Berea College

Financial Statements

for the Year Ended June 30, 2016

Board of Trustees

Officers

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HIGHLIGHTS

	As of or for the Year Ended June 30, 2016	2015
OPERATING REVENUE	$ 114,135,168	$ 107,351,944
OPERATING EXPENSES	$ 102,374,199	$ 97,171,488
OPERATING REVENUE IN EXCESS OF OPERATING EXPENSES	$ 11,760,969	$ 10,180,456
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	$ 18,251,377	$ 15,841,807
LONG-TERM INVESTMENTS OF THE ENDOWMENT		
Original gift value	$ 492,794,608	$ 478,116,120
Investments at market	$ 1,050,679,900	$ 1,101,475,900
Interest and dividends, net	$ 20,257,993	$ 20,084,852
Return	1.9%	1.8%
Market price change	$ (33,985,025)	$ (19,128,358)
Return	-3.0%	-1.7%
Total return	$ (13,727,032)	$ 956,494
Percent - time weighted	-1.1%	0.1%
CASH AND IN-KIND CONTRIBUTIONS		
Cash gifts	$ 47,082,791	$ 25,382,806
Bequests	11,357,588	9,212,430
Total cash gifts	58,440,379	34,595,236
Gifts-in-kind	709,300	106,862
Total	$ 59,149,679	$ 34,702,098

REPORT OF THE VICE PRESIDENT FOR FINANCE

September, 2016

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

As we complete another fiscal year, we celebrate the privilege of being part of the Berea learning community, committed to preparing young people to make a positive difference in the world. As we worked together at Berea College this past year, we have engaged in thinking openly and creatively about the ways in which Berea will continue to provide students with the highest quality undergraduate experience possible. This extraordinary mission requires extraordinary commitment. Let's be reminded of the tremendous responsibility we share as stewards of the College's financial resources. We have much to celebrate.

Fundraising during 2016 reached record levels in the history of the College. The dollar amount of gifts received was \$59.2 million compared to \$34.7 million in 2015. Not only did the dollar amount of gifts increase, the number of gifts increased from 18,785 to 23,840 and the number of donors increased from 9,857 to 10,335. A large external trust donated \$37.1 million and \$16.6 million in 2016 and 2015, respectively. One of the most exciting giving statistics during the year was that more than fifty percent of Berea's students were 'Berea Patrons' (currently enrolled student donors) with student donors increasing from 528 to 839.

In May, 2016 ground was broken for the Margaret A. Cargill Natural Sciences and Health Building – the most expensive capital project in the history of the College. The project consists of approximately 133,235 square feet of new construction to house the College's Division I which includes biology, chemistry, mathematics, nursing and physics departments. The building will be a total of five stories and spaces have been designed to maximize flexibility to ensure viability of space for the future. The building will include project labs where students can work together as interdisciplinary teams; seminar and case study classrooms that facilitate problem-based learning; and, research labs where teams of faculty, students, and researchers can explore together. The project is targeted for LEED certification and is planned to open in August, 2018.

Residence hall renovations continue on campus. Renovation of Bingham Hall was completed in August, 2016. The new 26,700 square foot facility provides housing for 86 students. The new two story entry-commons area addition contains a lounge area, coffee bar, office, and an apartment on the first floor, and a lounge, coffee bar, study and classroom on the second floor.

Renovation of Seabury Residence Hall is underway. The 9,800 square feet of interior existing Seabury Residence Hall will be completely renovated and approximately 5,200 square feet of additions will be constructed to include an expansion area for the residence rooms and common areas on the southwest side of the existing three-story building. The expanded area will contain a new elevator and a new stairway. The new 15,000 square foot facility will house 52 students. Seabury Residence Hall is scheduled to reopen in August, 2017.

The use of college and university endowments has been in the national limelight for the last few years. The leadership of the Senate Finance Committee and the House Ways and Means Committee sent letters on February 8, 2016 to 56 private schools with endowment assets of more than \$1 billion, citing their "numerous tax preferences," and adding weight to the federal scrutiny of college endowments. On March 31, 2016, Berea submitted a response to the questions included in the letter. The inquiry provided the College an opportunity to tell its story of providing from the endowment, augmented by private, state and federal scholarship funds, *a full-tuition scholarship for every one of our students each year.* Approximately 68% of the annual endowment spendable return is used to fund these full-tuition scholarships and other direct financial aid to students.

Financial Position

The market value of the endowment decreased during the year. The endowment decreased from $1,101.5 million on June 30, 2015 to $1,050.7 million on June 30, 2016, a reduction of $50.8 million. The $1,050.7 million is composed of cumulative original gifts and other additions of $492.8 million and cumulative net market appreciation after endowment spending of $557.9 million. The market value of the quasi endowment portion of the investments as of June 30, 2016, was $475.2 million, or 45% of the total endowment investments. The net investment return for the total endowment was -1.1% for the fiscal year ending June 30, 2016. The average annual compound rates of return for the 20-year, 10-year, 5-year and 3-year periods ending June 30, 2016 are 7.2%, 4.2%, 5.0%, and 4.6%, respectively. During the year, $14.7 million was added to the endowment as a result of new gifts, matured split-interest agreements and other additions, and $51.7 million was distributed from the endowment in support of College operations.

Operating results and financial position of the College remain strong. Operating revenue in excess of operating expenses amounted to $11.8 million. **Total Net Assets** (total assets less liabilities) of the College were $1,335.1 million, decreasing by $14.2 million or 1.1 percent during the year. This change reflects a decrease in the market value of total long-term investments during the year from $1,160.8 million as of June 30, 2015 to $1,106.2 million as of June 30, 2016 partially offset by a significant increase in temporarily restricted gifts.

At June 30, 2016, **Total Assets** of the College were $1,416.4 million. Of this amount, long-term investments (including endowment funds, annuity and life income funds and other funds) comprised $1,106.2 million; net property, plant and equipment totaled $179.1 million; and current assets totaled $118.6 million. Long-term contributions receivable and bequests in probate totaled $10.2 million; non-current prepaid expenses totaled $1.1 million; and long-term receivables totaled approximately $1.2 million.

Total Liabilities decreased by $2.2 million from $83.5 million as of June 30, 2015 to $81.3 million as of June 30, 2016. Most of this decrease was due to a $4.2 million decrease in debt partially offset by an increase in accounts payable for capital construction projects.

Concluding Comments

As you can see from the pages that follow, the College has enjoyed another financially successful year and its financial position remains very strong. The exceptional leadership of the Board of Trustees, along with the tremendous generosity of Berea's alumni and many friends, sustain the important Berea mission and ensure the promise of Berea College to future generations. We thank you again for your role in this important mission, whether as student, faculty, staff, alumni, trustee or friend.

Much of what happens at Berea College is truly inspiring. Together, we must all support and maintain this great opportunity to truly make a difference in the world through education and service. While we must always be mindful of the College's distinguished history over the last 161 years, we must continually seek to collegially discuss and debate our ideals, in quest of ways to always advance this great institution.

Hopefully, there will be many opportunities for reflection and celebration in the years to come. We invite you to celebrate with us, and to visit soon.

Respectfully submitted,

Jeffrey S. Amburgey

Jeffrey S. Amburgey
Vice President for Finance

RESPONSIBILITY FOR THE COLLEGE'S FINANCIAL STATEMENTS

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

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

The College's financial statements have been audited by the independent accounting firm of 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, 2016 and 2015, and the changes in its net assets and cash flows for the years then ended.

September, 2016

Lyle D. Roelofs
President

Jeffrey S. Amburgey
Vice President for Finance

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 statements of financial position as of June 30, 2016 and 2015, 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, 2016 and 2015, 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 Matter

Our audits were conducted for the purpose of forming an opinion on the 2016 and 2015 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 2016 and 2015 highlights and report of the Vice President for Finance have not been subjected to the auditing procedures applied in the audits of the 2016 and 2015 financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Crowe Horwath LLP

Lexington, Kentucky
September 8, 2016

Berea College

STATEMENTS OF FINANCIAL POSITION

	June 30, 2016	June 30, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 90,294,783	$ 60,545,253
Accrued interest on investments	492,921	531,434
Accounts receivable - U.S. Government	6,144,262	5,929,826
Other accounts receivable	1,079,662	891,982
Inventories	1,212,416	1,263,142
Prepaid expenses and other assets	744,220	1,076,287
Contributions receivable and bequests in probate	18,632,214	20,298,117
Total current assets	118,600,478	90,536,041
PREPAID EXPENSES AND OTHER ASSETS	1,067,475	998,794
CONTRIBUTIONS RECEIVABLE AND BEQUESTS IN PROBATE	10,248,455	10,246,213
LONG-TERM RECEIVABLES		
Institutional student loans	1,138,787	1,145,220
Federal student loans	41,484	60,883
Total long-term receivables	1,180,271	1,206,103
LONG-TERM INVESTMENTS		
Donor restricted endowment	575,463,000	607,965,700
Board designated endowment	475,216,900	493,510,200
Annuity and life income	24,103,000	26,380,300
Funds held in trust by others	26,783,000	27,996,200
Other investments	4,662,500	4,985,966
Total long-term investments	1,106,228,400	1,160,838,366
NET PROPERTY, PLANT AND EQUIPMENT	179,098,114	168,959,139
Total assets	$ 1,416,423,193	$ 1,432,784,656

See notes to financial statements.

Berea College

STATEMENTS OF FINANCIAL POSITION

	June 30, 2016	June 30, 2015
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 7,512,300	$ 8,496,267
Accounts payable - capital construction projects	3,149,910	1,977,226
Accrued salaries and wages	3,576,988	3,660,671
Deposits and agency funds	606,141	626,889
Deferred income	228,241	136,278
Current portion of interest rate swap valuation	718,943	819,688
Current maturities of long-term debt	3,713,815	3,612,425
Total current liabilities	19,506,338	19,329,444
LONG-TERM LIABILITIES		
Actuarial liability for annuities payable and other liabilities	11,674,212	12,145,818
Interest rate swap valuation	6,778,057	4,388,712
Long-term debt	43,319,772	47,613,587
Total long-term liabilities	61,772,041	64,148,117
Total liabilities	81,278,379	83,477,561
NET ASSETS		
Unrestricted -		
For current operations	99,680	99,609
Designated for specific purposes	49,703,671	46,365,669
Invested in property, plant and equipment	65,434,855	60,153,424
Support of future operations from:		
Contributions receivable and bequests in probate	8,719,058	9,570,154
Donor restricted endowment funds	(4,611,854)	(2,116,882)
Board designated endowment funds	475,216,900	493,510,200
Total unrestricted	594,562,310	607,582,174
Temporarily restricted -		
Unexpended contributions restricted for operations	15,718,097	16,669,871
Unexpended contributions restricted for plant renewals and replacement	38,740,998	15,020,258
Annuity and life income contracts	6,381,933	6,643,204
Expended contributions for long-lived assets being amortized	58,383,472	49,333,503
Donor restricted endowment funds	330,282,237	363,935,225
Total temporarily restricted	449,506,737	451,602,061
Permanently restricted -		
Loan funds	2,891,035	2,871,762
Annuity and life income contracts	7,365,867	8,854,096
Contributions receivable and bequests in probate	4,243,248	4,253,445
Funds held in trust by others	26,783,000	27,996,200
Donor restricted endowment funds	249,792,617	246,147,357
Total permanently restricted	291,075,767	290,122,860
Total net assets	1,335,144,814	1,349,307,095
Total liabilities and net assets	$ 1,416,423,193	$ 1,432,784,656

See notes to financial statements.

STATEMENTS OF ACTIVITIES

Changes in Unrestricted Net Assets

	Year Ended June 30, 2016	2015
OPERATING REVENUE		
Spendable return from long-term investments	$ 46,518,168	$ 44,688,003
Gifts and donations	5,982,880	6,225,640
Federal grants	31,103,217	25,695,644
Cost of education fees paid by federal and state scholarships	3,700,000	3,700,000
Fees paid by students	1,217,227	1,534,840
Other income	3,380,377	3,707,912
Residence halls and dining service	8,665,451	8,239,186
Student industries and rentals	4,419,676	4,297,454
Net assets released from restrictions	13,080,188	13,609,714
Gross operating revenue	118,067,184	111,698,393
Less: Student aid	(3,932,016)	(4,346,449)
Net operating revenue	114,135,168	107,351,944
OPERATING EXPENSES		
Program Services -		
Instruction	24,554,351	25,256,581
Public service	26,639,333	23,103,573
Academic support	10,130,073	10,048,808
Student services	10,127,496	10,243,966
Residence halls and dining service	9,539,534	8,959,144
Student industries and rentals	5,405,061	5,060,026
Total Program Services	86,395,848	82,672,098
Support Services, including fund raising expense of $5,571,308 in 2016 and $4,022,226 in 2015	15,978,351	14,499,390
Total operating expenses	102,374,199	97,171,488
Operating revenue in excess of operating expenses	11,760,969	10,180,456
OTHER UNRESTRICTED ACTIVITY		
Gain on sale of property, plant and equipment	172,131	51,305
Loss on valuation of interest rate swaps	(2,288,600)	(538,600)
Total other unrestricted activity	(2,116,469)	(487,295)
REVENUES DESIGNATED FOR LONG-TERM INVESTMENT		
Unrestricted bequests	9,028,924	7,519,691
Matured annuity and life income contracts	108,927	497,733
Investment return less than amounts designated for current operations	(31,802,215)	(22,861,883)
Total decrease in revenues designated for long-term investment	(22,664,364)	(14,844,459)
Decrease in unrestricted net assets	$ (13,019,864)	$ (5,151,298)

See notes to financial statements.

STATEMENTS OF ACTIVITIES

Changes in Total Net Assets

	Year Ended June 30, 2016	2015
UNRESTRICTED NET ASSETS		
Operating revenue in excess of operating expenses	$ 11,760,969	$ 10,180,456
Other unrestricted activity	(2,116,469)	(487,295)
Decrease in revenues designated for long-term investment	(22,664,364)	(14,844,459)
Decrease in unrestricted net assets	(13,019,864)	(5,151,298)
TEMPORARILY RESTRICTED NET ASSETS		
Restricted gifts and donations	40,421,432	14,513,942
Restricted spendable return on endowment investments	5,062,412	4,963,764
Investment return less than amounts designated for current operations	(33,672,272)	(25,991,043)
Net adjustment of annuity payment and deferred giving liability	(496,744)	(118,590)
Reclassification of net assets released from restrictions	(13,080,188)	(13,609,714)
Reclassification of matured annuity and life income contracts to revenues designated for long-term investment	(108,927)	(497,733)
Reclassification of net assets	(221,037)	(162,154)
Decrease in temporarily restricted net assets	(2,095,324)	(20,901,528)
PERMANENTLY RESTRICTED NET ASSETS		
Gifts and donations	2,052,782	5,667,211
Restricted return on endowment investments	166,875	157,653
Restricted capital loss on funds held in trust by others	(1,213,200)	(381,800)
Net adjustment of annuity payment and deferred giving liability	(274,587)	(504,756)
Reclassification of net assets	221,037	162,154
Increase in permanently restricted net assets	952,907	5,100,462
Total decrease in net assets	(14,162,281)	(20,952,364)
NET ASSETS		
Beginning of year	1,349,307,095	1,370,259,459
End of year	$ 1,335,144,814	$ 1,349,307,095

See notes to financial statements.

STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2016	Year Ended June 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	$ (14,162,281)	$ (20,952,364)
Adjustments to reconcile decrease in net assets to net cash used in operating activities -		
Realized and unrealized loss on long-term investments	36,121,197	19,808,105
Restricted return on endowment funds	(166,875)	(157,653)
Gifts and bequests for financing activities	(46,036,056)	(23,269,336)
Decrease in contributions receivable and bequests in probate	1,663,661	775,614
Gift value of annuity contracts written	(582,921)	(462,066)
Depreciation	8,061,877	7,829,945
Gain on sale of property, plant and equipment	(172,131)	(51,305)
Loss on revaluation of interest rate swaps	2,288,600	538,600
Decrease (increase) in other current assets	19,190	(1,398,153)
Increase in non-current prepaid expenses and other assets other than cash payments for debt issuance costs	(68,681)	(40,602)
(Decrease) increase in current liabilities other than capital construction accounts payable and current maturities of long-term debt	(996,435)	2,292,503
Decrease in actuarial annuity payment liability and other liabilities	(471,606)	(658,068)
Net cash used in operating activities	(14,502,461)	(15,744,780)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities held for long-term investment	(186,103,645)	(189,164,102)
Proceeds from sales and maturities of investments	205,175,335	203,412,397
Purchase of property, plant and equipment	(18,251,377)	(15,841,807)
Increase in capital construction accounts payable	1,172,684	461,308
Proceeds from sale of property, plant and equipment	222,656	56,723
Decrease (increase) in long-term student loans	25,832	(24,753)
Net cash provided by (used) in investing activities	2,241,485	(1,100,234)
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts and bequests received for -		
Long-term investment	11,463,809	9,536,375
Property, plant and equipment	34,571,947	13,732,761
Student loans	300	200
Endowment return restricted for long-term investments	166,875	157,653
Repayment of indebtedness	(4,192,425)	(10,252,705)
Long-term debt issued	-	6,435,000
Debt issuance costs	-	(52,875)
Net cash provided by financing activities	42,010,506	19,556,409
Net increase in cash and cash equivalents	29,749,530	2,711,395
Cash and cash equivalents, beginning of year	60,545,253	57,833,858
Cash and cash equivalents, end of year	$ 90,294,783	$ 60,545,253

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.

(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, 2016 and 2015, student loans totaled $1,434,271 (net of $250,000 loan loss reserve) and $1,461,103 (net of $500,000 loan loss reserve), respectively. Of the net loan totals, $1,392,787 and $1,400,220 for June 30, 2016 and 2015, 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.

(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:

	2016	2015
Educational and general purposes	$ 7,293,959	$ 7,125,995
Student industries	767,918	703,950
	$ 8,061,877	$ 7,829,945

(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, investment return less than 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.

	2016	2015
Interest	$ 1,493,561	$ 1,713,465
Depreciation	8,061,877	7,829,945
Plant Operations	6,232,214	7,241,085

Reclassification

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation with no effect on total assets, liabilities, net assets or the change in net assets.

(2) LONG-TERM INVESTMENTS

	June 30, 2016	June 30, 2015
Endowment:		
Pooled Investments -		
U. S. equities	$ 236,630,600	$ 243,715,300
International equities	295,442,300	317,151,200
Corporate notes and bonds	65,940,900	64,047,900
U. S. Government securities	67,617,700	75,666,900
Private equity - venture capital	549,900	1,089,700
Private equity - buy out	25,290,600	34,467,000
Private equity - debt funds	102,800	120,700
Private equity - fund of funds	18,849,600	16,278,500
Hedge funds	145,173,600	170,664,200
Special opportunities	68,520,500	32,650,600
Commodities	50,891,600	58,677,700
Short-term investments and cash	70,723,100	82,293,100
Total	1,045,733,200	1,096,822,800
Non Pooled Investments -		
U. S. equities	103,200	87,100
Corporate notes and bonds	16,300	15,700
Real estate	2,766,700	2,493,300
Short-term investments and cash	2,060,500	2,057,000
Total	4,946,700	4,653,100
Total endowment	1,050,679,900	1,101,475,900
Annuity and Life Income:		
U. S. equities	8,169,300	8,754,900
International equities	4,779,800	5,265,300
Corporate notes and bonds	3,779,000	4,110,000
U. S. Government securities	2,410,500	2,654,000
International bonds	1,384,800	1,507,000
Real estate	3,227,300	3,350,600
Insurance policies	95,700	121,000
Short-term investments and cash	256,600	617,500
Total annuity and life income	24,103,000	26,380,300
Funds Held in Trust by Others, where Berea College receives all or a stipulated percent of income	26,783,000	27,996,200
Other Investments	4,662,500	4,985,966
Total long-term investments	$ 1,106,228,400	$ 1,160,838,366

(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 2016 and 2015, spendable return under the formulas amounted to $51,738,600 and $49,802,811, respectively. In 2016, actual cash income earned on pooled investments, net of $865,330 for investment management and custodial fees, amounted to $20,249,138, or $31,489,462 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 $8,855 in 2016 and $6,609 in 2015, while the market value of these investments of $4,946,700 at June 30, 2016 and $4,653,100 at June 30, 2015 increased by $193,933 in 2016 and $600 in 2015. Additions to non-pooled endowment investments during 2016 and 2015 amounted to $99,667 and $3,500, respectively.

Dividend and interest income of $20,257,993 and $20,084,852 reported net of external investment manager fees of $865,330 and $851,811 is included in the statements of activities for the years ended June 30, 2016 and 2015, 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 $4,611,854 in 2016 and $2,116,882 in 2015, is classified as unrestricted net assets.

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

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

(1) The duration and preservation of the endowment fund

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

(3) General economic conditions

(4) The possible effect of inflation or deflation

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

(6) Other resources of the institution

(7) The investment policy of the institution

(2) LONG-TERM INVESTMENT (continued)

During 2016, the unit value of pooled investments changed as follows:

	2015-16				2014-15
	Market Value	Number of Units	Value Per Unit	Time Weighted Return Net of Fees	Market Value
Beginning Balance	$ 1,096,822,800	745,781.579	$ 1,470.702		$ 1,132,573,000
Market price change	(34,178,958)		(45.819)	-3.0%	(19,128,958)
Net income earned	20,249,138		27.152	1.9%	20,078,243
Spendable return	(51,738,600)		(69.375)	-	(49,802,811)
	(65,668,420)		(88.042)	-1.1%	(48,853,526)
Additions	14,578,820	10,538.066	-		13,103,326
Ending Balance	$ 1,045,733,200	756,319.645	$ 1,382.660		$ 1,096,822,800

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

	2016	2015
Pooled Investments -		
Cash income, net	$ 20,249,138	$ 20,078,243
Market price change	(34,178,958)	(19,128,958)
Non-Pooled Investments -		
Cash income	8,855	6,609
Market price change	193,933	600
Total Return	$ (13,727,032)	$ 956,494
Distributed to -		
Unrestricted Net Assets		
Spendable return	$ 46,518,168	$ 44,688,003
Long-term investments	(29,307,243)	(22,861,883)
Temporarily Restricted Net Assets		
Spendable return	5,062,412	4,963,764
Investment return more than amounts designated for current operations	(36,167,244)	(25,991,043)
Permanently Restricted		
Restricted earnings	166,875	157,653
Total	$ (13,727,032)	$ 956,494

(2) LONG-TERM INVESTMENTS (continued)

Endowment Investments Net Asset Composition by Type of Fund as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ (4,611,854)	$ 330,282,237	$ 249,792,617	$ 575,463,000
Board designated endowment funds	475,216,900	-	-	475,216,900
	$ 470,605,046	$ 330,282,237	$ 249,792,617	$ 1,050,679,900

Changes in Endowment Investments Net Assets for the Fiscal Year Ended June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment investments net assets, beginning of year	$ 491,393,318	$ 363,935,225	$ 246,147,357	$ 1,101,475,900
Investment return:				
Investment income	20,257,993	-	-	20,257,993
Net losses (realized and unrealized)	(17,626,694)	(16,358,331)	-	(33,985,025)
Total investment return	2,631,299	(16,358,331)	-	(13,727,032)
Contributions	-	-	1,823,220	1,823,220
Other restricted additions	-	19,284	1,822,040	1,841,324
Board designated additions	11,013,943	-	-	11,013,943
Appropriation of endowment assets for expenditure	(34,433,514)	(17,313,941)	-	(51,747,455)
Endowment investments net assets, end of year	$ 470,605,046	$ 330,282,237	$ 249,792,617	$ 1,050,679,900

(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

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, 2016, 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.

(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, 2016:

	June 30, 2016 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	$ 72,783,600	$ -	$ 72,783,600	$ -	$ -
U.S. equities	236,733,800	236,733,800	-	-	-
International equities	295,442,300	295,442,300	-	-	-
Fixed income	133,574,900	133,574,900	-	-	-
Private equity	44,792,900	-	-	-	44,792,900
Hedge funds	145,173,600	-	-	-	145,173,600
Commodities	50,891,600	50,891,600	-	-	-
Other endowment investments	71,287,200	-	9,656,100	2,766,700	58,864,400
Building maintenance investments	4,662,500	4,384,128	278,372	-	-
Certificates of deposit	450,301	-	450,301	-	-
Funds held in trust by others	26,783,000	-	-	26,783,000	-
Split-interest agreements	24,103,000	24,103,000	-	-	-
Total assets	$ 1,106,678,701	$ 745,129,728	$ 83,168,373	$ 29,549,700	$ 248,830,900
Liabilities					
Interest rate swap agreements	$ 7,497,000	$ -	$ 7,497,000	$ -	$ -

[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, 2015	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, 2016
Endowment investments	$ 2,493,300	$ 273,400	$ -	$ -	$ 2,766,700
Funds held in trust by others	27,996,200	(1,213,200)	-	-	26,783,000
Total	$ 30,489,500	$ (939,800)	$ -	$ -	$ 29,549,700

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, 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*.

(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 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 $11,555,000 and $12,135,000 at June 30, 2016 and 2015, respectively. The average rate received from the interest rate swap counterparty during 2016 and 2015 was 0.24% and 0.12%, respectively, and the average interest rate paid by the College for 2016 and 2015 was 3.45%. The interest rate swap matures in 2032. Total net interest expensed during 2016 and 2015 was $583,163 and $603,681 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 $497,976.

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 $6,515,000 and $6,895,000 at June 30, 2016 and 2015, 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 2016 and 2015 was 0.24% and 0.12%, respectively, and the average interest rate paid by the College for 2016 and 2015 was 3.746%. The interest rate swap matures in 2029. Total net interest expensed during 2016 and 2015 was $241,349 and $262,395, 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 $220,967.

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, 2016 and 2015 resulted in a liability of $7,497,000 and $5,208,400, 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 $2,429,966 in 2016 and $2,297,391 in 2015.

(6) PROPERTY, PLANT AND EQUIPMENT

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

Property, Plant and Equipment	2016	2015
Educational property, plant and equipment	$ 234,690,423	$ 221,427,565
Student industry plant and equipment	21,225,119	20,481,188
Rental property	3,319,314	2,938,856
Forest and farms	2,850,449	2,705,346
Collections and works of art	4,437,745	4,106,031
Construction in process	14,835,604	11,628,807
Less accumulated depreciation	(102,260,540)	(94,328,654)
	$ 179,098,114	$ 168,959,139

(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 2016 and 2015 accounting for costs associated with asbestos abatement is as follows:

	2016	2015
Beginning balance	$ 983,584	$ 997,594
Accretion expense	16,786	33,206
Liabilities settled during the year	(26,956)	(47,216)
Ending balance	$ 973,414	$ 983,584

NOTES TO FINANCIAL STATEMENTS

(8) LONG-TERM DEBT

	June 30, 2016	June 30, 2015
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2002A - Issued August 29, 2002; due June 1, 2032; variable interest rate, 0.55% as of June, 2016 with synthetic fixed rate of 3.45%; proceeds used for various capital projects	$ 11,555,000	$ 12,135,000
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2003B - Issued December 11, 2003; annual payments through June 1, 2029; variable interest rate, 0.55% as of June, 2016 with synthetic fixed rate of 3.746%; proceeds used for various capital projects	6,515,000	6,895,000
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	2,210,000	3,170,000
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	6,433,728	7,405,475
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	5,667,918	6,330,537
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	8,795,000	8,855,000
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	5,856,941	6,435,000
	47,033,587	51,226,012
Less current portion	3,713,815	3,612,425
	$ 43,319,772	$ 47,613,587

(8) LONG-TERM DEBT (continued)

Principal payments on long-term debt are required to be made in each of the following fiscal years: $3,713,815 in 2017; $3,577,966 in 2018; $3,016,804 in 2019; $3,085,328 in 2020; $2,942,539 in 2021 and $30,697,135 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, 2016 and 2015 was estimated to be approximately $47,391,000 and $51,010,000, respectively, based upon rates available to the College for debt with similar terms and remaining maturities.

Cash payments for interest amounted to $1,503,864 in 2016 and $1,723,496 in 2015.

(9) CONTRIBUTIONS RECEIVABLE AND BEQUESTS IN PROBATE

	June 30, 2016 Total	Due In One Year or Less	Due In One Year to Five Years	Due In Over Five Years	June 30, 2015 Total
Unconditional Promises for -					
Unrestricted [1]	$ 576,058	$ 455,767	$ 119,240	$ 1,051	$ 813,479
Restricted [2]	5,101,510	4,180,970	920,540	-	7,359,200
Buildings and equipment [3]	10,998,052	8,739,242	2,258,810	-	9,451,239
Endowment	-	-	-	-	1,000
Reserve for unfulfilled promises	(144,239)	(50,449)	(93,748)	(42)	(19,728)
Total	16,531,381	13,325,530	3,204,842	1,009	17,605,190
Bequests in Probate	8,711,061	5,238,406	3,472,655	-	8,664,433
External Charitable Remainder Trusts*	3,229,612	-	-	3,229,612	3,850,445
Charitable Lead Trusts	552,478	68,278	161,400	322,800	620,756
Total	$ 29,024,532	$ 18,632,214	$ 6,838,897	$ 3,553,421	$ 30,740,824
Present Value of Estimated Future Cash Flows	$ 28,880,669	$ 18,632,214	$ 6,740,041	$ 3,508,414	$ 30,544,330

[1] June 30, 2016 balance includes $400,000 commitment from an external charitable trust.

[2] June 30, 2016 balance includes $5,034,510 commitment from an external charitable trust ($4,113,970 due in one year or less, $920,540 due in one year to five years).

[3] June 30, 2016 balance includes $7,635,180 commitment from an external charitable trust ($7,600,800 due in one year or less, $34,380 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, 2016, the College was committed under various contracts with alternative investment managers to fund $85,927,777 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:

Buy out	$ 7,241,229
Fund of funds	35,341,696
Special opportunities	43,344,852
Total	$ 85,927,777

The College has purchase commitments relating to construction projects of approximately $61,400,000 as of June 30, 2016.

(11) CONCENTRATIONS

The College's operations are heavily dependent upon the spendable return from endowment investments. Therefore, an extended downturn in financial markets could have an adverse effect on the College's programs and activities.

Many of the College's students receive support from state and federal student financial assistance programs. A significant reduction in the level of this support, if it were to occur, might have an adverse effect on the College's programs and activities.

(12) NET ASSETS RELEASED FROM RESTRICTIONS

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

	2016	2015
Purpose Restricted Contributions for -		
Instruction	$ 1,768,206	$ 2,142,361
Public service	1,651,758	2,016,272
Academic support	1,617,764	2,252,180
Student services	1,126,997	814,041
Residence halls	319,387	187,623
Student aid	2,802,699	3,213,323
Support services	1,262,907	955,009
Plant operations	203,366	146,608
	$ 10,753,084	$ 11,727,417
Time-Restricted Contributions - Amortization of Restricted Gifts to Acquire Long-Lived Assets	2,327,104	1,882,297
Total Net Assets Released from Restriction	$ 13,080,188	$ 13,609,714
Matured Annuity and Life Income Contracts -		
Temporarily Restricted Agreements Reclassified to Tuition Replacement Funds in Unrestricted Net Assets	$ 108,927	$ 497,733

(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, 2016 or 2015. 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 2013.

(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 8, 2016, 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