MID-AMERICA
CHRISTIAN UNIVERSITY

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

MAY 31, 2018 and 2017

WITH

INDEPENDENT AUDITOR'S REPORTS

HoganTaylor LLP
CPAs + ADVISORS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Mid-America Christian University, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Mid-America Christian University, Inc. (the University) which comprise the statements of financial position as of May 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of Mid-America Christian University, Inc. as of May 31, 2018 and 2017, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the University's 2016 financial statements, and we expressed an unqualified audit opinion on those audited financial statements in our report dated November 1, 2016. In our opinion, the summarized comparative information presented herein for the year ended May 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements 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 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 audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2018, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the University's internal control over financial reporting and compliance.

Hogan Taylor LLP

Oklahoma City, Oklahoma
October 22, 2018

MID-AMERICA CHRISTIAN UNIVERSITY, INC.

STATEMENTS OF FINANCIAL POSITION

May 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 3,060,364	$ 2,907,276
Student accounts receivable, net	4,625,328	2,829,691
Contributions receivable	18,221	74,049
Prepaid expenses and other assets	363,662	390,032
Student loans, net	409,812	388,888
Designated short-term investments	6,588,724	7,201,459
Endowment investments	2,690,908	2,673,638
Other investments	627,027	625,049
Educational plant	21,347,970	22,189,071
Total assets	$ 39,732,016	$ 39,279,153
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$ 946,872	$ 782,019
Accrued liabilities	647,481	1,676,845
Contingency reserve	875,000	875,000
Deferred revenue	2,060,056	692,823
Interest rate swap, at fair value	-	71,294
Refundable federal student loans	188,799	188,799
Notes payable	6,106,316	6,703,537
Total liabilities	10,824,524	10,990,317
Net assets:		
Unrestricted	24,625,799	23,260,120
Temporarily restricted	1,677,916	2,442,748
Permanently restricted	2,603,777	2,585,968
Total net assets	28,907,492	28,288,836
Total liabilities and net assets	$ 39,732,016	$ 39,279,153

MID-AMERICA CHRISTIAN UNIVERSITY, INC.

STATEMENT OF ACTIVITIES

Year ended May 31, 2018
(With Comparative Totals for 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	Comparative Totals for 2017
Revenues, Gains and Other Support					
Education:					
Tuition and fees	$ 22,781,183	$ -	$ -	$ 22,781,183	$ 23,037,228
University discounts	(3,136,898)	-	-	(3,136,898)	(2,840,259)
Scholarships funded by other sources	(1,262,194)	-	-	(1,262,194)	(664,368)
Net tuition and fees	18,382,091	-	-	18,382,091	19,532,601
Auxiliary enterprises	1,689,997	-	-	1,689,997	1,245,969
Net student revenue	20,072,088	-	-	20,072,088	20,778,570
Contributions	1,260,361	1,093,925	17,809	2,372,095	1,546,877
Government appropriations	84,598	-	-	84,598	126,573
Investment income	168,472	34,277	-	202,749	184,485
Net gain (loss) on interest rate swap	25,296	-	-	25,296	(201,687)
Other (expense) income	(424,773)	-	-	(424,773)	84,150
Funds released from restrictions	1,893,034	(1,893,034)	-	-	-
Total revenues, gains and other support	23,079,076	(764,832)	17,809	22,332,053	22,518,968
Expenses (Note 13)					
Program services:					
Instruction	4,951,931	-	-	4,951,931	5,549,228
Academic support	1,336,905	-	-	1,336,905	1,670,663
Student services	7,108,633	-	-	7,108,633	8,174,721
Supporting services:					
Auxiliary services	3,683,163	-	-	3,683,163	3,514,136
Institutional support	4,632,765	-	-	4,632,765	4,506,371
Total expenses	21,713,397	-	-	21,713,397	23,415,119
Changes in net assets	1,365,679	(764,832)	17,809	618,656	(896,151)
Net assets, beginning of year	23,260,120	2,442,748	2,585,968	28,288,836	29,184,987
Net assets, end of year	$ 24,625,799	$ 1,677,916	$ 2,603,777	$ 28,907,492	$ 28,288,836

MID-AMERICA CHRISTIAN UNIVERSITY, INC.

STATEMENT OF ACTIVITIES

Year ended May 31, 2017
(With Comparative Totals for 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	Comparative Totals for 2016
Revenues, Gains and Other Support					
Education:					
Tuition and fees	$ 23,037,228	$ -	$ -	$ 23,037,228	$ 23,778,890
University discounts	(2,840,259)	-	-	(2,840,259)	(2,579,801)
Scholarships funded by other sources	(664,368)	-	-	(664,368)	(674,342)
Net tuition and fees	19,532,601	-	-	19,532,601	20,524,747
Auxiliary enterprises	1,245,969	-	-	1,245,969	1,373,496
Net student revenue	20,778,570	-	-	20,778,570	21,898,243
Contributions	643,645	882,614	20,618	1,546,877	1,915,356
Government appropriations	126,573	-	-	126,573	115,875
Investment income	157,339	27,146	-	184,485	52,807
Net (loss) gain on interest rate swap	(201,687)	-	-	(201,687)	130,393
Other income	84,150	-	-	84,150	93,493
Funds released from restrictions	862,908	(862,908)	-	-	-
Total revenues, gains and other support	22,451,498	46,852	20,618	22,518,968	24,206,167
Expenses (Note 13)					
Program services:					
Instruction	5,549,228	-	-	5,549,228	5,823,296
Academic support	1,670,663	-	-	1,670,663	1,968,823
Student services	8,174,721	-	-	8,174,721	6,140,890
Supporting services:					
Auxiliary services	3,514,136	-	-	3,514,136	3,040,565
Institutional support	4,506,371	-	-	4,506,371	5,013,511
Total expenses	23,415,119	-	-	23,415,119	21,987,085
Changes in net assets	(963,621)	46,852	20,618	(896,151)	2,219,082
Net assets, beginning of year	24,223,741	2,395,896	2,565,350	29,184,987	26,965,905
Net assets, end of year	$ 23,260,120	$ 2,442,748	$ 2,585,968	$ 28,288,836	$ 29,184,987

MID-AMERICA CHRISTIAN UNIVERSITY, INC.

STATEMENTS OF CASH FLOWS

Years ended May 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	$ 618,656	$ (896,151)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,287,841	1,335,495
Write off of prepaid construction costs	306,797	-
Impairment of educational plant	219,718	-
Provision for doubtful accounts	538,014	735,195
Net gain on interest rate swap	25,296	201,687
Contributions restricted for endowment	(17,809)	(20,618)
Fair value of donated land in excess of cash paid	(503,895)	-
Changes in operating assets and liabilities:		
Student accounts receivable	(2,333,651)	455,483
Contributions receivable	55,828	362,545
Prepaid expenses and other assets	26,370	(34,481)
Student loans	(20,924)	985
Designated short-term investments	612,735	(839,700)
Accounts payable	164,853	(363,135)
Accrued liabilities	(1,029,364)	(889,983)
Deferred revenue	1,367,233	(1,242,538)
Net cash provided by (used in) operating activities	1,317,698	(1,195,216)
Cash Flows from Investing Activities		
Additions to educational plant	(469,360)	(836,332)
Purchases of investments	(115,838)	(52,782)
Net cash used in investing activities	(585,198)	(889,114)
Cash Flows from Financing Activities		
Contributions received for endowment	17,809	20,618
Advances on notes payable	6,191,000	-
Payments on notes payable	(6,788,221)	(270,742)
Net cash used in financing activities	(579,412)	(250,124)
Net increase (decrease) in cash	153,088	(2,334,454)
Cash and cash equivalents, beginning of year	2,907,276	5,241,730
Cash and cash equivalents, end of year	$ 3,060,364	$ 2,907,276
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 307,772	$ 357,997

MID-AMERICA CHRISTIAN UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS

May 31, 2018 and 2017

Note 1 – Organization

Organization

Mid-America Christian University, Inc., (the University) is an Oklahoma not-for-profit corporation and was founded in 1953. The University is located in Oklahoma City, Oklahoma, and is affiliated with the Church of God in Anderson, Indiana. As an evangelical institution of higher education teaching and serving in the Bible college tradition, the University exists to equip Christians to grow spiritually and intellectually, to build the church, and to affect society through a biblically integrated curriculum in the Wesleyan theological persuasion.

Accreditation

The University is accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools and the University's School of Teacher Education is accredited by the Oklahoma Commission for Teacher Preparation.

Note 2 – Summary of Significant Accounting Policies

Basis of accounting and presentation

The financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The assets, liabilities and net assets of the University are reported in three classes of the net assets, as follows:

- Unrestricted net assets are those currently available at the direction of the University's Board of Trustees for use in the University's operations. At May 31, 2018 and 2017, unrestricted net assets of $4,935,836 and $4,910,432, respectively, were designated by the Board of Trustees for specific purposes.
- Temporarily restricted net assets are those which have donor-imposed stipulations that expire with either the passage of time or occurrence of a future event.
- Permanently restricted net assets are those contributed with donor restriction requiring they be held in perpetuity.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates. These estimates include, among other things, the determination of the adequacy of the allowance for doubtful accounts.

Cash and cash equivalents

The University considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. At May 31, 2018 and 2017, the University had $2,912,027 and $2,786,007, respectively, in cash equivalents.

Tuition and fees revenue, student accounts receivable and deferred revenue

Tuition and fees for traditional students are billed at the beginning of the applicable semester and recognized as revenue during the semester services are provided by the University.

The University's nontraditional program operates on a continuous, year-round schedule. Nontraditional student tuition and fees are recognized as revenue during the period services are provided by the University.

Tuition discounts and scholarships granted by the University are reported as a reduction of tuition and fees revenue.

Student accounts receivable represent amounts due for tuition and fees from currently enrolled and former students. Student accounts receivable are stated at the amount the University expects to collect from outstanding balances. The University provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on management's assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction to accounts receivable. The allowance for doubtful accounts was $6,037,411 and $5,637,329 at May 31, 2018 and 2017, respectively.

Deferred revenue includes tuition and fee revenue for semesters (traditional students) or periods (nontraditional students) that will be recognized in the semester/period during which services are provided by the University.

Contribution revenues

Revenue is recognized when earned and support is recognized when contributions are made, which may be when cash is received, unconditional promises to give are made, or ownership of other assets is transferred to the University. Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence or nature of any donor restrictions. The University reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

Educational plant

Educational plant is recorded at historical cost or estimated fair value at the date of donation. Depreciation of these assets is provided on the straight-line basis over the estimated useful lives of the respective assets, which range from 5 to 65 years. Maintenance and repair costs are expensed as incurred, while renewals and betterments are capitalized and depreciated over their estimated useful lives. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in the statement of activities for the period.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of any asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to its estimated fair value. If long-lived assets are considered to be impaired, the impairment to be recognized is measured by the excess of the carrying amount of the assets over their fair values.

Derivative instruments

The University periodically utilizes derivative instruments with respect to the interest rates on certain debt. These instruments, which are primarily interest rate swap agreements, help to achieve a predictable cash flow to reduce exposure to future increases in interest rates. Derivative instruments are recorded on the statements of financial position at fair value.

The University has elected not to designate derivative instruments as hedges in accordance with accounting standards even if they would otherwise qualify as hedges. Therefore, the changes in fair value of these instruments that occur prior to their maturity are reported in the statement of activities as unrestricted, unrealized gains and losses. Changes in fair value do not represent cash gains or losses. Rather, these amounts are temporary valuation adjustments based on either the anticipated future cash flows from the instrument or projected final settlement on the date fair value was determined. The actual contribution to future cash flows will be based on the interest rates in effect at the time of settlement and may be more or less than fair value estimates used at year-end. Net cash settlement value for transactions that are terminated or adjusted prior to maturity are recorded as realized gains or losses.

Concentrations of credit risk

The University maintains cash and cash equivalents in bank deposit and money market accounts which typically exceed federally insured limits.

At May 31, 2018, the University holds approximately $4,252,000 in unsecured demand deposits at the Wesleyan Investment Foundation (see Notes 4 and 5). Accounts at the Wesleyan Investment Foundation are not insured by the Federal Deposit Insurance Corporation (FDIC). The University has not experienced any losses on such accounts.

Income taxes

The University is a not-for-profit entity and is exempt from taxation under the Internal Revenue Code Section 501(c)(3).

New accounting pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, which provides more relevant information about available resources (and the changes in those resources) to donors, grantors, creditors and other users. The most significant aspects of the ASU are as follows: (1) the ASU replaces the current presentation of three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) with two classes of net assets – net assets with donor restrictions and net assets without donor restrictions, (2) the ASU expands the disclosures about the nature and amount of any donor restrictions, board designations of net assets without donor restrictions as well as any underwater endowment funds, (3) the ASU requires expenses to be presented by nature and function, as well as an analysis of the allocation of these expenses, and (4) the ASU requires specific quantitative and qualitative disclosures to improve the ability of financial statement users to assess the entity's available financial resources and the methods by which it manages liquidity and liquidity risk. ASU 2016-14 is to be applied retrospectively, and is effective for years beginning after December 15, 2017, with early adoption permitted. The University is currently evaluating the impact this standard will have on its financial statements and related disclosures.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for the University in 2019. The University has not yet selected a transition method and is currently evaluating the effect that the standard will have on its financial statements, which is not expected to be significant.

Subsequent events

Management has evaluated subsequent events through October 22, 2018, the date the financial statements were available to be issued.

Note 3 – Student Loans

Student loans include loans made through the Federal Perkins Loan Program (the Program). Under the Program, the federal government provides for approximately 75% of the total funds available with the University providing the balance. Under certain conditions such loans can be forgiven at annual rates of 10% to 30% of the original balance up to maximums of 50% to 100% of the original loan if the debtor complies with certain requirements of the Program.

The federal government reimburses the loan funds to the University for canceled indebtedness due to certain teaching or other various types of services for the federal government. Perkins loans outstanding at May 31, 2018 and 2017, were $122,312 and $123,484, respectively, net of an allowance for loan losses of $16,869.

Should the University cease to participate in the Program, all funds previously funded by the federal government would become payable to the federal government. The liability for refundable federal student loans as of May 31, 2018 and 2017, was $188,799. The Department of Education indicates that the 2017/2018 school year is the last year Perkins loans will be awarded.

Also, included in student loans are other student loans from the Hathcoat loan fund of $287,500 and $265,404 as of May 31, 2018 and 2017, respectively (see Note 11).

Note 4 – Designated Short-Term Investments

Designated short-term investments consist of the following as of May 31:

	2018	2017
Cash and money market funds	$ 3,702,876	$ 4,316,716
Savings account at Wesleyan Investment Foundation	2,885,848	2,592,768
Equity security	-	291,975
	$ 6,588,724	$ 7,201,459

Money market accounts are valued at quoted market prices, which represent the net asset value of shares held at year-end. Equity securities are valued using quoted prices in active markets for identical assets.

The savings account with the Wesleyan Investment Foundation is an unsecured, interest-bearing demand deposit account. There are no penalties for withdrawals on the deposit; however, a 30-day notice is generally requested for withdrawals exceeding $100,000. Accounts at the Wesleyan Investment Foundation are not insured by the FDIC.

Funds restricted by donors or designated by the University for long-term and other specified purposes consist of the following as of May 31:

	2018	2017
Restricted for scholarships and various University activities	$ 6,405,293	$ 6,453,235
Restricted for use in federal student financial aid programs	95,950	94,533
Restricted for building fund	87,481	653,691
	$ 6,588,724	$ 7,201,459

Note 5 – Endowment Investments

Endowment investments consist of the following as of May 31:

	2018	2017
Cash and cash equivalents	$ 1,324,896	$ 133,187
Savings account at Wesleyan Investment Foundation	1,366,012	1,339,096
Certificates of deposit	-	1,201,355
	$ 2,690,908	$ 2,673,638

The savings account with the Wesleyan Investment Foundation is an unsecured, interest-bearing demand deposit account. There are no penalties for withdrawals on the deposit; however, a 30-day notice is generally requested for withdrawals exceeding $100,000. Accounts at the Wesleyan Investment Foundation are not insured by the FDIC.

Note 6 – Other Investments

Other investments, at cost, consist of the following at May 31:

	2018	2017
Real estate	$ 158,685	$ 158,685
Cash surrender value of life insurance	445,922	443,944
Oil royalties	22,420	22,420
	$ 627,027	$ 625,049

Note 7 – Educational Plant

A summary of educational plant at May 31 is as follows:

	2018	2017
Land and improvements	$ 1,959,079	$ 1,304,214
Buildings and improvements	23,129,159	23,495,461
Athletic complex	387,789	366,562
Library books	335,088	335,088
Vehicles	582,479	544,281
Equipment and furniture	5,604,184	5,568,098
Construction in process	254,773	376,613
	32,252,551	31,990,317
Accumulated depreciation	(10,904,581)	(9,801,246)
	$ 21,347,970	$ 22,189,071

Note 8 – Line of Credit

The University has an unsecured revolving line of credit with a bank for $1,000,000, with the interest rate equal to the one-month LIBOR Rate plus 3.25%. The line of credit matures on April 30, 2019. There were no advances against the line of credit at May 31, 2018.

Note 9 – Notes Payable

Notes payable consist of the following at May 31:

	2018	2017
Note payable to a financial institution with a fixed interest rate of 4.63%; interest and principal payments of $47,599 due monthly with the final payment of principal and interest due December 2032; collateralized by real property.	$ 6,010,316	$ -
Note payable to a financial institution with a fixed interest rate of 4.71%; interest and principal payments of $8,972 due monthly with the final payment of principal and interest due October 2019; collateralized by Kennedy Hall.	-	1,271,124
Note payable to a financial institution with a variable interest rate of LIBOR plus 2.40% (3.39% as of May 31, 2017); interest and principal payments of $8,333 due monthly with the final payment of principal and interest due November 2019; collateralized by Kennedy Hall.	-	1,750,010
Note payable to a financial institution with a fixed interest rate of 4.75%; interest only payments are due through June 1, 2016, thereafter, interest and principal payments of $24,083 due monthly with the final payment of principal and interest due December 2019; collateralized by McCutcheon Hall.	-	3,602,840
Other notes payable	96,000	79,563
	$ 6,106,316	$ 6,703,537

Scheduled maturities of the notes payable at May 31, 2018, are as follows:

Year	Amount
2019	$ 295,288
2020	308,741
2021	324,261
2022	339,815
2023	406,115
Thereafter	4,432,096
	$ 6,106,316

Note 10 – Interest Rate Swap Agreement

During fiscal year 2015, the University entered into an interest rate swap agreement to control costs associated with the floating interest rates on its bank financing related to student housing construction. Interest rate swap agreements are contractual agreements between two parties for the exchange of interest payments on a notional principal amount and agreed-upon fixed or floating rates, for a defined period of time.

The fair value of the interest rate swap agreement is reflected as a liability in the May 31, 2017, statements of financial position. For the year ended May 31, 2017, the net unrealized loss associated with the change in the fair value of the agreement is reflected as a net loss on interest rate swap. The fair value of the agreement is based on the estimated future net cash flows anticipated under the terms of the agreement using the applicable yield curve as of the valuation date. During 2018, the University liquidated the interest rate swap resulting in a realized loss of $798, which is included in net gain on interest rate swap for the year ended May 31, 2018.

Note 11 – Restricted Net Assets

Temporarily restricted net assets as of May 31, consist of the following:

		2018	2017
Scholarships	(a)	$ 566,671	$ 587,299
Building fund	(b)	87,219	527,602
Other restrictions	(c)	916,148	1,207,464
Endowment funds	(d)	107,878	120,383
		$ 1,677,916	$ 2,442,748

(a) Contributions and notes payable forgiven by the holder, restricted for use as scholarship funds.

(b) Contributions designated by the donor for the building fund.

(c) Contributions received for fundraising campaigns, internships and other special projects as stipulated by the donor.

(d) Endowment fund earnings restricted for scholarships.

Permanently restricted net assets as of May 31, consist of the following:

		2018	2017
Endowment funds:			
Hathcoat loan fund	(e)	$ 1,169,431	$ 1,169,431
Other endowments	(f)	1,434,346	1,416,537
Total endowment funds		$ 2,603,777	$ 2,585,968

(e) The Hathcoat loan fund was established as a source for granting school loans to students. Eligible students may borrow up to $4,000 per year at an annual interest rate of 4%. Repayment begins six months after the student graduates, withdraws, or drops below six semester hours.

(f) Other endowments represent many small endowment funds established by donors for the benefit of the University and its students.

Note 12 – Endowment

The University, through its normal governance policies, interprets Oklahoma law 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, 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 Oklahoma law. The annual appropriation for spending is a discretionary amount approved by the Board of Trustees.

Changes in donor-restricted endowment net assets are as follows for the years ended May 31:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2016	$ 81,898	$ 2,565,350	$ 2,647,248
Investment income	48,774	-	48,774
Contributions	-	20,618	20,618
Appropriation for expenditure	(10,289)	-	(10,289)
Endowment net assets, May 31, 2017	120,383	2,585,968	2,706,351
Investment income	33,290	-	33,290
Contributions	-	17,809	17,809
Appropriation for expenditure	(45,795)	-	(45,795)
Endowment net assets, May 31, 2018	$ 107,878	$ 2,603,777	$ 2,711,655

Note 13 – Functional Allocation of Expenses

Expenses allocated by functional classification are as follows for the years ended May 31:

	Departmental	Interest	Depreciation	Operations and Maintenance	Functional Total
2018:					
Program services:					
Instruction	$ 4,788,159	$ 5,225	$ 103,488	$ 55,059	$ 4,951,931
Academic support	1,219,042	1,941	75,665	40,257	1,336,905
Student services	6,891,371	4,031	139,181	74,050	7,108,633
Supporting services:					
Auxiliary services	2,107,403	293,291	837,100	445,368	3,683,162
Institutional support	4,426,628	3,284	132,407	70,446	4,632,765
	$ 19,432,603	$ 307,772	$ 1,287,841	$ 685,180	$ 21,713,396
2017:					
Program services:					
Instruction	$ 5,383,575	$ 3,802	$ 107,317	$ 54,534	$ 5,549,228
Academic support	1,551,230	1,095	78,465	39,873	1,670,663
Student services	7,950,855	6,192	144,331	73,343	8,174,721
Supporting services:					
Auxiliary services	1,861,066	343,874	868,075	441,121	3,514,136
Institutional support	4,296,256	3,034	137,307	69,774	4,506,371
	$ 21,042,982	$ 357,997	$ 1,335,495	$ 678,645	$ 23,415,119

Advertising costs are expensed as incurred and amounted to $3,102,393 and $3,406,532 for the years ended May 31, 2018 and 2017, respectively. Advertising costs are primarily included in student services in the accompanying financial statements.

Depreciation expense and operations and maintenance expense are allocated on square footage occupancy. Interest expense is allocated to functional classifications based upon the proportion of the respective functionally categorized departmental expenses to total departmental expenses.

Contract services

On September 1, 2015, the University received notice that a contract with a third party which provided various services for students and prospective adult students in certain programs, including recruiting, marketing and enrollment, and pre-registration services, would be terminated effective October 1, 2015. The University and the third party agreed to amend the original agreement for the third party to continue performing these services through a termination date of March 31, 2016, at an additional fee of $3,201,000, payable in 30 equal installments beginning in October 2015. The additional fee was included in Student Services expense in the statement of activities for the year ended May 31, 2016. In March 2018, the final installment payment for this additional fee was made.

The University has recognized a contingency reserve of $875,000 in connection with an unresolved contract dispute with this third party related to terms of the original agreement.

Note 14 – Retirement Plan

The University provides an individual retirement plan for its employees through the Teachers' Insurance Annuity Association (TIAA) and The College Retirement Equity Fund (CREF). The University matches the employees' minimum contributions up to 5% of base salary and is 100% vested upon deposit. Employees direct the investment of their contributions and the University's matching contribution. The University provides no guaranteed retirement benefits.

The University also offers the Church of God Pension Plan as an alternative to the TIAA-CREF. Under this retirement plan, employee-authorized payroll deductions are remitted to the Board of Pensions of the Church of God, Inc. This program is not an employer sponsored pension plan, and, accordingly, the University has no liability to fund the plan.

Total contributions made by the University to these plans for the years ended May 31, 2018 and 2017, were approximately $212,000 and $209,000, respectively.

Note 15 – Commitments and Contingencies

<u>Commitments</u>

Subsequent to May 31, 2018, the University terminated an operating lease for the north campus facility. Payments made for operating leases during fiscal years 2018 and 2017, were $164,243 and $227,674, respectively.

<u>Financial responsibility</u>

In July 2017, the University was informed by the Department of Education (DOE) that its Title IV, HEA program refunds that were not remitted on a timely basis for the year ended May 31, 2015, exceeded the permissible compliance threshold outlined in 34 C.F.R. §668.173(c). Accordingly, the University was required to renew its irrevocable letter of credit to the DOE in the amount of $366,299, which was effective beginning in August 2017. The amount of the letter of credit represented 25% of the total amount of Title IV, HEA program refunds the University made or should have made for the year ended May 31, 2014. In August 2018, the University was informed by the DOE that it was not required to renew the irrevocable letter of credit to the DOE.

SUPPLEMENTAL INFORMATION

MID-AMERICA CHRISTIAN UNIVERSITY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended May 31, 2018

Federal Grantor/Program Title	Federal CFDA No.	Pass-Through to Subrecipients	Total Federal Expenditures
U.S. Department of Education:			
Student Financial Assistance Cluster:			
Federal Pell Grant Program	84.063	$ -	$ 3,872,161
Federal Perkins Loans Program:			
Federal Perkins Loans as of June 1, 2017	84.038	-	268,736
New loans issued during 2018	84.038	-	-
Administrative cost allowance	84.038	-	-
Federal Supplemental Educational Opportunity Grant Program	84.007	-	61,147
Federal Work Study Program	84.033	-	134,110
Federal Direct Student Loans (Direct Loans)	84.268	-	17,540,473
Teacher Education Assistance for College and Higher Education (TEACH) Grants	84.379	-	70,764
Total U.S. Department of Education		$ -	$ 21,947,391

MID-AMERICA CHRISTIAN UNIVERSITY, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

May 31, 2018

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal awards activity of the University under programs of the federal government for the year ended May 31, 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.

Note 2 – Summary of Significant Accounting Policies

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. The University has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

OTHER REPORTS

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

To the Board of Trustees
Mid-America Christian University, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Mid-America Christian University (the University), which comprise the statement of financial position as of May 31, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 22, 2018.

Internal Control over Financial Reporting

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Hogan Taylor LLP

Oklahoma City, Oklahoma
October 22, 2018

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Mid-America Christian University, Inc.

Report on Compliance for Each Major Federal Program

We have audited Mid-America Christian University, Inc.'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 each of the University's major federal programs for the year ended May 31, 2018. The University's major federal programs are 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 requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs 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 each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each 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 each of its major federal programs for the year ended May 31, 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 each 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 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 combination of deficiencies, in internal control over compliance, such that there is 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.

Hogan Taylor LLP

Oklahoma City, Oklahoma
October 22, 2018

MID-AMERICA CHRISTIAN UNIVERSITY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended May 31, 2018

Section I – Summary of Auditor's Results

Financial Statements
Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	____	Yes	X	No
Significant deficiency(ies) identified?	____	Yes	X	None Reported
Noncompliance material to financial statements noted?	____	Yes	X	No

Federal Awards
Internal control over major programs:

Material weakness(es) identified?	____	Yes	X	No
Significant deficiency(ies) identified?	____	Yes	X	None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	____	Yes	X	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grant Program
84.033	Federal Work Study Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans (Direct Loans)
84.379	Teacher Education Assistance for College and Higher Education (TEACH) Grants

Dollar threshold used to distinguish between type A and type B programs $750,000

Auditee qualified as low-risk auditee?	X	Yes	____	No

MID-AMERICA CHRISTIAN UNIVERSITY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(continued)

Year ended May 31, 2018

Section II – Financial Statement Findings

No matters were reported.

Section III – Findings and Questioned Costs for Federal Awards

No matters were reported.

MID-AMERICA CHRISTIAN UNIVERSITY, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2018

Section II – Financial Statement Findings

None

Section III – Findings and Questioned Costs for Federal Awards

	Finding/Noncompliance
U.S. Department of Education, Student Financial Assistance	Item 2017-001 – Special Tests and Provisions: Enrollment Reporting
Audit finding:	Out of a sample of 40 students who withdrew or graduated during the audit period, the University did not report the correct enrollment status for 11 students to the National Student Loan Data System (NSLDS) within the timeframe specified by the Department. In addition, five students' enrollment status change had not been reported to the NSLDS. The sample was not a statistically valid sample but was determined using Chapter 11 - Audit Sampling Considerations of Uniform Guidance Compliance Audits of the Government Auditing Standards and Single Audits Audit and Accounting Guide.
Corrective action taken:	The University Registrar reports status changes to the National Student Clearinghouse (NSC) who then reports the information to NSLDS. After review of the noncompliance findings, the University took the following steps to correct: • The University implemented a vendor software patch to correct a software issue causing the graduation status to not be reported correctly. • Created a new auto NSC report reminder email with current steps needed to process the enrollment report to NSC. • The University has created an additional procedure that will review for missing grades prior to pulling the enrollment report.