

The University of Georgia Foundation

*Consolidated Financial Statements as of and
for the Years Ended June 30, 2007 and 2006,
Supplemental Consolidating Schedules as of
and for the Year Ended June 30, 2007, and
Independent Auditors' Report*

THE UNIVERSITY OF GEORGIA FOUNDATION

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
The University of Georgia Foundation
Athens, Georgia

We have audited the accompanying consolidated statements of financial position of The University of Georgia Foundation (the "Foundation") as of June 30, 2007 and 2006, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation'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 consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, 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, such consolidated financial statements present fairly, in all material respects, the financial position of the Foundation at June 30, 2007 and 2006, 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.

As discussed in Note 4 to the consolidated financial statements, the financial statements include investments valued at \$169,695,610 (25.8% of net assets) and \$97,026,091 (17.8% of net assets) as of June 30, 2007 and 2006, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental schedules listed in the table of contents are presented for purposes of additional analysis, are not intended to present the financial position or results of operations of the separate entities, and are not a required part of the basic consolidated financial statements. The supplemental schedules are the responsibility of the Foundation's management. Such supplemental schedules have been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, are fairly stated, in all material respects, when considered in relation to the basic consolidated financial statements taken as a whole.

Deloitte & Touche LLP

September 24, 2007

THE UNIVERSITY OF GEORGIA FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2007 AND 2006

	2007	2006
ASSETS:		
Cash and cash equivalents	\$ 11,052,551	\$ 7,111,948
Temporary investments	39,897,092	41,161,597
Receivables — net:		
Accounts	855,522	927,594
Contributions	19,963,446	20,643,350
Notes	67,505	77,689
Accrued interest	1,644,591	1,898,993
Related party	19,913	40,082
Prepaid expenses and other assets	173,658	103,390
Investment securities	580,689,348	473,252,024
Bond proceeds restricted for construction, debt service, and reserves	10,478,278	11,510,935
Operating funds held by trustee	3,031,146	2,448,341
Real property — net of accumulated depreciation of \$18,424,157 and \$14,597,874	196,040,124	201,424,240
Construction in progress	307,415	4,394
Works of art	2,301,077	2,301,077
Furniture, fixtures, and equipment — net of accumulated depreciation of \$801,396 and \$768,266	221,849	123,132
Cost of bond issuance — net of accumulated amortization of \$1,182,945 and \$930,207	4,419,314	4,818,887
Derivative financial instruments	2,110,293	241,091
Cash value of life insurance policies	1,607,153	1,558,945
	<u>874,880,275</u>	<u>769,647,709</u>
Total assets	<u>\$ 874,880,275</u>	<u>\$ 769,647,709</u>
LIABILITIES:		
Accounts payable and accrued expenses	\$ 4,664,573	\$ 5,235,474
Funds held for others	3,862,725	3,266,488
Obligations related to deferred gifts	11,686,162	11,291,219
Bonds payable	175,667,798	190,515,024
Credit agreements	18,583,128	12,111,334
Notes payable	2,108,405	2,239,012
	<u>216,572,791</u>	<u>224,658,551</u>
Total liabilities	216,572,791	224,658,551
NET ASSETS:		
Unrestricted	31,830,492	19,754,669
Temporarily restricted	341,558,451	261,833,729
Permanently restricted	284,918,541	263,400,760
	<u>658,307,484</u>	<u>544,989,158</u>
Total net assets	<u>658,307,484</u>	<u>544,989,158</u>
TOTAL	<u>\$ 874,880,275</u>	<u>\$ 769,647,709</u>

See notes to consolidated financial statements.

THE UNIVERSITY OF GEORGIA FOUNDATION

CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
CHANGES IN UNRESTRICTED NET ASSETS:		
Revenues and gains:		
Rental income	\$ 16,715,864	\$ 17,241,077
Contributions	641,876	1,132,425
Royalties:		
Affinity card	161,000	1,879,060
Logo licensing	886,882	836,882
Net realized and unrealized gain on investments	5,587,107	1,849,946
Net realized gain on sale of real property	3,568,855	
Interest and dividends	1,503,580	1,210,100
Other income — net	<u>2,888,762</u>	<u>1,699,204</u>
 Total unrestricted revenues and gains	 31,953,926	 25,848,694
 Net assets released from restrictions, satisfaction of program restrictions	 <u>20,930,503</u>	 <u>25,833,348</u>
 Total unrestricted revenues, gains, and other support	 52,884,429	 51,682,042
EXPENSES:		
Donor restricted program support	13,954,965	15,955,325
Scholarships	5,908,519	5,515,309
Direct program support	1,311,120	1,538,226
Real Estate Foundation project expenses	7,933,327	8,442,074
General operations:		
Alumni Association	1,885,169	1,660,496
Administrative Services	415,931	378,635
University Services	250,000	250,000
Foundation Board	117,733	85,862
Development and External Affairs	186,834	262,795
Real Estate Foundation general and administrative	664,061	728,835
Management and investment fees	62,972	103,154
Interest expense, net	7,131,797	8,439,683
Distributions to beneficiaries	294,410	338,583
Other expenses	<u>691,768</u>	<u>456,246</u>
 Total expenses	 <u>40,808,606</u>	 <u>44,155,223</u>
 Increase in unrestricted net assets	 12,075,823	 7,526,819

(Continued)

THE UNIVERSITY OF GEORGIA FOUNDATION

CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	\$ 11,632,258	\$ 2,804,559
Net realized and unrealized gain on investments	85,598,712	39,857,931
Interest and dividends	7,081,626	6,028,664
Other income — net	980,441	1,256,281
Transfer of funds to permanently restricted net assets	(4,637,812)	(612,855)
Net assets released from restrictions	<u>(20,930,503)</u>	<u>(25,833,348)</u>
Increase in temporarily restricted net assets	79,724,722	23,501,232
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	15,402,622	10,981,492
Interest and dividends	1,022,049	523,484
Increase in cash surrender value of life insurance	48,208	155,980
Adjustments to annuities payable	532,937	2,034,147
Distributions to beneficiaries	(1,443,639)	(694,255)
Transfer of funds from temporarily restricted net assets	4,637,812	612,855
Other income — net	<u>1,317,792</u>	<u>190,460</u>
Increase in permanently restricted net assets	<u>21,517,781</u>	<u>13,804,163</u>
INCREASE IN NET ASSETS	113,318,326	44,832,214
NET ASSETS:		
Beginning of year	<u>544,989,158</u>	<u>500,156,944</u>
End of year	<u>\$ 658,307,484</u>	<u>\$ 544,989,158</u>

See notes to consolidated financial statements.

(Concluded)

THE UNIVERSITY OF GEORGIA FOUNDATION

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
OPERATING ACTIVITIES:		
Increase in net assets	\$ 113,318,326	\$ 44,832,214
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Contributions restricted for long-term investment	(15,402,622)	(10,981,492)
Net realized and unrealized gain on investments	(91,185,819)	(41,707,877)
Net gain on sales of real estate and personal property	(3,846,986)	(231,672)
Net loss on sales of real estate and personal property to related party	278,131	
Net loss on cost of issuance write-off	122,460	40,967
Net realized and unrealized gain on derivative financial instruments	(1,869,202)	(127,825)
Depreciation	5,753,220	5,833,163
Net amortization of bond premium and costs of issuance	189,888	197,320
Interest and dividends restricted for long-term investment	(1,022,049)	(523,484)
Actuarial loss (gain) on deferred gift obligations	1,838,582	(1,272,310)
Donated property	(2,794,077)	(109,962)
Changes in:		
Accounts, notes, accrued interest, and related party receivable	356,827	228,441
Prepaid expenses and other assets	(70,268)	126,113
Contributions receivable	679,904	10,270,015
Accounts payable and accrued expenses	(73,891)	(393,289)
Funds held for others	596,237	(1,859,759)
Net cash provided by operating activities	6,868,661	4,320,563
INVESTING ACTIVITIES:		
Capital expenditures	(9,190,777)	(13,289,175)
Change in restricted funds held by trustee	449,852	9,018,404
Proceeds from sale of investments	149,814,872	80,813,154
Purchase of investments	(164,801,872)	(92,662,642)
Proceeds from sale of real property	14,285,856	4,092,269
Purchase of derivative financial instrument		(122,000)
Increase in cash value of life insurance policies	(48,208)	(148,263)
Net cash used in investing activities	(9,490,277)	(12,298,253)
FINANCING ACTIVITIES:		
Proceeds from contributions restricted for:		
Investment in permanently restricted endowments	14,966,261	10,832,627
Investments subject to annuity agreements	436,361	148,865
Total proceeds from contributions restricted	15,402,622	10,981,492
Interest and dividends restricted for long-term investment	1,022,049	523,484
Payments on deferred gift obligations	(1,443,639)	(679,799)
Principal repayment on bonds payable	(14,760,000)	(7,080,000)
Borrowings on credit agreements	8,598,269	4,914,342
Repayments on credit agreements	(2,126,475)	(5,772,265)
Net repayments on notes payable	(130,607)	(128,288)
Net cash provided by financing activities	6,562,219	2,758,966
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,940,603	(5,218,724)
CASH AND CASH EQUIVALENTS:		
Beginning of year	7,111,948	12,330,672
End of year	<u>\$ 11,052,551</u>	<u>\$ 7,111,948</u>
SUPPLEMENTAL DISCLOSURES:		
Cash paid during the year for interest — net of capitalized amounts of \$9,188 and \$595,691	\$ 9,225,476	\$ 8,680,472
Decrease in accrued expenses for capital expenditures	497,016	1,490,532

See notes to consolidated financial statements.

THE UNIVERSITY OF GEORGIA FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

1. ORGANIZATION AND PURPOSE

The University of Georgia Foundation (the “Foundation”) is a not-for-profit foundation that was chartered in 1937 to receive and administer contributions for the support of the academic programs of the University of Georgia (the “University”). The University is governed by the Board of Regents of the University System of Georgia (the “Board of Regents”). The Foundation performs the following:

- Receives contributions and manages funds in accordance with the instructions of the donors
- Provides financial support to the University for scholarships, faculty salary supplements, awards and lectureships, and other institutional programs involving fund-raising and constituent relations
- Manages and improves, through the UGA Real Estate Foundation, Inc. (the “Real Estate Foundation”), a wholly owned entity, various real estate assets for the benefit of the University System of Georgia and, primarily, the University. The Foundation also owns a study-abroad facility in Costa Rica for the benefit of the University through a wholly owned foreign corporation, UGA Ecolodge and Research Station S.A., (the “Costa Rica Entity”) established under Costa Rican law.

In 1996, the Foundation entered into a cooperative organization agreement with the Board of Regents, which provided administrative services and facilities to the Foundation. In April 2005, the Board of Regents exercised its right to terminate the agreement after a period of 90 days. On July 1, 2005, the Foundation entered into an agreement with the University to provide administrative services and facilities to the Foundation, effectively terminating the cooperative organization agreement. The administrative services and facilities agreement expires on June 30, 2010. The Real Estate Foundation’s \$50 million revolving credit agreement provided the bank with certain rights upon the termination of the cooperative organization agreement discussed above. During the years ended June 30, 2007 and 2006, the Real Estate Foundation had been under a forbearance agreement with the bank whereby the bank agreed not to exercise their termination event rights. The termination event rights and the forbearance agreement are more fully discussed in Note 5.

In 2006, the Board of Trustees of the Foundation agreed to transfer the sole membership of the Real Estate Foundation to the University of Georgia Research Foundation, Inc. (the “Research Foundation”) contingent on a private letter ruling from the Internal Revenue Service accepting this transfer with no negative impact on the tax-exempt status of the Real Estate Foundation’s outstanding bond debt. In 2007, the private letter ruling favorable to the transfer was received, and the transfer of sole membership became effective July 1, 2007.

Effective July 1, 2007, the Real Estate Foundation’s \$50 million revolving credit agreement was amended and a new guarantee was executed to reflect the Research Foundation as guarantor. At the same time, the Foundation was released from its guarantee of the revolving credit agreement.

As of June 30, 2007 and 2006, the consolidated statements of financial position include total assets of \$195,992,161 and \$207,234,347, respectively; total liabilities of \$189,353,326 and \$206,096,112, respectively; and unrestricted net assets of \$6,638,835 and \$1,138,235, respectively, related to the Real Estate Foundation. For the years ended June 30, 2007 and 2006, the consolidated statements of activities include total unrestricted revenues and gains of \$21,298,782 and \$17,989,754, respectively; total expenses of \$15,798,182 and \$17,640,881, respectively; and increases in unrestricted net assets of \$5,500,600 and \$348,873, respectively, related to the Real Estate Foundation. The financial position and activities of the Real Estate Foundation will be reported as discontinued operations in the Foundation's consolidated financial statements for the year ending June 30, 2008. Accordingly, those consolidated financial statements will not display detailed historical financial information of the Real Estate Foundation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — These consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America and include the accounts of the Real Estate Foundation, of which the Foundation is the sole member, and the Costa Rica Entity. All balances and transactions between the Foundation, the Real Estate Foundation, and the Costa Rica Entity have been eliminated.

Cash and Cash Equivalents — All highly liquid investments with an original maturity of three months or less are considered to be cash equivalents. The Board of Trustees of the Real Estate Foundation has designated certain cash balances to fund future obligations. As of June 30, 2007 and 2006, the cash amounts included \$1,823,019 and \$1,326,439, respectively, reserved for debt service and \$636,831 and \$553,698, respectively, reserved for estimated repairs and replacement of real property. As of June 30, 2007 and 2006, the cash amounts also included \$400,000 in both years reserved for general operations and \$111,278 and \$292,774, respectively, reserved for estimated reorganization costs associated with the transfer of sole membership.

Investments — Investments in trust funds and securities with an established market value are carried at market value. The market values for investments are estimated based on quoted market prices for those or similar investments where a market price is available or an amount determined by external investment managers if quoted market prices are not available. Investments in real estate and securities without an established market value are carried at the lower of estimated market value at the date of gift or current market value as estimated by management of the Foundation. Realized gains and losses are computed using the specific identification method.

Temporary investments have an original maturity of greater than three months and represent operating funds in excess of immediate cash requirements. The Board of Trustees of the Real Estate Foundation has designated certain temporary investment balances to fund future obligations. As of June 30, 2007 and 2006, the temporary investment amounts included \$1,276,600 and \$1,460,710, respectively, reserved for debt service.

Bond Proceeds Restricted for Construction, Debt Service, and Reserves — Proceeds from bond issuance are held by an independent trustee and are restricted for the purpose of funding construction costs, interest, administrative fees, debt service reserves, and costs of issuance associated with the bond offering. Investments made by the trustee in accordance with the trust indenture are carried at market value.

Operating Funds Held by Trustee — Rent receipts of certain real estate projects are held by an independent trustee for the purpose of paying operating expenses and funding reserves to fund future obligations. As of June 30, 2007 and 2006, the operating funds held by trustee include \$816,544 and \$806,461, respectively, reserved for debt service and \$1,202,334 and \$822,334, respectively, reserved for estimated repairs and replacement of real property.

Real Property — Real property includes land, timber, and buildings. Land and timber are stated at cost and are not depreciated. Buildings are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the lesser of the estimated useful lives of approximately 30 years or the remaining term of the underlying leases (see Note 9). Expenditures for maintenance and repairs are charged to operations as incurred, while renewals and betterments are capitalized.

Construction in Progress — Construction in progress is stated at cost and includes planning, development, and construction costs, as well as capitalized interest. When construction is complete and the asset is placed in use, assets are transferred at cost to real property.

Capitalized Interest — Interest incurred during construction of real estate projects is capitalized until the underlying assets are ready for their intended use. Interest related to projects financed by tax-exempt borrowings is capitalized after reduction for interest earned on temporary investment of the proceeds of those borrowings from the date of borrowing until the specified qualifying assets acquired with those borrowings are ready for their intended use. At the time the qualifying assets are placed in service, amortization of the capitalized interest begins, straight-line, over the estimated useful lives of the related assets. For the years ended June 30, 2007 and 2006, capitalized interest, net of interest earned, amounted to \$9,353 and \$450,474, respectively.

Works of Art — The Foundation capitalizes art collections and recognizes contribution revenue at the fair value of the gift at the date of receipt; the carrying value is not subsequently adjusted unless a decline in market value occurs.

Furniture, Fixtures, and Equipment — Furniture, fixtures, and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from three to seven years.

Cost of Bond Issuance — Cost of bond issuance is stated at cost, less accumulated amortization and includes direct, incremental costs associated with the issuance of the bonds. Issuance costs are amortized to interest expense using the effective interest method.

Impairment — Long-lived assets are reviewed for impairment to determine if the carrying amounts of these assets are recoverable. If recorded, impairment losses are reported in the period in which the recognition criteria are applied based on the fair value of the assets. Assets held for sale are carried at the lower of carrying amount or fair value, less estimated costs to sell such assets. Depreciation of assets held for sale is discontinued at the time the decision to sell the assets is made.

Bonds Payable — The net proceeds of tax-exempt bond financing is recorded as a liability upon issuance. Bond proceeds consist of the par value of the bonds issued plus premiums or minus discounts. Bond premiums and discounts are amortized to interest expense using the effective interest method.

Derivative Financial Instruments — Derivative financial agreements have been entered into in order to hedge a portion of current and future borrowings for the purpose of managing interest rate risk. In accordance with Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, these derivative financial instruments are recorded at fair value in the consolidated statements of financial position. Changes in the fair value of the derivative financial instruments are included in interest expense in the consolidated statements of activities.

Contributions — Unconditional promises to give are recognized as unrestricted revenue when the underlying promises are received by the Foundation. Gifts of cash and other assets are reported as either temporarily or permanently restricted revenue if they are received with donor stipulations that limit the use of the donated asset.

When donor restrictions on cash and other assets reported as temporarily restricted net assets expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are transferred to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. It is the Foundation's policy to use such funds for the restricted purpose as soon as it is practical and prudent. Temporarily restricted net assets are used to provide facility support, including building construction and renovation and program support of the schools and colleges of the University.

The permanently restricted classification is used if the donor stipulations are restricted for a specified purpose, whereby gifts of cash and other assets must be invested in perpetuity to provide a permanent source of income for the Foundation. A substantial portion of the income from permanently restricted net assets is used to provide scholarship and professorship support. The Foundation's endowment spending limit for permanently restricted net assets for each of the years ended June 30, 2007 and 2006, was 4.6% and 4.8%, respectively, of the average market value of the long-term invested assets.

Transfers are made between temporarily restricted and permanently restricted net assets as permitted or required by fund agreements with donors.

Split-Interest Agreements — The Foundation is the remainder beneficiary of certain life income and life interest gifts.

Life income gifts are invested in pooled income funds established pursuant to agreements between the Foundation and the banks that serve as trustees of the funds. The principal amount of such gifts has been classified as permanently restricted.

Life interest gifts consist of real estate in which the donor has retained certain life interests in the property. The fair market value of the gift at the date of receipt has been discounted for the estimated value of the life interest retained by the donor and has been classified as permanently restricted. The real estate value is being accreted to the fair value of the gift at the date of receipt over the estimated life expectancy of the donor.

Life Insurance Gifts — Life insurance gifts consist of life insurance policies purchased by donors where the Foundation is the beneficiary of the policy. The cash value of life insurance policies, net of policy loans, has been classified as permanently restricted.

Rental Income — Rental income is recognized when earned and collectibility of the associated receivable is reasonably assured. Rental income is recognized on a monthly basis in accordance with the related lease agreement. Any rental payments received but not yet earned are recognized as a liability in the consolidated statements of financial position.

Cost of Services — The costs of services rendered by the External Affairs Division of the University for fund-raising activities are borne by both the Foundation and the University. The portion of the costs borne by the University is not included in the Foundation’s financial statements and is approximately \$2,058,000 and \$2,552,000 for the years ended June 30, 2007 and 2006, respectively. Essentially, all of these costs would have been incurred by the University even if the Foundation did not exist. In addition, due to the insignificance of certain cost of services rendered to the Foundation by the accounting and certain other departments of the University, such amounts are not charged or included in the Foundation’s financial statements.

Administrative Fees — The Foundation charges an administrative fee to restricted funds and transfers this amount to the unrestricted fund to cover operating expenses. For the years ended June 30, 2007 and 2006, the administrative fees charged were \$4,781,693 and \$4,209,167, respectively. This fee is calculated quarterly based on a graduated rate structure (from 0.05% to 0.15%) for nonendowed funds and a flat rate for endowed accounts of 0.25% for the years ended June 30, 2007 and 2006. The applicable rate is applied to each restricted fund’s average fund balance as of the end of each quarter.

Estimates in the Consolidated Financial Statements — 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.

Reclassifications — Certain previously reported amounts have been reclassified within the consolidated statements of financial position and consolidated statements of cash flows to conform to the current-year presentation.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable of unconditional promises to give at June 30, 2007 and 2006, consist of the following:

	2007	2006
Contributions receivable	\$ 27,463,309	\$ 27,883,626
Less allowance for uncollectible contributions	(4,480,380)	(4,253,945)
Less amount representing interest (5.1% and 5.2% at June 30, 2007 and 2006, respectively)	<u>(3,019,483)</u>	<u>(2,986,331)</u>
Net contributions receivable	<u>\$ 19,963,446</u>	<u>\$ 20,643,350</u>

An allowance for uncollectible contributions is necessary as, from time to time, the Foundation may be unable to collect an outstanding pledge recorded as contributions receivable. The allowance is management's estimate of the potential future write-offs of uncollectible contributions and is based on historical write-offs, overdue contributions, and other factors including other entities that support the University. Contributions receivable beyond one year are discounted to their present value.

Contributions receivable as of June 30, 2007, are due as follows:

In less than one year	\$ 4,121,846
In one to five years	19,705,184
Beyond five years	<u>3,636,279</u>
 Total	 <u>\$ 27,463,309</u>

4. INVESTMENT SECURITIES

The market value of investment securities at June 30, 2007 and 2006, is as follows:

	2007	2006
Treasury notes	\$ 948,090	\$ 852,747
Managed cash funds	255,202	172,451
Mutual funds	1,359,535	1,267,232
Common stocks	4,666,421	7,203,604
Bonds	979,788	879,477
Split-interest investments	17,149,724	15,027,655
Long-term investment pool	<u>555,330,588</u>	<u>447,848,858</u>
 Total	 <u>\$ 580,689,348</u>	 <u>\$ 473,252,024</u>

As of June 30, 2007, the long-term investment pool consists of investments in domestic and international equities (72.6%), fixed income instruments (9.8%), private equity investments (4.9%), real estate funds (4.6%), hedge funds (7.2%), timber, gas & oil (0.5%), and deposits (0.4%) that are held by outside investment managers.

As of June 30, 2006, the long-term investment pool consists of investments in domestic and international equities (71.4%), fixed income instruments (6.5%), private equity investments (4.5%), real estate funds (6.2%), hedge funds (7.4%), timber, gas & oil (0.2%), and deposits (3.8%) that are held by outside investment managers.

Fair value for financial reporting purposes is based on quoted market prices or an amount determined by external investment managers if quoted market prices are not available. Management reviews and evaluates fair value provided by the external investment managers as well as the valuation methods and assessments used in determining the fair value of such investments. Such estimated fair values (amounting to \$410,993,738 and \$376,225,933 for investments with estimated fair values based on quoted market prices and \$169,695,610 and \$97,026,091 for investments with estimated fair values provided by external investment managers at June 30, 2007 and 2006, respectively) may differ from the ultimate realizable value of the investments, and these differences may be material.

Net realized and unrealized gain on investments include \$64,702,427 and \$32,022,767 for investments with estimated fair values based on quoted market prices and \$26,483,392 and \$9,685,110 for investments with estimated fair values provided by external investment managers at June 30, 2007 and 2006, respectively.

During the year ended June 30, 2006, net realized and unrealized gain on investments included losses of \$4,239,326 incurred in prior periods. Foundation management concluded that restatement of prior periods was unnecessary.

5. BONDS PAYABLE, CREDIT AGREEMENTS, AND NOTES PAYABLE

At June 30, 2007 and 2006, the summary of borrowings is as follows:

	2007	2006
\$25,620,000 bond issue — par value of bonds outstanding	\$ 8,425,000	\$ 19,820,000
\$39,155,000 bond issue:		
Par value of bonds outstanding	36,875,000	37,655,000
Bond premium — net of accumulated amortization of \$35,778 and \$28,397	<u>114,507</u>	<u>121,888</u>
Total \$39,155,000 bonds payable	36,989,507	37,776,888
\$99,860,000 bond issue:		
Par value of bonds outstanding	96,035,000	97,910,000
Bond premium — net of accumulated amortization of \$430,787 and \$335,949	<u>1,523,764</u>	<u>1,618,602</u>
Total \$99,860,000 bonds payable	97,558,764	99,528,602
\$8,215,000 bond issue:		
Par value of bonds outstanding	7,405,000	7,655,000
Bond discount — net of accumulated amortization of \$28,020 and \$21,298	<u>(79,489)</u>	<u>(86,211)</u>
Total \$8,215,000 bonds payable	7,325,511	7,568,789
\$25,970,000 bond issue:		
Par value of bonds outstanding	25,510,000	25,970,000
Bond discount — net of accumulated amortization of \$25,809 and \$17,538	<u>(140,984)</u>	<u>(149,255)</u>
Total \$25,970,000 bonds payable	<u>25,369,016</u>	<u>25,820,745</u>
Total bonds payable	<u>\$ 175,667,798</u>	<u>\$ 190,515,024</u>
\$50,000,000 revolving credit agreement	\$ 10,499,210	\$ 12,111,334
\$9,800,000 revolving credit agreement	<u>8,083,918</u>	<u></u>
Total revolving credit agreements	<u>\$ 18,583,128</u>	<u>\$ 12,111,334</u>
\$1,800,000 note payable	\$ 1,090,250	\$ 1,179,250
\$1,117,865 note payable	<u>1,018,155</u>	<u>1,059,762</u>
Total notes payable	<u>\$ 2,108,405</u>	<u>\$ 2,239,012</u>

\$25,620,000 Bond Issue — In 2001, the Development Authority of the Unified Government of Athens — Clarke County, Georgia (the “Development Authority”) issued Revenue Bonds (UGA Real Estate Foundation, Inc. Project), Series 2001 (the “2001 Bonds”) and entered into an agreement (the “2001 Loan Agreement”) to loan \$25,620,000 to the Real Estate Foundation. The 2001 Bonds are secured by a letter of credit issued on behalf of the Real Estate Foundation in favor of the Development Authority under the Real Estate Foundation’s \$50 million credit agreement discussed below. During 2002, the Real Estate Foundation used the proceeds of this loan to fund purchases and improvements of certain properties.

Borrowings under the 2001 Loan Agreement bear interest payable monthly at a formula rate adjusted each week (3.74% and 3.99% at June 30, 2007 and 2006, respectively). The loan matures in 2031, subject to certain early repayment provisions. During the years ended June 30, 2007 and 2006, principal payments of \$11,395,000 and \$4,255,000, respectively, were made.

During 2005, the Real Estate Foundation entered into an interest rate cap agreement effectively limiting the interest rate on a portion of the 2001 Loan Agreement to a 3.5% fixed rate until November 30, 2007. The Real Estate Foundation paid a premium of \$91,000 in connection with this agreement. The fair value of the interest rate cap as of June 30, 2007 and 2006, was \$15,495 and \$102,506, respectively, and had been recorded as an asset in accordance with SFAS No. 133. The Real Estate Foundation recorded a loss of \$87,011 and a gain of \$44,195 on the fair value of the derivative for the years ended June 30, 2007 and 2006, respectively, as an adjustment to interest expense.

\$39,155,000 Bond Issue — In 2002, the Development Authority issued Educational Facilities Revenue Bonds (UGAREF CCRC Building, LLC Project), Series 2002 (the “CCRC Bonds”) and entered into an agreement (the “CCRC Loan Agreement”) to loan \$39,155,000 to UGAREF CCRC Building, LLC (a single-member limited liability company owned by the Real Estate Foundation) (the “CCRC Entity”). Payment of principal and interest under the CCRC Bonds is insured by a financial guaranty insurance policy and secured by certain real property constituting the facility and by the CCRC Entity’s interest in certain rents and leases derived from the facility. The CCRC Entity used the proceeds of this loan to fund construction of the facility which was completed in October 2003.

Borrowings under the CCRC Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 2.5% to 5% depending on the schedule of bond maturities. Principal payments are due on December 15 starting in 2004 and continuing through 2032. During the years ended June 30, 2007 and 2006, principal payments of \$780,000 and \$760,000, respectively, were made.

\$99,860,000 Bond Issue — In 2002, the Housing Authority of the City of Athens, Georgia, issued Student Housing Lease Revenue Bonds (UGAREF East Campus Housing, LLC Project), Series 2002 (the “Housing Bonds”) and entered into an agreement (the “Housing Loan Agreement”) to loan \$99,860,000 to UGAREF East Campus Housing, LLC (a single-member limited liability company owned by the Real Estate Foundation) (the “Housing Entity”). Payment of principal and interest under the Housing Bonds is insured by a financial guaranty insurance policy and secured by certain real property constituting the facilities and by the Housing Entity’s interest in certain rents and leases derived from the facilities. The Housing Entity used the proceeds of this loan to fund construction of certain real estate projects which were completed in July 2004.

Borrowings under the Housing Loan Agreement bear interest payable semiannually on December 1 and June 1 at fixed rates ranging from 3% to 5.25% depending on the schedule of bond maturities. Principal payments are due on December 1 starting in 2005 and continuing through 2033. During the years ended June 30, 2007 and 2006, principal payments of \$1,875,000 and \$1,825,000, respectively, were made.

\$8,215,000 Bond Issue — In 2003, the Oconee County Industrial Development Authority issued Revenue Bonds (UGAREF Gainesville Campus, LLC Project), Series 2003 (the “Gainesville Campus Bonds”) and entered into an agreement (the “Gainesville Campus Loan Agreement”) to loan \$8,215,000 to UGAREF Gainesville Campus, LLC (a single-member limited liability company owned by the Real Estate Foundation) (the “Gainesville Campus Entity”). Payment of principal and interest under the Gainesville Campus Bonds is insured by a financial guaranty insurance policy and secured by certain real property constituting the land and educational facility and by the Gainesville Campus Entity’s interest in certain rents and leases derived from the land and educational facility. During 2003, the Gainesville Campus Entity used the proceeds of this loan to fund the acquisition of the land and educational facility.

Borrowings under the Gainesville Campus Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 2.2% to 4.375% depending on the schedule of bond maturities. Principal payments are due on December 15 starting in 2003 and continuing through 2027. During the years ended June 30, 2007 and 2006, principal payments of \$250,000 and \$240,000, respectively, were made.

\$25,970,000 Bond Issue — In 2004, the Development Authority issued \$25,545,000 of Educational Facilities Revenue Bonds (UGAREF Coverdell Building, LLC Project), Series 2004A, and \$425,000 of Educational Facilities Taxable Revenue Bonds (UGAREF Coverdell Building, LLC Project), Series 2004B (collectively, the “Coverdell Bonds”). The Development Authority entered into an agreement (the “Coverdell Loan Agreement”) to loan \$25,970,000 to UGAREF Coverdell Building, LLC (a single-member limited liability company owned by the Real Estate Foundation) (the “Coverdell Entity”). Payment of principal and interest under the Coverdell Bonds is insured by a financial guaranty insurance policy and secured by certain real property constituting a portion of the facility and by the Coverdell Entity’s interest in certain rents and leases derived from a portion of the facility. During the years ended June 30, 2007 and 2006, the Coverdell Entity used the proceeds of this loan to fund construction of a portion of the facility.

Borrowings under the Coverdell Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 2.5% to 5% depending on the schedule of bond maturities. Principal payments are due on December 15 starting in 2006 and continuing through 2034. During the year ended June 30, 2007, a principal payment of \$460,000 was made to pay off the \$425,000 Series 2004B bonds and reduce the outstanding Series 2004A bonds by \$35,000.

\$50,000,000 Revolving Credit Agreement — During 2002, the Real Estate Foundation established a \$50 million revolving credit agreement with a bank. The agreement expires on November 30, 2007. The revolving credit agreement provides for borrowings or letters of credit at the Real Estate Foundation’s option. Credit available under the revolving credit agreement is reduced by outstanding borrowings and outstanding letters of credit. At June 30, 2007 and 2006, amounts outstanding or issued under this agreement included borrowings of \$10,499,210 and \$12,111,334, respectively, and letters of credit and bank reserves of \$8,373,507 and \$20,264,347, respectively, resulting in \$31,127,283 and \$17,624,319, respectively, available as borrowing capacity under this line. Borrowings under the revolving credit agreement bear interest at the bank’s 30-day London InterBank Offered Rate (“LIBOR”) plus 32.5 basis points (or 0.325%). At June 30, 2007 and 2006, the rates applicable to the borrowings were 5.645% and 5.454%, respectively.

On July 1, 2005, the cooperative organization agreement between the Foundation and the Board of Regents ended which constituted a termination event under the revolving credit agreement that provided the bank with certain rights after a 90-day forbearance period. Those termination event rights include (1) the ability to require that the Real Estate Foundation prepay a portion of the outstanding loans which are not directly and fully supported by a lease agreement with the Board of Regents and (2) the ability to decline to make any further loans or to issue further letters of credit to the Real Estate Foundation.

In September 2005, the Real Estate Foundation entered into a forbearance agreement where the bank agreed not to call any borrowings or letters of credit and to continue to make loans under certain conditions. On July 1, 2007, effective with the transfer of sole membership of the Real Estate Foundation as described in Note 1, the previous termination event was nullified rendering the forbearance agreement obsolete.

All borrowings under this revolving credit agreement are subject to a guarantee requirement except for those borrowings for projects supported by a rental or license agreement with the Board of Regents or the University. As of June 30, 2007 and 2006, the borrowings subject to this guarantee requirement were \$34,995 and \$12,390,969, respectively. The Foundation had guaranteed these obligations of the Real Estate Foundation through June 30, 2007. As of July 1, 2007, the Research Foundation has guaranteed these obligations under this revolving credit agreement.

During 2006, the Real Estate Foundation entered into an interest rate cap agreement effectively limiting the interest rate on the revolving credit agreement to a 6% fixed rate until December 1, 2010. The Real Estate Foundation paid a premium of \$122,000 in connection with this agreement. The fair value of the interest rate cap as of June 30, 2007 and 2006 was \$42,981 and \$124,097, respectively, and has been recorded as an asset in accordance with SFAS No. 133. The Real Estate Foundation recorded a loss of \$81,116 and a gain of \$2,097 on the fair value of the derivative for the years ended June 30, 2007 and 2006, respectively, as an adjustment to interest expense.

\$9,800,000 Credit Agreement – During 2007, the Foundation established a \$9.8 million revolving credit agreement with a bank. The agreement expires in August 2008. The revolving credit agreement provides for borrowings or letters of credit at the Foundation's option. Credit available under the revolving credit agreement is reduced by outstanding borrowings and outstanding letters of credit. As of June 30, 2007, the amount outstanding or issued under this agreement is \$8,083,918, resulting in \$1,716,082 available as borrowing capacity under this line. Borrowings under the revolving credit agreement bear interest at the bank's adjusted LIBOR rate plus 32.5 basis points (or 0.325%). At June 30, 2007, the rate applicable to the borrowings was 5.65%.

\$1,800,000 Note Payable — During 2000, the Foundation signed a \$1.8 million promissory note agreement with a bank, which expires on December 31, 2019. At June 30, 2007 and 2006, \$1,090,250 and \$1,179,250, respectively, was outstanding under this agreement. Interest is charged at a fixed rate of 7.13%. Principal payments in the amount of \$22,250 are payable quarterly.

\$1,117,865 Note Payable — During 2002, the Foundation signed an \$880,000 promissory loan agreement with a bank, which was amended during 2005 to increase the borrowed amount to \$1,117,865. This agreement expires on May 1, 2012. As of June 30, 2007 and 2006, \$1,018,155 and \$1,059,762, respectively, was outstanding under this agreement. Interest is charged at the bank's 30-day LIBOR rate plus 45 basis points (or 0.45%), or 5.77% and 5.56% at June 30, 2007 and 2006, respectively. Principal and interest are payable monthly.

The Foundation has an outstanding interest rate swap agreement effectively changing the interest rate exposure on the \$1,117,865 note payable from variable to a 5.75% fixed rate over the term of the note payable. As of June 30, 2007 and 2006, the fair value of the termination benefit of the interest rate swap was \$5,024 and \$14,488, respectively, and was recorded as an asset in accordance with SFAS No. 133. The Foundation recorded a loss of \$9,464 and a gain of \$81,533 for the years ended June 30, 2007 and 2006, respectively, as an adjustment to interest expense.

The following is a summary as of June 30, 2007, of principal payments due under all borrowings during each of the next five years ending June 30 and thereafter:

Years Ending June 30	
2008	\$ 14,113,504
2009	11,814,361
2010	3,833,185
2011	3,966,088
2012	4,889,145
Thereafter	<u>156,325,250</u>
 Total	 <u>\$ 194,941,533</u>

The bonds payable, credit agreements, and notes payable require the Foundation and Real Estate Foundation to meet certain covenants. At June 30, 2007 and 2006, the Foundation and Real Estate Foundation were in compliance with all covenants.

In 2008, the Real Estate Foundation plans to issue \$59 million in bonds at a fixed rate to finance the expansion of a campus facility. During the year ended June 30, 2007, the Real Estate Foundation entered into an interest rate hedge agreement at no cost locking in the then current interest rate on this future borrowing. The fair value of the interest rate hedge as of June 30, 2007, was \$2,046,793 and has been recorded as an asset in accordance with SFAS No. 133. The Real Estate Foundation recorded a gain of \$2,046,793 on the fair value of the derivative for the year ended June 30, 2007, as an adjustment to interest expense.

6. OBLIGATIONS RELATED TO DEFERRED GIFTS

The Foundation has a deferred gift program that allows donors to make contributions that provide for certain payments from the contributed assets to specified beneficiaries during their lifetime. The amount payable to the donors is recorded at the present value of the future payments to be made under these agreements.

Investments held by the Foundation and various trustees under these agreements were \$17,149,724 and \$15,027,655 at June 30, 2007 and 2006, respectively. Estimated future annual principal payments on deferred gift obligations at June 30, 2007, are as follows:

Years Ending June 30	
2008	\$ 539,149
2009	557,992
2010	577,589
2011	597,969
2012	619,165
Thereafter	<u>10,848,631</u>
	13,740,495
Less amount representing interest (rates ranging from 5.03% to 5.21%)	<u>(2,054,333)</u>
Total	<u>\$ 11,686,162</u>

In connection with an estate gift, the Foundation committed to pay a beneficiary \$300,000 annually, adjusted for a 4% inflation factor. This amount is reduced by the annual distributions from the gift annuity established for the beneficiary's benefit. The present value of this commitment has been recorded as obligations related to deferred gifts.

7. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents and Temporary Investments — The carrying amount approximates fair value because of the short-term maturity of these instruments.

Investments — Investments are carried at fair value based on quoted market prices for those or similar investments where a market price is available or an amount determined by external investment managers if quoted market prices are not available.

Bond Proceeds Restricted for Construction, Debt Service, and Reserves — Funds held by the trustee are carried at fair value based on quoted market prices for those or similar investments.

Operating Funds Held by Trustee — Funds held by the trustee are carried at fair value based on quoted market prices for those or similar investments.

Bonds Payable — Based on the borrowing rates currently available to the Real Estate Foundation for bonds payable with similar terms and maturities, the fair value of bonds payable is approximately \$182,894,338 and \$192,430,329 as of June 30, 2007 and 2006, respectively, compared to the recorded balance of \$175,667,798 and \$190,515,024, respectively.

Credit Agreements and Notes Payable — The carrying amount approximates fair value because the interest rate approximates the current rates at which similar loans could be obtained from lenders for the same remaining maturities.

Other Receivables and Payables — The carrying amount approximates fair value because of the short-term maturity of these instruments. The derivative financial instruments are valued at the net present value of future cash flows attributable to the difference between the contractual variable and fixed rates in the agreements.

8. OPERATING LEASES

The Foundation is a lessee under operating leases for office space and equipment. Total rent expense for the years ended June 30, 2007 and 2006, was \$544,864 and \$673,249, respectively.

The Real Estate Foundation is a lessee under an operating lease for office space that expires on November 30, 2007, with a current base rent of \$3,944 per month. Total rent expense for the years ended June 30, 2007 and 2006, was \$42,929 and \$49,226, respectively.

The Real Estate Foundation is a lessee under an amended multiyear operating lease for University education facilities that expires on January 31, 2015, with escalating rents. For the years ended June 30, 2007 and 2006, rent expense has been recognized on a straight-line basis in the amount of \$642,401 and \$648,387, respectively, and a straight-line lease liability of \$675,261 and \$633,248, respectively, is included in accrued expenses as of June 30, 2007 and 2006.

The Real Estate Foundation is a lessee under a multiyear operating lease for University office space that expires on June 30, 2014, with escalating rents. For the years ended June 30, 2007 and 2006, rent expense has been recognized on a straight-line basis in the amount of \$410,561 and \$436,053, respectively, and a straight-line lease liability of \$61,438 and \$46,510, respectively, is included in accrued expenses as of June 30, 2007 and 2006.

The following is a schedule by years of future minimum rental payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2007:

Years Ending June 30	
2008	\$ 1,439,862
2009	1,434,973
2010	1,100,279
2011	1,118,628
2012	1,146,119
Thereafter	<u>2,828,967</u>
Total	<u>\$ 9,068,828</u>

9. RELATED PARTY TRANSACTIONS

The Foundation has leased real property that has a total carrying value of \$3,422,824 and \$3,388,678 as of June 30, 2007 and 2006, respectively, to the Board of Regents. Rental income from the Board of Regents of \$327,346 and \$282,680 was recorded in 2007 and 2006, respectively, under these leases. These lease agreements expire on June 30, 2008, and provide for renewal terms with increases to lease payments of 3% annually.

During the years ended June 30, 2007 and 2006, the University reimbursed the Foundation \$46,359 and \$97,765, respectively, for reimbursable expenses. There were no uncollected reimbursable expenses as of June 30, 2007 and 2006.

The Real Estate Foundation has leased real property that has a total historical cost of \$167,361,048 and \$167,172,519 as of June 30, 2007 and 2006, respectively, to the Board of Regents. The Real Estate Foundation has also subleased space under operating leases to the Board of Regents. Rental income from the Board of Regents of \$15,327,996 and \$14,651,124 was recorded in 2007 and 2006, respectively, under these leases. These lease agreements are renewable on an annual basis.

The Real Estate Foundation has one-year licensing agreements with the Board of Regents to allow the Board of Regents to operate parking lots on the Real Estate Foundation's land in exchange for a fee adjusted at the end of the term to reflect actual costs incurred. Under these licensing agreements, rental income of \$481,000 and \$171,333 was recorded in 2007 and 2006, respectively.

During the years ended June 30, 2007 and 2006, the Real Estate Foundation recorded \$656,824 and \$599,163, respectively, for reimbursable expenses and \$514,388 and \$41,123, respectively, for reimbursable project costs from the Board of Regents. As of June 30, 2007 and 2006, the amounts due from related party included reimbursable expenses and project costs from the Board of Regents of \$19,913 and \$40,082, respectively.

During the year ended June 30, 2006, the Real Estate Foundation sold a property to the Board of Regents for net proceeds of \$3,781,050 resulting in a gain on sale of \$150,486.

During the year ended June 30, 2007, the Real Estate Foundation donated a property to the University, resulting in a loss of \$278,131.

The Real Estate Foundation leases the use of land from the Board of Regents upon which it has constructed improvements on the Board of Regents' land. These ground leases are for a primary term of 30 to 35 years for a base rental of \$10 per year. Ground leases for real estate projects under construction have a construction term of up to three years before the primary term begins. Under the ground leases, the ownership of any building or structure constructed on the land passes to the Board of Regents at the end of the ground lease.

The Real Estate Foundation leases air rights from the Board of Regents where it has constructed property above the lower floors of the Board of Regents' property. The air rights lease is for a period of up to three years during construction and continues for 30 years after construction is complete for a base rental of \$10 per year. Under the air rights lease, the ownership of any building or structure constructed above the lower floors of the building passes to the Board of Regents at the end of the air rights lease.

On July 1, 2005, the Foundation entered into an agreement with the University to provide administrative services and facilities to the Foundation which expires on June 30, 2010. During each of the years ended June 30, 2007 and 2006, the Foundation paid \$250,000 to the University under this agreement.

The Real Estate Foundation has a consulting agreement with the Board of Regents to assist the University with its construction projects. During the years ended June 30, 2007 and 2006, the Real Estate Foundation received \$28,983 and \$28,139, respectively, under the agreement. The consulting agreement is renewable on an annual basis.

Since 1996, the Research Foundation has transferred funds to the Foundation for investment management. The Foundation recorded a liability for these funds because the Research Foundation had ultimate control over the use of the assets and had the ability to request that all funds be returned at any time. During the year ended June 30, 2006, the Research Foundation withdrew its remaining balance of \$2,332,348 from the Foundation.

Since 2001, the University of Georgia Athletic Association (the "Athletic Association") has transferred funds to the Foundation for investment management. The Foundation recorded a liability for the funds because the Athletic Association has ultimate control over the use of the assets and has the ability to request that all funds be returned at any time. As of June 30, 2007 and 2006, the total value of the funds held for the Athletic Association, including investment earnings, was \$3,025,134 and \$2,555,872, respectively.

In previous years, the Foundation funded deferred compensation to benefit the President of the University. As of June 30, 2007 and 2006, the value of deferred compensation is \$837,591 and \$710,616, respectively, and includes net earnings from the Foundation's long-term investment pool. This deferred compensation is fully vested and is included in funds held for others in the consolidated statements of financial position.

During the years ended June 30, 2007 and 2006, the Foundation transferred \$19,982,347 and \$15,834,191, respectively, to the University for scholarships and donor restricted support. As of June 30, 2007 and 2006, outstanding transfers of \$892,715 and \$768,702, respectively, were due to the University. During the years ended June 30, 2007 and 2006, the Foundation transferred \$799,745 and \$1,430,482, respectively, to the Athletic Association for donor restricted support. As of June 30, 2007 and 2006, there were no outstanding transfers due to the Athletic Association.

The Real Estate Foundation has an agreement with a key employee to provide compensation and benefits, which includes a provision for a one-time completion and retention bonus, payable upon completion of certain events. As of June 30, 2007, \$34,541 has been included in accrued expenses related to this employment agreement.

10. U.S. INCOME TAX STATUS

The Foundation is a nonprofit organization exempt from tax under Section 501(c)(3) of the Internal Revenue Code ("IRC"). The Internal Revenue Service has determined that the Foundation is not a private foundation under Section 509(a) of the IRC. Contributions made to the Foundation are deductible by the donors. The Foundation is subject to federal income tax on unrelated business income.

11. RETIREMENT PLAN

Starting in 2003, the Real Estate Foundation offered a 403(b) plan to its employees who elected to participate. The Real Estate Foundation matches employee contributions to the plan up to a maximum of 10% of the employee's compensation. During the years ended June 30, 2007 and 2006, the Real Estate Foundation incurred employer contributions to the plan of \$29,741 and \$27,730, respectively. During the year ended June 30, 2006, \$35 of forfeited employer contributions from previous years were used to fund current employer contributions.

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**SUPPLEMENTAL CONSOLIDATING SCHEDULES OF
SELECTED FINANCIAL DATA**

THE UNIVERSITY OF GEORGIA FOUNDATION

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
AS OF JUNE 30, 2007

	UGA Foundation	UGA Real Estate Foundation	Costa Rica Entity	Eliminations	Consolidated
ASSETS:					
Cash and cash equivalents	\$ 1,650,499	\$ 9,307,648	\$ 94,404	\$	\$ 11,052,551
Temporary investments	38,620,492	1,276,600			39,897,092
Receivables — net:					
Accounts	856,879		47,275	(48,632)	855,522
Contributions	19,963,446				19,963,446
Notes	67,505				67,505
Accrued interest	1,578,045	66,546			1,644,591
Related party		19,913			19,913
Prepaid expenses and other assets	67,062	88,141	18,455		173,658
Investment securities	580,689,348				580,689,348
Bond proceeds — restricted		10,478,278			10,478,278
Operating funds held by trustee		3,031,146			3,031,146
Real property	31,507,749	164,924,497	1,850,393	(2,242,515)	196,040,124
Construction in progress		224,903	82,512		307,415
Works of art	2,301,077				2,301,077
Furniture, fixtures, and equipment	45,277	49,906	126,666		221,849
Cost of bond issuance		4,419,314			4,419,314
Derivative financial instruments	5,024	2,105,269			2,110,293
Cash value of life insurance policies	1,607,153				1,607,153
	<u>\$ 678,959,556</u>	<u>\$ 195,992,161</u>	<u>\$ 2,219,705</u>	<u>\$ (2,291,147)</u>	<u>\$ 874,880,275</u>
LIABILITIES:					
Accounts payable and accrued expenses	\$ 1,386,239	\$ 3,186,318	\$ 140,648	\$ (48,632)	\$ 4,664,573
Funds held for others	3,862,725				3,862,725
Obligations related to deferred gifts	11,686,162				11,686,162
Bonds payable		175,667,798			175,667,798
Credit agreements	8,083,918	10,499,210			18,583,128
Notes payable	2,108,405				2,108,405
Total liabilities	27,127,449	189,353,326	140,648	(48,632)	216,572,791
NET ASSETS:					
Unrestricted	25,355,115	6,638,835	2,079,057	(2,242,515)	31,830,492
Temporarily restricted	341,558,451				341,558,451
Permanently restricted	284,918,541				284,918,541
Total net assets	<u>651,832,107</u>	<u>6,638,835</u>	<u>2,079,057</u>	<u>(2,242,515)</u>	<u>658,307,484</u>
	<u>\$ 678,959,556</u>	<u>\$ 195,992,161</u>	<u>\$ 2,219,705</u>	<u>\$ (2,291,147)</u>	<u>\$ 874,880,275</u>

THE UNIVERSITY OF GEORGIA FOUNDATION

CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

	UGA Foundation	UGA Real Estate Foundation	Costa Rica Entity	Eliminations	Consolidated
CHANGES IN UNRESTRICTED NET ASSETS:					
Revenues and gains:					
Rental income	\$ 362,652	\$ 16,353,212	\$	\$	\$ 16,715,864
Contributions	641,876				641,876
Royalties:					
Affinity card	161,000				161,000
Logo licensing	886,882				886,882
Net realized and unrealized gain on investments	5,494,729	92,378			5,587,107
Net realized gain on sale of real property		3,568,855			3,568,855
Interest and dividends	910,488	593,092			1,503,580
Other income — net	<u>1,895,271</u>	<u>691,245</u>	<u>523,295</u>	<u>(221,049)</u>	<u>2,888,762</u>
Total unrestricted revenues and gains	10,352,898	21,298,782	523,295	(221,049)	31,953,926
Net assets released from restrictions, satisfaction of program restrictions	<u>20,930,503</u>				<u>20,930,503</u>
Total unrestricted revenues, gains, and other support	31,283,401	21,298,782	523,295	(221,049)	52,884,429
EXPENSES:					
Donor restricted program support	13,954,965				13,954,965
Scholarships	5,908,519				5,908,519
Direct program support	1,311,120				1,311,120
Real Estate Foundation project expenses		7,933,327			7,933,327
General operations:					
Alumni Association	1,885,169				1,885,169
Administrative Services	415,931				415,931
University Services	250,000				250,000
Foundation Board	117,733				117,733
Development and External Affairs	186,834				186,834
Real Estate Foundation general and administrative Management and investment fees	62,972	885,110		(221,049)	664,061
Interest expense, net	152,052	6,979,745			7,131,797
Distributions to beneficiaries	294,410				294,410
Other expenses			557,760	134,008	691,768
Total expenses	<u>24,539,705</u>	<u>15,798,182</u>	<u>557,760</u>	<u>(87,041)</u>	<u>40,808,606</u>
Increase (decrease) in unrestricted net assets	6,743,696	5,500,600	(34,465)	(134,008)	12,075,823

(Continued)

THE UNIVERSITY OF GEORGIA FOUNDATION

CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

	UGA Foundation	UGA Real Estate Foundation	Costa Rica Entity	Eliminations	Consolidated
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:					
Contributions	\$ 11,632,258	\$	\$	\$	\$ 11,632,258
Net realized and unrealized gain on investments	85,598,712				85,598,712
Interest and dividends	7,081,626				7,081,626
Other income — net	980,441				980,441
Transfer of funds to permanently restricted net assets	(4,637,812)				(4,637,812)
Net assets released from restrictions	<u>(20,930,503)</u>				<u>(20,930,503)</u>
Increase in temporarily restricted net assets	79,724,722				79,724,722
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:					
Contributions	15,402,622				15,402,622
Interest and dividends	1,022,049				1,022,049
Increase in cash surrender value of life insurance	48,208				48,208
Adjustments to annuities payable	532,937				532,937
Distributions to beneficiaries	(1,443,639)				(1,443,639)
Transfer of funds from temporarily restricted net assets	4,637,812				4,637,812
Other income — net	<u>1,317,792</u>				<u>1,317,792</u>
Increase in permanently restricted net assets	<u>21,517,781</u>				<u>21,517,781</u>
INCREASE (DECREASE) IN NET ASSETS	107,986,199	5,500,600	(34,465)	(134,008)	113,318,326
NET ASSETS:					
Beginning of year	543,845,908	1,138,235	1,695,319	(1,690,304)	544,989,158
Capital contributed			418,203	(418,203)	
End of year	<u>\$ 651,832,107</u>	<u>\$ 6,638,835</u>	<u>\$ 2,079,057</u>	<u>\$ (2,242,515)</u>	<u>\$ 658,307,484</u>

(Concluded)