# GEORGIA TECH FOUNDATION, INC.

Consolidated Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

**GEORGIA TECH FOUNDATION, INC.**

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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, 2011 and 2010, 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, 2011 and 2010, 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 24, 2011

**GEORGIA TECH FOUNDATION, INC.**

Consolidated Statements of Financial Position

June 30, 2011 and 2010

(In thousands)

| **Assets** | | **2011** | **2010** |
|---|---|---|---|
| Cash and cash equivalents | $ | 4,365 | 3,606 |
| Contributions receivable, net (notes 2 and 6) | | 69,075 | 76,478 |
| Investments (notes 3 and 11) | | 1,322,464 | 1,126,941 |
| Other assets | | 8,725 | 8,215 |
| Leases receivable (note 4) | | 155,205 | 159,637 |
| Contributions receivable from remainder trusts | | 7,730 | 6,730 |
| Charitable remainder trusts (note 11) | | 22,105 | 18,904 |
| Capital assets, net (note 5) | | 37,166 | 37,919 |
| Total assets | $ | 1,626,835 | 1,438,430 |
| **Liabilities and Net Assets** | | | |
| Accounts payable | $ | 5,091 | 3,549 |
| Commitment payable (note 6) | | 10,260 | 10,566 |
| Lines of credit (note 7) | | 25,071 | 26,450 |
| Bonds payable, net of discount of $1,297 and premium of $743 in 2011 and discount of $1,362 and premium of $789 in 2010 (notes 4 and 7) | | 245,426 | 252,397 |
| Amounts due to life beneficiaries (note 11) | | 12,299 | 12,040 |
| Funds held on behalf of other organization (notes 3, 9, and 11) | | 92,606 | 75,952 |
| Revocable gift (notes 10 and 11) | | 39,813 | 35,064 |
| Derivative financial instruments (notes 8 and 11) | | 22,721 | 19,699 |
| Other liabilities | | 2,596 | 2,659 |
| Total liabilities | | 455,883 | 438,376 |
| Net assets: | | | |
| Unrestricted | | 98,801 | 59,360 |
| Temporarily restricted (note 13) | | 594,788 | 491,691 |
| Permanently restricted (note 13) | | 477,363 | 449,003 |
| | | 1,170,952 | 1,000,054 |
| Commitments (notes 4, 6, 7, 9, 15, and 18) | | | |
| Total liabilities and net assets | $ | 1,626,835 | 1,438,430 |

See accompanying notes to consolidated financial statements.

**GEORGIA TECH FOUNDATION, INC.**

Consolidated Statements of Activities

Years ended June 30, 2011 and 2010

(In thousands)

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Unrestricted** | **Temporarily restricted** | **Permanently restricted** | **Total** | **Unrestricted** | **Temporarily restricted** | **Permanently restricted** | **Total** |
| Revenues: | | | | | | | | |
| Gift income | $ 5,581 | 29,268 | 23,963 | 58,812 | 6,086 | 27,859 | 54,312 | 88,257 |
| Lease revenue | 14,560 | — | — | 14,560 | 14,702 | — | — | 14,702 |
| Investment income, net of fees | 4,133 | 10,722 | 96 | 14,951 | 4,607 | 11,433 | 113 | 16,153 |
| Net realized/unrealized gain on investments | 47,751 | 126,386 | 1,561 | 175,698 | 28,080 | 72,558 | 2,579 | 103,217 |
| Change in value of trusts and annuities | (1) | 870 | 2,658 | 3,527 | (1) | 353 | 1,802 | 2,154 |
| Change in fair value of derivative financial instruments (note 8) | (3,022) | — | — | (3,022) | (6,502) | — | — | (6,502) |
| Other | 1,733 | 60 | 82 | 1,875 | 1,510 | 323 | 17 | 1,850 |
| Net assets released from restrictions (note 12) | 64,209 | (64,209) | — | — | 75,958 | (75,958) | — | — |
| Total revenues | 134,944 | 103,097 | 28,360 | 266,401 | 124,440 | 36,568 | 58,823 | 219,831 |
| Expenses (note 16(a)): | | | | | | | | |
| Program services | 79,091 | — | — | 79,091 | 97,842 | — | — | 97,842 |
| General and administrative (note 16(b)) | 10,124 | — | — | 10,124 | 9,950 | — | — | 9,950 |
| Fund-raising | 6,288 | — | — | 6,288 | 3,161 | — | — | 3,161 |
| Total expenses | 95,503 | — | — | 95,503 | 110,953 | — | — | 110,953 |
| Change in net assets | 39,441 | 103,097 | 28,360 | 170,898 | 13,487 | 36,568 | 58,823 | 108,878 |
| Net assets, beginning of year | 59,360 | 491,691 | 449,003 | 1,000,054 | 45,873 | 455,123 | 390,180 | 891,176 |
| Net assets, end of year | $ 98,801 | 594,788 | 477,363 | 1,170,952 | 59,360 | 491,691 | 449,003 | 1,000,054 |

See accompanying notes to consolidated financial statements.

**GEORGIA TECH FOUNDATION, INC.**

Consolidated Statements of Cash Flows

Years ended June 30, 2011 and 2010

(In thousands)

| | | 2011 | 2010 |
|---|---|---|---|
| Change in net assets | $ | 170,898 | 108,878 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | | |
| Depreciation | | 1,542 | 1,706 |
| Accretion/ amortization of bond discount and premium | | 19 | 16 |
| Net realized/unrealized gain on investments | | (175,698) | (103,217) |
| Net change in fair value of derivative financial instruments | | 3,022 | 6,502 |
| Actuarial gain on trusts and annuities | | (3,527) | (2,154) |
| Contribution of noncash assets | | (10,929) | (4,266) |
| Gift of real estate to Georgia Institute of Technology | | — | 5,433 |
| Proceeds from gifts restricted for long-term investment | | (25,505) | (21,122) |
| Decrease (increase) in contributions receivable | | 7,403 | (31,852) |
| (Increase) decrease in other assets | | (510) | 55 |
| Increase (decrease) in accounts payable | | 1,542 | (3,251) |
| (Decrease) increase in other liabilities | | (63) | 310 |
| Decrease in commitment payable | | (306) | (133) |
| Net cash used in operating activities | | (32,112) | (43,095) |
| Cash flows from investing activities: | | | |
| Proceeds from the sales and maturities of investments | | 318,794 | 263,509 |
| Purchases of investments | | (328,392) | (257,060) |
| Increase in funds held on behalf of other organization | | 16,654 | 16,048 |
| Increase in revocable gift | | 4,749 | 2,506 |
| Proceeds from principal payments of leases receivable | | 4,432 | 4,223 |
| Purchase of capital assets | | (558) | (580) |
| Net cash provided by investing activities | | 15,679 | 28,646 |
| Cash flows from financing activities: | | | |
| Proceeds from lines of credit | | 20,045 | 32,153 |
| Repayments of lines of credit | | (21,424) | (35,215) |
| Principal repayments of bonds payable | | (6,990) | (5,060) |
| Receipt of cash from trusts | | 861 | 1,290 |
| Payments to life income beneficiaries | | (805) | (695) |
| Proceeds from gifts restricted for long-term investment | | 25,505 | 21,122 |
| Net cash provided by financing activities | | 17,192 | 13,595 |
| Increase (decrease) in cash and cash equivalents | | 759 | (854) |
| Cash and cash equivalents, beginning of year | | 3,606 | 4,460 |
| Cash and cash equivalents, end of year | $ | 4,365 | 3,606 |
| Cash paid for interest | $ | 13,901 | 13,862 |
| Noncash activities: | | | |
| Contribution of charitable trusts, annuities | $ | 564 | 86 |
| Contributions of securities | | 10,365 | 4,180 |
| Total contribution of noncash assets | | 10,929 | 4,266 |
| Gift of real estate to Georgia Institute of Technology | | — | (5,433) |
| Total noncash activities | $ | 10,929 | (1,167) |

See accompanying notes to consolidated financial statements.

## (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 intercompany 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.

Cypress Academy LLC was formed as a single member limited liability corporation in 2009 to serve as the holder of land near the Georgia Tech campus.

Midtown Opera, LLC was formed as a single member limited liability corporation in 2010 to serve as the holder of land near the Georgia Tech campus.

#### (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 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, 17, and 18.

***(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 externally imposed or time restrictions. Net assets included in this class include unrestricted gifts and board-designated endowment funds.

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

*Permanently Restricted Net Assets* are subject to externally 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 approximates fair value. Contributions receivable are estimated by discounting expected future cash flows at risk adjusted market interest rates, which approximate fair value at the time of the gift. See notes 1(g), 1(h), 7, 8, 9, 10, and 11, regarding investments, charitable remainder trusts, bonds payable, amounts due to life beneficiaries, funds held on behalf of other organization, revocable gift, and derivative financial instruments, respectively, for disclosures 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. This excludes short-term cash securities, which may be held by investment managers for future investments.

***(f) Contributions Receivable, Net***

The Foundation records commitments from donors to make future contributions, recognizing these unconditional promises to give as revenue in the period the commitments are made, discounted to their present value at a risk adjusted market interest rate. An allowance for uncollectible contributions receivable is provided based upon management's judgment, considering such factors as prior collection history, type of contribution, relationship with donor, and other relevant factors.

***(g) Investments***

Investments consist predominantly of marketable securities, privately held limited partnerships, and real estate. Investments in equity securities with readily determinable fair values and all investments in debt securities are 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 using the net asset value (NAV) provided by the general partner as of June 30, 2011 and 2010. 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 alternative investments 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 periodic appraisals conducted by third-party appraisers. The Foundation uses NAV per share or its equivalent as a practical expedient to estimate fair value although, NAV in many instances may not equal realizable value. The NAV per share or its equivalent was applied to certain investments that do not have readily determinable fair values including hedge funds, private equity, real estate and natural resources. Valuation processes and methodologies utilized by the general partners and investment managers are reviewed by Foundation management.



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Direct investments in real estate (as differentiated from real estate investments through managed 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.

***(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 to 50 years.

***(j) Endowment***

**Interpretation of Relevant Law**

The Foundation management has interpreted the Georgia Uniform Prudent Management of Institutional Funds Act of 2008 (UPMIFA or the Act) as providing among other things, expanded spending flexibility by allowing, subject to a standard of prudence, the institution to spend from an endowment fund without regard to the book value of the corpus of the fund. This flexibility under UPMIFA allows an expenditure that lowers the value of the corpus of an endowment fund below its book value, which was previously not allowed. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

### *(k) Use of Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 nonpublicly traded partnership investments, the allowance for contributions receivable, and the assumptions made in recording liabilities to life beneficiaries.

### *(l) Tax Status*

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



(Continued)

(Dollars in thousands)

## (2) Contributions Receivable, Net

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

| | | 2011 | 2010 |
|---|---|---|---|
| Within one year | $ | 22,655 | 23,922 |
| One to five years | | 51,263 | 61,521 |
| More than five years | | 5,168 | 2,683 |
| Gross contributions receivable | | 79,086 | 88,126 |
| Less allowance for uncollectible contributions | | (5,926) | (6,630) |
| Less present value component | | (4,085) | (5,018) |
| Net contributions receivable | $ | 69,075 | 76,478 |

The discount rates used to calculate the present value component range from 2.88% to 5.50%.

The consolidated financial statements do not include conditional pledges, expectancies, and bequests that have not been recognized as revenue. These undiscounted amounts totaled $286,446 and $250,308 at June 30, 2011 and 2010, respectively. The Foundation allowance for uncollectible contributions is estimated by using past collections of contributions receivable as an indication of future collections. At June 30, 2011 and 2010 the four largest outstanding donor pledge balances represented 55% and 61%, respectively, of the Foundation's gross contribution receivable.

## (3) Investments

Investments at June 30, 2011 and 2010 are summarized as follows:

| | Fiscal year 2011 | | | Fiscal year 2010 | | |
|---|---|---|---|---|---|---|
| | Percentage | | Amount | Percentage | | Amount |
| Cash and cash equivalents | 4.2% | $ | 55,690 | 5.4% | $ | 61,248 |
| Domestic equities | 15.1 | | 200,297 | 12.4 | | 140,261 |
| International equities | 14.7 | | 195,587 | 12.1 | | 136,885 |
| Bonds and bond funds | 9.4 | | 123,702 | 13.1 | | 148,094 |
| Hedge funds: | | | | | | |
| Long-short funds | 11.6 | | 153,390 | 11.5 | | 129,720 |
| Multi-strategy funds | 9.8 | | 129,351 | 8.2 | | 91,034 |
| Private equities: | | | | | | |
| Buyout | 11.2 | | 147,585 | 11.6 | | 130,911 |
| Venture capital | 8.4 | | 110,985 | 8.0 | | 90,329 |
| Distressed securities | 5.7 | | 74,807 | 7.2 | | 81,326 |
| Real estate and real estate funds | 4.2 | | 56,359 | 4.4 | | 48,081 |
| Natural resources | 5.7 | | 74,711 | 6.1 | | 69,052 |
| | 100.0% | $ | 1,322,464 | 100.0% | $ | 1,126,941 |



(Continued)

(Dollars in thousands)

The Foundation has investments, as a limited partner, in 118 and 113 partnerships at June 30, 2011 and 2010, 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 2.5% of the Foundation's assets, and no manager controls partnerships having more than 3.4% of the Foundation's assets. The values of the Foundation's partnership investments as furnished by the general partners are reviewed by Foundation management, and management believes the values shown at June 30, 2011 and 2010 are reasonable.

As of June 30, 2011 and 2010, the Foundation's direct investment in real estate consists of ownership of properties with a total net book value of $28,653 and $27,215, respectively. Depreciation expense totaling $231 and $349, related to investments in real estate, was recognized during the years ended June 30, 2011 and 2010, 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. Such changes could materially affect the amounts reported in the Foundation's consolidated financial statements.

As of June 30, 2011, the fair value of the Foundation's hedge funds and private investments totaled $282,741 and $435,794 respectively. As of June 30, 2010, the fair value of the Foundation's hedge funds and private investments totaled $220,754 and $392,484 respectively. The limitations and restrictions on the Foundation's ability to redeem or sell these investments vary by investment and have required notice periods for certain hedge funds, to specified terms at inception (generally 10 years) associated with private investment interests. Based upon the terms and conditions in effect as of June 30, 2011, the Foundation may redeem hedge funds with a total fair value of $247,288 upon notification to the funds. During 2011, the Foundation elected to enter in agreements with three hedge fund investments, with a fair value of $35,453, for an additional two to three years in accordance with its investment strategy (see note 11). Distributions from each private investment will be received as the underlying investments of the funds are liquidated by the general partner. As of June 30, 2011, management estimates the average remaining life of the private investments is approximately five years.

As of June 30, 2011, the Foundation's remaining outstanding commitments to private investments, which are projected to be paid over the next six years, totaled $149,799 in the following investment strategies:

| | | |
|---|---|---|
| Private equity: | | |
| Venture capital | $ | 37,821 |
| Buyout | | 28,682 |
| Distressed securities | | 11,097 |
| Real estate | | 39,504 |
| Natural resources | | 32,695 |
| | $ | 149,799 |

Investments in private equity, natural resources and real estate funds are generally made through limited partnerships. Under the terms of these partnership agreements, the Foundation is obligated to remit additional funding periodically as capital or liquidity calls are exercised by the general partner. These partnerships have a limited existence, and under such agreements may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, or other factors, the general partner may extend the terms or request an extension of terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. The Foundation cannot anticipate such changes because they are based on unforeseen events. As a result, the timing of future capital calls or distributions in any particular year are not certain.

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 2011 and 2010, the Foundation charged an administrative fee, which is based on a percentage of the twelve quarter trailing average market value of endowment funds, totaling $6,729 and $6,946, 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 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 $37,487 and $38,485 as of June 30, 2011 and 2010, respectively.

The Foundation has debt outstanding totaling $37,915 on the CRC as of June 30, 2011 (note 7). The amount of the lease receivable is equal to the total debt outstanding as of June 30, 2011, less $428 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

(Dollars in thousands)

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 $117,718 and $121,152 as of June 30, 2011 and 2010, 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 $118,667 and $122,150 as of June 30, 2011 and 2010, respectively, in the Series 2002A and 2002B Bonds (note 7). The lease receivable is equal to the total debt outstanding as of June 30, 2011, less $949 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:

| | | Amount |
|---|---|---|
| Fiscal year: | | |
| 2012 | $ | 14,059 |
| 2013 | | 14,073 |
| 2014 | | 14,085 |
| 2015 | | 14,090 |
| 2016 | | 14,107 |

### *(b) Operating Lease*

The Foundation 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 10 years, unless either party declines to renew. Under the lease agreement, the Foundation receives base rent, payments for capital replacement, and incentive rent. During 2011 and 2010, the Foundation received $4,250 and $4,250, respectively, in lease payments, representing base rent, from the third party; $621 and $613, respectively, in payments for capital replacement; and $0 and $0, respectively, in payments for incentive rent. The Foundation has debt outstanding totaling $34,880 as of June 30, 2011, 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 Institute's campus, as well as various furniture and equipment. The buildings were placed into service in 2004.

(Dollars in thousands)

The Foundation's capital assets are as follows:

| | | June 30, | |
|---|---|---|---|
| | | **2011** | **2010** |
| Assets: | | | |
| Land | $ | 3,395 | 3,395 |
| Buildings | | 38,868 | 38,868 |
| Furniture and equipment | | 8,404 | 8,310 |
| Less accumulated depreciation | | (13,501) | (12,654) |
| Total capital assets | $ | 37,166 | 37,919 |

Depreciation expense totaling $1,311 and $1,357 was recognized during 2011 and 2010, 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 2010, the Foundation agreed to guarantee and pay, through a commitment of support, a $10,555 bond obligation (2010B Bond) issued by Facilities during 2010 to refund the 2008C Bonds that were used to finance campus construction and the purchase of campus real estate as well as to provide funds in the amount of $1,560, to terminate an interest rate swap associated with the 2008C Bonds. The bonds mature on November 1, 2027 and require mandatory sinking fund principal payments until maturity. At June 30, 2011 and 2010, respectively, Facilities had $10,260 and $10,566 outstanding on the 2010B Bond, including accrued interest. Foundation payments to Facilities during fiscal years 2011 and 2010, to satisfy Facilities' debt service requirements, totaled $638 and $317, respectively. At June 30, 2011, amounts due in less than one year, in one to five years, and in more than five years totaled $545, $2,040, and $7,675, respectively.

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 $847 and $878 as of June 30, 2011 and 2010, 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 2010B) Bond is outstanding. The payments received were used to pay Facilities for a portion of the commitment to fund the 2010B Bond. The payments remaining to be received total $2,267 and $2,405 as of June 30, 2011 and 2010, respectively. The Foundation has recorded a contribution receivable, discounted to give effect to the future cash flows from the GTAA, in the amount of $1,574 and $1,685, as of June 30, 2011 and 2010, respectively.

(Dollars in thousands)

## (7) Debt

### *(a) Lines of Credit*

The Foundation had three $10,000 revolving lines of credit in the name of the GTFFC in 2011 and two $15,000 revolving lines of credit in the name of GTFFC in 2010. As of June 30, 2011 and 2010, $24,908 and $26,450, respectively, was the total aggregate outstanding on the lines of credit. Interest is calculated using the 30-day LIBOR rate plus 0.60% as of June 30, 2011 and 2010, respectively, for the lines of credit. This resulted in an effective interest rate of 0.79% and 0.95% at June 30, 2011 and 2010, respectively. One line of credit, was renewed through December 2011, the second through June 2012 and the third was extended until November 2012. The Foundation expects to renew each line of credit upon expiration. As of June 30, 2011, lines of credit due within one year total $16,908 and lines of credit due after one year total $8,000.

The Foundation also has available two other $10,000 lines of credit. As of June 30, 2011 and 2010, $163 and $0, respectively, have been drawn on these credit facilities. One line of credit was renewed during 2011 in the amount of $10,000 and expires in June 2012. A second line of credit was renewed during 2011 for $10,000 and expires November 2011. The Foundation expects to renew both lines of credit upon expiration.

### *(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.

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

| | | Principal amount | Interest rate |
|---|---|---|---|
| Fiscal year: | | | |
| 2012 | $ | 1,075 | 5.75% |
| 2013 | | 1,140 | 5.75 |
| 2014 | | 1,205 | 5.75 |
| 2015 | | 1,275 | 5.75 |
| 2016 | | 1,350 | 5.75 |
| Thereafter | | 31,870 | 5.00 – 5.75 |
| | $ | 37,915 | |

(Dollars in thousands)

Annual debt service payments including interest related to the Series 2001A Bonds for the fiscal years 2011 through 2031 range from $3,061 to $3,071.

In August 2011, the Foundation received notification from a third party of its intent to exercise its interest rate swap option (swaption) related to the 2001A Bonds on November 1, 2011 (See note 8). As of October 24, 2011, the Foundation is in discussions with the third party regarding this swaption. Depending on the results of the discussions, the Foundation may refund the Series 2001A Bonds.

***(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 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: | | | | |
| 2012 | $ 2,585 | 5.109% | $ 1,940 | 6.10% |
| 2013 | 2,715 | 4.500 | 2,060 | 6.15 |
| 2014 | 2,855 | 5.108 | 2,190 | 6.25 |
| 2015 | 3,000 | 5.193 | 2,335 | 6.60 |
| 2016 | 3,160 | 5.222 | 2,500 | 6.60 |
| Thereafter | 79,735 | 4.900 – 5.250 | 50,700 | 6.60 – 6.66 |
| | $ 94,050 | | $ 61,725 | |

Annual debt service payments including interest related to the Series 2002A Bonds for the fiscal years 2012 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 2012 through 2024 and 2025 through 2033 range from $5,943 to $5,949 and $4,334 to $4,345, respectively.

(Dollars in thousands)

*(d) Series 2009A and 2009B Bond Issues*

In 2009, the Foundation borrowed $18,970 in Series 2009A (tax exempt) Bonds and $35,000 in Series 2009B (taxable) Bonds (collectively, the Series 2009 Bonds). The Series 2009 Bonds were issued to provide funds to refinance a portion of the lines of credit and to refund the costs of acquisition of three properties adjacent or close to the Institute's campus. The bonds are general unsecured obligations of the Foundation.

The following represents the applicable interest rates and mandatory principal redemptions on the Series 2009 Bonds until maturity on various dates through November 2029.

| | Series 2009A | | Series 2009B | |
|---|---|---|---|---|
| | **Principal** | **Interest rate** | **Principal** | **Interest rate** |
| Fiscal year: | | | | |
| 2012 | $ — | —% | $ 1,720 | 2.496% |
| 2013 | — | — | 1,765 | 3.185 |
| 2014 | — | — | 1,830 | 3.755 |
| 2015 | — | — | 1,900 | 4.198 |
| 2016 | — | — | 1,995 | 5.491 |
| Thereafter | 18,970 | 4.375 – 5.000 | 24,110 | 5.491 – 6.241 |
| | $ 18,970 | | $ 33,320 | |

The 2009A Bond was issued with a bond premium of $837, which is being amortized and had a balance of $743 and $789 as of June 30, 2011 and 2010, respectively. Annual debt service payments including interest related to the Series 2009A Bonds for fiscal years 2012 through 2025 totals $922 and 2026 through 2030 ranges from $4,261 to $4,266. Annual debt service payments including interest related to the Series 2009B bonds for fiscal years 2012 through 2025 range from $3,475 to $3,491.

The fair value of total bonds payable is approximately $256,000 and $271,000 based on quoted market prices at June 30, 2011 and 2010, respectively.

## (8) Derivative Financial Instruments

The Foundation does not issue or trade derivative financial instruments except as described herein. Foundation assets are invested on its behalf with various investment managers, some of whom are authorized to employ derivative instruments, including swaps, futures, forwards and options. These derivatives are generally used for managing interest rate or foreign currency risk or to attain or hedge a specific financial market position.

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 Securities Industry and Financial Markets Association (SIFMA) 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 had an effective date of March 1, 2008 and a termination date of September 1, 2027. In June 2010, Facilities issued the 2010B Bonds which refunded the 2008C Bonds as well as provided the funds necessary ($1,560) to terminate the interest rate swap on the 2008C Bonds. Prior to the termination of the interest rate swap, a loss of ($212) was recognized in 2010 as a change in fair value of derivative financial instruments in the statements of activities. This resulted in a reduction in unrestricted net assets.

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 SIFMA Index plus 10 basis points (0.10%). As of June 30, 2011 the total notional amount of the swaption once exercised is $36,840. The swaption, which had a fair value of $7,655 as of June 30, 2011, is reported as a derivative financial instrument (representing a liability), in the statements of financial position. A loss of ($1,198) was recognized in 2011 as a change in fair value of derivative financial instruments in the statements of activities, reducing unrestricted net assets.

In 2003, the Foundation sold a 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, 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 SIFMA Index plus 10 basis points. As of June 30, 2011 the total notional amount of the swaption once exercised is $88,750. The swaption, which had a fair value of $15,066 as of June 30, 2011, is reported as a derivative financial instrument (representing a liability), in the statements of financial position. A loss of ($1,824) was recognized in 2011 as a change in fair value of derivative financial instruments in the statements of activities, reducing unrestricted net assets.

## (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 $92,606 and $75,952 at June 30, 2011 and 2010, respectively, and are recorded in the accompanying consolidated statements of financial position as funds held on behalf of other organization.

(Dollars in thousands)

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

| | | 2011 | 2010 |
|---|---|---|---|
| Balance, beginning of year | $ | 75,952 | 59,904 |
| Additions | | 14,488 | 15,579 |
| Investment gains, net of fees, attributable to balances | | 12,983 | 6,815 |
| Withdrawals | | (10,817) | (6,346) |
| Balance, end of year | $ | 92,606 | 75,952 |

## (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 $39,813 and $35,064 as of June 30, 2011 and 2010, 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 reduce the liability, which totaled $1,269 and $1,125 in 2011 and 2010, respectively.

## (11) Fair Value Measurements

The Foundation's estimates of fair value for financial assets and liabilities are based on the framework established in Topic 820. The framework is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Foundation's significant market assumptions. The three levels of the fair value hierarchy are as follows:

Level 1 – Valuations based on unadjusted quoted market prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 – Valuations based on pricing inputs that are other than quoted prices in active markets, which are either directly or indirectly observable. Examples include commingled funds which hold actively traded public securities, but whose valuations are determined only periodically, (typically monthly). Other examples include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, credit risks, default rates, loss severities, etc.) or can be corroborated by observable market data.

Level 3 – Valuations are derived from other valuation methodologies, including pricing models, discounted cash flow models, and similar techniques. Level 3 valuations incorporate certain assumptions and projections that are not observable in the market and require significant professional judgment in determining the fair value assigned to such assets and liabilities. Level 3 investments primarily comprise alternative investments, which do not have a liquid market at the balance sheet date.

Inputs used may include the original transaction price, recent transactions in the same or similar market, completed or pending third party transactions in the underlying investment or comparable issuers, and subsequent rounds of financing. When observable prices are not available, these investments are valued using one or more valuation techniques described below:

> Market Approach: This approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
>
> Income Approach: This approach determines a valuation by discounting cash flows.
>
> Cost Approach: This approach is based on the principle of substitution and the concept that a market participant would not pay more than the amount that would currently be required to replace the asset.

Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value.

(Dollars in thousands)

The fair value hierarchy requires the use of observable market data when available. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The following is a summary of the levels within the fair value hierarchy for the Foundation's assets and liabilities as of June 30, 2011:

| | Level 1 | Level 2 | Level 3 | Total | Redemption or liquidation | Days notice |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Cash and cash equivalents | $ 4,365 | — | — | 4,365 | Daily | 1 |
| Investments: | | | | | | |
| Cash and cash equivalents | 55,690 | — | — | 55,690 | Daily | 1 |
| Domestic equities | 169,978 | — | 294 | 170,272 | Daily | 3 – 5 |
| Domestic equities – commingled funds | — | 30,025 | — | 30,025 | Monthly | 5 |
| International equities | 80,278 | 15,171 | — | 95,449 | Daily | 3 – 5 |
| International equities – commingled funds | — | 100,138 | — | 100,138 | Monthly | 3 – 15 |
| Bond and bond funds | 111,825 | — | — | 111,825 | Daily | 1 – 3 |
| Bond and bond funds – commingled funds | — | 11,877 | — | 11,877 | Daily | 5 |
| Hedge funds | — | 85,839 | 196,901 | 282,740 | See note(a) | See note (a) |
| Private equities | — | — | 333,378 | 333,378 | Illiquid | N/A |
| Real estate funds | — | 7 | — | 7 | Daily | 3 – 5 |
| Real estate and real estate funds | — | — | 56,352 | 56,352 | Illiquid | N/A |
| Natural resources | — | — | 74,711 | 74,711 | Illiquid | N/A |
| | 417,771 | 243,057 | 661,636 | 1,322,464 | | |
| Charitable remainder trusts | 22,105 | — | — | 22,105 | | |
| Total | $ 444,241 | 243,057 | 661,636 | 1,348,934 | | |
| Liabilities: | | | | | | |
| Amounts due to life beneficiaries | $ — | — | 12,299 | 12,299 | | |
| Funds held on behalf of other organization | — | — | 92,606 | 92,606 | | |
| Revocable gift | — | — | 39,813 | 39,813 | | |
| Derivative financial instruments | — | 22,721 | — | 22,721 | | |
| Total | $ — | 22,721 | 144,718 | 167,439 | | |

Note (a) – Hedge Funds (June 30, 2011):

Certain investments in hedge funds may be redeemed upon a 5 to 90 day notice to the fund manager and permit a monthly or quarterly exit from the fund. The fair values of these hedge funds, totaling $85,839, have been classified as Level 2. Certain other hedge funds have semiannual or annual exit dates, which occur more than 90 days after the Foundation's fiscal year end. The fair value of these hedge funds, with a notice and a redemption period exceeding 90 days, which could be redeemed during 2012, totals $161,450. One hedge fund, with a fair value of $5,451, contains a provision that it may be redeemed over a two year period upon a notification to the fund manager. Two hedge funds, with a fair value of $30,000 contain provisions that they may be redeemed over a three year period upon notification to the managers.

(Dollars in thousands)

The following is a summary of the levels within the fair value hierarchy for the Foundation's assets and liabilities as of June 30, 2010:

| | Level 1 | Level 2 | Level 3 | Total | Redemption or liquidation | Days notice |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Cash and cash equivalents | $ 3,606 | — | — | 3,606 | Daily | 1 |
| Investments: | | | | | | |
| Cash and cash equivalents | 61,248 | — | — | 61,248 | Daily | 1 |
| Domestic equities | 117,467 | — | 301 | 117,768 | Daily | 3 – 5 |
| Domestic equities – commingled funds | — | 22,493 | — | 22,493 | Monthly | 5 |
| International equities | 58,822 | — | — | 58,822 | Daily | 3 – 5 |
| International equities – commingled funds | — | 78,063 | — | 78,063 | Monthly | 3 – 15 |
| Bond and bond funds | 127,549 | — | — | 127,549 | Daily | 1 – 3 |
| Bond and bond funds – commingled funds | — | 20,545 | — | 20,545 | Daily | 5 |
| Hedge funds | — | 103,485 | 117,269 | 220,754 | See note(b) | See note(b) |
| Private equities | 152 | — | 302,414 | 302,566 | Illiquid | N/A |
| Real estate funds | — | 163 | — | 163 | Daily | 3 – 5 |
| Real estate and real estate funds | — | — | 47,918 | 47,918 | Illiquid | N/A |
| Natural resources | — | — | 69,052 | 69,052 | Illiquid | N/A |
| | 365,238 | 224,749 | 536,954 | 1,126,941 | | |
| Charitable remainder trusts | 18,904 | — | — | 18,904 | | |
| Total | $ 387,748 | 224,749 | 536,954 | 1,149,451 | | |
| Liabilities: | | | | | | |
| Amounts due to life beneficiaries | $ — | — | 12,040 | 12,040 | | |
| Funds held on behalf of other organization | — | — | 75,952 | 75,952 | | |
| Revocable gift | — | — | 35,064 | 35,064 | | |
| Derivative financial instruments | — | 19,699 | — | 19,699 | | |
| Total | $ — | 19,699 | 123,056 | 142,755 | | |

Note (b) – Hedge Funds (June 30, 2010):

Certain investments in hedge funds may be redeemed upon a 5 to 90 day notice to the fund manager and permit a monthly or quarterly exit from the fund. The fair values of these hedge funds, totaling $103,485, have been classified as Level 2. Certain other hedge funds have semiannual or annual exit dates, which occur more than 90 days after the Foundation's fiscal year end. The fair value of these hedge funds, with a notice and a redemption period exceeding 90 days, which could be redeemed during 2011, totals $103,533. Two hedge funds, with a fair value totaling $2,612, have redemption restrictions, but are expected to liquidate in 2011. One hedge fund, with a fair value of $11,124, contains a provision that it may be redeemed over a three year period upon a notification to the fund manager.

(Dollars in thousands)

During 2011, the fair value of investments classified as Level 3 in the fair value hierarchy changed as follows:

| | | Private equities | Real estate and real estate funds | Hedge funds | Natural resources and other equity | Total |
|---|---|---|---|---|---|---|
| Fair value measurements using significant unobservable inputs (Level 3): | | | | | | |
| Beginning value, as of July 1, 2010 | $ | 302,414 | 47,918 | 117,269 | 69,353 | 536,954 |
| Investment income | | 4,094 | 238 | (41) | 3,948 | 8,239 |
| Realized and unrealized gains/losses | | 64,700 | 3,730 | 15,848 | 9,037 | 93,315 |
| Additions during the year | | 27,411 | 13,099 | 51,819 | 9,414 | 101,743 |
| Transfers to Level 3 | | — | — | 45,876 | — | 45,876 |
| Transfers from Level 3 | | — | — | (10,492) | — | (10,492) |
| Withdrawals/distributions | | (65,241) | (8,633) | (23,378) | (16,747) | (113,999) |
| Ending value, as of June 30, 2011 | $ | 333,378 | 56,352 | 196,901 | 75,005 | 661,636 |
| The amount of the fair value represented by net unrealized gains (losses) as of June 30, 2011 | $ | 158,462 | (306) | 45,035 | 35,278 | 238,469 |

One hedge fund, with a fair value of $22,009, changed its terms from a 90 day redemption period to an annual redemption period and was transferred from Level 2 to Level 3 during 2011. A second hedge fund, with a fair value of $23,867, changed its notification period from 75 days to 95 days and was transferred from Level 2 to Level 3 during 2011.

One hedge fund, with a fair value of $10,492, changed its terms from a three year redemption period to a quarterly redemption period and was transferred from Level 3 to Level 2 during 2011.

(Dollars in thousands)

During 2010, the fair value of investments classified as Level 3 in the fair value hierarchy changed as follows:

| | | Private equities | Real estate and real estate funds | Hedge funds | Natural resources and other equity | Total |
|---|---|---|---|---|---|---|
| Fair value measurements using significant unobservable inputs (Level 3): | | | | | | |
| Beginning value, as of July 1, 2009 | $ | 270,641 | 49,483 | 127,748 | 59,976 | 507,848 |
| Investment income | | 3,975 | 427 | 15 | 4,309 | 8,726 |
| Realized and unrealized gains/losses | | 45,499 | (3,599) | 12,309 | 5,389 | 59,598 |
| Additions during the year | | 20,022 | 8,475 | 3,569 | 9,208 | 41,274 |
| Withdrawals/distributions | | (37,723) | (6,868) | (26,372) | (9,529) | (80,492) |
| Ending value, as of June 30, 2010 | $ | 302,414 | 47,918 | 117,269 | 69,353 | 536,954 |
| The amount of the fair value represented by net unrealized gains (losses) as of June 30, 2010 | $ | 97,449 | (3,638) | 39,485 | 27,076 | 160,372 |

During 2011, the fair value of liabilities classified as Level 3 in the fair value hierarchy changed as follows:

| | | Due to life beneficiaries | Funds held on behalf of other organization | Revocable gift | Total |
|---|---|---|---|---|---|
| Balance at July 1, 2010 | $ | 12,040 | 75,952 | 35,064 | 123,056 |
| Change in present value of income interest | | 1,217 | — | — | 1,217 |
| Net income, earnings attributable to balances | | — | 12,983 | 6,018 | 19,001 |
| Additions during the year | | 1,146 | 14,488 | — | 15,634 |
| Withdrawals during the year | | (2,104) | (10,817) | (1,269) | (14,190) |
| Balance at June 30, 2011 | $ | 12,299 | 92,606 | 39,813 | 144,718 |

(Dollars in thousands)

During 2010, the fair value of liabilities classified as Level 3 in the fair value hierarchy changed as follows:

| | | Due to life beneficiaries | Funds held on behalf of other organization | Revocable gift | Total |
|---|---|---|---|---|---|
| Balance at July 1, 2009 | $ | 12,661 | 59,904 | 32,558 | 105,123 |
| Change in present value of income interest | | (724) | — | — | (724) |
| Net income, earnings attributable to balances | | — | 6,815 | 3,631 | 10,446 |
| Additions during the year | | 287 | 15,579 | — | 15,866 |
| Withdrawals during the year | | (184) | (6,346) | (1,125) | (7,655) |
| Balance at June 30, 2010 | $ | 12,040 | 75,952 | 35,064 | 123,056 |

## (12) 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 ended June 30, 2011 and 2010 as follows:

| | | 2011 | 2010 |
|---|---|---|---|
| Georgia Institute of Technology | $ | 62,068 | 75,418 |
| Georgia Tech Alumni Association | | 57 | 13 |
| Alexander-Tharpe Fund, Inc. | | 266 | 277 |
| Georgia Tech Facilities, Inc. | | 1,818 | 250 |
| Total net assets released from restrictions | $ | 64,209 | 75,958 |

(Dollars in thousands)

## (13) Net Assets

Temporarily restricted net assets at June 30, 2011 and 2010 are restricted for the following purposes:

| | | 2011 | 2010 |
|---|---|---|---|
| Accumulated appreciation on donor-restricted endowment funds | $ | 227,527 | 192,833 |
| Academic programs | | 217,821 | 174,897 |
| Scholarships and fellowships | | 82,433 | 65,573 |
| Institutional support | | 57,830 | 53,086 |
| Facilities | | 9,177 | 5,302 |
| | $ | 594,788 | 491,691 |

Accumulated appreciation on donor-restricted endowment funds represents accumulated earnings on endowments in which the income is not restricted for a specific purpose by the donor. Gifts and accumulated earnings on donor-restricted endowment funds, which are restricted for certain purposes as specified by the donor, include restrictions for support of scholarship programs, academic programs, facilities and institutional support.

Permanently restricted net assets consist of the following at June 30, 2011 and 2010:

| | | 2011 | 2010 |
|---|---|---|---|
| Contributions receivable | $ | 42,695 | 45,875 |
| Trust funds held by others | | 4,191 | 3,505 |
| Endowment funds | | 430,477 | 399,623 |
| | $ | 477,363 | 449,003 |

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.

(Dollars in thousands)

## (14) Endowment Net Assets

Endowment net assets consist of the following at June 30, 2011:

| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|---|
| Donor-restricted endowment funds | $ | (1,805) | 443,829 | 430,477 | 872,501 |
| Board-designated endowment funds | | 171,950 | — | — | 171,950 |
| Total endowment net assets | $ | 170,145 | 443,829 | 430,477 | 1,044,451 |

Endowment net assets consist of the following at June 30, 2010:

| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|---|
| Donor-restricted endowment funds | $ | (9,530) | 347,451 | 399,623 | 737,544 |
| Board-designated endowment funds | | 143,095 | — | — | 143,095 |
| Total endowment net assets | $ | 133,565 | 347,451 | 399,623 | 880,639 |

The Foundation's endowment consists of approximately 1,800 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

### Return Objectives and Risk Parameters

The primary long-term financial investment objectives are to preserve the real purchasing power of the endowment and to earn an average annual real total return of at least 5% per year, net of management fees, over the long term, defined as rolling five-year periods.

### Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation utilizes a diversified asset allocation strategy designed to achieve its long-term return objectives while minimizing risk. As part of this strategy, the Foundation invests a portion of its funds in assets that have desirable return and/or diversification characteristics but which may be less liquid than other investment assets. The Foundation management constantly monitors its liquidity position to assure that it has the funds necessary to meet its obligations.

(Dollars in thousands)

## Spending Policy

The Foundation has a policy of appropriating for expenditure, on an annual basis, up to 6.0% of the trailing twelve quarter average market value of its endowment funds. The amount appropriated for expenditure includes an administrative fee for general overhead costs incurred in connection with the support and management of its endowment funds.

Changes in endowment net assets for the years ended June 30, 2011 and 2010 are as follows:

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Endowment net assets, July 1, 2010 | $ 133,565 | 347,451 | 399,623 | 880,639 | 115,302 | 305,850 | 373,390 | 794,542 |
| Investment return: | | | | | | | | |
| Investment income | 3,370 | 10,348 | 96 | 13,814 | 3,157 | 11,003 | 113 | 14,273 |
| Lease income | — | — | — | — | | | | |
| Net realized/unrealized (loss) gain | 43,705 | 121,878 | 1,562 | 167,145 | 25,595 | 69,735 | 2,579 | 97,909 |
| Total investment return | 47,075 | 132,226 | 1,658 | 180,959 | 28,752 | 80,738 | 2,692 | 112,182 |
| Contributions | — | 2,303 | 27,123 | 29,426 | — | 36 | 22,110 | 22,146 |
| Other income | — | (15) | 82 | 67 | — | 117 | 17 | 134 |
| Change in value of trusts and annuities | — | 408 | 1,991 | 2,399 | — | 208 | 1,414 | 1,622 |
| Appropriation of endowment assets for expenditure | (10,915) | (38,544) | — | (49,459) | (11,922) | (39,498) | — | (51,420) |
| Transfers to create board designated funds | 420 | — | — | 420 | 1,433 | — | — | 1,433 |
| Endowment net assets, June 30, 2011 | $ 170,145 | 443,829 | 430,477 | 1,044,451 | 133,565 | 347,451 | 399,623 | 880,639 |

### *Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were $1,805 and $9,530 as of June 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

(Dollars in thousands)

## (15) 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 matches the employees contribution on a 2-for-1 basis. The funds are invested with a third-party provider in investment options chosen by the employees. During 2011 and 2010, the Foundation recognized pension expense totaling $246 and $249, 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. The Foundation does not match these additional amounts.

## (16) Expenses

### *(a) Functional Classification of Expenditures*

Expenses by functional classification for the years ended June 30, 2011 and 2010 are as follows:

| | | 2011 | 2010 |
|---|---|---|---|
| Program services: | | | |
| Georgia Institute of Technology | $ | 72,042 | 91,901 |
| Georgia Tech Alumni Association | | 4,475 | 4,606 |
| Georgia Tech Facilities, Inc. | | 1,948 | 687 |
| Alexander-Tharpe Fund, Inc. | | 626 | 648 |
| | | 79,091 | 97,842 |
| General and administrative | | 10,124 | 9,950 |
| Fund-raising | | 6,288 | 3,161 |
| Total expenses | $ | 95,503 | 110,953 |

Interest expense totaling $11,414 and $11,662 was allocated to program services in support of the Institute for the years ended June 30, 2011 and 2010, respectively.

(Dollars in thousands)

### *(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, 2011 and 2010 are as follows:

| | | 2011 | 2010 |
|---|---|---|---|
| Foundation operations | $ | 5,131 | 4,735 |
| Hotel and conference center | | 130 | 190 |
| Real estate expenses | | 875 | 826 |
| Depreciation expense | | 1,542 | 1,706 |
| Interest expense | | 2,446 | 2,493 |
| Total | $ | 10,124 | 9,950 |

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

The Foundation classifies its expenses in functional categories. Expenditures in the natural categories for the years ended June 30, 2011 and 2010 are as follows:

| | | 2011 | 2010 |
|---|---|---|---|
| Salaries | $ | 3,028 | 2,794 |
| Benefits | | 467 | 465 |
| Other personnel services | | 24 | 26 |
| Travel | | 70 | 42 |
| Utilities | | 77 | 130 |
| Supplies and other services | | 1,883 | 1,842 |
| Depreciation | | 1,542 | 1,706 |
| Interest | | 13,860 | 14,155 |
| Expenses incurred or paid to or on behalf of: | | | |
| Alexander-Tharpe Fund, Inc. | | 626 | 648 |
| Georgia Institute of Technology | | 67,503 | 83,852 |
| Georgia Tech Alumni Association | | 4,475 | 4,606 |
| Georgia Tech Facilities, Inc. | | 1,948 | 687 |
| Total | $ | 95,503 | 110,953 |

## (17) Related Parties

Two members of the Board of Directors of Facilities are also elected trustees of the Foundation.

Two members of the Board of Trustees of the GTAA – are also voting trustees of the Foundation.

Eight members of the Board of Trustees of the AT Fund are also voting trustees of the Foundation.



(Continued)

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

Transactions with other related parties are described in notes 4, 6, 7, 12, and 18.

## (18) Commitments and Contingencies

In June 2010, the Foundation committed $22,219 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 2011 and 2012. If the funds are not expended by June 30, 2012, the remainder is retained by the Foundation. As of June 30, 2011, $20,623 had been expended and $1,596 remained as a commitment.

During 2011 and 2010, the Foundation approved requests by the Institute for funding not to exceed $900. As of June 30, 2011 and 2010, $845 and $718 had been expended, respectively. As of June 30, 2011 and 2010, $156 and $260 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, 2011 and 2010.

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 was scheduled to expire in June 2010, but was amended to expire in June 2012. 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, 2011 and 2010 under this program was $255 and $386, 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, 2011 and 2010, the total loans guaranteed were $0 and $74, respectively.

## (19) Tax Matter

The Foundation does not have any material unrecognized tax positions that should be recognized in the consolidated financial statements for 2011 or 2010.

## (20) Subsequent Events

In connection with the preparation of the consolidated financial statements, the Foundation management reviewed subsequent events after the balance sheet date of June 30, 2011 through October 24, 2011, which was the date the financial statements were available to be issued and determined that there were no significant subsequent events requiring disclosure in the consolidated financial statement, except for the debt refinancing that is discussed in note 7(b).