Board of Trustees

Officers

CONTENTS

HIGHLIGHTS

	As of or for the Year Ended June 30, 2007	2006
OPERATING REVENUE	$ 72,636,125	$ 65,242,491
OPERATING EXPENSES	$ 66,081,142	$ 63,888,149
OPERATING REVENUE IN EXCESS OF EXPENSES FROM CONTINUING OPERATIONS	$ 6,554,983	$ 1,354,342
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	$ 10,345,297	$ 18,103,843
LONG-TERM INVESTMENTS OF THE ENDOWMENT AND TUITION REPLACEMENT FUNDS		
Original gift value	$ 349,235,652	$ 328,194,014
Investments at market	$1,102,272,000	$ 948,737,700
Interest and dividends, net	$ 21,860,036	$ 24,286,500
Return	2.3%	2.9%
Market price increase	$ 153,003,328	$ 82,572,413
Return	16.1%	9.7%
Total return	$ 174,863,364	$ 106,858,913
Percent - time weighted	18.4%	12.6%
CASH AND IN-KIND CONTRIBUTIONS		
Cash gifts	$ 8,712,036	$ 12,552,863
Bequests	16,734,630	9,703,456
Total cash gifts	25,446,666	22,256,319
Gifts-in-kind	1,049,387	97,674
Total	$ 26,496,053	$ 22,353,993

REPORT OF THE VICE PRESIDENT FOR FINANCE

August, 2007

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

Berea College was truly blessed with another wonderful year. For the first time, the market value of the College's endowment exceeded $1 billion and we completed the second greatest fundraising year in the history of the College. We completed the second year of a five-year comprehensive financial plan that was approved by the Board in May, 2005 ahead of the plan's financial projections. In October, 2006, Board members and administrators participated in a two-day retreat to strategically discuss the College's unique mission, retention, admissions, student success, and how the Board of Trustees can best fulfill its fiduciary responsibilities.

The market value of the College's endowment exceeded $1 billion for the first time in November, 2006. In February, 2007, the College joyfully celebrated this milestone. At June 30, 1964 the market value of the endowment was $45.3 million. Over the last 43 years the endowment has grown by $1,057.0 million to the June 30, 2007 market value of $1,102.3 million. The $1,102.3 million is composed of original gifts of $349.2 million and net market appreciation of $753.1 million. The total net return for the endowment was 18.4% for the fiscal year ending June 30, 2007. This represents a net market-price increase of more than $153 million. In addition, over $21 million was added to the endowment as a result of new gifts and matured split-interest agreements while over $42 million was distributed from the endowment in support of overall College operations.

However, the celebration was not really about reaching the $1 billion mark but, instead, was about what programmatic benefits the endowment has provided and will continue to provide in the future. Through the endowment spending policy the investment portfolio now provides nearly 78 percent of the funding for the educational and general operating budget. This year the endowment helped provide each student with a $22,300 cost of education scholarship - the equivalent of tuition at other schools. The endowment also provides support for such areas as the student laptop computer program (EDGE), the Entrepreneurship for the Public Good (EPG) program and an enhanced Study Abroad program. Growth in unrestricted endowment funds has enabled the College to increase the annual revenue allocated to operating budget reserves and debt service reserves. Since the market-based endowment spending policy used by the College can and has produced significant decreases in revenue in sustained down markets it is critical that the College continue to grow the annual endowment spendable return flow into the operating budget reserve to the policy level. The 2006-07 annual endowment spendable return of $5.1 million for academic building debt service and capital projects is part of the plan to provide sustainable stewardship of the College's physical plant assets.

The College experienced a very successful fundraising year, receiving a total of $26.5 million in gifts. Of this total, $4.1 million was designated for current operations, $19.0 million were gifts to the endowment, and the remainder was for specific projects or purposes. The total number of gifts was 14,771 and 69.4% of the dollars raised were from non-alumni, 19.1% from alumni and 11.5% from corporations, foundations and other sources.

The College continued working on the projects included in the comprehensive financial plan. The renovation of Pearsons Hall, which provides residential living spaces for 108 first-year students, was completed in August, 2007. The renovation of two Admissions Office facilities, Sturt Cottage and Haaga House, has been completed and is providing a welcoming front door to the College for prospective students. Restoration of Middletown School, a Julius Rosenwald school that had not been used for decades, has been completed and is providing office space for the GEAR UP program. The renovation of Elizabeth Rogers Hall was begun in May, 2007 and is scheduled to be completed in August, 2008.

The Board of Trustees engaged several strategic issues during the retreat in October, 2006. Some of the questions discussed include: Whom do we serve? How should Berea College think about its mission and identity as reflected in student admissions, interracial education, coeducation, economic need and academic excellence? How should the Board of Trustees be structured to best address the most critical issues facing the College and allow opportunity for the strategic thinking and discussion that are central to the Board's ability to add real value? From these discussions, the Board approved additional 2007-08 funds to assist the College in deepening the pool of prospective students through enhancing our web presence and identifying students with the best fit through on-campus interviews. Indeed, the College community is continuously seeking ways to better serve its students by living its motto that, "God has made of one blood all peoples of the earth."

Financial Position

The financial position of the College as of June 30, 2007 is the strongest it has ever been. **Total Net Assets** (total assets less liabilities) of the College were $1.27 billion, increasing by $181.4 million or 16.7 percent. This change reflects an increase in the market value of long-term investments during the year from $998.9 million as of June 30, 2006, to $1,158.0 million as of June 30, 2007.

At June 30, 2007, **Total Assets** of the College were $1.36 billion. Of this amount, long-term investments (including endowment funds, annuity and life income funds and other funds) comprised $1,158.0 million; net property, plant and equipment, and bond defeasance escrow investments totaled $139.9 million; and current assets totaled $32.6 million. Contributions receivable and bequests in probate totaled $25.9 million; non-current prepaid expenses totaled $2.5 million; and student educational loans totaled approximately $1.4 million. Two new large bequests account for most of the increase in contributions receivable and bequests in probate.

Total Liabilities decreased by $6.4 million, due primarily to the $6 million payoff of a defeased bond issue coupled with $2.2 million of principal payments on other bonds that reduced the total debt outstanding from $75.1 million to $66.9 million. This decrease was partially offset by an increase in accrued liabilities for construction expenditures and an increase in the actuarial liability for annuities payable.

Current Operations

The fiscal year ended with a significant surplus from budgeted operations of $2.2 million. This surplus was primarily due to less than budgeted faculty and staff salaries, lower than budgeted natural gas and electricity expense and greater interest income earned on treasury cash. The new heating/cooling plant, which became fully operational at the end of August, 2006, has helped the College use nearly 39 percent less natural gas than was used in the previous year.

Concluding Comments

As student, faculty, staff, alumni, trustee or friend, we all share in the responsibility for Berea College. The College belongs to us all in a most powerful way. Its successes of the past have been built on the shared talents and support of those who have preceded us and its future strength will depend on our affection and love for this great institution. I am certain that our collective efforts will not only sustain the radical Berea promise envisioned and kindled by John G. Fee in the mid-1800s, but position the College to contribute even greater to Appalachia and beyond for years to come.

Thank you for your continued support and please visit us on campus whenever possible.

Respectfully submitted,

Jeffrey S. Amburgey

Jeffrey S. Amburgey
Vice President for Finance

RESPONSIBILITY FOR THE COLLEGE'S FINANCIAL STATEMENTS

The Office of Financial Affairs 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 Dean, Dorton & Ford, PSC, 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 Office for Financial Affairs 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 an Audit Committee Charter that includes 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 materials respects, the financial position of the College as of June 30, 2007 and 2006, and the changes in its net assets and cash flows for the years then ended.

August, 2007

Larry D. Shinn
President

Jeffrey S. Amburgey
Vice President for Finance

Independent Auditors' Report

To the Board of Trustees of
Berea College
Berea, Kentucky

We have audited the accompanying statement of financial position of Berea College (the "College") as of June 30, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the College as of and for the year ended June 30, 2006, were audited by other auditors whose report dated September 19, 2006, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Dean, Dorton & Ford, PSC

August 31, 2007
Lexington, Kentucky

Dean, Dorton & Ford, PSC • 106 West Vine Street, Suite 600 • Lexington, KY 40507 • (859) 255-2341 • Fax (859) 255-0125 • www.ddfky.com

Berea College

STATEMENTS OF FINANCIAL POSITION

	June 30, 2007	June 30, 2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 16,522,405	$ 12,052,359
Other investments - absolute return fund	8,632,942	10,514,475
Accrued interest on investments	1,998,983	2,921,337
Accounts and notes receivable	3,598,399	3,103,189
Inventories	1,882,716	1,973,703
Prepaid expenses and other assets	21,632	29,550
Total current assets	32,657,077	30,594,613
NON-CURRENT PREPAID EXPENSES AND OTHER ASSETS	2,535,082	2,603,742
CONTRIBUTIONS RECEIVABLE AND BEQUESTS IN PROBATE	25,873,681	9,791,894
LONG-TERM RECEIVABLES		
Institutional student loans	1,161,013	1,141,910
Federal student loans	273,729	296,240
Total long-term receivables	1,434,742	1,438,150
LONG-TERM INVESTMENTS		
Donor-restricted endowment	621,276,200	531,420,200
Tuition replacement	480,995,800	417,317,500
Annuity and life income	30,739,700	27,609,900
Funds held in trust by others	24,940,500	22,585,100
Total long-term investments	1,157,952,200	998,932,700
BOND DEFEASANCE ESCROW	1,014,022	7,805,412
NET PROPERTY, PLANT AND EQUIPMENT	138,870,536	134,169,600
Total assets	$1,360,337,340	$1,185,336,111

See notes to financial statements.

Berea College

STATEMENTS OF FINANCIAL POSITION

LIABILITIES AND NET ASSETS	June 30, 2007	June 30, 2006
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 5,704,693	$ 4,666,976
Accrued salaries and wages	2,551,384	2,517,779
Deposits and agency funds	396,190	349,959
Deferred income	96,871	98,538
Current maturities of long-term debt	2,267,503	2,198,570
Total current liabilities	11,016,641	9,831,822
LONG-TERM LIABILITIES		
Actuarial liability for annuities payable and other liabilities	14,504,661	13,784,869
Long-term debt	64,602,772	72,870,275
Total long-term liabilities	79,107,433	86,655,144
Total liabilities	90,124,074	96,486,966
NET ASSETS		
Unrestricted -		
For current operations	89,494	87,861
Designated for specific purposes	24,807,479	30,933,152
Invested in property, plant and equipment	35,455,534	22,793,927
Support of future operations from:		
Contributions receivable and bequests in probate	12,612,473	2,774,513
Appreciation on endowment investments	333,241,648	280,136,075
Tuition replacement funds	480,995,800	417,317,500
Total unrestricted	887,202,428	754,043,028
Temporarily restricted -		
Unexpended contributions restricted for operations	8,304,459	7,325,484
Unexpended contributions restricted for plant renewals and replacement	986,680	1,711,642
Annuity and life income contracts	7,176,511	7,072,725
Expended contributions for long-lived assets being amortized	28,283,195	28,045,296
Appreciation on endowment investments primarily to support various programs/services	100,144,942	79,138,573
Total temporarily restricted	144,895,787	123,293,720
Permanently restricted -		
Loan funds	2,735,261	2,652,276
Annuity and life income contracts	9,924,389	7,598,375
Funds held in trust by others	24,940,500	22,585,100
Endowment investments	200,514,901	178,676,646
Total permanently restricted	238,115,051	211,512,397
Total net assets	1,270,213,266	1,088,849,145
Total liabilities and net assets	$1,360,337,340	$1,185,336,111

See notes to financial statements.

STATEMENTS OF ACTIVITIES

Changes in Unrestricted Net Assets

	Year Ended June 30, 2007	2006
OPERATING REVENUE		
Spendable return from long-term investments	$ 37,605,617	$ 32,879,062
Gifts and donations	5,623,130	4,925,708
Federal grants	7,502,927	7,892,749
Cost of education fees paid by federal and state scholarships	2,576,000	2,538,000
Fees paid by students	1,285,134	1,119,222
Other income	4,658,711	4,737,541
Residence halls and food service	6,951,895	6,558,263
Student industries and rentals	4,592,096	2,895,208
Net assets released from restrictions	4,624,346	5,025,297
Gross operating revenue	75,419,856	68,571,050
Less: Student aid	(2,783,731)	(3,328,559)
Net operating revenue	72,636,125	65,242,491
OPERATING EXPENSES		
Program Services -		
Instruction	21,798,387	22,399,700
Public service	5,695,155	5,576,650
Academic support	7,220,196	6,740,456
Student services	7,669,691	7,641,199
Residence halls and food service	6,861,089	6,705,055
Student industries and rentals	5,608,842	3,760,311
Total Program Services	54,853,360	52,823,371
Support Services, including fund raising expense of $2,462,600 in 2007 and $2,725,500 in 2006	11,227,782	11,064,778
Total operating expenses	66,081,142	63,888,149
Operating revenue in excess of operating expenses from continuing operations	6,554,983	1,354,342
OTHER UNRESTRICTED ACTIVITY		
Gain on sale of property, plant and equipment	7,885	323,069
(Loss) gain on valuation of interest rate swaps	(44,100)	2,956,300
Cumulative effect of change in accounting principle (Note 6)	-	(871,420)
Total other unrestricted activity	(36,215)	2,407,949
REVENUES DESIGNATED FOR LONG-TERM INVESTMENT		
Unrestricted bequests	14,493,433	1,179,361
Matured annuity and life income contracts	649,063	571,061
Investment return in excess of amounts designated for current operations	111,498,136	58,208,555
Total increase in revenues designated for long-term investment	126,640,632	59,958,977
Increase in unrestricted net assets	$ 133,159,400	$ 63,721,268

See notes to financial statements.

STATEMENTS OF ACTIVITIES

Changes in Total Net Assets

	Year Ended June 30, 2007	2006
UNRESTRICTED NET ASSETS		
Operating revenue in excess of operating expenses from continuing operations	$ 6,554,983	$ 1,354,342
Other unrestricted activity	(36,215)	2,407,949
Increase in revenues designated for long-term investment	126,640,632	59,958,977
Increase in unrestricted net assets	133,159,400	63,721,268
TEMPORARILY RESTRICTED NET ASSETS		
Restricted gifts and donations	1,004,773	1,631,755
Restricted spendable return on endowment investments	4,583,301	4,675,937
Investment return in excess of amounts designated for current operations	20,994,526	10,841,362
Net adjustment of annuity payment and deferred giving liability	668,251	427,904
Reclassification of net assets released from restrictions	(4,624,346)	(5,025,297)
Reclassification of matured annuity and life income contracts to revenues designated for long-term investment	(649,063)	(571,061)
Reclassification of net assets	(375,375)	-
Increase in temporarily restricted net assets	21,602,067	11,980,600
PERMANENTLY RESTRICTED NET ASSETS		
Gifts and donations	21,456,505	13,462,388
Restricted return on endowment investments	181,784	253,997
Restricted capital gains on funds held in trust by others	2,355,400	381,800
Net adjustment of annuity payment and deferred giving liability	2,233,590	862,548
Reclassification of net assets	375,375	-
Increase in permanently restricted net assets	26,602,654	14,960,733
Total increase in net assets	181,364,121	90,662,601
NET ASSETS		
Beginning of year	1,088,849,145	998,186,544
End of year	$ 1,270,213,266	$ 1,088,849,145

See notes to financial statements.

STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2007	Year Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 181,364,121	$ 90,662,601
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities -		
Realized and unrealized gains on long-term investments	(159,427,427)	(84,576,010)
Restricted return on endowment funds	(181,784)	(253,997)
Gifts and bequests for financing activities	(20,459,330)	(16,142,879)
(Increase) decrease in contributions receivable and bequests in probate	(16,081,787)	1,154,781
Gift value of annuity contracts written	(1,040,476)	(738,757)
Depreciation	5,584,003	5,436,322
Gain on sale of property, plant and equipment	(7,885)	(323,069)
Increase (decrease) in actuarial annuity payment liability and other liabilities	719,792	(1,301,231)
Decrease (increase) in non-current prepaid expenses and other assets	68,660	(198,881)
Increase in current assets other than cash and other investments	(592,418)	(3,297,370)
Increase (decrease) in current liabilities other than current maturities of long-term debt	1,115,886	(106,482)
Net cash used by operating activities	(8,938,645)	(9,684,972)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities held for long-term investment	(1,001,299,548)	(934,007,282)
Proceeds from sales and maturities of investments	1,002,747,951	932,312,649
Purchase of other investments - absolute return fund	-	(3,000,000)
Proceeds from sale of other investments - absolute return fund	3,000,000	-
Proceeds from sale of bond defeasance escrow	6,791,390	604,062
Purchase of property, plant and equipment	(10,345,297)	(18,103,843)
Proceeds from sale of property, plant and equipment	68,243	416,915
Decrease in long-term student loans	3,408	582,733
Net cash provided (used) by investing activities	966,147	(21,194,766)
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts and bequests received for -		
Long-term investment	19,038,879	15,452,553
Property, plant and equipment	1,416,226	671,208
Student loans	4,225	19,118
Endowment return restricted for long-term investments	181,784	253,997
Repayment of indebtedness	(8,198,570)	(2,040,240)
Long-term debt issued	-	9,000,000
Net cash provided by financing activities	12,442,544	23,356,636
Net increase (decrease) in cash and cash equivalents	4,470,046	(7,523,102)
Cash and cash equivalents, beginning of year	12,052,359	19,575,461
Cash and cash equivalents, end of year	$ 16,522,405	$ 12,052,359

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

(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 1,500 students and approximately 550 employees.

Basis of Presentation

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

Under established financial reporting standards for not-for-profit organizations, net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

> *Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the institution to use all or part of the income earned on related investments for general or specific purposes.
>
> *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that may or will be met by actions of the College and/or the passage of time.
>
> *Unrestricted net assets* - Net assets not subject to donor-imposed stipulations.

Revenues from sources other than contributions are reported as increases in unrestricted net assets. Contributions are reported as increases in the appropriate category of net assets, except that contributions which impose restrictions that are met in the same fiscal year they are received are included in unrestricted revenues. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets.

Contributions, including unconditional promises to give and bequests, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions to be received after one year are discounted at an interest rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

Contributions of exhaustible long-lived assets, or of cash or other assets to be used to acquire them, without donor stipulations concerning the use of such long-lived assets, are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released over the estimated useful lives of the long-lived assets using the College's depreciation policies.

NOTES TO FINANCIAL STATEMENTS

(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.

Cash, Cash Equivalents and Concentration of Credit Risk

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 some cash balances in an interest-bearing deposit account that is not collateralized and is not insured by the Federal Deposit Insurance Corporation. The balance totaled $10,237,788 at June 20, 2007. The College maintains this cash with a high quality financial institution which the College believes limits these risks. The College has not experienced any loss in this account.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market.

Investments

Investments are reported at their respective fair values. The values of publicly traded fixed income and equity securities are based upon quoted market prices. Private equities, including real estate partnerships, and certain other nonmarketable securities are valued using information provided by the general partner or investment manager 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 statements of activities.

The College's investments do not have a significant concentration of credit risk within any industry or specific institution.

The market risk inherent in certain of the College's investments is primarily the potential loss arising from adverse changes in quoted market prices on equity securities and in interest rates on fixed income securities. Investment securities, in general, are exposed to various risks, such as interest rates, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the 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 target asset allocation guidelines. These guidelines require that the College's investment pool be made up of a mix of publicly traded fixed income and equity securities, hedge funds, private equities and other nonmarketable securities, and real estate investments.

Derivatives

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

NOTES TO FINANCIAL STATEMENTS

(1) ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments

The following methods and assumptions were used by the College in estimating the fair value of its financial instruments:

Long-Term Debt: The fair value of the College's long-term debt is disclosed at Note 7 and is based on quoted market prices for the same or similar issues, giving consideration to the interest rates, maturity and other factors.

Cash, Investments and Other Items for Which Fair Value Disclosure is Required: The carrying amount reported in the statements of financial position for such items is either fair value or approximates fair value. The valuation of long-term investments is discussed in Note 2.

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 market 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 less accumulated depreciation.

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

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

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

	2007	2006
Educational and general purposes	$ 5,340,491	$ 5,053,742
Student industry equipment	243,512	382,580
	$ 5,584,003	$ 5,436,322

(1) ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (continued)

Equipment with a unit cost of $2,000 or more and having an estimated useful life of greater than one year is capitalized. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. The College capitalizes, but does not depreciate, works of art and historical treasures that are held for education, research or public exhibition.

Unrestricted Bequests

The College follows the policy of designating all unrestricted bequests as additions to the tuition replacement funds. Such bequests are reported as revenues designated for long-term investment in the statements of activities.

Measure of Operations

In its 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 permanently restricted contributions, gifts for capital construction, changes in the value of interest rate swap agreements, endowment return in excess of 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.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of activities. Certain items such as interest expense, depreciation expense and plant operation expenses have been allocated among the programs and supporting services benefited.

	2007	2006
Interest	$ 2,905,262	$ 2,694,808
Depreciation	5,584,003	5,436,322
Plant Operations	6,275,528	7,541,636

Reclassification

Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 presentation with no affect on total assets, liabilities, net assets or the change in net assets.

NOTES TO FINANCIAL STATEMENTS

(2) LONG-TERM INVESTMENTS

	June 30, 2007	June 30, 2006
Endowment and Tuition Replacement:		
Pooled Investments -		
U.S. equities	$ 369,533,500	$ 364,794,100
International equities	268,885,600	214,939,000
Corporate notes and bonds	90,434,100	89,189,600
U. S. Government securities	43,007,400	37,693,400
Foreign bonds	148,600	622,400
Structured notes	75,479,700	65,344,900
Private equity - venture capital	11,524,200	11,977,600
Private equity - buy out	9,653,100	7,900,500
Private equity - debt funds	5,867,000	8,609,000
Private equity - fund of funds	47,778,500	37,761,900
Hedge funds	120,192,900	65,826,500
Real estate	1,484,300	2,113,700
Short-term investments and cash	53,388,700	38,032,100
Total	1,097,377,600	944,804,700
Non Pooled Investments -		
U.S. equities	242,800	200,600
Corporate notes and bonds	104,600	18,900
U. S. Government securities	19,000	103,500
Real estate	2,978,500	2,772,900
Short-term investments and cash	1,549,500	837,100
Total	4,894,400	3,933,000
Total endowment and tuition replacement	1,102,272,000	948,737,700
Annuity and Life Income:		
Pooled Annuity Investments -		
U.S. equities	10,307,400	8,729,900
International equities	2,370,300	1,961,700
Corporate notes and bonds	4,119,200	3,605,800
Short-term investments and cash	134,200	420,000
Total	16,931,100	14,717,400
Separately Invested Trusts -		
U.S. equities	6,741,000	6,160,100
International equities	1,462,500	1,224,900
Corporate notes and bonds	4,438,400	4,185,000
U. S. Government securities	528,600	406,100
Real estate	330,000	330,000
Short-term investments and cash	308,100	586,400
Total	13,808,600	12,892,500
Total annuity and life income	30,739,700	27,609,900
Funds Held in Trust by Others, where Berea College receives all or a stipulated percent of income	24,940,500	22,585,100
Total long-term investments	$1,157,952,200	$ 998,932,700

(2) LONG-TERM INVESTMENTS (continued)

The hedge funds in which the College invests may include, but are not necessarily limited to, equity securities, short sales positions, distressed securities, fixed income securities, options, currencies, commodities, futures and derivatives. The College's objective for investing in these funds is to provide stable, absolute returns that are uncorrelated to fluctuations in the stock and bond markets. Some hedge funds may be somewhat illiquid since they may require a lock up period where the College will not be able to liquidate a part or all of the investment.

The majority of the private equity partnerships, including buy-out, venture capital, debt, and real estate partnerships are carried at estimated fair value provided by management of these funds. Certain of the investments are carried at fair value as determined by the fund managers at March 31, adjusted by cash receipts, cash disbursements and cash distributions from March 31 through June 30. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that may have been used had a ready market existed and such difference could be material.

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.

The College has an endowment spending formula which utilizes a 5% spending rate of the prior twelve quarter moving average of the market value of the long-term pooled investments. For 2007 and 2006, spendable return under the formula amounted to $42,203,084 and $37,574,050, respectively. In 2007, actual cash income earned on pooled investments, net of $2,165,762 for investment management and custodial fees, amounted to $21,692,418, or $20,510,666 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 $167,618 in 2007 and $234,946 in 2006, while the market value of these investments of $4,894,400 at June 30, 2007 and $3,933,000 at June 30, 2006 increased by $956,400 in 2007 and decreased by $37,300 in 2006. Net additions to non-pooled endowment investments during 2007 amounted to $5,000 and no transfers were made to pooled investments.

Dividend and interest income of $21,860,036 and $24,286,500 reported net of external investment manager fees of $2,165,762 and $1,916,541 is included in the statements of activities for the years ended June 30, 2007 and 2006, respectively.

NOTES TO FINANCIAL STATEMENTS

(2) LONG-TERM INVESTMENTS (continued)

During 2007, the unit value of pooled investments changed as follows:

	2006-07				2005-06
	Market Value	Number of Units	Value Per Unit	Time Weighted Return Net of Fees	Market Value
Beginning Balance	$ 944,804,700	638,218.4	$ 1,480.38		$ 857,713,200
Market price change	152,046,928		237.09	16.1%	82,609,713
Net income earned	21,692,418		33.99	2.3%	24,051,554
Spendable return	(42,203,084)		(66.13)	-	(37,574,050)
	131,536,262		204.95	18.4%	69,087,217
Additions	21,036,638	12,915.6	-		18,004,283
Ending Balance	$ 1,097,377,600	651,134.0	$ 1,685.33		$ 944,804,700

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

	2007	2006
Pooled Investments -		
Cash income, net	$ 21,692,418	$ 24,051,554
Market price increase	152,046,928	82,609,713
Non-Pooled Investments -		
Cash income	167,618	234,946
Market price increase (decrease)	956,400	(37,300)
Total Return	174,863,364	106,858,913
Distributed to -		
Unrestricted Net Assets		
Spendable return	37,605,617	32,879,062
Long-term investments	111,498,136	58,208,555
Temporarily Restricted Net Assets		
Spendable return	4,583,301	4,675,937
Investment return in excess of amounts designated for current operations	20,994,526	10,841,362
Permanently Restricted		
Restricted earnings	181,784	253,997
Total	$ 174,863,364	$ 106,858,913

NOTES TO FINANCIAL STATEMENTS

(3) DERIVATIVE FINANCIAL INSTRUMENTS

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

The College also uses interest rate swaps to reduce exposure to fluctuations in interest costs on its variable rate debt. During 2004, the College entered into interest rate swap contracts with UBS AG. The contracts were designed to reduce the interest rate risk to the College from the underlying variable rate bonds that were issued August, 2002 for $18,500,000 and the variable rate bonds that were issued December, 2003 for $10,240,000. The contracts call for UBS AG to pay the College the variable rate interest based on The Bond Market Association Municipal Swap Index (TBMA) until July 1, 2005, and 70% of the 30-day LIBOR rate for the remaining term of the bonds. The fair market value of the interest rate swaps was $1,395,300 and $1,439,400 at June 30, 2007 and 2006, respectively, and is included in non-current prepaid expenses and other assets in the statements of financial position. The decrease in market value of the interest rate swaps of $44,100 has been reflected in the statements of activities in other unrestricted activity.

(4) 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 $1,775,190 in 2007 and $1,850,057 in 2006.

(5) PROPERTY, PLANT AND EQUIPMENT

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

Property, Plant and Equipment	2007	2006
Educational property, plant and equipment	$ 162,262,585	$ 146,191,214
Student industry plant and equipment	7,913,151	8,130,383
Rental property	2,551,773	2,551,773
Forest and farms	1,250,902	1,230,970
Collections and works of art	4,063,531	3,126,031
Construction in process	6,709,401	17,484,729
Less accumulated depreciation	(45,880,807)	(44,545,500)
	$ 138,870,536	$ 134,169,600

Capitalized interest was $59,615 and $151,183 for the years ended June 30, 2007 and 2006, respectively.

(6) CONDITIONAL ASSET RETIREMENT OBLIGATIONS

In 2006, the College adopted the Financial Accounting Standards Board (FASB)'s Interpretation No. 47, *Accounting for Conditional Asset Obligations – an interpretation of FASB Statement No.143 (FIN 47).* Under Statement of Financial Accounting Standards 143, *Accounting for 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 as an additional element of cost and is depreciated over the useful life of the asset. FIN 47 affects the College's accounting for costs associated with asbestos abatement. A reconciliation of the beginning and ending aggregate carrying amount of the asset retirement obligations for the years ended June 30 is as follows:

	2007	Proforma 2006
Beginning balance	$ 948,115	$ 909,899
Accretion expense	36,120	38,216
Liabilities settled during the year	(63,822)	-
Ending balance	$ 920,413	$ 948,115

(7) LONG-TERM DEBT

	June 30, 2007	2006
KDFA Loan Agreement - Issued June 1986; due in monthly installments to June 2011; variable interest rate, 5.66% as of June 2007; unsecured; proceeds used for various capital projects	$ 590,275	$ 713,845
* General Obligation Bonds, Series of 1997 - Issued June 1997, due June 2017 at 5.9%; unsecured; proceeds used to refinance electric and water utility debt	-	6,000,000
Educational Buildings Revenue Bonds, Series of 1997 - Issued August 1997; serial annual payments through August 2017 at rates from 4.5% to 5.0%; unsecured; proceeds used for Frost Building restoration and renovation	2,000,000	2,130,000
* General Obligation Refunding Bonds, Series of 1998 - Issued July 1, 1998; serial annual payments through 2008 at rates from 4.1% to 4.8%; unsecured; proceeds used to retire bonds used for water filtration plant and other water utility improvements	1,000,000	1,500,000
Educational Development Bonds, Series of 1998 - Issued December 1, 1998; serial annual payments through December 2018 at rates from 4.0% to 4.65%; proceeds used for residence hall and administrative building renovation	5,975,000	6,350,000

(7) LONG-TERM DEBT (continued)

	June 30, 2007	June 30, 2006
Educational Development Revenue Bonds, Series of 2000 - Issued May, 2000; serial annual payments through 2020 at rates from 4.6% to 5.7%; unsecured; proceeds used for residence hall renovation	1,960,000	2,065,000
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2002A - Issued August 29, 2002; due June 1, 2032; variable interest rate, 3.89% as of June, 2007; with synthetic fixed rate of 3.45%; unsecured; proceeds used for various capital projects	17,675,000	17,675,000
Educational Facilities Revenue Refunding Bonds, Series 2003A - Issued July 8, 2003; serial annual payments through June 1, 2033; at rates from 2.0% to 4.125% with 3.98% average coupon; unsecured; proceeds used for various capital projects	19,630,000	20,100,000
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2003B - Issued December 11, 2003; variable payments through June 1, 2029; variable interest rate, 3.89% as of June, 2007 with synthetic fixed rate of 3.746%; unsecured; proceeds used for various capital projects	9,470,000	9,735,000
Educational Facilities Revenue Bonds, Series 2005A - Issued September, 2005; serial annual payments through June 1, 2030 at rates from 3.25% to 4.50% with 4.16% average coupon; unsecured; proceeds used for central heat plant and various capital retrofits	8,570,000	8,800,000
	66,870,275	75,068,845
Less current portion	2,267,503	2,198,570
	$ 64,602,772	$ 72,870,275

Principal payments on long-term debt are required to be made in each of the following fiscal years: $2,267,503 in 2008; $2,337,082 in 2009; $1,912,353 in 2010; $1,978,337 in 2011; $1,890,000 in 2012 and $56,485,000 in subsequent years thereafter.

* On January 26, 2005 the sale of certain electric and water utility assets to the City of Berea was completed. A bond defeasance escrow was established in the amount of $12,131,145 from a portion of the sale proceeds by investing the cash in State and Local Government Securities (SLGS) to defease the interest and principal on the bonds. The series 1993 bond issue in the amount of $3,500,000 was called on May 1, 2005 @ $101. The series 1997 bond issue in the amount of $6,000,000 was called on June 1, 2007 @ $102. The series 1998 bond issue in the outstanding amount of $1,000,000 is not callable and will be paid based on the scheduled serial maturities of $500,000 each on July 1, 2007 and July 1, 2008.

The fair value of the College's long-term debt that has not been defeased at June 30, 2007 was estimated to be approximately $64,400,000 based upon rates available to the College for debt with similar terms and remaining maturities.

Cash payments for interest amounted to $3,009,126 in 2007 and $2,984,532 in 2006.

NOTES TO FINANCIAL STATEMENTS

(8) CONTRIBUTIONS RECEIVABLE AND BEQUESTS IN PROBATE

	June 30, 2007 Total	Due In One Year or Less	One Year to Five Years	Over Five Years	June 30, 2006 Total
Unconditional Promises for -					
Unrestricted	$ 62,220	$ 40,710	$ 21,510	$ -	$ 84,753
Restricted	362,850	142,166	220,684	-	170,123
Buildings and equipment	321,950	321,950	-	-	376,275
Endowment	1,453,467	527,633	924,834	1,000	1,987,431
Reserve for unfulfilled promises	(150,000)	(72,000)	(78,000)	-	(170,000)
Total	2,050,487	960,459	1,089,028	1,000	2,448,582
Bequests in Probate	22,486,944	19,075,489	3,411,455	-	6,865,130
External Charitable Remainder Trusts*	1,024,308	-	-	1,024,308	-
Charitable Lead Trusts	747,076	183,860	423,576	139,640	915,021
Total	$ 26,308,815	$ 20,219,808	$ 4,924,059	$ 1,164,948	$ 10,228,733
Present Value of Estimated Future Cash Flows	$ 25,873,681	$ 20,219,808	$ 4,518,949	$ 1,134,924	$ 9,791,894

* Discounted beneficial interest in trusts

(9) 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 financial statements.

At June 30, 2007, the College was committed under various contracts with alternative investment managers to fund $48,636,774 of capital calls for these private equity 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 private equity investments are consistent with the target asset allocation guidelines for long-term investments as established by the College's Board of Trustees. The capital calls are summarized by the type of investment below:

Venture capital	$ 1,175,375
Buy out	32,173,528
Debt fund	10,500,000
Fund of funds	4,787,871
Total	$ 48,636,774

The College has purchase commitments relating to construction projects of approximately $4,395,000 as of June 30, 2007.

NOTES TO FINANCIAL STATEMENTS

(10) NET ASSETS RELEASED FROM RESTRICTIONS

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

	2007	2006
Purpose Restricted Contributions for -		
Instruction	$ 760,555	$ 670,023
Public service	634,756	665,066
Academic support	321,145	434,149
Student services	94,871	74,440
Student aid	1,672,543	2,110,440
General and administrative	-	25,000
Development and alumni	14,118	15,118
	3,497,988	3,994,236
Time-Restricted Contributions - Amortization of Restricted Gifts to Acquire Long-Lived Assets	1,126,358	1,031,061
Total Net Assets Released from Restriction	$ 4,624,346	$ 5,025,297
Matured Annuity and Life Income Contracts -		
Temporarily Restricted Agreements Reclassified to Tuition Replacement Funds in Unrestricted Net Assets	$ 649,063	$ 571,061

(11) FEDERAL TAX-EXEMPT STATUS

Berea College has a determination from the Internal Revenue Service that it is a not-for-profit organization exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code.

(12) BOONE TAVERN HOTEL AND RESTAURANT

Effective July 6, 2007, the College engaged a hotel management company, CUSA, LLC, to develop, operate, maintain and manage the Boone Tavern Hotel and Restaurant which is owned by the College. The contract, which expires on June 30, 2011, includes an annual management fee of 3.0% of gross revenue for the first three years and 3.5% thereafter with a minimum monthly fee of $3,500. Under the prior arrangement with Sodexho, Inc., the College received a percentage of profits, if any, and had no exposure to financial loss. The full operating activity of Boone Tavern is included in the 2007 statement of financial position, statement of activities, and statement of cash flows. In 2007, $1,663,398 is included in student industries and rental revenue and $1,772,789 is included in student industries and rental expenses.