



GEORGIA TECH FOUNDATION, INC.

Consolidated Financial Statements

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

GEORGIA TECH FOUNDATION, INC.

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Independent Auditors' Report

The Board of Trustees
Georgia Tech Foundation, Inc.:

We have audited the accompanying consolidated statements of financial position of Georgia Tech Foundation, Inc. and subsidiaries (the Foundation) as of June 30, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Georgia Tech Foundation, Inc. and subsidiaries as of June 30, 2010 and 2009, and their changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

October 29, 2010

GEORGIA TECH FOUNDATION, INC.

Consolidated Statements of Financial Position

June 30, 2010 and 2009

(In thousands)

Assets	2010	2009
Cash and cash equivalents	\$ 3,606	4,460
Contributions receivable, net (notes 2 and 6)	76,478	44,626
Investments (notes 3 and 11)	1,128,409	1,033,176
Other assets	8,215	8,270
Leases receivable (note 4)	159,637	163,860
Contributions receivable from remainder trusts	6,730	6,405
Charitable remainder trusts (note 11)	18,904	18,281
Capital assets, net of accumulated depreciation of \$12,478 in 2010 and \$11,413 in 2009 (note 5)	36,451	37,219
Total assets	\$ 1,438,430	1,316,297
Liabilities and Net Assets		
Accounts payable	\$ 3,549	6,800
Commitment payable (note 6)	10,566	9,139
Lines of credit (note 7)	26,450	29,512
Bonds payable, net of discount of \$1,362 and premium of \$789 in 2010 and discount of \$1,426 and premium of \$837 in 2009 (notes 4 and 7)	252,397	257,441
Amounts due to life beneficiaries (note 11)	12,040	12,661
Funds held on behalf of other organization (notes 3 and 9)	75,952	59,904
Revocable gift (notes 10 and 11)	35,064	32,558
Derivative financial instruments (notes 8 and 11)	19,699	14,757
Other liabilities	2,659	2,349
Total liabilities	438,376	425,121
Net assets:		
Unrestricted	59,360	45,873
Temporarily restricted (note 13)	491,691	455,123
Permanently restricted (note 13)	449,003	390,180
	1,000,054	891,176
Commitments (notes 4, 6, 7, 9, 15, and 18)		
Total liabilities and net assets	\$ 1,438,430	1,316,297

See accompanying notes to consolidated financial statements.

GEORGIA TECH FOUNDATION, INC.

Consolidated Statements of Activities

Years ended June 30, 2010 and 2009

(In thousands)

	2010				2009			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:								
Gift income	\$ 6,086	27,859	54,312	88,257	5,868	30,197	10,497	46,562
Lease revenue	14,702	—	—	14,702	16,098	7	—	16,105
Investment income, net of fees	4,607	11,433	113	16,153	3,111	9,930	120	13,161
Net realized/unrealized gain (loss) on investments	28,080	72,558	2,579	103,217	(74,940)	(201,034)	(2,122)	(278,096)
Change in value of trusts and annuities	(1)	353	1,802	2,154	(28)	(1,242)	(3,959)	(5,229)
Change in fair value of derivative financial instruments (note 8)	(6,502)	—	—	(6,502)	(3,818)	—	—	(3,818)
Other	1,510	323	17	1,850	1,433	283	12	1,728
Net assets released from restrictions (note 12)	75,958	(75,958)	—	—	78,009	(78,009)	—	—
Total revenues	124,440	36,568	58,823	219,831	25,733	(239,868)	4,548	(209,587)
Expenses (note 16(a)):								
Program services	97,842	—	—	97,842	91,421	—	—	91,421
General and administrative (note 16(b))	9,950	—	—	9,950	9,608	—	—	9,608
Fund-raising	3,161	—	—	3,161	5,749	—	—	5,749
Total expenses	110,953	—	—	110,953	106,778	—	—	106,778
Change in net assets before cumulative effect of change in accounting principle	13,487	36,568	58,823	108,878	(81,045)	(239,868)	4,548	(316,365)
Cumulative effect of change in accounting principle (notes 14)	—	—	—	—	(263,682)	263,682	—	—
Change in net assets	13,487	36,568	58,823	108,878	(344,727)	23,814	4,548	(316,365)
Net assets, beginning of year	45,873	455,123	390,180	891,176	390,600	431,309	385,632	1,207,541
Net assets, end of year	\$ 59,360	491,691	449,003	1,000,054	45,873	455,123	390,180	891,176

See accompanying notes to consolidated financial statements.

GEORGIA TECH FOUNDATION, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2010 and 2009

(In thousands)

	<u>2010</u>	<u>2009</u>
Change in net assets	\$ 108,878	(316,365)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,706	1,636
Accretion of bond discount and premium	16	64
Net realized/unrealized (gain) loss on investments	(103,217)	278,096
Net change in fair value of derivative financial instruments	6,502	3,818
Actuarial (gain) loss on trusts and annuities	(2,154)	5,229
Contribution of noncash assets	(4,266)	(12,091)
Gift of real estate to Georgia Institute of Technology	5,433	365
Proceeds from gifts restricted for long-term investment	(21,122)	(11,756)
(Increase) decrease in contributions receivable	(31,852)	12,389
Decrease in other assets	55	351
Decrease in accounts payable	(3,251)	(332)
Increase (decrease) in other liabilities	310	(945)
Decrease in commitment payable	(133)	(383)
Net cash used in operating activities	<u>(43,095)</u>	<u>(39,924)</u>
Cash flows from investing activities:		
Proceeds from the sales and maturities of investments	263,509	495,846
Purchases of investments	(257,060)	(461,034)
Increase (decrease) in funds held on behalf of other organization	16,048	(20,155)
Increase (decrease) in revocable gift	2,506	(10,754)
Proceeds from principal payments of leases receivable	4,223	4,031
Purchase of capital assets	(580)	(822)
Net cash provided by investing activities	<u>28,646</u>	<u>7,112</u>
Cash flows from financing activities:		
Proceeds from lines of credit	32,153	33,703
Repayments of lines of credit	(35,215)	(65,728)
Principal repayments of bonds payable	(5,060)	(4,825)
Proceeds from bond issuance	—	54,807
Receipt of cash from trusts	1,290	928
Payments to life income beneficiaries	(695)	(811)
Proceeds from gifts restricted for long-term investment	21,122	11,756
Net cash provided by financing activities	<u>13,595</u>	<u>29,830</u>
Decrease in cash and cash equivalents	(854)	(2,982)
Cash and cash equivalents, beginning of year	<u>4,460</u>	<u>7,442</u>
Cash and cash equivalents, end of year	\$ <u><u>3,606</u></u>	\$ <u><u>4,460</u></u>
Cash paid for interest	\$ <u><u>13,862</u></u>	\$ <u><u>13,050</u></u>
Noncash activities:		
Contribution of charitable trusts, annuities	\$ 86	168
Contributions of securities	4,180	6,232
Contributions of real estate	—	5,691
Total contribution of noncash assets	<u>4,266</u>	<u>12,091</u>
Gift of real estate to Georgia Institute of Technology	<u>(5,433)</u>	<u>(365)</u>
Total noncash activities	\$ <u><u>(1,167)</u></u>	\$ <u><u>11,726</u></u>

See accompanying notes to consolidated financial statements.

GEORGIA TECH FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(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 purpose of the Foundation is to promote higher education in the state of Georgia, to raise and receive funds for the support and enhancement of the Georgia Institute of Technology (the Institute), and to aid the Institute in its development as a leading educational institution. The Institute is a unit of the University System of Georgia and is governed by the Board of Regents of the University System of Georgia (BOR).

(i) Wholly Owned Subsidiaries

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

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

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

The Fifth Street Hotel, LLC was formed as a single member limited liability corporation in 2002 to serve as the holder of the land and the building for the Georgia Tech Hotel and Conference Center, the activities of which are subject to unrelated business income tax.

Technology Square, LLC was formed as a single member limited liability corporation in 2002 to serve as the holder of all other land and buildings of the Technology Square project, which are leased to the BOR.

Academy of Medicine LLC was formed as a single member limited liability corporation in 2009 to serve as the holder of land and a building adjacent to the property held by the Academy of Medicine LLC.

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

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

(ii) Affiliated Organizations

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

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

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

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

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

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

Transactions with these affiliated organizations are described in notes 4, 6, 7, 9, 17, and 18.

(b) Basis of Presentation

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

(c) Classification of Net Assets

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

Unrestricted Net Assets are not subject to externally imposed or time restrictions. Net assets included in this class include unrestricted gifts and board-designated endowment funds.

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

Permanently Restricted Net Assets are subject to externally imposed restrictions requiring that the net assets be maintained permanently by the Foundation. Realized and unrealized losses on permanently restricted endowment funds first reduce appreciation accumulated in temporarily restricted net assets and then, to the extent necessary, reduce unrestricted net assets. To the extent that losses in an endowment fund reduce temporarily restricted and unrestricted net assets, net assets in these categories will be restored from any future gains of the endowment fund.

(d) Fair Value of Financial Instruments

Cash equivalents and accounts payable are carried at amounts which approximate their fair value due to the short-term nature of these instruments. Commitments payable and lines of credit are carried at the amount owed, which approximates fair value. Contributions receivable are estimated by discounting expected future cash flows at risk adjusted market interest rates, which approximate fair

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(Dollars in thousands)

value at the time of the gift. See notes 1(g), 1(h), 7, 8, 9, 10, and 11, regarding investments, charitable remainder trusts, bonds payable, amounts due to life beneficiaries, funds held on behalf of other organization, revocable gift, and derivative financial instruments, respectively, for disclosures regarding fair value.

(e) Cash and Cash Equivalents

The Foundation considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. This excludes short-term cash securities, which may be held by investment managers for future investments.

(f) Contributions Receivable, Net

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

(g) Investments

Investments consist predominantly of marketable securities, privately held limited partnerships, and real estate. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with realized and unrealized gains and losses included in the statement of activities.

Donated gifts of securities are recorded based on estimated fair value at the date the donation is received. Investment income, gains, and losses are presented in the accompanying consolidated statements of activities net of investment fees. Pooled investment earnings and related expenses are allocated on a quarterly basis to each net asset class based on the pro rata market value of each class' investment balance.

Investments in private partnership interests are valued using the net asset value (NAV) provided by the general partner as of June 30, 2010 and 2009. The change in net assets related to partnership interests is presented as realized and unrealized gain and loss based upon the estimated fair value of each partnership as determined by the general partner. General partners of partnerships that invest in privately held companies (such as LBO and venture capital funds) typically value their assets at cost as adjusted based on recent arms' length transactions. Partnerships investing in public companies use quoted market prices and exchange rates, if applicable. General partners of marketable alternative investments provide values based on quoted market prices and exchange rates for publicly held securities and valuation estimates of derivative instruments. General partners of oil and gas partnerships, real estate partnerships, and similar funds value their assets based on periodic appraisals conducted by third-party appraisers. The Foundation uses NAV per share or its equivalent as a practical expedient to estimate fair value. Valuation processes and methodologies utilized by the general partners and investment managers are reviewed by Foundation management.

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(Dollars in thousands)

Direct investments in real estate (as differentiated from real estate investments through managed funds) are stated at cost, net of accumulated depreciation. Management periodically reviews the properties to determine if its costs will be recovered from future undiscounted operating cash flows. In cases where the Foundation does not expect to recover its costs, the Foundation recognizes an impairment loss.

(h) *Charitable Remainder Trusts*

The Foundation has been named the beneficiary of cash and property under charitable remainder trust, charitable lead trust, and charitable gift annuity agreements. For trusts where the Foundation is the trustee, assets are recorded at their fair values when received and an annuity payment liability is recognized at the present value of future cash flows expected to be paid to the donor or other designee. This liability is estimated by the Foundation using actuarial assumptions and the Internal Revenue Service discount rate in place at the time of the donation. For charitable remainder trust agreements where the Foundation is not the trustee, a contribution receivable is recorded based on the present value of estimated future distributions expected to be received over the term of the agreement. A discount rate commensurate with the risk involved is estimated as of June 30th of each fiscal year.

(i) *Capital Assets*

Capital assets are stated at cost at the date of acquisition less accumulated depreciation. The Foundation capitalizes interest cost as a component of construction in progress. Depreciation is provided on a straight-line basis over the useful lives of the assets, which range from 3 – 50 years.

(j) *Endowment*

Interpretation of Relevant Law

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

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(Dollars in thousands)

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

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

(k) Use of Estimates

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

(l) Tax Status

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

(m) Reclassifications

Reclassifications have been made to certain 2009 amounts in the accompanying consolidated financial statements and certain disclosures to conform to classifications adopted in 2010. These reclassifications have no effect on net assets or change in net assets.

GEORGIA TECH FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

(n) *Recently Implemented Accounting Standards*

In fiscal 2009, the Foundation elected to adopt certain provisions of Accounting Standards Update (ASU), 2009-12, *Fair Value Measurements and Disclosure (Topic 820), Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which amends SFAS 157 and permits, as a practical expedient, fair value of investments within its scope to be estimated using net asset value or its equivalent. The practical expedient was applied to certain investments in funds that do not have readily determinable fair values including hedge funds, private equity, real estate and natural resources. Net asset value, in many instances, may not equal fair value that would be calculated pursuant to Topic 820. During fiscal 2010, the Foundation implemented the disclosure provisions of this ASU. See notes 3 and 11 for related disclosures.

On July 1, 2009, the Foundation adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (included in Accounting Standards Codification (ASC) Subtopic 815-10: *Derivatives and Hedging – Overall*), which amends the disclosure requirements for derivative instruments and hedging activities. The amended disclosures require entities to provide information to enable users of the financial statements to understand how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under ASC Topic 815, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. See note 8 for related disclosures.

(2) **Contributions Receivable, Net**

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

	<u>2010</u>	<u>2009</u>
Within one year	\$ 23,922	16,657
One to five years	61,521	36,759
More than five years	2,683	3,306
	<hr/>	<hr/>
Gross contributions receivable	88,126	56,722
Less allowance for uncollectible contributions	(6,630)	(8,251)
Less present value component	(5,018)	(3,845)
	<hr/>	<hr/>
Net contributions receivable	\$ 76,478	44,626
	<hr/> <hr/>	<hr/> <hr/>

The discount rates used to calculate the present value component range from 3.67% to 9.50%.

The consolidated financial statements do not include conditional pledges, expectancies, and bequests that have not been recognized as revenue. These undiscounted amounts totaled \$250,308 and \$249,546 at June 30, 2010 and 2009, respectively. The Foundation allowance for uncollectible contributions is estimated by using past collections of contributions receivable as an indication of future collections. At June 30, 2010 the four largest outstanding donor pledge balances represented 61% of the Foundation's gross contribution receivable.

GEORGIA TECH FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

(3) Investments

Investments at June 30, 2010 and 2009 are summarized as follows:

	Fiscal year 2010		Fiscal year 2009	
	Percentage	Amount	Percentage	Amount
Cash and cash equivalents	5.4%	\$ 61,248	7.2%	\$ 74,703
Domestic equities	12.4	140,261	11.9	123,011
International equities	12.1	136,885	10.8	111,838
Bonds and bond funds	13.1	148,094	12.5	129,317
Hedge funds:				
Long-Short funds	11.5	129,720	12.1	125,384
Multi-Strategy funds	8.2	91,034	8.6	88,325
Private equities:				
Buyout	11.6	130,911	11.5	118,461
Venture capital	8.0	90,329	7.8	80,203
Distressed securities	7.2	81,326	7.0	72,123
Real Estate and real estate funds	4.4	49,549	4.9	51,015
Natural resources	6.1	69,052	5.7	58,796
	<u>100.0%</u>	<u>\$ 1,128,409</u>	<u>100.0%</u>	<u>\$ 1,033,176</u>

The Foundation has investments, as a limited partner, in 113 and 112 partnerships at June 30, 2010 and 2009, respectively. These partnerships invest in a wide variety of assets including international equities, venture capital, buyout funds, distressed securities, real estate, fixed income, and diversifying strategies. The Foundation's ownership interest in any individual partnership does not exceed 13.64% of that partnership's assets, no individual partnership investment exceeds 1.8% of the Foundation's assets, and no manager controls partnerships having more than 5.6% of the Foundation's assets. The values of the Foundation's partnership investments as furnished by the general partners are reviewed by Foundation management, and management believes the values shown at June 30, 2010 and 2009 are reasonable.

As of June 30, 2010 and 2009, the Foundation's direct investment in real estate consists of ownership of properties with a total net book value of \$28,683 and \$32,176, respectively. Depreciation expense totaling \$365 and \$365, related to investments in real estate, was recognized during the years ended June 30, 2010 and 2009, respectively.

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

As of June 30, 2010, the fair value of the Foundation's hedge funds and private investments totaled \$220,754 and \$392,484 respectively. As of June 30, 2009, the fair value of the Foundation's hedge funds and private investments totaled \$213,709 and \$348,422, respectively. The limitations and restrictions on the Foundation's ability to redeem or sell these investments vary by investment and range from required

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Notes to Consolidated Financial Statements

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(Dollars in thousands)

notice periods (generally 30 to 95 days) for certain hedge funds, to specified terms at inception (generally 10 years) associated with private investment interests. Based upon the terms and conditions in effect as of June 30, 2010, the Foundation may redeem hedge funds with a total fair value of \$207,018 upon notification to the funds. Redemption restrictions have been placed on hedge funds with a fair value of \$2,612. The hedge fund managers have indicated that they estimate the redemption restrictions will be removed during fiscal year 2011. The Foundation elected to extend the term of one hedge fund investment, with a fair value of \$11,124, for an additional three years in accordance with its investment strategy. This election was effective on October 1, 2009. 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, 2010, management estimates the average remaining life of the private investments is approximately five years.

As of June 30, 2010, the Foundation's remaining outstanding commitments to private investments, which are projected to be paid over the next six years, totaled \$135,441 in the following investment strategies:

Private equity:		
Venture capital	\$	33,943
Buyout		37,026
Distressed securities		2,020
Real Estate		36,280
Natural resources		26,172
		<u>135,441</u>
	\$	<u>135,441</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.

The Foundation charges investment accounts an administrative fee for general overhead costs incurred in connection with the support and management of its investment funds. During 2010 and 2009, the Foundation charged an administrative fee, which is based on a percentage of the twelve quarter trailing average market value of endowment funds, totaling \$6,946 and \$7,414, respectively.

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(Dollars in thousands)

(4) Leases

(a) Capital Leases

(i) Campus Recreation Center Lease

In support of the Institute, the Foundation borrowed funds and constructed and placed into service the Campus Recreation Center (CRC) in 2004. It then leased the facility to the BOR under an annual lease that expires on February 28 of each year, but is renewable on a year-by-year basis at the option of the BOR until 2031. Under the terms of the lease, payments are not to exceed \$4,000 annually and are used to retire the debt incurred by the Foundation and provide for a capital replacement reserve. The BOR's failure to exercise its options through 2031 has been determined to be remote and thus, a lease receivable has been recorded totaling \$38,485 and \$39,437 as of June 30, 2010 and 2009, respectively.

The Foundation has debt outstanding totaling \$38,935 on the CRC as of June 30, 2010 (note 7). The amount of the lease receivable is equal to the total debt outstanding as of June 30, 2010, less \$450 in issuance costs associated with the debt. The issuance costs are reimbursed through lease payments received from the BOR over the 30-year life of the bonds.

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

(ii) Technology Square Lease

During 2004, in support of the Institute, the Foundation borrowed funds and constructed a development on campus, on land the Foundation owned, known as Technology Square. It then leased the Facilities and land to the BOR pursuant to an annual lease, which expires on June 30 of each year, but is renewable on a year-by-year basis at the option of the BOR until 2032. The likelihood of the BOR's failure to exercise its options through 2032 has been determined to be remote and thus, the Foundation has recorded a lease receivable in the amount of \$121,152 and \$124,423 as of June 30, 2010 and 2009, respectively. Upon retirement of the Technology Square debt, the ownership of the land and improvements to the property will be gifted to the BOR at no cost. The lease payments are used to retire the debt incurred by the Foundation and to provide for major replacement and renewal of the buildings.

The Foundation has Technology Square debt outstanding totaling \$122,150 and \$125,469 as of June 30, 2010 and 2009, respectively, in the Series 2002A and 2002B Bonds (note 7). The lease receivable is equal to the total debt outstanding as of June 30, 2010, less \$998 in issuance costs. The issuance costs are reimbursed through lease payments received from the BOR over the 30-year life of the bonds.

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

Fiscal year:	<u>Amount</u>
2011	\$ 14,056
2012	14,059
2013	14,073
2014	14,085
2015	14,090

(b) Operating Lease

The Foundation leased the Georgia Tech Hotel and Conference Center to a third party in 2004. The lease is a 30-year operating lease and is automatically renewable for an additional 10 years, unless either party declines to renew. Under the lease agreement, the Foundation receives base rent, payments for capital replacement, and incentive rent. During 2010 and 2009, the Foundation received \$4,250 and \$4,250, respectively, in lease payments, representing base rent, from the third party; \$613 and \$739, respectively, in payments for capital replacement; and \$0 and \$488, respectively, in payments for incentive rent. The Foundation has debt outstanding totaling \$35,630 as of June 30, 2010, related to the Georgia Tech Hotel and Conference Center (note 7). The land and building are considered a capital asset of the Foundation (note 5).

(5) Capital Assets

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

The Foundation's capital assets are as follows:

	<u>June 30</u>	
	<u>2010</u>	<u>2009</u>
Assets:		
Land	\$ 2,553	2,553
Buildings	38,066	38,066
Furniture and equipment	8,310	8,013
Less accumulated depreciation	(12,478)	(11,413)
Total capital assets	<u>\$ 36,451</u>	<u>37,219</u>

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Depreciation expense totaling \$1,341 and \$1,270 was recognized during 2010 and 2009, respectively. The furniture and equipment are depreciated over useful lives of three to ten years. The buildings are depreciated over a 50-year period.

(6) **Commitment Payable**

During 2010, the Foundation agreed to guarantee and pay, through a commitment of support, a \$10,555 bond obligation (2010B Bond) issued by Facilities during 2010 to refund the 2008C Bonds that were used to finance campus construction and the purchase of campus real estate as well as to provide funds in the amount of \$1,560, to terminate an interest rate swap associated with the 2008C Bonds. The bonds mature on November 1, 2027 and require mandatory sinking fund principal payments until maturity. At June 30, 2010 and 2009, respectively, Facilities had \$10,566 and \$9,139 outstanding on the 2010B and 2008C Bond, respectively, including accrued interest. Foundation payments to Facilities during fiscal years 2010 and 2009, to satisfy Facilities' debt service requirements, totaled \$317 and \$820, respectively. At June 30, 2010, amounts due in less than one year, in one to five years, and in more than five years totaled \$361, \$2,005, and \$8,200, respectively.

In June 2002, the GTAA executed a promissory note to the Foundation for \$1,080 at an interest rate equal to that of the Facilities' 1997A Bond, with payments to be made through September 1, 2027. The Foundation has recorded a note receivable (included in other assets) for the GTAA that totals \$878 and \$908 as of June 30, 2010 and 2009, respectively.

In June 2004, the Foundation entered into an agreement with the GTAA, whereby the GTAA committed to pay the Foundation \$137 per year as long as the Facilities' 1997A (now 2010B) Bond is outstanding. The payments received were used to pay Facilities for a portion of the commitment to fund the 2010B Bond. The payments remaining to be received total \$2,405 and \$2,542 as of June 30, 2010 and 2009, respectively. The Foundation has recorded a contribution receivable, discounted to give effect to the future cash flows from the GTAA, in the amount of \$1,685 and \$1,751, as of June 30, 2010 and 2009, respectively.

(7) **Debt**

(a) *Lines of Credit*

The Foundation had two \$15,000 revolving lines of credit in the name of the GTFFC in 2010 and two \$30,000 revolving lines of credit in the name of GTFFC in 2009. As of June 30, 2010 and 2009, \$26,450 and \$29,512, respectively, was the total aggregate outstanding on the lines of credit. Interest is calculated using the 30-day LIBOR rate plus 0.60% and 0.25% as of June 30, 2010 and 2009, respectively, for the two lines of credit. This resulted in an effective interest rate of 0.95% and 0.56% at June 30, 2010 and 2009, respectively. One line of credit was renewed through June 2011 and the second was extended until November 2010. The Foundation expects to renew both lines of credit upon expiration.

The Foundation also has available two other \$10,000 lines of credit. As of June 30, 2010 and 2009, no amounts have been drawn on these credit facilities. One line of credit was renewed during the fiscal year in the amount of \$10,000 and expires in June 2011. A second line of credit was

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established in August 2009 for \$10,000 and has been extended through November 2010. The Foundation expects to renew both lines of credit upon expiration.

(b) Series 2001A Bond Issuance

During May 2001, the Foundation borrowed \$44,980 in Series 2001A Bonds. The Series 2001A Bonds were issued to provide funds to finance the costs of construction of the CRC, a facility that has been constructed on the Institute's campus. The Foundation has leased the CRC to the Board of Regents under a capital lease effective February 2001 (note 4). The Series 2001A Bonds are not secured by any interest in the CRC, the ground lease or the rental agreement. These bonds are general unsecured obligations of the Foundation.

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

	<u>Principal amount</u>	<u>Interest rate</u>
Fiscal year:		
2011	\$ 1,020	4.50%
2012	1,075	5.75
2013	1,140	5.75
2014	1,205	5.75
2015	1,275	5.75
Thereafter	<u>33,220</u>	5.00 – 5.75
	<u>\$ 38,935</u>	

Annual debt service payments including interest related to the Series 2001A Bonds for the fiscal years 2010 through 2031 range from \$3,061 to \$3,071.

(c) Series 2002A and 2002B Bond Issuance

During January 2002, the Foundation borrowed \$111,090 in Series 2002A (tax exempt) Bonds and \$73,190 Series 2002B (taxable) Bonds (collectively, the Series 2002 Bonds). The Series 2002 Bonds were issued to provide funds to finance the costs of the acquisition, construction, and installation of an addition to the Institute's campus known as Technology Square. Technology Square includes the college of management building, a hotel and conference center, a global learning center, a parking deck, an economic development building, retail space, and a bookstore. The Foundation leased the hotel and conference center under an operating lease to a third party in 2004. The Foundation has also leased the other components of Technology Square to the Board of Regents, on behalf of the Institute, under a capital lease, effective July 1, 2004 (note 4). The Series 2002 Bonds are not secured by any interest in the Technology Square development, in any rental agreement relating to the development, or in any revenue received by the Foundation from the ownership or operation of any portion of the development. These bonds are general unsecured obligations of the Foundation.

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

	Series 2002A		Series 2002B	
	Principal	Interest rate	Principal	Interest rate
Fiscal year:				
2011	\$ 2,465	4.750%	\$ 1,825	6.02%
2012	2,585	5.109	1,940	6.10
2013	2,715	4.500	2,060	6.15
2014	2,855	5.108	2,190	6.25
2015	3,000	5.193	2,335	6.60
Thereafter	82,895	4.800 – 5.250	53,200	6.60 – 6.66
	<u>\$ 96,515</u>		<u>\$ 63,550</u>	

Annual debt service payments including interest related to the Series 2002A Bonds for the fiscal years 2011 through 2032 range from \$7,234 to \$7,247. Annual debt service payments including interest related to the Series 2002B Bonds for the fiscal years 2011 through 2024 and 2025 through 2033 range from \$5,943 to \$5,949 and \$4,334 to \$4,345, respectively.

(d) Series 2009A and 2009B Bond Issues

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

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

	Series 2009A		Series 2009B	
	Principal	Interest rate	Principal	Interest rate
Fiscal year:				
2011	\$ —	—%	\$ 1,680	1.919%
2012	—	—	1,720	2.496
2013	—	—	1,765	3.185
2014	—	—	1,830	3.755
2015	—	—	1,900	4.198
Thereafter	18,970	4.375 – 5.000%	26,105	5.491 – 6.241
	<u>\$ 18,970</u>		<u>\$ 35,000</u>	

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

The fair value of total bonds payable is approximately \$271,000 and \$263,000 based on quoted market prices at June 30, 2010 and 2009, respectively.

(8) Derivative Financial Instruments

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

During 2008, a third party exercised the swaption related to the 1997A Bonds issued by Facilities and guaranteed by the Foundation. In conjunction with the exercise of the swaption, Facilities issued variable rate, tax-exempt 2008C Bonds with an interest rate approximately equal to the Securities Industry and Financial Markets Association (SIFMA) index plus 10 basis points, retired the 1997A Bonds with the proceeds, and entered into an underlying interest rate swap agreement with the third party, guaranteed by the Foundation. The agreement had an effective date of March 1, 2008 and a termination date of September 1, 2027. In June 2010, Facilities issued the 2010B Bonds which refunded the 2008C Bonds as well as provided the funds necessary (\$1,560) to terminate the interest rate swap on the 2008C Bonds. Prior to the termination of the interest rate swap, a loss of (\$212) was recognized in 2010 as a change in fair value of derivative financial instruments in the statements of activities. This resulted in a reduction in unrestricted net assets.

In 2003, the Foundation sold an interest rate swap option (swaption) to a third party and received \$945. This transaction enabled the Foundation to monetize the call option on the Series 2001A Bonds, based on interest rate levels at that time. The swaption may be exercised by the third party on, and only on, November 1, 2011. If exercised, the Foundation will pay the third party a fixed rate of 5.27% (the average coupon rate on the existing bonds) through November 1, 2030 on principal amounts related to the bonds, and will receive a variable interest rate from the third party, on the same principal amounts, based on the SIFMA Index plus 10 basis points (0.10%). If the third party exercises the swaption, the Foundation may cause variable rate tax-exempt bonds to be issued on its behalf (at an expected rate equal to the SIFMA Index plus 10 basis points) and utilize the proceeds to retire the Series 2001A Bonds. As of June 30, 2010 the total notional amount of the swaption once exercised is \$34,455. Thus, if the swaption is exercised, it is expected that the Foundation will continue to pay the same fixed interest rate as if it had not called the Series 2001A bonds. The swaption, which had a fair value of \$6,457 as of June 30, 2010, is reported as a derivative financial instrument (representing a liability), in the statements of financial position. A loss of (\$2,093) was recognized in 2010 as a change in fair value of derivative financial instruments in the statements of activities, reducing unrestricted net assets.

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In 2003, the Foundation sold a swaption to a third party and received \$2,251. This transaction enabled the Foundation to monetize the call option on the Series 2002A Bonds, based on interest rate levels at that time. The swaption may be exercised by the third party on, and only on, May 1, 2012. If exercised, the Foundation will pay the third party a fixed rate of 5.01% (the average coupon rate on the existing bonds) through November 1, 2031 on principal amounts related to the bonds, and will receive a variable interest rate from the third party, on the same principal amounts, based on the SIFMA Index plus 10 basis points. If the third party exercises the swaption, the Foundation may cause variable rate tax-exempt bonds to be issued on its behalf (at an expected rate equal to the SIFMA Index plus 10 basis points) and utilize the proceeds to retire the Series 2002A Bonds. As of June 30, 2010 the total notional amount of the swaption once exercised is \$88,750. Thus, if the swaption is exercised, it is expected that the Foundation will continue to pay the same fixed interest rate as if it had not called the Series 2002A Bonds. The swaption, which had a fair value of \$13,242 as of June 30, 2010, is reported as a derivative financial instrument (representing a liability), in the statements of financial position. A loss of (\$4,197) was recognized in 2010 as a change in fair value of derivative financial instruments in the statements of activities, reducing unrestricted net assets.

(9) Funds Held on Behalf of Other Organization

The Foundation manages certain investments on behalf of AT Fund. These investments, which can be reclaimed by this organization upon a six-month notification as per agreement, amount to \$75,952 and \$59,904 at June 30, 2010 and 2009, respectively, and are recorded in the accompanying consolidated statements of financial position as funds held on behalf of other organization.

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

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 59,904	80,059
Additions	15,579	6,858
Investment gains(losses), net of fees, attributable to balances	6,815	(17,330)
Withdrawals	<u>(6,346)</u>	<u>(9,683)</u>
Balance, end of year	<u>\$ 75,952</u>	<u>59,904</u>

(10) Revocable Gift

The Institute of Paper Science and Technology, Inc. (IPST) maintained a research and educational program focused on paper science and technology from 1929 through 2004. During 2004, the academic and research operations of IPST were merged with the operations of the Institute and the Georgia Tech Research Corporation (GTRC). In connection with this merger, the Foundation accepted a revocable gift from IPST, through a project agreement entered into by the Foundation, the Institute and IPST in December 2004. IPST transferred temporarily and permanently restricted assets, totaling \$35,218, to the Foundation. IPST, however, has retained the right to revoke the gift through July 1, 2023, through a refund or a transfer to a successor entity. The project agreement states that the Foundation may administer the transferred assets according to its own investment and spending policies, adhering to the donor restrictions on the use of the funds. The temporarily restricted assets benefit the paper science and technology program

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at the Institute. The balance of the revocable gift totaled \$35,064 and \$32,558 as of June 30, 2010 and 2009, respectively, and a corresponding liability is recorded in the accompanying consolidated statements of financial position. Earnings and losses on the assets increase and reduce the liability, respectively, and distributions to the Institute to support its paper science and technology program reduce the liability, which totaled \$1,125 and \$1,159 in 2010 and 2009, respectively.

(11) Fair Value Measurements

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

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

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

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

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The fair value hierarchy requires the use of observable market data when available. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The following is a summary of the levels within the fair value hierarchy for the Foundation's assets and liabilities as of June 30, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Redemption or liquidation</u>	<u>Days notice</u>
Assets:						
Cash and cash equivalents	\$ 3,606	—	—	3,606	Daily	1
Investments:						
Cash and cash equivalents	61,248	—	—	61,248	Daily	1
Domestic equities	117,467	—	301	117,768	Daily	3 – 5
Domestic equities – commingled funds	—	22,493	—	22,493	Monthly	5
International equities	58,822	—	—	58,822	Daily	3 – 5
International equities – commingled funds	—	78,063	—	78,063	Monthly	3 – 15
Bond and bond funds	127,549	—	—	127,549	Daily	1 – 3
Bond and bond funds – commingled funds	—	20,545	—	20,545	Daily	5
Hedge funds	—	103,485	117,269	220,754	See note(a)	See note(a)
Private equities	152	—	302,414	302,566	Illiquid	N/A
Real estate funds	—	163	—	163	Daily	3 – 5
Real estate and real estate funds	—	—	49,386	49,386	Illiquid	N/A
Natural resources	—	—	69,052	69,052	Illiquid	N/A
	365,238	224,749	538,422	1,128,409		
Charitable remainder trusts	18,904	—	—	18,904		
Total	\$ 387,748	224,749	538,422	1,150,919		
Liabilities:						
Amounts due to life beneficiaries	\$ —	—	12,040	12,040		
Funds held on behalf of other organization	—	—	75,952	75,952		
Revocable gift	—	—	35,064	35,064		
Derivative financial instruments	—	19,699	—	19,699		
Total	\$ —	19,699	123,056	142,755		

Note (a) – Hedge Funds:

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

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The following is a summary of the levels within the fair value hierarchy for the Foundation's assets and liabilities as of June 30, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Redemption or liquidation</u>	<u>Days notice</u>
Assets:						
Cash and cash equivalents	\$ 4,460	—	—	4,460	Daily	1
Investments:						
Cash and cash equivalents	74,703	—	—	74,703	Daily	1
Domestic equities	101,605	—	1,180	102,785	Daily	3 – 5
Domestic equities – commingled funds	—	20,226	—	20,226	Monthly	5
International equities	45,069	—	—	45,069	Daily	3 – 5
International equities – commingled funds	—	66,769	—	66,769	Monthly	3 – 15
Bond and bond funds	106,166	—	—	106,166	Daily	1 – 3
Bond and bond funds – commingled funds	—	23,151	—	23,151	Daily	5
Hedge funds	—	85,961	127,748	213,709	See note (a)	See note (a)
Private equities	146	—	270,641	270,787	Illiquid	N/A
Real estate	—	64	—	64	Daily	3 – 5
Real estate funds	—	—	50,951	50,951	Illiquid	N/A
Natural resources	—	—	58,796	58,796	Illiquid	N/A
	<u>327,689</u>	<u>196,171</u>	<u>509,316</u>	<u>1,033,176</u>		
Charitable remainder trusts	18,281	—	—	18,281		
Total	<u>\$ 350,430</u>	<u>196,171</u>	<u>509,316</u>	<u>1,055,917</u>		
Liabilities:						
Amounts due to life beneficiaries	\$ —	—	12,661	12,661		
Funds held on behalf of other organization	—	—	59,904	59,904		
Revocable gift	—	—	32,558	32,558		
Derivative financial instruments	—	14,757	—	14,757		
Total	<u>\$ —</u>	<u>14,757</u>	<u>105,123</u>	<u>119,880</u>		

Note (a)– Hedge Funds:

Certain investments in hedge funds may be redeemed upon a 5 to 90 day notice to the fund manager and permit a monthly or quarterly exit from the fund. The fair values of these hedge funds, totaling \$85,961, have been classified as Level 2. Certain other hedge funds have semiannual or annual exit dates, which occur more than 90 days after the Foundation's fiscal year end. The fair value of these hedge funds, with a notice and a redemption period exceeding 90 days, totaled \$101,330. Two hedge funds, with a fair value totaling \$15,600, have redemption restrictions, but are expected to liquidate in 2011. One hedge fund, with a fair value of \$10,818, contains a provision that it may be redeemed over a three year period upon a notification to the fund manager.

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

	<u>Private equities</u>	<u>Real estate and real estate funds</u>	<u>Hedge funds</u>	<u>Natural resources and other equity</u>	<u>Total</u>
Fair value measurements using significant unobservable inputs (Level 3):					
Beginning value, as of July 1, 2009	\$ 270,641	50,951	127,748	59,976	509,316
Investment income	3,975	427	15	4,309	8,726
Realized and unrealized gains/losses	45,499	(3,599)	12,309	5,389	59,598
Additions during the year	20,022	8,475	3,569	9,208	41,274
Transfers during the year	—	—	—	—	—
Withdrawals/distributions	<u>(37,723)</u>	<u>(6,868)</u>	<u>(26,372)</u>	<u>(9,529)</u>	<u>(80,492)</u>
Ending value, as of June 30, 2010	\$ <u>302,414</u>	<u>49,386</u>	<u>117,269</u>	<u>69,353</u>	<u>538,422</u>
The amount of the fair value represented by net unrealized gains (losses) as of June 30, 2010					
	\$ <u>97,449</u>	<u>(3,638)</u>	<u>39,485</u>	<u>27,076</u>	<u>160,372</u>

During 2009, the fair value of investments classified as Level 3 in the fair value hierarchy changed as follows:

	<u>Private equities</u>	<u>Real estate and real estate funds</u>	<u>Hedge funds</u>	<u>Natural resources and other equity</u>	<u>Total</u>
Fair value measurements using significant unobservable inputs (Level 3):					
Beginning value, as of July 1, 2008	\$ 298,134	50,419	188,689	84,610	621,852
Investment income	1,855	416	—	3,803	6,074
Realized and unrealized gains (losses)	(62,783)	(13,516)	(34,598)	(29,646)	(140,543)
Additions during the year	45,666	16,940	68	14,575	77,249
Transfers during the year	—	—	—	—	—
Withdrawals/distributions	<u>(12,231)</u>	<u>(3,308)</u>	<u>(26,411)</u>	<u>(13,366)</u>	<u>(55,316)</u>
Ending value, as of June 30, 2009	\$ <u>270,641</u>	<u>50,951</u>	<u>127,748</u>	<u>59,976</u>	<u>509,316</u>
The amount of the fair value represented by net unrealized gains (losses) as of June 30, 2009					
	\$ <u>50,770</u>	<u>(515)</u>	<u>29,478</u>	<u>20,128</u>	<u>99,861</u>

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

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

During 2009, the fair value of liabilities classified as Level 3 in the fair value hierarchy changed as follows:

	<u>Due to life beneficiaries</u>	<u>Funds held on behalf of other organization</u>	<u>Revocable gift</u>	<u>Total</u>
Balance at July 1, 2008	\$ 15,049	80,059	43,312	138,420
Change in present value of income interest	(2,564)	—	—	(2,564)
Net income, earnings attributable to balances	—	(17,330)	(9,595)	(26,925)
Additions during the year	298	6,858	—	7,156
Withdrawals during the year	(122)	(9,683)	(1,159)	(10,964)
Transfers during the year	—	—	—	—
Balance at June 30, 2009	\$ <u>12,661</u>	<u>59,904</u>	<u>32,558</u>	<u>105,123</u>

(12) Net Assets Released from Restrictions

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

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

Net assets were released from restrictions related to accomplishing program activities for the years ended June 30, 2010 and 2009 as follows:

	<u>2010</u>	<u>2009</u>
Georgia Institute of Technology	\$ 75,418	77,186
Georgia Tech Alumni Association	13	182
Alexander-Tharpe Fund, Inc.	277	361
Georgia Tech Facilities, Inc.	250	280
Total net assets released from restrictions	<u>\$ 75,958</u>	<u>78,009</u>

(13) Net Assets

Temporarily restricted net assets at June 30, 2010 and 2009 are restricted for the following purposes:

	<u>2010</u>	<u>2009</u>
Accumulated appreciation on donor-restricted endowment funds	\$ 192,833	177,574
Academic programs	174,897	153,724
Scholarships and fellowships	65,573	58,133
Institutional support	53,086	53,568
Facilities	5,302	12,124
	<u>\$ 491,691</u>	<u>455,123</u>

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

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Permanently restricted net assets consist of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Contributions receivable	\$ 45,875	13,474
Trust funds held by others	3,505	3,316
Endowment funds	<u>399,623</u>	<u>373,390</u>
	<u>\$ 449,003</u>	<u>390,180</u>

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

(14) Endowment Net Assets

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

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

Endowment net assets consist of the following at June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (13,370)	305,850	373,390	665,870
Board-designated endowment funds	<u>128,672</u>	<u>—</u>	<u>—</u>	<u>128,672</u>
Total endowment net assets	<u>\$ 115,302</u>	<u>305,850</u>	<u>373,390</u>	<u>794,542</u>

The Foundation's endowment consists of approximately 1,800 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by

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the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

Spending Policy

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

During fiscal 2009, the Foundation adopted the provisions of FASB Staff Position No. 117-1 (FSP 117-1), *Endowments of Not-for-Profit Organization: Net Asset Classification of Funds subject to an Enacted Versions of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosure for All Endowment Funds*. FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA and also required disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds. During 2009, the Foundation reclassified \$263,682 representing cumulative unrealized appreciation and gains in donor restricted endowment funds from unrestricted net assets to temporarily restricted net assets.

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Changes in endowment net assets for the years ended June 30, 2010 and 2009 are as follows:

	2010				2009			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 115,302	305,850	373,390	794,542	453,576	265,986	363,230	1,082,792
Net asset reclassification based on adoption of FSP 117-1	—	—	—	—	(263,682)	263,682	—	—
Endowment net assets after reclassification	<u>115,302</u>	<u>305,850</u>	<u>373,390</u>	<u>794,542</u>	<u>189,894</u>	<u>529,668</u>	<u>363,230</u>	<u>1,082,792</u>
Investment return:								
Investment income	3,157	11,003	113	14,273	2,682	9,410	81	12,173
Lease income	—	—	—	—	3	6	—	9
Net realized/unrealized gain (loss)	<u>25,595</u>	<u>69,735</u>	<u>2,579</u>	<u>97,909</u>	<u>(71,649)</u>	<u>(191,508)</u>	<u>(2,122)</u>	<u>(265,279)</u>
Total investment return	28,752	80,738	2,692	112,182	(68,964)	(182,092)	(2,041)	(253,097)
Contributions	—	36	22,110	22,146	—	627	15,290	15,917
Other income	—	117	17	134	—	(91)	12	(79)
Change in value of trusts and annuities	—	208	1,414	1,622	—	(221)	(3,101)	(3,322)
Appropriation of endowment assets for expenditure	(11,922)	(39,498)	—	(51,420)	(6,467)	(42,041)	—	(48,508)
Transfers to create board-designated funds	<u>1,433</u>	—	—	<u>1,433</u>	<u>839</u>	—	—	<u>839</u>
Endowment net assets, end of year	<u>\$ 133,565</u>	<u>347,451</u>	<u>399,623</u>	<u>880,639</u>	<u>115,302</u>	<u>305,850</u>	<u>373,390</u>	<u>794,542</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$9,530 and \$13,370 as of June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

(15) Pension Plan

The Foundation has a mandatory defined contribution plan for its employees in which the employees contribute 5% of their pretax earnings and the Foundation matches the employees contribution on a 2-for-1 basis. The funds are invested with a third-party provider in investment options chosen by the employees. During 2010 and 2009, the Foundation recognized pension expense totaling \$249 and \$246, respectively. The plan has a three-year cliff vesting requirement for each employee to vest in the Foundation's

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contribution amount. The Foundation also has a supplemental plan in which employees may contribute an additional amount on a voluntary basis. The Foundation does not match these additional amounts.

(16) Expenses

(a) Functional Classification of Expenditures

Expenses by functional classification for the years ended June 30, 2010 and 2009 are as follows:

	2010	2009
Program services:		
Georgia Institute of Technology	\$ 91,901	85,191
Georgia Tech Alumni Association	4,606	4,953
Georgia Tech Facilities, Inc.	687	524
Alexander-Tharpe Fund, Inc.	648	753
	97,842	91,421
General and administrative	9,950	9,608
Fund-raising	3,161	5,749
	\$ 110,953	106,778
Total expenses	\$ 110,953	106,778

Interest expense totaling \$11,662 and \$10,225 was allocated to program services in support of the Institute for the years ended June 30, 2010 and 2009, respectively.

(b) General and Administrative Expense

The Foundation classifies certain expenses as general and administrative. These expenses relate primarily to the operations of the Foundation, the Georgia Tech Hotel and Conference Center, and real estate owned by the Foundation. Details of general and administrative expense for the years ended June 30, 2010 and 2009 are as follows:

	2010	2009
Foundation operations	\$ 4,735	4,573
Hotel and conference center	190	131
Real estate expenses	826	719
Depreciation expense	1,706	1,636
Interest expense	2,493	2,549
	\$ 9,950	9,608
Total	\$ 9,950	9,608

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(c) Natural Classification of Expenditures

The Foundation classifies its expenses in functional categories. Expenditures in the natural categories for the years ended June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Salaries	\$ 2,794	2,714
Benefits	465	472
Other personnel services	26	81
Travel	42	55
Utilities	130	29
Supplies and other services	1,842	1,556
Depreciation	1,706	1,636
Interest	14,155	12,774
Expenses incurred or paid to or on behalf of:		
Alexander-Tharpe Fund, Inc.	648	753
Georgia Institute of Technology	83,852	81,231
Georgia Tech Alumni Association	4,606	4,953
Georgia Tech Facilities, Inc.	687	524
Total	<u>\$ 110,953</u>	<u>106,778</u>

(17) Related Parties

One member of the Board of Directors of Facilities is also an elected trustee of the Foundation.

One member of the Board of Trustees of the GTAA is also an ex-officio voting trustee of the Foundation.

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

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

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

(18) Commitments and Contingencies

In June 2009, the Foundation committed \$23,112 of unrestricted funds to the Institute for support of Institute programs and development operations, with a condition that the funds are to be expended during 2010 and 2011. If the funds are not expended by June 30, 2011, the remainder is retained by the Foundation. As of June 30, 2010, \$19,425 had been expended and \$3,687 remained as a commitment.

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During 2010 and 2009, the Foundation approved requests by the Institute for funding not to exceed \$900 and \$2,400, respectively. As of June 30, 2010 and 2009, \$718 and \$5,461 had been expended. As of June 30, 2010 and 2009, \$260 and \$406 remained as a commitment, respectively. These commitments contain certain conditions, and if the conditions are not met, the Foundation will not fund the commitment. As such, no liability has been recorded for these commitments as of June 30, 2010 and 2009.

In June 2006, the Foundation entered into a limited guaranty agreement with a bank in the amount of \$4,800 to support a letter of credit pertaining to an obligation GATV has under a rental agreement. The letter of credit was scheduled to expire in June 2010, but was amended to expire in June 2011. As consideration for the limited guaranty agreement, GATV pays the Foundation 0.20% of the limited guaranty amount annually. In October 1988, the Foundation established the Faculty Mortgage program, which guarantees the amounts of mortgage loans made to eligible faculty. The total amount guaranteed as of June 30, 2010 and 2009 under this program was \$386 and \$565, respectively. The Foundation will guarantee loans up to an aggregate total of \$1,500. In June 1992, the Foundation established the Campus Housing Loan Guaranty Program, which guarantees loans to eligible faculty of qualifying campus residential housing up to a maximum of \$400, up to an aggregate total of \$5,000. At June 30, 2010 and 2009, the total loans guaranteed were \$74 and \$169, respectively.

(19) Tax Matters

The Foundation does not have any material unrecognized tax positions that should be recognized in the consolidated financial statements for 2010 or 2009.

(20) Subsequent Events

In connection with the preparation of the consolidated financial statements, the Foundation management reviewed subsequent events after the balance sheet date of June 30, 2010 through October 29, 2010, which was the date the financial statements were available to be issued and determined that all significant events and disclosures are included in the consolidated financial statement.