

Berea College

Financial Statements for the Year Ended June 30, 2002

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REPORT OF THE VICE PRESIDENT FOR FINANCE

August, 2002

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

This financial report reflects the end of another successful fiscal year for Berea College. However, it also reflects the challenges Berea College faces in the upcoming year due to unsettling and uncertain economic times. The decrease in Berea's endowment market value, the increase in casualty and health insurance premiums, and the lower than expected business revenues have put a strain on the College's budget and increased the importance of good financial planning as we go forward. But, even with these challenges, we made progress in furthering the mission of Berea College by providing a quality education to academically promising and economically needy students at Berea.

The most visible activity on campus has been the numerous construction projects. During the year the College was able to start and make significant progress on the Draper Hall academic building. Draper Hall will be completed in time for classes this fall, and will be the signature building on campus. The improvements have transformed the building into an up-to-date facility while retaining the character of the original building and the Berea College campus. In addition, Kentucky and Blue Ridge student residence halls were completed and an addition to the Art Building is in progress. The construction of 32 new apartments in our Ecovillage to accommodate single parents and married students has been started and is planned to be completed by June, 2003. Our renovation and construction plans will continue to progress in this next year as we renovate Lincoln Hall, Presser Hall and Talcott Residence Hall. These projects will be funded with the sale of an \$18.5 million bond issue in late August.

Berea College continues to experience strong student demand. Last fall's full-time equivalent student enrollment of 1621 students compared with 1539 the previous year. Due to retention efforts, the College graduated 284 students this past May compared to 235 the previous year.

Other successes and accomplishments include the decision to announce a \$150 million comprehensive campaign the fall of 2003 (the actual amount will be reconfirmed at announcement time). The funding of this campaign will provide money for important projects including the Universal Access Program that will put a laptop in the hands of every student at Berea College. The campaign will also support projects that promote sustainable and environmentally friendly living conditions in the Ecovillage, endow the Entrepreneurship for the Public Good (EPG) program, increase student internships, promote international experiences for Berea students, and increase the College's commitment to diversity. In fiscal year 2002, the College raised \$23.4 million in total gifts on a cash basis of which \$16.3 million was for the endowment and approximately \$4.2 million was for operations. In addition, the College sold its faculty and staff mortgage loan portfolio to a local Kentucky bank and returned funds totaling \$3 million to the endowment.

Financial Position

Even with the prevailing economic challenges, the College remains in a strong financial position. As of June 30, 2002, total net assets (total assets less liabilities) of the College approximated \$836.3 million. This shows a reduction from the previous year by approximately \$73.9 million. This reduction reflects the decrease in the market value of our long-term investments during the year from \$838.5 million as of June 30, 2001, to \$758.2 million as of June 30, 2002.

At June 30, 2002, total assets were \$909.2 million. Of this amount, long-term investments (including endowment funds, annuity and life income and other funds) comprised \$758.2 million, property, plant and equipment and bond proceeds for capital additions net of depreciation totaled \$119.6 million, and current assets were nearly \$17.0 million. Contributions receivable and bequests in probate totaled \$11.9 million and student educational loans totaled approximately \$1.7 million.

Total liabilities decreased by approximately \$898,000 due primarily to the payment of principal on long-term debt and a decrease in the annuity payment and deferred giving liability mainly due to matured annuity contracts and trusts. The decrease in total liabilities was partially offset by an increase in accounts payable due to several construction projects in process.

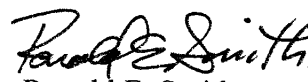
Current Operations

The 2001-02 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 Cost of Education grants. The 2002-03 budget includes continued funding of the strategic planning initiatives with the primary emphasis on funding the Universal Access Program. In addition, it provides an increase in salary and wages of 4.59%. Overall, the budget for current operations including the new Universal Access Program has increased by 7.52% over the previous year.

Concluding Comments

As we look back at the last year's accomplishments and challenges, it has shown us the value of good financial planning and the benefit of having good staff and faculty to serve our students. Now, more than ever, we are grateful for the support given by trustees, alumni, and friends to make a difference in the lives of young students with so much promise. Your presence is always welcome on the Berea College campus and we look forward to opportunities to share our college experiences.

Respectfully submitted,



Ronald E. Smith
Vice President for Finance

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, 2002 and 2001, 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, 2002 and 2001, 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 26, 2002
Louisville, Kentucky

Berea College

STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2002	2001
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 7,677,860	\$ 9,176,814
Other investments - absolute return fund	3,138,424	-
Accrued interest on investments	1,383,816	2,581,009
Accounts and notes receivable	1,660,234	2,011,756
Inventories	2,264,254	2,153,361
Prepaid expenses and other assets	832,116	30,201
Total current assets	<u>16,956,704</u>	<u>15,953,141</u>
NON-CURRENT PREPAID EXPENSES AND OTHER ASSETS	<u>834,240</u>	<u>879,827</u>
CONTRIBUTIONS RECEIVABLE AND BEQUESTS IN PROBATE	<u>11,897,594</u>	<u>8,974,580</u>
LONG-TERM RECEIVABLES		
Student loans	1,709,585	1,595,558
Faculty and staff real estate mortgage loans	-	2,571,583
Total long-term receivables	<u>1,709,585</u>	<u>4,167,141</u>
LONG-TERM INVESTMENTS		
Donor-restricted endowment	397,529,200	442,572,900
Tuition replacement	318,993,600	345,690,300
Annuity and life income	25,154,100	31,637,200
Funds held in trust by others	16,555,200	18,574,600
Total long-term investments	<u>758,232,100</u>	<u>838,475,000</u>
BOND PROCEEDS FOR CAPITAL ADDITIONS	<u>11,676,229</u>	<u>21,450,000</u>
PROPERTY, PLANT AND EQUIPMENT		
Educational property, plant and equipment	103,515,611	87,371,140
Electric and water utility plant	26,275,460	25,846,191
Student industry plant and equipment	7,986,916	7,993,306
Rental property	2,746,718	2,746,718
Forest and farms	583,658	583,658
Collections and works of art	3,101,031	3,090,990
Less accumulated depreciation	<u>(36,293,766)</u>	<u>(33,498,650)</u>
Property, plant and equipment, net	<u>107,915,628</u>	<u>94,133,353</u>
Total assets	<u>\$ 909,222,080</u>	<u>\$ 984,033,042</u>

See notes to financial statements.

Berea College

STATEMENTS OF FINANCIAL POSITION

	June 30,	
	<u>2002</u>	<u>2001</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 5,614,485	\$ 3,371,132
Accrued salaries and wages	2,376,360	2,173,582
Deposits and agency funds	525,194	494,717
Deferred income	55,214	42,307
Current maturities of long-term debt	933,467	1,887,167
Total current liabilities	<u>9,504,720</u>	<u>7,968,905</u>
LONG-TERM LIABILITIES		
Annuity payment and deferred giving liability	11,493,400	12,993,800
Long-term debt	51,916,782	52,850,249
Total long-term liabilities	<u>63,410,182</u>	<u>65,844,049</u>
Total liabilities	<u>72,914,902</u>	<u>73,812,954</u>
NET ASSETS		
Unrestricted -		
For current operations	76,516	75,769
Designated for specific purposes	21,019,146	34,935,892
Invested in property, plant and equipment	22,512,694	7,821,187
Support of future operations from:		
Contributions receivable and bequests in probate	4,313,833	3,689,929
Appreciation on endowment investments	216,129,770	255,529,205
Tuition replacement funds	318,993,600	345,690,300
Total unrestricted	<u>583,045,559</u>	<u>647,742,282</u>
Temporarily restricted -		
Unexpended contributions restricted for operations	4,119,113	3,389,178
Unexpended contributions restricted for plant renewals and replacement	2,950,505	1,786,102
Annuity and life income contracts	7,485,343	11,449,088
Expended contributions for long-lived assets being amortized	26,033,590	26,205,148
Appreciation on endowment investments primarily to support various programs	54,904,363	68,825,048
Total temporarily restricted	<u>95,492,914</u>	<u>111,654,564</u>
Permanently restricted -		
Loan funds	2,780,021	2,619,754
Annuity and life income contracts	6,175,357	7,194,312
Funds held in trust by others	16,555,200	18,574,600
Endowment investments	132,258,127	122,434,576
Total permanently restricted	<u>157,768,705</u>	<u>150,823,242</u>
Total net assets	<u>836,307,178</u>	<u>910,220,088</u>
Total liabilities and net assets	<u>\$ 909,222,080</u>	<u>\$ 984,033,042</u>

STATEMENTS OF ACTIVITIES

Changes in Unrestricted Net Assets

	Year Ended June 30,	
	2002	2001
REVENUE		
Spendable return from long-term investments	\$ 32,143,310	\$ 28,277,153
Gifts and donations	4,694,409	4,908,524
Federal grants, primarily for student labor	4,097,216	3,422,767
Cost of education fees paid by federal and state scholarships	2,398,000	1,732,197
Fees paid by students	549,197	523,961
Other income	3,124,974	3,275,354
Residence halls and food service	4,967,897	4,514,633
Utilities, student industries, and rentals	11,665,738	11,594,976
Net assets released from restrictions	3,632,171	3,718,951
	67,272,912	61,968,516
Gross revenue		
Less: Student aid	(2,643,383)	(2,198,731)
	64,629,529	59,769,785
EXPENSES		
Program Services -		
Instruction	17,014,824	15,592,597
Public service	2,877,159	2,413,868
Academic support	6,138,836	5,081,183
Student services	7,092,636	6,333,028
Residence halls and food service	5,047,988	4,784,451
Utilities, student industries, and rentals	11,838,446	11,559,390
	50,009,889	45,764,517
Total Program Services		
Support Services, including fund raising expense of \$2,576,400 in 2002 and \$2,358,100 in 2001	10,817,676	9,948,356
	60,827,565	55,712,873
Total expenses		
Revenue in excess of expenses	3,801,964	4,056,912
REVENUES DESIGNATED FOR LONG-TERM INVESTMENT		
Unrestricted bequests	9,646,823	7,088,514
Matured annuity and life income contracts	1,666,069	752,075
Unrestricted capital losses on long-term investments	(79,811,579)	(74,124,301)
	(68,498,687)	(66,283,712)
Total decrease in revenues designated for long-term investment		
Decrease in unrestricted net assets	\$ (64,696,723)	\$ (62,226,800)

See notes to financial statements.

STATEMENTS OF ACTIVITIES

Changes in Total Net Assets

	Year Ended June 30,	
	2002	2001
UNRESTRICTED NET ASSETS		
Revenue in excess of expenses	\$ 3,801,964	\$ 4,056,912
Decrease in revenues designated for long-term investment	<u>(68,498,687)</u>	<u>(66,283,712)</u>
Decrease in unrestricted net assets	<u>(64,696,723)</u>	<u>(62,226,800)</u>
TEMPORARILY RESTRICTED NET ASSETS		
Restricted gifts and donations	2,224,588	2,579,617
Restricted spendable return on endowment investments	3,316,485	2,758,367
Restricted capital losses on endowment investments	(13,929,616)	(12,662,841)
Net adjustment of annuity payment and deferred giving liability	(2,474,867)	(39,267)
Reclassification of net assets released from restrictions	(3,632,171)	(3,718,951)
Reclassification of matured annuity and life income contracts to revenues designated for long-term investment	<u>(1,666,069)</u>	<u>(752,075)</u>
Decrease in temporarily restricted net assets	<u>(16,161,650)</u>	<u>(11,835,150)</u>
PERMANENTLY RESTRICTED NET ASSETS		
Gifts and donations	9,482,741	8,467,826
Restricted spendable return on endowment investments	236,976	214,639
Restricted capital losses on funds held in trust by others	(2,019,400)	(2,012,900)
Net adjustment of annuity payment and deferred giving liability	<u>(754,854)</u>	<u>(1,459,761)</u>
Increase in permanently restricted net assets	<u>6,945,463</u>	<u>5,209,804</u>
Total change in net assets	(73,912,910)	(68,852,146)
NET ASSETS		
Beginning of year	<u>910,220,088</u>	<u>979,072,234</u>
End of year	<u>\$ 836,307,178</u>	<u>\$ 910,220,088</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (73,912,910)	\$ (68,852,146)
Adjustments to reconcile change in net assets to net cash provided or used by operating activities -		
Market price decrease on long-term investments	95,760,595	88,800,042
Gifts and bequests for financing activities	(19,349,215)	(15,163,277)
Decrease in contributions receivable and bequests in probate	(2,923,014)	(1,729,780)
Gift value of annuity contracts written	(817,913)	(2,477,968)
Depreciation and loss on disposal of equipment	3,917,798	3,670,711
Net adjustment of annuity payment liability	3,229,721	1,499,028
(Increase) decrease in non-current prepaid expenses and other assets	45,587	(211,182)
(Increase) decrease in current assets other than cash and other investments	635,907	(302,863)
Increase (decrease) in current liabilities other than current maturities of long-term debt	2,489,515	(51,803)
Restricted spendable return on endowment funds	(236,976)	(214,639)
Net cash provided by operating activities	8,839,095	4,966,123
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities held for long-term investment	(284,063,181)	(457,681,146)
Proceeds from sales and maturities of investments	278,319,257	427,302,304
Purchase of other investments - absolute return fund	(3,138,424)	-
Purchase of property and equipment	(17,700,073)	(10,931,727)
Long-term student loans	(428,599)	(422,811)
Long-term student loan repayments	314,572	281,121
Faculty and staff mortgage loans	(84,770)	(152,500)
Faculty and staff mortgage loan repayments	573,588	411,057
Proceeds from sale of faculty and staff mortgage portfolio	2,082,765	-
Losses on annuity and life income investments	(2,206,075)	(1,512,775)
Net cash used by investing activities	(26,330,940)	(42,706,477)
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts and bequests received for -		
Long-term investment	17,738,258	14,112,580
Property, plant and equipment	1,610,373	732,333
Student loans	584	318,364
Proceeds received on annuity and life income contracts	1,670,993	3,048,216
Contractual payments on annuity and life income contracts	(1,960,980)	(2,173,501)
Third party payments of matured annuity and life income contracts	(1,416,146)	-
Endowment return restricted for long-term investments	236,976	214,639
Repayment of indebtedness	(1,887,167)	(831,291)
Long-term debt issued	-	21,450,000
Net cash provided by financing activities	15,992,891	36,871,340
Net decrease in cash flows	(1,498,954)	(869,014)
CASH AND CASH EQUIVALENTS		
Balance beginning of year	9,176,814	10,045,828
Balance end of year	\$ 7,677,860	\$ 9,176,814

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 and bequests, 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 are 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. Investment securities, in general, are exposed to various risks, such as interest rates, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Financial Position. 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 2002 and 2001 was:

	<u>2002</u>	<u>2001</u>
Educational and general properties	\$ 2,926,598	\$ 2,731,256
Student industry equipment	315,587	321,066
Utility plant and equipment	<u>651,058</u>	<u>612,820</u>
	<u>\$ 3,893,243</u>	<u>\$ 3,665,142</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 \$2,047,490 in 2002 and \$1,728,856 in 2001.

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 2001 financial statements to conform to the 2002 presentation.

NOTES TO FINANCIAL STATEMENTS

(2) LONG-TERM INVESTMENTS

	June 30,	
	2002	2001
Endowment and Tuition Replacement:		
Pooled Investments -		
Domestic common stocks	\$ 449,396,100	\$ 459,626,400
International common stocks	134,372,200	141,994,300
Corporate notes and bonds	46,329,000	59,225,400
U. S. Government securities	27,039,100	30,512,200
Foreign bonds	109,500	173,400
Real estate	31,732,600	36,177,100
Short-term investments and cash	23,546,200	55,350,000
Total	712,524,700	783,058,800
Non Pooled Investments -		
Domestic common stocks	96,400	1,986,600
Real estate	2,772,900	3,071,200
Notes and bonds	127,900	128,400
Short-term investments and cash	1,000,900	18,200
Total	3,998,100	5,204,400
Total endowment and tuition replacement	716,522,800	788,263,200
Annuity and Life Income:		
Pooled Annuity Investments -		
Domestic common stocks	8,698,500	9,763,700
International common stocks	2,598,700	3,001,000
Corporate notes and bonds	896,000	1,251,700
U. S. Government securities	525,400	647,600
Foreign bonds	2,100	3,700
Real estate	667,300	829,500
Short-term investments and cash	474,700	1,170,200
Total	13,862,700	16,667,400
Separately Invested Trusts -		
Common stocks	4,502,000	7,279,400
Corporate notes and bonds	4,383,200	4,614,600
U. S. Government securities	2,284,800	2,377,100
Real estate	578,500	578,500
Short-term investments and cash (overdrafts)	(457,100)	120,200
Total	11,291,400	14,969,800
Total annuity and life income	25,154,100	31,637,200
Funds Held in Trust by Others, where Berea College		
receives all or a stipulated percent of income	16,555,200	18,574,600
Total long-term investments	\$ 758,232,100	\$ 838,475,000

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 2002 and fiscal 2001, spendable return under the formula amounted to \$36,278,934 and \$31,800,836, respectively. In fiscal 2002 actual cash income earned on pooled investments, net of \$1,414,199 for investment management and custodial fees, amounted to \$17,996,473, or \$18,282,461 less than the spendable return provided by the formula. This difference was taken from the net appreciation earned on investments.

During fiscal 2002, the unit value of pooled investments changed as follows:

	2001-2002			2000-2001	
	Market Value	Number of Units	Value Per Unit	Total Return Percent Net of Fees	Market Value
Beginning Balance	\$ 799,726,200	573,741.3	\$ 1,393.88		\$ 876,026,900
Market price change	(78,203,279)	-	(134.32)	-9.8%	(78,652,750)
Net income earned	17,996,473	-	31.37	2.3%	20,920,622
Spendable return	(36,278,934)	-	(63.35)	-	(31,800,386)
	(96,485,740)	-	(166.30)	<u>-7.5%</u>	(89,532,514)
Additions	<u>23,146,940</u>	<u>17,980.5</u>	<u>-</u>		<u>13,231,814</u>
Ending Balance	<u>\$ 726,387,400</u>	<u>591,721.8</u>	<u>\$ 1,227.58</u>		<u>\$ 799,726,200</u>

The College follows the policy of spending only cash income received on non-pooled endowment investments. Such income amounted to \$170,538 in 2002 and \$144,950 in 2001, while the market value of these investments of \$3,998,100 at June 30, 2002 and \$5,204,400 at June 30, 2001 increased by \$752,659 and \$795,178 in 2002 and 2001, respectively. Net additions to non-pooled endowment investments during 2002 amounted to \$30 and transfers to pooled investments totaled \$1,958,989.

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,	June 30,	was:
			2002	2001
Pooled Investments -				
Cash income, net			\$ 17,996,473	\$ 20,920,622
Market price decrease			(78,203,279)	(78,652,750)
Non-Pooled Investments -				
Cash income			170,538	144,950
Market price increase			752,659	795,178
Total Return			(59,283,609)	(56,792,000)
Less: Charitable Gift Annuity Contracts				
Cash income			(752,701)	(695,178)
Market price decrease			1,991,886	1,950,195
Endowment return			\$ (58,044,424)	\$ (55,536,983)
Distributed to -				
Unrestricted Net Assets				
Spendable return			\$ 32,143,310	\$ 28,277,153
Long-term investments			(79,811,579)	(74,124,301)
Temporarily Restricted Net Assets				
Spendable return			3,316,485	2,758,367
Capital loss			(13,929,616)	(12,662,841)
Permanently Restricted				
Restricted earnings			236,976	214,639
Total			\$ (58,044,424)	\$ (55,536,983)

(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 with two or more years of service. Costs of the plan are expensed as incurred and aggregated \$1,662,062 in 2002 and \$1,436,119 in 2001.

NOTES TO FINANCIAL STATEMENTS

(5) LONG-TERM DEBT

	June 30,	
	2002	2001
KDFA Loan Agreement - Issued June 1986; due in monthly installments to June 2011; variable interest rate, 2.04% as of June 2002; unsecured; proceeds used for various capital projects	\$ 1,130,249	\$ 1,217,416
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
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	2,600,000	2,705,000
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	3,025,000	3,325,000
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	7,710,000	8,020,000
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	2,435,000	2,520,000
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2001A - Issued June 1, 2001; variable payments through June 1, 2031; variable interest rate, 1.85% as of June 2002; unsecured; proceeds used for various capital projects	21,450,000	21,450,000
Unsecured 7% Bank Loan	-	1,000,000
	52,850,249	54,737,416
	933,467	1,887,167
	\$ 51,916,782	\$ 52,850,249

Principal payments on long-term debt are required to be made in each of the following fiscal years: \$933,467 in 2003; \$1,015,225 in 2004; \$1,067,470 in 2005; \$1,125,239 in 2006; \$1,233,570 in 2007 and \$47,475,278 in subsequent years thereafter.

The fair value of the College's long-term debt at June 30, 2002, was estimated to be approximately \$55,749,000 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, 2002 Total	Due In			June 30, 2001 Total
		One Year or Less	One Year to Five Years	Over Five Years	
Unconditional Promises for -					
Unrestricted	\$ 48,860	\$ 35,200	\$ 11,150	\$ 2,510	\$ 19,500
Restricted	90,000	10,000	40,000	40,000	40,000
Buildings and equipment	1,140,200	167,700	212,500	760,000	1,179,215
Endowment	4,384,438	2,191,502	2,090,561	102,375	2,026,203
Reserve for unfulfilled promises	(250,000)	(125,000)	(115,000)	(10,000)	(50,000)
Total	5,413,498	2,279,402	2,239,211	894,885	3,214,918
Bequests in Probate	6,673,310	6,149,810	523,500	-	5,753,302
Charitable Lead Trusts	199,240	41,183	158,057	-	240,423
Total	<u>\$ 12,286,048</u>	<u>\$ 8,470,395</u>	<u>\$ 2,920,768</u>	<u>\$ 894,885</u>	<u>\$ 9,208,643</u>
Present Value of Estimated Future Cash Flows	<u>\$ 11,897,594</u>	<u>\$ 8,470,395</u>	<u>\$ 2,694,843</u>	<u>\$ 732,356</u>	<u>\$ 8,974,580</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, results of operations, or liquidity.

At June 30, 2002, the College was committed under various contracts with private equity investment managers to fund approximately \$35,000,000 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 \$27,400,000 as of June 30, 2002.

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:

	2002	2001
Purpose Restricted Contributions for -		
Instruction	\$ 277,979	\$ 323,463
Public service	607,013	428,294
Academic support	218,098	339,171
Student services	132,226	36,035
Student aid	1,510,557	1,528,704
General and administrative	-	176,576
Development and alumni	28,250	28,250
	2,774,123	2,860,493
 Time-Restricted Contributions - Amortization of Restricted Gifts to Acquire Long-Lived Assets	 858,048	 858,458
Total Net Assets Released from Restriction	\$ 3,632,171	\$ 3,718,951
 Matured Annuity and Life Income Contracts -		
Temporarily Restricted Agreements Reclassified to Tuition Replacement Funds in Unrestricted Net Assets	\$ 1,666,069	\$ 752,075

(9) ELECTRIC AND WATER UTILITY REVENUE

The College owns and operates the electric and water utilities and provides these services to customers in the City of Berea. The College is a significant customer of both utilities. The utility revenues generated by College use are as follows:

	2002	2001
Electric	\$ 953,852	\$ 813,529
Water	225,182	181,477
Total	\$ 1,179,034	\$ 995,006

Similar amounts are included in program and support services expenses in the Statement of Activities.

(10) PROPOSED BOND ISSUANCE

The College's Board of Trustees has approved a resolution to issue \$18,500,000 of variable rate demand educational facilities revenue bonds Series 2002A on or about August 29, 2002. The proceeds from the sale of the bonds will be used for the renovation of an academic building, an administration building and a residence hall.