

The University of Georgia Foundation

Consolidated Financial Statements as of and for
the Years Ended June 30, 2008 and 2007,
Supplemental Schedules as of and for the
Year Ended June 30, 2008, 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, 2008 and 2007, 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, 2008 and 2007, 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 5 to the consolidated financial statements, the financial statements include investments valued at \$232,980,032 (37.52% of net assets) and \$169,695,610 (25.8% of net assets) as of June 30, 2008 and 2007, 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.

As discussed in Note 2 to the consolidated financial statements, the Foundation transferred its sole membership of the UGA Real Estate Foundation, Inc. to the University of Georgia Research Foundation, Inc. on July 1, 2007. Accordingly, the financial position, activities, and cash flows of the UGA Real Estate Foundation, Inc. have been classified as discontinued operations in the accompanying financial statements.

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 audit 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 26, 2008

THE UNIVERSITY OF GEORGIA FOUNDATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2008 AND 2007

	2008	2007
ASSETS:		
Cash and cash equivalents	\$ 1,406,499	\$ 1,744,903
Temporary investments	39,664,777	38,620,492
Receivables — net:		
Accounts	1,531,623	855,522
Contributions	20,177,023	19,963,446
Notes	57,115	67,505
Accrued interest	1,456,454	1,578,045
Prepaid expenses and other assets	78,417	85,517
Investment securities	550,231,416	580,689,348
Real property — net of accumulated depreciation of \$632,233 and \$598,956	27,372,782	31,115,627
Construction in progress	44,187	82,512
Works of art	2,375,463	2,301,077
Furniture, fixtures, and equipment — net of accumulated depreciation of \$708,630 and \$667,168	362,798	171,943
Derivative financial instruments		5,024
Cash value of life insurance policies	1,688,239	1,607,153
Assets of discontinued operations		195,992,161
	<u>646,446,793</u>	<u>874,880,275</u>
TOTAL	<u>\$ 646,446,793</u>	<u>\$ 874,880,275</u>
LIABILITIES:		
Accounts payable and accrued expenses	\$ 1,683,226	\$ 1,478,255
Derivative financial instruments	686,085	
Funds held for others	3,625,308	3,862,725
Obligations related to deferred gifts	12,341,775	11,686,162
Credit agreements		8,083,918
Notes payable	7,123,366	2,108,405
Liabilities of discontinued operations		189,353,326
	<u>25,459,760</u>	<u>216,572,791</u>
Total liabilities	<u>25,459,760</u>	<u>216,572,791</u>
NET ASSETS:		
Unrestricted from continuing operations	33,351,095	25,191,657
Unrestricted from discontinued operations		6,638,835
Temporarily restricted	293,560,214	341,558,451
Permanently restricted	294,075,724	284,918,541
	<u>620,987,033</u>	<u>658,307,484</u>
Total net assets	<u>620,987,033</u>	<u>658,307,484</u>
TOTAL	<u>\$ 646,446,793</u>	<u>\$ 874,880,275</u>

See notes to consolidated financial statements.

THE UNIVERSITY OF GEORGIA FOUNDATION

CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	\$ 11,435,504	\$ 11,632,258
Net realized and unrealized (loss) gain on investments	(35,569,945)	85,598,712
Interest and dividends	7,810,182	7,081,626
Other income — net	734,612	980,441
Transfer of funds to permanently restricted net assets	(847,121)	(4,637,812)
Net assets released from restrictions	<u>(31,561,469)</u>	<u>(20,930,503)</u>
Decrease in temporarily restricted net assets	<u>(47,998,237)</u>	<u>79,724,722</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	9,329,003	15,402,622
Interest and dividends	600,376	1,022,049
Increase in cash surrender value of life insurance	81,086	48,208
Adjustments to annuities payable	(91,454)	532,937
Distributions to beneficiaries	(1,027,359)	(1,443,639)
Transfer of funds from temporarily restricted net assets	847,121	4,637,812
Other income — net	<u>(581,590)</u>	<u>1,317,792</u>
Increase in permanently restricted net assets	<u>9,157,183</u>	<u>21,517,781</u>
DECREASE IN NET ASSETS	(30,292,484)	113,318,326
NET ASSETS:		
Beginning of year	<u>\$658,307,484</u>	<u>\$544,989,158</u>
Transfer of net assets of Real Estate Foundation (Note 2)	(6,638,835)	
Foreign currency translation adjustment	<u>(389,132)</u>	
End of year	<u>\$620,987,033</u>	<u>\$658,307,484</u>

See notes to consolidated financial statements.

(Concluded)

THE UNIVERSITY OF GEORGIA FOUNDATION

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) Increase in net assets	\$ (30,292,484)	\$ 113,318,326
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Contributions restricted for long-term investment	(9,329,003)	(15,402,622)
Net realized and unrealized loss on investments	34,680,885	(91,093,441)
Net loss on sales of real estate and personal property	(3,067,237)	
Net realized and unrealized loss on derivative financial instruments	691,109	9,464
Depreciation	370,989	107,385
Interest and dividends restricted for long-term investment	(600,376)	(1,022,049)
Actuarial loss on deferred gift obligations	1,682,972	1,838,582
Donated property	(780,778)	(2,794,077)
Changes in:		
Accounts, notes, and accrued interest receivable	(495,488)	351,365
Prepaid expenses and other assets	7,100	(4,978)
Contributions receivable	(213,577)	679,904
Accounts payable and accrued expenses	156,333	(287,471)
Funds held for others	(237,417)	596,237
Net cash (used in) provided by continuing operating activities	(7,426,972)	6,296,625
Net cash provided by discontinued operating activities — net		572,036
Net cash (used in) provided by operating activities	(7,426,972)	6,868,661
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(1,271,843)	(7,948,873)
Proceeds from sale of investments	106,240,261	141,782,790
Purchase of investments	(111,507,499)	(157,268,240)
Proceeds from sale of real property	7,875,672	2,064
Increase in cash value of life insurance policies	(81,086)	(48,208)
Net cash provided by (used in) continuing investing activities	1,255,505	(23,480,467)
Net cash provided by discontinued investing activities		13,990,190
Net cash provided by (used in) investing activities	1,255,505	(9,490,277)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for:		
Investment in permanently restricted endowments	8,818,328	14,966,261
Investments subject to annuity agreements	510,675	436,361
Total proceeds from contributions restricted	9,329,003	15,402,622
Interest and dividends restricted for long-term investment	600,376	1,022,049
Payments on deferred gift obligations	(1,027,359)	(1,443,639)
Borrowings on credit agreements		8,598,269
Repayments on credit agreements	(8,083,918)	(514,351)
Advances on notes payable	6,200,000	
Repayments on notes payable	(1,185,039)	(130,607)
Net cash provided by continuing financing activities	5,833,063	22,934,343
Net cash used in discontinued financing activities		(16,372,124)
Net cash provided by financing activities	5,833,063	6,562,219
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(338,404)	3,940,603
CASH AND CASH EQUIVALENTS — Beginning of year	11,052,551	7,111,948
TRANSFER OF CASH OF REAL ESTATE FOUNDATION (Note 2)	(9,307,648)	
CASH AND CASH EQUIVALENTS — End of year	\$ 1,406,499	\$ 11,052,551
CASH AND CASH EQUIVALENTS OF DISCONTINUED OPERATIONS — End of year	\$ -	\$ 9,307,648
CASH AND CASH EQUIVALENTS OF CONTINUING OPERATIONS — End of year	\$ 1,406,499	\$ 1,744,903

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, 2008 AND 2007

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
- Owns and operates 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. The Board of Regents exercised its right and terminated the agreement on June 30, 2005. On July 1, 2005, the Foundation entered into an agreement with the University to provide administrative services and facilities to the Foundation. The administrative services and facilities agreement expires on June 30, 2010.

The Foundation was also the sole member of the UGA Real Estate Foundation, Inc. (the “Real Estate Foundation”) until July 1, 2007. The Real Estate Foundation manages and improves various real estate assets for the benefit of the Board of Regents and, primarily, the University. Effective July 1, 2007, the University of Georgia Research Foundation, Inc. (the “Research Foundation”) became the sole member of the Real Estate Foundation. See Note 2 below for further discussion.

2. REAL ESTATE FOUNDATION

In 2006, the Board of Trustees of the Foundation agreed to transfer its sole membership of the Real Estate Foundation to the Research Foundation. This transfer was contingent upon a private letter ruling from the Internal Revenue Service accepting the 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.

As a result and in accordance with Financial Accounting Standards Board (FASB) Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (FAS 144), amounts related to the Real Estate Foundation have been classified as discontinued operations in the accompanying 2007 consolidated statements of financial position, activities, and cash flows.

The detailed results of discontinued operations presented in the statement of activities for the year ended June 30, 2007, is as follows:

Revenues and gains:	
Rental income	\$ 16,353,212
Net realized gain on sale of real property	3,568,855
Other income	<u>1,376,715</u>
	<u>21,298,782</u>
Expenses:	
Project expenses	7,933,327
General and administrative	885,110
Interest expense — net	<u>6,979,745</u>
	<u>15,798,182</u>
Income from discontinued operations	<u>\$ 5,500,600</u>

The detail of assets and liabilities of discontinued operations presented in the statement of financial position as of June 30, 2007, is as follows:

ASSETS:	
Cash and cash equivalents	\$ 9,307,648
Temporary investments	1,276,600
Accrued interest	66,546
Related party	19,913
Prepaid expenses and other assets	88,141
Bond proceeds — restricted	10,478,278
Operating funds held by trustee	3,031,146
Fixed assets — net of accumulated depreciation	165,199,306
Cost of bond issuance	4,419,314
Derivative financial instruments	<u>2,105,269</u>
TOTAL	<u>\$ 195,992,161</u>
LIABILITIES:	
Accounts payable and accrued expenses	\$ 3,186,318
Bonds payable	175,667,798
Credit agreements	<u>10,499,210</u>
TOTAL	<u>\$ 189,353,326</u>

As of June 30, 2007, the Real Estate Foundation had leased real property to the Board of Regents that had a total historical cost of \$167,361,048. The Real Estate Foundation had also subleased space under operating leases to the Board of Regents. Rental income from the Board of Regents of \$15,327,996 was recorded in 2007 under these leases.

During 2002, the Real Estate Foundation established a \$50 million revolving credit agreement with a bank. The agreement provided the bank with certain rights upon the termination of the cooperative organization agreement discussed above. On July 1, 2005, the cooperative organization agreement between the Foundation and the Board of Regents ended (see Note 1), which constituted a termination

event under the revolving credit agreement and provided the bank with certain rights after a 90-day forbearance period. Those termination event rights included (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.

The revolving credit agreement provided for borrowings or letters of credit at the Real Estate Foundation's option. Credit available under the revolving credit agreement was reduced by outstanding borrowings and outstanding letters of credit. At June 30, 2007, amounts outstanding or issued under this agreement included borrowings of \$10,499,210, and letters of credit and bank reserves of \$8,373,507, resulting in \$31,127,283 available as borrowing capacity under this line. 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.

3. 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 Costa Rica Entity and, through July 1, 2007, the Real Estate Foundation (see Note 2). All intercompany 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.

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.

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 10). 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.

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.

Impairment — Under certain circumstances, 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.

Derivative Financial Instruments — Derivative financial agreements have been entered into in order to manage interest rate risk associated with a portion of current and future borrowings. In accordance with FASB Statement 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, 2008 and 2007, was 4.4% and 4.6%, 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 statement 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. Costs were borne by the University that were not included in the Foundation's financial statements were \$1,974,746 and \$1,557,627 for the years ended June 30, 2008 and 2007, 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 to or included in the Foundation's financial statements.

Administrative Fees — The Foundation charges an administrative fee to its restricted funds and transfers this amount to the unrestricted fund to cover operating expenses. For the years ended June 30, 2008 and 2007, the administrative fees charged were \$5,265,712 and \$4,781,693, respectively. These fees are 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, 2008 and 2007. The applicable rate is applied to each restricted fund's average fund balance 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.

New Accounting Pronouncements — In September 2006, the FASB issued No. Statement No. 157, *Fair Value Measurements* ("FAS 157"), which was issued to define fair value, establish a framework for measuring fair value, and expand disclosures about fair value measurements, and is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB deferred the effective date of FAS 157 for one year for certain nonfinancial assets and liabilities, and removed certain leasing transactions from its scope. FAS 157 will be effective for the year ended June 30, 2009. The Foundation is currently in the process of determining the impact of FAS 157 on its disclosures.

In February 2007, the FASB issued No. Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("FAS 159"), which gives entities the option to measure eligible financial assets, financial liabilities, and firm commitments at fair value (i.e., the fair value option), on an instrument-by-instrument basis, that are otherwise not accounted for at fair value under other accounting standards. The election to use the fair value option is available at specified election dates, such as when

an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in earnings. Additionally, FAS No. 159 allows for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning retained earnings. FAS 159 is not anticipated to have any impact on the Foundation's results of operations, financial condition, or disclosures.

In August 2008, the FASB issued FASB Staff Position (FSP) FAS No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA is a model act approved by the Uniform Law Commission (formerly known as the National Conference of Commissioners on Uniform State Laws) that serves as a guideline for states to use in enacting legislation. This FSP also improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA. FSP No. 117-1 will be effective for the Foundation's year ended June 30, 2009, and is not anticipated to have a material impact on the Foundation's results of operations, financial condition, or disclosures.

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable of unconditional promises to give at June 30, 2008 and 2007, consist of the following:

	2008	2007
Contributions receivable	\$ 25,884,232	\$ 27,463,309
Less allowance for uncollectible contributions	(3,852,970)	(4,480,380)
Less amount representing interest (3.3% and 5.1% at June 30, 2008 and 2007, respectively)	<u>(1,854,239)</u>	<u>(3,019,483)</u>
Net contributions receivable	<u>\$ 20,177,023</u>	<u>\$ 19,963,446</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, 2008, are due as follows:

In less than one year	\$ 4,360,064
In one to five years	18,803,321
Beyond five years	<u>2,720,847</u>
Total	<u>\$ 25,884,232</u>

5. INVESTMENT SECURITIES

The market value of investment securities at June 30, 2008 and 2007, is as follows:

	2008	2007
Treasury notes	\$ 234,316	\$ 948,090
Managed cash funds	128,406	255,202
Mutual funds	1,828,504	1,359,535
Common stocks	2,693,996	4,666,421
Bonds	301,002	979,788
Hedge funds and futures contracts	613,950	
Split-interest investments	16,727,272	17,149,724
Long-term investment pool	<u>527,703,970</u>	<u>555,330,588</u>
Total	<u>\$ 550,231,416</u>	<u>\$ 580,689,348</u>

As of June 30, 2008, the long-term investment pool consists of investments in domestic and international equities (54.5%), fixed income instruments (10.4%), private equity investments (6.2%), real estate funds (4.5%), hedge funds (16.0%), timber, gas and oil (2.8%), and deposits (5.6%) that are held by outside investment managers.

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 and oil (0.5%), and deposits (0.4%) 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 \$317,251,384 and \$410,993,738 for investments with estimated fair values based on quoted market prices and \$232,980,032 and \$169,695,610 for investments with estimated fair values provided by external investment managers at June 30, 2008 and 2007, 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 \$(34,993,183) and \$64,702,427 for investments with estimated fair values based on quoted market prices and \$312,298 and \$26,483,392 for investments with estimated fair values provided by external investment managers for the years ended June 30, 2008 and 2007, respectively.

6. CREDIT AGREEMENTS AND NOTES PAYABLE

At June 30, 2008 and 2007, the summary of borrowings is as follows:

	2008	2007
\$9,800,000 revolving credit agreement (converted into \$6,200,000 note payable in November 2007)	\$ <u>-</u>	<u>\$8,083,918</u>
\$6,200,000 note payable	\$6,149,275	\$
\$1,117,865 note payable	974,091	1,018,155
\$1,800,000 note payable (paid off in 2008)	<u> </u>	<u>1,090,250</u>
Total notes payable	<u>\$7,123,366</u>	<u>\$2,108,405</u>

\$9,800,000 Credit Agreement — During 2007, the Foundation established a \$9.8 million revolving credit agreement with a bank which was to expire in August 2008. The revolving credit agreement provided for borrowings or letters of credit at the Foundation's option. Credit available under the revolving credit agreement was 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 earned 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%. The credit agreement was renegotiated during 2007; borrowings outstanding were then converted to a \$6,200,000 note payable, as discussed further below.

\$6,200,000 Note Payable — During November, 2007, the Foundation signed a \$6,200,000 promissory loan agreement with a bank, which expires on November 1, 2017. As of June 30, 2008, \$6,149,275 was outstanding under this agreement. Interest is charged at the bank's 30-day LIBOR rate plus 32.5 basis points (or 0.325%), which was 2.78% at June 30, 2008. Principal and interest are payable monthly.

\$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, 2008 and 2007, \$974,091 and \$1,018,155, respectively, was outstanding under this agreement. Interest is charged at the bank's 30-day LIBOR rate plus 45 basis points (or 0.45%), which was 2.91% and 5.77% at June 30, 2008 and 2007, respectively. Principal and interest are payable monthly.

\$1,800,000 Note Payable — During 2000, the Foundation entered into a \$1.8 million promissory note agreement with a bank, which expires on December 31, 2019. At June 30, 2007, \$1,090,250 was outstanding under this agreement. Interest was charged at a fixed rate of 7.13%. Principal payments in the amount of \$22,250 were payable quarterly. During August 2007, this note was paid in full with proceeds from the sale of real property.

Interest Rate Caps — The Foundation has two outstanding interest rate cap agreements effectively limiting the interest rate exposure on the \$1,117,865 note payable to a 5.75% fixed rate over the term of the note payable and limiting the interest rate exposure on the \$6,200,000 note payable from variable to a 5.95% fixed rate over the term of the note payable. As of June 30, 2008 and 2007, the fair value of these interest rate caps was a liability of \$686,085 and an asset of \$5,024, respectively. The Foundation recorded charges of \$691,109 and \$9,464 for the years ended June 30, 2008 and 2007, respectively, as a result of these caps as an adjustment to interest expense.

The following is a summary as of June 30, 2008, of principal payments due under all borrowings during each of the next five years ending June 30 and thereafter:

Years Ending June 30	
2009	\$ 126,617
2010	134,261
2011	142,367
2012	921,202
2013	101,376
Thereafter	<u>5,697,543</u>
 Total	 <u>\$ 7,123,366</u>

The credit agreement and notes payable require the Foundation to meet certain covenants. At June 30, 2008 and 2007, the Foundation was in compliance with all such covenants.

7. 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 \$16,727,272 and \$17,149,724 at June 30, 2008 and 2007, respectively. Estimated future annual principal payments on deferred gift obligations at June 30, 2008, are as follows:

Years Ending June 30	
2009	\$ 561,768
2010	581,365
2011	601,745
2012	622,941
2013	644,984
Thereafter	<u>10,893,746</u>
	13,906,549
Less amount representing interest (rates ranging from 3.99% to 4.59%)	<u>(1,564,774)</u>
 Total	 <u>\$ 12,341,775</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.

8. 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.

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.

9. OPERATING LEASES

The Foundation is a lessee under operating leases for office space and equipment. Total rent expense for the years ended June 30, 2008 and 2007, was \$518,076 and \$544,864, respectively.

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, 2008:

Years Ending June 30	
2009	\$ 418,837
2010 and thereafter	<u>26,331</u>
Total	<u>\$ 445,168</u>

10. RELATED-PARTY TRANSACTIONS

The Foundation has leased real property that has a total carrying value of \$10,415,358 and \$3,422,824 as of June 30, 2008 and 2007, respectively, to the Board of Regents. Rental income from the Board of Regents of \$633,058 and \$327,346 was recorded during the years ended June 30, 2008 and 2007, respectively, under these leases. These lease agreements expire on June 30, 2009, and provide for renewal terms with increases to lease payments between 0.1% and 3% annually.

During the years ended June 30, 2008 and 2007, the University paid the Foundation \$45,293 and \$46,359, respectively, for certain reimbursable expenses. There were no uncollected reimbursable expenses as of June 30, 2008 and 2007.

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, 2008 and 2007, the Foundation paid \$250,000 to the University under this agreement.

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, 2008 and 2007, the total value of the funds held for the Athletic Association, including reinvested earnings, was \$2,839,202 and \$3,025,134, respectively.

In previous years, the Foundation funded deferred compensation to benefit the President of the University. As of June 30, 2008 and 2007, the value of deferred compensation is \$786,106 and \$837,591, 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, 2008 and 2007, the Foundation transferred \$23,563,637 and \$19,982,347, respectively, to the University for scholarships and donor-restricted support. As of June 30, 2008 and 2007, outstanding transfers of \$847,156 and \$892,715, respectively, were due to the University. During the years ended June 30, 2008 and 2007, the Foundation transferred \$1,529,051 and \$799,745, respectively, to the Athletic Association for donor-restricted support. As of June 30, 2008 and 2007, there were no outstanding transfers due to the Athletic Association.

11. 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.

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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, 2008

	UGA Foundation	Costa Rica Entity	Eliminations	Consolidated
ASSETS:				
Cash and cash equivalents	\$ 1,319,456	\$ 87,043	\$ -	\$ 1,406,499
Temporary investments	39,664,777			39,664,777
Receivables — net:				
Accounts	1,434,491	97,132		1,531,623
Contributions	20,177,023			20,177,023
Notes	57,115			57,115
Accrued interest	1,456,454			1,456,454
Prepaid expenses and other assets	59,866	18,551		78,417
Investment securities	550,231,416			550,231,416
Real property	28,298,991	1,499,602	(2,425,811)	27,372,782
Construction in progress		44,187		44,187
Works of art	2,375,463			2,375,463
Furniture, fixtures, and equipment	206,248	156,550		362,798
Cash value of life insurance policies	1,688,239			1,688,239
	<u>\$ 646,969,539</u>	<u>\$ 1,903,065</u>	<u>\$ (2,425,811)</u>	<u>\$ 646,446,793</u>
LIABILITIES:				
Accounts payable and accrued expenses	\$ 1,559,799	\$ 123,427	\$ -	\$ 1,683,226
Derivative financial instruments	686,085			686,085
Funds held for others	3,625,308			3,625,308
Obligations related to deferred gifts	12,341,775			12,341,775
Notes payable	7,123,366			7,123,366
	<u>25,336,333</u>	<u>123,427</u>	<u>-</u>	<u>25,459,760</u>
NET ASSETS:				
Unrestricted	33,997,268	1,779,638	(2,425,811)	33,351,095
Temporarily restricted	293,560,214			293,560,214
Permanently restricted	294,075,724			294,075,724
	<u>621,633,206</u>	<u>1,779,638</u>	<u>(2,425,811)</u>	<u>620,987,033</u>
	<u>\$ 646,969,539</u>	<u>\$ 1,903,065</u>	<u>\$ (2,425,811)</u>	<u>\$ 646,446,793</u>

THE UNIVERSITY OF GEORGIA FOUNDATION

CONSOLIDATING SCHEDULE OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

	UGA Foundation	Costa Rica Entity	Eliminations	Consolidated
CHANGES IN UNRESTRICTED NET ASSETS:				
Revenues and gains:				
Rental income	\$ 669,237	\$ -	\$ -	\$ 669,237
Contributions	407,050			407,050
Royalties:				
Affinity card	160,107			160,107
Logo licensing	473,364			473,364
Net realized and unrealized gain on investments	889,060			889,060
Net realized gain on sale of real property				
Interest and dividends	645,761			645,761
Other income — net	<u>1,802,848</u>	<u>763,686</u>		<u>2,566,534</u>
Total unrestricted revenues and gains	5,047,427	763,686	-	5,811,113
Net assets released from restrictions, satisfaction of program restrictions				
	<u>31,561,469</u>			<u>31,561,469</u>
Total unrestricted revenues, gains, and other support	<u>36,608,896</u>	<u>763,686</u>	-	<u>37,372,582</u>
EXPENSES:				
Donor restricted program support	15,420,474			15,420,474
Scholarships	6,049,549			6,049,549
Direct program support	2,016,609			2,016,609
General operations:				
Alumni Association	2,150,267			2,150,267
Administrative Services	505,469			505,469
University Services	250,000			250,000
Foundation Board	114,234			114,234
Development and External Affairs				
Management and investment fees	13,329			13,329
Interest expense — net	1,144,009			1,144,009
Distributions to beneficiaries	302,803			302,803
Other expenses		<u>857,269</u>		<u>857,269</u>
Total expenses	<u>27,966,743</u>	<u>857,269</u>	-	<u>28,824,012</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS				
	<u>8,642,153</u>	<u>(93,583)</u>	-	<u>8,548,570</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:				
Contributions	11,435,504			11,435,504
Net realized and unrealized gain on investments	(35,569,945)			(35,569,945)
Interest and dividends	7,810,182			7,810,182
Other income — net	734,612			734,612
Transfer of funds to permanently restricted net assets	(847,121)			(847,121)
Net assets released from restrictions	<u>(31,561,469)</u>			<u>(31,561,469)</u>
Decrease in temporarily restricted net assets	<u>(47,998,237)</u>	-	-	<u>(47,998,237)</u>

(Continued)

THE UNIVERSITY OF GEORGIA FOUNDATION

CONSOLIDATING SCHEDULE OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

	UGA Foundation	Costa Rica Entity	Eliminations	Consolidated
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:				
Contributions	\$ 9,329,003	\$ -	\$ -	\$ 9,329,003
Interest and dividends	600,376			600,376
Increase in cash surrender value of life insurance	81,086			81,086
Adjustments to annuities payable	(91,454)			(91,454)
Distributions to beneficiaries	(1,027,359)			(1,027,359)
Transfer of funds from temporarily restricted net assets	847,121			847,121
Other income — net	<u>(581,590)</u>			<u>(581,590)</u>
Increase in permanently restricted net assets	<u>9,157,183</u>	<u>-</u>	<u>-</u>	<u>9,157,183</u>
INCREASE (DECREASE) IN NET ASSETS	(30,198,901)	(93,583)	-	(30,292,484)
NET ASSETS:				
Beginning of year	658,470,942	2,079,057	(2,242,515)	658,307,484
Transfer of Net Assets of Real Estate Foundation	(6,638,835)			(6,638,835)
Foreign Currency Adjustment		(389,132)		(389,132)
Capital contributed		<u>183,296</u>	<u>(183,296)</u>	
End of year	<u>\$ 621,633,206</u>	<u>\$ 1,779,638</u>	<u>\$ (2,425,811)</u>	<u>\$ 620,987,033</u>

(Concluded)