

Kansas Wesleyan University and Foundation

Independent Auditor's Report and Combined Financial Statements

June 30, 2021 and 2020

Kansas Wesleyan University and Foundation
June 30, 2021 and 2020

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Independent Auditor's Report

Board of Trustees
Kansas Wesleyan University and Foundation
Salina, Kansas

Report on the Financial Statements

We have audited the accompanying combined financial statements of Kansas Wesleyan University and Foundation, which comprise the combined statements of financial position as of June 30, 2021 and 2020, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Kansas Wesleyan University and Foundation as of June 30, 2021 and 2020, 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.

Emphasis of Matter

As described in *Note 1* to the financial statements, in 2021, Kansas Wesleyan University adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the U.S. Department of Education Financial Responsibility Supplemental Schedule, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2021, on our consideration of Kansas Wesleyan University and Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Kansas Wesleyan University and Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kansas Wesleyan University and Foundation's internal control over financial reporting and compliance.

BKD, LLP

Wichita, Kansas
November 30, 2021

Kansas Wesleyan University and Foundation
Statements of Financial Position
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 3,475,535	\$ 4,924,158
Investments	971,718	3,676,281
Accounts receivable, less allowance for uncollectible accounts of \$143,988 and \$243,988 in 2021 and 2020	229,292	276,982
Unconditional promises to give, net	1,537,971	1,224,341
Notes receivable, net	570,792	703,130
Cash and investments restricted for long-term purposes	26,875,197	17,150,381
Beneficial interest in perpetual trusts	14,820,927	13,156,065
Property and equipment, net	36,666,401	31,323,782
Other assets	309,573	346,473
	<u>\$ 85,457,406</u>	<u>\$ 72,781,593</u>
Total assets		
 Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,235,261	\$ 1,606,045
Deposits, advance enrollments and other	74,087	104,958
Deposits held in custody for others	457,585	384,155
Refundable government loan programs	420,655	481,464
Bonds payable less unamortized debt issuance costs of \$78,160 and \$32,306 in 2021 and 2020	3,413,240	1,227,694
Deferred revenue	-	1,763,000
Liability for future annuity payments	54,618	54,618
	<u>5,655,446</u>	<u>5,621,934</u>
Total liabilities		
 Net Assets		
Without donor restrictions	35,576,433	31,521,789
With donor restrictions	44,225,527	35,637,870
	<u>79,801,960</u>	<u>67,159,659</u>
Total net assets		
Total liabilities and net assets	<u>\$ 85,457,406</u>	<u>\$ 72,781,593</u>

Kansas Wesleyan University and Foundation
Statements of Activities
Years Ended June 30, 2021 and 2020

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Educational and general			
Tuition and fees	\$ 10,029,853	\$ -	\$ 10,029,853
Less: scholarships and other aid	-	-	-
Net tuition and fees	10,029,853	-	10,029,853
Gifts and bequests	1,650,793	6,226,590	7,877,383
Governmental grants	848,915	-	848,915
Investment return, net	152,596	7,246,590	7,399,186
Other	47,015	-	47,015
Paycheck Protection Program Forgiveness	1,776,761	-	1,776,761
Total educational and general	14,505,933	13,473,180	27,979,113
Auxiliary enterprises income	4,531,803	-	4,531,803
Total revenues and gains	19,037,736	13,473,180	32,510,916
Net assets released from restrictions	4,885,523	(4,885,523)	-
	<u>23,923,259</u>	<u>8,587,657</u>	<u>32,510,916</u>
Total revenues, gains and other support			
Expenses and Losses			
Educational and general			
Instructional	4,296,783	-	4,296,783
Academic support	850,840	-	850,840
Student services	2,192,017	-	2,192,017
Athletics	3,135,424	-	3,135,424
Institutional support	3,479,302	-	3,479,302
Operation and maintenance of plant	1,439,923	-	1,439,923
Other expenses	102,639	-	102,639
Fundraising	527,684	-	527,684
Total educational and general	16,024,612	-	16,024,612
Auxiliary enterprises	3,844,003	-	3,844,003
Total expenses	19,868,615	-	19,868,615
Change in Net Assets	4,054,644	8,587,657	12,642,301
Net Assets, Beginning of Year	31,521,789	35,637,870	67,159,659
Net Assets, End of Year	<u>\$ 35,576,433</u>	<u>\$ 44,225,527</u>	<u>\$ 79,801,960</u>

See Notes to Financial Statements

2020		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 18,991,883	\$ -	\$ 18,991,883
(9,926,951)	-	(9,926,951)
<u>9,064,932</u>	<u>-</u>	<u>9,064,932</u>
420,783	5,559,841	5,980,624
990,224	-	990,224
122,199	999,092	1,121,291
114,715	-	114,715
-	-	-
<u>10,712,853</u>	<u>6,558,933</u>	<u>17,271,786</u>
<u>3,730,742</u>	<u>-</u>	<u>3,730,742</u>
<u>14,443,595</u>	<u>6,558,933</u>	<u>21,002,528</u>
<u>5,109,601</u>	<u>(5,109,601)</u>	<u>-</u>
<u>19,553,196</u>	<u>1,449,332</u>	<u>21,002,528</u>
4,186,172	-	4,186,172
654,140	-	654,140
2,193,682	-	2,193,682
2,672,230	-	2,672,230
2,902,968	-	2,902,968
984,955	-	984,955
65,403	-	65,403
519,064	-	519,064
<u>14,178,614</u>	<u>-</u>	<u>14,178,614</u>
<u>3,347,864</u>	<u>-</u>	<u>3,347,864</u>
<u>17,526,478</u>	<u>-</u>	<u>17,526,478</u>
2,026,718	1,449,332	3,476,050
<u>29,495,071</u>	<u>34,188,538</u>	<u>63,683,609</u>
<u>\$ 31,521,789</u>	<u>\$ 35,637,870</u>	<u>\$ 67,159,659</u>

Kansas Wesleyan University and Foundation
Statements of Functional Expenses
June 30, 2021 and 2020

	2021									
	Program Services					Support Services				
	Instructional	Academic Support	Athletics	Student Services	Auxiliary Enterprise	Institutional Support	Operation and Maintenance of Plant	Other	Fund Raising	Total
Professional services	\$ 7,119	\$ 21,791	\$ 68,556	\$ 93,917	\$ 18,819	\$ 450,417	\$ 1,694	\$ -	\$ 66,300	\$ 728,613
Advertising and recruiting	829	377	79,298	36,383	-	131,635	-	-	330	248,852
Bad debt	-	-	-	-	-	209,750	-	-	-	209,750
Computer software	17,492	66,952	29,357	284,768	3,362	151,650	1,849	-	19,439	574,869
Training	131,130	3,934	98,691	3,910	56	2,245	33	-	3,749	243,748
Library	-	-	-	-	79,554	-	-	-	-	79,554
Printing and postage	29,795	24,144	13,333	68,552	4,270	57,722	1,255	-	38,516	237,587
Depreciation	-	-	-	-	887,984	-	690,916	-	-	1,578,900
Dues and fees	54,596	7,032	111,011	11,030	741	48,162	-	-	3,672	236,244
Furniture and equipment	25,509	912	151,413	4,697	24,119	200,708	10,447	-	169	417,974
Insurance and taxes	-	-	119,030	163	163	241,629	98	-	529	361,612
Interest	-	-	-	-	-	-	-	79,236	-	79,236
Student aid - HEERF	-	-	-	411,731	-	-	-	-	-	411,731
Travel	8,949	121,610	60,762	388	5	1,831	3	-	6,189	199,737
Meals	6,025	14,165	82,632	9,253	1,367,905	131,477	62	-	454	1,611,973
Repairs and maintenance	20,992	-	85,639	896	398,446	33,597	191,771	-	20	731,361
Other	96,345	8,905	86,886	40,625	32,401	191,641	15,492	23,403	7,821	503,519
Rentals	4,655	5,382	35,923	-	1,714	13,735	2,660	-	500	64,569
Salary and benefits	3,854,368	555,740	1,636,557	1,055,161	550,280	1,340,611	323,790	-	355,676	9,672,183
Security	-	571	-	77,337	4,844	685	2,504	-	-	85,941
Supplies	27,853	16,517	383,717	63,897	1,724	16,449	476	-	12,235	522,868
COVID	1,867	2,808	17,594	-	-	162,714	-	-	-	184,983
Telephone	1,096	-	2,609	12,039	226	85,183	136	-	1,188	102,477
Utilities	1,824	-	-	1,200	467,390	-	196,737	-	-	667,151
Vehicle leases	6,339	-	72,416	16,070	-	7,461	-	-	10,897	113,183
	<u>\$ 4,296,783</u>	<u>\$ 850,840</u>	<u>\$ 3,135,424</u>	<u>\$ 2,192,017</u>	<u>\$ 3,844,003</u>	<u>\$ 3,479,302</u>	<u>\$ 1,439,923</u>	<u>\$ 102,639</u>	<u>\$ 527,684</u>	<u>\$ 19,868,615</u>

See Notes to Financial Statements

Kansas Wesleyan University and Foundation
Statements of Functional Expenses
June 30, 2021 and 2020

	2020										
	Program Services					Support Services					Total
	Instructional	Academic Support		Athletics	Student Services	Auxiliary Enterprise	Institutional Support	Operation and Maintenance of Plant		Other	
Support		Athletics	Plant					Other			
Professional services	\$ 30,718	\$ 549	\$ 66,217	\$ 39,867	\$ 12,929	\$ 336,785	\$ 3,470	\$ -	\$ -	\$ 105,577	\$ 596,112
Advertising and recruiting	9,642	8	70,711	30,562	-	74,880	-	-	-	1,172	186,975
Bad debt	-	-	-	-	-	140,304	-	-	-	-	140,304
Computer software	18,608	44,648	21,878	203,907	-	184,514	-	-	-	21,199	494,754
Training	93,458	1,438	69,439	11,418	65	827	34	-	-	150	176,829
Library	15	-	-	-	72,397	-	-	-	-	-	72,412
Printing and postage	22,217	10,454	15,050	58,239	2,509	60,200	974	-	-	67,817	237,460
Depreciation	-	-	-	-	887,473	-	399,827	-	-	-	1,287,300
Dues and fees	69,504	2,040	76,096	14,968	-	46,632	-	-	-	2,797	212,037
Furniture and equipment	8,873	1,632	3,593	4,398	7,899	259,350	4,096	-	-	623	290,464
Insurance and taxes	44	-	93,940	(254)	2,357	260,248	86	-	-	529	356,950
Interest	-	-	-	-	-	-	-	52,475	-	-	52,475
Student aid - HEERF	-	-	-	411,731	-	-	-	-	-	-	411,731
Travel	3,748	85,699	50,817	24,118	-	20,424	-	-	-	11,960	196,766
Meals	11,484	5,985	104,386	21,839	1,032,299	16,778	367	-	-	10,611	1,203,749
Repairs and maintenance	12,787	-	27,449	445	216,456	24,492	133,952	-	-	120	415,701
Other	52,861	3,334	118,377	19,171	14,852	32,190	10,725	12,928	(9,987)	-	254,451
Rentals	108	86	20,971	-	2,363	9,825	1,225	-	-	2,500	37,078
Salary and benefits	3,824,349	474,075	1,529,460	1,242,256	656,131	1,282,156	221,768	-	-	280,169	9,510,364
Security	-	-	-	65,157	10,230	-	5,080	-	-	-	80,467
Supplies	22,809	24,192	326,496	19,916	3,353	16,823	(9)	-	-	16,953	430,533
COVID	3,386	-	1,493	-	2,975	48,035	1,543	-	-	-	57,432
Telephone	(22)	-	889	8,037	541	81,357	280	-	-	892	91,974
Utilities	981	-	-	814	423,035	192	201,536	-	-	-	626,558
Vehicle leases	602	-	74,968	17,093	-	6,956	-	-	-	5,982	105,601
	<u>\$ 4,186,172</u>	<u>\$ 654,140</u>	<u>\$ 2,672,230</u>	<u>\$ 2,193,682</u>	<u>\$ 3,347,864</u>	<u>\$ 2,902,968</u>	<u>\$ 984,955</u>	<u>\$ 65,403</u>	<u>\$ 519,064</u>	<u>\$ 17,526,478</u>	

See Notes to Financial Statements

Kansas Wesleyan University and Foundation
Statements of Cash Flows
June 30, 2021 and 2020

	2021	2020
Operating Activities		
Change in net assets	\$ 12,642,301	\$ 3,476,050
Items not requiring (providing) operating cash flows		
Depreciation of property, plant and equipment	1,578,900	1,287,300
Amortization of bond issuance costs and discount	24,840	12,900
Realized and unrealized gain on investments, net	(6,975,408)	(673,383)
Gifts and bequests restricted for long-term investments	(4,953,925)	(3,962,177)
Changes in		
Accounts receivable	47,690	222,962
Unconditional promises to give	(692,001)	(77,519)
Notes receivable	132,338	(315)
Other assets	36,900	(54,831)
Accounts payable and accrued expenses	(370,784)	696,543
Paycheck Protection Program deferred income liability	(1,763,000)	1,763,000
Deposits, advance enrollments and other	(30,871)	(130,980)
Net cash provided by (used in) operating activities	(323,020)	2,559,550
Investing Activities		
Purchases of investments	(272,059)	(2,918,500)
Proceeds from sales of investments	1,916,299	2,653,259
Purchase of property, plant and equipment	(6,921,519)	(2,745,518)
Net cash used in investing activities	(5,277,279)	(3,010,759)
Financing Activities		
Debt issuance costs paid	(88,000)	-
Proceeds from Series 2020 Bond	3,614,706	-
Principal payments on Series 2020 Bond	(106,000)	-
Principal payments on Series 2012 Bond	(1,260,000)	(540,000)
Gifts and bequests restricted for long-term purpose	1,978,349	3,741,204
Decrease in refundable government loan program	(60,809)	(77,152)
Change in deposits held in custody for others	73,430	(16,700)
Net provided by financing activities	4,151,676	3,107,352
Increase (Decrease) in Cash and Cash Equivalents	(1,448,623)	2,656,143
Cash and Cash Equivalents, Beginning of Year	4,924,158	2,268,015
Cash and Cash Equivalents, End of Year	\$ 3,475,535	\$ 4,924,158
Supplemental Disclosure of Cash Flow Information		
Interest paid	\$ 79,236	\$ 52,475

Kansas Wesleyan University and Foundation

Notes to Financial Statements

June 30, 2021 and 2020

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

Nature of Operations

Kansas Wesleyan University (a Kansas nonprofit organization) is an accredited liberal arts university situated in Salina, Kansas, and affiliated with The United Methodist Church.

The Kansas Wesleyan University Foundation (the “Foundation”) (a Kansas nonprofit organization) is a foundation established to receive, invest and disburse amounts for the benefit of Kansas Wesleyan University and institutions related to, affiliated with and cooperating with Kansas Wesleyan University. The Foundation’s assets along with certain other assets are presented as an endowment fund of Kansas Wesleyan University (see *Note 9*). The financial statements of the Foundation are combined with the financial statements of Kansas Wesleyan University (collectively the “University”). All significant balances and transactions between these organizations have been eliminated in the combination.

The bylaws of the Foundation state that the Foundation Trustees shall be elected by the Foundation Board. The Chairperson of the University Board of Trustees and the President of Kansas Wesleyan University shall serve as ex-officio Foundation Trustees without vote. Kansas Wesleyan University has an economic interest in the net assets of the Foundation; however, Kansas Wesleyan University does not control the Foundation. Combined financial statements are presented in accordance with accounting guidance and the Boards of Trustees of Kansas Wesleyan University and the Foundation determined that presenting combined financial statements of Kansas Wesleyan University and the Foundation is most meaningful to the readers of the financial statements.

Principles of Combination

The combined financial statements include the accounts of the University and the Foundation. All significant intercompany accounts and transactions have been eliminated in combination.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Kansas Wesleyan University and Foundation

Notes to Financial Statements

June 30, 2021 and 2020

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.

Uninvested cash and cash equivalents included in investment accounts, including endowment accounts and assets limited to uses are not considered to be cash and cash equivalents. Deposit accounts restricted internally by the Board are considered to be cash and cash equivalents. At June 30, 2021, the University's cash accounts exceeded federally insured limits by approximately \$3,300,000.

Investments, Net Investment Return, and Cash and Investments Restricted for Long-Term Purposes

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost or fair value.

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses.

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 with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Accounts Receivable

Student accounts receivable are stated at the amount of consideration from students and third parties of which the University has an unconditional right to receive plus any accrued and unpaid interest. The College 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. Charges that are past due without payments for six consecutive months, have had no response to the due diligence process and are assigned to third-party collection agencies are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the student.

Notes Receivable

Notes receivable include amounts due under the Federal Perkins Loan Program which are stated at the outstanding principal amount, net of an allowance for uncollectible accounts. 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

Kansas Wesleyan University and Foundation

Notes to Financial Statements

June 30, 2021 and 2020

recognized on the accrual basis. 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

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

Debt Issuance Cost

Debt issuance costs consist of costs incurred in connection with the issuance of bond obligations and are capitalized and presented as a direct reduction from the associated debt liability on the accompanying combined statements of financial position. Debt issuance costs are amortized over the term of the related debt liability using the straight line method, which approximates the effective interest method.

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, 2021 and 2020.

Paycheck Protection Program (PPP) Loan

The University received a PPP loan established by the *Coronavirus Aid, Relief and Economic Security Act (CARES Act)* and has elected to account for the funding as a conditional contribution by applying ASC Topic 958-605, Revenue Recognition. Revenue is recognized when conditions are met, which include meeting full-time equivalent (FTE) and salary reduction requirements and incurring eligible expenditures. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration, or lender; as a result of such audit, adjustments could be required to the recognition of revenue. The unrecognized amount of the PPP

Kansas Wesleyan University and Foundation

Notes to Financial Statements

June 30, 2021 and 2020

loan of \$1,763,000 at June 30, 2020, is recorded as deferred revenue in the accompanying combined statements of financial position. On January 22, 2021, the University received notice of PPP forgiveness payment. The forgiveness amount remitted were \$1,763,000 in principal and \$13,761 in interest and is recorded in the accompanying combined statement of activities at June 30, 2021.

Beneficial Interest 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 donor restricted net assets.

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.

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.

Net assets with donor restrictions are subject to donor restrictions. Some 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 restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

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Tuition and Auxiliary Services Revenue

Tuition revenue is recognized over the term of the semester as the University provides services to students. Revenue is reported at the amount of consideration which the University expects to be entitled in exchange for providing tuition and auxiliary services. The University determines the transaction price based on standard charges for goods and services provided, reduced by discounts provided for scholarships and other price concessions provided to students.

Contributions

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

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

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

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

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

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

Government Grants

Support funded by grants is recognized as the University meets the conditions prescribed by the grant agreement, performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

U.S. Government Loan Funds Receivable

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.

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 statement of activities.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. The statements of functional expense present the natural classification detail of expenses by function. Certain costs have been allocated among the program and fund-raising categories based on staff time studies and other methods.

Change in Accounting Principle

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), that replaces existing revenue recognition guidance. The new standard requires companies to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, Topic 606 requires disclosures of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

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The University adopted this standard on July 1, 2020, using a modified retrospective approach with the cumulative effect of initially applying the new standard recognized in net assets at the beginning of the year of adoption. Comparative prior period information has not been adjusted and continues to be reported in accordance with previous revenue recognize guidance in ASC Topic 605 – *Revenue Recognition*. The University has applied the new standard to all contracts that are not complete at the date of adoption.

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

Note 2: Investments and Investment Return

Investments and cash and investments restricted for long-term purposes at June 30, 2021 and 2020, consist of the following:

	<u>2021</u>	<u>2020</u>
Carried at cost		
Cash	\$ 153,145	\$ 3,003
Certificates of deposit	66,713	64,928
	<u>219,858</u>	<u>67,931</u>
Carried at net asset value		
Money market funds	<u>1,882,831</u>	<u>4,088,155</u>
Carried at fair value		
Equity securities	3,467,063	2,188,469
Equity mutual funds	14,971,023	9,754,031
Fixed income mutual funds	3,739,559	2,438,964
U.S. Government and agency securities	846,392	461,927
Corporate bonds	977,935	713,896
Municipal bonds	1,742,254	1,113,289
	<u>25,744,226</u>	<u>16,670,576</u>
	<u>\$ 27,846,915</u>	<u>\$ 20,826,662</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.

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Investments and cash and investments restricted for long-term purposes are included in the following captions on the Statement of Financial Position.

	2021	2020
Investments	\$ 971,718	\$ 3,676,281
Cash and investments restricted for long-term purposes	26,875,197	17,150,381
	\$ 27,846,915	\$ 20,826,662

Investment return for the year ended June 30 includes:

	2021	2020
Net realized and unrealized gains	\$ 6,975,408	\$ 673,383
Interest and dividends	423,778	447,908
Net investment return	\$ 7,399,186	\$ 1,121,291

Investments as of June 30 valued using net asset value per share, have the following liquidity restrictions:

	Fair Value	Redemption Frequency	Redemption Notice Period
June 30, 2021			
Money market fund (A)	\$ 1,882,831	Daily	None
June 30, 2020			
Money market fund (A)	\$ 4,088,155	Daily	None

- (A) This fund seeks to maintain liquidity with as high of a level of current income that is consistent with preservation of capital. The fund invests primarily in short-term, high-quality, fixed-income securities issued by banks, corporations and the U.S. government, rated in the highest short-term category or of comparable quality.

Note 3: Disclosures About Fair Value of Assets

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

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- 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 supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents 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, 2021 and 2020:

	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
June 30, 2021				
Investments				
Equity securities	\$ 3,467,063	\$ 3,467,063	\$ -	\$ -
Equity mutual funds	14,971,023	14,971,023	-	-
Fixed income mutual funds	3,739,559	3,739,559	-	-
U.S. government and agency securities	846,392	-	846,392	-
Corporate bonds	977,935	-	977,935	-
Municipal bonds	1,742,254	-	1,742,254	-
	<u>25,744,226</u>	<u>22,177,645</u>	<u>3,566,581</u>	<u>-</u>
Beneficial interests in perpetual trusts	<u>14,820,927</u>	<u>-</u>	<u>-</u>	<u>14,820,927</u>
Total investments in the fair value hierarchy	<u>\$ 40,565,153</u>	<u>\$ 22,177,645</u>	<u>\$ 3,566,581</u>	<u>\$ 14,820,927</u>

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	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
June 30, 2020				
Investments				
Equity securities	\$ 2,188,469	\$ 2,188,469	\$ -	\$ -
Equity mutual funds	9,754,031	9,754,031	-	-
Fixed income mutual funds	2,438,964	2,438,964	-	-
U.S. government and agency securities	461,927	-	461,927	-
Corporate bonds	713,896	-	713,896	-
Municipal bonds	1,113,289	-	1,113,289	-
	<u>16,670,576</u>	<u>14,381,464</u>	<u>2,289,112</u>	<u>-</u>
Beneficial interests in perpetual trusts	<u>13,156,065</u>	<u>-</u>	<u>-</u>	<u>13,156,065</u>
Total investments in the fair value hierarchy	<u>\$ 29,826,641</u>	<u>\$ 14,381,464</u>	<u>\$ 2,289,112</u>	<u>\$ 13,156,065</u>

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, 2021. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Investments

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.

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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. 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. Beneficial interests are recognized in the 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.

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 Interests in Perpetual Trusts
Balance on July 1, 2019	\$ 13,541,567
Realized and unrealized gains, net	357,500
Contribution	516,315
Distributions and withdrawals	(1,259,317)
Balance on July 1, 2020	13,156,065
Realized and unrealized gains, net	1,974,433
Distributions and withdrawals	(309,571)
Balance on June 30, 2021	\$ 14,820,927

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Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring Level 3 fair value measurements at June 30, 2021 and 2020:

	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
June 30, 2021				
Beneficial interest in perpetual trust	\$ 14,820,927	NPV of future distributions	Fair value of underlying assets as reported by the trustees	None
June 30, 2020				
Beneficial interest in perpetual trust	\$ 13,156,065	NPV of future distributions	Fair value of underlying assets as reported by the trustees	None

Note 4: Unconditional Promises to Give, Net

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

	2021	2020
Promises to give expected to be collected in		
Less than one year	\$ 498,313	\$ 709,502
One to five years	1,097,225	572,406
	1,595,538	1,281,908
Less: Discounts to net present value	(27,567)	(27,567)
Less: Allowance for uncollectible promises to give	(30,000)	(30,000)
Net conditional promises to give	<u>\$ 1,537,971</u>	<u>\$ 1,224,341</u>

Unconditional promises to give with due dates extending beyond one year are discounted at a range of rates between .67% and 1.74%.

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Note 5: Property and Equipment

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

	2021	2020
Land	\$ 98,014	\$ 98,014
Land improvements	442,741	331,701
Buildings	52,874,604	45,565,454
Equipment	5,265,846	3,634,018
Vehicles	162,077	162,077
Total property in service	58,843,282	49,791,264
Accumulated depreciation	(22,209,662)	(20,630,762)
Construction in progress	32,781	2,163,280
	\$ 36,666,401	\$ 31,323,782

Note 6: 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. 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 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. At June 30, 2020, the interest rate was 3.38%.

In September 2020, the Saline County, Kansas Educational Facility Revenue Bonds, Series 2020, were issued in the amount of \$3,662,000 for the sole purposes of refunding the Saline County, Kansas Education Facilities Revenue Bonds, Series 2012, and to finance the Energy Performance Project as discussed in *Note 13*. During 2021, the University drew \$3,614,706 of the allowable bond proceeds. Interest and principal payments began October 1, 2020. The interest rate is 2.568% and the maturity date is June 1, 2030. Bond issuance costs of \$88,000 were paid in 2021 and the unamortized amount of \$78,160 are included in the accompanying statements of financial position. The bond is prepayable in full at any time. The University is required to maintain a Debt Service Coverage Ratio, as defined, of 1 to 1. The University is in compliance as of June 30, 2021.

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Scheduled principal payments on the bonds payable at June 30, 2021, are as follows:

Year ending June 30,	
2022	\$ 348,000
2023	360,000
2024	373,000
2025	386,000
2026	396,000
Thereafter	<u>1,645,706</u>
	<u>\$ 3,508,706</u>

Note 7: Revenue from Contracts with Students

Tuition and Auxiliary Services Revenue

Revenue from contracts with students for tuition and auxiliary services is reported at the amount that reflects the consideration to which the University expects to be entitled in exchange for providing instruction and housing, food and other services. These amounts are due from students, third-party payers and others and includes variable consideration for scholarships.

Revenue is recognized as performance obligations are satisfied, which is ratably over the academic term. Generally, the University bills students prior to the beginning of the semester, and student accounts receivable are due in full by the first day of class.

The University maintains an institutional tuition refund policy, which provides for all or a portion of tuition to be refunded if a student withdrew during certain limited, stated refund periods. If a student withdraws at a time when only a portion, or none of the tuition is refundable, then in accordance with its revenue recognition policy, the University continues to recognize the tuition that is not refunded pro-rata over the applicable period of instruction. The University does not record revenue on amounts that may be refunded. However, for students that take out financial aid to pay their tuition and for which a return of such money to the Department of Education under Title IV is required as a result of his or her withdrawal, the University reassesses collectability for these students each semester for the estimated revenue that will be returned and recognizes the revenue in future periods when payment was received, if any.

Tuition and auxiliary services revenue are considered to be separate contracts.

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Transaction Price and Recognition

The University estimates the transaction price for students based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standards charged by any institutional scholarships and aid in accordance with the University's policies for granting certain merit-based aid. Subsequent changes that are determined to be the result of an adverse change in the student's ability to pay are recorded as bad debt expense.

From time to time the University will receive overpayments of student balances resulting in amounts owed back to either the students or third parties. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. The University had no material liabilities for refunds to students as of June 30, 2021.

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

- Payers (for example, customer, governmental programs and others) that have different reimbursement and payment methodologies
- Geography of the service location

The University has identified performance obligations associated with the provision of its educational instruction and other educational services, housing services, and other academic related services and used the output measure for recognition as the period of time over which the services are provided to students. The University has identified performance obligations such as book sales or certain merchandise sales and other ancillary activities and recognized revenue at the point in time goods or services are provided to its customers.

For the year ended June 30, 2021, the University recognized revenue of \$14,300,774, from goods and services that transfer to the student over time and \$317,397, from goods and services that transfer to the student at a point in time, respectively.

During the year ended June 30, 2021, tuition and fee revenue totaling \$21,339,238 was reduced by scholarships totaling \$11,309,385 to calculate the total tuition and fees of \$10,029,853 as presented on the statement of activities.

Contract Assets and Liabilities

The University's receivables represent unconditional rights to consideration from its contracts with students; accordingly, students are billed prior to the first day of the semester and the revenue recognition process has commenced. Once a student is invoiced, payment is due immediately unless some alternative payment plan is established by the student in limited circumstances. Included in each invoice to the student are all educational related items including tuition, net of scholarships, housing, educational materials, fees, etc. There were no contract assets at June 30, 2021. The University's contract liabilities are primarily deferred tuition and fees or student credit balances in the statements of financial position. Student credit balances and deposits in any period represent the excess of tuition, fees and other student payments received as compared to amounts recognized as revenue on the statement of activities and are reflected as liabilities in the accompanying statement of financial position.

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Note 8: Net Assets

Net Assets With Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose		
Educational and general expenditures	\$ 1,674,903	\$ 1,522,895
Scholarships, nursing building and other	850,000	3,355,254
Endowments		
Beneficial interest in perpetual trusts	14,820,927	13,156,065
Foundation	<u>26,879,697</u>	<u>17,603,656</u>
	<u>\$ 44,225,527</u>	<u>\$ 35,637,870</u>

Net Assets Without Donor Restrictions

Net assets without donor restrictions at June 30 have been designated for the following purposes:

	<u>2021</u>	<u>2020</u>
Undesignated	\$ 2,321,960	\$ 2,204,458
Loans to students	18,618	7,370
Invested in property and equipment, net of related debt	<u>33,235,855</u>	<u>29,309,961</u>
	<u>\$ 35,576,433</u>	<u>\$ 31,521,789</u>

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2021</u>	<u>2020</u>
Purpose restrictions accomplished		
Nursing building expenses	\$ 2,506,152	\$ 1,838,559
Educational program expenses	<u>2,379,371</u>	<u>3,271,042</u>
	<u>\$ 4,885,523</u>	<u>\$ 5,109,601</u>

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Note 9: Endowment

The University's governing body is subject to the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA). As a result, the University classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the governing body appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before being reclassified as net assets without donor restrictions.

Additionally, in accordance with 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 University endowment consists of several individual funds established for a variety of purposes. The endowment includes both beneficial interest in perpetual trusts and donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The composition of net assets by type of endowment fund at June 30, 2021 and 2020, was:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Beneficial interest in perpetual trusts	\$ -	\$ 14,820,927	\$ 14,820,927
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	19,248,041	19,248,041
Accumulated investment gains	-	7,631,656	7,631,656
Endowment net assets, June 30, 2021	<u>\$ -</u>	<u>\$ 41,700,624</u>	<u>\$ 41,700,624</u>

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	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Beneficial interest in perpetual trusts	\$ -	\$ 13,156,065	\$ 13,156,065
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	14,294,116	14,294,116
Accumulated investment gains	-	3,309,540	3,309,540
Endowment net assets, June 30, 2020	<u>\$ -</u>	<u>\$ 30,759,721</u>	<u>\$ 30,759,721</u>

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

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, July 1, 2019	\$ -	\$ 30,759,721	\$ 30,759,721
Contributions	-	4,953,925	4,953,925
Investment return, net	-	7,166,899	7,166,899
Appropriations	-	(1,179,921)	(1,179,921)
Endowment net assets, June 30, 2020	<u>\$ -</u>	<u>\$ 41,700,624</u>	<u>\$ 41,700,624</u>

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, July 1, 2019	\$ -	\$ 31,179,899	\$ 31,179,899
Contributions	-	587,716	587,716
Investment return, net	-	141,821	141,821
Appropriations	-	(1,149,715)	(1,149,715)
Endowment net assets, June 30, 2020	<u>\$ -</u>	<u>\$ 30,759,721</u>	<u>\$ 30,759,721</u>

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Investment and Spending Policies

The endowment consists of donor restricted funds in the University and the Foundation. Net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation was established to receive, invest and disburse amounts for the benefit of Kansas Wesleyan University and institutions related to, affiliated with and cooperating with Kansas Wesleyan University. The Foundation has a separate governing board. The Foundation's financial statements are combined with the financial statements of Kansas Wesleyan University (see *Note 1*).

The 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 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.

Underwater Endowments

The governing body of the University has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the University considers a fund to be underwater if the fair value of the fund is less than the sum of:

- a) the original value of initial and subsequent gift amounts donated to the fund and
- b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument.

The University has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. In accordance with GAAP, no deficiencies of this nature are reported at June 30, 2021 and 2020.

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Note 10: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2021 and 2020, comprise the following:

	<u>2021</u>	<u>2020</u>
Financial assets at year-end		
Cash and cash equivalents	\$ 3,475,535	\$ 4,924,158
Investments	971,718	3,676,281
Receivables - Student accounts receivable	229,292	276,982
Unconditional promises to give, less than one year	498,313	709,502
Cash and investments restricted for long-term purposes	26,875,197	17,150,381
Beneficial interest in perpetual trusts	<u>14,820,927</u>	<u>13,156,065</u>
Total financial assets	<u>46,870,982</u>	<u>39,893,369</u>
Donor imposed restrictions		
Restricted funds	2,524,903	4,878,149
Endowments	<u>41,700,624</u>	<u>30,759,721</u>
Financial assets with donor imposed restrictions	<u>44,225,527</u>	<u>35,637,870</u>
Internal designations		
Board-designated funds	<u>1,010,000</u>	<u>500,000</u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,635,455</u>	<u>\$ 3,755,499</u>

The University's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The University's cash and cash equivalents includes approximately \$1,010,000 that have been internally designated by the Board.

The University manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The University has a Debt and Debt Refinancing Policy to help manage the cost of capital, limit debt-related risk and monitor debt levels. The University regularly evaluates key financial ratios to provide management with an overview of the financial health of the institution and current and projected debt capacity. During the years ended June 30, 2021 and 2020, the level of liquidity and reserves was managed within the policy requirements.

Kansas Wesleyan University and Foundation
Notes to Financial Statements
June 30, 2021 and 2020

Note 11: Retirement Plan

The University has a defined contribution pension plan covering substantially all full-time employees. Pension expense, which is funded currently, totaled \$504,313 and \$494,790 for the years ended June 30, 2021 and 2020, respectively.

Note 12: 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, 2021, student loans represented less than 1% of total assets and are recognized as notes receivable in the statements of financial position.

Notes receivable consist of the following at June 30:

	2021	2020
Federal government loan program	\$ 765,792	\$ 873,130
Allowance for uncollectible accounts	(195,000)	(170,000)
	\$ 570,792	\$ 703,130

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 \$420,655 and \$481,464 at June 30, 2021 and 2020, respectively, are ultimately refundable to the government and are classified as liabilities in the statements 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:

	1-60 Days Past Due	61-90 Days Past Due	90+ Days Past Due	Total Past Due
June 30, 2021	\$ 399	\$ 230	\$ 193,964	\$ 194,593
June 30, 2020	\$ 653	\$ 80	\$ 105,348	\$ 106,081

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.

Kansas Wesleyan University and Foundation

Notes to Financial Statements

June 30, 2021 and 2020

Note 13: Energy Performance Project

In July 2020, the University entered into an Energy Performance Contract to renovate various areas of campus such as lighting, HVAC, water conservation, etc. to allow for future energy cost savings. The total contract is for approximately \$2,400,000 and the University incurred all costs for the project during 2021. The University entered into the Series 2020 Bond to fund this project, as discussed in *Note 6*.

Note 14: Significant Estimates, Concentrations and Uncertainties

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:

Coronavirus Aid, Relief, and Economic Security Act and Other Coronavirus Events

As a result of the spread of the SARS-CoV-2 virus and the incident of COVID-19, colleges and universities across the country took unprecedented action to protect the health and safety of students. Beginning on March 2020, the University announced that campus operations were being suspended and all students were transitioned to a distance education framework through the end of the academic term. In addition, all summer classes were conducted through distance education and all summer conferences and events were cancelled or postponed. In August 2020, the University resumed in person operations with certain health and safety measures in place. Given the continued uncertainty in the epidemiological and economic outlook, there may be short and long-term implications for the University's instruction, student experience and operations. The durations of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

On March 27, 2020, President Trump signed into law the *Coronavirus Aid, Relief, and Economic Security Act (CARES Act)*. On April 16, 2020, the University received \$1,763,000 pursuant to the Paycheck Protection Program. The University utilized all funds for payroll for employees. The University elected to account for the Paycheck Protection Program as a conditional contribution in accordance with ASC Topic 958-605.

The *CARES Act* also created a Higher Education Emergency Relief Fund (HEERF) specifically for emergency aid grants to students for expenses related to the disruption of campus operations due to COVID-19 and also direct aid to institutions to cover costs associated with the significant changes to the delivery of instruction due to COVID-19.

During 2020, the University was awarded a student share, an institutional share, and a strengthening our institutions share that totaled \$863,480 under this program and are accounted for as conditional grants. During 2021, the University was awarded a student share that totaled \$411,731. During both 2021 and 2020, the University recognized these amounts as revenue within the grants line item in the statement of activities, which represents the amount distributed directly to students through emergency grants and amounts used for room and board refunds.

Kansas Wesleyan University and Foundation
Notes to Financial Statements
June 30, 2021 and 2020

Also, during the year ended June 30, 2021, the University was awarded an institutional share of \$908,768 for HEERF II, a student share of \$1,170,712 for HEERF III and an institutional share of \$1,163,895 for HEERF III under this program and accounted for them as conditional grants. No revenue had been recognized for HEERF II institutional share or HEERF III institutional and student shares as of June 30, 2021.

Investments

The University has invested in money market funds, mutual funds, securities issued by the U.S. Treasury and other federal agencies, corporate bonds and municipal bonds. These investments are held and managed by two institutions. 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 and that such change could materially affect the amounts reported in the accompanying statements of financial position.

Note 15: U.S. Department of Education Financial Responsibility Ratio Information

The following information is required by the U.S. Department of Education for the year ended June 30, 2021:

Property, plant and equipment, net of accumulated depreciation - pre-implementation	\$ 27,708,793
Property, plant and equipment, net of accumulated depreciation - post-implementation without outstanding debt for original purchase	8,924,827
Construction in progress	<u>32,781</u>
Total property, plant and equipment, net	<u>\$ 36,666,401</u>
Long-term debt obtained for long-term purposes - post-implementation	<u>\$ 3,508,706</u>
Net assets with donor restrictions - restricted in perpetuity	<u>\$ 34,068,968</u>

Kansas Wesleyan University and Foundation
Notes to Financial Statements
June 30, 2021 and 2020

Note 16: Subsequent Events

Subsequent events have been evaluated through November 30, 2021, which is the date the financial statements were available to be issued.

Note 17: Future Change in Accounting Principle

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the statements of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statements of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating, or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2021, and any interim periods within annual reporting periods that begin after December 15, 2022. The University is evaluating the effect the standard will have on the financial statements; however, the standard is expected to have a material effect on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Supplementary Information

Kansas Wesleyan University and Foundation
U.S. Department of Education Financial Responsibility Supplemental Schedule
Year Ended June 30, 2021

Ratio Element	Reference to Financial Statements and/or Notes	2021
Primary Reserve Ratio		
Expendable Net Assets		
Net assets without donor restrictions	Statement of Financial Position	\$ 35,576,433
Net assets with donor restrictions	Statement of Financial Position	44,225,527
Net assets with donor restrictions - restricted in perpetuity	Note 16: Financial Responsibility Ratio	34,068,968
Property, plant and equipment, including construction in progress, net of accumulated depreciation -pre-implementation	Note 16: Financial Responsibility Ratio	27,708,793
Property, plant and equipment, net of accumulated depreciation - post-implementation without outstanding debt for original purchase	Note 16: Financial Responsibility Ratio	8,924,827
Construction in progress	Note 16: Financial Responsibility Ratio	<u>32,781</u>
Total property, plant and equipment, net	Note 6: Property and Equipment	36,666,401
Long-term debt obtained for long-term purposes - post-implementation	Note 7: Bond Payable	3,508,706
Total Expenses and Losses		
Total expenses without donor restrictions	Statement of Activities	19,868,615
Equity Ratio		
Modified Net Assets		
Net assets without donor restrictions	Statement of Financial Position	35,576,433
Net assets with donor restrictions	Statement of Financial Position	44,225,527
Modified Assets		
Total assets	Statement of Financial Position	85,457,406
Net Income Ratio		
Change in net assets without donor restrictions	Statement of Activities	4,054,644
Total revenue and gains without donor restrictions	Statement of Activities	23,923,259

Kansas Wesleyan University and Foundation
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<u>U.S. Department of Education</u>				
Direct Programs:				
Federal Supplemental Educational				
Opportunity Grant	84.007	N/A	\$ -	\$ 101,119
Federal Work-Study Program	84.033	N/A	-	62,893
Federal Perkins Loan Program	84.038	N/A	-	873,130
Federal Pell Grant Program	84.063	N/A	-	1,494,001
Federal Direct Student Loans	84.268	N/A	-	6,529,241
Teacher Education Assistance for College and Higher Education (TEACH) Grants	84.379	N/A	-	<u>1,886</u>
Total Student Financial Assistance Cluster			<u>\$ -</u>	<u>\$ 9,062,270</u>
Higher Education Emergency Relief Fund COVID-19 Education Stabilization Fund - Student Aid				
	84.425E	N/A	<u>\$ -</u>	<u>\$ 411,731</u>
Total Department of Education			<u><u>\$ -</u></u>	<u><u>\$ 9,474,001</u></u>
<u>U.S. Department of Treasury</u>				
Passed Through Kansas Independent College Association				
COVID-19 Coronavirus Relief Fund	21.019	N/A	<u>\$ -</u>	<u>\$ 342,359</u>
Total Department of Treasury			<u><u>\$ -</u></u>	<u><u>\$ 342,359</u></u>
Total Federal Assistance			<u><u>\$ -</u></u>	<u><u>\$ 9,816,360</u></u>

Kansas Wesleyan University and Foundation
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the University under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets or cash flows of the University.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The University has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.
3. The federal loan program listed subsequently is administered directly by the University and balances and transactions relating to this program are included in the University's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2021, consists of:

CFDA Number	Program Name	Outstanding Balance at June 30, 2021
84.038	Federal Perkins Loan Program	\$765,792

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

Independent Auditor's Report

Board of Trustees
Kansas Wesleyan University and Foundation
Salina, Kansas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the combined financial statements of Kansas Wesleyan University and Foundation (the University), which comprise the statement of financial position as of June 30, 2021, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated November 30, 2021, which contained an “Emphasis of Matter” paragraph regarding a change in accounting principle.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the University's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's combined financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Trustees
Kansas Wesleyan University and Foundation
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the combined financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Wichita, Kansas
November 30, 2021

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Trustees
Kansas Wesleyan University and Foundation
Salina, Kansas

Report on Compliance for Each Major Federal Program

We have audited Kansas Wesleyan University and the Foundation's (the University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2021. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Board of Trustees
Kansas Wesleyan University and Foundation
(Continued)

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Wichita, Kansas
November 30, 2021

Kansas Wesleyan University (Combined)
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2021

7. The University's major programs were:

Cluster/Program	CFDA Number
Student Financial Assistance Cluster:	
Federal Work-Study Program	84.033
Federal Supplemental Educational Opportunity Grant Program	84.007
Federal Perkins Loan Program	84.038
Federal Direct Student Loans	84.268
Federal Pell Grant Program	84.063
Teacher Education Assistance for College and Higher Education (TEACH) Grants	84.379
Higher Education Emergency Relief Fund:	
COVID-19 Education Stabilization Fund - Student Aid	84.425E

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The University qualified as a low-risk auditee? Yes No

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Status
No matters are reportable		

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding	Status
No matters are reportable		

Kansas Wesleyan University (Combined)
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2021

Reference Number	Finding	Status
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No matters are reportable