Berea College

Financial Statements

for the Year Ended June 30, 2014

Board of Trustees

Officers

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HIGHLIGHTS

	As of or for the Year Ended June 30, 2014	2013
OPERATING REVENUE	$ 97,406,255	$ 99,924,077
OPERATING EXPENSES	$ 92,334,385	$ 93,626,781
OPERATING REVENUE IN EXCESS OF OPERATING EXPENSES	$ 5,071,870	$ 6,297,296
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	$ 15,994,391	$ 18,494,889
LONG-TERM INVESTMENTS OF THE ENDOWMENT AND TUITION REPLACEMENT FUNDS		
Original gift value	$ 465,009,294	$ 450,938,884
Investments at market	$ 1,137,222,000	$ 1,012,401,100
Interest and dividends, net	$ 20,012,150	$ 20,272,987
Return	2.0%	2.2%
Market price increase	$ 137,709,244	$ 87,909,956
Return	13.7%	9.3%
Total return	$ 157,721,394	$ 108,182,943
Percent - time weighted	15.7%	11.5%
CASH AND IN-KIND CONTRIBUTIONS		
Cash gifts	$ 25,770,719	$ 16,409,256
Bequests	6,684,185	4,830,240
Total cash gifts	32,454,904	21,239,496
Gifts-in-kind	59,409	18,504
Total	$ 32,514,313	$ 21,258,000

REPORT OF THE VICE PRESIDENT FOR FINANCE

September, 2014

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

The past year has been extremely busy in many ways. Probably the most visible activity on campus has been the numerous construction projects. In August, 2013 Berea College officially opened one of the most sustainable residence halls in the nation. Although the weather on opening day was a bit dreary, there remained a lot of excitement and energy for the new Deep Green Residence Hall. Residents and parents were welcomed to campus by members of Deep Green Hall Staff who also gave tours and demonstrated the unique features of the building. With stunning architecture and inviting interior spaces, the building is one of Berea's leading examples of sustainability. Intentional programmatic efforts and environmentally-focused design provide residents with an exceptional living and learning community. The building successfully achieved LEED Platinum Certification and was also awarded the "Project of the Year" at the Build Kentucky Awards in April, 2014.

During the year the College was able to make significant progress on the renovation of Anna Smith Residence Hall and Knapp Hall and opened both buildings in August, 2014. Other major projects included renovation of the Alumni Building kitchen, expansion of the Legacy Wall, and the start of Dana Hall renovation. Dana Hall is scheduled to open in August, 2015. Planning for the new Natural Sciences and Health Building continues.

Approximately 100 volunteers from the campus community participated throughout the year in the *Exploring the Commitments* initiative generated by President Roelofs. This initiative provided an opportunity for the community to engage in a series of conversations to deepen the understanding of Berea's noble mission; better embrace the College's unique identity; and enhance Berea's capability to realize and communicate the Great Commitments. This initiative is on-going and is scheduled to continue for the rest of this year.

From a financial perspective, the market value of the College's endowment ended at the highest fiscal year end level in the history of the College at $1,137.2 million. The one-year market value increase of $137.7 million (excluding endowment spending and additions) was the fourth largest fiscal year market value increase in the endowment.

Fundraising during 2014 improved from the 2013 levels. The dollar amount of gifts received was $32.5 million compared to $21.2 million in 2013 and was the second highest year in the history of the College. Not only did the dollar amount of gifts increase, the number of gifts increased from 15,516 to 16,306 and the number of donors increased from 9,064 to 9,512. A large external trust donated $17.2 million and $8.3 million in 2014 and 2013, respectively. One of the most exciting giving statistics during the year was an increase in the number of currently enrolled student donors from 86 to 249. Berea Patrons, the College's student-giving program, was awarded Runner-Up 2014 by Generous U. Generous U is a national contest to increase philanthropy and philanthropic values on U.S. college campuses.

The College continues to carry out its first Great Commitment. A recent FORTUNE Magazine article noted that Berea College is the "most affordable" college or university in the nation. The article points out that students and their families can make smart choices so college costs will not overwhelm them. Affordable access to a high-quality education is central to Berea's mission. Also, the *Washington Monthly* named Berea College the nation's third top liberal arts college in its 2014 College Rankings Guide. Berea was so highly ranked because of its success in educating and graduating academically talented, low-income students who become service-oriented leaders in their professions and communities.

Financial Position

The market value of the endowment increased significantly during the year. The endowment increased from $1,012.4 million on June 30, 2013 to $1,137.2 million on June 30, 2014, or $124.8 million. The $1,137.2 million is composed of cumulative original gifts of $465.0 million and cumulative net market appreciation after endowment spending of $672.2 million. The market value of the quasi endowment portion of the investments as of June 30, 2014, was $507.2 million, or 45% of the total endowment investments. The net investment return for the total endowment was 15.7% for the fiscal year ending June 30, 2014. The average annual compound rates of return for the 20-year, 10-year, 5-year and 3-year periods ending June 30, 2014 are 8.7%, 6.6%, 11.6%, and 8.8%, respectively. During the year, $14.1 million was added to the endowment as a result of new gifts, matured split-interest agreements and other additions, and $47.0 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 $1,370.3 million, increasing by $153.3 million or 12.6 percent during the year. This change reflects an increase in the market value of total long-term investments during the year from $1,064.5 million as of June 30, 2013 to $1,194.4 million as of June 30, 2014.

At June 30, 2014, **Total Assets** of the College were $1,454.9 million. Of this amount, long-term investments (including endowment funds, annuity and life income funds and other funds) comprised $1,194.4 million; net property, plant and equipment totaled $161.0 million; and current assets totaled $85.9 million. Long-term contributions receivable and bequests in probate totaled $11.5 million; non-current prepaid expenses totaled $0.9 million; and long-term receivables totaled approximately $1.2 million.

Total Liabilities decreased by $5.0 million from $89.6 million as of June 30, 2013 to $84.6 million as of June 30, 2014. Most of this decrease was due to a $3.7 million decrease in debt coupled with a decrease in accounts payable and accrued expenses.

Concluding Comments

Berea is indeed a wonderful learning community and is fortunate to have such a strong, enthusiastic and caring faculty and staff to nurture its students to their full potential. These promising students, and the alumni they become, so ably demonstrate through their many successes the positive outcomes of a Berea College education. The exceptional leadership of the Board of Trustees, along with the tremendous generosity of Berea's alumni and many friends, sustain the unique Berea mission and ensure the promise of Berea College to future generations. For your role in this mission, whether as student, faculty, staff, alumnus, trustee or friend, we truly thank you.

We look forward to another rewarding year at Berea College and invite you to visit soon. Your presence is always welcome on the campus of Berea College.

Respectfully submitted,

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 Crowe Horwath LLP, 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, 2014 and 2013, and the changes in its net assets and cash flows for the years then ended.

September, 2014

Lyle D. Roelofs
President

Jeffrey S. Amburgey
Vice President for Finance

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

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 statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the year 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 audit. 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 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.

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, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Berea College as of June 30, 2013, were audited by other auditors whose report dated September 9, 2013, expressed an unqualified opinion on those statements.

Crowe Horwath LLP

Crowe Horwath LLP

Lexington, Kentucky
September 9, 2014

Berea College

STATEMENTS OF FINANCIAL POSITION

	June 30, 2014	June 30, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 57,833,858	$ 57,668,611
Accrued interest on investments	1,354,349	1,270,160
Accounts receivable - U.S. Government	4,239,650	5,791,545
Other accounts receivable	1,016,834	1,078,295
Inventories	1,278,425	1,322,703
Prepaid expenses and other assets	405,260	71,950
Contributions receivable and bequests in probate	19,808,823	12,825,938
Total current assets	85,937,199	80,029,202
PREPAID EXPENSES AND OTHER ASSETS	905,317	930,297
CONTRIBUTIONS RECEIVABLE AND BEQUESTS IN PROBATE	11,511,121	7,494,630
LONG-TERM RECEIVABLES		
Institutional student loans	1,097,843	931,985
Federal student loans	83,507	112,108
Total long-term receivables	1,181,350	1,044,093
LONG-TERM INVESTMENTS		
Donor-restricted endowment	629,978,200	564,354,100
Tuition replacement	507,243,800	448,047,000
Annuity and life income	28,832,700	26,790,500
Funds held in trust by others	28,378,000	25,347,000
Total long-term investments	1,194,432,700	1,064,538,600
NET PROPERTY, PLANT AND EQUIPMENT	160,952,695	152,502,852
Total assets	$ 1,454,920,382	$ 1,306,539,674

See notes to financial statements.

Berea College

STATEMENTS OF FINANCIAL POSITION

LIABILITIES AND NET ASSETS	June 30, 2014	June 30, 2013
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 6,454,260	$ 8,333,806
Capital expenditure accounts payable	1,515,918	1,526,226
Accrued salaries and wages	3,441,131	3,099,511
Deposits and agency funds	592,563	553,618
Deferred income	139,648	122,600
Current portion of interest rate swap valuation	861,082	879,437
Current maturities of long-term debt	3,247,704	3,119,441
Total current liabilities	16,252,306	17,634,639
LONG-TERM LIABILITIES		
Actuarial liability for annuities payable and other liabilities	12,803,886	12,724,070
Interest rate swap valuation	3,808,718	3,608,363
Long-term debt	51,796,013	55,600,997
Total long-term liabilities	68,408,617	71,933,430
Total liabilities	84,660,923	89,568,069
NET ASSETS		
Unrestricted -		
For current operations	99,025	98,178
Designated for specific purposes	43,843,955	42,906,205
Invested in property, plant and equipment	55,064,500	54,632,630
Support of future operations from:		
Contributions receivable and bequests in probate	7,468,010	4,816,539
Donor-restricted endowment funds	(985,818)	(4,238,635)
Tuition replacement funds	507,243,800	448,047,000
Total unrestricted	612,733,472	546,261,917
Temporarily restricted -		
Unexpended contributions restricted for operations	15,879,150	15,580,207
Unexpended contributions restricted for plant renewals and replacement	16,949,052	9,207,396
Annuity and life income contracts	7,184,165	6,263,925
Expended contributions for long-lived assets being amortized	42,582,946	30,888,252
Donor-restricted endowment funds	389,908,276	331,227,768
Total temporarily restricted	472,503,589	393,167,548
Permanently restricted -		
Loan funds	2,840,194	2,803,301
Annuity and life income contracts	10,138,435	9,015,675
Contributions receivable and bequests in probate	2,610,027	3,011,197
Funds held in trust by others	28,378,000	25,347,000
Donor-restricted endowment funds	241,055,742	237,364,967
Total permanently restricted	285,022,398	277,542,140
Total net assets	1,370,259,459	1,216,971,605
Total liabilities and net assets	$ 1,454,920,382	$ 1,306,539,674

See notes to financial statements.

STATEMENTS OF ACTIVITIES

Changes in Unrestricted Net Assets

	Year Ended June 30, 2014	2013
OPERATING REVENUE		
Spendable return from long-term investments	$ 42,158,019	$ 40,317,730
Gifts and donations	4,914,891	5,920,232
Federal grants	22,117,583	27,153,326
Cost of education fees paid by federal and state scholarships	3,900,000	3,900,000
Fees paid by students	1,834,000	1,653,580
Other income	2,785,402	3,078,371
Residence halls and dining service	8,099,401	8,007,489
Student industries and rentals	4,501,355	4,569,593
Net assets released from restrictions	11,340,438	9,295,944
Gross operating revenue	101,651,089	103,896,265
Less: Student aid	(4,244,834)	(3,972,188)
Net operating revenue	97,406,255	99,924,077
OPERATING EXPENSES		
Program Services -		
Instruction	23,791,733	24,453,205
Public service	20,049,798	23,971,488
Academic support	9,349,774	8,071,805
Student services	9,883,033	9,795,691
Residence halls and dining service	8,557,737	8,348,819
Student industries and rentals	5,437,084	5,153,910
Total Program Services	77,069,159	79,794,918
Support Services, including fund raising expense of $3,536,949 in 2014 and $3,419,068 in 2013	15,265,226	13,831,863
Total operating expenses	92,334,385	93,626,781
Operating revenue in excess of operating expenses	5,071,870	6,297,296
OTHER UNRESTRICTED ACTIVITY		
Gain (loss) on sale of property, plant and equipment	49,813	(45,961)
(Loss) gain on valuation of interest rate swaps	(182,000)	3,038,600
Reclassification of net assets	1,110,461	-
Total other unrestricted activity	978,274	2,992,639
REVENUES DESIGNATED FOR LONG-TERM INVESTMENT		
Unrestricted bequests	7,971,188	3,343,244
Matured annuity and life income contracts	363,819	296,114
Investment return more than amounts designated for current operations	52,086,404	31,565,975
Total increase in revenues designated for long-term investment	60,421,411	35,205,333
Increase in unrestricted net assets	$ 66,471,555	$ 44,495,268

See notes to financial statements.

STATEMENTS OF ACTIVITIES

Changes in Total Net Assets

	Year Ended June 30, 2014	2013
UNRESTRICTED NET ASSETS		
Operating revenue in excess of operating expenses	$ 5,071,870	$ 6,297,296
Other unrestricted activity	978,274	2,992,639
Increase in revenues designated for long-term investment	60,421,411	35,205,333
Increase in unrestricted net assets	66,471,555	44,495,268
TEMPORARILY RESTRICTED NET ASSETS		
Restricted gifts and donations	27,823,427	9,365,821
Restricted spendable return on endowment investments	4,667,620	4,467,411
Investment return more than amounts designated for current operations	58,664,086	31,695,124
Net adjustment of annuity payment and deferred giving liability	1,200,447	681,780
Reclassification of net assets released from restrictions	(11,340,438)	(9,295,944)
Reclassification of matured annuity and life income contracts to revenues designated for long-term investment	(363,819)	(296,114)
Reclassification of net assets	(1,315,282)	(300,107)
Increase in temporarily restricted net assets	79,336,041	36,317,971
PERMANENTLY RESTRICTED NET ASSETS		
Gifts and donations	2,804,182	4,162,919
Restricted return on endowment investments	145,265	136,703
Restricted capital gain on funds held in trust by others	3,031,000	1,638,200
Net adjustment of annuity payment and deferred giving liability	1,294,990	1,072,806
Reclassification of net assets	204,821	300,107
Increase in permanently restricted net assets	7,480,258	7,310,735
Total increase in net assets	153,287,854	88,123,974
NET ASSETS		
Beginning of year	1,216,971,605	1,128,847,631
End of year	$ 1,370,259,459	$ 1,216,971,605

See notes to financial statements.

STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2014	Year Ended June 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 153,287,854	$ 88,123,974
Adjustments to reconcile increase in net assets to net cash used in operating activities -		
Realized and unrealized gains on long-term investments	(144,569,897)	(92,033,595)
Restricted return on endowment funds	(145,265)	(136,703)
Gifts and bequests for financing activities	(21,705,234)	(11,710,613)
Increase in contributions receivable and bequests in probate	(10,999,376)	(1,534,216)
Gift value of annuity contracts written	(264,111)	(524,448)
Depreciation	7,537,619	6,880,454
(Gain) loss on sale of property, plant and equipment	(49,813)	45,961
Loss (gain) on revaluation of interest rate swaps	182,000	(3,038,600)
Decrease (increase) in other current assets	1,240,135	(1,756,072)
Decrease in non-current prepaid expenses and other assets other than cash payments for debt issuance costs	24,980	283,737
(Decrease) increase in current liabilities other than capital expenditure accounts payable and current maturities of long-term debt	(1,481,933)	646,567
Increase in actuarial annuity payment liability and other liabilities	79,816	70,479
Net cash used in operating activities	(16,863,225)	(14,683,075)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities held for long-term investment	(273,009,512)	(456,153,353)
Proceeds from sales and maturities of investments	287,949,420	476,112,796
Cash collateral returned under interest rate swap agreements	-	4,700,000
Purchase of property, plant and equipment	(15,994,391)	(18,494,889)
(Decrease) increase in capital expenditure accounts payable	(10,308)	719,652
Proceeds from sale of property, plant and equipment	56,742	31,185
Increase in long-term student loans	(137,257)	(12,381)
Net cash (used in) provided by investing activities	(1,145,306)	6,903,010
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts and bequests received for -		
Long-term investment	8,029,006	5,115,460
Property, plant and equipment	13,676,003	6,594,753
Student loans	225	400
Endowment return restricted for long-term investments	145,265	136,703
Repayment of indebtedness	(3,676,721)	(23,133,173)
Long-term debt issued	-	26,566,900
Debt issuance costs	-	(249,378)
Net cash provided by financing activities	18,173,778	15,031,665
Net increase in cash and cash equivalents	165,247	7,251,600
Cash and cash equivalents, beginning of year	57,668,611	50,417,011
Cash and cash equivalents, end of year	$ 57,833,858	$ 57,668,611

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. Unrestricted net assets may be designated by the Board of Trustees.

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 fully met in the same fiscal year they are recognized 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 1.62%. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

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

NOTES TO FINANCIAL STATEMENTS

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

All contributions of works of art, historical treasures and similar assets, whether held as part of a collection (for education, research or public exhibition rather than for sale) or for sale or other purposes, have been recognized at their estimated fair value at the date of receipt based upon appraisals or similar valuations. All such items, whether contributed or purchased, have been capitalized.

Cash 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 riskon cash and cash equivalents.

Inventories

Inventories are stated at the lower of cost (weighted average) or market.

Loans

The College makes uncollateralized loans to students based on financial need. At June 30, 2014 and 2013, student loans totaled $1,441,350 (net of $490,000 loan loss reserve) and $1,329,093 (net of $470,000 loan loss reserve), respectively. Of the net loan totals, $1,357,842 and $1,216,985 for June 30, 2014 and 2013, 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. Recoveries of student loans receivable previously written off are recorded when received.

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. Gains and losses on investments sold are determinedon a specific identification basis.

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 College 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

Cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and deferred income approximate fair value because of their short-term nature. Contributions receivable approximate fair value because of the present value discount included in the carrying amount. Investments are carried at fair value or approximate fair value as discussed in Note 2. The carrying amount of the annuity and trust liabilities approximates fair value based on life expectancies and the present value discount. 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.

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 fair value 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 at the date of acquisition or fair value at the date of the gift, 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	2 - 10 years

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

	2014	2013
Educational and general purposes	$ 6,738,256	$ 6,140,478
Student industries	799,363	739,976
	$ 7,537,619	$ 6,880,454

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.

NOTES TO FINANCIAL STATEMENTS

(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 allrevenues 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.

	2014	2013
Interest	$ 1,790,951	$ 2,157,019
Depreciation	7,537,619	6,880,454
Plant Operations	6,605,877	6,514,878

Reclassification

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 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, 2014	June 30, 2013
Endowment and Tuition Replacement:		
Pooled Investments -		
U. S. equities	$ 252,453,200	$ 218,977,400
International equities	323,783,300	293,918,000
Corporate notes and bonds	66,183,900	59,408,800
U. S. Government securities	76,266,100	81,689,100
Private equity - venture capital	1,514,100	2,828,600
Private equity - buy out	41,802,800	48,967,700
Private equity - debt funds	4,952,700	6,339,700
Private equity - fund of funds	17,449,400	18,927,400
Hedge funds	175,747,000	164,998,600
Special opportunities	16,944,000	2,796,900
Commodities	64,608,400	54,506,400
Real estate	42,300	40,700
Short-term investments and cash	90,825,800	54,368,400
Total	1,132,573,000	1,007,767,700
Non Pooled Investments -		
U. S. equities	84,000	74,100
Corporate notes and bonds	12,400	7,200
Real estate	2,493,300	2,707,300
Short-term investments and cash	2,059,300	1,844,800
Total	4,649,000	4,633,400
Total endowment and tuition replacement	1,137,222,000	1,012,401,100
Annuity and Life Income:		
U. S. equities	9,845,000	9,441,300
International equities	5,749,600	5,162,600
Corporate notes and bonds	4,415,700	3,558,200
U. S. Government securities	2,850,400	3,401,500
International bonds	1,597,900	1,311,800
Real estate	3,814,100	3,391,100
Insurance policies	129,100	107,100
Short-term investments and cash	430,900	416,900
Total annuity and life income	28,832,700	26,790,500
Funds Held in Trust by Others, where Berea College receives all or a stipulated percent of income	28,378,000	25,347,000
Total long-term investments	$ 1,194,432,700	$ 1,064,538,600

(2) LONG-TERM INVESTMENT (continued)

Hedged equity investments are valued using the net asset value ("NAV") per share times the number of units held at year end. The objectives of these funds are to achieve superior risk-adjusted returns with low volatility and low correlation to both the equity and fixed income markets by investing in a diversified group of pooled investment vehicles. These funds generally have quarterly liquidity provisions after minimum holding periods have been achieved. The College has satisfied all minimum holding periods. However, at least one of the funds does have "side-pocket" illiquid investments that do not provide for quarterly liquidity. Full liquidations are generally subject to a 10% hold-back to be received after the following fiscal year-end audit has been completed. The College considers the liquidity provisions when making new hedged equity investments.

Private equity and special opportunity investments are generally made through limited partnerships and may have a partnership life ranging from 5 to 15-year terms. Under the terms of such agreements, the College may be required to provide additional funding when capital calls are made by underlying fund managers. These partnerships have a limited existence, and they may provide for annual extensions for the purpose of disposing of portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, or other factors, a manager may extend or reduce the terms of a fund. The College cannot anticipate such changes because they generally arise from unforeseeable events, but should they occur they could reduce liquidity or originally anticipated investment returns. Accordingly, the timing and amount of capital calls in future years are uncertain. The College invests in multiple private equity and special opportunity funds. The limited partnerships generally invest in the following: (1) buyout funds which invest in more established companies in need of some repair or growth, (2) debt funds which provide lending to companies that are being restructured or re-capitalized, (3) real estate funds which provide capital for new construction, renovation or change in property ownership or management, and (4) venture funds which invest in young companies with varying degrees of infrastructure, revenues and profits.

The College measures the fair value for these investments based on net asset value ("NAV") as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a significantly different value. If not determined as of the College's measurement date, NAV is adjusted to reflect any significant events that would materially affect the security's value. Certain investments are carried at the latest valuation provided by the fund manager, adjusted by cash receipts and cash distributions through June 30, which approximates fair value. Some attributes that impact the security's fair value may not be reflected in NAV, including, but not limited to, the investor's ability to redeem the investment at the measurement date and unfunded purchase commitments. If the College sold all or a portion of its alternative investments, it is reasonably possible that the transaction value could differ significantly from the estimated fair value at the measurement date, because of the nature of the investments, changes in market conditions and the overall economic environment.

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 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.

For 2014 and 2013, spendable return under the formulas amounted to $46,955,123 and $44,902,805, respectively. In 2014, actual cash income earned on pooled investments, net of $1,243,984 for investment management and custodial fees, amounted to $19,996,369, or $26,958,754 less than the spendable return provided by the formula. This difference was provided by the accumulated net appreciation earned on investments.

(2) LONG-TERM INVESTMENT (continued)

The College follows the policy of spending only cash income received on non-pooled endowment investments. Such income amounted to $15,781 in 2014 and $19,039 in 2013, while the market value of these investments of $4,649,000 at June 30, 2014 and $4,633,400 at June 30, 2013 increased by $10,852 in 2014 and $176,725 in 2013. Additions to non-pooled endowment investments during 2014 and 2013 amounted to $4,748 and $7,275, respectively.

Dividend and interest income of $20,012,150 and $20,272,987 reported net of external investment manager fees of $1,243,984 and $1,636,427 is included in the statements of activities for the years ended June 30, 2014 and 2013, 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.

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 its historical book value. The cumulative value of these deficiencies, totaling $985,818 in 2014 and $4,238,635 in 2013, 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 INVESTMENT (continued)

During 2014, the unit value of pooled investments changed as follows:

	2013-14				2012-13
	Market Value	Number of Units	Value Per Unit	Time Weighted Return Net of Fees	Market Value
Beginning Balance	$ 1,007,767,700	727,445.038	$ 1,385.352		$ 937,828,600
Market price change	137,698,392		188.395	13.7%	87,733,231
Net income earned	19,996,369		27.488	2.0%	20,253,948
Spendable return	(46,955,123)		(64.548)	-	(44,902,805)
	110,739,638		151.335	15.7%	63,084,374
Additions	14,065,662	9,577.314	-		6,854,726
Ending Balance	$ 1,132,573,000	737,022.352	$ 1,536.687		$ 1,007,767,700

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

	2014	2013
Pooled Investments -		
Cash income, net	$ 19,996,369	$ 20,253,948
Market price increase	137,698,392	87,733,231
Non-Pooled Investments -		
Cash income	15,781	19,039
Market price increase	10,852	176,725
Total Return	$ 157,721,394	$ 108,182,943
Distributed to -		
Unrestricted Net Assets		
Spendable return	$ 42,158,019	$ 40,317,730
Long-term investments	52,086,404	31,565,975
Temporarily Restricted Net Assets		
Spendable return	4,667,620	4,467,411
Investment return more than amounts designated for current operations	58,664,086	31,695,124
Permanently Restricted		
Restricted earnings	145,265	136,703
Total	$ 157,721,394	$ 108,182,943

(2) LONG-TERM INVESTMENTS (continued)

Endowment Investments Net Asset Composition by Type of Fund
as of June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (985,818)	$ 389,908,276	$ 241,055,742	$ 629,978,200
Board-designated endowment funds	507,243,800	-	-	507,243,800
	$ 506,257,982	$ 389,908,276	$ 241,055,742	$ 1,137,222,000

Changes in Endowment Investments Net Assets
for the Fiscal Year Ended June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment investments net assets, beginning of year	$ 443,808,365	$ 331,227,768	$ 237,364,967	$ 1,012,401,100
Investment return:				
Investment income	20,012,150	-	-	20,012,150
Net appreciation (realized and unrealized)	64,054,169	73,655,075	-	137,709,244
Total investment return	84,066,319	73,655,075	-	157,721,394
Contributions	-	-	3,029,612	3,029,612
Other restricted additions	-	16,422	661,163	677,585
Board designated additions	10,363,213	-	-	10,363,213
Appropriation of endowment assets for expenditure	(31,979,915)	(14,990,989)	-	(46,970,904)
Endowment investments net assets, end of year	$ 506,257,982	$ 389,908,276	$ 241,055,742	$ 1,137,222,000

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

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, 2014, the College has approximately 4,900 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, 2014:

	June 30, 2014 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:				
Short-term investments and cash	$ 92,885,100	$ -	$ 92,885,100	$ -
U.S. equities	252,537,200	252,537,200	-	-
International equities	323,783,300	323,783,300	-	-
Fixed income	142,462,400	91,522,700	50,939,700	-
Private equity	65,719,000	-	-	65,719,000
Hedge funds	175,747,000	-	-	175,747,000
Commodities	64,608,400	64,608,400	-	-
Other endowment investments	19,479,600	-	-	19,479,600
Other investments	100,000	-	100,000	-
Funds held in trust by others	28,378,000	-	-	28,378,000
Split-interest agreements	28,832,700	28,832,700	-	-
Total assets	$ 1,194,532,700	$ 761,284,300	$ 143,924,800	$ 289,323,600
Liabilities				
Interest rate swap agreements	$ 4,669,800	$ -	$ 4,669,800	$ -

(3) FAIR VALUE MEASUREMENTS (continued)

Level 3 Reconciliation

	Balances June 30, 2013	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, 2014
Endowment investments	$ 249,920,000	$ 21,903,997	$ (10,878,397)	$ -	$ 260,945,600
Funds held in trust by others	25,347,000	3,031,000	-	-	28,378,000
Total	$ 275,267,000	$ 24,934,997	$ (10,878,397)	$ -	$ 289,323,600

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, 2014	$ 3,697,600

The gain of $3,697,600 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, 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:				
Short-term investments and cash	$ 56,213,200	$ -	$ 56,213,200	$ -
U.S. equities	219,051,500	219,051,500	-	-
International equities	293,918,000	293,918,000	-	-
Fixed income	141,105,100	97,085,100	41,706,900	2,313,100
Private equity	77,063,400	-	-	77,063,400
Hedge funds	164,998,600	-	-	164,998,600
Commodities	54,506,400	54,506,400	-	-
Other endowment investments	5,544,900	-	-	5,544,900
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	$ 691,351,500	$ 98,020,100	$ 275,267,000
Liabilities				
Interest rate swap agreements	$ 4,487,800	-	$ 4,487,800	-

(3) FAIR VALUE MEASUREMENTS (continued)

	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
Endowment investments	$ 234,454,794	$ 20,819,359	$ (5,354,153)	$ -	$ 249,920,000
Funds held in trust by others	23,708,800	1,638,200	-	-	25,347,000
Total	$ 258,163,594	$ 22,457,559	$ (5,354,153)	$ -	$ 275,267,000

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 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.

Domestic and international equities - Investments in equity mutual funds and equity securities are classified as Level 1 as these funds and securities are traded in active markets for which closing prices are readily available.

Fixed income - Fixed income mutual funds are classified as Level 1 as these funds are traded in an active market for which closing prices are readily available. Separately managed fixed income investments are classified as Level 2 because pricing is based on inputs such as interest rates and credit risk and not from quoted prices in active markets.

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 as discussed in Note 2.

Commodities - Classified as Level 1 as quoted prices from active markets are available for these investments.

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 split-interest agreements in which the College serves as trustee are classified as Level 1 as the underlying assets are invested in publicly traded mutual funds with quoted prices in active markets.

Interest rate swap agreements

Interest rate swap agreements do not have observable market quotes. For these financial instruments the College's swap counterparty, The Bank of New York Mellon, provides an annual valuation using the difference betweeen the fixed rate paid by the College and the counterparty's LIBOR interest rate forecast discounted at the swap yield curve. The model is based on observable inputs for forward interest rates and discount rates. As such, this derivative instrument is classified within Level 2 of the fair value hierarchy.

(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.

As a strategy to mitigate exposure to the risk of interest rate fluctuations, the College entered into an interest rate swap agreement on the Series 2002A bonds during 2004. This interest rate swap has been designated as a cash flow hedge of long-term debt and provides for the College to receive interest from the counterparty at 70% of one-month LIBOR and to pay interest to the counterparty at a fixed rate of 3.45% on a fixed notional amount of $18,110,000. Although there are no required principal payments on the 2002A bonds until the June 1, 2032 final maturity date, optional annual principal payments have reduced the outstanding principal balance to $12,705,000 and $13,260,000 at June 30, 2014 and 2013, respectively. The average rate received from the interest rate swap counterparty during 2014 and 2013 was 0.12% and 0.16%, respectively, and the average interest rate paid by the College for 2014 and 2013 was 3.45%. The interest rate swap matures in 2032. Total net interest expensed during 2014 and 2013 was $603,719 and $598,026, respectively, and is allocated to various expenses by function in the statements of activities. The expected fair value of the swap to be amortized in the next fiscal year is $599,490.

During 2004 the College entered into an additional interest rate swap agreement on the Series 2003B bonds. The interest rate swap has been designated as a cash flow hedge of long-term debt and provides for the College to receive interest from the counterparty at 70% of one-month LIBOR and to pay interest to the counterparty at a fixed rate of 3.746% on a notional amount of $7,260,000 and $7,610,000 at June 30, 2014 and 2013, respectively. The notional amount of the swap agreement amortizes at the same rate as the underlying bond series. The average rate received during from the interest rate swap counterparty during 2014 and 2013 was 0.12% and 0.16%, respectively, and the average interest rate paid by the College for 2014 and 2013 was 3.746%. The interest rate swap matures in 2029. Total net interest expensed during 2014 and 2013 was $275,151 and $285,030, respectively, and is allocated to various expenses by function in the statements of activities. The expected fair value of the swap to be amortized in the next fiscal year is $261,592.

Under the agreements, the College pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The agreements are recorded at fair value with subsequent changes in fair value included in the changes in net assets in the statements of activities. The valuation of the two interest rate swaps at June 30, 2014 and 2013 resulted in a liability of $4,669,800 and $4,487,800, respectively. If the agreements remain in force until maturity, the College's remaining liability related to the swaps would be $0.

NOTES TO FINANCIAL STATEMENTS

(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 $2,183,851 in 2014 and $2,074,297 in 2013.

(6) PROPERTY, PLANT AND EQUIPMENT

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

Property, Plant and Equipment	2014	2013
Educational property, plant and equipment	$ 205,761,915	$ 188,171,521
Student industry plant and equipment	19,397,150	19,327,423
Rental property	2,938,856	2,591,910
Forest and farms	1,850,334	1,511,381
Collections and works of art	4,097,531	4,097,531
Construction in process	13,476,658	15,851,940
Less accumulated depreciation	(86,569,749)	(79,048,854)
	$ 160,952,695	$ 152,502,852

(7) CONDITIONAL ASSET RETIREMENT OBLIGATIONS

Obligations associated with the retirement of long-lived assets are recorded when there is a legal obligation to incur such costs and the fair value of the liability can be reasonably estimated. This amount is accounted for as an additional element of cost and is depreciated over the useful life of the asset. A comprehensive assessment during 2014 resulted in the identification of new estimated liabilities associated with asbestos abatement. As a result, the College recorded a one-time, non-cash charge of $311,981 allocated to various expenses by function in the statements of activities. The College's 2014 and 2013 accounting for costs associated with asbestos abatement is as follows:

	2014	2013
Beginning balance	$ 647,554	$ 632,333
New liabilities identified	349,602	-
Accretion expense	37,635	23,490
Liabilities settled during the year	(37,197)	(8,269)
Ending balance	$ 997,594	$ 647,554

(8) LONG-TERM DEBT

	June 30, 2014	June 30, 2013
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2002A - Issued August 29, 2002; due June 1, 2032; variable interest rate, 0.06% as of June, 2014 with synthetic fixed rate of 3.45%; proceeds used for various capital projects	$ 12,705,000	$ 13,260,000
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2003B - Issued December 11, 2003; annual payments through June 1, 2029; variable interest rate, 0.06% as of June, 2014 with synthetic fixed rate of 3.746%; proceeds used for various capital projects	7,260,000	7,610,000
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	6,740,000	7,030,000
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	4,080,000	4,950,000
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	8,361,999	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	6,981,718	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	8,915,000	8,945,000
	55,043,717	58,720,438
Less current portion	3,247,704	3,119,441
	$ 51,796,013	$ 55,600,997

(8) LONG-TERM DEBT (continued)

Principal payments on long-term debt are required to be made in each of the following fiscal years: $3,247,704 in 2015; $3,349,366 in 2016; $3,446,301 in 2017; $3,312,784 in 2018; $2,753,687 in 2019 and $38,933,875 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, 2014 was estimated to be approximately $54,995,000 based upon rates available to the College for debt with similar terms and remaining maturities.

Cash payments for interest amounted to $1,828,325 in 2014 and $2,243,035 in 2013.

(9) CONTRIBUTIONS RECEIVABLE AND BEQUESTS IN PROBATE

	June 30, 2014 Total	Due In One Year or Less	One Year to Five Years	Over Five Years	June 30, 2013 Total
Unconditional Promises for -					
Unrestricted [1]	$ 325,000	$ 325,000	$ -	$ -	$ 650,600
Restricted [2]	5,328,800	2,699,740	2,629,060	-	4,004,984
Buildings and equipment [3]	16,029,300	13,090,650	2,938,650	-	8,519,690
Endowment	18,000	17,000	1,000	-	34,500
Reserve for unfulfilled promises	(5,740)	(4,010)	(1,730)	-	(3,519)
Total	21,695,360	16,128,380	5,566,980	-	13,206,255
Bequests in Probate	5,666,497	3,612,165	2,054,332	-	3,283,449
External Charitable Remainder Trusts*	3,520,147	-	-	3,520,147	3,245,101
Charitable Lead Trusts	689,034	68,278	217,256	403,500	757,312
Total	$ 31,571,038	$ 19,808,823	$ 7,838,568	$ 3,923,647	$ 20,492,117
Present Value of Estimated Future Cash Flows	$ 31,319,944	$ 19,808,823	$ 7,649,617	$ 3,861,504	$ 20,320,568

[1] June 30, 2014 balance includes $300,000 commitment from an external charitable trust

[2] June 30, 2014 balance includes $5,228,800 commitment from an external charitable trust ($2,649,740 due in one year or less, $2,579,060 due in one year to five years).

[3] June 30, 2014 balance includes $15,981,000 commitment from an external charitable trust ($13,049,000 due in one year or less, $2,932,000 due in one year to five years).

* Discounted beneficial interest in trusts

NOTES TO FINANCIAL STATEMENTS

(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, 2014, the College was committed under various contracts with alternative investment managers to fund $41,762,626 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	$ 393,325
Buy out	6,359,401
Debt fund	1,661,353
Fund of funds	18,602,896
Special opportunities	14,745,651
Total	$ 41,762,626

The College has purchase commitments relating to construction projects of approximately $6,462,000 as of June 30, 2014.

(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 follows:

	2014	2013
Purpose Restricted Contributions for -		
Instruction	$ 1,620,612	$ 1,589,278
Public service	1,837,295	1,816,490
Academic support	1,447,398	978,927
Student services	524,565	140,033
Residence halls	342,239	211,917
Student aid	3,172,037	2,818,568
Support services	992,298	296,674
Plant operations	38,134	210,181
	$ 9,974,578	8,062,068
Time-Restricted Contributions - Amortization of Restricted Gifts to Acquire Long-Lived Assets	1,365,860	1,233,876
Total Net Assets Released from Restriction	$ 11,340,438	$ 9,295,944
Matured Annuity and Life Income Contracts -		
Temporarily Restricted Agreements Reclassified to Tuition Replacement Funds in Unrestricted Net Assets	$ 363,819	$ 296,114

(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 would recognize interest and penalties related to uncertain tax positions in interest and income tax expense, respectively. The College does not have an amount accrued for interest or penalties as of June 30, 2014 or 2013. 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 2011.

(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, 2014, 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.

BEREA COLLEGE

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