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BEREA COLLEGE

FINANCIAL STATEMENTS
for the Year Ended June 30, 2021

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CONTENTS

HIGHLIGHTS

	As of or for the Year Ended June 30,	
	2021	2020
OPERATING REVENUE	$ 139,757,432	$ 150,892,106
OPERATING EXPENSES	$ 135,860,712	$ 139,121,807
OPERATING REVENUE IN EXCESS OF OPERATING EXPENSES	$ 3,896,720	$ 11,770,299
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	$ 21,626,598	$ 10,902,046
LONG-TERM INVESTMENTS OF THE ENDOWMENT		
Original gift value	$ 623,982,665	$ 573,062,561
Investments at market	1,575,414,600	1,222,167,100
Interest and dividends, net	$ 16,145,938	$ 22,883,951
Return	1.4%	1.9%
Market price change	$ 345,675,616	$ 12,899,161
Return	28.4%	1.1%
Total return	$ 361,821,554	$ 35,783,112
Percent - time weighted	29.8%	3.0%
CASH AND IN-KIND CONTRIBUTIONS		
Cash gifts	$ 37,366,839	$ 30,614,954
Bequests	12,190,201	6,529,663
Total cash gifts	49,557,040	37,144,617
Gifts-in-kind	6,210	364,553
Total	$ 49,563,250	$ 37,509,170

REPORT OF THE VICE PRESIDENT FOR FINANCE

October 2021

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

It was my hope and desire that when this letter was written most of the challenges of the global pandemic would be behind us. Unfortunately, the Delta variant has proven to be more infectious and is leading to increased transmissibility when compared with other variants, even in some vaccinated individuals. Despite the pandemic, several great accomplishments filled the year.

The endowment generated its best single-year investment performance since 2000. 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 29.8% in 2020-21. During the year, the endowment experienced a net market-price increase of $345.7 million and $16.1 million in income resulting in a net investment return of 29.8%. Endowment additions amounted to $50.9 million for the year and was comprised of $14.6 million in endowment fund gifts, $1.4 million in matured planned giving instruments, and $34.9 million in other additions including, but not limited to, quasi endowment additions of $30.0 million from taxable bond proceeds and $3.0 million reinvestment of unrestricted endowment spendable return. The June 30, 2021 endowment market value of $1,575.4 million is composed of cumulative original gifts and other additions of $624.0 million plus cumulative net market appreciation after endowment spending of $951.4 million. The market value of the quasi endowment portion of the investments as of June 30, 2021, was $753.5 million, or 47.8% 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.

After two years of construction, the hydroelectric project at Lock 12 on the Kentucky River became fully operational in late Spring 2021. As the primary investor in the project, the College will not only receive an attractive return on its investment, but the project will offset about half of the electricity used by the College. The College is considering an investment in another hydroelectric project at Lock 14 on the Kentucky River.

To further the College's mission, a $50 million Sustainability Bond issuance was completed in Spring 2021. This was also the first sustainability bond issuance for the Not-for-Profit Higher Education sector and leveraged a unique structure for sustainability funding, which carries both the ESG Green Bond and Social Bond designations. The financing will enable green projects on campus and provides a facilities fund invested alongside the endowment to support future capital expenditures and maintenance in perpetuity. This takes advantage of our ability to borrow at interest rates lower than the endowment's expected rate of return. Berea is one of only 13 Aaa credit rated colleges, a rating maintained even while taking on the debt for this transaction. The 50-year bullet maturity represents the longest tenor sold by any academic institution post-COVID.

FY21 continued to throw challenges to fundraising—for Berea and many other institutions and organizations. Most limiting was the inability to travel to see alumni and friends. But a host of phone and virtual conversations and events were an important way for the Alumni, Communications and Philanthropy (ACP) team to connect with the many supporters of Berea's mission.

This year's Berea Fund goal was $4.6 million, and overall, the College raised $4,672,678 for the Fund. A highlight of the year was the 100 in 100 campaign, which celebrated the centennial of the decision by the Board of Trustees requiring all unrestricted bequests to go into the endowment. The goal was 100 new bequest intentions, and the total came in at 124, which is projected to bring in an eventual total of $16.7 million once these 124 bequests are realized (based on the average bequest of $135,000).

Berea's fundraising total for FY21 from Alumni, Communications and Philanthropy was $25.1 million, compared to $26.1 million in FY20. When fundraising from Strategic Initiatives is included, the total amount raised for FY21 is $49.5 million, compared to $37.5 million in FY20.

A total of 23,758 gifts in FY21 were from 14,422 donors (including 100 percent of Berea trustees), including 3,966 gifts from 421 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 begins its fundraising efforts for FY22, giving is strong. July 2021 gifts for the Berea Fund exceeded total gifts for July 2020. The Berea Fund goal for FY22 is $4.725 million. The ACP team is seeking 1,855 donors for Giving Day on September 2, in honor of the year of Berea's founding.

Financial Position

Operating results and the financial position of the College remain very strong. Operating revenue in excess of operating expenses amounted to $6.7 million. **Total Net Assets** (total assets less liabilities) of the College were $1,938.8 million, increasing by $347.7 million or 21.9 percent during the year. This change reflects an increase in the market value of total long-term investments during the year from $1,281.1 million as of June 30, 2020 to $1,645.1 million as of June 30, 2021.

At June 30, 2021, **Total Assets** of the College were $2,075.1 million. Of this amount, long-term investments (including endowment funds, annuity and life income funds and other funds) comprised $1,645.1 million; net property, plant and equipment totaled $255.2 million; and current assets totaled $156.5 million. Long-term contributions receivable and bequests in probate totaled $15.6 million; non-current prepaid expenses totaled $2.4 million; and long-term receivables totaled approximately $0.3 million.

Total Liabilities increased by $55.4 million from $80.8 million as of June 30, 2020 to $136.2 million as of June 30, 2021. The increase was primarily due to $50.0 million of new long-term bonds coupled with $4.1 million of deferred revenue related to Higher Education Emergency Relief Funds received from the federal government to assist with the pandemic.

Concluding Comments

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

Respectfully submitted,

Jeffrey S. Amburgey

Jeffrey S. Amburgey
Vice President for Finance

RESPONSIBILITY FOR THE COLLEGE'S CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

We believe the following financial statements present fairly, in all material respects, the financial position of the College as of June 30, 2021 and 2020, and the changes in its net assets and cash flows for the years then ended.

October 1, 2021

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, 2021 and 2020, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the 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, 2021 and 2020, 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 audits were 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 information has not been subjected to the auditing procedures applied in the audits 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, 2021

BEREA COLLEGE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2021	June 30, 2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 109,954,375	$ 82,831,045
Accrued interest on investments	1,755,530	704,065
Accounts receivable - U.S. Government	18,122,387	11,915,525
Other accounts receivable	1,187,309	1,632,491
Inventories	1,063,147	1,084,675
Prepaid expenses and other assets	1,882,885	788,291
Contributions receivable and bequests in probate, net	22,462,655	18,564,596
Total current assets	156,428,288	117,520,688
PREPAID EXPENSES AND OTHER ASSETS	2,418,247	2,011,384
CONTRIBUTIONS RECEIVABLE AND BEQUESTS IN PROBATE, NET	15,598,349	22,505,154
LONG-TERM RECEIVABLES		
Institutional student loans	337,256	596,051
Total long-term receivables	337,256	596,051
LONG-TERM INVESTMENTS		
Donor restricted endowment	821,902,200	654,248,100
Board designated endowment	753,512,400	567,919,000
Annuity and life income	28,143,400	23,993,400
Funds held in trust by others	37,472,000	30,818,000
Other investments	4,044,800	4,094,200
Total long-term investments	1,645,074,800	1,281,072,700
PROPERTY, PLANT AND EQUIPMENT, NET	255,215,023	248,195,854
Total assets	$ 2,075,071,963	$ 1,671,901,831

See accompanying notes to consolidated financial statements.

BEREA COLLEGE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2021	June 30, 2020
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 13,737,330	$ 10,990,814
Accounts payable - capital construction projects	1,752,097	779,285
Accrued salaries and wages	4,262,621	3,705,160
Current portion of interest rate swap valuation	707,349	719,052
Current maturities of long-term debt	3,004,254	2,942,539
Other current liabilities	5,380,283	1,206,578
Total current liabilities	28,843,934	20,343,428
LONG-TERM LIABILITIES		
Actuarial liability for annuities payable and other liabilities	15,672,992	14,917,141
Deferred financing expense	(1,780,333)	(1,221,673)
Interest rate swap valuation	4,638,651	6,483,948
Long-term debt	88,880,878	40,260,219
Total long-term liabilities	107,412,188	60,439,635
Total liabilities	136,256,122	80,783,063
NET ASSETS		
Without donor restrictions		
For current operations	139,743	101,953
Designated for specific purposes	88,829,781	64,288,445
Invested in property, plant and equipment	145,055,275	194,127,329
Support of future operations from:		
Contributions receivable and bequests in probate	17,537,810	11,745,631
Board designated endowment funds	753,512,400	567,919,000
Total net assets without donor restrictions	1,005,075,009	838,182,358
With donor restrictions		
Unexpended contributions restricted for operations	35,701,367	37,989,421
Unexpended contributions restricted for plant renewals and replacement	10,418,397	7,994,168
Annuity and life income contracts	14,561,200	10,581,800
Expended contributions for long-lived assets	5,141,117	3,576,680
Loan funds	3,080,616	3,121,327
Contributions receivable and bequests in probate	5,463,935	4,606,914
Funds held in trust by others	37,472,000	30,818,000
Donor restricted endowment funds - accumulated earnings	536,491,576	375,872,292
Donor restricted endowment funds - original gift	285,410,624	278,375,808
Total net assets with donor restrictions	933,740,832	752,936,410
Total net assets	1,938,815,841	1,591,118,768
Total liabilities and net assets	$ 2,075,071,963	$ 1,671,901,831

See accompanying notes to consolidated financial statements.

BEREA COLLEGE
CONSOLIDATED STATEMENTS OF ACTIVITIES

CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	Year Ended June 30, 2021	2020
OPERATING REVENUE		
Spendable return from long-term investments	$ 54,395,617	$ 52,994,574
Gifts and donations	6,832,988	6,448,140
Federal grants	50,916,989	57,518,226
Cost of education fees paid by federal and state scholarships	3,500,000	3,400,000
Fees paid by students	1,113,373	957,861
Other income	4,029,866	8,454,359
Residence halls and dining service	5,340,474	8,937,077
Student industries and rentals	3,317,683	3,560,157
Loss on sale of property, plant and equipment	(2,771,687)	(115,649)
Net assets released from restrictions	19,697,657	14,986,528
Gross operating revenue	146,372,960	157,141,273
Less: Student aid	(6,615,528)	(6,249,167)
Net operating revenue	139,757,432	150,892,106
OPERATING EXPENSES		
Program Services -		
Instruction	29,312,222	29,483,972
Public service	46,733,428	49,514,657
Academic support	11,161,168	10,419,270
Student services	11,734,583	12,290,341
Residence halls and dining service	10,662,533	10,911,288
Student industries and rentals	4,876,654	5,651,283
Total Program Services	114,480,588	118,270,811
Support Services, including fund raising expense of $6,676,258 in 2021 and $6,404,077 in 2020	21,380,124	20,850,996
Total operating expenses	135,860,712	139,121,807
Operating revenue in excess of operating expenses	3,896,720	11,770,299
OTHER UNRESTRICTED ACTIVITY		
Net assets released from capital restrictions	1,419,422	17,752,494
Pandemic lost revenue relief	2,735,206	-
Loss (gain) on valuation of interest rate swaps	1,857,000	(2,126,000)
Total other unrestricted activity	6,011,628	15,626,494
REVENUES DESIGNATED FOR LONG-TERM INVESTMENT		
Unrestricted bequests	14,333,147	7,384,850
Matured annuity and life income contracts	917,241	1,027,427
Investment return more (less) than amounts designated for current operations	141,733,915	(10,217,112)
Total increase (decrease) in revenues designated for long-term investment	156,984,303	(1,804,835)
Increase in net assets without donor restrictions	$ 166,892,651	$ 25,591,958

See accompanying notes to consolidated financial statements.

BEREA COLLEGE
CONSOLIDATED STATEMENTS OF ACTIVITIES

	Year Ended June 30, 2021	Year Ended June 30, 2020
CHANGES IN TOTAL NET ASSETS		
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Operating revenue in excess of operating expenses	$ 3,896,720	$ 11,770,299
Other unrestricted activity	6,011,628	15,626,494
Increase (decrease) in revenues designated for long-term investment	156,984,303	(1,804,835)
Increase in net assets without donor restrictions	166,892,651	25,591,958
NET ASSETS WITH DONOR RESTRICTIONS		
Restricted gifts and donations	25,388,369	37,300,720
Restricted spendable return on endowment investments	4,884,140	5,344,934
Restricted return on endowment investments	214,401	206,955
Investment return more (less) than amounts desingated for current operations	158,924,991	(11,937,835)
Change in underwater endowment funds	1,668,490	(608,404)
Restricted capital gain (loss) on funds held in trust by others	6,654,000	(196,000)
Net adjustment of annuity payment and deferred giving liability	5,104,351	(868,771)
Reclassification of net assets released from restrictions	(19,697,657)	(14,986,528)
Reclassification of net assets released from capital restrictions	(1,419,422)	(17,752,494)
Reclassification of matured annuity and life income contracts to revenues designated for long-term investment	(917,241)	(1,027,427)
Increase (decrease) in net assets with donor restrictions	180,804,422	(4,524,850)
Total increase in net assets	347,697,073	21,067,108
NET ASSETS		
Beginning of year	1,591,118,768	1,570,051,660
End of year	$ 1,938,815,841	$ 1,591,118,768

See accompanying notes to consolidated financial statements.

BEREA COLLEGE
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2021	Year Ended June 30, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 347,697,073	$ 21,067,108
Adjustments to reconcile increase in net assets to net cash used in operating activities -		
Realized and unrealized gain on long-term investments	(358,481,173)	(11,590,389)
Restricted return on endowment funds	(214,401)	(206,955)
Gifts and bequests for financing activities	(20,506,597)	(19,281,158)
Decrease (increase) in contributions receivable and bequests in probate	3,008,746	(13,624,539)
Gift value of annuity contracts written	(293,949)	(601,810)
Depreciation	11,815,075	11,216,815
Loss on sale of property, plant and equipment	2,771,687	115,649
(Gain) loss on revaluation of interest rate swaps	(1,857,000)	2,126,000
(Increase) decrease in other current assets	(7,886,212)	1,729,677
Increase in non-current prepaid expenses and other assets other than cash payments for debt issuance costs	(406,863)	(1,098,825)
Increase (decrease) in current liabilities other than capital construction accounts payable and current maturities of long-term debt	7,477,681	(493,605)
Increase in actuarial annuity payment liability and other liabilities	755,851	411,344
(Increase) decrease in deferred debt financing expenses	(558,658)	227,382
Net cash used in operating activities	(16,678,740)	(10,003,306)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities held for long-term investment	(324,772,844)	(365,985,727)
Proceeds from sales and maturities of investments	319,545,866	376,999,126
Purchase of property, plant and equipment	(21,626,598)	(10,902,046)
Increase (decrease) in capital construction accounts payable	972,812	(807,561)
Proceeds from sale of property, plant and equipment	20,667	17,273
Decrease in long-term student loans	258,795	107,017
Net cash used in investing activities	(25,601,302)	(571,918)
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts and bequests received for -		
Long-term investment	14,602,431	15,872,008
Property, plant and equipment	5,904,066	3,408,950
Student loans	100	200
Endowment return restricted for long-term investments	214,401	206,955
Repayment of indebtedness	(3,602,539)	(3,725,328)
Long-term debt issued	52,284,913	750,000
Net cash provided by financing activities	69,403,372	16,512,785
Net increase in cash and cash equivalents	27,123,330	5,937,561
Cash and cash equivalents, beginning of year	82,831,045	76,893,484
Cash and cash equivalents, end of year	$ 109,954,375	$ 82,831,045

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.

In November 2020, the College organized Berea College Leverage Lender, Inc. (the "Company"), a Kentucky non-profit corporation and 501(c)(3) organization, to facilitate a New Markets Tax Credit financing transaction to partially fund the construction of the College's Facilities Management and Student Labor Complex. Financial transactions for the Company are consolidated into the Berea College financial statements. The College controls 100% of the Company; directors and officers of the Company 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.

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

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.

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 with a right of return and a barrier 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.

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

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 and are subject to College policy that requires the use of proceeds from items that are sold to be for the acquisition of new collection items, the direct care of existing collections, or both.

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.

Loans

The College makes uncollateralized loans to students based on financial need. At June 30, 2021 and 2020, student loans totaled $617,256 (net of $250,000 loan loss reserve) and $876,051 (net of $335,000 loan loss reserve), respectively, of which $280,000 and $280,000 for June 30, 2021 and 2020, 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.

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

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 asset allocation guidelines approved by the Investment Committee.

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.

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 5. 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 11 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.

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

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

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

	2021	2020
Educational and general purposes	$ 10,847,585	$ 10,250,080
Student industries	967,490	966,735
	$ 11,815,075	$ 11,216,815

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.

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

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).

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, 2021 and 2020, are included in the amount of $3,500,000 and $3,400,000, respectively. There are no deferred scholarships as of June 30, 2021 or 2020.

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 provided to 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, 2021 and 2020.

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

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 in the amount of $95,094. The balance of deferred revenue at June 30, 2020 was recognized as revenue over the academic term beginning July 1, 2020, as services were rendered; there was not a summer school program for the summer of 2021.

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 2020 fiscal year. The revenue is reflected in other income on the consolidated statements of activities.

As a result of the Novel Coronavirus Disease, COVID-19, the President of the United States declared that the COVID-19 outbreak in the United States constituted a national emergency effective March 1, 2020. Due to this national emergency, the College made the decision to dismiss student from campus after they returned from Spring break. Because of this decision, the College provided cash refunds and/or credits on student accounts for spring 2020 room and board, in the approximate amount of $1,374,000, related to unearned deferred revenue. The College did not record revenue on amounts that were refunded. A significant portion of these funds were recovered during fiscal years 2021 and 2020 from federal funding sources related to COVID-19 relief funds made available by the federal government. These funding sources and amounts received are more fully described in the following paragraphs.

During fiscal years 2021 and 2020, the College received significant funding from the Higher Education Emergency Relief Funds (HEERF I, HEERF II, and HEERF III) granted under the Coronavirus Aid, Relief, and Economic Security Act (CARES) enacted on March 27, 2020, the Coronavirus Response and Relief Supplemental Appropriate Act (CRRSAA) enacted on December 27, 2020, and the American Rescue Plan Act (ARP) enacted on March 11, 2021. To the extent available, these funds have been used to offset costs and lost revenue directly related to the COVID-19 pandemic. The resulting revenue has been recorded as federal grant revenue and recognized in the appropriate year.

During the fiscal year ended June 30, 2021, the College recorded approximately $3,943,585 of revenue for the institutional portion and $2,632,673 of revenue for the student portion of HEERF I, II, and III funding. These funds were used to reimburse the College for costs associated with the COVID-19 pandemic and lost revenue related to the pandemic, including approximately $1,111,105 in room and board refunds issued to students during fiscal year 2020 and an estimated lost revenue of $2,735,206 during fiscal years 2021 and 2020 for Boone Tavern Hotel and the College's Child Development Lab.

The College had previously recognized approximately $2,632,673 and $1,038,315 in revenue during fiscal years 2021 and 2020, respectively, related to student emergency funding from HEERF I, II, and III.

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

The College cannot record any revenue related to the institutional portion of the grant disproportionate to the expended portion of the student related funding. As a result, deferred revenues related to the institutional funding sources total $4,057,010 as of June 30, 2021; there were no deferred revenues as of June 30, 2020. There is approximately $4,550,000 of student and $550,000 of institutional funding remaining from HEERF II and III that the College expects to utilize in the 2022 fiscal year.

Functional Allocation of Expenses

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

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results differ from those estimates.

Risks and Uncertainties

As a result of the Novel Coronavirus Disease (COVID-19), the President of the United States declared that the COVID-19 outbreak in the United States constituted a national emergency effective March 1, 2020. As a result, during March of 2020, the College made adjustments to its operations and academic delivery based on the spread of COVID-19 throughout the United States and State of Kentucky. The College extended the spring 2020 term courses online to allow students to complete their spring semester course work. The summer 2020 academic terms were moved to online as well. Employees and faculty were asked to work remotely from home unless they were deemed essential employees, and the College continued to provide salary and benefits to all employees and faculty. The College put in place a plan with various phases to bring students and employees back for the fall 2020 semester. The plan was based on the status of COVID-19, which included gathering sizes on campus, students living on campus, travel restrictions, employees on campus and other requirements. The College also took steps to reduce spending on travel, food, printing, promotional funds and other spending associated with normal College operations due to the operational changes resulting from COVID-19.

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

The College was able to complete the fall semester 2020 and spring semester 2021 with primarily in person classes using appropriate pandemic protocols, including vaccinations and regular testing of both students and employees. Many of these COVID-19 protocols will remain in place as the College continues the fall 2021 semester and the College continues to maintain reasonable operational changes in an effort to control spending as the pandemic continues into fiscal year 2022. While the future impacts of the COVID-19 pandemic cannot be quantified at this time, the College continues to monitor its course and, if necessary, is prepared to take additional measures to protect the health and welfare of the College and its students and employees.

Reclassification

Certain reclassifications have been made to the fiscal year 2020 financial statements to conform to the fiscal year 2021 presentation with no effect on total assets, liabilities, net assets or the change in net assets.

Adoption of New Accounting Standard

Effective July 1, 2020, the College adopted Financial Accounting Standards Board Accounting Standards Update 2016-02, Leases (Topic 842), as amended. This guidance is intended to improve financial reporting of leasing transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases that extend more than twelve months. Key provisions of this guidance include additional disclosures surrounding the amount, timing and uncertainty of cash flows arising from leases. The College elected the effective date transition method and the package of practical expedients that permits no reassessment of whether any expired or existing contracts contain a lease, the leases classification for any expired or existing leases, and any initial direct costs for any existing leases as of the effective date.

As of July 1, 2020, the College recognized (a) an operating lease liability of $849,694, which represents the present value of the remaining lease payments of approximately $853,773, discounted using the July 1, 2020, five-year Daily Treasury Yield Curve Rate of 0.29%, and (b) an operating right-of-use asset of $849,694.

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, comprised the following:

	June 30, 2021	June 30, 2020
Cash and cash equivalents	$ 70,023,119	$ 54,477,416
Accounts receivable	1,187,309	1,632,491
Contributions receivable	8,352	3,425
Distributions from beneficial interests in funds held in trust by others	689,000	932,000
Endowment spendable return	54,271,534	50,127,776
Total	$ 126,179,314	$ 107,173,108

The College's endowment funds consist of donor-restricted endowments and funds designated 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 $753,212,400 and $567,919,000 at June 30, 2021 and 2020, 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 and General	Fundraising and Development	Total for Year Ended June 30, 2021
	Instruction	Public Service	Other	Total			
Grants and other assistance	$ -	$ 740,604	$ -	$ 740,604	$ -	$ -	$ 740,604
Salaries and wages	16,504,031	13,339,238	12,554,029	42,397,298	7,266,608	3,590,191	53,254,097
Employee benefits and payroll taxes	4,026,818	3,393,227	3,082,215	10,502,260	2,497,022	955,753	13,955,035
Professional services	-	-	-	-	-	503,932	503,932
Accounting fees	-	-	-	-	93,400	-	93,400
Legal fees	-	-	-	-	267,131	-	267,131
Lobbying	-	-	15,291	15,291	-	-	15,291
Advertising and promotion	2,900	248	61,601	64,749	74,525	30,000	169,274
Office expenses	399,368	40,070	313,274	752,712	168,846	44,559	966,117
Information technology	60	4,248	26,874	31,182	1,919,363	29,128	1,979,673
Occupancy	896,265	45,436	586,958	1,528,659	97,501	39,320	1,665,480
Printing and publications	26,101	5,050	213,564	244,715	52,237	71,821	368,773
Travel	30,097	5,016	55,060	90,173	29,364	28,070	147,607
Conferences, conventions and meetings	20,265	7,467	131,935	159,667	26,276	2,270	188,213
Interest	949,734	15,550	616,431	1,581,715	229,862	13,406	1,824,983
Insurance	303,445	16,176	190,769	510,390	33,468	13,945	557,803
Depreciation	4,250,530	388,265	6,669,466	11,308,261	358,261	148,553	11,815,075
Repairs and maintenance	1,093,767	102,274	378,712	1,574,753	151,870	117,896	1,844,519
Other:							
Outreach programs	-	28,039,718	49,539	28,089,257	571,412	-	28,660,669
Residence halls and dining service	-	-	4,401,323	4,401,323	-	-	4,401,323
Boone Tavern	-	-	2,893,378	2,893,378	-	-	2,893,378
Rentals	-	-	314,018	314,018	-	-	314,018
Cost of Goods Sold	-	-	462,421	462,421	-	-	462,421
Health services	-	-	438,684	438,684	163,000	-	601,684
All other expenses	808,841	590,841	4,979,396	6,379,078	703,720	1,087,414	8,170,212
Total	$ 29,312,222	$ 46,733,428	$ 38,434,938	$ 114,480,588	$ 14,703,866	$ 6,676,258	$ 135,860,712

NOTE 3 – STATEMENT OF FUNCTIONAL EXPENSES (Continued)

	Program Services				Management and General	Fundraising and Development	Total for Year Ended June 30, 2020
	Instruction	Public Service	Other	Total			
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	9,518,198	1,278,216	850,174	11,646,588
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	4,221,143	5,808,158	1,697,676	591,595	8,097,429
Total	$ 29,483,972	$ 49,514,657	$ 39,272,182	$ 118,270,811	$ 14,446,919	$ 6,404,077	$ 139,121,807

NOTE 4 – LONG-TERM INVESTMENTS

	Year ended June 30, 2021	Year ended June 30, 2020
Endowment:		
Pooled Investments -		
U. S. equities	$ 538,256,400	$ 465,327,500
International equities	431,154,400	334,784,000
Corporate notes and bonds	229,544,600	99,349,500
U. S. Government securities	115,581,900	153,310,200
Private equity - venture capital	133,300	95,900
Private equity - buy out	2,199,200	2,470,000
Private equity - fund of funds	189,580,300	87,116,300
Hedge funds	1,700	44,334,400
Special opportunities	37,611,900	25,517,100
Short-term investments and cash	26,438,800	4,974,800
Total	1,570,502,500	1,217,279,700
Non Pooled Investments -		
U. S. equities	44,100	23,300
Corporate notes and bonds	39,200	40,400
Real estate	2,766,700	2,766,700
Short-term investments and cash	2,062,100	2,057,000
Total	4,912,100	4,887,400
Total endowment	1,575,414,600	1,222,167,100
Annuity and Life Income:		
U. S. equities	9,151,900	7,477,000
International equities	5,852,000	4,860,100
Corporate notes and bonds	4,130,500	3,561,100
U. S. Government securities	2,793,200	2,383,800
International bonds	1,503,000	1,323,200
Real estate - public investments	4,278,000	3,462,400
Insurance policies	94,800	74,000
Short-term investments and cash	340,000	851,800
Total annuity and life income	28,143,400	23,993,400
Funds Held in Trust by Others, where Berea College receives all or a stipulated percent of income	37,472,000	30,818,000
Other Investments	4,044,800	4,094,200
Total long-term investments	$ 1,645,074,800	$ 1,281,072,700

NOTE 4 – LONG-TERM INVESTMENTS (Continued)

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

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

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

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

NOTE 4 – LONG-TERM INVESTMENTS (Continued)

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

For 2021 and 2020, spendable return under the formulas amounted to $59,488,771 and $58,508,570, respectively. In 2021, actual cash income earned on pooled investments, net of $560,288 for investment management and custodial fees, amounted to $16,140,551, or $43,348,220 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 $5,387 in 2021 and $37,893 in 2020, while the market value of these investments of $4,912,100 at June 30, 2021 and $4,887,400 at June 30, 2020 increased by $19,700 in 2021 and decreased by $10,200 in 2020. Additions to non-pooled endowment investments during 2021 and 2020 amounted to $5,000 each year.

Dividend and interest income of $16,145,938 and $22,883,951 reported net of external investment manager fees of $560,288 and $558,015 is included in the consolidated statements of activities for the years ended June 30, 2021 and 2020, 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, 2021, the College had two underwater endowment funds, with a total market value of $44,011 and a book value of $99,035, resulting in an underwater amount of $55,024. 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.

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 2021, the unit value of pooled investments changed as follows:

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

	2020-21				2019-20
	Market Value	Number of Units	Value Per Unit	Time Weighted Return Net of Fees	Market Value
Beginning balance	$ 1,217,279,700	810,716.711	$ 1,501.486		$ 1,213,847,400
Market price change	345,655,916		420.498	28.4%	12,909,361
Net income earned	16,140,551		19.909	1.4%	22,846,058
Spendable return	(59,488,771)		(73.378)	-	(58,508,570)
	302,307,696		367.029	29.8%	(22,753,151)
Additions	50,915,104	30,143.996	-		26,185,451
Ending balance	$ 1,570,502,500	840,860.707	$ 1,868.515		$ 1,217,279,700

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

	2021	2020
Pooled investments -		
Cash income, net	$ 16,140,551	$ 22,846,058
Market price change	345,655,916	12,909,361
Non-pooled investments -		
Cash income	5,387	37,893
Market price change	19,700	(10,200)
Total return	$ 361,821,554	$ 35,783,112
Distributed to -		
Net assets without donor restrictions		
Spendable return	$ 54,395,617	$ 52,994,574
Long-term investments	141,733,915	(10,217,112)
Net assets with donor restrictions		
Spendable return	4,884,140	5,344,934
Investment return more (less) than amounts designated for current operations	158,924,991	(11,937,835)
Underwater endowment funds	1,668,490	(608,404)
Restricted earnings	214,401	206,955
Total	$ 361,821,554	$ 35,783,112

NOTE 4 – LONG-TERM INVESTMENTS (Continued)

Endowment investments net asset composition by type of fund as of June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions		
	Board Designated	Accumulated Earnings	Original Gift	Total
Donor restricted endowment funds	$ -	$ 536,491,576	$ 285,410,624	$ 821,902,200
Board designated endowment funds	753,512,400	-	-	$ 753,512,400
	$ 753,512,400	$ 536,491,576	$ 285,410,624	$ 1,575,414,600

Changes in endowment investments net assets for the Fiscal Year ended June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions		
	Board Designated	Accumulated Earnings	Original Gift	Total
Endowment investments net assets, beginning of year	$ 567,919,000	$ 375,872,292	$ 278,375,808	$ 1,222,167,100
Investment return:				
Investment income	16,145,938	-	-	16,145,938
Net gains (realized (and unrealized)	162,408,821	183,266,795	-	345,675,616
Total investment return	178,554,759	183,266,795	-	361,821,554
Contributions	-	-	6,045,958	6,045,958
Other restricted additions	-	25,803	988,858	1,014,661
Board designated additions	43,859,485	-	-	43,859,485
Appropriation of endowment assets for expenditure	(36,820,844)	(22,673,314)	-	(59,494,158)
Endowment investments net assets, end of year	$ 753,512,400	$ 536,491,576	$ 285,410,624	$ 1,575,414,600

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)

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, 2021, 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, 2021:

	June 30, 2021 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	$ 28,500,900	$ -	$ 28,500,900	$ -	$ -
U.S. equities	538,300,500	538,300,500	-	-	-
International equities	431,154,400	431,154,400	-	-	-
Fixed income	345,165,700	179,237,300	165,928,400	-	-
Private equity	191,912,800	-	-	-	191,912,800
Hedge funds	1,700	-	-	-	1,700
Other endowment investments	40,378,000	-	-	2,766,700	37,611,300
Building maintenance investments	4,044,800	3,994,700	50,100	-	-
Certificates of deposit	453,021	-	453,021	-	-
Funds held in trust by others	37,472,000	-	-	37,472,000	-
Split-interest agreements	28,143,400	28,143,400	-	-	-
Total assets	$ 1,645,527,221	$ 1,180,830,300	$ 194,932,421	$ 40,238,700	$ 229,525,800
Liabilities					
Interest rate swap agreements	$ 5,346,000	$ -	$ 5,346,000	$ -	$ -
Split-interest agreements	13,582,200	-	13,582,200	-	-
Total liabilities	$ 18,928,200	$ -	$ 18,928,200	$ -	$ -

[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, 2020	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, 2021
Endowment investments	$ 2,766,700	$ -	$ -	$ -	$ 2,766,700
Funds held in trust by others	30,818,000	6,654,000	-	-	37,472,000
Total	$ 33,584,700	$ 6,654,000	$ -	$ -	$ 40,238,700

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, 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	$ -	$ -
Split-interest agreements	13,411,600	-	13,411,600	-	-
Total liabilities	$ 20,614,600	$ -	$ 20,614,600	$ -	$ -

[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 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 manage interest rate risk. 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 $8,425,000 and $9,085,000 at June 30, 2021 and 2020, respectively. The average rate received from the interest rate swap counterparty during 2021 and 2020 was 0.10% and 1.25%, respectively, and the average interest rate paid by the College for 2021 and 2020 was 3.45%. The interest rate swap matures in 2032. Total net interest expensed during 2021 and 2020 was $608,107 and $439,472, 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 $560,045.

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 $4,380,000 and $4,840,000 at June 30, 2021 and 2020, respectively. The notional amount of the swap agreement amortizes at the same rate as the underlying bond series. The average rate received from the interest rate swap counterparty during 2021 and 2020 was 0.10% and 1.25%, respectively, and the average interest rate paid by the College for 2021 and 2020 was 3.746%. The interest rate swap matures in 2029. Total net interest expensed during 2021 and 2020 was $175,433 and $142,430, 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 $147,304.

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, 2021 and 2020 resulted in a liability of $5,346,000 and $7,203,000, 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 $3,478,100 in 2021 and $3,252,202 in 2020.

NOTE 8 – LEASES

Berea College enters into leases in the normal course of operations, primarily for printing and information technology equipment and off campus office space for our Partners for Education services. The College's leases have remaining terms ranging from one to five years; the College has elected not to recognize lease terms of 12 months of less (short-term leases) on the College's Statement of Financial Position.

Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent the College's right to use and underlying asset for the lease terms and lease liabilities represent the College's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. Operating lease payments to be paid after one year are discounted using the June 30, five-year Daily Treasury Yield Curve Rate for the fiscal year the accounting standard was adopted and/or the fiscal year in which the lease commenced. Currently, rates ranging from 0.29% to 0.76% are being used.

Right-of-use assets and lease liabilities, by lease type, and the associated Statement of Financial Position classifications, are as follows:

	Statement of Financial Position Classification	June 30, 2021
Right-of-use assets:		
Operating leases	Prepaid expenses and other assets	$ 771,354
Finance leases	Property, plant and equipment, net	236,586
Total right-of-use assets		$ 1,007,940
Lease liabilities:		
Operating leases	Other liabilities	$ 771,354
Finance leases	Other liabilities	236,586
Total lease liabilities		$ 1,007,940

The components of total lease cost were as follows, for the period ending:

	June 30, 2021
Finance lease cost	
Right-of-use asset amortization	$ 118,293
Interest Expense	-
Operating lease cost	264,091
Total lease cost	$ 382,384

NOTE 8 – LEASES (continued)

Future undiscounted lease payments for finance and operating leases with initial terms of more than one year as of June 30, 2021 are as follows:

Fiscal year	Operating Leases	Finance Leases
2022	$ 222,054	$ 118,293
2023	222,054	118,293
2024	213,128	-
2025	80,277	-
2026	37,689	-
	$ 775,202	$ 236,586

NOTE 9 – PROPERTY, PLANT AND EQUIPMENT

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

	2021	2020
Educational property, plant and equipment	$ 343,769,012	$ 345,957,492
Student industry plant and equipment	24,916,111	24,582,100
Rental property	3,442,762	3,442,762
Forest and farms	3,181,257	3,181,257
Collections and works of art	5,041,745	5,029,745
Construction in process	23,504,778	6,002,024
Less accumulated depreciation	(148,640,642)	(139,999,526)
	$ 255,215,023	$ 248,195,854

NOTE 10 – 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 2021 and 2020 accounting for costs associated with asbestos abatement is as follows:

	2021	2020
Beginning balance	$ 846,401	$ 994,994
Accretion expense	21,228	21,450
Liabilities settled during the year	(29,985)	(170,043)
Ending balance	$ 837,644	$ 846,401

NOTE 11 – LONG-TERM DEBT

	June 30, 2021	June 30, 2020
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2002A - Issued August 29, 2002; due June 1, 2032; variable interest rate, 0.03% as of June, 2021 with synthetic fixed rate of 3.45%; proceeeds used for various capital projects.	$ 8,425,000	$ 9,085,000
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2003B - Issued December 11, 2003; annual payments through June 1, 2029; variable interest rate, 0.03% as of June, 2021 with synthetic fixed rate of 3.746%; proceeds used for various capital projects.	4,380,000	4,840,000
Sustainability Bonds (Green + Social), Taxable, Series 2021 - Issued March 31, 2021; due June 1, 2071; semi-annual interest payments at a fixed rate of 3.592%. Annual principal payments set to commence on June 1, 2067. Proceeds will be used for various capital projects.	50,000,000	-
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.	1,338,033	2,389,607
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.	2,209,120	2,925,267
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.	8,475,000	8,540,000
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; proceeds used for refunding Series 2005A bonds.	2,739,983	3,389,801
Community Ventures Corporation - Issued January 31, 2020; due April 30, 2027; quarterly interest payments at fixed rate of 2.00%, per annum.	750,000	750,000
Subtotal	78,317,136	31,919,675
New markets tax credit transactions - see Note 12	13,567,996	11,283,083
	91,885,132	43,202,758
Less current portion	(3,004,254)	(2,942,539)
Total Long-Term Debt	$ 88,880,878	$ 40,260,219

NOTE 11 – LONG-TERM DEBT (Continued)

Principal payments on long-term debt are required to be made in each of the following fiscal years: \$3,004,254 in 2022; \$2,249,878 in 2023; \$2,021,305 in 2024; \$2,071,699 in 2025; \$1,405,000 in 2026 and \$81,132,996 in subsequent years thereafter.

The fair value of the College's long-term debt at June 30, 2021 and 2020 was estimated to be \$92,103,000 and \$43,520,000, respectively, based upon rates available to the College for debt with similar terms and remaining maturities.

Interest expensed in 2021 and 2020 totaled \$1,824,983 and \$1,367,474, respectively.

Cash payments for interest amounted to \$1,441,804 in 2021 and \$1,359,277 in 2020.

NOTE 12 – 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 12 – 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.

Urban Development Fund 57, LLC, a CDE, is 99% owned by the Berea College Investment Fund 3, LLC (the "Fund 6"). The Fund 6 is 100% owned by PNC New Markets Investment Partners, LLC ("PNC") after a leverage loan from Berea College Leverage Lender, Inc. of $2,245,736 and a contribution from PNC. Urban Development Fund 57, LLC then loaned $3,289,474 to Berea College Facilities Management department (as a portion of business), consisting of $2,245,736 from the Leverage Lender and $695,053 and $348,685 of funds representing PNC's interest in Urban Development Fund 57, LLC.

PNC CDE 110, LLC, a CDE, is 99% owned by the Berea College Investment Fund 3, LLC (the "Fund 7"). The Fund 7 is 100% owned by PNC New Markets Investment Partners, LLC ("PNC") after a leverage loan from Berea College Leverage Lender, Inc. of $3,508,825 and a contribution from PNC. PNC CDE 110, LLC then loaned $4,750,000 to Berea College Facilities Management department (as a portion of business), consisting of $3,508,825 from the Leverage Lender and $1,241,175 of funds representing PNC's interest in PNC CDE 110, 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 12 – NEW MARKETS TAX CREDIT TRANSACTIONS (Continued)

	June 30, 2021	June 30, 2020
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
Urban Development Fund 57, LLC - Issued November 6, 2020; interest paid quarterly at fixed rate of 1.8%, per annum, through November 2050; monthly principal payments begin on December 10, 2027 and continue quarterly until loan is fully amortized on November 6, 2050.	1,043,738	-
PNC CDE 110, LLC - Issued November 6, 2020; interest paid quarterly at fixed rate of 1.8%, per annum, through November 2050; monthly principal payments begin on December 10, 2027 and continue quarterly until loan is fully amortized on November 6, 2050.	1,241,175	-
	$ 13,567,996	$ 11,283,083

NOTE 12 – NEW MARKETS TAX CREDIT TRANSACTIONS (Continued)

In connection with the completion of the seven year NMTC period for Fund 1, Fund 2, Fund 3, Fund 4, 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, 2021.

Likewise, in connection with the completion of the seven year NMTC period for Fund 6 and Fund 7, the principal balance of the notes payable, outlined in the table above, is expected to be converted into equity through a put/call option. The Berea College Facilities Management department is required to submit quarterly financial statements to the CDEs and is in compliance with that requirement as of June 30, 2021.

NOTE 13 – CONTRIBUTIONS AND BEQUESTS IN PROBATE

	June 30, 2021 Total	Due In: One Year or Less	Due In: One Year to Five Years	Due In: Over Five Years	June 30, 2020 Total
Unconditional Promises for -					
Unrestricted	$ 26,100	$ 8,700	$ 17,400	$ -	$ 9,850
Restricted [1]	9,781,050	9,321,520	459,530	-	21,141,761
Buildings and equipment [2]	5,322,400	1,497,400	3,825,000	-	3,635,295
Endowment	618,581	238,350	380,231	-	820,253
Reserve for unfulfilled promises	(38,803)	(18,418)	(20,385)	-	(59,979)
Total	15,709,328	11,047,552	4,661,776	-	25,547,180
Bequests in Probate	18,116,013	11,359,753	6,756,260	-	11,349,783
External Charitable Remainder Trusts*	3,958,253	-	-	3,958,253	3,795,876
Charitable Lead Trusts	427,800	55,350	221,400	151,050	483,150
Total	$ 38,211,394	$ 22,462,655	$ 11,639,436	$ 4,109,303	$ 41,175,989
Present Value of Estimated Future Cash Flows	$ 38,061,004	$ 22,462,655	$ 11,504,002	$ 4,094,347	$ 41,069,750

[1] June 30, 2021 balance includes $9,778,050 commitment from an external charitable trust ($9,320,520 due in one year or less, $457,530 due in one year to five years).

[2] June 30, 2021 balance includes $5,000,000 commitment from an external charitable trust ($1,285,000 due in one year or less, $3,715,000 due in one year to five years).

*Discounted beneficial interest in trusts.

NOTE 14 – 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, 2021, the College was committed under various contracts with alternative investment managers to fund $194,966,133 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	$ 147,504,115
Special opportunities	47,462,018
Total	$ 194,966,133

The College has purchase commitments relating to construction projects of approximately $3,618,000 as of June 30, 2021.

NOTE 15 – 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 16 – NET ASSETS RELEASED FROM RESTRICTIONS

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

	2021	2020
Purpose Restricted Contributions for -		
Instruction	$ 2,356,189	$ 2,147,937
Public service	4,515,361	1,750,690
Academic support	2,209,048	1,768,001
Student services	2,957,973	2,740,632
Residence halls	823,562	-
Student aid	2,736,275	4,032,525
Support services	4,099,249	2,546,743
	19,697,657	14,986,528
Time-Restricted Contributions - Long-Lived Assets	1,419,422	17,752,493
Total Net Assets Released from Restriction	$ 21,117,079	$ 32,739,021
Matured Annuity and Life Income Contracts - Purpose and Time Restricted Agreements Reclassified to Tuition Replacement Funds on Net Assets Without Donor Restrictons	$ 917,241	$ 1,027,427

NOTE 17 – 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, 2021 or 2020. 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 2018.

NOTE 18 – 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, 2021, the date on which we issued our consolidated financial statements. There were no events occurring during the evaluation period that would require recognition or disclosure in the consolidated financial statements.

Berea College