

Gwinnett Tech Foundation, Inc.  
and Subsidiary

Consolidated Financial Report

June 30, 2007

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Gwinnett Tech Foundation, Inc. and Subsidiary  
Lawrenceville, Georgia

We have audited the accompanying consolidated statement of financial position of Gwinnett Tech Foundation, Inc. and Subsidiary ("Foundation") as of June 30, 2007, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated 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 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 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2007, and the results of its activities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Lawrenceville, Georgia  
October 22, 2007

Gwinnett Tech Foundation, Inc. and Subsidiary  
Consolidated Statement of Financial Position

June 30, 2007

Assets

Assets	
Cash	\$ 525,315
Certificates of deposits and money market accounts	702,756
Unconditional promises to give	325,346
Investments - bonds and equity mutual funds	143,821
Property and equipment, net	5,529,198
Bond issuance costs, net	<u>51,783</u>
	<u>\$ 7,278,219</u>

Liabilities and Net Assets

Liabilities	
Funds held for affiliate	\$ 1,063
Bond payable	<u>2,600,000</u>
Total liabilities	2,601,063
Net Assets	
Unrestricted	3,536,051
Temporarily restricted	<u>1,141,105</u>
Total net assets	<u>4,677,156</u>
	<u>\$ 7,278,219</u>

*The accompanying notes are an integral part of these financial statements.*

Gwinnett Tech Foundation, Inc. and Subsidiary

Consolidated Statement of Activities

Year Ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Contributions	\$ 12,977	\$ 659,998	\$ 672,975
Rental income	176,042		176,042
Interest and dividend income	59,243	-	59,243
Net realized and unrealized gains on investments	16,280	-	16,280
Net assets released from restriction and fund transfers	691,391	(691,391)	-
Total support and revenue	<u>955,933</u>	<u>(31,393)</u>	<u>924,540</u>
Expenses			
Grants and allocations	768,256	-	768,256
Depreciation and amortization	202,246	-	202,246
Other expenses	265,643	-	265,643
Uncollectible pledges	572	2,000	2,572
Total expenses	<u>1,236,717</u>	<u>2,000</u>	<u>1,238,717</u>
Change in Net Assets	(280,784)	(33,393)	(314,177)
Net Assets, June 30, 2006	<u>3,816,835</u>	<u>1,174,498</u>	<u>4,991,333</u>
Net Assets, June 30, 2007	<u>\$ 3,536,051</u>	<u>\$ 1,141,105</u>	<u>\$ 4,677,156</u>

*The accompanying notes are an integral part of these financial statements.*

Gwinnett Tech Foundation, Inc. and Subsidiary

Consolidated Statement of Cash Flows

Year Ended June 30, 2007

Cash Flows From Operating Activities	
Change in net assets	\$ (314,177)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	202,246
Net realized and unrealized gains on investments	(16,280)
In-kind grant	501,526
Changes in assets and liabilities:	
Unconditional promises to give	(112,723)
Funds held for affiliate	30
	<hr/>
<i>Net Cash Provided By Operating Activities</i>	260,622
Cash Flows From Investing Activities	
Net purchases of certificates of deposits	(29,831)
Net purchases of investments	(1,101)
Payments towards construction of the Early Education Center	(3,495,249)
Payments towards bond issuance costs	(52,000)
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<i>Net Cash Used In Investing Activities</i>	(3,578,181)
Cash Flows From Financing Activities	
Proceeds from issuance of bonds	2,600,000
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<i>Net Cash Provided by Financing Activities</i>	2,600,000
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Net Change in Cash	(717,559)
Cash, Beginning	1,242,874
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Cash, Ending	\$ 525,315
	<hr/> <hr/>
Supplemental Disclosure:	
Grant paid through donation of property and equipment	\$ 501,526

*The accompanying notes are an integral part of these financial statements.*

Gwinnett Tech Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations:** Gwinnett Tech Foundation, Inc. (“Foundation”), was established in 1994 to generate and provide additional funds for the support of programs and services to achieve the goals and objectives of Gwinnett Technical College located in metropolitan Atlanta, Georgia. Support and revenue is generated primarily through individual and corporate pledges and contributions.

GTF II, LLC (“GTF II”), a wholly-owned subsidiary of the Foundation, was established in 2005 to construct facilities for use as an Early Education Center. The facilities, which were completed in 2007, are leased to the Georgia Department of Technical and Adult Education (see note 3).

**Principles of Consolidation:** The accompanying financial statements include the consolidated accounts of the Foundation and its wholly owned subsidiary, GTF II. All material inter-company transactions and balances have been eliminated in consolidation.

**Basis of Presentation:** The financial statements are presented in accordance with the provisions of Statements of Financial Accounting Standards (“SFAS”) No. 116, *Accounting for Contributions Received and Contributions Made*, and No. 117, *Financial Statements of Not-for-Profit Organizations*. SFAS No. 117 requires the reporting of total assets, liabilities and net assets in a statement of financial position; reporting the change in net assets in a statement of activities; and reporting the sources and uses of cash and cash equivalents in a statement of cash flows.

SFAS No. 117 also requires that net assets and revenues, gains, expenses and losses be classified as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions as follows:

*Permanently restricted* - Net assets subject to donor imposed stipulations that they be maintained permanently by the Foundation.

*Temporarily restricted* - Net assets whose use by the Foundation is subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire by the passage of time.

*Unrestricted* - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by the Foundation or may otherwise be limited by contractual agreements with outside parties. The Foundation had no permanently restricted net assets for the year ended June 30, 2007.

**Cash:** The Foundation considers only cash in interest bearing checking accounts to be cash. Cash held in certificates of deposit and in money market accounts are considered investments.

Gwinnett Tech Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

On occasion, the Foundation maintains cash balances on deposit with financial institutions in excess of federally insured limits. Management continually monitors the soundness of these financial institutions and believes the exposure to loss to be minimal.

**Investments:** In accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, investments are carried at fair value based on quoted market prices. Investment income and gains and losses on investments carried at fair value are recorded as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulation or by law.

Investment securities are exposed to various risks, such as interest rate risk, market risk and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the accompanying financial statements.

**Promises to Give:** Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Foundation uses the allowance method to determine uncollectible unconditional promises to give. The allowance is based on management's analysis of specific promises made. Management believes that substantially all unconditional promises to give at June 30, 2007 are collectible. Therefore, there is not an allowance for unconditional promises to give at June 30, 2007.

Contributions that are expected to be received in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a 5% interest rate. Amortization of the discounts is included in contributions in the accompanying consolidated statement of activities.

**Property and Equipment:** Property and equipment are recorded at cost. Acquisitions in excess of \$500 are capitalized. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the individual assets as follows:

	<u>Life</u>
Computers and software	3 to 5 years
Equipment, furniture and fixtures	10 years
Land improvements	15 years
Building	40 years

Gwinnett Tech Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

**Intangibles:** Intangibles, which consist of bond issuance costs, are subject to amortization. Amortization is calculated using the straight-line method over the life of the bond.

**Funds Held for Affiliate:** The Foundation collects and disburses monies for the Gwinnett Tech Alumni Association. The Foundation does not provide any financial support for the Alumni Association.

**Fair Values:** The carrying amounts of cash, certificates of deposit and money market accounts, and funds held for affiliate approximate fair value because of the short maturities of these items. Investments in debt and equity mutual funds are carried at estimated fair value based upon quoted market prices. The carrying value of the bond also represents its fair value since it bears interest at an approximate market rate.

**Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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 support, revenue, and expenses during the reporting period. Actual results could differ from those estimates.

**Donated Services:** The Foundation receives a significant amount of donated services from unpaid volunteers who assist in fund raising and special projects. Additionally, salaries for the Foundation's employees are paid by Gwinnett Technical College and office space for the Foundation is provided by Gwinnett Technical College at no cost to the Foundation. (No amounts have been recognized in the consolidated statement of activities because the criteria for recognition under SFAS No. 116 have not been satisfied).

**Income Taxes:** The Foundation is a qualifying, nonprofit organization as defined in Section 501(c)(3) of the Internal Revenue Code; therefore, it is exempt from federal and state income taxes.

**NOTE 2— UNCONDITIONAL PROMISES TO GIVE**

Unconditional promises to give at June 30, 2007 are as follows:

Receivable in less than one year	\$ 272,669
Receivable in one to five years	59,100
Total unconditional promises to give	331,769
Less discounts to net present value	6,423
Net unconditional promises to give	<u>\$ 325,346</u>

Gwinnett Tech Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

**NOTE 3— EARLY EDUCATION CENTER**

In June 2005, GTF II began leasing land from the Gwinnett County Board of Education in order to construct a facility for use as an Early Education Center to be leased to the Georgia Department of Technical and Adult Education (“DTAE”). Subsequently, the Gwinnett County Board of Education assigned the ground lease to DTAE. The initial ground lease term expires in August 2036.

In July 2006, GTF II obtained the certificate of occupancy for the Early Education Center and executed an operating lease with DTAE. The operating lease requires DTAE to pay monthly rent of \$14,830 to GTF II. The initial lease term expired in June 2007, with a one year renewal option.

Upon execution of the operating lease with DTAE, a donation consisting of classroom furniture, fixtures and supplies was made from GTF II to Gwinnett Technical College. As of June 30, 2007 the total contribution to Gwinnett Technical College for the Early Education Center was \$501,526.

**NOTE 4— PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2007 consist of the following:

Computers and software	\$ 35,546
Equipment, furniture and fixtures	667,173
Land improvements	50,490
Building	<u>4,994,328</u>
	5,747,537
Less accumulated depreciation	<u>218,339</u>
Property and equipment, net	<u>\$ 5,529,198</u>

**NOTE 5— BOND PAYABLE**

In June 2007, GTF II issued a \$2,600,000 20-year revenue bond to partially finance construction of the Early Education Center. Interest on the bond is paid semi-annually beginning December 1, 2007, at a fixed rate of 4.85%. The interest rate is reset at the prevailing Treasury Rates plus a margin on the tenth and fifteenth year of the bond term; however, under the terms of the bond agreement the interest rate will not exceed 10%. Annual principal repayments begin June 1, 2008 and increase over the bond’s term; in years 1-19 the principal payments range from \$53,000 to \$185,000, and in the bond’s final year the scheduled principal payment is \$549,500. The bond is guaranteed by the Foundation and is secured by the property and by an assignment of the DTAE rents and leases.

Gwinnett Tech Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Minimum principal payments are as follows:

2008	\$	53,000
2009		55,500
2010		58,500
2011		61,000
2012		64,500
Thereafter		<u>2,307,500</u>
	\$	<u>2,600,000</u>

**NOTE 6— TEMPORARILY RESTRICTED NET ASSETS**

Net assets were temporarily restricted for the following purposes at June 30, 2007:

Professional Excellence Fund	\$	493,021
Scholarships		413,202
Tech Upgrades/Academic Area		160,485
SLA Fund		43,222
Others		<u>31,175</u>
Total temporarily restricted net assets	\$	<u>1,141,105</u>

**NOTE 7— CONCENTRATIONS**

For the year ended June 30, 2007, contributions from two donors represented approximately 24% and 19% of total contributions.

**NOTE 8— ADMINISTRATIVE GIFT ALLOCATIONS**

The Foundation may charge a one-time fee of up to 10% upon receipt of certain restricted cash donations. The fee is considered an administrative gift allocation which is allocated to the unrestricted operating fund to help offset the cost of operating the Foundation. For the year ended June 30, 2007, the administrative gift allocations were \$33,360 and are included in net assets released from restriction in the consolidated statement of activities.