GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2014 AND 2013

with
INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Officers
Georgia Advanced Technology Ventures, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Georgia Advanced Technology Ventures, Inc. and Subsidiaries (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities and changes in net assets, cash flows and functional expenses 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 accounting principles generally accepted in the United States of America; 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Georgia Advanced Technology Ventures, Inc. and Subsidiaries as of June 30, 2014 and 2013, and the changes in consolidated net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Smith + Howard

September 12, 2014

GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

ASSETS

	2014	2013
Cash and Cash Equivalents (Note 2)	$ 3,911,766	$ 4,558,025
Restricted Cash (Note 2)	432,114	446,916
Accounts Receivable, No Allowance Deemed Necessary	58,389	63,189
Other Assets	75,908	70,381
Unconditional Promises to Give (Note 3)	1,115,695	1,398,929
Property and Equipment, Net (Notes 1, 6 and 7)		
Land	18,328,530	18,328,530
Buildings	102,250,899	91,937,559
Infrastructure	3,824,225	3,824,225
Tenant improvements	26,640,782	25,342,362
Furniture and fixtures	1,047,396	1,047,396
	152,091,832	140,480,072
Less accumulated depreciation	32,468,390	28,181,026
	119,623,442	112,299,046
Lease Commissions, Net of Accumulated Amortization of $1,379,035 and $1,180,388 in 2014 and 2013, Respectively	943,466	1,142,113
Investments in Limited Liability Companies, at Fair Value (Notes 1 and 4)	356,289	341,289
Total Assets	$ 126,517,069	$ 120,319,888

LIABILITIES AND NET ASSETS

	2014	2013
Accounts Payable and Accrued Expenses (Note 12)	$ 1,310,558	$ 1,298,506
Subscription Payable (Note 4)	415,013	680,534
Deferred Revenue (Note 9)	3,251,740	3,299,217
Accrued Interest Payable (Note 7)	1,449,569	3,611,275
Obligation Under Line of Credit (Note 5)	-	1,600,000
Long-Term Notes Payable (Note 6)	13,577,647	13,013,062
Refundable Tenant Deposits	325,215	358,858
Capital Lease Obligations (Note 7)	104,073,244	93,759,905
Total Liabilities	124,402,986	117,621,357
Net Assets		
Unrestricted	(8,606,414)	(8,036,966)
Temporarily restricted (Note 8)	10,720,497	10,735,497
Total Net Assets	2,114,083	2,698,531
Total Liabilities and Net Assets	$ 126,517,069	$ 120,319,888

The accompanying notes are an integral part of these consolidated financial statements.

GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Changes in unrestricted net assets		
Revenues and support:		
Rental income (Note 10)	$ 16,367,066	$ 15,539,999
Support from affiliates	1,164,312	1,624,000
Unrestricted donations	32,287	33,104
GATV memberships	71,474	80,630
Interest	3,502	2,377
Grant revenue	-	1,608,498
Other	3,555	675,903
Gain on extinguishment of debt (Note 7)	1,037,924	-
Net assets released from restrictions	65,000	106,985
Total Unrestricted Revenues	18,745,120	19,671,496
Expenses:		
Program services	19,180,250	23,545,400
Management and general	134,318	140,341
Total Expenses	19,314,568	23,685,741
Change in unrestricted net assets	(569,448)	(4,014,245)
Changes in temporarily restricted net assets		
Contributions	50,000	181,985
Net assets released from restrictions	(65,000)	(106,985)
Change in temporarily restricted net assets	(15,000)	75,000
Change in net assets	(584,448)	(3,939,245)
Net assets, beginning of year	2,698,531	6,637,776
Net assets, end of year	$ 2,114,083	$ 2,698,531

The accompanying notes are an integral part of these consolidated financial statements.

GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Cash Flows from Operating Activities:		
Change in net assets	$ (584,448)	$ (3,939,245)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,488,510	4,286,995
Gain on extinguishment of debt	(1,037,924)	-
Loss on investment in limited liability companies	-	303,340
Donation of land by GATV	-	2,700,000
Provision for lease commissions	-	335,495
Changes in operating assets and liabilities:		
Accounts receivable, net	4,800	(20,426)
Other assets	(8,026)	41,464
Unconditional promises to give	283,234	127,199
Accounts payable and accrued expenses	12,052	(592,675)
Subscription payable	(265,521)	(110,303)
Deferred revenue	(47,477)	(26,674)
Accrued interest payable	(1,123,782)	583,159
Refundable tenant deposits	(33,643)	(23,545)
Net Cash Provided by Operating Activities	1,687,775	3,664,784
Cash Flows from Investing Activities:		
Investment in limited liability company	(15,000)	-
Purchase of property and equipment	(1,298,421)	(107,272)
Net Cash Required by Investing Activities	(1,313,421)	(107,272)
Cash Flows from Financing Activities:		
Payments on notes payable	(1,035,415)	(969,265)
Net Cash Required by Financing Activities	(1,035,415)	(969,265)
Net Increase (Decrease) in Cash and Cash Equivalents and Restricted Cash	(661,061)	2,588,247
Cash and Cash Equivalents and Restricted Cash, Beginning of Year	5,004,941	2,416,694
Cash and Cash Equivalents and Restricted Cash, End of Year	$ 4,343,880	$ 5,004,941
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest	$ 8,336,494	$ 6,783,979

Supplemental Schedule of Noncash Financing and Investing Activities:

During the year ended June 30, 2014, the line of credit balance of $1,600,000 was converted into a long-term note payable.

During the year ended June 30, 2014, the capital lease agreement for certain buildings increased by $10,313,339 as a result of an amendment as described in Note 7.

As further described in Note 13, certain land with an estimated fair value of $2,700,000 was donated to the Board of Regents for the benefit of Georgia Institute of Technology during the year ended June 30, 2013.

The accompanying notes are an integral part of these consolidated financial statements.

GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2014 AND 2013

	Program Services	Management and General	Total 2014	Total 2013
Bank charges	$ -	$ 67,946	$ 67,946	$ 74,357
Insurance	145,588	-	145,588	149,953
Legal, accounting, and consulting	198,150	-	198,150	139,602
Write off of lease commissions	-	-	-	410,303
Management expenses	2,649,902	65,000	2,714,902	2,738,099
Marketing and sponsorship	7,500	-	7,500	12,138
Office supplies	-	942	942	529
Property repairs and maintenance	953,002	-	953,002	754,259
Registration fees	-	430	430	455
Rent	1,456,880	-	1,456,880	1,436,690
Taxes - property	602,266	-	602,266	602,899
Utilities	1,092,808	-	1,092,808	1,053,007
Depreciation and amortization	4,488,510	-	4,488,510	4,286,995
Interest	7,212,712	-	7,212,712	7,367,138
Loss on investment in limited liability companies	-	-	-	303,340
Contributions	305,021	-	305,021	2,904,499
Grant expense	-	-	-	1,358,498
Other expenses	67,911	-	67,911	92,980
Total Expenses	$ 19,180,250	$ 134,318	$ 19,314,568	$ 23,685,741

The accompanying notes are an integral part of these consolidated financial statements.

GEORGIA ADVANCED TECHNOLOGY VENTURES, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Georgia Advanced Technology Ventures, Inc. (GATV) is a Georgia not-for-profit organization formed as a supporting organization of the Georgia Institute of Technology (GIT) focused on technology, commercialization, economic development and relevant real estate development. GATV provides support for technology transfer and economic activities including GIT's Advanced Technology Development Center (ATDC) incubator facilities and services to ATDC affiliated companies.

GATV is the sole member of eight limited liability companies: VLP 1, LLC, which holds ownership to property at 575 14th Street; VLP2, LLC, which holds ownership to properties at 720 14th Street, 673 and 650 Ethel Street, and 1115 Howell Mill Road; VLP 3, LLC, which holds ownership to properties at 395 North Avenue and 380 Northyards Boulevard; VLP 4, LLC, which holds ownership to properties at 0 North Avenue; Technology Enterprise Park 1, LLC, which master leases property at 387 Technology Circle (see Note 16); Technology Enterprise Park 2, LLC, formed to lease a new building to be constructed at 369 Technology Circle; GT Innovation Fund, LLC, which provides seed funding for start-up companies that further the mission of GATV; and GT Real Estate Services, LLC, which facilitates the purchase and transfer of real estate to GIT in further support of the mission of GATV.

Basis of Consolidation

The consolidated financial statements include the accounts of GATV and the limited liability companies of which it is a sole member and are collectively referred to hereafter as (the “Organization”). All material intercompany balances and transactions have been eliminated in consolidation.

Basis of Accounting

The Organization follows accounting standards set by the Financial Accounting Standards Board (“FASB”). The FASB sets accounting principles generally accepted in the United States of America (“GAAP”).

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. Under GAAP, the Organization is required to report information regarding its consolidated financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassification of Amounts

Certain 2013 amounts previously reported have been reclassified to conform to the current year consolidated financial statement presentation.

Cash and Cash Equivalents and Restricted Cash

The Organization considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Restricted cash relates to funds with donor-imposed restrictions that stipulate the Organization's use of the funds.

Accounts Receivable

Accounts receivable consist primarily of rental income due to the Organization. Outstanding balances are reviewed at the end of each reporting period and a determination is made on any rental income that is uncollectible and should be included in the allowance for doubtful accounts.

Fair Values Measured on Recurring Basis

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs in which little or no market data exists (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Values Measured on Recurring Basis (Continued)

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Total assets at fair value classified within Level 3 were $356,289 and $341,289 as of June 30, 2014 and 2013, respectively, which consists of investments in limited liability companies. The Organization analyzes the financial statements provided by the limited liability companies and adjusts the value of the investments based on the financial position of the companies. There were no changes in valuation techniques for these funds for 2014 and 2013.

Quantitative information as of June 30, 2014, with respect to assets measured and carried at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) is as follows:

Instrument	Fair Value	Principal Valuation Technique	Significant Inputs	Weighted Average
Investment in Limited Liability Companies	$356,289	Adjusted members' capital	Value based on financial position of the companies	N/A

The table below sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the years ended June 30:

	2014	2013
Beginning balance	$ 341,289	$ 644,629
Investment in new limited liability company	15,000	-
Loss on investment in limited liability companies	-	303,340
Ending balance	$ 356,289	$ 341,289

The significant unobservable inputs used in the fair value measurement of the Organization's investments in LLC's are subject to market risks resulting from changes in the market value of its investments.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

It is the Organization's policy to capitalize at cost personal property additions in excess of $30,000. Lesser amounts are expensed. Real property and tenant improvements are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method. Depreciation expense for the years ended June 30, 2014 and 2013 was $4,287,364 and $4,095,349, respectively.

On June 29, 2012, the Organization purchased a building at 793 Marietta Street for $2,700,000 with the intent that the building be donated to the Board of Regents for the benefit of GIT, upon approval by the Board of Regents. The building was donated to the Board of Regents on December 20, 2012.

Deferred Revenue

Rental payments received from lessees in advance of the periods to which they pertain are deferred and recognized over the periods to which the rental payments relate.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Contributions received by the Organization are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying Consolidated Statement of Activities and Changes in Net Assets as net assets released from restrictions.

Unconditional promises to give are recognized as receivables and as revenues in the period in which the Organization is notified by the donor of his or her commitment to make a contribution. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying Consolidated Statement of Activities and Changes in Net Assets and in the Consolidated Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

GATV is a not-for-profit corporation and is exempt from income taxes under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code. Accordingly, no income taxes are reflected in the accompanying consolidated financial statements. The consolidated subsidiaries are organized as single-member limited liability companies (LLC's) and are not liable for income taxes on their taxable income. Instead, GATV, as the sole-member, is liable for income taxes, if any, on the LLC's taxable income. The Organization's consolidated financial statements do not include a provision or liability for income taxes.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

The Organization annually evaluates all federal and state income tax positions. This process includes an analysis of whether these income tax positions the Organization takes meet the definition of an uncertain tax position under the Income Taxes Topic of the Financial Accounting Standards Codification. The Organization is no longer subject to tax examinations for tax years ending before June 30, 2011.

Estimates and Assumptions

The Organization uses estimates and assumptions in preparing consolidated financial statements in accordance with GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Subsequent Events

Management has evaluated subsequent events through the date of this report, which is the date the consolidated financial statements were available to be issued.

NOTE 2 – CONCENTRATIONS

The financial instruments which potentially subject the Organization to concentrations of credit risk are cash and cash equivalents. The Organization has cash deposits in a financial institution in excess of the $250,000 limit federally insured by the Federal Deposit Insurance Corporation. The excess amount totals $4,043,330 at June 30, 2014. Cash equivalents are held in an investment institution and are not federally insured. The amount of this uninsured investment is $50,550 at June 30, 2014. If liquidity issues arise in the global credit and capital markets, it is at least reasonably possible that these changes in risks could materially affect the amounts reported in the accompanying consolidated financial statements.

The Organization receives significant resources from GIT and related organizations, pursuant to various agreements, including a memorandum of understanding between the Organization and GIT. An interruption of this support could cause substantial doubt in the Organization's ability to continue as an independent entity.

NOTE 3 – UNCONDITIONAL PROMISES TO GIVE

At June 30, 2006, the Organization received a commitment from The University Financing Foundation (TUFF) for $1,500,000. This commitment has been paid in $50,000 increments since fiscal period 2007. Effective July 1, 2014, this commitment will be paid as a reduction in the rent payment due by the Organization to TUFF. . This commitment has been recorded at a present value of $700,682 and $718,395 at June 30, 2014 and 2013, respectively, using a discount rate of 4.83%, which represents the risk-free rate of return at the date of the pledge.

At June 30, 2009, the Organization received a commitment from the GIT to provide $1,000,000 from available funds to make capital contributions associated with the GRA Venture Fund, LLC discussed in Note 4. This commitment will be paid as the GRA Venture Fund, LLC requests capital contributions. During the years ended June 30, 2014 and 2013, the Organization received $265,521 and $110,303, respectively, and reduced the balance of the outstanding commitment to $415,013 and $680,534 at June 30, 2014 and 2013, respectively.

The consolidated financial statements do not include conditional pledges, expectancies and bequests, which have not been recognized as revenue.

NOTE 4 – INVESTMENTS IN LIMITED LIABILITY COMPANIES

During the year ended June 30, 2005, the Organization entered an agreement to purchase a limited liability membership interest in Georgia Venture Partners, LLC, a seed capital fund established to make seed and early-stage investments in life sciences enterprises related to Georgia. The Organization agreed to contribute capital of $1,000,000 in exchange for its membership interest. The subscription agreement was finalized during the year ended June 30, 2005. During the year ended June 30, 2013, unrealized losses of $303,340 were recognized in the consolidated financial statements.

During the year ended June 30, 2009, the Organization entered into an agreement to purchase a limited liability membership interest in GRA Venture Fund, LLC, a seed capital fund established to help startup businesses incubated in the VentureLab commercialization program of the Georgia Research Alliance. The Organization agreed to contribute capital of $1,000,000 in exchange for its membership interest subject to a provision of the Operating Agreement that limits capital contributions to 20% of a member’s commitment per calendar year. During the year ended June 30, 2010, the Organization entered into an agreement whereby any capital distributions from the GRA Venture Fund, LLC will be paid to the organization that provided the initial funding discussed in Note 3. As such, the Organization relinquished its rights to the investment and future earnings, and contributed its investment in the GRA Venture Fund, LLC during the year ended June 30, 2010.

NOTE 5 – LINE OF CREDIT

The Organization had a line of credit arrangement with TUFF, with a limit of $1,900,000. Interest at prime plus 2% (an effective rate of 5.25% at May 31, 2014) was payable each December 31; however, the Organization chose to make interest payments on a quarterly basis. Principal was payable on December 31, 2013 or within 30 days of demand by TUFF. No collateral was specified, but the Organization was required to obtain the consent of TUFF before granting a security interest in its general assets to any other entity. On June 1, 2014, the line of credit arrangement with TUFF was terminated and the Organization entered into a note payable with TUFF for $1,600,000 to refinance the outstanding borrowings (see Note 6). At June 30, 2013, advances outstanding under this line of credit totaled $1,600,000 and interest expense of $20,943 was accrued in association with this liability.

NOTE 6 – LONG-TERM NOTES PAYABLE

Long-term notes payable are as follows at June 30:

	2014	2013
Loan from TUFF; interest at 6.00%; monthly payments of $4,164 through October 2015; unsecured	$ 63,872	$ 108,539
Loan from TUFF; interest at 7.53%; monthly payments of $11,833 through July 2018; secured by Technology Enterprise Park land	497,836	598,209
Loan from TUFF; interest at 7.53%; payments due on the 1st for 120 months beginning with the first month following the last draw; secured by Technology Enterprise Park land	2,357,850	2,704,180
Loan from TUFF; interest at 6.55%; monthly payments; principal matures October 2033; secured by Technology Enterprise Park land	5,842,425	5,917,957
Loan from TUFF; interest at 6.025%; monthly payments of $11,342 through December 2034; unsecured (see Note 5)	1,600,000	-
Loan from Georgia Tech Facilities, Inc (GTFI), a related party (see Note 13); interest at 3.79%; monthly payments of $50,000 through June 2020; secured by 575 14th Street land and building	3,215,664	3,684,177
	$ 13,577,647	$ 13,013,062

NOTE 6 – LONG-TERM NOTES PAYABLE (Continued)

Principal maturities on the notes payable are as follows:

Year ended June 30,	
2015	$ 1,147,117
2016	1,191,756
2017	1,256,444
2018	1,355,337
2019	1,291,136
Thereafter	7,335,857
	$ 13,577,647

NOTE 7 – CAPITAL LEASE OBLIGATIONS

The Organization is party to a lease agreement with TUFF ATDC LLC under which the Organization initially leased space on the first through fifth floors of the Centergy One Building on Fifth Street in Atlanta. The Organization subleases this space to organizations compatible with its mission. The first through third floor lease extends to August 203 and he fourth and fifth floor lease extends to December 2034. At the end of the lease agreement, the Organization may purchase the property for a nominal charge. Additionally, the lease agreement with TUFF ATDC LLC provides that the Organization may purchase the property during the lease term at an amount determined by a formula accounting for interest rates and the total previous payments made. The leases have been restated, amended, and consolidated at various times, the most recent of which is dated July 1, 2014

NOTE 7 – CAPITAL LEASE OBLIGATIONS (Continued)

The properties under the above capital leases are recorded as assets in the accompanying Consolidated Statement of Financial Position at the value of certain pre-occupancy payments plus the present value of the future minimum lease payments. The obligations under the capital lease have been recorded at the present value of future minimum lease payments, discounted at an interest rate appropriate to the Organization's estimated borrowing rate at the time of lease inception. Those interest rates are 4.89% for all floors, as amended through July 1, 2014. Prior to the amendment, the interest rates were 6.25% for floors one through three and 7.75% for floors four and five. There was no accrued interest at June 30, 2014. At June 30, 2013, interest expense on the discounted capital leases of $1,392,306 is accrued. As indicated in the above paragraphs, the leases were modified and the accrued interest was forgiven. The forgiveness of the accrued interest, in the amount of $1,037,924, is recorded in the accompanying Statement of Activities and Changes in Net Assets for the year ended June 30, 2014.

At June 30, 2014 and 2013, the cost of properties under these capital leases total $66,936,210 and $56,622,871, respectively. Related accumulated depreciation at June 30, 2014 and 2013 is $11,689,383 and $10,431,154, respectively.

The Organization is a party to a lease agreement with TUFF TEPB LLC under which the Organization leases a building at Technology Enterprise Park. The Organization subleases space in the building to organizations compatible with its mission. This lease commenced June 30, 2007, and extends to June 30, 2037, at which time the Organization may purchase the property for a nominal charge. Additionally, the Organization may purchase the property during the lease term at an amount determined by a formula accounting for interest rates and the total previous payments made.

The property under the above capital lease is recorded as an asset in the accompanying Consolidated Statement of Financial Position. The obligations under the capital lease have been recorded at the value of the contractor's cost of construction plus capitalized interest during the construction period. The effective overall average interest rate on the lease, given an escalating lease payment schedule over the life of the agreement, is 7.129%. Interest expense on the discounted capital leases of $1,381,256 and $2,132,839 is accrued at June 30, 2014 and 2013, respectively.

At June 30, 2014 and 2013, the cost of property under the above capital lease totaled $40,960,871. Related accumulated depreciation at June 30, 2014 and 2013 is $14,028,732 and $11,979,902, respectively.

NOTE 7 – CAPITAL LEASE OBLIGATIONS (Continued)

Future minimum lease payments under the capital leases, and the net present value of future minimum lease payments, are as follows:

Year ended June 30,	
2015	$ 11,868,514
2016	8,494,508
2017	8,550,257
2018	7,776,581
2019	7,752,751
Thereafter	140,650,803
	185,093,414
Less amounts representing interest	(81,020,170)
Present value of future minimum lease payments	$ 104,073,244

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets contain donor-imposed restrictions that permit the Organization to use or expend the donated assets as specified and are satisfied either by the passage of time or by actions of the Organization.

NOTE 9 – OPERATING LEASE OBLIGATIONS

During the year ended June 30, 2007, the Organization, as lessee, entered into an operating lease agreement with TUFF Bullet LLC for a building at Technology Enterprise Park. The lease has a term of thirty years, after which possession of the space reverts to TUFF Bullet LLC.

During the year ended June 30, 2007, the Organization, as lessor, entered into a Base Lease Agreement with TUFF Bullet LLC for a portion of an existing building at Technology Enterprise Park. The Base Lease Agreement is for a term for 35 years and provided for a Base Rental Payment to the Organization in the amount of $3,462,517. The unamortized portion of the Base Rental Payment is recorded within Deferred Revenue, in the amounts of $2,568,775 and $2,684,226, as of June 30, 2014 and 2013, respectively.

NOTE 9 – OPERATING LEASE OBLIGATIONS (Continued)

Future minimum lease payments under the operating leases are as follows:

Year ended June 30,	
2015	$ 317,673
2016	321,537
2017	325,516
2018	329,616
2019	333,838
Thereafter	3,561,286
	$ 5,189,466

NOTE 10 – RENTAL INCOME

The Organization's rental income is generated primarily by leasing facilities to tenants under various cancelable leases and subleases. Rental income from all sources is $16,367,066 and $15,539,999 for the years ended June 30, 2014 and 2013, respectively. Many of the leases provide tenants the option to terminate these leases at any time by giving the Organization 30 days written notice.

NOTE 11 – PAYMENTS TO AFFILIATES

During the year ended June 30, 2014, the Organization remitted payments, or accrued liabilities for balances due, to GIT in the amount of $66,613, including $97,746 for management expenses offset by credits of $31,133 for amounts due from GIT to the Organization.

During the year ended June 30, 2013, the Organization remitted payments, or accrued liabilities for balances due, to GIT in the amount of $65,989, including $97,746 for management expenses offset by credits of $31,757 for amounts due from GIT to the Organization.

The Organization, under various agreements, reimburses ATDC and GIT for administrative services received, including the estimated value of employees' time performing services for the Organization. These reimbursements are included as program service expenses in the accompanying Consolidated Statement of Activities and Changes in Net Assets.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

To guarantee performance under certain capital leases described in Note 7, the Organization is required to maintain a letter of credit payable to TUFF ATDC, LLC with a face amount of $4,800,000. Borrowings under the letter of credit bear interest at the rate of prime plus 2%. The letter of credit is collateralized by a limited guaranty equal to its face amount by Georgia Tech Foundation, Inc. The letter of credit expires June 10, 2015. There were no outstanding draws against the letter of credit at June 30, 2014 and 2013.

The Environmental Protection Division of the Georgia Department of Natural Resources (the “EPD”) issued a Proposed Consent Order in May 2010 with respect to Compliance Status Reports submitted for the 1115 Howell Mill Road property owned by the Organization (VLP2 LLC), including environmental concerns related to the Organization’s property at 720 & 0 14th Street and to other properties east of 720 & 0 14th Street which are not owned by the Organization. The Organization has hired an independent environmental attorney and an independent environmental consulting firm to determine the extent of the potential liability that exists. At June 30, 2012, the Organization has reflected a liability in the Consolidated Statement of Financial Position in the amount of $1,215,729. On November 30, 2011, the Organization submitted a Voluntary Remediation Program Application to the EPD. This application was approved on November 2, 2012 and the cost estimate of the approved remediation program is $592,500. The EPD required the submittal of a financial assurance instrument as a condition of the approved remediation program. The Organization established a letter of credit expiring February 28, 2015 to meet this requirement. There were no outstanding draws against the letter of credit at June 30, 2014. Based on the approved remediation program, the Organization reduced the existing liability by $616,448 through Other Income in the Consolidated Statement of Activities and Changes in Net Assets for the year ended June 30, 2013. At June 30, 2014, the Organization has reflected a liability of $434,466 in the Consolidated Statement of Financial Position.

NOTE 12 – COMMITMENTS AND CONTINGENCIES (Continued)

The Organization has certain limited, low-risk financial exposure related to its involvement with the Global Center for Medical Innovation, Inc., a Georgia non-profit corporation (“GCMI”). The Organization and GCMI are the joint recipients of a $1,300,000 grant (the "Award Amount") from the Economic Development Administration, United States Department of Commerce (the "EDA") under the Public Works and Economic Development Act of 1965, as amended, which they accepted on June 2, 2010. The purpose of the award is to assist in financing the construction of a medical device prototyping and design center and the purchase of certain equipment, personal property and related attachments, fixtures, hardware and tooling to support the operations of said center (the "Project"). One of the terms and conditions of the award is the Organization's agreement that it may be required to repay the Award Amount to the EDA, if at any time, it sells, leases, mortgages, or otherwise alienates any right to or interest in the Project. As such, in the event the Project does not remain in operation, the Organization’s resulting exposure could potentially extend up to $1,300,000. Management intends to operate the Project in accordance with the terms of the agreement and believes there is no exposure to the Organization.

In advance of terminating its membership interest in GCMI, the Organization requested and received a letter from GCMI dated June 28, 2013 in which GCMI agreed to indemnify and hold the Organization harmless from any actions asserted, or filed against the Organization, which arise from GCMI’s failure to perform in accordance with the terms of the above-referenced grant. The Organization terminated its membership interest in GCMI, as of July 1, 2013.

NOTE 13 – RELATED PARTY TRANSACTIONS

The Organization leases office space to companies controlled by members of the Organization’s Board of Directors. Total lease payments received from these companies during 2014 and 2013 were $2,410,182 and $2,550,838, respectively.

During the year ended June 30, 2010, the Organization entered into an agreement to lease the land and building located at 575 14th Street to the Board of Regents of the University System of the State of Georgia for use by GIT. The Organization agreed to provide $5,000,000 of improvements to the building. To fund these improvements, the Organization entered into a $5,000,000 note payable to Georgia Tech Facilities, Inc. (GTFI) (see Note 6). In exchange for the note payable, GTFI agreed to construct the improvements and the Organization recorded a receivable, named Due From Related Party, from GTFI to reflect the agreement to provide the improvements. The Organization and GTFI share common officers. During the year ended June 30, 2012, improvements to the building were completed and $5,000,000 of improvements to the property are included in Tenant Improvements in the accompanying Consolidated Statement of Financial Position.

NOTE 13 – RELATED PARTY TRANSACTIONS (Continued)

On June 29, 2012, the Organization purchased real property located at 793 Marietta Street for $2,700,000, with the intention of donating the property to the Board of Regents for the benefit of GIT. On December 20, 2012, the Board of Regents accepted the transfer of the property from the Organization and the transfer was finalized on December 20, 2012, and is recorded as an expense in the Consolidated Statement of Functional Expenses.

NOTE 14 – 575 14TH STREET PROJECT AGREEMENT

The Organization is a party to a Project Agreement effective as of July 1, 2003, which provides that in the event of the sale of the real property and improvements at 575 14th Street the net proceeds realized by the Organization from such sale in excess of costs incurred in operating the property and completing the sale are to be divided equally between the Organization and a restricted account of the Georgia Tech Foundation, Inc.

NOTE 15 – FINANCIAL INFORMATION FOR 2013

The consolidated financial statements include certain prior-year summarized comparative information in total, but not by functional expense class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2013, from which the summarized information was derived.

NOTE 16 – SUBSEQUENT EVENT

Subsequent to June 30, 2014, the Organization entered into a Transition Agreement with TUFF in anticipation of a proposed transfer of the property at 387 Technology Circle from the Organization to TUFF. Through the date of this report, the transfer has not yet completed. At June 30, 2014, assets and liabilities in the accompanying Statement of Financial Position related to the property at 387 Technology Circle were as follows:

Current assets	$ 1,333,152
Property and equipment, net	27,872,206
Lease commissions, net of accumulated amortization	798,355
Total assets	$ 30,003,713
Current liabilities	$ 2,068,708
Long-term notes payable	2,855,686
Capital lease obligations	44,127,960
Total liabilities	49,052,354
Net deficit	(19,048,641)
Total liabilities and net deficit	$ 30,003,713