

DALTON STATE COLLEGE FOUNDATION, INC.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

DALTON STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Dalton State College Foundation, Inc.:

We have audited the accompanying consolidated financial statements of the Dalton State College Foundation, Inc., (a nonprofit organization), which are comprised of the Consolidated Statements of Financial Position as of December 31, 2015, and the related Consolidated Statements of Activities, Functional Expenses, and Cash Flows for the nine months then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

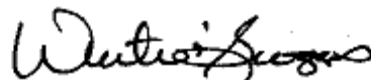
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The Board of Directors
Dalton State College Foundation, Inc.
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Opinion

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Dalton State College Foundation, Inc., as of December 31, 2015 and the changes in net assets and cash flows for the nine months then ended, in conformity with accounting principles generally accepted in the United States of America.

Sincerely,



Winter & Scoggins
Certified Public Accountants, P.C.

Dalton, Georgia
September 19, 2016

DALTON STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2015

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 1,394,342
Investments	17,307,883
Alternative investments	6,671,407
Unconditional promises to give - current portion	3,072,634
Prepaid expenses	<u>46,944</u>

TOTAL CURRENT ASSETS 28,493,210

PROPERTY AND EQUIPMENT 5,538,732

NON-CURRENT ASSETS:

Unconditional promises to give, less current portion	1,910,866
Deferred tax benefit	98,409
Loan acquisition costs	<u>2,083</u>

TOTAL NON-CURRENT ASSETS 2,011,358

\$ 36,043,300

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable and accrued liabilities	\$ 58,148
CRAT payable - current portion	9,569
Current portion of long term debt	<u>416,665</u>

TOTAL CURRENT LIABILITIES 484,382

LONG TERM LIABILITIES

CRAT payable, less current portion	4,127
Deferred income tax liability	69,290
Long term debt, less current portion	<u>833,335</u>

TOTAL LONG TERM LIABILITIES 906,752

TOTAL LIABILITIES 1,391,134

NET ASSETS:

Unrestricted	
Board designated for scholarships	86,000
Undesignated	16,646,097
Temporarily restricted	7,763,698
Permanently restricted	<u>10,156,371</u>

TOTAL NET ASSETS 34,652,166

\$ 36,043,300

SEE INDEPENDENT AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

DALTON STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITY

For the nine months ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE:				
Contributions	\$ 24,793	\$ 5,763,329	\$ 78,545	\$ 5,866,667
Dividends	386,843	192,117	245,418	824,378
Net realized loss on investments	(30,178)	(14,987)	(19,146)	(64,311)
Unrealized loss on investments	(1,000,717)	(496,983)	(634,868)	(2,132,568)
Change in net present value of pledges receivable	(23,557)	(9,548)	(14,922)	(48,027)
Earnings on restricted assets transferred to endowment per agreement with donor		(62,085)	62,085	-
Net assets released from restriction	3,995,365	(3,995,365)		-
Unrestricted assets used to restore permanently restricted assets	(459,001)		459,001	-
Net unrelated business income	<u>85,507</u>	<u>-</u>	<u>-</u>	<u>85,507</u>
TOTAL SUPPORT AND REVENUE	<u>2,979,055</u>	<u>1,376,478</u>	<u>176,113</u>	<u>4,531,646</u>
EXPENSES:				
Program service	1,878,975	-	-	1,878,975
General and administrative	149,580	-	-	149,580
Fundraising	<u>73,333</u>	<u>-</u>	<u>-</u>	<u>73,333</u>
TOTAL EXPENSES	<u>2,101,888</u>	<u>-</u>	<u>-</u>	<u>2,101,888</u>
INCREASE (DECREASE) IN NET ASSETS				
	877,167	1,376,478	176,113	2,429,758
NET ASSETS - Beginning of year	<u>15,854,930</u>	<u>6,387,220</u>	<u>9,980,258</u>	<u>32,222,408</u>
NET ASSETS - End of year	<u>\$16,732,097</u>	<u>\$ 7,763,698</u>	<u>\$10,156,371</u>	<u>\$34,652,166</u>

SEE INDEPENDENT AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

DALTON STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the nine months ended December 31, 2015

	<u>Program Service</u>	<u>General & Administrative</u>	<u>Fundraising</u>	<u>Total</u>
UNRESTRICTED:				
College support:				
Capital projects	\$ 1,139,490	\$ -	\$ -	\$ 1,139,490
Scholarships and awards	239,004			239,004
Athletic programs	30,000			30,000
Faculty support	159,362			159,362
Academic program support	201,086			201,086
Alumni relations	24,586			24,586
Student life programs	1,829			1,829
Salaries and benefits supplements	55,370	30,530	24,839	110,739
Donor recognition and fund raising			20,473	20,473
Fees and commissions		36,523		36,523
Professional services		26,174	21,127	47,301
Meetings and events		3,034	2,695	5,729
Insurance and bonding		12,081		12,081
Database enhancement and support	17,730			17,730
Office supplies	3,587			3,587
Dues and memberships		4,798		4,798
Continuing professional education		1,544		1,544
Campus events	6,931			6,931
Bank and credit card fees		2,393		2,393
Staff travel		2,196		2,196
Bad debts		10,341		10,341
Depreciation expense		680		680
Amortization expense		781		781
Interest expense		18,505		18,505
CRAT expenses	-	-	4,199	4,199
TOTAL FUNCTIONAL EXPENSES	<u>\$ 1,878,975</u>	<u>\$ 149,580</u>	<u>\$ 73,333</u>	<u>\$ 2,101,888</u>

SEE INDEPENDENT AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

DALTON STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase (decrease) in Net Assets	\$ 2,429,758
Adjustment to reconcile increase in Net Assets to net cash provided by operating activities	
Depreciation	50,418
Amortization	782
Deferred income tax	29,089
Net realized and unrealized (gains) losses on investments	2,196,969
Decrease in note receivable - Athletic Club	211,520
Non-cash college support	874,644
Change in operating assets and liabilities	
Decrease (increase) in unconditional promises to give	(4,915,422)
Decrease (increase) in prepaid expenses	(22,016)
Increase (decrease) in accounts payable and accrued expenses	(8,028)
Increase (decrease) in CRAT payable	<u>(14,354)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>833,360</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(2,444,372)
Proceeds from the sale of investments	1,756,632
Purchase of property and equipment	<u>(14,653)</u>
NET CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(702,393)</u>
NET INCREASE (DECREASE) IN CASH	130,967
CASH AT BEGINNING OF YEAR	<u>1,263,375</u>
CASH AT THE END OF THE YEAR	<u>\$ 1,394,342</u>
SUPPLEMENTARY DISCLOSURES	
Interest paid	\$ 18,505

SEE INDEPENDENT AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

DALTON STATE COLLEGE FOUNDATION, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended December 31, 2015

A. Summary of Significant Accounting Policies:

The consolidated financial statements of Dalton State College Foundation, Inc. (the Foundation), 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 nine months ended December 31, 2015. 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 assets 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 nine months ended December 31, 2015

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 secure private philanthropic support for the benefit of the students, faculty and staff, academic programs, and growth of 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 College's annual report to the Board of Regents.

C. Cash:

The Foundation maintains its cash balances in accounts at a local bank. These balances are insured by the Federal Deposit Insurance Corporation. As of December 31, 2015, the amounts held in bank accounts were in excess of FDIC insurance. Management does not believe that there is significant credit risk associated with these amounts.

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 situations where there is little, if any, market activity for the investment.

All alternative investments (See Note G) held at December 31, 2015, are classified as Level III investments.

DALTON STATE COLLEGE FOUNDATION, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended December 31, 2015

E. Investment Strategy:

The Foundation's Investment Committee manages the investment portfolio according to the organization's investment policy as approved by the Board of Directors. The long term objective of the Foundation is to earn a return sufficient to preserve the purchasing power of the Foundation for generations to come, as well as to provide for current needs. As a result, the annual return should at least equal the annual sum of distributions, inflation, administrative costs, and net of management fees. The Foundation portfolio has adopted a "total return" investment approach; current income is considered a secondary consideration. The portfolio must offer sufficient liquidity to meet payments of philanthropic endeavors and operating expenses, as well as principal and interest payments due on any outstanding debt. The investment policy has asset allocation guidelines that allow the Investment Committee to balance the portfolio for current market conditions to achieve a long term rate of return of approximately 7.5% on an annual basis, with a moderate level of risk. Actual results may vary from this amount. The Foundation's investment portfolio had a return of 2.99% for the nine months ended December 31, 2015.

The Foundation determines distribution rates based on the market values of investments at the end of the fiscal year. The investment policy specifies a maximum distribution rate of 6%, but it also allows for distributions in excess of the maximum for special programs on a temporary basis. At a minimum, the investment policy states that long term rates of return be equal to an amount sufficient to maintain a distribution rate of five percent (5%) annually. Due to market conditions, the Investment Committee voted to adjust the annual distribution rate to four and one-quarter percent (4.25%) in November 2015.

The Foundation has retained a professional investment consultant that assists the Foundation in meeting its investment objectives and monitoring compliance with the Foundation's investment policy. Fees paid to the investment consultant were \$36,523 for the nine months ended December 31, 2015.

In November 2015, the Foundation's Investment Committee completed a comprehensive review of the investment performance and asset allocation. Based on this review, the Committee voted to conclude its relationship with the current professional investment consultant. The Foundation then retained another advisor to assist with the management and evaluation of the Foundation's investment strategy. The transfer of the invested assets was completed in February 2016.

F. 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. The Foundation's investments are exposed to various types of risk, including changes in interest rates, currency fluctuations, and credit risks. Changes in financial markets occur daily, and such changes could materially affect the amounts reported in the Foundation's financial statements.

DALTON STATE COLLEGE FOUNDATION, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended December 31, 2015

F. Investments (continued):

As of December 31, investments consisted of the following:

Cash and cash equivalents	\$	66,345
Equities		13,954,017
Bonds		<u>3,287,521</u>
		<u>\$ 17,307,883</u>

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

G. 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 alternative 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. There are currently no plans to sell these investments prior to their liquidation.

Alternative investments consist of two classes, private equity and hedge funds. These investments require that the Foundation make commitments for investments over the course of the investment’s period. As of December 31, 2015, approximately \$751,900 of capital commitments remain outstanding.

Investments in private equity funds provide growth equity or take full ownership of the companies in which they invest. Portions of these investments are in start-up and early stage companies. Private investments also include positions in real assets, including real estate and commodities.

DALTON STATE COLLEGE FOUNDATION, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended December 31, 2015

G. Alternative Investments (continued):

Investments in hedge funds take long and short positions in largely equity securities, credit securities, and event-driven situations. Managers vary in style, market cap focus, geographic focus, sectors of focus, and types of securities, with some having considerable flexibility. This fund of funds mechanism was chosen by the Foundation as the most practical approach to achieve diversification of the alternative investment portfolio.

As of December 31, 2015, approximately seventy-three percent (73%) of alternative investments were contained in one hedge fund.

For the nine months ended December 31, 2015, the changes in investments classified as Level III are as follow

	Private Investments	Hedge Funds	Total
Balance, April 1, 2015	\$ 1,856,714	\$ 4,925,735	\$ 6,782,449
Realized gains	-		-
Unrealized gains	250,368	1,117,889	1,368,257
Purchases	212,500		212,500
Sales	(253,922)		(253,922)
Transfers in and/or out of Level III	<u>(1,437,877)</u>	<u>-</u>	<u>(1,437,877)</u>
Balance, December 31, 2015	<u>\$ 627,783</u>	<u>\$ 6,043,624</u>	<u>\$ 6,671,407</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 nine months ended December 31, 2015

H. Unconditional Promises to Give:

As of December 31, unconditional promises to give consisted of the following:

Present value of unconditional promises to give	\$ 5,033,500
Less allowance for uncollectibles	<u>50,000</u>
	4,983,500
Less current portion	<u>3,072,634</u>
Non-current portion	<u>\$ 1,910,866</u>
Less than one year	\$ 3,072,634
One to five years	2,011,000
More than five years	<u>-</u>
	5,083,634
Less discount to present value	<u>50,134</u>
Total expected to be collected	<u>\$ 5,033,500</u>

The discount rate used on the long-term promises to give was 1.70% as of December 31, 2015. 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 \$50,000 as December 31, 2015. 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 December 31, 2015 was \$10,341.

I. Prepaid Expenses:

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

Prepaid insurance	\$ 24,642
Prepaid website fees	<u>22,302</u>
	<u>\$ 46,944</u>

DALTON STATE COLLEGE FOUNDATION, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended December 31, 2015

J. Property and Equipment:

As of December 31, property and equipment consist of the following:

Land	\$ 2,957,084
Land - Wood Valley Apartments	689,550
Buildings - Wood Valley Apartments	2,097,124
Building renovations - Wood Valley Apartments	363,555
Appliances - Wood Valley Apartments	26,719
Machinery and equipment	<u>17,945</u>
	6,151,977
Less accumulated depreciation	<u>613,245</u>
	<u><u>\$ 5,538,732</u></u>

The Foundation’s real estate holdings are to be donated to Dalton State College for the College’s benefit. Before the property can be transferred, there may be additional costs associated with conditioning the property for transfer. On September 11, 2014, the Foundation agreed, at the request of the College, to transfer 2.77 acres and two apartment buildings to the Board of Regents of the University System of Georgia for the construction of student housing. These two buildings were demolished in 2015 and new state of the art facilities are to be constructed in their place. Upon completion of construction in 2016, the remaining eight buildings will be demolished and removed by the Foundation. The costs associated with the removal of these additional buildings cannot be reasonably determined at this time and as such no reserve has been accrued. The remaining 8.1 acres will be transferred to the Board of Regents for the College’s future use. The timeframe for this transfer is undeterminable.

For the nine months ended December 31, 2015, depreciation expense was \$50,418.

K. 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.

DALTON STATE COLLEGE FOUNDATION, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended December 31, 2015

K. CRAT Payable (continued):

During the nine months ended December 31, 2015, the trust generated investment incomes of \$5, incurred investment management fees of \$0 and distributed payments to the grantor in the amount of \$4,199, thus reducing the principal of the trust by \$4,194.

As of December 31, 2015, the investments contained within the CRAT had a fair market value of \$63,235 which are included in Note D, and the expected CRAT liability was \$13,696.

L. Long Term Debt:

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 Apartments. The principal balance of the note at the time of assumption was \$2,475,000 and accrued 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 were payable in monthly installments of \$15,258. The note matured on February 11, 2015, a final payment of \$1,996,217 was made at that time.

On February 10, 2015, the Foundation entered into an agreement with a national bank to provide financing to assist with the repayment of the Wood Valley Apartments mortgage. The Foundation was advanced \$1,250,000 bearing interest one and seventy-five hundredths percent (1.75%) above LIBOR (1.174% as of December 31, 2015). Interest is payable monthly beginning March 1, 2015 and principal is payable in three annual installments of \$416,665 beginning February 1, 2016. A final payment of \$416,500 is due February 1, 2018.

M. Permanently Restricted Net Assets:

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

Bandy Heritage Center Endowment Fund	\$ 1,000,000
Bandy Chair in History Endowment Fund	1,000,000
Georgia Eminent Scholar Endowment Fund	1,698,250
Georgia Eminent Scholar Endowment Matching Fund	1,000,000
Goizueta Foundation Scholarship Endowment Fund	1,700,000
Various endowed funds	<u>3,743,884</u>
	<u><u>\$ 10,142,134</u></u>

DALTON STATE COLLEGE FOUNDATION, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended December 31, 2015

N. Permanently Restricted Net Assets (continued):

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

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

Investments	\$ 3,484,964
Alternative investments	<u>6,671,407</u>
Total permanently restricted net assets	<u>\$ 10,156,371</u>

O. Temporarily Restricted Net Assets:

The temporarily restricted net assets are composed of various named scholarship funds, faculty chair funds, and award funds for which the Foundation may use either principal or income and earnings from donor restricted funds to provide scholarships to students and support to the faculty of the College with certain qualifications as prescribed by donors. Temporarily restricted net assets are reclassified to unrestricted net assets upon expiration of the donor's restrictions.

As of December 31, temporarily restricted net assets consisted entirely of investments.

DALTON STATE COLLEGE FOUNDATION, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended December 31, 2015

P. Unrestricted Net Assets:

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

Cash	\$ 1,394,342
Promises to give	4,983,500
Deferred tax benefit	98,409
Investments	6,059,221
Prepaid expenses	46,944
Property and equipment	5,538,732
Loan costs	2,083
	<u>18,123,231</u>
Less accounts payable and accrued liabilities	58,148
Less CRAT payable	13,696
Less deferred tax liability	69,290
Less mortgage payable	1,250,000
	<u>1,250,000</u>
Total unrestricted net assets	<u>\$ 16,732,097</u>

The Foundation is a named beneficiary of various estates and charitable trusts. The income from these entities 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 December 31, 2015, no distributions have been received from any trusts.

Q. Related Party Transactions:

The Dalton State College Foundation, Inc., was created expressly to provide support for the faculty, students, facilities, and programs of Dalton State College. The Foundation operates under an updated Memorandum of Agreement dated September 18, 2012, whereby the Foundation and College have made certain agreements that define the terms of the relationship. The term of the Agreement is five years.

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 total amount paid to Dalton State College for the nine months ending December 31, 2015, was \$1,801,902. Included in the amounts paid to Dalton State College are scholarships of \$233,205 paid on behalf of students who are unrelated to the organization or the College for the nine months ended December 31, 2015. 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 nine months ended December 31, 2015

Q. Related Party Transactions (continued):

On July 1, 2009, Dalton State Acquisitions, Inc., 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 Inc., 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 expired on June 30, 2010, and contained renewal options through June 30, 2015. Dalton State College has exercised the renewal options through June 30, 2016 with new terms reflecting the transfer of the 2.77 acres referred to in Note J. 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 nine months ended December 31, 2015, rental income received from Dalton State College amounted to \$207,677.

The Dalton State Athletic Club, Inc., (the Club) was formed in March 2013 to support athletics at Dalton State College. The Club is a separate and distinct entity from the Foundation. On October 11, 2013, at the request of the College administration, the Foundation's Executive Committee voted to lend up to \$425,000 at an annual interest rate of five percent (5%) to the Club for the partial renovation of Bandy Gymnasium on campus. Principal and interest are payable in four annual installments beginning in December 2013. The Club has the option to accelerate the payment schedule with no prepayment penalty.

On March 6, 2014, the Dalton State Athletic Club, Inc., requested and received a modification to the loan term. The annual interest rate was reduced to 0% and the repayment schedule was modified to two (2) equal payments of the outstanding principal balance to be paid on December 31, 2014 and 2015.

On September 15, 2015, the Foundation's Executive Committee voted to forgive the remaining \$211,500 owed by the Dalton State Athletic Club, Inc., on the aforementioned note.

R. Income Tax Status:

Dalton State College Foundation, Inc., is exempt from federal income taxes under Internal Revenue Code 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 (\$160,793) is included in the financial statements related to the activity of Dalton State Acquisitions, Inc., for the nine months ended December 31, 2015. The deferred tax asset reflects the income tax consequences of a net operating loss carryforward. A deferred tax liability has been recognized in the amount of \$102,585 for the nine months ended December 31, 2015, representing temporary differences between the income tax and the 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 December 31, 2015.

SEE INDEPENDENT AUDITORS' REPORT

DALTON STATE COLLEGE FOUNDATION, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended December 31, 2015

R. Income Tax Status (continued):

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 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 December 31, 2015.

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 2012.

S. Net Unrelated Business Income:

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

Operating revenues	\$	207,677
Less operating expenses		43,343
Less depreciation and amortization expense		49,738
Less income tax expense		29,089
Net unrelated business income (loss)	\$	85,507

T. Evaluation of Subsequent Events:

In July 2015, the Foundation secured a pledge from an individual donor in the amount of \$5,000,000 for the purpose of expanding and renovating a campus building. The payment schedule of \$3,000,000 payable in 2016, \$1,000,000 payable in 2017 and \$1,000,000 payable in 2018 was subsequently revised in an oral agreement between the donor and Foundation staff. \$2,500,000 was paid towards this pledge in July 2016 with the remainder expected in 2017 or 2018.

Management has evaluated subsequent events through September 19, 2016, the date which the financial statements were available to be issued, and has determined there were no additional material events requiring recognition or disclosure in the Foundation's financial statements.



INDEPENDENT AUDITORS' REPORT ON
ADDITIONAL INFORMATION

To the Board of Directors of the
Dalton State College Foundation, Inc.

We have audited the consolidated financial statements of the Dalton State College Foundation, Inc., as of and for the nine months ended December 31, 2015, and have issued our report thereon dated September 19, 2016, which contains an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on those financial statements as a whole. The information included in the accompanying Consolidating Statements of Financial Position as of December 31, 2015, and the Schedule of Operating Expenses of Wood Valley Apartments for the nine months ended December 31, 2015 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the aforementioned information is fairly stated in all material respects in relation to the financial statements as a whole.

Sincerely,

Winter & Scoggins
Certified Public Accountants, P.C.

Dalton, Georgia
September 19, 2016

DALTON STATE COLLEGE FOUNDATION, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2015

	<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	\$ 1,129,007	\$ 265,335	\$ -	\$ 1,394,342
Investments	17,307,883	-	-	17,307,883
Alternative investments	6,671,407	-	-	6,671,407
Unconditional promises to give	3,072,634	-	-	3,072,634
Note receivable - Athletic Club	-	-	-	-
Prepaid expenses	<u>22,302</u>	<u>24,642</u>	-	<u>46,944</u>
TOTAL CURRENT ASSETS	<u>28,203,233</u>	<u>289,977</u>	-	<u>28,493,210</u>
PROPERTY AND EQUIPMENT, net	<u>2,974,232</u>	<u>2,564,500</u>	-	<u>5,538,732</u>
NON-CURRENT ASSETS:				
Unconditional promises to give	1,910,866	-	-	1,910,866
Deferred income tax benefit	-	98,409	-	98,409
Investment in subsidiary	2,758,724	-	(2,758,724)	-
Loan acquisition costs	<u>2,083</u>	-	-	<u>2,083</u>
TOTAL NON CURRENT ASSETS	<u>4,671,673</u>	<u>98,409</u>	<u>(2,758,724)</u>	<u>2,011,358</u>
	<u>\$ 35,849,138</u>	<u>\$ 2,952,886</u>	<u>\$ (2,758,724)</u>	<u>\$ 36,043,300</u>
	<u>LIABILITIES AND NET ASSETS</u>			
CURRENT LIABILITIES:				
Accounts payable and accrued liabilities	\$ 35,818	\$ 22,330	\$ -	\$ 58,148
Current portion of CRAT payable	9,569	-	-	9,569
Current portion of long term debt	<u>416,665</u>	-	-	<u>416,665</u>
TOTAL CURRENT LIABILITIES	<u>462,052</u>	<u>22,330</u>	-	<u>484,382</u>
LONG TERM LIABILITIES:				
CRAT payable - net of current portion	4,127	-	-	4,127
Deferred income tax liability	-	69,290	-	69,290
Long term debt - net of current portion	<u>833,335</u>	-	-	<u>833,335</u>
TOTAL LONG TERM LIABILITIES	<u>837,462</u>	<u>69,290</u>	-	<u>906,752</u>
TOTAL LIABILITIES	<u>1,299,514</u>	<u>91,620</u>	-	<u>1,391,134</u>
NET ASSETS:				
Common stock	-	100,000	(100,000)	-
Additional paid in capital	-	2,658,724	(2,658,724)	-
Unrestricted (retained earnings)	16,629,555	102,542	-	16,732,097
Temporarily restricted	7,763,698	-	-	7,763,698
Permanently restricted	<u>10,156,371</u>	-	-	<u>10,156,371</u>
TOTAL NET ASSETS	<u>34,549,624</u>	<u>2,861,266</u>	<u>(2,758,724)</u>	<u>34,652,166</u>
	<u>\$ 35,849,138</u>	<u>\$ 2,952,886</u>	<u>\$ (2,758,724)</u>	<u>\$ 36,043,300</u>

SEE INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

DALTON STATE ACQUISITIONS, INC.

SCHEDULE OF OPERATING EXPENSES OF
THE WOOD VALLEY APARTMENT COMPLEX

For the nine months ended December 31, 2015

OPERATING EXPENSES:

Repairs & maintenance	\$	9,075
Professional fees		8,499
Office supplies		24
Taxes - other		1,000
Depreciation expense		49,738
Insurance		<u>24,745</u>
	\$	<u>93,081</u>

SEE INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION