IOWA WESLEYAN UNIVERSITY
Mt. Pleasant, Iowa

Consolidated Financial Statements
and Supplementary Information

May 31, 2019 and 2018

IOWA WESLEYAN UNIVERSITY
Mt. Pleasant, Iowa

Contents	Page

Independent Auditors' Report

Board of Trustees
Iowa Wesleyan University
Mt. Pleasant, Iowa

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Iowa Wesleyan University (University), as of and for the years ended May 31, 2019 and 2018, which comprise the consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the consolidated 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 University'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Iowa Wesleyan University, as of May 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters
Our audits were performed for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated 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 consolidated financial statements taken as a whole.

The management discussion and analysis, which is the responsibility of management, is of a nonaccounting nature and has not been subjected to the auditing procedures applied in the audit of the financial statements. Accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2019, on our consideration of Iowa Wesleyan University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 Iowa Wesleyan University's internal control over financial reporting and compliance.

TDT CPAs and Advisors, P.C.

West Des Moines, IA
October 7, 2019

IOWA WESLEYAN UNIVERSITY
Management Discussion and Analysis (Unaudited)
May 31, 2019 and 2018

The Iowa Wesleyan University community continued its efforts towards sustainable operations throughout FY19 and beyond. Student tuition and fee revenue in FY19 increased by 1.6% in a national higher education landscape that is characterized by declining enrollments. Unrestricted revenue of $13.5 million in FY19 exceeded FY18 unrestricted revenue of $12.5 million by 8%, due in part to continued success with improved institutional fundraising operations. The University's overall change in net assets without donor restrictions improved from a loss of $3.8 million in FY18 to a loss of $2.5 million in FY19.

In the Fall semester of 2019, the University's overall enrollment is 1.3% greater than in Fall 2018 and reflects a 24% increase over the past three years. Enrollment in online credits is up by more than 60% from Fall 2018. In addition, the work of the University's *Persistence and Completion Council* continues to yield improved student retention and persistence rates. More than 54% of our first-year students from Fall 2018 returned in Fall 2019, the fourth highest retention rate in the past twelve years. Similarly, the average persistence rate of <u>all</u> students from Fall 2018 to Fall 2019 was more than 67%, the fifth highest persistence rate in the last twelve years. These increases come despite publicly announced uncertainties about the University's future last year. Our success in these areas reflects the dedicated efforts of our faculty and staff to recruit qualified new students and encourage existing students to continue their studies at Iowa Wesleyan University.

The continued success of the restructured Advancement Office was reflected in fundraising results for FY19. Unrestricted contributions of $3.4 million represented a 103% increase over FY18 fundraising, and a 385% increase over FY17 fundraising. This success reflects the experienced and entrepreneurial leadership in the Advancement Office, a new strategic approach to fundraising, and a fully staffed team of highly qualified advancement professionals. With several new fundraising initiatives planned for FY20, we have level-budgeted $3.1 million in fundraising for the coming year.

In November 2018 the Board of Trustees announced the adoption and implementation of an *Alternative Futures Project* to secure a partnership for a sustainable future for the University, the local community and economy, and the region. A *New Directions Team*, comprised of nine Board members, led this effort with assistance and guidance from the Registry Advisory Services. The Registry brings extensive experience in creating new futures for colleges and universities across the country.

Following a thorough review and vetting of more than thirty expressions of interest and a dozen concrete proposals from qualified institutions, the Board selected a prospective partner. A *Letter of Intent* was signed in March 2019 and remains in place as of this writing. Both the prospective partner and Iowa Wesleyan University have completed due diligence, and a proposal will be submitted to the USDA in the near future, requesting some debt restructuring and loan term flexibility. The intention is to put our prospective partner in the best position possible to invest in the Iowa Wesleyan campus.

While the Board and administration are optimistic about the likelihood of this partnership being secured, they maintain a strong focus on cash availability to support operations through December 2020 and beyond. The Board and administration have carefully analyzed the University's anticipated cash and expenditures over the next twelve months and are confident that the University satisfies Going Concern requirements.

The USDA has authorized a total of $5.2 million in borrowing on our line of credit. This source of borrowing, combined with cash on hand, tuition, fees, room, board, fundraising, and pledges receivable will provide a total of $17.25 million in available cash for operations through May 2020 and beyond. Net expenses for the coming year are projected to be $15.5 million, providing a $1.75 million cash cushion for budget variances, unforeseen expenses, and summer 2020 cash needs.

Projected tuition, fee, and auxiliary cash revenue in the analysis were conservatively discounted by 5%, and the University will continue to manage expenses carefully. For the Fall semester of 2020, revenue was assumed to remain flat, a conservative approach that does not reflect an anticipated 3.5% increase in tuition and room rates for FY21. In FY19, actual expenses for the year were about 5% below budget, a savings of more than $600,000. There is room in the FY20 budget for similar savings as required. There will also be a $509,000 cash savings, as the USDA Workout Agreement provides for an additional year of waived principal and interest payments on our loans. No principal or interest payments are due on the loan until February 2021, beyond the time period covered by the Going Concern analysis.

IOWA WESLEYAN UNIVERSITY

Consolidated Statements of Financial Position

May 31, 2019 and 2018

Assets

		2019	2018
Cash and cash equivalents	$	809,239	755,937
Students and other receivables, net of allowance for doubtful accounts of $459,508 in 2019 and $422,775 in 2018		137,205	104,635
Contributions receivable		571,093	529,253
Investments		6,222,256	8,821,056
Property held for sale		360,000	-
Inventory and prepaid expenses		142,212	119,245
Federal Perkins Loan receivables, net of allowance for doubtful accounts of $244,993 in 2019 and 2018		83,337	116,937
Refundable U.S. government student loan program		97,684	49,053
Assets limited as to use		1,343,614	1,987,159
Beneficial interest in trusts held by others		6,161,581	6,422,479
Land, buildings and equipment, net of accumulated depreciation		20,892,562	20,757,990
Collections		704,794	704,794
Total assets	$	37,525,577	40,368,538

See accompanying notes to financial statements.

IOWA WESLEYAN UNIVERSITY
Consolidated Statements of Financial Position
May 31, 2019 and 2018

Liabilities and Net Assets

		2019	2018
Accounts payable	$	478,602	466,004
Accrued salaries and other expenses		791,398	1,043,973
Deferred revenue		83,398	68,604
Liability to donors under annuity and unitrust agreements		178,559	188,629
Advanced tuition and student deposits		65,253	76,570
Capital lease liabilities		55,622	75,450
Notes payable, net of unamortized debt issuance costs of $437,359 in 2019 and $458,328 in 2018		26,128,673	25,973,672
Total liabilities		27,781,505	27,892,902
Net assets:			
Without donor restrictions		(8,371,540)	(5,903,515)
With donor restrictions		18,115,612	18,379,151
Total net assets		9,744,072	12,475,636
Total liabilities and net assets	$	37,525,577	40,368,538

See accompanying notes to financial statements.

IOWA WESLEYAN UNIVERSITY

Consolidated Statements of Revenue, Expenses, and Other Changes in Net Assets Without Donor Restrictions

Years Ended May 31, 2019 and 2018

		2019	2018
Revenues, gains, and other support:			
Tuition and fees	$	13,943,694	13,727,123
Less: institutional scholarships		(8,060,258)	(7,723,976)
Net tuition and fees		5,883,436	6,003,147
Federal and state grants		122,305	127,117
Contributions		3,413,528	1,680,194
Change in split interest agreements		(37,425)	(18,236)
Interest, dividends and other investment revenue		68,540	59,689
Sales and services of auxiliary enterprises		3,421,449	3,460,374
Other sources, net		40,675	105,844
		12,912,508	11,418,129
Net assets released from restrictions		619,556	1,135,720
		13,532,064	12,553,849
Expenses:			
Instruction		4,449,918	4,323,710
Student services		3,980,534	4,141,679
Academic support		980,228	998,745
Institutional support		3,079,386	3,568,510
Fundraising		634,283	686,421
Auxiliary enterprises		2,875,740	2,608,609
Total expenses		16,000,089	16,327,674
Change in net assets without donor restrictions	$	(2,468,025)	(3,773,825)

See accompanying notes to financial statements.

IOWA WESLEYAN UNIVERSITY
Consolidated Statements of Changes in Net Assets
Year Ended May 31, 2019

	2019 Without donor restrictions	2019 With donor restrictions	2019 Total
Revenues, gains and other support:			
Without donor restrictions	$ 12,912,508	-	12,912,508
With donor restrictions:			
Contributions	-	310,881	310,881
Change in value of split-interest agreements and beneficial interest in trust	-	(141,847)	(141,847)
Investment income	-	206,810	206,810
Realized and unrealized investment gains and (losses)	-	(92,983)	(92,983)
Other	-	192,208	192,208
Net assets released from restrictions	619,556	(619,556)	-
Total revenues, gains and other support	13,532,064	(144,487)	13,387,577
Expenses	16,000,089	-	16,000,089
Change in net assets before other adjustments	(2,468,025)	(144,487)	(2,612,512)
Change in estimate of beneficial interest in trust	-	(119,052)	(119,052)
Change in net assets	(2,468,025)	(263,539)	(2,731,564)
Net assets:			
Beginning net assets, restated	(5,903,515)	18,379,151	12,475,636
Ending	$ (8,371,540)	18,115,612	9,744,072

IOWA WESLEYAN UNIVERSITY
Consolidated Statements of Changes in Net Assets
Year Ended May 31, 2018

2018 Without donor restrictions	2018 With donor restrictions	2018 Total
11,418,129	-	11,418,129
-	672,955	672,955
-	(25,603)	(25,603)
-	205,873	205,873
-	362,908	362,908
-	173,164	173,164
1,135,720	(1,135,720)	-
12,553,849	253,577	12,807,426
16,327,674	-	16,327,674
(3,773,825)	253,577	(3,520,248)
-	77,317	77,317
(3,773,825)	330,894	(3,442,931)
(2,129,690)	18,048,257	15,918,567
(5,903,515)	18,379,151	12,475,636

See accompanying notes to financial statements.

IOWA WESLEYAN UNIVERSITY
Consolidated Statement of Functional Expenses
Year Ended May 31, 2019

	Instruction	Student Services	Academic Support	Institutional Support	Fundraising	Auxiliary	Total
Salaries and wages	$ 2,845,039	1,534,603	294,545	946,776	399,518	59,409	6,079,890
Payroll taxes	195,763	107,771	26,833	56,221	28,154	4,401	419,143
Employee benefits	491,545	264,599	50,786	187,526	68,885	10,683	1,074,024
Facilities operating & maintenance	313,930	385,883	215,693	433,796	-	901,314	2,250,616
Federal grant	-	62,032	-	-	-	-	62,032
Rent & leases	2,850	21,224	25	11,562	6,085	114,325	156,071
Special projects	967	395	100	80,168	7,351	-	88,981
Insurance	-	55,585	-	131,713	-	-	187,298
Travel, meals, & entertainment	38,805	208,372	22,179	41,498	5,882	-	316,736
Professional development	6,852	3,221	13,110	25,634	10,558	-	59,375
Postage & printing	6,895	117,265	618	67,713	12,122	1,887	206,500
Licenses, dues, & subscriptions	18,632	53,788	31,207	73,846	5,117	370	182,960
Telecommunications	193	4,634	-	98,346	261	61,877	165,311
Media	5,441	732	9,284	723	160	101,171	117,511
Supplies	62,347	129,946	1,703	47,777	10,815	45,653	298,241
Food	10,661	12,375	114	13,124	8,464	918,371	963,109
Advertising	21,716	35,157	504	49,375	495	-	107,247
Depreciation & amortization	206,338	251,833	141,949	120,604	-	389,955	1,110,679
Interest	140,920	171,992	96,946	68,047	-	266,324	744,229
Professional fees	80,903	558,371	74,632	462,398	70,416	-	1,246,720
Bad debt expense	-	-	-	150,000	-	-	150,000
Miscellaneous	121	756	-	12,539	-	-	13,416
Total	$ 4,449,918	3,980,534	980,228	3,079,386	634,283	2,875,740	16,000,089

See accompanying notes to financial statements.

IOWA WESLEYAN UNIVERSITY
Consolidated Statement of Functional Expenses
Year Ended May 31, 2018

	Instruction	Student Services	Academic Support	Institutional Support	Fundraising	Auxiliary	Total
Salaries and wages	$ 2,713,817	1,556,598	284,921	1,021,955	299,585	53,445	5,930,321
Payroll taxes	186,376	109,591	26,554	55,620	21,482	4,558	404,181
Employee benefits	467,662	268,311	48,900	218,569	51,417	9,172	1,064,031
Facilities operating & maintenance	331,546	381,735	211,600	380,702	838	772,862	2,079,283
Federal grant	-	74,219	-	-	-	-	74,219
Rent & leases	2,865	19,782	-	10,028	1,370	3,134	37,179
Special projects	6,464	8,095	-	9,924	15,093	120	39,696
Insurance	-	62,041	-	152,758	100	-	214,899
Travel, meals, & entertainment	38,781	188,700	15,538	58,010	5,513	437	306,979
Professional development	4,241	10,814	12,998	54,227	10,666	-	92,946
Postage & printing	6,022	116,039	434	55,998	32,601	1,259	212,353
Licenses, dues, & subscriptions	44,821	65,140	62,650	88,938	1,253	675	263,477
Telecommunications	49	9,236	-	91,481	190	37,675	138,631
Media	4,987	614	8,253	1,099	133	133,735	148,821
Supplies	79,369	134,497	3,814	67,329	151,844	53,058	489,911
Food	12,019	16,032	297	14,376	4,428	948,883	996,035
Advertising	710	35,219	-	37,580	1,658	-	75,167
Depreciation & amortization	219,227	250,122	140,985	132,407	-	346,417	1,089,158
Interest	153,893	175,581	98,969	69,467	-	243,179	741,089
Professional fees	49,795	658,306	82,832	816,294	75,232	-	1,682,459
Bad debt expense	-	-	-	225,000	-	-	225,000
Miscellaneous	1,066	1,007	-	6,748	13,018	-	21,839
Total	$ 4,323,710	4,141,679	998,745	3,568,510	686,421	2,608,609	16,327,674

See accompanying notes to financial statements.

IOWA WESLEYAN UNIVERSITY
Consolidated Statements of Cash Flows
Years Ended May 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ (2,731,564)	(3,442,931)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	1,089,710	1,055,710
Amortization	20,969	33,448
Increase in cash surrender value of life insurance	(861)	(41,514)
Non-cash contribution of real estate	(1,343,300)	-
Change in value of split-interest agreements and beneficial interest in trusts	141,847	20,024
Change in estimate of beneficial interest in trust	119,052	(77,317)
Net unrealized and realized (gains) losses on investments	92,983	(362,908)
Change in assets and liabilities:		
Students and other receivables	(32,570)	195,374
Contributions receivable	(41,840)	(495,550)
Inventory and prepaid expenses	(22,967)	24,659
Accounts payable and accrued expenses	(57,204)	65,589
Deferred revenue	14,794	24,667
Advanced tuition and student deposits	(11,317)	(24,182)
Non-cash investment income	(189,961)	(182,457)
Contributions restricted for facility additions	-	(71,090)
Contributions restricted for endowment	(47,335)	(182,475)
	(268,000)	(18,022)
Net cash provided (used) by operating activities	(2,999,564)	(3,460,953)
Cash flows from investing activities:		
Purchase of property and equipment	(129,720)	(113,890)
Proceeds from sale of investments	2,696,639	1,722,530
Withdrawals from assets limited as to use	643,545	1,529,455
Repayments of loans from students	33,600	49,480
Net cash provided by investing activities	3,244,064	3,187,575

See accompanying notes to financial statements.

IOWA WESLEYAN UNIVERSITY
Consolidated Statements of Cash Flows
Years Ended May 31, 2019 and 2018

		2019	2018
Cash flows from financing activities:			
Increase (decrease) in refundable advances		(48,631)	1,636
Contributions restricted for endowment		47,335	182,475
Contributions restricted for facility additions		-	71,090
Payments on annuities		(10,070)	(11,680)
Repayment of capital lease liabilities		(131,091)	(72,266)
Repayment of notes payable		(48,741)	(678)
Net cash provided (used) by financing activities		(191,198)	170,577
Net increase in cash and cash equivalents		53,302	(102,801)
Cash and cash equivalents at beginning of year		755,937	858,738
Cash and cash equivalents at end of year	$	809,239	755,937
Supplemental disclosures of cash flow information:			
Noncash investing and financing transactions:			
Noncash capitalization of interest on debt amortization	$	182,773	-
Noncash addition of property and equipment by capital lease		111,263	-
Cash paid for interest	$	743,022	741,088

See accompanying notes to financial statements.

Note 1 – Nature of Organization and Significant Accounting Policies

Nature of Organization: Iowa Wesleyan University (University) is a coeducational institution offering undergraduate bachelor degrees in arts, science, nursing, music education and general studies. The University is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code (Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Iowa Wesleyan Real Estate Foundation, LLC (the Foundation) is a supporting organization of and controlled by Iowa Wesleyan University. The Foundation owns substantially all of the real estate used by the University.

Principles of Consolidation **-** The consolidated financial statements include the accounts of the Foundation. The University controls the Foundation. All material inter-organization transactions have been eliminated in consolidation.

Significant Accounting Policies:

New Accounting Pronouncement **-** On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The University has adjusted the presentation of these statements accordingly.

Basis of Presentation: The University maintains its accounts in accordance with the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the University as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by the classification of fund balances and transactions into two classes of net assets: without donor restrictions and with donor restrictions as follows:

Fund Group	Net Asset Class
Current Unrestricted	Without donor restrictions
Current Restricted Funds	With donor restrictions
Endowment Funds	With donor restrictions
Life Income Agreements	With donor restrictions
Net Invested in Plant	Without donor restrictions

Net assets and revenues, expenses, 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:

> *Net assets without donor restrictions* - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the University. These net assets may be used at the discretion of the University's management and the board of trustees.

Note 1 – Nature of Organization and Significant Accounting Policies (Continued)

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the University or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of revenue, expenses and changes in net assets without donor restrictions.

Accounting 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 amount 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.

Revenue Recognition: Tuition revenue is recognized as earned by providing classes. Revenue from auxiliary enterprises is recognized when goods or services are provided. Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Revenues with donor-imposed restrictions that are met within the same reporting period are reported as net assets without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as changes in net assets without donor restrictions unless use is restricted by donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported in the statements of changes in net assets as net assets released from restrictions.

Contributions: Contributions, including unconditional promises to give, are recognized as revenues in the period received at their fair values. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Unconditional promises to give with payments due in future periods are reported as restricted support. Bequests receivable are reported at the estimated amount to be received from the estate. Gifts of land, buildings and equipment are reported without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as restricted support. Absent explicit donor stipulation, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Contributions of assets, which donors have stipulated must be maintained permanently, with only the income earned thereon available for current use, are classified as revenue with donor restrictions, and are accounted for separately as part of the University's endowment (see Note 13). Contributions for which donors have not stipulated restrictions are reported without donor restrictions. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fundraising activity.

Note 1 – Nature of Organization and Significant Accounting Policies (Continued)

Institutional Scholarships: Institutional scholarships are offered by the University to attract and retain students. The University offers institutional scholarships to students in the form of merit-based scholarships and need-based grants at the University's discretion.

Cash and Cash Equivalents: Cash and cash equivalents include cash held in banks and cash on hand. The University considers all highly-liquid instruments purchased with an original maturity of three months or less to be cash equivalents except cash and cash equivalents held in the investment portfolio. Cash in excess of daily requirements is invested in interest bearing accounts and money market funds of qualified financial institutions in amounts that may exceed federal insured limits. The University believes the credit risk related to these deposits is minimal. The balances are insured by the Federal Deposit Insurance Corporation up to $250,000. At May 31, 2019 and 2018, the University's uninsured cash balances (including those classified as assets limited as to use) total $1,840,112 and $1,855,807, respectively.

Student Accounts Receivable and Federal Perkins Loan Receivable: Student accounts receivable are carried at the unpaid balance of the original amount billed to students and Federal Perkins loan receivable are carried at the amount of unpaid principal. The receivables are net of an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts and Perkins loans receivable are written off when deemed uncollectible and Federal Perkins loan receivable may be assigned to the Department of Education. Recoveries of student accounts and Perkins loans receivable previously written off are recorded when received. A student account receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days after the start of the semester. Interest is charged on student accounts receivable that are outstanding for more than 30 days after the start of the semester and is recognized as it is charged. Once a receivable is sent to a collection agency, accrual of interest is suspended.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on Federal Perkins loan receivable and is recognized as it is charged. Late charges are charged if payments are not paid by the payment due date and are recognized as they are charged. Federal Perkins loan receivable are considered to be past due if a payment is not made within 90 days of the payment due date. After receivables become past due, the accrual of late charges is suspended. Students may be granted a deferment, forbearance or cancellation of their Federal Perkins loan receivable based on eligibility requirements defined by the Department of Education.

Investments: The University carries its investments at fair value. Investment income or loss, including gains and losses on investments, and interest and dividends, that is from investments without donor restrictions, is reported in the statement of revenues, expenses and other changes in net assets without donor restrictions. Investment income or loss restricted by donors not appropriated for donor-stipulated purposes are reported in the temporarily restricted net assets group. Gains and losses on the sale of investments are determined by the specific identification method. Investment revenues are reported net of related expenses. Investment expenses were $35,620 and $43,116 for the years ended May 31, 2019 and 2018, respectively.

Inventory: Inventory is stated at the lower of cost (first-in, first-out) or market method.

Note 1 – Nature of Organization and Significant Accounting Policies (Continued)

Beneficial Interest in Trusts Held by Others: The University has a beneficial interest in several charitable trusts and perpetual trusts which are held by third parties. For perpetual trusts, the University has an irrevocable right to receive their share of the income earned on the trust assets in perpetuity, but never receives the underlying assets. The University's share of the trust assets was initially recorded at the present value of estimated future receipts, which approximates fair value of underlying investments. Subsequent changes in the value of the University's share of the trust assets are recognized as gains or losses in permanently restricted net assets. Annual distributions are reported as investment income.

The University is also the beneficiary of several charitable trusts that will terminate upon the death of the income beneficiary. The University's share of the trust assets was initially recorded at the present value of the estimated future receipts and is recorded in the appropriate category of net assets in accordance with donor restrictions as contribution revenue. The trusts are subsequently valued using the present value of estimated future cash receipts using a discount rate of 3% and applicable mortality tables.

Land, Buildings and Equipment: Acquisitions of property and equipment greater than $1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Ordinary maintenance and repairs are expensed when incurred. Property and equipment is stated at cost. Depreciation is computed by the straight-line method over the following estimated useful lives:

	Years
Buildings and building improvements	10-70
Land improvements	15-20
Equipment and furniture	3-20
Library books	20

Collections: Collection items acquired are capitalized at cost if purchased and at fair value at the date of accession if donated. Collection items are recorded as changes in net assets based on the absence or existence and nature of donor-imposed restrictions. Collection items are protected, kept unencumbered, cared for and preserved.

Debt Issuance Costs: Debt issuance costs represent the costs of financing, legal fees, and other costs associated with refinancing the University's debt. These costs are being amortized by the effective-interest rate method over the terms of the related financing for the notes payable discussed in Note 7. Debt issuance costs related to a recognized debt liability are presented in the statement of financial position as a direct deduction from the debt liability and the amortization of deferred costs are presented as a component of interest expense in the statement of revenue, expenses, and other changes in net assets without donor restrictions.

Deferred Revenue: Deferred revenue consists of summer school classes billed in advance.

Reclassifications: Certain expenses in the previous year financial statements have been reclassified to conform with the presentation in the current year. The reclassifications had no effect on net assets.

Functional Expenses: The University's expenses are summarized on a functional basis in the statements of functional expenses. Accordingly, certain expenses were allocated based on the program services and supporting activities benefited. The primary methods of allocating costs are based on employee time estimates and square footage.

Note 1 – Nature of Organization and Significant Accounting Policies (Continued)

Refundable Advances: The University participates in the Perkins Loan Program, a revolving loan program sponsored by the U.S. Department of Education (DE). In the event the University no longer participates in the program; the funds are required to be returned to DE. Accordingly, liabilities under the program has been classified as a liability on the statement of financial position. At May 31, 2019, amounts were due from DE to the University, which are classified as an asset and discussed in Note 15. The University also receives funds in advance from other grant programs and advances on conditional contributions for which the services have not been provided or the promise to give is conditional. The resources are recorded as a refundable advance until the services are provided and/or the condition has been substantially met.

Advertising: The University charges advertising costs to expense as they are incurred.

Income taxes: The University is exempt from Federal income tax as described in Section 501(c)(3) of the Internal Revenue Code. The University is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Date of Management's Review: Management has evaluated subsequent events through October 7, 2019, the date which the financial statements were available to be issued.

Note 2 – Accounts Receivable

Accounts receivable as of May 31, 2019 and 2018 consists of:

		2019	**2018**
Student accounts receivable	$	596,713	527,155
Other accounts receivable		-	255
		596,713	527,410
Less allowance for doubtful accounts		459,508	422,775
	$	137,205	104,635
Provision for bad debts charged to expense	$	150,000	225,000

Note 3 – Investments

Investments as of May 31, 2019 and 2018 are comprised of the following:

		2019	**2018**
Cash, money market and certificates of deposit	$	2,484,643	527,739
Marketable securities		3,238,809	7,678,170
Other investments:			
Cash value of life insurance (net of loans of $199,952 and $295,635)		188,804	305,147
Mineral rights		310,000	310,000
	$	6,222,256	8,821,056

Note 4 – Contributions Receivable

Contributions receivable as of May 31, 2019 and 2018 are summarized as follows:

		2019	2018
In one year or less	$	494,537	244,711
Over one through five years		76,556	284,542
	$	571,093	529,253

Note 5 – Assets Limited as to Use

Assets limited as to use as of May 31, 2019 and 2018 are summarized as follows:

		2019	2018
Debt service reserve fund*	$	1,246,423	1,265,106
Interest reserve fund*		23,847	624,475
Additional acquisition funds		-	-
Cash restricted to Perkins loan program		73,344	97,578
	$	1,343,614	1,987,159

* Amounts held in debt service reserve fund (see Note 7).

Note 6 – Land, Buildings and Equipment

A summary of property and equipment and related accumulated depreciation as of May 31, 2019 and 2018 is as follows:

		2019		
		Cost	Accumulated Depreciation	Carrying Value
Land and land improvements	$	1,208,446	704,699	503,747
Buildings and building improvements		32,997,745	13,935,156	19,062,589
Equipment and furniture		9,044,574	7,719,838	1,324,736
Library books		798,797	797,307	1,490
	$	44,049,562	23,157,000	20,892,562

Note 6 – Land, Buildings and Equipment (Continued)

		2018		
		Cost	Accumulated Depreciation	Carrying Value
Land and land improvements	$	1,208,446	686,660	521,786
Buildings and building improvements		31,980,969	13,145,759	18,835,210
Equipment and furniture		8,837,068	7,437,838	1,399,230
Library books		798,797	797,033	1,764
	$	42,825,280	22,067,290	20,757,990

Depreciation expense is $1,089,710 and $1,055,710 for the years ended May 31, 2019 and 2018, respectively.

Note 7 – Notes Payable

The balances of notes payable as of May 31, 2019 and 2018 are summarized below:

Lender		2019	2018
USDA Community Facilities – Direct Loans	$	21,614,686	21,432,000
USDA Community Facilities – Guaranteed Loan		4,951,346	5,000,000
Unamortized debt issuance costs		(437,359)	(458,328)
	$	26,128,673	25,973,672

In October 2016, the Iowa Wesleyan Real Estate Foundation, LLC, a newly created subsidiary of the University, refinanced various long-term debt agreements with three direct loans from the United States Department of Agriculture totaling $21,432,000, and a USDA guaranteed loan through Two Rivers Bank and Trust in the amount of $5,000,000. The Foundation utilized the financing to acquire substantially all real property of the University. The University utilized the proceeds to repay outstanding long-term debt with the remaining proceeds to be used for operations. The direct loans bear interest at 2.375% per annum and the guaranteed loan bears interest at 4.25% per annum. As security on the loans, the University has granted a mortgage on substantially all real property of the University. In addition, the University has granted a security interest on its endowment funds. The University is required to maintain reserve funds for principal and interest payments. As of May 31, 2019 and 2018, the reserve funds totaled $1,270,270 and $1,889,581 , respectively. The *Debt Service Reserve Fund* must maintain a balance equal to at least one year's annual loan installments for the life of the loan. The balance in this account as of May 31, 2019 and 2018, was $1,246,423 and $1,265,106 , respectively. The *Interest Reserve Fund* holds funds in escrow to cover the first two years of interest payments. As of May 31, 2019 and 2018, the balance in this account was $23,847 and $624,475, respectively. During the year ended May 31, 2019, the University entered into a workout agreement and related re-amortization agreement with USDA on the three direct loans whereby accrued interest was added to the principal portion, and the notes were re-amortized with final payment on the USDA direct loans due October 2056. Final payment of the USDA guaranteed loan through Two Rivers Bank and Trust is due October 2048.

Note 7 – Notes Payable (Continued)

Total interest expense on the notes was $744,229 and $741,089 for the years ended May 31, 2019 and 2018, respectively.

Debt issuance costs of $501,419 are being amortized over the term of the loans using the effective interest method. Amortization expense on these loans for the years ended May 31, 2019 and 2018, was $20,969 and $33,448, respectively. Principal amounts due on the notes for each of the next five years ending May 31 are as follows:

Year Ending May 31,		Amount
2020	$	86,405
2021		163,816
2022		489,382
2023		502,950
2024		516,923
Thereafter		24,806,556
	$	26,566,032

Note 8 – Asset Retirement Obligation

The University recognizes the existence of asbestos in some existing buildings and will address the cost of removal at the time of renovation of each building.

Note 9 – Fair Value Measurement

Fair value accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under fair value accounting literature are described below:

Basis of Fair Value Measurement

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;
- Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;
- Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following tables present by level, within the fair value hierarchy, the assets and liabilities at fair value, as of May 31, 2019 and 2018. As required by fair value accounting literature, assets and liabilities are classified in their entirety based upon the lowest level of input that is significant to the fair value measurement.

Note 9 – Fair Value Measurement (Continued)

Description		May 31, 2019	Quoted Prices In Active Markets for Identical Assets/Liability (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	$	6,222,256	5,723,452	498,804	-
Property held for sale		360,000	-	360,000	-
Beneficial interest in trusts held by others		6,161,581	-	6,161,581	-
Liabilities to donors under annuity and unitrust agreements		178,559	-	178,559	-
	$	12,922,396	5,723,452	7,198,944	-

Description		May 31, 2018	Quoted Prices In Active Markets for Identical Assets/Liability (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	$	8,821,056	8,205,909	615,147	-
Beneficial interest in trusts held by others		6,422,479	-	6,422,479	-
Liabilities to donors under annuity and unitrust agreements		188,629	-	188,629	-
	$	15,432,164	8,205,909	7,226,255	-

In addition to quoted market prices in active markets, valuation techniques for Level 2 inputs included:

- Investments include cash surrender value of life insurance, which is valued based on the cash surrender value as determined by the insurance company, mineral rights which are valued based on the current economic environment for these types of investments, and property held for sale, which is based on an appraisal. Investments also include investments in a managed fund which are valued at the net asset value as reported by the underlying investment funds' capital balance using the expedient method, and fixed income securities that are valued by independent pricing services based on pricing models that evaluate the mean between the most recently quoted bid and ask price. The models also take into consideration data received from active market makers and broker-dealers, yield curves, and the spread over comparable U.S. Treasury issues. The spreads change daily in response to market conditions and are generally obtained from the new issue market and broker-dealer sources.

Note 9 – Fair Value Measurement (Continued)

- Beneficial interest in trusts held by others are valued using the present value of estimated future receipts, which approximates fair value of underlying investments.

- Liabilities to donors under annuity and unitrust agreements are valued using the present value of estimated future payments, which approximates fair value of obligation.

Note 10 – Employee Health Benefits

The University offers a health plan through Blue Cross Blue Shield with both a preferred provider option and a high deductible option with a health savings account. Total expenses under the plans amounted to $1,046,663 and $1,003,575 for the years ended May 31, 2019 and 2018, respectively.

Note 11 – Retirement Program

Retirement benefits are provided for eligible salaried and hourly employees through a defined contribution plan with the Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA-CREF). Under this arrangement, the University and plan participants make contributions to purchase individual annuities equivalent to retirement benefits earned. The employer match was calculated at a rate of 5% of a participant's eligible compensation if the participant contributed at least 3% of their compensation as a pre-tax deferral. The University suspended the match effective September 1, 2015.

Note 12 – Restricted Net Assets

The University's net assets with donor restrictions as of May 31, 2019 and 2018 are available in future years or for the following purposes:

		2019	2018
Permanent restrictions:			
Investment in perpetuity, the income from which is expendable to support educational activity purposes	$	13,395,271	13,347,936
Endowment: underwater portion – see Note 13		(2,318,820)	(2,204,670)
Beneficial interests in perpetual trusts held by others, the income from which is expendable to support educational activity purposes		4,005,725	4,124,777
Temporary restrictions:			
Life income trust agreements		63,308	67,609
Beneficial interest in remainder trusts		2,155,863	2,297,703
Buildings and equipment		267,061	249,886
Scholarships		127,164	114,540
Subsequent year operations		10,000	10,000
Educational activity purposes		410,040	371,370
	$	18,115,612	18,379,151

Note 12 – Restricted Net Assets (Continued)

Net assets released from restrictions during the years ended May 31, 2019 and 2018 are as follows:

		2019	2018
Buildings and equipment	$	384	71,368
Life income trust agreements		6,206	4,304
Instructional development and expenses		245,794	339,191
Operations		106,309	-
Scholarships		101,741	118,520
Operations & scholarships – underwater endowment funds		159,122	602,337
	$	619,556	1,135,720

Note 13 – Donor-Designated Endowments

The University's endowment consists of approximately 213 individual funds established for a variety of purposes. Its endowment includes donor-restricted funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the University has interpreted the Iowa Uniform Prudent Management of Institutional Funds Act (IUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies 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 IUPMIFA. When reviewing its donor-restricted endowment funds, the University considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The University has interpreted IUPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. In accordance with IUPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (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, and (7) the University's investment policies.

Note 13 – Donor-Designated Endowments (Continued)

Investment Return Objectives, Risk Parameters and Strategies. The University has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. For perpetual trusts included in the endowment, the University does not have control over investment policies and strategies; however, investment policies of the trustees closely align with those of the University. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Therefore, the University expects its endowment assets, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. The University has a long-term policy of appropriating for distribution each year 5% of its endowment fund's average fair value of the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. The University took an approved $250,000 distribution in excess of the 5% policy during the year ended May 31, 2018. In establishing the 5% policy, the University considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. Of the amount appropriated, the University applies the spending first to selected individual endowed funds and the remaining appropriation is spent within the general endowment. The University expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 3% annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return. During fiscal year 2019, the University implemented revisions to its investment policy which limits spending to interest and dividends only when the endowment market value is more than 5% below the original corpus value.

Underwater Endowments. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or IUPMIFA requires the University to retain as a fund of perpetual duration. Deficiencies of this nature exist in 213 donor-restricted endowment funds, which together have an original gift value of $13,076,047, fair value of $10,757,227, and a deficiency of $2,318,820 as of May 31, 2019. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for operations and certain programs that were deemed prudent by the Board of Trustees. The University appropriated $210,000 and $707,662 from endowment funds that were underwater during the years ended May 31, 2019 and 2018, respectively.

Borrowings from Endowment Corpus. The University has internal borrowings from its permanently restricted endowment fund totaling approximately $3,256,000 and $2,256,000 as of May 31, 2019 and 2018. The University has obtained a legal opinion with respect to compliance with donor restrictions related to these borrowings. Subsequent to year-end, the University borrowed an additional $1.5 million from its endowment fund. Under the terms of its "Workout Agreement" with its lender, USDA, the University has received authorization from USDA to borrow an additional $1.7 million beyond the subsequent borrowing.

Note 13 – Donor-Designated Endowments (Continued)

Endowment net asset composition by type of fund as of May 31, 2019 and 2018 is as follows:

2019		**Net Assets with Donor Restrictions**
Donor-restricted endowment funds	$	15,082,077

2018		**Net Assets with Donor Restrictions**
Donor-restricted endowment funds	$	15,268,043

Changes in endowment net assets as of May 31, 2019 and 2018 are as follows:

2019		**Net Assets with Donor Restrictions**
Endowment net assets, beginning of year	$	15,268,043
Contributions		47,335
Investment income		188,578
Net realized and unrealized gains		(92,828)
Net gain (loss) on perpetual trusts		(119,051)
Amounts appropriated for expenditure		(210,000)
Endowment net assets, end of year	$	15,082,077

2018		**Net Assets with Donor Restrictions**
Endowment net assets, beginning of year	$	15,180,125
Contributions		182,475
Investment income		178,451
Net realized and unrealized gains		363,017
Net gain (loss) on perpetual trusts		71,737
Amounts appropriated for expenditure		(707,662)
Endowment net assets, end of year	$	15,268,043

Note 14 – Related Party Transactions

The University received gifts amounting to approximately $126,935 and $442,825 from active members of the Board of Trustees during the years ended May 31, 2019 and 2018, respectively.

Note 15 – Federal Perkins Loan Receivable

The University issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs. Federal Perkins loan receivable are carried at the amount of unpaid principal less an estimate for doubtful accounts. Allowances for doubtful accounts are established 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. At May 31, 2019 and 2018, student loans represented 0.22% and 0.29% of total assets, respectively.

At May 31, 2019 and 2018, Federal Perkins Loan Receivable consisted of the following:

		2019	2018
Federal government programs	$	328,330	361,930
Less allowance for doubtful accounts:			
Beginning of year		244,993	244,993
Increase (decrease)		-	-
End of year		244,993	244,993
Net Federal Perkins Loan Receivable	$	83,337	116,937

Funds receivable of $97,684 and $49,053 as of May 31, 2019 and 2018, respectively, are refundable to the school from the Federal government and are classified as assets in the statement of financial position. The Perkins Loan program has been discontinued on the federal level, and any new loans to students are made from the University's collections on previous loans. No new advances from the federal government will be received.

A Federal Perkins loan receivable is considered to be delinquent if any portion of the receivable balance is outstanding for more than 60 days after the billing date. The loans are considered in default if any portion of the receivable balance is outstanding for more than 270 days after the billing date. At May 31, 2019 and 2018, the following amounts were past due under student loan programs:

	Amounts Past Due			
	60-240 days		Over 240 days	Total
May 31, 2019	$21,691	$	$228,280	$249,970
May 31, 2018	$23,746		$227,673	$251,420

Note 16 – Contingencies

From time to time, the University has been, and is involved in various legal proceedings. While the University's ultimate legal and financial liability resulting from any of these proceedings cannot be estimated with certainty and the majority of any such ultimate liabilities would be covered by insurance, to the extent the University incurred a significant loss not ultimately covered by insurance, it could have an adverse effect on the operating results and financial condition of the University.

Note 17 – Commitments

The University has agreements with companies to provide property maintenance, food services, and recruitment services. The agreement for property maintenance began on July 1, 2009, expired on June 30, 2014 and was renewed July 1, 2014 through June 30, 2019. On July 21, 2017 the agreement was extended again through September 1, 2025. Annual payments under the agreement start at $814,115. These payments are adjusted annually and subject to a 3% increase each year. The contract can be terminated early, but is subject to payments of $49.60 per day times the number of calendar days between early termination date and September 1, 2025. The agreement for food service began on February 9, 2009 and expires on May 31, 2020 but was amended June 1, 2014 and extended to May 31, 2024. Fees are based on number of dining patrons in all meal plans and rates for meal plans. The agreement for recruitment services began December 20, 2018 and expires June 30, 2022. Annual payments under the agreement start at $361,370, and increase each year. The agreement can be terminated early, but is subject to termination fees of $330,020 if terminated June 30, 2020 or $409,770 if terminated June 30, 2021.

Note 18 – Letter of Credit

Two Rivers Bank & Trust has written a Letter of Credit to the United States Department of Education. The Department of Education, which authorizes the release of Federal financial aid funds, requires the Letter of Credit to be posted in instances where the institution does not meet specific composite financial operating ratios. The Letter of Credit was written in the amount of $472,009 and expires August 11, 2020.

Note 19 – Liquidity and Availability

The following represents the University's financial assets at May 31, 2019:

Financial assets at year-end:		
Cash and cash equivalents	$	809,239
Student and other receivables		137,205
Contributions receivable		571,093
Investments		6,222,256
Federal Perkins loan receivables		83,337
Refundable U.S. government student loan program		97,684
Assets limited as to use – restricted cash		1,343,614
Total financial assets		9,264,428
Less financial assets not available to be used for general expenditures within one year:		
Contributions receivable – long-term portion		76,556
Investments held for long-term purposes and used as collateral on long-term debt		6,222,256
Federal Perkins loan receivables		83,337
Assets limited as to use – restricted cash (Note 5)		1,343,614
		7,725,763
Financial assets available to meet general expenditures over the next twelve months	$	1,538,665

As part of the University's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

Note 20 – Current Financial Position

As indicated in the accompanying financial statements, Iowa Wesleyan University showed a decrease in net assets of $2,731,564 during the fiscal year ended May 31, 2019. As of that date, the University's total assets exceeded total liabilities by $9,744,072. Current assets exceeded current liabilities by $95,884, largely due to deferral of principal payments on the USDA direct loan as discussed in Note 7. Consecutive years of net losses, combined with failing Department of Education Financial Responsibility Composite Scores during those same years, create uncertainty about the University's ability to continue as a Going Concern.

On November 15, 2018, recognizing that the conditions described above are not sustainable, the Iowa Wesleyan University Board of Trustees announced the adoption and implementation of an *Alternative Futures Project* to secure a partnership for a sustainable future for the University. Following a thorough review and vetting of various proposals, the Board selected Saint Leo University as its prospective partner. A letter of intent was signed in March 2019, and both Iowa Wesleyan and Saint Leo have completed due diligence. The proposal will be submitted to the USDA, requesting some debt restructuring and loan term flexibility. In addition to an anticipated partnership, the Board and management have analyzed the University's anticipated cash and expenditures over the next twelve months and are confident that substantial doubt about the University's ability to continue operations has been alleviated. Further details on the University's plans and projections may be found in the *Management Discussion and Analysis (Unaudited)* on page 3.

Note 21 – Prior Period Adjustment

In the year ended May 31, 2019, the University applied Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities, as discussed in Note 1, which was applied retrospectively to the financial statements. As part of the application, amounts classified as part of the underwater endowment were reclassified from unrestricted net assets to net assets with donor restrictions. The effect of the restatement was to increase June 1, 2017 net assets without donor restrictions by $2,593,391 and decrease net assets with donor restrictions by the same.

IOWA WESLEYAN UNIVERSITY

Supplementary Information

May 31, 2019 and 2018

IOWA WESLEYAN UNIVERSITY
Schedule of Expenditures of Federal Awards
Year Ended May 31, 2019

Federal Grantor/Pass-Through Grantor/Program Name	Federal CFDA Number	Federal Expenditures
U.S. Department of Education:		
Direct Awards:		
Student Financial Assistance:		
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007	$ 62,032
Federal Direct Student Loans	84.268	3,338,835
Federal Work-Study Program (FWS)	84.033	60,273
Federal Pell Grant Program	84.063	1,519,880
Teacher Education Assistance for College and Higher Education Grants (TEACH)	84.379	5,620
Total student financial assistance cluster		4,986,640
Total Federal Awards		$ 4,986,640

See accompanying notes to schedule of expenditures of federal awards.

IOWA WESLEYAN UNIVERSITY
Notes to Schedule of Expenditures of Federal Awards
May 31, 2019

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant and loan activity of Iowa Wesleyan University under programs of the federal government for the year ended May 31, 2019. 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 Iowa Wesleyan University, it is not intended to and does not present the financial position, change in net assets, or cash flows of Iowa Wesleyan University.

Note 2 – Summary of Significant Accounting Policies

(1) Expenditures are reported on the Schedule on the accrual basis of accounting. Such expenditures are recognized following the cost principles obtained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

(2) Iowa Wesleyan University has not elected to use the 10 percent de minimus cost rate as allowed by the Uniform Guidance.

Note 3 – Loans Outstanding

At May 31, 2019, Iowa Wesleyan University had net Federal Perkins Loan Program receivables of $83,337.

The University is responsible only for the performance of certain administrative duties with respect to the Federal Family Education Loan Program, and accordingly, loans under this program are not included in the University’s financial statements.

Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of the Consolidated
Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Iowa Wesleyan University
Mt. Pleasant, Iowa

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 consolidated financial statements of Iowa Wesleyan University, which comprise the consolidated statement of financial position as of May 31, 2019, and the related consolidated statements of revenue, expenses, and other changes in net assets without donor restrictions, changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated October 7, 2019.

Internal Control over Financial Reporting
In planning and performing our audit of the consolidated financial statements, we considered Iowa Wesleyan 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 consolidated 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 Iowa Wesleyan 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated 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.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

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

TDT CPAs and Advisors, P.C.

West Des Moines, Iowa
October 7, 2019

TDT
CPAs and Advisors

Independent Auditors' Report on Compliance for
Each Major Program and Internal Control over Compliance
Required by the Uniform Guidance

Board of Trustees
Iowa Wesleyan University
Mt. Pleasant, Iowa

Report on Compliance for Each Major Program

We have audited Iowa Wesleyan University's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Iowa Wesleyan University's major federal program for the year ended May 31, 2019. Iowa Wesleyan University's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for Iowa Wesleyan University's major 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 Iowa Wesleyan 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. However, our audit does not provide a legal determination of Iowa Wesleyan University's compliance with those requirements.

Opinion of Each Major Federal Program

In our opinion, Iowa Wesleyan University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended May 31, 2019.

Report on Internal Control over Compliance

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

Purpose of this Report

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.

TDT CPAs and Advisors, P.C.

West Des Moines, Iowa
October 7, 2019

IOWA WESLEYAN UNIVERSITY
Schedule of Findings and Questioned Costs
Year Ended May 31, 2019

1) Summary of Auditors' Results

   a) The type of report issued on the financial statements: **unmodified opinion**

   b) Significant deficiency in internal control was disclosed by the audit of the financial statements: **no** Material weaknesses: **no**

   c) Noncompliance which is material to the financial statements: **no**

   d) Significant deficiency in internal control over major programs: **no** Material weaknesses: **no**

   e) The type of report issued on compliance for major programs: **unmodified opinion**

   f) Any audit findings which are required to be reported under the Uniform Guidance: **no**

   g) Major programs:

      i) **U.S. Department of Education - Student Financial Assistance:**
         (1) **84.007 Federal Supplemental Educational Opportunity Grants (FSEOG)**
         (2) **84.268 Federal Direct Student Loans**
         (3) **84.033 Federal Work-Study Program (FWS)**
         (4) **84.063 Federal Pell Grant Program**
         (5) **84.379 Teacher Education Assistance for College and Higher Education Grants (TEACH)**

   h) Dollar threshold used to distinguish between Type A and Type B programs: **$750,000**

   i) Auditee qualified as a low-risk auditee: **no**

IOWA WESLEYAN UNIVERSITY
Schedule of Findings and Questioned Costs
Year Ended May 31, 2019

2) Findings Related to the Financial Statement Audit as Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

   (a) Significant Deficiency in Internal Control over the Financial Statements:

   The audit disclosed no significant deficiencies in internal control for the year ended May 31, 2019.

   (b) Compliance Findings

   The audit disclosed no instances of noncompliance, which are material to the financial statements of Iowa Wesleyan University as of and for the year ended May 31, 2019.

3) Findings and Questioned Costs for Federal Awards

   (a) Significant Deficiency in Internal Control over Compliance

   The audit disclosed no significant deficiencies in internal control over compliance for the year ended May 31, 2019.

   (b) Compliance Findings

   The audit disclosed no instances of noncompliance, which are material to the financial statements of Iowa Wesleyan University as of and for the year ended May 31, 2019.

IOWA WESLEYAN UNIVERSITY
Summary Schedule of Prior Audit Findings
Year Ended May 31, 2019

Department of Education: Student Financial Assistance Cluster	Status
NONE	