KPMG

EMERSON COLLEGE

Financial Statements

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

EMERSON COLLEGE

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KPMG

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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, 2009 and 2008, 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, 2009 and 2008, 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 19, 2009

EMERSON COLLEGE

Statements of Financial Position

June 30, 2009 and 2008

Assets		2009	2008
Cash and cash equivalents	$	1,613,960	5,685,162
Student, other and contributions receivable, net (note 3)		2,141,695	2,956,714
Loans receivable, net (notes 3 and 9)		2,407,896	2,269,286
Notes receivable (note 3)		5,000,000	5,000,000
Other assets (note 8)		1,965,559	2,052,352
Funds held by bond trustee (note 4)		2,851,930	43,433,508
Investments (note 4)		52,151,621	89,746,824
Land, buildings, and equipment, net (notes 6 and 7)		399,027,384	319,351,166
Total assets	$	467,160,045	470,495,012
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	25,492,613	27,000,658
Line of credit (note 8)		8,000,000	—
Student deposits		3,667,120	5,422,744
Bonds payable including premium (note 8)		108,647,393	114,094,518
Capital lease obligations (note 7)		2,749,629	2,749,733
Refundable advances – U.S. government grants (note 9)		1,171,843	1,179,252
		149,728,598	150,446,905
Deferred revenue (note 15)		7,989,381	9,439,381
Total liabilities, including deferred revenue		157,717,979	159,886,286
Net assets:			
Unrestricted		286,398,576	283,199,754
Temporarily restricted (note 10)		5,886,665	10,436,273
Permanently restricted (note 11)		17,156,825	16,972,699
Total net assets		309,442,066	310,608,726
Total liabilities and net assets	$	467,160,045	470,495,012

Commitments (notes 7 and 8)

See accompanying notes to financial statements.

EMERSON COLLEGE

Statements of Unrestricted Revenues and Expenses

Years ended June 30, 2009 and 2008

		2009	2008
Operating:			
Revenues:			
Tuition and fees	$	114,633,558	106,889,103
Less scholarship aid and grants to students		(22,130,538)	(20,575,739)
Tuition and fees, net		92,503,020	86,313,364
Government grants and appropriations		2,129,113	1,737,199
Private gifts		2,263,563	1,858,960
Investment income available for operations (notes 4 and 5)		1,715,628	1,574,138
Other interest income (note 4)		334,962	1,167,066
Other sources		2,929,743	2,449,903
Auxiliary enterprises		21,569,472	21,064,045
Total revenues		123,445,501	116,164,675
Net assets released from restrictions (note 12)		377,131	1,290,783
Total revenues and net assets released from restrictions		123,822,632	117,455,458
Expenses:			
Educational and general:			
Instruction		38,898,128	34,019,344
Academic support		15,854,410	13,815,223
Student services		13,859,151	14,945,993
Institutional support		21,366,385	19,637,266
Auxiliary enterprises		20,371,228	22,706,493
Total expenses		110,349,302	105,124,319
Increase in unrestricted net assets from operating activities		13,473,330	12,331,139
Nonoperating:			
Reinvested investment loss (notes 4 and 5)		(12,624,508)	(1,998,868)
Royalty revenue (note 15)		2,350,000	979,167
Decrease in unrestricted net assets from nonoperating activities		(10,274,508)	(1,019,701)
Increase in unrestricted net assets	$	3,198,822	11,311,438

See accompanying notes to financial statements.

EMERSON COLLEGE

Statements of Changes in Net Assets

Years ended June 30, 2009 and 2008

	2009	2008
Increase in unrestricted net assets (from previous statements)	$ 3,198,822	11,311,438
Changes in temporarily restricted net assets:		
Contributions	326,590	1,675,926
Reinvested investment loss (note 4)	(4,499,067)	(1,307,782)
Net assets released from restrictions (note 12)	(377,131)	(1,290,783)
Change in temporarily restricted net assets	(4,549,608)	(922,639)
Change in permanently restricted net assets:		
Contributions	184,126	992,675
Increase in permanently restricted net assets	184,126	992,675
(Decrease) increase in net assets	(1,166,660)	11,381,474
Net assets at beginning of year	310,608,726	299,227,252
Net assets at end of year	$ 309,442,066	310,608,726

See accompanying notes to financial statements.

EMERSON COLLEGE

Statements of Cash Flows

Years ended June 30, 2009 and 2008

		2009	2008
Cash flows from operating activities:			
Changes in net assets	$	(1,166,660)	11,381,474
Adjustment to reconcile changes in net assets to net cash and cash equivalents provided by operating activities:			
Depreciation and amortization		11,557,824	11,550,851
Contributions to permanently restricted net assets and building improvements		(1,705,835)	(713,780)
Net realized and unrealized loss on investments		16,698,825	3,666,290
Change in student and other contributions receivable		815,019	(593,254)
Change in other assets		(2,686)	254,730
Change in accounts payable and accrued expenses		2,508,025	3,464,801
Change in student deposits and deferred revenue		(3,205,624)	9,701,191
Net cash and cash equivalents provided by operating activities		25,498,888	38,712,303
Cash flows from investing activities:			
Purchases of investments		(30,473,907)	(79,319,370)
Sales and maturities of investments		51,370,285	77,411,280
Purchases of land, buildings, and equipment		(95,507,758)	(50,691,643)
Change in loans receivable		(138,610)	(60,274)
Net cash and cash equivalents used in investing activities		(74,749,990)	(52,660,007)
Cash flows from financing activities:			
Decrease in funds held by bond trustee		40,581,578	18,640,810
Repayment of bonds payable		(5,100,000)	(2,360,000)
Contributions to permanently restricted net assets and building improvements		1,705,835	713,780
Line of credit		8,000,000	—
Repayment of capital lease obligations		(104)	(95)
(Decrease) increase in refundable advances – U.S. government grants		(7,409)	20,994
Net cash and cash equivalents provided by financing activities		45,179,900	17,015,489
Increase (decrease) in cash and cash equivalents		(4,071,202)	3,067,785
Cash and cash equivalents at beginning of year		5,685,162	2,617,377
Cash and cash equivalents at end of year	$	1,613,960	5,685,162
Supplemental disclosure:			
Interest paid	$	5,355,664	5,479,564

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 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 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.

 (Continued)

(d) Investments

Investments are reported at fair value. If an investment is held directly by the College and an active market with quoted prices exists, the College reports the fair value as the market price of an identical security. 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, and may reflect discounts for the illiquid nature of certain investments held.

In connection with the adoption in 2009 of Financial Accounting Standards Board (FASB) Statement (SFAS) No. 157, *Fair Value Measurements*, the College adopted the accounting provisions of Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to its alternative investments. This Standard amends SFAS No. 157 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value (NAV) per share or its equivalent as a practical expedient.

These investments are generally redeemable or may be liquidated at NAV under the original terms of the subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by these funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the College's interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the College's interest in the funds. Although certain investments may be sold in secondary market transactions, subject to meeting certain requirements of the governing documents of the funds, the secondary market is not active and individual transactions are not necessarily observable. It is therefore reasonably possible that if the College were to sell its interest in a fund in the secondary market, the sale could occur at an amount materially different than the reported value. The College held alternative investments valued at $1,299,869 as of June 30, 2009.

(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.

Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* (FIN 48), clarifies the accounting for uncertainty in income tax recognized in an entity's financial statements. FIN 48 had no impact on the College's financial statements.

(j) Fundraising

Expenses associated with fundraising activities of the College were $2,157,699 and $2,264,114 in 2009 and 2008, respectively, and are included in institutional support expense in the statements of unrestricted revenues and expenses.

(k) Disclosure About Fair Value of Financial Instruments

In accordance with the requirements of SFAS No. 107, *Disclosures about the Fair Value of Financial Instruments*, the estimated fair values of the College's financial instruments as of June 30, 2009 and 2008 have been determined by using, where practicable, appropriate valuation methodologies.

Cash and cash equivalents, accounts and contribution receivable, and accounts payable are carried at net realizable value, which approximates fair value.

The method at arriving at the fair value of investments is disclosed in note 2(d).

The College's bonds trade periodically in a limited market. Utilizing available market data provided by a third party, the College estimated that the aggregate fair value of these bonds was $102,277,000 at June 30, 2009.

(Continued)

In 2008, the College determined the fair value of its bonds based on a discounted cash flow analysis using margin spread rates that approximate current margin spread rates for instruments with similar maturities and credit risk. Based on that analysis, the College determined that the fair value of bonds approximates fair value.

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

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

		2009	2008
Student accounts receivable	$	289,119	371,845
Less allowance for doubtful accounts		(260,207)	(334,661)
Student accounts receivable, net		28,912	37,184
Other accounts receivable:			
Grants and other accounts receivable		452,799	337,919
Contributions receivable:			
Unconditional promises expected to be collected in:			
Less than one year		1,311,514	1,755,001
One to five years		1,695,319	1,405,125
Greater than five years		752,500	750,000
Less discount and allowance for uncollectible contributions		(2,099,349)	(1,328,515)
Contributions receivable, net		1,659,984	2,581,611
Student, other, and contributions receivable, net	$	2,141,695	2,956,714

Contributions receivable have been discounted at rates ranging from 1.11% to 3.53%.

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

		2009	2008
Student loans receivable	$	2,602,038	2,463,428
Less allowance for doubtful accounts		(194,142)	(194,142)
Student loans receivable, net	$	2,407,896	2,269,286

In 2005, the College lent $5,000,000 in exchange for two secured promissory notes totaling $5,000,000. 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. The College receives monthly interest payments at an annual rate of 4.25%.

(4) Investments

Effective July 1, 2008, the College adopted the recognition and disclosure provisions of SFAS No. 157. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP for both recurring and nonrecurring measurements, whether accounted for or disclosed in the financial statements, and expands disclosures about fair value measurements. 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. SFAS No. 157 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels:

- Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities;
- Level 2 – observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and
- Level 3 – unobservable inputs are used when little or no market data is available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the College utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

The College owns interests in alternative investment funds rather than in the securities underlying each fund, and therefore it is generally required to consider such investments as Level 2 or 3 for purposes of applying SFAS No. 157, even though the underlying securities may not be difficult to value or may be readily marketable. Also, because of the use of NAV as a practical expedient to estimate fair value, the level in the fair value hierarchy in which each fund's fair value measurement is classified is based primarily on the College's ability to redeem interest in the fund at or near the date of the statement of financial position. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risk associated with investing in those investments or a reflection on the liquidity of each fund's underlying assets and liabilities.

The College's investments at market value are summarized as follows as of June 30 according to the foregoing valuation hierarchy:

	2009				2008
	Level 1	Level 2	Level 3	Total	2008
Long-term investments:					
Money markets	$ 13,581,457	—	—	13,581,457	102,673
Short-term investments	17,711,672	—	—	17,711,672	29,306,164
Mutual and managed funds:					
Equity	16,903,904	—	—	16,903,904	35,535,611
Bond	2,654,719	1,299,869	—	3,954,588	24,802,376
Total long-term investments	50,851,752	1,299,869	—	52,151,621	89,746,824
Funds held by bond trustee – short-term investments	2,851,930	—	—	2,851,930	43,433,508
Total investments	$ 53,703,682	1,299,869	—	55,003,551	133,180,332

All of the investments classified as Level 2 have been valued using NAV as a practical expedient.

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

	2009	2008
Permanently restricted	$ 16,903,068	16,023,682
Temporarily restricted	3,041,667	8,783,660
Unrestricted	32,206,886	64,939,482
	$ 52,151,621	89,746,824

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

	2009	2008
Investment return:		
Interest and dividends, net of fees	$ 1,625,840	3,100,844
Net realized and unrealized loss	(16,698,825)	(3,666,290)
Total investment return	(15,072,985)	(565,446)
Long-term investment income available for operations	(1,715,628)	(1,574,138)
Short-term investment income available for operations	(334,962)	(1,167,066)
Investment return less amount available for operations	$ (17,123,575)	(3,306,650)

Investment management fees were $60,221 and $106,533 for the years ended June 30, 2009 and 2008, respectively.

(Continued)

The long-term investments' fair values as of June 30, 2009 are classified below by redemption period:

		Investment fair values
Investments redemption (or sale) period:		
Daily	$	50,851,752
Monthly		1,299,869
Total as of June 30, 2009	$	52,151,621

(5) Endowment

Effective July 1, 2008, the College adopted the provisions of FASB Staff Position (FSP) No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 provides guidance on required disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds.

The College's endowment consists of 143 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.

Interpretation of Relevant Law

The Board of Trustees of the College has interpreted the Uniform Management of Institutional Funds Act (UMIFA), Chapter 180A of the general laws of the Commonwealth of Massachusetts, as requiring the preservation of the historic dollar value of the original gifts to donor-restricted endowment funds absent explicit donor stipulations to the contrary. 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.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by the Act and the interpretation of the Massachusetts Attorney General's June 1995 Statement of Position regarding the use and classification of unspent endowment gains. The College has interpreted relevant state law as generally permitting the spending of gains on long-term investment funds over a stipulated period of time. State law allows the Board to appropriate all of the income and a specified percentage of the net appreciation as is prudent considering the College's long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends and general economic conditions.

On July 2, 2009, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) was adopted by the Commonwealth of Massachusetts. The new law updates the fundamental investment principles contained in UMIFA by providing precise standards to establish investing in a prudent manner by establishing a duty to minimize cost, diversify the investments, investigate facts relevant to the investment of the fund, to consider tax consequences of investment decisions and that investment decisions be made in light of the fund's entire portfolio as a part of an investment strategy having risk and return objectives reasonably suited to the fund and to the College. UPMIFA also 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, thereby eliminating the restriction that a fund could not be spent below its historical dollar value. 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. The College will be reviewing the provisions of the act to determine what changes, if any, may be required to the investing and spending policies of the Board.

The new act is effective for June 30, 2009 and governs decisions made or actions taken on or after the effective date of the act. The act has no impact on the classification or presentation of net assets in the financial statements as required by FSP 117-1.

Endowment net asset composition by type of fund consists of the following at June 30, 2009:

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

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

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2008	$	36,872,064	7,038,269	16,972,699	60,883,032
Investment return:					
Investment income, net		479,828	781,202	—	1,261,030
Net losses		(10,440,002)	(4,236,123)	—	(14,676,125)
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		(683,621)	(1,032,007)	—	(1,715,628)
Endowment net assets, June 30, 2009	$	29,612,193	2,551,341	17,156,825	49,320,359

Endowment net asset composition by type of fund consists of the following at June 30, 2008:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	—	7,038,269	16,972,699	24,010,968
Board-designated endowment funds		36,872,064	—	—	36,872,064
Total endowed net assets	$	36,872,064	7,038,269	16,972,699	60,883,032

Changes in endowment net assets for the year ended June 30, 2008 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2007	$	37,089,932	8,695,455	15,980,024	61,765,411
Investment return:					
Investment income, net		1,134,227	524,652	—	1,658,879
Net gain		(2,146,775)	(1,245,501)	—	(3,392,276)
Total investment return		(1,012,548)	(720,849)	—	(1,733,397)
Contributions		1,432,481	—	992,675	2,425,156
Appropriation of endowment assets for expenditure		(637,801)	(936,337)	—	(1,574,138)
Endowment net assets, June 30, 2008	$	36,872,064	7,038,269	16,972,699	60,883,032

(Continued)

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 $1,438,771 as of June 30, 2009. 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, 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 $1,715,628 and $1,574,138 for the years ended June 30, 2009 and 2008, 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		2009	2008
Land	—	$	62,560,682	62,560,682
Buildings, including improvements	15 – 40		299,427,130	264,876,058
Furnishings and equipment	3 – 10		43,918,289	38,415,990
Construction in progress	—		89,299,638	37,861,068
			495,205,739	403,713,798
Less accumulated depreciation			(96,178,355)	(84,362,632)
Land, buildings, and equipment, net		$	399,027,384	319,351,166

The College capitalized net interest on construction in progress in the amount of $1,973,838 and $(314,606) for the years ended June 30, 2009 and 2008, 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 $2,634,211 and $2,663,158, relating to the capital lease portions of the master leases as of June 30, 2009 and 2008, respectively.

Future minimum lease payments as of June 30, 2009 are as follows:

2010	$	245,323
2011		245,323
2012		245,323
2013		245,323
2014		245,323
Thereafter		20,116,503
		21,343,118
Less interest		(18,593,489)
	$	2,749,629

(8) Bonds Payable

Bonds payable consisted of the following as of June 30:

Creditor/issue	Security/ collateral	Interest rate(s)		2009	2008
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	27,870,000
Massachusetts Development Finance Agency, Higher Education Refunding Revenue Bonds, Emerson College Issue Series 2006 A, due through January 1, 2023	General obligation	5.00%		78,320,000	80,975,000
				103,745,000	108,845,000
Bond premium				4,902,393	5,249,518
			$	108,647,393	114,094,518

Scheduled maturities for years ending June 30 are as follows:

2010	$ 5,335,000
2011	5,585,000
2012	5,845,000
2013	6,135,000
2014	6,445,000
Thereafter	74,400,000
	$ 103,745,000

Unamortized bond issuance costs, included in other assets, were $1,034,494 and $1,123,973 as of June 30, 2009 and 2008, respectively. Unamortized bond premium was $4,902,393 and $5,249,518 as of June 30, 2009 and 2008, respectively.

The College's bond agreements contain covenants, which among other restrictions include the maintenance of a specific liquidity ratio. The College was compliant with these covenants as of June 30, 2009.

During 2009, the College obtained an unsecured $10,000,000 line of credit from Bank of America. At June 30, 2009, the College had drawn down $5,000,000 at a LIBOR based rate of 1.32% and $3,000,000 at a prime rate of 3.25%. The College also obtained a $5,000,000 line of credit from Citizen's Bank which was unused at June 30, 2009.

(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:

	2009	2008
Contributions receivable	$ 1,406,227	1,632,610
Purpose restrictions:		
Instruction	1,273,856	1,086,694
Student aid	558,424	471,835
General institutional and other	1,780,246	1,442,169
Unappropriated investment gains	867,912	5,802,965
	$ 5,886,665	10,436,273

(11) Permanently Restricted Net Assets

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

	2009	2008
Endowment contributions whose income and net gains are restricted for the following purposes:		
Instruction	$ 3,402,424	3,364,620
Academic support	20,000	—
Student aid	9,449,418	8,638,001
General institutional	4,031,226	4,021,077
Contributions receivable	253,757	949,001
	$ 17,156,825	16,972,699

(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:

	2009	2008
Time and purpose restrictions:		
Instruction	$ 32,952	63,899
Other	344,179	1,226,884
	$ 377,131	1,290,783

(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, 2009 and 2008 amounted to $854,819 and $726,645, respectively. The College's lease obligations as of June 30, 2008 are as follows:

Fiscal year:	
2010	$ 874,672
2011	595,092
2012	552,852
2013	395,748
2014	395,748
Thereafter	21,021,610
Total	$ 23,835,722

(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, 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 $2,768,487 and $2,530,950 for the years ended June 30, 2009 and 2008, 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) Subsequent Event

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2009 and through October 19, 2009, the date on which the financial statements were issued. The College concluded that no material subsequent events have occurred.