Mount Union College

Accountants' Report and Financial Statements

June 30, 2009 and 2008

BKD LLP
CPAs & Advisors

Mount Union College

June 30, 2009 and 2008

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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, 2009 and 2008, 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, 2009 and 2008, 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.

As discussed in Note 2, in 2009 the College changed its method of recognition of classifications of net assets comprising donor-restricted endowments.

As discussed in Note 15, in 2009 the College changed its method of accounting for fair value measurements in accordance with Statement of Financial Accounting Standards No. 157.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2009, 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 6, 2009

Mount Union College

Statements of Financial Position
June 30, 2009 and 2008

	2009	2008
Assets		
Cash and cash equivalents	$ 8,578,222	$ 13,520,702
Accounts receivable, net of allowance; 2009 - $232,117, 2008 - $169,736	818,795	822,433
Contributions receivable	5,793,171	5,129,055
Inventory	309,583	356,726
Loans receivable	3,627,902	3,474,377
Investments	91,475,831	114,144,811
Beneficial interest in perpetual trusts and charitable remainder trusts	9,459,058	10,800,232
Annuity and life income funds held in trust	8,079,342	10,070,062
Property and equipment, net	109,399,864	98,739,382
Other assets	302,579	312,418
Total assets	$ 237,844,347	$ 257,370,198
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 4,004,393	$ 2,138,930
Accrued expenses	3,655,134	3,317,518
Annuities and trusts payable	2,845,039	3,241,439
Deposits and other	985,249	871,709
Advances from government for student loans	2,955,924	2,772,944
Debt	27,435,381	28,311,307
Total liabilities	41,881,120	40,653,847
Net Assets		
Unrestricted	79,032,014	144,183,291
Temporarily restricted	60,070,500	14,740,943
Permanently restricted	56,860,713	57,792,117
Total net assets	195,963,227	216,716,351
Total liabilities and net assets	$ 237,844,347	$ 257,370,198

Mount Union College

Statements of Activities
Years Ended June 30, 2009 and 2008

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Other Support				
Educational and general				
Student tuition and fees	$ 47,653,067	$ —	$ —	$ 47,653,067
Less financial aid	(19,641,692)	—	—	(19,641,692)
Net student tuition and fees	28,011,375	—	—	28,011,375
Gift and private grants	2,140,108	1,623,649	909,778	4,673,535
Investment return designated for operations	5,531,502	—	—	5,531,502
Change in value of split-interest agreements	—	(827,222)	(1,841,182)	(2,668,404)
Other income	486,475	—	—	486,475
Total educational and general revenue	36,169,460	796,427	(931,404)	36,034,483
Auxiliary enterprises	11,962,114	—	—	11,962,114
Net assets released from restrictions	1,115,012	(1,115,012)	—	0
Total revenue, gains and other support	49,246,586	(318,585)	(931,404)	47,996,597
Expenses and Losses				
Educational and general				
Instruction	13,658,117	—	—	13,658,117
Academic support	2,994,986	—	—	2,994,986
Operation and maintenance of plant	5,890,475	—	—	5,890,475
Student services	6,252,350	—	—	6,252,350
Institutional support	8,074,234	—	—	8,074,234
Depreciation	3,258,242	—	—	3,258,242
Total educational and general expenses	40,128,404	—	—	40,128,404
Auxiliary enterprises				
Operations	7,147,700	—	—	7,147,700
Depreciation	673,432	—	—	673,432
	7,821,132	—	—	7,821,132
Total expenses and losses	47,949,536	—	—	47,949,536
Change in Net Assets Before Investment Return Less Amounts Designated for Operations and Change in Accounting Principle	1,297,050	(318,585)	(931,404)	47,061
Investment return less amounts designated for operations	(20,800,185)	—	—	(20,800,185)
Change in accounting principle, net asset reclassification	(45,648,142)	45,648,142	—	0
Change in Net Assets	(65,151,277)	45,329,557	(931,404)	(20,753,124)
Net Assets, Beginning of Year	144,183,291	14,740,943	57,792,117	216,716,351
Net Assets, End of Year	$ 79,032,014	$ 60,070,500	$ 56,860,713	$ 195,963,227

2008			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 43,451,086	$ —	$ —	$ 43,451,086
(17,567,173)	—	—	(17,567,173)
25,883,913	—	—	25,883,913
915,608	7,098,740	1,783,422	9,797,770
5,334,278	—	—	5,334,278
—	(599,886)	(782,083)	(1,381,969)
378,492	—	—	378,492
32,512,291	6,498,854	1,001,339	40,012,484
10,725,289	—	—	10,725,289
2,075,538	(2,075,538)	—	0
45,313,118	4,423,316	1,001,339	50,737,773
12,759,390	—	—	12,759,390
2,827,384	—	—	2,827,384
5,366,586	—	—	5,366,586
5,917,526	—	—	5,917,526
7,577,160	—	—	7,577,160
3,105,075	—	—	3,105,075
37,553,121	—	—	37,553,121
6,281,966	—	—	6,281,966
428,756	—	—	428,756
6,710,722	—	—	6,710,722
44,263,843	—	—	44,263,843
1,049,275	4,423,316	1,001,339	6,473,930
(11,983,773)	—	—	(11,983,773)
—	—	—	0
(10,934,498)	4,423,316	1,001,339	(5,509,843)
155,117,789	10,317,627	56,790,778	222,226,194
$ 144,183,291	$ 14,740,943	$ 57,792,117	$ 216,716,351

Mount Union College

Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	2009	2008
Operating Activities		
Change in net assets	$ (20,753,124)	$ (5,509,843)
Items not requiring (providing) operating activities cash flows		
Realized and unrealized losses on investments	17,619,065	10,275,830
Depreciation	3,931,674	3,533,831
Amortization of bond premium	(15,926)	(15,926)
Change in allowance for uncollectible accounts and contributions receivable	62,381	22,412
Contributions and investment (income) loss restricted for long-term investment	931,404	(1,001,339)
Contributions received restricted for acquisition of long-lived assets	(1,969,460)	(4,996,080)
Changes in		
Accounts, loans and contributions receivable	(876,384)	(411,464)
Inventory	47,143	3,567
Other assets	9,839	(31,991)
Accounts payable and accrued expenses	993,742	(689,827)
Annuities and trusts payable	(396,400)	183,207
Annuity and life income funds held in trust and beneficial interests in perpetual trusts and charitable remainder trusts	3,331,894	(1,758,931)
Deposits and other	113,540	36,320
Advances from government for student loans	182,980	45,355
Net cash provided by (used in) operating activities	3,212,368	(314,879)
Investing Activities		
Purchase of property and equipment	(13,382,819)	(9,820,107)
Purchase of investments	(69,265,548)	(66,015,624)
Proceeds from sales of investments	74,315,463	73,955,736
Net cash used in investing activities	(8,332,904)	(1,879,995)
Financing Activities		
Payments on bonds and notes payable	(860,000)	(830,000)
Contributions and investment income (loss) restricted for long-term investment	(931,404)	1,001,339
Contributions received restricted for acquisition of long-lived assets	1,969,460	4,996,080
Net cash provided by financing activities	178,056	5,167,419
Increase (Decrease) in Cash and Cash Equivalents	(4,942,480)	2,972,545
Cash and Cash Equivalents, Beginning of Year	13,520,702	10,548,157
Cash and Cash Equivalents, End of Year	$ 8,578,222	$ 13,520,702
Supplemental Cash Flows Information		
Fixed assets in accounts payable	$ 1,209,337	$ 353,682
Cash paid for interest, net of capitalized interest	1,172,500	565,000

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, 2009 and 2008, cash equivalents consisted primarily of repurchase agreements.

The financial institution holding the College's cash accounts is participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2009, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account.

Effective October 3, 2008, the FDIC's insurance limits increased to $250,000. The increase in federally insured limits is currently set to expire December 31, 2013. At June 30, 2009, the College's interest-bearing cash accounts exceeded the federally insured limits by approximately $3,470,000.

Cash and cash equivalents representing assets of endowment funds are classified as 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.

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:

	2009	2008
Total interest expense incurred on borrowing for projects	$ —	$ 793,344
Interest income from investment of proceeds of borrowings for project	—	(198,516)
Net interest cost capitalized	$ 0	$ 594,828

	2009	2008
Interest capitalized	$ —	$ 594,828
Interest charged to expense	1,165,486	558,774
Total interest incurred	$ 1,165,486	$ 1,153,602

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. With a few exceptions, the College is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for the years before 2006.

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 $2,177,000.

Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 financial statement presentation. These reclassifications had no effect on the changes in net assets.

Note 2: Change in Accounting Principle

In the year ended June 30, 2009, the College adopted the recognition and disclosure provisions of Financial Accounting Standards Board Staff Position FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP FAS 117-1). This new standard changes the method of classification of net assets comprising donor-restricted endowment funds when the College is subject to an enacted and effective version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Initial application of FSP FAS 117-1 by reclassification of net assets at June 30, 2009, resulted in an increase (decrease) in temporarily restricted and unrestricted net assets of $45,648,142 and $(45,648,142), respectively, and had no impact on previously reported total net assets.

Note 3: Investments and Investment Return

Investments at June 30 consisted of the following:

	2009 Cost	2009 Market	2008 Cost	2008 Market
Cash and cash equivalents	$ 13,197,147	$ 13,197,147	$ 14,240,109	$ 14,240,109
U.S. Treasury securities	10,119,742	10,558,486	19,937,155	20,591,624
Corporate debt securities	8,422,290	8,389,645	8,941,126	8,695,669
Mutual funds, equity securities	69,333,762	59,330,553	67,725,698	70,617,409
	$ 101,072,941	$ 91,475,831	$ 110,844,088	$ 114,144,811

Investments were held for the following purposes at June 30:

	2009 Cost	2009 Market	2008 Cost	2008 Market
Endowment	$ 100,515,568	$ 90,918,458	$ 108,122,994	$ 111,522,936
Plant	—	—	1,072,845	973,626
Other	557,373	557,373	1,648,249	1,648,249
	$ 101,072,941	$ 91,475,831	$ 110,844,088	$ 114,144,811

Total investment return is comprised of the following:

	2009	2008
Interest and dividend income	$ 2,350,382	$ 3,626,335
Net realized gains on investments reported at fair value	(4,721,232)	6,188,231
Net unrealized losses on investments reported at fair value	(12,897,833)	(16,464,061)
	$ (15,268,683)	$ (6,649,495)

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

	2009	2008
Operating income	$ 5,531,502	$ 5,334,278
Other nonoperating income	(20,800,185)	(11,983,773)
	$ (15,268,683)	$ (6,649,495)

Note 4: Contributions Receivable

Contributions receivable at June 30 consisted of the following:

	2009	2008
Due within one year	$ 312,195	$ 262,221
Due in one to five years	3,625,798	3,346,730
Due in more than five years	1,902,340	1,410,340
	5,840,333	5,019,291
Less		
Allowance for uncollectible contributions	(436,044)	(250,270)
Unamortized discount (4.00% - 6.50%)	(903,039)	(876,254)
	$ 4,501,250	$ 3,892,767

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 $1,291,921 and $1,236,288 as of June 30, 2009 and 2008, respectively.

Note 5: 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 $3,893,420 and $4,616,285, which represents the fair value of the trust assets at June 30, 2009 and 2008, 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 $5,565,638 and $6,183,947 at June 30, 2009 and 2008, respectively. The discount rates used to calculate the present value were 4% to 8%.

Note 6: Property and Equipment

Property and equipment at June 30 consisted of the following:

	2009	2008
Land and land improvements	$ 13,858,844	$ 12,874,043
Buildings	119,919,161	112,198,848
Equipment and vehicles	18,793,012	18,529,098
Construction in progress	10,811,894	5,568,240
	163,382,911	149,170,229
Less accumulated depreciation and amortization	(53,983,047)	(50,430,847)
	$ 109,399,864	$ 98,739,382

Note 7: Line of Credit

The College has a $1,000,000 revolving bank line of credit expiring on December 31, 2009. At June 30, 2009 and 2008, there were no borrowings against this line. Interest varies with LIBOR (London Interbank Offering Rate) and is payable monthly.

Note 8: Debt

	2009	2008
1995 Series Ohio Higher Educational Facility Variable Rate Demand Revenue Bonds reset weekly (ranging from .35% to 8.25% (average rate of 2.16%) for the year ended June 30, 2009), due September 1, 2020	$ 5,900,000	$ 6,150,000
1998 Series Ohio Higher Educational Facility Revenue Bonds at 3.75% to 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	5,860,000	6,120,000
2006 Series Ohio Higher Educational Facility Revenue Bonds at 4.50% to 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	15,325,000	15,675,000
	27,085,000	27,945,000
Add: Unamortized premium	350,381	366,307
	$ 27,435,381	$ 28,311,307

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 $5,982,438 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%. As discussed more fully in Note 18, the College refinanced the 1995 bonds and terminated the letter of credit agreement with the bank.

Aggregate annual maturities of debt at June 30, 2009, are:

2010	$ 635,000
2011	665,000
2012	700,000
2013	730,000
2014	770,000
Thereafter	23,585,000
	$ 27,085,000

Note 9: 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, 2009 and 2008, of $630,068 and $644,561, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discount rates ranging from 4% to 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 10: Net Assets

Temporarily Restricted Net Assets

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

	2009	2008
Unitrust and gift annuities	$ 3,485,029	$ 4,585,332
Funds restricted for specific purposes	639,497	719,718
Unexpended property and equipment funds	10,297,832	9,435,893
Accumulated earnings on endowment	45,648,142	—
	$ 60,070,500	$ 14,740,943

Permanently Restricted Net Assets

Permanently restricted net assets at June 30 are restricted to:

	2009	2008
Investment in perpetuity, the income of which is expendable to support scholarships and operations	$ 45,693,702	$ 44,789,915
Annuity, life income and charitable remainder and perpetual trusts	11,167,011	13,002,202
	$ 56,860,713	$ 57,792,117

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.

	2009	2008
Purpose restrictions accomplished		
Educational program expenses	$ 161,975	$ 25,157
Time restrictions expired, passage of time	953,037	2,050,381
	$ 1,115,012	$ 2,075,538

Note 11: Endowment

The College's endowment consists of approximately 465 individual funds established for a variety of purposes. The endowment includes only donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The College's governing body has interpreted the State of Ohio Uniform Prudent Management of Institutional Funds Act (Ohio UPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by Ohio UPMIFA. In accordance with Ohio UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the College and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the College
7. Investment policies of the College

The composition of net assets by type of endowment fund at June 30, 2009 and 2008, was:

	2009			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ (881,809)	$ 45,648,142	$ 56,860,713	$ 101,627,046

	2008			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ 66,487,027	$ 0	$ 57,792,117	$ 124,279,144

Changes in endowment net assets for the years ended June 30, 2009 and 2008, were:

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 66,487,027	$ —	$ 57,792,117	$ 124,279,144
Investment return				
Investment income	2,188,334	—	—	2,188,334
Net depreciation	(17,390,924)	—	(1,841,182)	(19,232,106)
Total investment return	(15,202,590)	—	(1,841,182)	(17,043,772)
Contributions	—	—	909,778	909,778
Appropriation of endowment assets for expenditure	(5,533,104)	—	—	(5,533,104)
Other changes, endowment loan for capital projects	(985,000)	—	—	(985,000)
Other changes, change in accounting principle	(45,648,142)	45,648,142	—	0
Endowment net assets, end of year	$ (881,809)	$ 45,648,142	$ 56,860,713	$ 101,627,046

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 78,816,193	$ —	$ 56,790,778	$ 135,606,971
Investment return				
Investment income	2,982,833	—	—	2,982,833
Net depreciation	(10,128,708)	—	(782,083)	(10,910,791)
Total investment return	(7,145,875)	—	(782,083)	(7,927,958)
Contributions	—	—	1,783,422	1,783,422
Appropriation of endowment assets for expenditure	(5,183,291)	—	—	(5,183,291)
Endowment net assets, end of year	$ 66,487,027	$ 0	$ 57,792,117	$ 124,279,144

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2009 and 2008, consisted of:

	2009	2008
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or Ohio UPMIFA	$ 56,860,713	$ 57,792,117
Temporarily restricted net assets		
Portion of perpetual endowment funds subject to a time restriction under Ohio UPMIFA, with purpose restrictions	$ 45,648,142	$ 0

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the College is required to retain as a fund of perpetual duration pursuant to donor stipulation or Ohio UPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated $(881,809) and $0 at June 30, 2009 and 2008, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the College must hold in perpetuity or for donor-specified periods. Under the College's policies, endowment assets are invested in a manner that is intended to produce results that shall exceed the Consumer Price Index plus 5% over a five year moving period without undue exposure to investment risk. The College expects its endowment funds to provide an average rate of return of approximately 8% annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the College relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The College targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The College has a policy (the spending policy) of appropriating for expenditure each year 5% of its endowment fund's average fair value over the prior three years through the calendar year end preceding the fiscal year in which expenditure is planned. In establishing this policy, the College considered the long-term expected return on its endowment and inflationary trends. Accordingly, over the long term, the College expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the College's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Note 12: 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 $49,400,000 and $58,906,000 as of June 30, 2009 and 2008, respectively. The fees paid to related parties, inclusive of investment, insurance and other fees for services performed by these parties amounted to approximately $323,000 and $633,000 for 2009 and 2008, respectively.

Note 13: 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 $1,717,000 and $1,589,000 for 2009 and 2008, 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 $46,000 to the plan in 2010.

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 $68,000 to the plan in 2010.

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	
	2009	2008	2009	2008
Change in benefit obligation				
Beginning of year	$ (1,138,571)	$ (1,038,891)	$ (803,921)	$ (729,103)
Service cost	(60,272)	(57,785)	(23,670)	(20,326)
Interest cost	(65,717)	(63,155)	(46,456)	(43,938)
Actuarial gain (loss)	56,300	(2,633)	(50,727)	(45,104)
Participant contributions	—	—	(26,711)	(24,578)
Benefit payments	48,627	23,893	63,061	59,128
End of year	(1,159,633)	(1,138,571)	(888,424)	(803,921)
Fair value of plan assets	—	—	—	—
Funded status at end of year	$ (1,159,633)	$ (1,138,571)	$ (888,424)	$ (803,921)

Liabilities recognized in the statements of financial position:

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Accrued benefit liability	$ (1,159,633)	$ (1,138,571)	$ (888,424)	$ (803,921)

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

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Net loss	$ 285,588	$ 358,281	$ 333,426	$ 297,098
Prior service cost	34,819	38,301	—	—
	$ 320,407	$ 396,582	$ 333,426	$ 297,098

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

	2009	2008
Projected benefit obligation	$ 1,159,633	$ 1,138,571
Accumulated benefit obligation	$ 884,554	$ 892,640
Fair value of plan assets	$ 0	$ 0

Other significant balances and costs as of June 30 are:

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Benefit costs	$ 145,864	$ 142,521	$ 84,525	$ 77,010
Employer contributions	48,627	23,893	36,350	34,550
Benefits paid	48,627	23,893	63,061	59,128

Components of net periodic benefit cost are:

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Service cost	$ 60,272	$ 57,785	$ 23,670	$ 20,326
Interest cost	65,717	63,155	46,456	43,938
Amortization of prior service cost	3,482	3,482	—	—
Recognized net actuarial loss	16,393	18,099	14,399	12,746
	$ 145,864	$ 142,521	$ 84,525	$ 77,010

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 $11,555 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 $16,650.

Weighted-average assumptions used to determine benefit obligations:

	Pension Benefits		Other Benefits	
	2009	**2008**	**2009**	**2008**
Discount rate	6.25%	6.00%	6.25%	6.00%
Rate of compensation increase	4.25	4.00	N/A	N/A
Health care cost trend	N/A	N/A	9.50	9.25

Weighted-average assumptions used to determine benefit costs:

	Pension Benefits		Other Benefits	
	2009	**2008**	**2009**	**2008**
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 rate	N/A	N/A	9.25	9.50

For measurement purposes, a 9.25% and 9.50% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2009 and 2008, respectively. The rate was assumed to decrease gradually to 4.75% by the year 2019 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, 2009:

	Pension Benefits	Other Benefits
2010	$ 46,000	$ 68,000
2011	61,000	73,000
2012	104,000	65,000
2013	170,000	77,000
2014	180,000	78,000
2015-2019	534,000	348,000

Note 14: Functional Expenses

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

	2009	2008
Educational		
Instruction	$ 17,671,793	$ 16,374,460
Academic support	3,976,317	3,807,264
Student services	7,940,826	7,408,367
Auxiliary enterprises	9,683,099	8,535,661
Total educational	39,272,035	36,125,752
Institutional support	7,503,025	6,719,973
Fund raising	1,174,476	1,418,118
	$ 47,949,536	$ 44,263,843

Note 15: Disclosures About Fair Value of Assets and Liabilities

Effective July 1, 2008, the College adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157), which was subsequently incorporated into the FASB Accounting Standards Codification (ASC) Topic 820. Topic 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Topic 820 has been applied prospectively as of the beginning of the year.

Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. The College has no liabilities measured at fair value on a recurring basis. Additionally, the College has no assets or liabilities measured at fair value on a nonrecurring basis.

Investments, Annuity and Life Income Funds Held in Trust

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market mutual funds, mutual funds, equity securities and U.S. Treasury securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include corporate debt securities. The inputs include benchmarks yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids and offers. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and includes an equity fund organized as a limited partnership. Valuation is based on assessment of the underlying investments considering market based information and considering the net asset value of the fund provided by the fund manager.

Beneficial Interest in Perpetual Trusts

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

Beneficial Interest in Charitable Remainder Trusts

Fair value is estimated at the present value of the future assets expected to be received from the trust upon dissolution. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

The following table presents the fair value measurements of assets recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2009:

		Fair Value Measurements Using		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Investments				
Cash equivalents	$ 3,587,384	$ 3,587,384	$ —	$ —
U.S. Treasury securities and governmental agency bonds	10,558,486	2,512,789	8,045,697	—
Corporate debt securities	8,389,644	—	7,973,926	415,718
Mutual funds, equity securities	59,330,553	54,281,791	—	5,048,762
Annuity and life income funds held in trust				
Fixed income securities	2,691,379	—	2,691,379	—
Equity securities	5,387,963	5,387,963	—	—
Beneficial interest in perpetual trusts	3,893,420	—	—	3,893,420
Beneficial interest in charitable remainder trusts	5,565,638	—	—	5,565,638

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statement of financial position using significant unobservable (Level 3) inputs:

	Limited Partnership	Perpetual Trusts	Charitable Remainder Trusts
Balance, July 1, 2008	$ 6,368,611	$ 4,616,285	$ 6,183,947
Total realized and unrealized gains and losses included in change in net assets	(904,131)	(722,865)	(618,309)
Balance, June 30, 2009	$ 5,464,480	$ 3,893,420	$ 5,565,638
Total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	$ (904,131)	$ (722,865)	$ (618,309)

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying statements of financial position at amounts other than fair value.

Cash and Cash Equivalents

The carrying amount approximates fair value.

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.

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.

Deposits and Other and Advances From Government for Student Loans

The carrying value approximates fair value.

The carrying amount is a reasonable estimate of the fair value for all financial assets and liabilities at June 30, 2009 and 2008.

Note 16: 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

There were no donors that accounted for greater than 10% of contribution income for the year ended June 30, 2009. Approximately 49% of contribution income was received from three donors in 2008. Approximately 46% and 49% of contributions receivable were from three donors in 2009 and 2008, respectively.

Investments

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.

Current Economic Conditions

The current economic environment presents not-for-profit organizations with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, declines in contributions, enrollment revenue, governmental support, grant revenue, etc., constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the College.

Current economic conditions have made it difficult for many donors to continue to contribute to not-for-profit organizations. A significant decline in contribution revenue, enrollment revenue governmental support, grant revenue, etc. could have an adverse impact on the College's future operating results.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values, allowances for accounts and contributions receivable and the valuation of intangibles that could negatively impact the College's ability to meet debt covenants or maintain sufficient liquidity.

Note 17: Commitments

The College has entered into contracts for the construction of certain new facilities. Remaining contract payments total approximately $6,750,000 and $15,225,000 as of June 30, 2009 and 2008, respectively.

Note 18: Subsequent Events

Subsequent to June 30, 2009, the College refinanced its 1995 Series Ohio Higher Educational Facility Variable Rate Demand Revenue Bonds through a $6,000,000 promissory note with a bank at a fixed rate of 4.86% with monthly principal and interest payments of $47,412 and a final payment of $3,802,644 due on September 1, 2016.

On May 9, 2008, the Board of Trustees at Mount Union College approved internal borrowing of up to $10,200,000 from its endowment to pay for certain construction costs for its new athletic and recreation facility. As of June 30, 2009, the outstanding principal balance is $985,000. The College will pay interest only to the endowment at 4.5% annually with principal reductions to the loan made by the collection of pledges and deferred gifts to the project.

On September 3, 2009, the Finance Committee, with authorization from the Board of Trustees, approved additional internal borrowing of up to $5,000,000 from its endowment to pay for certain construction costs for building renovations on its campus. The College will pay principal and interest to the endowment at 4.5% annually for an amortization period of 20 years.

As both of these internal loan funds are recorded in unrestricted net assets, the payables/receivables are not reflected in the accompanying statements.

Subsequent events have been evaluated through October 6, 2009, which is the date the financial statements were issued.

Supplementary Information

Mount Union College

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009

Cluster/Program	CFDA Number	Other Identifying Number	Amount
U.S. Department of Education			
Student Financial Assistance Cluster			
Federal Pell Grant Program	84.063		$ 2,015,262
Federal Work-Study Program	84.033		222,113
Federal Supplemental Educational Opportunity Grants	84.007		214,584
Federal Perkins Loan Program	84.038		3,844,259
Federal Family Education Loans	84.032		13,314,938
Academic Competitiveness Grants	84.375		208,618
National SMART Grants	84.376		110,000
Teacher Education Assistance for College and Higher Education Grants	84.379		58,000
			$ 19,987,774

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 $3,510,707 of Perkins loans outstanding at June 30, 2009. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

3. There were no subrecipients during the year.

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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, 2009, and have issued our report thereon dated October 6, 2009, which contained explanatory paragraphs regarding changes in accounting principles. 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 6, 2009

BKD LLP
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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, 2009. 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, 2009.

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 6, 2009

Mount Union College

Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

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, 84.376 and 84.379

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was $599,633.

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, 2009

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, 2009

Reference Number	Summary of Finding	Status
	No matters are reportable.	