# Mount Union College

Accountants' Report and Financial Statements

June 30, 2008 and 2007

# Mount Union College
## June 30, 2008 and 2007

### Contents

# Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Mount Union College
Alliance, Ohio

We have audited the accompanying statements of financial position of Mount Union College (College) as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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 Mount Union College as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years 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 8, 2008, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

October 8, 2008

# Mount Union College

## Statements of Financial Position
## June 30, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 13,520,702 | $ 10,548,157 |
| Accounts receivable, net of allowance; 2007 - $169,736, 2006 - $147,324 | 822,433 | 1,220,591 |
| Contributions receivable | 5,129,055 | 4,425,317 |
| Inventory | 356,726 | 360,293 |
| Loans receivable | 3,474,377 | 3,390,905 |
| Investments | 114,144,811 | 132,360,753 |
| Beneficial interest in perpetual trusts and charitable remainder trusts | 10,800,232 | 8,455,676 |
| Annuity and life income funds held in trust | 10,070,062 | 10,655,687 |
| Property and equipment, net | 98,739,382 | 92,099,424 |
| Other assets | 312,418 | 280,427 |
| Total assets | $ 257,370,198 | $ 263,797,230 |
| **Liabilities and Net Assets** | | |
| **Liabilities** | | |
| Accounts payable | $ 2,138,930 | $ 2,749,084 |
| Accrued expenses | 3,317,518 | 3,043,509 |
| Annuities and trusts payable | 3,241,439 | 3,058,232 |
| Deposits and other | 871,709 | 835,389 |
| Advances from government for student loans | 2,772,944 | 2,727,589 |
| Debt | 28,311,307 | 29,157,233 |
| Total liabilities | 40,653,847 | 41,571,036 |
| **Net Assets** | | |
| Unrestricted | | |
| Available for operations | 47,013,299 | 43,290,637 |
| Designated for specific purposes | 1,022,946 | 1,029,448 |
| Quasi endowment | 4,350,598 | 4,667,955 |
| Unrestricted capital gains | 56,190,882 | 68,358,471 |
| Net investment in plant | 35,605,566 | 37,771,278 |
| Total unrestricted | 144,183,291 | 155,117,789 |
| Temporarily restricted | 14,740,943 | 10,317,627 |
| Permanently restricted | 57,792,117 | 56,790,778 |
| Total net assets | 216,716,351 | 222,226,194 |
| Total liabilities and net assets | $ 257,370,198 | $ 263,797,230 |

# Mount Union College

## Statements of Activities
## Years Ended June 30, 2008 and 2007

| | 2008 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **Revenue, Gains and Other Support** | | | | |
| Educational and general | | | | |
| Student tuition and fees | $ 43,451,086 | $ — | $ — | $ 43,451,086 |
| Less financial aid | (17,567,173) | — | — | (17,567,173) |
| Net student tuition and fees | 25,883,913 | — | — | 25,883,913 |
| Gift and private grants | 915,608 | 7,098,740 | 1,783,422 | 9,797,770 |
| Investment return designated for operations | 5,334,278 | — | — | 5,334,278 |
| Change in value of split-interest agreements | — | (599,886) | (782,083) | (1,381,969) |
| Other income | 378,492 | — | — | 378,492 |
| Total educational and general revenue | 32,512,291 | 6,498,854 | 1,001,339 | 40,012,484 |
| Auxiliary enterprises | 10,725,289 | — | — | 10,725,289 |
| Net assets released from restrictions | 2,075,538 | (2,075,538) | — | 0 |
| Total revenue, gains and other support | 45,313,118 | 4,423,316 | 1,001,339 | 50,737,773 |
| **Expenses and Losses** | | | | |
| Educational and general | | | | |
| Instruction | 13,915,410 | — | — | 13,915,410 |
| Academic support | 2,448,213 | — | — | 2,448,213 |
| Operation and maintenance of plant | 5,062,592 | — | — | 5,062,592 |
| Student services | 5,248,016 | — | — | 5,248,016 |
| Institutional support | 6,828,609 | — | — | 6,828,609 |
| Student aid | 945,206 | — | — | 945,206 |
| Depreciation | 3,105,075 | — | — | 3,105,075 |
| Total educational and general expenses | 37,553,121 | — | — | 37,553,121 |
| Auxiliary enterprises | | | | |
| Operations | 6,281,966 | — | — | 6,281,966 |
| Depreciation | 428,756 | — | — | 428,756 |
| | 6,710,722 | — | — | 6,710,722 |
| Total expenses and losses | 44,263,843 | — | — | 44,263,843 |
| **Change in Net Assets Before Investment Return Less Amounts Designated for Operations** | 1,049,275 | 4,423,316 | 1,001,339 | 6,473,930 |
| Investment return less amounts designated for operations | (11,983,773) | — | — | (11,983,773) |
| **Change in Net Assets** | (10,934,498) | 4,423,316 | 1,001,339 | (5,509,843) |
| **Net Assets, Beginning of Year** | 155,117,789 | 10,317,627 | 56,790,778 | 222,226,194 |
| **Net Assets, End of Year** | $ 144,183,291 | $ 14,740,943 | $ 57,792,117 | $ 216,716,351 |

*See Notes to Financial Statements*

| 2007 | | | |
|---|---|---|---|
| **Unrestricted** | **Temporarily Restricted** | **Permanently Restricted** | **Total** |
| $ 42,204,482 | $ — | $ — | $ 42,204,482 |
| (16,748,351) | — | — | (16,748,351) |
| 25,456,131 | — | — | 25,456,131 |
| 6,650,078 | 3,133,057 | 184,451 | 9,967,586 |
| 5,059,018 | — | — | 5,059,018 |
| — | 620,660 | 1,524,327 | 2,144,987 |
| 288,714 | — | — | 288,714 |
| 37,453,941 | 3,753,717 | 1,708,778 | 42,916,436 |
| 9,860,958 | — | — | 9,860,958 |
| 325,710 | (325,710) | — | 0 |
| 47,640,609 | 3,428,007 | 1,708,778 | 52,777,394 |
| 14,849,691 | — | — | 14,849,691 |
| 2,022,983 | — | — | 2,022,983 |
| 4,832,575 | — | — | 4,832,575 |
| 4,498,374 | — | — | 4,498,374 |
| 6,737,467 | — | — | 6,737,467 |
| 718,282 | — | — | 718,282 |
| 3,098,091 | — | — | 3,098,091 |
| 36,757,463 | — | — | 36,757,463 |
| 6,231,144 | — | — | 6,231,144 |
| 401,915 | — | — | 401,915 |
| 6,633,059 | — | — | 6,633,059 |
| 43,390,522 | — | — | 43,390,522 |
| 4,250,087 | 3,428,007 | 1,708,778 | 9,386,872 |
| 14,911,290 | — | — | 14,911,290 |
| 19,161,377 | 3,428,007 | 1,708,778 | 24,298,162 |
| 135,956,412 | 6,889,620 | 55,082,000 | 197,928,032 |
| $ 155,117,789 | $ 10,317,627 | $ 56,790,778 | $ 222,226,194 |

# Mount Union College

## Statements of Cash Flows
## Years Ended June 30, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| **Operating Activities** | | |
| Change in net assets | $ (5,509,843) | $ 24,298,162 |
| Items not requiring (providing) operating activities cash flows | | |
| Realized and unrealized (gains) losses on investments | 10,275,830 | (16,745,440) |
| Depreciation | 3,533,831 | 3,500,006 |
| Amortization of bond premium | (15,926) | (15,926) |
| Change in allowance for uncollectible accounts and contributions receivable | 22,412 | 170,792 |
| Contributions and investment income restricted for long-term investment | (1,001,339) | (1,708,778) |
| Contributions received restricted for acquisition of long-lived assets | (4,996,080) | (4,717,139) |
| Changes in | | |
| Accounts, loans and contributions receivable | (411,464) | (4,134,938) |
| Inventory | 3,567 | (58,613) |
| Other assets | (31,991) | 88,744 |
| Accounts payable and accrued expenses | (689,827) | 135,713 |
| Annuities and trusts payable | 183,207 | (42,758) |
| Annuity and life income funds held in trust and beneficial interests in perpetual trusts and charitable remainder trusts | (1,758,931) | 623,371 |
| Deposits and other | 36,320 | 63,436 |
| Advances from government for student loans | 45,355 | (21,923) |
| Net cash provided by (used in) operating activities | (314,879) | 1,434,709 |
| **Investing Activities** | | |
| Purchase of property and equipment | (9,820,107) | (14,434,456) |
| Purchase of investments | (66,015,624) | (129,163,952) |
| Proceeds from sales of investments | 73,955,736 | 121,591,143 |
| Net cash used in investing activities | (1,879,995) | (22,007,265) |
| **Financing Activities** | | |
| Payments on bonds and notes payable | (830,000) | (585,000) |
| Proceeds from issuance of bonds payable | — | 16,171,446 |
| Contributions and investment income restricted for long-term investment | 1,001,339 | 1,708,778 |
| Contributions received restricted for acquisition of long-lived assets | 4,996,080 | 4,717,139 |
| Net cash provided by financing activities | 5,167,419 | 22,012,363 |
| **Increase in Cash and Cash Equivalents** | 2,972,545 | 1,439,807 |
| **Cash and Cash Equivalents, Beginning of Year** | 10,548,157 | 9,108,350 |
| **Cash and Cash Equivalents, End of Year** | $ 13,520,702 | $ 10,548,157 |
| **Supplemental Cash Flows Information** | | |
| Fixed assets in accounts payable | $ 353,682 | $ 960,527 |
| Cash paid for interest, net of capitalized interest | 565,000 | 680,000 |
| Bond issue costs capitalized | — | 236,713 |

## Note 1: Nature of Operations and Summary of Significant Accounting Policies

### *Nature of Operations*

Mount Union College (College) is a private tax-exempt, nonprofit educational institution located in Alliance, Ohio. The College is affiliated with The United Methodist Church and is an institution of higher education that offers undergraduate programs designed to meet the needs of the student body. The College's primary source of revenue is from tuition and auxiliary services from students.

### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue, 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 liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2008 and 2007, cash equivalents consisted primarily of money market funds and certificates of deposit. At June 30, 2008, the College's cash accounts exceeded federally insured limits by approximately $13,788,000.

Cash equivalents related to uninvested cash is considered part of investments in the accompanying financial statements.

### *Investments and Investment Return*

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The College maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investment accounts, as adjusted for additions to or deductions from those accounts.

### *Fair Value of Financial Instruments*

The carrying amount is a reasonable estimate of the fair value for all financial assets and liabilities.

The following methods were used to estimate the fair value of financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which method involves significant judgments by management and uncertainties.

***Investments***

Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

***Contributions Receivable***

Fair value is estimated by discounting the expected future cash flows using the risk-free rate of return at the time of contribution.

***Annuity and Life Income Funds Held in Trust***

Fair value is based on quoted market prices of the trust holdings, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

***Beneficial Interest in Perpetual Trusts and Charitable Remainder Trusts***

Fair value is estimated by discounting the expected future cash flows.

***Loans Receivable***

Fair value is estimated by discounting the future cash flows using the rates at which similar loans would be written for the same remaining maturities.

***Debt***

Fair value is estimated based on the borrowing rates currently available to the College for debt with similar terms and maturities.

***Annuities and Trusts Payable***

Fair values of the annuity and trust obligations are based on an actuarial evaluation of the estimated annuity or other payment under such obligations.

### *Accounts and Loans Receivable*

Accounts receivable are stated at the amount billed to the students less applied scholarships and loan proceeds. The College provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Tuition is generally due at the beginning of the semester unless the student has signed a payment plan. Accounts that are unpaid after the due date bear interest at 1% per month. Accounts past due more than 120 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the student.

Loans receivable consist primarily of amounts due under the Federal Perkins Loan Program and are stated at their outstanding principal amount, net of an allowance for doubtful loans. Loans are made to students based on demonstrated financial need and satisfaction of federal eligibility requirements for the Federal Perkins Loan Program. Principal and interest payments on loans generally do not commence until after the borrower graduates or otherwise ceases enrollment. The College provides an allowance for doubtful loans which is based upon a review of outstanding loans, historical collection information and existing conditions. Loans that are delinquent continue to accrue interest. Loans that are past due for at least one payment are considered delinquent. Delinquent loans are written off based on individual credit evaluation and specific circumstances of the student.

### *Property and Equipment*

Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The College capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized was:

| | 2008 | 2007 |
|---|---|---|
| Total interest expense incurred on borrowing for projects | $ 793,344 | $ 748,771 |
| Interest income from investment of proceeds of borrowings for project | (198,516) | (537,059) |
| Net interest cost capitalized | $ 594,828 | $ 211,712 |

| | 2008 | 2007 |
|---|---|---|
| Interest capitalized | $ 594,828 | $ 211,712 |
| Interest charged to expense | 558,774 | 615,515 |
| Total interest incurred | $ 1,153,602 | $ 827,227 |

### *Temporarily and Permanently Restricted Net Assets*

Temporarily restricted net assets are those whose use by the College has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the College in perpetuity.

### *Contributions*

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

### *Inventory Pricing*

Inventories consist of books and supplies and are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

### *Government Grants*

Support funded by grants is recognized as the College performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

### *Debt Premium and Unamortized Financing Costs*

Financing costs and any associated premium related to the College’s long-term debt is amortized over the term of the related debt.

### *Income Taxes*

The College is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the College is subject to federal income tax on any unrelated business taxable income.

### *Functional Allocation of Expenses*

The costs of supporting the various programs and other activities have been summarized on a functional basis in the notes to the financial statements. Certain costs have been allocated among the educational program, institutional support and fund raising categories based on time and effort.

### *Self Insurance*

The College has elected to self-insure certain costs related to employee health insurance. Costs resulting from noninsured losses are charged to expense when incurred. The College has purchased insurance that limits its exposure for individual claims and that limits its aggregate exposure to $1,902,000.

### *Reclassifications*

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 financial statement presentation. These reclassifications had no effect on the change in net assets.

## Note 2: Investments and Investment Return

Investments at June 30 consisted of the following:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Cost | Market | Cost | Market |
| Cash and cash equivalents | $ 14,240,109 | $ 14,240,109 | $ 17,962,277 | $ 17,962,280 |
| U.S. Treasury securities | 19,937,155 | 20,591,624 | 25,214,417 | 25,190,993 |
| Corporate debt securities | 8,941,126 | 8,695,669 | 6,204,727 | 6,084,824 |
| Mutual funds, equity securities | 67,725,698 | 70,617,409 | 63,162,656 | 83,122,656 |
| | $ 110,844,088 | $ 114,144,811 | $ 112,544,077 | $ 132,360,753 |

At June 30, 2007, included in investments is cash of $2,261,486 and U.S. Treasury securities of $5,575,328 restricted for capital improvements.

Investments were held for the following purposes at June 30:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Cost | Market | Cost | Market |
| Endowment | $ 108,122,994 | $ 111,522,936 | $ 103,185,296 | $ 122,926,412 |
| Plant | 1,072,845 | 973,626 | 981,904 | 1,031,016 |
| Other | 1,648,249 | 1,648,249 | 8,376,877 | 8,403,325 |
| | $ 110,844,088 | $ 114,144,811 | $ 112,544,077 | $ 132,360,753 |

Total investment return is comprised of the following:

| | 2008 | 2007 |
|---|---|---|
| Interest and dividend income | $ 3,626,335 | $ 3,224,868 |
| Net realized gains on investments reported at fair value | 6,188,231 | 10,212,731 |
| Net unrealized gains (losses) on investments reported at fair value | (16,464,061) | 6,532,709 |
| | $ (6,649,495) | $ 19,970,308 |

Total investment return is reflected in the statements of activities as follows:

| | 2008 | 2007 |
|---|---|---|
| Operating income | $ 5,334,278 | $ 5,059,018 |
| Other nonoperating income | (11,983,773) | 14,911,290 |
| | $ (6,649,495) | $ 19,970,308 |

## Note 3: Contributions Receivable

Contributions receivable at June 30 consisted of the following:

| | 2008 | 2007 |
|---|---|---|
| Due within one year | $ 262,221 | $ 236,174 |
| Due in one to five years | 3,346,730 | 2,263,920 |
| Due in more than five years | 1,410,340 | 1,864,755 |
| | 5,019,291 | 4,364,849 |

| | 2008 | 2007 |
|---|---|---|
| Less | | |
| Allowance for uncollectible contributions | $ (250,270) | $ (250,270) |
| Unamortized discount (4.00% - 6.50%) | (876,254) | (872,313) |
| | $ 3,892,767 | $ 3,242,266 |

The College is also the beneficiary of a trust administered by a nonrelated party. The assets of this trust are included in contributions receivable on the statements of financial position of the College. Contributions receivable from this charitable trust totaled $1,236,288 and $1,183,051 as of June 30, 2008 and 2007, respectively.

## Note 4: Beneficial Interest in Perpetual Trusts and Remainder Trusts

The College is the beneficiary under perpetual trusts administered by outside parties. Under the terms of the trusts, the College has the irrevocable right to receive income earned on the trust assets in perpetuity, but never receives the assets held in trust. The estimated value of the expected future cash flows is $4,616,285 and $3,974,061, which represents the fair value of the trust assets at June 30, 2008 and 2007, respectively.

The College is also the beneficiary under charitable remainder trusts administered by outside parties. Under the terms of the trusts, the College has the irrevocable right to receive a remainderment of trust assets at a future date. The present value of the expected future cash flows is $6,183,947 and $4,481,615 at June 30, 2008 and 2007, respectively. The discount rates used to calculate the present value were 6% to 8%.

## Note 5: Property and Equipment

Property and equipment at June 30 consisted of the following:

| | 2008 | 2007 |
|---|---|---|
| Land and land improvements | $ 12,874,043 | $ 12,251,850 |
| Buildings | 112,198,848 | 97,369,665 |
| Equipment and vehicles | 18,529,098 | 18,813,638 |
| Construction in progress | 5,568,240 | 11,324,825 |
| | 149,170,229 | 139,759,978 |
| Less accumulated depreciation and amortization | (50,430,847) | (47,660,554) |
| | $ 98,739,382 | $ 92,099,424 |

## Note 6: Line of Credit

The College has a $1,000,000 revolving bank line of credit expiring in 2009. At June 30, 2008 and 2007, there were no borrowings against this line. Interest varies with LIBOR (London Interbank Offering Rate) and is payable monthly.

## Note 7: Debt

| | 2008 | 2007 |
|---|---|---|
| 1995 Series Ohio Higher Educational Facility Variable Rate Demand Revenue Bonds reset weekly (ranging from 1.24% to 4.01% (average rate of 2.72%) for the year ended June 30, 2008) due September 1, 2020. | $ 6,150,000 | $ 6,350,000 |
| 1998 Series Ohio Higher Educational Facility Revenue Bonds at 3.75% - 5.00%, which consist of $3,635,000 Serial Bonds due October 1, 2002 – 2013 and $4,365,000 Term Bonds due October 1, 2018 and 2023. | 6,120,000 | 6,365,000 |
| 2006 Series Ohio Higher Educational Facility Revenue Bonds at 4.50% - 5.25%, which consist of $4,145,000 Serial Bonds due October 1, 2007 – 2016 and $11,865,000 Term Bonds due October 1, 2021, 2026 and 2031. The bonds were issued at a premium of $398,159 | 15,675,000 | 16,010,000 |
| Noninterest-bearing note payable due in annual installments of $50,000 beginning April 2006, secured by property | — | 50,000 |
| | 27,945,000 | 28,775,000 |
| Add: Unamortized premium | 366,307 | 382,233 |
| | $ 28,311,307 | $ 29,157,233 |

In connection with the issuance of the 1995, 1998 and 2006 series of tax-exempt bonds by the state for the benefit of the College, the College has leased to the state, and the state has subleased to the College, the related buildings, land and equipment. The College does not receive rental payments under its leases to the state and is required only to make rental payments to the state at times and in amounts sufficient to pay principal and interest on the outstanding tax-exempt bonds under its leases from the state. The lease agreements expire upon repayment of all indebtedness secured by the leases.

The College has a letter of credit totaling $6,235,932 related to the financing of the 1995 series of tax-exempt bonds. The bonds are subject to a remarketing agreement and are remarketed weekly. In the event the remarketing of the bonds fails, the letter of credit will be drawn to redeem all or a portion of the outstanding obligations from the holder(s). If such a draw occurs, the College may defer immediate payment as long as no event of default, as defined by the agreement, has occurred. The deferral period ends on the earlier of 395 days after the date of the draw under the letter of credit or the termination date of the letter of credit. Periodic interest payments are required at the prime rate plus .15%. Currently, the letter of credit will expire on September 16, 2009.

Aggregate annual maturities of debt at June 30, 2008, are:

| | |
|---|---|
| 2009 | $ 610,000 |
| 2010 | 635,000 |
| 2011 | 665,000 |
| 2012 | 700,000 |
| 2013 | 730,000 |
| Thereafter | 24,605,000 |
| | $ 27,945,000 |

## Note 8: Annuities and Trusts Payable

The College has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value. The College has recorded a liability at June 30, 2008 and 2007, of $644,561 and $653,214, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discount rates ranging from 4% - 8%.

The College administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the College's use. The portion of the trust attributable to the future interest of the College is recorded in the statements of activities as temporarily restricted contributions in the period the trust is established. Assets held in the charitable remainder trusts are recorded at fair value in the College's statements of financial position. On an annual basis, the College revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using discount rates of 4% - 8% and applicable mortality tables.

## Note 9: Net Assets

### *Temporarily Restricted Net Assets*

Temporarily restricted net assets at June 30 are available for the following purposes or periods:

| | 2008 | 2007 |
|---|---|---|
| Unitrust and gift annuities | $ 4,585,332 | $ 3,372,283 |
| Funds restricted for specific purposes | 719,718 | 685,046 |
| Unexpended property and equipment funds | 9,435,893 | 6,260,298 |
| | $ 14,740,943 | $ 10,317,627 |

### *Permanently Restricted Net Assets*

Permanently restricted net assets at June 30 are restricted to:

| | 2008 | 2007 |
|---|---|---|
| Investment in perpetuity, the income of which is expendable to support scholarships and operations | $ 44,789,915 | $ 44,110,220 |
| Annuity, life income and charitable remainder and perpetual trusts | 13,002,202 | 12,680,558 |
| | $ 57,792,117 | $ 56,790,778 |

### *Net Assets Released from Restrictions*

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

| | 2008 | 2007 |
|---|---|---|
| Purpose restrictions accomplished | | |
| Educational program expenses | $ 25,157 | $ 210,632 |
| Time restrictions expired, passage of time | 2,050,381 | 115,078 |
| | $ 2,075,538 | $ 325,710 |

## Note 10: Related Party Transactions

The College currently maintains investments and trust asset accounts with institutions who also have representatives serving on the Board of Trustees of the College. Total investments and trust assets held with these institutions amount to approximately $58,906,000 and $63,182,000 as of June 30, 2008 and 2007, respectively. The fees paid to related parties, inclusive of investment, insurance and other fees for services performed by these parties amounted to approximately $633,000 and $335,000 for 2008 and 2007, respectively.

## Note 11: Pension and Other Postretirement Benefit Plans

The College maintains a 403(b) defined-contribution plan covering substantially all employees. The Board of Trustees annually determines the amount, if any, of the College's contributions to the plan. Pension expense was approximately $1,589,000 and $1,538,000 for 2008 and 2007, respectively.

The College has a noncontributory defined benefit pension plan covering all employees who meet the eligibility requirements. The College's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the College may determine to be appropriate from time to time. The College expects to contribute $80,000 to the plan in 2009.

The College has a noncontributory defined benefit postretirement health care plan covering all employees who meet the eligibility requirements. The College's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the College may determine to be appropriate from time to time. The College expects to contribute $59,000 to the plan in 2009.

The College uses a June 30 measurement date for the plans. Information about the plan's funded status and pension cost follows:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Change in benefit obligation | | | | |
| Beginning of year | $ (1,038,891) | $ (925,678) | $ (729,103) | $ (722,330) |
| Service cost | (57,785) | (56,038) | (20,326) | (21,911) |
| Interest cost | (63,155) | (56,994) | (43,938) | (43,776) |

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| Actuarial gain (loss) | $ (2,633) | $ (10,846) | $ (45,104) | $ 23,962 |
| Participant Contributions | — | — | (24,578) | (23,937) |
| Benefit payments | 23,893 | 10,665 | 59,128 | 58,889 |
| End of year | (1,138,571) | (1,038,891) | (803,921) | (729,103) |
| Fair value of plan assets | — | — | — | — |
| Funded status at end of year | $ (1,138,571) | $ (1,038,891) | $ (803,921) | $ (729,103) |

Liabilities recognized in the statements of financial position:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| Accrued benefit liability | $ (1,138,571) | $ (1,038,891) | $ (803,921) | $ (729,103) |

Amounts recognized in unrestricted net assets not yet recognized as components of net periodic benefit cost consist of:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| Net loss | $ 358,281 | $ 373,747 | $ 297,098 | $ 264,740 |
| Prior service cost | 38,301 | 41,783 | — | — |
| | $ 396,582 | $ 415,530 | $ 297,098 | $ 264,740 |

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

| | **2008** | **2007** |
|---|---|---|
| Projected benefit obligation | $ 1,138,571 | $ 1,038,891 |
| Accumulated benefit obligation | $ 892,640 | $ 788,357 |
| Fair value of plan assets | $ 0 | $ 0 |

Other significant balances and costs as of June 30 are:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Benefit costs | $ 142,521 | $ 134,829 | $ 77,010 | $ 81,232 |
| Employer contributions | 23,893 | 10,665 | 34,550 | 34,952 |
| Benefits paid | 23,893 | 10,665 | 59,128 | 58,889 |

Components of net periodic benefit cost are:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Service cost | $ 57,785 | $ 56,038 | $ 20,326 | $ 21,911 |
| Interest cost | 63,155 | 56,994 | 43,938 | 43,776 |
| Amortization of prior service cost | 3,482 | 3,482 | — | — |
| Recognized net actuarial loss | 18,099 | 18,315 | 12,746 | 15,545 |
| | $ 142,521 | $ 134,829 | $ 77,010 | $ 81,232 |

The estimated net loss and prior service cost obligation for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are $16,393 and $3,482, respectively. The estimated net loss for the other defined benefit postretirement plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $14,399.

Weighted-average assumptions used to determine benefit obligations:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Discount rate | 6.00% | 6.25% | 6.00% | 6.25% |
| Rate of compensation increase | 4.00 | 4.25 | N/A | N/A |
| Health care cost trend | N/A | N/A | 9.25 | 9.50 |

Weighted-average assumptions used to determine benefit costs:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Discount rate | 6.25% | 6.25% | 6.25% | 6.25% |
| Rate of compensation increase | 4.25 | 4.25 | N/A | N/A |
| Health care cost rate | N/A | N/A | 9.50 | 10.00 |

For measurement purposes, a 9.50% and 10.00% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2008 and 2007, respectively. The rate was assumed to decrease gradually to 4.75% by the year 2017 and remain at that level thereafter.

On December 8, 2003, the *Medicare Prescription Drug, Improvement and Modernization Act of 2003* (Act) was signed into law. The Act introduces a prescription drug benefit under Medicare Part D, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide benefits at least actuarially equivalent to Medicare Part D. The College has determined that this benefit has no effect on the measurement of plan benefit obligations and periodic benefit costs.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of June 30, 2008:

| | Pension Benefits | Other Benefits |
|---|---|---|
| 2009 | $ 80,000 | $ 59,000 |
| 2010 | 92,000 | 59,000 |
| 2011 | 49,000 | 54,000 |
| 2012 | 101,000 | 59,000 |
| 2013 | 162,000 | 70,000 |
| 2014-2018 | 576,000 | 327,000 |

## Note 12: Risks and Uncertainties

The College invests in various investment securities. 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 values of investment securities will occur in the near term and that such changes could materially affect the investment amounts reported in the statements of financial position.

## Note 13: Functional Expenses

The College's expenses on a functional basis are as follows:

| | 2008 | 2007 |
|---|---|---|
| Educational | | |
| Instruction | $ 18,407,896 | $ 17,983,787 |
| Academic support | 3,421,263 | 3,036,884 |
| Student services | 6,673,935 | 6,079,940 |
| Auxiliary enterprises | 8,456,609 | 8,737,001 |
| Total educational | 36,959,703 | 35,837,612 |
| Institutional support | 5,886,029 | 6,223,957 |
| Fund raising | 1,418,111 | 1,328,953 |
| | $ 44,263,843 | $ 43,390,522 |

## Note 14: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

### *Contributions*

Approximately 49% and 26% of contribution income was received from three donors and two donors in 2008 and 2007, respectively. Approximately 49% and 64% of contributions receivable were from three donors in 2008 and 2007, respectively.

## Note 15: Commitments

The College has entered into contracts for the construction of certain new facilities. Remaining contract payments total approximately $15,225,000 and $3,025,000 as of June 30, 2008 and 2007, respectively.

# Supplementary Information

# Mount Union College

## Schedule of Expenditures of Federal Awards
## Year Ended June 30, 2008

| Cluster/Program | CFDA Number | Other Identifying Number | Amount |
|---|---|---|---|
| U.S. Department of Education | | | |
| Student Financial Assistance Cluster | | | |
| Federal Pell Grant Program | 84.063 | | $ 1,640,966 |
| Federal Work-Study Program | 84.033 | | 187,843 |
| Federal Supplemental Educational Opportunity Grants | 84.007 | | 219,786 |
| Federal Perkins Loan Program | 84.038 | | 3,787,595 |
| Federal Family Education Loans | 84.032 | | 10,376,618 |
| Academic Competitiveness Grants | 84.375 | | 203,262 |
| National SMART Grants | 84.376 | | 62,000 |
| Total student financial assistance cluster | | | 16,478,070 |
| U.S. Department of Education | | | |
| Fund for the Improvement of Postsecondary Education | | | |
| Center for Public Service | 84.116 | P116Z040036 | 12,969 |
| Total programs | | | $ 16,491,039 |

***Notes to Schedule***

1. This schedule includes the federal awards activity of Mount Union College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. The College has $3,481,076 of Perkins loans outstanding at June 30, 2008. These loan balances outstanding are also included in the federal expenditures presented in the schedule.
3. There were no subrecipients during the year.

BKD LLP

## Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Mount Union College
Alliance, Ohio

We have audited the financial statements of Mount Union College (College) as of and for the year ended June 30, 2008, and have issued our report thereon dated October 8, 2008. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the governing body, management and others within the College and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

October 8, 2008

BKD LLP

## Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs

Board of Trustees
Mount Union College
Alliance, Ohio

**Compliance**

We have audited the compliance of Mount Union College (College) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the compliance of Mount Union College based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the College's compliance with those requirements.

In our opinion, Mount Union College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

**Internal Control Over Compliance**

The management of Mount Union College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing body, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

October 8, 2008

# Mount Union College

## Schedule of Findings and Questioned Costs
## Year Ended June 30, 2008

### *Summary of Auditor's Results*

1. The opinion expressed in the independent accountants' report was:

   ☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed

2. The independent accountants' report on internal control over financial reporting described:

   Significant deficiency(ies) noted considered material weakness(es)? ☐ Yes ☒ No

   Significant deficiency(ies) noted that are not considered to be a material weakness? ☐ Yes ☒ No

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No

4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:

   Significant deficiency(ies) noted considered material weakness(es)? ☐ Yes ☒ No

   Significant deficiency(ies) noted that are not considered to be a material weakness? ☐ Yes ☒ No

5. The opinion expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was:

   ☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133? ☐ Yes ☒ No

7. The College's major program was:

| Cluster/Program | CFDA Number |
|---|---|
| Student Financial Assistance Cluster | 84.007, 84.033, 84.038, 84.063, 84.032, 84.375 and 84.376 |

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was $494,731.

9. The College qualified as a low-risk auditee as that term is defined in OMB Circular A-133? ☒ Yes ☐ No

# Mount Union College

## Schedule of Findings and Questioned Costs
## Year Ended June 30, 2008

**Findings Required to be Reported by *Government Auditing Standards***

| Reference Number | Finding | Questioned Costs |
|---|---|---|

No matters are reportable.

**Findings Required to be Reported by OMB Circular A-133**

| Reference Number | Finding | Questioned Costs |
|---|---|---|

No matters are reportable.

# Mount Union College

## Summary Schedule of Prior Audit Findings
## Year Ended June 30, 2008

| Reference Number | Summary of Finding | Status |
|---|---|---|
| 07-1 | **Federal Program** – Department of Education – Student Financial Assistance Cluster – Federal Family Education Loans, CFDA 84.032.<br><br>**Criteria or Specific Requirement –** Students receiving FFEL who (1) did not register for the period of enrollment for which the loan was made, or (2) withdrew or were expelled prior to the first day of classes, require the College to return the funds to the lender in a timely manner.<br><br>**Condition –** The College had several students who either withdrew before the semester start date or did not register for classes and had FFEL loans disbursed to them.<br><br>**Context –** Out of a sample of 9 students selected for testing from a population of 42, 2 or 22% were not returned in a timely fashion.<br><br>**Effect –** Loan funds were not returned in a timely manner.<br><br>**Cause –** The College needs to strengthen its policies and processes of identifying students in a timely manner who withdraw prior to classes beginning or do not register for classes in which loans were packaged.<br><br>**Recommendation –** We recommend that the College consider changing its disbursement dates for loans to allow adequate time to identify students who withdraw or do not register for classes in a period for which planned disbursements of aid would occur. | Resolved |