EMERSON COLLEGE

Financial Statements

June 30, 2014 and 2013

(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, 2014 and 2013, 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, 2014 and 2013, 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
November 5, 2014

EMERSON COLLEGE

Statements of Financial Position

June 30, 2014 and 2013

(Dollars in thousands)

Assets		**2014**	**2013**
Cash and cash equivalents	$	24,419	46,959
Student, other and contributions receivable, net (note 3)		5,056	5,807
Loans receivable, net (notes 3 and 10)		2,433	2,408
Other assets		3,247	3,102
Funds held by bond trustee (note 4)		8,621	13,279
Investments (notes 4 and 5)		147,199	128,403
Land, buildings, and equipment, net (notes 6 and 8)		494,229	466,798
Total assets	$	685,204	666,756
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	21,489	25,403
Student deposits and deferred revenues (note 7)		9,074	6,883
Bonds payable, net (notes 9 and 17)		243,479	250,021
Capital lease obligations (note 8)		2,749	2,749
Refundable advances – U.S. government grants (note 10)		1,205	1,205
		277,996	286,261
Deferred royalty revenue (note 16)		2,014	2,585
Total liabilities, including deferred revenue		280,010	288,846
Net assets:			
Unrestricted		372,812	349,182
Temporarily restricted (note 11)		9,974	7,426
Permanently restricted (note 12)		22,408	21,302
Total net assets		405,194	377,910
Total liabilities and net assets	$	685,204	666,756

Commitments (notes 8, 9 and 14)

See accompanying notes to financial statements.

EMERSON COLLEGE

Statements of Unrestricted Revenues and Expenses

Years ended June 30, 2014 and 2013

(Dollars in thousands)

		2014	2013
Operating:			
Revenues:			
Tuition and fees	$	153,366	142,685
Less scholarship aid and grants to students		(34,009)	(32,540)
Tuition and fees, net		119,357	110,145
Government grants and appropriations		2,324	3,103
Private gifts and grants		1,460	1,505
Investment income available for operations (notes 4 and 5)		3,218	2,815
Other interest income (note 4)		190	106
Other sources		2,544	3,130
Auxiliary enterprises		34,274	32,659
Total revenues		163,367	153,463
Net assets released from restrictions (note 13)		835	705
Total revenues and net assets released from restrictions		164,202	154,168
Expenses:			
Educational and general:			
Instruction		45,257	43,230
Academic support		20,247	18,684
Student services		17,604	16,719
Institutional support		28,648	26,015
Research		1,637	1,544
Auxiliary enterprises		43,018	39,196
Total expenses		156,411	145,388
Increase in unrestricted net assets from operating activities		7,791	8,780
Nonoperating:			
Reinvested investment gain (notes 4 and 5)		13,115	8,194
Change in present value of charitable remainder trust		108	(23)
Other sources		95	—
Royalty revenue (note 16)		2,521	2,474
Increase in unrestricted net assets from nonoperating activities		15,839	10,645
Increase in unrestricted net assets	$	23,630	19,425

See accompanying notes to financial statements.

EMERSON COLLEGE

Statements of Changes in Net Assets

Years ended June 30, 2014 and 2013

(Dollars in thousands)

		2014	2013
Increase in unrestricted net assets (from previous page)	$	23,630	19,425
Changes in temporarily restricted net assets:			
Contributions		488	609
Reinvested investment gain (notes 4 and 5)		2,895	1,289
Net assets released from restrictions (note 13)		(835)	(705)
Increase in temporarily restricted net assets		2,548	1,193
Change in permanently restricted net assets:			
Contributions		1,106	1,592
Increase in permanently restricted net assets		1,106	1,592
Increase in net assets		27,284	22,210
Net assets at beginning of year		377,910	355,700
Net assets at end of year	$	405,194	377,910

See accompanying notes to financial statements.

EMERSON COLLEGE

Statements of Cash Flows

Years ended June 30, 2014 and 2013

(Dollars in thousands)

		2014	2013
Cash flows from operating activities:			
Changes in net assets	$	27,284	22,210
Adjustment to reconcile changes in net assets to net cash and cash equivalents provided by operating activities:			
Depreciation and amortization		17,761	17,569
Contributions to permanently restricted net assets and building improvements		(306)	(410)
Net realized and unrealized (gain) loss on investments		(17,626)	(10,593)
Change in student and other contributions receivable		751	(1,191)
Change in other assets		(145)	733
Change in accounts payable and accrued expenses		(3,914)	5,329
Change in student deposits and deferred revenue		2,191	(256)
Net cash and cash equivalents provided by operating activities		25,996	33,391
Cash flows from investing activities:			
Purchases of investments		(4,787)	(3,516)
Sales and maturities of investments		3,617	3,584
Purchases of land, buildings, and equipment		(45,529)	(50,555)
Change in deferred royalty income		(571)	(1,054)
Loans disbursed		(462)	(388)
Loan payments received		437	466
Net cash and cash equivalents used in investing activities		(47,295)	(51,463)
Cash flows from financing activities:			
Use of funds held by bond trustee		4,658	37,925
Repayment of bonds payable		(6,205)	(6,175)
Contributions to permanently restricted net assets and building improvements		306	410
Net cash and cash equivalents (used) provided by financing activities		(1,241)	32,160
(Decrease)Increase in cash and cash equivalents		(22,540)	14,088
Cash and cash equivalents at beginning of year		46,959	32,871
Cash and cash equivalents at end of year	$	24,419	46,959
Supplemental disclosure:			
Interest paid	$	13,107	13,616
Noncash investing activity:			
Change in accounts payable attributable to fixed assets	$	(5,567)	5,709

See accompanying notes to financial statements.

(1) Background

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

(2) Summary of Significant Accounting Policies

(a) Basis of Financial Statement Presentation

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

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

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are reported as net assets released from restrictions.

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

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

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

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

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

(b) Operations

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

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

(c) Cash and Cash Equivalents

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

(d) Investments

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

(Continued)

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

(e) Land, Buildings, and Equipment

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

(f) Bond Premium/Discount and Debt Issuance Costs

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

(g) Student Deposits and Deferred Revenue

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

(h) Use of Estimates

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

(i) Income Taxes

The College 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.

(Continued)

(Dollars in thousands)

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, 2014, open Federal and Massachusetts tax years for the College include the tax years ended June 30, 2010 through June 30, 2013. 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 $3,818 and $2,375 in 2014 and 2013, respectively, and are included in institutional support expense in the statements of unrestricted revenues and expenses.

(k) Reclassifications

Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 presentation.

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

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

		2014	2013
Student accounts receivable	$	1,365	676
Less allowance for doubtful accounts		(346)	(324)
Student accounts receivable, net		1,019	352
Other accounts receivable:			
Grants and other accounts receivable		1,223	2,009
Contributions receivable:			
Unconditional promises expected to be collected in:			
Less than one year		1,344	1,473
One to five years		3,016	2,449
Greater than five years		1,184	1,250
Less discount and allowance for uncollectible contributions		(2,730)	(1,726)
Contributions receivable, net		2,814	3,446
Student, other, and contributions receivable, net	$	5,056	5,807

Contributions receivable have been discounted at rates ranging from 0.88% to 2.53%.

(Dollars in thousands)

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

		2014	2013
Student loans receivable	$	2,627	2,602
Less allowance for doubtful accounts		(194)	(194)
Student loans receivable, net	$	2,433	2,408

(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, 2014 and 2013, 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, 2014 and 2013:

	Level 1	Level 2	Level 3	Total	frequency	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	—	25,593	13,808	39,401	Monthly/Qtrly	30-90
Total	—	38,941	13,808	52,749	Annually	
Cash and cash equivalents	1,835	—	—	1,835	Daily	One
Total long-term investments	$ 87,253	46,138	13,808	147,199		
Other assets:						
Deposits with bond trustees	$ 8,621	—	—	8,621	Daily	One

(Dollars in thousands)

	June 30, 2013					
	Level 1	Level 2	Level 3	Total	Redemption frequency	Days notice
Long-term investment strategies:						
Fixed income funds:						
U.S. treasuries	$ 5,481	—	—	5,481	Daily	One
Domestic fixed income	15,151	4,269	—	19,420	Daily/Monthly	One/30
International fixed income	—	2,749	—	2,749	Monthly	10
Total	20,632	7,018	—	27,650		
Equity funds:						
Domestic equity	23,392	—	—	23,392	Daily	One
International equity	31,658	—	—	31,658	Daily	One
Total	55,050	—	—	55,050		
Real asset funds:						
Strategic real assets	—	11,115	—	11,115	Monthly	9
Hedge equity funds of funds:						
Multiple strategies	—	21,110	11,021	32,131	Monthly/Qtrly	30-90
Total	—	21,110	11,021	32,131	Annually	
Cash and cash equivalents	2,457	—	—	2,457	Daily	One
Total long-term investments	$ 86,965	30,417	11,021	128,403		
Other assets:						
Deposits with bond trustees	$ 13,279	—	—	13,279	Daily	One

The following tables present the College's activities for the years ended June 30, 2014 and 2013 investments classified in Level 3:

June 30, 2014	
Level 3 roll forward	Hedge funds
Beginning value as of June 30, 2013	$ 11,021
Acquisitions	1,500
Net unrealized gain	1,287
Fair value at June 30, 2014	$ 13,808

(Dollars in thousands)

June 30, 2013		
Level 3 roll forward		**Hedge funds**
Beginning value as of June 30, 2012	$	9,689
Acquisitions		—
Net unrealized gain		1,332
Fair value at June 30, 2013	$	11,021

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

		2014	2013
Investment return:			
Interest and dividends, net of fees	$	1,763	1,811
Net realized and unrealized gain (losses)		17,626	10,593
Total investment return		19,389	12,404
Long-term investment income available for operations		(3,218)	(2,815)
Short-term investment income available for operations		(161)	(106)
Investment return less amount available for operations	$	16,010	9,483

Investment management fees were $383 and $322 for the years ended June 30, 2014 and 2013, 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.

(Dollars in thousands)

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.

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

(Dollars in thousands)

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

Endowment net asset composition, not including pledges, by type of fund consists of the following at June 30, 2013:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(710)	5,493	18,877	23,660
Board-designated endowment funds		104,286	—	—	104,286
Total endowed net assets	$	103,576	5,493	18,877	127,946

(Continued)

(Dollars in thousands)

Changes in endowment net assets for the year ended June 30, 2013 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2012	$	94,382	4,204	18,479	117,065
Investment return:					
Investment income, net		1,285	473	—	1,758
Net gains		8,927	1,613	—	10,540
Total investment return		10,212	2,086	—	12,298
Contributions		—	—	398	398
Transfers from operations		1,000	—	—	1,000
Appropriation of endowment assets for expenditure		(2,018)	(797)	—	(2,815)
Endowment net assets, June 30, 2013	$	103,576	5,493	18,877	127,946

(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 $206 and $710 as of June 30, 2014 and 2013 respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

(c) Return Objectives and Risk Parameters

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

(d) Strategies Employed for Achieving Objectives

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

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

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

Under the College's current long-term investment spending policy, which is within the guidelines specified under state law, the College generally spends up to 3%, 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 $3,218 and $2,815 for the years ended June 30, 2014 and 2013, 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.

(Continued)

(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	2014	2013
Land	—	$ 64,709	64,709
Buildings, including improvements	15 – 40	548,115	437,896
Furnishings and equipment	3 – 10	61,390	57,449
Construction in progress	—	—	68,635
		674,214	628,689
Less accumulated depreciation		(179,985)	(161,891)
Land, buildings, and equipment, net		$ 494,229	466,798

Depreciation expense was $18,098 and $17,907 in 2014 and 2013, 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.

(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 $1,650 and $1,787, relating to the capital lease portions of the master leases as of June 30, 2014 and 2013, respectively.

(Dollars in thousands)

Future minimum lease payments as of June 30, 2014 are as follows:

2015	$	245
2016		245
2017		245
2018		245
2019		245
Thereafter		18,871
		20,096
Less interest		(17,347)
	$	2,749

(9) Bonds Payable

Bonds payable consisted of the following as of June 30:

Creditor/issue	Security/ collateral	Interest rate(s)		2014	2013
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	66,355
Massachusetts Development Finance Agency, Higher Education Refunding Revenue Bonds, Emerson College issue Series 2010 A,	General	4.00% – 5.50%		122,955	125,770
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
				240,005	246,210
Bond premium and discount, net				3,474	3,811
			$	243,479	250,021

(Dollars in thousands)

Scheduled maturities for years ending June 30 are as follows:

2015	$	6,545
2016		7,015
2017		7,370
2018		7,800
2019		8,190
Thereafter		203,085
	$	240,005

Unamortized bond issuance costs, included in other assets, were $1,934 and $2,032 as of June 30, 2014 and 2013, 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, 2014 and 2013.

At June 30, 2014, the College had available a line of credit with TD Bank for $15 million and a line of credit with JP Morgan Chase for $15 million for total available lines of credit of $30 million. The College renewed its agreement with TD Bank in November 2013 and entered into an agreement with JP Morgan Chase in April 2014. At June 30, 2014 and 2013 there were no outstanding balances on these facilities. All lines of credit are unsecured with variable interest rates.

(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:

		2014	2013
Contributions receivable	$	706	1,216
Purpose restrictions:			
Instruction		1,670	1,464
Student aid		1,017	930
General institutional and other		2,143	1,807
Unappropriated investment gains		4,438	2,009
	$	9,974	7,426

(Dollars in thousands)

(12) Permanently Restricted Net Assets

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

		2014	2013
Endowment contributions whose income and net gains are restricted for the following purposes:			
Instruction	$	5,587	5,583
Academic support		350	250
Student aid		9,770	9,162
General institutional		4,620	4,114
Contributions receivable		2,081	2,193
	$	22,408	21,302

(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:

		2014	2013
Time and purpose restrictions:			
Student aid	$	86	93
Instruction		22	56
Academic support		717	200
Other		10	356
	$	835	705

(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, 2014 and 2013 amounted to $1,383 and $1,020, respectively. The College's lease obligations as of June 30, 2014 are as follows:

Fiscal year:		
2015	$	1,387
2016		1,235
2017		1,182
2018		895
2019		890
Thereafter		2,770
Total	$	8,359

(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 $3,776 and $3,470 for the years ended June 30, 2014 and 2013, 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 and $66,355 June 30, 2014 and 2013, respectively) was $70,208 and $70,246 at June 30, 2014 and 2013, respectively. 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 $122,955 and $125,770 June 30, 2014 and 2013, respectively) was $137,354 and $120,646 at June 30, 2014 and 2013, respectively. The fair value of the College's Series 2011 bonds included in long-term debt (with a carrying amount of $54,085 and $54,085 June 30, 2014 and 2013, respectively) was $66,262 and $55,890 at June 30, 2014 and 2013, respectively.

The College determined the estimated fair values of its financial instruments as of June 30, 2014 and 2013 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, 2014 and through November 5, 2014 the date on which the financial statements were issued. The College concluded that no material subsequent events have occurred.