Berea College

Financial Statements

for the Year Ended June 30, 2009

Board of Trustees

Officers

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HIGHLIGHTS

	As of or for the Year Ended June 30,	
	2009	2008
OPERATING REVENUE	$ 77,972,937	$ 75,224,258
OPERATING EXPENSES	$ 69,161,495	$ 67,964,732
OPERATING REVENUE IN EXCESS OF EXPENSES FROM CONTINUING OPERATIONS	$ 8,811,442	$ 7,259,526
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	$ 13,796,859	$ 9,158,367
LONG-TERM INVESTMENTS OF THE ENDOWMENT AND TUITION REPLACEMENT FUNDS		
Original gift value	$ 399,186,430	$ 368,689,457
Investments at market	$ 791,209,800	$ 1,023,254,700
Interest and dividends, net	$ 16,126,355	$ 21,175,329
Return	1.6%	1.9%
Market price decrease	$ (228,120,519)	$ (72,956,786)
Return	-22.4%	-6.6%
Total return	$ (211,994,164)	$ (51,781,457)
Percent - time weighted	-20.8%	-4.7%
CASH AND IN-KIND CONTRIBUTIONS		
Cash gifts	$ 7,501,667	$ 9,871,990
Bequests	28,281,948	16,398,891
Total cash gifts	35,783,615	26,270,881
Gifts-in-kind	57,410	125,907
Total	$ 35,841,025	$ 26,396,788

REPORT OF THE VICE PRESIDENT FOR FINANCE

September 2009

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

Our nation and the world have experienced significant economic and financial events over the last two years. The global financial crisis began in the summer of 2007 with a loss of confidence by investors in the value of securitized mortgages. This resulted in a liquidity crisis that prompted the Federal Reserve, and other central banks around the world, to inject an enormous amount of capital into the financial markets. In September 2008, the crisis deepened, as financial markets crashed and entered a period of extreme volatility, and a number of banks, investment banks, mortgage lenders and insurance companies failed within a matter of weeks. No one would have imagined that we would experience all of the following events over the last year – Bear Stearns closed its doors, the FDIC closed several large banks, Lehman Brothers filed for bankruptcy, Bank of America acquired Merrill Lynch, Congress approved bailout plans that injected billions of dollars into major banks and other companies such as American International Group, Inc. (AIG), General Motors and Chrysler, interest rates were cut to the lowest levels in history, and hedge fund manager Bernard Madoff was convicted of a $50 billion Ponzi scheme. These events, indeed, have changed the American and global landscapes and challenged the College in carrying out its unique mission.

The market value of the College's endowment declined by $232.1 million as it went from $1,023.3 million on June 30, 2008 to $791.2 million on June 30, 2009. The $791.2 million is composed of cumulative original gifts of $399.2 million and cumulative net market appreciation after endowment spending of $392.0 million. The policy of adding all unrestricted bequests to the College's quasi endowment that was put in place by the Berea College Board of Trustees on October 20, 1920, has significantly contributed to the growth of Berea's endowment and will continue to do so for the future. The market value of the quasi endowment portion of the investments as of June 30, 2009, was $345.7 million, or almost 44% of the total endowment investments. The net return for the total endowment was -20.8% for the fiscal year ending June 30, 2009. The average annual compound rates of return for the 20-year, 10-year, 5-year and 3-year periods ending June 30, 2009 are 8.1%, 4.6%, 2.2%, and -3.7%, respectively. During the year, a record setting $30.5 million was added to the endowment as a result of new gifts and matured split-interest agreements, and $50.5 million was distributed from the endowment in support of College operations.

Although the market value of the endowment declined during the year, the College experienced the best fundraising year in its history, receiving a total of $35.8 million in gifts. Of this total, $4.5 million was raised in Berea's annual fund for current operations and $28.9 million in gifts, mostly in bequests, to the endowment. During the year, the College received its largest single gift ever – the $10.7 million Wood estate gift to establish the Alfred M. and Mary Swain Wood Scholarship Endowment Fund, to provide student scholarships at Berea. Al Wood, who worked for Proctor & Gamble his whole career, grew up in Wildie, Kentucky, a small community in Rockcastle County just south of Berea, where his father ran a grocery store and the post office. Estate gifts represent years of ongoing and thoughtful work by staff across generations in cases like this. Weak financial markets have made us more aware of the importance of annual endowment gifts and bequests in helping to offset the negative investment performance. These gifts are absolutely critical for the future growth of the endowment. The total number of gifts during the year was 16,113 from 10,956 different donors. The Berea Fund goal was exceeded by almost 7% aided by large, perhaps not recurring, gifts from a few foundations and individuals which helped offset the drop in the amount of gifts from some of our significant annual donors due to the economy. The next few years are expected to be even more challenging fundraising years. We are grateful to all those who responded to Berea's most urgent appeal in recent memory.

Several capital projects were started or completed during the year. The $11.4 million renovation of Boone Tavern was completed in the spring of 2009. Boone Tavern is the first LEED (Leadership in Energy and Environmental Design) certified hotel in Kentucky. The finishing touches of the $4.5 million Emery Building renovation which began in June 2008 will be completed in September 2009. The second phase of construction of the John G. Fee Glade is underway and will be completed soon.

During the year, a Scenario Planning Taskforce composed of six staff, four faculty, and one student was formed by the President to help the College rethink its budget and educational model by developing 3-4 possible scenarios to be delivered to the College community in early October 2009. The Taskforce has been working throughout the summer and has been asked to (a) identify the key strategic issues that must be addressed in the near and longer range future, (b) specify the essential decision factors such as the external financial picture and higher education funding sources that will affect the College's capacity to fund and achieve its mission, and (c) narrow down the specific scenarios for discussion and decision making during the 2009-2010 fiscal year. The Taskforce recognizes that the fundamental challenge facing American colleges and universities is that our costs have been rising considerably above the rate of inflation and family incomes for several decades. Of course, since Berea does not charge tuition, it is the financial crisis' impact on our endowment that has put the College on the leading edge in institutional transformation. The mission of Berea will not change. However, how we implement that mission will have to change.

Financial Position

Although the financial markets were challenging throughout the year, the financial position of the College remains strong. **Total Net Assets** (total assets less liabilities) of the College were $944.6 million, decreasing by $244.0 million or 20.5 percent. This change reflects a decrease in the market value of total long-term investments during the year from $1,075.7 million as of June 30, 2008, to $832.9 million as of June 30, 2009.

At June 30, 2009, **Total Assets** of the College were $1,032.5 million. Of this amount, long-term investments (including endowment funds, annuity and life income funds and other funds) comprised $832.9 million; net property, plant and equipment and bond proceeds held for capital additions totaled $153.1 million; and current assets totaled $39.9 million. Long-term contributions receivable and bequests in probate totaled $2.6 million; non-current prepaid expenses totaled $2.7 million; and student educational loans totaled approximately $1.3 million.

Total Liabilities increased slightly due primarily to the $4.5 million of new debt that was issued to fund the renovation of the Emery Building. This increase was partially offset by principal payments on other bonds.

Current Operations

The fiscal year ended with a significant surplus from budgeted operations of $2.6 million. This surplus was primarily due to unfilled positions and intentional efforts by Berea's administration to reduce spending throughout the various controllable budgets of the College. The $2.6 million surplus will be used to help fund a voluntary Retirement Incentive Program that has been made available to long-serving employees.

Concluding Comments

Throughout its history, Berea College has faced significant crises and has emerged a stronger institution while remaining true to its core mission. We are confident that our investment in young lives of great promise will reap immeasurable results as our students develop their innate strengths through experiences at Berea and then move on to apply these strengths, as have our graduates before them, to serve others in valuable ways. Your legacy of thoughtful and generous support will live on in their aspirations and achievements.

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 of 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, 2009 and 2008, and the changes in its net assets and cash flows for the years then ended.

September, 2009

Larry D. Shinn

Larry D. Shinn
President

Jeffrey S. Amburgey

Jeffrey S. Amburgey
Vice President for Finance

Independent Auditors' Report

To the Board of Trustees
Berea College
Berea, Kentucky

We have audited the accompanying statements of financial position of Berea College (the College) as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years 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 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 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 audits provide 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, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Dean, Dorton & Ford, PSC

September 4, 2009
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Berea College

STATEMENTS OF FINANCIAL POSITION

	June 30, 2009	June 30, 2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 25,541,383	$ 23,165,985
Other investments - absolute return fund	-	5,448,357
Accrued interest on investments	1,580,307	2,337,135
Accounts and notes receivable	3,564,530	1,981,139
Inventories	1,434,029	1,624,956
Prepaid expenses and other assets	114,815	51,925
Contributions receivable and bequests in probate	7,678,037	16,447,195
Total current assets	39,913,101	51,056,692
PREPAID EXPENSES AND OTHER ASSETS	2,727,392	1,219,279
CONTRIBUTIONS RECEIVABLE AND BEQUESTS IN PROBATE	2,655,285	3,377,313
LONG-TERM RECEIVABLES		
Institutional student loans	1,080,438	1,061,557
Federal student loans	232,361	273,677
Total long-term receivables	1,312,799	1,335,234
LONG-TERM INVESTMENTS		
Donor-restricted endowment	445,508,900	573,607,800
Tuition replacement	345,700,900	449,646,900
Annuity and life income	22,790,400	28,767,600
Funds held in trust by others	18,860,900	23,684,800
Total long-term investments	832,861,100	1,075,707,100
BOND PROCEEDS FOR CAPITAL ADDITIONS	3,265,911	-
BOND DEFEASANCE ESCROW	-	503,443
NET PROPERTY, PLANT AND EQUIPMENT	149,801,990	142,149,654
Total assets	$ 1,032,537,578	$ 1,275,348,715

Berea College

STATEMENTS OF FINANCIAL POSITION

LIABILITIES AND NET ASSETS	June 30, 2009	June 30, 2008
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 4,991,787	$ 6,235,943
Accrued salaries and wages	2,792,342	2,631,745
Deposits and agency funds	475,517	418,251
Deferred income	144,722	111,707
Current maturities of long-term debt	1,914,982	2,195,000
Total current liabilities	10,319,350	11,592,646
LONG-TERM LIABILITIES		
Actuarial liability for annuities payable and other liabilities	15,530,163	14,989,580
Long-term debt	62,060,567	60,105,000
Total long-term liabilities	77,590,730	75,094,580
Total liabilities	87,910,080	86,687,226
NET ASSETS		
Unrestricted -		
For current operations	94,276	93,730
Designated for specific purposes	23,951,787	23,449,686
Invested in property, plant and equipment	49,944,605	43,612,774
Support of future operations from:		
Contributions receivable and bequests in probate	5,482,303	5,404,832
Appreciation on endowment investments	190,585,440	294,147,515
Tuition replacement funds	345,700,900	449,646,900
Total unrestricted	615,759,311	816,355,437
Temporarily restricted -		
Unexpended contributions restricted for operations	8,916,482	8,196,115
Unexpended contributions restricted for plant renewals and replacement	1,154,148	1,050,768
Annuity and life income contracts	3,889,173	5,842,734
Expended contributions for long-lived assets being amortized	27,620,303	27,975,348
Appreciation on endowment investments primarily to support various programs/services	39,869,569	83,918,514
Total temporarily restricted	81,449,675	126,983,479
Permanently restricted -		
Loan funds	2,636,229	2,871,833
Annuity and life income contracts	6,853,427	9,457,466
Funds held in trust by others	18,860,900	23,684,800
Endowment investments	219,067,956	209,308,474
Total permanently restricted	247,418,512	245,322,573
Total net assets	944,627,498	1,188,661,489
Total liabilities and net assets	$ 1,032,537,578	$ 1,275,348,715

See notes to financial statements.

STATEMENTS OF ACTIVITIES

Changes in Unrestricted Net Assets

	Year Ended June 30, 2009	2008
OPERATING REVENUE		
Spendable return from long-term investments	$ 44,950,728	$ 41,511,289
Gifts and donations	5,351,568	5,260,535
Federal grants	7,421,522	7,346,497
Cost of education fees paid by federal and state scholarships	2,755,000	2,615,000
Fees paid by students	1,508,813	1,430,102
Other income	2,462,116	3,854,924
Residence halls and food service	7,516,824	7,280,522
Student industries and rentals	3,263,481	3,748,822
Net assets released from restrictions	5,765,578	5,202,704
Gross operating revenue	80,995,630	78,250,395
Less: Student aid	(3,022,693)	(3,026,137)
Net operating revenue	77,972,937	75,224,258
OPERATING EXPENSES		
Program Services -		
Instruction	22,567,296	22,378,496
Public service	6,216,961	6,064,969
Academic support	7,053,724	6,918,095
Student services	8,447,936	8,438,758
Residence halls and food service	7,107,081	7,421,851
Student industries and rentals	5,309,036	4,703,052
Total Program Services	56,702,034	55,925,221
Support Services, including fund raising expense of $2,569,600 in 2009 and $2,716,700 in 2008	12,459,461	12,039,511
Total operating expenses	69,161,495	67,964,732
Operating revenue in excess of operating expenses from continuing operations	8,811,442	7,259,526
OTHER UNRESTRICTED ACTIVITY		
Gain on sale of property, plant and equipment	91,849	24,540
Loss on valuation of interest rate swaps	(2,085,100)	(2,013,900)
Total other unrestricted activity	(1,993,251)	(1,989,360)
REVENUES DESIGNATED FOR LONG-TERM INVESTMENT		
Unrestricted bequests	10,643,657	5,474,562
Matured annuity and life income contracts	420,136	639,660
Investment return less than amounts designated for current operations	(218,478,110)	(82,231,379)
Total decrease in revenues designated for long-term investment	(207,414,317)	(76,117,157)
Decrease in unrestricted net assets	$ (200,596,126)	$ (70,846,991)

See notes to financial statements.

STATEMENTS OF ACTIVITIES

Changes in Total Net Assets

	Year Ended June 30, 2009	2008
UNRESTRICTED NET ASSETS		
Operating revenue in excess of operating expenses from continuing operations	$ 8,811,442	$ 7,259,526
Other unrestricted activity	(1,993,251)	(1,989,360)
Decrease in revenues designated for long-term investment	(207,414,317)	(76,117,157)
Decrease in unrestricted net assets	(200,596,126)	(70,846,991)
TEMPORARILY RESTRICTED NET ASSETS		
Restricted gifts and donations	1,180,962	998,809
Restricted spendable return on endowment investments	5,440,391	5,022,702
Investment return less than amounts designated for current operations	(44,063,763)	(16,239,727)
Net adjustment of annuity payment and deferred giving liability	(1,737,880)	(732,520)
Reclassification of net assets released from restrictions	(5,765,578)	(5,202,704)
Reclassification of matured annuity and life income contracts to revenues designated for long-term investment	(420,136)	(639,660)
Reclassification of net assets	(167,800)	(1,119,208)
Decrease in temporarily restricted net assets	(45,533,804)	(17,912,308)
PERMANENTLY RESTRICTED NET ASSETS		
Gifts and donations	9,173,652	9,176,510
Restricted return on endowment investments	156,590	155,658
Restricted capital losses on funds held in trust by others	(4,823,900)	(1,818,500)
Net adjustment of annuity payment and deferred giving liability	(2,578,203)	(1,425,354)
Reclassification of net assets	167,800	1,119,208
Increase in permanently restricted net assets	2,095,939	7,207,522
Total decrease in net assets	(244,033,991)	(81,551,777)
NET ASSETS		
Beginning of year	1,188,661,489	1,270,213,266
End of year	$ 944,627,498	$ 1,188,661,489

See notes to financial statements.

STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2009	Year Ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	$ (244,033,991)	$ (81,551,777)
Adjustments to reconcile decrease in net assets to net cash used in operating activities -		
Realized and unrealized losses on long-term investments	237,586,750	76,652,965
Realized and unrealized losses on absolute return fund	695,624	184,585
Restricted return on endowment funds	(156,590)	(155,658)
Gifts and bequests for financing activities	(29,477,609)	(19,834,764)
Decrease in contributions receivable and bequests in probate	9,491,186	6,049,173
Gift value of annuity contracts written	(738,400)	(1,390,964)
Depreciation	6,144,523	5,879,249
Gain on sale of property, plant and equipment	(91,849)	(24,540)
Increase in actuarial annuity payment liability and other liabilities	540,583	484,919
(Increase) decrease in non-current prepaid expenses and other assets	(275,539)	1,315,803
(Increase) decrease in other current assets	(698,526)	1,506,575
(Decrease) increase in current liabilities other than current maturities of long-term debt	(993,278)	648,508
Net cash used in operating activities	(22,007,116)	(10,235,926)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities held for long-term investment	(693,287,397)	(769,477,530)
Proceeds from sales and maturities of investments	699,285,047	776,460,629
Purchases of investments for capital additions	(4,500,000)	-
Proceeds from sale of investments for capital additions	1,234,089	-
Proceeds from sale of other investments - absolute return fund	3,520,159	3,000,000
Proceeds from sale of bond defeasance escrow	503,443	510,579
Purchase of property, plant and equipment	(13,796,859)	(9,158,367)
Proceeds from sale of property, plant and equipment	91,849	24,540
Decrease in long-term student loans	22,435	99,508
Net cash (used in) provided by investing activities	(6,927,234)	1,459,359
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts and bequests received for -		
Long-term investment	28,921,896	18,716,915
Property, plant and equipment	536,813	1,066,119
Student loans	18,900	51,730
Endowment return restricted for long-term investments	156,590	155,658
Repayment of indebtedness	(2,824,451)	(4,570,275)
Long-term debt issued	4,500,000	-
Net cash provided by financing activities	31,309,748	15,420,147
Net increase in cash and cash equivalents	2,375,398	6,643,580
Cash and cash equivalents, beginning of year	23,165,985	16,522,405
Cash and cash equivalents, end of year	$ 25,541,383	$ 23,165,985

See 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 500 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 (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 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 the June 30, 2009, five-year Daily Treasury Yield Curve Rate of 2.54%. 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.

(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 formerly maintained some cash balances in an interest-bearing deposit account that was not collateralized and not insured by the Federal Deposit Insurance Corporation. The balance totaled $0 and $9,438,593 as of June 30, 2009 and 2008, respectively. The balance was transferred into a U.S. Government money market fund rated Aaa by Moody's during the 2008-09 fiscal year.

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.

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 8 and is based on quoted market prices for the same or similar issues, giving consideration to the interest rates, maturity and other factors.

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

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:

	2009	2008
Educational and general purposes	$5,823,418	$5,634,431
Student industries	321,105	244,818
	$6,144,523	$5,879,249

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

Unrestricted Bequests

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

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

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.

	2009	2008
Interest	$2,419,677	$2,572,643
Depreciation	6,144,523	5,879,249
Plant Operations	5,045,961	5,239,457

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (FAS 168), effective for financial statements issued for interim and fiscal years ending after September 15, 2009. FAS 168 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the United States (the GAAP hierarchy). FAS 168 will not impact the financial position, results of activities or cash flows of the College, but will impact the way accounting standards are issued in the future and referenced in the financial statements.

Reclassification

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 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, 2009	June 30, 2008
Endowment and Tuition Replacement:		
Pooled Investments -		
U. S. equities	$ 225,920,800	$ 314,991,100
International equities	164,560,000	222,820,000
Corporate notes and bonds	76,710,900	91,079,100
U. S. Government securities	37,327,300	38,404,300
Foreign bonds	735,400	454,800
Structured notes	30,085,700	69,621,600
Private equity - venture capital	8,709,600	11,905,900
Private equity - buy out	20,537,900	17,709,800
Private equity - debt funds	7,318,200	5,229,400
Private equity - fund of funds	41,234,700	51,953,100
Hedge funds	110,087,200	133,908,800
Real estate	895,800	1,247,900
Short-term investments and cash	64,068,900	60,542,600
Total	788,192,400	1,019,868,400
Non Pooled Investments -		
U. S. equities	11,500	248,600
Corporate notes and bonds	-	101,400
U. S. Government securities	-	20,700
Real estate	2,978,500	2,978,500
Short-term investments and cash	27,400	37,100
Total	3,017,400	3,386,300
Total endowment and tuition replacement	791,209,800	1,023,254,700
Annuity and Life Income:		
Pooled Annuity Investments -		
U. S. equities	5,572,900	9,045,200
International equities	2,918,100	1,952,900
Corporate notes and bonds	1,237,100	4,338,000
U. S. Government securities	1,770,700	-
Short-term investments and cash	191,600	237,700
Total	11,690,400	15,573,800
Separately Invested Trusts -		
U. S. equities	4,383,200	6,112,300
International equities	2,341,200	1,394,100
Corporate notes and bonds	2,313,000	4,726,500
U. S. Government securities	1,455,700	330,200
Real estate	330,000	330,000
Short-term investments and cash	276,900	300,700
Total	11,100,000	13,193,800
Total annuity and life income	22,790,400	28,767,600
Funds Held in Trust by Others, where Berea College receives all or a stipulated percent of income	18,860,900	23,684,800
Total long-term investments	$ 832,861,100	$1,075,707,100

(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 2009 and 2008, spendable return under the formula amounted to $50,504,231 and $46,529,735, respectively. In 2009, actual cash income earned on pooled investments, net of $1,778,439 for investment management and custodial fees, amounted to $16,082,877, or $34,421,354 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 $43,478 in 2009 and $159,913 in 2008, while the market value of these investments of $3,017,400 at June 30, 2009 and $3,386,300 at June 30, 2008 decreased by $86,009 in 2009 and decreased by $13,100 in 2008. Additions to non-pooled endowment investments during 2009 amounted to $5,000 and $287,891 of non-pooled investments were transferred to the long-term investment pool.

Dividend and interest income of $16,126,355 and $21,175,329 reported net of external investment manager fees of $1,778,439 and $2,418,187 is included in the statements of activities for the years ended June 30, 2009 and 2008, respectively.

NOTES TO FINANCIAL STATEMENTS

(2) LONG-TERM INVESTMENTS (continued)

During 2009, the unit value of pooled investments changed as follows:

	2008-09				2007-08
	Market Value	Number of Units	Value Per Unit	Time Weighted Return Net of Fees	Market Value
Beginning Balance	$1,019,868,400	663,956.2	$1,536.05		$1,097,377,600
Market price change	(228,034,510)		(343.43)	-22.4%	(72,943,686)
Net income earned	16,082,877		24.22	1.6%	21,015,416
Spendable return	(50,504,231)		(76.07)	-	(46,529,735)
	(262,455,864)		(395.28)	-20.8%	(98,458,005)
Additions	30,779,864	26,972.5	-		20,948,805
Ending Balance	$ 788,192,400	690,928.7	$ 1,140.77		$1,019,868,400

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

	2009	2008
Pooled Investments -		
Cash income, net	$ 16,082,877	$ 21,015,416
Market price decrease	(228,034,510)	(72,943,686)
Non-Pooled Investments -		
Cash income	43,478	159,913
Market price decrease	(86,009)	(13,100)
Total Return	$ (211,994,164)	$ (51,781,457)
Distributed to -		
Unrestricted Net Assets		
Spendable return	$ 44,950,728	$ 41,511,289
Long-term investments	(218,478,110)	(82,231,379)
Temporarily Restricted Net Assets		
Spendable return	5,440,391	5,022,702
Investment return less than amounts designated for current operations	(44,063,763)	(16,239,727)
Permanently Restricted		
Restricted earnings	156,590	155,658
Total	$ (211,994,164)	$ (51,781,457)

(2) LONG-TERM INVESTMENTS (continued)

Endowment Net Asset Composition by Type of Fund
as of June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 190,585,440	$ 39,869,569	$ 215,053,891	$ 445,508,900
Board-designated endowment funds	345,700,900	-	-	345,700,900
	$ 536,286,340	$ 39,869,569	$ 215,053,891	$ 791,209,800

Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 743,794,415	$ 83,918,514	$ 195,541,771	$ 1,023,254,700
Investment return:				
Investment income	16,121,636	4,719	-	16,126,355
Net depreciation (realized and unrealized)	(189,704,824)	(38,415,695)	-	(228,120,519)
Total investment return	(173,583,188)	(38,410,976)	-	(211,994,164)
Contributions	-	-	18,373,445	18,373,445
Other restricted additions	-	14,818	1,138,675	1,153,493
Board designated unrestricted bequests	10,968,587	-	-	10,968,587
Appropriation of endowment assets for expenditure	(44,894,922)	(5,652,787)	-	(50,547,709)
Other changes	1,448	-	-	1,448
Endowment net assets, end of year	$ 536,286,340	$ 39,869,569	$ 215,053,891	$ 791,209,800

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, 2009, the College has approximately 4,500 individual endowment funds of which approximately 2,500 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.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the historical gift value that the Uniform Management of Institutional Funds Act (UMIFA) requires the College to retain as a fund of perpetual duration. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. As of June 30, 2009, the College has 506 individual donor-restricted endowment funds that, in total, the fair market value is $18,012,200 less than the historical gift value.

(3) FAIR VALUE MEASUREMENTS

In 2008, the College partially adopted SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). In 2009, the College fully adopted all provisions of SFAS 157. SFAS 157 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. The statement establishes a framework for measuring fair value and expands disclosures regarding fair value measurements in accordance with GAAP. SFAS 157 applies to fair value measurements already required or permitted by existing standards.

One key component of the implementation of SFAS 157 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 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.

The fair value of assets and liabilities at June 30, 2009 are as follows:

	June 30, 2009 Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Endowment investments	$791,209,800	$399,832,125	$199,586,360	$191,791,315
Other investments	4,498,485	-	3,365,911	1,132,574
Funds held in trust by others	18,860,900	-	-	18,860,900
Split-interest agreements	22,790,400	-	-	22,790,400
Contributions receivable	10,333,322	-	-	10,333,322
Total assets	847,692,907	399,832,125	202,952,271	244,908,511
Liabilities				
Split-interest agreement liability	12,047,800	-	-	12,047,800
Interest rate swap agreements	2,703,700	-	2,703,700	-
Asset retirement obligation	569,955	-	-	569,955
Total liabilities	15,321,455	-	2,703,700	12,617,755
Total fair value	$832,371,452	$399,832,125	$200,248,571	$232,290,756

(3) FAIR VALUE MEASUREMENTS (continued)

Level 3 Reconciliation

	Balances June 30, 2008	Net realized and unrealized gains (losses) included in change in net assets	Purchases, sales, issuances and settlement, net	Net transfers in (out) of Level 3	Balances June 30, 2009
Assets					
Endowment investments	$237,182,100	$ (29,840,571)	$ (7,294,600)	$ (8,255,614)	$191,791,315
Other investments	5,448,357	(695,624)	(3,520,159)	(100,000)	1,132,574
Funds held in trust by others	-	(4,823,900)	-	23,684,800	18,860,900
Split-interest agreements	28,767,600	(4,642,331)	(1,334,869)	-	22,790,400
Contributions receivable	19,824,508	(9,491,186)	-	-	10,333,322
Total assets	291,222,565	(49,493,612)	(12,149,628)	15,329,186	244,908,511
Liabilities					
Split-interest agreement liability	13,467,400	(1,377,200)	(42,400)	-	12,047,800
Asset retirement obligation	592,131	21,817	(43,993)	-	569,955
Total liabilities	14,059,531	(1,355,383)	(86,393)	-	12,617,755
Total fair value	$277,163,034	$ (48,138,229)	$ (12,063,235)	$ 15,329,186	$232,290,756

The amount of total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses relating to financial instruments still held in endowment investments at June 30, 2009	$ (21,605,000)

The loss of $21,605,000 is included in "Investment return less than amounts designated for current operations" in the statements of activities.

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.

Equity mutual funds - Investments in equity mutual funds are classified as Level 1 as these funds are traded in an active market for which closing prices are readily available.

Alternative investments - Investments in hedge funds, private equity funds, and funds of funds are classified as level 3 as the valuation is based on significant unobservable inputs.

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.

(3) FAIR VALUE MEASUREMENTS (continued)

Split-interest agreements

The College's beneficial interest in irrevocable split-interest agreements in which the College serves as trustee are classified as Level 3 as the fair values of the net assets (gross assets less estimated future payment obligations) are based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (estimates of cash flows). The estimated fair value of assets is reduced by the estimated future payment liability.

Contributions receivable

The fair values of contributions receivable from donors are based upon the discounted present value of future estimated cash flows. As such, the fair values are based upon significant unobservable inputs (when the promise is expected to be collected, past collection experience, creditworthiness of the donor, discount rate, and other relevant factors) and are classified as Level 3.

Interest rate swap agreements

Interest rate swap agreements are classified as Level 2 as the fair value is based on observable inputs to a valuation model (interest rates, credit spreads, etc.) which take into account the present value of the estimated future cash flows and credit valuation adjustments.

Asset retirement obligation

The asset retirement obligation fair value represents expected future costs associated with asbestos abatement. The fair value is based upon significant unobservable inputs (the amount of hidden asbestos in buildings to be renovated, timing of renovations, future remediation methods, discount rate, etc.) and therefore is classified as Level 3.

(4) 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 negative \$2,703,700 and \$618,600 at June 30, 2009 and 2008, respectively and is included in the actuarial liability for annuities payable and other liabilities in the statements of financial position. The decrease in market value of the interest rate swaps of \$2,085,100 and \$2,013,900 has been reflected in the statements of activities in other unrestricted activity for the years ended June 30, 2009 and 2008, respectively. If the fair market value of the interest rate swaps results in an estimated liability in excess of \$3,000,000, the College must post collateral with the counterparty, UBS AG. Conversely, if the fair market value of the interest rate swaps results in an estimated asset in excess of \$3,000,000, the counterparty must post collateral with the College. Periodically throughout 2009 the College had cash collateral posted with the counterparty. No collateral was posted with the counterparty as of June 30, 2009.

(5) 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 \$1,958,304 in 2009 and \$1,877,310 in 2008.

(6) PROPERTY, PLANT AND EQUIPMENT

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

Property, Plant and Equipment	2009	2008
Educational property, plant and equipment	$ 176,688,165	$ 169,216,980
Student industry plant and equipment	17,765,851	7,991,527
Rental property	2,551,773	2,551,773
Forest and farms	1,250,902	1,250,902
Collections and works of art	4,063,531	4,063,531
Construction in process	2,892,502	7,675,221
Less accumulated depreciation	(55,410,734)	(50,600,280)
	$ 149,801,990	$ 142,149,654

Capitalized interest was \$64,239 and \$0 for the years ended June 30, 2009 and 2008, respectively.

(7) CONDITIONAL ASSET RETIREMENT OBLIGATIONS

Under Statement of Financial Accounting Standards No. 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 for as an additional element of cost and is depreciated over the useful life of the asset. In 2006, the College adopted FASB's Interpretation No. 47, *Accounting for Conditional Asset Obligations – an interpretation of FASB Statement No.143 (FIN 47).* 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:

	2009	2008
Beginning balance	$ 592,131	$ 920,413
Accretion expense	21,817	22,138
Liabilities settled during the year	(43,993)	(350,420)
Ending balance	$ 569,955	$ 592,131

(8) LONG-TERM DEBT

	June 30, 2009	2008
Educational Buildings Revenue Bonds, Series of 1997 - Issued August 1997; serial annual payments through August 2017 at rates from 4.5% to 5.0%; proceeds used for Frost Building restoration and renovation	$ 1,715,000	$ 1,860,000
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	-	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	5,180,000	5,585,000
Educational Development Revenue Bonds, Series of 2000 - Issued May, 2000; serial annual payments through 2020 at rates from 4.6% to 5.7%; proceeds used for residence hall renovation	1,735,000	1,850,000

(8) LONG-TERM DEBT (continued)

	June 30, 2009	June 30, 2008
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2002A - Issued August 29, 2002; due June 1, 2032; variable interest rate, 0.30% as of June, 2009 with synthetic fixed rate of 3.45%; proceeds used for various capital projects	15,340,000	15,830,000
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; proceeds used for various capital projects	18,660,000	19,150,000
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2003B - Issued December 11, 2003; variable payments through June 1, 2029; variable interest rate, 0.30% as of June, 2009 with synthetic fixed rate of 3.746%; proceeds used for various capital projects	8,895,000	9,190,000
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; proceeds used for central heat plant and various capital retrofits	8,090,000	8,335,000
Industrial Building Revenue Bonds, Series 2008 - Issued July, 2008; bank qualified tax-exempt loan through Branch Banking and Trust Company; final maturity date July 1, 2015; monthly payments at fixed rate of 3.980% for seven years based on 20-year amortization; proceeds used for Emery Building renovation	4,360,549	-
	63,975,549	62,300,000
Less current portion	1,914,982	2,195,000
	$ 62,060,567	$ 60,105,000

Principal payments on long-term debt are required to be made in each of the following fiscal years: $1,914,982 in 2010; $1,976,353 in 2011; $2,057,546 in 2012; $2,134,873 in 2013; $2,217,062 in 2014 and $53,674,733 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 $500,000 was paid on July 1, 2008.

The fair value of the College's long-term debt at June 30, 2009 was estimated to be approximately $64,204,000 based upon rates available to the College for debt with similar terms and remaining maturities.

Cash payments for interest amounted to $2,590,237 in 2009 and $2,600,547 in 2008.

NOTES TO FINANCIAL STATEMENTS

(9) CONTRIBUTIONS RECEIVABLE AND BEQUESTS IN PROBATE

	June 30, 2009 Total	Due In: One Year or Less	Due In: One Year to Five Years	Due In: Over Five Years	June 30, 2008 Total
Unconditional Promises for -					
Unrestricted	$ 5,020	$ 4,520	$ 500	$ -	$ 24,890
Restricted	131,650	121,700	9,950	-	235,250
Buildings and equipment	799,350	233,220	563,080	3,050	486,850
Endowment	471,821	402,821	69,000	-	887,589
Reserve for unfulfilled promises	(106,000)	(58,000)	(48,000)	-	(115,000)
Total	1,301,841	704,261	594,530	3,050	1,519,579
Bequests in Probate	8,010,848	6,835,848	1,175,000	-	16,844,285
External Charitable Remainder Trusts*	760,590	-	-	760,590	962,473
Charitable Lead Trusts	333,424	137,928	111,712	83,784	642,010
Total	$ 10,406,703	$ 7,678,037	$ 1,881,242	$ 847,424	$ 19,968,347
Present Value of Estimated Future Cash Flows	$ 10,333,322	$ 7,678,037	$ 1,818,095	$ 837,190	$ 19,824,508

* Discounted beneficial interest in trusts

(10) 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, 2009, the College was committed under various contracts with alternative investment managers to fund $43,492,829 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	$ 639,175
Buy out	33,786,678
Debt fund	5,913,051
Fund of funds	3,153,925
Total	$ 43,492,829

The College has purchase commitments relating to construction projects of approximately $3,214,000 as of June 30, 2009.

(11) 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.

(12) NET ASSETS RELEASED FROM RESTRICTIONS

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

	2009	2008
Purpose Restricted Contributions for -		
Instruction	$ 1,150,752	$ 1,013,562
Public service	648,671	652,384
Academic support	587,323	418,240
Student services	141,623	78,488
Student aid	2,074,351	1,910,734
Development and alumni	14,116	14,116
	4,616,836	4,087,524
Time-Restricted Contributions - Amortization of Restricted Gifts to Acquire Long-Lived Assets	1,148,742	1,115,180
Total Net Assets Released from Restriction	$ 5,765,578	$ 5,202,704
Matured Annuity and Life Income Contracts -		
Temporarily Restricted Agreements Reclassified to Tuition Replacement Funds in Unrestricted Net Assets	$ 420,136	$ 639,660

(13) 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.

(14) SUBSEQUENT EVENTS

We evaluate events and transactions that occur after the statement of financial position date as potential subsequent events. We performed this evaluation through September 4, 2009, the date on which we issued our financial statements.