

**THE MONMOUTH COLLEGE
MONMOUTH, ILLINOIS**

FINANCIAL STATEMENTS

June 30, 2016

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 (The College), which comprise the statement of financial position as of June 30, 2016, 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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 5, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2016, 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
September 22, 2016

THE MONMOUTH COLLEGE

STATEMENT OF FINANCIAL POSITION

June 30, 2016

(With Summarized Comparative Information for the Year Ended June 30, 2015)

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 1,244,667	\$ 4,198,707
Receivables, net of allowance for doubtful accounts and unamortized discount (Note 2):		
Accounts	1,321,549	239,351
Contributions	1,536,674	2,645,113
Loans	2,417,309	2,498,169
Inventories	112,808	125,342
Prepaid and deferred charges	540,441	614,151
Cash reserved for refundable student loans	223,521	277,547
Cash reserved for self insurance	1,320,615	1,137,368
Cash held for investment	1,806,314	3,865,746
Investments (Note 3)	100,684,712	102,919,879
Beneficial interests in perpetual trusts (Note 4)	3,201,020	3,431,153
Property and equipment, net (Note 6)	105,252,324	105,564,034
TOTAL ASSETS	<u>\$ 219,661,954</u>	<u>\$ 227,516,560</u>
LIABILITIES		
Accounts payable	\$ 924,501	\$ 1,017,807
Accrued wages and expenses	2,935,103	2,489,580
Refundable student loans	2,618,506	2,595,825
Deposits payable	340,102	315,852
Deferred revenues	523,180	431,539
Line of Credit (Note 8)	4,007,389	-
Bonds payable (Note 7)	22,590,000	23,903,333
Annuities payable	3,652,693	3,853,273
Total liabilities	<u>37,591,474</u>	<u>34,607,209</u>
NET ASSETS		
Unrestricted	81,158,356	83,783,419
Temporarily restricted (Note 11)	51,624,819	60,696,482
Permanently restricted (Note 11)	49,287,305	48,429,450
Total net assets	<u>182,070,480</u>	<u>192,909,351</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 219,661,954</u>	<u>\$ 227,516,560</u>

See accompanying Notes to Financial Statements.

THE MONMOUTH COLLEGE

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

(With Summarized Comparative Information for June 30, 2015)

	2016			Total	2015
	Unrestricted	Temporarily Restricted	Permanently Restricted		
REVENUES, GAINS, AND OTHER SUPPORT					
Tuition and fees	\$ 39,345,832	\$ -	\$ -	\$ 39,345,832	\$ 41,238,339
Less: Student aid and scholarships	(24,045,177)	-	-	(24,045,177)	(24,743,437)
Net tuition and fees	15,300,655	-	-	15,300,655	16,494,902
Room and board	9,800,446	-	-	9,800,446	9,928,680
Net tuition, fees, room and board	25,101,101	-	-	25,101,101	26,423,582
State and federal grants	136,426	50,890	-	187,316	173,927
Gifts and contributions	1,082,176	1,674,625	1,079,852	3,836,653	11,273,235
Investment income	127,598	1,640,582	130,391	1,898,571	2,271,517
Change in annuities, net	-	(290,116)	-	(290,116)	(285,753)
Net realized gains (losses) on investments	140,588	1,108,218	(230,133)	1,018,673	13,432,826
Net unrealized losses on investments	(296,561)	(4,433,338)	-	(4,729,899)	(15,131,350)
Change in value of split interest agreements	-	200,589	-	200,589	147,779
Other	533,944	12,085	-	546,029	200,047
Net assets released from restriction	9,157,453	(9,035,198)	(122,255)	-	-
Total revenues, gains, and other support	35,982,725	(9,071,663)	857,855	27,768,917	38,505,810
EXPENSES					
Instruction	15,173,811	-	-	15,173,811	14,397,510
Academic support	2,434,721	-	-	2,434,721	2,526,219
Student services	7,264,044	-	-	7,264,044	6,788,231
Student financial assistance	628,199	-	-	628,199	491,980
Auxiliary operations	7,282,621	-	-	7,282,621	7,088,323
Management and general	4,648,018	-	-	4,648,018	4,008,443
Fundraising	1,176,374	-	-	1,176,374	1,208,881
Total expenses (Note 12)	38,607,788	-	-	38,607,788	36,509,587
CHANGES IN NET ASSETS	(2,625,063)	(9,071,663)	857,855	(10,838,871)	1,996,223
NET ASSETS, BEGINNING OF YEAR	83,783,419	60,696,482	48,429,450	192,909,351	190,913,128
NET ASSETS, END OF YEAR	\$ 81,158,356	\$ 51,624,819	\$ 49,287,305	\$ 182,070,480	\$ 192,909,351

See accompanying Notes to Financial Statements.

THE MONMOUTH COLLEGE

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (10,838,871)
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	5,225,035
Gain on disposal of plant assets	(408,685)
Net realized and unrealized loss on investments	3,481,093
Private gifts restricted for long-term investments	(1,079,853)
Change in value of annuities payable	227,577
Effects of changes in operating assets and liabilities:	
Accounts receivable	(1,082,198)
Contributions receivable	1,171,530
Loans receivable	10,057
Inventories	12,534
Beneficial interest in perpetual trusts	230,133
Prepaid and deferred charges	73,710
Accounts payable	(483,541)
Accrued wages and expenses	445,523
Refundable student loans	22,681
Deposits payable	24,250
Deferred revenues	91,641
Net cash from operating activities	<u>(2,877,384)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Disbursements of cash held for investment	2,059,432
Disbursements of cash held for refundable student loans	54,026
Additions to cash reserved for self insurance	(183,247)
Proceeds from sales / maturities of investments	13,345,746
Purchase of investments	(14,591,672)
Disbursements of loans to students	(248,538)
Principal payments received on loans to students	319,341
Acquisition of property and equipment	(4,114,405)
Net cash from investing activities	<u>(3,359,317)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payments of annuity obligations	(428,157)
Contributions restricted for long-term investments	1,016,762
Principal payments on bonds	(1,313,333)
Proceeds from short term borrowing	4,007,389
Net cash from financing activities	<u>3,282,661</u>

CHANGE IN CASH AND CASH EQUIVALENTS (2,954,040)

CASH AND EQUIVALENTS, BEGINNING OF YEAR 4,198,707

CASH AND EQUIVALENTS, END OF YEAR \$ 1,244,667

See accompanying Notes to Financial Statements.

THE MONMOUTH COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

With Summarized Comparative Information at June 30, 2015

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 gains and losses for endowment funds.
- Temporarily Restricted Net Assets - net assets subject to donor-imposed restrictions that may or will be met either by actions of the College or the passage of time. Items that affect this net asset category are gifts for which restrictions have not been met, annuity and life income gifts for which the ultimate purpose of the proceeds is not permanently restricted, gifts restricted for capital projects not yet under construction and endowments where the principal may be expended upon the passage of a stated period of time (term endowments).
- Permanently Restricted Net Assets - net assets subject to donor-imposed restrictions to be maintained permanently by the College. Items that affect this net asset category include gifts wherein donors stipulate that the corpus be held in perpetuity (primarily gifts for endowment and providing loans to the students) and only the income be made available for program operations and annuity and life income gifts for which the ultimate purpose of the proceeds is permanently restricted.

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. Portions of the College's cash reserved for designated purposes or held for long-term investment are not considered cash and cash equivalents for purposes of the statement of cash flows.

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, 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. Other investments, primarily real estate, are 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. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, or statute. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets or decrease another are reported as net assets released from restrictions.

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 0.28% to 2.30%, based upon the applicable month and year in which the split-interest agreements were initiated within these calculations.

Tuition and Fees

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

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, 2015, from which the summarized information was derived.

Subsequent Events

Management evaluated subsequent events through September 22, 2016, the date the financial statements were issued, and concluded that with the exception of the matters discussed in Notes 2, 7, and 8 there were no significant non-recognized subsequent events.

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - RECEIVABLES

Accounts and contributions receivable are as follows:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Accounts:		
Students (current and former)	\$ 161,650	\$ 193,671
Less allowance for doubtful accounts	<u>(65,000)</u>	<u>(112,960)</u>
Total students	<u>96,650</u>	<u>80,711</u>
Other	<u>1,224,899</u>	<u>158,640</u>
Total accounts receivable	<u>1,321,549</u>	<u>239,351</u>
Contributions	1,552,624	2,667,513
Less allowance for doubtful accounts	<u>(15,950)</u>	<u>(22,400)</u>
Total contributions	<u>\$ 1,536,674</u>	<u>\$ 2,645,113</u>

Other accounts receivable for the year ending June 30, 2016 included \$1,203,206 that was anticipated from the State of Illinois for the Monetary Award Program. This was subsequently received in July of 2016.

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 0.58% to 2.30%, at the time the promise is made. At June 30, 2016, the unconditional promises to give total \$1,586,108. The unconditional promises are expected to be received as follows:

In less than one year	\$ 713,532
In one to five years	<u>872,576</u>
Total	<u>\$ 1,586,108</u>

Contributions receivable are as follows:

Contributions receivable (gross amount)	\$ 1,586,108
Less allowance for doubtful accounts	(15,950)
Unamortized discount	<u>(33,484)</u>
Contributions receivable, net	<u>\$ 1,536,674</u>

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

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - RECEIVABLES (Continued)

Student loans consisted of the following at:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Loans to students	\$ 2,548,681	\$ 2,623,829
Less, allowance for doubtful accounts		
Beginning of year	(125,660)	(102,272)
Increases	<u>(5,712)</u>	<u>(23,388)</u>
End of year	<u>(131,372)</u>	<u>(125,660)</u>
Student loans receivable, net	<u>\$ 2,417,309</u>	<u>\$ 2,498,169</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 \$2,489,131 at June 30, 2016 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, 2016, 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, 2016	\$133,244	\$ 53,110	\$721,816	\$908,170

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, 2016</u>				
	<u>Endowment</u>	<u>Annuity</u>	<u>Other</u>	<u>Total</u>	<u>June 30, 2015</u>
	<u>Pool</u>	<u>Pool</u>			
Corporate and other bonds	\$ 11,544,120	\$ 1,406,100	\$ -	\$ 12,950,220	\$ 11,857,091
Balanced mutual funds	1,090,860	3,263,831	-	4,354,691	4,566,598
Preferred stock	450,000	-	-	450,000	450,000
Common stocks	43,658,604	2,653,028	-	46,311,632	48,762,827
Pooled funds	9,415,080	-	-	9,415,080	10,188,228
Hedge funds	10,719,030	-	-	10,719,030	10,296,915
Notes receivable	41,508	-	-	41,508	45,646
Cash surrender value of life insurance	45,789	-	340,747	386,536	379,794
Mutual funds	3,594,715	-	-	3,594,715	3,265,781
Real estate	12,261,300	-	-	12,261,300	12,906,999
Other investments	200,000	-	-	200,000	200,000
	<u>\$ 93,021,006</u>	<u>\$ 7,322,959</u>	<u>\$ 340,747</u>	<u>\$ 100,684,712</u>	<u>\$ 102,919,879</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 \$3,201,020. During the year ended June 30, 2016, the Trustees distributed \$170,510 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, 2016.

Corporate and other bonds, balanced mutual funds, 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.

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

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, 2016:

	Assets at Fair Value as of June 30, 2016			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate and other bonds	\$ 12,950,220	\$ -	\$ -	\$ 12,950,220
Balanced mutual funds	4,354,691	-	-	4,354,691
Common stocks	46,311,632	-	-	46,311,632
Mutual funds	3,594,715	-	-	3,594,715
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
Hedge funds (NAV)				10,719,030
Total				<u>\$ 103,885,732</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, 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>

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, 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	7-10days

(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, 2015:

	<u>Assets at Fair Value as of June 30, 2015</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate and other bonds	\$11,857,091	\$ -	\$ -	\$ 11,857,091
Balanced mutual funds	4,566,598	-	-	4,566,598
Common stocks	48,762,827	-	-	48,762,827
Mutual funds	3,265,781	-	-	3,265,781
Real estate	-	-	12,906,999	12,906,999
Beneficial interest in perpetual trusts	-	-	3,431,153	3,431,153
Total assets at fair value	<u>\$68,452,297</u>	<u>\$ -</u>	<u>\$16,338,152</u>	84,790,449
Life insurance contracts (contract value)				379,794
Note receivable (carrying value)				45,646
Other investments (cost)				650,000
Pooled funds (NAV)				10,188,228
Hedge funds (NAV)				10,296,915
Total				<u>\$ 106,351,032</u>

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS

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, 2015:

	<u>Real Estate</u>	<u>Beneficial Interest in Perpetual Trust</u>	<u>Total</u>
Balance, beginning of year	\$ 14,608,977	\$ 3,596,126	\$ 18,205,103
Beneficial interest in trust distribution	-	(173,956)	(173,956)
Realized and unrealized losses	<u>(1,701,978)</u>	<u>8,983</u>	<u>(1,692,995)</u>
Balance, end of year	<u>\$ 12,906,999</u>	<u>\$ 3,431,153</u>	<u>\$ 16,338,152</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, 2015:

<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)	10,188,228	-	Monthly	7-10 days
Vontobel global equity fund (B)	10,296,915	-	Monthly	15 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, 2016</u>	<u>June 30, 2015</u>
Land and improvements	\$ 14,547,703	\$ 14,421,784
Buildings	139,860,903	136,105,043
Equipment	21,364,080	20,639,646
Projects in progress	<u>518,099</u>	<u>482,862</u>
Total property and equipment	176,290,785	171,649,335
Less accumulated depreciation	<u>(71,038,461)</u>	<u>(66,085,301)</u>
Net property and equipment	<u>\$ 105,252,324</u>	<u>\$ 105,564,034</u>

Depreciation expense for the year ended June 30, 2016 was \$5,225,035.

NOTE 7 - BONDS PAYABLE

The following indicates the scheduled future maturities of outstanding bonds at June 30, 2016:

<u>Description</u>	<u>Bonds Payable</u>		<u>Total</u>
	<u>During the Year Ended June 30, 2017</u>	<u>After July 1, 2017 Maturing Serially Through 2041</u>	
Warren County, Illinois Economic Development Revenue Bonds, Series 2002 (variable interest rate is 0.3 percent at June 30, 2016), due December 2032.	\$ 390,000	\$ 6,990,000	\$ 7,380,000
City of Monmouth, Illinois Variable Rate Demand Industrial Project Revenue Bonds, Series 2005 (variable interest rate is 0.3 percent at June 30, 2016), due June 2035.	175,000	4,775,000	4,950,000
City of Monmouth, Illinois Variable Rate Demand Revenue Bonds, Series 2011 (variable interest rate is 65 percent of LIBOR plus 110 basis points, interest rate is 1.4 percent at June 30, 2016), due July 2041.	333,333	8,166,667	8,500,000
City of Monmouth, Illinois Industrial Project Refunding Revenue Bonds, Series 2012 (interest rate is 2.4 percent at June 30, 2016), due June 2020.	<u>425,000</u>	<u>1,335,000</u>	<u>1,760,000</u>
Total	<u>\$ 1,323,333</u>	<u>\$ 21,266,667</u>	<u>\$ 22,590,000</u>

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - BONDS PAYABLE

Maturities on bonds payable at June 30, 2016 are as follows:

2017	\$ 13,088,333
2018	768,333
2019	778,333
2020	788,333
2021	333,333
Subsequent to 2022	<u>6,833,335</u>
Total	<u>\$ 22,590,000</u>

Pursuant to the Series 2002 and 2005 agreements, the College has entered into related agreements with a bank that provides the bank's letters of credit in the amounts of \$9,581,692 and \$5,947,432, respectively. The letters of credit agreements expire October 2016.

Interest expense for the bonds payable for the year ended June 30, 2016 was \$354,317.

Certain bonds payable agreements contain financial covenants pertaining to debt service coverage and cash and investments to indebtedness. The College believes it is in compliance with these financial covenants at June 30, 2016.

On August 24, 2016, the College signed a Commitment Letter with Midwest Bank that provides the College with a \$26,000,000 bridge loan that will be used to extinguish all indebtedness with PNC Bank and provide the College with additional operating funds. The loan carries a monthly variable interest rate of 3.50% and matures on September 1, 2017. During the term of the loan, the College will be working with Midwest Bank, the City of Monmouth, Warren County and others to investigate the possibility of new tax-exempt long-term debt. On September 1, 2016, the 2002, 2005, 2011 and 2012 series' debt with PNC Bank was repaid.

NOTE 8 - LINE OF CREDIT AGREEMENT

The College maintains a bank line of credit agreement that permits borrowing up to \$5,000,000. 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 3.5 percent. The rate at June 30, 2016 was 3.5 percent. The line of credit matures on February 3, 2017 and is secured by certain real estate. As of June 30, 2016, the College had borrowings of \$4,007,389 (including accrued interest of \$7,389) 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, 2016. On September 1, 2016, the balance on the line of credit was repaid.

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS

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, 2016 is \$885,078.

NOTE 10 - SELF-INSURANCE

The College partially self-insures its risks for group medical insurance coverage. For the policy year beginning January 1, 2016, the College's liability is limited to a minimum attachment point of \$1,957,375 based on enrollment of 232 covered employees. 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 \$1,532,004 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, 2016</u>	<u>June 30, 2015</u>
Instruction	\$ 17,233,680	\$ 17,179,798
Academic support	1,809,076	1,809,242
Student scholarships and prizes	22,713,259	21,812,750
Plant maintenance	632,792	729,105
General purposes	<u>6,898,498</u>	<u>6,898,555</u>
Total	<u>\$ 49,287,305</u>	<u>\$ 48,429,450</u>

Temporarily restricted net assets are restricted for the following purposes:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Instruction	\$ 361,277	\$ 390,945
Academic support	26,013	37,427
Student services	338,800	299,719
Management and general	2,166,665	2,652,233
Student scholarships and prizes	896,466	891,393
Plant and general purposes	44,167,385	52,514,322
Annuity trusts	<u>3,668,213</u>	<u>3,910,443</u>
Total	<u>\$ 51,624,819</u>	<u>\$ 60,696,482</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, 2016 are as follows:

	Year Ended June 30, 2016		
	Program Expenses Prior to Allocations	Allocations to Programs	Expenses as Reported on the Statement of Activities
Operating expenses:			
Instruction	\$ 10,876,235	\$ (4,297,576)	\$ 15,173,811
Academic support	1,641,190	(793,531)	2,434,721
Student services	5,772,921	(1,491,123)	7,264,044
Student financial assistance	628,199	-	628,199
Auxiliary operations	4,799,083	(2,483,538)	7,282,621
Management and general	4,965,555	317,537	4,648,018
Fundraising	1,085,792	(87,183)	1,176,374
Operation and maintenance of physical plant	3,259,461	3,259,461	-
Depreciation	5,225,035	5,225,035	-
Interest expense	354,317	354,317	-
Total	<u>\$ 38,607,788</u>	<u>\$ -</u>	<u>\$ 38,607,788</u>

NOTE 13 - ENDOWMENTS

The Monmouth College's endowments consist of approximately 333 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, 2016, the College had twenty-two endowment funds whose market values were under their historical cost that are considered to be underwater.

NOTE 13 - ENDOWMENTS (Continued)

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

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%.

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 13 - ENDOWMENTS (Continued)

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.

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>

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 13 - ENDOWMENTS (Continued)

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	\$ 2,454,767	\$ 49,479,608	\$ 48,429,450	\$100,363,825
Investment return:				
Investment income	108,270	1,588,128	130,391	1,826,789
Net appreciation (realized and unrealized)	<u>(248,925)</u>	<u>(3,374,617)</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>

Endowment net asset composition by type of fund as of June 30, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 49,479,608	\$ 48,429,450	\$ 97,909,058
Board designated endowment funds	<u>2,454,767</u>	<u>-</u>	<u>-</u>	<u>2,454,767</u>
Total endowment funds	<u>\$ 2,454,767</u>	<u>\$ 49,479,608</u>	<u>\$ 48,429,450</u>	<u>\$ 100,363,825</u>

THE MONMOUTH COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 13 - ENDOWMENTS (Continued)

Changes in endowment net assets for the year ended June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,368,580	\$ 52,516,055	\$ 44,329,594	\$ 99,214,229
Investment return:				
Investment income	92,533	2,050,999	40,179	2,183,711
Net appreciation (realized and unrealized)	<u>223,154</u>	<u>(1,305,220)</u>	<u>(164,973)</u>	<u>(1,247,039)</u>
Total investment return	<u>315,687</u>	<u>745,779</u>	<u>(124,794)</u>	<u>936,672</u>
Contributions	-	-	4,224,650	4,224,650
Appropriation of endowment assets for expenditure	-	(3,782,226)	-	(3,782,226)
Transfers to (remove) board designated funds	<u>(229,500)</u>	<u>-</u>	<u>-</u>	<u>(229,500)</u>
Endowment net assets, end of year	<u>\$ 2,454,767</u>	<u>\$ 49,479,608</u>	<u>\$ 48,429,450</u>	<u>\$100,363,825</u>

NOTE 14 - STATEMENT OF CASH FLOWS

Supplemental disclosure information for the statement of cash flows for the year ended June 30, 2016 is as follows:

Cash paid for interest	<u>\$ 354,317</u>
Property and equipment purchases in accounts payable at year end	<u>\$ 390,235</u>

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.