

# ***The University of Georgia Foundation***

*Consolidated Financial Statements as of and  
for the Years Ended June 30, 2006 and 2005,  
Supplemental Consolidating Schedules as of  
and for the Year Ended June 30, 2006, and  
Independent Auditors' Report*

# THE UNIVERSITY OF GEORGIA FOUNDATION

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Deloitte & Touche LLP  
Suite 1500  
191 Peachtree Street NE  
Atlanta, Georgia 30303  
USA

Tel: +1 404 220 1500  
www.deloitte.com

## INDEPENDENT AUDITORS' REPORT

To 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, 2006 and 2005, 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 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, 2006 and 2005, 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.

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*

October 20, 2006

# THE UNIVERSITY OF GEORGIA FOUNDATION

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION JUNE 30, 2006 AND 2005

	2006	2005
ASSETS:		
Cash and cash equivalents	\$ 7,111,948	\$ 12,330,672
Temporary investments	41,161,597	52,415,674
Receivables—net:		
Accounts	927,594	857,171
Contributions	20,643,350	30,913,365
Notes	77,689	87,671
Accrued interest	1,898,993	1,033,857
Related party	40,082	1,194,100
Prepaid expenses and other assets	344,481	220,769
Investment securities	473,252,024	408,440,582
Bond proceeds restricted for construction, debt service, and reserves	11,510,935	19,835,296
Operating funds held by trustee	2,448,341	3,142,384
Investment in:		
Real property—net of accumulated depreciation of \$14,597,874 and \$9,210,224	201,424,240	183,271,418
Construction in progress	4,394	15,823,919
Works of art	2,302,916	2,299,430
Furniture, fixtures, and equipment—net of accumulated depreciation of \$768,266 and \$656,032	121,293	243,231
Cost of bond issuance—net of accumulated amortization of \$930,207 and \$650,722	4,818,887	5,146,064
Cash value of life insurance policies	<u>1,558,945</u>	<u>1,410,682</u>
 Total assets	 <u>\$ 769,647,709</u>	 <u>\$ 738,666,285</u>
LIABILITIES:		
Accounts payable and accrued expenses	\$ 5,235,474	\$ 7,119,295
Funds held for others	3,266,488	5,126,247
Obligations related to deferred gifts	11,291,219	13,243,328
Bonds payable	190,515,024	197,683,914
Credit agreements	12,111,334	12,969,257
Notes payable	<u>2,239,012</u>	<u>2,367,300</u>
 Total liabilities	 224,658,551	 238,509,341
NET ASSETS:		
Unrestricted	19,754,669	12,227,850
Temporarily restricted	261,833,729	238,332,497
Permanently restricted	<u>263,400,760</u>	<u>249,596,597</u>
 Total net assets	 <u>544,989,158</u>	 <u>500,156,944</u>
	<u>\$ 769,647,709</u>	<u>\$ 738,666,285</u>

See notes to consolidated financial statements.

# THE UNIVERSITY OF GEORGIA FOUNDATION

## CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
CHANGES IN UNRESTRICTED NET ASSETS:		
Revenues and gains:		
Rental income	\$ 17,241,077	\$ 15,491,584
Contributions	1,132,425	2,038,980
Royalties:		
Affinity card	1,879,060	733,334
Logo licensing	836,882	780,029
Net realized and unrealized gain on investments	1,849,946	1,281,319
Interest and dividends	1,210,100	275,876
Other income—net	<u>1,699,204</u>	<u>2,330,159</u>
Total unrestricted revenues and gains	25,848,694	22,931,281
Net assets released from restrictions, satisfaction of program restrictions	<u>25,833,348</u>	<u>27,408,626</u>
Total unrestricted revenues, gains, and other support	51,682,042	50,339,907
EXPENSES:		
Donor restricted program support	15,955,325	16,817,686
Scholarships	5,515,309	5,432,676
Direct program support	1,538,226	1,895,109
Real Estate Foundation project expenses	8,442,074	7,657,287
General operations:		
Alumni Association	1,660,496	1,468,618
Administrative Services	378,635	668,448
University Services	250,000	
Foundation Board	85,862	316,566
Development and External Affairs	262,795	562,041
Archway to Excellence Campaign		286,812
Real Estate Foundation general and administrative	728,835	1,330,886
Management and investment fees	103,154	54,293
Interest expense	8,439,683	7,725,849
Distributions to beneficiaries	338,583	1,085,695
Other expenses	<u>456,246</u>	<u>324,431</u>
Total expenses	<u>44,155,223</u>	<u>45,626,397</u>
Increase in unrestricted net assets	7,526,819	4,713,510

(Continued)

# THE UNIVERSITY OF GEORGIA FOUNDATION

## CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	\$ 2,804,559	\$ 20,953,772
Net realized and unrealized gain on investments	39,857,931	34,076,184
Interest and dividends	6,028,664	3,548,644
Other income—net	1,256,281	3,540,111
Transfer of funds (to) from permanently restricted net assets	(612,855)	676,039
Net assets released from restrictions	<u>(25,833,348)</u>	<u>(27,408,626)</u>
Increase in temporarily restricted net assets	<u>23,501,232</u>	<u>35,386,124</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	10,981,492	10,236,901
Interest and dividends	523,484	37,748
Increase in cash surrender value of life insurance	155,980	119,927
Adjustments to annuities payable	2,034,147	255,484
Distributions to beneficiaries	(694,255)	(2,474,102)
Transfer of funds from (to) temporarily restricted net assets	612,855	(676,039)
Other income—net	<u>190,460</u>	<u>894,637</u>
Increase in permanently restricted net assets	<u>13,804,163</u>	<u>8,394,556</u>
INCREASE IN NET ASSETS	44,832,214	48,494,190
NET ASSETS:		
Beginning of year	<u>500,156,944</u>	<u>451,662,754</u>
End of year	<u>\$ 544,989,158</u>	<u>\$ 500,156,944</u>

See notes to consolidated financial statements.

(Concluded)

# THE UNIVERSITY OF GEORGIA FOUNDATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
OPERATING ACTIVITIES:		
Increase in net assets	\$ 44,832,214	\$ 48,494,190
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Contributions restricted for long-term investment	(10,981,492)	(10,236,901)
Net realized and unrealized gain on investments	(41,707,877)	(35,357,503)
Net gain on sales of real estate and personal property	(231,672)	(362,379)
Net realized and unrealized (gain) loss on derivative financial instruments	(127,825)	11,390
Depreciation	5,833,163	5,448,303
Net amortization of bond premium and costs of issuance	238,287	202,992
Interest and dividends restricted for long-term investment	(523,484)	(37,748)
Actuarial (gain) loss on deferred gift obligations	(1,272,310)	3,645,376
Donated property	(109,962)	(58,599)
Changes in:		
Accounts, notes, accrued interest, and related party receivable	228,441	(340,626)
Prepaid expenses and other assets	126,113	(104,170)
Contributions receivable	10,270,015	(4,511,361)
Accounts payable and accrued expenses	(393,289)	606,610
Funds held for others	(1,859,759)	(6,043,264)
Net cash provided by operating activities	4,320,563	1,356,310
INVESTING ACTIVITIES:		
Capital expenditures	(13,289,175)	(21,674,714)
Change in restricted funds held by trustee	9,018,404	19,468,989
Proceeds from sale of investments	80,813,154	70,495,063
Purchase of investments	(92,662,642)	(74,196,187)
Proceeds from sale of real estate, personal property, and works of art	4,092,269	7,471,871
Purchase of derivative financial instrument	(122,000)	(91,000)
Increase in cash value of life insurance policies	(148,263)	(51,195)
Net cash (used in) provided by investing activities	(12,298,253)	1,422,827
FINANCING ACTIVITIES:		
Proceeds from contributions restricted for:		
Investment in permanently restricted endowments	10,832,627	9,831,201
Investments subject to annuity agreements	148,865	405,700
Total proceeds from contributions restricted	10,981,492	10,236,901
Interest and dividends restricted for long-term investment	523,484	37,748
Payments on deferred gift obligations	(679,799)	(3,291,260)
Principal repayment on bonds payable	(7,080,000)	(1,630,000)
Cost of bond issuance	(857,923)	(31,007)
Net repayments on credit agreements	(857,923)	(863,913)
Net (repayments) borrowings on notes payable	(128,288)	179,016
Net cash provided by financing activities	2,758,966	4,637,485
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,218,724)	7,416,622
CASH AND CASH EQUIVALENTS:		
Beginning of year	12,330,672	4,914,050
End of year	\$ 7,111,948	\$ 12,330,672
SUPPLEMENTAL DISCLOSURES:		
Cash paid during the year for interest—net of capitalized amounts of \$595,691 and \$1,431,109	\$ 8,680,472	\$ 7,881,509
Change in accrued expenses for capital expenditures	(1,490,532)	(1,865,113)
Change in accrued expenses for rent obligations	152,453	527,305

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, 2006 AND 2005

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### 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 provides the bank with certain rights upon the termination of the cooperative organization agreement discussed above. The Real Estate Foundation is currently under a forbearance agreement with the bank whereby the bank agrees not to exercise their termination event rights until July 31, 2007. The termination event rights and the forbearance agreement are more fully discussed in Note 5.

In February 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 outstanding bond debt. As of October 20, 2006, the anticipated date of ruling from the Internal Revenue Service is unknown. Upon receipt of an acceptable ruling, the bylaws of the Foundation and Real Estate Foundation will be amended to reflect the transfer of sole membership. Also at that time, the Foundation’s guarantee of the Real Estate Foundation’s revolving credit agreement will be replaced by a guarantee from the Research 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 consolidated 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, 2006 and 2005, the cash amounts included \$1,326,439 and \$1,726,218, respectively, reserved for debt service and \$553,698 and \$410,393, respectively, reserved for estimated repairs and replacement of real property. As of June 30, 2006, the cash amounts also included \$400,000 reserved for general operations and \$292,774 reserved for estimated reorganization costs associated with the transfer of sole membership.

***Investments***—Investments in common trust funds and securities with an established market value are carried at market value. 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, 2006, the temporary investment amounts included \$1,460,710 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, 2006 and 2005, the operating funds held by trustee include \$806,461 and \$588,147, respectively, reserved for debt service and \$822,334 and \$410,667, 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, 2006 and 2005, capitalized interest, net of interest earned, amounted to \$450,474 and \$952,241, 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 when events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Any impairment losses are reported in the period in which the recognition criteria are first 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 variable rate 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, 2006 and 2005, was 4.8% 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 on 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. The cost of services provided by the University approximated \$2,552,000 and \$5,942,000 for the years ended June 30, 2006 and 2005, 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, 2006 and 2005, the administrative fees charged were \$4,209,167 and \$2,994,455, respectively. This fee is calculated quarterly based on a graduated rate structure (from 0.0005 to 0.0015) for nonendowed funds and a flat rate for endowed accounts of 0.0025 and 0.001875 for 2006 and 2005, respectively. The applicable rate is applied to each restricted fund's average fund balance as of the end of each quarter.

**Estimates in the 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 to conform to the current period presentation.

### 3. CONTRIBUTIONS RECEIVABLE

Contributions receivable of unconditional promises to give at June 30, 2006 and 2005, consist of the following:

	<b>2006</b>	<b>2005</b>
Contributions receivable	\$ 27,883,626	\$ 39,048,072
Less allowance for uncollectible contributions	(4,253,945)	(5,452,549)
Less amount representing interest (5.2% and 4.2% at June 30, 2006 and 2005, respectively)	<u>(2,986,331)</u>	<u>(2,682,158)</u>
Net contributions receivable	<u>\$ 20,643,350</u>	<u>\$ 30,913,365</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 external factors including other entities that support the University. Contributions receivable as of June 30, 2006, are due as follows:

In less than one year	\$ 5,271,940
In one to five years	18,630,330
Beyond five years	<u>3,981,356</u>
Total	<u>\$ 27,883,626</u>

### 4. INVESTMENT SECURITIES

The market value of investment securities at June 30, 2006 and 2005, is as follows:

	<b>2006</b>	<b>2005</b>
Treasury notes	\$ 852,747	\$ 726,907
Managed cash funds	172,451	158,457
Mutual funds	1,267,232	1,164,501
Common stocks	7,203,604	4,130,055
Bonds	879,477	1,026,947
Split-interest investments	15,027,655	14,845,294
Long-term investment pool	<u>447,848,858</u>	<u>386,388,421</u>
Total	<u>\$ 473,252,024</u>	<u>\$ 408,440,582</u>

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.

As of June 30, 2005, the long-term investment pool consists of investments in domestic and international equities (70.6%), fixed income instruments (10.0%), private equity investments (5.4%), real estate funds (6.2%), hedge funds (7.5%), and deposits (0.3%) that are held by outside investment managers.

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

## 5. BONDS PAYABLE, CREDIT AGREEMENTS, AND NOTES PAYABLE

At June 30, 2006 and 2005, the summary of borrowings is as follows:

	2006	2005
\$25,620,000 bond issue—par value of bonds outstanding	\$ 19,820,000	\$ 24,075,000
<p>\$39,155,000 bond issue:</p>		
Par value of bonds outstanding	37,655,000	38,415,000
Bond premium—net of accumulated amortization of \$28,397 and \$20,871	<u>121,888</u>	<u>129,414</u>
Total \$39,155,000 bonds payable	37,776,888	38,544,414
<p>\$99,860,000 bond issue:</p>		
Par value of bonds outstanding	97,910,000	99,735,000
Bond premium—net of accumulated amortization of \$335,949 and \$239,333	<u>1,618,602</u>	<u>1,715,218</u>
Total \$99,860,000 bonds payable	99,528,602	101,450,218
<p>\$8,215,000 bond issue:</p>		
Par value of bonds outstanding	7,655,000	7,895,000
Bond discount—net of accumulated amortization of \$21,298 and \$14,371	<u>(86,211)</u>	<u>(93,138)</u>
Total \$8,215,000 bonds payable	7,568,789	7,801,862
<p>\$25,970,000 bond issue:</p>		
Par value of bonds outstanding	25,970,000	25,970,000
Bond discount—net of accumulated amortization of \$17,538 and \$9,213	<u>(149,255)</u>	<u>(157,580)</u>
Total \$25,970,000 bonds payable	<u>25,820,745</u>	<u>25,812,420</u>
Total bonds payable	<u>\$ 190,515,024</u>	<u>\$ 197,683,914</u>
\$50,000,000 revolving credit agreement	<u>\$ 12,111,334</u>	<u>\$ 12,969,257</u>
\$1,800,000 note payable	\$ 1,179,250	\$ 1,268,250
\$1,117,865 note payable	<u>1,059,762</u>	<u>1,099,050</u>
Total notes payable	<u>\$ 2,239,012</u>	<u>\$ 2,367,300</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. The Foundation has

guaranteed certain obligations, including the letter of credit, under the Real Estate Foundation's \$50 million revolving credit agreement. 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 (3.99% and 2.29% at June 30, 2006 and 2005, respectively). The loan matures in 2031, subject to certain early repayment provisions. During the years ended June 30, 2006 and 2005, principal payments of \$4,255,000 and \$535,000, respectively, were made.

During 2003, the Real Estate Foundation entered into an interest rate swap agreement effectively changing the interest rate exposure on the 2001 Loan Agreement from variable to a 1.75% fixed rate until February 1, 2005. During the year ended June 30, 2005, this swap agreement expired, and the related gain on the fair value of the derivative of \$48,489 was reflected in interest expense.

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, 2006 and 2005 was \$102,506 and \$58,311, respectively, and was recorded as an asset in accordance with SFAS No. 133. The Real Estate Foundation recorded a gain of \$44,195 and a loss of \$32,689 on the fair value of the derivative for the years ended June 30, 2006 and 2005, 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, 2006 and 2005, principal payments of \$760,000 and \$740,000, 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 year ended June 30, 2006, a principal payment of \$1,825,000 was made. During the year ended June 30, 2005, a prepayment of principal in the amount of \$125,000 was made based on surplus bond proceeds as required under the bond agreement.

***\$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, 2006 and 2005, principal payments of \$240,000 and \$230,000, 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, 2006 and 2005, 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.

***\$50,000,000 Revolving Credit Agreement***—During 2002, the Real Estate Foundation established a \$50 million revolving credit agreement with a bank, which was later increased to a limit of \$75 million during the year ended June 30, 2005, and then decreased to \$50 million during the year ended June 30, 2006. The agreement expires on November 30, 2007. The revolving credit agreement provides for direct 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, 2006 and 2005, amounts outstanding or issued under this agreement included borrowings of \$12,111,334 and \$12,969,257, respectively, and letters of credit and bank credit reserves of \$20,264,347 and \$24,519,347, respectively, resulting in \$17,624,319 and \$37,511,396, 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 32-1/2 basis points (or 0.325%). At

June 30, 2006 and 2005, the rates applicable to the borrowings were 5.454% and 3.465%, respectively. The Foundation has guaranteed certain obligations of the Real Estate Foundation under this revolving credit agreement.

The revolving credit agreement provides the bank with certain rights after a 90-day forbearance period from the date of the termination of the cooperative organization agreement discussed in Note 1. The cooperative service agreement was terminated on July 1, 2005. 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 with the bank, which has been amended to expire on July 31, 2007. During the forbearance period, the bank agrees not to call any borrowings or letters of credit and to continue to make loans as long as the conditions of the revolving credit agreement and the forbearance agreement are met. The balance of borrowings and letters of credit as of June 30, 2006, that is callable by the bank after the forbearance period is \$12,390,969 and is included in the total principal payments due during the year ending June 30, 2008, as disclosed below.

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, 2006 was \$124,097 and was recorded as an other asset in accordance with SFAS No. 133. The Real Estate Foundation recorded a gain of \$2,097 on the fair value of the derivative for the year ended June 30, 2006, as an adjustment to interest expense.

***\$1,900,000 Credit Agreement***—During 2003, the Real Estate Foundation established a \$1.9 million credit agreement with a bank. The credit agreement provided for direct borrowings for the purchase and improvement of a property in Cortona, Italy. During the year ended June 30, 2005, this line of credit was repaid using funds from the \$50 million revolving credit agreement described previously.

***\$300,000 Credit Agreement***—During 2003, the Foundation established a \$0.3 million credit agreement with a bank. The credit agreement provided for direct borrowings for the purchase and improvement of a property in Costa Rica. During the year ended June 30, 2005, this line of credit was repaid using funds from the \$1,117,865 note described below.

***\$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, 2006 and 2005, \$1,179,250 and \$1,268,250, 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, 2007. At June 30, 2006 and 2005, \$1,059,762 and \$1,099,050, respectively, was outstanding under this agreement. Interest is charged at the bank's 30-day LIBOR rate plus .45%, or 5.56% and 3.56% at June 30, 2006 and 2005, respectively. Principal and interest are payable monthly.

At June 30, 2005, the Foundation had an outstanding interest rate swap agreement effectively changing the interest rate exposure on the \$1,117,865 note payable from variable to a 5.9% fixed rate through December 2004 and a 5.75% fixed rate thereafter over the term of the note payable. As of June 30, 2006,

the fair value of the termination benefit of the interest rate swap was \$14,488 and was recorded as an asset in accordance with SFAS No. 133. As of June 30, 2005, the fair value of the termination cost of the interest rate swap was \$67,045 and was recorded as a liability in accordance with SFAS No. 133. The Foundation recorded a gain of \$81,533 and a loss of \$27,190 for the years ended June 30, 2006 and 2005, respectively, as an adjustment to interest expense.

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

<b>Years Ending June 30</b>	
2007	\$ 4,513,762
2008	27,075,895
2009	3,684,000
2010	3,784,000
2011	3,914,000
Thereafter	<u>160,388,689</u>
Total	<u>\$ 203,360,346</u>

The bonds payable, credit agreements, and notes payable require the Foundation and Real Estate Foundation to meet certain covenants. At June 30, 2006 and 2005, the Foundation and Real Estate Foundation were in compliance with all covenants.

## **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 \$15,027,655 and \$14,845,294 at June 30, 2006 and 2005, respectively. Estimated future annual principal payments on deferred gift obligations at June 30, 2006, are as follows:

<b>Years Ending June 30</b>	
2007	\$ 515,155
2008	533,273
2009	552,116
2010	563,046
2011	583,426
Thereafter	<u>10,365,307</u>
	13,112,323
Less amount representing interest (rates ranging from 5.11% to 5.31%)	<u>(1,821,104)</u>
Total	<u>\$ 11,291,219</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.

***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 \$192,430,329 and \$211,443,856 as of June 30, 2006 and 2005, respectively, compared to the recorded balance of \$190,515,024 and \$197,683,914, 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, 2006 and 2005, was \$673,249 and \$841,811, 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 \$3,830 per month. Total rent expense for the years ended June 30, 2006 and 2005, was \$49,226 and \$44,907, 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, 2006 and 2005, rent expense has been recognized on a straight-line basis in the amount of \$648,387 and \$501,274, respectively, and a straight-line lease liability of \$633,248 and \$501,274, respectively, is included in accrued liabilities as of June 30, 2006 and 2005.

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, 2006 and 2005, rent expense has been recognized on a straight-line basis in the amount of \$436,053 and \$403,693, respectively, and a straight-line lease liability of \$46,510 and \$26,031, respectively, is included in accrued liabilities as of June 30, 2006 and 2005.

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, 2006:

<b>Years Ending June 30</b>	
2007	\$ 1,382,687
2008	1,423,970
2009	1,418,564
2010	1,083,625
2011	1,101,729
Thereafter	<u>3,923,145</u>
Total	<u>\$ 10,333,720</u>

## **9. RELATED PARTY TRANSACTIONS**

The Foundation has leased real property that has a total carrying value of \$3,388,678 and \$3,455,889 as of June 30, 2006 and 2005, respectively, to the Board of Regents. Under these leases, rental income of \$282,680 and \$260,674 was recorded in 2006 and 2005, respectively. The Board of Regents has signed lease agreements that expire on June 30, 2007. The lease agreements provide for renewal terms with increases to lease payments of 3% to 4% annually.

During the years ended June 30, 2006 and 2005, the University reimbursed the Foundation \$97,765 and \$224,115, respectively, for reimbursable expenses. As of June 30, 2005, the amounts due from related party include reimbursable expenses of \$204,294, which was received during 2006. There were no uncollected reimbursable expenses as of June 30, 2006.

The Real Estate Foundation has leased real property that has a total historical cost of \$167,172,519 and \$148,628,982 as of June 30, 2006 and 2005, respectively, to the Board of Regents. The Real Estate Foundation has also subleased space under operating leases to the Board of Regents. Under these leases, rental income of \$14,651,124 and \$13,340,644 was recorded in 2006 and 2005, respectively. The Board of Regents has signed lease agreements, which are renewable on an annual basis. As of June 30, 2005, amounts due from related party included rent of \$40,011, which was received during 2006. There was no uncollected rent as of June 30, 2006.

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 \$171,333 and \$61,250 was recorded in 2006 and 2005, respectively.

During the years ended June 30, 2006 and 2005, the Real Estate Foundation recorded \$599,163 and \$516,385, respectively, for reimbursable expenses and \$41,123 and \$1,982,605, respectively, for reimbursable project costs from the Board of Regents. As of June 30, 2006 and 2005, the amounts due from related party included reimbursable expenses and project costs from the Board of Regents of \$40,082 and \$324,962, respectively.

During the year ended June 30, 2005, the Real Estate Foundation sold four properties to the Board of Regents for net proceeds of \$5,118,277 resulting in a gain on sale of \$38,333. At the time of the sale, the University agreed to reimburse the Real Estate Foundation for certain improvements on the four properties sold. As of June 30, 2005, the amounts due from related party included \$624,833 of improvements to be reimbursed, which was received during 2006.

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.

The Real Estate Foundation leases the use of land from the Board of Regents where 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 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 the year ended June 30, 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, 2006 and 2005, the Real Estate Foundation received \$28,139 and \$27,319, 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. A liability for these funds was recorded because the Research Foundation had ultimate control over the use of the assets and had the ability to request that all funds be returned to the Research Foundation at any time. During the year ended June 30, 2006, the Research Foundation withdrew its remaining balance of \$2,332,348 from the Foundation. As of June 30, 2005, the total value of funds held for the Research Foundation, including investment earnings, was \$2,220,886.

Since 2001, the University of Georgia Athletic Association (the "Athletic Association") has transferred funds to the Foundation for investment management. A liability for the funds was recorded because the Athletic Association has ultimate control over the use of the assets and has the ability to request that all funds be returned to the Athletic Association at any time. As of June 30, 2006 and 2005, the total value of the funds held for the Athletic Association, including investment earnings, was \$2,555,872 and \$2,273,308, respectively.

During the year ended June 30, 2005, the Foundation paid \$302,516 to the University to supplement the compensation of the President of the University. This amount is shown as direct program support on the consolidated statements of activities. No such payments were made during the year ended June 30, 2006.

In previous years, the Foundation funded deferred compensation to benefit the President of the University. As of June 30, 2006 and 2005, the value of deferred compensation is \$710,616 and \$632,053, respectively, and includes net earnings from the Foundation's long-term investment pool. This deferred compensation is fully vested and is included with funds held for others on the consolidated statements of financial position.

During the years ended June 30, 2006 and 2005, the Foundation transferred \$15,834,191 and \$14,635,504, respectively, to the University for scholarships and donor restricted support. As of June 30, 2006 and 2005, outstanding transfers of \$768,702 and \$528,194, respectively, were due to the University. During the years ended June 30, 2006 and 2005, the Foundation transferred \$1,430,482 and \$1,195,820, respectively, to the Athletic Association for donor restricted support. As of June 30, 2006 and 2005, there were no outstanding transfers due to the Athletic Association.

The Real Estate Foundation has agreements to provide compensation and benefits for certain executives. During the year ended June 30, 2005, one of its executives was terminated and paid a lump sum of \$304,090 under a separation agreement. This executive was also paid consulting fees of \$36,800 after termination during the year ended June 30, 2005. As of June 30, 2006, there is one outstanding employment agreement, which provides for severance payments of six months of compensation and benefits, if employment ceases under certain circumstances, and provisions for a one-time bonus of \$90,675.

#### **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, 2006 and 2005, the Real Estate Foundation made employer contributions to the plan of \$27,730 and \$42,940, respectively. During the years ended June 30, 2006 and 2005, \$35 and \$12,323, respectively, of forfeited employer contributions from previous years were used to fund current employer contributions. As of June 30, 2005, forfeited amounts totaling \$775 were available to fund future employer contributions. As of June 30, 2006, all prior-year forfeited amounts have been used.

#### **12. SUBSEQUENT EVENT**

On September 29, 2006, the Real Estate Foundation sold a property for net proceeds of \$14,094,983. As of June 30, 2006, the recorded balance of this property is \$10,505,894 with related bond debt of \$11,390,561.

\* \* \* \* \*

**SUPPLEMENTAL CONSOLIDATING SCHEDULES OF  
SELECTED FINANCIAL DATA**

THE UNIVERSITY OF GEORGIA FOUNDATION

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

JUNE 30, 2006

	UGA Foundation	UGA Real Estate Foundation	Costa Rica Entity	Eliminations	Consolidated
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 1,423,431	\$ 5,616,946	\$ 71,607	\$ (36)	\$ 7,111,948
Temporary investments	39,700,887	1,460,710			41,161,597
Receivables—net:					
Accounts	912,306	11,962	3,326		927,594
Contributions	20,643,350				20,643,350
Notes	77,689				77,689
Accrued interest	1,847,154	51,839			1,898,993
Related party		40,082			40,082
Prepaid expenses and other assets	98,225	237,492	8,764		344,481
Investment securities	473,252,024	221,962		(221,962)	473,252,024
Bond proceeds—restricted		11,510,935			11,510,935
Operating funds held by trustee		2,448,341			2,448,341
Investment in:					
Real property	20,689,654	180,734,586	1,690,268	(1,690,268)	201,424,240
Construction in progress		4,394			4,394
Works of art	2,302,916				2,302,916
Furniture, fixtures, and equipment	885	76,211	44,197		121,293
Cost of bond issuance		4,818,887			4,818,887
Cash value of life insurance policies	1,558,945				1,558,945
	<u>\$ 562,507,466</u>	<u>\$ 207,234,347</u>	<u>\$ 1,818,162</u>	<u>\$ (1,912,266)</u>	<u>\$ 769,647,709</u>
<b>LIABILITIES:</b>					
Accounts payable and accrued expenses	\$ 1,642,877	\$ 3,469,754	\$ 1,029,062	\$ (906,219)	\$ 5,235,474
Funds held for others	3,488,450			(221,962)	3,266,488
Obligations related to deferred gifts	11,291,219				11,291,219
Bonds payable		190,515,024			190,515,024
Credit agreements		12,111,334			12,111,334
Notes payable	2,239,012				2,239,012
Total liabilities	18,661,558	206,096,112	1,029,062	(1,128,181)	224,658,551
<b>NET ASSETS:</b>					
Unrestricted	18,611,419	1,138,235	789,100	(784,085)	19,754,669
Temporarily restricted	261,833,729				261,833,729
Permanently restricted	263,400,760				263,400,760
Total net assets	543,845,908	1,138,235	789,100	(784,085)	544,989,158
	<u>\$ 562,507,466</u>	<u>\$ 207,234,347</u>	<u>\$ 1,818,162</u>	<u>\$ (1,912,266)</u>	<u>\$ 769,647,709</u>

THE UNIVERSITY OF GEORGIA FOUNDATION

CONSOLIDATING SCHEDULE OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006

	UGA Foundation	UGA Real Estate Foundation	Costa Rica Entity	Eliminations	Consolidated
CHANGES IN UNRESTRICTED NET ASSETS:					
Revenues and gains:					
Rental income	\$ 325,736	\$ 16,915,341	\$	\$	\$ 17,241,077
Contributions	1,132,425				1,132,425
Royalties:					
Affinity card	1,879,060				1,879,060
Logo licensing	836,882				836,882
Net realized and unrealized gain on investments	1,830,772	19,174			1,849,946
Interest and dividends	782,198	427,902			1,210,100
Other income—net	792,244	627,337	391,558	(111,935)	1,699,204
	<u>7,579,317</u>	<u>17,989,754</u>	<u>391,558</u>	<u>(111,935)</u>	<u>25,848,694</u>
Total unrestricted revenues and gains					
Net assets released from restrictions, satisfaction of program restrictions	25,833,348				25,833,348
	<u>33,412,665</u>	<u>17,989,754</u>	<u>391,558</u>	<u>(111,935)</u>	<u>51,682,042</u>
Total unrestricted revenues, gains, and other support					
EXPENSES:					
Donor restricted program support	15,955,325				15,955,325
Scholarships	5,515,309				5,515,309
Direct program support	1,538,226				1,538,226
Real Estate Foundation project expenses		8,442,074			8,442,074
General operations:					
Alumni Association	1,660,496				1,660,496
Administrative Services	378,635				378,635
University Services	250,000				250,000
Foundation Board	85,862				85,862
Development and External Affairs	262,795				262,795
Archway to Excellence Campaign					
Real Estate Foundation general and administrative		828,835		(100,000)	728,835
Management and investment fees	103,154				103,154
Interest expense	69,711	8,369,972			8,439,683
Distributions to beneficiaries	338,583				338,583
Other expenses			456,246		456,246
	<u>26,158,096</u>	<u>17,640,881</u>	<u>456,246</u>	<u>(100,000)</u>	<u>44,155,223</u>
Total expenses					
Increase (decrease) in unrestricted net assets	7,254,569	348,873	(64,688)	(11,935)	7,526,819

(Continued)

THE UNIVERSITY OF GEORGIA FOUNDATION

CONSOLIDATING SCHEDULE OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006

	UGA Foundation	UGA Real Estate Foundation	Costa Rica Entity	Eliminations	Consolidated
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:					
Contributions	\$ 2,804,559	\$	\$	\$	\$ 2,804,559
Net realized and unrealized gain on investments	39,857,931				39,857,931
Interest and dividends	6,028,664				6,028,664
Other income—net	1,256,281				1,256,281
Transfer of funds to permanently restricted net assets	(612,855)				(612,855)
Net assets released from restrictions	(25,833,348)				(25,833,348)
	<u>23,501,232</u>				<u>23,501,232</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:					
Contributions	10,981,492				10,981,492
Interest and dividends	523,484				523,484
Increase in cash surrender value of life insurance	155,980				155,980
Adjustments to annuities payable	2,034,147				2,034,147
Distributions to beneficiaries	(694,255)				(694,255)
Transfer of funds from temporarily restricted net assets	612,855				612,855
Other income—net	190,460				190,460
	<u>13,804,163</u>				<u>13,804,163</u>
INCREASE (DECREASE) IN NET ASSETS	44,559,964	348,873	(64,688)	(11,935)	44,832,214
NET ASSETS:					
Beginning of year	<u>499,285,944</u>	<u>789,362</u>	<u>853,788</u>	<u>(772,150)</u>	<u>500,156,944</u>
End of year	<u>\$ 543,845,908</u>	<u>\$ 1,138,235</u>	<u>\$ 789,100</u>	<u>\$ (784,085)</u>	<u>\$ 544,989,158</u>

(Concluded)