



**BERKLEE COLLEGE OF MUSIC, INC.**

Consolidated Financial Statements

May 31, 2016 and 2015

(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, 2016 and 2015, 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, 2016 and 2015, and the changes in their net assets and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

**KPMG LLP**

September 27, 2016

**BERKLEE COLLEGE OF MUSIC, INC.**

Consolidated Statements of Financial Position

May 31, 2016 and 2015

<b>Assets</b>	<b>2016</b>	<b>2015</b>
Cash and cash equivalents	\$ 34,772,086	41,231,881
Short-term investments (notes 3 and 4)	15,074,325	—
Accounts receivable, net (note 7)	433,646	711,027
Contributions receivable (note 8)	12,753,420	12,800,045
Other assets	6,996,813	7,127,920
Loans receivable, net (note 7)	4,301,145	5,010,215
Deposits with bond trustees (note 6)	—	5,430,515
Long-term investments (notes 3 and 4)	316,410,569	327,745,268
Property, improvements, and equipment, net (notes 5 and 6)	228,826,897	223,610,777
Total assets	<u>\$ 619,568,901</u>	<u>623,667,648</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 24,016,129	21,042,911
Student deposits and deferred liabilities	32,448,080	27,338,589
Accrued pension liabilities (note 9)	65,984,846	62,834,297
Bonds and notes payable (note 6)	249,414,116	256,365,289
Refundable advances – U.S. government grants	3,152,079	3,032,319
Total liabilities	<u>375,015,250</u>	<u>370,613,405</u>
Net assets:		
Unrestricted	176,423,779	186,123,265
Temporarily restricted (note 11)	25,731,734	31,843,809
Permanently restricted (note 11)	42,398,138	35,087,169
Total net assets	<u>244,553,651</u>	<u>253,054,243</u>
Total liabilities and net assets	<u>\$ 619,568,901</u>	<u>623,667,648</u>

See accompanying notes to consolidated financial statements.

**BERKLEE COLLEGE OF MUSIC, INC.**

Consolidated Statement of Activities

Year ended May 31, 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>2016 Total</u>
Operating:				
Revenues:				
Student tuition and fees	\$ 199,237,951	—	—	199,237,951
Less internally funded scholarship aid	(37,900,977)	—	—	(37,900,977)
Less externally funded scholarship aid	(6,732,392)	—	—	(6,732,392)
Net tuition and fees	154,604,582	—	—	154,604,582
Contributions	761,209	4,955,691	—	5,716,900
Federal and state grants and contracts	926,399	—	—	926,399
Investment return for operations (note 4)	12,224,515	2,031,905	—	14,256,420
Other income	1,575,668	—	—	1,575,668
Sales and service of auxiliary enterprises	53,642,797	—	—	53,642,797
Net assets released from restrictions	10,760,049	(10,760,049)	—	—
Total operating revenues	234,495,219	(3,772,453)	—	230,722,766
Expenses:				
Instruction	87,157,441	—	—	87,157,441
Academic support	13,622,961	—	—	13,622,961
Student and enrollment services	15,974,357	—	—	15,974,357
Institutional support and advancement	37,996,207	—	—	37,996,207
Auxiliary enterprises	30,273,266	—	—	30,273,266
Operation and maintenance of physical plant:				
Depreciation and amortization	12,600,446	—	—	12,600,446
Interest	11,925,245	—	—	11,925,245
Maintenance	16,691,465	—	—	16,691,465
Total operating expenses	226,241,388	—	—	226,241,388
Change in net assets from operating activities	8,253,831	(3,772,453)	—	4,481,378
Nonoperating:				
Investment loss (note 3)	(2,937,766)	(307,717)	—	(3,245,483)
Investment loss for operations (note 4)	(12,224,515)	(2,031,905)	—	(14,256,420)
Contributions for long-term items	16,774	—	7,310,969	7,327,743
Pension obligation changes other than net periodic costs (note 9)	(2,807,810)	—	—	(2,807,810)
Change in net assets from nonoperating activities	(17,953,317)	(2,339,622)	7,310,969	(12,981,970)
Change in net assets	(9,699,486)	(6,112,075)	7,310,969	(8,500,592)
Net assets at beginning of year	186,123,265	31,843,809	35,087,169	253,054,243
Net assets at end of year	\$ 176,423,779	25,731,734	42,398,138	244,553,651

See accompanying notes to consolidated financial statements.

**BERKLEE COLLEGE OF MUSIC, INC.**

Consolidated Statement of Activities

Year ended May 31, 2015

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>2015 Total</u>
Operating:				
Revenues:				
Student tuition and fees	\$ 194,389,196	—	—	194,389,196
Less internally funded scholarship aid	(35,594,031)	—	—	(35,594,031)
Less externally funded scholarship aid	(5,921,960)	—	—	(5,921,960)
Net tuition and fees	<u>152,873,205</u>	<u>—</u>	<u>—</u>	<u>152,873,205</u>
Contributions	2,264,172	6,928,874	—	9,193,046
Federal and state grants and contracts	926,939	—	—	926,939
Investment return for operations (note 4)	11,425,615	1,552,373	—	12,977,988
Other income	1,365,636	—	—	1,365,636
Sales and service of auxiliary enterprises	49,956,959	—	—	49,956,959
Net assets released from restrictions	11,398,219	(11,398,219)	—	—
Total operating revenues	<u>230,210,745</u>	<u>(2,916,972)</u>	<u>—</u>	<u>227,293,773</u>
Expenses:				
Instruction	86,213,754	—	—	86,213,754
Academic support	12,126,213	—	—	12,126,213
Student and enrollment services	15,166,528	—	—	15,166,528
Institutional support and advancement	37,945,854	—	—	37,945,854
Auxiliary enterprises	27,768,774	—	—	27,768,774
Operation and maintenance of physical plant:				
Depreciation and amortization	12,386,228	—	—	12,386,228
Interest	12,175,427	—	—	12,175,427
Maintenance	16,964,246	—	—	16,964,246
Total operating expenses	<u>220,747,024</u>	<u>—</u>	<u>—</u>	<u>220,747,024</u>
Change in net assets from operating activities	<u>9,463,721</u>	<u>(2,916,972)</u>	<u>—</u>	<u>6,546,749</u>
Nonoperating:				
Investment return (note 3)	12,210,754	1,891,610	—	14,102,364
Investment return for operations (note 4)	(11,425,615)	(1,552,373)	—	(12,977,988)
Contributions for long-term items	48,889	—	10,771,267	10,820,156
Pension obligation changes other than net periodic costs (note 9)	(2,519,082)	—	—	(2,519,082)
Change in net assets from nonoperating activities	<u>(1,685,054)</u>	<u>339,237</u>	<u>10,771,267</u>	<u>9,425,450</u>
Change in net assets	<u>7,778,667</u>	<u>(2,577,735)</u>	<u>10,771,267</u>	<u>15,972,199</u>
Net assets at beginning of year	<u>178,344,598</u>	<u>34,421,544</u>	<u>24,315,902</u>	<u>237,082,044</u>
Net assets at end of year	<u>\$ 186,123,265</u>	<u>31,843,809</u>	<u>35,087,169</u>	<u>253,054,243</u>

See accompanying notes to consolidated financial statements.

**BERKLEE COLLEGE OF MUSIC, INC.**

Consolidated Statements of Cash Flows

Years ended May 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (8,500,592)	15,972,199
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	12,269,018	12,386,228
Realized and unrealized losses (gains) on investments, net	3,245,483	(14,102,364)
Pension obligation changes other than net periodic pension costs	2,807,810	2,519,082
Loss on disposal of equipment	1,411	44,222
Contributions for long-term investment	(5,290,205)	(5,865,006)
Disbursements and repayment of student loans	709,070	220,185
Change in current assets	455,113	(8,301,386)
Change in current liabilities	6,241,370	7,204,160
Net cash provided by operating activities	<u>11,938,478</u>	<u>10,077,320</u>
Cash flows from investing activities:		
Change in deposits with bond trustees	5,430,515	6,146,945
Purchase of property, plant, improvements, and equipment	(15,553,644)	(9,360,280)
Proceeds from sale and maturity of investments	79,060,959	78,304,039
Purchase of investments	(86,046,068)	(70,493,494)
Net cash (used in) provided by investing activities	<u>(17,108,238)</u>	<u>4,597,210</u>
Cash flows from financing activities:		
Payments on bonds and notes payable	(6,700,000)	(6,806,426)
Contributions for long-term investment	5,290,205	5,865,006
Increase in refundable advances – U.S. government grants	119,760	115,086
Net cash used in financing activities	<u>(1,290,035)</u>	<u>(826,334)</u>
Net change in cash and cash equivalents	(6,459,795)	13,848,196
Cash and cash equivalents, beginning of year	<u>41,231,881</u>	<u>27,383,685</u>
Cash and cash equivalents, end of year	\$ <u><u>34,772,086</u></u>	\$ <u><u>41,231,881</u></u>
Supplemental data:		
Interest paid	\$ 11,974,249	12,216,883
Increase (decrease) in accounts payable from capital acquisitions	2,184,078	(789,479)

See accompanying notes to consolidated financial statements.

## BERKLEE COLLEGE OF MUSIC, INC.

### Notes to Consolidated Financial Statements

May 31, 2016 and 2015

#### (1) Background

Berklee College of Music, Inc. (the College) is a nonprofit co-educational institution of higher learning offering a bachelor and master of music degree 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 the education of career musicians, composers, arrangers, music educators, and other professionals in the world of modern music. The College also 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.

#### (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, which includes its Valencia, Spain operations. Balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes to net assets are classified as follows:

*Permanently restricted net assets* – Net assets subject to donor-imposed stipulations are maintained permanently by the College. Generally, the donors permit the College to use, for general or specific purposes, all or part of any income earned and any capital gains on related investments.

*Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations to be met by actions of the College and/or the passage of time. Investment returns on donor-restricted endowment funds are classified as changes in temporarily restricted net assets and are generally available for appropriation to support operational needs in accordance with the College's endowment spending policy and any restrictions on use imposed by donors.

*Unrestricted net assets* – Net assets not subject to donor-imposed stipulations.

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 unrestricted net assets. Net assets released from restrictions, for which the donor purpose has been met or the stipulated time period has elapsed, are reported as reclassifications between applicable net asset classes.

Contributions and unconditional promises to give are recognized as revenue in the period received. Promises to give that are expected to be collected after the consolidated statement of financial position date are reported as contribution revenue in temporarily restricted net assets. Promises to give that require the corpus to be maintained permanently are reported as contributions for long-term items in permanently restricted net assets. Contributions of land, buildings, or equipment are reported as unrestricted nonoperating support 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.

**BERKLEE COLLEGE OF MUSIC, INC.**

Notes to Consolidated Financial Statements

May 31, 2016 and 2015

**(b) Operations**

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

Expenses associated with the operation and maintenance of plant assets, including depreciation and interest expense, are disclosed separately on the consolidated statement of activities. Note 12 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 \$3,036,549 and \$3,009,067 in 2016 and 2015, respectively, and are included in institutional support and advancement on the statements of activities.

**(c) Cash and Cash Equivalents**

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

**(d) Short-term Investments**

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

**(e) Contributions Receivable**

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

**(f) Long-Term Investments**

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

## BERKLEE COLLEGE OF MUSIC, INC.

### Notes to Consolidated Financial Statements

May 31, 2016 and 2015

#### (g) *Fair Value Measurements*

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

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

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

The College holds shares or units in nonmarketable securities including alternative investments such as private equity, venture capital, hedge funds, and real asset strategies. Such alternative investment funds may hold securities or other financial instruments for which a ready market exists and are priced accordingly. For investments that do not have a readily determinable fair value, the fair value of those investments is estimated based upon the net asset value (NAV) per share or its equivalent as a practical expedient. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held.

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.

ASU 2015-10, *Technical Corrections and Improvements*, clarified one aspect of the definition of readily determinable fair value (RDFV) thereby affecting the measurement of and disclosure about certain equity investments. During 2016, based on this technical correction, the College re-evaluated its investments historically measured using NAV as a practical expedient in structures with

## BERKLEE COLLEGE OF MUSIC, INC.

### Notes to Consolidated Financial Statements

May 31, 2016 and 2015

characteristics similar to a mutual fund as to whether they have a RDFV. Based on that re-evaluation, NAV disclosures have been amended, and certain investments aggregating \$42,958,764 in note 3 and \$8,163,939 in note 9 previously accounted for using NAV as a practical expedient as of May 31, 2015 and previously excluded from the fair value hierarchy were determined to have a RDFV and have been included as Level 1 investments at that date.

**(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. Interest on debt obtained for construction purposes is capitalized during the construction phase.

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, 2016 and 2015.

**(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 unrestricted revenue 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. In April 2015, the FASB issued Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs*. The ASU simplifies the presentation of debt issuance costs and more closely aligns the presentation of those costs under U.S. GAAP with the presentation under comparable IFRS standards. The debt issuance costs related to a recognized debt liability will be 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. The ASU is effective for fiscal years beginning after December 15, 2015,

**BERKLEE COLLEGE OF MUSIC, INC.**

Notes to Consolidated Financial Statements

May 31, 2016 and 2015

with early adoption permitted and applied retrospectively. Management has elected to adopt the ASU effective for the year ended May 31, 2016.

**(l) 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, 2016 but it is not significant to the consolidated financial statements. The College believes it has taken no significant uncertain tax positions.

**(m) 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, 2016 and 2015 included in Institutional Support was a net gain of \$26,709 and a net loss of \$602,283, respectively.

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

	<b>U.S. dollar to one euro</b>	
	<b>2016</b>	<b>2015</b>
Revenues and expenses at the monthly average rate:		
The annual average rate for the fiscal year ended		
May 31	1.10:1	1.23:1
Assets, liabilities, and net assets at the current rate		
as of May 31	1.11:1	1.21:1

**(n) Self-Funded Insurance**

Effective January 1, 2014, the College entered into 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 \$7,430,339 and \$7,095,822 for the years ended May 31, 2016 and 2015, respectively. The estimated unpaid claims liability, included in accrued expenses at May 31, 2016 and 2015, amounted to \$1,274,500.

**(o) 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.

**BERKLEE COLLEGE OF MUSIC, INC.**

Notes to Consolidated Financial Statements

May 31, 2016 and 2015

**(p) Reclassifications**

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

**(3) Investments**

The College's investments at fair value are summarized as follows at May 31:

	<u>2016</u>	<u>2015</u>
Money market funds	\$ 15,994,691	24,271,589
Mutual funds	15,074,325	—
U.S. equity funds	7,274,472	31,462,991
International equity funds	90,709,027	82,815,594
Alternative investments	202,432,379	189,195,094
Total	<u>\$ 331,484,894</u>	<u>327,745,268</u>

Total return on long-term investments consisted of the following for the years ended May 31:

	<u>2016</u>	<u>2015</u>
Investment return:		
Interest and dividends	\$ —	68
Unrealized gain	(26,246,739)	6,552,717
Realized gain	23,001,256	7,549,579
Total return on investments	<u>\$ (3,245,483)</u>	<u>14,102,364</u>

**BERKLEE COLLEGE OF MUSIC, INC.**

Notes to Consolidated Financial Statements

May 31, 2016 and 2015

The following tables summarize the College's investments by major category in the fair value hierarchy as of May 31, 2016 and 2015, as well as related strategy, liquidity, and funding commitments:

	<u>Fiscal year ended May 31, 2016</u>		<u>Redemption or liquidation</u>	<u>Days' notice</u>	<u>Related unfunded commitment</u>
	<u>Level 1</u>	<u>Total</u>			
Short-term investments:					
Mutual funds	\$ 15,074,325	15,074,325			
Long-term investment strategies:					
Investments at fair value:					
Cash and cash equivalents	15,994,691	15,994,691			
Traditional equity index funds	7,274,472	7,274,472			
Global (excluding U.S.) equities:					
Developed markets	43,122,310	43,122,310			
Investments at net asset value:					
Global (excluding U.S.) equities:					
Developed markets	—	36,461,433	Quarterly	30	None
Emerging markets	—	11,125,284	Quarterly	90	None
Hedged equity funds of funds:					
Multiple strategies	—	17,763,481	Various (1)	45–60	None
Private equity and venture capital funds	—	25,327,957	Illiquid (2)	N/A	8,352,915
Real assets:					
Commodities oil and energy	—	1,596,228	Illiquid (3)	N/A	555,870
Private real estate	—	12,579,245	Illiquid	N/A	5,378,546
Direct hedge equity/multiple strategies	—	86,171,306	Various (4)	90	None
Direct absolute return/multiple strategies	—	58,994,162	Various (5)	45–180	None
<b>Total</b>	<b>\$ 81,465,798</b>	<b>331,484,894</b>			

(1) Funds with, quarterly redemption = \$11,481,696, annual redemption = \$6,281,785

(2) These funds are expected to liquidate within 1-8 years and total \$25,327,957

(3) Variety of benchmarks and limitations on withdrawals; dissolutions from 2016 to 2018

(4) Funds with semi-annual redemption = \$13,804,261, annual redemption \$42,849,976, illiquid \$14,388,343, rolling 3 year 90 days notice \$15,128,726

(5) Funds with annual redemption \$58,971,996, illiquid \$22,166

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	<u>Fiscal year ended May 31, 2015</u>		<u>Redemption or liquidation</u>	<u>Days' notice</u>	<u>Related unfunded commitment</u>
	<u>Level 1</u>	<u>Total</u>			
Long-term investment strategies:					
Investments at fair value:					
Cash and cash equivalents	\$ 24,271,589	24,271,589			
Traditional equity index funds Global (excluding U.S.) equities:	7,858,577	7,858,578			
Developed markets	42,957,764	42,957,764			
Investments at net asset value:					
Domestic equities:					
Large cap long/short funds Global (excluding U.S.) equities:	—	23,604,413	Quarterly	60	None
Developed markets	—	32,567,231	Quarterly	30	None
Emerging markets	—	7,290,599	Quarterly	90	None
Hedged equity funds of funds:					
Multiple strategies	—	12,111,126	Quarterly	45	None
Private equity and venture capital funds	—	33,350,470	Illiquid (1)	N/A	5,122,720
Real assets:					
Commodities oil and energy	—	2,171,963	Illiquid (2)	N/A	635,981
Private real estate	—	9,350,520	Illiquid	N/A	8,334,205
Direct hedge equity/multiple strategies	—	81,701,679	Various (3)	90	None
Direct absolute return/multiple strategies	—	50,509,336	Various (4)	45–180	None
Total	\$ 75,087,930	327,745,268			

(1) These funds are expected to liquidate within 1-8 years and total \$33,350,470

(2) Variety of benchmarks and limitations on withdrawals; dissolutions from 2015 to 2018

(3) Funds with semi-annual redemption = \$13,484,526, annual redemption \$38,198,122, illiquid \$13,791,832,  
Rolling 3 year 90 days notice \$16,227,199

(4) Funds with annual redemption \$50,486,410, illiquid \$22,926

No investments at fair value are considered to be Level 2 or Level 3 investments in the fair value hierarchy at May 31, 2016 or 2015, respectively.

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

	<u>2016</u>	<u>2015</u>
Investments redemption period:		
Daily	\$ 38,343,491	32,130,166
Monthly	43,122,310	42,957,764
Quarterly	65,350,198	87,403,914
Semi-annually	13,804,261	13,484,526
Annually	101,821,971	79,594,633
Locked up or illiquid	69,042,663	72,174,265
Total	<u>\$ 331,484,894</u>	<u>327,745,268</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.

**(4) Endowment**

The College's endowment consists of approximately 170 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees (the Board) to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**(a) Interpretation of Relevant Law**

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

Although UPMIFA offers short-term spending flexibility, the explicit consideration of the preservation of funds among factors for prudent spending suggests that a donor-restricted endowment fund is still perpetual in nature. Under UPMIFA, the Board is permitted to determine and continue a prudent payout amount, even if the market value of the fund is below historic dollar value. There is an expectation that, over time, the permanently restricted amount will remain intact. This perspective is

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aligned with the accounting standards definition that permanently 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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent 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 permanently restricted net assets is classified as temporarily 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, 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 \$14,256,420 in 2016 and \$12,977,988 in 2015. 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

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classified as an increase in unrestricted net assets. Deficiencies of this nature that are reported as reductions in unrestricted net assets totaled \$92,182 and \$0 as of May 31, 2016 and 2015, respectively.

Endowment funds consisted of the following at May 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (89,545)	9,079,378	35,141,797	44,131,630
Board-designated endowment funds	<u>272,278,939</u>	<u>—</u>	<u>—</u>	<u>272,278,939</u>
Total endowed funds	\$ <u>272,189,394</u>	<u>9,079,378</u>	<u>35,141,797</u>	<u>316,410,569</u>

Endowment funds consisted of the following at May 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	11,419,000	29,851,592	41,270,592
Board-designated endowment funds	<u>286,474,676</u>	<u>—</u>	<u>—</u>	<u>286,474,676</u>
Total endowed funds	\$ <u>286,474,676</u>	<u>11,419,000</u>	<u>29,851,592</u>	<u>327,745,268</u>

Changes in endowment funds for the year ended May 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment funds, June 1, 2015	\$ 286,474,676	11,419,000	29,851,592	327,745,268
Investment return:				
Net depreciation	<u>(2,937,766)</u>	<u>(307,717)</u>	<u>—</u>	<u>(3,245,483)</u>
Total investment loss	(2,937,766)	(307,717)	—	(3,245,483)
Contributions	—	—	5,290,205	5,290,205
Appropriation of endowment assets for expenditure	(12,224,515)	(2,031,905)	—	(14,256,420)
Transfers to (from) board-designated funds	<u>876,999</u>	<u>—</u>	<u>—</u>	<u>876,999</u>
Endowment funds, May 31, 2016	\$ <u>272,189,394</u>	<u>9,079,378</u>	<u>35,141,797</u>	<u>316,410,569</u>

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Changes in endowment funds for the year ended May 31, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment funds, June 1, 2014	\$ 286,387,101	11,079,763	23,986,586	321,453,450
Investment return:				
Investment gain	68	—	—	68
Net appreciation	<u>12,210,686</u>	<u>1,891,610</u>	<u>—</u>	<u>14,102,296</u>
Total investment return	12,210,754	1,891,610	—	14,102,364
Contributions	—	—	5,865,006	5,865,006
Appropriation of endowment assets for expenditure	<u>(11,425,615)</u>	<u>(1,552,373)</u>	<u>—</u>	<u>(12,977,988)</u>
Transfers to (from) board-designated funds	<u>(697,564)</u>	<u>—</u>	<u>—</u>	<u>(697,564)</u>
Endowment funds, May 31, 2015	\$ <u><u>286,474,676</u></u>	<u><u>11,419,000</u></u>	<u><u>29,851,592</u></u>	<u><u>327,745,268</u></u>

**(5) Property, Improvements, and Equipment**

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

	<u>2016</u>	<u>2015</u>	<u>Estimated useful life</u>
Land	\$ 21,081,375	21,248,852	—
Buildings	151,401,567	150,813,844	40 years
Improvements	131,897,733	129,453,963	15–20 years
Furniture and equipment	43,513,218	41,125,951	3–10 years
Library books	2,947,770	2,807,314	10 years
Construction in progress	<u>14,769,174</u>	<u>2,641,255</u>	—
	365,610,837	348,091,179	
Less accumulated depreciation	<u>(136,783,940)</u>	<u>(124,480,402)</u>	
	\$ <u><u>228,826,897</u></u>	<u><u>223,610,777</u></u>	

Total depreciation expense was \$12,520,191 and \$12,305,973 in 2016 and 2015, respectively.

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**(6) Bonds and Notes Payable**

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

	<u>2016</u>	<u>2015</u>
(a) MDFA Revenue Bonds, Berklee College of Music Series 2011, dated September 22, 2011 (including unamortized premium of \$4,588,421 and \$4,996,259 in 2016 and 2015, respectively)	\$ 88,668,421	90,414,683
(b) MHEFA Revenue Bonds, Berklee College of Music Series 2007A, dated August 8, 2007 (including unamortized premium of \$3,178,504 and \$3,516,376 in 2016 and 2015, respectively)	151,523,504	155,308,669
(c) MDFA Revenue Bonds, Berklee College of Music Series 2013, Dated August 1, 2013	<u>10,875,000</u>	<u>12,375,000</u>
Total bonds payable	251,066,925	258,098,352
Deferred issuance cost on bonds	<u>(1,652,809)</u>	<u>(1,733,063)</u>
Bonds payable	<u>\$ 249,414,116</u>	<u>256,365,289</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 5.00% and are due in varying installments of \$141,900 to \$4,358,725 until October 1, 2041. Principal payments began on October 1, 2012. Proceeds from these bonds had been fully spent as of May 31, 2014.

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

On August 8, 2007, the College issued \$173,510,000 Revenue Bonds, Series 2007A (the Series 2007A bonds) from the Massachusetts Health and Education Facilities Authority (MHEFA). The Series 2007A bonds bear interest at rates ranging from 3.88% to 5.00% and are due in varying installments of \$271,000 to \$8,393,493 until October 1, 2037. Principal payments began in October 2008. Proceeds from these bonds had been fully spent as of May 31, 2012.

**(c) MDFA Revenue Bonds, Berklee College of Music Issue, Series 2013**

On August 1, 2013, the College issued \$15,000,000 Revenue Bonds, Series 2013 (the Series 2013 bonds) from the Massachusetts Development Finance Agency. The Series 2013 bonds bear interest at a fixed rate of 2.14% and are due in varying installments until August 1, 2023. Principal payments began in September 2013. Proceeds from these bonds are fully spent as of May 31, 2016.

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Scheduled long-term maturities of existing indebtedness at May 31, 2016 in each of the next five years and in the aggregate thereafter are as follows:

	<u>Amount</u>
Year ending May 31:	
2017	\$ 6,945,000
2018	7,205,000
2019	7,495,000
2020	7,795,000
2021	8,115,000
Thereafter	<u>205,745,000</u>
	243,300,000
Plus unamortized bond premium	<u>7,766,925</u>
	<u>\$ 251,066,925</u>

**(d) *Revolving Credit Facility***

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

On April 26, 2016, the College signed an amendment to the credit agreement originally issued on June 3, 2013. The amendment extended the termination date to April 26, 2017 from the termination date of June 3, 2016. All other terms and conditions remained the same. There were no outstanding borrowings under this facility at May 31, 2016 or 2015.

**(e) *Interest Expense and Amortization Costs***

Interest expense on bonds and notes payable was \$11,925,425 and \$12,175,427 in 2016 and 2015, respectively. Amortization of bond issue costs was not significant in both 2016 and 2015, respectively.

The College is required to maintain certain financial ratios associated with its bond agreements and is in compliance with these requirements at May 31, 2016 and 2015.

**(7) *Allowances for Uncollectible Accounts and Loans Receivable***

Accounts receivable, arising from student tuition and fees, are presented net of an allowance for uncollectible accounts of \$1,189,918 and \$1,011,730 at May 31, 2016 and 2015, respectively.

Loans receivable, primarily from the federal Perkins loan program, are net of an allowance for uncollectible accounts of \$1,144,320 and \$1,000,000, at May 31, 2016 and 2015, respectively.

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**(8) Contributions Receivable**

Contributions receivable consist of the following at May 31:

	<u>2016</u>	<u>2015</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 6,131,888	4,899,561
One year to five years	8,464,616	9,895,827
	<u>14,596,504</u>	<u>14,795,388</u>
Less allowance for uncollectible pledges	<u>(1,459,650)</u>	<u>(1,479,284)</u>
	13,136,854	13,316,104
Less present value discount	<u>(383,434)</u>	<u>(516,059)</u>
	<u>\$ 12,753,420</u>	<u>12,800,045</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 0.52% to 3.05% in 2016 and 2015.

**(9) Retirement Plans**

The College offers a defined contribution plan to substantially all employees. This plan provides for investments through the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF), as well as Transamerica Retirement Services. The College matches all savings in a pay period up to 3% of pay for full-time employees hired before January 1, 2012, up to 6% of pay for full-time employees hired January 1, 2012 or later, and up to 50% of 10% of pay for eligible part-time employees who are eligible for medical benefits under the College’s healthcare program. All eligible, full-time employees hired after January 1, 2012 also receive an additional 3% of pay. The College contributed \$3,573,551 and \$3,185,504, respectively, for the years ended May 31, 2016 and 2015.

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. Notwithstanding, certain part-time faculty members active at December 31, 2011, who achieve full-time status after December 31, 2011 will be enrolled in the Pension Plan.

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

	<u>2016</u>	<u>2015</u>
Service cost of the current period	\$ 5,844,719	6,123,249
Interest cost on the projected benefit obligation	4,152,638	5,272,784
Expected return on assets held in the plan	(6,215,406)	(5,879,594)
Recognition of net actuarial loss	<u>3,462,747</u>	<u>3,272,757</u>
Pension expense	\$ <u>7,244,698</u>	<u>8,789,196</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>2016</u>	<u>2015</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 152,338,129	142,426,169
Service cost	5,844,719	6,123,249
Interest cost	4,152,638	5,272,784
Actuarial loss	42,212	3,244,265
Benefits paid	<u>(3,373,829)</u>	<u>(4,728,338)</u>
Benefit obligation at end of year	<u>159,003,869</u>	<u>152,338,129</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	91,326,135	86,225,560
Actual return on plan assets	(12,939)	3,332,020
Employer contributions	6,982,806	6,496,893
Benefits paid	<u>(3,373,829)</u>	<u>(4,728,338)</u>
Fair value of assets held in the plan	<u>94,922,173</u>	<u>91,326,135</u>
Pension liability at end of year	\$ <u>(64,081,696)</u>	<u>(61,011,994)</u>

Weighted average assumptions used to determine benefit obligations at May 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Discount rate	3.39%	3.75%
Rate of compensation increase	3.00%	3.00%

In 2016, the College changed the method to estimate the service and interest cost components of net periodic benefit cost for our defined benefit pension plan. Historically, services and interest costs were estimated using a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. The College has elected to use a full yield curve approach in the estimation of these components of benefit cost by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. This change was made to

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improve the correlation between projected benefit cash flows and the corresponding yield curve spot rates and to provide a more precise measurement of service and interest costs. This change does not affect the measurement of the total benefit obligation as the change in the service cost and interest cost is completely offset in the actuarial (gain) loss reported. The College has accounted for this change as a change in estimate and, accordingly, has accounted for it prospectively starting in the 2016 fiscal year. The discount rates used to measure service and interest cost during 2016 were 3.93% and 2.85%, respectively. The discount rate measured at year end that would have been used for service and interest cost under the prior estimation technique was 3.75%. The reductions in service cost and interest cost for the year ended May 31, 2016 associated with this change in estimate are \$861,070 and \$1,338,840, respectively.

Weighted average assumptions used to determine net periodic benefit cost for the year ended May 31 were as follows:

	<u>2016</u>	<u>2015</u>
Discount rate	3.75%	3.85%
Rate of compensation increase	3.00%	3.00%
Expected long-term rates of return on plan assets	7.00%	7.00%

The benefits expected to be paid after May 31, 2016 are as follows:

Years ending May 31:	
2017	\$ 15,253,329
2018	10,647,945
2019	11,284,452
2020	11,290,008
2021	11,227,308
2022–2026	54,514,070

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>2016</u>	<u>2015</u>
Equity securities	55%	34%	47%
Debt securities	15	13	12
Real estate	—	—	4
Other	30	53	37

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. Equity and fixed income managers will be expected to achieve an

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annualized total rate of return over a three-to five-year period, which exceeds an appropriate market index rate of return by 1.50% and 0.75% points compounded annually, net of costs and fees, respectively.

Other changes in pension liability recognized in unrestricted net assets in fiscal years 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Net loss	\$ 2,807,810	2,519,082

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

The value of the Pension Plan's assets by asset class are as follows at May 31, 2016:

	<u>Fiscal year ended May 31, 2016</u>		<u>Redemption or liquidation</u>	<u>Days' notice</u>	<u>Related unfunded commitment</u>
	<u>Level 1</u>	<u>Total</u>			
Investments at fair value:					
Cash and fixed income	\$ 12,419,155	12,419,155			
International equities	17,730,342	17,730,342			
Domestic equities	6,244,519	6,244,519			
Investments at net asset value:					
International equities	—	16,640,492	Quarterly/annually	30–90 days	None
Hedge funds	—	33,094,881	Quarterly/annually	30-180 days	None
Real assets	—	5,611,136	Illiquid	N/A	1,994,523
Private equity and venture capital	—	3,181,648	Illiquid	N/A	3,191,301
	<u>\$ 36,394,016</u>	<u>94,922,173</u>			

The value of the Pension Plan's assets by asset class are as follows at May 31, 2015:

	<u>Fiscal year ended May 31, 2015</u>		<u>Redemption or liquidation</u>	<u>Days' notice</u>	<u>Related unfunded commitment</u>
	<u>Level 1</u>	<u>Total</u>			
Investments at fair value:					
Cash and fixed income	\$ 10,910,460	10,910,460			
Domestic equities	6,408,729	6,408,729			
International equities	16,294,650	16,294,650			
Investments at net asset value:					
Domestic equities	—	9,479,820	Quarterly	60	None
International equities	—	14,328,632	Quarterly/annually	30–90 days	None
Hedge funds	—	26,156,745	Quarterly/annually	30-180 days	None
Real assets	—	5,095,619	Illiquid	N/A	2,706,430
Private equity and venture capital	—	2,651,480	Illiquid	N/A	2,473,522
	<u>\$ 33,613,839</u>	<u>91,326,135</u>			

No investments at fair value are considered to be Level 2 or Level 3 investments in the fair value hierarchy at May 31, 2016 and 2015, respectively.

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**(10) Lease Commitments**

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

	<u>Amount</u>	
Fiscal year:		
2017	\$	3,605,303
2018		3,020,295
2019		3,049,800
2020		2,121,074
2021		238,925
Thereafter		437,137

Rental expense was \$4,722,405 in 2016 and \$4,435,424 in 2015.

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

	<u>Amount</u>	
Fiscal year:		
2017	\$	1,338,931
2018		1,219,602
2019		1,098,758
2020		934,184
2021		796,317
Thereafter		1,713,578

Rental income was \$1,406,708 in 2016 and \$1,576,417 in 2015.

**(11) Restricted Net Assets**

Temporarily restricted net assets consist of the following at May 31:

	<u>2016</u>		<u>2015</u>	
Unspent gifts:				
Instruction	\$	2,021,277		1,853,408
Institutional support		1,343,725		1,320,228
Student aid		3,757,499		4,305,326
Facilities		280,000		697,885
Capital campaign programs		3,779,227		4,727,310
		<u>11,181,728</u>		<u>12,904,157</u>
Unappropriated gains from permanently restricted net assets		9,079,378		11,419,000
Outstanding pledges		5,470,628		7,520,652
	\$	<u><u>25,731,734</u></u>		<u><u>31,843,809</u></u>

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The College classifies unspent gains from permanently restricted funds as temporarily restricted 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 unrestricted revenues.

Permanently restricted net assets consist of the following at May 31:

	<u>2016</u>	<u>2015</u>
Student aid	\$ 24,513,197	21,221,418
Instruction	7,363,822	5,617,767
Institutional support	3,264,778	3,012,407
Outstanding pledges	7,256,341	5,235,577
	<u>\$ 42,398,138</u>	<u>35,087,169</u>

**(12) Functional Expenses**

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, 2016 and 2015:

	<u>May 31, 2016</u>				
	<u>Direct costs</u>	<u>Indirect costs</u>	<u>Depreciation and amortization</u>	<u>Interest expense</u>	
		<u>Maintenance</u>			
Expenses:					
Education and general:					
Instruction	\$ 87,157,441	9,589,028	4,898,827	6,037,333	107,682,629
Academic support	13,622,961	468,397	239,294	294,907	14,625,559
Student and enrollment services	15,974,357	277,154	141,592	174,498	16,567,601
Institutional support and advancement	37,996,207	3,531,673	1,804,255	2,223,571	45,555,706
Auxiliary enterprises	30,273,266	2,825,213	5,516,478	3,194,936	41,809,893
Total operating expenses	<u>\$ 185,024,232</u>	<u>16,691,465</u>	<u>12,600,446</u>	<u>11,925,245</u>	<u>226,241,388</u>

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	<b>May 31, 2015</b>				
	<b>Indirect costs</b>				
	<b>Direct costs</b>	<b>Maintenance</b>	<b>Depreciation and amortization</b>	<b>Interest expense</b>	<b>Total expenses</b>
Expenses:					
Education and general:					
Instruction	\$ 86,213,754	9,777,666	4,815,543	6,163,991	106,970,954
Academic support	12,126,213	477,612	235,225	301,094	13,140,144
Student and enrollment services	15,166,528	282,606	139,185	178,159	15,766,478
Institutional support and advancement	37,945,854	3,601,149	1,773,581	2,270,220	45,590,804
Auxiliary enterprises	<u>27,768,774</u>	<u>2,825,213</u>	<u>5,422,694</u>	<u>3,261,963</u>	<u>39,278,644</u>
Total operating expenses	<u>\$ 179,221,123</u>	<u>16,964,246</u>	<u>12,386,228</u>	<u>12,175,427</u>	<u>220,747,024</u>

**(13) Subsequent Events**

For purposes of determining the effects of subsequent events on these consolidated financial statements, management has evaluated events subsequent to May 31, 2016 and through September 27, 2016, the date on which the consolidated financial statements were issued.

In December 2015, the College entered into a merger agreement with The Boston Conservatory (the Conservatory), a nationally accredited performing arts conservatory offering Bachelor of Fine Arts, Bachelor of Music, and Master of Music degrees. Effective June 1, 2016, the Conservatory merged with and into the College, with the College as the surviving corporation. As a result, the College recognized approximately \$89.2 million in assets and assumed \$29.3 million in liabilities. The Conservatory now operates as a division of the College known as The Boston Conservatory at Berklee.

In August 2016, the College issued tax-exempt bonds with a par amount of \$149,505,000 through MDFA. The bonds have fixed rates ranging from 4.0% to 5.0% and have principal payments beginning October 1, 2016 and terminating October 1, 2046. The bonds were sold at a premium of \$33,433,090, resulting in effective yields to maturity of between 0.58% and 2.59%. The bonds were used to defease and/or refund all or portions of the previously issued Series 2007A bonds, Series 2013 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; and resulted in a loss of approximately \$7.6 million.