

**THE MONMOUTH COLLEGE**  
Monmouth, Illinois

**FINANCIAL STATEMENTS**  
June 30, 2014



**CliftonLarsonAllen**

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## Independent Auditors' Report

Board of Trustees  
The Monmouth College  
Monmouth, Illinois

### Report on the Financial Statements

We have audited the accompanying financial statements of The Monmouth College, which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 The Monmouth College as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited The Monmouth College's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 22, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report, dated September 26, 2014, on our consideration of The Monmouth College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Monmouth College's internal control over financial reporting and compliance.



Peoria, Illinois  
September 26, 2014

**THE MONMOUTH COLLEGE**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2014**  
**(With Comparative Totals for June 30, 2013)**

	2014				2013 Total (Memorandum Only)
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,257,015	\$ 2,473,214	\$ (243,512)	\$ 3,486,717	\$ 3,140,382
Receivables, net of allowance for doubtful accounts (Note 2):					
Accounts	942,919	296	-	943,215	637,179
Contributions	1,175,139	1,400,377	44,336	2,619,852	792,333
Loans	89,552	-	2,306,621	2,396,173	2,418,992
Inventories	190,000	-	-	190,000	190,000
Prepaid and deferred charges	384,714	-	-	384,714	368,337
Investments (Note 3)	2,702,079	60,393,286	41,185,925	104,281,290	91,144,199
Beneficial interest in perpetual trusts (Note 4)	-	-	3,596,126	3,596,126	3,333,301
Property and equipment, net (Note 6)	108,539,982	-	-	108,539,982	111,871,106
	<u>\$ 115,281,400</u>	<u>\$ 64,267,173</u>	<u>\$ 46,889,496</u>	<u>\$ 226,438,069</u>	<u>\$ 213,895,829</u>
<b>TOTAL ASSETS</b>					
	<u>\$ 115,281,400</u>	<u>\$ 64,267,173</u>	<u>\$ 46,889,496</u>	<u>\$ 226,438,069</u>	<u>\$ 213,895,829</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 760,894	\$ -	\$ -	\$ 760,894	\$ 1,878,966
Accrued wages and expenses	2,196,016	-	-	2,196,016	2,135,269
Grants payable	-	49,201	2,559,902	2,609,103	2,589,468
Deposits payable	351,321	-	-	351,321	285,476
Deferred revenues	448,248	-	-	448,248	401,752
Annuities payable	-	3,972,692	-	3,972,692	3,646,934
Bonds payable (Note 7)	25,186,667	-	-	25,186,667	26,440,000
	<u>28,943,146</u>	<u>4,021,893</u>	<u>2,559,902</u>	<u>35,524,941</u>	<u>37,377,865</u>
Total liabilities					
	<u>28,943,146</u>	<u>4,021,893</u>	<u>2,559,902</u>	<u>35,524,941</u>	<u>37,377,865</u>
<b>NET ASSETS</b> (Note 11)	<u>86,338,254</u>	<u>60,245,280</u>	<u>44,329,594</u>	<u>190,913,128</u>	<u>176,517,964</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 115,281,400</u>	<u>\$ 64,267,173</u>	<u>\$ 46,889,496</u>	<u>\$ 226,438,069</u>	<u>\$ 213,895,829</u>

The accompanying notes are an integral part of the financial statements.

**THE MONMOUTH COLLEGE**  
**STATEMENT OF ACTIVITIES**  
For Year Ended June 30, 2014  
(With Comparative Totals for Year Ended June 30, 2013)

	<b>2014</b>			<b>Total</b>	<b>2013 Total (Memorandum Only)</b>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>		
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>					
Tuition, fees, room, and board (Note 12)	\$ 25,969,829	\$ -	\$ -	\$ 25,969,829	\$ 25,251,865
State and federal grants	130,611	1,343,159	-	1,473,770	211,816
Gifts and contributions	2,762,492	2,767,306	1,001,555	6,531,353	3,370,348
Investment income	1,845,764	194,706	7,035	2,047,505	1,807,316
Net realized gains (losses) on investments	(8,746)	3,190,174	-	3,181,428	2,587,174
Net unrealized gains on investments	267,043	10,100,275	262,825	10,630,143	11,252,469
Change in value of split- interest agreements	-	(849,494)	-	(849,494)	34,178
Other	66,922	15,371	-	82,293	159,017
Net assets released from restrictions	<u>3,843,056</u>	<u>(3,843,056)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>34,876,971</u>	<u>12,918,441</u>	<u>1,271,415</u>	<u>49,066,827</u>	<u>44,674,183</u>
<b>EXPENSES AND LOSSES</b>					
Instruction	13,724,549	-	-	13,724,549	11,834,884
Academic support	2,159,183	-	-	2,159,183	2,114,882
Student services	6,188,021	-	-	6,188,021	5,545,351
Student financial assistance	192,755	-	-	192,755	187,091
Auxiliary operations	7,775,616	-	-	7,775,616	7,513,826
Management and general	3,296,199	-	-	3,296,199	3,059,081
Fundraising	<u>1,335,340</u>	<u>-</u>	<u>-</u>	<u>1,335,340</u>	<u>1,592,171</u>
Total expenses and losses (Note 14)	<u>34,671,663</u>	<u>-</u>	<u>-</u>	<u>34,671,663</u>	<u>31,847,286</u>
<b>CHANGE IN NET ASSETS</b>	205,308	12,918,441	1,271,415	14,395,164	12,826,897
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>86,132,946</u>	<u>47,326,839</u>	<u>43,058,179</u>	<u>176,517,964</u>	<u>163,691,067</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 86,338,254</u>	<u>\$ 60,245,280</u>	<u>\$ 44,329,594</u>	<u>\$ 190,913,128</u>	<u>\$ 176,517,964</u>

The accompanying notes are an integral part of the financial statements.

**THE MONMOUTH COLLEGE  
STATEMENT OF CASH FLOWS  
For Year Ended June 30, 2014**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 14,395,164
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	4,996,317
Gain on disposal of property and equipment	(3,488)
Net realized and unrealized gains on investments	(13,811,571)
Private gifts restricted for long-term investments	(1,001,555)
Effects of changes in assets and liabilities:	
Accounts receivable	(306,036)
Contributions receivable	(1,827,519)
Loans receivable	22,819
Prepaid and deferred charges	(16,377)
Accounts payable	(593,301)
Accrued wages and expenses	60,747
Grants payable	19,635
Deposits payable	65,845
Deferred revenues	46,496
Annuities payable	<u>325,758</u>
Net cash provided by operating activities	<u>2,372,934</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from sales and maturities of investments	7,297,336
Purchases of investments	(6,885,681)
Proceeds from sale of property and equipment	6,700
Acquisition of property and equipment	<u>(2,193,176)</u>
Net cash used in investing activities	<u>(1,774,821)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Contributions restricted for long-term investments	1,001,555
Principal payments on long-term bonds and notes	<u>(1,253,333)</u>
Net cash used in financing activities	<u>(251,778)</u>

**NET INCREASE IN CASH AND CASH EQUIVALENTS** 346,335

**CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** 3,140,382

**CASH AND CASH EQUIVALENTS, END OF YEAR** \$ 3,486,717

The accompanying notes are an integral part of the financial statements.

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The financial statements of the College have been prepared on the accrual basis. The College maintains its accounts in accordance with the principles of fund accounting. Resources for various purposes are classified into funds that are in accordance with activities or objectives specified by donors. Separate accounts are maintained for each fund. For reporting purposes, however, the College follows generally accepted accounting principles applicable for not-for-profit organizations, which require that resources be classified for reporting purposes into three net asset categories according to the existence or absence of donor imposed restrictions.

Descriptions of the three net asset categories and types of transactions affecting each category follow:

- Unrestricted Net Assets - net assets that are not subject to donor-imposed restrictions including the carrying value of all physical properties (land, building, and equipment). Items that affect (i.e., increase or decrease) this net asset category include: revenues, principally fees for service and related expenses associated with the core activities of the College. In addition to these exchange transactions, changes in this category of net assets include certain types of philanthropic support, namely, unrestricted gifts, including those designated by the Board to function as endowment, as well as restricted gifts whose donor-imposed restrictions are for current or developing programs and were met during the fiscal year, and gains and losses for endowment funds.
- Temporarily Restricted Net Assets - net assets subject to donor-imposed restrictions that may or will be met either by actions of the College or the passage of time. Items that affect this net asset category are gifts for which restrictions have not been met, annuity and life income gifts for which the ultimate purpose of the proceeds is not permanently restricted, gifts restricted for capital projects not yet under construction and endowments where the principal may be expended upon the passage of a stated period of time (term endowments).
- Permanently Restricted Net Assets - net assets subject to donor-imposed restrictions to be maintained permanently by the College. Items that affect this net asset category include gifts wherein donors stipulate that the corpus be held in perpetuity (primarily gifts for endowment and providing loans to the students) and only the income be made available for program operations and annuity and life income gifts for which the ultimate purpose of the proceeds is permanently restricted.



**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, allocations, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near future relates to the fair value of investments.

**Cash Equivalents**

The College considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

**Contributions Receivable**

The contributions receivable are shown at the discounted present value of the contributions estimated to be collectible. Management believes the amount estimated for uncollectible contributions is adequate based on information currently available. However, events impacting donors could occur in the next year which could change the estimated uncollectible contributions.

**Inventories**

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

**Investments**

The College follows generally accepted accounting principles for not-for-profit organizations, which require that the College carry its debt and equity securities at fair value. Unrealized appreciation or depreciation are reported as increases or decreases to net assets.

**Fixed Assets and Depreciation**

The College depreciates its property and equipment which is accounted for at cost (fair market value if contributed) using the straight-line method with lives ranging from 2 to 75 years.

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Impairment of Long-Lived Assets**

The College reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

**Revenue Recognition**

Revenues from tuition and fees are reported in the fiscal year in which educational programs are conducted. Tuition and fees billed in the current fiscal year for future years' programs are reported as deferred revenues.

**Compensated Absences**

The College does not accrue a liability for compensated absences. Vacation time earned by employees must be used by June 30 or forfeited. Accumulated sick leave, up to a maximum of 45 days, is paid only to retiring non-exempt employees. Employees terminating under other circumstances forfeit their accumulated sick pay.

**Income Tax Status**

The College is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code.

**Annuities Payable**

Several donors have entered into split-interest agreements with the College. These agreements are in the form of charitable gift annuities, charitable remainder annuity trusts, and life income trusts. The annuities payable to beneficiaries resulting from these agreements are reported as a liability at the present value of the estimated future payments to be distributed over the beneficiaries' lives. The College calculates the present value of these payments through the use of IRS discount rates and IRS life expectancy tables. The College utilized discount rates based upon the applicable month and year in which the split-interest agreements were initiated within these calculations. The College used discount rates based upon industry standards as established by the American Council on Gift Annuities, ranging from .45 to 3.35 percent for the year ended June 30, 2014.

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Gifts**

The College reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Gifts received with donor-imposed restrictions which stipulate that resources be maintained permanently but permits the use of all or part of the income derived from the donated areas are reported as permanently restricted assets. Gifts received with donor-imposed restrictions that permit the use of the donated assets as specified are reported as temporarily restricted assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The College reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the College reports expirations of donor restrictions when the long-lived assets are acquired or donated.

**Comparative Data**

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the College's financial position. However, comparative data has not been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand.

**Reclassification**

Certain items in the 2013 comparative total data have been reclassified to conform to the current year presentation.

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 2 - RECEIVABLES**

Accounts, contributions, and loans receivable are as follows:

	<u>June 30, 2014</u>	<b>June 30, 2013</b> <b>Total</b> <b>(Memorandum</b> <b>Only)</b>
Accounts:		
Students (current and former)	\$ 175,268	\$ 123,862
Other	841,848	570,317
Contributions	2,642,942	820,423
Loans	<u>2,498,445</u>	<u>2,522,324</u>
Total receivables	6,158,503	4,036,926
Less allowance for doubtful accounts	<u>(199,263)</u>	<u>(188,422)</u>
<b>Total</b>	<b><u>\$ 5,959,240</u></b>	<b><u>\$ 3,848,504</u></b>

Unconditional promises to give are reported in the financial statements as contributions receivable. Contributions receivable more than one year in the future are discounted to a present value at the time the promise is made. The discount rates range from .61 to 3.54 percent. At June 30, 2014, the unconditional promises to give total \$2,710,934. The unconditional promises are expected to be received as follows:

In less than one year	\$ 1,012,511
In one to five years	1,652,423
In more than five years	<u>46,000</u>
<b>Total</b>	<b><u>\$ 2,710,934</u></b>

The gross amount of contributions receivable and the unamortized discount are as follows:

Contributions receivable (gross amount)	\$ 2,710,934
Unamortized discount and allowance for doubtful accounts	<u>91,082</u>
<b>Contributions receivable, at present value</b>	<b><u>\$ 2,619,852</u></b>

The College makes uncollateralized loans based on financial need. Student loans are funded through Federal Government loan programs or institutional resources. At June 30, 2014, student loans represented 1.06 percent of total assets.

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 2 - RECEIVABLES (CONTINUED)**

At June 30, student loans consisted of the following:

	<u>June 30, 2014</u>	<b>June 30, 2013</b> <b>Total</b> <b>(Memorandum</b> <b>Only)</b>
Loans to students	\$ 2,498,445	\$ 2,522,324
Less, allowance for doubtful accounts:		
Beginning of year	(103,332)	(12,720)
(Increases to allowance), write-off of bad debts - net	1,060	(90,612)
End of year	(102,272)	(103,332)
<b>Student loans receivable, net</b>	<u>\$ 2,396,173</u>	<u>\$ 2,418,992</u>

The College participates in the Perkins Federal Loan Program. The availability of funds for loans under the program is dependant on reimbursements to the pool from the repayments on outstanding loans. Funds advanced by the federal government along with accumulated income of \$2,472,583 at June 30, 2014 are ultimately refundable to the government and are classified as liabilities on the Statement of Financial Position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

At June 30, 2014, the following amounts were past due under the Perkins Loan Program:

	<u>0 to 240 Days</u>	<u>240 Days to</u> <u>Two Years</u>	<u>Over Two Years</u>	<u>Total Past</u> <u>Due</u>
June 30, 2014	\$ 99,249	\$ 52,158	\$ 687,828	\$ 839,235

Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Federal regulations do not allow the College to write off loans that are felt to be uncollectible; therefore, the amount past due over two years will likely remain a significant amount.

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 3 - INVESTMENTS**

Investments include a mix of short-term investments, marketable securities, and other investments as follows:

	June 30, 2014				June 30, 2013
	<u>Endowment Pool</u>	<u>Annuity Pool</u>	<u>Other</u>	<u>Total</u>	<u>Total (Memorandum Only)</u>
Corporate and other bonds	\$ 10,403,196	\$ 1,582,935	\$ -	\$ 11,986,131	\$ 7,615,411
Balanced mutual funds	1,059,475	3,499,070	-	4,558,545	4,181,577
Preferred stock	450,000	-	-	450,000	450,000
Common stocks	65,805,374	2,795,229	9,105	68,609,708	60,369,200
Notes receivable	50,309	-	-	50,309	54,062
Cash surrender value of life insurance	38,627	-	324,393	363,020	360,031
Mutual funds	3,454,600	-	-	3,454,600	3,280,605
Real estate	14,608,977	-	-	14,608,977	14,633,313
Other investments	200,000	-	-	200,000	200,000
	<u>\$ 96,070,558</u>	<u>\$ 7,877,234</u>	<u>\$ 333,498</u>	<u>\$ 104,281,290</u>	<u>\$ 91,144,199</u>

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position and activities. The common stock investments represent a significant concentration of market risk due to their nature, amount, and volatility.

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 4 - BENEFICIAL INTEREST IN PERPETUAL TRUSTS**

The College's proportionate beneficial interest in the fair value of assets held in perpetual trusts is \$3,596,126. During the year ended June 30, 2014, the Trustees distributed \$176,178 of income to Monmouth College, representing the College's share in the net income and proceeds of the trusts.

**NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1            Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the College has the ability to access.

Level 2            Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3            Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2014 and 2013.

*Short-term investments, corporate and other bonds, balanced mutual funds, mutual funds, and common and preferred stocks:* Valued at the closing price reported on the active market on which the individual securities are traded for those classified in Level 1. Those classified in Level 2 are valued at the most recent price of the equivalent quoted yield for such securities, or those of comparable maturity, quality, and type.

*Notes receivable and cash value of life insurance:* Valued at carrying amount, which approximates fair value.

*Other investments:* Valued at information obtained from the manager of the various funds.

*Real estate:* Valued at the current appraised value.

*Beneficial interest in perpetual trusts:* This consists of investments in money market accounts, U.S. Government obligations, mutual funds, and common stocks. These investments are valued at the closing price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the College believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.



**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

**NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

The following table sets forth by level, within the fair value hierarchy, the College's assets at fair value as of June 30, 2014:

	<b>Assets at Fair Value as of June 30, 2014</b>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate and other bonds	\$11,986,131	\$ -	\$ -	\$11,986,131
Balanced mutual funds	4,558,545	-	-	4,558,545
Common and preferred stocks	68,609,708	450,000	-	69,059,708
Notes receivable	-	50,309	-	50,309
Cash value of life insurance	-	363,020	-	363,020
Mutual funds	3,454,600	-	-	3,454,600
Real estate	-	-	14,608,977	14,608,977
Other investments	-	-	200,000	200,000
Beneficial interest in perpetual trusts	<u>3,596,126</u>	<u>-</u>	<u>-</u>	<u>3,596,126</u>
<b>Total assets at fair value</b>	<b><u>\$92,205,110</u></b>	<b><u>\$ 863,329</u></b>	<b><u>\$14,808,977</u></b>	<b><u>\$107,877,416</u></b>

The following table sets forth a summary of changes in fair value of the College's Level 3 assets for the year ended June 30, 2014:

	<u>Other Investments</u>	<u>Real Estate</u>	<u>Total</u>
Balance, beginning of year	\$ 200,000	\$ 14,633,313	\$ 14,833,313
Realized and unrealized gains (losses)	-	(24,336)	(24,336)
Purchases, return of capital (net)	<u>-</u>	<u>-</u>	<u>-</u>
<b>Balance, end of year</b>	<b><u>\$ 200,000</u></b>	<b><u>\$ 14,608,977</u></b>	<b><u>\$ 14,808,977</u></b>

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

**NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

The following table sets forth by level, within the fair value hierarchy, the College's assets at fair value as of June 30, 2013:

	<b>Assets at Fair Value as of June 30, 2013</b>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate and other bonds	\$ 7,615,411	\$ -	\$ -	\$ 7,615,411
Balanced mutual funds	4,181,577	-	-	4,181,577
Common and preferred stocks	60,369,200	450,000	-	60,819,200
Notes receivable	-	54,062	-	54,062
Cash value of life insurance	-	360,031	-	360,031
Mutual funds	3,280,605	-	-	3,280,605
Real estate	-	-	14,633,313	14,633,313
Other investments	-	-	200,000	200,000
Beneficial interest in perpetual trusts	<u>3,333,301</u>	<u>-</u>	<u>-</u>	<u>3,333,301</u>
<b>Total assets at fair value</b>	<b><u>\$78,780,094</u></b>	<b><u>\$ 864,093</u></b>	<b><u>\$14,833,313</u></b>	<b><u>\$94,477,500</u></b>

The following table sets forth a summary of changes in fair value of the College's Level 3 assets for the year ended June 30, 2013:

	<b><u>Hedge Funds and Other Investments</u></b>	<b><u>Real Estate</u></b>	<b><u>Total</u></b>
Balance, beginning of year	\$ 2,972,744	\$ 10,601,270	\$ 13,574,014
Realized and unrealized gains (losses)	(16,348)	4,006,207	3,989,859
Purchases, return of capital (net)	<u>(2,756,396)</u>	<u>25,836</u>	<u>(2,730,560)</u>
<b>Balance, end of year</b>	<b><u>\$ 200,000</u></b>	<b><u>\$14,633,313</u></b>	<b><u>\$ 14,833,313</u></b>

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

The following methods were used to estimate the fair value of the following financial instruments:

*Contributions receivable:* The fair value is estimated based upon discounted rates.

*Annuities payable:* The fair value is estimated based upon discounted rates.

*Bonds and notes payable:* The fair value is estimated based upon the quoted market prices for the same or similar issues or on the current rates offered to the College for debt of the same remaining maturities. The fair value of the College's bonds and notes payable approximate the carrying value.

For all other financial instruments, the fair values approximate the carrying values in the accompanying financial statements.

**NOTE 6 - PROPERTY AND EQUIPMENT, NET**

The College's property and equipment consist of the following:

	<u>June 30, 2014</u>	<u>June 30, 2013</u> <u>Total</u> <u>(Memorandum</u> <u>Only)</u>
Land and improvements	\$ 14,321,273	\$ 13,889,225
Buildings	135,149,952	97,526,194
Equipment	19,841,413	17,519,493
Projects in progress	<u>3,690</u>	<u>38,929,676</u>
Total property and equipment	169,316,328	167,864,588
Less accumulated depreciation	<u>(60,776,346)</u>	<u>(55,993,482)</u>
<b>Net property and equipment</b>	<u><b>\$108,539,982</b></u>	<u><b>\$111,871,106</b></u>

Depreciation expense for the year ended June 30, 2014 was \$4,996,317.

During the years ended June 30, 2014 and 2013, \$0 and \$110,481, respectively, of interest expense was capitalized in the projects in progress account.

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 7 - BONDS PAYABLE**

The following indicates the scheduled future maturities of outstanding bonds at June 30, 2014:

<u>Description</u>	<u>Bonds Payable</u>		<u>Total</u>
	<u>During the Year Ended June 30, 2015</u>	<u>After July 1, 2015 Maturing Serially Through 2041</u>	
Warren County, Illinois Economic Development Revenue Bonds, Series 2002 (variable interest rate is 0.10 percent at June 30, 2014), due December 2032.	\$ 365,000	\$ 7,760,000	\$ 8,125,000
City of Monmouth, Illinois Variable Rate Demand Industrial Project Revenue Bonds, Series 2005 (variable interest rate is 0.10 percent at June 30, 2014), due June 2035.	165,000	5,120,000	5,285,000
City of Monmouth, Illinois Variable Rate Demand Revenue Bonds, Series 2011 (variable interest rate is 65 percent of LIBOR plus 110 basis points; interest rate is 1.2 percent at June 30, 2014), due July 2041.	333,333	8,833,334	9,166,667
City of Monmouth, Illinois Industrial Project Refunding Revenue Bonds, Series 2012 (interest rate is 2.4 percent at June 30, 2014), due June 2020.	<u>420,000</u>	<u>2,190,000</u>	<u>2,610,000</u>
<b>Total</b>	<b><u>\$1,283,333</u></b>	<b><u>\$ 23,903,334</u></b>	<b><u>\$ 25,186,667</u></b>

Maturities on bonds payable at June 30, 2014 are as follows:

2015	\$ 1,283,333
2016	1,313,333
2017	1,323,333
2018	1,358,333
2019	1,388,333
Subsequent to 2019	<u>18,520,002</u>
<b>Total</b>	<b><u>\$ 25,186,667</u></b>

Certain bonds payable agreements contain financial covenants pertaining to debt service coverage and cash and investments to indebtedness. The College was in compliance with these financial covenants at June 30, 2014.

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 8 - LINE OF CREDIT AGREEMENT**

The College maintains a bank line of credit agreement that permits borrowing up to \$10,000,000. The line of credit contains a fixed interest rate of 3.5 percent and is secured by certain real estate. The line of credit matured on September 7, 2014. The College is in the process of renegotiating the line of credit with the bank. As of June 30, 2014, the College had no borrowings under this line of credit. The line of credit agreement contains financial covenants pertaining to working capital and tangible net worth. The College was in compliance with these financial covenants at June 30, 2014.

**NOTE 9 - COLLEGE TAX-SHELTERED ANNUITY PLANS**

The College participates in certain tax-sheltered annuity plans for academic and nonacademic personnel. These plans require contributions from participating personnel which are matched by the College. Total expense to the College relating to these plans for the year ended June 30, 2014 is \$826,701.

**NOTE 10 - SELF-INSURANCE**

The College partially self-insures its risks for group medical insurance coverage. For the policy year beginning January 1, 2014, the College's liability is limited to a minimum attachment point of \$1,940,341 based on enrollment of 143 single and 72 family units. The plan has a specific stop loss of \$80,000 per person (except for two participants who have higher specific deductibles). Employee claims are processed and paid by a third party plan administrator.

**NOTE 11 - NET ASSETS**

Permanently restricted net assets consist of the following investments in perpetuity, the income from which is expendable to support:

	<u>June 30, 2014</u>	<b>June 30, 2013</b> <b>Total</b> <b>(Memorandum</b> <b>Only)</b>
Instruction	\$ 16,756,745	\$ 16,489,615
Academic support	1,319,580	1,194,212
Student scholarships and prizes	18,568,890	18,051,140
Plant maintenance	782,601	429,850
Unrestricted purposes	<u>6,901,778</u>	<u>6,893,362</u>
<b>Total</b>	<u>\$ 44,329,594</u>	<u>\$ 43,058,179</u>

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 11 - NET ASSETS (CONTINUED)**

Temporarily restricted net assets are restricted for the following purposes:

	<u>June 30, 2014</u>	<b>June 30, 2013</b> <b>Total</b> <b>(Memorandum</b> <b>Only)</b>
Instruction	\$ 338,480	\$ 659,748
Academic support	58,678	108,230
Student services	349,332	301,925
Management and general	8,895	44,941
Student scholarships and prizes	1,218,369	574,980
Construction projects	-	2,100
Expiration of time	54,336,087	42,100,142
Annuity trusts	<u>3,935,439</u>	<u>3,534,773</u>
<b>Total</b>	<b><u>\$ 60,245,280</u></b>	<b><u>\$ 47,326,839</u></b>

During the year, \$3,843,056 of net assets was released from restrictions, of which \$912,011 was associated with the expiration of time restrictions.

**NOTE 12 - TUITION, FEES, ROOM, AND BOARD**

Tuition, fees, room, and board as reported on the Statement of Activities is comprised as follows:

	<u>June 30, 2014</u>	<b>June 30, 2013</b> <b>Total</b> <b>(Memorandum</b> <b>Only)</b>
Tuition and incidental fees	\$ 38,263,914	\$ 36,301,098
Room and board	9,623,418	9,113,227
Student financial assistance applied	<u>(21,917,503)</u>	<u>(20,162,460)</u>
<b>Tuition, fees, room, and board</b>	<b><u>\$ 25,969,829</u></b>	<b><u>\$ 25,251,865</u></b>

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

**NOTE 13 - EXPENSES**

Expenses incurred during the year ended June 30, 2014 were for:

	<u>2014</u>				<b>2013 Total (Memorandum Only)</b>
	<u>Program Expenditures</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>	
Salaries, wages, stipends, and benefits	\$ 15,273,805	\$ 2,456,766	\$ 961,193	\$ 18,691,764	\$ 17,310,360
Supplies, travel, postage, telephone, etc.	4,862,099	737,330	324,267	5,923,696	5,506,195
Contracted dining services	2,944,542	49,642	9,410	3,003,594	2,754,864
Student financial assistance	207,980	-	-	207,980	205,796
Heat, electric, and water	1,475,665	-	-	1,475,665	1,107,321
Interest expense	372,647	-	-	372,647	392,297
Depreciation	<u>4,903,386</u>	<u>52,461</u>	<u>40,470</u>	<u>4,996,317</u>	<u>4,570,453</u>
<b>Total expenses</b>	<u>\$ 30,040,124</u>	<u>\$ 3,296,199</u>	<u>\$ 1,335,340</u>	<u>\$ 34,671,663</u>	<u>\$ 31,847,286</u>

**NOTE 14 - ALLOCATION OF FUNCTIONAL EXPENSES**

The College is required to allocate various expenses, including the operation and maintenance of the physical plant, depreciation, and interest to various programs of the College. The allocations for the year ended June 30, 2014 are as follows:

	<u>Year Ended June 30, 2014</u>		
	<u>Expenses as Reported on the Statement of Activities</u>	<u>Allocations to Programs</u>	<u>Program Expenses Prior to Allocations</u>
Operating expenses:			
Instruction	\$ 13,724,549	\$ (3,610,385)	\$ 10,114,164
Academic support	2,159,183	(671,071)	1,488,112
Student services	6,188,021	(1,252,956)	4,935,065
Student financial assistance	192,755	-	192,755
Auxiliary operations	7,775,616	(2,348,762)	5,426,854
Management and general	3,296,199	328,888	3,625,087
Fundraising	1,335,340	(76,485)	1,258,855
Operation and maintenance of physical plant	-	2,261,807	2,261,807
Depreciation	-	4,996,317	4,996,317
Interest expense	-	<u>372,647</u>	<u>372,647</u>
<b>Total</b>	<u>\$ 34,671,663</u>	<u>\$ -</u>	<u>\$ 34,671,663</u>

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 15 - ENDOWMENTS**

The Monmouth College's endowments consist of approximately 297 funds established to support a variety of scholarships and other programs at the College. Its endowments consist of donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. An individual endowment fund is considered to be underwater if the fund is permanently restricted and the fair value has decreased below its historic dollar value. At June 30, 2014, the College had no individual endowment funds whose market values were under their historical cost that are considered to be underwater.

**Interpretation of Relevant Law**

The Board of Trustees of The Monmouth College has interpreted the Illinois Uniform Prudent Management of Institutional Funds Act (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. Consequently, the College classifies permanently restricted net assets as:

- The original value of gifts donated to the permanent endowment,
- The original value of subsequent gifts to the permanent endowment, and
- The accumulation 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.

The remaining portion of the donor-restricted endowment fund not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College's Board of Trustees in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

1. Duration and preservation of the fund
2. The mission of the College and the donor-restricted endowment fund
3. General economic conditions
4. The possible impact of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment policies of the College



**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 15 - ENDOWMENTS (CONTINUED)**

**Return Objectives and Risk Parameters**

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs supported by the endowments. The endowment assets are invested in a manner consistent with the investment policy guidelines that are intended to produce a real inflation adjusted annualized rate of return of 5.25 percent.

**Spending Policy**

The College uses a spending formula to determine an appropriate amount to distribute from the endowment pool each year. The College distributes 4.5 percent of assets annually based on a trailing twelve quarter (three year) average market value as of the fiscal year end (June 30), set back one quarter. For those endowments whose market value has fallen below their permanently restricted net asset value, only the current yield is expended and quasi endowment is used to make up any spending difference between the spending formula appropriation and current yield.

**Strategies Employed for Achieving Objectives**

The College relies on a total return strategy in which investment returns are achieved through capital appreciation and current yield (interest, dividends, and rents). Funds are invested in a manner expected to maintain appropriate diversification among complementary investment styles within the equity, alternative, and fixed income allocations.

Endowment net asset composition by type of fund as of June 30, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 52,516,056	\$ 44,329,594	\$ 96,845,650
Board designated endowment funds	<u>2,368,580</u>	<u>-</u>	<u>-</u>	<u>2,368,580</u>
<b>Total endowment funds</b>	<u>\$ 2,368,580</u>	<u>\$ 52,516,056</u>	<u>\$ 44,329,594</u>	<u>\$ 99,214,230</u>

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 15 - ENDOWMENTS (CONTINUED)**

**Strategies Employed for Achieving Objectives (Continued)**

Changes in endowment net assets for the year ended June 30, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,100,601	\$ 42,075,104	\$ 43,058,179	\$ 87,233,884
Investment return:				
Investment income	-	1,740,908	7,035	1,747,943
Net appreciation (realized and unrealized)	<u>268,916</u>	<u>12,218,684</u>	<u>262,825</u>	<u>12,750,425</u>
Total investment return	<u>268,916</u>	<u>13,959,592</u>	<u>269,860</u>	<u>14,498,368</u>
Contributions	-	-	1,001,555	1,001,555
Appropriation of endowment assets for expenditure	-	(3,518,641)	-	(3,518,641)
Transfers to add (remove) board designated funds	<u>(937)</u>	<u>-</u>	<u>-</u>	<u>(937)</u>
<b>Endowment net assets, end of year</b>	<u>\$ 2,368,580</u>	<u>\$ 52,516,055</u>	<u>\$ 44,329,594</u>	<u>\$ 99,214,229</u>

Endowment net asset composition by type of fund as of June 30, 2013 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 42,075,104	\$ 43,058,179	\$ 85,133,283
Board designated endowment funds	<u>2,100,601</u>	<u>-</u>	<u>-</u>	<u>2,100,601</u>
<b>Total endowment funds</b>	<u>\$ 2,100,601</u>	<u>\$ 42,075,104</u>	<u>\$ 43,058,179</u>	<u>\$ 87,233,884</u>

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 15 - ENDOWMENTS (CONTINUED)**

**Strategies Employed for Achieving Objectives (Continued)**

Changes in endowment net assets for the year ended June 30, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 4,278,847	\$ 31,300,910	\$ 42,187,890	\$ 77,767,647
Investment return:				
Investment income	-	1,634,792	6,106	1,640,898
Net appreciation (realized and unrealized)	<u>770,581</u>	<u>12,410,578</u>	<u>77,870</u>	<u>13,259,029</u>
Total investment return	<u>770,581</u>	<u>14,045,370</u>	<u>83,976</u>	<u>14,899,927</u>
Contributions	-	-	786,313	786,313
Appropriation of endowment assets for expenditure	-	(3,271,176)	-	(3,271,176)
Transfers to add (remove) board designated funds	<u>(2,948,827)</u>	<u>-</u>	<u>-</u>	<u>(2,948,827)</u>
<b>Endowment net assets, end of year</b>	<u>\$ 2,100,601</u>	<u>\$ 42,075,104</u>	<u>\$ 43,058,179</u>	<u>\$ 87,233,884</u>

**NOTE 16 - STATEMENT OF CASH FLOWS**

Supplemental disclosure information for the statement of cash flows for the year ended June 30, 2014 is as follows:

Cash paid for interest	<u>\$ 378,697</u>
Property and equipment purchases in accounts payable at year end	<u>\$ 9,361</u>

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 17 - ASSET RETIREMENT OBLIGATION**

The College has legal obligations associated with the retirement of certain long-lived assets. These obligations specifically relate to the removal of asbestos from certain buildings of the College. Since the range of time over which the College may settle these obligations is unknown and cannot be reasonably estimated, the College has not recognized a liability for these obligations.

**NOTE 18 - ART COLLECTION**

The College has a permanent art collection displayed within the facilities of the campus and insured for approximately \$1,766,680. The collection is not reflected in the financial statements.

**NOTE 19 - CONCENTRATIONS**

The College maintains interest bearing accounts at Midwest Bank of Western Illinois whose balances exceed the FDIC limit of \$250,000. Deposits in excess of the FDIC limit totaling \$723,539 at June 30, 2014 are at risk in the event the financial institution fails.

The College has 81 percent of its contributions receivable due from two donors at June 30, 2014.

**NOTE 20 - SUBSEQUENT EVENTS**

Management evaluated subsequent events through September 26, 2014, the date the financial statements were available to be issued.

This information is an integral part of the accompanying financial statements.