

THE MONMOUTH COLLEGE
Monmouth, Illinois

FINANCIAL STATEMENTS
June 30, 2012



CliftonLarsonAllen

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Independent Auditor's Report

Board of Trustees
The Monmouth College
Monmouth, Illinois

We have audited the accompanying statement of financial position of The Monmouth College as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the College's June 30, 2011 financial statements and in our report dated October 18, 2011, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Monmouth College at June 30, 2012, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2012 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 with the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

CliftonLarsonAllen LLP

Peoria, Illinois
October 9, 2012

THE MONMOUTH COLLEGE
STATEMENT OF FINANCIAL POSITION
June 30, 2012
(With Comparative Totals for June 30, 2011)

	2012			2011 Total (Memorandum Only)	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
ASSETS					
Cash and cash equivalents	\$ 17,955,684	\$ 1,666,715	\$ 1,117,602	\$ 20,740,001	\$ 17,181,499
Receivables, net of allowance for doubtful accounts (Note 2):					
Accounts	476,320	468	-	476,788	1,608,666
Contributions	2,223,791	10,633	42,133	2,276,557	5,841,848
Loans	182,107	-	2,436,321	2,618,428	2,675,041
Inventories	200,223	-	-	200,223	230,210
Prepaid and deferred charges	328,647	-	-	328,647	494,248
Investments (Note 3)	4,625,384	37,978,945	37,852,544	80,456,873	80,538,069
Beneficial interest in perpetual trusts (Note 4)	-	-	3,255,431	3,255,431	3,329,359
Property and equipment, net (Note 6)	<u>94,008,905</u>	<u>-</u>	<u>-</u>	<u>94,008,905</u>	<u>79,127,671</u>
TOTAL ASSETS	<u>\$120,001,061</u>	<u>\$ 39,656,761</u>	<u>\$ 44,704,031</u>	<u>\$ 204,361,853</u>	<u>\$ 191,026,611</u>
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable	\$ 4,113,177	\$ -	\$ -	\$ 4,113,177	\$ 842,885
Accrued wages and expenses	1,824,773	-	-	1,824,773	2,154,367
Grants payable	-	50,996	2,516,141	2,567,137	2,542,455
Deposits payable	247,565	-	-	247,565	280,787
Deferred revenues	408,880	-	-	408,880	434,281
Annuities payable	-	3,937,121	-	3,937,121	4,005,088
Bonds payable (Note 7)	<u>27,572,133</u>	<u>-</u>	<u>-</u>	<u>27,572,133</u>	<u>18,359,900</u>
Total liabilities	34,166,528	3,988,117	2,516,141	40,670,786	28,619,763
NET ASSETS (Note 10)	<u>85,834,533</u>	<u>35,668,644</u>	<u>42,187,890</u>	<u>163,691,067</u>	<u>162,406,848</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$120,001,061</u>	<u>\$ 39,656,761</u>	<u>\$ 44,704,031</u>	<u>\$ 204,361,853</u>	<u>\$ 191,026,611</u>

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

THE MONMOUTH COLLEGE
STATEMENT OF ACTIVITIES
For Year Ended June 30, 2012
(With Comparative Totals for Year Ended June 30, 2011)

	<u>2012</u>			<u>Total</u>	2011 Total (Memorandum Only)
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>		
REVENUES, GAINS, AND OTHER SUPPORT					
Tuition, fees, room, and board (Note 11)	\$ 26,383,048	\$ -	\$ -	\$ 26,383,048	\$ 25,787,456
State and federal grants	159,437	3,265	-	162,702	2,215,374
Gifts and contributions	1,391,740	1,856,718	1,775,517	5,023,975	9,013,266
Investment income	1,362,579	78,582	5,157	1,446,318	1,015,365
Net realized gains on investments	289,067	4,311,839	-	4,600,906	481,098
Net unrealized gains (losses) on investments	(404,894)	(4,721,828)	(73,927)	(5,200,649)	14,559,659
Change in value of split- interest agreements	-	98,819	-	98,819	(434,465)
Other	124,170	22,393	-	146,563	143,812
Net assets released from restrictions	<u>17,558,661</u>	<u>(17,458,661)</u>	<u>(100,000)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>46,863,808</u>	<u>(15,808,873)</u>	<u>1,606,747</u>	<u>32,661,682</u>	<u>52,781,565</u>
EXPENSES AND LOSSES					
Instruction	11,550,879	-	-	11,550,879	11,258,958
Academic support	2,063,542	-	-	2,063,542	2,125,873
Student services	5,227,858	-	-	5,227,858	5,122,488
Student financial assistance	103,398	-	-	103,398	91,624
Auxiliary operations	7,712,032	-	-	7,712,032	7,919,215
Management and general	3,231,425	-	-	3,231,425	3,259,472
Fundraising	<u>1,488,329</u>	<u>-</u>	<u>-</u>	<u>1,488,329</u>	<u>1,252,638</u>
Total expenses and losses (Note 13)	<u>31,377,463</u>	<u>-</u>	<u>-</u>	<u>31,377,463</u>	<u>31,030,268</u>
CHANGE IN NET ASSETS	15,486,345	(15,808,873)	1,606,747	1,284,219	21,751,297
NET ASSETS, BEGINNING OF YEAR	<u>70,348,188</u>	<u>51,477,517</u>	<u>40,581,143</u>	<u>162,406,848</u>	<u>140,655,551</u>
NET ASSETS, END OF YEAR	<u>\$ 85,834,533</u>	<u>\$ 35,668,644</u>	<u>\$ 42,187,890</u>	<u>\$ 163,691,067</u>	<u>\$ 162,406,848</u>

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

**THE MONMOUTH COLLEGE
STATEMENT OF CASH FLOWS
For Year Ended June 30, 2012**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 1,284,219
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	4,715,391
Net realized and unrealized losses on investments	599,743
Private gifts restricted for long-term investments	(1,775,517)
Effects of changes in assets and liabilities:	
Accounts receivable	1,131,878
Contributions receivable	3,565,291
Loans receivable	56,613
Inventories	29,987
Prepaid and deferred charges	165,601
Accounts payable	1,966,158
Accrued wages and expenses	(329,594)
Grants payable	24,682
Deposits payable	(33,222)
Deferred revenues	(25,401)
Annuities payable	(67,967)
Net cash provided by operating activities	<u>11,307,862</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	17,636,349
Purchases of investments	(18,080,968)
Acquisition of land, buildings, and equipment	<u>(18,292,491)</u>
Net cash used in investing activities	<u>(18,737,110)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Contributions restricted for long-term investments	1,775,517
Principal payments on long-term bonds and notes	(787,767)
Proceeds from long-term bonds and notes	<u>10,000,000</u>
Net cash provided by financing activities	<u>10,987,750</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 3,558,502

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 17,181,499

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 20,740,001

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

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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 included 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, 2012

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 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, 2012

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 MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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.

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - RECEIVABLES

Accounts, contributions, and loans receivable are as follows:

	<u>June 30, 2012</u>	<u>June 30, 2011</u> Total (Memorandum Only)
Accounts:		
Students (current and former)	\$ 116,398	\$ 170,054
Other	525,582	1,583,992
Contributions	2,276,557	5,841,848
Loans	<u>2,618,428</u>	<u>2,675,041</u>
Total receivables	5,536,965	10,270,935
Less allowance for doubtful accounts	<u>(165,192)</u>	<u>(145,380)</u>
Total	<u>\$ 5,371,773</u>	<u>\$ 10,125,555</u>

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. At June 30, 2012, the unconditional promises to give total \$2,276,557. The unconditional promises are expected to be received as follows:

In less than one year	\$ 951,408
In one to five years	1,277,700
In more than five years	<u>47,449</u>
Total	<u>\$ 2,276,557</u>

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

Contributions receivable (gross amount)	\$ 2,396,981
Unamortized discount	<u>120,424</u>
Contributions receivable, at present value	<u>\$ 2,276,557</u>

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 3 - INVESTMENTS

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

	June 30, 2012				June 30, 2011 Total (Memorandum Only)
	Endowment Pool	Annuity Pool	Other	Total	
Short-term investments	\$ -	\$ -	\$ -	\$ -	\$ 46,755
Corporate and other bonds	9,332,115	1,488,766	-	10,820,881	10,266,124
Balanced mutual funds	828,835	3,055,939	-	3,884,774	3,811,501
Preferred stock	400,000	-	-	400,000	-
Common stocks	49,206,992	2,133,330	16,116	51,356,438	53,500,956
Notes receivable	56,913	-	-	56,913	60,316
Cash surrender value of life insurance	33,432	-	330,421	363,853	318,340
Hedge funds	2,772,744	-	-	2,772,744	2,731,787
Real estate	10,601,270	-	-	10,601,270	9,571,768
Other investments	200,000	-	-	200,000	230,522
	<u>\$ 73,432,301</u>	<u>\$ 6,678,035</u>	<u>\$ 346,537</u>	<u>\$ 80,456,873</u>	<u>\$ 80,538,069</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.

NOTE 4 - BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The College's proportionate beneficial interest in the fair value of assets held in perpetual trusts is \$3,255,431. During the year ended June 30, 2012, the Trustees distributed \$107,236 of income to Monmouth College, representing the College's share in the net income and proceeds of the trusts.

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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 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.

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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, 2012 and 2011.

Short-term investments, corporate and other bonds, balanced 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.

Hedge funds and 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, 2012

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, 2012 and 2011:

	Assets at Fair Value as of June 30, 2012			
	Level 1	Level 2	Level 3	Total
Corporate and other bonds	\$ 10,820,881	\$ -	\$ -	\$ 10,820,881
Balanced mutual funds	3,884,774	-	-	3,884,774
Common and preferred stocks	51,306,438	450,000	-	51,756,438
Notes receivable	-	56,913	-	56,913
Cash value of life insurance	-	363,853	-	363,853
Hedge funds	-	-	2,772,744	2,772,744
Real estate	-	-	10,601,270	10,601,270
Other investments	-	-	200,000	200,000
Beneficial interest in perpetual trusts	3,255,431	-	-	3,255,431
Total assets at fair value	\$ 69,267,524	\$ 870,766	\$ 13,574,014	\$ 83,712,304

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, 2012:

	Hedge Funds and Other Investments	Real Estate	Total
Balance, beginning of year	\$ 2,931,787	\$ 9,571,768	\$ 12,503,555
Realized and unrealized gains	40,957	1,029,502	1,070,459
Balance, end of year	\$ 2,972,744	\$ 10,601,270	\$ 13,574,014

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

	Assets at Fair Value as of June 30, 2011			
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ 46,755	\$ -	\$ -	\$ 46,755
Corporate and other bonds	10,266,124	-	-	10,266,124
Balanced mutual funds	3,811,501	-	-	3,811,501
Common stocks	53,450,956	50,000	-	53,500,956
Notes receivable	-	60,316	-	60,316
Cash value of life insurance	-	348,862	-	348,862
Hedge funds	-	-	2,731,787	2,731,787
Real estate	-	-	9,571,768	9,571,768
Other investments	-	-	200,000	200,000
Beneficial interest in perpetual trusts	3,329,359	-	-	3,329,359
Total assets at fair value	\$70,904,695	\$ 459,178	\$12,503,555	\$83,867,428

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, 2011:

	Hedge Funds and Other Investments	Real Estate	Total
Balance, beginning of year	\$ 2,944,261	\$ 8,112,282	\$ 11,056,543
Realized and unrealized gains (losses)	(12,474)	1,507,486	1,495,012
Sales, return on capital (net)	-	(48,000)	(48,000)
Balance, end of year	\$ 2,931,787	\$ 9,571,768	\$ 12,503,555

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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, 2012</u>	June 30, 2011 Total (Memorandum Only)
Land and improvements	\$ 13,687,606	\$ 13,210,946
Buildings	96,251,787	94,465,108
Equipment	16,723,653	16,705,878
Projects in progress	<u>19,022,282</u>	<u>2,439,135</u>
Total property and equipment	145,685,328	126,821,067
Less accumulated depreciation	<u>(51,676,423)</u>	<u>(47,693,396)</u>
Net property and equipment	<u>\$ 94,008,905</u>	<u>\$ 79,127,671</u>

Depreciation expense for the year ended June 30, 2012 was \$4,715,391.

During the year ended June 30, 2012, \$103,068 of interest expense was capitalized in the projects in progress account.

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 7 - BONDS PAYABLE

The following indicates the scheduled future maturities of outstanding bonds at June 30, 2012:

<u>Description</u>	<u>Bonds Payable</u>		<u>Total</u>
	<u>During the Year Ended June 30, 2013</u>	<u>After July 1, 2013 Maturing Serially Through 2041</u>	
City of Monmouth, Illinois Economic Development Revenue Bonds, Series 2000 (coupon interest rate = 5.00 to 5.75 percent - average rate = 5.68 percent), due June 2020.	\$ 365,000	\$ 3,000,000	\$ 3,365,000
Warren County, Illinois Economic Development Revenue Bonds, Series 2002 (variable interest rate is 0.17 percent at June 30, 2012), due December 2032.	340,000	8,475,000	8,815,000
City of Monmouth, Illinois Variable Rate Demand Industrial Project Revenue Bonds, Series 2005 (variable interest rate is 0.17 percent at June 30, 2012), due June 2035.	150,000	5,440,000	5,590,000
City of Monmouth, Illinois Variable Rate Demand Revenue Bonds, Series 2011 (variable interest rate is 65 percent of LIBOR plus 110 basis points at June 30, 2012), due July 2041.	<u>333,333</u>	<u>9,500,000</u>	<u>9,833,333</u>
Total	<u>\$1,188,333</u>	<u>\$ 26,415,000</u>	<u>\$ 27,603,333</u>

Maturities on bonds payable at June 30, 2012 are as follows:

2013	\$ 1,188,333
2014	1,208,332
2015	1,253,333
2016	1,293,333
2017	1,318,333
Subsequent to 2017	<u>21,341,669</u>
	27,603,333
Less unamortized discount	<u>(31,200)</u>
Total	<u>\$ 27,572,133</u>

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 8 - 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, 2012 is \$770,771.

NOTE 9 - SELF-INSURANCE

The College partially self-insures its risks for group medical insurance coverage. For the policy year beginning January 1, 2012, the College's liability is limited to a minimum attachment point of \$1,860,516 based on enrollment of 129 single and 77 family units. The plan has a specific stop loss of \$80,000 per person. Employee claims are processed and paid by a third party plan administrator.

NOTE 10 - NET ASSETS

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

	<u>June 30, 2012</u>	June 30, 2011 Total (Memorandum Only)
Instruction	\$ 16,128,884	\$ 14,926,426
Academic support	1,194,040	1,194,269
Student scholarships and prizes	17,648,833	17,342,782
Plant maintenance	328,850	227,850
Unrestricted purposes	<u>6,887,283</u>	<u>6,889,816</u>
Total	<u>\$ 42,187,890</u>	<u>\$ 40,581,143</u>

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 10 - NET ASSETS (CONTINUED)

Temporarily restricted net assets are restricted for the following purposes:

	<u>June 30, 2012</u>	June 30, 2011 Total (Memorandum Only)
Instruction	\$ 870,426	\$ 293,424
Academic support	55,131	48,517
Student services	179,412	130,936
Management and general	9,674	37,640
Student scholarships and prizes	477,455	341,976
Construction projects	-	14,592,133
Expiration of time	31,320,012	33,277,977
Annuity trusts	<u>2,756,534</u>	<u>2,754,914</u>
Total	<u>\$ 35,668,644</u>	<u>\$ 51,477,517</u>

NOTE 11 - TUITION, FEES, ROOM, AND BOARD

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

	<u>June 30, 2012</u>	June 30, 2011 Total (Memorandum Only)
Tuition and incidental fees	\$ 35,867,457	\$ 34,759,644
Room and board	9,543,434	9,534,493
Student financial assistance applied	<u>(19,027,843)</u>	<u>(18,506,681)</u>
Tuition, fees, room, and board	<u>\$ 26,383,048</u>	<u>\$ 25,787,456</u>

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 12 - EXPENSES

Expenses incurred during the year ended June 30, 2012 were for:

	<u>2012</u>				2011 Total (Memorandum Only)
	<u>Program Expenditures</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>	
Salaries, wages, stipends, and benefits	\$ 13,633,058	\$ 2,230,649	\$ 937,258	\$ 16,800,965	\$ 16,454,599
Supplies, travel, postage, telephone, etc.	4,144,261	848,759	509,198	5,502,218	5,064,880
Contracted dining services	2,683,953	76,571	13,581	2,774,105	2,736,419
Student financial assistance	118,529	-	-	118,529	105,804
Heat, electric, and water	1,053,029	-	-	1,053,029	1,242,222
Interest expense	413,226	-	-	413,226	621,921
Depreciation	<u>4,611,653</u>	<u>75,446</u>	<u>28,292</u>	<u>4,715,391</u>	<u>4,804,423</u>
Total expenses	<u>\$ 26,657,709</u>	<u>\$ 3,231,425</u>	<u>\$ 1,488,329</u>	<u>\$ 31,377,463</u>	<u>\$ 31,030,268</u>

NOTE 13 - 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, 2012 are as follows:

	<u>Year Ended June 30, 2012</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	\$ 11,550,879	\$ (2,477,081)	\$ 9,073,798
Academic support	2,063,542	(679,211)	1,384,331
Student services	5,227,858	(1,223,739)	4,004,119
Student financial assistance	103,398	-	103,398
Auxiliary operations	7,712,032	(2,516,121)	5,195,911
Management and general	3,231,425	148,997	3,380,422
Fundraising	1,488,329	(59,550)	1,428,779
Operation and maintenance of physical plant	-	1,678,088	1,678,088
Depreciation	-	4,715,391	4,715,391
Interest expense	-	<u>413,226</u>	<u>413,226</u>
Total	<u>\$ 31,377,463</u>		<u>\$ 31,377,463</u>

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 14 - ENDOWMENTS

The Monmouth College's endowments consist of approximately 295 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, 2012, the College has 11 individual endowment funds whose market values are \$32,821 in total 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, 2012

NOTE 14 - 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, 2012 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 31,300,910	\$ 42,187,890	\$ 73,488,800
Board designated endowment funds	<u>4,278,847</u>	<u>-</u>	<u>-</u>	<u>4,278,847</u>
Total endowment funds	<u>\$ 4,278,847</u>	<u>\$ 31,300,910</u>	<u>\$ 42,187,890</u>	<u>\$ 77,767,647</u>

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 14 - ENDOWMENTS (CONTINUED)

Strategies Employed for Achieving Objectives (Continued)

Changes in endowment net assets for the year ended June 30, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 4,879,197	\$ 33,215,509	\$ 40,581,143	\$ 78,675,849
Investment return:				
Investment income	-	1,321,417	5,157	1,326,574
Net depreciation (realized and unrealized)	<u>(137,188)</u>	<u>(299,810)</u>	<u>(73,927)</u>	<u>(510,925)</u>
Total investment return	<u>(137,188)</u>	<u>1,021,607</u>	<u>(68,770)</u>	<u>815,649</u>
Contributions	-	-	1,675,517	1,675,517
Appropriation of endowment assets for expenditure	-	(2,936,206)	-	(2,936,206)
Transfers to add (remove) board designated funds	<u>(463,162)</u>	<u>-</u>	<u>-</u>	<u>(463,162)</u>
Endowment net assets, end of year	<u>\$ 4,278,847</u>	<u>\$ 31,300,910</u>	<u>\$ 42,187,890</u>	<u>\$ 77,767,647</u>

NOTE 15 - COMMITMENTS

Commitments for the purchase of property and equipment as of June 30, 2012 totaled approximately \$18,609,533.

NOTE 16 - STATEMENT OF CASH FLOWS

Supplemental disclosure information for the statement of cash flows for the year ended June 30, 2012 is as follows:

Cash paid for interest \$ 414,692

\$1,304,134 of fixed asset purchases are included in accounts payable at June 30, 2012.

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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 \$1,710,000. The collection is not reflected in the financial statements.

NOTE 19 - CONCENTRATION OF CREDIT RISK

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 \$265,519 at June 30, 2012 are at risk in the event the financial institution fails.

NOTE 20 - RELATED PARTIES

The College has entered into construction contracts with two companies that are majority-owned or family owned by a member of the College's board of trustees. The construction contracts were obtained through a competitive award process and, in the opinion of management the contract obtained was the most favorable to the College. During the fiscal year ended June 30, 2012, the College paid these construction companies \$15,143,783 in construction costs. The College has future construction commitments of \$18,515,590 to these companies which are included in Note 15 - Commitments.

NOTE 21 - SUBSEQUENT EVENTS

Management evaluated subsequent events through October 9, 2012, the date the financial statements were available to be issued.

In August 2012, the College entered into a bank qualified tax exempt loan agreement with PNC Bank for \$3,365,000, the proceeds of which will be used to retire the outstanding balance of its 2000 series bonds. This new loan is a fixed rate loan with an 8 year amortization. Interest is fixed at 2.40 percent.

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