WELLS COLLEGE

Financial Statements as of
June 30, 2019 and 2018
Together with
Independent Auditor's Report

Bonadio & Co., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

November 21, 2019

To the Board of Trustees of
Wells College:

Report on the Financial Statements

We have audited the accompanying financial statements of Wells College (a New York not-for-profit corporation) (the College), which comprise the statements of financial position as of June 30, 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.

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.

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INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College, as of June 30, 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.

Emphasis of Matters
As described in Note 2 to the financial statements, Wells College implemented Financial Accounting Standards Board Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, and the effects have been included in these financial statements. Additionally, the College's financial condition and management's plans regarding its condition is described in Note 3. Our opinion is not modified with respect to these matters.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 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 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 College's internal control over financial reporting and compliance.

Bonadio & Co., LLP

WELLS COLLEGE

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Cash and cash equivalents	$ 1,083,355	$ 1,478,323
Accounts receivable, net	376,372	388,882
Contributions receivable, net	2,767,036	3,834,237
Inventories, prepaid expenses, and other assets	281,786	329,428
Investments	36,909,967	37,184,815
Student loans receivable, net	392,032	622,324
Land, buildings, and equipment, net	30,363,411	29,710,293
Funds held in trust by others	664,961	671,176
Total assets	$ 72,838,920	$ 74,219,478
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 930,041	$ 1,046,617
Line-of-credit	500,000	-
Deferred revenue	254,557	290,077
Refundable government loan funds	640,289	709,256
Charitable gift annuities	103,054	-
Long-term debt	6,118,785	6,243,888
Capital lease obligations	70,600	48,625
Conditional asset retirement obligations	490,383	455,761
Total liabilities	9,107,709	8,794,224
NET ASSETS:		
Without donor restrictions	22,481,571	22,508,687
With donor restrictions	41,249,640	42,916,567
Total net assets	63,731,211	65,425,254
Total liabilities and net assets	$ 72,838,920	$ 74,219,478

The accompanying notes are an integral part of these statements.

WELLS COLLEGE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019
(With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Totals	2018 Totals
OPERATING REVENUES:				
Tuition, fees, room and board	$ 27,155,554	$ -	$ 27,155,554	$ 27,430,834
Less: Scholarships and grants	(12,152,357)	-	(12,152,357)	(12,048,983)
Net student revenue	15,003,197	-	15,003,197	15,381,851
Sales and services of auxiliary enterprises	612,722	-	612,722	580,618
Private gifts, grants, and contracts	2,259,195	398,264	2,657,459	4,261,435
Federal and State grants and contracts	211,750	-	211,750	211,723
Investment return	303,066	-	303,066	232,015
Endowment spending formula income	1,762,000	-	1,762,000	1,662,000
Other revenues	219,998	-	219,998	283,828
Net assets released from restrictions	1,027,532	(1,027,532)	-	-
Total operating revenues	21,399,460	(629,268)	20,770,192	22,613,470
OPERATING EXPENSES:				
Instruction	4,754,040	-	4,754,040	4,825,321
Academic support	1,741,176	-	1,741,176	1,595,198
Student services	3,762,535	-	3,762,535	3,620,446
Auxiliary enterprises	6,684,783	-	6,684,783	6,465,831
Institutional support	6,755,292	-	6,755,292	6,923,809
Total operating expenses	23,697,826	-	23,697,826	23,430,605
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(2,298,366)	(629,268)	(2,927,634)	(817,135)
NONOPERATING ACTIVITIES:				
Gifts to be held in perpetuity	-	311,752	311,752	291,228
Investment return, net of designations for operations	-	94,260	94,260	358,558
Change in value of split-interest agreements	-	73,357	73,357	15,425
Change in fair value of funds held by others	-	(6,215)	(6,215)	15,483
Contributions received for plant acquisition	-	760,437	760,437	1,916,926
Net assets released from restrictions	2,098,456	(2,098,456)	-	-
Reclassification	172,794	(172,794)	-	-
Total nonoperating activities	2,271,250	(1,037,659)	1,233,591	2,597,620
CHANGE IN NET ASSETS	(27,116)	(1,666,927)	(1,694,043)	1,780,485
NET ASSETS - beginning of year	22,508,687	42,916,567	65,425,254	63,644,769
NET ASSETS - end of year	$ 22,481,571	$ 41,249,640	$ 63,731,211	$ 65,425,254

The accompanying notes are an integral part of these statements.

WELLS COLLEGE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	2018 Total
OPERATING REVENUES:			
Tuition and fees	$ 27,430,834	$ -	$ 27,430,834
Less: Scholarships and grants	(12,048,983)	-	(12,048,983)
Net student revenue	15,381,851	-	15,381,851
Sales and services of auxiliary enterprises	580,618	-	580,618
Private gifts, grants, and contracts	2,799,391	1,462,044	4,261,435
Federal and State grants and contracts	211,723	-	211,723
Investment return	232,015	-	232,015
Endowment spending formula income	1,662,000	-	1,662,000
Other revenues	283,828	-	283,828
Net assets released from restrictions	845,337	(845,337)	-
Total operating revenue	21,996,763	616,707	22,613,470
OPERATING EXPENSES:			
Instruction	4,825,321	-	4,825,321
Academic support	1,595,198	-	1,595,198
Student services	3,620,446	-	3,620,446
Auxiliary enterprises	6,465,831	-	6,465,831
Institutional support	6,923,809	-	6,923,809
Total operating expenses	23,430,605	-	23,430,605
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(1,433,842)	616,707	(817,135)
NONOPERATING ACTIVITIES:			
Gifts to be held in perpetuity	-	291,228	291,228
Investment return, net of designations for operations	-	358,558	358,558
Change in value of split-interest agreements	-	15,425	15,425
Change in fair value of funds held by others	-	15,483	15,483
Contributions received for plant acquisition	-	1,916,926	1,916,926
Net assets released from restrictions	281,026	(281,026)	-
Total nonoperating activities	281,026	2,316,594	2,597,620
CHANGE IN NET ASSETS	(1,152,816)	2,933,301	1,780,485
NET ASSETS - beginning of year, as previously reported	21,790,587	41,854,182	63,644,769
Adoption of ASU 2016-14	1,870,916	(1,870,916)	-
NET ASSETS - beginning of year, as adjusted	23,661,503	39,983,266	63,644,769
NET ASSETS - end of year	$ 22,508,687	$ 42,916,567	$ 65,425,254

The accompanying notes are an integral part of these statements.

WELLS COLLEGE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	$ (1,694,043)	$ 1,780,485
Adjustments to reconcile change in net assets		
to net cash flow from operating activities:		
Depreciation	1,790,623	1,672,229
Net realized and unrealized gains on investments	(1,370,911)	(1,499,336)
Gain on disposal of land, buildings, and equipment	(100,000)	(172,000)
Contributions restricted for plant acquisition	(760,437)	(1,916,926)
Contributions restricted for long-term investment	(311,752)	(291,228)
Change in discount on contributions receivable	(143,764)	334,841
Change in value of funds held in trust by others	6,215	(15,483)
Change in charitable gift annuities liability	108,032	-
Provision for losses on accounts receivable	113,718	135,091
Changes in:		
Accounts receivable	(101,208)	(94,525)
Contributions receivable	1,006,696	(2,925,205)
Inventories, prepaid expenses, and other assets	47,642	(7,342)
Deferred revenue	(35,520)	32,191
Accounts payable and accrued expenses	(82,798)	127,750
Net cash flow from operating activities	(1,527,507)	(2,839,458)
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of land, buildings and equipment	(2,274,264)	(798,712)
Proceeds from disposal of land, buildings, and equipment	100,000	172,000
Purchase of investments	(6,591,509)	(1,532,156)
Proceeds from the sales and maturities of investments	8,237,268	1,729,192
Issuance of student loans receivable	-	(64,750)
Repayment of student loans receivable	230,292	112,488
Net cash flow from investing activities	(298,213)	(381,938)
CASH FLOW FROM FINANCING ACTIVITIES:		
Repayment of refundable government loan funds	(68,967)	(4,459)
Borrowings on line-of-credit	500,000	-
Proceeds from split-interest agreements	204,269	86,156
Contributions of split-interest agreements	-	(10,000)
Payments to beneficiaries of charitable gift annuities	(4,978)	-
Repayments on long-term debt	(220,430)	(195,159)
Repayments on capital lease obligations	(51,331)	(60,235)
Contributions restricted for plant acquisition	760,437	1,916,926
Contributions restricted for long-term investment	311,752	291,228
Net cash flow from financing activities	1,430,752	2,024,457
CHANGE IN CASH AND CASH EQUIVALENTS	(394,968)	(1,196,939)
CASH AND CASH EQUIVALENTS - beginning of year	1,478,323	2,675,262
CASH AND CASH EQUIVALENTS - end of year	$ 1,083,355	$ 1,478,323
SUPPLEMENTAL DATA - Interest paid	$ 251,928	$ 237,186
SUPPLEMENTAL DATA - Purchases of land, buildings, and equipment in accounts payable	$ -	$ 33,778
SUPPLEMENTAL DATA - Purchases of equipment with long-term debt or capital leases	$ 168,633	$ -

The accompanying notes are an integral part of these statements.

1. THE COLLEGE

Wells College (the College) was established in 1868, as a women's liberal arts college located in the Finger Lakes Region of Central New York. In October 2004, the Board of Trustees voted to allow male students to attend Wells College, effective with the 2005-2006 academic year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting
The financial statements of the College have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Financial Reporting
The College reports its net assets and changes therein in the following classes:

- Net assets without donor restrictions - Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions include board designated net assets, which represent net assets that have been designated by the College's Board of Trustees for specific purposes.

- Net assets with donor restrictions - Net assets whose use by the College is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of the College pursuant to those stipulations. Additionally, net assets with donor restrictions include net assets whose use by the College is limited by donor-imposed stipulations that do not expire with the passage of time. Generally, the donors of net assets to be held in perpetuity permit the College to use all or part of the investment return generated by the related assets to support program activities or scholarships.

Operations
The statements of activities present the changes in net assets of the College from operating activities and from non-operating activities. Operating revenues and expenses relate primarily to educational programs provided by the College and auxiliary sales and service revenue. Utilization of investment income under the College's total return-spending policy is considered operating revenue.

Non-operating activities reflect transactions of a capital nature, which are contributions to be used for facilities and equipment or to be invested by the College to generate a return that will support operations.

Endowment Funds
The College's endowment was established by contributions from donors as well as funds functioning as endowment as designated by the Board. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The funds with donor-imposed restrictions stating that the funds must be held in perpetuity are included in net assets with donor restrictions in the accompanying statements of financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interpretation of Relevant Law

The Board has interpreted the applicable provisions of New York Not-for-Profit Corporation Law to mean that the classification of appreciation on endowment gifts, beyond the original gift amount, follows the donor's restrictions on the use of the related income.

Fair Value Measurement - Definition and Hierarchy

Accounting Standards Codification (ASC) Section 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The College uses various valuation techniques in determining fair value. ASC Section 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the College. Unobservable inputs are inputs that reflect the College's assumptions about the assumptions market participants would use in pricing the asset or liability, developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the College has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the College in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Cash and Cash Equivalents

Cash and cash equivalents include amounts on deposit with financial institutions and other highly liquid investments, primarily cash management funds with an original maturity of three months or less, which at times, may exceed federally insured limits. Some of these accounts are not federally insured. The College has not experienced any losses in these accounts and does not believe it is exposed to any significant credit risk with respect to cash and cash equivalents.

Inventories

Inventories consist primarily of food, books, fuel, and supplies and are valued at the lower of cost or net realizable value, with cost determined on the first-in, first-out method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Contributions include unconditional pledges and deferred giving arrangements and are recognized as revenues when donors' commitments are received. Conditional pledges become unconditional and are recognized as revenues when the conditions are substantially met. Unconditional pledges are recognized at their estimated net present value, net of an allowance for uncollectible amounts, and are classified as net assets with donor restrictions. Contributions specified for the acquisition or construction of long-lived assets are reported as net assets without donor restrictions when the assets are placed in service. Donated items are recorded at estimated fair value at the date of donation.

Split-Interest Agreements

The College is the beneficiary of several charitable remainder trusts and pooled life income funds, which are recognized at the estimated present value of the funds to be received when the agreement terminates using various assumptions with regard to the anticipated date of termination, appropriate rate of discount, and market returns.

Investments

Investments are recorded at fair value. The College's investments in real estate are recorded at cost and evaluated for impairment. Fair value is determined principally on the basis of quoted market prices. The Board of Trustees designates a portion of the College's cumulative investment return for support of current operations; the remainder, classified as non-operating, is retained to support operations of future years and to offset potential market declines. The amount computed under the endowment spending policy of the investment pool and all investment income earned by investing cash in excess of daily requirements are used to support current operations.

Risks and Uncertainties

Investment securities are exposed to various risks, such as interest rate, market, currency, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities could occur in the near term, and such changes could materially affect the amounts reported in the financial statements and accompanying notes.

Refundable Government Loan Funds

Refundable government loan funds represent capital contributions received from the federal government to fund the Perkins Loan program. This is a revolving fund that increases as students repay their loans and decreases as new loans are disbursed. These funds are ultimately due back to the federal government, when the program ceases. The College does not evaluate Perkins loans receivable for impairment as amounts due under the Perkins loan program are guaranteed by the government. The Perkins loan program ended on September 30, 2017. The College has not yet received instructions from the Department of Education with regard to the disposition of the College's Perkins loans funds.

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost at the date of acquisition or fair market value at the date of donation. The College's policy is to capitalize buildings and equipment purchases greater than $5,000 with a useful life greater than two years.

Depreciation is computed using the straight-line method over the estimated useful lives of the asset. The estimated useful lives used in computing depreciation are as follows:

Buildings and improvements	10 - 40 years
Equipment	3 - 10 years
Other properties	40 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-Lived Assets

The College evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When undiscounted cash flows are not expected to be sufficient to recover an asset's carrying amount, the asset is evaluated for impairment.

Funds Held in Trust by Others

Funds held in trust by others represent investments held in perpetuity in which the income is received by the College for donor restricted purposes or general operating purposes. Funds held in trust by others are recognized at the estimated fair value of the underlying assets, which approximates the present value of the future cash flows when the irrevocable trust is established and the College is notified of its existence.

Accounts Receivable

The College, at any given time, will have outstanding tuition and fees from students, representing accounts receivable. The allowance for doubtful accounts is based on the College's evaluation of the aging of receivables, historical trends, and current economic factors. The allowance for doubtful accounts is recorded in operating activities and reduces accounts receivable. The College writes off uncollectible accounts receivable when management determines the receivable will not be collected.

Allocation of Certain Expenses

The statements of activities present expenses by functional classification. Fringe benefits are allocated based on salaries and wages. Operation and maintenance of plant and depreciation are allocated based on square footage.

Functional Expenses

Expenses are reported in the statements of activities in categories recommended by the National Association of College and University Business Officers, which is also in accordance with U.S. GAAP. The College's primary program is instruction. Expenses reported as academic support, student services, and auxiliary enterprises are incurred in support of the primary program. Institutional support represents supporting services expenses. Fundraising expenses totaled approximately $408,200 and $438,900, for the years ended June 30, 2019 and 2018, respectively, and is included in institutional support on the statement of activities.

Taxes Collected and Remitted to Government Authorities

The College presents sales net of taxes collected.

Income Taxes

Wells College is a not-for-profit corporation and is exempt from income taxes as an organization qualified under Section 501(c)(3) of the Internal Revenue Code. Wells College has also been classified by the Internal Revenue Service as an entity that is not a private foundation.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Change in Accounting Principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, with the purpose of improving financial reporting by not-for-profit entities. ASU 2016-14 changes the presentation and accounting for not-for-profit entities' financial statements including:

- Reducing the number of classes of net assets from three to two (net assets with donor restrictions and net assets without donor restrictions);
- Requiring the presentation of expenses in both natural and functional classifications;
- Eliminating the requirement to disclose the components of investment return as well as reporting investment return net of external and direct internal investment expenses;
- Requiring qualitative and quantitative disclosure regarding an entity's liquidity and availability of resources; and
- Accounting for underwater endowment funds.

ASU 2016-14 is effective for the College's fiscal year ended June 30, 2019 and was applied retrospectively with the exception of the presentation of expenses in both natural and functional classifications and the disclosures regarding liquidity and availability of resources. The effects of this ASU have been included in these financial statements, and net assets have been adjusted as follows:

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets without donor restrictions	$ 21,790,587	$ 1,870,916	$ 23,661,503
Net assets with donor restrictions	$ 41,854,182	$ (1,870,916)	$ 39,983,266

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The standard outlines a comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. Although the College does not expect a material impact on revenues or net assets upon adoption, it is anticipated that the new standard will expand disclosures. The ASU will be effective for years beginning after December 15, 2018.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard's purpose is to clarify accounting for and eliminate diversity in practice among not-for-profits and other businesses and organizations that make or receive contributions of cash or other assets. The ASU clarifies when transactions are contributions or exchange transactions. Although the College does not expect a material impact on revenues or net assets upon adoption, it is anticipated that the new standard will expand disclosures. The ASU will be effective for years beginning after December 15, 2018.

3. FINANCIAL CONDITION

The College has sustained significant operating losses over the past several years. Losses from operating activities amounted to $2,927,634 and $817,135 for the years ended June 30, 2019 and 2018, respectively. Prior losses had reduced net assets without donor restrictions to the point where liquidity had been compromised, requiring the College, with permission from the New York State Attorney General under a cy pres agreement (see Note 14), to borrow from restricted net assets for operations.

In 2019 and 2018, the Board of Trustees approved allocations of $1,762,000 and $1,662,000, respectively of restricted endowment earnings in accordance with the spending rate approved by the Board of Trustees, based on 7% of average endowment value for the past 20 quarters (see Note 14).

Enrollment for the year ended June 30, 2019 decreased to 440 from 460 for the year ended June 30, 2018, and enrollment for the year ended June 30, 2020 is projected to decrease to 401.

In June 2019, the Middle States Commission on Higher Education placed the College on probation and noted that the College's accreditation is in jeopardy because of noncompliance with certain accreditation standards. The College must submit a monitoring report demonstrating evidence that compliance was achieved, as well as a comprehensive, implementable teach-out plan, by December 1, 2019. The College remains accredited while on probation.

Management plans to generate additional cash needed by increasing revenues and continuing to control expenditures, improving student services, and expanding academic program offerings. Continued revenue increases depend upon future enrollment and development. Management is seeking to accomplish this by executing new recruiting initiatives, developing new academic programs that build on the College's strong liberal arts core, implementing critical improvements in College infrastructure, and controlling expenditures by removing non-critical costs, deferring non-critical improvements and selling non-productive assets.

The College has enhanced program offerings by increasing focus on new applied programs that build on the College's historically strong liberal arts core. Over the past year, the College received approval from New York State Education Department to add majors in business, criminal justice, biological & chemical sciences, sustainability, and health sciences. The College also received approval to grant Bachelor of Science degrees in biology, chemistry, and biochemistry & molecular biology, which are in addition to the Bachelor of Art degrees the College already offers in these majors. Management continues to improve upon and achieve increased benefits from energy improvements implemented during the previous years.

In an effort to increase enrollment the College has been working with a nationally recognized recruiting firm that will assist the College in improving efficiencies within the Admissions process, refine its financial aid awarding strategies, as well as increase and improve outreach to potential students during their junior and senior high school years.

In September 2018, the College publicly announced its plans to reduce its published tuition rate by 25%, which will be effective starting with fiscal year ending June 30, 2020. The College believes the reduced published tuition rate will generate an increase in enrollment applications from potential students that might otherwise have overlooked the College merely on price alone.

Future financial stability of the College depends upon success of these actions.

4. LIQUIDITY

The College has a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the College has a committed line-of-credit in the amount of $1,000,000 which it could draw upon in the event of an unanticipated liquidity need. Additionally, the Board of Trustees has designated funds to function as endowment totaling $1,562,220 at June 30, 2019, which may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical operations of the College.

The College's financial assets available within one year of the statement of financial position date for general expenditure are as follows at June 30, 2019:

Cash and cash equivalents	$ 1,083,355
Accounts receivable, net	376,372
Contributions receivable, net	2,767,036
Other assets	81,247
Investments	36,909,967
Student loans receivable, net	392,032
Funds held in trust by others	664,961
Total financial assets	42,274,970
Less those unavailable for general expenditure within one year:	
Restricted by deferred compensation plan	(58,259)
Pledged as collateral on long-term debt	(6,036,861)
Student loans receivable, net	(392,032)
Designated by the Board of Trustees	(1,562,220)
Subject to satisfaction of donor restrictions, net of approved appropriations of $1,766,000 for 2020	(1,261,886)
Restricted by donors perpetually, net of $12,403,544 borrowed under a cy pres agreement	(25,818,210)
Financial assets available to meet cash needs for general expenditures within one year	$ 7,145,502

5. ACCOUNTS RECEIVABLE

Accounts receivable consists of student accounts and various miscellaneous receivables. Accounts receivable were reported, net of an allowance for doubtful accounts of approximately $748,000 and $786,000 at June 30, 2019 and 2018, respectively. Accounts for which no payments have been received for a period of time, which varies by the nature of the receivable, are considered delinquent and written-off or sent to collections, as appropriate.

Student loans receivable were reported, net of an allowance for doubtful loans of approximately $90,000 at June 30, 2019 and 2018. Loans receivable carry interest rates ranging from 3% to 5%.

At June 30, 2019, the following amounts were due for the Federal Perkins Loan Program:

	Current	Less than Two Years Past Due	Two Years - Five Years Past Due	Greater than Five Years Past Due	Total
Federal Perkins Loan Program, gross	$ 359,572	$ 73,848	$ 35,180	$ 13,432	$ 482,032
Less: allowance for loan losses	-	(41,388)	(35,180)	(13,432)	(90,000)
Federal Perkins Loan Program, net	$ 359,572	$ 32,460	$ -	$ -	$ 392,032

At June 30, 2018, the following amounts were due for the Federal Perkins Loan Program:

	Current	Less than Two Years Past Due	Two Years - Five Years Past Due	Greater than Five Years Past Due	Total
Federal Perkins Loan Program, gross	$ 492,909	$ 116,626	$ 87,857	$ 14,932	$ 712,324
Less: allowance for loan losses	-	-	(75,068)	(14,932)	(90,000)
Federal Perkins Loan Program, net	$ 492,909	$ 116,626	$ 12,789	$ -	$ 622,324

6. CONTRIBUTIONS RECEIVABLE

Contributions receivable include amounts contributed through charitable remainder trusts and pooled life income funds and are restricted by donors principally for scholarships, plant acquisitions, and other operating purposes, as well as pledges receivable generated from various campaigns initiated by the College. Contributions receivable amounted to the following at June 30:

	2019	2018
Pledges receivable:		
Due in less than one year	$ 1,013,509	$ 1,280,205
Due in one to five years	905,000	1,645,000
	1,918,509	2,925,205
Less: Present value discount	(271,914)	(352,164)
Add: Charitable remainder trusts	414,765	570,685
Add: Pooled life income funds	705,676	690,511
	$ 2,767,036	$ 3,834,237

7. INVESTMENTS

Investments consisted of the following at June 30:

	2019	2018
Money market funds	$ 40,841	$ 474,462
Domestic equity mutual funds	9,407,273	9,424,760
International equity mutual funds	7,951,417	7,838,828
Fixed income mutual funds	16,706,586	16,805,677
Real estate investment trusts	2,803,850	2,641,088
	$ 36,909,967	$ 37,184,815

8. FAIR VALUE MEASUREMENTS

The College's financial instruments recorded at fair value include investments and funds held in trust by others. The valuation technique used to measure fair value for the College's investments in money market funds and mutual funds is based on quoted market prices, consistent with the market approach.

Fair value of funds held in trust by others is determined based on third party stated market value based on the underlying assets.

There were no changes to the valuation techniques during 2019 and 2018.

8. FAIR VALUE MEASUREMENTS (Continued)

The following were measured at fair value on a recurring basis at June 30, 2019:

Description	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money market funds	$ 40,841	$ 40,841	$ -	$ -
Domestic equity mutual funds	9,407,273	9,407,273	-	-
International equity mutual funds	7,951,417	7,951,417	-	-
Fixed income mutual funds	16,706,586	16,706,586	-	-
Funds held in trust by others	664,961	-	664,961	-
	34,771,078	$ 34,106,117	$ 664,961	$ -
Investments valued using net asset value as a practical expedient	2,803,850			
	$ 37,574,928			

The following were measured at fair value on a recurring basis at June 30, 2018:

Description	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money market funds	$ 474,462	$ 474,462	$ -	$ -
Domestic equity mutual funds	9,424,760	9,424,760	-	-
International equity mutual funds	7,838,828	7,838,828	-	-
Fixed income mutual funds	16,805,677	16,805,677	-	-
Funds held in trust by others	671,176	-	671,176	-
	35,214,903	$ 34,543,727	$ 671,176	$ -
Investments valued using net asset value as a practical expedient	2,641,088			
	$ 37,855,991			

8. FAIR VALUE MEASUREMENTS (Continued)

The College has the following investment that is valued using net asset value as a practical expedient at June 30, 2019:

Description	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Real estate investment trust	$ 2,803,850	$ -	Quarterly	45 days

The College has the following investment that is valued using net asset value as a practical expedient at June 30, 2018:

Description	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Real estate investment trust	$ 2,641,088	$ -	Quarterly	45 days

The College invests in a real estate investment trust to generate consistent capital appreciation over the long-term with relatively low volatility and a low correlation with traditional equity and fixed-income markets. The fair value of these investments has been estimated using the net asset value per share of the investments as provided by the fund managers.

The College recognized $162,172 and $171,943 of income related to investments in the real estate investment trust in 2019 and 2018, respectively.

9. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consisted of the following at June 30:

	2019	2018
Land and land improvements	$ 3,144,044	$ 3,132,544
Buildings and building improvements	60,059,421	57,309,409
Equipment	6,923,742	6,675,527
College farm	90,399	90,399
Construction in progress	415,855	1,016,463
	70,633,461	68,224,342
Less: Accumulated depreciation	(40,270,050)	(38,514,049)
	$ 30,363,411	$ 29,710,293

Depreciation expense amounted to $1,756,001 and $1,640,052 in 2019 and 2018, respectively. Construction in progress mainly related to planning for a new dormitory and various renovations around campus in 2019 and 2018.

10. CONDITIONAL ASSET RETIREMENT OBLIGATIONS

U.S. GAAP requires that conditional asset retirement obligations meeting the definition of liabilities should be recognized when incurred if their fair values can be reasonably estimated, even if conditional on a future event. The College has conditional asset retirement obligations primarily associated with asbestos abatement costs for certain facilities.

Amounts related to the asset retirement obligation were as follows at June 30:

	2019	2018
Conditional asset retirement obligation - beginning of year	$ 455,761	$ 423,584
Accretion expense	34,622	32,177
Conditional asset retirement obligation - end of year	$ 490,383	$ 455,761

11. LONG-TERM DEBT

Long-term debt consists of the following at June 30:

	Maturity Date	Interest Rate	2019	2018
Deferred maintenance note payable	October 2021	Variable Prime Rate – 5.50% at June 30, 2019	$ 1,400,000	$ 1,460,000
2015 note payable	June 2040	3.38%. The rate is reset every five years	2,000,646	2,061,611
2014 note payable	December 2039	3.40%. The rate is reset every five years	2,636,215	2,722,277
Ford Credit vehicle loans	August 2023	7.89%	81,924	-
			$ 6,118,785	$ 6,243,888

In 2017, the College entered into a 5 year note payable for $1,500,000 with HSBC Bank USA, National Association (HSBC) and interest will be charged at the U.S. Prime Rate as published by The Wall Street Journal. Monthly payments will consist of principal payments of $5,000, plus any accrued interest. A balloon payment of $1,265,000, plus any accrued interest was due on October 1, 2021.

In 2015, the College entered into a 25 year note payable for $2,200,000 with HSBC, with renewable terms every five years, at a 3.38% annual interest rate. Monthly payments of principal and interest on the note were $10,990.

In 2014, the College entered into a 25 year note payable for $3,000,000 with HSBC, with renewable terms every five years, at a 3.40% annual interest rate. Monthly payments of principal and interest on the note were $14,858.

These notes payable were collateralized by $6,036,861 and $6,243,888 of investments held at June 30, 2019 and 2018, respectively.

11. LONG-TERM DEBT (Continued)

The College was out of compliance with a debt service coverage ratio on the deferred maintenance note payable as of June 30, 2019; however, the College obtained a waiver from HSBC.

In 2019, the College entered into three installment notes payable for the purchase of vehicles totaling $95,327 at an 7.89% annual interest rate. These installment notes payable require 60 monthly principal and interest payments of $1,928. The notes are collateralized by the vehicles purchased.

Interest expense amounted to $251,928 and $237,186 during the years ended June 30, 2019 and 2018, respectively.

12. LINES-OF-CREDIT

The College has an unsecured line-of-credit at Cayuga Lake National Bank with an available balance up to $500,000 at June 30, 2019 and 2018, respectively, at the prime rate plus 1.50% (7.00% and 6.50% at June 30, 2019 and 2018, respectively). The line is subject to annual approval by the lender. The College had an outstanding balance on this line-of-credit of $500,000 as of June 30, 2019. There was no outstanding balance on this line-of-credit as of June 30, 2018. In November 2019, the available balance on this line-of-credit was increased to be up to $1,000,000.

The College has an unsecured line-of-credit at HSBC. with an available balance up to $1,000,000 at June 30, 2019 and 2018, at the prime rate plus 1.25% (6.75% and 6.25% at June 30, 2019 and 2018, respectively). The College had no outstanding balance on this line-of-credit as of June 30, 2019 or 2018. The College terminated this line-of-credit in November 2019.

13. CAPITAL LEASE OBLIGATIONS

The College leases equipment under long-term lease agreements that have been accounted for as capital leases. Obligations under capital lease reflect the present value of the future rental payments, less the interest amount implicit in the lease. A corresponding amount is capitalized as equipment under the lease and amortized over the shorter of the lease term or the assets' useful life. Depreciation expense for the equipment under capital leases amounted to $49,924 and $52,239 for the years ended June 30, 2019 and 2018, respectively.

Obligations under capital leases at June 30 are as follows:

	2019	2018
First American Capital Leases, payable in monthly installments totaling $1,098, $2,233, and $1,617, including interest of 1.01%, 3.66%, and 8.90%, respectively, through 2020. Collateralized by assets with net book value of $18,853 at June 30, 2019.	6,277	48,625
Coretech Capital Leases, payable in monthly installments of $1,490 and $205, including interest of 5.80% and 1.342%, respectively, through 2023. Collateralized by assets with net book value of $61,088 at June 30, 2019.	64,323	-
	$ 70,600	$ 48,625

13. CAPITAL LEASE OBLIGATIONS (Continued)

Required future minimum payments on the College's capital lease obligations are summarized as follows at June 30:

2020	$ 26,650
2021	20,350
2022	20,350
2023	9,300
	76,650
Less: Amounts representing interest	(6,050)
	$ 70,600

14. ENDOWMENT

Endowment net asset composition by type of fund was as follows as of June 30, 2019:

Description	Without Donor Restrictions	With Donor Restrictions	Total
Board designated funds	$ 1,562,220	$ -	$ 1,562,220
Donor-restricted funds	(12,403,544)	38,172,448	25,768,904
Total endowment funds	$ (10,841,324)	$ 38,172,448	$ 27,331,124

Endowment net asset composition by type of fund was as follows as of June 30, 2018:

Description	Without Donor Restrictions	With Donor Restrictions	Total
Board designated funds	$ 376,483	$ -	$ 376,483
Donor-restricted funds	(12,403,544)	37,940,634	25,537,090
Total endowment funds	$ (12,027,061)	$ 37,940,634	$ 25,913,573

14. ENDOWMENT (Continued)

Changes in the endowment net assets were as follows:

Description	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - July 1, 2017, as previously reported	$ (14,397,977)	$ 39,134,921	$ 24,736,944
Adoption of ASU 2016-14	1,870,916	(1,870,916)	-
Endowment net assets - July 1, 2017, as adjusted	(12,527,061)	37,264,005	24,736,944
Contributions	-	291,228	291,228
Investment return, net of amounts designated for current operations	-	358,558	358,558
Repayments related to cy pres agreement	500,000	-	500,000
Change in value of split-interest agreements	-	11,360	11,360
Change in funds held by others	-	15,483	15,483
Endowment net assets - June 30, 2018	(12,027,061)	37,940,634	25,913,573
Contributions	-	311,752	311,752
Investment return, net of amounts designated for current operations	-	94,260	94,260
Change in value of split-interest agreements	-	4,811	4,811
Change in funds held by others	-	(6,215)	(6,215)
Reclassification	1,185,737	(172,794)	1,012,943
Endowment net assets - June 30, 2019	$ (10,841,324)	$ 38,172,448	$ 27,331,124

Return Objectives and Risk Parameters
The College's primary investment objective for the endowment assets is to provide support for the College's mission over the long term. Basic objectives are to:

- Invest prudently, in order to preserve, at a minimum, the real purchasing power of the principal and ideally to achieve above average investment returns when measured against appropriate benchmarks.
- Provide a stable source of perpetual financial support to the College, in accordance with the College's spending policy.
- Ensure adequate diversification in order to reduce volatility of investment returns.

14. ENDOWMENT (Continued)

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 a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending

The long-term objective of the spending guidelines is to maintain the purchasing power of the endowment with the goal of providing a reasonable, predictable, stable, and sustainable level of income to support current operations. The Board approved spending rate is 7% of the average market value of the endowment for the past 20 quarters. In 2019 and 2018, the Board approved an annual appropriation of $1,762,000 and $1,662,000, consistent with this spending rate, respectively.

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 law requires the College to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in net assets with donor restrictions and amounted to approximately $1,800,000 at June 30, 2019 and 2018. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board.

Borrowings from the Endowment Funds

In 2010, with the assistance of the New York State Attorney General's Office, the College petitioned the Supreme Court of the State of New York (the Court) to permit borrowing against endowment funds with donor restrictions contributed by now deceased donors, which was approved on September 27, 2010. The petition was made in furtherance of the College's strategic and financial plans that are designed to make the school a viable, sustainable, higher educational institution and to enable it to remain as such. Under the terms of the Court order, the College borrowed $16,685,172 at historic gift value of specifically identified gifts in order to provide for cash flow needs and in furtherance of its strategic and financial plans, which represented $14,903,544 at market value, the amount the College must repay.

Borrowed funds are to be repaid at a rate of 25% of the amount by which revenues exceed expenditures annually (as reported on IRS Form 990) with said amount to be not less than $500,000 per year, commencing with fiscal year 2014. The repayment is due on or before the date upon which the College files its IRS Form 990 for the applicable fiscal year. Funds are to be repaid without interest; however, the College is required to continue expending a minimum of 5% of the borrowed amount, from general operations for the original purpose of the donation. At June 30, 2019, $12,403,544 of borrowed funds were still outstanding.

Reclassification

Reclassifications relate to the categorization of certain donor restricted and board designated endowment funds.

15. NET ASSETS WITH DONOR RESTRICTIONS

At June 30, net assets with donor restrictions that either expire by passage of time or that can be fulfilled or removed by actions of the College pursuant to those stipulations identified by their specific purposes amounted to:

	2019	2018
Scholarships	$ 20,803	$ 20,107
Academic programs and departments	197,007	408,115
Accumulated earnings from endowment not yet appropriated by the Board	(49,306)	179,427
Other purposes	2,859,382	4,547,711
	$ 3,027,886	$ 5,155,360

At June 30, net assets with donor restrictions that represent accumulated principal of endowment gifts, which are to be invested in perpetuity, the income and gains from which were expendable to support the following purposes amounted to:

	2019	2018
Scholarships	$ 14,293,123	$ 11,209,918
Faculty endowed chairs	9,294,526	10,053,876
Academic programs and departments	7,726,226	7,102,640
Construction and renovations	5,928,775	6,460,798
Other purposes	509,790	800,975
Unrestricted purposes	469,314	2,133,000
	$ 38,221,754	$ 37,761,207

Net assets with donor restrictions were released for the following purposes:

	2019	2018
Scholarships	$ 30,000	$ 22,500
Construction and renovations	2,098,456	274,887
Academic programs and departments	298,688	156,988
Other purposes	698,844	671,988
	$ 3,125,988	$ 1,126,363

16. COMMITMENTS

The College entered into non-cancelable operating leases for equipment that require various monthly rental payments through July 2023. Total annual rental expense under the term of these leases was $17,479 and $26,496 for the years ended June 30, 2019 and 2018, respectively.

Future minimum payments under non-cancelable operating leases having initial or remaining lease terms in excess of one year as of June 30, 2019 were as follows:

2020	$	15,735
2021		9,948
2022		7,185
2023		7,185
2024		599
	$	40,652

In September 2018, the College entered into an Efficiency Services Agreement with Metrus Energy (Metrus). The project will focus on creating a more comfortable living and learning environment in key residential buildings and academic spaces, and will include such work as upgrading the campus lighting, comfort control upgrades and significant new HVAC controls. The agreement consists of Metrus providing the financing for the efficiency project, with the College repaying Metrus over a term of approximately 13 years, using the identifiable cost savings produced as a result of the project.

17. RETIREMENT PLAN

The College participates in a contributory retirement plan administered by the Teachers Insurance Annuity Association of America (TIAA) and College Retirement Equities Fund (CREF) for eligible full-time employees. The College matched participant contributions up to 2.5% of participants' eligible compensation. Effective January 1, 2019 the plan was amended and restated to allow the College to make discretionary contributions to the plan. The College approved an additional 1.0% discretionary contribution for participants that are contributing at least 2.5% of eligible compensation. Participants are immediately vested in the College's contributions. Total expense charged to operations relating to these plans was $193,803 and $151,290 for 2019 and 2018, respectively.

18. FUNCTIONAL EXPENSES

Expenses related to providing the College's services for the year ended June 30, 2019, are as follows:

	Instruction	Academic Support	Student Services	Auxiliary Enterprises	Institutional Support	Total
Salaries and wages	$ 3,406,191	$ 731,509	$ 1,517,471	$ 806,587	$ 2,469,186	$ 8,930,944
Fringe benefits	590,584	137,188	257,925	189,639	491,765	1,667,101
Services	185,439	491,217	1,378,211	2,456,775	2,115,426	6,627,068
Supplies	120,510	124,295	230,706	1,712,432	543,697	2,731,640
Occupancy and utilities	212,900	110,731	319,574	664,712	390,604	1,698,521
Depreciation	238,416	146,236	58,648	854,638	492,686	1,790,624
Interest	-	-	-	-	251,928	251,928
	$ 4,754,040	$ 1,741,176	$ 3,762,535	$ 6,684,783	$ 6,755,292	$23,697,826

19. SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through November 21, 2019, which is the date the financial statements were available to be issued.

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S 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*

November 21, 2019

To the Board of Trustees of
Wells College:

We have audited, in accordance with the auditing standards generally accepted in the United States 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 Wells College (the College), which comprise the statement of financial position as of June 30, 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 November 21, 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 of 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 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.

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(Continued)

INDEPENDENT AUDITOR'S 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*
(Continued)

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 College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bonadio & Co., LLP

WELLS COLLEGE

Single Audit Reports
for the Year Ended
June 30, 2019

Bonadio & Co., LLP
Certified Public Accountants

WELLS COLLEGE

SINGLE AUDIT REPORTS
FOR THE YEAR ENDED JUNE 30, 2019

Bonadio & Co., LLP
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INDEPENDENT AUDITOR'S 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*

November 21, 2019

To the Board of Trustees of
Wells College:

We have audited, in accordance with the auditing standards generally accepted in the United States 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 Wells College (the College), which comprise the statement of financial position as of June 30, 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 November 21, 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 an 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 of 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the College'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.

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INDEPENDENT AUDITOR'S 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*
(Continued)

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
This 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 College'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 College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bonadio & Co., LLP

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

January 29, 2020 (except for the Schedule of Expenditures of Federal Awards, as to which the date is November 21, 2019)

To the Board of Trustees of
Wells College:

Report on Compliance for Each Major Federal Program
We have audited Wells College's (the College) 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 College's major federal programs for the year ended June 30, 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* 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 on 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 June 30, 2019.

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(Continued)

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.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance
We have audited the financial statements of the College as of and for the year ended June 30, 2019, and have issued our report thereon dated November 21, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion 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 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.

Bonadio & Co., LLP

WELLS COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/ Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Education:		
Student Financial Assistance Cluster -		
Federal Supplemental Educational Opportunity Grants	84.007	$ 81,268
Federal Work-Study Program	84.033	81,633
Federal Pell Grant Program	84.063	1,098,550
Federal Direct Student Loans	84.268	4,035,862
Teacher Education Assistance for College and Higher Education (TEACH) Grants	84.379	5,612
		5,302,925
U.S. Department of Agriculture:		
Rural Business Development Grant	10.351	62,122
U.S. Department of Transportation:		
Highway Planning and Construction	20.205	2,234
		$ 5,367,281

The accompanying notes are an integral part of this schedule.

WELLS COLLEGE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the schedule) summarizes the expenditures of Wells College (the College) under programs of the federal government for the year ended June 30, 2019 and has been prepared in accordance with accounting principles generally accepted in the United States. 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 College, it is not intended to, and does not, present the financial position, change in net assets, or cash flows of the College.

2. BASIS OF ACCOUNTING

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.

3. FEDERAL STUDENT LOAN PROGRAMS

The Perkins Loan program is administered directly by the College and balances and transactions relating to this program are included in the College's financial statements. The net balance of the loans outstanding under the Perkins program was $392,032 at June 30, 2019.

4. INDIRECT COST RATE

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

A. SUMMARY OF AUDITOR'S RESULTS

1. The independent auditor's report expresses an unmodified opinion on whether the financial statements of Wells College (the College) are presented in conformity with accounting principles generally accepted in the United States.

2. No significant deficiencies related to the audit of the financial statements are reported in the Independent Auditor's 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*.

3. No instances of noncompliance material to the financial statements of the College, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

4. No significant deficiencies related to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance and on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance.

5. The independent auditor's report on compliance for the College's major federal award programs expresses an unmodified opinion on all major federal programs.

6. There are no audit findings relative to the major federal award programs for the College required to be reported in accordance with Section 200.516(a) of the Uniform Guidance.

7. The programs tested as major programs included:

   Student Financial Assistance Cluster
   - CFDA No. 84.007 Federal Supplemental Educational Opportunity Grants
   - CFDA No. 84.033 Federal Work-Study Program
   - CFDA No. 84.063 Federal Pell Grant Program
   - CFDA No. 84.268 Federal Direct Student Loans
   - CFDA No. 84.379 Teacher Education Assistance for College and Higher Education (TEACH) Grants

8. The threshold for distinguishing Types A and B programs was $750,000.

9. The College was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

D. SUMMARY OF PRIOR AUDIT FINDINGS

None.