

*Provides more from the K-WU financial statements*



**Kennedy-Western University**

"Virtual Education for the 21st Century" ®

later known as Warren National University

by DaveFEATHERLY

When I presented some data from five year-old Kennedy-Western University financial statements, I did not expect to hear how rare that information was. Being the subject of a congressional hearing, I had assumed that both supporters and opponents of KWU knew a great deal about the company's financial position. I was surprised to learn that some of the most respected authorities in the field of unaccredited degree sellers had very little to no specific information to go on, and that the disclosures by the Cheyenne Herald provided, to some at least, the most intimate and revealing information about this particular degree seller since the Susan Collins (R-ME) Senate hearings - and the most financial information ever about Kennedy-Western.

What I provided a few days ago was just their income information - their profit / loss data. The 17 pages of audited financial statements provided much more. I think some of this information might help to dispel the notion held by KWU supporters that this was a righteous company. You can decide for yourself.

Briefly, what was provided recently was limited data from the audit of calendar year 2003, which also included comparative data for calendar year 2002. As a reminder, KWU showed \$24.7 million in revenue in '03 and \$18.4 million in 2002. Most of that revenue came in the form of "Tuition income." Almost 97% each year.

I may provide so many details that some readers' eyes will roll back into their head but as an old bean counter myself, I think the story is best understood with the provision of more details, not fewer.

For those who thought, or may continue to think, that Kennedy-Western was simply a misunderstood pioneer in online, no campus, distance education, consider this: In 2003, when tuition revenue was \$23,117,181, textbook commissions was only \$104,553. That can mean other things but the first impression is that they were providing "education" without much textbook reading or reference. Because it's referred to as "commissions," maybe KWU did not receive direct revenue from the sale of textbooks. Defenders on the internet forums often refer to the hard work they had to do - reading their textbooks - to buy earn their nebulous degrees.

Let's assume that each "student" paid KWU \$7,500.00, on average, in tuition fees. Whether that's high or low, I don't know. It's just for illustration purposes. With that average, KWU would have had 3,082 students paying tuition to them. Those same students would pay just \$33.92 on average for textbooks - either from KWU or commissionable to KWU. That doesn't sound like much in textbooks for \$7,500.00 tuition.

Again, to review specifics on the KWU income statement for those years, please refer to our website or to page 7 in the March 17, 2009 Cheyenne Herald.

From the KWU "Statements of Stockholders Deficit," it appears things weren't always so profitable for the degree seller. As of December 31, 2003, KWU had two classes of stock that had netted \$120,000 in 20 years and a little over \$6.5 million in "Additional paid-in capital." Against that, though, they showed almost \$11.0 million in accumulated deficit, for a "Total Stockholders Deficit" of \$4,313,954. **Deficit!** That ain't good.

*That could be the result of things much too difficult to explain here. If you have an accountant friend, ask them for an explanation. The net result is a little better than AIG but nothing to write home about.*

The KWU balance sheet for those two years is very revealing. It is apparent that they undertook a major recruiting drive in 2003. With what success? (KWU didn't use their revenue to buy much - it must have been used pretty much to live the good life.) Here are the details of their Current Assets and Current Liabilities:

	December 31, 2003	December 31, 2002
Cash and cash equivalents	\$ 1,923,890	\$ 887,645
Short-term investments at fair value	4,042,197	4,471,988
Accounts receivable, less allowance for doubtful accounts of \$1,715,000 in '03 and \$970,000 in '02	9,887,491	3,074,185
Deferred Income Taxes	1,818,000	2,645,000
Prepaid expenses and other current assets	1,063,128	618,935
<b>Total current assets</b>	<b>18,734,706</b>	<b>11,697,753</b>
Accounts payable and accrued expenses	\$ 1,392,592	\$ 1,329,760
Income taxes payable	1,085,000	1,014,030
Deferred income, current	17,089,727	12,106,730
Current portion of long-term debt	1,170,000	1,206,777
<b>Total current liabilities</b>	<b>20,737,319</b>	<b>15,657,297</b>

There are several interesting and some troubling things about the KWU balance sheet.

First, they convinced reputable auditors that they had accumulated accounts receivable of almost \$10 million at year-end 2003, while having just \$3.1 million at the end of the previous year. That means they were booking as "sales" an awful lot of promises. Was the entire amount collectible? No. Even KWU knew it. One thing a business doesn't want on its books is a ton of uncollectible accounts. KWU expected to **not** collect over 17% of the receivables they booked in 2003.

As bad as that was, in 2002, KWU expected **not** to collect almost a third of the receivables they booked. That is incredible. An auditor should balk at recognizing receivables if the client thinks a third of the amount may not be collected. Because there is no detailed income statement, there is no way of knowing what bad debt expense KWU actually suffered in those years.

To increase current assets by over 60% in one year - as small as this operation was - borders unbelievable. Either they had a fantastically productive year, or they were booking dubious receivables. Methinks the latter. Most of KWU's current liabilities were from "Deferred revenue, current," and that means they booked the revenue but hadn't delivered the services.

According to the Notes to the audited financial statements, KWU had a refund policy. Not all students agree that they practiced that when they became Warren National University. One way to comply is to not take or return phone calls. The meter doesn't start to run until a "student" has demanded a refund for undelivered services. The Notes say, "The University provides a reserve for estimated refunds." I can't find where that is shown in KWU liabilities or what amount was "reserved."

Vagueness is common in these '03, '02 audited financials. For example, to explain KWU's long-term debt of \$3,394,998 at 12/31/2003 and \$4,564,998 at 12/31/2002, the Notes offer: "Note payable to a lender, secured by substantially all of the University's assets, ..." follows by the payment schedule. States that required filing of financial statements should have demanded specificity. If the lender is a principal of KWU, that should be noted. If it is a foreign lender, that should be noted. If it is a recognized U.S. bank, ditto. KWU also had a \$1,000,000 line of credit "with a lender." Again, no identification as to the lender. Why the secrecy?

In 2003, KWU showed an operating income of \$4,655,182. In 2002, it was \$1,871,764.

Note 11 to the KWU financial statements should be most troubling to KWU defenders and apologists: "The University has a 401(K) and profit sharing plan covering substantially all employees. Employee contributions to the 401(K) are matched at the discretion of the University. --- The University elected not to make any 401(K) contributions for the years ending 2003 and 2002. Profit sharing contributions are discretionary and determined by the University's Board of Directors. No profit sharing contribution was made in 2003." Why? Perhaps because owners are cruds but most likely because they knew the profit they booked was not real profit. Any contributions to 401(K) plans or profit sharing plans has to come out cash - not promises. With \$4.6 and \$1.9 million in operating income, no contributions were made to employee plans. What a lousy employer.

A possible explanation for wanting their financials to look better than they were is that it was then that Wyoming was considering legislation to begin to tighten the screws on unaccredited degree sellers who had made this state their business address. By appearing very prosperous and profitable, they probably were told that Wyoming would not make any changes to affect the KWU operation. They also gave money to the State Republican Party at the same time. In 2003, the changes made did **not** adversely affect KWU. In 2006, however, the law was changed to require post-secondary degree granting joints to become accredited or leave. Kennedy-Western (WNU) tried but failed. Now they will close.