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Northeastern University

Audited Financial Statements

Office of the Senior Vice President for Administration and Finance

June 30, 2010

Northeastern University consolidated financial statements: June 30, 2010 and 2009

Northeastern University

Recommended Citation

Northeastern University, "Northeastern University consolidated financial statements: June 30, 2010 and 2009" (2010). *Audited Financial Statements.* Paper 3. http://hdl.handle.net/2047/d20000554

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Northeastern University

Consolidated Financial Statements
June 30, 2010 and 2009

Northeastern University
Index
June 30, 2010 and 2009

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 5–24

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, 2010, 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 2009 consolidated financial statements, and in our report dated October 22, 2009, 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 29, 2010

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Northeastern University
Consolidated Statements of Financial Position
June 30, 2010 and 2009

(in thousands of dollars)	2010	2009
Assets		
Cash and cash equivalents	$ 195,515	$ 73,544
Accounts and other receivables, net	40,659	33,707
Prepaids and other assets	14,950	11,113
Pledges receivable, net (Note 4)	46,306	33,552
Student and other loans receivable, net	35,208	34,643
Deposits with trustees (Notes 3 and 5)	2,810	37,018
Investments (Notes 3 and 6)	548,315	576,306
Property, plant and equipment, net (Note 7)	960,120	952,031
Total assets	$ 1,843,883	$ 1,751,914
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	$ 117,229	$ 93,407
Accounts payable on construction projects	6,198	14,148
Deferred revenue and student deposits	46,692	54,056
Refundable advances	33,981	31,585
Interest rate swap agreements (Notes 3 and 9)	41,159	73,306
Capital lease obligations (Note 8)	33,036	33,467
Long-term debt (Notes 3 and 9)	766,774	731,938
Total liabilities	1,045,069	1,031,907
Net assets		
Endowment and similar funds (Note 13)	322,971	302,702
Net investment in plant	102,629	112,518
Other unrestricted	114,409	73,127
Total unrestricted	540,009	488,347
Endowment and similar funds (Note 13)	82,315	82,053
Other temporarily restricted	49,289	27,016
Total temporarily restricted	131,604	109,069
Permanently restricted endowment and similar funds (Note 13)	127,201	122,591
Total net assets	798,814	720,007
Total liabilities and net assets	$ 1,843,883	$ 1,751,914

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

Northeastern University
Consolidated Statement of Activities
Year Ended June 30, 2010
(with summarized financial information for the year ended June 30, 2009)

(in thousands of dollars)	Unrestricted	Temporarily Restricted	Permanently Restricted	2010	2009
Operating					
Revenues and other support					
Tuition and fees	$ 686,107	$	$	$ 686,107	$ 633,846
Less: Financial aid	(181,416)			(181,416)	(169,004)
Net student-related revenues	504,691	-	-	504,691	464,842
Contributions used for operations	1,739	12,130		13,869	20,676
Grants and contracts	60,977			60,977	52,306
Indirect cost recovery	15,152			15,152	12,660
Auxiliary enterprises	108,177			108,177	96,587
Endowment spending for operations (Note 13)	542	7,266		7,808	16,726
Other investment return used for operations	960			960	3,887
Other	33,809			33,809	36,196
Total operating revenues	726,047	19,396	-	745,443	703,880
Net assets released for operations	7,728	(7,728)			
Total operating revenues and other support	733,775	11,668	-	745,443	703,880
Expenses					
Instruction	253,179			253,179	249,361
Research	74,769			74,769	66,209
Academic support	73,199			73,199	71,877
Student services	79,068			79,068	76,256
Institutional support	83,662			83,662	91,366
Other student aid	6,007			6,007	5,919
Cooperative education	9,577			9,577	9,745
Auxiliary enterprises	92,979			92,979	85,928
Other	4,994			4,994	3,646
Total operating expenses (Notes 7 and 9)	677,434	-	-	677,434	660,307
Increase in net assets from operating activities	56,341	11,668	-	68,009	43,573
Nonoperating					
Contributions	2,137	22,741	4,697	29,575	25,281
Contributions used for operations	(1,739)	(12,130)		(13,869)	(20,676)
Endowment and other investment return (Note 6)	21,240	10,308	298	31,846	(162,806)
Endowment spending for operations (Note 13)	(542)	(7,266)		(7,808)	(16,726)
Other investment return used for operations	(960)			(960)	(3,887)
Net realized and unrealized loss on interest rate swaps (Note 9)	(24,702)			(24,702)	(50,726)
Loss on extinguishment of debt (Note 9)	(3,284)			(3,284)	(5,280)
Net assets released from restrictions	3,171	(2,786)	(385)		
Change in net assets	51,662	22,535	4,610	78,807	(191,247)
Net assets at beginning of year	488,347	109,069	122,591	720,007	911,254
Net assets at end of year	$ 540,009	$ 131,604	$ 127,201	$ 798,814	$ 720,007

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

Northeastern University
Consolidated Statements of Cash Flows
Years Ended June 30, 2010 and 2009

(in thousands of dollars)	**2010**	**2009**
Cash flows from operating activities		
Cash received from student-related revenues	$ 600,643	$ 560,550
Cash received from sponsored programs	69,500	57,207
Cash received from donors	10,850	10,233
Cash received from endowment and other investment income	1,542	6,663
Cash received from auxiliary enterprises other than student housing	10,887	11,086
Cash received from other income	31,262	33,212
Cash paid to employees and vendors	(604,668)	(607,675)
Interest and other debt payments	(29,709)	(30,551)
Cash flows before interest rate swaps termination payment and premium on bonds	90,307	40,725
Net cash paid to terminate interest rate swaps	(5,023)	(52,861)
Cash received from premium on bonds issued	15,285	606
Net cash provided by (used in) operating activities	100,569	(11,530)
Cash flows from investing activities		
Acquisition of property, plant and equipment	(59,755)	(110,485)
Decrease in deposits with trustees	34,208	50,458
Proceeds from sale or maturities of investments	307,684	708,169
Purchases of investments	(249,419)	(675,424)
Student and other loans issued	(6,598)	(6,421)
Proceeds from student loans	5,286	4,408
Net cash provided by (used in) investing activities	31,406	(29,295)
Cash flows from financing activities		
Increase in refundable advances	2,396	1,368
Interest and dividends restricted for long-term investments	2,726	1,257
Outstanding checks	13,203	3,247
Payment to annuitants	(714)	(746)
Contributions for long-term investments	3,466	7,839
Payments on capital lease	(731)	(687)
Net proceeds from issuance of long term debt and line of credit	327,395	278,147
Debt payments as a result of refinancing	(295,090)	(202,640)
Payments on long-term debt and line of credit	(11,511)	(44,033)
Bond issuance costs on new financing	(2,271)	(2,182)
Net cash paid to terminate swaps	(39,974)	-
Cash settlement paid on remarketed swaps	(8,899)	(5,898)
Cash received from swaps remarketing	-	52,452
Net cash (used in) provided by financing activities	(10,004)	88,124
Increase in cash and cash equivalents	121,971	47,299
Cash and cash equivalents at beginning of year	73,544	26,245
Cash and cash equivalents at end of year	$ 195,515	$ 73,544

Supplemental data

The University had $6,198 of property, plant and equipment purchases accrued at June 30, 2010.

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

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, 2009, 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 unrealized gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

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

The University has received an irrevocable charitable remainder trust, for which the University does not serve as trustee. For this trust, the University recorded its beneficial interest in those assets as contributions revenue and pledge receivable at the present value of the expected future cash inflows. Trusts are recorded at the date the University has been notified of the trust's existence and sufficient information regarding the trust has been accumulated to form the basis for an accrual. Changes in the value of these assets are recorded as a 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 tuition and fees reflect student financial aid funded by the University's operating budget, restricted endowment funds, and federal and state student assistance programs. Compensation of students for services provided and tuition benefits for employees are presented as expenses.

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

Federally funded operating grants and contracts for the year ended June 30, 2010 and 2009 were $59,646,000 and $47,208,000, respectively, including indirect costs of $11,466,000 and $9,369,000.

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

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

Expenses incurred in carrying out the fund-raising activities of the University, amounted to $11,903,000 and $11,688,000 for the years ended June 30, 2010 and 2009, respectively.

Certain 2009 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. The University has checks issued that have not yet been presented to the bank in the amounts of $13,203,000 and $3,247,000 at June 30, 2010 and 2009, respectively. This amount was invested and has been reflected as cash and as a liability on the consolidated statement of financial position.

C. Accounts and Loans Receivable

Accounts receivable are stated net of allowance for doubtful accounts of $6,759,000 at June 30, 2010, and $6,050,000 at June 30, 2009. Loans receivable are stated net of allowance for doubtful accounts of $687,000 at June 30, 2010 and 2009. Loans receivable are principally amounts due from students under Federally Sponsored Loan Programs, which are subject to significant restrictions; accordingly, it is not practical to determine the fair value of such amounts.

D. Investments

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

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

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

E. Property, Plant and Equipment

Property, plant and equipment 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

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 $976,000 and $959,000 of operating expenses related to the accretion of liabilities recorded for the years ended June 30, 2010 and 2009, respectively. Conditional asset retirement obligations of $19,127,000 and $18,468,000 at June 30, 2010 and 2009, 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 rate of return of approximately 5.0% annually adjusted for inflationary factors.

The University's endowment spending policy uses a percentage of a five year moving average of the endowment fund’s market value which is distributed to the appropriate funds and treated as revenue in the statement of activities. These distributions consist of dividends, interest and, if necessary, a portion of accumulated investment gains. The amount distributed each year is subject to the Board’s approval. During fiscal year 2010, and in order to preserve the endowment, the Board suspended the full payout amount distributed from unrestricted sources. During fiscal year 2009, the Board suspended a portion of the payout amount distributed from unrestricted sources.

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.

The following tables present information about assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2010, and indicate the fair value hierarchy utilized to determine such fair value:

(in thousands)	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, 2010	Fair Value as of June 30, 2009
Beneficial interest in charitable remainder trust	$ -	$ -	$ 2,842	$ 2,842	$ 2,735
Deposits with trustees	2,810	-	-	2,810	37,018
Endowment investments					
Cash and cash equivalents	38,672			38,672	203,850
Fixed income	74,448	3,413		77,861	28,892
Domestic equity	39,096			39,096	7,566
International equity	54,825			54,825	4,953
Private equity			101,273	101,273	84,433
Hedge funds		57,945	108,415	166,360	135,024
Other alternative investments		11,096	26,491	37,587	36,280
Other investments	5,532			5,532	
Total endowment investments	212,573	72,454	236,179	521,206	500,998
Other investments					
Auction rate securities and other			27,109	27,109	75,308
Total other investments	-	-	27,109	27,109	75,308
Total investments	212,573	72,454	263,288	548,315	576,306
Total assets	215,383	72,454	266,130	553,967	616,059
Interest rate swap agreements – liability	$	$ (41,159)	$	$ (41,159)	$ (73,306)
Total liabilities	$ -	$ (41,159)	$ -	$ (41,159)	$ (73,306)

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.

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

(in thousands)	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, 2009	$ 84,433	$ 135,024	$ 36,280	$ 75,088	$ 2,735	$ 333,560
Reclassification to Level 2	-	(53,393)	(9,866)	-	-	(63,259)
Purchases	19,315	34,800	-	-	-	54,115
Sales	(9,900)	(13,483)	(5,000)	(47,979)	-	(76,362)
Net realized/unrealized gains/(losses)	16,081	5,467	5,077	-	(84)	26,541
Adjustment to record reduction in estimated fair value	(8,656)	-		-	191	(8,465)
Fair value recorded at June 30, 2010	$ 101,273	$ 108,415	$ 26,491	$ 27,109	$ 2,842	$ 266,130

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 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 2010, the University liquidated $42,050,000 of the securities and released $3,829,000 of the reserve. The reserve is $7,661,000 at June 30, 2010. 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, 2010, the approximate fair value of outstanding long-term debt on the statement of financial position is $802,963,000 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, 2010 and 2009.

At June 30, 2010, redemption terms for Level 1, Level 2 and Level 3 consist of the following:

(in thousands)	Cash and Cash Equivalents	Fixed Income	Equity Domestic	Equity International	Private Equity	Hedge Funds	Other Alternative Investments	Other Investments	Total
Within 30 days	$ 38,672	$ 74,448	$ 39,096	$ 54,825	$ -	$ -	$ 11,096	$ 5,532	$ 223,669
Monthly:									
30-80 days prior written notice	-	3,413	-	-	45	-	$ -	$ -	3,458
Quarterly:									
30-90 days prior written notice	-	-	-	-	-	57,945	-	-	57,945
Semi annually, annually:									
80-180 days prior written notice	-	-	-	-	-	85,402	-	-	85,402
1-5 years	-	-	-	-	-	23,013	26,491	-	49,504
6-10 years	-	-	-	-	101,228	-	-	27,109	128,337
	$ 38,672	$ 77,861	$ 39,096	$ 54,825	$ 101,273	$ 166,360	$ 37,587	$ 32,641	$ 548,315

4. Pledges

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

(in thousands)	2010	2009
One year or less	$ 20,586	$ 14,089
Between one and five years	24,736	17,685
Greater than five years	8,078	8,344
	53,400	40,118
Less: Discount	(4,694)	(4,166)
Allowance for doubtful pledges	(2,400)	(2,400)
	$ 46,306	$ 33,552

At June 30, 2010, 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 Massachusetts Health and Educational Facilities Authority (MHEFA) Bonds and other long-term debt. These funds are used for construction, debt service reserve, and repair and replacement reserve.

6. Investments

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

(in thousands)	2010	2009
Cash and cash equivalents	$ 38,672	$ 203,850
Fixed income	77,861	28,892
Equity domestic	39,096	7,566
Equity international	54,825	4,953
Private equity	101,273	84,433
Hedge funds	166,360	135,024
Other alternative investments	37,587	36,280
Other investments	32,641	75,308
	$ 548,315	$ 576,306

The unfunded commitments, consisting of private equities that the University has made to various investments at June 30, 2010 and 2009 are listed below. The University expects these funds to be called currently and for a period to extend between ten and fifteen years.

(in thousands)	2010	2009
Venture capital	$ 42,862	$ 47,381
Real estate	22,272	26,900
Energy & commodities	7,982	12,319
	73,116	86,600

Endowment and other investment return is comprised of:

(in thousands)	2010	2009
Realized and unrealized gains (losses)		
Endowment investments	$ 24,980	$ (165,156)
Other investments	1,546	(5,566)
Investment yield		
Endowment investments	4,360	4,029
Other investments	960	3,887
	$ 31,846	$ (162,806)
Unrestricted	$ 21,240	$ (113,067)
Temporarily restricted	10,308	(49,739)
Permanently restricted	298	-
	$ 31,846	$ (162,806)

Direct investment management fees paid were $1,031,000 and $1,093,000 for the years ended June 30, 2010 and 2009, respectively.

7. Property, Plant and Equipment

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

(in thousands)	2010	2009
Land	$ 25,346	$ 28,010
Building and improvements	1,073,206	862,669
Capitalized lease	38,428	37,928
Furniture and equipment	284,331	256,328
Library books	38,890	37,117
Construction in progress	353	189,248
	1,460,554	1,411,300
Less: Accumulated depreciation	(500,434)	(459,269)
	$ 960,120	$ 952,031

Depreciation expense amounted to $43,623,000 and $39,096,000 for the years ended June 30, 2010 and 2009, 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 $53,210,000 and $72,464,000 for the years ended June 30, 2010 and 2009, respectively, and is allocated to functional expense categories based on salary expense on 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 minimum lease commitment through the 30-year term of this lease ranges from $2,915,000 in 2010 to $2,855,000 in 2031.

Approximate future annual principal requirements as of June 30, 2010 are as follows:

(in thousands)	Principal Payments
Year	
2011	$ 878
2012	928
2013	982
2014	938
2015	999
2016-2031	28,311
	$ 33,036

9. Long-Term Debt

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

(in thousands)

Name	Rate	Maturity	2010	2009
Massachusetts Health and Educational Facilities Authority Revenue Bonds (HEFA)				
Series G	5.50%	2013	$ 6,275	$ 7,645
Series I	4.00%-5.25%	2029	-	33,495
Series Q (1)	variable	2035	-	87,200
Series R	4.00%-5.00%	2033	87,080	88,955
Series S	3.50%-4.00%	2012	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	0.60%	2037	70,000	70,000
Series U (1)	variable	2022	-	72,200
Series W (1)	variable	2028	-	39,215
Series Y-1	3.00%-5.00%	2029	37,560	38,280
Series Y-2	3.00%-5.50%	2024	21,250	25,545
Series 2010A	2.00%-5.00%	2035	251,635	-
Taxable Revenue Bonds				
Series V (1)	variable	2030	-	29,550
Series X (1)	variable	2028	-	36,260
Series 2010B	3.35%-6.43%	2035	75,460	-
United States Department of Education (2)				
Various Mortgage Notes	3.00%	2018	1,515	1,680
Chartwells Division of Compass, Inc.	4.25%-5.00%	2010	31	287
			748,781	728,287
Add: Unamortized Premium on Bonds			17,993	3,651
			$ 766,774	$ 731,938

(1) The variable interest rates ranged from 0.10% to 0.55% during fiscal 2010.
(2) Bonds are collateralized by mortgages on the related properties.

Approximate future annual principal requirements are below:

(in thousands)	**Principal Payments**
Year	
2011	$ 83,606
2012	154,460
2013	73,136
2014	14,986
2015	15,702
Thereafter	406,891
	$ 748,781

Interest expense totaled $22,519,000 and $22,380,000 for the years ended June 30, 2010 and 2009, respectively, of which $381,000 and $5,320,000, 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 2010 and 2009, were $36,764,000 and $36,792,000, 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, renovation of a residence hall, renovation of Matthew's Arena and the purchase of new administrative software. In May 2008, the University issued $210,000,000 in MHEFA Revenue Bonds Series T for the purpose of refunding the MHEFA Series P Bonds in June 2008. In April 2009, Series T-1 bonds for $70,000,000 were remarketed as three year tender bonds with a maturity date in February 2012. In May 2009, Series T-2 bonds for $70,000,000 were remarketed as three year tender bonds with a maturity date in April 2012. In 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 July 2008, the University issued $72,250,000 in Massachusetts Health and Educational Facilities Authority (MHEFA) Revenue Bonds Series U for the purpose of the refunding of MHEFA Series M Bonds in August 2008. The variable interest rate on the Series U Bonds is reset daily. The variable rate demand bonds had to be remarketed to the bondholders on the daily interest reset date. In conjunction with the issuance of the Series U Bonds, the University entered into a letter of credit contract in the amount of $72,843,000 with a bank to provide an alternative liquidity feature for these bonds.

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

In December 2008, the University issued $39,215,000 in Massachusetts Health and Educational Facilities Authority (MHEFA) Revenue Bonds Series W for the purpose of refunding a portion of MHEFA Series G Bonds in February 2009. The variable interest rate on the Series W Bonds is reset weekly. The variable rate demand bonds had to be remarketed to the bondholders on the weekly interest reset date. In conjunction with the issuance of the Series W Bonds, the University entered into a letter of credit contract in the amount of $39,795,000 with a bank to provide an alternative liquidity feature for these bonds.

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

In January 2009, the University issued $63,825,000 in Massachusetts Health and Educational Facilities Authority (MHEFA) Revenue Bonds Series Y1 and Y2 for the purpose of the refunding of MHEFA Series F Bonds, Series H Bonds and Series K Bonds in April 2009 and to complete construction of a residence hall, renovate athletic and academic buildings and purchase new administrative software. The Series Y Bonds consist of term and serial bonds in the amount of $38,280,000, maturing in October 2029, paying interest ranging from 3% to 5.625% and term and serial bonds in the amount of $25,545,000, maturing in October 2024, paying interest ranging from 3% to 5.5%. The Series Y bonds were issued with original issue premiums totaling $606,000 which is recorded in long-term debt. The premium will be amortized over the life of the respective bonds.

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.

In October 2004, the University sold three swaptions to a third party to initiate interest rate swaps. The University received an upfront premium payment from the third party of $5,115,000 which was recorded as deferred revenue.

In August 2008 the University was notified of the third party's intent to exercise two of the swaptions, Series 1998A in the notional amount of $37,000,000 and Series G in the notional amount of $39,950,000. The remaining swaption, Series I, was terminated in December 2008 with the original counterparty and replaced with another swaption. The University received an upfront premium payment of $5,200,000 which was recorded as deferred revenue.

In August 2009, the University was notified of the third party's intent to exercise the swaption on Series I in the notional amount of $33,650,000.

The University has entered into various interest rate 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 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 agreements along with the change in fair value of the swaps and swaption are included in the nonoperating section on the consolidated statement of activities. All previously deferred revenue has been recorded as a gain and are included in the nonoperating section on the consolidated statement of activities.

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

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 derivatives have on both the consolidated statement of financial position and consolidated statement of activities.

(in thousands)	**June 30, 2010 Fair Value**	**June 30, 2009 Fair Value**
Interest rate swap agreements	$ 41,159	$ 73,306

Net realized and unrealized loss on interest rate swaps and swaption recorded in the consolidated statement of activities as nonoperating were as follows for the years ended June 30, 2010 and 2009:

(in thousands)	**2010**	**2009**
Realized loss	$ (17,052)	$ (14,654)
Unrealized loss	(11,858)	(9,377)
Realized gain (loss) on interest rate swap terminations	4,208	(26,695)
	$ (24,702)	$ (50,726)

The following schedule presents the notional principal amounts and fair value of the University's interest rate swap agreement at June 30, 2010:

(in thousands)

Bond Issue	Counterparty	Trade Type	Notional Amount	Date Expiration October 1,	Fair Value at June 30, 2010
MHEFA Series T	AIG	Swap	$ 210,000	2037	$ (41,159)
			$ 210,000		$ (41,159)

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, 2010 and 2009. There were no amounts outstanding on the line of credit at June 30, 2010 and 2009.

10. Retirement Plans

The University sponsors a retirement plan under which full-time faculty and staff may elect to contribute 5% or more of their base salary toward the purchase of contracts under a plan with the Teachers Insurance and Annuity Association and the College Retirement Equities Fund or Fidelity Investments. After two years of employment, the University contributes 10% of the base salary to each participating employee's account. The cost of the University's contribution to this plan was $18,234,000 and $17,449,000 for the years ended June 30, 2010 and 2009, respectively.

11. Post Retirement Medical Plan

For the year ended June 30, 2010 and 2009, net periodic postretirement medical benefits cost includes the following:

	2010	2009
Service cost	$ 563,000	$ 442,000
Interest cost	834,000	726,000
Amortization of		
Prior service cost	700,000	700,000
Actuarial loss	455,000	339,000

These expenses are allocated to the functional expense categories on the statement of activities based on salary expense. The accrued postretirement benefit obligation was $16,743,000 and $14,375,000 at June 30, 2010 and 2009, respectively, and is included in accounts payable and accrued liabilities on the consolidated statement of financial position. The funded status of the plan is equal to the accrued postretirement benefit obligation.

For measurement purposes, the assumed annual rate of increase in the per capita cost of covered medical benefits was 10%, 8%, 7% and 6% for the years ended 2010, 2011, 2012 and 2013, graded down to 5% for fiscal year 2014 and thereafter. A discount rate of 5% was assumed at July 1, 2009, to determine the net periodic benefit cost for fiscal years 2010 and 2009 and the benefit obligation at June 30, 2010 and 2009.

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:

	2010	2009
Impact of 1% increase in health care cost trend		
on interest cost plus service during the past year	$ 138,000	$ 113,000
on accumulated postretirement benefit obligation	1,273,000	1,037,000
Impact of 1% decrease in health care cost trend		
on interest cost plus service during the past year	(122,000)	(100,000)
on accumulated postretirement benefit obligation	(1,150,000)	(941,000)

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

(in thousands)	Future Benefit Payments
Year	
2011	$ 961
2012	1,151
2013	1,370
2014	1,485
2015	1,554
2016-2020	7,904
	$ 14,425

12. Self-Insurance

The University is self-insured for certain employee health benefits, workers' compensation, a portion of property and casualty coverage and a student health plan. The self-insurance reserve balances were $4,617,000 and $4,353,000 at June 30, 2010 and 2009, respectively.

13. Endowment and Similar Net Assets

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

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

Endowment and Similar Net Assets Composition by type of fund as of June 30, 2009:

(in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (8,287) [1]	$ 82,053	$ 122,591	$ 196,357
Board-designated endowment funds	310,989	-	-	310,989
	$ 302,702	$ 82,053	$ 122,591	$ 507,346

[1] The $7,057,000 and $8,287,000 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.

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

(in thousands)	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 unrealized)	17,202	7,506	272	24,980
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	463	(1,845)	(385)	(1,767)
Endowment and similar net assets at June 30, 2010	$ 322,971	$ 82,315	$ 127,201	$ 532,487

Changes in Endowment and Similar Net Assets for the fiscal year ended June 30, 2009:

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

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.

The University records the pooled investments of the Endowment and Similar Funds on a unit value basis. At June 30, 2010, the Endowment and Similar Funds included pooled investments of $520,692,000 and nonpooled other investments of $493,000. The units of each fund are adjusted monthly to reflect additions or deductions. Total pooled units were 244,826 at June 30, 2010 each having a unit value of $2,126.71, including $106.50 per unit of net realized and unrealized gain in market value for the year.

14. Lease Commitments and Contingencies

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

The University leases property, plant and equipment for terms ranging from one to five years. The annual operating minimum lease commitments through the year 2015 are approximated below:

(in thousands)	**Minimum Lease Commitments**
Year	
2011	$ 7,629
2012	4,623
2013	3,856
2014	420
2015	340
	$ 16,868

Total rental expense for the University was $15,212,000 and $16,922,000 for the years ended June 30, 2010 and 2009, respectively.

The University has entered into contracts for various maintenance and renovation projects for which a balance of $5,658,000 is committed at June 30, 2010.

15. Subsequent Events

The University has assessed the impact of subsequent events through October 29, 2010, 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.

16. 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.

(in thousands)	**2010**	**2009**
Total changes in net assets	$ 78,807	$ (191,247)
Adjustments to reconcile total changes in net assets to net cash provided by (used in) operating activities		
Noncash items		
Depreciation and amortization	42,917	39,008
Accretion expense	976	959
Loss on extinguishment of long-term debt	3,284	5,280
Student loan cancellations	747	498
Loss on disposals of property, plant and equipment	124	111
Changes in assets and liabilities		
Increase in receivables and prepaids	(24,794)	(10,896)
Increase (decrease) in accounts payable and accrued liabilities	10,357	(10,246)
(Decrease) increase in deferred revenue and student deposits	(7,364)	7,554
Other items		
Contributions in kind	(2,311)	(3,388)
Contributions restricted for long-term investments	(3,466)	(7,839)
Interest and dividends restricted for long-term investments	(2,726)	(1,257)
Net unrealized and realized (gain) loss on long-term investments	(27,993)	170,302
Realized and unrealized (gain) loss on interest rate swap agreements	21,749	47,086
Cash settlement paid to terminate interest rate swap agreements	(5,023)	(58,061)
Cash received from premium on bonds issued	15,285	606
Net cash provided by (used in) operating activities	$ 100,569	$ (11,530)