

Mount Union College

Accountants' Report and Financial Statements

June 30, 2007 and 2006



Mount Union College

June 30, 2007 and 2006

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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, 2007 and 2006, 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, 2007 and 2006, 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 15, 2007, 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 15, 2007

Mount Union College
Statements of Financial Position
June 30, 2007 and 2006

	2007	2006
Assets		
Cash and cash equivalents	\$ 10,548,157	\$ 9,108,350
Accounts receivable, net of allowance; 2007 - \$147,324, 2006 - \$123,387	1,220,591	587,967
Contributions receivable	4,425,317	1,107,217
Inventory	360,293	301,680
Loans receivable	3,390,905	3,377,483
Investments	132,360,753	108,042,504
Beneficial interest in perpetual trusts and charitable remainder trusts	8,455,676	8,094,908
Annuity and life income funds held in trust	10,655,687	11,639,826
Property and equipment, net	92,099,424	80,204,447
Other assets	280,427	132,458
Total assets	\$ 263,797,230	\$ 222,596,840
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 2,749,084	\$ 2,373,454
Accrued expenses	3,043,509	2,322,899
Annuities and trusts payable	3,058,232	3,100,990
Deposits and other	835,389	771,953
Advances from government for student loans	2,727,589	2,749,512
Debt	29,157,233	13,350,000
Total liabilities	41,571,036	24,668,808
Net Assets		
Unrestricted		
Available for operations	43,290,637	38,639,630
Designated for specific purposes	1,029,448	1,011,415
Quasi endowment	4,667,955	6,104,781
Unrestricted capital gains	68,358,471	53,688,277
Net investment in plant	37,771,278	36,512,309
Total unrestricted	155,117,789	135,956,412
Temporarily restricted	10,317,627	6,889,620
Permanently restricted	56,790,778	55,082,000
Total net assets	222,226,194	197,928,032
Total liabilities and net assets	\$ 263,797,230	\$ 222,596,840

Mount Union College
Statements of Activities
Years Ended June 30, 2007 and 2006

	2007			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue, Gains and Other Support				
Educational and general				
Student tuition and fees	\$ 42,204,482	\$ —	\$ —	\$ 42,204,482
Less financial aid	<u>(16,748,351)</u>	<u>—</u>	<u>—</u>	<u>(16,748,351)</u>
Net student tuition and fees	25,456,131	—	—	25,456,131
Gift and private grants	6,650,078	3,133,057	184,451	9,967,586
Investment return designated for operations	5,059,018	—	—	5,059,018
Change in value of split-interest agreements	—	620,660	1,524,327	2,144,987
Other income	<u>288,714</u>	<u>—</u>	<u>—</u>	<u>288,714</u>
Total educational and general revenue	37,453,941	3,753,717	1,708,778	42,916,436
Auxiliary enterprises	9,860,958	—	—	9,860,958
Net assets released from restrictions	<u>325,710</u>	<u>(325,710)</u>	<u>—</u>	<u>0</u>
Total revenue, gains and other support	<u>47,640,609</u>	<u>3,428,007</u>	<u>1,708,778</u>	<u>52,777,394</u>
Expenses and Losses				
Educational and general				
Instruction	14,849,691	—	—	14,849,691
Academic support	2,022,983	—	—	2,022,983
Operation and maintenance of plant	4,832,575	—	—	4,832,575
Student services	4,498,374	—	—	4,498,374
Institutional support	6,737,467	—	—	6,737,467
Student aid	718,282	—	—	718,282
Depreciation	<u>3,098,091</u>	<u>—</u>	<u>—</u>	<u>3,098,091</u>
Total educational and general expenses	<u>36,757,463</u>	<u>—</u>	<u>—</u>	<u>36,757,463</u>
Auxiliary enterprises				
Operations	6,231,144	—	—	6,231,144
Depreciation	<u>401,915</u>	<u>—</u>	<u>—</u>	<u>401,915</u>
Total expenses and losses	<u>6,633,059</u>	<u>—</u>	<u>—</u>	<u>6,633,059</u>
Total expenses and losses	<u>43,390,522</u>	<u>—</u>	<u>—</u>	<u>43,390,522</u>
Change in Net Assets Before Investment Return	4,250,087	3,428,007	1,708,778	9,386,872
Less Amounts Designated for Operations				
Investment return less amounts designated for operations	<u>14,911,290</u>	<u>—</u>	<u>—</u>	<u>14,911,290</u>
Change in Net Assets	19,161,377	3,428,007	1,708,778	24,298,162
Net Assets, Beginning of Year	<u>135,956,412</u>	<u>6,889,620</u>	<u>55,082,000</u>	<u>197,928,032</u>
Net Assets, End of Year	<u>\$ 155,117,789</u>	<u>\$ 10,317,627</u>	<u>\$ 56,790,778</u>	<u>\$ 222,226,194</u>

See Notes to Financial Statements

2006

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 38,656,597	\$ —	\$ —	\$ 38,656,597
<u>(15,193,848)</u>	<u>—</u>	<u>—</u>	<u>(15,193,848)</u>
23,462,749	—	—	23,462,749
2,201,341	1,222,324	890,803	4,314,468
4,972,498	—	—	4,972,498
—	321,709	739,397	1,061,106
<u>295,297</u>	<u>—</u>	<u>—</u>	<u>295,297</u>
30,931,885	1,544,033	1,630,200	34,106,118
9,338,836	—	—	9,338,836
<u>522,028</u>	<u>(522,028)</u>	<u>—</u>	<u>0</u>
<u>40,792,749</u>	<u>1,022,005</u>	<u>1,630,200</u>	<u>43,444,954</u>
13,758,541	—	—	13,758,541
1,845,652	—	—	1,845,652
4,714,748	—	—	4,714,748
4,238,943	—	—	4,238,943
6,208,688	—	—	6,208,688
684,288	—	—	684,288
<u>3,381,707</u>	<u>—</u>	<u>—</u>	<u>3,381,707</u>
<u>34,832,567</u>	<u>—</u>	<u>—</u>	<u>34,832,567</u>
6,676,236	—	—	6,676,236
<u>386,461</u>	<u>—</u>	<u>—</u>	<u>386,461</u>
<u>7,062,697</u>	<u>—</u>	<u>—</u>	<u>7,062,697</u>
<u>41,895,264</u>	<u>—</u>	<u>—</u>	<u>41,895,264</u>
(1,102,515)	1,022,005	1,630,200	1,549,690
<u>6,295,505</u>	<u>—</u>	<u>—</u>	<u>6,295,505</u>
5,192,990	1,022,005	1,630,200	7,845,195
<u>130,763,422</u>	<u>5,867,615</u>	<u>53,451,800</u>	<u>190,082,837</u>
<u>\$ 135,956,412</u>	<u>\$ 6,889,620</u>	<u>\$ 55,082,000</u>	<u>\$ 197,928,032</u>

Mount Union College
Statements of Cash Flows
Years Ended June 30, 2007 and 2006

	2007	2006
Operating Activities		
Change in net assets	\$ 24,298,162	\$ 7,845,195
Items not requiring (providing) operating activities cash flows		
Realized and unrealized gain on investments	(16,745,440)	(8,145,976)
Depreciation	3,500,006	3,768,168
Amortization of bond premium	(15,926)	—
Change in allowance for uncollectible accounts and contributions receivable	170,792	(3,081)
Contributions and investment income restricted for long-term investment	(1,708,778)	(1,630,200)
Changes in		
Accounts, loans and contributions receivable	(4,134,938)	209,946
Inventory	(58,613)	30,946
Other assets	88,744	86,599
Accounts payable and accrued expenses	135,713	(639,270)
Annuities and trusts payable	(42,758)	(149,906)
Annuity and life income funds held in trust and beneficial interests in perpetual trusts and charitable remainder trusts	623,371	(823,705)
Deposits and other	63,436	(18,123)
Advances from government for student loans	(21,923)	29,664
	<u>6,151,848</u>	<u>560,257</u>
Net cash provided by operating activities		
Investing Activities		
Purchase of property and equipment	(14,434,456)	(3,348,530)
Purchase of investments	(129,163,952)	(76,221,678)
Proceeds from sales of investments	121,591,143	77,085,985
	<u>(22,007,265)</u>	<u>(2,484,223)</u>
Net cash used in investing activities		
Financing Activities		
Payments on bonds and notes payable	(585,000)	(287,000)
Proceeds from issuance of bonds payable	16,171,446	—
Contributions and investment income restricted for long-term investment	1,708,778	1,630,200
	<u>17,295,224</u>	<u>1,343,200</u>
Net cash provided by financing activities		
Increase (Decrease) in Cash and Cash Equivalents	1,439,807	(580,766)
Cash and Cash Equivalents, Beginning of Year	<u>9,108,350</u>	<u>9,689,116</u>
Cash and Cash Equivalents, End of Year	<u>\$ 10,548,157</u>	<u>\$ 9,108,350</u>
Supplemental Cash Flows Information		
Fixed assets in accounts payable	\$ 960,527	\$ 876,423
Cash paid for interest, net of capitalized interest	680,000	583,307
Bond issue costs capitalized	236,713	—

Mount Union College

Notes to Financial Statements

June 30, 2007 and 2006

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, 2007 and 2006, cash equivalents consisted primarily of money market funds and certificates of deposit. At June 30, 2007, the College's cash accounts exceeded federally insured limits by approximately \$17,350,000.

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 investments accounts, as adjusted for additions to or deductions from those accounts.

Mount Union College
Notes to Financial Statements
June 30, 2007 and 2006

Fair Value of Financial Instrument

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

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 notes. 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 notes 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:

	2007
Total interest expense incurred on borrowings for project	\$ 748,771
Interest income from investment of proceeds of borrowings for project	537,059
Net interest cost capitalized	\$ 211,712

Mount Union College
Notes to Financial Statements
June 30, 2007 and 2006

	2007	2006
Interest capitalized	\$ 211,712	\$ —
Interest charged to expense	<u>615,515</u>	<u>583,307</u>
Total interest incurred	<u>\$ 827,227</u>	<u>\$ 583,307</u>

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.

Mount Union College
Notes to Financial Statements
June 30, 2007 and 2006

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 income when incurred. The College has purchased insurance that limits its exposure for individual claims and that limits its aggregate exposure to \$2,100,000.

Note 2: Investments and Investment Return

Investments at June 30 consisted of the following:

	2007		2006	
	Cost	Market	Cost	Market
Cash and cash equivalents	\$ 17,962,277	\$ 17,962,280	\$ 11,788,094	\$ 11,812,700
U.S. Treasury securities	25,214,417	25,190,993	19,871,984	19,665,355
Corporate debt securities	6,204,727	6,084,824	7,293,360	7,104,283
Mutual funds, equity securities	<u>63,162,656</u>	<u>83,122,656</u>	<u>55,805,099</u>	<u>69,460,166</u>
	<u>\$ 112,544,077</u>	<u>\$ 132,360,753</u>	<u>\$ 94,758,537</u>	<u>\$ 108,042,504</u>

Included in investments is cash of \$2,261,486 and U.S. Treasury securities of \$5,575,328 restricted for capital improvements.

Mount Union College
Notes to Financial Statements
June 30, 2007 and 2006

Investments were held for the following purposes at June 30:

	2007		2006	
	Cost	Market	Cost	Market
Endowment	\$ 103,185,296	\$ 122,926,412	\$ 94,122,667	\$ 107,406,634
Plant	981,904	1,031,016	—	—
Other	<u>8,376,877</u>	<u>8,403,325</u>	<u>635,870</u>	<u>635,870</u>
	<u>\$ 112,544,077</u>	<u>\$ 132,360,753</u>	<u>\$ 94,758,537</u>	<u>\$ 108,042,504</u>

Total investment return is comprised of the following:

	2007	2006
Interest and dividend income	\$ 3,224,868	\$ 3,122,027
Net realized gains on investments reported at fair value	10,212,731	6,057,415
Net unrealized gains on investments reported at fair value	<u>6,532,709</u>	<u>2,088,561</u>
	<u>\$ 19,970,308</u>	<u>\$ 11,268,003</u>

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

	2007	2006
Operating income	\$ 5,059,018	\$ 4,972,498
Other nonoperating income	<u>14,911,290</u>	<u>6,295,505</u>
	<u>\$ 19,970,308</u>	<u>\$ 11,268,003</u>

Note 3: Contributions Receivable

Contributions receivable at June 30 consisted of the following:

	2007	2006
Due within one year	\$ 236,174	\$ 213,260
Due in one to five years	2,263,920	922,420
Due in more than five years	<u>1,864,755</u>	<u>489,755</u>
	4,364,849	1,625,435
Less		
Allowance for uncollectible contributions	(250,270)	(103,418)
Unamortized discount (4.00% - 6.50%)	<u>(872,313)</u>	<u>(414,800)</u>
	<u>\$ 3,242,266</u>	<u>\$ 1,107,217</u>

Mount Union College
Notes to Financial Statements
June 30, 2007 and 2006

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 statement of financial position of the College. Contributions receivable from this charitable trust totaled \$1,183,051 as of June 30, 2007.

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 \$3,974,061 and \$3,563,928, which represents the fair value of the trust assets at June 30, 2007 and 2006, 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 \$4,481,615 and \$4,530,980 at June 30, 2007 and 2006, 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:

	2007	2006
Land and land improvements	\$ 12,251,850	\$ 10,515,149
Buildings	97,369,665	94,685,152
Equipment and vehicles	18,509,228	17,845,690
Capital lease	304,410	304,410
Construction in progress	11,324,825	1,850,827
	139,759,978	125,201,228
Less accumulated depreciation and amortization	(47,660,554)	(44,996,781)
	\$ 92,099,424	\$ 80,204,447

Note 6: Line of Credit

The College has a \$1,000,000 revolving bank line of credit expiring in 2008. At June 30, 2007 and 2006, there were no borrowings against this line. Interest varies with LIBOR (London Interbank Offering Rate) and is payable monthly.

Mount Union College
Notes to Financial Statements
June 30, 2007 and 2006

Note 7: Debt

	2007	2006
1995 Series Ohio Higher Educational Facility Variable Rate Demand Revenue Bonds reset weekly (ranging from 3.38% to 3.97% (average rate of 3.65%) for the year ending June 30, 2007) due September 1, 2020; secured by buildings and a letter of credit with a bank which expires on September 16, 2009	\$ 6,350,000	\$ 6,650,000
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; secured by buildings, fixtures, equipment and other personal property	6,365,000	6,600,000
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; secured by buildings, fixtures, equipment and other personal property. The bonds were issued at a premium of \$398,159	16,010,000	—
Noninterest-bearing note payable due in annual installments of \$50,000 beginning April 2006, secured by property	<u>50,000</u>	<u>100,000</u>
	28,775,000	13,350,000
Add: Unamortized premium	<u>382,233</u>	<u>—</u>
	<u>\$ 29,157,233</u>	<u>\$ 13,350,000</u>

Aggregate annual maturities of debt at June 30, 2007, are:

2008	\$ 630,000
2009	610,000
2010	635,000
2011	665,000
2012	700,000
Thereafter	<u>25,535,000</u>
	<u>\$ 28,775,000</u>

Mount Union College
Notes to Financial Statements
June 30, 2007 and 2006

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, 2007 and 2006, of \$653,214 and \$661,113, 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:

	2007	2006
Unitrust and gift annuities	\$ 3,372,283	\$ 4,830,284
Funds restricted for specific purposes	685,046	688,793
Unexpended property and equipment funds	<u>6,260,298</u>	<u>1,370,543</u>
	<u>\$ 10,317,627</u>	<u>\$ 6,889,620</u>

Permanently Restricted Net Assets

Permanently restricted net assets at June 30 are restricted to:

	2007	2006
Investment in perpetuity, the income of which is expendable to support scholarships and operations	\$ 44,067,858	\$ 43,237,468
Annuity, life income and charitable remainder and perpetual trusts	12,680,558	11,802,170
Other	<u>42,362</u>	<u>42,362</u>
	<u>\$ 56,790,778</u>	<u>\$ 55,082,000</u>

Mount Union College
Notes to Financial Statements
June 30, 2007 and 2006

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.

	2007	2006
Purpose restrictions accomplished		
Educational program expenses	\$ 210,632	\$ 174,148
Time restrictions expired, passage of time	115,078	347,880
	\$ 325,710	\$ 522,028

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 assets held with these institutions amount to approximately \$73,600,000 and \$51,100,000 as of June 30, 2007 and 2006, respectively. The fees paid to related parties, inclusive of investment fees and other fees for services performed by these parties amounted to approximately \$335,000 and \$349,000 for 2007 and 2006, 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 \$1,538,000 and \$1,338,000 for 2007 and 2006, respectively.

On June 30, 2007, the College adopted FASB Statement No. 158 (Statement 158), *Employers Accounting for Defined Benefit Pension and Other Post Retirement Plans* which amended previous statements for accounting for defined benefit pension and certain other postretirement plans. The effects of the adoption were immaterial to the financial statements of the College.

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 \$52,000 to the plan in 2008.

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 \$53,000 to the plan in 2008.

Mount Union College
Notes to Financial Statements
June 30, 2007 and 2006

The College uses a June 30 measurement date for the plans. Significant balances, costs and assumptions are:

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Benefit obligation	\$ (1,038,891)	\$ (925,678)	\$ (729,103)	\$ (722,330)
Fair value of plan assets	<u> —</u>	<u> —</u>	<u> —</u>	<u> —</u>
Funded status	<u>\$ (1,038,891)</u>	<u>\$ (925,678)</u>	<u>\$ (729,103)</u>	<u>\$ (722,330)</u>

Liabilities recognized in the statements of financial position:

Accrued benefit liability	<u>\$ (1,038,891)</u>	<u>\$ (688,944)</u>	<u>\$ (729,103)</u>	<u>\$ (415,989)</u>
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Amounts recognized in unrestricted net assets not yet recognized as components of net periodic benefit cost consist of:

Net loss	\$ 373,747	\$ —	\$ 264,740	\$ —
Prior service cost	<u>41,783</u>	<u> —</u>	<u> —</u>	<u> —</u>
	<u>\$ 415,530</u>	<u>\$ 0</u>	<u>\$ 264,740</u>	<u>\$ 0</u>

The accumulated benefit obligation for all defined benefit plans was \$1,767,994 and \$1,648,008 at June 30, 2007 and 2006, respectively.

Other significant balances and costs as of June 30 are:

Benefit costs	\$ 134,829	\$ 122,668	\$ 81,232	\$ 73,257
Employer contributions	10,665	67,446	34,952	75,351
Benefits paid	10,665	67,446	58,889	235,871

Components of net periodic benefit cost are:

Service cost	\$ 56,038	\$ 54,511	\$ 21,911	\$ 21,575
Interest cost	56,994	43,999	43,776	35,831
Amortization of prior service cost	3,482	3,482	—	—
Recognized net actuarial loss	<u>18,315</u>	<u>20,676</u>	<u>15,545</u>	<u>15,851</u>
	<u>\$ 134,829</u>	<u>\$ 122,668</u>	<u>\$ 81,232</u>	<u>\$ 73,257</u>

Mount Union College
Notes to Financial Statements
June 30, 2007 and 2006

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 \$18,099 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 \$12,746.

Weighted-average assumptions used to determine benefit obligations:

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
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 trend	N/A	N/A	9.50%	10.00%

Weighted-average assumptions used to determine benefit costs:

Discount rate	6.25%	5.00%	6.25%	5.00%
Rate of compensation increase	4.25%	3.00%	N/A	N/A
Health care cost rate	N/A	N/A	10.00%	10.00%

For measurement purposes, a 10.00% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2007 and 2006. 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, 2007:

	Pension Benefits		Other Benefits	
2008	\$	52,000	\$	53,000
2009		80,000		55,000
2010		92,000		55,000
2011		50,000		51,000
2012		101,000		56,000
2013-2017		666,000		314,000

Mount Union College
Notes to Financial Statements
June 30, 2007 and 2006

Note 12: Functional Expenses

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

	2007	2006
Educational		
Instruction	\$ 17,983,787	\$ 16,998,831
Academic support	3,036,884	2,836,864
Student services	6,079,940	4,447,356
Auxiliary enterprises	8,737,001	9,716,058
Total educational	35,837,612	33,999,109
Institutional support	7,073,719	7,439,094
Fund raising	479,191	457,061
	<u>\$ 43,390,522</u>	<u>\$ 41,895,264</u>

Note 13: 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 26% and 12% of contribution income was received from two donors and one donor in 2007 and 2006, respectively. Approximately 64% and 23% of contributions receivable were from three donors and two donors in 2007 and 2006, respectively.

Litigation

The College is subject to claims and lawsuits that arise primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of any such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the College.

Note 14: Commitments

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

Supplementary Information

Mount Union College
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

Cluster/Program	CFDA Number	Other Identifying Number	Amount
U.S. Department of Education			
Student Financial Assistance Cluster			
Federal Pell Grant Program	84.063		\$ 1,574,807
Federal Work-Study Program	84.033		216,440
Federal Supplemental Educational Opportunity Grants	84.007		312,736
Federal Perkins Loan Program	84.038		3,809,357
Federal Family Education Loans	84.032		9,952,268
Academic Competitiveness Grants	84.375		207,425
National SMART Grants	84.376		<u>78,000</u>
Total student financial assistance cluster			16,151,033
U.S. Department of Education			
Fund for the Improvement of Postsecondary Education			
Center for Public Service	84.116	P116Z040036	<u>260,253</u>
Total programs			<u>\$ 16,411,286</u>

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 \$3,101,025 of Perkins loans outstanding at June 30, 2007. These loan balances outstanding are also included in the federal expenditures presented in the schedule.
3. There were no subrecipients during the year.



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, 2007, and have issued our report thereon dated October 15, 2007. 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*.

We noted certain matters that we reported to the College's management in a separate letter dated October 15, 2007.

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 15, 2007



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, 2007. 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, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 07-1.

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

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.

The College's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the College's response and, accordingly, we express no opinion on it.

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 15, 2007

Mount Union College
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

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 \$492,339.

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, 2007

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
07-1	<p>Federal Program – Department of Education – Student Financial Assistance Cluster – Federal Family Education Loans, CFDA 84.032.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Effect – Loan funds were not returned in a timely manner.</p> <p>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.</p> <p>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.</p> <p>Management’s Views and Response for Corrective Action Plan – The College has put in place the following to determine more quickly when a student has decided not to attend for the semester for which an FFEL loan was made:</p> <ul style="list-style-type: none"> • Provide accurate interpretation to College staff of the time line for timely returns of loan disbursements • Move disbursements of loans from Tuesday and Wednesday prior to the first week of classes to Wednesday and Thursday prior to the first week of classes • Business office will check enrollment status and run error report when loan file is uploaded manually, checking enrollment status of individuals from the error report 	\$ 0

Mount Union College
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

Reference Number	Finding	Questioned Costs
	<ul style="list-style-type: none">• Business office will check enrollment daily during the first ten days of classes and notify Student Financial Services of who has a loan disbursed and is still not registered• Funds will be returned by Student Financial Services at the beginning of the second week for those who are registered for less than full time and have loans disbursed	

Mount Union College
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2007

Reference Number	Summary of Finding	Status
06-1	<p>Federal Program – Department of Education – Student Financial Assistance Cluster – Federal Supplemental Educational Opportunity Grants, CFDA 84.007; Federal Perkins Loan Program, CFDA 84.038; Federal Work-Study Program, CFDA 84.033; Federal Pell Grant Program, CFDA 84.063; Federal Family Education Loans, CFDA 84.032.</p> <p>Criteria or Specific Requirement – When a recipient of a Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount Title IV aid earned by the student as of the student’s withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution’s determination that the student withdrew, the difference must be returned to the Title IV programs as outlined in this section and no additional disbursement may be made to the student for the payment period or period of enrollment. (34 CFR 668.22(a)(1)-(3))</p> <p>Condition – Return of funds was miscalculated due to a misreported rate for the return of funds calculation from the visiting institution and, as a result, the College did not perform a required return of funds within 30 days of their determination of withdrawal.</p> <p>Context – Out of a sample of three items tested from a population of 11 items, the return of funds was miscalculated in one instance.</p> <p>Effect – The College is not in full compliance with 34 CFR 668.22 and owes a refund to a Title IV program.</p> <p>Cause – The student involved in this particular instance was attending another institution as a transient student. The College has a consortium agreement with the other institution to disburse aid to the student according to the student’s attendance at the other institution. The student subsequently withdrew from the institution and the percentage rate used in the determination provided to the College to perform the return of funds calculation from the other institution was incorrect. When verifying that return of funds was performed correctly during the year, it became apparent that the other institution provided inaccurate data and the College should have returned funds to the appropriate Title IV program.</p>	Resolved