GEORGIA TECH FOUNDATION, INC.

Consolidated Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

GEORGIA TECH FOUNDATION, INC.

Table of Contents

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

Independent Auditors' Report

The Board of Trustees
Georgia Tech Foundation, Inc.:

We have audited the accompanying consolidated financial statements of Georgia Tech Foundation, Inc. and its subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Georgia Tech Foundation, Inc. and its subsidiaries as of June 30, 2016 and 2015, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Atlanta, Georgia
September 20, 2016

GEORGIA TECH FOUNDATION, INC.

Consolidated Statements of Financial Position

June 30, 2016 and 2015

(In thousands)

Assets		**2016**	**2015**
Cash and cash equivalents	$	6,145	4,584
Restricted cash (note 7)		2,236	—
Capital reserve funds (notes 4 and 9)		8,236	8,524
Contributions receivable, net (notes 2 and 6)		88,838	97,083
Investments (notes 3 and 9)		1,488,485	1,564,727
Other assets (note 6)		9,135	7,311
Leases receivable (note 4)		154,470	163,155
Contributions receivable from remainder trusts (note 9)		14,367	16,052
Charitable remainder trusts (note 9)		17,178	23,005
Capital assets, net (note 5)		33,168	35,104
Total assets	$	1,822,258	1,919,545
Liabilities and Net Assets			
Accounts payable	$	7,361	7,481
Commitment payable (note 6)		7,720	8,248
Lines of credit (note 7)		31,230	40,498
Bonds payable, net (notes 4 and 7)		236,587	237,129
Amounts due to life beneficiaries		13,516	11,435
Deferred revenue (note 4)		25,741	28,510
Funds held on behalf of other organization (notes 3, 8, and 9)		98,450	109,163
Other liabilities (note 4)		9,335	9,439
Total liabilities		429,940	451,903
Net assets:			
Unrestricted		102,268	111,246
Temporarily restricted (note 11)		638,857	726,906
Permanently restricted (note 11)		651,193	629,490
		1,392,318	1,467,642
Commitments (notes 3, 4, 6, 7, 8, 13, and 16)			
Total liabilities and net assets	$	1,822,258	1,919,545

See accompanying notes to consolidated financial statements.

GEORGIA TECH FOUNDATION, INC.

Consolidated Statements of Activities

Years ended June 30, 2016 and 2015

(In thousands)

	2016				2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:								
Gift income	$ 8,360	41,465	27,503	77,328	6,425	83,261	41,167	130,853
Lease revenue	13,541	—	—	13,541	13,611	—	—	13,611
Investment income, net of fees	4,489	13,286	95	17,870	5,312	16,251	165	21,728
Net realized/unrealized (loss) gain on investments	(15,482)	(51,075)	(1,689)	(68,246)	1,700	5,828	(57)	7,471
Change in value of trusts and annuities	(15)	(340)	(4,247)	(4,602)	(1)	(108)	(479)	(588)
Other	1,264	85	41	1,390	1,165	24	314	1,503
Net assets released from restrictions (note 11)	91,470	(91,470)	—	—	93,933	(93,933)	—	—
Total revenues	103,627	(88,049)	21,703	37,281	122,145	11,323	41,110	174,578
Expenses (note 14):								
Program services	94,431	—	—	94,431	95,496	—	—	95,496
General and administrative (note 14(b))	10,924	—	—	10,924	10,941	—	—	10,941
Loss on extinguishment of debt	2,191	—	—	2,191	—	—	—	—
Fund-raising	5,059	—	—	5,059	4,875	—	—	4,875
Total expenses	112,605	—	—	112,605	111,312	—	—	111,312
Change in net assets	(8,978)	(88,049)	21,703	(75,324)	10,833	11,323	41,110	63,266
Net assets, beginning of year	111,246	726,906	629,490	1,467,642	100,413	715,583	588,380	1,404,376
Net assets, end of year	$ 102,268	638,857	651,193	1,392,318	111,246	726,906	629,490	1,467,642

See accompanying notes to consolidated financial statements.

GEORGIA TECH FOUNDATION, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

		2016	2015
Cash flows from operating activities:			
Change in net assets	$	(75,324)	63,266
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation		1,695	1,703
Accretion/amortization of bond discount and premium		(1,117)	(1,097)
Loss on extinguishment of debt		2,191	—
Net realized/unrealized loss (gain) on investments		68,246	(7,471)
Actuarial loss on trusts and annuities		4,602	588
Contribution of noncash assets		(9,250)	(10,915)
Proceeds from gifts restricted for long-term investment		(41,014)	(28,781)
Proceeds from sale of donated securities not restricted for long-term investment		2,479	5,430
Decrease (increase) in contributions receivable		8,245	(47,965)
(Increase) decrease in other assets		(1,824)	686
(Decrease) increase in accounts payable		(120)	2,153
(Decrease) increase in other liabilities		(104)	655
Decrease in commitment payable		(528)	(517)
Net cash used in operating activities		(41,823)	(22,265)
Cash flows from investing activities:			
Proceeds from the sales and maturities of investments		363,524	568,501
Purchases of investments		(348,719)	(555,938)
Decrease in funds held on behalf of other organization		(10,713)	(699)
Proceeds from sale of capital assets		732	—
Decrease (increase) in capital reserve funds		288	(1,095)
Proceeds from principal payments on leases receivable		5,916	5,586
Purchase of capital assets		(1,029)	(785)
Net cash provided by investing activities		9,999	15,570
Cash flows from financing activities:			
Proceeds from lines of credit		4,383	7,417
Repayments of lines of credit		(13,651)	(18,381)
Principal repayments of bonds payable		(31,416)	(9,605)
Proceeds from issuance of bonds payable		30,180	—
Payments of bond issuance costs		(380)	—
Receipt of cash from trusts		6,369	318
Payments to life income beneficiaries		(878)	(868)
Proceeds from gifts restricted for long-term investment		41,014	28,781
Changes in restricted cash		(2,236)	—
Net cash provided by financing activities		33,385	7,662
Increase in cash and cash equivalents		1,561	967
Cash and cash equivalents, beginning of year		4,584	3,617
Cash and cash equivalents, end of year	$	6,145	4,584
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	11,780	12,135
Noncash activities:			
Contribution of charitable trusts, annuities	$	746	712
Contribution of real estate		—	167
Contributions of securities		8,504	10,036
Total noncash activities	$	9,250	10,915

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 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;

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

Biltmore Technology Square LLC was formed as a single member limited liability corporation in 2016 to serve as the holder of buildings and 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 that 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, 8, 14, 15, and 16.

(b) Basis of Presentation

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

(c) Classification of Net Assets

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

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

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

(d) Fair Value of Financial Instruments

Cash equivalents restricted cash, capital reserve funds, and accounts payable are carried at amounts that approximate their fair value due to the short-term nature of these instruments. Commitments payable and lines of credit are carried at the amount owed, which approximates fair value. Contributions receivable are estimated by discounting expected future cash flows at risk adjusted market interest rates, which approximate fair value at the time of the gift. See notes 1(h), 1(i), 1(n), 8 and 9, regarding investments, charitable remainder trusts, bonds payable, and funds held on behalf of other organization, 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 investments that may be held by investment managers for future investments and capital reserve funds.

(f) Capital Reserve Funds

The Foundation classifies payments received for the purpose of capital replacement for the Campus Recreation Center, Technology Square and the Georgia Tech Hotel and Conference Center as a capital reserve fund (note 4). The assets of the fund are held pursuant to the 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 individual fund based on the pro rata market value of each fund's investment balance and in accordance with any donor restrictions.

Investments in private partnership interests are valued using the net asset value (NAV) provided by the general partner as of June 30 of each fiscal year. The change in net assets related to partnership interests is presented as realized and unrealized gain and loss based upon the estimated fair value of each partnership as determined by the general partner. General partners of partnerships that invest in privately held companies (such as LBO and venture capital funds) typically value their assets at cost as adjusted based on recent arms' length transactions. Partnerships investing in public companies use quoted market prices and exchange rates, if applicable. General partners of marketable alternative investments provide values based on quoted market prices and exchange rates for publicly held securities and valuation estimates of derivative instruments. General partners of oil and gas partnerships, real estate partnerships, and similar funds value their assets based on periodic appraisals conducted by third-party appraisers. The Foundation uses NAV per share or its equivalent as a practical expedient to estimate fair value, although NAV in many instances may not equal realizable value. The NAV per share or its equivalent was applied to certain investments that do not have readily determinable fair values, including hedge funds, private equity, real estate, and natural resources. Valuation processes and methodologies utilized by the general partners and investment managers are reviewed by Foundation management.

Direct investments in real estate (as differentiated from real estate investments through managed funds) are stated at cost, net of accumulated depreciation. Long-lived assets, such as direct investments in real estate and capital assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(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 at the time of the donation. For charitable remainder trust agreements where the Foundation is not the trustee, a contribution receivable is recorded based on the present value of estimated future distributions expected to be received over the term of the agreement. A discount rate commensurate with the risk involved is estimated as of June 30 of each fiscal year.

(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.

The remaining portion of the donor-restricted endowment fund that is not classified as 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; and
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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the determination of fair value of certain nonpublicly traded partnership investments, the allowance for contributions receivable, and the assumptions made in recording liabilities to life beneficiaries.

(m) Tax Status

The Foundation and GTFFC are recognized as organizations exempt from federal income tax under Section 501(a) as an entity described in Section 501(c)(3) of the U.S. Internal Revenue Code, except for taxes on income from activities unrelated to its exempt purpose. GTFREHC is exempt from federal income tax under Section 501(a) as an entity described in Section 501(c)(2) of the U.S. Internal Revenue Code. The single member LLCs are disregarded for tax purposes.

(n) Recently Implemented Accounting Standards

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Liabilities* (ASU 2016-01). ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU is effective for not-for-profit entities for fiscal years beginning after December 15, 2018, with early adoption restricted to certain provisions and within certain time periods. Under the ASU, not-for-profit and private entities are no longer required to disclose fair value information concerning financial instruments measured at amortized cost such as long-term debt. This provision of ASU 2016-01 may be early adopted for financial statements, which have not yet been issued or made available for issuance. The Foundation early adopted this provision of ASU 2016-01 as of June 30, 2016. The Foundation will adopt the remaining provisions that are not allowed to be early adopted during fiscal year 2020.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02). The amendments in ASU 2016-02 create FASB ASC Topic 842, *Leases*, and supersede the requirements in ASC Topic 840, *Leases*. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under ASC Topic 840. Under the guidance of ASU 2016-02, a lessee should recognize in the balance sheet a liability to make lease payments (lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The accounting applied by a lessor under ASU 2016-02 is largely unchanged from that applied under ASC Topic 840. The ASU is effective for all business entities for fiscal years beginning after December 15, 2019. The Foundation will implement the provisions of ASU 2016-02 during fiscal year 2021. The Foundation has not yet determined the impact of the new standard on its current policies for lessee accounting.

(Dollars in thousands)

(2) Contributions Receivable, Net

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

		2016	2015
Within one year	$	21,511	24,037
One to five years		82,247	39,261
More than five years		3,711	56,180
Gross contributions receivable		107,469	119,478
Less allowance for uncollectible contributions		(7,650)	(8,549)
Less present value component		(10,981)	(13,846)
Net contributions receivable	$	88,838	97,083

Contributions receivable for current year gifts are initially measured at fair value in the year the receivable is recorded based on the present value of future cash flows discounted at a rate commensurate with risks involved, which is an application of the income approach. Current year gifts included in contributions receivable reflected at fair value at June 30, 2016 and 2015 were $15,854 and $67,622, respectively.

The discount rates used to calculate the present value component range from 2.39% to 5.02%.

The consolidated financial statements do not include conditional pledges, expectancies, and bequests that have not been recognized as revenue. These undiscounted amounts totaled $433,652 and $408,607 at June 30, 2016 and 2015, 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, 2016 and 2015, the four largest outstanding donor pledge balances represented 43% and 49%, respectively, of the Foundation’s gross contribution receivable.

(Dollars in thousands)

(3) Investments

Investments at June 30, 2016 and 2015 are summarized as follows:

	Fiscal year 2016		Fiscal year 2015	
	Percentage	**Amount**	**Percentage**	**Amount**
Cash and cash equivalents (a)	3.2%	$ 47,395	4.3%	$ 66,514
Domestic equities (b)	20.4	303,876	19.4	302,943
International equities (b)	20.1	298,731	20.0	312,942
Bonds and bond funds (c)	10.6	157,236	9.7	152,126
Hedge funds (d):				
Long-short funds	10.5	155,635	11.6	181,773
Multi-strategy funds	10.4	155,089	10.0	156,191
Private equities (e):				
Buyout funds	4.9	74,205	5.4	84,102
Venture funds	8.5	126,243	8.0	126,382
Distressed securities funds	3.2	47,481	3.0	47,648
Real estate and real estate funds (f)	4.0	60,059	4.6	71,850
Natural resources (e)	4.2	62,535	4.0	62,256
	100.0%	$ 1,488,485	100.0%	$ 1,564,727

(a) This category includes assets that are cash or readily convertible to cash, such as money market funds.

(b) This category includes investments in funds that take long positions in publicly traded equity securities, but also includes one fund, representing 4% of the category, that invests in both long and short equity securities. Approximately, 49% of the investments are in U.S. companies and 51% are in non-U.S. companies. A range of styles, market caps, and geographic focuses is included. The public nature of the securities makes this category very liquid.

(c) This category includes investments in funds that take primarily long positions in corporate bonds, senior loans, government bonds, and long and short positions in derivatives thereof. It also includes one fund in fiscal year 2016, representing 16% of the category, that invests in both long and short fixed income securities.

(d) This category includes investments in hedge funds that take long and short positions primarily in equity securities, credit securities, index derivatives, and event driven situations. Managers vary in style, market cap focus, geographic focus, sectors of focus, and types of securities, with some having considerable flexibility in each of these areas. The funds also vary in net long/short positioning with most equity funds generally maintaining a low net and little or no leverage. Most credit funds generally maintain a moderate net long position and little or no leverage.

(e) This category includes private equity funds that provide growth equity or take full ownership of the companies in which they invest, while venture funds take significant ownership positions in start up or early stage companies largely in the technology or healthcare spaces. These are private investments, including natural resource investments, that cannot be redeemed since the investment is distributed as the underlying investments are liquidated, which generally takes 4–8 years. There are currently no plans to sell any of these investments prior to their liquidation so the assets are carried at NAV as estimated by the fund manager.

(f) This category includes investments in direct real estate investments and real estate equity funds. The investments in real estate equity funds take ownership of properties ranging from office, retail, multifamily, land, and hotel. These are investments that cannot be redeemed since the investment is distributed as the underlying investments are liquidated, which generally takes 5–10 years. There are currently no plans to sell any of these investments prior to their liquidation so the assets are carried at NAV as estimated by the manager.

The Foundation has investments, as a limited partner, in 143 and 126 partnerships at June 30, 2016 and 2015, respectively. These partnerships invest in a wide variety of assets, including international equities, venture capital, buyout funds, distressed securities, real estate, fixed income, and diversifying strategies. At June 30, 2016, the Foundation’s largest ownership interest in a single partnership was 12.2% of that partnership’s assets. The Foundation’s ownership interest was 6.3% or less for the remaining partnerships. No individual partnership investment exceeds 1.3% of the Foundation’s assets and no manager controls partnerships having more than 1.5% 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, 2016 and 2015 are reasonable.

As of June 30, 2016 and 2015, the Foundation’s direct investment in real estate consists of ownership of properties with a total net book value of $25,954 and $26,392, respectively. Depreciation expense totaling $116, related to investments in real estate, was recognized during both the years ended June 30, 2016 and 2015.

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.

The limitations and restrictions on the Foundation’s ability to redeem or sell hedge funds and private 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 (note 9). 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, 2016, management estimates the average remaining life of the private investments is approximately five years.

(Dollars in thousands)

As of June 30, 2016 and 2015, the Foundation's remaining outstanding commitments to private investments, which are projected to be paid over the succeeding six years, totaled $266,947 and $234,061, respectively, in the following investment strategies:

		2016	2015
Private equities:			
Venture capital	$	77,749	59,163
Buyout		70,532	50,876
Distressed securities		35,066	18,998
Real estate		35,569	42,841
Natural resources		48,031	62,183
	$	266,947	234,061

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 2016 and 2015, the Foundation charged an administrative fee, which is based on a percentage of the 12-quarter trailing average market value of endowment funds, totaling $8,029 and $7,623, respectively.

(4) Leases

(a) Capital Leases

(i) Campus Recreation Center Lease

In support of the Institute, the Foundation borrowed funds and constructed and placed into service the Campus Recreation Center (CRC) in 2004. It then leased the Facility to the BOR under an annual lease that expires on February 28 of each year, but is renewable on a year-by-year basis at the option of the BOR until 2031. Under the terms of the lease, payments are not to exceed $4,000 annually and are used to retire the debt incurred by the Foundation and provide for a capital replacement reserve. The BOR's failure to exercise its options through 2031 has been determined to be remote and thus, a lease receivable has been recorded totaling $37,879 and $40,061 as of June 30, 2016 and 2015, respectively. The debt outstanding on the Series 2011A and Series 2011B Bonds (collectively, the CRC Bonds) totaled $35,265 and $36,910 as of June 30, 2016 and 2015, 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 3.51% annually, which is the Foundation's total interest cost of the CRC Bonds. The Foundation recorded a corresponding deferred revenue liability, representing the revenue to be recognized in future periods from the lease as a result of the additional debt service requirement. The revenue is recognized at a constant periodic rate of return consistent with the amortization of interest cost over the term of the related debt. The deferred revenue balance related to the CRC lease was $6,656 and $7,429 as of June 30, 2016 and 2015, respectively.

The annual lease payments, including payments to the capital replacement reserve for 2017 through 2030, range from $3,613 to $3,621, and for 2031, it is $2,000. The payments for the capital replacement reserve for 2017 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 $116,591 and $123,094 as of June 30, 2016 and 2015, respectively. Upon retirement of the Technology Square debt, the ownership of the land and improvements to the property, with the exception of the Georgia Tech Hotel and Conference Center, which is not leased to the BOR, will be gifted to the BOR at no cost.

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

The lease payments are used to retire the 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 $106,585 and $111,850 as of June 30, 2016 and 2015, 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 3.35% annually, which was the Foundation's total interest cost in the Series 2012 Bonds. The Foundation recorded a corresponding deferred revenue liability, representing the revenue to be recognized in future periods from the lease as a result of the additional debt service requirement. The revenue is recognized at a constant periodic rate of return consistent with the amortization of interest cost over the term of the related debt. The deferred revenue related to the Technology Square lease was $19,085 and $21,081 as June 30, 2016 and 2015, respectively.

The annual lease payments, including payments to the capital replacement reserve for 2017 through 2022 and 2023 through 2032, are $10,718 and $9,010, respectively. The payments for the capital replacement reserve for 2017 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 2016 and 2015, the Foundation received $4,400 each year, in lease payments, representing base rent, from the third party; $1,039 and $974, respectively, in payments for capital replacement; and $308 and $91, respectively, each year in payments for incentive rent. The Foundation has debt outstanding totaling $30,330 and $31,360 as of June 30, 2016 and 2015, respectively, 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, 2016 and 2015, the Foundation held funds for the purpose of capital replacement for the CRC, Technology Square and the Georgia Tech Hotel and Conference Center totaling $8,236 and $8,524, respectively. At June 30, 2016 and 2015, $7,138 and $7,164, respectively, of the capital reserve fund is held for the Institute for capital replacement for the CRC and Technology Square and is included in other liabilities in the accompanying consolidated statements of financial position. The capital reserve funds for the Georgia Tech Hotel and Conference Center totaled $1,098 and $1,360 as of June 30, 2016 and 2015, respectively.

(Dollars in thousands)

(5) Capital Assets

The Foundation's capital assets consist of the Georgia Tech Hotel and Conference Center and the retail space within the Georgia Tech Hotel and Conference Center 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	
		2016	**2015**
Land	$	2,553	3,395
Buildings		38,066	38,868
Furniture and equipment		10,442	9,836
Less accumulated depreciation		(17,893)	(16,995)
Total capital assets	$	33,168	35,104

Depreciation expense totaling $1,579 and $1,587 was recognized during 2016 and 2015, 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 the 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, 2016 and 2015, respectively, Facilities had $7,720 and $8,248 outstanding on the 2010B Bond, including accrued interest. Foundation payments to Facilities during 2016 and 2015, to satisfy Facilities' debt service requirements, totaled $806 and $812, respectively. At June 30, 2016, amounts due in less than one year, in one to five years, and in more than five years totaled $585, $2,330, and $4,805, respectively.

In June 2002, the GTAA executed a promissory note to the Foundation for $1,080 at an interest rate of 5.07%, with payments to be made through September 1, 2027. The Foundation has recorded a note receivable (included in other assets) for the GTAA that totals $679 and $707 as of June 30, 2016 and 2015, 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 $1,580 and $1,718 as of June 30, 2016 and 2015, respectively. The Foundation has recorded a contribution receivable, discounted to give effect to the future cash flows from the GTAA, in the amount of $1,199 and $1,280, as of June 30, 2016 and 2015, respectively.

(Dollars in thousands)

(7) Debt

(a) Lines of Credit

Lines of credit as of June 30, 2016 and 2015 consist of the following:

Borrowing entity	Maturity	Line of credit limit	Outstanding as of June 30 2016	Outstanding as of June 30 2015
GTFFC	April 2017	$ 10,000	6,500	7,300
GTFFC	November 2017	10,000	6,500	7,300
GTFFC	June 2017	10,000	7,540	6,981
Foundation – working capital	November 2016	10,000	—	—
Foundation – working capital	June 2017	5,000	—	—
Foundation – EBB	October 2016	28,500	10,690	18,917
			$ 31,230	40,498

The Foundation guaranteed three $10,000 lines of credit in the name of the GTFFC in 2016 and 2015. The Foundation had two lines of credit totaling $15,000 and $20,000 in the name of the Foundation in 2016 and 2015, respectively. Interest is calculated using 30-day LIBOR. This resulted in an average effective interest rate of 1.05% and 0.78% at June 30, 2016 and 2015, respectively. The Foundation expects to renew each line of credit prior to expiration.

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 nonrevolving line of credit with a bank (Foundation–EBB) in the amount of $35,500 to fund the grant to the Institute for the construction of the EBB. The line of credit was renewed in October 2014 in the amount of $28,500. The cumulative amount advanced and the amount available for loans was $27,998 and $502, respectively, as of June 30, 2016. The amount due to the bank will be reduced with gifts received for the EBB and other support received from affiliated organizations. Interest is calculated using 30-day LIBOR, resulting in an effective interest rate of 0.93% and 0.66% at June 30, 2016 and 2015, respectively.

(Dollars in thousands)

(b) Bonds Payable

Bonds payable as of June 30, 2016 and 2015 consist of the following:

	Interest rates–fixed	Maturity (serially)	Original issue	Outstanding as of June 30 2016	2015
Campus Recreation Center Bonds:					
Series 2011A – tax exempt	4.00%–5.25%	2031	$ 32,695	32,695	32,695
Series 2011B – taxable	1.86%–2.53%	2018	9,035	2,570	4,215
Technology Square Bonds:					
Series 2002B – taxable	6.60%–6.66%	2032	73,190	50,700	53,200
Series 2012A – tax exempt	2.00%–5.00%	2032	79,500	79,500	79,500
Series 2012B – taxable	1.64%–1.89%	2018	21,455	6,715	10,510
2009 Bonds:					
Series 2009A – tax exempt	4.38%–5.00%	2030	18,970	—	18,970
Series 2009B – taxable	5.49%–6.24%	2025	35,000	24,110	26,105
Series 2016 Bond– taxable	2.19%–3.84%	2049	30,180	30,180	—
Total bonds payable, gross				226,470	225,195
Unamortized bond issuance costs				(1,933)	(1,971)
Unamortized premium				12,063	13,920
Unamortized discount				(13)	(15)
Total bonds payable, net				$ 236,587	237,129

Campus Recreation Center Bonds

During May 2001, the Series 2001A Bonds were issued to provide funds to finance the costs of construction of the CRC, a facility that has been constructed on the Institute's campus. During November 2011, the Series 2011A and 2011B Bonds were issued to refund the outstanding principal amount of $36,840 of the Series 2001A Bonds, pay certain costs of issuance, and finance a portion of the termination of an interest rate swap related to the Series 2001A Bonds.

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 $3,163 and $3,521 as of June 30, 2016 and 2015, respectively. Annual debt service payments, including interest related to CRC bonds for years 2017 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 development on 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 related to the Series 2002 Bonds and pay certain costs of issuance.

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 $8,900 and $9,837 as of June 30, 2016 and 2015, respectively. Annual debt service payments, including interest related to the Series 2002B Bonds for the years 2017 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 years 2017 through 2032 range from $7,748 to $7,754.

Series 2009 and 2016 Bonds

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

The Series 2009A Bonds were issued with a bond premium of $837, which is being amortized and had a balance of $0 and $562 as of June 30, 2016 and 2015, respectively. Annual debt service payments, including interest related to the Series 2009B Bonds for years 2016 through 2025, range from $3,475 to $3,484.

In May 2016, the taxable Series 2016 Bonds (2016 Bonds) were issued for the purpose of advance refunding of the Series 2009A Bonds, fund capitalized interest, pay certain costs to issue, to reimburse the Foundation for costs incurred for site improvements and acquisition of certain property to be developed, the demolition of the buildings and other structures located on such property, and professional and permitting fees relating to such property. The bonds are general unsecured obligations of the Foundation. A portion of the proceeds from the issuance were required to be held as restricted cash to fund capitalized interest and costs of issuance. As of June 30, 2016, the balance of that restricted cash was $2,236. Approximately $21,481 of the proceeds from the issuance of the 2016 Bonds was

(Continued)

(Dollars in thousands)

placed in escrow in order to refund and extinguish the Series 2009A Bonds. In connection with the issuance of the 2016 Bonds, the Foundation incurred an accounting loss of $2,191 related to the early extinguishment of the Series 2009A Bonds.

Annual debt service payments, including interest related to the Series 2016 Bonds for the years 2017 through 2025; 2026 through 2027; and 2028 through 2048, range from $976 to $1,370; $4,061 and $4,082; and $1,296 and $1,904, respectively. The debt service payment for 2049 is $617.

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 2009B**	**Series 2016**
Fiscal year:								
2017	$	—	1,670	2,670	—	3,850	2,105	—
2018		820	900	2,850	1,065	2,865	2,225	—
2019		1,790	—	3,040	4,045	—	2,350	—
2020		1,875	—	3,250	4,225	—	2,480	—
2021		1,970	—	3,475	4,430	—	2,630	80
Thereafter		26,240	—	35,415	65,735	—	12,320	30,100
	$	32,695	2,570	50,700	79,500	6,715	24,110	30,180

(8) Funds Held on Behalf of Other Organization

The Foundation manages certain investments on behalf of GTAA. These investments amount to $98,450 and $109,163 at June 30, 2016 and 2015, respectively, and are recorded in the accompanying consolidated statements of financial position as funds held on behalf of other organization. Investment income, fees, gains, and losses earned on the funds held on behalf of the GTAA (GTAA funds) are allocated equitably on a quarterly basis, based on the value of GTAA funds as a share of the pooled investments. The Foundation’s agreement with 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:

		2016	**2015**
Balance, beginning of year	$	109,163	109,862
Additions		5,453	12,246
Investment gains, net of fees, attributable to balances		(4,188)	1,818
Withdrawals		(11,978)	(14,763)
Balance, end of year	$	98,450	109,163

(9) Fair Value Measurements

The Foundation's estimates of fair value for financial assets and liabilities are based on the framework established in the FASB ASC Topic 820, *Fair Value Measurement*. The framework is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest level, Level 1, is given to unadjusted quoted prices in active markets and the lowest level, Level 3, to unobservable inputs that reflect the Foundation's significant market assumptions. The three levels of the fair value hierarchy are as follows:

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

Level 2 – Valuations based on pricing inputs that are other than quoted prices in active markets, which are either directly or indirectly observable for substantially the full term of the asset or liability. Examples include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, credit risks, default rates, loss severities, etc.) or can be corroborated by observable market data.

Level 3 – Valuations are based on unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at fiscal year end. 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 that 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. 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.

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

During fiscal 2016, management re-evaluated its investments in structures with characteristics similar to a mutual fund as to whether they have a readily determinable fair value. Based on that re-evaluation, certain accounting policy and NAV disclosures have been corrected. Also certain investments previously accounted for as NAV as a practical expedient and excluded from the fair value hierarchy in 2015, have been included as Level 1 investments.

(Dollars in thousands)

The following table presents for each level within the fair value hierarchy, the Foundation's recurring fair value measurements for assets and liabilities as of June 30, 2016:

	Level 1	Level 2	Level 3	Investments measured at NAV	Total	Redemption or liquidation	Days notice
Assets:							
Cash and cash equivalents	$ 6,145	—	—	—	6,145	Daily	1
Bond funds	2,236	—	—	—	2,236	Daily	1
Capital reserve funds	8,236	—	—	—	8,236	Daily	1
Investments:							
Cash and cash equivalents	47,395	—	—	—	47,395	Daily	1
Domestic equities	158,729	—	—	359	159,088	See note (a)	See note (a)
Domestic equities – commingled fund	144,788	—	—	—	144,788	Daily	3–5
International equities	101,611	—	—	—	101,611	Daily	3–10
International equities – commingled funds	144,143	—	—	28,281	172,424	Monthly	3–15
International equities – hedge fund	—	—	—	24,695	24,695	Quarterly	60
Bond and bond funds	95,406	—	—	54	95,460	Daily	1–3
Bond and bond funds – commingled funds	—	—	—	36,636	36,636	Monthly	1
Bond and bond funds – hedge fund	—	—	—	25,141	25,141	See note (b)	See note (b)
Hedge funds	—	—	—	310,724	310,724	See note (b)	See note (b)
Private equities	—	—	—	247,929	247,929	Illiquid	N/A
Real estate and real estate funds	—	—	—	60,059 (1)	60,059	Illiquid	N/A
Natural resources	—	—	6,100 (2)	56,435	62,535	Illiquid	N/A
Total investments	692,072	—	6,100	790,313	1,488,485		
Contributions receivable from remainder trusts	—	14,367	—	—	14,367	N/A	N/A
Charitable remainder trusts	—	17,178	—	—	17,178	N/A	N/A
Total	$ 708,689	31,545	6,100	790,313	1,536,647		
Liability:							
Funds held on behalf of other organization	$ —	—	98,450	—	98,450	N/A	N/A

(1) Real estate and real estate funds balance includes the Foundation's direct investment in real estate valued at a total net book value of $23,804 (note 3).

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

(Dollars in thousands)

Note (a) – Domestic Equities (June 30, 2016):

Certain investments in domestic equities have restrictions around the liquidation of those equities based on the availability of a potential buyer. The fair values of these domestic equities totaled $359. The fair value of domestic equities that are redeemable daily with a 3-5 day notice period totaled $158,729.

Note (b) – Hedge Funds (June 30, 2016):

Certain investments in hedge funds may be redeemed upon a 5 to 90 day notice to the fund manager and permit a monthly or quarterly exit from the fund. The fair values of these hedge funds totaled $101,282. 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 2016, totals $138,192. Four hedge funds, including one in the bond fund category, with a fair value of $96,391, contain provisions that they may be redeemed after a one to three year period upon notification to the fund manager.

The following table presents for each level within the fair value hierarchy, the Foundation's recurring fair value measurements for assets and liabilities as of June 30, 2015:

	Level 1	Level 2	Level 3	Investments measured at NAV	Total	Redemption or liquidation	Days notice
Assets:							
Cash and cash equivalents	$ 4,584	—	—	—	4,584	Daily	1
Capital reserve funds	8,524	—	—	—	8,524	Daily	1
Investments:							
Cash and cash equivalents	66,514	—	—	—	66,514	Daily	1
Domestic equities	172,352	—	—	549	172,901	See note (a)	See note (a)
Domestic equities – commingled fund	130,041	—	—	—	130,041	Daily	3–5
International equities	125,400	—	—	—	125,400	Daily	3–10
International equities – commingled funds	147,985	—	—	24,165	172,150	Monthly	3–15
International equities – hedge fund	—	—	—	15,393	15,393	Quarterly	60
Bond and bond funds	115,652	—	—	—	115,652	Daily	1–3
Bond and bond funds – commingled funds	—	—	—	36,474	36,474	Monthly	1
Hedge funds	—	—	—	337,964	337,964	See note (b)	See note (b)
Private equities	—	—	—	258,132	258,132	Illiquid	N/A
Real estate and real estate funds	—	—	—	71,850 (1)	71,850	Illiquid	N/A
Natural resources	—	—	7,849 (2)	54,407	62,256	Illiquid	N/A
Total investments	757,944	—	7,849	798,934	1,564,727		

(Dollars in thousands)

		Level 1	Level 2	Level 3	Investments measured at NAV	Total	Redemption or liquidation	Days notice
Contributions receivable from remainder trusts	$	—	16,052	—	—	16,052	N/A	N/A
Charitable remainder trusts		—	23,005	—	—	23,005	N/A	N/A
Total	$	771,052	39,057	7,849	798,934	1,616,892		
Liability:								
Funds held on behalf of other organization	$	—	—	109,163	—	109,163	N/A	N/A

(1) As of June 30, 2015, real estate and real estate funds balance includes the Foundation's direct investment in real estate valued at total net book value of $26,392 (note 3).

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

Note (a) – Domestic Equities (June 30, 2015):

Certain investments in domestic equities have restrictions around the liquidation of those equities based on the availability of a potential buyer. The fair values of these domestic equities totaled $549. The fair value of domestic equities that are redeemable daily with a 3-5 day notice period totaled $172,352.

Note (b) – Hedge Funds (June 30, 2015):

Certain investments in hedge funds may be redeemed upon a 5 to 90 day notice to the fund manager and permit a monthly or quarterly exit from the fund. The fair values of these hedge funds totaled $108,312. 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 2015, totals $123,189. Five hedge funds, with a fair value of $106,463, contain provisions that they may be redeemed after a one to three year period upon notification to the fund manager.

(Dollars in thousands)

During 2016 and 2015, the fair value of assets classified as Level 3 in the fair value hierarchy changed as follows:

		Natural resources
Balance at June 30, 2014	$	12,340
Investment income		528
Realized and unrealized gains/losses		(4,435)
Withdrawals/distributions		(584)
Balance at June 30, 2015		7,849
Realized and unrealized gains/losses		(1,749)
Balance at June 30, 2016	$	6,100

($4,435) and ($1,749) is the portion of fair value represented by net unrealized losses as of June 30, 2015 and 2016, respectively. No realized gain or loss activity occurred in these funds during 2016 and 2015.

During 2016 and 2015, the fair value of liabilities classified as Level 3 in the fair value hierarchy changed as follows:

		Funds held on behalf of other organization
Balance at June 30, 2014	$	109,862
Net income, earnings attributable to balances		1,818
Additions during the year		12,246
Withdrawals during the year		(14,763)
Balance at June 30, 2015		109,163
Net income, earnings attributable to balances		(4,188)
Additions during the year		5,453
Withdrawals during the year		(11,978)
Balance at June 30, 2016	$	98,450

(Dollars in thousands)

(10) 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, 2016 and 2015 as follows:

		2016	2015
Georgia Institute of Technology	$	90,166	93,032
Georgia Tech Alumni Association		47	39
Georgia Tech Athletic Association		795	378
Georgia Tech Facilities, Inc.		272	294
Georgia Tech Global, Inc.		190	190
Total net assets released from restrictions	$	91,470	93,933

(11) Net Assets

Temporarily restricted net assets at June 30, 2016 and 2015 are restricted for the following purposes:

		2016	2015
Accumulated appreciation on donor-restricted endowment funds	$	224,046	249,078
Academic programs		271,747	315,170
Scholarships and fellowships		90,502	104,205
Institutional support		40,945	48,110
Facilities		11,617	10,343
	$	638,857	726,906

(Dollars in thousands)

Accumulated appreciation on donor-restricted endowment funds represents accumulated earnings on endowments for 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, 2016 and 2015:

		2016	2015
Contributions receivable	$	34,263	41,727
Trust funds held by others		10,240	11,711
Endowment funds		606,690	576,052
	$	651,193	629,490

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.

(12) Endowment Net Assets

Endowment net assets consist of the following at June 30, 2016:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(2,072)	460,576	606,690	1,065,194
Board-designated endowment funds		179,202	—	—	179,202
Total endowment net assets	$	177,130	460,576	606,690	1,244,396

Endowment net assets consist of the following at June 30, 2015:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(201)	542,220	576,052	1,118,071
Board-designated endowment funds		197,764	—	—	197,764
Total endowment net assets	$	197,563	542,220	576,052	1,315,835

(Continued)

The Foundation's endowment consists of approximately 2,500 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Return Objectives and Risk Parameters

The primary long-term financial investment objectives are to preserve the real purchasing power of the endowment and to earn an average annual real total return of at least 5.0% per year, net of management fees, over the long term, defined as rolling five-year periods.

(b) Strategies Employed for Achieving Objectives

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

(c) Spending Policy

The Foundation has a policy of appropriating for expenditure, on an annual basis, up to 6.0% 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.

(Dollars in thousands)

Changes in endowment net assets for the years ended June 30, 2016 and 2015 are as follows:

	2016				2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ 197,563	542,220	576,052	1,315,835	201,444	563,290	546,864	1,311,598
Investment return:								
Investment income	3,363	13,056	95	16,514	4,140	15,889	165	20,194
Net realized/unrealized gain (loss)	(14,522)	(48,802)	(1,689)	(65,013)	1,485	5,771	(56)	7,200
Total investment return	(11,159)	(35,746)	(1,594)	(48,499)	5,625	21,660	109	27,394
Contributions	2,777	1,437	35,155	39,369	721	1,245	29,078	31,044
Other (loss) income	—	62	41	103	—	(6)	313	307
Change in value of trusts and annuities	—	(62)	(2,964)	(3,026)	—	(27)	(312)	(339)
Appropriation of endowment assets for expenditure	(12,051)	(47,335)	—	(59,386)	(10,227)	(43,942)	—	(54,169)
Endowment net assets, end of year	$ 177,130	460,576	606,690	1,244,396	197,563	542,220	576,052	1,315,835

(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 $2,072 and $201 as of June 30, 2016 and 2015, 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.

(13) Pension Plan

The Foundation has a mandatory defined contribution plan for its employees in which the employees contribute 5% of their pretax earnings and the Foundation 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 2016 and 2015, the Foundation recognized pension expense totaling $290 and $286, 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.

(Dollars in thousands)

(14) Expenses

(a) Functional Classification of Expenditures

Expenses by functional classification for the years ended June 30, 2016 and 2015 are as follows:

		2016	2015
Program services:			
Georgia Institute of Technology	$	89,717	91,304
Georgia Tech Alumni Association		3,171	3,130
Georgia Tech Athletic Association		943	525
Georgia Tech Facilities, Inc.		281	297
Georgia Tech Global, Inc.		319	240
		94,431	95,496
General and administrative		10,924	10,941
Loss on extinguishment of debt		2,191	—
Fund-raising		5,059	4,875
Total expenses	$	112,605	111,312

Interest expense, relating to debt incurred to support program services, totaled $8,211 and $8,557 for the years ended June 30, 2016 and 2015, respectively.

(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, 2016 and 2015 are as follows:

		2016	2015
Foundation operations	$	6,264	6,296
Hotel and conference center		214	166
Real estate expenses		631	588
Depreciation expense		1,694	1,703
Interest expense		2,121	2,188
Total	$	10,924	10,941

(Dollars in thousands)

(c) Natural Classification of Expenditures

The Foundation classifies its expenses in functional categories. Expenditures in the natural categories for the years ended June 30, 2016 and 2015 are as follows:

		2016	2015
Salaries	$	3,601	3,604
Benefits		537	551
Other personnel services		69	187
Travel		99	98
Utilities		23	28
Supplies and other services		2,378	2,252
Depreciation		1,694	1,703
Interest		10,332	10,745
Loss on extinguishment of debt		2,191	—
Expenses incurred or paid to or on behalf of:			
Georgia Institute of Technology		85,217	86,352
Georgia Tech Alumni Association		4,921	4,730
Georgia Tech Athletic Association		943	525
Georgia Tech Facilities, Inc.		281	297
Georgia Tech Global, Inc.		319	240
Total	$	112,605	111,312

(15) Related Parties

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

One member of the Board of Trustees of the GTAA is also a voting trustee of the Foundation.

Four members of the Board of Trustees of the Georgia Tech Alumni Association are also voting trustees of the Foundation.

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

In 2012, the BOR established an executive 457(f) deferred compensation plan (the Plan) for the President of the Institute, in which six annual contributions will be made during 2013 through 2018 to an account held by the BOR for the President. The contributions to the Plan will not vest prior to June 30, 2018. The BOR has requested the Foundation to pay the annual contribution into the Plan. The annual contributions are subject to the approval of the Foundation. In 2016 and 2015, the Foundation approved funding in the amount of $266 and $266, respectively. In accordance with an agreement with the BOR, if vesting does not occur, the Plan balance, including the contributions and accumulated earnings, will be refunded to the Foundation.

In 2013, the Foundation purchased a $1,000 life insurance policy on the life of the President of the Institute for the benefit of the President's family. The Foundation approved payment of insurance premiums totaling $50 and $50 in 2016 and 2015, respectively.

Transactions with other related parties are described in notes 4, 6, 7, 10, 14, and 16.

(16) Commitments and Contingencies

In June 2015, the Foundation committed $25,054 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 years 2016 and 2017. If the funds are not expended by June 30, 2017, the remainder is retained by the Foundation. As of June 30, 2016, the Foundation expended a total of $19,761 and $5,293 remained as a commitment.

During 2016, the Foundation approved two requests by the Institute for funding not to exceed $4,380, for renovation of a building and improvements to a campus roadway. As of June 30, 2016, $1,758 had been expended and $2,622 remained as a commitment. 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, 2016.

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 2016, but was amended to expire in June 2017. As consideration for the limited guaranty agreement, GATV pays the Foundation 0.20% of the limited guaranty amount annually.

(17) Tax Matter

The Foundation does not have any material unrecognized tax positions that should be recognized in the consolidated financial statements for 2016 or 2015.

(18) Subsequent Events

In connection with the preparation of the consolidated financial statements, the Foundation management reviewed subsequent events after June 30, 2016 through September 20, 2016, which was the date the consolidated financial statements were available to be issued and determined that there were no significant subsequent events requiring disclosure in the consolidated financial statements.