KPMG

# EMERSON COLLEGE

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

**EMERSON COLLEGE**

**Table of Contents**

**KPMG LLP**
Two Financial Center
60 South Street
Boston, MA 02111

## Independent Auditors' Report

The Board of Trustees
Emerson College:

We have audited the accompanying statements of financial position of Emerson College (the College) as of June 30, 2011 and 2010, and the related statements of unrestricted revenues and expenses, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 26, 2011

**EMERSON COLLEGE**

Statements of Financial Position

June 30, 2011 and 2010

| **Assets** | | **2011** | **2010** |
|---|---|---|---|
| Cash and cash equivalents | $ | 16,887,505 | 51,870,570 |
| Student, other and contributions receivable, net (note 3) | | 3,722,740 | 2,106,567 |
| Loans receivable, net (notes 3 and 9) | | 2,489,460 | 2,524,091 |
| Other assets (note 8) | | 2,346,901 | 2,947,808 |
| Funds held by bond trustee (note 4) | | 10,305,865 | 7,093,615 |
| Investments (notes 4 and 5) | | 119,732,775 | 106,561,793 |
| Bond proceeds held in refunding trust (note 8) | | — | 23,561,738 |
| Land, buildings, and equipment, net (notes 6 and 7) | | 432,547,698 | 435,888,717 |
| Total assets | $ | 588,032,944 | 632,554,899 |
| **Liabilities and Net Assets** | | | |
| Accounts payable and accrued expenses | $ | 16,207,859 | 17,700,980 |
| Line of credit (note 8) | | — | 33,000,000 |
| Student deposits and deferred revenues | | 6,523,811 | 4,167,316 |
| Bonds payable through refunding trust (note 8) | | — | 22,825,000 |
| Bonds payable, net (note 8) | | 207,341,767 | 213,508,120 |
| Capital lease obligations (note 7) | | 2,749,393 | 2,749,516 |
| Refundable advances – U.S. government grants (note 9) | | 1,204,791 | 1,204,791 |
| | | 234,027,621 | 295,155,723 |
| Deferred royalty revenue (note 15) | | 5,089,381 | 6,539,381 |
| Total liabilities, including deferred revenue | | 239,117,002 | 301,695,104 |
| Net assets: | | | |
| Unrestricted | | 322,562,302 | 308,229,103 |
| Temporarily restricted (note 10) | | 6,667,365 | 4,943,903 |
| Permanently restricted (note 11) | | 19,686,275 | 17,686,789 |
| Total net assets | | 348,915,942 | 330,859,795 |
| Total liabilities and net assets | $ | 588,032,944 | 632,554,899 |

Commitments (notes 7 and 8)

See accompanying notes to financial statements.

## EMERSON COLLEGE

Statements of Unrestricted Revenues and Expenses

Years ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| Operating: | | |
| Revenues: | | |
| Tuition and fees | $ 124,675,093 | 119,733,502 |
| Less scholarship aid and grants to students | (28,469,573) | (25,891,607) |
| Tuition and fees, net | 96,205,520 | 93,841,895 |
| Government grants and appropriations | 2,195,452 | 2,542,054 |
| Private gifts and grants | 2,370,768 | 2,468,137 |
| Investment income available for operations (notes 4 and 5) | 2,169,703 | 1,769,540 |
| Other interest income (note 4) | 89,028 | 407,487 |
| Other sources | 3,549,298 | 2,491,657 |
| Auxiliary enterprises | 31,188,619 | 24,051,038 |
| Total revenues | 137,768,388 | 127,571,808 |
| Net assets released from restrictions (note 12) | 466,783 | 1,132,410 |
| Total revenues and net assets released from restrictions | 138,235,171 | 128,704,218 |
| Expenses: | | |
| Educational and general: | | |
| Instruction | 41,615,403 | 36,680,090 |
| Academic support | 15,117,730 | 13,397,254 |
| Student services | 15,566,515 | 13,975,890 |
| Institutional support | 24,628,187 | 21,809,864 |
| Auxiliary enterprises | 38,813,084 | 25,497,851 |
| Total expenses | 135,740,919 | 111,360,949 |
| Increase in unrestricted net assets from operating activities | 2,494,252 | 17,343,269 |
| Nonoperating: | | |
| Reinvested investment gain (notes 4 and 5) | 9,826,524 | 2,137,258 |
| Loss on refunding 1999A Series (note 8) | (337,577) | — |
| Royalty revenue (note 15) | 2,350,000 | 2,350,000 |
| Increase in unrestricted net assets from nonoperating activities | 11,838,947 | 4,487,258 |
| Increase in unrestricted net assets | $ 14,333,199 | 21,830,527 |

See accompanying notes to financial statements.

**EMERSON COLLEGE**

Statements of Changes in Net Assets

Years ended June 30, 2011 and 2010

| | | 2011 | 2010 |
|---|---|---|---|
| Increase in unrestricted net assets (from previous statements) | $ | 14,333,199 | 21,830,527 |
| Changes in temporarily restricted net assets: | | | |
| Contributions | | 659,295 | (404,659) |
| Reinvested investment gain (notes 4 and 5) | | 1,530,950 | 594,307 |
| Net assets released from restrictions (note 12) | | (466,783) | (1,132,410) |
| Increase (decrease) in temporarily restricted net assets | | 1,723,462 | (942,762) |
| Change in permanently restricted net assets: | | | |
| Contributions | | 1,999,486 | 529,964 |
| Increase in permanently restricted net assets | | 1,999,486 | 529,964 |
| Increase in net assets | | 18,056,147 | 21,417,729 |
| Net assets at beginning of year | | 330,859,795 | 309,442,066 |
| Net assets at end of year | $ | 348,915,942 | 330,859,795 |

See accompanying notes to financial statements.

**EMERSON COLLEGE**

Statements of Cash Flows

Years ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| Cash flows from operating activities: | | |
| Changes in net assets | $ 18,056,147 | 21,417,729 |
| Adjustment to reconcile changes in net assets to net cash and cash equivalents provided by operating activities: | | |
| Depreciation and amortization | 17,521,650 | 11,249,985 |
| Refunding loss | 337,557 | — |
| Contributions to permanently restricted net assets and building improvements | (1,264,877) | (1,303,943) |
| Net realized and unrealized (gain) on investments | (12,126,306) | (3,777,773) |
| Change in student and other contributions receivable | (1,616,173) | 35,128 |
| Change in other assets | 167,240 | (1,111,863) |
| Change in accounts payable and accrued expenses | (1,493,121) | 1,487,875 |
| Change in student deposits and deferred revenue | 2,356,495 | 500,196 |
| Net cash and cash equivalents provided by operating activities | 21,938,612 | 28,497,334 |
| Cash flows from investing activities: | | |
| Purchases of investments | (52,543,418) | (55,896,993) |
| Sales and maturities of investments | 51,498,742 | 5,264,594 |
| Purchases of land, buildings, and equipment | (14,375,874) | (52,776,141) |
| Change in deferred royalty income | (1,450,000) | (1,450,000) |
| Change in loans receivable | 34,631 | (116,195) |
| Net cash and cash equivalents used in investing activities | (16,835,919) | (104,974,735) |
| Cash flows from financing activities: | | |
| (Increase) in funds held by bond trustee | (3,212,250) | (4,241,685) |
| Proceeds from bond issue | — | 133,535,656 |
| Repayment of bonds payable | (5,875,000) | (5,335,000) |
| Repayment of MDFA Series 1999 bonds | (22,825,000) | — |
| Withdrawal (deposit to) from refunding trust | 23,561,738 | (23,561,738) |
| Contributions to permanently restricted net assets and building improvements | 1,264,877 | 1,303,943 |
| (Repayment of) draws on line of credit | (33,000,000) | 25,000,000 |
| Repayment of capital lease obligations | (123) | (113) |
| Increase in refundable advances – U.S. government grants | — | 32,948 |
| Net cash and cash equivalents (used in) provided by financing activities | (40,085,758) | 126,734,011 |
| (Decrease) increase in cash and cash equivalents | (34,983,065) | 50,256,610 |
| Cash and cash equivalents at beginning of year | 51,870,570 | 1,613,960 |
| Cash and cash equivalents at end of year | $ 16,887,505 | 51,870,570 |
| Supplemental disclosure: | | |
| Interest paid | $ 7,606,162 | 5,667,087 |
| Noncash activity: | | |
| Conversion of notes receivable to fixed assets | — | 5,000,000 |

See accompanying notes to financial statements.

## (1) Background

Emerson College (the College) is a private college located in the Midtown Cultural District of Boston. The College is the only four-year college in the United States devoted exclusively to communication and the performing arts. The College is organized into two schools, each of which offers both undergraduate and graduate degree programs: the School of the Arts and the School of Communication. The College has an increasingly diverse and international student population and maintains campuses in Los Angeles, California and Kasteel Well, The Netherlands.

## (2) Summary of Significant Accounting Policies

### *(a) Basis of Financial Statement Presentation*

The accompanying financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the College as a whole. Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- *Permanently restricted net assets* are net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the College. Generally, the donors of these assets permit the College to use all or part of the income earned, and realized and unrealized gains, if any, on related investments for general or specific purposes.
- *Temporarily restricted net assets* are net assets subject to donor-imposed stipulations that may or will be met by actions of the College and/or the passage of time.
- *Unrestricted net assets* are net assets not subject to donor-imposed stipulations, which the College may use at its discretion.

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. 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 stipulations or law. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are reported as net assets released from restrictions.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions and investment earnings subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted revenue. Promises to give that are scheduled to be received after the statement of financial position date are shown as increases in temporarily restricted net assets and are released to unrestricted net assets when the purpose and/or time restrictions are met. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is expected to be received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as revenue until such time as the conditions are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

The College reports contributions of land, buildings, or equipment as unrestricted operating revenue unless the donor places restrictions on their use. Contributions of cash or other assets that must be used to acquire long-lived assets are reported as unrestricted operating revenue provided the long-lived assets are placed in service in the same reporting period; otherwise, the contributions are reported as temporarily restricted support until the assets are acquired and placed in service.

Dividends, interest and net gains (losses) on investments are reported as follows:

- As increases in permanently restricted net assets if the terms of the contribution require that they be added to the corpus of a permanently restricted endowment fund;
- As increases (decreases) in temporarily restricted net assets if the terms of the contribution or relevant state law impose restrictions on the current use of the income or net gains; or
- As increases (decreases) in unrestricted net assets in all other cases.

The College releases the restrictions on temporarily restricted net assets upon incurrence of an expense when both unrestricted and temporarily restricted net assets are available for that purpose.

***(b) Operations***

The statements of unrestricted revenues and expenses report the change in unrestricted net assets from operating and nonoperating activities. Operating revenues consist of those items attributable to the College’s academic programs or research conducted by the academic departments. Income and gains (losses) on the College’s unrestricted investments over the amount appropriated under the College’s spending plan, as discussed in note 5, and royalty revenues are reported as nonoperating.

Expenses associated with the operation and maintenance of the College’s land, buildings, and equipment, including interest and depreciation, are allocated on the basis of square footage utilized by functional categories.

***(c) Cash and Cash Equivalents***

For purposes of the statements of cash flows, the College considers investments with maturities at date of purchase of three months or less, excluding those designated as long-term investments, as cash equivalents. All are stated at cost, which approximates fair value.

***(d) Investments***

Investments are reported at fair value and the College believes the carrying value of the financial instruments is reasonable estimates of fair value. The values of publicly traded fixed income and equity securities are based on quoted daily market prices.

The College also holds shares or units in nonmarketable securities including alternative investments. Such alternative investment funds may hold securities or other financial instruments for which a ready market exists and are priced accordingly. In addition, such funds may hold assets which require the estimation of fair values in the absence of readily determinable market values. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information. The estimates of fair values because of the inherent uncertainty of valuations for these investments may differ from the values that would have been used had ready markets existed.

***(e) Land, Buildings, and Equipment***

Constructed and purchased property and equipment are carried at cost. Long-lived fixed assets, with the exception of land, are depreciated using the straight-line method over their estimated useful lives.

***(f) Bond Premium/Discount and Debt Issuance Costs***

Bond premium/discount and issuance costs, included in bonds payable and other assets, respectively, are amortized over the life of the associated bond issue.

***(g) Student Deposits and Deferred Revenue***

Student deposits, along with advance payments for tuition, room, and board related to the next semester, have been deferred and will be reported as unrestricted revenue in the year in which the semester is completed.

***(h) Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The current economic environment increases the uncertainty in those estimates.

***(i) Income Taxes***

The College is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is generally exempt from income taxes pursuant to Section 501(a) of the Code.

The College believes it has taken no uncertain tax positions.

***(j) Fundraising***

Expenses associated with fundraising activities of the College were $2,225,854 and $2,262,447 in 2011 and 2010, respectively, and are included in institutional support expense in the statements of unrestricted revenues and expenses.

***(k) Reclassifications***

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 presentation.

## (3) Student, Other, Contributions, Loans and Notes Receivable

Student accounts receivable consisted of the following as of June 30:

| | | 2011 | 2010 |
|---|---|---|---|
| Student accounts receivable | $ | 584,529 | 283,806 |
| Less allowance for doubtful accounts | | (323,696) | (260,207) |
| Student accounts receivable, net | | 260,833 | 23,599 |
| Other accounts receivable: | | | |
| Grants and other accounts receivable | | 862,321 | 864,896 |
| Contributions receivable: | | | |
| Unconditional promises expected to be collected in: | | | |
| Less than one year | | 1,381,475 | 1,380,217 |
| One to five years | | 1,433,236 | 1,457,375 |
| Greater than five years | | 1,050,000 | 1,159,000 |
| Less discount and allowance for uncollectible contributions | | (1,265,125) | (2,778,520) |
| Contributions receivable, net | | 2,599,586 | 1,218,072 |
| Student, other, and contributions receivable, net | $ | 3,722,740 | 2,106,567 |

Contributions receivable have been discounted at rates ranging from 0.8% to 3.2%.

Student loans receivable consisted of the following as of June 30:

| | | 2011 | 2010 |
|---|---|---|---|
| Student loans receivable | $ | 2,683,602 | 2,718,233 |
| Less allowance for doubtful accounts | | (194,142) | (194,142) |
| Student loans receivable, net | $ | 2,489,460 | 2,524,091 |

## (4) Investments and Fair Value

The overall financial objective of the College is to maintain the real value of the endowment in perpetuity through a diversified, volatility-managed portfolio, capable of supporting spending needs. The College diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by the Board’s Investment Committee, which oversees the College’s investment program in accordance with established guidelines.

In addition to traditional stocks and fixed-income securities, the College may also hold shares or units in alternative investment funds involving hedged strategies, private equity and real asset strategies. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments, and are valued accordingly. Reported fair values for shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The College’s interests in alternative investment funds are generally reported at the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value of the College’s interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2011 and 2010, the College had no plans or intentions to sell investments at amounts different from NAV.

Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. Financial instruments that are measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1 – quoted prices in active markets for identical assets or liabilities that the College has the ability to access at measurement date.
- Level 2 – inputs are other than quoted prices included in Level 1 that are either directly or indirectly observable for the assets or liabilities.
- Level 3 – inputs are derived from valuation methodologies, including pricing models, discounted cash flow models and similar techniques, and are not based on market, exchange, dealer, or broker-traded transactions. In addition, Level 3 valuations incorporate assumptions that are not observable in the market, and significant judgment in determining the fair value assigned to such assets or liabilities.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Classification in Level 2 or 3 is based on the College’s ability to redeem its interest at or near the date of the statement of financial position, and if the interest is can be redeemed in the near term, the investment is classified in Level 2.

The following tables summarize the College's investments by major category in the fair value hierarchy as of June 30, 2011 and 2010:

| | June 30, 2011 | | | | Redemption | Days |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** | **frequency** | **notice** |
| Long-term investment strategies: | | | | | | |
| Fixed income: | | | | | | |
| U.S. treasuries | $ 10,378,200 | — | — | 10,378,200 | Daily | One |
| Domestic fixed income | 13,205,535 | — | — | 13,205,535 | Daily | One |
| International fixed income | — | 2,549,249 | — | 2,549,249 | Monthly | 10 |
| Total | 23,583,735 | 2,549,249 | — | 26,132,984 | | |
| Equities: | | | | | | |
| Domestic equity | 30,475,719 | — | — | 30,475,719 | Daily/Monthly | One/30 |
| International equity | 28,005,183 | — | — | 28,005,183 | Daily | One |
| Total | 58,480,902 | — | — | 58,480,902 | | |
| Real assets: | | | | | | |
| Strategic real assets | — | 11,436,999 | — | 11,436,999 | Monthly | 9 |
| Hedge equity funds of funds: | | | | | | |
| Multiple strategies | — | 11,220,389 | 8,832,821 | 20,053,210 | Quarterly/Annual | 65-90 |
| Total | — | 11,220,389 | 8,832,821 | 20,053,210 | | |
| Cash and cash equivalents | 3,628,680 | — | — | 3,628,680 | Daily | One |
| Total long-term investments | $ 85,693,317 | 25,206,637 | 8,832,821 | 119,732,775 | | |
| Other assets: | | | | | | |
| Deposits with bond trustees | $ 10,305,865 | — | — | 10,305,865 | Daily | One |

| | June 30, 2010 | | | | | |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** | **Redemption frequency** | **Days notice** |
| Long-term investment strategies: | | | | | | |
| Fixed income: | | | | | | |
| U.S. treasuries | $ 55,943,817 | — | — | 55,943,817 | Daily | One |
| Domestic fixed income | 10,107,961 | — | — | 10,107,961 | Daily | One |
| International fixed income | — | 1,394,143 | — | 1,394,143 | Monthly | 10 |
| Total | 66,051,778 | 1,394,143 | — | 67,445,921 | | |
| Equities: | | | | | | |
| Domestic equity | 10,994,091 | — | — | 10,994,091 | Daily | One |
| International equity | 10,642,681 | — | — | 10,642,681 | Daily | One |
| Total | 21,636,772 | — | — | 21,636,772 | | |
| Hedge equity funds of funds: | | | | | | |
| Multiple strategies | — | 4,889,620 | 3,152,960 | 8,042,580 | Subject to lock up | 65-90 |
| Total | — | 4,889,620 | 3,152,960 | 8,042,580 | | |
| Cash and cash equivalents | 9,436,520 | — | — | 9,436,520 | Daily | One |
| Total long-term investments | $ 97,125,070 | 6,283,763 | 3,152,960 | 106,561,793 | | |
| Other assets: | | | | | | |
| Deposits with bond trustees | $ 7,093,615 | — | — | 7,093,615 | Daily | One |

The following tables present the College's activities for the years ended June 30, 2011 and 2010 investments classified in Level 3:

| June 30, 2011 | |
|---|---|
| **Level 3 roll forward** | **Hedge funds** |
| Beginning value as of June 30, 2010 | $ 3,152,960 |
| Acquisitions | 5,000,000 |
| Net realized and unrealized gains | 679,861 |
| Fair value at June 30, 2011 | $ 8,832,821 |

| June 30, 2010 | |
|---|---|
| **Level 3 roll forward** | **Hedge funds** |
| Beginning value as of July 1, 2009 | $ — |
| Acquisitions | 3,200,000 |
| Net realized and unrealized (losses) | (47,040) |
| Fair value at June 30, 2010 | $ 3,152,960 |



(Continued)

The expiration of hedge fund redemption lock up periods of $20,053,210 occur in fiscal year 2011.

The following summarizes the total investment activity from all sources for the years ended June 30:

| | | 2011 | 2010 |
|---|---|---|---|
| Investment return: | | | |
| Interest and dividends, net of fees | $ | 1,489,899 | 1,130,819 |
| Net realized and unrealized gain | | 12,126,306 | 3,777,773 |
| Total investment return | | 13,616,205 | 4,908,592 |
| Long-term investment income available for operations | | (2,169,703) | (1,769,540) |
| Short-term investment income available for operations | | (89,028) | (407,487) |
| Investment return less amount available for operations | $ | 11,357,474 | 2,731,565 |

Investment management fees were $148,818 and $110,987 for the years ended June 30, 2011 and 2010, respectively.

## (5) Endowment

The College's endowment consists of 148 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees (the Board) to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

### *(a) Relevant Law*

Effective June 30, 2009, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) was adopted by the Commonwealth of Massachusetts. This replaces a previous law, UMIFA, the Uniform Management of Institutional Funds Act. Under UMIFA, spending below the historic dollar value of an endowment was not permitted; the accounting definition of permanently restricted funds was the historic-dollar-value of a donor-restricted gift to endowment.

Under UPMIFA, the historic-dollar-value threshold is eliminated, and the governing board has discretion to determine appropriate expenditures of a donor-restricted endowment fund in accordance with a robust set of guidelines about what constitutes prudent spending. UPMIFA permits the College to appropriate for expenditure or accumulate so much of an endowment fund as the College determines to be prudent for the uses, benefits, purposes and duration for which the endowment fund is established. Seven criteria are to be used to guide the College in its yearly expenditure decisions: 1) duration and preservation of the endowment fund; 2) the purposes of the College and the endowment fund; 3) general economic conditions; 4) effect of inflation or deflation; 5) the expected total return from income and the appreciation of investments; 6) other resources of the College; and, 7) the investment policy of the College.

Although UPMIFA offers short-term spending flexibility, the explicit consideration of the preservation of funds among factors for prudent spending suggests that a donor-resticted endowment fund is still perpetual in nature. Under UPMIFA, the Board is permitted to determine and continue a prudent payout amount, even if the market value of the fund is below historic dollar value. There is an expectation that, over time, the permanently restricted amount will remain intact. This perspective is aligned with the accounting standards definition that permanently restricted funds are those that must be held in perpetuity even though the historic-dollar-value may be dipped into on a temporary basis.

In accordance with appropriate accounting standards, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, if any. Collectively these amounts are referred to as the historic dollar value of the fund.

Endowment net asset composition, not including pledges, by type of fund consists of the following at June 30, 2011:

| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|---|
| Donor-restricted endowment funds | $ | (740,451) | 4,673,223 | 17,989,123 | 21,921,895 |
| Board-designated endowment funds | | 97,066,227 | — | — | 97,066,227 |
| Total endowed net assets | $ | 96,325,776 | 4,673,223 | 17,989,123 | 118,988,122 |

Changes in endowment net assets for the year ended June 30, 2011 are as follows:

| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|---|
| Endowment net assets, July 1, 2010 | $ | 85,499,246 | 3,142,273 | 17,134,838 | 105,776,357 |
| Investment return: | | | | | |
| Investment income, net | | 822,163 | 663,352 | — | 1,485,515 |
| Net gains | | 10,147,743 | 1,893,925 | — | 12,041,668 |
| Total investment return | | 10,969,906 | 2,557,277 | — | 13,527,183 |
| Contributions/transfers | | 1,000,000 | — | 854,285 | 1,854,285 |
| Appropriation of endowment assets for expenditure | | (1,143,376) | (1,026,327) | — | (2,169,703) |
| Endowment net assets, June 30, 2011 | $ | 96,325,776 | 4,673,223 | 17,989,123 | 118,988,122 |

Endowment net asset composition, not including pledges, by type of fund consists of the following at June 30, 2010:

| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|---|
| Donor-restricted endowment funds | $ | (1,138,179) | 3,142,273 | 17,134,838 | 19,138,932 |
| Board-designated endowment funds | | 86,637,425 | — | — | 86,637,425 |
| Total endowed net assets | $ | 85,499,246 | 3,142,273 | 17,134,838 | 105,776,357 |

Changes in endowment net assets for the year ended June 30, 2010 are as follows:

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Endowment net assets, July 1, 2009 | $ 29,615,533 | 2,548,001 | 16,684,435 | 48,847,969 |
| Investment return: | | | | |
| Investment income, net | 245,768 | 541,849 | — | 787,617 |
| Net gains | 2,654,928 | 1,058,559 | — | 3,713,487 |
| Total investment return | 2,900,696 | 1,600,408 | — | 4,501,104 |
| Contributions/transfers | 53,746,421 | — | 450,403 | 54,196,824 |
| Appropriation of endowment assets for expenditure | (763,404) | (1,006,136) | — | (1,769,540) |
| Endowment net assets, June 30, 2010 | $ 85,499,246 | 3,142,273 | 17,134,838 | 105,776,357 |

### *(b) Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below their original contributed value. Deficiencies of this nature are reported in unrestricted net assets and were $740,451 and $1,138,179 as of June 30, 2011 and 2010 respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

### *(c) Return Objectives and Risk Parameters*

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period as well as board-designated funds. The primary investment objective of the management of the endowment fund is to maintain and grow the fund's real value by generating average annual real returns that meet or exceed the spending rate, after inflation, management fees and administrative costs. Consistent with this goal, the Board of Trustees and the Finance Committee intend that the endowment fund be managed with an intention to: maximize total returns consistent with prudent levels of risk; reduce portfolio risk through asset allocation and diversification; and outperform each of the capital markets in which assets are invested, measured over five years or a complete market cycle, whichever is longer.

### *(d) Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Finance Committee is responsible for establishing an asset allocation policy. The asset allocation policy is designed to attempt to achieve diversity among capital markets and within capital markets, by investment discipline and management style. The Finance Committee designs a policy portfolio in light of the endowment's needs for liquidity, preservation of purchasing power and risk tolerances. There is no limitation on the types of investments in which the endowment fund may be invested, and it is intended that the Board of Trustees and the Finance Committee have the broadest flexibility as to the selection of investments for the endowment fund.

The College targets a diversified asset allocation that places emphasis on investments in equities and fixed income securities that conform to the College's ethical and social justice guidelines. The asset allocation on a fully invested target is 75% equities and 25% fixed income excluding any cash and cash equivalents. The Finance Committee formally reviews the policy portfolio's asset allocation at least once a year for possible rebalancing.

***(e) Spending Policy and How the Investment Objectives Relate to Spending Policy***

Under the College's current long-term investment spending policy, which is within the guidelines specified under state law, the College generally spends up to 3%, although the Board may authorize higher amounts for certain endowments, of the average market value of the qualifying endowment investment pool at the end of the previous five fiscal years. The College, with prior approval from the Board of Trustees, can increase the spending rate to 5%. The total amount spent was $2,169,703 and $1,769,540 for the years ended June 30, 2011 and 2010, respectively.

In establishing these policies, the College considered the intent of the donor restricted endowment, the expected return on its endowment and its programming needs. Accordingly, the College expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment return or other additions.

## (6) Land, Buildings, and Equipment

The following is a summary of the College's land, buildings, and equipment as of June 30:

| | Estimated useful lives | 2011 | 2010 |
|---|---|---|---|
| Land | — | $ 64,709,055 | 63,932,290 |
| Buildings, including improvements | 15 – 40 | 428,726,755 | 421,949,049 |
| Furnishings and equipment | 3 – 10 | 52,381,817 | 48,895,054 |
| Construction in progress | — | 12,360,619 | 9,025,979 |
| | | 558,178,246 | 543,802,372 |
| Less accumulated depreciation | | (125,630,548) | (107,913,655) |
| Land, buildings, and equipment, net | | $ 432,547,698 | 435,888,717 |

## (7) Capital Lease Obligation

During the year ended June 30, 2006, the College entered into a master lease agreement to operate a portion of a building, which has been recognized as a capital lease transaction. The capital lease has a term of 91 years at an interest rate of 8.9%.

Buildings and improvements, net of amortization, totaled $2,062,500 and $2,200,000, relating to the capital lease portions of the master leases as of June 30, 2011 and 2010, respectively.

Future minimum lease payments as of June 30, 2011 are as follows:

| | |
|---|---|
| 2012 | $ 245,323 |
| 2013 | 245,323 |
| 2014 | 245,323 |
| 2015 | 245,323 |
| 2016 | 245,323 |
| Thereafter | 19,605,422 |
| | 20,832,037 |
| Less interest | (18,082,644) |
| | $ 2,749,393 |

## (8) Bonds Payable

Bonds payable consisted of the following as of June 30:

| Creditor/issue | Security/ collateral | Interest rate(s) | 2011 | 2010 |
|---|---|---|---|---|
| Massachusetts development finance agency, higher education refunding revenue bonds, emerson college issue Series 2006 A, due through January 1, 2023 | General obligation | 5.00% | $ 72,635,000 | 75,585,000 |
| Massachusetts development finance agency, higher education refunding revenue bonds, emerson college issue Series 2010 A, due through January 1, 2040 | General obligation | 4.00% – 5.50% | 125,770,000 | 125,770,000 |
| Massachusetts development finance agency, higher education refunding revenue bonds, emerson college issue Series 2010 B, due through January 1, 2013 | General obligation | 2.00% – 3.00% | 5,850,000 | 8,775,000 |
| | | | 204,255,000 | 210,130,000 |
| Bond premium and discount, net | | | 3,086,767 | 3,378,120 |
| | | | $ 207,341,767 | 213,508,120 |

Scheduled maturities for years ending June 30 are as follows:

| | |
|---|---|
| 2012 | $ 5,955,000 |
| 2013 | 6,175,000 |
| 2014 | 6,205,000 |
| 2015 | 6,545,000 |
| 2016 | 7,015,000 |
| Thereafter | 172,360,000 |
| | $ 204,255,000 |

Unamortized bond issuance costs, included in other assets, were $1,572,400 and $1,668,436 as of June 30, 2011 and 2010, respectively.



(Continued)

The College's bond agreements contain a covenant requiring the maintenance of a specific liquidity ratio. The College was compliant with this covenant as of June 30, 2011 and 2010.

During 2011, the College had a line of credit from Bank of America. At June 30, 2011, no amount was drawn on this facility. At June 30, 2010, the College had drawn down all of the facility in the amount of $15,000,000 at a LIBOR based rate of 1.70%.

During 2011, the College had a line of credit from Citizen's Bank. At June 30, 2011, no amount was drawn on the facility. At June 30, 2010, the College had drawn down all of the facility in the amount of $5,000,000 at a LIBOR based rate of 1.6%.

During 2011, the College had a line of credit from TD Bank. At June 30, 2011, no amount was drawn down on this facility. At June 30, 2010, the College had drawn down $13,000,000 at a LIBOR based rate of 1.75%.

All lines of credit are unsecured.

***Bond Refunding***

In June 2010, the College issued $125,770,000 of Series 2010A and $8,775,000 of Series B Revenue Bonds, a portion of which was placed in an irrevocable trust in order to effect an in-substance defeasance of the Series 1999A Revenue Bonds having an outstanding principal balance of $22,825,000 at the date of the refunding.

Under generally accepted accounting principles, this transaction did not meet the criteria for de-recognition of the bond liability at June 30, 2010. The irrevocable trust redeemed the 1999 A Bonds on July 26, 2010 at 100.5% plus accrued interest. As such, the Series 1999A Bond principal and the refunding trust were reduced to zero and the loss on the refunding of $337,577 is recorded in the statement of activities.

## (9) Loans Receivable

Loans receivable include funds advanced to the College by the U.S. government under the Federal Perkins Loan Program (the Program). Such funds are reloaned by the College after collection, but in the event that the College no longer participates in the Program, the amounts are generally refundable to the U.S. government. Loans receivable under the Program are subject to significant restrictions.

## (10) Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of June 30:

| | | 2011 | 2010 |
|---|---|---|---|
| Contributions receivable | $ | 1,111,814 | 878,730 |
| Purpose restrictions: | | | |
| Instruction | | 1,273,103 | 1,237,894 |
| Student aid | | 585,631 | 693,877 |
| General institutional and other | | 1,606,417 | 1,150,046 |
| Unappropriated investment gains | | 2,090,400 | 983,356 |
| | $ | 6,667,365 | 4,943,903 |

## (11) Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following as of June 30:

| | | 2011 | 2010 |
|---|---|---|---|
| Endowment contributions whose income and net gains are restricted for the following purposes: | | | |
| Instruction | $ | 3,449,389 | 3,440,574 |
| Academic support | | 158,581 | 136,247 |
| Student aid | | 10,558,307 | 9,739,400 |
| General institutional | | 4,032,226 | 4,031,226 |
| Contributions receivable | | 1,487,772 | 339,342 |
| | $ | 19,686,275 | 17,686,789 |

## (12) Net Assets Released from Restrictions

Net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors were as follows:

| | | | |
|---|---|---|---|
| Building renovation | $ | — | 736,341 |
| Student aid | | 246,581 | 195,440 |
| Instruction | | 95,466 | 98,154 |
| Academic support | | 82,467 | 88,560 |
| Other | | 42,269 | 13,915 |
| | $ | 466,783 | 1,132,410 |

### (13) Operating Lease Obligations

The College has entered into a number of operating leases primarily for office space. Total lease expense for the years ended June 30, 2011 and 2010 amounted to $579,022 and $687,671, respectively. The College's lease obligations as of June 30, 2011 are as follows:

| | | |
|---|---|---|
| Fiscal year: | | |
| 2012 | $ | 610,061 |
| 2013 | | 459,780 |
| 2014 | | 470,210 |
| 2015 | | 480,692 |
| 2016 | | 309,903 |
| Thereafter | | 3,435,012 |
| Total | $ | 5,765,658 |

### (14) Retirement Plan

The College has contributory retirement plans with Teachers' Insurance and Annuity Association of America, College Retirement Equities Fund, Variable Annuity Life Insurance Company, and Fidelity Investments, which cover all full-time employees. The College makes semi-monthly contributions to these plans which are immediately vested for the benefit of the participants. The College's contributions under these plans were $3,236,604 and $3,121,314 for the years ended June 30, 2011 and 2010, respectively.

### (15) Excess Capacity and Royalty Agreement

In February 2008, the College entered into an excess capacity and royalty agreement for use of its Educational Broadband Services, which is licensed by the Federal Trade Commission. The agreement is for a ten year period with an option to renew for two successive ten-year periods. As part of this agreement, the College receives monthly royalty payments. The College also received a nonrefundable upfront fee in the amount of $10,000,000 for entering into the agreement.

In accordance with U.S. generally accepted accounting principles, this upfront nonrefundable fee of $10,000,000 in addition to the monthly royalty payments for the initial ten-year period, which aggregates $23,500,000, is being amortized on a straight-line basis over a ten-year period, commencing on the date the agreement was entered into. The deferral will be complete in February 2018.

### (16) Disclosure about the Fair Value of Financial Instruments

The College determined the estimated fair values of its financial instruments as of June 30, 2011 and 2010 by using, where practicable, appropriate valuation methodologies.

The College has determined that the estimated fair value of its total indebtedness was equivalent to its net carrying value as of June 30, 2011 and 2010. The College further determined that the differences between the carrying value and estimated fair values of its other financial assets and liabilities at June 30, 2011 were not material.

**(17) Subsequent Events**

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2011 and through October 26, 2011, the date on which the financial statements were issued. The College concluded that no material subsequent events have occurred.