



**EMERSON COLLEGE**

Financial Statements

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

# EMERSON COLLEGE

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**KPMG LLP**  
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## **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, 2010 and 2009, 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, 2010 and 2009, 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**

November 8, 2010

**EMERSON COLLEGE**  
**Statements of Financial Position**  
June 30, 2010 and 2009

<b>Assets</b>	<b>2010</b>	<b>2009</b>
Cash and cash equivalents	\$ 51,870,570	1,613,960
Student, other and contributions receivable, net (note 3)	2,106,567	2,141,695
Loans receivable, net (notes 3 and 9)	2,524,091	2,407,896
Notes receivable (note 3)	—	5,000,000
Other assets (note 8)	2,947,808	1,965,559
Funds held by bond trustee (note 4)	7,093,615	2,851,930
Investments (notes 4 and 5)	106,561,793	52,151,621
Bond proceeds held in refunding trust (note 8)	23,561,738	—
Land, buildings, and equipment, net (notes 6 and 7)	435,888,717	399,027,384
Total assets	\$ 632,554,899	467,160,045
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 17,700,980	25,492,613
Line of credit (note 8)	33,000,000	8,000,000
Student deposits	4,167,316	3,667,120
Bonds payable through refunding trust (note 8)	22,825,000	—
Bonds payable, net (note 8)	213,508,120	108,647,393
Capital lease obligations (note 7)	2,749,516	2,749,629
Refundable advances – U.S. government grants (note 9)	1,204,791	1,171,843
	295,155,723	149,728,598
Deferred revenue (note 15)	6,539,381	7,989,381
Total liabilities, including deferred revenue	301,695,104	157,717,979
Net assets:		
Unrestricted	308,229,103	286,398,576
Temporarily restricted (note 10)	4,943,903	5,886,665
Permanently restricted (note 11)	17,686,789	17,156,825
Total net assets	330,859,795	309,442,066
Total liabilities and net assets	\$ 632,554,899	467,160,045
Commitments (notes 7 and 8)		

See accompanying notes to financial statements.

**EMERSON COLLEGE**

Statements of Unrestricted Revenues and Expenses

Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating:		
Revenues:		
Tuition and fees	\$ 119,733,502	114,633,558
Less scholarship aid and grants to students	<u>(25,891,607)</u>	<u>(22,130,538)</u>
Tuition and fees, net	93,841,895	92,503,020
Government grants and appropriations	2,542,054	2,129,113
Private gifts	2,468,137	2,263,563
Investment income available for operations (notes 4 and 5)	1,769,540	1,715,628
Other interest income (note 4)	407,487	334,962
Other sources	2,491,657	2,929,743
Auxiliary enterprises	<u>24,051,038</u>	<u>21,569,472</u>
Total revenues	127,571,808	123,445,501
Net assets released from restrictions (note 12)	<u>1,132,410</u>	<u>377,131</u>
Total revenues and net assets released from restrictions	<u>128,704,218</u>	<u>123,822,632</u>
Expenses:		
Educational and general:		
Instruction	36,980,447	38,898,128
Academic support	16,138,668	15,854,410
Student services	14,398,570	13,859,151
Institutional support	22,750,950	21,366,385
Auxiliary enterprises	<u>21,092,314</u>	<u>20,371,228</u>
Total expenses	<u>111,360,949</u>	<u>110,349,302</u>
Increase in unrestricted net assets from operating activities	<u>17,343,269</u>	<u>13,473,330</u>
Nonoperating:		
Reinvested investment gain (loss) (notes 4 and 5)	2,137,258	(12,624,508)
Royalty revenue (note 15)	<u>2,350,000</u>	<u>2,350,000</u>
Increase (decrease) in unrestricted net assets from nonoperating activities	<u>4,487,258</u>	<u>(10,274,508)</u>
Increase in unrestricted net assets	<u>\$ 21,830,527</u>	<u>3,198,822</u>

See accompanying notes to financial statements.

**EMERSON COLLEGE**

Statements of Changes in Net Assets

Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Increase in unrestricted net assets (from previous statements)	\$ 21,830,527	3,198,822
Changes in temporarily restricted net assets:		
Contributions	(404,659)	326,590
Reinvested investment gain (loss) (notes 4 and 5)	594,307	(4,499,067)
Net assets released from restrictions (note 12)	(1,132,410)	(377,131)
Change in temporarily restricted net assets	<u>(942,762)</u>	<u>(4,549,608)</u>
Change in permanently restricted net assets:		
Contributions	<u>529,964</u>	<u>184,126</u>
Increase in permanently restricted net assets	<u>529,964</u>	<u>184,126</u>
Increase (decrease) in net assets	21,417,729	(1,166,660)
Net assets at beginning of year	<u>309,442,066</u>	<u>310,608,726</u>
Net assets at end of year	<u>\$ 330,859,795</u>	<u>309,442,066</u>

See accompanying notes to financial statements.

**EMERSON COLLEGE**

Statements of Cash Flows

Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Changes in net assets	\$ 21,417,729	(1,166,660)
Adjustment to reconcile changes in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	11,249,985	11,557,824
Contributions to permanently restricted net assets and building improvements	(1,303,943)	(1,705,835)
Net realized and unrealized (gain) loss on investments	(3,777,773)	16,698,825
Change in student and other contributions receivable	35,128	815,019
Change in other assets	(1,111,863)	(2,686)
Change in accounts payable and accrued expenses	1,487,875	2,508,025
Change in student deposits and deferred revenue	(949,804)	(3,205,624)
Net cash and cash equivalents provided by operating activities	<u>27,047,334</u>	<u>25,498,888</u>
Cash flows from investing activities:		
Purchases of investments	(55,896,993)	(30,473,907)
Sales and maturities of investments	5,264,594	51,370,285
Purchases of land, buildings, and equipment	(52,776,141)	(95,507,758)
Change in loans receivable	(116,195)	(138,610)
Net cash and cash equivalents used in investing activities	<u>(103,524,735)</u>	<u>(74,749,990)</u>
Cash flows from financing activities:		
(Increase) decrease in funds held by bond trustee	(4,241,685)	40,581,578
Proceeds from bond issue	133,535,656	—
Repayment of bonds payable	(5,335,000)	(5,100,000)
Deposit into refunding trust	(23,561,738)	—
Contributions to permanently restricted net assets and building improvements	1,303,943	1,705,835
Line of credit	25,000,000	8,000,000
Repayment of capital lease obligations	(113)	(104)
Increase (decrease) in refundable advances – U.S. government grants	32,948	(7,409)
Net cash and cash equivalents provided by financing activities	<u>126,734,011</u>	<u>45,179,900</u>
Increase (decrease) in cash and cash equivalents	50,256,610	(4,071,202)
Cash and cash equivalents at beginning of year	<u>1,613,960</u>	<u>5,685,162</u>
Cash and cash equivalents at end of year	<u>\$ 51,870,570</u>	<u>1,613,960</u>
Supplemental disclosure:		
Interest paid	\$ 5,667,087	5,355,664
Noncash activity:		
Conversion of notes receivable to fixed assets	\$ 5,000,000	—

See accompanying notes to financial statements.

## EMERSON COLLEGE

### Notes to Financial Statements

June 30, 2010 and 2009

#### (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 and Europe.

#### (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



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### Notes to Financial Statements

June 30, 2010 and 2009

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. The College has relied on the Massachusetts Attorney General's interpretation that unappropriated permanently restricted endowment gains should generally be classified as temporarily restricted; 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 4, 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 market 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.

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### Notes to Financial Statements

June 30, 2010 and 2009

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) Debt Issuance Costs/Bond Premium**

Bond premium 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 \$2,081,372 and \$2,157,699 in 2010 and 2009, respectively, and are included in institutional support expense in the statements of unrestricted revenues and expenses.

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Notes to Financial Statements

June 30, 2010 and 2009

**(k) Recent Accounting Pronouncement**

In 2010, the College adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) and the Hierarchy of Generally Accepted Accounting Principles. The standard identifies the FASB ASC as the single source of authoritative U.S. accounting and reporting standards applicable for all nongovernmental entities.

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

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

	<b>2010</b>	<b>2009</b>
Student accounts receivable	\$ 283,806	289,119
Less allowance for doubtful accounts	(260,207)	(260,207)
Student accounts receivable, net	23,599	28,912
Other accounts receivable:		
Grants and other accounts receivable	864,896	452,799
Contributions receivable:		
Unconditional promises expected to be collected in:		
Less than one year	1,380,217	1,311,514
One to five years	1,457,375	1,695,319
Greater than five years	1,159,000	752,500
Less discount and allowance for uncollectible contributions	(2,778,520)	(2,099,349)
Contributions receivable, net	1,218,072	1,659,984
Student, other, and contributions receivable, net	\$ 2,106,567	2,141,695

Contributions receivable have been discounted at rates ranging from 1.00% to 2.97%.

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

	<b>2010</b>	<b>2009</b>
Student loans receivable	\$ 2,718,233	2,602,038
Less allowance for doubtful accounts	(194,142)	(194,142)
Student loans receivable, net	\$ 2,524,091	2,407,896

In 2005, the College lent \$5,000,000 in exchange for two secured promissory notes totaling \$5,000,000. On which the College receives monthly interest payments at an annual rate of 4.25%. These secured notes mature in full on March 31, 2011 or on the date on which title of certain property located in the vicinity of the College is conveyed to the College. In March 2010, the College purchased the property for the value of the two promissory notes plus a cash payment of \$1.4 million.

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### Notes to Financial Statements

June 30, 2010 and 2009

#### (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 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, 2010 and 2009, the University 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.

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Notes to Financial Statements

June 30, 2010 and 2009

The following tables summarize the College's investments by major category in the fair value hierarchy as of June 30, 2010 and 2009:

	<b>June 30, 2010</b>				<b>Redemption frequency</b>	<b>Days notice</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>		
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	<u>66,051,778</u>	<u>1,394,143</u>	<u>—</u>	<u>67,445,921</u>		
Equities:						
Domestic equity	10,994,091	—	—	10,994,091	Daily	One
International equity	10,642,681	—	—	10,642,681	Daily	One
Total	<u>21,636,772</u>	<u>—</u>	<u>—</u>	<u>21,636,772</u>		
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	<u>9,436,520</u>	<u>—</u>	<u>—</u>	<u>9,436,520</u>	Daily	One
Total long-term investments	<u>\$ 97,125,070</u>	<u>6,283,763</u>	<u>3,152,960</u>	<u>106,561,793</u>		
Other assets:						
Deposits with bond trustees	\$ 7,093,615	—	—	7,093,615	Daily	One

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Notes to Financial Statements  
June 30, 2010 and 2009

	<b>June 30, 2009</b>			<b>Total</b>	<b>Redemption frequency</b>	<b>Days notice</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>			
Long-term investment strategies:						
Fixed income:						
U.S. Treasuries	\$ 7,501,548	—	—	7,501,548	Daily	One
Domestic fixed income	6,536,204	—	—	6,536,204	Daily	One
International fixed income	—	1,299,869	—	1,299,869	Monthly	10
Total	<u>14,037,752</u>	<u>1,299,869</u>	<u>—</u>	<u>15,337,621</u>		
Equities:						
Domestic equity	8,424,123	—	—	8,424,123	Daily	One
International equity	8,479,781	—	—	8,479,781	Daily	One
Total	<u>16,903,904</u>	<u>—</u>	<u>—</u>	<u>16,903,904</u>		
Cash and cash equivalents	<u>19,910,096</u>	<u>—</u>	<u>—</u>	<u>19,910,096</u>	Daily	One
Total long-term investments	<u>\$ 50,851,752</u>	<u>1,299,869</u>	<u>—</u>	<u>52,151,621</u>		
Other assets:						
Deposits with bond trustees	\$ 2,851,930	—	—	2,851,930	Daily	One

The following table presents the University's activities for the year ended June 30, 2010 investments classified in Level 3:

<b>Level 3 roll forward</b>	<b>Hedge funds</b>
Beginning value as of July 1, 2009	\$ —
Acquisitions	3,200,000
Net realized and unrealized (losses)	<u>(47,040)</u>
Fair value at June 30, 2010	<u>\$ 3,152,960</u>

The expiration of hedge fund redemption lock up periods of \$8,042,580 occur in fiscal year 2011.

The long-term investments by net asset class are as follows as of June 30:

	<b>2010</b>	<b>2009</b>
Permanently restricted	\$ 17,347,447	16,903,068
Temporarily restricted	4,065,173	3,041,667
Unrestricted	<u>85,149,173</u>	<u>32,206,886</u>
	<u>\$ 106,561,793</u>	<u>52,151,621</u>

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### Notes to Financial Statements

June 30, 2010 and 2009

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

	<u>2010</u>	<u>2009</u>
Investment return:		
Interest and dividends, net of fees	\$ 1,129,488	1,625,840
Net realized and unrealized gain (loss)	3,779,104	(16,698,825)
Total investment return	4,908,592	(15,072,985)
Long-term investment income available for operations	(1,769,540)	(1,715,628)
Short-term investment income available for operations	(407,487)	(334,962)
Investment return less amount available for operations	\$ <u>2,731,565</u>	<u>(17,123,575)</u>

Investment management fees were \$110,987 and \$60,221 for the years ended June 30, 2010 and 2009, respectively.

#### (5) Endowment

The College's endowment consists of 146 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.

#### *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-restricted 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

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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, 2010:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1,138,179)	3,145,613	17,686,789	19,694,223
Board-designated endowment funds	<u>86,634,085</u>	<u>—</u>	<u>—</u>	<u>86,634,085</u>
Total endowed net assets	<u>\$ 85,495,906</u>	<u>3,145,613</u>	<u>17,686,789</u>	<u>106,328,308</u>

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2009	\$ 29,612,193	2,551,341	17,156,825	49,320,359
Investment return:				
Investment income, net	245,768	541,849	—	787,617
Net gains	<u>2,654,928</u>	<u>1,058,559</u>	<u>—</u>	<u>3,713,487</u>
Total investment return	2,900,696	1,600,408	—	4,501,104
Contributions	53,746,421	—	529,964	54,276,385
Appropriation of endowment assets for expenditure	<u>(763,404)</u>	<u>(1,006,136)</u>	<u>—</u>	<u>(1,769,540)</u>
Endowment net assets, June 30, 2010	<u>\$ 85,495,906</u>	<u>3,145,613</u>	<u>17,686,789</u>	<u>106,328,308</u>



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Endowment net asset composition, not including pledges, by type of fund consists of the following at June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1,438,771)	2,551,341	17,156,825	18,269,395
Board-designated endowment funds	<u>31,050,964</u>	<u>—</u>	<u>—</u>	<u>31,050,964</u>
Total endowed net assets	<u>\$ 29,612,193</u>	<u>2,551,341</u>	<u>17,156,825</u>	<u>49,320,359</u>

Changes in endowment net assets for the year ended June 30, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2008	\$ <u>36,872,064</u>	<u>7,038,269</u>	<u>16,972,699</u>	<u>60,883,032</u>
Investment return:				
Investment income, net	479,828	781,202	—	1,261,030
Net losses	<u>(10,440,002)</u>	<u>(4,236,123)</u>	<u>—</u>	<u>(14,676,125)</u>
Total investment return	(9,960,174)	(3,454,921)	—	(13,415,095)
Contributions	3,383,924	—	184,126	3,568,050
Appropriation of endowment assets for expenditure	<u>(683,621)</u>	<u>(1,032,007)</u>	<u>—</u>	<u>(1,715,628)</u>
Endowment net assets, June 30, 2009	<u>\$ 29,612,193</u>	<u>2,551,341</u>	<u>17,156,825</u>	<u>49,320,359</u>

***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 \$1,138,179 and \$1,438,771 as of June 30, 2010 and 2009 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. There were no such deficiencies as of June 30, 2008.

***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,

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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.

#### *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 70% equities and 30% 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.

#### *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 \$1,769,540 and \$1,715,628 for the years ended June 30, 2010 and 2009, 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.

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

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

	<b>Estimated useful lives</b>	<b>2010</b>	<b>2009</b>
Land	—	\$ 63,932,290	62,560,682
Buildings, including improvements	15 – 40	421,949,049	299,427,130
Furnishings and equipment	3 – 10	48,895,054	43,918,289
Construction in progress	—	9,025,979	89,299,638
		543,802,372	495,205,739
Less accumulated depreciation		(107,913,655)	(96,178,355)
Land, buildings, and equipment, net		\$ 435,888,717	399,027,384

The College capitalized net interest on construction in progress in the amount of \$892,417 and \$1,973,838 for the years ended June 30, 2010 and 2009, respectively.

**(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 8.918%.

Buildings and improvements, net of amortization, totaled \$2,200,000 and \$2,634,211, relating to the capital lease portions of the master leases as of June 30, 2010 and 2009, respectively.

Future minimum lease payments as of June 30, 2010 are as follows:

2011	\$ 245,323
2012	245,323
2013	245,323
2014	245,323
2015	245,323
Thereafter	19,850,745
	21,077,360
Less interest	(18,327,844)
	\$ 2,749,516

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**(8) Bonds Payable**

Bonds payable consisted of the following as of June 30:

<u>Creditor/issue</u>	<u>Security/ collateral</u>	<u>Interest rate(s)</u>	<u>2010</u>	<u>2009</u>
Massachusetts Development Finance Agency, Higher Education Refunding Revenue Bonds, Emerson College Issue Series 1999 A, due through January 1, 2018	General obligation	3.50% – 5.25% \$	—	25,425,000
Massachusetts Development Finance Agency, Higher Education Refunding Revenue Bonds, Emerson College Issue Series 2006 A, due through January 1, 2023	General obligation	5.00%	75,585,000	78,320,000
Massachusetts Development Finance Agency, Higher Education Refunding Revenue Bonds, Emerson College Issue Series 2010A due through January 1, 2040	General obligation	4.00%-5.50%	125,770,000	—
Massachusetts Development Finance Agency, Higher Education Refunding Revenue Bonds, Emerson College Issue Series 2010B due through January 1, 2013	General obligation	2.00%-3.00%	8,775,000	—
			<u>210,130,000</u>	<u>103,745,000</u>
Bond premium and discount, net			<u>3,378,120</u>	<u>4,902,393</u>
			<u>\$ 213,508,120</u>	<u>108,647,393</u>

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Scheduled maturities for years ending June 30 are as follows:

2011	\$	5,875,000
2012		5,955,000
2013		6,175,000
2014		6,205,000
2015		6,545,000
Thereafter		<u>179,375,000</u>
	\$	<u><u>210,130,000</u></u>

Unamortized bond issuance costs and discount, included in other assets, were \$2,677,781 and \$1,034,494 as of June 30, 2010 and 2009, respectively. Unamortized bond premium was \$4,387,465 and \$4,902,393 as of June 30, 2010 and 2009, respectively.

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, 2010 and 2009.

During 2010, the College had a line of credit from Bank of America. 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%.

The College also had a \$5,000,000 line of credit from Citizen's Bank which was fully drawn at June 30th 2010 at a LIBOR based rate of 1.60%.

During 2010, the College obtained a \$15,000,000 line of credit from TD Bank. At June 30, 2010, the College had drawn down \$13,000,000 at a LIBOR based rate of 1.75%.

All lines of credit were unsecured.

**(a) 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. Accordingly, the Series 1999A bonds continue to appear as outstanding on the statement of financial position as "Bonds payable through refunding trust" and the irrevocable trust is presented in the statement of financial position as "Bond proceeds held in refunding trust."

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 was recorded in the statement of activities.

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**(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:

	<u>2010</u>	<u>2009</u>
Contributions receivable	\$ 878,730	1,406,227
Purpose restrictions:		
Instruction	1,237,894	1,273,856
Student aid	693,877	558,424
General institutional and other	1,150,046	1,780,246
Unappropriated investment gains	983,356	867,912
	<u>\$ 4,943,903</u>	<u>5,886,665</u>

**(11) Permanently Restricted Net Assets**

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

	<u>2010</u>	<u>2009</u>
Endowment contributions whose income and net gains are restricted for the following purposes:		
Instruction	\$ 3,440,574	3,402,424
Academic support	136,247	20,000
Student aid	9,739,400	9,449,418
General institutional	4,031,226	4,031,226
Contributions receivable	339,342	253,757
	<u>\$ 17,686,789</u>	<u>17,156,825</u>

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**(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:

	<b>2010</b>	<b>2009</b>
Time and purpose restrictions:		
Instruction	\$ 98,154	32,952
Building Renovation	736,341	—
Other	297,915	344,179
	\$ 1,132,410	377,131

**(13) 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, 2010 and 2009 amounted to \$687,671 and \$529,819, respectively. The College's lease obligations as of June 30, 2010 are as follows:

Fiscal year:		
2011	\$	634,080
2012		648,246
2013		491,785
2014		502,215
2015		485,895
Thereafter		3,986,074
Total	\$	6,748,295

**(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 substantially all full-time employees. The College makes monthly contributions to these plans which are immediately vested for the benefit of the participants. The College's contributions under these plans were \$3,121,314 and \$2,768,487 for the years ended June 30, 2010 and 2009, 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.

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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, 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, 2010 and 2009. 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, 2010 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, 2010 and through November 8, 2010, the date on which the financial statements were issued. The College concluded that no material subsequent events have occurred.