

# **Mount Union College**

Accountants' Report and Financial Statements

June 30, 2010 and 2009



# Mount Union College

June 30, 2010 and 2009

## Contents

<b>Independent Accountants' Report on Financial Statements and Supplementary Information .....</b>	<b>1</b>
<b>Financial Statements</b>	
Statements of Financial Position.....	2
Statements of Activities.....	3
Statements of Cash Flows.....	4
Notes to Financial Statements.....	5
<b>Supplementary Information</b>	
Schedule of Expenditures of Federal Awards.....	28
<b>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 <i>Government Auditing Standards</i>.....</b>	<b>29</b>
<b>Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance Accordance with OMB Circular A-133.....</b>	<b>31</b>
<b>Schedule of Findings and Questioned Costs.....</b>	<b>33</b>
<b>Summary Schedule of Prior Audit Findings.....</b>	<b>35</b>

## 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, 2010 and 2009, 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, 2010 and 2009, 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 20, 2010, 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 20, 2010

**Mount Union College**  
**Statements of Financial Position**  
**June 30, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 8,411,322	\$ 8,578,222
Accounts receivable, net of allowance; 2010 - \$220,757, 2009 - \$232,117	962,838	818,795
Contributions receivable, net of allowance; 2010 - \$362,786, 2009 - \$436,044	5,391,864	5,793,171
Inventory	245,984	309,583
Loans receivable	3,662,117	3,627,902
Investments	83,725,844	91,475,831
Beneficial interest in perpetual trusts and charitable remainder trusts	10,113,467	9,459,058
Annuity and life income funds held in trust	8,191,891	8,079,342
Property and equipment, net	122,588,431	109,399,864
Other assets	313,638	302,579
Total assets	<u>\$ 243,607,396</u>	<u>\$ 237,844,347</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 2,176,097	\$ 4,004,393
Accrued expenses	3,928,650	3,655,134
Annuities and trusts payable	2,575,938	2,845,039
Deposits and other	1,088,811	985,249
Advances from government for student loans	2,980,583	2,955,924
Debt	27,476,311	27,435,381
Total liabilities	<u>40,226,390</u>	<u>41,881,120</u>
<b>Net Assets</b>		
Unrestricted	83,118,262	79,032,014
Temporarily restricted	61,660,370	60,070,500
Permanently restricted	58,602,374	56,860,713
Total net assets	<u>203,381,006</u>	<u>195,963,227</u>
Total liabilities and net assets	<u>\$ 243,607,396</u>	<u>\$ 237,844,347</u>

**Mount Union College**  
**Statements of Activities**  
**Years Ended June 30, 2010 and 2009**

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenue, Income and Other Support</b>				
Educational and general				
Student tuition and fees	\$ 50,152,552	\$ —	\$ —	\$ 50,152,552
Less financial aid	<u>(20,964,064)</u>	<u>—</u>	<u>—</u>	<u>(20,964,064)</u>
Net student tuition and fees	29,188,488	—	—	29,188,488
Gift and private grants	2,164,286	1,064,872	945,625	4,174,783
Investment return designated for operations	5,003,696	—	—	5,003,696
Change in value of split-interest agreements	—	303,888	796,036	1,099,924
Other income	<u>457,997</u>	<u>2,111</u>	<u>—</u>	<u>460,108</u>
Total educational and general revenue	36,814,467	1,370,871	1,741,661	39,926,999
Auxiliary enterprises	12,460,473	—	—	12,460,473
Net assets released from restrictions	<u>3,358,442</u>	<u>(3,358,442)</u>	<u>—</u>	<u>0</u>
Total revenue, income and other support	<u>52,633,382</u>	<u>(1,987,571)</u>	<u>1,741,661</u>	<u>52,387,472</u>
<b>Expenses</b>				
Educational and general				
Instruction	13,589,241	—	—	13,589,241
Academic support	2,983,782	—	—	2,983,782
Operation and maintenance of plant	6,425,507	—	—	6,425,507
Student services	6,661,620	—	—	6,661,620
Institutional support	8,248,472	—	—	8,248,472
Depreciation	<u>3,139,297</u>	<u>—</u>	<u>—</u>	<u>3,139,297</u>
Total educational and general expenses	<u>41,047,919</u>	<u>—</u>	<u>—</u>	<u>41,047,919</u>
Auxiliary enterprises				
Operations	7,207,463	—	—	7,207,463
Depreciation	<u>738,600</u>	<u>—</u>	<u>—</u>	<u>738,600</u>
Total expenses	<u>7,946,063</u>	<u>—</u>	<u>—</u>	<u>7,946,063</u>
Total expenses	<u>48,993,982</u>	<u>—</u>	<u>—</u>	<u>48,993,982</u>
<b>Change in Net Assets Before Investment Return Less Amounts Designated for Operations and Change in Accounting Principle</b>	3,639,400	(1,987,571)	1,741,661	3,393,490
Investment return less amounts designated for operations	446,848	3,577,441	—	4,024,289
Change in accounting principle, net asset reclassification	<u>—</u>	<u>—</u>	<u>—</u>	<u>0</u>
<b>Change in Net Assets</b>	4,086,248	1,589,870	1,741,661	7,417,779
<b>Net Assets, Beginning of Year</b>	<u>79,032,014</u>	<u>60,070,500</u>	<u>56,860,713</u>	<u>195,963,227</u>
<b>Net Assets, End of Year</b>	<u>\$ 83,118,262</u>	<u>\$ 61,660,370</u>	<u>\$ 58,602,374</u>	<u>\$ 203,381,006</u>

See Notes to Financial Statements

2009

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 47,653,067	\$ —	\$ —	\$ 47,653,067
<u>(19,641,692)</u>	<u>—</u>	<u>—</u>	<u>(19,641,692)</u>
28,011,375	—	—	28,011,375
2,140,108	1,623,649	909,778	4,673,535
5,531,502	—	—	5,531,502
—	(827,222)	(1,841,182)	(2,668,404)
<u>486,475</u>	<u>—</u>	<u>—</u>	<u>486,475</u>
36,169,460	796,427	(931,404)	36,034,483
11,962,114	—	—	11,962,114
<u>1,115,012</u>	<u>(1,115,012)</u>	<u>—</u>	<u>0</u>
<u>49,246,586</u>	<u>(318,585)</u>	<u>(931,404)</u>	<u>47,996,597</u>
13,658,117	—	—	13,658,117
2,994,986	—	—	2,994,986
5,890,475	—	—	5,890,475
6,252,350	—	—	6,252,350
8,074,234	—	—	8,074,234
<u>3,258,242</u>	<u>—</u>	<u>—</u>	<u>3,258,242</u>
<u>40,128,404</u>	<u>—</u>	<u>—</u>	<u>40,128,404</u>
7,147,700	—	—	7,147,700
<u>673,432</u>	<u>—</u>	<u>—</u>	<u>673,432</u>
<u>7,821,132</u>	<u>—</u>	<u>—</u>	<u>7,821,132</u>
<u>47,949,536</u>	<u>—</u>	<u>—</u>	<u>47,949,536</u>
1,297,050	(318,585)	(931,404)	47,061
(20,800,185)	—	—	(20,800,185)
<u>(45,648,142)</u>	<u>45,648,142</u>	<u>—</u>	<u>0</u>
(65,151,277)	45,329,557	(931,404)	(20,753,124)
<u>144,183,291</u>	<u>14,740,943</u>	<u>57,792,117</u>	<u>216,716,351</u>
<u>\$ 79,032,014</u>	<u>\$ 60,070,500</u>	<u>\$ 56,860,713</u>	<u>\$ 195,963,227</u>

**Mount Union College**  
**Statements of Cash Flows**  
**Years Ended June 30, 2010 and 2009**

	2010	2009
<b>Operating Activities</b>		
Change in net assets	\$ 7,417,779	\$ (20,753,124)
Items not requiring (providing) operating activities cash flows		
Realized and unrealized (gains) losses on investments	(6,707,161)	17,619,065
Depreciation	3,877,897	3,931,674
Amortization of bond premium	(15,926)	(15,926)
Change in allowance for uncollectible accounts and contributions receivable	(84,618)	62,381
Contributions and change in value of split-interest agreements restricted for long-term investment	(1,741,661)	931,404
Contributions received restricted for acquisition of long-lived assets	(367,124)	(1,969,460)
Changes in		
Accounts, loans and contributions receivable	307,667	(876,384)
Inventory	63,599	47,143
Other assets	(11,059)	9,839
Accounts payable and accrued expenses	(2,209,797)	993,742
Annuities and trusts payable	(269,101)	(396,400)
Annuity and life income funds held in trust and beneficial interests in perpetual trusts and charitable remainder trusts	(766,958)	3,331,894
Deposits and other	103,562	113,540
Advances from government for student loans	24,659	182,980
Net cash provided by (used in) operating activities	(378,242)	3,212,368
<b>Investing Activities</b>		
Purchase of property and equipment	(15,611,447)	(13,382,819)
Purchase of investments	(57,731,810)	(69,265,548)
Proceeds from sales of investments	72,188,958	74,315,463
Net cash used in investing activities	(1,154,299)	(8,332,904)
<b>Financing Activities</b>		
Payments on bonds and notes payable	(6,743,144)	(860,000)
Proceeds from issuance of notes payable	6,000,000	—
Contributions and change in value of split-interest agreements restricted for long-term investment	1,741,661	(931,404)
Contributions received restricted for acquisition of long-lived assets	367,124	1,969,460
Net cash provided by financing activities	1,365,641	178,056
<b>Decrease in Cash and Cash Equivalents</b>	(166,900)	(4,942,480)
<b>Cash and Cash Equivalents, Beginning of Year</b>	8,578,222	13,520,702
<b>Cash and Cash Equivalents, End of Year</b>	\$ 8,411,322	\$ 8,578,222
<b>Supplemental Cash Flows Information</b>		
Fixed assets in accounts payable	\$ 655,017	\$ 1,209,337
Fixed asset purchase financed by debt	800,000	—
Cash paid for interest	1,273,965	1,172,500

# Mount Union College

## Notes to Financial Statements

### June 30, 2010 and 2009

#### **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.

Effective August 1, 2010, the College changed its name to University of Mount Union.

##### ***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, 2010 and 2009, cash equivalents consisted primarily of repurchase agreements.

The financial institution holding the College's cash accounts participated in the FDIC's Transaction Account Guarantee Program through June 30, 2010. Under that program, through June 30, 2010, all noninterest-bearing transaction accounts were fully guaranteed by the FDIC for the entire amount in the account.

Interest-bearing accounts are insured by the FDIC up to \$250,000. At June 30, 2010, the College's interest-bearing cash accounts did not exceed federally insured limits

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 all debt securities are carried at fair value. Other investments are valued at fair value. Investment return includes dividend, interest and other investment income and realized and unrealized gains and losses on investments carried at fair value.

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



# Mount Union College

## Notes to Financial Statements

### June 30, 2010 and 2009

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.

#### ***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

# Mount Union College

## Notes to Financial Statements

### June 30, 2010 and 2009

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. The College files tax returns in the U.S. Federal jurisdiction. With few exceptions, the College is no longer subject to U.S. federal examinations by tax authorities for years before 2007.

#### ***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 fundraising categories based on time and effort.

**Mount Union College**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

**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 approximately \$2,718,000.

**Note 2: Investments and Investment Return**

Investments at June 30 consisted of the following:

	2010		2009	
	Cost	Market	Cost	Market
Cash and cash equivalents	\$ 8,256,254	\$ 8,256,254	\$ 13,197,147	\$ 13,197,147
U.S. Treasury securities and government agency bonds	5,940,485	6,093,579	10,119,742	10,558,486
Corporate debt securities	5,407,723	5,771,052	8,422,290	8,389,645
Equity funds	29,356,556	26,684,501	29,661,756	24,604,516
Common stocks	28,648,956	27,454,401	33,487,341	29,677,275
Limited partnerships	5,562,458	5,277,767	6,184,665	5,048,762
Hedge funds	4,000,000	4,188,290	—	—
	<u>\$ 87,172,432</u>	<u>\$ 83,725,844</u>	<u>\$ 101,072,941</u>	<u>\$ 91,475,831</u>

Investments were held for the following purposes at June 30:

	2010		2009	
	Cost	Market	Cost	Market
Endowment	\$ 86,615,047	\$ 83,168,459	\$ 100,515,568	\$ 90,918,458
Other	557,385	557,385	557,373	557,373
	<u>\$ 87,172,432</u>	<u>\$ 83,725,844</u>	<u>\$ 101,072,941</u>	<u>\$ 91,475,831</u>

**Alternative Investments**

The fair value of alternative investments (hedge funds) has been estimated using the net asset value per share of the investments. Alternative investments held at June 30 consist of the following:

	June 30, 2010			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-strategy hedge funds (A)	\$ 4,188,290	None	Quarterly	65 – 90 days
Limited partnerships (B)	5,277,767	None	Monthly	7 days

**Mount Union College**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

	June 30, 2009			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited partnerships (B)	\$ 5,048,762	None	Monthly	7 days

- (A) This category includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The funds' composite portfolio includes investments in various private investment funds that employ various long/short, macro and absolute return strategies.
- (B) This category includes an investment in a limited partnership that primarily invests and takes long positions in U.S. and foreign common stocks. Management of the fund has the ability to shift investments and strategies.

Total investment return is comprised of the following:

	2010	2009
Interest and dividend income	\$ 2,320,824	\$ 2,350,382
Net realized gains (losses) on investments reported at fair value	556,639	(4,721,232)
Net unrealized gains (losses) on investments reported at fair value	<u>6,150,522</u>	<u>(12,897,833)</u>
	<u>\$ 9,027,985</u>	<u>\$ (15,268,683)</u>

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

	2010	2009
Operating income	\$ 5,003,696	\$ 5,531,502
Other nonoperating income	<u>4,024,289</u>	<u>(20,800,185)</u>
	<u>\$ 9,027,985</u>	<u>\$ (15,268,683)</u>

**Note 3: Contributions Receivable**

Contributions receivable at June 30 consisted of the following:

	2010	2009
Due within one year	\$ 913,405	\$ 312,195
Due in one to five years	3,634,486	3,625,798
Due in more than five years	<u>482,340</u>	<u>1,902,340</u>
	5,030,231	5,840,333

**Mount Union College**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
Less		
Allowance for uncollectible contributions	\$ (362,786)	\$ (436,044)
Unamortized discount (4.00% - 6.50%)	(625,638)	(903,039)
	<u>\$ 4,041,807</u>	<u>\$ 4,501,250</u>

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 \$1,350,057 and \$1,291,921 as of June 30, 2010 and 2009, respectively.

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

The College is the beneficiary under perpetual trusts administered by outside parties. Under the terms of the trusts, the College has the irrevocable right to receive income earned on the trust assets in perpetuity, but never receives the assets held in trust. The estimated value of the expected future cash flows is \$3,948,291 and \$3,893,420, which represents the fair value of the trust assets at June 30, 2010 and 2009, respectively.

The College is also the beneficiary under charitable remainder trusts administered by outside parties. Under the terms of the trusts, the College has the irrevocable right to receive a remainderment of trust assets at a future date. The present value of the expected future cash flows is \$6,165,176 and \$5,565,638 at June 30, 2010 and 2009, respectively. The discount rates used to calculate the present value were 4% to 8%.

**Note 5: Property and Equipment**

Property and equipment at June 30 consisted of the following:

	<b>2010</b>	<b>2009</b>
Land and land improvements	\$ 14,864,670	\$ 13,858,844
Buildings	141,931,981	119,919,161
Equipment and vehicles	19,324,230	18,793,012
Construction in progress	4,028,911	10,811,894
	180,149,792	163,382,911
Less accumulated depreciation and amortization	(57,561,361)	(53,983,047)
	<u>\$ 122,588,431</u>	<u>\$ 109,399,864</u>

**Mount Union College**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

**Note 6: Line of Credit**

The College has a \$1,000,000 revolving bank line of credit expiring in May 2011. At June 30, 2010 and 2009, there were no borrowings against this line. Interest varies with LIBOR (London Interbank Offering Rate) and is payable monthly.

**Note 7: Debt**

	2010	2009
1995 Series Ohio Higher Educational Facility Variable Rate Demand Revenue Bonds (refinanced in 2010)	\$ —	\$ 5,900,000
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	5,590,000	5,860,000
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	14,960,000	15,325,000
Note payable, unsecured, interest rate of 4.86%, payable in monthly installments of \$47,412 with a final balloon payment of \$3,802,644 due in September 2016	5,791,857	—
Note payable, unsecured, interest rate of 5.00%, payable in annual installments of \$103,604 beginning on June 1, 2011 with final payment due June 2021	<u>800,000</u>	<u>—</u>
	27,141,857	27,085,000
Add: Unamortized premium	<u>334,454</u>	<u>350,381</u>
	<u>\$ 27,476,311</u>	<u>\$ 27,435,381</u>

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.

**Mount Union College**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

Aggregate annual maturities of debt at June 30, 2010, are:

2011	\$ 1,022,720
2012	1,075,516
2013	1,124,198
2014	1,183,810
2015	1,239,398
Thereafter	<u>21,496,215</u>
	<u>\$ 27,141,857</u>

Interest expense was \$1,266,720 and \$1,165,468 in 2010 and 2009, respectively.

**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, 2010 and 2009, of \$571,356 and \$630,068, 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 9: Internal Borrowings**

During 2010, borrowings within the College have been made from the endowment fund for capital projects. The borrowings from the endowment fund totaled \$13,808,628 at June 30, 2010. Approximately \$3,000,000 of the internal loan is for renovations to the Engineering and Business Building. This loan is being amortized over 25 years, bears interest monthly at 4.5% and will be repaid from unrestricted operations. The remainder of the loan is for the Wellness Center. This loan bears interest monthly at 5% and will be repaid by specific contributions.

**Mount Union College**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

**Note 10: Net Assets**

***Temporarily Restricted Net Assets***

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

	<u>2010</u>	<u>2009</u>
Unitrust and gift annuities	\$ 3,801,699	\$ 3,485,029
Funds restricted for specific purposes	583,088	639,497
Unexpended property and equipment funds	8,050,001	10,297,832
Accumulated earnings on endowment	<u>49,225,582</u>	<u>45,648,142</u>
	<u>\$ 61,660,370</u>	<u>\$ 60,070,500</u>

***Permanently Restricted Net Assets***

Permanently restricted net assets at June 30 are restricted to:

	<u>2010</u>	<u>2009</u>
Investment in perpetuity, the income of which is expendable to support scholarships and operations	\$ 46,715,974	\$ 45,693,702
Annuity, life income and charitable remainder and perpetual trusts	<u>11,886,400</u>	<u>11,167,011</u>
	<u>\$ 58,602,374</u>	<u>\$ 56,860,713</u>

***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.

	<u>2010</u>	<u>2009</u>
Purpose restrictions accomplished		
Educational program expenses	\$ 164,179	\$ 161,975
Property and equipment acquired and placed into service	1,749,487	—
Time restrictions expired, passage of time	<u>1,444,776</u>	<u>953,037</u>
	<u>\$ 3,358,442</u>	<u>\$ 1,115,012</u>



**Mount Union College**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

**Note 11: Endowment**

The College's endowment consists of approximately 500 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 endowment assets are comprised of investments, beneficial interests, assets held in trust and the internal loan. The composition of net assets by type of endowment fund at June 30, 2010 and 2009, was:

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ <u>(358,829)</u>	\$ <u>49,225,582</u>	\$ <u>58,602,374</u>	\$ <u>107,469,127</u>

**Mount Union College**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

	<b>2009</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ <u>(881,809)</u>	\$ <u>45,648,142</u>	\$ <u>56,860,713</u>	\$ <u>101,627,046</u>

Changes in endowment net assets for the years ended June 30, 2010 and 2009, were:

	<b>2010</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ (881,809)	\$ 45,648,142	\$ 56,860,713	\$ 101,627,046
Investment return				
Investment income	2,264,832	—	—	2,264,832
Net appreciation	2,738,864	4,100,420	796,036	7,635,320
Net transfer for underwater endowments	<u>522,980</u>	<u>(522,980)</u>	<u>—</u>	<u>0</u>
Total investment return	5,526,676	3,577,440	796,036	9,900,152
Contributions	—	—	945,625	945,625
Appropriation of endowment assets for expenditure	<u>(5,003,696)</u>	<u>—</u>	<u>—</u>	<u>(5,003,696)</u>
Endowment net assets, end of year	<u>\$ (358,829)</u>	<u>\$ 49,225,582</u>	<u>\$ 58,602,374</u>	<u>\$ 107,469,127</u>

**Mount Union College**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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	<u>(17,390,924)</u>	<u>—</u>	<u>(1,841,182)</u>	<u>(19,232,106)</u>
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	<u>(45,648,142)</u>	<u>45,648,142</u>	<u>—</u>	<u>0</u>
Endowment net assets, end of year	<u>\$ (881,809)</u>	<u>\$ 45,648,142</u>	<u>\$ 56,860,713</u>	<u>\$ 101,627,046</u>

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2010 and 2009, consisted of:

	2010	2009
Permanently restricted net assets, portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or Ohio UPMIFA	<u>\$ 58,602,374</u>	<u>\$ 56,860,713</u>
Temporarily restricted net assets, portion of perpetual endowment funds subject to a time restriction under Ohio UPMIFA, with purpose restrictions	<u>\$ 49,225,582</u>	<u>\$ 45,648,142</u>

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 \$(358,829) and \$(881,809) at June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that

# Mount Union College

## Notes to Financial Statements

### June 30, 2010 and 2009

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 that also have representatives serving on the Board of Trustees of the College. Total investments and trust assets held with these institutions amount to approximately \$30,500,000 and \$49,400,000 as of June 30, 2010 and 2009, respectively. The fees paid to related parties, inclusive of investment, insurance and other fees for services performed by these parties amounted to approximately \$281,000 and \$323,000 for 2010 and 2009, 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 \$1,742,000 and \$1,717,000 for 2010 and 2009, 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

**Mount Union College**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

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 \$62,000 to the plan in 2011.

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 \$73,000 to the plan in 2011.

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

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Change in benefit obligation				
Beginning of year	\$ (1,159,633)	\$ (1,138,571)	\$ (888,424)	\$ (803,921)
Service cost	(68,477)	(60,272)	(27,831)	(23,670)
Interest cost	(70,915)	(65,717)	(53,400)	(46,456)
Actuarial gain (loss)	18,656	56,300	(73,309)	(50,727)
Participant contributions	—	—	(28,884)	(26,711)
Benefit payments	<u>32,698</u>	<u>48,627</u>	<u>67,084</u>	<u>63,061</u>
End of year Fair value of plan assets	<u>(1,247,671)</u>	<u>(1,159,633)</u>	<u>(1,004,764)</u>	<u>(888,424)</u>
Funded status at end of year	<u>\$ (1,247,671)</u>	<u>\$ (1,159,633)</u>	<u>\$ (1,004,764)</u>	<u>\$ (888,424)</u>

Liabilities recognized in the statements of financial position:

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Accrued benefit liability	<u>\$ (1,247,671)</u>	<u>\$ (1,159,633)</u>	<u>\$ (1,004,764)</u>	<u>\$ (888,424)</u>

**Mount Union College**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

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

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net loss	\$ 255,377	\$ 285,588	\$ 390,085	\$ 333,426
Prior service cost	<u>31,337</u>	<u>34,819</u>	<u>—</u>	<u>—</u>
	<u>\$ 286,714</u>	<u>\$ 320,407</u>	<u>\$ 390,085</u>	<u>\$ 333,426</u>

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

	<b>2010</b>	<b>2009</b>
Projected benefit obligation	<u>\$ 1,247,671</u>	<u>\$ 1,159,633</u>
Accumulated benefit obligation	<u>\$ 1,004,764</u>	<u>\$ 884,554</u>
Fair value of plan assets	<u>\$ 0</u>	<u>\$ 0</u>

Other significant balances and costs as of June 30 are:

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Benefit costs	\$ 154,429	\$ 145,864	\$ 97,881	\$ 84,525
Employer contributions	32,698	48,627	38,200	36,350
Benefits paid	32,698	48,627	67,084	63,061

Components of net periodic benefit cost are:

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Service cost	\$ 68,477	\$ 60,272	\$ 27,831	\$ 23,670
Interest cost	70,915	65,717	53,400	46,456
Amortization of prior service cost	3,482	3,482	—	—
Recognized net actuarial loss	<u>11,555</u>	<u>16,393</u>	<u>16,650</u>	<u>14,399</u>
	<u>\$ 154,429</u>	<u>\$ 145,864</u>	<u>\$ 97,881</u>	<u>\$ 84,525</u>

**Mount Union College**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

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 \$8,897 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 \$22,142.

Weighted-average assumptions used to determine benefit obligations:

	Pension Benefits		Other Benefits	
	2010	2009	2010	2009
Discount rate	5.00%	6.25%	5.00%	6.25%
Rate of compensation increase	3.00	4.25	N/A	N/A
Health care cost trend	N/A	N/A	9.50	9.50

Weighted-average assumptions used to determine benefit costs:

	Pension Benefits		Other Benefits	
	2010	2009	2010	2009
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 rate	N/A	N/A	9.50	9.25

For measurement purposes, a 9.50% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2010 and 2009. 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.

**Mount Union College**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of June 30, 2010:

	<b>Pension Benefits</b>	<b>Other Benefits</b>
2011	\$ 62,000	\$ 73,000
2012	106,000	63,000
2013	172,000	76,000
2014	179,000	77,000
2015	141,000	74,000
2016 - 2020	498,000	354,000

**Note 14: Functional Expenses**

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

	<b>2010</b>	<b>2009</b>
Educational		
Instruction	\$ 17,808,689	\$ 17,671,793
Academic support	3,987,102	3,976,317
Student services	8,556,502	7,940,826
Auxiliary enterprises	<u>9,716,703</u>	<u>9,683,099</u>
Total educational	40,068,996	39,272,035
Institutional support	7,681,134	7,503,025
Fundraising	<u>1,243,852</u>	<u>1,174,476</u>
	<u>\$ 48,993,982</u>	<u>\$ 47,949,536</u>

**Note 15: Disclosures About Fair Value of Assets and Liabilities**

ASC Topic 820, *Fair Value Measurements*, 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 specifies 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



# Mount Union College

## Notes to Financial Statements

### June 30, 2010 and 2009

**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 statements 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 and 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 funds, equity funds, common stocks 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. For assets other than hedge funds, the inputs used by pricing service to determine fair value may include one, or a combination of, observable inputs such as benchmarks yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids and offers and refinance data market research publications and are classified within Level 2 of the valuation hierarchy. These Level 2 assets include corporate debt securities and U.S. Treasury securities and government agency bonds. For alternative investments (which includes hedge funds and an equity fund organized as a limited partnership in 2010) that have sufficient activity or liquidity within the fund, fair value is determined using the net asset value provided by the fund and are classified within Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include a United Methodist Development Fund (UMDF) note and an equity fund organized as a limited partnership for 2009. The UMDF note is valued at cost, which approximates fair value. The fair value for the limited partnership was determined using 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 trusts upon dissolution. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

**Mount Union College**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

The following table presents the fair value measurements of assets recognized in the accompanying statements 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, 2010 and 2009:

	2010			
	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				
Money market funds	\$ 2,602,400	\$ 2,602,400	\$ —	\$ —
U.S. Treasury securities and government agency bonds	6,093,579	264,478	5,829,101	—
Corporate debt securities	5,771,052	—	5,355,334	415,718
Equity funds	26,684,501	26,684,501	—	—
Common stocks	27,454,401	27,454,401	—	—
Limited partnership	5,277,767	—	5,277,767	—
Hedge funds	4,188,290	—	4,188,290	—
Annuity and life income funds held in trust				
Corporate debt securities	2,166,492	—	2,166,492	—
Common stocks and equity funds	6,025,399	6,025,399	—	—
Beneficial interest in perpetual trusts	3,948,291	—	—	3,948,291
Beneficial interest in charitable remainder trusts	6,165,176	—	—	6,165,176

**Mount Union College**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

	2009			
	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Money market funds	\$ 3,587,384	\$ 3,587,384	\$ —	\$ —
U.S. Treasury securities and government agency bonds	10,558,486	2,512,789	8,045,697	—
Corporate debt securities	8,389,645	—	7,973,927	415,718
Equity funds	24,604,516	24,604,516	—	—
Common stocks	29,677,275	29,677,275	—	—
Limited partnership	5,048,762	—	—	5,048,762
Annuity and life income funds held in trust				
Corporate debt securities	2,691,379	—	2,691,379	—
Common stocks and equity funds	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

**Mount Union College**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

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

	<b>Limited Partnership</b>	<b>Perpetual Trusts</b>	<b>Charitable Remainder Trusts</b>	<b>UMDF Note</b>
Balance, July 1, 2008	\$ 5,952,893	\$ 4,616,285	\$ 6,183,947	\$ 415,718
Total realized and unrealized gains and losses included in change in net assets	<u>(904,131)</u>	<u>(722,865)</u>	<u>(618,309)</u>	<u>—</u>
Balance, June 30, 2009	5,048,762	3,893,420	5,565,638	415,718
Transfers out of Level 3	(5,048,762)	—	—	—
Total realized and unrealized gains and losses included in change in net assets	<u>—</u>	<u>54,871</u>	<u>599,538</u>	<u>—</u>
Balance, June 30, 2010	<u>\$ 0</u>	<u>\$ 3,948,291</u>	<u>\$ 6,165,176</u>	<u>\$ 415,718</u>
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 still held at the reporting date				
June 30, 2010	\$ <u>0</u>	\$ <u>54,871</u>	\$ <u>599,538</u>	\$ <u>0</u>
June 30, 2009	\$ <u>(904,131)</u>	\$ <u>(722,865)</u>	\$ <u>(618,309)</u>	\$ <u>0</u>

The unrealized gains and losses for the perpetual trusts and charitable remainder trusts are included in revenue, gains and other support, and the unrealized loss for the limited partnership in 2009 was included in investment return less amounts designated for operations in the statements of activities.

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. Further evaluation of the fair value of these financial assets and liabilities utilizing the methods described below did not result in a significant difference from the carrying amount. Thus, the carrying amount is a reasonable estimate of the fair value for all financial assets and liabilities.

**Cash and Cash Equivalents**

The carrying amount approximates fair value.

**Mount Union College**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

***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.

**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***

Approximately 47% and 46% of contributions receivable were from three donors at June 30, 2010 and 2009, 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 recent economic decline continues to present higher educational institutions with difficult circumstances and challenges, which in some cases have resulted in declines in the fair value of

# Mount Union College

## Notes to Financial Statements

### June 30, 2010 and 2009

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 more difficult for many donors to continue to contribute to higher educational institutions. As such, a possible 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 recent economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in possible future adjustments in investment values, allowances for receivables and other assets that could, if material in nature, 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 \$566,000 as of June 30, 2010.

#### **Note 18: Change in Accounting Principle**

In the year ended June 30, 2009, the College adopted the recognition and disclosure provisions of an accounting standard related to Endowments of Not-for-Profit Organizations. This standard affects 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). Application of this standard required a reclassification of previously reported net assets at June 30, 2009, resulting 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 19: Subsequent Events**

In July 2010, the College completed an issuance of \$11,400,000 of revenue bonds through the Ohio Higher Educational Facility. The issuance consists of serial bonds in the amount of \$2,960,000 with interest rates ranging from 2.00% to 4.00% and maturing annually from 2012 through 2020 and two-term bonds totaling \$8,440,000 with an interest rate of 4.50% and 5.125% due in 2025 and 2035.

In July 2010, the College entered into a contract for construction of a new resident housing facility. The contract amount was approximately \$9,005,000, with \$840,000 of payments on the contract through the date the financial statements were issued.

Subsequent events have been evaluated through October 20, 2010, which is the date the financial statements were issued.

## **Supplementary Information**

**Mount Union College**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2010**

Cluster/Program	CFDA Number	Amount
U.S. Department of Education		
Student Financial Assistance Cluster		
Federal Pell Grant Program	84.063	\$ 2,922,798
Federal Work-Study Program	84.033	297,296
Federal Supplemental Educational Opportunity Grants	84.007	188,910
Federal Perkins Loan Program	84.038	4,245,971
Federal Family Education Loans	84.032	15,618,305
Academic Competitiveness Grants	84.375	216,313
National SMART Grants	84.376	148,000
Teacher Education Assistance for College and Higher Education Grants	84.379	<u>118,000</u>
		<u>\$ 23,755,593</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 \$3,514,113 of Perkins loans outstanding at June 30, 2010. 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, 2010, and have issued our report thereon dated October 20, 2010. 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented or detected and corrected on a timely basis.

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 deficiencies, 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 20, 2010.

This report is intended solely for the information and use of the governing body, management, 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 20, 2010

## Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance Accordance with OMB Circular A-133

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, 2010. 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, 2010.

### 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 and to test and report on internal control over compliance in accordance

with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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, others within the College, 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 20, 2010

# Mount Union College

## Schedule of Findings and Questioned Costs

### Year Ended June 30, 2010

**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 \$300,000.

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, 2010**

*Findings Required to be Reported by Government Auditing Standards*

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
	No matters are reportable.	

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

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
	No matters are reportable.	

**Mount Union College**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2010**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
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No matters are reportable.