

# Sterling College

Working Hands. Working Minds.

FINANCIAL STATEMENTS  
JUNE 30, 2015 (Restated) and 2014



Innovative  
Entrepreneurial  
Experienced

**STERLING COLLEGE**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2015 (Restated) and 2014**

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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, 2015 and 2014 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.

John W. Davis  
CPA, CFP®, CVA

Bret L. Hodgdon  
CPA, CFP®, CFE

### *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.

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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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming 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 the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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.

As discussed in Note. 16, the financial statements were restated to accurately reflect a contribution receivable reclassification from current to non-current within the statement of financial position. The contribution receivable was initially recorded as current and upon further discussion with management and the Board of Directors, it is likely the contribution will not be received within the coming year. As such, the financial statements of Sterling College as of June 30, 2015 and 2014 were restated to accurately reflect this change. As a result of the reclassification described in Note. 16, we believe the financial statements as of June 30, 2015 and 2014 are in accordance with accounting principles generally accepted in the United State of America.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2015, 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  
October 7, 2015, except for Note.16 as to which the date is October 31, 2015.

**STERLING COLLEGE**

**STATEMENTS OF FINANCIAL POSITION**

**June 30, 2015 and 2014**

	2015 <u>(Restated)</u>	<u>2014</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 44,796	\$ 551,761
Accounts receivable, net	80,752	53,172
Grants receivable	--	2,865
Contributions receivable, current portion	466,307	264,427
Inventories	--	3,136
Prepaid expenses	<u>72,738</u>	<u>48,712</u>
Total current assets	<u>664,593</u>	<u>924,073</u>
PROPERTY AND EQUIPMENT, net	<u>3,744,526</u>	<u>2,055,723</u>
<b>OTHER ASSETS</b>		
Construction in progress	17,249	79,500
Contributions receivable, net of current portion	1,000,000	--
Other investments	5,050	5,039
Long-term investments	<u>1,104,836</u>	<u>1,040,895</u>
Total other assets	<u>2,127,135</u>	<u>1,125,434</u>
Total assets	<u>\$ 6,536,254</u>	<u>\$ 4,105,230</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 72,198	\$ 81,258
Accrued expenses	94,603	187,239
Unearned tuition and fees revenue	283,342	206,859
Line of credit	1,084,000	348,000
Current portion of long-term debt	<u>98,933</u>	<u>25,919</u>
Total current liabilities	1,633,076	849,275
LONG-TERM DEBT, net of current	<u>960,642</u>	<u>625,413</u>
Total liabilities	<u>2,593,718</u>	<u>1,474,688</u>
<b>NET ASSETS</b>		
Unrestricted	1,587,047	749,693
Temporarily restricted	1,765,900	1,291,260
Permanently restricted	<u>589,589</u>	<u>589,589</u>
Total net assets	<u>3,942,536</u>	<u>2,630,542</u>
Total liabilities and net assets	<u>\$ 6,536,254</u>	<u>\$ 4,105,230</u>

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

**STERLING COLLEGE**

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
For the Years Ended June 30, 2015 and 2014**

	2015 <u>(Restated)</u>	<u>2014</u>
<b>UNRESTRICTED NET ASSETS</b>		
<b>SUPPORT, REVENUES AND RECLASSIFICATIONS</b>		
Student tuition and fees	\$ 4,331,308	\$ 3,922,065
Contributions	1,672,583	877,832
Auxiliary enterprises	1,049,202	1,057,711
Grants	183,690	152,373
Other	50,553	41,762
Dividends and interest	1,566	19,686
Net realized and unrealized loss on investments	<u>222</u>	<u>(12,193)</u>
Total unrestricted support and revenues	7,289,124	6,059,236
Net assets released from restrictions	<u>898,189</u>	<u>166,004</u>
Total support, revenues and reclassifications	<u>8,187,313</u>	<u>6,225,240</u>
<b>EXPENSES</b>		
Program services	<u>6,195,965</u>	<u>5,399,081</u>
Supporting activities		
Institutional support	959,066	806,315
Fundraising	<u>194,928</u>	<u>207,512</u>
Total supporting activities	<u>1,153,994</u>	<u>1,013,827</u>
Total expenses	<u>7,349,959</u>	<u>6,412,908</u>
Change in unrestricted net assets	<u>837,354</u>	<u>(187,668)</u>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
<b>SUPPORT, REVENUES AND RECLASSIFICATIONS</b>		
Contributions	1,263,888	859,231
Grants	--	10,000
Investment income, net	<u>108,941</u>	<u>165,682</u>
Total temporarily restricted support and revenues	1,372,829	1,034,913
Net assets released from restrictions	<u>(898,189)</u>	<u>(166,004)</u>
Change in temporarily restricted net assets	<u>474,640</u>	<u>868,909</u>
Total change in net assets	<u>1,311,994</u>	<u>681,241</u>
Net assets beginning of year	<u>2,630,542</u>	<u>1,949,301</u>
Net assets end of year	<u>\$ 3,942,536</u>	<u>\$ 2,630,542</u>

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

**STERLING COLLEGE**

**STATEMENTS OF CASH FLOWS**  
**For the Years Ended June 30, 2015 and 2014**

	2015 <u>(Restated)</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,311,994	\$ 681,241
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	156,488	127,283
Gain on sale of property and equipment	(1,500)	--
Net unrealized and realized gain on investments	(109,163)	(153,489)
Changes in:		
Accounts receivable	(27,580)	(25,542)
Grants receivable	2,865	(2,865)
Contributions receivable	(1,201,880)	(181,377)
Inventories	3,136	(989)
Prepaid expenses	(24,026)	3,940
Accounts payable	(9,060)	56,071
Accrued expenses	(92,636)	84,429
Unearned tuition and fee revenues	<u>76,483</u>	<u>48,317</u>
Net cash provided by operating activities	<u>85,121</u>	<u>637,019</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of property and equipment	1,500	--
Purchase of property and equipment	(1,783,040)	(315,861)
Net investment activity	<u>45,211</u>	<u>29,768</u>
Net cash used by investing activities	<u>(1,736,329)</u>	<u>(286,093)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net advances on line of credit	736,000	18,000
Proceeds from borrowing on long-term debt	739,233	168,197
Principal payments on long-term debt	<u>(330,990)</u>	<u>(27,806)</u>
Net cash provided by financing activities	<u>1,144,243</u>	<u>158,391</u>
Net change in cash	(506,965)	509,317
Cash and cash equivalents, beginning of year	<u>551,761</u>	<u>42,444</u>
Cash and cash equivalents, end of year	<u>\$ 44,796</u>	<u>\$ 551,761</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid for interest	<u>\$ 71,621</u>	<u>\$ 36,626</u>
Non-cash transfer of construction in progress to property plant and equipment	<u>\$ 62,251</u>	<u>\$ 33,366</u>

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

## STERLING COLLEGE

### NOTES TO FINANCIAL STATEMENTS June 30, 2015 and 2014

#### 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.

##### 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 \$1,765,900 and \$1,291,260 of temporarily restricted net assets at June 30, 2015 and 2014, respectively and \$589,589 of permanently restricted net assets for the years ended June 30, 2015 and 2014.

##### 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.

## STERLING COLLEGE

### NOTES TO FINANCIAL STATEMENTS June 30, 2015 and 2014

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

##### **Accounts receivable**

Receivables consist of amounts due from students and donors. The College has an allowance for doubtful accounts, which is adjusted annually based on management's estimate of accounts that may be uncollectible.

##### **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, \$11,400 and \$17,500 has been recorded as an allowance for doubtful accounts at June 30, 2015 and 2014, respectively.

##### **Inventory**

At June 30, 2014 inventory was comprised of school and office supplies, promotional items (i.e. coffee mugs) and clothing. Inventory was valued at the lower of cost or market using the first-in, first-out method. At June 30, 2015, the College no longer carries inventory.

##### **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.

## STERLING COLLEGE

### NOTES TO FINANCIAL STATEMENTS June 30, 2015 and 2014

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

##### Fair value measurements (continued)

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.

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 5.) 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.

## STERLING COLLEGE

### NOTES TO FINANCIAL STATEMENTS June 30, 2015 and 2014

#### 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, 2012. 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, 2015 and 2014.

##### 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.

## STERLING COLLEGE

### NOTES TO FINANCIAL STATEMENTS June 30, 2015 and 2014

#### **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 has adopted the Codified FASB Accounting Standards for 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.

## STERLING COLLEGE

### NOTES TO FINANCIAL STATEMENTS June 30, 2015 and 2014

#### 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 October 7, 2015, which is the date the financial statements were issued.

**STERLING COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015 and 2014**

**Note 2. Accounts Receivable**

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

	<u>2015</u>	<u>2014</u>
Accounts receivable	\$ 92,152	\$ 70,672
Estimated allowance for doubtful accounts	<u>(11,400)</u>	<u>(17,500)</u>
Accounts receivable, net	<u>\$ 80,752</u>	<u>\$ 53,172</u>

**Note 3. Property and Equipment**

Property and equipment consisted of the following at June 30:

	Useful Life (Years)	<u>2015</u>	<u>2014</u>
Land and buildings	10-45	\$ 5,206,848	\$ 3,697,073
Equipment	5-15	652,573	362,845
Motor vehicles	5-8	181,621	140,057
Library	10	<u>185,924</u>	<u>183,505</u>
Total property and equipment		6,226,966	4,383,480
Less accumulated depreciation		<u>(2,482,440)</u>	<u>(2,327,757)</u>
Property and equipment, net		<u>\$ 3,744,526</u>	<u>\$ 2,055,723</u>

Depreciation expense totaled \$156,488 and \$127,283 for the years ended June 30, 2015 and 2014, respectively.

**Note 4. Construction in Progress**

Construction in progress consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Campus restorations	\$ 9,271	\$ 3,612
Barn construction and renovation	7,978	58,836
Wireless technology installation	<u>--</u>	<u>17,052</u>
Total construction in progress	<u>\$ 17,249</u>	<u>\$ 79,500</u>

**STERLING COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015 and 2014**

**Note 5. 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:

	<u>2015</u>	<u>2014</u>
Cash and equivalents		
Money Market - Taxable	\$ 67,201	\$ 36,440
Equities		
Common Stock	801,663	819,347
Mutual Funds		
Fixed Income	203,582	153,251
Bond Funds	19,959	15,659
Other Assets	<u>17,481</u>	<u>21,238</u>
Total investments	<u>\$ 1,109,886</u>	<u>\$ 1,045,934</u>

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:

	<u>2015</u>	<u>2015</u>
Investments, beginning of year	\$ 1,045,934	\$ 922,213
Purchases, transfers and withdrawals, net	(46,055)	(49,296)
Investment returns		
Dividends and interest	20,266	19,528
Realized and unrealized gains (losses)	<u>89,741</u>	<u>153,489</u>
Total return on investments	<u>110,007</u>	<u>173,017</u>
Investments, end of year	<u>\$ 1,109,886</u>	<u>\$ 1,045,934</u>

The investment balance is comprised of endowment funds and restricted cash from a stock clearing account at June 30, 2015 and 2014, respectively

**Note 6. 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 (4.25% at June 30, 2015). The note is secured by real estate and investments. There was an outstanding balance of \$387,900 and \$348,000 at June 30, 2015 and 2014, respectively.

**STERLING COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015 and 2014**

**Note 6. Line of Credit (continued)**

During 2015, the College obtained a second line of credit with the Union Bank in the amount of \$900,000. The line carries a variable rate of interest payable monthly at the Wall Street Journal prime rate, plus 1% adjusted daily (4.25% at June 30, 2015). The note is secured by real estate and investments. There was an outstanding balance of \$696,100 at June 30, 2015, while there was no balance outstanding at June 30, 2014.

**Note 7. 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 8. Long-term Debt.

The minimum required payments on the above capital leases are as follows:

2016	\$	21,437
2017		21,437
2018		15,245
2019		3,607
Thereafter		--
Total minimum lease payments		61,726
Less: amount representing interest under capital lease obligation		1,835
Less current portion		20,426
Capital lease obligation, net of current portion	\$	39,465

Depreciation expense on assets held under capital lease totaled \$12,984 and \$6,796 for the years ended June 30, 2015 and 2014, respectively.

**Note 8. Long-term Debt**

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

	<u>2015</u>	<u>2014</u>
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. Monthly payments will be recalculated beginning August 2019 and the loan will be fully amortized up through April 2035.	\$ 985,384	\$ 598,537

(continued on next page)

**STERLING COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015 and 2014**

**Note 8. Long-term Debt (continued)**

	<u>2015</u>	<u>2014</u>
Note payable, Ford Credit, interest rate of 9.74%, secured by vehicle, monthly payments of principal and interest of \$420, through October 2018.	\$ 14,299	\$ 17,762
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.	25,026	35,033
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.	<u>34,866</u>	<u>—</u>
Total long-term debt	1,059,575	651,332
Less current portion	<u>(98,933)</u>	<u>(25,919)</u>
Long-term debt, net of current	<u>\$ 960,642</u>	<u>\$ 625,413</u>

Aggregate maturities for the above notes are as follows:

2016	\$ 98,933
2017	99,734
2018	94,359
2019	79,926
2020	74,691
Thereafter	<u>611,932</u>
Total	<u>\$ 1,059,575</u>

**Note 9. Temporarily Restricted Net Assets**

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

	<u>2015</u>	<u>2014</u>
Program support	\$ 46,668	\$ 37,095
Construction and improvements	122,473	10,230
Endowment funds available for appropriation	515,247	451,306
Cedar Cottage	—	353,672
Rian Fried Center	75,444	433,889
Renewable energy	6,068	5,068
Bequests	<u>1,000,000</u>	<u>—</u>
Temporarily restricted net assets	<u>\$ 1,765,900</u>	<u>\$ 1,291,260</u>

**STERLING COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015 and 2014**

**Note 10. 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:

	<u>2015</u>	<u>2014</u>
Student aid	\$ 573,339	\$ 573,339
Academic support	<u>16,250</u>	<u>16,250</u>
Permanently restricted net assets	<u>\$ 589,589</u>	<u>\$ 589,589</u>

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

	<u>2015</u>	<u>2014</u>
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	<u>100,000</u>	<u>100,000</u>
Permanently restricted funds	<u>\$ 589,589</u>	<u>\$ 589,589</u>

**Note 11. 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, 2015 and 2014.

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

	<u>2015</u>	<u>2014</u>
Program support	\$ 15,483	\$ 25,976
Construction and improvements	81,327	33,878
Endowment funds	45,000	47,000
Cedar Cottage	363,672	1,320
Rian Fried Center	383,677	50,398
Renewable energy	<u>9,030</u>	<u>7,432</u>
Total restrictions released	<u>\$ 898,189</u>	<u>\$ 166,004</u>

**STERLING COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015 and 2014**

**Note 12. Changes in Endowment Net Assets**

Changes in endowment net assets for the year ending June 30, 2015 are as follows:

	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>
Endowment net assets, beginning of year	\$ 451,306	\$ 589,589
Investment expenses	(10,649)	--
Interest and dividends	19,422	--
Net realized and unrealized gains	<u>100,168</u>	<u>--</u>
Change in Endowment Net Assets	108,941	--
Amounts appropriated for expenditure	<u>(45,000)</u>	<u>--</u>
Endowment net assets, end of year	<u>\$ 515,247</u>	<u>\$ 589,589</u>

Changes in endowment net assets for the year ending June 30, 2014 are as follows:

	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>
Endowment net assets, beginning of year	\$ 332,624	\$ 589,589
Investment expenses	(10,075)	--
Interest and dividends	19,528	--
Net realized and unrealized gains	<u>156,229</u>	<u>--</u>
Change in Endowment Net Assets	165,682	--
Amounts appropriated for expenditure	<u>(47,000)</u>	<u>--</u>
Endowment net assets, end of year	<u>\$ 451,306</u>	<u>\$ 589,589</u>

**Note 13. 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 covering substantially all 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 contributes 5% of the eligible employee's regular salary. The total retirement expense was \$62,937 and \$60,076 for the years ended June 30, 2015 and 2014, respectively.

**Note 14. 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.

**STERLING COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015 and 2014**

**Note 15. Reclassifications**

Certain amounts for the year ended June 30, 2014 have been reclassified for comparative purposes to conform to the presentation used in the June 30, 2015 financial statements. The reclassifications have no effect on net assets for the year ended June 30, 2014.

**Note 16. Restatement of Contribution Receivable**

Subsequent to the issuance of the financial statements, it was noted that a contribution receivable was initially presented as current when it should have been presented as non-current at June 30, 2015. Upon further discussion with management and the Board of Directors, it was determined that it is unlikely that the contribution will be received within the coming year. As such, the financial statements of Sterling College as of June 30, 2015 were restated to accurately reflect the contribution receivable reclassification from current to non-current within the statement of financial position. This reclassification has no effect on net assets for the year ended June 30, 2015.

**SUPPLEMENTAL INFORMATION**

**STERLING COLLEGE**

**STATEMENTS OF FUNCTIONAL EXPENSES  
For the Years Ended June 30, 2015 and 2014**

	2015 (Restated)	2014
<b>INSTRUCTION</b>		
Core programs	\$ 1,676,566	\$ 1,428,004
Short-term programs	79,662	108,525
Farm Program	<u>88,125</u>	<u>111,293</u>
Total instruction	<u>1,844,353</u>	<u>1,647,822</u>
<b>ACADEMIC SUPPORT</b>		
Library	<u>135,284</u>	<u>115,541</u>
Total academic support	<u>135,284</u>	<u>115,541</u>
<b>STUDENT SERVICES</b>		
Community Life	343,514	286,478
Health	75,068	68,997
Admissions	<u>476,459</u>	<u>364,212</u>
Total student services	<u>895,041</u>	<u>719,687</u>
<b>STUDENT AID</b>		
Federal Work Program	246,902	228,694
Sterling grants	2,546,589	2,206,082
Title IV	<u>5,156</u>	<u>5,383</u>
Total student aid	<u>2,798,647</u>	<u>2,440,159</u>
<b>AUXILIARY ENTERPRISES</b>		
Food services	521,943	474,872
Student support	<u>697</u>	<u>1,000</u>
Total auxiliary enterprises	<u>522,640</u>	<u>475,872</u>
<b>INSTITUTIONAL SUPPORT</b>		
General administrative	487,180	419,724
President's office	328,485	259,118
Information services	<u>143,401</u>	<u>127,473</u>
Total institutional support	<u>959,066</u>	<u>806,315</u>
<b>FUNDRAISING</b>		
Development	<u>194,928</u>	<u>207,512</u>
Total fundraising	<u>194,928</u>	<u>207,512</u>
Total expenses	<u>\$ 7,349,959</u>	<u>\$ 6,412,908</u>

See Independent Certified Public Accountants' Audit Report.

**STERLING COLLEGE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2015**

<u>Pass Through Grantor/ Program Title</u>	<u>Catalog Number</u>	<u>Grant #</u>	<u>Expenditures</u>
U.S. Department of Education - Direct			
Federal Work Study (FWS)	84.033	P033A146392	\$ 153,689
Federal Supplemental Education Opportunity Grant (FSEOG)	84.007	P007A146392	16,226
Pell Grant (PELL)	84.063	P063P133812	1,910
	84.063	P063P143812	320,181
Federal Direct Student Loans (Direct Loan)	84.268	P268K153812	<u>834,481</u>
Total U.S. Department of Education			1,326,487
U.S. Department of Agriculture			
Rural Development			
RBEG Internship Development Support	10.769	53-010-030197728	12,766
OAO Veteran Farmers Program	10.443	N/A	<u>1,300</u>
Total U.S. Department of Agriculture			<u>14,066</u>
Total expenditures of federal awards			<u>\$ 1,340,553</u>

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, 2015

**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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, 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.

**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 SAR or 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, 2015, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 7, 2015.

### 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.

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To the Board of Trustees of  
Sterling College  
October 7, 2015  
Page 2

**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  
October 7, 2015



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## REPORT ON COMPLIANCE WITH REQUIREMENTS FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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 Circular A-133 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, 2015. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2015.

### 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.

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To the Board of Trustees of  
Sterling College  
October 7, 2015  
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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Davis & Hodgdon Associates CPAs, PLC*

Williston, Vermont  
October 7, 2015

STERLING COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2015

**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 Circular A-133, Section 510(a)? No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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: \$300,000

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.