EMERSON COLLEGE

Financial Statements

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

EMERSON COLLEGE

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

Independent Auditors' Report

The Board of Trustees
Emerson College:

Report on the Financial Statements

We have audited the financial statements of Emerson College (the College), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of unrestricted revenues and expenses, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Emerson College as of June 30, 2015 and 2014, and the changes in net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Boston, Massachusetts
October 30, 2015

EMERSON COLLEGE

Statements of Financial Position

June 30, 2015 and 2014

(Dollars in thousands)

Assets		**2015**	**2014**
Cash and cash equivalents	$	34,520	24,419
Student, other and contributions receivable, net (note 3)		7,910	5,056
Loans receivable, net (notes 3 and 10)		2,479	2,433
Other assets		5,062	3,247
Funds held by bond trustee (note 4)		81,991	8,621
Investments (notes 4 and 5)		148,043	147,199
Land, buildings, and equipment, net (notes 6 and 8)		488,155	494,229
Total assets	$	768,160	685,204
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	23,036	21,489
Student deposits and deferred revenues (note 7)		12,533	9,074
Bonds payable, net (notes 9 and 17)		317,474	243,479
Capital lease obligations (note 8)		2,749	2,749
Refundable advances – U.S. government grants (note 10)		1,230	1,205
		357,022	277,996
Deferred royalty revenue (note 16)		1,442	2,014
Total liabilities, including deferred revenue		358,464	280,010
Net assets:			
Unrestricted		377,924	372,812
Temporarily restricted (note 11)		8,089	9,974
Permanently restricted (note 12)		23,683	22,408
Total net assets		409,696	405,194
Total liabilities and net assets	$	768,160	685,204

Commitments (notes 8, 9 and 14)

See accompanying notes to financial statements.

EMERSON COLLEGE

Statements of Unrestricted Revenues and Expenses

Years ended June 30, 2015 and 2014

(Dollars in thousands)

		2015	2014
Operating:			
Revenues:			
Tuition and fees	$	160,642	153,366
Less scholarship aid and grants to students		(35,201)	(34,009)
Tuition and fees, net		125,441	119,357
Government grants and appropriations		2,229	2,324
Private gifts and grants		1,452	1,460
Investment income available for operations (notes 4 and 5)		3,807	3,218
Other interest income (note 4)		93	190
Other sources		3,881	2,544
Auxiliary enterprises		37,161	34,274
Total revenues		174,064	163,367
Net assets released from restrictions (note 13)		5,272	835
Total revenues and net assets released from restrictions		179,336	164,202
Expenses:			
Educational and general:			
Instruction		50,964	45,257
Academic support		18,144	20,247
Student services		18,520	17,604
Institutional support		28,480	28,648
Research		1,733	1,637
Auxiliary enterprises		51,306	43,018
Total expenses		169,147	156,411
Increase in unrestricted net assets from operating activities		10,189	7,791
Nonoperating:			
Reinvested investment (loss) / gain (notes 4 and 5)		(3,125)	13,115
Loss on fixed asset disposal		(1,930)	—
Loss on debt defeasance		(2,810)	—
Change in present value of charitable remainder trust		—	108
Other sources		104	95
Royalty revenue (note 16)		2,684	2,521
(Decrease)/Increase in unrestricted net assets from nonoperating activities		(5,077)	15,839
Increase in unrestricted net assets	$	5,112	23,630

See accompanying notes to financial statements.

EMERSON COLLEGE

Statements of Changes in Net Assets

Years ended June 30, 2015 and 2014

(Dollars in thousands)

	2015	2014
Increase in unrestricted net assets (from previous page)	$ 5,112	23,630
Changes in temporarily restricted net assets:		
Contributions	4,262	488
Reinvested investment (loss) / gain (notes 4 and 5)	(875)	2,895
Net assets released from restrictions (note 13)	(5,272)	(835)
(Decrease) / increase in temporarily restricted net assets	(1,885)	2,548
Change in permanently restricted net assets:		
Contributions	1,275	1,106
Increase in permanently restricted net assets	1,275	1,106
Increase in net assets	4,502	27,284
Net assets at beginning of year	405,194	377,910
Net assets at end of year	$ 409,696	405,194

See accompanying notes to financial statements.

EMERSON COLLEGE

Statements of Cash Flows

Years ended June 30, 2015 and 2014

(Dollars in thousands)

		2015	2014
Cash flows from operating activities:			
Changes in net assets	$	4,502	27,284
Adjustment to reconcile changes in net assets to net cash and cash equivalents provided by operating activities:			
Depreciation and amortization		17,150	17,761
Contributions to permanently restricted net assets and building improvements		(528)	(306)
Net realized and unrealized loss (gain) on investments		2,017	(17,626)
Change in student and other contributions receivable		(2,854)	751
Change in other assets		(814)	(145)
Change in accounts payable and accrued expenses		1,547	(3,914)
Change in student deposits and deferred revenue		3,459	2,191
Net cash and cash equivalents provided by operating activities		24,479	25,996
Cash flows from investing activities:			
Purchases of investments		(6,853)	(4,787)
Sales and maturities of investments		3,992	3,617
Purchases of land, buildings, and equipment		(16,047)	(45,529)
Loss on disposal of fixed assets		1,930	—
Change in deferred royalty income		(572)	(571)
Loans disbursed		(466)	(462)
Loan payments received		420	437
Net cash and cash equivalents used in investing activities		(17,596)	(47,295)
Cash flows from financing activities:			
Use of funds held by bond trustee		4,571	4,658
Repayment of bonds payable		(65,920)	(6,205)
Funds transferred to bond trustee		(77,941)	—
Bond issuance costs		(1,101)	—
Proceeds from bond issue		143,056	—
Increase in refundable advances		25	—
Contributions to permanently restricted net assets and building improvements		528	306
Net cash and cash equivalents provided by (used in) financing activities		3,218	(1,241)
Increase (Decrease) in cash and cash equivalents		10,101	(22,540)
Cash and cash equivalents at beginning of year		24,419	46,959
Cash and cash equivalents at end of year	$	34,520	24,419
Supplemental disclosure:			
Interest paid	$	12,815	13,107
Noncash investing activity:			
Change in accounts payable attributable to fixed assets	$	3,270	(5,567)

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

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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

(Continued)

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 generally does not provide for income taxes since it is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

ASC 740, *Income Taxes*, permits an entity to recognize the benefit and requires accrual of an uncertain tax position only when the position is “more likely than not” to be sustained in the event of examination by tax authorities. In evaluating whether a tax position has met the recognition threshold, the College must presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. ASC 740 also provides guidance on the recognition, measurement, and classification of income tax uncertainties, along with any related interest or penalties. Tax positions deemed to meet the “more likely than not” threshold are recorded as a tax expense in the current year.

The College has analyzed all open tax years, as defined by the statutes of limitations. Open tax years are those that are open for exam by taxing authorities. Major jurisdictions for the College include Federal and the Commonwealth of Massachusetts. As of June 30, 2015, open Federal and

(Dollars in thousands)

Massachusetts tax years for the College include the tax years ended June 30, 2012 through June 30, 2014. The College has no examination in progress. The College believes it has no significant uncertain tax positions.

(j) Fundraising

Expenses associated with fundraising activities of the College were $4,518 and $3,818 in 2015 and 2014, respectively, and are included in institutional support expense in the statements of unrestricted revenues and expenses.

(k) Recent Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board (FASB) issued new guidance removing the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using net asset value per share as a practical expedient. The new guidance is to be applied retrospectively and is effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. As early adoption is permitted, the College has adopted this guidance and the applicable disclosures have been included in Footnote 4.

(l) Reclassifications

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 presentation.

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

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

		2015	2014
Student accounts receivable	$	3,816	1,365
Less allowance for doubtful accounts		(346)	(346)
Student accounts receivable, net		3,470	1,019
Other accounts receivable:			
Grants and other accounts receivable		1,098	1,223
Contributions receivable:			
Unconditional promises expected to be collected in:			
Less than one year		1,897	1,344
One to five years		4,097	3,016
Greater than five years		970	1,184
Less discount and allowance for uncollectible contributions		(3,622)	(2,730)
Contributions receivable, net		3,342	2,814
Student, other, and contributions receivable, net	$	7,910	5,056

Contributions receivable have been discounted at rates ranging from 1.01% to 2.35%.

(Dollars in thousands)

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

		2015	2014
Student loans receivable	$	2,673	2,627
Less allowance for doubtful accounts		(194)	(194)
Student loans receivable, net	$	2,479	2,433

(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, 2015 and 2014, 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.

(Dollars in thousands)

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 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, 2015 and 2014:

	June 30, 2015						
	Level 1	Level 2	Level 3	Assets Valued at NAV	Total	Redemption frequency	Days notice
Long-term investment strategies:							
Fixed income funds:							
U.S. treasuries	$ 5,738	—	—	—	5,738	Daily	One
Domestic fixed income	15,222	—	—	4,378	19,600	Daily/Monthly	One/30
International fixed income	—	—	—	2,694	2,694	Monthly	10
Total	20,960	—	—	7,072	28,032		
Equity funds:							
Domestic equity	23,810	—	—	—	23,810	Daily	One
International equity	38,888	—	—	—	38,888	Daily	One
Total	62,698	—	—	—	62,698		
Real asset funds:							
Strategic real assets	—	—	—	11,219	11,219	Monthly	9
Hedge equity funds of funds:							
Multiple strategies	—	—	—	42,691	42,691	Monthly/Qtrly/Annually	30-90
Total	—	—	—	53,910	53,910		
Cash and cash equivalents	3,403	—	—	—	3,403	Daily	One
Total long-term investments	$ 87,061	—	—	60,982	148,043		
Other assets:							
Deposits with bond trustees	$ 81,991	—	—	—	81,991	Daily	One

(Dollars in thousands)

	June 30, 2014						
	Level 1	Level 2	Level 3	Assets Valued at NAV	Total	Redemption frequency	Days notice
Long-term investment strategies:							
Fixed income funds:							
U.S. treasuries	$ 5,600	—	—	—	5,600	Daily	One
Domestic fixed income	15,422	—	—	4,263	19,685	Daily/Monthly	One/30
International fixed income	—	—	—	2,934	2,934	Monthly	10
Total	21,022	—	—	7,197	28,219		
Equity funds:							
Domestic equity	25,162	—	—	—	25,162	Daily	One
International equity	39,234	—	—	—	39,234	Daily	One
Total	64,396	—	—	—	64,396		
Real asset funds:							
Strategic real assets	—	—	—	13,348	13,348	Monthly	9
Hedge equity funds of funds:							
Multiple strategies	—	—	—	39,401	39,401	Monthly/Qtrly/Annually	30-90
Total	—	—	—	52,749	52,749		
Cash and cash equivalents	1,835	—	—	—	1,835	Daily	One
Total long-term investments	$ 87,253	—	—	59,946	147,199		
Other assets:							
Deposits with bond trustees	$ 8,621	—	—	—	8,621	Daily	One

The College had no activity with respect to investments classified in Level 3 for the years ended June 30, 2015 and 2014.

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

	2015	2014
Investment return (loss) :		
Interest and dividends, net of fees	$ 1,931	1,763
Net realized and unrealized (losses) gains	(2,017)	17,626
Total investment return	(86)	19,389
Long-term investment (loss) income available for operations	(3,807)	(3,218)
Short-term investment (loss) income available for operations	(107)	(161)
Investment return (loss) less amount available for operations	$ (4,000)	16,010

Investment management fees were $418 and $383 for the years ended June 30, 2015 and 2014, respectively.

(5) Endowment

The College's endowment consists of approximately 150 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-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 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.

(Dollars in thousands)

Endowment net asset composition, not including pledges, by type of fund consists of the following at June 30, 2015:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(378)	7,733	21,308	28,663
Board-designated endowment funds		120,557	—	—	120,557
Total endowed net assets	$	120,179	7,733	21,308	149,220

Changes in endowment net assets for the year ended June 30, 2015 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2014	$	117,489	8,590	20,095	146,174
Investment return:					
Investment income, net		980	951	—	1,931
Net losses		(1,713)	(394)	—	(2,107)
Total investment return		(733)	557	—	(176)
Contributions		4,816	—	1,213	6,029
Transfers from operations		1,000	—	—	1,000
Appropriation of endowment assets for expenditure		(2,393)	(1,414)	—	(3,807)
Endowment net assets, June 30, 2015	$	120,179	7,733	21,308	149,220

(Continued)

(Dollars in thousands)

Endowment net asset composition, not including pledges, by type of fund consists of the following at June 30, 2014:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (205)	8,590	20,095	28,480
Board-designated endowment funds	117,694	—	—	117,694
Total endowed net assets	$ 117,489	8,590	20,095	146,174

Changes in endowment net assets for the year ended June 30, 2014 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2013	$ 103,576	5,493	18,877	127,946
Investment return:				
Investment income, net	1,646	82	—	1,728
Net gains	14,019	3,481	—	17,500
Total investment return	15,665	3,563	—	19,228
Contributions	—	—	1,218	1,218
Transfers from operations	1,000	—	—	1,000
Appropriation of endowment assets for expenditure	(2,752)	(466)	—	(3,218)
Endowment net assets, June 30, 2014	$ 117,489	8,590	20,095	146,174

(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 $378 and $206 as of June 30, 2015 and 2014 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.

(Continued)

(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%, of the average market value of the qualifying endowment investment pool at the end of the previous five fiscal years. The Board of Trustees may authorize higher amounts for certain endowments and can increase the spending rate up to 5%. The total amount spent was $3,807 and $3,218 for the years ended June 30, 2015 and 2014, 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.

(Dollars in thousands)

(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	2015	2014
Land	—	$ 64,709	64,709
Buildings, including improvements	15 – 40	551,989	548,115
Furnishings and equipment	3 – 10	62,607	61,390
Construction in progress	—	8,964	—
		688,269	674,214
Less accumulated depreciation		(200,114)	(179,985)
Land, buildings, and equipment, net		$ 488,155	494,229

Depreciation expense was $20,191 and $18,098 in 2015 and 2014, respectively.

(7) Deferred Revenues

During the year ended June 30, 2014 the College received payments of $1,236 from Sodexo. $200 represented the costs paid by the College to buy out the unamortized portion of the previous food contractor's capital investment. The remaining $1,036 was to support the build out of the Los Angeles campus cafeteria and other related renovations. These payments are recorded as deferred revenue and will be amortized and recognized as income on a straight line basis over ten years, ending in 2023.

(Dollars in thousands)

(8) Capital Lease Obligation

During the year ended June 30, 2006, the College entered into a master lease agreement to use 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 $1,512 and $1,650, relating to the capital lease portions of the master leases as of June 30, 2015 and 2014, respectively.

Future minimum lease payments as of June 30, 2015 are as follows:

2016	$	245
2017		245
2018		245
2019		245
2020		245
Thereafter		18,626
		19,851
Less interest		(17,102)
	$	2,749

(Dollars in thousands)

(9) Bonds Payable

Bonds payable consisted of the following as of June 30:

Creditor/issue	Security/ collateral	Interest rate(s)		2015	2014
Massachusetts Development Finance Agency, Higher Education Refunding Revenue Bonds, Emerson College issue Series 2006 A, due through January 1, 2023	General obligation	5.00%	$	—	62,965
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%		120,000	122,955
California Municipal Finance Authority, Higher Education Revenue Bonds, Emerson College issue Series 2011, due through January 1, 2042	General obligation	5.00% – 6.00%		54,085	54,085
Massachusetts Development Finance Agency, Higher Education Refunding Revenue Bonds, Emerson College issue Series 2015, due through January 1, 2045	General obligation	5.00%		132,935	—
				307,020	240,005
Bond premium and discount, net				10,454	3,474
			$	317,474	243,479

Scheduled maturities for years ending June 30 are as follows:

2016	$	2,685
2017		2,745
2018		2,655
2019		3,790
2020		3,980
Thereafter		291,165
	$	307,020

(Continued)

(Dollars in thousands)

The College did not adopt ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03), which requires debt issuance costs to be classified as Long-term debt against the debt liability. Unamortized bond issuance costs, included in other assets, were $2,552 and $1,934 as of June 30, 2015 and 2014, respectively.

The College's bond agreements contain a covenant requiring the maintenance of a specific liquidity ratio. The College was in compliance with this covenant as of June 30, 2015 and 2014.

At June 30, 2015, the College had available a line of credit with TD Bank for $15,000 and a line of credit with JP Morgan Chase for $15,000 for total available lines of credit of $30,000. At June 30, 2015 and 2014 there were no outstanding balances on these facilities. All lines of credit are unsecured with variable interest rates.

Bond Refunding

In May 2015, the College issued $132,935 of Series 2015 Revenue Bonds, a portion of which was placed in an irrevocable trust in order to effect an in-substance defeasance of the Series 2006A Revenue Bonds having an outstanding principal balance of $59,375 at the date of the refunding. The irrevocable trust will redeem the 2006A Revenue Bonds on January 1, 2017, including accrued interest. As such, the Series 2006A Bond principal and the refunding trust were reduced to zero and the loss on the refunding of $2,810 is recorded in the statement of activities.

(10) 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.

(11) Temporarily Restricted Net Assets

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

	2015	2014
Contributions receivable	$ 916	706
Purpose restrictions:		
Instruction	1,323	1,670
Student aid	1,066	1,017
General institutional and other	1,408	2,143
Unappropriated investment gains	3,376	4,438
	$ 8,089	9,974

(Dollars in thousands)

(12) Permanently Restricted Net Assets

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

		2015	2014
Endowment contributions whose income and net gains are restricted for the following purposes:			
Instruction	$	5,632	5,587
Academic support		550	350
Student aid		10,088	9,770
General institutional		4,790	4,620
Auxiliary Enterprises		214	—
Contributions receivable		2,409	2,081
	$	23,683	22,408

(13) 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:

		2015	2014
Time and purpose restrictions:			
Student aid	$	104	86
Instruction		1,186	22
Academic support		316	717
Other		3,666	10
	$	5,272	835

(14) 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, 2015 and 2014 amounted to $2,008 and $1,383, respectively. The College's lease obligations as of June 30, 2015 are as follows:

Fiscal year:		
2016	$	1,920
2017		1,920
2018		1,779
2019		1,768
2020		1,135
Thereafter		1,826
Total	$	10,348

(Continued)

(15) 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 $4,072 and $3,776 for the years ended June 30, 2015 and 2014, respectively.

(16) 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 for entering into the agreement.

In accordance with U.S. generally accepted accounting principles, this upfront nonrefundable fee of $10,000 in addition to the monthly royalty payments, which increased during 2013, for the initial ten-year period, which aggregates $23,500, 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.

(17) Fair Value of Debt

The fair value of the College's Series 2006A bonds issued with the Massachusetts Development Finance Agency included in long-term debt (with a carrying amount of $62,965 at June 30, 2014) was $70,208 at June 30, 2014. Note that the Series 2006A bonds were defeased during fiscal 2015. The fair value of the College's Series 2010A bonds issued with the Massachusetts Development Finance Agency included in long-term debt (with a carrying amount of $120,000 and $122,955 June 30, 2015 and 2014, respectively) was $127,515 and $137,354 at June 30, 2015 and 2014, respectively. The fair value of the College's Series 2011 bonds included in long-term debt (with a carrying amount of $54,085 at both June 30, 2015 and 2014) was $60,509 and $66,262 at June 30, 2015 and 2014, respectively. The fair value of the College's Series 2015 bonds issued with the Massachusetts Development Finance Agency included in long-term debt (with a carrying amount of $132,935 at June 30, 2015) was $144,174 at June 30, 2015.

The College determined the estimated fair values of its financial instruments as of June 30, 2015 and 2014 by using, where practicable, appropriate valuation methodologies. The fair value of the College's debt is calculated by an independent third party using the present value of projected cash flows based on the debt schedules. The College's debt would be classified as a level 2 asset in the fair value hierarchy of financial assets and liabilities that are accounted for on a recurring basis.

(18) Subsequent Events

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2015 and through October 30, 2015 the date on which the financial statements were issued. The College concluded that no material subsequent events have occurred.