# AUDITED FINANCIAL STATEMENTS

Home Park Learning Center, Inc.
Years Ended June 30, 2007 and 2006
With Report of Independent Auditors

Home Park Learning Center, Inc.

Financial Statements

Years Ended June 30, 2007 and 2006

## Contents

ERNST & YOUNG

Ernst & Young LLP
Suite 1000
55 Ivan Allen Jr. Boulevard
Atlanta, Georgia 30308

Phone: (404) 874-8300
www.ey.com

# Report of Independent Auditors

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

We have audited the accompanying statement of financial position of Home Park Learning Center, Inc., a nonprofit organization (the Organization), as of June 30, 2007, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the year 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 audit. The financial statements of the Organization for the year ended June 30, 2006, were audited by other auditors whose report dated September 21, 2006, expressed an unqualified opinion on those statements prior to restatement.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Organization's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2007 financial statements referred to above present fairly, in all material respects, the financial position of Home Park Learning Center, Inc. as of June 30, 2007, and the changes in net assets and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

We also audited the adjustments described in Note 10 that were applied to restate the 2006 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

Ernst + Young LLP

October 10, 2007

Home Park Learning Center, Inc.

Statements of Financial Position

| | June 30 2007 | June 30 2006 (As Restated) |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | **$ 144** | $ 143 |
| Prepaid insurance | **7,645** | 7,661 |
| Prepaid expense – other | **–** | 7,230 |
| Leasehold improvement, net of accumulated amortization of $238,102 and $184,192 in 2007 and 2006, respectively | **1,379,193** | 1,433,103 |
| Furniture and equipment, net of accumulated depreciation $77,267 and $59,773 in 2007 and 2006, respectively | **10,205** | 27,699 |
| Contribution receivable | **116,000** | 120,833 |
| Total assets | **$ 1,513,187** | $ 1,596,669 |
| | | |
| **Total liabilities and net assets** | | |
| Liabilities: | | |
| Accounts payable | **$ 2,375** | $ – |
| Total liabilities | **2,375** | – |
| | | |
| Net assets: | | |
| Unrestricted net assets | **1,394,812** | 1,475,836 |
| Temporarily restricted net assets | **116,000** | 120,833 |
| Total net assets | **1,510,812** | 1,596,669 |
| Total liabilities and net assets | **$ 1,513,187** | $ 1,596,669 |

*See accompanying notes.*

Home Park Learning Center, Inc.

Statements of Activities and Changes in Net Assets

| | Year Ended June 30 2007 | 2006 (As Restated) |
|---|---|---|
| **Changes in unrestricted net assets** | | |
| Revenues and support: | | |
| Unrestricted contributions | **$ 74,569** | $ 201,984 |
| Management services revenue | **47,492** | 29,848 |
| Net assets released from restriction | **4,833** | 4,833 |
| Total revenues and support | **126,894** | 236,665 |
| | | |
| Expenses: | | |
| Program services | **154,652** | 270,244 |
| Management and general | **53,266** | 35,622 |
| Total expenses | **207,918** | 305,866 |
| Decrease in unrestricted net assets | **(81,024)** | (69,201) |
| | | |
| **Changes in temporarily restricted net assets** | | |
| Net assets released from restriction | **(4,833)** | (4,833) |
| Decrease in temporarily restricted net assets | **(4,833)** | (4,833) |
| Change in net assets | **(85,857)** | (74,034) |
| Net assets at beginning of year, as previously reported | **1,596,669** | 1,545,037 |
| Correction of prior period errors | **–** | 125,666 |
| Net assets at beginning of year, as restated | **1,596,669** | 1,670,703 |
| Net assets at end of year | **$ 1,510,812** | $ 1,596,669 |

*See accompanying notes.*

## Home Park Learning Center, Inc.

## Statements of Cash Flows

| | Year Ended June 30 | |
|---|---|---|
| | **2007** | **2006** |
| | | *(As Restated)* |
| **Operating activities** | | |
| Change in net assets | **$ (85,857)** | $ (74,034) |
| Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | **71,404** | 76,405 |
| Reduction of contribution receivable | **4,833** | 4,833 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | **–** | 3,283 |
| Prepaid insurance | **16** | – |
| Prepaid expenses – other | **7,230** | (7,230) |
| Accounts payable | **2,375** | (13,068) |
| Net cash provided by (used in) operating activities | **1** | (9,811) |
| | | |
| Cash and cash equivalents, beginning of year | **143** | 9,954 |
| Cash and cash equivalents, end of year | **$ 144** | $ 143 |

*See accompanying notes.*

# Home Park Learning Center, Inc.

## Statement of Functional Expenses

For the Year Ended June 30, 2007

| | Program Services | Management and General | Total Expenses |
|---|---|---|---|
| Salaries | $ – | $ 38,269 | $ 38,269 |
| Fringe benefits | – | 9,223 | 9,223 |
| Total compensation and benefits | – | 47,492 | 47,492 |
| | | | |
| Repairs and maintenance | 1,685 | – | 1,685 |
| Management contract fees | 48,672 | – | 48,672 |
| Professional fees | – | 4,000 | 4,000 |
| Insurance | 12,689 | 1,744 | 14,433 |
| Depreciation | 17,494 | – | 17,494 |
| Amortization | 53,910 | – | 53,910 |
| Supplies | 15,369 | – | 15,369 |
| Licenses and fees | – | 30 | 30 |
| Rent | 4,833 | – | 4,833 |
| Total expenses | $ 154,652 | $ 53,266 | $ 207,918 |

*See accompanying notes.*

Home Park Learning Center, Inc.

Statement of Functional Expenses

For the Year Ended June 30, 2006
*(As Restated)*

| | Program Services | Management and General | Total Expenses |
|---|---|---|---|
| Salaries | $ – | $ 24,168 | $ 24,168 |
| Fringe benefits | – | 5,680 | 5,680 |
| Total compensation and benefits | – | 29,848 | 29,848 |
| | | | |
| Repairs and maintenance | 90,586 | – | 90,586 |
| Management contract fees | 70,095 | – | 70,095 |
| Professional fees | – | 4,000 | 4,000 |
| Insurance | 12,707 | 1,744 | 14,451 |
| Depreciation | 17,494 | – | 17,494 |
| Amortization | 58,911 | – | 58,911 |
| Supplies | 15,618 | – | 15,618 |
| Licenses and fees | – | 30 | 30 |
| Rent | 4,833 | – | 4,833 |
| Total expenses | $ 270,244 | $ 35,622 | $ 305,866 |

*See accompanying notes.*

## 1. Purpose and Organization

Home Park Learning Center, Inc. (the Organization), is a Georgia non-profit corporation and cooperative organization of Georgia Institute of Technology (GIT) formed in 2000 to provide child care services to the faculty, staff, and students of GIT and the residents of the Home Park community.

The Organization is an organization exempt from income taxes under Section 501(a) as an entity described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended and is exempted from state income taxes under related state provisions.

## 2. Significant Accounting Policies

### General

The accounting and reporting policies of the Organization comply with the accounting and reporting provisions of the American Institute of Certified Public Accountants *Audit and Accounting Guide for Not for Profit Organizations*.

### Cash and Cash Equivalents

For purposes of these statements, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and having maturities of three months or less, when purchased.

### Property and Equipment

Property and equipment are stated at cost. Depreciation is recognized on a straight-line basis over the estimated useful lives of the assets, generally 30 years for leasehold improvements and 5 years for furniture and equipment.

### Reclassifications

Certain amounts as previously reported have been reclassified in order to be consistent with the current year presentation.

## 2. Significant Accounting Policies (continued)

### Net Assets

Net assets of the Organization and changes therein are classified and reported as follows:

***Unrestricted Net Assets***

Unrestricted net assets are utilized to account for public support and program revenues that are unrestricted in nature. Donor restricted contributions whose restrictions are met in the year of contribution are reported as unrestricted support.

***Temporarily Restricted Net Assets***

Temporarily restricted net assets are utilized to account for contributions that are donor restricted for uses which have not yet been fulfilled either by time or purpose. Net assets restricted for construction of buildings or equipment are considered temporarily restricted until the asset is placed in service by the Organization.

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.

### Expenses

All expenses are stated on the accrual basis and presented in the statements of activities and changes in net assets and the statements of functional expenses.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

**3. Memorandum of Understanding**

A memorandum of understanding between the Organization and GIT was signed on October 26, 2005, which allows GIT to provide financial support to the Organization (See Note 8).

**4. 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, 2005, 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 amounts paid by the Organization to Bright Horizons under this agreement total $48,672 and $70,095 for the years ended June 30, 2007 and 2006, respectively.

**5. Concentrations**

The Organization receives significant resources from GIT and related organizations. An interruption in this support could cause substantial doubt in the Organization's ability to continue as an independent entity.

## 6. Property and Equipment

Property and equipment at June 30 consists of the following:

| | 2007 | 2006 |
|---|---|---|
| Leasehold improvement | **$ 1,617,295** | $ 1,617,295 |
| Less accumulated amortization | **(238,102)** | (184,192) |
| | **$ 1,379,193** | $ 1,433,103 |
| Furniture and equipment | **$ 87,472** | $ 87,472 |
| Less accumulated depreciation | **(77,267)** | (59,773) |
| | **$ 10,205** | $ 27,699 |

## 7. Land Lease Contribution

In March 2002, the Organization and the City of Atlanta (City) executed an agreement to lease a parcel of land on which a facility was to be constructed for use as a child care center. As part of the agreement, the Organization received a five-year lease term at a cost of $1 per year with five additional five-year terms, for a total of 30 years. In return, the leasehold improvements the Organization makes to the land remain the property of the City at the end of the lease. Since the rent is substantially below market, the Organization has recorded a contribution. Accordingly, the 2006 financial statements were restated to record a temporarily restricted contribution receivable equal to the accrued value of the land. The contribution is being amortized over the lease term and the facility is reflected in leasehold improvement at June 30, 2007 and 2006.

## 8. Management Services

Under the memorandum of understanding (Note 3), 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 as $47,492 and $29,848 for the years ended June 30, 2007 and 2006, respectively, 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, 2007 and 2006, GIT also provided repairs and maintenance services for the Organization's physical facility of $1,685 and $90,586, respectively, and supplies for the Organization's programs in the amount of $15,369 and $15,618, respectively. Both amounts are included in unrestricted revenues and program services expense in the accompanying statements of activities.

**9. Prepaid Expense – Other**

As described in Note 4, Bright Horizons may receive sufficient revenues from outside sources to fully offset the management contract fees described in Note 4. If these revenues exceed the monthly fees, Bright Horizons credits the amount of the excess against the management contract fees of future months. At June 30, 2006, the Organization had an outstanding credit of $7,230, which was applied against 2007 expenses. There was no outstanding credit at June 30, 2007.

**10. Restatement and Correction of Prior Period Errors**

The Organization did not properly record the land lease agreement with the City of Atlanta as a temporarily restricted contribution in 2002 when the agreement was executed. Accordingly, the financial statements have been restated to properly record the contribution. The effect of the correction of this prior period error was to increase temporarily restricted net assets by $125,666 and to increase total expenses by $4,833 on the statements of activities and changes in net assets, and to increase reduction of contribution receivable by $4,833 on the statements of cash flows.