Berea College

Financial Statements

for the Year Ended June 30, 2020

Board of Trustees

Officers

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HIGHLIGHTS

	As of or for the Year Ended June 30, 2020	2019
OPERATING REVENUE	$ 151,007,755	$ 139,951,611
OPERATING EXPENSES	$ 139,121,807	$ 131,978,461
OPERATING REVENUE IN EXCESS OF OPERATING EXPENSES	$ 11,885,948	$ 7,973,150
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	$ 10,902,046	$ 21,694,090
LONG-TERM INVESTMENTS OF THE ENDOWMENT		
Original gift value	$ 573,062,561	$ 546,872,110
Investments at market	1,222,167,100	1,218,740,000
Interest and dividends, net	$ 22,883,951	$ 28,306,195
Return	1.9%	2.5%
Market price change	$ 12,899,161	$ 36,986,916
Return	1.1%	3.1%
Total return	$ 35,783,112	$ 65,293,111
Percent - time weighted	3.0%	5.6%
CASH AND IN-KIND CONTRIBUTIONS		
Cash gifts	$ 30,614,954	$ 40,572,294
Bequests	6,529,663	13,679,851
Total cash gifts	37,144,617	54,252,145
Gifts-in-kind	364,553	322,400
Total	$ 37,509,170	$ 54,574,545

REPORT OF THE VICE PRESIDENT FOR FINANCE

October 2020

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

The year 2020 will be remembered as one of the most challenging years in recent history. The global pandemic, COVID-19, spread rapidly causing sickness and death. Colleges and universities had to make quick decisions in response to the challenges. On March 13, 2020 Berea ceased all in-person classroom instruction and students were sent home to complete the semester by remote learning methods. Most employees were able to carry out their work responsibilities from home. Faculty, staff and students developed new approaches to work and learning. The Administrative Committee worked endlessly throughout the spring and summer of 2020 to develop policies and guidelines to safely reopen the campus. We are all wearing masks and practicing social distancing to help mitigate the spread of the virus. It is now September and we have 832 students classified as on campus and 588 students who have chosen to complete the semester on-line.

From a financial markets standpoint, 2020 has been a year of extremes. We experienced the fastest bear market in history, and now it has become the fastest recovery in history. The domestic stock market bottomed in March 2020 and in only a few months we have seen the strongest move off a bear market low in the history of the S&P 500 index. Also, during the last few months we have witnessed tremendous economic stimulus through federal fiscal and monetary policies. There remains much uncertainty around the long-term economic impact of the virus, but Berea is well-positioned in many ways to face the challenges.

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 3.0% in 2019-20. During the year, the endowment experienced a net market-price increase of $12.9 million and $22.9 million in income. Endowment additions amounted to $26.2 million for the year and was comprised of $15.9 million in endowment fund gifts, $1.3 million in matured planned giving instruments, and $9.0 million in other additions including, but not limited to, quasi endowment additions of $3.0 million for the student labor program, $2.5 million from prior years' operating budget surplus and $1.5 million from carbon credit proceeds to support the College forest. The June 30, 2020 endowment market value of $1,222.2 million is composed of cumulative original gifts and other additions of $573.1 million plus cumulative net market appreciation after endowment spending of $649.1 million. The market value of the quasi endowment portion of the investments as of June 30, 2020, was $567.9 million, or 46.5% 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.

Despite fierce headwinds stemming from a global pandemic and a resulting economic recession, Berea College was able to surpass the largest Berea Fund goal in the history of the College. With a goal of $4.825 million, the College exceeded that goal by $23,000. Contributions to the endowment in FY20 included the second-largest bequest from an alumnus in the history of the College. Throughout FY20, Berea's fundraising total from the Alumni and College Relations division was $26.1 million, compared to $24.5 million in the year prior. When external fundraising from the Strategic Initiatives division is included, the total amount raised is $37.5 million. The Alumni and College Relations division received a total of 27,260 gifts in FY20 from 10,743 donors, including donations from 909 current students, who contribute a portion of their earnings back to the College and are known as Berea Patrons. Cumulative giving from Berea Patrons since its inception in 2013 now totals more than $175,000, a remarkable figure.

As the College began its fundraising efforts for FY21, giving continues to remain strong. July 2020 gifts for the Berea Fund exceeded total gifts for July 2019. Members of Alumni and College Relations remain hopeful that the College will meet its goal of 1,600 donors for Giving Day in September, one donor for each Berea College student.

Capital improvements continued throughout the year with the replacement of Kettering Residence Hall. The original Kettering Residence Hall, which was built in 1971 and housed 144 students, was razed in February 2020 making way for the new Kettering Residence Hall. The new 47,280 square foot hall is on schedule to be completed in July 2021 and will provide 172 beds and a three-bedroom apartment for an area coordinator. 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.

We broke ground on the new Facilities Management (FM) Complex in November 2019 which will replace the existing eight structure complex constructed between 1930 and 1960. The new complex will consist of a 27,000 square foot main building and a 16,000 square foot auxiliary structure. The main structure will consolidate all FM staff, administrative offices, and all trades except the auto maintenance shop and recycling. The auxiliary structure is planned to house automotive, recycling, bulk storage, as well as provide future expansion needs. The office will be two-story to minimize the footprint and compliment the predominant campus architecture. On schedule to be completed by December 2020, this project will result in creating a safe, cohesive, inclusive, and efficient work environment to maintain high work morale and efficient work-flow.

Financial Position

Operating results and financial position of the College remain strong. Operating revenue in excess of operating expenses amounted to $11.9 million. **Total Net Assets** (total assets less liabilities) of the College were $1,591.1 million, increasing by $21.1 million or 1.3 percent during the year. This change reflects an increase in the market value of total long-term investments during the year from $1,279.9 million as of June 30, 2019 to $1,281.1 million as of June 30, 2020.

At June 30, 2020, **Total Assets** of the College were $1,671.9 million. Of this amount, long-term investments (including endowment funds, annuity and life income funds and other funds) comprised $1,281.1 million; net property, plant and equipment totaled $248.2 million; and current assets totaled $117.5 million. Long-term contributions receivable and bequests in probate totaled $22.5 million; non-current prepaid expenses totaled $2.0 million; and long-term receivables totaled approximately $0.6 million.

Total Liabilities decreased by $1.5 million from $82.3 million as of June 30, 2019 to $80.8 million as of June 30, 2020. The decrease was due to $3.0 million decrease in debt partially offset by an increase in the interest rate swap liability of $2.1 million.

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 165 years, we must continually seek to discuss and debate our ideals in quest of ways to always advance this great institution.

Respectfully submitted,

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, 2020 and 2019, and the changes in its net assets and cash flows for the years then ended.

October 1, 2020

Lyle D. Roelofs
President

Jeffrey S. Amburgey
Vice President for Finance

Crowe

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, 2020 and 2019, 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, 2020 and 2019, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the 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 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 audit of the consolidated financial statements and accordingly, we do not express an opinion or provide any assurance on them.

Crowe LLP

Crowe LLP

Louisville, Kentucky
October 1, 2020

BEREA COLLEGE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2020	June 30, 2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 82,831,045	$ 76,893,484
Accrued interest on investments	704,065	911,614
Accounts receivable - U.S. Government	11,915,525	13,032,430
Other accounts receivable	1,632,491	1,862,513
Inventories	1,084,675	1,167,028
Prepaid expenses and other assets	788,291	881,139
Contributions receivable and bequests in probate	18,564,596	15,090,929
Total current assets	117,520,688	109,839,137
PREPAID EXPENSES AND OTHER ASSETS	2,011,384	912,559
CONTRIBUTIONS RECEIVABLE AND BEQUESTS IN PROBATE	22,505,154	12,354,282
LONG-TERM RECEIVABLES		
Institutional student loans	596,051	703,068
Total long-term receivables	596,051	703,068
LONG-TERM INVESTMENTS		
Donor restricted endowment	654,248,100	658,194,000
Board designated endowment	567,919,000	560,546,000
Annuity and life income	23,993,400	25,391,400
Funds held in trust by others	30,818,000	31,014,000
Other investments	4,094,200	4,748,500
Total long-term investments	1,281,072,700	1,279,893,900
NET PROPERTY, PLANT AND EQUIPMENT	248,195,854	248,643,545
Total assets	$ 1,671,901,831	$ 1,652,346,491

See accompanying notes to consolidated financial statements.

BEREA COLLEGE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2020	June 30, 2019
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 10,990,814	$ 12,189,010
Accounts payable - capital construction projects	779,285	1,586,846
Accrued salaries and wages	3,705,160	3,325,890
Current portion of interest rate swap valuation	719,052	471,918
Current maturities of long-term debt	2,942,539	3,085,328
Other current liabilities	1,206,578	881,257
Total current liabilities	20,343,428	21,540,249
LONG-TERM LIABILITIES		
Actuarial liability for annuities payable and other liabilities	14,917,141	14,505,797
Deferred financing expense	(1,221,673)	(1,449,055)
Interest rate swap valuation	6,483,948	4,605,082
Long-term debt	40,260,219	43,092,758
Total long-term liabilities	60,439,635	60,754,582
Total liabilities	80,783,063	82,294,831
NET ASSETS		
Without donor restrictions		
For current operations	101,953	101,239
Designated for specific purposes	64,288,445	56,733,002
Invested in property, plant and equipment	194,127,329	182,501,517
Support of future operations from:		
Contributions receivable and bequests in probate	11,745,631	12,708,642
Board designated endowment funds	567,919,000	560,546,000
Total net assets without donor restrictions	838,182,358	812,590,400
With donor restrictions		
Unexpended contributions restricted for operations	37,989,421	18,695,420
Unexpended contributions restricted for plant renewals and replacement	7,994,168	14,045,075
Annuity and life income contracts	10,581,800	12,120,100
Expended contributions for long-lived assets	3,576,680	12,862,957
Loan funds	3,121,327	3,054,530
Contributions receivable and bequests in probate	4,606,914	7,475,178
Funds held in trust by others	30,818,000	31,014,000
Donor restricted endowment funds - accumulated earnings	375,872,292	388,393,767
Donor restricted endowment funds - original gift	278,375,808	269,800,233
Total net assets with donor restrictions	752,936,410	757,461,260
Total net assets	1,591,118,768	1,570,051,660
Total liabilities and net assets	$ 1,671,901,831	$ 1,652,346,491

See accompanying notes to consolidated financial statements.

BEREA COLLEGE
CONSOLIDATED STATEMENTS OF ACTIVITIES

CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	Year Ended June 30, 2020	2019
OPERATING REVENUE		
Spendable return from long-term investments	$ 52,994,574	$ 51,450,536
Gifts and donations	6,448,140	5,929,382
Federal grants	57,518,226	45,874,491
Cost of education fees paid by federal and state scholarships	3,400,000	3,200,000
Fees paid by students	957,861	1,339,595
Other income	8,454,359	6,481,311
Residence halls and dining service	8,937,077	9,472,182
Student industries and rentals	3,560,157	4,465,679
Net assets released from restrictions	14,986,528	14,717,396
Gross operating revenue	157,256,922	142,930,572
Less: Student aid	(6,249,167)	(2,978,961)
Net operating revenue	151,007,755	139,951,611
OPERATING EXPENSES		
Program Services -		
Instruction	29,483,972	29,714,404
Public service	49,514,657	42,734,682
Academic support	10,419,270	11,227,190
Student services	12,290,341	12,134,512
Residence halls and dining service	10,911,288	9,976,495
Student industries and rentals	5,651,283	6,173,474
Total Program Services	118,270,811	111,960,757
Support Services, including fund raising expense of $6,404,077 in 2020 and $6,558,198 in 2019	20,850,996	20,017,704
Total operating expenses	139,121,807	131,978,461
Operating revenue in excess of operating expenses	11,885,948	7,973,150
OTHER UNRESTRICTED ACTIVITY		
Net assets released from capital restrictions	17,752,494	44,805,796
Reclassification of net assets	-	(60,000)
(Loss) gain on sale of property, plant and equipment	(115,649)	320
Loss on valuation of interest rate swaps	(2,126,000)	(1,453,000)
Total other unrestricted activity	15,510,845	43,293,116
REVENUES DESIGNATED FOR LONG-TERM INVESTMENT		
Unrestricted bequests	7,384,850	12,625,360
Matured annuity and life income contracts	1,027,427	1,661,358
Investment return (less) more than amounts designated for current operations	(10,217,112)	3,867,614
Total (decrease) increase in revenues designated for long-term investment	(1,804,835)	18,154,332
Increase in net assets without donor restrictions	$ 25,591,958	$ 69,420,598

See accompanying notes to consolidated financial statements.

BEREA COLLEGE
CONSOLIDATED STATEMENTS OF ACTIVITIES

	Year Ended June 30, 2020	Year Ended June 30, 2019
CHANGES IN TOTAL NET ASSETS		
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Operating revenue in excess of operating expenses	$ 11,885,948	$ 7,973,150
Other unrestricted activity	15,510,845	43,293,116
(Decrease) increase in revenues designated for long-term investment	(1,804,835)	18,154,332
Increase in net assets without donor restrictions	25,591,958	69,420,598
NET ASSETS WITH DONOR RESTRICTIONS		
Restricted gifts and donations	37,300,720	23,732,084
Restricted spendable return on endowment investments	5,344,934	5,192,877
Restricted return on endowment investments	206,955	191,216
Investment return (less) more than amounts desingated for current operations	(11,937,835)	4,430,975
Change in underwater endowment funds	(608,404)	159,893
Restricted capital (loss) gain on funds held in trust by others	(196,000)	465,000
Net adjustment of annuity payment and deferred giving liability	(868,771)	943,507
Reclassification of net assets released from restrictions	(14,986,528)	(14,657,396)
Reclassification of net assets released from capital restrictions	(17,752,494)	(44,805,796)
Reclassification of matured annuity and life income contracts to revenues designated for long-term investment	(1,027,427)	(1,661,358)
Decrease in net assets with donor restrictions	(4,524,850)	(26,008,998)
Total increase in net assets	21,067,108	43,411,600
NET ASSETS		
Beginning of year	1,570,051,660	1,526,640,060
End of year	$ 1,591,118,768	$ 1,570,051,660

See accompanying notes to consolidated financial statements.

BEREA COLLEGE
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 21,067,108	$ 43,411,600
Adjustments to reconcile increase in net assets to net cash used in operating activities -		
Realized and unrealized gain on long-term investments	(11,590,389)	(38,133,948)
Restricted return on endowment funds	(206,955)	(191,216)
Gifts and bequests for financing activities	(19,281,158)	(33,054,072)
(Increase) decrease in contributions receivable and bequests in probate	(13,624,539)	12,287,719
Gift value of annuity contracts written	(601,810)	(1,479,280)
Depreciation	11,216,815	10,433,837
Loss (gain) on sale of property, plant and equipment	115,649	(320)
Loss on revaluation of interest rate swaps	2,126,000	1,453,000
Decrease (increase) in other current assets	1,729,677	(3,943,415)
(Increase) decrease in non-current prepaid expenses and other assets other than cash payments for debt issuance costs	(1,098,825)	222,507
(Decrease) increase in current liabilities other than capital construction accounts payable and current maturities of long-term debt	(493,605)	2,595,976
Increase (decrease) in actuarial annuity payment liability and other liabilities	411,344	(561,625)
Decrease (increase) in deferred debt financing expenses	227,382	(121,186)
Net cash used in operating activities	(10,003,306)	(7,080,423)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities held for long-term investment	(365,985,727)	(608,259,242)
Proceeds from sales and maturities of investments	376,999,126	621,589,270
Purchase of property, plant and equipment	(10,902,046)	(21,694,090)
Decrease in capital construction accounts payable	(807,561)	(1,081,217)
Proceeds from sale of property, plant and equipment	17,273	10,370
Decrease (increase) in long-term student loans	107,017	(8,025)
Excess (deficit) of operating income over expense	(571,918)	(9,442,934)
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts and bequests received for -		
Long-term investment	15,872,008	14,719,974
Property, plant and equipment	3,408,950	18,333,598
Student loans	200	500
Endowment return restricted for long-term investments	206,955	191,216
Repayment of indebtedness	(3,725,328)	(3,641,804)
Long-term debt issued	750,000	5,351,000
Net cash provided by financing activities	16,512,785	34,954,484
Net increase in cash and cash equivalents	5,937,561	18,431,127
Cash and cash equivalents, beginning of year	76,893,484	58,462,357
Cash and cash equivalents, end of year	$ 82,831,045	$ 76,893,484

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 in probate, 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 0.29% 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, 2020 and 2019, student loans totaled $876,051 (net of $335,000 loan loss reserve) and $983,068 (net of $438,938 loan loss reserve), respectively, of which $280,000 and $280,000 for June 30, 2020 and 2019, respectively, are reflected in current assets and were funded from institutional resources. 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:

	2020	2019
Educational and general purposes	$ 10,250,080	$ 9,557,174
Student industries	966,735	876,663
	$ 11,216,815	$ 10,433,837

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 that are in probate or that have been through probate and received by the College as additions to the quasi endowment 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, 2020 and 2019, are included in the amount of $3,400,000 and $3,200,000, respectively. There are no deferred scholarships as of June 30, 2020 or 2019.

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, 2020 and 2019.

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 2020 and 2019 in the amounts of $95,094 and $123,588, respectively. The balance of deferred revenue at June 30, 2020 will be recognized as revenue over the academic term beginning July 1, 2020, as services are rendered.

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.

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.

In July 2019, the College participated in a forest carbon project that was approved by the Air Resource Board of California. Most of the credits that were awarded were sold to an energy resource company and the College recognized $3,242,448 of revenue within the fiscal year. The revenue is reflected in other income on the consolidated statements of activities.

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

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 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:

	June 30, 2020	June 30, 2019
Cash and cash equivalents	$ 54,477,416	$ 35,435,216
Accounts receivable	1,632,491	1,862,513
Contributions receivable	3,425	367,008
Distributions from beneficial interests in funds held in trust by others	932,000	951,000
Endowment spendable return	50,127,776	49,438,751
Total	$ 107,173,108	$ 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 $567,919,000 and $560,546,000 at June 30, 2020 and 2019, respectively, 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	Fundraising and	Total for Year Ended
	Instruction	Public Service	Other	Total	and General	Development	June 30, 2020
Grants and other assistance	$ -	$ 693,823	$ -	$ 693,823	$ -	$ -	$ 693,823
Salaries and wages	16,169,002	13,253,647	12,500,565	41,923,214	7,252,594	3,932,156	53,107,964
Employee benefits and payroll taxes	3,595,960	3,089,697	2,832,541	9,518,197	1,278,216	850,174	11,646,587
Professional services	-	-	-	-	-	496,661	496,661
Accounting fees	-	-	-	-	113,450	-	113,450
Legal fees	-	-	-	-	349,705	-	349,705
Lobbying	-	-	16,122	16,122	-	-	16,122
Advertising and promotion	-	-	118,165	118,165	43,857	-	162,022
Office expenses	445,479	40,826	363,879	850,184	218,371	57,125	1,125,680
Information technology	-	-	120,314	120,314	2,096,894	-	2,217,208
Occupancy	1,058,302	55,811	715,609	1,829,722	118,766	48,113	1,996,601
Printing and publications	60,424	8,662	200,666	269,752	101,959	94,501	466,212
Travel	108,538	244,902	214,345	567,785	136,265	69,017	773,067
Conferences, conventions and meetings	73,017	65,674	269,884	408,575	89,549	14,177	512,301
Interest	696,725	3,009	495,135	1,194,869	170,011	2,594	1,367,474
Insurance	327,864	17,478	206,120	551,462	36,161	15,068	602,691
Depreciation	4,184,437	378,794	6,153,093	10,716,324	350,605	149,886	11,216,815
Repairs and maintenance	1,786,067	153,577	1,584,901	3,524,545	229,840	83,010	3,837,395
Other:							
Outreach programs	-	30,899,899	-	30,899,899	-	-	30,899,899
Residence halls and dining service	-	-	4,802,204	4,802,204	-	-	4,802,204
Boone Tavern	-	-	3,262,271	3,262,271	-	-	3,262,271
Rentals	-	-	322,660	322,660	-	-	322,660
Cost of Goods Sold	-	-	530,293	530,293	-	-	530,293
Health services	-	-	342,272	342,272	163,000	-	505,272
All other expenses	978,157	608,858	4,221,144	5,808,159	1,697,676	591,595	8,097,430
Total	$ 29,483,972	$ 49,514,657	$ 39,272,182	$ 118,270,811	$ 14,446,919	$ 6,404,077	$ 139,121,807

NOTE 3 – STATEMENT OF FUNCTIONAL EXPENSES (Continued)

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

NOTE 4 – LONG-TERM INVESTMENTS

	Year ended June 30, 2020	Year ended June 30, 2019
Endowment:		
Pooled Investments -		
U. S. equities	$ 465,327,500	$ 465,489,400
International equities	334,784,000	323,084,600
Corporate notes and bonds	99,349,500	60,153,000
U. S. Government securities	153,310,200	71,190,600
Private equity - venture capital	95,900	205,600
Private equity - buy out	2,470,000	7,415,100
Private equity - fund of funds	87,116,300	60,349,400
Hedge funds	44,334,400	143,902,600
Special opportunities	25,517,100	41,610,900
Short-term investments and cash	4,974,800	40,446,200
Total	1,217,279,700	1,213,847,400
Non Pooled Investments -		
U. S. equities	23,300	35,600
Corporate notes and bonds	40,400	28,300
Real estate	2,766,700	2,766,700
Short-term investments and cash	2,057,000	2,062,000
Total	4,887,400	4,892,600
Total endowment	1,222,167,100	1,218,740,000
Annuity and Life Income:		
U. S. equities	7,477,000	8,113,000
International equities	4,860,100	5,250,200
Corporate notes and bonds	3,561,100	3,767,100
U. S. Government securities	2,383,800	2,496,100
International bonds	1,323,200	1,387,100
Real estate - public investments	3,462,400	3,668,700
Insurance policies	74,000	68,200
Short-term investments and cash	851,800	641,000
Total annuity and life income	23,993,400	25,391,400
Funds Held in Trust by Others, where Berea College receives all or a stipulated percent of income	30,818,000	31,014,000
Other Investments	4,094,200	4,748,500
Total long-term investments	$ 1,281,072,700	$ 1,279,893,900

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 2020 and 2019, spendable return under the formulas amounted to $58,508,570 and $56,809,520, respectively. In 2020, actual cash income earned on pooled investments, net of $558,015 for investment management and custodial fees, amounted to $22,846,058, or $35,662,512 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 $37,893 in 2020 and $25,108 in 2019, while the market value of these investments of $4,887,400 at June 30, 2020 and $4,892,600 at June 30, 2019 decreased by $10,200 in 2020 and decreased by $7,700 in 2019. Additions to non-pooled endowment investments during 2020 and 2019 amounted to $5,000 each year.

Dividend and interest income of $22,883,951 and $28,306,195 reported net of external investment manager fees of $558,015 and $893,454 is included in the consolidated statements of activities for the years ended June 30, 2020 and 2019, 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, 2020, the College had 200 underwater endowment funds, with a total market value of $33,565,572 and a book value of $35,289,086, resulting in an underwater amount of $1,723,514. 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.

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 2020, the unit value of pooled investments changed as follows:

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

	2019-20				2018-19
	Market Value	Number of Units	Value Per Unit	Time Weighted Return Net of Fees	Market Value
Beginning balance	$ 1,213,847,400	792,637.944	$ 1,531.402		$ 1,187,182,800
Market price change	12,909,361		15.077	1.1%	36,994,616
Net income earned	22,846,058		28.823	1.9%	28,281,087
Spendable return	(58,508,570)		(73.815)	-	(56,809,520)
	(22,753,151)		(29.915)	3.0%	8,466,183
Additions	26,185,451	18,078.767	-		18,198,417
Ending balance	$ 1,217,279,700	810,716.711	$ 1,501.487		$ 1,213,847,400

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

	2020	2019
Pooled investments -		
Cash income, net	$ 22,846,058	$ 28,281,087
Market price change	12,909,361	36,994,616
Non-pooled investments -		
Cash income	37,893	25,108
Market price change	(10,200)	(7,700)
Total return	$ 35,783,112	$ 65,293,111
Distributed to -		
Net assets without donor restrictions		
Spendable return	$ 52,994,574	$ 51,450,536
Long-term investments	(10,217,112)	4,301,472
Net assets with donor restrictions		
Spendable return	5,344,934	5,192,877
Investment return more (less) than amounts designated for current operations	(11,937,835)	4,430,975
Underwater endowment funds	(608,404)	159,893
Restricted earnings	206,955	191,216
Total	$ 35,783,112	$ 65,726,969

NOTE 4 – LONG-TERM INVESTMENTS (Continued)

Endowment investments net asset composition by type of fund as of June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions		
	Board Designated	Accumulated Earnings	Original Gift	Total
Donor restricted endowment funds	$ -	$ 375,872,292	$ 278,375,808	$ 654,248,100
Board designated endowment funds	567,919,000	-	-	$ 567,919,000
	$ 567,919,000	$ 375,872,292	$ 278,375,808	$ 1,222,167,100

Changes in endowment investments net assets for the Fiscal Year ended June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions		
	Board Designated	Accumulated Earnings	Original Gift	Total
Endowment investments net assets, beginning of year	$ 560,546,000	$ 388,393,767	$ 269,800,233	$ 1,218,740,000
Investment return:				
Investment income	22,883,951	-	-	22,883,951
Net gains (realized (and unrealized)	6,290,419	6,608,742	-	12,899,161
Total investment return	29,174,370	6,608,742	-	35,783,112
Contributions	-	-	7,881,354	7,881,354
Other restricted additions	-	24,764	694,221	718,985
Board designated additions	17,590,112	-	-	17,590,112
Appropriation of endowment assets for expenditure	(39,391,482)	(19,154,981)	-	(58,546,463)
Endowment investments net assets, end of year	$ 567,919,000	$ 375,872,292	$ 278,375,808	$ 1,222,167,100

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)

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, 2020, the College has approximately 5,400 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, 2020:

	June 30, 2020 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	$ 7,031,800	$ -	$ 7,031,800	$ -	$ -
U.S. equities	465,350,800	465,350,800	-	-	-
International equities	334,784,000	334,784,000	-	-	-
Fixed income	252,700,100	204,215,500	48,484,600	-	-
Private equity	89,682,200	-	-	-	89,682,200
Hedge funds	44,334,400	-	-	-	44,334,400
Other endowment investments	28,283,800	-	-	2,766,700	25,517,100
Building maintenance investments	4,094,200	4,040,600	53,600	-	-
Certificates of deposit	452,818	-	452,818	-	-
Funds held in trust by others	30,818,000	-	-	30,818,000	-
Split-interest agreements	23,993,400	23,993,400	-	-	-
Total assets	$ 1,281,525,518	$ 1,032,384,300	$ 56,022,818	$ 33,584,700	$ 159,533,700
Liabilities					
Interest rate swap agreements	$ 7,203,000	$ -	$ 7,203,000	$ -	$ -

[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, 2019	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, 2020
Endowment investments	$ 2,766,700	$ -	$ -	$ -	$ 2,766,700
Funds held in trust by others	31,014,000	(196,000)	-	-	30,818,000
Total	$ 33,780,700	$ (196,000)	$ -	$ -	$ 33,584,700

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, 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 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.

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 $9,085,000 and $9,725,000 at June 30, 2020 and 2019, respectively. The average rate received from the interest rate swap counterparty during 2020 and 2019 was 1.25% and 1.62%, respectively, and the average interest rate paid by the College for 2020 and 2019 was 3.45%. The interest rate swap matures in 2032. Total net interest expensed during 2020 and 2019 was $439,472 and $328,111, 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 $557,239.

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 $4,840,000 and $5,280,000 at June 30, 2020 and 2019, 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 2020 and 2019 was 1.25% and 1.62%, respectively, and the average interest rate paid by the College for 2020 and 2019 was 3.746%. The interest rate swap matures in 2029. Total net interest expensed during 2020 and 2019 was $142,430 and $119,566, 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 $161,813.

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, 2020 and 2019 resulted in a liability of $7,203,000 and $5,077,000, 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 $3,252,202 in 2020 and $3,007,972 in 2019.

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT

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

	2020	2019
Educational property, plant and equipment	$ 345,957,492	$ 328,333,535
Student industry plant and equipment	24,582,100	24,177,137
Rental property	3,442,762	3,442,762
Forest and farms	3,181,257	3,181,257
Collections and works of art	5,029,745	4,720,245
Construction in process	6,002,024	13,867,179
Less accumulated depreciation	(139,999,526)	(129,078,570)
	$ 248,195,854	$ 248,643,545

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 2020 and 2019 accounting for costs associated with asbestos abatement is as follows:

	2020	2019
Beginning balance	$ 994,994	$ 969,780
Accretion expense	21,450	25,214
Liabilities settled during the year	(170,043)	-
Ending balance	$ 846,401	$ 994,994

NOTE 10 – LONG-TERM DEBT

	June 30, 2020	June 30, 2019
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2002A - Issued August 29, 2002; due June 1, 2032; variable interest rate, 0.12% as of June, 2020 with synthetic fixed rate of 3.45%; proceeeds used for various capital projects	$ 9,085,000	$ 9,725,000
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2003B - Issued December 11, 2003; annual payments through June 1, 2029; variable interest rate, 0.12% as of June, 2020 with synthetic fixed rate of 3.746%; proceeds used for various capital projects	4,840,000	5,280,000
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
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	2,389,607	3,424,708
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	2,925,267	3,629,167
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	8,540,000	8,605,000
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	3,389,801	4,026,128
Community Ventures Corporation - Issued January 31, 2020; due April 30, 2027; quarterly interest payments at fixed rate of 2.00%, per annum.	750,000	-
Subtotal	31,919,675	34,895,003
New markets tax credit transactions - see Note 11	11,283,083	11,283,083
	43,202,758	46,178,086
Less current portion	(2,942,539)	(3,085,328)
Total Long-Term Debt	$ 40,260,219	$ 43,092,758

NOTE 10 – LONG-TERM DEBT (Continued)

Principal payments on long-term debt are required to be made in each of the following fiscal years: \$2,942,539 in 2021; \$3,004,254 in 2022; \$2,249,878 in 2023; \$2,021,305 in 2024; \$2,071,699 in 2025 and \$30,913,083 in subsequent years thereafter.

The fair value of the College's long-term debt at June 30, 2020 and 2019 was estimated to be approximately \$43,520,086 and \$46,178,086, respectively, based upon rates available to the College for debt with similar terms and remaining maturities.

Interest expensed in 2020 and 2019 totaled \$1,367,474 and \$1,443,845, respectively.

Cash payments for interest amounted to \$1,359,277 in 2020 and \$1,368,378 in 2019.

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,	
	2020	2019
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	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	2,642,000
	$ 11,283,083	$ 11,283,083

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, 2020.

NOTE 12 – CONTRIBUTIONS AND BEQUESTS IN PROBATE

	June 30, 2020 Total	Due In: One Year or Less	Due In: One Year to Five Years	Due In: Over Five Years	June 30, 2019 Total
Unconditional Promises for -					
Unrestricted	$ 9,850	$ 3,425	$ 6,425	$ -	$ 367,333
Restricted [1]	21,141,761	12,360,711	8,781,050	-	2,705,244
Buildings and equipment [2]	3,635,295	3,417,895	217,400	-	4,657,346
Endowment	820,253	302,835	517,418	-	637,571
Reserve for unfulfilled promises	(59,979)	(30,209)	(29,770)	-	(65,809)
Total	25,547,180	16,054,657	9,492,523	-	8,301,685
Bequests in Probate	11,349,783	2,454,589	8,895,194	-	15,299,502
External Charitable Remainder Trusts*	3,795,876	-	-	3,795,876	3,725,213
Charitable Lead Trusts	483,150	55,350	221,400	206,400	403,500
Total	$ 41,175,989	$ 18,564,596	$ 18,609,117	$ 4,002,276	$ 27,729,900
Present Value of Estimated Future Cash Flows	$ 41,069,750	$ 18,564,596	$ 18,524,897	$ 3,980,257	$ 27,445,211

[1] June 30, 2020 balance includes $21,107,696 commitment from an external charitable trust ($12,329,646 due in one year or less, $8,778,050 due in one year to five years).

[2] June 30, 2020 balance includes $3,000,000 commitment from an external charitable trust, due in one year or less.

*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, 2020, the College was committed under various contracts with alternative investment managers to fund $262,571,223 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:

Fund of funds	$ 197,253,573
Special opportunities	65,317,650
Total	$ 262,571,223

The College has purchase commitments relating to construction projects of approximately $14,621,000 as of June 30, 2020.

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:

	2020	2019
Purpose Restricted Contributions for -		
Instruction	$ 2,147,937	$ 4,110,234
Public service	1,750,690	1,591,494
Academic support	1,768,001	2,551,137
Student services	2,740,632	2,278,332
Residence halls	-	392,095
Student aid	4,032,525	1,650,053
Support services	2,546,743	2,091,915
Plant operations	-	52,136
	14,986,528	14,717,396
Time-Restricted Contributions - Long-Lived Assets	17,752,493	44,805,796
Total Net Assets Released from Restriction	$ 32,739,021	$ 59,523,192
Matured Annuity and Life Income Contracts - Purpose and Time Restricted Agreements Reclassified to Tuition Replacement Funds on Net Assets Without Donor Restrictons	$ 1,027,427	$ 1,661,358

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, 2020 or 2019. 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 2017.

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 October 1, 2020, 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.

In December 2019, a novel strain of coronavirus (COVID-19) surfaced in Wuhan, China, and has spread around the world, with resulting businesses and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the College could be materially adversely affected. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others.

The College’s financial model is heavily dependent on successful fundraising and endowment investment performance and both programs continue to be monitored closely especially due to the uncertainties surrounding COVID-19. Despite the global pandemic, fundraising in 2019-20 exceeded budget and has continued to meet budget expectations during the first few months of 2020-21. The investment program continues to be closely monitored with increased frequency of communication between and among the Investment Committee of the College, the College’s outsourced chief investment officer firm and College leadership. The investment portfolio continues to be prudently managed to take advantage of volatility where it makes sense while maintaining appropriate risk discipline.

BEREA COLLEGE