BEREA COLLEGE

FINANCIAL STATEMENTS

for the Year Ended June 30, 2010

Board of Trustees

Officers

CONTENTS

HIGHLIGHTS

	As of or for the Year Ended June 30, 2010	2009
OPERATING REVENUE	$ 77,512,252	$ 77,972,937
OPERATING EXPENSES	$ 70,533,608	$ 69,161,495
OPERATING REVENUE IN EXCESS OF EXPENSES FROM CONTINUING OPERATIONS	$ 6,978,644	$ 8,811,442
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	$ 3,798,358	$ 13,796,859
LONG-TERM INVESTMENTS OF THE ENDOWMENT AND TUITION REPLACEMENT FUNDS		
Original gift value	$ 415,845,028	$ 399,186,430
Investments at market	$ 846,776,300	$ 791,209,800
Interest and dividends, net	$ 15,037,490	$ 16,126,355
Return	1.9%	1.6%
Market price increase (decrease)	$ 72,163,789	$ (228,120,519)
Return	9.1%	-22.4%
Total return	$ 87,201,279	$ (211,994,164)
Percent - time weighted	11.0%	-20.8%
CASH AND IN-KIND CONTRIBUTIONS		
Cash gifts	$ 8,164,724	$ 7,501,667
Bequests	14,832,217	28,281,948
Total cash gifts	22,996,941	35,783,615
Gifts-in-kind	71,927	57,410
Total	$ 23,068,868	$ 35,841,025

REPORT OF THE VICE PRESIDENT FOR FINANCE

September, 2010

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

As I write to you on the successful completion of another year fraught with continued economic challenges, I remain filled with gratitude for your steadfast support to Berea College. Although the financial markets have recovered significantly from the lows experienced during the global financial crisis, they are still depressed from the high levels of 2007. We continue to face the challenge of a faltering economic recovery from this Great Recession with unemployment hovering around 10% and the Federal Reserve closely monitoring the economy for signs of a "double dip."

During the year, many individuals have worked extremely hard to help Berea position itself as a more flexible, adaptable and resilient institution as it serves students of great promise in an ever-changing world. Much good work has been accomplished. For example, the Scenario Planning Taskforce composed of staff members, faculty, and a student representative developed three possible scenarios to help the College rethink its budget and educational model. Several aspects of the three scenarios were combined into a fourth scenario entitled "Engaged and Transformative Learning" that was adopted by the faculty, administration and trustees of Berea College. This scenario, along with its ten financial and programmatic building blocks, has helped to provide a clear focus and guide for achieving Berea's historic mission better with fewer resources.

Early actions in 2009-2010 by the faculty and administration have led to several changes effective for 2010-11 including (a) a new academic calendar, (b) a decision to increase students served from 1530 to 1600, and (c) a restructuring of support centers that saved $300,000 annually, and a substantial restructuring of administrative and support offices that yielded an annual budget reduction of $2.8 million. Aided by the retirement incentive program and through careful planning, the number of administration and staff FTE (Full Time Equivalent) positions has been reduced by 54 since 2008-09. Berea employees have contributed ideas, reshaped the work they do, and sought to improve the quality of the learning environment for Berea's students.

Seeking to become a more flexible academic institution, one of the key building blocks involves restructuring 25 small academic departments into 6-8 larger units. During the summer of 2010, faculty Design Teams researched options, visited other campuses and developed seven possible designs relating to academic structures. A Synthesis Group reviewed the designs and offered two models for the faculty and staff to discuss in a two-day charrette. The Synthesis Group will present their recommendations to the faculty in mid-September at a two day retreat. Then a final Synthesis Group will work with the Dean of the Faculty to present a single recommendation to the faculty for vote later this semester. Two generous grants from the Andrew W. Mellon Foundation have provided financial support for the summer workgroups.

In April, an agreement between Berea College and the Kentucky Community and Technical College System (KCTCS) was developed that increases the number of transfer students matriculating to Berea in order to complete their bachelor degrees. The agreement will triple the number of transfers (from 25 to 75) to Berea in 2010-2011. The agreement also includes an initiative to encourage high-achieving African American students to complete their associate degrees and then apply to Berea to pursue their bachelor's degrees.

The College experienced a successful fundraising year, receiving a total of $23.1 million in gifts. Of this total, $4.6 million ($4.1 million from donors plus $0.5 million from perpetual trusts) was raised in Berea's annual fund for current operations and $15.6 million in gifts, mostly in bequests, to the endowment. The Berea Fund goal was aided by large, perhaps not recurring, gifts from a few foundations and individuals. This helped offset the drop in the amount of gifts from some of our significant annual donors due to the economy. The total number of gifts during the year was 17,103 from 11,129 different donors. This year the number of gifts as well as the number of donors increased. The College's fundraising costs still remain low at 10 cents per dollar.

The second phase of construction of the John G. Fee Glade was completed and the dedication of the Glade was held in May, 2010. The final touches are being completed on a $1.6 million renovation of Student Dining Services in the Alumni

Building. As students arrived this fall, they were greeted with a newly renovated dining facility along with new furniture and fixtures. The renovation was funded from student dining service fees that had accumulated over several years.

Financial Position

The market value of the College's endowment increased by $55.6 million as it went from $791.2 million on June 30, 2009 to $846.8 million on June 30, 2010, net of spending. The $846.8 million is composed of cumulative original gifts of $415.8 million and cumulative net market appreciation after endowment spending of $431.0 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, 2010, was $372.7 million, or 44% of the total endowment investments. The net investment return for the total endowment was 11.0% for the fiscal year ending June 30, 2010. The average annual compound rates of return for the 20-year, 10-year, 5-year and 3-year periods ending June 30, 2010 are 8.2%, 2.2%, 2.2%, and -5.7%, respectively. During the year, $16.7 million was added to the endowment as a result of new gifts and matured split-interest agreements, and $48.3 million was distributed from the endowment in support of College operations.

The financial position of the College remains strong. **Total Net Assets** (total assets less liabilities) of the College were $1,010.4 million, increasing by $65.7 million or almost 7.0 percent. This change reflects an increase in the market value of total long-term investments during the year from $832.9 million as of June 30, 2009, to $892.2 million as of June 30, 2010.

At June 30, 2010, **Total Assets** of the College were $1,099.4 million. Of this amount, long-term investments (including endowment funds, annuity and life income funds and other funds) comprised $892.2 million; net property, plant and equipment and bond proceeds held for capital additions totaled $147.6 million; and current assets totaled $51.9 million. Long-term contributions receivable and bequests in probate totaled $3.9 million; non-current prepaid expenses totaled $1.5 million; and long-term receivables totaled approximately $2.3 million.

Total Liabilities increased by $1.2 million from $87.9 million as of June 30, 2009 to $89.1 million as of June 30, 2010.

Current Operations

The fiscal year ended with a significant surplus from budgeted operations of $3.7 million. This surplus was primarily due to unfilled positions and intentional efforts by all employees to reduce spending throughout the various controllable budgets of the College.

Concluding Comments

We are thankful for the individuals who serve Berea College in so many ways and who understand and support the Great Commitments of the College. Your support—whether as student, faculty, staff, alumni, trustee or friend—enables the College to continue to invest in lives of great promise.

The loyalty, dedication, selflessness, and generosity of so many ordinary people allows Berea to be the truly extraordinary institution that it is, striving through its commitment to excellence in education and service to others to make the world a better place for all. I, like many others, feel blessed to be associated with an institution so well grounded in such a noble mission.

As always, we invite and welcome you to visit us on campus.

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, 2010 and 2009, and the changes in its net assets and cash flows for the years then ended.

September, 2010

Larry D. Shinn
President

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, 2010 and 2009, 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, 2010 and 2009, 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 3, 2010
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Berea College

STATEMENTS OF FINANCIAL POSITION

	June 30, 2010	June 30, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 40,837,127	$ 25,541,383
Accrued interest on investments	1,762,341	1,580,307
Accounts and notes receivable	1,857,552	3,564,530
Inventories	1,297,289	1,434,029
Prepaid expenses and other assets	218,910	114,815
Contributions receivable and bequests in probate	5,962,871	7,678,037
Total current assets	51,936,090	39,913,101
PREPAID EXPENSES AND OTHER ASSETS	1,479,988	2,727,392
CONTRIBUTIONS RECEIVABLE AND BEQUESTS IN PROBATE	3,937,319	2,655,285
LONG-TERM RECEIVABLES		
Cash collateral advanced under interest rate swap agreements	1,070,000	-
Institutional student loans	999,095	1,080,438
Federal student loans	205,944	232,361
Total long-term receivables	2,275,039	1,312,799
LONG-TERM INVESTMENTS		
Donor-restricted endowment	474,089,600	445,508,900
Tuition replacement	372,686,700	345,700,900
Annuity and life income	24,440,500	22,790,400
Funds held in trust by others	21,010,200	18,860,900
Total long-term investments	892,227,000	832,861,100
BOND PROCEEDS FOR CAPITAL ADDITIONS	499,756	3,265,911
NET PROPERTY, PLANT AND EQUIPMENT	147,068,227	149,801,990
Total assets	$ 1,099,423,419	$ 1,032,537,578

Berea College

STATEMENTS OF FINANCIAL POSITION

LIABILITIES AND NET ASSETS

	June 30, 2010	June 30, 2009
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 6,197,690	$ 4,991,787
Accrued salaries and wages	3,620,383	2,792,342
Deposits and agency funds	467,373	475,517
Deferred income	141,973	144,722
Current maturities of long-term debt	1,995,177	1,914,982
Total current liabilities	12,422,596	10,319,350
LONG-TERM LIABILITIES		
Actuarial liability for annuities payable and other liabilities	17,079,963	15,530,163
Long-term debt	59,565,390	62,060,567
Total long-term liabilities	76,645,353	77,590,730
Total liabilities	89,067,949	87,910,080
NET ASSETS		
Unrestricted -		
For current operations	94,811	94,276
Designated for specific purposes	29,267,661	23,951,787
Invested in property, plant and equipment	50,242,607	49,944,605
Support of future operations from:		
Contributions receivable and bequests in probate	4,925,267	5,482,303
Appreciation on endowment investments	203,951,338	190,585,440
Tuition replacement funds	372,686,700	345,700,900
Total unrestricted	661,168,384	615,759,311
Temporarily restricted -		
Unexpended contributions restricted for operations	10,461,599	8,916,482
Unexpended contributions restricted for plant renewals and replacement	1,188,163	1,154,148
Annuity and life income contracts	4,457,008	3,889,173
Expended contributions for long-lived assets being amortized	27,006,521	27,620,303
Appreciation on endowment investments primarily to support various programs/services	48,718,837	39,869,569
Total temporarily restricted	91,832,128	81,449,675
Permanently restricted -		
Loan funds	2,712,019	2,636,229
Annuity and life income contracts	7,806,892	6,853,427
Contributions receivable and bequests in probate	4,406,422	4,014,065
Funds held in trust by others	21,010,200	18,860,900
Endowment investments	221,419,425	215,053,891
Total permanently restricted	257,354,958	247,418,512
Total net assets	1,010,355,470	944,627,498
Total liabilities and net assets	$ 1,099,423,419	$ 1,032,537,578

See notes to financial statements.

STATEMENTS OF ACTIVITIES

Changes in Unrestricted Net Assets

	Year Ended June 30, 2010	Year Ended June 30, 2009
OPERATING REVENUE		
Spendable return from long-term investments	$ 43,414,336	$ 44,950,728
Gifts and donations	5,155,856	5,351,568
Federal grants	7,325,378	7,421,522
Cost of education fees paid by federal and state scholarships	3,200,708	2,755,000
Fees paid by students	1,374,208	1,508,813
Other income	3,079,816	2,462,116
Residence halls and food service	7,572,472	7,516,824
Student industries and rentals	3,948,026	3,263,481
Net assets released from restrictions	5,282,545	5,765,578
Gross operating revenue	80,353,345	80,995,630
Less: Student aid	(2,841,093)	(3,022,693)
Net operating revenue	77,512,252	77,972,937
OPERATING EXPENSES		
Program Services -		
Instruction	23,450,477	22,567,296
Public service	5,899,654	6,216,961
Academic support	8,206,105	7,053,724
Student services	8,559,156	8,447,936
Residence halls and food service	6,797,457	7,107,081
Student industries and rentals	5,253,934	5,309,036
Total Program Services	58,166,783	56,702,034
Support Services, including fund raising expense of $2,291,100 in 2010 and $2,569,600 in 2009	12,366,825	12,459,461
Total operating expenses	70,533,608	69,161,495
Operating revenue in excess of operating expenses from continuing operations	6,978,644	8,811,442
OTHER UNRESTRICTED ACTIVITY		
Gain on sale of property, plant and equipment	54,333	91,849
Loss on valuation of interest rate swaps	(1,418,500)	(2,085,100)
Total other unrestricted activity	(1,364,167)	(1,993,251)
REVENUES DESIGNATED FOR LONG-TERM INVESTMENT		
Unrestricted bequests	10,140,451	10,643,657
Matured annuity and life income contracts	394,604	420,136
Reclassification of net assets	(882,932)	-
Investment return more (less) than amounts designated for current operations	30,142,473	(218,478,110)
Total increase (decrease) in revenues designated for long-term investment	39,794,596	(207,414,317)
Increase (decrease) in unrestricted net assets	$ 45,409,073	$ (200,596,126)

See notes to financial statements.

STATEMENTS OF ACTIVITIES

Changes in Total Net Assets

	Year Ended June 30, 2010	2009
UNRESTRICTED NET ASSETS		
Operating revenue in excess of operating expenses from continuing operations	$ 6,978,644	$ 8,811,442
Other unrestricted activity	(1,364,167)	(1,993,251)
Increase (decrease) in revenues designated for long-term investment	39,794,596	(207,414,317)
Increase (decrease) in unrestricted net assets	45,409,073	(200,596,126)
TEMPORARILY RESTRICTED NET ASSETS		
Restricted gifts and donations	1,934,008	1,180,962
Restricted spendable return on endowment investments	4,750,089	5,440,391
Investment return more (less) than amounts designated for current operations	8,765,429	(44,063,763)
Net adjustment of annuity payment and deferred giving liability	754,833	(1,737,880)
Reclassification of net assets released from restrictions	(5,282,545)	(5,765,578)
Reclassification of matured annuity and life income contracts to revenues designated for long-term investment	(394,604)	(420,136)
Reclassification of net assets	(144,757)	(167,800)
Increase (decrease) in temporarily restricted net assets	10,382,453	(45,533,804)
PERMANENTLY RESTRICTED NET ASSETS		
Gifts and donations	5,405,421	9,173,652
Restricted return on endowment investments	128,952	156,590
Restricted capital gains (losses) on funds held in trust by others	2,149,300	(4,823,900)
Net adjustment of annuity payment and deferred giving liability	1,225,084	(2,578,203)
Reclassification of net assets	1,027,689	167,800
Increase in permanently restricted net assets	9,936,446	2,095,939
Total increase (decrease) in net assets	65,727,972	(244,033,991)
NET ASSETS		
Beginning of year	944,627,498	1,188,661,489
End of year	$ 1,010,355,470	$ 944,627,498

See notes to financial statements.

STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2010	Year Ended June 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ 65,727,972	$ (244,033,991)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities -		
Realized and unrealized (gains) losses on long-term investments	(77,402,473)	237,586,750
Realized and unrealized (gains) losses on absolute return fund	(91,042)	695,624
Restricted return on endowment funds	(128,952)	(156,590)
Gifts and bequests for financing activities	(16,429,200)	(29,477,609)
Decrease in contributions receivable and bequests in probate	433,132	9,491,186
Gift value of annuity contracts written	(402,285)	(738,400)
Depreciation	6,532,121	6,144,523
Gain on sale of property, plant and equipment	(54,333)	(91,849)
Increase in actuarial annuity payment liability and other liabilities	1,549,800	540,583
Decrease (increase) in non-current prepaid expenses and other assets	329,603	(275,539)
Decrease (increase) in other current assets	1,557,589	(698,526)
Increase (decrease) in current liabilities other than current maturities of long-term debt	2,023,051	(993,278)
Net cash used in operating activities	(16,355,017)	(22,007,116)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities held for long-term investment	(1,012,988,992)	(693,287,397)
Proceeds from sales and maturities of investments	1,031,427,850	699,285,047
Purchases of investments for capital additions	-	(4,500,000)
Cash collateral advanced under interest rate swap agreements	(1,070,000)	-
Proceeds from sale of investments for capital additions	2,766,155	1,234,089
Proceeds from sale of other investments - absolute return fund	1,008,843	3,520,159
Proceeds from sale of bond defeasance escrow	-	503,443
Purchase of property, plant and equipment	(3,798,358)	(13,796,859)
Proceeds from sale of property, plant and equipment	54,333	91,849
Decrease in long-term student loans	107,760	22,435
Net cash provided by (used in) investing activities	17,507,591	(6,927,234)
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts and bequests received for -		
Long-term investment	15,573,104	28,921,896
Property, plant and equipment	843,946	536,813
Student loans	12,150	18,900
Endowment return restricted for long-term investments	128,952	156,590
Repayment of indebtedness	(2,414,982)	(2,824,451)
Long-term debt issued	-	4,500,000
Net cash provided by financing activities	14,143,170	31,309,748
Net increase in cash and cash equivalents	15,295,744	2,375,398
Cash and cash equivalents, beginning of year	25,541,383	23,165,985
Cash and cash equivalents, end of year	$ 40,837,127	$ 25,541,383

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 1,600 students and approximately 450 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, five-year Daily Treasury Yield Curve Rate for the fiscal year the pledge was initially recorded. 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.

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 168), effective for reporting periods ending after September 15, 2009. SFAS No. 168 establishes the FASB Accounting Standards Codification (ASC) as the only source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. The College adopted the provisions of SFAS No. 168 beginning with the fiscal year ending June 30, 2010, and the adoption did not have a material impact on the financial statement disclosures.

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 maintained Series 2008 bond proceeds in an interest-bearing deposit account that was not collateralized. The account was eligible for Federal Deposit Insurance Corporation protection up to $250,000. The uninsured balance totaled $249,756 and $3,015,911 as of June 30, 2010 and 2009, respectively. The account balance of $499,756 was applied to the outstanding principal of the Series 2008 bonds on July 1, 2010.

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.

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

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:

	2010	2009
Educational and general purposes	$5,926,354	$5,823,418
Student industries	605,767	321,105
	$6,532,121	$6,144,523

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.

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

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.

	2010	2009
Interest	$2,590,444	$2,419,677
Depreciation	6,532,121	6,144,523
Plant Operations	5,154,302	5,045,961

Recent Accounting Pronouncements

On March 25, 2010, Kentucky adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) with an effective date of July 15, 2010. UPMIFA will not impact the financial position, operating results, or cash flows of the College, but will impact the way the College accounts for and reports donor-restricted and board designated endowments.

Reclassification

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation with no effect on total assets, liabilities, net assets or the change in net assets.

NOTES TO FINANCIAL STATEMENTS

(2) LONG-TERM INVESTMENTS

	June 30, 2010	June 30, 2009
Endowment and Tuition Replacement:		
Pooled Investments -		
U. S. equities	$ 205,822,200	$ 225,920,800
International equities	179,622,600	164,560,000
Corporate notes and bonds	85,026,300	76,710,900
U. S. Government securities	42,751,900	37,327,300
Foreign bonds	692,100	735,400
Structured notes	34,074,000	30,085,700
Private equity - venture capital	5,302,600	8,709,600
Private equity - buy out	26,876,700	20,537,900
Private equity - debt funds	10,623,700	7,318,200
Private equity - fund of funds	39,779,400	41,234,700
Hedge funds	125,520,700	110,087,200
Real estate	19,112,000	895,800
Short-term investments and cash	68,532,500	64,068,900
Total	843,736,700	788,192,400
Non Pooled Investments -		
U. S. equities	31,200	11,500
Real estate	2,978,500	2,978,500
Short-term investments and cash	29,900	27,400
Total	3,039,600	3,017,400
Total endowment and tuition replacement	846,776,300	791,209,800
Annuity and Life Income:		
Pooled Annuity Investments -		
U. S. equities	5,497,300	5,572,900
International equities	2,898,200	2,918,100
Corporate notes and bonds	1,633,400	1,237,100
U. S. Government securities	1,642,600	1,770,700
Short-term investments and cash	399,100	191,600
Total	12,070,600	11,690,400
Separately Invested Trusts and Other -		
U. S. equities	4,727,300	4,383,200
International equities	2,532,100	2,341,200
Corporate notes and bonds	2,937,200	2,313,000
U. S. Government securities	1,561,100	1,455,700
Real estate	330,000	330,000
Insurance policies	67,500	-
Short-term investments and cash	214,700	276,900
Total	12,369,900	11,100,000
Total annuity and life income	24,440,500	22,790,400
Funds Held in Trust by Others, where Berea College receives all or a stipulated percent of income	21,010,200	18,860,900
Total long-term investments	$ 892,227,000	$ 832,861,100

(2) LONG-TERM INVESTMENT (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 2010 and 2009, spendable return under the formula amounted to $48,289,290 and $50,504,231, respectively. In 2010, actual cash income earned on pooled investments, net of $1,999,388 for investment management and custodial fees, amounted to $15,033,403, or $33,255,887 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 $4,087 in 2010 and $43,478 in 2009, while the market value of these investments of $3,039,600 at June 30, 2010 and $3,017,400 at June 30, 2009 increased by $14,700 in 2010 and decreased by $86,009 in 2009. Additions to non-pooled endowment investments during 2010 amounted to $7,500.

Dividend and interest income of $15,037,490 and $16,126,355 reported net of external investment manager fees of $1,999,388 and $1,778,439 is included in the statements of activities for the years ended June 30, 2010 and 2009, respectively.

(2) LONG-TERM INVESTMENT (continued)

During 2010, the unit value of pooled investments changed as follows:

	2009-10				2008-09
	Market Value	Number of Units	Value Per Unit	Time Weighted Return Net of Fees	Market Value
Beginning Balance	$ 788,192,400	690,928.800	$1,140.772		$ 1,019,868,400
Market price change	72,149,089		105.378	9.1%	(228,034,510)
Net income earned	15,033,403		21.758	1.9%	16,082,877
Spendable return	(48,289,290)		(69.890)	-	(50,504,231)
	38,893,202		57.246	11.0%	(262,455,864)
Additions	16,651,098	13,348.226	-		30,779,864
Ending Balance	$ 843,736,700	704,277.026	$1,198.018		$ 788,192,400

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

	2010	2009
Pooled Investments -		
Cash income, net	$ 15,033,403	$ 16,082,877
Market price increase (decrease)	72,149,089	(228,034,510)
Non-Pooled Investments -		
Cash income	4,087	43,478
Market price increase (decrease)	14,700	(86,009)
Total Return	$ 87,201,279	$ (211,994,164)
Distributed to -		
Unrestricted Net Assets		
Spendable return	$ 43,414,336	$ 44,950,728
Long-term investments	30,142,473	(218,478,110)
Temporarily Restricted Net Assets		
Spendable return	4,750,089	5,440,391
Investment return more (less) than amounts designated for current operations	8,765,429	(44,063,763)
Permanently Restricted		
Restricted earnings	128,952	156,590
Total	$ 87,201,279	$ (211,994,164)

NOTES TO FINANCIAL STATEMENTS

(2) LONG-TERM INVESTMENTS (continued)

Endowment Investments Net Asset Composition by Type of Fund as of June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 203,951,338	$ 48,718,837	$ 221,419,425	$ 474,089,600
Board-designated endowment funds	372,686,700	-	-	372,686,700
	$ 576,638,038	$ 48,718,837	$ 221,419,425	$ 846,776,300

Changes in Endowment Investments Net Assets for the Fiscal Year Ended June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment investments net assets, beginning of year	$ 536,286,340	$ 39,869,569	$ 215,053,891	$ 791,209,800
Investment return:				
Investment income	15,037,490	-	-	15,037,490
Net appreciation (realized and unrealized)	60,611,356	11,552,433	-	72,163,789
Total investment return	75,648,846	11,552,433	-	87,201,279
Contributions	-	69,316	4,806,235	4,875,551
Other restricted additions	-	14,523	676,367	690,890
Board designated unrestricted bequests	11,092,157	-	-	11,092,157
Appropriation of endowment assets for expenditure	(45,506,373)	(2,787,004)	-	(48,293,377)
Reclassification	(882,932)	-	882,932	-
Endowment investments net assets, end of year	$ 576,638,038	$ 48,718,837	$ 221,419,425	$ 846,776,300

(2) LONG-TERM INVESTMENTS (continued)

Endowment Investments 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 Investments Net Assets for the Fiscal Year Ended June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment investments 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 investments 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, 2010, the College has approximately 4,500 individual endowment funds of which approximately 1,900 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, 2010, the College has 455 individual donor-restricted endowment funds that, in total, the fair market value is $14,198,600 less than the historical gift value.

(3) FAIR VALUE MEASUREMENTS

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. One key component of the fair value measurement required by GAAP includes the development of a three-tiered fair value hierarchy. Assets and liabilities reported at fair value are placed in one of the three tiers 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 following summarizes the fair value of assets and liabilities and the Level 3 reconciliation at June 30, 2010:

	June 30, 2010 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	$ 846,776,300	$ 421,921,069	$ 213,221,569	$ 211,633,662
Other investments	814,528	-	599,756	214,772
Funds held in trust by others	21,010,200	-	-	21,010,200
Split-interest agreements	24,440,500	-	-	24,440,500
Contributions receivable	9,900,190	-	-	9,900,190
Total assets	902,941,718	421,921,069	213,821,325	267,199,324
Liabilities				
Split-interest agreement liability	12,176,600	-	-	12,176,600
Interest rate swap agreements	4,122,200	-	4,122,200	-
Asset retirement obligation	593,893	-	-	593,893
Total liabilities	16,892,693	-	4,122,200	12,770,493
Total fair value	$ 886,049,025	$ 421,921,069	$ 209,699,125	$ 254,428,831

(3) FAIR VALUE MEASUREMENTS (continued)

Level 3 Reconciliation

	Balances June 30, 2009	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, 2010
Assets					
Endowment investments	$ 191,791,315	$ 14,002,555	$ 5,839,792	$ -	$211,633,662
Other investments	1,132,574	91,042	(1,008,844)	-	214,772
Funds held in trust by others	18,860,900	2,149,300	-	-	21,010,200
Split-interest agreements	22,790,400	3,089,384	(1,439,284)	-	24,440,500
Contributions receivable	10,333,322	(433,132)	-	-	9,900,190
Total assets	244,908,511	18,899,149	3,391,664	-	267,199,324
Liabilities					
Split-interest agreement liability	12,047,800	128,800	-	-	12,176,600
Asset retirement obligation	569,955	23,938	-	-	593,893
Total liabilities	12,617,755	152,738	-	-	12,770,493
Total fair value	$ 232,290,756	$ 18,746,411	$ 3,391,664	$ -	$254,428,831

The College's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstance that caused the transfer.

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, 2010	$ 5,844,000

The gain of $5,844,000 is included in "Investment return more (less) than amounts designated for current operations" in the statements of activities.

The following summarizes the fair value of assets and liabilities and the Level 3 reconciliation at June 30, 2009:

	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

(3) FAIR VALUE MEASUREMENTS (continued)

	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 College's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstance that caused the transfer.

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 more (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 $4,122,200 and negative $2,703,700 at June 30, 2010 and 2009, 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 $1,418,500 and $2,085,100 has been reflected in the statements of activities in other unrestricted activity for the years ended June 30, 2010 and 2009, 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 2010, the College had cash collateral posted with the counterparty. Collateral in the amount of $1,070,000 and $0 was posted with the counterparty as of June 30, 2010 and 2009, respectively.

(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 $2,117,705 in 2010 and $1,958,304 in 2009.

(6) PROPERTY, PLANT AND EQUIPMENT

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

Property, Plant and Equipment	2010	2009
Educational property, plant and equipment	$ 180,879,909	$ 176,688,165
Student industry plant and equipment	18,429,315	17,765,851
Rental property	2,551,773	2,551,773
Forest and farms	1,250,902	1,250,902
Collections and works of art	4,079,531	4,063,531
Construction in process	344,886	2,892,502
Less accumulated depreciation	(60,468,089)	(55,410,734)
	$ 147,068,227	$ 149,801,990

Capitalized interest was $0 and $64,239 for the years ended June 30, 2010 and 2009, respectively.

(7) CONDITIONAL ASSET RETIREMENT OBLIGATIONS

Under GAAP, obligations associated with the retirement of long-lived assets are recorded when there is a legal obligation to incur such costs and the fair value of the liability can be reasonably estimated. This amount is accounted for as an additional element of cost and is depreciated over the useful life of the asset. The College's 2010 and 2009 accounting for costs associated with asbestos abatement is as follows:

	2010	2009
Beginning balance	$ 569,955	$ 592,131
Accretion expense	23,938	21,817
Liabilities settled during the year	-	(43,993)
Ending balance	$ 593,893	$ 569,955

(8) LONG-TERM DEBT

	June 30, 2010	June 30, 2009
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	$ 1,560,000	$ 1,715,000
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	4,755,000	5,180,000
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	1,615,000	1,735,000
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2002A - Issued August 29, 2002; due June 1, 2032; variable interest rate, 0.15% as of June, 2010 with synthetic fixed rate of 3.45%; proceeds used for various capital projects	14,840,000	15,340,000

(8) LONG-TERM DEBT (continued)

	June 30, 2010	June 30, 2009
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	18,160,000	18,660,000
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2003B - Issued December 11, 2003; variable payments through June 1, 2029; variable interest rate, 0.15% as of June, 2010 with synthetic fixed rate of 3.746%; proceeds used for various capital projects	8,590,000	8,895,000
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	7,835,000	8,090,000
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	4,205,567	4,360,549
	61,560,567	63,975,549
Less current portion	1,995,177	1,914,982
	$ 59,565,390	$ 62,060,567

Funds remaining in the Emery Building renovation project account in the amount of $499,756 were applied to the outstanding principal of the Industrial Building Revenue Bonds, Series 2008, on July 1, 2010. This amount is included with long term-debt in the statements of financial position but the effect of the early prepayment has been accounted for in the calculation of the current portion of long-term debt. In addition to the $499,756 principal payment made on July 1, 2010, the following principal payments on long-term debt are required to be made in each of the following fiscal years: $1,995,177 in 2011; $2,078,923 in 2012; $2,157,069 in 2013; $2,240,170 in 2014; $2,343,604 in 2015 and $50,245,868 in subsequent years thereafter.

The fair value of the College's long-term debt at June 30, 2010 was estimated to be approximately $62,204,000 based upon rates available to the College for debt with similar terms and remaining maturities.

Cash payments for interest amounted to $2,601,489 in 2010 and $2,590,237 in 2009.

NOTES TO FINANCIAL STATEMENTS

(9) CONTRIBUTIONS RECEIVABLE AND BEQUESTS IN PROBATE

	June 30, 2010 Total	Due In One Year or Less	Due In One Year to Five Years	Due In Over Five Years	June 30, 2009 Total
Unconditional Promises for -					
Unrestricted	$ 6,125	$ 3,625	$ 2,500	$ -	$ 5,020
Restricted	20,600	19,200	1,400	-	131,650
Buildings and equipment	611,330	221,220	388,080	2,030	799,350
Endowment	179,721	141,721	38,000	-	471,821
Reserve for unfulfilled promises	(82,313)	(35,522)	(46,588)	(203)	(106,000)
Total	735,463	350,244	383,392	1,827	1,301,841
Bequests in Probate	7,554,876	5,544,349	2,010,527	-	8,010,848
External Charitable Remainder Trusts*	823,335	-	-	823,335	760,590
Charitable Lead Trusts	962,146	68,278	273,112	620,756	333,424
Total	$ 10,075,820	$ 5,962,871	$ 2,667,031	$ 1,445,918	$ 10,406,703
Present Value of Estimated Future Cash Flows	$ 9,900,190	$ 5,962,871	$ 2,601,978	$ 1,335,341	$ 10,333,322

* 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, 2010, the College was committed under various contracts with alternative investment managers to fund $36,021,852 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	$ 586,375
Buy out	29,727,775
Debt fund	2,820,194
Fund of funds	2,887,508
Total	$ 36,021,852

The College has purchase commitments relating to construction projects of approximately $1,097,000 as of June 30, 2010.

(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:

	2010	2009
Purpose Restricted Contributions for -		
Instruction	$ 1,243,125	$ 1,150,752
Public service	617,693	648,671
Academic support	439,164	587,323
Student services	90,548	141,623
Student aid	1,699,042	2,074,351
Development and alumni	14,116	14,116
	4,103,688	4,616,836
Time-Restricted Contributions - Amortization of Restricted Gifts to Acquire Long-Lived Assets	1,178,857	1,148,742
Total Net Assets Released from Restriction	$ 5,282,545	$ 5,765,578
Matured Annuity and Life Income Contracts -		
Temporarily Restricted Agreements Reclassified to Tuition Replacement Funds in Unrestricted Net Assets	$ 394,604	$ 420,136

(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 3, 2010, the date on which we issued our financial statements. There were no events occuring during the evaluation period that would require recognition or disclosure in the financial statements.