

New England Conservatory of Music

Financial Report
June 30, 2024

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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, 2024 and 2023, 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, 2024 and 2023, 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 26, 2024

New England Conservatory of Music

Statements of Financial Position June 30, 2024 and 2023

	2024	2023
Assets		
Cash and cash equivalents	\$ 1,025,985	\$ 4,746,205
Receivables and other assets	1,266,526	1,196,599
Student accounts, notes and loans receivable, net of allowance for credit losses of \$467,025 for 2024	1,218,454	1,633,074
Contributions receivable, net	19,649,379	11,843,056
Planned giving assets	2,448,045	2,603,810
Investments, at fair value	164,487,681	150,989,507
Finance lease right-of-use assets, net	863,351	66,817
Cash restricted for investment in property, plant and equipment	2,818,655	3,000,000
Property and equipment, net	96,504,430	100,442,643
Total assets	\$ 290,282,506	\$ 276,521,711
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 3,746,513	\$ 3,044,605
Planned giving liabilities	465,769	615,556
Deposits and advance payments	1,299,188	1,145,212
Finance lease liabilities	739,570	67,952
Government advances for student loans	1,376,155	1,843,698
Long-term debt, net of bond issuance costs	35,587,779	36,856,674
Total liabilities	43,214,974	43,573,697
Commitments and contingencies (Note 19)		
Net assets:		
Without donor restrictions	68,870,288	74,940,769
With donor restrictions	178,197,244	158,007,245
Total net assets	247,067,532	232,948,014
Total liabilities and net assets	\$ 290,282,506	\$ 276,521,711

See notes to financial statements.

New England Conservatory of Music

Statement of Activities Year Ended June 30, 2024 (With Summarized Information for 2023)

	2024			2023 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenues and other support:				
Tuition and fees, net of student aid of \$19,926,061 for 2024 and \$18,382,251 for 2023	\$ 29,534,663	\$ -	\$ 29,534,663	\$ 29,769,900
Dormitory and dining service	4,904,860	-	4,904,860	3,978,518
Other income	1,322,553	15,308	1,337,861	1,339,364
Subtotal	35,762,076	15,308	35,777,384	35,087,782
Gifts and grants:				
Annual fund contributions	4,061,079	-	4,061,079	4,195,838
Other gifts	50,098	-	50,098	26,915
Government grants	1,210,257	-	1,210,257	292,083
Contributions of nonfinancial assets	62,500	-	62,500	60,425
Net assets released from restrictions	3,358,858	(3,358,858)	-	-
Subtotal	8,742,792	(3,358,858)	5,383,934	4,575,261
Spending rule income used for operations:				
Endowment income made available for operations	7,053,642	-	7,053,642	6,197,000
Total revenues and other support	51,558,510	(3,343,550)	48,214,960	45,860,043
Expenses:				
Faculty salaries and wages	14,776,967	-	14,776,967	13,803,865
Other salaries and wages	14,587,644	-	14,587,644	12,706,939
Employee benefits	6,166,218	-	6,166,218	6,165,182
Supplies and equipment	1,865,028	-	1,865,028	1,777,517
Building operations	3,838,842	-	3,838,842	3,846,123
Interest expense	1,016,760	-	1,016,760	1,057,878
Depreciation and amortization	6,423,840	-	6,423,840	6,133,090
Professional services	4,460,418	-	4,460,418	5,791,143
Other expenses	6,001,270	-	6,001,270	5,833,166
Total expenses	59,136,987	-	59,136,987	57,114,903
Change in net assets from operating activities	(7,578,477)	(3,343,550)	(10,922,027)	(11,254,860)
Nonoperating activities:				
Non-current contributions and grants	-	15,400,130	15,400,130	29,921,361
Release from restriction—capital assets placed into service	626,542	(626,542)	-	-
Spending rule income distributed from endowment	(1,392,175)	(5,661,467)	(7,053,642)	(6,197,000)
Investment return (loss), net	2,112,117	14,303,195	16,415,312	5,098,256
Change in value of planned giving net assets	203,182	118,233	321,415	16,314
Attrition in environmental liability	(41,670)	-	(41,670)	(39,592)
Change in net assets from nonoperating activities	1,507,996	23,533,549	25,041,545	28,799,339
Change in net assets	(6,070,481)	20,189,999	14,119,518	17,544,479
Net assets—beginning of year	74,940,769	158,007,245	232,948,014	215,403,535
Net assets—end of year	\$ 68,870,288	\$ 178,197,244	\$ 247,067,532	\$ 232,948,014

See notes to financial statements.

New England Conservatory of Music

Statement of Activities Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support:			
Tuition and fees, net of student aid of \$18,382,251	\$ 29,769,900	\$ -	\$ 29,769,900
Dormitory and dining service	3,978,518	-	3,978,518
Other income	1,327,359	12,005	1,339,364
Subtotal	35,075,777	12,005	35,087,782
Gifts and grants:			
Annual fund contributions	4,195,838	-	4,195,838
Other gifts	26,915	-	26,915
Government grants	292,083	-	292,083
Gifts in kind	60,425	-	60,425
Net assets released from restrictions	2,755,530	(2,755,530)	-
Subtotal	7,330,791	(2,755,530)	4,575,261
Spending rule income used for operations:			
Endowment income made available for operations	6,197,000	-	6,197,000
Total revenues and other support	48,603,568	(2,743,525)	45,860,043
Expenses:			
Faculty salaries and wages	13,803,865	-	13,803,865
Other salaries and wages	12,706,939	-	12,706,939
Employee benefits	6,165,182	-	6,165,182
Supplies and equipment	1,777,517	-	1,777,517
Building operations	3,846,123	-	3,846,123
Interest expense	1,057,878	-	1,057,878
Depreciation and amortization	6,133,090	-	6,133,090
Professional services	5,791,143	-	5,791,143
Other expenses	5,833,166	-	5,833,166
Total expenses	57,114,903	-	57,114,903
Change in net assets from operating activities	(8,511,335)	(2,743,525)	(11,254,860)
Nonoperating activities:			
Non-current contributions and grants	-	29,921,361	29,921,361
Spending rule income distributed from endowment	(865,715)	(5,331,285)	(6,197,000)
Investment return (loss), net	656,881	4,441,375	5,098,256
Change in value of planned giving net assets	12,893	3,421	16,314
Attrition in environmental liability	(39,592)	-	(39,592)
Change in net assets from nonoperating activities	(235,533)	29,034,872	28,799,339
Change in net assets	(8,746,868)	26,291,347	17,544,479
Net assets—beginning of year	83,687,637	131,715,898	215,403,535
Net assets—end of year	\$ 74,940,769	\$ 158,007,245	\$ 232,948,014

See notes to financial statements.

New England Conservatory of Music

Statements of Cash Flows Years Ended June 30, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Change in net assets	\$ 14,119,518	\$ 17,544,479
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Provision for doubtful students accounts, notes and loans receivable	273,442	17,297
Change in contributions receivable discount and allowance	835,721	566,892
Depreciation and amortization	6,423,840	6,133,090
Amortization of bond issuance costs	76,766	76,766
Net realized and unrealized gains on investments	(16,415,312)	(4,840,960)
Donated property and equipment	(62,500)	(67,750)
Distributions from planned giving assets	327,393	-
Change in value of planned giving net assets	(321,415)	(16,314)
Contributions restricted for long-term purposes	(9,000,746)	(16,675,560)
Donated securities restricted for long-term purposes	(1,091,594)	(60,425)
Donated securities	(960,222)	(2,392,409)
Proceeds from donated securities	960,222	2,392,409
Attrition in environmental liability	41,670	39,592
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables and other assets	(69,927)	125,505
Student accounts receivable	(342,841)	58,010
Contributions receivable	(8,642,044)	(10,758,250)
Increase (decrease) in:		
Accounts payable and accrued expenses	660,238	(562,523)
Deposits and advance payments	153,976	(95,960)
Net cash used in operating activities	(13,033,815)	(8,516,111)
Cash flows from investing activities:		
Additions to property and equipment	(2,084,058)	(1,492,585)
Purchases of investments	(99,024,112)	(51,327,618)
Sales of investments	101,941,250	43,602,489
Change in student notes and loans receivable	484,019	195,157
Net cash provided by (used in) investing activities	1,317,099	(9,022,557)
Cash flows from financing activities:		
Finance lease principal payments	(463,985)	(48,059)
Repayment of long-term debt	(1,345,661)	(1,296,936)
Repayment of government advances for student loans	(467,543)	(162,347)
Contributions restricted for long-term purposes	9,000,746	16,675,560
Donated securities restricted for long-term purposes	1,091,594	60,425
Net cash provided by financing activities	7,815,151	15,228,643
Net decrease in cash and cash equivalents	(3,901,565)	(2,310,025)
Cash and cash equivalents—beginning of year	7,746,205	10,056,230
Cash and cash equivalents—end of year	\$ 3,844,640	\$ 7,746,205
Supplementary schedule of cash flow information:		
Cash paid for interest	\$ 916,080	\$ 982,763
Supplemental schedule of noncash investing and financing activity:		
Donated property and equipment	\$ 62,500	\$ 67,750
Right of use assets acquired with a lease liability	\$ 1,135,603	\$ -

See notes to financial statements.

New England Conservatory of Music

Notes to Financial Statements

Note 1. Nature of Activities

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 2,600 children, teens and adults participate in the New England Conservatory Preparatory School, School of Continuing Education and summer school programs. The Conservatory has a wholly owned subsidiary, Measure for Measure LLC, which had no activity during the years ended June 30, 2024 and 2023.

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, changes in net assets 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 contributions receivable intended to fund future-year activities), investment return (loss), net, releases from restriction for capital assets placed into service, change in value in planned giving net assets, spending rule income distributed from endowment 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, 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 resources without donor restrictions 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).

New England Conservatory of Music

Notes to Financial Statements

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. Unconditional promises to give are recorded net of an allowance for doubtful collections. Management estimates the allowance based on review of historical experience and specific review of collections trends that differ from the plan on individual accounts. 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 or time period related to inherent time restriction has passed.

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. At June 30, 2024, the Conservatory has a conditional grant of \$4,474,181 which is conditioned on certain performance barriers. At June 30, 2023, the Conservatory had a \$2,000,000 conditional promise to give which included certain matching conditions which were met during the year ended June 30, 2024.

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: The Conservatory has adopted investment and spending policies for endowment assets that are intended to earn equity-like returns and reduce long-term volatility. 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.

To satisfy its long-term rate-of return objectives, the Conservatory relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Conservatory targets a diversified asset allocation that places emphasis on investments in equities, fixed income, and alternative investments to achieve its objections within prudent risk constraints.

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.

New England Conservatory of Music

Notes to Financial Statements

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 generate returns that meet or exceed the spending rate after inflation, management fees, and administrative costs 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 2024 and 2023.

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.

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the statements of financial position that sum to the total of the same such amounts show in the statements of cash flows.

	2024	2023
Cash and cash equivalents	\$ 1,025,985	\$ 4,746,205
Restricted cash	2,818,655	3,000,000
	<u>\$ 3,844,640</u>	<u>\$ 7,746,205</u>

Student accounts, notes and loans receivable: Student accounts, notes and loans receivable are presented net of an allowance for credit losses, which is an estimate of amounts that may not be collectible. The Conservatory separates accounts, notes and loans receivable into risk pools based on their aging. In determining the amount of the allowance as of the statement of financial position date, the Conservatory develops a loss rate for each risk pool. This loss rate is based on management's historical collection experience, adjusted for management's expectations about current and future economic conditions. Student accounts, notes and loans receivable are not collateralized.

An account is considered uncollectible when all efforts to collect the account have been exhausted. 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.

New England Conservatory of Music

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

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

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

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

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

The Conservatory uses the net asset value (NAV) 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:

Contributions receivable are initially measured at fair value using Level 2 inputs. Any multi-year contributions receivable is 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.

New England Conservatory of Music

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Derivatives: The Conservatory employs certain derivative financial instruments to replicate asset positions more cost effectively than through purchases and sales of the underlying assets. As a result of entering into investment derivative agreements, the Conservatory is subject to market volatility consistent with the underlying asset classes. The Conservatory has established policies governing the use of derivatives.

The purchase and sale of exchange-traded derivatives require collateral deposits with the Futures Commission Merchant (FCM). Collateral is posted and moved on a daily basis as required by the rules of the exchange on which the derivatives are traded. In the event of the FCM's insolvency, recovery may be limited to the Conservatory's pro-rata share of segregated customer funds available. It is possible that the recovery amount could be less than the total cash or other collateral posted. The collateral is generally in the form of debt obligations issued by the U.S. Treasury or cash. Cash collateral and certain securities owned by the Conservatory were held at counterparty brokers to collateralize these positions and are included in investments on the statement of financial position. The notional value of the outstanding derivative contracts at June 30, 2024 and 2023 was \$12,447,785 and \$12,900,796, respectively. The associated unrealized (loss) gain on these derivatives at June 30, 2024 and 2023 was \$(50,991) and \$215,704, respectively. The notional amount of these derivatives is not recorded on the Conservatory's financial statements.

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 held by third-party trustees 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 held by third-party trustees 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.

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. Donated property and equipment are recorded at their estimated fair value on the date of receipt. The Conservatory capitalizes all expenditures over \$5,000 with a useful life of greater than one year. 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, 2024 and 2023, no impairment indicators were identified.

New England Conservatory of Music

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

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 (ROU) 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.

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, 2024 and 2023, which totaled \$1,299,188 and \$1,145,212 at June 30, 2024 and 2023, 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. Deferred revenue of \$1,241,172 at June 30, 2022, was recognized as revenue during the year ended June 30, 2023. The beginning of year student accounts receivable balances for the years ended June 30, 2024 and 2023 was \$686,510 and \$755,447, respectively (see Note 4 for ending balances). Discounts provided to employees are considered part of fringe benefits within operating expenses.

New England Conservatory of Music

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

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

	2024	2023
Undergraduate (net of financial aid and scholarships of \$9,050,260 and \$7,734,905 in 2024 and 2023, respectively)	\$ 12,839,793	\$ 14,715,179
Graduate (net of financial aid and scholarships of \$10,286,994 and \$10,075,845 in 2024 and 2023, respectively)	12,146,265	10,679,873
Non-degree programs (net of financial aid and scholarships of \$588,807 and \$571,501 in 2024 and 2023, respectively)	4,548,605	4,374,848
	<u>\$ 29,534,663</u>	<u>\$ 29,769,900</u>

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 are evaluated. If determined to be nonreciprocal, meaning, the granting entity has not received a direct benefit in exchange for the resources provided, 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, 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.

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, 2024, were reviewed, and it was determined that no provision for uncertain tax positions was required as of June 30, 2024 or 2023. Management believes that the Conservatory's federal and state returns are generally open for examination for three years following the date filed.

New England Conservatory of Music

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

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 credits losses on student accounts, notes and loans receivable; allowance for doubtful accounts on contributions receivable, the fair value of investments and related unrealized gains (losses); the net realizable fair value of contributions receivable and planned gifts; the estimated value of gifts in kind; the asset retirement obligation; depreciable lives for property and equipment; 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.

Advertising: The Conservatory expenses advertising costs as incurred.

Related party transactions: The Conservatory has a conflict of interest policy which requires that each trustee, officer and senior executive shall disclose to the Board at least once each year all the material facts concerning his or her relationship with or interest in any person, firm, corporation or other entity with whom the Conservatory has, or proposes to enter into, any contract or other transaction which may, directly or indirectly, result in financial gain or other advantage to such trustee, officer or senior executive by reason of such relationship or interest.

Recently adopted 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 Conservatory adopted this ASU during the year ended June 30, 2024. The adoption did not have a material impact to the financial statements.

Reclassifications: Certain reclassifications have been made to prior year amounts to conform to the current year presentation. These reclassifications have no effect on net assets.

Subsequent events: The Conservatory has evaluated subsequent events through November 26, 2024, the date on which the financial statements were available to be issued.

New England Conservatory of Music

Notes to 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.

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

	2024	2023
Financial assets:		
Cash and cash equivalents	\$ -	\$ 603,939
Accounts receivable	481,023	386,856
Student accounts receivable	530,194	777,574
Contributions receivable	734,858	1,453,000
Board-appropriated endowment spending	7,375,000	6,956,439
Subtotal	<u>9,121,075</u>	<u>10,177,808</u>
Liquidity resources:		
Line of credit	<u>10,000,000</u>	<u>10,000,000</u>
Total financial assets and liquidity resources available within one year	<u>\$ 19,121,075</u>	<u>\$ 20,177,808</u>

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 \$21.1 million and \$19.5 million of Board-designated funds in fiscal 2024 and 2023, respectively, of which it is estimated that approximately \$18.3 million and \$17.1 million can be liquidated within one year of fiscal 2024 and 2023, 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 and, notes and loans receivable were as follows at June 30:

	2024	2023
Student accounts receivable, net of allowances for doubtful accounts of \$395,734 and \$122,292 in 2024 and 2023, respectively	\$ 755,909	\$ 686,510
Student notes and loans receivable, net of allowances for doubtful accounts of \$71,291 in 2024 and 2023	462,545	946,564
	<u>\$ 1,218,454</u>	<u>\$ 1,633,074</u>

New England Conservatory of Music

Notes to Financial Statements

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

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

	2024	2023
Federal government program	\$ 533,836	\$ 1,017,855
Less allowance for doubtful accounts:		
Beginning of year	(71,291)	(64,921)
(Increase) decrease	-	(6,370)
End of year	(71,291)	(71,291)
Federal student loans receivable, net	<u>\$ 462,545</u>	<u>\$ 946,564</u>

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 2024, due to excess capital in the program, \$209,933 was withdrawn from the program, of which \$56,296 was returned to the Conservatory and \$153,637 was returned to the government and decreased the liability. During 2023, due to excess capital in the program, \$218,975 was withdrawn from the program, of which \$59,318 was returned to the Conservatory and \$159,657 was returned to the government and decreased the liability. The liability for funds advanced by the Federal government was \$1,376,155 and \$1,843,698 as of June 30, 2024 and 2023, 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
2024	\$ 1,263	\$ -	\$ 124,404	\$ 125,667
2023	\$ 2,770	\$ 246	\$ 90,096	\$ 93,112

Note 5. Contributions Receivable, Net

Contributions receivable consisted of the following at June 30:

	2024	2023
Due within one year	\$ 6,766,217	\$ 4,544,452
Due within two to five years	14,334,167	7,685,314
Due within five or more years	-	228,574
	<u>21,100,384</u>	<u>12,458,340</u>
Less:		
Present value discount	(1,312,112)	(373,895)
Allowance for uncollectible contributions receivable	(138,893)	(241,389)
	<u>\$ 19,649,379</u>	<u>\$ 11,843,056</u>

Contributions receivable are discounted at rates ranging from 4.13% to 4.87%. As of June 30, 2024 and 2023, two donors constitute 53% and one donor constitutes 72%, respectively, of gross pledges.

New England Conservatory of Music

Notes to Financial Statements

Note 6. Planned Giving

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

	2024	2023
Planned giving assets:		
Charitable remainder trusts	\$ 532,158	\$ 475,946
Charitable lead trusts	61,856	61,856
Charitable gift annuities	1,343,690	1,578,109
Perpetual trusts	510,341	487,899
Total planned giving assets	<u>2,448,045</u>	<u>2,603,810</u>
Planned giving liabilities:		
Amounts due to beneficiaries	(465,769)	(615,556)
Total planned giving net assets	<u>\$ 1,982,276</u>	<u>\$ 1,988,254</u>

Charitable gift annuities 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:

	Fair Value		Valuation Technique	Unobservable Input	Range (Weighted Average)
	2024	2023			
Beneficial interest in perpetual trusts	\$ 510,341	\$ 487,899	Market approach on underlying securities	None	N/A
Beneficial interest in charitable remainder trusts	532,158	475,946	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	61,856	61,856	Income approach discounted cash flow and present value techniques	Discount rate	3.20% (3.2%)
	<u>\$ 1,104,355</u>	<u>\$ 1,025,701</u>			

New England Conservatory of Music

Notes to Financial Statements

Note 7. Investments

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 U.S. treasuries.

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

2024	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	\$ 14,856,355	\$ -	\$ -	\$ -	\$ 14,856,355
Cash and cash equivalents (b)	5,265,853	-	-	-	5,265,853
Alternative investment strategies	-	-	-	144,295,282	144,295,282
	20,122,208	-	-	144,295,282	164,417,490
Nonpooled:					
Fixed-income mutual funds	70,191	-	-	-	70,191
	<u>\$ 20,192,399</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 144,295,282</u>	<u>\$ 164,487,681</u>

2023	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	\$ 14,676,642	\$ -	\$ -	\$ -	\$ 14,676,642
Cash and cash equivalents (b)	8,380,788	-	-	-	8,380,788
Alternative investment strategies	-	-	-	127,862,980	127,862,980
	23,057,430	-	-	127,862,980	150,920,410
Nonpooled:					
Fixed-income mutual funds	69,097	-	-	-	69,097
	<u>\$ 23,126,527</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 127,862,980</u>	<u>\$ 150,989,507</u>

(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) \$721,709 and \$1,179,954 of cash at June 30, 2024 and 2023, respectively, not fair valued but included in total for purpose of reconciliation.

New England Conservatory of Music

Notes to Financial Statements

Note 7. Investments (Continued)

At June 30, 2024 and 2023, the Conservatory's alternative investment strategies represented 87.8% and 84.7% of total pooled investments, respectively. At June 30, 2024 and 2023, There are approximately 48 and 39 alternative strategy managers, respectively, with a mix of approaches and low correlations in order to provide diversification benefits to the investment pool. 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:

2024 Investments	Fair Value	Unfunded Commitments
Hedge funds (a)	\$ 31,589,576	\$ -
Commodities funds (b)	8,848	-
Private equity funds (c)	21,036,879	23,978,510
International funds (d)	46,454,178	-
Domestic equity funds (e)	32,991,778	-
Real estate funds (f)	3,512,139	2,393,350
Fixed income funds (g)	8,701,884	401,500
	\$ 144,295,282	\$ 26,773,360
2023 Investments	Fair Value	Unfunded Commitments
Hedge funds (a)	\$ 32,116,225	\$ -
Commodities funds (b)	11,763	-
Private equity funds (c)	19,841,973	17,986,750
International funds (d)	54,393,624	-
Domestic equity funds (e)	17,533,940	-
Real estate funds (f)	3,965,455	2,416,058
	\$ 127,862,980	\$ 20,402,808

- (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-U.S. 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.

New England Conservatory of Music

Notes to Financial Statements

Note 7. Investments (Continued)

- (f) This class includes investment in funds that invest primarily in real estate investments.
- (g) This class includes investments in funds that invest primarily in fixed income investments, including public and private debt securities and mortgage related securities.

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

	2024	2023
Less than 30 days	\$ 79,445,956	\$ 71,927,565
Greater than 30 days to less than one year	45,571,628	37,462,753
One year or greater	19,277,698	18,472,662
	<u>\$ 144,295,282</u>	<u>\$ 127,862,980</u>

Note 8. Property and Equipment

Property and equipment consisted of the following at June 30:

	2024	2023
Buildings and improvements	\$ 137,924,691	\$ 137,123,505
Furnishings, instruments and equipment	27,626,176	27,294,183
	<u>165,550,867</u>	<u>164,417,688</u>
Less accumulated depreciation	(71,898,839)	(65,819,602)
	93,652,028	98,598,086
Land	1,269,497	1,269,497
Construction in progress	1,582,905	575,060
	<u>\$ 96,504,430</u>	<u>\$ 100,442,643</u>

At June 30, 2024 and 2023, the construction in progress consisted of building improvements and costs related to the new website. At June 30, 2024, the construction in progress also includes costs related to software development costs. The website was completed in the summer of 2024. The software development is expected to be completed in the fall of 2025 with approximately \$5,350,000 additional costs to complete.

Depreciation expense for the years ended June 30, 2024 and 2023, was \$6,084,771 and \$6,096,292, respectively.

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 \$41,670 and \$39,592 in fiscal 2024 and 2023, 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 \$865,747 and \$824,076 as of June 30, 2024 and 2023, respectively, is discounted to its net present value and is included in accounts payable and accrued expenses in the statements of financial position.

New England Conservatory of Music

Notes to Financial Statements

Note 9. Finance Leases

The Conservatory has entered into lease agreements for office printers, copy room equipment and IT equipment with terms through 2029. The present value of the lease payments is recorded as a lease liability with a corresponding ROU asset. The weighted average discount rate at June 30, 2024 and 2023, was 5.17% and 1.58%, and the weighted average remaining lease term is 3.6 and 1.8 years, respectively. The ROU assets are amortized on a straight-line basis and is presented with depreciation and amortization on the accompanying statements of activities. Amortization expense for the years ended June 30, 2024 and 2023, was \$339,069 and \$68,890, respectively.

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, 2024 and 2023, was \$40,706 and \$1,461, respectively.

As of June 30, 2024 and 2023, the aggregate carrying amount of the Conservatory's lease liability is \$739,570 and \$67,952, respectively, and the aggregate carrying amount of the ROU asset is \$863,351 and \$66,817, respectively.

Aggregate future maturities of lease liabilities were as follows:

2025	\$	258,192
2026		229,571
2027		229,571
2028		83,232
2029		3,450
Total minimum lease payments		<u>804,016</u>
Less interest		<u>(64,446)</u>
Present value of lease liabilities	\$	<u><u>739,570</u></u>

Note 10. Line of Credit

The Conservatory has a \$10 million line of credit with a bank, effective March 19, 2021, with an expiration date of July 1, 2024. In July 2024, the expiration date was extended to October 1, 2024. The line is secured by gross tuition receipts and liens on certain property (see Note 11). On October 1, 2024, the line of credit was amended (see Note 20).

The line of credit was amended on May 31, 2023, to modify the interest rate from LIBOR plus 1.5% to SOFR plus 1.65%. The interest rates were 6.95% and 6.76% as of June 30, 2024 and 2023, respectively. There was no line of credit interest expense in fiscal 2024 and 2023.

As of June 30, 2024 and 2023, 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 a bank. 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.

New England Conservatory of Music

Notes to Financial Statements

Note 11. Long-Term Debt (Continued)

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 a bank. 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 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 2014 Bonds and the Series 2015 Bonds (the Bonds) bear interest at a fixed rate of 2.34%. 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 a bank 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 are payable monthly through maturity. The 2021 Term Note will mature on March 1, 2036.

The Bonds, the 2021 Term Note and line of credit (see Note 10) 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. Amortization expense for the years ended June 30, 2024 and 2023, was \$76,766, and is included in interest expense in the statements of activities. Future amortization expense will amount to \$76,766 annually 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 at June 30:

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

	2024	2023
Bonds payable	\$ 1,907,845	\$ 1,473,141
Bond issuance costs, unamortized	(76,766)	(76,766)
	<u>\$ 1,831,079</u>	<u>\$ 1,396,375</u>

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

	2024	2023
Bonds payable	\$ 34,754,657	\$ 36,535,021
Bond issuance costs, unamortized	(997,957)	(1,074,722)
	<u>\$ 33,756,700</u>	<u>\$ 35,460,299</u>

New England Conservatory of Music

Notes to Financial Statements

Note 11. Long-Term Debt (Continued)

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

2025	\$ 1,907,845
2026	1,976,221
2027	2,030,416
2028	2,099,244
2029	2,156,331
Thereafter	26,492,445
	<u>\$ 36,662,502</u>

Bond-related interest of \$976,054 and \$976,987 was recognized as expense in fiscal 2023 and 2022, respectively.

Note 12. Endowment

The Conservatory's endowment consists of approximately 330 and 320 individual funds established for a variety of purposes as of June 30, 2024 and 2023, respectively. 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 as of June 30, 2024 and 2023.

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

2024	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 143,346,474	\$ 143,346,474
Board-designated endowment funds	21,141,207	-	21,141,207
	<u>\$ 21,141,207</u>	<u>\$ 143,346,474</u>	<u>\$ 164,487,681</u>
2023	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 131,533,650	\$ 131,533,650
Board-designated endowment funds	19,455,857	-	19,455,857
	<u>\$ 19,455,857</u>	<u>\$ 131,533,650</u>	<u>\$ 150,989,507</u>

New England Conservatory of Music

Notes to Financial Statements

Note 12. Endowment (Continued)

The changes in endowment net assets for the year ended June 30, 2024, were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 19,455,857	\$ 131,533,650	\$ 150,989,507
Investment return, net	2,112,117	14,303,195	16,415,312
Additions	965,408	3,171,096	4,136,504
Endowment income made available for operations	(1,392,175)	(5,661,467)	(7,053,642)
Endowment net assets, end of year	<u>\$ 21,141,207</u>	<u>\$ 143,346,474</u>	<u>\$ 164,487,681</u>

The changes in endowment net assets for the year ended June 30, 2023, were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 19,337,610	\$ 119,085,808	\$ 138,423,418
Investment loss, net	656,881	4,441,375	5,098,256
Additions	327,081	13,337,752	13,664,833
Endowment income made available for operations	(865,715)	(5,331,285)	(6,197,000)
Endowment net assets, end of year	<u>\$ 19,455,857</u>	<u>\$ 131,533,650</u>	<u>\$ 150,989,507</u>

New England Conservatory of Music

Notes to Financial Statements

Note 13. Net Assets

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

	2024	2023
Subject to expenditure for the following purposes:		
Financial aid	\$ 2,075,792	\$ 1,634,516
Capital	2,818,655	3,000,000
Operations	3,327,589	3,095,322
Subtotal	<u>8,222,036</u>	<u>7,729,838</u>
Subject to the passage of time:		
Planned gifts, net of amount due to beneficiaries	130,542	123,860
Contributions receivable	12,715,945	11,412,011
Subtotal	<u>12,846,487</u>	<u>11,535,871</u>
Subject to the Conservatory's spending policy and appropriation:		
Faculty salaries	16,395,558	15,460,885
Financial aid	79,423,346	72,721,955
Operations	47,527,570	43,350,810
Subtotal	<u>143,346,474</u>	<u>131,533,650</u>
Not subject to spending policy or appropriations:		
Assets held for appreciation	5,875,000	5,875,000
Beneficial interest in perpetual trusts	510,341	487,899
Contributions receivable to donor restricted endowment	6,933,434	431,045
Other planned gifts to donor restricted endowment	463,472	413,942
Subtotal	<u>13,782,247</u>	<u>7,207,886</u>
Total net assets with donor restrictions	<u>\$ 178,197,244</u>	<u>\$ 158,007,245</u>

The total historic dollar value of the donor restricted endowment funds which are to be held in perpetuity were \$94,641,482 and \$91,447,286 as of June 30, 2024 and 2023, respectively.

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

	2024	2023
Endowment:		
Financial aid	\$ 6,279,474	\$ 5,921,496
Operations	14,861,733	13,534,361
Total board designated net assets	<u>\$ 21,141,207</u>	<u>\$ 19,455,857</u>

At June 30, 2024, approximately \$4,380,000 was due from the board designated endowment to operations to cover net assets that are restricted by donors.

New England Conservatory of Music

Notes to Financial Statements

Note 13. 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 years ended June 30:

	2024	2023
Satisfaction of purpose restrictions	\$ 3,358,858	\$ 2,755,530
Total operating net assets released from restrictions	3,358,858	2,755,530
Satisfaction of restrictions—capital assets placed in service	626,542	-
Total non-operating net assets released from restrictions	626,542	-
Total net assets released from restrictions	\$ 3,985,400	\$ 2,755,530

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. Employee benefits costs associated with this plan amounted to \$919,677 and \$710,182 during the years ended June 30, 2024 and 2023, respectively.

Note 15. Deferred Compensation Plan

The Conservatory has a non-qualified deferred compensation plan organized under section 457(b) of the Internal Revenue Code for a select group of management. This plan allows participants to defer a portion of their compensation until after employment termination. Deferred amounts are invested at the direction of the participant via a third-party custodian and are included in receivables and other assets along with a corresponding liability that is recorded in accounts payable and accrued expenses reflecting the obligation to the employees. The assets are invested in Level 1 investments. The total amount of deferred compensation included in the assets and liabilities of the Conservatory was \$473,428 at June 30, 2024.

Note 16. 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.

New England Conservatory of Music

Notes to Financial Statements

Note 16. Functional and Natural Classification of Expenses (Continued)

Expenses by functional and natural classification for the year ended June 30, 2024, was as follows:

	Instruction	Academic Support	Student Services	Fundraising	Administration	Auxiliary	Total Expenses
Salaries and wages	\$ 18,176,079	\$ 2,617,213	\$ 2,459,189	\$ 1,850,252	\$ 3,830,532	\$ 431,346	\$ 29,364,611
Employee benefits	3,777,566	511,235	473,524	489,346	859,878	54,669	6,166,218
Supplies and equipment	593,823	730,105	93,990	82,698	98,812	265,600	1,865,028
Building operations	1,185,783	894,334	194,153	7,982	726,791	829,799	3,838,842
Interest expense	378,704	283,614	61,982	2,555	24,336	265,569	1,016,760
Depreciation and amortization	1,831,177	702,890	492,535	33,346	656,725	2,707,167	6,423,840
Professional services	536,471	485,393	515,579	231,363	2,531,541	160,071	4,460,418
Other expenses	1,300,512	44,541	1,658,802	383,664	2,585,058	28,693	6,001,270
Total expenses	<u>\$ 27,780,115</u>	<u>\$ 6,269,325</u>	<u>\$ 5,949,754</u>	<u>\$ 3,081,206</u>	<u>\$ 11,313,673</u>	<u>\$ 4,742,914</u>	<u>\$ 59,136,987</u>

Expenses by functional and natural classification for the year ended June 30, 2023, was as follows:

	Instruction	Academic Support	Student Services	Fundraising	Administration	Auxiliary	Total Expenses
Salaries and wages	\$ 16,958,697	\$ 2,235,486	\$ 2,471,736	\$ 1,741,417	\$ 2,704,000	\$ 399,468	\$ 26,510,804
Employee benefits	3,920,121	479,261	604,160	405,042	702,152	54,446	6,165,182
Supplies and equipment	607,424	662,111	138,267	21,304	81,126	267,285	1,777,517
Building operations	1,178,987	866,932	191,260	7,752	790,730	810,462	3,846,123
Interest expense	394,019	295,083	64,489	2,643	25,336	276,308	1,057,878
Depreciation and amortization	1,819,853	706,830	498,009	34,321	368,205	2,705,872	6,133,090
Professional services	448,555	474,796	455,487	366,880	3,884,316	161,109	5,791,143
Other expenses	1,432,058	33,743	1,570,124	475,071	2,298,378	23,792	5,833,166
Total expenses	<u>\$ 26,759,714</u>	<u>\$ 5,754,242</u>	<u>\$ 5,993,532</u>	<u>\$ 3,054,430</u>	<u>\$ 10,854,243</u>	<u>\$ 4,698,742</u>	<u>\$ 57,114,903</u>

Note 17. Related-Party Transactions

The Conservatory's assets include \$9,509,999 and \$10,890,564 of contributions receivable from Trustees as of June 30, 2024 and 2023, respectively. Total contributions from Trustees for the years ended June 30, 2024 were approximately \$4,350,000 and \$11,200,000, 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 \$8,726,618 and \$8,694,272 at June 30, 2024 and 2023, respectively.

Note 18. Contributions of Nonfinancial Assets

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:

	2024	2023
Instruments and other	<u>\$ 62,500</u>	<u>\$ 60,425</u>

The Conservatory is utilizing the contributed instruments and other items in the advancement of our students' talent through their pursuit 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.

New England Conservatory of Music

Notes to Financial Statements

Note 19. 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 year 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.

Note 20. Subsequent Events

The line of credit was amended on October 1, 2024. The amendment removed the expiration date and modified the terms to a demand note which is payable on demand on the bank or upon an event of default.