



*AGEE FISHER*

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

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CONSOLIDATED FINANCIAL STATEMENTS  
(with report of independent auditors)

YEARS ENDED JUNE 30, 2004 AND 2003

GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 AND 2003

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**AGEE FISHER**

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of Georgia Advanced Technology Ventures, Inc., a nonprofit organization, and subsidiaries (the Organization) as of June 30, 2004 and 2003, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended. These 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 audit to obtain reasonable assurance about whether the 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 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 financial position of Georgia Advanced Technology Ventures, Inc. and subsidiaries as of June 30, 2004 and 2003, and the changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Agee Fisher, LLC.*

August 6, 2004

GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2004 AND 2003

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 643,435	\$ 124,867
Accounts receivable, less allowance for doubtful accounts of \$0 and \$391,686	165,216	12,066
Prepaid expense	20,000	-0-
Note receivable, less allowance for doubtful balance of \$0 and \$279,175	-0-	195,825
Security deposits	-0-	2,280
Other deposits – furniture and fixtures	-0-	200,000
Cash restricted for predevelopment expenses	412,745	-0-
Construction in progress	-0-	39,750,424
	<u>1,241,396</u>	<u>40,285,462</u>
<b>TOTAL CURRENT ASSETS</b>		
<b>PROPERTY AND EQUIPMENT:</b>		
Land	6,227,281	-0-
Buildings	48,963,272	-0-
Leasehold improvements	560,111	-0-
Furniture and fixtures	1,013,327	-0-
	<u>56,763,991</u>	<u>-0-</u>
Less accumulated depreciation	1,092,484	-0-
	<u>55,671,507</u>	<u>-0-</u>
<b>TOTAL ASSETS</b>	<u>\$ 56,912,903</u>	<u>\$ 40,285,462</u>

(Continued)

GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)  
 JUNE 30, 2004 AND 2003

<u>LIABILITIES AND NET ASSETS</u>	<u>2004</u>	<u>2003</u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 202,281	\$ -0-
Deferred revenue	42,975	2,270
Accrued interest payable	310,942	-0-
Line of credit	1,300,000	-0-
Refundable tenant deposits	<u>110,992</u>	<u>27,836</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>1,967,190</u>	<u>30,106</u>
 Capital lease obligations	 <u>33,365,772</u>	 <u>32,799,252</u>
<b>TOTAL LIABILITIES</b>	<u>35,332,962</u>	<u>32,829,358</u>
 <b>Net Assets:</b>		
Unrestricted	21,367,196	7,456,104
Restricted	<u>212,745</u>	<u>-0-</u>
<b>TOTAL NET ASSETS</b>	<u>21,579,941</u>	<u>7,456,104</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 56,912,903</u>	<u>\$ 40,285,462</u>

See notes to financial statements.

GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
<b>CHANGES IN UNRESTRICTED NET ASSETS:</b>		
Revenues and support:		
Rental income	\$ 2,915,106	\$ 943,067
Unrestricted donations	15,232,434	-0-
Special events	17,605	26,500
Management services revenue	1,201,939	1,346,129
Grants	157,811	57,489
Interest	3,741	32,480
Net assets released from restrictions	287,255	6,250,000
Other	<u>2,685</u>	<u>-0-</u>
Total unrestricted revenues	19,818,576	8,655,665
Expenses:		
Program services	5,630,704	1,929,224
Management and general	<u>276,780</u>	<u>267,103</u>
Total expenses	<u>5,907,484</u>	<u>2,196,327</u>
Increase in unrestricted net assets	<u>13,911,092</u>	<u>6,459,338</u>
<b>TEMPORARILY RESTRICTED NET ASSETS:</b>		
Contributions	500,000	1,250,000
Net assets released from restrictions	<u>(287,255)</u>	<u>(6,250,000)</u>
Increase (Decrease) in temporarily restricted net assets	212,745	(5,000,000)
Increase in net assets	14,123,837	1,459,338
Net assets, beginning of year	<u>7,456,104</u>	<u>5,996,766</u>
Net assets, end of year	<u>\$ 21,579,941</u>	<u>\$ 7,456,104</u>

See notes to financial statements.

GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 14,123,837	\$ 1,459,338
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	1,092,484	-0-
Donated property	(14,925,000)	-0-
Changes in operating assets and liabilities:		
Accounts receivable	42,675	41,552
Prepaid expenses	(20,000)	138,477
Security deposits	2,280	119,424
Other deposits- furniture and fixtures	200,000	(200,000)
Accounts payable	202,281	-0-
Deferred revenue	40,705	(833)
Refundable tenant deposits	83,156	(39,997)
Accrued interest payable	310,942	-0-
Cash restricted for particular purposes	<u>(412,745)</u>	<u>5,000,000</u>
Net cash provided by operating activities	<u>740,615</u>	<u>6,517,961</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	<u>(1,522,047)</u>	<u>(6,951,172)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Drawings on line of credit	<u>1,300,000</u>	<u>-0-</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	518,568	(433,211)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>124,867</u>	<u>558,078</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 643,435</u>	<u>\$ 124,867</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the year for interest	\$ 1,628,359	\$ -0-

See notes to financial statements.

GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES  
YEARS ENDED JUNE 30, 2004 AND 2003

	Program Services	Management and General	Total	
			Year Ended June 30, 2004	2003
Salaries	\$ 77,841	\$ -0-	\$ 77,841	\$ 21,786
Fringe benefits	18,604	-0-	18,604	5,120
Total compensation and benefits	96,445	-0-	96,445	26,906
Rent	1,399,610	-0-	1,399,610	1,755,895
Depreciation	1,092,484	-0-	1,092,484	-0-
Management expenses	740,326	-0-	740,326	-0-
Building repairs	1,059	-0-	1,059	16,638
Property maintenance	124,902	-0-	124,902	-0-
Equipment maintenance	99,016	-0-	99,016	-0-
Special events	14,703	-0-	14,703	21,075
Bad debt recovery	(109,175)	-0-	(109,175)	-0-
Legal and consulting	-0-	250,171	250,171	26,636
Bank charges	-0-	10,775	10,775	10,288
Insurance	22,593	-0-	22,593	803
Accounting	4,571	-0-	4,571	5,357
Marketing and sponsorship	15,500	-0-	15,500	41,000
Travel and entertainment	18,261	-0-	18,261	7,373
Dues and subscriptions	-0-	1,740	1,740	1,736
Office supplies	-0-	14,094	14,094	-0-
Utilities	168,925	-0-	168,925	27,836
Tenant procurement commission	-0-	-0-	-0-	17,780
Registration fees	165	-0-	165	3,500
Unallocated payments to affiliated organizations	-0-	-0-	-0-	222,000
Interest	1,939,301	-0-	1,939,301	-0-
Other Expenses	2,018	-0-	2,018	11,504
Total expenses	\$ 5,630,704	\$ 276,780	\$ 5,907,484	\$ 2,196,327

See notes to financial statements.



GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

1. Organization and Summary of Significant Accounting Policies:

Georgia Advanced Technology Ventures, Inc. (the Organization), is a Georgia non-profit organization formed to support Georgia Institute of Technology's technology transfer and economic development mission and its Advanced Technology Development Center (ATDC) incubator program. The Organization provides capital and operating support for technology transfer and economic activities including ATDC incubator facilities and services to ATDC affiliated companies. The Organization is the single member of three Limited Liability Companies; VLP 1, LLC, which holds ownership to property at 555 and 575 14<sup>th</sup> Street; VLP 2, LLC, which holds ownership to properties at 720 14<sup>th</sup> Street, 673 and 650 Ethel Street, and 1115 Howell Mill Road; and VLP 3, LLC, which had no active operations and held no assets during the current period.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Consolidation

The consolidated financial statements include the accounts of Georgia Advanced Technology Ventures, Inc., and its wholly owned subsidiaries. All material inter-company balances and transactions have been eliminated in consolidation.

Basis of Presentation

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 financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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.

Property and Equipment

It is the Organization's policy to capitalize at cost personal property additions in excess of \$5,000, in agreement with the policy of Georgia Institute of Technology. Lesser amounts are expensed. Real property and leasehold 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.

Deferred Revenue

Advanced rental payments received from lessees is deferred and recognized over the periods to which the rental payments relate.

GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

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 Statement of Activities 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 Statement of Activities and in the 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(c)(3) of the Internal Revenue Code. Accordingly, no income taxes are reflected in the accompanying financial statements.

Estimates and Assumptions

The Organization uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. 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.

2. Concentrations:

The financial instruments which potentially subject the Organization to concentrations of credit risk are cash and short-term cash equivalents. The Organization has cash deposits in a financial institution in excess of the \$100,000 limit federally insured by the Federal Deposit Insurance Corporation. The excess amount totals \$510,440 at June 30, 2004. The short-term cash equivalents are held in an investment institution and are not federally insured. The amount of this uninsured investment is \$891,178 at June 30, 2004.

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.

3. Cash Restricted for Predevelopment Expenses and Restricted Net Assets:

During the year ended June 30, 2004, the Organization received \$500,000 from Georgia Tech Foundation Funding Corporation, to be used for development and operations of real property which was donated to the Organization during the period. Net assets in the amount of \$212,745 were restricted for this purpose at June 30, 2004.

GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

3. Cash Restricted for Predevelopment Expenses and Restricted Net Assets (continued):

During the year ended June 30, 2003, the Organization received \$600,000 from Georgia Tech Research Corporation and \$650,000 from The University Financing Foundation, Inc., to be used to fulfill obligations under a capital lease obligation (see Note 5). These funds, as well as a \$5,000,000 grant from the Robert W. Woodruff Foundation, Inc., which was received during the year ended June 30, 2002, were fully expended for their intended purpose during the year ended June 30, 2003.

4. Line of Credit:

The Organization has a line of credit arrangement with The University Financing Foundation, Inc. (TUFF), with a limit of \$1,900,000. Interest is payable each December 31 at the Prime Rate plus 2%. 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. Advances under this line of credit total \$1,300,000 at June 30, 2004. Interest expense of \$13,829 is accrued in association with this liability at June 30, 2004.

5. Capital Lease Obligations:

The Organization is party to a lease agreement with TUFF ADTC LLC (the Landlord) under which the Organization leases a portion of a building on Fifth Street in Atlanta. The Organization subleases this space to organizations compatible with its mission. The lease extends for thirty years, after which the Organization may purchase the three floors for a nominal charge. In addition to monthly rental charges, the lease calls for two pre-occupancy payments which were paid to the Landlord during the period ended June 30, 2003.

The property under capital lease is recorded as an asset in the accompanying financial statements at the value of the pre-occupancy payments plus the present value of the future minimum lease payments. The obligation under the capital lease has been recorded at the present value of future minimum lease payments, discounted at an interest rate of 6.25%. Interest expense on the discounted capital lease of \$297,113 is accrued at June 30, 2004.

The leased space was occupied in August 2003 and depreciation of the capital lease also commenced at that time. At June 30, 2004, property under the capital lease totals \$40,263,272 and is included in the Buildings account. Related accumulated depreciation and depreciation expense each total \$903,343 as of and for the year ended June 30, 2004. As occupancy occurred subsequent to June 30, 2003, the property and related property was reflected as Construction in Progress as of that date, and no depreciation expense was recognized for the year then ended.

GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

5. Capital Lease Obligations (continued):

Future minimum lease payments under the capital lease, and the net present value of future minimum lease payments, are as follows at June 30, 2004:

Year Ending June 30,	
2005	\$ 1,827,228
2006	1,882,045
2007	1,938,506
2008	1,996,661
2009	2,056,561
Thereafter	<u>73,277,694</u>
	82,978,695
Less amounts representing interest	<u>(49,612,923)</u>
Present value of future minimum lease payments	<u>\$ 33,365,772</u>

6. Rental Income:

The Organization leases facilities to tenants under various cancelable leases. Income from these leases is \$2,915,106 and \$943,067 for the years ended June 30, 2004 and 2003. Tenants retain the option to terminate these leases at any time by giving the Organization 30 days written notice, except for two leases with more extended terms. Approximate future minimum rentals to be received under these cancelable leases are as follows:

Year Ending June 30,	
2005	\$ 1,472,061
2006	142,957
2007	127,440
2008	127,440
2009	<u>21,240</u>
Total	<u>\$ 1,891,138</u>

7. Management Services Revenue:

The Organization provides management services to the Georgia Institute of Technology and to ATDC. Services include management of the facilities used by the technology start-up companies participating in the ATDC program. In exchange for these services, the Organization receives the use of facilities from the Georgia Institute of Technology, estimated at a fair rental value of \$1,153,089 and \$1,235,223 for the years ended June 30, 2004 and 2003, and the use of ATDC employees estimated at \$48,850 and \$26,906 for the years ended June 30, 2004 and 2003, based on the amount of time spent rendering services to the Organization at the employees' compensation rates. These amounts are included in management services revenue and program services expense in the accompanying Statements of Activities.

The Organization also provided contract services for an unrelated party under a service agreement. Revenues received under this contract are \$157,811 and \$84,000 for the years ended June 30, 2004 and 2003.

GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

8. Contingent Liabilities:

To guarantee performance under the capital lease described in Note 5, the Organization is required to maintain a letter of credit payable to the Landlord with a face amount of \$4,800,000. Draws under the letter of credit bear interest at the rate of prime plus 2%. The letter of credit is collateralized by a cash deposit which is equal to the face amount, and is provided by Georgia Tech Foundation, Inc. There are no outstanding draws against the letter of credit at June 30, 2004.

9. Unallocated Payments to Affiliated Organizations:

GATV, at the end of the fiscal year, remits to Georgia Institute of Technology (GIT) a payment which is intended to defray a portion of the deficit incurred by ATDC in the course of its transactions with GIT during the year. GIT provides a total for the payment without detail as to the nature of the reimbursed amounts.

In lieu of remitting such a payment for the year ended June 30, 2004, the Organization purchased \$365,805 of furniture and fixtures for the Organization's use which was originally to be supplied by GIT. This transaction is therefore recorded as a capitalized property purchase, and there is no unallocated payment for the period. An unallocated payment of \$222,000 was remitted during the year ended June 30, 2003.