



Office of Financial Affairs

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**BEREA COLLEGE WRITTEN STATEMENT  
COMMITTEE ON WAYS AND MEANS HEARING  
1100 LONGWORTH HOUSE OFFICE BUILDING  
SEPTEMBER 13, 2016**

Berea College is an independent college that does not collect tuition from any of its students, and its financial model, accordingly, is completely unlike that of other schools. The College serves approximately 1,600 students of limited financial means, and it replaces tuition revenue with a combination of investment income, annual fund-raising, and monies from other sources. Adhering to a policy adopted in the early 1920s by the Board of Trustees, the College has built a \$1 billion-plus endowment by committing all unrestricted bequests and trust legacies to long-term investment. Berea's tuition-free model would not be possible without this endowment, careful stewardship, and sound investment practices that are actively overseen by its Board of Trustees. About 45 percent of Berea's endowment is actually board designated or quasi-endowment that Berea conceives as a "Tuition Replacement Fund" thanks to the bequest policy. More importantly, about 75 percent of Berea's unrestricted educational and general operating budget is funded by the spendable return (income) from the endowment.

The College's mission is more complex than that of many schools, and the only way to capture the guiding principles of its work is through its Great Commitments. First formulated in the 1960s and only occasionally rearticulated since then, a copy of the Great Commitments is attached at the end of this statement.

Founded in 1855 by the abolitionist Rev. John G. Fee, Berea College admitted female and male and black and white students in a fully integrated curriculum, making it the first non-segregated, coeducational college in the South and one of a handful of coeducational institutions of higher learning in the mid-nineteenth century. The College began as a one-room schoolhouse that also served as a church on Sundays. Fee named the new community and set of schools after the biblical Berea and preached a gospel of impartial love built upon the two Great Commandments, which are to love God and to love your neighbor as yourself.

Because Berea College and the Berea Schools (all sixteen years of schooling were available until 1968 when Berea became a college only) chose to focus on interracial education in the Appalachian region, it soon became apparent that the funding of these schools would have to be different from their counterparts, as the students served could not afford tuition. The Berea College Catalog of 1866 noted that Berea schools sought to serve the freed slaves and "poor white mountaineers" of the mid-South. In 1892, the College *stopped charging tuition* and required each student to work for the College. Berea College and schools emphasized learning, labor, and service as the foundation for educating the whole person. This is still Berea's policy today.

Berea provides from its endowment, augmented by private, state, and federal scholarship funds, a *Tuition Promise Scholarship for every admitted student each year*, meaning that no student ever pays tuition. In addition to academic requirements for admission, there are also financial eligibility requirements for

admission, since the College seeks to serve academically promising students who cannot afford the high cost of private liberal arts education. The average Berea student comes from a family income of \$27,609 for a family of four. Approximately 68 percent of the annual endowment spendable return is used to fund these Tuition Promise Scholarships and other direct financial aid to students. Students attending Berea College receive on average scholarships and grants from federal, state, and institutional funds adding up to more than 92 percent of their \$34,380 annual cost for tuition, mandatory fees, housing, meals, books and supplies, and personal and transportation expenses. The balance is paid through a student's Expected Family Contribution (EFC), based on the Free Application for Federal Student Aid (FAFSA), summer work savings, Berea's required work program, and loans. Sixty percent of Berea's entering class in 2016 had an EFC of \$0, and 30 percent of Berea's 2015 graduating class had no loan debt. The average for the graduates that did have loan debt was \$7,100, substantially less than the \$35,000 national average, although the mode was much lower. For students who choose to travel internationally (traveling is optional), the large amount of the few loans can skew the average amount, although it makes it possible for 40 percent of Berea students to have a study-abroad experience.

Following a longstanding mandate from the Board of Trustees, between 70 and 80 percent of incoming Berea students are admitted from Kentucky and Appalachian counties in other states, which together constitute Berea's Admissions Territory of 339 counties. For example, in Berea's incoming 2015 class, 77.8 percent came from this territory, 15 percent from all other states in the U.S., and 7.2 percent from 32 international countries (non-U.S. Citizens, non-permanent residents, and non-refugees having F-1 visa status). Sixty-one percent of the class was first-generation status (neither parent had completed a college degree), 11.3 percent were of Latino/Hispanic/Spanish origin, and 20.8 percent of students identified themselves as "black or African American" alone or in combination with another race. One hundred percent of international students had an EFC of \$0, and 98 percent of domestic students received a Pell Grant. Of the 2014 entering class, an impressive 86.3 percent returned for a second year.

As one of eight federally recognized work colleges, Berea requires every student to work in one of more than 120 campus labor departments for at least ten hours a week and the average is nearly 15 hours a week.

Berea's highly acclaimed academic programs consist of both B.A. degrees in the liberal arts (i.e., humanities, social sciences, and natural sciences) and B.S. degrees in professional studies (i.e., nursing, agriculture, technology, and education).

Berea is unique among higher education institutions in the United States in not having tuition as a funding source and instead depending on (1) endowment income, (2) state and federal scholarships that students bring with them, and (3) annual funds it raises from donors. Berea is typical of most colleges or universities with large endowments in its increased reliance on endowment income. For example, in 1980, federal and state scholarship funds (e.g., Pell and Kentucky Tuition Grant) provided 20 percent of Berea's operating budget income. Today, with the loss of the real-dollar impact of Pell, that percentage is only 10 percent. In 1980, Berea's annual fund supported 25 percent of the operating budget, while today it provides only 10 percent of the dollars needed annually for its budget. And in 1980, Berea's endowment income provided 55 percent of the monies needed for the operating budget, and now *Berea relies on its endowment to fund 75 percent of its operating budget*. Therefore, one can see that Berea is heavily dependent on the endowment spendable return to fund its mission of providing a tuition-free collegiate education to needy students.

This heavy endowment dependence requires the College to take special measures to protect its ability to carry out its educational mission. During the 1990s when the stock markets were driving up the gains in college and university endowments, Berea made decisions about endowment spending that will have long-lasting impacts on the quality and future viability of its institutional mission. Berea restricted the growth in its operating budget in order to create two reserve funds to help fund physical plant needs and to help the College operate through tough financial times. Berea had over \$140 million in deferred renovations of its campus facilities (academic, residential, and administrative), with no dollars set aside for these needed renovations. To address this issue, its administrative leadership set aside a stream of income from its

unrestricted endowment to begin to fund renovations and to service both principal and interest on bonds from its newly created Capital and Plant Fund. Since 1994, it has renovated numerous major buildings and smaller spaces at a total expenditure of more than \$190 million. It has borrowed to fund part of these improvements and coincidentally had its Moody's debt rating enhanced from Aa to Aaa during that same time period. Likewise, it also created a Temporary Capital Emergency Reserve Fund (TCERF), the income of which the College could spend each year on one-time capital projects and still maintain a stream of endowment income to move over into the operating budget during difficult periods of the market. Such a time came in 2008-2010, when Berea's endowment lost approximately 25 percent of its value. Berea was still able to continue funding its programs by reducing the operating budget further and by moving TCERF money into its operating budget as needed. Had Berea been required to spend a certain percentage of the endowment annually, the College could not have addressed its distressed physical plant nor protected the institution against the recession of 2008-2009.

Like other institutions, one goal of Berea's endowment is to maintain intergenerational equity so students of multiple generations have the likelihood of receiving the same inflation-adjusted educational experience. In other words, Berea's spending rate must not exceed its real (after-inflation) rate of compound return over long periods of time. There are always embedded tensions in this goal. The College must provide reasonable increases in its annual operating budget for competitive salaries and other expenses and fund the brick-and-mortar needs of the campus while maintaining the purchasing power of the endowment.

Over the last 23 years, the College has received \$350 million of endowment additions (mostly gifts through bequests), \$403 million of cash income from endowment investments, \$775 million in market value appreciation, and distributed \$836 million from its endowment, per the Board-approved spending formula, to carry out its mission. Over the last 23 years, the average annual compound investment rate of return was 7.49 percent, the net annual compound growth in the endowment (investment return plus endowment additions less spending distribution) was 4.79 percent, and the annual compound growth in the Consumer Price Index (CPI) was 2.25 percent. During this time frame, which included much of the great investment returns of the 1990s, Berea experienced real growth (net growth above the rate of inflation) in its endowment.

However, if the time period is July 1, 2000, through June 30, 2016 (16 years that includes the events of 9/11 and the Great Recession of 2008-2009), the numbers change significantly. The average annual compound investment rate of return was 4.09 percent, the net annual compound growth in the endowment (investment return plus endowment additions less spending distribution) was 1.25 percent, and the annual compound growth in the CPI was 2.12 percent. Thus, over the last 16-year period, the endowment did not experience a net growth rate greater than the CPI growth rate.

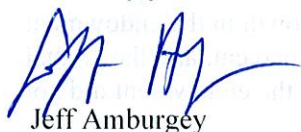
Another consideration in the management of college and university endowments is the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Most states, if not all, have adopted some form of UPMIFA. Effective July 15, 2010, the Commonwealth of Kentucky adopted legislation incorporating the provisions outlined in 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 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. As noted earlier, 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.

The use of the spendable return from donor-restricted endowments or true endowment funds are normally established by the donor and accepted by the institution in an endowment fund agreement. Berea is fortunate that most of its true endowments are restricted to support the cost of education (known as tuition at other schools), or to provide direct financial aid to students to help pay room and board. In other cases, some endowments are more restrictive. For example, the annual spendable return from one of Berea's endowment funds supports a program on campus that provides a laptop computer to every student. Another endowment fund goes beyond the campus community itself by providing outreach support to other non-profit organizations in under-served rural Appalachia. This endowment fund helps the College carry out its eighth Great Commitment of serving Appalachia through education and other appropriate means.

One exercise that an institution should consider is a review of donor-restricted endowment funds, especially very old ones, to determine whether the fund is less restrictive than how it is currently being used. Berea has over 5,000 individual endowment funds; approximately 2,000 donor-restricted, and approximately 3,000 board-designated or quasi endowment funds. The Great Recession of 2008-2009 resulted in a significant decline in the annual endowment spendable return. Berea conducted a review of several old donor-restricted endowment fund agreements and correspondence to determine whether there was any flexibility in the use of the endowment spendable return. Some endowment funds had two or three options for the use of the spendable return. Through this review, leaders discovered several endowment funds that could be used to provide tuition scholarships to students instead of more restricted uses and still honor the donor restrictions.

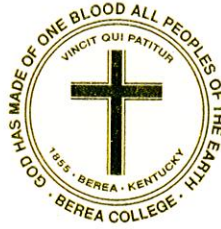
In conclusion, the College's endowment is the financial lifeblood that funds the extraordinary mission of access and affordability that Berea College provides to the lowest economic tier of students attending postsecondary education in the United States. Berea's uncommon educational mission has become more and more reliant upon endowment income while it has strengthened the overall physical plant in times of endowment income plenty and protected its capacity to continue providing high-quality educational programs in times of endowment income shortages. Berea's administrative leadership hopes no actions will ever be taken to reduce the dollars available to fund Tuition Promise Scholarships for its students. As the College mission directs, all of us at Berea are eager to find ways to make higher education in America affordable to all students.

Sincerely yours,



Jeff Amburgey  
Vice President for Finance

Enclosures



# BEREA COLLEGE

## The Great Commitments

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Berea College, founded by ardent abolitionists and radical reformers, continues today as an educational institution still firmly rooted in its historic purpose "to promote the cause of Christ." Adherence to the College's scriptural foundation, "God has made of one blood all peoples of the earth," shapes the College's culture and programs so that students and staff alike can work toward both personal goals and a vision of a world shaped by Christian values, such as the power of love over hate, human dignity and equality, and peace with justice. This environment frees persons to be active learners, workers, and servers as members of the academic community and as citizens of the world. The Berea experience nurtures intellectual, physical, aesthetic, emotional, and spiritual potentials and with those the power to make meaningful commitments and translate them into action.

To achieve this purpose, Berea College commits itself

- To provide an educational opportunity primarily for students from Appalachia, black and white, who have great promise and limited economic resources.
- To provide an education of high quality with a liberal arts foundation and outlook.
- To stimulate understanding of the Christian faith and its many expressions and to emphasize the Christian ethic and the motive of service to others.
- To provide for all students through the labor program experiences for learning and serving in the community, and to demonstrate that labor, mental and manual, has dignity as well as utility.
- To assert the kinship of all people and to provide interracial education with a particular emphasis on understanding and equality among blacks and whites.
- To create a democratic community dedicated to education and equality for women and men.
- To maintain a residential campus and to encourage in all members of the community a way of life characterized by plain living, pride in labor well done, zest for learning, high personal standards, and concern for the welfare of others.
- To serve the Appalachian region primarily through education but also by other appropriate services.

Originally adopted by the Board of Trustees in 1969;  
this revised statement adopted by the Board of Trustees of Berea College, Berea, Kentucky  
April 24, 1993

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Berea College, founded in 1855, is located in Berea, Kentucky.  
The Great Commitments were formed around the goals of Berea.  
We acknowledge their challenge and we accept these commitments as our responsibility for generations of Bereans.