GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

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 statement of financial position of Georgia Advanced Technology Ventures, Inc. and Subsidiaries (the Organization) as of June 30, 2012 and 2011, and the related consolidated statements of activities and changes in net assets, cash flows and functional expenses for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Georgia Advanced Technology Ventures, Inc. and Subsidiaries as of June 30, 2012 and 2011, 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 11, 2012

GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

ASSETS

	2012	2011
Cash and Cash Equivalents (Note 2)	$ 2,024,634	$ 1,424,240
Restricted Cash (Note 2)	392,060	341,675
Accounts Receivable, Net of Allowance for Doubtful Accounts of $1,605,333 in 2011	42,763	39,226
Other Assets	114,345	453,664
Due From Related Party (Note 13)	-	15,454
Unconditional Promises to Give (Note 3)	1,526,128	1,564,860
Property and Equipment, Net (Notes 1, 6 and 7)		
Land	18,328,530	18,328,530
Buildings	91,830,287	91,696,087
Infrastructure	3,824,225	3,824,225
Tenant improvements	25,342,362	25,326,794
Furniture and fixtures	1,047,396	1,047,396
	140,372,800	140,223,032
Less accumulated depreciation	24,085,677	19,992,922
	116,287,123	120,230,110
Lease Commissions, Net of Accumulated Amortization of $1,606,698 and $1,313,974 in 2012 and 2011, Respectively	1,666,754	1,959,478
Building Held for Donation (Note 1)	2,700,000	-
Investments in Limited Liability Companies, at Fair Value (Notes 1 and 4)	644,629	921,629
Total Assets	$ 125,398,436	$ 126,950,336

LIABILITIES AND NET ASSETS

	2012	2011
Accounts Payable and Accrued Expenses (Note 12)	$ 1,891,181	$ 1,868,676
Subscription Payable (Note 4)	790,837	813,451
Deferred Revenue (Note 9)	3,325,891	3,407,740
Accrued Interest Payable (Note 7)	3,028,116	1,830,137
Obligation Under Line of Credit (Note 5)	1,600,000	1,600,000
Long-Term Notes Payable (Note 6)	13,982,327	14,889,838
Refundable Tenant Deposits	382,403	393,118
Capital Lease Obligations (Note 7)	93,759,905	93,759,905
Total Liabilities	118,760,660	118,562,865
Net Assets		
Unrestricted	(4,022,721)	(2,223,026)
Temporarily restricted (Note 8)	10,660,497	10,610,497
Total Net Assets	6,637,776	8,387,471
Total Liabilities and Net Assets	$ 125,398,436	$ 126,950,336

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, 2012 AND 2011

	2012	2011
Changes in unrestricted net assets		
Revenues and support:		
Rental income (Note 10)	$ 14,528,785	$ 16,740,217
Support from affiliates	455,000	1,073,000
Unrestricted donations	33,882	34,624
GATV memberships	81,806	63,629
Interest	3,119	3,747
Other	17,251	53,415
Net assets released from restrictions	6,249,213	370,000
Total Unrestricted Revenues	21,369,056	18,338,632
Expenses:		
Program services	23,010,636	19,180,075
Management and general	158,115	1,717,053
Total Expenses	23,168,751	20,897,128
Change in unrestricted net assets	(1,799,695)	(2,558,496)
Changes in temporarily restricted net assets		
Contributions	6,299,213	7,280,000
Net assets released from restrictions	(6,249,213)	(370,000)
Change in temporarily restricted net assets	50,000	6,910,000
Change in net assets	(1,749,695)	4,351,504
Net assets, beginning of year	8,387,471	4,035,967
Net assets, end of year	$ 6,637,776	$ 8,387,471

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, 2012 AND 2011

	2012	2011
Cash Flows from Operating Activities:		
Change in net assets	$ (1,749,695)	$ 4,351,504
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,387,980	4,251,972
Loss on investment in limited liability companies	277,000	-
Bad debt expense	35,154	1,606,647
Donation (Contribution) of land (to) from GATV	3,845,833	(6,900,000)
Credit for lease commissions	-	57,670
Changes in operating assets and liabilities:		
Accounts receivable, net	(3,537)	(1,118,822)
Other assets	51,665	(299,605)
Unconditional promises to give	38,732	94,104
Accounts payable and accrued expenses	22,505	(657,153)
Subscription payable	(22,614)	(78,728)
Deferred revenue	(81,849)	102,414
Accrued interest payable	1,197,979	(98,920)
Refundable tenant deposits	(10,715)	(245,476)
Net Cash Provided by Operating Activities	7,988,438	1,065,607
Cash Flows from Investing Activities:		
Investment in limited liability company	-	(100,000)
Purchase of property and equipment	(6,430,148)	(120,767)
Net Cash Required by Investing Activities	(6,430,148)	(220,767)
Cash Flows from Financing Activities:		
Payments on notes payable	(907,511)	(781,097)
Payments on capital leases	-	(451,865)
Net Cash Required by Financing Activities	(907,511)	(1,232,962)
Net Increase (Decrease) in Cash and Cash Equivalents	650,779	(388,122)
Cash and Cash Equivalents, Beginning of Year	1,765,915	2,154,037
Cash and Cash Equivalents, End of Year	$ 2,416,694	$ 1,765,915
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	$ 6,318,984	$ 7,706,957

Supplemental Schedule of Noncash Financing and Investing Activities

As further described in Note 1, certain land with an estimated fair value of $6,900,000 was contributed to the Organization during the year ended June 30, 2011.

As further described in Note 13, certain land with an estimated fair value of $3,845,833 was donated to the Board of Regents for the benefit of Georgia Institute of Technology.

As further described in Note 13, the Organization financed $15,454 and $4,903,484 in property and equipment additions with a note payable during the years ended June 30, 2012 and 2011, respectively.

During 2011, the Organization paid a deposit of $250,000 toward the purchase of a building. During 2012, this $250,000 deposit was applied to the purchase price of the building.

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, 2012 AND 2011

	Program Services	Management and General	Total 2012	Total 2011
Salaries	$ 70,447	$ -	$ 70,447	$ 84,100
Fringe benefits	25,924	-	25,924	29,703
Total Compensation and Benefits	96,371	-	96,371	113,803
Bank charges	-	62,231	62,231	56,353
Bad debt	-	35,154	35,154	1,606,647
Insurance	135,510	-	135,510	128,212
Legal, accounting, and consulting	130,137	-	130,137	79,868
Management expenses	2,456,262	60,000	2,516,262	2,605,616
Office supplies	-	255	255	653
Property repairs and maintenance	747,837	-	747,837	705,211
Registration fees	-	475	475	400
Rent	1,505,767	-	1,505,767	2,041,383
Taxes - property	652,487	-	652,487	517,985
Utilities	1,110,578	-	1,110,578	1,126,277
Depreciation and amortization	4,387,980	-	4,387,980	4,251,972
Interest	7,516,963	-	7,516,963	7,608,037
Loss on investment in limited liability companies	277,000	-	277,000	-
Contributions	3,845,833	-	3,845,833	-
Other expenses	147,911	-	147,911	54,711
Total Expenses	$ 23,010,636	$ 158,115	$ 23,168,751	$ 20,897,128

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

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; 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)

<u>Cash and Cash Equivalents</u>

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.

<u>Accounts Receivable</u>

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.

<u>Fair Values Measured on Recurring Basis</u>

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.

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.

Total assets at fair value classified within Level 3 were $644,629 and $921,629 as of June 30, 2012 and 2011, respectively, which consists of investments in limited liability companies.

GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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

Fair Values Measured on Recurring Basis (Continued)

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:

	2012	2011
Beginning balance	$ 921,629	$ 821,629
Purchase interests in limited liability companies	-	100,000
Loss on investment in limited liability companies	277,000	-
Ending balance	$ 644,629	$ 921,629

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, 2012 and 2011 was $4,092,755 and $3,964,718, respectively.

Certain land with an estimated fair value of $6,900,000 was donated to the Organization during the year ended June 30, 2011. Under the terms of the warranty deed, the land is restricted for the use of constructing a business park.

Building Held for Donation

On June 29, 2012, the Organization purchased a building at 793 Marietta Street for $2,700,000. It is the Organization's intent that the building be donated to the Board of Regents for the benefit of GIT, upon approval by the Board of Regents.

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

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.

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 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, 2009.

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 $2,116,147 at June 30, 2012. Cash equivalents are held in an investment institution and are not federally insured. The amount of this uninsured investment is $50,547 at June 30, 2012.

As a result of liquidity issues experienced in the global credit and capital markets, it is at least reasonably possible that changes in risks in the near term could occur which in turn could further 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 will be paid in $50,000 increments over a 30-year period to begin in fiscal period 2007. This commitment has been recorded at a present value of $735,291 and $751,409 at June 30, 2012 and 2011, 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, 2012 and 2011, the Organization received $22,614 and $78,728, respectively, and reduced the balance of the outstanding commitment to $790,837 and $813,451 at June 30, 2012 and 2011, respectively.

The consolidated financial statements do not include conditional pledges, expectancies and bequests, which have not been recognized as revenue. These undiscounted amounts totaled $50,000 and $75,000 at June 30, 2012 and 2011, respectively.

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, 2012, an unrealized loss of $277,000 was 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 has 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 June 30, 2012) is payable each December 31; however, the Organization currently chooses to make interest payments on a quarterly basis. Principal is payable within 30 days of demand by TUFF. No collateral is specified, but the Organization is required to obtain the consent of TUFF before granting a security interest in its general assets to any other entity. At June 30, 2012 and 2011, advances outstanding under this line of credit total $1,600,000. Interest expense of $20,943 is accrued in association with this liability at June 30, 2012 and 2011.

NOTE 6 – LONG-TERM NOTES PAYABLE

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

	2012	2011
Loan from TUFF; interest at 6.00%; monthly payments of $4,164 through October 2015; unsecured	$ 150,612	$ 190,241
Loan from TUFF; interest at 7.53%; monthly payments of $11,833 through July 2018; secured by Technology Enterprise Park land	691,323	777,703
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	3,025,463	3,323,514
Loan from TUFF; interest at 6.55%; monthly payments; principal matures October 2033; secured by Technology Enterprise Park land	5,979,629	6,028,700
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	4,135,300	4,569,680
	$ 13,982,327	$ 14,889,838

Principal maturities on the notes payable are as follows:

Year ended June 30,	
2013	$ 969,267
2014	1,035,414
2015	1,106,302
2016	1,148,413
2017	1,210,417
Thereafter	8,512,514
	$ 13,982,327

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 third 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 2033, after which the Organization may purchase the property for a nominal charge.

The Organization was also party to a lease agreement with TUFF GATV45 LLC under which the Organization leased space on the fourth and fifth floors of the Centergy One Building. During September 2005, that lease agreement was terminated and the lease agreement with TUFF ATDC LLC was amended to include the fourth and fifth floors. The Organization also subleases that space to organizations compatible with its mission. The fourth and fifth floor lease extends to December 2034, at which time 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 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 6.25% for floors one through three and 7.75% for floors four and five. Interest expense on the discounted capital leases of $1,626,436 and $1,749,602 is accrued at June 30, 2012 and 2011, respectively.

At June 30, 2012 and 2011, the cost of properties under these capital leases total $56,622,871. Related accumulated depreciation at June 30, 2012 and 2011 is $9,298,696 and $8,166,239, 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.

NOTE 7 – CAPITAL LEASE OBLIGATIONS (Continued)

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 $1,310,968 is accrued at June 30, 2012.

At June 30, 2012 and 2011, the cost of property under the above capital lease totaled $45,432,759. Related accumulated depreciation at June 30, 2012 and 2011 is $10,545,100 and $8,359,818, respectively.

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,	
2013	$ 9,055,976
2014	7,900,440
2015	8,056,285
2016	8,215,940
2017	8,375,375
Thereafter	153,952,186
	195,556,202
Less amounts representing interest	(101,796,297)
Present value of future minimum lease payments	$ 93,759,905

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, 2006, the Organization, as lessee, entered into two operating lease agreements with Centergy One Associates, LLC, for space on the seventh and eighth floors of the Centergy One Building on Fifth Street in Atlanta. Each lease has a term of five years, after which possession of the space reverts to Centergy One Associates, LLC. These lease agreements expired during the year ended June 30, 2011 and were not renewed.

NOTE 9 – OPERATING LEASE OBLIGATIONS (Continued)

During the year ended June 30, 2007, the Organization, as lessee, entered into another operating lease agreement with Centergy One Associates, LLC, for space on the sixth floor of the Centergy One Building on Fifth Street in Atlanta. The lease has a term of five years, after which possession of the space reverts to Centergy One Associates, LLC. This lease agreement expired during the year ended June 30, 2012 and was not renewed.

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 as Deferred Revenue, in the amounts of $2,799,676 and $2,915,127, for the years ending June 30, 2012 and 2011, respectively.

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

Year ended June 30,	
2013	$ 310,280
2014	313,922
2015	317,673
2016	321,537
2017	325,516
Thereafter	4,224,740
	$ 5,813,668

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 $14,528,785 and $16,740,217 for the years ended June 30, 2012 and 2011, respectively. Many of the leases provide tenants the option to terminate these leases at anytime by giving the Organization 30 days written notice.

NOTE 11 – PAYMENTS TO AFFILIATES

During the year ended June 30, 2012, the Organization remitted payments, or accrued liabilities for balances due, to GIT in the amount of $68,200, including $96,371 for reimbursed salaries and fringe benefits offset by credits of $28,171 for amounts due from GIT to the Organization.

During the year ended June 30, 2011, the Organization remitted payments, or accrued liabilities for balances due, to GIT in the amount of $83,083, including $113,803 for reimbursed salaries and fringe benefits and $679 for meeting room rental offset by credits of $31,399 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, 2013. There were no outstanding draws against the letter of credit at June 30, 2012 and 2011.

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. The Organization has reflected a liability of $1,215,729 and $1,284,400 in the accompanying Consolidated Statement of Financial Position at June 30, 2012 and 2011, respectively. On November 30, 2011, the Organization submitted a Voluntary Remediation Program Application to the EPD, which if approved, may significantly reduce the Organization's estimated liability reported in these consolidated financial statements. As of the date of this report, the Organization had not yet received a response to its application from the EPD.

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.

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 2012 and 2011 were $2,719,122 and $2,496,347, respectively. At June 30, 2012 and 2011, these companies did not owe any lease payments to the Organization.

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.

On December 16, 2011, the Organization purchased real property located at 755 Marietta Street for $3,845,833, with the intention of donating the property to the Board of Regents for the benefit of GIT. On April 17, 2012, the Board of Regents accepted the transfer of the property from the Organization and the transfer was finalized on June 29, 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 2011

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, 2011, from which the summarized information was derived.