KPMG

GEORGIA TECH FOUNDATION, INC.

Consolidated Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

GEORGIA TECH FOUNDATION, INC.

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KPMG LLP
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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, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Georgia Tech Foundation, Inc. and subsidiaries as of June 30, 2012 and 2011, and their changes in net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 24, 2012

GEORGIA TECH FOUNDATION, INC.

Consolidated Statements of Financial Position

June 30, 2012 and 2011

(In thousands)

Assets		**2012**	**2011**
Cash and cash equivalents	$	2,369	2,981
Capital reserve funds (note 4)		8,339	7,297
Contributions receivable, net (notes 2 and 6)		74,368	69,075
Investments (notes 3 and 11)		1,285,089	1,316,551
Other assets		9,139	8,725
Leases receivable (note 4)		187,710	155,205
Contributions receivable from remainder trusts		7,499	7,730
Charitable remainder trusts (note 11)		20,460	22,105
Capital assets, net (note 5)		36,677	37,166
Total assets	$	1,631,650	1,626,835
Liabilities and Net Assets			
Accounts payable	$	5,281	5,091
Commitment payable (note 6)		9,769	10,260
Lines of credit (note 7)		27,967	25,071
Bonds payable, net of discount of $22 and premium of $17,939 in 2012 and discount of $1,297 and premium of $743 in 2011 (notes 4 and 7)		270,957	245,426
Amounts due to life beneficiaries (note 11)		12,813	12,299
Deferred revenue (note 4)		37,173	—
Funds held on behalf of other organization (notes 3, 9, and 11)		89,964	92,606
Revocable gift (notes 10 and 11)		38,859	39,813
Derivative financial instruments (notes 8 and 11)		—	22,721
Other liabilities (note 4)		9,394	2,596
Total liabilities		502,177	455,883
Net assets:			
Unrestricted		62,519	98,801
Temporarily restricted (note 13)		568,319	594,788
Permanently restricted (note 13)		498,635	477,363
		1,129,473	1,170,952
Commitments (notes 4, 6, 7, 9, 15, and 18)			
Total liabilities and net assets	$	1,631,650	1,626,835

See accompanying notes to consolidated financial statements.

GEORGIA TECH FOUNDATION, INC.

Consolidated Statements of Activities

Years ended June 30, 2012 and 2011

(In thousands)

	2012				2011			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**	**Total**
Revenues:								
Gift income	$ 5,507	50,430	20,928	76,865	5,581	29,268	23,963	58,812
Lease revenue	13,370	—	—	13,370	14,560	—	—	14,560
Investment income, net of fees	4,974	12,789	51	17,814	4,133	10,722	96	14,951
Net realized/unrealized (loss) gain on investments	(7,132)	(17,268)	(193)	(24,593)	47,751	126,386	1,561	175,698
Change in value of trusts and annuities	(4)	(690)	70	(624)	(1)	870	2,658	3,527
Change in fair value of derivative financial instruments (note 8)	(10,653)	—	—	(10,653)	(3,022)	—	—	(3,022)
Other	1,483	3	416	1,902	1,733	60	82	1,875
Net assets released from restrictions (note 12)	71,733	(71,733)	—	—	64,209	(64,209)	—	—
Total revenues	79,278	(26,469)	21,272	74,081	134,944	103,097	28,360	266,401
Expenses (note 16(a)):								
Program services	100,126	—	—	100,126	79,091	—	—	79,091
General and administrative (note 16(b))	9,979	—	—	9,979	10,124	—	—	10,124
Fund-raising	5,455	—	—	5,455	6,288	—	—	6,288
Total expenses	115,560	—	—	115,560	95,503	—	—	95,503
Change in net assets	(36,282)	(26,469)	21,272	(41,479)	39,441	103,097	28,360	170,898
Net assets, beginning of year	98,801	594,788	477,363	1,170,952	59,360	491,691	449,003	1,000,054
Net assets, end of year	$ 62,519	568,319	498,635	1,129,473	98,801	594,788	477,363	1,170,952

See accompanying notes to consolidated financial statements.

GEORGIA TECH FOUNDATION, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2012 and 2011

(In thousands)

		2012	2011
Cash flows from operating activities:			
Change in net assets	$	(41,479)	170,898
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation		1,526	1,542
Accretion/ amortization of bond discount and premium		865	19
Net realized/unrealized loss (gain) on investments		24,593	(175,698)
Net change in fair value of derivative financial instruments		10,653	3,022
Actuarial loss (gain) on trusts and annuities		624	(3,527)
Contribution of noncash assets		(10,966)	(10,929)
Proceeds from gifts restricted for long-term investment		(25,824)	(25,505)
(Increase) decrease in contributions receivable		(5,293)	7,403
Increase in other assets		(414)	(510)
Increase in accounts payable		190	1,542
Increase (decrease) in other liabilities		6,798	(63)
Decrease in commitment payable		(491)	(306)
Net cash used in operating activities		(39,218)	(32,112)
Cash flows from investing activities:			
Proceeds from the sales and maturities of investments		383,497	318,794
Purchases of investments		(364,248)	(327,722)
(Decrease) increase in funds held on behalf of other organization		(2,642)	16,654
(Decrease) increase in revocable gift		(954)	4,749
Increase in capital reserve funds		(1,042)	(455)
Proceeds from principal payments of leases receivable		4,668	4,432
Purchase of capital assets		(791)	(558)
Net cash provided by investing activities		18,488	15,894
Cash flows from financing activities:			
Proceeds from lines of credit		12,547	20,045
Repayments of lines of credit		(9,651)	(21,424)
Principal repayments of bonds payable		(135,625)	(6,990)
Proceeds from bond issuance		160,291	—
Net payments to terminate derivative financial instruments		(33,374)	—
Receipt of cash from trusts		814	861
Payments to life income beneficiaries		(708)	(805)
Proceeds from gifts restricted for long-term investment		25,824	25,505
Net cash provided by financing activities		20,118	17,192
(Decrease) increase in cash and cash equivalents		(612)	974
Cash and cash equivalents, beginning of year		2,981	2,007
Cash and cash equivalents, end of year	$	2,369	2,981
Cash paid for interest	$	13,573	13,901
Noncash activities:			
Contribution of charitable trusts, annuities	$	1,159	564
Contributions of securities		9,807	10,365
Total noncash activities	$	10,966	10,929

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

The Georgia Tech Foundation, Inc. (the Foundation) was incorporated in the state of Georgia in 1932 as a not-for-profit corporation. The 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 unit of the University System of Georgia and is governed by the Board of Regents of the University System of Georgia (BOR).

(i) Wholly Owned Subsidiaries

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

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

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

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

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

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

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

(ii) Affiliated Organizations

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

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

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

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

Georgia Tech Global, Inc. 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; and

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

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

(b) Basis of Presentation

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

(c) Classification of Net Assets

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

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

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

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

(d) Fair Value of Financial Instruments

Cash equivalents and accounts payable are carried at amounts which approximate their fair value due to the short--term nature of these instruments. Commitments payable and lines of credit are carried at the amount owed, which approximates fair value. Contributions receivable are estimated by discounting expected future cash flows at risk adjusted market interest rates, which approximate fair value at the time of the gift. See notes 1(g), 1(h), 7, 8, 9, 10, and 11, regarding investments, charitable remainder trusts, bonds payable, amounts due to life beneficiaries, funds held on behalf of other organization, revocable gift, and derivative financial instruments, respectively, for disclosures regarding fair value.

(e) Cash and Cash Equivalents

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

(g) 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.

(h) 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 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, 2012 and 2011. 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

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appraisals conducted by third-party appraisers. The Foundation uses NAV per share or its equivalent as a practical expedient to estimate fair value although, NAV in many instances may not equal realizable value. The NAV per share or its equivalent was applied to certain investments that do not have readily determinable fair values including hedge funds, private equity, real estate and natural resources. Valuation processes and methodologies utilized by the general partners and investment managers are reviewed by Foundation management.

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.

(i) 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.

(j) 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.

(k) 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.

(Continued)

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

(l) 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.

(m) 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.

(Dollars in thousands)

(2) Contributions Receivable, Net

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

		2012	2011
Within one year	$	28,488	22,655
One to five years		50,717	51,263
More than five years		6,554	5,168
Gross contributions receivable		85,759	79,086
Less, allowance for uncollectible contributions		(6,426)	(5,926)
Less, present value component		(4,965)	(4,085)
Net contributions receivable	$	74,368	69,075

The discount rates used to calculate the present value component range from 2.4% to 5.14%.

The consolidated financial statements do not include conditional pledges, expectancies, and bequests that have not been recognized as revenue. These undiscounted amounts totaled $303,161 and $286,446 at June 30, 2012 and 2011, 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, 2012 and 2011, the four largest outstanding donor pledge balances represented 54% and 55%, respectively, of the Foundation’s gross contribution receivable.

(Dollars in thousands)

(3) Investments

Investments at June 30, 2012 and 2011 are summarized as follows:

	Fiscal year 2012		Fiscal year 2011	
	Percentage	**Amount**	**Percentage**	**Amount**
Cash and cash equivalents	4.0%	$ 50,975	3.8%	$ 49,777
Domestic equities	14.6	187,293	15.2	200,297
International equities	13.1	167,901	14.9	195,587
Bonds and bond funds	8.9	114,555	9.4	123,702
Commodity fund	1.1	14,123	—	—
Hedge funds:				
Long-short funds	10.2	131,541	11.6	153,390
Multi-strategy funds	12.0	153,825	9.8	129,351
Private equities:				
Buyout	10.6	136,576	11.2	147,585
Venture capital	8.4	107,787	8.4	110,985
Distressed securities	5.5	70,863	5.7	74,807
Real estate and real estate funds	5.0	64,516	4.3	56,359
Natural resources	6.6	85,134	5.7	74,711
	100.0%	$ 1,285,089	100.0%	$ 1,316,551

The Foundation has investments, as a limited partner, in 123 and 118 partnerships at June 30, 2012 and 2011, 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 9.98% of that partnership's assets, no individual partnership investment exceeds 1.2% of the Foundation's assets, and no manager controls partnerships having more than 2.6% 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, 2012 and 2011 are reasonable.

As of June 30, 2012 and 2011, the Foundation's direct investment in real estate consists of ownership of properties with a total net book value of $27,782 and $28,653, respectively. Depreciation expense totaling $246 and $231, related to investments in real estate, was recognized during the years ended June 30, 2012 and 2011, 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, 2012, the fair value of the Foundation's hedge funds and private investments totaled $285,366 and $437,094, respectively. As of June 30, 2011, the fair value of the Foundation's hedge funds and private investments totaled $282,741 and $435,794, respectively. The limitations and restrictions on the Foundation's ability to redeem or sell these investments vary by investment and have required notice periods for certain hedge funds, to specified terms at inception (generally 10 years) associated with private investment interests. Based upon the terms and conditions in effect as of June 30, 2012, the Foundation may redeem hedge funds with a total fair value of $234,822 upon notification to the funds. During fiscal 2011, the Foundation elected to enter in agreements with three hedge fund investments, with a fair value of $50,544 as of June 30, 2012, for an additional two years in accordance with its investment strategy (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, 2012, management estimates the average remaining life of the private investments is approximately five years.

(Dollars in thousands)

As of June 30, 2012 and 2011, the Foundation's remaining outstanding commitments to private investments, which are projected to be paid over the succeeding six years, totaled $137,046 and $149,799, respectively, in the following investment strategies:

		2012	2011
Private equity:			
Venture capital	$	39,538	37,821
Buyout		20,005	28,682
Distressed securities		16,416	11,097
Real estate		26,476	39,504
Natural resources		34,611	32,695
	$	137,046	149,799

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

The Foundation charges investment accounts an administrative fee for general overhead costs incurred in connection with the support and management of its investment funds. During 2012 and 2011, the Foundation charged an administrative fee, which is based on a percentage of the twelve quarter trailing average market value of endowment funds, totaling $6,482 and $6,729, respectively.

(4) Leases

(a) Capital Leases

(i) Campus Recreation Center Lease

In support of the Institute, the Foundation borrowed funds and constructed and placed into service the Campus Recreation Center (CRC) in 2004. It then leased the facility to the BOR under an annual lease that expires on February 28 of each year, but is renewable on a year-by-year basis at the option of the BOR until 2031. Under the terms of the lease, payments are not to exceed $4,000 annually and are used to retire the debt incurred by the Foundation and provide for a capital replacement reserve. The BOR's failure to exercise its options through 2031 has been determined to be remote and thus, a lease receivable has been recorded totaling $46,251 and $37,487 as of June 30, 2012 and 2011, respectively. The debt outstanding on the Series 2001A, Series 2011A and Series 2011B Bonds (collectively, the CRC Bonds) totaled $41,730 and $37,915 as of June 30, 2012 and 2011, respectively.

In November 2011, the Foundation refunded the Series 2001A Bonds with the proceeds of the Series 2011A Bonds, which resulted in additional debt service requirements (note 7). 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 3.508% annually, which is the Foundation's total interest cost of the Series 2011 Bonds. The Foundation recorded a corresponding deferred revenue for $9,817, representing the revenue to be recognized in future periods from the lease as a result of the additional debt service requirement that will be recorded as revenue over the term of the related debt.

The annual lease payments, including payments to the capital replacement reserve for fiscal year 2013 through 2030, range from $3,613 to $3,621, and for fiscal year 2031, it is $2,000. The payments for the capital replacement reserve for fiscal year 2013 through 2030 range from $306 to $307.

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 $141,459 and $117,718 as of June 30, 2012 and 2011, 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 debt outstanding on the Series 2002B, Series 2012A and Series 2012B Bonds (collectively, the Technology Square Bonds), not including the debt associated with the Georgia Tech Hotel and Conference Center, totaled \$126,660 and \$120,895 as of June 30, 2012 and 2011, 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 7). 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 3.347% annually, which was the Foundation's total interest cost in the Series 2012 Bonds. The Foundation recorded a corresponding deferred revenue liability for \$27,356, representing the revenue to be recognized in future periods from the lease as a result of the additional debt service requirement that will be recorded as revenue over the term of the related debt.

The annual lease payments, including payments to the capital replacement reserve for fiscal year 2013 through 2022 and 2023 through 2032, are \$10,718 and \$9,010, respectively. The payments for the capital replacement reserve for fiscal year 2013 through 2032 range from \$505 to \$506.

(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 2012 and 2011, the Foundation received \$4,250 each year in lease payments, representing base rent, from the third party; \$684 and \$621, respectively, in payments for capital replacement; and \$0 each year in payments for incentive rent. The Foundation has debt outstanding totaling \$34,080 as of June 30, 2012, 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).

(c) Capital Reserve Funds

At June 30, 2012 and 2011, the Foundation held funds for the purpose of capital replacement for the Campus Recreation Center, Technology Square and the Georgia Tech Hotel and Conference Center totaling \$8,339 and \$7,297, respectively. The funds totaling \$7,297 at June 30, 2011 were reclassified from cash and investments to capital reserve funds in the accompanying consolidated statements of financial position to conform to the 2012 presentation. At June 30, 2012, \$6,726 of the capital reserve fund is held for the Institute for capital replacement for the Campus Recreation Center and Technology Square and is included in other liabilities in the accompanying consolidated statements of financial position.

(Dollars in thousands)

(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:

		June 30	
		2012	**2011**
Land	$	3,395	3,395
Buildings		38,868	38,868
Furniture and equipment		8,944	8,404
Less accumulated depreciation		(14,530)	(13,501)
Total capital assets	$	36,677	37,166

Depreciation expense totaling $1,280 and $1,311 was recognized during 2012 and 2011, 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 principal and interest payments until maturity. At June 30, 2012 and 2011, respectively, Facilities had $9,769 and $10,260 outstanding on the 2010B Bond, including accrued interest. Foundation payments to Facilities during fiscal years 2012 and 2011, to satisfy Facilities' debt service requirements, totaled $819 and $638, respectively. At June 30, 2012, amounts due in less than one year, in one to five years, and in more than five years totaled $549, $2,085, and $7,135, 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 $815 and $847 as of June 30, 2012 and 2011, respectively.

(Continued)

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 $2,129 and $2,267 as of June 30, 2012 and 2011, respectively. The Foundation has recorded a contribution receivable, discounted to give effect to the future cash flows from the GTAA, in the amount of $1,505 and $1,574, as of June 30, 2012 and 2011, respectively.

(7) Debt

(a) Lines of Credit

The Foundation had three $10,000 revolving lines of credit in the name of the GTFFC in both 2012 and 2011. As of June 30, 2012 and 2011, $27,967 and $24,908, respectively, was the total aggregate outstanding on the lines of credit. Interest is calculated using the 30-day LIBOR plus 0.60% as of June 30, 2012 and 2011, respectively, for the lines of credit. This resulted in an effective interest rate of 0.85% and 0.79% at June 30, 2012 and 2011, respectively. One line of credit, was renewed through February 2013, the second through June 2013 and the third was extended until November 2013. The Foundation expects to renew each line of credit upon expiration. As of June 30, 2012, lines of credit due within one year total $18,717 and lines of credit due after one year total $9,250.

The Foundation also has available two other $10,000 lines of credit. As of June 30, 2012 and 2011, $0 and $163, respectively, have been drawn on these credit facilities. One line of credit was renewed during fiscal 2012 in the amount of $10,000 and expires in June 2013. A second line of credit was renewed during fiscal 2012 for $10,000 and expires November 2012. The Foundation expects to renew both lines of credit upon expiration.

(Dollars in thousands)

(b) Bonds Payable

Bonds payable as of June 30, 2012 and 2011 consist of the following:

	Interest rate	Maturity (serially)	Original issue	Outstanding as of June 30 2012	2011
Campus Recreation Center Bonds:					
Series 2001A – tax exempt	5.00% – 5.75%	2031	$ 44,980	—	37,915
Series 2011A – tax exempt	4.00% – 5.25%	2031	32,395	32,695	—
Series 2011B – taxable	0.58% – 2.53%	2018	9,035	9,035	—
Technology Square Bonds:					
Series 2002A – tax exempt	4.50% – 5.25%	2032	111,090	—	94,050
Series 2002B – taxable	6.15% – 6.66%	2032	73,190	59,785	61,725
Series 2012A – tax exempt	2.00% – 5.00%	2032	79,500	79,500	—
Series 2012B – taxable	0.500% – 1.890%	2018	21,455	21,455	—
2009 Bonds:					
Series 2009A – tax exempt	4.375% – 5.00%	2030	18,970	18,970	18,970
Series 2009B – taxable	3.185% – 6.241%	2025	35,000	31,600	33,320
Total bonds payable, gross				253,040	245,980
Unamortized premium				17,939	743
Unamortized discount				(22)	(1,297)
Total bonds payable, net				$ 270,957	245,426

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 Bonds were issued to refund the outstanding principal amount of $36,840 of the Series 2001A Bonds and pay certain costs of issuance. In addition, during November 2011, the Series 2011B Bonds were issued to finance a portion of the termination of an interest rate swap and pay certain costs of issuance (note 8).

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 Bond was issued with a bond premium of $4,805, which is being amortized and had a balance of $4,595 and $0 as of June 30, 2012 and 2011, respectively. Annual debt service payments including interest related to these bonds for fiscal years 2013 through 2031 range from $3,307 to $3,314.

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 installation of an addition to the Institute's campus known as Technology Square. Technology Square includes the 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. In addition, during April 2012, the Foundation borrowed $21,455 in Series 2012B Bonds to finance a portion the termination of an interest rate swap and pay certain costs of issuance (note 8).

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 $12,646 and $0 as of June 30, 2012 and 2011, respectively. Annual debt service payments including interest related to the Series 2002B Bonds for the fiscal years 2013 through 2022 and 2023 through 2032 range from $5,943 to $5,949 and $4,334 to $4,345, respectively. Annual debt service payments including interest related to the Series 2012A and Series 2012B Bonds for fiscal years 2013 through 2032 range from $7,748 to $7,754.

Series 2009 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.

The Series 2009A Bonds were issued with a bond premium of $837, which is being amortized and had a balance of $698 and $743 as of June 30, 2012 and 2011, respectively. Annual debt service payments including interest related to the Series 2009A Bonds for fiscal years 2013 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 2013 through 2025 range from $3,475 to $3,490.

(Dollars in thousands)

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

	Campus Recreation Center Bonds		Technology Square Bonds			2009 Bonds	
	Series 2011A	Series 2011B	Series 2002B	Series 2012A	Series 2012B	Series 2009A	Series 2009B
Fiscal year:							
2013	$ —	1,595	2,060	—	3,475	—	1,765
2014	—	1,605	2,190	—	3,720	—	1,830
2015	—	1,620	2,335	—	3,750	—	1,900
2016	—	1,645	2,500	—	3,795	—	1,995
2017	—	1,670	2,670	—	3,850	—	2,105
Thereafter	32,695	900	48,030	79,500	2,865	18,970	22,005
	$ 32,695	9,035	59,785	79,500	21,455	18,970	31,600

Principal redemptions on the Series 2011A, Series 2012A, and Series 2009A Bonds begin during fiscal 2018.

The fair value of total bonds payable is approximately $299,000 and $256,000 based on quoted market prices at June 30, 2012 and 2011, 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.

In 2003, the Foundation sold an interest rate swap option (the 2001A Swaption) relating to the 2001A Bonds 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 Foundation was notified by the third party of the decision to exercise the 2001A Swaption on November 1, 2011. The Foundation paid $10,101 to terminate the swap created pursuant to the 2001A Swaption during November 2011. The Foundation paid a portion of the termination payment of $8,914 with the proceeds from the Series 2011B Bonds, and the remaining amount of $1,187 was paid with the Foundation's available cash on hand. Prior to the termination of the interest rate swap, a loss of $2,204 was recognized in 2012 as a change in fair value of derivative financial instruments in the consolidated statements of activities, reducing unrestricted net assets.

In 2003, the Foundation sold an interest rate swap option (the 2002A Swaption) relating to the 2002A Bonds 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 Foundation was notified by the third party of the decision to exercise the 2002A Swaption on May 1, 2012. The Foundation paid $23,515 to terminate the swap created pursuant to the 2002A Swaption during May 2012. The Foundation paid a portion of the termination payment with the proceeds from the Series 2012B Bonds in the amount of

(Dollars in thousands)

$21,264, and the remaining amount of $2,251 was paid with the Foundation's available cash on hand. Prior to the termination of the interest rate swap, a loss of $8,449 was recognized in 2012 as a change in fair value of derivative financial instruments in the consolidated statements of activities, reducing unrestricted net assets.

(9) Funds Held on Behalf of Other Organization

The Foundation manages certain investments on behalf of GTAA. These investments amount to $89,964 and $92,606 at June 30, 2012 and 2011, respectively, and are recorded in the accompanying consolidated statements of financial position as funds held on behalf of other organization. The Foundation values the funds held on behalf of GTAA on a quarterly basis. The Foundation's agreement with GTAA stipulates that a six month notification of intent to redeem is required, and that the funds will be distributed to GTAA at the value determined by the Foundation at the end of the next quarter end after the six month notification period.

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

		2012	2011
Balance, beginning of year	$	92,606	75,952
Additions		7,887	14,488
Investment (losses) gains, net of fees, attributable to balances		(1,134)	12,983
Withdrawals		(9,395)	(10,817)
Balance, end of year	$	89,964	92,606

(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 Foundation values the revocable gift on a quarterly basis. The project agreement stipulates that the Foundation shall transfer the revocable gift to IPST within twelve months following notification of intent to redeem. If a redemption notice is received, the revocable gift will be distributed to the IPST at the value determined by the Foundation as of the end of the quarter immediately prior to when the transfer is made. The project agreement states that the Foundation may administer the transferred assets according to its own investment and spending policies, adhering to the donor restrictions on the use of the funds. The temporarily restricted assets benefit the paper science and technology program at the Institute. The balance of the revocable gift totaled $38,859 and $39,813 as of June 30, 2012 and 2011, 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

(Continued)

liability, respectively, and distributions to the Institute to support its paper science and technology program reduce the liability. Distributions to the Institute totaled $1,271 and $1,269 in 2012 and 2011, respectively.

(11) Fair Value Measurements

The Foundation's estimates of fair value for financial assets and liabilities are based on the framework established in the Financial Accounting Standards Board Accounting Standards Codification 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.

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

Level 3 – Valuations are derived from other valuation methodologies, including pricing models, discounted cash flow models, and similar techniques. Level 3 valuations incorporate certain assumptions and projections that are not observable in the market and require significant professional judgment in determining the fair value assigned to such assets and liabilities. Level 3 investments primarily comprise alternative investments, which do not have a liquid market at the balance sheet date. Inputs used 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. Foundation investments for which NAV is used as a practical expedient to estimate fair value are classified as either Level 2 or Level 3 in the fair value hierarchy, depending on the classifications of the underlying fund assets and the Foundation's ability to redeem its interest in the fund, at or near the balance sheet date. If the underlying fund assets are available for redemption at NAV at or near the balance sheet date (generally within 90 days), then the Foundation's interest in the fund may be classified as a Level 2 investment. The classification of assets and liabilities in the fair value hierarchy is not necessarily an indication of the risks or liquidity, but is based on the observability of the valuation inputs.

(Dollars in thousands)

The following is a summary of the levels within the fair value hierarchy for the Foundation's assets and liabilities as of June 30, 2012:

		Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days notice
Assets:							
Cash and cash equivalents	$	2,369	—	—	2,369	Daily	1
Capital reserve funds		8,339	—	—	8,339	Daily	1
Investments:							
Cash and cash equivalents		50,975	—	—	50,975	Daily	1
Domestic equities		161,680	—	293	161,973	Daily	3 – 5
Domestic equities – commingled funds		—	25,320	—	25,320	Monthly	5
International equities		69,259	18,728	—	87,987	Daily	3 – 5
International equities – commingled funds		—	79,914	—	79,914	Monthly	3 – 15
Bond and bond funds		101,676	—	—	101,676	Daily	1 – 3
Bond and bond funds – commingled funds		—	12,879	—	12,879	Daily	5
Commodities – commingled funds		—	14,123	—	14,123		
Hedge funds		—	73,679	211,687	285,366	See note(a)	See note (a)
Private equities		—	—	315,226	315,226	Illiquid	N/A
Real estate funds		—	5	—	5	Daily	3 – 5
Real estate and real estate funds		—	—	64,511	64,511	Illiquid	N/A
Natural resources		—	—	85,134	85,134	Illiquid	N/A
		383,590	224,648	676,851	1,285,089		
Charitable remainder trusts		20,460	—	—	20,460		
Total	$	414,758	224,648	676,851	1,316,257		
Liabilities:							
Amounts due to life beneficiaries	$	—	—	12,813	12,813		
Funds held on behalf of other organization		—	—	89,964	89,964		
Revocable gift		—	—	38,859	38,859		
Total	$	—	—	141,636	141,636		

Note (a) – Hedge Funds (June 30, 2012):

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 $73,679, have been classified as Level 2. Certain other hedge funds have semiannual or annual exit dates, which occur more than 90 days after the Foundation's fiscal year end. The fair value of these hedge funds, with a notice and a redemption period exceeding 90 days, which could be redeemed during 2013, totals $161,143. Three hedge funds, with a fair value of $50,544, contain a provision that it may be redeemed over a two year period upon a notification to the fund manager.

(Dollars in thousands)

The following is a summary of the levels within the fair value hierarchy for the Foundation's assets and liabilities as of June 30, 2011:

		Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days notice
Assets:							
Cash and cash equivalents	$	2,981	—	—	2,981	Daily	1
Capital reserve funds		7,297	—	—	7,297	Daily	1
Investments:							
Cash and cash equivalents		49,777	—	—	49,777	Daily	1
Domestic equities		169,978	—	294	170,272	Daily	3 – 5
Domestic equities – commingled funds		—	30,025	—	30,025	Monthly	5
International equities		80,278	15,171	—	95,449	Daily	3 – 5
International equities – commingled funds		—	100,138	—	100,138	Monthly	3 – 15
Bond and bond funds		111,825	—	—	111,825	Daily	1 – 3
Bond and bond funds – commingled funds		—	11,877	—	11,877	Daily	5
Hedge funds		—	85,839	196,901	282,740	See note (b)	See note (b)
Private equities		—	—	333,378	333,378	Illiquid	N/A
Real estate funds		—	7	—	7	Daily	3 – 5
Real estate and real estate funds		—	—	56,352	56,352	Illiquid	N/A
Natural resources		—	—	74,711	74,711	Illiquid	N/A
		411,858	243,057	661,636	1,316,551		
Charitable remainder trusts		22,105	—	—	22,105		
Total	$	444,241	243,057	661,636	1,348,934		
Liabilities:							
Amounts due to life beneficiaries	$	—	—	12,299	12,299		
Funds held on behalf of other organization		—	—	92,606	92,606		
Revocable gift		—	—	39,813	39,813		
Derivative financial instruments		—	22,721	—	22,721		
Total	$	—	22,721	144,718	167,439		

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

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

(Dollars in thousands)

During 2012, the fair value of investments classified as Level 3 in the fair value hierarchy changed as follows:

		Hedge funds	Private equities	Real estate and real estate funds	Natural resources and other equity	Total
Fair value measurements using significant unobservable inputs (Level 3):						
Beginning value, as of July 1, 2011	$	196,901	333,378	56,352	75,005	661,636
Investment income		(249)	5,974	424	4,544	10,693
Realized and unrealized gains (losses)		(3,185)	(203)	3,271	10,602	10,485
Additions during the year		24,681	42,421	16,994	9,901	93,997
Transfers to Level 3		407	—	—	—	407
Withdrawals/distributions		(6,868)	(66,344)	(12,530)	(14,625)	(100,367)
Ending value, as of June 30, 2012	$	211,687	315,226	64,511	85,427	676,851
The amount of the fair value represented by net unrealized gains (losses) as of June 30, 2012	$	65,197	154,960	1,118	44,588	265,863

One hedge fund, with a fair value of $407, imposed a redemption restriction and was transferred from Level 2 to Level 3 during 2012.

(Dollars in thousands)

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

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

During 2012, the fair value of liabilities classified as Level 3 in the fair value hierarchy changed as follows:

		Due to life beneficiaries	Funds held on behalf of other organization	Revocable gift	Total
Balance at July 1, 2011	$	12,299	92,606	39,813	144,718
Change in present value of income interest		691	—	—	691
Net income, (losses) earnings attributable to balances		—	(1,134)	317	(817)
Additions during the year		1,950	7,887	—	9,837
Withdrawals during the year		(2,127)	(9,395)	(1,271)	(12,793)
Balance at June 30, 2012	$	12,813	89,964	38,859	141,636

(Dollars in thousands)

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

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

(12) Net Assets Released from Restrictions

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

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

Net assets were released from restrictions related to accomplishing program activities for the years ended June 30, 2012 and 2011 as follows:

		2012	2011
Georgia Institute of Technology	$	70,909	62,068
Georgia Tech Alumni Association		29	57
Georgia Tech Athletic Association		319	266
Georgia Tech Facilities, Inc.		276	1,818
Georgia Tech Global, Inc.		200	—
Total net assets released from restrictions	$	71,733	64,209

(Dollars in thousands)

(13) Net Assets

Temporarily restricted net assets at June 30, 2012 and 2011 are restricted for the following purposes:

		2012	2011
Accumulated appreciation on donor-restricted endowment funds	$	211,619	227,527
Academic programs		215,421	217,821
Scholarships and fellowships		76,904	82,433
Institutional support		53,591	57,830
Facilities		10,784	9,177
	$	568,319	594,788

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

Permanently restricted net assets consist of the following at June 30, 2012 and 2011:

		2012	2011
Contributions receivable	$	37,797	42,695
Trust funds held by others		4,154	4,191
Endowment funds		456,684	430,477
	$	498,635	477,363

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.

(Continued)

(Dollars in thousands)

(14) Endowment Net Assets

Endowment net assets consist of the following at June 30, 2012:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(3,890)	402,369	456,684	855,163
Board-designated endowment funds		157,121	—	—	157,121
Total endowment net assets	$	153,231	402,369	456,684	1,012,284

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

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

The Foundation's endowment consists of approximately 2,100 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% 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 assure that it has the funds necessary to meet its obligations.

(Dollars in thousands)

(c) Spending Policy

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

Changes in endowment net assets for the years ended June 30, 2012 and 2011 are as follows:

	2012				2011			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ 170,145	443,829	430,477	1,044,451	133,565	347,451	399,623	880,639
Investment return:								
Investment income	3,493	12,348	51	15,892	3,370	10,348	96	13,814
Net realized/unrealized (loss) gain	(6,630)	(16,632)	(191)	(23,453)	43,705	121,878	1,562	167,145
Total investment return	(3,137)	(4,284)	(140)	(7,561)	47,075	132,226	1,658	180,959
Contributions	—	182	25,824	26,006	—	2,303	27,123	29,426
Other (loss) income	—	(61)	416	355	—	(15)	82	67
Change in value of trusts and annuities	—	(508)	107	(401)	—	408	1,991	2,399
Appropriation of endowment assets for expenditure	(14,428)	(36,789)	—	(51,217)	(10,915)	(38,544)	—	(49,459)
Transfers to create board designated funds	651	—	—	651	420	—	—	420
Endowment net assets, end of year	$ 153,231	402,369	456,684	1,012,284	170,145	443,829	430,477	1,044,451

(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 unrestricted net assets were $3,890 and $1,805 as of June 30, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of recent permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

(Dollars in thousands)

(15) Pension Plan

The Foundation has a mandatory defined contribution plan for its employees in which the employees contribute 5% of their pretax earnings and the Foundation matches the employees contribution on a 2-for-1 basis. The funds are invested with a third-party provider in investment options chosen by the employees. During 2012 and 2011, 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 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, 2012 and 2011 are as follows:

		2012	2011
Program services:			
Georgia Institute of Technology	$	88,176	72,042
Georgia Advanced Technology Ventures		6,249	—
Georgia Tech Alumni Association		4,340	4,475
Georgia Tech Athletic Association		713	626
Georgia Tech Facilities, Inc.		448	1,948
Georgia Tech Global, Inc.		200	—
		100,126	79,091
General and administrative		9,979	10,124
Fund-raising		5,455	6,288
Total expenses	$	115,560	95,503

Interest expense, relating to debt incurred to support program services totaled $12,079 and $11,414 for the years ended June 30, 2012 and 2011, respectively.

(Dollars in thousands)

(b) General and Administrative Expenses

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 expenses for the years ended June 30, 2012 and 2011 are as follows:

		2012	2011
Foundation operations	$	5,177	5,131
Hotel and conference center		190	130
Real estate expenses		674	875
Depreciation expense		1,526	1,542
Interest expense		2,412	2,446
Total	$	9,979	10,124

(c) Natural Classification of Expenditures

The Foundation classifies its expenses in functional categories. Expenditures in the natural categories for the years ended June 30, 2012 and 2011 are as follows:

		2012	2011
Salaries	$	3,000	3,028
Benefits		466	467
Other personnel services		24	24
Travel		83	70
Utilities		45	77
Supplies and other services		3,058	1,883
Depreciation		1,526	1,542
Interest		14,491	13,860
Expenses incurred or paid to or on behalf of:			
Georgia Institute of Technology		80,917	67,503
Georgia Advanced Technology Ventures		6,249	—
Georgia Tech Alumni Association		4,340	4,475
Georgia Tech Athletic Association		713	626
Georgia Tech Facilities, Inc.		448	1,948
Georgia Tech Global, Inc.		200	—
Total	$	115,560	95,503

(Continued)

(17) Related Parties

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

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

Three members of the Board of Trustees of the Georgia Tech Alumni Association are also ex-officio voting trustees of the Foundation and two members are voting trustees of the Foundation. One of the ex-officio voting trustees is also a member of the BOR.

One member of the Board of Directors of the GATV is also a voting trustee of the Foundation.

Transactions with other related parties are described in notes 4, 6, 7, 9, 12, and 18.

(18) Commitments and Contingencies

In June 2011, the Foundation committed $21,382 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 2012 and 2013. If the funds are not expended by June 30, 2013, the remainder is retained by the Foundation. As of June 30, 2012, $20,201 had been expended and $1,181 remained as a commitment.

During June 2012, the Foundation approved funding of deferred compensation in the amount of $167 in 2013 to benefit the president of the Institute.

During 2012 and 2011, the Foundation approved requests by the Institute for additional funding not to exceed $8,150 and $900, respectively. As of June 30, 2012 and 2011, $7,900 and $949 had been expended, respectively. As of June 30, 2012 and 2011, $129 and $156 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, 2012 and 2011.

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 2011, but was amended to expire in June 2013. 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, 2012 and 2011 under this program was $138 and $255, respectively. The Foundation will guarantee loans up to an aggregate total of $1,500.

(19) Tax Matter

The Foundation does not have any material unrecognized tax positions that should be recognized in the consolidated financial statements for 2012 or 2011.

(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, 2012 through October 24, 2012, which was the date the financial statements were available to be issued and determined that there were no significant subsequent events requiring disclosure in the consolidated financial statements other than as follows:

In September 2012, the Foundation approved a grant to the Institute for the construction of the Engineered Biosystems Building (EBB) on the Institute’s campus for an amount not to exceed $35,500. In October 2012, the Foundation established a non revolving line of credit with a bank in the amount of $35,500 to fund the grant. The line of credit expires in October 2014. In October 2012, the Foundation borrowed $32,000 on the line of credit and granted $32,000 to the Institute for the construction of the EBB. The amount due to the bank will be reduced with gifts received for the support of the EBB and other support received from affiliated organizations.