Berea College

Financial Statements
for the Year Ended June 30, 2019

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CONTENTS

HIGHLIGHTS

	As of or for the Year Ended June 30, 2019	2018
OPERATING REVENUE	$ 139,951,611	$ 123,398,582
OPERATING EXPENSES	$ 131,978,461	$ 118,584,587
OPERATING REVENUE IN EXCESS OF OPERATING EXPENSES	$ 7,973,150	$ 4,813,995
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	$ 21,694,090	$ 36,645,553
LONG-TERM INVESTMENTS OF THE ENDOWMENT		
Original gift value	$ 546,872,110	$ 528,668,693
Investments at market	1,218,740,000	1,192,078,100
Interest and dividends, net	$ 28,306,195	$ 27,472,362
Return	2.5%	2.4%
Market price change	$ 36,986,916	$ 49,019,454
Return	3.1%	4.3%
Total return	$ 65,293,111	$ 76,491,816
Percent - time weighted	5.6%	6.7%
CASH AND IN-KIND CONTRIBUTIONS		
Cash gifts	$ 40,572,294	$ 33,293,250
Bequests	13,679,851	11,790,622
Total cash gifts	54,252,145	45,083,872
Gifts-in-kind	322,400	141,469
Total College gifts	54,574,545	45,225,341
Agency gifts	-	3,616
Total	$ 54,574,545	$ 45,228,957

REPORT OF THE VICE PRESIDENT FOR FINANCE

September 2019

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

The 2018-2019 fiscal year was truly eventful. One of the highlights during the year was the dedication of the new Margaret A. Cargill Natural Sciences and Health Building (MAC) on October 20, 2018. The state-of-the-art facility houses the College's science disciplines, mathematics and nursing. The dedication included faculty-and student-led tours and demonstrations that showcased the advanced technologies on display as guests toured the structure's laboratories, Discovery Center and planetarium. The convocation following the dedication featured former NASA astronaut Dr. Mae Jemison, the first African-American woman in space. Dr. Jemison spoke to a large crowd of College students, administrators and trustees about "Pursuing the Extraordinary." The building has been awarded Leadership in Energy and Environmental Design (LEED) gold certification and full project certification by the Forest Stewardship Council.

The spendable return from the endowment remains the primary funding source for the College's unrestricted educational and general operating budget. The endowment provided a total investment return of 5.6% in 2018-19. During the year, the endowment experienced a net market-price increase of $37.0 million and $28.3 million in income. Endowment additions amounted to $18.2 million for the year and was comprised of $14.7 million in endowment fund gifts, $2.7 million in matured planned giving instruments, and $0.8 million in other additions. The June 30, 2019 endowment market value of $1,218.7 million is composed of cumulative original gifts and other additions of $546.9 million plus cumulative net market appreciation after endowment spending of $671.8 million. The market value of the quasi endowment portion of the investments as of June 30, 2019, was $560.5 million, or 46% of the total endowment investments. The Board policy, approved in 1920, of adding all unrestricted bequests to the endowment has been a major factor in endowment growth over the years.

With support from more than 1,720 alumni and friends, over $550,000 was raised during Berea's third annual Giving Day, making it a huge success. During 2019 the dollar amount of gifts received from Berea College Advancement efforts was $24.8 million compared to $22.8 million in 2018. The number of gifts decreased from 28,148 to 27,504 and the number of donors decreased from 11,315 to 10,956. In addition to the gift amounts noted above, a large external trust donated $29.4 million and $21.5 million in 2019 and 2018, respectively. External programs raised an additional $372,000 in 2019 and $816,000 in 2018. One of the most exciting giving statistics during the year was that approximately 64% of Berea's students were 'Berea Patrons' (currently enrolled student donors) with student donors increasing from 1,015 to 1,024.

Capital improvements continued throughout the year with the replacement of the Danforth Residence Hall. The original Danforth Residence Hall, which was built in 1971 and housed 144 students, was razed in June 2018 making way for the new Danforth Residence Hall. The new 47,280 square foot hall is on schedule to be completed in December 2019 and will provide 174 beds and a single bedroom apartment for a hall director. Other major project goals for this modernization on campus are an improved scale of energy usage intensity, upgraded securities, building code compliancy, reduction of overall building maintenance costs and enhanced accessible amenities.

The accompanying financial statements and related footnote disclosures reflect the College's implementation of several Accounting Standards Updates (ASU) issued by the Financial Accounting Standards Board (FASB) that went into effect this year. The main changes relate to net asset classifications, underwater endowments, release of restrictions for donations used to fund property, plant, and equipment, transparency and utility of liquidity, and expenses classified by function and nature. Some of the changes required reclassifications in the prior year's financial statements as well as cumulative effect of change in accounting principle.

Financial Position

Operating results and financial position of the College remain strong. Operating revenue in excess of operating expenses amounted to $7.9 million. **Total Net Assets** (total assets less liabilities) of the College were $1,570.1 million, increasing by $43.5 million or 2.8 percent during the year. This change reflects an increase in the market value of total long-term investments during the year from $1,253.6 million as of June 30, 2018 to $1,279.9 million as of June 30, 2019.

At June 30, 2019, **Total Assets** of the College were $1,652.3 million. Of this amount, long-term investments (including endowment funds, annuity and life income funds and other funds) comprised $1,279.9 million; net property, plant and equipment totaled $248.6 million; and current assets totaled $109.8 million. Long-term contributions receivable and bequests in probate totaled $12.4 million; non-current prepaid expenses totaled $0.9 million; and long-term receivables totaled approximately $0.7 million.

Total Liabilities increased by $4.0 million from $78.3 million as of June 30, 2018 to $82.3 million as of June 30, 2019. Most of the increase was due to a $2.4 million increase in accounts payable and accrued expenses coupled with a net increase in debt of $1.7 million comprised of the issuance of $5.3 million of New Markets Tax Credit debt as a partial funding source for the Margaret A. Cargill Natural Sciences and Health Building partially offset by $3.6 million of bond principal payments.

Concluding Comments

The results of the varying contributions made by those involved in the Berea mission are truly inspiring. Together, we must all support and maintain this great opportunity to make a difference in the world through education and service. While we should always be mindful of the College's distinguished history over the last 164 years, we must continually seek to collegially discuss and debate our ideals, in quest of ways to always advance this great institution.

As always, we invite and welcome you to visit us on campus.

Respectfully submitted,

Jeffrey S. Amburgey

Jeffrey S. Amburgey
Vice President for Finance

RESPONSIBILITY FOR THE COLLEGE'S CONSOLIDATED FINANCIAL STATEMENTS

The Finance Office of Berea College is directly responsible for the preparation, integrity and fair presentation of the financial statements and the other information included in this annual report. This office, through the Vice President for Finance, reports directly to the President of the College with oversight by the College's Board of Trustees.

The College maintains a system of internal controls over financial reporting, which is designed to provide reasonable assurance to the College's administration and Board of Trustees that the College's assets are protected and that transactions and events are recorded properly in the financial statements.

The College's financial statements have been audited by the independent accounting firm of Crowe LLP, which was given unrestricted access to all financial records and related data, including minutes of all meetings of trustees. The Vice President for Finance and personnel of the Finance Office believe that the representations made to the independent auditors during their audit were valid and appropriate in all material respects.

The Board of Trustees of Berea College, through the Audit Committee comprised of trustees not employed by the College, has adopted Audit Committee Bylaws that include engaging the independent auditors and meeting with the College administration, the College's internal auditor, and the independent auditors to ensure that each is carrying out its responsibilities and to discuss auditing, internal control, and financial reporting matters. The independent auditors have full and free access to the Audit Committee and meet with the Audit Committee at least annually.

We believe the following financial statements present fairly, in all material respects, the financial position of the College as of June 30, 2019 and 2018, and the changes in its net assets and cash flows for the years then ended.

September 16, 2019

Lyle D. Roelofs
President

Jeffrey S. Amburgey
Vice President for Finance

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Berea College
Berea, Kentucky

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Berea College, which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Berea College as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the College has adopted ASU 2016-14 - *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*, ASU 2014-09 – *Revenue from Contracts with Customers (Topic 606)*, and ASU 2018-08 – *Not-For-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made.* Our opinion is not modified with respect to this matter.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the 2019 and 2018 consolidated financial statements as a whole. The accompanying highlights, report of the Vice President for Finance and Responsibility for the College's Consolidated Financial Statements, as noted on the table of contents, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The 2019 and 2018 highlights, report of the Vice President for Finance and Responsibility for the College's Consolidated Financial Statements have not been subjected to the auditing procedures applied in the audits of the 2019 and 2018 consolidated financial statements and accordingly, we do not express an opinion or provide any assurance on them.

Crowe LLP

Crowe LLP

Louisville, Kentucky
September 16, 2019

BEREA COLLEGE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2019	June 30, 2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 76,893,484	$ 58,462,357
Accrued interest on investments	911,614	1,173,653
Accounts receivable - U.S. Government	13,032,430	8,296,062
Other accounts receivable	1,862,513	1,858,118
Inventories	1,167,028	1,267,481
Prepaid expenses and other assets	881,139	1,315,995
Contributions receivable and bequests in probate	15,090,929	27,624,049
Total current assets	109,839,137	99,997,715
PREPAID EXPENSES AND OTHER ASSETS	912,559	1,135,066
CONTRIBUTIONS RECEIVABLE AND BEQUESTS IN PROBATE	12,354,282	12,108,881
LONG-TERM RECEIVABLES		
Institutional student loans	703,068	667,712
Federal student loans	-	27,331
Total long-term receivables	703,068	695,043
LONG-TERM INVESTMENTS		
Donor restricted endowment	658,194,000	646,528,200
Board designated endowment	560,546,000	545,549,900
Annuity and life income	25,391,400	26,058,900
Funds held in trust by others	31,014,000	30,549,000
Other investments	4,748,500	4,924,700
Total long-term investments	1,279,893,900	1,253,610,700
NET PROPERTY, PLANT AND EQUIPMENT	248,643,545	237,393,342
Total assets	$ 1,652,346,491	$ 1,604,940,747

See accompanying notes to consolidated financial statements.

BEREA COLLEGE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2019	June 30, 2018
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 12,189,010	$ 9,771,982
Accounts payable - capital construction projects	1,586,846	2,668,063
Accrued salaries and wages	3,325,890	3,096,967
Current portion of interest rate swap valuation	471,918	403,353
Current maturities of long-term debt	3,085,328	3,016,804
Other current liabilities	881,257	931,232
Total current liabilities	21,540,249	19,888,401
LONG-TERM LIABILITIES		
Actuarial liability for annuities payable and other liabilities	14,505,797	15,067,422
Deferred financing expense	(1,449,055)	(1,327,869)
Interest rate swap valuation	4,605,082	3,220,647
Long-term debt	43,092,758	41,452,086
Total long-term liabilities	60,754,582	58,412,286
Total liabilities	82,294,831	78,300,687
NET ASSETS		
Without donor restrictions		
For current operations	101,239	100,078
Designated for specific purposes	56,733,002	43,513,682
Invested in property, plant and equipment	182,501,517	144,391,288
Support of future operations from:		
Contributions receivable and bequests in probate	12,708,642	9,614,854
Board designated endowment funds	560,546,000	545,549,900
Total net assets without donor restrictions	812,590,400	743,169,802
With donor restrictions		
Unexpended contributions restricted for operations	18,695,420	17,917,326
Unexpended contributions restricted for plant renewals and replacement	14,045,075	28,267,249
Annuity and life income contracts	12,120,100	12,398,300
Expended contributions for long-lived assets	12,862,957	41,275,714
Loan funds	3,054,530	2,993,451
Contributions receivable and bequests in probate	7,475,178	3,541,018
Funds held in trust by others	31,014,000	30,549,000
Donor restricted endowment funds - accumulated earnings	388,393,767	383,779,597
Donor restricted endowment funds - original gift	269,800,233	262,748,603
Total net assets with donor restrictions	757,461,260	783,470,258
Total net assets	1,570,051,660	1,526,640,060
Total liabilities and net assets	$ 1,652,346,491	$ 1,604,940,747

See accompanying notes to consolidated financial statements.

BEREA COLLEGE
CONSOLIDATED STATEMENTS OF ACTIVITIES

CHANGES IN NET ASSETS WITHOUT DONOR RESRICTIONS	Year Ended June 30, 2019	2018
OPERATING REVENUE		
Spendable return from long-term investments	$ 51,450,536	$ 48,731,355
Gifts and donations	5,929,382	5,391,277
Federal grants	45,874,491	32,900,949
Cost of education fees paid by federal and state scholarships	3,200,000	3,100,000
Fees paid by students	1,339,595	1,385,929
Other income	6,481,311	4,872,332
Residence halls and dining service	9,472,182	8,868,478
Student industries and rentals	4,465,679	4,728,586
Net assets released from restrictions	14,717,396	16,711,516
Gross operating revenue	142,930,572	126,690,422
Less: Student aid	(2,978,961)	(3,291,840)
Net operating revenue	139,951,611	123,398,582
OPERATING EXPENSES		
Program Services -		
Instruction	29,714,404	28,490,945
Public service	42,734,682	30,786,165
Academic support	11,227,190	11,637,487
Student services	12,134,512	11,608,961
Residence halls and dining service	9,976,495	9,822,179
Student industries and rentals	6,173,474	5,734,504
Total Program Services	111,960,757	98,080,241
Support Services, including fund raising expense of $6,558,198 in 2019 and $5,996,535 in 2018	20,017,704	20,504,346
Total operating expenses	131,978,461	118,584,587
Operating revenue in excess of operating expenses	7,973,150	4,813,995
OTHER UNRESTRICTED ACTIVITY		
Net assets released from capital restrictions	44,805,796	6,517,294
Reclassification of net assets	(60,000)	-
Gain on sale of property, plant and equipment	320	4,345
(Loss) gain on valuation of interest rate swaps	(1,453,000)	1,459,000
Total other unrestricted activity	43,293,116	7,980,639
REVENUES DESIGNATED FOR LONG-TERM INVESTMENT		
Unrestricted bequests	12,625,360	9,953,457
Matured annuity and life income contracts	1,661,358	642,587
Investment return more than amounts designated for current operations	3,867,614	10,075,632
Total increase in revenues designated for long-term investment	18,154,332	20,671,676
Increase in net assets without donor restrictions	$ 69,420,598	$ 33,466,310

See accompanying notes to consolidated financial statements.

BEREA COLLEGE
CONSOLIDATED STATEMENTS OF ACTIVITIES

	Year Ended June 30, 2019	Year Ended June 30, 2018
CHANGES IN TOTAL NET ASSETS		
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Operating revenue in excess of operating expenses	$ 7,973,150	$ 4,813,995
Other unrestricted activity	43,293,116	7,980,639
Increase in revenues designated for long-term investment	18,154,332	20,671,676
Increase in net assets without donor restrictions	69,420,598	33,466,310
NET ASSETS WITH DONOR RESTRICTIONS		
Restricted gifts and donations	23,732,084	33,043,300
Restricted spendable return on endowment investments	5,192,877	5,130,722
Restricted return on endowment investments	191,216	180,091
Investment return more than amounts desingated for current operations	4,430,975	11,940,158
Change in underwater endowment funds	159,893	433,858
Restricted capital gain on funds held in trust by others	465,000	1,532,000
Net adjustment of annuity payment and deferred giving liability	943,507	643,029
Reclassification of net assets released from restrictions	(14,657,396)	(16,711,516)
Reclassification of net assets released from capital restrictions	(44,805,796)	(6,517,294)
Reclassification of matured annuity and life income contracts to revenues designated for long-term investment	(1,661,358)	(642,587)
(Decrease) increase in net assets with donor restrictions	(26,008,998)	29,031,761
Total increase in net assets	43,411,600	62,498,071
NET ASSETS		
Beginning of year	1,526,640,060	1,464,141,989
End of year	$ 1,570,051,660	$ 1,526,640,060

See accompanying notes to consolidated financial statements.

BEREA COLLEGE
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended June 30, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 43,411,600	$ 62,498,071
Adjustments to reconcile increase in net assets to net cash used in operating activities -		
Realized and unrealized gain on long-term investments	(38,133,948)	(51,627,944)
Restricted return on endowment funds	(191,216)	(180,091)
Gifts and bequests for financing activities	(33,054,072)	(31,308,720)
Decrease (increase) in contributions receivable and bequests in probate	12,287,719	(3,162,693)
Gift value of annuity contracts written	(1,479,280)	(1,730,687)
Depreciation	10,433,837	8,436,081
Gain on sale of property, plant and equipment	(320)	(4,345)
Loss (gain) on revaluation of interest rate swaps	1,453,000	(1,459,000)
Increase in other current assets	(3,943,415)	(4,113,302)
Decrease (increase) in non-current prepaid expenses and other assets other than cash payments for debt issuance costs	222,507	(281,925)
Increase in current liabilities other than capital construction accounts payable and current liabilities of long-term debt	2,595,976	2,220,795
(Decrease) increase in actuarial annuity payment liability and other liabilities	(561,625)	850,774
Increase in deferred debt financing expenses	(121,186)	(897,407)
Net cash used in operating activities	(7,080,423)	(20,760,393)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities held for long-term investment	(608,259,242)	(150,803,988)
Proceeds from sales and maturities of investments	621,589,270	159,416,919
Purchase of property, plant and equipment	(21,694,090)	(36,645,553)
Decrease in capital construction accounts payable	(1,081,217)	(3,981,941)
Proceeds from sale of property, plant and equipment	10,370	14,942
(Increase) decrease in long-term student loans	(8,025)	118,824
Net cash used in investing activities	(9,442,934)	(31,880,797)
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts and bequests received for -		
Long-term investment	14,719,974	11,826,638
Property, plant and equipment	18,333,598	19,481,782
Student loans	500	300
Endowment return restricted for long-term investments	191,216	180,091
Repayment of indebtedness	(3,641,804)	(4,187,966)
Long-term debt issued	5,351,000	5,932,083
Net cash provided by financing activities	34,954,484	33,232,928
Net increase (decrease) in cash and cash equivalents	18,431,127	(19,408,262)
Cash and cash equivalents, beginning of year	58,462,357	77,870,619
Cash and cash equivalents, end of year	$ 76,893,484	$ 58,462,357

See accompanying notes to consolidated financial statements.

NOTE 1 - ORGANIZATION AND 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 1,650 students and approximately 1,000 employees.

Scope of Financial Statements

Berea Interchange Development Corporation (BIDC), a 501(c)(2) organization, was formed in 1987 as a land holding company controlled by Berea College. Financial transactions for BIDC are consolidated into the Berea College financial statements. The College controls 100% of BIDC and trustees and officers of BIDC are current trustees and officers of the College.

In August 2017, the Berea College Science and Health Foundation, Inc. (the Foundation), a 501(c)(3) organization, was organized to facilitate a New Markets Tax Credit financing transaction to partially fund the construction of the Margaret A. Cargill Natural Sciences and Health Building. Financial transactions for the Foundation are consolidated into the Berea College financial statements. The College controls 100% of the Foundation and trustees and officers of the Foundation include current trustees and officers of the College.

All intercompany accounts and transactions between Berea College and these entities have been eliminated in the accompanying consolidated financial statements.

Basis of Presentation

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

Financial Statement Presentation: The consolidated financial statements report the changes in and totals of each net asset class based on the existence of donor restrictions. Net assets are classified as without donor restrictions or with donor restrictions as described below:

> *Net assets without donor restrictions* are net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the College. Net assets without donor restrictions include undesignated net assets and net assets that are Board designated for endowment.
>
> *Net assets with donor restrictions* are net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature while others are perpetual in nature.

NOTE 1 - ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

Revenues from sources other than contributions are reported as increases in net assets without donor restrictions. Contributions are reported as increases in the appropriate category of net assets, except that contributions which impose restrictions that are fully met in the same fiscal year they are recognized are included in unrestricted revenues. Expenses are reported as decreases in net assets without donor restrictions. Cumulative net appreciation associated with donor-restricted endowments is classified as net assets with donor restrictions restricted for purpose or passage of time (see Note 2). Expirations of those 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 net assets with donor restrictions to net assets without donor restrictions.

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 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 the June 30, five-year Daily Treasury Yield Curve Rate for the fiscal year the pledge was initially recorded, currently at rates ranging from 0.72% to 2.73%. 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.

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 recognized as revenue when the assets are placed in service.

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.

Cash and Cash Equivalents

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. The College maintains cash in bank accounts, which at times may exceed federally insured limits. The College has not experienced any losses on such accounts. The College believes that it is not exposed to any significant credit risk on cash and cash equivalents.

Inventories

Inventories are stated at the lower of cost (weighted average) or market.

NOTE 1 - ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

Loans

The College makes uncollateralized loans to students based on financial need. At June 30, 2019 and 2018, student loans totaled $983,068 (net of $438,938 loan loss reserve) and $975,042 (net of $452,000 loan loss reserve), respectively, of which $280,000 and $280,000 for June 30, 2019 and 2018, respectively, are reflected in current assets. Of the net loan totals, $983,068 and $947,712 for June 30, 2019 and 2018, respectively, were funded from institutional resources and the remaining loans were funded through Federal government loan programs. Reserves for loan losses are established when no payments are received for over six months. Loan balances are written off when they are deemed to be permanently uncollectible. Recoveries of student loans receivable previously written off are recorded when received.

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, including real estate partnerships, and certain other nonmarketable securities are valued using information provided by the general partner or investment manager, such as net asset value, for the respective funds. 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 consolidated statements of activities. Gains and losses on investments sold are determined on a specific identification basis.

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 College 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 such changes could materially affect the amounts reported in the consolidated statements 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 strategic 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, hedge funds, private equities and other nonmarketable securities, commodities, and real estate investments.

Derivatives

Derivative instruments, including certain derivative instruments embedded in other contracts, are valued at fair value and are included in the consolidated statements of financial position. The change in fair value of such instruments is included in the consolidated statements of activities.

NOTE 1 - ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

Cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and deferred income approximate fair value because of their short-term nature. Contributions receivable approximate fair value because of the present value discount included in the carrying amount. Investments are carried at fair value or approximate fair value as discussed in Note 2. The carrying amount of the annuity and trust liabilities approximates fair value based on life expectancies and the present value discount. The fair value of the College's long-term debt is disclosed in Note 8 and is based on quoted market prices for the same or similar issues, giving consideration to the interest rates, maturity and other factors.

The fair values of financial instruments other than investments, which include the items listed in the preceding paragraph, are based on a variety of factors. In some cases, fair values represent quoted market prices for identical instruments (Level 1 inputs - market approach; cash and cash equivalents). In other cases, fair values have been estimated based on assumptions about the amount and timing of estimated future cash flows and assumed discount rates reflecting varying degrees of risk (Level 2 inputs - income approach; remaining financial instruments other than investments). Accordingly, the fair values may not represent actual values that could have been realized at year-end or that will be realized in the future.

Split-Interest Agreements and Interest in Trusts Held by Others

The College's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts, charitable gift annuities, and life income funds for which the College serves as trustee. Assets held in these split-interest agreements are included in investments. Contribution revenue is recognized at the dates the split-interest agreements are established, net of the liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. Annually, the College records the change in value of split-interest agreements by marking to fair value the assets that are associated with each agreement and recalculating the liability for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The discount rate and actuarial assumptions used in calculating the annuity obligation are those provided in Internal Revenue Service guidelines and actuarial tables.

For agreements where the College is not the trustee, the College has recorded its beneficial interest in the agreements as an asset reported in the line item "Contributions Receivable and Bequests in Probate."

Property, Plant and Equipment

Property, plant and equipment are stated at cost at the date of acquisition or fair value at the date of the gift, less accumulated depreciation.

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

Buildings and additions	30 - 75 years
Building improvements and renovations	15 - 30 years
Furniture and equipment	2 - 10 years

NOTE 1 - ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

Using these guidelines, depreciation expense for the years ended June 30 was:

	2019	2018
Educational and general purposes	$ 9,557,174	$ 7,632,092
Student industries	876,663	803,989
	$ 10,433,837	$ 8,436,081

Equipment with a unit cost of $5,000 or more and having an estimated useful life of greater than one year is capitalized. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. The College capitalizes, but does not depreciate, works of art and historical treasures that are held for education, research or public exhibition.

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 consolidated statements of activities.

Measure of Operations

In its consolidated statements of activities, the College includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities. Items excluded are contributions restricted in perpetuity, gifts for capital construction, changes in the value of interest rate swap agreements, investment return more or less than amounts designated for current operations and certain other non-recurring items. Spendable return from the endowment is calculated using the spending formula adopted by the Board of Trustees. The amount designated for current operations is approved by the Board of Trustees annually.

Revenue Recognition

Students admitted by the College are guaranteed substantial financial aid through resources other than their family; this is achieved through endowment spendable return, federal and state aid, outside scholarships, and grants from participation in the College's work program and these sources are sufficient to cover the full cost of education (tuition). Thus, no student is required to pay any out-of-pocket expenses for tuition. Most students receive additional grant assistance to help with the costs of housing, meals, and fees according to the families' ability to pay as determined from family information submitted on the Free Application for Federal Student Aid (FAFSA).

NOTE 1 - ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

Because the College does not collect tuition from its students, no tuition revenue is recognized in the consolidated statements of activities. However, in the consolidated statements of activities, cost of education fees paid by federal and state scholarships for the years ended June 30, 2019 and 2018, are included in the amount of $3,200,000 and $3,100,000, respectively. There are no deferred scholarships as of June 30, 2019 or 2018.

Residence hall and dining service revenues are included within the consolidated statements of activities. A student and the family are responsible for the cost of room and board. However, for those who qualify on the basis of need—and most students do—financial aid is available to defray all or part of these costs. The student aid amounts provided in the consolidated statements of activities represent institutional aid primarily for room and board. Charges to students for room and board are substantially billed and collected prior to the end of each semester. Associated revenues are earned and recognized over the course of each semester as these services are delivered.

The College has identified performance obligations related to its dining services and student housing and recognizes revenue at the point in time services are provided to its customers. A student who withdraws before the end of a semester is entitled to a refund of half of the unexpired portion of the meal charge. A student who withdraws during the first two weeks of a semester is entitled to a refund of half the housing charge. All refunds have been remitted to students prior to June 30, 2019 and 2018.

The College's summer school program has a starting and ending date that differ from its fiscal year end. Therefore, at the end of the fiscal year, a portion of revenue from this program was not yet earned and reflected as deferred revenue for 2019 and 2018 in the amounts of $123,588 and $150,399, respectively. The balance of deferred revenue at June 30, 2019 will be recognized as revenue over the academic term beginning July 1, 2019, as services are rendered.

Student industries and rentals include sale of Berea College crafts and operation of on-campus stores and hotel. All revenue is recorded at the point of sale and all performance obligations have been satisfied.

The College has elected the short-term contract exemption with respect to its performance obligations under its contracts with students as all such contracts had original terms of less than one year.

Functional Allocation of Expenses

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

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy and plant operations, which are allocated on a square footage basis, as well as, salaries and wages, benefits, payroll taxes, office expenses, information technology, insurance, interest, travel, repairs and maintenance, and other, which are allocated on the basis of estimates of usage or time and effort. See Note 3 – Statement of Functional Expenses.

NOTE 1 - ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standard

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers Topic (606)*. This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU has superseded the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The College applied the amendments in this ASU for the year ended June 30, 2019. The College implemented ASU 2014-09 using a modified retrospective method. The adoption of this ASU did not have a significant impact on the College's financial position or results of operations.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* (ASU). The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses, and investment return. The College has adopted the ASU and has adjusted the presentation of these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the liquidity and functional expense disclosures, as permitted.

The composition of the cumulative effect adjustment recorded by the College as of July 1, 2017, as a result of the adoption of ASU 2016-14, relating to net assets released from restrictions of gifts for property, plant, and equipment and the reclassification of underwater endowment funds, was as follows:

	As Reported	Change in Accounting Principle	Effect of ASU 2016-14
Statement of Financial Position			
Without donor restrictions			
Invested in property, plant, and equipment	$ 70,944,914	$ 52,708,233	$ 123,653,147
Donor restricted endowment funds	(1,708,861)	1,708,861	-
With donor restrictions			
Expended contributions for long-lived assets	87,263,248	(52,708,233)	34,555,015
Donor restricted endowment funds	373,092,933	(1,708,861)	371,384,072

The implementation of this ASU increased net assets without donor restrictions by $54,417,094 and decreased net assets with donor restrictions by $54,417,094.

NOTE 1 - ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

In June 2018, FASB issued ASU 2018-08, *Not-For-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Thus ASU is an update to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this Update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The adoption of this ASU did not have a significant impact on the College's financial position or results of operations.

NOTE 2 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	$ 35,435,216
Accounts receivable	1,862,513
Contributions receivable	367,008
Distributions from beneficial interests in funds held in trust by others	951,000
Endowment spendable return	49,438,751
Total	$ 88,054,488

The College's endowment funds consist of donor-restricted endowments and funds designed by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The College's board-designated endowment of $560,546,000 is subject to the board-approved endowment spending formula. Although the College does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditures as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

As part of the College's liquidity management plan, cash in excess of daily requirements is invested in short-term investments, CDs, and money market funds.

NOTE 3 – STATEMENT OF FUNCTIONAL EXPENSES

	Program Services				Management and General	Fundraising and Development	Total for Year Ended June 30, 2019	Total for Year Ended June 30, 2018
	Instruction	Public Service	Other	Total				
Grants and other assistance	$ -	$ 712,556	$ -	$ 712,556	$ -	$ -	$ 712,556	$ 587,054
Salaries and wages	15,810,845	12,324,292	12,363,473	40,498,610	6,749,879	3,405,683	50,654,172	46,275,686
Employee benefits and payroll taxes	3,467,940	2,720,183	2,607,142	8,795,265	935,246	795,790	10,526,301	10,981,168
Professional services	-	-	-	-	-	537,546	537,546	542,657
Accounting fees	-	-	-	-	134,415	-	134,415	151,137
Legal fees	-	-	-	-	327,019	-	327,019	143,835
Lobbying	-	-	16,826	16,826	-	-	16,826	21,996
Advertising and promotion	-	2,276	133,298	135,574	67,679	-	203,253	152,989
Office expenses	390,850	744,842	201,938	1,337,630	56,916	10,088	1,404,634	1,064,980
Information technology	-	-	436,320	436,320	2,254,119	-	2,690,439	1,807,301
Occupancy	1,164,437	62,061	887,355	2,113,853	128,403	53,501	2,295,757	2,180,223
Printing and publications	79,495	119,970	217,081	416,546	37,396	29,120	483,062	501,495
Travel	441,257	994,297	301,043	1,736,597	138,473	147,961	2,023,031	1,925,748
Conferences, conventions and meetings	1,115	25,493	23,806	50,414	5,300	12,260	67,974	75,751
Interest	745,651	3,777	531,645	1,281,073	159,516	3,256	1,443,845	1,354,148
Insurance	107,764	5,745	67,749	181,258	393,700	4,952	579,910	480,245
Depreciation	4,070,141	305,453	5,564,644	9,940,238	342,346	151,253	10,433,837	8,436,081
Repairs and maintenance	2,134,444	255,950	1,518,650	3,909,044	300,807	184,121	4,393,972	4,997,442
Other:								
Outreach programs	-	24,352,214	-	24,352,214	-	-	24,352,214	17,043,742
Residence halls and dining service	-	-	4,950,177	4,950,177	-	-	4,950,177	4,703,709
Boone Tavern	-	-	3,531,580	3,531,580	-	-	3,531,580	3,424,741
Rentals	-	-	370,028	370,028	-	-	370,028	308,443
Cost of Goods Sold	-	-	663,688	663,688	-	-	663,688	564,547
Health services	-	-	367,825	367,825	163,000	-	530,825	478,168
All other expenses	1,300,465	105,573	4,757,403	6,163,441	1,265,292	1,222,667	8,651,400	10,381,301
Total	$ 29,714,404	$ 42,734,682	$ 39,511,671	$ 111,960,757	$ 13,459,506	$ 6,558,198	$ 131,978,461	$ 118,584,587

NOTE 4 – LONG-TERM INVESTMENTS

	Year ended June 30, 2019	2018
Endowment:		
Pooled Investments -		
U. S. equities	$ 465,489,400	$ 288,117,300
International equities	323,084,600	349,949,800
Corporate notes and bonds	60,153,000	99,568,000
U. S. Government securities	71,190,600	69,138,200
Private equity - venture capital	205,600	327,300
Private equity - buy out	7,415,100	14,088,100
Private equity - fund of funds	60,349,400	41,564,700
Hedge funds	143,902,600	142,135,300
Special opportunities	41,610,900	29,922,200
Commodities	-	62,748,600
Short-term investments and cash	40,446,200	89,623,300
Total	1,213,847,400	1,187,182,800
Non Pooled Investments -		
U. S. equities	35,600	44,600
Corporate notes and bonds	28,300	22,000
Real estate	2,766,700	2,766,700
Short-term investments and cash	2,062,000	2,062,000
Total	4,892,600	4,895,300
Total endowment	1,218,740,000	1,192,078,100
Annuity and Life Income:		
U. S. equities	8,113,000	8,775,800
International equities	5,250,200	5,159,700
Corporate notes and bonds	3,767,100	4,007,500
U. S. Government securities	2,496,100	2,651,700
International bonds	1,387,100	1,491,000
Real estate	3,668,700	3,502,500
Insurance policies	68,200	70,900
Short-term investments and cash	641,000	399,800
Total annuity and life income	25,391,400	26,058,900
Funds Held in Trust by Others, where Berea College receives all or a stipulated percent of income	31,014,000	30,549,000
Other Investments	4,748,500	4,924,700
Total long-term investments	$ 1,279,893,900	$ 1,253,610,700

NOTE 4 – LONG-TERM INVESTMENTS (Continued)

Hedged equity investments are valued using the net asset value ("NAV") per share times the number of units held at year end. The objectives of these funds are to achieve superior risk-adjusted returns with low volatility and low correlation to both the equity and fixed income markets by investing in a diversified group of pooled investment vehicles. These funds generally have quarterly liquidity provisions after minimum holding periods have been achieved. The College has satisfied all minimum holding periods. Full liquidations are generally subject to a 10% hold-back to be received after the following fiscal year-end audit has been completed. The College considers the liquidity provisions when making new hedged equity investments.

Private equity and special opportunity investments are generally made through limited partnerships and may have a partnership life ranging from 5 to 15-year terms. Under the terms of such agreements, the College may be required to provide additional funding when capital calls are made by underlying fund managers. These partnerships have a limited existence, and they may provide for annual extensions for the purpose of disposing of portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, or other factors, a manager may extend or reduce the terms of a fund. The College cannot anticipate such changes because they generally arise from unforeseeable events, but should they occur they could reduce liquidity or originally anticipated investment returns. Accordingly, the timing and amount of capital calls in future years are uncertain. The College invests in multiple private equity and special opportunity funds. The limited partnerships generally invest in the following: (1) buyout funds which invest in more established companies in need of some repair or growth, (2) debt funds which provide lending to companies that are being restructured or re-capitalized, (3) real estate funds which provide capital for new construction, renovation or change in property ownership or management, and (4) venture funds which invest in young companies with varying degrees of infrastructure, revenues and profits.

The College measures the fair value for these investments based on net asset value ("NAV") as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a significantly different value. Some attributes that impact the security's fair value may not be reflected in NAV, including, but not limited to, the investor's ability to redeem the investment at the measurement date and unfunded purchase commitments. If the College sold all or a portion of its alternative investments, it is reasonably possible that the transaction value could differ significantly from the estimated fair value at the measurement date, because of the nature of the investments, changes in market conditions and the overall economic environment.

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.

NOTE 4 – LONG-TERM INVESTMENTS (Continued)

A weighted-average endowment spending formula was adopted by the Board of Trustees effective July 1, 2011. Under the formula, the amount available for spending per unit from the pooled endowment funds is calculated by increasing the prior year's spendable return by the annual change in the Consumer Price Index for all Urban Consumers compiled by the U. S. Department of Labor, Bureau of Labor Statistics (CPI) for the previous twelve month period plus 0.5% multiplied by a weighting factor of 70%. Added to this amount is 5% of the average market value of the pooled investments for the immediately preceding 6 calendar quarters multiplied by a weighting factor of 30%. To help maintain intergenerational equity and ensure a prudent level of spending, if the endowment spendable return calculated under this formula is less than 4.0% or more than 6.0% of the prior June 30 market value of the pooled endowment, the Board of Trustees determines whether to make any adjustments to the endowment spendable return.

For 2019 and 2018, spendable return under the formulas amounted to $56,809,520 and $54,026,440, respectively. In 2019, actual cash income earned on pooled investments, net of $893,454 for investment management and custodial fees, amounted to $28,281,087, or $28,528,433 less than the spendable return provided by the formula. This difference was provided by the accumulated net appreciation earned on investments.

The College follows the policy of spending only cash income received on non-pooled endowment investments. Such income amounted to $25,108 in 2019 and $15,728 in 2018, while the market value of these investments of $4,892,600 at June 30, 2019 and $4,895,300 at June 30, 2018 decreased by $7,700 in 2019 and decreased by $44,600 in 2018. Additions to non-pooled endowment investments during 2019 and 2018 amounted to $5,000 each year.

Dividend and interest income of $28,306,195 and $27,472,362 reported net of external investment manager fees of $893,454 and $855,394 is included in the consolidated statements of activities for the years ended June 30, 2019 and 2018, respectively.

Effective July 15, 2010, the Commonwealth of Kentucky adopted legislation incorporating the provisions outlined in the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The statutory guidelines relate to prudent management, investment and expenditure of donor-restricted endowments held by charitable organizations. The legislation specifies factors for fiduciaries to consider prior to making a decision to appropriate from or accumulate into an organization's endowment funds.

The College has interpreted the Kentucky enacted version of UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as net assets with donor restrictions restricted in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Any remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions restricted in perpetuity is classified as net assets with donor restrictions restricted by purpose or passage of time until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA.

NOTE 4 – LONG-TERM INVESTMENTS (Continued)

From time to time, the fair value of assets associated with an endowed fund may fall below its historical book value. The cumulative value of these deficiencies is classified as net assets with donor restrictions restricted by purpose or passage of time. As of June 30, 2019, the College had 122 underwater endowment funds, with a total market value of $25,100,849 and a book value of $26,215,959, resulting in an underwater amount of $1,115,110. As of June 30, 2018, the College had 136 underwater endowment funds, with a total market value of $24,812,713 and a book value of $26,087,716, resulting in an underwater amount of $1,275,003.

The College follows the policy of appropriating from underwater endowment funds consistent with the factors outlined below.

The College interprets its fiduciary responsibility for donor-restricted endowments under UPMIFA, unless there are donor-specific provisions to the contrary, as preserving intergenerational equity to the extent possible. Under this broad guideline, future endowment beneficiaries should essentially receive at least the same level of economic support that the current generation enjoys. Endowment assets are invested to provide growth of the endowment through real investment return that exceeds spending over the long term. The overarching objective is to meet the College's goal of preserving and enhancing the real (inflation-adjusted) purchasing power of the endowment fund in perpetuity. Assets are invested to provide a stream of earnings to meet spending needs and attain long-term objectives without the assumption of undue risks.

In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the endowment fund

(2) The purposes of the institution and the endowment fund

(3) General economic conditions

(4) The possible effect of inflation or deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the institution

(7) The investment policy of the institution

NOTE 4 – LONG-TERM INVESTMENTS (Continued)

During 2019, the unit value of pooled investments changed as follows:

The total return earned by the endowment investments for the years ended June 30, was:

	2018-19				2017-18
	Market Value	Number of Units	Value Per Unit	Time Weighted Return Net of Fees	Market Value
Beginning balance	$ 1,187,182,800	780,554.264	$ 1,520.948		$ 1,145,425,400
Market price change	36,994,616		47.003	3.1%	49,064,054
Net income earned	28,281,087		36.232	2.5%	27,456,634
Spendable return	(56,809,520)		(72.781)	-	(54,026,440)
	8,466,183		10.454	5.6%	22,494,248
Additions	18,198,417	12,576.886	-		19,263,152
Ending balance	$ 1,213,847,400	793,131.150	$ 1,531.402		$ 1,187,182,800

The total return earned by the endowment investments for the years ended June 30, was:

	2019	2018
Pooled investments -		
Cash income, net	$ 28,281,087	$ 27,456,634
Market price change	36,994,616	49,064,054
Non-pooled investments -		
Cash income	25,108	15,728
Market price change	(7,700)	(44,600)
Total return	$ 65,293,111	$ 76,491,816
Distributed to -		
Net assets without donor restrictions		
Spendable return	$ 51,450,536	$ 48,731,355
Long-term investments	4,301,472	10,575,632
Net assets with donor restrictions		
Spendable return	5,192,877	5,130,722
Investment return more (less) than amounts designated for current operations	4,157,010	11,874,016
Restricted earnings	191,216	180,091
Total	$ 65,293,111	$ 76,491,816

NOTE 4 – LONG-TERM INVESTMENTS (Continued)

Endowment investments net asset composition by type of fund as of June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions		
	Board Designated	Accumulated Earnings	Original Gift	Total
Donor restricted endowment funds	$ -	$ 388,393,767	$ 269,800,233	$ 658,194,000
Board designated endowment funds	560,546,000	-	-	$ 560,546,000
	$ 560,546,000	$ 388,393,767	$ 269,800,233	$ 1,218,740,000

Changes in endowment investments net assets for the Fiscal Year ended June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions		
	Board Designated	Accumulated Earnings	Original Gift	Total
Endowment investments net assets, beginning of year	$ 545,549,900	$ 383,779,597	$ 262,748,603	$ 1,192,078,100
Investment return:				
Investment income	28,306,195	-	-	28,306,195
Net gains (realized (and unrealized)	16,908,898	20,078,018	-	36,986,916
Total investment return	45,215,093	20,078,018	-	65,293,111
Contributions	-	-	5,596,003	5,596,003
Other restricted additions	-	23,302	1,455,627	1,478,929
Board designated additions	11,128,485	-	-	11,128,485
Appropriation of endowment assets for expenditure	(41,347,478)	(15,487,150)	-	(56,834,628)
Endowment investments net assets, end of year	$ 560,546,000	$ 388,393,767	$ 269,800,233	$ 1,218,740,000

NOTE 4 – LONG-TERM INVESTMENTS (Continued)

Endowment investments net asset composition by type of fund as of June 30, 2018:

	Without Donor Restrictions	With Donor Restrictions		
	Board Designated	Accumulated Earnings	Original Gift	Total
Donor restricted endowment funds	$ -	$ 383,779,597	$ 262,748,603	$ 646,528,200
Board designated endowment funds	545,549,900	-	-	545,549,900
	$ 545,549,900	$ 383,779,597	$ 262,748,603	$ 1,192,078,100

Changes in endowment investments net assets for the Fiscal Year ended June 30, 2018:

	Without Donor Restrictions	With Donor Restrictions		
	Board Designated	Accumulated Earnings	Original Gift	Total
Endowment investments net assets, beginning of year, as restated	$ 520,939,000	$ 371,384,072	$ 258,037,228	$ 1,150,360,300
Investment return:				
Investment income	27,472,362	-	-	27,472,362
Net gains (realized and unrealized)	22,185,471	26,833,983	-	49,019,454
Total investment return	49,657,833	26,833,983	-	76,491,816
Contributions	-	-	3,269,785	3,269,785
Other restricted additions	-	21,509	1,441,590	1,463,099
Board designated additions	14,535,268	-	-	14,535,268
Appropriation of endowment assets for expenditure	(39,582,201)	(14,459,967)	-	(54,042,168)
Endowment investments net assets, end of year	$ 545,549,900	$ 383,779,597	$ 262,748,603	$ 1,192,078,100

NOTE 4 – LONG-TERM INVESTMENTS (Continued)

The College's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As of June 30, 2019, the College has approximately 5,300 individual endowment funds of which approximately 2,200 are donor-restricted funds that are used to provide funding for cost of education for students, direct student aid, various academic support programs, and other restricted uses.

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. One key component of the fair value measurement required by GAAP includes the development of a three-tiered fair value hierarchy. Assets and liabilities reported at fair value are placed in one of the three tiers, except as noted below, based upon the "inputs" used to determine fair value at the measurement date. These inputs are summarized in the three broad levels listed below:

Level 1 - quoted prices in active markets for identical assets or liabilities

Level 2 - other significant inputs (including quoted prices of similar securities, interest rates, prepayment spreads, credit risk, etc.)

Level 3 - significant unobservable inputs

The inputs or methodology used to value investments are not necessarily an indication of the risk associated with investing in those securities. For example, money market securities are valued using amortized cost and although amortized cost approximates the fair value of the securities the valuation is not obtained from a quoted price in an active market. Therefore, money market securities are reflected in Level 2.

NOTE 5 – FAIR VALUE MEASUREMENTS

The following summarizes the fair value of assets and liabilities and the Level 3 reconciliation at June 30, 2019:

	June 30, 2019 Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV[1]
Assets					
Endowment investments:					
Short-term investments and cash	$ 42,508,200	$ -	$ 42,508,200	$ -	$ -
U.S. equities	465,525,000	465,525,000	-	-	-
International equities	323,084,600	323,084,600	-	-	-
Fixed income	131,371,900	97,828,400	33,543,500	-	-
Private equity	67,970,100	-	-	-	67,970,100
Hedge funds	143,902,600	-	-	-	143,902,600
Other endowment investments	44,377,600	-	21,732,300	2,766,700	19,878,600
Building maintenance investments	4,748,500	4,623,100	125,400	-	-
Certificates of deposit	452,109	-	452,109	-	-
Funds held in trust by others	31,014,000	-	-	31,014,000	-
Split-interest agreements	25,391,400	25,391,400	-	-	-
Total assets	$ 1,280,346,009	$ 916,452,500	$ 98,361,509	$ 33,780,700	$ 231,751,300
Liabilities					
Interest rate swap agreements	$ 5,077,000	$ -	$ 5,077,000	$ -	$ -

[1]Investments using Net Asset Value (NAV) as a fair value expedient are not included in the fair value hierarchy, pursuant to the adoption of ASU 2015-07, *Fair Value Measurement*

Level 3 Reconciliation

	Balances June 30, 2018	Net Realized and Unrealized Gains and Losses Included in Change in Net Assets	Purchases, Sales, Issuances and Settlement, Net	Net Transfers In (Out) of Level 3	Balances June 30, 2019
Endowment investments	$ 2,766,700	$ -	$ -	$ -	$ 2,766,700
Funds held in trust by others	30,549,000	465,000	-	-	31,014,000
Total	$ 33,315,700	$ 465,000	$ -	$ -	$ 33,780,700

The College's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstance that caused the transfer.

NOTE 5 – FAIR VALUE MEASUREMENTS (Continued)

The following summarizes the fair value of assets and liabilities and the Level 3 reconciliation at June 30, 2018:

	June 30, 2018 Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV[1]
Assets					
Endowment investments:					
Short-term investments and cash	$ 91,685,300	$ -	$ 91,685,300	$ -	$ -
U.S. equities	288,161,900	288,161,900	-	-	-
International equities	349,949,800	349,949,800	-	-	-
Fixed income	168,728,200	135,166,600	33,561,600	-	-
Private equity	55,980,100	-	-	-	55,980,100
Hedge funds	142,135,300	-	-	-	142,135,300
Commodities	62,748,600	62,748,600	-	-	-
Other endowment investments	32,688,900	-	16,623,200	2,766,700	13,299,000
Building maintenance investments	4,924,700	4,831,628	93,072	-	-
Certificates of deposit	451,404	-	451,404	-	-
Funds held in trust by others	30,549,000	-	-	30,549,000	-
Split-interest agreements	26,058,900	26,058,900	-	-	-
Total assets	$ 1,254,062,104	$ 866,917,428	$ 142,414,576	$ 33,315,700	$ 211,414,400
Liabilities					
Interest rate swap agreements	$ 3,624,000	$ -	$ 3,624,000	$ -	$ -

[1]Investments using Net Asset Value (NAV) as a fair value expedient are not included in the fair value hierarchy, pursuant to the adoption of ASU 2015-07, *Fair Value Measurement*

Level 3 Reconciliation

	Balances June 30, 2017	Net Realized and Unrealized Gains and Losses Included in Change in Net Assets	Purchases, Sales, Issuances and Settlement, Net	Net Transfers In (Out) of Level 3	Balances June 30, 2018
Endowment investments	$ 2,766,700	$ -	$ -	$ -	$ 2,766,700
Funds held in trust by others	29,017,000	1,532,000	-	-	30,549,000
Total	$ 31,783,700	$ 1,532,000	$ -	$ -	$ 33,315,700

The College's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstance that caused the transfer.

NOTE 5 – FAIR VALUE MEASUREMENTS (Continued)

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Endowment and Other Investments

Short-term investments - The fair value of short-term investments, consisting primarily of money market funds, is classified as Level 2 as these funds are not traded on a regular basis.

Domestic and international equities - Investments in equity mutual funds and equity securities are classified as Level 1 as these funds and securities are traded in active markets for which closing prices are readily available.

Fixed income - Fixed income mutual funds are classified as Level 1 as these funds are traded in an active market for which closing prices are readily available. Separately managed fixed income investments are classified as Level 2 because pricing is based on inputs such as interest rates and credit risk and not from quoted prices in active markets.

Alternative investments - Investments in hedge funds, private equity funds, and funds of funds are measured at fair value using the net asset value per share (or its equivalent) practical expedient and have not been classified in the fair value hierarchy.

Commodities - Classified as Level 1 as quoted prices from active markets are available for these investments.

Funds Held in Trust by Others

The College's beneficial interest in perpetual trusts administered by a third party are classified as Level 3 as the fair values are based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). Since the College has an irrevocable right to receive the income earned from the trusts' assets, the fair value of the College's beneficial interest is estimated to approximate the fair value of the trusts' assets.

Split-Interest Agreements

The College's split-interest agreements in which the College serves as trustee are classified as Level 1 as the underlying assets are invested in publicly traded mutual funds with quoted prices in active markets.

Interest Rate Swap Agreements

Interest rate swap agreements do not have observable market quotes. For these financial instruments the College's swap counterparty, The Bank of New York Mellon, provides an annual valuation using the difference between the fixed rate paid by the College and the counterparty's LIBOR interest rate forecast discounted at the swap yield curve. The model is based on observable inputs for forward interest rates and discount rates. As such, this derivative instrument is classified within Level 2 of the fair value hierarchy.

NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS

The College uses certain derivative financial instruments to maximize investment income to meet target investment returns and to adjust the duration of fixed income investment portfolios. The fair market value of these contracts is reported as a part of the fair value of the underlying financial instruments.

As a strategy to mitigate exposure to the risk of interest rate fluctuations, the College entered into an interest rate swap agreement on the Series 2002A bonds during 2004. This interest rate swap has been designated as a cash flow hedge of long-term debt and provides for the College to receive interest from the counterparty at 70% of one-month LIBOR and to pay interest to the counterparty at a fixed rate of 3.45% on a fixed notional amount of $18,110,000. Although there are no required principal payments on the 2002A bonds until the June 1, 2032 final maturity date, optional annual principal payments have reduced the outstanding principal balance to $9,275,000 and $10,350,000 at June 30, 2019 and 2018, respectively. The average rate received from the interest rate swap counterparty during 2019 and 2018 was 1.62% and 1.02%, respectively, and the average interest rate paid by the College for 2019 and 2018 was 3.45%. The interest rate swap matures in 2032. Total net interest expensed during 2019 and 2018 was $328,111 and $430,032, respectively, and is allocated to various expenses by function in the consolidated statements of activities. The expected fair value of the swap to be amortized in the next fiscal year is $354,331.

During 2004 the College entered into an additional interest rate swap agreement on the Series 2003B bonds. The interest rate swap has been designated as a cash flow hedge of long-term debt and provides for the College to receive interest from the counterparty at 70% of one-month LIBOR and to pay interest to the counterparty at a fixed rate of 3.746% on a notional amount of $5,280,000 and $5,710,000 at June 30, 2019 and 2018, respectively. The notional amount of the swap agreement amortizes at the same rate as the underlying bond series. The average rate received during from the interest rate swap counterparty during 2019 and 2018 was 1.62% and 1.02%, respectively, and the average interest rate paid by the College for 2019 and 2018 was 3.746%. The interest rate swap matures in 2029. Total net interest expensed during 2019 and 2018 was $119,566 and $162,658, respectively, and is allocated to various expenses by function in the consolidated statements of activities. The expected fair value of the swap to be amortized in the next fiscal year is $117,587.

Under the agreements, the College pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The agreements are recorded at fair value with subsequent changes in fair value included in the changes in net assets in the consolidated statements of activities. The valuation of the two interest rate swaps at June 30, 2019 and 2018 resulted in a liability of $5,077,000 and $3,624,000, respectively. If the agreements remain in force until maturity, the College's remaining liability related to the swaps would be $0.

NOTE 7 – DEFINED CONTRIBUTION RETIREMENT PLAN

The College has a defined contribution retirement plan covering all eligible employees with one or more years of service. Costs of the plan are expensed as incurred and aggregated $3,360,437 in 2019 and $2,768,956 in 2018.

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT

The major categories of property, plant and equipment as of June 30 were:

	2019	2018
Educational property, plant and equipment	$ 328,333,535	$ 256,916,572
Student industry plant and equipment	24,177,137	22,796,547
Rental property	3,442,762	3,442,762
Forest and farms	3,181,257	3,101,257
Collections and works of art	4,720,245	4,437,745
Construction in process	13,867,179	65,440,951
Less accumulated depreciation	(129,078,570)	(118,742,492)
	$ 248,643,545	$ 237,393,342

NOTE 9 – CONDITIONAL ASSET RETIREMENT OBLIGATIONS

Obligations associated with the retirement of long-lived assets are recorded when there is a legal obligation to incur such costs and the fair value of the liability can be reasonably estimated. This amount is accounted for as an additional element of cost and is depreciated over the useful life of the asset. The College's 2019 and 2018 accounting for costs associated with asbestos abatement is as follows:

	2019	2018
Beginning balance	$ 969,780	$ 997,578
Accretion expense	25,214	(4,624)
Liabilities settled during the year	-	(23,174)
Ending balance	$ 994,994	$ 969,780

NOTE 10 – LONG-TERM DEBT

	2019	2018
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2002A - Issued August 29, 2002; due June 1, 2032; variable interest rate, 1.60% as of June, 2019 with synthetic fixed rate of 3.45%; proceeeds used for various capital projects	$ 9,725,000	$ 10,350,000
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2003B - Issued December 11, 2003; annual payments through June 1, 2029; variable interest rate, 1.60% as of June, 2019 with synthetic fixed rate of 3.746%; proceeds used for various capital projects	5,280,000	5,710,000
Industrial Building Revenue Refunding Bonds, Series 2010 - Issued December, 2010; private bank placement through JP Morgan Chase Bank, National Association; annual payments through June 1, 2020 at fixed 2.25% rate; proceeds used for refunding Series 1997, 1998 and 2000 bonds	205,000	395,000
Industrial Building Revenue and Revenue Refunding Bonds, Series 2012 - Issued September, 2012; private bank placement thorugh PNC Bank, National Association; monthly payments at fixed rate of 1.58% through September 21, 2022; proceeds used for construction of new resident hall and refunding of Series 2008 bonds	3,424,708	4,443,592
Educational Facilities Revenue Refunding Bonds, Series 2012 - Issued December, 2012; prviate bank placement through Fifth Third Bank; annual payments at fixed rate of 1.92% through June 1, 2024; proceeds used for refunding Series 2003A bonds	3,629,167	4,318,970
Educational Facilities Revenue Refunding Bonds, Series 2013 - Issued April, 2013; annual payments through June 1, 2033; at rates from 1.25% to 3.00% with 2.74% average coupon; proceeds used for refunding 2003A bonds	8,605,000	8,670,000
Educational Facilities Revenue Refunding Bonds, Series 2015 - Issued May, 2015; private bank placement through Fifth Third Bank; annual payments at fixed rate of 2.58% through June 1, 2025; proceed used for refunding Series 2005A bonds	4,026,128	4,649,245
Subtotal	34,895,003	38,536,807
New markets tax credit transactions - see Note 11	11,283,083	5,932,083
	46,178,086	44,468,890
Less current portion	(3,085,328)	(3,016,804)
Total Long-Term Debt	$ 43,092,758	$ 41,452,086

NOTE 10 – LONG-TERM DEBT (Continued)

Principal payments on long-term debt are required to be made in each of the following fiscal years: \$3,085,328 in 2020; \$2,942,539 in 2021; \$3,004,254 in 2022; \$2,249,878 in 2023; \$2,021,305 in 2024 and \$32,874,782 in subsequent years thereafter.

The fair value of the College's long-term debt at June 30, 2019 and 2018 was estimated to be approximately \$46,178,086 and \$44,253,556, respectively, based upon rates available to the College for debt with similar terms and remaining maturities.

Interest expensed in 2019 and 2018 totaled \$1,443,845 and \$1,354,148, respectively.

Cash payments for interest amounted to \$1,368,378 in 2019 and \$1,364,666 in 2018.

NOTE 11 – NEW MARKETS TAX CREDIT TRANSACTIONS

In 2017, the College formed the Berea College Science and Health Foundation, Inc. (the Foundation) to facilitate New Markets Tax Credit (NMTC) financing transactions to partially fund the construction of the Margaret A. Cargill Natural Sciences and Health Building.

The NMTC Program attracts private capital into low-income communities by permitting individual and corporate investors to receive a tax credit against their federal income tax in exchange for making equity investments in specialized financial intermediaries, called Community Development Entities (CDEs). The credit totals 39 percent of the original investment amount and is claimed over a period of seven years. Berea College serves as the "leverage lender" in these transactions and is not the recipient of the tax credit. The Foundation is the qualified borrower in the NMTC transactions and entered into the following loan agreements with CDEs, which are included in long-term debt in the consolidated statements of net position. The land and title of the building were transferred, by the College, to the Foundation and serve as collateral for the financing transaction. Intercompany transactions between the College and Foundation have been eliminated in the consolidated financial statements.

Partnerships of Hope XVIII, LLC, a CDE, is 99% owned by the Berea College Investment Fund, LLC (the "Fund"). The Fund is 100% owned by PNC New Markets Investment Partners, LLC ("PNC") after a leverage loan from Berea of \$6,990,000 and a contribution from PNC. Partnerships of Hope XVIII, LLC then loaned \$10,000,000 to the Foundation, consisting of \$6,990,000 from the College and \$3,010,000 of funds representing PNC's interest in Partnerships of Hope XVIII, LLC.

Pacesetter CDE, LLC, a CDE is 99% owned by Petros-Pacesetter Kentucky Investment Fund 2, LLC (the "Fund 2"). The Fund 2 is 100% owned by U.S. Bank National Association ("U.S. Bank") after a leverage loan from Berea of \$3,543,750 and a contribution from U.S. Bank. Pacesetter CDE, LLC then loaned \$4,166,667 to the Foundation, consisting of \$3,543,750 from the College and \$622,917 of funds representing U.S. Bank's interest in Pacesetter CDE, LLC.

NOTE 11 – NEW MARKETS TAX CREDIT TRANSACTIONS (Continued)

Brownfield Revitalization CDE, LLC a CDE is 99% owned by USBCDC Investment Fund 189, LLC (the "Fund 3"). The Fund 3 is 100% owned by U.S. Bank after a leverage loan from Berea of $3,517,500 and a contribution from U.S. Bank. Brownfield Revitalization CDE, LLC then loaned $4,166,666 to the Foundation, consisting of $3,517,500 from the College and $649,166 of funds representing U.S. Bank's interest in Brownfield Revitalization CDE, LLC.

Partnerships of Hope XX, LLC, a CDE, is 99% owned by the Berea College Investment Fund 2, LLC (the "Fund 4"). The Fund 4 is 100% owned by PNC New Markets Investment Partners, LLC ("PNC") after a leverage loan from Berea of $6,291,000 and a contribution from PNC. Partnerships of Hope XX, LLC then loaned $9,000,000 to the Foundation, consisting of $6,291,000 from the College and $2,709,000 of funds representing PNC's interest in Partnerships of Hope XX, LLC.

Dakotas XXIV, LLC, a CDE, is 99% owned by the Berea College Investment Fund 2, LLC (the "Fund 5"). The Fund 5 is 100% owned by PNC New Markets Investment Partners, LLC ("PNC") after a leverage loan from Berea of $6,958,000 and a contribution from PNC. Dakotas XXIV, LLC then loaned $9,600,000 to the Foundation, consisting of $6,958,000 from the College and $2,642,000 of funds representing PNC's interest in Dakotas XXIV, LLC.

Mountain Association for Community Economic Development, Inc. (MACED) is a CDE. The College is not a leverage lender for this transaction. The note payable is between MACED and the Foundation.

NOTE 11 – NEW MARKETS TAX CREDIT TRANSACTIONS (Continued)

	June 30, 2019	June 30, 2018
Partnerships of Hope XVIII, LLC - Issued September 22, 2017; interest paid quarterly at fixed rate of 1.127641%, per annum, through August 2047; monthly principal payments begin on December 10, 2024 and continue quarterly until loan is fully amortized on August 10, 2047	$ 3,010,000	$ 3,010,000
Pacesetter CDE, LLC - Issued October 6, 2017; interest is paid quarterly at fixed rate of 1%, per annum, through September 2046; monthly principal payments begin on December 10, 2023 and continue quarterly until the loan is fully amortized on September 10, 2046.	622,917	622,917
Brownfield Revitalization CDE, LLC - Issued October 6, 2017; interest paid quarterly at fixed rate of 1%, per annum, through September 2046; monthly principal payments begin on December 10, 2023 and continue quarterly until the loan is fully amortized on September 10, 2046.	649,166	649,166
Mountain Association for Community Economic Development, Inc. - Issued January 5, 2018; due January 5, 2025; quarterly payments at fixed rate of 3.25%, per annum, until December 31, 2018 and 0.20%, per annum, thereafter.	1,650,000	1,650,000
Partnerships of Hope XX, LLC - Issued July 10, 2018; interest paid quarterly at fixed rate of 1.394891%, per annum, through December 2047; monthly principal payments begin on December 10, 2025 and continue quarterly until loan is fully amortized on December 31, 2047.	2,709,000	-
Dakotas XXIV, LLC - Issued July 10, 2018; interest paid quarterly at fixed rate of 1.394891%, per annum, through December 2047; monthly principal payments begin on December 10, 2025 and continue quarterly until loan is fully amortized on December 31, 2047.	2,642,000	-
	$ 11,283,083	$ 5,932,083

In connection with the completion of the seven year NMTC period for Fund 1, Fund 2, Fund 3, Fund 4 and Fund 5, the principal balance of the notes payable, outlined in the table above, is expected to be converted into equity through a put/call option and the Foundation assets will be transferred to the College. The Foundation is required to submit quarterly financial statements to the CDEs and is in compliance with that requirement as of June 30, 2019.

NOTE 12 – CONTRIBUTIONS AND BEQUESTS IN PROBATE

	June 30, 2019 Total	Due In: One Year or Less	Due In: One Year to Five Years	Due In: Over Five Years	June 30, 2018 Total
Unconditional Promises for -					
Unrestricted [1]	$ 367,333	$ 367,008	$ 325	$ -	$ 784,023
Restricted [2]	2,705,244	2,411,146	294,098	-	8,603,416
Buildings and equipment [3]	4,657,346	1,574,046	3,083,300	-	18,114,854
Endowment	637,571	169,336	468,235	-	190,359
Reserve for unfulfilled promises	(65,809)	(42,810)	(22,999)	-	(87,980)
Total	8,301,685	4,478,726	3,822,959	-	27,604,672
Bequests in Probate	15,299,502	10,571,853	4,727,649	-	8,347,139
External Charitable Remainder Trusts*	3,725,213	-	-	3,725,213	3,619,274
Charitable Lead Trusts	403,500	40,350	161,400	201,750	443,850
Total	$ 27,729,900	$ 15,090,929	$ 8,712,008	$ 3,926,963	$ 40,014,935
Present Value of Estimated Future Cash Flows	$ 27,445,211	$ 15,090,929	$ 8,450,825	$ 3,903,457	$ 39,732,930

[1] June 30, 2019 balance includes $350,000 commitment from an external charitable trust, due in one year or less.

[2] June 30, 2019 balance includes $2,372,256 commitment from an external charitable trust ($2,101,280 due in one year or less, $270,976 due in one year to five years).

[3] June 30, 2019 balance includes $4,000,000 commitment from an external charitable trust ($1,000,000 due in one year or less, $3,000,000 due in one year to five years).

*Discounted beneficial interest in trusts.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

During the normal course of business, the College is involved in various claims and lawsuits. In the opinion of the College's administration, 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.

The College receives grants and contracts from certain federal, state, and local agencies to fund various activities. The costs, both direct and indirect, that have been charged to the grants or contracts are subject to examination and approval by the granting agency. It is the opinion of the College's administration that any disallowance or adjustment of such costs would not have a material effect on the consolidated financial statements.

At June 30, 2019, the College was committed under various contracts with alternative investment managers to fund $150,757,848 of capital calls for these investments. These capital calls will occur over the term of the respective agreements, which is generally no more than a ten-year period. As these capital calls are made, funds will be reallocated from investments in fixed-income securities. These investments are consistent with the strategic asset allocation guidelines for long-term investments as established by the College's Board of Trustees. The capital calls are summarized by the type of investment below:

Buy out	$ 3,303,579
Fund of funds	136,036,619
Special opportunities	11,417,650
Total	$ 150,757,848

The College has purchase commitments relating to construction projects of approximately $4,561,000 as of June 30, 2019.

NOTE 14 – CONCENTRATIONS

The College's operations are heavily dependent upon the spendable return from endowment investments. Therefore, an extended downturn in financial markets could have an adverse effect on the College's programs and activities.

Many of the College's students receive support from state and federal student financial assistance programs. A significant reduction in the level of this support, if it were to occur, might have an adverse effect on the College's programs and activities.

NOTE 15 – NET ASSETS RELEASED FROM RESTRICTIONS

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

	2019	2018
Purpose Restricted Contributions for -		
Instruction	$ 4,110,234	$ 3,872,122
Public service	1,591,494	1,512,542
Academic support	2,551,137	3,009,220
Student services	2,278,332	1,835,061
Residence halls	392,095	529,879
Student aid	1,650,053	2,191,505
Support services	2,091,915	3,493,679
Plant operations	52,136	267,508
	14,717,396	16,711,516
Time-Restricted Contributions - Long-Lived Assets	44,805,796	6,517,294
Total Net Assets Released from Restriction	$ 59,523,192	$ 23,228,810
Matured Annuity and Life Income Contracts - Purpose and Time Restricted Agreements Reclassified to Tuition Replacement Funds on Net Assets Without Donor Restrictons	$ 1,661,358	$ 642,587

NOTE 16 – TAX STATUS

Berea College has a determination from the IRS that it is a not-for-profit organization exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, the College is subject to federal income tax on any unrelated business income. No provision for income tax has been made in the accompanying consolidated financial statements.

GAAP requires the College to evaluate tax positions taken by the College and recognize a tax liability (or asset) if the College has taken an uncertain position that more likely than not would be sustained upon examination by the IRS. The College has analyzed the tax positions taken by the College and has concluded that there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. The College would recognize interest and penalties related to uncertain tax positions in interest and income tax expense, respectively. The College does not have an amount accrued for interest or penalties as of June 30, 2019 or 2018. The College is subject to routine audits by taxing jurisdictions; however there are currently no audits for any tax periods in progress. The College believes it is no longer subject to income tax examinations for years prior to 2016.

NOTE 17 – SUBSEQUENT EVENTS

We evaluate events and transactions that occur after the statement of financial position date as potential subsequent events. We performed this evaluation through September 16, 2019, the date on which we issued our consolidated financial statements. There were no events occurring during the evaluation period that would require recognition or disclosure in the consolidated financial statements.

Berea College