Northwestern

2015 FINANCIAL REPORT

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Report of the Executive Vice President

To the Board of Trustees of Northwestern University:

The *2015 Financial Report* for Northwestern highlights the University's continued financial health and capacity. We are well positioned to meet our strategic objectives while providing the highest-quality education for our students, developing innovative programs in research, and sustaining a vibrant academic community.

The University's renowned reputation in sponsored research and academics has continued to increase our ability to attract a very highly qualified and diverse student body and faculty. Student tuition, solid research funding, philanthropy, and endowment earnings continue to provide Northwestern with balanced sources of revenue, positioning us extremely well to face the challenges and opportunities of the future with confidence.

The University's Consolidated Statements of Financial Position reflect stability consistent with our AAA credit rating. The University's vehicle for managing its endowment, the Long-Term Balanced Pool, had a net total return of 2.5 percent, which contributed to the modest increase in the market value of investments. Significant progress was made this year on the University's capital plan with the opening of the Patrick G. and Shirley W. Ryan Center for the Musical Arts and the continuing construction of the J. L. Kellogg School of Management's Global Hub facility. The strength of the University's balance sheet provides the baseline support to initially finance these strategic investments. Total assets grew to $13.4 billion, an increase of $660 million from the prior year, with net assets increasing to nearly $10.8 billion.

We Will. The Campaign for Northwestern eclipsed $2.4 billion at August 31, 2015, continuing to outperform expectations. New gifts and commitments of $685.8 million during the fiscal year were led by a $101 million gift from Roberta Buffett Elliott to endow the University's strategic global initiatives and create the Roberta Buffett Institute for Global Studies; and a $100 million gift from Louis Simpson, Kimberly Querrey, and the Querrey Simpson Charitable Foundation to support the Louis A. Simpson and Kimberly K. Querrey Biomedical Research Center and fund strategic investments in scientific research and education at the Feinberg School of Medicine. Their gift also funds the Louis Simpson and Kimberly Querrey Professor of Materials Science and Engineering, Biomedical Engineering, and Medicine; and supports research in bio-integrated electronics, biomedical engineering, and related fields.

The University's strong financial position will be crucial in moving us to even greater distinction in our academic position among the best global universities. Our ability to make key investments will allow us to further advance our goal of continued academic and research excellence.

Nim Chinniah
Executive Vice President

Investment Report

US economic data has demonstrated tangible progress, yet uncertainty still abounds. The US central bank will eventually raise interest rates, with consequences yet unknown. Additionally, China, Brazil, and other emerging economies have seen their economic growth slow considerably, which also played a part in commodity weakness led by the falling oil price. This uncertainty in domestic markets and slowing growth in emerging markets resulted in a return to volatility in equities during the summer. US large-capitalization equities led world equity indices as the S&P 500 eked out a gain of less than 1 percent during the fiscal year. However, over the same period, global equity indices produced negative returns ranging from low single digits for developed economies to a decline of more than 20 percent for emerging markets.

The University's diversified portfolio had a muted gain of 2.5 percent for fiscal year 2015. The Long-Term Balanced Pool rose by $163 million to $9.87 billion. On August 31, 2015, the University's investment assets (including cash and intra-University investments) totaled $10.63 billion.

The University's Total Investment Pools

The University maintains three primary investment pools: 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, used for endowed and quasi-endowed purposes, is managed with the objective of long-term total return. It is a "unitized fund" using mutual fund accounting principles. 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 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. These assets may not be merged with other assets for consolidated management.

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, 2015					
	2011	*2012*	*2013*	*2014*	*2015*
Long-Term Balanced Pool					
Net asset value (in thousands of dollars)	$7,012,867	$7,186,794	$7,850,651	$9,704,003	$9,867,262
Number of units (in thousands)	34,144	35,155	36,390	40,169	41,601
Net asset value per unit	$205.39	$204.43	$215.74	$241.58	$237.19
Payout amount per unit					
Current earned income	($0.75)	($0.75)	$0.11	($0.08)	($1.21)
Previously reinvested realized gains withdrawn	$9.03	$9.07	$8.63	$9.01	$10.44
Total payout per unit	$8.28	$8.32	$8.74	$8.93	$9.23
Summary of net asset values *(in thousands of dollars)*					
Treasury pool funds	$148,378	$146,675	$157,003	$169,951	$609,600
Separately invested funds	85,741	89,328	136,625	158,383	150,851
Total net asset value *(in thousands of dollars)*	**$7,246,986**	**$7,422,797**	**$8,144,279**	**$10,032,337**	**$10,627,713**

Asset Allocation for the Long-Term Balanced Pool

The Investments Committee of the University annually reviews asset allocation policy for the Long-Term Balanced Pool. The Investment Office's optimization modeling, which seeks to generate higher returns with lower risk levels, will review the current asset allocation mix in fiscal year 2016. The current asset allocation and targets were ratified by the Committee during fiscal year 2014 and maintained for fiscal year 2015. Subjective considerations such as liquidity and inflation/deflation protection were also part of the analysis.

The next table, which incorporates these changes, displays the current asset allocation policy for the University. Reflecting the Investment Office's bias against market timing or tactical asset allocation as a primary driver of value added, actual allocations varied from targeted levels by modest amounts.

Policy Portfolio Targets and Ranges

	Range	*Target*	*August 31, 2015*	*Difference*
US equity	9–15%	12%	12.6%	0.6%
International equity	13–19%	16%	15.8%	-0.2%
Fixed income	9–15%	12%	10.3%	-1.7%
High-yield credit	0–10%	5%	3.4%	-1.6%
Absolute return	14–22%	18%	18.7%	0.7%
Private investments	15–23%	19%	20.7%	1.7%
Real assets	14–22%	18%	14.6%	-3.4%
Cash		0%	3.9%	3.9%

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. 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 8 of this report.

The University's investments historically have grown at a rate exceeding the objective. For the 12 months ended August 31, 2015, the portfolio increased 2.5 percent, underperforming the objective by 2.2 percent. However, over longer time horizons, the portfolio outperformed the objective by 4.4 percent, 4.2 percent, 1.5 percent, and 0.3 percent for the 3-year, 5-year, 10-year, and 15-year periods, respectively, as shown on the table below.

Annualized Returns: Exceeding the Objective

	1-year	3-year	5-year	10-year	15-year
*Annual total return**	2.5%	10.1%	10.7%	8.0%	7.1%
– Spending	3.8%	3.9%	4.0%	3.9%	4.0%
– University management fee and support	0.7%	0.7%	0.7%	0.6%	0.6%
– Inflation	0.2%	1.1%	1.8%	2.0%	2.2%
= Above or below objective	-2.2%	4.4%	4.2%	1.5%	0.3%

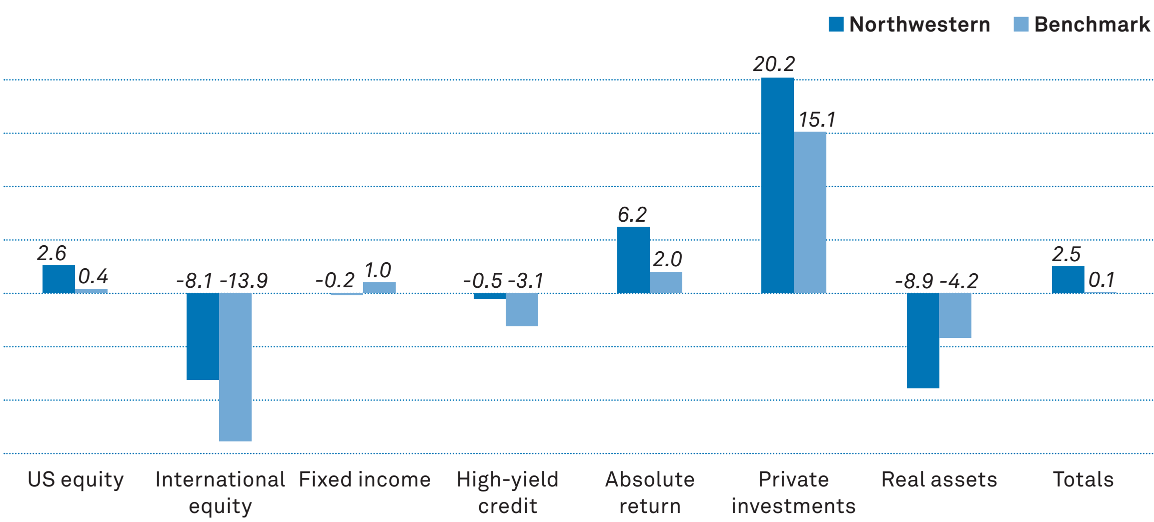
** Total returns are net of fees and are calculated on annual changes in net asset value. They may differ from payout distributions.*

Secondary Investment Performance Objective: Benchmark Comparisons

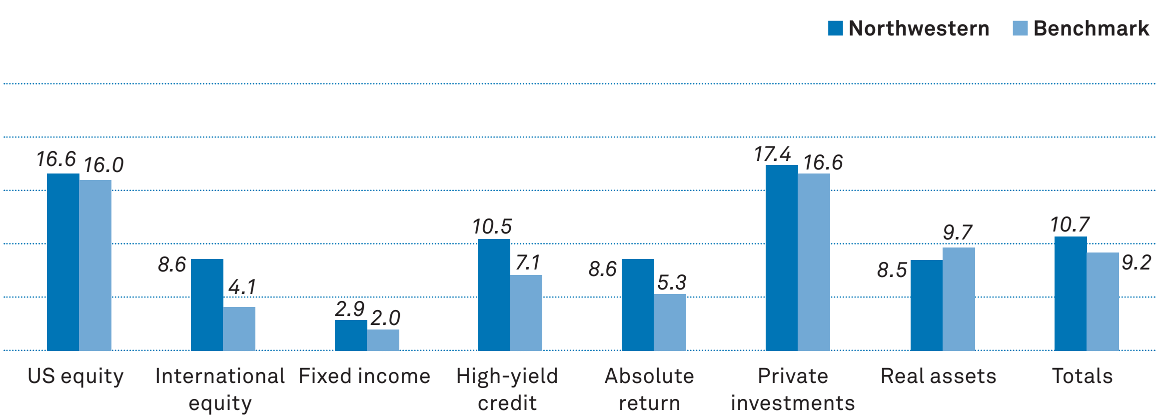
The pool's 2.5 percent return for the 12-month period outperformed the 0.1 percent return of the composite benchmark, a blend of the benchmark returns for each asset class weighted by the policy allocation targets. Outperformance resulted primarily from the strong returns of certain portfolios relative to their respective benchmarks. Five of the seven portfolios exceeded their benchmarks over the fiscal year. In particular, the private investments portfolio substantially outperformed on a relative basis (20.2 percent versus 15.1 percent) and was also the best performer on an absolute basis. International equity was the best performer on a relative basis (-8.1 percent versus -13.9 percent), yet this was counterbalanced by real assets, which underperformed (-8.9 percent versus -4.2 percent). US equity, high-yield credit, and absolute return outperformed their benchmarks by 2.2 percent, 2.6 percent, and 4.2 percent, respectively. The first chart that follows shows returns and benchmarks for all asset classes for the fiscal year.

For the five-year period ended August 31, 2015, the Long-Term Balanced Pool outperformed the composite benchmark (10.7 percent versus 9.2 percent), as shown in the second chart. Six of the seven portfolios exceeded their benchmarks over five years, while only real assets underperformed during this time frame. Three of the asset classes were double-digit performers, reflecting the continued recovery from the financial crisis of 2008–09, particularly in the United States. A more detailed explanation of activity and performance follows the five-year performance chart below.

Long-Term Balanced Pool: Fiscal 2015 Net Performance Relative to Benchmarks (in percentages)



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



Marketable Securities Categories

US equity was the third-best-performing asset class in absolute terms during the fiscal year, gaining 2.6 percent. On a relative basis, the portfolio outperformed the 0.4 percent gain of its Russell 3000 benchmark, primarily due to manager selection. Over 5 years, the portfolio has outperformed its benchmark by 0.6 percent (16.6 percent versus 16 percent), as well as outperforming in 10 of the last 14 fiscal years. In addition, on an absolute basis, US equity was the second-best-performing asset class over the 5-year period, as the US stock market outperformed all other asset classes except the private investments benchmark during this time frame.

The international equity portfolio lost 8.1 percent for the fiscal year and, in absolute terms, was one of the worst-performing asset classes. For the last 5 years, this portfolio was the best-performing asset class on a relative basis, returning 8.6 percent compared with the 4.1 percent return of its benchmark (67 percent, MSCI EAFE Index; 33 percent, MSCI EM Index). A heavier weight to smaller-capitalization foreign stocks, as well as outstanding manager selection, has helped this portfolio over the 5-year period, outperforming in 12 of the last 14 fiscal years.

The fixed income portfolio posted a flat return of -0.2 percent during the fiscal year. The Investment Office's conscious effort to underweight this portfolio helped boost the overall return of the Long-Term Balanced Pool. The portfolio underperformed on an absolute and relative basis, returning -0.2 percent versus 1 percent for its benchmark. For the last 5 years, fixed income outperformed on a relative basis, returning 2.9 percent versus 2 percent for its benchmark. It has outperformed in 8 of the last 14 fiscal years due to superior active management and exposure to global and inflation-protected bonds.

High-Yield Credit Category

The high-yield credit portfolio includes tactical investments in distressed debt and other credit instruments with fixed income characteristics but more specific risk tied to the securities and their underlying cash flows. Decreasing 0.5 percent during the fiscal year, the portfolio outperformed on a relative basis, besting the 3.1 percent decrease posted by the benchmark Merrill Lynch High-Yield Master II Index. On an absolute basis it was the third-worst performer; thus, the Investment Office's decision to underweight this portfolio due to unattractive valuations in credit during the past year paid off. The high-yield credit portfolio returned 10.5 percent, versus 7.1 percent for the benchmark for the five-year period, and was the second-best performer on an absolute basis for this period. Cash flows were very strong for the current fiscal year as distressed managers continue to return capital. The portfolio was cash-flow positive (total distributions less new investments or capital calls), with distributions of $70.5 million and capital calls of $44.3 million, for a net cash flow of $26.2 million.

Absolute Return Category

Made up of more than 23 different hedge fund strategies, this portfolio aims to provide equity-like returns with low correlation to the equity markets. For the fiscal year, it gained 6.2 percent, surpassing the 2 percent return of its benchmark (80 percent Treasury bills plus 400 basis points; 20 percent MSCI All-Country World Index). The portfolio's return of 8.6 percent for the five-year period was positive on an absolute basis and exceeded its benchmark, which was up 5.3 percent. Northwestern's absolute return portfolio no longer has a bias toward long-short equity managers (36 percent) since the University has been consciously increasing the allocation to other hedge fund strategies over the past several years. These remaining hedge funds (64 percent) tend to be less sensitive to movements in the equity markets and represent diversifying strategies.

Private Investments Category

The private investments portfolio includes investments in global buyout, growth equity, and venture capital funds. This portfolio had the top-performing absolute return of 20.2 percent for the fiscal year and was also the best absolute performer for the five-year period, gaining 17.4 percent. In addition, on a relative basis it significantly outperformed the Burgiss Private Investments benchmark return of 15.1 percent. Increased profitability at underlying portfolio companies and merger and acquisition activity significantly bolstered returns for the five-year period. The initial public offering environment also continued to be robust worldwide during the fiscal year.

Cash flows were strong for the current fiscal year, as in the latest three fiscal years. The portfolio was cash-flow positive for the fourth year in a row since the financial crisis of 2008–09. The portfolio continued to experience an increase in trade sales, recapitalizations, and public offerings, resulting in more distributions from the portfolio companies. For fiscal year 2015, private investment distributions were $533 million and capital calls were $300 million, for a net cash flow of $233 million.

Real Assets Category

The real assets portfolio includes the University's investments in energy, timber, real estate, and publicly traded investments in commodity funds. This portfolio underperformed its benchmark return (a mix of energy, real estate, and commodities) on a relative basis in fiscal year 2015, losing 8.9 percent versus a 4.2 percent loss. This portfolio was a good performer for the five-year period, gaining 8.5 percent. Notably, distribution activity remained elevated as there continued to be significantly higher realizations in private partnership real estate and energy investments. With distributions of $311.6 million and capital calls of $213.2 million, the net cash flow was $98.4 million for fiscal year 2015.

Long-Term Balanced Pool Spending Guideline

To sustain the Long-Term Balanced Pool's long-term earning ability and provide adequate resources to the University, the Board of Trustees in fiscal year 2006 ratified a revised spending guideline that 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 ended October 31 of the prior 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 spending rate for fiscal year 2015 was 3.8 percent. The amount per unit for fiscal year 2016, calculated using the guideline above, is $9.71.

Payout Determined by Spending Guideline

	2011	*2012*	*2013*	*2014*	*2015*
Spending per unit	$8.28	$8.32	$8.74	$8.93	$9.23
Net asset value per unit	$205.39	$204.43	$215.74	$241.58	$237.19
Annual spending rate*	4.20%	3.98%	4.08%	3.83%	3.78%
Total (in millions)	$279.61	$288.30	$313.17	$350.02	$378.74
Growth in total spending	-0.81%	3.11%	8.62%	11.77%	8.21%

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

The Long-Term Balanced Pool: In Conclusion

Northwestern's portfolio delivered steady performance for the challenging fiscal year and is poised to continue to grow and support the University's needs. Its success is based on the diversification of the Long-Term Balanced Pool and the skill of outstanding money managers worldwide in meeting investment objectives over long time horizons. Despite short-run concerns that returns will most likely be lower over the next decade than the prior 10 years, Northwestern leadership continues to maintain a long-term investment focus and remains confident in the portfolio.

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 financial statements of Northwestern University (the "University"), which comprise the consolidated statement of financial position as of August 31, 2015, and 2014, the related consolidated statements of activities and changes in net assets for the year ended August 31, 2015, and the related consolidated statements of cash flows for the years ended August 31, 2015, and 2014.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the consolidated financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northwestern University at August 31, 2015, and 2014, and the changes in its net assets for the year ended August 31, 2015, and its cash flows for the years ended August 31, 2015, and 2014, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have previously audited Northwestern University's August 31, 2014, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 12, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

PricewaterhouseCoopers LLP

Chicago, Illinois

January 22, 2016

Consolidated Statements of Financial Position

As of August 31, 2015, and August 31, 2014

(in thousands of dollars)	*2015*	*2014*
Assets		
Cash and cash equivalents	$277,129	$366,158
Accounts receivable, *net*	282,926	266,900
Notes receivable, *net*	146,760	149,618
Contributions receivable, *net*	169,018	99,963
Investments	10,497,764	10,012,161
Land, buildings, and equipment, *net*	2,043,447	1,859,851
Other assets	18,731	21,656
Total assets	**$13,435,775**	**$12,776,307**
Liabilities		
Accounts payable and accrued expenses	$223,461	$235,734
Deferred revenue	270,962	266,290
Deposits payable and actuarial liability of annuities payable	123,770	119,975
Government advances for student loans	38,830	38,775
Asset retirement obligations	121,035	115,459
Bonds, notes, and other debt payable	1,864,739	1,336,328
Total liabilities	**$2,642,797**	**$2,112,561**
Net assets		
Unrestricted	$6,822,964	$6,824,273
Temporarily restricted	2,555,415	2,585,463
Permanently restricted	1,414,599	1,254,010
Total net assets	**$10,792,978**	**$10,663,746**
Total liabilities and net assets	**$13,435,775**	**$12,776,307**

See Notes to the Consolidated Financial Statements, beginning on page 14.

Consolidated Statement of Activities

For the fiscal year ended August 31, 2015, and summarized financial information for the fiscal year ended August 31, 2014

(in thousands of dollars)	2015				2014
Operating revenues	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**	**Total**	**Total**
Tuition and fees	$911,130			$911,130	$876,211
(less scholarships and fellowships)	(343,380)			(343,380)	(329,863)
Net tuition and fees	567,750			567,750	546,348
Auxiliary services	77,226			77,226	77,631
Grants and contracts	565,589			565,589	546,165
Private gifts	202,428			202,428	465,563
Investment return designated for operations	334,562	$139,313		473,875	408,614
Sales and services	154,686			154,686	154,036
Professional fees	24,150			24,150	26,305
Royalties and trademarks	77,486			77,486	52,742
Other income	1,227			1,227	1,640
Total operating revenues	**2,005,104**	**139,313**	**—**	**2,144,417**	**2,279,044**
Net assets released from restrictions	**228,267**	**(228,267)**		**—**	**—**
Total operating revenues and other additions (reductions)	**2,233,371**	**(88,954)**	**—**	**2,144,417**	**2,279,044**
Operating expenses					
Salaries, wages, and benefits	1,147,813			1,147,813	1,096,970
Services, supplies, travel, and other	538,037			538,037	512,938
Depreciation and ARO accretion	117,831			117,831	117,276
Operations of plant, rent, and equipment	90,700			90,700	98,515
Utilities and communications	53,969			53,969	55,289
Royalty and trademark fees	47,889			47,889	51,536
Interest on indebtedness	37,094			37,094	40,504
Total operating expenses	**2,033,333**	**—**	**—**	**2,033,333**	**1,973,028**
Excess (deficit) of operating revenues over expenses	**200,038**	**(88,954)**	**—**	**111,084**	**306,016**
Nonoperating revenues and expenses					
Private gifts and grants for buildings and equipment	10,845			10,845	23,153
Restricted private gifts		121,162	$166,810	287,972	116,125
Net (loss) gain on annuity obligations		(3,081)	(6,221)	(9,302)	9,861
Investment returns, reduced by operating distribution	(214,941)	(59,175)		(274,116)	1,036,918
Change in value of derivative instruments	(1,552)			(1,552)	5,317
Other nonoperating net revenues	4,301			4,301	13,868
Excess (deficit) of nonoperating revenues over expenses	**(201,347)**	**58,906**	**160,589**	**18,148**	**1,205,242**
Change in net assets	**(1,309)**	**(30,048)**	**160,589**	**129,232**	**1,511,258**
Beginning net assets	**6,824,273**	**2,585,463**	**1,254,010**	**10,663,746**	**9,152,488**
Ending net assets	**$6,822,964**	**$2,555,415**	**$1,414,599**	**$10,792,978**	**$10,663,746**

See Notes to the Consolidated Financial Statements, beginning on page 14.

Consolidated Statements of Cash Flows

For the fiscal years ended August 31, 2015, and August 31, 2014

(in thousands of dollars)	*2015*	*2014*
Cash flows from operating activities		
Change in net assets	$129,232	$1,511,258
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	112,083	111,769
Accretion for asset retirement obligations	5,748	5,507
Asset retirement obligations reduction	(172)	(22,105)
Net losses on retirements and sales of buildings and equipment	1,527	6,426
Net amortization of discounts (and accretion) of premiums on bonds payable	(1,063)	(78)
Allowance for student loans receivable	527	784
Net realized and unrealized gains on investments	(148,346)	(1,388,390)
Gift of contributed securities	(139,961)	(48,487)
Proceeds from sale of contributed securities	39,057	48,487
Change in value of derivative instruments	1,552	(5,317)
Private gifts and grants for buildings and equipment	(10,845)	(23,153)
Changes in assets and liabilities		
Accounts receivable	(11,309)	(5,544)
Contributions receivable	(69,055)	16,432
Other assets	(648)	(3,030)
Accounts payable and accrued expenses	(4,454)	2,407
Deferred revenue	4,672	5,606
Government advances for student loans	55	27
Net cash provided by (used in) operating activities	**(91,400)**	**212,599**
Cash flows from (used in) investing activities		
Purchases of investments	(2,372,293)	(1,804,158)
Proceeds from sales of investments	2,138,701	1,604,252
Acquisitions of land, buildings, and equipment	(307,625)	(274,417)
Proceeds from sale of buildings or equipment	1,047	210
Student loans disbursed	(26,391)	(24,472)
Student loans purchased	—	(61,011)
Principal collected on student loans	28,722	24,870
Other	(7,478)	(11,254)
Net cash provided by (used in) investing activities	**(545,317)**	**(545,980)**
Cash flows from (used in) financing activities		
Proceeds from issuance of bonds payable and notes payable	686,017	586,000
Refunding of bonds payable	(149,164)	(185,010)
Principal payments on notes, bonds, and other debt payable	(3,805)	(13,550)
Proceeds from private gifts and grants for buildings and equipment	10,845	23,153
Increase (decrease) in deposits payable and annuities payable	3,795	(45,805)
Net cash provided by (used in) financing activities	**547,688**	**364,788**
(Decrease) increase in cash and cash equivalents	**(89,029)**	**31,407**
Cash and cash equivalents at beginning of year	**366,158**	**334,751**
Cash and cash equivalents at end of year	**$277,129**	**$366,158**
Supplemental disclosure of cash flow information		
Accrued liabilities for construction in progress	$22,582	$27,979
Capitalized interest	15,041	11,677
Cash paid for interest	46,867	52,420

See Notes to the Consolidated Financial Statements, beginning on page 14.

Notes to the Consolidated Financial Statements

For the fiscal years ended August 31, 2015, and August 31, 2014

1. Summary of Significant Accounting Policies

University Activities

Northwestern University (Northwestern or the University) is a major private research university with more than 21,000 students enrolled in 12 academic divisions on two lakefront campuses in Evanston and Chicago and an international campus in Doha, Qatar.

Northwestern's 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 revenues include student tuition, research funding, investment return designated for operations, educational sales and services, private gifts, royalties, and auxiliary services. Operating expenses reflect support for all functions of the University. Nonoperating activities include unrealized gains and losses on investments, temporarily restricted gifts for building, and all permanently restricted endowment gifts.

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). The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) is the source of authoritative GAAP. The University prepares its consolidated financial statements in accordance with the Not-for-Profit Entities Topic of the FASB ASC. These statements include all wholly owned subsidiaries. All significant intercompany transactions and accounts have been eliminated.

Net Asset Classifications

Net assets and the flow of those net assets are classified in three categories according to the existence or absence of donor-imposed restrictions. For further discussion of the classification of donor-restricted endowment funds and disclosures about both donor-restricted and board-designated endowment funds, see note 9.

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.

The category *Temporarily Restricted Net Assets* includes gifts for which donor-imposed restrictions have not been met (these are primarily future capital projects), as well as trust activity and pledges receivable whose ultimate use is not permanently restricted. In addition, the excess of the fair value over the historical cost of permanently restricted endowments is classified as temporarily restricted net assets until appropriated for expenditure.

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. Net unrealized losses on permanently restricted endowment funds for which the historical cost exceeds fair value are recorded as a reduction to unrestricted net assets.

Revenue from temporarily restricted sources is reclassified as unrestricted revenue 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 revenue. 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. Donor-restricted purposes include instruction, research, library collections, scholarship and awards, and building construction.

Fair Value Measurements

The University makes fair value measurements and enhanced disclosures about fair value measurements as required by the Fair Value Measurements and Disclosures Topic of the FASB ASC. For further discussion, see notes 4 and 8.

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; maturities of the investments are three months or less at the date of purchase.

Contributions

Contributions received, including unconditional promises to give (pledges), are recognized by the University 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.

Investments

Investments in securities and financial instruments are recorded at fair value. The University values its investments using a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity; unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or a liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value. The following describes this hierarchy and the primary valuation methodologies used by the University for financial instruments measured at fair value on a recurring basis:

Level 1: Quoted prices in active markets for identical assets or liabilities. Market-price data are generally obtained from relevant exchanges or dealer markets.

Level 2: Inputs other than Level 1 that are observable either directly or indirectly, such as quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially all of the same term of the assets or liabilities. Inputs are obtained from various sources, including market participants, dealers, and brokers.

Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input significant to the fair value measurement. In the event that changes in the inputs used in the fair value measurement of an asset or liability result in a transfer of the fair value measurement to a different categorization, such transfers between fair value categories are recognized at the end of the reporting period. The categorization of an investment is based upon its pricing transparency and liquidity and does not necessarily correspond to the University's perceived risk of that investment. As a practical expedient as permitted under GAAP, the reported net asset value (NAV) of investments with external managers is used to estimate their fair value. Investments that use NAV as a practical expedient for valuation purposes are shown separately from the valuation hierarchy. For further discussion, see note 4.

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). The fair values for these securities are classified as Level 1 because the securities have observable market inputs. Certain fixed income securities are valued based on dealer-supplied valuations; since these securities have significant other observable inputs, they are classified as Level 2.

The estimated fair values of equity securities that do not have readily determined fair values, and of other investments that are generally less liquid, are based on valuation information received on the relevant entity and may include last sale information or independent appraisals of value. In addition, standard valuation techniques, including discounted cash flow models or valuation multiples based on comparable investments, may be used. The fair values for these securities are classified as Level 3, reflecting significant unobservable inputs that are supported by little or no market inputs.

Investments in certain real assets and other investments are recorded at acquisition or construction cost, or at fair value as of donation date if received as a contribution. The University performs a periodic assessment of these assets for impairment by comparing the future cash flows expected from the asset to the carrying value of the asset. An impairment loss is recognized for the difference between estimated fair value and carrying value. In management's opinion, no impairment of investments held at cost existed as of August 31, 2015. For further discussion of such investments, see note 4.

The methods described above may produce a fair value that may not be indicative of net realizable value or of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

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 obtain equity market exposure (e.g., equity price risk) of an underlying investment strategy; if applicable, these have a reference index (e.g., S&P 500) that is the same as, or highly correlated with, the reference index of the investment strategy. Such instruments are not designated as hedges for accounting purposes and are recorded at fair value.

The University enters into swap agreements to hedge future interest-rate movements. It may also add various interest-rate options to hedge the overall portfolio and use an interest-rate swap agreement to hedge variable interest-rate exposure. Interest-rate swaps are valued using observable inputs, such as quotations received from the counterparty, dealers, or brokers, whenever they are available and considered reliable. If and when models are used, the value of the interest-rate swap depends on the contractual terms of and specific risks inherent in the instrument, as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, and prepayment rates as well as correlations of such inputs. For further discussion, see notes 4 and 8.

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.

Accounts and Notes Receivable

Accounts receivable are recorded at net realizable value. Those generally expected to be collected within one year are carried without an allowance. The allowance for student accounts receivable is based on an analysis of outstanding account balances and is calculated using percentages based on historical collection data applied to the outstanding accounts receivable balances. Accounts receivable deemed to be uncollectible are expensed at that time.

Notes receivable are recorded at net realizable value and are predominantly student loans with varying maturities. Notes receivable deemed to be uncollectible are expensed at that time.

Management assesses the adequacy of the allowance for credit losses on a regular basis by performing ongoing analysis of the student loan portfolio. Factors considered are differing economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, and other significant influences. Loans disbursed under federally guaranteed student loan programs have special provisions. Based on this evaluation and management judgment, an uncollectible percentage is calculated and applied to each category of student loan balances outstanding. Management considers the allowance for student loan portfolio credit losses to be prudent and reasonable.

Contributions Receivable

Contributions receivable arising from unconditional promises to give are carried net of an allowance for uncollectible pledges. Additionally, unconditional promises are presented at estimated fair value considering duration and collection risk. There were no significant conditional promises to give as of August 31, 2015, and August 31, 2014.

Land, Buildings, and Equipment

The value of land, buildings, and equipment is recorded at cost or, if received as gifts, at fair 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 and works of art are also expensed.

Depreciation is calculated using the straight-line method over the useful lives of the equipment, which are estimated to be 3 to 20 years; of the buildings and land improvements, which are estimated to be up to 40 years; and of the leasehold improvements, which are estimated to be the shorter of the useful life or the lease term. The useful life of land is deemed indefinite and not depreciable.

The University reviews long-lived assets 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, 2015.

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 not permanently restricted 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.

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. The reserves for self-insurance and postretirement medical and life insurance benefits are based on actuarial studies and management estimates. See notes 10 and 12 for additional discussion.

Asset Retirement Obligations

The University records all known asset retirement obligations (ARO) for which the fair value of the liability can be reasonably estimated, including certain obligations relating to regulatory remediation. Asset retirement obligations covered 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. The reserves for asset retirement obligations are based on analyses of University assets, review of applicable regulatory and other guidance, and management estimates.

Revenue Recognition

Revenues from tuition and fees are reported in the fiscal year in which they are earned, including prorata adjustments for educational programs crossing over fiscal years. Fiscal year 2016 fall-quarter tuition and fees, billed but not collected in fiscal year 2015, are reported as deferred revenue in fiscal year 2015. Similarly, fiscal year 2015 fall-quarter tuition and fees, billed but not collected in fiscal year 2014, are reported as deferred revenue in fiscal year 2014.

Revenues from auxiliary services, such as residence and food services, represent fees for goods and services furnished to University students, faculty, and staff; these revenues are recognized in the fiscal year in which the goods and services are provided. Grants and contracts revenue is recognized as expenses are incurred. 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 and also include 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; these revenues are recognized in the fiscal year in which they are earned. Other income includes revenues not otherwise categorized that are also recognized in the fiscal year in which they are earned.

Federal Grants and Contracts Revenue

The University receives funding or reimbursement from federal agencies. In addition, indirect cost recovery on federal grants and contracts is based on an institutional rate negotiated with its cognizant federal agency, the United States Department of Health and Human Services.

Income Taxes

The Internal Revenue Service has determined that the University is exempt from income taxes under Section 501(c)(3) of the US Internal Revenue Code, except with regard to unrelated business income, which is taxed at corporate income tax rates. The University files federal and various state and local tax returns. The statute of limitations on the University's federal tax returns remains open for fiscal years 2011 through 2015.

The University makes an assessment of individual tax positions and follows a process for recognition and measurement of uncertain tax positions. Tax positions are evaluated on whether they meet the "more likely than not" standard for sustainability on examination by tax authorities.

Uses of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP 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 consolidated financial statements; and the reported amounts of revenues and expenses during the relevant period. Actual results could differ from those estimates.

The University believes that the methods and assumptions used are appropriate.

Recent Accounting Pronouncements

In May 2015, the FASB issued Accounting Standards Update (ASU) 2015-07, "Fair Value Measurement: Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." Under this guidance, investments measured at NAV, as a practical expedient for fair value, are excluded from the fair value hierarchy. This is intended to reduce the diversity in practice that currently exists with respect to the categorization of these investments. Although effective for fiscal year 2017, early adoption is permitted. The University implemented in the current fiscal year and accordingly applied the new guidance retrospectively to fiscal year 2014. As a result, investments totaling $1.4 billion and $6.2 billion, categorized in fiscal year 2014 as Level 2 and Level 3, respectively, were recategorized as investments measured at NAV as Practical Expedient totaling $7.6 billion for fiscal year 2014. For further discussion, see note 4.

In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers," a new revenue recognition topic in the Codification. In August 2015, ASU 2015-14 was issued to defer the effective date of ASU 2014-09 for all entities for one year. Now effective in fiscal year 2019 for the University, it provides a principle-based framework to replace earlier industry-specific and rule-based revenue recognition standards. Under the new ASU, revenue is recognized at an amount that reflects consideration to which the entity expects to be entitled from another entity in exchange for contracted services or goods that are an output of its ordinary activities. This approach requires use of more judgments and estimates by management, as well as more disclosures to describe estimation methods, inputs, and assumptions used. The University is evaluating the impact of its implementation on policies, procedures, and the consolidated financial statements.

Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended August 31, 2014, from which the summarized information was derived.

Revisions and Reclassifications

In 2015, the University identified that cash flows from contributed securities were not correctly classified on the fiscal 2014 consolidated statements of cash flows. As a result, the University revised the 2014 consolidated statements of cash flows to reflect gifts of contributed securities ($48.5 million) in net cash provided by operations, and purchases of investments of ($1.8 billion) in net cash used in investing activities. The impact of this revision decreased net cash provided by operating activities by $48.5 million while decreasing net cash used in investing activities by the same amount. There was no effect on the consolidated statements of financial position or consolidated statement of activities. The University believes the impact of the misclassification is not material to the prior year consolidated financial statements.

Certain fiscal year 2014 accounts receivable totaling $37.3 million were reclassified from the category of other receivables to student receivables in note 2 to the consolidated financial statements.

2. Accounts Receivable and Notes Receivable

Accounts receivable are summarized on the consolidated statements of financial position as follows:

(in thousands of dollars)	*August 31, 2015*	*August 31, 2014*
Research and other sponsored programs support	$76,966	$77,050
Student receivables	121,654	124,197
Royalty receivables	23,000	21,373
Other receivables	61,909	44,867
Accounts receivable subtotal	**283,529**	**267,487**
Less allowances for student uncollectible amounts	(603)	(587)
Total accounts receivable	**$282,926**	**$266,900**

Notes receivable are summarized on the consolidated statements of financial position as follows:

(in thousands of dollars)	*August 31, 2015*	*August 31, 2014*
Notes receivable	$149,582	$151,913
Less allowances for student uncollectible amounts	(2,822)	(2,295)
Total notes receivable	**$146,760**	**$149,618**

Activity within the allowances was insignificant for fiscal years 2015 and 2014.

3. Contributions Receivable

Contributions receivable consisted of the following:

(in thousands of dollars)	*August 31, 2015*	*August 31, 2014*
Unconditional promises expected to be collected in		
Less than one year	$41,058	$40,375
One year to five years	78,200	59,509
More than five years	91,715	13,098
Less discount to present value and other reserves		
Discount to present value	(33,878)	(5,753)
Other reserves	(8,077)	(7,266)
Total contributions receivable	**$169,018**	**$99,963**

Contributions receivable are discounted based on the weighted average borrowing rates for short-term and long-term bonds, notes, and other debt payable to correspond to the terms of the pledges receivable. The discount rate for pledges made in fiscal years 2015 and 2014 was 3.5 percent and 2.7 percent, respectively; the discount rate for pledges made in prior fiscal years ranged from 2.7 to 6.5 percent. The University deems these yields to be a Level 3 input.

The next table summarizes the change in contributions receivable for the fiscal years ended August 31, 2015, and 2014.

(in thousands of dollars)	*2015*	*2014*
Balance—beginning of year	$99,963	$116,395
New pledges	158,672	58,448
Collections on pledges	(55,318)	(64,878)
Adjustments to pledges	(5,363)	(10,427)
Increase in discount to present value	(28,125)	(48)
(Increase) decrease in other reserves	(811)	473
Balance at end of year	**$169,018**	**$99,963**

4. Investments

The University's investments are overseen by the Investments Committee of the Board of Trustees. Guided by the policies established by the Investments 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.

Investment Fair Value

The following charts show the estimated fair value of investments and derivatives, grouped by the valuation hierarchy as defined in note 1, as of August 31, 2015, and 2014:

(in thousands of dollars)					*August 31, 2015*
	Quoted prices in active markets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**NAV as Practical Expedient (NAV)**	**Total fair value**
Cash and cash equivalents	$476,756	—	—	—	$476,756
US equity securities	537,839	$67,061	—	$696,404	1,301,304
International equity	309,097	26,469	$63	1,160,180	1,495,809
Fixed income	337,513	750,837	—	205,316	1,293,666
High-yield credit	—	—	—	337,109	337,109
Absolute return	(5,917)	298,749	—	1,773,810	2,066,642
Private investments	—	321	16,903	2,026,851	2,044,075
Real assets	67,427	2,595	101,502	1,248,323	1,419,847
Other investments	—	9,970	24,325	455	34,750
Interest-rate derivatives	—	(6,261)	—	—	(6,261)
Subtotal investment assets at fair value	**1,722,715**	**1,149,741**	**142,793**	**7,448,448**	**10,463,697**[a]
Interest-rate swaps	—	(27,004)	—	—	(27,004)
Total	**$1,722,715**	**$1,122,737**	**$142,793**	**$ 7,448,448**	**$10,436,693**

[a] *Investments held at cost totaling $34,067 thousands should be added to the subtotal investment assets at fair value to reflect total investment assets as of August 31, 2015.*

(in thousands of dollars)					August 31, 2014
	Quoted prices in active markets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**NAV as Practical Expedient (NAV)**	**Total fair value**
Cash and cash equivalents	$432,470	—	—	—	$432,470
US equity securities	482,070	$73,331	$71	$798,526	1,353,998
International equity	309,170	29,627	249	1,118,117	1,457,163
Fixed income	32,153	758,013	—	313,343	1,103,509
High-yield credit	—	—	—	367,962	367,962
Absolute return	(52)	75,881	—	1,651,559	1,727,388
Private investments	111	—	13,216	1,945,775	1,959,102
Real assets	50,010	2,041	94,343	1,410,939	1,557,333
Other investments	—	3,483	20,733	—	24,216
Interest-rate derivatives	—	(6,163)	—	—	(6,163)
Subtotal investment assets at fair value	**1,305,932**	**936,213**	**128,612**	**7,606,221**	**9,976,978**[a]
Interest-rate swaps	—	(25,452)	—	—	(25,452)
Total	**$1,305,932**	**$910,761**	**$128,612**	**$7,606,221**	**$9,951,526**

[a] *Investments held at cost totaling $35,183 thousands should be added to the subtotal investment assets at fair value to reflect total investment assets as of August 31, 2014.*

Investments included as NAV as Practical Expedient consist primarily of the University's ownership in external investments (principally limited partnership interests in long-only equity and credit, hedge, private equity, real estate, and other similar funds). As a practical expedient, when quoted market prices are not available, the estimated fair values of these investments are generally based on reported partners' capital or NAV provided by the associated external investment managers. In cases where the practical expedient threshold is not met, such as an investment not being in compliance with GAAP, or where a statement of partners' capital is not provided, the investment is recorded as Level 3. Since a range of possible values exists for these partnership investments, the estimated values may be materially different from the values that would have been used had a ready market for these partnerships existed. The University exercises diligence in assessing the policies, procedures, and controls of external investment managers; management's assessment includes a valuation review process of the most recent available audited and unaudited financial statements and discussions with the majority of external investment managers about the aggregate carrying value of the respective investments at August 31, 2015. The assessment may result in adjustment to the external managers' valuations of the securities' fair value if those valuations are not in accordance with GAAP. Management reviewed the valuation policies for all partnerships in which the University is invested and deemed that its policies are appropriate and that the carrying amount of these assets represents a reasonable estimate of fair value. A small number of investments within certain partnerships may have holdings at a carrying value of cost. In the absence of another basis, management has determined this method to be appropriate for these specific investments and representative of an approximation of the fair value.

The following tables summarize changes in the investments and derivatives classified by the University in Level 3 of the fair value hierarchy for the fiscal years ended August 31, 2015, and 2014:

(in thousands of dollars)	*August 31, 2014*						*August 31, 2015*
	Fair value	**Purchases**	**Sales and settlements**	**Unrealized gains (losses)**	**Realized gains (losses)**	**Transfers into and out of Level 3**	**Fair value**
US equity securities	$71					($71)	—
International equity	249		($131)	($17)	($38)		$63
Private investments	13,216	$2,958	(802)	1,884	(32)	(321)	16,903
Real assets	94,343	40,332	(5,986)	(28,430)	1,243		101,502
Other investments	20,733		(711)	4,303			24,325
Total investments	**$128,612**	**43,290**	**(7,630)**	**(22,260)**	**1,173**	**(392)**	**$142,793**

(in thousands of dollars)	*August 31, 2013*						*August 31, 2014*
	Fair value	**Purchases**	**Sales and settlements**	**Unrealized gains (losses)**	**Realized gains (losses)**	**Transfers into and out of Level 3**	**Fair value**
US equity securities	$71						$71
International equity	1,593	$308	($1,348)	($304)			249
Private investments	47,411	4,479	(5,312)	(33,317)	($45)		13,216
Real assets	76,394	7,609	(11,279)	21,283	336		94,343
Other investments	19,363	34	(323)	1,659			20,733
Interest-rate derivatives	2,301			(8,464)		$6,163	—
Total investments	**147,133**	**12,430**	**(18,262)**	**(19,143)**	**291**	**6,163**	**128,612**
Interest-rate swaps	(30,769)			5,317		25,452	—
Total	**$116,364**	**12,430**	**(18,262)**	**(13,826)**	**291**	**31,615**	**$128,612**

There were no significant transfers or reclassifications between Levels 1 and 2 during fiscal years 2015 and 2014. In fiscal year 2015, the transfers out of Level 3 consist primarily of investments reclassified from Level 3 to Level 2 based on observable discounted cash flow inputs. In fiscal year 2014, interest-rate derivatives and swaps were transferred from Level 3 to Level 2 based on observable inputs such as interest rates and contractual payment obligations.

As of August 31, 2015, and 2014, investments held at cost included real estate totaling $19.4 million. Investments held at cost also included property co-ownerships, mortgages, and other investments totaling $14.7 million and $15.8 million as of August 31, 2015, and 2014, respectively.

The next table presents funding obligations and redemption terms of investments by asset class. The University is required under certain partnership agreements to advance additional funding up to specified levels over a period of several years. These uncalled commitments have fixed expiration dates and other termination clauses. At August 31, 2015, the University was committed to making future capital contributions in the amount of $1,764 million, primarily in the next five years, as detailed below. Certain agreements also contain notice periods, lock-ups, and gates that limit the University's ability to initiate redemptions.

(in thousands of dollars)

	Fair value	Remaining life	Uncalled commitments	Redemption terms	Redemption restrictions
US equity securities	$1,301,304	No limit	—	Daily to annually, with 1–90-day notice periods	Lock-up provisions ranging from none to 1 year
International equity	1,495,809	No limit	$26,422	Daily to annually, with 1–90-day notice periods	Lock-up provisions ranging from none to 2 years
Fixed income	1,293,666	No limit	—	Daily to quarterly, with 1–90-day notice periods	No lock-up provisions
High-yield credit	337,109	No limit to 12 years	187,154	Certain partnerships ineligible for redemption; other funds quarterly to annually, with 90-day notice periods	Certain partnerships not redeemable; lock-up provisions on all other funds, ranging from none to 1 year with side pockets
Absolute return	2,066,642	No limit	—	Weekly to annually, with 5–120-day notice periods	Lock-up provisions ranging from none to 3 years; side pockets on many funds
Private investments	2,044,075	1–12 years	781,317	Partnerships ineligible for redemption	Not redeemable
Real assets	1,419,847	No limit to 14 years	769,064	Partnerships ineligible for redemption; commodity and equity funds are weekly to quarterly, with 1–45-day notice periods	Drawdown partnerships not redeemable; no restriction on commodity and equity funds

Cash and cash equivalents for investment purposes include bank accounts holding cash and money market funds consisting of short-term US Treasury securities. Cash and cash equivalents are highly liquid and are carried at amortized cost, which approximates fair value.

Northwestern's marketable securities categories include investments in US equities, international equity, and fixed income strategies via separately managed accounts, partnerships, and commingled funds. US equity strategies include large-, mid-, and small-cap public equities. One investment in this category currently may not be redeemed over the next year, while two others may only be partially redeemed. International equities include developed market (ex–US public equities) and emerging market strategies. Two investments in this category may not be redeemed over the next year, while three others may only be partially redeemed.

Fixed income strategies include US government securities, agency securities, inflation-linked bonds (TIPS), corporate bonds, global bonds, and short-term cash investments. As of August 31, 2015, one investment in this category may be only partially redeemed each year over the next four years.

The high-yield credit portfolio includes investments in distressed debt and other credit instruments with fixed income characteristics but more specific risk tied to the securities and their underlying cash flows.

The absolute return portfolio is weighted toward long-short equity managers, uncorrelated strategies, and diversifying event-driven or hedged tactical credit strategies. Four investments in this portfolio currently may not be redeemed in the next year due to lock-up provisions. As of August 31, 2015, the remaining investments have either full or partial liquidity over the next year, with the exception of those having side pockets.

The private investments portfolio includes investments in global buyout and venture capital funds. The real assets portfolio includes the University's investments in energy, timber, real estate, and public investments in some commodity and equity funds.

Management's estimate of the lives of the funds could vary significantly depending on the investment decisions of the external fund managers, changes in the University's portfolio, and other circumstances. Furthermore, the University's obligation to fund these commitments may be waived by the fund managers for a variety of reasons, including the market environment and/or changes in investment strategy.

Investment Return

The components of total investment return were as follows:

(in thousands of dollars)	*August 31, 2015*	*August 31, 2014*
Investment income	$46,696	$56,499
Net realized gains	518,214	441,347
Change in net unrealized (losses) gains	(365,151)	947,686
Total investment return	**$199,759**	**$1,445,532**

Investment return designated for 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. Gross investment income from specific investments held at cost totaled $18.6 million and $19 million at August 31, 2015, and 2014, respectively. Investment expenses related to specific investments held at cost totaled $2.4 million and $2.6 million at August 31, 2015, and 2014, respectively. All other investment returns are categorized as nonoperating. As reflected in the consolidated statement of activities, investment return was as follows:

(in thousands of dollars)	*August 31, 2015*	*August 31, 2014*
Changes in unrestricted net assets		
Operating: investment return	$334,562	$278,599
Nonoperating: investment returns, reduced by operating distribution	(214,941)	664,595
Changes in temporarily restricted net assets		
Operating: investment return	139,313	130,015
Nonoperating: investment returns, reduced by operating distribution	(59,175)	372,323
Total investment return	**$199,759**	**$1,445,532**

Certain expenses paid directly by the University for investment management and custody services totaled $59.6 million and $52 million for the fiscal years ended August 31, 2015, and 2014, respectively, and have been netted against investment earnings.

Derivative Financial Instruments

The University has entered into hedging transactions via various interest-rate swaps and options and has maintained those positions since fiscal year 2010. These instruments are held in the fixed income asset class in the summary of changes in investments within Level 2.

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. The University has entered into margin collateral agreements with major investment banks that impose a $1 million threshold on both parties. As of August 31, 2015, the University posted collateral of $7 million to one counterparty. To date, the University has not incurred any losses on derivative financial instruments due to counterparty nonperformance.

The University has hired an external manager to use derivative financial instruments to obtain market exposure in equity and fixed income indices on excess cash balances. 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 numerous independent asset managers of the University.

For further discussion of credit-related derivatives, see note 8.

The following tables summarize the derivative financial instruments held by the University as of August 31, 2015, and 2014:

(in thousands of dollars) — *August 31, 2015*

	Notational amount	Assets	Liabilities	Fiscal year net gain (loss)
Investment-related derivatives				
Interest-rate swaptions	$400,000	$7,000	($6,261)	($98)
Equity futures	78,337	9,878	—	(9,552)
Total investment-related	**478,337**	**16,878**	**(6,261)**	**(9,650)**
Credit-related derivatives				
Interest-rate swaps	125,000	—	(27,004)	(1,552)
Total credit-related	**125,000**	—	**(27,004)**	**(1,552)**
Total derivative financial instruments	**$603,337**	**$16,878**	**($33,265)**	**($11,202)**

(in thousands of dollars) — *August 31, 2014*

	Notational amount	Assets	Liabilities	Fiscal year net gain (loss)
Investment-related derivatives				
Interest-rate swaptions	$400,000	$6,040	($6,163)	($8,464)
Equity futures	224,000	12,579	—	31,200
Total investment-related	**624,000**	**18,619**	**(6,163)**	**22,736**
Credit-related derivatives				
Interest-rate swaps	125,000	—	(25,452)	5,317
Total credit-related	**125,000**	—	**(25,452)**	**5,317**
Total derivative financial instruments	**$749,000**	**$18,619**	**($31,615)**	**$28,053**

5. Land, Buildings, and Equipment

Land, buildings, and equipment consisted of the following:

(in thousands of dollars)	*August 31, 2015*	*August 31, 2014*
Land	$28,389	$28,389
Construction in progress	542,730	359,714
Buildings and leasehold improvements	2,393,140	2,321,606
Equipment	517,152	496,607
Accumulated depreciation	(1,437,964)	(1,346,465)
Total land, buildings, and equipment	**$2,043,447**	**$1,859,851**

The estimated cost to complete construction in progress at August 31, 2015, is $497.1 million. Costs included in construction in progress are building and leasehold improvement capitalizations. Building costs are funded by bonds, gifts (received or pledged), grants, and unrestricted funds.

Under the University's interest capitalization 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.

Asset Retirement Obligations

Asset retirement obligations were adjusted during fiscal years 2015 and 2014 as follows:

(in thousands of dollars)	*August 31, 2015*	*August 31, 2014*
Balance at beginning of year	$115,459	$132,057
Reduction in asset retirement obligations	(172)	(22,105)
Accretion expense	5,748	5,507
Balance at end of year	**$121,035**	**$115,459**

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 2030. Real estate lease expenses totaled $12.3 million at August 31, 2015. In fiscal year 2014, real estate lease expenses totaled $13.4 million at August 31. Sublease rentals totaled $3.1 million at August 31, 2015, and there were none in fiscal year 2014. There were no subleases that are non-cancelable for one year or more at August 31, 2015. The future minimum lease payments under noncancelable operating leases through August 31 of each period are shown at right.

(in thousands of dollars)	
2016	$11,785
2017	11,137
2018	11,175
2019	10,827
2020	10,394
2021 and thereafter	31,399
Total	**$86,717**

Rentals Under Leases

The University is entitled under numerous operating leases to receive rental payments. Operating leases consist primarily of leases for the use of real property and have terms expiring in various years through fiscal year 2021. The future minimum rental payments under noncancelable operating leases through August 31 of each period are shown at right.

(in thousands of dollars)	
2016	$1,877
2017	1,881
2018	1,924
2019	1,968
2020	536
2021	36
Total	**$8,222**

6. Other Assets

Other assets are summarized on the consolidated statements of financial position as follows:

(in thousands of dollars)	*August 31, 2015*	*August 31, 2014*
Prepaid bond expenses	$9,155	$9,860
Inventories	2,864	2,783
Other assets	6,712	9,013
Total other assets	**$18,731**	**$21,656**

7. Deposits Payable and Actuarial Liability of Annuities Payable

Deposits payable and actuarial liability of annuities payable are summarized on the consolidated statements of financial position as follows:

(in thousands of dollars)	*August 31, 2015*	*August 31, 2014*
Agency deposits payable	$83,666	$83,867
Actuarial liability of annuities payable	22,669	16,855
Student loan deposits payable	13,041	16,276
Other deposits payable	4,394	2,977
Total deposits payable and actuarial liability of annuities payable	**$123,770**	**$119,975**

8. Bonds, Notes, and Other Debt Payable

Bonds and notes payable are as follows:

(in thousands of dollars)	*August 31, 2015*	*August 31, 2014*
IFA–Series 2004	$135,800	$135,800
IFA–Series 2006	—	145,130
Plus unaccreted premium on IFA–Series 2006	—	4,398
IFA–Series 2008	125,000	125,000
Taxable–Series 2012	200,000	200,000
Taxable–Series 2013	582,195	586,000
Less unamortized loss on Taxable–Series 2013	(2,451)	—
Taxable Series 2015	500,000	—
Less unamortized loss on Taxable–Series 2015	(657)	—
IFA–Series 2015	128,545	—
Plus unaccreted premium on Tax–Exempt Series 2015	16,307	—
Bonds payable subtotal	**1,684,739**	**1,196,328**
Notes payable–commercial paper, taxable	180,000	140,000
Total bonds and notes payable	**$1,864,739**	**$1,336,328**

Debt issuance	**Interest-rate mode**	**Interest rate**	**Maturity**
IFA–Series 2004	Variable	.01%[a]	December 1, 2034
IFA–Series 2008	Variable	.01%[a]	December 1, 2046
Taxable–Series 2012	Fixed	4.2%	December 1, 2039, to December 1, 2047
Taxable–Series 2013	Fixed	4.48%[b]	December 1, 2015, to December 1, 2044
Taxable–Series 2015	Fixed	3.78%[b]	December 1, 2038, to December 1, 2048
IFA–Series 2015	Fixed	4.24%[b]	December 1, 2022, to December 1, 2028
Notes payable–commercial paper, taxable	Fixed	.18%[b]	September 3, 2015, to September 29, 2015

[a] *Interest rate reset weekly*
[b] *Weighted average interest rate at August 31, 2015*

Total obligations including bonds and notes payable at August 31, 2015, are scheduled to mature through August 31 of each period as noted below. The schedule has been prepared based on the contractual maturities of the debt outstanding at August 31, 2015. Accordingly, if remarketing of bonds fails in future periods, debt repayments may become more accelerated than presented here. The potential failed remarketings coincide with the interest rate reset dates and amounts noted above.

(in thousands of dollars)	
2016	$184,535
2017	4,715
2018	4,770
2019	4,935
2020	5,085
Thereafter	1,647,500
Total	**$1,851,540**

Bonds Payable

The IFA–Series 2015 Revenue Bonds were issued to acquire, construct, renovate, improve, and equip certain educational facilities of the University as defined in the Illinois Finance Authority Act and to pay certain expenses incurred in connection with the issuance of the bonds as permitted under the Illinois Finance Authority Act, subject to conditions set forth in a trust indenture between the Illinois Finance Authority and Wells Fargo Bank, National Association; and a loan agreement between Northwestern University and the Illinois Finance Authority.

The Taxable–Series 2015 Fixed Rate Bonds were issued to acquire, construct, renovate, and equip certain educational facilities of the University, to refund $145.1 million of the University's outstanding IFA–Series 2006 Revenue Bonds, and to pay certain expenses incurred in connection with the redemption and the issuance of the bonds, subject to conditions set forth in a trust indenture between the University and Wells Fargo Bank, National Association.

The Taxable–Series 2013 Fixed Rate Bonds were issued to acquire, construct, renovate, and equip certain educational facilities of the University, to refund $185 million of the University's outstanding IEFA–Series 2003 Fixed Rate Revenue Bonds, and to pay certain expenses incurred in connection with the redemption and issuance of the bonds, subject to conditions set forth in a trust indenture between the University and Wells Fargo Bank, National Association.

The Taxable–Series 2012 Fixed Rate Bonds were issued to acquire, construct, and equip certain educational facilities of the University and to pay certain costs relating to the issuance of the bonds, subject to conditions set forth in a trust indenture between the University and Wells Fargo Bank, National Association.

The IFA–Series 2008 Adjustable Rate Revenue Bonds were issued to acquire, construct, renovate, remodel, improve, and equip certain educational facilities of the University as defined in the Illinois Finance Authority Act and to pay certain expenses incurred in connection with the issuance of the bonds as permitted under the Illinois Finance Authority Act, subject to conditions set forth in a trust indenture between the Illinois Finance Authority and Wells Fargo Bank, National Association; and a loan agreement between Northwestern University and the Illinois Finance Authority. The bonds may operate in a daily, weekly, adjustable, or auction-rate mode.

The IFA–Series 2006 Revenue Bonds were issued to refund $145.1 million of the University's outstanding IEFA–Series 1997 Adjustable Medium-Term Revenue Bonds and to pay certain expenses incurred in connection with the issuance and advance refunding of the bonds, all as permitted under the Illinois Finance Authority Act and subject to conditions set forth in a trust indenture between the Illinois Finance Authority and Wells Fargo Bank, National Association; and a loan agreement between Northwestern University and the Illinois Finance Authority.

The IFA–Series 2004 Adjustable Rate Revenue Bonds were issued to acquire, construct, renovate, improve, and equip certain educational facilities of the University as defined in the Illinois Finance Authority Act and to pay certain expenses incurred in connection with the issuance of the bonds as permitted under the Illinois Finance Authority Act, subject to conditions set forth in a trust indenture between the Illinois Finance Authority and Wells Fargo Bank, National Association; and a loan agreement between Northwestern University and the Illinois Finance Authority. The bonds may operate in a daily, weekly, adjustable, or auction-rate mode.

Based on Level 2 observable inputs, at August 31, 2015, the fair value of the University's fixed-rate debt of $1,487.1 million exceeded the carrying value of $1,410.7 million by $76.4 million. At August 31, 2014, the fair value of the University's fixed-rate debt of $998.5 million exceeded the carrying value of $931.1 million by $67.4 million.

Derivative Financial Instruments

The University has entered into interest-rate swap agreements to hedge variable interest-rate exposure related to its variable-rate debt. The agreements effectively fix the interest rate from 4.12 percent to 4.38 percent. The notional value is $125 million through expiration on August 31, 2023.

The University recognized a net unrealized loss on the swap investment totaling $1.6 million for the fiscal year ended August 31, 2015, and a net unrealized gain of $5.3 million for the fiscal year ended August 31, 2014. Based on Level 2 observable inputs, the fair values of the swap position were in a liability position of $27 million and $25.5 million as of August 31, 2015, and 2014, respectively, and are included in accounts payable and accrued expenses on the consolidated statements of financial position. Also see note 4.

Notes Payable

The University places commercial paper under a $300 million Taxable Commercial Paper Note.

Other Debt Payable

At August 31, 2015, the University held or had the ability to draw $350 million in standby lines of credit to supplement working capital requirements as follows:

(in thousands of dollars)

Expiration date	Available credit
December 14, 2015[(a)]	$25,000
March 31, 2016	75,000
June 13, 2016	50,000
June 30, 2016	25,000
July 24, 2016	125,000
August 8, 2016	50,000
Total	**$350,000**

[(a)] *Renewed on December 11, 2015, through December 9, 2016*

9. Endowments

The FASB ASC Not-for-Profit Entities Presentation of Financial Statements Subtopic provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and improves disclosure about an organization's endowment funds, both donor-restricted and board-designated, regardless of whether the organization is subject to UPMIFA.

The University interprets UPMIFA as requiring that the fair value of the original donor-restricted endowment gift be preserved as of the gift date unless there are explicit donor stipulations to the contrary. Therefore, the University classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts, and accumulations to the permanent endowment made in accordance with the applicable donor gift instrument at the time the accumulation was added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until it is appropriated for University expenditure in a manner consistent with UPMIFA's standard of prudence. In accordance with UPMIFA, the University considers the following factors in determining to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund
- The purposes of the institution and of the endowment fund
- General economic conditions
- The possible effects of inflation or deflation
- The expected total return from income and appreciation of investments
- Other resources of the institution
- The institutional investment policy

The University's endowment consists of about 2,400 individual donor-restricted endowment funds and about 1,000 funds it designates to function as endowments. The net assets associated with endowment funds, including funds designated by the University to function as endowments, are classified and reported based on whether there are donor-imposed restrictions. Institution-designated endowment funds include quasi-endowments established by specific Board of Trustees approval as well as endowments created by management under general guidelines and policies approved by the Board of Trustees.

The following tables present the endowment net asset composition by type of fund at fair value as of August 31, 2015, and 2014:

(in thousands of dollars) *August 31, 2015*

Endowment net asset composition by type of fund	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	($487)	$2,333,376	$1,342,956	$3,675,845
Institution-designated endowment funds	3,912,184			3,912,184
Total endowment funds	**$3,911,697**	**$2,333,376**	**$1,342,956**	**$7,588,029**

(in thousands of dollars) *August 31, 2014*

Endowment net asset composition by type of fund	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	($55)	$2,397,857	$1,177,625	$3,575,427
Institution-designated endowment funds	3,925,689			3,925,689
Total endowment funds	**$3,925,634**	**$2,397,857**	**$1,177,625**	**$7,501,116**

Investment and Spending Policies

The University's endowment is primarily invested in the Long-Term Balanced Pool, which is managed with the objective of long-term total return. The Investments Committee of the Board of Trustees annually reviews asset allocation policy for the pool.

The principal objective for the 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.

The Board of Trustees has adopted a guideline for the annual spending rate from the University's 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 4.35 percent of the market value of a unit in the pool, averaged for the 12 months ended 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 investment income received is not sufficient to support the total-return objective, the balance is provided from realized and unrealized gains. If the 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.

Changes in Endowment Net Assets

The following tables represent the changes in endowment net assets for the years ended August 31, 2015, and 2014:

(in thousands of dollars) *August 31, 2015*

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$3,925,634	$2,397,857	$1,177,625	$7,501,116
Net investment loss	(6,706)	(6,687)		(13,393)
Net appreciation, realized and unrealized	85,039	85,664		170,703
Total investment return	78,333	78,977	—	157,310
Contributions		831	153,777	154,608
Appropriation of endowment assets for expenditure	(147,932)	(139,562)	—	(287,494)
Other changes				
Transfers to create institutional funds	106,937	—	—	106,937
Transfers of institutional funds per donor requirement		(66)	7,720	7,654
Spending of institution-designated endowment fund	(52,102)	—	—	(52,102)
Other reclassifications	827	(4,661)	3,834	—
Endowment net assets, end of year	**$3,911,697**	**$2,333,376**	**$1,342,956**	**$7,588,029**

(in thousands of dollars) *August 31, 2014*

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$3,148,299	$2,026,346	$1,108,485	$6,283,130
Net investment loss	(23,592)	(20,762)		(44,354)
Net appreciation, realized and unrealized	597,411	522,060		1,119,471
Total investment return	573,819	501,298	—	1,075,117
Contributions		374	56,494	56,868
Appropriation of endowment assets for expenditure	(138,509)	(130,141)	—	(268,650)
Other changes				
Transfers to create institutional funds	447,285	—	—	447,285
Transfers of institutional funds per donor requirement		340	12,343	12,683
Spending of institution-designated endowment fund	(105,317)	—	—	(105,317)
Other reclassifications	57	(360)	303	—
Endowment net assets, end of year	**$3,925,634**	**$2,397,857**	**$1,177,625**	**$7,501,116**

Underwater Endowment Funds

The University monitors endowment funds to identify those for which historical cost was more than fair value. As of August 31, 2015, and 2014, the historical cost of such accounts was approximately $39.6 million and $1 million, and the market value totaled $39.1 million and $960,000, respectively. Associated unrealized losses are recorded in the unrestricted net assets classification; subsequent gains increase unrestricted net assets.

10. Retirement Plans

The University maintains two contributory retirement plans for its eligible faculty and staff. The plans offer employees 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 $66.9 million and $64.2 million to the two plans in 2015 and 2014, respectively. It expects to contribute $70.2 million to the two plans in 2016.

The University currently sponsors a healthcare plan permitting retirees to continue participation on a "pay-all" basis; it has no liability for participants past age 65. 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 $13 million and $13.4 million at August 31, 2015, and 2014, respectively, and is included in accounts payable and accrued expenses on the consolidated statements of financial position.

The University recognizes an asset or a liability in the consolidated statements of financial position for the plans' overfunded or underfunded status. The asset or liability is the difference between the fair value of plan assets and the related benefit obligation, defined as the projected benefit obligation for postemployment benefit programs and the accumulated postretirement benefit obligation (APBO) for postretirement benefit programs, such as a retiree healthcare plan. In the consolidated statement of activities, the University recognizes actuarial gains or losses and prior service costs or credits that arise during the period but are not components of net periodic benefit cost. The University measures plan assets and obligations as of the date of its fiscal year-end and makes specified disclosures for the upcoming fiscal year.

The University funds the benefit costs as they are incurred. The following table sets forth the plan's obligations, benefits paid, contributions, net periodic postretirement benefit cost, and assets:

(in thousands of dollars)	*August 31, 2015*	*August 31, 2014*
Benefit obligations	$12,567	$16,702
Benefits paid	1,219	823
Employer contributions	654	228
Contributions from participants	565	595
Net periodic postretirement benefit cost	1,702	1,462
Fair value of plan assets	—	—

The accumulated other comprehensive income included in unrestricted net assets on the consolidated statements of financial position totaled net gains of $2.8 million and net losses of $2.4 million as of August 31, 2015, and 2014, respectively; an increase of $5.2 million due to net gains during the fiscal year.

The APBO was $12.6 million and $16.7 million at August 31, 2015, and 2014, respectively, and is included in accounts payable and accrued expenses on the consolidated statements of financial position.

The following tables present key actuarial assumptions used in determining APBO as of August 31, 2015, and 2014. For both fiscal years 2015 and 2014, the ultimate healthcare cost trend rate was 5 percent, and the year when the trend rate will reach the ultimate trend rate was 2023.

Additional assumptions used to determine benefit obligations were as follows:

	August 31, 2015	*August 31, 2014*
Settlement (discount) rate	3.9%	3.6%
Weighted average rate of increase in future compensation levels	3%	3%
Healthcare cost trend rate	7%	7.25%

Next, the assumptions used to determine net periodic benefit cost:

	August 31, 2015	*August 31, 2014*
Discount rate	3.6%	4.3%
Weighted average rate of increase in future compensation levels	3%	3%
Healthcare cost trend rate	7.25%	7.5%

A one-percentage-point change in assumed healthcare cost trend rates would have had these effects in fiscal year 2015:

(in thousands of dollars)	*1% point decrease*	*1% point increase*
(Decrease) increase in total of service and interest cost	($102)	$118
(Decrease) increase in postretirement benefit obligation	(519)	583

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

(in thousands of dollars)	
2016	$512
2017	492
2018	543
2019	617
2020	737
2021–25	4,724
Total	**$7,625**

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 $56.4 million and $53.6 million in fiscal years 2015 and 2014, respectively; these are included in investments and deposits payable and actuarial liability of annuities payable on the consolidated statements of financial position.

11. Related Parties

Members of the University's Board of Trustees, senior management, and faculty may on occasion be associated either directly or indirectly with entities doing business with the University. The University bylaws and conflict of interest policies establish guidelines for disclosure and regulation of such activities as circumstances warrant. When such associations exist, measures are taken, in the best interests of the University, to mitigate any actual or perceived conflict. Transactions with related parties may include investment management, common membership in investment partnerships or other investment vehicles, and the purchase of goods or services.

Northwestern Medical Group (NMG) is a not-for-profit, 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 (Feinberg). NMG is governed by a board of directors, and its physicians are full-time faculty members or researchers at Feinberg. It is a wholly owned subsidiary of Northwestern Memorial Healthcare Corporation (NMHC), the not-for-profit parent corporation of Northwestern Memorial Hospital (NMH), which is the primary teaching hospital of Feinberg. As such, NMHC and NMG are related parties of the University. Under terms of agreements effective in fiscal 2014 between the University, NMG, and NMHC, the University received one-time payments in 2014 and continues to receive recurring contributions from NMHC to support the Feinberg research and education programs, basic and applied biomedical research facilities and programs, and research and educational support services.

As of August 31, 2015, accounts receivable arising from operational activities with NMHC totaled $7.6 million and are included in accounts receivable on the consolidated statements of financial position. For the year ended August 31, 2015, contributions totaling $137.5 million have been made from NMHC to the University and are included in private gifts on the consolidated statement of activities.

As of August 31, 2014, accounts receivable and accounts payable arising from operational activities with NMHC totaled $11.3 million and $6.4 million, respectively, and are included in accounts receivable and in accounts payable and accrued expenses, respectively, on the consolidated statements of financial position. Through August 31, 2014, one-time contributions totaled $289.1 million, and other contributions totaled $125.6 million from NMHC to the University; these are included in private gifts on the consolidated statement of activities.

12. Self-Insurance Reserves and Other Contingencies

Reserves for losses under the University's self-insurance program, aggregating $5.8 million and $5.6 million at August 31, 2015, and 2014, respectively, include reserves for probable known losses and for losses incurred but not yet reported. A portion of the reserves pertaining to professional, general, and automobile liability has been determined on a discounted present-value basis. The discount rate was 7.5 percent in fiscal years 2015 and 2014. 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. These reserves are included in accounts payable and accrued expenses on the consolidated statements of financial position.

Under an agreement in effect through fiscal year 2013 between the University and NMG, a proportionate share of primary medical professional liability costs that arise out of events prior to November 1, 2004, was borne by NMG. As a part of the clinical integration agreement between NMG, NMHC, and the University, signed September 1, 2013, any remaining liabilities related to the period prior to November 1, 2004, are the obligations of the University and included in the reserves, beginning in fiscal 2014, for losses noted above.

In August 2009, the University, as originating lender, began participation in a student loan securitization program. It sold student loans to a school trust totaling $65 million in 2009, $19.8 million in 2010, and $22.5 million in 2012; the University issued University-guaranteed notes, which were purchased by a funding trust that procures financing to support the lending program. The programs are managed to break even and generate no servicing assets or liabilities. Guaranteed notes under these programs totaled $39.3 million and $50.7 million as of August 31, 2015, and 2014, respectively. These loans are included in notes receivable and deposits payable on the consolidated statements of financial position. Reserves in anticipation of securitized student loan future defaults totaled $122,000 and $157,000 at August 31, 2015, and 2014, respectively. Notes receivable on the consolidated statements of financial position are shown net of these reserves in fiscal years 2015 and 2014.

In October 2013, the University purchased a $61 million portfolio of private education loans from a lending agency; these loans were previously purchased by the lending agency from the University prior to 2009 and were serviced by the University. As of August 31, 2015, and 2014, respectively, these loans totaled $41.6 million and $54.7 million, and are included in notes receivable on the consolidated statements of financial position. The University continues to service the repurchased loans. Service revenues were the excess of the actual interest collected above the agreed-upon warehouse fees on the serviced loans. The University managed the program to break even and generated no servicing assets or liabilities through these activities in fiscal year 2014. At August 31, 2015, and 2014, $129,000 and $170,000, respectively, were reserved in anticipation of future defaults. Notes receivable on the consolidated statements of financial position are shown net of these reserves in fiscal years 2015 and 2014.

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.

13. Grants and Contracts

Grants and contracts are summarized on the consolidated statement of activities as follows:

(in thousands of dollars)	*August 31, 2015*	*August 31, 2014*
Federal grants	$408,533	$401,885
Private grants and contracts	154,017	134,600
State grants	3,039	9,680
Total grants and contracts	**$565,589**	**$546,165**

14. Functional Classification of Expenses

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

Operating expenses incurred in the fiscal years ended August 31, 2015, and 2014, were as follows:

(in thousands of dollars) *August 31, 2015*

	Maintenance of facilities	Depreciation and accretion	Interest on indebtedness	All other operating expenses	Total
Instruction	$24,956	$17,530	$5,518	$714,441	$762,445
Research	42,981	30,193	9,505	347,691	430,370
Academic support	33,348	23,426	7,375	214,213	278,362
Student services	21,587	15,164	4,774	150,399	191,924
Institutional support	6,804	4,780	1,505	255,326	268,415
Auxiliary services	38,063	26,738	8,417	28,599	101,817
Total	**$167,739**	**$117,831**	**$37,094**	**$1,710,669**	**$2,033,333**

(in thousands of dollars) *August 31, 2014*

	Maintenance of facilities	Depreciation and accretion	Interest on indebtedness	All other operating expenses	Total
Instruction	$26,765	$16,855	$5,821	$668,990	$718,431
Research	47,806	30,108	10,398	341,589	429,901
Academic support	35,170	22,149	7,650	198,581	263,550
Student services	24,041	15,140	5,229	139,072	183,482
Institutional support	8,493	5,348	1,847	248,721	264,409
Auxiliary services	43,946	27,676	9,559	32,074	113,255
Total	**$186,221**	**$117,276**	**$40,504**	**$1,629,027**	**$1,973,028**

15. Subsequent Event

The University has evaluated subsequent events in accordance with the FASB ASC Subsequent Event Topic through January 22, 2016, the date when financial statements were available to be issued. The following event was identified:

On December 18, 2015, the University executed a development and purchase agreement with the Ann & Robert Lurie Children's Hospital of Chicago (LCH). Upon substantial completion of construction of the new biomedical research building under development by Northwestern, LCH will purchase and own title to four laboratory floors in exchange for $160 million. Terms of the agreement include other provisions regarding building construction, management, usage, leasing, and repurchase rights. The building is expected to be completed no later than 2019.

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