



GEORGIA TECH FOUNDATION, INC.

Consolidated Financial Statements

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

GEORGIA TECH FOUNDATION, INC.

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KPMG LLP
Suite 2000
303 Peachtree Street, NE
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Independent Auditors' Report

The Board of Trustees
Georgia Tech Foundation, Inc.:

We have audited the accompanying consolidated statements of financial position of Georgia Tech Foundation, Inc. and subsidiaries (the Foundation) as of June 30, 2007 and 2006, and the related consolidated statements of activities and cash flows for the years then ended. 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 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 of material misstatement. An audit includes 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 Foundation'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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Georgia Tech Foundation, Inc. and subsidiaries as of June 30, 2007 and 2006, and their changes in net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 30, 2007

GEORGIA TECH FOUNDATION, INC.

Consolidated Statements of Financial Position

June 30, 2007 and 2006

(In thousands)

Assets	2007	2006
Cash and cash equivalents	\$ 8,359	21,778
Contributions receivable (note 2)	30,222	9,908
Investments (note 3)	1,348,125	1,111,949
Other assets	3,093	2,605
Notes and interest receivable (note 4)	1,341	1,319
Leases receivable (note 5)	171,744	175,409
Contributions receivable from remainder trusts	10,609	9,895
Charitable remainder trusts	14,890	14,196
Cash value of life insurance	2,970	2,645
Capital assets, net of accumulated depreciation of \$8,627 in 2007 and \$6,731 in 2006 (note 6)	39,123	40,873
Total assets	<u>\$ 1,630,476</u>	<u>1,390,577</u>
Liabilities and Net Assets		
Accounts payable	\$ 4,247	3,882
Commitment payable (note 7)	9,795	10,054
Lines of credit (note 8)	63,726	44,220
Bonds payable, net of discount of \$1,555 in 2007 and \$1,619 in 2006 (note 8)	211,935	216,256
Due to life beneficiaries	10,475	9,598
Funds held on behalf of other organization (notes 3, 9, and 15)	80,967	68,167
Revocable gift (note 10)	44,822	38,614
Other liabilities	3,247	2,830
Total liabilities	<u>429,214</u>	<u>393,621</u>
Net assets:		
Unrestricted	418,269	352,525
Temporarily restricted (note 12)	429,375	326,444
Permanently restricted (note 12)	353,618	317,987
	<u>1,201,262</u>	<u>996,956</u>
Commitments (notes 5, 7, 8, 9, 13, and 16)		
Total liabilities and net assets	<u>\$ 1,630,476</u>	<u>1,390,577</u>

See accompanying notes to consolidated financial statements.

GEORGIA TECH FOUNDATION, INC.

Consolidated Statements of Activities

Years ended June 30, 2007 and 2006

(In thousands)

	2007				2006			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:								
Gift income	\$ 5,540	46,661	27,948	80,149	6,199	32,483	21,119	59,801
Lease revenue	15,881	246	—	16,127	15,696	231	—	15,927
Interest and dividends, net of fees	5,840	4,788	28	10,656	5,562	4,531	63	10,156
Net realized/unrealized gain on investments	104,134	98,491	6,058	208,683	56,403	50,615	600	107,618
Actuarial (loss) gain on trusts and annuities	(18)	976	1,534	2,492	34	738	83	855
Other	1,579	544	63	2,186	1,145	937	(50)	2,032
Net assets released from restrictions (note 11)	48,775	(48,775)	—	—	41,908	(41,908)	—	—
Total revenues	181,731	102,931	35,631	320,293	126,947	47,627	21,815	196,389
Expenses (note 14(a)):								
Program services	101,465	—	—	101,465	79,771	—	—	79,771
General and administrative (note 14(b))	9,458	—	—	9,458	9,573	—	—	9,573
Fund raising	5,064	—	—	5,064	3,694	—	—	3,694
Total expenses	115,987	—	—	115,987	93,038	—	—	93,038
Changes in net assets	65,744	102,931	35,631	204,306	33,909	47,627	21,815	103,351
Net assets, beginning of year	352,525	326,444	317,987	996,956	318,616	278,817	296,172	893,605
Net assets, end of year	\$ 418,269	429,375	353,618	1,201,262	352,525	326,444	317,987	996,956

See accompanying notes to consolidated financial statements.

GEORGIA TECH FOUNDATION, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2007 and 2006

(In thousands)

	2007	2006
Change in net assets	\$ 204,306	103,351
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	2,134	2,333
Amortization of bond discount	64	64
Net realized/unrealized gain on investments	(208,683)	(107,618)
Actuarial gain on trusts and annuities	(2,492)	(855)
Contribution of noncash assets	(14,593)	(17,128)
Gift of noncash asset to the Institute	3,400	—
Proceeds from gifts restricted for long-term investment	(27,948)	(21,119)
(Increase) decrease in interest receivable	(2)	5
Increase in cash value of life insurance	(325)	(119)
(Increase) decrease in contributions receivable	(20,314)	1,216
Decrease (increase) in other assets	(488)	173
Increase (decrease) in accounts payable	365	(1,494)
Increase in other liabilities	417	514
Decrease in commitment payable	(259)	(1,798)
Net cash used in operating activities	(64,418)	(42,475)
Cash flows from investing activities:		
Proceeds from sale of certificate of deposit	—	4,800
Proceeds from the sales and maturities of investments	263,838	234,978
Purchases of investments and maturities	(279,321)	(222,421)
Increase in funds held on behalf of other organization	12,800	6,798
Increase in revocable gift	6,208	2,882
Proceeds from payment of leases receivable	3,665	3,492
Purchase of capital assets	(145)	(195)
Proceeds from repayment of notes receivable	89	688
Net cash provided by investing activities	7,134	31,022
Cash flows from financing activities:		
Proceeds from lines of credit	102,402	57,703
Repayments of lines of credit	(82,896)	(48,300)
Principal repayments of bonds payable	(4,385)	(4,180)
Receipt of cash from trusts	1,340	4,271
Payments to life income beneficiaries	(544)	(507)
Proceeds from gifts restricted for long-term investment	27,948	21,119
Net cash provided by financing activities	43,865	30,106
(Decrease) increase in cash and cash equivalents	(13,419)	18,653
Cash and cash equivalents, beginning of year	21,778	3,125
Cash and cash equivalents, end of year	\$ 8,359	21,778
Noncash activities:		
Contribution of notes receivable	\$ 109	—
Contribution of charitable trusts, annuities	254	3,908
Contributions of securities	14,230	13,220
Total contribution of noncash assets	14,593	17,128
Gift of real estate to the Institute	(3,400)	—
Total noncash activities	\$ 11,193	17,128

See accompanying notes to consolidated financial statements.

GEORGIA TECH FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(In thousands of dollars)

(1) Summary of Significant Accounting Policies

(a) 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 incorporated as a not-for-profit corporation in 1990 to hold title to real estate and similar property donated to the Foundation. GTFREHC is included in the consolidated financial statements 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 incorporated as a not-for-profit corporation in 2000 to serve as the borrower of a portion of Foundation debt. GTFFC is included in the consolidated financial statements 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 as a single member limited liability corporation in 2002 to serve as the holder of the land and the building for the Georgia Tech Hotel and Conference Center, the activities of which are subject to unrelated business income tax. The Fifth Street Hotel, LLC is included in the consolidated financial statements 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 as a single member limited liability corporation in 2002 to serve as the holder of all other land and buildings of the Technology Square project, which are leased to the University System of Georgia Board of Regents (Board of Regents). Technology Square, LLC is included in the consolidated financial statements of the Foundation and all material intercompany accounts and transactions have been eliminated.

(b) Basis of Presentation

The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting.

(c) Classification of Net Assets

The Foundation's net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets are not subject to donor-imposed restrictions. Net assets included in this class include the receipt of unrestricted gifts and earnings on unrestricted endowment funds.

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June 30, 2007 and 2006

(In thousands of dollars)

Temporarily Restricted Net Assets are subject to donor-imposed restrictions. Net assets included in this class include gifts for restricted purposes and earnings on restricted endowment funds.

Permanently Restricted Net Assets are subject to donor-imposed restrictions such that the net assets be maintained permanently by the Foundation. Net assets included in this class include gifts in which donors stipulate that the corpus be held in perpetuity, and only the earnings on the net assets are to be expended.

(d) *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.

(e) *Investments*

Investments consist predominantly of marketable securities, privately held limited partnerships, and real estate. The Foundation accounts for its investment securities under the provisions of Statement of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. SFAS No. 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 net asset classes, dependent upon donor specifications. Realized and unrealized losses on permanently restricted 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, 2007, there were no such reductions on unrestricted net assets due to realized and unrealized losses on permanently restricted net assets. As of June 30, 2006, the Foundation has reduced its unrestricted net assets due to realized and unrealized losses on permanently restricted net assets by \$17. To the extent that losses in an endowment fund reduce temporarily restricted and unrestricted net assets, these categories will be restored from future gains of the endowment fund.

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.

Investment income, gains, and losses are presented in the accompanying consolidated statements of activities net of investment fees. Pooled investment earnings and related expenses are allocated on a quarterly basis to each net asset class based on the pro rata market value of each class' investment balance.

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Notes to Consolidated Financial Statements

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(In thousands of dollars)

Investments in private partnership interests are valued primarily using the most current information provided by the general partner. The change in net assets related to 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. General partners typically value privately held companies at cost as adjusted based on recent arms' length transactions. Public companies are valued using quoted market prices and exchange rates, if applicable. Real estate partnerships and funds are valued based on appraisals of properties held and conducted by third-party appraisers retained by the general partner or investment manager. General partners of marketable alternatives provide values based on quoted market prices and exchange rates for publicly held securities and valuation estimates of derivative instruments. General partners of oil and gas partnerships also use third-party appraisers to value properties. Valuations provided by the general partners and investment managers are evaluated by management, and management believes such values are reasonable at June 30, 2007.

Investments in real estate are stated at cost, net of accumulated depreciation. Management periodically reviews its properties to determine if its costs will be recovered from future undiscounted operating cash flows. In cases where the Foundation does not expect to recover its costs, the Foundation will recognize an impairment loss. During 2007, the Foundation recognized an impairment loss of \$1,700 on investments in real estate. No such loss was recognized during 2006. As of June 30, 2007 and 2006 the Foundation's investment in real estate consists of ownership of properties with a total net book value of \$6,936 and \$10,835, respectively. Depreciation expense totaling \$239 and \$171, related to investments in real estate, was recognized during the years ended June 30, 2007 and 2006, respectively.

The Foundation's investments are exposed to several risks, such as changes in interest rates, currency fluctuations, market fluctuations, and credit risks. Changes in financial markets occur daily and it is quite likely that changes in the carrying values of investments will occur in the near term. Such changes could materially affect the amounts reported in the Foundation's consolidated financial statements.

The Foundation charges an administrative fee for general overhead costs incurred in connection with the support and management of its investment funds. During 2007 and 2006, respectively, the Foundation charged an administrative fee totaling \$6,785 and \$5,975.

(f) Fair Value of Financial Instruments

Cash and cash equivalents and accounts payable are carried at amounts which approximate their fair value due to the short-term nature of these instruments. Notes and interest receivable are carried at the amount of the loan and interest accrued, which approximates fair value. Commitments payable and lines of credit are carried at the amount owed, which approximates fair value. Contributions receivable are estimated by discounting future cash flows at market interest rates which approximates fair value. Investments and charitable remainder trusts are carried at fair value. The cash value of life insurance is based on the surrender values provided by the issuers of each policy which approximates fair value. The fair value of bonds payable is \$222,612 and \$226,400 based on quoted market prices at June 30, 2007 and 2006, respectively.

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Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(In thousands of dollars)

(g) *Charitable Remainder Trusts*

The Foundation has been named the beneficiary of cash and property under charitable remainder trust, charitable lead trust, and charitable gift annuity 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 the estimated present value of 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 Internal Revenue Service discount rate in place at the time of the donation. For charitable remainder trust agreements, where the Foundation is not the trustee, a contribution receivable is recorded based on the present value of estimated future distributions expected to be received over the term of the agreement. A discount rate commensurate with the risk involved is estimated as of June 30th of each fiscal year. For the years ended June 30, 2007 and 2006 the interest rate was 5.60% and 6.00%, respectively.

(h) *Life Insurance Contracts*

Life insurance contracts in force owned by the Foundation are recorded at their cash surrender value. The Foundation has the full rights to the cash value of the policies. Some policies are fully funded, while others are being funded with contributions from donors. The Foundation will collect on the face values of the policies when the insured passes away and will apply the proceeds to the restricted or unrestricted purposes intended by the donor. The face value of these contracts totaled \$12,289 and \$12,975 at June 30, 2007 and 2006, respectively.

(i) *Capital Assets*

Capital assets are stated at cost at the date of acquisition less accumulated depreciation. The Foundation capitalizes interest cost as a component of construction in progress during the construction and development of its real estate projects. Depreciation is provided on a straight line basis over the useful life ranging from 3 – 50 years.

(j) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 determination of fair value of certain nonreadily marketable investments, the allowance for contributions receivable, and the assumptions made in recording liabilities to life beneficiaries.

(k) *Tax Status*

The Foundation is recognized as an organization exempt from federal income tax under Section 501(a) of the U.S. Internal Revenue Code (the Code), as an organization described in Section 501(c)(3) of the Code, except for taxes or income from activities unrelated to its exempt purpose.

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Notes to Consolidated Financial Statements

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(In thousands of dollars)

(2) Contributions Receivable

The Foundation records contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. SFAS No. 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.

Promised contributions are due as follows:

	<u>2007</u>	<u>2006</u>
Within one year	\$ 7,196	2,755
One to five years	26,662	7,316
More than five years	<u>3,440</u>	<u>2,605</u>
Contributions receivable	37,298	12,676
Less allowance for uncollectible contributions	(2,780)	(824)
Less present value component	<u>(4,296)</u>	<u>(1,944)</u>
Net contributions receivable	\$ <u>30,222</u>	\$ <u>9,908</u>

The discount rates used to calculate the present value component range from 4.00% to 9.50%.

The consolidated financial statements do not include conditional pledges, expectancies and bequests, which have not been recognized as revenue pursuant to SFAS No. 116. These undiscounted amounts totaled \$200,414 and \$193,906 at June 30, 2007 and 2006, respectively.

(3) Investments

Investments at June 30, 2007 and 2006 are summarized as follows:

	<u>2007</u>		<u>2006</u>	
	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>
Cash and cash equivalents	1.8%	\$ 24,102	0.5%	\$ 5,217
Domestic equities	18.9	254,150	23.0	255,684
International equities	13.6	182,913	8.7	97,061
Global equities	11.6	156,754	11.3	126,056
Venture capital, buyout funds and distressed securities	19.1	257,975	19.1	211,978
Real estate and real estate funds	2.2	30,633	3.3	37,183
Fixed income and diversifying strategies	32.8	<u>441,598</u>	34.1	<u>378,770</u>
		\$ <u>1,348,125</u>		\$ <u>1,111,949</u>

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Notes to Consolidated Financial Statements

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(In thousands of dollars)

Investments include amounts managed by the Foundation on behalf of The Alexander-Tharpe Fund, Inc. totaling \$80,967 and \$68,167 as of June 30, 2007 and 2006, respectively (note 9).

The Foundation has investments, as a limited partner, in 106 and 89 partnerships at June 30, 2007 and 2006, respectively. Capital contributions are committed to certain partnerships (note 16). The Foundation's ownership interests in 103 of these partnerships range from 0.10% to 4.89% at June 30, 2007. The Foundation's ownership interests in three of these partnerships, totaling \$6,740, range from 9.98% to 13.64% at June 30, 2007. The Foundation's management accounts for its investments in these partnerships at fair value, based upon the estimated fair value of each partnership and other information provided by the general partner. The Foundation's investments in these partnerships include investments in international equities, venture capital, buyout funds, distressed securities, real estate, fixed income, and diversifying strategies.

Activity of the Foundation's investments in the partnership interests is as follows:

	<u>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 259,558	212,339
Capital contributions	104,727	76,707
Distributions from partnership interests	(108,557)	(77,308)
Realized and unrealized gain on partnership interests	66,831	43,278
Realized and unrealized gain attributable to other organization and revocable gift	<u>6,730</u>	<u>4,542</u>
Balance, end of year	<u>\$ 329,289</u>	<u>259,558</u>

Certain reclassifications have been made to 2006 amounts in the activity in the Foundation's investment in partnership interests to conform with classifications adopted in 2007.

Derivatives

The Foundation may enter into derivative transaction 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 consolidated financial statements at fair value, consistent with the other investments of the Foundation. Any changes in the fair value of the arrangements are recorded in the accompanying statements of activities.

During 2006, the Foundation sold calls on publicly traded equity securities to two financial institutions. The arrangements were tied to certain marketable securities owned by the Foundation. The notional amount of the calls equaled \$18,443 and the carrying value at June 30, 2006 totaled \$(54). The fair values of call arrangements are estimated by obtaining quotes from an investment broker. The calls were settled during 2007, and at June 30, 2007, there were no such arrangements.

GEORGIA TECH FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(In thousands of dollars)

(4) Notes and Interest Receivable

Notes and interest receivable at June 30, 2007 and 2006 are summarized as follows:

	<u>2007</u>	<u>2006</u>
Related-party notes receivable (note 15)	\$ 963	988
Other notes receivable	360	314
Interest receivable on notes	18	17
Total notes and interest receivable	<u>\$ 1,341</u>	<u>1,319</u>

The interest rates vary from 4.75% to 10.0%. The principal amount to be received for each of the subsequent five years and thereafter is summarized as follows:

	<u>Amount</u>
Fiscal year:	
2008	\$ 129
2009	65
2010	70
2011	72
2012	62
Thereafter	943
Total	<u>\$ 1,341</u>

(5) Leases

(a) Capital Leases

The Foundation has recorded a lease receivable totaling \$41,226 and \$42,063 as of June 30, 2007 and 2006, respectively, for the lease under a certain Rental Agreement (the CRC Rental Agreement) with the Board of Regents of the University System of Georgia for the Campus Recreation Center (CRC). The Foundation received lease payments of \$3,416 and \$3,402 under the CRC Rental Agreement during the years ended June 30, 2007 and 2006, respectively.

The Foundation leases from the Board of Regents the land on the Institute's campus on which the CRC is located. Such ground lease is a 30-year lease, through 2031, and upon full payment of the debt incurred by the Foundation to construct the CRC: 1) the ground lease terminates and the land will remain property of the Board of Regents and 2) the ownership of the improvements to the land will be transferred to the Board of Regents by the Foundation.

The CRC was constructed and placed into service by the Foundation in 2004. The Rental Agreement expires on February 28 of each year, but is renewable on a year by year basis at the option of the Board of Regents until 2031. Under the Rental Agreement, the lease payments are not to exceed \$4,000 annually and are used to retire the debt incurred by the Foundation and provide for a capital

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replacement reserve. The Board of Regents' failure to exercise its options through 2031 has been determined to be remote and thus, the lease receivable has been recorded.

The Foundation has debt outstanding totaling \$41,745 on the CRC as of June 30, 2007 (note 8). The amount of the lease receivable is equal to the present value of the amounts receivable under the lease discounted using the same interest rates as those on the related bonds. Therefore, the lease receivable is equal to the total debt outstanding as of June 30, 2007, less \$519 in issuance costs associated with the 2001A Bonds. The issuance costs are reimbursed through lease payments received from the Board of Regents over the 30-year repayment period of the bonds.

The Foundation has also recorded a lease receivable in the amount of \$130,518 and \$133,346 as of June 30, 2007 and 2006, respectively, for the lease of property comprising land and six buildings on campus known as Technology Square. Technology Square was constructed and placed into service by the Foundation in 2004. The lease agreement expires at the end of each fiscal year, but is renewable on a year by year basis at the option of the Board of Regents until 2032. The Board of Regents' failure to exercise its options through 2032 has been determined to be remote and thus, the lease receivable has been recorded. Upon retirement of the debt associated with the property leased by the Board of Regents, the ownership of the land and improvements to the property will be gifted to the Board of Regents at no cost. The lease payments are used to retire the debt incurred by the Foundation and to provide for major replacement and renewal of the buildings.

The Foundation has debt outstanding totaling \$131,660 and \$134,537 as of June 30, 2007 and 2006, respectively, in the Series 2002A and 2002B Bonds, on Technology Square leased to the Board of Regents (note 8). The amount of the lease receivable is equal to the present value of the amounts receivable under the lease discounted using the same interest rates as those on the related bonds. Therefore, the lease receivable is equal to the total debt outstanding as of June 30, 2007, less \$1,142 in issuance costs associated with the 2002A and 2002B Bonds, related to the same debt. The issuance costs are reimbursed through lease payments received from the Board of Regents over the 30-year repayment period of the bonds. The Foundation received lease payments of \$10,597 and \$10,596 related to this lease during the years ended June 30, 2007 and 2006, respectively.

The following represents anticipated future lease payments to be received on the CRC and Technology Square capital leases for the subsequent five years:

	<u>Amount</u>
Fiscal year:	
2008	\$ 14,049
2009	14,038
2010	14,050
2011	14,056
2012	14,059

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(In thousands of dollars)

(b) *Operating Lease*

The Foundation has leased the Georgia Tech Hotel and Conference Center to a third party effective July 14, 2003. Under the lease agreement, the Foundation receives base rent, payments for capital replacement, and incentive rent. During 2007 and 2006, the Foundation received \$4,224 and \$4,066, respectively, in lease payments, representing base rent, from the third party; \$724 and \$525, respectively, in payments for capital replacement; and \$282 and \$113, respectively, in payments for incentive rent. The Foundation has debt outstanding totaling \$37,640 as of June 30, 2007 related to the Georgia Tech Hotel and Conference Center, through the Series 2002B bonds. The lease is a 30-year operating lease and is automatically renewable for an additional ten years, unless either party declines to renew. The Foundation owns the building and the contents of the building. The land and building are considered a capital asset of the Foundation (note 6).

(6) **Capital Assets**

The Foundation's capital assets consist of the Georgia Tech Hotel and Conference Center and the fourth floor of the Economic Development Building, both of which are located in Technology Square on the Georgia Institute of Technology campus, as well as various furniture and equipment. The buildings were placed into service in 2004.

The Foundation's capital assets are as follows:

	June 30	
	2007	2006
Assets:		
Land	\$ 2,553	2,553
Buildings	38,051	38,051
Furniture and equipment	7,145	7,000
Less accumulated depreciation	(8,626)	(6,731)
Total capital assets	<u>\$ 39,123</u>	<u>40,873</u>

Depreciation expense totaling \$1,895 and \$2,164 was recognized during 2007 and 2006, respectively. The furniture and equipment are depreciated over useful lives of three to ten years. The buildings are depreciated over a 50-year period.

(7) **Commitment Payable**

During 1998, the trustees of the Foundation agreed to pay, through a commitment of support dated December 1, 1997, an \$11,580 bond (1997 A Bond) which was issued by Georgia Tech Facilities Inc. (Facilities), a related party 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. The bonds are callable in 2008. At June 30, 2007 and 2006, respectively, Facilities had \$9,795 and \$10,054 outstanding on the 1997 A Bond, including

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accrued interest. Payments made by the Foundation to Facilities during fiscal years 2007 and 2006, to satisfy Facilities' debt service requirements, totaled \$746 and \$746, respectively, and the funding sources were contributions, payments by the Georgia Tech Athletic Association and unrestricted net assets of the Foundation. At June 30, 2007, amounts due in less than one year, in one to five years, and in more than five years totaled \$430, \$1,210, and \$8,155, respectively.

(8) Debt

(a) *Lines of Credit*

The Foundation has two \$30,000 revolving lines of credit in the name of the Georgia Tech Foundation Funding Corporation. As of June 30, 2007 and 2006, \$44,925 and \$44,220, respectively, was the total aggregate outstanding on the lines of credit. Interest is calculated using the 30-day LIBOR rate plus 0.25%, which was 5.57% and 5.42% at June 30, 2007 and 2006, respectively. One line of credit expires on June 30, 2008 and the other on December 31, 2008. The Foundation expects to renew both lines of credit upon expiration.

The Foundation also has a \$30,000 line of credit in the name of Georgia Tech Foundation, Inc. for the purpose of funding the construction of the Nanotechnology Research Center Building (NRCB) on the Institute's campus. As of June 30, 2007, \$18,801 was outstanding on the line of credit. Interest is calculated using the 30-day LIBOR rate plus 0.25%, which was 5.57% as of June 30, 2007. The line of credit expires on June 30, 2008.

The Foundation also has available one other line of credit in the amount of \$20,000. As of June 30, 2007 and 2006, no amounts have been drawn on this credit facility. This line of credit expires on June 30, 2008.

(b) *Series 2001A Bond Issuance*

During May 2001, the Foundation borrowed \$44,980 in Series 2001A Bonds. The Series 2001A Bonds were issued to provide funds to finance the costs of construction of the CRC, a facility that has been constructed on the Institute's campus. The Foundation has leased the CRC to the Board of Regents under a capital lease effective February 2001 (note 5). The Series 2001A Bonds are not secured by any interest in the CRC, the ground lease or the rental agreement. These bonds are general unsecured obligations of the Foundation.

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

	<u>Principal amount</u>	<u>Interest rate</u>
Fiscal year:		
2008	\$ 900	4.25%
2009	935	4.30
2010	975	4.40
2011	1,020	4.50
2012	1,075	5.75
Thereafter	<u>36,840</u>	5.00 – 5.75
	<u>\$ 41,745</u>	

Annual debt service payments including interest related to the Series 2001A Bonds for the fiscal years 2008 through 2031 range from \$3,061 to \$3,072.

(c) Series 2002A and 2002B Bond Issuance

During January 2002, the Foundation borrowed \$111,090 in Series 2002A (tax exempt) Bonds and \$73,190 Series 2002B (taxable) Bonds (collectively, the Series 2002 Bonds). The Series 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 known as Technology Square. Technology Square includes the College of Management building, a hotel and conference center, a global learning center, a parking deck, an Economic Development Building, retail space and a bookstore. The Foundation leased the hotel and conference center under an operating lease to a third party effective July 14, 2003. The Foundation has also leased the other components of Technology Square to the Board of Regents, on behalf of the Institute, under a capital lease, effective July 1, 2004 (note 5). The Series 2002 Bonds are not secured by any interest in the Technology Square development, in any rental agreement relating to the development or in any revenue received by the Foundation from the ownership or operation of any portion of the development. These bonds are general unsecured obligations of the Foundation.

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

Fiscal year:	Series 2002A		Series 2002B	
	Principal	Interest rate	Principal	Interest rate
2008	\$ 2,170	4.68%	\$ 1,535	5.54%
2009	2,265	4.00	1,625	5.77
2010	2,365	4.125	1,720	5.97
2011	2,465	4.125	1,825	6.02
2012	2,715	4.50	1,940	6.10
Thereafter	91,335	4.40 – 5.25	59,785	6.15 – 6.60
	<u>\$ 103,315</u>		<u>\$ 68,430</u>	

Annual debt service payments including interest related to the Series 2002A Bonds for the fiscal years 2008 through 2032 range from \$7,234 to \$7,247. Annual debt service payments including interest related to the Series 2002B Bonds for the fiscal years 2008 through 2022 and 2023 through 2032 range from \$5,942 to \$5,957 and \$4,334 to \$4,345, respectively.

(9) Funds Held on Behalf of Other Organization

The Foundation manages certain investments on behalf of The Alexander-Tharpe Fund, Inc. (AT Fund). The AT Fund is a non-profit affiliate of the Institute organized to support the Institute's intercollegiate athletic program. These investments, which can be reclaimed by this organization upon a six-month notification as per agreement, amount to \$80,360 and \$68,167 at June 30, 2007 and 2006, respectively, and are recorded in the accompanying statements of financial position as a payable to other organization.

Activity of the payable to other organization is as follows:

	2007	2006
Balance, beginning of year	\$ 68,167	61,369
Additions	5,257	6,684
Investment earnings, net of fees, attributable to balances	13,624	7,579
Withdrawals	(6,081)	(7,465)
Balance, end of year	<u>\$ 80,967</u>	<u>68,167</u>

(10) Revocable Gift

The Institute of Paper Science and Technology, Inc. (IPST) maintained a research and educational program focused on paper science and technology from 1929 through 2004. During 2004, the academic and research operations of IPST were merged with the operations of the Institute and the Georgia Tech Research Corporation (GTRC). In connection with this merger, the Foundation accepted a revocable gift

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from IPST, through a project agreement entered into by the Foundation, the Institute and IPST in December 2004. IPST transferred temporarily and permanently restricted assets, totaling \$35,218, to the Foundation. IPST, however, has retained the right to revoke the gift through July 1, 2023, in that it could require a refund or a transfer to a successor entity. The project agreement states that the Foundation may administer the transferred assets according to its own investment and spending policies, adhering to the donor restrictions on the use of the funds. The temporarily restricted assets benefit the paper science and technology program at the Institute. The balance of the revocable gift totaled \$44,686 and \$38,614 as of June 30, 2007 and 2006, respectively, and a corresponding liability is recorded in the accompanying consolidated statements of financial position. Earnings and losses on the assets increase and reduce the liability, respectively, and distributions to the Institute to support its paper science and technology program, which totaled \$1,318 and \$1,268 in 2007 and 2006, respectively, reduce the liability.

(11) 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 consolidated statements 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.

Net assets were released from restrictions related to accomplishing program activities for the years ending June 30, 2007 and 2006 as follows:

	<u>2007</u>	<u>2006</u>
Georgia Institute of Technology	\$ 43,780	41,362
Georgia Tech Alumni Association	20	20
Alexander-Tharpe Fund, Inc.	306	274
Georgia Tech Facilities, Inc.	4,669	252
Total net assets released from restrictions	<u>\$ 48,775</u>	<u>41,908</u>

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(12) Net Assets

Temporarily restricted net assets at June 30, 2007 and 2006 are restricted for the following purposes:

	<u>2007</u>	<u>2006</u>
Academic programs	\$ 276,444	201,096
Scholarships and fellowships	107,269	79,750
Institutional support	34,275	30,818
Facilities	11,387	14,780
	<u>\$ 429,375</u>	<u>326,444</u>

Permanently restricted net assets consist of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Contributions receivable	\$ 9,409	4,847
Trust funds held by others	4,443	4,065
Split-interest agreements	8,309	6,521
Endowment funds	331,457	302,554
	<u>\$ 353,618</u>	<u>317,987</u>

Income from permanently restricted net assets may be unrestricted for support of the Institute or may be restricted for academic programs, scholarships and fellowships or institutional support, as per the donor's specifications.

(13) Pension Plan

The Foundation has a mandatory defined contribution plan for its employees in which the employees contribute 5% of their pretax earnings and the Foundation contributes 10% of those earnings to the plan. The funds are invested with a third-party provider in investment options chosen by the employees. During 2007 and 2006, the Foundation recognized pension expense totaling \$198 and \$169, respectively. The plan has a three-year cliff vesting requirement for each employee to vest in the Foundation's contribution amount. The Foundation also has a supplemental plan, in which employees may contribute an additional amount on a voluntary basis.

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(14) Expenses

(a) *Functional Classification of Expenditures*

Expenses by functional classification for the years ended June 30, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Program services:		
Georgia Institute of Technology	\$ 91,614	74,621
Georgia Tech Alumni Association	4,174	4,020
Georgia Tech Facilities, Inc.	4,987	497
Alexander-Tharpe Fund, Inc.	690	633
	<u>101,465</u>	<u>79,771</u>
General and administrative	9,458	9,573
Fund raising	<u>5,064</u>	<u>3,694</u>
Total expenses	\$ <u><u>115,987</u></u>	\$ <u><u>93,038</u></u>

Interest expense of \$12,825 and \$11,217 was allocated to program services in support of the Institute for the years ending June 30, 2007 and 2006, respectively.

(b) *General and Administrative Expense*

The Foundation classifies certain expenses as general and administrative. These expenses relate primarily to the operations of the Foundation, the Georgia Tech Hotel and Conference Center, and real estate owned by the Foundation. Details of general and administrative expense for the years ended June 30, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Foundation operations	\$ 4,271	4,181
Hotel and conference center	118	90
Real estate expenses	341	343
Depreciation expense	2,134	2,333
Interest expense	<u>2,594</u>	<u>2,626</u>
Total	\$ <u><u>9,458</u></u>	\$ <u><u>9,573</u></u>

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(c) *Natural Classification of Expenditures*

The Foundation classifies its expenses in functional categories. Expenditures in the natural categories for the years ended June 30, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Salaries	\$ 2,007	1,800
Benefits	371	355
Other personnel services	52	97
Travel	72	61
Utilities	4	4
Supplies and other services	1,510	1,484
Depreciation	2,134	2,333
Interest	15,419	13,843
Expenses incurred or paid to or on behalf of:		
Alexander-Tharpe Fund, Inc.	690	633
Georgia Institute of Technology	84,566	67,911
Georgia Tech Alumni Association	4,174	4,020
Georgia Tech Facilities, Inc.	4,988	497
Total	\$ <u>115,987</u>	<u>93,038</u>

(15) **Related Parties**

Georgia Tech Facilities, Inc. (Facilities) is a separate corporation formed to oversee and obtain financing for specified construction projects for the Institute. One member of the board of directors of Facilities is also an elected trustee of the Foundation and two others are trustees emeriti 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 bond (1997A Bond) which was issued by Facilities during 1998 to (1) refinance the 1992A 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.

In June 2004, the Foundation entered into an agreement with the Georgia Tech Athletic Association (GTAA), in which the GTAA committed to pay the Foundation \$137 per year as long as the Facilities' 1997A Bond is outstanding. The payments received are used to pay Facilities for a portion of the commitment to fund the 1997A Bond. The payments remaining to be received total \$2,817 and \$2,954, as of June 30, 2007 and 2006, respectively. The Foundation has recorded a contribution receivable, discounted to give effect to the future cash flows from the GTAA, in the amount of \$1,875 and \$1,933, as of June 30, 2007 and 2006, respectively.

In June 2002, the GTAA agreed to pay the Foundation \$1,080 at an interest rate equal to that of the Facilities' 1997A Bond, with payments to be made through September 1, 2027. The agreement is in the

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form of a promissory note. The Foundation has recorded a note receivable from the GTAA, which totals \$963 and \$988 as of June 30, 2007 and 2006, respectively.

The Foundation maintains and invests certain investments for the AT Fund. These investments, which can be reclaimed by this organization upon six-month notification, as per agreement, amount to \$80,360 and \$68,167 at June 30, 2007 and 2006, respectively, and are recorded as funds held on behalf of other organization in the accompanying consolidated statements of financial position.

The Foundation leased land on the campus of the Institute from the Board of Regents of the University System of Georgia (Board of Regents) under a ground lease on which the CRC is located. The lease was signed in February 2001 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 2001, the Foundation entered into a leasing arrangement with the Board of Regents, whereby the Board of Regents agreed to lease the CRC for one year for the use and benefit of the Institute under a capital lease. Under the lease arrangement, lease payments are not to exceed \$4,000. During 2007, the Institute paid \$3,416 in lease payments to the Foundation (note 5).

In August 2001, the Foundation entered into a leasing arrangement with the Board of Regents, whereby the Board of Regents agreed to lease certain buildings within Technology Square for the use and benefit of the Institute under a one-year capital lease, renewable on a year-by-year basis at the option of the Board of Regents until 2032. Under the lease arrangement, lease payments are equal to the debt service plus additional amounts for capital replacement and reimbursement of costs incurred under the lease, such as insurance expense. During 2007, the Institute paid \$10,597 in lease payments to the Foundation (note 5).

Georgia Advanced Technology Ventures (GATV) is a separate corporation, affiliated with the Institute, formed to foster and support education, scientific research, and economic development in the state of Georgia. One member of the board of directors of GATV is also a trustee emeritus of the Foundation.

In June 2006, the Foundation entered into a limited guaranty agreement with a bank in the amount of \$4,800 to support a letter of credit pertaining to an obligation GATV has under a rental agreement. The letter of credit expires on June 10, 2009. As consideration for the limited guaranty agreement, GATV pays the Foundation 0.20% of the limited guaranty amount annually.

(16) Commitments and Contingencies

In October 1988, at the request of the Institute, the Foundation established the Faculty Mortgage Program, the purpose of which is to attract outstanding faculty to the Institute. Under the Faculty Mortgage Program, the Foundation guarantees the amounts of mortgage loans made 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 \$719 and \$708 as of June 30, 2007 and 2006, respectively. The Foundation will guarantee qualifying loans up to an aggregate total of \$1,500.

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In June 1992, at the request of the Institute, the Foundation established the Campus Housing Loan Guarantee Program, the purpose of which was to construct and renovate certain campus housing at the Institute. Under the Campus Housing Loan Guarantee Program, the Foundation guarantees the amounts of loans to eligible owners of qualifying campus residential housing up to a maximum of \$400. The Foundation will guarantee qualifying loans up to an aggregate total of \$5,000. At June 30, 2007 and 2006, the total loans guaranteed under this program were \$503 and \$628, respectively.

The Foundation has invested in certain partnerships that call for future capital contributions over the next six years in accordance with the related agreements. Capital contributions committed by the Foundation at June 30, 2007 and 2006 totaled \$267,843 and \$238,011, respectively (note 3).

On December 4, 1998, the board of trustees of the Foundation authorized the internal designation of up to \$15,000 (increased to \$30,000 on June 3, 2006) of unrestricted funds for advance funding of endowed chairs. As of June 30, 2007 and 2006, unrestricted funds of \$7,492 and \$5,620, respectively, were internally designated.

In June 2004, the Foundation approved the Institute's request for funding of \$7,500 for the Institute to acquire a specific piece of property for campus expansion. In June 2006, the Foundation approved an increase in funding to a total of \$14,984. In March 2007, the Foundation approved an increase in funding to a total of \$16,500. A total of \$16,440 had been expended as of June 30, 2007 for the Institute to acquire the property. As of June 30, 2007, a total of \$60 remained as a commitment.

In March 2005, the Foundation approved advancing up to \$35,000, subject to certain conditions, for the construction of the Nanotechnology Research Center Building (NRCB) on the Institute's campus. In March 2006, the Foundation entered into a construction funding agreement with the Institute, the Board of Regents of the University System of Georgia and the Georgia State Financing and Investment Commission, in which the maximum amount of the Foundation's commitment was reduced to \$34,873. During the year ended June 30, 2007, the Foundation expended \$19,054 to fund the construction of NRCB, including interest. The Foundation intends to receive reimbursement for the expenditures related to the NRCB through the Institute's fundraising efforts. As of June 30, 2007, approximately \$233 has been received. Also, during the year ended June 30, 2007, the Institute received a commitment for the remaining funding of the NRCB construction which resulted in the Foundation having no remaining commitment as of June 30, 2007.

In June 2006, the Foundation committed \$20,693 of unrestricted funds to the Institute for support of Institute programs and development operations, with a condition that the funds are to be expended during 2006 and 2007. If the funds are not expended by June 30, 2008, the remainder is retained by the Foundation. As of June 30, 2007, \$18,202 had been expended and \$2,491 remained as a commitment.

During 2006 and 2007, the Foundation approved requests by the Institute for funding for amounts not to exceed \$2,125 and \$3,495, respectively. As of June 30, 2006 and 2007, no amounts had been expended, and a total of \$2,125 and \$5,620 remained as a commitment, respectively. These commitments contain certain conditions, and if the conditions are not met, the Foundation will not fund the commitment. As such, no liability has been recorded for these commitments as of June 30, 2006 and 2007.