

**THE MONMOUTH COLLEGE  
MONMOUTH, ILLINOIS**

**FINANCIAL STATEMENTS**

June 30, 2017

With Prior Year Summarized Comparative Information



**THE MONMOUTH COLLEGE**  
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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
The Monmouth College  
Monmouth, Illinois

We have audited the accompanying financial statements of The Monmouth College (College), which comprise the Statement of Financial Position as of June 30, 2017, and the related Statements of Activities and Cash Flows for the year then ended, and the related notes to the financial statements.

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

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of June 30, 2017, 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 College's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 22, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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 November 15, 2017, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, 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 results 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 College's internal control over financial reporting and compliance.

*Sikich LLP*

Springfield, Illinois  
November 15, 2017

**THE MONMOUTH COLLEGE**

STATEMENT OF FINANCIAL POSITION

June 30, 2017

(With Summarized Comparative Information for the Year Ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,527,398	\$ 1,244,667
Receivables, net of allowance for doubtful accounts and unamortized discount (Note 2):		
Accounts	2,479,540	1,321,549
Contributions	1,056,130	1,536,674
Loans	2,394,545	2,417,309
Inventories	100,274	112,808
Prepaid charges	653,885	540,441
Cash reserved for refundable student loans	70,672	223,521
Cash reserved for self insurance	1,726,805	1,320,615
Cash held for investment	835,154	1,806,314
Investments (Note 3)	113,840,283	100,684,712
Beneficial interests in perpetual trusts (Note 4)	3,410,894	3,201,020
Property and equipment, net (Note 6)	100,912,636	105,252,324
<b>TOTAL ASSETS</b>	<u>\$ 229,008,216</u>	<u>\$ 219,661,954</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 569,812	\$ 924,501
Accrued wages and expenses	3,304,807	2,935,103
Refundable student loans	2,612,624	2,618,506
Deposits payable	341,087	340,102
Deferred revenues	674,733	523,180
Line of credit (Note 8)	5,411,604	4,007,389
Bonds payable, net (Note 7)	21,410,929	22,590,000
Annuities payable	3,500,386	3,652,693
Total liabilities	<u>37,825,982</u>	<u>37,591,474</u>
<b>NET ASSETS</b>		
Unrestricted	79,083,674	81,158,356
Temporarily restricted (Note 11)	60,701,697	51,624,819
Permanently restricted (Note 11)	51,396,863	49,287,305
Total net assets	<u>191,182,234</u>	<u>182,070,480</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 229,008,216</u>	<u>\$ 219,661,954</u>

See accompanying Notes to Financial Statements.

THE MONMOUTH COLLEGE

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

(With Summarized Comparative Information for June 30, 2016)

	2017			Total	2016
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>					
Tuition and fees	\$ 38,460,632	\$ -	\$ -	\$ 38,460,632	\$ 39,345,832
Less: Student aid and scholarships	(24,154,936)	-	-	(24,154,936)	(24,045,177)
Net tuition and fees	14,305,696	-	-	14,305,696	15,300,655
Room and board	9,435,937	-	-	9,435,937	9,800,446
Net tuition, fees, room and board	23,741,633	-	-	23,741,633	25,101,101
State and federal grants	147,081	8,905	-	155,986	187,316
Gifts and contributions	6,378,169	2,231,768	1,733,426	10,343,363	3,836,653
Investment income	166,098	2,004,349	166,258	2,336,705	1,898,571
Change in annuities, net	-	(309,844)	-	(309,844)	(290,116)
Net realized gains (losses) on investments	(150,972)	1,012,056	209,874	1,070,958	1,018,673
Net unrealized gains (losses) on investments	150,949	9,713,005	-	9,863,954	(4,729,899)
Change in value of split interest agreements	-	443,211	-	443,211	200,589
Other	205,059	27,336	-	232,395	546,029
Net assets released from restriction	6,053,908	(6,053,908)	-	-	-
Total revenues, gains, and other support	<u>36,691,925</u>	<u>9,076,878</u>	<u>2,109,558</u>	<u>47,878,361</u>	<u>27,768,917</u>
<b>EXPENSES</b>					
Instruction	14,692,289	-	-	14,692,289	15,173,811
Academic support	2,453,414	-	-	2,453,414	2,434,721
Student services	7,452,476	-	-	7,452,476	7,264,044
Student financial assistance	177,924	-	-	177,924	628,199
Auxiliary operations	7,110,422	-	-	7,110,422	7,282,621
Management and general	5,903,405	-	-	5,903,405	4,648,018
Fundraising	976,677	-	-	976,677	1,176,374
Total expenses (Note 12)	<u>38,766,607</u>	<u>-</u>	<u>-</u>	<u>38,766,607</u>	<u>38,607,788</u>
<b>CHANGES IN NET ASSETS</b>	(2,074,682)	9,076,878	2,109,558	9,111,754	(10,838,871)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>81,158,356</u>	<u>51,624,819</u>	<u>49,287,305</u>	<u>182,070,480</u>	<u>192,909,351</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 79,083,674</u>	<u>\$ 60,701,697</u>	<u>\$ 51,396,863</u>	<u>\$ 191,182,234</u>	<u>\$ 182,070,480</u>

See accompanying Notes to Financial Statements.

**THE MONMOUTH COLLEGE**

**STATEMENT OF CASH FLOWS**

For the Year Ended June 30, 2017

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 9,111,754
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	5,119,046
Gain on sale of plant assets	(5,115)
Amortization of debt issuance costs	(158,667)
Net realized and unrealized gain on investments	(10,725,038)
Private gifts restricted for long-term investments	(1,733,426)
Establish actuarial liability on annuity obligation	386,988
Change in value of annuities payable	(88,255)
Effects of changes in operating assets and liabilities:	
Accounts receivable	(1,157,991)
Contributions receivable	576,232
Loans receivable	2,614
Inventories	12,534
Beneficial interest in perpetual trusts	(209,874)
Prepaid charges	(113,444)
Accounts payable	(347,399)
Accrued wages and expenses	369,704
Refundable student loans	(5,882)
Deposits payable	985
Deferred revenues	151,553
Net cash and restricted cash from operating activities	<u>1,186,319</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from sales / maturities of investments	7,234,112
Purchase of investments	(9,664,645)
Disbursements of loans to students	(206,816)
Principal payments received on loans to students	226,966
Proceeds from sale of property and equipment	14,698
Acquisition of property and equipment	(796,231)
Net cash and restricted cash from investing activities	<u>(3,191,916)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Payments of annuity obligations	(451,040)
Contributions restricted for long-term investments	1,637,738
Principal payments on bonds	(49,190,404)
Proceeds from bonds	48,170,000
Proceeds from short term borrowing	5,411,604
Payments on short term borrowing	(4,007,389)
Net cash and restricted cash from financing activities	<u>1,570,509</u>

CHANGE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH (435,088)

CASH AND CASH EQUIVALENTS AND RESTRICTED CASH,  
BEGINNING OF YEAR 4,595,117

CASH AND CASH EQUIVALENTS AND RESTRICTED CASH,  
END OF YEAR \$ 4,160,029

See accompanying Notes to Financial Statements.

# THE MONMOUTH COLLEGE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

With Summarized Comparative Information at June 30, 2016

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Monmouth College (College), established in 1853, is a private, nonprofit, residential, co-educational higher education institution located in Monmouth, Illinois that offers the Bachelor of Arts degree.

#### **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 includes: 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 appropriated gains and losses from 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.



**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.

**Cash and 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**

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, which primarily consist of academic, administrative, and facilities materials and supplies, 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. Real estate is stated at fair value based upon periodic appraisals and management estimates. Private equity holdings, which management does not consider significant to the financial statements, are carried at cost. Pooled and shareholder yield funds are measured using net asset value (NAV). Realized gains and losses and unrealized appreciation or depreciation is reported as increases or decreases to net assets.

**Property and Equipment 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 College capitalizes property and equipment with a cost of \$1,000 or more, or repairs and maintenance with a cost of \$2,500 or more, and a useful life greater than one year.

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

**Compensated Absences**

It is the College's policy to permit employees to accumulate earned but unused vacation benefits that would be paid to employees upon separation from College services. The accrual of vacation hours is limited to 5 days' pay for all employees. The vacation accrual is included in accrued wages and expenses in the Statement of Financial Position. The College does not accrue a liability for sick leave. Accumulated sick leave is paid only to retiring non-exempt employees who qualify based upon hire date. Non-exempt, non-union employees, age 55 or older, hired prior to September 1, 1991 receive one-half of remaining sick time, up to a maximum of 45 days. Non-exempt, union employees hired prior to April 1, 1991 receive one-half of accumulated sick leave and those hired on or after April 1, 1991 receive one-fourth of accumulated sick leave. Employees terminating under other circumstances forfeit their accumulated sick pay.

**Income Tax Status**

The College is a not-for-profit organization and is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code and similar provisions of the state tax code. The College is not classified as a private foundation. The College files a Form 990 (Return of Organization Exempt from Income Tax) annually.

**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, ranging from 1.37% to 2.75%, based upon the applicable month and year in which the split-interest agreements were initiated within these calculations.

**Revenue Recognition**

Tuition and fee revenues are reported in the fiscal year in which the educational programs are conducted. Room and board revenues are reported in the fiscal year when services are provided. Deposits and fees received in the current fiscal year for future years' programs are reported as deferred revenue.

**Classification of Revenues, Expenses, Gains and Losses**

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses (realized and unrealized) on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets or decrease another are reported as net assets released from restrictions.

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

**Gifts**

Gifts received by the College, including unconditional promises, are recognized as revenues when the donor's commitment is received.

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**

The Statement of Activities includes certain prior year summarized comparative information in total but not by net asset class. Such information does not present a complete set of financial statements as it does not include a comparative Statement of Cash Flows and comparative notes, as such it does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

**Accounting Changes**

In April 2015, the Financial Accounting Standards Board (FASB) issued guidance in Accounting Standards Update No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (ASU No. 2015-03)* to simplify the presentation of debt issuance costs. Under the new guidance, debt issuance costs related to a recognized debt liability should be presented as a direct deduction from the carrying amount of the debt liability. ASU No. 2015-03 is effective for fiscal years beginning after December 15, 2015. The College has adopted the provisions of ASU No. 2015-03 in fiscal year 2017 and retrospectively applied the guidance to fiscal year 2016. Previously, such costs were shown as a deferred charge and 2016 amounts have been reclassified as deductions from debt. This change had no effect on previously reported net assets or change in net assets.

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

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

**Accounting Changes (Continued)**

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments*. This guidance is intended to reduce the diversity in practice in how certain transactions are classified in the Statement of Cash Flows. In addition, in November 2016, the FASB issued guidance in Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (A Consensus of the FASB Emerging Issues Task Force (ASU No. 2016-18)*. ASU No. 2016-18 requires that a Statement of Cash Flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Both of these ASU's are effective for fiscal years beginning after December 15, 2018, with early application permitted. The College has adopted the provisions of ASU No. 2016-15 and No. 2016-18 in fiscal year 2017.

**Subsequent Events**

Management evaluated subsequent events through November 15, 2017, the date the financial statements were available to be issued, and concluded there were no significant non-recognized subsequent events.

**NOTE 2 – RECEIVABLES**

Accounts and contributions receivable are as follows:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Accounts:		
Students (current and former)	\$ 159,341	\$ 161,650
Less allowance for doubtful accounts	<u>(65,951)</u>	<u>(65,000)</u>
Total students	<u>93,390</u>	<u>96,650</u>
Other	<u>2,386,150</u>	<u>1,224,899</u>
Total accounts receivable	<u>2,479,540</u>	<u>1,321,549</u>
Contributions	1,066,394	1,552,624
Less allowance for doubtful accounts	<u>(10,264)</u>	<u>(15,950)</u>
Total contributions	<u>\$ 1,056,130</u>	<u>\$ 1,536,674</u>

Other accounts receivable for the year ending June 30, 2017 included \$2,252,893 that was anticipated from the State of Illinois for the Monetary Award Program. This was subsequently received in July of 2017.

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 rates ranging from 0.24% to 2.00%, at the time the promise is made. At June 30, 2017, the unconditional promises to give total \$1,088,729.

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 2 – RECEIVABLES (Continued)**

The unconditional promises are expected to be received as follows:

In less than one year	\$ 691,527
In one to five years	<u>397,202</u>
Total	<u>\$ 1,088,729</u>

Contributions receivable are as follows:

Contributions receivable (gross amount)	\$ 1,088,729
Less allowance for doubtful accounts	(10,264)
Unamortized discount	<u>(22,335)</u>
Contributions receivable, net	<u>\$ 1,056,130</u>

The College makes uncollateralized student loans based on financial need. Student loans are funded through Federal Government loan programs or institutional resources.

Student loans consisted of the following at:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Loans to students	\$ <u>2,516,758</u>	\$ <u>2,548,681</u>
Less, allowance for doubtful accounts		
Beginning of year	(131,372)	(125,660)
(Increases)/Decreases	<u>9,159</u>	<u>(5,712)</u>
End of year	<u>(122,213)</u>	<u>(131,372)</u>
Student loans receivable, net	<u>\$ 2,394,545</u>	<u>\$ 2,417,309</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 \$2,475,801 at June 30, 2017 are ultimately refundable to the government and are classified as liabilities for refundable student loans 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, 2017, the following amounts were past due under the Perkins Loan Program:

	<u>0 to 240 Days</u>	<u>240 Days to Two Years</u>	<u>Over Two Years</u>	<u>Total Past Due</u>
June 30, 2017	\$ 96,442	\$ 194,140	\$ 1,463,441	\$ 1,754,023

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**

**NOTE 3 - INVESTMENTS**

Investments include marketable securities and other investments as follows:

	<u>June 30, 2017</u>				
	<u>Endowment</u>	<u>Annuity</u>	<u>Other</u>	<u>Total</u>	<u>June 30, 2016</u>
	<u>Pool</u>	<u>Pool</u>			
Mutual funds	\$ 68,215,715	\$ 6,893,079	\$ 1,699,020	\$ 76,807,814	\$ 65,937,142
Preferred stock	450,000	-	-	450,000	450,000
Common stocks	57,000	1,157,967	-	1,214,967	1,274,116
Pooled funds	11,980,650	-	-	11,980,650	9,415,080
Shareholder yield funds	11,554,797	-	-	11,554,797	10,719,030
Notes receivable	37,163	-	-	37,163	41,508
Cash surrender value of life insurance	50,367	-	351,025	401,392	386,536
Real estate	11,193,500	-	-	11,193,500	12,261,300
Other investments	200,000	-	-	200,000	200,000
	<u>\$103,739,192</u>	<u>\$ 8,051,046</u>	<u>\$ 2,050,045</u>	<u>\$113,840,283</u>	<u>\$100,684,712</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 those changes could materially affect the amounts reported in the Statements of Financial Position and Activities.

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

The College's proportionate beneficial interest in the fair value of assets held in perpetual trusts is \$3,410,894. During the year ended June 30, 2017, the Trustees distributed \$153,303 of income to Monmouth College, representing the College's share in the net income and proceeds of the trusts.

**NOTE 5 - FAIR VALUE MEASUREMENTS**

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:

**NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)**

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 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, 2017.

*Mutual funds and common stocks:* Valued at the closing price reported on the active market on which the individual securities are traded for those classified in Level 1.

*Real estate:* Valued at the current appraised value which is based on acres of property, comparable values and expected cash flows.

*Beneficial interest in perpetual trusts:* The underlying assets held in trust consists of investments in money market accounts, U.S. Government obligations, mutual funds, and common stocks. The value of the trust is determined using the fair value of assets held in trust by the trustee.

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)**

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.

If an investment that is measured using net asset value (NAV) has a readily determinable fair value (that is, it can be traded at the measurement date at its published NAV), it is included in Level 1 of the hierarchy. Otherwise, investments measured using NAVs are not included in Level 1, 2, or 3, but are separately reported.

The following table sets forth by level, within the fair value hierarchy, the College's assets at fair value as of June 30, 2017:

	<b>Assets at Fair Value as of June 30, 2017</b>			
	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>	<b><u>Total</u></b>
Mutual funds	\$ 76,807,814	\$ -	\$ -	\$ 76,807,814
Common stocks	1,214,967	-	-	1,214,967
Real estate	-	-	11,193,500	11,193,500
Beneficial interest in perpetual trusts	-	-	3,410,894	3,410,894
Total assets at fair value	<u>\$ 78,022,781</u>	<u>\$ -</u>	<u>\$ 14,604,394</u>	92,627,175
Life insurance contracts (contract value)				401,392
Note receivable (carrying value)				37,163
Other investments (cost)				650,000
Pooled funds (NAV)				11,980,650
Shareholder yield funds (NAV)				11,554,797
Total				<u>\$ 117,251,177</u>

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, 2017:

	<b>Beneficial Interest in</b>		
	<b><u>Real Estate</u></b>	<b><u>Perpetual Trust</u></b>	<b><u>Total</u></b>
Balance, beginning of year	\$ 12,261,300	\$ 3,201,020	\$ 15,462,320
Beneficial interest in trust distribution	-	(153,303)	(153,303)
Realized and unrealized losses	<u>(1,067,800)</u>	<u>363,177</u>	<u>(704,623)</u>
Balance, end of year	<u>\$ 11,193,500</u>	<u>\$ 3,410,894</u>	<u>\$ 14,604,394</u>



**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)**

Investments Measured at NAV

The following table presents the category, fair value, redemption frequency, and redemption notice period for investments, the fair values of which are estimated using net asset value per share as of June 30, 2017:

<u>Investment</u>	<u>Fair Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Kiltearn global equity fund (A)	11,980,650	-	Monthly	6 days
Epoch global equity fund (B)	11,554,797	-	Daily	5 days

- (A) The fund invests in a diversified portfolio of global equity securities that possess fundamental investment value. The fund may utilize a wide range of equity instruments to achieve its objective of long-term growth, including both common and preferred stocks, special classes of shares available only to foreign persons in markets which restrict the ownership of certain classes of equity to nationals or residents of the country and depository receipts.
- (B) The fund invests in a diversified portfolio of global companies with strong and growing free cash flow. Security selection is based on free-cash-flow metrics and capital allocation to create a portfolio that focuses on creating value for shareholders through consistent and rational capital allocation policies.

The following table sets forth by level, within the fair value hierarchy, the College's assets at fair value as of June 30, 2016:

	<u>Assets at Fair Value as of June 30, 2016</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$65,937,142	\$ -	\$ -	\$ 65,937,142
Common stocks	1,274,116	-	-	1,274,116
Real estate	-	-	12,261,300	12,261,300
Beneficial interest in perpetual trusts	-	-	3,201,020	3,201,020
Total assets at fair value	<u>\$67,211,258</u>	<u>\$ -</u>	<u>\$15,462,320</u>	82,673,578
Life insurance contracts (contract value)				386,536
Note receivable (carrying value)				41,508
Other investments (cost)				650,000
Pooled funds (NAV)				9,415,080
Shareholder yield funds (NAV)				10,719,030
Total				<u>\$ 103,885,732</u>

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)**

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, 2016:

	<u>Real Estate</u>	<u>Beneficial Interest in Perpetual Trust</u>	<u>Total</u>
Balance, beginning of year	\$ 12,906,999	\$ 3,431,153	\$ 16,338,152
Beneficial interest in trust distribution	-	(170,510)	(170,510)
Realized and unrealized losses	<u>(645,699)</u>	<u>(59,623)</u>	<u>(705,322)</u>
Balance, end of year	<u>\$ 12,261,300</u>	<u>\$ 3,201,020</u>	<u>\$ 15,462,320</u>

Investments Measured at NAV

The following table presents the category, fair value, redemption frequency, and redemption notice period for investments, the fair values of which are estimated using net asset value per share as of June 30, 2016:

<u>Investment</u>	<u>Fair Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Kiltearn global equity fund (A)	9,415,080	-	Monthly	7-10 days
Epoch global equity fund (B)	10,719,030	-	Daily	7-10 days

- (A) The fund invests in a diversified portfolio of global equity securities that possess fundamental investment value. The fund may utilize a wide range of equity instruments to achieve its objective of long-term growth, including both common and preferred stocks, special classes of shares available only to foreign persons in markets which restrict the ownership of certain classes of equity to nationals or residents of the country and depository receipts.
- (B) The investment objective of the fund is long term capital appreciation over a full market cycle of between 3 to 5 years. The fund invests primarily in equity or equity-linked securities of issuers located throughout the world. Assets are invested in issuers in countries with developed markets, as well as in emerging markets.

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

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

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

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Land and improvements	\$ 15,197,625	\$ 14,547,703
Buildings	140,328,138	139,860,903
Equipment	21,454,576	21,364,080
Projects in progress	<u>14,824</u>	<u>518,099</u>
Total property and equipment	176,995,163	176,290,785
Less accumulated depreciation	<u>(76,082,527)</u>	<u>(71,038,461)</u>
Net property and equipment	<u>\$ 100,912,636</u>	<u>\$ 105,252,324</u>

Depreciation expense for the year ended June 30, 2017 was \$5,119,046.

**NOTE 7 - BONDS PAYABLE**

The following indicates the scheduled future maturities of outstanding bonds at June 30, 2017:

<u>Description</u>	<u>Bonds Payable</u>		<u>Total</u>
	<u>During the Year Ended June 30, 2018</u>	<u>After July 1, 2018 Maturing Serially Through 2033</u>	
Western Illinois Economic Development Authority Revenue Bonds, Series 2016A (interest rate is 2.95 percent at June 30, 2017), due January 2032. The bonds are collateralized by real property and equipment.	\$ 674,372	\$ 11,178,628	\$ 11,853,000
Western Illinois Economic Development Authority Revenue Bonds, Series 2017A (interest rate is 2.75 percent at June 30, 2017), due January 2032. The bonds are collateralized by real property and equipment.	276,804	4,583,302	4,860,106
Western Illinois Economic Development Authority Revenue Bonds, Series 2017B (interest rate is 2.35 percent at June 30, 2017), due January 2032. The bonds are collateralized by real property and equipment.	<u>284,610</u>	<u>4,571,880</u>	<u>4,856,490</u>
Total future minimum payments	<u>1,235,786</u>	<u>20,333,810</u>	<u>21,569,596</u>
Less bond issuance costs	<u>(11,333)</u>	<u>(147,334)</u>	<u>(158,667)</u>
Total	<u>\$ 1,224,453</u>	<u>\$ 20,186,476</u>	<u>\$ 21,410,929</u>

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 7 - BONDS PAYABLE (Continued)**

Maturities on bonds payable at June 30, 2017 are as follows:

2018	\$ 1,235,786
2019	1,270,340
2020	1,304,468
2021	1,342,356
2022	1,379,914
Subsequent to 2023	<u>15,036,732</u>
Total	<u>\$ 21,569,596</u>

Interest expense for the bonds payable for the year ended June 30, 2017 was \$819,048.

The bonds payable contain certain financial covenants and require submission of quarterly and annual financial statements. The College was not in compliance with all covenants as of June 30, 2017 and the bond holder has agreed to a waiver.

On August 24, 2016, the College signed a Commitment Letter with Midwest Bank that provided the College with a \$26,000,000 bridge loan that was used to extinguish all indebtedness with PNC Bank and provided the College with additional operating funds. The loan carried a monthly variable interest rate of 3.50% and matured on September 1, 2017. On September 1, 2016, the 2002, 2005, 2011 and 2012 series' debt with PNC Bank was repaid. On December 23, 2016 and January 10, 2017, the College entered into loan agreements with Midwest Bank for the 2016A, and 2017A and 2017B series debt, respectively. On January 11, 2017, the bridge loan was repaid.

**NOTE 8 - LINE OF CREDIT AGREEMENT**

The College maintains a bank line of credit agreement that permits borrowing up to \$8,000,000. The line of credit contains a variable interest rate based upon the prime rate as published in the Wall Street Journal; however, the minimum rate is not to be lower than 3.9 percent. The rate at June 30, 2017 was 4.15 percent. The line of credit matures on January 10, 2018 and is secured by certain real estate. As of June 30, 2017, the College had borrowings of \$5,411,604 (including accrued interest of \$22,837) under this line of credit. The line of credit agreement contains financial covenants pertaining to working capital and tangible net worth. The College believes it is in compliance with these financial covenants at June 30, 2017.

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 9 - RETIREMENT PLANS**

The College participates in certain tax-sheltered, 403(B), retirement plans sponsored by the Teachers Insurance and Annuity Association that are available to eligible 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, 2017 is \$899,453.

**NOTE 10 - SELF-INSURANCE**

The College partially self-insures its risks for group medical insurance coverage. For the policy year beginning January 1, 2017, the College's liability is limited to a minimum attachment point of \$1,923,627. 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. The self-insurance accrual of \$1,738,440 is included in accrued wages and expenses in the Statement of Financial Position.

**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, 2017</u>	<u>June 30, 2016</u>
Instruction	\$ 17,281,919	\$ 17,233,680
Academic support	1,815,810	1,809,076
Student scholarships and prizes	24,427,803	22,713,259
Plant maintenance	964,304	632,792
General purposes	<u>6,907,027</u>	<u>6,898,498</u>
Total	<u>\$ 51,396,863</u>	<u>\$ 49,287,305</u>

Temporarily restricted net assets are restricted for the following purposes:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Instruction	\$ 401,011	\$ 361,277
Academic support	19,596	26,013
Student services	794,326	338,800
Management and general	2,016,122	2,166,665
Student scholarships and prizes	763,147	896,466
Plant and general purposes	52,090,890	44,167,385
Annuity trusts	<u>4,616,605</u>	<u>3,668,213</u>
Total	<u>\$ 60,701,697</u>	<u>\$ 51,624,819</u>

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 12 - 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, 2017 are as follows:

	<u>Year Ended June 30, 2017</u>		
	<u>Program Expenses Prior to Allocations</u>	<u>Allocations to Programs</u>	<u>Expenses as Reported on the Statement of Activities</u>
Operating expenses:			
Instruction	\$ 10,524,784	\$ 4,167,505	\$ 14,692,289
Academic support	1,678,833	774,581	2,453,414
Student services	6,001,554	1,450,922	7,452,476
Student financial assistance	177,924	-	177,924
Auxiliary operations	4,835,481	2,274,941	7,110,422
Management and general	5,483,088	420,317	5,903,405
Fundraising	888,842	87,835	976,677
Operation and maintenance of physical plant	3,238,007	(3,238,007)	-
Depreciation	5,119,046	(5,119,046)	-
Interest expense	819,048	(819,048)	-
Total	<u>\$ 38,766,607</u>	<u>\$ -</u>	<u>\$ 38,766,607</u>

**NOTE 13 - ENDOWMENTS**

The Monmouth College's endowments consist of approximately 335 funds established to support a variety of scholarships and other programs at the College. Its endowments consist of donor-restricted endowment funds and board designated 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, 2017, the College had five endowment funds whose market values were under their historical cost that are considered to be underwater.

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.

**NOTE 13 - ENDOWMENTS (Continued)**

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

**Endowment Investment Program 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 whose overall objectives are preservation of principal, competitive investment returns, and moderate investment risk. The program's investment return objective is a real (inflation-adjusted) annualized rate of return of at least 5.25%.

**Spending Policy**

The College uses a spending formula to determine an appropriate amount to distribute from the endowment pool each year. The college distributes 5.0 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 board designated 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.

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 13 - ENDOWMENTS (Continued)**

Endowment net asset composition by type of fund as of June 30, 2017 is as follows:

	<u><b>Unrestricted</b></u>	<u><b>Temporarily Restricted</b></u>	<u><b>Permanently Restricted</b></u>	<u><b>Total</b></u>
Donor-restricted endowment funds	\$ (2,153)	\$ 50,935,163	\$ 51,396,863	\$ 102,329,873
Board designated endowment funds	<u>7,428,265</u>	<u>-</u>	<u>-</u>	<u>7,428,265</u>
Total endowment funds	<u>\$ 7,426,112</u>	<u>\$ 50,935,163</u>	<u>\$ 51,396,863</u>	<u>\$ 109,758,138</u>

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	<u><b>Unrestricted</b></u>	<u><b>Temporarily Restricted</b></u>	<u><b>Permanently Restricted</b></u>	<u><b>Total</b></u>
Endowment net assets, beginning of year	<u>\$ 2,236,156</u>	<u>\$ 43,251,524</u>	<u>\$ 49,287,305</u>	<u>\$ 94,774,985</u>
Investment return:				
Investment income	139,584	2,003,093	166,258	2,215,414
Net appreciation (realized and unrealized)	<u>150,957</u>	<u>9,982,691</u>	<u>209,874</u>	<u>10,437,043</u>
Total investment return	<u>290,541</u>	<u>11,985,784</u>	<u>376,132</u>	<u>12,652,457</u>
Contributions	5,200,000	-	1,733,426	6,933,426
Appropriation of endowment assets for expenditure	(316,613)	(4,302,145)	-	(4,618,758)
Transfers to (remove) board designated funds	<u>16,028</u>	<u>-</u>	<u>-</u>	<u>16,028</u>
Endowment net assets, end of year	<u>\$ 7,426,112</u>	<u>\$ 50,935,163</u>	<u>\$ 51,396,863</u>	<u>\$ 109,758,138</u>



**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 13 - ENDOWMENTS (Continued)**

Endowment net asset composition by type of fund as of June 30, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (130,688)	\$ 43,251,524	\$ 49,287,305	\$ 92,408,141
Board designated endowment funds	<u>2,366,844</u>	<u>-</u>	<u>-</u>	<u>2,366,844</u>
Total endowment funds	<u>\$ 2,236,156</u>	<u>\$ 43,251,524</u>	<u>\$ 49,287,305</u>	<u>\$ 94,774,985</u>

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ 2,454,767</u>	<u>\$ 49,479,608</u>	<u>\$ 48,429,450</u>	<u>\$100,363,825</u>
Investment return:				
Investment income	108,270	1,588,128	130,391	1,826,789
Net depreciation (realized and unrealized)	<u>(248,925)</u>	<u>(3,380,944)</u>	<u>(230,133)</u>	<u>(3,860,002)</u>
Total investment return	<u>(140,655)</u>	<u>(1,792,816)</u>	<u>(99,742)</u>	<u>(2,033,213)</u>
Contributions	-	-	1,079,852	1,079,852
Transfer of net assets	-	122,255	(122,255)	-
Appropriation of endowment assets for expenditure	-	(4,557,523)	-	(4,557,523)
Transfers to (remove) board designated funds	<u>(77,956)</u>	<u>-</u>	<u>-</u>	<u>(77,956)</u>
Endowment net assets, end of year	<u>\$ 2,236,156</u>	<u>\$ 43,251,524</u>	<u>\$ 49,287,305</u>	<u>\$ 94,774,985</u>

**NOTE 14 - STATEMENT OF CASH FLOWS**

Supplemental disclosure information for the Statement of Cash Flows for the year ended June 30, 2017 is as follows:

Cash and cash equivalents	\$ 1,527,398
Cash reserved for refundable student loans	70,672
Cash reserved for self insurance	1,726,805
Cash held for investment	<u>835,154</u>
	<u>\$ 4,160,029</u>
Cash paid for interest	<u>\$ 819,048</u>
Property and equipment purchases in accounts payable at year end	<u>\$ 7,290</u>

**THE MONMOUTH COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 15 - ART COLLECTION**

The College has a permanent art collection displayed within the facilities of the campus and insured for approximately \$1,772,000. The collection is not reflected in the financial statements.

**NOTE 16 - CONCENTRATIONS**

The College maintains interest bearing accounts at Midwest Bank of Western Illinois whose balances exceed the FDIC limit of \$250,000. As a result, the College has taken measures to mitigate the concentration risk within the interest bearing account portfolio and has securities pledged to collateralize deposits.