



Independent Auditor's Report and Consolidated Financial Statements

June 30, 2019 and 2018



University of Mount Union

June 30, 2019 and 2018

Contents

Independent Auditor's Report.....	1
--	----------

Consolidated Financial Statements

Statements of Financial Position.....	3
Statements of Activities	4
Statements of Functional Expenses.....	6
Statements of Cash Flows	7
Notes to Financial Statements.....	8

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, 2019 and 2018, 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.

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, 2019 and 2018, 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 23, 2019

University of Mount Union
Consolidated Statements of Financial Position
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Cash and cash equivalents	\$ 15,079,546	\$ 12,708,908
Accounts receivable, net of allowance; 2019 - \$388,958, 2018 - \$376,843	1,152,535	1,734,191
Contributions receivable, net of allowance; 2019 - \$200,000, 2018 - \$225,000	4,459,057	2,609,360
Inventory	231,770	278,422
Loans receivable	2,795,820	3,257,689
Investments	124,919,981	121,904,095
Beneficial interest in perpetual trusts and charitable remainder trusts	6,015,855	5,898,977
Annuity and life income funds held in trust	5,991,221	6,098,455
Property and equipment, net	145,665,640	146,525,457
Other assets	47,256	465,410
	<u>306,358,681</u>	<u>301,480,964</u>
Total assets	<u>\$ 306,358,681</u>	<u>\$ 301,480,964</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 2,432,602	\$ 2,724,502
Accrued expenses	4,270,262	5,168,922
Deposits and other	1,801,108	1,904,778
Annuities and trusts payable	1,554,650	1,575,922
Debt	21,832,854	23,631,154
Advances from Government for student loans	2,800,072	2,758,899
Total liabilities	<u>34,691,548</u>	<u>37,764,177</u>
Net Assets		
Without donor restrictions		
Undesignated	122,709,357	122,602,826
Designated by the Board for endowment	2,463,004	2,047,865
	<u>125,172,361</u>	<u>124,650,691</u>
With donor restrictions		
Perpetual in nature	73,454,804	69,475,479
Purpose restriction	71,569,218	68,155,242
Time-restricted for future periods	1,470,750	1,435,375
	<u>146,494,772</u>	<u>139,066,096</u>
Total net assets	<u>271,667,133</u>	<u>263,716,787</u>
Total liabilities and net assets	<u>\$ 306,358,681</u>	<u>\$ 301,480,964</u>

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

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Income and Other Support			
Educational and general			
Student tuition and fees	\$ 67,327,055	\$ -	\$ 67,327,055
Less financial aid	(31,325,915)	-	(31,325,915)
Net student tuition and fees	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	45,187,019	8,783,343	53,970,362
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	59,868,527	7,737,723	67,606,250
Expenses			
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	50,248,496	-	50,248,496
Institutional support	7,951,336	-	7,951,336
Fundraising	2,151,889	-	2,151,889
Total expenses	60,351,721	-	60,351,721
Change in Net Assets Before Investment Return Less			
Amounts Designated for Operations and Other Items	(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
Change in Net Assets	521,670	7,428,676	7,950,346
Net Assets, Beginning of Year	124,650,691	139,066,096	263,716,787
Net Assets, End of Year	\$ 125,172,361	\$ 146,494,772	\$ 271,667,133

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			
Program services			
Instruction	23,549,600	-	23,549,600
Academic support	3,128,768	-	3,128,768
Student services	10,402,267	-	10,402,267
Auxiliary enterprises	10,845,144	-	10,845,144
Total program services	47,925,779	-	47,925,779
Institutional support	7,533,902	-	7,533,902
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 Statements of Functional Expenses
Years Ended June 30, 2019 and 2018

	Program Services				Total Program	Institutional Support	Fundraising	Total
	Instruction	Academic Support	Student Services	Auxiliary Enterprises				
2019								
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
	\$ 25,095,221	\$ 3,249,423	\$ 11,009,136	\$ 10,894,716	\$ 50,248,496	\$ 7,951,336	\$ 2,151,889	\$ 60,351,721

	Program Services				Total Program	Institutional Support	Fundraising	Total
	Instruction	Academic Support	Student Services	Auxiliary Enterprises				
2018								
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
	\$ 23,549,600	\$ 3,128,768	\$ 10,402,267	\$ 10,845,144	\$ 47,925,779	\$ 7,533,902	\$ 2,170,645	\$ 57,630,326

University of Mount Union
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	\$ 7,950,346	\$ 4,458,259
Items not requiring (providing) operating activities cash flows		
Realized and unrealized gains on investments	(686,463)	(5,019,388)
Loss on sale of property and equipment	31,898	5,843
Depreciation	5,405,314	5,461,755
Amortization of bond issuance costs	26,913	26,913
Change in allowance for uncollectible accounts and contributions receivable	(12,885)	41,938
Contributions received restricted for long-term investment	(3,546,173)	(1,513,701)
Contributions received restricted for acquisition of long-lived assets	(3,858,480)	(853,033)
Changes in		
Accounts, loans and contributions receivable	(793,287)	(946,044)
Inventory	46,652	46,255
Other assets	418,154	(343,101)
Accounts payable and accrued expenses	(437,709)	106,251
Annuities and trusts payable	(21,272)	(54,365)
Annuity and life income funds held in trust and beneficial interests in perpetual trusts and charitable remainder trusts	(9,644)	159,633
Deposits and other	(103,670)	567,606
Advances from government for student loans	41,173	(396,114)
Net cash provided by operating activities	4,450,867	1,748,707
Investing Activities		
Purchase of property and equipment	(5,366,748)	(1,946,307)
Proceeds from disposal of property and equipment	36,502	-
Purchase of investments	(14,426,388)	(9,424,672)
Proceeds from sales of investments	12,096,965	11,681,814
Net cash provided by (used in) investing activities	(7,659,669)	310,835
Financing Activities		
Payments on bonds and notes payable	(1,825,213)	(1,855,190)
Contributions received restricted for long-term investment	3,546,173	1,513,701
Contributions received restricted for acquisition of long-lived assets	3,858,480	853,033
Net cash provided by financing activities	5,579,440	511,544
Increase in Cash and Cash Equivalents	2,370,638	2,571,086
Cash and Cash Equivalents, Beginning of Year	12,708,908	10,137,822
Cash and Cash Equivalents, End of Year	\$ 15,079,546	\$ 12,708,908
Supplemental Cash Flows Information		
Fixed assets in accounts payable	\$ 476,513	\$ 1,229,364
Cash paid for interest	923,092	952,646

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

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, 2019 and 2018, cash equivalents consisted primarily of repurchase agreements.

At June 30, 2019, the University's cash accounts exceeded federally insured limits by approximately \$23,300,000.

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, 2019 and 2018

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. 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

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

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, 2019 and 2018.

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.

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

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.

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 2016.

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 \$3,783,000.

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Note 2: Investments and Investment Return

Investments at June 30 consisted of the following:

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 13,349,851	\$ 13,349,851	\$ 8,797,555	\$ 8,797,555
U.S. Treasury securities and Government agency bonds	1,395,478	1,470,103	3,199,796	3,129,849
Corporate debt securities	6,064,627	6,113,547	8,043,075	7,770,580
Mortgage-backed securities, GSEs	648,053	674,701	655,004	651,680
Municipal bonds	265,659	262,169	418,000	395,747
Mutual funds				
Domestic equity mutual funds	20,381,460	24,016,180	20,335,551	24,088,045
Fixed income mutual funds	12,884,600	12,684,015	12,357,328	11,656,823
International and emerging market mutual funds	18,476,294	20,237,746	14,777,488	19,218,102
Alternative funds	11,053,324	11,570,498	12,326,439	12,732,419
Common stocks				
Industrials	962,311	1,654,767	1,311,983	2,044,689
Consumer discretionary	985,798	1,848,471	829,281	1,727,711
Consumer staples	1,142,082	1,235,707	1,131,811	1,222,742
Energy	754,011	938,610	913,680	1,243,173
Financial	2,121,717	3,208,136	2,652,959	4,360,679
Materials	1,160,838	945,766	930,158	922,633
Information technology	1,758,310	3,690,157	2,244,572	4,793,155
Health care	2,619,342	3,271,002	2,695,615	3,295,995
Other	1,293,472	2,104,579	1,127,889	1,084,740
Alternative investments				
Limited partnerships	2,372,486	6,722,992	2,387,853	6,738,713
Hedge funds	4,629,067	6,388,984	3,356,820	4,625,696
Investment in real estate	1,403,369	2,532,000	1,403,369	1,403,369
	<u>\$ 105,722,149</u>	<u>\$ 124,919,981</u>	<u>\$ 101,896,226</u>	<u>\$ 121,904,095</u>

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Investments were held for the following purposes at June 30:

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
Endowment	\$ 104,838,312	\$ 124,035,254	\$ 101,066,404	\$ 121,074,273
Other	883,837	884,727	829,822	829,822
	<u>\$ 105,722,149</u>	<u>\$ 124,919,981</u>	<u>\$ 101,896,226</u>	<u>\$ 121,904,095</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, 2019			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-strategy hedge funds (A)	\$ 6,388,984	None	Quarterly	65 - 90 days
Limited partnerships (B)	6,722,992	None	Monthly	7 days

	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

- (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, 2019 and 2018

Total investment return is comprised of the following:

	2019	2018
Interest and dividend income	\$ 4,517,925	\$ 2,407,881
Net realized gains on investments reported at fair value	1,496,499	3,558,674
Net unrealized gains (losses) on investments reported at fair value	<u>(810,036)</u>	<u>1,460,714</u>
	<u>\$ 5,204,388</u>	<u>\$ 7,427,269</u>

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

	2019	2018
Operating income	\$ 5,875,000	\$ 5,900,000
Other nonoperating gain (loss)	<u>(670,612)</u>	<u>1,527,269</u>
	<u>\$ 5,204,388</u>	<u>\$ 7,427,269</u>

Note 3: Contributions Receivable

Contributions receivable at June 30 consisted of the following:

	2019	2018
Due within one year	\$ 686,587	\$ 155,500
Due in one to five years	1,578,734	776,052
Due in five to ten years	<u>540,000</u>	<u>56,250</u>
	2,805,321	987,802
Less		
Allowance for uncollectible contributions	(200,000)	(225,000)
Unamortized discount (2.00% - 4.50%)	<u>(152,576)</u>	<u>(73,357)</u>
	<u>\$ 2,452,745</u>	<u>\$ 689,445</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 \$2,006,312 and \$1,919,915 as of June 30, 2019 and 2018, respectively.

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Note 4: Beneficial Interest in Perpetual Trusts and Remainder Trusts

The University is the beneficiary under perpetual trusts administered by outside parties. Under the terms of the trusts, the University has the irrevocable right to receive income earned on the trust assets in perpetuity, but never receives the assets held in trust. The estimated value of the expected future cash flows is \$5,700,872 and \$5,601,515, which represents the fair value of the trust assets at June 30, 2019 and 2018, 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 \$314,983 and \$297,462 at June 30, 2019 and 2018, respectively. The discount rates used to calculate the present value were 4 percent to 6 percent.

Note 5: Property and Equipment

Property and equipment at June 30 consisted of the following:

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 24,323,435	\$ 22,652,025
Buildings	192,887,252	190,491,256
Equipment and vehicles	21,673,501	21,373,888
Construction in progress	1,889,287	1,810,703
	<u>240,773,475</u>	<u>236,327,872</u>
Less accumulated depreciation and amortization	<u>(95,107,835)</u>	<u>(89,802,415)</u>
	<u>\$ 145,665,640</u>	<u>\$ 146,525,457</u>

Note 6: Line of Credit

The University has a \$1,000,000 revolving bank line of credit, expiring December 31, 2019. At June 30, 2019 and 2018, there were no borrowings against this line. Interest varies with LIBOR (London Interbank Offering Rate) and is payable monthly.

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Note 7: Debt

	2019	2018
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 \$233,080 and \$247,647 at June 30, 2019 and 2018, respectively.	\$ 9,175,000	\$ 9,525,000
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 \$135,808 and \$148,154 at June 30, 2019 and 2018, respectively.	10,578,072	11,245,715
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.	98,670	192,642
Note payable, unsecured, interest rate of 3.00%, payable in annual installments of \$65,506 beginning on January 2, 2015. The final payment was made on January 2, 2019.	-	63,598
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.	1,100,000	1,500,000
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.	1,250,000	1,500,000
	22,201,742	24,026,955
Less: Unamortized bond issuance costs	(368,888)	(395,801)
	\$ 21,832,854	\$ 23,631,154

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.

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Aggregate annual maturities of debt at June 30, 2019, are:

2020	\$ 1,797,928
2021	1,736,323
2022	1,678,207
2023	1,415,764
2024	1,458,402
Thereafter	<u>14,115,118</u>
	<u>\$ 22,201,742</u>

The debt agreements contain certain financial covenants. As of June 30, 2019 and 2018, the University is in compliance with these covenants.

The University charged \$919,064 and \$959,892 to interest expense for the years ended June 30, 2019 and 2018, respectively.

Note 8: Annuities and Trusts Payable

The University has been the recipient of several gift annuities, which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value. The University has recorded a liability at June 30, 2019 and 2018, of \$347,481 and \$337,518, 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, 2019 and 2018, of \$1,207,169 and \$1,238,404, respectively.

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Note 9: 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 \$1,100,000 and \$1,500,000 and at June 30, 2019 and 2018, 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:

	2019	2018
Fair value of asset for interest rate swap agreements	<u>\$ 3,435</u>	<u>\$ 28,993</u>
Statement of financial position location of fair value amount	Other assets	Other assets
Gain (loss) recognized in change in net assets	<u>\$ (25,558)</u>	<u>\$ 25,490</u>
Location of gain (loss) recognized in change in net assets	Change in value of interest rate swap	Change in value of interest rate swap

Note 10: Internal Borrowings

During 2010, borrowings within the University were made from the endowment fund for capital projects. The borrowings from the endowment fund totaled \$8,114,953 and \$8,336,919 at June 30, 2019 and 2018, 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.

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Note 11: Net Assets With Donor Restriction

Net assets with donor restrictions at June 30, 2019 and 2018, are restricted for the following purposes or periods:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose		
Unexpended property and equipment funds	\$ 4,858,759	\$ 1,053,589
Other purposes of the University	602,045	684,193
	<u>5,460,804</u>	<u>1,737,782</u>
Subject to the passage of time		
Trusts and gift annuities	1,470,750	1,435,375
Endowments		
Subject to appropriation and expenditure when a specified event occurs	66,108,414	66,417,460
Subject to endowment spending policy and appropriation		
Scholarships and operations	64,379,627	60,395,843
Annuity, life income and charitable remainder and perpetual trusts	9,075,177	9,079,636
	<u>73,454,804</u>	<u>69,475,479</u>
Total endowments	<u>139,563,218</u>	<u>135,892,939</u>
Total net assets with donor restrictions	<u>\$ 146,494,772</u>	<u>\$ 139,066,096</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>2019</u>	<u>2018</u>
Purpose restrictions accomplished		
Educational program expenses	\$ 391,251	\$ -
Property and equipment acquired and placed into service	460,415	114,306
Time restrictions expired, passage of time	193,954	95,367
	<u>\$ 1,045,620</u>	<u>\$ 209,673</u>

Note 12: 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.

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

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, 2019 and 2018, was:

	2019		
	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 139,563,218	\$ 139,563,218
	2018		
	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 135,892,939	\$ 135,892,939

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Changes in endowment net assets for the years ended June 30, 2019 and 2018, were:

	2019		
	Without Donor Restriction	With Donor Restriction	Total
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

	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	1,513,466	5,012,063
Total investment return	5,900,000	1,513,466	7,413,466
Change in value of split-interest agreements	-	202,961	202,961
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

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, 2019 and 2018.

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

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, 2019 was 4.75 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 13: 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 \$44,950,000 and \$47,090,000 as of June 30, 2019 and 2018, respectively. The fees paid to related parties, inclusive of investment, insurance and other fees for services performed by these parties amounted to approximately \$242,388 and \$159,641 for 2019 and 2018, respectively.

Note 14: 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 \$2,160,000 and \$2,150,000 for 2019 and 2018, respectively.

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

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 \$87,000 to the plan in 2020.

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

	Other Benefits	
	2019	2018
Change in benefit obligation		
Beginning of year	\$ (1,534,684)	\$ (1,500,432)
Service cost	(50,508)	(46,344)
Interest cost	(59,505)	(58,406)
Actuarial gain (loss)	(168,922)	15,748
Participant contributions	(83,971)	(90,145)
Benefit payments	138,121	144,895
End of year	(1,759,469)	(1,534,684)
Fair value of plan assets	-	-
Funded status at end of year	\$ (1,759,469)	\$ (1,534,684)

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

	Other Benefits	
	2019	2018
Accrued benefit liability	\$ (1,759,469)	\$ (1,534,684)

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

	Other Benefits	
	2019	2018
Net loss	\$ 502,268	\$ 345,960

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Other significant balances and costs as of June 30 are:

	Other Benefits	
	2019	2018
Benefit costs	\$ 122,627	\$ 119,583
Employer contributions	54,150	54,750
Benefits paid	138,121	144,895

Components of net periodic benefit cost are:

	Other Benefits	
	2019	2018
Service cost	\$ 50,508	\$ 46,344
Interest cost	59,505	58,406
Amortization of prior service cost	-	-
Recognized net actuarial loss	12,614	14,833
	<u>\$ 122,627</u>	<u>\$ 119,583</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 \$22,019.

Weighted-average assumptions used to determine benefit obligations:

	Other Benefits	
	2019	2018
Discount rate	4.00%	4.00%
Rate of compensation increase	N/A	N/A
Health care cost trend	7.50%	6.50%

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Weighted-average assumptions used to determine benefit costs:

	Other Benefits	
	2019	2018
Discount rate	4.00%	4.00%
Rate of compensation increase	N/A	N/A
Health care cost trend	7.50%	6.50%

For measurement purposes, a 7.50 percent and 6.50 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2019 and 2018. 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, 2019:

	Other Benefits
2020	\$ 86,987
2021	99,302
2022	89,531
2023	91,289
2024	94,128
2025 - 2029	535,655

The University had a noncontributory defined benefit pension plan covering all employees who met the eligibility requirements. The liability under this plan was \$1,592,057 at June 30, 2018. 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 \$395,062 at June 30, 2019.

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Note 15: 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

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

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, 2019 and 2018:

	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)
Investments				
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
Annuity and Life Income Funds Held in Trust				
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	-	-
Beneficial Interest in Perpetual Trusts	5,700,872	-	-	5,700,872
Beneficial Interest in Charitable Remainder Trusts	314,983	-	-	314,983
Interest Rate Swap Agreements	3,435	-	3,435	-

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

	2018			
	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Money market funds	\$ 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	-

(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.

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

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, 2019. 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.

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

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	Corporate Debt Securities	Investment in Real Estate
Balance, July 1, 2017	\$ 5,388,822	\$ 473,822	\$ 415,718	\$ -
Liquidation of trusts	-	(192,011)	-	-
Additions	-	-	-	1,403,369
Total realized and unrealized gains included in change in net assets	212,693	15,651	-	-
Balance, June 30, 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	<u>\$ 5,700,872</u>	<u>\$ 314,982</u>	<u>\$ 106,397</u>	<u>\$ 2,532,000</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, 2019	<u>\$ 99,357</u>	<u>\$ 17,520</u>	<u>\$ -</u>	<u>\$ 1,128,631</u>
June 30, 2018	<u>\$ 212,693</u>	<u>\$ 15,651</u>	<u>\$ -</u>	<u>\$ -</u>

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

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

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, 2019	Valuation Technique	Unobservable Inputs	Range
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%

	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%
Corporate debt securities	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%

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

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.

Corporate Debt Securities

The significant unobservable input used in the fair value measurement of the University's corporate debt securities 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 16: 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>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 12,814,927	\$ 11,067,849
Accounts receivable, net of allowance	1,152,535	1,734,191
Contributions receivable	580,600	106,300
Investments	6,200,000	5,875,000
Beneficial interest in perpetual trust and charitable remainder trusts	<u>127,556</u>	<u>108,710</u>
	<u>\$ 20,875,618</u>	<u>\$ 18,892,050</u>

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

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 6). At June 30, 2019, the University has \$66,108,414 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 17: 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 43 percent and 68 percent of contributions receivable were from one donor at June 30, 2019 and 2018, respectively.

Approximately 36 percent of contribution revenue resulted from two donors in 2019. 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.

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Note 18: Subsequent Events

Subsequent events have been evaluated through October 23, 2019, which is the date the financial statements were issued.