



Berea College

Financial Statements for the Year Ended June 30, 2001

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HIGHLIGHTS

	June 30,	
	2001	2000
OPERATING REVENUE	\$ 59,769,785	\$ 54,735,154
OPERATING EXPENSES	\$ 55,712,873	\$ 49,725,071
Operating revenue in excess of expenses, used primarily to finance capital additions	\$ 4,056,912	\$ 5,010,083
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	\$ 10,931,727	\$ 12,863,384
LONG-TERM INVESTMENTS OF THE ENDOWMENT AND TUITION REPLACEMENT FUNDS		
Original gift value	\$ 231,656,539	\$ 217,908,897
Investments at market	\$ 788,263,200	\$ 861,302,700
Interest and dividends, net	\$ 20,370,394	\$ 14,002,023
Percent of beginning market value	2.4%	2.2%
Market price increase (decrease)	\$ (75,907,377)	\$ 224,499,908
Percent	-8.9%	35.7%
Total return	\$ (55,536,983)	\$ 238,501,931
Percent	-6.5%	37.9%
CASH AND IN-KIND CONTRIBUTIONS		
Cash gifts	\$ 10,143,030	\$ 9,757,063
Bequests	\$ 9,904,366	\$ 15,608,883
Total cash gifts	\$ 20,047,396	\$ 25,365,946
Gifts-in-kind	\$ 407,016	\$ 24,328
Total	\$ 20,454,412	\$ 25,390,274

REPORT OF THE VICE PRESIDENT FOR FINANCE

August, 2001

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

This financial report signifies the end of another fiscal year for Berea College. The College experienced a successful year with many blessings. Among those blessings, we found opportunity in the significant damage of a major building on campus, and survived the uncertainties of a declining stock market. Even with these challenges we made progress in furthering our mission of providing service to needy and promising students on the Berea College campus.

The most notable event on campus this past year was the construction accident that caused significant damage to Lincoln Hall on May 25, 2001. It was fortunate that no one was injured during the event and it provided the College an opportunity to reexamine the practical, functional and symbolic configuration of the building. The plans to start construction in the next fiscal year has brought excitement from the College community for a building that reflects a renewed spirit in the center of campus.

We took a major step in accomplishing our renovation and construction plans by issuing \$21.45 million of bonds. The proceeds from the bond sale will be used to renovate the campus's major academic building, Draper Hall. The remainder of the funds will be used to renovate Kentucky and Blue Ridge student residence halls, build an addition to the Art Building, and construct 32 apartments to accommodate single parents with children. These apartments will become the first phase of the Ecovillage on campus.

Student demand for an education at Berea College continues to increase. Last fall's full-time equivalent student enrollment increased to 1,559 students compared to 1,515 students for the prior year. For the second year in a row we are expecting an increase in enrollment this fall of over 100 additional sophomore or junior students, which is the direct result of the college's retention efforts over the past year. Our retention plans are taking hold.

Other successes and accomplishments include the continued implementation of our strategic plan, *Being and Becoming: Berea College in the 21st Century*. A major accomplishment we realized this past year was the purchase of 414 laptop computers at the cost of \$650,000. The purchase of these computers is the first stage of our Universal Access Program that will provide a computer for every student at Berea College by the fall of 2002, if full funding can be found. Other examples include progress made in the international studies program, the energy master plan, and the creation of our Entrepreneurship for the Public Good program.

Financial Position

Berea College remains in a strong financial position. As of June 30, 2001, total net assets (total assets less liabilities) of the College approximated \$910.2 million. This shows a

reduction from the previous year by approximately \$68.8 million. This reduction reflects the decrease in market value of our long-term investments during the year from \$915.7 million as of June 30, 2000, to \$838.5 million as of June 30, 2001.

At June 30, 2001, total assets were \$984.0 million. Of this amount, long-term investments (including endowment funds, annuity and life income and other funds) comprised \$838.5 million, property, plant and equipment and bond proceeds for capital additions net of depreciation totaled \$115.5 million, and current assets were \$16.5 million. Contributions receivable and bequests in probate totaled nearly \$9.0 million and student educational loans and mortgage loans for faculty and staff totaled approximately \$4.5 million.

Total liabilities increased by \$18.9 million, primarily due to a \$21 million increase in long-term debt. This increase stems from the issuance of \$21.45 million in bonded debt in June, 2001.

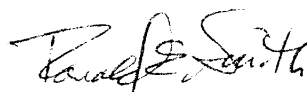
Current Operations

The 2000-01 fiscal year ended with a small surplus from budgeted operations. This surplus was due to the realization of higher than budgeted unrestricted gift income and temporary investment income. The budget for 2001-02 includes continued emphasis on the funding of the strategic planning initiatives. In addition, the budget includes a significant increase in the investment of human capital with salary and wage increase of 9.45% and fringe benefit increase of 26.42%. These increases include catching up with market salaries and wages for current employees, new positions, and an increase in the College's contribution to health care.

Concluding Comments

As we reflect back on the accomplishments and challenges of the past year, it has proven our ability to take adversity and turn it into an opportunity. It is easy to see the progress towards the programs and projects we believe are needed to provide a quality education and experience for the students of Berea College. We are blessed with your support that allows us to make a difference in the lives of needy young people with exceptional promise. We always look forward to your return and contact with Berea College and being able to share our college experiences together.

Respectfully submitted,



Ronald E. Smith
Vice President for Finance

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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, 2001 and 2000, 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, 2001 and 2000, 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.

Deloitte & Touche LLP

August 23, 2001
Louisville, Kentucky

Berea College

STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2001	2000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 9,176,814	\$ 10,045,828
Accrued interest on investments	2,581,009	2,568,243
Accounts and notes receivable	1,697,184	1,301,280
Inventories	2,153,361	2,236,311
Prepaid expenses and other assets	910,028	755,154
Total current assets	<u>16,518,396</u>	<u>16,906,816</u>
CONTRIBUTIONS RECEIVABLE AND BEQUESTS IN PROBATE	<u>8,974,580</u>	<u>7,244,800</u>
LONG-TERM RECEIVABLES		
Student loans	1,910,130	1,734,989
Faculty and staff real estate mortgage loans	2,571,583	2,830,140
Total long-term receivables	<u>4,481,713</u>	<u>4,565,129</u>
LONG-TERM INVESTMENTS		
Donor-restricted endowment	442,572,900	485,547,400
Tuition replacement	345,690,300	375,755,300
Annuity and life income	31,637,200	33,856,000
Funds held in trust by others	18,574,600	20,587,500
Total long-term investments	<u>838,475,000</u>	<u>915,746,200</u>
BOND PROCEEDS FOR CAPITAL ADDITIONS	<u>21,450,000</u>	<u>2,600,000</u>
PROPERTY, PLANT AND EQUIPMENT		
Educational property, plant and equipment	87,371,140	79,506,207
Electric and water utility plant	25,846,191	23,959,237
Student industry plant and equipment	7,993,306	8,014,167
Rental property	2,746,718	2,666,718
Forest and farms	583,658	583,658
Collections and works of art	3,090,990	2,968,490
Less accumulated depreciation	<u>(33,498,650)</u>	<u>(30,826,140)</u>
Total property, plant and equipment	<u>94,133,353</u>	<u>86,872,337</u>
Total assets	<u>\$ 984,033,042</u>	<u>\$ 1,033,935,282</u>

See notes to financial statements.

Berea College

STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2001	2000
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 3,371,132	\$ 3,543,138
Accrued salaries and wages	2,173,582	2,003,563
Deposits and agency funds	494,717	538,223
Deferred income	42,307	48,617
Current maturities of long-term debt	1,887,167	831,290
Total current liabilities	<u>7,968,905</u>	<u>6,964,831</u>
LONG-TERM LIABILITIES		
Annuity payment and deferred giving liability	12,993,800	14,610,800
Long-term debt	52,850,249	33,287,417
Total long-term liabilities	<u>65,844,049</u>	<u>47,898,217</u>
Total liabilities	<u>73,812,954</u>	<u>54,863,048</u>
NET ASSETS		
Unrestricted -		
For current operations	75,769	74,722
Designated for specific purposes	34,935,892	15,650,998
Invested in property, plant and equipment	7,821,187	22,869,674
Support of future operations from:		
Contributions receivable and bequests in probate	3,689,929	3,173,456
Appreciation on endowment investments	255,529,205	292,444,932
Tuition replacement funds	345,690,300	375,755,300
Total unrestricted	<u>647,742,282</u>	<u>709,969,082</u>
Temporarily restricted -		
Unexpended contributions restricted for operations	3,389,178	3,180,451
Unexpended contributions restricted for plant renewals and replacement	1,786,102	1,835,884
Annuity and life income contracts	11,449,088	11,085,536
Expended contributions for long-lived assets being amortized	26,205,148	26,097,632
Appreciation on endowment investments primarily to support various programs	68,825,048	81,290,211
Total temporarily restricted	<u>111,654,564</u>	<u>123,489,714</u>
Permanently restricted -		
Loan funds	2,619,754	2,154,003
Annuity and life income contracts	7,194,312	8,159,664
Funds held in trust by others	18,574,600	20,587,500
Endowment investments	122,434,576	114,712,271
Total permanently restricted	<u>150,823,242</u>	<u>145,613,438</u>
Total net assets	<u>910,220,088</u>	<u>979,072,234</u>
Total liabilities and net assets	<u>\$ 984,033,042</u>	<u>\$ 1,033,935,282</u>

STATEMENTS OF ACTIVITIES

Changes in Unrestricted Net Assets

	Year Ended June 30,	
	2001	2000
REVENUE		
Spendable return from long-term investments	\$ 28,277,153	\$ 24,108,726
Gifts and donations	4,908,524	4,824,467
Federal grants, primarily for student labor	3,422,767	2,837,399
Cost of education fees paid by federal and state scholarships	1,732,197	1,610,000
Fees paid by students	523,961	463,709
Other income	3,275,354	3,490,799
Residence halls and food service	4,514,633	4,361,556
Utilities, student industries, and rentals	11,594,976	11,723,062
Net assets released from restrictions	3,718,951	3,207,771
	61,968,516	56,627,489
Gross revenue		
Less: Student aid	(2,198,731)	(1,892,335)
	59,769,785	54,735,154
EXPENSES		
Program Services -		
Instruction	15,592,597	14,102,497
Public service	2,413,868	2,058,995
Academic support	5,081,183	4,244,643
Student services	6,333,028	5,643,887
Residence halls and food service	4,784,451	3,992,184
Utilities, student industries, and rentals	11,559,390	11,498,635
	45,764,517	41,540,841
Total Program Services		
Support Services, including fund raising expense of \$2,358,100 in 2001 and \$1,986,300 in 2000	9,948,356	8,184,230
	55,712,873	49,725,071
Total expenses		
Income in excess of expenses (used primarily to finance capital additions)	4,056,912	5,010,083
REVENUES DESIGNATED FOR LONG-TERM INVESTMENT		
Unrestricted bequests	7,088,514	3,535,809
Matured annuity and life income contracts	752,075	315,690
Unrestricted capital gains (losses) on long-term investments	(74,124,301)	182,571,970
Total increase (decrease) in revenues designated for long-term investment	(66,283,712)	186,423,469
Increase (decrease) in unrestricted net assets	\$ (62,226,800)	\$ 191,433,552

See notes to financial statements.

STATEMENTS OF ACTIVITIES

Changes in Total Net Assets

	Year Ended June 30,	
	2001	2000
UNRESTRICTED NET ASSETS		
Income in excess of expenses (used primarily to finance capital additions)	\$ 4,056,912	\$ 5,010,083
Increase (decrease) in revenues designated for long-term investment	(66,283,712)	186,423,469
Increase (decrease) in unrestricted net assets	(62,226,800)	191,433,552
TEMPORARILY RESTRICTED NET ASSETS		
Restricted gifts and donations	2,579,617	1,221,424
Restricted spendable return on endowment investments	2,758,367	2,386,652
Restricted capital gains (losses) on endowment investments	(12,662,841)	29,284,924
Net adjustment of annuity payment and deferred giving liability	(39,267)	2,090,762
Reclassification of net assets released from restrictions	(3,718,951)	(3,207,771)
Reclassification of matured annuity and life income contracts to revenues designated for long-term investment	(752,075)	(315,690)
Increase (decrease) in temporarily restricted net assets	(11,835,150)	31,460,301
PERMANENTLY RESTRICTED NET ASSETS		
Gifts and donations	8,467,826	7,083,680
Restricted grants	-	150,000
Restricted spendable return on endowment investments	214,639	149,659
Restricted capital gains (losses) on funds held in trust by others	(2,012,900)	2,462,100
Net adjustment of annuity payment and deferred giving liability	(1,459,761)	1,819,985
Increase in permanently restricted net assets	5,209,804	11,665,424
Total increase (decrease) in net assets	(68,852,146)	234,559,277
NET ASSETS		
Beginning of year	979,072,234	744,512,957
End of year	\$ 910,220,088	\$ 979,072,234

See notes to financial statements.

STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (68,852,146)	\$ 234,559,277
Adjustments to reconcile change in net assets to net cash provided or used by operating activities -		
Market price (increase) decrease on long-term investments	88,800,042	(214,318,994)
Gifts and bequests for financing activities	(15,163,277)	(18,620,920)
Restricted grants	-	(150,000)
(Increase) decrease in contributions receivable and bequests in probate	(1,729,780)	8,949,300
Gift value of annuity contracts written	(2,477,968)	(1,926,546)
Depreciation and loss on disposal of equipment	3,670,711	3,176,046
Net adjustment of annuity payment liability	1,499,028	(3,910,747)
(Increase) decrease in current assets other than cash	(480,594)	157,153
current maturities of long-term debt	(51,803)	(1,086,072)
Restricted spendable return on endowment funds	(214,639)	(149,659)
	4,999,574	6,678,838
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities	(457,681,146)	(748,244,167)
Proceeds from sales and maturities of investments	427,302,304	727,679,494
Purchase of property and equipment	(10,931,727)	(12,863,384)
Long-term student loans	(456,262)	(521,152)
Long-term student loan repayments	281,121	297,803
Faculty and staff mortgage loans	(152,500)	(281,700)
Faculty and staff mortgage loan repayments	411,057	226,970
Earnings (losses) on annuity and life income investments	(1,512,775)	6,588,551
	(42,739,928)	(27,117,585)
Net cash used by investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts and bequests received for -		
Long-term investment	14,112,580	18,273,011
Property, plant and equipment	732,333	311,703
Student loans	318,364	36,206
Restricted grants	-	150,000
Proceeds received on annuity and life income contracts	3,048,216	2,230,165
Contractual payments on annuity and life income contracts	(2,173,501)	(2,017,123)
Endowment return restricted for long-term investments	214,639	149,659
Repayment of indebtedness	(831,291)	(735,810)
Long-term debt issued	21,450,000	2,600,000
	36,871,340	20,997,811
Net cash provided by financing activities		
Net increase (decrease) in cash flows	(869,014)	559,064
CASH AND CASH EQUIVALENTS		
Balance beginning of year	10,045,828	9,486,764
Balance end of year	\$ 9,176,814	\$ 10,045,828

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 are 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 2001 and 2000 was:

	2001	2000
Educational and general properties	\$ 2,731,256	\$ 2,178,358
Student industry equipment	321,066	310,025
Utility plant and equipment	612,820	610,922
	\$ 3,665,142	\$ 3,099,305

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 \$1,728,856 in 2001 and \$1,620,623 in 2000.

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 2000 financial statements to conform to the 2001 presentation.

NOTES TO FINANCIAL STATEMENTS

(2) LONG-TERM INVESTMENTS

	June 30,	
	2001	2000
Endowment and Tuition Replacement:		
Pooled Investments -		
Domestic common stocks	\$ 459,626,400	\$ 563,237,300
International common stocks	141,994,300	133,433,700
Corporate notes and bonds	59,225,400	50,060,100
U. S. Government securities	30,512,200	38,671,900
Foreign bonds	173,400	132,000
Real estate	36,177,100	37,161,900
Short-term investments and cash	55,350,000	34,178,900
Total	783,058,800	856,875,800
Non Pooled Investments -		
Domestic common stocks	1,986,600	1,229,400
Real estate	3,071,200	3,071,200
Notes and bonds	128,400	123,000
Short-term investments and cash	18,200	3,300
Total	5,204,400	4,426,900
 Total endowment and tuition replacement	 788,263,200	 861,302,700
 Annuity and Life Income:		
Pooled Annuity Investments -		
Domestic common stocks	9,763,700	12,554,400
International common stocks	3,001,000	2,965,400
Corporate notes and bonds	1,251,700	1,112,500
U. S. Government securities	647,600	862,100
Foreign bonds	3,700	2,900
Real estate	829,500	894,100
Short-term investments and cash	1,170,200	759,700
Total	16,667,400	19,151,100
Separately Invested Trusts -		
Common stocks	7,279,400	6,924,800
Corporate notes and bonds	4,614,600	3,645,000
U. S. Government securities	2,377,100	2,698,800
Real estate	578,500	653,500
Short-term investments and cash	120,200	782,800
Total	14,969,800	14,704,900
 Total annuity and life income	 31,637,200	 33,856,000
 Funds Held in Trust by Others, where Berea College receives all or a stipulated percent of income		
	18,574,600	20,587,500
 Total long-term investments	 \$ 838,475,000	 \$ 915,746,200

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. For fiscal 2001 and fiscal 2000, spendable return under the formula amounted to \$31,800,386 and \$27,184,098, respectively. In fiscal 2001 actual cash income earned on pooled investments, net of \$1,675,414 for investment management and custodial fees, amounted to \$21,065,572, or \$10,879,765 less than the spendable return provided by the formula. This difference was taken from the net appreciation earned on investments. Effective July 1, 2000, the College began quarterly unitization of additions to long-term investments.

During fiscal 2001, the unit value of pooled investments changed as follows:

	2000-2001			1999-2000
	Market Value	Number of Units	Value Per Unit	Total Return Percent Net of Fees
Beginning Balance	\$ 876,026,900	564,502.8	\$ 1,551.86	\$ 639,205,400
Market price change	(78,652,750)	-	(138.70)	230,176,296
Net income earned	20,920,622	-	37.06	14,541,084
Spendable return	(31,800,386)	-	(56.34)	(27,184,098)
	(89,532,514)	-	(157.98)	217,533,282
Additions	13,231,814	9,238.5	-	19,288,218
Ending Balance	<u>\$ 799,726,200</u>	<u>573,741.3</u>	<u>\$ 1,393.88</u>	<u>\$ 876,026,900</u>

The College follows the policy of spending only cash income received on non-pooled endowment investments. Such income amounted to \$144,950 in 2001 and \$74,665 in 2000, while the market value of these investments of \$5,204,400 at June 30, 2001 and \$4,426,900 at June 30, 2000 increased by \$795,178 in 2001 and decreased by \$765,725 in 2000. Net additions to non-pooled endowment investments during 2001 amounted to \$47,360 and transfers to pooled investments totaled \$65,038.

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,	
	2001	2000
Pooled Investments -		
Cash income, net	\$ 20,920,622	\$ 14,541,084
Market price increase (decrease)	(78,652,750)	230,176,296
Non-Pooled Investments -		
Cash income	144,950	74,665
Market price increase (decrease)	795,178	(765,725)
Total return	(56,792,000)	244,026,320
Less: Charitable Gift Annuity Contracts		
Cash income	(695,178)	(613,726)
Market price increase (decrease)	1,950,195	(4,910,663)
Endowment return	\$ (55,536,983)	\$ 238,501,931
Distributed to -		
Unrestricted Net Assets		
Spendable return	\$ 28,277,153	\$ 24,108,726
Long-term investments	(74,124,301)	182,571,970
Temporarily Restricted Net Assets		
Spendable return	2,758,367	2,386,652
Capital gain (loss)	(12,662,841)	29,284,924
Permanently Restricted		
Restricted earnings	214,639	149,659
Total	\$ (55,536,983)	\$ 238,501,931

(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.

During the year ended June 30, 2001, the College entered into swap contracts with a financial institution. The contracts were designed to reduce the College's risk of exposure to the volatility in the market for certain securities in its investment portfolio. All of the contracts were closed as of June 30, 2001 and net gains related to these contracts of \$18,778,998 have been included in the gains (losses) on investments in the statement of activities.

(4) DEFINED CONTRIBUTION RETIREMENT PLAN

The College has a defined contribution retirement plan covering all employees meeting eligibility requirements. Costs of the plan are expensed as incurred and aggregated \$1,436,119 in 2001 and \$1,315,575 in 2000.

NOTES TO FINANCIAL STATEMENTS

(5) LONG-TERM DEBT

	June 30,	
	2001	2000
KDFA Loan Agreement - Issued June 1986; due in monthly installments to June 2011; variable interest rate, 3.34% as of June 2001; unsecured; proceeds used for various capital projects	\$ 1,217,416	\$ 1,298,707
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	2,705,000	2,805,000
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	3,325,000	3,600,000
Educational Development Bonds, Series of 1998 - Issued December 1, 1998; Serial Annual Payments through December 2018 at rates from 4.0% to 4.65%; unsecured; proceeds used for residence hall and administrative building renovation	8,020,000	8,315,000
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	2,520,000	2,600,000
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2001A - Issued June 1, 2001; variable payments through June 1, 2031; variable interest rate, 3.3% as of June, 2001; unsecured; proceeds used for various capital projects	21,450,000	-
Total	<u>54,737,416</u>	<u>34,118,707</u>
Less current maturities	1,887,167	831,290
Total long-term debt	<u>\$ 52,850,249</u>	<u>\$ 33,287,417</u>

Principal payments on long-term debt are required to be made in each of the following fiscal years: \$1,887,167 in 2002; \$1,373,468 in 2003; \$1,470,225 in 2004; \$1,537,470 in 2005; \$1,610,239 in 2006 and \$46,858,847 in subsequent years thereafter.

The fair value of the College's long-term debt at June 30, 2001, was estimated to be approximately \$56,651,000 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, 2001 Total	Due In			June 30, 2000 Total
		One Year or Less	One Year to Five Years	Over Five Years	
Unconditional Promises for -					
Unrestricted	\$ 19,500	\$ 15,500	\$ 4,000	\$ -	\$ 290,533
Restricted	40,000	40,000	-	-	-
Buildings and equipment	1,179,215	175,300	1,003,915	-	1,347,705
Endowment	2,026,203	1,692,457	333,746	-	167,300
Reserve for unfulfilled promises	(50,000)	(40,000)	(10,000)	-	(85,000)
Total	3,214,918	1,883,257	1,331,661	-	1,720,538
Bequests in Probate	5,753,302	5,338,803	414,499	-	5,494,500
Charitable Lead Trusts	240,423	41,183	160,282	38,958	281,606
Total	<u>\$ 9,208,643</u>	<u>\$ 7,263,243</u>	<u>\$ 1,906,442</u>	<u>\$ 38,958</u>	<u>\$ 7,496,644</u>
Present Value of Estimated Future Cash Flows	<u>\$ 8,974,580</u>	<u>\$ 7,263,243</u>	<u>\$ 1,680,769</u>	<u>\$ 30,568</u>	<u>\$ 7,244,800</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, 2001, the College was committed under various contracts with private equity investment managers to fund approximately \$39,000,000 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.

The College has purchase commitments relating to construction projects of approximately \$15,000,000 as of June 30, 2001.

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:

	2001	2000
Purpose Restricted Contributions for -		
Instruction	\$ 323,463	\$ 285,608
Public service	428,294	456,097
Academic support	339,171	206,348
Student services	36,035	32
Student aid	1,528,704	1,327,639
General and administrative	176,576	71,922
Development and alumni	28,250	32,063
	2,860,493	2,379,709
Time-Restricted Contributions - Amortization of Restricted Gifts to Acquire Long-Lived Assets	858,458	828,062
Total Net Assets Released from Restriction	\$ 3,718,951	\$ 3,207,771
Matured Annuity and Life Income Contracts -		
Temporarily Restricted Agreements Reclassified to Tuition Replacement Funds in Unrestricted Net Assets	\$ 752,075	\$ 315,690