



Berklee Consolidated Financial Statements

2022



Berklee

Berklee Consolidated Financial Statements: May 31, 2022, and 2021

Letter from the Assistant Vice President/ Controller of Finance

I am pleased to share that Berklee is coming out of the pandemic in a position of financial strength. We ended Fiscal Year 2022 with an operating surplus of \$16.9 million, or 5.4% margin, which is greater than our annual targeted margin of 2-4%. Total operating revenues of \$313.3 million were up almost \$76 million or 32% over the original budget. Net tuition and fees of \$273 million made up 87% of total revenues, and this was a 41% increase from Fiscal Year 2021. The increase was primarily due to the enrollment increase of 12%, a return to full capacity for room and board activities, and the inaugural year of Berklee NYC's Master of Arts in Creative Media and Technology, which far surpassed its enrollment goal of 20 students with 79 students enrolled.

Returning to campus full time was not an easy task. This took many hours of planning, testing, and careful consideration to ensure the health of our students, staff and faculty. Some of the increase in expense directly relates to the resumption of on-campus life. These expenses include COVID related infrastructure costs including Broad testing, Tufts medical support and extra cleaning protocols and restructuring of offices and staff setup to support the return to work for a new post-COVID hybrid modality.

Statement of Activities (without donor restrictions) (\$ in 000's)	2018 Actuals	2019 Actuals	2020 Actuals	2021 Actuals	2022 Actuals
Revenue	\$282.9	\$288.7	\$296.0	\$237.5	\$313.3
Expense	\$274.3	\$276.0	\$280.5	\$242.6	\$296.4
Results from operations	\$8.6	\$12.7	\$15.5	(\$5.1)	\$16.9
Operating Margin	3.0%	4.4%	5.3%	(2.1%)	5.4%

Fiscal Year 2022 total operating expenses of \$296 million were up almost \$54 million or 22% over prior year, but were 2.1% below the original budgeted amount of \$303 million. Personnel expense increase of \$22 million was largely due to return to in-person activity, staff and faculty returning from furlough or reduced hours and the removal of the hiring freeze, along with equity adjustments, bonuses and staff promotions.

Materials, supplies and other non-personnel expenses of \$109 million were 13.5% over prior year while staying \$7.2 million below the original approved budget. This was an increase of \$22.3 million from 2021.

Cash flow has been consistent since the return to campus and with the increase in enrollment and tuition rates. This has allowed us to return to investing funds in capital and financial investments. A major purchase in Fiscal Year 2022 was 12 Hemenway, which was purchased in cash, for \$18 million and we plan to invest an additional \$14 million in cash in renovations.

At year end, our balance sheet remains strong, however has declined due to the market losses taken in our endowment and pension assets. The endowment valuation of \$407 million versus \$447 million in the prior year reflects market performance with year-to-date losses averaging 4% for both Endowment and Pension. Unrestricted net assets are 70% of the total, which is positive relative to most institutions.

Statement of Financial Position (\$ in 000's)	2018 Actuals	2019 Actuals	2020 Actuals	2021 Actuals	2022 Actuals
Assets	\$764.9	\$779.6	\$761.6	\$892.1	\$854.9
Liabilities	\$375.7	\$382.1	\$414.6	\$411.7	\$389.5
Net assets	\$389.2	\$397.5	\$347.0	\$480.4	\$465.4
% of total net assets without donor restriction	74.5%	72.8%	67.4%	67.1%	68.5%

While Berklee's debt remains high, at \$245 million with \$219 million in outstanding principal, relative to other "A" rated institutions, it is lower compared to the prior year due to the October 2021 retirement of the remainder of our higher cost 2011 debt and is better positioned overall with the completion of our refinancing program in March 2020 which left us with a true interest of about 3%.

We are excited about the year to come as we continue to grow and emerge from the pandemic stronger and well positioned to continue to invest in Berklee. For 2023 we are focused on our strategic investment priorities to ensure high quality education, affordability and enhancing the student experience. We are focused on optimizing global presence while continuing to expand online education and demographic reach and hope to continue enrollment growth across all campuses.



Tayla Burke
Assistant Vice President/ Controller of Finance



BERKLEE COLLEGE OF MUSIC, INC.

Consolidated Financial Statements

May 31, 2022 and 2021

(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.:

Opinion

We have audited the consolidated financial statements of Berklee College of Music, Inc. which comprise the consolidated statements of financial position as of May 31, 2022 and 2021, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Berklee College of Music, Inc. as of May 31, 2022 and 2021, 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.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Berklee College of Music, Inc.'s ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Berklee College of Music, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Berklee College of Music, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

KPMG LLP

Boston, Massachusetts
September 28, 2022

BERKLEE COLLEGE OF MUSIC, INC.

Consolidated Statements of Financial Position

May 31, 2022 and 2021

Assets	2022	2021
Cash and cash equivalents	\$ 18,297,947	21,276,190
Short-term investments (note 4)	93,277,976	80,610,464
Accounts receivable, net (note 8)	453,046	745,688
Contributions receivable, net (note 9)	8,442,485	8,640,088
Other assets	13,064,716	25,351,740
Loans receivable, net (note 8)	933,485	1,135,742
Deposits with bond trustees (note 7)	35,542	38,561
Long-term investments (notes 4 and 5)	406,592,352	446,633,116
Property, improvements, and equipment, net (note 6)	293,930,600	285,699,372
Right-of-use asset, net (note 11)	19,912,026	21,936,591
Total assets	<u>\$ 854,940,175</u>	<u>892,067,552</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 39,113,473	37,952,535
Student deposits and deferred liabilities	41,558,584	33,607,440
Accrued pension liabilities (note 10)	39,251,959	61,530,692
Operating lease obligations (note 11)	21,150,218	23,206,165
Bonds and notes payable (note 7)	244,655,337	251,662,883
Refundable advances – U.S. government grants	3,763,956	3,717,928
Total liabilities	<u>389,493,527</u>	<u>411,677,643</u>
Net assets:		
Without donor restrictions	328,839,534	322,316,865
With donor restrictions (note 12)	136,607,114	158,073,044
Total net assets	<u>465,446,648</u>	<u>480,389,909</u>
Total liabilities and net assets	<u>\$ 854,940,175</u>	<u>892,067,552</u>

See accompanying notes to consolidated financial statements.

BERKLEE COLLEGE OF MUSIC, INC.

Consolidated Statement of Activities

Year ended May 31, 2022

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>2022 Total</u>	<u>2021 Total</u>
Operating:				
Revenues:				
Student tuition and fees (net aid of \$89,652,239)	\$ 242,312,532	—	242,312,532	187,954,876
Residence hall and dining fees (net aid of \$848,663)	<u>30,398,302</u>	<u>—</u>	<u>30,398,302</u>	<u>5,840,937</u>
Net tuition and fees	272,710,834	—	272,710,834	193,795,813
Contributions	1,204,330	7,815,050	9,019,380	15,319,354
Grants and contracts	4,943,186	—	4,943,186	9,610,711
Investment return for operations (note 5)	11,668,763	4,061,867	15,730,630	16,197,812
Other income	3,573,521	—	3,573,521	4,732,643
Sales and service of auxiliary enterprises	6,451,819	—	6,451,819	4,350,564
Net assets released from restrictions	<u>12,738,324</u>	<u>(12,738,324)</u>	<u>—</u>	<u>—</u>
Total operating revenues	<u>313,290,777</u>	<u>(861,407)</u>	<u>312,429,370</u>	<u>244,006,897</u>
Expenses:				
Instruction	126,933,334	—	126,933,334	111,892,821
Academic support	17,126,284	—	17,126,284	11,098,091
Student and enrollment services	27,758,147	—	27,758,147	18,093,682
Institutional support and advancement	67,864,210	—	67,864,210	56,041,222
Auxiliary enterprises	11,710,259	—	11,710,259	4,904,894
Operation and maintenance of physical plant:				—
Depreciation and amortization	15,869,257	—	15,869,257	15,490,187
Interest	7,998,706	—	7,998,706	9,377,113
Maintenance	<u>21,177,914</u>	<u>—</u>	<u>21,177,914</u>	<u>15,690,054</u>
Total operating expenses	<u>296,438,111</u>	<u>—</u>	<u>296,438,111</u>	<u>242,588,064</u>
Change in net assets from operating activities	<u>16,852,666</u>	<u>(861,407)</u>	<u>15,991,259</u>	<u>1,418,833</u>
Nonoperating:				
Investment return	(19,184,432)	(21,909,305)	(41,093,737)	114,628,364
Investment return for operations (note 5)	(11,668,763)	(4,061,867)	(15,730,630)	(16,197,812)
Contributions for long-term items	450,607	5,479,448	5,930,055	9,047,343
Other	(1,997,303)	—	(1,997,303)	(4,065,000)
Net periodic benefit cost other than service cost (note 10)	<u>21,957,095</u>	<u>—</u>	<u>21,957,095</u>	<u>28,564,014</u>
Change in net assets from nonoperating activities	<u>(10,442,796)</u>	<u>(20,491,724)</u>	<u>(30,934,520)</u>	<u>131,976,909</u>
Change in net assets	6,409,870	(21,353,131)	(14,943,261)	133,395,742
Net assets at beginning of year	<u>322,316,865</u>	<u>158,073,044</u>	<u>480,389,909</u>	<u>346,994,167</u>
Net assets at end of year	\$ <u>328,726,735</u>	<u>136,719,913</u>	<u>465,446,648</u>	<u>480,389,909</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	<u>237,516,553</u>	<u>6,490,344</u>	<u>244,006,897</u>
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	<u>242,588,064</u>	<u>—</u>	<u>242,588,064</u>
Change in net assets from operating activities	<u>(5,071,511)</u>	<u>6,490,344</u>	<u>1,418,833</u>
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	<u>93,464,605</u>	<u>38,512,304</u>	<u>131,976,909</u>
Change in net assets	88,393,094	45,002,648	133,395,742
Net assets at beginning of year	<u>233,923,771</u>	<u>113,070,396</u>	<u>346,994,167</u>
Net assets at end of year	\$ <u><u>322,316,865</u></u>	<u><u>158,073,044</u></u>	<u><u>480,389,909</u></u>

See accompanying notes to consolidated financial statements.

BERKLEE COLLEGE OF MUSIC, INC.

Consolidated Statements of Cash Flows

Years ended May 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ (14,943,261)	133,395,742
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	15,869,257	15,490,187
Realized and unrealized losses/(gains) on investments, net	41,093,737	(114,628,364)
Pension obligation costs	(21,957,095)	(28,564,014)
Loss on disposal of fixed assets	1,997,303	—
Amortization of right-of-use assets-operating	2,024,565	4,399,899
Contributions for long-term investment	(8,017,009)	(8,267,537)
Change in operating assets	12,777,269	(12,958,777)
Change in operating liabilities	3,736,857	1,708,378
Net cash provided by (used in) operating activities	<u>32,581,623</u>	<u>(9,424,486)</u>
Cash flows from investing activities:		
Change in deposits with bond trustees	3,019	4,430,239
Purchase of property, plant, improvements, and equipment	(26,097,788)	(11,369,765)
Disbursements and repayment of student loans	202,257	395,367
Proceeds from sale and maturity of investments	66,682,640	56,292,230
Purchase of investments	<u>(78,453,031)</u>	<u>(41,697,594)</u>
Net cash (used in) provided by investing activities	<u>(37,662,903)</u>	<u>8,050,477</u>
Cash flows from financing activities:		
Payments on bonds and notes payable	(5,960,000)	(3,520,000)
Debt issuance costs	—	(363,490)
Contributions for long-term investment	8,017,009	8,267,537
Increase in refundable advances – U.S. government grants	<u>46,028</u>	<u>92,764</u>
Net cash provided by financing activities	<u>2,103,037</u>	<u>4,476,811</u>
Net change in cash and cash equivalents	<u>(2,978,243)</u>	<u>3,102,802</u>
Cash and cash equivalents, beginning of year	<u>21,276,190</u>	<u>18,173,388</u>
Cash and cash equivalents, end of year	\$ <u>18,297,947</u>	<u>21,276,190</u>
Supplemental data:		
Interest paid	\$ 9,158,446	10,997,972
Change in accounts payable attributable to capital acquisitions	150,384	(233,976)
Cash paid for amounts included in the measurement of operating lease liabilities	5,133,074	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, 2022 and 2021

(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.

Notes to Consolidated Financial Statements

May 31, 2022 and 2021

and federal grants. Nonoperating activities are attributable to return on investments, contributions of capital assets, contributions to the endowment, and pension obligations.

As a result of the COVID-19 Pandemic, in fiscal year 2022 residence halls reopened at full capacity, increasing room and board to pre-pandemic levels. Room and board revenue in fiscal year 2022 and 2021, respectively was \$30,398,302 and \$5,840,937.

In fiscal year 2021, the College was granted a total of \$5,472,491 from the Coronavirus Response and Relief Supplemental Appropriations Act. The College recognized student and institutional aid of \$5,212,752 in fiscal year 2021, \$238,900 in fiscal year 2022 and will apply the remaining funds to fiscal year 2023.

In fiscal year 2021, the College was granted a total of \$9,695,023 from the American Rescue Plan Act. The College recognized aid of \$3,221,512 in fiscal year 2021, \$3,753,928 in fiscal year 2022 and will apply the remaining funds to fiscal year 2023.

(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

BERKLEE COLLEGE OF MUSIC, INC.
Notes to Consolidated Financial Statements
May 31, 2022 and 2021

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.

BERKLEE COLLEGE OF MUSIC, INC.
Notes to Consolidated Financial Statements
May 31, 2022 and 2021

(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, 2022 and 2021.

(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) 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.

BERKLEE COLLEGE OF MUSIC, INC.
Notes to Consolidated Financial Statements
May 31, 2022 and 2021

(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, 2022 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, 2022 and 2021 included in Institutional Support was a net (loss)/gain of \$(229,257) and \$90,768, respectively.

(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 \$10,251,902 and \$10,323,509 for the years ended May 31, 2022 and 2021, respectively. The estimated unpaid claims liability, included in accrued expenses at May 31, 2022 and 2021, amounted to \$1,142,539 and \$803,673, 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.

BERKLEE COLLEGE OF MUSIC, INC.
Notes to Consolidated Financial Statements
May 31, 2022 and 2021

(3) Liquidity

As of May 31, 2022 and 2021, 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>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 18,297,947	20,925,358
Contributions, notes, and accounts receivable, net	5,014,166	4,933,587
Short-term investments	93,277,976	80,610,464
Expected endowment appropriation	16,953,992	15,730,631
Total financial assets available within one year	<u>\$ 133,544,081</u>	<u>122,200,040</u>

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, 2022 and 2021, the College has an additional \$313,480,503 and \$332,307,136 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, 2022 and 2021, as well as related strategy, liquidity, and funding commitments:

	<u>May 31, 2022</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	\$ 181,970	181,970			
Fixed income	52,512,892	52,512,892			
Money market	40,583,114	40,583,114			
Long-term investment strategies:					
Investments at fair value:					
Cash equivalents	67,534,143	67,534,143			
Global (excluding U.S.) equities	15,291,581	15,291,581			
Investments at net asset value:					
Global (excluding U.S.) equities:					
Developed markets	—	63,089,142	Various (1)	30–60	None
Hedged equity funds of funds:					
Multiple strategies	—	8,225,436	Annually	90	None
Private equity and venture capital funds	—	15,591,190	Illiquid (2)	N/A	10,756,997

BERKLEE COLLEGE OF MUSIC, INC.
Notes to Consolidated Financial Statements
May 31, 2022 and 2021

	May 31, 2022		Redemption or liquidation	Days' notice	Related unfunded commitment
	Level 1	Total			
Real assets:	\$				
Private real estate	—	15,160,363	Illiquid (3)	N/A	5,941,636
Direct hedge equity/multiple strategies	—	90,582,725	Various (4)	45–90	None
Direct absolute return/multiple strategies	—	131,117,772	Various (5)	45–180	None
Total	\$ 176,103,700	499,870,328			

- (1) Funds with quarterly, 30 day notice redemption = \$51,533,693, funds with rolling 5 year 60 day notice \$11,555,449
- (2) These funds are expected to liquidate within 1–8 years
- (3) Variety of benchmarks and limitations on withdrawals.
- (4) Funds with quarterly redemption = \$6,554,981, annually = \$51,532,573, semi-liquid = \$2,556,588, rolling 3 year \$18,164,349 and rolling 5 year \$11,774,234.
- (5) Funds with monthly redemption = \$2,910,409, quarterly = \$24,143,232, and annually \$104,064,131.

	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

BERKLEE COLLEGE OF MUSIC, INC.
Notes to Consolidated Financial Statements
May 31, 2022 and 2021

	May 31, 2021		Redemption or liquidation	Days' notice	Related unfunded commitment
	Level 1	Total			
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	<u>\$ 179,635,063</u>	<u>527,243,580</u>			

- (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 quarterly redemption = \$5,778,058, annually = \$76,301,575, illiquid = \$228,098, rolling 3 year 90 days notice \$17,148,761

No investments at fair value are considered to be Level 2 or Level 3 investments in the fair value hierarchy at May 31, 2022 or 2021, 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, 2022 are classified below by redemption period:

	Investment fair values
Investments redemption period:	
Daily	\$ 160,812,119
Monthly	18,201,990
Quarterly	82,231,906
Annually	163,822,140
Locked up or illiquid	<u>74,802,173</u>
Total as of May 31, 2022	<u>\$ 499,870,328</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

BERKLEE COLLEGE OF MUSIC, INC.

Notes to Consolidated Financial Statements

May 31, 2022 and 2021

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.

BERKLEE COLLEGE OF MUSIC, INC.

Notes to Consolidated Financial Statements

May 31, 2022 and 2021

(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 \$15,730,630 in 2022 and \$16,197,812 in 2021. 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 \$126,768 and \$0 as of May 31, 2022 and 2021, respectively.

Endowment funds consisted of the following at May 31, 2022:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>		
		<u>Underwater funds</u>	<u>Other funds</u>	<u>Total</u>
Donor-restricted endowments:				
Historical gift	\$ —	3,716,802	70,033,166	73,749,968
Net appreciation/depreciation	—	(126,768)	19,488,649	19,361,881
Board-designated endowments	<u>313,480,503</u>	<u>—</u>	<u>—</u>	<u>313,480,503</u>
Total endowed funds	\$ <u>313,480,503</u>	<u>3,590,034</u>	<u>89,521,815</u>	<u>406,592,352</u>

BERKLEE COLLEGE OF MUSIC, INC.
Notes to Consolidated Financial Statements
May 31, 2022 and 2021

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>332,307,136</u>
Total endowed funds	<u>\$ 332,307,136</u>	<u>—</u>	<u>114,325,980</u>	<u>446,633,116</u>

Changes in endowment funds for the year ended May 31, 2022 are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment funds, June 1, 2021	\$ 332,307,136	114,325,980	446,633,116
Total investment return	(19,184,432)	(21,909,305)	(41,093,737)
Contributions	—	4,366,019	4,366,019
Appropriation of endowment assets for expenditure	(11,668,763)	(4,061,867)	(15,730,630)
Transfers from operations	<u>12,026,562</u>	<u>391,022</u>	<u>12,417,584</u>
Endowment funds, May 31, 2022	<u>\$ 313,480,503</u>	<u>93,111,849</u>	<u>406,592,352</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	74,603,437	40,024,927	114,628,364
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>\$ 332,307,136</u>	<u>114,325,980</u>	<u>446,633,116</u>

BERKLEE COLLEGE OF MUSIC, INC.
Notes to Consolidated Financial Statements
May 31, 2022 and 2021

(6) Property, Improvements, and Equipment

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

	<u>2022</u>	<u>2021</u>	<u>Estimated useful life</u>
Land	\$ 56,541,339	52,661,439	—
Buildings	199,383,146	184,791,896	40 years
Improvements	190,317,856	192,383,302	15–20 years
Furniture and equipment	59,589,274	65,345,684	3–10 years
Library books	3,265,501	3,265,501	10 years
Construction in progress	1,252,835	540,106	—
	<u>510,349,951</u>	<u>498,987,928</u>	
Less accumulated depreciation and amortization	<u>(216,419,351)</u>	<u>(213,288,556)</u>	
	<u>\$ 293,930,600</u>	<u>285,699,372</u>	

Total depreciation and amortization expense of property, improvements and equipment was \$15,869,257 and \$15,490,187 in 2022 and 2021, respectively.

(7) Bonds and Notes Payable

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

	<u>2022</u>	<u>2021</u>
(a) MDFA Revenue Bonds, Berklee College of Music Series 2011, dated September 22, 2011	\$ —	2,085,000
(b) MHEFA Revenue Bonds, Berklee College of Music Series 2016, dated August 1, 2016 (including unamortized premium of \$27,025,081 and \$28,139,517 in 2022 and 2021, respectively)	166,740,081	171,729,517
(c) MDFA Revenue Bonds, Berklee College of Music Series 2020A, dated March 1, 2020 (including unamortized discount of \$121,420 and \$125,782 in 2022 and 2021, respectively)	<u>79,508,580</u>	<u>79,504,218</u>
Total bonds payable	246,248,661	253,318,735
Deferred issuance cost on bonds	<u>(1,593,324)</u>	<u>(1,655,852)</u>
Bonds payable	<u>\$ 244,655,337</u>	<u>251,662,883</u>

BERKLEE COLLEGE OF MUSIC, INC.
Notes to Consolidated Financial Statements
May 31, 2022 and 2021

(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 was 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.

(d) Revolving Credit Facility

The College has a revolving line credit facility of \$25,000,000 and during fiscal year 2022, the College extended the termination date to April 11, 2023.

There were no outstanding borrowings under this facility at May 31, 2022 or 2021.

BERKLEE COLLEGE OF MUSIC, INC.
Notes to Consolidated Financial Statements
May 31, 2022 and 2021

Scheduled long-term maturities of existing indebtedness at May 31, 2022 in each of the next five years and in the aggregate thereafter are as follows:

	Amount
Year ending May 31:	
2023	\$ 6,125,000
2024	6,365,000
2025	6,615,000
2026	6,880,000
2027	7,155,000
Thereafter	186,205,000
	219,345,000
Net unamortized bond premium and discount	26,903,661
	\$ 246,248,661

(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 \$3,519,506 and \$3,179,999 at May 31, 2022 and 2021, respectively.

Loans receivable, primarily from the federal Perkins loan program, are net of an allowance for uncollectible accounts of \$933,485 and \$1,135,742, at May 31, 2022 and 2021, respectively.

(9) Contributions Receivable, Net

Contributions receivable consist of the following at May 31:

	2022	2021
Unconditional promises expected to be collected in:		
Less than one year	\$ 4,630,540	4,187,899
One year to five years	5,129,667	5,676,681
	9,760,207	9,864,580
Less allowance for uncollectible pledges	(971,779)	(986,458)
	8,788,428	8,878,122
Less present value discount	(345,943)	(238,034)
	\$ 8,442,485	8,640,088

BERKLEE COLLEGE OF MUSIC, INC.
Notes to Consolidated Financial Statements
May 31, 2022 and 2021

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 2.81% in 2022 and .05% to 2.68% in 2021.

(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 \$6,501,839 and \$5,897,725, respectively, for the years ended May 31, 2022 and 2021.

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.

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

	<u>2022</u>	<u>2021</u>
Service cost of the current period	\$ 4,928,389	5,764,391
Interest cost on the projected benefit obligation	3,409,182	3,254,636
Expected return on assets held in the plan	(6,860,446)	(5,853,394)
Recognition of net actuarial loss	4,175,931	7,601,558
Settlement	2,160,303	—
	<u>7,813,359</u>	<u>10,767,191</u>
Pension expense	\$ 7,813,359	10,767,191

BERKLEE COLLEGE OF MUSIC, INC.
Notes to Consolidated Financial Statements
May 31, 2022 and 2021

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:

	2022	2021
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 181,308,659	189,601,283
Service cost	4,928,389	5,764,391
Interest cost	3,409,182	3,254,636
Settlement (gain)/loss	1,420,605	—
Settlement payments	(10,488,807)	—
Actuarial (gain)/loss	(32,232,331)	(9,370,764)
Benefits paid	(2,914,129)	(7,940,887)
	145,431,568	181,308,659
Change in plan assets:		
Fair value of plan assets at beginning of year	122,283,651	100,276,652
Actual return on plan assets	(5,445,450)	22,447,886
Employer contributions	5,430,226	7,500,000
Benefits paid	(2,914,129)	(7,940,887)
Settlement payments	(10,488,807)	—
	108,865,491	122,283,651
Fair value of assets held in the plan	108,865,491	122,283,651
Pension liability at end of year	\$ 36,566,077	59,025,008

Pension expense was computed based on a weighted average discount rate of 2.77% for 2022 and 2.47% for 2021, respectively, expected long-term rate of return on assets of 6% for 2022 and 6.25% for 2021, respectively and future personnel expense increases of 3% for 2022 and 2021. The discount rates that were used to measure service and interest cost during 2022 were 2.93% and 1.97%, respectively.

The discount rate used in determining the actuarial present value of the projected benefit obligation in 2022 and 2021 was 4.08% and 2.77%, respectively.

The benefits expected to be paid after May 31, 2022 are as follows:

Years ending May 31:	
2023	\$ 16,008,575
2024	9,834,947
2025	9,790,308
2026	9,708,733
2027	9,586,582
2028–2032	46,391,789

BERKLEE COLLEGE OF MUSIC, INC.
Notes to Consolidated Financial Statements
May 31, 2022 and 2021

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:

	<u>Target allocation</u>	<u>Plan assets at May 31</u>	
		<u>2022</u>	<u>2021</u>
Equity securities	55 %	11 %	18 %
Debt securities	15	3	3
Other	30	86	79

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:

	<u>Fiscal years ended May 31,</u>	
	<u>2022</u>	<u>2021</u>
Net gain	\$ 24,842,066	33,566,814

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.

BERKLEE COLLEGE OF MUSIC, INC.
Notes to Consolidated Financial Statements
May 31, 2022 and 2021

The value of the Pension Plan's assets by asset class are as follows at May 31, 2022:

	May 31, 2022		Redemption or liquidation	Days' notice	Related unfunded commitment
	Level 1	Total			
Investments at fair value:					
Cash equivalents and fixed income	\$ 23,890,158	23,890,158			
International equities	12,936,492	12,936,492			
Investments at net asset value:					
Domestic equities	—	1,418,902	Quarterly/ annually	30–90 days	2,975,408
International equities	—	17,251,836	Quarterly/ annually	30–180 days	None
Hedge funds	—	46,544,886	Illiquid	N/A	None
Real assets	—	6,823,217	Illiquid	N/A	2,415,672
	\$ 36,826,650	108,865,491			

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
	\$ 54,451,371	122,283,651			

No investments at fair value are considered to be Level 2 or Level 3 investments in the fair value hierarchy at May 31, 2022 and 2021, respectively.

BERKLEE COLLEGE OF MUSIC, INC.
Notes to Consolidated Financial Statements
May 31, 2022 and 2021

(11) Lease Commitments

Lessee

The right-of-use asset and corresponding liability associated with future lease payments at May 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Right-of-use assets	\$ 19,912,026	21,936,591
Lease liability	21,150,218	23,206,165
Weighted Average:		
Discount rate	5.96 %	6.00 %
Remaining least term (years)	5.60	6.00

Lease cost reported in supplies, services and other in the consolidated statement of activities amounted to \$3,728,030 and \$4,146,450 in fiscal 2022 and 2021 as follows:

	<u>2022</u>	<u>2021</u>
Operating	\$ 5,066,326	5,894,150
Less sublease income	(1,338,296)	(1,747,500)
Total	<u>\$ 3,728,030</u>	<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:

2023	\$ 5,077,165
2024	4,527,229
2025	4,125,706
2026	3,896,075
2027 – 2033	<u>7,241,705</u>
	24,867,880
Less present value discount	<u>(3,717,662)</u>
Lease liability	<u>\$ 21,150,218</u>

BERKLEE COLLEGE OF MUSIC, INC.
Notes to Consolidated Financial Statements
May 31, 2022 and 2021

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:

	Amount
Fiscal year:	
2023	\$ 1,450,509
2024	1,101,510
2025	778,374
2026	756,414
2027	773,616
Thereafter	2,421,561

Rental income from leased space was \$1,514,980 in 2022 and \$1,240,835 in 2021.

(12) Net Assets with Donor Restrictions

	2022	2021
Endowment and unspent gifts:		
Instruction	\$ 17,925,836	17,890,873
Institutional support	15,434,468	14,440,156
Student aid	67,006,908	63,198,403
Facilities	145,385	100,385
Capital campaign programs	8,620,862	8,887,933
	109,133,459	104,517,750
Unappropriated gains from endowed restricted net assets	19,301,026	44,983,028
Outstanding pledges	8,172,629	8,572,266
	\$ 136,607,114	158,073,044

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.

BERKLEE COLLEGE OF MUSIC, INC.

Notes to Consolidated Financial Statements

May 31, 2022 and 2021

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, 2022 and 2021, the College received \$1,737,470 and \$5,793,925 of grants and contributions, respectively.

(15) Related Parties

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

(16) Subsequent Events

For purposes of determining the effects of subsequent events on these consolidated financial statements, management has evaluated events subsequent to May 31, 2022 and through September 28, 2022 the date on which the consolidated financial statements were issued.