**GEORGIA ADVANCED TECHNOLOGY VENTURES, INC.AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2009 AND 2008**

**with**

**INDEPENDENT AUDITORS' REPORT**

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SMITH & HOWARD
Certified Public Accountants and Advisers

# 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, 2009 and the related consolidated statements of activities, changes in net assets, cash flows and functional expenses for the year 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 audit. The consolidated financial statements of Georgia Advanced Technology Ventures, Inc. and Subsidiaries as of and for the year ended June 30, 2008, prior to the consideration of any reclassifications made in the current year presentation, were audited by other auditors whose report dated October 21, 2008 expressed an unqualified opinion on those statements.

We conducted our audit 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 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 audit provides 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, 2009 and the changes in consolidated net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Smith + Howard

September 15, 2009

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**GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**JUNE 30, 2009 AND 2008**

## ASSETS

| | 2009 | 2008 |
|---|---|---|
| Cash and Cash Equivalents | $ 1,304,966 | $ 1,573,271 |
| Restricted Cash | 333,699 | 370,933 |
| Accounts Receivable, Net | 1,862,505 | 526,993 |
| Note Receivable | 15,000 | - |
| Interest Receivable | 423 | - |
| Unconditional Promises to Give | 1,781,452 | 795,443 |
| Prepaid Expenses | 3,829 | - |
| Deposits | 32,496 | 12,322 |
| Property and Equipment | | |
| Land | 11,428,530 | 11,428,530 |
| Buildings | 91,253,313 | 91,911,380 |
| Infrastructure | 3,824,225 | 3,411,274 |
| Tenant improvements | 20,288,375 | 15,748,035 |
| Furniture and fixtures | 1,047,396 | 1,047,396 |
| | 127,841,839 | 123,546,615 |
| Less accumulated depreciation | 12,194,924 | 9,269,018 |
| | 115,646,915 | 114,277,597 |
| Lease Commissions, Net of Accumulated Amortization of $658,083 | 2,632,580 | - |
| Investments in Limited Liability Companies, at Fair Value | 1,821,629 | 957,061 |
| Total Assets | $ 125,435,494 | $ 118,513,620 |

## LIABILITIES AND NET ASSETS

| | 2009 | 2008 |
|---|---|---|
| Accounts Payable | $ 1,481,142 | $ 839,372 |
| Subscription Payable | 1,000,000 | - |
| Deferred Revenue | 3,299,556 | 3,420,567 |
| Accrued Interest Payable | 1,970,773 | 1,713,387 |
| Obligation Under Line of Credit | 1,600,000 | 1,600,000 |
| Long-term Notes Payable | 10,659,949 | 8,703,344 |
| Refundable Tenant Deposits | 635,724 | 641,225 |
| Capital Lease Obligations | 95,086,832 | 88,778,336 |
| Total Liabilities | 115,733,976 | 105,696,231 |
| Net Assets | | |
| Unrestricted | 6,020,888 | 10,594,391 |
| Temporarily restricted | 3,680,630 | 2,222,998 |
| Total Net Assets | 9,701,518 | 12,817,389 |
| Total Liabilities and Net Assets | $ 125,435,494 | $ 118,513,620 |

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, 2009 AND 2008**

| | 2009 | 2008 |
|---|---|---|
| Changes in unrestricted net assets | | |
| Revenues and support: | | |
| Rental income | $ 13,171,795 | $ 12,057,297 |
| Unrestricted donations | 96,933 | 105,445 |
| GATV memberships | 31,010 | 49,209 |
| Management services revenue | - | 278,200 |
| Interest | 11,807 | 58,774 |
| Other | 10,439 | 33,940 |
| Net assets released from restrictions | 271,693 | 126,854 |
| Total Unrestricted Revenues | 13,593,677 | 12,709,719 |
| | | |
| Expenses: | | |
| Program services | 18,042,675 | 18,179,654 |
| Management and general | 124,505 | 79,468 |
| Total Expenses | 18,167,180 | 18,259,122 |
| Change in unrestricted net assets | (4,573,503) | (5,549,403) |
| | | |
| Changes in temporarily restricted net assets | | |
| Contributions | 1,729,325 | 1,452,460 |
| Net assets released from restrictions | (271,693) | (126,854) |
| Increase in temporarily restricted net assets | 1,457,632 | 1,325,606 |
| Change in net assets | (3,115,871) | (4,223,797) |
| Net assets, beginning of year | 12,817,389 | 17,041,186 |
| Net assets, end of year | $ 9,701,518 | $ 12,817,389 |

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, 2009 AND 2008**

| | 2009 | 2008 |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Change in net assets | $ (3,115,871) | $ (4,223,797) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 3,583,988 | 2,967,203 |
| Loss on investment | 160,432 | 47,939 |
| Payment of lease commissions | (865,509) | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (1,335,512) | (12,194) |
| Unconditional promises to give | (986,009) | 13,347 |
| Prepaid expenses | (3,829) | - |
| Note receivable | (15,000) | - |
| Interest receivable | (423) | - |
| Deposits | (20,174) | (12,322) |
| Accounts payable | 641,770 | (81,225) |
| Deferred revenue | (121,011) | (164,994) |
| Accrued interest payable | 257,386 | 424,909 |
| Refundable tenant deposits | (5,501) | 144,647 |
| Net Cash Used in Operating Activities | (1,825,263) | (896,487) |
| Cash Flows from Investing Activities: | | |
| Investment in limited liability company | (25,000) | - |
| Purchase of property and equipment | (6,720,377) | (6,067,956) |
| Net Cash Used in Investing Activities | (6,745,377) | (6,067,956) |
| Cash Flows from Financing Activities: | | |
| Proceeds from long-term debt | 10,443,005 | 3,712,975 |
| Payment on long-term debt | (8,486,400) | (1,456,983) |
| Proceeds from capital leases | 6,627,770 | 5,001,061 |
| Payments on capital leases | (319,274) | (79,941) |
| Net Cash Provided by Financing Activities | 8,265,101 | 7,177,112 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (305,539) | 212,669 |
| Cash and Cash Equivalents, Beginning of Year | 1,944,204 | 1,731,535 |
| Cash and Cash Equivalents, End of Year | $ 1,638,665 | $ 1,944,204 |

**Supplemental Disclosures of Cash Flow Information**

| | 2009 | 2008 |
|---|---|---|
| Cash paid during the year for interest | $ 7,113,465 | $ 7,006,932 |

**Supplemental Schedule of Noncash Investing Activities**

As further described in Note 4, the Organization subscribed to purchase an interest in a limited liability company in the amount of $1,000,000 during the year ended June 30, 2009.

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, 2009 AND 2008**

| | Program Services | Management and General | Total 2009 | Total 2008 |
|---|---|---|---|---|
| Salaries | $ 52,281 | $ - | $ 52,281 | $ 66,792 |
| Fringe benefits | 17,427 | - | 17,427 | 21,208 |
| Total Compensation and Benefits | 69,708 | - | 69,708 | 88,000 |
| Bank charges | - | 52,411 | 52,411 | 27,221 |
| Bad debt | - | 17,666 | 17,666 | 657 |
| Insurance | 97,674 | - | 97,674 | 138,372 |
| Legal, accounting, and consulting | 142,097 | - | 142,097 | 185,155 |
| Management expenses | 1,866,019 | 45,000 | 1,911,019 | 2,599,665 |
| Marketing and sponsorship | - | - | - | 5,000 |
| Office supplies | - | 8,154 | 8,154 | 8,290 |
| Property repairs and maintenance | 725,241 | - | 725,241 | 802,008 |
| Registration fees | - | 1,274 | 1,274 | 3,300 |
| Rent | 2,027,641 | - | 2,027,641 | 2,275,681 |
| Special events | 53,152 | - | 53,152 | 33,355 |
| Taxes - property | 408,628 | - | 408,628 | 603,765 |
| Utilities | 1,452,201 | - | 1,452,201 | 1,009,023 |
| Depreciation and amortization | 3,583,988 | - | 3,583,988 | 2,967,203 |
| Interest | 7,370,851 | - | 7,370,851 | 7,365,001 |
| Loss on investment | 160,432 | - | 160,432 | 47,939 |
| Other expenses | 85,043 | - | 85,043 | 99,487 |
| Total Expenses | $ 18,042,675 | $ 124,505 | $ 18,167,180 | $ 18,259,122 |

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

## NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Georgia Advanced Technology Ventures, Inc. (the Organization) 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. The Organization provides support for technology transfer and economic activities including Georgia Tech's Advanced Technology Development Center (ATDC) incubator facilities and services to ATDC affiliated companies.

The Organization is the sole member of six 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; 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 375 Technology Circle; and Georgia Tech Innovation Fund, LLC, which provides seed funding for start-up companies that further the mission of the Organization.

<u>Basis of Accounting</u>

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.

<u>Basis of Consolidation</u>

The consolidated financial statements include the accounts of Georgia Advanced Technology Ventures, Inc. and the limited liability companies of which it is a sole member. All material intercompany balances and transactions have been eliminated in consolidation.

<u>Basis of Presentation</u>

Consolidated financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, 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)

Cash and Cash Equivalents

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.

Fair Values Measured on Recurring Basis

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. As of July 1, 2008, the Organization has adopted SFAS 157, which when adopted did not have any impact on the Organization's consolidated financial statements.

SFAS 157 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 under SFAS 157 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.

Total assets at fair value classified within Level 3 were $1,821,629 as of June 30, 2009, which consists of investments in limited liability companies. The table below represents fair value measurement hierarchy of the assets at fair value as of June 30, 2009:

| | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Investments in limited liability companies | $ 1,821,629 | $ - | $ - | $ 1,821,629 |

The table below sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the year ended June 30, 2009:

| | |
|---|---|
| Beginning balance, July 1, 2008 | $ 957,061 |
| Change in estimated fair value | (160,432) |
| Purchase interests in limited liability companies | 1,025,000 |
| Ending balance, June 30, 2009 | $ 1,821,629 |

## 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.

During 2009, the Organization changed the methodology used to account for depreciation of buildings and tenant improvements and changed the useful lives for buildings, tenant improvements and infrastructure to more closely reflect the estimated economic useful lives of these assets. The useful lives changed from thirty-nine years to fifty years for buildings, from thirty-nine years to the life of the lease for tenant improvements, and from twenty years to twenty-five years for infrastructure. The cumulative, net effect of the change in estimate was an increase of 2009 depreciation expense of approximately $41,000. Depreciation expense for the years ended June 30, 2009 and 2008 was $2,951,256 and $2,967,203, respectively.

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

The Organization has adopted SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, whereby contributions received 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

The Organization 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.

Estimates and Assumptions

The Organization uses estimates and assumptions in preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. 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.

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

Reclassifications

Certain 2008 amounts, as previously reported, and opined upon by prior auditors, have been reclassified in order to be consistent with the current year presentation. These reclassifications had no impact on consolidated net assets at June 30, 2008 or on changes in net assets during the year ended June 30, 2008.

Subsequent Events

Management has evaluated subsequent events through September 15, 2009, the date which 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 $482,362 at June 30, 2009. Cash equivalents are held in an investment institution and are not federally insured. The amount of this uninsured investment is $906,303 at June 30, 2009.

As a result of recent 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 Georgia Institute of Technology and related organizations. 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 $781,452 and $795,443 at June 30, 2009 and 2008, respectively, using a discount rate of 4.83%, which represents the risk-free rate of return at the date of the pledge.

## NOTE 3 – UNCONDITIONAL PROMISES TO GIVE (Continued)

At June 30, 2009, the Organization had received a commitment from the Georgia Institute of Technology to provide $1,000,000 from available funds to make capital contributions associated with the limited liability membership interest in GRA Venture Fund, LLC discussed in Note 4. This commitment will be paid as the GRA Venture Fund, LLC requests capital contributions from its members.

The consolidated financial statements do not include conditional pledges, expectancies and bequests, which have not been recognized as revenue pursuant to SFAS No. 116. These undiscounted amounts totaled $100,000 at June 30, 2009 and 2008.

## 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 years ended June 30, 2009 and 2008, the Organization recorded a loss on this investment of $160,432 and $47,939, respectively. This loss is recorded in loss on investment on the accompanying Consolidated Statement of Functional Expenses.

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. The initial closing of the fund took place during June 2009, but no capital contribution had been made at June 30, 2009.

## 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% (effective rate of 5.25% at June 30, 2009) 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, 2009 and 2008, advances outstanding under this line of credit total $1,600,000. Interest expense of $20,943 and $28,241 is accrued in association with this liability at June 30, 2009 and 2008, respectively.

## NOTE 6 – LONG-TERM NOTES PAYABLE

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

| | 2009 | 2008 |
|---|---|---|
| Loan from TUFF; interest at 6.00%; monthly payments of $4,164 through October 2015; unsecured | $ 262,725 | $ 295,841 |
| Loan from TUFF; interest at 7.53%; monthly payments of $11,833 through July 2018; secured by Technology Enterprise Park land | 932,175 | 886,377 |
| 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 | 2,958,597 | 1,409,909 |
| Loan from TUFF; interest at 8.00%; principal payments in five annual installments on the anniversary date; unsecured | 412,951 | - |
| Loan from TUFF; interest at 6.55%; monthly payments; principal matures October 2033; secured by Technology Enterprise Park land | 6,093,501 | 6,111,217 |
| | $ 10,659,949 | $ 8,703,344 |

Principal maturities on the notes payable are as follows:

| Year ended June 30, | |
|---|---|
| 2010 | $ 250,086 |
| 2011 | 457,137 |
| 2012 | 500,846 |
| 2013 | 548,186 |
| 2014 | 599,465 |
| Thereafter | 8,304,229 |
| | $10,659,949 |

## 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 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 financial statements 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 $1,690,317 and $1,526,399 is accrued at June 30, 2009 and 2008, respectively.

At June 30, 2009 and 2008, the cost of properties under these capital leases total $56,622,871. Related accumulated depreciation at June 30, 2009 and 2008 is $5,901,324 and $6,378,731, respectively. As described in Note 1, the Organization changed its estimate of useful lives for buildings.

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 assets 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 purchase, given an escalating lease payment schedule over the life of the agreement, is 7.232%. Interest expense on the discounted capital lease of $66,952 was accrued at June 30, 2008.

At June 30, 2009 and 2008, the cost of property under the above capital lease totals $45,378,885 and $41,730,614, respectively. Related accumulated depreciation at June 30, 2009 and 2008, is $3,991,308 and $1,074,775, respectively. As described in Note 1, the Organization changed its estimate of useful lives for buildings.

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, | |
| 2010 | $ 7,245,154 |
| 2011 | 7,485,209 |
| 2012 | 7,633,238 |
| 2013 | 7,780,745 |
| 2014 | 7,930,795 |
| Thereafter | 179,477,408 |
| | 217,552,549 |
| Less amounts representing interest | (122,465,717) |
| Present value of future minimum lease payments | $ 95,086,832 |

## 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.

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.

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 $3,146,028 and $3,290,341, for the years ending June 30, 2009, and June 30, 2008, respectively.

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

| | |
|---|---|
| Year ended June 30, | |
| 2010 | $ 1,004,632 |
| 2011 | 921,252 |
| 2012 | 382,347 |
| 2013 | 310,280 |
| 2014 | 313,922 |
| Thereafter | 5,189,466 |
| | $ 8,121,899 |

## 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 $13,171,795 and $12,057,297 for the years ended June 30, 2009 and 2008, 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 – MANAGEMENT SERVICES REVENUE

The Organization provides management services to organizations that support GIT's technology transfer and economic development mission and its ATDC incubator program. Services include management of the facilities used by the technology start-up companies participating in the ATDC program. GIT contributed the use of these facilities, estimated at a fair rental value of $278,200 for the year ended June 30, 2008. These amounts are included in management services revenue and program services expense in the accompanying Consolidated Statement of Activities and Changes in Net Assets.

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 management and general 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 the Landlord 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, 2010. There were no outstanding draws against the letter of credit at June 30, 2009 and 2008.

The Georgia Environmental Protection Division issued Notices of Deficiencies with respect to Compliance Status Reports submitted for the 1115 Howell Mill Road property owned by the Organization. The Organization has hired an independent environmental consulting firm to determine the extent of the potential liability that exists. As of June 30, 2009 the amount of the potential liability was estimated to be between $182,000 and $482,000. The Organization has reflected a liability of $182,000 in the accompanying Consolidated Statement of Financial Position at June 30, 2009.

## NOTE 13 – PAYMENTS TO AFFILIATES

During the year ended June 30, 2009, the Organization remitted payments, or accrued liabilities for balances due, to GIT in the amount of $172,585, including $83,519 for reimbursed salaries and fringe benefits, $4,893 for parking expenses and $84,173 for furniture purchases.

## NOTE 14 – SALE OF 575 14TH STREET

On April 12, 2007, the Organization entered into an agreement for the sale of real property and improvements at 575 14th Street. The agreement provided for an inspection period and a subsequent rezoning period during which the purchaser had the right to terminate the agreement under certain conditions. The agreement was terminated by the purchaser during June 2009.

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 2008

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2008, from which the summarized information was derived.