



GEORGIA TECH FOUNDATION, INC.

Consolidated Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

GEORGIA TECH FOUNDATION, INC.

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KPMG LLP
Suite 2000
303 Peachtree Street, N.E.
Atlanta, GA 30308-3210

Independent Auditors' Report

The Board of Trustees
Georgia Tech Foundation, Inc.:

We have audited the accompanying consolidated financial statements of Georgia Tech Foundation, Inc. and its subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 its subsidiaries as of June 30, 2019 and 2018, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in note 1(o) to the consolidated financial statements, in fiscal 2019 Georgia Tech Foundation, Inc. and its subsidiaries adopted new accounting guidance, ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

KPMG LLP

Atlanta, Georgia
September 20, 2019

GEORGIA TECH FOUNDATION, INC.

Consolidated Statements of Financial Position

June 30, 2019 and 2018

(In thousands)

Assets	2019	2018
Cash and cash equivalents	\$ 6,894	9,910
Restricted cash	819	749
Capital reserve funds (note 4)	13,524	11,008
Contributions receivable, net (notes 2 and 7)	94,223	104,635
Investments (notes 3, 11 and 12)	1,871,554	1,758,924
Other assets (note 7)	27,245	20,649
Leases receivable (note 4)	126,682	136,231
Contributions receivable from remainder trusts (note 11)	14,107	13,743
Charitable remainder trusts (note 11)	14,784	14,432
Capital assets, net (note 5)	147,397	111,683
Total assets	\$ 2,317,229	2,181,964
Liabilities and Net Assets		
Accounts payable (note 6)	\$ 11,891	8,126
Commitment payable (note 7)	6,041	6,615
Lines of credit (note 8)	42,687	19,850
Bonds payable, net (notes 4 and 8)	234,724	248,314
Notes payable, net (note 9)	83,273	47,325
Amounts due to life beneficiaries	17,027	15,527
Deferred revenue (note 4)	17,824	20,382
Funds held on behalf of other organizations (notes 10 and 11)	108,596	109,375
Other liabilities (note 4)	13,203	13,016
Total liabilities	535,266	488,530
Net assets:		
Without donor restriction (notes 14 and 15)	193,096	172,531
With donor restriction (notes 14 and 15)	1,588,867	1,520,903
	1,781,963	1,693,434
Commitments (notes 3, 4, 6, 7, 8, 9, 10, 16, and 20)		
Total liabilities and net assets	\$ 2,317,229	2,181,964

See accompanying notes to consolidated financial statements.

GEORGIA TECH FOUNDATION, INC.

Consolidated Statements of Activities

Years ended June 30, 2019 and 2018

(In thousands)

	2019			2018		
	Without donor restriction	With donor restriction	Total	Without donor restriction	With donor restriction	Total
Revenues, gains and losses:						
Gift income	\$ 6,833	100,604	107,437	7,268	74,382	81,650
Lease revenue	28,266	1,295	29,561	25,639	648	26,287
Investment income, net of fees	3,939	15,058	18,997	4,732	18,627	23,359
Net realized/unrealized gain on investments	15,660	64,179	79,839	24,296	95,556	119,852
Change in value of trusts and annuities	(3)	490	487	16	1,747	1,763
Other	1,401	203	1,604	1,426	(437)	989
Provision for doubtful contributions	—	(26,810)	(26,810)	—	(697)	(697)
Loss on extinguishment of debt	—	—	—	(2,654)	—	(2,654)
Net assets released from restrictions (note 13)	87,055	(87,055)	—	88,995	(88,995)	—
Total revenues	143,151	67,964	211,115	149,718	100,831	250,549
Expenses (note 17):						
Program services	96,105	—	96,105	94,845	—	94,845
General and administrative (note 17)	21,332	—	21,332	19,349	—	19,349
Fund-raising	5,149	—	5,149	5,377	—	5,377
Total expenses	122,586	—	122,586	119,571	—	119,571
Change in net assets	20,565	67,964	88,529	30,147	100,831	130,978
Net assets, beginning of year	172,531	1,520,903	1,693,434	142,384	1,420,072	1,562,456
Net assets, end of year	\$ 193,096	1,588,867	1,781,963	172,531	1,520,903	1,693,434

See accompanying notes to consolidated financial statements.

GEORGIA TECH FOUNDATION, INC.
Consolidated Statements of Cash Flows
Years ended June 30, 2019 and 2018
(In thousands)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 88,529	130,978
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	4,306	4,108
Amortization of bond discount and premium and issuance costs	(2,114)	(1,771)
Loss on extinguishment of debt	—	2,654
Net realized/unrealized gain on investments	(79,839)	(119,852)
Actuarial gain on trusts and annuities	(487)	(1,763)
In-kind contributions	(10,846)	(11,971)
Proceeds from gifts restricted for long-term investment	(43,133)	(27,846)
Proceeds from sale of donated securities not restricted for long-term investment	4,173	5,499
Decrease (increase) in contributions receivable	10,412	(456)
Increase in other assets	(7,975)	(5,332)
Increase in accounts payable	3,765	1,124
Decrease in commitment payable	(574)	(563)
Increase in other liabilities	188	2,027
Net cash used in operating activities	<u>(33,595)</u>	<u>(23,164)</u>
Cash flows from investing activities:		
Proceeds from the sales and maturities of investments	1,085,533	366,536
Purchases of investments	(1,109,787)	(356,622)
(Decrease) increase in funds held on behalf of other organizations	(779)	3,766
Increase in capital reserve funds	(2,516)	(2,206)
Proceeds from principal payments of leases receivable	6,991	6,620
Purchase of capital assets	(38,641)	(2,536)
Net cash (used in) provided by investing activities	<u>(59,199)</u>	<u>15,558</u>
Cash flows from financing activities:		
Proceeds from lines of credit	29,128	4,055
Repayments of lines of credit	(6,291)	(9,292)
Principal repayments of bonds payable	(24,283)	(101,445)
Proceeds from issuance of bonds and notes payable	49,062	90,655
Payments of bond issuance costs	(307)	(790)
Receipt of cash from trusts	233	432
Payments to life income beneficiaries	(827)	(735)
Proceeds from gifts restricted for long-term investment	43,133	27,846
Changes in restricted cash	(70)	1,306
Net cash provided by financing activities	<u>89,778</u>	<u>12,032</u>
(Decrease) increase in cash and cash equivalents	(3,016)	4,426
Cash and cash equivalents, beginning of year	<u>9,910</u>	<u>5,484</u>
Cash and cash equivalents, end of year	<u>\$ 6,894</u>	<u>9,910</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 15,343	14,326
Noncash activities:		
Contribution of charitable trusts, annuities	\$ —	296
Contribution of real estate	—	217
Contributions of securities	10,846	11,457

See accompanying notes to consolidated financial statements.

GEORGIA TECH FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

(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 purposes of the Foundation are 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 component 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 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 and to a third party.

Cypress Academy LLC was formed as a single-member limited liability corporation in 2009 to serve as the holder of land near the Institute's campus.

Georgia Tech Foundation Properties, LLC was formed as a single-member limited liability corporation in 2013 to receive and manage gifts of real estate property.

Biltmore Technology Square LLC was formed as a single-member limited liability corporation in 2016 to serve as the holder of land, an office building, and a parking deck, known as the Biltmore, the activities of which are subject to unrelated business income tax.

GTF 1052, LLC was formed as a single-member limited liability corporation in 2017 to serve as the holder of a building and land near the Institute's campus, the activities of which are subject to unrelated business income tax.

GEORGIA TECH FOUNDATION, INC.

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665 Marietta, LLC was formed as a single-member limited liability corporation in 2019 to serve as the holder of a building and land near the Institute's campus, the activities of which are subject to unrelated business income tax.

GTF ATC, LLC was formed as a single-member limited liability corporation in 2019 to serve as the holder of buildings and land near the Institute's campus (Atlanta Technology Center), the activities of which are subject to unrelated business income tax.

(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 not-for-profit corporation formed to oversee and obtain financing for specified construction projects for the Institute.

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

The Georgia Tech Alumni Association (GT 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 Global, Inc. (GT Global) is a not-for-profit affiliate of the Institute organized to foster and support the global educational and scientific research and economic development activities of the Institute.

Georgia Advanced Technology Ventures (GATV) is a not-for-profit corporation, affiliated with the Institute, focused on technology, commercialization, economic development, and real estate development. GATV provides support for technology transfer and economic activities of the Institute.

Transactions with these affiliated organizations are described in notes 4, 6, 7, 8, 10, 13, 18, and 20.

(b) Basis of Presentation

The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting under the financial reporting framework of the Financial Accounting Standards Board (FASB). The Foundation is a nongovernment not-for-profit corporation.

(c) Classification of Net Assets

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

Net assets without donor restrictions are not subject to donor-imposed restrictions. Net assets included in this class include revenues, gains and losses that are not restricted by donors and board designated net assets, which are subject to self-imposed limits by action of the Board of Trustees or by delegated

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(Dollars in thousands)

designation decision to management. All expenses are reported as decreases in net assets without donor restrictions.

Net assets with donor restrictions are subject to donor-imposed restrictions that will be met either by actions of the Foundation or passage of time. Net assets included in this class include gifts for donor-restricted purposes and donor-restricted endowment funds. Gifts that include conditions are not recorded by the Foundation until the condition has been met. Generally, the donor imposed restrictions on endowed assets permit the Foundation to use all or part of the income earned on related investments only for certain general or specific purposes. Expirations of donor restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions in the consolidated statements of activities.

(d) Fair Value of Financial Instruments

Cash equivalents, restricted cash, capital reserve funds, and accounts payable are carried at amounts that 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(i), 1(j), 3, 10, and 11, regarding fair value disclosure related to investments, charitable remainder trusts, and funds held on behalf of other organizations.

(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 investments that may be held by investment managers for future investments and capital reserve funds.

(f) Capital Reserve Funds

The Foundation classifies payments received for the purpose of capital replacement for the Campus Recreation Center, Technology Square, and the Georgia Tech Hotel and Conference Center as a capital reserve fund (note 4). The assets of the fund are held pursuant to the related lease agreements and are invested in short-term investments and highly liquid debt securities. In addition, the Foundation classifies amounts held in escrow related to capital improvements as required by the Biltmore note payable (note 9) as capital reserve funds.

(g) Restricted Cash

A portion of the proceeds from the issuances of the 2017 and 2017B bonds (note 8) are required to be held by the Foundation as restricted cash to fund capitalized interest and costs of issuance. In addition, a portion of the balance consists of amounts held by the Foundation in escrow for payment of insurance and taxes, as required by the note payable associated with the loan assumption of the Biltmore (note 9).

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(Dollars in thousands)

(h) Contributions Receivable, Net

The Foundation records commitments from donors to make future contributions, recognizing these promises to give as gift income 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.

(i) 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 consolidated statements 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 individual fund based on the pro rata market value of each fund's investment balance and in accordance with any donor restrictions.

Investments in private partnership interests are valued using the net asset value (NAV) provided by the general partner as of June 30 of each fiscal year. 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 leveraged buyout and venture capital funds) typically value their assets at cost as adjusted based on recent arm's-length transactions. Partnerships investing in public companies use quoted market prices and exchange rates for the underlying assets, 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 fair 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.

Derivatives are used by the Foundation and external investment managers to manage market risks. A derivative is a financial instrument created from, or whose value is derived from, the value of one or more underlying assets, reference rates, indexes, or asset values. These instruments may include forwards, futures, options, and currency and interest rate swaps and are recorded at their respective fair value.

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Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

The Foundation utilizes various external investment managers to identify specific investment funds and limited partnerships that meet asset allocation and investment management objectives. These managers and related funds are utilized to increase the yield and return on the investment portfolio given the available alternative investment opportunities and to diversify its asset holdings.

Certain of these investments expose the Foundation to market risk by trading or holding direct and indirect derivative securities and by leveraging the securities in the fund. The market risk is similar to holding actual securities equivalent to the notional value of the derivatives. The risk is mitigated by ensuring sufficient collateral is being held to offset adverse market moves.

(i) Indirect Derivatives

Indirect derivatives held by the Foundation (i.e., derivatives held by external investment managers) are primarily used to manage portfolio risk. The Foundation's managers use derivatives primarily to hedge underlying positions or to gain exposure to specific markets in an effort to be more efficient, inexpensive, liquid, and diversified manner.

By holding derivatives, the Foundation could be exposed to interest rate risk, credit risk, concentration of credit risk, and foreign currency risk. The Foundation considers the risk associated with these holdings to be prudent.

(ii) Direct Derivatives

The Foundation directly invests in derivatives associated with market risk. The purpose of these investment derivatives is to gain additional exposure to U.S. and foreign fixed income and equity markets.

Futures and forward contracts obligate the buyer to purchase an asset (and the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future price.

(j) 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 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 30 of each fiscal year.

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Notes to Consolidated Financial Statements

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(Dollars in thousands)

(k) 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. Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(l) 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 net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The donor-restricted endowment fund is classified as net assets with donor-imposed restriction 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.

GEORGIA TECH FOUNDATION, INC.

Notes to Consolidated Financial Statements

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(Dollars in thousands)

(m) Use of Estimates

The preparation of consolidated 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, disclosure of contingent assets and liabilities at the date of the consolidated 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 investments without readily-determinable fair values, the allowance for contributions receivable, and the assumptions made in recording liabilities to life beneficiaries.

(n) Tax Status

The Foundation and GTFFC are recognized as organizations 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. GTFREHC is exempt from federal income tax under Section 501(a) as an entity described in Section 501(c)(2) of the U.S. Internal Revenue Code. The single member LLCs are disregarded for tax purposes.

(o) Recently Issued Accounting Standards

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, establishing Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*. ASU No. 2014-09 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. ASU No. 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods or services and also requires certain additional disclosures. The Foundation is permitted to adopt the standard using a retrospective transition method or a cumulative effect method. The Foundation adopted the standard during fiscal year 2019 and determined that the new standard did not have a significant impact on its current policies.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01). ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU is effective for not-for-profit entities for fiscal years beginning after December 15, 2018, with early adoption restricted to certain provisions and within certain time periods. Under the ASU, not-for-profit and private entities are no longer required to disclose fair value information concerning financial instruments measured at amortized cost such as long-term debt. This provision of ASU 2016-01 may be early adopted for financial statements, which have not yet been issued or made available for issuance. The Foundation early adopted this provision of ASU 2016-01 in fiscal year 2016. The Foundation will adopt the remaining provisions that are not allowed to be early adopted during fiscal year 2020. The Foundation has not yet determined the impact of the new standard on its current policies.

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In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02). The amendments in ASU 2016-02 create FASB ASC Topic 842, *Leases*, and supersede the requirements in ASC Topic 840, *Leases*. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under ASC Topic 840. Under the guidance of ASU 2016-02, a lessee should recognize in the balance sheet a liability to make lease payments (lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The accounting applied by a lessor under ASU 2016-02 is largely unchanged from that applied under ASC Topic 840. The ASU is effective for all business entities for fiscal years beginning after December 15, 2018. The Foundation will implement the provisions of ASU 2016-02 during fiscal year 2020. The Foundation has not yet determined the impact of the new standard on its current policies for lessee accounting.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit-Entities*. ASU No. 2016-14 (1) reduces the number of net asset classes presented from three to two; (2) requires the presentation of expenses by functional and natural classification in one location; and (3) requires quantitative and qualitative disclosures about liquidity and availability of financial assets. The Foundation implemented the provisions of ASU No. 2016-14 during fiscal year 2019. As a result of adopting this standard, certain prior year amounts have been reclassified. See notes 3 and 14 regarding reclassifications resulting from the adoption of ASU No. 2016-14.

In November 2016, the FASB issued ASU No. 2016-18, *Statements of Cash Flows: Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*. This ASU requires an entity to include restricted cash in cash and cash equivalents in the statement of cash flows. This guidance is effective for annual reporting periods beginning after December 15, 2018. The Foundation has not yet determined the impact of the new standard on its current policies.

(2) Contributions Receivable, Net

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

	<u>2019</u>	<u>2018</u>
Within one year	\$ 26,203	24,197
One to five years	80,885	94,357
More than five years	<u>2,536</u>	<u>2,104</u>
Gross contributions receivable	109,624	120,658
Less allowance for uncollectible contributions	(8,348)	(8,508)
Less present value component	<u>(7,053)</u>	<u>(7,515)</u>
Net contributions receivable	<u>\$ 94,223</u>	<u>104,635</u>

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Contributions receivable for current year gifts are initially measured at fair value in the year the receivable is recorded based on the present value of future cash flows discounted at a rate commensurate with risks involved, which is an application of the income approach. Current year gifts included in contributions receivable reflected at fair value at June 30, 2019 and 2018 were \$39,819 and \$22,369, respectively.

The discount rates used to calculate the present value component range from 2.39% to 6.09%.

The consolidated financial statements do not include conditional pledges, expectancies, and bequests that have not been recognized as revenue. These conditional amounts totaled \$444,833 and \$450,141 at June 30, 2019 and 2018, respectively. The Foundation's allowance for uncollectible contributions is estimated by using past collections of contributions receivable as an indication of future collections. At June 30, 2019 and 2018, the four largest outstanding donor pledge balances represented 40% and 52%, respectively, of the Foundation's gross contribution receivable. The donors of these four pledges are current on their payments and have a history of supporting the Foundation.

The Foundation wrote off contributions receivable in the amounts of \$26,810 and \$697 in 2019 and 2018, respectively. In 2019, the write-off amount included one contribution receivable totaling \$26,415, which was recognized as a loss in the consolidated statement of activities. In 2019, it was determined by management that the contribution no longer met the criteria of a promise to give and was written off.

(3) Investments

Investments at June 30, 2019 and 2018 are summarized as follows:

	Fiscal year 2019		Fiscal year 2018	
	Percentage	Amount	Percentage	Amount
Cash and cash equivalents (a)	2.2 %	\$ 41,720	2.3 %	\$ 40,579
Domestic equities (b)	21.0	395,754	21.0	369,301
International equities (b)	17.1	319,500	20.6	362,751
Bonds and bond funds (c)	5.5	102,249	9.5	167,846
Derivatives	0.1	1,426	—	—
Hedge funds (d):				
Long-short funds	5.4	100,628	8.8	154,127
Multi-strategy funds	20.0	374,352	12.5	219,602
Private equities (e):				
Buyout funds	4.1	75,847	4.0	70,689
Venture funds	8.5	159,892	6.9	121,494
Growth equity	4.2	78,030	3.5	61,217
Distressed securities funds	2.3	43,186	2.3	40,487
Real estate and real estate funds (f)	5.1	95,492	3.2	55,820
Natural resources (e)	4.5	83,478	5.4	95,031
	<u>100.0 %</u>	<u>\$ 1,871,554</u>	<u>100.0 %</u>	<u>\$ 1,758,944</u>

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- (a) This category includes assets that are cash or readily convertible to cash, such as money market funds.
- (b) These categories include investments in funds that take long positions in publicly traded equity securities. Approximately, 50% of the investments are in U.S. companies and 50% are in non-U.S. companies. A range of styles, market caps, and geographic focuses is included. The public nature of the securities makes this category very liquid.
- (c) This category includes investments in funds that take primarily long positions in corporate bonds, senior loans, private loans, government bonds, and long and short positions in derivatives thereof. It also includes one fund in fiscal year 2019 and 2018, representing 29% and 16% of the category, respectively, that invests in both long and short fixed income securities.
- (d) This category includes investments in hedge funds that take long and short positions primarily in equity securities, credit securities, index derivatives, and event driven situations. Managers vary in style, market cap focus, geographic focus, sectors of focus, and types of securities, with some having considerable flexibility in each of these areas. The funds also vary in net long/short positioning with most equity funds generally maintaining a low net long position and little or no leverage. Most credit funds generally maintain a moderate net long position and little or no leverage.
- (e) These categories include private equity funds that provide growth equity or take full ownership of the companies in which they invest. Venture funds take ownership positions in startup or early stage companies largely in the technology or healthcare spaces. These are private investments, including natural resource investments, that cannot be redeemed since the investment is distributed as the underlying investments are liquidated, which generally takes four to eight years. There are currently no plans to sell any of these investments prior to their liquidation so the assets are carried at NAV as estimated by the fund manager.
- (f) This category includes investments in direct real estate investments and real estate equity funds. Direct investments in real estate include investments in land and buildings purchased in the midtown Atlanta, Georgia area. These direct investments are acquired with equity from the investment portfolio and financed with debt under certain parameters approved by the Board of Trustees, and are carried at fair value based on third party appraisals. The investments in real estate equity funds take ownership of properties ranging from office, retail, multifamily, land, and hotel. These are investments that cannot be redeemed since the investment is distributed as the underlying investments are liquidated, which generally takes 5–10 years. There are currently no plans to sell any of these investments prior to their liquidation so the assets are carried at NAV as estimated by the manager.

The Foundation has investments, as a limited partner, in 147 and 144 partnerships at June 30, 2019 and 2018, 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. At June 30, 2019, the Foundation's largest ownership interest in a single partnership was 9.7% of that partnership's assets. The Foundation's ownership interest was 7.4% or less for the remaining partnerships. No individual partnership investment exceeds 1.3% of the Foundation's assets, and no manager controlled partnerships having more than 1.7% of the Foundation's assets. The values of the Foundation's

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partnership investments, as furnished by the general partners, are reviewed by Foundation management, and management believes the values shown at June 30, 2019 and 2018 are reasonable.

The Foundation's investments are exposed to several risks, such as changes in interest rates, currency fluctuations, market fluctuations, credit risks, and risks associated with the geographic concentration of direct ownership of real estate investments. 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.

The limitations and restrictions on the Foundation's ability to redeem or sell hedge funds and private investments vary by investment. Notice periods are required for hedge funds. Private investments typically have specified terms at inception (generally 8–10 years) (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, 2019, management estimates the average remaining life of the private investments is approximately four years.

As of June 30, 2019 and 2018, the Foundation's remaining outstanding commitments to private investments, which are projected to be paid over the succeeding six years, totaled \$241,783 and \$265,723, respectively, in the following investment strategies:

	<u>2019</u>	<u>2018</u>
Private equities:		
Venture capital	\$ 44,448	42,583
Growth equity	36,862	44,701
Buyout	50,737	43,959
Distressed securities	36,002	42,786
Real estate	50,264	61,260
Natural resources	23,470	30,434
	<u>\$ 241,783</u>	<u>265,723</u>

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.

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The Foundation charges expenses of its internal investment operation to the investment accounts. During 2019 and 2018, these expenses totaled \$3,298 and \$2,504, respectively, and are reported as a reduction of investment income in the accompanying consolidated statements of activities.

Investment related expenses of approximately \$2,504 that were previously presented within general and administrative expenses were reclassified to investment income, net of fees in the 2018 consolidated statement of activities as a result of adoption of ASU No. 2016-14.

(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 used to retire the related debt incurred by the Foundation and provide for a capital replacement reserve. The likelihood of the BOR's failure to exercise its renewal options through 2031 has been determined to be remote, and thus, a lease receivable has been recorded totaling \$30,976 and \$33,329 as of June 30, 2019 and 2018, respectively. The debt outstanding on the Series 2011A and the CRC portion of 2017B Bonds totaled \$28,590 and \$30,380 as of June 30, 2019 and 2018, respectively.

In November 2011, the Foundation refunded the Series 2001A Bonds with the proceeds from the Series 2011A Bonds, which resulted in additional debt service requirements (note 8). The rental payments under the lease were increased in 2012 to provide additional rental amounts to pay the additional debt service requirement. The amount of the lease receivable is equal to the net present value of total lease payments to be received, discounted at 3.51% annually, which is the Foundation's total interest cost of the CRC related Bonds. The Foundation recorded a corresponding deferred revenue liability, representing the revenue to be recognized in future periods from the lease as a result of the additional debt service requirement. The revenue is recognized at a constant periodic rate of return consistent with the amortization of interest cost over the term of the related debt. The deferred revenue balance related to the CRC lease was \$4,466 and \$5,168 as of June 30, 2019 and 2018, respectively.

The annual lease payments, including payments to the capital replacement reserve for 2020 through 2030, range from \$3,617 to \$3,621, and for 2031, it is \$3,413. The payments for the capital replacement reserve for 2020 through 2031 range from \$327 to \$532.

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.

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(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 renewal options through 2032 has been determined to be remote and thus, the Foundation has recorded a lease receivable in the amount of \$95,706 and \$102,902 as of June 30, 2019 and 2018, respectively. Upon retirement of the Technology Square debt, the ownership of the land and improvements to the property, with the exception of the Georgia Tech Hotel and Conference Center, which is not leased to the BOR, will be gifted to the BOR at no cost.

During 2015, the Institute and the Foundation amended the Technology Square lease to allow the Foundation to retain ownership of the retail space within the Georgia Tech Hotel and Conference Center and not gift the retail space to the BOR upon retirement of the Technology Square debt. Instead, the fourth floor of the Economic Development Building will be included with the property gifted to the BOR upon retirement of the Technology Square debt. The lease terms, including lease payments, remained unchanged with the exception of the underlying assets that will be gifted to the BOR. No gain or loss was recognized.

The lease payments are used to retire the related debt incurred by the Foundation and to provide for major replacement and renewal of the buildings. The debt outstanding on the Series 2002B, Series 2012A, Series 2012B Bonds, and the Technology Square portion of 2017B Bonds (collectively, the Technology Square Bonds), not including the debt associated with the Georgia Tech Hotel and Conference Center, totaled \$81,270 and \$91,615 as of June 30, 2019 and 2018, respectively.

In April 2012, the Foundation refunded the Series 2002A Bonds with the proceeds of the Series 2012A Bonds, which resulted in additional debt service requirements (note 8). The rental payments under the lease were increased in 2012 to provide additional rental amounts to pay the additional debt service requirements on the Technology Square Bonds as well as provide for a capital replacement reserve. The amount of the lease receivable is equal to the net present value of total lease payments to be received, discounted at 3.35% annually, which was the Foundation's total interest cost in the Series 2012 Bonds. The Foundation recorded a corresponding deferred revenue liability, representing the revenue to be recognized in future periods from the lease as a result of the additional debt service requirement. The revenue is recognized at a constant periodic rate of return consistent with the amortization of interest cost over the term of the related debt. The deferred revenue related to the Technology Square lease was \$13,357 and \$15,214 as of June 30, 2019 and 2018, respectively.

The annual lease payments, including payments to the capital replacement reserve for 2020 through 2024 are \$10,717; from 2025 through 2031 range from, \$8,730 and \$8,740; and are \$8,264 for 2032. The payments for the capital replacement reserve for 2020 through 2031 range from \$640 to \$699, and for 2032 is \$231.

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(b) Operating Leases

(i) Georgia Tech Hotel and Conference Center

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 2019 and 2018, the Foundation received \$4,400 each year in lease payments, representing base rent, from the third party; \$1,125 and \$1,083, respectively, in payments for capital replacement; and \$405 and \$369, respectively, each year in payments for incentive rent. The Foundation has debt outstanding totaling \$26,800 and \$28,055 as of June 30, 2019 and 2018, respectively, related to the Georgia Tech Hotel and Conference Center (note 8). The land and building are considered a capital asset of the Foundation (note 5).

(ii) Biltmore

The Foundation recognizes contractual revenues from leases on a straight-line basis over the terms of the respective leases. Future contractual rental income due from leases under noncancelable operating leases are \$6,206, \$5,783, \$4,546, \$2,844, \$2,403, and \$1,703 for fiscal years 2020, 2021, 2022, 2023, 2024, and thereafter, respectively.

(iii) CODA

The Foundation leased approximately 2.2 acres of land adjacent to Technology Square to a third party in November 2016. The lease is a 99-year operating lease and the Foundation recognizes revenue from the lease on a straight-line basis over the term of the lease. The Foundation recognized \$3,570 and \$3,366 in lease income in 2019 and 2018, respectively. The Foundation recorded a rent receivable of \$8,156 and \$4,982 as of June 30, 2019 and 2018, respectively, which is included in other assets in the accompanying consolidated statements of financial position. Future contractual rental income due from leases under non-cancelable operating leases are \$785, \$1,102, \$1,233, \$1,258, \$1,283, and \$334,536 for fiscal years 2020, 2021, 2022, 2023, 2024 and thereafter, respectively.

(iv) Atlanta Technology Center

In September 2018, the Foundation acquired the Atlanta Technology Center (ATC), which is a 19 acre office park near the Georgia Tech campus. The property has four office buildings leased to third parties. The Foundation recognizes contractual revenues from leases on a straight line basis over the terms of the respective leases. Future contractual rental income due from leases under non-cancelable operating leases are \$3,006, \$1,987, \$1,031, \$642, \$305 and \$807 for fiscal years 2020, 2021, 2022, 2023, 2024 and thereafter, respectively. The Foundation holds this property as an investment asset and records it at fair value.

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(c) Capital Reserve Funds

At June 30, 2019 and 2018, the Foundation held funds for the purpose of capital replacement for the CRC, Technology Square, the Biltmore and the Georgia Tech Hotel and Conference Center totaling \$13,524 and \$11,008, respectively. At June 30, 2019 and 2018, \$8,362 and \$7,558, respectively, of the capital reserve fund is held for the Institute for capital replacement for Technology Square and \$1,001 and \$1,283, respectively, for the CRC. These amounts are included in other liabilities in the accompanying consolidated statements of financial position. The capital reserve funds for the Biltmore totaled \$107 and \$47 as of June 30, 2019 and 2018, respectively. The capital reserve funds for the Georgia Tech Hotel and Conference Center totaled \$3,000 and \$2,120 as of June 30, 2019 and 2018, respectively. The capital reserve fund for the ATC totaled \$1,054 and \$0 as of June 30, 2019 and 2018, respectively.

(5) Capital Assets

The Foundation's buildings consist of the Georgia Tech Hotel and Conference Center, including the retail space within the Georgia Tech Hotel and Conference Center building (collectively, the Hotel and Conference Center), and the Biltmore. The Hotel and Conference Center is located in Technology Square on the Institute's campus and was placed into service in 2004. The Biltmore is located adjacent to Technology Square and was placed into service in 2017.

The Foundation's capital assets are as follows:

	June 30	
	2019	2018
Land	\$ 68,154	31,707
Buildings	93,580	91,683
Furniture and equipment	11,204	10,970
Less accumulated depreciation	<u>(25,541)</u>	<u>(22,677)</u>
Total capital assets	<u>\$ 147,397</u>	<u>111,683</u>

Depreciation expense totaling \$2,930 and \$2,963 was recognized during 2019 and 2018, respectively. The furniture and equipment are depreciated over useful lives of 3 to 10 years. The buildings are depreciated over useful lives of 40 to 50 years.

The Biltmore acquisition also included in-place leases and below-market leases totaling \$3,389 and \$4,427, net of \$2,838 and \$1,800 of accumulated amortization as of June 30, 2019 and 2018, respectively, and is included in other assets in the accompanying consolidated statements of financial position. Both in-place leases and below market leases for the Biltmore are amortized over six years. Total amortization for in-place leases and below market leases was \$1,038 and \$1,038 for the years ended June 30, 2019 and 2018, respectively.

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(6) Accounts Payable

The Foundation accounts payable as of June 30, 2019 and 2018 consist of the following:

	June 30	
	2019	2018
Institute	\$ 9,376	7,249
Other	2,515	877
	<u>\$ 11,891</u>	<u>8,126</u>

(7) 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 principal and interest payments until maturity. At June 30, 2019 and 2018, respectively, Facilities had \$6,041 and \$6,615 outstanding on the 2010B Bond, including accrued interest. Foundation payments to Facilities during 2019 and 2018, to satisfy Facilities' debt service requirements, totaled \$799 and \$809, respectively. At June 30, 2019, amounts due in less than one year, in one to five years, and in more than five years totaled \$590, \$2,540, and \$2,875, respectively.

In June 2002, the GT Athletic Association executed a promissory note to the Foundation for \$1,080 at an interest rate of 5.07%, with payments to be made through September 1, 2027. The Foundation has recorded a related note receivable (included in other assets) for the GT Athletic Association that totals \$537 and \$592 as of June 30, 2019 and 2018, respectively.

In June 2004, the Foundation entered into an agreement with the GT Athletic Association, whereby the GT Athletic Association 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 \$1,168 and \$1,305 as of June 30, 2019 and 2018, respectively. The Foundation has recorded a contribution receivable, discounted to give effect to the future cash flows from the GT Athletic Association, in the amount of \$405 and \$1,027 as of June 30, 2019 and 2018, respectively.

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(8) Debt

(a) Lines of Credit

Lines of credit as of June 30, 2019 and 2018 consist of the following:

<u>Borrowing entity</u>	<u>Maturity</u>	<u>Line of credit limit</u>	<u>Outstanding as of June 30</u>	
			<u>2019</u>	<u>2018</u>
GTFFC	November 2019	\$ 26,000	26,000	6,600
GTFFC	November 2019	10,000	10,000	6,600
GTFFC	June 2020	10,000	6,687	6,650
Foundation – working capital	June 2020	5,000	—	—
			<u>\$ 42,687</u>	<u>19,850</u>

The Foundation guaranteed lines of credit in the name of the GTFFC in 2019 and 2018, totaling \$46,000 and \$30,000, respectively. The Foundation had one line of credit in the name of the Foundation totaling \$5,000 in 2019 and two lines of credit totaling \$15,000 in 2018. Interest is calculated using 30-day LIBOR. This resulted in an average effective interest rate of 2.99% and 2.64% at June 30, 2019 and 2018, respectively. The Foundation expects to renew each line of credit prior to expiration.

(b) Bonds Payable

Bonds payable as of June 30, 2019 and 2018 consist of the following:

	<u>Interest rates—fixed</u>	<u>Maturity (serially)</u>	<u>Original issue</u>	<u>Outstanding as of June 30</u>	
				<u>2019</u>	<u>2018</u>
Campus Recreation Center Bonds:					
Series 2011 A – tax exempt	2.26%–3.23%	2031	\$ 32,695	10,865	12,655
Technology Square Bonds:					
Series 2002B – taxable	6.60%–6.66%	2032	73,190	42,140	45,180
Series 2012A – tax exempt	1.92%–2.36%	2032	79,500	13,290	17,335
Series 2009B Bond – taxable	5.49%–6.24%	2025	35,000	17,430	19,780
Series 2016 Bond – taxable	2.19%–3.84%	2049	30,180	30,180	30,180
Series 2017 Bond – taxable	1.80%–4.23%	2048	33,510	33,310	33,510
Series 2017B Bond – tax exempt	1.76%–2.57%	2032	74,880	74,880	74,880
				<u>222,095</u>	<u>233,520</u>
Total bonds payable – gross					
Unamortized bond issuance costs				(2,027)	(2,274)
Unamortized premium				14,662	17,077
Unamortized discount				(6)	(9)
				<u>\$ 234,724</u>	<u>248,314</u>
Total bonds payable – net					

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(i) *Campus Recreation Center Bonds*

During May 2001, 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. During November 2011, the Series 2011A and 2011B Bonds were issued to refund the outstanding principal amount of \$36,840 of the Series 2001A Bonds, pay certain costs of issuance, and finance a portion of the termination of an interest rate swap related to the Series 2001A Bonds.

During December 2017 the Series 2017B Bonds were issued in the amount of \$74,880 to refund the outstanding principal amount of the callable bonds of Series 2011A and 2012A Series Bonds and pay certain costs of issuance. The principal amount of the callable bonds refunded were \$19,220 and \$61,100 for the Series 2011A and 2012A bonds, respectively. In connection with the issuance of the 2017B Bonds, the Foundation incurred an accounting loss of \$2,654 during 2018 related to the early extinguishment of the Series 2011A and 2012A Bonds.

The Foundation has leased the CRC to the BOR under a capital lease effective February 2001 (note 4). These 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 2011A Bonds were issued with a bond premium of \$4,805, which is being amortized and had a balance of \$707 and \$926 as of June 30, 2019 and 2018, respectively. Annual debt service payments, including interest related to CRC bonds for years 2019 through 2031 range from \$260 to \$2,607.

(ii) *Technology Square Bonds*

During January 2002, the Series 2002A and Series 2002B Bonds (collectively, the Series 2002 Bonds) were issued to provide funds to finance the costs of the acquisition, construction, and development on the Institute's campus known as Technology Square. Technology Square includes the Scheller College of Business building, a hotel and conference center, a global learning center, a parking deck, an economic development building, retail space, and a bookstore. During April 2012, the Foundation refunded the outstanding principal amount of \$91,465 of the Series 2002A Bonds with proceeds received from the issuance of the Series 2012A Bonds.

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 BOR, on behalf of the Institute, under a capital lease, effective July 1, 2004 (note 4). These 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 2012A Bond was issued with a bond premium of \$12,802, which is being amortized and had a balance of \$727 and \$1,315 as of June 30, 2019 and 2018, respectively. Annual debt service payments, including interest related to the Series 2002B Bonds for the years 2020 through 2022 and 2023 through 2032 range from \$5,945 to \$5,948 and \$4,354 to \$4,345, respectively. Annual debt service payments, including interest related to the Series 2012A Bonds for years 2020 through 2022 range from \$4,741 to \$4,744.

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(iii) Series 2009 and 2016 Bonds

In 2009, the Series 2009A and Series 2009B Bonds (collectively, 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.

Annual debt service payments, including interest related to the Series 2009B Bonds for years 2020 through 2025, range from \$3,475 to \$3,482.

In May 2016, the taxable Series 2016 Bonds (2016 Bonds) were issued for the purpose of advance refunding of the Series 2009A Bonds, funding capitalized interest, paying certain costs to issue and reimbursement to the Foundation for costs incurred for site improvements and acquisition of the CODA property. The bonds are general unsecured obligations of the Foundation. A portion of the proceeds from the issuance was required to be held as restricted cash to fund capitalized interest and costs of issuance. As of June 30, 2019 and 2018, the balance of that restricted cash was \$0 and \$119, respectively.

Annual debt service payments, including interest related to the Series 2016 Bonds, for the years 2020 through 2025, 2026 through 2027, and 2028 through 2048 range from \$1,121 to \$1,370, \$4,061 to \$4,082, and \$1,296 to \$1,904, respectively. The debt service payment for 2049 is \$617.

(iv) Series 2017 Bonds

In February 2017, the taxable Series 2017 Bonds (2017 Bonds) were issued to refund a loan, the proceeds of which were used for the acquisition of the Biltmore property, and to pay certain costs of issuance. The bonds are general unsecured obligations of the Foundation.

Annual debt service payments, including interest related to the 2017 Bonds for the years 2020 through 2048 range from \$1,596 to \$2,736. The annual debt service payments increase at approximately 2% per year from 2020 through 2048.

(v) Series 2017B Bonds

During December 2017, the Series 2017B Bonds were issued in the amount of \$74,880 to refund the outstanding principal amount of the callable bonds of Series 2011A and 2012A Series Bonds and pay certain costs of issuance. The 2017B Bonds were issued with a bond premium of \$15,775, which is being amortized and had a balance of \$13,228 and \$14,836 as of June 30, 2019 and 2018, respectively. Annual debt service payments, including interest related to these bonds, for years 2020 through 2022; 2023 through 2024; 2025 through 2026; 2027 through 2031; and 2032 range from \$3,744; \$10,082 to \$10,088; \$7,941 to \$7,947; \$10,346 to \$10,349; and \$7,262, respectively.

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The following represents the mandatory principal redemptions on bonds until maturity:

	Campus Recreation Center Bonds		Technology Square Bonds		Series 2009B	Series 2016	Series 2017	Series 2017B	Total
	Series 2011A	Series 2002B	Series 2012A	Series 2009B					
Fiscal year:									
2020	\$ 1,875	3,250	4,225	2,480	—	235	—	12,065	
2021	1,970	3,475	4,430	2,630	80	265	—	12,850	
2022	2,070	3,710	4,635	2,800	265	300	—	13,780	
2023	—	2,300	—	2,980	295	355	6,500	12,430	
2024	—	2,465	—	3,170	325	395	6,840	13,195	
Thereafter	4,950	26,940	—	3,370	29,215	31,760	61,540	157,775	
	<u>\$ 10,865</u>	<u>42,140</u>	<u>13,290</u>	<u>17,430</u>	<u>30,180</u>	<u>33,310</u>	<u>74,880</u>	<u>222,095</u>	

(9) Notes Payable

	Interest rates—fixed	Maturity (serially)	Original issue	Outstanding as of June 30	
				2019	2018
Notes payable:					
Biltmore Property	5.037%	2024	\$ 36,000	34,219	34,784
Midtown Property	4.750%	2024	13,000	12,404	12,697
Atlanta Technology Center	4.750%	2029	29,152	25,062	—
Marietta Street	—	2020	24,000	12,000	—
Total notes payable, gross				83,685	47,481
Unamortized notes payable issuance costs				(412)	(156)
Total notes payable, net				<u>\$ 83,273</u>	<u>47,325</u>

(a) Biltmore Property Note Payable

In October 2016, Biltmore Technology Square, LLC entered into a loan assumption and substitution agreement with the previous borrower and assumed a note payable (Biltmore note payable) from a third party lender under terms of the existing loan agreement. Biltmore Technology Square, LLC assumed the \$35,711 note with a maturity date of February 6, 2024. The Biltmore note payable is a nonrecourse loan, is secured by a first mortgage on the Biltmore property, and bears a fixed interest rate of 5.04%. The annual debt service payments total \$2,329 for the years 2020 through 2023. The debt service payments total \$32,399 in 2024.

(b) Midtown Property Note Payable

In May 2017, GTF 1052, LLC entered into a loan agreement with a bank, borrowing \$13,000, the proceeds to which were used to refund lines of credit, which were used for the acquisition of a property located in midtown Atlanta (Midtown property). The note is a nonrecourse loan, is secured by a first mortgage on the Midtown property, and bears a fixed interest rate of 4.75%. The loan matures on June 1, 2024. The annual debt service payments total \$889 for the years 2020 through 2023. The debt service payments total \$11,603 in 2024.

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(c) Atlanta Technology Center (ATC)

In September 2018, GTF ATC, LLC entered into a loan agreement with a bank, borrowing \$25,062. The proceeds were used to acquire the ATC. The note is a nonrecourse loan, is secured by a first mortgage on the property and bears a fixed interest rate of 4.75%. GTF ATC, LLC may borrow an additional \$4,090, increasing the loan to \$29,152, for renovation and improvements to the property. The loan matures on August 31, 2028.

(d) Marietta Street Property

In November 2018, 665 Marietta, LLC entered into a loan agreement with the seller, borrowing \$24,000 to acquire the Marietta Street Property. In 2019, \$12,000 was paid on the loan and the final installment of \$12,000 is due in April 2020. The seller has a security interest in the property until the loan is paid in full. The interest on the note is 0%.

The principal payments due on the notes payable are as follows:

	<u>Biltmore</u>	<u>Midtown Property</u>	<u>Atlanta Technology Center</u>	<u>Marietta Street</u>	<u>Total</u>
Fiscal year:					
2020	\$ 619	307	—	12,000	12,926
2021	651	322	—	—	973
2022	685	337	—	—	1,022
2023	720	354	399	—	1,473
2024	31,544	11,084	555	—	43,183
Thereafter	—	—	24,108	—	24,108
	<u>\$ 34,219</u>	<u>12,404</u>	<u>25,062</u>	<u>12,000</u>	<u>83,685</u>

(10) Funds Held on Behalf of Other Organizations

The Foundation manages certain investments on behalf of GT Athletic Association and GT Alumni Association. The carrying value of funds held on behalf of other organizations approximate the fair value of these underlying investments. These investments amount to \$108,596 and \$109,375 at June 30, 2019 and 2018, respectively, and are recorded in the accompanying consolidated statements of financial position as funds held on behalf of other organizations. Investment income, fees, gains, and losses earned on the funds held on behalf of the GT Athletic Association and the GT Alumni Association (GTAA funds) are allocated equitably on a quarterly basis, based on the value of GTAA funds as a share of the pooled investments. The Foundation's agreement with GT Athletic Association stipulates that a six-month notification of intent to redeem is required. The Foundation's agreement with the GT Alumni Association stipulates that a three-month notification of intent to redeem is required. The funds will be distributed to GT Athletic Association and the GT Alumni Association at the values determined by the Foundation at the end of the next quarter and after the six-month and three-month notification period, respectively.

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Activity of the funds held on behalf of GT Athletic Association is as follows:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 109,096	105,609
Additions	12,425	9,211
Investment income, gains, net of fees attributable to balances	6,671	9,531
Withdrawals	<u>(19,892)</u>	<u>(15,255)</u>
Balance, end of year	<u>\$ 108,300</u>	<u>109,096</u>

Activity of the funds held on behalf of the GT Alumni Association is as follows:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 279	—
Additions	—	273
Investment income, gains, net of fees attributable to balances	17	6
Withdrawals	<u>—</u>	<u>—</u>
Balance, end of year	<u>\$ 296</u>	<u>279</u>

(11) Fair Value Measurements

The Foundation's estimates of fair value for financial assets and liabilities are based on the framework established in the FASB ASC Topic 820, *Fair Value Measurement*. 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 level, Level 1, is given to unadjusted quoted prices in active markets and the lowest level, Level 3, 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 at fiscal year-end.

Level 2 – Valuations based on pricing inputs that are other than quoted prices in active markets, which are either directly or indirectly observable for substantially the full term of the asset or liability; 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.

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Level 3 – Valuations are based on unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs 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 that do not have a liquid market at the financial reporting date. Inputs used for Level 3 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 NAV.

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 classification of assets and liabilities in the fair value hierarchy is not necessarily an indication of risks or liquidity, but is a measure of the observability of the valuation inputs.

In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying consolidated statements of financial position.

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The following table presents for each level within the fair value hierarchy, the Foundation's recurring and nonrecurring fair value measurements for assets and liabilities as of June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Investments measured at NAV</u>	<u>Total</u>	<u>Redemption or liquidation</u>	<u>Days notice</u>
Assets:							
Cash and cash equivalents	\$ 6,894	—	—	—	6,894	Daily	1
Restricted cash	819	—	—	—	819	Daily	1
Capital reserve funds	13,524	—	—	—	13,524	Daily	1
Investments:							
Cash and cash equivalents	41,720	—	—	—	41,720	Daily	1
Domestic equities	368,172	—	—	369	368,541	See note (a)	See note (a)
Domestic equities-hedge funds	—	—	—	27,213	27,213	See note (b)	See note (b)
International equities	178,099	—	—	—	178,099	Daily	3–10
International equities- commingled funds	71,297	—	—	48,319	119,616	Monthly	3–10
International equities- hedge funds	—	—	—	21,785	21,785	See note (b)	See note (b)
Bond and bond funds	72,925	—	—	61	72,986	Daily	1–3
Bond and bond funds- hedge fund	—	—	—	29,263	29,263	See note (b)	See note (b)
Derivatives	1,426	—	—	—	1,426	Daily	1–3
Hedge funds	—	—	—	474,980	474,980	See note (b)	See note (b)
Private equities	—	—	—	356,955	356,955	Illiquid	N/A
Real estate and real estate funds	—	—	61,600 ⁽¹⁾	33,892	95,492	Illiquid	N/A
Natural resources	—	—	1,600 ⁽²⁾	81,878	83,478	Illiquid	N/A
Total investments	733,639	—	63,200	1,074,715	1,871,554		
Contributions receivable from remainder trusts	—	14,107	—	—	14,107	N/A	N/A
Charitable remainder trusts	—	14,784	—	—	14,784	N/A	N/A
Total	\$ 754,876	28,891	63,200	1,074,715	1,921,682		

⁽¹⁾ Real estate and real estate funds balance consists of two funds, both at fair value determined based on a combination of the income approach (direct capitalization) and sales comparison approach. The first property was valued with a capitalization rate of 7% and a valuation range of \$622 to \$645 psf. The second property was valued with a capitalization rate of 8% and a valuation range of \$198 psf to \$199 psf.

⁽²⁾ Natural resources balance consists of three funds at fair value determined based on the consideration of the discounted cash flow method valuation technique and

Note (a) – Domestic Equities (June 30, 2019):

Certain investments in domestic equities have restrictions around the liquidation of those equities based on the availability of a potential buyer. The fair values of these domestic equities totaled \$369. The fair value of domestic equities that are redeemable daily with a one to five day notice period totaled \$368,172.

Note (b) – Hedge Funds (June 30, 2019):

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 totaled \$291,315. Certain other hedge funds have semiannual or annual exit dates, which occur more than 90 days after the

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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 2020, totals \$151,674. Six hedge funds, including one in the bond fund category, with a fair value of \$110,252, contain provisions that they may be redeemed after a one-to three-year period upon notification to the fund manager.

The following table presents for each level within the fair value hierarchy the Foundation's recurring fair value measurements for assets and liabilities as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Investments measured at NAV</u>	<u>Total</u>	<u>Redemption or liquidation</u>	<u>Days notice</u>
Assets:							
Cash and cash equivalents	\$ 9,910	—	—	—	9,910	Daily	1
Restricted cash	749	—	—	—	749	Daily	1
Capital reserve funds	11,008	—	—	—	11,008	Daily	1
Investments:							
Cash and cash equivalents	40,579	—	—	—	40,579	Daily	1
Domestic equities	192,546	—	—	369	192,915	See note (a)	See note (a)
Domestic equities – commingled fund	176,386	—	—	—	176,386	Daily	3–5
International equities	147,905	—	—	—	147,905	Daily	3–10
International equities – commingled funds	176,013	—	—	38,832	214,845	Monthly	3–10
International equities – hedge funds	—	—	—	—	—		
Bond and bond funds	81,983	—	—	28,246	110,229	Daily	1–3
Bond and bond funds – commingled funds	—	—	—	29,288	29,288	Monthly	1
Bond and bond funds – hedge fund	—	—	—	28,329	28,329	See note (b)	See note (b)
Hedge funds	—	—	—	373,729	373,729	See note (b)	See note (b)
Private equities	—	—	—	293,867	293,867	Illiquid	N/A
Real estate and real estate funds	—	—	21,800 ⁽¹⁾	34,020	55,820	Illiquid	N/A
Natural resources	—	—	3,341 ⁽²⁾	91,691	95,032	Illiquid	N/A
Total investments	815,412	—	25,141	918,371	1,758,924		
Contributions receivable from remainder trusts	—	13,743	—	—	13,743	N/A	N/A
Charitable remainder trusts	—	14,432	—	—	14,432	N/A	N/A
Total	\$ 837,079	28,175	25,141	918,371	1,808,766		

⁽¹⁾ Real estate and real estate funds balance consists of one fund at fair value determined based on a combination of the income approach (direct capitalization) with a capitalization rate of 7% and sales comparison approach, with valuation range of \$611 per square feet (psf) to \$619 psf.

⁽²⁾ Natural resources balance consists of three funds at fair value determined based on the consideration of the discounted cash flow method valuation technique and discount rate of 10%

Note (a) – Domestic Equities (June 30, 2018):

Certain investments in domestic equities have restrictions around the liquidation of those equities based on the availability of a potential buyer. The fair values of these domestic equities totaled \$369. The fair value of domestic equities that are redeemable daily with a three to five day notice period totaled \$192,546.

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Note (b) – Hedge Funds (June 30, 2018):

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 totaled \$112,221. 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 2019, totals \$147,088. Seven hedge funds, including one in the bond fund category, with a fair value of \$142,749, contain provisions that they may be redeemed after a one-to three-year period upon notification to the fund manager.

During 2019 and 2018, the fair value of assets classified as Level 3 in the fair value hierarchy changed as follows:

	<u>Natural resources</u>	<u>Real estate</u>
Balance as of June 30, 2017	\$ 4,557	19,681
Investment earnings, net of fees	117	—
Realized and unrealized (losses) gains	(1,123)	2,119
Additions during year	—	—
Withdrawals during year	<u>(210)</u>	<u>—</u>
Balance as of June 30, 2018	3,341	21,800
Investment earnings, net of fees	473	1,737
Realized and unrealized (losses) gains	(1,524)	903
Additions during year	—	37,160
Withdrawals during year	<u>(690)</u>	<u>—</u>
Balance as of June 30, 2019	\$ <u>1,600</u>	<u>61,600</u>

(12) Derivative Financial Instruments

The Foundation directly invests in derivatives associated with market risk, as defined in note 1(i). The purpose of these investment derivatives is to gain additional exposure to U.S. and foreign fixed income and equity markets.

Futures and forward contracts obligate the buyer to purchase an asset (and the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future price. As of June 30, 2018, the Foundation did not hold positions in direct derivatives.

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As of June 30, 2019 the Foundation held direct positions in derivatives as shown in the following table:

<u>Investment</u>	<u>Net realized/ unrealized gain on investments</u>	<u>Investment fair value at June 30, 2019</u>	<u>Notional exposure</u>
Equity Index Futures	\$ 4,416	612	53,384
U.S. Treasury Future	812	813	124,649
Total	<u>\$ 5,228</u>	<u>1,425</u>	<u>178,033</u>

(13) 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, donor net assets with donor restriction are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

The Foundation reports gifts of land, buildings, and equipment as support without donor restriction 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.

The Foundation charges an administrative fee to endowments for general overhead costs incurred by the Institute and Foundation in connection with support and management of the funds. During 2019 and 2018, the Foundation charged an administrative fee, of 0.72% and 0.75%, respectively, of the 12-quarter trailing average market value of endowment funds, to endowments with restrictions totaling \$7,916 and \$7,652, respectively. These amounts are included in the general use category.

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Net assets were released from restrictions related to accomplishing program activities for the years ended June 30, 2019 and 2018 as follows:

	<u>2019</u>	<u>2018</u>
General use	\$ 19,401	19,145
Student support	19,011	16,824
Faculty support	21,214	20,680
Program enrichment	18,381	14,949
Academic support	4,999	8,618
Facilities	3,581	8,460
Fundraising	<u>468</u>	<u>319</u>
Total net assets released from restrictions	\$ <u><u>87,055</u></u>	<u><u>88,995</u></u>

(14) Net Assets

Net assets without donor restrictions as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Restricted cash	\$ 819	749
Capital reserve funds	4,161	2,166
Undesignated	84,737	72,433
Board-designated quasi endowment funds:		
Unrestricted purposes	83,020	81,126
Student support	11,235	6,124
Faculty support	9,582	10,391
Facilities	<u>1,685</u>	<u>1,650</u>
	105,522	99,291
Other board designated funds:		
Real estate reserves	11,552	12,636
Net investment in capital assets	<u>(13,695)</u>	<u>(14,744)</u>
	\$ <u><u>193,096</u></u>	<u><u>172,531</u></u>

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The net assets without donor restrictions total \$193,096 and \$172,531 in 2019 and 2018, respectively. The Foundation's board has designated certain net assets without donor restrictions, to function as endowments. The net assets of the Foundation's board-designated quasi endowment funds total \$105,522 and \$99,291 at June 30, 2019 and 2018, respectively, and have been designated for general use, student support, faculty support and facilities purposes. Although the Foundation does not intend to spend from the board-designated quasi endowment, other than amount appropriated as part of the Board's annual budget approval and appropriations processes, these amounts could be made available, if necessary, for general use. In addition, the net assets of other board-designated funds total \$11,552 and \$12,636 at June 30, 2019 and 2018, respectively, and have been designated as real estate reserves, but could be made available, if necessary, for general use.

Net assets with donor restrictions are restricted for the following purposes or periods:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Faculty support	\$ 37,077	36,783
Student support	4,342	4,402
Academic support	7,150	7,343
Program enrichment	32,179	27,377
Facilities and construction	16,723	17,330
Fundraising	448	433
Contributions receivable restricted by donors	<u>46,053</u>	<u>41,631</u>
	<u>143,972</u>	<u>135,299</u>
Appropriated from endowments, subject to expenditure for specified purpose:		
Faculty support	14,067	13,352
Student support	3,597	4,109
Program enrichment	5,133	5,329
Academic support	10,066	8,218
Facilities and construction	<u>261</u>	<u>316</u>
	<u>33,124</u>	<u>31,324</u>
Subject to the passage of time:		
Contributions receivable from remainder trusts	14,072	13,708
Contributions receivable that are not restricted by donors but which are unavailable for expenditure until due	1,214	1,527
Charitable remainder trusts	<u>15</u>	<u>44</u>
	<u>15,301</u>	<u>15,279</u>

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	<u>2019</u>	<u>2018</u>
Endowments:		
Subject to endowment spending policy and appropriation:		
Faculty support	\$ 385,000	362,977
Student support	363,920	338,154
General use	264,167	258,824
Academic support	206,884	195,752
Program enrichment	111,660	105,288
Facilities and construction	7,386	7,214
Perpetual trusts	802	820
Charitable remainder trusts and gift annuities	9,694	8,495
	<u>1,349,513</u>	<u>1,277,524</u>
Contributions receivable restricted to endowment by donors	<u>46,957</u>	<u>61,477</u>
	\$ <u><u>1,588,867</u></u>	\$ <u><u>1,520,903</u></u>

Net asset reclassifications as of June 30, 2018, resulting from the adoption of ASU No. 2016-14 (note 1(o)), are as follows:

<u>Net assets classifications, as previously presented</u>	<u>ASU No. 2016-14 classifications</u>	
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>
Unrestricted net assets	\$ 172,436	—
Temporarily restricted net assets	—	786,652
Permanently restricted net assets	—	734,346
Underwater endowments, included in unrestricted net assets	95	(95)
	\$ <u><u>172,531</u></u>	\$ <u><u>1,520,903</u></u>

(15) Endowment Net Assets

Changes in endowment net assets for the year ended June 30, 2019 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	1,349,513	1,349,513
Board designated endowment funds	105,522	—	105,522
Total endowed net assets	\$ <u><u>105,522</u></u>	\$ <u><u>1,349,513</u></u>	\$ <u><u>1,455,035</u></u>

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Changes in endowment net assets for the year ended June 30, 2018 are as follows (in thousands):

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	1,277,524	1,277,524
Board designated endowment funds	99,291	—	99,291
Total endowed net assets	<u>\$ 99,291</u>	<u>1,277,524</u>	<u>1,376,815</u>

The Foundation's endowment consists of approximately 2,700 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.

(a) 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 5.0% per year, net of management fees, over the long term, defined as rolling five-year periods.

(b) 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 ensure that it has the funds necessary to meet its obligations.

(c) Spending Policy

The Foundation has a policy of appropriating for expenditure, on an annual basis, up to 6.00% of the trailing 12-quarter average market value of its endowment funds. In 2019 and 2018, the Foundation appropriated 4.87% of the 12-quarter trailing 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.

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Changes in endowment net assets for the year ended June 30, 2019 are as follows (in thousands):

	<u>Without restriction</u>	<u>With restriction</u>	<u>Total</u>
Endowment net assets, July 1, 2018	\$ 99,291	1,277,524	1,376,815
Investment return:			
Investment income	1,170	16,255	17,425
Net realized/unrealized gain	<u>4,628</u>	<u>63,920</u>	<u>68,548</u>
Total investment return	5,798	80,175	85,973
Contributions	—	46,258	46,258
Other Income	—	188	188
Change in value of trusts and annuities	—	(273)	(273)
Appropriation of endowment assets for expenditure	(3,971)	(54,359)	(58,330)
Additions to board designated funds, net	<u>4,404</u>	<u>—</u>	<u>4,404</u>
Endowment net assets, June 30, 2019	\$ <u>105,522</u>	<u>1,349,513</u>	<u>1,455,035</u>

Changes in endowment net assets for the year ended June 30, 2018 are as follows (in thousands):

	<u>Without restriction</u>	<u>With restriction</u>	<u>Total</u>
Endowment net assets, July 1, 2017	\$ 93,295	1,184,410	1,277,705
Investment return:			
Investment income	1,551	21,020	22,571
Net realized/unrealized gain	<u>7,041</u>	<u>95,033</u>	<u>102,074</u>
Total investment return	8,592	116,053	124,645
Contributions	1	30,237	30,238
Other income	—	(446)	(446)
Change in value of trusts and annuities	—	750	750
Appropriation of endowment assets for expenditure	(4,059)	(53,480)	(57,539)
Additions to board designated funds	<u>1,462</u>	<u>—</u>	<u>1,462</u>
Endowment net assets, June 30, 2018	\$ <u>99,291</u>	<u>1,277,524</u>	<u>1,376,815</u>

GEORGIA TECH FOUNDATION, INC.

Notes to Consolidated Financial Statements

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(Dollars in thousands)

(d) 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 net assets with donor restrictions were \$36 and \$95, with an original gift value of \$2,979 and \$3,931, as of June 30, 2019 and 2018, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of certain recently 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 net assets with donor restrictions.

(16) 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 to 1 basis. The funds are invested with a third-party provider in investment options chosen by the employees. During 2019 and 2018, the Foundation recognized pension expense totaling \$337 and \$291, 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.

(17) Expenses

There are certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses, such as property expense, interest on related debt, depreciation, and amortization, are allocated based upon the usage of facilities. Other natural expenses are allocated based on estimates of time and effort.

Expense allocation for the year ended June 30, 2019 is as follows:

Category	Program services					Total	General and administrative	Fund raising	Total
	Student support	Faculty support	Program enrichment	Academic support	Facilities and construction				
Scholarships and fellowships \$	29,039	385	1,538	616	5	31,583	—	—	31,583
Salaries and benefits	1,456	11,937	10,385	1,452	75	25,305	3,682	1,687	30,674
Materials, supplies, and other services	2,279	6,946	9,257	4,109	2,758	25,349	4,060	2,177	31,586
Travel, events, and stewardship	156	3,525	1,971	1,614	10	7,276	515	1,285	9,076
Property expense	—	—	—	—	—	—	2,273	—	2,273
Depreciation and amortization	—	—	—	—	148	148	4,158	—	4,306
Interest	—	—	—	—	6,444	6,444	6,644	—	13,088
\$	32,930	22,793	23,151	7,791	9,440	96,105	21,332	5,149	122,586

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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, the Biltmore and other real estate owned by the Foundation. Details of general and administrative expenses for the years ended June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Foundation operations	\$ 5,372	5,057
Real estate expenses	5,158	4,326
Depreciation and amortization expense	4,158	4,108
Interest expense	6,644	5,858
	<u>\$ 21,332</u>	<u>19,349</u>

(18) Related Parties

No members of the Board of Directors of Facilities are voting trustees of the Foundation.

Three members of the Board of Trustees of the GT Athletic Association are also voting trustees of the Foundation.

Three members of the Board of Trustees of the GT Alumni Association are also voting trustees of the Foundation.

Two members of the Board of Directors of the GATV are also voting trustees of the Foundation.

In 2012, the BOR established an executive 457(f) deferred compensation plan (the Plan). In 2019, at the BOR's request, the Foundation approved a payment of \$175, to be paid into the Plan for the benefit of the incoming President of the Institute. The payment is subject to the completion of an agreement between the BOR and the Foundation.

In 2013, the Foundation purchased a \$1,000 life insurance policy on the life of the President of the Institute for the benefit of the President's family. The Foundation approved payment of insurance premiums totaling \$50 for five consecutive years, 2012 through 2016. The Foundation has completed its funding of the policy.

Transactions with other related parties are described in notes 4, 6, 7, 8, 10, 13, and 20.

GEORGIA TECH FOUNDATION, INC.

Notes to Consolidated Financial Statements

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(19) Liquidity and Availability

Financial assets available to meet cash needs for general expenditures, without donor or other restrictions limiting their use, within one year of the balance sheet date, are comprised of the following:

	2019
Cash	\$ 6,894
Restricted cash	819
Capital reserve funds	13,524
Contributions receivable, net	94,223
Investments	1,871,554
Lease receivable	126,682
Contributions receivable from charitable remainder trusts	14,107
Charitable remainder trusts	14,784
Total financial assets, at year end	2,142,587
Less financial assets not available for general expenditures, due to nature:	
Restricted cash	(819)
Capital reserve funds	(13,524)
Lease receivable	(126,682)
Contributions receivable from charitable remainder trusts	(14,107)
Charitable remainder trusts	(14,784)
Less financial assets not available for general expenditures within one year:	
Contributions receivable, net	(38,583)
Less contractual or donor-imposed restrictions:	
Endowments funds	(1,349,513)
Contributions receivable, net restricted for endowment	(46,957)
Funds held on behalf of other organizations	(108,596)
Less board-designated quasi endowment funds	(105,522)
Less other board-designated funds	(11,552)
Financial assets available to meet cash needs for general expenditures within one year	\$ 311,948

Donor restricted endowments, which total \$1,349,513 as of June 30, 2019, are not available for general expenditures until appropriated by the Board. The Funds held on behalf of other organizations are not available for general expenditures of the Foundation. The Foundation's board-designated quasi endowment funds total \$105,522 at June 30, 2019. Although the Foundation does not intend to spend from the board-designated quasi endowment, other than amount appropriated as part of the Board's annual budget approval and appropriations, these amounts could be made available, if necessary, for general expenditures. In addition, the net assets of other board-designated funds total \$11,552 at June 30, 2019 and could be made available, if necessary, for general expenditures.

GEORGIA TECH FOUNDATION, INC.

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(20) Commitments and Contingencies

In June 2018, the Foundation approved \$25,775 of funds without donor restrictions to the Institute for support of the Institute's program and development operations, with a condition that the funds are to be expended during 2019 and 2020. If the funds are not expended by June 30, 2020, the remainder is retained by the Foundation. As of June 30, 2019, the Foundation expended a total of \$23,334 and \$2,441 remained as a commitment.

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 2019, but was amended to expire in June 2020. As consideration for the limited guaranty agreement, GATV pays the Foundation 0.20% of the limited guaranty amount annually.

(21) Tax Matters

The Foundation does not have any material unrecognized tax positions that should be recognized in the consolidated financial statements for 2019 or 2018.

(22) Subsequent Events

In connection with the preparation of the consolidated financial statements, the Foundation management reviewed subsequent events after June 30, 2019 through September 20, 2019, which was the date the consolidated financial statements were available to be issued, and determined that there were no significant subsequent events requiring disclosure in the consolidated financial statements.