University of Mount Union

(Formerly Mount Union College)

Accountants' Report and Financial Statements

June 30, 2011 and 2010

BKD LLP
CPAs & Advisors

University of Mount Union

(Formerly Mount Union College)

June 30, 2011 and 2010

Contents

BKD LLP
CPAs & Advisors

200 E. Main Street, Suite 700
Fort Wayne, IN 46802-1900
260.460.4000 Fax 260.426.2235 www.bkd.com

Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
University of Mount Union (Formerly Mount Union College)
Alliance, Ohio

We have audited the accompanying statements of financial position of the University of Mount Union (formerly Mount Union College) (University) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University'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 the University of Mount Union as of June 30, 2011 and 2010, 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 11, 2011, on our consideration of the University'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 11, 2011

University of Mount Union

(Formerly Mount Union College)

Statements of Financial Position
June 30, 2011 and 2010

	2011	2010
Assets		
Cash and cash equivalents	$ 7,024,242	$ 8,411,322
Accounts receivable, net of allowance; 2011 - $364,143, 2010 - $220,757	1,795,721	962,838
Contributions receivable, net of allowance; 2011 - $500,000, 2010 - $362,786	6,652,167	5,391,864
Inventory	250,667	245,984
Loans receivable	3,602,593	3,662,117
Investments	110,653,577	83,725,844
Beneficial interest in perpetual trusts and charitable remainder trusts	11,590,690	10,113,467
Annuity and life income funds held in trust	9,680,469	8,191,891
Property and equipment, net	130,753,665	122,588,431
Other assets	611,835	313,638
Total assets	$ 282,615,626	$ 243,607,396
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 1,811,579	$ 2,176,097
Accrued expenses	3,975,216	3,928,650
Annuities and trusts payable	2,718,827	2,575,938
Deposits and other	1,121,179	1,088,811
Advances from government for student loans	3,023,415	2,980,583
Debt	37,341,806	27,476,311
Total liabilities	49,992,022	40,226,390
Net Assets		
Unrestricted	88,704,536	83,118,262
Temporarily restricted	78,890,121	61,660,370
Permanently restricted	65,028,947	58,602,374
Total net assets	232,623,604	203,381,006
Total liabilities and net assets	$ 282,615,626	$ 243,607,396

University of Mount Union

(Formerly Mount Union College)

Statements of Activities
Years Ended June 30, 2011 and 2010

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Income and Other Support				
Educational and general				
Student tuition and fees	$ 52,577,397	$ —	$ —	$ 52,577,397
Less financial aid	(22,197,852)	—	—	(22,197,852)
Net student tuition and fees	30,379,545	—	—	30,379,545
Gift and private grants	2,756,931	8,697,996	4,518,193	15,973,120
Investment return designated for operations	5,045,114	—	—	5,045,114
Change in value of split-interest agreements	—	631,651	1,908,380	2,540,031
Other income	266,388	—	—	266,388
Total educational and general revenue	38,447,978	9,329,647	6,426,573	54,204,198
Auxiliary enterprises	12,823,667	—	—	12,823,667
Net assets released from restrictions	3,700,476	(3,700,476)	—	0
Total revenue, income and other support	54,972,121	5,629,171	6,426,573	67,027,865
Expenses				
Educational and general				
Instruction	14,345,875	—	—	14,345,875
Academic support	2,898,587	—	—	2,898,587
Operation and maintenance of plant	6,664,801	—	—	6,664,801
Student services	6,902,579	—	—	6,902,579
Institutional support	8,804,738	—	—	8,804,738
Depreciation	3,579,796	—	—	3,579,796
Total educational and general expenses	43,196,376	—	—	43,196,376
Auxiliary enterprises				
Debt service	1,639,618	—	—	1,639,618
Operations	5,593,906	—	—	5,593,906
Depreciation	740,246	—	—	740,246
	7,973,770	—	—	7,973,770
Total expenses	51,170,146	—	—	51,170,146
Change in Net Assets Before Investment Return Less Amounts Designated for Operations and Other Items	3,801,975	5,629,171	6,426,573	15,857,719
Investment return less amounts designated for operations	296,579	11,600,580	—	11,897,159
Accumulated depreciation valuation adjustment	1,487,720	—	—	1,487,720
Change in Net Assets	5,586,274	17,229,751	6,426,573	29,242,598
Net Assets, Beginning of Year	83,118,262	61,660,370	58,602,374	203,381,006
Net Assets, End of Year	$ 88,704,536	$ 78,890,121	$ 65,028,947	$ 232,623,604

2010			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 50,152,552	$ —	$ —	$ 50,152,552
(20,964,064)	—	—	(20,964,064)
29,188,488	—	—	29,188,488
2,164,286	1,064,872	945,625	4,174,783
5,003,696	—	—	5,003,696
—	303,888	796,036	1,099,924
457,997	2,111	—	460,108
36,814,467	1,370,871	1,741,661	39,926,999
12,460,473	—	—	12,460,473
3,358,442	(3,358,442)	—	0
52,633,382	(1,987,571)	1,741,661	52,387,472
13,589,241	—	—	13,589,241
2,983,782	—	—	2,983,782
6,425,507	—	—	6,425,507
6,661,620	—	—	6,661,620
8,248,472	—	—	8,248,472
3,139,297	—	—	3,139,297
41,047,919	—	—	41,047,919
—	—	—	0
7,207,463	—	—	7,207,463
738,600	—	—	738,600
7,946,063	—	—	7,946,063
48,993,982	—	—	48,993,982
3,639,400	(1,987,571)	1,741,661	3,393,490
446,848	3,577,441	—	4,024,289
—	—	—	0
4,086,248	1,589,870	1,741,661	7,417,779
79,032,014	60,070,500	56,860,713	195,963,227
$ 83,118,262	$ 61,660,370	$ 58,602,374	$ 203,381,006

University of Mount Union

(Formerly Mount Union College)

Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Operating Activities		
Change in net assets	$ 29,242,598	$ 7,417,779
Items not requiring (providing) operating activities cash flows		
Realized and unrealized gains on investments	(14,852,678)	(6,707,161)
Loss on sale of property and equipment	337,924	—
Depreciation	4,320,042	3,877,897
Accumulated depreciation valuation adjustment	(1,487,720)	—
Amortization of bond premium	(15,980)	(15,926)
Change in allowance for uncollectible accounts and contributions receivable	280,600	(84,618)
Contributions restricted for long-term investment	(4,518,193)	(945,625)
Contributions received restricted for acquisition of long-lived assets	(6,484,605)	(367,124)
Changes in		
Accounts, loans and contributions receivable	(2,314,262)	307,667
Inventory	(4,683)	63,599
Other assets	(298,197)	(11,059)
Accounts payable and accrued expenses	(603,946)	(2,209,797)
Annuities and trusts payable	142,889	(269,101)
Annuity and life income funds held in trust and beneficial interests in perpetual trusts and charitable remainder trusts	(2,965,801)	(766,958)
Deposits and other	32,368	103,562
Advances from government for student loans	42,832	24,659
Net cash provided by operating activities	853,188	417,794
Investing Activities		
Purchase of property and equipment	(11,061,486)	(15,611,447)
Purchase of investments	(61,570,851)	(57,731,810)
Proceeds from disposal of property and equipment	12,000	—
Proceeds from sales of investments	49,495,796	72,188,958
Net cash used in investing activities	(23,124,541)	(1,154,299)
Financing Activities		
Payments on bonds and notes payable	(1,518,525)	(6,743,144)
Proceeds from issuance of debt	11,400,000	6,000,000
Contributions restricted for long-term investment	4,518,193	945,625
Contributions received restricted for acquisition of long-lived assets	6,484,605	367,124
Net cash provided by financing activities	20,884,273	569,605
Decrease in Cash and Cash Equivalents	(1,387,080)	(166,900)
Cash and Cash Equivalents, Beginning of Year	8,411,322	8,578,222
Cash and Cash Equivalents, End of Year	$ 7,024,242	$ 8,411,322
Supplemental Cash Flows Information		
Fixed assets in accounts payable	$ 285,994	$ 655,017
Fixed asset purchase financed by debt	—	800,000
Cash paid for interest (net of amount capitalized)	1,368,879	1,273,965

University of Mount Union
(Formerly Mount Union College)
Notes to Financial Statements
June 30, 2011 and 2010

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

Nature of Operations

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

Effective August 1, 2010, the University 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 University considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2011 and 2010, cash equivalents consisted primarily of repurchase agreements.

Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction beginning December 31, 2010 through December 31, 2012 at all FDIC insured institutions.

Interest-bearing accounts are insured by the FDIC up to $250,000. At June 30, 2011, the University's interest-bearing cash accounts exceeded federally insured limits by approximately $10,000,000.

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 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 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 University 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 University 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 University 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 University 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:

	2011	2010
Total interest expense incurred on borrowings for project	$ 472,189	$ —
Interest income from investment of proceeds of borrowings for project	(275,005)	—
Net interest cost capitalized	$ 197,184	$ 0

	2011	2010
Interest capitalized	$ 197,184	$ —
Interest charged to expense	1,606,580	1,266,720
Total interest incurred	$ 1,803,764	$ 1,266,720

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the University 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 University 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 University 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 University's long-term debt is amortized over the term of the related debt.

Income Taxes

The University is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income. The University files tax returns in the U.S. Federal jurisdiction. With few exceptions, the University 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.

Self Insurance

The University has elected to self-insure certain costs related to employee health insurance. Costs resulting from noninsured losses are charged to expense when incurred. The University has purchased insurance that limits its exposure for individual claims and that limits its aggregate exposure to approximately $2,800,000.

Note 2: Investments and Investment Return

Investments at June 30 consisted of the following:

	2011	
	Cost	**Fair Value**
Cash and cash equivalents	$ 14,158,663	$ 14,158,663
U.S. Treasury securities and government agency bonds	3,034,634	3,172,114
Corporate debt securities	11,057,505	11,286,998
Mortgage-backed securities, GSEs	2,017,984	2,079,713
Equity funds		
Domestic Equity Mutual Funds	13,378,839	14,724,989
Fixed Income Mutual Funds	8,316,374	8,688,855
International and Emerging Market Mutual Funds	9,533,651	9,411,611

	2011	
	Cost	Fair Value
Common stocks		
Industrials	$ 3,953,186	$ 4,909,918
Consumer Discretionary	2,166,195	3,171,953
Consumer Staples	1,993,809	2,207,086
Energy	3,211,527	4,140,177
Financial	4,906,532	5,756,514
Materials	1,418,757	1,636,053
Information Technology	5,510,978	6,980,285
Healthcare	4,176,573	4,333,654
Other	1,514,847	1,763,829
Alternative investments		
Limited partnerships	5,060,361	6,687,655
Hedge funds	5,000,000	5,543,510
	$ 100,410,415	$ 110,653,577

	2010	
	Cost	Fair Value
Cash and cash equivalents	$ 8,256,254	$ 8,256,254
U.S. Treasury securities and government agency bonds	5,940,485	6,093,579
Corporate debt securities	5,407,723	5,771,052
Equity funds	29,356,556	26,684,501
Common stocks	28,648,956	27,454,401
Limited partnerships	5,562,458	5,277,767
Hedge funds	4,000,000	4,188,290
	$ 87,172,432	$ 83,725,844

Investments were held for the following purposes at June 30:

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Endowment	$ 88,424,491	$ 98,665,758	$ 86,615,047	$ 83,168,459
Other	11,985,924	11,987,819	557,385	557,385
	$ 100,410,415	$ 110,653,577	$ 87,172,432	$ 83,725,844

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, 2011			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-strategy hedge funds (A)	$ 5,543,510	None	Quarterly	65 – 90 days
Limited partnerships (B)	6,687,655	None	Monthly	7 days

	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

(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:

	2011	2010
Interest and dividend income	$ 2,089,595	$ 2,320,824
Net realized gains on investments reported at fair value	1,162,928	556,639
Net unrealized gains on investments reported at fair value	13,689,750	6,150,522
	$ 16,942,273	$ 9,027,985

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

	2011	2010
Operating income	$ 5,045,114	$ 5,003,696
Other nonoperating income	11,897,159	4,024,289
	$ 16,942,273	$ 9,027,985

Note 3: Contributions Receivable

Contributions receivable at June 30 consisted of the following:

	2011	2010
Due within one year	$ 3,814,203	$ 913,405
Due in one to five years	1,196,208	3,634,486
Due in more than five years	1,172,305	482,340
	6,182,716	5,030,231
Less		
Allowance for uncollectible contributions	(500,000)	(362,786)
Unamortized discount (4.00% - 6.50%)	(441,359)	(625,638)
	$ 5,241,357	$ 4,041,807

The University 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 University. Contributions receivable from this charitable trust totaled $1,410,810 and $1,350,057 as of June 30, 2011 and 2010, respectively.

Note 4: Beneficial Interest in Perpetual Trusts and Remainder Trusts

The University is the beneficiary under perpetual trusts administered by outside parties. Under the terms of the trusts, the University has the irrevocable right to receive income earned on the trust assets in perpetuity, but never receives the assets held in trust. The estimated value of the expected future cash flows is $4,429,309 and $3,948,291, which represents the fair value of the trust assets at June 30, 2011 and 2010, respectively.

The University is also the beneficiary under charitable remainder trusts administered by outside parties. Under the terms of the trusts, the University 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 $7,161,381 and $6,165,176 at June 30, 2011 and 2010, 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:

	2011	2010
Land and land improvements	$ 17,466,120	$ 14,864,670
Buildings	144,956,092	141,931,981
Equipment and vehicles	16,723,196	19,324,230
Construction in progress	8,740,906	4,028,911
	187,886,314	180,149,792
Less accumulated depreciation and amortization	(57,132,649)	(57,561,361)
	$ 130,753,665	$ 122,588,431

Note 6: Line of Credit

The University has a $1,000,000 revolving bank line of credit expiring in May 2012. At June 30, 2011 and 2010, there were no borrowings against this line. Interest varies with LIBOR (London Interbank Offering Rate) and is payable monthly.

Note 7: Debt

	2011	2010
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	$ 4,805,000	$ 5,590,000
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	14,580,000	14,960,000
2010 Series Ohio Higher Educational Facility Revenue Bonds at 2.0% to 5.125%, which consist of $2,960,000 of Serial Bonds due October 1, 2012-2020 and $8,440,000 Term Bonds due October 1, 2025 and 2035.	11,400,000	—

	2011	2010
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	$ 5,501,881	$ 5,791,857
Note payable, unsecured, interest rate of 5.00%, payable in annual installments of $103,604 beginning on June 1, 2010 with final payment due June 2021	736,396	800,000
	37,023,277	27,141,857
Add: Unamortized premium	318,529	334,454
	$ 37,341,806	$ 27,476,311

In connection with the issuance of the 1998, 2006 and 2010 series of tax-exempt bonds by the state for the benefit of the University, the University has leased to the state, and the state has subleased to the University, the related buildings, land and equipment. The University 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.

Aggregate annual maturities of debt at June 30, 2011, are:

2012	$ 1,069,456
2013	1,413,779
2014	1,478,346
2015	1,538,899
2016	1,614,942
Thereafter	29,907,855
	$ 37,023,277

Note 8: Annuities and Trusts Payable

The University 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 University has recorded a liability at June 30, 2011 and 2010, of $548,929 and $571,356, 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 University 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 University's use. The portion of the trust attributable to the future interest of the University 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 University's statements of financial position. On an annual basis, the University 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 University have been made from the endowment fund for capital projects. The borrowings from the endowment fund totaled $13,364,029 and $13,808,628 at June 30, 2011 and 2010, respectively. Approximately $4,000,000 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.

Note 10: Net Assets

Temporarily Restricted Net Assets

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

	2011	2010
Unitrust and gift annuities	$ 4,433,350	$ 3,801,699
Funds restricted for specific purposes	763,091	583,088
Unexpended property and equipment funds	12,867,518	8,050,001
Accumulated earnings on endowment	60,826,162	49,225,582
	$ 78,890,121	$ 61,660,370

Permanently Restricted Net Assets

Permanently restricted net assets at June 30 are restricted to:

	2011	2010
Investment in perpetuity, the income of which is expendable to support scholarships and operations	$ 50,951,287	$ 46,715,974
Annuity, life income and charitable remainder and perpetual trusts	14,077,660	11,886,400
	$ 65,028,947	$ 58,602,374

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.

	2011	2010
Purpose restrictions accomplished		
Educational program expenses	$ 115,972	$ 164,179
Property and equipment acquired and placed into service	1,643,483	1,749,487
Time restrictions expired, passage of time	1,941,021	1,444,776
	$ 3,700,476	$ 3,358,442

Note 11: Endowment

The University'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 University'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 University 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 University in a manner consistent with the standard of prudence prescribed by Ohio UPMIFA. In accordance with Ohio UPMIFA, the University 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 University 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 University

7. Investment policies of the University

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, 2011 and 2010, was:

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (62,250)	$ 61,826,162	$ 65,028,947	$ 125,792,859

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

Changes in endowment net assets for the years ended June 30, 2011 and 2010, were:

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (358,829)	$ 49,225,582	$ 58,602,374	$ 107,469,127
Investment return				
Investment income	2,012,203	—	—	2,012,203
Net appreciation	3,032,911	11,897,159	1,908,380	16,838,450
Net transfer for underwater endowments	296,579	(296,579)	—	0
Total investment return	5,341,693	11,600,580	1,908,380	18,850,653
Contributions	—	—	4,518,193	4,518,193
Appropriation of endowment assets for expenditure	(5,045,114)	—	—	(5,045,114)
Endowment net assets, end of year	$ (62,250)	$ 60,826,162	$ 65,028,947	$ 125,792,859

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	522,980	(522,980)	—	0
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	(5,003,696)	—	—	(5,003,696)
Endowment net assets, end of year	$ (358,829)	$ 49,225,582	$ 58,602,374	$ 107,469,127

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2011 and 2010, consisted of:

	2011	2010
Permanently restricted net assets, portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or Ohio UPMIFA	$ 65,028,947	$ 58,602,374
Temporarily restricted net assets, portion of perpetual endowment funds subject to a time restriction under Ohio UPMIFA, with purpose restrictions	$ 60,826,162	$ 49,225,582

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the University 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 $(62,250) and $(358,829) at June 30, 2011 and 2010, 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 University 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 University must hold in perpetuity or for donor-specified periods. Under the University'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 University 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 University 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 University 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 University 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 University considered the long-term expected return on its endowment and inflationary trends. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the University'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 University currently maintains investments and trust asset accounts with institutions that also have representatives serving on the Board of Trustees of the University. Total investments and trust assets held with these institutions amount to approximately $47,700,000 and $30,500,000 as of June 30, 2011 and 2010, respectively. The fees paid to related parties, inclusive of investment, insurance and other fees for services performed by these parties amounted to approximately $361,000 and $281,000 for 2011 and 2010, respectively.

Note 13: Pension and Other Postretirement Benefit Plans

The University maintains a 403(b) defined-contribution plan covering substantially all employees. The Board of Trustees annually determines the amount, if any, of the University's contributions to the plan. Pension expense was approximately $1,806,000 and $1,742,000 for 2011 and 2010, respectively.

The University has a noncontributory defined benefit pension plan covering all employees who meet the eligibility requirements. The University's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the University may determine to be appropriate from time to time. The University expects to contribute $111,000 to the plan in 2011.

The University has a noncontributory defined benefit postretirement health care plan covering all employees who meet the eligibility requirements. The University's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the University may determine to be appropriate from time to time. The University expects to contribute $101,000 to the plan in 2011.

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

	Pension Benefits		Other Benefits	
	2011	**2010**	**2011**	**2010**
Change in benefit obligation				
Beginning of year	$ (1,247,671)	$ (1,159,633)	$ (1,004,764)	$ (888,424)
Service cost	(70,188)	(68,477)	(33,928)	(27,831)
Interest cost	(60,715)	(70,915)	(48,425)	(53,400)
Actuarial gain (loss)	1,601	18,656	(147,092)	(73,309)
Participant contributions	—	—	(24,337)	(28,884)
Benefit payments	93,409	32,698	61,137	67,084
End of year	(1,283,564)	(1,247,671)	(1,197,409)	(1,004,764)
Fair value of plan assets	—	—	—	—
Funded status at end of year	$ (1,283,564)	$ (1,247,671)	$ (1,197,409)	$ (1,004,764)

Liabilities recognized in the statements of financial position:

	Pension Benefits		Other Benefits	
	2011	**2010**	**2011**	**2010**
Accrued benefit liability	$ (1,283,564)	$ (1,247,671)	$ (1,197,409)	$ (1,004,764)

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

	Pension Benefits		Other Benefits	
	2011	2010	2011	2010
Net loss	$ 244,879	$ 255,377	$ 517,462	$ 390,085
Prior service cost	27,855	31,337	—	—
	$ 272,734	$ 286,714	$ 517,462	$ 390,085

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

	2011	2010
Projected benefit obligation	$ 1,283,564	$ 1,247,671
Accumulated benefit obligation	$ 1,197,409	$ 1,004,764
Fair value of plan assets	$ 0	$ 0

Other significant balances and costs as of June 30 are:

	Pension Benefits		Other Benefits	
	2011	2010	2011	2010
Benefit costs	$ 143,282	$ 154,429	$ 102,068	$ 97,881
Employer contributions	93,409	32,698	36,800	38,200
Benefits paid	93,409	32,698	61,137	67,084

Components of net periodic benefit cost are:

	Pension Benefits		Other Benefits	
	2011	2010	2011	2010
Service cost	$ 70,188	$ 68,477	$ 33,928	$ 27,831
Interest cost	60,715	70,915	48,425	53,400
Amortization of prior service cost	3,482	3,482	—	—
Recognized net actuarial loss	8,897	11,555	19,715	16,650
	$ 143,282	$ 154,429	$ 102,068	$ 97,881

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 $7,794 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 $26,270.

Weighted-average assumptions used to determine benefit obligations:

	Pension Benefits		Other Benefits	
	2011	2010	2011	2010
Discount rate	5.00%	5.00%	5.00%	5.00%
Rate of compensation increase	3.00	3.00	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	
	2011	2010	2011	2010
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 rate	N/A	N/A	9.50	9.50

For measurement purposes, a 9.50% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2011 and 2010. The rate was assumed to decrease gradually to 3.50% by the year 2022 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 University 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, 2011:

	Pension Benefits	Other Benefits
2012	$ 111,000	$ 101,000
2013	153,000	90,000
2014	169,000	87,000
2015	141,000	86,000
2016	111,000	80,000
2017 – 2021	585,000	435,000

Note 14: Functional Expenses

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

	2011	2010
Educational		
Instruction	$ 18,377,045	$ 17,808,689
Academic support	3,770,977	3,987,102
Student services	8,826,321	8,556,502
Auxiliary enterprises	9,944,759	9,716,703
Total educational	40,919,102	40,068,996
Institutional support	7,408,964	7,681,134
Fundraising	1,354,360	1,243,852
	$ 49,682,426	$ 48,993,982

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

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 and inputs 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 University has no liabilities measured at fair value on a recurring basis. Additionally, the University 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, mutual 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 2011) 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 2010. 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.

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, 2011 and 2010:

	2011			
		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	$ 14,030,927	$ 14,030,927	$ —	$ —
U.S. Treasury securities and government agency bonds	3,172,114	548,620	2,623,494	—
Corporate debt securities	11,286,998	—	10,871,280	415,718
Mortgage-backed securities, GSEs	2,079,713	2,079,713	—	—
Mutual funds				
Equity	14,724,989	14,724,989	—	—
Fixed income	8,688,855	8,688,855	—	—
International	9,411,611	9,411,611	—	—
Common stocks				
Industrials	4,909,918	4,909,918	—	—
Consumer discretionary	3,171,953	3,171,953	—	—
Consumer staples	2,207,086	2,207,086	—	—
Energy	4,140,177	4,140,177	—	—
Financial	5,756,514	5,756,514	—	—
Materials	1,636,053	1,636,053	—	—
Information technology	6,980,285	6,980,285	—	—
Health care	4,333,654	4,333,654	—	—
Other	1,763,829	1,763,829	—	—
Alternative investments				
Limited partnerships	6,687,655	—	6,687,655	—
Hedge funds	5,543,510	—	5,543,510	—

	2011			
		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)
Annuity and life income funds held in trust				
Corporate debt securities	$ 2,103,443	$ —	$ 2,103,443	$ —
Money market funds	233,900	233,900	—	—
Common stocks	842,924	842,924	—	—
Mutual funds				
Value, growth and blended fixed income	6,500,201	6,500,201	—	—
Beneficial interest in perpetual trusts	4,429,309	—	—	4,429,309
Beneficial interest in charitable remainder trusts	7,161,381	—	—	7,161,381

	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

	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)
Mutual funds	$ 26,684,501	$ 26,684,501	$ —	$ —
Common stocks	27,454,401	27,454,401	—	—
Limited partnerships	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 mutual 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

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:

	Limited Partnerships	Perpetual Trusts	Charitable Remainder Trusts	UMDF Note
Balance, July 1, 2009	$ 5,048,762	$ 3,893,420	$ 5,565,638	$ 415,718
Transfer out of Level 3	(5,048,762)	—	—	—
Total realized and unrealized gains and losses included in change in net assets	—	54,871	599,538	—
Balance, June 30, 2010	—	3,948,291	6,165,176	415,718
Total realized and unrealized gains and losses included in change in net assets	—	481,018	996,205	—
Balance, June 30, 2011	$ 0	$ 4,429,309	$ 7,161,381	$ 415,718

	Limited Partnerships	Perpetual Trusts	Charitable Remainder Trusts	UMDF Note
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, 2011	$ 0	$ 481,018	$ 996,205	$ 0
June 30, 2010	$ 0	$ 54,871	$ 599,538	$ 0

The unrealized gains and losses for the perpetual trusts and charitable remainder trusts are included in revenue, gains and other support.

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.

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 University 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 53% and 47% of contributions receivable were from two donors and three donors at June 30, 2011 and 2010, respectively.

Approximately 51% of contribution revenue was from one donor in 2011.

Investments

The University 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 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 University.

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 University’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 University’s ability to meet debt covenants or maintain sufficient liquidity.

Note 17: Commitments

The University has entered into contracts for the construction of certain new facilities. Remaining contract payments total approximately $2,030,000 as of June 30, 2011.

Note 18: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants’ Report which is the date the financial statements were issued.

Supplementary Information

University of Mount Union

(Formerly Mount Union College)

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Cluster/Program	CFDA Number	Amount
U.S. Department of Education		
Student Financial Assistance Cluster		
Federal Pell Grant Program	84.063	$ 3,087,685
Federal Work-Study Program	84.033	225,935
Federal Supplemental Educational Opportunity Grants	84.007	185,724
Federal Perkins Loan Program	84.038	3,878,195
Federal Direct Student Loans	84.268	18,099,324
Academic Competitiveness Grants	84.375	225,000
National SMART Grants	84.376	149,500
Teacher Education Assistance for College and Higher Education Grants	84.379	143,621
Total Student Financial Assistance Cluster		25,994,984
Fund for the Improvement of Postsecondary Education	84.116	100,000
Total		$ 26,094,984

Notes to Schedule

1. This schedule includes the federal awards activity of University of Mount Union 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 University has $3,386,242 of Perkins loans outstanding at June 30, 2011. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

3. There were no subrecipients during the year.

BKD LLP
CPAs & Advisors

200 E. Main Street, Suite 700
Fort Wayne, IN 46802-1900
260.460.4000 Fax 260.426.2235 www.bkd.com

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
University of Mount Union
(Formerly Mount Union College)
Alliance, Ohio

We have audited the financial statements of the University of Mount Union (formerly Mount Union College) (University) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 11, 2011. 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 University'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 University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University'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 University'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 University'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 University 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 11, 2011

BKD LLP
CPAs & Advisors

200 E. Main Street, Suite 700
Fort Wayne, IN 46802-1900
260.460.4000 Fax 260.426.2235 www.bkd.com

Independent Accountants' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Trustees
University of Mount Union
(Formerly Mount Union College)
Alliance, Ohio

Compliance

We have audited the compliance of the University of Mount Union (formerly Mount Union College) (University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB*) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The University'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 University's management. Our responsibility is to express an opinion on the compliance of the University of Mount Union 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 University'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 University's compliance with those requirements.

In our opinion, the University of Mount Union complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 11-01.

Internal Control Over Compliance

The management of the University of Mount Union 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 University'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 University'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. However, we identified a deficiency in internal control over compliance that we considered to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 11-1. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report is intended solely for the information and use of the governing body, management, others within the University 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 11, 2011

University of Mount Union
(Formerly Mount Union College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

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 University's major program was:

Cluster/Program	CFDA Number
Student Financial Assistance Cluster	84.063, 84.033, 84.007, 84.038, 84.268, 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 University qualified as a low-risk auditee as that term is defined in OMB Circular A-133? ☒ Yes ☐ No

University of Mount Union
(Formerly Mount Union College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

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
11-01	***Cash Management - Advance Payment Method***	$ 415,617

Federal Program – Department of Education, Student Financial Assistance Cluster – Federal Pell Grants, CFDA 84.063; Federal Supplemental Education Opportunity Grants, CFDA 84.007.

Program Year -July 1, 2010 through June 30, 2011.

Criteria or Specific Requirement – Under the advance payment method, the University's request must not exceed the amount immediately needed to disburse funds to students. A disbursement of funds occurs on the date the University credits a student's account or pays a student or parent directly with either SFA funds or its own funds. Under the advance payment method, the University must make the disbursements as soon as administratively feasible, but no later than three business days following the receipt of funds. (34 CFR 668.162)

Condition – Funds requested were not immediately needed to disburse to students. This resulted in funds not being disbursed to students within three business days of receipt of the funds.

Context – Out of 40 draw downs tested from a population of 40 draw downs year to date, two draw downs amounting to $415,617 exceeded funds needed to disburse immediately to students within 3 business days.

Effect – The University was not in compliance with the cash management requirements as outlined by 34 CFR 668.162.

Cause – There was an error in determining the immediate need of funds to disburse to students.

Recommendation – We recommend the University strengthen its process to determine and identify the immediate need of funds to support draw downs made and disbursed. This process would also include review by someone other than the person requesting and making the draw down of the funds.

University of Mount Union

(Formerly Mount Union College)

Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Reference Number	Finding	Questioned Costs
	View of Responsible Officials and Planned Corrective Actions – In order to better match up with what funds should be drawn down, Controller and Director of Student Financial Services will share a common spreadsheet. The spreadsheet will list all of the federal funds available for the current year. Director of Student Financial Services will record PFAIDS disbursements and the level available on COD on the spreadsheet. Staff accountant will prepare a request form after reviewing available funds on G5 and recording what is booked on general ledger accounts. Controller will review what is available on G5 and what is recorded on the general ledger to make sure that the draw that is asked for is allowable with all the involved agencies. Controller will approve the request form and the staff accountant will draw the approved funds and make the proper entries and transfers in the general ledger and on the bank.	

University of Mount Union
(Formerly Mount Union College)
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2011

Reference Number	Summary of Finding	Status
	No matters are reportable.	