KPMG

GEORGIA TECH FOUNDATION, INC.

Consolidated Financial Statements

June 30, 2013 and 2012

(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 subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, 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 subsidiaries as of June 30, 2013 and 2012, 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, 2013

GEORGIA TECH FOUNDATION, INC.

Consolidated Statements of Financial Position

June 30, 2013 and 2012

(In thousands)

Assets		**2013**	**2012**
Cash and cash equivalents	$	5,563	2,369
Capital reserve funds (notes 4 and 11)		8,205	8,339
Contributions receivable, net (notes 2 and 6)		60,877	74,368
Investments (notes 3 and 11)		1,396,991	1,285,089
Other assets (note 6)		9,549	9,139
Leases receivable (note 4)		179,683	187,710
Contributions receivable from remainder trusts		9,341	7,499
Charitable remainder trusts (note 11)		22,476	20,460
Capital assets, net (note 5)		36,802	36,677
Total assets	$	1,729,487	1,631,650
Liabilities and Net Assets			
Accounts payable	$	5,817	5,281
Commitment payable (note 6)		9,272	9,769
Lines of credit (note 7)		58,188	27,967
Bonds payable, net of discount of $20 and premium of $16,600 in 2013 and discount of $22 and premium of $17,939 in 2012 (notes 4 and 7)		260,725	270,957
Amounts due to life beneficiaries (note 11)		12,713	12,813
Deferred revenue (note 4)		34,162	37,173
Funds held on behalf of other organization (notes 3, 9, and 11)		100,521	89,964
Revocable gift (notes 10 and 11)		41,078	38,859
Other liabilities (note 4)		9,944	9,394
Total liabilities		532,420	502,177
Net assets:			
Unrestricted		56,819	62,519
Temporarily restricted (note 13)		606,954	568,319
Permanently restricted (note 13)		533,294	498,635
		1,197,067	1,129,473
Commitments (notes 4, 6, 7, 9, 15, and 18)			
Total liabilities and net assets	$	1,729,487	1,631,650

See accompanying notes to consolidated financial statements.

GEORGIA TECH FOUNDATION, INC.

Consolidated Statements of Activities

Years ended June 30, 2013 and 2012

(In thousands)

	2013				2012			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:								
Gift income	$ 5,938	25,802	31,704	63,444	5,507	50,430	20,928	76,865
Lease revenue	13,742	—	—	13,742	13,370	—	—	13,370
Investment income, net of fees	6,520	17,360	118	23,998	4,974	12,789	51	17,814
Net realized/unrealized gain (loss) on investments	22,888	69,001	894	92,783	(7,132)	(17,268)	(193)	(24,593)
Change in value of trusts and annuities	19	388	1,652	2,059	(4)	(690)	70	(624)
Change in fair value of derivative financial instruments (note 8)	—	—	—	—	(10,653)	—	—	(10,653)
Other	2,047	(7)	291	2,331	1,483	3	416	1,902
Net assets released from restrictions (note 12)	73,909	(73,909)	—	—	71,733	(71,733)	—	—
Total revenues	125,063	38,635	34,659	198,357	79,278	(26,469)	21,272	74,081
Expenses (note 16(a)):								
Program services	116,474	—	—	116,474	100,126	—	—	100,126
General and administrative (note 16(b))	10,453	—	—	10,453	9,979	—	—	9,979
Fund-raising	3,836	—	—	3,836	5,455	—	—	5,455
Total expenses	130,763	—	—	130,763	115,560	—	—	115,560
Change in net assets	(5,700)	38,635	34,659	67,594	(36,282)	(26,469)	21,272	(41,479)
Net assets, beginning of year	62,519	568,319	498,635	1,129,473	98,801	594,788	477,363	1,170,952
Net assets, end of year	$ 56,819	606,954	533,294	1,197,067	62,519	568,319	498,635	1,129,473

See accompanying notes to consolidated financial statements.

GEORGIA TECH FOUNDATION, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2013 and 2012

(In thousands)

		2013	2012
Cash flows from operating activities:			
Change in net assets	$	67,594	(41,479)
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation		1,549	1,526
Accretion/ amortization of bond discount and premium		(1,337)	865
Net realized/unrealized (gain) loss on investments		(92,783)	24,593
Net change in fair value of derivative financial instruments		—	10,653
Actuarial (gain) loss on trusts and annuities		(2,059)	624
Contribution of noncash assets		(11,458)	(10,966)
Proceeds from gifts restricted for long-term investment		(33,457)	(25,824)
Decrease (increase) in contributions receivable		13,491	(5,293)
Increase in other assets		(410)	(414)
Increase in accounts payable		536	190
Increase in other liabilities		550	6,798
Decrease in commitment payable		(497)	(491)
Net cash used in operating activities		(58,281)	(39,218)
Cash flows from investing activities:			
Proceeds from the sales and maturities of investments		490,574	383,497
Purchases of investments		(499,894)	(364,248)
Increase (decrease) in funds held on behalf of other organization		10,557	(2,642)
Increase (decrease) increase in revocable gift		2,219	(954)
Decrease (increase) in capital reserve funds		134	(1,042)
Proceeds from principal payments on leases receivable		5,016	4,668
Purchase of capital assets		(1,506)	(791)
Net cash provided by investing activities		7,100	18,488
Cash flows from financing activities:			
Proceeds from lines of credit		44,303	12,547
Repayments of lines of credit		(14,082)	(9,651)
Principal repayments of bonds payable		(8,895)	(135,625)
Proceeds from bond issuance		—	160,291
Net payments to terminate derivative financial instruments		—	(33,374)
Receipt of cash from trusts		377	814
Payments to life income beneficiaries		(785)	(708)
Proceeds from gifts restricted for long-term investment		33,457	25,824
Net cash provided by financing activities		54,375	20,118
Increase (decrease) in cash and cash equivalents		3,194	(612)
Cash and cash equivalents, beginning of year		2,369	2,981
Cash and cash equivalents, end of year	$	5,563	2,369
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	12,839	13,573
Noncash activities:			
Contribution of charitable trusts, annuities	$	1,712	1,159
Contributions of securities		9,746	9,807
Total noncash activities	$	11,458	10,966

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

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.

(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, 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 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, 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(g), 1(h), 9, 10, and 11, regarding investments, charitable remainder trusts, bonds payable, amounts due to life beneficiaries, funds held on behalf of other organization, and revocable gift, 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, 2013 and 2012. 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

(Continued)

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 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 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 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; 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 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 LLC’s are disregarded for tax purposes.

(Dollars in thousands)

(n) Recently Implemented Accounting Standards

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS).* The new standards do not extend the use of fair value but, rather, provide guidance about how fair value should be applied where it already is required or permitted under IFRS or U.S. GAAP. For U.S. GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS. A nonpublic entity is required to apply the ASU prospectively for annual periods beginning after December 15, 2011. During 2013, the Foundation adopted ASU 2011-04, which did not have a material impact on its consolidated financial statements.

(2) Contributions Receivable, Net

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

		2013	2012
Within one year	$	23,035	28,488
One to five years		35,621	50,717
More than five years		11,636	6,554
Gross contributions receivable		70,292	85,759
Less allowance for uncollectible contributions		(5,267)	(6,426)
Less present value component		(4,148)	(4,965)
Net contributions receivable	$	60,877	74,368

The discount rates used to calculate the present value component range from 2.40% to 5.67%.

The consolidated financial statements do not include conditional pledges, expectancies, and bequests that have not been recognized as revenue. These undiscounted amounts totaled $315,380 and $303,161 at June 30, 2013 and 2012, 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, 2013 and 2012, the four largest outstanding donor pledge balances represented 33% and 54%, respectively, of the Foundation's gross contribution receivable.

(Dollars in thousands)

(3) Investments

Investments at June 30, 2013 and 2012 are summarized as follows:

	2013			2012		
	Percentage		Amount	Percentage		Amount
Cash and cash equivalents (a)	4.6%	$	63,697	4.0%	$	50,975
Domestic equities (b)	15.3		213,746	14.6		187,293
International equities (b)	13.5		189,127	13.1		167,901
Bonds and bond funds (c)	10.4		144,984	8.9		114,555
Commodity fund (d)	1.8		25,314	1.1		14,123
Hedge funds (e):						
Long-short funds	11.4		159,356	10.2		131,541
Multi-strategy funds	12.1		168,823	12.0		153,825
Private equities (f):						
Buyout	8.4		116,583	10.6		136,576
Venture capital	7.8		109,442	8.4		107,787
Distressed securities	4.1		56,792	5.5		70,863
Real estate and real estate funds (g)	4.5		63,509	5.0		64,516
Natural resources (f)	6.1		85,618	6.6		85,134
	100.0%	$	1,396,991	100.0%	$	1,285,089

(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. Approximately 53% of the investments are in U.S. companies and 47% 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 long positions in corporate bonds, senior loans, government bonds, and long and short positions in derivatives thereof.

(d) This category includes commodity funds that take ownership of commodity derivatives. These are investments that are very liquid and can be sold quickly.

(e) 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.

(f) This category includes private equity funds that provide growth equity or take full ownership of the companies in which they invest. Private equity funds take significant ownership positions in start up or early stage companies largely in the technology or healthcare spaces. These are private 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.

(g) 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, multi-family, 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 117 and 123 partnerships at June 30, 2013 and 2012, 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, 2013, the Foundation's ownership interest in any individual partnership does not exceed 4.9% of that partnership's assets, no individual partnership investment exceeds 1.4% of the Foundation's assets, and no manager controls partnerships having more than 2.2% 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, 2013 and 2012 are reasonable.

As of June 30, 2013 and 2012, the Foundation's direct investment in real estate consists of ownership of properties with a total net book value of $27,249 and $27,782, respectively. Depreciation expense totaling $168 and $246, related to investments in real estate, was recognized during the years ended June 30, 2013 and 2012, 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, 2013, the fair value of the Foundation's hedge funds and private investments (excluding direct investments in real estate referenced above) totaled $328,179 and $404,695, respectively. As of June 30, 2012, the fair value of the Foundation's hedge funds and private investments totaled $285,366 and $437,094, 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 (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, 2013, management estimates the average remaining life of the private investments is approximately five years.

(Dollars in thousands)

As of June 30, 2013 and 2012, the Foundation's remaining outstanding commitments to private investments, which are projected to be paid over the succeeding six years, totaled $132,937 and $137,046, respectively, in the following investment strategies:

		2013	**2012**
Private equity:			
Venture capital	$	38,933	39,538
Buyout		17,798	20,005
Distressed securities		13,956	16,416
Real estate		20,290	26,476
Natural resources		41,960	34,611
	$	132,937	137,046

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 2013 and 2012, the Foundation charged an administrative fee, which is based on a percentage of the twelve quarter trailing average market value of endowment funds, totaling $6,660 and $6,482, 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 $44,246 and $46,251 as of June 30, 2013 and 2012, respectively. The debt outstanding on the Series 2011A and Series 2011B Bonds (collectively, the CRC Bonds) totaled $40,135 and $41,730 as of June 30, 2013 and 2012, 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 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 $9,013 and $9,817 as of June 30, 2013 and 2012, respectively.

The annual lease payments, including payments to the capital replacement reserve for 2013 through 2030, range from $3,613 to $3,621, and for 2031, it is $2,000. The payments for the capital replacement reserve for 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 $135,437 and $141,459 as of June 30, 2013 and 2012, 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 $121,975 and $126,660 as of June 30, 2013 and 2012, 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, 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 $25,149 and $27,356 as June 30, 2013 and 2012, respectively.

The annual lease payments, including payments to the capital replacement reserve for 2014 through 2022 and 2023 through 2032, are $10,718 and $9,010, respectively. The payments for the capital replacement reserve for 2014 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 2013 and 2012, the Foundation received $4,250 each year in lease payments, representing base rent, from the third party; $663 and $684, respectively, in payments for capital replacement; and $0 each year in payments for incentive rent. The Foundation has debt outstanding totaling $33,230 and $34,080 as of June 30, 2013 and 2012, 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, 2013 and 2012, 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 $8,205 and $8,339, respectively. At June 30, 2013 and 2012, $7,538 and $6,726, respectively, 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. The capital reserve funds for the Georgia Tech Hotel and Conference Center totaled $667 and $1,613 as of June 30, 2013 and 2012, respectively.

(5) Capital Assets

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

(Dollars in thousands)

The Foundation's capital assets are as follows:

		June 30	
		2013	**2012**
Land	$	3,395	3,395
Buildings		38,868	38,868
Furniture and equipment		9,690	8,944
Less accumulated depreciation		(15,151)	(14,530)
Total capital assets	$	36,802	36,677

Depreciation expense totaling $1,381 and $1,280 was recognized during 2013 and 2012, 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, 2013 and 2012, respectively, Facilities had $9,272 and $9,769 outstanding on the 2010B Bond, including accrued interest. Foundation payments to Facilities during 2013 and 2012, to satisfy Facilities' debt service requirements, totaled $814 and $819, respectively. At June 30, 2013, amounts due in less than one year, in one to five years, and in more than five years totaled $557, $2,140, and $6,575, 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 $781 and $815 as of June 30, 2013 and 2012, 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 $1,992 and $2,129 as of June 30, 2013 and 2012, respectively. The Foundation has recorded a contribution receivable, discounted to give effect to the future cash flows from the GTAA, in the amount of $1,433 and $1,505, as of June 30, 2013 and 2012, respectively.

(Dollars in thousands)

(7) Debt

(a) Lines of Credit

Lines of credit as of June 30, 2013 and 2012 consist of the following:

	Maturity	Line of Credit Limit	Outstanding as of June 30 2013	Outstanding as of June 30 2012
GTFFC	February 2014	$ 10,000	9,250	9,250
GTFFC	November 2014	10,000	9,250	9,250
GTFFC	June 2014	10,000	7,713	9,467
Foundation	November 2014	10,000	—	—
Foundation	June 2014	10,000	—	—
GTF-EBB	October 2014	35,500	31,975	—
			$ 58,188	27,967

The Foundation had three $10,000 lines of credit in the name of the GTFFC in 2013 and 2012, as well as two $10,000 lines of credit in the name of the Foundation in 2013 and 2012. Interest is calculated using 30-day LIBOR. This resulted in an average effective interest rate of 0.79% and 0.85% at June 30, 2013 and 2012, respectively. The Foundation expects to renew each line of credit upon 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 (GTF-EBB) in the amount of $35,500 to fund the grant to the Institute for the construction of the EBB. The cumulative amount advanced and the amount available for loans was $32,111 and $3,389, respectively, as of June 30, 2013. 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 0.67% at June 30, 2013.

(Dollars in thousands)

(b) Bonds Payable

Bonds payable as of June 30, 2013 and 2012 consist of the following:

	Interest rates-fixed	Maturity (serially)	Original issue	Outstanding as of June 30 2013	2012
Campus Recreation:					
Center Bonds:					
Series 2011A – tax exempt	4.00% – 5.25%	2031	$ 32,695	32,695	32,695
Series 2011B – taxable	0.88% – 2.53%	2018	9,035	7,440	9,035
Technology Square Bonds:					
Series 2002B – taxable	6.25% – 6.66%	2032	73,190	57,725	59,785
Series 2012A – tax exempt	2.00% – 5.00%	2032	79,500	79,500	79,500
Series 2012B – taxable	0.748% – 1.890%	2018	21,455	17,980	21,455
2009 Bonds:					
Series 2009A – tax exempt	4.375% – 5.00%	2030	18,970	18,970	18,970
Series 2009B – taxable	3.755% – 6.241%	2025	35,000	29,835	31,600
Total bonds payable, gross				244,145	253,040
Unamortized premium				16,600	17,939
Unamortized discount				(20)	(22)
Total bonds payable, net				$ 260,725	270,957

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 $4,237 and $4,595 as of June 30, 2013 and 2012, respectively. Annual debt service payments including interest related to CRC bonds for years 2014 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 $11,710 and $12,646 as of June 30, 2013 and 2012, respectively. Annual debt service payments including interest related to the Series 2002B Bonds for the years 2014 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 2014 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 $653 and $698 as of June 30, 2013 and 2012, respectively. Annual debt service payments including interest related to the Series 2009A Bonds for years 2014 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 years 2014 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:							
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
2018	820	900	2,850	1,065	2,865	—	2,225
Thereafter	31,875	—	45,180	78,435	—	18,970	19,780
	$ 32,695	7,440	57,725	79,500	17,980	18,970	29,835

Principal redemptions on the Series 2009A will begin in 2026.

(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 $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.

(Dollars in thousands)

(9) Funds Held on Behalf of Other Organization

The Foundation manages certain investments on behalf of GTAA. These investments amount to $100,521 and $89,964 at June 30, 2013 and 2012, 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:

		2013	2012
Balance, beginning of year	$	89,964	92,606
Additions		12,126	7,887
Investment gains (losses), net of fees, attributable to balances		8,642	(1,134)
Withdrawals		(10,211)	(9,395)
Balance, end of year	$	100,521	89,964

(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. Investment income, fees, gains and losses earned on the revocable gift are allocated 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 $41,078 and $38,859 as of June 30, 2013 and 2012, respectively, and a corresponding liability is recorded in the accompanying consolidated statements of financial position. Earnings and losses on the assets increase and reduce the liability, respectively, and distributions to the Institute to support its paper science and technology program reduce the liability. Distributions to the Institute totaled $1,334 and $1,271 in 2013 and 2012, 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.

(Dollars in thousands)

The fair value hierarchy requires the use of observable market data when available. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. 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.

The following table presents for each level within the fair value hierarchy, the Foundation's recurring and nonrecurring fair value measurements for assets and liabilities as of June 30, 2013:

	Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days notice
Recurring:						
Assets:						
Cash and cash equivalents	$ 5,563	—	—	5,563	Daily	1
Capital reserve funds	8,205	—	—	8,205	Daily	1
Investments:						
Cash and cash equivalents	63,697	—	—	63,697	Daily	1
Domestic equities	174,717	13,437	245	188,399	Daily	3 – 5
Domestic equities – commingled funds	—	25,347	—	25,347	Monthly	5
International equities	76,707	24,032	—	100,739	Daily	3 – 5
International equities – commingled funds	—	88,388	—	88,388	Monthly	3 – 15
Bond and bond funds	125,120	—	—	125,120	Daily	1 – 3
Bond and bond funds – commingled funds	—	19,864	—	19,864	Monthly	10
Commodities – commingled funds	—	25,314	—	25,314	Monthly	5
Hedge funds	—	80,306	247,873	328,179	See note(a)	See note (a)
Private equities	—	—	282,817	282,817	Illiquid	N/A
Real estate and real estate funds	—	—	63,509	63,509	Illiquid	N/A
Natural resources	—	—	85,618	85,618	Illiquid	N/A
	440,241	276,688	680,062	1,396,991		
Contributions receivable from remainder trusts	—	9,341	—	9,341	N/A	N/A
Charitable remainder trusts	—	22,476	—	22,476	N/A	N/A
Total	$ 448,446	308,505	680,062	1,437,013		

(Continued)

(Dollars in thousands)

(Continued)		Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days notice
Liabilities:							
Funds held on behalf of other organization	$	—	—	100,521	100,521	N/A	N/A
Revocable gift		—	—	41,078	41,078	N/A	N/A
Total	$	—	—	141,599	141,599		
Disclosure:							
Bonds payable	$	281,000	—	—	281,000	N/A	N/A

Note (a) – Hedge Funds (June 30, 2013):

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 $80,306, have been classified as Level 2. Certain other hedge funds classified as Level 3 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 $162,090. Four hedge funds classified as Level 3, with a fair value of $85,783, contain provisions that they may be redeemed over a one to three year period upon a notification to the fund manager.

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, 2013 and 2012 were $15,029 and $13,170, respectively, and are classified as Level 3 within the fair value hierarchy.

Bonds payable carrying value at June 30, 2013 and 2012 was $260,725 and $270,957, respectively. The fair value of bonds payable is approximately $281,000 and $299,000 based on quoted market prices at June 30, 2013 and 2012, respectively.

(Continued)

(Dollars in thousands)

The following table presents for each level within the fair value hierarchy, the Foundation's recurring and nonrecurring fair value measurements for assets and liabilities as of June 30, 2012:

		Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days notice
Recurring:							
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	Monthly	10
Commodities – commingled funds		—	14,123	—	14,123	Monthly	5
Hedge funds		—	73,679	211,687	285,366	See note(b)	See note (b)
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		
Contributions receivable from remainder trusts		—	7,499	—	7,499	N/A	N/A
Charitable remainder trusts		—	20,460	—	20,460	N/A	N/A
Total	$	391,929	252,607	676,851	1,321,387		
Liabilities:							
Funds held on behalf of other organization	$	—	—	89,964	89,964	N/A	N/A
Revocable gift		—	—	38,859	38,859	N/A	N/A
Total	$	—	—	128,823	128,823		
Disclosure:							
Bonds payable	$	299,000	—	—	299,000	N/A	N/A

Note (b) – 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 $73,769, have been classified as Level 2. Certain other hedge funds classified as Level 3 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

(Dollars in thousands)

2012, totals $161,143. Three hedge funds classified as Level 3, 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.

During 2013 and 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):						
Balance at 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), net		(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)
Balance at June 30, 2012		211,687	315,226	64,511	85,427	676,851
Investment income		59	16,742	251	862	17,914
Realized and unrealized gains, net		28,178	18,964	11,295	(177)	58,260
Additions during the year		30,000	20,040	7,152	10,838	68,030
Transfers from Level 3 during the year		(16,478)	—	—	—	(16,478)
Withdrawals/distributions		(5,573)	(88,155)	(19,700)	(11,087)	(124,515)
Balance at June 30, 2013	$	247,873	282,817	63,509	85,863	680,062
The amount of the fair value represented by net unrealized gains as of:						
June 30, 2012	$	65,197	154,960	1,118	44,588	265,863
June 30, 2013		86,660	158,548	2,580	39,831	287,619

The Foundation’s accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. During 2013, one hedge fund, with a fair value of $16,478, modified a redemption restriction and was transferred from Level 3 to Level 2 during 2013. During 2012, one hedge fund with a fair value of $407 imposed a redemption restriction and was transferred from Level 2 to Level 3. During 2013 and 2012, there were no transfers into or out of Level 1.

(Continued)

(Dollars in thousands)

During 2013 and 2012, the fair value of liabilities classified as Level 3 in the fair value hierarchy changed as follows:

	Funds held on behalf of other organization	Revocable gift	Total
Balance at July 1, 2011	$ 92,606	39,813	132,419
Net income, (losses)/earnings attributable to balances	(1,134)	317	(817)
Additions during the year	7,887	—	7,887
Withdrawals during the year	(9,395)	(1,271)	(10,666)
Balance at June 30, 2012	89,964	38,859	128,823
Net income, (losses)/earnings attributable to balances	8,642	3,513	12,155
Additions during the year	12,126	40	12,166
Withdrawals during the year	(10,211)	(1,334)	(11,545)
Balance at June 30, 2013	$ 100,521	41,078	141,599

(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.

(Dollars in thousands)

Net assets were released from restrictions related to accomplishing program activities for the years ended June 30, 2013 and 2012 as follows:

		2013	2012
Georgia Institute of Technology	$	73,325	70,909
Georgia Tech Alumni Association		24	29
Georgia Tech Athletic Association		341	319
Georgia Tech Facilities, Inc.		—	276
Georgia Tech Global, Inc.		219	200
Total net assets released from restrictions	$	73,909	71,733

(13) Net Assets

Temporarily restricted net assets at June 30, 2013 and 2012 are restricted for the following purposes:

		2013	2012
Accumulated appreciation on donor-restricted endowment funds	$	226,581	211,619
Academic programs		234,133	215,421
Scholarships and fellowships		83,287	76,904
Institutional support		51,987	53,591
Facilities		10,966	10,784
	$	606,954	568,319

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, 2013 and 2012:

		2013	2012
Contributions receivable	$	36,025	37,797
Trust funds held by others		5,647	4,154
Endowment funds		491,622	456,684
	$	533,294	498,635

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, 2013:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(1,632)	449,088	491,622	939,078
Board-designated endowment funds		173,711	—	—	173,711
Total endowment net assets	$	172,079	449,088	491,622	1,112,789

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

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment	$	(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

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

(Dollars in thousands)

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.

Changes in endowment net assets for the years ended June 30, 2013 and 2012 are as follows:

	2013				2012			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ 153,231	402,369	456,684	1,012,284	170,145	443,829	430,477	1,044,451
Investment return:								
Investment income	4,809	16,822	96	21,727	3,493	12,348	51	15,892
Net realized/unrealized gain (loss)	21,507	66,910	895	89,312	(6,630)	(16,632)	(191)	(23,453)
Total investment return	26,316	83,732	991	111,039	(3,137)	(4,284)	(140)	(7,561)
Contributions	706	431	32,502	33,639	—	182	25,824	26,006
Other (loss) income	—	(56)	291	235	—	(61)	416	355
Change in value of trusts and annuities	—	121	1,154	1,275	—	(508)	107	(401)
Appropriation of endowment assets for expenditure	(8,174)	(37,509)	—	(45,683)	(14,428)	(36,789)	—	(51,217)
Transfers to create board designated funds	—	—	—	—	651	—	—	651
Endowment net assets, end of year	$ 172,079	449,088	491,622	1,112,789	153,231	402,369	456,684	1,012,284

(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 $1,632 and $3,890 as of June 30, 2013 and 2012, 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 2013 and 2012, the Foundation recognized pension expense totaling $272 and $249, respectively. The plan has a three-year cliff vesting requirement for each employee to vest in the Foundation's contribution amount. The Foundation also has a supplemental plan in which employees may contribute an additional amount on a voluntary basis. The Foundation does not match these additional amounts.

(16) Expenses

(a) Functional Classification of Expenditures

Expenses by functional classification for the years ended June 30, 2013 and 2012 are as follows:

		2013	2012
Program services:			
Georgia Institute of Technology	$	112,110	88,176
Georgia Advanced Technology Ventures		107	6,249
Georgia Tech Alumni Association		2,878	4,340
Georgia Tech Athletic Association		840	713
Georgia Tech Facilities, Inc.		320	448
Georgia Tech Global, Inc.		219	200
		116,474	100,126
General and administrative		10,453	9,979
Fund-raising		3,836	5,455
Total expenses	$	130,763	115,560

Interest expense, relating to debt incurred to support program services totaled $8,994 and $12,079 for the years ended June 30, 2013 and 2012, 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, 2013 and 2012 are as follows:

		2013	2012
Foundation operations	$	5,490	5,177
Hotel and conference center		108	190
Real estate expenses		1,002	674
Depreciation expense		1,549	1,526
Interest expense		2,304	2,412
Total	$	10,453	9,979

(c) Natural Classification of Expenditures

The Foundation classifies its expenses in functional categories. Expenditures in the natural categories for the years ended June 30, 2013 and 2012 are as follows:

		2013	2012
Salaries	$	3,164	3,000
Benefits		498	466
Other personnel services		173	24
Travel		88	83
Utilities		43	45
Supplies and other services		2,376	3,058
Depreciation		1,549	1,526
Interest		11,298	14,491
Expenses incurred or paid to or on behalf of:			
Georgia Institute of Technology		105,710	80,917
Georgia Advanced Technology Ventures		107	6,249
Georgia Tech Alumni Association		4,378	4,340
Georgia Tech Athletic Association		840	713
Georgia Tech Facilities, Inc.		320	448
Georgia Tech Global, Inc.		219	200
Total	$	130,763	115,560

(17) Related Parties

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

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

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

In 2012, the BOR established an executive 457(f) deferred compensation plan (Plan) for the President of the Institute, in which six annual contributions of $167 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 2013 and 2012, the Foundation approved funding in the amount of $167. 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 and approved payment of insurance premiums over a two-year period totaling $100.

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

(18) Commitments and Contingencies

In June 2012, the Foundation committed $21,531 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 2013 and 2014. If the funds are not expended by June 30, 2014, the remainder is retained by the Foundation. As of June 30, 2013, $18,588 had been expended and $2,943 remained as a commitment.

During 2012, the Foundation approved requests by the Institute for additional funding not to exceed $8,150. As of June 30, 2013 and 2012, $8,133 and $7,900 had been expended, respectively. As of June 30, 2013 and 2012, $0 and $129 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, 2013 and 2012.

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 2013, but was amended to expire in June 2014. 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, 2013 and 2012 under this program was $0 and $138, 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 2013 or 2012.

(20) Subsequent Events

In connection with the preparation of the consolidated financial statements, the Foundation management reviewed subsequent events after June 30, 2013 through September 20, 2013, 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.