New England Conservatory of Music

Financial Report
June 30, 2019

Contents

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Independent Auditor's Report

RSM US LLP

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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1, the Conservatory adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, during the year ended June 30, 2019. The adoption of the standard resulted in additional footnote disclosures and significant changes to the classification of net assets and disclosures relating to net assets. The adoption was retrospectively applied to July 1, 2017; the earliest year presented. Our opinion is not modified with respect to this matter.

RSM US LLP

Boston, Massachusetts
November 15, 2019

New England Conservatory of Music

Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	$ 6,930,843	$ 2,955,651
Receivables and other assets	1,176,816	1,554,432
Student accounts, notes, and loans receivable, net	2,125,915	2,674,353
Contributions receivable, net	2,258,445	5,774,460
Planned giving assets	3,200,737	3,437,040
Investments, at fair value	122,103,333	124,312,645
Cash designated for the purchase of property and equipment	-	582,903
Property and equipment, net	122,279,903	122,482,181
Total assets	$ 260,075,992	$ 263,773,665
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 2,777,243	$ 2,692,453
Line of Credit	2,000,000	2,000,000
Current debt, net of bond issuance costs	1,105,575	1,059,869
Planned giving liabilities	894,436	940,530
Deposits and advance payments	1,237,642	1,019,645
Government advances for student loans	3,384,974	3,345,478
Long-term debt, net of bond issuance costs	33,790,569	34,896,144
Total liabilities	45,190,439	45,954,119
Commitments and contingencies (Note 17)		
Net assets:		
Without donor restrictions	98,020,943	99,512,950
With donor restrictions	116,864,610	118,306,596
Total net assets	214,885,553	217,819,546
Total liabilities and net assets	$ 260,075,992	$ 263,773,665

See notes to financial statements.

New England Conservatory of Music

Statement of Activities
Year Ended June 30, 2019
With Summarized Information for Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Revenues and other support:				
Tuition and fees	$ 45,912,813	$ -	$ 45,912,813	$ 44,298,399
Less student aid	(15,966,425)	-	(15,966,425)	(15,543,598)
Net tuition and fees	29,946,388	-	29,946,388	28,754,801
Dormitory and dining service	3,541,889	-	3,541,889	3,822,061
Other income	1,923,378	-	1,923,378	1,305,249
Subtotal	5,465,267	-	5,465,267	5,127,310
Gifts and grants:				
Annual fund contributions	4,086,248	-	4,086,248	4,243,182
Other gifts	534,950	-	534,950	355,938
Government grants	45,886	-	45,886	47,851
Net assets released from restrictions	644,645	(644,645)	-	-
Transfer from Board designated maintenance reserve	500,197	-	500,197	-
Subtotal	5,811,926	(644,645)	5,167,281	4,646,971
Spending rule income used for operations:				
Endowment income made available for operations	5,767,623	-	5,767,623	5,590,634
Subtotal	5,767,623	-	5,767,623	5,590,634
Total revenues and other support	46,991,204	(644,645)	46,346,559	44,119,716
Expenses:				
Faculty salaries and wages	13,913,212	-	13,913,212	13,430,177
Other salaries and wages	11,483,410	-	11,483,410	10,318,643
Employee benefits	5,688,365	-	5,688,365	5,359,281
Supplies and equipment	1,625,155	-	1,625,155	1,584,319
Building operations	4,288,008	-	4,288,008	4,243,647
Interest expense	1,279,231	-	1,279,231	1,239,581
Depreciation and amortization	6,148,360	-	6,148,360	5,534,207
Professional services	1,949,580	-	1,949,580	1,999,065
Other expenses	5,724,693	-	5,724,693	5,215,987
Total expenses	52,100,014	-	52,100,014	48,924,907
Change in net assets from operating activities	(5,108,810)	(644,645)	(5,753,455)	(4,805,191)
Nonoperating activities:				
Non-current contributions and grants	75,084	5,773,552	5,848,636	6,630,841
Release from restriction-long term purposes	3,744,490	(3,744,490)	-	-
Release from restriction-capital assets placed into service	708,166	(708,166)	-	-
Spending rule income distributed from endowment	(1,310,698)	(4,744,925)	(6,055,623)	(5,590,634)
Endowment income made available for other purposes	288,000	-	288,000	-
Transfer to operations from Board designated maintenance reserve	(500,197)	-	(500,197)	-
Investment return, net	708,059	2,566,102	3,274,161	10,182,292
Change in value of planned giving net assets	(30,398)	60,586	30,188	(202,298)
Attrition in environmental liability	(32,264)	-	(32,264)	(23,177)
Loss on disposal of assets	(33,439)	-	(33,439)	(16,831)
Change in net assets from nonoperating activities	3,616,803	(797,341)	2,819,462	10,980,193
Change in net assets	(1,492,007)	(1,441,986)	(2,933,993)	6,175,002
Net assets - beginning of year	99,512,950	118,306,596	217,819,546	211,644,544
Net assets - end of year	$ 98,020,943	$ 116,864,610	$ 214,885,553	$ 217,819,546

See notes to financial statements.

New England Conservatory of Music

Statement of Activities
Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	2018 Total
Revenues and other support:			
Tuition and fees	$ 44,298,399	$ -	$ 44,298,399
Less student aid	(15,543,598)	-	(15,543,598)
Net tuition and fees	28,754,801	-	28,754,801
Dormitory and dining service	3,822,061	-	3,822,061
Other income	1,305,249	-	1,305,249
Subtotal	5,127,310	-	5,127,310
Gifts and grants:			
Annual fund contributions	4,243,182	-	4,243,182
Other gifts	355,938	-	355,938
Government grants	47,851	-	47,851
Net assets released from restrictions	979,742	(979,742)	-
Subtotal	5,626,713	(979,742)	4,646,971
Spending rule income used for operations:			
Endowment income made available for operations	5,590,634	-	5,590,634
Subtotal	5,590,634	-	5,590,634
Total revenues and other support	45,099,458	(979,742)	44,119,716
Expenses:			
Faculty salaries and wages	13,430,177	-	13,430,177
Other salaries and wages	10,318,643	-	10,318,643
Employee benefits	5,359,281	-	5,359,281
Supplies and equipment	1,584,319	-	1,584,319
Building operations	4,243,647	-	4,243,647
Interest expense	1,239,581	-	1,239,581
Depreciation and amortization	5,534,207	-	5,534,207
Professional services	1,999,065	-	1,999,065
Other expenses	5,215,987	-	5,215,987
Total expenses	48,924,907	-	48,924,907
Change in net assets from operating activities	(3,825,449)	(979,742)	(4,805,191)
Nonoperating activities:			
Non-current contributions and grants	-	6,630,841	6,630,841
Release from restriction-long term purposes	1,500,000	(1,500,000)	-
Release from restriction-capital assets placed into service	58,395,305	(58,395,305)	-
Spending rule income distributed from endowment	(1,194,712)	(4,395,922)	(5,590,634)
Investment return, net	2,233,110	7,949,182	10,182,292
Change in value of planned giving net assets	40,752	(243,050)	(202,298)
Net assets reclassified	(35,004)	35,004	-
Attrition in environmental liability	(23,177)	-	(23,177)
Loss on disposal of assets	(16,831)	-	(16,831)
Change in net assets from nonoperating activities	60,899,443	(49,919,250)	10,980,193
Change in net assets	57,073,994	(50,898,992)	6,175,002
Net assets - beginning of year	42,438,956	169,205,588	211,644,544
Net assets - end of year	$ 99,512,950	$ 118,306,596	$ 217,819,546

See notes to financial statements.

New England Conservatory of Music

Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	**(2,933,993)**	6,175,002
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Provision for doubtful students accounts, notes and loans receivable	**15,419**	14,724
Change in contributions receivable discount and allowance	**(7,795)**	(75,027)
Depreciation and amortization	**6,148,360**	5,534,207
Amortization of bond issuance costs	**27,315**	27,315
Net realized and unrealized gains on investments	**(3,454,685)**	(10,271,496)
Donated land and property	**(629,000)**	(337,620)
Loss on disposal of fixed assets	**33,439**	16,831
Change in value of planned giving net assets	**(30,188)**	202,298
Distributions from trusts	**220,397**	-
Contributions restricted for long-term purposes	**(1,790,159)**	(5,030,142)
Donated securities restricted for long-term purposes	**(1,755,803)**	(1,104,414)
Donated securities	**(264,487)**	(290,880)
Proceeds from donated securities	**264,487**	290,880
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables and other assets	**377,616**	(351,687)
Student accounts receivable	**1,133**	(55,881)
Contributions receivable	**3,523,810**	(1,287,567)
Increase (decrease) in:		
Accounts payable and accrued expenses	**11,359**	246,587
Deposits and advance payments	**217,997**	157,683
Net cash used in operating activities	**(24,778)**	(6,139,187)
Cash flows from investing activities:		
Additions to property and equipment	**(5,277,090)**	(12,780,424)
Additions to property and equipment from building sale proceeds	**-**	(1,400,000)
Proceeds from the sale of assets restricted for additions to property and equipment	**582,903**	10,987,052
Purchases of investments	**(34,064,917)**	(17,453,400)
Sales of investments	**39,728,914**	20,310,839
Change in student notes and loans receivable	**531,886**	623,943
Net cash provided by investing activities	**1,501,696**	288,010
Cash flows from financing activities:		
Proceeds from line of credit	**2,000,000**	2,000,000
Repayment of line of credit	**(2,000,000)**	-
Repayment of long-term debt	**(1,087,184)**	(1,065,474)
Increase (decrease) in government advances for student loans	**39,496**	(452,180)
Contributions restricted for long-term purposes	**1,790,159**	5,030,142
Donated securities restricted for long-term purposes	**1,755,803**	1,104,414
Net cash provided by financing activities	**2,498,274**	6,616,902
Net increase in cash and cash equivalents	**3,975,192**	765,725
Cash and cash equivalents - beginning of year	**2,955,651**	2,189,926
Cash and cash equivalents - end of year	**$ 6,930,843**	$ 2,955,651
Supplementary Information		
Cash paid for interest	**$ 1,230,476**	$ 1,255,763
Construction in progress included in accounts payable	**$ 111,246**	$ 37,815
Capitalized interest	**$ -**	$ 44,444
Donated land and property	**$ 629,000**	$ 337,620

See notes to financial statements.

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 800 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 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. The statements of activities include all of the Conservatory’s revenues and expenses as part of operating activities, including endowment income appropriated under the endowment spending policy. Changes in net assets that do not impact current operations are presented as nonoperating activities, including non-current contributions and grants (gifts or pledges intended to fund future-year activities), investment return, net, releases from restriction for long term purposes, certain transfers of net assets from board designated reserves, loss on disposal of assets and attrition in environmental liability.

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

> ***Net assets without donor restrictions*** are not subject to donor-imposed restrictions and are available for use in general operations. This includes amounts available for the Conservatory’s operations, financial aid, and deferred maintenance.
>
> ***Net assets with donor restrictions*** are subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity (i.e., endowment funds).

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. Consistent with Massachusetts UPMIFA, the Conservatory is allowed to spend from underwater funds. As a result of this interpretation, the Conservatory has classified as net assets with donor restrictions (a) the original value of gifts donated to the donor-restricted endowment, (b) the original value of subsequent gifts to the donor-restricted endowment, and (c) accumulations to the donor-restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Note 2. Summary of Significant Accounting Policies (Continued)

The accumulated earnings or losses to the donor restricted endowment, regarded as “net appreciation”, are classified as net assets with donor restrictions 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 revenue without donor restrictions to the extent that restrictions have been met during the current period.

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. Donor restricted contributions that are received and expended within the same period are reported as revenue without donor restrictions. 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. There were no outstanding conditional promises to give as of June 30, 2019, and $488,000 as of June 30, 2018.

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 $12.9 million and $11.0 million as of June 30, 2019 and 2018, respectively.

Revenues from sources other than contributions are generally reported as increases in net assets without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions.

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.

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.

Note 2. Summary of Significant Accounting Policies (Continued)

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. The spending policy does not prohibit spending from underwater endowment funds if it is necessary, although, it has been management's practice not to do so. The Board-approved spending rate was 5.00% for fiscal 2019 and 2018.

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 availed 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 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. Federal Perkins loans that are deemed to be permanently uncollectible are generally assigned to the Federal government.

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") as a practical expedient 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.

Note 2. Summary of Significant Accounting Policies (Continued)

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 7. 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. The Conservatory owns an interest in the trust and not the underlying investments.

Charitable gift annuity and life income fund assets are measured at fair value on a recurring basis using Level 1 inputs. Mutual funds are measured based on quoted market prices.

Liabilities for charitable gift annuities and life income funds payable are measured on a non-recurring basis using Level 2 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.

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, 2019 and 2018, no impairment indicators were identified.

Note 2. Summary of Significant Accounting Policies (Continued)

Government advances for student loans: Government advances for student loans represent funds held by the Conservatory that are provided by the U.S. Department of Education under the Federal Perkins revolving loan program. 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 U.S. Department of Education.

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 net assets without donor restriction.

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.

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. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset class.

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, 2019 were reviewed, and it was determined that no provision for uncertain tax positions was required as of June 30, 2019 or 2018. Management believes that the Conservatory’s income tax returns for fiscal years prior to June 30, 2016 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.

Note 2. Summary of Significant Accounting Policies (Continued)

Reclassifications: Certain reclassifications within the financial statements have been made to the 2018 financial statements to conform to the 2019 presentation.

Recently adopted accounting pronouncements: During fiscal year 2019, the Conservatory adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*, which amends the requirements for financial statements and requires the Conservatory to make reporting changes that affect the following:

- Net asset classifications and related disclosures
- Underwater donor-restricted endowments and related disclosures
- Additional disclosures useful in assessing liquidity within one year of the statement of financial position date
- Recognition of the expiration of restrictions under the placed in service approach for all capital gifts
- New reporting requirements relating to expenses including disclosure of expenses
- Reporting of net investment return

The Conservatory made changes to terminology and classification as described above as well as additional or modified disclosures, particularly Notes 3, 11, 12, and 14. Amounts previously reported for the year ended June 30, 2018 as temporarily or permanently restricted have been reclassified to be included in net assets with donor restrictions, on a retrospective basis, to achieve consistent presentation. Additionally, a cumulative effect adjustment was recorded to reflect the recognition of the expiration of restrictions under the placed in service approach for all capital gifts. The effect of these changes as of July 1, 2018 and for the year ending June 30, 2018 are shown in the table below:

	ASU 2016-14 Classification		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Fiscal year 2017 reclassifications:			
Net assets as of July, 1, 2018, as previously presented:			
Unrestricted	$ 39,858,446	$ -	$ 39,858,446
Temporarily restricted	-	97,934,340	97,934,340
Permanently restricted	-	73,851,758	73,851,758
Net assets as previously presented	39,858,446	171,786,098	211,644,544
Reclassification to implement ASU 2016-14:			
Transition to placed-in-service method of release of net assets restricted for acquisition or construction of long-lived assets	2,580,510	(2,580,510)	-
Net assets as of July 1, 2018, as reclassified	$ 42,438,956	$ 169,205,588	$ 211,644,544

Note 2. Summary of Significant Accounting Policies (Continued)

	ASU 2016-14 Classification		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Fiscal year 2018 reclassifications:			
Change in net assets, as previously presented:			
Unrestricted	$ 2,585,659	$ -	$ 2,585,659
Temporarily restricted	-	2,229,348	2,229,348
Permanently restricted	-	1,359,995	1,359,995
Subtotal	2,585,659	3,589,343	6,175,002
Reclassification to implement ASU 2016-14:			
Transition to placed-in-service method of release of net assets restricted for acquisition or construction of long-lived assets	54,488,335	(54,488,335)	-
Change in net assets, as reclassified	$ 57,073,994	$ (50,898,992)	$ 6,175,002
Net assets as of July 1, 2019, as reclassified	$ 99,512,950	$118,306,596	$ 217,819,546

In addition, in fiscal year 2018 net assets released from restrictions included $3,906,970 of releases pertaining to capital released which were reclassified to net assets released from restrictions (long term purposes) based on the placed-in-service method.

During fiscal year 2019, the Conservatory adopted ASU 2016-15, *Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments*, which made eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The adoption of the new statement of cash flows standard had no impact on the financial statements.

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. 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 does not believe the adoption of the new financial instruments standard will have a material impact on its financial statements.

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. In July 2019, the FASB approved to propose delaying the effective date of this standard by one year. This proposal has not been officially approved as of the date these financial statements were available to be issued. 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 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. 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. 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. 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.

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.

In March 2019, the FASB issued ASU 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections.* This ASU modifies the definition of the term *collections* and requires that a collection-holding entity disclose its policy for the use of proceeds from when collection items are deaccessioned (that is, removed from a collection). If a collection-holding entity has a policy that allows proceeds from deaccessioned collection items to be used for direct care, it should disclose its definition of *direct care.* The amendments in this Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Early application of the amendments is permitted. The amendments in this Update should be applied on a prospective basis. The Conservatory does not expect the impact of this ASU to be significant to the financial statements.

Note 2. Summary of Significant Accounting Policies (Continued)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of activities as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Conservatory is currently evaluating the impact of adopting this new guidance on its financial statements.

Note 3. Liquidity

Resources available to the Conservatory to fund general expenditures, such as operating expenses, interest and principal payments on debt, and internally-funded capital projects have seasonal variation based on the timing of tuition and fees billings/collections, receipt of gifts and pledge payments, and transfers from the endowment. The Conservatory actively manages its resources using a combination of short- and long-term operating investment strategies to align its cash inflows with anticipated outflows in accordance with policies approved by the Board of Trustees.

At June 30, 2019, existing financial assets and liquidity resources available within one year were as follows:

Financial assets:	
Cash and cash equivalents	$ 1,363,658
Accounts receivable	604,777
Student accounts receivable	27,913
Contributions receivable	646,376
FY2020 Board-appropriated endowment spending	7,031,000
Subtotal	9,673,724
Liquidity resources:	
Line of credit	3,000,000
Total financial assets and liquidity resources available within one year	$ 12,673,724

The contributions receivable above include only those for which the time or purpose restrictions will be satisfied within one year. Subsequent to year-end, the Conservatory repaid the $2.0 million outstanding line of credit balance, so this liquidity resource amounted to $5.0 million at the time of issuance. In addition to the resources identified above, the Conservatory had $18 million of Board-designated funds, of which it is estimated that approximately $13.0 million can be liquidated within one year. Refer to Note 7 for more information regarding investments liquidity.

Additionally, within one year the Conservatory will generate net tuition and fees and dormitory and dining service revenues that will be available to fund current year operations.

Note 4. Student Accounts, Notes, and Loan Receivable

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

	2019	2018
Student accounts receivable, net of allowances for doubtful accounts of $82,401 and $65,179 in 2019 and 2018, respectively	$ 27,913	$ 46,267
Student notes and loans receivable, net of allowances for doubtful accounts of $81,780 and $83,583 in 2019 and 2018, respectively	2,098,002	2,628,086
	$ 2,125,915	$ 2,674,353

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:

	2019	2018
Federal government program	$ 2,176,657	$ 2,707,893
Less allowance for doubtful accounts:		
Beginning of year	(81,133)	(90,245)
Decrease (Increase)	1,478	9,112
End of year	(79,655)	(81,133)
Federal student loans receivable, net	$ 2,097,002	$ 2,626,760

The Conservatory participates in the Perkins federal revolving loan program (the “program”). 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 began 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. No funds were withdrawn from the program during 2019. The liability for funds advanced by the Federal government was $3,384,974 and $3,345,478 as of June 30, 2019 and 2018, respectively.

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
2019	$ 6,430	$ -	$ 353,985	$ 360,415
2018	$ 7,410	$ 441	$ 331,936	$ 339,787

Note 5. Contributions Receivable

Contributions receivable consisted of the following at June 30:

	2019	2018
Due within one year	$ 2,033,777	$ 5,378,236
Due within two to five years	289,900	469,250
	2,323,677	5,847,486
Less:		
Present value discount	(19,141)	(31,601)
Allowance for uncollectible pledges	(46,091)	(41,425)
	$ 2,258,445	$ 5,774,460

Contributions receivable are discounted at rates ranging from 1.79% to 2.73%.

Note 6. Planned Giving

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

	2019	2018
Planned giving assets:		
Charitable remainder trusts	$ 506,097	$ 670,541
Charitable lead trusts	73,030	75,611
Charitable gift annuities	1,923,540	2,003,310
Pooled income funds	200,058	193,598
Perpetual trusts	498,012	493,980
Total planned giving assets	3,200,737	3,437,040
Planned giving liabilities:		
Amounts due to beneficiaries	(894,436)	(940,530)
Total planned giving net assets	$ 2,306,301	$ 2,496,510

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

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:

	2019	2018
Beginning balance at July 1	$ 1,240,132	$ 1,487,014
Total gains	4,846	32,325
Disbursements from terminated trusts	(167,839)	(279,207)
Ending balance at June 30	$ 1,077,139	$ 1,240,132

Note 6. Planned Giving (Continued)

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

	2019 Fair Value	2018 Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Beneficial interest in perpetual trusts	$ 498,012	$ 493,980	Market approach on underlying securities	None	N/A
Beneficial interest in charitable remainder trusts	$ 506,097	$ 670,541	Income approach discounted cash flow and present value techniques	Discount rate	2.2%-9.6% (7.71%)
				Rate of return	6.0%-7.5% (6.17%)
				Life expectancy	7.90 years - 12.50 years (9.99 years)
Beneficial interest in charitable lead annuity trusts	$ 73,030	$ 75,611	Income approach discounted cash flow and present value techniques	Discount rate	3.2% (3.2%)

Note 7. 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. The alternative investment strategies use a valuation methodology based on the NAV provided by the fund manager as a practical expedient. 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 believe 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.

Note 7. Investments (Continued)

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

2019	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Investments Measured at NAV (a)	Total
Pooled:					
Fixed-income mutual funds	$ 9,538,862	$ -	$ -	$ -	$ 9,538,862
Equity mutual funds	29,935,871	-	-	-	29,935,871
Alternative investment strategies	-	-	-	82,552,615	82,552,615
	39,474,733	-	-	82,552,615	122,027,348
Nonpooled:					
Fixed-income mutual funds	75,985	-	-	-	75,985
	$ 39,550,718	$ -	$ -	$ 82,552,615	$ 122,103,333

2018	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Investments Measured at NAV (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
	$ 41,057,338	$ -	$ -	$ 83,255,307	$ 124,312,645

(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, 2019 and 2018 respectively, the Conservatory's alternative strategies represented 67.6% and 67.0% of total pooled investments. At June 30, 2019 and 2018, the Committee has selected approximately 30 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.

Note 7. Investments (Continued)

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

2019

Investments	Fair Value	Unfunded Commitments
Hedge funds (a)	$ 35,062,001	$ -
Commodities funds (b)	15,303	-
Private equity funds (c)	17,243,546	4,567,330
International funds (d)	30,231,765	-
	$ 82,552,615	$ 4,567,330

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	-
	$ 83,255,307	$ 5,747,929

(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:

	2019	2018
Less than 30 days	$ 42,779,037	$ 39,205,258
Greater than 30 days to less than one year	8,833,312	11,202,967
One year or greater	30,940,266	32,847,082
	$ 82,552,615	$ 83,255,307

Note 8. Property and Equipment

Property and equipment consisted of the following at June 30:

	2019	2018
Buildings and improvements	$ 132,485,355	$ 132,150,298
Furnishings, instruments, and equipment	25,321,815	24,127,249
	157,807,170	156,277,547
Less accumulated depreciation	(41,221,272)	(35,201,820)
	116,585,898	121,075,727
Land	1,269,497	1,269,498
Construction in progress	4,424,508	136,956
	$ 122,279,903	$ 122,482,181

The construction in progress balance primarily consists of a multi-use property that was purchased in April 2019. Construction in progress related to this property includes the building purchase price and preliminary renovation costs. Plans for future design and use are in process as of the filing date, and the building is expected to be placed into service in fiscal year 2021. At June 30, 2019, there were no commitments associated with construction in progress and the estimated costs to complete are not estimable.

The Conservatory recorded a change in environmental liability associated with its asset retirement obligation of $32,264 and $23,177 in fiscal 2019 and 2018, 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 $677,170 and $644,906 as of June 30, 2019 and 2018, respectively, is discounted to its net present value and is included in accounts payable and accrued expenses in the statement of financial position.

Note 9. 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 original expiration date of June 1, 2019. The expiration date was initially extended to July 31, 2019, and subsequently extended to July 1, 2024 (see Note 18). The interest rates were 4.40% and 4.09% as of June 30, 2019 and 2018, respectively. Line of credit interest of $9,576 and $2,965 was recognized as expense in fiscal 2019 and 2018, respectively.

The Conservatory drew $2 million on the line of credit in June 2019 to fund operations, all $2 million of which was outstanding as of June 30, 2019. Subsequent to fiscal year end, in August 2019, the full $2 million was repaid. As of June 30, 2018, $2 million was outstanding on the Conservatory's line of credit. In July 2018 the $2 million outstanding balance was repaid.

Note 10. 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 be outstanding and due on the maturity date.

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. Amortization expense for the years ended June 30, 2019 and 2018 was $27,315 for both years which is included in interest expense in the statements of activities. Future amortization expense will amount to $27,315 per year for the duration of the life of the bonds.

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

Current portion of bonds payable, net of unamortized bond issuance costs.

	2019	2018
Bonds payable	$ 1,132,890	$ 1,087,184
Bond issuance costs, unamortized	(27,315)	(27,315)
	$ 1,105,575	$ 1,059,869

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

	2019	2018
Bonds payable	$ 34,282,223	$ 35,415,112
Bond issuance costs, unamortized	(491,654)	(518,968)
	$ 33,790,569	$ 34,896,144

Note 10. Long-Term Debt (Continued)

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

2020	$ 1,132,889
2021	1,166,778
2022	1,219,737
2023	1,248,142
2024	1,295,747
Years thereafter	29,351,819
	$ 35,415,112

Bond-related interest of $1,217,357 and $1,209,302 was recognized as expense in fiscal 2019 and 2018, respectively. Net interest of $44,444 associated with the Series 2015 Bonds was capitalized and recorded as a construction in progress asset within property and equipment in fiscal 2018. This capitalized interest was placed into service along with the Student Life and Performance Center on August 2, 2017.

Note 11. 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 are recorded in net assets with donor restrictions. No deficiencies were noted in fiscal 2019 or fiscal 2018.

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

June 30, 2019	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 105,005,267	$ 105,005,267
Board designated endowment funds	17,464,609	-	17,464,609
	$ 17,464,609	$ 105,005,267	$ 122,469,876

June 30, 2018	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 105,173,534	$ 105,173,534
Board designated endowment funds	19,296,973	-	19,296,973
	$ 19,296,973	$ 105,173,534	$ 124,470,507

Note 11. Endowment (Continued)

The changes in endowment net assets for fiscal 2019 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 19,296,973	$ 105,173,534	$ 124,470,507
Investment return, net	708,059	2,566,102	3,274,161
Additions	2,320,275	2,010,556	4,330,831
Spending rule income distributed from endowment:			
Endowment income made available for operations	(1,248,362)	(4,519,261)	(5,767,623)
Endowment income made available for other purposes	(62,336)	(225,664)	(288,000)
	(1,310,698)	(4,744,925)	(6,055,623)
Draw designated for capital purchases	(3,550,000)	-	(3,550,000)
Endowment net assets, end of year	$ 17,464,609	$ 105,005,267	$ 122,469,876

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

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 16,758,575	$ 100,244,710	$ 117,003,285
Investment return, net	2,233,110	7,949,182	10,182,292
Additions	1,500,000	1,375,564	2,875,564
Spending rule income distributed from endowment:			
Endowment income made available for operations	(1,194,712)	(4,395,922)	(5,590,634)
Endowment net assets, end of year	$ 19,296,973	$ 105,173,534	$ 124,470,507

Note 12. Net Assets

Net assets with donor restrictions are restricted for the following purposes or periods at June 30:

	2019	2018
Subject to expenditure for the following purposes:		
Financial aid	$ 826,637	$ 714,994
Operations	2,108,951	940,478
Subtotal	2,935,588	1,655,472
Subject to the passage of time:		
Planned gifts, net of amount due to beneficiaries	355,228	353,857
Pledges	1,524,763	3,955,503
Subtotal	1,879,991	4,309,360
Subject to Conservatory spending policy and appropriation:		
Faculty salaries	15,755,511	15,126,463
Financial aid	53,007,004	53,505,866
Operations	36,242,752	36,541,208
Subtotal	105,005,267	105,173,534
Not subject to spending policy or appropriations:		
Assets held for appreciation	5,875,000	5,875,000
Beneficial interest in perpetual trusts	498,012	493,980
Pledges to donor restricted endowment	225,247	188,530
Other planned gifts to donor restricted endowment	445,504	610,717
Subtotal	7,101,241	7,225,705
Total net assets with donor restrictions	$ 116,864,610	$ 118,306,596

The total historic dollar value of the donor restricted endowment funds which are to be held in perpetuity were $75,929,080 and $73,918,524 as of June 30, 2019 and 2018, respectively.

The Conservatory's Board of Trustees has designated certain net assets without donor restrictions for the following purposes at June 30:

	2019	2018
Endowment:		
Operations	$ 5,406,338	$ 3,207,167
Financial Aid	12,058,271	16,089,806
Subtotal	17,464,609	19,296,973
Deferred maintenance	538,729	-
Other	1,105	1,105
Total Board designated net assets	$ 18,004,443	$ 19,298,080

Note 12. Net Assets (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, by occurrence of the passage of time, or other events specified by donors as follows for the year ended June 30:

	2019	2018
Satisfaction of purpose restrictions	$ 644,645	$ 979,742
Total operating net assets released from restrictions	644,645	979,742
Satisfaction of time restrictions – designated for long term purposes	3,744,490	1,500,000
Satisfaction of restrictions – capital assets placed in service	708,166	58,395,305
Total non-operating net assets released from restrictions	4,452,656	59,895,305
Total net assets released from restrictions	$ 5,097,301	$ 60,875,047

Note 13. 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 $784,929 and $728,345 in fiscal 2019 and 2018, respectively.

Note 14. Functional and Natural Classification of Expenses

Salaries and benefits have been allocated among the programs and supporting services based on the relative effort exerted for the related functions. Expenses associated with information technology services and 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.

Expenses by functional and natural classification for the year ending June 30, 2019 was as follows:

	Instruction	Academic support	Student services	Fundraising	Administration	Auxiliary	Total expenses
Salaries and wages	$ 16,512,623	$ 2,214,383	$ 2,447,665	$ 1,256,507	$ 2,566,125	$ 399,319	$ 25,396,622
Employee benefits	3,537,620	439,968	533,283	275,529	815,741	86,224	5,688,365
Supplies and equipment	504,112	659,589	149,457	48,985	34,188	228,824	1,625,155
Building operations	1,233,605	1,152,497	181,971	14,952	53,402	1,651,581	4,288,008
Interest expense	477,944	357,936	78,224	6,465	23,500	335,162	1,279,231
Depreciation	1,525,607	1,336,265	272,797	56,295	204,629	2,752,767	6,148,360
Professional services	170,071	347,517	114,013	274,212	982,264	61,503	1,949,580
Other expenses	2,055,048	97,654	1,386,640	422,890	719,634	1,042,827	5,724,693
Total expenses	$ 26,016,630	$ 6,605,809	$ 5,164,050	$ 2,355,835	$ 5,399,483	$ 6,558,207	$ 52,100,014

Expenses by functional classification for the year ending June 30, 2018 was as follows:

	Instruction	Academic support	Student services	Fundraising	Administration	Auxiliary	Total expenses
Total expenses	$ 24,239,294	$ 4,947,490	$ 4,655,967	$ 2,624,823	$ 6,273,937	$ 6,183,396	$ 48,924,907

Note 15. Related Party Transactions

The Conservatory's assets include $462,585 and $592,609 of contributions receivable from a Trustee as of June 30, 2019 and 2018, respectively.

Two Trustees of the Board are managing directors of two investment funds that manage portions of the Conservatory's alternative investment holdings. The Conservatory's investments in these two funds had fair values of $15,437,453 and $15,491,441 at June 30, 2019 and 2018, respectively.

Two Trustees of the Board are partners of a law firm that provides legal services to the Conservatory. Legal fees paid to this law firm amounted to approximately $88,400 and $77,400 for the years ended June 30, 2019 and 2018, respectively.

Note 16. Commitments and Contingencies

Steinway agreement: On September 4, 2018, the Conservatory entered into an agreement with M. Steinert & Sons and Steinway and Sons ("Steinway") to purchase 10 Steinway pianos over a five-year period, beginning in fiscal 2019. The total purchase price will be approximately $1,022,000 over the five-year period. Until the full 10 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.

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 November 15, 2019, which was the date these financial statements were available to be issued.

On July 1, 2019, the Conservatory entered into an amendment of its $5 million secured line of credit with Century Bank and Trust Company. This amendment extended the expiration date until July 1, 2024 and reduced the interest rate to LIBOR plus 1.5%. All other terms remained consistent with the original agreement.

On September 10, 2019, the Department of Education announced its intention to reimburse colleges and universities for the institutional share of Perkins Loan Service Cancellations. The announcement follows the expiration of the Perkins Loan Program in September of 2017. Per the details of the announcement, the Conservatory expects to receive information regarding the expected reimbursement amount before the end of 2019. The Conservatory is waiting to receive this information before returning any Perkins Loan Program funds to the Department of Education.