

HOME PARK LEARNING CENTER, INC.

FINANCIAL STATEMENTS
(with report of independent auditors)

YEARS ENDED JUNE 30, 2012 AND 2011

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Officers
Home Park Learning Center, Inc.
Atlanta, Georgia

We have audited the accompanying statements of financial position of Home Park Learning Center, Inc., a nonprofit organization (the "Organization"), as of June 30, 2012 and 2011, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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 Home Park Learning Center, Inc. as of June 30, 2012 and 2011, and the changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Tomkiewicz Wright, LLC

October 23, 2012

HOME PARK LEARNING CENTER, INC.

 STATEMENTS OF FINANCIAL POSITION
 JUNE 30, 2012 AND 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 89	\$ 89
Prepaid insurance	6,282	3,785
Prepaid expenses – other	1,838	9,791
Property and equipment, net of depreciation and amortization	1,109,642	1,163,552
Restricted contribution receivable	<u>91,833</u>	<u>96,667</u>
 TOTAL ASSETS	 <u>\$ 1,209,684</u>	 <u>\$ 1,273,884</u>
 <u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Accounts payable	\$ 1,838	\$ 9,791
 NET ASSETS:		
Unrestricted net assets	1,116,013	1,167,426
Temporarily restricted net assets	<u>91,833</u>	<u>96,667</u>
	<u>1,207,846</u>	<u>1,264,093</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 1,209,684</u>	 <u>\$ 1,273,884</u>

See notes to financial statements.

HOME PARK LEARNING CENTER, INC.

 STATEMENTS OF ACTIVITIES
 YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CHANGES IN UNRESTRICTED NET ASSETS:		
Revenues and support:		
Unrestricted contributions	\$ 120,991	\$ 55,985
Management services revenue	72,091	80,013
Interest income	-0-	2
Net assets released from restriction	<u>4,834</u>	<u>4,833</u>
Total unrestricted revenues and support	197,916	140,833
Expenses:		
Program services	171,476	103,898
Management and general	<u>77,853</u>	<u>91,448</u>
Total expenses	<u>249,329</u>	<u>195,346</u>
Decrease in unrestricted net assets	(51,413)	(54,513)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Revenues and support:		
Net assets released from restriction	<u>(4,834)</u>	<u>(4,833)</u>
DECREASE IN NET ASSETS	(56,247)	(59,346)
NET ASSETS, beginning of year	<u>1,264,093</u>	<u>1,323,439</u>
NET ASSETS, end of year	<u>\$ 1,207,846</u>	<u>\$ 1,264,093</u>

See notes to financial statements.

HOME PARK LEARNING CENTER, INC.

 STATEMENTS OF CASH FLOWS
 YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$ (56,247)	\$ (59,346)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	53,910	53,910
Changes in operating assets and liabilities:		
Unconditional promises to give	-0-	2,605
Prepaid insurance	(2,497)	605
Prepaid expense – other	7,953	(9,791)
Restricted contribution receivable	4,834	4,833
Accounts payable	<u>(7,953)</u>	<u>7,186</u>
Net cash provided by operating activities	-0-	2
CASH AND CASH EQUIVALENTS, beginning of year	<u>89</u>	<u>87</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 89</u>	<u>\$ 89</u>

See notes to financial statements.

HOME PARK LEARNING CENTER, INC.

 STATEMENT OF FUNCTIONAL EXPENSES
 YEAR ENDED JUNE 30, 2012

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ -0-	\$ 56,809	\$ 56,809
Fringe benefits	<u>-0-</u>	<u>15,282</u>	<u>15,282</u>
Total compensation and benefits	-0-	72,091	72,091
Repairs and maintenance	8,628	-0-	8,628
Management contract fees	98,557	-0-	98,557
Professional fees	-0-	4,100	4,100
Insurance	5,547	1,178	6,725
Depreciation and amortization	53,910	-0-	53,910
Supplies	-0-	434	434
Licenses and fees	-0-	50	50
Rent	<u>4,834</u>	<u>-0-</u>	<u>4,834</u>
Total expenses	<u>\$ 171,476</u>	<u>\$ 77,853</u>	<u>\$ 249,329</u>

See notes to financial statements.

HOME PARK LEARNING CENTER, INC.

 STATEMENT OF FUNCTIONAL EXPENSES
 YEAR ENDED JUNE 30, 2011

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ -0-	\$ 63,452	\$ 63,452
Fringe benefits	<u>-0-</u>	<u>16,561</u>	<u>16,561</u>
Total compensation and benefits	-0-	80,013	80,013
Repairs and maintenance	10,102	-0-	10,102
Management contract fees	19,570	-0-	19,570
Professional fees	-0-	9,000	9,000
Insurance	6,195	1,462	7,657
Depreciation and amortization	53,910	-0-	53,910
Supplies	9,288	898	10,186
Licenses and fees	-0-	75	75
Rent	<u>4,833</u>	<u>-0-</u>	<u>4,833</u>
Total expenses	<u>\$ 103,898</u>	<u>\$ 91,448</u>	<u>\$ 195,346</u>

See notes to financial statements.

HOME PARK LEARNING CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

1. Organization and Summary of Significant Accounting Policies:

Home Park Learning Center, Inc. (the "Organization"), is a Georgia non-profit corporation and cooperative organization of the Georgia Institute of Technology ("GIT") formed to provide child care services to the faculty, staff, and students of GIT and the residents of the Home Park community.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958, *Not-for-Profit Entities*. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Cash and Cash Equivalents

The Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are recognized on a straight-line basis over the estimated useful lives of the assets. All depreciation and amortization expense in the accompanying financial statements is attributable to leasehold improvements with an estimated useful life of thirty years.

Revenue Recognition

The Organization follows ASC 958, *Not-for-Profit Entities*, whereby contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Unconditional promises to give are recognized as receivables and as revenues in the period in which the Organization is notified by the donor of his or her commitment to make a contribution. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities and in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Organization is a not-for-profit corporation and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no income taxes are reflected in the accompanying financial statements.

In June 2006, the FASB issued FASB Interpretation ("FIN") 48, *Accounting for Uncertainty in Income Taxes*. FIN 48, now codified under ASC 740, *Income Taxes*, was adopted by the Organization as required for the year ended June 30, 2010. Under this guidance, the Organization assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination of the facts, circumstances and information available at the end of each financial statement period. Unrecognized tax benefits are measured and recorded as a liability where the Organization has determined it to be probable a tax position would not be sustained and the amount of the unrecognized tax benefit, including associated penalties and interest, 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.

ASC 740 is applicable to not-for-profit entities in that certain matters, such as the organization's tax-exempt status, are considered tax positions taken in its annual informational tax return and thus must be assessed for potential unrecognized tax benefits.

Management has determined that there is no tax liability resulting from unrecognized tax benefits relating to uncertain income tax positions taken, or expected to be taken, on its informational tax returns as of June 30, 2012. No informational tax returns are currently under examination. The statute of limitations on the Organization's informational tax returns remains open for returns covering years ended on or after June 30, 2009.

Estimates and Assumptions

The Organization uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Date of Management's Review

In accordance with ASC 855, *Subsequent Events*, management has performed a review of the Organization's subsequent events and transactions through October 23, 2012, which is the date the financial statements are available for issue.

2. Memorandum of Understanding:

A Memorandum of Understanding ("MOU") between the Organization and GIT, dated October 26, 2005, allows GIT to provide restricted financial resources to the Organization. The Organization also receives financial support from the Georgia Tech Foundation ("GTF"), which is also a Georgia non-profit corporation and cooperative organization of GIT.

3. Management Contract Fees:

The Organization contracts the daily operations of the child care center to Bright Horizons Family Solutions, Inc. ("Bright Horizons"), a for-profit company which operates such centers nationwide. The Organization and Bright Horizons executed a management agreement with a three-year term through December 31, 2007, which thereafter automatically renews for successive one-year terms unless terminated by one of the parties.

Management contract fees consist of a flat monthly management fee set by the management agreement, plus reimbursable operational expenses which are defined in and allowed by the management agreement. Bright Horizons collects revenues from program participants, and bills the Organization for any amount by which the management contract fees exceed the revenues received for the month. If revenues exceed the fees, Bright Horizons issues a credit memo to the Organization to be applied to future months' fees. Net expenses incurred by the Organization under this agreement total \$98,557 and \$19,570 for the years ended June 30, 2012 and 2011.

4. Concentrations:

The Organization receives significant resources and support from GIT and related organizations pursuant to various agreements, including a memorandum of understanding between the Organization and GIT. An interruption of this support could cause substantial doubt in the Organization's ability to continue as an independent entity.

5. Fair Value Measurements:

ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by ASC 820, are used to measure fair value. FASB ASC 820 requires an entity to maximize the use of observable inputs when measuring fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad areas:

Level 1 – Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date.

Level 2 – Inputs to the valuation methodology are:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability, including assumptions regarding risk.

The Organization had no assets or liabilities that were measured and recognized at fair value on a non-recurring or recurring basis as of June 30, 2012 or 2011, and as such had no assets or liabilities that fell into the tiers described above.

6. Prepaid Expenses – Other:

Prepaid expenses – other consists of credit balances due from Bright Horizons under the management contract described in Note 3.

7. Restricted Contribution Receivable:

Restricted contribution receivable consists of the excess of the value of a land lease entered with the City of Atlanta over the actual payments made, as further described in Note 9.

8. Property and Equipment:

Property and equipment at June 30 consists of the following:

	<u>2012</u>	<u>2011</u>
Leasehold improvements	\$ 1,617,295	\$ 1,617,295
Furniture and equipment	<u>87,472</u>	<u>87,472</u>
	1,704,767	1,704,767
Accumulated depreciation and amortization	<u>595,125</u>	<u>541,215</u>
	<u>\$ 1,109,642</u>	<u>\$ 1,163,552</u>

Depreciation and amortization expense for each of the years ended June 30, 2012 and 2011 is \$53,910.

9. Operating Lease Commitment and Land Lease Contribution:

The Organization leases land from the City of Atlanta on which the child care center is constructed. The lease term is five years, and is renewable for five additional five-year terms, for a total of thirty years. Under the lease terms, the Organization pays the city \$1 per year for use of the land, which is substantially below fair market value. The leasehold improvements the Organization makes to the land remain the property of the city at the end of the lease.

The Organization recorded a temporarily restricted contribution of \$145,000 to reflect the estimated value of the land lease in excess of the payments made by the Organization to the city over the life of the lease. The restriction is recognized as released on a straight-line basis over the thirty-year life of the lease. At June 30, 2012 and 2011, contributions of \$91,833 and \$96,667 remained under temporary restriction in connection with the lease.

10. Management Services Revenue, Repairs and Maintenance Expense, and Supplies Expense:

Under the MOU (see Note 2), the Organization provides child care services beneficial to GIT. In accordance with this agreement, the Organization receives administrative and other services provided by employees of GIT. The value of these services is estimated at \$72,091 and \$80,013 for the years ended June 30, 2012 and 2011, based on the estimated amount of time spent rendering services to the Organization at the employees' compensation rates. These amounts are included in management services revenue and management and general expense in the accompanying Statements of Activities.

During the years ended June 30, 2012 and 2011, GIT also provided repair and maintenance services for the Organization's physical facility of \$8,628 and \$10,102, and supplies, telecommunications, and other administrative resources for the Organization's programs of \$434 and \$10,186. These balances are included in unrestricted revenues, and in program service expenses or management and general expenses, as applicable, in the accompanying Statements of Activities.