



Berklee Consolidated Financial Statements

2021



Berklee

Berklee Consolidated Financial Statements: May 31, 2021, and 2020

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

The COVID-19 pandemic has had an unprecedented impact on society since its onset over a year and a half ago and has presented enormous personal and professional challenges for Berklee's students, faculty, and staff. The Berklee community has responded well to these challenges, working steadily through the pandemic to ensure the health and safety of our community, while simultaneously striving to maintain the quality of the educational experience for our students. Berklee's COVID-19 response team has met continuously during the pandemic, proactively introducing new health and safety measures (establishing a new testing clinic for example) while monitoring the health and safety of our entire community utilizing a variety of metrics, including those on Berklee's publicly available [COVID-19 dashboard](#). We are pleased to report that the COVID-19 positivity rate has consistently been quite low in our community, while the vaccination rate has been very high. Thanks to our faculty and strong academic leadership, with support from our excellent administrative teams, the educational experience on our campus has been optimized over the past year, utilizing both virtual and on campus modalities. In addition, Berklee Online, which has offered online courses for almost two decades, continued to provide its high quality offerings to students of all ages, growing very significantly in the process. As a result of the very hard work of all our staff and faculty, despite the enormous personal challenges they have faced, Berklee's enrollment has rebounded to new highs this fall. While we are disappointed that COVID-19 is not yet behind us, Berklee is well positioned to handle the pandemic while it continues, and to emerge as a stronger institution post-pandemic.

Berklee entered the crisis from a position of financial strength, with a solid balance sheet and high liquidity – cash and cash equivalent reserves exceeded \$140 million, which equates to approximately 5-6 months of expenses. Our financial objective was not just to survive the crisis, but to be able to thrive post-crisis. Accordingly, as we faced a large enrollment and revenue shortfall at the beginning of the fiscal year, it was necessary to dramatically reduce expenses, while simultaneously supporting new or existing revenue opportunities, notably Berklee Online. The expense management program was carefully orchestrated to avoid adverse impacts on our educational offerings. With over 60% of our expense structure dedicated to people-related costs, we found it was necessary to introduce a furlough program, which was very tough on the people that were furloughed and on the staff that worked extremely long hours to

absorb demanding workloads, including the requirements of COVID-19. With the return to robust on-campus enrollment this fall, our workforce has returned to or above pre-pandemic levels; nevertheless, we are mindful that the pandemic has had lasting impacts on all of our staff, students, and faculty.

As a result of the hard work by everyone at Berklee, we have been able to keep our community safe, maintain the quality of our education, and maintain our financial strength. Berklee ended 2021 with \$237.5 million in unrestricted operating revenues (\$58.4 million below 2020), but successfully mitigated most of the revenue shortfall, resulting in a \$5.1 million unrestricted operating loss for the year, which has been absorbed by our healthy cash reserves. As noted, the revenue shortfall primarily reflects a temporary enrollment decline (which in turn impacted room and board and comprehensive fee revenues). However, in support of our students, Berklee also froze tuition last year and issued one-time “Back to Berklee” grants to all students that enrolled last fall; this added to the net tuition shortfall. Partially offsetting these factors were significant growth in Berklee Online revenues as well as support from federal programs, including the CARES Act and the American Rescue Plan, which provided relief funding to higher education institutions and their students.

2021 Operating Expenses of \$242.6 million are down \$37.9 million from 2020 due largely to our swift and decisive cost management efforts. Personnel savings were achieved primarily through furloughs, reductions in hours, position eliminations, a hiring freeze, and a suspension of salary increases. Part time faculty savings were also realized due to lower enrollment. Other operating expense savings were achieved through freezing non-essential expenses, facilities-related savings from the campus closure, and through the deferral of major initiatives, including a multi-year enhancement to our information systems. These savings were somewhat offset by new COVID-related infrastructure costs including COVID testing, medical support, additional cleaning protocols, and the procurement of personal protective equipment. As noted, Berklee ended the year with an unrestricted operating loss of \$5.1 million, which compares to an unrestricted operating surplus of \$15.5 million in fiscal 2020.


At the end of fiscal 2021, Berklee’s balance sheet was stronger compared to the prior year due primarily to the investment performance of our endowment and pension plan assets (which in turn reduced our net pension liability). Assets in the endowment amounted to \$446.6 million at May 31, 2021, compared to \$327.6 million a year earlier (in the midst of the pandemic-related correction in the markets). With a corresponding increase in pension plan assets, the net liability of the pension plan has dropped from \$91.8 million at 5/31/20 to \$61.5 million at 5/31/21. Combined, these factors supported an increase in net assets to \$480.4 million this year from \$347.0 million last year.

While the pandemic is not yet behind us, we are confident that we are well positioned financially to manage through the rest of the pandemic and to be able to continue to thrive as an institution post-pandemic.

The following table summarizes key operating results for the past five years.

Berklee College of Music
Consolidated Financial Results
(Millions)

	2017	2018	2019	2020	2021
	Actual	Actual	Actual	Actual	Actual
Unrestricted Revenue	\$271.5	\$282.9	\$288.7	\$296.0	\$237.5
Expense	\$260.0	\$274.3	\$276.0	\$280.5	\$242.6
Unrestricted change in net assets	\$11.5	\$8.6	\$12.7	\$15.5	(\$5.1)
% of Revenue	4.2%	3.0%	4.4%	5.2%	-2.1%



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, 2021 and 2020

(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, 2021 and 2020, 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, 2021 and 2020, 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.



Emphasis of Matter

As discussed in note 2 to the consolidated financial statements, in 2021, Berklee College of Music, Inc. adopted Accounting Standards Update No. 2016-02, *Leases* (Topic 842), as amended. Our opinion is not modified with respect to this matter.

KPMG LLP

September 28, 2021

BERKLEE COLLEGE OF MUSIC, INC.

Consolidated Statements of Financial Position

May 31, 2021 and 2020

Assets	2021	2020
Cash and cash equivalents	\$ 21,276,190	18,173,388
Short-term investments (note 4)	80,610,464	99,638,746
Accounts receivable, net (note 8)	745,688	811,549
Contributions receivable, net (note 9)	8,640,088	9,256,955
Other assets	25,351,740	10,425,764
Loans receivable, net (note 8)	1,135,742	1,531,109
Deposits with bond trustees (note 7)	38,561	4,468,800
Long-term investments (notes 4 and 5)	446,633,116	327,571,106
Property, improvements, and equipment, net (note 6)	285,699,372	289,740,606
Right-of-use asset, net (note 11)	21,936,591	—
Total assets	<u>\$ 892,067,552</u>	<u>761,618,023</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 37,952,535	31,916,075
Student deposits and deferred liabilities	33,607,440	30,731,759
Accrued pension liabilities (note 10)	61,530,692	91,756,939
Operating lease obligations (note 11)	23,206,165	—
Bonds and notes payable (note 7)	251,662,883	256,593,919
Refundable advances – U.S. government grants	3,717,928	3,625,164
Total liabilities	<u>411,677,643</u>	<u>414,623,856</u>
Net assets:		
Without donor restrictions	322,316,865	233,923,771
With donor restrictions (note 12)	158,073,044	113,070,396
Total net assets	<u>480,389,909</u>	<u>346,994,167</u>
Total liabilities and net assets	<u>\$ 892,067,552</u>	<u>761,618,023</u>

See accompanying notes to consolidated financial statements.

BERKLEE COLLEGE OF MUSIC, INC.

Consolidated Statement of Activities

Year ended May 31, 2021

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>2021 Total</u>
Operating:			
Revenues:			
Student tuition and fees (net aid of \$81,951,930)	\$ 187,954,876	—	187,954,876
Residence hall and dining fees (net aid of \$208,650)	5,840,937	—	5,840,937
Net tuition and fees	193,795,813	—	193,795,813
Contributions	865,949	14,453,405	15,319,354
Grants and contracts	9,610,711	—	9,610,711
Investment return for operations (note 5)	12,226,319	3,971,493	16,197,812
Other income	4,732,643	—	4,732,643
Sales and service of auxiliary enterprises	4,350,564	—	4,350,564
Net assets released from restrictions	11,934,554	(11,934,554)	—
Total operating revenues	237,516,553	6,490,344	244,006,897
Expenses:			
Instruction	111,892,821	—	111,892,821
Academic support	11,098,091	—	11,098,091
Student and enrollment services	18,093,682	—	18,093,682
Institutional support and advancement	56,041,222	—	56,041,222
Auxiliary enterprises	4,904,894	—	4,904,894
Operation and maintenance of physical plant:			
Depreciation and amortization	15,490,187	—	15,490,187
Interest	9,377,113	—	9,377,113
Maintenance	15,690,054	—	15,690,054
Total operating expenses	242,588,064	—	242,588,064
Change in net assets from operating activities	(5,071,511)	6,490,344	1,418,833
Nonoperating:			
Investment return	74,602,236	40,026,128	114,628,364
Investment return for operations (note 5)	(12,226,319)	(3,971,493)	(16,197,812)
Contributions for long-term items	1,689,849	7,357,494	9,047,343
Net assets released from capital restriction	4,899,825	(4,899,825)	—
Other	(4,065,000)	—	(4,065,000)
Net periodic benefit cost other than service cost (note 10)	28,564,014	—	28,564,014
Change in net assets from nonoperating activities	93,464,605	38,512,304	131,976,909
Change in net assets	88,393,094	45,002,648	133,395,742
Net assets at beginning of year	233,923,771	113,070,396	346,994,167
Net assets at end of year	\$ 322,316,865	158,073,044	480,389,909

See accompanying notes to consolidated financial statements.

BERKLEE COLLEGE OF MUSIC, INC.

Consolidated Statement of Activities

Year ended May 31, 2020

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>2020 Total</u>
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)	<u>25,095,092</u>	<u>—</u>	<u>25,095,092</u>
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	<u>11,491,836</u>	<u>(11,491,836)</u>	<u>—</u>
Total operating revenues	<u>295,943,520</u>	<u>6,481,102</u>	<u>302,424,622</u>
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	<u>21,583,212</u>	<u>—</u>	<u>21,583,212</u>
Total operating expenses	<u>280,456,664</u>	<u>—</u>	<u>280,456,664</u>
Change in net assets from operating activities	<u>15,486,856</u>	<u>6,481,102</u>	<u>21,967,958</u>
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)	<u>(47,698,304)</u>	<u>—</u>	<u>(47,698,304)</u>
Change in net assets from nonoperating activities	<u>(70,714,015)</u>	<u>(1,744,796)</u>	<u>(72,458,811)</u>
Change in net assets	(55,227,159)	4,736,306	(50,490,853)
Net assets at beginning of year	<u>289,150,930</u>	<u>108,334,090</u>	<u>397,485,020</u>
Net assets at end of year	<u>\$ 233,923,771</u>	<u>113,070,396</u>	<u>346,994,167</u>

See accompanying notes to consolidated financial statements.

BERKLEE COLLEGE OF MUSIC, INC.

Consolidated Statements of Cash Flows

Years ended May 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 133,395,742	(50,490,853)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	15,490,187	16,148,035
Realized and unrealized (gains)/losses on investments, net	(114,628,364)	17,844,414
Pension obligation costs	(28,564,014)	47,698,304
Loss/(gain) on sale of fixed assets	—	699,089
Gain on extinguishment of debt	—	(2,464,601)
Amortization of right-of-use assets-operating	4,399,899	—
Contributions for long-term investment	(8,267,537)	(5,124,631)
Change in operating assets	(12,958,777)	1,447,790
Change in operating liabilities	1,708,378	(4,205,647)
Net cash (used in) provided by operating activities	<u>(9,424,486)</u>	<u>21,551,900</u>
Cash flows from investing activities:		
Change in deposits with bond trustees	4,430,239	(4,462,320)
Purchase of property, plant, improvements, and equipment	(11,369,765)	(20,196,217)
Disbursements and repayment of student loans	395,367	488,180
Proceeds from sale and maturity of investments	56,292,230	85,054,215
Purchase of investments	(41,697,594)	(99,295,816)
Net cash provided by (used in) investing activities	<u>8,050,477</u>	<u>(38,411,958)</u>
Cash flows from financing activities:		
Payments on bonds and notes payable	(3,520,000)	(85,910,000)
Proceeds from debt refinancing	—	78,822,568
Debt issuance costs	(363,490)	(279,290)
Contributions for long-term investment	8,267,537	5,124,631
Increase in refundable advances – U.S. government grants	92,764	87,216
Net cash provided by (used in) financing activities	<u>4,476,811</u>	<u>(2,154,875)</u>
Net change in cash and cash equivalents	3,102,802	(19,014,933)
Cash and cash equivalents, beginning of year	<u>18,173,388</u>	<u>37,188,321</u>
Cash and cash equivalents, end of year	\$ <u><u>21,276,190</u></u>	\$ <u><u>18,173,388</u></u>
Supplemental data:		
Interest paid	\$ 10,997,972	10,715,874
Change in accounts payable attributable to capital acquisitions	(233,976)	(943,543)
Cash paid for amounts included in the measurement of operating lease liabilities	5,867,272	—
Right-of-use assets upon ASC 842 implementation, operating-leases	26,336,490	—

See accompanying notes to consolidated financial statements.

BERKLEE COLLEGE OF MUSIC, INC.
Notes to Consolidated Financial Statements
May 31, 2021 and 2020

(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

BERKLEE COLLEGE OF MUSIC, INC.
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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. Cash equivalents held for investment purposes that are classified as short-term and long-term investments are not reflected as cash equivalents in the statement of cash flows.

(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.

BERKLEE COLLEGE OF MUSIC, INC.

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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, 2021 and 2020.

(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.

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(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) Leases

The College has entered into a variety of operating leases for office and classroom space, and equipment. The obligations associated with these leases have been recognized as a liability in the consolidated statement of financial position based on future lease payments, discounted by the incremental borrowing rate or risk-free rate.

Lease terms may include options to extend or terminate certain leases. The value of a lease is reflected in the valuation if it is reasonably certain management will exercise an option to extend or terminate a lease.

(m) 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.

(n) 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, 2021 but it is not significant to the consolidated financial statements. The College believes it has taken no significant uncertain tax positions.

(o) 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, 2021 and 2020 included in Institutional Support was a net gain/(loss) of \$90,768 and (\$157,666), respectively.

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(p) 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 \$10,323,509 and \$9,130,527 for the years ended May 31, 2021 and 2020, respectively. The estimated unpaid claims liability, included in accrued expenses at May 31, 2021 and 2020, amounted to \$803,673 and \$730,382, respectively.

(q) 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.

(r) Recent Accounting Pronouncements

ASU 2016-02 *Leases (Topic 842)*, was issued by the FASB effective and adopted June 1, 2020 by the College. This guidance is intended to improve financial reporting of leasing transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases that extend more than twelve months. Key provisions in this guidance include additional disclosure surrounding the amount, timing, and uncertainty of cash flows arising from leases. The practical expedients that permits no reassessment of whether any expired or existing contracts are or contain a lease, the lease classification for any expired or existing leases, and any initial direct costs for any existing leases as of the effective date.

As of June 1, 2020, the College recognized (a) an operating lease liability of \$27,620,961, which represents the present value of the remaining lease payments of approximately \$1,284,471, discounted using the College's weighted average incremental borrowing rate of 5.80% and (b) an operating right-of-use asset of \$26,336,490.

(3) Liquidity

As of May 31, 2021 and 2020, 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:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 20,925,358	16,733,251
Contributions, notes, and accounts receivable, net	4,933,587	6,048,227
Short-term investments	80,610,464	99,638,746
Expected endowment appropriation	<u>15,730,631</u>	<u>16,197,812</u>
Total financial assets available within one year	<u>\$ 122,200,040</u>	<u>138,618,036</u>

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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, 2021 and 2020, the College has an additional \$332,307,136 and \$258,112,901 in Board-designated endowments not budgeted for spending in 2022 and 2021, 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, 2021 and 2020, as well as related strategy, liquidity, and funding commitments:

	May 31, 2021		Redemption or liquidation	Days' notice	Related unfunded commitment
	Level 1	Total			
Short-term investment strategies:					
Investments at fair value:					
Cash equivalents	\$ 555,944	555,944			
Fixed income	52,485,509	52,485,509			
Money market	27,569,013	27,569,013			
Long-term investment strategies:					
Investments at fair value:					
Cash equivalents	32,333,490	32,333,490			
Global (excluding U.S.) equities	66,691,107	66,691,107			
Investments at net asset value:					
Global (excluding U.S.) equities:					
Developed markets	—	95,237,053	Quarterly	30–60	None
Emerging markets	—	3,876,402	Quarterly	90	None
Hedged equity funds of funds:					
Multiple strategies	—	24,561,237	Various (1)	45–90	None
Private equity and venture capital funds	—	31,513,170	Illiquid (2)	N/A	4,139,781
Real assets:					
Private real estate	—	16,183,821	Illiquid (3)	N/A	4,136,466
Direct hedge equity/multiple strategies	—	99,456,492	Various (4)	90	None
Direct absolute return/multiple strategies	—	76,780,342	Annually	45–180	None
Total	\$ 179,635,063	527,243,580			

(1) Funds with quarterly redemption = \$16,490,742, annually = \$8,070,495

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

(3) Variety of benchmarks and limitations on withdrawals.

(4) Funds with annual redemption \$76,301,575, illiquid = \$228,098, rolling 3 year 90 days notice \$17,148,761, 2 year initial lock up period \$5,778,058

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	<u>May 31, 2020</u>		<u>Redemption or liquidation</u>	<u>Days' notice</u>	<u>Related unfunded commitment</u>
	<u>Level 1</u>	<u>Total</u>			
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	<u>\$ 173,381,560</u>	<u>427,209,852</u>			

(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

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No investments at fair value are considered to be Level 2 or Level 3 investments in the fair value hierarchy at May 31, 2021 or 2020, 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, 2021 are classified below by redemption period:

	<u>Investment fair values</u>
Investments redemption period:	
Daily	\$ 112,943,956
Monthly	66,691,107
Quarterly	121,382,255
Annually	161,152,412
Locked up or illiquid	<u>65,073,850</u>
Total as of May 31, 2021	<u>\$ 527,243,580</u>

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,

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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 \$16,197,812 in 2021 and \$15,809,586 in 2020. 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

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as reductions in net assets with donor restrictions totaled \$0 and \$2,097,171 as of May 31, 2021 and 2020, respectively.

Endowment funds consisted of the following at May 31, 2021:

	Without donor restrictions	With donor restrictions		
		Underwater funds	Other funds	Total
Donor-restricted endowments:				
Historical gift	\$ —	—	69,999,444	69,999,444
Net appreciation/depreciation	—	—	44,326,536	44,326,536
Board-designated endowments	<u>332,307,136</u>	<u>—</u>	<u>—</u>	<u>332,307,136</u>
Total endowed funds \$	<u><u>332,307,136</u></u>	<u><u>—</u></u>	<u><u>114,325,980</u></u>	<u><u>446,633,116</u></u>

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

	Without donor restrictions	With donor restrictions		
		Underwater funds	Other funds	Total
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	<u>258,112,901</u>	<u>—</u>	<u>—</u>	<u>258,112,901</u>
Total endowed funds \$	<u><u>258,112,901</u></u>	<u><u>30,642,004</u></u>	<u><u>38,816,201</u></u>	<u><u>327,571,106</u></u>

Changes in endowment funds for the year ended May 31, 2021 are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment funds, June 1, 2020	\$ 258,112,901	69,458,205	327,571,106
Total investment return	74,602,236	40,026,126	114,628,362
Contributions	—	8,267,537	8,267,537
Appropriation of endowment assets for expenditure	(12,226,319)	(3,971,493)	(16,197,812)
Transfers from operations	<u>11,817,117</u>	<u>546,804</u>	<u>12,363,921</u>
Endowment funds, May 31, 2021	<u><u>\$ 332,305,935</u></u>	<u><u>114,327,179</u></u>	<u><u>446,633,114</u></u>

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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	<u>\$ 258,112,901</u>	<u>69,458,205</u>	<u>327,571,106</u>

(6) Property, Improvements, and Equipment

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

	2021	2020	Estimated useful life
Land	\$ 52,661,439	52,661,439	—
Buildings	184,791,896	184,791,896	40 years
Improvements	192,383,302	170,511,647	15–20 years
Furniture and equipment	65,345,684	62,473,567	3–10 years
Library books	3,265,501	3,265,501	10 years
Construction in progress	540,106	15,096,916	—
	<u>498,987,928</u>	<u>488,800,966</u>	
Less accumulated depreciation and amortization	<u>(213,288,556)</u>	<u>(199,060,360)</u>	
	<u>\$ 285,699,372</u>	<u>289,740,606</u>	

Total depreciation and amortization expense of property, improvements and equipment was \$15,398,489 and \$16,095,251 in 2021 and 2020, respectively.

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(7) Bonds and Notes Payable

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

	<u>2021</u>	<u>2020</u>
(a) MDFA Revenue Bonds, Berklee College of Music Series 2011, dated September 22, 2011	\$ 2,085,000	4,065,000
(b) MHEFA Revenue Bonds, Berklee College of Music Series 2016, dated August 1, 2016 (including unamortized premium of \$28,139,517 and \$29,253,953 in 2021 and 2020, respectively)	171,729,517	174,383,953
(c) MDFA Revenue Bonds, Berklee College of Music Series 2020A, dated March 1, 2020 (including unamortized discount of \$125,782 and \$130,144 in 2021 and 2020, respectively)	79,504,218	79,499,856
Total bonds payable	253,318,735	257,948,809
Deferred issuance cost on bonds	(1,655,852)	(1,354,890)
Bonds payable	<u>\$ 251,662,883</u>	<u>256,593,919</u>

(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. 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 2022.

(b) 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.

(c) 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 3.09% and are due in varying installments of \$2,050,000 to \$26,070,000 until October 1, 2046.

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(d) Revolving Credit Facility

The College has a revolving line of credit facility with JP Morgan Chase. 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 per annum will apply.

On April 24, 2020 the College amended 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 April 9, 2021 the College amended this credit facility to extend the termination date to April 12, 2022 and changed the debt service coverage ratio for year ended May 31, 2021. Also included in the amendment was an increase to the non-usage fee and removal of incremental increase feature.

There were no outstanding borrowings under this facility at May 31, 2021 or 2020.

Scheduled long-term maturities of existing indebtedness at May 31, 2021 in each of the next five years and in the aggregate thereafter are as follows:

	<u>Amount</u>
Year ending May 31:	
2022	\$ 5,960,000
2023	6,125,000
2024	6,365,000
2025	6,615,000
2026	6,880,000
Thereafter	<u>193,360,000</u>
	225,305,000
Net unamortized bond premium and discount	<u>28,013,735</u>
	<u><u>\$ 253,318,735</u></u>

(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 \$3,179,999 and \$2,428,483 at May 31, 2021 and 2020, respectively.

Loans receivable, primarily from the federal Perkins loan program, are net of an allowance for uncollectible accounts of \$1,135,742 and \$1,052,986, at May 31, 2021 and 2020, respectively.

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(9) Contributions Receivable, Net

Contributions receivable consist of the following at May 31:

	<u>2021</u>	<u>2020</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 4,187,899	5,818,531
One year to five years	<u>5,676,681</u>	<u>4,746,810</u>
	9,864,580	10,565,341
Less allowance for uncollectible pledges	<u>(986,458)</u>	<u>(1,056,534)</u>
	8,878,122	9,508,807
Less present value discount	<u>(238,034)</u>	<u>(251,852)</u>
	<u>\$ 8,640,088</u>	<u>9,256,955</u>

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 .05% to 2.68% in 2021 and .16% to 2.68% in 2020.

(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 \$5,897,725 and \$6,121,113, respectively, for the years ended May 31, 2021 and 2020.

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.

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

	<u>2021</u>	<u>2020</u>
Service cost of the current period	\$ 5,764,391	4,298,938
Interest cost on the projected benefit obligation	3,254,636	4,401,966
Expected return on assets held in the plan	(5,853,394)	(6,671,267)
Recognition of net actuarial loss	<u>7,601,558</u>	<u>2,894,739</u>
Pension expense	<u>\$ 10,767,191</u>	<u>4,924,376</u>

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:

	<u>2021</u>	<u>2020</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 189,601,283	148,026,220
Service cost	5,764,391	4,298,938
Interest cost	3,254,636	4,401,966
Actuarial (gain)/loss	(9,370,764)	38,928,257
Benefits paid	<u>(7,940,887)</u>	<u>(6,054,098)</u>
Benefit obligation at end of year	<u>181,308,659</u>	<u>189,601,283</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	100,276,652	104,901,665
Actual return on plan assets	22,447,886	(4,368,082)
Employer contributions	7,500,000	5,797,167
Benefits paid	<u>(7,940,887)</u>	<u>(6,054,098)</u>
Fair value of assets held in the plan	<u>122,283,651</u>	<u>100,276,652</u>
Pension liability at end of year	<u>\$ 59,025,008</u>	<u>89,324,631</u>

Pension expense was computed based on a weighted average discount rate of 2.47% for 2021 and 3.49% for 2020, respectively, expected long-term rate of return on assets of 6.25% for 2021 and 2020, and future personnel expense increases of 3% for 2021 and 2020. The discount rates that were used to measure service and interest cost during 2021 were 2.64% and 1.79%, respectively.

The discount rate used in determining the actuarial present value of the projected benefit obligation in 2021 and 2020 was 2.77% and 2.47%, respectively.

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The benefits expected to be paid after May 31, 2021 are as follows:

Years ending May 31:	
2022	\$ 16,120,583
2023	11,073,472
2024	10,712,633
2025	10,715,513
2026	10,722,546
2027–2031	51,559,416

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	
		2021	2020
Equity securities	55 %	18 %	17 %
Debt securities	15	3	3
Other	30	79	80

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	
	2021	2020
Net gain/(loss)	\$ 33,566,814	(47,072,867)

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.

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The value of the Pension Plan's assets by asset class are as follows at May 31, 2021:

	May 31, 2021		Redemption or liquidation	Days' notice	Related unfunded commitment
	Level 1	Total			
Investments at fair value:					
Cash equivalents and fixed income	\$ 24,954,947	24,954,947			
International equities	21,693,655	21,693,655			
Domestic equities	7,802,769	7,802,769			
Investments at net asset value:					
Domestic equities	—	1,411,794	Quarterly/ annually	30–90 days	3,066,669
International equities	—	20,605,226	Quarterly/ annually	30–180 days	None
Hedge funds	—	39,814,864	Illiquid	N/A	None
Real assets	—	6,000,396	Illiquid	N/A	2,967,728
	<u>\$ 54,451,371</u>	<u>122,283,651</u>			

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

	May 31, 2020		Redemption or liquidation	Days' notice	Related unfunded commitment
	Level 1	Total			
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
	<u>\$ 52,512,611</u>	<u>100,276,652</u>			

No investments at fair value are considered to be Level 2 or Level 3 investments in the fair value hierarchy at May 31, 2021 and 2020, respectively.

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(11) Lease Commitments

Lessee

The right-of-use asset and corresponding liability associated with future lease payments at May 31, 2021:

Right-of-use assets	\$ 21,936,591
Lease liability	23,206,165
Weighted average:	
Discount rate	5.80 %
Remaining least term (years)	6.3

Lease cost reported in supplies, services and other in the consolidated statement of activities amounted to \$4,146,650 in fiscal 2021 as follows:

Operating	\$ 5,894,150
Less sublease income	<u>(1,747,500)</u>
Total	<u>\$ 4,146,650</u>

The following operating lease payments are expected to be paid for each of the following fiscal years ending May 31:

2022	\$ 4,982,364
2023	4,653,997
2024	4,091,891
2025	3,677,882
2026–2032	<u>10,365,105</u>
	27,771,239
Less present value discount	<u>(4,565,074)</u>
Lease liability	<u>\$ 23,206,165</u>

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As reflected in the fiscal 2020 consolidated financial statements, minimum future lease commitments under ASC Topic 840 for noncancelable lease commitments for the next five years and thereafter are as follows:

	<u>Amount</u>
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.

Lessor

The College owns several buildings in which the College is the lessor. The future undiscounted cash flows to be received from these leases for each of the next five years and thereafter is as follows:

	<u>Amount</u>
Fiscal year:	
2022	\$ 1,262,472
2023	918,114
2024	772,887
2025	585,951
2026	559,837
Thereafter	2,017,072

Rental income from leased space was \$1,240,835 in 2021 and \$1,802,472 in 2020.

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(12) Net Assets with Donor Restrictions

	<u>2021</u>	<u>2020</u>
Endowment and unspent gifts:		
Instruction	\$ 17,890,873	16,770,639
Institutional support	14,440,156	12,895,446
Student aid	63,198,403	59,408,806
Facilities	100,385	—
Capital campaign programs	8,887,933	6,466,108
	<u>104,517,750</u>	<u>95,540,999</u>
Unappropriated gains from endowed restricted net assets	44,983,028	8,381,590
Outstanding pledges	8,572,266	9,147,807
	<u>\$ 158,073,044</u>	<u>113,070,396</u>

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, 2021 and 2020:

<u>Fiscal year ended May 31, 2021</u>						
	<u>Indirect costs</u>					
	<u>Instruction</u>	<u>Academic support</u>	<u>Student services</u>	<u>Auxiliary services</u>	<u>Institutional support</u>	<u>Total expenses</u>
Expenses:						
Education and general:						
Salaries and wages	\$ 82,070,337	7,663,792	11,554,379	113,275	21,800,875	123,202,658
Employee benefits	24,953,884	2,286,911	3,479,188	37,071	7,960,383	38,717,437
Supplies, services, other	4,868,600	1,147,388	3,060,115	4,754,548	26,279,964	40,110,615
Depreciation and amortization	7,697,466	315,557	201,812	2,714,353	4,560,999	15,490,187
Interest	4,317,340	176,989	113,192	1,522,421	3,247,171	9,377,113
Maintenance	7,796,785	319,629	204,416	2,749,376	4,619,848	15,690,054
Total operating expenses	<u>\$ 131,704,412</u>	<u>11,910,266</u>	<u>18,613,102</u>	<u>11,891,044</u>	<u>68,469,240</u>	<u>242,588,064</u>

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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 wages	\$ 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

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 \$2,914,848 and \$4,180,704 in 2021 and 2020, 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 and is included in the operating lease liability (see note 11).

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, 2021 and 2020, the College received \$5,793,925 and \$3,304,235 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.

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(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.

In fiscal year 2021, residence halls remained closed for the Fall semester and opened in a significantly limited capacity for the Spring semester due to the pandemic restrictions. Because of this, revenue was significantly impacted. Room and board revenue in fiscal year 2021 and 2020 respectively was \$5,840,937 and \$25,095,092.

Also, as a result of the pandemic, in fiscal year 2020 the College was granted \$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 being utilized in fiscal year 2021 for appeals and late filers. In fiscal year 2021, the College utilized the institutional portion of the CARES Act, \$1,786,574, to support student grants for the Fall semester.

In fiscal year 2021, the College was granted a total of \$5,472,491 from the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA Act, HEERF II). The College recognized student and institutional aid of \$5,212,752 in fiscal year 2021 and deferred \$259,739 to be used in fiscal year 2022.

In fiscal year 2021, the College was granted a total of \$9,695,023 from the American Rescue Plan Act (ARP Act, HEERF III). The College recognized student and institutional aid of \$3,221,512 in fiscal year 2021 and deferred \$6,473,522 to be used in fiscal year 2022.

(17) Subsequent Events

In fiscal year 2022, the College executed a non-binding letter of intent to purchase a building which will be used as a residence hall. The College anticipates paying cash for the building.

For purposes of determining the effects of subsequent events on these consolidated financial statements, management has evaluated events subsequent to May 31, 2021 and through September 28, 2021 the date on which the consolidated financial statements were issued.