# 2020 FINANCIAL REPORT

Northwestern

# Report of the Senior Vice President for Business and Finance

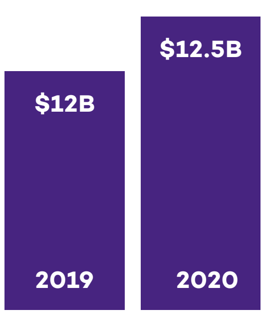
Midway through fiscal year 2020, the onset of a global pandemic and a disrupted economy required Northwestern to adapt swiftly to new realities whose durations were, and continue to be, difficult to ascertain.

Within weeks, we transformed our University into a largely remote learning, teaching, and working environment, in a display of remarkable ingenuity by our community. We then successfully brought many functions back to campus over the summer, as well as a portion of our students in the fall, through the hard work of faculty and staff with an unrelenting focus on health and safety.

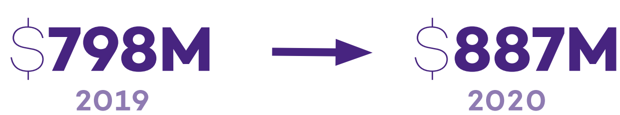
Through these short-term emergencies, we continued to strive for positive operating performance and wise stewardship of University assets over the long term. Fiscal year 2020 saw net assets increase by over $400 million to $12.5 billion, driven by the ongoing strength of an $11.1 billion endowment and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

Northwestern continued to be ranked among the country's top-ten research universities, in a testament to our enduring commitment to excellence and access. Research awards grew 11 percent over the prior year to a record $887 million in support of pioneering innovation. We also again welcomed an incoming undergraduate class with more than 20 percent of students eligible for Pell Grants and funded $207 million in undergraduate financial aid, including $1.3 million in emergency aid to support travel and technology costs during the transition to remote learning. And in a year in which longstanding issues of social and racial justice came to the fore nationally,

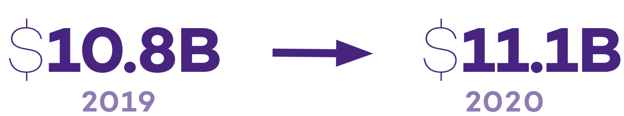
## FINANCIAL HIGHLIGHTS




Net assets




Research funding increase




Endowment increase

Northwestern unveiled a range of initiatives to achieve greater diversity, inclusion, and equity on our campuses and in our larger communities.

However, our successes did not come without significant sacrifice by our faculty and staff. Together with financial stewards across the University, we evaluated the pandemic's potential impact on nearly every revenue source for the University, and then quickly implemented cost-containment measures to mitigate financial risks. Actions included hiring and spending freezes, a pause in retirement contributions, and the voluntary and involuntary reduction of staff positions. We did not take these actions lightly, nor do we intend to balance future budgets with the same unsustainable strategies.

Despite our performance in fiscal year 2020, much remains uncertain about the pandemic. We expect to continue feeling its impact on our operations and financial outlook in fiscal year 2021, and therefore sustained vigilance will be necessary to achieve balanced operations next year as planned.

Everyone at Northwestern has demonstrated extraordinary resiliency this year. Our faculty, staff, students, alumni, trustees, and friends have all risen to meet this global challenge, and I am more grateful than ever to serve alongside you. It is because of all our efforts now that our great University will emerge ever stronger. Thank you for all you do to ensure that Northwestern can fulfill its ambitious mission for generations to come.

Craig Johnson
Senior Vice President for Business and Finance

## EXCELLENCE

| | |
|---|---|
| #9 | NATIONAL UNIVERSITY |
| #3 | BUSINESS SCHOOL |
| #9 | LAW SCHOOL |
| #18 | MEDICAL SCHOOL |
| #24 | GLOBAL UNIVERSITY |

Rankings from *U.S. News & World Report* (except global ranking from *Times Higher Education*) as of September 2020

**2019–20**
Big Ten women's basketball champions

**26%**
increase in master's degree matriculants

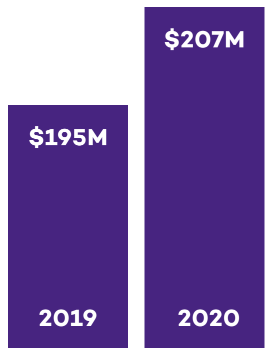
**9%**
Undergraduate acceptance rate

## DIVERSITY AND EQUITY

**20%**
of the Class of 2024
receive Pell Grants

**64%**
of undergraduates
receive financial aid

Northwestern meets
**100%**
of students' demonstrated need




Undergraduate
aid disbursed

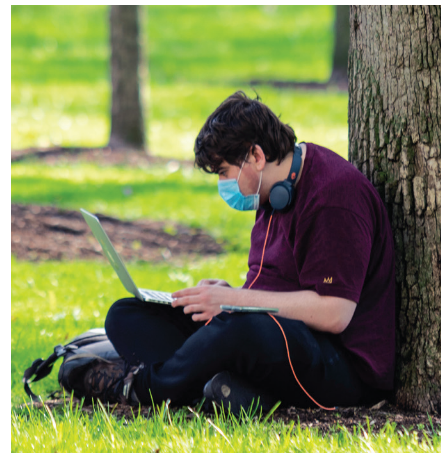
## RESEARCH

**$483.6M**
National Institutes of
Health funding

**#15**
in total NIH awards
among AAU universities

**$34M**
in COVID-19-related
research awards

## COVID-19 RESPONSE



**$1.33M**
in emergency grants
for undergraduates

**1,868**
students received COVID-19
emergency aid

**$200,000+**
in emergency financial
support for Pritzker School
of Law students

**1.3M+**
unique page views
of the COVID-19 website
(through August 2020)

By attending virtually,
**460%**
more first-year graduate students
took part in the Research Resources
Forum in 2020 than in 2019

# Investment Report

For the fiscal year ended August 31, 2020, the University's endowment posted a gain of 7.1 percent. The gain was achieved in a volatile environment for markets, with double-digit positive returns for global equities (MSCI ACWI Index 16.5 percent) in the period. The fiscal year included a sharp sell-off in the first quarter of 2020 due to the global pandemic, followed by a strong unprecedented recovery through the fiscal year end. This highlights the importance of the endowment's diversification across asset classes. Strong returns in equities, private equity, and venture capital drove the positive results in the period, while real assets detracted due to a challenging environment for natural resources.

The market value of the Long-Term Balanced Pool was $11.1 billion at fiscal year end, an increase from $10.8 billion at August 31, 2019. Investment gains of $816 million and other inflows exceeded spending and administrative support of $562 million. On August 31, 2020, the University's investment assets—including the Long-Term Balanced Pool, cash and separately invested University holdings—totaled $11.5 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. Due to its size and long-term orientation, the Long-Term Balanced Pool is the subject of the performance data and investment strategy information in the discussion that follows.

*Treasury funds* are money market funds used for cash reserves and to preserve principal and maintain liquidity; intermediate-term bond and bond-like investments with a one- to two-year horizon, for funding planned capital expenditures; 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 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, 2020 | *2016* | *2017* | *2018* | *2019* | *2020* |
|---|---|---|---|---|---|
| **Long-Term Balanced Pool** | | | | | |
| Net asset value *(in thousands of dollars)* | $9,803,725 | $10,456,022 | $11,014,417 | $10,800,749 | $11,131,111 |
| Number of units *(in thousands)* | 42,577 | 43,212 | 43,702 | 44,089 | 44,825 |
| Net asset value per unit | $230.26 | $241.97 | $252.03 | $244.97 | $248.32 |
| *Payout amount per unit* | | | | | |
| Current earned income | ($1.13) | ($1.07) | ($1.30) | ($1.54) | ($1.98) |
| Previously reinvested realized gains withdrawn | $10.84 | $11.08 | $11.45 | $11.98 | $12.86 |
| *Total payout per unit* | $9.71 | $10.01 | $10.15 | $10.44 | $10.88 |
| | | | | | |
| **Summary of net asset value** *(in thousands of dollars)* | | | | | |
| Treasury pool funds | $452,866 | $174,503 | $192,449 | $199,405 | $202,114 |
| Separately invested funds | $138,118 | $155,403 | $146,043 | $143,814 | $139,156 |
| | | | | | |
| **Total net asset value** *(in thousands of dollars)* | **$10,394,709** | **$10,785,928** | **$11,352,909** | **$11,143,968** | **$11,472,382** |

## Long-Term Balanced Pool Spending Guideline

To sustain the Long-Term Balanced Pool's long-term earnings 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 2020 was 4.3 percent. The amount per unit for fiscal year 2021 is $11.05.

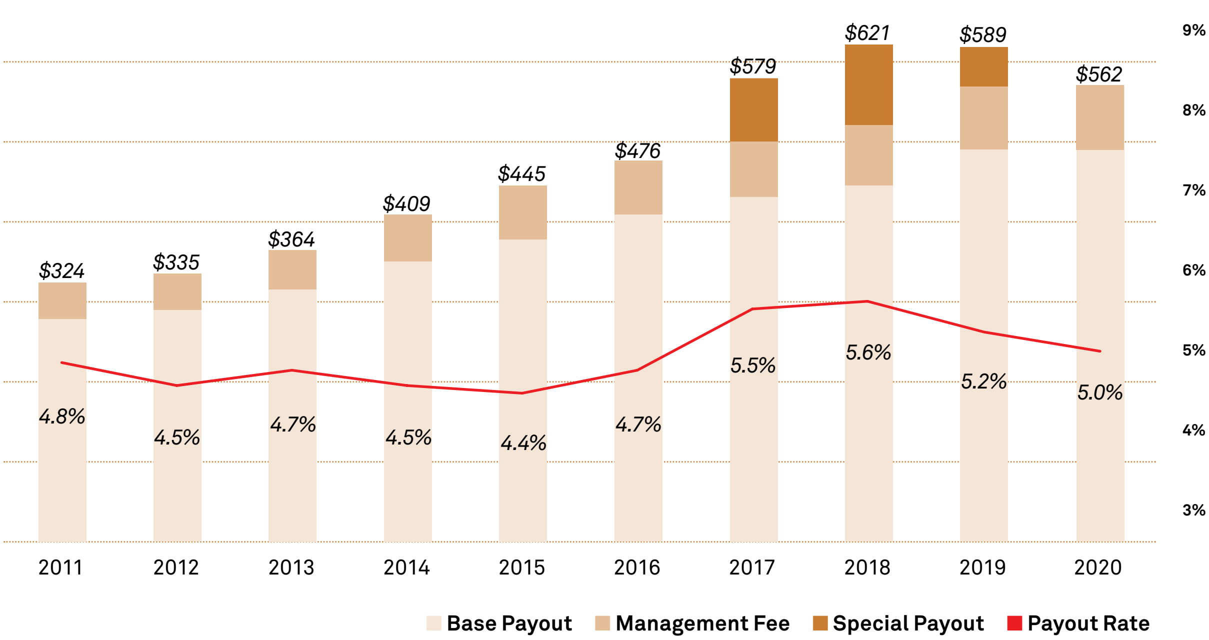
**Payout Determined by Spending Guideline, Fiscal Years 2016–20**

| | *2016* | *2017* | *2018* | *2019* | *2020* |
|---|---|---|---|---|---|
| Spending per unit | $9.71 | $10.01 | $10.15 | $10.44 | $10.88 |
| Net asset value per unit | $230.26 | $241.97 | $252.03 | $244.97 | $248.32 |
| Annual spending rate* | 4.07% | 4.85% | 4.92% | 4.55% | 4.32% |
| Total *(in millions)* | $409.44 | $505.52 | $541.38 | $508.75 | $485.41 |
| Growth in total spending | 8.11% | 23.47% | 7.90% | -6.03% | -4.59% |

** 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. Strategic investment payouts for fiscal years 2019, 2018, and 2017 are included.*

Annual spending, which is calculated according to the endowment spending guideline, decreased the past two fiscal years, as the strategic investment payouts have decreased.

**Growth in Annual Payout, Fiscal Years 2011–20** *(in millions)*




** Total payout as a percentage of endowment includes payout, management fee, and strategic investment payout as a percentage of prior two-year average endowment net asset value per unit.*

## Asset Allocation for the Long-Term Balanced Pool

The Investment Committee of the University annually reviews the asset allocation policy for the Long-Term Balanced Pool. At the beginning of fiscal year 2020, the committee ratified the Investment Office's recommendation of a 2 percent increase to the private investments target. This increase was offset by a 1 percent decrease to both the US equity and real assets targets. Subjective considerations such as liquidity and inflation/deflation protection were also part of the analysis.

The following table 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, except for private investments; the 4.2 percent overweight to private investments was primarily due to both strong performance and the fact that many of the University's venture capital managers are holding portfolio companies for longer periods before seeking liquidity. The Investment Office will review the asset allocation mix in fiscal year 2021 and recommend changes to existing targets and ranges to address the variance.

**Policy Portfolio Targets and Ranges**

| | *Range* | *Target* | *August 31, 2020* | *Difference* |
|---|---|---|---|---|
| US equity | 9–15% | 12% | 13.7% | 1.7% |
| International equity | 14–20% | 17% | 17.1% | 0.1% |
| Fixed income | 5–11% | 8% | 7.4% | -0.6% |
| High-yield credit | 0–10% | 5% | 2.2% | -2.8% |
| Absolute return | 15–23% | 19% | 17.0% | -2.0% |
| Private investments | 20–28% | 24% | 28.2% | 4.2% |
| Real assets | 11–19% | 15% | 14.1% | -0.9% |
| Cash | | 0% | 0.3% | 0.3% |

## Long-Term Balanced Pool Investment Performance: Preserving Purchasing Power and Growing Income

The long-term compounding of investment gains, generous gifts from donors, and other inflows have enabled the Long-Term Balanced Pool to deliver rising levels of financial support to Northwestern—while also growing in value to provide for future generations of scholars. The principal objective for Northwestern's Long-Term Balanced Pool is to preserve purchasing power and 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. The objective of preserving purchasing power emphasizes the need for a long-term perspective in formulating both spending and investment policies.

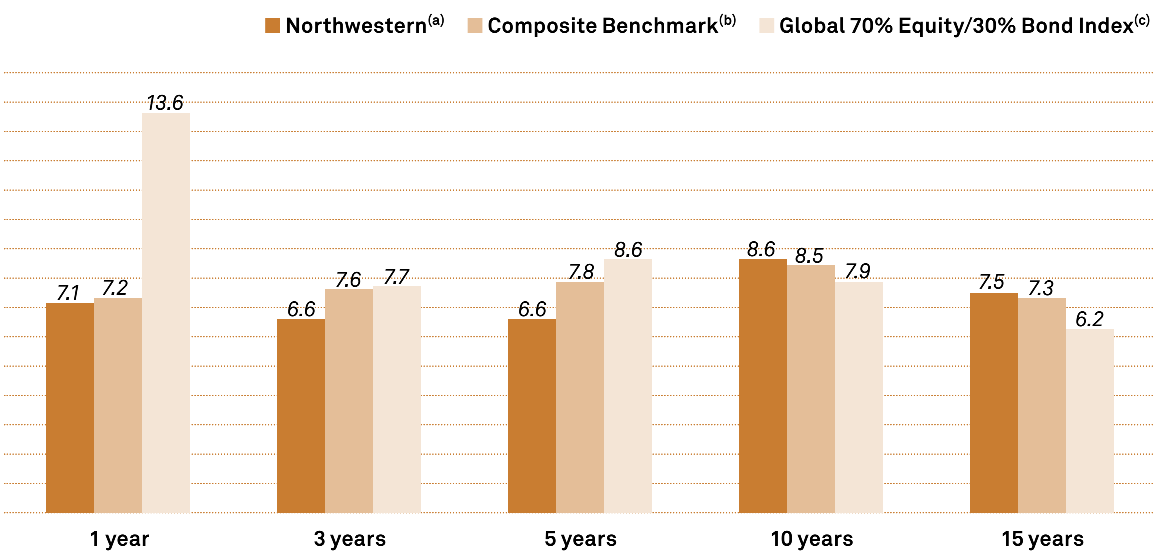
Historically, the University's investments have grown at a rate exceeding the objective, as shown in the next table. For the 12 months ended August 31, 2020, the portfolio increased 7.1 percent, outperforming the objective by 0.8 percent. For the 10- and 15-year periods, the portfolio outperformed the objective by 1.8 percent and 0.8 percent, respectively. For the 3- and 5-year periods, the pool underperformed by 0.6 percent and 0.4 percent, respectively, as spending plus the management fee grew to higher than average levels of 5.3 percent and 5.2 percent, respectively, on an annualized basis.

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

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

The Long-Term Balanced Pool's investment performance relative to selected benchmarks for the fiscal year and over multi-year periods is shown in the chart below. The endowment's long-term results reflect the portfolio's ability to perform across a range of market conditions. The strategy is premised on diversification and the University's partnership with skilled money managers to meet investment objectives over long time horizons.

**Long-Term Balanced Pool: Annualized Net Performance Relative to Selected Benchmarks** *(in percentages)*




[a] *Northwestern's returns are net of investment manager fees.*
[b] *An internal benchmark consisting of market indices weighted by the target policy portfolio*
[c] *A stock/bond mix representing MSCI All Country World Investable Index and Barclays Capital Global Aggregate Bond Index*

Craig Johnson
Senior Vice President for Business and Finance

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Chicago, IL 60601-6436

# Independent Auditors' Report

The Board of Trustees
Northwestern University:

We have audited the accompanying consolidated financial statements of Northwestern University (the University), which comprise the consolidated statements of financial position as of August 31, 2020 and 2019, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; 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 these 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 the auditors' 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, the auditor considers internal control relevant to the entity'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 entity'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 as of August 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Chicago, Illinois
December 18, 2020

# Consolidated Statements of Financial Position

*As of August 31, 2020 and 2019*

| *(in thousands of dollars)* | *2020* | *2019* |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $381,442 | $155,469 |
| Accounts receivable, *net* | 210,085 | 199,535 |
| Contributions receivable, *net* | 277,871 | 293,705 |
| Notes receivable, *net* | 146,657 | 143,976 |
| Investments | 11,576,232 | 11,079,424 |
| Land, buildings, and equipment, *net* | 3,258,694 | 3,320,363 |
| Other assets | 4,702 | 11,703 |
| **Total assets** | **15,855,683** | **15,204,175** |
| | | |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | 214,582 | 206,020 |
| Deferred revenue | 137,757 | 231,456 |
| Deposits payable and actuarial liability of annuities payable | 200,602 | 168,564 |
| Government advances for student loans | 9,125 | 19,064 |
| Bonds, notes, and other debt payable, *net* | 2,832,036 | 2,551,564 |
| **Total liabilities** | **3,394,102** | **3,176,668** |
| | | |
| **Net assets** | | |
| Without donor restrictions | 7,782,322 | 7,470,942 |
| With donor restrictions | 4,679,259 | 4,556,565 |
| **Total net assets** | **12,461,581** | **12,027,507** |
| | | |
| **Total liabilities and net assets** | **$15,855,683** | **$15,204,175** |

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

# Consolidated Statements of Activities

*For the fiscal years ended August 31, 2020 and 2019*

| *(in thousands of dollars)* | *2020* | *2019* |
|---|---|---|
| **Net assets without donor restrictions** | | |
| **Operating revenues** | | |
| Tuition and fees *(net of aid, $512,945 in 2020 and $472,537 in 2019 )* | $661,099 | $651,678 |
| Auxiliary services | 69,658 | 92,131 |
| Grants and contracts | 719,122 | 696,552 |
| Private gifts | 233,671 | 236,308 |
| Investment return designated for operations | 402,815 | 446,447 |
| Sales and services | 195,736 | 215,629 |
| Professional fees | 45,969 | 41,795 |
| Net assets released from restrictions | 214,713 | 199,383 |
| **Total operating revenues** | **2,542,783** | **2,579,923** |
| | | |
| **Operating expenses** | | |
| Salaries, wages, and benefits | 1,455,808 | 1,439,159 |
| Services, supplies, maintenance, and other | 728,002 | 820,166 |
| Depreciation | 181,647 | 165,142 |
| Interest on indebtedness | 93,894 | 86,724 |
| **Total operating expenses** | **2,459,351** | **2,511,191** |
| **Excess of operating revenues over expenses** | **$83,432** | **$68,732** |

*Consolidated Statements of Activities continued on next page.*
*See Notes to the Consolidated Financial Statements, beginning on page 14.*

# Consolidated Statements of Activities (continued)

*For the fiscal years ended August 31, 2020 and 2019*

| *(in thousands of dollars)* | *2020* | *2019* |
|---|---|---|
| **Nonoperating revenues and expenses** | | |
| Private gifts and grants for buildings and equipment | $40 | $4,430 |
| Investment return, reduced by operating distribution | 238,794 | (263,655) |
| Change in value of derivative instruments | (465) | (3,072) |
| Other (expenses) revenues, *net* | (10,421) | 9,794 |
| **Excess (deficit) of nonoperating revenues over expenses** | **227,948** | **(252,503)** |
| **Change in net assets without donor restrictions** | **311,380** | **(183,771)** |

## Net assets with donor restrictions

| | | |
|---|---|---|
| Private gifts and grants for buildings and equipment | — | 1,800 |
| Restricted private gifts | 94,570 | 82,535 |
| Net gain (loss) on annuity obligation | 2,112 | (2,993) |
| Investment return | 240,725 | 85,435 |
| Net assets released from restrictions | (214,713) | (199,383) |
| **Change in net assets with donor restrictions** | **122,694** | **(32,606)** |
| | | |
| **Change in total net assets** | **434,074** | **(216,377)** |
| **Beginning net assets** | **12,027,507** | **12,243,884** |
| **Ending net assets** | **$12,461,581** | **$12,027,507** |

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

# Consolidated Statements of Cash Flows

*For the fiscal years ended August 31, 2020 and 2019*

| *(in thousands of dollars)* | *2020* | *2019* |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net assets | $434,074 | ($216,377) |
| **Adjustments to reconcile change in net assets to net cash used in operating activities** | | |
| Depreciation | 181,647 | 165,142 |
| Losses on disposals, retirements, and sales of buildings and equipment, *net* | 2,133 | 11,411 |
| Amortization (accretion) of issuance costs, premiums, and discounts, *net* | 33 | (637) |
| Change in allowance for student accounts receivable | (452) | — |
| Change in allowance for student loans receivable and bad debt expense | 3,320 | 11,107 |
| Realized and unrealized gains on investments, *net* | (866,020) | (233,130) |
| Gifts of contributed securities | (20,352) | (21,836) |
| Proceeds from sale of unrestricted contributed securities | 11,006 | 16,421 |
| Change in value of derivative instruments | 465 | 3,072 |
| Restricted contributions received for long-term investment and capital projects | (82,093) | (41,601) |
| *Changes in assets and liabilities* | | |
| Accounts receivable | (9,787) | 74,431 |
| Contributions receivable | 18,015 | 6,224 |
| Other assets | 7,001 | 348 |
| Accounts payable and accrued liabilities | 29,795 | 18,565 |
| Deposits payable and actuarial liability of annuities payable | 18,021 | 13,821 |
| Deferred revenue | (93,699) | (71,253) |
| Government advances for student loans | (9,939) | (13) |
| **Net cash used in operating activities** | **(376,832)** | **(264,305)** |

| | | |
|---|---|---|
| **Cash flows from investing activities** | | |
| Purchases of investments | (1,630,446) | (1,570,009) |
| Proceeds from sales of investments | 2,013,364 | 2,021,288 |
| Acquisitions of land, buildings, and equipment | (145,496) | (264,256) |
| Proceeds from sale of buildings or equipment | 1,687 | 521 |
| Student loans disbursed | (29,409) | (29,006) |
| Principal collected on student loans | 23,796 | 23,109 |
| Other | (388) | (3,018) |
| **Net cash provided by investing activities** | **233,108** | **178,629** |

| | | |
|---|---|---|
| **Cash flows from financing activities** | | |
| Proceeds from issuance of notes, bonds, and other debt payable | 595,000 | 40,000 |
| Payments for debt issuance costs | (1,476) | — |
| Principal payments on notes, bonds, and other debt payable | (313,085) | (42,935) |
| Proceeds from sale of restricted contributed securities | 9,346 | 5,415 |
| Restricted contributions received for long-term investment and capital projects | 79,912 | 53,130 |
| **Net cash provided by financing activities** | **369,697** | **55,610** |

| | | |
|---|---|---|
| **Increase (decrease) in cash and cash equivalents** | **225,973** | **(30,066)** |
| **Cash and cash equivalents at beginning of year** | **155,469** | **185,535** |
| **Cash and cash equivalents at end of year** | **$381,442** | **$155,469** |

| | | |
|---|---|---|
| **Supplemental disclosure of cash flow information** | | |
| Change in accrued liabilities for construction in progress | ($22,043) | ($24,854) |
| Capitalized interest | 41 | 7,035 |
| Cash paid for interest | 90,798 | 93,757 |

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

# Notes to the Consolidated Financial Statements

*For the fiscal years ended August 31, 2020 and 2019*

## 1. Summary of Significant Accounting Policies

### University Activities

Northwestern University (Northwestern or the University) is a major private research university with more than 22,000 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.

### Basis of Accounting

*General*

The University maintains its accounts and prepares its consolidated financial statements on the accrual basis of accounting in conformity with US generally accepted accounting principles (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. The accompanying consolidated financial statements include all wholly owned subsidiaries. All significant interentity transactions and accounts have been eliminated in consolidation.

*Net Asset Classifications*

Net assets and related changes therein are classified into two categories based on the existence or absence of donor-imposed restrictions.

The category *Net Assets without Donor Restrictions* describes funds that have no donor-imposed restrictions. All revenues, expenses, gains, and losses that are not restricted by donors are included in this classification. Certain net assets without donor restrictions are institution-designated for specific uses under the internal operating budget.

The category *Net Assets with Donor Restrictions* describes funds within subject to donor-imposed restrictions that will be met either by actions of the University, the passage of time, or may be perpetual in nature. These net assets include gifts for which donor-imposed restrictions have not been met in the year of receipt (these may include future capital projects), as well as trust activity and pledges receivable. Net assets with perpetual restrictions consist of donor-restricted endowment funds, contributions receivable for such funds, and certain trusts. For further discussion of the classification of donor-restricted endowment funds and disclosures about both donor-restricted and institution-designated endowment funds, see notes 4 and 9, respectively.

Revenue from donor-restricted sources is reclassified as an increase to net assets without donor restrictions when the circumstances of the restrictions have been fulfilled or the restrictions expire. Donor-restricted contributions whose restrictions are met within the same fiscal year in which they are received are reported as revenue without donor restrictions. All expenses are reported in net assets without donor restrictions. Absent explicit donor stipulations indicating otherwise, the University reports expiration of donor restrictions on long-lived assets as net assets without donor restrictions when the assets are placed in service.

Net assets as of August 31 are as follows:

*(in thousands of dollars)* — *2020*

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

| *(in thousands of dollars)* | | | *2019* |
|---|---|---|---|
| **Nature of specific net assets** | **Without donor restrictions** | **With donor restrictions** | **Total net assets** |
| Teaching, research, and program support | $2,368,537 | $2,771,527 | $5,140,064 |
| Student financial aid | 659,387 | 808,523 | 1,467,910 |
| Capital and operations | 1,097,581 | 539,263 | 1,636,844 |
| **Endowment net assets subtotal** | **4,125,505** | **4,119,313** | **8,244,818** |
| Pledges | — | 293,705 | 293,705 |
| Unexpended gifts | — | 46,665 | 46,665 |
| Annuity and other split-interest agreements | — | 61,718 | 61,718 |
| Student loan funds | 89,216 | 35,164 | 124,380 |
| Operating and plant | 3,256,221 | — | 3,256,221 |
| **Total** | **$7,470,942** | **$4,556,565** | **$12,027,507** |

*Operating Activities*

Operating activities in the consolidated statements of activities reflect all transactions increasing or decreasing net assets without donor restrictions, and excludes private gifts and grants for buildings and equipment; restricted private gifts; investment return net of operating distributions; gains (losses) from annuity obligations and derivative instruments; and certain other nonrecurring items.

### Fair Value Measurements

The University makes fair value measurements and related disclosures thereon as required by the Fair Value Measurements and Disclosures Topic of the FASB ASC. For further discussion, see note 4.

### 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 with original maturities of three months or less. Cash and cash equivalents that are held for investment purposes are classified as investments on the consolidated statements of financial position and excluded from cash and cash equivalents on the consolidated statements of cash flows, as these funds are not used for operating needs. For further discussion, see note 4.

### Contributions

Contributions received, including unconditional promises to give (contributions receivable), are recognized by the University as revenues at their fair values at the date of gift. Private gifts, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until all barriers to entitlement of the assets are overcome and the promisor's rights of return or release have elapsed.

### Investments

Investments in 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, whereas 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 following describes the fair value hierarchy and the primary valuation methodologies used by the University for assets and liabilities 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 terms of the assets or liabilities. Inputs may be 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.

An investment's categorization within the valuation hierarchy is based on the lowest level of input significant to the fair value measurement. The categorization of an investment is based on 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. Such investments, for which NAV is used as a practical expedient, are not categorized in and are shown separately from the valuation hierarchy. For further discussion, see note 4.

Equity securities with readily determinable fair values 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 primarily classified as Level 1 because the securities have observable market inputs. Most fixed income securities and debt 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 without readily determinable fair values and of other generally less liquid investments are based on valuation information received on the relevant entities 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. Because the fair values for these assets are based predominantly on unobservable inputs, they are classified as Level 3.

Investments in certain real assets and other investments are recorded at acquisition or construction cost or, if received as a contribution, at fair value as of donation date. The University periodically assesses these assets for impairment by comparing their expected future cash flows with their carrying values. 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, 2020 and 2019. 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 investments 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 interest-rate swap agreements to hedge variable interest-rate exposures. 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 interest-rate swaps 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. Due to significant other observable inputs, interest-rate swaps are classified as Level 2. For further discussion, see note 4.

### 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. Accounts receivable deemed to be uncollectible are written off 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 written off.

### Contributions Receivable

Contributions receivable that represent unconditional promises to give are recognized at fair value as contributions with donor restrictions in the period such promises are made by donors. Contributions are discounted at a risk-adjusted rate commensurate with the duration of the donor's payment plan. Amortization of the discounts is recorded as additional contribution revenue. Allowance is made for uncollectible contributions based on management's expectations regarding collection of outstanding promises to give and past collection experience. There were no significant conditional promises to give as of August 31, 2020 and 2019.

### Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost or, if received as gifts, at fair value at the date of 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 equipment, which are estimated to be 3 to 20 years; of buildings, building improvements, and land improvements, which are estimated to be 10 to 40 years; and of leasehold improvements, which are estimated to be the shorter of the useful life or the lease term.

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. There were no impairment charges recognized in 2020 or 2019.

### Charitable Remainder Trusts

Charitable remainder trusts are classified as net assets with donor restrictions and recognized at fair value.

### 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, automobile liability, property damage, educators' liability, cyber 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, postemployment benefits, and postretirement medical and life insurance benefits are based on actuarial studies and management estimates. See notes 10 and 12 for additional discussion.

### Revenue Recognition

Revenues from tuition and fees are reflected net of reductions from institutional student aid and are recognized as the services are provided over the academic year, including pro-rata adjustments for educational programs crossing over fiscal years. Institutional student aid includes amounts funded by endowment earnings, gifts, and other sources and reduces the published price of tuition for students receiving such aid. Fiscal year 2021 noncancelable fall-quarter tuition and fees, billed and received in fiscal year 2020, are reported as deferred revenue in fiscal year 2020. Fiscal year 2020 fall-quarter tuition and fees, billed but not earned in fiscal year 2019, are reported as deferred revenue in fiscal year 2019. (For further discussion of deferred revenues, see note 6.) Of the $661.1 million and $651.7 million in revenue recognized for the years ended August 31, 2020 and 2019, respectively, $630.4 million and $600.9 million, respectively, was from academic credit programs, and $30.7 million and $50.8 million, respectively, was from nonacademic credit programs.

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. Of the $69.7 million and $92.1 million in revenue recognized for the years ended August 31, 2020 and 2019, respectively, $64.3 million and $82.6 million, respectively, was from room and board, while the remaining revenue was from other miscellaneous residence and food services.

Grants and contracts revenue is received from federal and other sponsors. It may represent either an exchange transaction for an equivalent benefit in return or a nonexchange transaction in which the resources provided are for the benefit of the University, the funding organization's mission, or the public at large. Revenues from exchange transactions are recognized as performance obligations are satisfied, which in most cases are as related costs are incurred. Revenues from nonexchange transactions are recognized as revenue when qualifying expenditures are incurred and applicable conditions and restrictions under the agreements are met. Conditional awards from federal sponsors outstanding as of August 31, 2020 and 2019, were $660 million and $552.4 million, respectively.

Sales and services revenues represent fees for services and goods provided to external parties in the course of educational activities, revenues from the provision of physical plant services and goods to external institutions contiguous to the University campuses, and trademark and royalty revenues arising from licensing of innovative technologies, copyrights, and other intellectual property. These revenues are recognized in the fiscal year in which goods and services are provided.

Professional fees arise from faculty and department services provided to external institutions such as hospitals. Revenues are recognized in the fiscal year in which the services are provided.

### 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 taxable income (UBTI), 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 2017 through 2019.

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.

The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017. The Act's impact on the University includes excise taxes on executive compensation and net investment income, as well as new rules for calculating UBTI. For the years ended August 31, 2020 and 2019, the University is subject to the federal excise tax of 1.4 percent on net investment income, which includes interest, dividends, and net realized gains on investments.

### Uses of Estimates in the Preparation of the Consolidated Financial Statements

The preparation of the consolidated 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.

### Newly Adopted Accounting Pronouncements

In August 2018, the FASB issued Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. These guidelines remove, modify, and add certain disclosure requirements related to transfers between levels of the fair value hierarchy and information about inputs used to develop fair value measurements. This standard was effective for the University in fiscal year 2021. The University early adopted this standard in fiscal year 2020; adoption of the ASU did not have a material effect on the University's consolidated financial statements.

In November 2016, the FASB issued clarifying guidance in ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash.* The amendments in the update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in the update do not provide a definition of restricted cash or restricted cash equivalents. The University's retrospective adoption of the ASU did not have a material effect on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This ASU provides guidance on the classification of a variety of activities on the statement of cash flows. The University's adoption of the ASU did not have a material effect on its consolidated financial statements.

### Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses*, which amends the Board's guidance on impairment of financial instruments. This standard is effective for the University in fiscal year 2021.

In February 2016, the FASB issued ASU 2016-02, *Leases*, as amended, which includes new guidance to increase the transparency and comparability of lease reporting by recognizing lease assets and liabilities on the consolidated statements of financial position and disclosing key information about leasing activities. In June 2020, the FASB issued ASU 2020-05, which deferred the effective date of ASU 2016-02 by one year. The standard is effective for the University in fiscal year 2021.

The University is currently evaluating the impact of the aforementioned standards.

### Current Environment

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. The disease outbreak disrupted social interaction, travel, commerce, economies, and financial markets globally, including in the United States. The University's operations and financial condition were not immune to the pandemic's adverse effects.

Commencing March 20, 2020, undergraduate and graduate course instruction was conducted remotely, and most students vacated campus. The University granted refunds in fiscal year 2020 for spring-quarter housing and dining services not provided after March 20; these refunds drove an increase in deposits payable for student tuition and room and board ($32.7 million and $3.2 million as of August 31, 2020 and 2019, respectively) and a corresponding reduction in revenues from auxiliary services attributed to room and board ($64.3 million and $82.6 million in 2020 and 2019, respectively). Students continued to meet their academic requirements through the end of the 2019–20 academic year. While some faculty and staff worked on campus to maintain essential operations, most faculty and staff transitioned to remote work.

The University experienced other fluctuations in certain balances and activity in fiscal year 2020. Billing for undergraduate and other programs in the 2020–21 academic year was deferred from August 2020 to September 2020, affecting cash collections and thereby reducing deferred revenue for tuition and housing ($15.2 million and $121.4 million as of August 31, 2020 and 2019, respectively). Sales and services revenue also decreased due to the pandemic's impact on athletics revenues and fees for services and goods to external parties.

University cost-containment measures included pausing retirement contributions (the University contributed $64.2 million and $82.5 million to the two contributory retirement plans in 2020 and 2019, respectively), which offset modest salary, wage, and benefit increases. Spending freezes—coupled with the University's inability to conduct certain aspects of normal operations—further decreased operating expenses from services, supplies, maintenance, and other ($728 million and $820.2 million in fiscal years 2020 and 2019, respectively).

On March 27, 2020, the US Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which provided economic assistance for certain business and individuals. The University did not request or draw down funding under CARES Act provisions.

The University continues to monitor the course of the pandemic and is prepared to take additional measures to protect the health of the University community and promote the continuity of its academic mission.

### Reclassifications

Certain prior-year amounts have been reclassified to conform to the current-year presentation.

## 2. Accounts Receivable and Notes Receivable

Accounts receivable as of August 31 are summarized on the consolidated statements of financial position as follows:

| *(in thousands of dollars)* | *2020* | *2019* |
|---|---|---|
| Research and other sponsored programs support | $120,539 | $98,545 |
| Student receivables | 25,513 | 15,811 |
| Other receivables | 64,237 | 85,835 |
| **Accounts receivable subtotal** | **210,289** | **200,191** |
| Less allowances for student uncollectible amounts | (204) | (656) |
| **Total accounts receivable, *net*** | **$210,085** | **$199,535** |

Notes receivable as of August 31 are summarized on the consolidated statements of financial position as follows:

| *(in thousands of dollars)* | *2020* | *2019* |
|---|---|---|
| Notes receivable | $149,090 | $145,373 |
| Less allowances for student uncollectible amounts | (2,433) | (1,397) |
| **Total notes receivable, *net*** | **$146,657** | **$143,976** |

## 3. Contributions Receivable

Contributions receivable as of August 31 consisted of the following:

| *(in thousands of dollars)* | *2020* | *2019* |
|---|---|---|
| Unconditional promises expected to be collected in | | |
| Less than one year | $88,633 | $57,392 |
| One to five years | 128,248 | 173,712 |
| More than five years | 91,979 | 98,503 |
| **Contributions receivable subtotal** | **308,860** | **329,607** |
| Less unamortized discounts | (30,140) | (35,148) |
| Less allowances for uncollectible amounts | (849) | (754) |
| **Total contributions receivable, *net*** | **$277,871** | **$293,705** |

Contributions receivable are discounted at rates ranging from 0.28 to 3.5 percent.

## 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, expendable funds with donor restrictions temporarily invested, and commercial real estate.

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

## Fair Value Disclosures

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

*(in thousands of dollars)* *2020*

| | 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 | $170,039 | — | — | — | $170,039 |
| US equity | 432,635 | $71 | — | $1,169,744 | 1,602,450 |
| International equity | 300,049 | — | $67 | 1,600,073 | 1,900,189 |
| Fixed income | 92,929 | 664,540 | — | 108,983 | 866,452 |
| High-yield credit | — | — | — | 244,668 | 244,668 |
| Absolute return | — | — | — | 1,810,817 | 1,810,817 |
| Private investments | 25,788 | 173 | 6,495 | 3,258,980 | 3,291,435 |
| Real assets | 151,782 | 13,948 | 2,440 | 1,445,670 | 1,613,840 |
| Other investments | 37,891 | 331 | 25,644 | — | 63,866 |
| **Subtotal investment assets at fair value** | **1,211,113** | **679,063** | **34,646** | **9,638,935** | **11,563,756**[a] |
| Interest-rate swaps | — | (16,018) | — | — | (16,018) |
| **Total** | **$1,211,113** | **$663,045** | **$34,646** | **$9,638,935** | **$11,547,738** |

[a] *Investments held at cost totaling $25,548 thousand should be added to the subtotal investment assets at fair value, and beneficial interest in charitable remainder trusts totaling $13,072 thousand should be subtracted from the subtotal investment assets at fair value to reconcile to total investment assets of $11,576,232 thousand as of August 31, 2020.*

*(in thousands of dollars)* *2019*

| | 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 | $79,213 | — | — | — | $79,213 |
| US equity | 442,952 | $71 | — | $1,009,592 | 1,452,615 |
| International equity | 318,103 | — | $64 | 1,428,147 | 1,746,314 |
| Fixed income | 91,753 | 518,758 | — | 276,963 | 887,474 |
| High-yield credit | — | — | — | 266,648 | 266,648 |
| Absolute return | — | — | — | 1,939,874 | 1,939,874 |
| Private investments | 34,597 | 321 | 10,403 | 2,842,382 | 2,887,703 |
| Real assets | 189,907 | 11,582 | 51,087 | 1,496,073 | 1,748,649 |
| Other investments | 30,835 | 590 | 25,411 | — | 56,836 |
| Interest-rate derivatives | 736 | (370) | — | — | 366 |
| **Subtotal investment assets at fair value** | **1,188,096** | **530,952** | **86,965** | **9,259,679** | **11,065,692**[a] |
| Interest-rate swaps | — | (16,482) | — | — | (16,482) |
| **Total** | **$1,188,096** | **$514,470** | **$86,965** | **$9,259,679** | **$11,049,210** |

[a] *Investments held at cost totaling $26,493 thousand should be added to the subtotal investment assets at fair value, and beneficial interest in charitable remainder trusts totaling $12,761 thousand should be subtracted from the subtotal investment assets at fair value to reconcile to total investment assets of $11,079,424 thousand as of August 31, 2019.*

Investments reported as NAV as Practical Expedient consist primarily of the University's ownership in partnership investments (principally limited partnership interests in long-only equity and credit, hedge funds, 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 report not being in compliance with GAAP, or where a statement of partners' capital is not provided, the investment is reported 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 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, 2020 and 2019:

| *(in thousands of dollars)* | *2019* | | | | | *2020* |
|---|---|---|---|---|---|---|
| | Fair value | Purchases | Sales and settlements | Realized and unrealized gains (losses) | Transfers into and out of Level 3 | Fair value |
| International equity | $64 | — | — | $3 | — | $67 |
| Private investments | 10,403 | $160 | — | (303) | ($3,765) | 6,495 |
| Real assets | 51,087 | — | — | — | (48,647) | 2,440 |
| Other investments | 25,411 | — | — | 233 | — | 25,644 |
| **Total investments** | **$86,965** | **$160** | **—** | **($67)** | **($52,412)** | **$34,646** |

| *(in thousands of dollars)* | *2018* | | | | | *2019* |
|---|---|---|---|---|---|---|
| | Fair value | Purchases | Sales and settlements | Realized and unrealized gains (losses) | Transfers into and out of Level 3 | Fair value |
| International equity | $66 | — | — | ($2) | — | $64 |
| Private investments | 17,633 | $830 | ($211) | (1,468) | ($6,381) | 10,403 |
| Real assets | 91,052 | 62 | (9,165) | (6,562) | (24,300) | 51,087 |
| Other investments | 25,799 | — | — | (388) | — | 25,411 |
| **Total investments** | **$134,550** | **$892** | **($9,376)** | **($8,420)** | **($30,681)** | **$86,965** |

In fiscal year 2020, there were ten transfers out of Level 3 into investments reported as NAV as Practical Expedient, as these partnership investments had estimated fair values based on reported partners' capital provided by the associated external managers.

In fiscal year 2019, there were two transfers out of Level 3 into Level 1. One occurred as a subordinated equity security converted to publicly traded common shares, while the other was reclassified since the underlying securities have readily determinable market prices.

As of August 31, 2020 and 2019, 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 $6.2 million and $7.1 million as of August 31, 2020 and 2019, 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, 2020, the University was committed to making future capital contributions in the amount of $2 billion, primarily in the next five years, as detailed in the table. 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 | $1,602,450 | No limit | $12,000 | Daily to annually, with 1- to 90-day notice periods | Lock-up provisions ranging from none to 3 years |
| International equity | $1,900,189 | No limit | $29,100 | Daily to annually, with 1- to 180-day notice periods | Lock-up provisions ranging from none to 3 years |
| Fixed income | $866,452 | No limit | — | Daily to monthly, with 1- to 10-day notice periods | No lock-up provisions |
| High-yield credit | $244,668 | No limit to 12 years | $118,659 | Certain partnerships ineligible for redemption; other funds semiannually to annually, with 90-day notice periods | Certain partnerships not redeemable; other partnerships include side pockets subject to general partner discretion |
| Absolute return | $1,810,817 | No limit | $75,250 | Daily to greater than annually, with 1- to 120-day notice periods; private partnership ineligible for redemption | Lock-up provisions ranging from none to 3 years; side pockets on many funds; one partnership not redeemable |
| Private investments | $3,291,435 | No limit to 12 years | $944,697 | Partnerships ineligible for redemption; equity securities daily, with 1-day notice | Private partnerships not redeemable; equity securities have no lock-up provisions |
| Real assets | $1,613,840 | No limit to 14 years | $795,514 | Partnerships ineligible for redemption; commodity and equity funds are weekly, with 1- to 3-day notice periods | Drawdown partnerships not redeemable; no restriction on commodity and equity funds |

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

The University's marketable securities categories include investments in US equity, 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. Two investments in this category currently may not be redeemed over the next year.

International equities include developed market (ex–US public equities) and emerging market strategies. One investment in this category may not be redeemed over the next year.

Fixed income strategies include US government securities, agency securities, inflation-linked bonds (TIPS), corporate bonds, global bonds, and short-term cash investments.

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. One investment in this portfolio may not be redeemed over the next year due to lock-up provisions. As of August 31, 2020, the remaining investments have either full or partial liquidity over the next year, with the exception of those having side pockets. As of August 31, 2020 and 2019, the University posted $149 million and $137.9 million, respectively, of public equity as a source of collateral for an alternative investment strategy.

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 certain commodity and equity funds.

Lives of the specific 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 changes in the market environment and/or investment strategy.

### Investment Return

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. In 2019, an additional amount of $50 million was authorized in excess of the spending rule to support strategic investment and is included in the investment return designated for operations line of the consolidated statements of activities. Gross investment income from specific investments held at cost totaled $13.1 million and $15.4 million for the fiscal years ended August 31, 2020 and 2019, respectively. Investment expenses related to specific investments held at cost totaled $4.7 million and $4.8 million for the fiscal years ended August 31, 2020 and 2019, respectively. All other investment returns are categorized as nonoperating.

Certain direct expenses paid by the University for investment management and custody services have been netted against investment earnings.

## Derivative Financial Instruments

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

Credit exposure represents the University's potential loss if counterparties fail to perform under the terms of the contracts, or collateral, if any, does not fully support amounts obligated. 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, and on a net basis had obligations to counterparties as of August 31, 2020 and 2019, as disclosed in the tables on the next page. 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, 2020 and 2019, the University posted collateral of $0 and $0.7 million, respectively, to one counterparty. To date, the University has not incurred any losses on derivative financial instruments due to counterparty nonperformance.

The University regularly reviews the use of derivative financial instruments by each of the managers of alternative investment funds in which it participates. While these outside managers generally use such instruments for hedging purposes, derivative financial instruments are employed for trading purposes by numerous independent asset managers of the University.

The tables below summarize the derivative financial instruments held by the University as of August 31:

| *(in thousands of dollars)* | | | | *2020* | | |
|---|---|---|---|---|---|---|
| | **Notional amount** | **Assets** | **Liabilities** | **Fiscal year net gain (loss)** | **Interest rates** | **Maturity date** |
| **Investment-related derivatives** | | | | | | |
| Interest-rate swaptions | $200,000 | — | — | ($740) | 5% | 12/02/19 |
| **Total investment-related** | **200,000** | **—** | **—** | **(740)** | 5% | 12/02/19 |
| | | | | | | |
| **Credit-related derivatives** | | | | | | |
| Interest-rate swaps | 125,002 | — | ($16,018) | (465) | 4.12–4.38% | 08/31/23 |
| **Total credit-related** | **125,002** | — | **(16,018)** | **(465)** | 4.12–4.38% | 08/31/23 |
| **Total derivative financial instruments** | **$325,002** | **—** | **($16,018)** | **($1,205)** | **4.12–5%** | **08/31/23** |

| *(in thousands of dollars)* | | | | *2019* | | |
|---|---|---|---|---|---|---|
| | **Notional amount** | **Assets** | **Liabilities** | **Fiscal year net gain (loss)** | **Interest rates** | **Maturity date** |
| **Investment-related derivatives** | | | | | | |
| Interest-rate swaptions | $200,000 | $736 | ($368) | ($106) | 5% | 12/02/19 |
| **Total investment-related** | **200,000** | **736** | **(368)** | **(106)** | 5% | 12/02/19 |
| | | | | | | |
| **Credit-related derivatives** | | | | | | |
| Interest-rate swaps | 125,000 | — | (16,482) | (3,072) | 4.12–4.38% | 08/31/23 |
| **Total credit-related** | **125,000** | — | **(16,482)** | **(3,072)** | 4.12–4.38% | 08/31/23 |
| **Total derivative financial instruments** | **$325,000** | **$736** | **($16,850)** | **($3,178)** | | |

## 5. Land, Buildings, and Equipment

Land, buildings, and equipment as of August 31 consisted of the following:

| *(in thousands of dollars)* | *2020* | *2019* |
|---|---|---|
| Land | $31,036 | $31,036 |
| Construction-in-progress | 45,983 | 117,474 |
| Buildings and leasehold improvements | 4,594,774 | 4,455,482 |
| Equipment | 703,454 | 663,544 |
| Accumulated depreciation | (2,116,553) | (1,947,173) |
| **Total land, buildings, and equipment, *net*** | **$3,258,694** | **$3,320,363** |

Included in construction-in-progress costs are building and leasehold improvement capitalizations. Building costs are funded by bonds, gifts (received or pledged), grants, and funds without donor restrictions.

Under the University's interest capitalization policy, actual interest costs incurred during the period of construction of an asset for University use are capitalized until that asset is substantially completed and ready for use. The capitalized cost is reflected in the asset's total cost and depreciated over the asset's useful life. Assets qualifying for interest capitalization may include buildings and major equipment.

In fiscal year 2019, the Simpson Querrey Biomedical Research Center was completed and placed into service. The sale of four floors to Ann & Robert H. Lurie Children's Hospital of Chicago was consummated upon completion of the building.

### Lease Obligations

The University is obligated as lessee 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 through fiscal year 2031. Real estate lease expenses totaled $23.2 million and $15.9 million for the fiscal years ended August 31, 2020 and 2019, respectively. Sublease rental income totaled $2.5 million and $3 million for the fiscal years ended August 31, 2020 and 2019, respectively. The future minimum lease payments under noncancelable operating leases through August 31 of each period are shown at right.

| *(in thousands of dollars)* | |
|---|---|
| 2021 | $21,842 |
| 2022 | 18,893 |
| 2023 | 16,405 |
| 2024 | 15,838 |
| 2025 | 14,686 |
| 2026 and thereafter | 51,558 |
| **Total** | **$139,222** |

### Rentals under Leases

The University is entitled as lessor under numerous operating leases to receive rental payments. Operating leases consist primarily of leases for the use of real property and have terms expiring through fiscal year 2041. The future minimum rental payments under noncancelable operating leases through August 31 of each period are shown at right.

| *(in thousands of dollars)* | |
|---|---|
| 2021 | $2,775 |
| 2022 | 2,283 |
| 2023 | 2,329 |
| 2024 | 2,380 |
| 2025 | 2,059 |
| 2026 and thereafter | 8,974 |
| **Total** | **$20,800** |

## 6. Deferred Revenue

Deferred revenue as of August 31 is summarized on the consolidated statements of financial position as follows:

| *(in thousands of dollars)* | *2020* | *2019* |
|---|---|---|
| Tuition and housing | $15,225 | $121,359 |
| Sponsored contracts (exchange) | 86,886 | 68,899 |
| Conditional contributions and grants | 22,826 | 22,360 |
| Other deferred revenue | 12,820 | 18,838 |
| **Total deferred revenue** | **$137,757** | **$231,456** |

## 7. Deposits Payable and Actuarial Liability of Annuities Payable

Deposits payable and actuarial liability of annuities payable as of August 31 are summarized on the consolidated statements of financial position as follows:

| *(in thousands of dollars)* | *2020* | *2019* |
|---|---|---|
| Agency deposits | $142,287 | $133,591 |
| Actuarial liability of annuities | 21,782 | 20,689 |
| Student loans | — | 4,823 |
| Student tuition and room and board | 32,728 | 3,207 |
| Other deposits payable | 3,805 | 6,254 |
| **Total deposits payable and actuarial liability of annuities payable** | **$200,602** | **$168,564** |

## 8. Bonds, Notes, and Other Debt Payable

Bonds, notes, and other debt payable as of August 31 are as follows:

| *(in thousands of dollars)* | Interest-rate mode | Fiscal year maturity | Interest rate | *2020* | *2019* |
|---|---|---|---|---|---|
| Illinois Finance Authority (IFA)–Series 2004 | Variable | 2034 | 0.08% [a] | $135,800 | $135,800 |
| IFA–Series 2008 | Variable | 2046 | 0.07% [a][b] | 125,000 | 125,000 |
| Taxable–Series 2012 | Fixed | 2039–2047 | 4.20% | 200,000 | 200,000 |
| Taxable–Series 2013 | Fixed | 2015–2044 | 4.61% [b] | 558,155 | 563,240 |
| Taxable–Series 2015 | Fixed | 2038–2048 | 3.78% [b] | 500,000 | 500,000 |
| IFA–Series 2015 | Fixed | 2022–2028 | 4.24% [b] | 128,545 | 128,545 |
| Taxable–Series 2017 | Fixed | 2047–2057 | 3.72% [b] | 500,000 | 500,000 |
| Taxable–Series 2020 | Fixed | 2049–2050 | 2.64% | 300,000 | — |
| Commercial paper ($300,000 available) | Variable | NA | NA | — | 300,000 |
| Promissory note | Fixed | 2021 | 1.72% [c] | 8,000 | 16,000 |
| Lines of credit ($765,000 available) | Variable | 2020 | 0.76% [b] | 380,000 | 85,000 |
| **Bonds, notes, and other debt payable subtotal** | | | | **2,835,500** | **2,553,585** |
| Unamortized issuance costs, premiums, and discounts, *net* | | | | (3,464) | (2,021) |
| **Total bonds, notes, and other debt payable, *net*** | | | | **$2,832,036** | **$2,551,564** |

[a] *Interest rate reset weekly*
[b] *Weighted average interest rate at August 31, 2020*
[c] *Imputed rate on non-interest-bearing note*

Total obligations including bonds, notes, and other debt payable at August 31, 2020, are scheduled to mature through August 31 of each period as noted in the table below. The schedule has been prepared based on the contractual maturities of the debt outstanding at August 31, 2020. Accordingly, if remarketings of variable rate debt offerings fail 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)* | |
|---|---|
| 2021 | $393,450 |
| 2022 | 4,790 |
| 2023 | 6,660 |
| 2024 | 7,710 |
| 2025 | 10,240 |
| 2026 and thereafter | 2,412,650 |
| **Total** | **$2,835,500** |

During the year ended August 31, 2020, the Taxable-Series 2020 Fixed Rate Bonds were issued to refinance $300 million of commercial paper. During the year ended August 31, 2019, the University did not enter into the sale of any additional long-term municipal bonds or increase its long-term debt position.

## 9. Endowments

Donor-restricted endowment funds are subject to Illinois's enacted version of the Uniform Prudent Management of Institutional Funds Act (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 the following as part of net assets with donor restrictions: 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 is classified as net assets with donor restrictions until those amounts are 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 whether 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
- Possible effects of inflation or deflation
- 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 2,800 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:

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

| *(in thousands of dollars)* | | With donor restrictions | | | *2019* |
|---|---|---|---|---|---|
| | **Without donor restrictions** | **Funds held in perpetuity** | **Accumulated gains (losses)** | **Total** | **Total funds** |
| Institution-designated endowment funds | $4,125,505 | | | | $4,125,505 |
| With donor restrictions | | | | | |
| Underwater funds | | $91,626 | ($2,891) | $88,735 | 88,735 |
| All other funds | | 1,587,979 | 2,442,599 | 4,030,578 | 4,030,578 |
| Endowment assets at end of year | **$4,125,505** | **$1,679,605** | **$2,439,708** | **$4,119,313** | **$8,244,818** |

### Underwater Endowment Funds

The University monitors endowment funds to identify those for which historical cost was more than fair value. Associated unrealized losses of $0.6 million and $2.9 million as of August 31, 2020 and 2019, respectively, are recorded in the net assets with donor restrictions classification; subsequent gains increase net assets with donor restrictions.

### Investment and Spending Policies

The University's endowment is primarily invested in the Long-Term Balanced Pool. The Investments Committee of the Board of Trustees annually reviews the 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 reinvest the current income of all other investment pools.

## Changes in Endowment Net Assets

The following tables represent changes in endowment net assets for the fiscal years ended August 31:

| *(in thousands of dollars)* | | | *2020* |
|---|---|---|---|
| | **Without donor restrictions** | **With donor restrictions** | **Total** |
| Endowment net assets, beginning of year | $4,125,505 | $4,119,313 | $8,244,818 |
| Interest and dividends, net of expenses | 4,436 | 4,549 | 8,985 |
| Net appreciation, realized and unrealized | 229,864 | 235,734 | 465,598 |
| **Total investment return** | **234,300** | **240,283** | **474,583** |
| Contributions | | 76,589 | 76,589 |
| Appropriation of endowment assets for expenditure | (181,170) | (184,425) | (365,595) |
| Other changes | | | |
| Transfers to create institutional funds | 60,654 | — | 60,654 |
| Transfers of institutional funds per donor requirement | — | 16,476 | 16,476 |
| Spending of institution-designated endowment fund | (21,123) | — | (21,123) |
| Other reclassifications | (1,277) | (419) | (1,696) |
| **Endowment net assets, end of year** | **$4,216,889** | **$4,267,817** | **$8,484,706** |

| *(in thousands of dollars)* | | | *2019* |
|---|---|---|---|
| | **Without donor restrictions** | **With donor restrictions** | **Total** |
| Endowment net assets, beginning of year | $4,229,710 | $4,157,208 | $8,386,918 |
| Interest and dividends, net of expenses | (1,726) | (2,467) | (4,193) |
| Net appreciation, realized and unrealized | 61,129 | 87,396 | 148,525 |
| **Total investment return** | **59,403** | **84,929** | **144,332** |
| Contributions | — | 46,705 | 46,705 |
| Appropriation of endowment assets for expenditure | (173,127) | (173,387) | (346,514) |
| Other changes | | | |
| Transfers to create institutional funds | 34,589 | — | 34,589 |
| Transfers of institutional funds per donor requirement | — | 4,046 | 4,046 |
| Spending of institution-designated endowment fund | (21,801) | — | (21,801) |
| Other reclassifications | (3,269) | (188) | (3,457) |
| **Endowment net assets, end of year** | **$4,125,505** | **$4,119,313** | **$8,244,818** |

## 10. Postretirement and Postemployment Benefit 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 certain mutual funds offered by Fidelity Investments. Participating employee and University contributions are immediately vested. The University contributed $64.2 million and $82.5 million to the two plans in 2020 and 2019, respectively.

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. Certain postemployment benefit plans are also sponsored.

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 statements 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 accrued cost for postemployment benefits was $8.8 million and $8.5 million at August 31, 2020 and 2019, respectively, and is included in accounts payable and accrued liabilities on the consolidated statements of financial position.

The University funds the plan on a pay-as-you-go basis. The following table sets forth key amounts for the postretirement plan for the fiscal years ended August 31:

| *(in thousands of dollars)* | *2020* | *2019* |
|---|---|---|
| Benefit obligation | $21,001 | $13,663 |
| Benefits paid | 2,064 | 1,742 |
| Employer contributions | 1,321 | 1,059 |
| Contributions from participants | 743 | 683 |
| Net periodic postretirement benefit cost | 796 | 1,307 |
| Fair value of plan assets | — | — |

Service costs included in net periodic postretirement benefit cost above totaled $688 thousand and $806 thousand as of August 31, 2020 and 2019, respectively.

The changes in other than periodic benefit cost included in net assets without donor restrictions on the consolidated statements of activities totaled net losses of $4.1 million and net gains of $3.7 million as of August 31, 2020 and 2019, respectively, for a decrease of $7.8 million due to net losses during the fiscal year.

The APBO was $21 million and $13.7 million at August 31, 2020 and 2019, respectively, and is included in accounts payable and accrued liabilities on the consolidated statements of financial position.

The following tables present key actuarial assumptions used in determining APBO as of August 31, 2020 and 2019. For both fiscal years 2020 and 2019, the ultimate healthcare cost trend rate was 5 percent, and the year when the trend rate will reach the ultimate trend rate was 2025.

Additional assumptions used to determine benefit obligations for the fiscal years ended August 31 were as follows:

| | *2020* | *2019* |
|---|---|---|
| Weighted average settlement (discount) rate | 1.9 % | 2.6% |
| Weighted average rate of increase in future compensation levels | 2.0% | 2.5% |
| Healthcare cost trend rate | 6.25% | 6.5% |

Next, the assumptions used to determine net periodic benefit cost for the fiscal years ended August 31:

| | *2020* | *2019* |
|---|---|---|
| Discount rate | 2.6% | 3.8% |
| Weighted average rate of increase in future compensation levels | 2.5% | 2.5% |
| Healthcare cost trend rate | 6.5% | 6.75% |

A one-percentage-point change in assumed healthcare cost trend rates would have had these effects in fiscal year 2020:

| *(in thousands of dollars)* | *1% point decrease* | *1% point increase* |
|---|---|---|
| (Decrease) increase in total of service and interest cost | ($69) | $80 |
| (Decrease) increase in postretirement benefit obligation | ($740) | $837 |

Estimated future benefit payments reflecting anticipated service, as appropriate, are expected to be paid as shown below for the fiscal years ended August 31:

| *(in thousands of dollars)* | |
|---|---|
| 2021 | $984 |
| 2022 | 964 |
| 2023 | 1,010 |
| 2024 | 1,041 |
| 2025 | 1,123 |
| 2026–2030 | 6,277 |
| **Total** | **$11,399** |

The University offers a deferred compensation plan under Internal Revenue Code 457(b) to a select group of management and highly compensated employees. The University does not contribute to this deferred compensation plan. The University has recorded both an asset and a liability related to the deferred compensation plan that totaled $108.8 million and $94.8 million as of August 31, 2020 and 2019, 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 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 year 2014 between the University, NMG, and NMHC, the University receives 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, 2020 and 2019, accounts receivable arising from support and operational activities with NMHC totaled $17.7 million and $15.7 million, respectively, and are included in accounts receivable on the consolidated statements of financial position. For the fiscal years ended August 31, 2020 and 2019, contributions totaling $124 million and $116 million, respectively, have been made from NMHC to the University and are included in private gifts on the consolidated statements of activities. For the fiscal years ended August 31, 2020 and 2019, revenues arising from operational activities with NMHC totaled $35.6 million and $32.4 million, respectively, and are included in professional fees and sales and services on the consolidated statements of activities.

## 12. Self-Insurance Reserves and Other Contingencies

Reserves for losses under the University's self-insurance program, aggregating $9.9 million and $11.5 million at August 31, 2020 and 2019, respectively, include reserves for probable known losses and for losses incurred but not yet reported. The reserves are presented on a discounted basis. The discount rate was 6.55 percent and 7.5 percent in fiscal years 2020 and 2019. 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 liabilities 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 year 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.

In February 2020, the University purchased a $2.9 million portfolio of student loans from the trust. This purchase represented total remaining loans and effectively ends the securitization program. The University will service the repurchased loans. Prior to the repurchase, guaranteed notes under these programs totaled $8.3 million as of August 31, 2019. In fiscal year

2019, these loans, net of reserves, are included in notes receivable and deposits payable on the consolidated statements of financial position.

In October 2013, the University purchased a $61 million portfolio of private education loans from a lending agency; these loans were purchased by the lending agency from the University prior to 2009 and were serviced by the University. As of August 31, 2020 and 2019, these loans totaled $5.8 million and $11.7 million, respectively, and are included in notes receivable, net of reserves, on the consolidated statements of financial position. The University continues to service the repurchased loans.

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 consolidated financial position or results of operations.

## 13. Grants and Contracts

Grants and contracts for the fiscal years ended August 31 are summarized on the consolidated statements of activities as follows:

| *(in thousands of dollars)* | *2020* | *2019* |
|---|---|---|
| Federal grants | $550,005 | $518,244 |
| Private grants and contracts | 164,951 | 174,477 |
| State grants | 4,166 | 3,831 |
| **Total grants and contracts** | **$719,122** | **$696,552** |

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.

## 14. Liquidity and Availability

Financial assets and resources available within one year of August 31 for general expenditure are as follows:

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

The University manages liquidity by structuring its financial assets to be available as its operating expenses, liabilities, and other obligations come due. Working capital funds, which are generated through the temporary differences between operating receipts and disbursements, are held in a variety of money market instruments or are invested in the Long-Term Balanced Pool. The income from investing them is used for general operating purposes.

In addition, the University may place commercial paper under a $300 million Taxable Commercial Paper Note. Under this agreement, no outstanding borrowings existed as of August 31, 2020. Outstanding borrowings of $300 million existed as of August 31, 2019. The University also may draw $765 million in standby lines of credit to supplement working capital requirements. As of August 31, 2020 and 2019, there were outstanding borrowings of $380 million and $85 million, respectively, under this agreement.

Lastly, the University holds institution-designated endowments of $4,217 million and $4,126 million as of August 31, 2020 and 2019, respectively. Although the University does not intend to spend from its institution-designated endowment funds—other than amounts appropriated for spending through its annual budget approval and appropriation process—amounts from its institution-designated endowment could be made available if necessary, subject to liquidity of the underlying investments.

## 15. Functional Classification of Expenses

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

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

| *(in thousands of dollars)* | | | | *2020* |
|---|---|---|---|---|
| | **Academic** | **Research** | **Support** | **Total** |
| Salaries, wages, and benefits | $923,409 | $298,256 | $234,143 | $1,455,808 |
| Services, supplies, maintenance, and other | 517,945 | 196,006 | 14,051 | 728,002 |
| Depreciation | 113,167 | 55,374 | 13,106 | 181,647 |
| Interest on indebtedness | 58,496 | 28,623 | 6,775 | 93,894 |
| **Total** | **$1,613,017** | **$578,259** | **$268,075** | **$2,459,351** |

| *(in thousands of dollars)* | | | | *2019* |
|---|---|---|---|---|
| | **Academic** | **Research** | **Support** | **Total** |
| Salaries, wages, and benefits | $914,581 | $278,335 | $246,243 | $1,439,159 |
| Services, supplies, maintenance, and other | 566,670 | 193,503 | 59,993 | 820,166 |
| Depreciation | 111,854 | 40,342 | 12,946 | 165,142 |
| Interest on indebtedness | 58,740 | 21,185 | 6,799 | 86,724 |
| **Total** | **$1,651,845** | **$533,365** | **$325,981** | **$2,511,191** |

## 16. Subsequent Events

The University has evaluated subsequent events in accordance with the FASB ASC Subsequent Event Topic through December 18, 2020, the date when the consolidated financial statements were issued. The University did not identify any events to be disclosed.

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