

Kansas Wesleyan University and Foundation

Independent Auditor's Report and Combined Financial Statements

June 30, 2018 and 2017

Kansas Wesleyan University and Foundation
June 30, 2018 and 2017

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Independent Auditor's Report

Board of Trustees
Kansas Wesleyan University and Foundation
Salina, Kansas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Prior Year Audited by Other Auditors

The 2017 combined financial statements were audited by other auditors, and their report thereon, dated November 27, 2017, expressed an unmodified opinion.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined 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 combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2020, on our consideration of Kansas Wesleyan University and Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 and Foundation's internal control over financial reporting and compliance.

BKD, LLP

Wichita, Kansas
February 25, 2020

Kansas Wesleyan University and Foundation
Combined Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 1,549,731	\$ 1,343,891
Investments	1,908,071	1,771,314
Accounts receivable, less allowance for uncollectible accounts of \$67,000 in 2018 and \$40,786 and 2017	685,058	433,590
Unconditional promises to give, net	885,492	1,169,249
Notes receivable, net	921,867	940,535
Cash and investments restricted for long-term purposes	17,299,554	16,546,054
Beneficial interest in perpetual trusts	13,472,010	13,860,216
Property and equipment, net	30,678,490	31,218,970
Other assets	396,256	432,660
	\$ 67,796,529	\$ 67,716,479
 Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 853,037	\$ 1,271,713
Deposits, advance enrollments and deferred revenue	708,166	540,372
Deposits held in custody for others	425,788	306,039
Refundable government loan programs	621,302	693,539
Bonds payable less unamortized debt issuance costs of \$58,105 and \$71,005 in 2018 and 2017	2,281,895	2,808,995
Liability for future annuity payments	54,618	51,447
	4,944,806	5,672,105
 Net Assets		
Unrestricted		
Available for operations	774,516	753,929
Investment in property, plant and equipment	28,425,918	28,409,975
Student loan funds	10,157	23,709
	29,210,591	29,187,613
 Temporarily restricted		
Scholarships and other	4,533,961	4,095,258
Special projects and purposes	2,002,486	1,599,618
	6,536,447	5,694,876
 Permanently restricted		
Scholarships and other	27,094,973	27,152,173
Special projects and purposes	9,712	9,712
	27,104,685	27,161,885
Total permanently restricted assets	27,104,685	27,161,885
Total net assets	62,851,723	62,044,374
Total liabilities and net assets	\$ 67,796,529	\$ 67,716,479

Kansas Wesleyan University and Foundation
Combined Statements of Activities
June 30, 2018 and 2017

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Gains and Other Support				
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	331,006	2,553,790
Governmental grants	110,097	-	-	110,097
Net realized and unrealized gains (losses)	-	1,119,678	(388,206)	731,472
Interest and dividends	35,559	304,911	-	340,470
Other	628,477	-	-	628,477
Total educational and general	11,235,210	2,601,169	(57,200)	13,779,179
Auxiliary enterprises income	4,319,731	-	-	4,319,731
Total revenues and gains	15,554,941	2,601,169	(57,200)	18,098,910
Net assets released from restrictions	1,759,598	(1,759,598)	-	-
Total revenues, gains and other support	17,314,539	841,571	(57,200)	18,098,910
Expenses and Losses				
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
Change in Net Assets	22,978	841,571	(57,200)	807,349
Net Assets, Beginning of Year	29,187,613	5,694,876	27,161,885	62,044,374
Net Assets, End of Year	<u>\$ 29,210,591</u>	<u>\$ 6,536,447</u>	<u>\$ 27,104,685</u>	<u>\$ 62,851,723</u>

2017

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 18,178,223	\$ -	\$ -	\$ 18,178,223
(8,713,650)	-	-	(8,713,650)
9,464,573	-	-	9,464,573
559,230	1,175,134	307,650	2,042,014
117,323	-	-	117,323
70,605	1,857,235	11,775	1,939,615
33,186	284,287	-	317,473
149,417	-	-	149,417
10,394,334	3,316,656	319,425	14,030,415
4,474,321	-	-	4,474,321
14,868,655	3,316,656	319,425	18,504,736
1,553,683	(1,553,683)	-	-
16,422,338	1,762,973	319,425	18,504,736
3,750,227	-	-	3,750,227
712,455	-	-	712,455
1,764,541	-	-	1,764,541
2,345,575	-	-	2,345,575
3,134,168	-	-	3,134,168
1,086,431	-	-	1,086,431
110,989	-	-	110,989
12,904,386	-	-	12,904,386
3,778,864	-	-	3,778,864
16,683,250	-	-	16,683,250
(260,912)	1,762,973	319,425	1,821,486
29,448,525	3,931,903	26,842,460	60,222,888
\$ 29,187,613	\$ 5,694,876	\$ 27,161,885	\$ 62,044,374

Kansas Wesleyan University and Foundation
Combined Statements of Cash Flows
June 30, 2018 and 2017

	2018	2017
Operating Activities		
Change in net assets	\$ 807,349	\$ 1,821,486
Items not requiring (providing) operating cash flows		
Depreciation of property, plant and equipment	1,245,480	1,228,529
Amortization of bond issuance costs and discount	12,900	12,894
Realized and unrealized gains, net	(731,472)	(1,939,615)
Gifts and bequests restricted for long-term investments	(331,006)	(307,650)
Changes in		
Accounts receivable	(251,468)	(274,231)
Unconditional promises to give	283,757	510,352
Notes receivable	18,668	16,705
Other assets	36,404	(138,312)
Accounts payable and accrued expenses	(344,808)	95,802
Deposits, advance enrollments and deferred revenue	167,794	93,726
	913,598	1,119,686
Investing Activities		
Purchases of investments	(9,280,107)	(15,883,812)
Proceeds from sales of investments	9,512,699	16,052,021
Purchase of property, plant and equipment	(778,868)	(1,264,212)
	(546,276)	(1,096,003)
Financing Activities		
Principal payments on bonds payable	(540,000)	(540,000)
Gifts and bequests restricted for long-term investments	331,006	307,650
Decrease in refundable government loan program	(72,237)	(69,398)
Change in deposits held in custody for others	119,749	124,897
	(161,482)	(176,851)
Change in Cash and Cash Equivalents	205,840	(153,168)
Cash and Cash Equivalents, Beginning of Year	1,343,891	1,497,059
Cash and Cash Equivalents, End of Year	\$ 1,549,731	\$ 1,343,891
Supplemental Disclosure of Cash Flow Information		
Interest paid	\$ 73,696	\$ 71,933
Property, plant and equipment additions in accounts payable	\$ 20,642	\$ 94,510

Kansas Wesleyan University and Foundation

Notes to Combined Financial Statements

June 30, 2018 and 2017

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.

The Kansas Wesleyan University Foundation (the “Foundation”) (a Kansas nonprofit organization) is a foundation established to receive, invest and disburse amounts for the benefit of Kansas Wesleyan University and institutions related to, affiliated with and cooperating with Kansas Wesleyan University. The Foundation’s assets along with certain other assets are presented as an endowment fund of Kansas Wesleyan University (see *Note 8*). The financial statements of the Foundation are combined with the financial statements of Kansas Wesleyan University (collectively the “University”). All significant balances and transactions between these organizations have been eliminated in the combination.

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

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.

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.

Kansas Wesleyan University and Foundation
Notes to Combined Financial Statements
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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.

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

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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 years ended June 30, 2018 and 2017.

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.

Kansas Wesleyan University and Foundation

Notes to Combined Financial Statements

June 30, 2018 and 2017

Basis of Presentation

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

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

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

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

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

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

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

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.

Kansas Wesleyan University and Foundation

Notes to Combined Financial Statements

June 30, 2018 and 2017

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 combined statement of activities.

Functional Allocation of Expenses

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

Subsequent Events

Subsequent events have been evaluated through February 25, 2020, which is the date the combined financial statements were available to be issued.

Kansas Wesleyan University and Foundation

Notes to Combined Financial Statements

June 30, 2018 and 2017

Note 2: Investments and Investment Return

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

	2018	2017
Carried at cost		
Cash	\$ 3,090	\$ 1,895
Certificates of deposit	61,996	61,212
	65,086	63,107
Carried at net asset value		
Money market funds	2,464,151	1,902,059
Carried at fair value		
Equity securities	2,038,878	1,925,213
Equity mutual funds	10,623,711	10,186,599
Fixed income mutual funds	1,831,182	2,093,425
Other mutual funds	66,725	75,975
U.S. Government and agency securities	571,633	350,638
Corporate bonds	1,245,111	1,460,933
Municipal bonds	301,148	259,419
	16,678,388	16,352,202
	\$ 19,207,625	\$ 18,317,368

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.

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

	2018	2017
Investments	\$ 1,908,071	\$ 1,771,314
Cash and investments restricted for long-term purposes	17,299,554	16,546,054
	\$ 19,207,625	\$ 18,317,368

Kansas Wesleyan University and Foundation
Notes to Combined Financial Statements
June 30, 2018 and 2017

Investment return for the years ended June 30, 2018 and 2017, includes:

	<u>2018</u>	<u>2017</u>
Net realized and unrealized gain on investments	\$ 889,770	\$ 1,655,365
Gain (loss) on beneficial interest in perpetual trust	<u>(158,298)</u>	<u>284,250</u>
Net return on investments	<u>\$ 731,472</u>	<u>\$ 1,939,615</u>

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

	<u>2018</u>	<u>2017</u>	<u>Redemption</u>	<u>Redemption</u>
	<u>Fair Value</u>	<u>Fair Value</u>	<u>Frequency</u>	<u>Notice Period</u>
Money market fund (A)	\$ 254,497	\$ 110,991	Daily	None
Money market fund (A)	3,796	1,959	Daily	None
Money market fund (B)	1,869,939	1,663,164	Daily	None
Money market fund (C)	335,919	125,945	Daily	None

- (A) These funds seek to maintain liquidity and pursues current income consistent with stability of principal. The funds primarily invest in short-term U.S. government securities which includes treasury securities and repurchase agreements collateralized by U.S. Treasury and government agency securities.
- (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 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.
- (C) This fund seeks to preserve principal and maintain liquidity while providing current income. The fund is comprised of short-term debt obligations of highly rated U.S. issuers, including commercial paper and other short-term corporate obligations.

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 and Foundation
Notes to Combined Financial Statements
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The underlying assets held by the perpetual trusts include the following as of June 30:

	<u>2018</u>	<u>2017</u>
Cash	\$ 309,788	\$ 253,533
Equity securities	1,230,120	1,312,709
Equity mutual funds	2,501,549	2,336,017
Fixed income mutual funds	1,112,511	1,091,421
Other mutual funds	170,754	128,491
U.S. government and agency securities	217,248	109,061
Corporate bonds	109,927	314,393
Municipal bonds	101,780	71,485
Real estate	7,565,135	8,124,929
Mineral interests	153,198	118,177
	<u>\$ 13,472,010</u>	<u>\$ 13,860,216</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 and Foundation

Notes to Combined Financial Statements

June 30, 2018 and 2017

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 and 2017:

	Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobserv- able Inputs Level 3
June 30, 2018				
Investments				
Equity securities	\$ 2,038,878	\$ 2,038,878	\$ -	\$ -
Equity mutual funds	10,623,711	10,623,711	-	-
Fixed income mutual funds	1,831,182	1,831,182	-	-
Other mutual funds	66,725	66,725	-	-
U.S. government and agency securities	571,633	-	571,633	-
Corporate bonds	1,245,111	-	1,245,111	-
Municipal bonds	301,148	-	301,148	-
	<u>16,678,388</u>	<u>14,560,496</u>	<u>2,117,892</u>	<u>-</u>
Beneficial interests in perpetual trusts	<u>13,472,010</u>	<u>-</u>	<u>-</u>	<u>13,472,010</u>
Total investments in the fair value hierarchy	<u><u>\$ 30,150,398</u></u>	<u><u>\$ 14,560,496</u></u>	<u><u>\$ 2,117,892</u></u>	<u><u>\$ 13,472,010</u></u>
June 30, 2017				
Investments				
Equity securities	\$ 1,925,213	\$ 1,925,213	\$ -	\$ -
Equity mutual funds	10,186,599	10,186,599	-	-
Fixed income mutual funds	2,093,425	2,093,425	-	-
Other mutual funds	75,975	75,975	-	-
U.S. government and agency securities	350,638	-	350,638	-
Corporate bonds	1,460,933	-	1,460,933	-
Municipal bonds	259,419	-	259,419	-
	<u>16,352,202</u>	<u>14,281,212</u>	<u>2,070,990</u>	<u>-</u>
Beneficial interests in perpetual trusts	<u>13,860,216</u>	<u>-</u>	<u>-</u>	<u>13,860,216</u>
Total investments in the fair value hierarchy	<u><u>\$ 30,212,418</u></u>	<u><u>\$ 14,281,212</u></u>	<u><u>\$ 2,070,990</u></u>	<u><u>\$ 13,860,216</u></u>

Kansas Wesleyan University and Foundation
Notes to Combined Financial Statements
June 30, 2018 and 2017

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.

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.

Kansas Wesleyan University and Foundation
Notes to Combined Financial Statements
June 30, 2018 and 2017

Level 3 Reconciliation

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

	Beneficial Interests in Perpetual Trusts
Balance on July 1, 2016	\$ 13,849,340
Realized and unrealized gains, net	284,250
Distributions and withdrawals	(273,374)
Balance on June 30, 2017	13,860,216
Realized and unrealized losses, net	(158,299)
Distributions and withdrawals	(229,907)
Balance on June 30, 2018	\$ 13,472,010

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring Level 3 fair value measurements at June 30, 2018 and 2017:

	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
June 30, 2018				
Beneficial interest in perpetual trust	\$ 13,472,010	NPV of future distributions	Various	None
June 30, 2017				
Beneficial interest in perpetual trust	\$ 13,860,216	NPV of future distributions	Various	None

Kansas Wesleyan University and Foundation
Notes to Combined Financial Statements
June 30, 2018 and 2017

Note 5: Unconditional Promises to Give, Net

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

	<u>2018</u>	<u>2017</u>
Promises to give expected to be collected in		
Less than one year	\$ 469,281	\$ 317,941
One to five years	<u>474,000</u>	<u>881,308</u>
	943,281	1,199,249
Less: Discounts to net present value	(27,789)	-
Less: Allowance for uncollectible promises to give	<u>(30,000)</u>	<u>(30,000)</u>
Net conditional promises to give	<u>\$ 885,492</u>	<u>\$ 1,169,249</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:

	<u>2018</u>	<u>2017</u>
Land	\$ 98,014	\$ 98,014
Land improvements	156,732	57,130
Buildings	44,852,273	44,668,318
Equipment	3,426,528	3,035,281
Vehicles	<u>147,185</u>	<u>134,048</u>
Total property in service	48,680,732	47,992,791
Accumulated depreciation	(18,053,088)	(16,807,609)
Construction in progress	<u>50,846</u>	<u>33,788</u>
	<u>\$ 30,678,490</u>	<u>\$ 31,218,970</u>

Kansas Wesleyan University and Foundation
Notes to Combined Financial Statements
June 30, 2018 and 2017

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 and \$2,880,000 at June 30, 2018 and 2017, respectively. Bonds payable include unamortized debt issuance costs of \$58,105 and \$71,005 at June 30, 2018 and 2017, 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 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	\$ 540,000
2020	540,000
2021	540,000
2022	<u>720,000</u>
	<u>\$ 2,340,000</u>

Note 8: Endowment Fund

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

The 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.

Kansas Wesleyan University and Foundation

Notes to Combined Financial Statements

June 30, 2018 and 2017

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 Foundation's Board of Trustees determines an appropriate amount of expenditures each year based on the net asset value of the endowment fund.

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.

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

Kansas Wesleyan University and Foundation
Notes to Combined Financial Statements
June 30, 2018 and 2017

Changes in Endowment Net Assets

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

	2018		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2017	\$ 3,345,258	\$ 27,152,173	\$ 30,497,431
Gifts and bequests	-	331,006	331,006
Interest and dividends	160,613	-	160,613
Realized and unrealized gains (losses), net	1,056,910	(180,484)	876,426
Appropriation for expenditure	(791,876)	(207,722)	(999,598)
Endowment net assets, June 30, 2018	<u>\$ 3,770,905</u>	<u>\$ 27,094,973</u>	<u>\$ 30,865,878</u>
	2017		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2016	\$ 2,219,011	\$ 26,832,748	\$ 29,051,759
Gifts and bequests	-	307,650	307,650
Interest and dividends	284,287	-	284,287
Realized and unrealized gains, net	1,895,594	11,775	1,907,369
Appropriation for expenditure	(1,053,634)	-	(1,053,634)
Endowment net assets, June 30, 2017	<u>\$ 3,345,258</u>	<u>\$ 27,152,173</u>	<u>\$ 30,497,431</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 and 2017.

Note 9: 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 and \$490,601 for the years ended June 30, 2018 and 2017, respectively.

Kansas Wesleyan University and Foundation
Notes to Combined Financial Statements
June 30, 2018 and 2017

Note 10: 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 and 2017, student loans represented 1.4% of total assets and are recognized as notes receivable in the combined statements of financial position.

Notes receivable consist of the following at June 30:

	2018	2017
Federal government loan program	\$ 1,091,867	\$ 1,110,535
Allowance for uncollectible accounts	(170,000)	(170,000)
	\$ 921,867	\$ 940,535

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 and \$693,539 at June 30, 2018 and 2017, 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	61-90 Days Past Due	90+ Days Past Due	Total Past Due
June 30, 2018	\$ 15,353	\$ 3,364	\$ 380,871	\$ 399,588
June 30, 2017	829	483	349,366	350,678

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 11: Advancement Expenses

The University incurred development and fund raising expenses amounting to \$465,809 and \$470,252 for the years ended June 30, 2018 and 2017, respectively. Such amounts are included in institutional support expenses in the accompanying combined statement of activities.

Kansas Wesleyan University and Foundation
Notes to Combined Financial Statements
June 30, 2018 and 2017

Note 12: 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 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 security. 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 and 2017.

Note 13: 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 and 2017

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
<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	-	9,320
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 and Foundation
Salina, Kansas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the combined financial statements of Kansas Wesleyan University and Foundation (the University), which comprise the combined statement of financial position as of June 30, 2018, and the related combined statements of activities and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated February 25, 2020.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 and Foundation
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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 25, 2020

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

Independent Auditor's Report

Board of Trustees
Kansas Wesleyan University and Foundation
Salina, Kansas

Report on Compliance for the Major Federal Program

We have audited Kansas Wesleyan University and Foundation's (the University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on 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 and Foundation
(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 25, 2020

Kansas Wesleyan University and Foundation
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 and Foundation
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

Reference Number	Summary of Finding	Status
	No matters reportable.	