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Northeastern University

Audited Financial Statements

Office of the Senior Vice President for Administration and Finance

June 30, 2008

Northeastern University financial statements: June 30, 2008 (with comparative figures for 2007)

Northeastern University

Recommended Citation

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Northeastern University

Financial Statements

June 30, 2008

(with Comparative Figures for 2007)

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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, cash flows, and expenses by function present fairly, in all material respects, the financial position of Northeastern University at June 30, 2008, 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 the 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 2007 financial statements, and in our report dated October 18, 2007, 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 audit 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.

PricewaterhouseCoopers LLP

October 24, 2008

Northeastern University
Statement of Financial Position

as of June 30, 2008 and 2007

(in thousands of dollars)		2008		2007
Assets:				
Cash and short-term investments *(Note A)*	$	26,245	$	60,445
Accounts and notes receivable, net *(Note A)*		26,551		22,081
Dividends and interest receivable		314		1,279
Prepaids and other assets		13,513		15,376
Interest rate swap market valuation (*Note E*)		-		4,833
Pledges receivable, net *(Note B)*		30,638		22,563
Student loans receivable, net *(Note A)*		33,088		32,625
Deposits with trustees *(Note I)*		87,477		3,762
Investments *(Note C)*		777,617		724,143
Property, plant and equipment, net *(Note G)*		887,332		766,705
Total assets	**$**	**1,882,775**	**$**	**1,653,812**
Liabilities and net assets:				
Liabilities:				
Accounts payable and accrued liabilities		102,181		86,975
Accounts payable on construction projects		22,379		11,714
Interest rate swap market valuation *(Note E)*		37,728		-
Deferred revenue and student deposits		46,502		39,190
Refundable advances		30,217		29,652
Capital lease obligations *(Note L)*		34,154		34,799
Long-term debt *(Note E)*		698,360		493,468
Total liabilities	**$**	**971,521**	**$**	**695,798**
Net assets:				
Endowment and similar funds *(Note D)*		417,911		441,466
Invested in plant, net		205,985		221,704
Other unrestricted *(Note E)*		5,698		18,863
Total unrestricted		629,594		682,033
Endowment and similar funds *(Note D)*		141,146		153,141
Restricted for capital projects		3,249		3,632
Other temporarily restricted		19,335		17,555
Total temporarily restricted		163,730		174,328
Endowment *(Note D)*		102,454		94,449
Other permanently restricted		15,476		7,204
Total permanently restricted		117,930		101,653
Total net assets	**$**	**911,254**	**$**	**958,014**
Total liabilities and net assets	**$**	**1,882,775**	**$**	**1,653,812**

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

Northeastern University
Statement of Activities

for the year ended June 30, 2008 and with summarized financial information for the year ended June 30, 2007

(in thousands of dollars)	Unrestricted	Temporarily Restricted	Permanently Restricted	2008	2007
Operating					
Revenues and other support					
Tuition and fees	$ 575,762			$ 575,762	$ 531,136
Less: Financial aid *(Note A and K)*	(159,270)			(159,270)	(151,007)
Net student-related revenues	$ 416,492			$ 416,492	$ 380,129
Contributions	4,011	$ 10,986		14,997	18,840
Grants and contracts *(Note K)*	53,286			53,286	46,890
Indirect cost recovery	13,509			13,509	12,038
Auxiliary enterprises	94,687			94,687	92,339
Investment income from endowment	5,694	3,295		8,989	7,993
Other investment income	11,558			11,558	7,711
Other	30,761	2,358		33,119	34,763
Total operating revenues	$ 629,998	$ 16,639		$ 646,637	$ 600,703
Net assets released for operations	20,531	(20,531)		-	-
Endowment appreciation used for spending policy *(Note D)*	10,876	5,672		16,548	16,293
Total operating revenues and other support	**$ 661,405**	**$ 1,780**		**$ 663,185**	**$ 616,996**
Expenses					
Instruction	231,272			231,272	208,148
Research	58,327			58,327	58,272
Academic support	70,115			70,115	67,881
Student services	61,408			61,408	55,053
Institutional support	90,239			90,239	88,233
Other student aid *(Note K)*	4,888			4,888	4,636
Cooperative education	8,978			8,978	8,808
Auxiliary enterprises	94,971			94,971	85,063
Other	2,782			2,782	3,833
Total operating expenses *(Notes E and G)*	**$ 622,980**			**$ 622,980**	**$ 579,927**
Increase in net assets from operating activities	**$ 38,425**	**$ 1,780**		**$ 40,205**	**$ 37,069**
Nonoperating					
Contributions for long-term investment		1,544	$ 16,277	17,821	11,626
Net realized (loss)/gain on investments	(6,987)	(4,233)		(11,220)	46,836
Net unrealized (depreciation)/appreciation on investments	(13,076)	(3,471)		(16,547)	46,492
Endowment appreciation used for spending policy *(Note D)*	(10,876)	(5,672)		(16,548)	(16,293)
Net realized and unrealized (loss)/gain on interest rate swaps *(Note E)*	(52,427)			(52,427)	3,573
Loss on extinguishment of debt *(Note E)*	(8,044)			(8,044)	-
Net assets released for capital projects	546	(546)		-	-
Change in net assets before cumulative effect of change in accounting principle	**$ (52,439)**	**$ (10,598)**	**$ 16,277**	**$ (46,760)**	**$ 129,303**
Cumulative effect of change in accounting principle *(Note M)*	-	-	-	-	(5,947)
Change in net assets	**$ (52,439)**	**$ (10,598)**	**$ 16,277**	**$ (46,760)**	**$ 123,356**
Net assets at beginning of year	682,033	174,328	101,653	958,014	834,658
Net assets at end of year	**$ 629,594**	**$ 163,730**	**$ 117,930**	**$ 911,254**	**$ 958,014**

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

Northeastern University
Statement of Cash Flows

for the years ended June 30, 2008 and 2007

(in thousands of dollars)		2008		2007
Cash flows from operating activities:				
Change in net assets		($46,760)		$123,356
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Cumulative effect of change in accounting principle		-		5,947
Depreciation and amortization		37,714		34,932
Loss on disposals of property, plant and equipment		492		112
Loss on extinguishment of debt		8,044		-
Student loan cancellations		569		612
(Increase) in receivables and prepaids		(18,170)		(17,207)
(Decrease)/increase in accounts payable and accrued liabilities		(7,629)		14,467
Realized and unrealized loss/(gain) on interest rate swap		42,561		(5,535)
Increase in deferred revenue and student deposits		7,312		3,239
Contributions of stock		(4,500)		-
Contributions of property, plant and equipment		(49)		-
Contributions restricted for long-term investment		(8,440)		(11,633)
Interest and dividends restricted for long-term investments		(906)		(806)
Net unrealized and realized loss/(gain) on long-term investments		27,767		(93,328)
Net cash provided by operating activities	**$**	**38,005**	**$**	**54,156**
Cash flows from investing activities:				
Acquisition of property, plant and equipment		(147,710)		(71,495)
(Increase)/decrease in deposits with trustees		(83,715)		11,361
Proceeds from sale or maturities of investments		345,403		395,572
Purchases of investments		(422,144)		(390,817)
Student loans issued		(5,718)		(7,423)
Proceeds from student loans		4,686		6,207
Net cash used by investing activities	**$**	**(309,198)**	**$**	**(56,595)**
Cash flows from financing activities:				
Increase/(decrease) in refundable advances		565		(268)
Interest and dividends restricted for long-term investments		906		806
Uncashed checks		20,082		8,327
Payment to annuitants		(672)		(624)
Contributions for long-term investments		8,440		11,633
Payments on capital lease		(645)		(606)
Net proceeds from issuance of long term debt		654,790		-
Debt refinancing		(439,800)		-
Payments on long-term debt		(10,098)		(8,639)
Premiums on issued bonds		3,425		-
Net cash provided by financing activities	**$**	**236,993**	**$**	**10,629**
(Decrease)/increase in cash and short-term investments		(34,200)		8,190
Cash and short-term investments at beginning of year		60,445		52,255
Cash and short-term investments at end of year	**$**	**26,245**	**$**	**60,445**

Supplemental data: The asset retirement obligation recognized in fiscal year 2008 is a liability of $18,128,000 and a net fixed asset of $1,202,000. The University had $22,379,000 of property, plant and equipment purchases accrued June 30, 2008.

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

Notes to the Financial Statements

Founded in 1898, Northeastern University ("the University") is one of the largest private urban universities in the United States. It is a leader in cooperative education, a program in which students alternate periods of traditional college study with periods of paid, professional employment. 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.

Note A. Accounting Policies

The significant accounting policies followed by the University are set forth below and in other sections of these notes.

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 class. 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, 2007, 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 non-cash 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 pledge receivable at the present value of the expected future cash inflows. Such 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 related to the amortization of the discount or revisions in the income beneficiary's life expectancy are recorded as a non-operating 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 student-related revenues 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 is recorded as unrestricted revenue.

Nonoperating revenues include all gifts for long-term investments and capital projects, realized and unrealized gains and losses on interest rate swap agreements, and realized and unrealized gains and losses on endowment investments during the period. The use of endowment appreciation in connection with the University's endowment spending policy is treated as a transfer to operating activities. All other activity is classified as operating revenue.

Expenses incurred in carrying out the fund-raising activities of the University, amounted to $9,872,000 and $8,653,000 for the years ended June 30, 2008 and 2007, respectively.

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

Accounts and Loans Receivable
Accounts receivable are stated net of allowance for doubtful accounts of $5,403,000 at June 30, 2008 and $5,391,000 at June 30, 2007. Loans receivable are stated net of allowance for doubtful accounts of $687,000 at June 30, 2008 and 2007. 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.

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.

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, in accordance with Statement of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirement Obligations*, and Financial Accounting Standards Interpretation (FIN) No. 47, *Accounting for Conditional Asset Retirement Obligations*. 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 $945,000 and $876,000 of operating expenses relating to the accretion of liabilities recorded under FIN No. 47 for the year ended June 30, 2008 and 2007, respectively. Conditional asset retirement obligations of $18,128,000 and $17,868,000 for the years ended June 30, 2008 and 2007, respectively, are included in the University's accrued liabilities.

Cash and Short-Term Investments
Short-term investments consist of operating funds deposited in cash management accounts of $0 and $14,167,000 at June 30, 2008 and 2007, respectively, and cash and cash equivalents with original maturities at time of purchases of three months or less of $26,245,000 and $46,278,000 at June 30, 2008 and 2007, respectively. At June 30, 2007, short term investments included auction rate securities based on their underlying liquidity and credit market conditions at that time. The University had uncashed checks of $20,082,000 and $8,327,000 at June 30, 2008 and 2007, respectively. These amounts were invested and have been reflected as cash and as a liability on the Statement of Financial Position.

Accounting for Uncertainty in Income Taxes
During 2008, the University adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – An Interpretation of SFAS No. 109, Accounting for Income Taxes.* The adoption did not have a material effect on the University's financial statements.

Auxiliary Enterprises
For financial reporting purposes, auxiliary enterprises include the operation of student housing, conference centers, the daycare center and the Renaissance Park Office Building.

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

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.

New Accounting Pronouncements
The FASB has issued SFAS No. 157, *Fair Value Measurements*, SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, and Staff Position 117-1, *Endowments of Not-for-Profit Organizations*. The standards and staff position are effective for the University's fiscal year ending June 30, 2009, except for certain provisions of the standards which were deferred for an additional year. Management is still evaluating the impact of SFAS No. 157, SFAS No. 159 and Staff Position 117-1, but does not believe their adoption will have a material impact on the financial statements.

Note B. Pledges

Pledges receivable as of June 30, 2008 and 2007 are expected to be realized in the following time periods (in thousands):

	2008	2007
One year or less	$11,899	$11,704
Between one and five years	14,569	12,780
Greater than five years	10,395	2,329
	36,863	26,813
Less: discount	4,069	2,094
Allowance for doubtful pledges	2,156	2,156
Pledges receivable, net	**$30,638**	**$22,563**

The discount on pledges five years and under was calculated using a discount factor based on the five year U.S. Treasury note at June 30, 2008 and 2007, which approximates the expected timing of future pledge receipts. The discount on pledges greater than five years was calculated using the IRS discount rate on the date of the gift.

At June 30, 2008, the University has $13,000,000 of conditional pledges that are not reflected in the financial statements due to their conditional nature.

Note C. Investments

Investments at June 30, 2008 and 2007 were as follows (in thousands):

	2008		2007	
	Market	Costs	Market	Costs
Cash Equivalents	$1,999	$1,999	$16,752	$16,752
Fixed Income	25,843	24,720	33,680	34,500
Equity Domestic	129,024	129,359	191,040	158,083
Equity International	116,361	65,500	138,644	73,000
Auction Rate Securities	104,636	111,982		
Alternative Investments	399,754	335,750	344,027	318,619
Total	**$777,617**	**$669,310**	**$724,143**	**$600,954**

Marketable investments are carried at estimated fair market value as established by the major securities markets when available. Other investments including alternative investments are valued on a monthly or quarterly basis and are carried at fair value as estimated by management using values provided byexternal investment managers or other reliable sources. The University believes that these valuations are a reasonable estimate of fair value as of June 30, 2008 and 2007, but are subject to uncertainty and, therefore, may differ significantly from the value that would have been used had a market for such investments existed. Gains or losses upon sale of investments are calculated using average cost and trade date.

As of June 30, 2008, the University held $104,636,000 in auction rate securities which are variable rate debt instruments that bear interest rates structured to reset approximately every 7 or 28 days. The auction rate securities are rated AAA by a major credit rating agency and are guaranteed by the Federal Family Education Loan Program (FFELP). The underlying securities have contractual maturities that range from 23 to 49 years. At June 30, 2008, the University classified these securities as investments consistent with the terms of the underlying securities.

At June 30, 2007, the carrying value of the auction rate securities approximated fair value due to the frequent resetting of the interest rates and the market conditions at that time. As of June 30, 2008, the overall credit concerns in the capital markets as well as the failed auctions of these securities have impacted the ability to liquidate these investments. Accordingly, the estimated fair value as of June 30, 2008 was determined by management based upon a discounted cash flow methodology assuming the securities were held to maturity.

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 counter party to the transactions. The University also invests in a number of limited partnerships which sell securities short and which use leverage. At June 30, 2008 the University is committed to invest an additional $96,447,000 in certain venture capital and other limited partnerships. Certain partnerships and venture capital interests are restricted as to sale or withdrawal by the University.

Direct investment management fees paid were $2,683,000 and $2,189,000 for the years ended June 30, 2008 and 2007, respectively.

Note D. Endowment and Similar Net Assets

Endowment and Similar Net Assets at June 30, 2008 and 2007 were as follows (in thousands):

	2008	2007
Unrestricted	$417,911	$441,466
Temporarily restricted	141,146	153,141
Permanently restricted	102,454	94,449
Total endowment and similar net assets	**$661,511**	**$689,056**

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.

The University records the pooled investments of the Endowment and Similar Funds on a unit value basis. At June 30, 2008, the Endowment and Similar Funds included pooled investments of $671,633,000 and non-pooled other investments of $751,000. The units of each fund are adjusted monthly to reflect additions or deductions. Total pooled units were 239,464 at June 30, 2008 each having a unit value of $2,804.73 including $85.01 per unit of net realized and unrealized loss in market value for the year.

The University uses an endowment spending policy in which a percentage of a five year moving average of the endowment fund's market value is distributed to the appropriate funds and treated as revenue and other support for operating activities. These distributions consist of dividends, interest and, if necessary, a portion of accumulated investment gains.

Note E. Long-Term Debt

Long -term debt consists of the following at June 30, 2008 and 2007 (in thousands):

Name	Rate	Maturity	2008	2007
Massachusetts Health and Educational Facilities Authority Revenue Bonds (HEFA)(2)(3)				
Series F (4)	variable	2024	$18,900	$19,550
Series G	3.85% - 5.50%	2028	47,575	48,820
Series H (4)	variable	2010	5,150	5,200
Series I	4.00% - 5.25%	2029	34,390	35,250
Series K (4)	variable	2010	6,000	7,800
Series L (4)	variable	2036	-	87,200
Series M (4)	variable	2022	72,250	73,850
Series N (4)	variable	2034	-	90,050
Series O (4)	variable	2035	-	54,500
Series Q	variable	2035	87,200	-
Series R	4.00%-5.00%	2033	89,615	-
Series S	3.50%-4.00%	2012	57,975	-
Series T	2.25%	2037	210,000	-
Taxable Revenue Bonds				
Series 1998A	6.33% - 7.04%	2028	36,535	37,305
Series 2001A (3)(4)	variable	2030	30,050	30,500
United States Department of Education (1)				
Various Mortgage Notes	3.00%	2018	1,840	1,996
Chartwells Division of Compass, Inc.	4.25% - 5.00%	2010	880	1,447
Total			**$698,360**	**$493,468**

(1) Bonds are collateralized by mortgages on the related properties.
(2) The University has granted a lien on a portion of tuition receipts.
(3) The University has entered into an interest rate exchange agreement in order to fix the interest cost on Series F, H, K, L, M, N, O, Q, T and 2001A.
(4) The variable interest rates ranged from 2.033% to 15.00% during fiscal 2008.

At June 30, 2008 the approximate fair value of outstanding debt on the Statement of Financial Position is $702,904,000, based on estimates using current interest rates available for debt with similar remaining maturities.

Approximate future annual principal requirements are below (in thousands):

Year	Principal Payments
2009	$9,720
2010	11,652
2011	11,555
2012	12,359
2013	71,002
thereafter	582,072
Total	**$698,360**

Interest expense totaled $37,097,000 and $21,302,000 for the years ended June 30, 2008 and 2007, respectively, of which $4,287,000 and $133,000, 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 2008 and 2007 were $37,480,000 and $22,764,000 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 May and June, 2008. The Series T Bonds were issued as one year put bonds with maturity dates in May and June, 2009, paying interest of 2.25% for the year.

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 at the daily interest reset period. In conjunction with the issuance of the Series Q Bonds, the University entered into a letter of credit contract in the amount of $87,200,000, which expires in May, 2011, 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.

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 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 debt extinguishment charge of $8,044,000 representing the write-off of all unamortized bond issuance costs on the Series L, N, O and P Bonds has been reflected in the statement of activities. The Series R and S Bonds were issued with original issue premiums totaling $3,425,000 and are 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 $884,000 incurred on Series Q, R, S and T 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. The swaptions can be exercised by the third party in October, 2008 in the amount of $76,950,000 and in October, 2009 in the amount of $33,650,000. These transactions were not entered into for speculative purposes but rather to facilitate the possible advance refunding of the Series G, I and 1998A Revenue Bonds and to help manage interest rate costs and the variable rate risk associated with the reissued bonds. Under the terms of the swaption agreements, the University will pay fixed rates of 4.385% on $39,750,000, 4.35% on $33,650,000 and 6.35% on $37,000,000 and receive variable rate payments from the third party based on appropriate indexes. In August 2008, the University was notified by the third party of their intention to exercise the swaptions on the amounts of $39,950,000 and $37,000,000 effective in October 2008.

The University received an upfront premium payment from the third party of $5,115,000 for selling the swaptions, which has been recorded as deferred revenue at June 30, 2008 and 2007. This premium is retained by the University regardless of whether the counterparty exercises the swaptions.

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 swaptions at fair market value. Net payments or receipts under the swap agreements along with the change in fair value of the swaps and swaptions are included in nonoperating revenues on the statement of activities.

Net realized and unrealized gain on interest rates swaps and swaptions were the following for the years ended June 30, 2008 and 2007 (in thousands):

	2008	2007
Realized loss	$(2,045)	$(1,962)
Unrealized (loss)/gain	(39,069)	5,535
Realized loss on swap terminations	(11,313)	0
Net realized unrealized (loss)/gain on interest rate swaps	**$(52,427)**	**$3,573**

The following schedule presents the notional principal amounts of the University's interest rate swaps and swaptions at June 30, 2008 (in thousands):

Bond Issue	Trade Type	Notional Amount	Expiration Date	Fair Value at June 30, 2008
HEFA Series K	Swap	$6,000	October 22, 2010	$(212)
HEFA Series H	Swap	5,150	October 22, 2010	(182)
HEFA Series M	Swap	72,250	October 14, 2022	(10,476)
HEFA Series F	Swap	18,900	October 18, 2024	(4,423)
HEFA Series Q	Swap	43,600	October 01, 2035	(1,793)
HEFA Series Q	Swap	43,600	October 01, 2035	(1,845)
2001A	Swap	30,050	October 01, 2030	(269)
HEFA Series T	Swap	210,000	October 01, 2037	(11,477)
HEFA Series 1998A	Swaption	37,000	October 01, 2028	(5,334)
HEFA Series G	Swaption	39,950	October 01, 2028	(4,159)
HEFA Series I	Swaption	33,650	October 01, 2029	(2,673)
Total		**$540,150**		**$(42,843)**

Management estimates the fair value of the interest rate swaps and swaptions based on a third-party evaluator. The value of the swap instruments represents the estimated cost to the University to cancel the agreements at the reporting date, which is based on option pricing models that consider risks and market factors.

The University's debt agreements have various covenants, the most restrictive of which is maintenance of a debt-service coverage ratio of not greater than twelve percent of operating revenues.

The University maintained a line of credit with a bank in the amount of $50,000,000 and $20,000,000 for years ended June 30, 2008 and 2007 respectively. There were no amounts outstanding on the line of credit at June 30, 2008 and 2007.

Subsequent to year-end, in July 2008, the University issued Massachusetts Health and Educational Facilities Authority (MHEFA) Variable Rate Demand Revenue Bonds Series U in the amount of $72,250,000 for the purpose of refunding the MHEFA Series M bonds and issued MHEFA Variable Rate Demand Revenue Bonds Series V (federally taxable) in the amount of $30,050,000 for the purpose of refunding the MHEFA Series 2001A Revenue Bonds. Two letters of credit in the total amount of $102,300,000 have been entered into to provide alternative credit facilities on the Series U and Series V Bonds.

Note F. 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 (TIAA and CREF) 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 $16,567,000 and $15,743,000 for the years ended June 30, 2008 and 2007, respectively.

Note G. Property, Plant and Equipment

Property, plant and equipment at June 30 consisted of the following (in thousands):

	2008	2007
Land	$28,010	$24,356
Building and improvements	842,241	800,161
Capitalized Lease	37,928	37,928
Furniture and equipment	240,166	234,442
Library books	35,243	33,270
Construction in progress	125,491	30,639
	1,309,079	1,160,796
Less: accumulated depreciation	421,747	394,091
Property, plant and equipment, net	**$887,332**	**$766,705**

Depreciation expense amounted to $37,305,000 and $34,300,000 for the years ended June 30, 2008 and 2007, 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 $55,409,000 and $51,030,000 for the years ended June 30, 2008 and 2007, respectively, and is allocated to functional expense categories based on salary expense on the Statement of Activities.

Note H. 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 and equipment for terms ranging from one to five years. The annual operating minimum lease commitments through the year 2013 are approximated below (in thousands):

Year	Minimum Lease Commitments
2009	$9,297
2010	3,139
2011	3,162
2012	3,239
2013	3,309

Total rental expense for the University was $12,718,000 and $11,975,000 for the years ended June 30, 2008 and 2007 respectively.

The University has entered into contracts related to the construction of a residence hall complex and the renovation of a resident hall, for which a balance of $79,274,000 is committed at June 30, 2008.

Note I. 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. Deposits with trustees are carried at cost which approximates fair market value.

Note J. Self-Insurance

Northeastern 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 $3,346,000 and $4,041,000 at June 30, 2008 and 2007, respectively.

Note K. Federally Funded Grants and Contracts

Federally funded operating grants and contracts for the year ended June 30, 2008 and 2007 were $38,556,000 and $31,889,000 respectively.

Note L. Capitalized Lease

The University entered into a capital lease agreement for two student resident halls construction 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 $2,920,000 in 2008 to $2,855,000 in 2031. Approximate future annual principal requirements as of June 30, 2008 are as follows (in thousands):

Year	Principal Payments
2009	$687
2010	731
2011	778
2012	828
2013	882
2013-2031	30,248
Total	$ 34,154

Note M. Post Retirement Medical Plan

In September 2006, the FASB issued "SFAS" *Standards* No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132(R) ("SFAS No. 158"). SFAS No. 158 requires recognition in the statements of financial position of the over or underfunded status of the related pension and other postretirement plans, measured as the difference between the fair value of plan assets and the projected benefit obligation ("PBO") for pension plans and the accumulated postretirement benefit obligation ("APBO") for other benefit plans. This effectively requires the recognition of all previously unrecognized actuarial gains and losses, prior service cost and transition liability in the unrestricted net assets upon adoption, and provides additional annual disclosure.

FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pension* ("SFAS No. 106") continue to apply in measuring plan assets and benefit obligations, as of the date of the fiscal year-end statement of financial position, and in determining the amount of net periodic benefit income or cost.

The University adopted SFAS No. 158 effective June 30, 2007 by recording all unrecognized prior service costs of $2,100,000 and unrecognized actuarial losses of $3,847,000 for this plan. These expense amounts, totaling $5,947,000, are reported as a cumulative effect of a change in accounting principle in the statement of activities. The adoption of SFAS No. 158 had no effect on results of operations or liquidity for the year ended June 30, 2007, or for any prior period presented, and it will not affect operating results in future periods as SFAS No. 158 does not affect the determination of net periodic benefit income or cost.

For the year ended June 30, 2008 and 2007, net periodic postretirement medical benefits cost include the following:

	2008	2007
Service Cost	$377,000	$337,000
Interest Cost	664,000	652,000
Amortization of:		
Prior Service Cost	700,000	700,000
Actuarial Loss	277,000	292,000

These expenses are allocated to the functional expense categories in the Statement of Activities based on salary expense. The accrued postretirement benefit obligation was $12,586,000 and $11,556,000 at June 30, 2008 and 2007, respectively and is included in Accounts Payable and Accrued Liabilities. 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, 2007 and 2006, to determine the net period benefit cost for fiscal years 2008 and 2007 and the benefit obligation at June 30, 2008 and 2007.

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:

Impact of 1% increase in health care cost trend:	
on interest cost plus service during the past year	$101,000
on accumulated postretirement benefit obligation	$890,000
Impact of 1% decrease in health care cost trend:	
on interest cost plus service during the past year	$(89,000)
on accumulated postretirement benefit obligation	$(808,000)

Expected future benefit payments and cash contributions to the plan are as follows (in thousands):

Year	Future Benefit Payments
2009	$963
2010	1,024
2011	1,113
2012	1,163
2013	1,250
2014-2018	6,291
Total	$11,804

Note N. Subsequent Event

At June 30, 2008, the University had approximately $430 million of debt subject to interest rate swap agreements. The counter party in all of these interest rate swaps is either Lehman Brothers or AIG. In addition, Lehman Brothers is the counterparty on the three swaption agreements in effect at June 30, 2008.

In September 2008, Lehman Brothers Holdings, Inc. filed for Chapter 11 bankruptcy protection in federal court.

In September 2008, the federal government guaranteed a loan up to $85 billion collateralized by an 80% equity stake in AIG in the form of warrants called equity participation notes.

The University continues to assess these situations to determine their potential effect on the University's financial condition. Management does not believe these circumstances will have a material adverse effect on the University's financial condition.