

THE MONMOUTH COLLEGE
Monmouth, Illinois

FINANCIAL STATEMENTS
June 30, 2011



**Clifton
Gunderson LLP**
Certified Public Accountants & Consultants

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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, 2011, 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, 2010 financial statements and in our report dated October 8, 2010, 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, 2011, 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 18, 2011 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.

Clifton Gunderson LLP

Peoria, Illinois
October 18, 2011

THE MONMOUTH COLLEGE
STATEMENT OF FINANCIAL POSITION
June 30, 2011
(With Comparative Totals for June 30, 2010)

	2011				2010 Total (Memorandum Only)
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
ASSETS					
Cash and cash equivalents	\$ 5,620,661	\$ 9,845,452	\$ 1,715,386	\$ 17,181,499	\$ 8,071,329
Receivables, net of allowance for doubtful accounts (Note 2):					
Accounts	1,608,666	-	-	1,608,666	174,828
Contributions	34,955	5,754,728	52,165	5,841,848	2,167,129
Loans	106,460	-	2,568,581	2,675,041	2,725,927
Inventories	230,210	-	-	230,210	230,210
Prepaid and deferred charges	494,248	-	-	494,248	253,312
Investments (Note 3)	5,197,537	39,940,470	35,400,062	80,538,069	73,749,802
Beneficial interest in perpetual trusts (Note 4)	-	-	3,329,359	3,329,359	2,870,597
Property and equipment, net (Note 6)	79,127,671	-	-	79,127,671	78,539,514
	<u>\$ 92,420,408</u>	<u>\$ 55,540,650</u>	<u>\$ 43,065,553</u>	<u>\$ 191,026,611</u>	<u>\$ 168,782,648</u>
TOTAL ASSETS					
	<u>\$ 92,420,408</u>	<u>\$ 55,540,650</u>	<u>\$ 43,065,553</u>	<u>\$ 191,026,611</u>	<u>\$ 168,782,648</u>
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable	\$ 842,885	\$ -	\$ -	\$ 842,885	\$ 939,639
Accrued wages and expenses	2,154,367	-	-	2,154,367	2,566,654
Grants payable	-	58,045	2,484,410	2,542,455	2,562,930
Deposits payable	280,787	-	-	280,787	271,278
Deferred revenues	434,281	-	-	434,281	246,594
Annuities payable	-	4,005,088	-	4,005,088	2,109,366
Notes payable	-	-	-	-	89,636
Bonds payable (Note 7)	18,359,900	-	-	18,359,900	19,341,000
	<u>22,072,220</u>	<u>4,063,133</u>	<u>2,484,410</u>	<u>28,619,763</u>	<u>28,127,097</u>
Total liabilities					
	<u>22,072,220</u>	<u>4,063,133</u>	<u>2,484,410</u>	<u>28,619,763</u>	<u>28,127,097</u>
NET ASSETS (Note 11)	<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>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 92,420,408</u>	<u>\$ 55,540,650</u>	<u>\$ 43,065,553</u>	<u>\$ 191,026,611</u>	<u>\$ 168,782,648</u>

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

THE MONMOUTH COLLEGE
STATEMENT OF ACTIVITIES
For Year Ended June 30, 2011
(With Comparative Totals for Year Ended June 30, 2010)

	2011			Total	2010 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 12)	\$ 25,787,456	\$ -	\$ -	\$ 25,787,456	\$ 25,530,518
State and federal grants	170,228	2,045,146	-	2,215,374	374,059
Gifts and contributions	2,018,055	6,529,597	465,614	9,013,266	6,142,489
Investment income (loss)	1,227,874	(217,059)	4,550	1,015,365	1,130,248
Net realized gains (losses) on investments	34,326	446,772	-	481,098	(26,761)
Net unrealized gains on investments	805,950	13,294,948	458,761	14,559,659	5,989,686
Change in value of split- interest agreements	-	(434,465)	-	(434,465)	136,723
Other	99,277	44,535	-	143,812	160,087
Net assets released from restrictions	<u>5,250,112</u>	<u>(5,250,112)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>35,393,278</u>	<u>16,459,362</u>	<u>928,925</u>	<u>52,781,565</u>	<u>39,437,049</u>
EXPENSES AND LOSSES					
Instruction	11,258,958	-	-	11,258,958	10,686,107
Academic support	2,125,873	-	-	2,125,873	2,039,697
Student services	5,122,488	-	-	5,122,488	4,770,652
Student financial assistance	91,624	-	-	91,624	88,199
Auxiliary operations	7,919,215	-	-	7,919,215	7,581,720
Management and general	3,259,472	-	-	3,259,472	3,477,378
Fund raising	<u>1,252,638</u>	<u>-</u>	<u>-</u>	<u>1,252,638</u>	<u>1,129,227</u>
Total expenses and losses (Note 13)	<u>31,030,268</u>	<u>-</u>	<u>-</u>	<u>31,030,268</u>	<u>29,772,980</u>
CHANGE IN NET ASSETS	4,363,010	16,459,362	928,925	21,751,297	9,664,069
NET ASSETS, BEGINNING OF YEAR	<u>65,985,178</u>	<u>35,018,155</u>	<u>39,652,218</u>	<u>140,655,551</u>	<u>130,991,482</u>
NET ASSETS, END 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>

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

**THE MONMOUTH COLLEGE
STATEMENT OF CASH FLOWS
For Year Ended June 30, 2011**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 21,751,297
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	4,804,423
Loss on disposal of property and equipment	20,309
Net realized and unrealized gains on investments	(15,040,757)
Private gifts restricted for long-term investments	(465,614)
Effects of changes in assets and liabilities:	
Accounts receivable	(1,433,838)
Contributions receivable	(3,674,719)
Loans receivable	50,886
Prepaid and deferred charges	(240,936)
Accounts payable	(96,754)
Accrued wages and expenses	(412,287)
Grants payable	(20,475)
Deposits payable	9,509
Deferred revenues	187,687
Annuities payable	<u>1,895,722</u>
Net cash provided by operating activities	<u>7,334,453</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	17,671,275
Purchases of investments	(9,877,547)
Acquisition of land, buildings, and equipment	(5,420,139)
Proceeds from sale of property and equipment	<u>7,250</u>
Net cash provided by investing activities	<u>2,380,839</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Contributions restricted for long-term investments	465,614
Principal payments on long-term bonds and notes	<u>(1,070,736)</u>
Net cash used in financing activities	<u>(605,122)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 9,110,170

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 8,071,329

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 17,181,499

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

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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, 2011

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, 2011

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, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Gifts

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

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

Comparative Data

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

Reclassification

Certain items in the 2010 comparative data have been reclassified to conform to presentation in the June 30, 2011 financial statements.

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 - RECEIVABLES

Accounts, contributions, and loans receivable are as follows:

	<u>June 30, 2011</u>	June 30, 2010 Total (Memorandum Only)
Accounts:		
Students (current and former)	\$ 170,054	\$ 43,239
Other	1,583,992	180,589
Contributions	5,841,848	2,167,129
Loans	<u>2,675,041</u>	<u>2,803,892</u>
Total receivables	10,270,935	5,194,849
Less allowance for doubtful accounts	<u>(145,380)</u>	<u>(126,965)</u>
Total	<u>\$ 10,125,555</u>	<u>\$ 5,067,884</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, 2011, the unconditional promises to give total \$5,841,848. The unconditional promises are expected to be received as follows:

In less than one year	\$ 3,981,887
In one to five years	1,711,035
In more than five years	<u>148,926</u>
Total	<u>\$ 5,841,848</u>

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

Contributions receivable (gross amount)	\$ 5,964,076
Unamortized discount	<u>(122,228)</u>
Contributions receivable, at present value	<u>\$ 5,841,848</u>

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 3 - INVESTMENTS

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

	June 30, 2011				June 30, 2010 Total (Memorandum Only)
	Endowment Pool	Annuity Pool	Other	Total	
Short-term investments	\$ -	\$ 46,755	\$ -	\$ 46,755	\$ 46,755
Certificates of deposit	-	-	-	-	10,900,000
U.S. Government obligations	-	-	-	-	36,309
Corporate and other bonds	8,694,441	1,571,683	-	10,266,124	8,803,115
Balanced mutual funds	811,917	2,999,584	-	3,811,501	3,997,636
Common stocks	51,394,017	2,106,939	-	53,500,956	38,535,660
Notes receivable	60,316	-	-	60,316	63,557
Cash surrender value of life insurance	-	-	318,340	318,340	310,227
Hedge funds	2,731,787	-	-	2,731,787	2,716,658
Real estate	9,571,768	-	-	9,571,768	8,112,282
Other investments	<u>230,522</u>	<u>-</u>	<u>-</u>	<u>230,522</u>	<u>227,603</u>
	<u>\$ 73,494,768</u>	<u>\$ 6,724,961</u>	<u>\$ 318,340</u>	<u>\$ 80,538,069</u>	<u>\$ 73,749,802</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 \$3,329,359. During the year ended June 30, 2011, the Trustees distributed \$133,440 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, 2011

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, 2011

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, 2011 and 2010.

Short-term investments, U.S. Government obligations, corporate and other bonds, balanced 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. 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.

Certificates of deposit: Valued at the net asset value reported by the issuing financial institution.

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, 2011

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, 2011 and 2010:

	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, 2011

NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

	Assets at Fair Value as of June 30, 2010			
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ 46,755	\$ -	\$ -	\$ 46,755
Certificates of deposit	10,900,000	-	-	10,900,000
U.S. Government obligations	36,309	-	-	36,309
Corporate and other bonds	8,803,115	-	-	8,803,115
Balanced mutual funds	3,997,636	-	-	3,997,636
Common stocks	38,485,660	50,000	-	38,535,660
Notes receivable	-	63,557	-	63,557
Cash value of life insurance	-	310,227	-	310,227
Hedge funds	-	-	2,716,658	2,716,658
Real estate	-	-	8,112,282	8,112,282
Other investments	-	-	227,603	227,603
Beneficial interest in perpetual trusts	<u>2,870,597</u>	<u>-</u>	<u>-</u>	<u>2,870,597</u>
Total assets at fair value	<u>\$65,140,072</u>	<u>\$ 423,784</u>	<u>\$11,056,543</u>	<u>\$76,620,399</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, 2010:

	Hedge Funds and Other Investments	Real Estate	Total
Balance, beginning of year	\$ 2,950,961	\$ 7,071,547	\$ 10,022,508
Realized and unrealized gains (losses)	(6,700)	992,735	986,035
Purchases, return on capital (net)	<u>-</u>	<u>48,000</u>	<u>48,000</u>
Balance, end of year	<u>\$ 2,944,261</u>	<u>\$ 8,112,282</u>	<u>\$ 11,056,543</u>

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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, 2011</u>	June 30, 2010 Total (Memorandum Only)
Land and improvements	\$ 13,210,946	\$ 12,957,209
Buildings	94,465,108	91,882,307
Equipment	16,705,878	15,824,986
Projects in progress	<u>2,439,135</u>	<u>1,731,230</u>
Total property and equipment	126,821,067	122,395,732
Less accumulated depreciation	<u>(47,693,396)</u>	<u>(43,856,218)</u>
Net property and equipment	<u>\$ 79,127,671</u>	<u>\$ 78,539,514</u>

Depreciation expense for the year ended June 30, 2011 was \$4,804,423.

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 7 - BONDS PAYABLE

The following indicates the scheduled future maturities of outstanding bonds at June 30, 2011:

<u>Description</u>	<u>Bonds Payable</u>		<u>Total</u>
	<u>During the Year Ended June 30, 2012</u>	<u>After July 1, 2012 Maturing Serially Through 2035</u>	
City of Monmouth, Illinois Economic Development Revenue Bonds, Series 2000 (coupon interest rate = 5.30 to 5.75 percent - average rate = 5.68 percent), due June 2020.	\$ 150,000	\$ 3,365,000	\$ 3,515,000
Warren County, Illinois Economic Development Revenue Bonds, Series 2002 (variable interest rate is 0.10 percent at June 30, 2011), due December 2032.	330,000	8,815,000	9,145,000
City of Monmouth, Illinois Variable Rate Demand Industrial Project Revenue Bonds, Series 2005 (variable interest rate is 0.10 percent at June 30, 2011), due June 2035.	<u>145,000</u>	<u>5,590,000</u>	<u>5,735,000</u>
Total	<u>\$ 625,000</u>	<u>\$ 17,770,000</u>	<u>\$ 18,395,000</u>

Maturities on bonds payable at June 30, 2011 are as follows:

2012	\$ 625,000
2013	855,000
2014	875,000
2015	920,000
2016	970,000
Subsequent to 2016	<u>14,150,000</u>
	18,395,000
Less unamortized discount	<u>(35,100)</u>
Total	<u>\$ 18,359,900</u>

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 8 - LINE OF CREDIT AGREEMENT

The College has a bank line of credit agreement that permits borrowing up to \$10,000,000. 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 4.5 percent. The rate at June 30, 2011 was 4.5 percent. The line of credit matures on May 29, 2012 and is secured by certain real estate. As of June 30, 2011, the College had no borrowings under this line of credit.

NOTE 9 - COLLEGE TAX-SHELTERED ANNUITY PLANS

The College participates in certain tax-sheltered annuity plans for academic and nonacademic personnel. These plans require contributions from participating personnel which are matched by the College. Total expense to the College relating to these plans for the year ended June 30, 2011 is \$736,237.

NOTE 10 - SELF-INSURANCE

The College partially self-insures its risks for group medical insurance coverage. For the policy year beginning January 1, 2011, the College's liability is limited to a minimum attachment point of \$1,761,082 based on enrollment of 135 single and 74 family units. The plan has a specific stop loss of \$70,000 per person. Employee claims are processed and paid by a third party plan administrator.

NOTE 11 - NET ASSETS

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

	<u>June 30, 2011</u>	<u>June 30, 2010</u> <u>Total</u> <u>(Memorandum</u> <u>Only)</u>
Instruction	\$ 14,926,426	\$ 14,824,421
Academic support	1,194,269	1,193,718
Student scholarships and prizes	17,342,782	16,631,368
Plant maintenance	227,850	176,850
Unrestricted purposes	<u>6,889,816</u>	<u>6,825,861</u>
Total	<u>\$ 40,581,143</u>	<u>\$ 39,652,218</u>

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 11 - NET ASSETS (CONTINUED)

Temporarily restricted net assets are restricted for the following purposes:

	<u>June 30, 2011</u>	June 30, 2010 Total (Memorandum Only)
Instruction	\$ 293,424	\$ 272,844
Academic support	48,517	46,247
Student services	130,936	87,679
Management and general	37,640	23,584
Student scholarships and prizes	341,976	326,796
Construction projects	14,592,133	9,450,281
Expiration of time	33,277,977	22,256,450
Annuity trusts	<u>2,754,914</u>	<u>2,554,274</u>
Total	<u>\$ 51,477,517</u>	<u>\$ 35,018,155</u>

NOTE 12 - TUITION, FEES, ROOM, AND BOARD

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

	<u>June 30, 2011</u>	June 30, 2010 Total (Memorandum Only)
Tuition and incidental fees	\$ 34,759,644	\$ 33,132,652
Room and board	9,534,493	9,583,298
Student financial assistance applied	<u>(18,506,681)</u>	<u>(17,185,432)</u>
Tuition, fees, room, and board	<u>\$ 25,787,456</u>	<u>\$ 25,530,518</u>

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 13 - EXPENSES

Expenses incurred during the year ended June 30, 2011 were for:

	<u>2011</u>			<u>Total</u>	<u>2010</u> <u>Total</u> <u>(Memorandum</u> <u>Only)</u>
	<u>Program</u> <u>Expenditures</u>	<u>Management</u> <u>and General</u>	<u>Fund</u> <u>Raising</u>		
Salaries, wages, stipends, and benefits	\$ 13,208,739	\$ 2,396,428	\$ 849,432	\$ 16,454,599	\$ 15,575,900
Supplies, travel, postage, telephone, etc.	4,011,852	686,855	366,173	5,064,880	4,846,192
Contracted dining services	2,628,895	99,318	8,206	2,736,419	2,667,937
Student financial assistance	105,804	-	-	105,804	102,354
Heat, electric, and water	1,242,222	-	-	1,242,222	1,275,688
Interest expense	621,921	-	-	621,921	536,506
Depreciation	<u>4,698,725</u>	<u>76,871</u>	<u>28,827</u>	<u>4,804,423</u>	<u>4,768,403</u>
Total expenses	<u>\$ 26,518,158</u>	<u>\$ 3,259,472</u>	<u>\$ 1,252,638</u>	<u>\$ 31,030,268</u>	<u>\$ 29,772,980</u>

NOTE 14 - ALLOCATION OF FUNCTIONAL EXPENSES

The College is required to allocate various expenses, including the operation and maintenance of the physical plant, depreciation, and interest to various programs of the College. The allocations for the year ended June 30, 2011 are as follows:

	<u>Year Ended June 30, 2011</u>		
	<u>Expenses as</u> <u>Reported on the</u> <u>Statement of</u> <u>Activities</u>	<u>Allocations</u> <u>to Programs</u>	<u>Program</u> <u>Expenses Prior</u> <u>to Allocations</u>
Operating expenses:			
Instruction	\$ 11,258,958	\$ (2,681,194)	\$ 8,577,764
Academic support	2,125,873	(739,156)	1,386,717
Student services	5,122,488	(1,333,414)	3,789,074
Student financial assistance	91,624	-	91,624
Auxiliary operations	7,919,215	(2,653,922)	5,265,293
Management and general	3,259,472	85,522	3,344,994
Fundraising	1,252,638	(62,764)	1,189,874
Operation and maintenance of physical plant	-	1,958,584	1,958,584
Depreciation	-	4,804,423	4,804,423
Interest expense	-	<u>621,921</u>	<u>621,921</u>
Total	<u>\$ 31,030,268</u>		<u>\$ 31,030,268</u>

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 15 - ENDOWMENTS

The Monmouth College's endowments consist of approximately 288 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, 2011, the College has 4 individual endowment funds whose market values are \$1,422 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, 2011

NOTE 15 - ENDOWMENTS (CONTINUED)

Return Objectives and Risk Parameters

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

Spending Policy

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

Strategies Employed for Achieving Objectives

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

Endowment net asset composition by type of fund as of June 30, 2011 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 33,215,509	\$ 40,581,143	\$ 73,796,652
Board designated endowment funds	<u>4,879,197</u>	<u>-</u>	<u>-</u>	<u>4,879,197</u>
Total endowment funds	<u>\$ 4,879,197</u>	<u>\$ 33,215,509</u>	<u>\$ 40,581,143</u>	<u>\$ 78,675,849</u>

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 15 - ENDOWMENTS (CONTINUED)

Strategies Employed for Achieving Objectives (Continued)

Changes in endowment net assets for the year ended June 30, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 4,376,542	\$ 22,216,203	\$ 39,652,218	\$ 66,244,963
Investment return:				
Investment income	-	1,194,146	4,550	1,198,696
Net appreciation (realized and unrealized)	<u>835,761</u>	<u>12,781,712</u>	<u>458,761</u>	<u>14,076,234</u>
Total investment return	<u>835,761</u>	<u>13,975,858</u>	<u>463,311</u>	<u>15,274,930</u>
Contributions	-	-	465,614	465,614
Appropriation of endowment assets for expenditure	-	(2,976,552)	-	(2,976,552)
Transfers to add (remove) board designated funds	<u>(333,106)</u>	<u>-</u>	<u>-</u>	<u>(333,106)</u>
Endowment net assets, end of year	<u>\$ 4,879,197</u>	<u>\$ 33,215,509</u>	<u>\$ 40,581,143</u>	<u>\$ 78,675,849</u>

NOTE 16 - COMMITMENTS

Commitments for the purchase of property and equipment as of June 30, 2011 totaled approximately \$1,552,929.

In August 2011, the College entered into contracts with Pepper Construction Company of Chicago for the construction of a new 136,000 square foot academic building. The construction cost is \$33,763,100. In addition, the College entered into a bank qualified tax exempt loan agreement with PNC Bank for \$10,000,000, the proceeds of which will be used to fund construction of the new academic building. This new loan is a variable rate loan with a 20 year amortization. Interest is indexed at 65 percent of the 30 day LIBOR rate plus a credit spread of 1.1 percent.

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 17 - STATEMENT OF CASH FLOWS

Supplemental disclosure information for the statement of cash flows for the year ended June 30, 2011 is as follows:

Cash paid for interest	\$ <u>644,784</u>
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NOTE 18 - 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 19 - ART COLLECTION

The College has a permanent art collection displayed within the facilities of the campus and insured for approximately \$1,711,680. The collection is not reflected in the financial statements.

NOTE 20 - SUBSEQUENT EVENTS

Management evaluated subsequent events through October 18, 2011, the date the financial statements were available to be issued.

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