Sterling College

Working Hands. Working Minds.

FINANCIAL STATEMENTS
JUNE 30, 2020 and 2019

DAVIS & HODGDON
ASSOCIATES
CPAs ▪ PLC

Innovative
Entrepreneurial
Experienced

STERLING COLLEGE

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JUNE 30, 2020 and 2019

C O N T E N T S

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John W. Davis
CPA, CFP®, PFS, CVA, CEPA

Bret L. Hodgdon
CPA, CFP®, CFE, CGMA

Mandy Bradley
CPA, M.S.

33 Blair Park Road
Suite 201
Williston, Vermont
05495

Tel (802) 878.1963
Fax (802) 878.7197

225 South Main Street
P.O. Box 802
Rutland, Vermont
05702

Tel (802) 775.7132
Fax (802) 773.3810

Licensed
VT Accounting Firm
#92-0000343

www.dh-cpa.com

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS' AUDIT REPORT

To the Board of Trustees of
Sterling College
Craftsbury Common, 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, 2020 and 2019 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, 2020 and 2019, and the changes in its net assets and its cash flows for the year 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 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 November 12, 2020 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 College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sterling College's internal control over financial reporting and compliance.

Davis & Hodgdon Associates, CPAs, PLC

Williston, Vermont
November 12, 2020

STERLING COLLEGE

STATEMENTS OF FINANCIAL POSITION
June 30, 2020 and 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 840,302	$ 413,443
Accounts receivable, net	61,848	152,453
Grants receivable, current portion	1,317,598	587,000
Promises to give, current portion	279,335	201,060
Prepaid expenses	46,141	5,040
Total current assets	2,545,224	1,358,996
PROPERTY AND EQUIPMENT, net	3,059,662	3,292,733
OTHER ASSETS		
Construction in progress	162,248	142,008
Grants receivable, net of current portion	1,700,000	1,800,000
Promises to give, net of current portion	237,052	331,485
Investments	1,063,733	1,078,597
Total other assets	3,163,033	3,352,090
Total assets	$ 8,767,919	$ 8,003,819
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 207,620	$ 293,994
Accrued expenses	228,932	206,915
Deferred tuition and fee revenue	207,954	220,689
Refundable advance - HEERF	83,862	--
Line of credit	--	399,432
Current portion of long-term debt	43,233	68,215
Total current liabilities	771,601	1,189,245
NON-CURRENT LIABILITIES		
Long-term debt, net of current portion	1,681,119	1,542,723
Refundable advance - PPP	163,263	--
Total non-current liabilities	1,844,382	1,542,723
Total liabilities	2,615,983	2,731,968
NET ASSETS		
Without donor restrictions	739,795	775,111
With donor restrictions	5,412,141	4,496,740
Total net assets	6,151,936	5,271,851
Total liabilities and net assets	$ 8,767,919	$ 8,003,819

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, 2020

	Without Donor Restrictions	With Donor Restrictions	2020 Totals
OPERATING SUPPORT AND REVENUE			
Tuition and fees	$ 4,892,861	$ --	$ 4,892,861
Less financial aid	(3,912,216)	--	(3,912,216)
Net tuition and fees	980,645	--	980,645
Auxiliary enterprises	985,838	--	985,838
Contributions	1,695,822	319,536	2,015,358
Grants	566,647	1,647,800	2,214,447
Other income	37,849	--	37,849
Total operating support and revenue	4,266,801	1,967,336	6,234,137
Net assets released from restrictions	1,037,072	(1,037,072)	--
Total support, revenue and reclassifications	5,303,873	930,264	6,234,137
OPERATING EXPENSES			
Program services			
Instruction	2,314,610	--	2,314,610
Academic support	75,875	--	75,875
Student services	519,098	--	519,098
Auxiliary enterprises	378,568	--	378,568
Total program services	3,288,151	--	3,288,151
Supporting activities			
Institutional support	1,709,311	--	1,709,311
Fundraising	393,808	--	393,808
Total supporting activities	2,103,119	--	2,103,119
Total operating expenses	5,391,270	--	5,391,270
Change in net assets from operations	(87,397)	930,264	842,867
NON-OPERATING ACTIVITIES			
Investment income	1,144	36,074	37,218
Net assets released from restrictions	50,937	(50,937)	--
Total non-operating activities	52,081	(14,863)	37,218
Change in net assets	(35,316)	915,401	880,085
Net assets, beginning of year	775,111	4,496,740	5,271,851
Net assets, end of year	$ 739,795	$ 5,412,141	$ 6,151,936

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, 2019

	Without Donor Restrictions	With Donor Restrictions	2019 Totals
OPERATING SUPPORT AND REVENUE			
Tuition and fees	$ 4,655,175	$ --	$ 4,655,175
Less financial aid	(3,126,294)	--	(3,126,294)
Net tuition and fees	1,528,881	--	1,528,881
Auxiliary enterprises	1,206,626	--	1,206,626
Contributions	1,027,917	75,915	1,103,832
Grants	202,325	3,099,845	3,302,170
Other income	69,809	--	69,809
Total operating support and revenue	4,035,558	3,175,760	7,211,318
Net assets released from restrictions	615,429	(615,429)	--
Total support, revenue and reclassifications	4,650,987	2,560,331	7,211,318
OPERATING EXPENSES			
Program services			
Instruction	1,991,261	--	1,991,261
Academic support	75,974	--	75,974
Student services	552,488	--	552,488
Auxiliary enterprises	433,834	--	433,834
Total program services	3,053,557	--	3,053,557
Supporting activities			
Institutional support	1,773,369	--	1,773,369
Fundraising	394,819	--	394,819
Total supporting activities	2,168,188	--	2,168,188
Total operating expenses	5,221,745	--	5,221,745
Change in net assets from operations	(570,758)	2,560,331	1,989,573
NON-OPERATING ACTIVITIES			
Investment income	638	109,993	110,631
Net assets released from restrictions	49,637	(49,637)	--
Total non-operating activities	50,275	60,356	110,631
Change in net assets	(520,483)	2,620,687	2,100,204
Net assets, beginning of year	1,295,594	1,876,053	3,171,647
Net assets, end of year	$ 775,111	$ 4,496,740	$ 5,271,851

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

STERLING COLLEGE

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2020

	Program Services					Supporting Activities			
	Instruction	Academic Support	Student Services	Auxiliary Enterprises	Total Progam Services	Institutional Support	Fundraising	Total Supporting Activities	2020 Total
Compensation									
Salaries and wages	$1,381,157	$ 41,548	$ 236,868	$ 149,849	$ 1,809,422	$ 504,887	$ 192,975	$ 697,862	$ 2,507,284
Payroll taxes	105,214	3,146	17,936	11,347	137,643	38,407	14,680	53,087	190,730
Employee benefits	8,988	270	1,541	975	11,774	3,286	1,256	4,542	16,316
Retirement plan	53,676	1,615	9,205	5,824	70,320	19,621	7,500	27,121	97,441
Total compensation	1,549,035	46,579	265,550	167,995	2,029,159	566,201	216,411	782,612	2,811,771
Occupancy	863	--	134	1,948	2,945	274,450	--	274,450	277,395
Travel	139,195	--	11,984	--	151,179	15,670	42,602	58,272	209,451
Professional fees	--	--	3,320	--	3,320	31,788	--	31,788	35,108
Depreciation	--	4,673	--	--	4,673	279,587	--	279,587	284,260
Dining services	8,451	--	4,038	204,441	216,930	198	858	1,056	217,986
Interest	--	--	--	--	--	82,838	--	82,838	82,838
Meetings and conferences	--	--	1,190	--	1,190	3,400	3,987	7,387	8,577
Contracted services	228,659	5,492	54,479	--	288,630	139,277	30,181	169,458	458,088
Bank Fees	574	--	135	--	709	36,321	--	36,321	37,030
Supplies	110,202	42	54,407	3,799	168,450	55,789	39,102	94,891	263,341
Insurance	--	--	98,611	--	98,611	155,731	--	155,731	254,342
Course costs	91,541	--	--	--	91,541	--	--	--	91,541
Bad debt	153,990	--	--	--	153,990	--	--	--	153,990
Miscellaneous	4,718	--	4,823	--	9,541	7,455	16,086	23,541	33,082
Equipment and repairs	398	--	1,717	385	2,500	897	--	897	3,397
Memberships	11,537	399	14,131	--	26,067	21,231	10,351	31,582	57,649
Periodicals and subscriptions	5,132	18,690	--	--	23,822	784	--	784	24,606
Recruitment	--	--	1,770	--	1,770	15,095	--	15,095	16,865
Marketing and advertising	100	--	2,809	--	2,909	5,176	34,230	39,406	42,315
Honoraria	10,215	--	--	--	10,215	--	--	--	10,215
Information technology	--	--	--	--	--	17,423	--	17,423	17,423
Total expenses	$2,314,610	$ 75,875	$ 519,098	$ 378,568	$ 3,288,151	$ 1,709,311	$ 393,808	$ 2,103,119	$ 5,391,270

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

STERLING COLLEGE

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2019

	Program Services					Supporting Activities			
	Instruction	Academic Support	Student Services	Auxiliary Enterprises	Total Progam Services	Institutional Support	Fundraising	Total Supporting Activities	2019 Total
Compensation									
Salaries and wages	$1,180,670	$ 41,208	$ 291,590	$ 148,954	$ 1,662,422	$ 519,402	$ 195,380	$ 714,782	$ 2,377,204
Payroll taxes	86,608	3,023	21,390	10,927	121,947	38,101	14,332	52,433	174,380
Employee benefits	10,441	364	2,579	1,317	14,701	4,593	1,728	6,321	21,022
Retirement plan	48,511	1,693	11,981	6,120	68,305	46,340	8,028	54,368	122,673
Total compensation	1,326,230	46,288	327,539	167,318	1,867,375	608,436	219,468	827,904	2,695,279
Occupancy	754	--	54	2,425	3,233	345,781	--	345,781	349,014
Travel	354,654	--	13,432	--	368,086	17,814	13,033	30,847	398,933
Professional fees	1,716	--	--	--	1,716	53,492	--	53,492	55,208
Depreciation	--	5,625	--	--	5,625	208,420	--	208,420	214,045
Dining services	10,863	--	7,024	262,946	280,833	7,577	8,717	16,294	297,127
Interest	--	--	--	--	--	102,122	--	102,122	102,122
Meetings and conferences	--	87	2,997	--	3,084	727	8,673	9,400	12,484
Contracted services	70,308	5,420	71,445	--	147,173	88,143	35,808	123,951	271,124
Bank Fees	--	--	78	--	78	48,357	--	48,357	48,435
Supplies	81,281	254	34,221	729	116,485	65,728	35,045	100,773	217,258
Insurance	--	--	71,662	--	71,662	123,744	--	123,744	195,406
Course costs	75,040	--	--	--	75,040	8,597	--	8,597	83,637
Miscellaneous	39,378	--	11,247	176	50,801	21,114	19,524	40,638	91,439
Equipment and repairs	2,861	--	1,516	--	4,377	7,338	--	7,338	11,715
Memberships	11,119	48	7,218	240	18,625	13,936	11,419	25,355	43,980
Periodicals and subscriptions	6,138	18,252	1,250	--	25,640	3,528	--	3,528	29,168
Recruitment	2,659	--	2,505	--	5,164	12,949	--	12,949	18,113
Marketing and advertising	1,309	--	--	--	1,309	--	43,132	43,132	44,441
Honoraria	6,951	--	300	--	7,251	--	--	--	7,251
Information technology	--	--	--	--	--	35,566	--	35,566	35,566
Total expenses	$1,991,261	$ 75,974	$ 552,488	$ 433,834	$ 3,053,557	$ 1,773,369	$ 394,819	$ 2,168,188	$ 5,221,745

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

STERLING COLLEGE

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 880,085	$ 2,100,204
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	284,260	214,045
Donated property and equipment	(500)	(17,718)
Loss on sale of property and equipment	--	--
Net unrealized and realized gain on investments	(28,334)	(97,305)
Investment income reinvested	(7,739)	(12,688)
Changes in:		
Accounts receivable, net	90,605	25,719
Grants receivable	(630,598)	(2,267,000)
Promises to give	16,158	85,877
Prepaid expenses	(41,101)	25,740
Accounts payable	(86,374)	18,865
Accrued expenses	22,017	19,262
Deferred tuition and fee revenue	(12,735)	(30,364)
Refundable advance - HEERF	83,862	--
Net cash provided by operating activities	569,606	64,637
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction in progress	(20,240)	(31,073)
Purchase of property and equipment	(50,689)	(96,033)
Investment withdrawals	50,937	11,336
Net cash used by investing activities	(19,992)	(115,770)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net draws (repayments) on line of credit	(399,432)	399,432
Proceeds from borrowing on long-term debt	339,003	16,241
Principal payments on long-term debt	(62,326)	(53,514)
Net cash provided by financing activities	(122,755)	362,159
Net change in cash	426,859	311,026
Cash and cash equivalents, beginning of year	413,443	102,417
Cash and cash equivalents, end of year	$ 840,302	$ 413,443

	2020	2019
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	$ 82,838	$ 102,122

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

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 advance ecological thinking and action through affordable experiential learning that prepares people to be knowledgeable, skilled, and responsible leaders in the communities in which they live. The College offers a four-year baccalaureate degree program.

For more information, see the College's website at www.sterlingcollege.edu.

A summary of the College's 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.

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.

Basis of presentation

The College's financial statement presentation is as required by the Not-for-Profit Topic of the Codified FASB Accounting Standards. Accordingly, the College is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, which represents the expendable resources that are available for operations at management's discretion; and net assets with donor restrictions, which represent resources restricted by donors as to purpose or by the passage of time and 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 had $5,412,141 and $4,496,740 of net assets with donor restrictions at June 30, 2020 and 2019, respectively.

Change in accounting principles

In June, 2018, FASB issued Accounting Standards Update (ASU) 2018-08, Not for Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605), with the intention to address the diversity in practice among not-for-profit organizations for grant and contribution accounting. The College has adopted Topic 605 as management believes the standard improves the usefulness and understandability of the College's financial reporting. The adoption of the standard did not have an (or a material) impact on the College's consolidated financial statements. There was no cumulative effect of adoption of the standard.

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

Change in accounting principles (continued)

In May 2014, FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). The standard establishes a single revenue recognition model for all contracts with customers, eliminates industry and transaction specific requirements, and expands disclosure requirements. Effective July 1, 2019, the College adopted the standard using the modified retrospective method, under which prior year results are not restated, but supplemental information is provided for any material impacts of the standard on the June 30, 2019 results. The adoption of the standard did not have as impact on the College's financial statements. There was no cumulative effect of adoption of the standard. The College did not elect any practical expedients that require disclosure.

Cash and cash equivalents

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

Receivables and allowance for doubtful accounts

Accounts receivable consist of amounts due for tuition and fees for current and formally enrolled students. The College extends unsecured credit to students in connection with their studies. Accounts receivable is stated at the amount management expects to collect from outstanding balances.

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. There was no allowance for doubtful accounts at June 30, 2020 while the allowance for doubtful accounts totaled $9,450 at June 30, 2019.

Grants receivable

Grants receivable consist primarily of amounts due from grantors to fund future programs and capital improvements.

Promises to give

The College records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities.

The College determines the allowance for uncollectible promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectible. There was no allowance for uncollectible promises to give at June 30, 2020 and 2019.

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

Investments

Investments consist of cash, fixed income securities and equities that have been designated for long-term investment by the College.

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 College 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 College’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 College is not the trustee and the beneficial interest is in perpetual trust.

All long-term investments (see Note 9.) 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.

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

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.

Accrued compensated absences

The College provides each employee with paid time off compensation hours, which are accumulated on a pro-rata basis as actual hours are worked. Compensated absences accrue when amounts can reasonably be estimated and payment of compensation is probable.

Deferred tuition and fee revenue

The College collects tuition and fees prior to the services being provided. The revenues associated with these programs are recognized in the period in which the program occurs and accordingly, amounts received for programs that have not yet occurred are classified as deferred tuition and fee revenue.

Net asset classification

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operation and not subject to donor (or certain grantor) restrictions.

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

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

Support and revenue

The College records contributions as net assets without donor restrictions and net assets with donor restrictions depending on the existence or nature of donor restrictions. Unconditional promises to give are recorded as promises to give. Contributions to be received after one year are discounted at the appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions.

The College reports contributions of land, buildings or equipment as net assets without donor restrictions unless the donor places restrictions on their use.

Dividends, interest and net gains on investments of endowments and similar funds are reported as a) as increases in net assets with donor restrictions if the terms of the gift require that they be added to the principal of a permanent endowment fund or the gift imposes restrictions on the current use of income or net gains; and b) as increases in net assets without donor restrictions in all other cases.

Grants and other contributions of cash and other assets are reported as net assets with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities and Changes in Net Assets as net assets released from restriction.

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 net assets without donor restrictions.

Individual grant arrangements have been evaluated and most have been determined to be nonreciprocal, meaning the granting entity has not received a direct benefit in exchange for the resources provided. Instead, revenue is recognized like a conditional contribution, i.e., when the barrier to entitlement is overcome. The barrier to entitlement is considered overcome when expenditures associated with each grant are determined to be allowable and all other significant conditions of the grant are met. Grants that have been determined to be reciprocal fall under the scope of ASC Topic 606 and are recognized as the performance obligations are satisfied.

Other income is recognized when earned.

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

Revenue recognition - tuition and fee revenue

The College derives its student tuition and fee revenues from degree programs. Tuition and fee revenue is recorded at the College's established rates, net of institutional, state and federal financial aid administered directly by the College. Payments for tuition and fees are due prior to the start of the academic semester in accordance with the College's due dates. Payments received in advance of performance obligations being satisfied are categorized as student deposits and deferred revenue in the Statements of Financial Position and then recorded over time as the performance obligation is satisfied. The performance obligation relating to tuition and fee revenue is the delivery of educational services. Students are typically entitled to a partial refund through a specific point in the academic term, after which no refunds are due upon withdrawal. Refunds issued reduce the amount of revenue recognized. Discounts provided to employees are considered part of fringe benefits within operating expenses and are recorded over time.

Revenue recognition - auxiliary enterprises

Revenue for auxiliary enterprises primarily consists of fees for student housing and dining services. Fees charged for auxiliary enterprises are priced to offset the cost of the services. Payments for these services are due prior to the start of the academic semester in accordance with the College's due dates, and payments received in advance of performance obligations being satisfied are categorized as student deposits and deferred revenue in the Statements of Financial Position. The performance obligation for auxiliary enterprises is the delivery of student housing and dining services and revenue is recognized over time as the performance obligation is satisfied.

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, 2017. 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, 2020 and 2019.

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

Expense allocation

The costs of providing various programs and other supporting activities have been summarized on a functional basis in the Statements of Functional Expenses. The Statement of Functional Expenses present the natural classification of expenses by function. In categories recommended by the National Association of College and University Business Officers. The College's primary program service is instruction. Expenses reported as academic support, student services, auxiliary enterprises, institutional support, and fundraising, are incurred in support of this primary program service .Accordingly, certain costs have been allocated among the programs and supporting services benefited. This allocation was based upon employee time dedicated to particular programs or the benefit received based upon the recognition of expenditures incurred.

Advertising

Advertising costs are expensed as incurred and totaled $42,315 and $44,441 for the years ended June 30, 2020 and 2019, respectively.

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.

Endowment policies

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.

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 Trustees 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 restricted are classified as net assets without donor restrictions for financial statement purposes.

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

Endowment policies (continued)

Net assets with donor restrictions may consist of irrevocable charitable trusts, lead trusts, restricted contributions receivable, and the remaining portion of donor-restricted endowment funds. When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 restricted revenues and as net assets released from restriction.

Net assets with donor restrictions of a permanent nature 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.

Endowment policies - 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 net assets with donor restrictions (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 net assets with donor restrictions is reclassified as net assets without donor restrictions once 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.

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.

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

Endowment investment and spending policies (continued)

Investment guidelines for the College's endowment fund include:

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

The desired allocation of investments for the endowment fund is 75% for a diversified portfolio of equities, 20% for interest yielding, investment grade notes and bonds, and 5% 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.

Reclassifications

Certain amounts for the year ended June 30, 2019 have been reclassified for comparative purposes to conform to the presentation used in the June 30, 2020 financial statements. The reclassifications have no effect on net assets for the year ended June 30, 2019.

Subsequent events

Subsequent events have been evaluated through November 12, 2020, which is the date the financial statements were issued.

Note 2. Liquidity and Availability of Financial Assets

The College has $2,545,224 of financial assets available within one year of the balance sheet date, presented as current assets on the accompanying Statement of Financial Position. None of the financial assets other than the grants and promises to give are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The grants and promises to give are subject to implied time and purpose restrictions but are expected to be collected within one year.

The College has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition to these financial assets available within one year of the balance sheet date, the College has $427,336 of investments that could be released as deemed necessary. As more fully described in Note 11., the College also has continued lines of credit with $500,000 available as of June 30, 2020, which it could draw upon in the event of an unanticipated liquidity need.

Note 3. Revenue from Contracts with Customers

Performance obligations

Performance obligations are determined based on the nature of the services provided by the College and, in general, performance obligations satisfied over time relate to students receiving their education as part of the various degree programs, including auxiliary services such as room and board, and leasing space to outside organizations. The College measures this performance obligation from the commencement of the program to the point when it is no longer required to provide a service to that student, which is typically the length of the program. For this performance obligation, control transfers to the student over time as the service is provided (see Note 1.).

Transaction prices and variable consideration

The College determine s transaction prices based on established charges for services to be provided and for goods to be sold, reduced by explicit price concessions (i.e. discounts) provided by the College. The College determines its estimates for explicit price concessions related to discounts based on contractual agreements, discount policies and historical experience. Further, estimates for implicit price concessions are based on historical experience with students.

The nature of the College's business gives rise to variable consideration, including the withdrawal of students from degree programs. These variable amounts are generally credited to the student, based on timing of cancellation, on a prorated basis.

Disaggregation of revenue from contracts with customers

The College's revenue based on the satisfaction of performance obligations over time totaled $1,966,483 and $2,735,507 for the years ended June 30, 2020 and 2019, respectively.

Note 4. Accounts Receivable

Accounts receivable consisted of the following at June 30:

	2020	2019
Accounts receivable	$ 61,848	$ 161,903
Estimated allowance for doubtful accounts	--	(9,450)
Accounts receivable, net	$ 61,848	$ 152,453

Note 5. Grants Receivable

Grants receivable consisted of the following at June 30:

	2020	2019
To support the Wendell Berry Farming Program	$ 1,500,000	$ 2,052,000
To create an online alumni management platform	--	35,000
To support capital projects	300,000	300,000
HEERF CARES Act 18004(a)(3) funding	217,598	
To support the EcoGather online platform/network	1,000,000	--
Total non-current grants receivable	3,017,598	2,387,000
Less current portion	(1,317,598)	(587,000)
Total non-current grants receivable	$ 1,700,000	$ 1,800,000

Grants receivable are expected to be collected as follows:

2021	$ 1,317,598
2022	1,100,000
2023	600,000
Total	$ 3,017,598

Substantially all grants receivable at year-end are collectible over the next three years.

Note 6. Promises to Give

Unconditional promises to give consisted of the following at June 30:

	2020	2019
Receivable in less than one year	$ 279,335	$ 201,060
Receivable in one to four years	239,500	347,520
Total contributions receivable	518,835	548,580
Less discounts to net present value	(2,448)	(16,035)
Net unconditional promises to give	516,387	532,545
Less current portion	(279,335)	(201,060)
Net non-current unconditional promises to give	$ 237,052	$ 331,485

Note 6. Promises to Give (continued)

Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 0.18%. Unconditional promises to give are expected to be collected as follows:

2021	$ 279,335
2022	179,500
2023	50,000
2024	10,000
Total	$ 518,835

Substantially all promises to give at year-end are collectible over the next four years.

The College has received promises to give that are conditional on the College raising matching funds. The promise to give changes to an unconditional promise once the conditions are met. The College has received notice of conditional promises to give totaling $969,000 and $1,069,000 at June 30, 2020 and 2019, respectively.

Note 7. Property and Equipment

Property and equipment consisted of the following at June 30:

	Useful Life (Years)	2020	2019
Land and buildings	10-45	$ 5,295,605	$ 5,295,605
Equipment	5-15	812,021	789,005
Motor vehicles	5-8	223,701	197,861
Library	10	225,303	222,970
Total property and equipment		6,556,630	6,505,441
Less accumulated depreciation		(3,496,968)	(3,212,708)
Property and equipment, net		$ 3,059,662	$ 3,292,733

Depreciation expense totaled $284,260 and $214,045 for the years ended June 30, 2020 and 2019, respectively.

Note 8. Construction in Progress

Construction in progress consisted of the following at June 30:

	2020	2019
Campus restorations	$ 162,248	$ 142,008
Total construction in progress	$ 162,248	$ 142,008

Note 9. Investments

Investments are presented at fair value based on quoted prices in active markets for identical assets (Level 1 as described in Note 1.). The investment balance is comprised of endowment funds and restricted cash from a stock clearing account and consisted of the following at June 30:

	2020	2019
Cash and equivalents	$ 83,915	$ 81,288
Common stock	626,133	694,535
Fixed income mutual funds	128,638	230,420
Exchange traded funds	207,550	40,329
Bond funds	12,858	12,515
Other assets	4,639	19,510
Total investments	$ 1,063,733	$ 1,078,597

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:

	2020	2019
Investments, beginning of year	$ 1,078,597	$ 1,018,241
Purchases, transfers and withdrawals, net	(50,937)	(49,637)
Investment returns		
Dividends and interest	7,739	12,688
Realized and unrealized gains	28,334	97,305
Total return on investments	36,073	109,993
Investments, end of year	$ 1,063,733	$ 1,078,597

Note 10. Accrued Expenses

Accrued expenses consisted of the following at June 30:

	2020	2019
Abandoned property payable	$ 27,155	$ 27,155
Student deposits payable	26,855	22,529
Accrued payroll and related liabilities	174,922	157,231
Total accrued expenses	$ 228,932	$ 206,915

Note 11. Line of Credit

The College has a line of credit with the Union Bank in the amount of $500,000. 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, 2020). The note is secured by real estate and investments. There was no outstanding balance on the line at June 30, 2020, while there was an outstanding balance of $399,432 at June 30, 2019.

Note 12. Capital Lease Commitments

The College leases certain equipment under capital lease obligations. The capital lease with Bancorp Bank has an interest rate of 2.00% due in monthly installments of $322 through September 2023. The capital lease with GM Financial has an interest rate of 8.60% due in monthly installments of $531 through August 2024. Details of these leases are included within Note 13.

Property held under capital lease obligations consisted of the following at June 30:

	2020	2019
Leased property - capital lease	$ 42,081	$ 16,241
Less accumulated depreciation	(10,422)	(2,436)
Property under capital lease, net	$ 31,659	$ 13,805

The minimum required payments on the above capital lease is as follows:

2021	$ 7,815
2022	8,468
2023	9,176
2024	6,962
2024	1,054
Total minimum lease payments	33,475
Less current portion	7,815
Capital lease obligation, net of current portion	$ 25,660

Depreciation expense on assets held under capital lease totaled $7,986 and $10,635 for the years ended June 30, 2020 and 2019, respectively.

Note 13. Long-term Debt

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

	2020	2019
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 June, 2038 when all outstanding principal will be due in full. Union Bank deferred all payments from May, 2020 through October, 2020.	$ 1,127,866	$ 1,160,471
Note payable, Union Bank, interest rate of 6.00%, monthly payments of principal and interest of $3,395 commencing June, 2019 through December, 2034. Union Bank deferred all payments from May, 2020 through October, 2020.	384,855	400,000
Note payable, Union Bank, interest rate of 5.00%, monthly payments of principal and interest of $945, through June, 2023. Union Bank deferred all payments from May, 2020 through October, 2020.	28,256	36,304
Note payable, Small Business Administration, Economic Injury Disaster Loan, interest rate of 2.75%, secured by property and equipment, monthly payments of principal and interest of $641 commencing June, 2021, through April, 2049.	149,900	--
Capital lease payable, GM Financial, interest rate of 8.60%, secured by vehicle, monthly payments of principal and interest of $531, through August, 2024.	22,265	--
Capital lease payable, Bancorp Bank, imputed interest rate of 2.00%, secured by vehicle, monthly payments of principal and interest of $322, through September, 2023.	11,210	14,163
Total long-term debt	1,724,352	1,610,938
Less current portion	(43,233)	(68,215)
Long-term debt, net of current	$ 1,681,119	$ 1,542,723

Note 13. Long-term Debt (continued)

Aggregate maturities for the above notes are as follows:

2021	$ 43,233
2022	83,116
2023	88,151
2024	78,092
2025	75,954
Thereafter	1,355,806
Total	$ 1,724,352

The documents governing the College's loan arrangements with Union Bank require, among other things, that the College meet a minimum debt service coverage test as of June 30th of each year. As of June 30, 2020, the College maintained the minimum debt service coverage of 1.10.

Note 14. Refundable Advance - PPP

On April 13, 2020, the College received loan proceeds in the amount of $525,200 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and interest are forgivable after eight or 24 weeks, as decided by the organization, as long as the borrower uses the loan proceeds for eligible purposes, including payroll benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the forgiveness period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months after the forgiveness period ends.

The College intends to use the proceeds for purposes consistent with the PPP. It expects to meet the PPP loan eligibility criteria and concludes that the PPP loan represents, in substance, a grant that is expected to be forgiven. The Organization may account for the PPP loan, in accordance with FASB ASC 958-605, Not-for-Profit Entities: Revenue Recognition, as a conditional contribution and has accounted for the portion of the loan proceeds for which it incurred qualifying expenses prior to June 30, 2020 as grant revenue on the accompanying Statement of Activities and Changes in Net Assets and the portion of the loan proceeds that it has not recognized as revenue for the year ended June 30, 2020 as a refundable advance on the accompanying Statement of Financial Position.

Note 15. Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following at June 30:

	2020	2019
Wendell Berry Farming Program	$ 1,884,271	$ 2,472,921
Construction and improvements	762,742	712,661
Student aid and academic support	427,337	442,200
Continuing education	1,410,088	--
Program support	283,456	218,643
Woodworking equipment	7,850	7,850
Renewable energy	--	6,068
Endowment net assets	636,397	636,397
Net assets with donor restrictions	$ 5,412,141	$ 4,496,740

Note 16. 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, 2020 and 2019.

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

	2020	2019
Program support	$ 101,288	$ 164,797
Construction and improvements	45,589	93,553
Renewable energy	6,068	--
Endowment spending release	50,937	49,637
Student relief	5,565	--
Wendell Berry Farming Program	788,650	357,079
Continuing education	89,912	--
Total restrictions released	$ 1,088,009	$ 665,066

	2020	2019
Restrictions released from operations	$ 1,037,072	$ 615,429
Restrictions released from other activities	50,937	49,637
Total restrictions released	$ 1,088,009	$ 665,066

Note 17. Endowment Net Assets

Endowment net assets are restricted to investment in perpetuity, the income from which becomes restricted support for the program in which the endowment was established. The income is included in net assets with donor restrictions on the accompanying Statement of Activities and Changes in Net Assets. Endowment net assets in perpetuity include the following at June 30:

	2020	2019
Student aid	$ 620,147	$ 620,147
Academic support	16,250	16,250
Permanently restricted endowment net assets	$ 636,397	$ 636,397

Endowment net assets consisted of the following at June 30:

	2020	2019
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	46,808
Permanently restricted funds	$ 636,397	$ 636,397

Changes in endowment net assets for the years ending June 30, 2020 are as follows:

	Accumulated Endowment Earnings	Endowment
Endowment net assets, beginning of year	$ 442,200	$ 636,397
Contributions	--	--
Investment expenses	(8,703)	--
Interest and dividends	16,442	--
Net realized and unrealized gains	28,334	--
Change in endowment net assets	36,073	--
Amounts appropriated for expenditure	(50,937)	--
Endowment net assets, end of year	$ 427,336	$ 636,397

Note 17. Endowment Net Assets (continued)

Changes in endowment net assets for the years ending June 30, 2019 are as follows:

	Accumulated Endowment Earnings	Endowment
Endowment net assets, beginning of year	$ 381,844	$ 636,397
Contributions	--	--
Investment expenses	(9,330)	--
Interest and dividends	22,018	--
Net realized and unrealized gains	97,305	--
Change in endowment net assets	109,993	--
Amounts appropriated for expenditure	(49,637)	--
Endowment net assets, end of year	$ 442,200	$ 636,397

Note 18. 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, 2020 and 2019.

Note 19. 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. Retirement plan expense totaled $97,441 and $122,673 for the years ended June 30, 2020 and 2019, respectively.

Note 20. 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 21. COVID-19

On January 30, 2020, the World Health Organization declared the coronavirus (COVID-19) a “Public Health Emergency of International Concern” and on March 11, 2020, declared COVID-19 a pandemic. The spread of COVID-19, a novel strain of coronavirus, appears to be altering the behavior of businesses and people in a manner that is having negative effects on local, regional, and global economies. During the year ended June 30, 2020, COVID-19 impacted the College in a number of ways, including the transition to remote learning in March 2020, the refund of approximately $200,000 of room and board revenue. The extent to which COVID-19 will impact operations of the College in the future will depend on subsequent developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information that may emerge concerning the severity of COVID-19, the actions taken to contain COVID-19 or treat its impact, and the impact of each of these items on the economies and financial markets in the United States of America. In particular, the continued spread of COVID-19 could adversely impact the College’s operations, including among others, contributions, grants, and daily operations, and may have a material adverse effect on the financial condition of the College.

The College received funding from the Federal government through a grant under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) as part of the Higher Education Emergency Relief Fund (HEERF). The total amount of the grant was $129,712 and includes a requirement that the College use no less than 50% of the funds for emergency financial aid grants to students and the remainder for institutional expenses. In June 2020, the College distributed $45,890 of the funds for student financial aid grants to students. The College did not expend the remaining $18,999 in emergency financial aid grants or the $64,856 by June 30, 2020. As a result, the remaining amount of $83,862 is included as a refundable advance in the accompanying Statements of Financial Position at June 30, 2020.

In October, 2020, the College was also allocated an additional $363,912 in HEERF funds. These funds are subject to the same conditions of the first award. The College recognized $217,598 of these funds as Grant Revenue for the year ended June 30, 2020.

SUPPLEMENTAL INFORMATION

STERLING COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2020

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	P033A196392	$ 194,710
Federal Supplemental Education Opportunity Grants (FSEOG)	84.007	P007A196392	6,518
Federal Pell Grant Program	84.063	P063P183812	301,769
Federal Direct Student Loans	84.268	P268K193812	591,218
Total Student Financial Assistance Cluster			1,094,215
Education Stabilization Fund - CARES	84.425E	P425E203534	45,890
Education Stabilization Fund - CARES	84.425N	P425N200304	217,598
Total U.S. Department of Education			1,357,703
Total expenditures of federal awards			$ 1,357,703

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, 2020

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.

DAVIS & HODGDON ASSOCIATES
CPAs ■ PLC

Innovative
Entrepreneurial
Experienced

John W. Davis
CPA, CFP®, PFS, CVA, CEPA

Bret L. Hodgdon
CPA, CFP®, CFE, CGMA

Mandy Bradley
CPA, M.S.

33 Blair Park Road
Suite 201
Williston, Vermont
05495

Tel (802) 878.1963
Fax (802) 878.7197

225 South Main Street
P.O. Box 802
Rutland, Vermont
05702

Tel (802) 775.7132
Fax (802) 773.3810

Licensed
VT Accounting Firm
#92-0000343

www.dh-cpa.com

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 Common, 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, 2020, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 12, 2020.

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) as a basis for designing 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 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*.

To the Board of Trustees of
Sterling College
Craftsbury Common, Vermont
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
November 12, 2020

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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 Common, 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, 2020. 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, 2020.

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.

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
November 12, 2020

STERLING COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2020

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
84.425	Higher Education Emergency Relief Fund – Education Stabilization Fund

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.