Berea College

Financial Statements

for the Year Ended June 30, 2018

Board of Trustees

Officers

CONTENTS

HIGHLIGHTS

	As of or for the Year Ended June 30, 2018	2017
OPERATING REVENUE	$ 126,706,595	$ 116,334,643
OPERATING EXPENSES	$ 118,584,589	$ 104,699,869
OPERATING REVENUE IN EXCESS OF OPERATING EXPENSES	$ 8,122,006	$ 11,634,774
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	$ 36,645,553	$ 38,387,123
LONG-TERM INVESTMENTS OF THE ENDOWMENT		
Original gift value	$ 528,668,693	$ 509,400,542
Investments at market	$ 1,192,078,100	$ 1,150,360,300
Interest and dividends, net	$ 27,472,362	$ 22,655,705
Return	2.4%	2.2%
Market price change	$ 49,019,454	$ 113,107,660
Return	4.3%	10.9%
Total return	$ 76,491,816	$ 135,763,365
Percent - time weighted	6.7%	13.1%
CASH AND IN-KIND CONTRIBUTIONS		
Cash gifts	$ 33,293,250	$ 28,970,867
Bequests	11,790,622	12,368,004
Total cash gifts	45,083,872	41,338,871
Gifts-in-kind	141,469	81,801
Total College gifts	45,225,341	41,420,672
Agency gifts	3,616	15,950
Total	$ 45,228,957	$ 41,436,622

REPORT OF THE VICE PRESIDENT FOR FINANCE

September, 2018

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 engaged in thinking openly and creatively about the ways in which Berea will continue to provide students with the highest quality undergraduate experience possible. However, this commitment of providing an excellent learning environment brings special financial challenges.

Over the years, there has been an increased demand on the earnings of the endowment to provide the financial support for Berea's unrestricted operating budget. The endowment spending formula now provides nearly 75% of the revenue for the College's unrestricted educational and general operating budget. The endowment provided a total investment return of 6.7% in 2017-18. During the year, the endowment experienced a net market-price increase of $49.0 million and $27.5 million in income. Over $19 million was added to the endowment as a result of nearly $12 million in endowment fund gifts, the decision of the Board of Trustees to designate $5 million of reserves to quasi endowment and almost $2 million in matured planned giving instruments. The June 30, 2018 endowment market value of $1,192.1 million is composed of cumulative original gifts and other additions of $528.7 million plus cumulative net market appreciation after endowment spending of $663.4 million. The market value of the quasi endowment portion of the investments as of June 30, 2018, was $545.5 million, or nearly 46% of the total endowment investments. The Board policy, approved in 1920, of adding all unrestricted bequests to the endowment has been a major factor in endowment growth over the years.

With support from over 540 alumni and friends, over $230,000 was raised during Berea's Giving Day, making it a huge success. During 2018 the dollar amount of gifts received from Berea College Advancement efforts was $22.8 million compared to $24.8 million in 2017. The number of gifts increased from 27,269 to 28,148 and the number of donors increased from 11,296 to 11,314. In addition to the gift amounts noted above, a large external trust donated $21.5 million and $15.2 million in 2018 and 2017, respectively. External programs raised an additional $800,000 in 2018 and $900,000 in 2017. One of the most exciting giving statistics during the year was that approximately 60% of Berea's students were 'Berea Patrons' (currently enrolled student donors) with student donors increasing from 933 to 1,015.

At the time of this letter, students are attending classes in the newly constructed Margaret A. Cargill Natural Sciences and Health Building. The 133,000-square-foot facility opened in August, 2018 and houses the College's science disciplines, mathematics and nursing. The building provides an interdisciplinary learning environment that enriches collaboration among the science disciplines, as well as, enhancing connections with the nursing and mathematics programs. A major contribution from a private foundation coupled with gifts from more than 600 alumni, friends, faculty, staff and students provided major funding for the project.

In addition to smaller construction projects, residence hall renovations continue. The demolition and reconstruction of Danforth Residence Hall began in May, 2018. The new building will include an increase in beds and an additional 10,000 square feet for a total of approximately 47,000 square feet. The 18-month project is scheduled for a re-opening in January, 2020.

In 2017-18, the College engaged an independent firm to complete a comprehensive Economic Impact Study to help quantify Berea's economic impact in Madison County, Kentucky. The analysis was based on a model of the local economy that utilized data from the U.S. Bureau of Economic Analysis that were specific to Madison County. The total annual economic impact generated by the College and all the related operations totaled $202.4 million for the 2016-17 academic year. This is a measure of the total number of dollars flowing through the Madison County economy because of the ongoing operations of the College. The College and dedicated contractors not only employ several hundred people but there are over 2,100 indirect jobs that exist throughout the Madison County economy because of the College's operations. College operations generated direct and indirect wages and benefits of $114.6 million and direct and indirect local tax revenues of over $3.9 million.

Financial Position

Operating results and financial position of the College remain strong. Operating revenue in excess of operating expenses amounted to $8.1 million. **Total Net Assets** (total assets less liabilities) of the College were $1,526.6 million, increasing by $62.5 million or 4.3 percent during the year. This change reflects an increase in the market value of total long-term investments during the year from $1,208.9 million as of June 30, 2017 to $1,253.6 million as of June 30, 2018.

At June 30, 2018, **Total Assets** of the College were $1,604.9 million. Of this amount, long-term investments (including endowment funds, annuity and life income funds and other funds) comprised $1,253.6 million; net property, plant and equipment totaled $237.4 million; and current assets totaled $100.0 million. Long-term contributions receivable and bequests in probate totaled $12.1 million; non-current prepaid expenses totaled $1.1 million; and long-term receivables totaled approximately $0.7 million.

Total Liabilities decreased by $1.5 million from $79.8 million as of June 30, 2017 to $78.3 million as of June 30, 2018. Most of the decrease was due to a $4.0 million decrease in accounts payable for capital construction projects coupled with bond principal payments of $4.2 million partially offset by the issuance of $5.9 million of New Markets Tax Credit debt as a partial funding source for the Margaret A. Cargill Natural Sciences and Health Building

Concluding Comments

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

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

Respectfully submitted,

Jeffrey S. Amburgey

Jeffrey S. Amburgey
Vice President for Finance

RESPONSIBILITY FOR THE COLLEGE'S CONSOLIDATED FINANCIAL STATEMENTS

The Finance Office 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 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 Finance Office 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, 2018 and 2017, and the changes in its net assets and cash flows for the years then ended.

September, 2018

Lyle D. Roelofs
President

Jeffrey S. Amburgey
Vice President for Finance

Crowe

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Berea College
Berea, Kentucky

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Berea College, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Berea College as of June 30, 2018 and 2017, 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 2018 and 2017 consolidated 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 consolidated financial statements. The 2018 and 2017 highlights and report of the Vice President for Finance have not been subjected to the auditing procedures applied in the audits of the 2018 and 2017 consolidated financial statements and accordingly, we do not express an opinion or provide any assurance on them.

Crowe LLP

Crowe LLP

Louisville, Kentucky
September 10, 2018

Berea College

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2018	June 30, 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 58,462,357	$ 77,870,619
Accrued interest on investments	1,173,653	506,593
Accounts receivable - U.S. Government	8,296,062	5,868,345
Other accounts receivable	1,858,118	1,148,613
Inventories	1,267,481	1,207,698
Prepaid expenses and other assets	1,315,995	1,066,758
Contributions receivable and bequests in probate	27,624,049	19,898,012
Total current assets	99,997,715	107,566,638
PREPAID EXPENSES AND OTHER ASSETS	1,135,066	853,141
CONTRIBUTIONS RECEIVABLE AND BEQUESTS IN PROBATE	12,108,881	16,672,225
LONG-TERM RECEIVABLES		
Institutional student loans	667,712	779,914
Federal student loans	27,331	33,953
Total long-term receivables	695,043	813,867
LONG-TERM INVESTMENTS		
Donor restricted endowment	646,528,200	629,421,300
Board designated endowment	545,549,900	520,939,000
Annuity and life income	26,058,900	24,533,700
Funds held in trust by others	30,549,000	29,017,000
Other investments	4,924,700	4,954,000
Total long-term investments	1,253,610,700	1,208,865,000
NET PROPERTY, PLANT AND EQUIPMENT	237,393,342	209,194,467
Total assets	$ 1,604,940,747	$ 1,543,965,338

See notes to consolidated financial statements.

Berea College

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2018	June 30, 2017
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 9,771,982	$ 7,072,636
Accounts payable - capital construction projects	2,668,063	6,650,004
Accrued salaries and wages	3,096,967	3,695,135
Current portion of interest rate swap valuation	403,353	568,414
Current maturities of long-term debt	3,016,804	3,577,966
Other current liabilities	931,232	811,615
Total current liabilities	19,888,401	22,375,770
LONG-TERM LIABILITIES		
Actuarial liability for annuities payable and other liabilities	15,067,422	14,216,648
Deferred financing expense	(1,327,869)	(430,462)
Interest rate swap valuation	3,220,647	4,514,586
Long-term debt	41,452,086	39,146,807
Total long-term liabilities	58,412,286	57,447,579
Total liabilities	78,300,687	79,823,349
NET ASSETS		
Unrestricted -		
For current operations	100,078	99,760
Designated for specific purposes	43,773,784	56,388,869
Invested in property, plant and equipment	88,213,665	70,944,914
Support of future operations from:		
Contributions receivable and bequests in probate	9,614,854	8,622,710
Donor restricted endowment funds	(1,275,003)	(1,708,861)
Board designated endowment funds	545,549,900	520,939,000
Total unrestricted	685,977,278	655,286,392
Temporarily restricted -		
Unexpended contributions restricted for operations	17,917,326	23,863,657
Unexpended contributions restricted for plant renewals and replacement	28,267,249	19,685,034
Annuity and life income contracts	5,589,944	5,626,385
Expended contributions for long-lived assets being amortized	97,193,235	87,263,248
Donor restricted endowment funds	385,054,600	373,092,933
Total temporarily restricted	534,022,354	509,531,257
Permanently restricted -		
Loan funds	2,993,451	2,940,944
Annuity and life income contracts	6,808,356	6,069,715
Contributions receivable and bequests in probate	3,541,018	3,259,453
Funds held in trust by others	30,549,000	29,017,000
Donor restricted endowment funds	262,748,603	258,037,228
Total permanently restricted	306,640,428	299,324,340
Total net assets	1,526,640,060	1,464,141,989
Total liabilities and net assets	$ 1,604,940,747	$ 1,543,965,338

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF ACTIVITIES

Changes in Unrestricted Net Assets

	Year Ended June 30, 2018	Year Ended June 30, 2017
OPERATING REVENUE		
Spendable return from long-term investments	$ 48,731,355	$ 47,250,668
Gifts and donations	5,391,277	6,952,098
Federal grants	32,900,949	27,162,529
Cost of education fees paid by federal and state scholarships	3,100,000	3,400,000
Fees paid by students	1,385,929	1,325,111
Other income	4,872,332	4,220,999
Residence halls and dining service	8,868,478	8,648,486
Student industries and rentals	4,728,586	4,465,037
Net assets released from restrictions	20,019,528	16,586,449
Gross operating revenue	129,998,434	120,011,377
Less: Student aid	(3,291,840)	(3,676,734)
Net operating revenue	126,706,594	116,334,643
OPERATING EXPENSES		
Program Services -		
Instruction	28,490,945	25,473,035
Public service	30,786,165	24,910,663
Academic support	11,637,487	10,136,305
Student services	11,608,961	10,726,530
Residence halls and dining service	9,822,179	9,850,044
Student industries and rentals	5,734,504	5,457,895
Total Program Services	98,080,241	86,554,472
Support Services, including fund raising expense of $5,996,535 in 2018 and $5,567,363 in 2017	20,504,346	18,145,397
Total operating expenses	118,584,587	104,699,869
Operating revenue in excess of operating expenses	8,122,007	11,634,774
OTHER UNRESTRICTED ACTIVITY		
Gain on sale of property, plant and equipment	4,345	40,738
Gain on valuation of interest rate swaps	1,459,000	2,414,000
Total other unrestricted activity	1,463,345	2,454,738
REVENUES DESIGNATED FOR LONG-TERM INVESTMENT		
Unrestricted bequests	9,953,457	6,014,208
Matured annuity and life income contracts	642,587	336,320
Investment return more than amounts designated for current operations	10,575,632	40,284,042
Total increase in revenues designated for long-term investment	21,171,676	46,634,570
Increase in unrestricted net assets	$ 30,757,028	$ 60,724,082

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF ACTIVITIES

Changes in Total Net Assets

	Year Ended June 30, 2018	Year Ended June 30, 2017
UNRESTRICTED NET ASSETS		
Operating revenue in excess of operating expenses	$ 8,122,007	$ 11,634,774
Other unrestricted activity	1,463,345	2,454,738
Increase in revenues designated for long-term investment	21,171,676	46,634,570
Increase in unrestricted net assets	30,757,028	60,724,082
TEMPORARILY RESTRICTED NET ASSETS		
Restricted gifts and donations	27,844,133	29,702,093
Restricted spendable return on endowment investments	5,130,722	5,265,045
Investment return more than amounts designated for current operations	11,874,016	42,790,425
Net adjustment of annuity payment and deferred giving liability	522,976	(517,614)
Reclassification of net assets released from restrictions	(20,019,528)	(16,586,449)
Reclassification of matured annuity and life income contracts to revenues designated for long-term investment	(642,587)	(336,320)
Reclassification of net assets	(284,777)	(292,660)
Increase in temporarily restricted net assets	24,424,955	60,024,520
PERMANENTLY RESTRICTED NET ASSETS		
Gifts and donations	5,199,167	6,441,840
Restricted return on endowment investments	180,091	173,186
Restricted capital gain on funds held in trust by others	1,532,000	2,234,000
Net adjustment of annuity payment and deferred giving liability	120,053	(893,113)
Reclassification of net assets	284,777	292,660
Increase in permanently restricted net assets	7,316,088	8,248,573
Total increase in net assets	62,498,071	128,997,175
NET ASSETS		
Beginning of year	1,464,141,989	1,335,144,814
End of year	$ 1,526,640,060	$ 1,464,141,989

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 62,498,071	$ 128,997,175
Adjustments to reconcile increase in net assets to net cash used in operating activities -		
Realized and unrealized gain on long-term investments	(51,627,944)	(117,954,188)
Restricted return on endowment funds	(180,091)	(173,186)
Gifts and bequests for financing activities	(31,308,720)	(25,928,344)
Increase in contributions receivable and bequests in probate	(3,162,693)	(7,689,568)
Gift value of annuity contracts written	(1,730,687)	(146,119)
Depreciation	8,436,081	8,283,050
Gain on sale of property, plant and equipment	(4,345)	(40,738)
Gain on revaluation of interest rate swaps	(1,459,000)	(2,414,000)
Increase in other current assets	(4,113,302)	(124,526)
Increase in non-current prepaid expenses and other assets other than cash payments for debt issuance costs	(281,925)	(180,010)
Increase (decrease) in current liabilities other than capital construction accounts payable and current maturities of long-term debt	2,220,795	(344,284)
Increase in actuarial annuity payment liability and other liabilities	850,774	2,542,436
Increase in deferred debt financing expenses	(897,407)	(36,118)
Net cash used in operating activities	(20,760,393)	(15,208,420)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities held for long-term investment	(150,803,988)	(93,770,288)
Proceeds from sales and maturities of investments	159,416,919	109,233,995
Purchase of property, plant and equipment	(36,645,553)	(38,387,123)
(Decrease) increase in capital construction accounts payable	(3,981,941)	3,500,094
Proceeds from sale of property, plant and equipment	14,942	48,458
Decrease in long-term student loans	118,824	366,404
Net cash used in provided by investing activities	(31,880,797)	(19,008,460)
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts and bequests received for -		
Long-term investment	11,826,638	14,093,897
Property, plant and equipment	19,481,782	11,834,047
Student loans	300	400
Endowment return restricted for long-term investments	180,091	173,186
Repayment of indebtedness	(4,187,966)	(4,308,814)
Long-term debt issued	5,932,083	-
Net cash provided by financing activities	33,232,928	21,792,716
Net decrease in cash and cash equivalents	(19,408,262)	(12,424,164)
Cash and cash equivalents, beginning of year	77,870,619	90,294,783
Cash and cash equivalents, end of year	$ 58,462,357	$ 77,870,619

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED 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 900 employees.

Scope of Financial Statements

Berea Interchange Development Corporation (BIDC), a 501(c)(2) organization, was formed in 1987 as a land holding company controlled by Berea College. Financial transactions for BIDC are consolidated into the Berea College financial statements. The College controls 100% of BIDC and trustees and officers of BIDC are current trustees and officers of the College.

In August 2017, the Berea College Science and Health Foundation, Inc. (the Foundation), a 501(c)(3) organization, was organized to facilitate a New Markets Tax Credit financing transaction to partially fund the construction of the Margaret A. Cargill Natural Sciences and Health Building. Financial transactions for the Foundation are consolidated into the Berea College financial statements. The College controls 100% of the Foundation and trustees and officers of the Foundation include current trustees and officers of the College as well as the Berea City Mayor.

All intercompany accounts and transactions between Berea College and these entities have been eliminated in the accompanying consolidated financial statements.

Basis of Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting. The preparation of the consolidated 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 consolidated 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.

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

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 2.73%. 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.

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, 2018 and 2017, student loans totaled $975,042 (net of $452,000 loan loss reserve) and $1,073,867 (net of $475,000 loan loss reserve), respectively, of which $280,000 and $260,000 for June 30, 2018 and 2017, respectively, are reflected in current assets.. Of the net loan totals, $947,712 and $1,039,914 for June 30, 2018 and 2017, 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 consolidated 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.

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

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 consolidated 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 consolidated statements of financial position. The change in fair value of such instruments is included in the consolidated statements of activities.

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."

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

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:

	2018	2017
Educational and general purposes	$ 7,632,092	$ 7,474,903
Student industries	803,989	808,147
	$ 8,436,081	$ 8,283,050

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 consolidated statements of activities.

Measure of Operations

In its consolidated 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 consolidated 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.

	2018	2017
Interest	$ 1,354,147	$ 1,441,641
Depreciation	8,436,081	8,283,050
Plant Operations	7,845,245	7,325,381

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

Reclassification

Certain reclassifications have been made to the 2017 consolidated financial statements to conform to the 2018 presentation with no effect on total net assets or the change in net assets.

Upcoming Accounting Pronouncements

In August 2016, the FASB issued (ASU) 2016-14, *Not-for-Profit Entities: Topic 958.* The amendments in this Update affect not-for-profit entities (NFPs) and the users of their general purpose financial statements. The amendments in this Update make certain improvements to the current net asset classification requirements and the information presented in financial statements and notes about a NFP's liquidity, financial performance, and cash flows. The amendments in the ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The College has not yet implemented this ASU and is in the process of assessing the effect on its consolidated financial statements.

(2) LONG-TERM INVESTMENTS

	June 30, 2018	June 30, 2017
Endowment:		
Pooled Investments -		
U. S. equities	$ 288,117,300	$ 256,191,400
International equities	349,949,800	351,148,200
Corporate notes and bonds	99,568,000	67,662,500
U. S. Government securities	69,138,200	70,289,100
Private equity - venture capital	327,300	464,300
Private equity - buy out	14,088,100	20,252,200
Private equity - debt funds	-	18,900
Private equity - fund of funds	41,564,700	27,193,700
Hedge funds	142,135,300	143,645,500
Special opportunities	29,922,200	58,276,200
Commodities	62,748,600	54,519,300
Short-term investments and cash	89,623,300	95,764,100
Total	1,187,182,800	1,145,425,400
Non Pooled Investments -		
U. S. equities	44,600	88,500
Corporate notes and bonds	22,000	19,200
Real estate	2,766,700	2,766,700
Short-term investments and cash	2,062,000	2,060,500
Total	4,895,300	4,934,900
Total endowment	1,192,078,100	1,150,360,300
Annuity and Life Income:		
U. S. equities	8,775,800	8,219,200
International equities	5,159,700	5,000,900
Corporate notes and bonds	4,007,500	3,772,000
U. S. Government securities	2,651,700	2,418,700
International bonds	1,491,000	1,374,400
Real estate	3,502,500	3,165,900
Insurance policies	70,900	101,900
Short-term investments and cash	399,800	480,700
Total annuity and life income	26,058,900	24,533,700
Funds Held in Trust by Others, where Berea College receives all or a stipulated percent of income	30,549,000	29,017,000
Other Investments	4,924,700	4,954,000
Total long-term investments	$ 1,253,610,700	$ 1,208,865,000

(2) LONG-TERM INVESTMENTS (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. 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 2018 and 2017, spendable return under the formulas amounted to $54,026,440 and $52,672,369, respectively. In 2018, actual cash income earned on pooled investments, net of $855,394 for investment management and custodial fees, amounted to $27,456,634, or $26,569,806 less than the spendable return provided by the formula. This difference was provided by the accumulated net appreciation earned on investments.

(2) LONG-TERM INVESTMENTS (continued)

The College follows the policy of spending only cash income received on non-pooled endowment investments. Such income amounted to $15,728 in 2018 and $16,530 in 2017, while the market value of these investments of $4,895,300 at June 30, 2018 and $4,934,900 at June 30, 2017 decreased by $44,600 in 2018 and decreased by $15,300 in 2017. Additions to non-pooled endowment investments during 2018 and 2017 amounted to $5,000 and $3,500, respectively.

Dividend and interest income of $27,472,362 and $22,655,705 reported net of external investment manager fees of $855,394 and $860,922 is included in the consolidated statements of activities for the years ended June 30, 2018 and 2017, 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 $1,275,003 in 2018 and $1,708,861 in 2017, is classified as unrestricted net assets.

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

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

(1) The duration and preservation of the endowment fund

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

(3) General economic conditions

(4) The possible effect of inflation or deflation

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

(6) Other resources of the institution

(7) The investment policy of the institution

(2) LONG-TERM INVESTMENTS (continued)

During 2018, the unit value of pooled investments changed as follows:

	2017-18				2016-17
	Market Value	Number of Units	Value Per Unit	Time Weighted Return Net of Fees	Market Value
Beginning Balance	$ 1,145,425,400	767,977.378	$ 1,491.483		$ 1,045,733,200
Market price change	49,064,054		64.062	4.3%	113,122,960
Net income earned	27,456,634		35.752	2.4%	22,639,175
Spendable return	(54,026,440)		(70.349)	-	(52,672,369)
	22,494,248		29.465	6.7%	83,089,766
Additions	19,263,152	12,576.886	-		16,602,434
Ending Balance	$ 1,187,182,800	780,554.264	$ 1,520.949		$ 1,145,425,400

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

	2018	2017
Pooled Investments -		
Cash income, net	$ 27,456,634	$ 22,639,175
Market price change	49,064,054	113,122,960
Non-Pooled Investments -		
Cash income	15,728	16,530
Market price change	(44,600)	(15,300)
Total Return	$ 76,491,816	$ 135,763,365
Distributed to -		
Unrestricted Net Assets		
Spendable return	$ 48,731,355	$ 47,250,668
Long-term investments	10,575,632	40,284,042
Temporarily Restricted Net Assets		
Spendable return	5,130,722	5,265,045
Investment return more (less) than amounts designated for current operations	11,874,016	42,790,424
Permanently Restricted		
Restricted earnings	180,091	173,186
Total	$ 76,491,816	$ 135,763,365

(2) LONG-TERM INVESTMENTS (continued)

Endowment Investments Net Asset Composition by Type of Fund as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ (1,275,003)	$ 385,054,600	$ 262,748,603	$ 646,528,200
Board designated endowment funds	545,549,900			545,549,900
	$ 544,274,897	$ 385,054,600	$ 262,748,603	$ 1,192,078,100

Changes in Endowment Investments Net Assets for the Fiscal Year Ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment investments net assets, beginning of year	$ 519,230,139	$ 373,092,933	$ 258,037,228	$ 1,150,360,300
Investment return:				
Investment income	27,472,362	-	-	27,472,362
Net gains (realized and unrealized)	22,185,471	26,833,983	-	49,019,454
Total investment return	49,657,833	26,833,983	-	76,491,816
Contributions	-	-	3,269,785	3,269,785
Other restricted additions	-	21,509	1,441,590	1,463,099
Board designated additions	14,535,268	-	-	14,535,268
Appropriation of endowment assets for expenditure	(39,082,201)	(14,959,967)	-	(54,042,168)
Endowment investments net assets, end of year	$ 544,341,039	$ 384,988,458	$ 262,748,603	$ 1,192,078,100

(2) LONG-TERM INVESTMENTS (continued)

Endowment Investments Net Asset Composition by Type of Fund as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ (1,708,861)	$ 373,092,933	$ 258,037,228	$ 629,421,300
Board designated endowment funds	520,939,000	-	-	520,939,000
	$ 519,230,139	$ 373,092,933	$ 258,037,228	$1,150,360,300

Changes in Endowment Investments Net Assets for the Fiscal Year Ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment investments net assets, beginning of year	$ 470,605,046	$ 330,282,237	$ 249,792,617	$1,050,679,900
Investment return:				
Investment income	22,655,705	-	-	22,655,705
Net gains (realized and unrealized)	50,923,138	62,184,522		113,107,660
Total investment return	73,578,843	62,184,522	-	135,763,365
Contributions	-	-	7,371,403	7,371,403
Other restricted additions	-	20,272	873,208	893,480
Board designated additions	8,341,051	-	-	8,341,051
Appropriation of endowment assets for expenditure	(33,294,801)	(19,394,098)	-	(52,688,899)
Endowment investments net assets, end of year	$ 519,230,139	$ 373,092,933	$ 258,037,228	$1,150,360,300

The College's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As of June 30, 2018, 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) LONG-TERM INVESTMENTS

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, 2018:

	June 30, 2018 Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV[1]
Assets					
Endowment investments:					
Short-term investments and cash	$ 91,685,300	$ -	$ 91,685,300	$ -	$ -
U.S. equities	288,161,900	288,161,900	-	-	-
International equities	349,949,800	349,949,800	-	-	-
Fixed income	168,728,200	135,166,600	33,561,600	-	-
Private equity	55,980,100	-	-	-	55,980,100
Hedge funds	142,135,300	-	-	-	142,135,300
Commodities	62,748,600	62,748,600	-	-	-
Other endowment investments	32,688,900	-	16,623,200	2,766,700	13,299,000
Building maintenance investments	4,924,700	4,831,628	93,072	-	-
Certificates of deposit	451,404	-	451,404	-	-
Funds held in trust by others	30,549,000	-	-	30,549,000	-
Split-interest agreements	26,058,900	26,058,900	-	-	-
Total assets	$ 1,254,062,104	$ 866,917,428	$ 142,414,576	$ 33,315,700	$ 211,414,400
Liabilities					
Interest rate swap agreements	$ 3,624,000	$ -	$ 3,624,000	$ -	$ -

[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.*

(3) FAIR VALUE MEASUREMENTS (continued)

Level 3 Reconciliation

	Balances June 30, 2017	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, 2018
Endowment investments	$ 2,766,700	$ -	$ -	$ -	$ 2,766,700
Funds held in trust by others	29,017,000	1,532,000	-	-	30,549,000
Total	$ 31,783,700	$ 1,532,000	$ -	$ -	$ 33,315,700

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, 2017:

	June 30, 2017 Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV[1]
Assets					
Endowment investments:					
Short-term investments and cash	$ 97,824,600	$ -	$ 97,824,600	$ -	$ -
U.S. equities	256,279,900	256,279,900	-	-	-
International equities	351,148,200	351,148,200	-	-	-
Fixed income	137,970,800	137,970,800	-	-	-
Private equity	47,929,100	-	-	-	47,929,100
Hedge funds	143,645,500	-	-	-	143,645,500
Commodities	54,519,300	54,519,300	-	-	-
Other endowment investments	61,042,900	-	15,813,500	2,766,700	42,462,700
Building maintenance investments	4,954,000	4,614,754	339,246	-	-
Certificates of deposit	450,301	-	450,301	-	-
Funds held in trust by others	29,017,000	-	-	29,017,000	-
Split-interest agreements	24,533,700	24,533,700	-	-	-
Total assets	$1,209,315,301	$ 829,066,654	$ 114,427,647	$ 31,783,700	$ 234,037,300
Liabilities					
Interest rate swap agreements	$ 5,083,000	$ -	$ 5,083,000	$ -	$ -

[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*.

(3) FAIR VALUE MEASUREMENTS (continued)

Level 3 Reconciliation

		Balances June 30, 2016		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, 2017
Endowment investments	$	2,766,700	$	-	$	-	$	-	$	2,766,700
Funds held in trust by others		26,783,000		2,234,000		-		-		29,017,000
Total	$	29,549,700	$	2,234,000	$	-	$	-	$	31,783,700

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 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 between 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 $10,350,000 and $10,960,000 at June 30, 2018 and 2017, respectively. The average rate received from the interest rate swap counterparty during 2018 and 2017 was 1.02% and 0.52%, respectively, and the average interest rate paid by the College for 2018 and 2017 was 3.45%. The interest rate swap matures in 2032. Total net interest expensed during 2018 and 2017 was $430,032 and $530,405 respectively, and is allocated to various expenses by function in the consolidated statements of activities. The expected fair value of the swap to be amortized in the next fiscal year is $294,905.

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 $5,710,000 and $6,120,000 at June 30, 2018 and 2017, 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 2018 and 2017 was 1.02% and 0.52%, respectively, and the average interest rate paid by the College for 2018 and 2017 was 3.746%. The interest rate swap matures in 2029. Total net interest expensed during 2018 and 2017 was $162,658 and $209,141, respectively, and is allocated to various expenses by function in the consolidated statements of activities. The expected fair value of the swap to be amortized in the next fiscal year is $108,448.

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 consolidated statements of activities. The valuation of the two interest rate swaps at June 30, 2018 and 2017 resulted in a liability of $3,624,000 and $5,083,000, 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 $2,768,956 in 2018 and $2,578,383 in 2017.

(6) PROPERTY, PLANT AND EQUIPMENT

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

Property, Plant and Equipment	2018	2017
Educational property, plant and equipment	$ 257,072,161	$ 247,078,908
Student industry plant and equipment	22,796,547	22,255,952
Rental property	3,442,762	3,319,314
Forest and farms	3,101,257	2,850,449
Collections and works of art	4,437,745	4,437,745
Construction in process	65,285,362	39,699,546
Less accumulated depreciation	(118,742,492)	(110,447,447)
	$ 237,393,342	$ 209,194,467

(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 2018 and 2017 accounting for costs associated with asbestos abatement is as follows:

	2018	2017
Beginning balance	$ 997,578	$ 973,414
Accretion expense	(4,624)	24,164
Liabilities settled during the year	(23,174)	-
Ending balance	$ 969,780	$ 997,578

(8) LONG-TERM DEBT

	June 30, 2018	June 30, 2017
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2002A - Issued August 29, 2002; due June 1, 2032; variable interest rate, 1.60% as of June, 2018 with synthetic fixed rate of 3.45%; proceeds used for various capital projects	$ 10,350,000	$ 10,960,000
Variable Rate Demand Educational Facilities Revenue Bonds, Series 2003B - Issued December 11, 2003; annual payments through June 1, 2029; variable interest rate, 1.60% as of June, 2018 with synthetic fixed rate of 3.746%; proceeds used for various capital projects	5,710,000	6,120,000
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	395,000	1,205,000
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	4,443,592	5,446,516
Educational Facilities Revenue Refunding Bonds, Series 2012 - Issued December, 2012; private bank placement through Fifth Third Bank; annual payments at fixed rate of 1.92% through June 1, 2024; proceeds used for refunding Series 2003A bonds	4,318,970	4,998,830
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	8,670,000	8,735,000
Educational Facilities Revenue Refunding Bonds, Series 2015 - Issued May, 2015; private bank placement through Fifth Third Bank; annual payments at fixed rate of 2.58% through June 1, 2025; proceed used for refunding Series 2005A bonds	4,649,245	5,259,427
New markets tax credit transactions - see Note 9	5,932,083	-
	44,468,890	42,724,773
Less current portion	3,016,804	3,577,966
	41,452,086	39,146,807

(8) LONG-TERM DEBT (continued)

Principal payments on long-term debt are required to be made in each of the following fiscal years: $3,016,804 in 2019; $3,085,328 in 2020; $2,942,539 in 2021; $3,004,254 in 2022; $2,249,878 in 2023 and $30,170,087 in subsequent years thereafter.

The fair value of the College's long-term debt at June 30, 2018 and 2017 was estimated to be approximately $44,253,556 and $42,654,000, respectively, based upon rates available to the College for debt with similar terms and remaining maturities.

Cash payments for interest amounted to $1,364,666 in 2018 and $1,454,732 in 2017.

(9) NEW MARKETS TAX CREDIT TRANSACTIONS

In 2017, the College formed the Berea College Science and Health Foundation, Inc. (the Foundation) to facilitate New Markets Tax Credit (NMTC) financing transactions to partially fund the construction of the Margaret A. Cargill Natural Sciences and Health Building.

The NMTC Program attracts private capital into low-income communities by permitting individual and corporate investors to receive a tax credit against their federal income tax in exchange for making equity investments in specialized financial intermediaries, called Community Development Entities (CDEs). The credit totals 39 percent of the original investment amount and is claimed over a period of seven years. Berea College serves as the "leverage lender" in these transactions and is not the recipient of the tax credit. The Foundation is the qualified borrower in the NMTC transactions and entered into the following loan agreements with CDEs, which are included in long-term debt in the consolidated statements of net position. The land and title of the building were transferred, by the College, to the Foundation and serve as collateral for the financing transaction. Intercompany transactions between the College and Foundation have been eliminated in the consolidated financial statements.

Partnerships of Hope XVIII, LLC, a CDE, is 99% owned by the Berea College Investment Fund, LLC (the "Fund"). The Fund is 100% owned by PNC New Markets Investment Partners, LLC ("PNC") after a leverage loan from Berea of $6,990,000 and a contribution from PNC. Partnerships of Hope XVIII, LLC then loaned $10,000,000 to the Foundation, consisting of $6,990,000 from the College and $3,010,000 of funds representing PNC's interest in Partnerships of Hope XVIII, LLC.

Pacesetter CDE, LLC, a CDE is 99% owned by Petros-Pacesetter Kentucky Investment Fund 2, LLC (the "Fund 2"). The Fund 2 is 100% owned by U.S. Bank National Association ("U.S. Bank") after a leverage loan from Berea of $3,543,750 and a contribution from U.S. Bank. Pacesetter CDE, LLC then loaned $4,166,667 to the Foundation, consisting of $3,543,750 from the College and $622,917 of funds representing U.S. Bank's interest in Pacesetter CDE, LLC.

Brownfield Revitalization CDE, LLC a CDE is 99% owned by USBCDC Investment Fund 189, LLC (the "Fund 3"). The Fund 3 is 100% owned by U.S. Bank after a leverage loan from Berea of 3,517,500 and a contribution from U.S. Bank. Brownfield Revitalization CDE, LLC then loaned $4,166,667 to the Foundation, consisting of $3,517,500 from the College and $649,166 of funds representing U.S. Bank's interest in Brownfield Revitalization CDE, LLC.

Mountain Association for Community Economic Development, Inc. (MACED) is a CDE. The College is not a leverage lender for this transaction. The note payable is between MACED and the Foundation.

(9) NEW MARKETS TAX CREDIT TRANSACTIONS (continued)

		2018
Partnerships of Hope XVIII, LLC - Issued September 22, 2017; interest paid quarterly at fixed rate of 1.127641%, per annum, through August 2047; monthly principal payments begin on Decmeber 10, 2024 and continue quarterly until loan is fully amortized on August 10, 2047.	$	3,010,000
Pacesetter CDE, LLC - Issued October 6, 2017; interest is paid quarterly at fixed rate of 1%, per annum, through September 2046; monthly principal payments begin on December 10, 2023 and continue quarterly until the loan is fully amortized on September 10, 2046.		622,917
Brownfield Revitalization CDE, LLC - Issued October 6, 2017; interest paid quarterly at fixed rate of 1%, per annum, through September 2046; monthly principal payments begin on December 10, 2023 and continue quarterly until the loan is fully amortized on September 10, 2046.		649,166
Mountain Association for Community Economic Development, Inc. - Issued January 5, 2018; due January 5, 2025; quarterly payments at fixed rate of 3.25%, per annum, until December 31, 2018 and 0.20%, per annum, thereafter.		1,650,000
	$	5,932,083

In connection with the completion of the seven year NMTC period for Fund 1, Fund 2 and Fund 3, the principal balance of the notes payable, outlined in the table above, is expected to be converted into equity through a put/call option and the Foundation assets will be transferred to the College. The Foundation is required to submit quarterly financial statements to the CDE's and is in compliance with that requirement as of June 30, 2018.

On July 10, 2018, the Foundation closed on additional NMTC financing transactions with Dakotas XXIV, LLC and Partnerships of Hope XX, LLC, with loan agreements totaling $2,642,000 and $2,709,000, respectively. The College also served as the "leverage lender" in these transactions.

(10) CONTRIBUTIONS AND BEQUESTS IN PROBATE

	June 30, 2018 Total	Due In One Year or Less	Due In One Year to Five Years	Due In Over Five Years	June 30, 2017 Total
Unconditional Promises for -					
Unrestricted [1]	$ 784,023	$ 402,300	$ 381,723	$ -	$ 1,203,939
Restricted [2]	8,603,416	6,125,218	2,478,198	-	11,898,200
Buildings and equipment [3]	18,114,854	17,862,037	252,817	-	13,104,494
Endowment	190,359	44,716	145,643	-	9,451
Reserve for unfulfilled promises	(87,980)	(66,535)	(21,445)	-	(129,315)
Total	27,604,672	24,367,736	3,236,936	-	26,086,769
Bequests in Probate	8,347,139	3,215,963	5,131,176	-	6,743,317
External Charitable Remainder Trusts*	3,619,274	-	-	3,619,274	3,581,092
Charitable Lead Trusts	443,850	40,350	161,400	242,100	484,200
Total	$ 40,014,935	$ 27,624,049	$ 8,529,512	$ 3,861,374	$ 36,895,378
Present Value of Estimated Future Cash Flows	$ 39,732,930	$ 27,624,049	$ 8,277,573	$ 3,831,308	$ 36,570,237

[1] June 30, 2018 balance includes $710,000 commitment from an external charitable trust ($360,000 due in one year or less, $350,000 due in one year to five years).

[2] June 30, 2018 balance includes $8,208,146 commitment from an external charitable trust ($5,835,890 due in one year or less, $2,372,256 due in one year to five years).

[3] June 30, 2018 balance includes $16,575,000 commitment from an external charitable trust, due in one year or less.

*Discounted beneficial interest in trusts

(11) 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 consolidated financial statements.

At June 30, 2018, the College was committed under various contracts with alternative investment managers to fund $121,718,352 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	$ 5,605,326
Fund of funds	73,090,191
Special opportunities	43,022,835
Total	$ 121,718,352

The College has purchase commitments relating to construction projects of approximately $8,165,000 as of June 30, 2018.

(12) 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.

(13) NET ASSETS RELEASED FROM RESTRICTIONS

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

	2018	2017
Purpose Restricted Contributions for -		
Instruction	$ 3,872,122	$ 1,783,621
Public service	1,512,542	2,229,668
Academic support	3,009,220	2,289,815
Student services	1,835,061	1,505,706
Residence halls	529,879	497,045
Student aid	2,191,505	2,734,621
Support services	3,493,679	2,397,323
Student industries	-	881
Plant operations	267,508	376,972
	$ 16,711,516	$ 13,815,652
Time-Restricted Contributions - Amortization of Restricted Gifts to Acquire Long-Lived Assets	3,308,012	2,770,797
Total Net Assets Released from Restriction	$ 20,019,528	$ 16,586,449
Matured Annuity and Life Income Contracts -		
Temporarily Restricted Agreements Reclassified to Tution Replacement Funds on Unrestricted Net Assets	$ 642,587	$ 336,320

(14) 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 consolidated 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 consolidated 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, 2018 or 2017. 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 2015.

(15) 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 10, 2018, the date on which we issued our consolidated financial statements. Please see Note 9 for a description of the New Markets Tax Credit transaction that took place on July 10, 2018; there were no other events occurring during the evaluation period that would require recognition or disclosure in the consolidated financial statements.

BEREA COLLEGE