BEREA COLLEGE

FINANCIAL STATEMENTS

for the Year Ended June 30, 2013

Board of Trustees

Officers

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HIGHLIGHTS

	As of or for the Year Ended June 30, 2013	2012
OPERATING REVENUE	$ 99,924,077	$ 81,303,103
OPERATING EXPENSES	$ 93,626,781	$ 78,976,085
OPERATING REVENUE IN EXCESS OF EXPENSES FROM CONTINUING OPERATIONS	$ 6,297,296	$ 2,327,018
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	$ 18,494,889	$ 4,573,022
LONG-TERM INVESTMENTS OF THE ENDOWMENT AND TUITION REPLACEMENT FUNDS		
Original gift value	$ 450,938,884	$ 444,416,884
Investments at market	$ 1,012,401,100	$ 942,618,000
Interest and dividends, net	$ 20,272,987	$ 15,986,973
Return	2.2%	1.6%
Market price increase (decrease)	$ 87,909,956	$ (19,034,205)
Return	9.3%	-1.9%
Total return	$ 108,182,943	$ (3,047,232)
Percent - time weighted	11.5%	-0.3%
CASH AND IN-KIND CONTRIBUTIONS		
Cash gifts	$ 16,409,256	$ 8,908,499
Bequests	4,830,240	6,460,395
Total cash gifts	21,239,496	15,368,894
Gifts-in-kind	18,504	35,804
Total	$ 21,258,000	$ 15,404,698

REPORT OF THE VICE PRESIDENT FOR FINANCE

September, 2013

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

Berea College was truly blessed with another wonderful year. The Inauguration of Berea's ninth president, Lyle Roelofs, took place in April as a celebration of *Our Berea*. The exciting week of events included an Inauguration Exhibit in Hutchins Library, campus and community luncheons, musical celebrations, the Presidential 5K Run/1-Mile Walk, and many more inspiring and creative events. From a financial perspective, the market value of the College's endowment ended the year in excess of $1 billion for the first time since 2008. Many construction projects were substantially completed or were begun during the year including the new "Deep Green" residence hall, the new Farm Store, and the renovations of Anna Smith Residence Hall and Knapp Hall. The College's Master Planning Steering Committee and campus stakeholders have been working with an outside firm throughout the year on updating Berea's Campus Master Plan. Planning for the new Natural Sciences and Health Building continues. The dedication of the new Carter G. Woodson Center took place in February. Among the highlights of the event were the inspiring recollections of Jessie Reasor Zander ('54), the first African-American graduate of Berea College after the repeal of the Day Law in Kentucky. This has been an excellent and an extremely busy year.

On May 5, 2013 over 230 new alumni received their diplomas. The incoming class continues to reflect Berea's commitment to coeducation and diversity while serving students from the Appalachian region with limited financial resources and high academic promise. The entering Fall 2013 class includes 455 new students from 27 countries and 25 states; 80% from the in-territory Appalachian region, 13% from outside the region, and 7% international students; 55% female and 45% male; and 52% are full-need students.

To take advantage of the low interest rate environment, the College refinanced over a third of its outstanding debt. On September 21, 2012, the College closed on a private placement loan to refinance the 2008 Series Bonds with an outstanding principal amount of $3.3 million and to provide $6.7 million for partial funding of the new Deep Green residence hall. The $10 million loan is at a fixed interest rate of 1.58% for 10 years on a 10-year amortization schedule. In addition, on October 20, 2012 the Board of Trustees approved a resolution that authorized the refinancing of approximately $16.6 million of Series 2003A Bonds. This was completed through two bond issues. The first was a $7.6 million refunding through a private bank placement with a fixed interest rate of 1.58% for the entire term of the loan (11.5 years). The remaining $9.0 million was through a public offering that will mature on June 1, 2033 and has an average coupon of 2.74% and an average life of 15.6 years. The refinancing will provide approximately $4.6 million of interest savings over the life of the loans.

On February 23, 2013, the Berea College Board of Trustees approved a resolution that authorized the College to novate the interest rate swaps with the current counterparty and enter into new agreements with another counterparty. On March 29, 2013, the College completed the novation of the swaps from UBS-AG to The Bank of New York Mellon. The new counterparty has a higher credit rating and the collateral posting threshold was increased from $3.0 million to $10.0 million. The College did not incur any fees in the transaction.

Fundraising during 2013 was challenging. Although the College experienced an increase in the dollar amount of gifts received during the year, from $15.4 million in 2012 to $21.3 million in 2013, the number of gifts declined from 17,331 to 15,516 and the number of donors declined from 10,042 to 9,079. A large external trust donated $8.0 million and $0.8 million in 2013 and 2012, respectively. Over the last two years, Berea has experienced a decline in the dollar amount of endowment additions mostly in the form of bequests. The College is currently conducting a study to better understand the decline in bequests and what actions are needed to enhance endowment giving in the future.

Financial Position

Berea's financial position is very strong. The market value of the College's endowment increased from $942.6 million on June 30, 2012 to $1,012.4 million on June 30, 2013, or $69.8 million. The $1,012.4 million is composed of cumulative original gifts of $450.9 million and cumulative net market appreciation after endowment spending of $561.5 million. The market value of the quasi endowment portion of the investments as of June 30, 2013, was $448.0 million, or 44% of the total endowment investments. The net investment return for the total endowment was 11.5% for the fiscal year ending June 30, 2013. The average annual compound rates of return for the 20-year, 10-year, 5-year and 3-year periods ending June 30, 2013 are 8.0%, 6.7%, 3.1%, and 9.9%, respectively. During the year, $6.9 million was added to the endowment as a result of new gifts and matured split-interest agreements, and $44.9 million was distributed from the endowment in support of College operations. Also, on February 23, 2013, a revised Investment Policy was approved that provided Berea's outsourced chief investment officer firm full discretion within the approved investment asset class ranges of the publicly traded securities. The Investment Committee continues to approve all changes within the non-public portion of the portfolio.

The financial position of the College remains strong. **Total Net Assets** (total assets less liabilities) of the College were $1,217.0 million, increasing by $88.1 million or 7.8 percent during the year. This change reflects an increase in the market value of total long-term investments during the year from $991.9 million as of June 30, 2012 to $1,064.5 million as of June 30, 2013.

At June 30, 2013, **Total Assets** of the College were $1,306.5 million. Of this amount, long-term investments (including endowment funds, annuity and life income funds and other funds) comprised $1,064.5 million; net property, plant and equipment totaled $152.5 million; and current assets totaled $80.0 million. Long-term contributions receivable and bequests in probate totaled $7.5 million; non-current prepaid expenses totaled $0.9 million; and long-term receivables totaled approximately $1.1 million.

Total Liabilities increased by $1.9 million from $87.7 million as of June 30, 2012 to $89.6 million as of June 30, 2013. Most of this increase was due to a $3.4 million increase in debt and an increase in accounts payable for construction projects partially offset by a favorable change in the valuation of the interest rate swaps.

Concluding Comments

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

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

Respectfully submitted,

Jeffrey S. Amburgey

Jeffrey S. Amburgey
Vice President for Finance

RESPONSIBILITY FOR THE COLLEGE'S FINANCIAL STATEMENTS

The Office of Financial Affairs of Berea College is directly responsible for the preparation, integrity and fair presentation of the financial statements and the other information included in this annual report. This office, through the Vice President for Finance, reports directly to the President of the College with oversight by the College's Board of Trustees.

The College maintains a system of internal controls over financial reporting, which is designed to provide reasonable assurance to the College's administration and Board of Trustees that the College's assets are protected and that transactions and events are recorded properly in the financial statements.

The College's financial statements have been audited by the independent accounting firm of Dean Dorton 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, 2013 and 2012, and the changes in its net assets and cash flows for the years then ended.

September, 2013

Lyle D. Roelofs
President

Jeffrey S. Amburgey
Vice President for Finance

Report of Independent Auditors

To the Board of Trustees
Berea College
Berea, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Berea College which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Board of Trustees
Berea College
Report of Independent Auditors, continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Berea College as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dean Dorton Allen Ford, PLLC

September 9, 2013
Lexington, Kentucky

Berea College

STATEMENTS OF FINANCIAL POSITION

	June 30, 2013	June 30, 2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 57,668,611	$ 50,417,011
Accrued interest on investments	1,270,160	785,315
Accounts receivable - U.S. Government	5,791,545	4,160,849
Other accounts and notes receivable	1,078,295	1,404,628
Inventories	1,322,703	1,283,401
Prepaid expenses and other assets	71,950	144,388
Contributions receivable and bequests in probate	12,825,938	12,850,478
Total current assets	80,029,202	71,046,070
PREPAID EXPENSES AND OTHER ASSETS	930,297	964,656
CONTRIBUTIONS RECEIVABLE AND BEQUESTS IN PROBATE	7,494,630	5,935,874
LONG-TERM RECEIVABLES		
Cash collateral advanced under interest rate swap agreements	-	4,700,000
Institutional student loans	931,985	893,342
Federal student loans	112,108	138,370
Total long-term receivables	1,044,093	5,731,712
LONG-TERM INVESTMENTS		
Donor-restricted endowment	564,354,100	526,468,200
Tuition replacement	448,047,000	416,149,800
Annuity and life income	26,790,500	25,613,200
Funds held in trust by others	25,347,000	23,708,800
Total long-term investments	1,064,538,600	991,940,000
NET PROPERTY, PLANT AND EQUIPMENT	152,502,852	140,965,563
Total assets	$ 1,306,539,674	$ 1,216,583,875

See notes to financial statements.

Berea College

STATEMENTS OF FINANCIAL POSITION

LIABILITIES AND NET ASSETS	June 30, 2013	June 30, 2012
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 8,333,806	$ 8,033,917
Capital expenditure accounts payable	1,526,226	806,574
Accrued salaries and wages	3,099,511	2,728,112
Deposits and agency funds	553,618	502,421
Deferred income	122,600	198,518
Current maturities of long-term debt	3,119,441	2,187,069
Total current liabilities	16,755,202	14,456,611
LONG-TERM LIABILITIES		
Actuarial liability for annuities payable and other liabilities	12,724,070	12,653,591
Interest rate swap valuation	4,487,800	7,526,400
Long-term debt	55,600,997	53,099,642
Total long-term liabilities	72,812,867	73,279,633
Total liabilities	89,568,069	87,736,244
NET ASSETS		
Unrestricted -		
For current operations	98,178	97,740
Designated for specific purposes	42,906,205	37,077,833
Invested in property, plant and equipment	54,632,630	51,816,078
Support of future operations from:		
Contributions receivable and bequests in probate	4,816,539	4,529,154
Donor-restricted endowment funds	(4,238,635)	(7,903,956)
Tuition replacement funds	448,047,000	416,149,800
Total unrestricted	546,261,917	501,766,649
Temporarily restricted -		
Unexpended contributions restricted for operations	15,580,207	12,469,654
Unexpended contributions restricted for plant renewals and replacement	9,207,396	13,659,427
Annuity and life income contracts	6,263,925	5,601,702
Expended contributions for long-lived assets being amortized	30,888,252	25,601,242
Donor-restricted endowment funds	331,227,768	299,517,552
Total temporarily restricted	393,167,548	356,849,577
Permanently restricted -		
Loan funds	2,803,301	2,777,406
Annuity and life income contracts	9,015,675	8,378,998
Contributions receivable and bequests in probate	3,011,197	511,597
Funds held in trust by others	25,347,000	23,708,800
Donor-restricted endowment funds	237,364,967	234,854,604
Total permanently restricted	277,542,140	270,231,405
Total net assets	1,216,971,605	1,128,847,631
Total liabilities and net assets	$ 1,306,539,674	$ 1,216,583,875

See notes to financial statements.

STATEMENTS OF ACTIVITIES

Changes in Unrestricted Net Assets

	Year Ended June 30, 2013	2012
OPERATING REVENUE		
Spendable return from long-term investments	$ 40,317,730	$ 37,401,970
Gifts and donations	5,920,232	5,197,022
Federal grants	27,153,326	14,015,203
Cost of education fees paid by federal and state scholarships	3,900,000	3,850,000
Fees paid by students	1,653,580	1,599,296
Other income	3,078,371	2,800,526
Residence halls and dining service	8,007,489	7,998,618
Student industries and rentals	4,569,593	4,427,429
Net assets released from restrictions	9,295,944	7,775,772
Gross operating revenue	103,896,265	85,065,836
Less: Student aid	(3,972,188)	(3,762,733)
Net operating revenue	99,924,077	81,303,103
OPERATING EXPENSES		
Program Services -		
Instruction	24,453,205	24,079,572
Public service	23,971,488	11,355,224
Academic support	8,071,805	7,605,584
Student services	9,795,691	9,104,092
Residence halls and dining service	8,348,819	7,926,822
Student industries and rentals	5,153,910	5,156,052
Total Program Services	79,794,918	65,227,346
Support Services, including fund raising expense of $3,419,068 in 2013 and $3,712,880 in 2012	13,831,863	13,748,739
Total operating expenses	93,626,781	78,976,085
Operating revenue in excess of operating expenses from continuing operations	6,297,296	2,327,018
OTHER UNRESTRICTED ACTIVITY		
(Loss) gain on sale of property, plant and equipment	(45,961)	64,939
Gain (loss) on valuation of interest rate swaps	3,038,600	(4,403,500)
Total other unrestricted activity	2,992,639	(4,338,561)
REVENUES DESIGNATED FOR LONG-TERM INVESTMENT		
Unrestricted bequests	3,343,244	3,043,200
Matured annuity and life income contracts	296,114	856,185
Investment return more (less) than amounts designated for current operations	31,565,975	(23,032,383)
Total increase (decrease) in revenues designated for long-term investment	35,205,333	(19,132,998)
Increase (decrease) in unrestricted net assets	$ 44,495,268	$ (21,144,541)

See notes to financial statements.

STATEMENTS OF ACTIVITIES

Changes in Total Net Assets

	Year Ended June 30, 2013	Year Ended June 30, 2012
UNRESTRICTED NET ASSETS		
Operating revenue in excess of operating expenses from continuing operations	$ 6,297,296	$ 2,327,018
Other unrestricted activity	2,992,639	(4,338,561)
Increase (decrease) in revenues designated for long-term investment	35,205,333	(19,132,998)
Increase (decrease) in unrestricted net assets	44,495,268	(21,144,541)
TEMPORARILY RESTRICTED NET ASSETS		
Restricted gifts and donations	9,365,821	16,194,131
Restricted spendable return on endowment investments	4,467,411	5,483,083
Investment return more (less) than amounts designated for current operations	31,695,124	(23,028,797)
Net adjustment of annuity payment and deferred giving liability	681,780	42,058
Reclassification of net assets released from restrictions	(9,295,944)	(7,775,772)
Reclassification of matured annuity and life income contracts to revenues designated for long-term investment	(296,114)	(856,185)
Reclassification of net assets	(300,107)	102,030
Increase (decrease) in temporarily restricted net assets	36,317,971	(9,839,452)
PERMANENTLY RESTRICTED NET ASSETS		
Gifts and donations	4,162,919	1,987,642
Restricted return on endowment investments	136,703	128,895
Restricted capital gain (loss) on funds held in trust by others	1,638,200	(715,200)
Net adjustment of annuity payment and deferred giving liability	1,072,806	(496,011)
Reclassification of net assets	300,107	(102,030)
Increase in permanently restricted net assets	7,310,735	803,296
Total increase (decrease) in net assets	88,123,974	(30,180,697)
NET ASSETS		
Beginning of year	1,128,847,631	1,159,028,328
End of year	$ 1,216,971,605	$ 1,128,847,631

See notes to financial statements.

STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ 88,123,974	$ (30,180,697)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities -		
Realized and unrealized (gains) losses on long-term investments	(92,033,595)	20,237,643
Restricted return on endowment funds	(136,703)	(128,895)
Gifts and bequests for financing activities	(11,710,613)	(8,672,463)
Increase in contributions receivable and bequests in probate	(1,534,216)	(11,017,298)
Gift value of annuity contracts written	(524,448)	(485,700)
Depreciation	6,880,454	6,683,765
Loss (gain) on sale of property, plant and equipment	45,961	(64,939)
(Gain) loss on revaluation of interest rate swaps	(3,038,600)	4,403,500
Increase in other current assets	(1,756,072)	(929,692)
Decrease in non-current prepaid expenses and other assets other than cash payments for debt issuance costs	283,737	60,160
Increase in current liabilities other than capital expenditure accounts payable and current maturities of long-term debt	646,567	4,033,471
Increase (decrease) in actuarial annuity payment liability and other liabilities	70,479	(608,932)
Net cash used in operating activities	(14,683,075)	(16,670,077)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities held for long-term investment	(456,153,353)	(235,004,609)
Proceeds from sales and maturities of investments	476,112,796	254,114,966
Cash collateral returned (advanced) under interest rate swap agreements	4,700,000	(4,040,000)
Purchase of property, plant and equipment	(18,494,889)	(4,573,022)
Increase in capital expenditure accounts payable	719,652	693,387
Proceeds from sale of property, plant and equipment	31,185	65,391
(Increase) decrease in long-term student loans	(12,381)	47,926
Net cash provided by investing activities	6,903,010	11,304,039
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts and bequests received for -		
Long-term investment	5,115,460	7,233,054
Property, plant and equipment	6,594,753	1,437,309
Student loans	400	2,100
Endowment return restricted for long-term investments	136,703	128,895
Repayment of indebtedness	(23,133,173)	(2,633,923)
Long-term debt issued	26,566,900	-
Debt issuance costs	(249,378)	-
Net cash provided by financing activities	15,031,665	6,167,435
Net increase in cash and cash equivalents	7,251,600	801,397
Cash and cash equivalents, beginning of year	50,417,011	49,615,614
Cash and cash equivalents, end of year	$ 57,668,611	$ 50,417,011

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 600 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, currently at rates ranging from 0.72% to 1.41%. 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 and Cash Equivalents

For financial statement purposes, the College considers all investments (not held for long-term investment) with original maturities of three months or less as cash equivalents. The College maintains cash in bank accounts, which at times may exceed federally insured limits. The College has not experienced any losses on such accounts. The College believes that it is not exposed to any significant credit risk on cash and cash equivalents.

Inventories

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

Loans

The College makes uncollateralized loans to students based on financial need. At June 30, 2013 and 2012, student loans totaled $1,329,093 (net of $470,000 loan loss reserve) and $1,336,712 (net of $440,000 loan loss reserve), respectively. Of the net loan totals, $1,216,985 and $1,198,342 for June 30, 2013 and 2012, respectively, were funded from institutional resources and the remaining loans were funded through Federal government loan programs. Reserves for loan losses are established when no payments are received for over six months. Loan balances are written off when they are deemed to be permanently uncollectible.

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 straight-line method based on the following composite depreciation guidelines:

Buildings and additions	30 - 75 years
Building improvements and renovations	15 - 30 years
Furniture, equipment and books	3 - 10 years

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

	2013	2012
Educational and general purposes	$ 6,140,478	$6,013,304
Student industries	739,976	670,461
	$6,880,454	$6,683,765

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.

	2013	2012
Interest	$2,157,019	$2,215,243
Depreciation	6,880,454	6,683,765
Plant Operations	6,514,878	6,618,908

Reclassification

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 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, 2013	June 30, 2012
Endowment and Tuition Replacement:		
Pooled Investments -		
U. S. equities	$ 218,977,400	$ 225,550,600
International equities	293,918,000	253,397,000
Corporate notes and bonds	59,408,800	60,445,700
U. S. Government securities	81,689,100	63,819,100
Private equity - venture capital	2,828,600	4,660,500
Private equity - buy out	48,967,700	40,547,300
Private equity - debt funds	6,339,700	9,061,300
Private equity - fund of funds	18,927,400	24,467,000
Hedge funds	164,998,600	149,575,300
Special opportunities	2,796,900	-
Commodities	54,506,400	49,878,900
Real estate	40,700	12,026,900
Short-term investments and cash	54,368,400	44,399,000
Total	1,007,767,700	937,828,600
Non Pooled Investments -		
U. S. equities	74,100	38,000
Corporate notes and bonds	7,200	5,100
Real estate	2,707,300	2,876,900
Short-term investments and cash	1,844,800	1,869,400
Total	4,633,400	4,789,400
Total endowment and tuition replacement	1,012,401,100	942,618,000
Annuity and Life Income:		
U. S. equities	9,441,300	8,724,900
International equities	5,162,600	4,961,500
Corporate notes and bonds	3,558,200	3,487,100
U. S. Government securities	3,401,500	3,336,100
International bonds	1,311,800	1,280,400
Real estate	3,391,100	3,329,000
Insurance policies	107,100	79,600
Short-term investments and cash	416,900	414,600
Total annuity and life income	26,790,500	25,613,200
Funds Held in Trust by Others, where Berea College receives all or a stipulated percent of income	25,347,000	23,708,800
Total long-term investments	$ 1,064,538,600	$ 991,940,000

(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.

A weighted-average endowment spending formula was adopted by the Board of Trustees effective July 1, 2011. Under the new formula, the amount available for spending per unit from the pooled endowment funds is calculated by increasing the prior year's spendable return by the annual change in the Consumer Price Index for all Urban Consumers compiled by the U. S. Department of Labor, Bureau of Labor Statistics (CPI) for the previous twelve month period plus 0.5% multiplied by a weighting factor of 70%. Added to this amount is 5% of the average market value of the pooled investments for the immediately preceding 6 calendar quarters multiplied by a weighting factor of 30%. To help maintain intergenerational equity and ensure a prudent level of spending, if the endowment spendable return calculated under this formula is less than 4.0% or more than 6.0% of the prior June 30 market value of the pooled endowment, the Board of Trustees determines whether to make any adjustments to the endowment spendable return.

In order to provide a stable transition from the previous spending formula, the endowment spendable return for the adoption year (2011-2012) of the weighted average formula was adjusted to yield approximately the same amount as would have been generated from the previous formula based on an assumed 8.2% investment return for the year ended June 30, 2011.

For 2013 and 2012, spendable return under the formulas amounted to $44,902,805 and $43,000,120, respectively. In 2013, actual cash income earned on pooled investments, net of $1,636,427 for investment management and custodial fees, amounted to $20,253,948, or $24,648,857 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 $19,039 in 2013 and $13,828 in 2012, while the market value of these investments of $4,633,400 at June 30, 2013 and $4,789,400 at June 30, 2012 increased by $176,725 in 2013 and increased by $3,737 in 2012. Additions to non-pooled endowment investments during 2013 and 2012 amounted to $7,275 and $372,263, respectively. Transfers from non-pooled investments to pooled investments amounted to $340,000 in 2013.

Dividend and interest income of $20,272,987 and $15,986,973 reported net of external investment manager fees of $1,636,427 and $1,982,701 is included in the statements of activities for the years ended June 30, 2013 and 2012, respectively.

(2) LONG-TERM INVESTMENTS (continued)

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.

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

(2) LONG-TERM INVESTMENTS (continued)

During 2013, the unit value of pooled investments changed as follows:

	2012-13				2011-12
	Market Value	Number of Units	Value Per Unit	Time Weighted Return Net of Fees	Market Value
Beginning Balance	$ 937,828,600	722,362.975	$ 1,298.279		$ 974,321,500
Market price change	87,733,231		121.196	9.3%	(19,037,942)
Net income earned	20,253,948		28.038	2.2%	15,973,145
Spendable return	(44,902,805)		(62.161)	-	(43,000,120)
	63,084,374		87.073	11.5%	(46,064,917)
Additions	6,854,726	5,082.063	-		9,572,017
Ending Balance	$ 1,007,767,700	727,445.038	$ 1,385.352		$ 937,828,600

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

	2013	2012
Pooled Investments -		
Cash income, net	$ 20,253,948	$ 15,973,145
Market price incrtease (decrease)	87,733,231	(19,037,942)
Non-Pooled Investments -		
Cash income	19,039	13,828
Market price increase	176,725	3,737
Total Return	$ 108,182,943	$ (3,047,232)
Distributed to -		
Unrestricted Net Assets		
Spendable return	$ 40,317,730	$ 37,401,970
Long-term investments	31,565,975	(23,032,383)
Temporarily Restricted Net Assets		
Spendable return	4,467,411	5,483,083
Investment return (less) more than amounts designated for current operations	31,695,124	(23,028,797)
Permanently Restricted		
Restricted earnings	136,703	128,895
Total	$ 108,182,943	$ (3,047,232)

NOTES TO FINANCIAL STATEMENTS

(2) LONG-TERM INVESTMENTS (continued)

Endowment Investments Net Asset Composition by Type of Fund
as of June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (4,238,635)	$ 331,227,768	$ 237,364,967	$ 564,354,100
Board-designated endowment funds	448,047,000	-	-	448,047,000
	$ 443,808,365	$ 331,227,768	$ 237,364,967	$ 1,012,401,100

Changes in Endowment Investments Net Assets
for the Fiscal Year Ended June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment investments net assets, beginning of year	$ 408,245,844	$ 299,517,552	$ 234,854,604	$ 942,618,000
Investment return:				
Investment income	20,272,987	-	-	20,272,987
Net appreciation (realized and unrealized)	42,415,579	45,494,377	-	87,909,956
Total investment return	62,688,566	45,494,377	-	108,182,943
Contributions	-	-	1,415,027	1,415,027
Other restricted additions	-	15,092	1,095,336	1,110,428
Board designated additions	3,996,546	-	-	3,996,546
Appropriation of endowment assets for expenditure	(31,122,591)	(13,799,253)	-	(44,921,844)
Endowment investments net assets, end of year	$ 443,808,365	$ 331,227,768	$ 237,364,967	$ 1,012,401,100

NOTES TO FINANCIAL STATEMENTS

(2) LONG-TERM INVESTMENTS (continued)

Endowment Investments Net Asset Composition by Type of Fund as of June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (7,903,956)	$ 299,517,552	$ 234,854,604	$ 526,468,200
Board-designated endowment funds	416,149,800	-	-	416,149,800
	$ 408,245,844	$ 299,517,552	$ 234,854,604	$ 942,618,000

Changes in Endowment Investments Net Assets for the Fiscal Year Ended June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment investments net assets, beginning of year	$ 425,417,989	$ 322,532,365	$ 230,784,546	$ 978,734,900
Investment return:				
Investment income	15,986,973	-	-	15,986,973
Net depreciation (realized and unrealized)	(11,172,958)	(7,861,247)	-	(19,034,205)
Total investment return	4,814,015	(7,861,247)	-	(3,047,232)
Contributions	-	-	3,339,463	3,339,463
Other restricted additions	-	13,983	730,595	744,578
Board designated additions	5,860,239	-	-	5,860,239
Appropriation of endowment assets for expenditure	(27,846,399)	(15,167,549)	-	(43,013,948)
Endowment investments net assets, end of year	$ 408,245,844	$ 299,517,552	$ 234,854,604	$ 942,618,000

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, 2013, the College has approximately 4,800 individual endowment funds of which approximately 2,000 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, 2013:

	June 30, 2013 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	$ 1,012,401,100	$ 664,561,019	$ 97,920,066	$ 249,920,015
Other investments	100,000	-	100,000	-
Funds held in trust by others	25,347,000	-	-	25,347,000
Split-interest agreements	26,790,500	-	-	26,790,500
Total assets	$ 1,064,638,600	$ 664,561,019	$ 98,020,066	$ 302,057,515
Liabilities				
Split-interest agreement liability	$ 11,510,900	$ -	$ -	$ 11,510,900
Interest rate swap agreements	4,487,800	-	4,487,800	-
Asset retirement obligation	647,554	-	-	647,554
Total liabilities	$ 16,646,254	$ -	$ 4,487,800	$ 12,158,454

(3) FAIR VALUE MEASUREMENTS (continued)

Level 3 Reconciliation

	Balances June 30, 2012	Net realized and unrealized gains and losses included in change in net assets	Purchases, sales, issuances and settlement, net	Net transfers in (out) of Level 3	Balances June 30, 2013
Assets					
Endowment investments	$ 234,454,794	$ 20,819,374	$ (5,354,153)	$ -	$ 249,920,015
Funds held in trust by others	23,708,800	1,638,200	-	-	25,347,000
Split-interest agreements	25,613,200	2,485,439	(1,308,139)	-	26,790,500
Total assets	$ 283,776,794	$ 24,943,013	$ (6,662,292)	$ -	$ 302,057,515
Liabilities					
Split-interest agreement liability	$ 11,632,500	$ (121,600)	$ -	$ -	$ 11,510,900
Asset retirement obligation	632,333	15,221	-	-	647,554
Total liabilities	$ 12,264,833	$ (106,379)	$ -	$ -	$ 12,158,454

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, 2013	$ 3,008,000

The gain of $3,008,000 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, 2012:

	June 30, 2012 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	$ 942,618,000	$ 619,196,679	$ 88,966,527	$ 234,454,794
Other investments	100,000	-	100,000	-
Funds held in trust by others	23,708,800	-	-	23,708,800
Split-interest agreements	25,613,200	-	-	25,613,200
Total assets	$ 992,040,000	$ 619,196,679	$ 89,066,527	$ 283,776,794
Liabilities				
Split-interest agreement liability	$ 11,632,500	$ -	$ -	$ 11,632,500
Interest rate swap agreements	7,526,400	-	7,526,400	-
Asset retirement obligation	632,333	-	-	632,333
Total liabilities	$ 19,791,233	$ -	$ 7,526,400	$ 12,264,833

(3) FAIR VALUE MEASUREMENTS (continued)

	Balances June 30, 2011	Net realized and unrealized gains and losses included in change in net assets	Purchases, sales, issuances and settlement, net	Net transfers in (out) of Level 3	Balances June 30, 2012
Assets					
Endowment investments	$ 244,419,535	$ 2,506,257	$ (12,470,998)	$ -	$ 234,454,794
Funds held in trust by others	24,424,000	(715,200)	-	-	23,708,800
Split-interest agreements	27,643,400	(488,239)	(1,541,961)	-	25,613,200
Total assets	$ 296,486,935	$ 1,302,818	$ (14,012,959)	$ -	$ 283,776,794
Liabilities					
Split-interest agreement liability	$ 12,453,900	$ (821,400)	$ -	$ -	$ 11,632,500
Asset retirement obligation	610,241	22,092	-	-	632,333
Total liabilities	$ 13,064,141	$ (799,308)	$ -	$ -	$ 12,264,833

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, 2012	$ (12,884,300)

The loss of $12,884,300 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.

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 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 called 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.

On March 29, 2013, the College completed the process of novating these interest rate swaps with UBS AG and entered into new agreements with a different counterparty, The Bank of New York Mellon. UBS AG paid all fees and expenses required to consummate the novation. At the time of the novation, UBS AG had a Moody's long-term debt rating of A2 and The Bank of New York Mellon had a long-term debt rating of Aa3. The terms of the new agreements are the same as the old agreements with the exception of an increase in the collateral posting threshold. If the fair market value of the interest rate swaps results in an estimated liability in excess of $10,000,000, the College must post collateral with the counterparty, The Bank of New York Mellon. Conversely, if the fair market value of the interest rate swaps results in an estimated asset in excess of $10,000,000, the counterparty must post collateral with the College. The collateral posting threshold was $3,000.000 under the prior agreement.

The fair market value of the interest rate swaps was negative $4,487,800 and negative $7,526,400 at June 30, 2013 and 2012, respectively and is included with long-term liabilities in the statements of financial position. The increase in market value of the interest rate swaps of $3,038,600 and the decrease of $4,403,500 have been reflected in the statements of activities in other unrestricted activity for the years ended June 30, 2013 and 2012, respectively. The College had cash collateral posted with the original counterparty in varying amounts prior to the novation in March, 2013. No collateral has been posted with the new counterparty. Collateral in the amount of $0 and $4,700,000 was posted with the counterparty as of June 30, 2013 and 2012, 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 $2,074,297 in 2013 and $1,818,108 in 2012.

(6) PROPERTY, PLANT AND EQUIPMENT

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

Property, Plant and Equipment	2013	2012
Educational property, plant and equipment	$ 188,171,521	$ 183,205,177
Student industry plant and equipment	19,327,423	19,110,325
Rental property	2,591,910	2,538,308
Forest and farms	1,511,381	1,250,902
Collections and works of art	4,097,531	4,097,531
Construction in process	15,851,940	2,970,008
Less accumulated depreciation	(79,048,854)	(72,206,688)
	$ 152,502,852	$ 140,965,563

(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 2013 and 2012 accounting for costs associated with asbestos abatement is as follows:

	2013	2012
Beginning balance	$ 632,333	$ 610,241
Accretion expense	23,490	23,442
Liabilities settled during the year	(8,269)	(1,350)
Ending balance	$ 647,554	$ 632,333

NOTES TO FINANCIAL STATEMENTS

(8) LONG-TERM DEBT

	June 30, 2013	June 30, 2012
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2002A - Issued August 29, 2002; due June 1, 2032; variable interest rate, 0.05% as of June, 2013 with synthetic fixed rate of 3.45%; proceeds used for various capital projects	$ 13,260,000	$ 13,800,000
Educational Facilities Revenue Refunding Bonds, Series 2003A - Issued July 8, 2003; 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	-	17,115,000
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2003B - Issued December 11, 2003; annual payments through June 1, 2029; variable interest rate, 0.05% as of June, 2013 with synthetic fixed rate of 3.746%; proceeds used for various capital projects	7,610,000	7,950,000
Educational Facilities Revenue Bonds, Series 2005A - Issued September, 2005; 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	7,030,000	7,305,000
Industrial Building Revenue Bonds, Series 2008 - Issued July, 2008; private bank placement 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	-	3,336,711
Industrial Building Revenue Refunding Bonds, Series 2010 - Issued December, 2010; private bank placement through JP Morgan Chase Bank, National Association; annual payments through June 1, 2020 at fixed 2.25% rate; proceeds used for refunding Series 1997, 1998 and 2000 bonds	4,950,000	5,780,000
Industrial Building Revenue and Revenue Refunding Bonds, Series 2012 - Issued September, 2012; private bank placement through PNC Bank, National Association; monthly payments at fixed rate of 1.58% through September 21, 2022; proceeds used for construction of new residence hall and refunding of Series 2008 bonds.	9,303,538	-
Educational Facilities Revenue Refunding Bonds, Series 2012 - Issued December, 2012; private bank placement through Fifth Third Bank; annual payments at fixed rate of 1.58% through June 1, 2024; proceeds used for refunding Series 2003A bonds.	7,621,900	-
Educational Facilities Revenue Refunding Bonds, Series 2013 - Issued April, 2013; annual payments through June 1, 2033; at rates from 1.25% to 3.00% with 2.74% average coupon; proceeds used for refunding 2003A bonds.	8,945,000	-
	58,720,438	55,286,711
Less current portion	3,119,441	2,187,069
	$ 55,600,997	$ 53,099,642

(8) LONG-TERM DEBT (continued)

Principal payments on long-term debt are required to be made in each of the following fiscal years: $3,119,441 in 2014; $3,247,704 in 2015; $3,349,366 in 2016; $3,446,301 in 2017; $3,312,784 in 2018 and $42,244,842 in subsequent years thereafter.

Industrial Building Revenue and Revenue Refunding Bonds, Series 2012, were issued September 21, 2012, as a private bank placement through PNC Bank, National Association. The $10,000,000 proceeds were used for the construction of a new residence hall ($6.7 million) and to refund the Series 2008 bonds ($3.3 million). Interest incurred during construction of $77,054, net, was capitalized. The Series 2008 bonds, privately placed through Branch Banking and Trust Company, were fully refunded on September 21, 2012, in the amount of $3,288,456. Educational Facilities Revenue Refunding Bonds, Series 2012, were issued December 27, 2012, as a private bank placement through Fifth Third Bank. The $7,621,900 proceeds were used for refunding the Series 2003A bonds. Educational Facilities Revenue Refunding Bonds, Series 2013, were issued April 10, 2013, as a public bond offering. The $8,945,000 proceeds were used for refunding the Series 2003A bonds. The Series 2003A bond issue was called on June 3, 2013, at par.

The fair value of the College's long-term debt at June 30, 2013 was estimated to be approximately $57,744,000 based upon rates available to the College for debt with similar terms and remaining maturities.

Cash payments for interest amounted to $2,243,035 in 2013 and $2,218,107 in 2012.

(9) CONTRIBUTIONS RECEIVABLE AND BEQUESTS IN PROBATE

	June 30, 2013 Total	Due In One Year or Less	Due In One Year to Five Years	Due In Over Five Years	June 30, 2012 Total
Unconditional Promises for -					
Unrestricted [1]	$ 650,600	$ 325,600	$ 325,000	$ -	$ -
Restricted [2]	4,004,984	2,131,009	1,873,975	-	1,326,062
Buildings and equipment [3]	8,519,690	8,515,600	2,400	1,690	12,446,426
Endowment	34,500	18,500	16,000	-	10,000
Reserve for unfulfilled promises	(3,519)	(2,166)	(1,302)	(51)	(2,457)
Total	13,206,255	10,988,543	2,216,073	1,639	13,780,031
Bequests in Probate	3,283,449	1,769,117	1,514,332	-	3,440,710
External Charitable Remainder Trusts*	3,245,101	-	-	3,245,101 *	885,099
Charitable Lead Trusts	757,312	68,278	245,184	443,850	825,590
Total	$ 20,492,117	$ 12,825,938	$ 3,975,589	$ 3,690,590	$ 18,931,430
Present Value of Estimated Future Cash Flows	$ 20,320,568	$ 12,825,938	$ 3,875,888	$ 3,618,742	$ 18,786,352

[1] June 30, 2013 balance includes $600,000 commitment from an external charitable trust ($300,000 due in one year or less, $300,000 due in one year to five years).

[2] June 30, 2013 balance includes $3,992,484 commitment from an external charitable trust ($2,118,509 due in one year or less, $1,873,975 due in one year to five years).

[3] June 30, 2013 balance includes $8,500,000 commitment from an external charitable trust (due in one year or less).

* 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, 2013, the College was committed under various contracts with alternative investment managers to fund $37,677,515 of capital calls for these 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 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	$ 478,475
Buy out	6,132,609
Debt fund	1,661,353
Fund of funds	22,205,078
Special opportunities	7,200,000
Total	$ 37,677,515

The College has purchase commitments relating to construction projects of approximately $16,069,000 as of June 30, 2013.

(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.

NOTES TO FINANCIAL STATEMENTS

(12) NET ASSETS RELEASED FROM RESTRICTIONS

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

	2013	2012
Purpose Restricted Contributions for -		
Instruction	$ 1,589,278	$ 1,397,242
Public service	1,816,490	754,583
Academic support	978,927	1,134,907
Student services	140,033	273,144
Residence halls	211,917	-
Student aid	2,818,568	2,689,564
Support services	296,674	39,716
Plant operations	210,181	299,099
	$ 8,062,068	6,588,255
Time-Restricted Contributions - Amortization of Restricted Gifts to Acquire Long-Lived Assets	1,233,876	1,187,517
Total Net Assets Released from Restriction	$ 9,295,944	$ 7,775,772
Matured Annuity and Life Income Contracts -		
Temporarily Restricted Agreements Reclassified to Tuition Replacement Funds in Unrestricted Net Assets	$ 296,114	$ 856,185

(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 2010.

(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 9, 2013, 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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