Berea College

Financial Statements

for the Year Ended June 30, 2011

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HIGHLIGHTS

	As of or for the Year Ended June 30, 2011	2010
OPERATING REVENUE	$ 79,088,086	$ 77,512,252
OPERATING EXPENSES	$ 67,658,991	$ 70,533,608
OPERATING REVENUE IN EXCESS OF EXPENSES FROM CONTINUING OPERATIONS	$ 11,429,095	$ 6,978,644
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	$ 2,726,770	$ 3,798,358
LONG-TERM INVESTMENTS OF THE ENDOWMENT AND TUITION REPLACEMENT FUNDS		
Original gift value	$ 434,472,604	$ 420,641,907
Investments at market	$ 978,734,900	$ 846,776,300
Interest and dividends, net	$ 17,036,405	$ 15,037,490
Return	2.0%	1.9%
Market price increase	$ 146,976,983	$ 72,163,789
Return	17.4%	8.5%
Total return	$ 164,013,388	$ 87,201,279
Percent - time weighted	19.4% *	10.3%
CASH AND IN-KIND CONTRIBUTIONS		
Cash gifts	$ 7,005,168	$ 8,164,724
Bequests	14,041,786	14,832,217
Total cash gifts	21,046,954	22,996,941
Gifts-in-kind	89,008	71,927
Total	$ 21,135,962	$ 23,068,868

* Includes market price increase of $1,366,300 in non-pooled endowment investments, or 0.2% of the total return

REPORT OF THE VICE PRESIDENT FOR FINANCE

September, 2011

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

With the close of another year and as the financial statements are prepared for the College, we are reminded of the tremendous responsibility shared by the stewards of the College's financial resources. For 156 years, Berea College has served men and women, both black and white, from the Appalachian Region and beyond. Today the student body is enriched by international students from many countries enabling the College to become a globally diverse community which invests in lives of great promise.

During this past year, the United States and many other countries continued to face major economic challenges. Although the financial markets provided healthy gains during the fiscal year, most of those gains were diminished in August, 2011. We are definitely living in the age of the "unthinkable," as witnessed recently when the credit rating of the United States was lowered from AAA for the first time in history by one of the major credit rating agencies. We also continue to face the effects of a faltering economic recovery with national unemployment above 9% and the real possibility of another recession. The College, however, through budget adjustments over the last three years, is in a very strong financial position to maintain a sustainable budget and work through the challenges that it will undoubtedly face in the future.

Many individuals have worked extremely hard to help Berea position itself as a more flexible, adaptable and resilient institution. The new Scenario "Engaged and Transformative Learning" included a restructuring plan that ended academic departments and created larger academic divisions. This scenario was approved after almost two years of work, beginning with the Scenario Planning Task Force in 2008-09 and continuing with a year's work of deep deliberations of the faculty through study groups in the summer of 2010 and two different "synthesis groups" in the fall of 2010. The plan includes the transition from 27 academic departments to six academic divisions. After thorough and serious discussions, the College approved a new Sustainability Strategic Plan - *SOS II: Strategic Directions for Sustainability at Berea College* – to help the College to be more intentional about lessening its environmental footprint. In a related move, the administration was authorized to engage architects to produce final construction prints for a new "deep green" residence hall. Currently, the new residence hall is scheduled to be completed in August, 2013. But, by far, the most important work of all culminated in the awarding of degrees to 309 graduates of the Class of 2011.

On March 25, 2010, Kentucky adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) with an effective date of July 15, 2010. This change in law does not impact the financial position, operating results or cash flow of the College but has resulted in a significant reclassification between unrestricted net assets and temporarily restricted net assets in the financial statements.

In October, 2010, the Berea College Board of Trustees approved a change in the endowment spending formula effective July 1, 2011. The formula is a change from the prior formula (spending 5% of the rolling 12-quarter average market value of the endowment), to a weighted average formula (70% based on the prior year's endowment draw plus inflation, and 30% based on a 6-quarter average market value of the endowment). One of the main reasons for adopting this new endowment spending formula is to maintain comparable intergenerational equity with less annual income volatility.

In April, 2011, Larry D. Shinn, the College's President since 1994, announced his plans to retire effective June 30, 2012. In the spring of 2011, a presidential search committee was formed. The presidential search is scheduled to be completed before the end of calendar year 2011 with an effective starting date for the new president on or about July 1, 2012. Presidential searches have been rare at Berea since the College has only had eight presidents in its 156-year history.

The College experienced a successful fundraising year, receiving a total of $21.1 million in gifts. Of this total, $4.5 million ($3.9 million from donors plus $0.6 million from perpetual trusts) was raised in Berea's annual fund for current operations, $3.5 million for other restricted purposes and $13.1 million in gifts, mostly in bequests, to the endowment. The Berea Fund goal was aided by large, but perhaps not recurring, gifts from a few foundations and individuals. These large gifts helped offset the drop in the number of donors and a drop in the amount of gifts from some of our significant annual donors due to the economy. The number of gifts during the year totaled 16,080, received from 9,891 different donors. The number of gifts, as well as the number of donors, decreased from the prior year. The College's fundraising costs still remain low at 11 cents per dollar.

Financial Position

The market value of the College's endowment increased by $131.9 million as it went from $846.8 million on June 30, 2010 to $978.7 million on June 30, 2011, net of spending. The $978.7 million is composed of cumulative original gifts of $434.5 million and cumulative net market appreciation after endowment spending of $544.2 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. So too has Berea's long-standing deferred gifts program paid enormous dividends in increasing monies received from bequests. The market value of the quasi endowment portion of the investments as of June 30, 2011, was $430.5 million, or 44% of the total endowment investments. The net investment return for the total endowment was 19.4% for the fiscal year ending June 30, 2011. The average annual compound rates of return for the 20-year, 10-year, 5-year and 3-year periods ending June 30, 2011 are 8.8%, 4.8%, 3.4%, and 1.6%, respectively. During the year, $13.8 million was added to the endowment as a result of new gifts and matured split-interest agreements, and $45.9 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 $1,159.0 million, increasing by $148.6 million or 14.7 percent during the year. This change reflects an increase in the market value of total long-term investments during the year from $892.2 million as of June 30, 2010 to $1,030.8 million as of June 30, 2011.

At June 30, 2011, **Total Assets** of the College were $1,240.9 million. Of this amount, long-term investments (including endowment funds, annuity and life income funds and other funds) comprised $1,030.8 million; net property, plant and equipment totaled $143.1 million; and current assets totaled $61.1 million. Long-term contributions receivable and bequests in probate totaled $3.2 million; non-current prepaid expenses totaled $1.0 million; and long-term receivables totaled approximately $1.7 million.

Total Liabilities decreased by $7.2 million from $89.1 million as of June 30, 2010 to $81.9 million as of June 30, 2011.

Current Operations

The fiscal year ended with a significant surplus from budgeted operations of $2.0 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

As seen on the pages that follow, the College has enjoyed another financially successful year and its financial position remains very strong. During the year, two long-serving members of the Board of Trustees completed their years of service to the College. The fruits of their and their colleagues' labor are evident as one looks at the overall excellent condition of the College today. The exceptional leadership of the Board of Trustees, along with the tremendous generosity of Berea's alumni and many friends, sustain the important Berea mission and ensure the promise of Berea College to future generations. We thank you again for your role in this important mission, whether as student, faculty, staff, alumni, trustee or friend.

The results of the varying contributions made by those involved in the Berea mission are truly inspiring. Together, we must all support and maintain this great opportunity to make a difference in the world through education and service. While we should always be mindful of the College's distinguished history over the last 156 years, we must continually seek to collegially discuss and debate our ideals, in quest of ways to always advance this great institution.

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 Allen Ford, PLLC, 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 material respects, the financial position of the College as of June 30, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended.

September, 2011

Larry D. Shinn
President

Jeffrey S. Amburgey
Vice President for Finance

cpas consultants business advisors

DEAN || DORTON || ALLEN || FORD PLLC

Independent Auditors' Report

To the Board of Trustees
Berea College
Berea, Kentucky

We have audited the accompanying statement of financial position of Berea College (the College) as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the College as of and for the year ended June 30, 2010 were audited by Dean Dorton Ford, PSC, whose report dated September 3, 2010, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Dean Dorton Allen Ford, PLLC

September 7, 2011
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Berea College

STATEMENTS OF FINANCIAL POSITION

	June 30, 2011	June 30, 2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 49,615,614	$ 40,837,127
Accrued interest on investments	2,409,919	1,762,341
Accounts and notes receivable	3,095,123	1,857,552
Inventories	1,199,901	1,297,289
Prepaid expenses and other assets	143,946	218,910
Contributions receivable and bequests in probate	4,604,112	5,962,871
Total current assets	61,068,615	51,936,090
PREPAID EXPENSES AND OTHER ASSETS	1,024,817	1,479,988
CONTRIBUTIONS RECEIVABLE AND BEQUESTS IN PROBATE	3,164,942	3,937,319
LONG-TERM RECEIVABLES		
Cash collateral advanced under interest rate swap agreements	660,000	1,070,000
Institutional student loans	909,379	999,095
Federal student loans	170,259	205,944
Total long-term receivables	1,739,638	2,275,039
LONG-TERM INVESTMENTS		
Donor-restricted endowment	548,244,000	474,089,600
Tuition replacement	430,490,900	372,686,700
Annuity and life income	27,643,400	24,440,500
Funds held in trust by others	24,424,000	21,010,200
Total long-term investments	1,030,802,300	892,227,000
BOND PROCEEDS FOR CAPITAL ADDITIONS	-	499,756
NET PROPERTY, PLANT AND EQUIPMENT	143,076,757	147,068,227
Total assets	$1,240,877,069	$1,099,423,419

See notes to financial statements.

Berea College

STATEMENTS OF FINANCIAL POSITION

	June 30, 2011	June 30, 2010
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 4,228,157	$ 6,197,690
Accrued salaries and wages	2,585,871	3,620,383
Deposits and agency funds	546,228	467,373
Deferred income	182,428	141,973
Current maturities of long-term debt	2,108,923	1,995,177
Total current liabilities	9,651,607	12,422,596
LONG-TERM LIABILITIES		
Actuarial liability for annuities payable and other liabilities	16,385,423	17,079,963
Long-term debt	55,811,711	59,565,390
Total long-term liabilities	72,197,134	76,645,353
Total liabilities	81,848,741	89,067,949
NET ASSETS		
Unrestricted -		
For current operations	96,270	94,811
Designated for specific purposes	41,338,608	29,267,661
Invested in property, plant and equipment	50,676,717	50,242,607
Support of future operations from:		
Contributions receivable and bequests in probate	5,381,606	4,925,267
Appreciation on endowment investments	-	203,951,338
Donor-restricted endowment funds	(5,072,911)	-
Tuition replacement funds	430,490,900	372,686,700
Total unrestricted	522,911,190	661,168,384
Temporarily restricted -		
Unexpended contributions restricted for operations	10,948,816	10,461,599
Unexpended contributions restricted for plant renewals and replacement	1,274,521	1,188,163
Annuity and life income contracts	5,715,453	4,457,008
Expended contributions for long-lived assets being amortized	26,217,874	27,006,521
Donor-restricted endowment funds	322,532,365	48,718,837
Total temporarily restricted	366,689,029	91,832,128
Permanently restricted -		
Loan funds	2,754,674	2,712,019
Annuity and life income contracts	9,474,047	7,806,892
Contributions receivable and bequests in probate	1,990,842	4,406,422
Funds held in trust by others	24,424,000	21,010,200
Donor-restricted endowment funds	230,784,546	221,419,425
Total permanently restricted	269,428,109	257,354,958
Total net assets	1,159,028,328	1,010,355,470
Total liabilities and net assets	$1,240,877,069	$1,099,423,419

See notes to financial statements.

STATEMENTS OF ACTIVITIES

Changes in Unrestricted Net Assets

	Year Ended June 30, 2011	Year Ended June 30, 2010
OPERATING REVENUE		
Spendable return from long-term investments	$ 41,173,362	$ 43,414,336
Gifts and donations	6,455,952	5,155,856
Federal grants	8,067,225	7,325,378
Cost of education fees paid by federal and state scholarships	3,650,000	3,200,708
Fees paid by students	1,491,227	1,374,208
Other income	3,434,001	3,079,816
Residence halls and food service	7,413,041	7,572,472
Student industries and rentals	4,173,354	3,948,026
Net assets released from restrictions	5,708,358	5,282,545
Gross operating revenue	81,566,520	80,353,345
Less: Student aid	(2,478,434)	(2,841,093)
Net operating revenue	79,088,086	77,512,252
OPERATING EXPENSES		
Program Services -		
Instruction	21,081,523	23,450,477
Public service	6,545,482	5,899,654
Academic support	6,821,093	8,206,105
Student services	8,542,113	8,559,156
Residence halls and food service	7,161,121	6,797,457
Student industries and rentals	4,872,553	5,253,934
Total Program Services	55,023,885	58,166,783
Support Services, including fund raising expense of $2,349,100 in 2011 and $2,291,100 in 2010	12,635,106	12,366,825
Total operating expenses	67,658,991	70,533,608
Operating revenue in excess of operating expenses from continuing operations	11,429,095	6,978,644
OTHER UNRESTRICTED ACTIVITY		
Gain on sale of property, plant and equipment	75,108	54,333
Gain (loss) on valuation of interest rate swaps	999,300	(1,418,500)
Total other unrestricted activity	1,074,408	(1,364,167)
REVENUES DESIGNATED FOR LONG-TERM INVESTMENT		
Unrestricted bequests	5,857,612	10,140,451
Matured annuity and life income contracts	342,107	394,604
Reclassification of net assets	(1,400,293)	(882,932)
Investment return more than amounts designated for current operations	99,339,935	30,142,473
Total increase in revenues designated for long-term investment	104,139,361	39,794,596
Net asset reclassification based on change in law	(254,900,058)	-
(Decrease) increase in unrestricted net assets	$ (138,257,194)	$ 45,409,073

See notes to financial statements.

STATEMENTS OF ACTIVITIES

Changes in Total Net Assets

	Year Ended June 30, 2011	2010
UNRESTRICTED NET ASSETS		
Operating revenue in excess of operating expenses from continuing operations	$ 11,429,095	$ 6,978,644
Other unrestricted activity	1,074,408	(1,364,167)
Increase in revenues designated for long-term investment	104,139,361	39,794,596
Net asset reclassification based on change in law	(254,900,058)	-
(Decrease) increase in unrestricted net assets	(138,257,194)	45,409,073
TEMPORARILY RESTRICTED NET ASSETS		
Restricted gifts and donations	1,220,185	1,934,008
Restricted spendable return on endowment investments	4,575,122	4,750,089
Investment return more than amounts designated for current operations	18,787,969	8,765,429
Net adjustment of annuity payment and deferred giving liability	1,385,475	754,833
Reclassification of net assets released from restrictions	(5,708,358)	(5,282,545)
Reclassification of matured annuity and life income contracts to revenues designated for long-term investment	(342,107)	(394,604)
Reclassification of net assets	38,557	(144,757)
Net asset reclassification based on change in law	254,900,058	-
Increase in temporarily restricted net assets	274,856,901	10,382,453
PERMANENTLY RESTRICTED NET ASSETS		
Gifts and donations	5,471,077	5,405,421
Restricted return on endowment investments	137,000	128,952
Restricted capital gains on funds held in trust by others	3,413,800	2,149,300
Net adjustment of annuity payment and deferred giving liability	1,689,538	1,225,084
Reclassification of net assets	1,361,736	1,027,689
Increase in permanently restricted net assets	12,073,151	9,936,446
Total increase in net assets	148,672,858	65,727,972
NET ASSETS		
Beginning of year	1,010,355,470	944,627,498
End of year	$1,159,028,328	$1,010,355,470

See notes to financial statements.

STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2011	Year Ended June 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 148,672,858	$ 65,727,972
Adjustments to reconcile increase in net assets to net cash used in operating activities -		
Realized and unrealized gains on long-term investments	(155,135,818)	(77,402,473)
Realized and unrealized losses (gains) on absolute return fund	90,735	(91,042)
Restricted return on endowment funds	(137,000)	(128,952)
Gifts and bequests for financing activities	(15,291,481)	(16,429,200)
Decrease in contributions receivable and bequests in probate	2,131,136	433,132
Gift value of annuity contracts written	(425,220)	(402,285)
Depreciation	6,630,232	6,532,121
Gain on sale of property, plant and equipment	(75,108)	(54,333)
(Decrease) increase in actuarial annuity payment liability and other liabilities	(694,540)	1,549,800
Decrease in non-current prepaid expenses and other assets	240,399	329,603
(Increase) decrease in other current assets	(1,712,797)	1,557,589
(Decrease) increase in current liabilities other than current maturities of long-term debt	(2,884,735)	2,023,051
Net cash used in operating activities	(18,591,339)	(16,355,017)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities held for long-term investment	(637,598,933)	(1,012,988,992)
Proceeds from sales and maturities of investments	654,584,671	1,031,427,850
Cash collateral returned (advanced) under interest rate swap agreements	410,000	(1,070,000)
Proceeds from sale of investments for capital additions	499,756	2,766,155
Proceeds from sale of other investments - absolute return fund	124,037	1,008,843
Purchase of property, plant and equipment	(2,726,770)	(3,798,358)
Proceeds from sale of property, plant and equipment	163,116	54,333
Decrease in long-term student loans	125,401	107,760
Net cash provided by investing activities	15,581,278	17,507,591
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts and bequests received for -		
Long-term investment	13,072,474	15,573,104
Property, plant and equipment	2,216,407	843,946
Student loans	2,600	12,150
Endowment return restricted for long-term investments	137,000	128,952
Repayment of indebtedness	(10,969,933)	(2,414,982)
Long-term debt issued	7,330,000	-
Net cash provided by financing activities	11,788,548	14,143,170
Net increase in cash and cash equivalents	8,778,487	15,295,744
Cash and cash equivalents, beginning of year	40,837,127	25,541,383
Cash and cash equivalents, end of year	$ 49,615,614	$ 40,837,127

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

(1) ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

General

Berea College (the College) is a not-for-profit institution providing liberal arts education to students with limited family financial resources primarily from the Southern Appalachian Mountain region. All students are provided a full tuition scholarship and, accordingly, the College is dependent on gifts and donations to help provide a low cost but high quality education. The College has one campus located in Berea, Kentucky with an enrollment of approximately 1,600 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. Cumulative net appreciation associated with donor-restricted endowments is classified as temporarily restricted net assets (see Note 2). 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.

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 $0 and $249,756 as of June 30, 2011 and 2010, 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, commodities, 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:

	2011	2010
Educational and general purposes	$6,009,992	$5,926,354
Student industries	620,240	605,767
	$6,630,232	$6,532,121

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.

	2011	2010
Interest	$2,406,156	$2,590,444
Depreciation	6,630,232	6,532,121
Plant Operations	5,202,448	5,154,302

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 does not impact the financial position, operating results, or cash flows of the College, but does impact the way the College accounts for and reports donor-restricted and board designated endowments. The impact of the change in law on the financial statements is discussed in Note 2.

NOTES TO FINANCIAL STATEMENTS

(2) LONG-TERM INVESTMENTS

	June 30, 2011	June 30, 2010
Endowment and Tuition Replacement:		
Pooled Investments -		
U. S. equities	$ 222,751,500	$ 205,822,200
International equities	230,037,500	179,622,600
Corporate notes and bonds	58,650,300	85,026,300
U. S. Government securities	70,210,400	42,751,900
Foreign bonds	-	692,100
Structured notes	43,933,900	34,074,000
Private equity - venture capital	4,834,900	5,302,600
Private equity - buy out	37,613,600	26,876,700
Private equity - debt funds	9,661,700	10,623,700
Private equity - fund of funds	37,273,900	39,779,400
Hedge funds	152,006,200	125,520,700
Commodities	18,869,400	-
Real estate	25,256,500	19,112,000
Short-term investments and cash	63,221,700	68,532,500
Total	974,321,500	843,736,700
Non Pooled Investments -		
U. S. equities	29,600	31,200
Corporate notes and bonds	2,400	-
Real estate	2,536,900	2,978,500
Short-term investments and cash	1,844,500	29,900
Total	4,413,400	3,039,600
Total endowment and tuition replacement	978,734,900	846,776,300
Annuity and Life Income:		
Pooled Annuity Investments -		
U. S. equities	6,528,400	5,497,300
International equities	3,469,900	2,898,200
Corporate notes and bonds	1,774,300	1,633,400
U. S. Government securities	1,750,900	1,642,600
Short-term investments and cash	457,400	399,100
Total	13,980,900	12,070,600
Separately Invested Trusts and Other -		
U. S. equities	5,758,200	4,727,300
International equities	3,035,400	2,532,100
Corporate notes and bonds	2,693,800	2,937,200
U. S. Government securities	1,504,500	1,561,100
Real estate	330,000	330,000
Insurance policies	75,600	67,500
Short-term investments and cash	265,000	214,700
Total	13,662,500	12,369,900
Total annuity and life income	27,643,400	24,440,500
Funds Held in Trust by Others, where Berea College receives all or a stipulated percent of income	24,424,000	21,010,200
Total long-term investments	$1,030,802,300	$ 892,227,000

(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 2011 and 2010, spendable return under the formula amounted to $45,873,155 and $48,289,290, respectively. In 2011, actual cash income earned on pooled investments, net of $2,209,369 for investment management and custodial fees, amounted to $17,024,075, or $28,849,080 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 $12,330 in 2011 and $4,087 in 2010, while the market value of these investments of $4,413,400 at June 30, 2011 and $3,039,600 at June 30, 2010 increased by $1,366,300 in 2011 and increased by $14,700 in 2010. Additions to non-pooled endowment investments during 2011 amounted to $7,500.

Dividend and interest income of $17,036,405 and $15,037,490 reported net of external investment manager fees of $2,209,369 and $1,999,388 is included in the statements of activities for the years ended June 30, 2011 and 2010, respectively.

Effective July 15, 2010, the Commonwealth of Kentucky adopted legislation incorporating the provisions outlined in the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The statutory guidelines relate to prudent management, investment and expenditure of donor-restricted endowments held by charitable organizations. The legislation specifies factors for fiduciaries to consider prior to making a decision to appropriate from or accumulate into an organization's endowment funds. Within the context of this legislation, GAAP requires the cumulative net appreciation associated with donor-restricted endowments to be reclassified from unrestricted net assets to temporarily restricted net assets as a cumulative change in accounting principle. As a result, cumulative net appreciation associated with donor-restricted endowments of $254.9 million has been reclassified from unrestricted net assets to temporarily restricted net assets.

(2) LONG-TERM INVESTMENTS (continued)

The College has interpreted the Kentucky enacted version of UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Any remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA. From time to time, the fair value of assets associated with an endowed fund may fall below the level that a donor or UPMIFA requires in terms of maintenance of perpetual duration endowments. The cumulative value of these deficiencies is classified as unrestricted net assets.

The College interprets its fiduciary responsibility for donor-restricted endowments under UPMIFA, unless there are donor-specific provisions to the contrary, as preserving intergenerational equity to the extent possible. Under this broad guideline, future endowment beneficiaries should essentially receive at least the same level of economic support that the current generation enjoys. Endowment assets are invested to provide growth of the endowment through real investment return that exceeds spending over the long term. The overarching objective is to meet the College's goal of preserving and enhancing the real (inflation-adjusted) purchasing power of the endowment fund in perpetuity. Assets are invested to provide a stream of earnings to meet spending needs and attain long-term objectives without the assumption of undue risks.

In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the endowment fund

(2) The purposes of the institution and the endowment fund

(3) General economic conditions

(4) The possible effect of inflation or deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the institution

(7) The investment policy of the institution

NOTES TO FINANCIAL STATEMENTS

(2) LONG-TERM INVESTMENTS (continued)

During 2011, the unit value of pooled investments changed as follows:

	2010-11				2009-10
	Market Value	Number of Units	Value Per Unit	Time Weighted Return Net of Fees	Market Value
Beginning Balance	$ 843,736,700	704,277.026	$1,198.018		$ 788,192,400
Market price change	145,610,683		205.564	17.2%	72,149,089
Net income earned	17,024,075		24.172	2.0%	15,033,403
Spendable return	(45,873,155)		(65.135)	-	(48,289,290)
	116,761,603		164.601	19.2%	38,893,202
Additions	13,823,197	10,758.973	-		16,651,098
Ending Balance	$ 974,321,500	715,035.999	$1,362.619		$ 843,736,700

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

	2011	2010
Pooled Investments -		
Cash income, net	$ 17,024,075	$ 15,033,403
Market price increase	145,610,683	72,149,089
Non-Pooled Investments -		
Cash income	12,330	4,087
Market price increase	1,366,300	14,700
Total Return	$ 164,013,388	$ 87,201,279
Distributed to -		
Unrestricted Net Assets		
Spendable return	$ 41,173,362	$ 43,414,336
Long-term investments	99,339,935	30,142,473
Temporarily Restricted Net Assets		
Spendable return	4,575,122	4,750,089
Investment return more than amounts designated for current operations	18,787,969	8,765,429
Permanently Restricted		
Restricted earnings	137,000	128,952
Total	$ 164,013,388	$ 87,201,279

NOTES TO FINANCIAL STATEMENTS

(2) LONG-TERM INVESTMENTS (continued)

Endowment Investments Net Asset Composition by Type of Fund as of June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (5,072,911)	$ 322,532,365	$ 230,784,546	$ 548,244,000
Board-designated endowment funds	430,490,900	-	-	430,490,900
	$ 425,417,989	$ 322,532,365	$ 230,784,546	$ 978,734,900

Changes in Endowment Investments Net Assets for the Fiscal Year Ended June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment investments net assets, beginning of year	$ 576,638,038	$ 48,718,837	$ 221,419,425	$ 846,776,300
Net asset reclassification based on change in law	(254,900,058)	254,900,058	-	-
Endowment net assets after reclassification	321,737,980	303,618,895	221,419,425	846,776,300
Investment return:				
Investment income	17,036,405	-	-	17,036,405
Net appreciation (realized and unrealized)	123,522,499	23,454,484	-	146,976,983
Total investment return	140,558,904	23,454,484	-	164,013,388
Contributions	-	300	7,673,914	7,674,214
Other restricted additions	-	137,580	278,535	416,115
Board designated unrestricted bequests	5,740,368	-	-	5,740,368
Appropriation of endowment assets for expenditure	(41,218,970)	(4,666,515)	-	(45,885,485)
Reclassification	(1,400,293)	(12,379)	1,412,672	-
Endowment investments net assets, end of year	$ 425,417,989	$ 322,532,365	$ 230,784,546	$ 978,734,900

(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 depreciation (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)
Other changes	(882,932)	-	882,932	-
Endowment investments net assets, end of year	$ 576,638,038	$ 48,718,837	$ 221,419,425	$ 846,776,300

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, 2011, the College has approximately 4,600 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.

NOTES TO FINANCIAL STATEMENTS

(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, 2011:

	June 30, 2011 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	$ 978,734,900	$ 589,655,190	$ 144,660,175	$ 244,419,535
Other investments	100,000	-	100,000	-
Funds held in trust by others	24,424,000	-	-	24,424,000
Split-interest agreements	27,643,400	-	-	27,643,400
Total assets	1,030,902,300	589,655,190	144,760,175	296,486,935
Liabilities				
Split-interest agreement liability	12,453,900	-	-	12,453,900
Interest rate swap agreements	3,122,900	-	3,122,900	-
Asset retirement obligation	610,241	-	-	610,241
Total liabilities	16,187,041	-	3,122,900	13,064,141
Total fair value	$1,014,715,259	$ 589,655,190	$ 141,637,275	$ 283,422,794

(3) FAIR VALUE MEASUREMENTS (continued)

Level 3 Reconciliation

	Balances June 30, 2010	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, 2011
Assets					
Endowment investments	$ 211,633,662	$ 25,053,945	$ 7,731,928	$ -	$244,419,535
Other investments	214,772	(90,735)	(124,037)	-	-
Funds held in trust by others	21,010,200	3,413,800	-	-	24,424,000
Split-interest agreements	24,440,500	4,745,035	(1,542,135)	-	27,643,400
Total assets	257,299,134	33,122,045	6,065,756	-	296,486,935
Liabilities					
Split-interest agreement liability	12,176,600	277,300	-	-	12,453,900
Asset retirement obligation	593,893	16,348	-	-	610,241
Total liabilities	12,770,493	293,648	-	-	13,064,141
Total fair value	$ 244,528,641	$ 32,828,397	$ 6,065,756	$ -	$283,422,794

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, 2011	$ 4,922,000

The gain of $4,922,000 is included in "Investment return more 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, 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
Total assets	893,041,528	421,921,069	213,821,325	257,299,134
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	$ 876,148,835	$ 421,921,069	$ 209,699,125	$ 244,528,641

(3) FAIR VALUE MEASUREMENTS (continued)

	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
Total assets	234,575,189	19,332,281	3,391,664	-	257,299,134
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	$ 221,957,434	$ 19,179,543	$ 3,391,664	$ -	$244,528,641

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 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.

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.

NOTES TO FINANCIAL STATEMENTS

(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 $3,122,900 and negative $4,122,200 at June 30, 2011 and 2010, respectively and is included in the actuarial liability for annuities payable and other liabilities in the statements of financial position. The increase in market value of the interest rate swaps of $999,300 and the decrease of $1,418,500 have been reflected in the statements of activities in other unrestricted activity for the years ended June 30, 2011 and 2010, 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 2011, the College had cash collateral posted with the counterparty. Collateral in the amount of $660,000 and $1,070,000 was posted with the counterparty as of June 30, 2011 and 2010, 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 $1,658,322 in 2011 and $2,117,705 in 2010.

(6) PROPERTY, PLANT AND EQUIPMENT

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

Property, Plant and Equipment	2011	2010
Educational property, plant and equipment	$ 181,955,145	$ 180,879,909
Student industry plant and equipment	18,579,186	18,429,315
Rental property	2,551,773	2,551,773
Forest and farms	1,250,902	1,250,902
Collections and works of art	4,097,531	4,079,531
Construction in process	178,503	344,886
Less accumulated depreciation	(65,536,283)	(60,468,089)
	$ 143,076,757	$ 147,068,227

(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 2011 and 2010 accounting for costs associated with asbestos abatement is as follows:

	2011	2010
Beginning balance	$ 593,893	$ 569,955
Accretion expense	23,550	23,938
Liabilities settled during the year	(7,202)	-
Ending balance	$ 610,241	$ 593,893

(8) LONG-TERM DEBT

	June 30, 2011	June 30, 2010
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
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
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
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2002A - Issued August 29, 2002; due June 1, 2032; variable interest rate, 0.04% as of June, 2011 with synthetic fixed rate of 3.45%; proceeds used for various capital projects	14,325,000	14,840,000

(8) LONG-TERM DEBT (continued)

	June 30, 2011	June 30, 2010
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	17,645,000	18,160,000
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2003B - Issued December 11, 2003; variable payments through June 1, 2029; variable interest rate, 0.04% as of June, 2011 with synthetic fixed rate of 3.746%; proceeds used for various capital projects	8,275,000	8,590,000
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	7,575,000	7,835,000
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	3,525,634	4,205,567
Industrial Building Revenue Refunding Bonds, Series 2010 - Issued December, 2010; bank qualified tax-exempt loan through JP Morgan Chase Bank, National Association; serial annual payments through June 1, 2020 at fixed 2.25% rate; proceeds used for refunding Series 1997, 1998 and 2000 bonds	6,575,000	-
	57,920,634	61,560,567
Less current portion	2,108,923	1,995,177
	$ 55,811,711	$ 59,565,390

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. Principal payments on long-term debt are required to be made in each of the following fiscal years: $2,108,923 in 2012; $2,187,069 in 2013; $2,275,170 in 2014; $2,373,604 in 2015; $2,477,098 in 2016 and $46,498,770 in subsequent years thereafter.

Industrial Building Revenue Refunding Bonds, Series 2010, were issued December 29, 2010. The Series 1998 bond issue in the amount of $4,315,000 was called on January 10, 2011 at par. The Series 2000 bond issue in the amount of $1,615,000 was called on January 10, 2011 @ $101. The Series 1997 bond issue in the amount of $1,400,000 was called on February 1, 2011 at par.

The fair value of the College's long-term debt at June 30, 2011 was estimated to be approximately $58,339,000 based upon rates available to the College for debt with similar terms and remaining maturities.

Cash payments for interest amounted to $2,458,462 in 2011 and $2,601,489 in 2010.

(9) CONTRIBUTIONS RECEIVABLE AND BEQUESTS IN PROBATE

	June 30, 2011 Total	Due In One Year or Less	One Year to Five Years	Over Five Years	June 30, 2010 Total
Unconditional Promises for -					
Unrestricted	$ 2,125	$ 2,125	$ -	$ -	$ 6,125
Restricted	80,000	80,000	-	-	20,600
Buildings and equipment	346,010	218,920	126,080	1,010	611,330
Endowment	46,000	36,000	10,000	-	179,721
Reserve for unfulfilled promises	(26,699)	(22,585)	(4,084)	(30)	(82,313)
Total	447,436	314,460	131,996	980	735,463
Bequests in Probate	5,531,835	4,221,374	1,310,461	-	7,554,876
External Charitable Remainder Trusts*	1,015,828	-	-	1,015,828	823,335
Charitable Lead Trusts	893,868	68,278	273,112	552,478	962,146
Total	$ 7,888,967	$ 4,604,112	$ 1,715,569	$ 1,569,286	$ 10,075,820
Present Value of Estimated Future Cash Flows	$ 7,769,054	$ 4,604,112	$ 1,637,801	$ 1,527,141	$ 9,900,190

* 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, 2011, the College was committed under various contracts with alternative investment managers to fund $25,482,802 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	$ 504,875
Buy out	20,448,120
Debt fund	1,661,353
Fund of funds	2,868,454
Total	$ 25,482,802

The College has purchase commitments relating to construction projects of approximately $912,000 as of June 30, 2011.

NOTES TO FINANCIAL STATEMENTS

(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:

	2011	2010
Purpose Restricted Contributions for -		
Instruction	$ 1,315,232	$ 1,243,125
Public service	747,148	617,693
Academic support	620,510	439,164
Student services	169,949	90,548
Student aid	1,450,929	1,699,042
Support services	225,506	14,116
Plant operations	5,500	-
	4,534,774	4,103,688
Time-Restricted Contributions - Amortization of Restricted Gifts to Acquire Long-Lived Assets	1,173,584	1,178,857
Total Net Assets Released from Restriction	$ 5,708,358	$ 5,282,545
Matured Annuity and Life Income Contracts -		
Temporarily Restricted Agreements Reclassified to Tuition Replacement Funds in Unrestricted Net Assets	$ 342,107	$ 394,604

(13) TAX STATUS

Berea College has a determination from the IRS that it is a not-for-profit organization exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, the College is subject to federal income tax on any unrelated business income. No provision for income tax has been made in the accompanying financial statements.

GAAP requires the College to evaluate tax positions taken by the College and recognize a tax liability (or asset) if the College has taken an uncertain position that more likely than not would be sustained upon examination by the IRS. The College has analyzed the tax positions taken by the College and has concluded that there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The College is subject to routine audits by taxing jurisdictions; however there are currently no audits for any tax periods in progress. The College believes it is no longer subject to income tax examinations for years prior to 2008.

(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 7, 2011, 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.

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BEREA COLLEGE