Sterling College

Working Hands. Working Minds.

FINANCIAL STATEMENTS
JUNE 30, 2018 and 2017

DAVIS & HODGDON ASSOCIATES
CPAs ■ PLC

Innovative
Entrepreneurial
Experienced

STERLING COLLEGE

FINANCIAL STATEMENTS

JUNE 30, 2018 and 2017

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INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS' AUDIT REPORT

To the Board of Trustees of
Sterling College
Craftsbury, Vermont

Report on the Financial Statements

We have audited the accompanying financial statements of Sterling College (a non-profit organization), which comprise the statements of financial position as of June 30, 2018 and 2017 and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sterling College as of June 30, 2018 and 2017, 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.

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Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for the purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 27, 2018 on our consideration of Sterling College's internal control over financial reporting and on our tests of its compliance with certain provision 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 the 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 Sterling College's internal control over financial reporting and compliance.

Davis & Hodgdon Associates, CPAs, PLC

Williston, Vermont
September 27, 2018

STERLING COLLEGE

STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 102,417	$ 142,375
Accounts receivable, net	178,172	95,202
Grants receivable	68,000	115,000
Contributions receivable, current portion	187,026	108,000
Prepaid expenses	30,780	43,814
Total current assets	566,395	504,391
PROPERTY AND EQUIPMENT, net	3,393,027	3,955,066
OTHER ASSETS		
Construction in progress	110,935	--
Grants receivable, net of current portion	52,000	--
Contributions receivable, net of current portion	431,396	184,609
Long-term investments	979,940	903,222
Total other assets	1,574,271	1,087,831
Total assets	$ 5,533,693	$ 5,547,288
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 275,129	$ 144,360
Accrued expenses	240,295	122,867
Unearned tuition and fees revenue	198,411	265,231
Line of credit	--	900,000
Current portion of long-term debt	51,277	52,847
Total current liabilities	765,112	1,485,305
LONG-TERM DEBT, net of current portion	1,596,934	895,854
Total liabilities	2,362,046	2,381,159
NET ASSETS		
Unrestricted	1,295,594	1,517,196
Temporarily restricted	1,239,656	1,021,894
Permanently restricted	636,397	627,039
Total net assets	3,171,647	3,166,129
Total liabilities and net assets	$ 5,533,693	$ 5,547,288

See Independent Certified Public Accountants' Audit Report and Notes to Financial Statements.

STERLING COLLEGE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Totals
OPERATING REVENUE AND OTHER SUPPORT				
Student tuition and fees	$ 5,403,990	$ --	$ --	$ 5,403,990
Less financial aid	(3,377,821)	--	--	(3,377,821)
Net student tuition and fees	2,026,169	--	--	2,026,169
Auxiliary enterprises	1,330,998	--	--	1,330,998
Other income	54,304	--	--	54,304
Total operating revenue and other support	3,411,471	--	--	3,411,471
OPERATING EXPENSES				
Program services				
Instruction	1,760,458	--	--	1,760,458
Academic support	73,928	--	--	73,928
Student services	709,141	--	--	709,141
Auxiliary enterprises	445,661	--	--	445,661
Total program services	2,989,188	--	--	2,989,188
Supporting activities				
Institutional support	2,073,891	--	--	2,073,891
Fundraising	188,422	--	--	188,422
Total supporting activities	2,262,313	--	--	2,262,313
Total operating expenses	5,251,501	--	--	5,251,501
Change in net assets from operations	(1,840,030)	--	--	(1,840,030)
NON-OPERATING ACTIVITIES				
Contributions	1,065,176	556,898	9,358	1,631,432
Grants	204,876	--	--	204,876
Loss on sale of property	(59,052)			(59,052)
Investment gain	82	68,210	--	68,292
Net assets released from restrictions	407,346	(407,346)	--	--
Total non-operating activities	1,618,428	217,762	9,358	1,845,548
Change in net assets	(221,602)	217,762	9,358	5,518
Net assets, beginning of year	1,517,196	1,021,894	627,039	3,166,129
Net assets, end of year	$ 1,295,594	$ 1,239,656	$ 636,397	$ 3,171,647

See Independent Certified Public Accountants' Audit Report and Notes to Financial Statements.

STERLING COLLEGE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Totals
OPERATING REVENUE AND OTHER SUPPORT				
Student tuition and fees	$ 5,467,674	$ --	$ --	$ 5,467,674
Less financial aid	(3,375,948)	--	--	(3,375,948)
Net student tuition and fees	2,091,726	--	--	2,091,726
Auxiliary enterprises	1,239,222	--	--	1,239,222
Other income	51,553	--	--	51,553
Total operating revenue and other support	3,382,501	--	--	3,382,501
OPERATING EXPENSES				
Program services				
Instruction	1,691,957	--	--	1,691,957
Academic support	89,110	--	--	89,110
Student services	666,856	--	--	666,856
Auxiliary enterprises	438,941	--	--	438,941
Total program services	2,886,864	--	--	2,886,864
Supporting activities				
Institutional support	1,549,468	--	--	1,549,468
Fundraising	209,984	--	--	209,984
Total supporting activities	1,759,452	--	--	1,759,452
Total operating expenses	4,646,316	--	--	4,646,316
Change in net assets from operations	(1,263,815)	--	--	(1,263,815)
NON-OPERATING ACTIVITIES				
Contributions	980,029	542,551	5,250	1,527,830
Grants	190,627	--	--	190,627
Investment gain	1,955	101,009	--	102,964
Net assets released from restrictions	384,554	(384,554)	--	--
Total non-operating activities	1,557,165	259,006	5,250	1,821,421
Change in net assets	293,350	259,006	5,250	557,606
Net assets, beginning of year	1,223,846	762,888	621,789	2,608,523
Net assets, end of year	$ 1,517,196	$ 1,021,894	$ 627,039	$ 3,166,129

See Independent Certified Public Accountants' Audit Report and Notes to Financial Statements.

STERLING COLLEGE

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 5,518	$ 557,606
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	172,652	169,590
Donated property and equipment	(181,378)	--
(Gain) loss on sale of property and equipment	59,052	(250)
Net unrealized and realized gain on investments	(61,703)	(98,523)
Changes in:		
Accounts receivable	(82,970)	(68,420)
Grants receivable	(5,000)	35,000
Contributions receivable	(325,813)	57,391
Prepaid expenses	13,034	14,369
Accounts payable	130,769	(48,364)
Accrued expenses	117,428	(10,617)
Unearned tuition and fees revenue	(66,820)	3,397
Net cash (used) provided by operating activities	(225,231)	611,179
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction in progress	(110,935)	--
Proceeds from sale of property and equipment	611,000	250
Purchase of property and equipment	(99,287)	(323,751)
Net investment activity	(15,015)	198,515
Net cash provided (used) by investing activities	385,763	(124,986)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repayments on line of credit	(900,000)	(400,000)
Proceeds from borrowing on long-term debt	1,665,315	--
Principal payments on long-term debt	(965,805)	(56,672)
Net cash used by financing activities	(200,490)	(456,672)
Net change in cash	(39,958)	29,521
Cash and cash equivalents, beginning of year	142,375	112,854
Cash and cash equivalents, end of year	$ 102,417	$ 142,375

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	$ 74,055	$ 101,132
Non-cash transfer of construction in progress to property plant and equipment	$ --	$ 122,299

See Independent Certified Public Accountants' Audit Report and Notes to Financial Statements.

STERLING COLLEGE

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Sterling College (the College) was incorporated as an educational not-for-profit organization in 1958. The College's mission is to provide a liberal arts education through challenge for mind and body and through environmental and natural resource studies. The College offers a four-year baccalaureate degree program. For more information, see the College's website at www.sterlingcollege.edu.

A summary of significant accounting policies follows:

Basis of accounting

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recorded as earned and expenses are recorded at the time liabilities are incurred.

Basis of presentation

The College's financial statement presentation is as required by the Not-for-Profit Topic of the FASB Accounting Standards Codification. The College is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, which represents the expendable resources that are available for operations at management's discretion; temporarily restricted net assets, which represent resources restricted by donors as to purpose or by the passage of time; and permanently restricted net assets, which represents resources whose use by the College is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the College. Sterling College has $1,239,656 and $1,021,894 of temporarily restricted net assets at June 30, 2018 and 2017, respectively and $636,397 and $627,039 of permanently restricted net assets at June 30, 2018 and 2017, respectively.

Use of estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Concentration of credit risks

Bank balances are insured by the Federal Deposit Insurance Corporation (FDIC). At various times during the year the College may maintain its cash balance with one financial institution in excess of the federally insured limit.

Cash and cash equivalents

The College considers all investments with an original maturity of three months or less to be cash and cash equivalents.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Accounts receivable

Receivables consist of amounts due from students and donors.

Allowance for doubtful accounts

It is the policy of management to review the outstanding receivables at year end, as well as the bad debt write offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts. Based on management's estimates, $9,450 and $19,974 has been recorded as an allowance for doubtful accounts at June 30, 2018 and 2017, respectively.

Investments

The College carries investments in available-for-sale marketable securities with readily determinable fair values at their fair values in the Statement of Financial Position. Realized and unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities and Changes in Net Assets.

Fair value measurements

Professional literature defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The guidance states that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions market participants would use in pricing the asset or liability under current market conditions at the measurement date. As a basis for considering market participant assumptions in fair value measurements, the guidance establishes a fair value hierarchy that is based on the subjectivity of inputs.

It distinguishes between observable inputs (Levels 1 and 2) which are either observable from market data or corroborated by observable market data and those that are unobservable (Level 3).

Three levels of inputs that may be used to measure fair value are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable, either directly or indirectly. Such inputs may include quoted prices for similar assets, observable inputs include quoted prices (interest rates, yield curves, etc.) or inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. Government and agency mortgage-backed debt securities and alternative investments using net asset value (NAV) per share for which the Organization has the ability to redeem its investment at or close to the measurement date.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Fair value measurements (continued)

Level 3 – Inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The inputs reflect the Organization's assumptions based on the best information available in the circumstances. This category generally includes certain private debt and equity instruments, alternative investments where the investee at NAV per share or the redemption date is not close to the measurement date. This category also includes investments held in trust where the Organization is not the trustee and the beneficial interest is in perpetual trust.

All long-term investments (see Note 6.) have been valued in accordance with the definition of Level 1 inputs as described above.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value. Furthermore, although the College's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Property and equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the assets' estimated useful lives. Additions and betterments with a value in excess of $2,000 are capitalized, and expenditures for repairs and maintenance are expensed when incurred. Upon the sale or retirement, the costs and related accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss is included in the accompanying Statement of Activities and Changes in Net Assets.

Support and revenue

The College records contributions as unrestricted, temporarily restricted, and permanently restricted support depending on the existence or nature of donor restrictions. Unconditional promises to give are recorded as pledges receivable.

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Support and revenue (continued)

Contributions of non-cash assets are recorded at their fair values in the period received. Contributions of services that create or enhance non-financial assets or that require specialized skills, which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Donated investments are also reported at fair value at the date of receipt, which is then treated as the College's cost basis. Property donated with covenants where the College can sell the property and use the funds as they see fit are recorded as unrestricted net assets.

Income taxes

The College is a not-for-profit corporation, exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code and none of its present or anticipated future activities are subject to taxation as unrelated business income; therefore, no provision for income taxes has been made in the accompanying financial statements.

The College annually files an IRS Form 990, *Return of Organization Exempt From Income Tax*, tax return in the U.S. Federal jurisdiction. The College is no longer subject to U.S. Federal income tax examination by tax authorities for the years prior to June 30, 2015. In the normal course of business, the College is subject to examination by various taxing authorities. Although the outcome of tax audits is always uncertain, the management of the College believes that there are no significant unrecognized tax liabilities at June 30, 2018 and 2017.

Revenue recognition

Student tuition and fees received in advance are recorded as unearned revenue and recognized as income in accordance with the College's refund policy.

Expense allocation

The costs of providing programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. This allocation was based on the functions of the buildings and the square footage of those buildings.

Advertising

Advertising costs are expensed as incurred.

Net asset classifications

The College has adopted the Codified FASB Accounting Standards that provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The Codified Accounting Standards also improve disclosures about an organization's endowment funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Net asset classifications (continued)

The State of Vermont adopted UPMIFA effective May 5, 2009. The College adopted the Codified FASB Accounting Standards beginning with the year ended June 30, 2009. Management has determined that the majority of the College's net assets do not meet the definition of endowment under UPMIFA or the Codified FASB Accounting Standards. The College is governed subject to the governing documents for the College and most contributions are subject to the terms of these governing documents. Certain contributions are received subject to other gift instruments, or are subject to specific agreements with the College.

Under the terms of the College's governing documents and in the absence of overriding, explicit donor stipulations, the board of directors has the ability to distribute as much of the corpus of any trust or separate gift, devise, bequest, or fund as the board in its sole discretion shall determine. As a result of the ability to distribute corpus, all contributions not classified as temporarily restricted or permanently restricted are classified as unrestricted net assets for financial statement purposes.

Temporarily restricted net assets may consist of irrevocable charitable trusts, lead trusts, restricted contributions receivable, and the remaining portion of donor-restricted endowment funds that are not classified as permanently restricted net assets. When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions received from donors with restrictions that are satisfied in the same fiscal year are reported as temporarily restricted revenues and as net assets released from restriction.

Permanently restricted net assets represent the fair value of the original gift as of the gift date and the original value of subsequent gifts to donor-restricted endowment funds.

Interpretation of relevant law

The Board of Trustees of Sterling College has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by SPMIFA and any explicit donor stipulations.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Interpretation of relevant law (continued)

In accordance with SPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund.
- The purposes of the organization and the donor-restricted endowment fund.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of the organization.
- The investment policies of the organization.

Endowment investment and spending policies

The purpose of the College's endowment fund is to provide a reserve of assets that may be used for unexpected financial needs that cannot be met by other means. The fund can provide some flexibility in development of new initiatives that will enhance the future of the College. The fund can provide limited support for annual operations, including supplementing Sterling Grants.

Investment guidelines for the College's endowment fund include:

- Generation of a good rate of return within prudent risk parameters.
- Maintaining a diversified portfolio of investments.
- Awareness of how investments conform to Sterling's values.

The desired allocation of investments for the endowment fund is 60% for a diversified portfolio of equities, 30% for interest yielding, investment grade notes and bonds, and 10% for highly liquid, highly rated short term investments.

The board of trustees sets the policies for withdrawal of monies from the endowment fund. Currently, the board may elect to approve up to 5% per year of a rolling three year average of fund balances to support current operational needs.

Subsequent events

Subsequent events have been evaluated through September 27, 2018, which is the date the financial statements were issued.

Note 2. Accounts Receivable

Accounts receivable is reported net of estimated allowance for doubtful accounts, as follows, at June 30:

	2018	2017
Accounts receivable	$ 187,622	$ 115,176
Estimated allowance for doubtful accounts	(9,450)	(19,974)
Accounts receivable, net	$ 178,172	$ 95,202

Note 3. Contributions Receivable

Substantially all contributions receivable at year-end are collectible over the next four years.

Contributions receivable consisted of the following at June 30:

	2018	2017
Receivable in less than one year	$ 187,026	$ 108,000
Receivable in one to four years	461,780	200,000
Total contributions receivable	648,806	308,000
Less discounts to net present value	(30,384)	(11,391)
Less allowance for uncollectible pledges	--	(4,000)
Net contributions receivable	618,422	292,609
Less current portion	(187,026)	(108,000)
Net non-current contributions receivable	$ 431,396	$ 184,609

Contributions receivable due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 2.73%.

Contributions receivable are expected to be collected as follows:

2019	$ 187,026
2020	170,260
2021	165,260
2022	126,260
Total	$ 648,806

Note 4. Property and Equipment

Property and equipment consisted of the following at June 30:

	Useful Life (Years)	2018	2017
Land and buildings	10-45	$ 5,295,605	$ 5,723,927
Equipment	5-15	697,946	682,598
Motor vehicles	5-8	181,621	181,621
Library	10	216,518	192,931
Total property and equipment		6,391,690	6,781,077
Less accumulated depreciation		(2,998,663)	(2,826,011)
Property and equipment, net		$ 3,393,027	$ 3,955,066

Depreciation expense totaled $172,652 and $169,590 for the years ended June 30, 2018 and 2017, respectively.

Note 5. Construction in Progress

Construction in progress consisted of the following at June 30:

	2018	2017
Campus restorations	$ 110,935	$ --
Total construction in progress	$ 110,935	$ --

Note 6. Investments

Investments at fair value based on quoted prices in active markets for identical assets (Level 1 as described in Note 1.) consisted of the following at June 30:

	2018	2017
Cash and equivalents		
Money market - taxable	$ 53,302	$ 150,522
Equities		
Common stock	651,265	562,417
Mutual funds		
Fixed income	233,064	144,147
Exchange traded funds	21,170	13,644
Bond funds	12,148	12,527
Other assets	8,991	19,965
Total investments	$ 979,940	$ 903,222

(continued on next page)

Note 6. Investments (continued)

Realized and unrealized gains and losses are reflected in the Statement of Activities and Changes in Net Assets. Most long-term investments are held in the investment pool for permanent endowments.

The following table provides additional information regarding the aggregate changes in Level 1 investments for the year ended June 30:

	2018	2017
Investments, beginning of year	$ 903,222	$ 1,003,214
Purchases, transfers and withdrawals, net	8,507	(201,000)
Investment returns		
Dividends and interest	6,508	2,485
Realized and unrealized gains (losses)	61,703	98,523
Total return on investments	68,211	101,008
Investments, end of year	$ 979,940	$ 903,222

The investment balance is comprised of endowment funds and restricted cash from a stock clearing account at June 30, 2018 and 2017.

Note 7. Line of Credit

The College has a line of credit with the Union Bank in the amount of $400,000. The line carries a variable rate of interest payable monthly at the Wall Street Journal prime rate, plus 1% adjusted daily (6.00% at June 30, 2018). The note is secured by real estate and investments. There was no outstanding balance at June 30, 2018 and 2017.

The College had a second line of credit with Union Bank in the amount of $900,000 that expired in November 2017. The line carried a variable rate of interest payable monthly at the Wall Street Journal prime rate, plus 1% adjusted daily (5.25% at June 30, 2017). The note was secured by real estate and investments. There was no outstanding balance at June 30, 2018 and an outstanding balance of $900,000 at June 30, 2017 .

Note 8. Capital Lease Commitments

The College leases certain equipment under two capital lease obligations. The capital leases with Bancorp Bank have an imputed interest rate of 2.00% due in monthly installments of $885 through November 2017 and $902 through October 2018. Details of these leases are included within Note 9. Long-term Debt.

The minimum required payments on the above capital leases total $3,592 in 2019.

Depreciation expense on assets held under capital lease totaled $16,236 and $16,243 for the years ended June 30, 2018 and 2017, respectively.

Note 9. Long-term Debt

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

	2018	2017
Note payable, Union Bank, interest rate of 5.00%, monthly payments of principal and interest of $8,070 through December, 2022, then monthly payments of $8,206 through December, 2037 when all outstanding principal will be due in full.	$ 1,197,442	$ --
Note payable, Union Bank, interest rate of 6.00%, monthly payments of principal and interest of $3,395 commencing June, 2019 through June, 2034.	400,000	--
Note payable, Union Bank, interest rate of 5.00%, monthly payments of principal and interest of $945, through December, 2022.	45,548	--
Note payable, Union Bank, interest rate of 5.00%, monthly payments of interest only through April, 2015 then, monthly payments of principal and interest of $6,552 through July, 2019. This loan was refinanced in 2018.	--	923,797
Note payable, Ford Credit, interest rate of 9.74%, secured by vehicle, monthly payments of principal and interest of $420, through October, 2018.	1,629	6,277
Capital lease payable, Bancorp Bank, imputed interest rate of 2.00%, secured by vehicle, monthly payments of principal and interest of $885, through November, 2017.	--	4,401
Capital lease payable, Bancorp Bank, imputed interest rate of 2.00%, secured by vehicle, monthly payments of principal and interest of $902, through October, 2018.	3,592	14,226
Total long-term debt	1,648,211	948,701
Less current portion	(51,277)	(52,847)
Long-term debt, net of current	$ 1,596,934	$ 895,854

(continued on next page)

Note 9. Long-term Debt (continued)

Aggregate maturities for the above notes are as follows:

2019	$ 51,277
2020	65,263
2021	69,058
2022	71,915
2023	72,002
Thereafter	1,318,696
Total	$ 1,648,211

Note 10. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at June 30:

	2018	2017
Program support	$ 217,219	$ 307,934
Construction and improvements	470,675	271,409
Student aid and academic support	381,844	313,633
Global Field Studies	--	75,000
Wendell Berry Farming Program	156,000	--
Renewable energy	6,068	6,068
Presidential initiatives	--	40,000
Woodworking equipment	7,850	7,850
Temporarily restricted net assets	$ 1,239,656	$ 1,021,894

Note 11. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity, the income from which becomes temporarily restricted support for the program in which the endowment was established:

	2018	2017
Student aid	$ 620,147	$ 610,789
Academic support	16,250	16,250
Permanently restricted net assets	$ 636,397	$ 627,039

STERLING COLLEGE

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 11. Permanently Restricted Net Assets (continued)

Permanently restricted net assets consisted of the following at June 30:

	2018	2017
DeWitt Wallace	$ 321,693	$ 321,693
Arthur Ashley Williams	75,000	75,000
Trustees awards	8,750	8,750
Tyler Rigg	20,666	20,666
Rahn Fund	16,250	16,250
Gladys Brooks Thayer	47,230	47,230
Gladys Brooks	100,000	100,000
William Parkinson Scholarship	46,808	37,450
Permanently restricted funds	$ 636,397	$ 627,039

Note 12. Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors, for the years ended June 30, 2018 and 2017.

Purpose restrictions accomplished are as follows for the years ended June 30:

	2018	2017
Program support	$ 105,591	$ 500
Construction and improvements	186,755	105,699
Endowment funds	--	201,000
Presidential Initiatives	40,000	--
Rian Fried Center	--	2,355
Global Field Studies	75,000	75,000
Total restrictions released	$ 407,346	$ 384,554

STERLING COLLEGE

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 13. Changes in Endowment Net Assets

Changes in endowment net assets for the year ending June 30, 2018 are as follows:

	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	$ 313,633	$ 627,039
Contributions	--	9,358
Investment expenses	(9,146)	--
Interest and dividends	15,654	--
Net realized and unrealized gains	61,703	--
Change in Endowment Net Assets	68,211	9,358
Amounts appropriated for expenditure	--	--
Endowment net assets, end of year	$ 381,844	$ 636,397

Changes in endowment net assets for the year ending June 30, 2017 are as follows:

	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	$ 413,625	$ 621,789
Contributions	--	5,250
Investment expenses	(8,979)	--
Interest and dividends	12,821	--
Net realized and unrealized gains	97,166	--
Change in Endowment Net Assets	101,008	5,250
Amounts appropriated for expenditure	(201,000)	--
Endowment net assets, end of year	$ 313,633	$ 627,039

Note 14. Intentions to Give

The College has received planned giving bequests from donors who have named Sterling College in their wills. Planned giving bequests are considered intentions to give that do not represent binding promises to give, but rather current intentions on the part of the donor and as such they are not recognized as contributions until they become unconditional promises to give. Bequests included in wills are intentions to give because the donor has the right to modify or change the will. The intention to give changes to an unconditional promise if the pledge to give is irrevocable or when the will is validated after the donor's death. The College has received notice of intentions to give totaling $2,285,000 at June 30, 2018 and 2017.

Note 15. Retirement Plan

The employees of the College participate in the Teachers Insurance and Annuity Association and/or College Retirement Equities Fund (TIAA/CREF). This is a defined contribution pension plan open to participation by all full-time employees having completed one year of service. This is a multiple-employer plan in which the accumulated benefits and plan assets are not determined by an individual employer. The College currently contributes 5% of the participating employee's regular salary. The total retirement expense was $79,211 and $61,261 for the years ended June 30, 2018 and 2017, respectively.

Note 16. Commitments and Contingencies

Grants and contracts require the fulfillment of certain conditions set forth in the instrument of the grant or contract. Failure to fulfill the conditions could result in the return of funds to the grantors. Although the possibility remains, management deems the contingency remote, as by accepting awards and their terms, it has accommodated the objectives of the organization to the provisions of the grant.

Note 17. Reclassifications

Certain amounts for the year ended June 30, 2017 have been reclassified for comparative purposes to conform to the presentation used in the June 30, 2018 financial statements. The reclassifications have no effect on net assets for the year ended June 30, 2017.

SUPPLEMENTAL INFORMATION

STERLING COLLEGE

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2018 and 2017

	2018	2017
INSTRUCTION		
Core programs	$ 1,443,177	$ 1,423,851
Continuing Education programs	180,022	166,582
Farm Program	137,259	101,524
Total instruction	1,760,458	1,691,957
ACADEMIC SUPPORT		
Library	73,928	89,110
Total academic support	73,928	89,110
STUDENT SERVICES		
Community Life	100,422	201,326
Health	106,825	90,723
Admissions	501,894	374,807
Total student services	709,141	666,856
AUXILIARY ENTERPRISES		
Food services	445,661	438,913
Student support	--	28
Total auxiliary enterprises	445,661	438,941
INSTITUTIONAL SUPPORT		
General administrative	1,473,949	1,079,485
President's office	289,085	294,726
Information services	285,932	175,257
Total institutional support	2,073,891	1,549,468
FUNDRAISING		
Development	188,422	209,984
Total fundraising	188,422	209,984
Total expenses	$ 5,251,501	$ 4,646,316

See Independent Certified Public Accountants' Audit Report.

STERLING COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

Pass Through Grantor/ Program Title	CFDA Number	Grant #	Expenditures
U.S. Department of Education - Direct			
Student Financial Assistance Cluster -			
Federal Work-Study Program	84.033	P033A176392	$ 204,876
Federal Supplemental Education Opportunity Grants (FSEOG)	84.007	P007A156392	25,425
Federal Pell Grant Program	84.063	P063P153812	354,057
Federal Direct Student Loans	84.268	P268K163812	887,642
Total U.S. Department of Education			1,472,000
Total expenditures of federal awards			$ 1,472,000

See Accompanying Notes to Schedule of Expenditures of Federal Awards.

STERLING COLLEGE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Sterling College and is presented on the accrual basis of accounting. 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*, Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior year. Pass-through entity identifying numbers are presented where available. Sterling College has elected not to use the 10-percent de minimus indirect cost rate as allowed under the Uniform Guidance.

Note 3. Federal Direct Student Loans

The Federal Direct Student Loan program makes interest subsidized or unsubsidized Stafford loans available to students, or PLUS loans to parents of dependent students, to pay for the cost of attending postsecondary educational institutions. Direct Loans are made by the Secretary of Education. The student’s Student Aid Report (SAR) and/or the Institutional Student Informational Record (ISIR), along with other information, is used by the College to originate (for Direct Loan) a student’s loan. The financial aid administrator is also required to provide and confirm certain information.

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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

To the Board of Trustees of
Sterling College
Craftsbury, Vermont

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 Sterling College (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 27, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sterling 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 Sterling College's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Sterling 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Davis & Hodgdon Associates, CPAs, PLC

Williston, Vermont
September 27, 2018

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

To the Board of Trustees of
Sterling College
Craftsbury, Vermont

Report on Compliance for Major Federal Program

We have audited Sterling College's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Sterling College's major federal programs for the year ended June 30, 2018. Sterling 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 Sterling 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 Sterling 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 Sterling College's compliance.

Opinion on Each Major Federal Program

In our opinion, Sterling 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, 2018.

Report on Internal Control over Compliance

Management of Sterling College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above.

To the Board of Trustees of
Sterling College
Craftsbury, Vermont
Page 2

In planning and performing our audit of compliance, we considered Sterling 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 Sterling 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.

Davis & Hodgdon Associates, CPAs, PLC

Williston, Vermont
September 27, 2018

STERLING COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2018

Section I--Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency identified not considered to be material weakness?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	No
Significant deficiency identified not considered to be material weakness?	No
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, Section 516?	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.007 84.033 84.063 84.268	Student Financial Assistance Programs Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

Section II--Financial Statement Findings

No financial statement findings were reported.

Section III--Federal Award Findings and Questioned Costs

No federal award findings or questioned costs were reported.