

# **Kansas Wesleyan University**

Independent Auditor's Report and Financial Statements

June 30, 2018



**Kansas Wesleyan University**  
**June 30, 2018**

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## Independent Auditor's Report

Board of Trustees  
Kansas Wesleyan University  
Salina, Kansas

### Report on the Financial Statements

We have audited the accompanying financial statements of Kansas Wesleyan University, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Kansas Wesleyan University as of June 30, 2018, 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.

### ***Other Matters***

#### ***Supplementary Information***

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2019, on our consideration of Kansas Wesleyan University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kansas Wesleyan University's internal control over financial reporting and compliance.

**BKD, LLP**

Wichita, Kansas  
February 18, 2019

**Kansas Wesleyan University**  
**Statement of Financial Position**  
**June 30, 2018**

**Assets**

Cash and cash equivalents	\$ 1,367,873
Investments	1,908,071
Accounts receivable, less allowance for uncollectible accounts of \$67,000	685,058
Unconditional promises to give, net	885,492
Notes receivable, net	921,867
Cash and investments restricted for long-term purposes	61,996
Beneficial interest in perpetual trusts	13,186,921
Property and equipment, net	30,678,490
Other assets	<u>409,643</u>
Total assets	<u><u>\$ 50,105,411</u></u>

**Liabilities and Net Assets**

**Liabilities**

Accounts payable and accrued expenses	\$ 853,037
Deposits, advance enrollments and deferred revenue	708,166
Deposits held in custody for others	414,496
Refundable government loan programs	621,302
Bonds payable less unamortized debt issuance costs of \$58,105	2,281,895
Liability for future annuity payments	<u>54,618</u>
Total liabilities	<u>4,933,514</u>

**Net Assets**

Unrestricted	
Available for operations	774,544
Investment in property, plant and equipment	28,425,918
Student loan funds	<u>10,157</u>
Total unrestricted net assets	29,210,619
Temporarily restricted	
Scholarships and other	1,188,713
Special projects and purposes	<u>1,575,035</u>
Total temporarily restricted net assets	2,763,748
Permanently restricted	
Scholarships and other	13,187,818
Special projects and purposes	<u>9,712</u>
Total permanently restricted assets	<u>13,197,530</u>
Total net assets	<u>45,171,897</u>
Total liabilities and net assets	<u><u>\$ 50,105,411</u></u>

**Kansas Wesleyan University**  
**Statement of Activities**  
**Year Ended June 30, 2018**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Revenues, Gains and Other Support</b>				
Educational and general				
Tuition and fees	\$ 19,158,560	\$ -	\$ -	\$ 19,158,560
Less: scholarships and other aid	(9,743,687)	-	-	(9,743,687)
Net tuition and fees	9,414,873	-	-	9,414,873
Gifts and bequests	1,046,204	1,176,580	-	2,222,784
Gifts from related party	-	771,237	-	771,237
Governmental grants	110,097	-	-	110,097
Net realized and unrealized gains (losses)	-	225,901	(394,692)	(168,791)
Interest and dividends	35,559	-	-	35,559
Other	628,477	-	-	628,477
Total educational and general	11,235,210	2,173,718	(394,692)	13,014,236
Auxiliary enterprises income	4,319,759	-	-	4,319,759
Total revenues and gains	15,554,969	2,173,718	(394,692)	17,333,995
Net assets released from restrictions	1,759,598	(1,759,598)	-	-
Total revenues, gains and other support	17,314,567	414,120	(394,692)	17,333,995
<b>Expenses and Losses</b>				
Educational and general				
Instructional	4,183,774	-	-	4,183,774
Academic support	617,057	-	-	617,057
Student services	1,711,108	-	-	1,711,108
Athletics	2,577,505	-	-	2,577,505
Institutional support	3,332,590	-	-	3,332,590
Operation and maintenance of plant	1,134,490	-	-	1,134,490
Other expenses	102,321	-	-	102,321
Total educational and general	13,658,845	-	-	13,658,845
Auxiliary enterprises	3,632,716	-	-	3,632,716
Total expenses	17,291,561	-	-	17,291,561
<b>Change in Net Assets</b>	23,006	414,120	(394,692)	42,434
<b>Net Assets, Beginning of Year</b>	29,187,613	2,349,628	13,592,222	45,129,463
<b>Net Assets, End of Year</b>	\$ 29,210,619	\$ 2,763,748	\$ 13,197,530	\$ 45,171,897

**Kansas Wesleyan University**  
**Statement of Cash Flows**  
**June 30, 2018**

**Operating Activities**

Change in net assets	\$ 42,434
Items not requiring (providing) operating cash flows	
Depreciation of property, plant and equipment	1,245,480
Amortization of bond issuance costs and discount	12,900
Realized and unrealized loss on investments, net	168,791
Changes in	
Accounts receivable	(251,468)
Unconditional promises to give	283,757
Notes receivable	18,668
Other assets	38,864
Accounts payable and accrued expenses	(344,808)
Deposits, advance enrollments and deferred revenue	<u>167,794</u>
Net cash provided by operating activities	<u>1,382,412</u>

**Investing Activities**

Purchases of investments	(5,050,084)
Proceeds from sales of investments	5,141,615
Purchase of property, plant, and equipment	<u>(778,868)</u>
Net cash used in investing activities	<u>(687,337)</u>

**Financing Activities**

Principal payments on bonds payable	(540,000)
Decrease in refundable government loan program	(72,237)
Change in deposits held in custody for others	<u>108,329</u>
Net cash used in financing activities	<u>(503,908)</u>

**Change in Cash and Cash Equivalents**

191,167

**Cash and Cash Equivalents, Beginning of Year**

1,176,706

**Cash and Cash Equivalents, End of Year**

\$ 1,367,873

**Supplemental Disclosure of Cash Flow Information**

Interest paid	\$ 73,696
Property, plant and equipment additions in accounts payable	\$ 20,642

**Kansas Wesleyan University**  
**Notes to Financial Statements**  
**June 30, 2018**

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

***Nature of Operations***

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

***Use of Estimates***

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

***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.

***Investments and Cash and Investments Restricted for Long-Term Purposes***

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

***Accounts Receivable***

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.



# Kansas Wesleyan University

## Notes to Financial Statements

June 30, 2018

### **Notes Receivable**

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

### **Property and Equipment**

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

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

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

### **Debt Issuance Cost**

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

### **Long-lived Asset Impairment**

The University evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the year ended June 30, 2018.

# Kansas Wesleyan University

## Notes to Financial Statements

June 30, 2018

### ***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 permanently restricted net assets.

### ***Charitable Gift Annuities***

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

### ***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.

# Kansas Wesleyan University

## Notes to Financial Statements

June 30, 2018

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.

### ***U.S. Government Loan Funds Receivable***

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

### ***Income Taxes***

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

# Kansas Wesleyan University

## Notes to Financial Statements

June 30, 2018

### **Functional Allocation of Expenses**

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

### **Subsequent Events**

Subsequent events have been evaluated through February 18, 2019, which is the date the financial statements were available to be issued.

### **Note 2: Investments and Investment Return**

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

Carried at cost	
Cash	\$ 2,507
Certificates of deposit	<u>61,996</u>
	<u>64,503</u>
Carried at net asset value	
Money market funds	<u>1,742,944</u>
Carried at fair value	
Equity securities	40,402
Equity mutual funds	80,443
Fixed income mutual funds	<u>41,775</u>
	<u>162,620</u>
	<u>\$ 1,970,067</u>

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

**Kansas Wesleyan University**  
**Notes to Financial Statements**  
**June 30, 2018**

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

Investments	\$ 1,908,071
Cash and investments restricted for long-term purposes	<u>61,996</u>
	<u>\$ 1,970,067</u>

Investment return for the year ended June 30, 2018, includes:

Net realized and unrealized gain on investments	\$ 7,286
Loss on beneficial interest in perpetual trust	<u>(176,077)</u>
Net return on investments	<u>\$ (168,791)</u>

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

	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Money market fund (A)	\$ 1,742,944	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 primarily in short-term, high-quality, fixed-income securities issued by banks, corporations and the U.S. government, rated in the highest short-term category or of comparable quality.

**Note 3: Beneficial Interest in a Perpetual Trust**

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

**Kansas Wesleyan University**  
**Notes to Financial Statements**  
**June 30, 2018**

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

Cash	\$ 290,470
Equity securities	1,170,494
Equity mutual funds	2,403,327
Fixed income mutual funds	1,098,623
Other mutual funds	170,754
U.S. government and agency securities	128,668
Corporate bonds	109,927
Municipal bonds	101,780
Real estate	7,565,135
Mineral interests	147,743
	<hr/>
	<u>\$ 13,186,921</u>

**Note 4: Fair Value Measurements and Disclosures**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

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

**Kansas Wesleyan University**  
**Notes to Financial Statements**  
**June 30, 2018**

***Recurring Measurements***

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2018:

	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobserv- able Inputs Level 3</b>
Investments				
Equity securities	\$ 40,402	\$ 40,402	\$ -	\$ -
Equity mutual funds	80,443	80,443	-	-
Fixed income mutual funds	41,775	41,775	-	-
	<u>162,620</u>	<u>162,620</u>	<u>-</u>	<u>-</u>
Beneficial interests in perpetual trusts	<u>13,186,921</u>	<u>-</u>	<u>-</u>	<u>13,186,921</u>
Total investments in the fair value hierarchy	<u>\$ 13,349,541</u>	<u>\$ 162,620</u>	<u>\$ -</u>	<u>\$ 13,186,921</u>

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2018. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

***Investments***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

# Kansas Wesleyan University

## Notes to Financial Statements

June 30, 2018

### **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 financial statements as the University's proportionate share of the estimated fair value of the beneficial interest. The University uses quoted market prices, interest rates, yield curves and unobservable inputs including the present value calculation of expected future distributions to estimate the fair value of the beneficial interests in perpetual trusts.

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

### **Level 3 Reconciliation**

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statements of financial position using significant unobservable (Level 3) inputs:

	<b>Beneficial Interests in Perpetual Trusts</b>
Balance on July 1, 2017	\$ 13,581,613
Realized and unrealized losses, net	(176,077)
Distributions and withdrawals	(218,615)
	<hr/>
Balance on June 30, 2018	<u>\$ 13,186,921</u>

### **Unobservable (Level 3) Inputs**

The following table presents quantitative information about unobservable inputs used in recurring Level 3 fair value measurements at June 30, 2018:

	<b>Fair Value</b>	<b>Valuation Technique</b>	<b>Unobservable Inputs</b>	<b>Range (Weighted Average)</b>
Beneficial interest in perpetual trust	\$ 13,186,921	NPV of future distributions	Various	None



**Kansas Wesleyan University**  
**Notes to Financial Statements**  
**June 30, 2018**

**Note 5: Unconditional Promises to Give, Net**

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

Promises to give expected to be collected in	
Less than one year	\$ 469,281
One to five years	474,000
	<u>943,281</u>
Less: Discounts to net present value	(27,789)
Less: Allowance for uncollectible promises to give	(30,000)
	<u><u>\$ 885,492</u></u>

Unconditional promises to give with due dates extending beyond one year are discounted at a range of rates between 0.86% and 1.72%.

**Note 6: Property and Equipment**

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

Land	\$ 98,014
Land improvements	156,732
Buildings	44,852,273
Equipment	3,426,528
Vehicles	147,185
Total property in service	<u>48,680,732</u>
Accumulated depreciation	(18,053,088)
Construction in progress	50,846
	<u><u>\$ 30,678,490</u></u>

**Kansas Wesleyan University**  
**Notes to Financial Statements**  
**June 30, 2018**

**Note 7: 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 \$2,340,000 at June 30, 2018. Bonds payable include unamortized debt issuance costs of \$58,105 at June 30, 2018. 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 was 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. At June 30, 2018, the interest rate was 3.8%.

Scheduled principal payments on the bonds payable at June 30, 2018, are as follows:

Year ending June 30,	
2019	\$ 590,000
2020	600,000
2021	600,000
2022	<u>550,000</u>
	<u><u>\$ 2,340,000</u></u>

**Note 8: Foundation**

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 the University and institutions related to, affiliated with and cooperating with the University. The University has an economic interest in the net assets of the Foundation; however, the University does not control the Foundation. The Board of Directors of the Foundation consists of seven members. The Chair of the KWU Board of Trustees and the President/CEO of the University serve ex-officio with no vote. The Board of Directors of the Foundation are self-perpetuating and selected without influence from the KWU Board of Trustees.

**Kansas Wesleyan University**  
**Notes to Financial Statements**  
**June 30, 2018**

Summarized financial statement information for the Foundation at June 30, 2018 is as follows:

Total assets	\$ 17,691,118
Total liabilities	<u>11,292</u>
 Total net assets	 <u><u>\$ 17,679,826</u></u>
 Total revenues	 \$ 764,915
Total expenses	<u>-</u>
 Change in net assets	 <u><u>\$ 764,915</u></u>

For the year ended June 30, 2018, the Foundation provided gifts totaling \$771,237 to the University.

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 possible 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 as management believes the revocation was made due to an administrative error on the part of the IRS.

**Note 9: Endowment Fund**

The endowment consists of permanently restricted funds and related earnings held in 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.

The University has interpreted the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA) as requiring preservation of the historical cost 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 UPMIFA.

**Kansas Wesleyan University**  
**Notes to Financial Statements**  
**June 30, 2018**

In accordance with UPMIFA, 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 year ended June 30 are as follows:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, July 1, 2017	\$ -	\$ 13,581,613	\$ 13,581,613
Realized and unrealized losses, net	-	(394,692)	(394,692)
Endowment net assets, June 30, 2018	<u>\$ -</u>	<u>\$ 13,186,921</u>	<u>\$ 13,186,921</u>

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, 2018.

**Note 10: Retirement Plan**

The University has a defined contribution pension plan covering substantially all full-time employees. Pension expense, which is funded currently, totaled \$507,350 for the year ended June 30, 2018.

**Note 11: 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, 2018, student loans represented 1.4% of total assets and are recognized as notes receivable in the statements of financial position.

**Kansas Wesleyan University**  
**Notes to Financial Statements**  
**June 30, 2018**

Notes receivable consist of the following at June 30:

Federal government loan program	\$ 1,091,867	
Allowance for uncollectible accounts	(170,000)	
	\$ 921,867	

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 \$621,302 at June 30, 2018, are ultimately refundable to the government and are classified as liabilities in the statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

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

	1-60 Days Past Due	61-90 Days Past Due	90+ Days Past Due	Total Past Due
June 30, 2018	\$ 15,353	\$ 3,364	\$ 380,871	\$ 399,588

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

**Note 12: Advancement Expenses**

The University incurred development and fund-raising expenses amounting to \$465,809 for the year ended June 30, 2018. Such amounts are included in institutional support expenses in the accompanying statement of activities.

**Note 13: Significant Estimates and Concentrations**

The University has invested in money market funds, 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 two institutions. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

The University has demand deposit accounts at various financial institutions. The balances with certain institutions were in excess of the Federal insurance limitations as of June 30, 2018.

# Kansas Wesleyan University

## Notes to Financial Statements

June 30, 2018

### Note 14: Future Change in Accounting Principle

#### *Revenue Recognition*

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018, for nonpublic entities (December 15, 2017, for not-for-profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2019, for nonpublic entities (December 15, 2018, for not-for-profits that are conduit debt obligors). The University is in the process of evaluating the impact the amendment will have on the financial statements.

## **Supplementary Information**

**Kansas Wesleyan University**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2018**

<b>Federal Grantor/ Pass-through Grantor/ Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Passed Through to Subrecipients</b>	<b>Federal Expenditures</b>
<u>U.S. Department of Education</u>				
Direct Programs:				
Federal Supplemental Education Opportunity Grant Program	84.007	N/A	\$ -	\$ 93,762
Federal Work-Study Program	84.033	N/A	-	107,381
Federal Perkins Loan Program	84.038	N/A	-	1,138,535
Federal Pell Grant Program	84.063	N/A	-	1,473,253
Federal Direct Student Loans Program	84.268	N/A	-	7,358,521
Teacher Education Assistance for College and Higher Education (TEACH) Grants	84.379	N/A	-	<u>9,320</u>
Total Student Financial Assistance Cluster			<u>\$ -</u>	<u>\$ 10,180,772</u>



**Kansas Wesleyan University**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2018**

**Notes to Schedule**

1. The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of the University under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets or cash flows of the University.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The University has elected not to use the 10 percent de minimus indirect cost rate allowed under the Uniform Guidance.
3. The federal loan programs listed subsequently are administered directly by the University, and balances and transactions relating to these programs are included in the University’s basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2018, consists of:

CFDA Number	Program Name	Outstanding Balance at June 30, 2018
84.038	Federal Perkins Loan Program	\$1,091,867

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

**Independent Auditor's Report**

Board of Trustees  
Kansas Wesleyan University  
Salina, Kansas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Kansas Wesleyan University (the University), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 18, 2019.

***Internal Control Over Financial Reporting***

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

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

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

Board of Trustees  
Kansas Wesleyan University  
(Continued)

### ***Compliance and Other Matters***

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

### ***Purpose of this Report***

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

**BKD, LLP**

Wichita, Kansas  
February 18, 2019

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

### **Independent Auditor's Report**

Board of Trustees  
Kansas Wesleyan University  
Salina, Kansas

#### **Report on Compliance for the Major Federal Program**

We have audited Kansas Wesleyan University's (the University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the University's major federal program for the year ended June 30, 2018. The University's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

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

#### ***Auditor's Responsibility***

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

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

Board of Trustees  
Kansas Wesleyan University  
(Continued)

### ***Opinion on the Major Federal Program***

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

### **Report on Internal Control Over Compliance**

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

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

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

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

**BKD, LLP**

Wichita, Kansas  
February 18, 2019

**Kansas Wesleyan University**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2018**

**Summary of Auditor's Results**

*Financial Statements*

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:  
 Unmodified       Qualified       Adverse       Disclaimer
  
2. The independent auditor's report on internal control over financial reporting disclosed:  
Significant deficiency(ies)?       Yes       None reported  
Material weakness(es)?       Yes       No
  
3. Noncompliance considered material to the financial statements was disclosed by the audit?       Yes       No

*Federal Awards*

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:  
Significant deficiency(ies)?       Yes       None reported  
Material weakness(es)?       Yes       No
  
5. The opinion expressed in the independent auditor's report on compliance for major federal awards was:  
 Unmodified       Qualified       Adverse       Disclaimer
  
6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)?       Yes       No

**Kansas Wesleyan University**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2018**

7. The University's major program was:

Cluster/Program	CFDA Number
Student Financial Aid Cluster:	
Federal Work Study Program	84.033
Federal Supplemental Education Opportunity Grant Program	84.007
Federal Perkins Loan Program	84.038
Federal Direct Student Loans Program	84.268
Federal Pell Grant Program	84.063
Teacher Education Assistance for College and Higher Education (TEACH) Grants	84.379

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

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

**Findings Required to be Reported by *Government Auditing Standards***

Reference Number	Finding
No matters are reportable.	

**Findings Required to be Reported by Uniform Guidance**

Reference Number	Finding
No matters are reportable.	

**Kansas Wesleyan University**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2018**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
	No matters reportable.	