Berea College

Financial Statements

for the Year Ended June 30, 2015

Board of Trustees

Officers

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HIGHLIGHTS

	As of or for the Year Ended June 30, 2015	2014
OPERATING REVENUE	$ 107,351,944	$ 97,406,255
OPERATING EXPENSES	$ 97,171,488	$ 92,334,385
OPERATING REVENUE IN EXCESS OF OPERATING EXPENSES	$ 10,180,456	$ 5,071,870
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	$ 15,841,807	$ 15,994,391
LONG-TERM INVESTMENTS OF THE ENDOWMENT		
Original gift value	$ 478,116,120	$ 465,009,294
Investments at market	$ 1,101,475,900	$ 1,137,222,000
Interest and dividends, net	$ 20,084,852	$ 20,012,150
Return	1.8%	2.0%
Market price change	$ (19,128,358)	$ 137,709,244
Return	-1.7%	13.7%
Total return	$ 956,494	$ 157,721,394
Percent - time weighted	0.1%	15.7%
CASH AND IN-KIND CONTRIBUTIONS		
Cash gifts	$ 25,382,806	$ 25,770,719
Bequests	9,212,430	6,684,185
Total cash gifts	34,595,236	32,454,904
Gifts-in-kind	106,862	59,409
Total	$ 34,702,098	$ 32,514,313

REPORT OF THE VICE PRESIDENT FOR FINANCE

September, 2015

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

For several years Berea College has been involved in numerous renovation projects and the 2014-2015 year has been no exception. The recent comprehensive renovation of the Anna Smith residence hall earned Full Project Forest Stewardship Council Chain-of-Custody Certification by Rainforest Alliance. This FSC certification verifies that 100 percent of all wood products used in such construction and building renovations are FSC Certified to meet rigorous standards, such as coming from sustainably managed forests which protect water quality, prohibit harvest of rare old-growth forest, prevent loss of natural forest cover, and prohibit use of highly hazardous chemicals.

The recently-built "Deep Green" residence hall, a LEED Platinum certified building, earned *Living Building Challenge Petal Certification* by meeting all the imperatives in the four petals the College hoped to achieve. In order to meet the Living Building Challenge™ of the International Living Future Institute buildings must meet stringent requirements related to areas called "Petals"—Place, Water, Energy, Health and Happiness, Materials, Equity and Beauty. Berea College focused on the Place, Health, Materials, and Beauty "Petals."

Originally built in 1914, Knapp Hall received LEED Gold Certification for its complete interior renovation and expansion project in 2014. While maintaining most of its original 1914 architecture, introduction of a geothermal HVAC system, energy efficient windows and LED lighting will reduce energy consumption by more than 50%. More importantly, meeting the LEED Pilot Credit for Ergonomic Strategy means the classrooms and offices have been designed and furniture selected to promote health and wellness for our students and faculty.

Throughout the year, construction was underway on the renovation of Dana Hall. Approximately 8,700 square feet of additions were constructed collectively on the east end of the building and onto the second floor perimeter of the two story entry-commons areas on the south side of the building. The project is expected to receive LEED Gold certification. Dana Hall was officially reopened in August, 2015 and occupied by students in the incoming class.

Renovation of Bingham Hall, originally built in 1961, began in May, 2015. The renovation will include an 11,110 square foot addition, bring the building's systems and envelope up-to-date, meet current building codes, and provide students with a safe, comfortable, and energy efficient living space. The project is targeted for LEED Silver certification. Bingham Hall is planned to reopen in August, 2016.

After several years of careful study, in April, 2015 the Investment Committee approved an allocation of endowment investments to an ESG strategy. ESG investing considers environmental, social and governance factors which introduces an extra layer of analysis to the investment process. Integration of ESG factors align with both a long-term time horizon and the College's underlying mission and values. The strategy was implemented in July, 2015.

Fundraising during 2015 improved from the 2014 levels. The dollar amount of gifts received was $34.7 million compared to $32.5 million in 2014. Not only did the dollar amount of gifts increase, the number of gifts increased from 16,306 to 18,785 and the number of donors increased from 9,512 to 9,857. A large external trust donated $16.6 million and $17.2 million in 2015 and 2014, respectively. One of the most exciting giving statistics during the year was the more than 100 percent increase in the number of 'Berea Patrons' (currently enrolled student donors) from 249 to 528. Students are truly demonstrating their understanding of philanthropy.

Financial Position

The market value of the endowment decreased during the year. The endowment decreased from $1,137.2 million on June 30, 2014 to $1,101.5 million on June 30, 2015, or $35.7 million. The $1,101.5 million is composed of cumulative original gifts and other additions of $478.1 million and cumulative net market appreciation after endowment spending of $623.4 million. The market value of the quasi endowment portion of the investments as of June 30, 2015, was $493.5 million, or 45% of the total endowment investments. The net investment return for the total endowment was 0.1% for the fiscal year ending June 30, 2015. The average annual compound rates of return for the 20-year, 10-year, 5-year and 3-year periods ending June 30, 2015 are 8.0%, 5.6%, 9.0%, and 8.9%, respectively. During the year, $13.1 million was added to the endowment as a result of new gifts, matured split-interest agreements and other additions, and $49.8 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 $1,349.3 million, decreasing by $21.0 million or 1.5 percent during the year. This change reflects a decrease in the market value of total long-term investments during the year from $1,194.4 million as of June 30, 2014 to $1,160.8 million as of June 30, 2015.

At June 30, 2015, **Total Assets** of the College were $1,432.8 million. Of this amount, long-term investments (including endowment funds, annuity and life income funds and other funds) comprised $1,160.8 million; net property, plant and equipment totaled $169.0 million; and current assets totaled $90.5 million. Long-term contributions receivable and bequests in probate totaled $10.3 million; non-current prepaid expenses totaled $1.0 million; and long-term receivables totaled approximately $1.2 million.

Total Liabilities decreased by $1.2 million from $84.7 million as of June 30, 2014 to $83.5 million as of June 30, 2015. Most of this decrease was due to a $3.8 million decrease in debt partially offset by an increase in accounts payable and accrued expenses.

Concluding Comments

We continue to remind ourselves amid a busy and often hectic schedule that it is through the support of each of you that we are able to move forward with the important work of the College. Your gifts of time, talents and resources translate to powerful and compelling learning experiences for our students – providing opportunities that open doors of discovery, and transform lives and futures for the better. Those of us on campus are blessed to be able to observe this transformation first hand on a daily basis. We always look forward to your return to Berea whether it is for alumni reunions, trustees meetings, to renew old acquaintances or to make new friends.

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, 2015 and 2014, and the changes in its net assets and cash flows for the years then ended.

September, 2015

Lyle D. Roelofs
President

Jeffrey S. Amburgey
Vice President for Finance

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 statements of financial position as of June 30, 2015 and 2014, 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.

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, 2015 and 2014, 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.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the 2015 and 2014 financial statements as a whole. The accompanying highlights and report of the Vice President for Finance, as noted on the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The 2015 and 2014 highlights and report of the Vice President for Finance has not been subjected to the auditing procedures applied in the audits of the 2015 and 2014 financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Crowe Horwath LLP

Crowe Horwath LLP

Lexington, Kentucky
September 9, 2015

Berea College

STATEMENTS OF FINANCIAL POSITION

	June 30, 2015	June 30, 2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 60,545,253	$ 57,833,858
Accrued interest on investments	531,434	1,354,349
Accounts receivable - U.S. Government	5,929,826	4,239,650
Other accounts receivable	891,982	1,016,834
Inventories	1,263,142	1,278,425
Prepaid expenses and other assets	1,076,287	405,260
Contributions receivable and bequests in probate	20,298,117	19,808,823
Total current assets	90,536,041	85,937,199
PREPAID EXPENSES AND OTHER ASSETS	998,794	905,317
CONTRIBUTIONS RECEIVABLE AND BEQUESTS IN PROBATE	10,246,213	11,511,121
LONG-TERM RECEIVABLES		
Institutional student loans	1,145,220	1,097,843
Federal student loans	60,883	83,507
Total long-term receivables	1,206,103	1,181,350
LONG-TERM INVESTMENTS		
Donor restricted endowment	607,965,700	629,978,200
Board designated endowment	493,510,200	507,243,800
Annuity and life income	26,380,300	28,832,700
Funds held in trust by others	27,996,200	28,378,000
Other investments	4,985,966	-
Total long-term investments	1,160,838,366	1,194,432,700
NET PROPERTY, PLANT AND EQUIPMENT	168,959,139	160,952,695
Total assets	$ 1,432,784,656	$ 1,454,920,382

See notes to financial statements.

Berea College

STATEMENTS OF FINANCIAL POSITION

LIABILITIES AND NET ASSETS	June 30, 2015	June 30, 2014
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 8,496,267	$ 6,454,260
Accounts payable - capital construction projects	1,977,226	1,515,918
Accrued salaries and wages	3,660,671	3,441,131
Deposits and agency funds	626,889	592,563
Deferred income	136,278	139,648
Current portion of interest rate swap valuation	819,688	861,082
Current maturities of long-term debt	3,612,425	3,247,704
Total current liabilities	19,329,444	16,252,306
LONG-TERM LIABILITIES		
Actuarial liability for annuities payable and other liabilities	12,145,818	12,803,886
Interest rate swap valuation	4,388,712	3,808,718
Long-term debt	47,613,587	51,796,013
Total long-term liabilities	64,148,117	68,408,617
Total liabilities	83,477,561	84,660,923
NET ASSETS		
Unrestricted -		
For current operations	99,609	99,025
Designated for specific purposes	46,365,669	43,843,955
Invested in property, plant and equipment	60,153,424	55,064,500
Support of future operations from:		
Contributions receivable and bequests in probate	9,570,154	7,468,010
Donor restricted endowment funds	(2,116,882)	(985,818)
Board designated endowment funds	493,510,200	507,243,800
Total unrestricted	607,582,174	612,733,472
Temporarily restricted -		
Unexpended contributions restricted for operations	16,669,871	15,879,150
Unexpended contributions restricted for plant renewals and replacement	15,020,258	16,949,052
Annuity and life income contracts	6,643,204	7,184,165
Expended contributions for long-lived assets being amortized	49,333,503	42,582,946
Donor restricted endowment funds	363,935,225	389,908,276
Total temporarily restricted	451,602,061	472,503,589
Permanently restricted -		
Loan funds	2,871,762	2,840,194
Annuity and life income contracts	8,854,096	10,138,435
Contributions receivable and bequests in probate	4,253,445	2,610,027
Funds held in trust by others	27,996,200	28,378,000
Donor restricted endowment funds	246,147,357	241,055,742
Total permanently restricted	290,122,860	285,022,398
Total net assets	1,349,307,095	1,370,259,459
Total liabilities and net assets	$ 1,432,784,656	$ 1,454,920,382

See notes to financial statements.

STATEMENTS OF ACTIVITIES

Changes in Unrestricted Net Assets

	Year Ended June 30, 2015	2014
OPERATING REVENUE		
Spendable return from long-term investments	$ 44,688,003	$ 42,158,019
Gifts and donations	6,225,640	4,914,891
Federal grants	25,695,644	22,117,583
Cost of education fees paid by federal and state scholarships	3,700,000	3,900,000
Fees paid by students	1,534,840	1,834,000
Other income	3,707,912	2,785,402
Residence halls and dining service	8,239,186	8,099,401
Student industries and rentals	4,297,454	4,501,355
Net assets released from restrictions	13,609,714	11,340,438
Gross operating revenue	111,698,393	101,651,089
Less: Student aid	(4,346,449)	(4,244,834)
Net operating revenue	107,351,944	97,406,255
OPERATING EXPENSES		
Program Services -		
Instruction	25,256,581	23,791,733
Public service	23,103,573	20,049,798
Academic support	10,048,808	9,349,774
Student services	10,243,966	9,883,033
Residence halls and dining service	8,959,144	8,557,737
Student industries and rentals	5,060,026	5,437,084
Total Program Services	82,672,098	77,069,159
Support Services, including fund raising expense of $4,022,226 in 2015 and $3,536,949 in 2014	14,499,390	15,265,226
Total operating expenses	97,171,488	92,334,385
Operating revenue in excess of operating expenses	10,180,456	5,071,870
OTHER UNRESTRICTED ACTIVITY		
Gain on sale of property, plant and equipment	51,305	49,813
Loss on valuation of interest rate swaps	(538,600)	(182,000)
Reclassification of net assets	-	1,110,461
Total other unrestricted activity	(487,295)	978,274
REVENUES DESIGNATED FOR LONG-TERM INVESTMENT		
Unrestricted bequests	7,519,691	7,971,188
Matured annuity and life income contracts	497,733	363,819
Investment return (less) more than amounts designated for current operations	(22,861,883)	52,086,404
Total (decrease) increase in revenues designated for long-term investment	(14,844,459)	60,421,411
(Decrease) increase in unrestricted net assets	$ (5,151,298)	$ 66,471,555

See notes to financial statements.

STATEMENTS OF ACTIVITIES

Changes in Total Net Assets

	Year Ended June 30, 2015	2014
UNRESTRICTED NET ASSETS		
Operating revenue in excess of operating expenses	$ 10,180,456	$ 5,071,870
Other unrestricted activity	(487,295)	978,274
(Decrease) increase in revenues designated for long-term investment	(14,844,459)	60,421,411
(Decrease) increase in unrestricted net assets	(5,151,298)	66,471,555
TEMPORARILY RESTRICTED NET ASSETS		
Restricted gifts and donations	14,513,942	27,823,427
Restricted spendable return on endowment investments	4,963,764	4,667,620
Investment return (less) more than amounts designated for current operations	(25,991,043)	58,664,086
Net adjustment of annuity payment and deferred giving liability	(118,590)	1,200,447
Reclassification of net assets released from restrictions	(13,609,714)	(11,340,438)
Reclassification of matured annuity and life income contracts to revenues designated for long-term investment	(497,733)	(363,819)
Reclassification of net assets	(162,154)	(1,315,282)
(Decrease) increase in temporarily restricted net assets	(20,901,528)	79,336,041
PERMANENTLY RESTRICTED NET ASSETS		
Gifts and donations	5,667,211	2,804,182
Restricted return on endowment investments	157,653	145,265
Restricted capital (loss) gain on funds held in trust by others	(381,800)	3,031,000
Net adjustment of annuity payment and deferred giving liability	(504,756)	1,294,990
Reclassification of net assets	162,154	204,821
Increase in permanently restricted net assets	5,100,462	7,480,258
Total (decrease) increase in net assets	(20,952,364)	153,287,854
NET ASSETS		
Beginning of year	1,370,259,459	1,216,971,605
End of year	$ 1,349,307,095	$ 1,370,259,459

See notes to financial statements.

STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) increase in net assets	$ (20,952,364)	$ 153,287,854
Adjustments to reconcile (decrease) increase in net assets to net cash used in operating activities -		
Realized and unrealized loss (gain) on long-term investments	19,808,105	(144,569,897)
Restricted return on endowment funds	(157,653)	(145,265)
Gifts and bequests for financing activities	(23,269,336)	(21,705,234)
Decrease (increase) in contributions receivable and bequests in probate	775,614	(10,999,376)
Gift value of annuity contracts written	(462,066)	(264,111)
Depreciation	7,829,945	7,537,619
Gain on sale of property, plant and equipment	(51,305)	(49,813)
Loss on revaluation of interest rate swaps	538,600	182,000
(Increase) decrease in other current assets	(1,398,153)	1,240,135
(Increase) decrease in non-current prepaid expenses and other assets other than cash payments for debt issuance costs	(40,602)	24,980
Increase (decrease) in current liabilities other than capital construction accounts payable and current maturities of long-term debt	2,292,503	(1,481,933)
(Decrease) increase in actuarial annuity payment liability and other liabilities	(658,068)	79,816
Net cash used in operating activities	(15,744,780)	(16,863,225)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities held for long-term investment	(189,164,102)	(273,009,512)
Proceeds from sales and maturities of investments	203,412,397	287,949,420
Purchase of property, plant and equipment	(15,841,807)	(15,994,391)
Increase (decrease) in capital construction accounts payable	461,308	(10,308)
Proceeds from sale of property, plant and equipment	56,723	56,742
Increase in long-term student loans	(24,753)	(137,257)
Net cash used in investing activities	(1,100,234)	(1,145,306)
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts and bequests received for -		
Long-term investment	9,536,375	8,029,006
Property, plant and equipment	13,732,761	13,676,003
Student loans	200	225
Endowment return restricted for long-term investments	157,653	145,265
Repayment of indebtedness	(10,252,705)	(3,676,721)
Long-term debt issued	6,435,000	-
Debt issuance costs	(52,875)	-
Net cash provided by financing activities	19,556,409	18,173,778
Net increase in cash and cash equivalents	2,711,395	165,247
Cash and cash equivalents, beginning of year	57,833,858	57,668,611
Cash and cash equivalents, end of year	$ 60,545,253	$ 57,833,858

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 700 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 1.63%. 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 risk on 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, 2015 and 2014, student loans totaled $1,461,103 (net of $500,000 loan loss reserve) and $1,441,350 (net of $490,000 loan loss reserve), respectively. Of the net loan totals, $1,400,220 and $1,357,842 for June 30, 2015 and 2014, 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, such as net asset value, 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 determined on 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 strategic 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.

NOTES TO FINANCIAL STATEMENTS

(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.

The fair values of financial instruments other than investments, which include the items listed in the preceding paragraph, are based on a variety of factors. In some cases, fair values represent quoted market prices for identical or comparable instruments (Level 1 inputs - market approach). In other cases, fair values have been estimated based on assumptions about the amount and timing of estimated future cash flows and assumed discount rates reflecting varying degrees of risk (Level 2 inputs - income approach). Accordingly, the fair values may not represent actual values that could have been realized at year-end or that will be realized in the future.

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:

	2015	2014
Educational and general purposes	$ 7,125,995	$ 6,738,256
Student industries	703,950	799,363
	$ 7,829,945	$ 7,537,619

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

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

Unrestricted Bequests

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

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.

	2015	2014
Interest	$ 1,713,465	$ 1,790,951
Depreciation	7,829,945	7,537,619
Plant Operations	7,241,085	6,605,877

Recent Accounting Pronouncements

In May, 2015, the FASB issued Accounting Standards Update No. 2015-07 ("ASU 2015-07"), "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)." ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using net asset value per share as a practical expedient. For non-public business entities, ASU 2015-07 is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. The College elected to adopt ASU 2015-07 as of and for the year ended June 30, 2015. Accordingly, investments for which fair value is measured using net asset value per share as a practical expedient have not been categorized within the fair value hierarchy.

NOTES TO FINANCIAL STATEMENTS

(2) LONG-TERM INVESTMENTS

	June 30, 2015	June 30, 2014
Endowment:		
Pooled Investments -		
U. S. equities	$ 243,715,300	$ 252,453,200
International equities	317,151,200	323,783,300
Corporate notes and bonds	64,047,900	66,183,900
U. S. Government securities	75,666,900	76,266,100
Private equity - venture capital	1,089,700	1,514,100
Private equity - buy out	34,467,000	41,802,800
Private equity - debt funds	120,700	4,952,700
Private equity - fund of funds	16,278,500	17,449,400
Hedge funds	170,664,200	175,747,000
Special opportunities	32,650,600	16,944,000
Commodities	58,677,700	64,608,400
Real estate	-	42,300
Short-term investments and cash	82,293,100	90,825,800
Total	1,096,822,800	1,132,573,000
Non Pooled Investments -		
U. S. equities	87,100	84,000
Corporate notes and bonds	15,700	12,400
Real estate	2,493,300	2,493,300
Short-term investments and cash	2,057,000	2,059,300
Total	4,653,100	4,649,000
Total endowment	1,101,475,900	1,137,222,000
Annuity and Life Income:		
U. S. equities	8,754,900	9,845,000
International equities	5,265,300	5,749,600
Corporate notes and bonds	4,110,000	4,415,700
U. S. Government securities	2,654,000	2,850,400
International bonds	1,507,000	1,597,900
Real estate	3,350,600	3,814,100
Insurance policies	121,000	129,100
Short-term investments and cash	617,500	430,900
Total annuity and life income	26,380,300	28,832,700
Funds Held in Trust by Others, where Berea College receives all or a stipulated percent of income	27,996,200	28,378,000
Other Investments	4,985,966	-
Total long-term investments	$ 1,160,838,366	$ 1,194,432,700

(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 2015 and 2014, spendable return under the formulas amounted to $49,802,811 and $46,955,123, respectively. In 2015, actual cash income earned on pooled investments, net of $851,811 for investment management and custodial fees, amounted to $20,078,243, or $29,724,568 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 $6,609 in 2015 and $15,781 in 2014, while the market value of these investments of $4,653,100 at June 30, 2015 and $4,649,000 at June 30, 2014 increased by $600 in 2015 and $10,852 in 2014. Additions to non-pooled endowment investments during 2015 and 2014 amounted to $3,500 and $4,748, respectively.

Dividend and interest income of $20,084,852 and $20,012,150 reported net of external investment manager fees of $851,811 and $1,243,984 is included in the statements of activities for the years ended June 30, 2015 and 2014, 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 $2,116,882 in 2015 and $985,818 in 2014, 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

(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 2015, the unit value of pooled investments changed as follows:

	2014-15				2013-14
	Market Value	Number of Units	Value Per Unit	Time Weighted Return Net of Fees	Market Value
Beginning Balance	$ 1,132,573,000	737,022.352	$ 1,536.687		$ 1,007,767,700
Market price change	(19,128,958)		(25.654)	-1.7%	137,698,392
Net income earned	20,078,243		27.242	1.8%	19,996,369
Spendable return	(49,802,811)		(67.573)	-	(46,955,123)
	(48,853,526)		(65.985)	0.1%	110,739,638
Additions	13,103,326	8,759.227	-		14,065,662
Ending Balance	$ 1,096,822,800	745,781.579	$ 1,470.702		$ 1,132,573,000

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

	2015	2014
Pooled Investments -		
Cash income, net	$ 20,078,243	$ 19,996,369
Market price change	(19,128,958)	137,698,392
Non-Pooled Investments -		
Cash income	6,609	15,781
Market price change	600	10,852
Total Return	$ 956,494	$ 157,721,394
Distributed to -		
Unrestricted Net Assets		
Spendable return	$ 44,688,003	$ 42,158,019
Long-term investments	(22,861,883)	52,086,404
Temporarily Restricted Net Assets		
Spendable return	4,963,764	4,667,620
Investment return more than amounts designated for current operations	(25,991,043)	58,664,086
Permanently Restricted		
Restricted earnings	157,653	145,265
Total	$ 956,494	$ 157,721,394

NOTES TO FINANCIAL STATEMENTS

(2) LONG-TERM INVESTMENTS (continued)

Endowment Investments Net Asset Composition by Type of Fund as of June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ (2,116,882)	$ 363,935,225	$ 246,147,357	$ 607,965,700
Board designated endowment funds	493,510,200	-	-	493,510,200
	$ 491,393,318	$ 363,935,225	$ 246,147,357	$ 1,101,475,900

Changes in Endowment Investments Net Assets for the Fiscal Year Ended June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment investments net assets, beginning of year	$ 506,257,982	$ 389,908,276	$ 241,055,742	$ 1,137,222,000
Investment return:				
Investment income	20,084,852	-	-	20,084,852
Net losses (realized and unrealized)	(9,608,385)	(9,519,973)	-	(19,128,358)
Total investment return	10,476,467	(9,519,973)	-	956,494
Contributions	-	-	3,636,889	3,636,889
Other restricted additions	-	17,992	1,454,726	1,472,718
Board designated additions	7,997,219	-	-	7,997,219
Appropriation of endowment assets for expenditure	(33,338,350)	(16,471,070)	-	(49,809,420)
Endowment investments net assets, end of year	$ 491,393,318	$ 363,935,225	$ 246,147,357	$ 1,101,475,900

(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 gains (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

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, 2015, the College has approximately 5,000 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, except as noted below, 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, 2015:

	June 30, 2015 Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Other[1]
Assets					
Endowment investments:					
Short-term investments and cash	$ 84,350,100	$ -	$ 84,350,100	$ -	$ -
U.S. equities	243,802,400	243,802,400	-	-	-
International equities	317,151,200	317,151,200	-	-	-
Fixed income	139,730,500	139,730,500	-	-	-
Private equity	51,955,900	-	-	-	51,955,900
Hedge funds	170,664,200	-	-	-	170,664,200
Commodities	58,677,700	58,677,700	-	-	-
Other endowment investments	35,143,900	-	10,100,500	2,493,300	22,550,100
Building maintenance investments	4,985,966	4,536,034	449,932	-	-
Certificates of deposit	450,000	-	450,000	-	-
Funds held in trust by others	27,996,200	-	-	27,996,200	-
Split-interest agreements	26,380,300	26,380,300	-	-	-
Total assets	$ 1,161,288,366	$ 790,278,134	$ 95,350,532	$ 30,489,500	$ 245,170,200
Liabilities					
Interest rate swap agreements	$ 5,208,400	$ -	$ 5,208,400	$ -	$ -

[1] Investments using Net Asset Value (NAV) as a fair value expedient are not included in the fair value hierarchy, pursuant to the adoption of ASU 2015-07, *Fair Value Measurement*.

NOTES TO FINANCIAL STATEMENTS

(3) FAIR VALUE MEASUREMENTS (continued)

Level 3 Reconciliation

	Balances June 30, 2014	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, 2015
Endowment investments	$ 2,493,300	$ -	$ -	$ -	$ 2,493,300
Funds held in trust by others	28,378,000	(381,800)	-	-	27,996,200
Total	$ 30,871,300	$ (381,800)	$ -	$ -	$ 30,489,500

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 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)	Other[1]
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	-	-	2,493,300	16,986,300
Certificate of deposit	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	$ 30,871,300	$ 258,452,300
Liabilities					
Interest rate swap agreements	$ 4,669,800	$ -	$ 4,669,800	$ -	$ -

[1]Investments using Net Asset Value (NAV) as a fair value expedient are not included in the fair value hierarchy, pursuant to the adoption of ASU 2015-07, *Fair Value Measurement*.

(3) FAIR VALUE MEASUREMENTS (continued)

	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	$ 2,707,300	$ -	$ (214,000)	$ -	$ 2,493,300
Funds held in trust by others	25,347,000	3,031,000	-	-	28,378,000
Total	$ 28,054,300	$ 3,031,000	$ (214,000)	$ -	$ 30,871,300

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 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 measured at fair value using the net asset value per share (or its equivalent) practical expedient and have not been classified in the fair value hierarchy.

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 $12,135,000 and $12,705,000 at June 30, 2015 and 2014, respectively. The average rate received from the interest rate swap counterparty during 2015 and 2014 was 0.12% and 0.12%, respectively, and the average interest rate paid by the College for 2015 and 2014 was 3.45%. The interest rate swap matures in 2032. Total net interest expensed during 2015 and 2014 was $603,681 and $603,719 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 $579,049.

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 $6,895,000 and $7,260,000 at June 30, 2015 and 2014, 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 2015 and 2014 was 0.12% and 0.12%, respectively, and the average interest rate paid by the College for 2015 and 2014 was 3.746%. The interest rate swap matures in 2029. Total net interest expensed during 2015 and 2014 was $262,395 and $275,151, 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 $240,639.

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, 2015 and 2014 resulted in a liability of $5,208,400 and $4,669,800, respectively. If the agreements remain in force until maturity, the College’s remaining liability related to the swaps would be $0.

(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 $2,297,391 in 2015 and $2,183,851 in 2014.

(6) PROPERTY, PLANT AND EQUIPMENT

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

Property, Plant and Equipment	2015	2014
Educational property, plant and equipment	$ 207,610,057	$ 205,761,915
Student industry plant and equipment	20,481,188	19,397,150
Rental property	2,938,856	2,938,856
Forest and farms	2,705,346	1,850,334
Collections and works of art	4,106,031	4,097,531
Construction in process	25,446,315	13,476,658
Less accumulated depreciation	(94,328,654)	(86,569,749)
	$ 168,959,139	$ 160,952,695

(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. The College's 2015 and 2014 accounting for costs associated with asbestos abatement is as follows:

	2015	2014
Beginning balance	$ 997,594	$ 647,554
New liabilities identified	-	349,602
Accretion expense	33,206	37,635
Liabilities settled during the year	(47,216)	(37,197)
Ending balance	$ 983,584	$ 997,594

NOTES TO FINANCIAL STATEMENTS

(8) LONG-TERM DEBT

	June 30, 2015	June 30, 2014
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2002A - Issued August 29, 2002; due June 1, 2032; variable interest rate, 0.04% as of June, 2015 with synthetic fixed rate of 3.45%; proceeds used for various capital projects	$ 12,135,000	$ 12,705,000
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2003B - Issued December 11, 2003; annual payments through June 1, 2029; variable interest rate, 0.04% as of June, 2015 with synthetic fixed rate of 3.746%; proceeds used for various capital projects	6,895,000	7,260,000
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
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	3,170,000	4,080,000
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	7,405,475	8,361,999
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	6,330,537	6,981,718
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	8,855,000	8,915,000
Educational Facilities Revenue Refunding Bonds, Series 2015 - Issued May, 2015; private bank placement through Fifth Third Bank; annual payments at fixed rate of 2.12% through June 1, 2025; proceed used for refunding Series 2005A bonds	6,435,000	-
	51,226,012	55,043,717
Less current portion	3,612,425	3,247,704
	$ 47,613,587	$ 51,796,013

(8) LONG-TERM DEBT (continued)

Principal payments on long-term debt are required to be made in each of the following fiscal years: $3,612,425 in 2016; $3,713,815 in 2017; $3,577,966 in 2018; $3,016,804 in 2019; $3,085,328 in 2020 and $34,219,674 in subsequent years thereafter.

Educational Facilities Revenue Refunding Bonds, Series 2015, were issued May 12, 2015, as a private bank placement through Fifth Third Bank. The $6,435,000 proceeds were used for refunding the Series 2005A bonds. The Series 2005A bond issue was redeemed without premium.

The fair value of the College's long-term debt at June 30, 2015 and 2014 was estimated to be approximately $51,010,000 and $54,995,000, respectively, based upon rates available to the College for debt with similar terms and remaining maturities.

Cash payments for interest amounted to $1,723,496 in 2015 and $1,828,325 in 2014.

(9) CONTRIBUTIONS RECEIVABLE AND BEQUESTS IN PROBATE

	June 30, 2015 Total	Due In: One Year or Less	Due In: One Year to Five Years	Due In: Over Five Years	June 30, 2014 Total
Unconditional Promises for -					
Unrestricted [1]	$ 813,479	$ 403,079	$ 410,400	$ -	$ 325,000
Restricted [2]	7,359,200	3,938,770	3,420,430	-	5,328,800
Buildings and equipment [3]	9,451,239	8,571,131	880,108	-	16,029,300
Endowment	1,000	1,000	-	-	18,000
Reserve for unfulfilled promises	(19,728)	(10,312)	(9,416)	-	(5,740)
Total	17,605,190	12,903,668	4,701,522	-	21,695,360
Bequests in Probate	8,664,433	7,326,171	1,338,262	-	5,666,497
External Charitable Remainder Trusts*	3,850,445	-	-	3,850,445	3,520,147
Charitable Lead Trusts	620,756	68,278	189,328	363,150	689,034
Total	$ 30,740,824	$ 20,298,117	$ 6,229,112	$ 4,213,595	$ 31,571,038
Present Value of Estimated Future Cash Flows	$ 30,544,330	$ 20,298,117	$ 6,085,886	$ 4,160,327	$ 31,319,944

[1] June 30, 2015 balance includes $800,000 commitment from an external charitable trust.

[2] June 30, 2015 balance includes $7,249,700 commitment from an external charitable trust ($3,829,270 due in one year or less, $3,420,430 due in one year to five years).

[3] June 30, 2015 balance includes $9,082,000 commitment from an external charitable trust ($8,426,900 due in one year or less, $655,100 due in one year to five years).

* 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, 2015, the College was committed under various contracts with alternative investment managers to fund $78,774,667 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 strategic 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	7,907,844
Debt fund	500,000
Fund of funds	43,349,733
Special opportunities	26,623,765
Total	$ 78,774,667

The College has purchase commitments relating to construction projects of approximately $10,920,000 as of June 30, 2015.

(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:

	2015	2014
Purpose Restricted Contributions for -		
Instruction	$ 2,142,361	$ 1,620,612
Public service	2,016,272	1,837,295
Academic support	2,252,180	1,447,398
Student services	814,041	524,565
Residence halls	187,623	342,239
Student aid	3,213,323	3,172,037
Support services	955,009	992,298
Plant operations	146,608	38,134
	$ 11,727,417	$ 9,974,578
Time-Restricted Contributions - Amortization of Restricted Gifts to Acquire Long-Lived Assets	1,882,297	1,365,860
Total Net Assets Released from Restriction	$ 13,609,714	$ 11,340,438
Matured Annuity and Life Income Contracts -		
Temporarily Restricted Agreements Reclassified to Tuition Replacement Funds in Unrestricted Net Assets	$ 497,733	$ 363,819

(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, 2015 or 2014. 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 2012.

(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, 2015, 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.

GOD HAS MADE OF ONE BLOOD ALL PEOPLES OF THE EARTH

BEREA COLLEGE