

KANSAS WESLEYAN UNIVERSITY
AND FOUNDATION

Combined Financial Statements
With Independent Auditors' Report

June 30, 2024

KANSAS WESLEYAN UNIVERSITY AND FOUNDATION

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Kansas Wesleyan University and Foundation
Salina, Kansas

Opinion

We have audited the accompanying combined financial statements of Kansas Wesleyan University and Foundation, which comprise the combined statement of financial position as of June 30, 2024, 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.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of Kansas Wesleyan University and Foundation as of June 30, 2024, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of Kansas Wesleyan University and Foundation, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Combined 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, and for 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.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Kansas Wesleyan University and Foundation's ability to continue as a going concern within one year after the date that the combined financial statements are available to be issued.

Board of Trustees
Kansas Wesleyan University and Foundation
Salina, Kansas

Auditors' Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Kansas Wesleyan University and Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Kansas Wesleyan University and Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Capin Crouse LLP

Indianapolis, Indiana
December 23, 2024

KANSAS WESLEYAN UNIVERSITY AND FOUNDATION

Combined Statement of Financial Position

June 30, 2024

ASSETS:

Cash and cash equivalents	\$ 1,523,949
Cash restricted for Perkins balances	47,786
Accounts receivable, net of allowance of \$112,761	959,197
Prepaid expenses and other assets	267,546
Contributions receivable, net	1,392,363
Investments	791,935
Notes receivable	620,369
Operating lease right-of-use assets	705,650
Financing lease right-of-use assets	85,764
Land, buildings and equipment, net	45,088,361
Cash held for endowments	528,373
Investments held for endowment	29,050,138
Beneficial interest in perpetual trusts	17,169,584

Total Assets \$ 98,231,015

LIABILITIES AND NET ASSETS:

Liabilities:

Accounts payable and accrued expenses	\$ 2,155,917
Deposits held in custody for others	421,030
Federal contribution to loan program	482,817
Deferred revenue	117,701
Operating lease liabilities	705,650
Financing lease liabilities	86,740
Bonds payable, net of unamortized debt issuance costs	7,081,478

Total liabilities 11,051,333

Net assets:

Net assets without donor restrictions	31,869,662
Net assets with donor restrictions	55,310,020

Total net assets 87,179,682

Total Liabilities and Net Assets \$ 98,231,015

See notes to combined financial statements

KANSAS WESLEYAN UNIVERSITY AND FOUNDATION

Combined Statement of Activities

Year Ended June 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT, REVENUE, AND RECLASSIFICATIONS:			
Tuition and fees, net	\$ 12,264,181	\$ -	\$ 12,264,181
Contributions and bequests	540,573	4,195,884	4,736,457
Governmental grants	281,644	-	281,644
Investment income, net	160,744	3,574,341	3,735,085
Change in value of beneficial interests in trusts	-	1,046,651	1,046,651
Auxiliary enterprise income	5,927,787	-	5,927,787
Other income	24,587	-	24,587
Reclassifications:			
Satisfaction of purpose and timing restrictions	5,485,239	(5,485,239)	-
Total Support, Revenue, and Reclassifications	24,684,755	3,331,637	28,016,392
EXPENSES:			
Instruction	4,712,151	-	4,712,151
Academic support	1,175,893	-	1,175,893
Student services	1,989,479	-	1,989,479
Athletics	3,998,644	-	3,998,644
Auxiliary enterprises	3,574,641	-	3,574,641
Institutional support	5,577,571	-	5,577,571
Operation and maintenance	3,305,708	-	3,305,708
Fundraising	794,027	-	794,027
Total Expenses	25,128,114	-	25,128,114
Change in Net Assets	(443,359)	3,331,637	2,888,278
Net Assets, Beginning of Year	32,313,021	51,978,383	84,291,404
Net Assets, End of Year	\$ 31,869,662	\$ 55,310,020	\$ 87,179,682

See notes to combined financial statements

KANSAS WESLEYAN UNIVERSITY AND FOUNDATION

Combined Statement of Functional Expenses

Year Ended June 30, 2024

	Program Services					Supporting Activities					Total Expenses
	Instructional	Academic Support	Student Services	Athletics	Auxiliary Enterprises	Total Program	Institutional Support	Operation and Maintenance	Fundraising	Total Supporting	
Salary and benefits	\$4,275,170	\$ 880,281	\$ 1,312,878	\$ 2,346,682	\$ -	\$ 8,815,011	\$ 1,777,748	\$ 1,130,136	\$ 572,690	\$ 3,480,574	\$ 12,295,585
Travel, meals, and food service	44,004	10,913	63,812	407,350	2,484,911	3,010,990	74,486	327	40,351	115,164	3,126,154
Depreciation and amortization	-	-	-	-	304,793	304,793	-	1,600,164	-	1,600,164	1,904,957
Professional services	22,690	20,193	318,582	168,149	-	529,614	891,527	88,822	36,519	1,016,868	1,546,482
Insurance and taxes	-	-	165	117,052	-	117,217	794,923	285	553	795,761	912,978
Utilities	1,020	-	-	-	784,937	785,957	-	9,466	-	9,466	795,423
Supplies	153,006	22,145	59,749	478,599	-	713,499	23,000	1,505	14,791	39,296	752,795
Dues and fees	22,428	9,289	18,625	118,197	-	168,539	336,537	-	36,487	373,024	541,563
Computer software	69,659	84,003	15,178	38,484	-	207,324	318,571	-	7,836	326,407	533,731
Repairs and maintenance	17,280	-	4,729	49,348	-	71,357	29,970	430,065	1,051	461,086	532,443
Advertising and recruiting	-	-	-	-	-	-	441,659	747	36,583	478,989	478,989
Interest	-	-	-	-	-	-	329,617	-	-	329,617	329,617
Printing and postage	3,669	7,658	124,185	2,894	-	138,406	129,394	-	27,859	157,253	295,659
Rentals and leases	2,595	7,400	21,888	229,506	-	261,389	13,326	6,499	13,519	33,344	294,733
Bad debt	-	-	-	-	-	-	195,800	-	-	195,800	195,800
Library	-	133,763	-	-	-	133,763	-	-	-	-	133,763
Other	100,630	248	49,688	42,383	-	192,949	221,013	37,692	5,788	264,493	457,442
	<u>\$4,712,151</u>	<u>\$ 1,175,893</u>	<u>\$ 1,989,479</u>	<u>\$ 3,998,644</u>	<u>\$ 3,574,641</u>	<u>\$ 15,450,808</u>	<u>\$ 5,577,571</u>	<u>\$ 3,305,708</u>	<u>\$ 794,027</u>	<u>\$ 9,677,306</u>	<u>\$ 25,128,114</u>

See notes to combined financial statements

KANSAS WESLEYAN UNIVERSITY AND FOUNDATION

Combined Statement of Cash Flows

Year Ended June 30, 2024

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 2,888,278
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation and amortization	1,947,070
Loss on disposal of property	177,778
Change in discount on contributions receivable	134,281
Realized and unrealized gains on investments	(2,779,652)
Contributions and bequests restricted for capital projects	(1,011,172)
Change in beneficial interests in perpetual trust	(1,081,977)
Contributions restricted for endowments	(2,223,604)
Reinvestment of interest and dividends	(544,612)
Changes in operating assets and liabilities:	
Change in accounts receivable	(391,947)
Change in notes receivable	(247,917)
Change in prepaid expenses and other assets	(44,789)
Change in accounts payable and accrued expenses	(103,820)
Change in deposits held for others	82,637
Change in deferred revenue	101,166
Net Cash Used by Operating Activities	<u>(3,098,280)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of land, buildings and equipment	(7,631,588)
Purchase of investments	(1,581,786)
Proceeds from sale of investments and trust assets	4,000,501
Net Cash Used by Investing Activities	<u>(5,212,873)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal payments on debt obligations	(518,000)
Proceeds from issuance of notes payable	2,875,742
Payments on financing leases	(41,137)
Proceeds from contributions restricted for capital projects	1,050,015
Contributions restricted for endowments	2,223,604
Net Cash Provided by Financing Activities	<u>5,590,224</u>
Change in Cash, Cash Equivalents, and Restricted Cash	(2,720,929)
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	<u>4,821,037</u>
Cash, Cash Equivalents, and Restricted Cash, End of Year	<u>\$ 2,100,108</u>
SUPPLEMENTAL INFORMATION:	
Cash paid for interest	\$ 329,617
Land, buildings and equipment acquired with accounts payable	<u>\$ 1,415,747</u>
Operating right-of-use assets obtained in exchange for lease obligations	<u>\$ 352,079</u>
Cash and cash equivalents consist of the following:	
Cash and cash equivalents	\$ 1,523,949
Cash restricted for Perkins balances	47,786
Cash held for endowments	528,373
	<u>\$ 2,100,108</u>

See notes to combined financial statements

KANSAS WESLEYAN UNIVERSITY AND FOUNDATION

Notes to Combined Financial Statements

June 30, 2024

1. NATURE OF ORGANIZATION:

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 10). 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.

2. SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF ACCOUNTING

The combined financial statements of the University have been prepared on the accrual basis of accounting. The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. The more significant accounting policies are described below.

BASIS 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.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes highly liquid investments with maturities of three months or less at date of acquisition and bank depository accounts. Cash held in investment accounts are reported as investments in the combined statement of financial position as these funds are generally not used for daily operating purposes. From time to time throughout the year, these accounts may exceed federally insured limits. At June 30, 2024, the University's cash balances (including restricted cash) exceeded federally insured limits by approximately \$2,100,000.

KANSAS WESLEYAN UNIVERSITY AND FOUNDATION

Notes to Combined Financial Statements

June 30, 2024

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

ACCOUNTS RECEIVABLE AND ALLOWANCES FOR DOUBTFUL ACCOUNTS

Student accounts receivable consists of amounts billed to students for tuition and auxiliary charges. Student accounts receivable are presented net of an allowance for credit losses, which is an estimate of amounts that may not be collectible. The University separates accounts receivable into risk pools based on their aging. In determining the amount of the allowance as of the combined statement of financial position date, the University develops a loss rate for each risk pool. The loss rate is based on management's historical collection experience, adjusted for management's expectations about current and future economic conditions.

INVESTMENTS AND NET INVESTMENT INCOME

Investments in equity securities having a readily determinable fair value and investments in all debt securities are carried at fair value. Other investments are valued at the lower of cost or fair value. Investment income 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 combined statement of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are recognized as income when made. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the promises are expected to be received. Amortization of the discount is included in contributions revenue in the combined statement of activities. As of June 30, 2024, the allowance for uncollectible promises to give was \$30,000 and the discount to present value the promises to give was \$161,848.

NOTES RECEIVABLE AND FEDERAL CONTRIBUTION TO LOAN PROGRAM

Notes receivable include amounts due under the Federal Perkins Loan Program which are stated at the outstanding principal amount. 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. Interest income is recorded as received which is not materially different from the amount that would have been 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.

The federal contribution to 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. Department of Education. -8-

KANSAS WESLEYAN UNIVERSITY AND FOUNDATION

Notes to Combined Financial Statements

June 30, 2024

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

LAND, BUILDINGS 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

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.

DEPOSITS HELD IN CUSTODY FOR OTHERS

The University receives funds from donors for funding organizations within the University. The University does not have any variance power over the use of how these funds are to be spent and therefore they are not recorded to the combined statement of activities. These funds are held as an agency liability to be provided to various organizations on campus.

SELF-INSURANCE

The University has elected to self-insure certain costs related to employee health benefit programs beginning in the year ending June 30, 2022. The self-insured plan is administered by the Kansas Independent College Association, of which the University is a member institution. The self-insured plan has insurance that limits exposure for individual claims to \$100,000 and limits aggregate exposure to \$14,500,000. The aggregate limit is for the entire plan, the University's potential exposure is dependent upon timing of claims made by other plan participants. The liability for insurance claims incurred but not received at June 30, 2024, was immaterial to the combined financial statements.

KANSAS WESLEYAN UNIVERSITY AND FOUNDATION

Notes to Combined Financial Statements

June 30, 2024

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

CLASSES OF NET ASSETS

The combined financial statements report amounts separately by the following classes of net assets:

Net assets without donor restrictions are those currently available for general operations under the direction of the Board, those designated by the Board for specific use and those resources invested in property and equipment.

Net assets with donor restrictions are those which are stipulated by donors for specific operating purposes or programs, those with time restrictions, those for the acquisition of property, plant and equipment, unspent endowment earnings, or those not currently available for use in the University's operations until commitments regarding their use have been fulfilled or lifetime beneficiary interests have ceased. These also include donor restrictions requiring the net assets be held in perpetuity as endowments.

REVENUE AND EXPENSES

Revenue is recognized when earned. Contributions are recognized when cash is received, unconditional promises to give are made or when ownership of donated assets is transferred. The University reports contributions received for general purposes as contributions without donor restrictions. The University reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a 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 combined statement of activities as net assets released from restrictions. For the year ended June 30, 2024, the University received approximately 33%, or \$1,700,000 of contributions from three donors.

The University reports gifts of fixed assets as contributions without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit donor restrictions that specify how the assets are to be used and gifts of cash that must be used to acquire long-lived assets are reported as contributions with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

KANSAS WESLEYAN UNIVERSITY AND FOUNDATION

Notes to Combined Financial Statements

June 30, 2024

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

REVENUE AND EXPENSES, continued

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.

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, 2024.

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

KANSAS WESLEYAN UNIVERSITY AND FOUNDATION

Notes to Combined Financial Statements

June 30, 2024

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

Transaction Price and Recognition, continued

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.

During the year ended June 30, 2024, tuition and fee revenue totaling \$29,170,505 was reduced by scholarships totaling \$16,906,324 to calculate the total tuition and fees of \$12,264,181 as presented on the combined 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. Contract assets as of June 30, 2024, consisted primarily of student tuition receivables totaling \$959,197. The University's contract liabilities are primarily deferred tuition and fees or student credit balances in the combined statement of financial position which as of June 30, 2024, totaled \$117,701. 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 combined statement of activities and are reflected as liabilities in the accompanying combined statement of financial position. The activity and balances for deferred revenue from student tuition are shown as follows for the year ended June 30, 2024:

Beginning balance	\$ 16,536
Revenue recognized	(16,536)
Payments received for future performance obligations	<u>117,701</u>
Ending balance	<u>\$ 117,701</u>

Expenses are recorded when incurred in accordance with the accrual basis of accounting. The combined financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and occupancy, which are allocated on a square footage basis, as well as salaries and benefits, travel, and certain office expenses, which are allocated on the basis of estimates of time and effort.

KANSAS WESLEYAN UNIVERSITY AND FOUNDATION

Notes to Combined Financial Statements

June 30, 2024

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

RECENTLY ADOPTED ACCOUNTING GUIDANCE

In June 2016, the Financial Accounting Standards Board (FASB) issued guidance (FASB Accounting Standards Codification (ASC) 326) which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the combined financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the University that are subject to the guidance in FASB ASC 326 are student accounts receivable. The University adopted the standard effective July 1, 2023. The impact of the adoption was not considered material to the combined financial statements.

3. ACCOUNTS RECEIVABLE, NET:

Accounts and student loans receivable consist of the following as of June 30, 2024:

Students	\$ 569,485
Other	502,473
	<u>1,071,958</u>
Less allowance for doubtful accounts	<u>(112,761)</u>
	<u>\$ 959,197</u>

4. CONTRIBUTIONS RECEIVABLE, NET:

Contributions receivable are reflected at the present value of estimated future cash flows using a discount rate of 4.3%, and consist of the following as of June 30, 2024:

Contributions receivable before unamortized discount	\$ 1,584,211
Unamortized present value discount	(161,848)
	<u>1,422,363</u>
Net allowance for uncollectible amounts	<u>(30,000)</u>
	<u>\$ 1,392,363</u>

Contributions receivable are expected to mature as follows as of June 30, 2024:

Amounts due in:	
Less than one year	\$ 312,431
One to five years	624,439
Five or more years	<u>485,493</u>
	<u>\$ 1,422,363</u>

KANSAS WESLEYAN UNIVERSITY AND FOUNDATION

Notes to Combined Financial Statements

June 30, 2024

5. INVESTMENTS:

Investments consist of the following as of June 30, 2024:

At fair value:

Equity securities	\$ 1,939,689
Fixed income securities:	
Corporate bonds	978,656
Mortgage backed securities	79,827
Government and agency bonds	2,330,536
Mutual funds:	
Money market mutual funds	2,360,994
Fixed income funds	3,297,706
Equity funds	15,565,126
Exchange-traded funds	3,190,226
	29,742,760

At cost:

Cash	99,313
	\$29,842,073

Investments are reported on the combined statement of financial position as follows as of June 30, 2024:

Investments	\$ 791,935
Investments held for endowment	29,050,138
	\$29,842,073

6. NOTES RECEIVABLE:

The University makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government resources. 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 \$482,817 at June 30, 2024, are ultimately refundable to the government and are classified as liabilities in the combined 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 as of June 30, 2024:

Current	1 - 60 Days Past Due	61 - 90 Days Past Due	90+ Days Past Due	Total Past Due
\$ 166,259	\$ 7,133	\$ 5,785	\$ 441,192	\$ 454,110

KANSAS WESLEYAN UNIVERSITY AND FOUNDATION

Notes to Combined Financial Statements

June 30, 2024

7. LAND, BUILDINGS AND EQUIPMENT, NET:

Land, buildings and equipment consist of the following as of June 30, 2024:

Land and improvements	\$ 871,695
Buildings and improvements	56,648,587
Equipment	6,130,257
Vehicles	147,349
	<hr/>
	63,797,888
Less accumulated depreciation	(27,345,012)
	<hr/>
	36,452,876
Construction in progress	8,635,485
	<hr/>
Land, buildings and equipment, net	<u><u>\$45,088,361</u></u>

8. BONDS PAYABLE:

Bonds payable consists of the following as of June 30, 2024:

On September 1, 2020, the Saline County, Kansas Educational Facility Revenue Bonds, Series 2020, were issued in the amount of \$3,662,000 for the purposes of refunding the Saline County, Kansas Education Facilities Revenue Bonds, Series 2012, and to finance the Energy Performance Project. Interest and principal payments began October 1, 2020. Payments vary each year and are currently \$32,000 per month. The bonds bear interest at 2.568% and mature on June 1, 2030, and are secured by real property owned by the University.

\$ 2,427,706

On July 1, 2022, the Saline County, Kansas Educational Facilities Revenue Bonds, Series 2022, were issued in the amount of \$6,300,000 for the construction and improvement of certain educational facilities. At June 30, 2024, \$4,997,645 had been drawn on the bonds. Annual interest and principal payments began June 1, 2024. Payments vary each year and \$150,000 is the next payment due June 1, 2025. The bonds bear interest at 4.64% and mature on June 1, 2037, and are secured by real property owned by the University.

4,852,645

7,280,351

Less unamortized debt issuance costs

(198,873)

\$ 7,081,478

KANSAS WESLEYAN UNIVERSITY AND FOUNDATION

Notes to Combined Financial Statements

June 30, 2024

8. BONDS PAYABLE, continued:

Bonds payable mature as follows:

<u>Year Ended June 30,</u>	
2025	\$ 536,000
2026	551,000
2027	568,000
2028	588,000
2029	608,000
Thereafter	<u>4,429,351</u>
	<u><u>\$ 7,280,351</u></u>

Interest expense for the year ended June 30, 2024, was \$329,617. Long-term debt agreements contained certain administrative covenants. The University was in compliance with all covenants as of June 30, 2024.

9. NET ASSETS:

Net assets consist of the following as of June 30, 2024:

Net assets without donor restrictions	<u>\$31,869,662</u>
Subject to expenditure for specified purpose:	
Educational program expenses	682,480
Capital projects	<u>7,879,445</u>
	<u>8,561,925</u>
Subject to the University's spending policy and appropriations:	
Accumulated endowment earnings for student aid	6,861,932
Beneficial interest in perpetual trusts	17,169,584
Endowment funds restricted in perpetuity	<u>22,716,579</u>
	<u>46,748,095</u>
Total net assets with donor restrictions	<u>55,310,020</u>
Total net assets	<u><u>\$87,179,682</u></u>

KANSAS WESLEYAN UNIVERSITY AND FOUNDATION

Notes to Combined Financial Statements

June 30, 2024

10. ENDOWMENT FUNDS:

The University's endowment funds include 245 individual funds from donors in addition to the beneficial interests in perpetual trusts. The Board of Trustees of the University has interpreted the Prudent Management of Institutional Funds Act (SPMIFA) as requiring the 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 net assets restricted in perpetuity (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 net assets restricted in perpetuity is classified as net assets restricted by purpose or time until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by SPMIFA. The University includes contributions receivable as part of the assets to support the endowment net assets which are not legally subject to SPMIFA.

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 organization 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 organization
- (7) The investment policies of the organization

FUNDS WITH DEFICIENCIES

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the University to retain as a fund of perpetual duration. There were no funds with deficiencies as of June 30, 2024.

RETURN OBJECTIVES AND RISK PARAMETERS

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.

STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

KANSAS WESLEYAN UNIVERSITY AND FOUNDATION

Notes to Combined Financial Statements

June 30, 2024

10 ENDOWMENT FUNDS, continued:

Changes in endowment net assets for the year ended June 30, 2024:

	Original Gift Amount	Accumulated Gains (Losses) and Other	Total With Donor Restrictions
Endowment net assets, beginning of year	\$36,615,908	\$ 4,728,819	\$41,344,727
Investment return, net	-	3,241,041	3,241,041
Change in value in beneficial interests in perpetual trusts	1,046,651	-	1,046,651
Contributions	2,223,604	-	2,223,604
Amounts appropriated for expenditures	-	(1,107,928)	(1,107,928)
	3,270,255	2,133,113	5,403,368
Endowment net assets, end of year	\$39,886,163	\$ 6,861,932	\$46,748,095

SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY

The income derived from contributions to any endowment fund shall be distributed at such times as the University may determine for the purposes specified for the fund, and the University may, in its sole discretion, resolve any ambiguities or questions of interpretation which may arise with respect to such purposes. The University considers the long-term anticipated return on its endowment. At no time will the distributions reduce the value of the endowment below donor contributions. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

11. AUXILIARY ENTERPRISE REVENUE:

Auxiliary enterprise revenue is comprised of the following for the year ended June 30, 2024:

Revenue from contracts with customers:	
Dining services	\$ 3,578,565
Housing	2,123,487
Ticket sales, merchandise sales, and other	225,735
Total auxiliary enterprise revenue	\$ 5,927,787

KANSAS WESLEYAN UNIVERSITY AND FOUNDATION

Notes to Combined Financial Statements

June 30, 2024

12. FAIR VALUE MEASUREMENTS:

The University follows accounting standards which establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under accounting standards are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted market prices for identical assets or liabilities in active markets that the plan has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The level in the fair value hierarchy within which the fair value measurement is classified is determined based on the lowest level of input that is significant to the fair value measurement in its entirety.

Fair values of assets measured on a recurring basis at June 30, 2024, are as follows:

	Level 1	Level 2	Level 3	Total
Investments:				
Equity securities	\$ 1,939,689	\$ -	\$ -	\$ 1,939,689
Fixed income securities:				
Corporate bonds	-	978,656	-	978,656
Mortgage backed securities	-	79,827	-	79,827
Government and agency bonds	-	2,330,536	-	2,330,536
Mutual funds:				
Money market mutual funds	2,360,994	-	-	2,360,994
Fixed income funds	3,297,706	-	-	3,297,706
Equity funds	15,565,126	-	-	15,565,126
Exchange-traded funds	3,190,226	-	-	3,190,226
	26,353,741	3,389,019	-	29,742,760
Beneficial interest in perpetual trusts	-	-	17,169,584	17,169,584
	\$26,353,741	\$ 3,389,019	\$17,169,584	\$46,912,344

KANSAS WESLEYAN UNIVERSITY AND FOUNDATION

Notes to Combined Financial Statements

June 30, 2024

12. FAIR VALUE MEASUREMENTS, continued:

Valuation techniques: Fair values for money market funds, equity securities, and mutual and exchange-traded funds are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair values for fixed income securities are determined by reference to identical or similar assets in inactive markets. Fair values for beneficial interest in perpetual trusts are based on assumptions about the present value of distributions to be received from the trusts.

Changes in valuation techniques: None.

13. LIQUIDITY AND FUNDS AVAILABLE:

The following table reflects the University's financial assets as of June 30, 2024, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, assets held in trusts and state required annuity reserves, perpetual endowments and accumulated earnings subject to appropriation beyond one year, contractual or donor-imposed restrictions, or because the Board has set aside funds as Board designated endowments. These Board designations could be drawn upon if the Board approves of such action.

Financial assets:

Cash and cash equivalents	\$ 1,523,949
Cash restricted for Perkins balances	47,786
Accounts receivable, net	959,197
Contributions receivable, net	1,392,363
Investments	791,935
Notes receivable	620,369
Cash held for endowments	528,373
Investments held for endowment	29,050,138
Beneficial interest in perpetual trusts	<u>17,169,584</u>
Financial assets, at year-end	<u>52,083,694</u>

Less those unavailable for general expenditure within one year, due to:

Cash held for Board designations	(47,786)
Perpetual endowments and accumulated earnings subject to appropriation beyond one year	(28,538,563)
Beneficial interest in perpetual trusts	(17,169,584)
Donor-imposed purpose restrictions	<u>(1,228,420)</u>

Financial assets available to meet cash needs for general expenditures within one year

\$ 5,099,341

KANSAS WESLEYAN UNIVERSITY AND FOUNDATION

Notes to Combined Financial Statements

June 30, 2024

13. LIQUIDITY AND FUNDS AVAILABLE, continued:

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 year ended June 30, 2024, the level of liquidity and reserves was managed within the policy requirements.

14. RETIREMENT PLAN:

The University has a defined contribution pension plan covering substantially all full-time employees. Pension expense, which is funded currently, totaled \$542,707 for the year ended June 30, 2024.

15. OPERATING LEASE RIGHT-OF-USE ASSETS AND OBLIGATIONS:

The University leases office equipment and vehicles under noncancelable operating leases expiring at various points between 2024 - 2028. The discount rate represents the risk-free discount rate using a period comparable with that of the individual lease terms on the inception of the leases. The leases require monthly payments ranging from \$131 to \$5,875. Total expenses incurred under the operating leases for the year ended June 30, 2024, totaled \$219,764.

	<u>June 30, 2024</u>
Operating lease right-of-use assets	\$ 705,650
Operating lease liabilities	\$ 705,650
Operating lease costs	\$ 219,764
Weighted-average discount rate	3.69%
Weighted-average remaining lease term	3.03 years

KANSAS WESLEYAN UNIVERSITY AND FOUNDATION

Notes to Combined Financial Statements

June 30, 2024

15. OPERATING LEASE RIGHT-OF-USE ASSETS AND OBLIGATIONS, continued:

Future minimum lease payments required under the operating leases that have an initial or remaining non-cancelable lease term in excess of one year are as follows:

<u>Year Ending June 30, 2024</u>	
2025	\$ 259,493
2026	257,938
2027	165,713
2028	63,278
	<u>746,422</u>
Less imputed interest	<u>(40,772)</u>
	<u>\$ 705,650</u>

16. FINANCING LEASE RIGHT-OF-USE ASSETS AND OBLIGATIONS:

The University leases vehicles under noncancelable operating leases expiring in 2026. The discount rate represents the risk-free discount rate using a period comparable with that of the individual lease terms on the inception of the leases. The leases require monthly payments of \$3,499.

	<u>June 30,</u> <u>2024</u>
Financing lease right-of-use assets	\$ 85,764
Financing lease liabilities	\$ 86,740
Financing lease costs:	
Amortization of right-of-use assets	\$ 41,167
Interest on lease liabilities	\$ 851
Weighted-average discount rate	0.78%
Weighted-average remaining lease term	2.08 years

KANSAS WESLEYAN UNIVERSITY AND FOUNDATION

Notes to Combined Financial Statements

June 30, 2024

16. FINANCING LEASE RIGHT-OF-USE ASSETS AND OBLIGATIONS, continued:

Future minimum lease payments required under the financing leases that have an initial or remaining non-cancelable lease term in excess of one year are as follows:

<u>Year Ending June 30, 2024</u>	
2025	\$ 41,988
2026	41,988
2027	3,499
	<u>87,475</u>
Less imputed interest	<u>(735)</u>
	<u>\$ 86,740</u>

17. RELATED PARTY:

For the year ended June 30, 2024, approximately 4%, or \$172,000, of contributions were provided by board members of the University.

18. COMMITMENTS:

The University has entered into various construction contracts for renovation projects on campus. As of June 30, 2024, a total of approximately \$7,100,000 of work to be completed was entered into, of which approximately \$2,500,000 has yet to be completed.

19. SUBSEQUENT EVENTS:

The University has evaluated subsequent events through December 23, 2024, which is the date the combined financial statements were available to be issued. Subsequent events after that date have not been evaluated.