

WINTER & SCOGGINS
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

INDEPENDENT AUDITORS' REPORT

September 20, 2012

Board of Directors
Dalton State College Foundation, Inc.
650 College Drive
Dalton, Georgia 30720

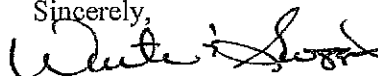
Ladies and Gentlemen:

We have audited the accompanying Consolidated Statements of Financial Position of Dalton State College Foundation, Inc., (a nonprofit organization) as of March 31, 2012, and 2011, and the related Consolidated Statements of Activity, Functional Expenses, and Cash Flows for the years then ended. These financial statements are the responsibility of the organization's Board of Directors and Administration. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is 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 the Board of Directors and Administration, 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 consolidated financial position of Dalton State College Foundation, Inc. as of March 31, 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.

Sincerely,



Winter & Scoggins
Certified Public Accountants, P.C.

DALTON STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of March 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 973,294	\$ 1,526,013
Investments	16,641,161	15,059,869
Alternative investments	5,264,476	5,270,162
Accounts receivable		553
Deferred tax benefit		167,187
Unconditional promises to give - current portion	2,890,212	2,937,040
Prepaid expenses	142,316	100,072
TOTAL CURRENT ASSETS	<u>25,911,459</u>	<u>25,060,896</u>
PROPERTY AND EQUIPMENT	<u>6,176,145</u>	<u>6,198,295</u>
NON-CURRENT ASSETS:		
Unconditional promises to give, less current portion	222,839	1,069,036
Deferred tax benefit	151,897	
Mortgage acquisition costs	13,920	17,995
TOTAL NON-CURRENT ASSETS	<u>388,656</u>	<u>1,087,031</u>
	<u>\$ 32,476,260</u>	<u>\$ 32,346,222</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 46,250	\$ 199,619
CRAT Payable - current portion	19,138	20,073
Mortgage payable - current portion	67,322	59,807
TOTAL CURRENT LIABILITIES	<u>132,710</u>	<u>279,499</u>
LONG TERM LIABILITES		
CRAT payable, less current portion	66,325	84,527
Deferred income tax liability	64,824	
Mortgage payable, less current portion	2,088,641	2,155,963
TOTAL LONG TERM LIABILITIES	<u>2,219,790</u>	<u>2,240,490</u>
TOTAL LIABILITIES	<u>2,352,500</u>	<u>2,519,989</u>
NET ASSETS:		
Unrestricted	16,128,025	16,335,952
Temporarily restricted	4,235,510	3,814,071
Permanently restricted	9,760,225	9,676,210
TOTAL NET ASSETS	<u>30,123,760</u>	<u>29,826,233</u>
	<u>\$ 32,476,260</u>	<u>\$ 32,346,222</u>

DALTON STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITY

For the year ended March 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE:				
Contributions	\$ 40,259	\$ 101,450	\$ 197,672	\$ 339,381
Dividends	303,828	71,365	180,773	555,966
Net realized gains on investments	192,358	45,182	114,450	351,990
Unrealized losses on investments	(133,121)	(31,268)	(79,205)	(243,594)
Change in net present value of pledges receivable	258,849	60,447	153,315	472,611
Earnings on restricted assets used to fund current operations and scholarships	458,178	(250,178)	(208,000)	
Earnings on restricted assets used to fund future operations and scholarships		200,662	(200,662)	
Net assets released from restriction	13,656	100,000	(113,656)	
Net assets used to restore temporarily and permanently restricted net assets	(163,107)	123,779	39,328	
Net unrelated business income	(44,327)			(44,327)
TOTAL SUPPORT AND REVENUE	<u>926,573</u>	<u>421,439</u>	<u>84,015</u>	<u>1,432,027</u>
EXPENSES:				
Program service	739,983			739,983
General and administrative	344,103			344,103
Fund-raising	50,414			50,414
TOTAL EXPENSES	<u>1,134,500</u>			<u>1,134,500</u>
INCREASE (DECREASE) IN NET ASSETS				
	(207,927)	421,439	84,015	297,527
NET ASSETS - Beginning of year	<u>16,335,952</u>	<u>3,814,071</u>	<u>9,676,210</u>	<u>29,826,233</u>
NET ASSETS - End of year	<u>\$16,128,025</u>	<u>\$ 4,235,510</u>	<u>\$ 9,760,225</u>	<u>\$30,123,760</u>

DALTON STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITY

For the year ended March 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE:				
Contributions	\$ 40,360	\$ 87,260	\$ 52,262	\$ 179,882
Interest	683	142	413	1,238
Dividends	269,233	55,897	163,054	488,184
Net realized losses on investments	(34,201)	(7,101)	(20,713)	(62,015)
Unrealized gains on investments	778,311	161,590	471,361	1,411,262
Change in net present value of pledges receivable	(105,153)	(10,177)	(29,826)	(145,156)
Earnings on restricted assets used to fund current operations and scholarships	358,547	(102,491)	(256,056)	
Earnings on restricted assets used to fund future operations and scholarships		328,233	(328,233)	
Net assets used to restore unrestricted net assets				
Net assets used to restore temporarily and permanently restricted net assets	(18,705)	18,705		
Net unrelated business income	35,762			35,762
TOTAL SUPPORT AND REVENUE	<u>1,324,837</u>	<u>532,058</u>	<u>52,262</u>	<u>1,909,157</u>
EXPENSES:				
Program service	690,891			690,891
General and administrative	146,491			146,491
Fund-raising	81,470			81,470
TOTAL EXPENSES	<u>918,852</u>			<u>918,852</u>
INCREASE (DECREASE) IN				
NET ASSETS	405,985	532,058	52,262	990,305
NET ASSETS - Beginning of year	<u>15,929,967</u>	<u>3,282,013</u>	<u>9,623,948</u>	<u>28,835,928</u>
NET ASSETS - End of year	<u>\$16,335,952</u>	<u>\$ 3,814,071</u>	<u>\$ 9,676,210</u>	<u>\$ 29,826,233</u>

DALTON STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended March 31, 2012

	<u>Program Service</u>	<u>General & Administrative</u>	<u>Fund-raising</u>	<u>Total</u>
UNRESTRICTED:				
Dalton State College support	\$ 156,869	\$	\$	\$ 156,869
Scholarships and awards	272,425			272,425
Faculty support	269,307			269,307
Alumni expenses	32,910			32,910
Donor recognition and fund raising			12,504	12,504
Fees and Commissions		64,228		64,228
Professional services		32,080		32,080
Insurance and bonding		13,604		13,604
Taxes		335		335
Office supplies	7,092	3,546	3,546	14,184
Dues and memberships		9,559		9,559
Continuing professional education		1,503		1,503
Campus events	1,380		7,153	8,533
Bank and credit card fees		1,057		1,057
Printing			21,613	21,613
Staff travel		9,474		9,474
Volunteer expense		197		197
Bad debts		208,520		208,520
CRAT expenses			5,598	5,598
TOTAL FUNCTIONAL EXPENSES	<u>\$ 739,983</u>	<u>\$ 344,103</u>	<u>\$ 50,414</u>	<u>\$ 1,134,500</u>

DALTON STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended March 31, 2011

	<u>Program Service</u>	<u>General & Administrative</u>	<u>Fund-raising</u>	<u>Total</u>
UNRESTRICTED:				
Dalton State College support	\$ 175,694	\$	\$	\$ 175,694
Scholarships and awards	198,537			198,537
Faculty support	242,018			242,018
Alumni expenses	68,338			68,338
Donor recognition and fund raising			19,756	19,756
Fees and Commissions		81,131		81,131
Professional services		33,038	18,359	51,397
Insurance and bonding		15,078		15,078
Taxes		744		744
Office supplies	4,739			4,739
Dues and memberships		4,430		4,430
Continuing professional education		4,796		4,796
Campus events	1,565			1,565
Subscriptions		5,723		5,723
Directors expense		228		228
Bank and credit card fees		1,323		1,323
Printing			37,757	37,757
CRAT expenses			5,598	5,598
TOTAL FUNCTIONAL EXPENSES	<u>\$ 690,891</u>	<u>\$ 146,491</u>	<u>\$ 81,470</u>	<u>\$ 918,852</u>

DALTON STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in Net Assets	\$ 297,527	\$ 990,305
Adjustment to reconcile increase in Net Assets to net cash provided by operating activities		
Depreciation	79,782	77,808
Amortization	4,075	4,074
Deferred income tax	80,114	
Net realized and unrealized (gains) losses on investments	(108,396)	(1,349,247)
Change in operating assets and liabilities		
Decrease (increase) in unconditional promises to give	893,370	2,492,597
Decrease (increase) in prepaid expenses	(42,244)	(17,879)
Decrease (increase) in other current assets	553	1,371
Increase (decrease) in accounts payable and accrued expenses	(153,369)	(56,542)
Increase(decrease) in CRAT payable	<u>(19,137)</u>	<u>(19,138)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>1,032,275</u>	<u>2,123,349</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(4,629,554)	(10,460,510)
Proceeds from the sale of investments	3,161,999	9,026,848
Purchase of property and equipment	<u>(57,632)</u>	<u>(110,137)</u>
NET CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(1,525,187)</u>	<u>(1,543,799)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of mortgage payable	<u>(59,807)</u>	<u>(56,862)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(59,807)</u>	<u>(56,862)</u>
NET INCREASE (DECREASE) IN CASH	(552,719)	522,688
CASH AT BEGINNING OF YEAR	<u>1,526,013</u>	<u>1,003,325</u>
CASH AT THE END OF THE YEAR	<u>\$ 973,294</u>	<u>\$ 1,526,013</u>
SUPPLEMENTARY DISCLOSURES		
Interest paid	\$ 123,325	\$ 126,186

DALTON STATE COLLEGE FOUNDATION, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended March 31, 2012 and 2011

A. Summary of Significant Accounting Policies:

The consolidated financial statements of Dalton State College Foundation, Inc. and Dalton State Acquisitions, Inc. have been prepared on the accrual basis of accounting in accordance with the provisions of ASC 958-605-05 and ASC 958-205-05. The significant accounting policies followed by the Foundation are described below.

1. The accompanying financial statements include the accounts of Dalton State College Foundation, Inc., and its wholly owned subsidiary, Dalton State Acquisitions, Inc., for the years ended March 31, 2012, and 2011. Significant intercompany accounts and transactions have been eliminated in consolidation.
2. The Foundation considers all certificates of deposit with maturities that do not exceed ninety days to be cash equivalents for financial statement purposes.
3. Unconditional promises to give are recognized as contributions and receivables when the promise is made. Conditional promises to give are recognized as contributions and receivables when all conditions required for the gift have been met except for the passage of time. The Foundation discounts its unconditional promises to give to their net realizable value utilizing the promises which are expected to be collected in periods exceeding one year.
4. The Foundation's policy is to capitalize property and equipment over \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Property and equipment are depreciated using the straight-line method.
5. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated asset must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time.
6. The Foundation receives various donated services that range from limited participation of individuals in fund raising and other services, to active participation in the administrative functions. These services are not recorded as support and revenue because these services do not meet the criteria for recognition under ASC 958-605.05.
7. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require the directors and administrators 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.

SEE INDEPENDENT AUDITORS' REPORT

DALTON STATE COLLEGE FOUNDATION, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended March 31, 2012 and 2011

(Continued)

B. General:

Dalton State College Foundation, Inc., was incorporated as a non-profit corporation under the Non-Profit Corporation Code of the State of Georgia on December 14, 1967. The organization's purpose is to provide individual grants, scholarships, and educational programs for eligible faculty and residents of the North Georgia area in cooperation with Dalton State College.

On August 19, 2005, Dalton State Acquisitions, Inc., was incorporated as a wholly owned subsidiary of Dalton State College Foundation, Inc. Dalton State Acquisitions, Inc., was created to acquire certain parcels of real property that may be used for the future expansion of Dalton State College. Currently, the Wood Valley apartment complex is located on these parcels and was operated by Dalton State Acquisitions, Inc., as residential rentals until July 1, 2009, at which time the complex was converted to student housing that is under lease by Dalton State College.

The Board of Regents of the University System of Georgia believes that GASB 39 applies to its member colleges and their respective Foundations. As such, the Board of Regents has mandated its member colleges consolidate the activity of their Foundations in the report to the Board of Regents.

C. Cash:

The Foundation maintains its cash balances in local banks. These balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. As of March 31, 2012, and 2011, accounts at these banks exceeded the insured balance by a total of \$525,908 and \$1,091,877, respectively.

D. Fair Value Measurement:

The Foundation has adopted the provisions of ASC 820-10-05. This standard defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I - Quoted prices are available in active markets for identical investments as of the reporting date. As required by ASC 820-10-05, the quoted prices for these investments are not adjusted.

Level II - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level III - Pricing inputs are unobservable for the investment and includes situation where there is little, if any market activity for the investment.

All alternative investments (See Note F) held at March 31, 2012, and 2011, are classified as Level III investments.

DALTON STATE COLLEGE FOUNDATION, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended March 31, 2012 and 2011

(Continued)

E. Investments:

Investments consist of restricted, temporarily restricted, and unrestricted net assets which the organization believes will not be needed for their restricted purposes or for operations for a period of at least 90 days. All investments are maintained in readily marketable securities at brokerage houses and custodial trust companies. All investments are stated at their fair market values. The Foundation is liable for any and all market losses. Cash in investments include instruments with a maturity of 30 days or less.

As of March 31, investments consist of the following:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 1,171,121	\$ 224,283
Equities	11,148,662	9,930,869
Bonds	<u>4,321,378</u>	<u>4,904,717</u>
	<u>\$ 16,641,161</u>	<u>\$ 15,059,869</u>

All investments referred to above are classified as Level I investments (See Note D).

F. Alternative Investments:

The Foundation's investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to the movements of global equity, fixed income, real estate, commodities, and private equity markets. In addition, the organization seeks to produce consistent capital appreciation with controlled volatility and reduced risk of major down turns in the markets. The organization seeks to enhance the returns by focusing to a large extent on illiquid portfolio funds that the organization believes offer the potential for higher long-term returns than more liquid funds or investment vehicles. Accordingly, it is anticipated that there will be less liquidity associated with these investments than other investments of the same type.

Several of the financial instruments contained in this classification contain varying degrees of off-balance sheet risk whereby changes in market values of the securities underlying the financial instruments may be in excess of the amounts recorded on the balance sheet. However, due to the nature of the limited interests in these investee funds, the risk with respect to such transactions is limited to the capital balance in each investee fund.

Fair value for alternate investments is based on estimates provided by external investment managers. Management reviews and evaluates fair value provided by external investment managers, including valuation methods and assessments used in determining fair value. The ultimate realizable value of the alternative investments may differ from the estimated fair values provided by external investment managers and these differences may be material.

DALTON STATE COLLEGE FOUNDATION, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended March 31, 2012 and 2011

(Continued)

F. Alternative Investments (continued):

Additionally, the Foundation has entered into agreements with private equity and real estate partnerships which include commitments to make periodic cash contributions over the next several years. As of March 31, 2012, approximately \$556,000 of capital commitments remains outstanding.

As of March 31, 2012, and 2011, approximately seventy-five (75%) and seventy-six percent (76%), respectively, of alternative investments were contained in one hedge fund. This fund of funds mechanism was chosen by the Foundation as the most practical approach to achieve diversification of the alternative investment portfolio.

For the year ended March 31, 2012, the changes in investments classified as Level III are as follows:

	Private Investments	Hedge Funds	Total
Balance, April 1, 2011	\$ 1,288,079	\$ 3,982,083	\$ 5,270,162
Realized gains	89,047		89,047
Unrealized gains	37,913	(58,736)	(20,823)
Purchases	231,255		231,255
Sales	(305,165)		(305,165)
Transfers in and/or out of Level III			
Balance, March 31, 2012	<u>\$ 1,341,129</u>	<u>\$ 3,923,347</u>	<u>\$ 5,264,476</u>

For the year ended March 31, 2011, the changes in investments classified as Level III are as follows:

	Private Investments	Hedge Funds	Total
Balance, April 1, 2010	\$ 950,943	\$ 2,959,189	\$ 3,910,132
Realized gains			
Unrealized gains	48,031	138,074	186,105
Purchases	298,346	886,020	1,184,366
Sales	(10,441)		(10,441)
Transfers in and/or out of Level III			
Balance, March 31, 2011	<u>\$ 1,286,879</u>	<u>\$ 3,983,283</u>	<u>\$ 5,270,162</u>

All investments referred to above are classified as Level III investments (See Note D).

DALTON STATE COLLEGE FOUNDATION, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended March 31, 2012 and 2011

(Continued)

G. Unconditional Promises to Give:

As of March 31, unconditional promises to give consist of the following:

	<u>2012</u>	<u>2011</u>
Present value of unconditional promises to give	\$ 3,198,351	\$ 4,053,076
Less allowance for uncollectibles	85,300	47,000
	<u>3,113,051</u>	<u>4,006,076</u>
Less current portion	<u>2,890,212</u>	<u>2,937,040</u>
Non-current portion	<u>\$ 222,839</u>	<u>\$ 1,069,036</u>
Less than one year	\$ 2,890,212	\$ 2,937,040
One to five years	223,830	1,189,847
More than five years	<u>18,759</u>	<u>371,550</u>
	<u>3,132,801</u>	<u>4,498,437</u>
Less discount to present value	<u>19,750</u>	<u>492,361</u>
Total expected to be collected	<u>\$ 3,113,051</u>	<u>\$ 4,006,076</u>

The discount rate used on the long-term promises to give was 1.04% and 2.29% as of March 31, 2012, and 2011, respectively. The promises to give were generated by commitments from corporations and individuals in the community. An allowance for uncollectible promises to give has been recorded of \$85,300 as March 31, 2012. Of this amount, \$63,000 is believed to be attributable to the current portion. There are no enforceable rights by the Foundation to collect these promises.

Management reviews all uncollected unconditional promises to give annually utilizing responses to audit confirmations and other information they are aware of concerning the ability and willingness of donors to honor their commitments. Promises determined to be uncollectible are written off when that determination is made. Bad debt expense as of March 31, 2012, and 2011 was \$208,520 and \$0 respectively.

H. Prepaid Expenses:

As of March 31, prepaid expenses consist of the following:

	<u>2012</u>	<u>2011</u>
Repair and replacement reserves	\$ 78,077	\$ 47,986
Prepaid income tax	2,951	3,740
Property tax escrow	16,997	15,431
Prepaid insurance	12,937	16,251
Insurance escrow	<u>31,354</u>	<u>16,664</u>
	<u>\$ 142,316</u>	<u>\$ 100,072</u>

DALTON STATE COLLEGE FOUNDATION, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended March 31, 2012 and 2011

(Continued)

I. Property and Equipment :

The majority of property and equipment is related to the operations of the Wood Valley Apartment complex. As of March 31, property and equipment consist of the following:

	<u>2012</u>	<u>2011</u>
Land for future expansion	\$ 2,528,501	\$ 2,528,501
Land - apartment complex	925,000	925,000
Building	2,796,165	2,796,165
Appliances	5,530	5,527
Carpet replacement	8,841	8,841
Building renovations	<u>414,088</u>	<u>356,459</u>
	6,678,125	6,620,493
Less accumulated depreciation	<u>501,980</u>	<u>422,198</u>
	<u>\$ 6,176,145</u>	<u>\$ 6,198,295</u>

During the years ended March 31, 2010, and 2009, the Foundation acquired additional parcels of land in close proximity to Dalton State College. The parcels were purchased by the Foundation at a cost of \$1,001,248 and \$414,290, respectively. As of March 31, 2012, the Foundation has not determined the final use of this land.

J. CRAT Payable:

On May 8, 2007, a charitable remainder annuity trust was established by a local family naming the Foundation as trustee and ultimate beneficiary of the trust. Under the terms of the trust, the grantor is paid an annuity amount equal to nine percent (9%) of the net fair market value of the assets of the trust as of the date of the Trust in equal quarterly installments from trust income and, to the extent income is not sufficient, from principal for the lifetime of the last surviving grantor. The trust was initially funded with marketable securities with a fair market value of \$274,845 as of May 8, 2007.

The present value of the expected outflows from the trust were calculated using the 2004 period life tables issued by the Social Security Administration and was discounted using the 30-year Treasury bill interest rate in effect at May 8, 2007 (4.80%). The difference between the fair market value of the assets transferred to the trust and the present value of the expected outflows were recorded as temporarily restricted contributions as required by Generally Accepted Accounting Principles.

During the year ended March 31, 2012, and 2011, the trust generated investment incomes of \$18 and \$19, incurred investment management fees of \$0 and \$0 and distributed payments to the grantor in the amount of \$24,736 and \$24,736, thus reducing the principal of the trust by \$19,137 and \$19,138, respectively.

As of March 31, 2012, and 2011, the investments contained within the CRAT had a fair market value of \$155,952 and \$180,671 which are included in Note D, and the expected CRAT liability was \$85,463 and \$104,600, respectively.

DALTON STATE COLLEGE FOUNDATION, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended March 31, 2012 and 2011

(Continued)

K. Mortgage Payable:

On September 30, 2005, Dalton State Acquisitions Inc. assumed an outstanding note payable dated February 2, 2005, related to the purchase of the Wood Valley apartment complex. The principal balance of the note at the time of assumption was \$2,475,000 and accrues interest at an annual rate of 5.54%. Interest only was payable for the first twelve months and beginning on March 11, 2006, principal and interest is payable in monthly installments of \$15,258. The note matures on March 11, 2015, with a final payment due at that time of \$1,954,139.

The mortgage payable contains certain provisions including a requirement that the fixed charge coverage ratio of not less than 1.0 to 1.0. Additionally, the note provisions contain a substantial prepayment penalty of 1 percent (1%) of the outstanding loan balance at the time of payoff plus all interest that would have accrued if the mortgage was not paid off. As of March 31, 2012, there are no plans to accelerate the repayment of the mortgage.

Aggregate principal payments due in future years ended March 31 are as follows:

March 31, 2013	\$ 67,322
March 31, 2014	67,251
March 31, 2015	<u>1,954,139</u>
	2,155,963
Less current portion	<u>67,322</u>
	<u>\$ 2,088,641</u>

L. Permanently Restricted Net Assets:

As of March 31, permanently restricted net assets consist of the following funds:

Bandy Heritage Center Endowment Fund	\$ 970,797	\$ 936,810
Bandy Chair in History Endowment Fund	1,000,000	1,000,000
Georgia Eminent Scholar Endowment Fund	1,698,250	1,698,250
Georgia Eminent Scholar Endowment Matching Fund	1,000,000	1,000,000
Goizueta Chair in Education Endowment Fund	1,000,000	1,000,000
Goizueta Foundation Scholarship Endowment Fund	700,000	700,000
RETP Scholarship Endowment Fund	713,036	713,036
Various others	<u>2,791,799</u>	<u>2,628,114</u>
	<u>\$ 9,873,882</u>	<u>\$ 9,676,210</u>

The Foundation has solicited contributions for an endowment fund to be held in perpetuity for the purpose of providing funds to Dalton State College for its Eminent Scholar Program. The earnings from this endowment program provides supplemental salaries to certain teaching positions in order to

DALTON STATE COLLEGE FOUNDATION, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended March 31, 2012 and 2011
(Continued)

L. Permanently Restricted Net Assets (continued):

attract qualified professors, instructors, and other educational personnel in the junior and senior level of the undergraduate program of Dalton State College.

The Foundation has received from various donors, endowments for various named scholarship funds. The principal amounts of these funds are to be maintained in perpetuity and the income from the endowments are to provide scholarships to students with certain qualifications as prescribed by the donors.

The State of Georgia has contributed \$1,000,000 to supplement salaries for certain teaching positions in order to attract qualified professors, instructors and other educational personnel in the junior and senior level of the undergraduate program. Earnings are used for this purpose.

As of March 31, permanently restricted net assets consist of the following:

	<u>2012</u>	<u>2011</u>
Investments	\$ 4,495,749	\$ 4,296,144
Alternative investments	<u>5,264,476</u>	<u>5,380,066</u>
Total permanently restricted net assets	<u>\$ 9,760,225</u>	<u>\$ 9,676,210</u>

M. Temporarily Restricted Net Assets:

The temporarily restricted net assets are composed of various named scholarship funds for which the Foundation may use either principal or income and earnings from donor restricted funds to provide scholarships to students with certain qualifications as prescribed by donors. Additionally, a grant was received to provide scholarships for Hispanic/Latino students over a three year period and professional development for Dalton State College's admissions staff. Temporarily restricted net assets are reclassified to unrestricted net assets upon expiration of the donor's restrictions.

As of March 31, 2012, and 2011, temporarily restricted net assets consisted entirely of investments.

DALTON STATE COLLEGE FOUNDATION, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended March 31, 2012 and 2011

(Continued)

N. Unrestricted Net Assets:

As of March 31, unrestricted net assets consist of the following:

	<u>2012</u>	<u>2011</u>
Cash	\$ 973,294	\$ 1,526,013
Promises to give	3,113,051	4,006,076
Accounts receivable		553
Deferred tax benefit	151,897	167,187
Investments	7,909,902	6,839,750
Prepaid Expenses	142,316	100,072
Property and equipment	6,176,145	6,198,295
Loan costs	13,920	17,995
	<u>18,480,525</u>	<u>18,855,941</u>
Less accounts payable and accrued liabilities	46,250	199,619
Less CRAT payable	85,463	104,600
Less deferred tax liability	64,824	
Less mortgage payable	<u>2,155,963</u>	<u>2,215,770</u>
Total unrestricted net assets	<u>\$ 16,128,025</u>	<u>\$ 16,335,952</u>

The Foundation is a named beneficiary of two charitable trusts. The income from these trusts is distributed on an annual basis to various beneficiaries in amounts and proportions as determined by the trustees. The trust agreements provide that the principal will be distributed at the discretion of the trustee when certain triggering events occur. As of March 31, 2012, and 2011, no distributions have been received from the trust.

O. Related Party Transactions:

The Dalton State College Foundation, Inc., was created to provide support for the faculty, students, facilities, and programs of Dalton State College. The administrative offices of the organization are in donated space provided by Dalton State College. The College provides clerical assistance, copying machines, computer equipment, phone service, and other administrative services at no fee to the organization. The organization leases administrative employees from the College. The organization provides fund raising projects and administration of certain donor restricted scholarships for the school. The total amount paid to Dalton State College for the years ending March 31, 2012, and 2011, is \$676,524 and \$690,891, respectively. Included in the amounts paid to Dalton State College are scholarships of \$272,425 and \$198,537 paid on behalf of students who are unrelated to the organization or the College for the years ended March 31, 2012, and 2011, respectively. The students are credited with the scholarships against tuition by the College during the registration process.

DALTON STATE COLLEGE FOUNDATION, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended March 31, 2012 and 2011

(Continued)

O. Related Party Transactions (continued):

On July 1, 2009, Dalton State Acquisitions entered into an agreement with Dalton State College to lease the Wood Valley apartment complex for student housing. As part of the agreement, the College is responsible for all janitorial, waste disposal, utilities, and cleaning of the complex. Dalton State Acquisitions remains responsible for the mortgage payment, maintenance, and insurance related to the facility. During the year ended March 31, 2012, application was submitted and approved for waiver of property taxes; thus, no property taxes are due on the Wood Valley apartments. The initial term of the lease expires on June 30, 2010, and contains renewal options through June 30, 2015. The monthly rent in the initial term is \$26,758. The monthly rental may increase with each renewal based on the increase in certain expenses. This increase is limited to 104% of the prior year rental amount. For the years ended March 31, 2012, and 2011, rental income received from Dalton State College amounted to \$321,096 and \$321,096.

P. Income Tax Status:

Dalton State College Foundation, Inc. is exempt from federal income taxes under IRC 501(c)(3). Therefore, no provision for federal and state income taxes is included in the accompanying financial statements.

Dalton State Acquisitions, Inc., is classified as a C corporation for federal and state income taxes and files income tax returns separate from its parent. A provision for deferred federal and state income taxes (benefit) of (\$151,897) and (\$167,187) is included in the financial statements related to the activity of Dalton State Acquisitions, Inc., for the years ended March 31, 2012, and 2011, respectively. The deferred tax asset reflects the income tax consequences of a net operating loss carryforward. The expiration of the net operating loss carryforward is greater than 10 years. A deferred tax liability has been recognized for the year ended March 31, 2012, in the amount of \$64,824 reflecting temporary differences between income tax and financial reporting basis of assets that will result in taxable amounts in the future. Both amounts have been classified as non-current based on management's determination that utilization and/or reversal will be greater than one year from March 31, 2012.

On April 1, 2009, the Foundation adopted the recognition requirements for uncertain income tax provisions as required by generally accepted accounting principles, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax provisions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more likely than not be sustained upon examination by taxing authorities. The Foundation has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Foundation believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustment that would result in material adverse effect on the Foundation's financial condition, results of operations, or cash flows. Accordingly, the Foundation has not recorded any reserves or related accruals for interest and penalties for uncertain income tax positions at March 31, 2012.

Currently, there are no audits for any tax year in progress and the Foundation believes that it is no longer subject to audits for periods prior to 2008.

DALTON STATE COLLEGE FOUNDATION, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended March 31, 2012 and 2011

(Continued)

Q. Net Unrelated Business Income:

Unrelated business income is derived from Dalton State Acquisitions, Inc.'s operations of the Wood Valley apartment complex. For the year ended March 31, the income and expenses related to these operations are as follows:

	2012	2011
Operating revenues	\$ 321,096	\$ 321,096
Less operating expenses	78,377	77,270
Less depreciation and amortization expense	83,856	81,882
Less interest expense	<u>123,325</u>	<u>126,186</u>
Income (loss) from operations	35,538	35,758
Plus non-operating income	252	152
Less income tax expense (benefit)	<u>80,115</u>	<u>148</u>
Net unrelated business income (loss)	<u>\$ (44,325)</u>	<u>\$ 35,762</u>

R. Evaluation of Subsequent Events:

The Foundation has evaluated subsequent events through September 20, 2012, the date which the financial statements were available to be issued.

On July 1, 2012, Dalton State College exercised the third of its four one-year options available under the lease of the Wood Valley apartment complex referred to in Note O. This option extends the lease until June 30, 2013, at the same rental rate as the original term.

On July 25, 2012, the Foundation closed on the purchase of real estate located on College Drive, near the campus of Dalton State College. The purchase price was \$1,000,000. The Foundation made an initial payment of \$492,380.03 (after deducting property taxes of seller) on July 25, 2012, and \$250,000 is due on September 30, 2012, and December 31, 2012.

ADDITIONAL INFORMATION

WINTER & SCOGGINS

CERTIFIED PUBLIC ACCOUNTANTS, P.C.

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

September 20, 2012

Board of Directors
Dalton State College Foundation, Inc.
650 College Drive
Dalton, GA 30720

Ladies and Gentlemen:

Our report on our audit of the Consolidated Statements of Financial Position of Dalton State College Foundation, Inc. (a nonprofit organization) as of March 31, 2012, and 2011, and the related Consolidated Statements of Activity, Functional Expenses, and Cash Flows for the years then ended is dated September 20, 2012. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information included in the accompanying Consolidating Statement of Financial Position as of March 31, 2012, and 2011, and Schedule of Operating Expenses of the Wood Valley apartments for the years ended March 31, 2012, and 2011, is presented only for additional analysis purposes and is not a required part of the consolidated financial statements. Such information has been subject to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Sincerely,



Winter & Scoggins
Certified Public Accountants, P.C.

DALTON STATE COLLEGE FOUNDATION, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

March 31, 2012

	<u>DALTON STATE COLLEGE FOUNDATION</u>	<u>DALTON STATE ACQUISITIONS</u>	<u>ELIMINATIONS</u>	<u>CONSOLIDATED</u>
<u>ASSETS</u>				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 775,908	\$ 197,386	\$	\$ 973,294
Investments	16,641,161			16,641,161
Alternative investments	5,264,476			5,264,476
Deferred income tax benefit	-			-
Unconditional promises to give	2,890,212			2,890,212
Prepaid expenses	-	142,316		142,316
TOTAL CURRENT ASSETS	<u>25,571,757</u>	<u>339,702</u>		<u>25,911,459</u>
PROPERTY AND EQUIPMENT	<u>2,528,501</u>	<u>3,647,644</u>		<u>6,176,145</u>
NON-CURRENT ASSETS:				
Unconditional promises to give	222,839			222,839
Deferred income tax benefit		151,897		151,897
Investment in Subsidiary	1,962,457		(1,962,457)	-
Mortgage acquisition costs		13,920		13,920
TOTAL NON CURRENT ASSETS	<u>2,185,296</u>	<u>165,817</u>	<u>(1,962,457)</u>	<u>388,656</u>
	<u>\$ 30,285,554</u>	<u>\$ 4,153,163</u>	<u>\$ (1,962,457)</u>	<u>\$ 32,476,260</u>
<u>LIABILITIES AND NET ASSETS</u>				
CURRENT LIABILITIES:				
Accounts payable and accrued liabilities	\$ 11,885	\$ 34,365	\$	\$ 46,250
Current portion of CRAT payable	19,138			19,138
Current portion of mortgage payable		67,322		67,322
TOTAL CURRENT LIABILITIES	<u>31,023</u>	<u>101,687</u>		<u>132,710</u>
LONG TERM LIABILITIES:				
CRAT payable - net of current portion	66,325			66,325
Deferred income tax liability		64,824		64,824
Mortgage payable - net of current portion		2,088,641		2,088,641
TOTAL LONG TERM LIABILITIES	<u>66,325</u>	<u>2,153,465</u>		<u>2,219,790</u>
TOTAL LIABILITIES	<u>97,348</u>	<u>2,255,152</u>		<u>2,352,500</u>
NET ASSETS:				
Common Stock		100,000	(100,000)	
Additional Paid in Capital		1,862,457	(1,862,457)	
Unrestricted (Retained Earnings)	16,192,471	(64,446)		16,128,025
Temporarily restricted	4,235,510			4,235,510
Permanently restricted	9,760,225			9,760,225
TOTAL NET ASSETS	<u>30,188,206</u>	<u>1,898,011</u>	<u>(1,962,457)</u>	<u>30,123,760</u>
	<u>\$ 30,285,554</u>	<u>\$ 4,153,163</u>	<u>\$ (1,962,457)</u>	<u>\$ 32,476,260</u>

SEE INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

March 31, 2011

	<u>DALTON STATE COLLEGE FOUNDATION</u>	<u>DALTON STATE ACQUISITIONS</u>	<u>ELIMINATIONS</u>	<u>CONSOLIDATED</u>
<u>ASSETS</u>				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 1,308,946	\$ 217,067	\$	\$ 1,526,013
Investments	15,059,869			15,059,869
Alternative investments	5,270,162			5,270,162
Accounts Receivable	553			553
Deferred income tax benefit		167,187		167,187
Unconditional promises to give	2,937,040			2,937,040
Prepaid expenses		100,072		100,072
TOTAL CURRENT ASSETS	<u>24,576,570</u>	<u>484,326</u>		<u>25,060,896</u>
PROPERTY AND EQUIPMENT	<u>2,528,501</u>	<u>3,669,794</u>		<u>6,198,295</u>
NON-CURRENT ASSETS:				
Unconditional promises to give	1,069,036			1,069,036
Investment in Subsidiary	1,893,792		(1,893,792)	
Mortgage acquisition costs	-	17,995		17,995
TOTAL NON CURRENT ASSETS	<u>2,962,828</u>	<u>17,995</u>	<u>(1,893,792)</u>	<u>1,087,031</u>
	<u>\$ 30,067,899</u>	<u>\$ 4,172,115</u>	<u>\$ (1,893,792)</u>	<u>\$ 32,346,222</u>
<u>LIABILITIES AND NET ASSETS</u>				
CURRENT LIABILITIES:				
Accounts payable and accrued liabilities	\$ 116,946	\$ 82,673	\$	\$ 199,619
Current portion of CRAT payable	20,073			20,073
Current portion of mortgage payable		59,807		59,807
TOTAL CURRENT LIABILITIES	<u>137,019</u>	<u>142,480</u>		<u>279,499</u>
LONG TERM LIABILITIES:				
CRAT payable - net of current portion	84,527			84,527
Mortgage payable - net of current portion		2,155,963		2,155,963
TOTAL LONG TERM LIABILITIES	<u>84,527</u>	<u>2,155,963</u>		<u>2,240,490</u>
TOTAL LIABILITIES	<u>221,546</u>	<u>2,298,443</u>		<u>2,519,989</u>
NET ASSETS:				
Common Stock		100,000	(100,000)	
Additional Paid in Capital		1,793,792	(1,793,792)	
Unrestricted (Retained Earnings)	16,356,072	(20,120)		16,335,952
Temporarily restricted	3,814,071			3,814,071
Permanently restricted	9,676,210			9,676,210
TOTAL NET ASSETS	<u>29,846,353</u>	<u>1,873,672</u>	<u>(1,893,792)</u>	<u>29,826,233</u>
	<u>\$ 30,067,899</u>	<u>\$ 4,172,115</u>	<u>\$ (1,893,792)</u>	<u>\$ 32,346,222</u>

SEE INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

SCHEDULE OF OPERATING EXPENSES OF
THE WOOD VALLEY APARTMENT COMPLEX

For the years ended March 31, 2012 and 2011

OPERATING EXPENSES:	<u>2012</u>	<u>2011</u>
Repairs & maintenance	\$ 35,215	\$
Professional fees	11,215	10,130
General supplies	15	
Bank service charges	456	1,372
Taxes -other	2,289	800
Insurance	29,188	32,424
Property taxes		32,544
	<u>\$ 78,378</u>	<u>\$ 77,270</u>