

**Northeastern University**  
**Financial Statements**  
**June 30, 2009 and 2008**

**Northeastern University**  
**Index**  
**June 30, 2009 and 2008**

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**Report of Independent Auditors**

To the Board of Trustees of  
Northeastern University

In our opinion, the accompanying statement of financial position and the related statements of activities and changes in net assets and cash flows present fairly, in all material respects, the financial position of Northeastern University at June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Northeastern University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Northeastern University's 2008 financial statements, and in our report dated October 24, 2008, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 3, the University changed the manner in which it measures and reports the fair value of financial assets and liabilities effective July 1, 2008.

*PricewaterhouseCoopers LLP*

October 22, 2009

**Northeastern University**  
**Statements of Financial Position**  
**June 30, 2009 and 2008**

*(in thousands of dollars)*

	<b>2009</b>	<b>2008</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 73,544	\$ 26,245
Accounts, notes and other receivables, net	32,307	26,825
Prepays and other assets	11,113	13,513
Pledges receivable, net (Note 4)	33,552	30,638
Student and other loans receivable, net	34,643	33,128
Deposits with trustees (Notes 3 and 5)	37,018	87,477
Investments (Notes 3 and 6)	576,306	777,617
Property, plant and equipment, net (Note 7)	952,031	887,332
Total assets	<u>\$ 1,750,514</u>	<u>\$ 1,882,775</u>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued liabilities	\$ 95,658	\$ 102,181
Accounts payable on construction projects	14,148	22,379
Deferred revenue and student deposits	54,056	46,502
Refundable advances	31,585	30,217
Interest rate swap agreements (Notes 3 and 9)	73,306	37,728
Capital lease obligations (Note 8)	33,467	34,154
Long-term debt (Notes 3 and 9)	728,287	698,360
Total liabilities	<u>1,030,507</u>	<u>971,521</u>
Net assets		
Endowment and similar funds (Note 13)	302,702	417,911
Net investment in plant	112,518	168,257
Other unrestricted	73,127	43,426
Total unrestricted	488,347	629,594
Endowment and similar funds (Note 13)	82,053	141,146
Other temporarily restricted	27,016	22,584
Total temporarily restricted	109,069	163,730
Permanently restricted endowment and similar funds (Note 13)	122,591	117,930
Total net assets	<u>720,007</u>	<u>911,254</u>
Total liabilities and net assets	<u>\$ 1,750,514</u>	<u>\$ 1,882,775</u>

The accompanying notes are an integral part of these financial statements.

**Northeastern University**  
**Statement of Activities**  
**Year Ended June 30, 2009**  
**(with summarized financial information for the year ended June 30, 2008)**

<i>(in thousands of dollars)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	2009	2008
<b>Operating</b>					
Revenues and other support					
Tuition and fees	\$ 633,846	\$ -	\$ -	\$ 633,846	\$ 575,762
Less: Financial aid	(169,004)	-	-	(169,004)	(159,270)
Net tuition and fees	<u>464,842</u>	<u>-</u>	<u>-</u>	<u>464,842</u>	<u>416,492</u>
Contributions used for operations	4,673	16,003	-	20,676	14,997
Grants and contracts	52,306	-	-	52,306	53,286
Indirect cost recovery	12,660	-	-	12,660	13,509
Auxiliary enterprises	96,587	-	-	96,587	94,687
Endowment spending for operations (Note 13)	7,855	8,871	-	16,726	25,537
Other investment return used for operations	3,887	-	-	3,887	11,558
Other	36,196	-	-	36,196	33,119
Total operating revenues	<u>679,006</u>	<u>24,874</u>	<u>-</u>	<u>703,880</u>	<u>663,185</u>
Net assets released for operations	<u>19,563</u>	<u>(19,563)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating revenues and other support	<u>698,569</u>	<u>5,311</u>	<u>-</u>	<u>703,880</u>	<u>663,185</u>
Expenses					
Instruction	249,361	-	-	249,361	231,272
Research	66,209	-	-	66,209	60,149
Academic support	70,371	-	-	70,371	68,775
Student services	70,891	-	-	70,891	61,408
Institutional support	98,237	-	-	98,237	89,757
Other student aid	5,919	-	-	5,919	4,888
Cooperative education	9,745	-	-	9,745	8,978
Auxiliary enterprises	85,928	-	-	85,928	94,971
Other	3,646	-	-	3,646	2,782
Total operating expenses (Notes 7 and 9)	<u>660,307</u>	<u>-</u>	<u>-</u>	<u>660,307</u>	<u>622,980</u>
Increase in net assets from operating activities	<u>38,262</u>	<u>5,311</u>	<u>-</u>	<u>43,573</u>	<u>40,205</u>
<b>Nonoperating</b>					
Contributions	4,729	15,891	4,661	25,281	32,818
Contributions used for operations	(4,673)	(16,003)	-	(20,676)	(14,997)
Endowment and other investment return (Note 6)	(113,067)	(49,739)	-	(162,806)	(7,220)
Endowment spending for operations (Note 13)	(7,855)	(8,871)	-	(16,726)	(25,537)
Other investment return used for operations	(3,887)	-	-	(3,887)	(11,558)
Net realized and unrealized loss on interest rate swaps (Note 9)	(50,726)	-	-	(50,726)	(52,427)
Loss on extinguishment of debt (Note 9)	(5,280)	-	-	(5,280)	(8,044)
Net assets released from restrictions	<u>1,250</u>	<u>(1,250)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>(141,247)</u>	<u>(54,661)</u>	<u>4,661</u>	<u>(191,247)</u>	<u>(46,760)</u>
Net assets at beginning of year	<u>629,594</u>	<u>163,730</u>	<u>117,930</u>	<u>911,254</u>	<u>958,014</u>
Net assets at end of year	<u>\$ 488,347</u>	<u>\$ 109,069</u>	<u>\$ 122,591</u>	<u>\$ 720,007</u>	<u>\$ 911,254</u>

The accompanying notes are an integral part of these financial statements.

**Northeastern University**  
**Statements of Cash Flows**  
**Years Ended June 30, 2009 and 2008**

<i>(in thousands of dollars)</i>	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities</b>		
Cash received from student-related revenues	\$ 560,550	\$ 500,851
Cash received from sponsored programs	57,207	59,870
Cash received from donors	10,233	13,067
Cash received from endowment and other investment income	6,663	20,534
Cash received from auxiliary enterprises other than student housing	11,086	15,337
Cash received from other income	33,212	34,335
Cash paid to employees and vendors	(608,310)	(562,420)
Interest and other debt payments	<u>(30,551)</u>	<u>(35,749)</u>
Cash flows before interest rate swaps termination payment	40,090	45,825
Net cash paid to terminate interest rate swap agreements	<u>(52,861)</u>	<u>(7,820)</u>
Net cash (used in) provided by operating activities	<u>(12,771)</u>	<u>38,005</u>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	(110,485)	(147,710)
Decrease (increase) in deposits with trustees	50,458	(83,715)
Proceeds from sale or maturities of investments	708,169	345,403
Purchases of investments	(675,424)	(422,144)
Student and other loans issued	(6,421)	(5,718)
Proceeds from student loans	<u>4,408</u>	<u>4,686</u>
Net cash used in investing activities	<u>(29,295)</u>	<u>(309,198)</u>
<b>Cash flows from financing activities</b>		
Increase in refundable advances	1,368	565
Interest and dividends restricted for long-term investments	1,257	906
Uncashed checks	3,247	20,082
Payment to annuitants	(746)	(672)
Contributions for long-term investments	7,839	8,440
Payments on capital lease	(687)	(645)
Net proceeds from issuance of long term debt and line of credit	276,600	654,790
Debt payments as a result of refinancings	(202,640)	(439,800)
Payments on long-term debt and line of credit	(44,033)	(10,098)
Premiums on issued bonds	606	3,425
Cash settlement paid on remarketed interest rate swap agreements	(5,898)	-
Cash received from remarketed interest rate swap agreements	<u>52,452</u>	<u>-</u>
Net cash provided by financing activities	<u>89,365</u>	<u>236,993</u>
Increase (decrease) in cash and cash equivalents	47,299	(34,200)
Cash and cash equivalents at beginning of year	<u>26,245</u>	<u>60,445</u>
Cash and cash equivalents at end of year	<u>\$ 73,544</u>	<u>\$ 26,245</u>

**Supplemental data**

The University had \$14,148 of property, plant and equipment purchases accrued at June 30, 2009.

The accompanying notes are an integral part of these financial statements.

# Northeastern University

## Notes to Financial Statements

### June 30, 2009 and 2008

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#### 1. Background

Founded in 1898, Northeastern University (“the University”) is one of the largest private urban universities in the United States. It is a world leader in experiential education, an academic approach that integrates study and practice to provide a more powerful learning experience. The University grants associate, bachelor, master and doctoral degrees and attracts students from all 50 states within the United States, and more than 125 countries.

#### 2. Summary of Significant Accounting Policies

The significant accounting policies followed by the University are set forth below.

##### A. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis and in accordance with the reporting standards for not-for-profit organizations.

The financial statements include certain prior-year summarized comparative information in total but not by net asset classification. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University’s financial statements for the year ended June 30, 2008, from which the summarized information was derived.

Generally accepted accounting principles require classification of net assets and revenues, expenses, gains and losses into three categories, based on the existence or absence of donor or legal restrictions. The categories, unrestricted, temporarily restricted, and permanently restricted net assets, are defined as follows:

**Unrestricted** - Net assets not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by management or the Board of Trustees.

**Temporarily Restricted** - Net assets whose use is limited by law or donor-imposed stipulations that will either expire with the passage of time or be fulfilled or removed by actions of the University.

**Permanently Restricted** - Reflects the original amount of gifts and in some cases the income there from which are required by the donor to be invested in perpetuity to produce income for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Net realized and unrealized gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Unconditional promises to give (pledges) are recognized as temporarily or permanently restricted revenues in the period received. Pledges are recorded at the present value of expected future cash flows. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Gifts of noncash assets are recorded at their fair market value at the date of contribution.

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The University has received an irrevocable charitable remainder trust, for which the University does not serve as trustee. For this trust, the University recorded its beneficial interest in those assets as contributions revenue and pledge receivable at the present value of the expected future cash inflows. Trusts are recorded at the date the University has been notified of the trust's existence and sufficient information regarding the trust has been accumulated to form the basis for an accrual. Changes in the value of these assets are recorded as a nonoperating change in the valuation of pledge receivable of either temporarily or permanently restricted net assets.

Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets in the statement of activities. Gifts with donor-imposed restrictions, which are reported as temporarily restricted revenues, are released to unrestricted net assets when appropriated for an expenditure that satisfies the donor-imposed restriction. Gifts restricted for the purchase of land, buildings, and equipment are reported as temporarily restricted nonoperating revenues and are released to unrestricted net assets when the assets are placed into service.

Net tuition and fees reflect student financial aid funded by the University's operating budget, restricted endowment funds, and federal and state student assistance programs. Compensation of students for services provided and tuition benefits for employees are presented as expenses.

Revenues associated with research and other contracts and grants are recognized when related costs are incurred. Indirect cost recovery by the University on U.S. Government contracts and grants are based upon a negotiated rate and is recorded as unrestricted revenue.

Federally funded operating grants and contracts for the year ended June 30, 2009 and 2008 were \$47,207,959 and \$48,344,454, respectively, including indirect costs of \$9,369,017 and \$9,788,454.

Auxiliary enterprises include the operation of student housing, conference centers, the daycare center and the Renaissance Park Office Building.

Nonoperating revenues include all contributions, endowment and other investment return, realized and unrealized gains and losses on interest rate swap agreements, loss on extinguishment of debt and net assets released from restrictions during the period used for current operations as well as the portion of the endowment return in connection with the University's spending policy and other investment return used for operations are presented as reductions of nonoperating activities. All other activity is classified as operating.

Expenses incurred in carrying out the fund-raising activities of the University, amounted to \$11,688,000 and \$9,872,000 for the years ended June 30, 2009 and 2008, respectively.

Certain amounts have been reclassified to conform to the current year presentation. Specifically, the University changed the presentation of the statement of cash flows from the indirect method in 2008 to the direct method in 2009 as well as other immaterial reclassifications.

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**B. Cash and Cash Equivalents**

Cash and cash equivalents consist primarily of cash management accounts and money market funds with original maturities at the time of purchase of three months or less. The University has checks issued that have not yet been presented to the bank in the amounts of \$3,247,000 and \$20,082,000 at June 30, 2009 and 2008, respectively. This amount was invested and has been reflected as cash and as a liability on the statement of financial position.

**C. Accounts and Loans Receivable**

Accounts receivable are stated net of allowance for doubtful accounts of \$6,050,000 at June 30, 2009, and \$5,403,000 at June 30, 2008. Loans receivable are stated net of allowance for doubtful accounts of \$687,000 at June 30, 2009 and 2008. Loans receivable are principally amounts due from students under Federally Sponsored Loan Programs, which are subject to significant restrictions; accordingly, it is not practical to determine the fair value of such amounts.

**D. Investments**

Investments include cash and cash equivalents which are designated for long term investment by the University. They also include fixed income and equity portfolios with broadly defined investment strategies and objectives managed by a diverse group of investment managers. Managers may utilize hedging strategies, invest in securities denominated in foreign currencies, or invest in options, futures, forward contracts, or other financial instruments whose value and performance are derived, at least in part, from the performance of an underlying asset or index and the creditworthiness of the counterparty to the transactions. The University also invests in a number of limited partnerships which sell securities short and which use leverage.

All investments are carried at estimated fair value as indicated in Note 3.

Gains and losses upon sale of investments are calculated using average cost at trade date.

**E. Property, Plant and Equipment**

Property, plant and equipment, including federally funded equipment, are stated at cost on the date of acquisition, net of accumulated depreciation. Plant assets donated to the University are stated at fair market value on the date of the gift, net of subsequent accumulated depreciation.

Depreciation is calculated using the straight-line method, with a half-year convention over the following estimated useful lives:

Building and improvements	50 years
Furniture and equipment	5-20 years
Software	4 years

Expenditures for maintenance and repairs are charged to operations as incurred; significant renewals and betterments are capitalized.

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**F. Conditional Asset Retirement Obligations**

The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of activities.

The University recognized \$959,000 and \$945,000 of operating expenses related to the accretion of liabilities recorded for the years ended June 30, 2009 and 2008, respectively. Conditional asset retirement obligations of \$18,468,000 and \$18,128,000 at June 30, 2009 and 2008, respectively, are included in accounts payable and accrued liabilities on the statement of financial position.

**G. Net Investment in Plant**

Net investment in plant includes the net book value of all capital assets offset by outstanding liabilities associated with those capital assets. Capital assets include prepaid assets, unamortized debt issuance costs and discounts, and property, plant and equipment (net of depreciation expense). Outstanding liabilities include the conditional asset retirement obligation, accounts payable associated with construction projects, premiums on long-term debt, capital lease obligations, outstanding long-term debt, including amounts of the associated interest rate swap agreements.

**H. Endowment**

The endowment includes both donor-restricted funds and funds designated by the Board of Trustees (the Board) to function as endowments. The net assets associated with endowment funds including funds designated by the Board to function as endowments, are classified and reported based on existence or absence of donor imposed restrictions.

The University has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. To achieve its long-term rate of return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The University expects its endowment funds over time, to provide an average rate of return of approximately 5.0% annually plus adjusted for inflationary factors.

The University's endowment spending policy uses a percentage of a five year moving average of the endowment fund's market value which is distributed to the appropriate funds and treated as revenue in the statement of activities. These distributions consist of dividends, interest and, if necessary, a portion of accumulated investment gains. The amount distributed each year is subject to the Board's approval. During fiscal year 2009, and as a result of current economic and market conditions, the Board suspended a portion of the payout amount distributed from unrestricted sources.

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From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment fund deficits exist, they are classified as a reduction of unrestricted net assets. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of recently established endowments.

The University adopted FASB Staff Position 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enhanced Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* ("FSP 117-1"), as of July 1, 2008. The adoption of FSP 117-1 had no impact on the way that the University classifies donor-restricted endowment funds, but does require additional financial statement disclosures about the University's endowment funds. The additional disclosures are included in Note 13.

In July 2009, the Commonwealth of Massachusetts enacted a version of Uniform Prudent Management of Institutional Funds Act of 2006. The new law, which has an effective date of June 30, 2009, eliminates the historical-dollar-threshold and establishes prudent spending guidelines that consider both the duration and preservation of the fund. As a result of this enactment, subject to the donor's intent as expressed in a gift agreement or similar document, a Massachusetts charitable organization may now spend the amount of the principal and income of an endowment fund, even from an underwater fund, after considering the factors listed in the Act.

**I. Tax Status**

The University is a tax-exempt organization as described in section 501(c) (3) of the Internal Revenue Code.

**J. Use of Estimates**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

**3. Fair Value Measurements**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 provides a new definition for fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Effective July 1, 2008, the University adopted the provisions of SFAS 157 for its financial assets and liabilities that are re-measured and reported at fair value each reporting period. The University's financial assets recorded at fair value on a recurring basis primarily relate to endowment and other investments. The adoption of SFAS 157 to the University's financial assets did not have a material impact on financial statements.

SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering assumptions, SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 – Observable inputs such as quoted prices in active markets;

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- Level 2 – Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3 – Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Even though the adoption of SFAS 157 did not materially impact the University's financial condition, results of operations or cash flows, the University is now required to provide additional disclosures under SFAS 157 as part of its financial statements. The following tables present information about assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2009, and indicate the fair value hierarchy utilized to determine such fair value:

<i>(in thousands)</i>	<b>Quoted Prices in Active Markets for Identical Assets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>	<b>Fair Value as of June 30, 2009</b>	<b>Fair Value as of June 30, 2008</b>
Beneficial interest in charitable remainder trust	\$ -	\$ -	\$ 2,735	\$ 2,735	\$ 3,642
Deposits with trustees	37,018	-	-	37,018	87,477
Endowment investments					
Cash and cash equivalents	203,850	-	-	203,850	1,999
Fixed income	23,515	5,377	-	28,892	26,594
Domestic equity	7,566	-	-	7,566	128,273
International equity	4,953	-	-	4,953	116,361
Private equity	-	-	84,433	84,433	91,131
Hedge funds	-	-	135,024	135,024	216,677
Other alternative investments	-	-	36,280	36,280	91,946
Total endowment investments	<u>239,884</u>	<u>5,377</u>	<u>255,737</u>	<u>500,998</u>	<u>672,981</u>
Other investments					
Auction rate securities	-	-	65,110	65,110	104,406
Other	220	-	9,978	10,198	230
Total other investments	<u>220</u>	<u>-</u>	<u>75,088</u>	<u>75,308</u>	<u>104,636</u>
Total investments	<u>240,104</u>	<u>5,377</u>	<u>330,825</u>	<u>576,306</u>	<u>777,617</u>
Total assets	<u>\$ 277,122</u>	<u>\$ 5,377</u>	<u>\$ 333,560</u>	<u>\$ 616,059</u>	<u>\$ 868,736</u>
Interest rate swap agreements – liability	\$ -	\$ (73,306)	\$ -	\$ (73,306)	\$ (37,728)
Total liabilities	<u>\$ -</u>	<u>\$ (73,306)</u>	<u>\$ -</u>	<u>\$ (73,306)</u>	<u>\$ (37,728)</u>

All financial instruments are valued using a market approach involving identical or comparable assets or liabilities except for auction rate securities which are valued using an income approach.

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The change in the fair value of financial instruments valued using significant unobservable inputs (Level 3) is shown below:

<i>(in thousands)</i>	<b>Endowment Investments</b>	<b>Other Investments</b>	<b>Beneficial Interest in Charitable Remainder Trust</b>	<b>Total</b>
<b>Fair value recorded at July 1, 2008</b>	\$ 399,971	\$ 104,627	\$ 3,642	\$ 508,240
Purchases	26,160	170,847	-	197,007
Sales	(123,751)	(194,820)	-	(318,571)
Net realized/unrealized gains (losses)	(31,935)	(500)	(424)	(32,859)
Adjustment to record reduction in estimated fair value	(14,708)	(5,066)	(483)	(20,257)
<b>Fair value recorded at June 30, 2009</b>	<u>\$ 255,737</u>	<u>\$ 75,088</u>	<u>\$ 2,735</u>	<u>\$ 333,560</u>

The fair values of marketable equities and fixed income instruments are determined generally based on quoted market prices in active markets. The fair values of limited partnership investments are represented by the net asset value of the partnership. The University has performed due diligence around its alternative investments to ensure that the net asset value approximates fair value at June 30, 2009 and 2008.

The University holds auction rate securities that are rated AAA by a major credit rating agency and are guaranteed by the Federal Family Education Loan Program, and believes current market conditions present liquidity issues rather than credit issues; therefore, the University recorded an unrealized loss in the statement of activities of \$4,144,000 and \$7,346,000 for the years ended June 30, 2009 and 2008, respectively. The estimated fair value of the auction rate securities was determined by management based upon a discounted cash flow methodology.

Deposits with trustees are carried at fair market value.

At June 30, 2009, the approximate fair value of outstanding long-term debt on the statement of financial position is \$726,865,000 based on estimates using current interest rates available for long-term debt with similar remaining maturities.

The estimated fair value of the interest rate swap agreements and swaption is based on an independent third party valuation. The value of swap instruments represents the estimated cost to the University to cancel the agreements at the reporting date.

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**4. Pledges**

Pledges receivable as of June 30 are expected to be realized in the following time periods:

<i>(in thousands)</i>	<b>2009</b>	<b>2008</b>
One year or less	\$ 14,089	\$ 11,899
Between one and five years	17,685	14,569
Greater than five years	<u>8,344</u>	<u>10,395</u>
	40,118	36,863
Less: Discount	(4,166)	(4,069)
Allowance for doubtful pledges	<u>(2,400)</u>	<u>(2,156)</u>
	<u>\$ 33,552</u>	<u>\$ 30,638</u>

The discount on pledges less than \$500,000 for all time periods was calculated using a discount factor based on the taxable unsecured loan rate. The discount on pledges greater than \$500,000 was calculated using the U.S. Treasury note rate, for the length of the pledge, at the date the pledge was made, plus a 1% premium to incorporate market risk into the discount rate.

At June 30, 2009, the University has \$16,200,000 of conditional pledges that are not reflected in the financial statements due to their conditional nature.

**5. Deposits with Trustees**

Funds established in accordance with the various resolutions and loan agreements pertain to the Massachusetts Health and Educational Facilities Authority (MHEFA) Bonds and other long-term debt. These funds are used for construction, debt service reserve, and repair and replacement reserve.

**6. Investments**

Investments, stated at fair value, held by the University at June 30 were as follows:

<i>(in thousands)</i>	<b>2009</b>	<b>2008</b>
Cash and cash equivalents	\$ 203,850	\$ 1,999
Fixed income	28,892	26,594
Equity domestic	7,566	128,273
Equity international	4,953	116,361
Private equity	84,433	91,131
Hedge funds	135,024	216,677
Other alternative investments	36,280	91,946
Other investments	<u>75,308</u>	<u>104,636</u>
	<u>\$ 576,306</u>	<u>\$ 777,617</u>

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At June 30, 2009, the University is committed to invest an additional \$86,600,000 in certain venture capital and other limited partnerships. Certain partnerships and venture capital interests are restricted as to sale or withdrawal by the University.

Endowment and other investment return is comprised of:

<i>(in thousands)</i>	<b>2009</b>	<b>2008</b>
Realized and unrealized gains (losses)		
Endowment investments	\$ (165,156)	\$ (20,421)
Other investments	(5,566)	(7,346)
Investment yield		
Endowment investments	4,029	8,989
Other investments	3,887	11,558
	<u>\$ (162,806)</u>	<u>\$ (7,220)</u>
Unrestricted	\$ (113,067)	\$ (2,811)
Temporarily restricted	<u>(49,739)</u>	<u>(4,409)</u>
	<u>\$ (162,806)</u>	<u>\$ (7,220)</u>

Direct investment management fees paid were \$1,093,000 and \$2,683,000 for the years ended June 30, 2009 and 2008, respectively.

**7. Property, Plant and Equipment**

Property, plant and equipment at June 30 consisted of the following:

<i>(in thousands)</i>	<b>2009</b>	<b>2008</b>
Land	\$ 28,010	\$ 28,010
Building and improvements	862,669	842,241
Capitalized lease	37,928	37,928
Furniture and equipment	256,328	240,166
Library books	37,117	35,243
Construction in progress	189,248	125,491
	1,411,300	1,309,079
Less: Accumulated depreciation	<u>(459,269)</u>	<u>(421,747)</u>
	<u>\$ 952,031</u>	<u>\$ 887,332</u>

Depreciation expense amounted to \$39,096,000 and \$37,305,000 for the years ended June 30, 2009 and 2008, respectively, and is allocated in the statement of activities to functional expenses based on specific use of the related facilities. Operation, maintenance, and security of plant expense totaled \$72,464,000 and \$55,409,000 for the years ended June 30, 2009 and 2008, respectively, and is allocated to functional expense categories based on salary expense on the statement of activities.

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**8. Capitalized Lease**

The University entered into a capital lease agreement for the construction of two student resident halls, which was completed in fiscal year 2002. The University commenced the lease in July 2001. The rent, over the 30-year term of the lease, will be equal to the actual debt service plus customary fees payable with respect to the \$37,928,000 original principal amount of the bonds being issued to finance the building.

The annual minimum lease commitment through the 30-year term of this lease ranges from \$2,919,000 in 2009 to \$2,855,000 in 2031. Approximate future annual principal requirements as of June 30, 2009 are as follows:

<i>(in thousands)</i>	<b>Principal Payments</b>
<b>Year</b>	
2010	\$ 731
2011	778
2012	828
2013	882
2014	938
2015-2031	<u>29,310</u>
	<u>\$ 33,467</u>

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**9. Long-Term Debt**

Long-term debt consists of the following at June 30:

*(in thousands)*

Name	Rate	Maturity	2009	2008
<b>Massachusetts Health and Educational Facilities Authority Revenue Bonds (HEFA)</b>				
Series F (1)	variable	2024	\$ -	\$ 18,900
Series G	5.50%	2013	7,645	47,575
Series H (1)	variable	2010	-	5,150
Series I (1)	4.00%-5.25%	2029	33,495	34,390
Series K (1)	variable	2010	-	6,000
Series M (1)	variable	2022	-	72,250
Series Q (1)	variable	2035	87,200	87,200
Series R	4.00%-5.00%	2033	88,955	89,615
Series S	3.50%-4.00%	2012	57,975	57,975
Series T	2.25%	2037	210,000	210,000
Series U (1)	variable	2022	72,200	-
Series W (1)	variable	2028	39,215	-
Series Y-1	3.00%-5.63%	2029	38,280	-
Series Y-2	3.00%-5.50%	2024	25,545	-
<b>Taxable Revenue Bonds</b>				
Series 1998A	6.33%-7.04%	2028	-	36,535
Series 2001A (1)	variable	2030	-	30,050
Series V (1)	variable	2030	29,550	-
Series X (1)	variable	2028	36,260	-
<b>United States Department of Education (2)</b>				
Various Mortgage Notes	3.00%	2018	1,680	1,840
<b>Chartwells Division of Compass, Inc.</b>				
	4.25%-5.00%	2010	287	880
			<u>\$ 728,287</u>	<u>\$ 698,360</u>

(1) The variable interest rates ranged from 0.08% to 10.51% during fiscal 2009.

(2) Bonds are collateralized by mortgages on the related properties.

Approximate future annual principal requirements are below:

*(in thousands)*

Year	Principal Payments
2010	\$ 81,511
2011	11,827
2012	210,731
2013	13,526
2014	14,066
Thereafter	396,626
	<u>\$ 728,287</u>

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## Notes to Financial Statements

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Interest expense totaled \$22,380,000 and \$37,097,000 for the years ended June 30, 2009 and 2008, respectively, of which \$5,320,000 and \$4,287,000, respectively, was capitalized in connection with construction in progress. Interest expense has been allocated to each functional expense category based on specific identification on the statement of activities. Total amounts paid in 2009 and 2008, were \$36,792,000 and \$37,480,000 respectively, to meet interest costs including settlement costs on the related interest rate swap agreements.

In July 2007, the University issued \$210,000,000 in Massachusetts Health and Educational Facilities Authority (MHEFA) Revenue Bonds Series P for the purpose of construction and furnishing of a residence hall, renovation of an academic building and residence hall, and the purchase of new administrative software. In May 2008, the University issued \$210,000,000 in MHEFA Revenue Bonds Series T for the purpose of refunding the MHEFA Series P Bonds in June 2008. The Series T Bonds were issued as one year tender bonds with maturity dates in May and June 2009, paying interest of 2.25% for the year. In April 2009, Series T-1 bonds for \$70,000,000 were remarketed as three year tender bonds with a maturity date in February 2012. In May 2009, Series T-2 bonds for \$70,000,000 were remarketed as three year tender bonds with a maturity date in April 2012. In June 2009, Series T-3 bonds for \$70,000,000 were remarketed as one year tender bonds with a maturity date in February 2010.

In May 2008, the University issued \$87,200,000 in Massachusetts Health and Educational Facilities Authority (MHEFA) Variable Rate Demand Revenue Bonds Series Q for the purpose of refunding the MHEFA Series L Bonds in June 2008. The variable interest rate on the Series Q Bonds is reset daily. The variable rate demand bonds have a put feature that allows bond holders to put bonds back to the University on the daily interest reset date. In conjunction with the issuance of the Series Q Bonds, the University entered into a letter of credit contract in the amount of \$88,275,000 with a bank to provide an alternative liquidity feature for these bonds.

In May 2008, the University issued \$89,615,000 in Massachusetts Health and Educational Facilities Authority (MHEFA) Revenue Bonds Series R for the purpose of refunding the MHEFA Series N Bonds in June 2008. The Series R Bonds consist of term bonds in the amount of \$27,280,000 due in October 2033, paying interest at 5% and serial bonds of \$62,335,000 with principal maturities ranging from \$660,000 in October 2008 to \$4,705,000 in October 2028 with interest rates ranging from 4% to 5%. In conjunction with this refunding, the University bought out the interest rate swap in place on the Series N Bonds at a cost of \$3,771,000 and recorded a realized loss of \$6,478,000 on the swap termination.

In July 2008, the University issued \$72,250,000 in Massachusetts Health and Educational Facilities Authority (MHEFA) Revenue Bonds Series U for the purpose of the refunding of MHEFA Series M Bonds in August 2008. The variable interest rate on the Series U Bonds is reset daily. The variable rate demand bonds have a put feature that allows bond holders to put bonds back to the University on the daily interest reset date. In conjunction with the issuance of the Series U Bonds, the University entered into a letter of credit contract in the amount of \$72,843,000 with a bank to provide an alternative liquidity feature for these bonds.

In July 2008, the University issued \$30,050,000 in Massachusetts Health and Educational Facilities Authority (MHEFA) Revenue Bonds Series V for the purpose of the refunding of Series 2001A Taxable Revenue Bonds in August 2008. The variable interest rate on the Series V Bonds is reset weekly. The variable rate demand bonds have a put feature that allows bond holders to put bonds back to the University on the weekly interest reset date. In conjunction with the issuance of the Series U Bonds, the University entered into a letter of credit contract in the amount of \$30,626,000 with a bank to provide an alternative liquidity feature for these bonds.

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In December 2008, the University issued \$39,215,000 in Massachusetts Health and Educational Facilities Authority (MHEFA) Revenue Bonds Series W for the purpose of refunding a portion of MHEFA Series G Bonds in February 2009. At June 30, 2009, \$7,645,000 remained outstanding related to the Series G Bonds. The variable interest rate on the Series W Bonds is reset weekly. The variable rate demand bonds have a put feature that allows bond holders to put bonds back to the University on the weekly interest reset date. In conjunction with the issuance of the Series W Bonds, the University entered into a letter of credit contract in the amount of \$39,795,000 with a bank to provide an alternative liquidity feature for these bonds.

In December 2008, the University issued \$36,260,000 in Massachusetts Health and Educational Facilities Authority (MHEFA) Revenue Bonds Series X for the purpose of the refunding of Series 1998A Bonds in January 2009. The variable interest rate on the Series X Bonds is reset weekly. The variable rate demand bonds have a put feature that allows bond holders to put bonds back to the University on the weekly interest reset date. In conjunction with the issuance of the Series X Bonds, the University entered into a letter of credit contract in the amount of \$36,940,000 with a bank to provide an alternative liquidity feature for these bonds.

In January 2009, the University issued \$63,825,000 in Massachusetts Health and Educational Facilities Authority (MHEFA) Revenue Bonds Series Y1 and Y2 for the purpose of the refunding of MHEFA Series F Bonds, Series H Bonds and Series K Bonds in April 2009 and to complete construction of a residence hall, renovate athletic and academic buildings and purchase new administrative software. The Series Y Bonds consist of term bonds in the amount of \$38,280,000, maturing in October 2029, paying interest ranging from 3% to 5.625% and term bonds in the amount of \$25,545,000, maturing in October 2024, paying interest ranging from 3% to 5.5%.

The Series N Bonds were legally defeased at June 30, 2008, with funds held in a refunding trust account at June 30, 2008 sufficient to pay for the refunding of \$47,100,000 of the Series N Bonds that were called on July 8, 2008.

In the event that the University receives notice of any optional tender on its Series Q, U, V, W or X variable-rate bonds, or if these bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the University will be obligated to purchase the bonds tendered and has secured standby letter-of-credit arrangements for each series of debt for an amount up to the aggregate amounts shown in the table below. In the event that the University required funds under the letter-of-credit arrangements ("drawdowns"), the corresponding repayment terms are reflected in the table below.

Series	Original Principal	Letter of Credit Repayment Terms	Letter of Credit Expiration Dates
Series Q	\$ 87,200,000	Three year repayment commencing one month after drawdown date	May 28, 2011
Series U	\$ 72,250,000	Three year repayment commencing one month after drawdown date	July 31, 2011
Series V	\$ 30,050,000	Three year repayment commencing one month after drawdown date	July 31, 2011
Series W	\$ 39,215,000	Repayment equally over the remaining letter of credit period with outstanding balance due at the letter of credit expiration date	December 17, 2013
Series X	\$ 36,260,000	Repayment equally over the remaining letter of credit period with outstanding balance due at the letter of credit expiration date	December 17, 2013

If in the unlikely case that all of the letters of credit in the table above were fully drawn down, then the schedule of repayments would be as follows: \$78,078,000 in 2010, \$78,078,000 in 2011, \$78,079,000 in 2012, \$15,095,000 in 2013 and \$15,095,000 in 2014.

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## Notes to Financial Statements

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The University's debt agreements and supporting letters of credits have various covenants, the most restrictive of which is maintenance of expendable resources to total debt of 0.5 to 1.

In May 2008, the University issued \$57,975,000 in Massachusetts Health and Educational Facilities Authority (MHEFA) Revenue Bonds Series S for the purpose of the refunding of MHEFA Series O Bonds in June 2008. The Series S Bonds consist of term bonds in the amount of \$47,975,000, maturing in October 2012, paying interest at 4% and term bonds in the amount of \$10,000,000, maturing in October 2012, paying interest at 3.5%. In conjunction with this refunding, the University bought out the interest rate swap in place on the Series O Bonds at a cost of \$4,050,000 and recorded a realized loss of \$4,834,000 on the swap termination.

A loss on extinguishment of debt of \$5,280,000 representing the write-off of all unamortized bond issuance costs on the Series G, H, K, M, 1998A and 2001A Bonds has been reflected in the 2009 statement of activities. The Series Y bonds were issued with original issue premiums totaling \$607,000 which is recorded in accounts payable and accrued liabilities. The premium will be amortized over the life of the respective bonds. Bond issuance and discount costs of \$2,132,000 incurred on Series U, V, W, X and Y Bonds are recorded in prepaids and other assets and will be amortized over the life of the respective bonds.

In October 2004, the University sold three swaptions to a third party to initiate interest rate swaps. In August 2008 the University was notified of the third party's intent to exercise two of the swaps, Series 1998A in the amount of \$37,000,000 and Series G in the amount of \$39,950,000. Series I swaption was terminated in December 2008 with the original counterparty and replaced with another. At this point the University received an upfront premium payment of \$5,200,000 which has been recorded as deferred revenue. Effective October 2008, this transaction was not entered into for speculative purposes but rather to facilitate the possible advance refunding of the Series I bonds and to help manage interest rate costs and the variable rate risk associated with the reissued bonds. The University received an upfront premium payment from the third party of \$5,115,000 for selling the swaptions in 2004. This amount has been recognized as revenue in fiscal year 2009, and was recorded as deferred revenue at June 30, 2008. In August 2009, the University was notified of the third party's intent to exercise the swaption on Series I in the amount \$33,650,000.

The University has entered into various interest swap agreements to manage the interest cost and variable rate risk associated with its outstanding debt. The interest rate swap agreements were not entered into for trading or speculative purposes. Under the terms of these agreements, the University pays a fixed rate, determined at inception, to a third party who in turn pays a variable rate on these respective notional principal amounts to the bondholders.

The University records interest swaps and swaption at fair market value as indicated in Note 3. Net payments or receipts under the swap agreements along with the change in fair value of the swaps and swaption are included in the nonoperating section on the statement of activities.

In November 2008, the University terminated its interest rate swaps and swaption with Lehman Brothers for which it paid \$58,061,000. At the same time it replaced these with three new counterparties for which it received \$57,652,000. The net cost of terminating and replacing these interest rate swaps and swaption was \$409,000.

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Net realized and unrealized loss on interest rate swaps and swaption were the following for the years ended June 30, 2009 and 2008:

<i>(in thousands)</i>	<b>2009</b>	<b>2008</b>
Realized loss	\$ (14,654)	\$ (2,045)
Unrealized loss	(9,377)	(39,069)
Realized loss on interest rate swap terminations	<u>(26,695)</u>	<u>(11,313)</u>
	<u>\$ (50,726)</u>	<u>\$ (52,427)</u>

The following schedule presents the notional principal amounts and fair value of the University's interest rate swaps and swaption at June 30, 2009:

<i>(in thousands)</i>					
<b>Bond Issue</b>	<b>Counterparty</b>	<b>Trade Type</b>	<b>Notional Amount</b>	<b>Date Expiration October 1,</b>	<b>Fair Value at June 30, 2009</b>
HEFA Series T	AIG	Swap	\$ 210,000	2037	\$ (29,301)
			<u>210,000</u>		<u>(29,301)</u>
HEFA Series Q	Barclays Capital	Swap	43,600	2035	(5,760)
HEFA Series Q	Barclays Capital	Swap	43,600	2035	(5,801)
HEFA Series I	Barclays Capital	Swaption	33,650	2029	(4,924)
			<u>120,850</u>		<u>(16,485)</u>
HEFA Series U	Deutsche Bank	Swap	72,200	2022	(14,656)
HEFA Series X	Deutsche Bank	Swap	36,260	2028	(8,604)
			<u>108,460</u>		<u>(23,260)</u>
HEFA Series V	Wells Fargo	Swap	29,550	2030	(2,668)
HEFA Series W	Wells Fargo	Swap	39,215	2028	(6,792)
			<u>68,765</u>		<u>(9,460)</u>
			<u>\$ 508,075</u>		<u>\$ (78,506)</u>

Generally if the "fair value" of the swaps decreases below the following thresholds then the University would be required to post collateral:

Barclays	\$ (40,000)
Deutsche Bank	(40,000)
Wells Fargo	(17,500)

There is no collateral posting requirement for AIG.

The University maintained a line of credit with a bank in the amount of \$50,000,000 for years ended June 30, 2009 and 2008. There were no amounts outstanding on the line of credit at June 30, 2009 and 2008.

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**10. Retirement Plans**

The University sponsors a retirement plan under which full-time faculty and staff may elect to contribute 5% or more of their base salary toward the purchase of contracts under a plan with the Teachers Insurance and Annuity Association and the College Retirement Equities Fund or Fidelity Investments. After two years of employment, the University contributes 10% of the base salary to each participating employee's account. The cost of the University's contribution to this plan was \$17,449,000 and \$16,567,000 for the years ended June 30, 2009 and 2008, respectively.

**11. Post Retirement Medical Plan**

For the year ended June 30, 2009 and 2008, net periodic postretirement medical benefits cost includes the following:

	<b>2009</b>	<b>2008</b>
Service cost	\$ 442,000	\$ 377,000
Interest cost	726,000	664,000
Amortization of		
Prior service cost	700,000	700,000
Actuarial loss	339,000	277,000

These expenses are allocated to the functional expense categories on the statement of activities based on salary expense. The accrued postretirement benefit obligation was \$14,375,000 and \$12,586,000 at June 30, 2009 and 2008, respectively and is included in accounts payable and accrued liabilities on the statement of financial position. The funded status of the plan is equal to the accrued postretirement benefit obligation.

For measurement purposes, the assumed annual rate of increase in the per capita cost of covered medical benefits was 8%, 7%, and 6% for the years ended 2009, 2010 and 2011, graded down to 5% for fiscal year 2012 and thereafter. A discount rate of 6% was assumed at July 1, 2008 and 2007, to determine the net periodic benefit cost for fiscal years 2009 and 2008 and the benefit obligation at June 30, 2009 and 2008.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one percentage point change in assumed health care cost trend rates would have the following effect:

<b>Impact of 1% increase in health care cost trend</b>	
on interest cost plus service during the past year	\$ 113,000
on accumulated postretirement benefit obligation	1,037,000
<b>Impact of 1% decrease in health care cost trend</b>	
on interest cost plus service during the past year	(100,000)
on accumulated postretirement benefit obligation	(941,000)

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Expected future benefit payments and cash contributions to the plan are as follows:

<i>(in thousands)</i>	<b>Future Benefit Payments</b>
<b>Year</b>	
2010	\$ 958
2011	1,119
2012	1,240
2013	1,400
2014	1,427
2015-2019	7,258
	<u>\$ 13,402</u>

**12. Self-Insurance**

The University is self-insured for certain employee health benefits, workers' compensation, a portion of property and casualty coverage and a student health plan. The self-insurance reserve balances were \$4,353,000 and \$3,346,000 at June 30, 2009 and 2008, respectively.

**13. Endowment and Similar Net Assets**

Endowment and Similar Net Assets Composition by Type of Fund as of June 30, 2009:

<i>(in thousands)</i>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ (8,287) <sup>(1)</sup>	\$ 82,053	\$ 122,591	\$ 196,357
Board-designated endowment funds	<u>310,989</u>	<u>-</u>	<u>-</u>	<u>310,989</u>
	<u>\$ 302,702</u>	<u>\$ 82,053</u>	<u>\$ 122,591</u>	<u>\$ 507,346</u>

<sup>(1)</sup> The \$8,287,000 deficit in unrestricted net assets represents the amounts by which the fair value of certain donor-restricted endowment funds were below the amount required to be retained permanently.

Endowment and Similar Net Assets Composition by Type of Fund as of June 30, 2008:

<i>(in thousands)</i>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 141,146	\$ 117,930	\$ 259,076
Board-designated endowment funds	<u>417,911</u>	<u>-</u>	<u>-</u>	<u>417,911</u>
	<u>\$ 417,911</u>	<u>\$ 141,146</u>	<u>\$ 117,930</u>	<u>\$ 676,987</u>

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Changes in Endowment and Similar Net Assets for the Fiscal Year Ended June 30, 2009:

<i>(in thousands)</i>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment and similar net assets at July 1, 2008	\$ 417,911	\$ 141,146	\$ 117,930	\$ 676,987
Investment income	2,558	1,471	-	4,029
Net depreciation (realized and unrealized)	<u>(113,951)</u>	<u>(51,214)</u>	<u>-</u>	<u>(165,165)</u>
Total endowment return	<u>(111,393)</u>	<u>(49,743)</u>	<u>-</u>	<u>(161,136)</u>
Contributions	180	430	4,661	5,271
Endowment spending for operations and reinvestment	(9,111)	(8,871)	-	(17,982)
Other expenses and transfers	<u>5,115</u>	<u>(909)</u>	<u>-</u>	<u>4,206</u>
Endowment and similar net assets at June 30, 2009	<u>\$ 302,702</u>	<u>\$ 82,053</u>	<u>\$ 122,591</u>	<u>\$ 507,346</u>

Changes in Endowment and Similar Net Assets for the Fiscal Year Ended June 30, 2008:

<i>(in thousands)</i>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment and similar net assets at July 1, 2007	\$ 441,466	\$ 153,141	\$ 101,653	\$ 696,260
Investment income	5,457	3,692	-	9,149
Net depreciation (realized and unrealized)	<u>(12,717)</u>	<u>(7,704)</u>	<u>-</u>	<u>(20,421)</u>
Total endowment return	<u>(7,260)</u>	<u>(4,012)</u>	<u>-</u>	<u>(11,272)</u>
Contributions	-	1,582	16,277	17,859
Endowment spending for operations and reinvestment	(16,295)	(8,497)	-	(24,792)
Other expenses and transfers	<u>-</u>	<u>(1,068)</u>	<u>-</u>	<u>(1,068)</u>
Endowment and similar net assets at June 30, 2008	<u>\$ 417,911</u>	<u>\$ 141,146</u>	<u>\$ 117,930</u>	<u>\$ 676,987</u>

Endowment and similar net assets classified as unrestricted net assets include unrestricted gifts from donors and other funds designated by the University as quasi-endowment for the long-term support of the University, including any accumulated income and appreciation thereon. Temporarily restricted endowment net assets include accumulated income and appreciation on permanently restricted endowment funds, life income, annuities and trust funds (net of actuarial liability). Permanently restricted endowment and similar net assets consist of those funds designated by donors to be invested in perpetuity to provide a permanent source of income. Endowment and similar net assets are primarily used to fund scholarships and professorships.

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The University records the pooled investments of the Endowment and Similar Funds on a unit value basis. At June 30, 2009, the Endowment and Similar Funds included pooled investments of \$500,319,000 and nonpooled other investments of \$710,000. The units of each fund are adjusted monthly to reflect additions or deductions. Total pooled units were 241,880 at June 30, 2009 each having a unit value of \$2,068.46 including \$682.65 per unit of net realized and unrealized loss in market value for the year.

**14. Lease Commitments and Contingencies**

The University is subject to certain legal proceedings and claims which arise in the normal course of operations. In the opinion of management, the ultimate outcome of these actions will not have a material effect on the University's financial position.

The University leases property, plant and equipment for terms ranging from one to five years. The annual operating minimum lease commitments through the year 2014 are approximated below:

<i>(in thousands)</i>	<b>Minimum Lease Commitments</b>
<b>Year</b>	
2010	\$ 8,316
2011	3,943
2012	4,040
2013	3,303
2014	233

Total rental expense for the University was \$16,922,000 and \$12,718,000 for the years ended June 30, 2009 and 2008, respectively.

The University has entered into contracts related to the construction of a residence hall complex and the renovation of a residence hall, for which a balance of \$19,764,000 is committed at June 30, 2009.

**15. Subsequent Events**

The University has assessed the impact of subsequent events through October 22, 2009, the date of the audited financial statements were available for issuance, and has concluded that there were no such events that require adjustment to the audited financial statements or disclosure in the notes to the audited financial statements.

**Northeastern University**  
**Notes to Financial Statements**  
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**16. Cash Flow Statement Supplemental Information**

The University has presented cash flows from operating activities in the statement of cash flows using the direct method. The following table reconciles total changes in net assets to net cash used in or provided by operating activities.

	<b>2009</b>	<b>2008</b>
Total changes in net assets	\$ (191,247)	\$ (46,760)
Adjustments to reconcile total changes in net assets to net cash (used in) provided by operating activities		
Noncash items		
Depreciation and amortization	39,352	37,714
Loss on extinguishment of long-term debt	5,280	8,044
Student loan cancellations	498	569
Loss on disposals of property, plant and equipment	111	492
Changes in assets and liabilities		
Increase in receivables and prepaids	(11,531)	(18,170)
Decrease in accounts payable and accrued liabilities	(9,631)	(7,629)
Increase in deferred revenue and student deposits	7,554	7,312
Other items		
Contributions in kind	(3,388)	(4,549)
Contributions restricted for long-term investments	(7,839)	(8,440)
Interest and dividends restricted for long-term investments	(1,257)	(906)
Net unrealized and realized loss on long-term investments	170,302	27,767
Realized and unrealized loss on interest rate swap agreements	47,086	42,561
Cash settlement paid to terminate interest rate swap agreements	(58,061)	-
Net cash (used in) provided by operating activities	<u>\$ (12,771)</u>	<u>\$ 38,005</u>