

Georgia Tech Facilities, Inc.

Financial Statements

June 30, 2004 and 2003

Georgia Tech Facilities, Inc.
Consolidated Financial Statements
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June 30, 2004 and 2003

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Report of Independent Auditors

To the Board of Directors of
Georgia Tech Facilities, Inc.

In our opinion, the accompanying statements of financial position and the related statements of activities and changes in net assets and of cash flows present fairly, in all material respects, the financial position of Georgia Tech Facilities, Inc. ("Facilities") at June 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Facilities' management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audits 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 financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

September 24, 2004

Georgia Tech Facilities, Inc.
Statement of Financial Position
June 30, 2004
(in thousands)

June 30, 2004

	June 30, 2004												
	Unrestricted	Temporarily Restricted											
	Administrative/ Unallocated	Habersham Building	Wardlaw Center	Success Center	Bioengineering Bioscience Complex	Student Athletic Complex	Technology Square Complex	Student Health Center	BME Building	Research Administration Building	Family Housing	Molecular Science and Engineering Building	Total 2004
Assets													
Cash and cash equivalents	\$ 233	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 111	\$ -	\$ -	\$ -	\$ (7)	\$ -	\$ 337
Investments	-	-	-	-	-	-	-	-	-	-	39,307	73,183	112,490
Accounts receivable from affiliate	-	-	-	-	-	666	270	-	13	-	-	-	949
Interest receivable from affiliate	-	26	85	58	-	-	-	-	-	-	-	-	169
Contribution receivable from affiliate	-	1,690	5,181	3,499	-	-	-	-	-	-	-	-	10,370
Net investment in direct financing lease	-	-	-	-	30,018	-	-	-	-	-	-	-	30,018
Construction in process	-	-	-	-	-	-	-	-	-	-	34,112	1,452	35,564
Real estate (net of accumulated depreciation of \$360 in 2004 and \$300 in 2003)	1,438	-	-	-	-	-	-	-	-	-	-	-	1,438
Bond issuance costs (net of accumulated amortization of \$425 in 2004 and \$319 in 2003)	-	74	227	153	906	-	-	-	-	-	1,399	1,383	4,142
Due from unrestricted	-	-	-	-	-	-	-	-	-	-	2,054	-	2,054
Total assets	\$ 1,671	\$ 1,790	\$ 5,493	\$ 3,710	\$ 30,924	\$ 666	\$ 381	\$ -	\$ 13	\$ -	\$ 76,865	\$ 76,018	\$ 197,531
Liabilities													
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 666	\$ 261	\$ -	\$ -	\$ -	\$ 4,354	\$ 251	\$ 5,532
Interest payable	-	28	85	58	329	-	-	-	-	-	554	143	1,197
Accrued bond issuance premium	-	-	-	-	-	-	-	-	-	-	1,637	419	2,056
Current portion of bonds payable	-	38	118	79	450	-	-	-	-	-	-	-	685
Long-term bonds payable	-	1,652	5,063	3,420	19,495	-	-	-	-	-	70,320	75,205	175,155
Due to Family Housing	2,054	-	-	-	-	-	-	-	-	-	-	-	2,054
Total liabilities	2,054	1,718	5,266	3,557	20,274	666	261	-	-	-	76,865	76,018	186,679
Net assets	(383)	72	227	153	10,650	-	120	-	13	-	-	-	10,852
Total liabilities and net assets	\$ 1,671	\$ 1,790	\$ 5,493	\$ 3,710	\$ 30,924	\$ 666	\$ 381	\$ -	\$ 13	\$ -	\$ 76,865	\$ 76,018	\$ 197,531

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

Georgia Tech Facilities, Inc.
Statement of Financial Position
June 30, 2003
(in thousands)

	June 30, 2003											
	Unrestricted	Temporarily Restricted										
	Administrative/ Unallocated	Habersham Building	Wardlaw Center	Success Center	Bioengineering Bioscience Complex	Student Athletic Complex	Technology Square Complex	Student Health Center	BME Building	Research Administration Building	Family Housing	Total 2003
Assets												
Cash and cash equivalents	\$ 80	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 296	\$ 5,731	\$ (22)	\$ (422)	\$ 5,663
Investments	290	-	-	-	-	-	-	-	-	-	-	290
Accounts receivable from affiliate	1	-	-	-	-	4,782	15,420	-	-	-	-	20,203
Interest receivable from affiliate	-	28	87	59	-	-	-	-	-	-	-	174
Contribution receivable from affiliate	-	1,726	5,293	3,575	-	-	-	88	3,777	1,253	-	15,712
Net investment in direct financing lease	-	-	-	-	30,704	-	-	-	-	-	-	30,704
Construction in process	-	-	-	-	-	-	-	218	19,603	4,055	493	24,369
Real estate (net of accumulated depreciation of \$300 in 2003 and \$240 in 2002)	1,498	-	-	-	-	-	-	-	-	-	-	1,498
Bond issue costs (net of accumulated amortization of \$319 in 2003 and \$261 in 2002)	-	77	237	160	945	-	-	-	-	-	56	1,475
Total assets	\$ 1,869	\$ 1,831	\$ 5,617	\$ 3,794	\$ 31,649	\$ 4,782	\$ 15,420	\$ 602	\$ 29,111	\$ 5,286	\$ 127	\$ 100,088
Liabilities and Net Assets												
Accounts payable	\$ 9	\$ -	\$ -	\$ -	\$ -	\$ 4,782	\$ 15,420	\$ 276	\$ 6,111	\$ 686	\$ 127	\$ 27,411
Interest payable	-	28	87	59	335	-	-	-	-	-	-	509
Current portion of bonds payable	-	37	112	76	430	-	-	-	-	-	-	655
Long-term bonds payable	-	1,690	5,181	3,499	19,945	-	-	-	-	-	-	30,315
Total liabilities	9	1,755	5,380	3,634	20,710	4,782	15,420	276	6,111	686	127	58,890
Net assets	1,860	76	237	160	10,939	-	-	326	23,000	4,600	-	41,198
Total Liabilities and net assets	\$ 1,869	\$ 1,831	\$ 5,617	\$ 3,794	\$ 31,649	\$ 4,782	\$ 15,420	\$ 602	\$ 29,111	\$ 5,286	\$ 127	\$ 100,088

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

Georgia Tech Facilities, Inc.
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2004
(in thousands)

	Year Ended June 30, 2004												
	Unrestricted	Temporarily Restricted											
	Administrative/ Unallocated	Habersham Building	Wardlaw Center	Success Center	Bioengineering Bioscience Complex	Student Athletic Complex	Technology Square Complex	Student Health Center	BME Building	Research Administration Building	Family Housing	Molecular Science and Engineering Building	Total 2004
Support from affiliates	\$ -	\$ 84	\$ 259	\$ 175	\$ -	\$ -	\$ 173	\$ 225	\$ (41)	\$ 672	\$ -	\$ -	\$ 1,547
Amortization of unaccrued income from direct financing lease	-	-	-	-	745	-	-	-	-	-	-	-	745
Interest and dividends	26	-	-	-	-	-	-	-	-	-	464	-	490
Other income	161	-	-	-	-	-	4	-	-	-	-	-	165
Net assets released from restriction	30,863	(88)	(269)	(182)	(1,834)	-	(57)	(551)	(22,946)	(5,272)	(464)	-	-
Total revenues	\$ 31,850	\$ (4)	\$ (10)	\$ (7)	\$ (289)	\$ -	\$ 120	\$ (326)	\$ (22,987)	\$ (4,600)	\$ -	\$ -	\$ 2,947
Interest expense - Habersham	\$ 84	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 84
Interest expense - Wardlaw Center	257	-	-	-	-	-	-	-	-	-	-	-	257
Interest expense - Success Center	173	-	-	-	-	-	-	-	-	-	-	-	173
Interest expense, net - Bioengineering/Bioscience	989	-	-	-	-	-	-	-	-	-	-	-	989
Interest expense, net - Married Family Housing	2,526	-	-	-	-	-	-	-	-	-	-	-	2,526
Depreciation expense - Habersham	60	-	-	-	-	-	-	-	-	-	-	-	60
Amortization expense - Habersham	3	-	-	-	-	-	-	-	-	-	-	-	3
Amortization expense - Wardlaw	10	-	-	-	-	-	-	-	-	-	-	-	10
Amortization expense - Success	6	-	-	-	-	-	-	-	-	-	-	-	6
Amortization expense - Bioengineering/Bioscience	39	-	-	-	-	-	-	-	-	-	-	-	39
Amortization expense - Married Family Housing	48	-	-	-	-	-	-	-	-	-	-	-	48
Other financing expense - Habersham	1	-	-	-	-	-	-	-	-	-	-	-	1
Other financing expense - Wardlaw	2	-	-	-	-	-	-	-	-	-	-	-	2
Other financing expense - Success Center	1	-	-	-	-	-	-	-	-	-	-	-	1
Other financing expense - Bioengineering/Bioscience	6	-	-	-	-	-	-	-	-	-	-	-	6
Contribution of assets to the Institute	28,788	-	-	-	-	-	-	-	-	-	-	-	28,788
General and administrative	109	-	-	-	-	-	-	-	-	-	-	-	109
Project development	191	-	-	-	-	-	-	-	-	-	-	-	191
Total expenses	33,293	-	-	-	-	-	-	-	-	-	-	-	33,293
Change in net assets	(2,243)	(4)	(10)	(7)	(289)	-	120	(326)	(22,987)	(4,600)	-	-	(30,346)
Net assets, beginning of year	1,860	76	237	160	18,939	-	-	326	23,000	4,600	-	-	41,198
Net Assets, end of year	\$ (383)	\$ 72	\$ 227	\$ 153	\$ 18,650	\$ -	\$ 120	\$ -	\$ 13	\$ -	\$ -	\$ -	\$ 10,852

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

Georgia Tech Facilities, Inc.
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2003
(in thousands)

	Year Ended June 30, 2003											
	Unrestricted	Temporarily Restricted										Total 2003
	Administrative/ Unallocated	Habersham Building	Wardlaw Center	Success Center	Bioengineering Bioscience Complex	Student Athletic Complex	Technology Square Complex	Student Health Center	BME Building	Research Administration Building	Family Housing	
Support from Affiliates	\$ -	\$ 84	\$ 265	\$ 179	\$ -	\$ -	\$ -	\$ (390)	\$ 1,700	\$ -	\$ -	\$ 1,838
Amortization of unearned income from direct financing lease	-	-	-	-	758	-	-	-	-	-	-	758
Interest and dividends	288	-	-	-	-	-	-	-	-	-	-	288
Other income	341	-	-	-	-	-	-	-	-	-	-	341
Net assets released from restriction	7,610	(89)	(274)	(185)	(1,053)	-	-	(6,009)	-	-	-	-
Total revenues	\$ 8,239	\$ (5)	\$ (9)	\$ (6)	\$ (295)	\$ -	\$ -	\$ (6,399)	\$ 1,700	\$ -	\$ -	\$ 3,225
Interest expense - Habersham Building	\$ 85	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 85
Interest expense - Wardlaw Center	262	-	-	-	-	-	-	-	-	-	-	262
Interest expense - Success Center	177	-	-	-	-	-	-	-	-	-	-	177
Interest expense, net - Bioengineering/Bioscience	1,008	-	-	-	-	-	-	-	-	-	-	1,008
Depreciation and expense - Habersham Building	60	-	-	-	-	-	-	-	-	-	-	60
Amortization expense - Habersham	3	-	-	-	-	-	-	-	-	-	-	3
Amortization expense - Wardlaw Center	10	-	-	-	-	-	-	-	-	-	-	10
Amortization expense - Success Center	7	-	-	-	-	-	-	-	-	-	-	7
Amortization expense - Bioengineering/Bioscience	38	-	-	-	-	-	-	-	-	-	-	38
Other financing expense - Habersham Building	1	-	-	-	-	-	-	-	-	-	-	1
Other financing expense - Wardlaw Center	2	-	-	-	-	-	-	-	-	-	-	2
Other financing expense - Success Center	1	-	-	-	-	-	-	-	-	-	-	1
Other financing expense - Bioengineering/Bioscience	6	-	-	-	-	-	-	-	-	-	-	6
Contribution of assets to the Institute	6,009	-	-	-	-	-	-	-	-	-	-	6,009
General and administrative	392	-	-	-	-	-	-	-	-	-	-	392
Project development	101	-	-	-	-	-	-	-	-	-	-	101
Total expenses	8,162	-	-	-	-	-	-	-	-	-	-	8,162
Changes in net assets	77	(5)	(9)	(6)	(295)	-	-	(6,399)	1,700	-	-	(4,937)
Net assets, beginning of year	1,783	81	246	166	11,234	-	-	6,725	21,300	4,600	-	46,135
Net assets, end of year	\$ 1,860	\$ 76	\$ 237	\$ 160	\$ 10,939	\$ -	\$ -	\$ 326	\$ 23,000	\$ 4,600	\$ -	\$ 41,198

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

Georgia Tech Facilities, Inc.
Statements of Cash Flows
Years Ended June 30, 2004 and 2003
(in thousands)

	2004	2003
Cash flows from operating activities		
Change in net assets	\$ (30,346)	\$ (4,937)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	60	60
Amortization of bond issue costs	106	58
Amortization of premium on bonds payable	(54)	-
Unrealized (gain) loss on investments	(92)	84
Contribution of assets to the institute	28,788	6,009
(Increase) decrease in accounts receivable from affiliates	19,254	(19,008)
Decrease in interest receivable	5	4
Decrease in contribution receivable	5,342	11,329
Decrease in direct financing lease	686	672
Increase in due from unrestricted	(2,054)	-
Increase (decrease) in interest payable	688	(9)
Increase (decrease) in accounts payable	(21,879)	24,880
Increase in due to Family Housing	2,054	-
Net cash provided by operating activities	<u>2,558</u>	<u>19,142</u>
Cash flows from investing activities		
Additions to capitalized development cost	(39,983)	(27,579)
Proceeds from the sale (purchase) of investments	382	8,263
Purchase of investments	(112,490)	-
Net cash used in investing activities	<u>(152,091)</u>	<u>(19,316)</u>
Cash flows from financing activities		
Payment of bond issue costs	(2,773)	(57)
Payment of bond premium	2,110	-
Proceeds from bond issuance	145,525	-
Repayment of Habersham debt	(37)	(35)
Repayment of Success Center debt	(76)	(73)
Repayment of Wardlaw Center debt	(112)	(108)
Repayment of Bioengineering Bioscience Complex debt	(430)	(409)
Net cash used in financing activities	<u>144,207</u>	<u>(682)</u>
Decrease in cash and cash equivalents	(5,326)	(856)
Cash and cash equivalents, beginning of year	5,663	6,519
Cash and cash equivalents, end of year	<u>\$ 337</u>	<u>\$ 5,663</u>
Supplemental information		
Interest paid		
Habersham Building	\$ 84	\$ 86
Wardlaw Center	258	263
Success Center	175	178
Bioengineering/Biosciences Complex	996	1,013
	<u>\$ 1,513</u>	<u>\$ 1,540</u>

During fiscal 2004 and 2003, the Facilities contributed approximately \$28,788 and \$6,009, respectively, of real estate to the Board of Regents of the University System of Georgia:

Student Health Center	\$ 553	\$ 6,009
Research Administration Building	5,289	-
BME Building	22,946	-
	<u>\$ 28,788</u>	<u>\$ 6,009</u>

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

Georgia Tech Facilities, Inc.
Notes to the Financial Statements
June 30, 2004 and 2003
(in thousands)

1. Summary of Significant Accounting Policies

Organization

Georgia Tech Facilities, Inc. ("Facilities") was incorporated in the State of Georgia in 1985 as a not-for-profit corporation. The purpose of Facilities is to construct buildings and other facilities as may be appropriate to meet the needs and goals of the Georgia Institute of Technology (the "Institute"). Financing for construction is obtained by Facilities with debt service funded by support from various sources.

Basis of Presentation

The financial statements of the Facilities have been prepared on the accrual basis of accounting.

Classification of Net Assets

The Facilities' net assets have been reported in two classes:

Unrestricted Net Assets are not subject to donor-imposed restrictions. Net assets included in this class include the receipt of unrestricted gifts and earnings on unrestricted endowment funds.

Temporarily Restricted Net Assets are subject to donor-imposed restrictions. Net assets included in this class include gifts for restricted purposes and earnings on restricted endowment funds.

Cash and Cash Equivalents

Facilities' considers all highly liquid investments purchased with maturity of three months or less to be cash equivalents.

Contributions Received

Facilities accounts for contributions received in accordance with Statement of Financial Accounting Standards No. 116, "Accounting for Contributions Received and Contributions Made," ("SFAS 116"). SFAS 116 requires contributions and unconditional promises to give to be recognized as revenue in the period received at their fair value. Promises to give and gifts received include amounts originally promised or received by affiliated organizations and the Georgia Tech Foundation, Inc. (the "Foundation"). These amounts were restricted by the donors to be used for projects administered by Facilities. Therefore, such promises to give and gifts are transferred to Facilities by the related affiliates.

Long-Lived Assets

Gifts of long-lived assets are reported as restricted support. Buildings are depreciated on a straight-line basis based over a useful life of 20 years.

Investments

Investments consist of marketable securities and bonds. Facilities accounts for its investment securities under the provisions of Statement of Financial Accounting Standards No. 124, "Accounting for Certain Investments Held for Not-for-Profit Organizations" ("SFAS 124"). SFAS 124 requires investments in equity securities with readily determinable fair values and all investments in debt securities to be reported at fair value with unrealized gains and losses included in the Statement of Activities and Changes in Net Assets. As of June 30, 2004 and 2003, unrealized gains of \$92 and losses of \$84, respectively, were included in the Statements of Activities and Changes in Net Assets as Interest and Dividends.

Georgia Tech Facilities, Inc.
Notes to the Financial Statements
June 30, 2004 and 2003
(in thousands)

Bond Issue Costs

Bond issue costs directly attributable to securing financing and the related discounts are amortized over the period the bonds are outstanding.

Fair Value of Financial Instruments

Cash and cash equivalents, receivables, and accounts payable are carried at amounts which approximate their fair value due to the short-term nature of these instruments. Bonds payable is carried at the amount owed, less the discount, which approximates fair value. Long-term contributions receivable amounts are estimated by discounting future cash flows at market interest rates.

Capitalized Development Costs

The Facilities recorded capitalized development costs for construction expenditures and capitalized interest related to the construction of the Research Administration Building, Biomedical Engineering Building, Student Health Center, Married Family Housing and Molecular Science Engineering projects. As of June 30, 2004 and 2003, the amount capitalized was approximately \$35,564 and \$24,369, respectively. The construction for the Research Administration Building, Biomedical Engineering Building and the Student Health Center was completed as of June 30, 2004 and these projects were transferred to the Board of Regents of the University System of Georgia.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates relate to the valuation of certain investments, net investment in direct financing lease, and contributions receivable from affiliates.

Tax Status

The Facilities has received a ruling from the Internal Revenue Service that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

2. Non-Investment Real Estate

The Facilities' real estate consists of the *Habersham* Building, which is located on the Georgia Tech campus. The building was placed into service in 1997.

Georgia Tech Facilities, Inc.
Notes to the Financial Statements
June 30, 2004 and 2003
(in thousands)

A summary of real estate at June 30, 2004 and 2003 follows (in thousands):

	2004	2003
Land	\$ 598	\$ 598
Buildings	1,200	1,200
	<hr/>	<hr/>
	1,798	1,798
Less accumulated depreciation	(360)	(300)
	<hr/>	<hr/>
	\$ 1,438	\$ 1,498
	<hr/>	<hr/>

Depreciation expense for the years ended June 30, 2004 and 2003 amounted to \$60 and \$60, respectively.

3. Leasing Arrangements

Series 1997B – Bioengineering and Biosciences Building

In connection with the issuance of Series 1997B Bonds, Facilities entered into the following leasing arrangements.

Ground Lease

Facilities leased land on the campus of the Institute from the Board of Regents of the University System of Georgia (“Board of Regents”) under a ground lease on which they constructed a new Bioengineering and Biosciences Complex (the “Complex”). The ground lease was signed on November 13, 1977 and has a term from inception until 30 years from the completion of the Complex at a nominal rental cost. Use of the land reverts back to the Board of Regents at the end of the lease term.

Facility

During 1997, Facilities entered into a Facility Lease Agreement with Georgia Tech Research Corporation (“GTRC”) whereby Facilities agreed to lease the Complex and to sublease the land on which the Complex is built to GTRC. The Complex was completed in July 1999. Under the 30-year lease arrangement, GTRC’s lease payments began on September 1, 1999 and are equal to the debt service, including interest and redemption premiums due, on the 1997B Bonds.

The Complex and the land are leased by GTRC to the Board of Regents. In the event the Complex and land is leased to someone other than the Board of Regents, Facilities is required to pay to the Board of Regents all rentals received over the amount paid under the ground lease.

Georgia Tech Facilities, Inc.
Notes to the Financial Statements
June 30, 2004 and 2003
(in thousands)

The following lists the components of the net investment in the direct financing lease as of June 30, 2004 and 2003:

	2004	2003
Total minimum lease payments to be received	\$ 35,690	\$ 37,122
Residual value	12,300	12,300
Less: Amounts representing estimated executory costs included in total minimum lease payments	<u>(83)</u>	<u>(83)</u>
Minimum lease payments receivable	47,907	49,339
Less: Unearned income	<u>(17,889)</u>	<u>(18,635)</u>
Net investment in direct financing lease	<u>\$ 30,018</u>	<u>\$ 30,704</u>

The net investment in direct financing lease included approximately \$766 and \$685 in cash and cash equivalents as of June 30, 2004 and 2003, respectively.

Series 2003 – Family Housing and Klaus Parking

In connection with the issuance of Series 2003 Bonds, Facilities entered into the following leasing arrangements.

Family Housing Agreements

Ground Lease

Facilities leased land on the campus of the Institute from the Board of Regents under a ground lease on which to construct the new Family Apartments complex including a parking deck (the "Complex"). The ground lease was signed on June 24, 2003 and has a term from inception until 25 years from the completion of the Complex at a nominal rental cost. Use of the land reverts back to the Board of Regents at the end of the lease term.

Facility Rental

During July 2003, Facilities entered into a Facility Rental Agreement with the Board of Regents whereby Facilities agreed to lease the apartments and related parking structure to the Board of Regents upon completion of the project and issuance of a Certificate of Occupancy. A Certificate of Occupancy has not been issued as of June 30, 2004 and 2003, and therefore, the lease term has not commenced. The Board of Regents will have the right to renew the rental agreement on a year-to-year basis for twenty-five (25) consecutive years. In the event of such renewal, the Board of Regents is obligated to pay a fixed annual rental which will be sufficient, when combined with the rental payment due under the Parking Rental Agreement, to enable Facilities to pay debt service on the 2003 bonds.

Georgia Tech Facilities, Inc.
Notes to the Financial Statements
June 30, 2004 and 2003
(in thousands)

Klaus Parking Facility Agreements

Parking Facility Lease

Facilities entered into a Parking Facility Lease with the Board of Regents on July 17, 2003 for the premises upon which the Klaus Parking Facility is being constructed. The initial term commenced upon execution of the lease and continues until the Issuance of a Certificate of Occupancy for the Klaus Parking Facility. The initial term payment of \$9 million is being used by the Georgia State Financing Investment Commission for the purpose of constructing the Klaus Advanced Computing Building, which includes the parking facility. The primary term of the Parking Facility Lease is twenty (20) years after the issuance of the Certificate of Occupancy.

Facility Rental

On July 17, 2003, Facilities entered into a Rental Agreement with the Board of Regents pursuant to which the Board of Regents leases the Klaus Parking Facility from Facilities upon the issuance of a Certificate of Occupancy. A Certificate of Occupancy has not been issued as of June 30, 2004 and 2003, and therefore, the lease term has not commenced. The Board of Regents has the option to renew on a year-to-year basis for twenty (20) years. In the event of such annual renewals, the Board of Regents is obligated to pay a fixed annual rental which, when combined with rental payments due under the Apartment Facility Rental Agreement described above, will be sufficient to enable Facilities to pay debt service on the 2003 Bonds.

Series 2004 – Molecular Science and Engineering Building

In connection with the Series 2004 Revenue Bonds, Facilities entered into the following leasing arrangements.

Ground Lease

Facilities leased land on the campus of the Institute from the Board of Regents under a ground lease on which to construct a new Molecular Science and Engineering Building (the "Complex"). The ground lease was signed on May 17, 2004 and has a term from inception until 30 years from the completion of the Complex at a nominal rental cost. Use of the land reverts back to the Board of Regents at the end of the lease term.

Facility Rental

On May 17, 2004, Facilities entered into a Rental Agreement with the Board of Regents whereby Facilities agreed to lease the property and improvements to the Board of Regents. The initial agreement term commences with the issuance of a Certificate of Occupancy. A Certificate of Occupancy has not been issued as of June 30, 2004 and 2003, and therefore, the lease term has not commenced. The Board of Regents has the exclusive option to annually renew the lease on a year-to-year basis for thirty (30) consecutive years, at a fixed annual rental rate that is sufficient to enable Facilities to pay debt service on the 2004 bonds.

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4. Bond Issuance

Series 1997

During December 1997, Facilities issued \$11,580 Series 1997A Bonds and \$21,560 Series 1997B Bonds. The Series 1997A Bonds provided funds to repay outstanding Variable Rate Demand Bonds, Series 1992A and 1992B, and to finance the acquisition of a building, known as the Habersham Building, which is located on the campus of the Institute. The Series 1997B Bonds were issued to provide funds to finance the costs of acquisition, construction and installation of the Complex described in Note 2.

The following represents the applicable interest rates and mandatory bond principal redemptions on the Series 1997A Bonds until maturity on September 1, 2027:

Fiscal Year	Principal Amount	Interest Rate
2005	\$ 235	4.50%
2006	245	4.50%
2007	255	4.60%
2008	270	4.63%
2009	280	4.75%
Thereafter	<u>9,085</u>	ranging from 4.80% to 5.00%
	<u>\$ 10,370</u>	

The following represents the applicable interest rates and mandatory bond principal redemptions on the Series 1997B Bonds until maturity on September 1, 2027:

Fiscal year	Principal Amount	Interest Rate
2005	\$ 450	4.50%
2006	470	4.50%
2007	490	4.60%
2008	515	4.63%
2009	540	4.75%
Thereafter	<u>17,480</u>	ranging from 4.80% to 5.00%
	<u>\$ 19,945</u>	

Series 2003

During July 2003, Facilities issued \$70,320 Series 2003 Revenue Bonds. The proceeds from these bonds are being used to finance the construction of the family and graduate student apartments and related parking facility for the Family and Graduate Housing project and a parking facility for the Klaus Advanced Computing Building on the campus of the Institute. The Series 2003 Revenue

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Bonds were issued to provide funds to finance the costs of acquisition, construction, and installation of the above projects.

The following represents the applicable interest rates and mandatory bond principal redemptions on the Series 2003 bonds until maturity on November 1, 2029.

Fiscal Year	Principal Amount	Interest Rate
2006	\$ 1,435	2.00%
2007	1,805	2.00%
2008	1,845	2.30%
2009	1,890	2.625%
Thereafter	<u>63,345</u>	ranging from 3.00% to 5.25%
	<u>\$ 70,320</u>	

Series 2004

During June 2004, Facilities issued \$75,205,000 Series 2004 Revenue Bonds. The proceeds from these bonds are being used to finance the construction of the Molecular Science and Engineering Building on the campus of the Institute. The Series 2004 Revenue Bonds were issued to provide funds to finance the costs of acquisition, construction, and installation of the above project.

The following represents the applicable interest rates and mandatory bond principal redemptions on the Series 2004 bonds until maturity on May 1, 2036.

Fiscal Year	Principal Amount	Interest Rate
2008	\$ 1,290	3.00%
2009	1,330	3.25%
Thereafter	<u>72,585</u>	ranging from 3.50% to 5.25%
	<u>\$ 75,205</u>	

5. Related Parties

Payment of the principal and related interest and fees on the Series 1997A Bonds has been guaranteed by the Foundation through a Commitment of Support dated as of December 1, 1997. The Foundation is a separate not-for-profit corporation, which was formed in 1932 primarily to raise and receive funds to support the Institute. Certain members of the Board of Directors of Facilities may also serve as trustees of the Foundation.

The guaranteed future bond payments from the Foundation are recorded as contribution receivable in the financial statements in accordance with SFAS 116. The total contribution receivable recorded at June 30, 2004 was \$10,370 on the Series 1997A Bonds and is paid according to the debt schedule

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above, after the use of any cash held by Facilities. At June 30, 2004, the total contribution receivable related to the Series 1997A Bonds was \$10,370.

Payment of the principal and related interest and fees on the Series 1997B Bonds will be funded by any cash held by Facilities and by lease payments made under the Facility Lease Agreement between Facilities and GTRC. GTRC is a separate not-for-profit corporation funded in 1937 for the purpose of serving Georgia Tech and is operated exclusively for scientific, literary and education purposes, to engage in scientific research, and to distribute and disseminate information resulting from research. In accordance with the Bond Agreement, Facilities has assigned all interests in the Facility Lease Agreement to the Trustee.

On December 20, 2002, Facilities entered into a binding Memorandum of Understanding with the Institute to confirm the responsibilities in connection with the financing and construction of the family apartments and related parking facility for the Family Campus Housing project on the campus of the Institute. The Facilities will be responsible for the financing, design, and construction of the \$56,100 project and will assess a management fee of one-half percent payable by the project funding. The Facilities funded the project through issuance of tax-exempt bonds.

On August 20, 2003, Facilities entered into a binding Memorandum of Understanding with the Institute to confirm the responsibilities in connection with the financing and construction of the Molecular Science and Engineering Building on the campus of the Institute. The Facilities will be responsible for the financing, design, and construction of the \$66,000 project and will assess a management fee of three-quarters percent payable by the project funding. The Facilities funded the project through issuance of tax-exempt bonds.

In connection with the above Memorandums of Understanding for the Family Housing and MSE Building projects, the Facilities has entered into Development Management Services Agreements with the Institute under which the Institute has agreed to provide services such as project management and coordination, technical direction, insurance coverage and other services for a fee based on each service.

For the years ended June 30, 2004 and 2003, the Facilities changed management fees of \$191 and \$101, respectively, related to construction of certain of the aforementioned properties.

6. Commitments

During fiscal year 2002, Facilities entered into agreements with contractors for the construction of the Student Health Center, the Biomedical Engineering Building, and the renovations to the Research Administration Building. As of June 30, 2004, Facilities' commitments under these agreements have been met and the buildings transferred to the Board of Regents. As of June 30, 2004 and 2003, \$553 and \$218, respectively, has been expended for the Student Health Center, \$22,946 and 19,603, respectively, for the Biomedical Engineering Building, and \$5,288 and \$4,055, respectively, for the Research Administration Building.

During fiscal year 2004, Facilities entered into agreements with contractors for the construction of the Family Housing and Parking complex. Outstanding commitments total \$55,936. In addition, Facilities entered into agreements totaling \$4,402 for design and project management services for the construction of the Molecular Science and Engineering Building.

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7. Subsequent Event

A claim from the construction manager for the Family Apartment project for an upward adjustment in the total contract amount and for an extension of time for completion of the project has been filed. An agreement fixing the contract amount and completion dates for the project was executed in December 2003, however, the construction manager now asserts that the contract amount and schedule should be adjusted. Management believes that funds in excess of the project budget may be required to settle the claim. No accrual has been made at this time.