

# **THE UNIVERSITY OF GEORGIA**

## Financial Report

For the Year Ended  
June 30, 2008

The University of Georgia

Athens, Georgia

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THE UNIVERSITY OF GEORGIA  
ANNUAL FINANCIAL REPORT  
FY 2008

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# THE UNIVERSITY OF GEORGIA

## *Management's Discussion and Analysis*

### *Introduction*

The University of Georgia is one of the 35 institutions of higher education of the University System of Georgia. The University of Georgia was incorporated by an act of the General Assembly on January 27, 1785. Georgia became the first state to charter a state-supported university.

The University of Georgia, a land-grant and sea-grant university with state-wide commitments and responsibilities, is the state's flagship institution of higher education. It is also the state's oldest, most comprehensive, and most diversified institution of higher education. Its motto, "to teach, to serve, and to inquire into the nature of things," reflects the University's integral and unique role in the conservation and enhancement of the state's and nation's intellectual, cultural, and environmental heritage. As a comprehensive land-grant and sea-grant institution, the University of Georgia offers baccalaureate, master's, doctoral and professional degrees in the arts, humanities, social sciences, biological sciences, physical sciences, agricultural and environmental sciences, business, environmental design, family and consumer sciences, forest resources, journalism and mass communication, education, law, pharmacy, social work, and veterinary medicine. A comparison of Faculty and Student numbers follow:

	<u>Faculty</u>	<u>Students (Headcount)</u>	<u>Students (FTE)</u>
FY2008	1,822	33,831	31,818
FY2007	1,848	33,959	31,987
FY2006	1,608	33,660	31,492

### *Overview of the Financial Statements and Financial Analysis*

The University of Georgia is proud to present its financial statements for fiscal year 2008. The emphasis of discussions about these statements will be on current year data. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and, the Statement of Cash Flows. This discussion and analysis of the University's financial statements provides an overview of its financial activities for the year. Comparative data is provided for FY 2008 and FY 2007.

### *Statement of Net Assets*

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The Statement of Net Assets is a point of time financial statement. The

purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of the University of Georgia. The Statement of Net Assets presents end-of-year data concerning Assets (current and non-current), Liabilities (current and non-current), and Net Assets (Assets minus Liabilities). The difference between current and non-current assets will be discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors.

Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution. Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the institution's equity in property, plant and equipment owned by the institution. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

#### Statement of Net Assets, Condensed

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
<b>Assets:</b>		
Current Assets	\$284,248,689	\$244,942,760
Capital Assets, net	1,160,318,033	1,108,970,295
Other Assets	63,023,779	73,212,196
<b>Total Assets</b>	<u>1,507,590,501</u>	<u>1,427,125,251</u>
<b>Liabilities:</b>		
Current Liabilities	120,406,694	122,049,947
Noncurrent Liabilities	167,155,107	178,728,038
<b>Total Liabilities</b>	<u>287,561,801</u>	<u>300,777,985</u>
<b>Net Assets:</b>		
Invested in Capital Assets, net of debt	1,009,701,095	947,231,389
Restricted - nonexpendable	50,137,516	47,281,351
Restricted - expendable	67,356,275	63,543,343
Capital Projects	756,840	863,501
Unrestricted	92,076,974	67,427,682
<b>Total Net Assets</b>	<u><u>\$1,220,028,700</u></u>	<u><u>\$1,126,347,266</u></u>

The total assets of the institution increased by \$80,465,250. A review of the Statement of Net Assets will reveal that the increase was primarily due to an increase of \$51,347,738 in the category of Capital Assets, net. The balance of the increase is due to \$35,336,327 higher balances in cash and cash equivalents.

The combination of the increase in total assets of \$80,465,250 and the decrease in total liabilities of (\$13,216,184) yields an increase in total net assets of \$93,681,434. The increase in total net assets is primarily in the category of Invested in Capital Assets, net of debt, in the amount of \$62,469,706.

***Statement of Revenues, Expenses and Changes in Net Assets***

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the institution, both operating and non-operating, and the expenses paid by the institution, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the institution. Generally speaking operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Non-operating revenues are revenues received for which goods and services are not provided. For example state appropriations are non-operating because they are provided by the Legislature to the institution without the Legislature directly receiving commensurate goods and services for those revenues.

**Statement of Revenues, Expenses and Changes in Net Assets, Condensed**

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Operating Revenues	\$600,026,555	\$571,632,022
Operating Expenses	<u>1,110,921,074</u>	<u>1,044,982,474</u>
Operating Loss	(510,894,519)	(473,350,452)
Nonoperating Revenues and Expenses	<u>525,466,438</u>	<u>494,708,957</u>
Income (Loss) Before other revenues, expenses, gains or losses	14,571,919	21,358,505
Other revenues, expenses, gains or losses	<u>79,109,515</u>	<u>42,170,577</u>
Increase in Net Assets	93,681,434	63,529,082
Net Assets at beginning of year, as originally reported	1,126,347,266	1,062,818,184
Prior Year Adjustments	<u>0</u>	<u>0</u>
Net Assets at beginning of year, restated	<u>1,126,347,266</u>	<u>1,062,818,184</u>
Net Assets at End of Year	<u><u>\$1,220,028,700</u></u>	<u><u>\$1,126,347,266</u></u>

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year with a \$93,681,434 increase to net assets. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

Revenue by Source  
For the Years Ended June 30, 2008 and June 30, 2007

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Operating Revenue		
Tuition and Fees	\$203,244,615	\$188,304,864
Federal Appropriations	15,395,942	12,341,315
Grants and Contracts	201,514,041	201,050,423
Sales and Services	47,404,503	43,873,579
Auxiliary	129,804,359	123,636,927
Other	2,663,095	2,424,914
Total Operating Revenue	<u>600,026,555</u>	<u>571,632,022</u>
Nonoperating Revenue		
State Appropriations	471,177,285	437,026,757
Grants and Contracts	17,346,248	16,769,344
Gifts	34,870,520	35,886,836
Investment Income	6,571,468	13,286,246
Other	7,798,838	2,552,756
Total Nonoperating Revenue	<u>537,764,359</u>	<u>505,521,939</u>
Capital Gifts and Grants		
State	43,671,987	40,110,232
Other Capital Gifts and Grants	35,437,528	2,060,345
Total Capital Gifts and Grants	<u>79,109,515</u>	<u>42,170,577</u>
Total Revenues	<u>\$1,216,900,429</u>	<u>\$1,119,324,538</u>

Expenses (By Functional Classification)  
For the Years Ended June 30, 2008 and June 30, 2007

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Operating Expenses		
Instruction	\$230,999,493	\$216,315,911
Research	286,889,193	275,723,066
Public Service	153,546,888	144,818,743
Academic Support	104,828,251	103,393,106
Student Services	32,395,645	30,497,714
Institutional Support	67,946,589	57,950,436
Plant Operations and Maintenance	98,936,420	91,393,260
Scholarships and Fellowships	14,398,059	11,503,764
Auxiliary Enterprises	120,980,536	113,386,474
Total Operating Expenses	<u>1,110,921,074</u>	<u>1,044,982,474</u>
Nonoperating Expenses		
Interest Expense (Capital Assets)	12,297,921	10,812,982
Total Expenses	<u>\$1,123,218,995</u>	<u>\$1,055,795,456</u>

Operating revenues increased by \$28,394,533 in fiscal 2008, which included \$14,939,751 net increase in tuition and fees, \$3,530,924 in sales and services, and \$6,167,432 in auxiliary revenues. While Federal grants and contracts revenues have decreased, the University experienced a slight increase overall in contracts and grants revenue due to a 16.6% increase in state grants and contracts and a 5.4% increase in private and other grants and contracts revenues.

As a result of modest fee increases and additional participation in services provided by Auxiliary units, the Auxiliary revenue increased overall by \$6,167,432 primarily as the result of a \$1,351,403 increase in Residence Hall revenues, \$925,600 increase in Food Services revenues, and \$1,454,614 increase in Health Service revenues.

Nonoperating revenues increased by \$32,242,420 for the year primarily due to an increase of \$34,150,528 in State Appropriations resulting from salary increases provided by the Governor and State Legislature. Capital Gifts and Grants increased from fiscal year 2007 to fiscal year 2008 as a result of capital improvements and additions funded by Georgia State Financing and Investment Commission (GSFIC) and the University of Georgia Athletic Association, Inc. GSFIC project funding increased slightly and the UGA Athletic Association funded the Coliseum Practice Facility which was completed during fiscal 2008.

Total operating expenses increased overall by \$65,938,600, which includes a \$44,977,909 increase in employee compensation and benefits. Operating expense in the Instruction, Research, and Public Service categories increased by \$34,577,854 with \$17,089,227 of this increase representing the addition of faculty members and annual merit increases for faculty and staff.

### ***Statement of Cash Flows***

The final statement presented by the University of Georgia is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

## Cash Flows for the Years Ended June 30, 2008 and 2007, Condensed

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Cash Provided (used) By:		
Operating Activities	(\$445,367,663)	(\$396,922,373)
Non-capital Financing Activities	524,904,812	498,264,722
Capital and Related Financing Activities	(76,191,024)	(90,257,246)
Investing Activities	<u>24,878,440</u>	<u>27,431,636</u>
Net Change in Cash	28,224,565	38,516,739
Cash, Beginning of Year	<u>185,192,492</u>	<u>146,675,753</u>
Cash, End of Year	<u><u>\$213,417,057</u></u>	<u><u>\$185,192,492</u></u>

### ***Capital Assets***

The University had a significant capital asset addition in fiscal year 2008 provided by the University of Georgia Athletic Association, Inc. The new Coliseum Practice Facility was completed and placed into service early in fiscal year 2008. This 120,000 square foot facility will provide substantial expansion of facilities for the men's and women's basketball teams and the women's gymnastics team. The Practice Facility will house separate training areas for each team including two full-length practice courts, coaches' offices, locker rooms, lounges, video assessment rooms and meeting rooms. The history of each sport is commemorated and integrated into the interior design with displays of trophies, archives, graphics and interactive kiosks.

During FY2008, the University of Georgia also had other significant capital projects that are under construction. The new Lamar Dodd School of Art facility, the Tate Student Center Expansion and integrated parking deck, a new facility for the College of Pharmacy, a new Student Learning Center in Griffin that will enable the expansion of undergraduate degree programs being delivered at that campus, a new dining facility at the Rock Eagle 4-H Center, and the University Health Center Expansion.

For additional information concerning Capital Assets, see Notes 1, 6, 8, 9 and 10 in the Notes to the Financial Statements.

### ***Long Term Debt and Liabilities***

The University of Georgia had Long-Term Debt and Liabilities of \$193,267,749 of which \$28,068,540 was reflected as current liability at June 30, 2008.

For additional information concerning Long-Term Debt and Liabilities, see notes 1 and 8 in the Notes to the Financial Statements.

### ***Component Units***

In compliance with GASB Statement No. 39, the University of Georgia has included the financial statements and notes for all required component units for FY2008. Details are available in Note 1, Summary of Significant Accounting Policies and Note 16, Component Units.

## *Economic Outlook*

During fiscal year 2008, the University continued to use its resources wisely and emphasized energy and water conservation in terms of cost containment and environmental initiatives especially as the State of Georgia experienced drought conditions throughout the year. The University worked to balance the use of modest increases in operating revenues to provide additional support for the instruction, research, and public service missions, with the need to fund significant and oftentimes uncontrollable increases in energy and health care costs. In an effort to fiscally prepare for these needs, the University directed each of its academic and administrative units to set aside 1% of their operating budget during fiscal year 2008 budget development. Another component of the University's deliberate strategy to reduce expenditures throughout the institution was the March 2008 implementation of a hiring process that requires all faculty and state-funded staff positions to be approved by a senior vice president before the position can be posted. These actions provided the University with flexibility to address increasing energy and health care costs while also providing for increases in faculty lines and instructional support. These actions allowed the University to fund the instructional needs associated with increased access to education at the University campuses in Griffin, Georgia and the graduate center in Gwinnett County.

As fiscal year 2009 begins, the University is facing declines in State of Georgia revenues, budget reduction requirements, and rising energy and health care costs. In order to address the economic changes, the University directed each academic and administrative unit to reserve 2% of their budget during the development of the University's fiscal year 2009 budget and increased this to 6% of their current budget in August 2008. Along with continuing to control hiring for new and replacement positions through the approval process that was put in place in March 2008, all vehicle purchases now require approval at the senior vice president level and all out-of-state travel requires approval by either a dean or a vice president. In addition, all University units have been directed to exercise great prudence in authorizing expenditures of a discretionary nature and to limit equipment procurement actions to only those items that are vital to the delivery of our core missions and services. As the 2009 fiscal year progresses, the University will take appropriate action to increase these reserves and to implement any additional expenditure control measures that are necessary to meet state mandated budget reductions and to protect the University's ability to provide core mission instruction, research, and public service activities.

Michael F. Adams, President  
The University of Georgia

*Statement of Net Assets*

**UNIVERSITY OF GEORGIA  
STATEMENT OF NET ASSETS  
June 30, 2008**

	<u>University of Georgia</u>	<u>Component Unit University of Georgia Foundation</u>	<u>Component Unit University of Georgia Athletic Association, Inc.</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	\$208,884,769	\$1,406,499	\$86,132,121
Short-term Investments		39,664,777	
Accounts Receivable, net (note 3)			
Receivables - Federal Financial Assistance	15,687,652		
Receivables - Other	27,622,848	2,988,077	1,225,830
Due From Component Units	20,644,955		2,839,534
Net Investment in Capital Leases			
Pledges Receivable			
Contributions Receivable		7,206,817	
Due From Primary Government			
Inventories (note 4)	5,259,729		
Prepaid items	6,148,736	78,417	203,670
Other Assets			
Total Current Assets	<u>284,248,689</u>	<u>51,344,587</u>	<u>90,401,155</u>
<b>Noncurrent Assets</b>			
Noncurrent Cash	4,532,288		3,114,876
Due from Component Units	1,649,017		
Due From Primary Government			
Investments (including Real Estate)	45,444,641	566,387,353	
Notes Receivable, net	11,397,833	57,115	
Net Investment in Capital Leases			
Contributions Receivable		12,970,206	
Pledges Receivable			
Capital Assets, net (note 6)	1,160,318,033	13,999,293	185,280,206
Other Assets		1,688,239	1,265,215
Total Noncurrent Assets	<u>1,223,341,812</u>	<u>595,102,206</u>	<u>189,660,297</u>
<b>TOTAL ASSETS</b>	<u>1,507,590,501</u>	<u>646,446,793</u>	<u>280,061,452</u>

*Statement of Net Assets, Continued*

**UNIVERSITY OF GEORGIA  
STATEMENT OF NET ASSETS  
June 30, 2008**

	<u>University of Georgia</u>	<u>Component Unit University of Georgia Foundation</u>	<u>Component Unit University of Georgia Athletic Association, Inc.</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts Payable	15,572,426	836,070	6,043,391
Salaries Payable	6,112,476		
Contracts Payable	4,983,452		
Deposits	1,371,273		
Deferred Revenue (note 7)	48,587,711		18,513,850
Other Liabilities	820,274	686,085	
Deposits Held for Other Organizations	14,335,848	785,774	
Due to Primary Government		847,156	1,946,359
Lease Purchase Obligations (current portion)	2,255,740		
Compensated Absences (current portion)	25,812,800		
Revenue/Mortgage Bonds Payable (current)			2,140,000
Due to Component Units	554,694	2,839,534	500,000
Notes and Loans Payable (current portion)		126,617	
Total Current Liabilities	<u>120,406,694</u>	<u>6,121,236</u>	<u>29,143,600</u>
<b>Noncurrent Liabilities</b>			
Due to Primary Government			1,649,017
Lease Purchase Obligations (noncurrent)	148,361,198		
Deferred Revenue (noncurrent)			
Compensated Absences (noncurrent)	16,838,011		
Revenue/Mortgage Bonds Payable (noncurrent)			93,330,000
Liabilities under Split-Interest Agreements (noncurrent)		12,341,775	
Other Long-Term Liabilities			1,265,215
Due to Component Units	1,955,898		470,588
Notes and Loans Payable (noncurrent)		6,996,749	
Total Noncurrent Liabilities	<u>167,155,107</u>	<u>19,338,524</u>	<u>96,714,820</u>
<b>TOTAL LIABILITIES</b>	<u>287,561,801</u>	<u>25,459,760</u>	<u>125,858,420</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, net of related debt	1,009,701,095	6,875,927	90,922,049
Restricted for			
Nonexpendable	50,137,516	294,075,724	
Expendable	67,356,275	293,560,214	
Capital Projects	756,840		
Unrestricted	92,076,974	26,475,168	63,280,983
<b>TOTAL NET ASSETS</b>	<u>\$1,220,028,700</u>	<u>\$620,987,033</u>	<u>\$154,203,032</u>

*Statement of Net Assets, Continued*

**UNIVERSITY OF GEORGIA  
STATEMENT OF NET ASSETS  
June 30, 2008**

	<b>Component Unit</b>	<b>Component Unit</b>
	<b>Arch Foundation for the University of Georgia, Inc.</b>	<b>University of Georgia Research Foundation, Inc.</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$25,694,119	\$22,371,760
Short-term Investments		
Accounts Receivable, net (note 3)		
Receivables - Federal Financial Assistance		
Receivables - Other	1,428,776	19,811,476
Due From Component Units	500,000	
Net Investment in Capital Leases		2,239,791
Pledges Receivable	11,357,558	
Contributions Receivable		
Due From Primary Government		554,694
Inventories (note 4)		
Prepaid items		518,162
Other Assets		12,377,600
Total Current Assets	38,980,453	57,873,483
<b>Noncurrent Assets</b>		
Noncurrent Cash		46,127,862
Due from Component Units	470,588	
Due From Primary Government		1,955,898
Investments (including Real Estate)	30,296,001	52,301,523
Notes Receivable, net		
Net Investment in Capital Leases		154,377,287
Contributions Receivable		
Pledges Receivable	11,057,819	
Capital Assets, net (note 6)		52,636,173
Other Assets		5,995,912
Total Noncurrent Assets	41,824,408	313,394,655
<b>TOTAL ASSETS</b>	<b>80,804,861</b>	<b>371,268,138</b>

*Statement of Net Assets, Continued*

**UNIVERSITY OF GEORGIA  
STATEMENT OF NET ASSETS  
June 30, 2008**

	<b>Component Unit</b>	<b>Component Unit</b>
	<b>Arch Foundation for the University of Georgia, Inc.</b>	<b>University of Georgia Research Foundation, Inc.</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts Payable	1,086,727	18,138,668
Salaries Payable		
Contracts Payable		5,049,038
Deposits		12,305,725
Deferred Revenue (note 7)	345,560	5,209,442
Other Liabilities		
Deposits Held for Other Organizations		
Due to Primary Government	333,666	17,517,774
Lease Purchase Obligations (current portion)		
Compensated Absences (current portion)		28,264
Revenue/Mortgage Bonds Payable (current)		3,595,000
Due to Component Units		
Notes and Loans Payable (current portion)		
Total Current Liabilities	1,765,953	61,843,911
<b>Noncurrent Liabilities</b>		
Due to Primary Government		
Lease Purchase Obligations (noncurrent)		
Deferred Revenue (noncurrent)		1,699,635
Compensated Absences (noncurrent)		
Revenue/Mortgage Bonds Payable (noncurrent)		224,582,541
Liabilities under Split-Interest Agreements (noncurrent)		
Other Long-Term Liabilities		
Due to Component Units		
Notes and Loans Payable (noncurrent)		18,226,887
Total Noncurrent Liabilities	0	244,509,063
<b>TO TAL LIABILITIES</b>	1,765,953	306,352,974
<b>NET ASSETS</b>		
Invested in Capital Assets, net of related debt		8,351,397
Restricted for		
Nonexpendable	31,108,337	
Expendable	46,529,570	2,411,877
Capital Projects		
Unrestricted	1,401,001	54,151,890
<b>TO TAL NET ASSETS</b>	\$79,038,908	\$64,915,164

*Statement of Revenues, Expenses and Changes in Net Assets*

**UNIVERSITY OF GEORGIA**  
**STATEMENT of REVENUES, EXPENSES, and CHANGES in NET ASSETS**  
**for the Year Ended June 30, 2008**

	<u>University of Georgia</u>	<u>Component Unit University of Georgia Foundation</u>	<u>Component Unit University of Georgia Athletic Association, Inc.</u>
<b>REVENUES</b>			
Operating Revenues			
Student Tuition and Fees (net of allowance for doubtful accounts)	\$280,659,875	\$0	\$0
Less: Scholarship Allowances	(77,415,260)		
Gifts and Contributions		11,842,554	
Endowment Income (per spending plan)		9,945,379	
Federal Appropriations	15,395,942		
Grants and Contracts			
Federal	96,468,803		
State	38,720,573		
Other	66,324,665		
Sales and Services	47,404,503	3,511,796	
Rents and Royalties	318,102	1,326,840	
Auxiliary Enterprises			
Residence Halls	37,625,434		
Bookstore	4,076,785		
Food Services	33,680,822		
Parking/Transportation	14,579,695		
Health Services	17,414,540		
Intercollegiate Athletics	18,479,602		81,059,333
Other Organizations	3,947,481		
Other Operating Revenues	2,344,993		
Total Operating Revenues	<u>600,026,555</u>	<u>26,626,569</u>	<u>81,059,333</u>
<b>EXPENSES</b>			
Operating Expenses			
Salaries:			
Faculty	180,270,865		
Staff	402,258,012	262,890	6,111,168
Employee Benefits	161,214,071	13,850	256,995
Other Personal Services	725,438	506,617	610,910
Travel	14,411,709		6,378,721
Scholarships and Fellowships	22,067,333		
Utilities	30,491,931	82,233	
Supplies and Other Services	235,885,354	2,661,802	13,822,929
Depreciation	63,596,361	371,372	5,570,426
Payments to other Component Units		1,529,051	1,784,216
Payments to or on behalf of University of Georgia		22,252,188	29,766,110
Total Operating Expenses	<u>1,110,921,074</u>	<u>27,680,003</u>	<u>64,301,475</u>
Operating Income (loss)	<u>(510,894,519)</u>	<u>(1,053,434)</u>	<u>16,757,858</u>

*Statement of Revenues, Expenses and Changes in Net Assets, Continued*

**UNIVERSITY OF GEORGIA**  
**STATEMENT of REVENUES, EXPENSES, and CHANGES in NET ASSETS**  
**for the Year Ended June 30, 2008**

	<u>University of Georgia</u>	<u>Component Unit</u> <u>University of Georgia Foundation</u>	<u>Component Unit</u> <u>University of Georgia Athletic Association, Inc.</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
State Appropriations	471,177,285		
Grants and Contracts			
Federal	4,500		
State	916,832		
Other	16,424,916		
Gifts	34,870,520		124,777
Investment Income (endowments, auxiliary and other)	6,571,468	(37,424,044)	1,518,393
Interest Expense (capital assets)	(12,297,921)	(1,144,009)	(3,581,552)
Other Nonoperating Revenues	7,798,838	(389,132)	(25,614)
Net Nonoperating Revenues	<u>525,466,438</u>	<u>(38,957,185)</u>	<u>(1,963,996)</u>
Income before other revenues, expenses, gains, or loss	14,571,919	(40,010,619)	14,793,862
Capital Grants and Gifts			
State	43,671,987		
Other	35,437,528		
Special Item Transfer		(6,638,835)	
Additions to permanent endowments		9,329,003	
Total Other Revenues	<u>79,109,515</u>	<u>2,690,168</u>	<u>0</u>
Increase in Net Assets	93,681,434	(37,320,451)	14,793,862
<b>NET ASSETS</b>			
Net Assets-beginning of year, as originally reported	1,126,347,266	658,307,484	139,409,170
Prior Year Adjustments	0	0	0
Net Assets-beginning of year, restated	<u>1,126,347,266</u>	<u>658,307,484</u>	<u>139,409,170</u>
Net Assets-End of Year	<u>\$1,220,028,700</u>	<u>\$620,987,033</u>	<u>\$154,203,032</u>

*Statement of Revenues, Expenses and Changes in Net Assets, Continued*

**UNIVERSITY OF GEORGIA**  
**STATEMENT of REVENUES, EXPENSES, and CHANGES in NET ASSETS**  
**for the Year Ended June 30, 2008**

	<b>Component Unit</b>	<b>Component Unit</b>
	<b>Arch Foundation for the University of Georgia, Inc.</b>	<b>University of Georgia Research Foundation, Inc.</b>
<b>REVENUES</b>		
Operating Revenues		
Student Tuition and Fees (net of allowance for doubtful accounts)	\$0	\$0
Less: Scholarship Allowances		
Gifts and Contributions	9,313,811	
Endowment Income (per spending plan)	1,276,531	
Federal Appropriations		
Grants and Contracts		
Federal		
State		
Other		115,294,840
Sales and Services	2,306,201	29,853
Rents and Royalties		38,357,221
Auxiliary Enterprises		
Residence Halls		
Bookstore		
Food Services		
Parking/Transportation		
Health Services		
Intercollegiate Athletics		
Other Organizations		
Other Operating Revenues		383,240
Total Operating Revenues	12,896,543	154,065,154
<b>EXPENSES</b>		
Operating Expenses		
Salaries:		
Faculty		
Staff		223,167
Employee Benefits		52,710
Other Personal Services		
Travel		
Scholarships and Fellowships		
Utilities		
Supplies and Other Services	1,734,004	17,359,927
Depreciation		169,481
Payments to other Component Units		
Payments to or on behalf of University of Georgia	7,353,573	117,799,198
Total Operating Expenses	9,087,577	135,604,483
Operating Income (loss)	3,808,966	18,460,671

*Statement of Revenues, Expenses and Changes in Net Assets, Continued*

**UNIVERSITY OF GEORGIA**  
**STATEMENT of REVENUES, EXPENSES, and CHANGES in NET ASSETS**  
**for the Year Ended June 30, 2008**

	<b>Component Unit</b>	<b>Component Unit</b>
	<b>Arch Foundation for the University of Georgia, Inc.</b>	<b>University of Georgia Research Foundation, Inc.</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Appropriations		
Grants and Contracts		
Federal		
State		
Other		
Gifts		
Investment Income (endowments, auxiliary and other)	(1,516,223)	2,167,253
Interest Expense (capital assets)		(8,344,937)
Other Nonoperating Revenues		(3,357,891)
Net Nonoperating Revenues	(1,516,223)	(9,535,575)
Income before other revenues, expenses, gains, or loss	2,292,743	8,925,096
Capital Grants and Gifts		
State		
Other		
Special Item Transfer		6,638,835
Additions to permanent endowments	5,223,429	
Total Other Revenues	5,223,429	6,638,835
Increase in Net Assets	7,516,172	15,563,931
<b>NET ASSETS</b>		
Net Assets-beginning of year, as originally reported	71,522,736	37,576,329
Prior Year Adjustments	0	11,774,904
Net Assets-beginning of year, restated	71,522,736	49,351,233
Net Assets-End of Year	\$79,038,908	\$64,915,164

## Statement of Cash Flows

### UNIVERSITY OF GEORGIA STATEMENT OF CASH FLOWS For the Year Ended June 30, 2008

	<u>June 30, 2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and Fees	\$204,750,107
Federal Appropriations	14,109,473
Grants and Contracts (Exchange)	206,058,575
Sales and Services	47,695,506
Payments to Suppliers	(443,293,545)
Payments to Employees	(579,490,907)
Payments for Scholarships and Fellowships	(22,067,333)
Loans Issued to Students and Employees	(2,356,114)
Collection of Loans to Students and Employees	1,674,129
Auxiliary Enterprise Charges:	
Residence Halls	36,170,484
Bookstore	4,119,130
Food Services	33,712,684
Parking/Transportation	14,480,954
Health Services	17,603,814
Intercollegiate Athletics	18,341,826
Other Organizations	4,020,967
Other Receipts (payments)	(897,413)
Net Cash Provided (used) by Operating Activities	<u>(445,367,663)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
State Appropriations	471,177,285
Agency Funds Transactions	(4,975,932)
Gifts and Grants Received for Other Than Capital Purposes	52,216,768
Other Nonoperating Receipts	6,486,691
Net Cash Flows Provided by Non-capital Financing Activities	<u>524,904,812</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital Grants and Gifts Received	45,066,339
Proceeds from Sale of Capital Assets	530,786
Purchases of Capital Assets	(97,645,570)
Principal Paid on Capital Debt and Leases	(11,844,658)
Interest Paid on Capital Debt and Leases	(12,297,921)
Net Cash used by Capital and Related Financing Activities	<u>(76,191,024)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sales and Maturities of Investments	16,388,056
Interest on Investments	8,490,384
Net Cash Provided (used) by Investing Activities	<u>24,878,440</u>
Net Increase/Decrease in Cash	<u>28,224,565</u>
Cash and Cash Equivalents - Beginning of year	185,192,492
Cash and Cash Equivalents - End of Year	<u>\$213,417,057</u>

*Statement of Cash Flows, Continued*

**UNIVERSITY OF GEORGIA  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2008**

**June 30, 2008**

**RECONCILIATION OF OPERATING LOSS TO  
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:**

Operating Income (loss)	(\$510,894,519)
Adjustments to Reconcile Net Income (loss) to Net Cash Provided (used) by Operating Activities	
Depreciation	63,596,361
Change in Assets and Liabilities:	
Receivables, net	2,273,255
Inventories	(536,716)
Prepaid Items	(520,334)
Notes Receivable, Net	(453,382)
Accounts Payable	(495,017)
Deferred Revenue	1,195,930
Other Liabilities	(1,868,527)
Compensated Absences	2,335,286
Net Cash Provided (used) by Operating Activities	<u><u>(\$445,367,663)</u></u>

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**\*\* NON-CASH INVESTING, NON-CAPITAL FINANCING, AND CAPITAL AND  
RELATED FINANCING TRANSACTIONS**

Fixed assets acquired by incurring capital lease obligations	<u>\$722,690</u>
Change in fair value of investments recognized as a component of interest income	<u>(\$1,918,916)</u>
Gift of capital assets reducing proceeds of capital grants and gifts	<u>(\$34,043,176)</u>

**THE UNIVERSITY OF GEORGIA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2008**

*Note 1. Summary of Significant Accounting Policies*

**Nature of Operations**

The University of Georgia serves the state and national communities by providing its students with academic instruction that advances fundamental knowledge, and by disseminating knowledge to the people of Georgia and throughout the country.

**Reporting Entity**

The University of Georgia is one of thirty-five (35) State supported member institutions of higher education in Georgia which comprise the University System of Georgia, an organizational unit of the State of Georgia. The accompanying financial statements reflect the operations of the University of Georgia as a separate reporting entity.

The Board of Regents has constitutional authority to govern, control and manage the University System of Georgia. This authority includes but is not limited to the power to designate management, the ability to significantly influence operations, the authority to control institutions' budgets, the power to determine allotments of State funds to member institutions and the authority to prescribe accounting systems and administrative policies for member institutions. The University of Georgia does not have authority to retain unexpended State appropriations (surplus) for any given fiscal year. Accordingly, the University of Georgia is considered an organizational unit of the Board of Regents of the University System of Georgia reporting entity for financial reporting purposes because of the significance of its legal, operational, and financial relationships with the Board of Regents as defined in Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards.

The Board of Regents of the University System of Georgia (and thus the University of Georgia) implemented GASB Statement No. 39 *Determining Whether Certain Organizations are Component Units - an amendment of Statement No. 14*, in fiscal year 2004. This statement requires the inclusion of the financial statements for foundations and affiliated organizations that qualify as component units in the Annual Financial Report for the institution. These statements (Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets) are reported discretely in the University's report. For FY2008, the University of Georgia is reporting the activity for the University of Georgia Foundation, the University of Georgia Athletic Association, Inc., the Arch Foundation for the University of Georgia, Inc. and the University of Georgia Research Foundation, Inc.

See Note 16, Component Units, for Foundation notes.

**Financial Statement Presentation**

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This was followed in November 1999

by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The State of Georgia implemented GASB Statement No. 34 as of and for the year ended June 30, 2002. As an organizational unit of the State of Georgia, the University was also required to adopt GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37 and No. 38. The financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the GASB and are presented as required by these standards to provide a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets, cash flows, and replaces the fund-group perspective previously required.

Generally Accepted Accounting Principles (GAAP) requires that the reporting of summer school revenues and expenses be between fiscal years rather than in one fiscal year. Due to the lack of materiality, Institutions of the University System of Georgia will continue to report summer revenues and expenses in the year in which the predominant activity takes place.

### **Basis of Accounting**

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting, except as noted in the preceding paragraph. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-University transactions have been eliminated.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

### **Cash and Cash Equivalents**

Cash and Cash Equivalents consist of petty cash, demand deposits and time deposits in authorized financial institutions, and cash management pools that have the general characteristics of demand deposit accounts. This includes the State Investment Pool and the University's Investment Advisory Account which is invested in short-term highly liquid U.S. Agencies.

### **Investments**

The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets. The Board of Regents Legal Fund and the Board of Regents Diversified Fund are included under Investments.

### **Accounts Receivable**

Accounts receivable consists of tuition and fees charged to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of Georgia. Accounts receivable also includes amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable

expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

### **Inventories**

Consumable supplies are carried at the lower of cost or market on the first-in, first-out ("FIFO") basis. Resale Inventories are valued at cost using the average-cost basis.

### **Noncurrent Cash and Investments**

Cash and investments that are externally restricted and cannot be used to pay current liabilities are classified as noncurrent assets in the Statement of Net Assets.

### **Capital Assets**

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that exceed \$100,000 and/or significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 to 60 years for buildings, 20 to 25 years for infrastructure and land improvements, 10 years for library books, and 3 to 20 years for equipment. Residual values will generally be 10% of historical costs for infrastructure, buildings and building improvements, and facilities and other improvements.

To obtain the total picture of plant additions in the University System, it is necessary to look at the activities of the Georgia State Financing and Investment Commission (GSFIC) – an organization that is external to the System. GSFIC issues bonds for and on behalf of the State of Georgia, pursuant to powers granted to it in the Constitution of the State of Georgia and the Act creating the GSFIC. The bonds so issued constitute direct and general obligations of the State of Georgia, to the payment of which the full faith, credit and taxing power of the State are pledged.

For projects managed by GSFIC, the GSFIC retains construction in progress on its books throughout the construction period and transfers the entire project to the University when complete. For projects managed by the University, the University retains construction in progress on its books and is reimbursed by GSFIC. For the year ended June 30, 2008, GSFIC transferred capital additions valued at \$1,980,423 to the University of Georgia.

### **Deposits**

Deposits represent good faith deposits from students to reserve housing assignments in a University residence hall.

### **Deferred Revenues**

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

### Compensated Absences

Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as compensated absences in the Statement of Net Assets, and as a component of compensation and benefit expense in the Statements of Revenues, Expenses, and Changes in Net Assets. The University of Georgia had accrued liability for compensated absences in the amount of \$40,315,525 as of July 1, 2007. For FY2008, \$29,138,606 was earned in compensated absences and employees were paid \$26,803,320, for a net increase of \$2,335,286. The ending balance as of June 30, 2008 in accrued liability for compensated absences was \$42,650,811.

### Noncurrent Liabilities

Noncurrent liabilities include (1) liabilities that will not be paid within the next fiscal year; (2) capital lease obligations with contractual maturities greater than one year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as non-current assets.

### Net Assets

The University's net assets are classified as follows:

*Invested in capital assets, net of related debt:* This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt. The term "debt obligations" as used in this definition does not include debt of the GSFIC as discussed previously in Note 1 – Capital Assets section.

*Restricted net assets - nonexpendable:* Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The University may accumulate as much of the annual net income of an institutional fund as is prudent under the standard established by Code Section 44-15-7 of Annotated Code of Georgia.

*Restricted net assets - expendable:* Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Expendable Restricted Net Assets include the following:

	<u>June 30, 2008</u>
Restricted - E&G and Other Organized Activities	\$46,546,393
Federal Loans	10,360,828
Institutional Loans	10,449,054
Total Restricted Expendable	<u>\$67,356,275</u>

*Restricted net assets – expendable – Capital Projects:* This represents resources for which the University is legally or contractually obligated to spend resources for capital projects in accordance with restrictions imposed by external third parties.

*Unrestricted net assets:* Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for those purposes, except for unexpended state appropriations (surplus). Unexpended state appropriations must be refunded to the Board of Regents of the University System of Georgia, University System Office for remittance to the office of Treasury and Fiscal Services. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

Unrestricted Net Assets includes the following items which are quasi-restricted by management.

	<u>June 30, 2008</u>
R & R Reserve	\$11,223,820
Reserve for Encumbrances	63,200,586
Reserve for Inventory	1,487,000
Other Unrestricted	16,165,568
Total Unrestricted Net Assets	<u>\$92,076,974</u>

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University’s policy is to first apply the expense towards unrestricted resources, and then towards restricted resources.

**Income Taxes**

The University of Georgia, as a political subdivision of the State of Georgia, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended.

**Classification of Revenues**

The University has classified its revenues as either operating or non-operating revenues in the Statement of Revenues, Expenses, and Changes in Net Assets according to the following criteria:

*Operating revenues:* Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of sponsored and unsponsored scholarships, (2) sales and services of auxiliary enterprises, net of sponsored and unsponsored scholarships, (3) most Federal, state and local grants and contracts and Federal appropriations, and (4) interest on institutional student loans.

*Nonoperating revenues:* Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and*

*Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, and GASB No. 34, such as state appropriations and investment income.*

### **Scholarship Allowances**

Student tuition and fee revenues, and certain other revenues from students, are reported at gross with a contra revenue account of scholarship allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, state or nongovernmental programs are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded contra revenue for scholarship allowances.

Auxiliary Parking/Transportation and Health Services revenues of \$14,579,695 and \$17,414,540, respectively, are reported net of discounts and allowances of \$518,749 and \$1,179,768, respectively.

### **Note 2. Deposits and Investments**

#### **A. Deposits**

The custodial credit risk for deposits is the risk that in the event of a bank failure, the University's deposits may not be recovered. Funds belonging to the State of Georgia (and thus the University) cannot be placed in a depository paying interest longer than ten days without the depository providing a surety bond to the State. In lieu of a surety bond, the depository may pledge as collateral any one or more of the following securities as enumerated in the Official Code of Georgia Annotated Section 50-17-59:

1. Bonds, bills, notes, certificates of indebtedness, or other direct obligations of the United States or of the State of Georgia.
2. Bonds, bills, notes, certificates of indebtedness or other obligations of the counties or municipalities of the State of Georgia.
3. Bonds of any public authority created by the laws of the State of Georgia, providing that the statute that created the authority authorized the use of the bonds for this purpose.
4. Industrial revenue bonds and bonds of development authorities created by the laws of the State of Georgia.
5. Bonds, bills, certificates of indebtedness, notes or other obligations of a subsidiary corporation of the United States government, which are fully guaranteed by the United States government both as to principal and interest and debt obligations issued by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, the Central Bank for Cooperatives, the Farm Credit Banks, the Federal Home Loan Mortgage Association and the Federal National Mortgage Association.

6. Guarantee or insurance of accounts provided by the Federal Deposit Insurance Corporation.

The Treasurer of the Board of Regents is responsible for all details relative to furnishing the required depository protection for all units of the University System of Georgia.

At June 30, 2008, the carrying value of deposits was \$25,485,322 and the bank balance was \$33,803,349. Of the University's deposits, \$33,597,458 were uninsured. Of these uninsured deposits, \$288,083 were collateralized with securities held by the financial institution's trust department or agent in the University's name, and \$33,309,375 were collateralized with securities held by the financial institution, by its trust department or agency, but not in the University's name.

## B. Investments

The University of Georgia maintains an investment policy which fosters sound and prudent judgment in the management of assets to ensure safety of capital consistent with the fiduciary responsibility each institution has to the citizens of Georgia and which conforms to Board of Regents investment policy. All investments are consistent with donor intent, Board of Regents policy, and applicable federal and state laws.

The University's investments as of June 30, 2008 are presented below. All investments are presented by investment type and debt securities are presented by maturity.

<u>INVESTMENTS</u>	Fair Value	Investment Maturity			
		Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
Investment type					
Debt Securities					
U.S. Treasuries	\$293,062	\$100,281	\$102,359		\$90,422
U.S. Agencies					
Explicitly Guaranteed	1,431,180	586,837	841,390	2,953	
Implicitly Guaranteed	57,854,271	24,191,703	33,653,594	8,974	
	<u>\$59,578,513</u>	<u>\$24,878,821</u>	<u>\$34,597,343</u>	<u>\$11,927</u>	<u>\$90,422</u>
Other Investments					
Bond/Equity Mutual Funds	13,631,366				
Equity Mutual Funds	21,398,911				
Equity Securities - Domestic	893,748				
Real Estate Held for Investment Purposes	240,469				
Investment Pools					
Board of Regents					
Legal Fund	7,460,547				
Diversified Fund	1,478,176				
Office of Treasury and Fiscal Services					
Georgia Fund 1	<u>123,325,285</u>				
Total Investments	<u>\$228,007,015</u>				

The Board of Regents Investment Pool is not registered with the Securities and Exchange Commission as an investment company. The fair value of investments is determined daily. The pool does not issue shares. Each participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. Participation in the Board of Regents Investment Pool is voluntary. The Board of Regents Investment Pool is not rated. Additional information on the Board of Regents Investment Pool is disclosed in the audited Financial Statements of the Board of Regents of the University System of Georgia – Administrative Central Office (oversight unit). This audit can be obtained from the Georgia Department of Audits – Education Audit Division or on their web site at <http://www.audits.state.ga.us/internet/searchRpts.html>.

The Georgia Fund 1 Investment Pool, managed by the Office of Treasury and Fiscal Services, is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. This investment is valued at the pool's share price, \$1.00 per share. The Georgia Fund 1 Investment Pool is an AAAM rated investment pool by Standard and Poor's. The Weighted Average Maturity of the Fund is 40 days.

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The University's policy for managing interest rate risk is divided between short-term and long-term investments. Short-term investments will have a maximum maturity of three years and long-term investments will have a maximum maturity of ten years.

The Weighted Average Maturity of the Legal Fund is 3.84 years. Of the University's total investment of \$7,460,547 in the Legal Fund, \$7,393,402 is invested in debt securities.

The Weighted Average Maturity of the Diversified Fund is 7.84 years. Of the University's total investment of \$1,478,176 in the Diversified Fund, \$459,713 is invested in debt securities.

#### Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the University will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The University does not have a formal policy for managing custodial credit risk for investments.

At June 30, 2008, \$59,271,165 of the University's applicable investments were uninsured and held by the investment's counterparty in the University's name and \$1,186,204 were uninsured and held by the investment's counterparty's trust department or agent, but not in the University's name.

#### Credit Quality Risk

Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's policy for managing credit quality risk focuses on investment of loan and endowment funds which are funded by private sources. For loan and endowment

funds, investments should have an average rating of “AAA”. All other investments follow Board of Regents investment guidelines.

The investments subject to credit quality risk are reflected below:

	<u>Fair Value</u>	<u>Unrated</u>
Related Debt Investments		
U. S. Agencies	<u>\$57,854,271</u>	<u>\$57,854,271</u>
	<u>\$57,854,271</u>	<u>\$57,854,271</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The University’s policy for managing concentration of credit risk is divided between short-term and long-term investments. For short-term investments, certificates of deposit and repurchase agreements should comprise 25-50%, investment in the Office of Treasury and Fiscal Services Georgia Fund I should not exceed 50%, and investment in U.S. Treasury obligations or U.S. government agency securities can be 100%. For long-term investment of loan and endowment funds, equities comprise 50-75%, fixed income can range between 25-50%, and cash and cash equivalents will range between 10-25%.

As of June 30, 2008, applicable investments in a single issuer where those investments exceed 5% of total investments were as follows:

Federal National Mortgage Association	16%
Federal Home Loan Mortgage Corporation	8%

### ***Note 3. Accounts Receivable***

Accounts receivable consisted of the following at June 30, 2008:

	<u>June 30, 2008</u>
Student Tuition and Fees	\$3,378,113
Auxiliary Enterprises and Other Operating Activities	1,319,600
Federal Financial Assistance	15,687,652
Georgia State Financing and Investment Commission	3,332,807
Due from Component Units	20,644,955
Other	20,261,696
	<u>64,624,823</u>
Less Allowance for Doubtful Accounts	669,368
	<u>669,368</u>
Net Accounts Receivable	<u><u>\$63,955,455</u></u>

### ***Note 4. Inventories***

Inventories consisted of the following at June 30, 2008:

	<u>June 30, 2008</u>
Food Services	\$1,593,325
Physical Plant	1,794,128
Other	1,872,276
	<u>1,872,276</u>
Total	<u><u>\$5,259,729</u></u>

### ***Note 5. Notes/Loans Receivable***

The Federal Perkins Loan Program (the Program) comprises substantially all of the loans receivable at June 30, 2008. The Program provides for cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The Federal government reimburses the University for amounts cancelled under these provisions. As the University determines that loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2008 the allowance for uncollectible loans was approximately \$665,004.

**Note 6. Capital Assets**

Following are the changes in capital assets for the year ended June 30, 2008:

	<b>Beginning Balances 7/1/2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance 6/30/2008</b>
<b>Capital Assets, Not Being Depreciated:</b>				
Land	\$25,741,440	\$740,000	\$3,142	\$26,478,298
Capitalized Collections	11,624,515	1,084,100		12,708,615
Construction Work-in-Progress	41,619,023	52,801,416	7,732,479	86,687,960
<b>Total Capital Assets Not Being Depreciated</b>	<b>78,984,978</b>	<b>54,625,516</b>	<b>7,735,621</b>	<b>125,874,873</b>
<b>Capital Assets, Being Depreciated:</b>				
Infrastructure	42,944,512	1,124,431		44,068,943
Building and Building Improvements	1,103,702,038	41,267,449	11,781,594	1,133,187,893
Facilities and Other Improvements	149,153,268	1,246,179		150,399,447
Equipment	313,357,339	27,688,978	15,031,999	326,014,318
Capital Leases	966,932	722,690	850,239	839,383
Library Collections	214,958,854	10,351,016	81,995	225,227,875
<b>Total Assets Being Depreciated</b>	<b>1,825,082,943</b>	<b>82,400,743</b>	<b>27,745,827</b>	<b>1,879,737,859</b>
<b>Less: Accumulated Depreciation</b>				
Infrastructure	15,535,036	1,353,131		16,888,167
Buildings	343,336,845	25,580,624	691,709	368,225,760
Facilities and Other improvements	34,826,651	3,730,990		38,557,641
Equipment	243,249,841	21,983,077	12,373,078	252,859,840
Capital Leases	462,547	176,756	252,506	386,797
Library Collections	157,686,706	10,771,783	81,995	168,376,494
<b>Total Accumulated Depreciation</b>	<b>795,097,626</b>	<b>63,596,361</b>	<b>13,399,288</b>	<b>845,294,699</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>1,029,985,317</b>	<b>18,804,382</b>	<b>14,346,539</b>	<b>1,034,443,160</b>
<b>Capital Assets, net</b>	<b>\$1,108,970,295</b>	<b>\$73,429,898</b>	<b>\$22,082,160</b>	<b>\$1,160,318,033</b>

### **Note 7. Deferred Revenue**

Deferred revenue consisted of the following at June 30, 2008:

	<u>June 30, 2008</u>
Prepaid Tuition and Fees	\$20,581,117
Research	13,328,816
Other Deferred Revenue	<u>14,677,778</u>
Totals	<u><u>\$48,587,711</u></u>

### **Note 8. Long-Term Liabilities**

Long-term liability activity for the year ended June 30, 2008 was as follows:

	<b>Beginning Balance July 1, 2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2008</b>	<b>Current Portion</b>
<b>Leases</b>					
Lease Obligations	\$161,738,906	\$722,690	\$11,844,658	\$150,616,938	\$2,255,740
<b>Other Liabilities</b>					
Compensated Absences	40,315,525	29,138,606	26,803,320	42,650,811	25,812,800
Total	<u>40,315,525</u>	<u>29,138,606</u>	<u>26,803,320</u>	<u>42,650,811</u>	<u>25,812,800</u>
<b>Total Long Term Obligations</b>	<u><u>\$202,054,431</u></u>	<u><u>\$29,861,296</u></u>	<u><u>\$38,647,978</u></u>	<u><u>\$193,267,749</u></u>	<u><u>\$28,068,540</u></u>

### **Note 9. Significant Commitments**

The University had significant unearned, outstanding, construction or renovation contracts executed in the amount of \$21,854,926 as of June 30, 2008. This amount is not reflected in the accompanying basic financial statements.

### **Note 10. Lease Obligations**

The University of Georgia is obligated under various operating leases for the use of real property (land, buildings, and office facilities) and equipment, and also is obligated under capital leases and installment purchase agreements for the acquisition of real property.

#### **CAPITAL LEASES**

The University of Georgia occupies six real properties and holds various equipment items under capital leases. The real property leases expire in fiscal years 2032, 2033, three expire in 2034, and one expires in 2036. The equipment capital leases expire between 2009 and 2012. Reductions in principal on capital leases were \$11,844,658 with \$12,297,921 in interest expense

for a total of \$24,142,579 in fiscal year 2008. Interest rates range from 6.83 percent to 9.00 percent. The carrying values of assets held under capital lease at June 30, 2008 were as follows:

Buildings	\$143,221,259
Equipment	421,493
Total Assets Held Under Capital Lease	<u><u>\$143,642,752</u></u>

All six of the University of Georgia's current real property capital leases are with the University of Georgia Real Estate Foundation (UGAREF), a related entity. In August of 2001, the University of Georgia entered into a capital lease with the UGAREF, whereby the University leases the Carlton Street Parking Deck for a 30 year period that began September 30, 2001 and expires August 31, 2031. In November of 2002, the University of Georgia entered into the second capital lease with the UGAREF whereby the University leases the East Village Parking Deck for a 30 year period that began on November 1, 2002 and expires July 31, 2032. In September of 2003, the University of Georgia entered into the third capital lease with the UGAREF, whereby, the University leases the Complex Carbohydrate Research Center for a 30 year period that began on September 25, 2003 and expires September 30, 2033. The University of Georgia entered into the fourth and fifth capital leases with the UGAREF, whereby the University leases the East Campus Village dormitory complex and the East Village Commons dining hall for a 30 year period that began July 1, 2004, and expires June 30, 2034. The University of Georgia entered into a sixth capital lease with UGAREF whereby the University leases the Coverdell Center for a 30 year period that began December 9, 2005 and expires November 30, 2035. The outstanding liability at June 30, 2008 on these capital leases is \$150,036,057.

The University of Georgia will enter into two additional real property capital leases with UGAREF during fiscal year 2009. The exact capital lease amounts and related payment amounts have not yet been established. There is no outstanding liability related to these leases at June 30, 2008.

The University also has various capital leases for equipment with an outstanding balance of \$580,881 at June 30, 2008

## OPERATING LEASES

The University of Georgia is Lessee under a number of one year operating leases, which generally provide for four (4) renewal option periods. All agreements are cancelable if the State of Georgia does not provide adequate funding, but that is considered a remote possibility. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis.

Properties are leased for a variety of functions, from farm acreage to office space to parking lots.

Future commitments for capital leases (which here and on the Statement of Net Assets include other installment purchase agreements) and for noncancellable operating leases having remaining terms in excess of one year as of June 30, 2008, were as follows

Year Ending June 30:	Year	Real Property and Equipment	
		Capital Leases	Operating Leases
2009	1	\$13,677,918	\$7,019,521
2010	2	13,631,938	
2011	3	13,611,786	
2012	4	13,555,689	
2013	5	13,425,271	
2014 through 2018	6-10	67,126,355	
2019 through 2023	11-15	67,126,355	
2024 through 2028	16-20	67,126,355	
2029 through 2033	21-25	64,872,272	
2034 through 2038	26-30	12,030,901	
Total minimum lease payments		346,184,840	\$7,019,521
Less: Interest		182,480,902	
Less: Executory costs		13,087,000	
Principal Outstanding		\$150,616,938	

Noncancellable operating lease expenditures in 2008 were \$6,783,013 for real property. No expenditures were made for equipment under noncancellable operating leases.

### **Note 11. Retirement Plans**

#### **Teachers Retirement System of Georgia**

##### **Plan Description**

The University of Georgia participates in the Teachers Retirement System of Georgia (TRS), a cost-sharing multiple-employer defined benefit pension plan established by the Georgia General Assembly. TRS provides retirement allowances and other benefits for plan participants. TRS provides service retirement, disability retirement, and survivor's benefits for its members in accordance with State statute. The Teachers Retirement System of Georgia issues a separate stand alone financial audit report and a copy can be obtained from the TRS offices or from the Georgia Department of Audits and Accounts.

##### **Funding Policy**

Employees of the University of Georgia who are covered by TRS are required by State statute to contribute 5% of their gross earnings to TRS. The University of Georgia makes monthly employer contributions to TRS at rates adopted by the TRS Board of Trustees in accordance with State statute and as advised by their independent actuary. For fiscal year 2008, the employer contribution rate was 9.28% for covered employees. Employer contributions for the current fiscal year and the preceding two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Percentage Contributed</u>	<u>Required Contribution</u>
2008	100%	\$32,103,416
2007	100%	\$30,182,072
2006	100%	\$29,007,246

## **Employees' Retirement System of Georgia**

### **Plan Description**

The University of Georgia participates in the Employees' Retirement System of Georgia (ERS), a cost-sharing multiple-employer defined benefit pension plan established by the General Assembly of Georgia for the purpose of providing retirement allowances for employees of the State of Georgia.

The benefit structure of ERS is defined by State statute and was significantly modified on July 1, 1982. Unless elected otherwise, an employee who currently maintains membership with ERS based upon State employment that started prior to July 1, 1982, is an "old plan" member subject to the plan provisions in effect prior to July 1, 1982. All other members are "new plan" members subject to the modified plan provisions.

Under both the old plan and new plan, members become vested after 10 years of creditable service. A member may retire and receive normal retirement benefits after completion of 10 years of creditable service and attainment of age 60. Additionally, there are certain provisions allowing for retirement after 25 years of service regardless of age.

Retirement benefits paid to members are based upon a formula which considers the monthly average of the member's highest twenty-four consecutive calendar months of salary, the number of years of creditable service, and the member's age at retirement. Postretirement cost-of-living adjustments are also made to member's benefits. The normal retirement pension is payable monthly for life; however, options are available for distribution of the member's monthly pension at reduced rates to a designated beneficiary upon the member's death. Death and disability benefits are also available through ERS.

In addition, the ERS Board of Trustees created the Supplemental Retirement Benefit Plan (SRBP) effective January 1, 1998. The SRBP was established as a qualified governmental excess benefit plan in accordance with Section 415 of the Internal Revenue Code (IRC) as a portion of ERS. The purpose of SRBP is to provide retirement benefits to employees covered by ERS whose benefits are otherwise limited by IRC 415.

The ERS issues a financial report each fiscal year, which may be obtained through ERS.

### **Funding Policy**

As established by State statute, all full-time employees of the State of Georgia and its political subdivisions, who are not members of other state retirement systems, are eligible to participate in the ERS. Both employer and employee contributions are established by State statute. The

University's payroll for the year ended June 30, 2008, for employees covered by ERS was \$1,122,242. The University's total payroll for all employees was \$582,528,877.

For the year ended June 30, 2008 under the old plan, member contributions consist of 6.5% of annual compensation minus \$7.00. Of these member contributions, the employee pays the first 1.5% and the University pays the remainder on behalf of the employee.

Under the new plan, member contributions consist solely of 1.5% of annual compensation paid by employee. The University also is required to contribute at a specified percentage of active member payroll determined annually by actuarial valuation for both old and new plans. For the year ended June 30, 2008, the ERS employer contribution rate for the University amounted to 10.41% of covered payroll and included the amounts contributed on behalf of the employees under the old plan referred to above. Employer contributions are also made on amounts paid for accumulated leave to retiring employees.

Employer contributions for the current fiscal year and the preceding two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Percentage Contributed</u>	<u>Required Contribution</u>
2008	100%	\$122,876
2007	100%	\$98,268
2006	100%	\$59,819

### **Actuarial and Trend Information**

Actuarial and historical trend information is presented in the ERS June 30, 2008 financial report, which may be obtained through ERS.

### **Regents Retirement Plan**

#### **Plan Description**

The Regents Retirement Plan, a single-employer defined contribution plan, is an optional retirement plan that was created/established by the Georgia General Assembly in O.C.G.A. 47-21-1 et.seq. and is administered by the Board of Regents of the University System of Georgia. O.C.G.A. 47-3-68(a) defines who may participate in the Regents Retirement Plan. An "eligible university system employee" is a faculty member or a principal administrator, as designated by the regulations of the Board of Regents. Under the Regents Retirement Plan, a plan participant may purchase annuity contracts from four approved vendors (AIG-VALIC, American Century, Fidelity, and TIAA-CREF) for the purpose of receiving retirement and death benefits. Benefits depend solely on amounts contributed to the plan plus investment earnings. Benefits are payable to participating employees or their beneficiaries in accordance with the terms of the annuity contracts.

#### **Funding Policy**

The University of Georgia makes monthly employer contributions for the Regents Retirement Plan at rates adopted by the Teachers Retirement System of Georgia Board of Trustees in

accordance with State statute and as advised by their independent actuary. For fiscal year 2008, the employer contribution was 8.13% for the first six months and 8.15% for the last six months of the participating employee's earnable compensation. Employees contribute 5% of their earnable compensation. Amounts attributable to all plan contributions are fully vested and non-forfeitable at all times.

The University of Georgia and the covered employees made the required contributions of \$11,308,338 (8.13% or 8.15%) and \$6,947,655 (5%), respectively.

AIG-VALIC, American Century, Fidelity, and TIAA-CREF have separately issued financial reports which may be obtained through their respective corporate offices.

## **Georgia Defined Contribution Plan**

### **Plan Description**

The University of Georgia participates in the Georgia Defined Contribution Plan (GDGP) which is a single-employer defined contribution plan established by the General Assembly of Georgia for the purpose of providing retirement coverage for State employees who are temporary, seasonal, and part-time and are not members of a public retirement or pension system. GDGP is administered by the Board of Trustees of the Employees' Retirement System of Georgia.

### **Benefits**

A member may retire and elect to receive periodic payments after attainment of age 65. The payment will be based upon mortality tables and interest assumptions to be adopted by the Board of Trustees. If a member has less than \$3,500 credited to his/her account, the Board of Trustees has the option of requiring a lump sum distribution to the member in lieu of making periodic payments. Upon the death of a member, a lump sum distribution equaling the amount credited to his/her account will be paid to the member's designated beneficiary. Benefit provisions are established by State statute.

### **Contributions**

Member contributions are seven and one-half percent (7.5%) of gross salary. There are no employer contributions. Contribution rates are established by State statute. Earnings are credited to each member's account in a manner established by the Board of Trustees. Upon termination of employment, the amount of the member's account is refundable upon request by the member.

Total contributions made by employees during fiscal year 2008 amounted to \$1,799,075 which represents 7.5% of covered payroll. These contributions met the requirements of the plan.

The Georgia Defined Contribution Plan issues a financial report each fiscal year, which may be obtained from the ERS offices.

### ***Note 12. Risk Management***

The University System of Georgia offers its employees and retirees access to two different self-insured healthcare plan options – a PPO/PPO Consumer healthcare plan, and an indemnity healthcare plan. The University of Georgia and participating employees and retirees pay premiums to either of the self-insured healthcare plan options to access benefits coverage. The respective self-insured healthcare plan options are included in the financial statements of the Board of Regents of the University System of Georgia – University System Office. All units of the University System of Georgia share the risk of loss for claims associated with these plans. The reserves for these two plans are considered to be a self-sustaining risk fund. Both self-insured healthcare plan options provide a maximum lifetime benefit of \$2,000,000 per person. The Board of Regents has contracted with Blue Cross Blue Shield of Georgia, a wholly owned subsidiary of WellPoint, to serve as the claims administrator for the two self-insured healthcare plan products. In addition to the two different self-insured healthcare plan options offered to the employees of the University System of Georgia, a fully insured HSA/High Deductible PPO healthcare plan and two fully insured HMO healthcare plan options are also offered to System employees.

The Department of Administrative Services (DOAS) has the responsibility for the State of Georgia of making and carrying out decisions that will minimize the adverse effects of accidental losses that involve State government assets. The State believes it is more economical to manage its risks internally and set aside assets for claim settlement. Accordingly, DOAS processes claims for risk of loss to which the State is exposed, including general liability, property and casualty, workers' compensation, unemployment compensation, and law enforcement officers' indemnification. Limited amounts of commercial insurance are purchased applicable to property, employee and automobile liability, fidelity and certain other risks. The University of Georgia, as an organizational unit of the Board of Regents of the University System of Georgia, is part of the State of Georgia reporting entity, and as such, is covered by the State of Georgia risk management program administered by DOAS. Premiums for the risk management program are charged to the various state organizations by DOAS to provide claims servicing and claims payment.

A self-insured program of professional liability for its employees was established by the Board of Regents of the University System of Georgia under powers authorized by the Official Code of Georgia Annotated Section 45-9-1. The program insures the employees to the extent that they are not immune from liability against personal liability for damages arising out of the performance of their duties or in any way connected therewith. The program is administered by DOAS as a Self-Insurance Fund.

### ***Note 13. Contingencies***

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. This could result in refunds to the grantor agency for any expenditures that are disallowed under grant terms. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although the University of Georgia expects such amounts, if any, to be immaterial to its overall financial position.

Litigation, claims and assessments filed against the University of Georgia (an organizational unit of the Board of Regents of the University System of Georgia), if any, are generally considered to be actions against the State of Georgia. Accordingly, significant litigation, claims and assessments pending against the State of Georgia are disclosed in the State of Georgia Comprehensive Annual Financial Report for the fiscal year ended June 30, 2008.

***Note 14. Post-Employment Benefits Other Than Pension Benefits***

Pursuant to the general powers conferred by the Official Code of Georgia Annotated Section 20-3-31, the Board of Regents of the University System of Georgia has established group health and life insurance programs for regular employees of the University System of Georgia. It is the policy of the Board of Regents to permit employees of the University System of Georgia eligible for retirement or that become permanently and totally disabled to continue as members of the group health and life insurance programs. The policies of the Board of Regents of the University System of Georgia define and delineate who is eligible for these post-employment health and life insurance benefits. Organizational units of the Board of Regents of the University System of Georgia pay the employer portion for group insurance for affected individuals. With regard to life insurance, the employer covers the total cost for \$25,000 of basic life insurance. If an individual elects to have supplemental, and/or, dependent life insurance coverage, such costs are borne entirely by the employee.

The Board of Regents Retiree Health Benefit Plan is a single employer defined benefit plan. Financial statements and required supplementary information for the Plan are included in the publicly available Consolidated Annual Financial Report of the University System of Georgia. The University pays the employer portion of health insurance for its eligible retirees based on rates that are established annually by the Board of Regents for the upcoming plan year. For 2007 and 2008 plan years, the employer rate was approximately 75% of the total health insurance cost for eligible retirees and the retiree rate was approximately 25%.

As of June 30, 2008, there were 3,810 employees who had retired or were disabled that were receiving these post-employment health and life insurance benefits. For the year ended June 30, 2008, the University of Georgia recognized as incurred \$21,053,488 of expenditures, which was net of \$7,438,830 of participant contributions.

**Note 15. Natural Classifications with Functional Classifications**

The University's operating expenses by functional classification for FY2008 are shown below:

Natural Classification	Functional Classification FY2008					
	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support
Faculty	\$90,014,667	\$76,217,243	\$13,328,102	\$637,231	\$71,112	\$2,510
Staff	61,192,420	87,347,302	70,899,516	50,368,200	14,772,670	37,053,208
Benefits	35,826,821	37,809,572	27,998,638	14,988,685	4,412,648	16,139,175
Personal Services	74,316	23,559	6,077	27,324	7,160	585,202
Travel	2,750,909	5,849,041	3,728,512	872,802	275,680	630,045
Scholarships and Fellowships	3,719,099	1,154,409	94,794	8,589	1,817,843	10,000
Utilities	1,459,871	1,153,782	1,338,097	717,164	218,816	650,151
Supplies and Others Services	22,699,152	60,541,391	32,433,143	23,055,171	10,152,587	11,837,671
Depreciation	13,262,238	16,792,894	3,720,009	14,153,085	667,129	1,038,627
<b>Total Expenses</b>	<b>\$230,999,493</b>	<b>\$286,889,193</b>	<b>\$153,546,888</b>	<b>\$104,828,251</b>	<b>\$32,395,645</b>	<b>\$67,946,589</b>

Natural Classification	Functional Classification FY2008			
	Plant Operations & Maintenance	Scholarships & Fellowships	Auxiliary Enterprises	Total Expenses
Faculty	\$0	\$0	\$0	\$180,270,865
Staff	29,008,012		51,616,684	402,258,012
Benefits	11,362,957		12,675,575	161,214,071
Personal Services			1,800	725,438
Travel	81,289		223,431	14,411,709
Scholarships and Fellowships		14,398,059	864,540	22,067,333
Utilities	18,825,377		6,128,673	30,491,931
Supplies and Others Services	36,741,112		38,425,127	235,885,354
Depreciation	2,917,673		11,044,706	63,596,361
<b>Total Expenses</b>	<b>\$98,936,420</b>	<b>\$14,398,059</b>	<b>\$120,980,536</b>	<b>\$1,110,921,074</b>

## ***Note 16. Component Units***

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

The University of Georgia Foundation (Foundation) is a legally separate, tax-exempt component unit of the University of Georgia (University). The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The thirty-six member board of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, Financial Reporting for Not-for-Profit Organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. The FASB reports were reclassified to the GASB presentation for external financial reporting purposes in these financial statements. The Foundation's fiscal year is July 1 through June 30.

During the year ended June 30, 2008, the Foundation distributed \$22,252,188 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundation Office at 394 South Milledge Avenue, Athens, GA 30602 or from the Foundation's website at [www.ugafoundation.org](http://www.ugafoundation.org).

### ***Special Item Transfer***

In 2006, the Board of Trustees of the Foundation agreed to transfer its sole membership of the UGA Real Estate Foundation (Real Estate Foundation) to the University of Georgia Research Foundation, Inc. The 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. The transfer of the Real Estate Foundation's Assets and Liabilities as of July 1, 2007 resulted in a Net Asset transfer of (\$6,638,835), which is reported as a Special Item Transfer on the Statement of Revenues, Expenses and Changes in Net Assets.

### ***Investments for Component Units:***

The University of Georgia Foundation holds investments in the amount of \$606 million at June 30, 2008. Investments consist of the following:

	<u>Cost</u>	<u>Fair Value</u>
Cash held by investment organization	\$39,793,183	\$39,793,183
Government and Agency Securities	231,943	234,316
Corporate Bonds	304,827	301,002
Equity Securities	2,668,042	2,693,996
Mutual Funds	1,920,332	1,828,504
Split Interest Investments	15,232,070	16,727,272
Real Estate	16,155,937	16,155,937
Diversifying Strategies	599,994	613,950
Investment Pools	392,105,046	527,703,970
	<u>\$469,011,374</u>	<u>\$606,052,130</u>
Total Investments	<u>\$469,011,374</u>	<u>\$606,052,130</u>

***Capital Assets for Component Units:***

The University of Georgia Foundation holds the following Capital Assets as of June 30, 2008:

	<u>June 30, 2008</u>
Capital Assets not being Depreciated:	
Land and other Assets	\$4,810,092
Construction in Progress	44,187
Total Capital Assets not being Depreciated	<u>4,854,279</u>
Capital Assets being Depreciated:	
Buildings and Improvements	9,414,449
Machinery and Equipment	1,071,428
Total Capital Assets being Depreciated	<u>10,485,877</u>
Less Total Accumulated Depreciation	<u>1,340,863</u>
Total Capital Assets being Depreciated, Net	<u>9,145,014</u>
Capital Assets, Net	<u>\$13,999,293</u>

***Long-Term Liabilities for Component Units:***

Changes in long-term liabilities for the University of Georgia Foundation for the fiscal year ended June 30, 2008 are shown below:

	<u>Beginning Balance July 1, 2007</u>	<u>Transfer of Real Estate Foundation</u>	<u>Adjusted Beginning Balance July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance June 30, 2008</u>	<u>Amounts due within One Year</u>
Compensated Absences	\$29,495	(\$29,495)	\$0	\$0	\$0	\$0	\$0
Liabilities under split interest agreement	11,686,162		11,686,162	655,613		12,341,775	
Notes and Loans Payable	20,691,533	(10,499,210)	10,192,323	5,014,961	8,083,918	7,123,366	126,617
Revenue/Mortgage Bonds Payable	175,667,798	(175,667,798)	0			0	
Other Long Term Liabilities	0		0	686,085		686,085	686,085
Total Long Term Liabilities	<u>\$208,074,988</u>	<u>(\$186,196,503)</u>	<u>\$21,878,485</u>	<u>\$6,356,659</u>	<u>\$8,083,918</u>	<u>\$20,151,226</u>	<u>\$812,702</u>

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

During 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%), or 2.78% at June 30, 2008. Principal and interest are payable monthly.

## 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, the fair value of these interest rate caps was a liability of \$686,085 and is reported in the Other Liabilities (current) line on the Statement of Net Assets. The Foundation recorded a charge of \$691,109 in fiscal 2008 as a result of these caps as an adjustment to interest expense.

Annual debt service requirements to maturity for Notes and Loans payable are as follows:

		Notes and Loans Payable		
		Principal	Interest	Total
Year ending June 30:				
2009	1	\$126,617	\$418,741	\$545,358
2010	2	134,261	411,110	545,371
2011	3	142,367	403,018	545,385
2012	4	921,202	390,742	1,311,944
2013	5	101,376	342,301	443,677
2014 through 2018	6-10	5,697,543	1,406,626	7,104,169
		<u>\$7,123,366</u>	<u>\$3,372,538</u>	<u>\$10,495,904</u>

## The University of Georgia Athletic Association, Inc.

The University of Georgia Athletic Association, Inc. (the Association) is a legally separate, tax-exempt component unit of the University of Georgia (the "University"). The Association was organized in 1938 as a not-for-profit corporation to promote intercollegiate athletic sports representing the University. The twenty-member board of directors consists of faculty, staff, students, and alumni of the University. Although the University does not control the timing or amount of receipts from the Association, the majority of resources or income thereon that the Association holds and invests are restricted to the athletic activities of the University. Because these restricted resources held by the Association can only be used by or for the benefit of the University and their management role is significant to the accomplishment of the University's mission, the Association is considered a component unit of the University and is discretely presented in the University's financial statements.

For financial reporting purposes, the Association is considered a special purpose government agency engaged only in business type activities, as defined by GASB Statement 34. The Association's fiscal year is July 1 through June 30.

During the year ended June 30, 2008, the Association made payments to the University for services such as food services, parking services, health services, tuition, gas, electricity, security, and golf course maintenance. These payments totaled \$29,766,110 and were recognized as expenses of the Association.

Capital assets net of accumulated depreciation of \$185 million are included in the financial statements of the Association. These capital assets, excluding moveable equipment and construction work in progress, are also included in the University's report. Complete financial statements for the Association can be obtained from the Treasurer's office at 456 East Broad Street, Athens, GA 30602.

### ***Deposits for Component Units:***

Funds belonging to the State of Georgia cannot be placed in a depository paying interest longer than ten days without the depository providing a surety bond to the State. In lieu of a surety bond, the depository may pledge as collateral any one or more of the following securities as enumerated in the Official Code of Georgia Annotated Section 50-17-59:

1. Bonds, bills notes, certificates of indebtedness or other direct obligations of the United States or of the State of Georgia.
2. Bonds, bills, notes, certificates of indebtedness or other obligations of the counties or municipalities of the State of Georgia.
3. Bonds of any public authority created by the laws of the State of Georgia, providing that the statute that created the authority authorized the use of the bonds for this purpose.
4. Industrial revenue bonds and bonds of development authorities created by the laws of the State of Georgia.
5. Bonds, bills, certificates of indebtedness, notes or other obligations of a subsidiary Authority of the United States government, which are fully guaranteed by the United States government, both as to principal and interest and debt obligations issued by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, the Central Bank for Cooperatives, the Farm Credit Banks, the Federal Home Loan Mortgage Association, and the Federal National Mortgage Association.
6. Insurance of accounts provided by the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation.

As authorized in the Official Code of Georgia Annotated Section 50-17-53, the State Depository Board has adopted policies which allow agencies of the State of Georgia the option of exempting demand deposits from the collateral requirements.

At June 30, 2008, the book-carrying amount of the Athletic Association's deposits, including noncurrent cash and cash equivalents, was \$89,246,997 and the bank balance was \$92,433,058. The Athletic Association's bank balance is classified as follows at June 30, 2008:

Amount insured by the FDIC and FSLIC	\$ 333,000
Collateralized with securities held in the Athletic Association's name	80,613,869
Uncollateralized	<u>11,486,189</u>
	<u>\$92,433,058</u>

***Capital Assets for Component Units:***

The University of Georgia Athletic Association, Inc. had the following Capital Assets activity for the year ended June 30, 2008:

	<b>Beginning Balances 7/1/2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance 6/30/2008</b>
Capital Assets, Not Being Depreciated:				
Construction Work-in-Progress	\$29,493,360	\$466,936	\$29,354,321	\$605,975
Total Capital Assets Not Being Depreciated	29,493,360	466,936	29,354,321	605,975
Capital Assets, Being Depreciated:				
Building and Building Improvements	176,834,763	31,971,945		208,806,708
Facilities and Other Improvements	19,476,061	145,581		19,621,642
Equipment	6,879,287	622,646	173,528	7,328,405
Total Assets Being Depreciated	203,190,111	32,740,172	173,528	235,756,755
Less: Accumulated Depreciation				
Buildings	35,018,890	3,549,328		38,568,218
Facilities and Other improvements	6,374,570	842,110		7,216,680
Equipment	4,264,753	1,178,988	146,115	5,297,626
Total Accumulated Depreciation	45,658,213	5,570,426	146,115	51,082,524
Total Capital Assets, Being Depreciated, Net	157,531,898	27,169,746	27,413	184,674,231
Capital Assets, net	<u>\$187,025,258</u>	<u>\$27,636,682</u>	<u>\$29,381,734</u>	<u>\$185,280,206</u>

***Long-term Liabilities for Component Units:***

Changes in long-term liabilities for the Athletic Association for the fiscal year ended June 30, 2008 are shown below:

	<b>Beginning Balance July 1, 2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2008</b>	<b>Amounts due within One Year</b>
Notes and Loans Payable-Primary Government	\$2,336,428	\$0	\$333,395	\$2,003,033	\$354,016
Notes and Loans Payable	87,113		87,113	0	
Revenue/Mortgage Bonds Payable	97,560,000		2,090,000	95,470,000	2,140,000
Other Long Term Liabilities	2,754,277		518,474	2,235,803	500,000
Total Long Term Liabilities	<u>\$102,737,818</u>	<u>\$0</u>	<u>\$3,028,982</u>	<u>\$99,708,836</u>	<u>\$2,994,016</u>

### Notes Payable-Due to Primary Government

Under an agreement with the University of Georgia, the Athletic Association assumed the responsibility for a portion of the funding for the construction of the Ramsey Student Center for Physical Activities. In fiscal 1996, the Athletic Association recorded as property approximately \$7,800,000, representing the Athletic Association's share of the Ramsey Center based on estimated usage as defined in the agreement. The Athletic Association paid cash of \$2,858,928, and subsequently recorded a liability of \$4,941,072 at June 30, 1996, representing the remaining principal balance of the obligation. The note has an outstanding principal balance at June 30, 2008 of \$2,003,033. The principal balance due within one year, \$354,016, is reflected within the Due to Primary Government - Current Liabilities balance on the Statement of Net Assets. The Association made payments of principal and interest of \$477,917 during the year ended June 30, 2008, and will make an equal payment in each succeeding year through 2013. The interest rate associated with this liability is 6.19%.

Annual debt service requirements to maturity for Notes and Loans payable are as follows:

Year ending June 30:		Notes and Loans Payable		
		Principal	Interest	Total
2009	1	\$354,016	\$123,901	\$477,917
2010	2	375,915	102,002	477,917
2011	3	399,167	78,750	477,917
2012	4	423,858	54,059	477,917
2013	5	450,077	27,840	477,917
Total		<u>\$2,003,033</u>	<u>\$386,552</u>	<u>\$2,389,585</u>

### Revenue Bonds Payable

On September 27, 2001, the Development Authority of Athens-Clarke County, Georgia (the Authority) issued \$34 million in Revenue Bonds (UGA Athletic Association, Inc. Project), Series 2001 (the Bonds) and entered into an agreement (the Loan Agreement) to loan \$34 million to the Association. The Bonds are secured by a letter of credit issued by SunTrust Bank in favor of the Authority that must be renewed annually. Under the Loan Agreement, the Association is required to use the proceeds of such loan to fund improvements of certain properties as specified in the Loan Agreement. Borrowings under the Loan Agreement bear interest payable monthly at a formula rate adjusted daily (2.50% on June 30, 2008). The loan matures in 2031, subject to certain early repayment provisions. At June 30, 2008, the balance of this obligation was \$33,100,000.

On August 28, 2003, the Development Authority of Athens-Clarke County, Georgia (the Authority) issued \$36 million in Revenue Bonds (UGA Athletic Association, Inc. Project), Series 2003 (the Bonds) and entered into an agreement (the Loan Agreement) to loan \$36 million to the Association. The Bonds are secured by a letter of credit issued by Bank of America, NA in favor of the Authority that must be renewed annually. Under the Loan Agreement, the Association is required to use the proceeds of such loan to fund improvements of certain properties as specified in the Loan Agreement. Borrowings under the Loan Agreement bear interest payable monthly at a formula rate adjusted daily (2.50% on June 30, 2008). The loan matures in 2033, subject to certain early repayment provisions. On March 7, 2005, the

Association redeemed \$16 million of these bonds. The remaining obligation at June 30, 2008 was \$18,195,000.

On January 27, 2005, the Development Authority of Athens-Clarke County, Georgia (the Authority) issued \$17.47 million in Revenue Bonds (UGA Athletic Association, Inc. Project), Series 2005 (the Bonds) and entered into an agreement (the Loan Agreement) to loan \$17.47 million to the Association. The Bonds are secured by a letter of credit issued by Bank of America, NA in favor of the Authority that must be renewed annually. Under the Loan Agreement, the Association is required to use the proceeds of such loan to fund improvements of certain properties as specified in the Loan Agreement. Borrowings under the Loan Agreement bear interest payable monthly at a formula rate adjusted daily (2.10% on June 30, 2008). The loan matures in 2021 and requires yearly principal reductions. At June 30, 2008, the balance of this obligation was \$15,280,000.

On August 25, 2005, the Development Authority of Athens-Clarke County, Georgia (the Authority) issued \$30 million in Revenue Bonds (UGA Athletic Association, Inc. Project), Series 2005B (the Bonds) and entered into an agreement (the Loan Agreement) to loan \$30 million to the Association. The Bonds are secured by a letter of credit issued by Bank of America, NA in favor of the Authority that must be renewed annually. Under the Loan Agreement, the Association is required to use the proceeds of such loan to fund improvements of certain properties as specified in the Loan Agreement. Borrowings under the Loan Agreement bear interest payable monthly at a formula rate adjusted daily (2.50% on June 30, 2008). The loan matures in 2035, subject to certain early repayment provisions. The June 30, 2008 remaining obligation for these revenue bonds was \$28,895,000.

### **Interest Rate Swap Agreements**

The Association is a party to interest rate swap agreements that are not recorded in the financial statements. Following are disclosure of key aspects of the agreements.

Objective and Terms - As a means of interest rate management, the Association entered into three separate interest rate swap transactions with Bank of America, N.A. (the "Counterparty") relating to its variable rate tax-exempt Series 2001 Bonds, tax-exempt Series 2003 Bonds, taxable Series 2005 Bonds and tax-exempt Series 2005B Bonds. Pursuant to an ISDA Master Agreement and Schedule to ISDA Master Agreement each dated as of January 27, 2005 between the Association and the Counterparty and three Confirmations, the Association has agreed to pay to the Counterparty a fixed rate of interest in an amount equal to: (1) 3.49% per annum multiplied by a notional amount which is equal to the principal amount of the Series 2001 Bonds until September 2021; (2) 3.38% per annum multiplied by a notional amount which is equal to the principal amount of the Series 2003 Bonds until August 2033; (3) 5.05% per annum multiplied by a notional amount which is equal to the principal amount of the Series 2005 Bonds until July 2021; and (4) 3.483% per annum multiplied by the notional amount which is equal to the principal amount of the Series 2005B Bonds until August 2033.

In return, the Counterparty has agreed to pay to the Association a floating rate of interest in an amount equal to: (1) 67% of LIBOR multiplied by a notional amount which is equal to the principal amount of the Series 2001 Bonds until September 2021; (2) 67% of LIBOR multiplied

by a notional amount which is equal to the principal amount of the Series 2003 Bonds until August 2033; (3) LIBOR multiplied by a notional amount which is equal to the principal amount of the Series 2005 Bonds until July 2021; and (4) 67% of LIBOR multiplied by the notional amount which is equal to the principal amount of the Series 2005B Bonds until July 2035.

Fair Value – The Association will be exposed to variable rates if the counterparty to a swap defaults or if a swap is terminated. A termination of the swap agreement may also result in the Association’s making or receiving a termination payment

As of June 30, 2008, the fair value of the interest rate swap agreement on the 2001 Series Bonds was (\$1,224,921), indicating the amount that the Association would be required to pay the counterparty to terminate the swap agreement.

As of June 30, 2008, the fair value of the interest rate swap agreement on the 2003 Series Bonds was (\$439,283), indicating the amount that the Association counterparty would be required to pay the counterparty to terminate the swap agreement.

As of June 30, 2008, the fair value of the interest rate swap agreement on the 2005A Series Bonds was (\$585,624), indicating the amount that the Association would be required to pay the counterparty to terminate the swap agreement.

As of June 30, 2008, the fair value of the interest rate swap agreement on the 2005B series Bonds was (\$998,313), indicating the amount that the Association would be required to pay the counterparty to terminate the swap agreement.

Swap Payments and Associated Debt – As of June 30, 2008, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Year Ending	Variable Rate Bonds		Interest Rate	Total
	Principal	Interest	Swaps, Net	
2009	\$2,140,000	\$2,275,870	\$1,182,926	\$5,598,796
2010	2,195,000	2,224,835	1,143,088	5,562,923
2011	2,245,000	2,172,630	1,102,376	5,520,006
2012	2,295,000	2,119,275	1,060,686	5,474,961
2013	2,355,000	2,064,500	1,018,030	5,437,530
2014-2018	12,685,000	9,451,250	4,412,533	26,548,783
2019-2023	13,050,000	7,888,970	3,217,542	24,156,512
2024-2028	9,330,000	6,626,000	2,582,177	18,538,177
2029-2033	43,760,000	3,844,917	1,505,379	49,110,296
2034-2036	5,415,000	118,865	46,525	5,580,390
Total	\$ 95,470,000	\$ 38,787,112	\$ 17,271,262	\$ 151,528,374

Credit Risk – As of June 30, 2008, the fair value of the swaps represents the Association's credit exposure to the Counterparty. Should the Counterparty fail to perform in accordance with the

terms of the swap agreements, the Association could see a possible gain equivalent of \$17.3 million less the cumulative fair value of \$3.2 million. As of June 30, 2008, the Counterparty was rated Aaa by Moody's and AA+ by S&P.

**Basis Risk** – The swaps expose the Association to basis risk. The interest rate on the Series 2001 Bonds, the Series 2003 Bond and the Series 2005B Bonds is a tax-exempt interest rate while the LIBOR basis on the variable rate receipt on the interest rate swap agreements is taxable. Tax-exempt interest rates can change without a corresponding change in the 30 day LIBOR rate due to factors affecting the tax-exempt market which do not have a similar effect on the taxable market. The Association will be exposed to basis risk under the swaps to the extent that the interest rates on the tax-exempt bonds trades at greater than 67% of LIBOR for extended periods of time. The Association would also be exposed to tax risk stemming from changes in the marginal income tax rates or those caused by a reduction or elimination in the benefits of tax exemption for municipal bonds.

**Termination Risk** – The interest rate swap agreement uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Association or the Counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable rate bonds would no longer carry a synthetically fixed interest rate. Also, if at the time of termination, the swap has a negative fair value, then the Association would be liable to the Counterparty for a payment equal to the swap's fair value.

### **The Arch Foundation for the University of Georgia, Inc.**

The Arch Foundation for the University of Georgia, Inc. (the "Foundation") is a not-for-profit foundation that was chartered in 2005 to receive and administer contributions for the support 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 mission and purpose of the Foundation is to provide support to the teaching, research, public service and outreach programs of the University by means of volunteer leadership and assistance in development and fundraising activities; fiduciary care for the assets of the Foundation for the long-term benefit and enhancement of the University; and the provision of broad advice, consultation and support to the President of the University. The Foundation operates as a Cooperative Organization in accordance with policies of the Board of Regents.

The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, Financial Reporting for Not-for-Profit Organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. The FASB reports were reclassified to the GASB presentation for external financial reporting purposes in these financial statements. The Foundation's fiscal year is July 1 through June 30.

During the year ended June 30, 2008, the Foundation distributed \$7,353,573 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the External Affairs Office of Financial Services at 394 S. Milledge Avenue, Athens, GA 30602 or from the Foundation's website at [www.uga.edu/archfoundation](http://www.uga.edu/archfoundation).

### ***Investments for Component Units:***

The Arch Foundation for the University of Georgia, Inc. holds investments in the amount of \$30.3 million. Investments consist of marketable securities, bonds, real property, and an investment in a limited partnership as follows:

	<u>Cost</u>	<u>Fair Value</u>
Equity Securities	\$39,025	\$39,025
Split Interest Investments	28,077	28,077
Joint Ventures/Partnerships	630,000	630,000
Real Estate	2,624,000	2,624,000
Investment Pools	<u>27,190,416</u>	<u>26,974,899</u>
Total Investments	<u><u>\$30,511,518</u></u>	<u><u>\$30,296,001</u></u>

### **University of Georgia Research Foundation, Inc.**

The University of Georgia Research Foundation, Inc. (the Research Foundation) is a legally separate, tax-exempt component unit of the University of Georgia (University). The Research Foundation serves to enhance the research mission of the University by securing sponsored research funding and by providing funding of special research initiatives. All University intellectual property developed through these research programs are managed by the Research Foundation. The twenty member board of the Foundation consists of designated University personnel, appointees of several University constituent groups, and individuals selected by the Research Foundation itself. Although the University does not control the timing or amount of receipts from the Research Foundation, all sponsored research awards are subcontracted to the University and other resources and related income are restricted to benefit the research mission of the University. Consequently, the Research Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

The Research Foundation is considered a special-purpose government entity engaged only in business-type activities and is required to follow all applicable GASB pronouncements. The Research Foundation's fiscal year is July 1 through June 30.

The Research Foundation financial statements include two blended component units: the UGA Real Estate Foundation, Inc. and UGARF Media Holdings, LLC.

During fiscal year 2008, the Research Foundation transferred approximately \$118 million in sponsored research and other support funds to the University and shows a net payable to the University at June 30 related to this activity. Complete financial statements for the Research Foundation can be obtained from the Treasurer's office at 456 East Broad Street, Athens, GA 30602.

### ***Special Item Transfer:***

Effective July 1, 2007, the Research Foundation became the sole member of the UGA Real Estate Foundation, Inc. (Real Estate Foundation). The Real Estate Foundation had previously been the sole member of the University of Georgia Foundation. The transfer at July 1, 2007 of the assets and liabilities of the Real Estate Foundation to the Research Foundation resulted in a Net Asset addition of \$6,638,835. This transfer is reported as a Special Item Transfer in the Statement of Revenues, Expenses and Changes in Net Assets.

### ***Prior Period Adjustment:***

The UGA Real Estate Foundation, as the lessor of several leases wherein the ownership of the leased property is converted to the Board of Regents at the end of the lease term, changed its method of accounting for these leases from operating leases to capital lease treatment. The amount recognized as a prior period increase to net assets as of June 30, 2007 is \$11,774,904. This increase in net assets is due to the difference between the previously recorded net of rental income less depreciation and the amount that would be recorded as net income using capital lease interest amortization.

Capital Assets as of June 30, 2007 were restated as a result of the change in lease treatment, from \$165,199,306 to \$18,271,896 and were replaced by Net Investment in Capital Leases of \$158,702,315 on the Statement of Net Assets.

### ***Deposits and Investments for Component Units:***

#### **Deposits**

The custodial credit risk for deposits is the risk that in the event of a bank failure, the Research Foundation's deposits may not be recovered. The Research Foundation does not have a deposit policy for custodial credit risk.

At June 30, 2008, the book value of the Research Foundation's deposits was \$68,499,622. The bank and investment account balances at June 30, 2008 were \$68,810,956 of which \$67,769,750 was uninsured. Of these uninsured deposits, \$11,281,000 were collateralized with securities held by the financial institution, by its trust department or agency, but not in the Research Foundation's name and \$56,488,750 were uncollateralized.

#### **Investments**

The University of Georgia Research Foundation, Inc. maintains both short-term and long-term investment policies. Both establish primary and secondary objectives, specify allowable investments, set target investment mix, and provide investment guidelines.

The Research Foundation's investments as of June 30, 2008 are presented below. All investments are presented by investment type and debt securities are presented by maturity.

Investment type	Fair Value	Investment Maturity			More Than 10 Years
		Less Than 1 Year	1-5 Years	6-10 Years	
<b>Debt Securities</b>					
U.S. Treasuries	\$3,480,885	\$2,156,323	\$396,311	\$564,416	\$363,835
U.S. Agencies					
Explicitly Guaranteed	1,557,910				1,557,910
Implicitly Guaranteed	10,060,298	660,058	6,209,089	2,891,818	299,333
Corporate Debt	21,147,955	18,305,443	2,206,599	635,913	
Municipal Obligation	50,967				50,967
	<u>\$36,298,015</u>	<u>\$21,121,824</u>	<u>\$8,811,999</u>	<u>\$4,092,147</u>	<u>\$2,272,045</u>
<b>Other Investments</b>					
Equity Mutual Funds	5,443,301				
Equity Securities - Domestic	3,827,681				
Equity Securities - International	2,228,145				
Managed Futures/Hedge Funds	4,504,381				
	<u>\$52,301,523</u>				

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Research Foundation's policy for managing interest rate risk is divided between short-term and long-term investments. Short-term investments will have a maximum maturity of eighteen months to five years depending on type of investment. Long-term investments are managed using a planning timeline of five years or more and overall risk measurements rather than specific maturity limits.

The Real Estate Foundation's policy for managing interest rate risk is to invest only in short-term United State treasury obligations with a maximum maturity of one year.

### Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the Research Foundation will not be able to recover the value of the investment or collateral securities that are in possession of an outside party. The Research Foundation does not have a formal policy for managing custodial credit risk for investments.

At June 30, 2008, \$40,197,518 of the Research Foundation's applicable investments were uninsured and held by the investment counterparty's trust department or agent in the Research Foundation's name and \$2,156,323 of the Real Estate Foundation's applicable investments were uninsured and held by the investment counterparty's trust department or agent, but not in the Research Foundation's name.

### Credit Quality Risk

Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Research Foundation's investment policies specify that fixed income securities be of investment grade. The short-term investment policy specifies that corporate

bonds be rated BBB (Standard & Poor's) or Baa (Moody's) or higher; the long-term policy requires a BBB (Standard & Poor's) or Baa3 (Moody's) rating or higher. The investment policy also requires that securities that drop below investment grade should be sold at the manager's discretion; in the event that a rating falls below investment grade, the manager will contact the financial advisor and advise them of the proposed strategy for disposition of the security.

The Research Foundation's investments as of June 30, 2008 are presented below. All investments are presented by investment type and fixed income securities are presented by credit quality ratings.

	Fair Value	Aaa	Aa	A	Baa	Ba	Unrated
Related Debt Investments							
U. S. Agencies - Implicitly Guaranteed	\$10,060,298	\$1,033,795	\$0	\$0	\$0	\$0	\$9,026,503
Corporate Debt	21,147,955	81,815	2,953,906	4,563,349	13,138,163	410,722	
Municipal Obligation	50,967		50,967				
	<u>\$31,259,220</u>	<u>\$1,115,610</u>	<u>\$3,004,873</u>	<u>\$4,563,349</u>	<u>\$13,138,163</u>	<u>\$410,722</u>	<u>\$9,026,503</u>

### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Research Foundation's policy for managing concentration of credit risk is divided between short-term and long-term investments. For short-term investments, maximum percentages are set for cash and cash equivalents at 15%, asset backed securities at 50% and corporate bonds at 90%, while U.S. Treasuries, U.S. Agencies debt, and certificates of deposit may comprise 100% for the short-term investments. For long-term investment, equities comprise 40-80%, bonds 20-60% and alternative investments can range 0-20%.

As of June 30, 2008, investments in a single issuer where those investments exceed 5% of total investments were as follows:

Federal National Mortgage Association	10%
Federal Home Loan Mortgage Corporation	9%

### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Research Foundation's investments are not exposed to foreign currency risk as securities denominated in currencies other than the U.S. dollar are not permissible by the Research Foundation's investment policy.

The Real Estate Foundation's investments increased by \$64,010 due to foreign currency fluctuations between the Euro and the dollar on cash balances held in banks. Amounts held in foreign currency denominations are valued at \$267,788 as of June 30, 2008.

### ***Capital Assets for Component Units:***

The University of Georgia Research Foundation, Inc. had Capital Assets activity as follows for the year ended June 30, 2008:

	<b>Beginning Balance 7/1/2007</b>	<b>Restated Real Estate Fdn Transfer</b>	<b>Adjusted Beg. Balance 7/1/2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance 6/30/2008</b>
Capital Assets, Not Being Depreciated:						
Land (and other assets)	\$110,000	\$15,722,163	\$15,832,163	\$4,702,061	\$0	\$20,534,224
Construction Work-in-Progress	0	224,900	224,900	34,149,651	5,110,857	29,263,694
Total Capital Assets Not Being Depreciated	110,000	15,947,063	16,057,063	38,851,712	5,110,857	49,797,918
Capital Assets, Being Depreciated:						
Building and Building Improvements	1,142,307	2,535,466	3,677,773	5,385,599	5,110,857	3,952,515
Equipment	0	184,134	184,134	3,167		187,301
Total Assets Being Depreciated	1,142,307	2,719,600	3,861,907	5,388,766	5,110,857	4,139,816
Less: Accumulated Depreciation						
Buildings	737,313	260,539	997,852	143,008		1,140,860
Equipment		134,228	134,228	26,473		160,701
Total Accumulated Depreciation	737,313	394,767	1,132,080	169,481	0	1,301,561
Total Capital Assets, Being Depreciated, Net	404,994	2,324,833	2,729,827	5,219,285	5,110,857	2,838,255
Capital Assets, net	\$514,994	\$18,271,896	\$18,786,890	\$44,070,997	\$10,221,714	\$52,636,173

### ***Long-term Liabilities for Component Units:***

Changes in long-term liabilities for the Research Foundation for the fiscal year ended June 30, 2008 are shown below:

	<b>Beginning Balance July 1, 2007</b>	<b>Transfer of Real Estate Foundation</b>	<b>Adjusted Beginning Balance July 1, 2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2008</b>	<b>Amounts due within One Year</b>
Compensated Absences	\$0	\$29,495	\$29,495	\$0	\$1,231	\$28,264	\$28,264
Notes and Loans Payable	0	10,499,210	10,499,210	20,688,117	12,960,440	18,226,887	
Revenue/Mortgage Bonds Payable	0	175,667,798	175,667,798	56,359,497	3,849,754	228,177,541	3,595,000
Total Long Term Liabilities	\$0	\$186,196,503	\$186,196,503	\$77,047,614	\$16,811,425	\$246,432,692	\$3,623,264

### **Notes and Loans Payable**

During 2008, the Real Estate Foundation renewed a \$50 million revolving credit agreement with a bank. The agreement expires on November 30, 2010. The revolving credit agreement provides for borrowings or letters of credit at the Real Estate Foundation's option. Credit available under the revolving credit agreement is reduced by outstanding borrowings and outstanding letters of credit. At June 30, 2008, amounts outstanding or issued under this agreement included borrowings of \$18,226,887 and unused letters of credit and bank reserves of \$8,159,715, resulting in \$23,613,398 available as borrowing capacity under this line. Borrowings under the revolving credit agreement bear interest at the bank's 30-day London InterBank Offered Rate ("LIBOR") plus 32.5 basis points (or 0.325%). At June 30, 2008, the rate applicable to the borrowings was 2.79563%.

All borrowings under this revolving credit agreement are subject to a guarantee requirement except for those borrowings for projects supported by a rental or license agreement with the Board of Regents or the University. As of June 30, 2008, the borrowings subject to this guarantee requirement were \$7,797,561. 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.

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, 2008 is \$25,665 and has been recorded as an asset in accordance with SFAS No. 133. The Real Estate Foundation recorded a loss of \$17,316 on the fair value of the derivative for the year ended June 30, 2008 as an adjustment to interest expense.

Annual debt service requirements to maturity for Notes and Loans payable are as follows:

		Notes and Loans Payable		
		Principal	Interest	Total
Year ending June 30:				
2009	1	\$0	\$509,556	\$509,556
2010	2	0	509,556	509,556
2011	3	18,226,887	212,315	18,439,202
		<u>\$18,226,887</u>	<u>\$1,231,427</u>	<u>\$19,458,314</u>

### Revenue Bonds Payable

\$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 above. 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 (1.53% at June 30, 2008). The loan matures in 2031, subject to certain early repayment provisions. During the year ended June 30, 2008, principal payments of \$410,000 were made. At June 30, 2008, the balance of this obligation was \$8,015,000.

During 2005, the Real Estate Foundation entered into an interest rate cap agreement effectively limiting the interest rate on 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 Real Estate Foundation recorded a loss of \$15,495 on the fair value of the derivative for the year ended June 30, 2008.

During 2008, 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 4.0% fixed rate until December 3, 2012. The Real Estate Foundation paid a premium of \$75,000 in connection with this agreement. The fair value of the interest rate cap as of June 30, 2008 was \$74,033 and has been recorded as an asset in accordance with SFAS No. 133. The Real Estate Foundation recorded a loss of \$967 on the fair value of this derivative for the year ended June 30, 2008.

**\$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 year ended June 30, 2008, principal payments of \$800,000 were made. At June 30, 2008, the balance of this obligation was \$36,075,000.

**\$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 “Bonds”) and entered into an agreement (the “Loan Agreement”) to loan \$99,860,000 to the Real Estate Foundation. Payment of principal and interest under the Bonds is insured by a financial guaranty insurance policy and secured by certain real property constituting the facilities and by the Real Estate Foundation’s interest in certain rents and leases derived from the facilities. The Real Estate Foundation used the proceeds of this loan to fund construction of certain real estate projects which were completed in July 2004.

Borrowings under the Loan Agreement bear interest payable semiannually 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, 2008 principal payments of \$1,935,000 were made. At June 30, 2008, the balance of this obligation was \$94,100,000.

**\$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 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 year ended June 30, 2008, principal payments of \$250,000 were made. At June 30, 2008, the balance of this obligation was \$7,155,000.

**\$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. The Coverdell Entity used the proceeds of this loan to fund construction of a portion of the facility, which was completed in 2007.

Borrowings under the Coverdell Loan Agreement bear interest payable semiannually at fixed rates ranging from 2.5% to 5% depending on the schedule of bond maturities. Principal payments are due on December 15 starting in 2006 and continuing through 2034. During the year ended June 30, 2008, a principal payment of \$500,000 was made on the outstanding Series 2004A bonds. At June 30, 2008, the balance of this obligation was \$25,010,000.

**\$62,475,000 Bond Issue:** In 2008, the Development Authority issued \$35,055,000 of Educational Facilities Current Interest Revenue Bonds (UGAREF Central Precinct, LLC Project), and \$27,420,000 of Educational Facilities Convertible Revenue Bonds (UGAREF Central Precinct, LLC Project) (collectively, the “Central Precinct Bonds”). The Development Authority entered into an agreement (the “Central Precinct Loan Agreement”) to loan \$62,475,000 to UGAREF Central Precinct, LLC (a single-member limited liability company owned by the Real Estate Foundation) (the “Central Precinct Entity”). Payment of principal and interest under the Central Precinct Bonds is insured by a financial guaranty insurance policy and secured by certain real property constituting a parking deck and building addition, and by the Central Precinct Entity’s interest in certain rents and leases derived from these facilities. The Central Precinct Entity is using the proceeds of this loan to fund construction of the facilities. The building addition is reported as construction in progress at June 30, 2008. Subsequent to the issuance of these financial statements, the parking deck was placed in service on August 6, 2008.

Borrowings under the Central Precinct Loan Agreement bear interest payable semiannually at fixed rates ranging from 2% to 5% depending on the schedule of bond maturities. Principal payments are due on June 15 starting in 2010 and continuing through 2038. The total balance of the obligation at June 30, 2008 is \$62,475,000.

During 2007, the Real Estate Foundation entered into an interest rate hedge agreement at no cost to lock in the then current interest rate on this future borrowing. This forward swap agreement expired during the year ended June 30, 2008 and the Real Estate Foundation paid a termination fee in the amount of \$1,277,320. The Real Estate Foundation recorded a loss of \$3,324,113 on the fair value of the derivative for the year ended June 30, 2008.

Annual debt service requirements to maturity for Bonds Payable are as follows:

Year ending June 30:		Bonds Payable		
		Principal	Interest	Total
2009	1	\$3,595,000	\$9,368,150	\$12,963,150
2010	2	4,080,000	9,248,435	13,328,435
2011	3	4,225,000	9,097,922	13,322,922
2012	4	4,385,000	8,937,625	13,322,625
2013	5	4,540,000	8,767,050	13,307,050
2014 through 2018	6-10	31,280,000	47,025,033	78,305,033
2019 through 2023	11-15	39,435,000	38,466,504	77,901,504
2024 through 2028	16-20	49,690,000	27,572,570	77,262,570
2029 through 2033	21-25	66,780,000	13,862,117	80,642,117
2034 through 2038	26-30	24,820,000	2,467,476	27,287,476
		<u>232,830,000</u>	<u>174,812,882</u>	<u>407,642,882</u>
Bond Premium/(Discount)		<u>(4,652,459)</u>	<u></u>	<u>(4,652,459)</u>
		<u>\$228,177,541</u>	<u>\$174,812,882</u>	<u>\$402,990,423</u>