BURLINGTON COLLEGE, INC.

AUDIT REPORT AND REPORTS ON COMPLIANCE AND INTERNAL CONTROL

JUNE 30, 2013

BURLINGTON COLLEGE, INC.
AUDIT REPORT
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Independent Auditor's Report

Board of Trustees
Burlington College, Inc.
351 North Avenue
Burlington, Vermont 05401

We have audited the accompanying statement of financial position of Burlington College, Inc. as of June 30, 2013 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Burlington College, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 College'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 College'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 previously present fairly, in all material respects, the financial position of Burlington College, Inc. as of June 30, 2013, 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.

Going Concern

The accompanying financial statements have been prepared assuming that Burlington College, Inc. will continue as a going concern. As discussed in Note 27 to the financial statements, the College has suffered recurring losses from operations, has not met certain of its debt covenants, has an unrestricted undesignated net assets deficit and has other matters which raise substantial doubt about its ability to continue as a going concern. Managementôs plans regarding these matters are also described in Note 27. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

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 Office of Management and Budget Circular A-133, ñAudits of States, Local Governments, and Non-Profit Organizationsò, 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 ñGovernment Auditing Standardsò, we have also issued our report dated April 11, 2014, on our consideration of Burlington College, Inc.ôs internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with ñGovernment Auditing Standardsò in considering Burlington College, Inc.ôs internal control over financial reporting and compliance.

Sullivan, Powers & Company

April 11, 2014
Montpelier, Vermont
VT Lic. #92-000180

BURLINGTON COLLEGE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

ASSETS

Current Assets:	
Cash - Note 2	$ 7,936
Restricted Cash - Notes 2 & 3	43,975
Tuition Receivable - Note 4	280,803
Rental Security Deposit	7,100
Perkins Loans Receivable - Current Portion - Note 5	188,544
Contributions Receivable - Current Portion - Note 6	44,902
Other Receivables	5,975
Prepaid Expenses	16,093
Total Current Assets	595,328
Non-Current Assets:	
Property, Plant and Equipment:	
Land	8,097,361
Land Improvements	26,880
Buildings	3,061,908
Building Improvements	1,420,460
Campus Improvements	33,118
Equipment	762,177
Library Books and Art	410,797
Less: Accumulated Depreciation	(868,818)
Total Property, Plant and Equipment - Note 7	12,943,883
Restricted Cash - Notes 2 & 3	8
Bond Issue Costs and Legal Fees (Net of Accumulated Amortization) - Note 8	92,960
Perkins Loans Receivable - Long-Term Portion - Note 5	279,350
Contributions Receivable - Long-Term Portion - Note 6	879,454
Total Non-Current Assets	14,195,655
TOTAL ASSETS	$ 14,790,983

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

LIABILITIES AND NET ASSETS

Liabilities:		
Current Liabilities:		
Accounts Payable	$	270,657
Accrued Payroll & Related Liabilities		44,952
Severance Payable - Note 9		38,548
Accrued Vacation		33,516
Rent Deposits		14,300
Deferred Revenue - Note 10		223,733
Post Employment Benefits Payable - Current Portion - Note 11		29,509
Retirement Payable		20,000
Line of Credit - Note 12		650,000
Current Portion of Bond/Notes Payable - Note 13		118,659
Total Current Liabilities		1,443,874
Noncurrent Liabilities:		
Post Employment Benefits Payable - Long-Term Portion - Note 11		285,709
Bond/Notes Payable - Long-Term Portion - Note 13		10,524,044
Accrued Interest Payable - Note 13		325,159
Refundable Advances - U.S. Government - Note 14		504,786
Other Liability		50,000
Total Noncurrent Liabilities		11,689,698
Total Liabilities		13,133,572
Net Assets:		
Unrestricted:		
Net Investment in Property, Plant and Equipment		2,301,180
Undesignated/(Deficit)		(1,705,993)
Total Unrestricted		595,187
Temporarily Restricted - Note 15		918,223
Permanently Restricted - Note 15		144,001
Total Net Assets		1,657,411
TOTAL LIABILITIES AND NET ASSETS	$	14,790,983

BURLINGTON COLLEGE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenue, Grant and Other Support:				
Tuition and Fees Revenue:				
Tuition and Fees	$ 4,892,544	$ 0	$ 0	$ 4,892,544
Less Scholarships and Awards - Note 17	(571,614)	0	0	(571,614)
Net Tuition and Fees Revenue	4,320,930	0	0	4,320,930
Other Revenue, Grants and Support:				
Federal Aid Programs	43,224	0	0	43,224
Other	7,504	0	0	7,504
Contributions, Grants and Contracts	1,935	13,602	0	15,537
Gala Auction and Event Proceeds	4,525	0	0	4,525
Auxiliary Enterprises	255,658	0	0	255,658
Net Investment Income	7,242	4	0	7,246
Net Assets Released from Restrictions - Note 18	117,704	(108,558)	(9,146)	0
Total Other Revenue, Grants and Support	437,792	(94,952)	(9,146)	333,694
Total Operating Revenue	4,758,722	(94,952)	(9,146)	4,654,624
Operating Expenses:				
Instruction	2,167,932	0	0	2,167,932
Academic Support	386,639	0	0	386,639
Student Services	502,285	0	0	502,285
Auxiliary Services	224,294	0	0	224,294
Institutional Support	1,816,577	0	0	1,816,577
Total Operating Expenses	5,097,727	0	0	5,097,727
Change in Net Assets Before Non-Operating Activities	(339,005)	(94,952)	(9,146)	(443,103)
Non-operating Activities:				
Expenses Related to Idle Space - Note 19	(265,666)	0	0	(265,666)
Other Expense	(50,000)	0	0	(50,000)
Total Non-operating Activities	(315,666)	0	0	(315,666)
Change in Net Assets	(654,671)	(94,952)	(9,146)	(758,769)
Net Assets - July 1, 2012	1,249,858	1,013,175	153,147	2,416,180
Net Assets - June 30, 2013	$ 595,187	$ 918,223	$ 144,001	$ 1,657,411

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

BURLINGTON COLLEGE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

Cash Flows from Operating Activities:		
Change in Net Assets	$	(758,769)
Adjustments to Reconcile the Change in Net Assets to Net Cash Provided/(Used) by Operating Activities:		
Add: Items Providing or Not Requiring Cash:		
Depreciation		216,377
Amortization		5,312
Decrease in Grants Receivable		124,818
Decrease in Prepaid Expenses		2,640
Decrease in Contributions Receivable		114,958
Increase in Accounts Payable		109,182
Increase in Accrued Interest Payable		128,059
Increase in Retirement Payable		20,000
Increase in Rent Deposits		7,150
Increase in Deferred Revenue		63,327
Increase in Refundable Advances		10,952
Increase in Other Liability		50,000
Deduct: Items Requiring Cash or Not Providing Cash:		
Decrease in Accrued Payroll & Related Liabilities		(12,078)
Decrease in Severance Payable		(84,879)
Increase in Restricted Cash		(7,249)
Increase in Tuition Receivable		(139,008)
Increase in Perkins Loans Receivable		(4,866)
Increase in Other Receivables		(5,605)
Increase in Rental Security Deposit		(4,700)
Decrease in Accrued Vacation		(27,096)
Decrease in Post Employment Benefits Payable		(5,564)
Total Cash Provided/(Used) by Operating Activities		(197,039)
Cash Flows from Investing Activities:		
Purchases of Property, Plant and Equipment		(168,483)
Total Cash Provided/(Used) by Investing Activities		(168,483)
Cash Flows from Financing Activities:		
Borrowings on Line of Credit		650,000
Payments on Line of Credit		(250,000)
Decrease in Restricted Cash - Debt Service Reserve		14,719
Principal Payments on Long-Term Debt		(111,376)
Total Cash Provided by Financing Activities		303,343
Total Cash Provided/(Used)		(62,179)
Cash - July 1, 2012		70,115
Cash - June 30, 2013	$	7,936

Supplemental Disclosure of Cash flow Information:

Total Interest Paid during the Year	$	318,744

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

Burlington College, Inc. is a "Not-for-Profit" corporation established in 1972. It is an accredited institution of higher education providing Bachelor of Arts, Master of Arts, and Associates of Arts degrees, as well as several professional certificates.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The College prepares its financial statements in accordance with generally accepted accounting principles. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of Presentation

The accompanying financial statements, which are presented on the accrual basis of accounting, focus on the College as a whole. Assets and liabilities have been shown in order of liquidity. Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted Net Assets

These assets result from contributions and other inflows which have no restrictions and over which the Board of Trustees retains full control to use in achieving any of its institutional purposes.

Temporarily Restricted Net Assets

These assets result from contributions and other inflows of assets whose use by the College is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the College. Restrictions released within one operating period are reported as unrestricted.

Permanently Restricted Net Assets

These assets result from contributions that are restricted according to donor or grantor restrictions in perpetuity.

Note 1:
(Contôd)

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets.

Recognition of Revenue

Tuition is recognized as revenue on a prorata basis based on the number of days in a session.

Current restricted funds revenues from grant programs are recorded when authorized expenditures are made.

Contributions, including unconditional promises to give, are recognized as revenue in the period the contribution or promise is received. Promises to give that are scheduled to be received after the balance sheet date are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose and/or time restrictions are met. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. 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 unrestricted nonoperating support unless the donor places restrictions on their use. Contributions of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support until the assets are acquired and placed in service.

Room and Board (Auxiliary Enterprises) income is recognized on a monthly basis as the revenue is deemed earned.

Cash and Cash Equivalents

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three (3) months of the date acquired by the College.

Note 1:
(Contŏd)

Investments

Marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in revenue. Investments received by gift are recorded at market value at the date of acquisition. The policy of the College is to sell all gifts of securities immediately upon receipt. No investments were held by the College as of June 30, 2013.

Receivables

Tuition Receivable represents amounts due for tuition and fees from currently enrolled and former students. The College extends unsecured credit to students in connection with their studies. Tuition Receivable is stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through the allowance for uncollectible accounts.

Notes receivable from students are carried at the unpaid principal balance less an allowance for uncollectible loans. The allowance for uncollectible loans is increased by charges to income and decreased by charge-offs (net of recoveries). Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. The College has evaluated their notes receivable and determined that there should be no allowance as they record a payable to the Department of Education (DOE), which reflects the amount that would be due to DOE in the event of the loans being called.

Interest on loans is recognized over the term of the loan beginning at the end of the nine (9) month grace period and is calculated using an interest rate of 5% on the outstanding loan balance.

Allowance for Doubtful Accounts

The College uses the allowance method for uncollectibles. The College has allowances for student receivables.

Prepaid Expenses

Payments made to vendors for services that will benefit future periods are recognized as prepaid expenses.

Note 1:
(Contôd)

Collections

The College has capitalized its Library Books as a collection since its inception. If purchased, items accessioned into the collection are capitalized at cost, and if donated, they are capitalized at their appraised or fair value on the accession. Gains or losses on the deaccession of collection items are classified on the statement of activities as unrestricted or temporarily restricted support depending on donor restrictions, if any, placed on the item at the time of accession.

Income Taxes

Burlington College, Inc. is a non-profit Vermont corporation and is tax exempt on its exempt function income under Internal Revenue Code Section 501(c)(3) and is not a private foundation. As such, the College is exempt from income tax on its exempt function income.

The College adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, ñAccounting for Uncertainty in Income Taxes.ò The College evaluates its uncertain tax positions using the provisions of FASB ASC 450, ñContingenciesò. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. The College has evaluated its tax positions and determined that its positions are more-likely-than-not to be sustained on examination. No provision for income tax is required for 2013.

The Collegeôs tax returns are subject to review and examination by federal and state authorities. Tax returns for fiscal year ended June 30, 2010, 2011 and 2012 are open for examination by federal and state authorities.

Functional Expenses

Expenses are reported on the statement of activities in categories recommended by the National Association of College and University Business Officers. The Collegeôs primary program service is instruction. Expenses reported as academic support, student services, auxiliary services and institutional support are incurred in support of this primary program service.

Note 1:
(Contôd)

The College classifies all of its development and fundraising costs in institutional support services. The total amount of fundraising costs incurred for fiscal year 2013 was $124,361.

The College allocates operation of plant and maintenance, interest and depreciation to functional areas based on square footage and the functional use of the buildings.

Classification of Activities

The College classifies its activities in two categories, operating and non-operating. Operating activities include all revenues and expenses derived from or related to its primary program service, instruction.

Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the 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. Actual results could differ from those estimates.

Concentrations

Burlington College, Inc. derives its revenue primarily from tuition.

Note 2: CASH

Cash consisted of the following:

Cash with Financial Institutions	$50,969
Cash on Hand	950
	$51,919

The custodial credit risk for the cash is as follows:

	Book Balance	Bank Balance
Insured (FDIC)	$50,969	$79,926

Note 2:
(Cont'd)

The difference between the book and the bank balance is due to reconciling items such as outstanding checks and deposits in transit.

Deposits are comprised of the following:

Unrestricted Cash	$ 7,936
Restricted Cash	43,983
Total Deposits	$51,919

Included in the book balance are a restricted debt reserve account in the amount of $8 held by People's Bank and the Perkins Loan Program fund in the amount of $43,975.

Note 3: RESTRICTED CASH

Restricted cash consists of the following accounts which have been established as required by the 2010 Series A bond on December 31, 2010 and amounts restricted for student loans from Federal loan funds received. As required by the Federal Perkins Loan Program, a separate cash account is maintained for the Perkins Loan Program.

Current Portion of Restricted Cash:	
Perkins Loan Program Fund	$43,975
Total Current Portion	43,975
Noncurrent Portion of Restricted Cash:	
VEHBFA Debt Service Reserve Fund	8
Total Noncurrent Portion	8
Total	$43,983

The VEHBFA Debt Service Reserve Fund is required by the bond and is to be used for debt payments in the event of a loan default. The College did not fund the Debt Service Reserve Fund in accordance with the requirements. Subsequent to year end, People's United Bank waived the Debt Service Reserve account minimum balance covenant for fiscal year 2013.

Note 4: TUITION RECEIVABLE

Tuition receivable is as follows:

Tuition Receivable	$ 420,803
Allowance for Doubtful Accounts	(140,000)
Net Tuition Receivable	$ 280,803

The College does not charge interest or penalties on tuition receivable.

Students can elect to be on a payment plan and will be charged $75 per semester for that service. All fees charged help support general operations of the College. The College earned $3,075 in payment plan revenue during fiscal year 2013.

Delinquent accounts are sent to a collection agency. Receivables are written off only after all efforts at collection have been attempted.

Note 5: PERKINS LOANS RECEIVABLE

Perkins Loans Receivable	$ 467,894
Less: Current Portion	(188,544)
Long-Term Portion	$ 279,350

Perkins loans are charged five percent (5%) annual interest beginning at the end of a studentǿs nine (9) month grace period. The term of these loans can extend up to ten (10) years. All interest earned is reinvested into the Perkins loan program. Receivables are considered in default when they are more than two hundred and forty (240) days past due. The total of loans that are greater than ninety (90) days past due are $176,753. The balance of loans receivable in default at June 30, 2013 is $158,753.

Loans can enter non-accrual status or deferment if forbearance is granted for financial hardships, poor health or other acceptable reasons. The total amount of loans in non-accrual status at June 30, 2013 is $130,605. There is no allowance for Perkins loans as an offsetting liability, refundable advances, is recorded.

Note 6: CONTRIBUTIONS RECEIVABLE

Contributions receivable consists of the following:

Unconditional promises expected to be collected in:

Less than one (1) year	$ 44,902
One (1) to Five (5) years	83,760
More than Five (5) Years	1,000,000
Total Pledges	1,128,662
Less discount to present value at 2.52%	(204,306)
Total discounted value of pledges	924,356
Less Current Portion	(44,902)
Total Non-Current Portion	$ 879,454

The College has reviewed the current status of contributions receivable and has determined them all collectible, therefore, no allowance is necessary.

The College has elected to use the Fair Value Option for valuing their contributions receivable. FASB ASC 825-10-55-5 ñFair Value Optionò allows the College to elect irrevocably the fair value measurement as the initial and subsequent measure of most receivables. The College established a measurement date and revised the fair value as of that date to reflect current market conditions. The College has elected June 30 to be their measurement date to revise the fair value of their contributions receivable. Management is using the U.S. Treasury ten (10) year T-Bill rates as of June 30 to revise their discount rate. Management believes this is the most accurate valuation of the current market conditions. The gain or loss resulting from the change in the fair value is recorded as an increase or a decrease in temporarily restricted net assets. The change in the fair value resulted in a loss of $47,480 being reported as contribution revenue.

Included in contributions receivable is $34,900 due from current or former Board members and $6,352 due from current employees. Also included in contributions receivable is a binding estate gift of $1,000,000 (before discount).

Note 7: INVESTMENT IN PLANT

Investment in plant is stated at cost on the date of acquisition or fair market value on the date of donation. The lives and depreciation methods are as follows:

	Method	Lives
Land Improvements	Straight-Line	10 Years
Buildings/Improvements	Straight-Line	5-60 Years
HVAC/Fire/Other Systems	Straight-Line	20 Years
Roofing	Straight-Line	15-25 Years
Equipment	Straight-Line	3-15 Years
Library Books and Art	N/A	N/A

The Library Books and Art are not depreciated because they are considered a collection.

It is the policy of the College to only capitalize assets with a cost of greater than $5,000.

Note 8: BOND ISSUE COSTS

Legal and bond issue expenses of $106,240 were incurred in financing the new campus purchase. These expenses will be amortized over the 20 year bond term.

The following is a summary of bond issue costs related to the new revenue bond which are being amortized over the life of the bond:

	Total	Accumulated Amortization	Net
Bond Issue Costs	$106,240	$13,280	$92,960

Note 9: SEVERANCE PAYABLE

The former President resigned from the College and a transition agreement was entered into on September 26, 2011. The transition period commenced on October 13, 2011 for one (1) year. The President was paid for the year, over the following two (2) years, at an annual rate of $149,380 including all customary benefits. In addition, the former President received additional payments into her retirement plans totaling $21,415 and a deferred bonus of $15,000 and a lump sum final payment of $15,000. The balance outstanding as of June 30, 2013 on the contract was $38,548.

Note 10: DEFERRED REVENUE

Deferred revenue consists of the following:

Summer Tuition Revenue	$ 149,278
Summer Tuition Revenue ï Masters Program	42,705
Summer Lab Fees Revenue	29,315
Summer Discount	(37,319)
Student Credit Balances	35,754
Unearned Grant Revenue	4,000
Total	$ 223,733

Note 11: POST EMPLOYMENT BENEFITS PAYABLE

The College has an agreement with a former President to pay him a retirement salary of $600 per month for life beginning July 1, 1995, increased each January 1 by the Consumer Price Index but not to exceed 5%. Currently, these payments are $958 per month. The College also agreed to continue paying health insurance premiums for both the former President and his partner for the duration of the former Presidentøs life. The College will also reimburse dental expenses up to a total of $2,000 per year, combined, for the former President and his partner. The current cost of the health insurance policies is $1,225 per month. Dental reimbursements for fiscal year 2013 totaled $1,432. The College has assumed a seven percent (7%) increase in medical insurance premiums for the former president and his partner to estimate the liability at June 30, 2013. An estimate of the current value of the payments for life are $253,835.

The College also entered into an agreement with another former President during 2002 to pay his spouseøs medical and dental insurance. The current cost of this policy is $268 for health insurance per month. The College also agreed to reimburse dental expenses up to $1,000 per year. Dental reimbursements for fiscal year 2013 totaled $-0-. The College has assumed a three percent (3%) increase in medical insurance premiums to estimate the liability at June 30, 2013. An estimate of the current value of the payments for life are $61,383.

Note 11:
(Contôd) The changes in the liability are as follows:

Post Employment Benefits Payable at June 30, 2012	$320,782
2013 Fiscal Year Medical Payment Change Based on Revised Estimates of Future Costs and Changes in Mortality	24,538
2013 Fiscal Year Salary Payments	(11,400)
2013 Fiscal Year Medical/Dental Payments	(18,702)
Post Employment Benefits Payable at June 30, 2013	315,218
Less: Current Portion	(29,509)
Post Employment Benefits Payable Long-Term Portion	$285,709

Note 12: LINE OF CREDIT

The College has a line of credit with Peopleôs United Bank in the amount of $650,000 with interest at the Wall Street Journal prime rate plus 2%, adjusted daily, with an initial rate of 5.25% and due on August 1, 2013. The line of credit is secured by all business assets and mortgages on all buildings owned by Burlington College, Inc. Subsequent to year end, the line of credit was increased to $1,000,000 and renewed until July 1, 2014.

The line of credit contains certain covenants including a debt service coverage ratio. The College did not meet the required debt service coverage ratio as of June 30, 2013. Subsequent to year end, Peopleôs United Bank waived the debt service coverage covenant for fiscal year 2013.

Note 13: BOND/NOTES PAYABLE

Vermont Educational & Health Buildings Financing Agency (VEHBFA) Revenue Bond, Peopleôs United Bank Trustee, Interest at 4.39%, Monthly payments of principal and interest in the amount of $33,511. Maturity date of October 2021, Secured by Burlington College real estate.	$6,507,359
Peopleôs United Bank - Bridge Loan, Interest payments starting January 2011, interest at 3.25%; principal due December 31, 2013, secured by assignment and pledge of money market account maintained by Antonio B. Pomerleau, LLC. Subsequent to Year End, this Loan was Renewed Until December 31, 2014 with interest at the Wall Street Journal Prime Rate, Adjusted Daily, with all Principal and Interest Due at Maturity	500,000

Note 13:
(Contôd)

Roman Catholic Diocese of Burlington, Vermont (Diocese note payable), Accrued interest at 3.6% for the first eighteen (18) months ($197,100) deferred until December 31, 2014 with option to be forgiven if principal has been paid in full by said date. If not paid in full, then accrued interest will be added to principal and paid within six (6) months of final payment, no later than December 31, 2020. Effective July 31, 2012, interest will continue to accrue at 3.6% on the outstanding balance until December 31, 2012, principal and interest will be amortized for thirty (30) months on last day of each month beginning July 31, 2012, monthly payments of $36,265, interest rate increasing to greater of 5% per annum or prime rate per Wall St. Journal, not exceeding 7%, principal and interest amortized for seventy-two (72) months beginning December 31, 2014, Secured by Burlington College real estate. The Principal and Interest Payments are Contingent upon Several Conditions, Including a Cash and Cash Equivalents Balance of at Least $1,450,000 Prior to Each Payment and the Approval of Peopleôs United Bank. The College cannot make any Principal and Interest Payments Due to the Conditions Not Being Met. The Conditions Will be Reevaluated Each Year.	$ 3,650,000
Total Bond/Notes Payable	10,657,359
Less: Prepaid Points, Net of Accumulated Amortization of $2,094	(14,656)
Net Bond/Notes Payable	10,642,703
Less: Current Portion	(118,659)
Long-Term Portion	$ 10,524,044

Note 13:
(Contôd)

Maturities based on the current terms and conditions are as follows:

FY2014	$ 118,659
FY2015	623,974
FY2016	129,528
FY2017	135,330
FY2018	141,392
Thereafter	5,858,476
Diocese Loan Payable ï Maturities Unknown	3,650,000
Total	$10,657,359

The prepaid points totaling $14,656 will be expensed over the term of the loan as part of interest expense.

The VEHBFA bond contains certain covenants including a debt service coverage ratio. The College did not meet the required debt service coverage ratio as of June 30, 2013.

Interest on the Diocese note payable in the amount of $325,159 has been accrued. As the interest is not due within the next year, it is categorized as long-term. The Diocese gave notice of default on the loan to the College on August 1, 2012 and has billed the College at a penalty interest rate of 8% since August 16, 2012. The difference in the accrued interest as of June 30, 2013 is $140,360. The College does not agree, based on the terms of the loan, that it is in default and, therefore, does not agree that it should be assessed the penalty interest rate. The College has not accrued the additional $140,360. The ultimate resolution of this matter is unknown.

The Diocese note payable includes several contingencies based on when the note is paid. The Diocese rented two (2) floors from the College for $15,000 per month from January 1, 2011 through May 31, 2011. The Diocese is obligated to pay the College total rent of $75,000 but only if the note is paid in full by December 21, 2014. Interest on the note is accruing for the first eighteen (18) months for a total of $197,100. If the College pays the note in full by December 21, 2014, the Diocese will forgive the interest. In addition, the College will owe the Diocese an additional $50,000 related to a lease if the loan is not paid in full by December 31, 2014. This amount will be due by December 31, 2020. This is included as an Other Liability under noncurrent liabilities.

Note 14: REFUNDABLE ADVANCES

Refundable Advances - U.S. Government represents Perkins/NDSL Loan Funds due back to the U.S. Department of Education if the College discontinues the program. The liability at June 30, 2013 is $504,786.

Note 15: RESTRICTED NET ASSETS

The restricted net assets consist of the following,:

	Temporarily Restricted	Permanently Restricted	Total
Endowment - Cate Fund	$ 0	$ 72,680	$ 72,680
Endowment ï Conway Estate	0	70,000	70,000
Endowment Interest	317	0	317
Capital Campaign Contributions Receivable	837,756	0	837,756
Unrestricted Contributions Receivable	80,150	0	80,150
Loan Funds ï Perkins	0	1,321	1,321
Total	$ 918,223	$144,001	$1,062,224

Note 16: ENDOWMENT FUND

The Collegeǿs Endowment Fund consists of the following:

Permanently Restricted Net Assets	$142,680
Temporarily Restricted Net Assets	317
Unrestricted Net Assets	19,914
Total Endowment Fund	$162,911

The Collegeǿs endowment consists of two (2) funds that were established to provide scholarships. The endowment includes donor-restricted endowment funds and Board designated funds. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

Accounting Principle

The State of Vermont adopted the Uniform Prudent Management of Institutional Funds Act on May 5, 2009. The Collegeǿs accounting for unappropriated investment earnings on endowment funds conforms to this law.

Note 16:
(Contôd)

Interpretation of Relevant Law

The Board of Trustees of the College has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 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 UPMIFA. In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the College and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment policies of the College

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the College to retain as a fund of perpetual duration. There were no deficiencies of this nature that are reported in unrestricted net assets as of June 30, 2013.

Return Objectives and Risk Parameters

The College has adopted an investment policy for endowment assets that attempts to preserve the real purchasing power of the principal and provide a stable source of perpetual financial support to endowment beneficiaries. The College has not adopted a spending policy. Endowment assets include those assets of donor-restricted funds that College must hold in perpetuity or for a donor-specified period(s) as well as Board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a money market account to maintain a steady rate of return. As of June 30, 2013, the College was out of compliance with this policy. The Endowment Funds were borrowed to cover operating expenses and have not yet been fully repaid. A portion of the funds were repaid prior to year end. The remaining balance is carried as an internal liability on the Collegeôs books.

The College holds $33,880 in cash equivalents at Wells Fargo Advisors for the endowments at June 30, 2013. This is $129,031 less than the total Endowment Fund, including unrestricted funds of $22,912, at June 30, 2013.

Note 16:
(Contʼd)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through current yield (interest and dividends).

Spending Policy and How the Investment Objectives Relate to Spending Policy

The College does not have a current spending policy. The Collegeʼs intentions are to hold the funds in a money market account and let it grow and then, once funds allow, scholarships will be awarded to students. This is consistent with the Collegeʼs objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The Endowment Net Asset composition by type of fund at June 30, 2013 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowment Funds	$ 0	$ 317	$ 142,680	$142,997
Board Designated Endowment Funds	19,914	0	0	19,914
Total Funds	$ 19,914	$ 317	$ 142,680	$162,911

The changes in Endowment Net Assets for the fiscal year ended June 30, 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets Beginning of Year	$ 25,414	$ 312	$ 142,680	$168,406
Investment Return:				
Investment Income	0	5	0	5
Total Investment Return	0	5	0	5
Contributions	500	0	0	500
Appropriation of Endowment Assets for Expenditure	(6,000)	0	0	(6,000)
Endowment Net Assets End of Year	$ 19,914	$ 317	$ 142,680	$162,911

Note 17: SCHOLARSHIPS AND AWARDS

Scholarships and awards consist of the following:

Burlington College Scholarships and Grants	$405,482
Tuition Discounts	166,132
Total	$571,614

Note 18: NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes specified by donors/grantors.

Purpose Restrictions:	
Instruction	$ 1,000
Perkins Fund Expenses	9,146
Time Restrictions:	
Contributions Receivable	107,558
Total	$ 117,704

Note 19: EXPENSES RELATED TO IDLE SPACE

A significant portion of the main building is not currently being occupied or utilized by the College. The College has allocated a portion of interest and depreciation expense to expenses related to idle space based on the square footage of the portion of the building not being occupied.

Note 20: PENSION PLAN

A defined contribution pension plan (403b) is available for all full and part time (over 18.75 hours) employees of Burlington College, Inc. that have worked there more than six (6) months. The covered employees can contribute up to 20% and Burlington College, Inc. contributes a percentage of the gross salary for those employees contributing 4% or greater. The College's contribution was seven percent (7%) of gross salary. Total payroll was $2,262,763. Covered payroll was $1,217,823. The pension expense for the 403b plan was $45,334 for the year ended June 30, 2013.

The College also has in effect a 457(b) defined contribution pension plan for the President and Vice Presidents. The amount of the annual contribution is negotiated in these employee's contracts. The total employer contributions to this plan for the year ended June 30, 2013 were $20,000. At June 30, 2013, the balance is unpaid and recorded as Retirement Payable.

Note 21: OPERATING LEASES

In moving to the new campus, the College entered into a new lease agreement for three additional copiers through SymQuest Group. The lease for one copier began December 29, 2010 and continues through December 29, 2014. The monthly payments are $737 for the first six (6) months and $808 thereafter. The lease for the second and third copiers began June 14, 2011 and continues through June 14, 2014. The monthly payments are $1,289.

Total lease expense for the year ended June 30, 2013 was $25,164. The College also incurred overage charges for excess copies in the amount of $6,028.

Future minimum lease payments are as follows:

FY2014	$ 25,142
FY2015	4,848
	$ 29,990

Note 22: DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INTRUMENTS

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties other than in a forced sale or liquidation. The College has determined that the carrying values of its financial assets and liabilities approximate fair value at June 30, 2013.

Note 23: ECONOMIC DEPENDENCE

The College receives substantial grant/loan funds from the U.S. Department of Education and is dependent upon this funding to support its activities and operations. This funding is not guaranteed for future years beyond 2014. Loss of these funds could jeopardize the College's ability to continue its activities and operations.

Note 24: COMMITMENTS

The College hired a new President effective June 1, 2012 who has an employment contract through June 1, 2015. If the College were to terminate the President's employment for any other reason except for gross misconduct, death, retirement, voluntary resignation or disability, the College would be liable for all salary and benefits for the remainder of the contract.

Note 25: RELATED PARTY TRANSACTIONS

In 2013, the College received $2,080 in fulfillment of prior year pledges from employees.

Note 25:
(Contôd)

In 2013, the College received $38,000 in fulfillment of prior year pledges from current and former Board members.

In 2013, the College leased space, materials and equipment from a local woodworking school that is owned by the former Presidentôs daughter. The total amount paid by the College was $182,741.

In 2013, the College paid a Board member $4,350 in adjunct faculty salary.

Note 26: LETTER OF CREDIT

The College, has an outstanding letter of credit from Peoples United Bank which expires on March 30, 2015 in the amount of $214,021. This letter of credit was issued in order for the College to continue receiving Title IV Federal Funds. Subsequent to year end, the maturity date was extended until September 30, 2015.

Note 27: GOING CONCERN

The College had a reduction in its net assets of $758,769 during 2013 resulting in an unrestricted undesignated net assets deficit of $1,705,993 and negative working capital of $848,546 as of June 30, 2013. In addition, as described in Notes 13 and 16, the College has not met its required debt service coverage ratio and has utilized its endowment funds to cover operating expenses. In addition, as described in Note 13, a creditor has declared their note to be in default and has assessed an additional $140,360 in penalty interest as of June 30, 2013. Subsequent to year end, the College increased their line of credit from $650,000 to $1,000,000 and extended the maturity until July 1, 2014.

The College understands the seriousness of its situation with regard to the financial results over the past two years. Over the past year and a half, the Business Office of the College has experienced an unstable staffing situation, with turnover in all Business Office positions. The resulting lack of oversight of financial responsibilities led to lengthy delays in reporting, as well as delays in collecting student accounts and preparing management reports. The College now has in place an experienced team of staff members working to address past due student accounts, establish more formalized financial policies and procedures, and implement timely reporting procedures for management. In order to support more well-informed decision making, we have promoted our Director of IT to Chief Information Officer. This individual will serve as our chief data custodian and analyst, and will actively participate in coordinating and monitoring progress with our Strategic Plan.

Note 27:
(Contød)

The Board of Trustees of the College has enjoyed significant growth over the past year, with the addition of five new trustees. All are committed to the Collegeøs mission and are deeply rooted within Burlington or elsewhere in Vermont. At the encouragement of the Collegeøs accrediting agency, NEASC, the Board recently voted to appoint the President of the College as an ex-officio board member. Previously the President was not a member of the Board. With support from the Board, the President and her administrative team have assembled a financial task force to review the Collegeøs financial circumstances and make recommendations for stabilizing and growing the college. The task force includes individuals who are among Vermontøs most prominent and experienced financial advisors. It also includes a financial consultant who has been working on special projects for the College and will continue to advise on financial matters.

In working closely with staff and advisory group members, the administration has directed a direct shift in priorities to focus primarily on enrollment growth over the coming year. While progress on our campus development plans will continue, along with efforts to raise funds towards eventual capital renovations of the old portion of our building, resources and staffing will be heavily directed to enrollment growth. Faculty are being mentored and supported in ways to grow their own programs, and we will expand our work to recruit and retain the best-suited students to our small and unique learning environment.

The President will continue her active work within the community and statewide to develop relationships that will benefit the college. This includes continued expansion of the Board, and general fundraising activities. The College also intends to develop a greater emphasis on auxiliary revenue sources, as our campus is in demand for summer conferences and activities. At this time, the College has seven scheduled music festivals on the campus this summer. These will generate a modest amount of revenue, but the primary focus for these activities at this time is to bring young people onto the campus to discover the College.

In summary, the College recognizes that our recent results raise ñsubstantial doubtò about the Collegeøs ability to continue as a going concern. The College is confident that it has a well thought-out strategic plan and the appropriate faculty, staff, trustees and advisors now in place to carry out the plan. Current projections indicate a loss for fiscal year 2014, but a significantly lower loss than either of the past two years. As the College is working to finalize its fiscal year 2015 budget, the College will use reasonable, conservative estimates of enrollment levels, and expense budgets will be managed carefully to fit within the revenue levels generated by this enrollment level.

Note 28: SUBSEQUENT EVENTS

All subsequent events have been evaluated through April 11, 2014, which is the date the financial statements were available to be issued.

In addition to the subsequent events to related to Long-Term Debt described in Note 13, the College borrowed $22,653 at 8.14% interest to purchase a used truck. Monthly payments of principal and interest of $401 began on December 1, 2013 and the loan matures on December 1, 2019.

The College also borrowed $40,114 at 8.65% interest to purchase a new truck. Monthly payments of principal and interest of $719 began on December 1, 2013 and the loan matures on December 1, 2019.

As of the date of this audit, three of the Collegeӳ real estate property holdings are under agreement and it is anticipated that those sales will close prior to June 30, 2014. The total combined selling prices for these properties is approximately $800,000. Peopleӳ United Bank and the Roman Catholic Diocese of Vermont are negotiating a division of the proceeds, all of which will be applied to loan principal. A fourth property is listed for sale at an asking price of $795,000.

BURLINGTON COLLEGE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Grant Title Federal Grant/Program Title	CFDA Number	Expenses	
U.S. Department of Education			
Federal Supplemental Education Opportunity Grant (FSEOG)	84.007(a)	$ 50,072	
Federal Work Study (FWS)	84.033(a)	42,639	
PELL Grant	84.063(a)	463,602	
Perkins Loan Program	84.038(a)	9,146	(b)
Federal Direct Student Loans (Direct Loan)	84.268(a)	1,859,931	(c)
Total U.S. Department of Education		2,425,390	
Total Expenditures of Federal Awards		$ 2,425,390	

(a) Denotes All Student Financial Aid Programs Considered as a Cluster of One (1) Major Program.

(b) Expenses Valued at Federal Expenses Plus New Federal Capital Contributions During the Year

Cash Balance at June 30, 2013:	$ 43,975
Loan Balance at June 30, 2013:	$ 467,894
The Value of New Loans Issued During the Year Ended June 30, 2013:	$ 54,000

(c) The Value of New Loans Issued During the Year Ended June 30, 2013.

The Schedule of Expenditures of Federal Awards includes the Federal grant activity of Burlington College, Inc. and was prepared using the significant accounting policies outlined in Note 1 to the financial statements. 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.

See Accompanying Independent Auditor's Report

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<u>Independent Auditorsô Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with ñGovernment Auditing Standardsò</u>

Board of Trustees
Burlington College, Inc.
351 North Avenue
Burlington, Vermont 05401

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 ñGovernment Auditing Standardsò issued by the Comptroller General of the United States, the financial statements of Burlington College, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013 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 April 11, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as described in the accompanying Schedule of Findings and Deficiencies in Internal Control, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 Burlington College, Inc.ôs financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Deficiencies in Internal Control as Items 13-1 and 13-2 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Deficiencies in Internal Control as Items 13-3 through 13-5 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Burlington College, Inc.ôs financial statements are free of 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 ñGovernment Auditing Standardsò.

We also noted other matters that we reported in a separate letter to the management of Burlington College, Inc. dated April 11, 2014.

Burlington College's Responses to Findings

Burlington College Inc.ôs response to the findings identified in our audit is included with the accompanying Schedule of Findings and Deficiencies in Internal Control. The Collegeôs response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Burlington College, Inc.ôs internal control or on compliance. This report is an integral part of an audit performed in accordance with ñGovernment Auditing Standardsò in considering Burlington College, Inc.ôs internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

April 11, 2014
Montpelier, Vermont
VT Lic. #92-000180

Sullivan, Powers & Company

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Independent Auditorsô Report on Compliance For Each
Major Program and on Internal Control Over
Compliance Required by OMB Circular A-133

Board of Trustees
Burlington College, Inc.
351 North Avenue
Burlington, Vermont 05401

Report on Compliance for Each Major Federal Program

We have audited Burlington College, Inc.ôs compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) ñCircular A-133 Compliance Supplementò that could have a direct and material effect on Burlington College, Inc.ôs major federal program for the year ended June 30, 2013. Burlington College, Inc.ôs major federal program is identified in the summary of auditorôs results section of the accompanying Schedule of Findings and Deficiencies in Internal Control.

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 Burlington College, Inc.ôs major federal program based on our audit of the types of compliance requirements referred to previously. 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 ñGovernment Auditing Standardsò, issued by the Comptroller General of the United States; and OMB Circular A-133 ñAudits of States, Local Governments and Non-Profit Organizationsò. 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 previously could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Burlington College, Inc.ôs 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 the major federal program. However, our audit does not provide a legal determination of Burlington College, Inc.ôs compliance.

Opinion on Each Major Federal Program

In our opinion, Burlington College, Inc. complied, in all material respects, with the types of compliance requirements referred to previously that could have a direct and material effect on its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The management of Burlington College, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to previously. In planning and performing our audit of compliance, we considered Burlington College, Inc.ôs internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on the 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 Burlington College, Inc.ôs 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.

Sullivan, Powers & Company

April 11, 2014
Montpelier, Vermont
VT Lic. #92-000180

FINANCIAL STATEMENTS:

Deficiencies in Internal Control:

Material Weaknesses:

12-1 Bank Reconciliation Controls

Criteria:

Internal controls should be in place to ensure that monthly bank reconciliations are reviewed for accuracy and performed in a timely manner.

Condition:

Bank reconciliations were not performed in a timely manner for most of the year. Due to the untimely bank reconciliations, there were many reconciling items each month that were recurring and have not been resolved. At year end, there was an unreconciled variance between the bank reconciliation and the general ledger of approximately $5,000 in the checking account. Also, there were several accounts (Construction Fund account, Debt Service Reserve account and the Building Fund account) that were not reconciled as the College did not obtain the bank statements from the bank. Also, there is no-one performing a review of the bank reconciliations to ensure they are done timely and accurately.

Cause:

Significant employee turnover during the year and the limited size of the accounting staff.

Effect:

Cash could be misstated due to the significant amount of reconciling items. The June 30, 2012 bank reconciliation contained an immaterial unreconciled variance. Also, there were several accounts that were not able to be reconciled due to lack of receiving the bank statements.

Recommendation:

We recommend that the College implement controls to ensure that bank reconciliations are performed in a timely manner and that all outstanding reconciling items are followed up on. We also recommend that the College implement controls to ensure that the monthly bank reconciliations are reviewed by a second person.

Corrective Action:

No corrective action was taken.

BURLINGTON COLLEGE, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
AND DEFICIENCIES IN INTERNAL CONTROL
JUNE 30, 2013

Significant Deficiencies:

12-2 Segregation of Duties ï Disbursements

Criteria:

Internal controls over the processing of disbursements should be in place to ensure that the final approval of disbursements is documented after the bookkeeper processes the checks for payment.

Condition:

The individual who processes disbursements obtains final approval for payment of disbursements prior to processing the checks. Once the checks are actually processed, there is no review to determine that the checks agree with the invoices that were approved for payment. All checks are signed without any supporting documentation. The bank reconciliation is performed by a separate individual, however, the scanned copies of the cancelled checks are not reviewed for reasonableness.

Cause:

Unknown.

Effect:

The College has inadvertently made its assets susceptible to misappropriation.

Recommendation:

We recommend that the College revise their procedures over disbursements to ensure that the supporting documentation is compared to the checks. We also recommend that the College implement controls to ensure that when the monthly bank reconciliation process is being performed that the cancelled checks are reviewed for reasonableness.

Corrective Action:

No corrective action was taken.

12-3 Journal Entries

Criteria:

Internal controls should be in place over the preparation, approval, and posting of journal entries to help ensure that entries are valid and appropriate, adequately supported, and posted as prepared.

Condition:

The College does not have a policy in place which requires appropriate personnel to approve all general journal entries.

Cause:

Unknown.

Effect:

This one deficiency in the internal control structure could allow other working control policies to be circumvented.

Recommendation:

We recommend that the College enact a policy that requires appropriate personnel to authorize all non-standard journal entries so not to circumvent the original approval process.

Corrective Action:

No corrective action was taken.

<u>12-4 Manual Payroll Checks</u>

Criteria:

Internal controls should be in place to ensure that manual payroll checks are limited in frequency and properly recorded in the general ledger.

Condition:

The College utilizes Pay Data to process their payroll. However, during the year, the College was writing manual payroll checks as directed by PayData. The reason for the manual paychecks was due to checks getting lost or an employee did not hand in their timesheet or other payroll documentation in a timely manner. In instances when a manual paycheck was prepared, PayData would run the amount that the check should be for and then the College would write a check and post the transaction to the prepaid expense account. In the next payroll, Pay Data would include that payroll transaction and then report it as a negative so that the funds would not be deducted from the payroll account. At this point, the College should be crediting the prepaid expense and recording the payroll expense. This was not occurring and there were a number of manual payroll checks still reported in prepaid expenses totaling approximately $7,800.

Cause:

Unknown.

Effect:

Prepaid expenses in the general ledger could be overstated and payroll expenses could be understated.

Recommendation:

We recommend that the College implement controls to minimize the amount of manual payroll checks that are written. This may need to be discussed with PayData to determine what can be done on their end to process a late payroll item. We also recommend that all manual payroll checks be followed up on in the next pay period and properly expensed in the general ledger.

Corrective Action:

Corrective action was taken.

FEDERAL AWARDS:

Deficiencies in Internal Control:

Material Weaknesses:

None noted.

Significant Deficiencies:

<u>12-5 Federal Work Study Draw Down Request Controls</u>

Criteria:

Internal controls should be in place to ensure that proper supporting documentation is attached to each individual federal work study draw down request to support the amount being requested.

Condition:

The College pays the federal work study students bi-weekly with the Collegeǿs payroll. Approximately six (6) times per year, the College performs a draw down request to the Department of Education for reimbursement of the payroll expenses. The payroll expenses are tracked by Human Resources on a spreadsheet and then the Financial Aid Office reviews the information on the spreadsheet to ensure that students are not in excess of their authorized award. The Financial Aid Office then notifies the Business Office of the amount that needs to be requested to draw down. The spreadsheet that is tracked by Human Resources is not reviewed for accuracy or compared to supporting documentation (i.e. timesheets), therefore, there is no documentation of what pay periods are being included in the reimbursement request.

Cause:

Unknown.

Effect:

Due to the lack of review and no supporting documentation being attached to the reimbursement request, the amount being requested may be inaccurately reported.

Recommendation:

We recommend that the College implement controls to ensure that the Federal Work Study funds are tracked by each individual pay period and then the supporting documentation be attached to the draw down request documenting which pay periods are being reimbursed. We also recommend that the Financial Aid office review the schedule of Federal Work Study funds incurred and agree the expenses to supporting documentation periodically during the year.

Corrective Action:

Corrective action was taken.

<u>12-6 Return of Title IV Funds</u>

Criteria:

Internal controls should be in place to ensure that the return of Title IV Federal funds calculations are reviewed for accuracy and agreed with supporting documentation.

Condition:

The College does not have adequate controls in place over the return of Title IV Federal funds calculations to ensure that the information is accurately reported. There were several errors noted on one form that included the date of determination being inaccurate, the type of withdrawal was inaccurate and the amount of aid that was disbursed did not agree with the supporting documentation. All of these errors were immaterial in this instance as there ended up being no return of federal funds due to the student earning all of the funds. In addition, the Financial Aid Office does not always do a return of Title IV funds for all withdrawals during the semester. If the student completed greater than sixty percent (60%) of the semester, the Financial Aid office will not complete a calculation as there will be no return of federal funds required. It was also noted that there is no review of the calculation performed by another individual to determine accuracy.

Cause:

Unknown.

Effect:

The return of Title IV funds calculation could be inaccurate and the improper amount could be refunded or not refunded.

Recommendation:

We recommend that the College implement controls to ensure that there is a review of the return of Title IV funds calculation for accuracy in reporting the type of withdrawal, the date of determination of withdrawal and that the amount of funds actually disbursed agree with supporting documentation. We also recommend that the College complete the return of Title IV funds calculation for any withdrawals that occur during a semester.

Corrective Action:

Corrective action was taken.

SUMMARY OF AUDITORôS RESULTS

Financial Statements

Type of Auditorôs Report Issued:
Unmodified.

Internal Control Over Financial Reporting:
Material Weaknesses:
Yes.

Significant Deficiencies identified not considered to be material weaknesses:
Yes.

Noncompliance material to financial statements:
None noted.

Federal Awards

Internal Control Over Major Programs:
Material Weaknesses identified:
No.

Significant Deficiencies identified not considered to be material weaknesses:
No.

Type of auditorôs report issued on compliance for major programs:
Unmodified.

There are no audit findings that are required to be reported in accordance with OMB Circular A-133, Section 510(a).

The major programs are part of a cluster and are as follows:

CFDA #	Program
84.007	Federal Supplemental Education Opportunity Grants (FSEOG)
84.033	Federal Work Study (FWS)
84.063	PELL Grant
84.038	Perkins Loan Program
84.268	Federal Direct Student Loans (Direct Loan)

The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

The auditee does not qualify as a low risk auditee.

FINANCIAL STATEMENTS:

Deficiencies in Internal Control:

Material Weaknesses:

<u>13-1 Reconciliation of Balance Sheet Accounts</u>

Criteria:

Internal controls should be in place to provide for the reconciliation of all balance sheet accounts to supporting documentation on a monthly basis in order to detect and correct errors in account balances.

Condition:

A number of balance sheet accounts such as cash and accounts receivable were not reconciled to the actual balances at year end and during the year which resulted in various adjustments to revenue and expenses.

Cause:

Unknown.

Effect:

The College's account balances were incorrect.

Recommendation:

We recommend that all balance sheet accounts be reconciled to supporting documentation at least monthly in order to detect and correct errors.

<u>13-2 Bank Reconciliation Controls</u>

Criteria:

Internal controls should be in place to ensure that monthly bank reconciliations are reviewed for accuracy and performed in a timely manner.

Condition:

Bank reconciliations were not performed in a timely manner for most of the year. Due to the untimely bank reconciliations, there were many reconciling items each month that were recurring and have not been resolved.

Cause:

Significant employee turnover during the year and the limited size of the accounting staff.

Effect:

Cash could be misstated due to the significant amount of reconciling items.

Recommendation:

We recommend that the College implement controls to ensure that bank reconciliations are performed in a timely manner and that all outstanding reconciling items are followed up on. We also recommend that the College implement controls to ensure that the monthly bank reconciliations are reviewed by a second person.

Significant Deficiencies:

<u>13-3 Segregation of Duties ï Disbursements</u>

Criteria:

Internal controls over the processing of disbursements should be in place to ensure that the final approval of disbursements is documented after the bookkeeper processes the checks for payment.

Condition:

The individual who processes disbursements obtains final approval for payment of disbursements prior to processing the checks. Once the checks are actually processed, there is no review to determine that the checks agree with the invoices that were approved for payment. All checks are signed without any supporting documentation. The bank reconciliation is performed by a separate individual, however, the scanned copies of the cancelled checks are not reviewed for reasonableness.

Cause:

Unknown.

Effect:

The College has inadvertently made its assets susceptible to misappropriation.

Recommendation:

We recommend that the College revise their procedures over disbursements to ensure that the supporting documentation is compared to the checks. We also recommend that the College implement controls to ensure that when the monthly bank reconciliation process is being performed that the cancelled checks are reviewed for reasonableness.

<u>13-4 Journal Entries</u>

Criteria:

Internal controls should be in place over the preparation, approval, and posting of journal entries to help ensure that entries are valid and appropriate, adequately supported, and posted as prepared.

Condition:

The College does not have a policy in place which requires appropriate personnel to approve all general journal entries.

Cause:

Unknown.

Effect:

This one deficiency in the internal control structure could allow other working control policies to be circumvented.

Recommendation:

We recommend that the College enact a policy that requires appropriate personnel to authorize all non-standard journal entries so not to circumvent the original approval process.

13-5 Manual Checks

Criteria:

Internal controls should be in place to ensure that manual checks are limited in frequency and properly recorded in the general ledger.

Condition:

During the year, the College wrote manual checks to various vendors and staff and the checks were not processed according to the Collegeôs procedures.

Cause:

Unknown.

Effect:

Some of the manual checks were not recorded in the general ledger.

Recommendation:

We recommend that the College implement controls to minimize the number of manual payroll checks that are written.

BURLINGTON COLLEGE
Start a fire.

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Burlington, Vermont 05401
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Burlington College
Management Response
Fiscal Year 2013 Audit
Schedule of Findings and Deficiencies

Submitted April 1, 2014

To Whom It May Concern:

Fiscal Year 2013 was one of the most challenging years in memory at Burlington College with regard to financial oversight and reporting. When I stepped out of the CFO role into the college presidency, I hired a new CFO who ultimately turned out to be a poor fit with higher education and with our small college in particular. During his one year tenure, there was also significant turnover in the Bookkeeper position, with three individuals filling that role over the twelve month period. The full impact of this Business Office turnover became clear during the course of the audit, as significant lapses in regular reconciliations and reporting became evident.

Subsequent to year end, there continued to be vacancies in the Business Office until late Fall 2013. Since that time, however, we have hired a new and highly qualified CFO with extensive experience in non-profit accounting, and an organized and efficient bookkeeper who has a very evident focus on systems, policies and procedures. These two individuals have already begun working closely together to establish a much more focused and efficient business office. In addition, we have budgeted an additional half time bookkeeper position to start this spring, which will allow us to have cross training with the registrar and financial aid offices, and will also allow for much more consistent two-person procedures with regard to review and approvals.

13-1 Reconciliation of Balance Sheet Accounts

Due to ongoing staff turnover in the Business Office during Fiscal Year 2013, the College continued to face significant challenges in keeping up with monthly reconciling and reporting. In addition, the College's financial accounting software, Campus Café, had never been set up properly to automatically generate a *Statement of Operations* or *Balance Sheet*. As a result, the reconciling and reporting procedures required manually downloading data from the program and converting it into Excel spreadsheets for analysis and reporting. This clearly inefficient and time-consuming process, combined with the challenges of new untrained staff, led to long lapses in monthly reporting and reconciling.

Subsequent to year end, Campus Café has been modified to automatically generate a monthly balance sheet. This will greatly simplify the reconciling process. In addition, a new CFO and Bookkeeper were hired in late 2013 and they are working steadily to put policies and procedures in place for consistent financial reporting. The College intends to begin a search for a second part-time bookkeeper prior to the end of the current fiscal year. This will provide not only additional resources for keeping up with our recordkeeping, but will facilitate cross-training with the financial aid and registrar's offices.

13-2 Bank Reconciliation Controls

Again due to significant staff turnover and limited staff size in the Business Office, monthly bank reconciliations during Fiscal Year 2013 lapsed greatly. Starting with the new fiscal year, since July 2013, the College's primary operating checking account has been reconciled monthly through the current date. Training of the new staff to complete these reconciliations is underway now, which will allow for a second person to review the reconciliation each month.

The new business office staff has implemented a process whereby cleared checks are tracked on a weekly basis. This contributes to a more accurate picture of our daily bank balance with regard to uncleared checks, and also facilitates the bank account reconciliation process.

13-3 Segregation of Duties – Disbursements

Canceled checks are now routinely reviewed for reasonableness as part of the bank reconciliation process. The new Business Office staff have implemented a formal procedure for approving disbursements and reviewing checks against invoices prior to distributing the checks. Check signers have also been trained in the importance of reviewing checks and documentation for reasonableness prior to signing. The addition of a second Bookkeeper will facilitate the review of these procedures by a second person.

13-4 Journal Entries

Again due to significant staff turnover and limited staff size in the Business Office, the process for making and approving journal entries did not allow for regular review by a second person. The new CFO and Bookkeeper have begun to implement a procedure for two-person entry and review, and this will also be facilitated by the hiring of a second Bookkeeper.

13-5 Manual Checks

The College has significantly reduced the number of manual checks issued since this same finding was reported in Fiscal Year 2012 (See 12-4). With few exceptions, manual paychecks are now only issued directly by our payroll company, PayData, which minimizes the opportunity for internal errors. In addition, responsibility for processing payroll has now been moved from our Human Resources department to the Business Office. The individual in Human Resources who had been processing our payroll was not comfortable with calculations and did not have adequate organizational systems in place. As a result, in FY12 there were a rather large number of payroll errors that necessitated issuing manual paychecks to replace lost or erroneous checks. During FY13 this problem has been largely eliminated through our reorganization of payroll duties.

Respectfully Submitted,

Christine Plunkett
President