



Berea College

Financial Statements for the Year Ended June 30, 2000

Board of Trustees

R. ELTON WHITE, Chair	SARASOTA, FL
*ALBERTA WOOD ALLEN	GLENVIEW, KY
JON M. ANDERSON	COLUMBUS, OH
JOHN A. AUXIER.....	KNOXVILLE, TN
JAMES T. BARTLETT	CLEVELAND, OH
BARRY BINGHAM, JR.	LOUISVILLE, KY
*JACK BUCHANAN	WINCHESTER, KY
JAMES S. BURTON.....	RESTON, VA
JERRY J. COX.....	MT. VERNON, KY
MARTIN A. COYLE.....	KIAWAH ISLAND, SC
M. ELIZABETH CULBRETH	WAYNESVILLE, NC
FRED DUPREE	LEXINGTON, KY
*WILMA DYKEMAN	NEWPORT, TN
CATHERINE G. EBERT.....	GLEN ARM, MD
EUGENE V. FIFE.....	CHARLOTTESVILLE, VA
ROLAND E. GOODE.....	RAPIDAN, VA
JAMES P. GRAY, II.....	LEXINGTON, KY
WILLIAM R. GRUVER.....	LEWISBURG, PA
DONNA S. HALL.....	LEXINGTON, KY
MARION L. HEARD	BOSTON, MA
*KATE IRELAND.....	TALLAHASSEE, FL
GENEVA BOLTON JOHNSON	BROOKFIELD, WI
JEWRETTE Y. JOHNSON.....	BIRMINGHAM, AL
WILLIAM H. JOHNSTONE	BRISTOL, TN
*JUANITA M. KREPS	DURHAM, NC
JOHN T. LAWRENCE, III	CINCINNATI, OH
EUGENE Y. LOWE, JR.	EVANSTON, IL
ALICE R. MANICUR.....	FROSTBURG, MD
ELISSA MAY-PLATTNER	FRANKFORT, KY
THOMAS H. OLIVER	DATAW ISLAND, SC
*KROGER PETTENGILL.....	CINCINNATI, OH
CHARLES WARD SEABURY, II	THOUSAND OAKS, CA
LARRY D. SHINN	BEREA, KY
PHILLIP H. SMITH.....	PITTSBURGH, PA
*ALFRED J. STOKELY.....	ZIONSVILLE, IN
DAVID SWANSON	WALPOLE, ME
*JOSEPH T. TAYLOR.....	INDIANAPOLIS, IN
DAVID O. WELCH.....	ASHLAND, KY
*Honorary Trustees	

Officers

LARRY D. SHINN, President
STEPHEN S. BOYCE, Academic Vice President and Provost
RODNEY C. BUSSEY, Vice President for Alumni Relations and Development
JEFFREY G. EISENBARTH, Vice President for Business and Administration
and Interim Vice President for Finance, and Secretary
GAIL W. WOLFORD, Vice President for Labor and Student Life and Dean of Labor
JOHN S. BOLIN, Dean of the Faculty

CONTENTS

	<u>Page</u>
Highlights	2
Report of the Vice President for Finance	3-4
Independent Auditors' Report	5
Statements of Financial Position	6-7
Statements of Activities	8-9
Statements of Cash Flows	10
Notes to Financial Statements	11-19

HIGHLIGHTS

	June 30,	
	2000	1999
OPERATING REVENUE	\$ 54,610,216	\$ 53,499,719
OPERATING EXPENSES	\$ 49,725,071	\$ 48,665,180
Operating revenue in excess of expenses, used primarily to finance capital additions	\$ 4,885,145	\$ 4,834,539
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	\$ 12,863,384	\$ 11,380,041
LONG-TERM INVESTMENTS OF THE ENDOWMENT AND TUITION REPLACEMENT FUNDS		
Original gift value	\$ 217,908,897	\$ 198,443,991
Investments at market	\$ 861,302,700	\$ 629,980,900
Interest and dividends, net	\$ 14,002,023	\$ 13,908,551
Percent of beginning market value	2.2%	2.4%
Market price increase	\$ 224,499,908	\$ 51,392,350
Percent	35.7%	8.9%
Total return	\$ 238,501,931	\$ 65,300,901
Percent	37.9%	11.3%
CASH AND IN-KIND CONTRIBUTIONS		
Cash gifts	\$ 9,757,063	\$ 10,772,344
Bequests	\$ 15,608,883	\$ 7,491,144
Total cash gifts	\$ 25,365,946	\$ 18,263,488
Gifts-in-kind	\$ 24,328	\$ 26,266
Total	\$ 25,390,274	\$ 18,289,754

REPORT OF THE VICE PRESIDENT FOR FINANCE

September, 2000

To the Board of Trustees, President Shinn,
and Friends of Berea College,

As we welcome back the returning students and greet the new students this fall, we also acknowledge through this annual report the close of another "banner" year (our finance and administrative systems software is called Banner and we certainly have enjoyed many accomplishments). There are many reasons to celebrate.

We have both good news and sad news to share from our Development Office. This past year was a record-setting year for development as total giving in cash and securities was \$25,365,926 compared to the previous record setting year of 1996-97 when total giving was \$19,683,974. Alumni giving increased to a participation rate of 27% up from 20% last year and unrestricted annual funds exceeded our goal by over \$620,000. The sad news is the retirement of Rod Bussey, Vice President of Development and Alumni Affairs, after 25 years of dedicated service to the College. We all take our hats off to Rod for his successes and appreciate the fact that he leaves a strong development staff and tradition behind. Fortunately for us, Rod will continue to be a consultant for Berea in his retirement.

We have also experienced another record in the number of returning students and new students enrolled in this fall term. Our total enrollment was up approximately 150 students from the fall term of last year and nearly all of the additional students are juniors and seniors. Our numbers are at a record high because of the success of our retention efforts that are assuring that a higher percentage of students that come to Berea College, graduate from Berea College.

The final area of note where we have realized a record year is in the long-term investments of the endowment and tuition replacement funds. At June 30, 2000, these funds totaled \$861,302,700 compared to \$629,980,900 this time last year, an increase of \$231,321,800. With this increase total assets have now exceeded \$1 billion. Our endowment is an important area for the College because it represents the financial future of Berea College. While we cannot see into the future, we must continue to be good stewards of all our physical and financial assets to ensure that future students will have an opportunity for a Berea education in the years ahead.

We have many other successes that we could share with you detailing the accomplishments of outstanding students, the continued work in the implementation of our strategic plan, *Being and Becoming: Berea College in the 21st Century*, continued planning for residence hall and academic building renovations, diversity education, expansion of international study opportunities, energy master plans, eco-villages, staff development efforts, the establishment of workplace expectations and many others. You will receive more information in the months ahead regarding all this important work of the College.

Financial Position

Berea College continues to remain strong in its financial position. As of June 30, 2000, total net assets (total assets less liabilities) of the College approximated \$979.1 million compared to \$744.5 at June 30, 1999. This is an increase of almost \$234.6 million. The largest contributor to this increase was the significant increase in the market value of long-term investments.

At June 30, 2000, total assets exceeded \$1 billion. Of this amount, long-term investments (including endowment funds, annuity and life income and other funds) comprised \$915.7 million, property, plant and equipment and bond proceeds for capital additions net of depreciation totaled \$89.5 million, and current assets were \$16.9 million. Contributions receivable and bequests in probate totaled nearly \$7.2 million and student educational loans and mortgage loans for faculty and staff totaled approximately \$4.6 million.

Total liabilities increased by approximately \$1.7 million, primarily due to a \$1.9 million increase in long-term debt, which was slightly offset by small decreases in other liabilities. This increase stems primarily from the \$2.6 million bond issue for the Kettering Residence Hall project.

Current Operations

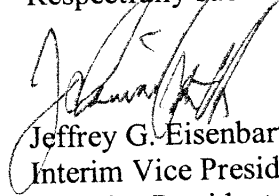
The 1999-00 fiscal year ended with a surplus from budgeted operations of approximately \$1.1 million. This surplus was due, in large part, to the realization of higher than budgeted unrestricted gift income and temporary investment income. A smaller portion of the surplus is attributed to unexpended salaries and benefits in certain areas where positions could not be filled for all or part of the fiscal year.

The budget for 2000-01 includes continued emphasis in the funding of the strategic planning initiatives. Additionally, capital planning will continue as we look to future building renovations and other capital needs.

Concluding Comments

We continue to remind ourselves amid a busy and often hectic schedule that it is through the support of each of you that we are able to move forward with the important work of the College and make a difference in the life of a young person with great promise. We are blessed in that we get to observe this transformation first hand on a daily basis and can only share with you those experiences vicariously. We always look forward to your return to Berea whether it is for alumni reunions, trustees meetings, to renew old acquaintances or to make new friends. Please know that the Berea College welcome mat is always out.

Respectfully submitted,


Jeffrey G. Eisenbarth
Interim Vice President for Finance
and Vice President for Business and
Administration

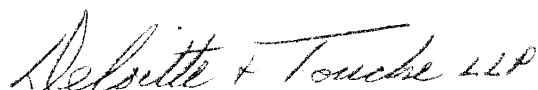
INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Berea College
Berea, Kentucky

We have audited the accompanying statements of financial position of Berea College as of June 30, 2000 and 1999, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the College as of June 30, 2000 and 1999, and the related changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



August 25, 2000
Louisville, Kentucky

Berea College

STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2000	1999
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 10,045,828	\$ 9,486,764
Accrued interest on investments	2,568,243	2,687,531
Accounts and notes receivable	1,301,280	1,284,833
Inventories	2,236,311	2,162,914
Prepaid expenses and other assets	755,154	882,863
Total current assets	<u>16,906,816</u>	<u>16,504,905</u>
CONTRIBUTIONS RECEIVABLE AND BEQUESTS IN PROBATE	<u>7,244,800</u>	<u>16,194,100</u>
LONG-TERM RECEIVABLES		
Student loans	1,734,989	1,511,640
Faculty and staff real estate mortgage loans	2,830,140	2,775,410
Total long-term receivables	<u>4,565,129</u>	<u>4,287,050</u>
LONG-TERM INVESTMENTS		
Donor-restricted endowment funds	485,547,400	350,729,200
Tuition replacement funds	375,755,300	279,251,700
Annuity and life income funds	33,856,000	28,026,300
Funds held in trust by others	20,587,500	18,125,400
Total long-term investments	<u>915,746,200</u>	<u>676,132,600</u>
BOND PROCEEDS FOR CAPITAL ADDITIONS	<u>2,600,000</u>	<u>7,329,933</u>
PROPERTY, PLANT AND EQUIPMENT		
Educational property, plant and equipment	79,506,207	70,401,364
Electric and water utility plant	23,959,237	22,597,815
Student industry plant and equipment	8,014,167	7,927,222
Rental property	2,666,718	2,695,422
Forest and farms	583,658	504,175
Collections and works of art	2,968,490	2,968,490
Less accumulated depreciation	(30,826,140)	(29,909,489)
Total property, plant and equipment	<u>86,872,337</u>	<u>77,184,999</u>
Total assets	<u>\$ 1,033,935,282</u>	<u>\$ 797,633,587</u>

See notes to financial statements.

Berea College

STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2000	1999
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 3,543,138	\$ 4,627,072
Accrued salaries and wages	2,003,563	1,979,124
Deposits and agency funds	538,223	568,911
Deferred income	48,617	44,506
Current maturities of long-term debt	831,290	735,810
Total current liabilities	<u>6,964,831</u>	<u>7,955,423</u>
LONG-TERM LIABILITIES		
Annuity payment and deferred giving liability	14,610,800	13,646,500
Long-term debt	33,287,417	31,518,707
Total long-term liabilities	<u>47,898,217</u>	<u>45,165,207</u>
Total liabilities	<u>54,863,048</u>	<u>53,120,630</u>
NET ASSETS		
Unrestricted -		
For current operations	74,722	73,995
Designated for specific purposes	15,650,998	16,686,883
Invested in property, plant and equipment	22,869,674	16,949,371
Appreciation on endowment investments to support operations	292,444,932	202,432,863
Tuition replacement funds to support operations	375,755,300	279,251,700
Total unrestricted	<u>706,795,626</u>	<u>515,394,812</u>
Temporarily restricted -		
Unexpended contributions received for restricted purposes	3,845,005	4,717,277
Annuity and life income contracts	11,085,536	8,456,608
Contributions receivable and bequests in probate	7,244,800	10,194,100
Expended contributions for long-lived assets being amortized	26,097,632	25,367,091
Appreciation on endowment investments primarily to support various programs	81,290,211	52,005,287
Total temporarily restricted	<u>129,563,184</u>	<u>100,740,363</u>
Permanently restricted -		
Loan funds	2,154,003	2,038,140
Contributions receivable and bequests in probate	-	6,000,000
Annuity and life income contracts	8,159,664	5,923,192
Funds held in trust by others	20,587,500	18,125,400
Endowment investments	111,812,257	96,291,050
Total permanently restricted	<u>142,713,424</u>	<u>128,377,782</u>
Total net assets	<u>979,072,234</u>	<u>744,512,957</u>
Total liabilities and net assets	<u>\$ 1,033,935,282</u>	<u>\$ 797,633,587</u>

STATEMENTS OF ACTIVITIES

Changes in Unrestricted Net Assets

	Year Ended June 30,	
	2000	1999
REVENUE		
Spendable return from long-term investments	\$ 24,108,726	\$ 23,611,446
Gifts and donations	4,699,529	4,201,079
Federal grants, primarily for student labor	2,837,399	2,552,784
Cost of education fees paid by federal and state scholarships	1,610,000	1,460,000
Fees paid by students	463,709	402,111
Other income	3,490,799	3,132,508
Residence halls and food service	4,361,556	4,067,578
Utilities, student industries, and rentals	11,723,062	13,090,389
Net assets released from restrictions	3,207,771	2,614,230
	56,502,551	55,132,125
Less: Student aid	(1,892,335)	(1,632,406)
	54,610,216	53,499,719
EXPENSES		
Program Services -		
Instruction	14,102,497	13,392,425
Public service	2,058,995	1,864,803
Academic support	4,244,643	4,155,679
Student services	5,643,887	4,934,646
Residence halls and food service	3,992,184	3,698,584
Utilities, student industries, and rentals	11,498,635	12,871,555
	41,540,841	40,917,692
Total Program Services	41,540,841	40,917,692
Support Services, including fund raising expense of \$1,986,300 in 2000 and \$1,934,300 in 1999	8,184,230	7,747,488
	49,725,071	48,665,180
Total expenses	49,725,071	48,665,180
Income in excess of expenses (used primarily to finance capital additions)	4,885,145	4,834,539
	4,885,145	4,834,539
REVENUES DESIGNATED FOR LONG-TERM INVESTMENT		
Unrestricted bequests	3,628,009	4,126,457
Matured annuity and life income contracts	315,690	1,109,520
Unrestricted capital gains on long-term investments	182,571,970	33,953,148
	186,515,669	39,189,125
Total increase in revenues designated for long-term investment	186,515,669	39,189,125
	\$ 191,400,814	\$ 44,023,664
Increase in unrestricted net assets	\$ 191,400,814	\$ 44,023,664

See notes to financial statements.

STATEMENTS OF ACTIVITIES

Changes in Total Net Assets

	Year Ended June 30,	
	2000	1999
UNRESTRICTED NET ASSETS		
Income in excess of expenses (used primarily to finance capital additions)	\$ 4,885,145	\$ 4,834,539
Increase in revenues designated for long-term investment	186,515,669	39,189,125
Increase in unrestricted net assets	191,400,814	44,023,664
TEMPORARILY RESTRICTED NET ASSETS		
Restricted gifts and donations	1,533,244	2,386,723
Change in contributions receivable and bequests in probate	(2,949,300)	3,202,400
Restricted spendable return on endowment investments	2,386,652	2,120,077
Restricted capital gains on endowment investments	29,284,924	5,483,552
Net adjustment of annuity payment and deferred giving liability	2,090,762	53,097
Reclassification of net assets released from restrictions	(3,207,771)	(2,614,230)
Reclassification of matured annuity and life income contracts to revenues designated for long-term investment	(315,690)	(1,109,520)
Increase in temporarily restricted net assets	28,822,821	9,522,099
PERMANENTLY RESTRICTED NET ASSETS		
Gifts and donations	15,753,898	8,313,421
Change in contributions receivable and bequests in probate	(6,000,000)	6,000,000
Restricted grants	150,000	350,000
Restricted spendable return on endowment investments	149,659	132,678
Restricted capital gains on funds held in trust by others	2,462,100	224,700
Net adjustment of annuity payment and deferred giving liability	1,819,985	(800,187)
Increase in permanently restricted net assets	14,335,642	14,220,612
Total increase in net assets	234,559,277	67,766,375
NET ASSETS		
Beginning of year	744,512,957	676,746,582
End of year	\$ 979,072,234	\$ 744,512,957

See notes to financial statements.

STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 234,559,277	\$ 67,766,375
Adjustments to reconcile change in net assets to net cash provided or used by operating activities -		
Market price appreciation on long-term investments	(214,318,994)	(39,661,400)
Gifts and bequests for financing activities	(18,620,920)	(11,305,687)
Restricted grants	(150,000)	(350,000)
(Increase) decrease in contributions receivable and bequests in probate	8,949,300	(9,202,400)
Gift value of annuity contracts written	(1,926,546)	(3,151,525)
Depreciation and loss on disposal of equipment	3,176,046	2,565,071
Net adjustment of annuity payment liability	(3,910,747)	747,090
(Increase) decrease in current assets other than cash	157,153	(518,811)
Increase (decrease) in current liabilities other than current maturities of long-term debt	(1,086,072)	2,762,464
Restricted spendable return on endowment funds	(149,659)	(132,678)
	6,678,838	9,518,499
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities	(748,244,167)	(466,948,352)
Proceeds from sales and maturities of investments	727,679,494	445,852,031
Purchase of property and equipment	(12,863,384)	(11,380,041)
Long-term student loans	(521,152)	(428,035)
Long-term student loan repayments	297,803	329,016
Faculty and staff mortgage loans	(281,700)	(217,500)
Faculty and staff mortgage loan repayments	226,970	350,522
Earnings on annuity and life income investments	6,588,551	2,497,488
	(27,117,585)	(29,944,871)
Net cash used by investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts and bequests received for -		
Long-term investment	18,273,011	10,130,619
Property, plant and equipment	311,703	1,164,381
Student loan funds	36,206	10,687
Restricted grants	150,000	350,000
Proceeds received on annuity and life income contracts	2,230,165	3,575,784
Contractual payments on annuity and life income contracts	(2,017,123)	(1,800,637)
Endowment return restricted for long-term investments	149,659	132,678
Repayment of indebtedness	(735,810)	(4,290,700)
Long-term debt issued	2,600,000	12,475,000
	20,997,811	21,747,812
Net cash provided by financing activities		
Net increase in cash flows	559,064	1,321,440
CASH AND CASH EQUIVALENTS		
Balance beginning of year	9,486,764	8,165,324
Balance end of year	\$ 10,045,828	\$ 9,486,764

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

(1) SUMMARY OF ACCOUNTING POLICIES

General

Berea College (the College) is a not-for-profit institution providing liberal arts education to students with limited family financial resources primarily from the Southern Appalachian Mountain region. All students are provided a full tuition scholarship and, accordingly, the College is dependent on gifts and donations to help provide a low cost but high quality education. The College has one campus located in Berea, Kentucky with an enrollment of approximately 1,500 students and approximately 600 employees.

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets, liabilities and disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

Under established financial reporting standards for not-for-profit organizations, net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the institution to use all or part of the income earned on related investments for general or specific purposes.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the College and/or the passage of time.

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

Revenues from sources other than contributions are reported as increases in unrestricted net assets. Contributions are reported as increases in the appropriate category of net assets, except that contributions which impose restrictions that are met in the same fiscal year they are received are included in unrestricted revenues. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

NOTES TO FINANCIAL STATEMENTS

(1) SUMMARY OF ACCOUNTING POLICIES (continued)

Contributions of exhaustible long-lived assets, or of cash or other assets to be used to acquire them, without donor stipulations concerning the use of such long-lived assets, are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released over the estimated useful lives of the long-lived assets using the institution's depreciation policies.

All contributions of works of art, historical treasures and similar assets, whether held as part of a collection (for education, research or public exhibition rather than for sale) or for sale or other purposes, have been recognized at their estimated fair value at the date of receipt based upon appraisals or similar valuations. All such items, whether contributed or purchased, have been capitalized.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market.

Investments

Investments are reported at their respective fair values. The values of publicly traded fixed income and equity securities are based upon quoted market prices. Private equities and certain other nonmarketable securities are valued using information provided by the general partner or investment manager for the respective funds. Investments in real estate through limited partnerships are stated at appraised market values, while other real estate investments are stated at cost on the date of acquisition or fair market value at date of receipt in the case of gifts. Net realized and unrealized gains and losses on investments is reflected in the Statements of Activities.

The College's investments do not have a significant concentration of credit risk within any industry or specific institution.

The market risk inherent in certain of the College's investments is primarily the potential loss arising from adverse changes in quoted market prices on equity securities and in interest rates on fixed income securities. In an effort to mitigate this market risk, the College has adopted a policy of maintaining a diverse investment pool through the use of target asset allocation guidelines. These guidelines require that the College's investment pool be made up of a mix of publicly traded fixed income and equity securities, private equities and other nonmarketable securities, and real estate investments.

Derivatives

The change in value of forward foreign currency contracts is included in the reported fair value of foreign securities.

Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation.

NOTES TO FINANCIAL STATEMENTS

(1) SUMMARY OF ACCOUNTING POLICIES (continued)

Depreciation on the property, plant and equipment owned by the College has been computed using the following composite depreciation guidelines:

Buildings and additions	75 years
Building improvements and renovations	15 - 30 years
Furniture, equipment and books	10 years
Electric and water utility property	10 - 80 years

Using these guidelines and guidelines established by the Kentucky Public Service Commission for utility properties, depreciation expense for fiscal years 2000 and 1999 was:

	2000	1999
Educational and general properties	\$ 2,178,358	\$ 1,772,995
Student industry equipment	310,025	218,422
Utility plant and equipment	<u>610,922</u>	<u>564,630</u>
	<u>\$ 3,099,305</u>	<u>\$ 2,556,047</u>

Unrestricted Bequests

The College follows the policy of designating all unrestricted bequests as additions to the tuition replacement funds. Such bequests are reported as revenues designated for long-term investment in the Statements of Activities.

Cash Flow Information

For financial statement purposes, the College considers all investments (not held for long-term investment) with original maturities of three months or less as cash equivalents.

Cash payments for interest amounted to \$1,620,623 in 2000 and \$1,506,713 in 1999.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the programs and supporting services benefited.

Reclassification

Certain reclassifications have been made to the 1999 financial statements to conform to the 2000 presentation.

NOTES TO FINANCIAL STATEMENTS

(2) LONG-TERM INVESTMENTS

	June 30,	
	2000	1999
Endowment and Tuition Replacement:		
Pooled Investments -		
Domestic common stocks	\$ 563,237,300	\$ 395,963,600
International common stocks	133,433,700	97,679,000
Corporate notes and bonds	50,060,100	46,529,200
U. S. Government securities	38,671,900	32,371,600
Foreign bonds	132,000	469,200
Real estate	37,161,900	38,863,300
Short-term investments and cash	34,178,900	12,898,500
Total	856,875,800	624,774,400
Non Pooled Investments -		
Domestic common stocks	1,229,400	1,947,000
Real estate	3,071,200	3,132,400
Notes and bonds	123,000	32,800
Short-term investments and cash	3,300	94,300
Total	4,426,900	5,206,500
Total endowment and tuition replacement	861,302,700	629,980,900
Annuity and Life Income:		
Pooled Annuity Investments -		
Domestic common stocks	12,554,400	9,117,800
International common stocks	2,965,400	2,236,300
Corporate notes and bonds	1,112,500	1,065,300
U. S. Government securities	862,100	741,900
Foreign bonds	2,900	10,700
Real estate	894,100	961,500
Short-term investments and cash	759,700	297,500
Total	19,151,100	14,431,000
Separately Invested Trusts -		
Common stocks	6,924,800	5,577,300
Corporate notes and bonds	3,645,000	3,850,200
U. S. Government securities	2,698,800	2,421,100
Real estate	653,500	887,600
Short-term investments and cash	782,800	859,100
Total	14,704,900	13,595,300
Total annuity and life income	33,856,000	28,026,300
Funds Held in Trust by Others, where Berea College receives all or a stipulated percent of income		
	20,587,500	18,125,400
Total long-term investments	\$ 915,746,200	\$ 676,132,600

NOTES TO FINANCIAL STATEMENTS

(2) LONG-TERM INVESTMENTS (continued)

The College's investment objective for its pooled long-term investments is to provide a predictable and growing stream of inflation adjusted spendable return while maintaining the real (inflation adjusted) value of the pooled investments. In connection with these investment objectives, the Board of Trustees has adopted a spending formula for determining that part of total return which can be expended annually.

Effective July 1, 1999 the College adopted an endowment spending formula which utilizes a 5% spending rate of the prior twelve quarter moving average of the market value of the long-term pooled investments. The previous formula, adopted as of July 1, 1993, and was effective for the 1998-99 fiscal year, provided that spending per unit from the pooled investments for any year shall be equal to the spending per unit from the previous year increased by the rate of inflation plus .5%. However, the spending per unit shall not be less than 4.5% of the unit value at the beginning of the year and shall not be increased in subsequent years if the spending per unit should exceed 5.5% of the beginning unit value. For fiscal 2000 and fiscal 1999 spendable return under the formulas amounted to \$27,184,098 and \$26,403,502, respectively. In fiscal 2000 actual cash income earned on pooled investments, net of \$1,954,720 for investment management and custodial fees, amounted to \$14,541,084, or \$12,643,014 less than the spendable return provided by the formula. This difference was taken from the net appreciation earned on investments.

During fiscal 2000, the unit value of pooled investments changed as follows:

	1999-2000				1998-1999
	Market Value	Number of Units	Value Per Unit	Total Return Percent Net of Fees	Market Value
Beginning Balance	\$ 639,205,400	552,073.40	\$ 1,157.83		\$ 586,739,700
Market price increase	230,176,296	-	416.93	36.0%	52,306,854
Net income earned	14,541,084	-	26.34	2.3%	14,447,852
Spendable return	<u>(27,184,098)</u>	-	<u>(49.24)</u>	-	<u>(26,403,502)</u>
	217,533,282	-	394.03	<u>38.3%</u>	40,351,204
Additions	<u>19,288,218</u>	<u>12,429.40</u>	<u>-</u>		<u>12,114,496</u>
Ending Balance	<u>\$ 876,026,900</u>	<u>564,502.80</u>	<u>\$ 1,551.86</u>		<u>\$ 639,205,400</u>

The College follows the policy of spending only cash income received on non-pooled endowment investments. Such income amounted to \$74,665 in 2000 and \$57,129 in 1999, while the market value of these investments of \$4,426,900 at June 30, 2000 and \$5,206,500 at June 30, 1999 decreased by \$765,725 in 2000 and decreased by \$2,983 in 1999. Net additions to non-pooled endowment investments during 2000 amounted to \$102,470 and transfers to pooled investments totaled \$116,345.

NOTES TO FINANCIAL STATEMENTS

(2) LONG-TERM INVESTMENTS (continued)

The total return earned by the endowment and charitable gift annuity contract investments for the years ended June 30, was:

	June 30,	
	2000	1999
Pooled Investments -		
Cash income, net	\$ 14,541,084	\$ 14,447,852
Market price increase	230,176,296	52,306,854
Non-Pooled Investments -		
Cash income	74,665	57,129
Market price decrease	(765,725)	(2,983)
Total Return	244,026,320	66,808,852
Less: Charitable Gift Annuity Contracts		
Cash income	(613,726)	(596,430)
Market price increase	(4,910,663)	(911,521)
Endowment return	\$ 238,501,931	\$ 65,300,901
Distributed to -		
Unrestricted Net Assets		
Spendable return	\$ 24,108,726	\$ 23,611,446
Long-term investments	182,571,970	33,953,148
Temporarily Restricted Net Assets		
Spendable return	2,386,652	2,120,077
Capital gains	29,284,924	5,483,552
Permanently Restricted		
Restricted earnings	149,659	132,678
Total	\$ 238,501,931	\$ 65,300,901

(3) DERIVATIVE FINANCIAL INSTRUMENTS

The College has only limited involvement with derivative financial instruments and does not use them for trading purposes. From time to time, investment managers for the College may enter into forward contracts to hedge currency exposure on investments in foreign securities. The fair market value of these contracts is reported as a part of the fair value of the underlying foreign bonds and is not significant.

(4) DEFINED CONTRIBUTION RETIREMENT PLAN

The College has a defined contribution retirement plan covering all employees with two or more years of service. Costs of the plan are expensed as incurred and aggregated \$1,315,575 in 2000 and \$1,277,637 in 1999.

NOTES TO FINANCIAL STATEMENTS

(5) LONG-TERM DEBT

	June 30,	
	2000	1999
KDFA Loan Agreement - Issued June 1986; due in monthly installments to June 2011; variable interest rate, 3.57% as of June 2000; unsecured; proceeds used for various capital projects	\$ 1,298,707	\$ 1,374,517
General Obligation Bonds, Series of 1993 - Issued May 1993, due May 2013 at 5.9%; unsecured; proceeds used for electric utility improvements	3,500,000	3,500,000
Educational Development Bonds of 1994 - Issued March 1994, due March 1, 2014 at 5.45%; unsecured; proceeds used for Physical Education/Convocation Center	5,000,000	5,000,000
General Obligation Bonds, Series of 1997 - Issued June 1997, due June 2017 at 5.9%; unsecured; proceeds used to refinance electric and water utility debt	6,000,000	6,000,000
Unsecured 7% Bank Loan - Issued June 1997, due June 2002, proceeds used for electric and water utility working capital	1,000,000	1,000,000
Educational Buildings Revenue Bonds, Series of 1997 - Issued August 1997; serial annual payments through August 2017 at rates from 4.5% to 5.0%; unsecured; proceeds used for Frost Building restoration and renovation	2,805,000	2,905,000
General Obligation Refunding Bonds, Series of 1998 - Issued July 1, 1998; \$275,000 due July 1, 2000 with serial annual payments through 2008 at rates from 4.1% to 4.8%; unsecured; proceeds used to retire bonds used for water filtration plant and other water utility improvements	3,600,000	3,875,000
Educational Development Bonds, Series of 1998 - Issued December 1, 1998; Serial Annual Payments through December 2018 at rates from 4.0% to 4.65%; proceeds used for residence hall and administrative building renovation	8,315,000	8,600,000
Educational Development Revenue Bonds, Series of 2000 - Issued May, 2000; serial annual payments through 2020 at rates from 4.6% to 5.7%; unsecured; proceeds used for residence hall renovation	2,600,000	-
Total	34,118,707	32,254,517
Less current maturities	831,290	735,810
Total long-term debt	\$ 33,287,417	\$ 31,518,707

Principal payments on long-term debt are required to be made in each of the following fiscal years: \$831,290 in 2001; \$1,887,167 in 2002; \$933,468 in 2003; \$1,015,225 in 2004; \$1,067,470 in 2005 and \$28,384,087 in subsequent years thereafter.

The fair value of the College's long-term debt at June 30, 2000, was estimated to be approximately \$33,760,000 based upon rates available to the College for debt with similar terms and remaining maturities.

NOTES TO FINANCIAL STATEMENTS

(6) CONTRIBUTIONS RECEIVABLE AND BEQUESTS IN PROBATE

	June 30, 2000 Total	Due In			June 30, 1999 Total
		One Year or Less	One Year to Five Years	Over Five Years	
Unconditional Promises for -					
Unrestricted	\$ 290,533	\$ 114,500	\$ 176,033	\$ -	\$ 68,500
Buildings and equipment	1,347,705	333,300	1,014,405	-	1,765,519
Endowment	167,300	56,700	110,600	-	44,300
Reserve for unfulfilled promises	(85,000)	(21,000)	(64,000)	-	(85,000)
Total	<u>1,720,538</u>	<u>483,500</u>	<u>1,237,038</u>	<u>-</u>	<u>1,793,319</u>
Bequests in Probate	5,494,500	5,143,500	351,000	-	14,332,300
Charitable Lead Trusts	281,606	41,183	162,507	77,916	327,789
Total	<u>\$ 7,496,644</u>	<u>\$ 5,668,183</u>	<u>\$ 1,750,545</u>	<u>\$ 77,916</u>	<u>\$ 16,453,408</u>
Present Value of Estimated Future Cash Flows	<u>\$ 7,244,800</u>	<u>\$ 5,668,200</u>	<u>\$ 1,520,000</u>	<u>\$ 56,600</u>	<u>\$ 16,194,100</u>

(7) COMMITMENTS AND CONTINGENCIES

During the normal course of business, the College is involved in various claims and lawsuits. In the opinion of management, the potential loss on all claims and lawsuits, net of insurance proceeds, will not be significant to the College's financial position.

At June 30, 2000, the College was committed under various contracts with private equity investment managers to fund approximately \$44,000,000 capital calls for these investments. These capital calls will occur over the term of the respective agreements, which is generally a ten-year period. As these capital calls are made, funds will be reallocated from investments in fixed-income securities. These private equity investments are consistent with the target asset allocation guidelines for long-term investments as established by the College's Board of Trustees.

NOTES TO FINANCIAL STATEMENTS

(8) NET ASSETS RELEASED FROM RESTRICTIONS

Donor-imposed restrictions expired on temporarily restricted net assets during the years ended June 30, as follows:

	2000	1999
Purpose Restricted Contributions for -		
Instruction	\$ 285,608	\$ 220,758
Public service	456,097	334,858
Academic support	206,348	211,049
Student services	32	9,599
Student aid	1,327,639	1,130,458
General and administrative	71,922	37,955
Development and alumni	32,063	-
	2,379,709	1,944,677
Time-Restricted Contributions - Amortization of Restricted Gifts to Acquire Long-Lived Assets	828,062	669,553
Total Net Assets Released from Restriction	\$ 3,207,771	\$ 2,614,230
Matured Annuity and Life Income Contracts -		
Temporarily Restricted Agreements Reclassified to Tuition Replacement Funds in Unrestricted Net Assets	\$ 315,690	\$ 1,109,520