



Independent Auditor's Report and Consolidated Financial Statements

June 30, 2018 and 2017



University of Mount Union

June 30, 2018 and 2017

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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), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the 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.

Emphasis of Matter

As described in Note 2 of the financial statements, in 2018, the University adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

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 as of June 30, 2018 and 2017, and the changes in its net assets and its 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 17, 2018

University of Mount Union
Consolidated Statements of Financial Position
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents	\$ 12,708,908	\$ 10,137,822
Short-term investments	-	808,317
Accounts receivable, net of allowance; 2018 - \$376,843, 2017 - \$344,905	1,734,191	1,400,366
Contributions receivable, net of allowance; 2018 - \$225,000, 2017 - \$215,000	2,609,360	2,006,504
Inventory	278,422	324,677
Loans receivable	3,257,689	3,290,264
Investments	121,904,095	118,333,532
Beneficial interest in perpetual trusts and charitable remainder trusts	5,898,977	5,862,644
Annuity and life income funds held in trust	6,098,455	6,294,421
Property and equipment, net	146,525,457	148,817,384
Other assets	465,410	122,309
	<u>301,480,964</u>	<u>297,398,240</u>
Total assets	<u>\$ 301,480,964</u>	<u>\$ 297,398,240</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 2,724,502	\$ 1,173,745
Accrued expenses	5,168,922	5,384,064
Deposits and other	1,904,778	1,337,172
Annuities and trusts payable	1,575,922	1,630,287
Debt	23,631,154	25,459,431
Advances from Government for student loans	2,758,899	3,155,013
Total liabilities	<u>37,764,177</u>	<u>38,139,712</u>
Net Assets		
Without donor restrictions		
Undesignated	122,602,826	120,977,512
Designated by the Board for endowment	2,047,865	3,016,390
	<u>124,650,691</u>	<u>123,993,902</u>
With donor restrictions		
Perpetual in nature	69,475,479	67,843,205
Purpose restriction	68,155,242	65,914,480
Time-restricted for future periods	1,435,375	1,506,941
	<u>139,066,096</u>	<u>135,264,626</u>
Total net assets	<u>263,716,787</u>	<u>259,258,528</u>
Total liabilities and net assets	<u>\$ 301,480,964</u>	<u>\$ 297,398,240</u>

University of Mount Union
Consolidated Statement of Activities
Year Ended June 30, 2018

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Income and Other Support			
Educational and general			
Student tuition and fees	\$ 64,221,600	\$ -	\$ 64,221,600
Less financial aid	(29,950,759)	-	(29,950,759)
Net student tuition and fees	34,270,841	-	34,270,841
Gifts and private grants	3,529,176	2,294,716	5,823,892
Investment return designated for operations	5,900,000	-	5,900,000
Change in value of split-interest agreements	-	202,961	202,961
Other income	983,848	-	983,848
Total educational and general revenue	44,683,865	2,497,677	47,181,542
Auxiliary enterprises	13,354,284	-	13,354,284
Net assets released from restrictions	209,673	(209,673)	-
Total revenue, income and other support	58,247,822	2,288,004	60,535,826
Expenses			
Educational and general			
Instruction	23,549,600	-	23,549,600
Academic support	3,128,768	-	3,128,768
Student services	10,402,267	-	10,402,267
Institutional support	7,533,902	-	7,533,902
Total educational and general expenses	44,614,537	-	44,614,537
Auxiliary enterprises	10,845,144	-	10,845,144
Fundraising	2,170,645	-	2,170,645
Total expenses	57,630,326	-	57,630,326
Change in Net Assets Before Investment Return Less			
Amounts Designated for Operations and Other Items	617,496	2,288,004	2,905,500
Investment return less amounts designated for operations	13,803	1,513,466	1,527,269
Change in value of interest rate swap	25,490	-	25,490
Change in Net Assets	656,789	3,801,470	4,458,259
Net Assets, Beginning of Year	123,993,902	135,264,626	259,258,528
Net Assets, End of Year	\$ 124,650,691	\$ 139,066,096	\$ 263,716,787

University of Mount Union
Consolidated Statement of Activities
Year Ended June 30, 2017

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Income and Other Support			
Educational and general			
Student tuition and fees	\$ 62,443,610	\$ -	\$ 62,443,610
Less financial aid	(29,225,556)	-	(29,225,556)
Net student tuition and fees	33,218,054	-	33,218,054
Gifts and private grants	3,115,113	2,088,103	5,203,216
Investment return designated for operations	6,000,000	-	6,000,000
Change in value of split-interest agreements	-	583,998	583,998
Other income	1,070,953	1,561	1,072,514
Total educational and general revenue	43,404,120	2,673,662	46,077,782
Auxiliary enterprises	14,214,278	-	14,214,278
Net assets released from restrictions	324,606	(324,606)	-
Total revenue, income and other support	57,943,004	2,349,056	60,292,060
Expenses			
Educational and general			
Instruction	23,408,376	-	23,408,376
Academic support	3,112,435	-	3,112,435
Student services	10,063,401	-	10,063,401
Institutional support	8,241,650	-	8,241,650
Total educational and general expenses	44,825,862	-	44,825,862
Auxiliary enterprises	10,968,356	-	10,968,356
Fundraising	1,669,616	-	1,669,616
Total expenses	57,463,834	-	57,463,834
Change in Net Assets Before Investment Return Less			
Amounts Designated for Operations and Other Items	479,170	2,349,056	2,828,226
Investment return less amounts designated for operations	(264,136)	7,548,939	7,284,803
Change in value of interest rate swap	60,031	-	60,031
Change in Net Assets	275,065	9,897,995	10,173,060
Net Assets, Beginning of Year, as Previously Reported			
Reclassification related to underwater endowment (Note 2)	283,526	(283,526)	-
Net Assets, Beginning of Year, Restated	123,718,837	125,366,631	249,085,468
Net Assets, End of Year	\$ 123,993,902	\$ 135,264,626	\$ 259,258,528

University of Mount Union
Consolidated Statement of Functional Expenses
Year Ended June 30, 2018

	Program Services				Total Program	Institutional Support	Fundraising	Total
	Instruction	Academic Support	Student Services	Auxiliary Enterprises				
Salaries and benefits	\$ 17,532,950	\$ 1,442,091	\$ 5,878,111	\$ 4,029,148	\$ 28,882,300	\$ 3,623,393	\$ 1,261,290	\$ 33,766,983
Supplies and equipment	1,360,377	1,018,201	726,869	2,045,952	5,151,399	534,158	141,539	5,827,096
Depreciation	2,216,775	215,042	649,563	1,567,785	4,649,165	703,955	108,635	5,461,755
Plant and maintenance	1,000,482	84,251	918,912	1,050,124	3,053,769	501,474	75,357	3,630,600
Utilities	767,260	93,501	531,397	946,854	2,339,012	685,228	110,884	3,135,124
Travel, meals and lodging	511,619	244,774	1,014,764	31,726	1,802,883	332,512	253,829	2,389,224
Interest and fees	31,460	8,824	303,632	1,169,091	1,513,007	460,415	21,678	1,995,100
Professional fees	55,182	16,170	184,081	2,620	258,053	429,762	97,916	785,731
Marketing	73,495	5,914	194,938	1,844	276,191	263,005	99,517	638,713
	<u>\$ 23,549,600</u>	<u>\$ 3,128,768</u>	<u>\$ 10,402,267</u>	<u>\$ 10,845,144</u>	<u>\$ 47,925,779</u>	<u>\$ 7,533,902</u>	<u>\$ 2,170,645</u>	<u>\$ 57,630,326</u>

University of Mount Union
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Change in net assets	\$ 4,458,259	\$ 10,173,060
Items not requiring (providing) operating activities cash flows		
Realized and unrealized gains on investments	(5,019,388)	(11,201,361)
Loss on sale of property and equipment	5,843	42,197
Depreciation	5,461,755	5,535,881
Amortization of bond issuance costs	26,913	14,068
Gain on extinguishment of debt	-	(101,941)
Change in allowance for uncollectible accounts and contributions receivable	41,938	49,419
Contributions received restricted for long-term investment	(1,513,701)	(1,870,923)
Contributions received restricted for acquisition of long-lived assets	(853,033)	(40,000)
Changes in		
Accounts, loans and contributions receivable	(946,044)	(102,895)
Inventory	46,255	(19,655)
Other assets	(343,101)	(58,177)
Accounts payable and accrued expenses	106,251	192,835
Annuities and trusts payable	(54,365)	(101,450)
Annuity and life income funds held in trust and beneficial interests in perpetual trusts and charitable remainder trusts	159,633	(290,781)
Deposits and other	567,606	99,628
Advances from government for student loans	(396,114)	(42,876)
Net cash provided by operating activities	<u>1,748,707</u>	<u>2,277,029</u>
Investing Activities		
Purchase of property and equipment	(1,946,307)	(1,815,686)
Purchase of investments	(9,424,672)	(14,284,458)
Proceeds from sales of investments	11,681,814	16,260,274
Net cash provided by investing activities	<u>310,835</u>	<u>160,130</u>
Financing Activities		
Payments on bonds and notes payable	(1,855,190)	(5,776,746)
Contributions received restricted for long-term investment	1,513,701	1,870,923
Contributions received restricted for acquisition of long-lived assets	853,033	40,000
Net cash provided by (used in) financing activities	<u>511,544</u>	<u>(3,865,823)</u>
Increase (Decrease) in Cash and Cash Equivalents	2,571,086	(1,428,664)
Cash and Cash Equivalents, Beginning of Year	<u>10,137,822</u>	<u>11,566,486</u>
Cash and Cash Equivalents, End of Year	<u>\$ 12,708,908</u>	<u>\$ 10,137,822</u>
Supplemental Cash Flows Information		
Fixed assets in accounts payable	\$ 1,229,364	\$ 77,213
Cash paid for interest	952,646	1,539,752

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

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 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.

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, 2018 and 2017, cash equivalents consisted primarily of repurchase agreements.

At June 30, 2018, the University's cash accounts exceeded federally insured limits by approximately \$18,300,000.

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, 2018 and 2017

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 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. 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 provides for depreciation on the straight-line method at rates designed to depreciate the costs of assets over estimated useful lives as follows:

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

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.

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

No asset impairment was recognized during the years ended June 30, 2018 and 2017.

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

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Gifts of land, buildings, equipment and other long-lived assets are reported as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in the release of donor-restricted 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.

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

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 2015.

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 statement of functional expenses presents 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.

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 \$3,444,000.

Note 2: Change in Accounting Principle

During 2018, the University adopted the provisions of ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This change had no impact on the total change in net assets for 2017. A summary of the changes by financial statement area is as follows:

Statement of financial position:

- The statement of financial position distinguishes between two new classes of net assets — those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.
- Underwater donor-restricted endowment funds are shown within the donor-restricted net asset class. This is a change from the previously required classification of unrestricted net assets.

Statement of activities:

- The standard requires the University to report expenses by both nature and function, either in the statement of activities, as a separate statement or within the notes.

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

- Investment income is shown net of external and direct internal investment expenses. There is no longer a requirement to include a disclosure of those netted expenses.

Notes to the financial statements:

- FASB requires enhanced quantitative and qualitative disclosures to provide additional information useful in assessing liquidity and cash flows, including a description of the time horizon used to manage its liquidity and near-term availability and demands for cash as of the reporting date.
- Provide disclosures on amounts and purposes of governing Board or self-imposed designations and appropriations as of the end of the period.

Note 3: Investments and Investment Return

Investments at June 30 consisted of the following:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 8,797,555	\$ 8,797,555	\$ 13,400,507	\$ 13,400,507
U.S. Treasury securities and Government agency bonds	3,199,796	3,129,849	4,210,911	4,187,039
Corporate debt securities	8,043,075	7,770,580	9,140,826	8,965,851
Mortgage-backed securities, GSEs	655,004	651,680	590,551	606,784
Municipal bonds	418,000	395,747	263,039	252,585
Mutual funds				
Domestic equity mutual funds	20,335,551	24,088,045	25,203,074	30,369,847
Fixed income mutual funds	12,357,328	11,656,823	11,308,832	11,018,532
International and emerging market mutual funds	14,777,488	19,218,102	9,665,779	12,989,970
Alternative funds	12,326,439	12,732,419	7,879,962	8,262,514
Common stocks				
Industrials	1,311,983	2,044,689	1,493,024	2,186,317
Consumer discretionary	829,281	1,727,711	397,617	1,051,498
Consumer staples	1,131,811	1,222,742	1,269,857	1,498,973
Energy	913,680	1,243,173	928,991	1,014,558
Financial	2,652,959	4,360,679	2,834,037	4,464,970
Materials	930,158	922,633	1,308,102	1,001,296
Information technology	2,244,572	4,793,155	2,332,868	4,217,599
Health care	2,695,615	3,295,995	1,804,898	2,376,109
Other	1,127,889	1,084,740	1,074,432	1,147,050
Alternative investments				
Limited partnerships	2,387,853	6,738,713	2,582,172	6,604,777
Hedge funds	3,356,820	4,625,696	2,905,214	3,525,073
Investment in real estate	1,403,369	1,403,369	-	-
	\$ 101,896,226	\$ 121,904,095	\$ 100,594,693	\$ 119,141,849

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	\$ -	\$ -	\$ 808,317	\$ 808,317
Long-term investments	101,896,226	121,904,095	99,786,376	118,333,532
	<u>\$ 101,896,226</u>	<u>\$ 121,904,095</u>	<u>\$ 100,594,693</u>	<u>\$ 119,141,849</u>

Investments were held for the following purposes at June 30:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Endowment	\$ 100,290,837	\$ 119,670,904	\$ 98,961,081	\$ 117,513,549
Other	1,605,389	2,233,191	1,633,612	1,628,300
	<u>\$ 101,896,226</u>	<u>\$ 121,904,095</u>	<u>\$ 100,594,693</u>	<u>\$ 119,141,849</u>

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:

	June 30, 2018			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-strategy hedge funds (A)	\$ 4,625,696	None	Quarterly	65 - 90 days
Limited partnerships (B)	6,738,713	None	Monthly	7 days
	June 30, 2017			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-strategy hedge funds (A)	\$ 3,525,073	None	Quarterly	65 - 90 days
Limited partnerships (B)	6,604,777	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.

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

Total investment return is comprised of the following:

	2018	2017
Interest and dividend income	\$ 2,407,881	\$ 2,083,442
Net realized gains on investments reported at fair value	3,558,674	3,024,957
Net unrealized gains on investments reported at fair value	<u>1,460,714</u>	<u>8,176,404</u>
	<u>\$ 7,427,269</u>	<u>\$ 13,284,803</u>

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

	2018	2017
Operating income	\$ 5,900,000	\$ 6,000,000
Other nonoperating gain	<u>1,527,269</u>	<u>7,284,803</u>
	<u>\$ 7,427,269</u>	<u>\$ 13,284,803</u>

Note 4: Contributions Receivable

Contributions receivable at June 30 consisted of the following:

	2018	2017
Due within one year	\$ 155,500	\$ 114,220
Due in one to five years	776,052	275,000
Due in five to ten years	<u>56,250</u>	<u>12,750</u>
	987,802	401,970
Less		
Allowance for uncollectible contributions	(225,000)	(215,000)
Unamortized discount (2.00% - 4.50%)	<u>(73,357)</u>	<u>(17,707)</u>
	<u>\$ 689,445</u>	<u>\$ 169,263</u>

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 \$1,919,915 and \$1,837,241 as of June 30, 2018 and 2017, respectively.

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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 \$5,601,515 and \$5,388,822, which represents the fair value of the trust assets at June 30, 2018 and 2017, 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 \$297,462 and \$473,822 at June 30, 2018 and 2017, respectively. The discount rates used to calculate the present value were 4 percent to 8 percent.

Note 6: Property and Equipment

Property and equipment at June 30 consisted of the following:

	<u>2018</u>	<u>2017</u>
Land and land improvements	\$ 22,652,025	\$ 22,034,364
Buildings	190,491,256	189,919,140
Equipment and vehicles	21,373,888	20,772,139
Construction in progress	1,810,703	621,582
	<u>236,327,872</u>	<u>233,347,225</u>
Less accumulated depreciation and amortization	<u>(89,802,415)</u>	<u>(84,529,841)</u>
	<u>\$ 146,525,457</u>	<u>\$ 148,817,384</u>

Note 7: Line of Credit

The University has a \$1,000,000 revolving bank line of credit, expiring December 31, 2018. At June 30, 2018 and 2017, there were no borrowings against this line. Interest varies with LIBOR (London Interbank Offering Rate) and is payable monthly.

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Note 8: Debt

	<u>2018</u>	<u>2017</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 \$247,647 and \$262,214 at June 30, 2018 and 2017, respectively.	\$ 9,525,000	\$ 9,860,000
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 \$148,154 and \$160,500 at June 30, 2018 and 2017, respectively.	11,245,715	11,895,252
Note payable, unsecured, interest rate of 5.00%, payable in annual installments of \$103,604 beginning on June 1, 2011, with final payment due June 2020.	192,642	282,138
Note payable, unsecured, interest rate of 3.00%, payable in annual installments of \$65,506 beginning on January 2, 2015, with final payment due on January 2, 2019.	63,598	125,344
Note payable, unsecured, interest rate of 7.47%, payable in annual installments of \$17,624 beginning on September 1, 2012. The final payment was made in November 2017.	-	69,411
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.	1,500,000	1,900,000
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.	1,500,000	1,750,000
	<u>24,026,955</u>	<u>25,882,145</u>
Less: Unamortized bond issuance costs	<u>(395,801)</u>	<u>(422,714)</u>
	<u>\$ 23,631,154</u>	<u>\$ 25,459,431</u>

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.

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Aggregate annual maturities of debt at June 30, 2018, are:

2019	\$ 1,827,089
2020	1,797,928
2021	1,736,323
2022	1,678,207
2023	1,415,764
Thereafter	<u>15,571,645</u>
	<u>\$ 24,026,956</u>

The debt agreements contain certain financial covenants. As of June 30, 2018 and 2017, the University is in compliance with these covenants.

The University charged \$959,892 and \$1,249,214 to interest expense for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, of \$337,518 and \$351,039, 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, 2018 and 2017, of \$1,238,404 and \$1,279,248, 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 \$1,500,000 and \$1,900,000 and at June 30, 2018 and 2017, 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:

	2018	2017
Fair value of asset for interest rate swap agreements	<u>\$ 28,993</u>	<u>\$ 3,503</u>
Statement of financial position location of fair value amount	Other assets	Other assets
Gain recognized in change in net assets	<u>\$ 25,490</u>	<u>\$ 60,031</u>
Location of gain 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 \$8,336,919 and \$8,625,789 at June 30, 2018 and 2017, 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, 2018 and 2017, are restricted for the following purposes or periods:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purpose		
Unexpended property and equipment funds	\$ 1,053,589	\$ 424,332
Other purposes of the University	684,193	573,649
	<u>1,737,782</u>	<u>997,981</u>
Subject to the passage of time		
Trusts and gift annuities	1,435,375	1,506,941
Endowments		
Subject to appropriation and expenditure when a specified event occurs	66,417,460	64,916,499
Subject to endowment spending policy and appropriation		
Scholarships and operations	60,395,843	58,742,372
Annuity, life income and charitable remainder and perpetual trusts	9,079,636	9,100,833
	<u>69,475,479</u>	<u>67,843,205</u>
Total endowments	<u>135,892,939</u>	<u>132,759,704</u>
Total net assets with donor restrictions	<u><u>\$ 139,066,096</u></u>	<u><u>\$ 135,264,626</u></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>2018</u>	<u>2017</u>
Purpose restrictions accomplished		
Educational program expenses	\$ -	\$ 154,631
Property and equipment acquired and placed into service	114,306	45,050
Time restrictions expired, passage of time	95,367	124,925
	<u>209,673</u>	<u>324,606</u>
	<u><u>\$ 209,673</u></u>	<u><u>\$ 324,606</u></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, 2018 and 2017, was:

	2018		
	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 135,862,939	\$ 135,862,939
	2017 (Restated)		
	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 132,759,704	\$ 132,759,704

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Changes in endowment net assets for the years ended June 30, 2018 and 2017, were:

	2018		
	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ -	\$ 132,759,704	\$ 132,759,704
Investment return			
Investment income	2,401,403	-	2,401,403
Net appreciation	3,498,597	1,716,427	5,215,024
Total investment return	5,900,000	1,716,427	7,616,427
Contributions	-	1,416,808	1,416,808
Appropriation of endowment assets for expenditure	(5,900,000)	-	(5,900,000)
Endowment net assets, end of year	\$ -	\$ 135,892,939	\$ 135,892,939

	2017 (Restated)		
	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ -	\$ 122,871,421	\$ 122,871,421
Investment return			
Investment income	2,057,788	-	2,057,788
Net appreciation	3,942,212	8,078,537	12,020,749
Total investment return	6,000,000	8,078,537	14,078,537
Contributions	-	1,809,746	1,809,746
Appropriation of endowment assets for expenditure	(6,000,000)	-	(6,000,000)
Endowment net assets, end of year	\$ -	\$ 132,759,704	\$ 132,759,704

Amounts of donor-restricted endowment funds classified as net assets with donor restrictions at June 30, 2018 and 2017, consisted of:

	2018	2017
Net assets subject to endowment spending policy and appropriation, portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or Ohio UPMIFA	<u>\$ 69,475,479</u>	<u>\$ 67,843,205</u>
Subject to appropriation and expenditure when a specified event occurs, portion of perpetual endowment funds subject to appropriation and expenditure when a specified event occurs under Ohio UPMIFA	<u>\$ 66,417,460</u>	<u>\$ 64,916,499</u>

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. There were no such deficiencies at June 30, 2018 and 2017.

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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.

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, 2018 was 4.8 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.

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 \$47,090,000 and \$43,680,000 as of June 30, 2018 and 2017, respectively. The fees paid to related parties, inclusive of investment, insurance and other fees for services performed by these parties amounted to approximately \$159,641 and \$202,290 for 2018 and 2017, 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 \$2,150,000 and \$2,097,000 for 2018 and 2017, respectively.

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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 \$167,000 to the plan in 2019.

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 \$95,000 to the plan in 2019.

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	
	2018	2017	2018	2017
Change in benefit obligation				
Beginning of year	\$ (1,639,945)	\$ (1,756,006)	\$ (1,500,432)	\$ (1,387,034)
Service cost	(82,386)	(80,760)	(46,344)	(51,025)
Interest cost	(61,215)	(61,189)	(58,406)	(50,910)
Actuarial gain (loss)	61,712	7,114	15,748	(62,663)
Participant contributions	-	-	(90,145)	(124,983)
Benefit payments	129,777	250,896	144,895	176,183
End of year	(1,592,057)	(1,639,945)	(1,534,684)	(1,500,432)
Fair value of plan assets	-	-	-	-
Funded status at end of year	\$ (1,592,057)	\$ (1,639,945)	\$ (1,534,684)	\$ (1,500,432)

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

	Pension Benefits		Other Benefits	
	2018	2017	2018	2017
Accrued benefit liability	\$ (1,592,057)	\$ (1,639,945)	\$ (1,534,684)	\$ (1,500,432)

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

	Pension Benefits		Other Benefits	
	2018	2017	2018	2017
Net loss	\$ 299,002	\$ 374,705	\$ 345,960	\$ 376,541
Prior service cost	42,743	134,542	-	-
	\$ 341,745	\$ 509,247	\$ 345,960	\$ 376,541

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

	2018	2017
Projected benefit obligation	\$ 1,592,057	\$ 1,639,945
Accumulated benefit obligation	\$ 1,401,811	\$ 1,449,454
Fair value of plan assets	\$ -	\$ -

Other significant balances and costs as of June 30 are:

	Pension Benefits		Other Benefits	
	2018	2017	2018	2017
Benefit costs	\$ 249,391	\$ 244,934	\$ 119,583	\$ 113,621
Employer contributions	129,777	250,896	54,750	51,200
Benefits paid	129,777	250,896	144,895	176,183

Components of net periodic benefit cost are:

	Pension Benefits		Other Benefits	
	2018	2017	2018	2017
Service cost	\$ 82,386	\$ 80,760	\$ 46,344	\$ 51,025
Interest cost	61,215	61,189	58,406	50,910
Amortization of prior service cost	91,799	88,860	-	-
Recognized net actuarial loss	13,991	14,125	14,833	11,686
	<u>\$ 249,391</u>	<u>\$ 244,934</u>	<u>\$ 119,583</u>	<u>\$ 113,621</u>

The estimated net loss and prior service cost obligation for the defined benefit pension plan that will be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year are \$9,000 and \$43,000, respectively. 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 \$12,614.

Weighted-average assumptions used to determine benefit obligations:

	Pension Benefits		Other Benefits	
	2018	2017	2018	2017
Discount rate	4.00%	4.00%	4.00%	4.00%
Rate of compensation increase	2.00%	2.00%	N/A	N/A
Health care cost trend	N/A	N/A	6.50%	7.00%

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Weighted-average assumptions used to determine benefit costs:

	Pension Benefits		Other Benefits	
	2018	2017	2018	2017
Discount rate	4.00%	3.75%	4.00%	3.75%
Rate of compensation increase	2.00%	1.75%	N/A	N/A
Health care cost trend	N/A	N/A	6.50%	7.00%

For measurement purposes, a 6.50 percent and 7.00 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2018 and 2017. 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.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of June 30, 2018:

	Pension Benefits	Other Benefits
2019	\$ 166,889	\$ 95,037
2020	190,042	108,414
2021	177,507	92,968
2022	129,426	85,809
2023	99,414	86,716
2024 - 2028	772,597	493,314

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, 2018 and 2017:

	2018			
	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Money market funds	\$ 8,797,555	\$ 8,797,555	\$ -	\$ -
U.S. Treasury securities and government agency bonds	3,129,849	2,426,653	703,196	-
Corporate debt securities	7,770,580	-	7,354,862	415,718
Mortgage-backed securities, GSEs	651,680	-	651,680	-
Municipal bonds	395,747	-	395,747	-
Mutual funds				
Equity	24,088,045	24,088,045	-	-
Fixed income	11,656,823	11,656,823	-	-
International	19,218,102	19,218,102	-	-
Alternative funds	12,732,419	12,732,419	-	-
Common stocks				
Industrials	2,044,689	2,044,689	-	-
Consumer discretionary	1,727,711	1,727,711	-	-
Consumer staples	1,222,742	1,222,742	-	-
Energy	1,243,173	1,243,173	-	-
Financial	4,360,679	4,360,679	-	-
Materials	922,633	922,633	-	-
Information technology	4,793,155	4,793,155	-	-
Health care	3,295,995	3,295,995	-	-
Other	1,084,740	1,084,740	-	-
Alternative investments				
Limited partnerships (A)	6,738,713	-	-	-
Hedge funds (A)	4,625,696	-	-	-
Investment in real estate	1,403,369	-	-	1,403,369
Annuity and Life Income Funds Held in Trust				
Corporate debt securities	1,248,544	-	1,248,544	-
Money market funds	63,892	63,892	-	-
Mutual funds				
Value, growth and blended fixed income	4,786,019	4,786,019	-	-
Beneficial Interest in Perpetual Trusts	5,601,515	-	-	5,601,515
Beneficial Interest in Charitable Remainder Trusts	297,462	-	-	297,462
Interest Rate Swap Agreements	28,993	-	28,993	-

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	2017			
	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Money market funds	\$ 13,400,507	\$ 13,400,507	\$ -	\$ -
U.S. Treasury securities and government agency bonds	4,187,039	3,075,319	1,111,720	-
Corporate debt securities	8,965,851	-	8,550,133	415,718
Mortgage-backed securities, GSEs	606,784	-	606,784	-
Municipal bonds	252,585	-	252,585	-
Mutual funds				
Equity	30,369,847	30,369,847	-	-
Fixed income	11,018,532	11,018,532	-	-
International	12,989,970	12,989,970	-	-
Alternative funds	8,262,514	8,262,514	-	-
Common stocks				
Industrials	2,186,317	2,186,317	-	-
Consumer discretionary	1,051,498	1,051,498	-	-
Consumer staples	1,498,973	1,498,973	-	-
Energy	1,014,558	1,014,558	-	-
Financial	4,464,970	4,464,970	-	-
Materials	1,001,296	1,001,296	-	-
Information technology	4,217,599	4,217,599	-	-
Health care	2,376,109	2,376,109	-	-
Other	1,147,050	1,147,050	-	-
Alternative investments				
Limited partnerships (A)	6,604,777	-	-	-
Hedge funds (A)	3,525,073	-	-	-
Annuity and Life Income Funds Held in Trust				
Corporate debt securities	1,348,398	-	1,348,398	-
Money market funds	148,051	148,051	-	-
Mutual funds				
Value, growth and blended fixed income	4,797,972	4,797,972	-	-
Beneficial Interest in Perpetual Trusts	5,388,822	-	-	5,388,822
Beneficial Interest in Charitable Remainder Trusts	473,822	-	-	473,822
Interest Rate Swap Agreements	3,503	-	3,503	-

(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 statement 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, 2018. 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.

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.

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.

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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:

	Beneficial Interest in Perpetual Trusts	Beneficial Interest in Charitable Remainder Trusts	UMDF Note	Investment in Real Estate
Balance, July 1, 2016	\$ 5,103,701	\$ 544,898	\$ 415,718	\$ -
Liquidation of trusts	-	(92,593)	-	-
Total realized and unrealized gains included in change in net assets	285,121	21,517	-	-
Balance, June 30, 2017	5,388,822	473,822	415,718	-
Liquidation of trusts				
Additions				1,403,369
Total realized and unrealized gains included in change in net assets	-	(192,011)	-	-
	212,693	15,651	-	-
Balance, June 30, 2018	<u>\$ 5,601,515</u>	<u>\$ 297,462</u>	<u>\$ 415,718</u>	<u>\$ 1,403,369</u>
Total gains 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, 2018	<u>\$ 212,693</u>	<u>\$ 15,651</u>	<u>\$ -</u>	<u>\$ -</u>
June 30, 2017	<u>\$ 285,121</u>	<u>\$ 21,517</u>	<u>\$ -</u>	<u>\$ -</u>

The unrealized gains and 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:

	Fair Value at June 30, 2018	Valuation Technique	Unobservable Inputs	Range
Beneficial interest in perpetual trusts	\$ 5,601,515	Discounted cash flows	Discount rates Market return rates	3% - 7%
Beneficial interest in charitable remainder trusts	297,462	Discounted cash flows	Mortality assumptions Market return rates	4% - 8%
UMDF Note	415,718	Discounted cash flows	Discount rates	2% - 5%
Investment in real estate	1,403,369	Discounted cash flows	Discount rates Market comparables	3% - 10%

	Fair Value at June 30, 2017	Valuation Technique	Unobservable Inputs	Range
Beneficial interest in perpetual trusts	\$ 5,388,822	Discounted cash flows	Discount rates Market return rates	3% - 7%
Beneficial interest in charitable remainder trusts	473,822	Discounted cash flows	Mortality assumptions Market return rates	4% - 8%
UMDF Note	415,718	Discounted cash flows	Discount rates	2% - 5%

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Sensitivity of Significant Unobservable Inputs

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationships between those inputs and other unobservable inputs used in recurring fair value measurement and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement:

Beneficial Interest in Remainder Trusts and Perpetual Trusts

The significant unobservable inputs used in the fair value measurement of the University's beneficial interest in remainder trusts and perpetual trusts are discount rates and market return rates. The discount rate of the trust is the interest rate utilized to discount future cash flows in a present value cash flow calculation. The discount rate used often represents the return market participants' would demand on similar assets. Therefore, significant increases (decreases) in the discount rate used would result in (lower) higher fair value measurement.

UMDF Note

The significant unobservable input used in the fair value measurement of the University's UMDF Note is the discount rate. The discount rate is the market interest rate a market participant would require for a similar type instruments. Therefore, an increase in discount rate would result in a decrease in the fair value of the note.

Investment in Real Estate

The significant unobservable input used in the fair value measurements are discount rates and comparable real estate transactions. The discount rate used often represents the return market participants' would experience on comparable transactions. Therefore, an increase in the discount rate would result in a decrease in the fair value of the investment.

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:

	2018
Cash and cash equivalents	\$ 11,067,849
Accounts receivable, net of allowance	1,734,191
Contributions receivable	106,300
Investments	5,875,000
Beneficial interest in perpetual trust and charitable remainder trusts	108,710
	\$ 18,892,050

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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, 2018, the University has \$66,417,460 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: 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 68 percent and 83 percent of contributions receivable were from one donor at June 30, 2018 and 2017, respectively.

Approximately 16 percent of contribution revenue resulted from one donor in 2017. There was no such concentration in 2018.

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 19: Subsequent Events

Subsequent events have been evaluated through October 17, 2018, which is the date the financial statements were issued.