

DAEMEN COLLEGE

*Financial Statements for the Years Ended
May 31, 2019 and 2018, Federal Awards
Information for the Year Ended May 31, 2019
and Independent Auditors' Reports*

DAEMEN COLLEGE
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Years Ended May 31, 2019 and 2018

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Daemen College:

Report on the Financial Statements

We have audited the accompanying financial statements of Daemen College (the "College"), which comprise the statements of financial position as of May 31, 2019 and 2018, 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.

Auditors' 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of May 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (“CFR”) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”), and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards 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 September 10, 2019 on our consideration of the College’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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College’s 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 College’s internal control over financial reporting and compliance.

Drescher & Malecki LLP

September 10, 2019

FINANCIAL STATEMENTS

DAEMEN COLLEGE
Statements of Financial Position
May 31, 2019 and 2018

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 4,393,952	\$ 5,240,209
Student accounts receivable, net	358,963	1,192,438
Other receivables	364,112	590,463
Contributions receivable, net	864,857	1,018,045
Prepaid and other assets	331,420	274,291
Accrued interest receivable	-	12,866
Notes receivable	1,647,717	1,946,156
Funds held by bond trustees	1,473,311	3,372,455
Investments held for long-term purposes	21,216,400	21,488,491
Property, plant and equipment, net	48,503,865	48,945,538
Total assets	\$ 79,154,597	\$ 84,080,952
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 976,179	\$ 883,686
Accrued salaries, wages and pension	2,010,445	2,013,853
Accrued interest	226,743	93,301
Deferred revenue	1,012,811	975,552
U.S. government advances	782,459	801,486
Derivative liability	-	4,293,649
Bonds, notes payable and capital lease obligations, net	30,897,360	27,322,258
Total liabilities	35,905,997	36,383,785
Net assets:		
Without donor restrictions	33,843,836	37,634,422
With donor restrictions	9,404,764	10,062,745
Total net assets	43,248,600	47,697,167
Total liabilities and net assets	\$ 79,154,597	\$ 84,080,952

The accompanying notes are an integral part of these financial statements.

DAEMEN COLLEGE
Statement of Activities
Year Ended May 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES			
Student tuition and fees	\$ 60,566,109	\$ -	\$ 60,566,109
Less: Scholarships and grants	(25,410,536)	-	(25,410,536)
Net student tuition and fees	35,155,573	-	35,155,573
Grants and gifts	613,932	1,907,140	2,521,072
Investment income: Interest income	179,536	43,539	223,075
Net realized gains	673,988	-	673,988
Net unrealized (losses)	(675,180)	-	(675,180)
Interest on loans receivable	-	28,588	28,588
Other income	1,369,343	76,246	1,445,589
Sales and services of auxiliary enterprises	8,161,452	-	8,161,452
Total operating revenues	45,478,644	2,055,513	47,534,157
Net assets released from restrictions	2,893,051	(2,893,051)	-
Total operating revenues and net assets released from restrictions	48,371,695	(837,538)	47,534,157
EXPENSES			
Educational and general:			
Instruction	21,614,874	-	21,614,874
Academic support	2,983,774	-	2,983,774
Library	2,016,411	-	2,016,411
Student services	8,558,724	-	8,558,724
Public services	173,777	-	173,777
General administrative and institutional support	7,159,741	-	7,159,741
Operation and maintenance of physical plant	2,616,309	-	2,616,309
Total educational and general	45,123,610	-	45,123,610
Auxiliary enterprises	6,058,654	-	6,058,654
Total operating expenses	51,182,264	-	51,182,264
Change in net assets from operating activities	(2,810,569)	(837,538)	(3,648,107)
NON-OPERATING ACTIVITIES			
Contributions	8,817	108,563	117,380
Investment income: Interest income	230,548	194,437	424,985
Net realized gains	1,153,370	919,324	2,072,694
Net unrealized (losses)	(1,244,650)	(1,042,767)	(2,287,417)
Change in value of derivative instrument	298,649	-	298,649
Loss on debt refinancing	(1,426,751)	-	(1,426,751)
Change in net assets from non-operating activities	(980,017)	179,557	(800,460)
Change in net assets	(3,790,586)	(657,981)	(4,448,567)
Net assets—beginning of year	37,634,422	10,062,745	47,697,167
Net assets—end of year	<u>\$ 33,843,836</u>	<u>\$ 9,404,764</u>	<u>\$ 43,248,600</u>

The accompanying notes are an integral part of this financial statement.

DAEMEN COLLEGE
Statement of Activities
Year Ended May 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES			
Student tuition and fees	\$ 61,003,407	\$ -	\$ 61,003,407
Less: Scholarships and grants	(25,434,895)	-	(25,434,895)
Net student tuition and fees	35,568,512	-	35,568,512
Grants and gifts	801,231	2,494,291	3,295,522
Investment income: Interest income	145,432	138,639	284,071
Net realized gains	56,317	-	56,317
Net unrealized gains	278,080	-	278,080
Interest on loans receivable	-	44,914	44,914
Other income	1,335,326	70,888	1,406,214
Sales and services of auxiliary enterprises	8,813,245	-	8,813,245
Total operating revenues	46,998,143	2,748,732	49,746,875
Net assets released from restrictions	2,274,567	(2,274,567)	-
Total operating revenues and net assets released from restrictions	49,272,710	474,165	49,746,875
EXPENSES			
Educational and general:			
Instruction	21,401,677	-	21,401,677
Academic support	3,029,234	-	3,029,234
Library	2,130,173	-	2,130,173
Student services	7,978,300	-	7,978,300
Public services	177,362	-	177,362
General administrative and institutional support	6,500,103	-	6,500,103
Operation and maintenance of physical plant	2,566,648	-	2,566,648
Total educational and general	43,783,497	-	43,783,497
Auxiliary enterprises	6,086,725	-	6,086,725
Total operating expenses	49,870,222	-	49,870,222
Change in net assets from operating activities	(597,512)	474,165	(123,347)
NON-OPERATING ACTIVITIES			
Contributions	28,102	299,270	327,372
Investment income: Interest income	165,774	146,111	311,885
Net realized gains	218,287	184,493	402,780
Net unrealized gains	399,789	339,522	739,311
Change in value of derivative instrument	1,714,134	-	1,714,134
Change in net assets from non-operating activities	2,526,086	969,396	3,495,482
Change in net assets	1,928,574	1,443,561	3,372,135
Net assets—beginning of year	35,705,848	8,619,184	44,325,032
Net assets—end of year	\$ 37,634,422	\$ 10,062,745	\$ 47,697,167

The accompanying notes are an integral part of this financial statement.

DAEMEN COLLEGE
Statements of Cash Flows
Years Ended May 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (4,448,567)	\$ 3,372,135
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and unamortized interest expense	2,880,035	3,121,021
Loss on sale of property, plant and equipment	(3,514)	(6,922)
Change in value of derivative instrument	(298,649)	(1,714,134)
Cancellation of refundable government loan funds	(19,027)	(26,016)
Non-cash donations	(66,249)	(82,497)
Net unrealized loss (gain) on investments	2,962,694	(1,017,391)
Changes in operating assets and liabilities:		
Decrease (increase) in student accounts receivable, net	833,475	(127,862)
Decrease in other receivables	226,351	30,125
Decrease (increase) in contributions receivable, net	153,188	(270,342)
(Increase) in prepaid expenses and other assets	(57,129)	(39,415)
Decrease (increase) in accrued interest receivable	12,866	(2,942)
Increase in accounts payable	92,493	234,217
(Decrease) increase in accrued salaries, wages and pension	(3,408)	11,272
Increase (decrease) in accrued interest	133,442	(3,160)
Increase (decrease) in deferred revenue	37,259	(2,505)
(Decrease) in amounts held on behalf of others	-	(626)
Net cash provided by operating activities	<u>2,435,260</u>	<u>3,474,958</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(527,997)	(891,359)
Construction in progress	(1,888,487)	(522,920)
Proceeds from sale of property, plant and equipment	2,982	9,822
Purchases of investments	(15,077,145)	(12,075,448)
Proceeds from sales of investments	17,440,886	10,962,383
Proceeds from reserves	465,070	(4,430)
Net repayment of loans from students	298,438	252,859
Net cash (used by) investing activities	<u>713,747</u>	<u>(2,269,093)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts received for long-term investment	200,138	445,017
Proceeds from issuance of indebtedness	30,445,732	421,266
Decrease (increase) in funds held by bond trustee	1,899,143	(36,147)
Repayment of principal on indebtedness	(29,314,107)	(1,679,307)
Derivative instrument termination fees	(3,995,000)	-
Bond refinancing costs	(1,804,419)	-
Loss on bond refinancing	(1,426,751)	-
Net cash (used by) provided by financing activities	<u>(3,995,264)</u>	<u>(849,171)</u>
Net change in cash and cash equivalents	(846,257)	356,694
Cash and cash equivalents—beginning of year	5,240,209	4,883,515
Cash and cash equivalents—end of year	<u>\$ 4,393,952</u>	<u>\$ 5,240,209</u>
Supplemental cash flow disclosure:		
Cash paid for interest on long-term debt	\$ 1,411,729	\$ 1,635,720

The accompanying notes are an integral part of these statements.

DAEMEN COLLEGE
Notes to Financial Statements
Years Ended May 31, 2019 and 2018

1. DESCRIPTION OF ORGANIZATION

Daemen College (the “College”), is an independent, coeducational institution offering liberal arts and professional programs in its undergraduate, graduate and continuing education programs. The College is primarily funded by tuition and fees charged for programs offered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation—The College prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (“U.S. GAAP”) for not-for-profit entities. The significant accounting and reporting policies used by the College are described subsequently to enhance the usefulness and understandability of the financial statements.

Basis of accounting—The College prepares its financial statements using the accrual basis of accounting and accounting principles generally accepted in the United States of America.

Use of estimates—The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the College’s management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Net assets—The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restriction on use that are placed by its donors, as follows:

Net assets without donor restrictions—Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has the option to designate, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment, but no such election was made at May 31, 2019.

Net assets with donor restrictions—Net assets subject to donor-imposed (or certain grantor-imposed) restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Classification of Transactions—All revenue and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses are reported as decreases in net assets without donor restrictions.

Cash and cash equivalents—Cash and cash equivalents include cash on hand, cash on deposit with financial institutions and other highly liquid investments with maturities at the date of purchase of three months or less and are carried at cost which approximates fair value.

Investments—Investments are reported at their fair values. The College has interpreted New York State law to allow the spending of income and gains on investments of permanently restricted net assets, absent explicit donor stipulations that all or a portion of such income or gains be maintained in perpetuity. New York State law allows the College to appropriate and spend such income and gains as is prudent, considering such factors as the College’s long and short-term needs, present and anticipated financial requirements, expected total return on investments, price level trends, and general economic conditions. Accordingly, such realized and unrealized gains and losses on investments of permanently, temporarily restricted and unrestricted net assets are reported as with or without donor restriction, based upon the presence or absence of donor stipulations as to their use.

Contributions receivable, net—Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible contributions receivable is determined based on management’s evaluation of the collectability of individual promises.

Prepaid and other assets—Prepaid and other assets consists of payments that reflect costs applicable to future accounting periods. The cost of prepaid items is recorded as an expense when consumed rather than when purchased.

Notes receivable—Notes receivable represent the money due to the College for Perkins Loans granted to students. The Perkins program has been discontinued by the federal government. The balances represent residual loans outstanding.

Property, plant and equipment, net—Property, plant and equipment are reported in the statement of financial position at cost, if purchased, and at fair value at the date of donation, if donated, net of accumulated depreciation. All land and buildings are capitalized. Equipment is capitalized if it has a cost of \$5,000 or more and a useful life when acquired of more than one year. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

Buildings	40 years
Improvements other than buildings	10 years
General equipment	5 years
Computer equipment	3 years
Computer software systems	5 - 10 years
Library books	7 - 10 years
Leasehold improvements	5 years

Property, plant and equipment are reviewed for impairment when a significant change in the assets use or another indicator of possible impairment is present. No impairment losses were recognized in the financial statements in the current period.

The College reports gifts of property, plant and equipment as support 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 and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restriction. Absent explicit donor stipulations about how those long-lived assets must be maintained, the College reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Endowment investments—Endowment investments consist of investments purchased with the following resources:

- Donor-restricted permanent endowments, which are contributions restricted by donors to investment in perpetuity with only investment income and appreciation being used to support the organization’s activities.
- Donor-restricted term endowments, which are contributions restricted by donors to investment for the term specified by the donor. During that term, the donor may either require investment income and appreciation to be reinvested in the fund, or may permit the organization to spend those amounts in accordance with the donor’s restrictions on use.
- Board-designated endowments, which are resources set aside by the Board of Trustees for an indeterminate period to operate in manner similar to a donor-restricted permanent endowment. Because a board-designated endowment results from an internal designation, it can be spent upon action of the Board of Trustees.

Deferred revenue—Deferred revenue is principally comprised of receipts relating to tuition for the upcoming summer term, new student registration fees and tuition, and room and board deposits in advance for the fall term. The College will recognize revenue to the extent these services are provided over the coming fiscal year. The student deposits received in advance are generally non-refundable.

Amounts held on behalf of others—The College performs administration functions for one agency. The amounts reported represent the assets the College has fiduciary duties to maintain and control. Revenues and expenses have not been reported on the Statement of Activities.

Deferred bond issuance costs—Deferred bond issuance costs represent underwriting, legal and other direct costs incurred in connection with the issuance of bonded debt. These costs, shown as net of the related debt and liability, are being amortized over the term to maturity of the related liability. The College recorded annual amortization of \$21,879 and \$150,344 for the years ended May 31, 2019 and 2018, respectively.

Grants and contracts—Revenue from grants and contracts is generally recognized as earned, that is, as the related costs are incurred under the grant or contract agreements. Amounts received in advance are deferred.

Tax status—The College is incorporated exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (“IRC”), though it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). All applicable tax forms for the College have been filed and accepted by the Internal Revenue Service through the year ended May 31, 2018. The tax years ending May 31, 2018, 2017, and 2016 are still open to audit for federal purposes. Contributions to the College are tax deductible to donors under Section 170 of the Internal Revenue Code. The College is not classified as a private foundation.

Non-operating activities—Certain contributions, investment income earned, gains and losses on investments held for long-term purposes, and changes in the value of derivative instruments are considered non-operating activities in the accompanying Statement of Activities.

Federal and New York State Tuition Assistance Program—Activity of the United States Department of Education Federal Pell Grant (“Pell”), the Department of Veterans Affairs (“VA”) benefit programs and New York State Tuition Assistance (“TAP”) programs are not reflected in the College’s financial statements. The College’s students received \$2,992,167 and \$3,054,386 from Pell, \$299,851 and \$365,987 from VA and, \$1,639,897 and \$1,924,200 from TAP in the years ended May 31, 2019 and 2018, respectively.

Scholarships from private sources—Activity of scholarships received from private sources which are designated for specific individuals are not reflected in the College’s financial statements since the College does not have discretion over who receives the scholarships. The amount of scholarships from private sources for the years ended May 31, 2019 and 2018 were \$887,002 and \$1,012,440, respectively.

Student Association of Daemen College—The College exercises fiscal and financial control over the Student Association of Daemen College. The College has elected to report the balances and activities of the Student Association as part of the financial statements of the College.

Change in Accounting Principle—During the year ended May 31, 2019, the College implemented Financial Accounting Standards Boards (“FASB”) Accounting Standards Update (“ASU”) 2016-14, Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) – Presentation of Financial Statements of Not-for-Profit Entities. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets no entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements.

Implementation of ASU 2016-14 did not require a restatement of any opening balances related to the period presented. However, a portion of net assets previously reported as temporarily restricted net assets is now reported as net assets without donor restrictions. This change resulted in a decrease of \$970,143 in net assets released from restrictions on the May 31, 2018 Statement of Activities. Other than this item, the College’s net assets previously reported as unrestricted are now reported as net assets without donor restrictions. The College’s net assets previously reported as temporarily restricted and permanently restricted are now reported as net assets with donor restrictions.

Reclassifications—Certain items in the statement of financial position for the year ended May 31, 2018 have been reclassified to be consistent with current year presentation.

3. LIQUIDITY AND AVAILABILITY

Daemen College's endowment funds consist of donor-restricted endowments and funds designated by the Board of Trustees to function as endowments (the “quasi-endowment”). Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditures. As discussed in Note 8, the quasi-endowment has a spending rate of 5 percent of the average value of the last 20 quarters. \$876,323 of appropriations from the quasi-endowment will be available within the next 12 months. As part of the College'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. In addition, the College invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, the College has a committed line of credit in the amount of \$500,000, which it could draw upon. Additionally, the College has a quasi-endowment of \$6,074,235. Although the College does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation process, amounts from its quasi-endowment could be made available if necessary. However, both the quasi-endowment and donor-restricted endowment contain investments with lock-up provisions that would reduce the total investments that could be made available.

Financial assets available for general expenditures, that is, without donor restrictions limiting their use within one year of the balance sheet date, comprise the following:

Cash & cash equivalents	\$ 4,370,299
Accounts receivable	723,075
Other investments appropriated for current use	876,323
Promises to give	175,830
Endowment spending—rate and appropriations	<u>575,456</u>
Total	<u>\$ 6,720,983</u>

4. FAIR VALUE MEASUREMENTS

The College reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1. Quoted prices for identical assets or liabilities in active markets to which the College has access at the measurement date.
- Level 2. Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets in markets that are not active;
 - Observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves; and
 - Inputs derived principally from, or corroborated by, observable market data by correlation or by other means.

- Level 3. Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

5. INVESTMENTS

Investments consisted of the following at May 31, 2019 and 2018:

	May 31, 2019		May 31, 2018	
	Fair Value	Cost	Fair Value	Cost
Treasury money market funds	\$ 505,462	\$ 502,579	\$ 871,116	\$ 871,116
Hedge funds	252,748	251,384	-	-
Treasury bills	1,320,536	1,301,144	1,025,074	1,052,034
Government bonds	1,124,368	1,064,575	1,097,435	1,081,015
Corporate bonds	4,752,124	4,674,020	3,252,979	3,309,709
Common stock	8,653,972	8,511,013	7,886,284	6,103,916
Guaranteed income contracts	-	-	2,501,339	2,501,339
Mutual funds	4,250,069	4,340,361	7,644,551	6,198,985
Money funds	1,784,325	1,784,325	540,531	540,531
Other	46,107	46,107	41,637	41,637
Total investments	22,689,711	22,475,508	24,860,946	21,700,282
Less: Funds held by bond trustees	(1,473,311)	(1,473,311)	(3,372,455)	(3,372,455)
Investments held for long-term purposes	<u>\$ 21,216,400</u>	<u>\$ 21,002,197</u>	<u>\$ 21,488,491</u>	<u>\$ 18,327,827</u>

All of the College's investments at May 31, 2019 and May 31, 2018 were considered to be Level 1.

Funds held by bond trustees—The financing documents relating to the AIDA Series 2018 and AIDA Series 2006A and B required certain deposits to be held by trustees. These deposits at May 31, 2019 and 2018 are presented below:

	May 31,	
	2019	2018
M&T as trustee for AIDA Daemen College:		
Project Series 2006A and B Debt Service Reserve	\$ -	\$ 2,501,339
Project Series 2006A Bond Fund	-	541,146
Project Series 2006B Bond Fund	-	329,970
Project Series 2018 Bond Fund	1,473,311	-
Total funds held by bond trustees	<u>\$ 1,473,311</u>	<u>\$ 3,372,455</u>

The funds held by bond trustees in 2018 represented payment of principal into debt service sinking funds, which will be used for current year payments. The 2019 balance represents funds to be used for capital improvements per the project series 2018 bond fund agreement.

6. STUDENT AND OTHER ACCOUNTS RECEIVABLE

The College makes uncollateralized loans to students based on financial need. Student loans are funded through federal government loan programs or institutional resources. Student accounts receivable at May 31, 2019 and 2018 are presented on the following page.

	May 31,	
	2019	2018
Student accounts receivable	\$ 673,007	\$ 1,689,864
Less: Allowance for doubtful accounts	<u>(314,044)</u>	<u>(497,426)</u>
End of year	<u>\$ 358,963</u>	<u>\$ 1,192,438</u>

Allowance for doubtful accounts is established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay amounts due. Institutional loan balances are written off only when they are deemed to be permanently uncollectible. Other accounts receivable for the years ended May 31, 2019 and 2018 are presented below:

	May 31,	
	2019	2018
Grants	\$ 16,187	\$ 297,373
Tuition Assistance Program ("TAP")	271,444	196,876
Miscellaneous	<u>76,481</u>	<u>96,214</u>
Other accounts receivable	<u>\$ 364,112</u>	<u>\$ 590,463</u>

The College maintains that the credibility of these other receivables is such that no allowance for doubtful accounts is established for the years then ended May 31, 2019 and 2018.

7. CONTRIBUTIONS RECEIVABLE

Contributions are recorded as revenue upon receipt of the unconditional promise to give. Outstanding contributions receivable are discounted using the U.S. Treasury rate for investments of similar periods and are comprised of the following at May 31, 2019 and 2018:

	May 31,	
	2019	2018
Amounts receivable in less than 1 year	\$ 331,746	\$ 360,475
Amounts receivable in 1 to 5 years	<u>610,379</u>	<u>772,850</u>
Gross contributions receivable	942,125	1,133,325
Less: Allowance for uncollectible contributions receivable	(47,106)	(56,667)
Unamortized discount	<u>(30,162)</u>	<u>(58,613)</u>
Net contributions receivable	<u>\$ 864,857</u>	<u>\$ 1,018,045</u>

8. ENDOWMENT

The College's endowment consists of approximately 50 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of New York enacted the New York State Prudent Management of Institutional Funds Act (“NYPMIFA”), which establishes guidelines for the management and investment of donor-restricted endowment funds. The Board of Trustees of the College has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds unless there are explicit donor stipulations to the contrary.

In accordance with NYPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investment, (6) other resources of the organization, and (7) the investment policies of the College.

Endowment net assets consist of the following at May 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment	\$ -	\$ 6,957,974	\$ 6,957,974
Board-designated endowment	<u>8,797,153</u>	<u>-</u>	<u>8,797,153</u>
Total endowment	<u>\$ 8,797,153</u>	<u>\$ 6,957,974</u>	<u>\$ 15,755,127</u>

Endowment net assets consist of the following at May 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment	\$ -	\$ 7,402,787	\$ 7,402,787
Board-designated endowment	<u>8,716,725</u>	<u>-</u>	<u>8,716,725</u>
Total endowment	<u>\$ 8,716,725</u>	<u>\$ 7,402,787</u>	<u>\$ 16,119,512</u>

Changes in endowment net assets for the year ended May 31, 2019, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment, May 31, 2018	\$ 8,716,725	\$ 7,402,787	\$ 16,119,512
Investment return:			
Investment income	230,576	194,437	425,013
Net appreciation	<u>(158,965)</u>	<u>(179,683)</u>	<u>(338,648)</u>
Total investment return	71,611	14,754	86,365
Contributions and transfers	8,817	195,751	204,568
Endowment awards	(674,879)	-	(674,879)
Net assets released from restrictions	674,879	(674,879)	-
Reclassification of net assets	<u>-</u>	<u>19,561</u>	<u>19,561</u>
Endowment, May 31, 2019	<u>\$ 8,797,153</u>	<u>\$ 6,957,974</u>	<u>\$ 15,755,127</u>

Changes in endowment net assets for the year ended May 31, 2018, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment, May 31, 2018	\$ 7,969,750	\$ 6,463,801	\$ 14,433,551
Investment return:			
Investment income	165,774	146,112	311,886
Net appreciation	<u>553,099</u>	<u>469,059</u>	<u>1,022,158</u>
Total investment return	718,873	615,171	1,334,044
Contributions and transfers	28,102	421,345	449,447
Endowment awards	(146,106)	-	(146,106)
Net assets released from restrictions	146,106	(146,106)	-
Reclassification of net assets	<u>-</u>	<u>48,576</u>	<u>48,576</u>
Endowment, May 31, 2019	<u>\$ 8,716,725</u>	<u>\$ 7,402,787</u>	<u>\$ 16,119,512</u>

Funds with Deficiencies—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 NYPMIFA requires the College to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occur after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to required level will be classified as an increase in temporarily restricted net assets. There were no material deficiencies of this nature that are reported in temporarily restricted or unrestricted net assets as of May 31, 2019 and May 31, 2018.

Return Objectives and Risk Parameters—The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of several benchmarks reflecting the College’s asset allocation while assuming a moderate level of investment risk. The College expects its endowment funds, over time, to provide an average rate of return of approximately 5 percent plus the increase in the consumer price index annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives—To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. The chart on the following page is a summary of the asset allocation guidelines, with allowable ranges for each asset type.

Asset Category	Target	Minimum	Maximum
Cash & cash equivalents and fixed income	30%	20%	40%
Domestic equities	45%	40%	50%
International equities	20%	10%	25%
Real estate investment trusts	5%	0%	10%
Alternatives	0%	0%	10%

Spending Policy and How the Investment Objectives Relate to Spending Policy—The College has a policy of appropriating for distribution annually to the operating budget an amount not to exceed five (5) percent of the long-term investment portfolio’s average total value of the past 20 quarter-ends ending with March 31 preceding the budget year. It is understood that the basis for calculating spending is sanctioned by NYPMIFA setting guidelines under which Daemen College is permitted to spend an amount in excess of the current yield (interest and dividends earned) to include realized and unrealized appreciation. In establishing this policy, the College considered the long-term expected return on its endowment. Accordingly, the College expects the current spending policy to allow its endowment to maintain the purchasing power by growing at a higher rate than the planned payouts. Additional real growth will be provided through new gifts and any excess investment returns. In recent years, the College has not withdrawn any actual spending from the Endowment Fund as it pursues efforts to increase the fund.

9. PROPERTY, PLANT AND EQUIPMENT

As of May 31, 2019 and 2018, the College’s investment in physical plant is as follows:

	May 31,	
	2019	2018
Property, plant and equipment, not being depreciated:		
Land	\$ 1,035,115	\$ 1,035,115
Construction in progress	198,163	167,663
Total property, plant and equipment, not being depreciated	1,233,278	1,202,778
Property, plant and equipment, being depreciated:		
Buildings	67,860,996	65,877,031
Improvements other than buildings	4,197,189	4,178,798
General equipment	19,179,412	18,865,625
Computer system software	1,884,743	1,838,979
Leasehold improvements	352,965	352,965
Equipment acquired by capital lease	253,889	253,889
Library books	9,492,621	9,468,546
Total property, plant and equipment, being depreciated	103,221,815	100,835,833
Less accumulated depreciation	(55,951,228)	(53,093,073)
Total property, plant and equipment, being depreciated, net	47,270,587	47,742,760
Total property, plant and equipment, net	\$ 48,503,865	\$ 48,945,538

During the year ended May 31, 2019, the College renovated Curtis Hall, installed new roofs on Duns Scotus Hall, Charles J. Wick Campus Center, Schenck Hall, and Caravan Hall, and began renovation of Health Services classrooms.

Depreciation expense was \$2,858,155 and \$2,970,676 for the years ended May 31, 2019 and 2018, respectively. Depreciation is allocated based on asset usage within the functional expense categories.

10. BONDS, NOTE PAYABLE AND LEASE OBLIGATIONS

Bonds, note payable and capital lease obligations at May 31, 2019, are as follows:

- **Town of Amherst Industrial Development Agency (“AIDA”) – Series 2018 Bonds**

\$28,600,000 of Series 2018A Bonds were issued on June 7, 2018 through the Town of Amherst Industrial Development Agency (the “AIDA”). The Series 2018 Bonds were issued to refund and defease previously issued Series 2006A and B Bonds for refinancing and purchase of capital assets. Annual installments range from \$445,000 to \$1,730,000 from October 1, 2018 to October 1, 2048. The Bonds bore interest rates from 3.0 to 5.0 percent, and were issued at a premium of \$1,845,733. The transaction resulted in net loss on debt refinancing to the College of \$1,426,751, primarily as a result of extinguishing prior unamortized bond issuance costs. The transaction also required the College to exit its swap agreements, which resulted in a gain of \$298,649.

- **Hallmark Note Payable**

In September of 2013 the College entered into an agreement with Hallmark Management for the renovation of the College dining hall and kitchen equipment for the sum of \$561,000. Hallmark Management contributed \$66,000 of the equipment. The College will recognize this contribution over the life of the loan. The remaining portion of the cost of the renovation and equipment was financed as a seven-year note payable for \$495,000 which is subject to interest at a fixed rate of 4.35%.

In July of 2016 the College entered into a second agreement with Hallmark Management to renovate the “Den”, formerly referred to as the Cyber Café. The \$600,000 renovation project included a \$540,000 loan to the College at 0% interest from Hallmark to be paid over eight (8) years commencing July 1, 2016.

- **M&T Note Payable 2016**

The College established a \$700,000, seven (7) year term loan with M&T Bank on September 30, 2016. The loan calls for interest payable at 3.08% with monthly payments of interest and principal amounting to \$9,288. The proceeds were used to offset the acquisition costs of real estate adjacent to and across from the campus acquired in 2015.

- **M&T Note Payable 2017**

The College established a \$275,000 five (5) year term loan with M&T Bank on June 26, 2017. The loan calls for interest payable at 3.65% with monthly payments of interest and principal amounting to \$5,028. The proceeds were used to finance improvements to sports field located at Park School which is utilized to support Daemen College’s soccer program.

- **Capital Leases**

The College entered into a lease on August 31, 2015 for the sum of \$116,266 to lease equipment that may be purchased for a nominal amount at the expiration of the lease. The interest rate implicit in this lease is 5.25%. Monthly payments were \$3,409 and the lease expired October 31, 2018. The lease was secured by equipment with an original purchase price of \$116,266, which is now fully depreciated.

The College entered into a master equipment lease with M&T Bank in the year ended May 31, 2017. The first schedule of the lease was used to finance a new phone system costing \$99,889, and is payable in monthly installments of \$1,904 over five (5) years. The interest rate implicit in the lease is 5.61%. The lease is secured by equipment with an original purchase price of \$101,782 and accumulated amortization of \$44,105.

In August 2016 the College signed a five (5) year lease with PNC Equipment Finance for the acquisition of a scoreboard (\$15,696) and portable press-box (\$19,995) to be used at College athletic events. Monthly payments of principal and interest amount to \$655. The interest rate implicit in the lease is 4.026%. The lease is secured by equipment with an original purchase price of \$35,841 and accumulated amortization of \$19,713.

A summary of changes in the College's long-term liabilities at May 31, 2019 follows:

	Balance 6/1/2018	Additions	Reductions	Balance 5/31/2019
Serial bonds	\$ 27,795,000	\$ 28,600,000	\$ 27,795,000	\$ 28,600,000
Premium on serial bonds	-	1,845,733	61,524	1,784,209
Deferred financing costs	(1,954,477)	(656,355)	(1,976,356)	(634,476)
Bonds payable, net	25,840,523	29,789,378	25,880,168	29,749,733
Notes payable	1,362,826	-	291,936	1,070,890
Capital leases	118,909	-	42,172	76,737
Total	<u>\$ 27,322,258</u>	<u>\$ 29,789,378</u>	<u>\$ 26,214,276</u>	<u>\$ 30,897,360</u>

Premium on serial bonds—As previously discussed, in the year ended May 31, 2019, the College received a premium of \$1,845,733 related to the issuance of the Series 2018 bonds. The premium is amortized on a straight-line basis over the course of the life of the bonds. During the year ended May 31, 2019 and 2018, the College recorded amortization of the premium totaling \$61,524 and \$0, respectively. The balance of the premium at May 31, 2019 and 2018 is \$1,784,209 and \$0, respectively.

Deferred bond issuance costs—Deferred bond issuance costs represent underwriting, legal and other direct costs incurred in connection with the issuance of bonded debt. These costs, shown as net of the related liability, are being amortized over the term to maturity of the related liability. At May 31, 2019 and 2018, the College reports \$634,476 and \$1,954,477, of unamortized deferred bond issuance costs. As a result of the issuance of the Series 2018 refunding bonds, during the year ended May 31, 2019 the College wrote-off existing deferred financing costs of \$1,954,477 and incurred new deferred financing costs of \$656,355. The College reported amortization of deferred bond issuance costs of \$21,879 and \$150,344 during the years ended May 31, 2019 and 2018, respectively.

Year ending May 31,	Bonds Payable	Premium on Bonds Payable	Notes Payable	Capital Leases	Total
2020	\$ 455,000	\$ 61,524	\$ 300,275	\$ 30,708	\$ 847,507
2021	470,000	61,524	253,560	30,708	815,792
2022	495,000	61,524	230,960	21,029	808,513
2023	515,000	61,524	175,956	-	752,480
2024	540,000	61,524	104,515	-	706,039
2025-2048	<u>26,125,000</u>	<u>1,476,589</u>	<u>5,624</u>	<u>-</u>	<u>27,607,213</u>
Total payments	28,600,000	1,784,209	1,070,890	82,445	31,537,544
Less portion representing interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,708)</u>	<u>(5,708)</u>
Bonds, notes payable and capital lease obligation	28,600,000	1,784,209	1,070,890	76,737	31,531,836
Unamortized bond issuance costs	<u>(634,476)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(634,476)</u>
Bonds, notes payable and capital lease obligations, net	<u>\$ 27,965,524</u>	<u>\$ 1,784,209</u>	<u>\$ 1,070,890</u>	<u>\$ 76,737</u>	<u>\$ 30,897,360</u>

Derivative liability—Changes in the fair value of the aforementioned swap agreements are recorded in earnings. The derivative liability for the swap agreements for the years ended May 31, 2019 and 2018 was \$0 and \$4,293,649, respectively. The College recognized unrealized holding gains of \$298,649 and \$1,714,134 for the years ended May 31, 2019 and 2018, respectively, related to the changes in value of the swap agreements. The gain recorded at May 31, 2019 represents the change in fair value prior to the College exiting the swap as part of the Series 2018 Bond issuance. As a result of the 2018A Bond issuance, the College exited the derivative liability at a cost of \$3,995,000. The swap agreements were valued using pricing models that rely on observable market inputs, such as interest rate curves and treasury spreads (Level 2).

Line of Credit—The College has available an unsecured line-of-credit with Manufacturers and Traders Trust Company in the amount of \$500,000 with interest at prime plus 1/2%. At May 31, 2019 and 2018, the College had not exercised any borrowings against the line-of-credit.

Financial Covenants—The College has financial covenants with respect to the Series 2018 Bonds. The College was in compliance with the financial covenants as of and for the year ended May 31, 2019. The College also had financial covenants associated with the Series 2006 A and 2006 B Bonds. The College was in compliance with the financial covenants as of and for the year ended May 31, 2018.

Operating Leases—The College leases five Ford Transit Vans from Ford Motor Company. The lease commenced on August 10, 2015. The four year lease calls for monthly payments of \$2,278. Additionally, the College leases a branch campus facility in Brooklyn, NY, which commenced February 15, 2017. The five year lease calls for monthly rent of \$3,950 per month in the initial year with increases of approximately 3% annually thereafter. The schedule below shows the future rental payments:

Year Ending May 31,	
2020	\$ 50,704
2021	52,120
2022	<u>35,376</u>
	<u>\$ 138,200</u>

11. RETIREMENT PLAN

The College maintains a contributory retirement annuity plan covering substantially all of its full-time employees. Retirement costs for the year ended May 31, 2019 and 2018, based on net payments to Teachers Insurance and Annuity Association/College Retirement Equities Fund (“TIAA-CREF”), amounted to \$1,424,041 and \$1,424,507, respectively. There are no unfunded past service costs.

12. FUNCTIONAL CLASSIFICATION OF EXPENSES

The operating costs, classified by function, of providing the various programs and other activities of the College for the years ended May 31, 2019 and 2018 are as follows:

	Year ended May 31, 2019								
	Instruction	Academic Support	Library	Student Services	Public Services	General and Administrative	Fundraising and Development	Auxiliary Enterprises	Total
Salaries and wages	\$ 14,062,245	\$ 1,679,653	\$ 467,240	\$ 4,085,866	\$ 106,702	\$ 4,718,721	\$ 320,744	\$ 396,346	\$ 25,837,517
Employee benefits	4,587,131	544,811	135,170	1,352,047	35,530	1,726,683	120,255	129,418	8,631,045
Legal and professional fees	771,453	26,309	12,957	77,695	7,963	373,094	17,428	-	1,286,899
Occupancy	56,963	-	-	32,734	-	458,312	-	1,049,956	1,597,965
Food service	-	-	-	-	-	-	-	1,711,356	1,711,356
Travel	384,591	87,306	5,047	644,487	5,256	133,976	28,191	2,606	1,291,460
Professional development, memberships, and accreditation	173,328	1,942	-	47,761	800	71,904	11,669	19,697	327,101
Advertising	2,659	-	-	15,595	-	290,704	-	-	308,958
Insurance	-	-	-	21,832	-	164,511	-	61,873	248,216
Bank and investment fees	-	-	-	-	-	196,659	3,843	-	200,502
Information technology	53,696	286,234	-	31,043	-	238,171	34,488	-	643,632
Supplies	506,456	137,431	10,999	804,759	(72,743)	149,912	97,081	45,979	1,679,874
Conferences and events	35,334	29,312	-	188,183	-	55,964	-	100,299	409,092
Interest expense	328,659	6,855	77,124	86,164	-	86,215	-	826,712	1,411,729
Depreciation and amortization	485,554	156,990	790,652	216,901	754	555,908	-	673,275	2,880,034
Endowment awards	-	-	-	-	88,860	-	-	794	89,654
Other	166,805	26,931	517,222	953,657	655	(89,219)	10,836	1,040,343	2,627,230
Total	\$ 21,614,874	\$ 2,983,774	\$ 2,016,411	\$ 8,558,724	\$ 173,777	\$ 9,131,515	\$ 644,535	\$ 6,058,654	\$ 51,182,264

	Year ended May 31, 2018								
	Instruction	Academic Support	Library	Student Services	Public Services	General and Administrative	Fundraising and Development	Auxiliary Enterprises	Total
Salaries and wages	\$ 14,243,238	\$ 1,590,029	\$ 499,603	\$ 3,636,786	\$ 112,544	\$ 4,303,127	\$ 371,875	\$ 399,494	\$ 25,156,696
Employee benefits	4,585,607	507,216	129,480	1,205,663	36,013	1,556,598	136,424	117,731	8,274,733
Legal and professional fees	351,495	23,172	9,162	58,459	14,865	257,437	12,065	-	726,654
Occupancy	54,364	-	-	47,474	-	477,475	-	1,215,587	1,794,900
Food service	-	-	-	-	-	-	-	1,716,209	1,716,209
Travel	274,608	61,637	6,407	527,121	1,553	96,012	22,259	2,808	992,405
Professional development, memberships, and accreditation	156,300	1,877	-	46,678	-	85,010	13,411	13,794	317,071
Advertising	2,848	-	-	84,023	-	152,451	-	-	239,322
Insurance	-	-	-	28,830	-	174,458	-	69,363	272,651
Bank and investment fees	-	-	-	-	-	238,525	735	-	239,260
Information technology	137,829	318,972	-	23,750	-	176,409	29,599	-	686,558
Supplies	539,391	110,335	7,081	852,748	(58,698)	106,961	86,437	36,018	1,680,273
Conferences and events	45,591	29,959	-	108,574	-	49,982	-	84,334	318,440
Interest expense	465,700	9,714	109,283	122,092	-	122,164	-	746,539	1,575,492
Depreciation and amortization	511,372	167,127	840,936	229,526	803	590,686	-	780,571	3,121,021
Endowment awards	-	-	-	-	68,414	26,192	-	600	95,206
Other	33,333	209,196	528,221	1,006,576	1,868	(53,020)	33,479	903,678	2,663,332
Total	\$ 21,401,677	\$ 3,029,234	\$ 2,130,173	\$ 7,978,300	\$ 177,362	\$ 8,360,468	\$ 706,283	\$ 6,086,725	\$ 49,870,222

Negative amounts result from the allocation of expenses to other functional categories.

13. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at May 31, 2019 and 2018 are available for the following purposes or periods:

	May 31,	
	2019	2018
Purpose restrictions, available for spending:		
Scholarships	\$ 683,967	\$ 736,723
Donor restricted operating funds	148,777	174,628
NYS library grant	-	4,196
Perkins loan fund	822,903	816,818
Endowment	5,818,051	6,420,284
Time restricted net assets	791,126	931,575
Perpetual in nature	1,139,940	978,521
Total net assets with donor restrictions	<u>\$ 9,404,764</u>	<u>\$ 10,062,745</u>

Net assets with donor restrictions were released from restrictions for the following purposes at May 31, 2019 and 2018:

	May 31,	
	2019	2018
Capital campaign	\$ 1,200	\$ 650
Federal work study	328,950	277,124
FSEOG	151,268	133,560
Interest on bond funds	43,539	136,435
Scholarships	105,719	146,394
Endowment	731,119	201,061
Perkins loan fund	22,504	27,184
Research grants	26	2,442
Education grants	1,333,300	1,149,454
Administrative support grant	71,897	55,447
Student services grant	5,024	16,433
Athletics grant	98,505	128,383
	<u>\$ 2,893,051</u>	<u>\$ 2,274,567</u>

14. CONCENTRATION OF CREDIT RISK

The amounts held in financial institutions that are occasionally in excess of the Federal Deposit Insurance Corporation (FDIC) limits are collateralized with securities held by the pledging financial institution's trust department or agent in the College's name. The College deposits its cash with high quality financial institutions, and management believes the College is not exposed to significant credit risk on those amounts.

The organization's investments are subject to various risks, such as interest rate, credit, and overall market volatility risks. Further, because of the significance of the investments to the organizations' financial position and the level of risk inherent in most investments, it is reasonable possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements. Management is of the opinion that the

diversification of its invested assets among the various asset classes should mitigate the impact of changes in any one class.

15. SUBSEQUENT EVENTS

On July of 2019 the College's line of credit with M&T Bank was increased to \$2,000,000.

Management has evaluated subsequent events through September 10, 2019, which is the date the financial statements are available for issuance, and has determined, except as disclosed above, there are no subsequent events that require disclosure under generally accepted accounting principles.

* * * * *

FEDERAL AWARDS INFORMATION

DAEMEN COLLEGE
Schedule of Expenditures of Federal Awards
Year Ended May 31, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster Title (1a)	Federal CFDA Number (1b)	Pass-Through Entity Identifying Number (1c)	Passed Through to Sub- recipients	Total Federal Expenditures (1d)
U.S. DEPARTMENT OF EDUCATION				
Direct Programs:				
<i>Student Financial Aid Cluster:</i>				
Federal Supplemental Educational Opportunity Grants	84.007	n/a	\$ -	\$ 151,268
Federal Work Study Program	84.033	n/a	-	328,950
Federal Perkins Loans	84.038	n/a	-	18,190
Federal Pell Grant Program	84.063	n/a	-	2,962,203
Federal Direct Student Loans	84.268	n/a	-	19,191,663
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	n/a	-	29,964
<i>Total Student Financial Aid Cluster</i>			-	22,682,238
Total Direct Programs			-	22,682,238
Passed through New York State Education Department:				
Improving Teacher Quality	84.367	C401807	-	107,294
Total passed through New York State Education Department			-	107,294
TOTAL U.S. DEPARTMENT OF EDUCATION			-	22,789,532
TOTAL EXPENDITURES OF FEDERAL AWARDS (1e)			\$ -	\$ 22,789,532

The notes to the schedule of expenditures of federal awards are an integral part of this schedule.

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DAEMEN COLLEGE
Notes to the Schedule of Expenditures of Federal Awards
Year Ended May 31, 2019

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Daemen College (the “College”) 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 (“CFR”) 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 College, it is not intended to and does not present the financial position, changes in net assets or cash flows of the College. The following notes were identified on the schedule of expenditures of federal awards:

- (a) Includes all federal award programs of Daemen College.
- (b) Source: Catalog of Federal Domestic Assistance.
- (c) Pass-through entity identifying numbers are presented where available.
- (d) Prepared under accounting principles generally accepted in the United States of America and includes all federal award programs.
- (e) A reconciliation to the financial statements is available.

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 College has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

3. BASIS OF ACCOUNTING

The basis of accounting varies by federal program consistent with the underlying regulations pertaining to each program.

The amounts reported as federal expenditures generally were obtained from the appropriate federal financial reports for the applicable program and periods. The amounts reported in these federal financial reports are prepared from records maintained for each program, which are periodically reconciled with the College’s financial reporting system.

4. LOANS OUTSTANDING

The College had the following loan balances outstanding as of May 31, 2019:

Loan Program Title	Federal CFDA Number	Loan Balances Outstanding at May 31, 2019
Federal Perkins Loan Program	84.038	\$ 1,647,717

5. SUBRECIPIENTS

The College provided no federal awards to subrecipients during the fiscal year ended May 31, 2019.

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Certified Public Accountants

**INDEPENDENT AUDITORS' 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**

The Board of Trustees
Daemen College:

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 Daemen College (the "College"), which comprise the statement of financial position as of May 31, 2019, 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 September 10, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College'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 College's internal control. Accordingly, we do not express an opinion on the effectiveness the College'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 College'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.

Drescher & Malecki LLP

September 10, 2019

Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT
ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH THE UNIFORM GUIDANCE**

The Board of Trustees
Daemen College:

Report on Compliance for Each Major Federal Program

We have audited Daemen College's (the "College") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended May 31, 2019. The College'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the College'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* ("CFR") 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 College'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 College's compliance.

Opinion of Each Major Federal Program

In our opinion, the College 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, 2019.

Report on Internal Control Over Compliance

Management of the College 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 College'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 College'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.

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.

Drescher & Malecki LLP

September 10, 2019

DAEMEN COLLEGE
Schedule of Findings and Questioned Costs
Year Ended May 31, 2019

Section I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes ✓ No

Significant deficiency(ies) identified? _____ Yes ✓ None reported

Noncompliance material to the financial statements noted? _____ Yes ✓ No

Federal Awards:

Internal control over major federal programs:

Material weakness(es) identified? _____ Yes ✓ No

Significant deficiency(ies) identified? _____ Yes ✓ None reported

Type of auditors' report issued on compliance for major federal programs: Unmodified

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

The College's major federal programs were:

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

Dollar threshold used to distinguish between Type A and Type B programs? \$ 750,000

Auditee qualified as low-risk auditee? ✓ Yes _____ No

DAEMEN COLLEGE
Schedule of Findings and Questioned Costs
Year Ended May 31, 2019

SECTION II. FINANCIAL STATEMENTS FINDINGS

No findings noted.

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings noted.

DAEMEN COLLEGE
Summary Schedule of Prior Year Audit Findings and Corrective Action Plan
Year Ended May 31, 2019
(Follow Up of May 31, 2018 Findings)

No findings were reported.

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