



CONSOLIDATED FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS

KANSAS WESLEYAN UNIVERSITY

June 30, 2013

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Board of Trustees
Kansas Wesleyan University

We have audited the accompanying consolidated financial statements of Kansas Wesleyan University (a nonprofit organization) (the “Entity”), which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities and cash flows for the year 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 audit. We conducted our audit 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 Entity’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 Entity’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 financial position of Kansas Wesleyan University as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Wichita, Kansas
February 18, 2014

CONSOLIDATED FINANCIAL STATEMENTS

Kansas Wesleyan University

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2013

ASSETS

ASSETS

Cash and cash equivalents	\$ 1,289,958
Investments	4,789,221
Accounts receivable, less allowance for uncollectible accounts of \$30,000	111,088
Unconditional promises to give, net	1,253,406
Notes receivable, net	852,916
Bond issuance cost, less accumulated amortization of \$6,445	122,494
Cash and investments restricted for long-term purposes	14,151,611
Beneficial interests in perpetual trusts	13,434,958
Property, plant and equipment, net	23,813,878
Other assets	269,537
Total assets	<u><u>\$ 60,089,067</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 1,222,058
Deposits, advance enrollments and deferred income	444,975
Deposits held in custody for others	232,292
Refundable government loan program	890,228
Bonds payable	5,020,000
Liability for future annuity payments	86,961
Total liabilities	<u>7,896,514</u>

NET ASSETS

Unrestricted	
Available for operations	4,287,190
Investment in property, plant and equipment	18,791,372
Student loan funds	112,272
Total unrestricted net assets	<u>23,190,834</u>
Temporarily restricted	
Scholarships and other	2,356,041
Special projects and purposes	1,535,858
Total temporarily restricted net assets	<u>3,891,899</u>
Permanently restricted	
Scholarships and other	25,102,760
Special projects and purposes	7,060
Total permanently restricted net assets	<u>25,109,820</u>
Total net assets	<u>52,192,553</u>
Total liabilities and net assets	<u><u>\$ 60,089,067</u></u>

The accompanying notes are an integral part of these statements.

Kansas Wesleyan University

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support				
Educational and general				
Tuition and fees	\$ 14,604,593	\$ -	\$ -	\$ 14,604,593
Less: scholarships and other aid	(6,091,782)	-	-	(6,091,782)
Net tuition and fees	8,512,811	-	-	8,512,811
Gifts and bequests	327,169	741,844	323,672	1,392,685
Governmental grants	82,759	-	-	82,759
Realized and unrealized gains (losses), net	(22,406)	1,957,998	2,556,675	4,492,267
Interest and dividends	90,526	323,185	-	413,711
Other	60,935	-	-	60,935
Total educational and general	9,051,794	3,023,027	2,880,347	14,955,168
Auxiliary enterprises	3,481,545	-	-	3,481,545
Independent operations	108,418	-	-	108,418
Total revenues and gains	12,641,757	3,023,027	2,880,347	18,545,131
Net assets released from restrictions	963,064	(963,064)	-	-
Total revenues, gains and other support	13,604,821	2,059,963	2,880,347	18,545,131
Expenses				
Educational and general				
Instruction	3,444,264	-	-	3,444,264
Academic support	579,554	-	-	579,554
Student services	1,386,811	-	-	1,386,811
Athletics	1,612,104	-	-	1,612,104
Institutional support	2,923,392	-	-	2,923,392
Operation and maintenance of plant	852,821	-	-	852,821
Other expenses	257,022	-	-	257,022
Total educational and general	11,055,968	-	-	11,055,968
Auxiliary enterprises	2,899,591	-	-	2,899,591
Independent operations	119,634	-	-	119,634
Loss on bond refunding	123,900	-	-	123,900
Total expenses	14,199,093	-	-	14,199,093
Change in net assets	(594,272)	2,059,963	2,880,347	4,346,038
Net assets, beginning of year, as restated (Note P)	23,785,106	1,831,936	22,229,473	47,846,515
Net assets, end of year	<u>\$ 23,190,834</u>	<u>\$ 3,891,899</u>	<u>\$ 25,109,820</u>	<u>\$ 52,192,553</u>

The accompanying notes are an integral part of these statements.

Kansas Wesleyan University

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30, 2013

Cash flows from operating activities	
Change in net assets	\$ 4,346,038
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation of property, plant and equipment	819,852
Amortization of bond issuance cost and discount	9,324
Unrealized gains, net	(4,121,392)
Realized gains, net	(370,875)
Gifts and bequests restricted for long-term investments	(323,672)
Loss on bond refunding	123,900
Changes in operating assets and liabilities	
Accounts receivable	494,718
Unconditional promises to give	(173,150)
Notes receivable	18,661
Other assets	(34,913)
Accounts payable and accrued expenses	(187,090)
Deposits, advance enrollments and deferred income	36,686
Net cash provided by operating activities	638,087
Cash flows from investing activities	
Purchase of investments	(19,011,979)
Proceeds from sale of investments	18,643,710
Purchase of property, plant, and equipment	(1,222,375)
Net cash used in investing activities	(1,590,644)
Cash flows from financing activities	
Proceeds from the issuance of bonds payable	5,270,000
Principal payments on bonds payable	(250,000)
Refunding of Series 2007 bonds	(4,462,191)
Payment of bond issuance costs	(128,939)
Gifts and bequests restricted for long-term investments	323,672
Decrease in refundable government loan program	(5,786)
Increase in deposits held in custody for others	26,889
Net cash provided by financing activities	773,645
Decrease in cash and cash equivalents	(178,912)
Cash and cash equivalents, beginning of year	1,468,870
Cash and cash equivalents, end of year	<u>\$ 1,289,958</u>
Supplemental disclosures of cash flow information	
Cash paid for interest	\$ 215,532

The accompanying notes are an integral part of these statements.

Kansas Wesleyan University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

NOTE A - SUMMARY OF ACCOUNTING POLICIES

1. Nature of operations

Kansas Wesleyan University (the "University") (a nonprofit organization) is a liberal arts college under the auspices of the United Methodist Church.

The Kansas Wesleyan University Foundation (the "Foundation") (a nonprofit organization) is a foundation established to receive, invest and disburse amounts for the benefit of the University and institutions related to, affiliated with and cooperating with the University. A portion of the Foundation's assets are considered an endowment fund of the University (see Note J). The financial statements of the Foundation are consolidated with the financial statements of the University. All significant balances and transactions between these organizations have been eliminated in the consolidation.

2. Basis of presentation

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the University and/or the passage of time.

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporarily restricted net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Donor-restricted contributions which restrictions are met in the same reporting period are reported as unrestricted revenue.

Kansas Wesleyan University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

Government grants received from the United States Department of Education with limitations on the use of the resources are reported as unrestricted revenues when grants are awarded to students because the limitations are not donor-imposed restrictions.

Realized and unrealized gains (losses) and income on investments of endowment and similar funds are reported as follows:

- as increases (decreases) in permanently restricted net assets if the terms of the gift require that they be included in the principal of a permanent endowment fund;
- as increases (decreases) in temporarily restricted net assets if the terms of the gift impose time or purpose restrictions on their use or if derived from the principal of a donor-imposed permanent endowment fund until appropriated for expenditure; or
- as increases (decreases) in unrestricted net assets in all other cases.

3. Cash and cash equivalents

For the purposes of the statement of cash flows, the University considers all cash and other highly liquid investments with original maturities of three months or less to be cash equivalents. The University places its cash and cash equivalents with high quality financial institutions, which at times may exceed federally insured limits. The University has not experienced any losses on such accounts.

4. Investments and cash and investments restricted for long-term purposes

Cash and certificates of deposit are carried at cost. Investments in equity securities with a readily determinable fair value and debt securities are carried at fair value. Unrealized gains and losses are included in the change in net assets.

5. Accounts receivables

Accounts receivable are stated at the amount billed to the students less applied scholarships, loan proceeds and payments received from the student and third parties and an allowance for uncollectible accounts. The University extends unsecured credit and loans to students. The University provides an allowance for uncollectible 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 term, unless the student has made other payment arrangements. Accounts receivable are considered past due based upon payment terms set forth at the date of the related service provided.

6. Notes receivable

Notes receivables include amounts due under the Federal Perkins Loan Program which are stated at the outstanding principal amount, net of an allowance for uncollectible accounts, if necessary. 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 uncollectible accounts, which is based upon a review of outstanding loans, historical collection information and existing economic conditions. Interest income is recorded as received which is not materially different from the amount that would have been recognized on the accrual basis.

Kansas Wesleyan University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

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.

7. Property, plant and equipment

Purchases of property, plant and equipment are capitalized at cost. Additions and betterments of \$2,500 or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently. Donated assets are capitalized at fair value when received.

Depreciation expense is determined using the straight-line method over the estimated useful life of each depreciable asset as follows:

Land improvements	10-40 years
Buildings and improvements	10-40 years
Equipment and furnishings	10 years
Vehicles	5 years

8. Bond issuance costs

Bond issuance costs consist of costs incurred in connection with the issuance of bond obligations. These costs have been deferred and are being amortized over the term of the related bonds using the straight line method, which approximates the effective interest method.

9. Beneficial interests in perpetual trusts

The University is a beneficiary of certain irrevocable trusts held by third parties where the trustees have no discretion regarding the beneficiaries' participation in the trusts. The University's proportionate share of the fair value of the trusts, which approximates the net present value of the estimated future cash flows receivable by the University, is reported as an asset and as contribution revenue at the formation of the trusts.

Annual income distributions from the trusts are recognized as investment income in the appropriate net asset classification in accordance with the restrictions of the trusts. Changes in the University's proportionate share of the fair value of the trusts are reported as unrealized gains (losses) in the appropriate net asset classification in accordance with the restrictions of the trusts, generally as permanently restricted net assets.

10. Charitable gift annuities

The University has entered into annuity agreements whereby in exchange for a gift from donors, the University is obligated to make fixed annual payments to the donors or other designated beneficiaries during their lifetime. The assets received and annuity liabilities are recognized at fair value at inception. The fair value of the liability at inception is estimated based on the actuarial present value of the payments expected to be made. In subsequent periods, the annuity liability is reduced by payments and adjusted for amortization of the discount and changes in life expectancy of the beneficiary.

Kansas Wesleyan University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

11. Refundable government loan program

The refundable government loan program liability includes advances from the U.S. Government under the Federal Perkins Loan Program and the program's cumulative net income (loss), as these funds are ultimately refundable to the U.S. Government.

12. Functional allocation of expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Certain costs have been allocated among the programs and supporting services benefited.

13. Advertising

Advertising costs are charged to expense when incurred in the consolidated statement of activities. Advertising costs incurred during the fiscal year ended June 30, 2013 were \$183,641.

14. Income taxes

The University is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. The University annually evaluates tax positions taken with regard to unrelated business income, related deductions applied, or other activities that may jeopardize its tax exempt status and thus would meet the definition of an uncertain tax position. The University recognizes the financial statement benefit of a tax position only after determining the relevant taxing authority would more likely than not sustain the position following an audit. The University has concluded that there are no uncertain tax positions taken that would require recognition of a liability or disclosure in the financial statements. The University recognizes interest and penalties on tax assessments as other expenses within the consolidated statement of activities. The University is generally no longer subject to U.S. federal and state income tax examinations by taxing authorities for fiscal years before 2010.

In July of 2011, the Foundation received notification from the Internal Revenue Service that its tax exempt status was revoked. Management of the Foundation has taken steps to request retroactive reinstatement of the tax exempt status. While it is not feasible at this time to predict or determine the final outcome of the request for reinstatement, it is the opinion of management, based upon Internal Revenue Service statutes, that the tax exempt status will be retroactively reinstated.

15. 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Kansas Wesleyan University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

16. Subsequent events

The University has evaluated its subsequent events (events occurring after June 30, 2013) through February 18, 2014, which represents the date the consolidated financial statements were available to be issued. The University is not aware of any subsequent events that would require recognition or disclosure in the consolidated financial statements.

NOTE B - INVESTMENTS

Investments and cash and investments restricted for long-term purposes at June 30, 2013 consist of the following:

	<u>Carrying value</u>
Carried at cost	
Cash	\$ 625,888
Certificates of deposit	178,166
	<u>804,054</u>
Carried at fair value	
Equity securities	2,281,077
Equity mutual funds	10,047,257
Fixed income mutual funds	1,137,320
Other mutual funds	922,537
Greater Salina Community Foundation Fund	33,397
U.S. Government and agency securities	398,517
Corporate bonds	2,606,696
Municipal bonds	709,977
	<u>18,136,778</u>
	<u>\$ 18,940,832</u>

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 the values of investment securities will occur in the near term.

NOTE C - BENEFICIAL INTERESTS IN PERPETUAL TRUSTS

Beneficial interests in perpetual trusts are comprised of the estimated fair value of the University's beneficial interests in perpetual trusts held by third parties. Under the terms of the trusts and subject to applicable laws and regulations, the trustee annually determines the estimated total return of the trusts for the next year and distributes those earnings to the University. Because the estimated total return is used to determine the distribution, a portion of the principal of the trust may be received incidentally.

Kansas Wesleyan University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE C - BENEFICIAL INTERESTS IN PERPETUAL TRUSTS - Continued

The underlying assets held by the perpetual trusts include the following as of June 30, 2013:

Money market funds	\$ 396,121
Certificates of deposit	33,150
Equity securities	552,018
Equity mutual funds	2,557,376
Fixed income mutual funds	981,704
Other mutual funds	102,663
U.S. Government and agency securities	187,549
Corporate bonds	365,947
Municipal bonds	49,454
Real estate	7,925,410
Mineral interests	283,566
	<u>\$ 13,434,958</u>

NOTE D - UNCONDITIONAL PROMISES TO GIVE, NET

Unconditional promises to give consist of the following at June 30, 2013:

Promises to give expected to be collected in	
Less than one year	\$ 339,215
One to five years	<u>959,865</u>
	1,299,080
Less: Discounts to net present value	(30,674)
Less: Allowance for uncollectible promises to give	<u>(15,000)</u>
Net unconditional promises to give	<u>\$ 1,253,406</u>

Unconditional promises to give with due dates extending beyond one year are discounted at a rate of 1.04%, which represents the average of the three and five year daily treasury rates at June 30, 2013.

Kansas Wesleyan University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE E - FAIR VALUE MEASUREMENTS

Accounting guidance establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The asset or liability's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Following is a description of the valuation methodologies used for assets at fair value.

Equity securities and mutual funds

Valued at the closing price reported on the active market on which the individual securities are traded. Mutual funds held by the University are required to publish their daily net asset value (NAV) and to transact at that price.

U.S. Government and agency securities, corporate bonds and municipal bonds

Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Greater Salina Community Foundation Fund

The University's investment in the Greater Salina Community Foundation Fund (the "Fund") is valued by the Greater Salina Community Foundation based on estimates of the net asset value (NAV) of the underlying investments of the Fund as provided by fund managers and based on other market-based data. Because the University owns an undivided interest in the Fund, its unit of account for fair value measurement purposes is the Fund. The University cannot look through the Fund to its underlying assets for the classification level in the fair value hierarchy. Rather, it must consider if relevant observable inputs exist for an undivided interest in the Fund. The Fund is classified as Level 3 in the fair value hierarchy because no observable inputs exist for an undivided interest in the Fund. However, at June 30, 2013, all of the underlying assets of the Fund are mutual funds with fair values measured based on quoted market prices for identical assets in active markets.

Kansas Wesleyan University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE E - FAIR VALUE MEASUREMENTS - Continued

Beneficial interests in perpetual trusts

The University has beneficial interests in perpetual trusts administered by third parties. The income earned from these trusts is available for institutional purposes as determined by donor restrictions. Beneficial interests are recognized in the consolidated financial statements as the University's proportionate share of the estimated fair value of the beneficial interest. The University uses quoted market prices, interest rates, yield curves and unobservable inputs including the present value calculation of expected future distributions to estimate the fair value of the beneficial interests in perpetual trusts.

Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimate could differ from actual results.

The following table presents assets that are measured at fair value on a recurring basis in the consolidated statement of financial position and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2013:

	Fair value	Level 1	Level 2	Level 3
Assets:				
Investments				
Equity securities	\$ 2,281,077	\$ 2,281,077	\$ -	\$ -
Equity mutual funds	10,047,257	10,047,257	-	-
Fixed income mutual funds	1,137,320	1,137,320	-	-
Other mutual funds	922,537	922,537	-	-
U.S. Government and agency securities	398,517	-	398,517	-
Corporate bonds	2,606,696	-	2,606,696	-
Municipal bonds	709,977	-	709,977	-
Greater Salina Community Foundation Fund	33,397	-	-	33,397
	18,136,778	14,388,191	3,715,190	33,397
Beneficial interests in perpetual trusts	13,434,958	-	-	13,434,958
	\$ 31,571,736	\$ 14,388,191	\$ 3,715,190	\$ 13,468,355

The change in fair value of the University's Level 3 assets is as follows:

	Greater Salina Community Foundation Fund	Beneficial interests in perpetual trusts
Balance on June 30, 2012, as restated (Note P)	\$ 30,711	\$ 11,350,225
Realized and unrealized gains (losses), net	4,088	2,835,462
Distributions and withdrawals	(1,402)	(750,729)
Balance on June 30, 2013	\$ 33,397	\$ 13,434,958

Kansas Wesleyan University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE F - PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consists of the following as of June 30, 2013:

Land	\$ 98,014
Land improvements	57,130
Buildings	32,875,518
Equipment	2,165,107
Vehicles	131,545
Total property in service	35,327,314
Accumulated depreciation	(12,848,340)
Construction in progress	1,334,904
	\$ 23,813,878

NOTE G - BONDS PAYABLE

In December 2012, the Saline County, Kansas Education Facilities Revenue Bonds, Series 2012 were issued in the amount of \$5,270,000 for the sole purpose of refunding the Kansas Independent College Finance Authority Education Facilities Revenue Bonds, Series 2007. Bonds payable are \$5,020,000 at June 30, 2013. The bonds require the University to make monthly payments to the trustee sufficient to service the principal maturities and interest requirements through May 1, 2022. The bond agreement contains various restrictive covenants which include requirements for the maintenance of specified financial ratios. In management's opinion the University has complied with the covenants. The bonds are collateralized by property, plant and equipment of the University. Interest is charged at a rate of 2.3% until December 19, 2017. Thereafter and until maturity, interest will be charged at a rate equal to the sum of the five-year treasury rate plus 300 basis points, which then shall be multiplied by the prevailing tax equivalent yield rate. The University paid bond issuance costs of \$128,939 during the year ended June 30, 2013 for the Series 2012 issuance that are being amortized over the term of the bonds. Amortization expense for these costs totaled \$6,445 for the year ended June 30, 2013.

Loss on bond refunding

The University recognized a loss on the refunding of the Series 2007 bonds of \$123,900 for the year ended June 30, 2013. The loss consisted of the unamortized portion of the Series 2007 bond issuance costs and original issue discount. The loss on bond refunding is recognized separately in the consolidated statement of activities.

Scheduled principal payments on the bonds payable at June 30, 2013 are as follows:

Year ending June 30,	
2014	\$ 520,000
2015	540,000
2016	540,000
2017	540,000
2018	540,000
Thereafter	2,340,000
	\$ 5,020,000

Kansas Wesleyan University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE H - GUARANTY

The University has a membership interest in Associated Colleges of Central Kansas (ACCK). ACCK provides the University and other Kansas universities with the use of software and related program support. On June 24, 2013, ACCK borrowed funds from a bank in the amount of \$1,006,408, which is to be paid in quarterly installments with final payment due on June 30, 2016. The University has guaranteed a portion of the indebtedness and would be obligated to perform under the guarantee if ACCK failed to pay principal and interest payments to the lender when due. The University's share of the maximum potential amount of future (undiscounted) payments under the guarantee is \$201,282 at June 30, 2013, plus interest and the University's proportionate share of the lender's costs, expenses, and attorney fees incurred.

NOTE I - RETIREMENT PLAN

The University has a defined contribution pension plan covering substantially all full-time employees. Pension expense, which is funded currently, aggregated \$425,827 for the year ended June 30, 2013.

NOTE J - KANSAS WESLEYAN UNIVERSITY FOUNDATION ENDOWMENT FUND

The University has established the Foundation to receive, invest and disburse amounts for the benefit of the University. The Foundation is a nonprofit corporation with a separate governing board. The Foundation's financial statements are consolidated with the financial statements of the University.

The University's endowment consists of permanently restricted funds and related earnings held by the Foundation along with the beneficial interests in perpetual trusts. Net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

The University's investment policy consists of investing in a diversified asset or assets in an attempt to maximize total return consistent with an acceptable level of risk. The University's endowment management strategy is that present and future generations of students will enjoy equivalent levels of purchasing power through a balanced endowment management approach which (a) generates income to provide for current needs and (b) maintains a base for generating income to meet future needs. Up to 4.5% (or higher if donor restrictions specify a distribution percentage) of the total fair value of investable assets as of July 1 each year is budgeted for use in the University's current fiscal year according to restrictions of donors. The Board of Trustees determines an appropriate amount of expenditures each year based on the net asset value of the endowment fund.

The Board of Trustees of the University has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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 the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by SPMIFA.

Kansas Wesleyan University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE J - KANSAS WESLEYAN UNIVERSITY FOUNDATION ENDOWMENT FUND - Continued

In accordance with SPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the University and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the University
7. The investment policies of the University

Changes in endowment net assets

Changes in endowment net assets for the year ended June 30, 2013 are as follows:

	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2012, as restated (Note P)	\$ 896,359	\$ 22,222,413	\$ 23,118,772
Gifts and bequests	-	323,672	323,672
Interest and dividends	323,185	-	323,185
Realized and unrealized gains, net	1,957,998	2,556,675	4,514,673
Appropriation for expenditure	(821,501)	-	(821,501)
Endowment net assets, June 30, 2013	\$ 2,356,041	\$ 25,102,760	\$ 27,458,801

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. These deficiencies result from unfavorable market fluctuations and expenditures in excess of revenues. There were no deficiencies at June 30, 2013.

NOTE K - OPERATING LEASES

The University has entered into leases for certain office equipment and vehicles. All of these agreements are classified as operating leases and have terms expiring over the next five years. Rent expense on these leases totaled \$66,427 for the year ended June 30, 2013.

Kansas Wesleyan University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE K - OPERATING LEASES - Continued

The future minimum lease payments required under these operating leases with original terms in excess of one year are presented below:

Year ending June 30,	
2014	\$ 56,532
2015	49,433
2016	43,673
2017	6,298
Total	<u>\$ 155,936</u>

NOTE L - ADVANCEMENT EXPENSES

The University incurred development and fund-raising expenses amounting to \$510,968 for the year ended June 30, 2013. Such amounts are included in institutional support expenses in the accompanying consolidated statement of activities.

NOTE M - CONCENTRATIONS OF CREDIT RISK

The Kansas Wesleyan Foundation has invested in mutual funds, securities issued by the U.S. Treasury and other federal agencies, corporate bonds, municipal bonds, and corporate stocks. These investments are held and managed by five institutions. The Foundation Board of Trustees has established a policy whereby no more than 5% of the equity and debt portfolios should be invested in any one company.

The University has demand deposit accounts at various financial institutions. The balances with a certain institution were in excess of the Federal insurance limitations as of June 30, 2013.

NOTE N - ASSETS TRANSFERRED TO A RECIPIENT ORGANIZATION

Kansas Wesleyan Foundation and the Retired Senior Volunteer Program (RSVP) each transferred \$10,000 to the Greater Salina Community Foundation for the establishment of named funds. The Greater Salina Community Foundation may make annual distributions to Kansas Wesleyan Foundation and RSVP of an amount up to but not to exceed 5% of the respective fund's net fair market value. At June 30, 2013, the fair value of these assets was \$33,397 and is included in investments in the accompanying consolidated statement of financial position.

NOTE O - NOTES RECEIVABLE, NET

The University makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government resources. At June 30, 2013, student loans represented 1.4% of total assets and are recognized as notes receivable in the consolidated statement of financial position.

Kansas Wesleyan University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE O - NOTES RECEIVABLE, NET - Continued

Notes receivable consisted of the following at June 30, 2013:

Federal government loan programs	\$ 1,022,916
Allowance for uncollectible accounts	<u>(170,000)</u>
	<u>\$ 852,916</u>

The University participates in the Perkins federal revolving loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government of \$890,228 at June 30, 2013 are ultimately refundable to the government and are classified as liabilities in the consolidated statement of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

The following amounts were past due under the student loan programs:

	<u>1-60 days past due</u>	<u>60-90 days past due</u>	<u>90+ days past due</u>	<u>Total past due</u>
June 30, 2013	\$ 737	\$ 218	\$ 262,054	\$ 263,009

An allowance for uncollectible accounts is established, if necessary, based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Loan balances are written off only when they are deemed to be permanently uncollectible.

NOTE P - CORRECTION OF PRIOR PERIOD ERRORS

The previously issued consolidated financial statements contained errors made in years prior to 2013 related to understatement of fair value of real estate held in a perpetual trust and misclassifications of net assets based on donor restrictions. Net assets at June 30, 2012 have been restated to correct the errors with the following changes made to the June 30, 2012 balances:

- beneficial interests in perpetual trusts increased by \$3,813,023
- unrestricted net assets increased by \$1,805,100
- temporarily restricted net assets decreased by \$2,362,127
- permanently restricted net assets increased by \$4,370,050



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