2021 FINANCIAL REPORT

Northwestern

Report of the Executive Vice President

In fiscal year 2021, the second year in which the Northwestern community was impacted by the global coronavirus pandemic, the University's chief priorities were to sustain academic excellence and fiscal strength while safely restoring full campus operations.

The year began with limited on-campus operations for the fall quarter and declines in key revenue sources. Activities on campus resumed in winter and spring, with significant investments in health and safety initiatives. As revenues stabilized over the course of the year and operating costs remained at lower-than-normal levels, the University ended the fiscal year with a positive operating performance of $87.8 million. Net assets increased to over $16 billion, driven by strong performance in the financial markets that resulted in a 37 percent annual return for the University's endowment.

Northwestern's ability to manage such operational and financial uncertainty was made possible by the extraordinary efforts and resiliency of our faculty and staff working under considerable constraints. Our community responded to cost-containment measures with dedication and entrepreneurialism.

The University community stayed true to the shared pursuit of excellence that defines Northwestern, making further strides in academic quality. Northwestern ranked ninth in the nation for the third consecutive year in *U.S. News & World Report*. Sponsored research funding, a crucial benchmark, reached a new high of $893.4 million across a range of disciplines. We also concluded the "We Will" Campaign with gifts from more than 174,000 donors who raised $6.1 billion, far surpassing the original goal of $3.75 billion.

Northwestern also made progress on diversity and social justice. The Class of 2025 is the first class in which more than half the undergraduates identify as Black, Indigenous and people of color. More than 20 percent of this entering class receives Pell Grants for lower-income families, and over 60 percent receive some amount of financial aid. The University fulfilled a number of commitments advancing racial and social justice, including the naming of a new chief diversity officer, the renovation of the Black House for the Black campus community, the inaugural racial equity grant program, expanded social justice and anti-racism training, and refined safety and security practices.

Building meaningfully on a foundation of excellence can be challenging in ordinary times; so, too, is preserving and accelerating excellence in demanding years. Northwestern's progress this past year is a testament to the determination shown by our faculty, students, staff, alumni, and friends around the world to advance our academic and research mission. I am grateful for your continued commitment to Northwestern and look forward to all we will accomplish together in the coming year.

Craig Johnson
Executive Vice President

We Will. The Campaign for Northwestern

Among the most successful fundraising campaigns in the history of higher education, the "We Will" Campaign raised nearly four times the amount of Northwestern's previous campaign. The Campaign brought in $6.1 billion from a total of 174,380 donors. Each year of the Campaign, more than 10,000 alumni, parents, and friends made cumulative annual gifts of $1,000 or more, and over the course of the Campaign, 76,092 donors also were members of NU Loyal, a giving society that recognizes donors who support the University year after year. The capstone to the Campaign was a $480 million gift—the largest in Northwestern's history—from the Patrick G. '59, '09 H and Shirley W. Ryan '61, '19 H ('97, '00 P) Family. This gift will accelerate breakthroughs in biomedical, economics, and business research and enable the University to redevelop Ryan Field and construct a best-in-class venue for the Northwestern community.

$6.1 BILLION RAISED

174,380	97,421	626,796	116
total donors	first-time donors	gifts	countries in which our donors live

CONTINUING EXCELLENCE

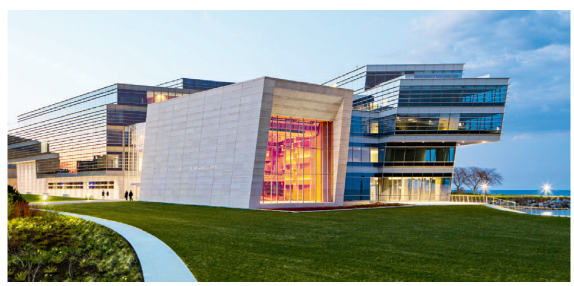
#9	#4	#8	#12	#15	#24
NATIONAL UNIVERSITY	BUSINESS SCHOOL	EDUCATION SCHOOL	LAW SCHOOL	MEDICAL SCHOOL	GLOBAL UNIVERSITY

Rankings from *U.S. News & World Report* (except global ranking from *Times Higher Education*) as of September 2021

SUPPORT FOR FACULTY AND RESEARCH

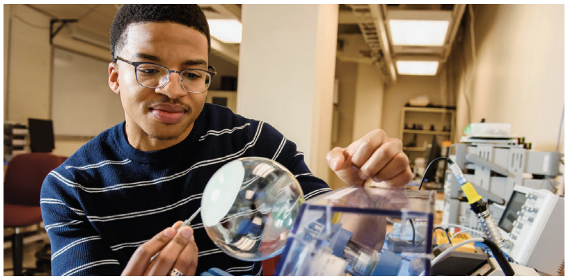
Campaign funds created a total of **90 endowed professorships** to attract and retain top faculty. Of these, 25 were supported in part by the Ryan Family Chair Challenge, which matched gifts made by other Northwestern supporters to establish new endowed professorships, or chairs, across a wide range of disciplines. In addition, **17 University research institutes and centers**—and many additional programs and centers throughout Northwestern's schools and units—were established through the Campaign.

SUPPORT FOR FACILITIES



The Campaign transformed Northwestern's campuses. Funds raised supported the construction of **25 new facilities** on the Evanston and Chicago campuses—22 in Evanston and 3 in Chicago—along with **32 major renovations**. New state-of-the-art facilities include the Segal Visitors Center, Patrick G. and Shirley W. Ryan Center for the Musical Arts (above), Global Hub, Ryan Fieldhouse, and Simpson Querrey Biomedical Research Center.

INCREASED RESEARCH FUNDING



Awards from foundations, corporations, and federal agencies totaled **$893.4 million** in fiscal year 2021—an increase of more than 74 percent since fiscal year 2011. Northwestern ranks 15th in total National Institutes of Health awards among institutions in the Association of American Universities.

INCREASED FINANCIAL AID

Undergraduate financial aid

$106M 2010–11 → **$209M** 2020–21

Support for PhD students

$88.9M 2010–11 → **$164.3M** 2020–21

SUPPORT FOR DIVERSITY

The Campaign raised **$96.5 million** in support for 184 diversity, equity, and inclusion–focused initiatives across the University, including the Black House (above) renovations, social justice education, and programs at the Center for Native American and Indigenous Research, the Institute for Sexual and Gender Minority Health and Wellbeing, and the Center for the Study of Diversity and Democracy. In addition, 19 new endowed scholarships for international undergraduate students were created.

MORE DIVERSE ENTERING CLASS

24.5%
Asian American

12%
Black or African American

17%
Hispanic or Latinx

1.8%
Native American, Native Hawaiian, or Indigenous

52.2%
White

10.5%
International

15%
First-generation college students

Northwestern's reporting method tracks students who identify as multiple races/ethnicities in each category, so the numbers will exceed 100 percent. Over 20 percent of the Class of 2025 indicated two or more races/ethnicities.

Investment Report

For the fiscal year ended August 31, 2021, the University's Long-Term Balanced Pool posted a gain of 37 percent. The gain was achieved in a buoyant environment for markets, with double-digit positive returns for global equities (MSCI ACWI Index 28.6 percent) in the period. The performance for the 12 months ended August 31, 2021, is among the highest in recent memory. While the 37 percent return was heavily influenced by extremely positive results from several venture capital and growth equity managers, there were broad-based contributions across the Long-Term Balanced Pool in both absolute terms and relative to benchmarks. 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 and absolute return also had positive relative performance. The venture capital portfolio was the primary catalyst as it benefitted from enormous value creation. Transformative software trends and business disruption continued to drive successful company formation and earnings growth.

The market value of the Long-Term Balanced Pool was $14.9 billion at fiscal year end, an increase from $11.1 billion at August 31, 2020. Investment gains of $4.36 billion and other inflows were more than spending and administrative support of $588 million.

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. On August 31, 2021, the University's investment assets—including the Long-Term Balanced Pool, cash, and separately invested University holdings—totaled $15.3 billion.

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 following discussion.

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, 2021

	2017	*2018*	*2019*	*2020*	*2021*
Long-Term Balanced Pool					
Net asset value *(in thousands of dollars)*	$10,456,022	$11,014,417	$10,800,749	$11,131,111	$14,902,788
Number of units *(in thousands)*	43,212	43,702	44,089	44,825	45,713
Net asset value per unit	$241.97	$252.03	$244.97	$248.32	$326.01
Summary of net asset value *(in thousands of dollars)*					
Treasury pool funds	$174,503	$192,449	$199,405	$202,114	$199,580
Separately invested funds	$155,403	$146,043	$143,814	$139,157	$155,423
Total net asset value *(in thousands of dollars)*	**$10,785,928**	**$11,352,909**	**$11,143,968**	**$11,472,382**	**$15,257,791**

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 2021 was 4.4 percent. The spending guideline above is under review by the Finance Committee of the Board of Trustees. To preserve revenue stabilization in the fiscal year 2022 operating budget, University management proposed a 2.26 percent increase in total spending per unit, which was approved by the Board of Trustees.

Payout Determined by Spending Guideline, Fiscal Years 2017–21

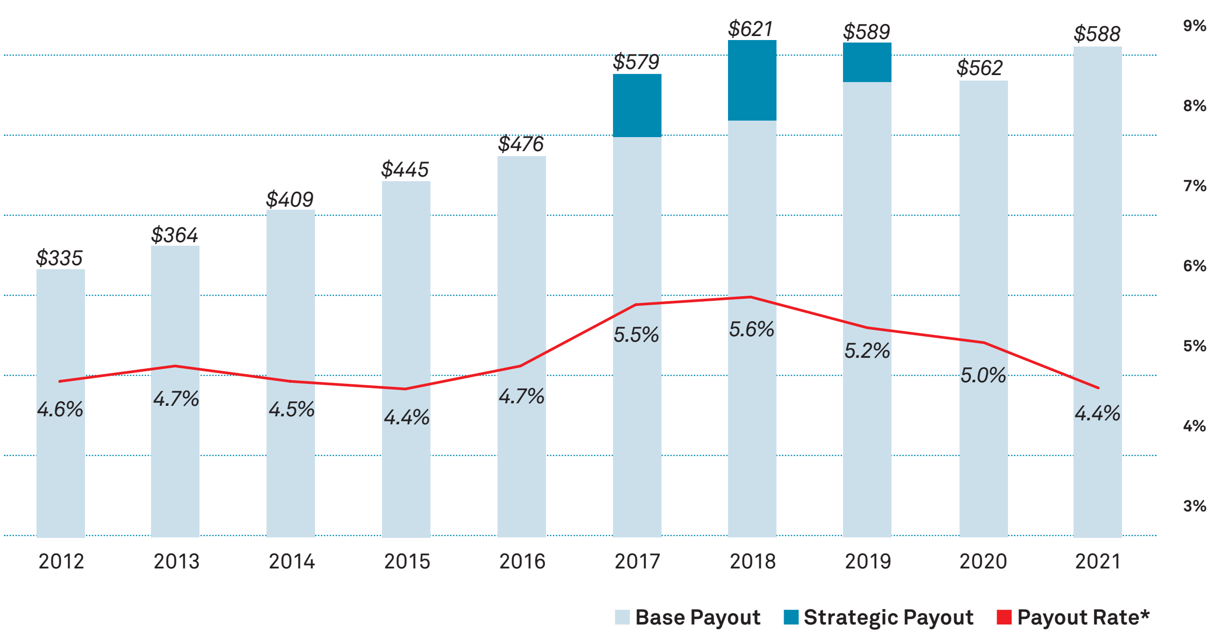
	2017	*2018*	*2019*	*2020*	*2021*
Total spending per unit*	$13.46	$14.28	$13.39	$12.60	$12.93
Net asset value per unit	$241.97	$252.03	$244.97	$248.32	$326.01
Annual spending rate**	5.54%	5.62%	5.25%	4.98%	4.40%
Total *(in millions of dollars)*	$579.15	$620.94	$588.54	$561.66	$587.91
Growth in total spending	21.70%	7.22%	-5.22%	-4.57%	4.67%

* *Total spending per unit includes University management fee and administrative support.*

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

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

Change in Annual Payout, Fiscal Years 2012–21 *(in millions)*



* *Total payout as a percentage of endowment includes payout 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 2021, the committee ratified the Investment Office's recommendation to remove the allocation of 5 percent to high-yield credit, an effort to simplify the asset allocation. By removing high-yield credit, the recommendation reallocated to the three most attractive asset classes: international equity, absolute return, and private investments. Increases to each target of 2 percent, 1 percent, and 3 percent, respectively, were made. These increases were offset by a 1 percent decrease to the real assets target. Subjective considerations such as liquidity and inflation/deflation protection were also part of the analysis.

The table below 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 8.9 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 2022.

Policy Portfolio Targets and Ranges

	Range	*Target*	*August 31, 2021*	*Difference*
US equity	9–15%	12%	11.9%	-0.1%
International equity	16–22%	19%	15.6%	-3.4%
Fixed income	5–11%	8%	5.3%	-2.7%
Absolute return	16–24%	20%	14.7%	-5.3%
Private investments	23–36%	27%	35.9%	8.9%
Real assets	10–18%	14%	12.8%	-1.2%
Cash		0%	3.8%	3.8%

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, 2021, the portfolio increased 37 percent, outperforming the objective by 27.3 percent. For the 3-, 5-, 10-, and 20-year periods, the Pool has outperformed the objective by 6.9 percent, 5.3 percent, 3.4 percent, and 2.1 percent, respectively.

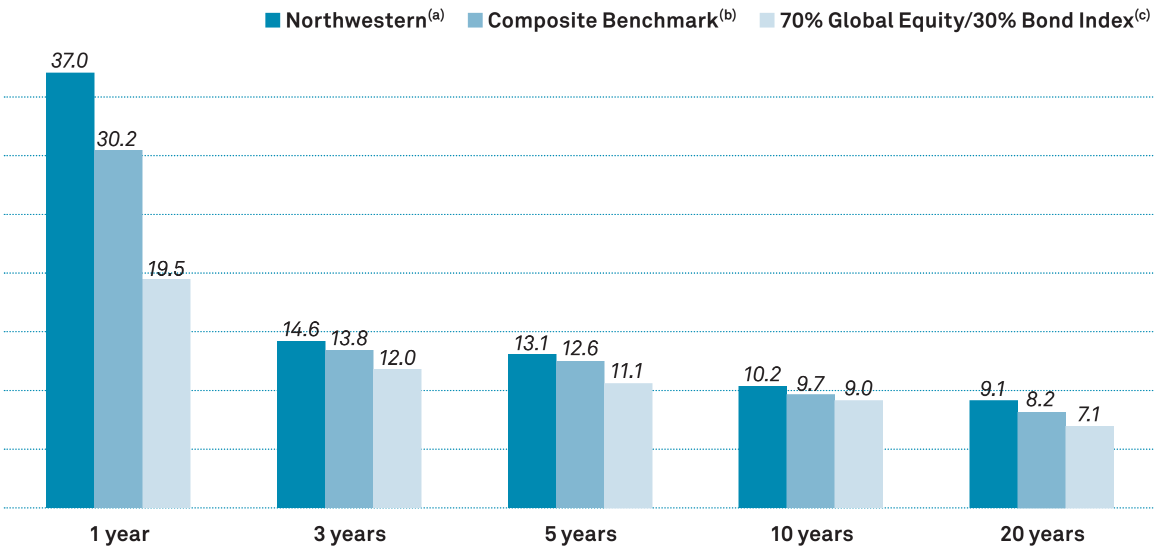
Annualized Returns: Exceeding the Objective (as of August 31, 2021)

	1-year	**3-year**	**5-year**	**10-year**	**20-year**
*Annual total return**	37.0%	14.6%	13.1%	10.2%	9.1%
– Spending	4.4%	4.9%	5.2%	4.9%	4.8%
– Inflation	5.3%	2.8%	2.6%	1.9%	2.2%
= Above or below objective	**27.3%**	**6.9%**	**5.3%**	**3.4%**	**2.1%**

** 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 multiyear 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 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 representative of the MSCI All Country World Investable Index and Barclays Capital Global Aggregate Bond Index*

Amy Falls
Chief Investment Officer

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Aon Center
Suite 5500
200 E. Randolph Street
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, 2021 and 2020, 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, 2021 and 2020, 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.

Emphasis of Matter

As discussed in note 1 to the consolidated financial statements, in 2021, the University adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, as amended. Our opinion is not modified with respect to this matter.

KPMG LLP

Chicago, Illinois
December 20, 2021

Consolidated Statements of Financial Position

As of August 31, 2021 and 2020

(in thousands of dollars)	*2021*	*2020*
Assets		
Cash and cash equivalents	$285,059	$381,442
Accounts receivable, *net*	218,147	214,787
Contributions receivable, *net*	259,037	277,871
Notes receivable, *net*	136,111	146,657
Investments	15,143,205	11,576,232
Right-of-use assets–operating, *net*	159,206	—
Land, buildings, and equipment, *net*	3,177,018	3,258,694
Total assets	**19,377,783**	**15,855,683**
Liabilities		
Accounts payable and accrued liabilities	206,908	223,707
Deferred revenue	205,750	137,757
Deposits payable and actuarial liability of annuities payable	199,041	200,602
Lease liabilities–operating	165,623	—
Bonds, notes, and other debt payable, *net*	2,538,133	2,832,036
Total liabilities	**3,315,455**	**3,394,102**
Net assets		
Without donor restrictions	9,863,772	7,782,322
With donor restrictions	6,198,556	4,679,259
Total net assets	**16,062,328**	**12,461,581**
Total liabilities and net assets	**$19,377,783**	**$15,855,683**

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

Consolidated Statements of Activities

For the fiscal years ended August 31, 2021 and 2020

(in thousands of dollars)	*2021*	*2020*
Net assets without donor restrictions		
Operating revenues		
Tuition and fees *(net of aid, $520,805 in 2021 and $512,945 in 2020)*	$659,916	$661,099
Auxiliary services	40,528	69,658
Grants and contracts	752,376	719,122
Private gifts	232,369	233,671
Investment return designated for operations	421,626	402,815
Sales and services	156,004	195,736
Professional fees	48,537	45,969
Net assets released from restrictions	248,035	214,713
Total operating revenues	**2,559,391**	**2,542,783**
Operating expenses		
Salaries, wages, and benefits	1,477,348	1,455,808
Services, supplies, maintenance, and other	717,159	728,002
Depreciation	185,918	181,647
Interest on indebtedness	91,163	93,894
Total operating expenses	**2,471,588**	**2,459,351**
Excess of operating revenues over expenses	**$87,803**	**$83,432**

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, 2021 and 2020

(in thousands of dollars)	*2021*	*2020*
Nonoperating revenues and expenses		
Private gifts and grants for buildings and equipment	$20	$40
Investment return, reduced by operating distribution	2,023,088	238,794
Change in value of derivative instruments	5,158	(465)
Other expenses, *net*	(4,614)	(10,421)
Net assets reclassified	(30,005)	—
Excess of nonoperating revenues over expenses	**1,993,647**	**227,948**
Change in net assets without donor restrictions	**2,081,450**	**311,380**

Net assets with donor restrictions

Private gifts and grants for buildings and equipment	250	—
Restricted private gifts	169,233	94,570
Net gain on annuity obligation	12,536	2,112
Investment return	1,555,308	240,725
Net assets released from restrictions	(248,035)	(214,713)
Net assets reclassified	30,005	—
Change in net assets with donor restrictions	**1,519,297**	**122,694**
Change in total net assets	**3,600,747**	**434,074**
Beginning net assets	**12,461,581**	**12,027,507**
Ending net assets	**$16,062,328**	**$12,461,581**

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

Consolidated Statements of Cash Flows

For the fiscal years ended August 31, 2021 and 2020

(in thousands of dollars)	*2021*	*2020*
Cash flows from operating activities		
Change in net assets	$3,600,747	$434,074
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	185,918	181,647
Losses on disposals, retirements, and sales of buildings and equipment, *net*	3,454	2,133
(Accretion) amortization of issuance costs, premiums, and discounts, *net*	(453)	33
Change in allowance for student accounts receivable	394	(452)
Change in allowance for notes receivable and bad debt expense	580	3,320
Realized and unrealized gains on investments, *net*	(3,973,382)	(866,020)
Gifts of contributed securities	(58,582)	(20,352)
Proceeds from sale of unrestricted contributed securities	48,212	11,006
Change in value of derivative instruments	(5,158)	465
Restricted contributions received for long-term investment and capital projects	(112,724)	(82,093)
Changes in assets and liabilities		
Accounts receivable	(2,227)	(2,786)
Contributions receivable	14,736	18,015
Reduction in the carrying amount of the right-of-use assets–operating	21,639	—
Accounts payable and accrued liabilities	(1,483)	19,856
Deferred revenue	73,086	(93,699)
Deposits payable and actuarial liability of annuities payable	(26,919)	18,021
Lease liabilities–operating	(20,315)	—
Net cash used in operating activities	**(252,477)**	**(376,832)**
Cash flows from investing activities		
Purchases of investments	(2,545,240)	(1,630,446)
Proceeds from sales of investments	2,975,480	2,013,364
Acquisitions of land, buildings, and equipment	(121,957)	(145,496)
Proceeds from sale of buildings or equipment	4,103	1,687
Student loans disbursed	(21,506)	(29,409)
Principal collected on student loans	31,723	23,796
Other	(251)	(388)
Net cash provided by investing activities	**322,352**	**233,108**
Cash flows from financing activities		
Proceeds from issuance of notes, bonds, and other debt payable	100,000	595,000
Payments for debt issuance costs	—	(1,476)
Principal payments on notes, bonds, and other debt payable	(393,450)	(313,085)
Proceeds from sale of restricted contributed securities	10,370	9,346
Restricted contributions received for long-term investment and capital projects	116,822	79,912
Net cash (used in) provided by financing activities	**(166,258)**	**369,697**
(Decrease) increase in cash and cash equivalents	**(96,383)**	**225,973**
Cash and cash equivalents at beginning of year	**381,442**	**155,469**
Cash and cash equivalents at end of year	**$285,059**	**$381,442**
Supplemental disclosure of cash flow information		
Change in accrued liabilities for construction in progress	($10,246)	($22,043)
Capitalized interest	—	41
Cash paid for interest	91,549	90,798

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

Notes to the Consolidated Financial Statements

For the fiscal years ended August 31, 2021 and 2020

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 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 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 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) — *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**

(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**

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, 2021 and 2020. 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, 2021 and 2020.

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.

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 2021 or 2020.

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 2022 noncancelable fall-quarter tuition and fees, billed and received in fiscal year 2021, are reported as deferred revenue in fiscal year 2021. 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. (For further discussion of deferred revenues, see note 7.) Of the $659.9 million and $661.1 million in revenue recognized for the years ended August 31, 2021 and 2020, respectively, $633.9 million and $630.4 million, respectively, was from academic credit programs, and $26 million and $30.7 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 $40.5 million and $69.7 million in revenue recognized for the years ended August 31, 2021 and 2020, respectively, $40.3 million and $64.3 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, 2021 and 2020, were $743.4 million and $660 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 2018 through 2020.

The University had no uncertain tax positions in fiscal year 2021 or fiscal year 2020.

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, 2021 and 2020, 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

Effective September 1, 2020, the University adopted FASB Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, as amended, using the modified retrospective method. This guidance is intended to improve financial reporting of leasing transactions by requiring organizations that lease assets to recognize assets as liabilities for the rights and obligations created by leases that extend more than 12 months. As permitted by the ASU, for leases with a term of 12 months or less, the University has elected not to recognize the lease assets and liabilities. Key provisions in this guidance include additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases. The University elected the effective date transition method and the package of practical expedients, which permits the carry forward of historical conclusions on whether an existing contract is or contains a lease, the lease classification for any expired or existing leases, and the treatment of any indirect costs. Financial information was not updated and disclosures required under the new ASU were not provided for the period before September 1, 2020. The University's adoption of the ASU had significant impacts relating to the recognition of lease liabilities and right-of-use assets for operating leases greater than one year on the consolidated statements of financial position. See note 6.

Recent Accounting Pronouncements

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 amendment is effective for fiscal year 2022, and the University is evaluating the impact of the new guidance on the consolidated financial statements.

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

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. The disease outbreak continued through fiscal year 2021. The University's operations and financial condition were not immune to the pandemic's adverse effects.

Virtual learning continued through the fall quarter of 2020, with a limited number of students invited to return to campus. As more students returned to campus in the winter and spring quarters, some in-person education also resumed. While some faculty and staff worked on campus to maintain essential operations, most continued working remotely.

Several revenue sources were negatively impacted by the pandemic. Related to students, fall-quarter undergraduate tuition was discounted by 10 percent, and the residence halls experienced lower occupancy during the same period (revenues from auxiliary services attributed to room and board were $40.3 million and $64.3 million in fiscal years 2021 and 2020, respectively). Sales and services revenues also decreased, driven by reduced athletics income and fees for services and goods to external parties ($156 million and $195.7 million in fiscal years 2021 and 2020, respectively).

University cost-containment measures continued in fiscal year 2021, including the University's continuation of the temporary suspension of retirement contributions through December 31, 2020 (the University contributed $58.7 million and $64.2 million in fiscal years 2021 and 2020, respectively). Campus operations, events, and travel did not return to normal operating levels, resulting in additional decreases in operating expenses from services, supplies, maintenance, and other. Incremental costs related to COVID-19 testing and facilities were incurred. In August 2021, in recognition of the Northwestern community's service during fiscal year 2021, the University paid a one-time bonus to the majority of benefits-eligible faculty and staff.

The US Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) 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 did not draw down funding under the provisions of the CARES Act, CRRSAA, or ARPA in fiscal year 2021 or fiscal year 2020. The University continues to monitor the ongoing 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)	*2021*	*2020*
Research and other sponsored programs support	$125,633	$120,539
Student receivables	15,568	25,513
Other receivables	77,573	68,939
Accounts receivable subtotal	**218,774**	**214,991**
Less allowances for student uncollectible amounts	(627)	(204)
Total accounts receivable, *net*	**$218,147**	**$214,787**

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

(in thousands of dollars)	*2021*	*2020*
Notes receivable	$138,384	$149,090
Less allowances for student uncollectible amounts	(2,273)	(2,433)
Total notes receivable, *net*	**$136,111**	**$146,657**

3. Contributions Receivable

Contributions receivable as of August 31 consisted of the following:

(in thousands of dollars)	*2021*	*2020*
Unconditional promises expected to be collected in		
Less than one year	$105,127	$88,633
One to five years	92,615	128,248
More than five years	86,375	91,979
Contributions receivable subtotal	**284,117**	**308,860**
Less unamortized discounts	(24,168)	(30,140)
Less allowances for uncollectible amounts	(912)	(849)
Total contributions receivable, *net*	**$259,037**	**$277,871**

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 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) *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
US equity	339,902	$71	—	$1,597,249	1,937,222
International equity	332,501	23	$178	2,013,875	2,346,577
Fixed income	106,039	730,662	—	—	836,701
Absolute return	—	—	—	2,190,692	2,190,692
Private investments	—	321	15,062	5,199,157	5,214,540
Real assets	123,089	15,089	665	1,791,722	1,930,565
Other investments	50,684	455	29,765	—	80,904
Subtotal investment assets at fair value	**1,549,866**	**746,621**	**45,670**	**12,792,695**	**15,134,852** [a]
Interest rate swaps	—	(10,860)	—	—	(10,860)
Total	**$1,549,866**	**$735,761**	**$45,670**	**$12,792,695**	**$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.*

(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.*

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, 2021 and 2020:

(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**
International equity	$67	$164	—	($53)	—	$178
Private investments	6,495	10,667	($1,550)	(528)	($22)	15,062
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 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 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.

In fiscal year 2020, there were 10 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.

As of August 31, 2021 and 2020, 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 $3.6 million and $6.2 million as of August 31, 2021 and 2020, 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, 2021, the University was committed to making future capital contributions of $2.1 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	$1,937,222	No limit	$141,782	Daily to annually, with 1- to 180-day notice periods	Lock-up provisions ranging from none to 5 years
International equity	$2,346,577	No limit	$10,200	Daily to annually, with 1- to 180-day notice periods	Lock-up provisions ranging from none to 3 years
Fixed income	$836,701	No limit	—	Daily	No lock-up provisions
Absolute return	$2,190,692	No limit	$83,644	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	$5,214,540	No limit to 12 years	$1,127,578	Partnerships ineligible for redemption; equity securities daily, with 1-day notice	Private partnerships not redeemable; equity securities have no lock-up provisions
Real assets	$1,930,565	No limit to 14 years	$722,455	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. Three 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 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, 2021, 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, 2021 and 2020, the University posted $52.3 million and $149 million, respectively, of Treasury bonds and public equity as a source of collateral for an alternative investment strategy.

The private investments portfolio includes investments in global buyout, venture capital, and distressed debt 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. Gross investment income from specific investments held at cost totaled $14.8 million and $13.1 million for the fiscal years ended August 31, 2021 and 2020, respectively. Investment expenses related to specific investments held at cost totaled $4.1 million and $4.7 million for the fiscal years ended August 31, 2021 and 2020, 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 2021 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, 2021 and 2020, as disclosed in the tables on the following page. 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 has used investment-related derivatives to manage credit exposure. Credit exposure represents the University's potential loss if counterparties fail to perform under the terms of the contracts or if 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 until these swaptions expired during fiscal year 2020. The University had entered into margin collateral agreements with major investment banks that impose a $1 million threshold on both parties. Therefore, as of August 31, 2021 and 2020, the University had posted collateral of $0.

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)				*2021*		
	Notional amount	**Assets**	**Liabilities**	**Fiscal year net loss**	**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 debt-related	**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

(in thousands of dollars)				*2020*		
	Notional amount	**Assets**	**Liabilities**	**Fiscal year net loss**	**Interest rate range**	**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
Debt-related derivatives						
Interest rate swaps	125,002	—	($16,018)	(465)	4.12–4.38%	08/31/23
Total debt-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

5. Land, Buildings, and Equipment

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

(in thousands of dollars)	*2021*	*2020*
Land	$31,036	$31,036
Construction-in-progress	30,832	45,983
Buildings and leasehold improvements	4,667,413	4,594,774
Equipment	718,130	703,454
Accumulated depreciation	(2,270,393)	(2,116,553)
Total land, buildings, and equipment, *net*	**$3,177,018**	**$3,258,694**

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, 2021, 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 $159.2 million and $165.6 million, respectively. At August 31, 2021, the University did not recognize any finance leases. Other lease information is summarized below.

(in thousands of dollars)

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$22,856
Right-of-use assets obtained in exchange for new operating lease liabilities	$180,846
Weighted average remaining lease term	12 years
Weighted average discount rate	1.51%

The amount disclosed for right-of-use assets obtained in exchange for new operating lease liabilities includes right-of-use assets upon ASU 2016-02, *Leases (Topic 842)* implementation of $180.2 million, and right-of-use assets obtained in exchange for new operating lease liabilities in fiscal year 2021 of $0.6 million. There were no additions to the carrying amount of right-of-use assets resulting from lease modifications or reassessments in fiscal year 2021.

Lease Cost

The components of lease expense—included in services, supplies, maintenance, and other—for the fiscal year ended August 31, 2021, are as follows:

(in thousands of dollars)

Operating lease expense	$24,180
Variable lease expense	535
Less sublease income	(4,553)
Total lease expense	**$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)

2022	$21,772
2023	18,792
2024	17,602
2025	18,183
2026	17,886
2027 and thereafter	84,940
	179,175
Less present value discount	(13,552)
Total future lease payments	**$165,623**

The following disclosures pertain to fiscal year 2020, before the University's adoption of ASU 2016-02, *Leases (Topic 842)*.

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 sublease rental income totaled $2.5 million for the fiscal year ended August 31, 2020.

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 $31.1 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)	*2021*	*2020*
Tuition and housing	$86,444	$15,225
Sponsored contracts (exchange)	81,386	86,886
Conditional contributions and grants	21,079	22,826
Other deferred revenue	16,841	12,820
Total deferred revenue	**$205,750**	**$137,757**

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)	*2021*	*2020*
Agency deposits	$169,600	$142,287
Actuarial liability of annuities	19,213	21,782
Student tuition and room and board	7,643	32,728
Other deposits payable	2,585	3,805
Total deposits payable and actuarial liability of annuities payable	**$199,041**	**$200,602**

9. 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**	*2021*	*2020*
Illinois Finance Authority (IFA)–Series 2004	Variable	2035	0.01% [a]	$135,800	$135,800
IFA–Series 2008	Variable	2047	0.01% [a][b]	125,000	125,000
Taxable–Series 2012	Fixed	2040–2048	4.20%	200,000	200,000
Taxable–Series 2013	Fixed	2016–2045	4.64% [b]	552,705	558,155
Taxable–Series 2015	Fixed	2035–2049	3.78% [b]	500,000	500,000
IFA–Series 2015	Fixed	2023–2029	4.24% [b]	128,545	128,545
Taxable–Series 2017	Fixed	2048–2057	3.72% [b]	500,000	500,000
Taxable–Series 2020	Fixed	2050–2051	2.64%	300,000	300,000
Commercial paper ($300,000 available)	Variable	2022	0.11% [b]	100,000	—
Promissory note	Fixed	NA	NA	—	8,000
Lines of credit ($725,000 available)	Variable	NA	NA	—	380,000
Bonds, notes, and other debt payable subtotal				**2,542,050**	**2,835,500**
Unamortized issuance costs, premiums, and discounts, *net*				(3,917)	(3,464)
Total bonds, notes, and other debt payable, *net*				**$2,538,133**	**$2,832,036**

[a] *Interest rate resets weekly*

[b] *Weighted average interest rate at August 31, 2021*

Total obligations including bonds, notes, and other debt payable at August 31, 2021, 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, 2021. 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)

2022	$104,790
2023	6,660
2024	7,710
2025	10,240
2026	10,750
2027 and thereafter	2,401,900
Total	**$2,542,050**

During the year ended August 31, 2021, the University did not enter into the sale of any additional long-term municipal bonds or increase its long-term debt position. During the year ended August 31, 2020, the Taxable Series 2020 Fixed Rate Bonds were issued to refinance $300 million of commercial paper.

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			*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**

(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 net assets, end of year	**$4,216,889**	**$1,738,443**	**$2,529,374**	**$4,267,817**	**$8,484,706**

Underwater Endowment Funds

The University monitors endowment funds to identify those for which historical cost was more than fair value. Associated unrealized losses of $0.03 million and $0.6 million as of August 31, 2021 and 2020, 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)			*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**

(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**

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 $58.7 million and $64.2 million to the two plans in 2021 and 2020, 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 $8.1 million and $8.8 million at August 31, 2021 and 2020, 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)	*2021*	*2020*
Benefit obligation	$23,156	$21,001
Benefits paid	3,300	2,064
Employer contributions	2,457	1,321
Contributions from participants	843	743
Net periodic postretirement benefit cost	1,843	796
Fair value of plan assets	—	—

Service costs included in net periodic postretirement benefit cost above totaled $750 thousand and $688 thousand as of August 31, 2021 and 2020, 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 $6.8 million and $4.1 million as of August 31, 2021 and 2020, respectively, for a decrease of $2.7 million due to net losses during the fiscal year.

The APBO was $23.2 million and $21 million at August 31, 2021 and 2020, 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, 2021 and 2020. For both fiscal years 2021 and 2020, the ultimate healthcare cost trend rate was 5 percent, and the year when the trend rate will reach the ultimate trend rate was 2026.

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

	2021	*2020*
Weighted average settlement (discount) rate	2.3%	1.9 %
Weighted average rate of increase in future compensation levels	2.5%	2.0%
Healthcare cost trend rate	6.0%	6.25%

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

	2021	*2020*
Discount rate	2.2%	2.6%
Weighted average rate of increase in future compensation levels	2.0%	2.5%
Healthcare cost trend rate	6.25%	6.5%

A one-percentage-point change in assumed healthcare cost trend rates would have had these effects in fiscal year 2021:

(in thousands of dollars)	*1% point decrease*	*1% point increase*
(Decrease) increase in total of service and interest cost	($78)	$91
(Decrease) increase in postretirement benefit obligation	($794)	$894

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)	
2022	$1,257
2023	1,188
2024	1,182
2025	1,257
2026	1,289
2027–2031	7,165
Total	**$13,338**

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 $134.2 million and $108.8 million as of August 31, 2021 and 2020, 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.

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. 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, 2021 and 2020, accounts receivable arising from support and operational activities with NMHC totaled $19.3 million and $17.7 million, respectively, and are included in accounts receivable on the consolidated statements of financial position. For the fiscal years ended August 31, 2021 and 2020, contributions totaling $118.4 million and $124 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, 2021 and 2020, revenues arising from operational activities with NMHC totaled $37 million and $35.6 million, respectively, and are included in professional fees and sales and services on the consolidated statements of activities.

13. Self-Insurance Reserves and Other Contingencies

Reserves for losses under the University's self-insurance program, aggregating $12.2 million and $9.9 million at August 31, 2021 and 2020, 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 2021 and 2020. 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)	*2021*	*2020*
Federal grants	$585,764	$550,005
Private grants and contracts	162,496	164,951
State grants	4,116	4,166
Total grants and contracts	**$752,376**	**$719,122**

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)	*2021*	*2020*
Financial assets		
Cash and cash equivalents	$285,059	$381,442
Accounts receivable, *net*	196,318	197,013
Notes receivable	38,081	23,796
Contributions receivable	46,091	88,633
Endowment payout made available for operations	515,300	495,710
Financial assets available within one year	**1,080,849**	**1,186,594**
Liquidity resources		
Commercial paper	200,000	300,000
Bank lines of credit	725,000	385,000
Total financial assets and liquidity resources available within one year for general expenditure	**$2,005,849**	**$1,871,594**

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, outstanding borrowings of $100 million existed as of August 31, 2021, and no outstanding borrowings existed as of August 31, 2020. The University also may draw $725 million in standby lines of credit to supplement working capital requirements. Under this agreement, no outstanding borrowings existed as of August 31, 2021, and outstanding borrowings of $380 million existed as of August 31, 2020.

Lastly, the University holds institution-designated endowments of $5,562 million and $4,217 million as of August 31, 2021 and 2020, 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 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)				*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**

(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**

17. Subsequent Events

The University has evaluated subsequent events in accordance with the FASB ASC Subsequent Event Topic through December 20, 2021, the date when the consolidated financial statements were issued. The University did not identify any events to be disclosed.

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