

Northeastern University
Consolidated Financial Statements
June 30, 2011 and 2010

Northeastern University
Index
June 30, 2011 and 2010

	Page(s)
Report of Independent Auditors	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position.....	2
Consolidated Statement of Activities	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5–22



Report of Independent Auditors

To the Board of Trustees of
Northeastern University

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of activities and cash flows present fairly, in all material respects, the financial position of Northeastern University at June 30, 2011, 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 consolidated financial statements are the responsibility of Northeastern University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from Northeastern University's 2010 consolidated financial statements, and in our report dated October 29, 2010, we expressed an unqualified opinion on those consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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.

PricewaterhouseCoopers LLP

October 18, 2011

Northeastern University
Consolidated Statements of Financial Position
June 30, 2011 and 2010

(in thousands of dollars)

	2011	2010
Assets		
Cash and cash equivalents	\$ 204,905	\$ 195,515
Accounts and other receivables, net	42,318	40,659
Prepays and other assets	20,844	14,950
Pledges receivable, net (Note 4)	43,629	46,306
Student and other loans receivable, net	35,489	35,208
Deposits with trustees (Notes 3 and 5)	1,087	2,810
Investments (Notes 3 and 6)	688,132	548,315
Property, plant and equipment, net (Note 7)	<u>984,615</u>	<u>960,120</u>
Total assets	<u>\$ 2,021,019</u>	<u>\$ 1,843,883</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 117,815	\$ 117,229
Accounts payable on construction projects	11,762	6,198
Deferred revenue and student deposits	56,875	46,692
Refundable advances	33,104	33,981
Interest rate swap agreements (Notes 3 and 9)	32,428	41,159
Capital lease obligations (Note 8)	32,149	33,036
Long-term debt (Notes 3 and 9)	<u>750,456</u>	<u>766,774</u>
Total liabilities	<u>1,034,589</u>	<u>1,045,069</u>
Net assets		
Endowment and similar funds (Note 13)	371,208	322,971
Net investment in plant	145,144	102,629
Other unrestricted	<u>174,504</u>	<u>114,409</u>
Total unrestricted	<u>690,856</u>	<u>540,009</u>
Endowment and similar funds (Note 13)	101,027	82,315
Other temporarily restricted	<u>55,304</u>	<u>49,289</u>
Total temporarily restricted	<u>156,331</u>	<u>131,604</u>
Permanently restricted endowment and similar funds (Note 13)	<u>139,243</u>	<u>127,201</u>
Total net assets	<u>986,430</u>	<u>798,814</u>
Total liabilities and net assets	<u>\$ 2,021,019</u>	<u>\$ 1,843,883</u>

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

Northeastern University
Consolidated Statement of Activities
Year Ended June 30, 2011
(with summarized financial information for the year ended June 30, 2010)

<i>(in thousands of dollars)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	2011	2010
Operating					
Revenues and other support					
Tuition and fees	\$ 766,476	\$ -	\$ -	\$ 766,476	\$ 686,107
Less: Financial aid	(201,669)			(201,669)	(181,416)
Net student-related revenues	564,807	-	-	564,807	504,691
Contributions available for operations	3,235	14,867		18,102	13,869
Grants and contracts	69,218			69,218	60,977
Indirect cost recovery	18,273			18,273	15,152
Auxiliary enterprises	113,817			113,817	108,177
Endowment spending available for operations (Note 13)	16,822	6,958		23,780	7,808
Other investment income available for operations	1,918			1,918	960
Other	32,348			32,348	33,809
Total operating revenues	820,438	21,825	-	842,263	745,443
Net assets released for operations	10,835	(10,835)		-	
Total operating revenues and other support	831,273	10,990	-	842,263	745,443
Expenses					
Instruction	281,586			281,586	253,179
Research	80,178			80,178	74,769
Academic support	85,617			85,617	73,199
Student services	79,976			79,976	79,068
Institutional support	93,338			93,338	83,042
Other student aid	5,693			5,693	6,007
Cooperative education	9,899			9,899	9,577
Auxiliary enterprises	101,783			101,783	92,979
Other	6,655			6,655	4,994
Total operating expenses (Notes 7 and 9)	744,725	-	-	744,725	676,814
Increase in net assets from operating activities	86,548	10,990	-	97,538	68,629
Nonoperating					
Contributions	5,379	18,082	11,424	34,885	29,575
Contributions available for operations	(3,235)	(14,867)		(18,102)	(13,869)
Endowment and other investment return (Note 6)	60,645	32,575	310	93,530	31,846
Endowment spending available for operations (Note 13)	(16,822)	(6,958)		(23,780)	(7,808)
Other investment return available for operations	(1,918)			(1,918)	(960)
Change in annuity and life income funds		(592)		(592)	(620)
Net realized and change in unrealized gain/(loss) on interest rate swaps (Note 9)	1,225			1,225	(24,702)
Loss on extinguishment of debt (Note 9)	-			-	(3,284)
Gain on sale of property, net	4,830			4,830	-
Net assets released from restrictions	14,195	(14,503)	308	-	-
Change in net assets	150,847	24,727	12,042	187,616	78,807
Net assets at beginning of year	540,009	131,604	127,201	798,814	720,007
Net assets at end of year	\$ 690,856	\$ 156,331	\$ 139,243	\$ 986,430	\$ 798,814

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

Northeastern University
Consolidated Statements of Cash Flows
Years Ended June 30, 2011 and 2010

(in thousands of dollars)

	2011	2010
Cash flows from operating activities		
Cash received from student-related revenues	\$ 682,157	\$ 600,643
Cash received from sponsored programs	83,365	69,500
Cash received from donors	13,206	10,850
Cash received from endowment and other investment income	8,649	1,542
Cash received from auxiliary enterprises other than student housing	10,674	10,887
Cash received from other income	30,790	31,262
Cash paid to employees and vendors	(658,856)	(604,668)
Interest and other debt payments	(42,992)	(29,709)
Cash flow before interest rate swaps termination payment and premium on bonds	126,993	90,307
Net cash paid to terminate swaps	-	(5,023)
Cash received from premium on bonds	-	15,285
Net cash provided by operating activities	<u>126,993</u>	<u>100,569</u>
Cash flows from investing activities		
Acquisition of property, plant and equipment	(65,345)	(59,755)
Decrease in deposits with trustees	1,723	34,208
Proceeds from sale or maturities of investments	178,186	307,684
Purchases of investments	(225,916)	(249,419)
Student loans and other loans issued	(6,643)	(6,598)
Proceeds from student and other loans	6,178	5,286
Proceeds from sale of property	6,365	-
Net cash (used in) provided by investing activities	<u>(105,452)</u>	<u>31,406</u>
Cash flows from financing activities		
(Decrease) increase in refundable advances	(877)	2,396
Interest and dividends restricted for long-term investments	310	2,726
Outstanding checks	(13,203)	13,203
Payment to annuitants and life income funds	(747)	(714)
Contributions for long-term investments	16,842	3,466
Payments on capital lease obligations	(869)	(731)
Net proceeds from issuance of long term debt	-	327,395
Debt refinancing	-	(295,090)
Payments on long-term debt	(13,607)	(11,511)
Bond issuance costs on new financing	-	(2,271)
Net cash paid to terminate swaps	-	(39,974)
Cash settlement paid on remarketed swaps	-	(8,899)
Net cash used in financing activities	<u>(12,151)</u>	<u>(10,004)</u>
Increase in cash and cash equivalents	9,390	121,971
Cash and cash equivalents at beginning of year	<u>195,515</u>	<u>73,544</u>
Cash and cash equivalents at end of year	<u>\$ 204,905</u>	<u>\$ 195,515</u>

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

Northeastern University

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

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 is also a leader in the production of use-inspired research that meets societal needs. Northeastern grants associate, bachelor, master and doctoral degrees. The University 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 consolidated financial statements have been prepared on the accrual basis and in accordance with the reporting standards for not-for-profit organizations and include the University and its subsidiaries, principally real estate holding entities.

The consolidated 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 consolidated financial statements for the year ended June 30, 2010, from which the summarized information was derived.

Generally Accepted Accounting Principles (GAAP) 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 change in 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.

Northeastern University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

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.

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 pledges 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 pledges 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 is based upon a negotiated rate and are recorded as unrestricted revenue.

Federally funded operating grants and contracts for the year ended June 30, 2011 and 2010 were \$67,454,000 and \$59,646,000, respectively, including indirect costs of \$14,149,000 and \$11,466,000.

Auxiliary enterprises include the operation of student housing and dining services, conference centers, the daycare center and the Renaissance Park office building.

Nonoperating revenues include all contributions, endowment and other investment return, change in annuity and life income funds, realized and changes in unrealized gains and losses on interest rate swap agreements, loss on extinguishment of debt, net gain on sale of property and net assets released from restrictions during the period used for current operations. Nonoperating revenues also include the portion of the endowment return in connection with the University's spending policy and other investment return. Contributions available 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 \$13,137,000 and \$11,903,000 for the years ended June 30, 2011 and 2010, respectively.

Northeastern University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

Certain 2010 amounts have been reclassified to conform to the current year presentation.

B. Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash management accounts and money market funds with maturities when purchased of three months or less.

C. Accounts and Loans Receivable

Accounts receivable are stated net of allowance for doubtful accounts of \$9,009,000 at June 30, 2011, and \$6,759,000 at June 30, 2010. Loans receivable are stated net of allowance for doubtful accounts of \$687,000 at June 30, 2011 and 2010. 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.

The University records an allowance for doubtful accounts for student and other loans receivables including those under the Federal Perkins Loan Program. Management regularly assesses the adequacy of the allowance for credit losses by performing evaluations on the student loan portfolio, current economic environment, and level of delinquent loans. The allowance is adjusted based on the results of these evaluations. Loans disbursed under the Federal Perkins Loan Program are able to be assigned to the Federal government in certain nonrepayment situations. Management believes that this allowance at June 30, 2011 is adequate to absorb credit losses inherent in the portfolio as of that date.

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. Managers of these portfolios 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 certain investments are calculated using average cost at trade date.

E. Property, Plant and Equipment

Property, plant and 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	4-7 years

Northeastern University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

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

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 consolidated statement of activities.

The University recognized \$1,012,000 and \$976,000 of operating expenses related to the accretion of liabilities recorded for the years ended June 30, 2011 and 2010, respectively. Conditional asset retirement obligations of \$19,388,000 and \$19,127,000 at June 30, 2011 and 2010, respectively, are included in accounts payable and accrued liabilities on the consolidated 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 accumulated depreciation). Outstanding liabilities include the conditional asset retirement obligation, accounts payable associated with construction projects, premiums on long-term debt, capital lease obligations and 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 real rate of return of approximately 5.0% annually.

The University's endowment spending policy uses the lesser of a percentage of December 2009's market value or 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 2011, the full payout amount was resumed and distributed based on a percentage of the December 2009 market value. For fiscal year 2010, in order to preserve the endowment, the Board suspended the full payout amount distributed from unrestricted sources.

Northeastern University

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

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.

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 consolidated 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

The University values its financial assets and liabilities at fair value in accordance with GAAP. GAAP defines fair value, establishes a framework for measuring fair value, and delineates the disclosures required about fair value measurements. Assets consist primarily of the endowment and other investments. Additionally, GAAP allows the University the use of estimates to fair value alternative investments at the measurement date using net asset values (NAV) reported by the investment managers without further adjustment, provided that the University does not expect to sell the alternative investments at a value other than the NAV. The University performs due diligence procedures on its alternative investments to determine the values are appropriate.

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

Northeastern University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

The following tables present information about assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2011, and indicate the fair value hierarchy utilized to determine such fair value:

<i>(in thousands)</i>	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Fair Value as of June 30, 2011	Fair Value as of June 30, 2010
Beneficial interest in charitable remainder trust	\$ -	\$ -	\$ 3,345	\$ 3,345	\$ 2,842
Deposits with trustees	1,087	-	-	1,087	2,810
Endowment investments					
Cash and cash equivalents	11,718	-	-	11,718	38,672
Fixed income	53,220	-	-	53,220	77,861
Domestic equity	75,293	-	-	75,293	39,096
International equity	107,301	-	-	107,301	54,825
Private equity	-	-	124,458	124,458	101,273
Hedge funds	-	52,000	128,364	180,364	166,360
Other alternative investments	-	29,629	10,800	40,429	37,587
Other investments	8,243	-	-	8,243	5,532
Total endowment investments	<u>255,775</u>	<u>81,629</u>	<u>263,622</u>	<u>601,026</u>	<u>521,206</u>
Other investments					
Cash & cash equivalents	132	-	-	132	-
Fixed income	60,941	-	-	60,941	-
Domestic equity	410	-	-	410	-
Auction rate securities and other	-	-	25,623	25,623	27,109
Total other investments	<u>61,483</u>	<u>-</u>	<u>25,623</u>	<u>87,106</u>	<u>27,109</u>
Total investments	<u>317,258</u>	<u>81,629</u>	<u>289,245</u>	<u>688,132</u>	<u>548,315</u>
Total assets	<u>\$ 318,345</u>	<u>\$ 81,629</u>	<u>\$ 292,590</u>	<u>\$ 692,564</u>	<u>\$ 553,967</u>
Interest rate swap agreements – liability	\$ -	\$ (32,428)	\$ -	\$ (32,428)	\$ (41,159)
Total liabilities	<u>\$ -</u>	<u>\$ (32,428)</u>	<u>\$ -</u>	<u>\$ (32,428)</u>	<u>\$ (41,159)</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.

Northeastern University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

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

<i>(in thousands)</i>	Private Equity	Hedge Funds	Other Alternative Investments	Auction Rate Securities and Other	Beneficial Interest in Charitable Remainder Trust	Total
Fair value recorded at July 1, 2010	\$ 101,273	\$ 108,415	\$ 26,491	\$ 27,109	\$ 2,842	\$ 266,130
Reclassification to Level 2	-	(2,500)	(16,629)	-	-	(19,129)
Purchases	24,566	10,000	-	-	-	34,566
Sales	(24,343)	(4,635)	-	(1,775)	-	(30,753)
Net realized/change in unrealized gains	24,278	17,084	938	289	501	43,090
Adjustment to record reduction in estimated fair value	(1,316)	-	-	-	2	(1,314)
Fair value recorded at June 30, 2011	<u>\$ 124,458</u>	<u>\$ 128,364</u>	<u>\$ 10,800</u>	<u>\$ 25,623</u>	<u>\$ 3,345</u>	<u>\$ 292,590</u>

The fair values of marketable domestic and international equities and fixed income instruments are determined generally based on quoted market prices in active markets. Alternative investments include private equity, hedge funds and other alternative investments. Private equity investments may consist of commitments in a limited partnership that invests in private companies or properties. Hedge funds may include investments that are publicly traded and may be subject to redemption restrictions.

The University's investments classified as Level 2 and 3 primarily consist of alternative investments. Limited partnerships' interest with quarterly redemption provisions are classified as Level 2, others with redemption provisions exceeding three months are classified as Level 3. In fiscal year 2011, \$19,129,000 was reclassified out of Level 3 to Level 2 in accordance with that policy.

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 has a reserve related to these securities. During fiscal year 2011, the University liquidated \$1,775,000 of the securities and released \$289,000 of the reserve. The reserve is \$7,373,000 at June 30, 2011. 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, 2011, the approximate fair value of outstanding long-term debt on the statement of financial position is \$771,091,000 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 agreement is based on an independent third party valuation. The fair value of swap instruments represents the estimated cost to the University to cancel the agreements at the reporting date. The University has performed due diligence on fair value of its interest rate swap agreement to determine fair value at June 30, 2011 and 2010.

Northeastern University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

At June 30, 2011, redemption terms for Level 1, Level 2 and Level 3 consist of the following:

Redemption Terms (in thousands)	Within 30 Days	30-60 Days Prior Written Notice	30-90 Days Prior Written Notice	30-180 Days Prior Written Notice	1-5 Years	6-10 Years	Total
Cash equivalents	\$ 11,850	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,850
Fixed income	114,161	-	-	-	-	-	114,161
Equity-domestic	75,703	-	-	-	-	-	75,703
Equity-international	107,301	-	-	-	-	-	107,301
Private equity	-	-	-	-	-	124,458	124,458
Hedge funds	-	-	51,600	42,900	85,864	-	180,364
Other alternative investments	13,001	-	16,629	-	10,777	22	40,429
Other investments	8,243	-	-	-	-	25,623	33,866
	<u>\$ 330,259</u>	<u>\$ -</u>	<u>\$ 68,229</u>	<u>\$ 42,900</u>	<u>\$ 96,641</u>	<u>\$ 150,103</u>	<u>\$ 688,132</u>

4. Pledges

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

(in thousands)	2011	2010
One year or less	\$ 15,170	\$ 20,586
Between one and five years	27,981	24,736
Greater than five years	<u>7,417</u>	<u>8,078</u>
	50,568	53,400
Less: Discount	(4,439)	(4,694)
Allowance for doubtful pledges	<u>(2,500)</u>	<u>(2,400)</u>
	<u>\$ 43,629</u>	<u>\$ 46,306</u>

At June 30, 2011, the University has \$16,200,000 of conditional pledges that are not reflected in the consolidated 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 Mass Development Bonds and other long-term debt. These funds are used for construction, debt service reserve, and repair and replacement reserve.

Northeastern University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

6. Investments

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

<i>(in thousands)</i>	2011	2010
Cash and cash equivalents	\$ 11,850	\$ 38,672
Fixed income	114,161	77,861
Equity domestic	75,703	39,096
Equity international	107,301	54,825
Private equity	124,458	101,273
Hedge funds	180,364	166,360
Other alternative investments	40,429	37,587
Other investments	33,866	32,641
	<u>\$ 688,132</u>	<u>\$ 548,315</u>

The unfunded commitments, consisting of private equities that the University has made to various investments at June 30, 2011 and 2010 are listed below. The University expects these funds to be called currently and for a period to extend between ten and fifteen years.

<i>(in thousands)</i>	2011	2010
Venture capital	\$ 37,468	\$ 42,862
Real estate	16,124	22,272
Energy & commodities	6,954	7,982
	<u>\$ 60,546</u>	<u>\$ 73,116</u>

Endowment and other investment return is comprised of:

<i>(in thousands)</i>	2011	2010
Realized and change in unrealized gains (losses)		
Endowment investments	\$ 83,067	\$ 24,980
Other investments	(40)	1,546
Investment yield		
Endowment investments	8,585	4,360
Other investments	1,918	960
	<u>\$ 93,530</u>	<u>\$ 31,846</u>
Unrestricted	\$ 60,645	\$ 21,240
Temporarily restricted	32,575	10,308
Permanently restricted	310	298
	<u>\$ 93,530</u>	<u>\$ 31,846</u>

Direct investment management fees paid were \$1,162,000 and \$1,031,000 for the years ended June 30, 2011 and 2010, respectively.

Northeastern University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

7. Property, Plant and Equipment

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

<i>(in thousands)</i>	2011	2010
Land	\$ 24,856	\$ 25,346
Building and improvements	1,100,257	1,073,206
Capitalized lease	38,410	38,428
Furniture and equipment	293,626	284,331
Library books	41,087	38,890
Construction in progress	21,390	353
	<u>1,519,626</u>	<u>1,460,554</u>
Less: Accumulated depreciation	(535,011)	(500,434)
	<u>\$ 984,615</u>	<u>\$ 960,120</u>

Depreciation expense amounted to \$45,298,000 and \$43,623,000 for the years ended June 30, 2011 and 2010, respectively, and is allocated in the consolidated statement of activities to functional expenses based on specific use of the related facilities. Operation, maintenance, and security of plant expense totaled \$54,619,000 and \$53,210,000 for the years ended June 30, 2011 and 2010, respectively, and is allocated to functional expense categories based on salary expense in the consolidated statement of activities.

8. Capitalized Lease

The University entered into capital lease agreements for certain equipment, and for the construction of two student resident halls, which was completed in fiscal year 2002. The University commenced the residence hall 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 lease commitments for future years range from \$2,913,000 in 2012 to \$2,855,000 in 2031.

Approximate future annual principal requirements as of June 30, 2011 are as follows:

<i>(in thousands)</i>	Principal Payments
Year	
2012	\$ 922
2013	979
2014	938
2015	999
2016	1,063
2017-2031	<u>27,248</u>
	<u>\$ 32,149</u>

Northeastern University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

9. Long-Term Debt

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

(in thousands)

Name	Rate	Maturity	2011	2010
Massachusetts Health and Educational Facilities Authority Revenue Bonds (HEFA)				
Series G	5.50%	2013	\$ 4,830	\$ 6,275
Series R	4.00%-5.00%	2033	85,110	87,080
Series S	3.50%-4.00%	2013	57,975	57,975
Series T -1	4.13%	2037	70,000	70,000
Series T -2	4.10%	2037	70,000	70,000
Series T -3	2.70%	2037	70,000	70,000
Series Y-1	3.00%-5.00%	2029	36,445	37,560
Series Y-2	3.00%-5.50%	2024	16,790	21,250
Series 2010A	2.00%-5.00%	2035	247,220	251,635
Taxable Revenue Bonds				
Series 2010B	3.35%-6.43%	2035	75,460	75,460
United States Department of Education (1)				
Various Mortgage Notes	3.00%	2018	1,345	1,515
Chartwells Division of Compass, Inc.	4.25%-5.00%	2010	-	31
			<u>735,175</u>	<u>748,781</u>
Add: Unamortized Premium on Bonds			15,281	17,993
			<u>\$ 750,456</u>	<u>\$ 766,774</u>

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

Approximate future annual principal requirements are below:

	Principal Payments
<i>(in thousands)</i>	
Year	
2012	\$ 154,460
2013	73,136
2014	84,986
2015	15,702
2016	16,378
Thereafter	<u>390,513</u>
	<u>\$ 735,175</u>

Interest expense totaled \$30,870,000 and \$22,519,000 for the years ended June 30, 2011 and 2010, respectively, of which \$0 and \$381,000, 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 consolidated statement of activities. Total amounts paid in 2011 and 2010, were \$40,832,000 and \$36,764,000, respectively, to meet interest costs including settlement costs on the related interest rate swap agreements.

Northeastern University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

In February 2010, Series T-3 bonds for \$70,000,000 were remarketed as one year tender bonds with a maturity date in February 2011. In February 2011, T-3 bonds for \$70,000,000 were remarketed as three-year tender bonds with a maturity date in February 2014.

In March 2010, the University issued \$251,635,000 in Massachusetts Health and Educational Facilities Authority (MHEFA) Revenue Bonds Series 2010A for the purpose of the refunding of MHEFA Series I, Q, U, and W Bonds as well as funding termination payments in connection with the interest rate swap agreements relating to these series. The Series 2010A Bonds consist of term and serial bonds in the amount of \$174,860,000, maturing in October 2030, paying interest ranging from 2% to 4.68%, and term bonds in the amount of \$76,775,000, maturing in October 2035, paying interest ranging from 4.875% to 5%. At the same time the University issued \$75,460,000 in MHEFA Federally Taxable Revenue Bonds Series 2010B for the purpose of the refunding of MHEFA Federally Taxable Series V and X Bonds as well as funding termination payments in connection with the interest rate swap agreements relating to these series. Bond issuance costs of \$2,033,000 incurred on Series 2010A and 2010B are recorded in prepaids and other assets and will be amortized over the life of the respective bonds. The Series 2010A bonds were issued with an original issue premium totaling \$15,286,000 which is recorded in long-term debt. The premium will be amortized using the effective interest method over the life of the respective bonds.

Due to the refunding of Series Q, U, V, W and X Bonds, the supporting letter of credit arrangements were terminated. A loss on extinguishment of debt of \$3,284,000 representing the write-off of all unamortized bond issuance costs on the Series I, Q, U, W, V and X Bonds has been reflected in the 2010 consolidated statement of activities.

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

The University records the interest rate swap at fair value as indicated in Note 3. Net payments or receipts under the swap agreement along with the change in fair value of the swap are included in the nonoperating section on the consolidated statement of activities.

In March 2010, the University terminated its interest rate swaps with Barclays, Deutsche Bank, and Wells Fargo for \$44,997,000.

The University has adopted guidance related to the *Disclosures about Derivative Instruments and Hedging Activity*. Under this guidance, the University is required to disclose the location and amounts of derivatives within the consolidated financial statements. The tables below depict the impact the derivative has on both the consolidated statement of financial position and consolidated statement of activities.

<i>(in thousands)</i>	June 30, 2011	June 30, 2010
	<u>Fair Value</u>	<u>Fair Value</u>
Interest rate swap agreement	\$ (32,428)	\$ (41,159)

Northeastern University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

Net realized and unrealized gain/(loss) on the interest rate swap recorded in the consolidated statement of activities as nonoperating was as follows for the years ended June 30, 2011 and 2010:

<i>(in thousands)</i>	2011	2010
Realized (loss)	\$ (7,506)	\$ (17,052)
Change in unrealized gain (loss)	8,731	(11,858)
Realized gain (loss) on interest rate swap terminations	<u>-</u>	<u>4,208</u>
	<u>\$ 1,225</u>	<u>\$ (24,702)</u>

The following schedule presents the notional principal amounts and fair value of the University's interest rate swap agreement at June 30, 2011:

<i>(in thousands)</i>					
Bond Issue	Counterparty	Trade Type	Notional Amount	Date Expiration October 1,	Fair Value at June 30, 2011
MHEFA Series T	AIG	Swap	\$ 210,000	2037	\$ (32,428)

There is no collateral posting requirement for the University related to the swap with AIG.

The University maintained a line of credit with a bank in the amount of \$50,000,000 for years ended June 30, 2011 and 2010. There were no amounts outstanding on the line of credit at June 30, 2011 and 2010.

10. Retirement Plan

The University sponsors a retirement plan under which full-time faculty and staff may elect to contribute an amount of their eligible compensation up to the Internal Revenue Service published limit toward the purchase of contracts with Teachers Insurance and Annuity Association of America and College Retirement Equities Fund and/or Fidelity Management Trust Company. After two years of employment, the University contributes 10% of the participants' eligible compensation to each participant's account providing that the participants contribute a minimum of 5% of their eligible compensation to the plan. The cost of the University's contribution to this plan was \$19,392,000 and \$18,234,000 for the years ended June 30, 2011 and 2010, respectively.

Northeastern University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

11. Post Retirement Medical Plan

For the year ended June 30, 2011 and 2010, net periodic postretirement medical benefits cost includes the following:

	2011	2010
Service cost	\$ 735,000	\$ 563,000
Interest cost	813,000	834,000
Amortization of		
Prior service cost	-	700,000
Actuarial loss	585,000	455,000

These expenses are allocated to the functional expense categories on the statement of activities based on salary expense. The accrued postretirement benefit obligation was \$14,838,000 and \$16,743,000 at June 30, 2011 and 2010, respectively, and is included in accounts payable and accrued liabilities on the consolidated statement of financial position. The plan does not hold assets and is funded as benefits are paid.

For measurement purposes, the assumed annual rate of increase in the per capita cost of covered medical benefits was 10%, 8%, 7%, and 6% for the years ended 2011, 2012, 2013 and 2014, graded down to 5% for fiscal year 2015 and thereafter. A discount rate of 5% was assumed at July 1, 2010, to determine the net periodic benefit cost for fiscal years 2011 and 2010 and the benefit obligation at June 30, 2011 and 2010.

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:

	2011	2010
Impact of 1% increase in health care cost trend		
on interest cost plus service during the past year	\$ 165,000	\$ 138,000
on accumulated postretirement benefit obligation	1,145,000	1,273,000
Impact of 1% decrease in health care cost trend		
on interest cost plus service during the past year	(145,000)	(122,000)
on accumulated postretirement benefit obligation	(1,024,000)	(1,150,000)

Northeastern University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

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

<i>(in thousands)</i>	Future Benefit Payments
Year	
2012	\$ 949
2013	1,153
2014	1,242
2015	1,341
2016	1,346
2017-2021	6,849
	<u>\$ 12,880</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 \$3,829,000 and \$4,617,000 at June 30, 2011 and 2010, respectively.

13. Endowment and Similar Net Assets

Endowment and Similar Net Assets composition by type of fund as of June 30, 2011:

<i>(in thousands)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (1,038) ⁽¹⁾	\$ 101,027	\$ 139,243	\$ 239,232
Board-designated endowment funds	<u>372,246</u>	<u>-</u>	<u>-</u>	<u>372,246</u>
	<u>\$ 371,208</u>	<u>\$ 101,027</u>	<u>\$ 139,243</u>	<u>\$ 611,478</u>

Endowment and Similar Net Assets composition by type of fund as of June 30, 2010:

<i>(in thousands)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (7,057) ⁽¹⁾	\$ 82,315	\$ 127,201	\$ 202,459
Board-designated endowment funds	<u>330,028</u>	<u>-</u>	<u>-</u>	<u>330,028</u>
	<u>\$ 322,971</u>	<u>\$ 82,315</u>	<u>\$ 127,201</u>	<u>\$ 532,487</u>

⁽¹⁾ The \$1,038,000 and \$7,057,000 deficits in unrestricted net assets represent the amounts by which the fair values of certain donor-restricted endowment funds were below the amount required to be retained permanently.

Northeastern University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

Changes in Endowment and Similar Net Assets for the fiscal year ended June 30, 2011:

<i>(in thousands)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment and similar net assets at July 1, 2010	\$ 322,971	\$ 82,315	\$ 127,201	\$ 532,487
Investment income	5,459	3,024	102	8,585
Net appreciation (realized and change in unrealized)	<u>59,341</u>	<u>23,533</u>	<u>208</u>	<u>83,082</u>
Total endowment return	64,800	26,557	310	91,667
Contributions	59	222	11,424	11,705
Endowment spending for operations and reinvestment	(16,822)	(6,958)	-	(23,780)
Other expenses and transfers	<u>200</u>	<u>(1,109)</u>	<u>308</u>	<u>(601)</u>
Endowment and similar net assets at June 30, 2011	<u>\$ 371,208</u>	<u>\$ 101,027</u>	<u>\$ 139,243</u>	<u>\$ 611,478</u>

Changes in Endowment and Similar Net Assets for the fiscal year ended June 30, 2010:

<i>(in thousands)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment and similar net assets at July 1, 2009	\$ 302,702	\$ 82,053	\$ 122,591	\$ 507,346
Investment income	2,778	1,556	26	4,360
Net appreciation (realized and change in unrealized)	<u>17,202</u>	<u>7,506</u>	<u>272</u>	<u>24,980</u>
Total endowment return	19,980	9,062	298	29,340
Contributions	368	311	4,697	5,376
Endowment spending for operations and reinvestment	(542)	(7,266)	-	(7,808)
Other expenses and transfers	<u>463</u>	<u>(1,845)</u>	<u>(385)</u>	<u>(1,767)</u>
Endowment and similar net assets at June 30, 2010	<u>\$ 322,971</u>	<u>\$ 82,315</u>	<u>\$ 127,201</u>	<u>\$ 532,487</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.

Northeastern University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

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 2016 are approximated below:

<i>(in thousands)</i>	Minimum Lease Commitments
Year	
2012	\$ 12,806
2013	8,585
2014	5,180
2015	5,055
2016	5,050
	<u>\$ 36,676</u>

Total rental expense for the University was \$16,528,000 and \$15,212,000 for the years ended June 30, 2011 and 2010, respectively.

The University has entered into contracts for various maintenance and renovation projects for which a balance of \$23,174,000 is committed at June 30, 2011.

Northeastern University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

15. Cash Flow Statement

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 provided by or used in operating activities.

<i>(in thousands)</i>	2011	2010
Cash flows from operating activities		
Change in net assets	\$ 187,616	\$ 78,807
Adjustments to reconcile total changes in net assets to net cash provided by (used in) operating activities		
Noncash items		
Depreciation and amortization	42,810	42,917
Accretion expense	1,009	976
Loss on extinguishment of long-term debt	-	3,284
Student loan cancellations	185	747
Loss on disposals of property, plant, and equipment	1,328	124
Changes in assets and liabilities		
Increase in receivables and prepaid assets	(4,612)	(24,794)
Increase in accounts payable and accrued liabilities	12,828	10,357
Increase (decrease) in deferred revenue and student deposits	10,183	(7,364)
Other items		
Contributions in kind	(8,121)	(2,311)
Contributions restricted for long-term investment	(16,842)	(3,466)
Interest and dividends restricted for long-term investments	(310)	(2,726)
Net realized and change in unrealized gain on investments	(84,571)	(27,993)
Realized and unrealized (gain) loss on interest rate swap agreements	(8,731)	21,749
Cash settlement paid to terminate interest rate swap agreements	-	(5,023)
Cash received from premium on bonds issued	-	15,285
Net gain on sale of property	(5,779)	-
Net cash provided by operating activities	<u>\$ 126,993</u>	<u>\$ 100,569</u>

16. Subsequent Events

The University has assessed the impact of subsequent events through October 18, 2011, the date of the audited consolidated financial statements were issued, and has concluded that there were no such events that require adjustment to the audited consolidated financial statements or disclosure in the notes to the audited consolidated financial statements.