New England Conservatory of Music

Financial Report
June 30, 2022

Contents

RSM US LLP

Independent Auditor's Report

Board of Trustees
New England Conservatory of Music

Opinion
We have audited the financial statements of New England Conservatory of Music (the Conservatory), which comprise the statements of financial position as of June 30, 2022 and 2021, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Conservatory as of June 30, 2022 and 2021, 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.

Basis for Opinion
We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Conservatory and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Conservatory's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Conservatory's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Conservatory's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

RSM US LLP

Boston, Massachusetts
November 30, 2022

New England Conservatory of Music

Statements of Financial Position
June 30, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	**$ 10,056,230**	$ 11,277,151
Receivables and other assets	**1,322,104**	1,244,266
Student accounts, notes and loans receivable, net	**1,903,538**	1,666,662
Contributions receivable, net	**1,651,698**	816,853
Planned giving assets	**2,739,657**	3,346,772
Investments, at fair value	**138,423,418**	154,798,782
Finance lease right-of-use assets, net	**103,615**	140,414
Property and equipment, net	**104,978,601**	108,582,611
Total assets	**$ 261,178,861**	$ 281,873,511
Liabilities and Net Assets		
Accounts payable and accrued expenses	**$ 3,567,536**	$ 4,887,974
Finance lease liabilities	**116,011**	154,780
Current debt, net of bond issuance costs	**1,199,000**	1,178,322
Planned giving liabilities	**767,718**	786,749
Deposits and advance payments	**1,241,172**	734,300
Government advances for student loans	**2,006,045**	2,259,798
Long-term debt, net of bond issuance costs	**36,877,844**	38,100,732
Total liabilities	**45,775,326**	48,102,655
Commitments and contingencies (Note 17)		
Net assets:		
Without donor restrictions	**83,687,637**	89,567,361
With donor restrictions	**131,715,898**	144,203,495
Total net assets	**215,403,535**	233,770,856
Total liabilities and net assets	**$ 261,178,861**	$ 281,873,511

See notes to financial statements.

New England Conservatory of Music

Statement of Activities
Year Ended June 30, 2022
With Summarized Information for Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
Revenues and other support:				
Tuition and fees, net of student aid of $18,692,046 in 2022, and $15,875,422 in 2021	$ 28,870,673	$ -	$ 28,870,673	$ 24,011,384
Dormitory and dining service	4,312,987	-	4,312,987	25,472
Other income	974,971	710	975,681	235,147
Subtotal	34,158,631	710	34,159,341	24,272,003
Gifts and grants:				
Annual fund contributions	3,740,577	-	3,740,577	3,488,447
Other gifts	282,185	-	282,185	39,276
Government grants	956,902	-	956,902	644,422
Gifts in kind	1,679,258	-	1,679,258	95,345
Net assets released from restrictions	2,133,197	(2,133,197)	-	-
Transfer from board-designated funds	-	-	-	735,954
Subtotal	8,792,119	(2,133,197)	6,658,922	5,003,444
Spending rule income used for operations:				
Endowment income made available for operations	6,034,222	-	6,034,222	5,825,083
Subtotal	6,034,222	-	6,034,222	5,825,083
Total revenues and other support	48,984,972	(2,132,487)	46,852,485	35,100,530
Expenses:				
Faculty salaries and wages	14,296,079	-	14,296,079	13,267,629
Other salaries and wages	11,564,823	-	11,564,823	11,213,725
Employee benefits	5,470,648	-	5,470,648	4,698,224
Supplies and equipment	2,245,566	-	2,245,566	2,382,741
Building operations	3,355,027	-	3,355,027	2,756,470
Interest expense	1,086,376	-	1,086,376	1,168,908
Depreciation and amortization	6,254,158	-	6,254,158	6,197,042
Professional services	2,930,682	-	2,930,682	3,155,835
Other expenses	4,917,375	-	4,917,375	3,366,017
Total expenses	52,120,734	-	52,120,734	48,206,591
Change in net assets from operating activities	(3,135,762)	(2,132,487)	(5,268,249)	(13,106,061)
Nonoperating activities:				
Non-current contributions and grants	-	4,471,006	4,471,006	1,972,779
Release from restriction—capital assets placed into service	16,971	(16,971)	-	-
Spending rule income distributed from endowment	(850,119)	(5,184,103)	(6,034,222)	(5,825,083)
Transfer to operations from board-designated funds	-	-	-	(735,954)
Investment (loss) return, net	(1,524,912)	(9,389,433)	(10,914,345)	40,587,444
Change in value of planned giving net assets	(348,285)	(235,609)	(583,894)	596,195
Attrition in environmental liability	(37,617)	-	(37,617)	(35,741)
Gain on disposal of assets	-	-	-	41,890
Change in net assets from nonoperating activities	(2,743,962)	(10,355,110)	(13,099,072)	36,601,530
Change in net assets	(5,879,724)	(12,487,597)	(18,367,321)	23,495,469
Net assets—beginning of year	89,567,361	144,203,495	233,770,856	210,275,387
Net assets—end of year	$ 83,687,637	$ 131,715,898	$ 215,403,535	$ 233,770,856

See notes to financial statements.

New England Conservatory of Music

Statement of Activities
Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support:			
Tuition and fees, net of student aid of $15,875,422	$ 24,011,384	$ -	$ 24,011,384
Dormitory and dining service	25,472	-	25,472
Other income	229,636	5,511	235,147
Subtotal	24,266,492	5,511	24,272,003
Gifts and grants:			
Annual fund contributions	3,488,447	-	3,488,447
Other gifts	39,276	-	39,276
Government grants	644,422	-	644,422
Gifts in kind	-	95,345	95,345
Net assets released from restrictions	3,260,679	(3,260,679)	-
Transfer from board-designated funds	735,954	-	735,954
Subtotal	8,168,778	(3,165,334)	5,003,444
Spending rule income used for operations:			
Endowment income made available for operations	5,825,083	-	5,825,083
Subtotal	5,825,083	-	5,825,083
Total revenues and other support	38,260,353	(3,159,823)	35,100,530
Expenses:			
Faculty salaries and wages	13,267,629	-	13,267,629
Other salaries and wages	11,213,725	-	11,213,725
Employee benefits	4,698,224	-	4,698,224
Supplies and equipment	2,382,741	-	2,382,741
Building operations	2,756,470	-	2,756,470
Interest expense	1,168,908	-	1,168,908
Depreciation and amortization	6,197,042	-	6,197,042
Professional services	3,155,835	-	3,155,835
Other expenses	3,366,017	-	3,366,017
Total expenses	48,206,591	-	48,206,591
Change in net assets from operating activities	(9,946,238)	(3,159,823)	(13,106,061)
Nonoperating activities:			
Non-current contributions and grants	-	1,972,779	1,972,779
Release from restriction—capital assets placed into service	467,355	(467,355)	-
Spending rule income distributed from endowment	(854,429)	(4,970,654)	(5,825,083)
Transfer to operations from board-designated funds	(735,954)	-	(735,954)
Investment return, net	5,705,937	34,881,507	40,587,444
Change in value of planned giving net assets	590,923	5,272	596,195
Attrition in environmental liability	(35,741)	-	(35,741)
Reclassification of net assets	(36,411)	36,411	-
Gain on disposal of assets	41,890	-	41,890
Change in net assets from nonoperating activities	5,143,570	31,457,960	36,601,530
Change in net assets	(4,802,668)	28,298,137	23,495,469
Net assets—beginning of year	94,370,029	115,905,358	210,275,387
Net assets—end of year	$ 89,567,361	$ 144,203,495	$ 233,770,856

See notes to financial statements.

New England Conservatory of Music

Statements of Cash Flows
Years Ended June 30, 2022 and 2021

		2022		2021
Cash flows from operating activities:				
Change in net assets	$	**(18,367,321)**	$	23,495,469
Adjustments to reconcile change in net assets to net cash used in operating activities:				
Provision for doubtful students accounts, notes and loans receivable		**12,452**		(22,166)
Change in contributions receivable discount and allowance		**18,755**		990
Depreciation and amortization		**6,254,158**		6,197,042
Amortization of bond issuance costs		**76,766**		41,754
Net realized and unrealized loss (gains) on investments		**10,868,385**		(40,800,910)
Donated property and equipment		**(1,589,686)**		(95,345)
Gain on disposal of assets		**-**		(41,890)
Change in value of planned giving net assets		**588,084**		(596,195)
Contributions restricted for long-term purposes		**(588,754)**		(785,411)
Donated securities restricted for long-term purposes		**-**		(328,964)
Donated securities		**(224,112)**		(397,950)
Proceeds from donated securities		**224,112**		397,950
Changes in assets and liabilities:				
(Increase) decrease in:				
Receivables and other assets		**(77,838)**		16,554
Student accounts receivable		**(495,968)**		39,829
Contributions receivable		**(853,600)**		(97,501)
Increase (decrease) in:				
Accounts payable and accrued expenses		**(1,320,438)**		1,934,690
Deposits and advance payments		**506,872**		72,089
Net cash used in operating activities		**(4,968,133)**		(10,969,965)
Cash flows from investing activities:				
Additions to property and equipment		**(1,023,663)**		(1,213,866)
Proceeds from sale of property and equipment		**-**		5,000
Purchases of investments		**(251,241,461)**		(22,620,654)
Sales of investments		**256,748,440**		27,470,079
Change in student notes and loans receivable		**246,640**		341,241
Net cash provided by investing activities		**4,729,956**		3,981,800
Cash flows from financing activities:				
Finance Lease payments		**(38,769)**		(36,576)
Payment of bond issuance costs		**-**		(855,120)
Proceeds from loan		**-**		7,500,000
Repayment of long-term debt		**(1,278,976)**		(1,198,149)
Repayment of government advances for student loans		**(253,753)**		(322,753)
Contributions restricted for long-term purposes		**588,754**		785,411
Donated securities restricted for long-term purposes		**-**		328,964
Net cash (used in) provided by financing activities		**(982,744)**		6,201,777
Net decrease in cash and cash equivalents		**(1,220,921)**		(786,388)
Cash and cash equivalents—beginning of year		**11,277,151**		12,063,539
Cash and cash equivalents—end of year	$	**10,056,230**	$	11,277,151
Supplementary Information:				
Cash paid for interest	$	**1,008,543**	$	1,125,099
Donated property and equipment	$	**1,589,686**	$	95,345

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 (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 and in accordance with accounting standards set by the Financial Accounting Standards Board (FASB). The FASB defines accounting principles generally accepted in the United States (U.S. GAAP) to ensure financial condition, results of operations and cash flows are consistently reported. References to U.S. GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification (ASC).

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 non-operating activities, including non-current contributions and grants (gifts or pledges intended to fund future-year activities), investment return (loss), net, releases from restriction for capital assets placed into service, certain transfers of net assets from board designated reserves, change in value in planned giving net assets, endowment income made available for other purposes, spend rule income distributed from endowment, gain (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. In addition, net assets without donor restrictions include unrestricted resources designated by the Board for endowment.

***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).

Note 2. Summary of Significant Accounting Policies (Continued)

The Conservatory interprets the Massachusetts Uniform Prudent Management of Institutional Funds Act (MA 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 MA 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.

The accumulated earnings or losses on 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, MA UPMIFA, other applicable laws, and donor-imposed restrictions, if any.

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, that is those with a measurable performance or other barrier and a right of return, are not recognized as revenue until the conditions on which they depend are met. The Conservatory is not aware of any conditional gifts at June 30, 2022 and 2021.

Revenues from sources other than contributions or grants 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 funds internally designated by the Board for endowment.

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.

Note 2. Summary of Significant Accounting Policies (Continued)

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. 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 2022 and 2021.

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. The Conservatory believes it is not exposed to any significant credit risk on cash and cash equivalents.

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.

Note 2. Summary of Significant Accounting Policies (Continued)

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.

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:

Derivatives: The Conservatory uses derivative financial instruments such as futures contracts which are recorded at fair value at the reporting date. Realized and unrealized changes in fair value values are included in Investment (loss) return, net and totaled ($2,534,394) at June 30, 2022. There were no derivative financial instruments at June 30, 2021.

The fair market value of derivative financial instruments at the reporting date generally reflects the amount that the Conservatory would receive or pay to terminate the contract at the reporting date. The derivative financial instruments used by the Conservatory are exchange traded or are traded in the over-the-counter market where market values are readily attainable. At June 30, 2022 the fair value of the derivative financial instruments is ($74,158).

Contributions receivable are initially measured at fair value 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 actuarial assumptions and 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 based on the estimated life expectancies of the beneficiaries. Perpetual trusts have been recorded at the fair value of the underlying assets held in trust, adjusted for the Conservatory's proportionate share of ongoing distributions from each trust.

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 nonoperating activities. Depreciation expense is recognized on a straight-line basis over the estimated useful lives of buildings and building improvements (five to 45 years), furnishings (10 to 20 years), instruments (10 to 30 years) and equipment (three to 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, 2022 and 2021, no impairment indicators were identified.

Leasing: The Conservatory determines if an arrangement is a lease at inception. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. Lease right-of-use assets represents the Conservatory's right to use an underlying asset for the lease term. Lease liabilities represent the Conservatory's liability to make lease payments arising from the lease. Operating and finance lease right-of-use assets and related obligations are recognized at commencement date based on the present value of lease payments over the lease term discounted using an appropriate discount rate. The Conservatory elected the private company alternative to use the risk-free rate in determining the present value of lease payments. The value of an option to extend or terminate a lease is reflected to the extent it is reasonably certain management will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Interest expense is recognized as a component of the lease payment for finance leases.

Government advances for student loans: Government advances for student loans represent funds held by the Conservatory that were provided by the DOE 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.

Revenue recognition: The Conservatory follows Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), which requires 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 five-step model defined by ASC Topic 606 requires the Conservatory to (1) identify the contract with the customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when each performance obligation is satisfied. Revenue is recognized when promised goods or services are transferred to the customer in an amount that reflects the consideration expected in exchange for those goods or services.

The Conservatory has identified a performance obligation associated with the provision of its educational instruction and other educational services, housing services and other academic related services and uses the output measure for recognition as the period of time over which the services are provided.

Note 2. Summary of Significant Accounting Policies (Continued)

Tuition revenue and discounts: Tuition and fees revenue is substantially billed and collected prior to the end of each semester. Revenues are earned and recognized over the course of each semester as academic programs are delivered. Institutional financial aid and scholarships awarded to students reduce the amount of revenue recognized. In addition, students who adjust their course load or withdraw completely may receive a full or partial refund in accordance with the Conservatory's refund policy. Refunds issued reduce the amount of revenue recognized. Students are responsible for paying all charges in full or for making arrangements for monthly payments by due dates published by the Conservatory. Accounts and notes receivable from students from services provided from contracts are disclosed in Note 4. Payments received prior to the start of an academic period and the portion of tuition revenue for the summer terms that is earned subsequent to the years ended June 30, 2022 and 2021, which totaled $1,241,172 and $734,300 at June 30, 2022 and 2021, respectively, is treated as a contract liability and reported as deferred revenue, to be recognized as revenue over the academic period as services are rendered in the next fiscal year. Discounts provided to employees are considered part of fringe benefits within operating expenses.

The composition of tuition and fees based on degree programs for the years ended June 30, are as follows:

	2022	2021
Undergraduate (net of financial aid and scholarships of $8,250,427 and $7,507,144 in 2022 and 2021, respectively)	$ 15,559,303	$ 11,638,211
Graduate (net of financial aid and scholarships of $9,240,562 and $7,493,995 in 2022 and 2021, respectively)	7,692,122	6,809,874
Non-degree programs (net of financial aid and scholarships of $1,201,057 and $874,283 in 2022 and 2021, respectively)	5,619,248	5,563,299
	$ 28,870,673	$ 24,011,384

Dormitory and dining service and other income: These consist principally of goods and services to the campus community, including dining facilities, residence halls, banquet operations, facility rentals and other miscellaneous fees such as print shop services. Charges to students for campus dormitory and dining services are substantially billed and collected prior to the end of each semester. Associated revenues are earned and recognized over the course of each semester as these services are delivered.

Grants: Individual grant arrangements have been evaluated and determined to be nonreciprocal, meaning the granting entity has not received a direct benefit in exchange for the resources provided. Instead, revenue is recognized like a conditional contribution – when the barrier to entitlement is overcome. The barrier to entitlement is considered overcome when expenditures associated with each grant are determined to be allowable and all other significant conditions of the grant are met. The Conservatory has elected the simultaneous release policy available under ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which allows the Conservatory to recognize a restricted contribution directly in net assets without donor restrictions if the restriction is met in the same period that the revenue is recognized.

Note 2. Summary of Significant Accounting Policies (Continued)

The Conservatory received funding from the Federal government as part of the Higher Education Emergency Relief Funds (HEERF) included in the various COVID-19 funding packages. During the year ended June 30, 2021, the Conservatory was authorized to receive $652,599 directed towards emergency financial aid to students and $938,412 directed towards institutional expenses. Under the terms of the grant, the Conservatory was only eligible to receive the institutional portion if it first distributed the grants to the students. As of June 30, 2021, the Conservatory had met the conditions of $653,132 of the 2021 grants which are recorded within government grants in the accompanying statement of activities. The balance of $937,879 had not been drawn on or expended during the year ended June 30, 2021, and, therefore, was expected to be recognized during the year ended June 30, 2022. As of June 30, 2022, the Conservatory had met the conditions of $937,879 of the remaining 2021 grants which are recorded within government grants in the accompanying statements of activities.

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. Proceeds from deaccessions can be used to acquire new items or used as direct care for existing items already in possession. Direct care is defined as costs incurred that enhance the life, usefulness or quality of the Conservatory's collections.

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, 2022, were reviewed, and it was determined that no provision for uncertain tax positions was required as of June 30, 2022 or 2021. Management believes that the Conservatory's Federal and State returns are generally open for examination for three years following the date filed.

Use of estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Estimates include allowances for doubtful accounts on student accounts, contributions, notes and loans receivable; the fair value of investments; the net realizable fair value of pledges and planned gifts; the estimated value of gifts in kind, 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)

Recently adopted accounting pronouncements: In September 2020, the FASB issued ASU 2020-07, *Not for Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets,* which requires not for profit entities to change their financial statement presentation and disclosure of contributed nonfinancial assets, or gifts-in-kind. Contributed nonfinancial assets are to be presented as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. Disclosure requirements have also been added on disaggregated contributed nonfinancial assets by type. The effects of the Conservatory adopting this standard are disclosed in Note 17.

Recently issued accounting pronouncements: 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, 2022, 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.

Subsequent events: The Conservatory has evaluated events and transactions for potential recognition or disclosure through November 30, 2022, which was the date these financial statements were available to be issued.

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.

Note 3. Liquidity (Continued)

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

	2022	2021
Financial assets:		
Cash and cash equivalents	$ 5,061,378	$ 6,859,253
Accounts receivable	434,681	330,985
Student accounts receivable	763,234	270,777
Contributions receivable	1,245,000	601,400
Board-appropriated endowment spending	6,197,000	6,080,306
Subtotal	13,701,293	14,142,721
Liquidity resources:		
Line of credit	10,000,000	10,000,000
Total financial assets and liquidity resources available within one year	$ 23,701,293	$ 24,142,721

The contributions receivable above includes only those for which the time or purpose restrictions will be satisfied within one year. In addition to the resources identified above, the Conservatory had approximately $19.3 million and $21.7 million of Board-designated funds in fiscal 2022 and 2021, respectively, of which it is estimated that approximately $16.4 million and $18.6 million can be liquidated within one year of fiscal 2022 and 2021, respectively. Refer to Note 7 for more information regarding the liquidity of certain investments.

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:

	2022	2021
Student accounts receivable, net of allowances for doubtful accounts of $111,365 and $90,909 in 2022 and 2021, respectively	$ 755,447	$ 279,935
Student notes and loans receivable, net of allowances for doubtful accounts of $64,921 and $72,925 in 2022 and 2021, respectively	1,148,091	1,386,727
	$ 1,903,538	$ 1,666,662

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

Note 4. Student Accounts, Notes and Loan Receivable (Continued)

At June 30, Federal student loans consisted of the following:

	2022	2021
Federal government program	$ 1,212,561	$ 1,447,708
Less allowance for doubtful accounts:		
Beginning of year	(72,925)	(80,159)
Decrease	8,004	7,234
End of year	(64,921)	(72,925)
Federal student loans receivable, net	$ 1,147,640	$ 1,374,783

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 began collecting the federal share of the revolving loan funds annually after October 1, 2018. During 2022, due to excess capital in the program, $296,119 was withdrawn from the program, of which $77,066 was returned to the Conservatory and $219,053 was returned to the government and decreased the liability. During 2021, due to excess capital in the program, $438,521 was withdrawn from the program, of which $114,422 was returned to the Conservatory and $324,099 was returned to the government and decreased the liability. The liability for funds advanced by the Federal government was $2,006,045 and $2,259,798 as of June 30, 2022 and 2021, 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
2022	$ 543	$ 248	$ 445,791	$ 446,582
2021	$ 4,675	$ 240	$ 372,742	$ 377,657

Note 5. Contributions Receivable

Contributions receivable consisted of the following at June 30:

	2022	2021
Due within one year	$ 1,300,000	$ 651,400
Due within two to five years	400,000	195,000
	1,700,000	846,400
Less:		
Present value discount	(14,596)	(12,877)
Allowance for uncollectible pledges	(33,706)	(16,670)
	$ 1,651,698	$ 816,853

Contributions receivable are discounted at rates ranging from 0.46% to 2.92%.

As of June 30, 2022 and 2021, two donors constitute 81% and three donors constitute 84%, respectively, of gross pledges.

Note 6. Planned Giving

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

		2022		2021
Planned giving assets:				
Charitable remainder trusts	$	481,571	$	590,782
Charitable lead trusts		64,783		67,619
Charitable gift annuities		1,714,890		2,108,894
Perpetual trusts		478,413		579,477
Total planned giving assets		2,739,657		3,346,772
Planned giving liabilities:				
Amounts due to beneficiaries		(767,718)		(786,749)
Total planned giving net assets	$	1,971,939	$	2,560,023

Charitable remainder trusts and amounts due to beneficiaries are discounted at rates ranging from 0.6% to 6.0%.

As discussed in Note 2, charitable remainder, charitable lead and perpetual trust assets managed by third party trustees are presented at fair value based upon Level 3 inputs. There were no purchases or issuances or transfers into or out of Level 3 assets.

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

		2022 Fair Value		2021 Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Beneficial interest in perpetual trusts	$	478,413	$	579,477	Market approach on underlying securities	None	N/A
Beneficial interest in charitable remainder trusts	$	481,571	$	590,782	Income approach discounted cash flow and present value techniques	Discount rate	2.2%-9.6% (7.65%)
						Rate of return	6.0%-7.5% (6.18%)
						Life expectancy	6.5 years-10.60 years (8.39 years)
Beneficial interest in charitable lead annuity trusts	$	64,783	$	67,619	Income approach discounted cash flow and present value techniques	Discount rate	3.20% (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. 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 statements 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 following tables summarize the investment assets that the Conservatory measures at fair value on a recurring basis at June 30:

2022	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	$ 10,338,453	$ -	$ -	$ -	$ 10,338,453
Cash and cash equivalents (b)	18,639,699	-	-	-	18,639,699
Alternative investment strategies	-	-	-	109,374,824	109,374,824
	28,978,152	-	-	109,374,824	138,352,976
Nonpooled:					
Fixed-income mutual funds	70,442	-	-	-	70,442
	$ 29,048,594	$ -	$ -	$ 109,374,824	$ 138,423,418

2021	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	$ 14,403,048	$ -	$ -	$ -	$ 14,403,048
cash and cash equivalents (b)	299,068	-	-	-	299,068
Equity mutual funds	37,411,942	-	-	-	37,411,942
Alternative investment strategies	-	-	-	102,606,343	102,606,343
	52,114,058	-	-	102,606,343	154,720,401
Nonpooled:					
Fixed-income mutual funds	78,381	-	-	-	78,381
	$ 52,192,439	$ -	$ -	$ 102,606,343	$ 154,798,782

(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 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.

(b) Not fair valued but included for purpose of reconciliation.

Note 7. Investments (Continued)

At June 30, 2022 and 2021, the Conservatory's alternative investment strategies represented 79.1% and 66.3% of total pooled investments, respectively. At June 30, 2022 and 2021, the Committee has selected approximately 30 and 40 alternative strategy managers, respectively, 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.

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

2022 Investments	Fair Value	Unfunded Commitments
Hedge funds (a)	$ 25,403,575	$ -
Commodities funds (b)	26,464	-
Private equity funds (c)	21,135,110	13,719,312
International funds (d)	49,784,983	-
Domestic equity funds (e)	13,024,692	
	$ 109,374,824	$ 13,719,312

2021 Investments	Fair Value	Unfunded Commitments
Hedge funds (a)	$ 39,933,160	$ -
Commodities funds (b)	24,106	-
Private equity funds (c)	22,263,972	6,207,034
International funds (d)	40,385,105	-
	$ 102,606,343	$ 6,207,034

(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 non-US issued equity, debt and derivative securities.

(e) This class includes investments in domestic equity securities as well as options on such securities and certain stock indices.

Note 7. Investments (Continued)

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

	2022	2021
Less than 30 days	$ 62,809,675	$ 54,841,936
Greater than 30 days to less than one year	25,403,575	25,476,328
One year or greater	21,161,574	22,288,079
	$ 109,374,824	$ 102,606,343

Note 8. Property and Equipment

Property and equipment consisted of the following at June 30:

	2022	2021
Buildings and improvements	$ 136,357,262	$ 134,088,252
Furnishings, instruments and equipment	26,671,087	26,128,900
	163,028,349	160,217,152
Less accumulated depreciation	(59,715,011)	(53,501,011)
	103,313,338	106,716,141
Land	1,269,497	1,269,497
Construction in progress	395,766	596,973
	$ 104,978,601	$ 108,582,611

At June 30, 2022 and 2021, the construction in progress consisted of classroom renovations and building deferred maintenance.

The Conservatory follows FASB ASC 410, *Asset Retirement and Environmental Obligations*. This standard requires that a liability be recorded for the fair value of the conditional asset retirement obligation. The recording of a liability is required if the fair value of the obligation can be reasonably estimated. The Conservatory recorded a change in environmental liability associated with its asset retirement obligation of $37,617 and $35,741 in fiscal 2022 and 2021, 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 $784,485 and $746,868 as of June 30, 2022 and 2021, respectively, is discounted to its net present value and is included in accounts payable and accrued expenses in the statements of financial position.

Note 9. Finance Leases

In November 2019, the Conservatory entered into a five-year finance lease for office printers, beginning in January 2020. The Conservatory recorded the present value of the lease payments of $172,841 as a lease liability, with a corresponding right-of-use asset.

In January 2020, the Conservatory entered into a five-year finance lease for copy room equipment, beginning in February 2020. The Conservatory recorded the present value of the lease payments of $19,380 as a lease liability, with a corresponding right-of-use asset.

Note 9. Finance Leases (Continued)

The right-of-use assets are amortized on a straight-line basis and is presented with depreciation and amortization on the accompanying statements of activities. Amortization expense for both of the years ended June 30, 2022 and 2021 was $36,798.

Interest costs recognized for the fiscal year is equal to the accretion of the lease liability and is presented with interest expense on the accompanying statements of activities. Finance lease interest costs for the years ended June 30, 2022 and 2021, was $1,978 and $2,546, respectively.

As of June 30, 2022 and 2021, the aggregate carrying amount of the Conservatory's lease liability is $116,011 and $154,780, respectively, and the aggregate carrying amount of the right-of-use asset is $103,615 and $140,414, respectively.

Aggregate future maturities of lease liabilities were as follows:

2023	$	49,458
2024		38,359
2025		30,629
Total minimum lease payments		118,446
Less interest		(2,435)
Present value of lease liabilities	$	116,011

Note 10. Line of Credit

The Conservatory has a $10 million secured line of credit with Century Bank & Trust Company, effective March 19, 2021, with an expiration date of July 1, 2024.

The interest rates were 2.56% and 1.59% as of June 30, 2022 and 2021, respectively. There was no line of credit interest expense in fiscal 2022 and 2021.

As of June 30, 2022 and 2021, there was no balance outstanding on the line of credit.

Note 11. Long-Term Debt

On June 30, 2014, $23,685,000 of Massachusetts Development Finance Agency (MDFA) 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 MDFA 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 November 17, 2015, $16,050,000 of MDFA 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.

Note 11. Long-Term Debt (Continued)

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.

On March 1, 2021, the Series 2014 Bonds and the Series 2015 Bonds (the Bonds) were amended to adjust the interest rate from 3.34% to 2.34% effective March 19, 2021. No other terms of the Bonds were modified. Principal and interest on the Bonds is payable monthly.

On March 19, 2021, the Conservatory entered into a $7,500,000 Term Note (2021 Term Note) with Century Bank & Trust Company to support operating cash flows. The note bears interest at a fixed rate of 3.13% payable monthly commencing April 1, 2021. Commencing on April 1, 2024, principal and interest payments in the amount of $62,707 will be payable monthly through maturity. The 2021 Term Note will mature on March 1, 2036.

The Bonds and the 2021 Term Note are secured by gross tuition receipts of the Conservatory and mortgage liens on its 241 St. Botolph Street and 33 Gainsborough Street buildings. 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 statements of financial position and its related amortization expense is presented with interest expense on the accompanying statements of activities. In connection with the 2021 amendments, the Conservatory incurred additional bond issuance costs of $855,120 which were capitalized and being amortized over the remaining life of the bonds. Amortization expense for the years ended June 30, 2022 and 2021, was $76,766 and $41,754, respectively, which is included in interest expense in the statements of activities. Future amortization expense will amount to $76,766 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.

	2022	2021
Bonds payable	$ 1,275,766	$ 1,255,088
Bond issuance costs, unamortized	(76,766)	(76,766)
	$ 1,199,000	$ 1,178,322

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

	2022	2021
Bonds payable	$ 38,029,332	$ 39,328,986
Bond issuance costs, unamortized	(1,151,488)	(1,228,254)
	$ 36,877,844	$ 38,100,732

Note 11. Long-Term Debt (Continued)

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

2023	$ 1,275,766
2024	1,473,160
2025	1,907,845
2026	1,976,221
2027	2,030,416
Years thereafter	30,641,690
	$ 39,305,098

Bond-related interest of $1,006,403 and $1,124,607 was recognized as expense in fiscal 2022 and 2021, respectively.

Note 12. Endowment

The Conservatory's endowment consists of approximately 320 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 years ended June 30, 2022 or 2021.

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

2022	Without Donor Restrictions	With Donor Restrictions	Total
Donor—restricted endowment funds	$ -	$ 119,085,808	$ 119,085,808
Board designated endowment funds	19,337,610	-	19,337,610
	$ 19,337,610	$ 119,085,808	$ 138,423,418

2021	Without Donor Restrictions	With Donor Restrictions	
Donor—restricted endowment funds	$ -	$ 133,086,001	$ 133,086,001
Board designated endowment funds	21,712,641	-	21,712,641
	$ 21,712,641	$ 133,086,001	$ 154,798,642

Note 12. Endowment (Continued)

The changes in endowment net assets for fiscal 2022, were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 21,712,641	$ 133,086,001	$ 154,798,642
Investment return, net	(1,524,912)	(9,389,433)	(10,914,345)
Additions	-	573,343	573,343
Endowment income made available for operations	(850,119)	(5,184,103)	(6,034,222)
Endowment net assets, end of year	$ 19,337,610	$ 119,085,808	$ 138,423,418

The changes in endowment net assets for fiscal 2021, were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 16,861,133	$ 102,352,620	$ 119,213,753
Investment return, net	5,705,937	34,881,507	40,587,444
Additions	-	822,528	822,528
Endowment income made available for operations	(854,429)	(4,970,654)	(5,825,083)
Endowment net assets, end of year	$ 21,712,641	$ 133,086,001	$ 154,798,642

Note 13. Net Assets

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

	2022	2021
Subject to expenditure for the following purposes:		
Financial aid	$ 581,983	$ 674,518
Operations	3,454,120	2,702,416
Subtotal	4,036,103	3,376,934
Subject to the passage of time:		
Planned gifts, net of amount due to beneficiaries	163,088	201,307
Contributions receivable	1,585,891	522,852
Subtotal	1,748,979	724,159
Subject to the Conservatory’s spending policy and appropriation:		
Faculty salaries	15,629,676	17,549,301
Financial aid	60,363,737	67,411,594
Operations	43,092,395	48,125,106
Subtotal	119,085,808	133,086,001
Not subject to spending policy or appropriations:		
Assets held for appreciation	5,875,000	5,875,000
Beneficial interest in perpetual trusts	478,414	579,477
Contributions receivable to donor restricted endowment	70,807	49,000
Other planned gifts to donor restricted endowment	420,787	512,924
Subtotal	6,845,008	7,016,401
Total net assets with donor restrictions	$ 131,715,898	$ 144,203,495

Note 13. Net Assets (Continued)

The total historic dollar value of the donor restricted endowment funds which are to be held in perpetuity were $78,109,534 and $77,536,191 as of June 30, 2022 and 2021, respectively.

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

	2022	2021
Endowment:		
Operations	$ 5,986,143	$ 14,991,284
Financial aid	13,351,467	6,721,357
Total board designated net assets	$ 19,337,610	$ 21,712,641

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 years ended June 30:

	2022	2021
Satisfaction of purpose restrictions	$ 2,133,197	$ 3,260,679
Total operating net assets released from restrictions	2,133,197	3,260,679
Satisfaction of restrictions – capital assets placed in service	16,971	467,355
Total non-operating net assets released from restrictions	16,971	467,355
Total net assets released from restrictions	$ 2,150,168	$ 3,728,034

Note 14. 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. The Conservatory amended the plan to reduce the employer match to 0% effective July 1, 2020 through June 30, 2021. The match was reinstated effective July 1, 2021. Employee benefits costs associated with this plan amounted to $536,568 and $5,986 during the years ended June 30, 2022 and 2021, respectively.

Note 15. 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 ended June 30, 2022, was as follows:

	Instruction	Academic Support	Student Services	Fundraising	Administration	Auxiliary	Total Expenses
Salaries and wages	$ 16,639,865	$ 1,668,059	$ 2,821,174	$ 1,421,496	$ 2,944,345	$ 365,963	$ 25,860,902
Employee benefits	3,726,626	371,094	609,393	316,007	394,437	53,091	5,470,648
Supplies and equipment	515,759	664,463	169,516	6,194	655,656	233,978	2,245,566
Building operations	1,044,335	763,711	169,253	14,477	650,347	712,904	3,355,027
Interest expense	404,633	303,033	66,226	3,559	25,173	283,752	1,086,376
Depreciation and amortization	1,592,077	1,310,224	284,882	36,684	296,259	2,734,032	6,254,158
Professional services	242,291	410,801	205,489	325,348	1,616,754	129,999	2,930,682
Other expenses	1,253,465	53,490	1,336,083	356,927	1,877,060	40,350	4,917,375
Total expenses	$ 25,419,051	$ 5,544,875	$ 5,662,016	$ 2,480,692	$ 8,460,031	$ 4,554,069	$ 52,120,734

Expenses by functional and natural classification for the year ended June 30, 2021, was as follows:

	Instruction	Academic Support	Student Services	Fundraising	Administration	Auxiliary	Total Expenses
Salaries and wages	$ 15,538,355	$ 1,433,181	$ 2,670,308	$ 1,329,297	$ 3,176,274	$ 333,939	$ 24,481,354
Employee benefits	2,743,833	221,466	465,100	239,818	992,992	35,015	4,698,224
Supplies and equipment	1,053,178	590,607	161,477	2,906	359,720	214,853	2,382,741
Building operations	851,636	634,764	141,440	5,226	529,027	594,377	2,756,470
Interest expense	421,126	315,384	68,925	2,596	65,560	295,317	1,168,908
Depreciation and amortization	1,575,700	1,313,358	289,088	23,349	250,880	2,744,667	6,197,042
Professional services	256,498	422,033	113,677	194,454	2,016,151	153,022	3,155,835
Other expenses	580,093	43,142	828,565	247,818	1,523,205	143,194	3,366,017
Total expenses	$ 23,020,419	$ 4,973,935	$ 4,738,580	$ 2,045,464	$ 8,913,809	$ 4,514,384	$ 48,206,591

Note 16. Related Party Transactions

The Conservatory's assets include $980,000 and $254,800 of contributions receivable from Trustees as of June 30, 2022 and 2021, respectively.

Two Trustees of the Board are managing directors of an investment fund that manages portions of the Conservatory's alternative investment holdings. The Conservatory's investment in these funds have a fair value of $11,431,937 and $18,179,551 at June 30, 2022 and 2021, respectively.

A Trustee of the Board is a partner of a law firm that provides legal services to the Conservatory. Legal fees paid to this law firm amounted to approximately $205,054 for the year ended June 30, 2021.

Note 17. Gifts in Kind

For the years ended June 30, contributed non-financial assets recognized in the statements of activities as gifts in kind without donor restrictions include the following:

	2022	2021
Condominium	$ 1,520,000	$ -
Instruments and other	159,258	95,345
	$ 1,679,258	$ 95,345

The contributed condominium will be utilized by the Conservatory and the estimated fair value was estimated using an appraisal performed by a licensed professional.

The Conservatory is utilizing the contributed instruments and other items in the advancement of our students' talent through their pursue of our various programs of study; as such, most contributions are available to all students through our instrument library. The Conservatory utilized professional appraisers or comparable sales to estimate the fair value of donated instruments and other items.

Note 18. Commitments and Contingencies

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.

The Conservatory participates in a number of federal programs that are subject to financial and compliance audits. Management believes its programs have been conducted in accordance with the terms of the agreements and, thus, does not expect any significant impact if such programs are further audited by funders.

The Conservatory is involved in other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Conservatory's financial condition or results of operations.