Berklee

Berklee Consolidated Financial Statements

May 31, 2019 and 2018

Consolidated Financial Statements: May 31, 2019 and 2018

Letter from the Senior Vice President of Administration and Finance and Chief Financial Officer—Fiscal Year 2019

It is my pleasure to present the audited financial statements for Berklee for the fiscal year ending May 31, 2019. In an era of increasing challenges for higher education, Berklee's 2019 financial results reflect our continuing focus on: 1. Student success, including ensuring Berklee is as affordable as possible for students; 2. Investing in support of the institution's vision, mission, and strategic priorities; and 3. Maintaining our financial strength.

From an operating perspective, Berklee ended the year with total operating revenues of $288.7 million and an operating margin of $12.7 million or 4.4 percent of operating revenues, consistent with our 2-4 percent target range. Three years after the merger of Berklee College of Music and The Boston Conservatory, our 2019 operating results reflect continuing growth in Conservatory programs and financial results. Berklee Online turned in another strong year, which included strategic expansion into graduate degrees. Berklee's campus in Valencia, Spain, which offers undergraduate study abroad as well as graduate programs and is now operating at full capacity, turned in a second consecutive year of solid operating results. Berklee's summer programs benefited from healthy growth in our summer five-week program for high school students. Our core operations on the Boston campus continue to perform well, reflecting continuing demand for Berklee's quality programs. During the year, Berklee invested in the institution's highest strategic priorities, including the continued development of a new technology platform; we also initiated two significant capital projects to improve our students' experience: new practice rooms at our Boston campus and the renovation of our new center in New York City. Located just steps from Broadway, Power Station at BerkleeNYC will offer exciting opportunities for our music, dance, and theater students when it reopens by summer 2020. Affordability was a top priority in 2019 as scholarship support reached new highs, while tuition increases were limited.

Fundraising continued its positive momentum in 2019. Berklee concluded its "Soundbreaking" in May and exceeded the $100 million capital campaign goal by over 60% with $160.9M in new gifts and pledges. Scholarship support has been a key designation.

Berklee’s endowment continues to generate new highs in support for the institution’s operating budget. The endowment, at $356 million, is the largest asset on Berklee’s balance sheet, followed closely by our facilities at $286 million, net of accumulated depreciation.

Berklee’s balance sheet continued to strengthen in 2019, with increasing liquidity and growing net assets. Total assets have grown to almost $780 million, with almost $468 million in the endowment, short-term investments, and cash. Total liabilities of $382 million primarily reflect the institution’s long-term debt, all of which has been issued over the long-term at relatively low fixed interest rates.   Net assets increased by 2 percent in 2018 to $397 million.

During the fiscal year, both S&P Global Ratings (A stable) and Moody’s Investors Service (A2 stable) affirmed their current ratings of Berklee, noting the strength of Berklee’s enterprise profile and reputation. In their reports, both noted the strength of Berklee’s market positioning in music, dance, and theater, as well as Berklee’s consistent operating performance.

As higher education continues to face challenges and uncertainties in the years ahead, our balanced approach— affordability and student success, strategic investment, and financial sustainability—will help us to navigate such an environment in the best interests of our students and the entire Berklee community.

View Berklee's Consolidated Financial Statements.

Richard M. Hisey
Senior Vice President of Administration and Finance and Chief Financial Officer

KPMG

BERKLEE COLLEGE OF MUSIC, INC.

Consolidated Financial Statements

May 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Trustees
Berklee College of Music, Inc.:

We have audited the accompanying consolidated financial statements of Berklee College of Music, Inc. which comprise the consolidated statements of financial position as of May 31, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Berklee College of Music, Inc. as of May 31, 2019 and 2018, and the changes in their net assets and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

As discussed in Note 2(q) to the consolidated financial statements, during the year-ended May 31, 2019, the college adopted Financial Accounting Standards Board Accounting Standard Update (ASU) No. 2016-14, *Not-For-Profit Entities (Topic 958); Presentation of Financial Statements of Not-for-Profit Entities*, and ASU No. 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Postretirement Benefit Cost*. Our opinion is not modified with respect to these matters.

KPMG LLP

September 30, 2019

BERKLEE COLLEGE OF MUSIC, INC.

Consolidated Statements of Financial Position

May 31, 2019 and 2018

Assets		**2019**	**2018**
Cash and cash equivalents	$	37,188,321	45,748,671
Short-term investments (note 4)		74,750,780	40,359,132
Accounts receivable, net (note 8)		438,363	451,136
Contributions receivable, net (note 9)		10,551,692	10,510,548
Other assets		12,215,741	12,026,382
Loans receivable, net (note 8)		2,019,289	2,725,387
Deposits with bond trustees (note 7)		6,480	4,659
Long-term investments (notes 4 and 5)		356,061,885	365,075,720
Property, improvements, and equipment, net (note 6)		286,339,157	287,997,285
Total assets	$	779,571,708	764,898,920
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	28,232,731	27,541,029
Student deposits and deferred liabilities		36,977,259	32,623,923
Accrued pension liabilities (note 10)		45,322,373	39,310,728
Bonds and notes payable (note 7)		268,016,377	272,802,212
Refundable advances – U.S. government grants		3,537,948	3,418,464
Total liabilities		382,086,688	375,696,356
Net assets:			
Without donor restrictions		289,150,930	290,020,594
With donor restrictions (note 12)		108,334,090	99,181,970
Total net assets		397,485,020	389,202,564
Total liabilities and net assets	$	779,571,708	764,898,920

See accompanying notes to consolidated financial statements.

BERKLEE COLLEGE OF MUSIC, INC.

Consolidated Statement of Activities

Year ended May 31, 2019

	Without donor restrictions	With donor restrictions	2019 Total
Operating:			
Revenues:			
Student tuition and fees (includes aid of $69,284,219)	$ 220,476,653	—	220,476,653
Residence hall and dining fees (includes aid of $596,287)	29,243,146	—	29,243,146
Net tuition and fees	249,719,799	—	249,719,799
Contributions	1,254,509	19,501,931	20,756,440
Grants and contracts	1,297,779	—	1,297,779
Investment return for operations (note 5)	12,447,601	3,347,145	15,794,746
Other income	4,998,943	—	4,998,943
Sales and service of auxiliary enterprises	6,435,670	—	6,435,670
Net assets released from restrictions	12,590,868	(12,590,868)	—
Total operating revenues	288,745,169	10,258,208	299,003,377
Expenses:			
Instruction	101,443,437	—	101,443,437
Academic support	18,813,514	—	18,813,514
Student and enrollment services	22,665,417	—	22,665,417
Institutional support and advancement	49,553,116	—	49,553,116
Auxiliary enterprises	34,751,621	—	34,751,621
Operation and maintenance of physical plant:			
Depreciation and amortization	15,885,801	—	15,885,801
Interest	11,905,585	—	11,905,585
Maintenance	21,037,874	—	21,037,874
Total operating expenses	276,056,365	—	276,056,365
Change in net assets from operating activities	12,688,804	10,258,208	22,947,012
Nonoperating:			
Investment return	283,770	725,214	1,008,984
Investment return for operations (note 5)	(12,447,601)	(3,347,145)	(15,794,746)
Contributions for long-term items	2,367,273	2,445,054	4,812,327
Net assets released from capital restriction	929,211	(929,211)	—
Other	2,551,037	—	2,551,037
Net periodic benefit cost other than service cost (note 10)	(7,242,158)	—	(7,242,158)
Change in net assets from nonoperating activities	(13,558,468)	(1,106,088)	(14,664,556)
Change in net assets	(869,664)	9,152,120	8,282,456
Net assets at beginning of year	290,020,594	99,181,970	389,202,564
Net assets at end of year	$ 289,150,930	108,334,090	397,485,020

See accompanying notes to consolidated financial statements.

BERKLEE COLLEGE OF MUSIC, INC.

Consolidated Statement of Activities

Year ended May 31, 2018

	Without donor restrictions	With donor restrictions	2018 Total
Operating:			
Revenues:			
Student tuition and fees (includes aid of $65,432,638)	$ 213,399,881	—	213,399,881
Residence hall and dining fees (includes aid of $523,519)	29,888,760	—	29,888,760
Net tuition and fees	243,288,641	—	243,288,641
Contributions	1,271,128	14,789,941	16,061,069
Grants and contracts	1,476,136	—	1,476,136
Investment return for operations (note 5)	13,119,448	2,893,501	16,012,949
Other income	4,203,009	—	4,203,009
Sales and service of auxiliary enterprises	7,088,652	—	7,088,652
Net assets released from restrictions	12,479,519	(12,479,519)	—
Total operating revenues	282,926,533	5,203,923	288,130,456
Expenses:			
Instruction	103,356,958	—	103,356,958
Academic support	18,086,850	—	18,086,850
Student and enrollment services	21,830,840	—	21,830,840
Institutional support and advancement	47,013,099	—	47,013,099
Auxiliary enterprises	34,954,234	—	34,954,234
Operation and maintenance of physical plant:			
Depreciation and amortization	15,576,029	—	15,576,029
Interest	11,890,720	—	11,890,720
Maintenance	20,737,988	—	20,737,988
Total operating expenses	273,446,718	—	273,446,718
Change in net assets from operating activities	9,479,815	5,203,923	14,683,738
Nonoperating:			
Investment return	13,998,212	3,587,579	17,585,791
Investment return for operations (note 5)	(13,119,448)	(2,893,501)	(16,012,949)
Contributions for long-term items	47,973	4,066,699	4,114,672
Net assets released from capital restriction	595,224	(595,224)	—
Gain on sale of fixed assets	2,558,276	—	2,558,276
Net periodic benefit cost other than service cost (note 10)	13,814,016	—	13,814,016
Change in net assets from nonoperating activities	17,894,253	4,165,553	22,059,806
Change in net assets	27,374,068	9,369,476	36,743,544
Net assets at beginning of year	262,646,526	89,812,494	352,459,020
Net assets at end of year	$ 290,020,594	99,181,970	389,202,564

See accompanying notes to consolidated financial statements.

BERKLEE COLLEGE OF MUSIC, INC.

Consolidated Statements of Cash Flows

Years ended May 31, 2019 and 2018

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	8,282,456	36,743,544
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		15,885,801	15,576,029
Realized and unrealized gains on investments		(743,890)	(17,386,162)
Pension obligation costs		7,242,158	(13,814,016)
Gain on sale of fixed assets		(31,165)	(2,558,276)
Contributions for long-term investment		(4,802,198)	(5,528,177)
Change in operating assets		(1,448,242)	30,573
Change in operating liabilities		3,828,067	2,215,685
Net cash provided by operating activities		28,212,987	15,279,200
Cash flows from investing activities:			
Change in deposits with bond trustees		(1,821)	(894)
Purchase of property, plant, improvements, and equipment		(14,220,375)	(9,304,343)
Proceeds from sale of fixed assets		—	4,236,811
Disbursements and repayment of student loans		706,098	1,158,462
Proceeds from sale and maturity of investments		54,746,291	29,876,883
Purchase of investments		(79,380,212)	(43,953,786)
Net cash used in investing activities		(38,150,019)	(17,986,867)
Cash flows from financing activities:			
Payments on bonds and notes payable		(3,545,000)	(4,720,494)
Contributions for long-term investment		4,802,198	5,528,177
Increase in refundable advances – U.S. government grants		119,484	140,779
Net cash provided by financing activities		1,376,682	948,462
Net change in cash and cash equivalents		(8,560,350)	(1,759,205)
Cash and cash equivalents, beginning of year		45,748,671	47,507,876
Cash and cash equivalents, end of year	$	37,188,321	45,748,671
Supplemental data:			
Interest paid	$	11,935,696	11,918,427
Change in accounts payable attributable to capital acquisitions		23,867	551,212

See accompanying notes to consolidated financial statements.

(1) Background

Berklee College of Music, Inc. (the College) is a nonprofit co-educational institution of higher learning offering a bachelors and master degrees as well as a four-year program leading to a professional diploma. Since its founding in 1945, the College has become an international center for performing arts education geared to career musicians, dancers, composers, arrangers, music educators, and other professionals. The College offers not-for-credit courses, for-credit courses and degrees online through its Berklee Online Program and master's degrees through its operations located in Valencia, Spain. The Boston Conservatory (the Conservatory), a nationally accredited performing arts conservatory offering Bachelor of Fine Arts, Bachelor of Music and Master of Music degrees operates as a division of the College known as The Boston Conservatory at Berklee.

(2) Summary of Significant Accounting Policies

(a) Basis of Statement Presentation

The accompanying consolidated financial statements are prepared in accordance with United States generally accepted accounting principles (GAAP). The consolidated financial statements, presented on the accrual basis of accounting, focus on the College as a whole and all intercompany amounts have been eliminated. Balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, net assets are classified as follows:

With donor restrictions: net assets are subject to donor stipulations that expire with the passage of time, can be fulfilled by actions pursuant to the stipulations, or which may be perpetual.

Without donor restrictions: net assets are not subject to donor stipulations restricting their use but may be designated for specific purposes by the College.

Unless limited by donor restrictions or law, revenues and expenses, gains or losses on investments, and changes in other assets or liabilities are reported on the consolidated statements of activities as increases and decreases in net assets without donor restrictions. Net assets released from restrictions, for which the donor purpose has been met or the stipulated time period has elapsed, are reported as reclassifications between applicable net asset classes.

Contributions and unconditional promises to give are recognized as revenue in the period received. Promises to give that are expected to be collected after the consolidated statement of financial position date or that require the corpus to be maintained permanently are in net assets with donor restrictions are reported as contribution revenue. Contributions of land, buildings, or equipment are reported as nonoperating support without donor restrictions unless the donor places restrictions on their use.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift.

(b) Operations

The consolidated statements of activities report the change in net assets from operating and nonoperating activities. Operating revenues and expenses are attributable to the College's academic programs and auxiliary enterprises. Tuition revenue is reported net of a discount awarded to students from various sources including college financial aid, scholarships from endowment funds, and/or state and federal grants. Nonoperating activities are attributable to return on investments, contributions of capital assets, contributions to the endowment, and pension obligations.

(c) Cash and Cash Equivalents

Cash equivalents represent money market funds and short-term instruments with maturities at date of purchase of three months or less.

(d) Short-term Investments

Short-term investments consist of operating funds deposited in cash management accounts with maturities at the time of purchase less than one year, and are carried at fair value.

(e) Contributions Receivable

Unconditional promises to give are recorded at fair value when initially pledged. Initial recording for pledges expected to be collected in one year or more is arrived at by considering actual expected payments and by discounting the pledge to its present value by a risk adjusted rate to account for the inherent risk associated with the expected future cash flows. Unconditional promises to give are periodically reviewed to estimate an allowance for doubtful collections. Management estimates the allowance by a review of historical experience and a specific review of collection trends that differ from plans on individual accounts. Conditional promises to give are not included as support until the conditions are substantially met.

(f) Long-Term Investments

Investments are reported at market value or estimated fair value. Accordingly, the gains and losses that result from market fluctuations are recognized in the statement of activities in the period in which the fluctuations occur.

(g) Fair Value Measurements

GAAP defines fair value and establishes a framework for measuring and disclosing fair value measurements. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. GAAP establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels:

- Level 1 – quoted prices in active markets accessible at the measurement date for assets or liabilities
- Level 2 – observable prices based on inputs not quoted in active markets but corroborated by market data.
- Level 3 – unobservable inputs are used when little or no market data is available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The College utilizes valuation techniques that maximizes the use of observable inputs and minimizes the use of unobservable inputs to the extent possible. Transfers between categories occur when there is an event that changes the inputs used to measure the fair value of an asset or liability. Transfers between fair value categories are recognized at the end of the reporting period.

The College holds shares or units in nonmarketable securities including alternative investments such as private equity, venture capital, hedge funds, and real asset strategies. Such alternative investment funds may hold securities or other financial instruments for which a readily determinable fair value exists and are priced accordingly. For investments that do not have a readily determinable fair value,

(Continued)

the fair value of those investments is estimated based upon the net asset value (NAV) per share or its equivalent as a practical expedient.

Investments are generally redeemable or may be liquidated at NAV under the original terms of the subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the fund agreements. Due to the nature of the investments held by these funds, changes in market conditions, the economic environment, or liquidity provisions may significantly impact the NAV of the funds and, consequently, the fair value of the College's interests in the funds. Although certain investments may be sold in secondary market transactions, subject to meeting certain requirements of the governing documents of the funds, the secondary market is not active and individual transactions are not necessarily observable. It is, therefore, reasonably possible that if the College were to sell its interest in a fund in the secondary market, the sale could occur at an amount materially different from the reported value.

(h) Property, Improvements, and Equipment

Property, improvements, and equipment are stated at cost. Depreciation, including amortization of leasehold improvements and library books, is computed using the straight-line method over the related assets' estimated useful economic lives. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized. The cost of maintenance and repairs is charged to expense as incurred.

If the College determines a conditional asset retirement obligation exists, it assesses whether or not the amount of the obligation can be reasonably estimated. If the obligation can be reasonably estimated, the College records the present value of the obligation, the corresponding cost is capitalized, and the liability is accreted to fair value each reporting period until settled. Depreciation of the cost is recognized over the life of the related asset.

(i) Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated discounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. No impairments were recognized for the years ended May 31, 2019 and 2018.

(j) Student Deposits and Deferred Revenue

Student deposits along with advance payments for tuition, room and board, and fees related to the summer and fall semesters have been deferred and will be reported as revenue without donor restriction in the year in which the revenue is earned.

(k) Bond Issuance Costs

Bond issuance costs are amortized using the effective interest method over the life of the associated bond issue. The debt issuance costs related to a recognized debt liability are presented on the consolidated statement of financial position as a direct deduction from the debt liability, similar to the presentation of debt premiums and discounts.

(Continued)

(l) Revenue from Contracts with Customers

Under ASC Topic 606, revenue from contracts with customers is recognized when control of the promised goods or services is transferred in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services (i.e., the transaction price).

Revenue from student education, residence, and dining services is reflected net of reductions from institutional student aid and is recognized as the services are provided over the academic year, which generally aligns with our fiscal year. Aid in excess of a student's tuition and fees is reflected as a reduction of residence and dining charges. Disbursements made directly to students for living or other costs are reported as an expense. Payments for student services are generally received prior to the commencement of each academic term and are reported as student deposits to the extent services will be rendered in the following fiscal year.

(m) Tax Status

The College is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code), and is generally exempt from taxes pursuant to Section 501(a) of the Code. Accordingly, it is generally not subject to income taxes except to the extent it has taxable income from activities that are not related to its exempt purpose. The College has generated unrelated business income for the year ended May 31, 2019 but it is not significant to the consolidated financial statements. The College believes it has taken no significant uncertain tax positions.

(n) Foreign Currency Translation

The College's accounting records, for Valencia, Spain, are maintained in the functional currency of U.S. dollars. The cumulative adjustment from foreign currency translation at May 31, 2019 and 2018 included in Institutional Support was a net loss of ($193,927) and ($136,698), respectively.

The foreign currency equivalents used to translate Euros into U.S. dollars are as follows:

	U.S. dollar to one euro	
	2019	**2018**
Revenues and expenses at the monthly average rate:		
The annual average rate for the fiscal year ended May 31	1.14:1	1.19:1
Assets, liabilities, and net assets at the current rate as of May 31	1.11:1	1.18:1

(o) Self-Funded Insurance

The College has a self-funding medical insurance program, open to most employees and certain of their family members, in order to manage rising health insurance costs over the long-term. A stop loss policy is in effect, which limits the College's annual loss per claimant to $150,000 and 125% of expected claims, as calculated by the program's actuary on an aggregate basis. The College's expense under the self-insured medical plan amounted to $9,332,456 and $9,592,386 for the years ended May 31, 2019 and 2018, respectively. The estimated unpaid claims liability, included in accrued expenses at May 31, 2019 and 2018, amounted to $1,059,628 and $1,020,000, respectively.

(Continued)

(p) Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(q) Recent Accounting Pronouncements

In fiscal 2019 the College adopted Accounting Standards Update (ASU) No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* This guidance requires the service cost component of net periodic benefit cost for pension and other postretirement benefit costs be presented as a component part of employee benefit expense. The other components of net periodic benefit cost, such as interest, expected return on plan assets, and amortization of other actuarially determined amounts, are required to be presented as nonoperating change in unrestricted net assets.

These changes have been applied retrospectively in the 2018 consolidated statement of activities by reclassifying all nonservice related components of net periodic benefit cost from benefit expense to nonoperating revenue (expense) in net assets without donor restrictions which did not result in a material change in the financial statements.

ASU 2014-09, Revenue from Contracts with Customers, was issued by the FASB in May 2014 and is intended to improve the financial reporting requirements for revenue from contracts with customers. The ASU establishes a five-step model and application guidance for determining the timing and amount of revenue recognition guidance in GAAP. The ASU became effective for the College for the year ended May 31, 2019. The College's adoption of the ASU did not materially change the timing or amount of revenue recognized by the College. However, the ASU requires that tuition, fees and auxiliary student revenues be presented in the consolidated statement of activities at the transaction price, i.e., net of any institutional student aid. Previously, such revenues were presented gross, i.e., at published rates, followed by a reduction for institutional student aid. Accordingly, the College's 2018 consolidated statement of activities has been revised to conform to the 2019 presentation.

ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, was issued by the FASB in June 2018. The new ASU is intended to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonexchange transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional. The ASU clarifies that a contribution is conditional if the agreement includes one or more barriers that must be overcome for the recipient to be entitled to the assets transferred and a right of return for the transferred assets or a right of release of the promisor's obligation to transfer assets. The ASU became effective for the College for the year ended May 31, 2019. The College's adoption of the ASU on a modified prospective basis did not have a material effect on its consolidated financial statements.

In fiscal 2019 the college retrospectively adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-14*, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. The primary changes, which affect most not-for-profit financial statements, include revisions to simplify and enhance the presentation of net assets, a requirement to present functional and natural expenses in a single location, and expanded disclosures regarding liquidity and availability of resources. The ASU is effective for fiscal years beginning after December 15, 2017. A summary of the net asset reclassifications resulting from the adoption of ASU 2016-14 as of May 31, 2018 is as follows:

	ASU 2016-14 Classification		
	Without donor restrictions	**With donor restrictions**	**Total net assets**
2018 Ending net assets as previously presented:			
Unrestricted	$ 290,020,594	—	290,020,594
Temporarily restricted	—	43,419,263	43,419,263
Permanently restricted	—	55,762,707	55,762,707
2018 Ending net assets, as restated	$ 290,020,594	99,181,970	389,202,564

(r) Reclassifications

Certain prior year balances have been reclassified to conform to current year presentation.

(3) Liquidity

As of May 31, 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capitalized construction costs not financed with debt, were as follows (in thousands):

Cash and cash equivalents	$ 35,591,226
Contributions, notes, and accounts receivable, net	4,690,049
Short-term investments	74,750,780
Fiscal 2020 endowment appropriation	15,809,586
Total financial assets available within one year	$ 130,841,641

The College actively manages its resources utilizing a combination of short, medium and long-term operating investment strategies to align its cash inflows with anticipated outflows in accordance with policies approved by the Board. Additionally, as of May 31, 2019, the College has an additional $286,116,530 in Board-designated endowments not budgeted for spending in 2020, which is available for general expenditure with Board approval.

(4) Investments

The following tables summarize the College's investments by major category in the fair value hierarchy as of May 31, 2019 and 2018, as well as related strategy, liquidity, and funding commitments:

	May 31, 2019		Redemption or	Days'	Related unfunded
	Level 1	Total	liquidation	notice	commitment
Short-term investment strategies:					
Cash and cash equivalents	$ 73,881	73,881			
Fixed income	51,175,620	51,175,620			
Money market	23,501,279	23,501,279			
Long-term investment strategies:					
Investments at fair value:					
Cash and cash equivalents	17,346,890	17,346,890			
Traditional equity index funds	7,517,394	7,517,394			
Global (excluding U.S.) equities	51,836,075	51,836,075			
Investments at net asset value:					
Global (excluding U.S.) equities:					
Developed markets	—	66,159,335	Quarterly	30	None
Emerging markets	—	11,620,035	Quarterly	90	None
Hedged equity funds of funds:					
Multiple strategies	—	21,324,984	Various (1)	45–60	None
Private equity and venture capital funds	—	15,292,936	Illiquid (2)	N/A	5,968,841
Real assets:					
Private real estate	—	18,330,476	Illiquid (3)	N/A	7,372,229
Direct hedge equity/multiple strategies	—	75,710,259	Various (4)	90	None
Direct absolute return/multiple strategies	—	70,923,501	Various (5)	45–180	None
Total	$ 151,451,139	430,812,665			

(1) Funds with quarterly redemption = $13,939,709, annually = $7,385,275

(2) These funds are expected to liquidate within 1–8 years

(3) Variety of benchmarks and limitations on withdrawals.

(4) Funds with semi-annual redemption = $15,178,592, annual redemption $43,250,472, illiquid $333,773, rolling 3 year 90 days notice $16,947,422

(5) Funds with annual redemption $70,903,014, illiquid $20,487

	May 31, 2018		Redemption or	Days'	Related unfunded
	Level 1	Total	liquidation	notice	commitment
Short-term investment strategies:					
Cash and cash equivalents	$ 170,401	170,401			
Fixed income	30,074,339	30,074,339			
Money market	10,114,392	10,114,392			
Long-term investment strategies:					
Investments at fair value:					
Cash and cash equivalents	23,635,093	23,635,093			
Traditional equity index funds	8,105,053	8,105,053			
Global (excluding U.S.) equities	52,765,362	52,765,362			
Investments at net asset value:					
Global (excluding U.S.) equities:					
Developed markets	—	49,116,829	Quarterly	30	None
Emerging markets	—	13,414,080	Quarterly	90	None
Hedged equity funds of funds:					
Multiple strategies	—	20,989,014	Various (1)	45–60	None
Private equity and venture capital funds	—	18,879,511	Illiquid (2)	N/A	6,083,760
Real assets:					
Private real estate	—	20,335,415	Illiquid (3)	N/A	5,002,370
Direct hedge equity/multiple strategies	—	90,573,954	Various (4)	90	None
Direct absolute return/multiple strategies	—	67,261,409	Various (5)	45–180	None
Total	$ 124,864,640	405,434,852			

(1) Funds with quarterly redemption = $13,806,680, annually = $7,182,334

(2) These funds are expected to liquidate within 1–8 years

(3) Variety of benchmarks and limitations on withdrawals.

(4) Funds with semi-annual redemption = $17,313,335, annual redemption $45,563,078, illiquid $10,741,441, rolling 3 year 90 days notice $16,956,100

(5) Funds with annual redemption $67,240,312, illiquid $21,097

No investments at fair value are considered to be Level 2 or Level 3 investments in the fair value hierarchy at May 31, 2019 or 2018, respectively.

Alternative investments are redeemable at NAV under the original terms of the partnership agreement and/or subscription agreements and operations of underlying funds. All alternative investment redemptions require written notice prior to the redemption period. The long-term investments' fair values as of May 31, 2019 are classified below by redemption period:

		Investment fair values
Investments redemption period:		
Daily	$	24,864,285
Monthly		51,836,075
Quarterly		108,666,500
Semi-annually		15,178,592
Annually		121,538,761
Locked up or illiquid		33,977,672
Total as of May 31, 2019	$	356,061,885

The investments categorized as locked up are those funds that are locked up based on subscription agreements until liquidation, such as private equity and real asset funds.

(5) Endowment

The College's endowment consists of approximately 255 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees (the Board) to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The College is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the Commonwealth of Massachusetts. Under UPMIFA, the Board has discretion to determine appropriate expenditures of a donor-restricted endowment fund in accordance with a robust set of guidelines about what constitutes prudent spending. UPMIFA permits the College to appropriate for expenditure or accumulate so much of an endowment fund as the College determines to be prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. Seven criteria are to be used to guide the College in its yearly expenditure decisions: 1) duration and preservation of the endowment fund; 2) the purposes of the College and the endowment fund; 3) general economic conditions; 4) effect of inflation or deflation; 5) the expected total return from income and the appreciation of investments; 6) other resources of the College; and 7) the investment policy of the College.

Although UPMIFA offers short-term spending flexibility, the explicit consideration of the preservation of funds among factors for prudent spending suggests that a donor-restricted endowment fund is still perpetual in nature. Under UPMIFA, the Board is permitted to determine and continue a prudent payout amount, even if the market value of the fund is below historic dollar value. There is an expectation that, over time, the donor restricted amount will remain intact. This perspective is aligned with the accounting standards definition that donor restricted funds are those that must be held in perpetuity even though the historic dollar value may be dipped into on a temporary basis.

(Continued)

The College classifies as donor restricted net assets (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 permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as donor restricted net assets is classified as donor restricted net assets, until appropriated for spending by the Board.

(b) Return Objectives and Risk Parameters

The College has adopted investment and spending policies for endowment assets that are intended to ensure a total return (yield plus capital appreciation) necessary to at least preserve, but expected to enhance (in real dollar terms) endowment assets, while providing a dependable source of income for current operations and scholarships. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period as well as board-designated funds.

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

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

State law permits the spending of gains on endowment funds over a stipulated period of time. State law allows the Board to appropriate all of the income and a specified percentage of the net appreciation as is prudent considering the College’s long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Under the College’s current endowment spending policy, which is within the guidelines specified under state law, 4.5% of the average of the fair value of qualifying endowment investments at the end of the previous three years is authorized for appropriation. The authorized appropriation amounted to $15,794,746 in 2019 and $16,012,949 in 2018. In establishing this policy, the College considered the expected return on its endowment. Accordingly, the College expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment return.

(d) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below their original contributed value. These deficiencies result from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in net assets without restriction. Deficiencies of this nature that are reported as reductions in net assets with donor restrictions totaled $123,105 and $7,608 as of May 31, 2019 and 2018, respectively.

Endowment funds consisted of the following at May 31, 2019:

		Without donor restrictions	With donor restrictions	Total
Donor-restricted endowments:				
Historical gift	$	—	56,607,276	56,607,276
Net appreciation/depreciation		—	13,338,079	13,338,079
Board-designated endowments		286,116,530	—	286,116,530
Total endowed funds	$	286,116,530	69,945,355	356,061,885

Endowment funds consisted of the following at May 31, 2018:

		Without donor restrictions	With donor restrictions	Total
Donor-restricted endowments:				
Historical gift	$	—	51,805,080	51,805,080
Net appreciation/depreciation		—	15,719,404	15,719,404
Board-designated endowments		297,551,236	—	297,551,236
Total endowed funds	$	297,551,236	67,524,484	365,075,720

Changes in endowment funds for the year ended May 31, 2019 are as follows:

		Without donor restrictions	With donor restrictions	Total
Endowment funds, June 1, 2018	$	297,551,236	67,524,484	365,075,720
Total investment return		283,770	725,214	1,008,984
Contributions		—	4,802,197	4,802,197
Appropriation of endowment assets for expenditure		(12,447,601)	(3,347,145)	(15,794,746)
Transfers from operations		729,125	240,605	969,730
Endowment funds, May 31, 2019	$	286,116,530	69,945,355	356,061,885

(Continued)

Changes in endowment funds for the year ended May 31, 2018 are as follows:

		Without donor restrictions	With donor restrictions	Total
Endowment funds, June 1, 2017	$	297,755,747	60,960,771	358,716,518
Total investment return		13,998,212	3,587,579	17,585,791
Contributions		—	5,528,182	5,528,182
Appropriation of endowment assets for expenditure		(13,119,448)	(2,893,501)	(16,012,949)
Transfers from operations		(1,083,275)	341,453	(741,822)
Endowment funds, May 31, 2018	$	297,551,236	67,524,484	365,075,720

(6) Property, Improvements, and Equipment

Property, improvements, and equipment consisted of the following at May 31:

		2019	2018	Estimated useful life
Land	$	52,661,439	52,661,439	—
Buildings		184,791,896	184,841,091	40 years
Improvements		164,552,033	159,098,898	15–20 years
Furniture and equipment		59,779,985	54,873,141	3–10 years
Library books		3,265,501	3,265,501	10 years
Construction in progress		4,253,412	1,351,184	—
		469,304,266	456,091,254	
Less accumulated depreciation		(182,965,109)	(168,093,969)	
	$	286,339,157	287,997,285	

Total depreciation expense was $15,885,801 and $15,576,029 in 2019 and 2018, respectively.

(7) Bonds and Notes Payable

Bonds and notes payable consisted of the following at May 31:

	2019	2018
(a) MDFA Revenue Bonds, Berklee College of Music Series 2011, dated September 22, 2011 (including unamortized premium of $4,044,638 and $4,225,899 in 2019 and 2018, respectively)	$ 82,994,638	84,970,899
(b) MHEFA Revenue Bonds, Berklee College of Music Series 2007A, dated August 8, 2007 (including unamortized premium of $255,220 and $270,016 in 2019 and 2018, respectively)	9,785,220	10,095,015
(c) MHEFA Revenue Bonds, Berklee College of Music Series 2016, dated August 1, 2016 (including unamortized premium of $30,368,390 and $31,482,826 in 2019 and 2018, respectively)	176,993,390	179,562,826
Total bonds payable	269,773,248	274,628,740
Deferred issuance cost on bonds	(1,756,871)	(1,826,528)
Bonds payable	$ 268,016,377	272,802,212

(a) MDFA Revenue Bonds, Berklee College of Music Issue, Series 2011

On September 22, 2011, the College issued $90,000,000 Revenue Bonds, Series 2011 (the Series 2011 bonds) from the Massachusetts Development Finance Agency (MDFA). The College used some of the proceeds from the Series 2011 bonds to finance and refinance the acquisition, design, and construction of several real estate projects located primarily on Massachusetts Avenue. The Series 2011 bonds bear interest at rates ranging from 2.00% to 5.00% and are due in varying installments of $141,900 to $4,358,725 until October 1, 2041.

(b) MHEFA Revenue Bonds, Berklee College of Music Issue, Series 2007A

On August 8, 2007, the College issued $173,510,000 Revenue Bonds, Series 2007A (the Series 2007A bonds) from the Massachusetts Health and Education Facilities Authority (MHEFA). The Series 2007A bonds bear interest at rates ranging from 3.88% to 5.00% and are due in varying installments of $271,000 to $8,393,493 until October 1, 2037.

(c) MDFA Revenue Bonds, Berklee College of Music Issue, Series 2016

On August 1, 2016 the College issued $149,505,000 Revenue Bonds, Series 2016 (the Series 2016 bonds) from the Massachusetts Development Finance Agency. The bonds were used to defease all of the Series 2013 Bonds and a portion of the previously issued Series 2007A bonds and the debt acquired as a result of the College's merger with the Conservatory, as well as to finance the cost of issuance. The Series 2016 bonds bear interest at rates ranging from 4.0% to 5.0% and are due in varying installments of $1,126,250 to $11,647,875 until October 1, 2046.

(Continued)

(d) Revolving Credit Facility

The College established a three-year revolving line of credit facility with JP Morgan Chase in the amount of $30,000,000 on June 3, 2013. Advances on this facility can be made as a Base Rate loan, a money market loan, or a LIBOR loan and interest will apply based on the commercial base rate, the money market rate in effect for the first day, and the adjusted LIBOR for the period, respectively. A nonusage facility fee of 0.10% per annum will apply.

On April 23, 2019 the College signed the fourth amendment to this credit facility in the amount of $25,000,000 and extending the termination date to April 26, 2020. There were no outstanding borrowings under this facility at May 31, 2019 or 2018.

Scheduled long-term maturities of existing indebtedness at May 31, 2019 in each of the next five years and in the aggregate thereafter are as follows:

		Amount
Year ending May 31:		
2020	$	3,690,000
2021		3,845,000
2022		6,300,000
2023		6,625,000
2024		6,965,000
Thereafter		207,680,000
		235,105,000
Plus unamortized bond premium		34,668,248
	$	269,773,248

(e) Interest Expense and Amortization Costs

Interest expense on bonds and notes payable was $11,905,585 and $11,890,720 in 2019 and 2018, respectively. Amortization of bond issue costs was not significant in either 2019 or 2018.

The College is required to maintain certain financial ratios associated with its bond agreements.

(8) Allowances for Uncollectible Accounts and Loans Receivable

Accounts receivable, arising from student tuition and fees, are presented net of an allowance for uncollectible accounts of $1,841,684 and $1,869,831 at May 31, 2019 and 2018, respectively.

Loans receivable, primarily from the federal Perkins loan program, are net of an allowance for uncollectible accounts of $1,106,162 and $1,164,144, at May 31, 2019 and 2018, respectively.

(9) Contributions Receivable, net

Contributions receivable consist of the following at May 31:

		2019	2018
Unconditional promises expected to be collected in:			
Less than one year	$	6,544,898	7,257,629
One year to five years		5,685,209	5,748,553
		12,230,107	13,006,182
Less allowance for uncollectible pledges		(1,223,011)	(1,300,618)
		11,007,096	11,705,564
Less present value discount		(455,404)	(1,195,016)
	$	10,551,692	10,510,548

The present value of estimated future cash flows is measured utilizing a discount rate equivalent to U.S. Treasury yields of similar maturity (3-year, 5-year, and 10-year rates) based on the anticipated pledge fulfillment date. The rates utilized to calculate the discount ranged from 0.52% to 3.05% in 2019 and 2018.

(10) Retirement Plans

The College offers a defined contribution plan to substantially all employees. This plan provides for investments through the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF), as well as Transamerica Retirement Services. The College matches all savings in a pay period up to 3% of pay for full-time employees hired before January 1, 2012, up to 6% of pay for full-time employees hired January 1, 2012 or later, and up to 50% of 10% of pay for eligible part-time employees who are eligible for medical benefits under the College's healthcare program. All eligible, full-time employees hired after January 1, 2012 also receive an additional 3% of pay. The College contributed $5,977,673 and $5,313,885, respectively, for the years ended May 31, 2019 and 2018.

The College also sponsors a noncontributory, defined benefit pension plan (the Pension Plan) that covers substantially all those full-time employees that were hired prior to January 1, 2012. The Pension Plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the College and their compensation rates near retirement. Guidance under GAAP requires the Pension Plan's funding deficit or surplus to be recognized in the sponsoring employer's statement of financial position and plan assets and benefit obligations to be measured as of the date of the College's fiscal year-end. The College froze the Pension Plan to new membership as of January 1, 2012.

(Continued)

Pension expense for the years ended May 31 includes the following components:

	2019	2018
Service cost of the current period	$ 4,377,517	4,840,189
Interest cost on the projected benefit obligation	4,948,329	4,214,037
Expected return on assets held in the plan	(7,384,800)	(6,892,661)
Recognition of net actuarial loss	1,997,665	3,493,863
Pension expense	$ 3,938,711	5,655,428

The following sets forth the change in benefit obligation, change in plan assets, and funded status of the Pension Plan and the amounts shown in the accompanying consolidated statements of net assets at May 31:

	2019	2018
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 145,508,036	155,476,985
Service cost	4,377,517	4,840,189
Interest cost	4,948,329	4,214,037
Actuarial gain (loss)	2,615,975	(10,996,369)
Benefits paid	(9,423,637)	(8,026,806)
Benefit obligation at end of year	148,026,220	145,508,036
Change in plan assets:		
Fair value of plan assets at beginning of year	108,205,989	103,461,780
Actual return on plan assets	322,146	7,031,684
Employer contributions	5,797,167	5,739,331
Benefits paid	(9,423,637)	(8,026,806)
Fair value of assets held in the plan	104,901,665	108,205,989
Pension liability at end of year	$ 43,124,555	37,302,047

Pension expense was computed based on a weighted average discount rate of 3.49% for 2019 and 3.89% for 2018, expected long-term rate of return on assets of 6.50% and 7.00% for 2019 and 2018, respectively, and future personnel expense increases of 3.00% for 2019 and 2018. The discount rates that were used to measure service and interest cost during 2019 were 3.60% and 3.11%, respectively.

The discount rate used in determining the actuarial present value of the projected benefit obligation in 2019 and 2018 was 3.49% and 3.89%, respectively.

The benefits expected to be paid after May 31, 2019 are as follows:

Years ending May 31:		
2020	$	12,813,168
2021		9,410,388
2022		949,529
2023		9,084,934
2024		9,123,431
2025–2029		45,450,765

The expected long-term rate of return on assets was determined by considering the current and expected asset allocations, as well as historical and expected returns on the categories of plan assets.

The College's asset allocations and investment policy guidelines as of the measurement date are as follows:

	Target allocation	Plan assets at May 31	
		2019	2018
Equity securities	55 %	31 %	27 %
Debt securities	15	3	3
Other	30	66	70

The investment strategy of the Pension Plan is designed to maximize total return (income plus capital change) while preserving the capital values of the funds, protecting the funds from inflation, and providing liquidity as needed for plan benefits. The objective is to provide a rate of return that meets or exceeds the expected long-term rate of return on plan assets.

Other changes in pension liability recognized in net assets without donor restrictions were as follows:

	Fiscal years ended May 31,	
	2019	2018
Net (loss) gain	$ (7,680,964)	14,629,255

The investment strategy of the noncontributory retirement plan is to allocate assets among investment classes that will provide for stability and growth of plan assets in varying market environments. To that end, the plan has adopted policies that require each asset class to be diversified and that multiple managers with differing styles of management are employed. On a quarterly basis, the plan reviews progress toward achieving its and individual managers' performance objectives.

(Continued)

The value of the Pension Plan's assets by asset class are as follows at May 31, 2019:

		May 31, 2019		Redemption or	Days'	Related unfunded
		Level 1	Total	liquidation	notice	commitment
Investments at fair value:						
Cash and fixed income	$	13,361,015	13,361,015			
International equities		16,767,965	16,767,965			
Domestic equities		6,920,994	6,920,994			
Investments at net asset value:						
Domestic equities		—	1,815,138	Quarterly/ annually	30–90 days	None
International equities		—	17,799,760	Quarterly/ annually	30–180 days	None
Hedge funds		—	42,710,626	Illiquid	N/A	1,879,705
Real assets		—	5,526,167	Illiquid	N/A	2,705,991
	$	37,049,974	104,901,665			

The value of the Pension Plan's assets by asset class are as follows at May 31, 2018:

		May 31, 2018		Redemption or	Days'	Related unfunded
		Level 1	Total	liquidation	notice	commitment
Investments at fair value:						
Cash and fixed income	$	10,696,054	10,696,054			
International equities		19,254,653	19,254,653			
Domestic equities		7,933,469	7,933,469			
Investments at net asset value:						
Domestic equities		—	2,404,370	Quarterly/ annually	30–90 days	None
International equities		—	20,867,334	Quarterly/ annually	30–180 days	None
Hedge funds		—	41,132,270	Illiquid	N/A	3,232,731
Real assets		—	5,917,839	Illiquid	N/A	1,050,319
	$	37,884,176	108,205,989			

No investments at fair value are considered to be Level 2 or Level 3 investments in the fair value hierarchy at May 31, 2019 and 2018, respectively.

(11) Lease Commitments

The College leases space in various buildings for its operations. The following is a schedule of future minimum lease payments under operating leases as of May 31:

		Amount
Fiscal year:		
2020	$	5,308,255
2021		5,365,383
2022		5,192,053
2023		4,910,260
2024		4,362,871
Thereafter		14,488,674

Rental expense was $6,422,132 in 2019 and $6,571,373 in 2018.

The College owns several buildings in which there are commercial tenants. The following is a schedule of future minimum rental income under operating leases as of May 31:

		Amount
Fiscal year:		
2020	$	1,375,696
2021		1,405,583
2022		1,262,472
2023		918,114
2024		772,887
Thereafter		3,162,860

Rental income was $1,252,916 in 2019 and $1,660,445 in 2018.

(12) Net Assets with donor restrictions

	2019	2018
Endowment and unspent gifts:		
Instruction	$ 16,753,966	14,700,693
Institutional support	12,328,529	7,579,073
Student aid	47,827,980	44,451,305
Facilities	37	618,681
Capital campaign programs	6,977,397	5,086,141
	83,887,909	72,435,893
Unappropriated gains from endowed restricted net assets	13,953,469	16,334,794
Outstanding pledges	10,492,712	10,411,283
	$ 108,334,090	99,181,970

The College classifies unspent gains as with donor restrictions until it appropriates and spends such sums in accordance with the terms of the underlying endowment funds, at which time, they will be reclassified to without restriction revenues.

(13) Functional Expenses

The following summary presents the effect on functional expenses had the direct and indirect cost components been allocated to the functional expenses for the years ended May 31, 2019 and 2018:

	Fiscal year ended May 31, 2019					
	Instruction	Academic support	Student services	Auxiliary services	Institutional support	Total expenses
Expenses:						
Education and general:						
Salaries and wages	$ 74,587,669	12,618,826	12,923,699	11,134,902	23,068,543	134,333,639
Employee benefits	17,815,450	2,411,136	2,844,693	1,725,783	8,304,386	33,101,448
Supplies, services, other	9,040,319	3,783,552	6,897,025	21,890,936	18,180,186	59,792,018
Depreciation and amortization	7,894,057	323,616	206,967	4,581,962	2,879,199	15,885,801
Interest	6,083,102	249,376	159,487	3,194,929	2,218,691	11,905,585
Maintenance	10,454,252	428,572	274,090	6,067,981	3,812,979	21,037,874
Total operating expenses	$ 125,874,849	19,815,078	23,305,961	48,596,493	58,463,984	276,056,365

	Fiscal year ended May 31, 2018					
	Instruction	Academic support	Student services	Auxiliary enterprises	Institutional support	Total expenses
Expenses:						
Education and general:						
Salaries and wages	$ 75,048,797	10,763,333	12,354,674	10,865,347	20,472,035	129,504,186
Employee benefits	19,085,689	2,497,243	3,001,393	1,857,831	7,190,401	33,632,557
Supplies, services, other	9,222,464	4,826,274	6,474,773	22,231,057	20,165,910	62,920,478
Depreciation and amortization	7,740,123	317,306	202,931	4,492,614	2,823,055	15,576,029
Interest	6,072,721	248,951	159,215	3,194,929	2,214,904	11,890,720
Maintenance	10,305,239	422,462	270,183	5,981,485	3,758,619	20,737,988
Total operating expenses	$ 127,475,033	19,075,569	22,463,169	48,623,263	56,624,924	274,261,958

Expenses associated with the operation and maintenance of plant assets, including depreciation and interest expense, are disclosed separately on the consolidated statement of activities. The above presents the impact had these expenses been allocated, based on actual square footage utilized, to operating expenses for instruction, academic support, student and enrollment services, institutional support and advancement, and auxiliary enterprises. Expenses associated with fundraising activities were $4,311,417 and $4,109,087 in 2019 and 2018, respectively, and are included in institutional support and advancement on the statements of activities.

(14) Berklee New York City

As part of a commitment to develop and operate a music studio and educational center in New York City, the College has entered into a ten-year lease agreement for space at 441 West 53rd St, an iconic music industry property known as the “Power Station”. The lease is for ten years commencing on September 1, 2017 at a base rent of approximately $875,000 per year, fixed throughout the lease term.

Funding for capital investment and operations support includes: up to $6,000,000 of total grant monies from the City of New York and the New York City Economic Development Corporation (EDC); and up to $18,000,000 from a donor advised fund established by a member of the College’s Board of Trustees. For the years ended May 31, 2019 and 2018, the College received $7,530,026 and $3,005,100 of grants and contributions, respectively.

(15) Related Parties

Members of the College’s Board of Trustees and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the College. The Board’s conflict of interest policy requires, among other things, that no member of the Board of Trustees or its committees can participate in any decision by the College in which he or she (or an immediate family member) has a material financial interest. For members of the Board of Trustees and senior management, the College requires an annual disclosure of significant financial interest in, or employment or consulting relationships with, entities doing business with the College. When such relationships exist, measures are taken to address the actual or perceived conflict to protect the best interest of the College and ensure compliance with relevant conflict of interest laws or policy.

(16) Subsequent Events

For purposes of determining the effects of subsequent events on these consolidated financial statements, management has evaluated events subsequent to May 31, 2019 and through September 30, 2019, the date on which the consolidated financial statements were issued.