

**Georgia Tech  
Foundation, Inc.  
Consolidated Financial Statements  
June 30, 2003 and 2002**

**Georgia Tech Foundation, Inc.**  
**Contents**  
**June 30, 2003 and 2002**

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**Report of Independent Auditors**

To the Board of Trustees of the  
Georgia Tech Foundation, Inc.

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and changes in net assets and of cash flows present fairly, in all material respects, the financial position of the Georgia Tech Foundation, Inc. (the "Foundation") and its subsidiaries, at June 30, 2003 and 2002, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the Foundation's management; our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

  
LLP

August 29, 2003

# Georgia Tech Foundation, Inc. Consolidated Statement of Financial Position June 30, 2003 and 2002

	June 30, 2003			June 30, 2002			Total 2002	
	Unrestricted	Temporarily Restricted		Unrestricted	Temporarily Restricted			Permanently Restricted
		Total	Permanently Restricted		Total	Permanently Restricted		
<i>(In thousands)</i>								
<b>Assets</b>								
Cash and cash equivalents	\$ 787	\$ 3	\$ 790	\$ 2,925	\$ 3	\$ -	\$ 2,928	
Certificate of deposit (Note B)	4,800	-	4,800	4,800	-	-	4,800	
Construction and bond fund investments	55,065	-	55,065	174,006	-	-	174,006	
Investment pool:								
Securities	205,110	152,093	553,657	224,626	160,022	182,824	567,472	
Securities held on behalf of other organization	48,619	-	48,619	50,436	-	-	50,436	
Partnership interests	70,070	42,002	166,325	73,167	42,566	48,631	164,364	
Real estate, net of accumulated depreciation of \$1,325 in 2003 and \$1,201 in 2002	1,273	763	3,022	1,401	815	931	3,147	
Other investments	3,653	13,341	22,015	171	4,538	5,321	10,030	
Securities	64	-	197	101	-	170	271	
Partnership interests	18,132	736	19,497	19,488	736	684	20,908	
Real estate, net of accumulated depreciation of \$341 in 2003 and \$324 in 2002	161,000	-	161,000	43,850	-	-	43,850	
Capitalized development costs	7,830	725	8,555	11,628	735	-	12,363	
Notes and interest receivable	-	2,387	5,745	-	2,570	4,664	7,234	
Charitable remainder trusts	-	2,170	2,272	-	1,885	183	2,068	
Cash value of life insurance	116	-	116	163	-	-	163	
Capital assets, net of accumulated depreciation of \$779 in 2003 and \$696 in 2002	-	7,632	10,579	-	8,737	3,102	11,839	
Contributions receivable from remainder trusts	2,732	9,275	16,366	2,965	15,603	13,800	32,368	
Contributions receivable and other assets	\$ 579,251	\$ 231,127	\$ 1,078,570	\$ 609,727	\$ 238,210	\$ 260,310	\$ 1,108,247	
<b>Total assets</b>								
<b>Liabilities and Net Assets</b>								
Accounts payable	\$ 15,956	\$ -	\$ 15,956	\$ 12,447	\$ -	\$ -	\$ 12,447	
Unexpended grants	1,390	-	1,390	1,535	-	-	1,535	
Commitments payable	21,085	2,977	24,062	16,787	8,731	-	25,518	
Note payable	32,604	-	32,604	31,310	-	-	31,310	
Bonds payable, net of discount of \$1,812 in 2003 and \$1,877 in 2002	227,448	-	227,448	227,383	-	-	227,383	
Due to life beneficiaries	505	1,257	4,739	147	1,299	2,774	4,220	
Payable to other organization	48,619	-	48,619	50,436	-	-	50,436	
Other liabilities	3,201	-	3,201	3,130	-	-	3,130	
<b>Total liabilities</b>	350,808	4,234	358,019	343,175	10,030	2,774	355,979	
<b>Net assets</b>	228,443	226,893	720,551	266,552	228,180	257,536	752,268	
<b>Total liabilities and net assets</b>	\$ 579,251	\$ 231,127	\$ 1,078,570	\$ 609,727	\$ 238,210	\$ 260,310	\$ 1,108,247	

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

**Georgia Tech Foundation, Inc.**  
**Consolidated Statement of Activities and Changes in Net Assets**  
**Years Ended June 30, 2003 and 2002**

	June 30, 2003			June 30, 2002			Total 2002
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	
<i>(in thousands)</i>							
<b>Consolidated Statements of Activities</b>							
Revenue							
Gift income	\$ 5,077	\$ 21,378	\$ 7,612	\$ 5,106	\$ 39,146	\$ 16,519	\$ 60,771
Interest and dividends, net of investment fees (Note 1)	6,809	3,687	22	9,414	4,363	19	13,796
Realized and unrealized gain (loss) on securities	(2,118)	(140)	(34)	(18,967)	(13,368)	877	(31,438)
Realized and unrealized gain (loss) on partnership interests	(1,668)	(19)	(3)	(11,929)	(8,981)	37	(20,873)
Actuarial gain (loss) on charitable remainder trusts	(39)	(941)	(210)	(19)	(2,966)	(992)	(3,977)
Other	3,571	4,990	306	3,621	547	8	4,176
Net assets released from restriction	30,256	(30,242)	(14)	62,234	(61,932)	(302)	-
	41,888	(1,287)	7,679	49,460	(43,191)	16,166	22,435
<b>Expenses</b>							
Program services	59,944	-	-	99,997	-	-	99,997
General and administrative	4,866	-	-	5,549	-	-	5,549
Interest expense	9,973	-	-	7,261	-	-	7,261
Fund raising	5,214	-	-	5,307	-	-	5,307
Total expenses	79,997	-	-	118,114	-	-	118,114
Change in net assets	(38,109)	(1,287)	7,679	(68,654)	(43,191)	16,166	(95,679)
<b>Consolidated Statement of Changes in Net Assets</b>							
Net assets, beginning of period	266,552	228,180	257,536	335,206	271,371	241,370	847,947
Net assets, end of period	\$ 228,443	\$ 226,893	\$ 265,215	\$ 266,552	\$ 228,180	\$ 257,536	\$ 752,268

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

**Georgia Tech Foundation, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2003 and 2002**

<i>(in thousands)</i>	2003	2002
Cash flows from operating activities		
Change in net assets	\$ (31,717)	\$ (95,679)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	329	379
Amortization of bond discount and issue costs	156	10
Realized and unrealized loss on partnership interests	1,690	20,873
Loss on sale of non-income producing real estate	591	358
Contribution of assets to the Board of Regents	11	18,785
Securities received as gift income	(11,992)	(18,247)
Gain on sale of income producing real estate	-	(792)
Realized and unrealized loss on securities	2,292	31,458
Actuarial loss on charitable remainder trusts	980	2,985
Decrease (increase) in notes and interest receivable	3,808	(2,783)
(Increase) decrease in cash value of life insurance	(154)	441
Decrease in contributions receivable and other assets	15,910	137
Increase in accounts payable	3,509	4,894
Increase in other liabilities	71	1,285
Decrease in unexpended grants	(145)	(123)
(Decrease) increase in commitments payable	(1,456)	14,324
Net cash used in operating activities	(16,117)	(21,695)
Cash flows from investing activities		
Proceeds from sale of investments excluding securities	150,993	18,203
Purchase of investments excluding securities	(34,910)	(188,223)
Proceeds from the sale (purchase) of securities, net	13,347	34,483
(Distribution) receipt of funds (to) from other organization	(1,817)	34,956
Additions to capitalized development costs	(117,150)	(40,319)
Purchase of capital assets	(67)	(65)
Net cash provided by (used in) investing activities	10,396	(140,965)
Cash flows from financing activities		
Proceeds from line of credit	50,665	-
Repayments of line of credit	(49,371)	(17,157)
Proceeds from the issuance of bonds	-	184,280
Payment of bond issuance costs and discounts	-	(3,585)
Decrease (increase) in charitable remainder trust	1,641	(111)
Actuarial loss on charitable remainder trusts - permanently restricted	210	992
Payments to life beneficiaries, net	438	534
Net cash provided by financing activities	3,583	164,953
(Decrease) increase in cash and cash equivalents	(2,138)	2,293
Cash and cash equivalents, beginning of year	2,928	635
Cash and cash equivalents, end of year	\$ 790	\$ 2,928

During fiscal 2003 and 2002, the Foundation received contributions of securities of approximately \$11,992,000 and \$18,247,000, respectively. During fiscal 2002, the Foundation contributed approximately \$18,785,000 of real estate to the Board of Regents of the University System of Georgia.

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

**Georgia Tech Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
**Years Ended June 30, 2003 and 2002**

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**1. Summary of Significant Accounting Policies**

**Organization**

The Georgia Tech Foundation, Inc. (the "Foundation") was incorporated in the state of Georgia in 1932 as a not-for-profit corporation. The purpose of the Foundation is to promote higher education in the state of Georgia, to raise and receive funds for the support and enhancement of the Georgia Institute of Technology (the "Institute") and to aid the Institute in its development as a leading educational institution.

The Georgia Tech Foundation Real Estate Holding Corporation ("GTFREHC"), a wholly-owned subsidiary of the Foundation, was formed in 1990 to hold title to real estate and similar property donated to the Foundation. GTFREHC is included in the consolidation of the Foundation and all material intercompany accounts and transactions have been eliminated.

The Georgia Tech Foundation Funding Corporation ("GTFFC"), a wholly-owned subsidiary of the Foundation, was formed in 2000 to serve as the borrower of some Foundation debt. GTFFC is included in the consolidation of the Foundation and all material intercompany accounts and transactions have been eliminated.

The Fifth Street Hotel, LLC, a wholly-owned subsidiary of the Foundation, was formed on January 10, 2002 to serve as the holder of the land and the building for the Georgia Tech Hotel and Conference Center. The Fifth Street Hotel, LLC is included in the consolidation of the Foundation and all material intercompany accounts and transactions have been eliminated.

Technology Square, LLC, a wholly-owned subsidiary of the Foundation, was formed on January 30, 2002 to serve as the holder of all other land and buildings of the Technology Square project, which are leased to the Board of Regents. Technology Square, LLC is included in the consolidation of the Foundation and all material intercompany accounts and transactions have been eliminated.

**Contributions Received**

The Foundation records contributions consistent with Statement of Financial Accounting Standards No. 116, "Accounting for Contributions Received and Contributions Made" ("SFAS 116"). SFAS 116 requires contributions and unconditional promises to give to be recognized as revenue in the period received at their discounted fair value. Restricted contributions or promises to give for which restrictions are met in the same accounting period as that in which they are received are presented as unrestricted revenue. Contributions receivable recorded at June 30, 2003 and 2002 were \$13,592,138 and \$29,361,008, respectively. At June 30, 2003, contributions receivable due in less than one year, in one to five years and in more than five years were \$6,762,220, \$5,004,444 and \$1,825,474, respectively.

The consolidated financial statements do not include conditional pledges and bequests, which have not been recognized as revenue pursuant to SFAS 116. These amounts totaled \$184,361,351 and \$190,374,615 at June 30, 2003 and 2002, respectively. The amounts pledged represent gross amounts and include bequests which are not payable until the death of the donor.

**Georgia Tech Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
**Years Ended June 30, 2003 and 2002**

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**Contributions Made**

SFAS 116 also requires contributions and unconditional promises to give to be recognized as expenses in the period made at their fair values. The commitments payable recorded at June 30, 2003 and 2002 is \$24,061,529 and \$25,518,372, respectively, and represent amounts due under a guarantee to fund the debt obligation of Georgia Tech Facilities, Inc. (see Note 8) and unconditional promises to give related to 505 10<sup>th</sup> Street, the Student Health Center, the Biomedical Engineering building, the North Avenue Research Area, and the Advanced Technology Computing Building (see Note 9). At June 30, 2003, the commitment payable due in less than one year, in one to five years and in more than five years is \$13,691,529, \$1,005,000, and \$9,365,000, respectively.

**Cash and Cash Equivalents**

The Foundation considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents, except for those short-term financial instruments included in the Foundation's investment accounts.

**Construction and Bond Fund**

The Foundation classifies the unexpended proceeds received from its bond offerings as the construction and bond fund. The assets of the fund are invested in short-term investments and highly-liquid debt securities. As of June 30, 2003, approximately \$37,368,000 from the Series 2002A and 2002B issuance and \$17,697,000 from the Series 2001A issuance remain in the construction and bond fund. As of June 30, 2002, approximately \$136,343,000 from the Series 2002A and 2002B issuance and \$37,663,000 from the Series 2001A issuance remained in the construction and bond fund.

**Life Insurance Contracts**

Life insurance contracts in force owned by the Foundation are recorded at their cash surrender value. The face value of these contracts totaled approximately \$17,294,000 and \$13,965,000 at June 30, 2003 and 2002, respectively.

**Depreciation**

Depreciation is provided on a straight-line basis for depreciable income-producing real estate and capital assets based on useful lives ranging from 3-40 years.

**Fair Value of Financial Instruments**

Cash and cash equivalents, receivables, other assets, accounts payable and unexpended grants are carried at amounts which approximate their fair value due to the short-term nature of these instruments. Long-term contributions receivable amounts are estimated by discounting future cash flows at market interest rates.

**Investments**

Investments consist of marketable securities, privately-held limited partnerships and real estate. Investments are classified by the Foundation as either Investment Pool Investments, or as Other Investments. The Investment Pool consists of actively managed assets which do not have a donor stipulation or requirement as to the type of investment by the Foundation. Other investments consist of assets that generally have a donor stipulation.

**Georgia Tech Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
**Years Ended June 30, 2003 and 2002**

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The Foundation accounts for its investment securities under the provisions of Statement of Financial Accounting Standards No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations" ("SFAS 124"). SFAS 124 requires investments in equity securities with readily determinable fair values and all investments in debt securities to be reported at fair value with realized and unrealized gains and losses included in the Statement of Activities. Realized and Unrealized gains are allocated to unrestricted net assets or temporarily restricted net assets, dependant upon donor specifications. Realized and unrealized losses on endowment funds first reduce appreciation accumulated in temporarily restricted net assets and then, to the extent necessary, reduce unrestricted net assets. As of June 30, 2003, the Foundation has reduced its unrestricted net assets due to realized and unrealized losses on permanently restricted net assets by approximately \$1,450,000. To the extent that losses in an endowment fund reduce temporarily restricted and unrestricted net assets, these categories shall be restored from future gains of the endowment fund for that reduction.

Donated gifts of securities are recorded based on estimated fair value at the date the donation is received. Realized gains and losses on sales of securities represent the difference between net proceeds received and the carrying value of the investments.

Interest and dividend income is presented net of investment fees, which totaled \$1,095,934 and \$1,344,495 for the years ended June 30, 2003 and 2002, respectively. For the year ended June 30, 2003, \$605,110 in investment fees was allocated to the unrestricted net asset class, \$487,745 was allocated to the temporarily restricted net asset class, and \$3,079 was allocated to the permanently restricted net asset class. For the year ended June 30, 2002, \$767,046 in investment fees was allocated to the unrestricted net asset class, \$574,842 was allocated to the temporarily restricted net asset class, and \$2,607 was allocated to the permanently restricted net asset class. Pooled investment earnings and related expenses are allocated on a quarterly basis to the classes based on the pro rata market value of each class's investment balance.

Investments in private partnership interests are accounted for under the equity method using the most recent available financial information. The equity in income of partnership interests is presented as realized and unrealized gain and loss based upon the estimated fair value of each partnership as determined by the General Partner.

Investments in real estate are stated at cost, net of accumulated depreciation. Management periodically reviews its properties to determine if its carrying costs will be recovered from future undiscounted operating cash flows. In cases where the Foundation does not expect to recover its carrying costs, the Foundation will recognize an impairment loss. No such loss was recognized during 2003 and 2002. The Foundation's investment in real estate consists of ownership of five office and residential structures with a total net book value of \$3,402,246 and land with a cost basis of \$19,117,143.

The Foundation charges an administrative fee to the unrestricted, temporarily restricted, and permanently restricted funds for general overhead costs incurred in connection with the support and management of those funds. During fiscal year 2003, the Foundation charged an administrative fee totaling \$4,952,119.

**Georgia Tech Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
**Years Ended June 30, 2003 and 2002**

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**Charitable Remainder Trusts**

The Foundation has been named the beneficiary of cash and property under charitable remainder trust agreements. Under certain agreements, the Foundation has been named trustee for the trusts. For trusts where the Foundation is the trustee, a liability has been recorded at estimated present value for the life interest amount payable to the beneficiary. The estimated present value of amounts due to beneficiaries is determined by the Foundation using certain actuarial assumptions and the IRS discount rate in place at the time of the donation. At June 30, 2003 and 2002, the Foundation recorded life interest liabilities in the amounts of \$4,739,259 and \$4,219,432, respectively. For trusts where the Foundation is not the trustee, the charitable remainder trust agreements are recorded at the estimated fair value of the trust's net assets.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the allowance for contributions receivable, assumptions made in recording liabilities to life beneficiaries, and the fair value of certain investments.

**2. Investments in Securities**

Investments in securities at June 30, 2003 and 2002 are summarized as follows (in thousands):

	June 30,	
	2003	2002
Money market funds	\$ 37,621	\$ 30,198
Bonds	104,346	121,664
Common stock and common stock options	482,323	476,075
	<u>\$ 624,290</u>	<u>\$ 627,937</u>

**Derivatives**

The Foundation may enter into various collar arrangements from time to time to hedge against market volatility of certain marketable equity securities. These arrangements are used to manage the Foundation's exposure to market risk. The Foundation does not use these arrangements for trading or speculative purposes. These arrangements are recorded in the financial statements at fair value, consistent with other investments of the Foundation. Any changes in value of the arrangement are recorded in the Statement of Activities and Changes in Net Assets.

During 2003 and 2002, the Foundation entered into several collar arrangements with three financial institutions. The counterparties to these arrangements are three financial institutions of high credit quality; therefore, the risk of nonperformance by the counterparties is considered to be negligible. The arrangements are tied to certain marketable securities in the form of puts and/or calls. The fair values of the collar and call arrangements are estimated by obtaining quotes from an investment broker. At June 30, 2003 and 2002, the carrying value of these collar arrangements is \$(681,292) and \$323,609, respectively.

**Georgia Tech Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
**Years Ended June 30, 2003 and 2002**

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**3. Investments in Partnership Interests**

The Foundation has investments, as a limited partner, in 64 partnerships. Capital contributions are committed to certain partnerships (see Note 9). The ownership interests in these partnerships range from .11% to 17.70%. The Foundation accounts for its investments in these partnerships under the equity method, based upon the estimated fair value of each partnership as determined by the General Partner.

The balance of the investment in the Limited Partnerships is as follows (in thousands):

	<u>2003</u>	<u>2002</u>
<b>Balance, beginning of year</b>	\$ 164,635	\$ 146,666
Capital contributions	34,518	53,675
Distributions from partnership interests	(30,941)	(14,833)
Realized and unrealized gain (loss) on partnership interests	(1,690)	(20,873)
<b>Balance, end of year</b>	<u>\$ 166,522</u>	<u>\$ 164,635</u>

**4. Notes and Interest Receivable**

Notes and interest receivable at June 30, 2003 and 2002 are summarized as follows (in thousands):

	<b>June 30,</b>	
	<u>2003</u>	<u>2002</u>
Related party and other notes receivable	\$ 7,461	\$ 9,590
Interest receivable for securities and construction and bond fund	1,094	2,773
Total notes and interest receivable	<u>\$ 8,555</u>	<u>\$ 12,363</u>

**5. Debt**

**Series 2001A Bond Issuance**

During May 2001, the Foundation issued \$44,980,000 Series 2001A Bonds. The Series 2001A Bonds were issued to provide funds to finance the costs of construction of the Student Athletic Complex (SAC), a facility to be constructed on the Institute's campus. As of June 30, 2003, \$29,496,277 has been expended and capitalized as development costs related to SAC.

**Georgia Tech Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
**Years Ended June 30, 2003 and 2002**

The following represents the applicable interest rates and mandatory principal redemptions on the Series 2001A bonds until maturity on various dates through November 2030:

<b>Fiscal Year</b>	<b>Principal Amount</b>	<b>Interest Rate</b>
2004	\$ 760,000	4%
2005	790,000	4%
2006	825,000	4%
2007	860,000	4%
2008	900,000	4.25%
Thereafter	<u>40,845,000</u>	4.30% - 5.75%
	<u>\$ 44,980,000</u>	

**Series 2002A and 2002B Bond Issuance**

During January 2002, the Foundation issued \$111,090,000 Series 2002A (tax exempt) Bonds and \$73,190,000 Series 2002B (taxable) Bonds. The 2002 Bonds were issued to provide funds to finance the costs of the acquisition, construction, and installation of an addition to the Institute's campus to be known as Technology Square. Technology Square will include a new College of Management building for the Institute, a hotel and conference center, a global learning center, a parking deck, and a bookstore. The Foundation has leased the hotel and conference center to a third-party to manage the operations, effective July 14, 2003. The Foundation has also leased the other components of Technology Square to the Board of Regents of the University System of Georgia, on behalf of the Institute, on a year-to-year basis, subject to annual renewal and appropriation, effective July 1, 2003. As of June 30, 2003, \$131,503,723 has been expended and capitalized as development costs related to Technology Square.

The following represents the applicable interest rates and mandatory principal redemptions on the Series 2002 bonds until maturity on various dates through November 2031:

<b>Fiscal Year</b>	<b>Series 2002A</b>		<b>Series 2002B</b>	
	<b>Principal</b>	<b>Interest Rate</b>	<b>Principal</b>	<b>Interest Rate</b>
2004	\$ 1,835,000	4.00%	\$ 605,000	3.62%
2005	1,900,000	2.99%	1,315,000	4.27%
2006	1,975,000	4.60%	1,380,000	4.85%
2007	2,065,000	4.81%	1,460,000	5.23%
2008	2,170,000	4.68%	1,535,000	5.54%
Thereafter	<u>101,145,000</u>	3.98% - 5.25%	<u>66,895,000</u>	5.77% - 6.60%
	<u>\$ 111,090,000</u>		<u>\$ 73,190,000</u>	

**Georgia Tech Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
**Years Ended June 30, 2003 and 2002**

The following table represents the Foundation's pooled investment assets by category under the provisions of the Bond Issuance Disclosure Agreements as of June 30, 2003 and 2002:

	2003		2002	
	Percentage	Amount	Percentage	Amount
Domestic equities	41.1%	\$317,124,675	49.5%	\$388,794,971
International equities	17.1%	132,090,449	12.8%	100,379,007
Venture capital, buyout funds and distressed securities	17.2%	132,373,660	18.6%	146,096,796
Real estate and real estate funds	3.3%	25,559,644	3.2%	25,230,020
Fixed income	21.3%	164,473,520	15.9%	124,917,617
Total		<u>\$771,621,948</u>		<u>\$785,418,411</u>

During fiscal year 2003, the Foundation sold its interest rate call options relative to the Series 1997A, 2001A, and 2002A Bonds and realized a gain of \$3,414,130.

**Line of Credit**

The Foundation established a \$60,000,000 line of credit in the name of the Georgia Tech Foundation Funding Corporation. As of June 30, 2003 and 2002, \$32,603,819 and \$31,310,062, respectively, was outstanding on the line of credit. Interest is calculated using the thirty-day LIBOR rate plus .25%, which was 1.37% and 2.09% at June 30, 2003 and 2002, respectively.

The Foundation also has available two other lines of credit for \$10,000,000 and \$25,000,000. As of June 30, 2003 and 2002, no amounts have been drawn on these credit facilities. The lines of credit expire on August 29, 2003 and September 16, 2003, respectively.

**6. Net Assets Released from Restrictions**

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Foundation reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the acquired long-lived assets are placed in service.

**Georgia Tech Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
**Years Ended June 30, 2003 and 2002**

Net assets were released from restrictions for the years ending June 30, 2003 and 2002 as follows (in thousands):

	June 30,	
	2003	2002
Georgia Institute of Technology	\$ 27,459	\$ 35,655
Alexander-Tharpe Fund, Inc.	521	982
Georgia Tech Facilities, Inc.	2,262	25,295
Total net assets released from restrictions	\$ 30,242	\$ 61,932

Expenses by functional classification for the years ended June 30, 2003 and 2002 are as follows (in thousands):

	2003	2002
Program services		
Georgia Institute of Technology	\$ 53,087	\$ 63,819
Georgia Tech Alumni Association	3,830	3,830
Georgia Tech Facilities, Inc.	2,262	31,095
Alexander-Tharpe Fund, Inc.	765	1,253
	59,944	99,997
General and administrative	4,866	5,549
Interest expense	9,973	7,261
Fund raising	5,214	5,307
Total expenses	\$ 79,997	\$ 118,114

**7. Tax Status**

The Foundation has received a ruling from the Internal Revenue Service that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

**8. Related Parties**

Georgia Tech Facilities, Inc. ("Facilities") is a separate corporation formed to oversee and obtain financing for specified construction projects for the Institute. Two members of the Board of Directors of Facilities are also trustee emeritus of the Foundation.

During 1998, the trustees of the Foundation agreed to guarantee, through a commitment of support dated December 1, 1997, an \$11,580,000 bond ("1997 A Bond") which was issued by Facilities during fiscal year 1998 to 1) refinance the 1992 A and B Bonds on the Bill Moore Student Success Center and the William C. Wardlaw Center, and 2) fund the purchase of the Habersham Building from the Foundation. These 30 year bonds mature September 1, 2027, require mandatory sinking fund principal payments until maturity, and are guaranteed by the Foundation. At June 30, 2003 and 2002, respectively, \$10,595,000 and \$10,810,000 was outstanding on the 1997 A Bond.

**Georgia Tech Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
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Contributions made by the Foundation to Facilities during fiscal years 2003 and 2002 to assist Facilities in debt service requirements totaled \$746,149 and \$743,953, respectively.

During 2003 and 2002, the Foundation paid \$42,893,824 and \$40,972,394, respectively, for costs incurred by the Institute for salaries, fringe benefits, scholarships, fellowships, travel and other general expenses.

The Foundation maintains and invests certain investments for the Alexander-Tharpe Fund, Inc. These investments, which can be reclaimed by this organization, amount to \$48,618,524 and \$50,436,145 at June 30, 2003 and 2002, respectively, and are recorded as a payable to other organization in the Statement of Financial Position.

The Foundation leased land on the campus of Georgia Tech from the Board of Regents of the University System of Georgia ("Board of Regents") under a ground lease on which the Student Athletic Complex (the "Complex") is located. The lease was signed in February 2002 and has a term of one year renewable on a year-by-year basis at a nominal rental cost. Use of the land reverts back to the Board of Regents upon payment in full of the Series 2001A Bonds.

In February 2002, the Foundation entered into a leasing arrangement with the Board of Regents whereby the Board of Regents agreed to lease the Complex for one year for the use and benefit of Georgia Tech. The lease is renewable on a year by year basis at the option of either party. Under the lease arrangement, lease payments are not to exceed \$4,000,000. During fiscal 2003, Georgia Tech paid \$2,319,864 in lease payments to the Foundation.

On April 30, 2001, the Foundation agreed to guarantee the Georgia Advanced Technology Ventures (GATV) facility lease for five years. As collateral for the GATV lease, the Foundation invested \$4,800,000 in a certificate of deposit. Interest earned on the account accrues to the Foundation.

**9. Commitments and Contingencies**

On October 13, 1988, the Foundation established a Faculty Mortgage Program in which the Foundation guarantees the amounts of mortgage loans to eligible faculty in excess of 80% of the lesser of the purchase price or the appraised value of the property to be purchased, up to a maximum of 95%. The total amount guaranteed under this program was approximately \$964,416 and \$594,000 as of June 30, 2003 and 2002, respectively. The Foundation will guarantee qualifying loans up to an aggregate total of \$1,500,000.

On June 4, 1992, the Foundation established a Campus Housing Loan Guarantee Program in which the Foundation guarantees the amounts of loans to eligible owners of qualifying campus residential housing up to a maximum of \$400,000. The Foundation will guarantee qualifying loans up to an aggregate total of \$5,000,000. At June 30, 2003 and 2002, the total loans guaranteed under this program was approximately \$1,446,111 and \$1,660,000, respectively.

The Foundation has invested in certain partnerships that call for future capital contributions in accordance with the related agreements. Capital contributions committed to the partnerships by the Foundation at June 30, 2003 and 2002 totaled \$100,589,395 and \$122,936,300, respectively.

**Georgia Tech Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
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On December 4, 1998, the Board of Trustees of the Foundation authorized the internal designation of up to \$15,000,000 of unrestricted funds for advanced funding of endowed chairs. As of June 30, 2003, unrestricted funds of \$11,326,956 were internally designated.

On June 4, 1999, the Foundation advanced \$15 million for the construction of the Environmental Science and Technology Building, a facility to be constructed on the Institute's campus for a total of \$58 million. This commitment was made with the understanding that the entire amount would be repaid within 5 years of the date the funds were advanced. As of June 30, 2003, \$8,922,274 has been repaid. Amounts due in less than one year and in one to three years at June 30, 2003, were \$2,022,500 and \$4,055,226, respectively.

On March 27, 2002, the Foundation entered into a binding Memorandum of Understanding with the Institute and Facilities to confirm responsibilities in connection with a \$4,600,000 project to renovate the facilities at 505 10<sup>th</sup> Street, a \$6,700,000 project to construct a Student Health Center on the campus of the Institute, and a \$23,000,000 project to fund the development costs of the Biomedical Engineering building on the campus of the Institute. During fiscal year 2002, the full \$4,600,000 related to 505 10<sup>th</sup> Street was recognized as a contribution made, \$5,025,000 related to the Student Health Center was recognized as a contribution made, and \$21,300,000 was recognized as a contribution made related to the Biomedical Engineering building. As of June 30, 2003, \$4,962,500 has been expended for the Student Health Center, \$17,523,132 for the Biomedical Engineering building, and \$3,347,199, for 505 10<sup>th</sup> Street.

On August 26, 2002, the Foundation approved the Institute's request for funding of \$1,800,000 to obtain the final piece of property for the North Avenue Research Area (NARA) assemblage, \$2,400,000 for infrastructure development and site improvements on the NARA area, and \$4,000,000 to fund construction of the Advanced Technology Computing Building. As of June 30, 2003, the full \$8,200,000 of commitments has been recognized as contributions made and \$0 has been expended.

In addition to the Series 2002 Revenue Bonds issued by the Foundation to support the construction of Technology Square (See Note 5), the Board approved to commit \$12,500,000 of the Foundation's unrestricted net assets to facilitate completion of the project with an intent to borrow \$7,500,000 and expend \$5,000,000. As of June 30, 2003, the Foundation had recognized \$4,894,424 as capitalized development costs, \$2,768,963 of which was paid out during fiscal year 2003.

In June 2002, the Foundation established an Unrestricted Fund Reserve to provide sufficient funds for debt service and for the unrestricted fund budget of the Foundation. As of June 30, 2003, this reserve totaled approximately \$65,600,000.