

# **New England Conservatory of Music**

Financial Report  
June 30, 2018

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RSM US LLP

## Independent Auditor's Report

To the Board of Trustees  
New England Conservatory of Music

### Report on the Financial Statements

We have audited the accompanying financial statements of New England Conservatory of Music (the "Conservatory"), which comprise the statements of financial position as of June 30, 2018 and 2017, the related statements of activities 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 accounting principles generally accepted in the United States of America; 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.

### Auditor's 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 auditor's 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 the Conservatory as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*RSM US LLP*

Boston, Massachusetts  
October 30, 2018

**New England Conservatory of Music**

**Statements of Financial Position  
June 30, 2018 and 2017**

	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 2,955,651	\$ 2,189,926
Receivables and other assets	1,554,432	1,202,745
Student accounts, notes, and loans receivable, net	2,674,353	3,257,139
Contributions receivable, net	5,774,460	4,411,866
Planned giving assets	3,437,040	3,662,379
Investments, at fair value	124,312,645	116,898,588
Cash restricted for the purchase of property and equipment	582,903	11,569,955
Property and equipment, net	122,482,181	117,823,962
<b>Total assets</b>	<b>\$ 263,773,665</b>	<b>\$ 261,016,560</b>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 2,692,453	\$ 6,754,654
Line of credit	2,000,000	-
Current debt, net of bond issuance costs	1,059,869	1,038,159
Planned giving liabilities	940,530	963,570
Deposits and advance payments	1,019,645	861,962
Government advances for student loans	3,345,478	3,797,658
Long-term debt, net of bond issuance costs	34,896,144	35,956,013
<b>Total liabilities</b>	<b>45,954,119</b>	<b>49,372,016</b>
Commitments and contingencies (Note 16)		
Net assets:		
Unrestricted	42,444,105	39,858,446
Temporarily restricted	100,163,688	97,934,340
Permanently restricted	75,211,753	73,851,758
<b>Total net assets</b>	<b>217,819,546</b>	<b>211,644,544</b>
<b>Total liabilities and net assets</b>	<b>\$ 263,773,665</b>	<b>\$ 261,016,560</b>

See notes to financial statements.

**New England Conservatory of Music**

**Statement of Activities**

**Year Ended June 30, 2018**

**With Summarized Information for Year Ended June 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Revenues and other support:					
Tuition and fees	\$ 44,298,399	\$ -	\$ -	\$ 44,298,399	\$ 40,850,393
Less student aid	(15,543,598)	-	-	(15,543,598)	(14,867,468)
<b>Net tuition and fees</b>	<b>28,754,801</b>	<b>-</b>	<b>-</b>	<b>28,754,801</b>	<b>25,982,925</b>
Dormitory and dining service	3,822,061	-	-	3,822,061	2,149,630
Rental income	16,893	-	-	16,893	-
Other income	1,288,356	-	-	1,288,356	1,655,275
<b>Subtotal</b>	<b>5,127,310</b>	<b>-</b>	<b>-</b>	<b>5,127,310</b>	<b>3,804,905</b>
Gifts and grants:					
Annual fund contributions	4,243,182	-	-	4,243,182	3,347,786
Other gifts	367,609	-	-	367,609	510,822
Government grants	47,851	-	-	47,851	60,794
Net assets released from restrictions	4,875,041	(4,875,041)	-	-	-
<b>Subtotal</b>	<b>9,533,683</b>	<b>(4,875,041)</b>	<b>-</b>	<b>4,658,642</b>	<b>3,919,402</b>
Spending rule income used for operations:					
Total spending rule income used for operations	5,590,634	-	-	5,590,634	5,810,189
<b>Total revenues and other support</b>	<b>49,006,428</b>	<b>(4,875,041)</b>	<b>-</b>	<b>44,131,387</b>	<b>39,517,421</b>
Expenses:					
Faculty salaries and wages	13,430,177	-	-	13,430,177	13,105,264
Other salaries and wages	10,318,643	-	-	10,318,643	9,589,205
Employee benefits	5,359,281	-	-	5,359,281	5,149,929
Supplies and equipment	1,584,319	-	-	1,584,319	1,297,688
Building operations	4,243,647	-	-	4,243,647	3,396,722
Interest expense	1,239,581	-	-	1,239,581	769,697
Depreciation and amortization	5,534,207	-	-	5,534,207	1,983,679
Professional services	1,999,065	-	-	1,999,065	1,558,741
Other expenses	5,232,818	-	-	5,232,818	4,403,084
<b>Total expenses</b>	<b>48,941,738</b>	<b>-</b>	<b>-</b>	<b>48,941,738</b>	<b>41,254,009</b>
<b>Change in net assets from operating activities</b>	<b>64,690</b>	<b>(4,875,041)</b>	<b>-</b>	<b>(4,810,351)</b>	<b>(1,736,588)</b>
Nonoperating activities:					
Non-current contributions and grants	-	5,055,076	1,564,094	6,619,170	18,810,883
Net assets released from restrictions (long term purposes)	1,500,000	(1,500,000)	-	-	-
Change in value of planned giving net assets	40,752	4,279	(247,329)	(202,298)	194,860
Distribution for operations from endowment	(1,283,916)	(4,395,922)	-	(5,679,838)	(5,426,570)
Net realized and unrealized investment gains	2,322,314	7,949,182	-	10,271,496	12,409,081
Net assets reclassified	(35,004)	(8,226)	43,230	-	-
(Attrition) accretion in environmental liability	(23,177)	-	-	(23,177)	32,694
<b>Change in net assets from nonoperating activities</b>	<b>2,520,969</b>	<b>7,104,389</b>	<b>1,359,995</b>	<b>10,985,353</b>	<b>26,020,948</b>
<b>Change in net assets</b>	<b>2,585,659</b>	<b>2,229,348</b>	<b>1,359,995</b>	<b>6,175,002</b>	<b>24,284,360</b>
Net assets - beginning of year	39,858,446	97,934,340	73,851,758	211,644,544	187,360,184
Net assets - end of year	\$ 42,444,105	\$ 100,163,688	\$ 75,211,753	\$ 217,819,546	\$ 211,644,544

See notes to financial statements.

## New England Conservatory of Music

### Statement of Activities Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total
Revenues and other support:				
Tuition and fees	\$ 40,850,393	\$ -	\$ -	\$ 40,850,393
Less student aid	(14,867,468)	-	-	(14,867,468)
<b>Net tuition and fees</b>	<b>25,982,925</b>	<b>-</b>	<b>-</b>	<b>25,982,925</b>
Dormitory and dining service	2,149,630	-	-	2,149,630
Rental income	-	-	-	-
Other income	1,655,275	-	-	1,655,275
<b>Subtotal</b>	<b>3,804,905</b>	<b>-</b>	<b>-</b>	<b>3,804,905</b>
Gifts and grants:				
Annual fund contributions	3,347,786	-	-	3,347,786
Other gifts	510,822	-	-	510,822
Government grants	60,794	-	-	60,794
Net assets released from restrictions	649,686	(649,686)	-	-
<b>Subtotal</b>	<b>4,569,088</b>	<b>(649,686)</b>	<b>-</b>	<b>3,919,402</b>
Spending rule income used for operations:				
Total spending rule income used for operations	5,810,189	-	-	5,810,189
<b>Total revenues and other support</b>	<b>40,167,107</b>	<b>(649,686)</b>	<b>-</b>	<b>39,517,421</b>
Expenses:				
Faculty salaries and wages	13,105,264	-	-	13,105,264
Other salaries and wages	9,589,205	-	-	9,589,205
Employee benefits	5,149,929	-	-	5,149,929
Supplies and equipment	1,297,688	-	-	1,297,688
Building operations	3,396,722	-	-	3,396,722
Interest expense	769,697	-	-	769,697
Depreciation and amortization	1,983,679	-	-	1,983,679
Professional services	1,558,741	-	-	1,558,741
Other expenses	4,403,084	-	-	4,403,084
<b>Total expenses</b>	<b>41,254,009</b>	<b>-</b>	<b>-</b>	<b>41,254,009</b>
<b>Change in net assets from operating activities</b>	<b>(1,086,902)</b>	<b>(649,686)</b>	<b>-</b>	<b>(1,736,588)</b>
Nonoperating activities:				
Non-current contributions and grants	1,500,000	14,653,533	2,657,350	18,810,883
Change in value of planned giving net assets	106,751	10,286	77,823	194,860
Distribution for operations from endowment	(1,183,197)	(4,243,373)	-	(5,426,570)
Net realized and unrealized investment gains	2,706,229	9,702,852	-	12,409,081
Net assets reclassified	211,475	(255,413)	43,938	-
Accretion in environmental liability	32,694	-	-	32,694
<b>Change in net assets from nonoperating activities</b>	<b>3,373,952</b>	<b>19,867,885</b>	<b>2,779,111</b>	<b>26,020,948</b>
<b>Change in net assets</b>	<b>2,287,050</b>	<b>19,218,199</b>	<b>2,779,111</b>	<b>24,284,360</b>
Net assets - beginning of year	37,571,396	78,716,141	71,072,647	187,360,184
Net assets - end of year	\$ 39,858,446	\$ 97,934,340	\$ 73,851,758	\$ 211,644,544

See notes to financial statements.

**New England Conservatory of Music**

**Statements of Cash Flows  
Years Ended June 30, 2018 and 2017**

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 6,175,002	\$ 24,284,360
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Provision for doubtful student accounts, notes and loans receivable	14,724	(49,396)
Change in pledge discount and allowance	(75,027)	(177,752)
Depreciation and amortization	5,534,207	1,983,679
Amortization of bond issuance costs	27,315	27,315
Net realized and unrealized gains on investments	(10,271,496)	(12,409,081)
Donated land and property	(337,620)	(101,200)
Loss on disposal of fixed assets	16,831	3,180
Change in value of planned giving net assets	202,298	(194,860)
Contributions restricted for long-term purposes	(5,030,142)	(16,080,058)
Donated securities restricted for long-term purposes	(1,104,414)	(2,391,074)
Donated securities	(290,880)	(256,774)
Proceeds from donated securities	290,880	256,774
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables and other assets	(351,687)	7,688,591
Student accounts receivable	(55,881)	82,780
Contributions receivable	(1,287,567)	454,582
Increase (decrease) in:		
Accounts payable and accrued expenses	246,587	197,165
Deposits and advance payments	157,683	61,043
<b>Net cash (used in) provided by operating activities</b>	<b>(6,139,187)</b>	<b>3,379,274</b>
Cash flows from investing activities:		
Additions to property and equipment	(12,780,424)	(40,910,192)
Additions to property and equipment from building sale proceeds	(1,400,000)	(3,769,955)
Proceeds from the sale of assets restricted for additions to property and equipment	10,987,052	1,888,561
Purchases of investments	(17,453,400)	(47,993,181)
Sales of investments	20,310,839	41,101,818
Change in student notes and loans receivable	623,943	407,715
<b>Net cash provided by (used in) investing activities</b>	<b>288,010</b>	<b>(49,275,234)</b>
Cash flows from financing activities:		
Proceeds from line of credit	2,000,000	-
Bond proceeds restricted for capital purchases	-	18,033,153
Repayment of long-term debt	(1,065,474)	(777,233)
(Decrease) increase in government advances for student loans	(452,180)	47,447
Contributions restricted for long-term purposes	5,030,142	16,080,058
Donated securities restricted for long-term purposes	1,104,414	2,391,074
<b>Net cash provided by financing activities</b>	<b>6,616,902</b>	<b>35,774,499</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>765,725</b>	<b>(10,121,461)</b>
Cash and cash equivalents - beginning of year	2,189,926	12,311,387
Cash and cash equivalents - end of year	<b>\$ 2,955,651</b>	<b>\$ 2,189,926</b>
Supplementary Information		
Cash paid for interest	<b>\$ 1,255,763</b>	<b>\$ 1,294,635</b>
Construction in progress included in accounts payable	<b>\$ 37,815</b>	<b>\$ 4,346,603</b>
Capitalized interest	<b>\$ 44,444</b>	<b>\$ 534,229</b>
Donated land and property	<b>\$ 337,620</b>	<b>\$ 101,200</b>

See notes to financial statements.

## New England Conservatory of Music

### Notes to Financial Statements

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#### Note 1. Organization

New England Conservatory of Music (the "Conservatory") is a four-year college authorized with degree-granting powers by the Board of Regents of Higher Education of the Commonwealth of Massachusetts. The Conservatory is an accredited member of the New England Commission of Higher Education. Approximately 750 students from across the United States and numerous foreign countries attend the Conservatory, pursuing Bachelor of Music, Master of Music, and Doctor of Musical Arts degrees. The Conservatory's residence hall accommodates approximately 250 students. Approximately 2,300 children, teens, and adults participate in the New England Conservatory Preparatory School, School of Continuing Education and summer school programs.

The Board of Trustees (the "Board") is the primary governing body of the Conservatory and has oversight responsibility for all of the Conservatory's financial affairs, as well as other matters.

The Conservatory participates in student financial assistance programs sponsored by the U.S. Department of Education (the "DOE") and the Commonwealth of Massachusetts that facilitate the payment of tuition and other expenses for certain students.

#### Note 2. Summary of Significant Accounting Policies

**Basis of presentation:** The financial statements of the Conservatory have been prepared on the accrual basis of accounting. Changes in net assets that do not impact current operations are presented as nonoperating activities, including non-current contributions (gifts or pledges intended to fund future-year activities), net realized and unrealized investment gains/losses, and certain transfers or reclassifications of net assets, among others.

**Net asset classifications:** Net assets are classified into three categories, based on the existence or absence of donor-imposed restrictions and applicable law:

**Unrestricted net assets** are not subject to donor-imposed restrictions and include amounts available for the Conservatory's operations, net investment in plant, and internally designated funds set aside for long-term investment purposes.

**Temporarily restricted net assets** are subject to donor-imposed or legal stipulations that will be satisfied by actions of the Conservatory and/or the passage of time. Gifts received for which a donor has not yet designated a purpose are recorded as temporarily restricted and then reclassified when a designation is provided by the donor. These net assets include contributions donated for a particular purpose; amounts subject to time restrictions, such as funds pledged for future payment; and income and appreciation that carry donor-imposed restrictions or are subject to legal restrictions. Income and appreciation earned on donor restricted endowments that are otherwise unrestricted must be reported as temporarily restricted net assets until appropriated for expenditure by the Board, in accordance with Massachusetts law.

**Permanently restricted net assets** are subject to donor-imposed stipulations requiring that the principal be maintained in perpetuity. Donors generally permit the use of some or all of the investment earnings and appreciation generated by their permanently restricted gifts to be used for general unrestricted or specific purposes, such as scholarships or faculty salaries.

## New England Conservatory of Music

### Notes to Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

The Conservatory interprets the Massachusetts Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the Conservatory to preserve the purchasing power of the original gift as of the gift date of donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Conservatory has classified 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.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets and is regarded as “net appreciation” is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board in a manner consistent with the Conservatory’s spending policy, UPMIFA, other applicable laws, and donor-imposed restrictions, if any.

Interest and dividends on investment funds restricted for other-than-general purposes are reported as unrestricted revenue to the extent that restrictions have been met during the current period. Net realized and unrealized gains on donor-restricted endowment funds are reported as temporarily restricted revenue and released from restrictions pursuant to the Conservatory’s spending policy.

Unconditional promises to give are reported as contributions receivable and revenue at net realizable value within the appropriate net asset category in accordance with donor restrictions. Temporarily restricted contributions that are received and expended within the same period are reported as unrestricted support. Net assets are released from donor restrictions when expenses have been incurred to satisfy their restricted purpose.

Conditional promises to give are not reported as revenue until the conditions of the gifts are met and totaled approximately \$488,000 and \$791,000 as of June 30, 2018 and 2017, respectively.

Bequests are recognized as revenue when the right to receive the bequest is unconditional and irrevocable, and the amount to be received is estimable. Such conditions generally occur after a will has cleared probate. Revocable bequests, of which management is aware and are not recorded in the statements of activities, totaled approximately \$11.0 million and \$10.0 million as of June 30, 2018 and 2017, respectively. Other gifts, reported in the statements of activities, included realized unrestricted bequests of approximately \$294,000 and \$228,000 in fiscal 2018 and 2017, respectively.

Revenues from sources other than contributions are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets.

**Endowment investments:** Endowment investment assets include donor-restricted funds that the Conservatory must hold in perpetuity or for donor-specified periods, appreciation on these assets, and internally designated funds.

The Conservatory has contracted with a variety of investment managers that employ differing endowment investment strategies. The Investment Committee of the Board, (the “Committee”) is responsible for selecting these managers. By utilizing an array of managers investing in various alternative strategies, the Conservatory seeks to earn equity-like returns and reduce long-term volatility. Alternative asset classes have historically demonstrated lower volatility on a stand-alone basis compared to traditional asset classes. Additionally, they have had low correlations with other asset classes, thus providing the benefits of diversification at the total endowment level.

## New England Conservatory of Music

### Notes to Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

The asset allocation of the Conservatory's portfolio involves exposure to a diverse set of markets. The investments within these markets carry various risks, such as interest rate, market, sovereign, currency, liquidity, and credit risk. The Conservatory anticipates that the value of its investments may, from time to time, fluctuate as a result of these risks.

The Conservatory's Board-approved investment policy and spending policy attempt to provide a predictable stream of available income, thereby making funds available to programs that are supported by the endowment, while at the same time seeking to maintain the purchasing power of the endowment assets. The endowment assets are therefore invested in a manner that is intended to produce an inflation-adjusted return in excess of the spending rate over a long period of time. Actual returns may vary in any given year.

**Spending policy:** Each spring, the Board approves the endowment spending rate for the following fiscal year, stated as a percentage of the trailing 12-quarter average endowment market value. The spending rate reflects expectations regarding long-term returns, inflation, and the Conservatory's ongoing spending needs. For both fiscal 2018 and 2017, the Board-approved spending rate was 5.0%. Investment income available per the spending policy equals the approved allocation less actual investment income (interest and dividends), which is already recorded as unrestricted net assets.

To satisfy its long-term rate-of-return objectives, the Conservatory relies on a total return strategy in which investment returns are achieved through a combination of capital appreciation (both realized and unrealized) and actual investment income (interest and dividends). As a result of this emphasis on total return, the amount of the investment income available per the spending policy that is funded by dividend and interest income versus capital appreciation may vary from year to year.

**Cash and cash equivalents:** Cash equivalents include short-term, highly liquid working capital investments with original maturities when purchased of three months or less. Cash is held at several institutions; at times, however, the cash balance maintained at a single institution may exceed federally insured limits. The Conservatory has not experienced any losses in these accounts.

**Cash restricted for the purchase of property and equipment:** Cash restricted for the purchase of property and equipment includes amounts that have been received from donors and bondholders that are unspent and contain purpose restrictions imposed for the purchase of property and equipment.

**Student accounts, notes, and loans receivable:** Student accounts, notes, and loans receivable are stated at the amount outstanding, less an allowance for doubtful accounts. The allowance for doubtful accounts is established through a charge to bad debt expense for balances that have been deemed uncollectible.

Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. These allowances are based on historical loan defaults and write-offs. Loan balances are written off only when they are deemed to be permanently uncollectible, which generally results in their being assigned to the Federal government.

## New England Conservatory of Music

### Notes to Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**Fair value measurements:** Fair value is defined as the exit price that would be received to sell an asset or paid to transfer a liability on the measurement date, in the principal or most advantageous market for the asset or liability, and in an orderly transaction between market participants. A hierarchy exists that is based upon the inputs used to measure fair value:

**Level 1:** Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

**Level 2:** Quoted prices in markets that are not active, or are based upon inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

**Level 3:** Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

The Conservatory uses the net asset value ("NAV") to determine the fair value of investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

A financial instrument's level within the fair value hierarchy is based upon the lowest level of input that is significant to its fair value measurement.

The fair value of the Conservatory's investments is discussed in Note 6. Other assets and liabilities are measured at fair value as follows:

**Contributions receivable** are initially measured at fair value on a recurring basis using Level 2 inputs. Any multi-year pledges receivable are recorded at the present value of future cash flows with a discount rate adjusted for market conditions and the risk involved.

**Charitable remainder, charitable lead, and perpetual trusts** are invested and held in custody by outside entities acting as trustees of the assets and gift vehicles. All such trust balances are measured at fair value on a recurring basis using Level 3 inputs. The assets are recorded at the present value of the anticipated interests in each trust using a discount rate adjusted for market conditions

**Charitable gift annuity and life income fund assets** are measured at fair value on a recurring basis using Level 1 inputs. Mutual funds not valued using the net asset value as the practical expedient are measured using the market value based on quoted market prices and the risk involved.

**Liabilities for charitable gift annuities and life income funds payable** are measured on a non-recurring basis using Level 3 inputs. These instruments are initially recorded at the present value of future cash flows using a discount rate adjusted for market conditions to arrive at fair value.

**Planned giving:** The Conservatory is the beneficiary of certain charitable remainder trusts, gift annuities, and a pooled gift income fund for which the principal reverts to the Conservatory upon the death of the donors or other beneficiaries, as well as certain perpetual trusts that provide an ongoing income stream to the Conservatory. Charitable remainder trusts have been recorded at the fair value of the net assets contributed by the donor, net of an adjustment for the estimated life expectancies of the beneficiaries, the terms of the agreements, the expected return on the invested assets, and a discount rate that is intended to approximate fair value. Liabilities due to donors under gift annuities and pooled income trusts are discounted for the estimated life expectancies of the beneficiaries. Perpetual trusts have been recorded at the fair value of the net assets contributed by the donors, adjusted for the Conservatory's proportionate share of ongoing distributions from each trust.

## New England Conservatory of Music

### Notes to Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**Property and equipment:** Property and equipment are recorded at cost as of the date of acquisition or, in the absence of historical cost records, at a historically based appraised value. Property and equipment gifts in kind are recorded at their estimated fair value on the date of receipt. Expenditures for maintenance and repairs are charged to expense as incurred; betterments are capitalized. When assets are sold or retired, the related cost and accumulated depreciation are removed from the respective accounts, and any resulting gain or loss is credited or charged to operations. Depreciation expense is recognized on a straight-line basis over the estimated useful lives of buildings and building improvements (5-45 years), furnishings (10-20 years), instruments (10-30 years), and equipment (3-15 years).

**Impairment of long-lived assets:** The Conservatory reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management assesses the recoverability of long-lived assets by comparing the estimated undiscounted cash flows associated with the related asset or group of assets against their respective carrying amounts. The amount of impairment, if any, is calculated based on the excess of the carrying amount over the fair value of those assets. During the years ended June 30, 2018 and 2017, no impairment indicators were identified.

**Government advances for student loans:** Government advances for student loans represent funds held by the Conservatory that are provided by the DOE under the Federal Perkins revolving loan program. Upon collection of outstanding Perkins loans, the Conservatory may loan such funds to other students. The Perkins Loan Program expired September 30, 2017 and the Conservatory could not disburse Perkins loans to any student on or after October 1, 2017, except for subsequent disbursements of loans first disbursed between June 30, 2017 and September 30, 2017. The Conservatory will be liquidating its Federal Perkins Revolving Loan Fund at the direction of DOE.

**Student aid:** Tuition and fee revenues, as well as dormitory and dining service revenues, are reported net of discounts attributable to reductions in amounts charged to students. This student aid is funded from investment income allocated for spending on endowment funds restricted for financial aid purposes, from gifts restricted for financial aid purposes, and from unrestricted net assets.

**Revenue recognition:** The Conservatory defers recognition of registration and tuition revenue to the period in which the related educational instruction is performed and related expenses are incurred. Accordingly, registration and tuition fees received for the next academic year are deferred until the first day of the new fiscal year and recognized ratably over the academic term.

**Grants:** Government grants are recorded as exchange transactions. Revenue associated with exchange transactions is recognized as the related direct and indirect costs are incurred.

**Net assets reclassified:** Net assets reclassified represent net asset movements to or from other net asset classes based on changes in or clarifications of donor-imposed restrictions subsequent to the fiscal year in which the contribution was originally recorded. Net assets reclassified also include adjustments recorded for deficiencies in endowments where the fair value has fallen below the "historic dollar value," as discussed in Note 10.

**Collections:** The Conservatory maintains collections of historical instruments, art, vocal scores, recordings, and literary works. These collections are protected and preserved for public exhibition, education, research, and the furtherance of public service. They are neither disposed of for financial gain nor encumbered in any manner. Accordingly, these collections are not capitalized for financial statement purposes.

## New England Conservatory of Music

### Notes to Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**Tax-exempt status and tax positions:** The Conservatory is an organization described under Internal Revenue Code (IRC) Section 501(c)(3) and is generally exempt from income taxes under the provisions of IRC Section 501(a).

The Conservatory recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. Tax positions for the open tax years as of June 30, 2017 were reviewed, and it was determined that no provision for uncertain tax positions was required as of June 30, 2018 or 2017. Management believes that the Conservatory's income tax returns for fiscal years ending June 30, 2015 and prior are no longer subject to examination by taxing authorities.

**Use of estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates. Estimates include allowances for doubtful accounts on student accounts, pledges, notes, and loans receivable; the fair value of alternative investments; the net realizable fair value of pledges and planned gifts; the asset retirement obligation; depreciable lives for fixed assets; annuity and pooled income obligations; and the allocation of expenses to functional categories.

**Liquidity:** In order to provide information about liquidity, assets are sequenced according to the timing of their conversion to cash and liabilities according to the nearness of their estimated maturity.

**Reclassifications:** Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

The 2017 financial statements previously reported an investment, which was valued using NAV as a practical expedient, within Level 1 investments. Therefore, the fair value hierarchy for 2017 has been revised to include the investment totaling \$6,072,569 within other investments measured at NAV, consistent with the disclosures for 2018.

**Recently issued accounting pronouncements:** In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in accounting principles generally accepted in the United States of America when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. The updated standard will be effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The Conservatory has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Conservatory for fiscal years beginning after December 15, 2018. The Conservatory does not believe the adoption of the new financial instruments standard will have a material impact on its financial statements.

## New England Conservatory of Music

### Notes to Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Conservatory is currently evaluating the impact of adoption of the new standard on the financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not for Profit Entities (Topic 958)*. The ASU reduces the net asset classes from three to two, with or without donor restrictions, and requires change in net assets reporting for each of the two classes. The amendments also reduce cash flow reporting requirements but require additional disclosures related to designated funds, donor-restricted net assets, liquidity, functional and natural expenses, cost allocations for functional expenses, and underwater funds. The ASU additionally requires reporting investment returns net of expenses but removes the requirement of disclosing the amount of netted expenses. The amendments also eliminate the option of releasing donor-imposed restrictions over the estimated useful lives of acquired assets and instead require that releases occur when the assets are placed in service. The amendments are effective for fiscal years beginning after December 15, 2017 and must be applied retrospectively in the period of adoption. Earlier application is permitted. The Conservatory is currently evaluating the effect that the updated standard will have on the financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments*, which will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 will be effective for fiscal years beginning after December 15, 2018, and will require adoption on a retrospective basis unless it is impracticable to apply, in which case the Conservatory would be required to apply the amendments prospectively as of the earliest date practicable. The Conservatory is currently evaluating the impact of this ASU on the financial statements and disclosures.

In November 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for fiscal years beginning after December 15, 2018. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. The Conservatory is currently evaluating the impact of this ASU on the financial statements and disclosures.

In June 2018, the FASB issued ASU 2018-08, *Not for Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not for Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is contingent. ASU 2018-08 is effective for annual periods, in which it is the resource recipient, beginning after December 15, 2018, and annual and interim periods thereafter. Early adoption is permitted. The amendments in this update should be applied on a modified prospective basis. The Conservatory is currently evaluating the impact of this ASU on the financial statements and disclosures.

## New England Conservatory of Music

### Notes to Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topics 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The amendment removes, modifies, and adds additions to the disclosure requirements on fair value measurements in Topic 820. The amendments in ASU 2018-13 are effective for all entities for fiscal years, and interim periods, within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The amendments on the changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent or interim or annual period presented in the initial year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date.

#### Note 3. Student Accounts, Notes and Loan Receivable

Student accounts, notes, and loans receivable were as follows at June 30:

	2018	2017
Student accounts receivable, net of allowances for doubtful accounts of \$65,179 and \$41,134 in 2018 and 2017, respectively	\$ 46,267	\$ 14,433
Student notes and loans receivable, net of allowances for doubtful accounts of \$83,583 and \$92,905 in 2018 and 2017, respectively	2,628,086	3,242,706
	<u>\$ 2,674,353</u>	<u>\$ 3,257,139</u>

The Conservatory makes uncollateralized loans to students based on financial need. Student loans are funded primarily through Federal government loan programs.

At June 30, student loans consisted of the following:

	2018	2017
Federal government program	\$ 2,707,893	\$ 3,331,415
Less allowance for doubtful accounts:		
Beginning of year	(90,245)	(86,651)
Decrease (Increase)	9,112	(3,594)
End of year	<u>(81,133)</u>	<u>(90,245)</u>
Federal student loans receivable, net	<u>\$ 2,626,760</u>	<u>\$ 3,241,170</u>

The Conservatory participates in the Perkins federal revolving loan program (the "program"). The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government are ultimately refundable to the government and are classified as a liability in the statements of financial position. The government has terminated the program effective September 30, 2017, as such no further loans can be awarded to students on or after October 1, 2017. The government will begin collecting the federal share of the revolving loan funds after October 1, 2018 through a process similar to the excess liquid capital process currently in place. During 2018, due to excess capital in the program, \$663,962 was withdrawn from the program, of which \$149,126 was returned to the Conservatory and \$514,836 was returned to the government and decreased the liability. The liability for funds advanced by the Federal government was \$3,345,478 and \$3,797,658 as of June 30, 2018 and 2017, respectively.

## New England Conservatory of Music

### Notes to Financial Statements

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#### Note 3. Student Accounts, Notes and Loan Receivable (Continued)

At June 30, the following amounts were past due under student loan programs:

	1-60 Days Past Due	61-90 Days Past Due	91+ Days Past Due	Total Past Due
2018	\$ 7,410	\$ 441	\$ 331,936	\$ 339,787
2017	\$ 8,710	\$ 597	\$ 354,626	\$ 363,933

#### Note 4. Contributions Receivable

Contributions receivable consisted of the following at June 30:

	2018	2017
Due within one year	\$ 5,378,236	\$ 2,995,820
Due within two to five years	469,250	1,564,100
	<u>5,847,486</u>	<u>4,559,920</u>
Less:		
Present value discount	(31,601)	(58,018)
Allowance for uncollectible pledges	(41,425)	(90,036)
	<u>\$ 5,774,460</u>	<u>\$ 4,411,866</u>

Contributions receivable are discounted at rates ranging from 0.45% to 2.73%.

#### Note 5. Planned Giving

Planned giving net assets consisted of the following as of June 30:

	2018	2017
Planned giving assets:		
Charitable remainder trusts	\$ 670,541	\$ 918,005
Charitable lead trusts	75,611	78,111
Charitable gift annuities	2,003,310	1,984,639
Pooled income funds	193,598	190,726
Perpetual trusts	493,980	490,898
Total planned giving assets	<u>3,437,040</u>	<u>3,662,379</u>
Planned giving liabilities:		
Amounts due to beneficiaries	(940,530)	(963,570)
Total planned giving net assets	<u>\$ 2,496,510</u>	<u>\$ 2,698,809</u>

Charitable remainder trusts and amounts due to beneficiaries are discounted at rates ranging from 2.2% to 9.6%.

## New England Conservatory of Music

### Notes to Financial Statements

#### Note 5. Planned Giving (Continued)

As discussed in Note 2, charitable remainder, charitable lead, and perpetual trust assets are presented at fair value based upon Level 3 inputs. The following chart presents the changes that occurred in these assets classified as Level 3 during fiscal years ending June 30:

	2018	2017
Beginning balance at July 1	\$ 1,487,014	\$ 1,405,919
Total gains	32,325	81,095
Disbursements from terminated trusts	(279,207)	-
Ending balance at June 30	<u>\$ 1,240,132</u>	<u>\$ 1,487,014</u>

The following table presents quantitative information about significant unobservable inputs used in Level 3 fair value measurements at June 30:

	2018 Fair Value	2017 Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Beneficial interest in perpetual trusts	\$ 493,980	\$ 490,898	Market approach on underlying securities	None	N/A
Beneficial interest in charitable remainder trusts	\$ 670,541	\$ 918,005	Income approach discounted cash flow and present value techniques	Discount rate	2.2%-9.6% (8.20%)
				Rate of return	6.0%-7.5% (6.13%)
				Life expectancy	6.10 years - 13.20 years (9.46 years)
Beneficial interest in charitable lead annuity trusts	\$ 75,611	\$ 78,111	Income approach discounted cash flow and present value techniques	Discount rate	3.2% (3.2%)

## New England Conservatory of Music

### Notes to Financial Statements

#### Note 6. Investments

Conservatory management is responsible for the fair measurement of investments reported in the financial statements. The Conservatory's alternative investments consist of various funds involving venture capital and alternative strategies that are valued using external investment managers' current estimates of fair value, in the absence of publicly quoted market prices. Some of these funds may employ derivative investment strategies. The fair values of alternative investments containing private equity holdings generally reflect discounts for liquidity. In estimating fair values, the investment managers also consider variables such as earnings multiples, cash flow projections, recent equity sales prices, and other pertinent information. Because of inherent uncertainties in the valuation process, the investment managers' estimates may differ from the values that would have been used, had a ready market existed. Conservatory management has implemented policies and procedures to assess the reasonableness of the fair values provided and believes that the reported fair values in the statement of financial position are reasonable.

Investments for which values are based on quoted market prices in active markets are classified as Level 1. These investments are primarily money market funds and mutual funds. The alternative investment strategies use a valuation methodology based on the NAV provided by the fund manager as a practical expedient.

The following tables summarize the investment assets that the Conservatory measures at fair value on a recurring basis at June 30:

2018	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Other Investments Measured at Net Asset Value (a)	Total
Pooled:					
Fixed-income mutual funds	\$ 7,803,615	\$ -	\$ -	\$ -	\$ 7,803,615
Equity mutual funds	33,180,563	-	-	-	33,180,563
Alternative investment strategies	-	-	-	83,255,307	83,255,307
	40,984,178	-	-	83,255,307	124,239,485
Nonpooled:					
Fixed-income mutual funds	73,160	-	-	-	73,160
	<u>\$ 41,057,338</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,255,307</u>	<u>\$ 124,312,645</u>

## New England Conservatory of Music

### Notes to Financial Statements

#### Note 6. Investments (Continued)

2017	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Other Investments Measured at Net Asset Value (a)	Total
Pooled:					
Fixed-income mutual funds	\$ 7,174,745	\$ -	\$ -	\$ -	\$ 7,174,745
Equity mutual funds	33,514,211	-	-	-	33,514,211
Alternative investment strategies	-	-	-	76,134,422	76,134,422
	40,688,956	-	-	76,134,422	116,823,378
Nonpooled:					
Fixed-income mutual funds	75,210	-	-	-	75,210
	\$ 40,764,166	\$ -	\$ -	\$ 76,134,422	\$ 116,898,588

(a) In accordance with ASC Subtopic 820-10, Fair Value Measurements, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified within the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy amounts to amounts presented in the statements of financial position.

At June 30, 2018 and 2017 respectively, the Conservatory's alternative strategies represented 67.0% and 66.3% of total pooled investments. At June 30, 2018 and 2017 respectively, the Committee has selected 30 and 29 alternative strategy managers with a mix of approaches and low correlations in order to provide diversification benefits to the investment pool. The Committee continuously reviews the pooled investments' performance. The remainder of the pooled investments provide sufficient liquidity, as it is comprised of investments that are readily marketable.

For the years ended June 30, 2018 and 2017, the Conservatory had net realized gains of \$3,071,028 and \$4,646,310 and net unrealized gains of \$7,200,468 and \$7,762,771 respectively. Net investment income as of June 30 is as follows:

	2018	2017
Gross dividend and interest income	\$ 154,377	\$ 600,571
Investment fees	(243,581)	(216,952)
Net investment income	\$ (89,204)	\$ 383,619

## New England Conservatory of Music

### Notes to Financial Statements

#### Note 6. Investments (Continued)

The following tables list investments in investment companies by major category valued at NAV at June 30:

2018		
Investments	Fair Value	Unfunded Commitments
Hedge funds (a)	\$ 35,402,300	\$ -
Commodities funds (b)	66,318	-
Private equity funds (c)	16,241,091	5,747,929
International funds (d)	31,545,598	-
	<u>\$ 83,255,307</u>	<u>\$ 5,747,929</u>

  

2017		
Investments	Fair Value	Unfunded Commitments
Hedge funds (a)	\$ 33,304,402	\$ 2,888,319
Commodities funds (b)	90,677	-
Private equity funds (c)	15,788,630	2,787,792
International funds (d)	26,950,713	76,653
	<u>\$ 76,134,422</u>	<u>\$ 5,752,764</u>

- (a) This class includes investments in hedge funds that invest in a diversified mix of equities and fixed income instruments.
- (b) This class includes a fund that invests in various public and private companies focused on precious metals, base metals, energy and agriculture.
- (c) This class includes several private equity funds that invest primarily in various venture and non-venture companies as well as various fixed income and mortgage backed securities. Distributions are made by liquidating the underlying assets of the funds. However, certain holdings (but not all holdings) cannot be redeemed from the funds.
- (d) This class includes investments in funds that invest primarily in equity stock and debt securities in countries in Europe and Asia.

At June 30, the Conservatory's access to the alternative strategy portion of the investment portfolio was as follows:

	2018	2017
Less than 30 days	\$ 39,205,258	\$ 33,023,282
Greater than 30 days to less than one year	11,202,967	10,442,727
One year or greater	32,847,082	32,668,413
	<u>\$ 83,255,307</u>	<u>\$ 76,134,422</u>

## New England Conservatory of Music

### Notes to Financial Statements

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#### Note 7. Property and Equipment

Property and equipment consisted of the following at June 30:

	2018	2017
Buildings and improvements	\$ 132,150,298	\$ 49,691,513
Furnishings, instruments, and equipment	24,127,249	21,079,704
	<u>156,277,547</u>	<u>70,771,217</u>
Less accumulated depreciation	(35,201,820)	(31,107,087)
	<u>121,075,727</u>	<u>39,664,130</u>
Land	1,269,498	1,269,498
Construction in progress	136,956	76,890,334
	<u>\$ 122,482,181</u>	<u>\$ 117,823,962</u>

The reduction in construction in progress was primarily driven by the Student Life and Performance Center ("SLPC"), which broke ground in May 2015 and was placed into service on August 2, 2017.

The Conservatory recorded a change in environmental liability associated with its asset retirement obligation of \$23,177 and \$(32,694) in fiscal 2018 and 2017, respectively. This liability relates to certain materials used in the construction or operation of buildings and equipment that are fully depreciated; therefore, no adjustment was made to the cost of the assets. The asset retirement obligation of approximately \$644,906 and \$621,728 as of June 30, 2018 and 2017, respectively, is discounted to its net present value and is included in accounts payable and accrued expenses in the statement of financial position.

#### Note 8. Line of Credit

On July 31, 2014, the Board approved a resolution to enter into a \$5 million secured line of credit with Century Bank and Trust Company. The line of credit documents were finalized on September 22, 2014 but were effective retroactive to June 1, 2014 with an expiration date of June 1, 2019. The line of credit is secured by gross tuition receipts of the Conservatory and mortgage liens on its 241 St. Botolph Street and 33 Gainsborough Street buildings and bears interest at LIBOR plus 2.0 percentage points. The interest rates were 4.09% and 3.23% as of June 30, 2018 and 2017, respectively. Line of credit interest of \$2,965 was recognized as expense in fiscal 2018. There was no interest expense incurred in fiscal 2017.

The Conservatory drew \$2 million on the line of credit in June 2018 to fund operations. Subsequent to year end, the full \$2 million was repaid in July 2018. There was no outstanding balance on the line of credit at any time during fiscal 2017.

#### Note 9. Long-Term Debt

On November 17, 2015, \$16,050,000 of Massachusetts Development Finance Agency Revenue Bonds, Series 2015 (the "Series 2015 Bonds"), were issued and proceeds thereof were loaned to the Conservatory to fund construction of the Student Life and Performance Center via a private placement with Century Bank & Trust Company. The Series 2015 Bonds are being amortized over 30 years but will mature on November 1, 2038, at which point \$5,452,211 of the bonds will remain outstanding.

## New England Conservatory of Music

### Notes to Financial Statements

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#### Note 9. Long-Term Debt (Continued)

On June 30, 2014, \$23,685,000 of Massachusetts Development Finance Agency Revenue Bonds, Series 2014 (the "Series 2014 Bonds"), were issued and proceeds thereof were loaned to the Conservatory via a private placement with Century Bank & Trust Company. The Series 2014 Bonds were issued to legally defease Massachusetts Development Finance Agency Revenue Bonds, Series 2008, which had funded a deferred maintenance project for the Conservatory's facilities, via an advance refunding. The Series 2014 Bonds will mature on June 1, 2038.

On March 9, 2016, \$2,595,000 of the Series 2014 Bonds were remediated in connection with the sale of 295 Huntington Avenue (the "Remediated Bonds"). The Remediated Bonds were repurposed to fund the Student Life and Performance Center project. All other terms of the Remediated Bonds remain the same as those for the Series 2014 Bonds.

The Series 2015 and 2014 Bonds (the "Bonds") are secured by gross tuition receipts of the Conservatory and mortgage liens on its 241 St. Botolph Street and 33 Gainsborough Street buildings. Interest on the Bonds is payable monthly to Century Bank & Trust at an interest rate of 3.34%. The bond agreements provide for certain covenants, including an aggregate expendable funds ratio and a debt service coverage ratio.

Bond issuance costs are presented with debt payable on the accompanying statement of financial position and its related amortization expense is presented with interest expense on the accompanying statements of activities as a result of the adoption of ASU 2015-3. Amortization expense for the years ended June 30, 2018 and 2017 was \$27,315 for both years.

See below for the components of bond payable, net of unamortized bond issuance costs for current and long-term portions as reported on the statement of financial position at June 30:

	<u>2018</u>	<u>2017</u>
Current portion of bonds payable, net of unamortized bond issuance costs		
Bonds payable	\$ 1,087,183	\$ 1,065,473
Bond issuance costs, unamortized	(27,314)	(27,314)
	<u>\$ 1,059,869</u>	<u>\$ 1,038,159</u>

Long-term portion of bonds payable net of unamortized bond issuance costs.

	<u>2018</u>	<u>2017</u>
Bonds payable	\$ 35,415,112	\$ 36,502,296
Bond issuance costs, unamortized	(518,968)	(546,283)
	<u>\$ 34,896,144</u>	<u>\$ 35,956,013</u>

## New England Conservatory of Music

### Notes to Financial Statements

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#### Note 9. Long-Term Debt (Continued)

Aggregate future maturities of the bonds payable are payable monthly as follows:

2019	\$ 1,087,183
2020	1,132,889
2021	1,166,778
2022	1,219,737
2023	1,248,142
Years thereafter	<u>30,647,566</u>
	<u>\$ 36,502,295</u>

Bond-related interest of \$1,236,616 and \$769,697 was recognized as expense in fiscal 2018 and 2017, respectively. Net interest of \$44,444 and \$534,229 associated with the Series 2015 Bonds was capitalized and recorded as a construction in progress asset within property and equipment in fiscal 2018 and 2017, respectively. This capitalized interest was placed into service along with the Student Life and Performance Center on August 2, 2017.

#### Note 10. Endowment

The Conservatory's endowment consists of approximately 300 individual funds established for a variety of purposes. The endowment includes donor-restricted endowment funds and funds designated by the Board to function as quasi-endowments. Net assets associated with endowment funds, including internally designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the "historic dollar value." Deficiencies of this nature have been recorded as a charge to unrestricted net assets and a corresponding increase to temporarily restricted net assets. The total amount of deficiencies in these endowment funds was approximately \$45,000 as of June 30, 2017. No deficiencies reported in June 30, 2018. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions. Over time, these deficiencies may be restored as a result of appreciation of the underlying endowment investments.

Endowment net assets consisted of the following fund types as of June 30:

June 30, 2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 31,603,594	\$ 73,486,045	\$ 105,089,639
Internally designated funds	19,296,973	-	-	19,296,973
	<u>\$ 19,296,973</u>	<u>\$ 31,603,594</u>	<u>\$ 73,486,045</u>	<u>\$ 124,386,612</u>
June 30, 2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 28,091,514	\$ 72,067,252	\$ 100,158,766
Internally designated funds	16,758,575	-	-	16,758,575
	<u>\$ 16,758,575</u>	<u>\$ 28,091,514</u>	<u>\$ 72,067,252</u>	<u>\$ 116,917,341</u>

## New England Conservatory of Music

### Notes to Financial Statements

#### Note 10. Endowment (Continued)

The changes in endowment net assets for fiscal 2018 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 16,758,575	\$ 28,091,514	\$ 72,067,252	\$ 116,917,341
Investment appreciation, net	2,322,314	7,951,232	-	10,273,546
Additions	1,500,000	-	1,375,563	2,875,563
	<u>20,580,889</u>	<u>36,042,746</u>	<u>73,442,815</u>	<u>130,066,450</u>
Endowment income made available for operations:				
Spending rule income used for operations	(1,194,712)	(4,395,922)	-	(5,590,634)
Investment income	154,377	-	-	154,377
Investment management fees	(243,581)	-	-	(243,581)
Subtotal	<u>(1,283,916)</u>	<u>(4,395,922)</u>	<u>-</u>	<u>(5,679,838)</u>
Other changes:				
Net assets reclassified	-	(43,230)	43,230	-
Subtotal	<u>-</u>	<u>(43,230)</u>	<u>43,230</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 19,296,973</u>	<u>\$ 31,603,594</u>	<u>\$ 73,486,045</u>	<u>\$ 124,386,612</u>

The changes in endowment net assets for fiscal 2017 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 13,521,330	\$ 22,887,939	\$ 69,326,273	\$ 105,735,542
Investment appreciation, net	2,706,229	9,705,518	-	12,411,747
Additions	1,500,000	-	2,696,622	4,196,622
	<u>17,727,559</u>	<u>32,593,457</u>	<u>72,022,895</u>	<u>122,343,911</u>
Distribution for operations from endowment:				
Endowment income made available for operations	(1,566,816)	(4,243,373)	-	(5,810,189)
Investment income	600,571	-	-	600,571
Investment management fees	(216,952)	-	-	(216,952)
Subtotal	<u>(1,183,197)</u>	<u>(4,243,373)</u>	<u>-</u>	<u>(5,426,570)</u>
Other changes:				
Net assets reclassified	214,213	(258,570)	44,357	-
Subtotal	<u>214,213</u>	<u>(258,570)</u>	<u>44,357</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 16,758,575</u>	<u>\$ 28,091,514</u>	<u>\$ 72,067,252</u>	<u>\$ 116,917,341</u>

## New England Conservatory of Music

### Notes to Financial Statements

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#### Note 11. Net Assets

Temporarily and permanently restricted net assets consisted of the following at June 30:

	2018		2017	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Original corpus	\$ -	\$ 73,918,524	\$ -	\$ 72,499,729
Cumulative appreciation earned on donor restricted funds	30,796,534	-	27,243,275	-
Planned giving instruments and contributions receivable	5,939,784	1,293,229	4,761,441	1,352,029
Funds restricted for instruction, scholarships, and other purposes	63,427,370	-	65,929,624	-
	<u>\$ 100,163,688</u>	<u>\$ 75,211,753</u>	<u>\$ 97,934,340</u>	<u>\$ 73,851,758</u>

Net assets released from temporarily restricted funds consisted of the following for fiscal 2018 and 2017:

	2018	2017
Released from purpose restrictions	<u>\$ 4,875,041</u>	<u>\$ 649,686</u>
Endowment income made available for operations	<u>\$ 4,395,922</u>	<u>\$ 4,243,373</u>

#### Note 12. Retirement Plan

The Conservatory participates in a defined contribution plan that covers substantially all employees and is administered by Fidelity, TIAA-CREF, and the Variable Life Insurance Annuity Association. Eligible employees may elect to make retirement savings contributions to the Plan, which are matched by the Conservatory for full-time employees up to 5% of employee compensation. Employee benefits costs associated with this plan amounted to \$728,345 and \$704,245 in fiscal 2018 and 2017, respectively.

#### Note 13. Fundraising Costs

Costs of fundraising, which are included in institutional support expenses in the functional classification of expenses presented in Note 14, were \$2,624,823 and \$1,779,646 in fiscal 2018 and 2017, respectively.

#### Note 14. Functional Classification of Expenses

Certain costs have been allocated among the programs and supporting services based on the relative effort exerted for the related functions. Expenses associated with property and equipment, including interest, depreciation, and operations and maintenance expenses, are allocated primarily on the basis of square footage utilized for each of the functional categories.

## New England Conservatory of Music

### Notes to Financial Statements

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#### Note 14. Functional Classification of Expenses (Continued)

Expenses by functional classification for each year ending June 30 were as follows:

	2018	2017
Instruction	\$ 24,239,294	\$ 24,399,431
Academic support	4,947,490	3,724,334
Student services	4,655,967	3,644,721
Institutional support	8,915,591	8,047,528
Auxiliary	6,183,396	1,437,995
Total expenses	<u>\$ 48,941,738</u>	<u>\$ 41,254,009</u>

#### Note 15. Related Party Transactions

The Conservatory's assets include \$592,609 and \$753,694 of contributions receivable from related parties as of June 30, 2018 and 2017, respectively.

A Trustee of the Board is a managing director and minority owner of a limited liability corporation that manages one of the Conservatory's alternative investment holdings. The Conservatory's investment in this fund had a fair value of approximately \$14,491,919 and \$14,369,000 at June 30, 2018 and 2017, respectively.

#### Note 16. Commitments and Contingencies

**Steinway agreement:** On August 29, 2014, the Conservatory entered into an agreement with M. Steinert & Sons and Steinway and Sons ("Steinway") to purchase 11 Steinway pianos over a five-year period, beginning in fiscal 2015. The total purchase price will be approximately \$959,000 over the five-year period. Until the full 11 pianos are purchased, Steinway will loan the number of pianos remaining to be purchased to the Conservatory during each academic year. The Conservatory will be responsible for all maintenance, insurance, and delivery costs associated with the loaned instruments.

Subsequent to year end, on September 4, 2018, the Conservatory entered into a new agreement with Steinway to purchase 10 pianos over a five-year period, beginning in fiscal 2020. The total purchase price will be approximately \$1,020,000.

If at any time during this agreement the Conservatory is unable to secure funds for additional purchases, the agreement will be terminated with no further obligation by either party, provided that all loaned pianos are returned to Steinway in good working condition. The Conservatory has complied with all terms of the Steinway agreement to date.

#### Note 17. Subsequent Events

The Conservatory has evaluated events and transactions for potential recognition or disclosure through October 30, 2018, which was the date these financial statements were available to be issued. See subsequent events disclosed in Note 8 and Note 16.