUATING STUDENT-ATHLETES WHILE FIELDING COMPETITIVE TEAMS.

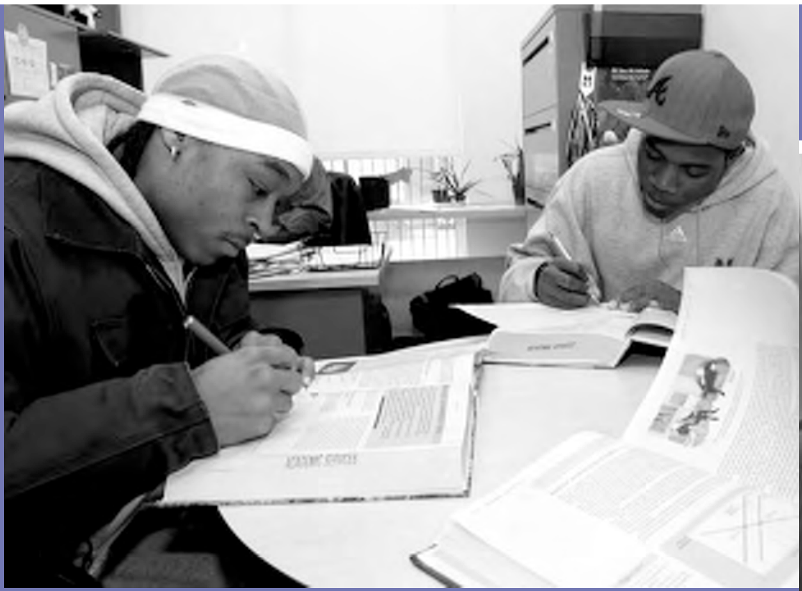
These statistics are the measurable evidence of Northwestern's commitment to the personal development of our student-athletes. We work hard to ensure that our athletes succeed on all fronts. The University offers its student-athletes a comprehensive system of services and resources, including academic counseling and assistance along with first-rate medical care, excellent facilities, and high-quality coaching. Part of the athletic complex around Ryan Field, the new Ron Burton Academic Advising Center was dedicated in 2005 in memory of a Wildcat football great. Its facilities include a state-of-the-art computer lab, a study lounge, and space for student-athletes to meet with advisers and mentors.

2005 quarterback Brett Basanez

Strict observance of NCAA and Big Ten rules and regulations is another factor that contributes to the success of our athletic program. Coaches must become familiar with Northwestern's academic programs so that they represent both academics and athletics when they recruit. They must understand the admission policies of the University and can appeal an admission decision only to the provost. Any student who receives an athletic scholarship must make normal progress toward graduation. The Faculty Committee on Athletics and Recreation approves competition schedules to ensure the least possible interference with course work. Coaches know that classes take precedence over practice.

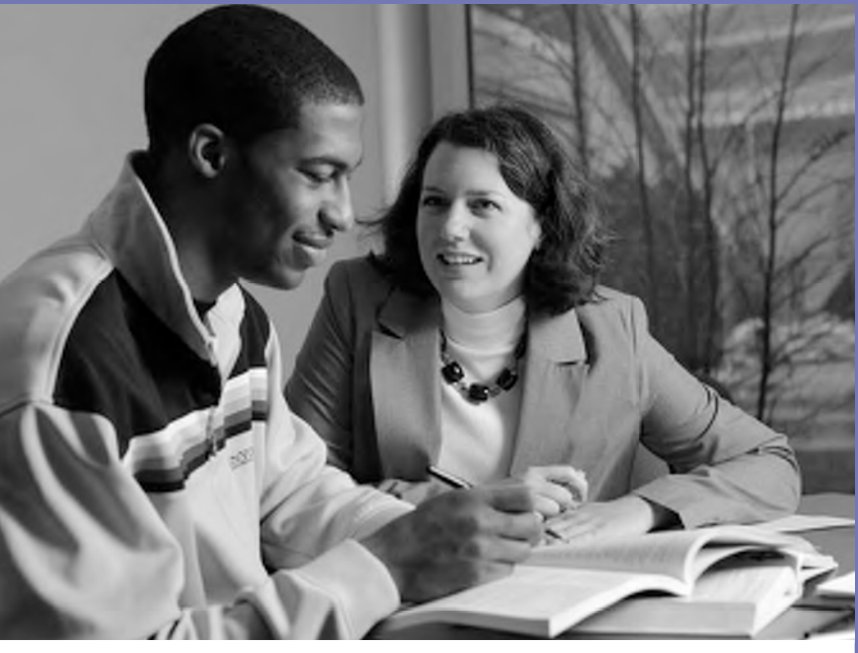
We take a great deal of pride in our record of graduating student-athletes while fielding competitive teams. Last year's season was proof that you don't have to sacrifice academic standards to win.

Henry S. Bienen
President



WHERE ATHLETES

When University administrators talk about providing student athletes with top-flight facilities, they're not just talking about a renovated football stadium, a new indoor tennis center, state-of-the-art strength and conditioning machines, or even an ultramodern sports medicine center. They also mean giving the 450 students on Northwestern's 19 intercollegiate teams an exclusive place to study and meet with academic advisers in a convenient location near practice fields and courts.



COME TO STUDY

The Ron Burton Academic Advising Center was created in the recent renovation of Harold Anderson Hall (top left photo), home of Northwestern's Department of Athletics and Recreation. Here student-athletes come before or after practice to study in their own spacious lounge, use the state-of-the-art computer lab, and meet with academic advisers.

The Burton Advising Center is the heart of the rebuilt Anderson Hall northeast of Ryan Field. The building itself is 18,000 square feet larger than its predecessor, and the advising center has three times the number of computers for student use. A study lounge provides a comfortable environment for quiet reading. Offices allow students and advisers to meet in private (top right photo). There is also space for advisers to hold group sessions and for job recruiters to interview.

The center is named for a man many consider the epitome of the student-athlete. Ron Burton followed a stellar football career as a running back with the Wildcats (1957 to 1959) and the then–Boston Patriots (1960 to 1965) with a career as a businessman and philanthropist. In 1985 he started the Ron Burton Training Village, a summer camp for inner-city youth that teaches teamwork, sportsmanship, and moral conduct through athletics. His children have continued to run the camp since Burton's death from cancer in 2003.

Burton maintained a lifetime dedication to Northwestern. He was a local regent and president of the NU Club in Boston and a director of the John Evans Club. His four sons and one daughter all attended Northwestern, and the sons played football for the Wildcats.

REPEAT CHAMPIONSHIP FOR WOMEN'S LACROSSE

After making history in 2005 as the first non–East Coast team to win a national title in lacrosse, the women's lacrosse team (right) repeated as champions in 2006. That feat also set a school record: It was the first time a Wildcat team won back-to-back NCAA titles.

Out to prove that 2005 was no fluke, the Wildcats tore through the regular season with 16 wins and just one loss and a third-straight American Lacrosse Conference championship. In the NCAA championship semifinals, the Wildcats were out for revenge against Duke, which in April had spoiled their otherwise perfect season and snapped their 31-game winning streak. After a dramatic 11-10 semifinal win over the Blue Devils, the Wildcats dispatched Dartmouth in the championship game.

The Wildcats had more first-team All-Americans (three) than any school, and midfielder Kristen Kjellman was the first player from a non–East Coast school to win the Tewaaraton Trophy as the nation's top player.

OUR MOST SUCCESSFUL

SOFTBALL TEAM COMES CLOSE TO NATIONAL CHAMPIONSHIP IN BEST SEASON EVER

Fifty wins — the best season in program history — propelled the women's softball team to its first Big Ten title since 1987. The team finished second to Arizona at the Women's College World Series, where pitcher Eileen Canney (left), first-baseman Garland Cooper, and shortstop Tammy Williams became the first Wildcats on the All-Tournament team since 1984.

Final polls rated the Wildcats number 2 in the nation, and the coaching staff headed by Kate Drohan was named the Speedline/National Fastpitch Coaches Association Division 1 National Coaching Staff of the Year.

In Big Ten honors, Cooper took Player of the Year, Canney Pitcher of the Year, Williams Freshman of the Year, and Drohan Coach of the Year. Cooper, Canney, and Williams were also NFCA All-Americans.

NCAA AND BIG TEN TITLES FOR MEN'S SWIMMING

For the second year in a row, the men's swimming team turned in a top-10 performance at the NCAA championships. Matt Grevers (right) successfully defended his NCAA title in the 100-yard backstroke and earned seven All-America honors. Northwestern's team qualified for the championship heats in all four of its relays for the first time in school history.

The Wildcats showed that they were ready to compete nationally by claiming seven Big Ten titles at the conference championships. Grevers crushed the field in the 50-yard freestyle to claim his second Big Ten championship and share Big Ten Swimmer of the Year honors. It was his second selection as Swimmer of the Year in the conference, where he holds 14 individual and relay titles.

SPORTS SEASON EVER

TEAM AND DOUBLES WINNERS IN WOMEN'S TENNIS

The women's tennis team won its eighth-straight Big Ten championship and advanced to the quarterfinals at the NCAA championship for the first time since 1987. Cristelle Grier (left in photo) and Alexis Prousis (right in photo) captured the NCAA national doubles title, something no Big Ten pair had done since Northwestern's Katrina Adams and Diane Donnelly in 1987.

Northwestern finished the season ranked number 8 in the Intercollegiate Tennis Association poll. Grier earned doubles All-America honors with Prousis as well as her fourth-straight singles All-America and her third Big Ten Athlete of the Year. Georgia Rose was named Big Ten Freshman of the Year.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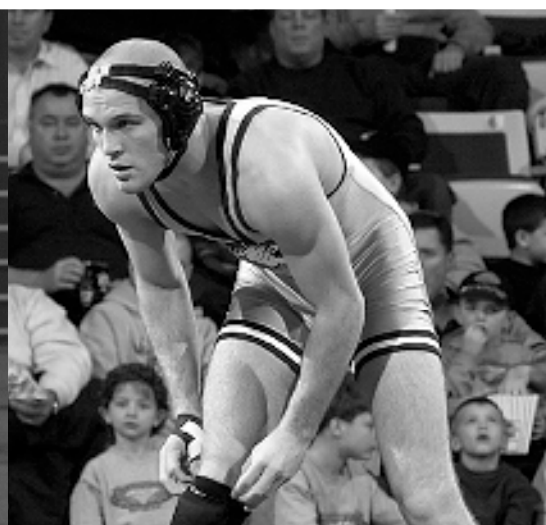



Wildcats
20

- Eleven Wildcat teams were selected for postseason competition, and the lacrosse team repeated as national champion (see page 6). As a result, Northwestern had its best ranking ever, 29th, in the Sports Academy Directors' Cup final national standings, which measure overall athletic programs.
- Sixty-seven Wildcats earned all–Big Ten honors — 31 first team.
- In the 174-pound class in wrestling, Jake Herbert won the Big Ten title and was the national runner-up. Herbert and fellow All-Americans John Velez and Ryan Lang (center photo) helped the 'Cats to a 13th-place finish at the NCAA tournament.
- After capturing the Midwest Collegiate Conference title, the women's fencing team took seventh place at the NCAAs, and Jessica Florendo (top center) and Sam Nemecek received All-America honors.
- Men's golf brought home a Big Ten team title, and Chris Wilson (bottom center) won the individual crown. David Merkow picked up conference Player of the Year honors.
- Freshman Chelsea Davis became the first Northwestern diver, male or female, to claim a Big Ten crown with her win on the three-meter board at the conference championships. She went on to finish 14th on the one-meter board at the NCAA championships and earned All-America honors.

MORE HIGHLIGHTS FROM THE 2005–06 SEASON

- Alice Kim (middle left) took the Big Ten individual title in women's golf.
- The men's baseball team finished second in the Big Ten with its most-ever conference wins, 21. Paul Stevens was named conference Coach of the Year and Dan Brauer (lower right) Pitcher of the Year.
- Tying for third in the Big Ten, the football team was invited to a postseason bowl for the third time in the last six years. Senior quarterback Brett Basanez was Big Ten Offensive Player of the Year, while running back Tyrell Sutton was Freshman of the Year.
- In men's basketball, forward Vedran Vukusic (this page) was the first Wildcat in 22 years to lead the Big Ten in scoring. He averaged 19.4 points a game.
- Defender Brad Napper (top left) was Northwestern's first two-time first-team All–Big Ten selection in the history of the men's soccer program.
- Returning to the NCAA tournament for the second consecutive year, the women's volleyball team celebrated its first postseason victory in program history.
- In addition to 122 Academic All–Big Ten honorees, Northwestern had four athletes honored by the College Sports Information Directors of America for academic performance. Garland Cooper (top right) of the women's softball team was selected to the CoSIDA Academic All-America team, and softball's Kristen Amegin, football's Joel Howells (middle right), and volleyball's Stephanie Jurivich (lower left) received CoSIDA Academic All-District V honors.

IN THE MIDST OF CELEBRATION…

Not long after its stellar sports year concluded, Northwestern's athletic program suffered a tragedy. Head football coach Randy Walker died in June 2006 at age 52 of a heart attack.

Players, fans, and the whole Northwestern community mourned a man who was not only one of the best football coaches in school history but also widely regarded as a friend to the staff and father figure to student-athletes. "He taught us that life is more important than football," said quarterback and 2006 graduate Brett Basanez at Walker's memorial service.

Walker, who joined the Wildcats in 1999, led the team to three bowl games and was the first coach in more than a century with four seasons of at least six wins. After guiding the 'Cats to a share of the Big Ten title and a trip to the Alamo Bowl in 2000, he was named the conference's Dave McClain Coach of the Year. Shortly before his death, Walker was signed to a contract renewal through 2011 and was called the Big Ten's best coach in *Sporting News'* 2006 preseason football magazine.

A native of Troy, Ohio, Walker graduated from Miami of Ohio in 1976 and coached football there for nine years before coming to Northwestern.

To the Board of Trustees of Northwestern University:

This *Financial Report* illustrates that in 2006 Northwestern increased its substantial financial resources and added to its history of favorable operating results.

During fiscal year 2006 Northwestern's total investments grew $760.5 million to nearly $5.3 billion, the result of a 15.6 percent return on the Long-Term Balanced Pool. Total assets grew to $7.67 billion, up from $7.07 billion at August 31, 2005. Total net assets of $5.97 billion reflect an increase of $563.3 million, or 10.4 percent, from August 31, 2005.

Unrestricted net assets increased $568.8 million, due primarily to investment gains reinvested of $446.1 million. Operating revenues increased 12 percent, or $142.8 million, while operating expenses increased 6.4 percent, or $75.4 million, over fiscal year 2005.

In temporarily restricted net assets, the University was able to expend $93 million in accordance with donor restrictions while recognizing new restricted revenue of $57.2 million; this category decreased $35.8 million as a result. Permanently restricted net assets increased $30.3 million, primarily as a result of contributions received for endowment.

In 2006 the University received the highest available debt rating, a key indicator of financial strength and stability, from both Moody's and Fitch rating services.

The stewards of Northwestern take very seriously their responsibility to maintain the economic foundation for long-term success in all of the University's fields of endeavor. The careful management and allocation of resources are key to Northwestern's ability to attract the best students, faculty, and staff. I am confident that Northwestern will continue to use its resources prudently to achieve the institution's many goals and objectives.

Eugene S. Sunshine

Eugene S. Sunshine
Senior Vice President for Business and Finance

Continued expansion across global economies propelled financial markets in fiscal year 2006. The world was also awash in liquidity, as almost every asset class saw significant price inflation. The U.S. stock market rose 8.8 percent, and foreign equities nearly triple that amount. Increased merger and acquisition activity provided a positive impetus to private investments, while rising energy prices drove returns in real assets.

Northwestern benefited from global economic growth with solid portfolio increases. When the fiscal year ended on August 31, 2006, the University's investment assets totaled $5.33 billion, including cash and intra-University investments, an increase of $674 million from August 31, 2005. It was the third year in a row of asset growth of more than $500 million.

The University's Total Investment Pools

The University maintains three primary investment vehicles: The Long-Term Balanced Pool, treasury funds, and separately invested assets. Each investment category has a specific set of objectives.

The Long-Term Balanced Pool, the primary fund, is managed with the objective of long-term total return. Because of its size and long-term orientation, performance data and investment strategy information in the discussion that follows relate to the Long-Term Balanced Pool.

Treasury funds are money market funds used for cash reserves and to preserve principal and maintain liquidity; intermediate-term bond investments; and working capital funds held by the University, which are generated through the temporary differences between operating receipts and disbursements. These funds are not unitized. The income from investing them is used for general operating purposes. Working capital investments are held in a variety of money market instruments and guaranteed student loans or, if not needed within 90 days, are invested in the Long-Term Balanced Pool.

Separately invested funds are donated funds, including restricted investments and some life-income plans.

The table below illustrates the net asset values and unitized information for the University's investment pools for the past five years.

History of the Merged Pools as of August 31	*2002*	*2003*	*2004*	*2005*	*2006*
Long-Term Balanced Pool					
Net asset value (in thousands of dollars)	$2,731,507	$3,156,423	$3,668,410	$4,374,206	$5,190,425
Number of units (in thousands)	20,072	22,523	23,765	24,704	26,519
Net asset value per unit	$136.09	$140.14	$154.36	$177.06	$195.73
Payout amount per unit					
Current earned income	$0.58	$0.21	$1.46	$2.73	$1.96
Previously reinvested realized gains withdrawn	$5.98	$6.69	$5.41	$4.02	$4.85
Total payout per unit	$6.56	$6.90	$6.87	$6.75	$6.81
Summary of net asset values (in thousands of dollars)					
Treasury pool funds	$364,069	$264,495	$294,391	$174,755	$61,217
Separately invested funds	157,272	101,513	103,922	106,760	78,471
Total net asset value (in thousands of dollars)	**$3,252,848**	**$3,522,431**	**$4,066,723**	**$4,655,721**	**$5,330,113**

Asset Allocation for the Long-Term Balanced Pool

The Investment Committee of the University annually reviews asset allocation policy for the Long-Term Balanced Pool. In fiscal year 2006, the committee implemented modest changes to the allocation targets based on the Investment Office's optimization modeling of a more efficient portfolio that should generate higher returns with lower risk levels. The target allocations for international equity and real assets were increased by 2 percent and 1 percent, respectively. These increases were sourced entirely from U.S. equity securities. The next chart displays the current asset allocation policy for the University; actual allocations vary from targeted levels by modest amounts, reflecting the Investment Office's bias against market timing or tactical asset allocation as a primary driver of value added.

Policy Portfolio Targets and Ranges				
	Range	*Target*	*August 31, 2006*	*Difference*
U.S. equity securities	14–20%	17%	17.2%	.2%
International equity securities	14–20%	17%	16.3%	-0.7%
Fixed-income securities	11–17%	14%	12.3%	-1.7%
High-yield credit	2–8%	5%	4.1%	-0.9%
Absolute return	12–20%	16%	16.2%	0.2%
Private investments	12–20%	16%	18.1%	2.1%
Real assets	11–19%	15%	15.8%	0.8%
Cash		0%	0%	0%

Primary Investment Performance Objective: Preserving Purchasing Power and Growing Income

The principal objective for Northwestern's Long-Term Balanced Pool is to preserve purchasing power and to provide a growing stream of income to fund University programs. On average, the pool seeks to achieve an annual total rate of return (i.e., actual income plus appreciation) equal to inflation plus actual spending. This objective of preserving purchasing power emphasizes the need for a long-term perspective in formulating both spending and investment policies. A more detailed look at the University's spending guideline is on page 15 of this report.

The University's investments historically have grown at a rate exceeding the objective. As of August 31, 2006, the Long-Term Balanced Pool's assets were $5.19 billion, up approximately $816 million from last year. For the 12-month period ending August 31, 2006, the portfolio increased 15.6 percent, which was 8.2 percent above the objective. For the 3-, 5-, 10-, and 15-year periods ending August 31, 2006, the objective was exceeded by 9.67 percent, 3.07 percent, 5.43 percent, and 4.51 percent, respectively.

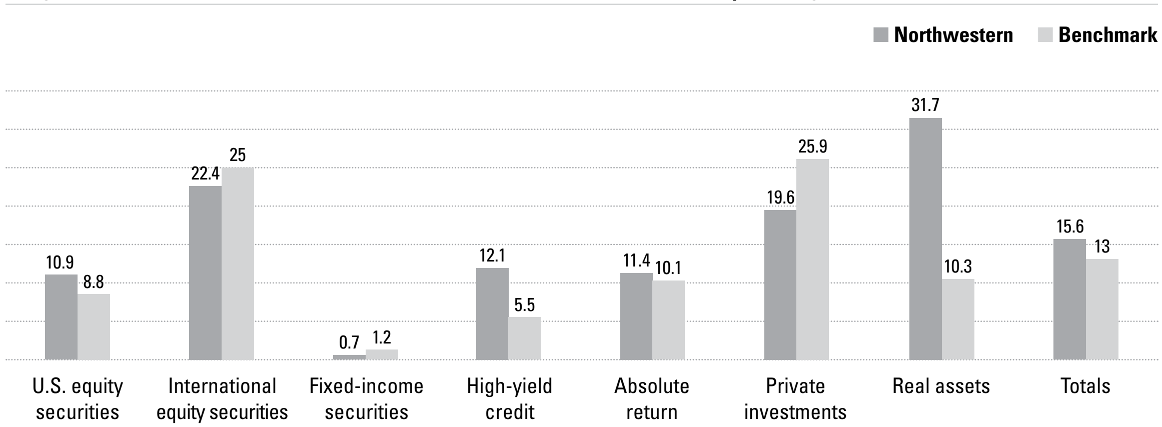
Annualized Returns: Exceeding the Objective					
	1-year	**3-year**	**5-year**	**10-year**	**15-year**
*Annual total return**	15.61%	17.09%	10.22%	11.73%	10.93%
– Spending	3.59%	4.05%	4.28%	3.81%	3.81%
– Inflation	3.82%	3.37%	2.87%	2.49%	2.61%
= Above objective	**8.2%**	**9.67%**	**3.07%**	**5.43%**	**4.51%**

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

Secondary Investment Performance Objective: Benchmark Comparisons

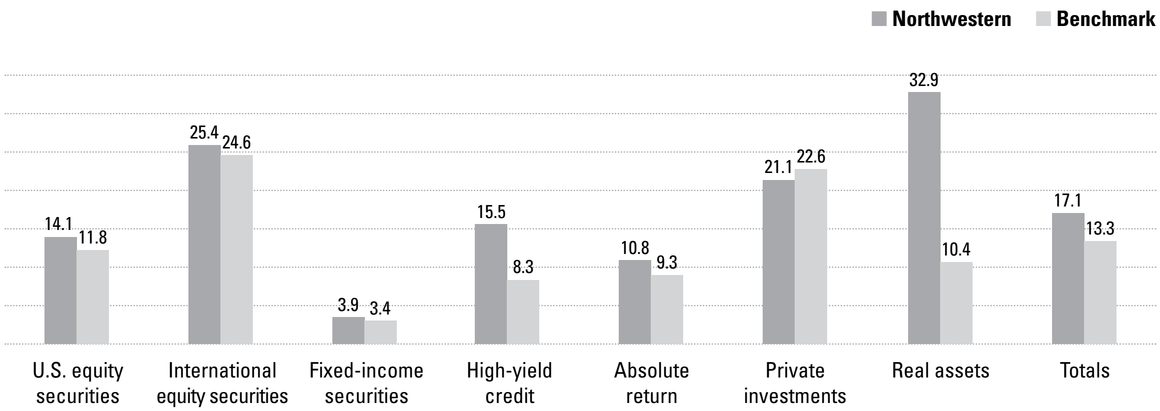
The pool's 15.6 percent gain for the 12-month period exceeded the 13 percent return of the composite benchmark, a blend of the benchmark returns for each asset class weighted by the policy allocation targets. Outperformance resulted primarily from the strong performance of the various portfolios relative to their respective benchmarks. In particular, real assets and high-yield credit enjoyed outstanding relative performance. Private investments and international equities were strong in absolute terms but lagged in relative terms. The following chart shows returns and benchmarks for all asset classes for the fiscal year. A more detailed explanation of activity and performance follows the three-year performance chart below.

Long-Term Balanced Pool: Fiscal 2006 Net Performance Relative to Benchmarks (in percentages)



For the three-year period ended August 31, 2006, the pool has also outperformed the composite benchmark (17.1 percent versus 13.3 percent), as shown in the next chart. Six of the seven categories have exceeded their benchmarks.

Long-Term Balanced Pool: Three-Year Net Performance Relative to Benchmarks (in percentages)



Marketable Securities Categories

The domestic equity portfolio rose 10.9 percent for the fiscal year, significantly beating the 8.8 percent of the benchmark Russell 3000. The move from passive to active management has paid off; this portfolio has outperformed its benchmark by 230 basis points (14.1 percent versus 11.8 percent) over the three-year period since an active program began.

The fiscal-year performance for the international equity portfolio — a 22.4 percent gain — was strong in absolute terms but disappointing relative to the benchmark's 25 percent return. Underperformance of individual managers hurt the overall returns. For the last three years, the international program is ahead of the benchmark by .8 percent a year and has benefited from giving a heavier weight to smaller-cap foreign stocks as well as to emerging markets.

Bonds slightly underperformed during the fiscal year, as the portfolio gained .7 percent, compared with 1.2 percent for the Lehman Government Index. Several active-management strategies that were added to the portfolio recently were responsible for the slight drag on performance. The bond portfolio outperformed the index for the three-year period by 50 basis points (3.9 percent versus 3.4 percent), almost entirely due to investments in Treasury Inflation-Protected securities.

High-Yield Credit Category

The high-yield credit portfolio includes investments in distressed debt, emerging market debt, and other credit instruments with fixed-income characteristics but more specific risk tied to the securities and their underlying cash flows. The portfolio gained 12.1 percent during the fiscal year, outpacing the 5.5 percent achieved by the benchmark Merrill Lynch High-Yield Master II Index. Strong returns from distressed funds, high-yield hedge funds, and emerging market debt investments led the outsized returns for this asset class.

Absolute-Return Category

Made up of 19 different hedge funds, this portfolio aims to provide equity-like returns with little or no correlation to the equity markets. For the year, it gained 11.4 percent, beating the 10.1 percent the return of its benchmark (80 percent, Treasury bills plus 400 basis points; 20 percent, Morgan Stanley Capital International All-Country World Index). Northwestern's absolute-return portfolio is weighted toward long-short equity managers with limited equity exposure (60 percent). The remaining hedge funds (40 percent) are more market neutral or represent diversified strategies.

Private Investments Category

The private investments portfolio includes investments in global buyout funds as well as venture capital. Increased merger and acquisition activity, higher stock markets, and growing economies worldwide contributed to a positive environment for these investments. The Northwestern portfolio gained 19.6 percent. That trailed its benchmark, the Cambridge Associates' universe median return of private investments, whose 25.9 percent return was boosted by outsize performance by a few European megafunds.

Cash flows were strong in this portfolio as trade sales, recapitalizations, and initial public offerings resulted in numerous distributions from the portfolio companies. Private investment distributions were $236.3 million for the fiscal year.

Real Assets Category

The real assets portfolio includes the University's investments in energy, timber, real estate, and other commodities. This portfolio was the best-performing asset category in fiscal year 2006, gaining 31.7 percent. Realizations in private partnership energy investments, increased global demand for commodities and energy-related substances, and improved real estate fundamentals all contributed to the returns. These factors resulted in cash distributions of $206.4 million from energy and real estate partnerships.

Long-Term Balanced Pool Spending Guideline

The University's Investment and Budget Committees reviewed the Long-Term Balanced Pool's spending guideline and proposed increasing the target spending of the market element from 4.1 to 4.35 percent. Their other recommendations are contained in the revised spending guideline, which blends two elements:

- *Market element* adjusts annual endowment spending to the long-term sustainable target spending of 4.35 percent of the average actual market value of the endowment for the 12 months ending the October following the latest fiscal year. This component of the spending rate receives a 30 percent weighting in the spending rate calculation.
- *Spending element* increases the previous year's spending rate by actual inflation plus budget growth (1.5 percent). This element of the spending rate receives a weight of 70 percent.

The Board of Trustees ratified these changes in fiscal year 2006.

The actual spending rate per unit for fiscal year 2006 was $6.81; it will be $7.22 for fiscal year 2007. The payout rate for fiscal year 2006 was 3.53 percent.

Payout Determined by Spending Guideline

	2002	*2003*	*2004*	*2005*	*2006*
Spending per unit	$6.56	$6.90	$6.87	$6.75	$6.81
Net asset value per unit	$136.09	$140.14	$154.36	$177.06	$195.73
Payout rate*	4.3%	4.76%	4.46%	3.91%	3.53%
Total (in millions)	$130.20	$150.69	$160.44	$161.44	$176.21
Growth in spending per unit	5.47%	5.18%	-.43%	-1.75%	.89%

* Payout rate is calculated as spending per unit divided by the two-year average net asset value per unit before distribution of the annual contribution to the budget.

The Long-Term Balanced Pool: In Conclusion

In summary, the addition of numerous uncorrelated strategies enhanced the diversification of the Long-Term Balanced Pool during the fiscal year. The portfolio is well positioned to perform over long time horizons in order to meet its investment objectives.

Securities Lending

Northwestern initiated a securities lending program with its bank custodian, Northern Trust, in 2003. The agreement allows the investment custodian to lend University securities to approved brokers in exchange for a fee. At August 31, 2006, investment securities with an aggregate market value of $509.5 million were loaned to various brokers and are returnable on demand. In exchange, the University received cash collateral of $508.9 million and noncash collateral of $14.1 million at August 31, 2006. The University earned $1.4 million on securities lending activities through the end of fiscal year 2006.

William H. McLean

William H. McLean
Vice President and Chief Investment Officer

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of Northwestern University:

We have audited the accompanying consolidated statements of financial position of Northwestern University and subsidiaries (the "University") as of August 31, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of management of the University. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designating audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the University as of August 31, 2006 and 2005, and the changes in its net assets and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, in 2006 the University adopted Financial Accounting Standards Board ("FASB") Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations—An Interpretation of FASB Statement No. 143," and changed its method of accounting for conditional asset retirement obligations.

Deloitte & Touche LLP

Chicago, Illinois
December 22, 2006

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of August 31, 2006, and August 31, 2005

(in thousands of dollars)	*2006*	*2005*
Assets		
Cash and cash equivalents	$177,588	$266,246
Accounts receivable	224,474	195,613
Notes receivable	48,144	51,842
Contributions receivable	96,305	162,783
Collateral held for securities loaned	508,976	561,675
Investments	5,272,712	4,512,236
Land, buildings, and equipment	1,191,254	1,152,879
Bond proceeds held by trustees	108,886	126,699
Other assets	42,302	42,860
Total assets	**$7,670,641**	**$7,072,833**
Liabilities		
Accounts payable and accrued expenses	$113,455	$116,590
Deferred revenue	236,524	204,174
Payable under securities loan agreements	508,976	561,675
Actuarial liability of annuities payable and deposits payable	46,320	69,409
Reserves for self-insurance	65,531	80,306
Government advances for student loans	39,353	39,815
Asset retirement obligations	103,596	—
Bonds and notes payable	588,111	595,348
Total liabilities	**$1,701,866**	**$1,667,317**
Net assets		
Unrestricted	$5,017,368	$4,448,572
Temporarily restricted	129,362	165,150
Permanently restricted	822,045	791,794
Total net assets	**$5,968,775**	**$5,405,516**
Total liabilities and net assets	**$7,670,641**	**$7,072,833**

2006

Detail of net assets	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**	
Operating funds	$590,290	$75,907		$666,197
Invested in plant facilities	1,029,816	17,314		1,047,130
Annuity and life income funds	26,257	18,419	$30,971	75,647
Endowment and similar funds	3,371,005	17,722	791,074	4,179,801
Total net assets	**$5,017,368**	**$129,362**	**$822,045**	**$5,968,775**

2005

Detail of net assets	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**	
Operating funds	$491,865	$83,639		$575,504
Invested in plant facilities	1,012,542	26,402		1,038,944
Annuity and life income funds	29,188	35,599	$28,828	93,615
Endowment and similar funds	2,914,977	19,510	762,966	3,697,453
Total net assets	**$4,448,572**	**$165,150**	**$791,794**	**$5,405,516**

See Notes to the Consolidated Financial Statements, beginning on page 20.

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the fiscal years ended August 31, 2006, and August 31, 2005

(in thousands of dollars)	*2006*		*2005*	
Changes in unrestricted net assets				
Operating revenues				
Tuition and fees	$562,633		$527,864	
(less scholarships and fellowships)	(166,854)		(153,205)	
Net tuition and fees	395,779		374,659	
Auxiliary services	64,531		63,579	
Grants and contracts	351,590		336,548	
Private gifts	92,998		52,102	
Investment return designated for operations	232,407		219,023	
Professional fees	29,393		27,735	
Sales and services	112,989		102,430	
Royalties and trademarks	44,546		7,106	
Other income	7,139		5,372	
Total operating revenues		**$1,331,372**		**$1,188,554**
Operating expenses				
Instruction	452,427		416,302	
Research	309,323		291,478	
Academic support	156,823		144,830	
Student services	104,105		94,891	
Institutional support	120,394		123,463	
Auxiliary services	101,957		98,692	
Total operating expenses		**1,245,029**		**1,169,656**
Excess of operating revenues over expenses		**86,343**		**18,898**
Nonoperating				
Private gifts and grants for buildings and equipment	27,464		30,826	
Investment gains reinvested	446,082		560,401	
Change in unrestricted net assets from nonoperating activities		**473,546**		**591,227**
Net assets released from restrictions		**93,022**		**39,411**
Increase in unrestricted net assets before cumulative effect of change in accounting principle		**652,911**		
Cumulative effect of change in accounting principle		**(84,115)**		
Change in unrestricted net assets		**568,796**		**649,536**
Changes in temporarily restricted net assets				
Private gifts	45, 270		40,503	
Net gain (loss) on annuity obligation	9,948		(1,410)	
Investment returns	2,016	57,234	2,185	41,278
Net assets released from restrictions		**(93,022)**		**(39,411)**
Change in temporarily restricted net assets		**(35,788)**		**1,867**
Changes in permanently restricted net assets				
Private gifts	27,885		39,423	
Net gain on annuity obligation	2,366	30,251	79	39,502
Change in permanently restricted net assets		**30,251**		**39,502**
Change in net assets		**563,259**		**690,905**
Beginning net assets		**$5,405,516**		**$4,714,611**
Ending net assets		**$5,968,775**		**$5,405,516**

See Notes to the Consolidated Financial Statements, beginning on page 20.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the fiscal years ended August 31, 2006, and August 31, 2005

(in thousands of dollars)	*2006*	*2005*
Cash flows from operating activities		
Change in net assets	**$563,259**	**$690,905**
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Cumulative effect of change in accounting principle	84,115	—
Depreciation	70,471	62,426
Accretion for asset retirement obligations	5,118	—
Loss on retirement of equipment	848	869
Amortization of discount on bonds payable	73	74
Net realized and unrealized gains on investments	(567,800)	(658,145)
Private gifts and grants for long-term investments	(27,464)	(30,826)
Changes in assets and liabilities		
Accounts receivable	(28,897)	37,422
Contributions receivable	66,478	(517)
Other assets	558	(1,430)
Accounts payable and accrued expenses	(11,424)	(6,607)
Deferred revenue	32,350	42
Reserves for self-insurance	(14,775)	852
Government advances for student loans	(462)	(556)
Net cash provided by operating activities	**172,448**	**94,509**
Cash flows from (used in) investing activities		
Purchases of investments	(2,567,346)	(1,907,909)
Proceeds from sales of investments	2,378,049	2,040,278
Decrease in trusts held by others	36	5
Increase in investments held for others	(3,379)	(3,011)
Acquisitions of land, buildings, and equipment	(87,042)	(148,508)
Student loans disbursed	(107,925)	(106,833)
Principal collected on student loans	111,623	104,320
Net cash used in investing activities	**(275,984)**	**(21,658)**
Cash flows from (used in) financing activities		
Net proceeds from issuance of notes payable and bonds payable	—	135,800
Net principal payments on notes and bonds payable	(7,310)	(132,377)
Decrease (increase) in bond proceeds held by trustees	17,813	(76,251)
Proceeds from private gifts and grants for long-term investments	27,464	30,826
(Increase) decrease in annuities payable and deposits payable	(23,089)	9,718
Net cash provided by (used in) financing activities	**14,878**	**(32,284)**
(Decrease) increase in cash and cash equivalents	**(88,658)**	**40,567**
Cash and cash equivalents at beginning of year	**266,246**	**225,679**
Cash and cash equivalents at end of year	**$177,588**	**$266,246**
Supplemental disclosure of cash flow information		
Accrued liabilities for construction in progress	$8,289	$20,983
Capitalized interest	12,118	—
Cash paid for interest	22,356	21,114

See Notes to the Consolidated Financial Statements, beginning on page 20.

1. Summary of Significant Accounting Policies

University Activities

Northwestern University (the University) is a major private research university with more than 17,000 students enrolled in 11 academic divisions on two lakefront campuses. Its mission is to provide the highest-quality education for its students, to develop innovative programs in research, and to sustain an academic community that embraces these enterprises. Activities supporting its mission may be classified as either operating or nonoperating.

Operating activities primarily reflect transactions of a current nature, such as tuition or unrestricted gift revenues, as well as instructional or auxiliary services expenses. Investment return from operations is defined as the investment payout, according to the spending guideline (see note 4 on page 25) for the Long-Term Balanced Pool and the actual investment income for all other investments.

Nonoperating activities primarily reflect transactions of a noncurrent nature such as long-term investment or capital events, including contributions to be invested for the support of future operations, contributions to be used for facilities and equipment, and unrealized gains or losses that are not defined as from operations.

Basis of Accounting

General

The University maintains its accounts and prepares its consolidated financial statements on the accrual basis of accounting in conformity with generally accepted accounting principles in the United States of America (GAAP). These statements include all wholly owned subsidiaries. All significant intercompany transactions and accounts have been eliminated.

Contributions

The University prepares its financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 116, "Accounting for Contributions Received and Contributions Made." SFAS No. 116 requires that contributions received, including unconditional promises to give (pledges), be recognized as revenues at their fair values. Private gifts, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not included in revenue until the conditions are substantially met. Pledges receivable due in more than one year are recorded at the present value of the estimated future cash flows.

Net Asset Classifications

SFAS No. 117, "Financial Statements of Not-for-Profit Organizations," establishes standards for external financial reporting by not-for-profit organizations and requires that net assets and the flow of those assets be classified in three net asset categories according to the existence or absence of donor-imposed restrictions.

The category *Unrestricted Net Assets* describes funds that are legally available for any purpose and have no donor-imposed restrictions. All revenues, expenses, gains, and losses are classified as unrestricted net assets unless they are changes in temporarily or permanently restricted net assets.

The category *Temporarily Restricted Net Assets* includes gifts for which donor-imposed restrictions have not been met (these are primarily future capital projects) and trust activity and pledges receivable whose ultimate use is not permanently restricted.

The category *Permanently Restricted Net Assets* applies to gifts, trusts, and pledges whose donors required that the principal be held in perpetuity and that only the income be available for stipulated program operations. This category includes gifts stipulated for student loans.

Income from temporarily restricted sources is reclassified as unrestricted income when the circumstances of the restriction have been fulfilled. Donor-restricted revenues whose restrictions are met within the same fiscal year are reported as unrestricted income. The expiration of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donor's stipulations causes the release of the restriction.

Cash and Cash Equivalents

Cash reflects currency and deposits or other accounts with financial institutions that may be deposited or withdrawn without restriction or penalty. *Cash equivalents* represent short-term and highly liquid investments that convert readily to cash and carry little risk of change in value at maturity due to interest rate changes.

Investments

Investments are recorded at fair value, determined on the following basis:

- Equity securities with readily determinable fair values and debt securities are valued at the last sale price (if quotations are readily available) or at the closing bid price in the principal market in which such securities are normally traded (if no sale price is available). Certain fixed-income securities are valued based on dealer-supplied valuations.
- The estimated fair values of equity securities that do not have readily determined fair values, and of other investments, are based on estimates provided by external investment managers and are examined through a valuation review process performed by management. After this review, management may determine that an adjustment to the external managers' valuations is appropriate in recording the securities' fair value at August 31. The aggregate carrying value of such investments included within fixed income, high-yield credit, absolute return, private investments, and real assets was $2,805.3 million and $2,062.2 million at August 31, 2006, and 2005, respectively. Management has reviewed the valuation policies for all partnerships in which Northwestern University is invested and deemed those policies appropriate. In addition to receiving the most recent available audited and unaudited financial statements from the external managers, management contacted the majority of general partners regarding the aggregate carrying value of the respective investments at August 31, 2006. A small number of investments within certain partnerships may have holdings at a carrying value of cost, and management has determined this to be appropriate for these specific investments. A range of possible values exists for these securities, and therefore the estimated values may differ from the values that would have been used had a ready market for these securities existed. In the absence of another basis, management has determined that cost represents an approximation of the fair value of such investments.

The University continually monitors the difference between the cost and the estimated fair value of its investments. If any of the investments experiences a decline in value that the University believes is other than temporary, the University recognizes a realized loss in investment income in the consolidated statements of activities.

Investment income is recorded on the accrual basis, and purchases and sales of investment securities are reflected on a trade-date basis.

Derivative Financial Instruments

The University uses various financial instruments to hedge the risk of decline in fair value of certain equity securities. Equity options and equity-indexed options are used to reduce the primary market risk exposure (e.g., equity price risk) of the hedged item in conjunction with the specific hedged strategy; if applicable, these have a reference index (e.g., S&P 500) that is the same, or highly correlated with, the reference index of the hedged item. Similarly, the University also enters into swap agreements to hedge public real estate equity exposure and obtain S&P 500 equity index exposure, and it uses futures contracts on equity and bond indices. Such instruments are not designated as hedges for accounting purposes and are recorded at fair value. In fiscal year 2006, all swap agreements were liquidated.

Fair Values of Financial Instruments Other than Investments

The fair values of financial instruments other than investments are based on a variety of factors. In some cases, fair values represent quoted market prices for identical or comparable instruments. In other cases, fair values have been estimated based on assumptions about the amount and timing of estimated future cash flows and assumed discount rates reflecting varying degrees of risk. Accordingly, the fair values may not represent actual values that could have been realized at year-end or that will be realized in the future. At August 31, 2006, the fair value of the University's fixed rate debt of $370.5 million exceeded the carrying value of $352.9 million by $17.6 million. At August 31, 2005, the fair value of the University's fixed rate debt of $385 million exceeded the carrying value of $360 million by $25 million.

Accounts and Notes Receivable

Accounts receivable arising from tuition and fees are carried net of an allowance for doubtful accounts of $457,000 and $332,000 as of August 31, 2006, and 2005, respectively. Notes receivable resulting from student loans are carried net of an allowance for doubtful accounts of $279,000 and $253,000 as of August 31, 2006, and 2005, respectively.

Receivables from Northwestern Medical Faculty Foundation, a related party (see page 23), arose out of operational activities. They totaled $13.9 million and $15.6 million as of August 31, 2006, and 2005, respectively.

Contributions Receivable

Contributions receivable arising from unconditional promises to give are carried net of an allowance for uncollectible pledges that totaled $9.5 million and $6.7 million at August 31, 2006, and 2005, respectively. Additionally, unconditional promises expected to be collected in periods from less than one year through more than five years are discounted to present value. The discount rate for pledges made in fiscal year 2006 was 4.7 percent; the discount rate used on all pledges receivable prior to September 1, 2006, was 6.5 percent. Significant conditional promises to give totaled $25.8 million at August 31, 2006; there were no significant conditional promises to give at August 31, 2005.

Land, Buildings, and Equipment

The value of land, buildings, and equipment is recorded at cost or, if received as gifts, at fair market value at the date of the gift. Significant renewals and replacements are capitalized. The cost of repairs and maintenance is expensed as incurred. Purchases of library books are also expensed.

Depreciation is calculated using the straight-line method over the useful lives of the buildings and equipment, which are estimated to be 3 to 20 years for equipment and a maximum of 40 years for buildings. The University follows SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The provisions under this statement include a requirement that long-lived assets be reviewed for impairment by comparing the future cash flows expected from the asset to the carrying value of the asset. If the carrying value of an asset exceeds the sum of estimated undiscounted future cash flows, an impairment loss is recognized for the difference between estimated fair value and carrying value. In management's opinion, no impairment existed as of August 31, 2006.

Charitable Remainder Trusts

Charitable remainder trusts are classified as permanently restricted net assets if, upon termination of the trust, the donor permanently restricts the remaining trust assets. If the remainder is temporarily restricted or unrestricted by the donor, the charitable remainder trust assets are recorded as temporarily restricted net assets.

Annuities Payable

Annuities payable consist of annuity payments currently due and the actuarial amount of annuities payable. The actuarial amount of annuities payable is the present value of the aggregate liability for annuity payments over the expected lives of the beneficiaries (based on the mortality tables in the Internal Revenue Code, Publication 939, April 2003).

Self-Insurance Reserves

The University maintains a self-insurance program for general liability, professional liability, and certain employee and student insurance coverages. This program is supplemented with commercial excess insurance above the University's self-insurance retention.

Revenue Recognition

Revenues from tuition and fees are reported in the fiscal year in which educational programs are predominantly conducted. Fiscal year 2007 fall-quarter tuition and fees, billed in fiscal year 2006, are reported as deferred revenue in fiscal year 2006. Similarly, fiscal year 2006 fall-quarter tuition and fees, billed in fiscal year 2005, are reported as deferred revenue in fiscal year 2005.

Revenues from auxiliary services such as residence halls and food services represent fees for goods and services furnished to University students, faculty, and staff. Grants and contracts revenue is recognized as expenses are incurred on the project. Professional fees arise from faculty and department services provided to external institutions such as hospitals. Sales and services revenues represent fees for services and goods provided to external parties in the course of educational activities; also included are revenues from the provision of physical plant services and goods to external institutions contiguous to the University campuses. Trademark and royalty revenues arise from licensing of innovative technologies, copyrights, and other intellectual property. Other income includes revenues not otherwise categorized, such as rental revenues from property not held for investment, reimbursements for goods and services, and sundry payments to the University.

Income Taxes

The University is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code, except with regard to unrelated business income, which is taxed at corporate income tax rates.

Related Parties

Northwestern Medical Faculty Foundation (NMFF) is a multispecialty physician organization committed to providing clinical care to patients and to supporting the research and academic endeavors of Northwestern's Feinberg School of Medicine. An independent not-for-profit organization, NMFF is governed by a board of directors. NMFF physicians are full-time faculty members or researchers at Feinberg and attending physicians at Northwestern Memorial Hospital. Under the terms of an agreement with Northwestern University, NMFF contributes a percentage of its revenue to a research and education fund, medical education programs, basic and applied biomedical research facilities and programs, and research and educational support services. NMFF also contributes funds to Feinberg's teaching and research activities on a discretionary basis. These contributions totaled $25 million in fiscal year 2006 and $25.9 million in fiscal year 2005.

Uses of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the relevant period. Actual results could differ from those estimates.

At August 31, 2006, and 2005, reserves were established for uncollectible accounts, student loans, and pledges receivable. These reserves were estimated based on historical collection and allowance practices as well as on management's evaluation of current trends.

The reserves for self-insurance and postretirement medical and life insurance benefits were based on actuarial studies.

The University believes that the methods and assumptions used in computing these reserves and liabilities are appropriate.

Accounting Pronouncements

In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations—An Interpretation of FASB Statement No. 143" (FIN 47). FIN 47 clarifies the term *conditional asset retirement obligation* as it is used in SFAS No. 143, "Accounting for Asset Retirement Obligations," and requires a liability to be recorded if the fair value of the obligation to retire an asset can be reasonably estimated. Asset retirement obligations covered by FIN 47 include those for which an entity has a legal obligation to perform an asset retirement activity; however, the timing and/or method of settling the obligation are conditional on a future event that may or may not be within the control of the entity.

In accordance with FIN 47, the University records all known asset retirement obligations for which the fair value of the liability can be reasonably estimated, including certain obligations relating to regulatory remediation. As a result of adopting FIN 47 at the beginning of fiscal year 2006, the University recorded a cumulative effect of change in accounting principal of $84.1 million and recognized current-year depreciation expense of $497,000 and accretion expense of $5.1 million. The University recorded a liability for asset retirement obligation of $98.5 million and increased the carrying value of the related assets by $14.3 million, net of accumulated depreciation of $15.2 million.

The FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets," an amendment of FASB Statement No. 140. "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," in March 2006. SFAS No. 156 requires that in any of several specific situations in which an entity enters into a contract to service a financial asset, it must recognize a servicing asset or a servicing liability. The implementation of SFAS No. 156 during fiscal year 2006 did not have an impact on the University's financial statements.

Reclassifications

Prior-year building asset amounts totaling $109.4 million have been reclassified to separately identify construction in progress for the respective fiscal year. In addition, prior-year leasehold improvement assets in the amount of $595,000 were reclassified from land and improvements to building assets. Prior-year private gifts of $29.1 million, and grants and contracts revenues totaling $12.7 million, were also reclassified. Both trademark and royalty revenues and expenses of $7.1 million and $1.3 million, respectively, have been reclassified to be separately identified from sales and services revenues and other expenses.

2. Bonds and Notes Payable

Bonds and notes payable are as follows:

(in thousands of dollars)	*August 31, 2006*	*August 31, 2005*
Demand revenue bonds		
IEFA–Series 1993	$22,885	$25,195
Less unamortized discount on IEFA–Series 1993	(584)	(657)
IEFA–Series 1997	145,000	150,000
IEFA–Series 2003	185,010	185,010
IFA–Series 2004	135,800	135,800
Bonds payable subtotal	488,111	495,348
Commercial paper, taxable	100,000	100,000
Notes payable subtotal	100,000	100,000
Total bonds and notes payable	**$588,111**	**$595,348**

Bond issuance	**Interest rate mode**	**Interest rate**	**Maturity**
IEFA–Series 1993	Fixed	5.49%*	December 1, 2006, to December 1, 2013
IEFA–Series 1997	Fixed	5.08%*	November 1, 2006, to November 1, 2015
IEFA–Series 2003	Fixed	5%*	December 1, 2014, to December 1, 2038
IFA–Series 2004	Variable, weekly rate	3.38% and 3.43%+	December 1, 2034
Commercial paper, taxable	Fixed	5.4%*	September 5, 2006, to December 6, 2006

** Weighted average interest rate at August 31, 2006*   *+ Weekly variable rate at August 31, 2006*

Total obligations including commercial paper at August 31, 2006, are scheduled to mature through August 31 of each period as follows:

(in thousands of dollars)	
2007	$112,317
2008	12,407
2009	17,507
2010	17,602
2011	17,802
2012–2016	96,836
2017–2021	23,040
2022–2026	4,800
2027–2031	—
Thereafter	285,800
Total	**$588,111**

Bonds Payable

In fiscal year 2005, the University elected to prepay the following variable-rate bonds in whole, without premium: Series 1985 Adjustable Demand Bonds; Series 1988 Adjustable Demand Bonds; and Series 1985 Cultural Pooled Financing Program. Their principals amounted to $35.3 million, $45.1 million, and $10 million, respectively.

The IEFA–Series 1993 Revenue Refunding Bonds operate in a fixed mode until maturity, bearing interest at fixed rates ranging from 3 percent to 5.55 percent. Proceeds of the refunding bonds were invested in United States government securities with a cost of $75.4 million and placed in escrow to satisfy scheduled payments of $66.4 million of the IEFA–Series 1985 bonds and related interest until maturity.

The IEFA–Series 1997 Adjustable Medium-Term Revenue Bonds operate in a fixed mode until maturity, bearing interest at fixed rates ranging from 4.7 percent to 5.25 percent. The bonds are subject to mandatory tender at the stated dates and may be reissued in one of several permissible modes described in the agreements.

The IEFA–Series 2003 Fixed-Rate Revenue Bonds were issued to acquire, construct, or renovate certain University facilities and to refund $35 million of the University's outstanding IEFA–Series 1993 bonds, subject to conditions set forth in a trust indenture and loan agreement between the University and the Illinois Facilities Authority.

The IFA–Series 2004 Adjustable Rate Revenue Bonds were issued to acquire, construct, renovate, remodel, improve, and equip capital projects on both the Evanston and the Chicago campuses, subject to conditions set forth in a trust indenture and loan agreement between the University and the Illinois Finance Authority. The bonds may operate in a daily, weekly, adjustable, or auction-rate mode. In fiscal year 2006, the revenue bonds operated in a weekly rate mode determined by the remarketing agents.

In September 2004, the University elected to prepay the Illinois Educational Facilities Authority Series 1995 Commercial Paper Revenue Bonds in whole, without premium. The total principal balance was $35.8 million.

The lending agreements covering the IFA demand revenue bond issues also provide that the third-party lender may purchase bonds for which a demand has been made at a rate not exceeding the third-party lender's corporate base rate or prime rate (as defined).

Notes Payable

In fiscal year 2005, the University began placing commercial paper under a new $200 million Taxable Commercial Paper Note. On July 15, 2005, the University closed on two standby letters of credit: $100 million was issued to assure liquidity of short-term debt, and $50 million was issued to provide working capital as needed.

3. Contributions Receivable

Contributions receivable consisted of the following:

(in thousands of dollars)	*August 31, 2006*	*August 31, 2005*
Unconditional promises expected to be collected in		
Less than one year	$74,927	$49,431
One year to five years	37,860	116,874
More than five years	1,181	43,986
Less discount to present value and other reserves		
Discount to present value	(8,163)	(40,842)
Other reserves	(9,500)	(6,666)
Total	**$96,305**	**$162,783**

4. Investments

The University's investments are overseen by the Investment Committee of the Board of Trustees. Guided by the policies established by the Investment Committee, the University's Investment Office or external equity investment managers, external and internal fixed-income and cash managers, and various limited partnership managers direct the investment of endowment and trust assets, certain working capital, temporarily invested expendable funds, and commercial real estate.

Substantially all of these assets are merged into internally managed investment pools on a market-value basis. Each holder of units in the investment pools subscribes to or disposes of units on the basis of the market value per unit at the beginning of each month.

Endowment Payout/Spending Guideline

The Board of Trustees adopted a revised guideline effective in fiscal year 2007 for the annual spending rate from the Long-Term Balanced Pool. The calculation blends market and spending elements for the total annual spending rate.

The market element is an amount equal to 4.4 percent of the market value of a unit in the pool, averaged for the 12 months ending October 31 of the prior fiscal year. It is weighted at 30 percent in determining the total. The spending element is an amount equal to the current fiscal year's spending amount increased by 1.5 percent, plus the actual rate of inflation. It is weighted at 70 percent in determining the total.

If endowment income received is not sufficient to support the total-return objective, the balance is provided from realized and unrealized gains. If income received is in excess of the objective, the balance is reinvested in the Long-Term Balanced Pool on behalf of the unit holders.

The University's policy is to allocate the current income of all other investment pools.

Investment Market Value

The following charts show the cost and estimated fair value of investments held by the University:

	August 31, 2006		August 31, 2005	
(in thousands of dollars)	**Cost**	**Estimated fair value**	**Cost**	**Estimated fair value**
U.S. equity securities	$745,649	$867,498	$639,974	$791,726
International equity securities	634,690	845,471	517,303	693,679
Fixed income securities	651,749	645,157	677,507	692,771
High-yield credit	153,404	216,568	146,905	207,708
Absolute return	518,081	855,125	493,676	779,742
Private investments	1,078,319	958,022	901,322	763,817
Real assets	673,615	834,340	447,224	545,326
Other assets	34,222	50,531	23,510	37,467
Total investments	**$4,489,729**	**$5,272,712**	**$3,847,421**	**$4,512,236**

The University is committed to making future capital contributions in other investments in the amount of $1,649 million, primarily in the next five years.

The carrying value of the University's investments (excluding intrauniversity investments, cash, and cash equivalents) is shown by investment pool in the following charts:

					August 31, 2006
(in thousands of dollars)	**Operations and plant**	**Quasi-endowment**	**Annuity and life-income**	**Permanent endowment**	**Total**
Long-Term Balanced Pool	$634,143	$1,524,387	$40,405	$2,363,652	$4,562,587
Intermediate-Term Bond Pool	547,784	32,601			580,385
Separately invested	161	13,597	60,186	4,527	78,471
Working capital	51,269				51,269
Total investments	**$1,233,357**	**$1,570,585**	**$100,591**	**$2,368,179**	**$5,272,712**

					August 31, 2005
(in thousands of dollars)	**Operations and plant**	**Quasi-endowment**	**Annuity and life-income**	**Permanent endowment**	**Total**
Long-Term Balanced Pool	$511,388	$1,308,475	$36,194	$2,057,223	$3,913,280
Intermediate-Term Bond Pool	435,345	21,190			456,535
Separately invested	160	14,248	87,523	4,989	106,920
Working capital	35,501				35,501
Total investments	**$982,394**	**$1,343,913**	**$123,717**	**$2,062,212**	**$4,512,236**

The following table is a summary of private investments in which cost basis exceeds fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position. Management regularly monitors unrealized gains and losses in this class of investments over the fiscal periods, noting trends and tracking performance compared with expectations. Private equity and international private equity categories consist of long-term partnerships that have predictable life cycles resulting in unrealized losses at the beginning and the ending of the cycle. In the early years of these partnerships, initial investments are made with the expectation of gains in future years; thus, fees and expenses cause a temporary impairment. In the late stages of these partnerships, realized gains have materially already occurred; thus, the remaining investments on the books are fairly valued at current prices below the original cost basis of these partnerships. Based on continuing analysis and evaluation, management has determined that declines in fair value are temporary and that these assets are not impaired at August 31, 2006.

The unrealized losses of $273,000 have been reflected in the consolidated financial statements in conjunction with the adjustment of all investments to fair market value.

(in thousands of dollars)						*August 31, 2006*
	Less than 12 months		**12 months or more**		**Total**	
	Fair value	**Unrealized losses**	**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**
Private equity securities	$7,122	($3,738)	$166,593	($83,308)	$173,715	($87,046)
International private equity securities	16,357	(1,018)	32,176	(13,276)	48,533	(14,294)
Venture capital	25,171	(7,005)	209,652	(164,144)	234,823	(171,149)
Separately invested			80	(129)	80	(129)
Total temporarily impaired securities	**$48,650**	**($11,761)**	**$408,501**	**($260,857)**	**$457,151**	**($272,618)**

Investment Return

The components of total investment return were as follows:

(in thousands of dollars)	*August 31, 2006*	*August 31, 2005*
Investment income	$112,741	$123,469
Net realized gains	453,011	507,015
Change in net unrealized gains on investments reported at fair value	114,753	151,125
Total investment return	**$680,505**	**$781,609**

Investment return from operations is defined as the investment payout, according to the spending guideline for the Long-Term Balanced Pool and the actual investment income for all other investments. As reflected in the consolidated statements of activities, investment return was as follows:

(in thousands of dollars)	*August 31, 2006*	*August 31, 2005*
Changes in unrestricted net assets		
Operating: investment return	$232,407	$219,023
Nonoperating: investment gains reinvested	446,082	560,401
Changes in temporarily restricted net assets		
Investment return	2,016	2,185
Total investment return	**$680,505**	**$781,609**

Derivative Financial Instruments

In fiscal year 2006, the University used a swap agreement to hedge public real estate equity exposure and obtain S&P 500 equity index exposure; these were liquidated in fiscal year 2006 at a net realized gain of $45,000. The University also used a swap agreement to hedge small-cap equity exposure and obtain S&P 500 equity index exposure; these were liquidated in fiscal year 2006. The swap settlements and liquidation in 2006 resulted in a realized loss of $1.9 million. At August 31, 2005, the market value of the underlying real estate equity assets hedged by the swap was $9.4 million, and the University also had $9.6 million S&P 500 equity index exposure related to the swap. The swaps outstanding at August 31, 2005, had an unrealized loss of $254,000. The swap settlements during 2005 resulted in a realized loss of $1.5 million.

The University bought and sold futures contracts on a domestic equity index during 2006 and 2005 and incurred realized gains of $3.4 million and $3.1 million, respectively, on the purchase and sale of S&P 500 equity index futures contracts. As of August 31, 2006, and 2005, respectively, the University had 246 and 325 September S&P 500 index futures contracts outstanding. These contracts had an underlying notional value of $80.3 million and $99.2 million, respectively; an unrealized gain of $1.2 million at August 31, 2006; and an unrealized gain of $777,000 at August 31, 2005.

In addition, the University bought and sold futures contracts on international equity indices during 2006 and incurred realized gains of $1.8 million. As of August 31, 2006, the University had several international equity index futures contracts outstanding, representing a Europe, Australia, and Far East (EAFE) basket of securities. These contracts had an underlying notional value of $18.6 million and an unrealized gain of $290,000 at August 31, 2006.

Lastly, the University bought and sold futures contracts on the 10-year Treasury note during 2006 and incurred realized gains of $153,000. As of August 31, 2006, the University had 145 10-year Treasury note contracts outstanding. These contracts had an underlying notional value of $15.6 million and an unrealized gain of $48,000 at August 31, 2006.

Such equity instruments are not designated as hedges for accounting purposes and are recorded at fair value and included in investments on the consolidated statements of financial position.

Credit exposure represents the University's potential loss if all the counterparties fail to perform under the terms of the contracts, and if all collateral, if any, becomes worthless. This exposure is measured by the fair value of the cash collateral held at the counterparties at the reporting date.

The University manages its exposure to credit risk by using highly rated counterparties, establishing risk control limits, and obtaining collateral where appropriate. As a result, the University has limited credit risk. To date, the University has not incurred any losses on derivative financial instruments due to counterparty nonperformance.

The University regularly reviews the use of derivative financial instruments by each of the managers of alternative investment funds in which it participates. While these outside managers generally use such instruments for hedging purposes, derivative financial instruments are employed for trading purposes by 19 independent asset managers of the University funds totaling approximately $1,002 million and $520 million at August 31, 2006, and 2005, respectively.

Valuation of Permanent Endowment Funds

The University monitors endowment accounts in which historical cost was more than market value as of August 31, 2006. Historical cost and market value totals for these accounts were approximately $4.2 million and $1.8 million, respectively. In 2005 historical cost and market value totals for such accounts were approximately $3.9 million and $2.2 million, respectively. Associated unrealized losses are recorded in the unrestricted net assets classification.

5. Retirement Plans

The University maintains two contributory retirement plans for its eligible faculty and staff. The plans offer employees the choice of two investment company options, Teachers Insurance and Annuity Association (TIAA) and College Retirement Equities Fund (CREF), and the mutual funds offered by Fidelity Investments. Participating employee and University contributions are immediately vested. The University contributed $33.3 million and $32.2 million to the two plans in 2006 and 2005, respectively. It expects to contribute $35.3 million to the two plans in 2007.

The University currently sponsors a health care plan permitting retirees to continue participation on a "pay-all" basis. The retiree contribution is based on the average per-capita cost of coverage for the plan's entire group of active employees and retirees rather than the per-capita cost for retirees only. Retirees are also eligible to participate in certain tuition reimbursement plans and may receive a payment for sick days accumulated at retirement. The accrued cost for postemployment benefits was $6.6 million and $8.7 million at August 31, 2006, and 2005, respectively, and is included in accounts payable and accrued expenses on the consolidated statements of financial position.

The University funds the benefit costs as they are incurred. The accumulated postretirement benefit obligation (APBO) was as follows:

(in thousands of dollars)	*August 31, 2006*	*August 31, 2005*
Active employees not yet eligible	$3,285	$3,299
Active employees eligible	3,895	3,149
Retirees	1,498	539
Total	**$8,678**	**$6,987**

The following table sets forth the plan's change in benefit obligation:

(in thousands of dollars)	*August 31, 2006*	*August 31, 2005*
Benefit obligation at beginning of year	$6,987	$5,949
Service cost (benefits attributed to employee service during the year)	497	412
Interest cost on accumulated postretirement benefit obligation	346	352
Actuarial loss	990	437
Benefits paid	(1,203)	(1,138)
Contributions from participants	1,061	975
Benefit obligation at end of year	**$8,678**	**$6,987**

During fiscal year 2006, postretirement benefit payments (net of retirees' contributions) were approximately $436,000.

The following table sets forth the plan's funded status:

(in thousands of dollars)	*August 31, 2006*	*August 31, 2005*
Funded status	($8,678)	($6,987)
Unrecognized net actuarial loss	1,523	505
Unrecognized prior service cost	601	711
Total	**($6,554)**	**($5,771)**

The accrued benefit cost recognized in the consolidated statements of financial position, which is included in accounts payable and accrued expenses, was $8.7 million and $7 million at August 31, 2006, and 2005, respectively.

The components of the net periodic postretirement benefit cost were as follows:

(in thousands of dollars)	*August 31, 2006*	*August 31, 2005*
Service cost (benefits attributed to employee service during the year)	$497	$412
Interest cost on accumulated postretirement benefit obligation	346	352
Amortization of prior service cost	109	109
Amortization of unrealized gain	(27)	—
Total	**$925**	**$873**

The following tables present key actuarial assumptions used in determining APBO as of August 31, 2006, and 2005:

	August 31, 2006	*August 31, 2005*
Discount rate	5.6%	5%
Rate of increase in compensation levels	4%	4%

	August 31, 2006	*August 31, 2005*
Health care cost trend rate assumed	10%	9%
Rate to which the cost trend rate is assumed to ultimately decline	5%	5%
Year that rate will reach the ultimate trend rate	2011	2009

A one-percentage-point change in assumed health care cost trend rates would have had the following effects in fiscal year 2006:

	1% increase	*1% decrease*
Increase (decrease) in total of service and interest cost	$81	($69)
Increase (decrease) in postretirement benefit obligation	560	(493)

Estimated future benefit payments reflecting anticipated service, as appropriate, are expected to be paid as follows:

(in thousands of dollars)	
2008	$496
2009	530
2010	594
2011	667
2012–2016	4,384
Total	**$6,671**

The University offers a deferred compensation plan under Internal Revenue Code 457(b) to a select group of management and highly compensated employees. There is no University contribution related to this deferred compensation plan. The University has recorded both an asset and a liability related to the deferred compensation plan that totaled $9.8 million and $6.4 million in fiscal years 2006 and 2005, respectively.

In May 2004, the FASB issued FASB Staff Position SFAS No. 106-2, "Accounting and Disclosure Requirement Related to the Medicare Prescription Drug, Improvements, and Modernization Act of 2003." It requires that the University disclose, effective with the year ended August 31, 2005, the effects of the act and assess the impact of the Medicare Part D subsidy on the accumulated postretirement benefit obligation and net periodic postretirement benefit cost. Since in fiscal years 2006 and 2005 the University chose not to pursue the subsidy, measures of the APBO or net periodic postretirement benefit cost do not reflect any amount associated with it.

In September 2006, the FASB issued Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans." SFAS No. 158 amends FASB Statement No. 87, "Employers' Accounting for Pensions"; FASB Statement No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits"; FASB Statement No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions"; FASB Statement No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits"; and related accounting guidance.

SFAS No. 158 requires that an employer sponsoring one or more single-employer defined benefit plans must recognize an asset or a liability in the statements of financial position for the plans' overfunded or underfunded status. The asset or the liability is the difference between the fair value of plan assets and the related benefit obligation, defined as the projected benefit obligation for pension plans and the accumulated postretirement benefit obligation for other postretirement benefit plans, such as a retiree health care plan. SFAS No. 158 also requires an employer to recognize the actuarial gains or losses and prior service costs or credits in the statements of activities that arise during the period but are not components of net periodic benefit cost pursuant to SFAS Nos. 87 and 106. In addition, an employer must measure defined benefit plan assets and obligations as of the date of its fiscal year-end and make specified disclosures for the upcoming fiscal year.

SFAS No. 158 takes effect for Northwestern in fiscal year 2008; the University has not yet completed evaluating the impact of adopting the statement.

6. Land, Buildings, and Equipment

Land, buildings, and equipment consisted of the following:

(in thousands of dollars)	*August 31, 2006*	*August 31, 2005*
Land	$27,355	$27,355
Construction in progress	38,908	109,383
Buildings and leasehold improvements	1,528,261	1,371,482
Equipment	254,447	220,634
Accumulated depreciation	(657,717)	(575,975)
Total	**$1,191,254**	**$1,152,879**

The estimated cost to complete construction in progress at August 31, 2006, is $91 million. Costs included in construction in progress are future leasehold improvements and building and equipment capitalizations. Building costs are funded by loans, gifts (received or pledged), grants, and unrestricted funds.

In fiscal year 2006, the University prospectively implemented a new interest capitalization policy. Under this policy, actual interest expense incurred during the period of construction of an asset for University use is capitalized until that asset is substantially completed and ready for use. The capitalized cost is reflected in the total cost of the asset and depreciated over the useful life of the asset. Assets may include buildings and major equipment.

Lease obligations

The University is obligated under numerous operating leases to pay base rent through the lease expiration dates. Operating leases consist primarily of leases for the use of real property and have terms expiring in various years through fiscal year 2021. Noncancelable real estate lease expenses totaled $4.7 million at August 31, 2006, and $4.5 million at August 31, 2005. The future minimum lease payments under noncancelable operating leases were allocated on a straight-line basis over the term of the lease. These payments through August 31 of each period are as follows:

(in thousands of dollars)	
2007	$5,179
2008	5,179
2009	5,003
2010	4,862
2011 and thereafter	17,071
Total	**$37,294**

7. Allocation of Expenses

The University allocated depreciation, plant maintenance expenditures, and interest on indebtedness to the various functional expense categories in the consolidated statements of activities for the fiscal years ended August 31, 2006, and 2005. In addition, in fiscal year 2006, FIN 47 accretion for asset retirement obligations (ARO) expense of $5.1 million was also allocated. Those expenses have been distributed to the functional areas of the University as follows:

(in thousands of dollars)				*August 31, 2006*
	Accretion for ARO	**Depreciation**	**Plant maintenance**	**Interest on bond indebtedness**
Instruction	$717	$9,866	$16,318	$3,115
Research	1,208	16,631	27,508	5,250
Academic support	1,070	14,728	24,361	4,650
Student services	445	6,131	10,141	1,935
Institutional support	312	4,299	7,110	1,357
Auxiliary services	1,366	18,816	31,120	5,940
Total	**$5,118**	**$70,471**	**$116,558**	**$22,247**

(in thousands of dollars)				*August 31, 2005*
	Accretion for ARO	**Depreciation**	**Plant maintenance**	**Interest on bond indebtedness**
Instruction	—	$9,114	$14,984	$3,083
Research	—	12,797	21,040	4,328
Academic support	—	13,796	22,682	4,666
Student services	—	5,806	9,545	1,964
Institutional support	—	3,870	6,363	1,309
Auxiliary services	—	17,043	28,018	5,764
Total	**—**	**$62,426**	**$102,632**	**$21,114**

The allocations were based on the functional use of space on the University's campus.

8. Self-Insurance Reserves and Other Contingencies

Reserves for losses under the University's self-insurance program, aggregating $65.5 million and $80.3 million at August 31, 2006, and 2005, respectively, include reserves for known losses and for losses incurred but not yet reported. A portion of the reserves pertaining to professional liability has been determined on a discounted present-value basis. The discount rate was 7.5 percent in fiscal years 2006 and 2005. Self-insurance reserves are based on estimates of historical loss experience, and while management believes that the reserves are adequate, the ultimate liabilities may be more or less than the amounts provided.

Under an agreement between the University and Northwestern Medical Faculty Foundation, a proportionate share of primary medical professional liability costs that arise out of events prior to November 1, 2004, is borne by NMFF. As of November 1, 2004, NMFF obtained excess medical liability coverage through another institution for all events after October 1, 2002, and reported after November 1, 2004. As of August 31, 2006, there were no accounts receivable from NMFF related to professional liability insurance costs; as of August 31, 2005, such accounts receivable totaled $2.9 million.

The University may borrow under an agreement whereby monies are advanced for the purpose of originating student loans. These loans, when fully disbursed, are sold to the lending agency. Additionally, the University has contracted to service these loans, which totaled $252.7 million at August 31, 2006.

Service revenues are the excess of the actual interest collected above the agreed-upon warehouse fees on the serviced loans. The University manages the program to break even and generates no servicing assets or liabilities through these activities. Under the agreement in effect through June 30, 2008, the University guarantees these loans against default up to 10 percent of the original domestic loan portfolio and 30 percent of the original international amounts. The maximum future total payments are $30.1 million as of August 31, 2006. At August 31, 2006, and 2005, $506,000 and $549,000, respectively, were reserved in anticipation of future defaults. Notes receivable on the consolidated statements of position are shown net of these reserves in fiscal years 2006 and 2005.

From time to time, various claims and suits generally incidental to the conduct of normal business are pending or may arise against the University. It is the opinion of management of the University, after taking into account insurance coverage, that any losses from the resolution of pending litigation should not have a material effect on the University's financial position or results of operations.

All funds expended in connection with government grants and contracts are subject to audit by government agencies. While any ultimate liability from audits of government grants and contracts by government agencies cannot be determined at present, management believes that it should not have a material effect on the University's financial position or results of operations.

9. Natural Classification of Expenses

Operating expenses incurred in the fiscal years ended August 31, 2006, and 2005, were as follows:

(in thousands of dollars)	*August 31, 2006*	*August 31, 2005*
Salaries, wages, and benefits	$672,010	$623,417
Services and professional fees	163,601	154,007
Supplies	69,034	64,365
Travel and promotion	62,286	54,275
Trademark and royalty fees	10,076	1,258
Other expenses	59,163	72,557
Maintenance, utilities, and equipment	111,023	116,237
Accretion for asset retirement obligations	5,118	—
Interest on bond indebtedness	22,247	21,114
Depreciation	70,471	62,426
Total	**$1,245,029**	**$1,169,656**

10. Securities Lending

The University has had an agreement with its investment custodian to lend University securities to approved brokers in exchange for a fee. Among other provisions that limit the University's risk, the securities lending agreement specifies that the custodian is responsible for lending securities and obtaining adequate collateral from the borrower. Collateral is limited to cash, government securities, and irrevocable letters of credit. At August 31, 2006, and 2005, investment securities with an aggregate market value of $509.5 million and $654.9 million, respectively, were loaned to various brokers and were returnable on demand. In exchange, the University received cash collateral of $509 million and noncash collateral of $14.1 million at August 31, 2006, and cash collateral of $561.7 million and noncash collateral of $105 million at August 31, 2005. In accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," the cash collateral is shown as both an asset and a liability on the consolidated statements of financial position.

11. Subsequent Event

On October 3, 2006, the University refunded the IEFA–Series 1997 Adjustable Medium-Term Revenue Bonds with fixed-rate tax-exempt revenue bonds (Illinois Finance Authority Revenue Refunding Bonds Series 2006) totaling $145.1 million. The 1997 issuance was structured as tendered bonds and scheduled to mature and be tendered between November 1, 2006, and November 1, 2015, at values between $5 million and $20 million. The refunding bonds will be subject to conditions set forth in a trust indenture and loan agreement between the University and the authority. The bonds were issued with a fixed rate of 5 percent and will mature December 1, 2042.

ADMINISTRATION AND TRUSTEES

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