



**GEORGIA TECH FOUNDATION, INC.**

Consolidated Financial Statements

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

**GEORGIA TECH FOUNDATION, INC.**

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**KPMG LLP**  
Suite 2000  
303 Peachtree Street, NE  
Atlanta, GA 30308

## **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, 2008 and 2007, 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, 2008 and 2007, 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 29, 2008

**GEORGIA TECH FOUNDATION, INC.**

## Consolidated Statements of Financial Position

June 30, 2008 and 2007

(In thousands)

<b>Assets</b>	<b>2008</b>	<b>2007</b>
Cash and cash equivalents	\$ 7,442	8,359
Contributions receivable (notes 2 and 6)	57,015	30,222
Investments (note 3)	1,334,684	1,348,125
Other assets	8,621	7,404
Leases receivable (note 4)	167,891	171,744
Contributions receivable from remainder trusts	9,252	10,609
Charitable remainder trusts	23,207	14,890
Capital assets, net of accumulated depreciation of \$10,466 in 2008 and \$8,626 in 2007 (note 5)	37,668	39,123
Total assets	<u>\$ 1,645,780</u>	<u>1,630,476</u>
<b>Liabilities and Net Assets</b>		
Accounts payable	\$ 7,132	4,247
Commitment payable (note 6)	9,522	9,795
Lines of credit (note 7)	61,537	63,726
Bonds payable, net of discount of \$1,490 in 2008 and \$1,555 in 2007 (note 7)	207,395	211,935
Due to life beneficiaries	15,049	10,475
Funds held on behalf of other organization (notes 3 and 9)	80,059	80,967
Revocable gift (note 10)	43,312	44,822
Derivative financial instruments (notes 7 and 8)	10,939	—
Other liabilities	3,294	3,247
Total liabilities	<u>438,239</u>	<u>429,214</u>
Net assets:		
Unrestricted	390,600	418,269
Temporarily restricted (note 12)	431,309	429,375
Permanently restricted (note 12)	385,632	353,618
	<u>1,207,541</u>	<u>1,201,262</u>
Commitments (notes 4, 6, 7, 9, 13, and 16)		
Total liabilities and net assets	<u>\$ 1,645,780</u>	<u>1,630,476</u>

See accompanying notes to consolidated financial statements.

**GEORGIA TECH FOUNDATION, INC.**

Consolidated Statements of Activities

Years ended June 30, 2008 and 2007

(In thousands)

	2008				2007			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:								
Gift income	\$ 5,686	54,196	34,421	94,303	5,540	46,661	27,948	80,149
Lease revenue	17,398	126	—	17,524	15,881	246	—	16,127
Interest and dividends, net of fees	7,236	6,443	89	13,768	5,840	4,788	28	10,656
Net realized/unrealized (loss) gain on investments	(4,165)	(4,461)	(262)	(8,888)	104,134	98,491	6,058	208,683
Actuarial (loss) gain on trusts and annuities	(19)	(518)	(2,220)	(2,757)	(18)	976	1,534	2,492
Change in fair value of derivative financial instruments (notes 7 and 8)	(10,939)	—	—	(10,939)	—	—	—	—
Other	1,660	300	(14)	1,946	1,579	544	63	2,186
Net assets released from restrictions (note 11)	54,152	(54,152)	—	—	48,775	(48,775)	—	—
Total revenues	71,009	1,934	32,014	104,957	181,731	102,931	35,631	320,293
Expenses (note 14(a)):								
Program services	82,841	—	—	82,841	101,465	—	—	101,465
General and administrative (note 14(b))	9,830	—	—	9,830	9,458	—	—	9,458
Fund raising	6,007	—	—	6,007	5,064	—	—	5,064
Total expenses	98,678	—	—	98,678	115,987	—	—	115,987
Changes in net assets	(27,669)	1,934	32,014	6,279	65,744	102,931	35,631	204,306
Net assets, beginning of year	418,269	429,375	353,618	1,201,262	352,525	326,444	317,987	996,956
Net assets, end of year	\$ 390,600	431,309	385,632	1,207,541	418,269	429,375	353,618	1,201,262

See accompanying notes to consolidated financial statements.

**GEORGIA TECH FOUNDATION, INC.**

Consolidated Statements of Cash Flows

Years ended June 30, 2008 and 2007

(In thousands)

	<u>2008</u>	<u>2007</u>
Change in net assets	\$ 6,279	204,306
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	2,070	2,134
Accretion of bond discount	65	64
Net realized/unrealized loss (gain) on investments	8,888	(208,683)
Net change in fair value of derivative financial instruments	10,939	—
Actuarial loss (gain) on trusts and annuities	2,757	(2,492)
Contribution of noncash assets	(16,231)	(14,593)
Gift of noncash asset to the Institute	2,150	3,400
Proceeds from gifts restricted for long-term investment	(34,421)	(27,948)
Increase in contributions receivable	(26,793)	(20,314)
Increase in other assets	(1,217)	(488)
Increase in accounts payable	2,885	127
Increase in other liabilities	47	417
Decrease in commitment payable	(273)	(259)
Net cash used in operating activities	<u>(42,855)</u>	<u>(64,329)</u>
Cash flows from investing activities:		
Proceeds from the sales and maturities of investments	363,825	263,838
Purchases of investments and maturities	(350,312)	(279,321)
(Decrease) increase in funds held on behalf of other organization	(908)	12,800
(Decrease) increase in revocable gift	(1,510)	6,208
Proceeds from payment of leases receivable	3,853	3,665
Purchase of capital assets	(433)	(145)
Net cash provided by investing activities	<u>14,515</u>	<u>7,045</u>
Cash flows from financing activities:		
Proceeds from lines of credit	52,202	102,402
Repayments of lines of credit	(54,391)	(82,896)
Principal repayments of bonds payable	(4,605)	(4,385)
Receipt of cash from trusts	470	1,340
Payments to life income beneficiaries	(674)	(544)
Proceeds from gifts restricted for long-term investment	34,421	27,948
Net cash provided by financing activities	<u>27,423</u>	<u>43,865</u>
Decrease in cash and cash equivalents	(917)	(13,419)
Cash and cash equivalents, beginning of year	<u>8,359</u>	<u>21,778</u>
Cash and cash equivalents, end of year	\$ <u><u>7,442</u></u>	\$ <u><u>8,359</u></u>
Cash paid for interest	\$ <u><u>14,861</u></u>	\$ <u><u>15,162</u></u>
Noncash activities:		
Contribution of notes receivable	\$ 5,305	109
Contribution of charitable trusts, annuities	899	254
Contributions of securities	10,027	14,230
Total contribution of noncash assets	<u>16,231</u>	<u>14,593</u>
Gift of real estate to Georgia Institute of Technology	<u>(2,150)</u>	<u>(3,400)</u>
Total noncash activities	\$ <u><u>14,081</u></u>	\$ <u><u>11,193</u></u>

See accompanying notes to consolidated financial statements.

## GEORGIA TECH FOUNDATION, INC.

### Notes to Consolidated Financial Statements

June 30, 2008 and 2007

#### (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 Institute is a unit of the University System of Georgia and is governed by the Board of Regents of the University System of Georgia (BOR).

##### (i) Wholly Owned Subsidiaries

The following organizations are all wholly owned subsidiaries of the Foundation and are included in the consolidated financial statements of the Foundation with all material inter-company accounts and transactions eliminated in consolidation.

The Georgia Tech Foundation Real Estate Holding Corporation (GTFREHC) was incorporated as a not-for-profit corporation in 1990 to hold title to real estate and similar property donated to the Foundation.

The Georgia Tech Foundation Funding Corporation (GTFFC) was incorporated as a not-for-profit corporation in 2000 to serve as the borrower of a portion of Foundation debt.

The Fifth Street Hotel, LLC 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.

Technology Square, LLC, 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 BOR.

##### (ii) Affiliated Organizations

The following organizations, while independent from and not controlled by the Foundation, are affiliated with the Institute and are involved in one or more financial transactions with the Foundation and may have one or more common directors, trustees or officers.

Georgia Tech Facilities, Inc. (Facilities) is a separate corporation formed to oversee and obtain financing for specified construction projects for the Institute.

The Georgia Tech Athletic Association (GTAA) is a not-for-profit corporation which operates the intercollegiate athletic program of the Institute.

The Alexander-Tharpe Fund, Inc. (AT Fund) is a not-for-profit affiliate of the Institute organized to support the Institute's intercollegiate athletic program.

The Georgia Tech Alumni Association is a not-for profit affiliate of the Institute organized to serve the needs of the Institute and alumni of the Institute.

## GEORGIA TECH FOUNDATION, INC.

### Notes to Consolidated Financial Statements

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Georgia Advanced Technology Ventures (GATV) is a corporation, affiliated with the Institute, formed to foster and support education, scientific research, and economic development in the state of Georgia.

Transactions with these affiliated organizations are described in notes 4, 6, 7, 9 and 16.

**(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 unrestricted gifts and earnings on unrestricted endowment funds.

*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 requiring that the net assets be maintained permanently by the Foundation. 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. To the extent that losses in an endowment fund reduce temporarily restricted and unrestricted net assets, net assets in these categories will be restored from any future gains of the endowment fund.

**(d) Fair Value of Financial Instruments**

Cash equivalents and accounts payable are carried at amounts which approximate their fair value due to the short-term nature of these instruments. Commitments payable and lines of credit are carried at the amount owed, which approximate fair value. Contributions receivable are estimated by discounting expected future cash flows at market interest rates which approximate fair value. See note 1(g), 1(h), 7, and 8, regarding investments, charitable remainder trusts, bonds payable, and derivative financial instruments, respectively, for disclosure regarding fair value.

**(e) Cash and Cash Equivalents**

The Foundation considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

**(f) Contributions Receivable**

The Foundation records commitments from donors to make future contributions in accordance with Financial Accounting Standards Board (FASB) Statement No. 116, *Accounting for Contributions Received and Contributions Made*, which requires unconditional promises to give to be recognized as revenue in the period the commitments are made at their discounted fair value.

## GEORGIA TECH FOUNDATION, INC.

### Notes to Consolidated Financial Statements

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#### (g) *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 FASB Statement No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. FASB Statement 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.

Donated gifts of securities are recorded based on estimated fair value at the date the donation is received. 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.

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 of partnerships that invest in privately held companies (such as LBO and venture capital funds) typically value their assets at cost as adjusted based on recent arms' length transactions. Partnerships investing in public companies use quoted market prices and exchange rates, if applicable. 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, real estate partnerships and similar funds value their assets based on appraisals conducted by third-party appraisers. Valuation processes and methodologies utilized by the general partners and investment managers are reviewed by Foundation management.

Direct investments in real estate (as differentiated from real estate investments through funds) are stated at cost, net of accumulated depreciation. Management periodically reviews the 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 recognizes an impairment loss.

#### (h) *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. For trusts where the Foundation is the trustee, assets are recorded at their fair values when received and an annuity payment liability is recognized at the present value of future cash flows expected to be paid to the donor or other designee. This liability is estimated by the Foundation using 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.

## GEORGIA TECH FOUNDATION, INC.

### Notes to Consolidated Financial Statements

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**(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. Depreciation is provided on a straight line basis over the useful lives of the assets which range 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 partnership 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(c)(3) of the U.S. Internal Revenue Code, except for taxes on income from activities unrelated to its exempt purpose.

On July 1, 2007, the Foundation adopted FASB Interpretation (FIN) 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in income tax positions recognized in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. It provides guidance on when tax positions are recognized in an entity's financial statements and how the values of these positions are determined. There was no impact on the Foundation's consolidated financial statements as a result of the adoption of FIN 48.

**(l) Reclassifications**

Reclassifications have been made to certain 2007 amounts in the accompanying consolidated financial statements to conform to classifications adopted in 2008. These reclassifications have no effect on net assets or change in net assets.

**(m) Recently Issued Accounting Standards**

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. FASB Statement No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements; however, it does not require any new fair value measurements. The provisions of this statement are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, which will be fiscal year 2009 for the Foundation. The Foundation is currently evaluating the impact of adopting FASB Statement No. 157, but has yet to complete its assessment.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. FASB Statement No. 159 permits entities to make an irrevocable election, at specified election dates, to measure eligible financial instruments and certain other items at fair

## GEORGIA TECH FOUNDATION, INC.

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value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The provisions of this statement are effective as of the beginning of the first fiscal year that begins after November 15, 2007, which will be fiscal year 2009 for the Foundation. The Foundation is currently evaluating the impact of adopting SFAS No. 159, but has yet to complete its assessment.

Through June 30, 2008, the Foundation's management and investment of donor-restricted endowment funds was subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). In 2006, the Uniform Law Commission approved the model act, Uniform Prudent Management of Institutional Funds Act (UPMIFA), that serves as a guideline to states to use in enacting legislation. Among UPMIFA's most significant changes is the elimination of UMIFA's important concept of historic dollar value threshold, the amount below which an organization could not spend from the fund in favor of a more robust set of guidelines about what constitutes prudent spending.

Effective July 1, 2008, the State of Georgia enacted UPMIFA, the provisions of which apply to funds existing on or established after that date. Based on its interpretation of the provisions of UPMIFA, the Foundation has determined that retaining its existing policies regarding net asset classification of its donor-restricted endowment funds is appropriate as of June 30, 2008, based on accounting standards in effect.

In August 2008, FASB Staff Position No. FASB 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds* (FSP), was issued, and its guidance is effective for fiscal years ending after December 15, 2008. A key component of that FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. The Foundation will adopt the FSP for the year ending June 30, 2009, which will require the June 30, 2009, financial statements to reflect a reclassification of net assets from unrestricted to temporarily restricted as a separate line item on the statement of activities for that period. The Foundation does not believe this net asset reclassification will be operationally significant. Another key component of that FSP is a requirement for expanded disclosures for all endowment funds. The Foundation is currently evaluating the impact of adopting FAS 117-1, but has yet to complete its assessment.

**GEORGIA TECH FOUNDATION, INC.**

Notes to Consolidated Financial Statements

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**(2) Contributions Receivable**

Contributions receivable, which represent unconditional promises from donors, are due as follows:

	<u>2008</u>	<u>2007</u>
Within one year	\$ 23,237	7,196
One to five years	38,009	26,662
More than five years	<u>5,028</u>	<u>3,440</u>
Contributions receivable	66,274	37,298
Less allowance for uncollectible contributions	(4,509)	(2,780)
Less present value component	<u>(4,750)</u>	<u>(4,296)</u>
Net contributions receivable	<u>\$ 57,015</u>	<u>30,222</u>

The discount rates used to calculate the present value component range from 3.97% to 9.50%.

The consolidated financial statements do not include conditional pledges, expectancies and bequests that have not been recognized as revenue pursuant to FASB Statement No. 116. These undiscounted amounts totaled \$239,203 and \$200,414 at June 30, 2008 and 2007, respectively. The Foundation allowance for uncollectible contributions is estimated by using past collections of contributions receivable as an indication of future collections.

**(3) Investments**

Investments at June 30, 2008 and 2007 are summarized as follows:

	<u>2008</u>		<u>2007</u>	
	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>
Short term investments	3.5%	\$ 47,288	1.8%	\$ 24,102
Domestic equities	14.0	186,958	18.9	254,150
International equities	12.5	166,551	13.6	182,913
Global equities	8.9	118,873	11.6	156,754
Venture capital, buyout funds and distressed securities	22.3	298,148	19.1	257,975
Real estate and real estate funds	3.8	50,417	2.2	30,633
Fixed income and diversifying strategies	<u>35.0</u>	<u>466,449</u>	32.8	<u>441,598</u>
	<u>100.0%</u>	<u>\$ 1,334,684</u>		<u>\$ 1,348,125</u>

The Foundation has investments, as a limited partner, in 114 and 106 partnerships at June 30, 2008 and 2007, respectively. These partnerships invest in a wide variety of assets including international equities, venture capital, buyout funds, distressed securities, real estate, fixed income, and diversifying strategies. The Foundation's ownership interest in any individual partnership does not exceed 13.64% of that partnership's assets, no individual partnership investment exceeds 1.1% of the Foundation's assets and no manager controls partnerships having more than 1.8% of the Foundation's assets. The values of the

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### Notes to Consolidated Financial Statements

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Foundation's partnership investments as furnished by the general partners is reviewed by Foundation management and management believes the values shown at June 30, 2008 are reasonable.

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

	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$ 329,289	259,558
Capital contributions	100,684	104,727
Distributions from partnership interests	(65,018)	(108,557)
Realized and unrealized gain on partnership interests	41,993	66,831
Realized and unrealized gain attributable to other organization and revocable gift	4,163	6,730
Balance, end of year	<u>\$ 411,111</u>	<u>329,289</u>

During 2008 and 2007, the Foundation recognized an impairment loss of \$0 and \$1,700, respectively, on an investment in real estate. The impairment loss was determined by a new appraisal of the property. As of June 30, 2008 and 2007 the Foundation's direct investment in real estate consists of ownership of properties with a total net book value of \$21,954 and \$6,936, respectively. Depreciation expense totaling \$182 and \$239, related to investments in real estate, was recognized during the years ended June 30, 2008 and 2007, 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. The credit crisis that originally was linked principally to the sub-prime lending markets has spread to other corners of the credit markets in the U.S. and internationally. Recent market conditions have resulted in an unusually high degree of volatility in the markets. Although it is not possible at this time to predict the full impact or duration of the existing market conditions, management continues to carefully monitor the situation. Such changes could materially affect the amounts reported in the Foundation's consolidated financial statements.

The Foundation charges investment accounts an administrative fee for general overhead costs incurred in connection with the support and management of its investment funds. During 2008 and 2007, the Foundation charged an administrative fee, which is based on a percentage of the twelve quarter trailing average market value of endowment funds, totaling \$7,762 and \$6,785, respectively.

#### (4) Leases

##### (a) Capital Leases

###### (i) Campus Recreation Center Lease

In support of the Institute, the Foundation borrowed funds and constructed and placed into service the Campus Recreation Center (CRC) in 2004. It then leased the facility to the BOR under an annual lease that expires on February 28 of each year, but is renewable on a year by year basis at the option of the BOR until 2031. Under the terms of the lease, payments are not to exceed \$4,000 annually and are used to retire the debt incurred by the Foundation and

## GEORGIA TECH FOUNDATION, INC.

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provide for a capital replacement reserve. The BOR's failure to exercise its options through 2031 has been determined to be remote and thus, a lease receivable has been recorded totaling \$40,349 and \$41,226 as of June 30, 2008 and 2007, respectively.

The Foundation has debt outstanding totaling \$40,845 on the CRC as of June 30, 2008 (note 7). The amount of the lease receivable is equal to the total debt outstanding as of June 30, 2008, less \$496 in issuance costs associated with the debt. The issuance costs are reimbursed through lease payments received from the BOR over the 30-year life of the bonds.

The Foundation leases from the BOR the land on which the CRC is located under a 30-year lease, expiring 2031. Upon full payment of the debt incurred by the Foundation to construct the CRC, the ground lease terminates and the CRC will be transferred to the BOR by the Foundation.

#### (ii) Technology Square Lease

During 2004, in support of the Institute, the Foundation borrowed funds and constructed a development on campus, on land the Foundation owned, known as Technology Square. It then leased the facilities and land to the BOR pursuant to an annual lease which expires on June 30 of each year, but is renewable on a year by year basis at the option of the BOR until 2032. The likelihood of the BOR's failure to exercise its options through 2032 has been determined to be remote and thus the Foundation has recorded a lease receivable in the amount of \$127,542 and \$130,518 as of June 30, 2008 and 2007, respectively. Upon retirement of the Technology Square debt, the ownership of the land and improvements to the property will be gifted to the BOR 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 Technology Square debt outstanding totaling \$128,636 and \$131,660 as of June 30, 2008 and 2007, respectively, in the Series 2002A and 2002B Bonds (note 7). The lease receivable is equal to the total debt outstanding as of June 30, 2008, less \$1,094 in issuance costs. The issuance costs are reimbursed through lease payments received from the BOR over the 30-year life of the bonds.

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:	
2009	\$ 14,038
2010	14,050
2011	14,056
2012	14,059
2013	14,073

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### Notes to Consolidated Financial Statements

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#### (b) *Operating Lease*

The Foundation has leased the Georgia Tech Hotel and Conference Center to a third party in 2004. The lease is a 30-year operating lease and is automatically renewable for an additional ten years, unless either party declines to renew. Under the lease agreement, the Foundation receives base rent, payments for capital replacement, and incentive rent. During 2008 and 2007, the Foundation received \$4,250 and \$4,224, respectively, in lease payments, representing base rent, from the third party; \$877 and \$724, respectively, in payments for capital replacement; and \$489 and \$282, respectively, in payments for incentive rent. The Foundation has debt outstanding totaling \$37,010 as of June 30, 2008, related to the Georgia Tech Hotel and Conference Center (note 7). The land and building are considered a capital asset of the Foundation (note 5).

#### (5) **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:

	<b>June 30</b>	
	<b>2008</b>	<b>2007</b>
Assets:		
Land	\$ 2,553	2,553
Buildings	38,051	38,051
Furniture and equipment	7,530	7,145
Less accumulated depreciation	(10,466)	(8,626)
Total capital assets	<u>\$ 37,668</u>	<u>39,123</u>

Depreciation expense totaling \$1,888 and \$1,895 was recognized during 2008 and 2007, respectively. The furniture and equipment are depreciated over useful lives of three to ten years. The buildings are depreciated over a 50-year period.

#### (6) **Commitment Payable**

During 2008, the Foundation agreed to guarantee and pay, through a commitment of support a \$9,370 bond obligation (2008C Bond) issued by Facilities during 2008 to refund the 1997A Bonds, that were used to finance campus construction and the purchase of campus real estate. The bonds mature on September 1, 2027 and require mandatory sinking fund principal payments until maturity. At June 30, 2008 and 2007, respectively, Facilities had \$9,522 and \$9,795 outstanding on the 2008C and the 1997A Bond, respectively, including accrued interest. Foundation payments to Facilities during fiscal years 2008 and 2007, to satisfy Facilities' debt service requirements, totaled \$850 and \$746, respectively. At June 30, 2008, amounts due in less than one year, in one to five years, and in more than five years totaled \$437, \$1,270, and \$7,815, respectively.

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In June 2002, the GTAA executed a promissory note to the Foundation for \$1,080 at an interest rate equal to that of the Facilities' 1997A Bond, with payments to be made through September 1, 2027. The Foundation has recorded a note receivable (included in other assets) for the GTAA that totals \$936 and \$963 as of June 30, 2008 and 2007, respectively.

In June 2004, the Foundation entered into an agreement with the GTAA, whereby the GTAA committed to pay the Foundation \$137 per year as long as the Facilities' 1997A (now 2008C) Bond is outstanding. The payments received were used to pay Facilities for a portion of the commitment to fund the 1997A Bond. The payments remaining to be received total \$2,679 and \$2,817, as of June 30, 2008 and 2007, respectively. The Foundation has recorded a contribution receivable, discounted to give effect to the future cash flows from the GTAA, in the amount of \$1,814 and \$1,875, as of June 30, 2008 and 2007, respectively.

#### (7) 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, 2008 and 2007, \$45,955 and \$44,925, 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 2.73% and 5.57% at June 30, 2008 and 2007, respectively. Both lines of credit were renewed during the fiscal year and expire on June 30, 2009. The Foundation expects to renew both lines of credit upon expiration.

The Foundation also has a \$20,000 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, 2008 and 2007, \$15,582 and \$18,801 was outstanding on the line of credit, respectively. Interest is calculated using the 30-day LIBOR rate plus 0.25%, which was 2.73% and 5.57% as of June 30, 2008 and 2007, respectively. The line of credit was renewed during the fiscal year and expires on June 30, 2009.

The Foundation also has available one other line of credit in the amount of \$20,000. As of June 30, 2008 and 2007, no amounts have been drawn on this credit facility. This line of credit was renewed during the fiscal year and expires on June 30, 2009.

##### (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 4). 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:

	<b>Principal amount</b>	<b>Interest rate</b>
Fiscal year:		
2009	\$ 935	4.30%
2010	975	4.40
2011	1,020	4.50
2012	1,075	5.75
2013	1,140	5.75
Thereafter	35,700	5.00 – 5.75
	\$ 40,845	

Annual debt service payments including interest related to the Series 2001A Bonds for the fiscal years 2009 through 2031 range from \$3,061 to \$3,071.

In 2003, the Foundation sold an interest rate swap option (swaption) to a third party and received \$945. This transaction enabled the Foundation to monetize the call option on the Series 2001A Bonds, based on interest rate levels at that time. The swaption may be exercised by the third party on, and only on, November 1, 2011. If exercised, the Foundation will pay the third party a fixed rate of 5.27% (the average coupon rate on the existing bonds) through November 1, 2030 on principal amounts related to the bonds, and will receive a variable interest rate from the third party, on the same principal amounts, based on the Bond Market Association Municipal Swap Index (BMA Index) plus 10 basis points (0.10%). If the third party exercises the swaption, the Foundation may cause variable rate tax-exempt bonds to be issued on its behalf (at an expected rate equal to the BMA Index plus 10 basis points) and utilize the proceeds to retire the Series 2001A Bonds. Thus, if the swaption is exercised, it is expected that the Foundation will continue to pay the same fixed interest rate as if it had not called the Series 2001A bonds. The swaption had a fair value (representing a liability) of \$3,210 as of June 30, 2008. A change in fair value of derivative financial instruments of (\$3,210) was recognized in fiscal 2008.

**(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 in 2004. 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 4). The Series 2002 Bonds are not secured by any interest in the Technology Square development, in any rental agreement relating to the

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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.

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

	Series 2002A		Series 2002B	
	Principal	Interest rate	Principal	Interest rate
Fiscal year:				
2009	\$ 2,265	4.000%	\$ 1,625	5.77%
2010	2,365	4.125	1,720	5.97
2011	2,465	4.750	1,825	6.02
2012	2,585	5.109	1,940	6.10
2013	2,715	4.500	2,060	6.15
Thereafter	88,750	4.600 – 5.250	57,725	6.25 – 6.60
	<u>\$ 101,145</u>		<u>\$ 66,895</u>	

Annual debt service payments including interest related to the Series 2002A Bonds for the fiscal years 2009 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 2009 through 2023 and 2024 through 2033 range from \$5,942 to \$5,957 and \$4,334 to \$4,345, respectively.

The fair value of bonds payable is \$225,760 and \$222,612 based on quoted market prices at June 30, 2008 and 2007, respectively.

In 2003, the Foundation sold an interest rate swap option (swaption) to a third party and received \$2,251. This transaction enabled the Foundation to monetize the call option on the Series 2002A Bonds, based on interest rate levels at that time. The swaption may be exercised by the third party on, and only on, and only on, May 1, 2012. If exercised, the Foundation will pay the third party a fixed rate of 5.01% (the average coupon rate on the existing bonds) through November 1, 2031 on principal amounts related to the bonds, and will receive a variable interest rate from the third party, on the same principal amounts, based on the BMA Index plus 10 basis points. If the third party exercises the swaption, the Foundation may cause variable rate tax-exempt bonds to be issued on its behalf (at an expected rate equal to the BMA Index plus 10 basis points) and utilize the proceeds to retire the Series 2002A Bonds. Thus, if the swaption is exercised, it is expected that the Foundation will continue to pay the same fixed interest rate as if it had not called the Series 2002A bonds. The swaption had a fair value (representing a liability) of \$6,624 as of June 30, 2008. A change in fair value of derivative financial instruments of (\$6,624) was recognized in fiscal 2008.

**(8) Derivative Financial Instruments**

During 2008, a third party exercised the swaption related to the 1997A bonds issued by Facilities and guaranteed by the Foundation. In conjunction with the exercise of the swaption, Facilities issued variable rate, tax-exempt 2008C bonds with an interest rate approximately equal to the BMA index plus 10 basis points, retired the 1997A bonds with the proceeds, and entered into an underlying interest rate swap agreement with the third party, guaranteed by the Foundation. The agreement has an effective date of

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March 1, 2008 and a termination date of September 1, 2027. The Foundation has agreed to pay a fixed rate of 4.99% and receive a variable interest rate equal to the BMA Index plus 10 basis points. Thus, the Foundation will continue to pay the same fixed rate as if it had not retired the 1997A Bonds. The swap had a fair value (representing a liability) of \$1,105 as of June 30, 2008. A change in fair value of derivative financial instruments of (\$1,105) was recognized in fiscal 2008.

#### (9) Funds Held on Behalf of Other Organization

The Foundation manages certain investments on behalf of AT Fund. These investments, which can be reclaimed by this organization upon a six-month notification as per agreement, amount to \$80,059 and \$80,967 at June 30, 2008 and 2007, respectively, and are recorded in the accompanying consolidated statements of financial position as funds held on behalf of other organization.

Activity of the funds held on behalf of other organization is as follows:

	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$ 80,967	68,167
Additions	14,707	5,257
Investment earnings, net of fees, attributable to balances	(148)	13,624
Withdrawals	<u>(15,467)</u>	<u>(6,081)</u>
Balance, end of year	<u>\$ 80,059</u>	<u>80,967</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 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, through 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 \$43,312 and \$44,822 as of June 30, 2008 and 2007, 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 \$1,325 and \$1,318 in 2008 and 2007, 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

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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, 2008 and 2007 as follows:

	<u>2008</u>	<u>2007</u>
Georgia Institute of Technology	\$ 52,202	43,780
Georgia Tech Alumni Association	40	20
Alexander-Tharpe Fund, Inc.	1,032	306
Georgia Tech Facilities, Inc.	878	4,669
Total net assets released from restrictions	<u>\$ 54,152</u>	<u>48,775</u>

#### (12) Net Assets

Temporarily restricted net assets at June 30, 2008 and 2007 are restricted for the following purposes:

	<u>2008</u>	<u>2007</u>
Academic programs	\$ 283,581	276,444
Scholarships and fellowships	103,490	107,269
Institutional support	30,623	34,275
Facilities	13,615	11,387
	<u>\$ 431,309</u>	<u>429,375</u>

Permanently restricted net assets consist of the following at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Contributions receivable	\$ 18,316	9,409
Trust funds held by others	4,085	4,443
Split-interest agreements	12,537	8,309
Endowment funds	350,694	331,457
	<u>\$ 385,632</u>	<u>353,618</u>

As of June 30, 2008 and 2007, the Foundation has reduced its unrestricted net assets due to realized and unrealized losses on permanently restricted net assets by \$107 and \$0, respectively.

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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 2008 and 2007, the Foundation recognized pension expense totaling \$202 and \$198, 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.

**(14) Expenses**

*(a) Functional Classification of Expenditures*

Expenses by functional classification for the years ended June 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Program services:		
Georgia Institute of Technology	\$ 75,791	91,614
Georgia Tech Alumni Association	4,410	4,174
Georgia Tech Facilities, Inc.	1,208	4,987
Alexander-Tharpe Fund, Inc.	1,432	690
	<u>82,841</u>	<u>101,465</u>
General and administrative	9,830	9,458
Fund raising	6,007	5,064
	<u>98,678</u>	<u>115,987</u>
Total expenses	<u>\$ 98,678</u>	<u>115,987</u>

Interest expense totaling \$11,826 and \$12,825 was allocated to program services in support of the Institute for the years ending June 30, 2008 and 2007, respectively.

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#### (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, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Foundation operations	\$ 4,405	4,271
Hotel and conference center	148	118
Real estate expenses	492	341
Depreciation expense	2,070	2,134
Interest expense	2,715	2,594
Total	<u>\$ 9,830</u>	<u>9,458</u>

#### (c) *Natural Classification of Expenditures*

The Foundation classifies its expenses in functional categories. Expenditures in the natural categories for the years ended June 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Salaries	\$ 2,209	2,007
Benefits	395	371
Other personnel services	1,307	53
Travel	80	72
Utilities	33	4
Supplies and other services	1,708	1,510
Depreciation	2,070	2,134
Interest	14,541	15,419
Expenses incurred or paid to or on behalf of:		
Alexander-Tharpe Fund, Inc.	1,432	690
Georgia Institute of Technology	69,285	84,566
Georgia Tech Alumni Association	4,410	4,174
Georgia Tech Facilities, Inc.	1,208	4,987
Total	<u>\$ 98,678</u>	<u>115,987</u>

#### (15) **Related Parties**

One member of the board of directors of Facilities is also an elected trustee of the Foundation.

Three members of the board of trustees of the Georgia Tech Alumni Association are also ex-officio voting trustees of the Foundation.

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In accordance with agreements among the Chancellor of the BOR, the BOR, the Foundation and the outgoing President (President) of the Institute, the President would receive specific deferred benefits and compensation from the Foundation upon the completion of certain years of service and fundraising goals. These specific conditions were met in 2008. Consequently, in 2008, the Foundation transferred to the President its ownership interest in a split-dollar life insurance policy valued at \$750 and paid the President \$266. Additionally, \$500 in compensation was expensed in fiscal 2008 and paid to the President in July 2008. In accordance with the agreements, the Foundation also leased an automobile for the use of the President during his tenure at the Institute. In July 2008, the Foundation gave the automobile, valued at \$38, to the President.

Transactions with other related parties are described in notes 4, 6, 7, 11 and 16.

#### **(16) Commitments and Contingencies**

The Foundation has invested in certain partnerships that call for future capital contributions in accordance with the related agreements. Capital contributions committed by the Foundation at June 30, 2008 and 2007 totaled \$204,917 and \$267,843, respectively (note 3).

In June 2007, the Foundation committed \$21,810 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 2008 and 2009. If the funds are not expended by June 30, 2009, the remainder is retained by the Foundation. As of June 30, 2008, \$18,583 had been expended and \$3,227 remained as a commitment.

During 2008 and 2007, the Foundation approved requests by the Institute for funding not to exceed \$5,350 and \$3,495, respectively. As of June 30, 2008 and 2007, \$2,690 and \$0 had been expended. As of June 30, 2008 and 2007, \$4,814 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, 2008 and 2007.

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. In October 1988, the Foundation established the Faculty Mortgage program, which guarantees the amounts of mortgage loans made to eligible faculty. The total amount guaranteed as of June 30, 2008 and 2007 under this program was \$795 and \$719, respectively. The Foundation will guarantee loans up to an aggregate total of \$1,500. In June 1992, the Foundation established the Campus Housing Loan Guaranty Program, which guarantees loans to eligible faculty of qualifying campus residential housing up to a maximum of \$400, up to an aggregate total of \$5,000. At June 30, 2008 and 2007, the total loans guaranteed were \$261 and \$503, respectively.