Grant Thornton

COMBINED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

KANSAS WESLEYAN UNIVERSITY AND FOUNDATION

June 30, 2014 and 2013

Contents

Grant Thornton LLP
8300 Thorn Drive, Suite 300
Wichita, KS 67226-2708

T 316.265.3231
F 316.383.3274
www.GrantThornton.com

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Boards of Trustees
Kansas Wesleyan University and Foundation

We have audited the accompanying combined financial statements of Kansas Wesleyan University, a Kansas nonprofit organization, and Foundation (see Note A1 to the financial statements) (collectively the "Entity"), which comprise the combined statements of financial position as of June 30, 2014 and 2013, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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. Those standards require that we plan and perform the audits 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 financial position of Kansas Wesleyan University and Foundation as of June 30, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Wichita, Kansas
November 18, 2014

COMBINED FINANCIAL STATEMENTS

Kansas Wesleyan University and Foundation

COMBINED STATEMENTS OF FINANCIAL POSITION

June 30,

ASSETS

	2014	2013
ASSETS		
Cash and cash equivalents	$ 1,136,447	$ 1,289,958
Investments	5,047,054	4,789,221
Accounts receivable, less allowance for uncollectible accounts of $30,000 in 2014 and 2013	159,580	111,088
Unconditional promises to give, net	2,141,977	1,253,406
Notes receivable, net	880,841	852,916
Bond issuance costs, net	109,600	122,494
Cash and investments restricted for long-term purposes	16,328,701	14,151,611
Beneficial interests in perpetual trusts	14,541,228	13,434,958
Property, plant and equipment, net	23,916,384	23,813,878
Other assets	219,127	269,537
Total assets	$ 64,480,939	$ 60,089,067

LIABILITIES AND NET ASSETS

	2014	2013
LIABILITIES		
Accounts payable and accrued expenses	$ 1,292,496	$ 1,222,058
Deposits, advance enrollments and deferred revenue	464,341	444,975
Deposits held in custody for others	215,533	232,292
Refundable government loan program	866,177	890,228
Bonds payable	4,500,000	5,020,000
Liability for future annuity payments	78,333	86,961
Total liabilities	7,416,880	7,896,514
NET ASSETS		
Unrestricted		
Available for operations	3,897,369	4,287,190
Investment in property, plant and equipment	19,525,984	18,791,372
Student loan funds	90,816	112,272
Total unrestricted net assets	23,514,169	23,190,834
Temporarily restricted		
Scholarships and other	4,457,548	2,356,041
Special projects and purposes	2,672,901	1,535,858
Total temporarily restricted net assets	7,130,449	3,891,899
Permanently restricted		
Scholarships and other	26,412,381	25,102,760
Special projects and purposes	7,060	7,060
Total permanently restricted net assets	26,419,441	25,109,820
Total net assets	57,064,059	52,192,553
Total liabilities and net assets	$ 64,480,939	$ 60,089,067

The accompanying notes are an integral part of these statements.

Kansas Wesleyan University and Foundation

COMBINED STATEMENT OF ACTIVITIES

Year ended June 30,

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support				
Educational and general				
Tuition and fees	$ 15,229,038	$ -	$ -	$ 15,229,038
Less: scholarships and other aid	(6,243,046)	-	-	(6,243,046)
Net tuition and fees	8,985,992	-	-	8,985,992
Gifts and bequests	1,111,878	1,205,595	203,351	2,520,824
Governmental grants	143,678	-	-	143,678
Realized and unrealized gains (losses), net	41,867	2,754,699	1,106,270	3,902,836
Interest and dividends	100,526	362,340	-	462,866
Other	61,038	-	-	61,038
Total educational and general	10,444,979	4,322,634	1,309,621	16,077,234
Auxiliary enterprises	3,684,260	-	-	3,684,260
Independent operations	104,865	-	-	104,865
Total revenues and gains	14,234,104	4,322,634	1,309,621	19,866,359
Net assets released from restrictions	1,084,084	(1,084,084)	-	-
Total revenues, gains and other support	15,318,188	3,238,550	1,309,621	19,866,359
Expenses				
Educational and general				
Instruction	3,423,876	-	-	3,423,876
Academic support	632,069	-	-	632,069
Student services	1,554,255	-	-	1,554,255
Athletics	1,807,384	-	-	1,807,384
Institutional support	3,152,720	-	-	3,152,720
Operation and maintenance of plant	901,490	-	-	901,490
Other expenses	162,995	-	-	162,995
Total educational and general	11,634,789	-	-	11,634,789
Auxiliary enterprises	3,237,497	-	-	3,237,497
Independent operations	122,567	-	-	122,567
Loss on bond refunding	-	-	-	-
Total expenses	14,994,853	-	-	14,994,853
Change in net assets	323,335	3,238,550	1,309,621	4,871,506
Net assets, beginning of year	23,190,834	3,891,899	25,109,820	52,192,553
Net assets, end of year	$ 23,514,169	$ 7,130,449	$ 26,419,441	$ 57,064,059

The accompanying notes are an integral part of these statements.

2013			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 14,604,593	$ -	$ -	$ 14,604,593
(6,091,782)	-	-	(6,091,782)
8,512,811	-	-	8,512,811
327,169	741,844	323,672	1,392,685
82,759	-	-	82,759
(22,406)	1,957,998	2,556,675	4,492,267
90,526	323,185	-	413,711
60,935	-	-	60,935
9,051,794	3,023,027	2,880,347	14,955,168
3,481,545	-	-	3,481,545
108,418	-	-	108,418
12,641,757	3,023,027	2,880,347	18,545,131
963,064	(963,064)	-	-
13,604,821	2,059,963	2,880,347	18,545,131
3,444,264	-	-	3,444,264
579,554	-	-	579,554
1,386,811	-	-	1,386,811
1,612,104	-	-	1,612,104
2,923,392	-	-	2,923,392
852,821	-	-	852,821
257,022	-	-	257,022
11,055,968	-	-	11,055,968
2,899,591	-	-	2,899,591
119,634	-	-	119,634
123,900	-	-	123,900
14,199,093	-	-	14,199,093
(594,272)	2,059,963	2,880,347	4,346,038
23,785,106	1,831,936	22,229,473	47,846,515
$ 23,190,834	$ 3,891,899	$ 25,109,820	$ 52,192,553

Kansas Wesleyan University and Foundation

COMBINED STATEMENT OF CASH FLOWS

Year ended June 30,

	2014	2013
Cash flows from operating activities		
Change in net assets	$ 4,871,506	$ 4,346,038
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation of property, plant and equipment	846,413	819,852
Amortization of bond issuance costs and discount	12,894	9,324
Unrealized gains, net	(3,494,642)	(4,121,392)
Realized gains, net	(408,194)	(370,875)
Gifts and bequests restricted for long-term investments	(203,351)	(323,672)
Loss on bond refunding	-	123,900
Gain on sale of property, plant and equipment	(11,572)	-
Changes in operating assets and liabilities		
Accounts receivable	(48,492)	494,718
Unconditional promises to give	(888,571)	(173,150)
Notes receivable	(27,925)	18,661
Other assets	50,410	(34,913)
Accounts payable and accrued expenses	70,438	(187,090)
Deposits, advance enrollments and deferred revenue	19,366	36,686
Net cash provided by operating activities	788,280	638,087
Cash flows from investing activities		
Purchases of investments	(17,861,186)	(19,011,979)
Proceeds from sales of investments	18,214,201	18,643,710
Purchase of property, plant, and equipment	(1,086,669)	(1,222,375)
Proceeds from the sale of property, plant and equipment	149,322	-
Net cash used in investing activities	(584,332)	(1,590,644)
Cash flows from financing activities		
Proceeds from the issuance of bonds payable	-	5,270,000
Principal payments on bonds payable	(520,000)	(250,000)
Refunding of Series 2007 bonds	-	(4,462,191)
Payment of bond issuance costs	-	(128,939)
Gifts and bequests restricted for long-term investments	203,351	323,672
Decrease in refundable government loan program	(24,051)	(5,786)
Change in deposits held in custody for others	(16,759)	26,889
Net cash provided by (used in) financing activities	(357,459)	773,645
Decrease in cash and cash equivalents	(153,511)	(178,912)
Cash and cash equivalents, beginning of year	1,289,958	1,468,870
Cash and cash equivalents, end of year	$ 1,136,447	$ 1,289,958
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 109,135	$ 215,532

The accompanying notes are an integral part of these statements.

NOTE A - SUMMARY OF ACCOUNTING POLICIES

1. *Nature of operations*

Kansas Wesleyan University (a Kansas nonprofit organization) is a liberal arts college under the auspices of 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. A substantial portion of the Foundation's assets are presented as an endowment fund of Kansas Wesleyan University (see Note J). 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.

On June 5, 2014, the Foundation amended its bylaws. The amended bylaws 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, as a result of the amendment to the bylaws, Kansas Wesleyan University does not control the Foundation. In accordance with accounting guidance, consolidation of the Foundation is not appropriate. Combined financial statements are appropriate 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. *Basis of presentation*

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

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

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

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

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

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

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

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

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

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

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

3. *Cash and cash equivalents*

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

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

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

5. *Accounts receivables*

Accounts receivable are stated at the amount billed to the students less applied scholarships, loan proceeds and payments received from the student and third parties and an allowance for uncollectible accounts. The University extends unsecured credit and loans to students. The University provides an allowance for uncollectible accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Tuition is generally due at the beginning of the term, unless the student has made other payment arrangements. Accounts receivable are considered past due based upon payment terms set forth at the date of the related service provided.

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

6. *Notes receivable*

Notes receivables include amounts due under the Federal Perkins Loan Program which are stated at the outstanding principal amount, net of an allowance for uncollectible accounts, if necessary. Loans are made to students based on demonstrated financial need and satisfaction of federal eligibility requirements for the Federal Perkins Loan Program. Principal and interest payments on loans generally do not commence until after the borrower graduates or otherwise ceases enrollment. The University provides an allowance for uncollectible accounts, which is based upon a review of outstanding loans, historical collection information and existing economic conditions. Interest income is recorded as received which is not materially different from the amount that would have been recognized on the accrual basis. Loans that are past due for at least one payment are considered delinquent. Delinquent loans are written off based on individual credit evaluation and specific circumstances of the student.

7. *Property, plant and equipment*

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

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

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

8. *Bond issuance costs*

Bond issuance costs consist of costs incurred in connection with the issuance of bond obligations. These costs have been deferred and are being amortized over the term of the related bonds using the straight line method, which approximates the effective interest method. Bond issuance costs are presented net of accumulated amortization of $19,339 and $6,445 at June 30, 2014 and 2013, respectively.

9. *Beneficial interests in perpetual trusts*

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

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

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

10. *Charitable gift annuities*

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

11. *Refundable government loan program*

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

12. *Functional allocation of expenses*

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

13. *Advertising*

Advertising costs are charged to expense when incurred in the combined statement of activities. Advertising costs incurred during the fiscal years ended June 30, 2014 and 2013 were $181,726 and $183,641, respectively.

14. *Income taxes*

The University is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. The University annually evaluates tax positions taken with regard to unrelated business income, related deductions applied, or other activities that may jeopardize its tax exempt status and thus would meet the definition of an uncertain tax position. The University recognizes the financial statement benefit of a tax position only after determining the relevant taxing authority would more likely than not sustain the position following an audit. The University has concluded that there are no uncertain tax positions taken that would require recognition of a liability or disclosure in the financial statements. The University recognizes interest and penalties on tax assessments as other expenses within the combined statement of activities. The University is generally no longer subject to U.S. federal and state income tax examinations by taxing authorities for fiscal years before 2011.

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

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

15. *Use of estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

16. *Subsequent events*

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

NOTE B - INVESTMENTS

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

	2014	2013
Carried at cost		
Cash	$ 126,452	$ 625,888
Certificates of deposit	84,760	178,166
	211,212	804,054
Carried at fair value		
Money market funds	530,127	-
Equity securities	2,805,127	2,281,077
Equity mutual funds	12,716,825	10,047,257
Fixed income mutual funds	1,176,839	1,137,320
Other mutual funds	374,200	922,537
Greater Salina Community Foundation Fund	37,767	33,397
U.S. Government and agency securities	322,677	398,517
Corporate bonds	2,457,803	2,606,696
Municipal bonds	743,178	709,977
	21,164,543	18,136,778
	$ 21,375,755	$ 18,940,832

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term.

NOTE C - BENEFICIAL INTERESTS IN PERPETUAL TRUSTS

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

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

	2014	2013
Cash	$ 157,671	$ -
Money market funds	217,171	396,121
Certificates of deposit	-	33,150
Equity securities	653,401	552,018
Equity mutual funds	2,184,062	2,557,376
Fixed income mutual funds	533,330	981,704
Other mutual funds	370,999	102,663
U.S. Government and agency securities	177,923	187,549
Corporate bonds	381,527	365,947
Municipal bonds	47,223	49,454
Common trust funds	891,614	-
Real estate	8,639,501	7,925,410
Mineral interests	286,806	283,566
	$ 14,541,228	$ 13,434,958

NOTE D - UNCONDITIONAL PROMISES TO GIVE, NET

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

	2014	2013
Promises to give expected to be collected in		
Less than one year	$ 764,827	$ 339,215
One to five years	1,422,824	959,865
	2,187,651	1,299,080
Less: Discounts to net present value	(30,674)	(30,674)
Less: Allowance for uncollectible promises to give	(15,000)	(15,000)
Net unconditional promises to give	$ 2,141,977	$ 1,253,406

Unconditional promises to give with due dates extending beyond one year are discounted at a rate of 1.04%, which approximates the average of the three and five year daily treasury rates at June 30, 2014 and 2013.

NOTE E - FAIR VALUE MEASUREMENTS

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

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

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

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

Money market funds

Valued using net asset value (NAV) per share as provided by the investment fund.

Equity securities and mutual funds

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

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

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

Greater Salina Community Foundation Fund

The University's investment in the Greater Salina Community Foundation Fund (the "Fund") is valued by the Greater Salina Community Foundation based on estimates of the net asset value (NAV) of the underlying investments of the Fund as provided by fund managers and based on other market-based data. Because the University owns an undivided interest in the Fund, its unit of account for fair value measurement purposes is the Fund. The University cannot look through the Fund to its underlying assets for the classification level in the fair value hierarchy. Rather, it must consider if relevant observable inputs exist for an undivided interest in the Fund. The Fund is classified as Level 3 in the fair value hierarchy because no observable inputs exist for an undivided interest in the Fund. However, at June 30, 2014 and June 30, 2013, all of the underlying assets of the Fund are mutual funds with fair values measured based on quoted market prices for identical assets in active markets.

NOTE E - FAIR VALUE MEASUREMENTS - Continued

Beneficial interests in perpetual trusts

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

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

The following tables present assets that are measured at fair value on a recurring basis in the combined statement of financial position and the level within the fair value hierarchy in which the fair value measurements fall at June 30:

	2014			
	Fair value	Level 1	Level 2	Level 3
Cash equivalents				
Money market funds	$ 40,038	$ -	$ 40,038	$ -
Investments				
Money market funds	530,127	-	530,127	-
Equity securities	2,805,127	2,805,127	-	-
Equity mutual funds	12,716,825	12,716,825	-	-
Fixed income mutual funds	1,176,839	1,176,839	-	-
Other mutual funds	374,200	374,200	-	-
U.S. Government and agency securities	322,677	-	322,677	-
Corporate bonds	2,457,803	-	2,457,803	-
Municipal bonds	743,178	-	743,178	-
Greater Salina Community Foundation Fund	37,767	-	-	37,767
Beneficial interests in perpetual trusts	14,541,228	-	-	14,541,228

	2013			
	Fair value	Level 1	Level 2	Level 3
Investments				
Equity securities	$ 2,281,077	$ 2,281,077	$ -	$ -
Equity mutual funds	10,047,257	10,047,257	-	-
Fixed income mutual funds	1,137,320	1,137,320	-	-
Other mutual funds	922,537	922,537	-	-
U.S. Government and agency securities	398,517	-	398,517	-
Corporate bonds	2,606,696	-	2,606,696	-
Municipal bonds	709,977	-	709,977	
Greater Salina Community Foundation Fund	33,397	-	-	33,397
Beneficial interests in perpetual trusts	13,434,958	-	-	13,434,958

NOTE E - FAIR VALUE MEASUREMENTS - Continued

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

	Greater Salina Community Foundation Fund	Beneficial interests in perpetual trusts
Balance on July 1, 2012	$ 30,711	$ 11,350,225
Realized and unrealized gains, net	4,088	2,835,462
Distributions and withdrawals	(1,402)	(750,729)
Balance on June 30, 2013	33,397	13,434,958
Realized and unrealized gains, net	5,795	1,482,502
Distributions and withdrawals	(1,425)	(376,232)
Balance on June 30, 2014	$ 37,767	$ 14,541,228

Investments as of June 30, 2014 valued using net asset value per share, have the following liquidity restrictions:

	Fair value	Redemption frequency	Redemption notice period
Money market fund (a)	$ 355,763	daily	none
Money market fund (b)	115,181	daily	none
Money market fund (c)	99,221	daily	none

(a) This fund seeks to maintain liquidity and as high a level of current income as is consistent with the preservation of capital. The fund invests in short-term U.S. government securities which includes treasury securities and repurchase agreements collateralized by the U.S. Treasury.

(b) This fund seeks to maintain liquidity and as high a level of current income as is consistent with the preservation of capital. The fund invests in high quality, short-term money market instruments which primarily includes commercial paper, certificates of deposit and repurchase agreements.

(c) This fund seeks to maintain liquidity and as high a level of current income as is consistent with the 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 F - PROPERTY, PLANT AND EQUIPMENT, NET

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

	2014	2013
Land	$ 98,014	$ 98,014
Land improvements	57,130	57,130
Buildings	34,437,715	32,875,518
Equipment	1,741,986	2,165,107
Vehicles	131,545	131,545
Total property in service	36,466,390	35,327,314
Accumulated depreciation	(13,694,753)	(12,848,340)
Construction in progress	1,144,747	1,334,904
	$ 23,916,384	$ 23,813,878

Depreciation expense was $846,413 and $819,852 for the years ended June 30, 2014 and 2013, respectively.

NOTE G - BONDS PAYABLE

In December 2012, the Saline County, Kansas Education Facilities Revenue Bonds, Series 2012 were issued in the amount of $5,270,000 for the sole purpose of refunding the Kansas Independent College Finance Authority Education Facilities Revenue Bonds, Series 2007. Bonds payable are $4,500,000 and $5,020,000 at June 30, 2014 and 2013, respectively. The bonds require the University to make monthly payments to the trustee sufficient to service the principal maturities and interest requirements through May 1, 2022. The bond agreement contains various restrictive covenants which include requirements for the maintenance of specified financial ratios. In management's opinion the University has complied with the covenants. The bonds are collateralized by property, plant and equipment of the University. Interest is charged at a rate of 2.3% until December 19, 2017. Thereafter and until maturity, interest will be charged at a rate equal to the sum of the five-year treasury rate plus 300 basis points, which then shall be multiplied by the prevailing tax equivalent yield rate.

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

Scheduled principal payments on the bonds payable at June 30, 2014 are as follows:

Year ending June 30,	
2015	$ 540,000
2016	540,000
2017	540,000
2018	540,000
2019	590,000
Thereafter	1,750,000
	$ 4,500,000

NOTE H - GUARANTY

The University has a membership interest in Associated Colleges of Central Kansas (ACCK). ACCK provides the University and other Kansas universities with the use of software and related program support. On June 24, 2013, ACCK borrowed funds from a bank in the amount of $1,006,408, which is to be paid in quarterly installments with final payment due on June 30, 2016. The University has guaranteed a portion of the indebtedness and would be obligated to perform under the guarantee if ACCK failed to pay principal and interest payments to the lender when due. The University's share of the maximum potential amount of future (undiscounted) payments under the guarantee is $136,259 at June 30, 2014, plus interest and the University's proportionate share of the lender's costs, expenses, and attorney fees incurred.

NOTE I - RETIREMENT PLAN

The University has a defined contribution pension plan covering substantially all full-time employees. Pension expense, which is funded currently, aggregated $477,417 and $425,827 for the years ended June 30, 2014 and 2013, respectively.

NOTE J - ENDOWMENT FUND

The Foundation was established to receive, invest and disburse amounts for the benefit of Kansas Wesleyan University. The Foundation is a nonprofit corporation with a separate governing board. The Foundation's financial statements are combined with the financial statements of Kansas Wesleyan University (See Note A1).

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

The 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. Up to 5.0% (or higher if donor restrictions specify a distribution percentage) of the total fair value of investable assets as of July 1 each year is budgeted for use in the current fiscal year according to restrictions of donors. The Boards of Trustees determine an appropriate amount of expenditures each year based on the net asset value of the endowment fund.

The Boards of Trustees have interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by SPMIFA.

NOTE J - ENDOWMENT FUND - Continued

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

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

Changes in endowment net assets

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

	2014		
	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2013	$ 2,356,041	$ 25,102,760	$ 27,458,801
Gifts and bequests	-	203,351	203,351
Interest and dividends	362,340	-	362,340
Realized and unrealized gains, net	2,754,699	1,106,270	3,860,969
Appropriation for expenditure	(1,015,532)	-	(1,015,532)
Endowment net assets, June 30, 2014	$ 4,457,548	$ 26,412,381	$ 30,869,929

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

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. These deficiencies result from unfavorable market fluctuations and expenditures in excess of revenues. There were no deficiencies at June 30, 2014 and 2013.

NOTE K - OPERATING LEASES

The University has entered into leases for certain office equipment and vehicles. All of these agreements are classified as operating leases and have terms expiring over the next five years. Rent expense on these leases totaled $72,125 and $66,427 for the years ended June 30, 2014 and 2013, respectively.

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

Year ending June 30,	
2015	$ 66,918
2016	44,954
2017	6,298
Total	$ 118,170

NOTE L - ADVANCEMENT EXPENSES

The University incurred development and fund-raising expenses amounting to $578,685 and $510,968 for the years ended June 30, 2014 and 2013, respectively. Such amounts are included in institutional support expenses in the accompanying combined statement of activities.

NOTE M - CONCENTRATIONS OF CREDIT RISK

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

The University has demand deposit accounts at various financial institutions. The balances with a certain institution were in excess of the Federal insurance limitations as of June 30, 2014.

NOTE N - ASSETS TRANSFERRED TO A RECIPIENT ORGANIZATION

The Foundation and the Retired Senior Volunteer Program (RSVP) each transferred $10,000 to the Greater Salina Community Foundation for the establishment of named funds. The Greater Salina Community Foundation may make annual distributions to the Foundation and RSVP of an amount up to but not to exceed 5% of the respective fund's net fair market value. At June 30, 2014 and 2013, the fair value of these assets was $37,767 and $33,397, respectively, and is included in investments in the accompanying combined statements of financial position.

NOTE O - NOTES RECEIVABLE, NET

The University makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government resources. At June 30, 2014 and 2013, student loans represented 1.4% of total assets and are recognized as notes receivable in the combined statements of financial position.

NOTE O - NOTES RECEIVABLE, NET - Continued

Notes receivable consist of the following at June 30:

	2014	2013
Federal government loan programs	$ 1,050,841	$ 1,022,916
Allowance for uncollectible accounts	(170,000)	(170,000)
	$ 880,841	$ 852,916

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 $866,177 and $890,228 at June 30, 2014 and 2013, respectively, are ultimately refundable to the government and are classified as liabilities in the combined 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	60-90 days past due	90+ days past due	Total past due
June 30, 2014	$ 339	$ 333	$ 286,567	$ 287,239
June 30, 2013	737	218	262,054	263,009

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

Grant Thornton