



## Independent Auditor's Report and Consolidated Financial Statements

June 30, 2020 and 2019



# University of Mount Union

June 30, 2019 and 2018

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## Independent Auditor's Report

Board of Trustees  
University of Mount Union  
Alliance, Ohio

We have audited the accompanying consolidated financial statements of the University of Mount Union (University) and its subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University of Mount Union and its subsidiaries as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*BKD, LLP*

Fort Wayne, Indiana  
October 14, 2020

**University of Mount Union**  
**Consolidated Statements of Financial Position**  
**June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 19,898,296	\$ 15,079,546
Accounts receivable, net of allowance; 2020 - \$508,168, 2019 - \$388,958	1,159,976	1,152,535
Contributions receivable, net of allowance; \$200,000	2,104,766	4,459,057
Inventory	309,969	231,770
Loans receivable	2,045,412	2,795,820
Investments	120,420,677	124,919,981
Beneficial interest in perpetual trusts and charitable remainder trusts	5,824,120	6,015,855
Annuity and life income funds held in trust	5,432,315	5,991,221
Property and equipment, net	145,104,306	145,665,640
Other assets	<u>108,129</u>	<u>47,256</u>
Total assets	<u>\$ 302,407,966</u>	<u>\$ 306,358,681</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 1,849,288	\$ 2,432,602
Accrued expenses	7,889,359	4,270,262
Line of credit	773,726	-
Deposits and other	1,798,976	1,801,108
Annuities and trusts payable	1,547,653	1,554,650
Debt	20,060,156	21,832,854
Advances from Government for student loans	<u>1,836,636</u>	<u>2,800,072</u>
Total liabilities	<u>35,755,794</u>	<u>34,691,548</u>
<b>Net Assets</b>		
Without donor restrictions		
Undesignated	126,960,772	122,709,357
Designated by the Board for specific purpose and endowment	<u>4,090,354</u>	<u>2,463,004</u>
	<u>131,051,126</u>	<u>125,172,361</u>
With donor restrictions		
Perpetual in nature	74,600,730	73,454,804
Purpose restriction	59,739,092	71,569,218
Time-restricted for future periods	<u>1,261,224</u>	<u>1,470,750</u>
	<u>135,601,046</u>	<u>146,494,772</u>
Total net assets	<u>266,652,172</u>	<u>271,667,133</u>
Total liabilities and net assets	<u>\$ 302,407,966</u>	<u>\$ 306,358,681</u>

**University of Mount Union**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2020**

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, Income and Other Support</b>			
Educational and general			
Student tuition and fees, net	\$ 36,460,249	\$ -	\$ 36,460,249
Gifts and private grants	5,943,059	216,180	6,159,239
Government grants	1,736,916	-	1,736,916
Investment return designated for operations	1,234,768	7,817,941	9,052,709
Change in value of split-interest agreements	-	(483,428)	(483,428)
Other income	738,098	-	738,098
Total educational and general revenue	<u>46,113,090</u>	<u>7,550,693</u>	<u>53,663,783</u>
Auxiliary enterprises	10,124,590	-	10,124,590
Net assets released from restrictions	<u>7,870,406</u>	<u>(7,870,406)</u>	<u>-</u>
Total revenue, income and other support	<u>64,108,086</u>	<u>(319,713)</u>	<u>63,788,373</u>
<b>Expenses</b>			
Program services			
Instruction	24,119,928	-	24,119,928
Academic support	3,780,783	-	3,780,783
Student services	11,476,859	-	11,476,859
Auxiliary enterprises	9,370,706	-	9,370,706
Total program services	<u>48,748,276</u>	<u>-</u>	<u>48,748,276</u>
Institutional support	7,351,401	-	7,351,401
Fundraising	1,911,310	-	1,911,310
Total expenses	<u>58,010,987</u>	<u>-</u>	<u>58,010,987</u>
<b>Change in Net Assets Before Investment Return Less</b>			
<b>Amounts Designated for Operations and Other Items</b>	6,097,099	(319,713)	5,777,386
Investment return less amounts designated for operations	(254,921)	(7,817,941)	(8,072,862)
Change in value of interest rate swap	(12,616)	-	(12,616)
VSIP expense	(2,706,869)	-	(2,706,869)
Net assets released from restriction for capital	<u>2,756,072</u>	<u>(2,756,072)</u>	<u>-</u>
<b>Change in Net Assets</b>	5,878,765	(10,893,726)	(5,014,961)
<b>Net Assets, Beginning of Year</b>	<u>125,172,361</u>	<u>146,494,772</u>	<u>271,667,133</u>
<b>Net Assets, End of Year</b>	<u>\$ 131,051,126</u>	<u>\$ 135,601,046</u>	<u>\$ 266,652,172</u>

**University of Mount Union**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2019**

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, Income and Other Support</b>			
Educational and general			
Student tuition and fees, net	\$ 36,001,140	\$ -	\$ 36,001,140
Gifts and private grants	2,751,322	8,274,598	11,025,920
Investment return designated for operations	5,565,953	309,047	5,875,000
Change in value of split-interest agreements	-	199,698	199,698
Other income	868,604	-	868,604
Total educational and general revenue	<u>45,187,019</u>	<u>8,783,343</u>	<u>53,970,362</u>
Auxiliary enterprises	13,635,888	-	13,635,888
Net assets released from restrictions	1,045,620	(1,045,620)	-
Total revenue, income and other support	<u>59,868,527</u>	<u>7,737,723</u>	<u>67,606,250</u>
<b>Expenses</b>			
Program services			
Instruction	25,095,221	-	25,095,221
Academic support	3,249,423	-	3,249,423
Student services	11,009,136	-	11,009,136
Auxiliary enterprises	10,894,716	-	10,894,716
Total program services	<u>50,248,496</u>	<u>-</u>	<u>50,248,496</u>
Institutional support	7,951,336	-	7,951,336
Fundraising	2,151,889	-	2,151,889
Total expenses	<u>60,351,721</u>	<u>-</u>	<u>60,351,721</u>
<b>Change in Net Assets Before Investment Return Less</b>			
<b>Amounts Designated for Operations and Other Items</b>	(483,194)	7,737,723	7,254,529
Investment return less amounts designated for operations	(361,565)	(309,047)	(670,612)
Change in value of interest rate swap	(25,558)	-	(25,558)
Early retirement discontinuation	1,391,987	-	1,391,987
<b>Change in Net Assets</b>	521,670	7,428,676	7,950,346
<b>Net Assets, Beginning of Year</b>	<u>124,650,691</u>	<u>139,066,096</u>	<u>263,716,787</u>
<b>Net Assets, End of Year</b>	<u>\$ 125,172,361</u>	<u>\$ 146,494,772</u>	<u>\$ 271,667,133</u>

**University of Mount Union**  
**Consolidated Statements of Functional Expenses**  
**Years Ended June 30, 2020 and 2019**

	<b>Program Services</b>				<b>Total Program</b>	<b>Institutional Support</b>	<b>Fundraising</b>	<b>Total</b>
	<b>Instruction</b>	<b>Academic Support</b>	<b>Student Services</b>	<b>Auxiliary Enterprises</b>				
<b>2020</b>								
Salaries and benefits	\$ 17,928,103	\$ 1,926,609	\$ 6,311,341	\$ 3,833,064	\$ 29,999,117	\$ 3,515,119	\$ 1,297,603	\$ 34,811,839
Supplies and equipment	1,443,735	1,177,713	845,154	1,283,924	4,750,526	631,741	149,923	5,532,190
Depreciation	2,326,115	283,304	659,944	1,500,782	4,770,145	704,898	87,240	5,562,283
Plant and maintenance	1,122,145	144,760	827,641	831,318	2,925,864	383,440	46,131	3,355,435
Utilities	558,576	75,770	443,275	760,591	1,838,212	543,634	71,548	2,453,394
Travel, meals and lodging	492,802	144,404	839,652	18,184	1,495,042	266,080	167,744	1,928,866
Interest and fees	35,353	11,947	241,276	1,139,907	1,428,483	545,520	13,836	1,987,839
Professional fees	47,532	13,449	269,116	1,242	331,339	620,954	7,874	960,167
Student relief	-	-	868,458	-	868,458	-	-	868,458
Marketing	165,567	2,827	171,002	1,694	341,090	140,015	69,411	550,516
	<u>\$ 24,119,928</u>	<u>\$ 3,780,783</u>	<u>\$ 11,476,859</u>	<u>\$ 9,370,706</u>	<u>\$ 48,748,276</u>	<u>\$ 7,351,401</u>	<u>\$ 1,911,310</u>	<u>\$ 58,010,987</u>

	<b>Program Services</b>				<b>Total Program</b>	<b>Institutional Support</b>	<b>Fundraising</b>	<b>Total</b>
	<b>Instruction</b>	<b>Academic Support</b>	<b>Student Services</b>	<b>Auxiliary Enterprises</b>				
<b>2019</b>								
Salaries and benefits	\$ 18,791,944	\$ 1,412,758	\$ 6,347,481	\$ 4,388,119	\$ 30,940,302	\$ 3,729,366	\$ 1,344,592	\$ 36,014,260
Supplies and equipment	1,427,857	1,138,127	813,479	1,839,262	5,218,725	587,367	149,242	5,955,334
Depreciation	2,228,919	214,146	580,831	1,537,286	4,561,182	760,389	83,743	5,405,314
Plant and maintenance	973,594	92,242	961,093	1,045,426	3,072,355	514,701	55,139	3,642,195
Utilities	745,975	91,253	509,054	926,663	2,272,945	693,730	96,289	3,062,964
Travel, meals and lodging	665,422	260,076	1,097,347	28,577	2,051,422	340,505	255,278	2,647,205
Interest and fees	47,667	11,770	271,366	1,111,466	1,442,269	397,251	14,517	1,854,037
Professional fees	68,211	22,821	222,505	13,238	326,775	704,263	57,499	1,088,537
Marketing	145,632	6,230	205,980	4,679	362,521	223,764	95,590	681,875
	<u>\$ 25,095,221</u>	<u>\$ 3,249,423</u>	<u>\$ 11,009,136</u>	<u>\$ 10,894,716</u>	<u>\$ 50,248,496</u>	<u>\$ 7,951,336</u>	<u>\$ 2,151,889</u>	<u>\$ 60,351,721</u>

**University of Mount Union**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>Operating Activities</b>		
Change in net assets	\$ (5,014,961)	\$ 7,950,346
Items not requiring (providing) operating activities cash flows		
Realized and unrealized (gains) losses on investments	1,734,036	(686,463)
Loss on sale of property and equipment	-	31,898
Depreciation	5,562,283	5,405,314
Amortization of bond issuance costs	26,914	26,913
Change in allowance for uncollectible accounts and contributions receivable	119,210	(12,885)
Contributions received restricted for long-term investment	(1,500,770)	(3,546,173)
Contributions received restricted for acquisition of long-lived assets	(944,226)	(3,858,480)
Changes in		
Accounts, loans and contributions receivable	2,978,048	(793,287)
Inventory	(78,199)	46,652
Other assets	(60,873)	418,154
Accounts payable and accrued expenses	3,406,531	(437,709)
Annuities and trusts payable	(6,997)	(21,272)
Annuity and life income funds held in trust and beneficial interests in perpetual trusts and charitable remainder trusts	750,641	(9,644)
Deposits and other	(2,132)	(103,670)
Advances from government for student loans	<u>(963,436)</u>	<u>41,173</u>
Net cash provided by operating activities	<u>6,006,069</u>	<u>4,450,867</u>
<b>Investing Activities</b>		
Purchase of property and equipment	(5,534,672)	(5,366,748)
Proceeds from disposal of property and equipment	162,975	36,502
Purchase of investments	(12,133,344)	(14,426,388)
Proceeds from sales of investments	<u>14,898,612</u>	<u>12,096,965</u>
Net cash used in investing activities	<u>(2,606,429)</u>	<u>(7,659,669)</u>
<b>Financing Activities</b>		
Payments on bonds and notes payable	(1,799,612)	(1,825,213)
Proceeds from borrowing on line of credit	773,726	-
Contributions received restricted for long-term investment	1,500,770	3,546,173
Contributions received restricted for acquisition of long-lived assets	<u>944,226</u>	<u>3,858,480</u>
Net cash provided by financing activities	<u>1,419,110</u>	<u>5,579,440</u>
<b>Increase in Cash and Cash Equivalents</b>	4,818,750	2,370,638
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>15,079,546</u>	<u>12,708,908</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 19,898,296</u>	<u>\$ 15,079,546</u>
<b>Supplemental Cash Flows Information</b>		
Fixed assets in accounts payable	\$ 105,765	\$ 476,513
Cash paid for interest	862,669	923,092

**University of Mount Union**  
**Notes to Consolidated Financial Statements**  
**June 30, 2020 and 2019**

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

***Nature of Operations***

University of Mount Union (University) is a private tax-exempt, nonprofit educational institution located in Alliance, Ohio. The University 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.

***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.

***Principles of Consolidation***

The consolidated financial statements include the accounts of the University of Mount Union and its wholly-owned subsidiaries Raiders Corner, LLC and Raiders Penn, LLC. These subsidiaries were formed to hold title to and lease certain real property. All material interorganizational accounts and transactions have been eliminated in consolidation.

***Cash and Cash Equivalents***

For purposes of reporting cash flows, the University considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2020 and 2019, cash equivalents consisted primarily of repurchase agreements.

Uninvested cash and cash equivalents included in investment accounts, including endowment accounts, are not considered to be cash and cash equivalents.

At June 30, 2020, the University's cash accounts exceeded federally insured limits by approximately \$24,600,000.

***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 net assets without donor restrictions. Other investment return is reflected in the statements of activities as net assets with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

**University of Mount Union**  
**Notes to Consolidated Financial Statements**  
**June 30, 2020 and 2019**

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 of consideration from students of which the University has an unconditional right to receive. 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 percent 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. 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 provides for depreciation on the straight-line method at rates designed to depreciate the cost of assets over estimated useful lives as follows:

	<u>Years</u>
Buildings	50
Equipment and vehicles	3 - 15
Land improvements	15
Software	5

**University of Mount Union**  
**Notes to Consolidated Financial Statements**  
**June 30, 2020 and 2019**

***Long-lived Asset Impairment***

The University evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2020 and 2019.

***Net Assets***

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The governing Board has designated, from net assets without donor restrictions, net assets for Board-designated endowment. Net assets with donor restrictions are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

***Contributions***

Contributions are provided to the University either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

<b>Nature of the Gift</b>	<b>Value Recognized</b>
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the University overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

**University of Mount Union**  
**Notes to Consolidated Financial Statements**  
**June 30, 2020 and 2019**

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

***Inventory Pricing***

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

***Government Grants***

Support funded by grants is recognized as the University meets the conditions prescribed by the grant agreement, 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.

***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.

***Functional Allocation of Expenses***

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. The statements of functional expenses present the natural classifications detail of expenses by function. Certain costs have been allocated among the educational activities, institutional support and fundraising categories based on time and effort.

**University of Mount Union**  
**Notes to Consolidated Financial Statements**  
**June 30, 2020 and 2019**

***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 \$3,677,000.

***Reclassifications***

Certain reclassifications have been made to the 2019 consolidated financial statements to conform to the 2020 financial statement presentation. These reclassifications had no effect on the change in net assets.

**Note 2: Changes in Accounting Principle**

***Revenue Recognition***

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, that replaces existing revenue recognition guidance. The new standard requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers (students) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, Topic 606 requires disclosures of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The University adopted this standard on July 1, 2019, using a modified retrospective approach. Comparative prior period information has not been adjusted and continues to be reported in accordance with previous revenue recognition guidance in ASC Topic 605 — *Revenue Recognition*. The University has applied the new standard to all contracts not complete at the date of adoption.

The University's adoption of Topic 606 did not result in a change to the timing of revenue recognition.

Adoption of ASU 2014-09 resulted in changes in presentation of financial statements and related disclosures in the notes to the consolidated financial statements.

***Contributions Received and Contributions Made***

As of July 1, 2019, the University adopted the FASB ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, (ASU 2018-08) using a modified prospective method of adoption to all agreements that were not completed as of July 1, 2019.

The intent of ASU 2018-08 is to assist an organization in evaluating whether transactions are considered nonreciprocal transactions and should be accounted for as contributions, or if the transactions are considered reciprocal and should be accounted for as exchange transactions. Additionally, the revised guidance helps entities evaluate whether a contribution is conditional or unconditional.

**University of Mount Union**  
**Notes to Consolidated Financial Statements**  
**June 30, 2020 and 2019**

The adoption has no impact on overall change in net assets or net cash provided by operating activities.

**Note 3: Investments and Investment Return**

Investments at June 30 consisted of the following:

	<b>2020</b>		<b>2019</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
Money market funds	\$ 10,748,605	\$ 10,748,605	\$ 13,349,851	\$ 13,349,851
U.S. Treasury securities and Government agency bonds	1,484,810	1,691,583	1,395,478	1,470,103
Corporate debt securities	3,440,093	3,712,980	6,064,627	6,113,547
Mortgage-backed securities, GSEs	535,171	552,217	648,053	674,701
Municipal bonds	233,988	233,703	265,659	262,169
Mutual funds				
Domestic equity mutual funds	22,406,749	26,046,691	20,381,460	24,016,180
Fixed income mutual funds	13,046,252	13,159,783	12,884,600	12,684,015
International and emerging market mutual funds	19,747,941	21,058,254	18,476,294	20,237,746
Alternative funds	8,721,738	8,662,513	11,053,324	11,570,498
Common stocks				
Industrials	1,316,964	1,586,710	962,311	1,654,767
Consumer discretionary	554,520	1,782,310	985,798	1,848,471
Consumer staples	1,100,713	1,093,720	1,142,082	1,235,707
Energy	664,523	593,500	754,011	938,610
Financial	1,827,021	2,304,884	2,121,717	3,208,136
Materials	902,709	653,508	1,160,838	945,766
Information technology	2,432,659	4,621,289	1,758,310	3,690,157
Health care	2,561,995	3,309,146	2,619,342	3,271,002
Other	1,562,396	2,635,406	1,293,472	2,104,579
Alternative investments				
Limited partnerships	2,372,486	6,248,801	2,372,486	6,722,992
Hedge funds	5,313,319	7,177,074	4,629,067	6,388,984
Investment in real estate	1,403,369	2,548,000	1,403,369	2,532,000
	<u>\$ 102,378,021</u>	<u>\$ 120,420,677</u>	<u>\$ 105,722,149</u>	<u>\$ 124,919,981</u>

Investments were held for the following purposes at June 30:

	<b>2020</b>		<b>2019</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
Endowment	\$ 101,495,035	\$ 119,537,217	\$ 104,838,312	\$ 124,035,254
Other	882,986	883,460	883,837	884,727
	<u>\$ 102,378,021</u>	<u>\$ 120,420,677</u>	<u>\$ 105,722,149</u>	<u>\$ 124,919,981</u>

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**Alternative Investments**

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

<b>June 30, 2020</b>				
	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Multi-strategy hedge funds (A)	\$ 7,177,074	None	Quarterly	65 - 90 days
Limited partnerships (B)	6,248,801	None	Monthly	7 days

  

<b>June 30, 2019</b>				
	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Multi-strategy hedge funds (A)	\$ 6,388,984	None	Quarterly	65 - 90 days
Limited partnerships (B)	6,722,992	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:

	<b>2020</b>	<b>2019</b>
Interest and dividend income	\$ 2,713,883	\$ 4,517,925
Net realized (losses) gains on investments reported at fair value	(578,860)	1,496,499
Net unrealized losses on investments reported at fair value	(1,155,176)	(810,036)
	<b>\$ 979,847</b>	<b>\$ 5,204,388</b>

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

	<b>2020</b>	<b>2019</b>
Operating income	\$ 9,052,709	\$ 5,875,000
Other nonoperating loss	(8,072,862)	(670,612)
	<b>\$ 979,847</b>	<b>\$ 5,204,388</b>

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**Note 4: Contributions Receivable**

Contributions receivable at June 30 consisted of the following:

	<b>2020</b>	<b>2019</b>
Due within one year	\$ 430,462	\$ 686,587
Due in one to five years	1,951,957	1,578,734
Due in five to ten years	58,475	540,000
	2,440,894	2,805,321
Less		
Allowance for uncollectible contributions	(200,000)	(200,000)
Unamortized discount (2.00% - 5.00%)	(136,128)	(152,576)
	<b>\$ 2,104,766</b>	<b>\$ 2,452,745</b>

The University was also the beneficiary of a trust administered by a nonrelated party. The assets of this trust were included in contributions receivable on the statements of financial position of the University. Contributions receivable from this charitable trust totaled \$2,006,312 as of June 30, 2019. The trust was liquidated in 2020 and the University received their portion of the related assets.

**Note 5: 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 \$5,492,560 and \$5,700,872, which represents the fair value of the trust assets at June 30, 2020 and 2019, 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 \$331,560 and \$314,983 at June 30, 2020 and 2019, respectively. The discount rates used to calculate the present value were 4 percent to 6 percent.

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**Note 6: Property and Equipment**

Property and equipment at June 30 consisted of the following:

	<u>2020</u>	<u>2019</u>
Land and land improvements	\$ 25,256,360	\$ 24,323,435
Buildings	197,821,206	192,887,252
Equipment, vehicles and software	22,140,476	21,673,501
Construction in progress	212,737	1,889,287
	<u>245,430,779</u>	<u>240,773,475</u>
Less accumulated depreciation and amortization	<u>(100,326,473)</u>	<u>(95,107,835)</u>
	<u>\$ 145,104,306</u>	<u>\$ 145,665,640</u>

**Note 7: Line of Credit**

The University has a \$5,000,000 revolving bank line of credit, expiring January 15, 2021. At June 30, 2020, there was \$773,726 borrowed against this line. There were no borrowings at June 30, 2019. Interest varies with LIBOR (London Interbank Offering Rate) and is payable monthly. The interest rate was 1.68 percent at June 30, 2020.

**Note 8: Debt**

	<u>2020</u>	<u>2019</u>
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, 2011-2020, and \$8,440,000 term bonds due October 1, 2025 and 2035. Unamortized bond issuance costs were \$218,512 and \$233,080 at June 30, 2020 and 2019, respectively.	\$ 8,815,000	\$ 9,175,000
2017 Series Ohio Higher Educational Facility Revenue Bonds at 3.0% to 4.25%, payable in quarterly installments ranging from \$129,748 to \$496,346, with final payment due October 2031. Unamortized bond issuance costs were \$123,462 and \$135,808 at June 30, 2020 and 2019, respectively.	9,887,130	10,578,072
Note payable, unsecured, interest rate of 5.00%, payable in annual installments of \$103,604 beginning on June 1, 2011, with final payment made May 7, 2020.	-	98,670
Note payable, unsecured, interest rate of 1.40% plus the one month LIBOR rate, payable in monthly installments of \$33,333 beginning on April 1, 2012, with final payment due March 2022.	700,000	1,100,000
Note payable, unsecured, interest rate of 1.40% plus the one month LIBOR rate, payable in monthly installments of \$20,833 beginning on July 18, 2014, with final payment due June 2024.	1,000,000	1,250,000
	<u>20,402,130</u>	<u>22,201,742</u>
Less: Unamortized bond issuance costs	<u>(341,974)</u>	<u>(368,888)</u>
	<u>\$ 20,060,156</u>	<u>\$ 21,832,854</u>

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In connection with the issuance of 2010 and 2017 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, 2020, are:

2021	\$ 1,736,323
2022	1,678,207
2023	1,415,764
2024	1,458,402
2025	1,252,963
Thereafter	<u>12,860,471</u>
	<u><u>\$ 20,402,130</u></u>

The debt agreements contain certain financial covenants. As of June 30, 2020 and 2019, the University is not aware of any violations of these covenants.

The University charged \$858,188 and \$919,064 to interest expense for the years ended June 30, 2020 and 2019, respectively.

**Note 9: 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, 2020 and 2019, of \$341,974 and \$347,481, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discount rates ranging from 2 percent to 8 percent.

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 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 2 percent to 8 percent and applicable mortality tables. The University has recorded a liability at June 30, 2020 and 2019, of \$1,205,679 and \$1,207,169, respectively.

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**Note 10: Derivative Financial Instruments — Interest Rate Swap Agreements**

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the University entered into an interest rate swap agreement for its variable rate debt. On February 17, 2012, the University entered into a 10-year interest rate swap agreement with the intent of reducing the impact of changes in interest rates on its Huntington National Bank variable rate debt. The agreement provides for the University to receive interest from the counterparty at the USD-SIFMA Municipal Swap Index rate and to pay interest to the counterparty at a fixed rate of 2.95 percent on a notional amount of \$700,000 and \$1,100,000 at June 30, 2020 and 2019, respectively. The difference between the rates, is settled monthly and is included in interest expense. The agreement is recorded at fair value with subsequent changes in fair value included in other items.

The table below presents certain information regarding the University’s interest rate swap agreements:

	<u>2020</u>	<u>2019</u>
Fair value of asset (liability) for interest rate swap agreement	<u>\$ (9,181)</u>	<u>\$ 3,435</u>
	Accrued expenses	Other assets
Statement of financial position location of fair value amount		
Loss recognized in change in net assets	<u>\$ (12,616)</u>	<u>\$ (25,558)</u>
Location of loss recognized in change in net assets	Change in value of interest rate swap	Change in value of interest rate swap

**Note 11: Internal Borrowings**

During 2010, borrowings within the University were made from the endowment fund for capital projects. The borrowings from the endowment fund totaled \$7,856,716 and \$8,114,953 at June 30, 2020 and 2019, 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 LIBOR plus 1.4 percent and will be repaid from unrestricted operations. The remainder of the loan is for the Wellness Center. This loan bears interest monthly at LIBOR plus 1.4 percent and will be repaid by specific contributions.

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**Note 12: Net Assets With Donor Restriction**

Net assets with donor restrictions at June 30, 2020 and 2019, are restricted for the following purposes or periods:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose		
Unexpended property and equipment funds	\$ 768,374	\$ 4,858,759
Other purposes of the University	680,246	602,045
	<u>1,448,620</u>	<u>5,460,804</u>
Subject to the passage of time		
Trusts and gift annuities	1,261,224	1,470,750
Endowments		
Subject to appropriation and expenditure when a specified event occurs	58,290,472	66,108,414
Subject to endowment spending policy and appropriation		
Scholarships and operations	66,059,672	64,379,627
Annuity, life income and charitable remainder and perpetual trusts	8,541,058	9,075,177
	<u>74,600,730</u>	<u>73,454,804</u>
Total endowments	<u>132,891,202</u>	<u>139,563,218</u>
Total net assets with donor restrictions	<u>\$ 135,601,046</u>	<u>\$ 146,494,772</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors as follows:

	<u>2020</u>	<u>2019</u>
Purpose restrictions accomplished		
Educational program expenses	\$ 4,965,232	\$ 391,251
Other	2,852,709	-
Property and equipment acquired and placed into service	2,756,072	460,415
Time restrictions expired, passage of time	52,465	193,954
	<u>\$ 10,626,478</u>	<u>\$ 1,045,620</u>

**Note 13: 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.

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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 net assets with donor restrictions 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, 2020 and 2019, was:

	<b>2020</b>		
	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
Board-designated endowment funds	\$ 1,478,000	\$ -	\$ 1,478,000
Donor-restricted endowment funds	-	132,891,202	132,891,202
Total endowment funds	\$ 1,478,000	\$ 132,891,202	\$ 134,369,202

	<b>2019</b>		
	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 139,563,218	\$ 139,563,218

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Changes in endowment net assets for the years ended June 30, 2020 and 2019, were:

	<b>2020</b>		
	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ -	\$ 139,563,218	\$ 139,563,218
Investment return			
Investment income	2,969,690	-	2,969,690
Net depreciation	(1,734,922)	-	(1,734,922)
Total investment return	1,234,768	-	1,234,768
Change in value of split-interest agreements	-	(431,531)	(431,531)
Contributions	1,478,000	1,577,456	3,055,456
Appropriation of endowment assets for expenditure	(1,234,768)	(7,817,941)	(9,052,709)
Endowment net assets, end of year	\$ 1,478,000	\$ 132,891,202	\$ 134,369,202

	<b>2019</b>		
	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ -	\$ 135,892,939	\$ 135,892,939
Investment return			
Investment income	4,456,531	-	4,456,531
Net appreciation	1,109,422	-	1,109,422
Total investment return	5,565,953	-	5,565,953
Change in value of split-interest agreements	-	164,323	164,323
Contributions	-	3,815,003	3,815,003
Appropriation of endowment assets for expenditure	(5,565,953)	(309,047)	(5,875,000)
Endowment net assets, end of year	\$ -	\$ 139,563,218	\$ 139,563,218

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. At June 30, 2020, funds with original gift values of \$2,495,716, fair values of \$2,432,099 and deficiencies of \$63,617 were reported in net assets with donor restrictions. There were no such deficiencies at June 30, 2019.

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 percent 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 percent annually over time. Actual returns in any given year may vary from this amount.

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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 up to 5 percent, with Board approval, 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. The Board of Trustees has adopted a plan to reduce the spending rate by 0.1 percent annually over a five-year period. The spending rate for fiscal year ending June 30, 2020, was 5.00 percent. The administration may request spending up to the 5 percent level annually based on market conditions that must be approved by the Board of Trustees. 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 percent 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.

In 2020, the Board approved an additional, one-time spend from the operational endowment of approximately \$2.9 million to fund the voluntary separation incentive plan.

**Note 14: 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 \$44,800,000 and \$44,950,000 as of June 30, 2020 and 2019, respectively. The fees paid to related parties, inclusive of investment, insurance and other fees for services performed by these parties amounted to approximately \$136,702 and \$242,388 for 2020 and 2019, respectively.

**Note 15: 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 \$2,117,000 and \$2,160,000 for 2020 and 2019, respectively.

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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 \$99,000 to the plan in 2021.

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

	<b>Other Benefits</b>	
	<b>2020</b>	<b>2019</b>
Change in benefit obligation		
Beginning of year	\$ (1,759,469)	\$ (1,534,684)
Service cost	(55,321)	(50,508)
Interest cost	(55,781)	(59,505)
Actuarial gain (loss)	(67,058)	(168,922)
Participant contributions	(101,720)	(83,971)
Benefit payments	156,170	138,121
End of year	(1,883,179)	(1,759,469)
Fair value of plan assets	-	-
Funded status at end of year	<u>\$ (1,883,179)</u>	<u>\$ (1,759,469)</u>

Liabilities recognized in accrued expenses in the statements of financial position:

	<b>Other Benefits</b>	
	<b>2020</b>	<b>2019</b>
Accrued benefit liability	<u>\$ (1,883,179)</u>	<u>\$ (1,759,469)</u>

Amounts recognized in net assets without donor restrictions not yet recognized as components of net periodic benefit cost consist of:

	<b>Other Benefits</b>	
	<b>2020</b>	<b>2019</b>
Net loss	<u>\$ 547,307</u>	<u>\$ 502,268</u>

Other significant balances and costs as of June 30 are:

	<b>Other Benefits</b>	
	<b>2020</b>	<b>2019</b>
Benefit costs	\$ 133,121	\$ 122,627
Employer contributions	54,450	54,150
Benefits paid	156,170	138,121

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Components of net periodic benefit cost are:

	<b>Other Benefits</b>	
	<b>2020</b>	<b>2019</b>
Service cost	\$ 55,321	\$ 50,508
Interest cost	55,781	59,505
Recognized net actuarial loss	22,019	12,614
	<u>\$ 133,121</u>	<u>\$ 122,627</u>

The estimated net loss for the other defined benefit postretirement plan that will be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year is \$24,240.

Weighted-average assumptions used to determine benefit obligations:

	<b>Other Benefits</b>	
	<b>2020</b>	<b>2019</b>
Discount rate	3.25%	4.00%
Rate of compensation increase	N/A	N/A
Health care cost trend	7.00%	7.50%

Weighted-average assumptions used to determine benefit costs:

	<b>Other Benefits</b>	
	<b>2020</b>	<b>2019</b>
Discount rate	3.25%	4.00%
Rate of compensation increase	N/A	N/A
Health care cost trend	7.00%	7.50%

For measurement purposes, a 7.00 percent and 7.50 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2020 and 2019. The rate was assumed to decrease gradually to 3.50 percent by the year 2024 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.

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The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of June 30, 2020:

	<b>Other Benefits</b>
2021	\$ 98,969
2022	88,961
2023	90,125
2024	92,396
2025	97,487
2026 - 2030	524,215

The University had a noncontributory defined benefit pension plan covering all employees who met the eligibility requirements. Effective July 1, 2019, the Plan was discontinued. Certain employees will be paid the balances due over the next three years. The liability related to this payout was \$268,682 and \$395,062 at June 30, 2020 and 2019, respectively.

**Note 16: Disclosures About Fair Value of Assets and Liabilities**

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of 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

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**Recurring Measurements**

The following tables present the fair value measurements of assets and liabilities 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, 2020 and 2019:

	<b>2020</b>			
	<b>Fair Value</b>	<b>Fair Value Measurements Using</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Investments</b>				
Money market funds	\$ 10,748,605	\$ 10,748,605	\$ -	\$ -
U.S. Treasury securities and government agency bonds	1,691,583	1,250,207	441,376	-
Corporate debt securities	3,712,980	-	3,712,980	-
Mortgage-backed securities, GSEs	552,217	-	552,217	-
Municipal bonds	233,703	-	233,703	-
Mutual funds				
Equity	26,046,691	26,046,691	-	-
Fixed income	13,159,783	13,159,783	-	-
International	21,058,254	21,058,254	-	-
Alternative funds	8,662,513	8,662,513	-	-
Common stocks				
Industrials	1,586,710	1,586,710	-	-
Consumer discretionary	1,782,310	1,782,310	-	-
Consumer staples	1,093,720	1,093,720	-	-
Energy	593,500	593,500	-	-
Financial	2,304,884	2,304,884	-	-
Materials	653,508	653,508	-	-
Information technology	4,621,289	4,621,289	-	-
Health care	3,309,146	3,309,146	-	-
Other	2,635,406	2,635,406	-	-
Alternative investments				
Limited partnerships (A)	6,248,801	-	-	-
Hedge funds (A)	7,177,074	-	-	-
Investment in real estate	2,548,000	-	-	2,548,000
<b>Annuity and Life Income Funds Held in Trust</b>				
Corporate debt securities	1,321,563	-	1,321,563	-
Money market funds	43,759	43,759	-	-
Value, growth and blended fixed income	4,066,993	4,066,993	-	-
<b>Beneficial Interest in Perpetual Trusts</b>	5,492,560	-	-	5,492,560
<b>Beneficial Interest in Charitable Remainder Trusts</b>	331,560	-	-	331,560
<b>Interest Rate Swap Agreements</b>	(9,181)	-	(9,181)	-

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	2019			
	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)
<b>Investments</b>				
Money market funds	\$ 13,349,851	\$ 13,349,851	\$ -	\$ -
U.S. Treasury securities and government agency bonds	1,470,103	901,441	568,662	-
Corporate debt securities	6,113,547	-	6,007,150	106,397
Mortgage-backed securities, GSEs	674,701	-	674,701	-
Municipal bonds	262,169	-	262,169	-
Mutual funds				
Equity	24,016,180	24,016,180	-	-
Fixed income	12,684,015	12,684,015	-	-
International	20,237,746	20,237,746	-	-
Alternative funds	11,570,498	11,570,498	-	-
Common stocks				
Industrials	1,654,767	1,654,767	-	-
Consumer discretionary	1,848,471	1,848,471	-	-
Consumer staples	1,235,707	1,235,707	-	-
Energy	938,610	938,610	-	-
Financial	3,208,136	3,208,136	-	-
Materials	945,766	945,766	-	-
Information technology	3,690,157	3,690,157	-	-
Health care	3,271,002	3,271,002	-	-
Other	2,104,579	2,104,579	-	-
Alternative investments				
Limited partnerships (A)	6,722,992	-	-	-
Hedge funds (A)	6,388,984	-	-	-
Investment in real estate	2,532,000	-	-	2,532,000
<b>Annuity and Life Income Funds Held in Trust</b>				
Corporate debt securities	1,291,403	-	1,291,403	-
Money market funds	152,885	152,885	-	-
Mutual funds				
Value, growth and blended fixed income	4,546,933	4,546,933	-	-
<b>Beneficial Interest in Perpetual Trusts</b>	5,700,872	-	-	5,700,872
<b>Beneficial Interest in Charitable Remainder Trusts</b>	314,983	-	-	314,983
<b>Interest Rate Swap Agreements</b>	3,435	-	3,435	-

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

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Following is a description of the valuation methodologies and inputs used for assets and liabilities 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 and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2020. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below. 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. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in 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. See the table below for inputs and valuation techniques used for Level 3 securities.

***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, which approximates the fair value of the underlying assets of the trusts. 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.

***Interest Rate Swap Agreements***

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

***Level 3 Valuation Process***

Fair value determinations for Level 3 measurements of securities and trusts are the responsibility of the Controller's Office. The Controller's Office obtains information to generate fair value estimates on a monthly or quarterly basis. The Controller's Office challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States of America.

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**Level 3 Reconciliation**

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>Beneficial Interest in Perpetual Trusts</b>	<b>Beneficial Interest in Charitable Remainder Trusts</b>	<b>Corporate Debt Securities</b>	<b>Investment in Real Estate</b>
Balance, July 1, 2018	\$ 5,601,515	\$ 297,462	\$ 415,718	\$ 1,403,369
Sales	-	-	(415,718)	-
Additions	-	-	106,397	-
Total realized and unrealized gains included in change in net assets	99,357	17,520	-	1,128,631
Balance, June 30, 2019	5,700,872	314,982	106,397	2,532,000
Sales	-	-	(106,397)	-
Total realized and unrealized gains (losses) included in change in net assets	(208,312)	16,578	-	16,000
Balance, June 30, 2020	<u>\$ 5,492,560</u>	<u>\$ 331,560</u>	<u>\$ -</u>	<u>\$ 2,548,000</u>
Total gains (losses) for the period included in change in net assets attributable to the change in unrealized gains related to assets and liabilities still held at the reporting date				
June 30, 2020	<u>\$ (208,312)</u>	<u>\$ 16,578</u>	<u>\$ -</u>	<u>\$ 16,000</u>
June 30, 2019	<u>\$ 99,357</u>	<u>\$ 17,520</u>	<u>\$ -</u>	<u>\$ -</u>

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

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***Unobservable (Level 3) Inputs***

The following tables present quantitative information about unobservable inputs used in recurring Level 3 fair value measurements:

	<b>Fair Value at June 30, 2020</b>	<b>Valuation Technique</b>	<b>Unobservable Inputs</b>	<b>Range</b>
Beneficial interest in perpetual trusts	\$ 5,492,560	Discounted cash flows	Discount rates Market return rates	3% - 7%
Beneficial interest in charitable remainder trusts	331,560	Discounted cash flows	Mortality assumptions Market return rates	4% - 8%
Investment in real estate	2,548,000	Discounted cash flows	Discount rates Market comparables	3% - 10%

	<b>Fair Value at June 30, 2019</b>	<b>Valuation Technique</b>	<b>Unobservable Inputs</b>	<b>Range</b>
Beneficial interest in perpetual trusts	\$ 5,700,872	Discounted cash flows	Discount rates Market return rates	3% - 7%
Beneficial interest in charitable remainder trusts	314,982	Discounted cash flows	Mortality assumptions Market return rates	4% - 8%
Corporate debt securities	106,397	Discounted cash flows	Discount rates	2% - 5%
Investment in real estate	2,532,000	Discounted cash flows	Discount rates Market comparables	3% - 10%

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**Note 17: Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 17,842,481	\$ 12,814,927
Accounts receivable, net of allowance	1,159,976	1,152,535
Contributions receivable	160,462	580,600
Investments	5,900,000	6,200,000
Beneficial interest in perpetual trust and charitable remainder trusts	<u>132,336</u>	<u>127,556</u>
	<u>\$ 25,195,255</u>	<u>\$ 20,875,618</u>

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the University considers all expenditures related to its ongoing mission-related activities, as well as the conduct of service undertaken to support those activities, to be general expenditures.

The University has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities, and a line of credit (Note 7). At June 30, 2020, the University has \$58,290,472 of accumulated earnings on endowment net assets, while not expected to be needed, represent the spendable yet restricted portion of the University's donor-restricted endowment that could be used to meet cash needs if necessary. Student loan receivables are not considered to be available to meet general expenditures because principal and interest payments on these loans are used solely to make new loans.

In addition to financial assets available to meet general expenditures within one year, the University operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

**Note 18: Revenue from Contracts with Students**

***Tuition and Auxiliary Services Revenue***

Revenue from contracts with students for tuition, residential services, bookstore and meal plan services is reported at the amount that reflects the consideration to which the University expects to be entitled in exchange for providing instruction and housing, food and other services. These amounts are due from students, third-party payers and others and are net of scholarships and institutional aid of \$31,354,708 and \$31,325,915 for the years ended June 30, 2020 and 2019, respectively.

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Revenue is recognized as performance obligations are satisfied, which is primarily ratably over the academic term with the exception of certain meal plans, bookstore fees, and other miscellaneous fees that are recognized at a point in time. Generally, the University bills students prior to the beginning of the semester, and student accounts receivable are due in full before classes begin.

If a student withdraws within the first week of the beginning of the academic term, the student is entitled to a full refund. If a student withdraws during the second week of the academic term, the student is entitled to a 75 percent refund. If a student withdraws during the third week of the academic term, the student is entitled to a 50 percent refund. If a student withdraws during the fourth week of the academic term, the student is entitled to a 25 percent refund. No refunds are awarded after the end of the fourth week of the academic term. The University determines the refund liability at year-end based on actual experience subsequent to year-end.

Tuition, residential services and meal plan services revenue are considered to be separate performance obligations. The University allocates the fees charged to students to tuition and housing, food and other services based on standalone charges to students for tuition and those other services.

***Transaction Price and Recognition***

The University determines the transaction price based on standard charges for goods and services provided, reduced by certain institutional scholarships and aid in accordance with the University's policies for granting certain merit-based aid. The University determines its estimates of explicit price concessions based on its discount policies and merit awards.

From time to time the University will incur student credit balances and student deposits which represent the excess of tuition and fees and other student payments received as compared to amounts recognized as revenue. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of June 30, 2020, and 2019, the University has a liability for refunds or deposits from students recorded of approximately \$262,200 and \$340,050, respectively.

The University has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors:

- Payers (for example, students' governmental programs and others) that have different reimbursement and payment methodologies
- Demographic and enrollment trends
- Institutional aid and federal and state aid programs

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***Performance Obligations and Transaction Price Allocated to Remaining Performance Obligations***

Because all of its performance obligations relate to contracts with a duration of less than one year, the University has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to providing instruction to students. The performance obligations for these contracts are generally completed when the academic term is completed.

The University expects to recognize revenue of \$1,009,712 of tuition revenue in fiscal 2021 when the summer 2020 academic term is completed.

***Disaggregation of Revenue***

The composition of revenues by segment for the years ended June 30, 2020 and 2019, is as follows:

	<b>2020</b>
Net tuition and fees	\$ 36,460,249
Room	5,747,498
Board	3,836,128
Other	540,964
	\$ 46,584,839

The composition of revenue based on timing of revenue recognition for the years ended June 30, 2020 and 2019, are as follows:

	<b>2020</b>
Services transferred over time	\$ 42,207,747
Sales at point in time	4,377,092
	\$ 46,584,839

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**Contract Balances**

The following table provides information about the University's contract assets and contract liabilities:

	<b>2020</b>
<b>Contract Assets</b>	
Accounts receivable, beginning of the year	\$ 670,346
Accounts receivable, end of the year	759,968
<b>Contract Liabilities</b>	
Deferred revenue, beginning of the year	994,175
Deferred revenue, end of the year	1,009,712

Deferred revenue balances are included within accrued expenses on the statements of financial position.

**Note 19: 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 37 percent and 43 percent of contributions receivable were from three and one donors at June 30, 2020 and 2019, respectively.

Approximately 36 percent of contribution revenue resulted from one and two donors in 2020 and 2019, respectively.

**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.

**Claims**

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

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**Note 20: Voluntary Separation Incentive Program**

In 2020, the University offered a voluntary separation incentive program (VSIP) to certain eligible employees. These actions resulted in expenses for severance and benefits of \$2,706,869. The University has recorded these expenses as non-operating due to its non-recurring nature.

**Note 21: Coronavirus Aid, Relief, And Economic Security Act and Other Coronavirus Events**

As a result of the spread of the SARS-CoV-2 virus and the incident of COVID-19, the state of Ohio issued shelter-in-place orders and other measures around public gatherings and business operations to slow the spread of the virus. Furthermore, colleges and universities across the country took unprecedented action to protect the health and safety of students, including our campus. Beginning on March 16, 2020, campus operations were suspended and all students were transitioned to a distance education framework through the end of the academic term. In addition, summer classes were conducted through distance education and summer conferences and events were cancelled or postponed. The University provided prorata room and board refunds to students for the period of time that campus was shut-down. This resulted in room and board revenue decline of approximately \$2,800,000. Given the uncertainty in the epidemiological and economic outlook, there may be short and long-term implications for our instruction, student experience and operations. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

On March 27, 2020, President Trump signed into law the *Coronavirus Aid, Relief, and Economic Security Act* (CARES). The CARES Act also created a Higher Education Emergency Relief Fund (HEERF) specifically for emergency aid grants to students for expenses related to the disruption of campus operations due to COVID-19 and also direct aid to institutions to cover costs associated with the significant changes to the delivery of instruction due to COVID-19. The University has been awarded \$2,209,587 of which \$868,458 was recognized and distributed to students as emergency grants and \$868,458 that was recognized as the institutional portion to cover costs associated with the change of delivery of instruction. The remaining amount will be expended after year-end.

**Note 22: U.S. Department of Education Financial Responsibility Ratio**

The following information is required by the U.S. Department of Education for the year ended June 30, 2020:

	<b>2020</b>
Property, plant and equipment, net of accumulated depreciation pre-implementation	\$ 137,854,528
Property, plant and equipment, net of accumulated depreciation post-implementation without outstanding debt for purchase	7,037,041
Total revenue and gains without donor restrictions	66,609,237

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**Note 23: Subsequent Events**

Subsequent events have been evaluated through October 14, 2020, which is the date the financial statements were available to be issued.

In July 2020, the University secured \$7,982,711 in new financing from a private financial institution. The proceeds from this financing were used to refinance a portion of the University's existing debt.