# BURLINGTON COLLEGE, INC.

## AUDIT REPORT AND REPORTS ON COMPLIANCE AND INTERNAL CONTROL

## JUNE 30, 2012

BURLINGTON COLLEGE, INC.
AUDIT REPORT
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Sullivan, Powers & Co.
CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL CORPORATION

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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, 2012 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Burlington College, Inc.ôs management. 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 and the standards applicable to financial audits contained in ñGovernment Auditing Standardsò, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Burlington College, Inc. as of June 30, 2012 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the financial statements of Burlington College, Inc. taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, ñAudits of States, Local Governments and Non-Profit Organizations,ò and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

In accordance with ñGovernment Auditing Standardsò, we have also issued our report dated March 27, 2013, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with ñGovernment Auditing Standardsò and should be considered in assessing the results of our audit.

March 27, 2013
Montpelier, Vermont
VT Lic. #92-000180

Sullivan, Powers & Company

BURLINGTON COLLEGE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

## ASSETS

| | |
|---|---|
| Current Assets: | |
| Cash - Note 2 | $ 70,115 |
| Restricted Cash - Notes 2 & 3 | 36,726 |
| Tuition Receivable - Note 4 | 141,795 |
| Rental Security Deposit | 2,400 |
| Perkins Loans Receivable - Current Portion - Note 5 | 183,477 |
| Contributions Receivable - Current Portion - Note 6 | 81,780 |
| Grants Receivable - Note 7 | 124,818 |
| Other Receivables | 370 |
| Prepaid Expenses | 18,733 |
| Total Current Assets | 660,214 |
| Non-Current Assets: | |
| Property, Plant and Equipment: | |
| Land | 8,097,361 |
| Land Improvements | 26,880 |
| Buildings | 3,061,908 |
| Building Improvements | 1,318,277 |
| Equipment | 733,249 |
| Library Books and Art | 411,855 |
| Less: Accumulated Depreciation | (652,441) |
| Total Property, Plant and Equipment - Note 8 | 12,997,089 |
| Restricted Cash - Notes 2 & 3 | 14,727 |
| Bond Issue Costs and Legal Fees (Net of Accumulated Amortization) - Note 9 | 98,272 |
| Perkins Loans Receivable - Long-Term Portion - Note 5 | 279,551 |
| Contributions Receivable - Long-Term Portion - Note 6 | 957,534 |
| Total Non-Current Assets | 14,347,173 |
| TOTAL ASSETS | $ 15,007,387 |

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

LIABILITIES AND NET ASSETS

| | |
|---|---|
| Liabilities: | |
| Current Liabilities: | |
| Accounts Payable | $ 161,475 |
| Accrued Payroll & Related Liabilities | 57,030 |
| Severance Payable - Note 10 | 123,427 |
| Accrued Vacation | 60,612 |
| Rent Deposits | 7,150 |
| Deferred Revenue - Note 11 | 160,406 |
| Post Employment Benefits Payable - Current Portion - Note 12 | 31,285 |
| Line of Credit - Note 13 | 250,000 |
| Current Portion of Bond/Notes Payable - Note 14 | 113,572 |
| Total Current Liabilities | 964,957 |
| Noncurrent Liabilities: | |
| Post Employment Benefits Payable - Long-Term Portion - Note 12 | 289,497 |
| Bond/Notes Payable - Long-Term Portion - Note 14 | 10,645,819 |
| Accrued Interest Payable - Note 14 | 197,100 |
| Refundable Advances - U.S. Government - Note 15 | 493,834 |
| Total Noncurrent Liabilities | 11,626,250 |
| Total Liabilities | 12,591,207 |
| Net Assets: | |
| Unrestricted: | |
| Net Investment in Property, Plant and Equipment | 2,222,204 |
| Undesignated/(Deficit) | (972,346) |
| Total Unrestricted | 1,249,858 |
| Temporarily Restricted - Note 16 | 1,013,175 |
| Permanently Restricted - Note 16 | 153,147 |
| Total Net Assets | 2,416,180 |
| TOTAL LIABILITIES AND NET ASSETS | $ 15,007,387 |

BURLINGTON COLLEGE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Operating Revenue, Grant and Other Support: | | | | |
| Tuition and Fees Revenue: | | | | |
| Tuition and Fees | $ 4,205,653 | $ 0 | $ 0 | $ 4,205,653 |
| Less Scholarships and Awards - Note 18 | (476,412) | 0 | 0 | (476,412) |
| Net Tuition and Fees Revenue | 3,729,241 | 0 | 0 | 3,729,241 |
| Other Revenue, Grants and Support: | | | | |
| Federal Aid Programs | 40,817 | 0 | 0 | 40,817 |
| Other | 2,657 | 0 | 2 | 2,659 |
| Contributions, Grants and Contracts | 409,276 | 125,614 | 0 | 534,890 |
| Gala Auction and Event Proceeds | 17,174 | 0 | 0 | 17,174 |
| Auxiliary Enterprises | 224,148 | 0 | 0 | 224,148 |
| Net Investment Income | 284 | 4 | 5,948 | 6,236 |
| Net Assets Released from Restrictions - Note 19 | 68,192 | (64,745) | (3,447) | 0 |
| Total Other Revenue, Grants and Support | 762,548 | 60,873 | 2,503 | 825,924 |
| Total Operating Revenue | 4,491,789 | 60,873 | 2,503 | 4,555,165 |
| Operating Expenses: | | | | |
| Instruction | 1,883,235 | 0 | 0 | 1,883,235 |
| Academic Support | 376,481 | 0 | 0 | 376,481 |
| Student Services | 518,457 | 0 | 0 | 518,457 |
| Auxiliary Services | 247,358 | 0 | 0 | 247,358 |
| Institutional Support | 1,827,844 | 0 | 0 | 1,827,844 |
| Total Operating Expenses | 4,853,375 | 0 | 0 | 4,853,375 |
| Change in Net Assets Before Non-Operating Activities | (361,586) | 60,873 | 2,503 | (298,210) |
| Non-operating Activities: | | | | |
| In-Kind Contributions of Furniture and Equipment | 15,125 | 0 | 0 | 15,125 |
| Expenses Related to Idle Space - Note 20 | (270,095) | 0 | 0 | (270,095) |
| Transfer Between Net Asset Categories Based on Change in Donor's Intent - Note 21 | 0 | (70,000) | 70,000 | 0 |
| Total Non-operating Activities | (254,970) | (70,000) | 70,000 | (254,970) |
| Change in Net Assets | (616,556) | (9,127) | 72,503 | (553,180) |
| Net Assets - July 1, 2011 | 1,866,414 | 1,022,302 | 80,644 | 2,969,360 |
| Net Assets - June 30, 2012 | $ 1,249,858 | $ 1,013,175 | $ 153,147 | $ 2,416,180 |

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

# BURLINGTON COLLEGE, INC.
## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED JUNE 30, 2012

| | | |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Change in Net Assets | $ | (553,180) |
| Adjustments to Reconcile the Change in Net Assets to Net Cash Provided/(Used) by Operating Activities: | | |
| Add: Items Providing or Not Requiring Cash: | | |
| Depreciation | | 196,174 |
| Amortization | | 5,312 |
| Amortization of Prepaid Points | | 837 |
| Loss on Sale of Equipment | | 144 |
| Loss on Disposal of Library Books | | 5,512 |
| Decrease in Restricted Cash | | 3,595 |
| Decrease in Work Study Receivable | | 37 |
| Decrease in Other Receivables | | 111 |
| Decrease in Prepaid Expenses | | 14,920 |
| Increase in Accounts Payable | | 61,782 |
| Increase in Accrued Payroll & Related Liabilities | | 17,962 |
| Increase in Severance Payable | | 123,427 |
| Increase in Accrued Interest Payable | | 131,400 |
| Increase in Rent Deposits | | 7,150 |
| Increase in Deferred Revenue | | 80,471 |
| Increase in Refundable Advances | | 4,498 |
| Deduct: Items Requiring Cash or Not Providing Cash: | | |
| Gifts In-Kind | | (15,125) |
| Increase in Tuition Receivable | | (21,752) |
| Increase in Perkins Loans Receivable | | (7,525) |
| Increase in Contributions Receivable | | (17,469) |
| Increase in Grants Receivable | | (124,818) |
| Increase in Rental Security Deposit | | (800) |
| Decrease in Accrued Vacation | | (7,105) |
| Decrease in Post Employment Benefits Payable | | (9,718) |
| Total Cash Provided/(Used) by Operating Activities | | (104,160) |
| Cash Flows from Investing Activities: | | |
| Proceeds from Sale of Real Estate | | 125,000 |
| Proceeds from Sale of Equipment | | 400 |
| Decrease in Restricted Cash - Construction Fund | | 510,991 |
| Purchases of Property, Plant and Equipment | | (1,258,501) |
| Total Cash Provided/(Used) by Investing Activities | | (622,110) |
| Cash Flows from Financing Activities: | | |
| Borrowings on Line of Credit | | 250,000 |
| Decrease in Restricted Cash - Debt Service Reserve | | 361,000 |
| Principal Payments on Long-Term Debt | | (75,115) |
| Total Cash Provided by Financing Activities | | 535,885 |
| Total Cash Provided/(Used) | | (190,385) |
| Cash - July 1, 2011 | | 260,500 |
| Cash - June 30, 2012 | $ | 70,115 |

Supplemental Disclosure of Cash flow Information:

| | | |
|---|---|---|
| Total Interest Paid during the Year | $ | 318,628 |

During Fiscal year 2012, the College sold a piece of equipment with a cost of $906 and accumulated depreciation of $362 for $400 resulting in a loss of $144.

During Fiscal year 2012, the College disposed of library books with a cost of $5,512 resulting in a loss of $5,512.

During Fiscal year 2012, the College received a donated art piece valued at $15,125.

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:
(Contöd)

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:
(Cont'd)

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, 2012.

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. Changes in the allowance have not been material to the financial statements.

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 2012.

The Collegeôs tax returns are subject to review and examination by federal and state authorities. Tax returns for fiscal year ended June 30, 2009, 2010 and 2011 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 2012 was $127,300.

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 | $117,133 |
| Cash on Hand | 4,435 |
| | $121,568 |

The custodial credit risk for the cash is as follows:

| | Book Balance | Bank Balance |
|---|---|---|
| Insured (FDIC) | $117,133 | $125,989 |

Note 2:
(Contôd)

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 | $ 65,680 |
| Restricted Cash | 51,453 |
| Total Deposits | $117,133 |

Included in the book balance are a restricted debt reserve account in the amount of $14,727 held by Peopleôs Bank and the Perkins Loan Program fund in the amount of $36,726.

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 | $36,726 |
| Total Current Portion | 36,726 |
| Noncurrent Portion of Restricted Cash: | |
| VEHBFA Debt Service Reserve Fund | 14,727 |
| Total Noncurrent Portion | 14,727 |
| Total | $51,453 |

The VEHBFA Debt Service Reserve Fund was provided to be used for debt payments in the event of a loan default. The VEHBFA funds and Perkins Loan Program Funds are maintained in cash.

Note 4: TUITION RECEIVABLE

Tuition receivable is as follows:

| | |
|---|---|
| Tuition Receivable | $201,795 |
| Allowance for Doubtful Accounts | (60,000) |
| Net Tuition Receivable | $141,795 |

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 $2,400 in payment plan revenue during fiscal year 2012.

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 | $ 463,028 |
| Less: Current Portion | (183,477) |
| Long-Term Portion | $ 279,551 |

Perkins loans are charged five percent (5%) annual interest beginning at the end of a studentôs 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 $176,442. The balance of loans receivable in default at June 30, 2012 is $140,189.

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, 2012 is $117,716. 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 | $ 81,780 |
| One (1) to Five (5) years | 114,360 |
| More than Five (5) Years | 1,000,000 |
| Total Pledges | 1,196,140 |
| Less discount to present value at 1.67% | (156,826) |
| Total discounted value of pledges | 1,039,314 |
| Less Current Portion | (81,780) |
| Total Non-Current Portion | $ 957,534 |

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 gain of $125,114 being reported as contribution revenue.

Included in contributions receivable is $69,150 due from Board members and $6,240 due from current employees. Also included is a valid willed settlement valued at $20,000 from the estate of a former Board member and a binding estate gift of $1,000,000 (before discount).

Note 7: GRANTS RECEIVABLE

Grants Receivable consists of the following:

| | |
|---|---|
| Department of Energy Grant | $124,818 |
| Total | $124,818 |

Note 8: 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 9: 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 | $ 7,968 | $98,272 |

## Note 10: 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 will be 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 will receive 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, 2012 on the contract totaled $123,427.

## Note 11: DEFERRED REVENUE

Deferred revenue consists of the following:

| | |
|---|---|
| Summer Tuition Revenue | $ 76,512 |
| Summer Tuition Revenue ï Masters Program | 32,760 |
| High School Summer Program Revenue | 10,775 |
| Summer Lab Fees Revenue | 29,434 |
| Prepaid Fiscal Year 2013 Tuition | 10,700 |
| Deferred Grant Revenue | 225 |
| Total | $160,406 |

## Note 12: 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 $1,071 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 Presidentôs 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 $1,128 per month. Dental reimbursements for fiscal year 2012 totaled $2,123. The College has assumed a seven percent (7%) and a nine percent (9%) increase in medical insurance premiums for the former president and his partner to estimate the liability at June 30, 2012. An estimate of the current value of the payments for life are $259,164.

The College also entered into an agreement with another former President during 2002 to pay his spouseôs medical and dental insurance. The current cost of this policy is $257 for health insurance per month. The College also agreed to reimburse dental expenses up to $1,000 per year. Dental reimbursements for fiscal year 2012 totaled $924. The College has assumed a three percent (3.0%) increase in medical insurance premiums to estimate the liability at June 30, 2012. An estimate of the current value of the payments for life are $61,618.

Note 12:
(Contœd)

The changes in the liability are as follows:

| | |
|---|---|
| Post Employment Benefits Payable at June 30, 2011 | $330,500 |
| 2012 Fiscal Year Medical Payment Change Based on Revised Estimates of Future Costs and Changes in Mortality | 20,532 |
| 2012 Fiscal Year Salary Payments | (11,087) |
| 2012 Fiscal Year Medical/Dental Payments | (19,163) |
| Post Employment Benefits Payable at June 30, 2012 | 320,782 |
| Less: Current Portion | (31,285) |
| Post Employment Benefits Payable Long-Term Portion | $289,497 |

Note 13: LINE OF CREDIT

The College has a line of credit with Peopleœs United Bank in the amount of $250,000 with interest at 4% and due on December 3, 2012. The balance of the line of credit at June 30, 2012 was $250,000. 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 renewed once in the amount of $650,000 through March 1, 2013 and again in the amount of $750,000 with interest at the Wall Street Journal prime rate plus 2% with an initial rate of 5.25% and due in March, 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, 2012.

Note 14: BOND/NOTES PAYABLE

| | |
|---|---|
| Vermont Educational & Health Buildings Financing Agency (VEHBFA) Revenue Bond, Peopleœs United Bank Trustee, Interest at 4.39%, Monthly payments of interest only until October 2011, at which point monthly payments of principal and interest in the amount of $33,511. Maturity date of October 2021, Secured by Burlington College real estate. | $6,624,885 |
| Peopleœs 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. | 500,000 |

Note 14:
(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 | 10,774,885 |
| Less: Prepaid Points, Net of Accumulated Amortization of $837 | (15,494) |
| Net Bond/Notes Payable | 10,759,391 |
| Less: Current Portion | (113,572) |
| Long-Term Portion | $10,645,819 |

Note 14:
(Contôd)

Maturities Based on the Current Conditions are as follows:

| | |
|---|---|
| FY2013 | $ 113,572 |
| FY2014 | 927,497 |
| FY2015 | 444,115 |
| FY2016 | 500,725 |
| FY2017 | 564,650 |
| Thereafter | 8,224,326 |
| Total | $10,774,885 |

Interest on the Diocese note payable in the amount of $197,100 has been accrued. As the interest is not due within the next year, it is categorized as long-term.

The prepaid points totaling $16,331 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, 2012.

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.

Note 15: 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, 2012 is $493,834.

Note 16: 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 | 312 | 0 | 312 |
| Capital Campaign Contributions Receivable | 912,714 | 0 | 912,714 |
| Unrestricted Contributions Receivable | 100,149 | 0 | 100,149 |
| Loan Funds ï Perkins | 0 | 10,467 | 10,467 |
| Total | $1,013,175 | $153,147 | $1,166,322 |

Note 17: ENDOWMENT FUND

The Collegeÿs Endowment Fund consists of the following:

| | |
|---|---|
| Permanently Restricted Net Assets | $142,680 |
| Temporarily Restricted Net Assets | 312 |
| Unrestricted Net Assets | 25,414 |
| Total Endowment Fund | $168,406 |

The Collegeÿs 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 Collegeÿs accounting for unappropriated investment earnings on endowment funds conforms to this law.

Note 17:
(Contd)

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, 2012.

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, 2012, the College was out of compliance with this policy. The Endowment Funds were borrowed to cover operating expenses and have not yet been repaid.

Note 17:
(Contöd)

The College holds $1,880 in cash equivalents at Wells Fargo Advisors for the endowments at June 30, 2012. This is $166,526 less than the total Endowment Fund, including unrestricted funds of $25,414, at June 30, 2012. The Collegeös Endowment is unfunded as of June 30, 2012. The College has approved a repayment schedule for a portion of the endowment in the amount of $50,000. The College intends to pay $3,000 per month from October 31, 2012 through February 28, 2013, with a final payment of $35,000 on March 31, 2013. At March 31, 2013, interest will be calculated based on the average rate earned during the period October 1, 2012 through March 31, 2013 on the entire principal amount. There is currently no plan in place to repay the remaining balance of the Endowment Fund of $116,526.

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 Collegeös 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 Collegeös 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, 2012 is as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor Restricted Endowment Funds | $ 0 | $ 312 | $ 142,680 | $142,992 |
| Board Designated Endowment Funds | 25,414 | 0 | 0 | 25,414 |
| Total Funds | $25,414 | $ 312 | $ 142,680 | $168,406 |

The changes in Endowment Net Assets for the fiscal year ended June 30, 2012 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment Net Assets Beginning of Year | $ 28,904 | $ 308 | $ 72,680 | $101,892 |
| Investment Return: | | | | |
| Investment Income | 0 | 4 | 0 | 4 |
| Total Investment Return | 0 | 4 | 0 | 4 |
| Contributions | 0 | 0 | 0 | 0 |
| Net Assets ï Designated by Board of Trustees | 0 | 0 | 0 | 0 |
| Appropriation of Endowment Assets for Expenditure | (3,490) | 0 | 0 | (3,490) |
| Transfer Between Net Asset Categories Based on Change in Donorôs Intent | 0 | 0 | 70,000 | 70,000 |
| Endowment Net Assets End of Year | $ 25,414 | $ 312 | $ 142,680 | $168,406 |

Note 18: SCHOLARSHIPS AND AWARDS

Scholarships and awards consist of the following:

| | |
|---|---|
| Burlington College Scholarships and Grants | $331,357 |
| Tuition Discounts | 145,055 |
| Total | $476,412 |

Note 19: 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 | $ 10,000 |
| Perkins Fund Expenses | 3,447 |
| Time Restrictions: | |
| Contributions Receivable | 36,232 |
| Contributions Receivable Write-offs | 18,513 |
| Total | $ 68,192 |

Note 20: 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 21: TRANSFER BETWEEN NET ASSET CATEGORIES

During fiscal year 2012, a donor changed the terms of their donation from temporarily restricted to permanently restricted student aid. This resulted in a transfer from temporarily restricted to permanently restricted net assets in the amount of $70,000.

Note 22: 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 $1,977,612. Covered payroll was $918,186. The pension expense for the 403b plan was $64,273 for the year ended June 30, 2012.

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, 2012 were $25,000.

Note 23: OPERATING LEASES

Burlington College, Inc. has a lease agreement for three copiers through IKON Financial Services. The lease began in April, 2008 and continues through October, 2011. The monthly payments are $1,026 for the first eleven (11) months and then $2,167 for the remainder of the lease term. These three copiers were surrendered at the end of the lease period.

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, 2012 was $33,820. The College also incurred overage charges for excess copies in the amount of $6,650.

Future minimum lease payments are as follows:

| | |
|---|---|
| FY2013 | $ 25,152 |
| FY2014 | 25,152 |
| FY2015 | 4,848 |
| | $ 55,152 |

Note 24: 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, 2012.

Note 25: 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 2013. Loss of these funds could jeopardize the College's ability to continue its activities and operations.

Note 26: 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 27: RELATED PARTY TRANSACTIONS

In 2012, the College received $3,632 in fulfillment of prior year pledges from employees. The College also wrote off $4,563 in pledges from employees who have left the College during the year and subsequent to year end.

In 2012, the College received $26,250 in fulfillment of prior year pledges from Board members. The College also wrote off $8,700 in pledges from Board and former Board members.

In 2012, the College conducted two study abroad programs in environmental studies and film-making in the Bahamas for one week. The students and faculty members stayed at a facility owned by a Board member's family and were charged an all-inclusive rate less than fair market value. The total amount paid by the College was $26,881 and the College received an in-kind donation in the amount of $16,129.

In 2012, the College leased space, materials and equipment from a local woodworking school that is owned by the former President's daughter. The total amount paid by the College was $138,571.

Note 28: UNRESTRICTED DEFICIT

The College has an unrestricted undesignated net assets deficit of $972,346 and negative working capital of $304,743 as of June 30, 2012. In addition, as described in Notes 14 and 17, the College has not met its required debt service coverage ratio and has utilized a significant portion of its endowment funds to cover operating expenses. Subsequent to year end, the College increased their line of credit from $250,000 to $750,000 and extended the maturity until March 2014. In addition, as also described in Note 17, the College has a distinct plan to fund a portion of the Endowment Fund and a committed intent to replenish the balance of the Endowment Fund as soon as possible. Management is pursuing a number of options to eliminate the deficit and maintain adequate cash flow to cover operating expenses and debt service. With greatly expended campus facilities, enrollment growth, which was previously limited by available space, will now be feasible. This enrollment growth, which is already evident in the subsequent fiscal year and is anticipated to continue, will be critical in increasing revenues to meet operating expenses. In addition to enrollment growth in the traditional student body, the College is seeing rapid growth in its study abroad and professional programs in Cuba. Also, a new continuing education program for non-matriculated community members will be launched during the summer 2013 semester. Finally, with a new scenic campus of 35 acres, the College sees great potential for auxiliary revenue from conferences and other events, particularly in conjunction with the hospitality and tourism degree program.

Note 29: SUBSEQUENT EVENTS

All subsequent events have been evaluated through March 27, 2013, which is the date the financial statements were available to be issued.

BURLINGTON COLLEGE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

| Grant Title<br>Federal Grant/Program Title | CFDA<br>Number | Expenses | |
|---|---|---|---|
| U.S. Department of Education | | | |
| Federal Supplemental Education Opportunity Grant (FSEOG) | 84.007(a) | $ 49,572 | |
| Federal Work Study (FWS) | 84.033(a) | 40,271 | |
| PELL Grant | 84.063(a) | 410,735 | |
| Perkins Loan Program | 84.038(a) | 3,447 | (b) |
| Federal Direct Student Loans (Direct Loan) | 84.268(a) | 1,636,193 | (c) |
| Total U.S. Department of Education | | 2,140,218 | |
| U.S. Department of Energy | | | |
| Passed through Association of Vermont Independent Colleges: | | | |
| Energy Efficiency and Renewable Energy Technology Deployment, Demonstration and Commercialization | 81.129 | 124,818 | |
| Passed through State of Vermont Clean Energy Development Board | | | |
| State Energy Program - ARRA | 81.041 | 233,000 | |
| Total U.S. Department of Energy | | 357,818 | |
| Total Expenditures of Federal Awards | | $ 2,498,036 | |

(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, 2012: | $ 36,726 |
| Loan Balance at June 30, 2012: | $ 463,028 |
| The Value of New Loans Issued During the Year Ended June 30, 2012: | $ 63,000 |

(c) The Value of New Loans Issued During the Year Ended June 30, 2012.

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

**Sullivan, Powers & Co.**
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## Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with ñGovernment Auditing Standardsò

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

We have audited the financial statements of Burlington College, Inc. as of and for the year ended June 30, 2012 and have issued our report thereon dated March 27, 2013. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

Management of Burlington College, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Burlington College, Inc.ôs internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Burlington College, Inc.ôs internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been 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 indentified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be 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 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 deficiency described as Item 12-1 in the accompanying Schedule of Findings and Deficiencies in Internal Control to be a material weakness.

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 as Items 12-2 through 12-4 in the accompanying Schedule of Findings and Deficiencies in Internal Control 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 noted certain other matters that we reported to the management of Burlington College, Inc. in a separate letter dated March 27, 2013.

Burlington College, Inc.ôs responses to the findings identified in our audit is included with the accompanying Schedule of Findings and Deficiencies in Internal Control. We did not audit Burlington College, Inc.ôs responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, Board of Trustees, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

March 27, 2013
Montpelier, Vermont
VT Lic. #92-000180

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## Independent Auditorōs Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited Burlington College, Inc.ōs compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on Burlington College, Inc.ōs major federal program for the year ended June 30, 2012. Burlington College, Inc.ōs major federal program is identified in the summary of auditorōs results section of the accompanying Schedule of Findings and Deficiencies in Internal Control. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Burlington College, Inc.ōs management. Our responsibility is to express an opinion on Burlington College, Inc.ōs compliance based on our audit.

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 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 Burlington College, Inc.ōs 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. Our audit does not provide a legal determination of Burlington College, Inc.ōs compliance with those requirements.

In our opinion, Burlington College, Inc. complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Burlington College, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Burlington College, Inc.ôs internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Burlington College, Inc.ôs internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed as follows, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Deficiencies in Internal Control as Items 12-5 and 12-6 to be significant deficiencies.

Burlington College, Inc.ôs responses to the findings identified in our audit is included with the accompanying Schedule of Findings and Deficiencies in Internal Control. We did not audit Burlington College, Inc.ôs responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, Board of Trustees, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

March 27, 2013
Montpelier, Vermont
VT Lic. #92-000180

Sullivan, Powers & Company

Deficiencies in Internal Control:

Material Weaknesses:

None Noted.

Significant Deficiencies:

11-1 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.

*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.

Corrective Action Taken:

Corrective action was taken through February, 2012. Due to a transition in accounting staff, the controls were no longer being utilized after that date.

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of Auditor's Report Issued:
Unqualified.

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:
Yes.

Type of auditor's report issued on compliance for major programs:
Unqualified.

There are 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 qualify as a low risk auditee.

FINANCIAL STATEMENTS:

Deficiencies in Internal Control:

Material Weaknesses:

<u>12-1 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. 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.

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.

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.

<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.

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 Collegeȏs 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.

12-6 Return of Title IV Funds

*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.

Burlington College
Vermont USA

March 26, 2013

Burlington College response to Fiscal Year 2012 Audit Management Letter *Schedule of Deficiencies in Internal Control and Other Recommendations*:

The fiscal year ending June 30, 2012 was one of the most challenging in Burlington College's recent history. President Jane Sanders resigned unexpectedly in October 2011. The college's CFO was appointed at that time to serve as part of an interim shared leadership team which also included the VP for Development and the VP for Academic and Student Affairs. The CFO had previously been responsible for many of the routine monthly financial operations including bank reconciliations, journal entries, and federal financial aid fund management. With her time occupied with administrative and college leadership responsibilities and no budgeted funds available to hire additional staff in the Business Office (there was a commitment of two years of severance pay to the departing President), it was difficult to keep up in a timely manner with the financial recording and reporting responsibilities. The bookkeeper was partially trained to take on some of these tasks, but she resigned to accept another position in April, leaving yet another vacancy in the Business Office for several weeks. After a failed search for a new bookkeeper, the assistant registrar was temporarily moved into the position until it was eventually filled by a new hire during the summer of 2012. During the interim period, financial reporting fell still further behind, as the temporary bookkeeper was not fully trained in the use of the accounting software or business office procedures. Due to these transitions and staffing challenges, there was little success with fundraising or enrollment growth during the year. As a result, the college entered the new Fiscal Year 2013 with limited cash on hand and facing another tight budget year.

In June 2012, the CFO was appointed to the Presidency of the college. Shortly thereafter, a new CFO and bookkeeper were hired. The ongoing cash and budget challenges, and the difficulty of allocating time and resources to extensive training, have meant that financial reporting has continued to be backlogged during the first half of the year. We anticipate that this situation will be corrected during the second half of the year as the new college leadership and new staff settle into their roles.

Responses to specific deficiencies:

12-1 Bank Reconciliations: Timing of the bank reconciliations has continued to be delayed due to staff turnover and training delays. The CFO and bookkeeper will be fully trained in the software system and reconciliation process during February and March, 2013 and the monthly reconciliation process will be fully back in place by the end of June 2013. The process going forward will be that the bookkeeper will reconcile the bank statements monthly and the CFO will review and approve them. The CFO review process will include a review of canceled checks for reasonableness.

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12-2 Segregation of Duties: During FY12 a system was implemented to ensure that the CFO reviewed and approved the preliminary check run reports prior to preparation of the checks. This will be expanded effective March 2013 to include a secondary review after checks are printed and signed, to ensure that all signed checks match the supporting documentation.

12-3 Journal Entries: During FY12, in response to the FY11 audit recommendations, a system was implemented for the bookkeeper to make all journal entries in the accounting system and for the CFO to review and sign off each month on all of that month's journal entries. This was done by printing a full report of all journal entries for the month and attaching all of the supporting documentation. The CFO reviewed the full set of documents and signed off on the summary report. Unfortunately, this procedure was followed for only a few months before the challenges of the leadership and staffing transition got in the way. This system will be implemented again effective March 2013.

12-4 Manual Payroll Checks: The College has been in the practice of issuing manual internal payroll checks when the payroll company checks have been lost or when a paycheck is issued late due to a delayed timesheet or recent new hire. During Fiscal Year 2012, internal responsibility for our payroll processing shifted from the Business Office to the Human Resources Office. As a result, there were more than the usual numbers of errors in the payroll, resulting in the need to replace erroneous, lost or delayed checks. As pointed out in this audit report, the accounting complexities of reporting manual paychecks are evident and effective March 2013 the college will no longer issue manual paychecks other than in extreme circumstances. From this point on, all lost, delayed or erroneous checks will be replaced by requesting replacement checks directly from PayData, our payroll company.

Effective March 2013, internal responsibility for payroll processing has been returned to the Business Office.

<u>Other Recommendations</u>

12-5 Federal Work Study Drawdown: The federal work study drawdowns have typically been made several times a year from spreadsheets provided by the financial aid office. Although the financial aid office calculates these drawdowns based on the college's student payroll/timesheet records, the spreadsheets have often been a compilation of numerous pay periods. Therefore, there is not a direct connection between the drawdown spreadsheets and our payroll records. Effective April 2013, the college will implement a system whereby the Financial Aid Office and/or the Business Office will record each individual pay period on a spreadsheet with student names and hours worked/pay rate. This will be used to document each federal work study drawdown.

12-6 Return of Title IV Funds: Review and reporting of student withdrawals and Title IV return calculations will be improved and expanded effective April 2013. All student withdrawals from the college will be subject to a return calculation, even if no return will be required. The Title IV return forms will be completed by the Director of Financial Aid with input from the Business Office. Completed forms will be reviewed and signed off by the CFO.

With a new CFO and bookkeeper now in place in the Business Office, a thorough review of all additional recommendations put forth in the FY12 Audit Management Letter will be undertaken. During the spring 2013 months, appropriate steps will be taken to address these recommendations and new policies and procedures will be in place prior to the June 30, 2013 year end.

Additional questions relating to the FY2012 audit may be directed to the CFO (Bill Breen) or directly to me.

Sincerely,

Christine Plunkett
President