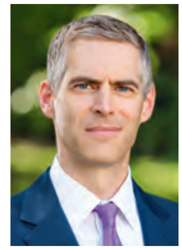
Northwestern

2022 FINANCIAL REPORT

Report of the Executive Vice President



In fiscal year 2022, Northwestern University moved toward a full and safe restoration of campus operations in the wake of historic disruptions caused by the coronavirus pandemic. Our focus continued to be building even greater academic excellence on an enduring foundation of fiscal strength.

We welcomed Northwestern's 17th president, Michael H. Schill, in September 2022. He will lead a community that has put Northwestern on a solid financial position as we balance opportunities to invest now with a commitment to providing financial resources for future generations.

Most of the University's financial activity returned to or exceeded pre-pandemic levels in fiscal year 2022. Challenging financial markets impacted Northwestern's endowment after record returns in fiscal year 2021, leading to a decrease in net assets from just over $16 billion last year to $15.4 billion. The University ended the fiscal year with positive operating performance of $138.7 million collectively across its schools and units, which will enable some areas to address previous commitments and plans for future growth.

Our extraordinary faculty and staff have propelled Northwestern's progress despite constraints, and their efforts continue to earn recognition. Northwestern was 10th in *U.S. News & World Report*'s rankings of national universities. Sponsored research funding, a crucial measure of our societal impact, reached another record high of $923.8 million from 3,581 awards. Our fundraising remained strong in support of our students and faculty. This abiding generosity from our friends even after the "We Will" Campaign officially concluded last year is a powerful testament to the importance and impact of Northwestern's academic mission.

Northwestern remains deeply committed to opening our doors to the country's most talented students. We again exceeded our goal of drawing more than 20 percent of our undergraduates from Pell-eligible lower-income families, and more than 60 percent of all undergraduates receive financial aid in pursuit of their education. Meanwhile, more and more students are vying for a seat at the University, resulting in an acceptance rate of only 7 percent for the Class of 2026.

We would not be where we are without the collective dedication of our students, faculty, staff, alumni, and friends from around the world. Our global community has much to celebrate as we plan for a new year under a new president.

We look forward to rededicating ourselves in fiscal year 2023 to the pursuit of ever-higher levels of academic excellence. Today's financial strength lays the groundwork for future investments in our people and our programs. Our preeminence today is the bedrock of greater achievements as a community in years to come.

Craig Johnson
Executive Vice President

NEW PRESIDENT

On August 11, 2022, Michael H. Schill was named the 17th president of Northwestern University; he began his presidency on September 12. He also serves as a professor in the Northwestern Pritzker School of Law. Prior to joining Northwestern, Schill spent seven years as president of the University of Oregon. He has also served as dean and professor at the law schools of the University of Chicago and UCLA and held tenured faculty positions at New York University and the University of Pennsylvania. A nationally recognized expert in property, real estate, and housing law and policy, Schill is the author or co-author of three books and more than 40 scholarly articles.

FY22 ADMISSIONS

51,558
applicants

7%
admit rate

2,039
students in first-year class

More than
96%
in the top ten percent of their graduating class

CONTINUING EXCELLENCE

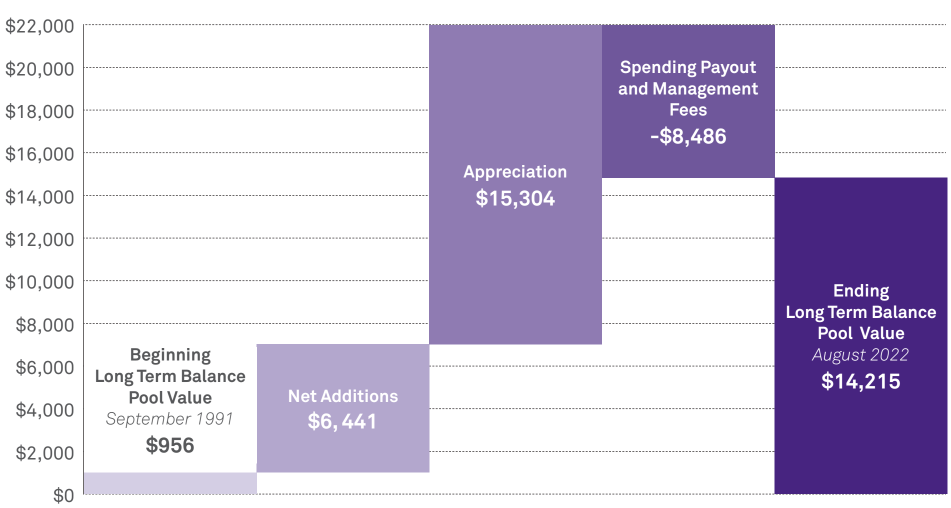
#10	#3	#11	#17	#24
NATIONAL UNIVERSITY	BUSINESS SCHOOL	EDUCATION SCHOOL	MEDICAL SCHOOL	GLOBAL UNIVERSITY

Rankings from *U.S. News & World Report* (except global ranking from *Times Higher Education*) as of September 2022

THE ENDOWMENT

The Long-Term Balanced Pool, used for endowed and quasi-endowed purposes, had an FY22 annual payout of $606 million.

FY92–FY22 Long-Term Balanced Pool increases and Payout (in millions of dollars)



FIELD HOCKEY CHAMPIONSHIP

In late November 2021, the Northwestern field hockey team won its first NCAA championship in program history, shutting out Liberty University 2-0. Head coach Tracey Fuchs's squad became the ninth Northwestern team overall to bring home a national championship.

MEDILL 100

From February 2021 through early 2022, Northwestern's Medill School of Journalism, Media, Integrated Marketing Communications marked its centennial with celebratory events and a wide range of guest speakers. The school was founded on February 8, 1921, with nine undergraduate students. Today, Medill provides instruction on five campuses around the world and has more than 18,000 alumni in journalism, media, marketing, communications, and other fields.

RESEARCH GROWTH

$923.8
million in annual sponsored research

3%
increase in awards over FY21

3,581
total awards in FY22

4%
increase in awards over FY21

Nearly
82%
increase in research award funding since 2012

CLASS OF 2026 DIVERSITY

26.9%
Asian American or Pacific Islander

13.4%
Black or African American

14.9%
Hispanic or Latino/a/x

1.8%
Native or Indigenous

50.3%
White

10.1%
International

15.3%
First-generation college students

21.5%
Pell Grant recipients

52.6%
Identify as BIPOC

Northwestern's reporting method tracks students who identify as multiple races/ethnicities in each category, so the numbers will exceed 100 percent.

KPMG LLP
Aon Center
Suite 5500
200 E. Randolph Street
Chicago, IL 60601-6436

Independent Auditors' Report

The Board of Trustees
Northwestern University:

Opinion

We have audited the consolidated financial statements of Northwestern University (the University), which comprise the consolidated statements of financial position as of August 31, 2022 and 2021, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the University as of August 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

KPMG

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Information Included in the Financial Report

Management is responsible for the other information included in the Northwestern 2022 Financial Report. The other information comprises the Northwestern University Highlight Report Fiscal Year 2022 but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

KPMG LLP

Chicago, Illinois
December 16, 2022

Consolidated Statements of Financial Position

As of August 31, 2022 and 2021

(in thousands of dollars)	*2022*	*2021*
Assets		
Cash and cash equivalents	$372,337	$285,059
Accounts receivable, *net*	275,580	218,147
Contributions receivable, *net*	206,677	259,037
Notes receivable, *net*	131,870	136,111
Investments	14,383,550	15,143,205
Right-of-use assets–operating, *net*	142,653	159,206
Land, buildings, and equipment, *net*	3,120,855	3,177,018
Total assets	**18,633,522**	**19,377,783**
Liabilities		
Accounts payable and accrued liabilities	217,086	206,908
Deferred revenue	292,267	205,750
Deposits payable and actuarial liability of annuities payable	191,533	199,041
Lease liabilities–operating	149,019	165,623
Bonds, notes, and other debt payable, *net*	2,432,759	2,538,133
Total liabilities	**3,282,664**	**3,315,455**
Net assets		
Without donor restrictions	9,413,091	9,863,772
With donor restrictions	5,937,767	6,198,556
Total net assets	**15,350,858**	**16,062,328**
Total liabilities and net assets	**$18,633,522**	**$19,377,783**

See Notes to the Consolidated Financial Statements, beginning on page 10.

Consolidated Statements of Activities

For the fiscal years ended August 31, 2022 and 2021

(in thousands of dollars)	*2022*	*2021*
Net assets without donor restrictions		
Operating revenues		
Net tuition and fees *(net of aid $558,947 in 2022 and $520,805 in 2021)*	$740,877	$659,916
Auxiliary services	108,327	40,528
Grants and contracts	828,525	752,376
Private gifts	270,909	232,369
Investment return designated for operations	436,784	421,626
Sales and services	217,826	156,004
Professional fees	53,960	48,537
Net assets released from restrictions	228,717	248,035
Total operating revenues	**2,885,925**	**2,559,391**
Operating expenses		
Salaries, wages, and benefits	1,556,945	1,477,348
Services, supplies, maintenance, and other	895,136	717,159
Depreciation	204,358	185,918
Interest on indebtedness	90,737	91,163
Total operating expenses	**2,747,176**	**2,471,588**
Excess of operating revenues over expenses	**$138,749**	**$87,803**

Consolidated Statements of Activities continued on next page.
See Notes to the Consolidated Financial Statements, beginning on page 10.

Consolidated Statements of Activities (continued)

For the fiscal years ended August 31, 2022 and 2021

(in thousands of dollars)	*2022*	*2021*
Nonoperating revenues and expenses		
Investment (loss) return, reduced by operating distribution	(621,639)	2,023,088
Change in value of derivative instruments	8,269	5,158
Net assets reclassified	16,652	(30,005)
Other nonoperating revenue (expenses), *net*	7,288	(4,594)
Excess (deficit) of nonoperating revenues over expenses	**(589,430)**	**1,993,647**
Change in net assets without donor restrictions	**(450,681)**	**2,081,450**

Net assets with donor restrictions

Net assets with donor restrictions		
Private gifts with donor restrictions and grants for buildings and equipment	10,100	250
Private gifts with donor restrictions	115,091	169,233
Net gain on annuity obligation	3,034	12,536
Investment (loss) return with donor restrictions	(143,645)	1,555,308
Net assets reclassified	(16,652)	30,005
Net assets released from restrictions	(228,717)	(248,035)
Change in net assets with donor restrictions	**(260,789)**	**1,519,297**
Change in total net assets	**(711,470)**	**3,600,747**
Beginning net assets	**16,062,328**	**12,461,581**
Ending net assets	**$15,350,858**	**$16,062,328**

See Notes to the Consolidated Financial Statements, beginning on page 10.

Consolidated Statements of Cash Flows

For the fiscal years ended August 31, 2022 and 2021

(in thousands of dollars)	*2022*	*2021*
Cash flows from operating activities		
Change in net assets	($711,470)	$3,600,747
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	204,358	185,918
Losses on disposals, retirements, and sales of buildings and equipment, *net*	4,574	3,454
Accretion of debt issuance costs, premiums, and discounts, *net*	(584)	(453)
Realized and unrealized (gains) losses on investments, *net*	354,100	(3,973,382)
Gifts of contributed securities	(43,446)	(58,582)
Proceeds from sale of unrestricted contributed securities	19,950	48,212
Change in value of derivative instruments	(8,269)	(5,158)
Restricted contributions received for long-term investment and capital projects	(118,748)	(112,724)
Changes in assets and liabilities		
Accounts receivable	(60,945)	(1,253)
Contributions receivable	29,584	14,736
Reduction in the carrying amount of the right-of-use assets–operating	16,553	21,639
Accounts payable and accrued liabilities	8,710	(1,483)
Deferred revenue	86,517	73,086
Deposits payable and actuarial liability of annuities payable	8,981	(26,919)
Lease liabilities–operating	(16,604)	(20,315)
Net cash used in operating activities	**(226,739)**	**(252,477)**
Cash flows from investing activities		
Purchases of investments	(2,623,339)	(2,545,240)
Proceeds from sales of investments	3,021,023	2,975,480
Acquisitions of land, buildings, and equipment	(146,871)	(121,957)
Proceeds from sale of land, buildings, or equipment	3,839	4,103
Student loans disbursed	(25,179)	(21,506)
Principal collected on student loans	30,035	31,723
Other	(615)	(251)
Net cash provided by investing activities	**257,893**	**322,352**
Cash flows from financing activities		
Proceeds from issuance of notes, bonds, and other debt payable	—	100,000
Principal payments on notes, bonds, and other debt payable	(104,790)	(393,450)
Proceeds from sale of restricted contributed securities	18,390	10,370
Restricted contributions received for long-term investment and capital projects	141,524	116,822
Net cash (used in) provided by financing activities	**55,124**	**(166,258)**
(Decrease) increase in cash and cash equivalents	**87,278**	**(96,383)**
Cash and cash equivalents at beginning of year	**285,059**	**381,442**
Cash and cash equivalents at end of year	**$372,337**	**$285,059**
Supplemental disclosure of cash flow information		
Change in accrued liabilities for construction in progress	$9,653	($10,246)
Cash paid for interest	91,343	91,549

See Notes to the Consolidated Financial Statements, beginning on page 10.

Notes to the Consolidated Financial Statements

For the fiscal years ended August 31, 2022 and 2021

1. Summary of Significant Accounting Policies

University Activities

Northwestern University (Northwestern or the University) is a major private research university with more than 23,000 students enrolled in 12 colleges and schools 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 inter-entity 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 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 10, 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) 2022

Nature of specific net assets	Without donor restrictions	With donor restrictions	Total net assets
Teaching, research, and program support	$3,188,523	$3,815,249	$7,003,772
Student financial aid	838,033	1,121,571	1,959,604
Capital and operations	1,235,834	680,640	1,916,474
Endowment net assets subtotal	**5,262,390**	**5,617,460**	**10,879,850**
Pledges	—	206,677	206,677
Unexpended gifts	—	24,899	24,899
Annuity and other split-interest agreements	—	54,917	54,917
Student loan funds	63,113	33,814	96,927
Operating and plant	4,087,588	—	4,087,588
Total	**$9,413,091**	**$5,937,767**	**$15,350,858**

(in thousands of dollars)			*2021*
Nature of specific net assets	**Without donor restrictions**	**With donor restrictions**	**Total net assets**
Teaching, research, and program support	$3,380,552	$3,937,558	$7,318,110
Student financial aid	886,967	1,144,384	2,031,351
Capital and operations	1,294,610	717,111	2,011,721
Endowment net assets subtotal	**5,562,129**	**5,799,053**	**11,361,182**
Pledges	—	259,037	259,037
Unexpended gifts	—	31,260	31,260
Annuity and other split-interest agreements	—	66,946	66,946
Student loan funds	63,392	42,260	105,652
Operating and plant	4,238,251	—	4,238,251
Total	**$9,863,772**	**$6,198,556**	**$16,062,328**

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, 2022 and 2021. 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 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. The amount will be recognized as revenue in the periods in which the conditions are fulfilled. 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. As of August 31, 2022, there was a conditional promise to give totaling $385 million. This gift, with donor restrictions, is conditioned upon the completion of a new building. There were no significant conditional promises to give as of August 31, 2021.

Leases

The University has entered into a variety of operating leases for real estate. On the consolidated statements of financial position, operating leases as a lessee are included in right-of-use assets—operating, net, and lease liabilities—operating. Right-of-use assets represent the University's right to use an underlying asset for the lease term. Lease obligations represent the University's liability to make lease payments arising from the lease. The obligations associated with these leases have been recognized at their respective commencement dates as a liability in the consolidated statements of financial position based on future lease payments, discounted by an appropriate incremental borrowing rate. The incremental borrowing rate is based on the estimated interest rate for borrowing over a term similar to that of the lease payments available at the commencement of the lease. The credit quality of the University and current prevailing market conditions were factors used to determine the incremental borrowing rate.

Lease terms may include options to extend or terminate certain leases. The value of a lease is reflected in the valuation if it is reasonably certain management will exercise an option to extend or terminate a lease.

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.

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 post-retirement medical and life insurance benefits are based on actuarial studies and management estimates. See notes 11 and 13 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 2023 noncancelable fall-quarter tuition and fees, billed and received in fiscal year 2022, are reported as deferred revenue in fiscal year 2022. Fiscal year 2022 noncancelable fall-quarter tuition and fees, billed and received in fiscal year 2021, are reported as deferred revenue in fiscal year 2021. (For further discussion of deferred revenues, see note 7.) Of the $740.9 million and $659.9 million in revenue recognized for the years ended August 31, 2022 and 2021, respectively, $699.3 million and $633.9 million, respectively, was from academic credit programs, and $41.6 million and $26 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 $108.3 million and $40.5 million in revenue recognized for the years ended August 31, 2022 and 2021, respectively, $99.4 million and $40.3 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, 2022 and 2021, were $715.2 million and $743.4 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 2019 through 2021.

The University had no uncertain tax positions in fiscal year 2022 or fiscal year 2021.

The University is subject to excise taxes on executive compensation, net investment income, and the calculation of UBTI. For the years ended August 31, 2022 and 2021, the University is subject to the federal excise tax of 1.4 percent.

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) 2018-14, *Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*. This ASU amends ASC 715 to add, remove, and clarify disclosure requirements related to defined benefit pension and other postretirement plans. For the University, the ASU removed the disclosure requirements for the effects of a one-percentage-point change on the assumed healthcare costs and the effect of this change in rates on service cost, interest cost, and the benefit obligation for postretirement healthcare benefits. The University adopted the new standard effective August 31, 2022, and the adoption did not impact its consolidated financial statements, except for the removal of the disclosure requirements mentioned above.

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software or software licenses. The University adopted this new accounting standard on September 1, 2021, on a prospective basis. The adoption of this ASU did not have a material impact on the University's 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. The University is currently evaluating the impact of the standard, which is effective for the University in fiscal year 2024.

Current Environment

The University continued to manage through the coronavirus pandemic in fiscal year 2022.

The US Congress passed the Coronavirus Aid, Relief, and Economic Security Act on March 27, 2020, the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) on December 21, 2020, and the American Rescue Plan Act (ARPA) on March 11, 2021, which provided economic assistance for certain businesses and individuals. The University drew down funding under the CRRSAA and the ARPA Acts' provisions in fiscal year 2022 only. The total amount of Student Funds drawn down and disbursed directly to students as Emergency Financial Aid Grants was $15.3 million. The total amount of Institutional Funds drawn down and spent on campus safety and operations costs was $4.5 million.

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)	*2022*	*2021*
Research and other sponsored programs support	$169,193	$125,633
Student receivables	37,460	15,568
Other receivables	69,521	77,573
Accounts receivable subtotal	**276,174**	**218,774**
Less allowances for student uncollectible amounts	(594)	(627)
Total accounts receivable, *net*	**$275,580**	**$218,147**

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

(in thousands of dollars)	*2022*	*2021*
Notes receivable	$134,170	$138,384
Less allowances for student uncollectible amounts	(2,300)	(2,273)
Total notes receivable, *net*	**$131,870**	**$136,111**

3. Contributions Receivable

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

(in thousands of dollars)	*2022*	*2021*
Unconditional promises expected to be collected in		
Less than one year	$48,825	$105,127
One to five years	101,958	92,615
More than five years	85,416	86,375
Contributions receivable subtotal	**236,199**	**284,117**
Less unamortized discounts	(26,237)	(24,168)
Less allowances for uncollectible amounts	(3,285)	(912)
Total contributions receivable, *net*	**$206,677**	**$259,037**

Contributions receivable are discounted at rates ranging from 0.28 to 3.5 percent. There are two unconditional promises that make up 56 percent and 53 percent of the total contributions receivable balance as of August 31, 2022 and 2021, respectively.

4. Investments

The University's investments are overseen by the Investments Committee of the Board of Trustees. Guided by the policies established by the Investment Committee, the University's Investment Office or external equity investment managers, external and internal fixed income and cash managers, and various limited partnership managers direct the investment of endowment and trust assets, certain working capital, 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)					*2022*
	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	$482,738	—	—	—	482,738
Public equity	372,126	—	$147	$3,481,797	3,854,070
Private equity	38,685	$ 321	15,203	1,503,206	1,557,415
Fixed income	93,869	830,898	—	—	924,767
Absolute return	—	—	—	2,064,494	2,064,494
Venture capital	1,127	—	3,904	3,219,881	3,224,912
Real assets	67,174	15,350	665	2,101,351	2,184,540
Other investments	45,542	300	26,923	—	72,765
Subtotal investment assets at fair value	**1,101,261**	**846,869**	**46,842**	**12,370,729**	**14,365,701**[a]
Interest rate swaps	—	(2,591)	—	—	(2,591)
Total	**$1,101,261**	**$844,278**	**$46,842**	**$12,370,729**	**$14,363,110**

[a] *Investments held at cost totaling $28,935 thousand should be added to the subtotal investment assets at fair value, and beneficial interest in charitable remainder trusts totaling $11,086 thousand should be subtracted from the subtotal investment assets at fair value to reconcile to total investment assets of $14,383,550 thousand as of August 31, 2022.*

(in thousands of dollars)					*2021*
	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	$597,651	—	—	—	$597,651
Public equity	672,403	$94	$178	$3,621,885	4,294,560
Private equity	—	321	10,203	1,569,438	1,579,962
Fixed income	106,039	730,662	—	—	836,701
Absolute return	—	—	—	2,190,692	2,190,692
Venture capital	—	—	4,859	3,618,959	3,623,818
Real assets	123,089	15,089	665	1,791,722	1,930,565
Other investments	50,684	454	29,765	—	80,903
Subtotal investment assets at fair value	**1,549,866**	**746,620**	**45,670**	**12,792,696**	**15,134,852**[a]
Interest rate swaps	—	(10,860)	—	—	(10,860)
Total	**$1,549,866**	**$735,760**	**$45,670**	**$12,792,696**	**$15,123,992**

[a] *Investments held at cost totaling $22,952 thousand should be added to the subtotal investment assets at fair value, and beneficial interest in charitable remainder trusts totaling $14,599 thousand should be subtracted from the subtotal investment assets at fair value to reconcile to total investment assets of $15,143,205 thousand as of August 31, 2021.*

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 partnership investments 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, 2022 and 2021:

(in thousands of dollars)	*2021*					*2022*
	Fair value	**Purchases**	**Sales and settlements**	**Realized and unrealized gains (losses)**	**Transfers into and out of Level 3**	**Fair value**
Public equity	$178	—	—	($31)	—	$147
Private equity	10,203	$5,000	—	—	—	15,203
Venture capital	4,859	—	($1,250)	295	—	3,904
Real assets	665	—	—	—	—	665
Other investments	29,765	—	—	(2,842)	—	26,923
Total investments	**$45,670**	**$5,000**	**($1,250)**	**($2,578)**	**—**	**$46,842**

(in thousands of dollars)	*2020*					*2021*
	Fair value	**Purchases**	**Sales and settlements**	**Realized and unrealized gains (losses)**	**Transfers into and out of Level 3**	**Fair value**
Public equity	$67	$164	—	($53)	—	$178
Private equity	203	10,000	—	—	—	10,203
Venture capital	6,292	667	($1,550)	(528)	($22)	4,859
Real assets	2,440	—	(1,775)	—	—	665
Other investments	25,644	—	—	4,121	—	29,765
Total investments	**$34,646**	**$10,831**	**($3,325)**	**$3,540**	**($22)**	**$45,670**

In fiscal year 2022, there were no transfers into or out of Level 3. In fiscal year 2021, one investment was transfered out of Level 3 as the company successfully completed an initial public offering; the investment is now classified as Level 1.

As of August 31, 2022 and 2021, 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 $3.3 million and $3.6 million as of August 31, 2022 and 2021, 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, 2022, the University was committed to making future capital contributions of $2.9 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
Public equity	$3,854,070	No limit	$128,212	Daily to greater than annually, with 1- to 180-day notice periods	Lock-up provisions ranging from none to 5 years; side pockets on many funds
Private equity	$1,557,415	No limit to 12 years	$1,083,880	Partnerships ineligible for redemption; equity securities daily, with 1-day notice	Private partnerships not redeemable; equity securities have no lock-up provisions
Fixed income	$924,767	No limit	—	Daily	No lock-up provisions
Absolute return	$2,064,494	No limit	$390,744	Daily to greater than annually, with 1- to 120-day notice periods; private partnerships ineligible for redemption	Lock-up provisions ranging from none to 3 years; side pockets on many funds; one partnership not redeemable
Venture capital	$3,224,912	No limit to 12 years	$552,470	Partnerships ineligible for redemption; equity securities daily, with 1-day notice	Private partnerships not redeemable; equity securities have no lock-up provisions
Real assets	$2,184,540	No limit to 14 years	$744,670	Partnerships ineligible for redemption; commodity and equity funds weekly to quarterly, with 1- to 60-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 public equity categories include investments in US equity, international equity, and long-short equity strategies via separately managed accounts, partnerships, and commingled funds. US equity strategies include large-, mid-, and small-cap public equities.

International equities include developed market (ex–US public equities) and emerging market strategies. Seven investments in public equity 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 absolute return portfolio is weighted toward uncorrelated strategies, diversifying event-driven or hedged tactical credit strategies, and distressed debt funds. One investment in this portfolio may not be redeemed over the next year due to lock-up provisions.

As of August 31, 2022, 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, 2022 and 2021, the University posted $0 million and $52.3 million, respectively, of Treasury bonds and public equity as a source of collateral for an alternative investment strategy.

The private equity portfolio includes investments in global buyout, including large cap, middle market, and growth equity. Venture capital includes investments in early stage and late stage fund vehicles. 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. Gross investment income from specific investments held at cost totaled $17.7 million and $14.8 million for the fiscal years ended August 31, 2022 and 2021, respectively. Investment expenses related to specific investments held at cost totaled $4.7 million and $4.1 million for the fiscal years ended August 31, 2022 and 2021, 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 interest rate swaps and has maintained those positions since fiscal year 2008.

The University continued its use of uncollateralized variable-to-fixed-rate interest rate swaps during fiscal year 2022 and has maintained those positions since fiscal year 2008. The University manages its exposure to interest rate risk by using highly rated counterparties and on a net basis had obligations to counterparties as of August 31, 2022 and 2021, as disclosed in the following tables. As a result, the University has limited its interest rate risk associated with $125 million in variable-rate debt (IFA–Series 2008 bonds).

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) *2022*

	Notional amount	Assets	Liabilities	Fiscal year net gain	Interest rate range	Maturity date
Debt-related derivatives						
Interest rate swaps	$125,002	—	($2,591)	$8,269	4.12–4.38%	08/31/23
Total derivative financial instruments	**$125,002**	**—**	**($2,591)**	**$8,269**	4.12–4.38%	08/31/23

(in thousands of dollars) *2021*

	Notional amount	Assets	Liabilities	Fiscal year net gain	Interest rate range	Maturity date
Debt-related derivatives						
Interest rate swaps	$125,002	—	($10,860)	$5,158	4.12–4.38%	08/31/23
Total derivative financial instruments	**$125,002**	**—**	**($10,860)**	**$5,158**	4.12–4.38%	08/31/23

5. Land, Buildings, and Equipment

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

(in thousands of dollars)	*2022*	*2021*
Land	$29,986	$31,036
Construction-in-progress	75,399	30,832
Buildings and leasehold improvements	4,721,191	4,667,413
Equipment	746,311	718,130
Accumulated depreciation	(2,452,032)	(2,270,393)
Total land, buildings, and equipment, *net*	**$3,120,855**	**$3,177,018**

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.

6. Leases

University as Lessee

At August 31, 2022, the net operating right-of-use assets and corresponding operating lease liabilities associated with future lease payments on the consolidated statements of financial position were $142.7 million and $149 million, respectively. At August 31, the University did not recognize any finance leases. Other lease information is summarized below.

(in thousands of dollars)	*2022*	*2021*
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$24,252	$22,856
Right-of-use assets obtained in exchange for new operating lease liabilities	$4,632	$569
Weighted average remaining lease term	11 years	12 years
Weighted average discount rate	1.52%	1.51%

There were no additions to the carrying amount of right-of-use assets resulting from lease modifications or reassessments in fiscal years 2022 and 2021.

Lease Cost

The components of lease expense—included in services, supplies, maintenance, and other—for the fiscal years ended August 31 are as shown in the following table:

(in thousands of dollars)	*2022*	*2021*
Operating lease expense	$24,648	$24,180
Variable lease expense	494	535
Less sublease income	(3,461)	(4,553)
Total lease expense	**$21,681**	**$20,162**

Future Lease Payments

Shown below are the lease payments expected to be paid for each fiscal year ending August 31:

(in thousands of dollars)	
2023	$21,211
2024	18,009
2025	18,193
2026	17,894
2027	17,345
2028 and thereafter	67,595
Total future lease payments	160,247
Less present value discount	(11,228)
Lease liabilities—operating	**$149,019**

University as Lessor

The University is entitled as lessor under its operating leases to receive rental income. Operating leases consist primarily of leases for the use of real property and have terms expiring through fiscal year 2040. The future minimum rental revenues associated with these leases through fiscal year 2040 are $27.7 million.

7. Deferred Revenue

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

(in thousands of dollars)	*2022*	*2021*
Tuition and housing	$162,474	$86,444
Sponsored contracts (exchange)	104,797	81,386
Conditional contributions and grants	12,773	21,079
Other deferred revenue	12,223	16,841
Total deferred revenue	**$292,267**	**$205,750**

8. 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)	*2022*	*2021*
Agency deposits	$164,880	$169,600
Actuarial liability of annuities	16,349	19,213
Student tuition and room and board	8,468	7,643
Other deposits payable	1,836	2,585
Total deposits payable and actuarial liability of annuities payable	**$191,533**	**$199,041**

9. Bonds, Notes, and Other Debt Payable

Bonds, notes, and other debt payable as of August 31 are summarized on the consolidated statements of financial position as follows:

(in thousands of dollars)	**Interest rate mode**	**Fiscal year maturity**	**Interest rate** [a]	*2022*	*2021*
Illinois Finance Authority (IFA)–Series 2004	Variable	2035	1.45%	$135,800	$135,800
IFA–Series 2008	Variable	2047	1.47%	125,000	125,000
Taxable–Series 2012	Fixed	2040–2048	4.20%	200,000	200,000
Taxable–Series 2013	Fixed	2034–2045	4.64%	547,915	552,705
Taxable–Series 2015	Fixed	2035–2049	3.80%	500,000	500,000
IFA–Series 2015	Fixed	2023–2029	2.96%	128,545	128,545
Taxable–Series 2017	Fixed	2048–2058	3.71%	500,000	500,000
Taxable–Series 2020	Fixed	2050–2051	2.64%	300,000	300,000
Commercial paper ($300,000 available)	Variable	NA	NA	—	100,000
Bonds, notes, and other debt payable subtotal				**2,437,260**	**2,542,050**
Unamortized issuance costs, premiums, and discounts, *net*				(4,501)	(3,917)
Total bonds, notes, and other debt payable, *net*				**$2,432,759**	**$2,538,133**

[a] *Weighted average interest rate at August 31, 2022*

Total obligations including bonds, notes, and other debt payable at August 31, 2022, 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, 2022. 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)

2023	$6,660
2024	7,710
2025	10,240
2026	10,750
2027	29,840
2028 and thereafter	2,372,060
Total	**$2,437,260**

10. 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 2,900 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			*2022*
	Without donor restrictions	**Funds held in perpetuity**	**Accumulated gains (losses)**	**Total**	**Total funds**
Institution-designated endowment funds	$5,262,391				$5,262,391
With donor restrictions					
Underwater funds		$96,539	($4,574)	$91,965	91,965
All other funds		1,962,766	3,562,729	5,525,495	5,525,495
Endowment net assets, end of year	**$5,262,391**	**$2,059,304**	**$3,558,155**	**$5,617,460**	**$10,879,850**

(in thousands of dollars)		With donor restrictions			*2021*
	Without donor restrictions	**Funds held in perpetuity**	**Accumulated gains (losses)**	**Total**	**Total funds**
Institution-designated endowment funds	$5,562,129				$5,562,129
With donor restrictions					
Underwater funds		$400	($28)	$372	372
All other funds		1,893,812	3,904,869	5,798,681	5,798,681
Endowment net assets, end of year	**$5,562,129**	**$1,894,212**	**$3,904,841**	**$5,799,053**	**$11,361,182**

Underwater Endowment Funds

The University monitors endowment funds to identify those for which historical cost was more than fair value. Associated unrealized losses of $4.6 million and $0.03 million as of August 31, 2022 and 2021, 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)			*2022*
	Without donor restrictions	**With donor restrictions**	**Total**
Endowment net assets, beginning of year	$5,562,129	$5,799,053	$11,361,182
Interest and dividends, net of expenses	(28,802)	(27,062)	(55,864)
Net depreciation, realized and unrealized	(116,426)	(109,390)	(225,817)
Total investment loss	**(145,228)**	**(136,452)**	**(281,680)**
Contributions	—	130,194	130,194
Appropriation of endowment assets for expenditure	(190,612)	(204,791)	(395,403)
Other changes			
Transfers to create institutional funds	56,659	—	56,659
Transfers of institutional funds per donor requirement	—	32,375	32,375
Spending of institution-designated endowment fund	(14,729)	—	(14,729)
Other reclassifications	(5,829)	(2,919)	(8,748)
Endowment net assets, end of year	**$5,262,391**	**$5,617,460**	**$10,879,850**

(in thousands of dollars)			*2021*
	Without donor restrictions	**With donor restrictions**	**Total**
Endowment net assets, beginning of year	$4,216,889	$4,267,817	$8,484,706
Interest and dividends, net of expenses	(4,439)	(4,568)	(9,007)
Net appreciation, realized and unrealized	1,515,797	1,560,019	3,075,816
Total investment return	**1,511,358**	**1,555,451**	**3,066,809**
Contributions	—	123,724	123,724
Appropriation of endowment assets for expenditure	(185,220)	(193,475)	(378,695)
Other changes			
Transfers to create institutional funds	66,730	—	66,730
Transfers of institutional funds per donor requirement	—	19,583	19,583
Spending of institution-designated endowment fund	(15,427)	—	(15,427)
Other reclassifications	(32,201)	25,953	(6,248)
Endowment net assets, end of year	**$5,562,129**	**$5,799,053**	**$11,361,182**

11. 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 $85.5 million and $58.7 million to the two plans in 2022 and 2021, 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 post-employment benefit programs and the accumulated postretirement benefit obligation (APBO) for post-retirement benefit programs, such as a retiree health-care 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 $7.8 million and $8.1 million at August 31, 2022 and 2021, 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)	*2022*	*2021*
Benefit obligation	$16,396	$23,156
Benefits paid	3,127	3,300
Employer contributions	2,068	2,457
Contributions from participants	1,059	843
Net periodic postretirement benefit cost	2,065	1,843
Fair value of plan assets	—	—

Service costs included in net periodic post-retirement benefit cost above totaled $1.1 million as of August 31, 2022 and 2021.

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 $33 thousand and $6.8 million as of August 31, 2022 and 2021, respectively, for a decrease of $6.8 million due to net losses during the fiscal year.

The APBO was $16.4 million and $23.2 million at August 31, 2022 and 2021, 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, 2022 and 2021. For both fiscal years 2022 and 2021, the ultimate healthcare cost trend rate was 5 percent, and the year when the trend rate will reach the ultimate trend rate was 2031.

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

	2022	*2021*
Weighted average settlement (discount) rate	4.3%	2.3%
Weighted average rate of increase in future compensation levels	3.0%	2.5%
Healthcare cost trend rate	7.0%	6.0%

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

	2022	*2021*
Discount rate	2.3%	2.2%
Weighted average rate of increase in future compensation levels	2.5%	2.0%
Healthcare cost trend rate	5.0%	6.25%

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)	
2023	$1,073
2024	976
2025	1,038
2026	1,078
2027	1,144
2028–2032	6,318
Total	**$11,627**

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 $117.7 million and $134.2 million as of August 31, 2022 and 2021, respectively; these are included in investments and deposits payable and actuarial liability of annuities payable on the consolidated statements of financial position.

12. 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.

The University maintains several clinical and education affiliation agreements with other organizations. Revenues and expenses from these agreements are accounted for in the operating activities section of the consolidated statement of activities. The most significant agreements are with Northwestern Medical Group (NMG) and Northwestern Memorial Healthcare Corporation (NMHC). 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 NMHC, the not-for-profit parent corporation of Northwestern Memorial Hospital (NMH), which is the primary teaching hospital of Feinberg. 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.

13. Self-Insurance Reserves and Other Contingencies

Reserves for losses under the University's self-insurance program, aggregating $14.9 million and $12.2 million at August 31, 2022 and 2021, 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 in fiscal years 2022 and 2021. 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.

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.

14. 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)	*2022*	*2021*
Federal grants	$653,671	$585,764
Private grants and contracts	169,621	162,496
State grants	5,233	4,116
Total grants and contracts	**$828,525**	**$752,376**

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.

15. Liquidity and Availability

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

(in thousands of dollars)	*2022*	*2021*
Financial assets		
Cash and cash equivalents	$372,337	$285,059
Accounts receivable, *net*	264,493	196,318
Notes receivable	28,570	38,081
Contributions receivable	24,096	46,091
Endowment payout made available for operations	666,000	515,300
Financial assets available within one year	**1,355,496**	**1,080,849**
Liquidity resources		
Commercial paper	300,000	200,000
Bank lines of credit	625,000	725,000
Total financial assets and liquidity resources available within one year for general expenditure	**$2,280,496**	**$2,005,849**

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, 2022, and outstanding borrowings of $100 million existed as of August 31, 2021. The University also may draw $625 million in standby lines of credit to supplement working capital requirements. Under this agreement, no outstanding borrowings existed as of August 31, 2022 and 2021.

Lastly, the University holds institution-designated endowments of $5,262 million and $5,562 million as of August 31, 2022 and 2021, 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.

16. Functional Classification of Expenses

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

(in thousands of dollars)				*2022*
	Academic	**Research**	**Support**	**Total**
Salaries, wages, and benefits	$953,253	$329,092	$274,600	$1,556,945
Services, supplies, maintenance, and other	621,709	220,951	52,476	895,136
Depreciation	138,941	48,837	16,580	204,358
Interest on indebtedness	61,692	21,683	7,362	90,737
Total	**$1,775,595**	**$620,563**	**$351,018**	**$2,747,176**

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

17. Subsequent Events

The University has evaluated subsequent events in accordance with the FASB ASC Subsequent Event Topic through December 16, 2022, the date when the consolidated financial statements were issued. The University did not identify any events to be disclosed.

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