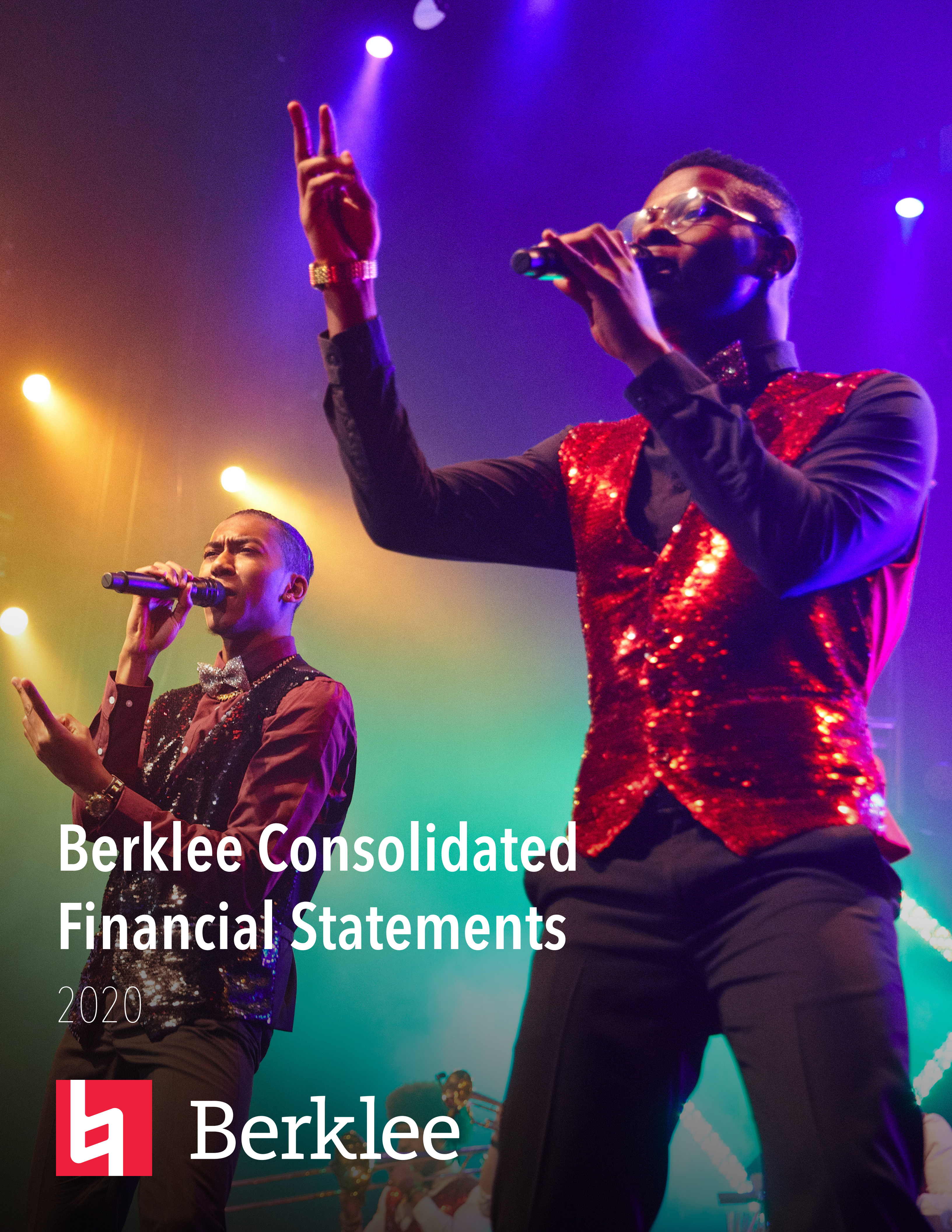

Berklee Consolidated Financial Statements

2020

Berklee

Berklee Consolidated Financial Statements: May 31, 2020, and 2019

Letter from the Senior Vice President of Administration and Finance
Chief Financial Officer | Chief Investment Officer

The COVID-19 pandemic has presented formidable challenges for the Berklee community as it has for the entire world. At the outset of the pandemic in the spring of 2020, with a paramount focus on health and safety, Berklee moved swiftly and decisively to close our campuses, and supported our students, faculty, and staff as they returned to their homes or other remote locations. Recognizing the financial burden on our community, Berklee simultaneously issued credits or refunds to students and provided emergency financial aid in extreme circumstances, such as to students who could not afford to return to the United States from our campus in Valencia, Spain.

Berklee entered the COVID-19 crisis from a position of financial strength. Years of consistently positive operating results coupled with a focus on liquidity increased cash reserves to historically high levels, equal to approximately five months of expenses versus an industry benchmark of three to six months. In addition, just prior to the onset of the crisis, Berklee concluded a multiyear debt restructuring program that lowered the absolute level of the institution’s debt as well as the long-term weighted average cost of that debt, thereby lowering debt service requirements for the foreseeable future. In response to the crisis, after supporting the health and safety of our community and ensuring educational continuity by pivoting to remote learning, Berklee moved swiftly to enhance alternative revenue streams and reduce operating costs to help offset the credits, refunds, and other support provided to our students. These actions supplemented what was otherwise a very strong operating and fundraising year. As a result, Berklee recorded solid operating results in 2020, despite the impact of the COVID-19 crisis and the ongoing challenges facing higher education. In addition to addressing these very substantial challenges, Berklee’s 2020 financial results reflect our continuing focus on 1) improving student success, with a focus on affordability; 2) investing in support of the institution’s vision, mission, and strategic priorities; and 3) sustaining our financial strength.

Berklee ended the year with total operating revenues of $296.0 million and an operating margin of $15.5 million, or 5.2 percent of operating revenues, just ahead of our long-term 2–4 percent target range, with all areas of the institution contributing to the results. Notably, the challenging environment for higher education on-campus operations presented an opportunity for online education, especially Berklee's award-winning online platform, Berklee Online. Berklee initiated a new investment program in this platform beginning in the spring to better support current and prospective students, and has experienced record-setting growth as a result. All segments of Berklee Online, including undergraduate and graduate degree and non-degree programs (as well as our MOOC-certificate programs) exceeded targets in 2020, and growth is accelerating in the new fiscal year. Four years after the merger of Berklee College of Music and the Boston Conservatory, Boston Conservatory at Berklee continued to make excellent progress toward its new strategic objectives, including improved operating margins. Berklee's campus in Valencia, Spain, which offers undergraduate study abroad as well as graduate programs, operated at full capacity in 2020 and recorded record operating results. Given strong demand at the campus in Spain, Berklee recently concluded an agreement to extend and expand our agreement with the Valencia regional government for our facilities in the beautiful Palau de les Arts Reina Sofia. Our core operations on the Boston campus continued 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, Workday, concluding two out of three conversion phases. We also made good progress on two significant capital projects to improve our students' experience: a new practice room facility at our Boston campus, which will open for the spring 2021 semester, and the complete renovation of our new campus in New York City, which was funded primarily through philanthropy. Located just steps from Broadway, Power Station at BerkleeNYC will reopen its studio operations this fall and will begin to offer exciting opportunities for our music, dance, and theater students in 2021. Affordability was also a top priority in 2020 as scholarship support reached new highs, while tuition increases were limited.

Fundraising continued its positive momentum in the first year following the successful Soundbreaking campaign, which ended in fiscal 2019 and exceeded its $121 million goal by over 33 percent. In fiscal 2020, Berklee posted a total of $21.3 million in new gifts/new pledges focused on scholarship support, the top priority. In addition, Berklee's endowment continued to generate new highs in support for the institution's operating budget. The endowment, at $328 million, remains the largest asset on Berklee's balance sheet.

At year-end, Berklee's balance sheet reflects our higher liquidity ($118 million in cash reserves) as well as a good balance among assets: total assets amounted to $761.6 million at year-end, with 15 percent in cash and short-term investments, 43 percent in the institution's endowment, and 38 percent in physical assets. As noted above, long-term debt, while high relative to other A-rated institutions, is lower compared to 2019 due to the January retirement of the remainder of our 2007 debt and the subsequent completion of our multiyear refinancing program, just before the onset of the COVID-19 pandemic. The impact of the COVID-19 pandemic is most visible in two areas of the balance sheet: the ongoing impact on the financial markets in May, 2020 is reflected in the valuation of our endowment ($328 million at May 31, 2020, versus $356 million a year earlier); and the combined impact of lower market values and lower interest rates is reflected in an increased accrued pension liability, despite the plan's closure to new employees in 2012. However, since May, the endowment's value has climbed steadily (approximately $360 million as of August 31, 2020) with the general recovery in the markets as has the value of the pension plan's assets. The combined impact of the temporarily lower valuation of the endowment and pension plan assets (as well as the impact of lower interest rates) lowered net assets from approximately $397 million at May 31, 2019, to $347 million as of May 31, 2020; approximately 67 percent of total net assets are unrestricted.

The following table summarizes key financial metrics for the past five years. (Note that the merger of Berklee College of Music and The Boston Conservatory occurred at the beginning of 2017.)

$millions	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual
Revenue	$234.5	$271.5	$282.9	$288.7	$296.0
Expenses	$226.2	$260.0	$274.3	$276.0	$280.5
Operating Margin	$8.3 3.5%	$11.5 4.2%	$8.6 3.0%	$12.7 4.4%	$15.5 5.2%
Net Assets	$245	$352	$389	$397	$347
Endowment	$316	$359	$365	$356	$328
Long Term Debt	$249	$277	$273	$268	$257

During the 2020 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.

Looking forward, fiscal 2021 will be a very challenging year as we experience the impact of the COVID-19 pandemic for the full year. In the interest of the health and safety of our entire community, we made the decision to operate virtually through at least the summer and fall semesters, despite the significant adverse financial impact on the institution. In recognition of the financial strains experienced by our students and families, we froze tuition and fees at prior-year levels and, further, issued $2,500 grants to all students that enrolled this fall (along with supplemental benefits if these same students enroll this coming summer). We also continue to provide health and wellness resources and support to our faculty, staff, and students, and have created a COVID emergency financial relief program for those facing COVID-related financial hardships. While these actions provided substantial benefits to our students as well as the rest of our community, they present very significant financial challenges for the institution. As we consider reopening our campus in a limited capacity this spring, the health and safety of our community will continue to be a top priority and will require substantial investment in our facilities as well as other health and safety measures. In response, Berklee has initiated comprehensive revenue augmentation and cost-management initiatives. Our continued investment in Berklee Online is expected to produce a strong increase in Berklee Online revenues and operating margins this year. Cost management across the institution, including a significant reduction in operating and capital expenses, will also help us address the financial challenge. While these measures were initially focused on non-personnel operating expenses, the size of the expected financial gap has necessitated salary reductions for the senior leadership of the institution, the elimination of raises for all personnel, and other related actions, including furloughs of staff (who continue to receive health benefits). These decisions were very difficult and taken only after a very rigorous review, especially in light of the high esteem we have for our furloughed staff. Nevertheless, such actions are necessary to ensure our continued support for our students and the broader Berklee community as we all continue to navigate the COVID-19 pandemic. Finally, we believe all of these actions will help ensure Berklee's long-term leadership in performing arts education and our long-term financial viability in a very dynamic and challenging higher education environment.

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

BERKLEE COLLEGE OF MUSIC, INC.

Consolidated Financial Statements

May 31, 2020 and 2019

(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, 2020 and 2019, 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

September 28, 2020

BERKLEE COLLEGE OF MUSIC, INC.

Consolidated Statements of Financial Position

May 31, 2020 and 2019

Assets		**2020**	**2019**
Cash and cash equivalents	$	18,173,388	37,188,321
Short-term investments (note 4)		99,638,746	74,750,780
Accounts receivable, net (note 8)		811,549	438,363
Contributions receivable, net (note 9)		9,256,955	10,551,692
Other assets		10,425,764	12,215,741
Loans receivable, net (note 8)		1,531,109	2,019,289
Deposits with bond trustees (note 7)		4,468,800	6,480
Long-term investments (notes 4 and 5)		327,571,106	356,061,885
Property, improvements, and equipment, net (note 6)		289,740,606	286,339,157
Total assets	$	761,618,023	779,571,708
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	31,916,075	28,232,731
Student deposits and deferred liabilities		30,731,759	36,977,259
Accrued pension liabilities (note 10)		91,756,939	45,322,373
Bonds and notes payable (note 7)		256,593,919	268,016,377
Refundable advances – U.S. government grants		3,625,164	3,537,948
Total liabilities		414,623,856	382,086,688
Net assets:			
Without donor restrictions		233,923,771	289,150,930
With donor restrictions (note 12)		113,070,396	108,334,090
Total net assets		346,994,167	397,485,020
Total liabilities and net assets	$	761,618,023	779,571,708

See accompanying notes to consolidated financial statements.

BERKLEE COLLEGE OF MUSIC, INC.

Consolidated Statement of Activities

Year ended May 31, 2020

	Without donor restrictions	With donor restrictions	2020 Total
Operating:			
Revenues:			
Student tuition and fees (net aid of $75,020,477)	$ 228,945,271	—	228,945,271
Residence hall and dining fees (net aid of $765,128)	25,095,092	—	25,095,092
Net tuition and fees	254,040,363	—	254,040,363
Contributions	1,129,117	14,375,722	15,504,839
Grants and contracts	2,310,673	—	2,310,673
Investment return for operations (note 5)	12,212,370	3,597,216	15,809,586
Other income	7,807,074	—	7,807,074
Sales and service of auxiliary enterprises	6,952,087	—	6,952,087
Net assets released from restrictions	11,491,836	(11,491,836)	—
Total operating revenues	295,943,520	6,481,102	302,424,622
Expenses:			
Instruction	116,588,463	—	116,588,463
Academic support	18,547,842	—	18,547,842
Student and enrollment services	25,071,986	—	25,071,986
Institutional support and advancement	60,399,849	—	60,399,849
Auxiliary enterprises	11,281,755	—	11,281,755
Operation and maintenance of physical plant:			
Depreciation and amortization	16,148,035	—	16,148,035
Interest	10,835,522	—	10,835,522
Maintenance	21,583,212	—	21,583,212
Total operating expenses	280,456,664	—	280,456,664
Change in net assets from operating activities	15,486,856	6,481,102	21,967,958
Nonoperating:			
Investment return	(15,092,337)	(2,270,875)	(17,363,212)
Investment return for operations (note 5)	(12,212,370)	(3,597,216)	(15,809,586)
Contributions for long-term items	1,223,124	4,576,816	5,799,940
Net assets released from capital restriction	453,521	(453,521)	—
Other	2,612,351	—	2,612,351
Net periodic benefit cost other than service cost (note 10)	(47,698,304)	—	(47,698,304)
Change in net assets from nonoperating activities	(70,714,015)	(1,744,796)	(72,458,811)
Change in net assets	(55,227,159)	4,736,306	(50,490,853)
Net assets at beginning of year	289,150,930	108,334,090	397,485,020
Net assets at end of year	$ 233,923,771	113,070,396	346,994,167

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 (net aid of $69,284,219)	$ 220,476,653	—	220,476,653
Residence hall and dining fees (net 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	113,115,127	—	113,115,127
Academic support	18,813,514	—	18,813,514
Student and enrollment services	22,665,417	—	22,665,417
Institutional support and advancement	57,882,525	—	57,882,525
Auxiliary enterprises	14,750,522	—	14,750,522
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 Statements of Cash Flows

Years ended May 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	$ (50,490,853)	8,282,456
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	16,148,035	15,885,801
Realized and unrealized losses/(gains) on investments, net	17,844,414	(743,890)
Pension obligation costs	47,698,304	7,242,158
Loss/(gain) on sale of fixed assets	699,089	(2,551,036)
Gain on extinguishment of debt	(2,464,601)	—
Contributions for long-term investment	(5,124,631)	(4,802,198)
Change in operating assets	1,447,790	(1,501,089)
Change in operating liabilities	(4,205,647)	3,814,525
Net cash provided by operating activities	21,551,900	25,626,727
Cash flows from investing activities:		
Change in deposits with bond trustees	(4,462,320)	(1,821)
Purchase of property, plant, improvements, and equipment	(20,196,217)	(14,220,374)
Proceeds from sale of fixed assets	—	2,586,259
Disbursements and repayment of student loans	488,180	706,098
Proceeds from sale and maturity of investments	85,054,215	54,746,291
Purchase of investments	(99,295,816)	(79,380,212)
Net cash used in investing activities	(38,411,958)	(35,563,759)
Cash flows from financing activities:		
Payments on bonds and notes payable	(85,910,000)	(3,545,000)
Proceeds from debt refinancing	78,822,568	—
Debt issuance costs	(279,290)	—
Contributions for long-term investment	5,124,631	4,802,198
Increase in refundable advances – U.S. government grants	87,216	119,484
Net cash (used in) provided by financing activities	(2,154,875)	1,376,682
Net change in cash and cash equivalents	(19,014,933)	(8,560,350)
Cash and cash equivalents, beginning of year	37,188,321	45,748,671
Cash and cash equivalents, end of year	$ 18,173,388	37,188,321
Supplemental data:		
Interest paid	$ 10,715,874	11,935,696
Change in accounts payable attributable to capital acquisitions	(943,543)	(1,114,215)

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 as barriers are met. 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.

(f) Long-Term Investments

Investments are reported at 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, the fair value of those investments is recorded 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, 2020 and 2019.

(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.

(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 the 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, 2020 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, 2020 and 2019 included in Institutional Support was a net loss of ($157,666) and ($193,927), respectively.

(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 $9,130,527 and $9,332,456 for the years ended May 31, 2020 and 2019, respectively. The estimated unpaid claims liability, included in accrued expenses at May 31, 2020 and 2019, amounted to $730,382 and $1,059,628, respectively.

(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

(Continued)

amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(q) Recent Accounting Pronouncements

ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, was issued by the FASB in November 2016. The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash equivalents. The amendment applies to all entities have restricted cash or restricted cash equivalents. The amendment is effective for fiscal period beginning after December 15, 2018. The adoption of ASU 2016-18 did not have a significant impact on the College.

(r) Reclassifications

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

(3) Liquidity

As of May 31, 2020, and 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, are as follows:

		2020	**2019**
Cash and cash equivalents	$	16,733,251	35,591,226
Contributions, notes, and accounts receivable, net		6,048,227	4,690,049
Short-term investments		99,638,746	74,750,780
Expected endowment appropriation		16,197,812	15,809,586
Total financial assets available within one year	$	138,618,036	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, 2020 and 2019, the College has an additional $258,112,901 and $286,116,530 in Board-designated endowments not budgeted for spending in 2021 and 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, 2020 and 2019, as well as related strategy, liquidity, and funding commitments:

	May 31, 2020		Redemption or	Days'	Related unfunded
	Level 1	Total	liquidation	notice	commitment
Short-term investment strategies:					
Investments at fair value:					
Cash equivalents	$ 26,054	26,054			
Fixed income	52,553,663	52,553,663			
Money market	47,059,029	47,059,029			
Long-term investment strategies:					
Investments at fair value:					
Cash equivalents	23,470,323	23,470,323			
Global (excluding U.S.) equities	50,272,491	50,272,491			
Investments at net asset value:					
Global (excluding U.S.) equities:					
Developed markets	—	67,356,703	Quarterly	30-60	None
Emerging markets	—	7,649,259	Quarterly	90	None
Hedged equity funds of funds:					
Multiple strategies	—	21,545,133	Various (1)	45–90	None
Private equity and venture capital funds	—	11,529,161	Illiquid (2)	N/A	5,343,255
Real assets:					
Private real estate	—	13,636,329	Illiquid (3)	N/A	4,293,904
Direct hedge equity/multiple strategies	—	69,012,347	Various (4)	90	None
Direct absolute return/multiple strategies	—	63,099,360	Various (5)	45–180	None
Total	$ 173,381,560	427,209,852			

(1) Funds with quarterly redemption = $14,348,532, annually = $7,196,601

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

(3) Variety of benchmarks and limitations on withdrawals.

(4) Funds with annual redemption $54,174,366, illiquid $253,065, rolling 3 year 90 days notice $14,584,916

(5) Funds with annual redemption $63,083,668, illiquid $15,692

	May 31, 2019		Redemption		Related
	Level 1	Total	or liquidation	Days' notice	unfunded commitment
Short-term investment strategies:					
Investments at fair value:					
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 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

No investments at fair value are considered to be Level 2 or Level 3 investments in the fair value hierarchy at May 31, 2020 or 2019, 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, 2020 are classified below by redemption period:

		Investment fair values
Investments redemption period:		
Daily	$	123,109,069
Monthly		50,272,491
Quarterly		89,354,494
Annually		124,454,635
Locked up or illiquid		40,019,163
Total as of May 31, 2020	$	427,209,852

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.

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 $15,809,586 in 2020 and $15,794,746 in 2019. 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 $2,097,171 and $123,105 as of May 31, 2020 and 2019, respectively.

Endowment funds consisted of the following at May 31, 2020:

	Without donor restrictions	With donor restrictions		Total
		Underwater funds	Other funds	
Donor-restricted endowments:				
Historical gift	$ —	32,739,175	31,089,902	63,829,077
Net appreciation/depreciation	—	(2,097,171)	7,726,299	5,629,128
Board-designated endowments	258,112,901	—	—	258,112,901
Total endowed funds	$ 258,112,901	30,642,004	38,816,201	327,571,106

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

	Without donor restrictions	With donor restrictions		Total
		Underwater funds	Other funds	
Donor-restricted endowments:				
Historical gift	$ —	6,617,741	50,112,640	56,730,381
Net appreciation/depreciation	—	(123,105)	13,338,079	13,214,974
Board-designated endowments	286,116,530	—	—	286,116,530
Total endowed funds	$ 286,116,530	6,494,636	63,450,719	356,061,885

Changes in endowment funds for the year ended May 31, 2020 are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment funds, June 1, 2019	$ 286,116,530	69,945,355	356,061,885
Total investment return	(15,050,960)	(2,312,252)	(17,363,212)
Contributions	—	5,124,631	5,124,631
Appropriation of endowment assets for expenditure	(12,212,370)	(3,597,216)	(15,809,586)
Transfers from operations	(740,299)	297,687	(442,612)
Endowment funds, May 31, 2020	$ 258,112,901	69,458,205	327,571,106

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

(6) Property, Improvements, and Equipment

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

		2020	2019	Estimated useful life
Land	$	52,661,439	52,661,439	—
Buildings		184,791,896	184,791,896	40 years
Improvements		170,511,647	164,552,033	15–20 years
Furniture and equipment		62,473,567	59,779,985	3–10 years
Library books		3,265,501	3,265,501	10 years
Construction in progress		15,096,916	4,253,412	—
		488,800,966	469,304,266	
Less accumulated depreciation and amortization		(199,060,360)	(182,965,109)	
	$	289,740,606	286,339,157	

Total depreciation and amortization expense of property, improvements and equipment was $16,095,251 and $15,843,279 in 2020 and 2019, respectively.

(7) Bonds and Notes Payable

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

	2020	2019
(a) MDFA Revenue Bonds, Berklee College of Music Series 2011, dated September 22, 2011 (including unamortized premium of $4,044,638 in 2019)	$ 4,065,000	82,994,638
(b) MHEFA Revenue Bonds, Berklee College of Music Series 2007A, dated August 8, 2007 (including unamortized premium of $255,220 in 2019)	—	9,785,220
(c) MHEFA Revenue Bonds, Berklee College of Music Series 2016, dated August 1, 2016 (including unamortized premium of $29,253,953 and $30,368,390 in 2020 and 2019, respectively)	174,383,953	176,993,390
(d) MDFA Revenue Bonds, Berklee College of Music Series 2020A, dated March 1, 2020 (including unamortized discount of $130,144)	79,499,856	—
Total bonds payable	257,948,809	269,773,248
Deferred issuance cost on bonds	(1,354,890)	(1,756,871)
Bonds payable	$ 256,593,919	268,016,377

(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 5.25% and are due in varying installments of $141,900 to $4,358,725 until October 1, 2041. The bonds were defeased with the issuance of the 2020A bonds on March 1, 2020 and resulted in a gain of $2,467,601. The remaining outstanding portion of Series 2011 will be paid in 2021 and 2022.

(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. The bonds were paid off in full in 2020 by the College utilizing institutional funds.

(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.

(d) MDFA Revenue Bonds, Berklee College of Music Issue, Series 2020A

On March 1, 2020, the College issued $79,630,000 Revenue Bonds Series 2020A from the Massachusetts Development Finance Agency. The bonds were used to defease the Series 2011 issue. The Series 2020A bonds bear interest at rates ranging from 1.47% to 3.07% and are due in varying installments of $2,050,000 to $26,070,000 until October 1, 2046.

(e) 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 non-usage facility fee of 0.6% per annum will apply.

On April 24, 2020 the College signed the fifth amendment to this credit facility in the amount of $25,000,000 with a provision for an additional incremental increase of $15,000,000 at the request of the College and approval by the bank.

On May 26, 2020 the College signed the sixth amendment to this credit facility extending the termination date to April 26, 2021. There were no outstanding borrowings under this facility at May 31, 2020 or 2019.

Scheduled long-term maturities of existing indebtedness at May 31, 2020 in each of the next five years and in the aggregate thereafter are as follows:

		Amount
Year ending May 31:		
2021	$	3,520,000
2022		5,960,000
2023		6,125,000
2024		6,365,000
2025		6,615,000
Thereafter		200,240,000
		228,825,000
Net unamortized bond premium and discount		29,123,809
	$	257,948,809

(f) Interest Expense and Amortization Costs

Interest expense on bonds and notes payable was $10,835,522 and $11,905,585 in 2020 and 2019, respectively. Amortization of bond issue costs was not significant in either 2020 or 2019.

(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 $2,428,483 and $1,841,684 at May 31, 2020 and 2019, respectively.

Loans receivable, primarily from the federal Perkins loan program, are net of an allowance for uncollectible accounts of $1,052,986 and $1,106,162, at May 31, 2020 and 2019, respectively.

(9) Contributions Receivable, Net

Contributions receivable consist of the following at May 31:

		2020	2019
Unconditional promises expected to be collected in:			
Less than one year	$	5,818,531	6,544,898
One year to five years		4,746,810	5,685,209
		10,565,341	12,230,107
Less allowance for uncollectible pledges		(1,056,534)	(1,223,011)
		9,508,807	11,007,096
Less present value discount		(251,852)	(455,404)
	$	9,256,955	10,551,692

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 .16% to 2.68% in 2020 and .52% to 3.05% in 2019.

(10) Retirement Plans

The College offers a defined contribution retirement 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 $6,121,113 and $5,977,673, respectively, for the years ended May 31, 2020 and 2019.

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:

		2020	2019
Service cost of the current period	$	4,298,938	4,377,517
Interest cost on the projected benefit obligation		4,401,966	4,948,329
Expected return on assets held in the plan		(6,671,267)	(7,384,800)
Recognition of net actuarial loss		2,894,739	1,997,665
Pension expense	$	4,924,376	3,938,711

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:

		2020	2019
Change in benefit obligation:			
Benefit obligation at beginning of year	$	148,026,220	145,508,036
Service cost		4,298,938	4,377,517
Interest cost		4,401,966	4,948,329
Actuarial loss		38,928,257	2,615,975
Benefits paid		(6,054,098)	(9,423,637)
Benefit obligation at end of year		189,601,283	148,026,220
Change in plan assets:			
Fair value of plan assets at beginning of year		104,901,665	108,205,989
Actual return on plan assets		(4,368,082)	322,146
Employer contributions		5,797,167	5,797,167
Benefits paid		(6,054,098)	(9,423,637)
Fair value of assets held in the plan		100,276,652	104,901,665
Pension liability at end of year	$	89,324,631	43,124,555

Pension expense was computed based on a weighted average discount rate of 3.49% for 2020 and 3.89% for 2019, respectively, expected long-term rate of return on assets of 6.50% for 2020 and 2019, and future personnel expense increases of 3.0% for 2020 and 2019. The discount rates that were used to measure service and interest cost during 2020 were 3.60% and 3.11%, respectively.

The discount rate used in determining the actuarial present value of the projected benefit obligation in 2020 and 2019 was 2.47% and 3.49%, respectively.

The benefits expected to be paid after May 31, 2020 are as follows:

Years ending May 31:		
2021	$	16,055,782
2022		11,153,602
2023		10,512,548
2024		10,498,735
2025		10,477,233
2026–2030		51,443,411

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 2020	Plan assets at May 31 2019
Equity securities	55 %	17 %	31 %
Debt securities	15	3	3
Other	30	80	66

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, 2020	Fiscal years ended May 31, 2019
Net loss	$ (47,072,867)	(7,680,964)

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.

The value of the Pension Plan's assets by asset class are as follows at May 31, 2020:

	May 31, 2020 Level 1	May 31, 2020 Total	Redemption or liquidation	Days' notice	Related unfunded commitment
Investments at fair value:					
Cash equivalents and fixed income	$ 31,207,019	31,207,019			
International equities	15,882,993	15,882,993			
Domestic equities	5,422,599	5,422,599			
Investments at net asset value:					
Domestic equities	—	1,441,270	Quarterly/ annually	30–90 days	3,093,275
International equities	—	15,200,221	Quarterly/ annually	30–180 days	None
Hedge funds	—	25,859,719	Illiquid	N/A	None
Real assets	—	5,262,831	Illiquid	N/A	1,278,756
	$ 52,512,611	100,276,652			

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

	May 31, 2019 Level 1	May 31, 2019 Total	Redemption or liquidation	Days' notice	Related unfunded commitment
Investments at fair value:					
Cash equivalents 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	2,705,991
International equities	—	17,799,760	Quarterly/ annually	30–180 days	None
Hedge funds	—	42,710,626	Illiquid	N/A	None
Real assets	—	5,526,167	Illiquid	N/A	1,879,705
	$ 37,049,974	104,901,665			

No investments at fair value are considered to be Level 2 or Level 3 investments in the fair value hierarchy at May 31, 2020 and 2019, 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:		
2021	$	5,428,199
2022		4,817,904
2023		4,517,340
2024		3,950,188
2025		3,529,078
Thereafter		9,980,728

Rental expense was $5,719,859 in 2020 and $6,422,132 in 2019.

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:		
2021	$	1,405,583
2022		1,262,472
2023		918,114
2024		772,887
2025		585,951
Thereafter		2,576,909

Rental income from leased space was $1,802,472 in 2020 and $1,252,916 in 2019.

(12) Net Assets with Donor Restrictions

	2020	2019
Endowment and unspent gifts:		
Instruction	$ 16,770,639	16,753,966
Institutional support	12,895,446	12,328,529
Student aid	59,408,806	47,827,980
Facilities	—	37
Capital campaign programs	6,466,108	6,977,397
	95,540,999	83,887,909
Unappropriated gains from endowed restricted net assets	8,381,590	13,953,469
Outstanding pledges	9,147,807	10,492,712
	$ 113,070,396	108,334,090

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. Principal contributions are held as net assets restricted in perpetuity.

(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, 2020 and 2019:

	Fiscal year ended May 31, 2020					
		Indirect costs				
	Instruction	Academic support	Student services	Auxiliary services	Institutional support	Total expenses
Expenses:						
Education and general:						
Salaries and w ages	$ 80,823,329	13,381,229	14,119,422	808,893	32,014,548	141,147,421
Employee benefits	20,508,957	2,450,187	2,988,551	163,770	6,351,360	32,462,825
Supplies, services, other	15,256,177	2,716,426	7,964,013	10,309,092	22,033,941	58,279,649
Depreciation and amortization	8,024,367	328,959	210,383	4,657,599	2,926,727	16,148,035
Interest	5,335,822	218,742	139,895	3,194,929	1,946,134	10,835,522
Maintenance	10,725,244	439,681	281,195	6,225,274	3,911,818	21,583,212
Total operating expenses	$ 140,673,896	19,535,224	25,703,459	25,359,557	69,184,528	280,456,664

	Fiscal year ended May 31, 2019					
		Indirect costs				
	Instruction	Academic support	Student services	Auxiliary services	Institutional support	Total expenses
Expenses:						
Education and general:						
Salaries and wages	$ 77,863,070	12,618,826	12,923,699	1,038,265	29,889,780	134,333,640
Employee benefits	17,816,197	2,411,136	2,844,693	209,147	9,820,275	33,101,448
Supplies, services, other	17,435,861	3,783,552	6,897,025	13,503,110	18,172,469	59,792,017
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	$ 137,546,539	19,815,078	23,305,961	28,595,394	66,793,393	276,056,365

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 $4,180,704 and $4,311,417 in 2020 and 2019, 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, 2020 and 2019, the College received $3,304,235 and $7,530,026 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) COVID-19 Pandemic

As a result of the COVID-19 Pandemic (the pandemic), the College decided to close the residential campus effective March 18, 2020. Due to this closure, the College issued refunds and future statement credits to students for room and board charges and comprehensive fees based on a prorated amount. These refunds and credits amounted to $7,730,540 and resulted in a reduction of residence hall and dining fee revenue for the fiscal year ended May 31, 2020.

Also, as a result of the pandemic, in fiscal year 2020 the College was awarded $1,786,574 from the Higher Education Emergency Relief Fund (HEERF). The funds were used for emergency financial aid grants to students under the 18004(a)(1) Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The College disbursed $1,698,920 of the total received to the students to assist the students in their transition to remote learning with the remaining $87,654 to be utilized in fiscal year 2021 for appeals and late filers. In fiscal year 2021, the College was awarded an additional $1,786,574 from the HEERF to support institutional expenditures relating to the pandemic.

(17) Subsequent Events

In fiscal year 2021, in response to the COVID-19 pandemic, the college offered remote only courses for the summer and will be remote on the Boston campus through the fall semester. Room and board and comprehensive fees were suspended until Spring 2021.

For purposes of determining the effects of subsequent events on these consolidated financial statements, management has evaluated events subsequent to May 31, 2020 and through September 28, 2020 the date on which the consolidated financial statements were issued.